BNZ Weekly Overview

8 September 2011

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

Which side will win?

A few weeks ago we wrote in terms of a perfect storm with regard to the worsening factors affecting overseas economies. This week things have taken a turn for the worse – though with good news last night and maybe tonight - with growing worries about Europe, the United States and the United Kingdom – worries which can do nothing other than feed through to some slowing of growth in Asia which will tend to lower NZ export prices to some degree and offset some of the good strength we see in our domestic economy.

That domestic strength, or at least the anticipation of more of it, was in evidence in the results of our monthly BNZ Confidence Survey. The net percent of the over 500 respondents expecting economic conditions to improve in the coming year lifted to 36% from 22% in August. This improvement has come about in spite of the deterioration in conditions offshore and probably reflects what we think are legitimate expectations of the domestic economy improving.

Strength was also evident in our monthly BNZ-REINZ Residential Market Survey sent out to WO recipients this morning. All eight main indicators of market strength have further improved and the slow movement toward it being a sellers market is starting to produce more interest from people to bring their properties to the market. http://tonyalexander.co.nz/topics/surveys/

Over 2012 growth will receive a boost as (eventually) house building kicks off in earnest in Christchurch. Before then we expect construction to be lifting in Auckland where rents and prices are drifting up and awareness of a property shortage is growing. Next year we also expect growth to be boosted by farmers increasing their spending from record incomes. Plus a few more businesses and households will find themselves in a position where they are comfortable with their debt levels and willing to undertake some more hiring, capital expenditure, and retail spending.

But at the same time the chances are very high that the non-Asian trading environment facing NZ exporters will be tough. In Europe the waltz toward inevitable default/restructuring of Greece's debt continues with worries resurfacing about Italy and Spain, worries anew about European banks, and expectations that the European Central Bank will be forced to reverse its 0.5% increase in interest rates undertaken earlier this year. In the UK the economic data continue to be appalling and there is renewed talk of quantitative easing.

In the United States jobs growth has ceased, consumer sentiment is depressed, the housing market is going back downhill and faith in the ability of politicians to handle the problem let alone come up with a growth strategy has plummeted.

But last night a German court ruled that the country can legally participate in bailouts, the Italian parliament passed legislation locking in fiscal reforms, and rumours swirled of the US President tonight announcing a US$300bn stimulus package. So the deepest worries this week regarding the European and US situations have eased – for now.

In Australia at least the strong growth in the mining and infrastructure sectors is continuing. But conditions are worsening in the manufacturing, housing and retailing sectors and the markets are pricing in interest rate cuts by the Reserve Bank as the country faces a seemingly inevitable leadership change – again. Silly Aussies. Maybe it will distract their rugby players.

Investors have reacting to the growing list of worries by flooding anew into zero yielding gold, Japanese yen, Swiss francs and minimally yielding bonds of the German and United States governments. The flow in to Swiss francs has been so great and the export-crunching rise in the currency so much that the Swiss have just decided to set a ceiling for their currency against the euro. If the global sentiment was veering toward things turning out okay these things would not be happening. Shares were also aggressively sold yet again for a few days this past week around the world with banking stocks badly hit as the US authorities have filed lawsuits against 17 banks around the globe accusing them of misleading selling of their mortgage products. Bank stocks have also been hit by growing worries (yet again) of European bank exposures to sovereign debt, and signs that liquidity availability is again tightening up. However rallies the past two days have recouped some though not all of the earlier losses.

How will this divergence between our domestic indicators and expectations and the worrying global situation play itself out? Only if Asian growth holds up is it likely we will see strong 4% growth in our economy next year. If the US economy is in or about to go back into recession and falling orders to Chinese factories kick in at the same time as restrictive policies implemented by the People's Bank of China get traction then there is little chance we will grow strongly. But if Asian growth holds up in the face of worsening Western economic conditions then our specific domestic factors will produce the labour market tightening, rising interest rates, strong NZ dollar and rising house prices we have been talking about.

Overall the economic outlook remains almost absurdly clouded and as we have been saying for many many months now, we don't know what we will learn in the coming month, week, or even overnight with regard to the US and European situations in particular. So don't be surprised if next month, week or even tomorrow things look a lot better or a lot worse. Continuing to play things from the cautious side appears the wisest thing to do with an ongoing focus on debt repayment and strengthening cash flows. But leaning toward the domestic growth factors dominating Western world economic weakness would seem the best bet at the moment.

This week the following material has been added to www.tonyalexander.co.nz

Weekly Newspaper Column **http://tonyalexander.co.nz/newspaper-column/**

This week we look again at how things are worsening offshore.

BNZ Confidence Survey **http://tonyalexander.co.nz/topics/surveys/**

Our latest survey shows a recovery in sentiment.

NZ Forestry Expo, Rotorua **http://tonyalexander.co.nz**

This is a simple paper summarising material discussed at a seminar in Rotorua on Tuesday.

BNZ-REINZ Residential Market Survey http://tonyalexander.co.nz/topics/surveys/

Here you will find our latest real estate survey results.

Other Website Material

- **Weekly syndicated newspaper column** http://tonyalexander.co.nz/newspaper-column/
- **State of the NZ Labour Market** Updated mid-month. http://tonyalexander.co.nz/nz-labour-market/
- **BNZ-REINZ Residential Market Survey** Released second week of each month. http://tonyalexander.co.nz/bnz-reinz-survey/
- **Real Estate Overview** Updated mid-late each month. http://tonyalexander.co.nz/bnz-reinz-survey/
- **Archived Weekly Overviews** www.bnz.co.nz/tonyalexander

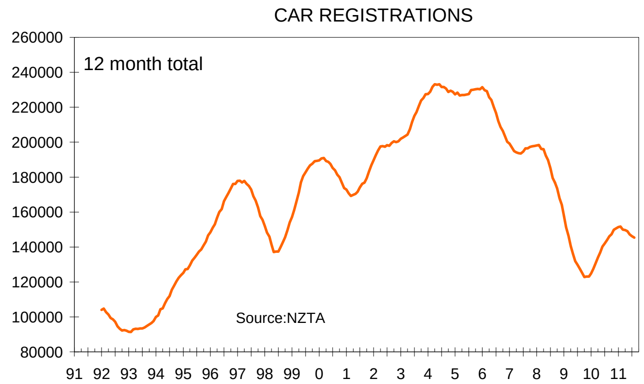
Is Our Economy Getting Better or Worse?

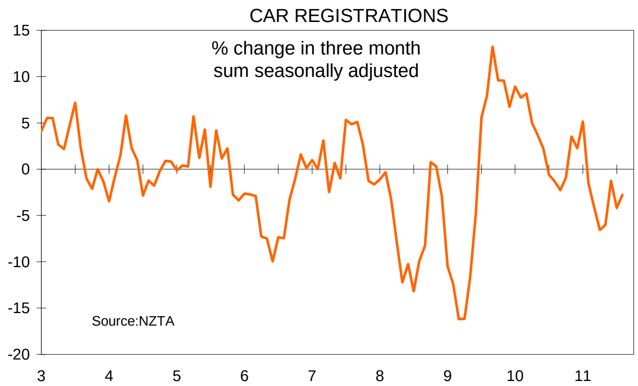
In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

This week we have learnt that the building sector is in deepening recession with activity falling 6.6% for two quarters in a row. We have also seen little evidence of growth in vehicle registrations.

