

## Businesses expect the NZD to ease over the coming year

- The ASB Institutional Kiwi Dollar Barometer tracks exporters', and importers' and importer/exporters' exposures to foreign exchange risk, through surveying businesses with annual turnover of at least NZ\$1 million. The Barometer also surveys businesses' expectations for the NZD/USD and businesses' hedging plans for managing foreign exchange risk, as well as special questions on topical issues in the FX markets.
- Businesses, on average, expect the NZD/USD to peak at 0.869 in June 2013, before easing to 0.8290 by March 2014. Although ASB Economics expect a similar peak in the NZD/USD of 0.86, we forecast this will not occur until March 2014.
- This quarter we were interested in how the strength in the NZD/USD over the past quarter has affected business decisions in regards to pricing, hiring and investment. There was a clear divergence between importers and exporters, with importers noting they were more likely to increase pricing, hiring and investment, while exporters reported lower pricing, hiring and investment intentions in response to the high NZD.

### Businesses expect the NZD to peak soon

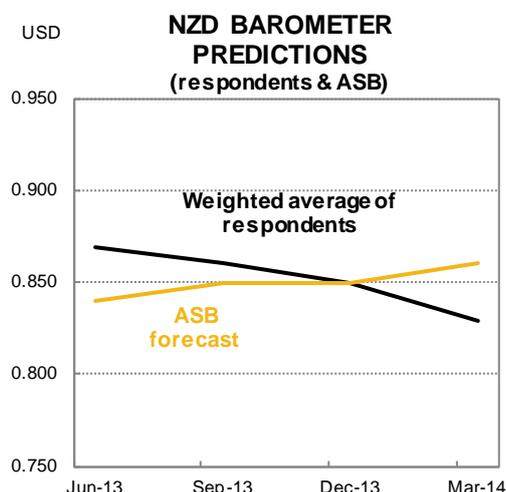
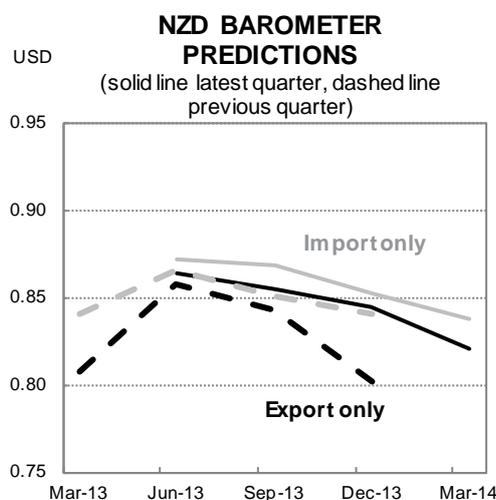
The ASB Institutional Kiwi Dollar Barometer indicates businesses expect the NZD/USD to peak in June this year. While importers continue to have higher expectations for the NZD, relative to exporters, the divergence in expectations between importers and exporters has reduced since the previous quarter. This is illustrated on the first chart on the right, where the solid lines show the responses at the latest survey, while the dashed lines show the responses at the survey taken in the previous quarter.

- Importers, on average, expect the NZD/USD to peak at 0.872 in June this year, before easing steadily over the year to reach 0.837 by March next year.
- While exporters also expect the NZD/USD to peak in June, this is expected to be at a slightly lower level of 0.864. From there, exporters expect the NZD/USD will steadily decline over the year to reach 0.821 by March next year.
- Across the businesses surveyed, average expectations are for the NZD/USD to peak at 0.869 in June this year, before easing to 0.829 by March next year.
- In contrast, ASB Economics expects the NZD/USD will not peak until March 2014. However, the expected peak of 0.86 is at a similar level to that expected by the businesses surveyed.

This survey was taken between the 1<sup>st</sup> and 8<sup>th</sup> February, when the NZD/USD appreciated to almost 0.85. There was a sharp depreciation in the currency over late February and the survey results, particularly in regards to near-term expectations of the NZD, may have been very different had the survey been taken over that latter period.

### Importers and exporters react differently to high NZD

In this Kiwi Dollar Barometer, we wanted to know if the high NZD/USD over the past quarter had any effect on business decisions in regards to pricing, hiring and investment. A high NZD tends to be beneficial to importers, given it reduces their costs in NZD terms and hence allows them to be more competitive on the NZ market. In contrast, a high NZD is detrimental to exporters, given it reduces their NZD returns and makes them less competitive in overseas markets.



Unsurprisingly, importers were more likely to increase hiring in response to the high NZD, while exporters were more likely to decrease hiring. Nonetheless, the majority of importers indicated they did not intend to change staff numbers in response to the strength in the NZD.

