

BNZ Weekly Overview

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.

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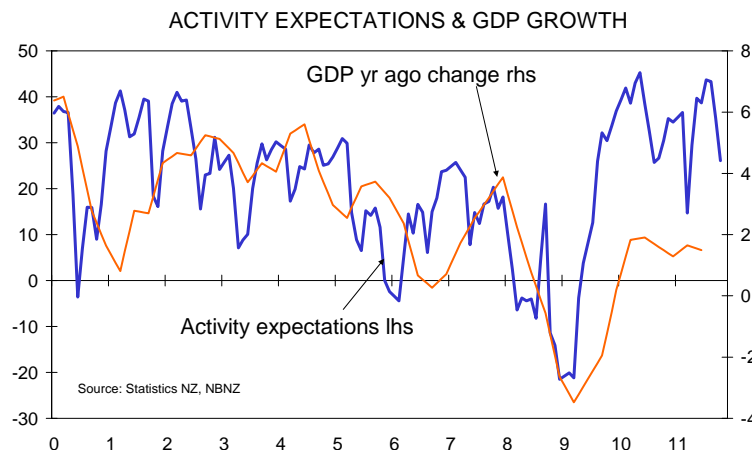
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

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Why We Could Grow 5%. Why We Won't.

The talks I gave on the NZ economy overseas recently and in Wellington and Auckland this week were based around the theme that a disconnect has opened up between what we expect to happen with the economy and our businesses and what we do in response to that. The graph here sums it up. It shows that up to 2009 the NBNZ business activity expectations measure and GDP growth would move in the same zone graphically speaking. Both plummeted into 2009. But whereas activity expectations have gone back to their old zone of movement growth in the economy has remained mediocre.



Why the structural change? The main reason is the deleveraging process whereby businesses and householders prefer to repay debt rather than spend. Plus there is a strong “wait and see” attitude toward spending. But more than that there are a large number of factors actively constraining our growth and working to offset some rather large positives. In no particular order of importance, these positives which have capacity to propel NZ growth above 5% and which we think help explain the strong business activity expectations include the following.

- Rebuilding of Christchurch
- Catch-up construction of houses in other parts of the country – mainly Auckland.
- The feed-through of high farm incomes into high spending.
- Catch-up spending by businesses on inventories, machinery, and by householders on durables such as cars and couches.

There are also some smaller positives.

- Low NZD/USD exchange rate.
- Low interest rates.
- Strong business activity expectations and average to above average employment and investment intentions.
- Strong foreign interest in investing in NZ farmland.

But there are some big negatives in play and the key thing to note about them is that we don't know when they will fade. That means that just as the past year has produced a series of reductions in growth forecasts and some radical shifts in interest rate predictions, there is at this stage no reason for believing other than that we could easily see the same changes happen again over the next 12 months. In other words hang on, this so far four year ride of wobbles and weakness is nowhere near over.

- Deleveraging – the point to note here is that no-one has an economic model which tells us when, following a near Depression, this process of debt reduction will end. We have no idea.
- Availability of home insurance in Christchurch – only when insurers can price the risk and set the premiums can they offer the insurance and as yet the strong aftershocks every 3-4 months have not stopped.
- Offshore risks – it is still possible that Europe will implode with Italy and Spain unable to finance their deficits or maturing debt, that there will be a deep contraction in economic activity, and there will be spill over effects prompting a new global recession with a repeat of the banking crisis. The Euro also could easily fall apart. The media in fact is currently replete with (often British-accented) people saying “I told you so.”
- Credit availability – the story of the globe from the 1980s to 2008 was readily available credit. The story for the next two or three decades will be the opposite and that means companies need higher capital before borrowing. It also means increased uncertainty regarding what a bank will say when funding is sought and that may be dissuading some businesses from approaching a financier at the moment.
- High exchange rate – on average the NZD is above average and this is constraining incomes for many non-primary exporters.
- PSA disease – clearly many in the Kiwifruit sector are experiencing massive wealth losses.
- Cost of living – it has risen 4.6% in the past year and not many people have achieved wage rises of that amount (though some will have gained the underlying cost of living rise of 2.6% excluding last year's GST increase.)
- Weak immigration – in fact net migration on an annual basis has almost turned negative compared with an average gain of 16,000 per annum over the past decade.
- Tightening fiscal policy – governments now need to raise taxes and/or cut spending to get down deficits legitimately run in order to fight the 2008-09 Depression scenario.

Our central view is that as long as Europe does not implode then the above factors will constrain but not wipe out the growth we expect from the positive factors eventually kicking in and our economy will grow near 3% over 2012 and 3.7% over 2013. The risks however lie on the downside and while companies with strong balance sheets should be keeping an eye out for acquisition opportunities and preparing for upcoming staff shortages, the bulk of businesses would be best advised to still play things cautiously.

My Trip To Beijing

Last week I wrote a few observations of my time spent in London, Brussels and Paris plus the one night stopover in Hong Kong. This week I offer some thoughts on Beijing and also would like to give thanks to those people who gave positive feedback on last week's comments – apart from the bloke who felt I was too disparaging toward Qantas. As usual the thoughts are in no particular order and appear here largely as I vomited them out of my head – initially while sitting at the Beijing Airport on Saturday morning waiting for my flight to Hong Kong for connecting to another bound for NZ.