Are householders opening their wallets more?

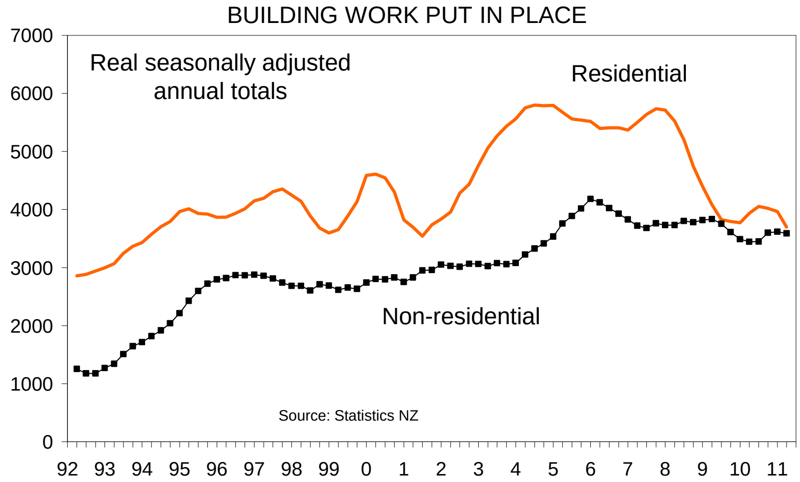
There were 12,485 cars registered around New Zealand in August which was a small 2% gain from a year ago which followed five months of declines. For the three months to August registrations were 10% down from a year earlier and down around 3% in rough seasonally adjusted terms from the three months to May. We interpret these figures as showing general flatness in the car market but warn that it is not wise to place too much emphasis on these numbers as gauges of consumer spending changes. That is because of the volatility introduced by company fleet purchases, plus disturbances created recently by the Japanese earthquake of March 10.





Is business output rising?

Data released this morning show that during the June quarter the seasonally adjusted volume of building work undertaken fell by 6.6% after falling 6.6% during the March quarter. Activity was down 15% from a year earlier with residential building down 24.4% (11.6% for the quarter) and non-residential 3.4% from a year ago and 1.4% for the quarter. These numbers show a sector accounting for around 6% of economic activity is in deepening recession.



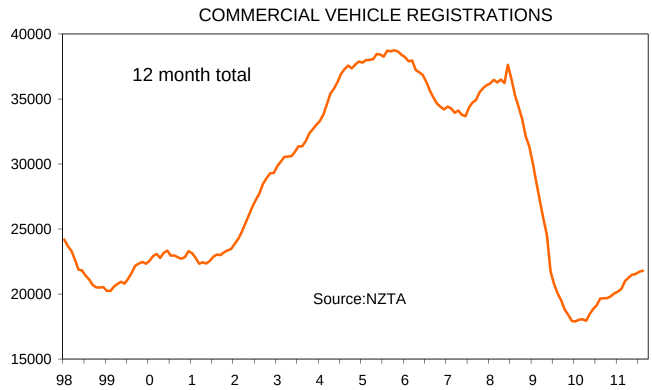
Are businesses hiring more people?

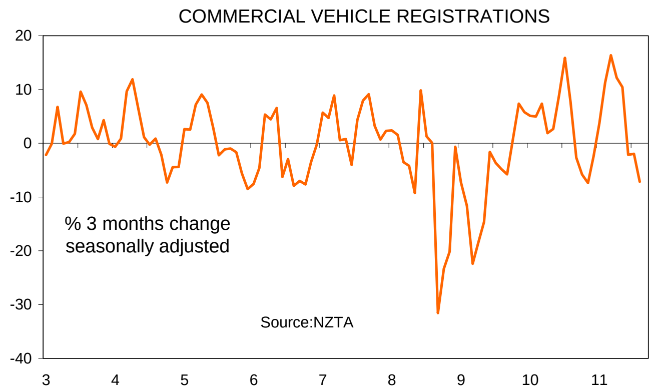
No new evidence.

Are businesses boosting their capital spending?

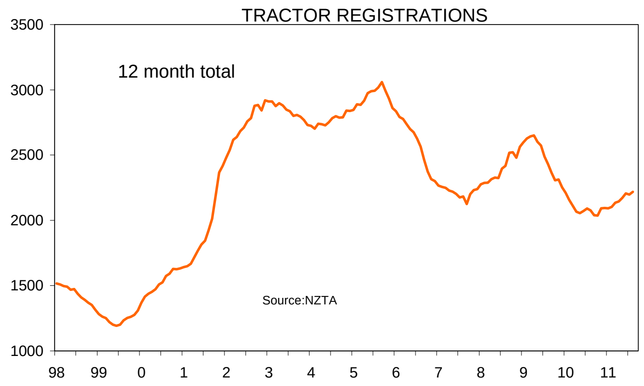
To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey here. http://tonyalexander.co.nz/bnz-confidence-survey/

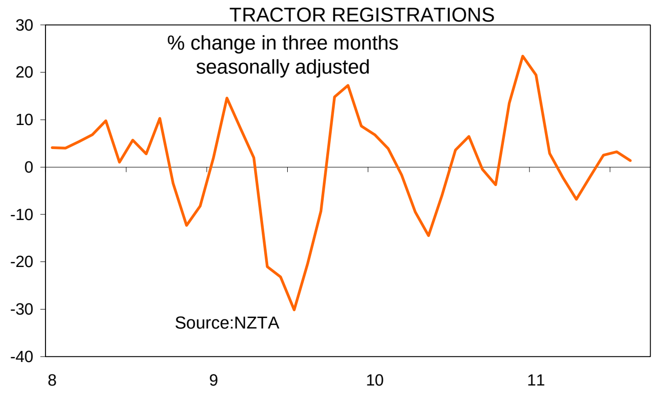
There were 1,831 commercial vehicles registered in NZ in August. This was a small 3% gain from August 2010 and 5% gain in the three months to August from a year ago. One might therefore conclude that some mild growth is underway. However, in rough seasonally adjusted terms regos were down 7% from the three months to May. This suggests that some earlier strength in spending in this particular area of business investment has faded. There is no straight line rise in spending underway therefore we continue to tread carefully when talking about the speed with which currently and recently firm business investment intentions feed through into actual decisions.





There is also only mild evidence of capital spending strength coming out of the farming sector. In August the number of tractors registered was 12% ahead of a year ago but in seasonally adjusted terms there was essentially no gain in the three months to August. This development helps illustrate why we talk about the stimulus coming from high farm incomes in terms of “at some stage”. Debt repayment is likely to still be the primary focus for the majority of farmers and that appears very wise.