- 60.3% of importers indicated no change in hiring intentions, while 29.9% of importers indicated they planned to increase hiring in response to the high NZD.
- In contrast, 59.8% of exporters indicated they intended to decrease hiring, while 33.0% of exporters indicated no change to hiring intentions in response to the high NZD.

Given a high NZD tends to benefit importers by making them more competitive in NZ markets, this encourages investment. Conversely, the high NZD is likely to impact negatively on the NZD returns of exporters, hence will tend to discourage investment.

- 62.2% of importers indicated they were likely to increase investment in response to the high NZD, while 26.8% indicated no change in investment intentions.
- In contrast, 58.8% of exporters indicated they intend to decrease investment in response to the high NZD, while 33.0% indicated no change in investment intentions.

Curiously, the majority of importers surveyed indicated they intended to increase prices in response to the high NZD. Strength in the currency tends to reduce the cost of imported goods, and recent inflation and retail trade data suggest the price of imported household items have fallen in the face of the appreciating NZD over the past year.

However, East & Partners notes these findings are in line with that of its Australian survey, and suggest this may be due to the fact some businesses increase prices simply because they have pricing power in the market and are hence able to put price increases through. Indeed, the majority (82.3%) of all businesses with annual turnover of over \$150 million indicate they intend to increase prices in response to the high NZD. Hence, the result may merely reflect the dominance the importers surveyed have in their markets.

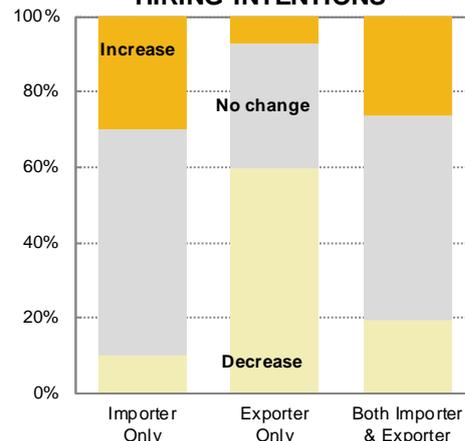
- 59.1% of importers surveyed indicated they intend to increase prices in response to the high NZD, while 26.3% of importers indicated no change in pricing.
- 62.9% of exporters surveyed indicated they intend to decrease pricing in response to the high NZD, while 30.9% indicated they did not intend to change prices. Exporters are likely to reduce their prices in the face of a higher NZD in order to maintain competitiveness in overseas markets.

### Interest in hedging continues to increase

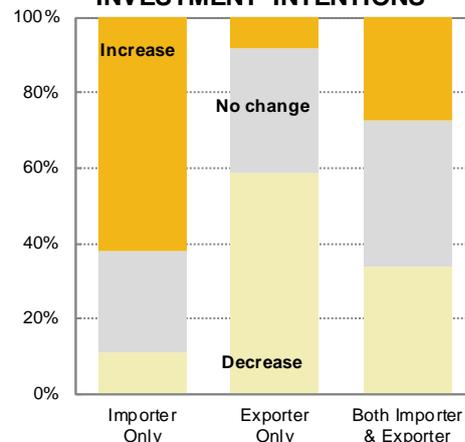
The proportion of businesses intending to hedge their foreign exchange exposure continued to increase, suggesting NZ businesses are becoming more engaged with managing their foreign exchange risk. 80.5% of businesses surveyed indicated they intend to hedge their FX exposure, up from 78.2% of businesses indicating intentions to hedge last quarter.

Once again, while a higher proportion of importers (84.8%) relative to exporters (70.1%) indicated they intended to hedge, those exporters that do are looking to hedge a larger proportion of their exposures (90.6% for exporters, relative to 74.9% for importers).

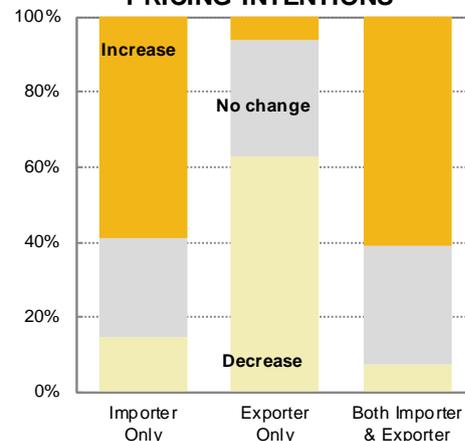
**EFFECT OF HIGH NZD ON HIRING INTENTIONS**



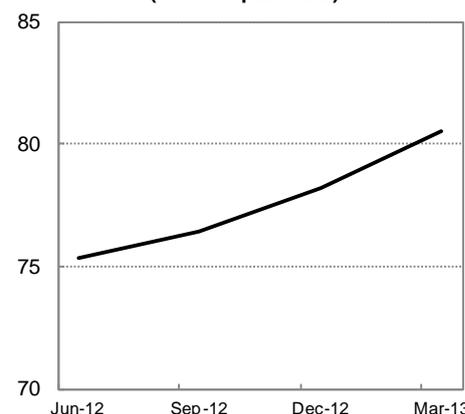
**EFFECT OF HIGH NZD ON INVESTMENT INTENTIONS**



**EFFECT OF HIGH NZD ON PRICING INTENTIONS**



**PLANS TO HEDGE (% of respondents)**



The NZ Dollar Barometer continues to find that the larger the business, the greater the average proportion of FX exposure that is hedged. This may reflect the fact larger businesses tend to have more formal hedging policies in place which set the proportion of FX exposure required to be hedged.