Beijing Airport is huge beyond belief. When we landed on Wednesday night near 8.30pm the stairs were rolled up to the airplane, we started descending them, then were told to wait while something happened. That is, a woman at the bottom said a lot of words in Mandarin which I did not understand and stuck her hand up in the international gesture for go no further. We waited while a few people got down and were herded toward the airport transport bus which was waiting. This is a bus where there are very few seats and one stands for the trip between the plane and the terminal.

After two or three minutes the woman indicated that we could continue descending and we did and I walked toward the waiting bus. Thankfully one of the passengers spoke Mandarin and English and asked me if I had boarded at Osaka, I said yes, and he said I should stay with the bigger group and wait for the alternative bus. And so I was reminded of the rule I broke this time with regard to getting off a plane in unfamiliar surroundings. Stay with the group and do not get out in front. Follow the others.

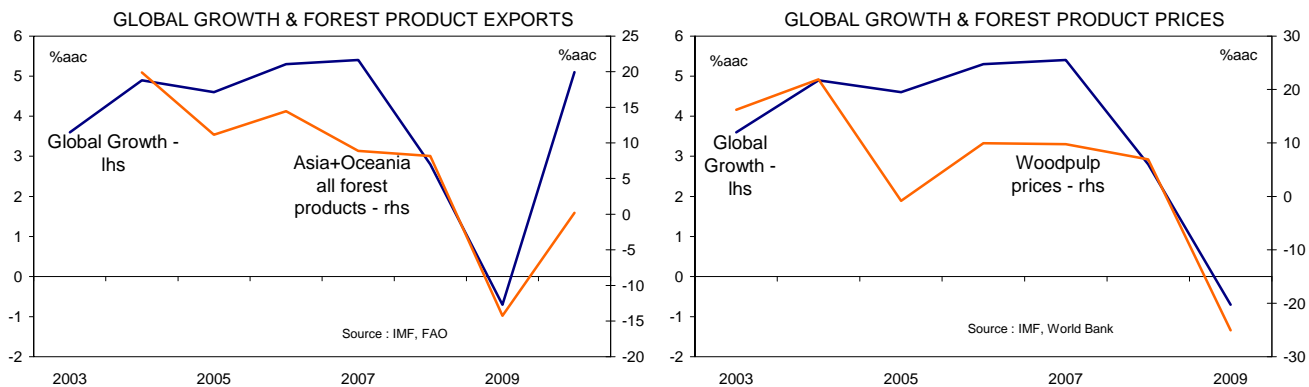
So we hopped on the next bus and it took at least 10 minutes to get to the terminal as we had to stop along the way and wait for planes to cross in front of us. The terminal entrance was shall we say not as impressive as so much of the rest of the airport. It was a side entrance guarded by a mangy cat eating scraps someone had thrown out the door.

Getting from the airport to the hotel was no problem as I had already printed out the hotel name in Chinese characters and simply handed the piece of paper to the taxi driver. The rule when getting a taxi from a Chinese airport is simple - Use The Queue. There are many stories of gypsy drivers (black taxis they call them) greeting people, directing them to their taxi and charging maybe ten times the usual fare. As I mentioned some months ago I got waylaid by such a driver after landing at Brussels Airport earlier this year but his fare was okay and we got to chat in French.

Speaking of which, did I get to practice my French this trip? Just two times. Once was with a Japanese gentleman sitting beside me at dinner in Osaka for the Japan New Zealand Business Council meeting. The other was at a lunch on Friday in Beijing with a Chinese/French guy who's parents had migrated quite swiftly to France after the events in Tiananmen Square of 1989. He wanted to see what his folks had fled.

I stayed in Beijing at the China National Convention Centre Hotel which is right beside the China National Convention Centre which like the birds nest Olympic Stadium just along the way and the pool cube (brilliantly lit up in blue at night) is huge. Imagine the Christchurch Convention centre multiplied maybe ten times. I had enough time to unpack, hit pit, then rise the next morning about 5.00am, review my notes, then head off to the convention centre around 7.15am to be sure I found the Ballroom A speaking venue for my 8.30am presentation. That was not so hard to do – once I found the entrance. Imagine an ant walking around a box to find the way in.

As with most places one goes into in China my bag had to go through a security scanner. The room I spoke in had maybe 1,000 seats laid out though they were not quite all filled by the time things kicked off – in leisurely fashion a tad late at 8.55am. I spoke about the relationship between changes in world growth and changes in forestry export volumes and prices plus the downside risks stemming from events in Europe. The other four speakers dealt with global warming, the interaction of native peoples and their forests and so on.



After the panel session we went to lunch and the room for that was as huge as the speaking hall with food along both sides, special tables for Muslims (something I have never seen in our isolated oh so innocent paradise), and unwritten but necessary adherence to the rule the quick and the dead. Meaning, if you see something you want to eat and figure on going back later, don't. By the time you do it will probably have been strip mined. That is something I saw happen with the pastries also at the breakfast in the hotel when the Chinese tour groups descended. On my two mornings of breakfast in the hotel I adhered to the advice in the travel books I read and got there just before things kicked off at 6.30am which was no great problem given I was waking up at 4.00 – 5.00am.

