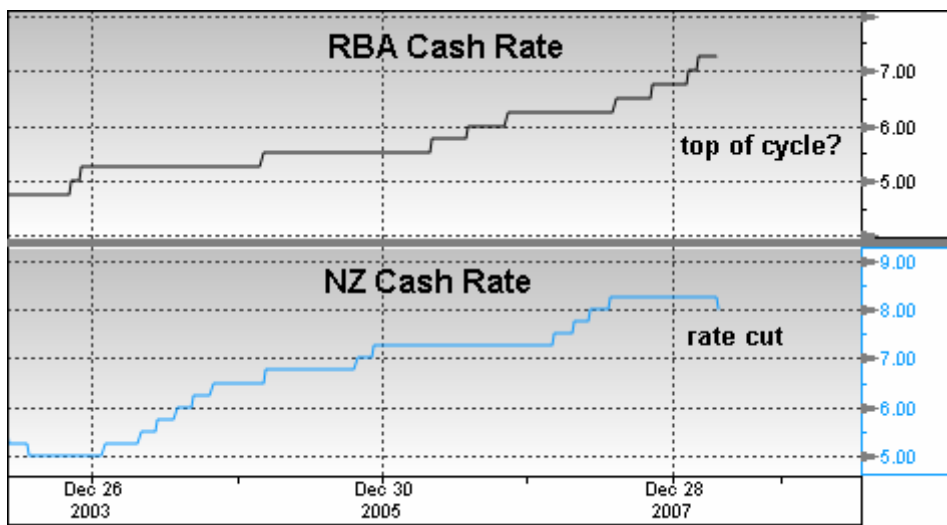




Have Interest Rates Peaked?

Over the last few weeks key economic indicators have weakened considerably. Business confidence has slid to levels not seen since the last recession, building approvals have softened, and retail sales have suffered their biggest slump in six years. Although these month to month releases are often 'noisy', the latest readings are consistent with the major trend currently dominating the Australian economy – a slowdown.

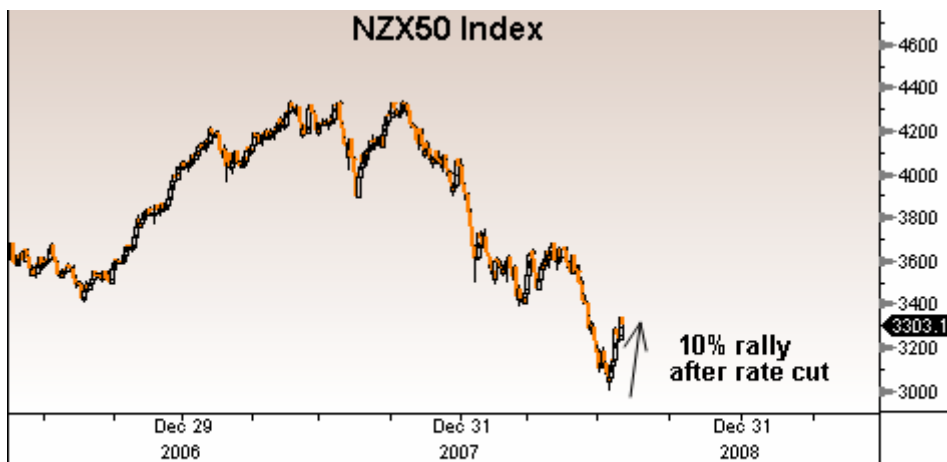
While the slowdown was originally engineered by the RBA to tame inflation, the credit crunch seems to have accelerated its pace with the exception of our mining centres. The highest official interest rates in twelve years, combined with a few percentage point 'kickers' added by the banks themselves in response to the tighter credit conditions, are having the desired impact.



Interest rate easing has begun in NZ. Could we be about to follow suit?

As a result, the RBA now appears to have achieved its goal of reducing demand, which is expected to produce an easing in inflation – its primary goal. A strong case is therefore building that we are at the top of the interest rate cycle. Given that inflationary pressures are expected to lag changes in demand, the RBA has room to cut rates before hard evidence of an easing in inflation appears.

Aussie stocks seem to indicate that we are heading into a severe slowdown or even recession, so it will be interesting to see how the mood changes once the prospect of interest rate cuts becomes more salient.



NZ stock's reacted favourably to their central bank's interest rate cut last week.

Source: wise-owl.com, Bloomberg.



Across the Tasman we saw New Zealand's central bank reduce interest rates for the first time since 2003 last week, cutting its benchmark rate from a decade high 8.25% to 8%. NZ stocks rallied in response, putting on 10% from their lows to become the second best performing market in the month of July.