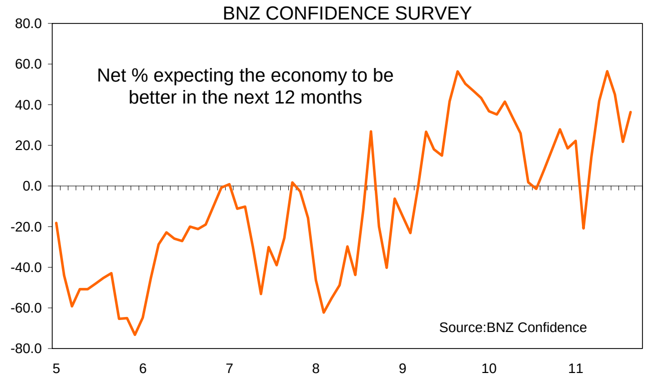




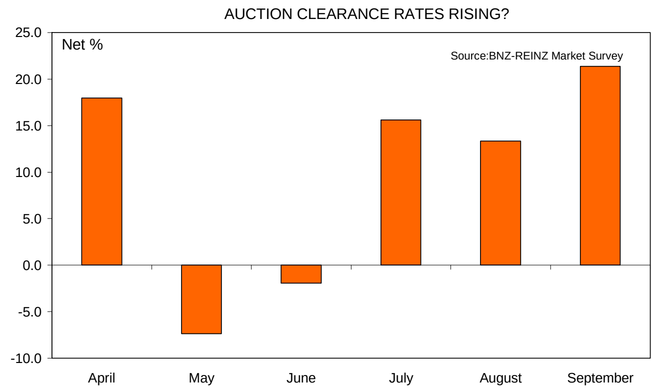
What Do The Leading Indicators Say?

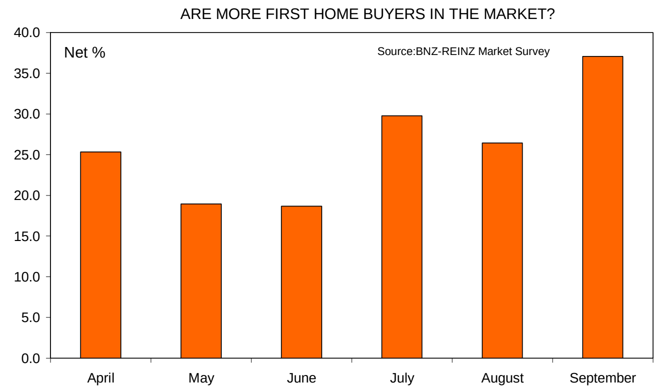
In this section we look only at the factors which can at times give insight into where the economy is headed. Generally we will only cover newly released information.

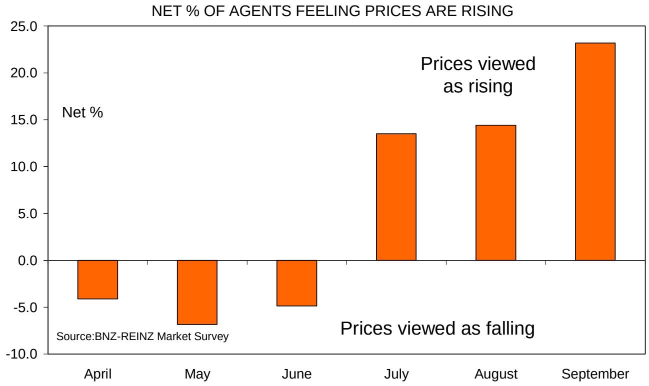
This week we have our two monthly surveys to factor in. The BNZ Confidence Survey released on Monday showed a rise in sentiment regarding where the economy will be in a year's time to a net 36% positive from 22% in August. This is suggestive of firmer growth though probably more than anything signals strong expectations of goo stimuli to come from the likes of higher farmer spending and Christchurch rebuilding. The comments regarding the current economic situation were still largely on the weak side.

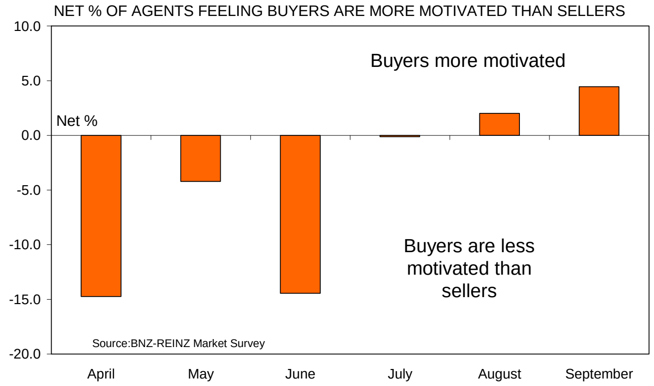


Yesterday and this morning we distributed the results of our monthly BNZ-REINZ Residential Market Survey which covers over 10,000 licensed real estate agents around New Zealand. The survey revealed rises in all eight main measures of market strength including perceptions of which way prices are going. Interest from first home buyers is very strong but not too many investors appear to be entering the market. The survey results suggest strengthening real estate activity and that means strengthening construction with a lag.









INTEREST RATES

Growth vs. Economic Slack

In a nutshell this is what drives inflation along with institutional arrangements, imported inflation, and exchange rate changes. If you want to forecast monetary policy you need to monitor these things. So we will, adding stuff here when we learn it. The current common view is rate tightening from December. Have we learnt anything this week which alters this outlook?

We've not seen much to change the outlook for interest rates this week. Conditions overseas have fluctuated wildly and that in itself tends to be a dampener on economic activity as people grow cautious in their spending and hiring decisions. Gold continues to sit above US1800 an ounce in spite of the sharemarket rallies of the past two days therefore one suspects that the offshore environment remains one which will produce very low interest rates for the next couple of years. That will tend to suppress the extent to which the medium to long end of our yield curve rises as our central bank gets around to tightening monetary policy, probably from December.

Other Inflation Influencers

Nothing as far as the currency shooting unusually up or down, no major change in global commodity prices/materials costs, nothing to suggest altering wage pressures, and nothing suggesting any big change in inflation expectations or pricing intentions.

Rate Movements This Week

There have been declines in wholesale interest rates this week simply reflecting growing worries offshore regarding global economic growth in the near future. In other words, goodness overnight and rallying sharemarkets have not been enough to restore confidence that central banks will be moving rates up in the near future. Noteworthy is the fall in the five year swap rate to its lowest level since a one week period at the end of January 2009 and before that – well never actually according to our records which go back to 1992.