### Key “take-outs” from the ASB Institutional Kiwi Dollar Barometer

The Kiwi Dollar Barometer finds businesses generally expect the NZD/USD to peak in June this year at around 0.87, before easing to around 0.83 by March 2014. This is in contrast to the ASB Economics forecast of a steady appreciation in the NZD/USD over the coming year to a slightly lower peak of 0.86 in March 2014.

This quarter, we were interested to find out how the high NZD has affected businesses’ intentions for pricing, hiring and investment. The survey finds importers are more likely to increase pricing, hiring and investment in response to the high NZD over the past quarter, while exporters are more likely to decrease pricing, hiring and investment. The effects of the high NZD in raising the hiring and investment intentions of importers are intuitive. However, the increase in pricing intentions indicated by importers in response to the high NZD is at odds with retail trade and inflation data showing a decline in the price of imported household goods in the face of the high NZD over the past year. The survey result is likely to reflect the sample of businesses surveyed, with the sample of importers dominated by large businesses. Hence, these importers are possibly indicating an intention to raise prices simply because the competitive environment in which they operate in allows them to do so.

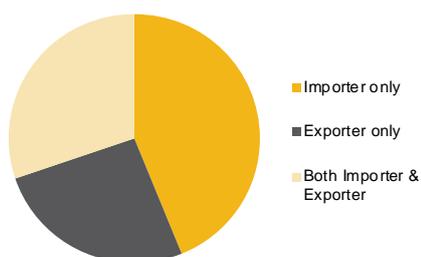
The proportion of businesses intending to hedge their foreign exchange exposure continues to increase. The Barometer also finds the larger the business, the more likely it is to hedge, and the larger the business the greater the proportion of FX exposure hedged. There appears scope for small and medium-sized businesses to benefit from increasing their hedging capabilities in order to better manage their foreign exchange exposure.

### About the Kiwi Dollar Barometer

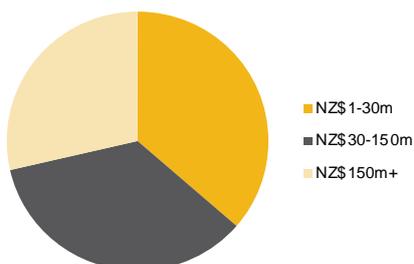
The ASB Institutional Kiwi Dollar Barometer is prepared every three months based on a survey conducted by East & Partners. East & Partners is a market research and advisory firm.

For the March 2013 edition of the ASB Kiwi Dollar Barometer, East & Partners interviewed 374 businesses turning over at least NZ\$1 million per year. The interviews were conducted between 1<sup>st</sup> to 8<sup>th</sup> February. Businesses were asked a range of questions about their exposure to and views about the NZD. The charts below provide information on the survey sample.

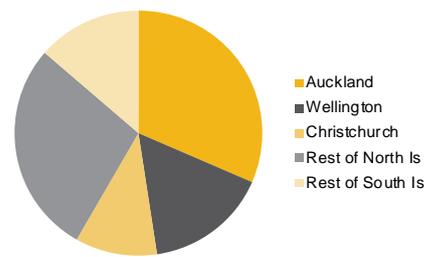
**SAMPLE BY TRADING FOCUS**  
(% of contributors)



**SAMPLE BY TURNOVER**  
(% of contributors)



**SAMPLE BY REGION**  
(% of contributors)



The specific questions asked were:

1. What approximate NZD/USD exchange rate do you expect to see by:
  - end-June 2013
  - end-September 2013
  - end December 2013
  - end March 2014
  
2. What percentage of your FX exposures are you planning to hedge in the next 3 months?
  
3. By what percentage are you expecting your foreign currency exposure to change over the next 3 months?
  
4. How has the strength of the NZD over the past quarter affected your pricing intentions?
  - Increase
  - Decrease
  - No change
  
5. How has the strength of the NZD over the past quarter affected your hiring intentions?
  - Increase
  - Decrease
  - No change
  
6. How has the strength of the NZD over the past quarter affected your investment plans?
  - Increase
  - Decrease
  - No change

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