Enough of that – some observations.

In the hotel room there were two face smoke masks in a can – clearly there to be extracted and put on in the event of a fire. That seemed like a good idea though one imagines that if hotels started supplying the same thing in NZ we would steal them. The air conditioning was as good as in the hotel I used in London at Canary Wharf. That is, the temperature could not be changed. I spoke with other people about this issue and they noted sometimes they sleep with the window open (if there is one) and one bloke left open the door to the hallway. He still had both kidneys when he woke up the next morning.

On the streets of Beijing there are many different types of bikes and trikes which people use for transporting themselves and various goods. I did not however see any of the massively over-loaded bikes one sees in smaller locations dominated by produce markets. I saw only mild spitting – though some of them were real lung clearing lugies. People smoke a lot – so at the airport there is a table containing lighters one can take for free as they have been confiscated from people boarding flights. One suspects the table is not often other than empty as people in China tend not to turn down free things.

The driving, as I mentioned earlier this year with regard to my trip to Shanghai, has to be seen to be believed. Like hard work I could watch it all day. The rule is basically if you can do a thing and not hit someone then you do it. Red lights are to be obeyed, but not if there is no traffic coming the other way – that defaults to an implied green light and away you go. People on bikes and on foot move across roads and through intersections (sometimes diagonally) bit by bit as cars whiz around them. Pedestrian crossings are for decoration only. If you think that a crossing gives you as a pedestrian the right to cross you will probably not have to worry about thinking of anything ever again after a few times boldly striding forward. If you cross with self righteous attitude you are an idiot.

There is a lot of tooting but 95% is people warning other people (including pedestrians and cyclists) that they are there. Horns in cars in China are light bells on bikes in New Zealand. The way people drive in China works because everyone does it the same way. There is little aggro which is not what we would think would happen looking at their situation in the context of the way we drive. In China if someone overtakes you on the inside shoulder you don't get aggro. They could do it and they did it and no worries. If you do the same you know no-one will be angry at you so you have no heightened emotions through either worries about offending anyone or building defensive aggravation.

The same applies to walking along the street, queuing and so on. In the context of our culture the behaviour of people is impolite. In the context of China the behaviour is normal and non-aggro. Frankly once I realised this it became exceedingly easy to walk around, walk in front of people, edge to the front to queues etc. because I knew I was offending no-one. Frankly I find walking in crowds in China less stressful than doing the same thing in Japan where politeness is expected.

This trip I would have to say has finally got through to me the meaning of “When in Rome do as the Romans do”. If you stop judging people’s behaviour in a foreign country in the context of your own learned manners and patterns then life becomes a lot smoother. Just remember to change back when you return to NZ because if you cut on the inside of me when I’m driving I’m going to give you the bird like you’ve never had before.

I saw a good number of small dogs in Beijing but no big ones and no Paris-like smattering of crap on the pavement. Many of the cars go unwashed – and quite noticeably so. Meaning that maybe they look like those in Australia when water shortages hit.

In the backs of taxis there are not always seat belts. And if there are you may not be able to use them because usually the back seat is covered with a nice blanket and you can’t click into anything.

People eat with their mouths open and slurp their drinks. That is simply the way here and it means you are enjoying your food. I could not do either – not even give a decent slurp in a Chinese tea house visited on a trip on my spare day. I paid around NZ\$65 for a one day tour to visit the Forbidden City, Summer Palace, and Temple of Heaven. The Forbidden City is huge with the central axis most people walk along involving a series of huge courtyards separated by elaborately designed buildings. It is definitely worth a visit and makes one want to go back home and watch ‘The Last Emperor’. The Summer Palace has a good story to tell in that it was built by one of China’s two female emperors – the Dragon Lady – but she used money which should have gone to building up the navy. So when the Anglo-French forces came along in the 1860s I think it was there was little resistance. Opps.

If you go on a tour then the tour guide is required to take you to two government stores – no choice. So you go. And you are expected to buy something. We visited a freshwater pearl shop where each oyster may produce ten or more pearls instead of the one produced in seawater oysters. I made a small purchase. Pressure at the pearl shop to buy something was not too great though I loved it when they said “I give special price for you. 30% off, but only for you.”. That was not the case at the tea shop Dr Tea. The tasting of different teas was good but it was clear what one was expected to do when the person doing the demonstrating to our small group of seven went into her pitch regarding the prices of the teas. They are of course outrageously over-priced but I was able to get away with just paying NZ\$20 or so for a mug which changes pattern on the outside when hot water is poured in. I have not seen such a thing before so ... whatever.

Other people however were hounded initially to pay near 600 Yuan (about NZ\$130) for four near 130gm boxes of different teas. If the salesperson was getting nowhere then they would fall back to four smaller boxes for about 400 Yuan. Then there is a further fall back position of four tiny boxes (still excessively priced) for about 100 Yuan.

If you are only doing one tour then while the tactics are impolite it is probably best to just go with the flow and buy something. But if you are doing a number of one day tours then you have a problem and will need to be quite assertive in turning people down in order to escape without having spent the equivalent of a week’s grocery bill in NZ to buy a few mass produced pearls and boxes of tea.