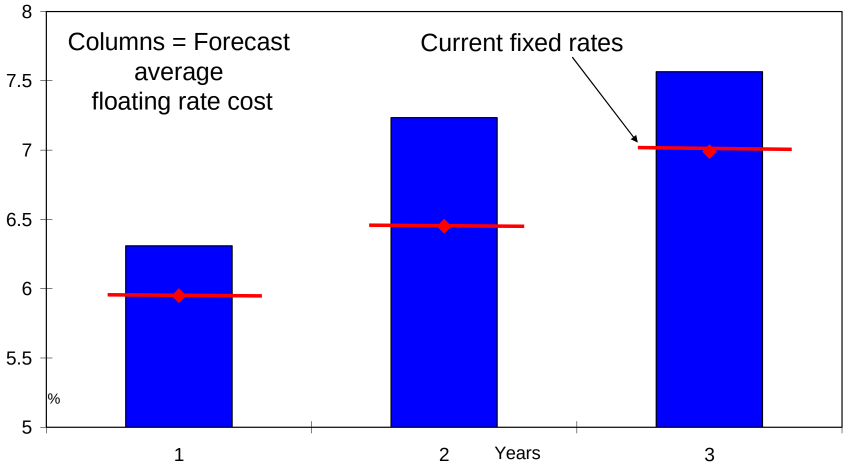
FINANCIAL MARKETS DATA

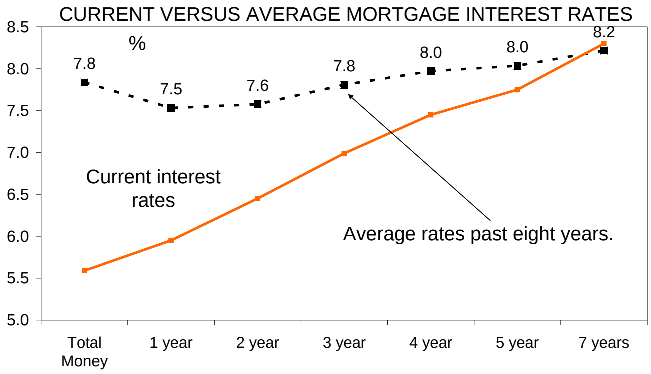
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	5.9
90-day bank bill	2.95%	2.95	2.88	2.67	3.20	6.2
1 year swap	3.13%	3.19	3.00	2.99	3.57	6.0
3 year swap	3.61%	3.72	3.61	3.93	4.14	6.2
5 year swap	4.09%	4.24	4.18	4.52	4.54	6.4
180-day term depo	4.30%	4.30	4.50	3.60	4.90	6.0
Five year term depo	6.00%	6.00	6.00	6.00	6.75	6.5

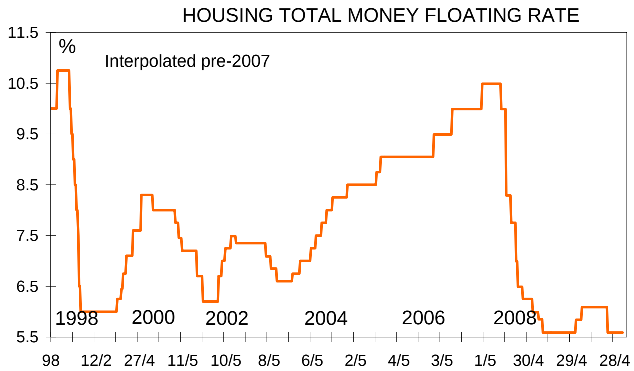
If I Were a Borrower What Would I Do?

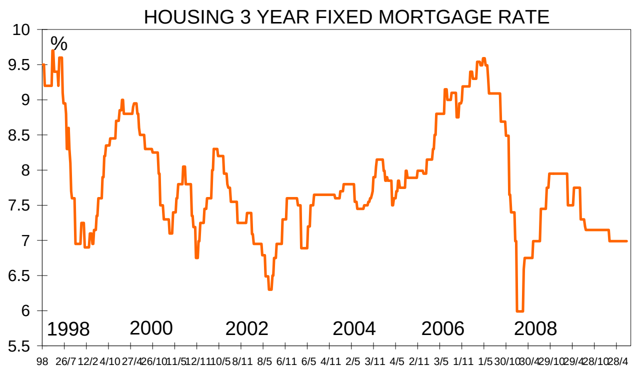
I stay floating. As much as domestic NZ data may be signalling strong growth ahead we are a small trading nation which has been and will always be buffeted by the global financial winds and at the moment these winds are increasing shifting in a bad direction.

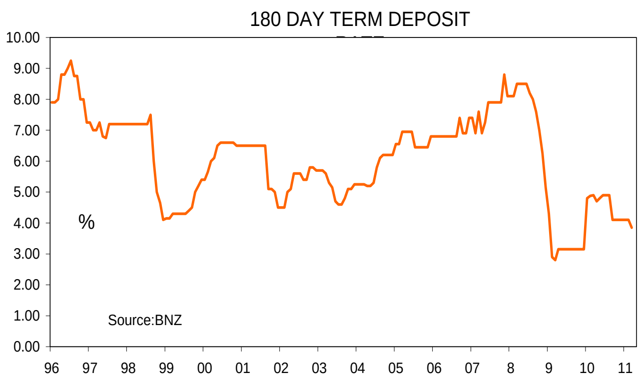
Things are so worrying investors are ploughing into 0% yielding gold, Swiss francs and minimally yielding US government bonds. A healthy global outlook would not be producing such flows.









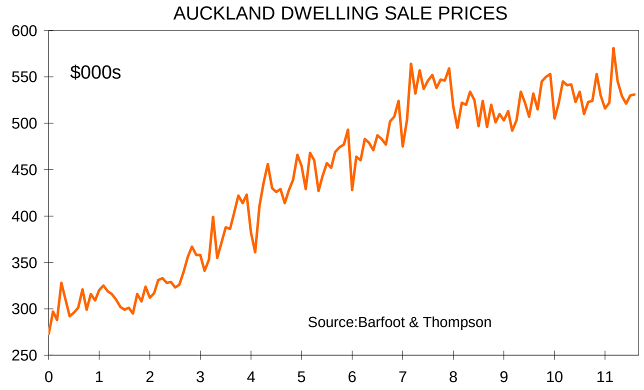


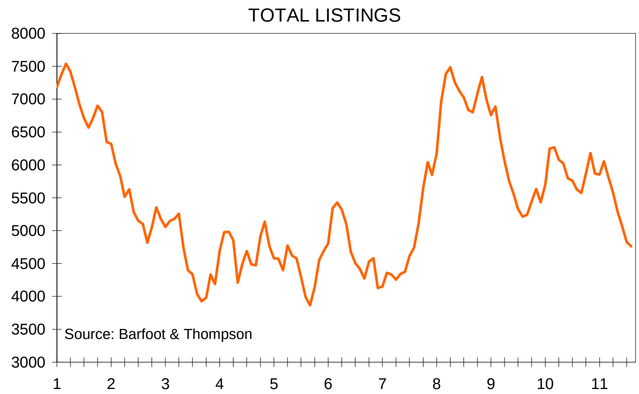
HOUSING MARKET UPDATE

To view the most recent results of our monthly BNZ-REINZ Market Survey and read our monthly Real Estate Overview click here. http://tonyalexander.co.nz/bnz-reinz-survey/

