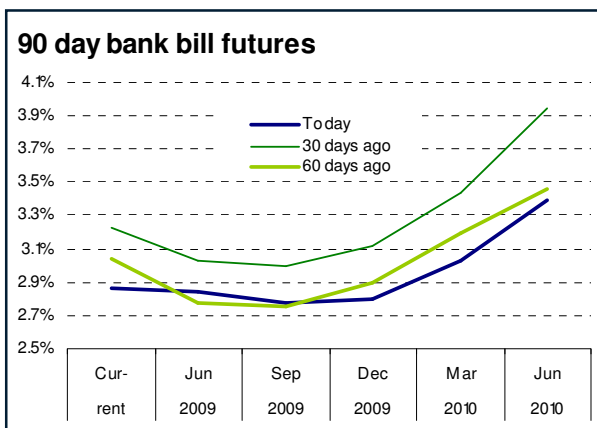
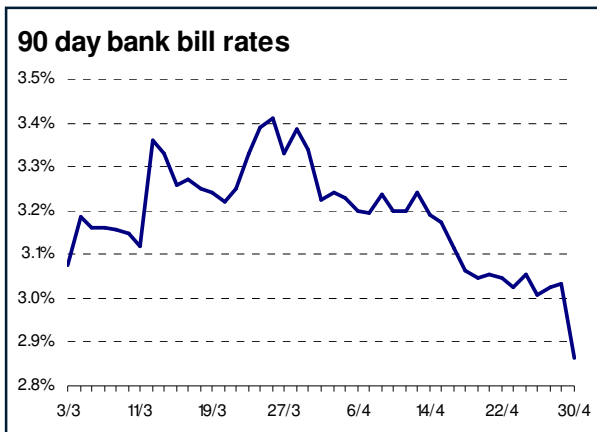




30 April 2009

April 2009 data



Reserve Bank's outlook darkens

As we predicted, the Reserve Bank cut the official cash rate by 50 basis points to 2.5%. The Bank now appears to believe that the recovery in domestic economic activity will be slower, and more difficult, than they forecast in March. As a result, the Bank has stated that it is likely to keep the cash rate at or below 2.5% until late-2010. We still anticipate a 25 basis point cut in June, with the OCR still expected to bottom out at 2%.

The RBNZ has shifted into the camp of economists that foresee a slower, more gradual, recovery from the recent economic mayhem in New Zealand. The export led recovery that the Bank was expecting towards the end of this year has likely been snuffed out, with global economies shrinking quickly, and the exchange rate refusing to stay at the low levels they were hoping for.

The Reserve Bank is reacting to the fact that financial conditions (interest rates and exchange rates) are going to remain tighter than what they based their March forecasts on. However, they termed the tightness in financial conditions "unwarranted" suggesting that they still believe that the exchange rate and mortgage rates will need to fall over coming months in order to rebalance the economy.

The Reserve Bank is trying to convince financial markets that rates will remain low for some time even as signs of recovery emerge. But with the housing market stabilising, credit markets thawing, commodity prices strengthening, and the Chinese economy showing signs of strength there is a significant chance that they will lift rates sooner than they are currently indicating. We anticipate the first increase in the OCR will occur in March-2010.

Data sources: Reserve Bank, Bloomberg