Just go with the flow – which is what I did when taking a brief stroll on the massive plaza outside the Olympic Stadium. Upon entering the area having cleared security I immediately saw a man flying a string of little kites and thought they would make a good present back home. So when he approached me I allowed conversation to open up and he opened with an offer of 100 Yuan for the collection of maybe 20 little kites strung together one metre apart.

Now I knew that whatever we ended up settling on I would be by their standards completely ripped off. It is simply a matter of how much over the odds I would pay and did I really give a damn anyway. Thankfully the

answer to the second question was then, and still is now, no. So I countered with 10 Yuan. He laughed, guffawed and countered with 80. I said 20. He said 60. I said 40. Then he, being the master at this and knowing he would be scoring large countered with three for 150. I was caught in the flow and countered with 100 for the three (at this stage he is probably having his best time in weeks on the inside).

He countered with 120 and I said okay. I paid, started to walk away smiling to myself simply from having enjoyed the process and wondering to what extent I would have paid over the odds (remembering the amount of money in NZD terms was still fairly small). Then he walked back up to me and said ‘You want string?’ Absolutely brilliant. He quickly offered three spools of string for 10 Yuan, I accepted and that was that.

But as I walked away another person selling kites came toward me saying loudly ‘How much you pay?’ I waved him off knowing that if I told him he would either laugh hysterically, start jabbering at the first bloke, or start plotting ways in which he could secure the coveted position of first seller near the main plaza entrance. One suspects some sort of kick back arrangement exists for such a position.

On the way out another seller offered two kites for 10 Yuan.

It is very polluted in Beijing. The locals will tell you it is fog. (Even Chinese in NZ have tried to tell me that.) But you know that when the sun rises deep red, changes to bright orange, shifts to a fairly good yellow, then late morning is largely gone from sight until the sunset reddening, it is smog.

So that is that. All going to plan I will be back at some stage in the next year to a number of Chinese cities and I’m definitely looking forward to it. Plus I have developed two new rules for travelling. The first is that when getting on an airplane wear just one layer on top. Aircraft tend to be warm and with all the food one gets offered if you have somewhat high metabolism like I have then the body’s temperature can go through the roof. I swear if it happens one day while walking toward immigration in an Asian airport their temperature scan will cause me to be pulled aside and examined to determine which variety of bird flu I am carrying.

The other rule is that when travelling between countries with different currencies switch the money in one’s wallet to the new currency while on the plane. That way one minimises the risk of what almost happened to me in Osaka. In case you don’t know, when you want to get from an airport in Japan into town your best bet is take the Limousine Bus service. DO NOT take a taxi. The cost is horrendous. To get a bus ticket usually means using a machine. I was directed to a machine outside the terminal but told at the same time that the bus was already there. So the adrenalin kicks in a little bit – which experience over the years teaches me is a good thing until something goes perhaps a bit wrong. Then mistakes can easily occur as the adrenalin rush gets entangled with the fluster mechanism.

So I pull out my wallet, try to insert the currency, am told it is Chinese money (Hong Kong dollars) then rush to open my bag and get out the folder with the Yen which is the same folder in which I keep my Kindle. I get the Yen, buy the ticket, stuff the extracted multi-currency envelope in my hand with the ticket and the notes of extra Yen and scarp for the bus. When I am climbing up the steps the lady who helped me comes running with my money/Kindle folder and so by the slimmest of margins I avoided losing my new reading toy. To minimise money fluster occurrences have the cash ready in the wallet before descending the aircraft.

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

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

This week I write a bit about natural disasters and the role of the defence forces. The article was written in recognition of the first of this week’s six NZ talks being to the NZ Defence Association conference in Wellington.

Other Website Material

- **Weekly syndicated newspaper column** <http://tonyalexander.co.nz/newspaper-column/>
- **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

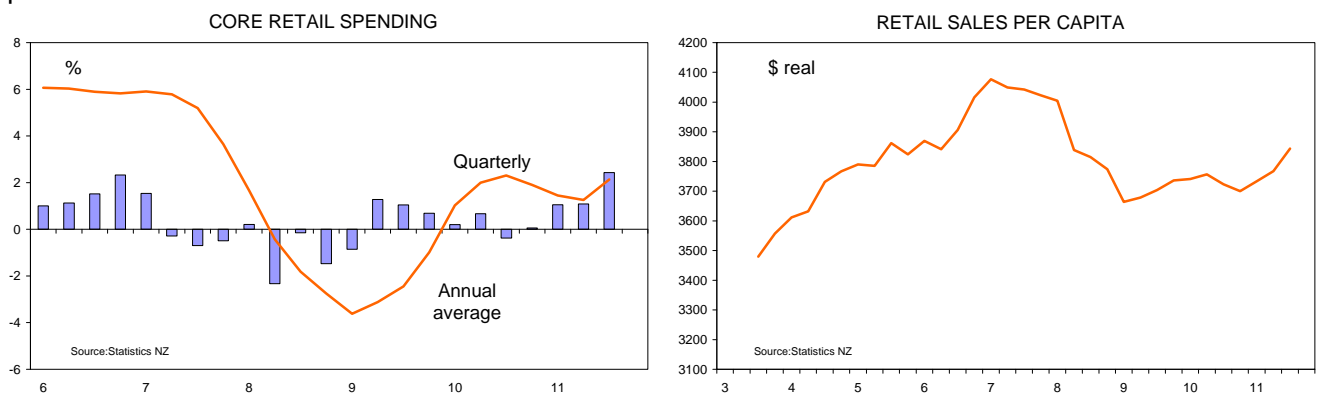
Is Our Economy Getting Better or Worse?