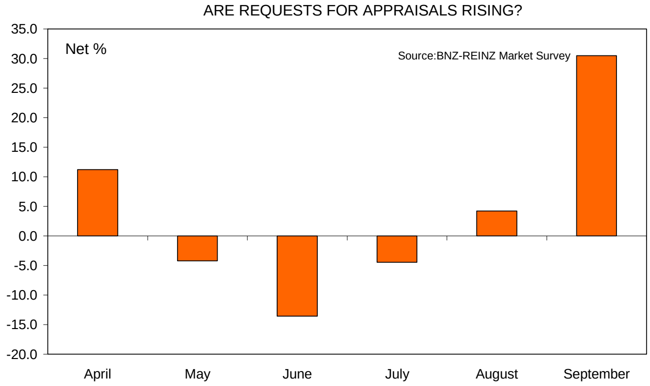
Slow Movement Upward In The Market

Barfoot and Thompson this week released their Auckland activity data for August and the numbers show prices and sales holding steady, but a hint that more listings may be appearing. Sales were roughly unchanged in seasonally unchanged terms during August and in the three month period ending August, though compared with a year earlier they were 19% ahead of August 2010. The median sale price was 1% ahead of a year ago in the three months to August but 4.4% down from the three months to May. Basically static is how we read that.





During August B&T received 1,282 new listings which was 18% more than received in August 2010 and the first positive annual rate of change in this measure in 14 months. This outcome suggests a few more vendors are starting to appear in the market – a result which is backed up by our monthly BNZ-REINZ Residential Market Survey which showed a big shift to a net 31% of responding agents noticing more vendors are seeking appraisals of their properties compared with just 4% in the August survey. However B&T listings at month end were still 15% down from a year ago so the market remains tight.



We received a good number of replies relevant to the housing market in our monthly BNZ Confidence Survey. Just in case you missed them here they are, first the real estate replies then those from construction sector participants not obviously commercial.

Real Estate – Residential

- Real Estate Lower Hutt... short of really good quality stock in all price ranges short of realistic motivated vendors a few rentals coming on and price not where the vendor's at and off the market it goes at offers we think are fair and reasonable, motivation the key thing in this industry. I can see more agents leaving the industry.

- Real Estate Tauranga more positive signs than negative. Properties priced to meet the market are selling. Auctions on well marketed properties selling well with keen buyer interests.
- Real Estate Rodney - sales have been slow, getting good number of listings
- Real Estate central Auckland. Very strong sellers market in Pt Chevalier, Westmere and Grey Lynn. August was our best month in many years with multiple offers on most properties and many selling within a week and street records broken. Big increase in price on resale of homes that were previously purchased two or three years ago and have just been resold. Shortage of quality listings will remain the state of play through to at least December as level of appraisals is still relatively low.
- Selling stock of lifestyle blocks 2 hours from Auckland. Slightly more enquiry as news on the property front seems to indicate it's now becoming more of a sellers market for housing in Auckland.
- Real Estate - increasing buyer activity but listing stock difficult
- Real Estate....getting brighter all the time.
- Real Estate - starting to get better.
- Real Estate. Auckland Central. Sales are picking up and sellers aware its their game now. Buyer numbers increasing but a major lack of quality listings. Multi offers the norm now for fear of missing out. Mt Eden, Epsom, Remuera doing very well and above 07 levels in my opinion.
- Real Estate - more enquiry, most buyers are hesitating and some are missing out. Less stock but more should be coming on now (spring time. Very busy doing market appraisals.
- Housing Market getting better now that spring is here
- Residential real estate - central Auckland. Very healthy prices being paid. Still a shortage of property, so this is a contributing factor to high prices, but we are seeing an increase in listings/activity. Once we see an increase in confidence and banks coming back we are going to be very busy.
- Real estate . There are pockets of hope and the Asian market is buying up investments but overall there's a general stagnation especially for this time of the year
- I list and sell Real Estate and have been doing so for the last 30 years. Numbers of written contracts have been up considerably in the last few months compared with the same months last year. Prices have levelled off however stock levels are still a little higher than ideal - however as we move into our busiest selling period I expect stock numbers to reduce as buyers become more active and we see the market swing a little more in favour of the sellers
- Real Estate in Christchurch. Starting to experience a severe lack of stock in areas perceived free of land damage. Insurance issues continue and best results for vendors coming via auction. Delays to payouts for owners of red zone properties see activity come in waves - fair to say quiet period now. Rateable valuation is ceiling to prices in some areas, but areas North and West seeing prices well in excess of RV.
- Residential real estate sales - considerably better than last year. Plenty of buyers, shortage of listings.
- Real Estate in Invercargill is suffering from a severe shortage of listings Plenty of buyers
- Real Estate - Christchurch. More buyers coming into the market with a shortage of good stock in the $300-$400k range. Slow resolution of damaged homes holding things up plus the stance by insurance co's of not taking on new business making the option to build very difficult.
- Real Estate North Shore. It is good but many people don't want to sell now and will just wait a year or two as they believe they won't be able to find a house that they want. If they all just put their houses on the market they would all find what they want!!!! Another listing or two would be help.
- Real Estate City Fringes ... Good demand shortage of listings. Most people paying down debt and uncertain whether to reinvest at present until the economy settles down worldwide.
- Real Estate Johnsonville: Sales picking up and listings coming through more frequently. Good numbers of buyers and multiple offers appearing.
- Real Estate - Good spring flush forming with plenty of buyers. Not sure it will sustainable in the new year
- Real estate Auckland, continuing demand and good sales largely due to low interest rates expected to stay low for longer.
- Real Estate in Wanganui, a lot of houses on the market and not a lot of buyers so prices still lowering.
- Hard work, activity slow. Real Estate
- I sell Real Estate on the north shore of Auckland. There is still a shortish of stock although there are signs that more properties are staring to come to the market now weather is getting better. There are a lot of buyers at open homes. One property I sold over three weekends had over 100 groups through open homes and I wrote up offers resulting in a higher than expected price for vendor. A slight sellers market currently with prices moving up slightly.

- Slow but steady enquiry from Buyers and Sellers about the current 'state of the market' (Real Estate Whangaparoa)
- Real Estate - Hastings / Havelock North, Hawke's Bay. Great activity combined with a shortage of listings suggests that the worse may now be over and that we can expect some improvement on sales volumes over the next 12 month period. Prices however are unlikely to improve significantly, in this same period.
- Real Estate A little more activity with listings
- Real estate investment: detecting signs of boom and having to buy at CV levels. Lack of confidence in business sector makes me wary of the property cycle but my broker feels that there are different indicators this time around.
- Real Estate still sluggish, listings short & numerous companies discounting fees & also paying for auction costs, East Auckland.
- Residential real estate Wellington. Stable but weak. little confidence from buyers. Sellers still generally under little pressure to reduce expectations of price.
- Real Estate Auckland's North Shore, strong buyer activity but shortage of listings, many multi offers and record prices being set.
- Looking promising...cautiously optimistic. Real estate...all 3 sectors
- Real Estate - Central North Island. Listings are coming in and buyer enquiry is up - it is still taking hard work to get buyers to commit and make an offer. Offers are generally very low
- Napier Real Estate is busy lots of sales but we still need listings they are in short supply.
- Kapiti Real Estate, still quiet. few buyers
- Residential Real Estate Pakuranga/Howick - still very short of listings but a few more starting to trickle through; a few buyers about (not lots) but sufficient to create multiple offers on the few properties available so the auction orientated are getting some good action; prices not rising.
- Residential Real Estate Napier/Hastings. More listings coming to the market. Multiple offers being received on well priced property.
- Real estate; been very busy; have had two record months and listings and enquiry are both up 50%; thank god!!
- Residential Real estate, Central Otago. People have confidence that things are not going to get any worse. Therefore we are seeing a little more activity
- Real Estate, a slight improvement in listing activity.
- Real Estate in Manawatu is showing signs of life with spring listings already starting to come through.