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 learnt that courtesy of the Rugby World Cup retail spending grew strongly during the September quarter. But examining non-rugby sales we find weakness so believe NZ household spending is nowhere near as strong as the numbers imply. We have also learnt that housing turnover is only slowly improving.

Are householders opening their wallets more?

The answer would appear on the face of it to be a resounding yes because in the September quarter the volume of retail spending adjusted for the usual seasonal changes soared by 2.2% overall and by an even greater 2.4% excluding automotive sectors. This outcome was well in excess of market expectations for a core rise below 1% and included gains in all categories except department stores and furniture etc. In fact the three month rise was the biggest since the December quarter of 2003. How can this be when the feedback in our monthly BNZ Confidence Survey has been decidedly negative from those in the retailing sector, and when the Electronic Card Transactions series rose by just 1.2% in nominal terms during the quarter?



And how does one reconcile the boom with

- the near complete absence of job growth over the six month period to September,
- the worst levels of house building in four decades,
- a \$77mn or 0.7% fall in personal debt over the September quarter, and
- a net migration loss of 750 people?

First, this divergence between electronic card spending and retail trade data has occurred before. Second, an extra 80,000 visitors for the Rugby World Cup clearly boosted some categories such as accommodation (+6.5%), liquor (+3.5%), clothing etc. (2.1%), food and beverages (+1.7%). Third, as we have warned since early this year, spending patterns have been thrown all over the place this year by a wide variety of factors including the February 22 earthquake, Japanese earthquake and disruption to the global supply chain, snow, the Rugby World Cup, last year's GST change, and perhaps of special importance – the shifting of school holidays. There is a very good chance that the seasonal adjustment process applied to the raw data has not been able to adequately compensate for the school holiday change and other factors.

If the data have been biased upward by the RWC in particular then this suggests the feedback we received about negative effects was not an accurate reflection of facts on the ground.

But it pays to look beyond the categories one would expect to be boosted by the rugby – as noted above – and consider what happened with the others. If they jumped just as much then we can read the spending

gain as a widespread thing perhaps signalling momentum building in the economy. But if they were flat then we can read that as signalling that for the December quarter the retail trade numbers in three months time could show a drop.

This could easily happen because the non-rugby categories were weak. Furniture floor covering and houseware sales fell by 6.0%. Department store sales fell 0.1%. Hardware, building & garden supplies rose only 0.5% after falling 1.5% in the June quarter.

Note that one third of core spending occurs in supermarkets and the rise there was 3.8%. This was the biggest quarterly gain since 2003 but the average quarterly gain is just 0.5%

All of this means that as with a lot of other data at the moment we are taking the result with a grain of salt.

Is business output rising?

Nothing.

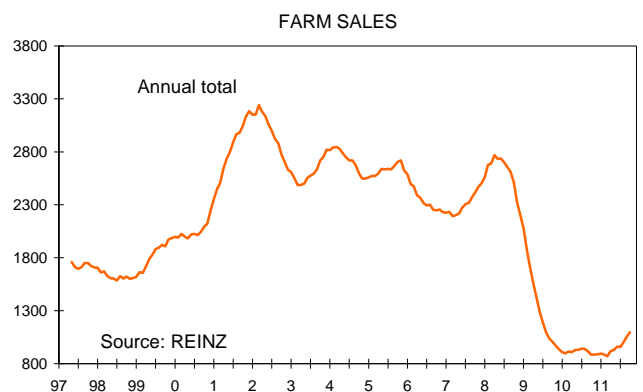
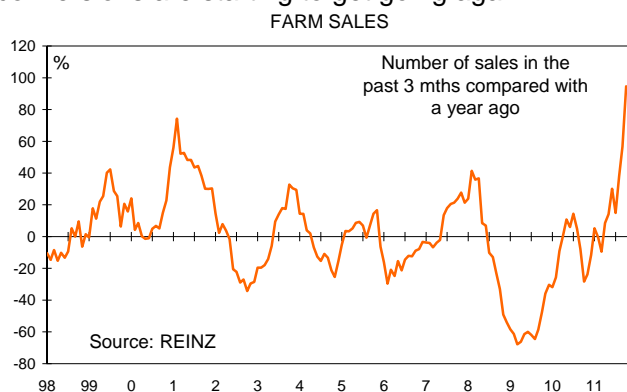
Are businesses hiring more people?

Nothing new.

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/>

In October there were 89 farms sold around New Zealand. This was a massive 93% jump from a year ago which followed a 94% rise in September and 96% gain in August. Sales have basically doubled from a year ago (though it is weird how close the percentage changes are) and we take that as a signal that money is starting to flow in the rural sector. In fact we know there is strong interest in NZ land from offshore and dairy conversions are starting to get going again.

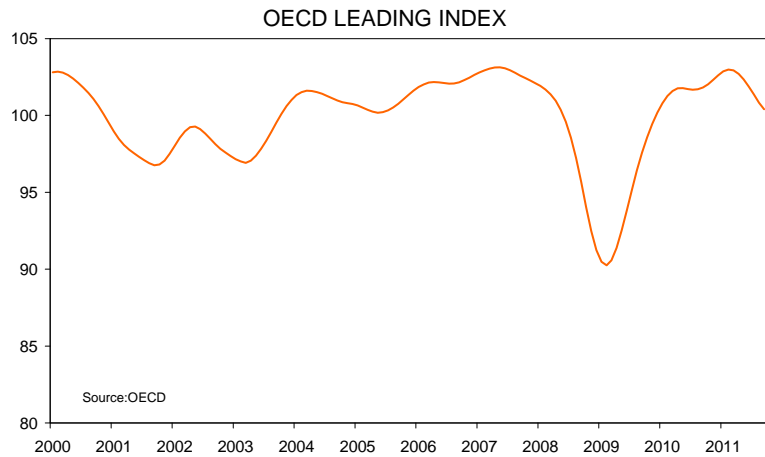


Over the year to October average farm sales prices averaged 24% higher than in the year to October 2010. The average price for the year is however still 26% below the late-2008 peak.

What Do The Leading Indicators Say?

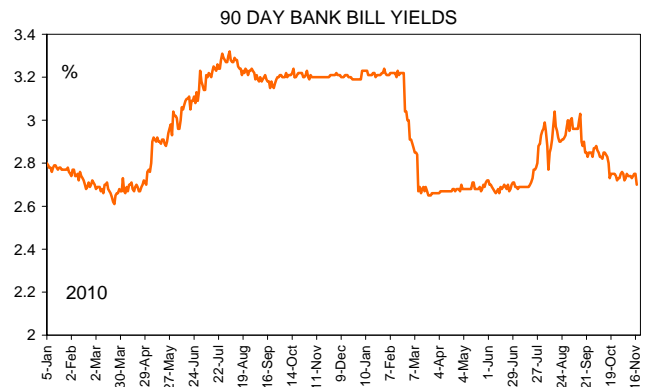
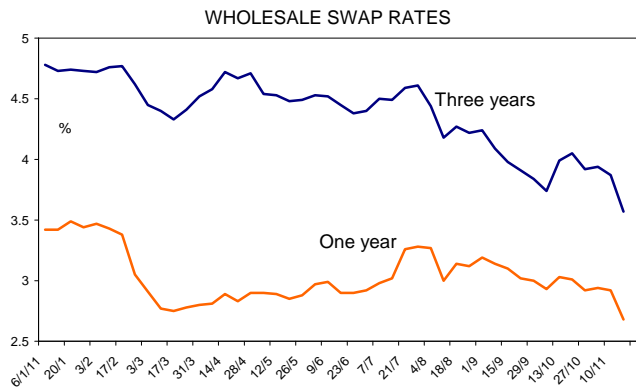
In this section we look only at the factors which can at times give insight into where the economy is headed. Generally we will only cover newly released information.

One of the indicators we look at though do not radically alter our view on is the monthly OECD Leading Index. This index fell for the seventh month in a row in September and at a reading of 100.4 stands only just above the 100 level below which recession generally ensues. The relevance to ourselves is that it suggests downside risks to our export commodity prices and tourism flows.



INTEREST RATES

Wholesale interest rates remain under downward pressure as a result of deepening worries about the pace of global growth. The chances of the Reserve Bank tightening monetary policy next year get slimmer by the week and overseas investors have shown themselves to be very keen to invest in NZ long term fixed rate assets – hence the big falls in swap rates this week. Where this ends one cannot know given the huge uncertainty about events offshore. But for the moment borrowers are being presented with some very good interest rates and while staying floating looks good, one should not be averse to locking in some fixed rate funding at increasingly attractive rates.