Construction

- Building in Christchurch is pretty flat at the moment ,insurance companies need to pull finger and put some serious money to the rebuild
- Building Industry. Very, very slowly improving.
- Residential housing, Auckland. Enquiries and sales increasing for new homes under $700k, $800k plus homes sales are sluggish. Starting to turn away smaller jobs as we are too busy. 2012 looking good!.
- Construction Christchurch. Exceptionally buoyant in some sectors however still awaiting for the release of repair work by CERA and CCC and insurance companies, our builders are basically idle.
- Still not enough work to go around. Residential Building
- Construction Hawkes Bay Still very patchy, but not as bad as last year
- Building Industry - supplier / manufacturer - just no signs of the housing market picking up in the markets we operate in. Margins are incredibly tight.
- Construction in Christchurch - insurance and consent hold ups are starting to ease and there has been an increase in tenders and concept plans. Going forward the workload is looking very positive.
- Construction-remains 'tight' but suggests positive growth.
- Building industry. Tough and although the data from Statistics NZ for construction residential and non residential for July seem to indicate a turn for the building sector - in reality the level is still way down on where it should be.
- Construction - Housing has very slow activity, there is work there but having to work hard to get it. Have spent the last two years tightening up. Are diversifying into varied building work to keep busy.
- Building - gradually picking up
- Construction - signs of slow improvement.

- Residential home building, volume of work looks better over the next 12 months, Christchurch, Leaky homes, general housing shortage. we have seen a noticeable increase in sales over the last 6 weeks.
- Margins still extremely tight in construction

Are You Seeing Something We Are Not?
If so, email us at tony.alexander@bnz.co.nz with Housing Comment in the Subject line and let us know.

MAJOR OFFSHORE ISSUES

European Debt

One of the things in action regarding the European sovereign debt crisis this week is increasing pressure on Italy to make good on its promises to accelerate deficit reduction and enact reforms aimed at removing inefficiencies. At the same time the Finns still refuse to accept the new bailout package for Greece without some for of collateral. In Germany the Chancellor's ruling Christian Democrats were all but wiped out in a local election. In Slovakia the Speaker of the house and leader of on the four parties in coalition says he opposes legislation the country needs to pass if the planned expansion of the euro-zone rescue fund is to go ahead. Many people in Slovakia resent the fact as the second poorest euro country they undertook major restraint to meet rules needed to join but are now being asked to bail out a richer country which outright lied and ignored the same rules. Greece looks like not meeting its 2011 budget deficit target it must satisfy in order to get the next tranche of money from the IMF.

Basically nothing has happened to give one any confidence that the end game with regard to the ongoing crisis is remotely at hand. Trust among the Euro partners is breaking down and belief among investors that things will turn out okay within a reasonable period of time is evaporating. The indebtedness of Greece gets worse by the day as they stumble toward an inevitable default. The question is simply one of when the larger powers consider their banks will be in strong enough positions to handle the debt write-offs without wiping out enough of their capital bases that they no longer meet regulatory asset requirements.

At the same time it seems only a matter of when not if the markets will resume their selling of bonds issued by Spain and Italy. For now such selling has been capped by the European Central Bank undertaking fresh bond purchases in the secondary market since early-August. But these purchases cannot continue and perhaps all that has happened is that some investors have been able to sell their Spanish and Italian bonds and buy German ones instead, in the process pushing the yield on those latter ten year bonds to over 200 year lows under 1.85%.

The situation is heading downhill anew to such a degree now that expectations are rising that the ECB will cut interest rates as its next move rather than raising them.

Chinese Inflation

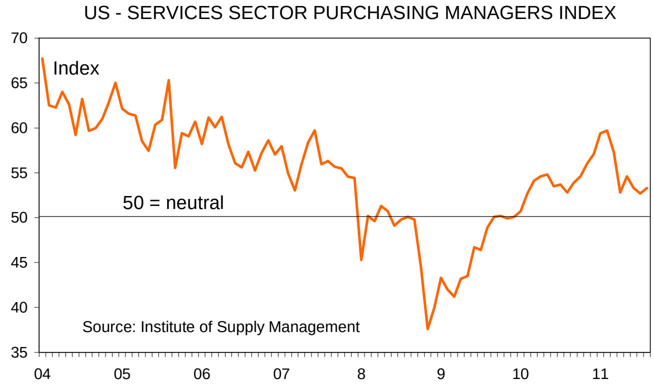
Data on the state of the Chinese economy now assume greater importance. The European but more especially the American economy may be heading back toward near recessionary conditions and NZ will only escape without going back into recession or close to it if growth holds up in China.

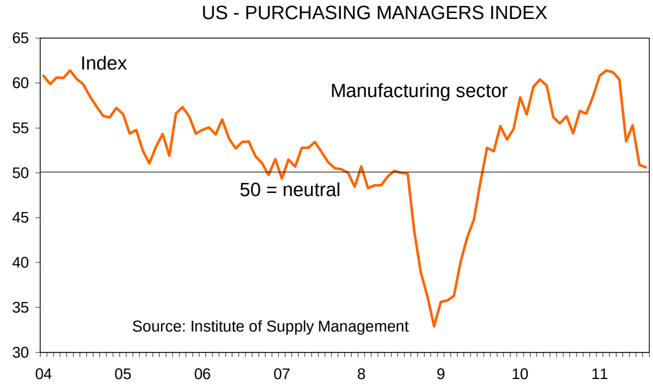
After falling for four months the official PMI for China's manufacturing sector improved a tad in August rising to 50.9 from 50.7 in July. The rise appears to have been driven by some good domestic demand though it is much too soon to start drawing conclusions such as that although Western weakness and a rising Yuan may be denting exports, the domestic Chinese economy is now taking up the strain. The general view is that it will still be some years before domestic consumption in China truly stands on its own feet not strongly linked to export sector performance, and before that happens there is a good chance that domestic growth falters as there will be a pullback in infrastructure activity.

US Growth Momentum

It was another week of largely bad news on the current state of and immediate prospects for the US economy with growing talk of a double dip recession, falls in share prices, rallying government bond yields, and general despair. This week's trigger was the monthly non-farm payrolls report which showed zero growth in employment in August whereas the common expectation had been for a gain of about 68,000. Further, the previously reported increase in July of 117,000 was revised down to 85,000.

There was actually one positive piece of data released during the week. The ISM Services (non-manufacturing) index improved to 53.3 in August from 52.7 in July. The trouble is this is still well below levels six months ago and suggestive of only mild growth in this broadly defined sector. Plus some of the component indexes weakened away. The employment index fell to 51.6 from 52.5 to be at its lowest level since September last year. Last week the manufacturing index fell almost back into shrinking territory at a reading of 50.6 from 50.9 in July.





Tonight all attention will be on an employment package which the President is expected to outline, and the contents of speech to be delivered by the Federal Reserve Chairman.

Here is an interesting set of statistics indicating why businesses reliant among US consumer spending should withhold any optimism for potentially a long time. On average over the period from 1970 – 2000 the ratio of household debt to household income in the United States was 75%. The ratio has pulled back from 130% in 2007 but at 110% is still well above average. Even the household savings rate near 5% has yet to reach its long term average of 8%. So, to the extent US businesses don't want to invest and hire because they have low expectations of spending by US consumers, and to the extent US consumers want to keep paying down debt in an environment where wages growth has stagnated, job security has gone out the window, and house prices are still falling in the face of a continuing oversupply, the US economy is going to register low growth for quite a few more years. We however have rising exposure to Asia, hence why the NZD/USD exchange rate, once the current perturbations ease off (after they first get probably a lot worse), will head above 90 cents eventually to embrace parity if the US low growth period stretches out another three years while Asian demand for our exports holds up.

Australian Growth

In Australia this week the news is all about when the current PM will be replaced by someone else in the ALP and Australia will adopt a Japanese-like characteristic in recording its fourth Prime Minister in four years. This is the sort of thing which can only act as a dampener on consumer and business sentiment and willingness to spend, hire and invest. Nevertheless it pays to remember that as much as house prices are falling at near a 3% annual rate, retailing annual growth is the worst in half a century, and manufacturers are furiously seeking out politicians who show an inclination toward eventually destructive protectionism, the mining and infrastructure sectors remain buoyant. Capital spending plans are strong and these sectors are still struggling to find the staff they need.

The political situation would not have rated at all in the decision by the RBA this week to leave their cash rate unchanged at the 4.75% level it reached late in 2010 after a year of rises totaling 1.75%. Those rises were aimed at allowing space for the mining and manufacturing sectors to grow by suppressing other sectors. In that regard the increases have worked wonderfully. But they have increased the economy's short to medium term dependence upon the mining sector and via that on China as the prime source of demand for Aussies gritty exports.

In the context of the current situation however the RBA have kept their rate on hold – a lack of change which was universally expected by surveyed Aussie economists. The RBA Governor noted that world growth forecasts have been falling, that there is increased uncertainty about growth prospects in the United States and Europe, and that financial turmoil is being closely watched. But he noted that so far Australian export prices were holding up and that medium term inflation pressures remain concerning.

With regard to data received this week it has been a story of two halves (imagine how often we are going to hear that silly line in the next six weeks). Yesterday data showed that during the June quarter the Australia economy grew by a healthy 1.2% which was a result above expectations for a 0.9% rise. In addition the March quarter increase was revised up and as a result forecasters have added about 0.5% to their pick for how much growth the economy will overall record this year. The pick by our NAB economists is 1.75% this year and just over 4% during 2012.

But this morning data appeared showing a further rise in the unemployment rate to 5.3% from 5.1% in July and a low of 4.9% in April, with job numbers falling by almost 10,000 in the month. The trend in Australia's unemployment rate has shifted upward and this development coming at a time when NZ job growth is running just under 1% p.a. but set to accelerate will likely cause a reversal in the worsening of net migration flows by the middle of next year.

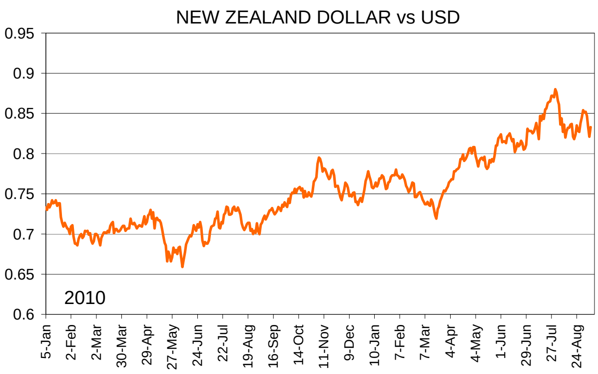
Exchange Rates

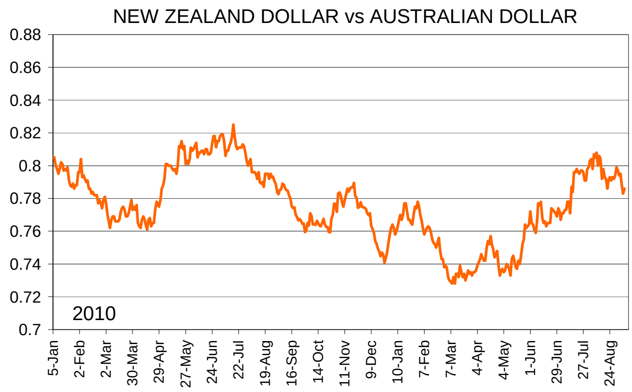
Exchange Rates	This Week	Week Ago	4 wks ago	mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.833	0.851	0.844	0.821	0.7182	0.689	0.629
NZD/AUD	0.786	0.797	0.807	0.766	0.78835	0.773	0.855
NZD/JPY	64.400	65.500	66.300	65.700	60.15	67.7	68.4
NZD/GBP	0.522	0.524	0.515	0.499	0.468	0.448	0.368
NZD/EUR	0.592	0.592	0.591	0.559	0.56635	0.52	0.511
NZDCNY	5.327	5.428	5.436	5.323	4.877		4.83
USD/JPY	77.311	76.968	78.555	80.024	83.751	98.3	109.9
USD/GBP	1.596	1.624	1.639	1.645	1.535	1.54	1.705
USD/EUR	1.407	1.438	1.428	1.469	1.268	1.33	1.229
AUD/USD	1.06	1.07	1.05	1.07	0.91	0.891	0.737

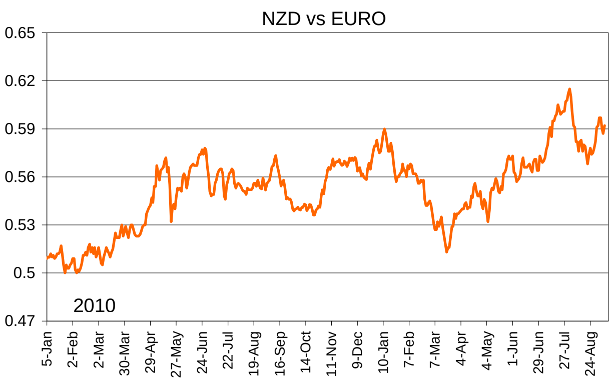
*Sourced from Consensus Economics. http://www.consensuseconomics.com/