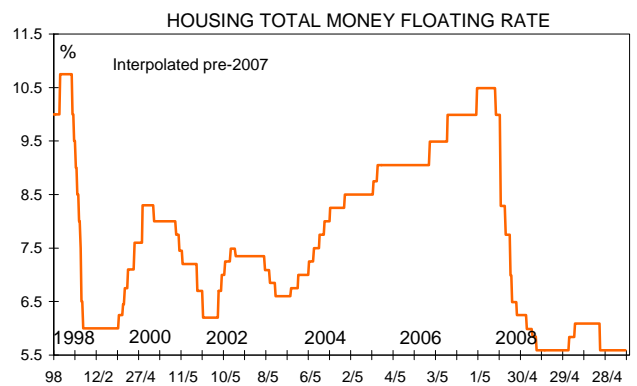
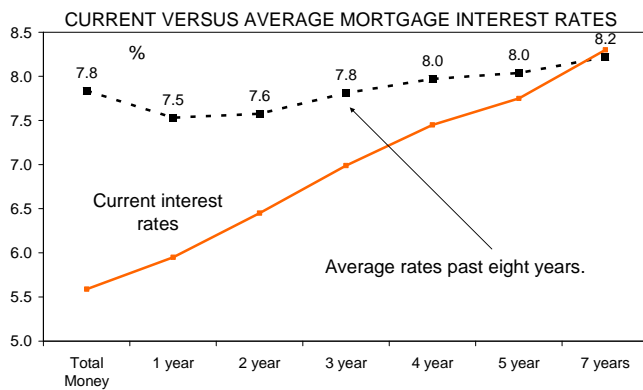
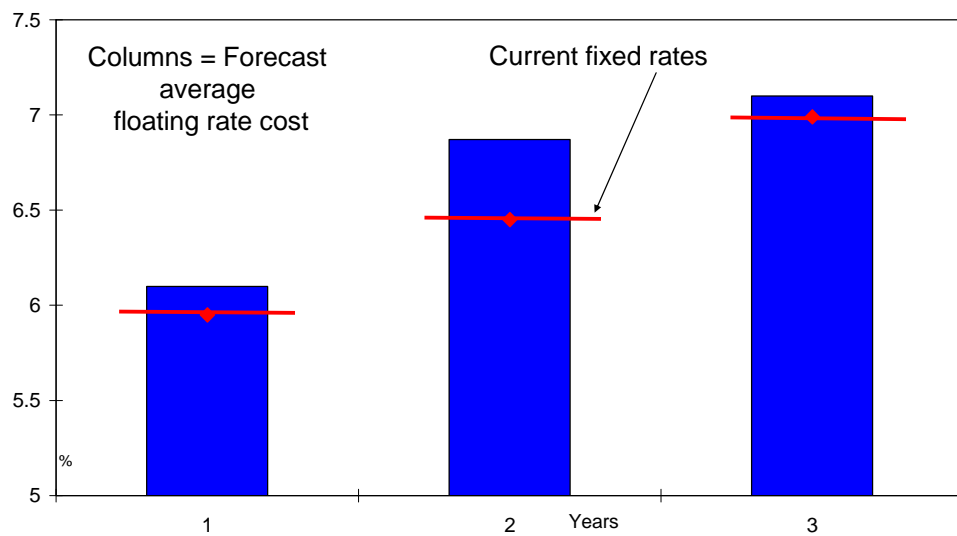


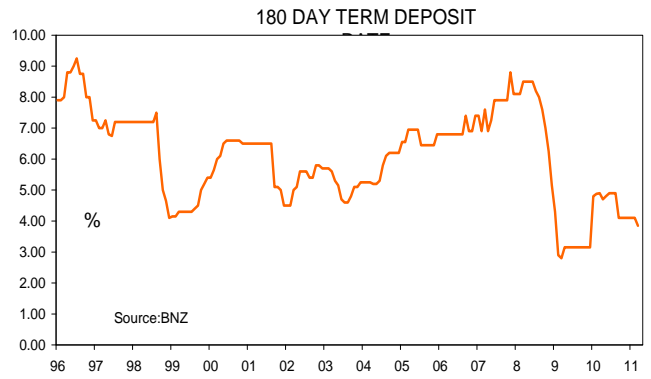
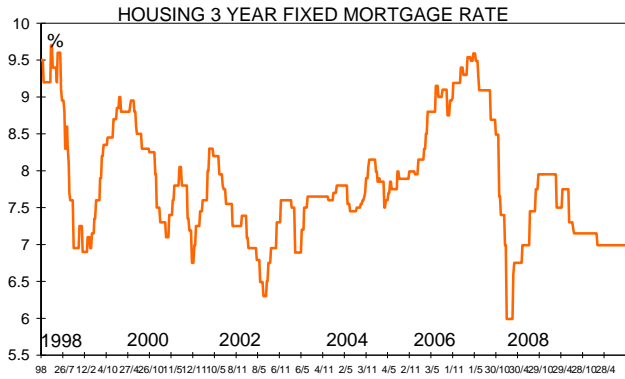
FINANCIAL MARKETS DATA

	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	2.70%	2.72	2.82	2.85	3.20	6.2
1 year swap	2.68%	2.92	3.03	3.00	3.64	6.0
3 year swap	3.07%	3.36	3.44	3.61	4.35	6.2
5 year swap	3.57%	3.87	3.99	4.18	4.70	6.4
180-day term depo	4.00%	4.00	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?

Not sink.



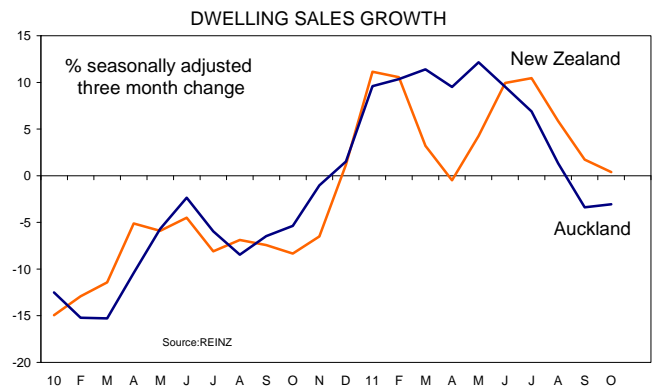
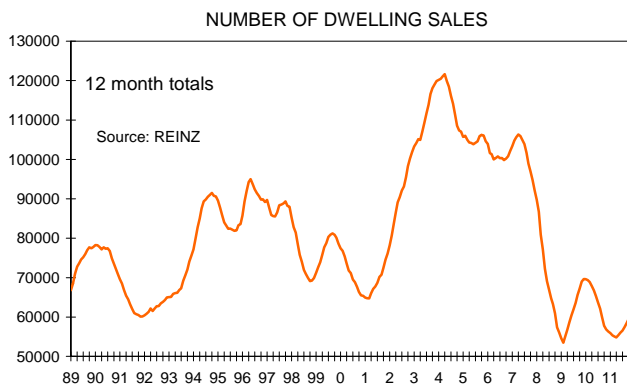