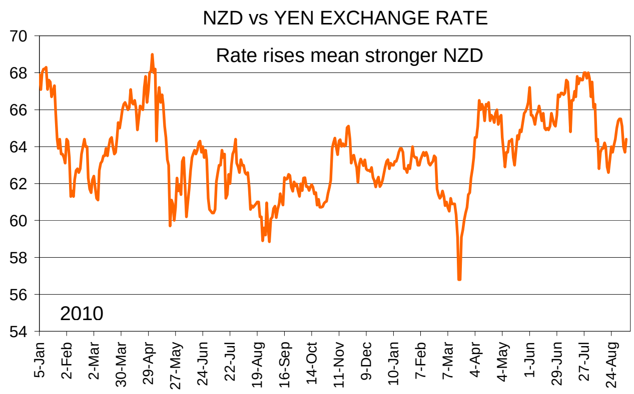
Kiwi dollar down, range trading overall

With fluctuating worries offshore regarding the state of the US economy and how badly the European sovereign debt crisis will become the Kiwi dollar has been sold off to some degree over the week to end about two cents down against the USD, a cent or so down against the Aussie dollar, unchanged against the euro and pound, and down a tad against the yen. Generally directionless trading as we have been seeing since June will not continue and at some stage the Kiwi dollar will generally break up or down. If the global situation gets really bad the NZD will fall back below US 80 cents. If things settle down the drift will be up. We assume the latter.







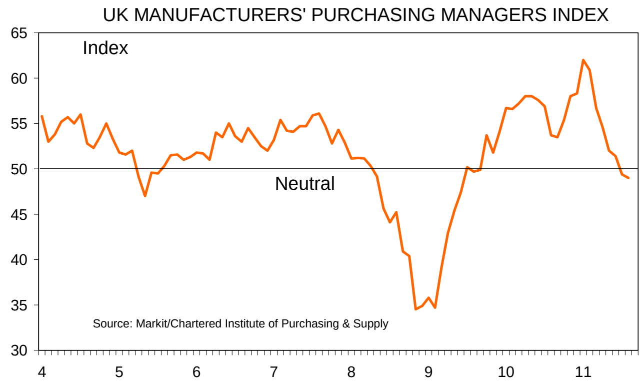


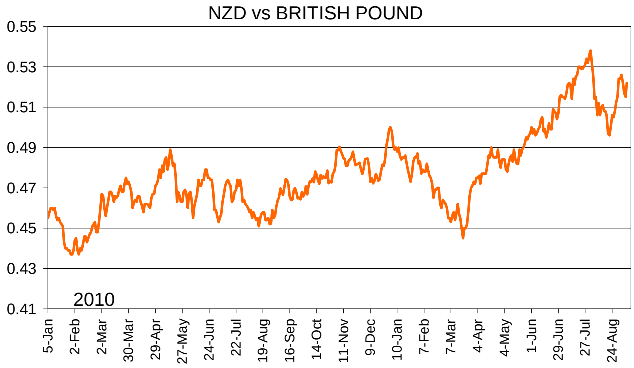
With regard to the major currencies this week, the Aussie dollar has held up reasonably well in spite of today's weak jobs data because the settling down of world markets has seen support return for commodity prices and risky currencies, plus yesterday's better than expected GDP data have offset the employment disappointment.

The USD has strengthened against the euro to near a two month high at about $1.40 while against the yen it has risen slightly. One suspects however that the general long term downward trend in the USD will reassert itself assuming the Federal Reserve indicate some likelihood of a third round of money printing.

United Kingdom

Here is another bad piece of UK data. The manufacturing sector shrank at its fastest pace in two years in August as measured by the PMI index falling to 49 from 49.4 in July. The news is important because as in the US the manufacturing sector had been a rare bright spot for the UK economy. Now that it is outright detracting from growth at a time when consumer sentiment is dire, the housing market weak, and the public sector retrenching, it seems reasonable to expect that the pound will trade with a downward bias in coming months.





And here is another. The ISM services index came in at a reading of 51.1 for August whereas 54 was expected. Plus, industrial in July shrank 0.2% rather than rising 0.2% as had been expected.

Speculation is now growing that the Bank of England may be about to start another round of bond purchases (printing money).

Exchange Rate Assumptions

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.80	Higher++	0.81	Higher+
NZD/AUD	0.74	0.78	Higher	0.86	
NZD/YEN	64.2	69		70.0	Higher
NZD/GBP	0.44	0.49	Higher+	0.50	Higher
NZD/EUR	0.51	0.55	Higher	0.58	Higher
USD/JPY	88	86	Lower	86	Lower
GBP/USD	1.66	1.63		1.62	Higher
EUR/USD	1.43	1.45	Higher	1.40	Higher
AUD/USD	0.99	1.03	Higher+	0.94	Higher++

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	1.0%	0.8	5.3	1.7	1.9
GDP growth	Average past 10 years = 2.6%	0.8	0.5	+1.5	-0.7	-1.5
Unemployment rate	Average past 10 years = 4.8%	6.5	6.5	......	6.9	6.0
Jobs growth	Average past 10 years = 1.9%	0.0	1.3	2.0	0.0	-0.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	4.3	4.1	......	2.4	8.0
Terms of Trade		0.9	0.8	6.8	0.1	-5.0
Wages Growth	Stats NZ analytical series	0.6	1.0	3.6	2.5	5.2
Retail Sales ex-auto	Average past 9 years = 3.9%.	0.7	0.0	1.4	1.0	-3.6
House Prices	REINZ Stratified Index	-0.2	1.1	-0.1	2.8	-0.9
Net migration gain	Av. gain past 10 years = 13,900	+3,867	6,554yr	......	16,504	12,515
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	-0.1	0.2	-0.1	3.8	-2.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	22	45	-21	-1	42
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	109	108	116	112
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.6	2.6	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	11.7	14.3	-11.3	-26.7	34.0
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	5.59	6.09	6.09	5.59	6.49
3 yr fixed hsg rate	10 year average = 7.8%	6.99	7.15	7.15	7.95	5.99

All actual data excluding interest & exchange rates sourced from Statistics NZ.

The BNZ Weekly Overview is prepared by Tony Alexander, Chief Economist at the Bank of New Zealand. Ph 04 474-6744 tony.alexander@bnz.co.nz www.tonyalexander.co.nz

Key Forecasts

Dec. year		**2010**	**2011**	**2012**	**2013**
GDP	annual average chg	1.4	2.0 – 2.5	3.5 - 4.0	4.0 - 4.5
CPI	on year ago	4.0	3.0 – 3.5	2.5 – 3.0	2.5 – 3.0
Official Cash rate	end year	3.0	3.0 – 3.5	4.5 – 5.0	4.0 - 5.0
Employment	on year ago	1.3	2.0 – 2.5	2.0 – 2.5	2.0 - 2.5
Unemployment Rate	end year	6.8	6.0 - 6.5	5.0 - 5.5	<5.0

*extrapolated back in time as TotalMoney started in 2007