HOUSING MARKET UPDATE

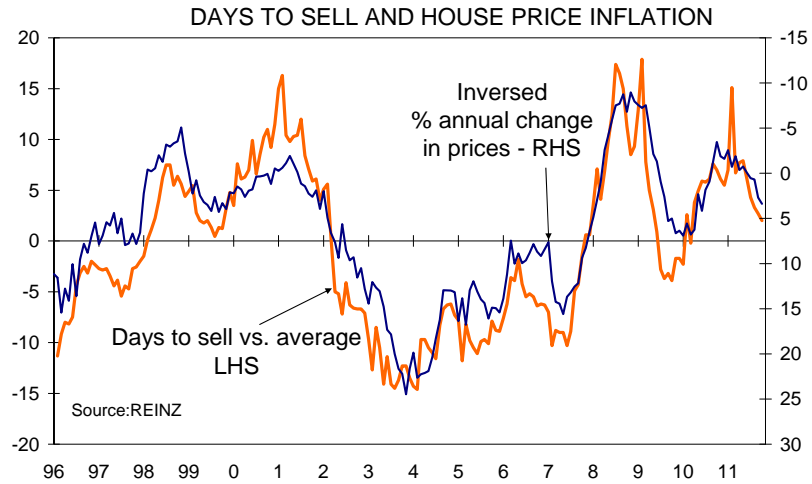
To view the most recent results of our monthly BNZ-REINZ Market Survey and read our monthly Real Estate Overview click here. <http://tonyalexander.co.nz/bnz-reinz-survey/>

Housing Creeping Ahead

The REINZ reported this week that in October there were 5,007 dwellings sold around New Zealand. While this number was 28.3% up from a year earlier it was down 0.5% seasonally adjusted which follows a 2.2% fall in September. That means that over the three months to September sales grew just 0.3%. There is no extra Spring surge in sales underway. The pattern is about normal though there could easily be a slight downward bias to the growth caused by the Rugby World Cup.

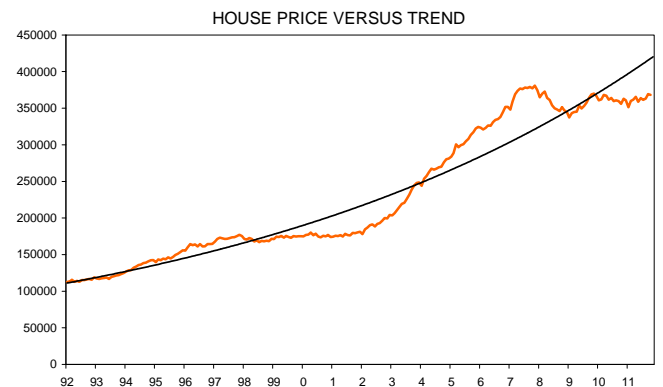
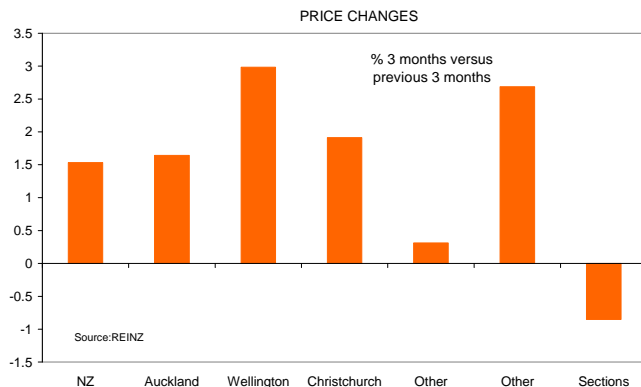


However on average in October it took 35 days to sell a dwelling which was just two days longer than average. This is the best gap from average since March 2010 and is a big improvement on 7.9 days in May.



The median dwelling sales price adjusted for quality changes was 3.3% ahead of a year earlier but down 0.3% in the month and up just 1.5% over the past three months. There is a mild upward drift in prices underway and in fact the 1.5% quarterly rise is the fastest since December 2009. So we think we are on acceptably safe grounds in saying that prices are rising. In Auckland prices have risen 1.6% over the past three months when adjusting for changes in housing types sold from month to month. The year ago change in October was 6.6%. Wellington prices have risen by 3% in the past three months but are flat on a year ago. Christchurch prices have risen 1.9% in the past three months to lie 2.6% ahead of a year ago.

The NZ residential real estate market is slowly improving in terms of sales but price action has started to look a tad – shall we say – interesting and not out of line with the view we have been expressing for some time regarding the Economics 101 impact of shortages.



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

The Euro-zone economy grew by a lowly 0.2% during the September quarter which was the same as during the June quarter and expectations are for a small decline during the December quarter. Many senior people in Europe have been warning of strong downside risks to growth stemming from the continuing investor concern about government finances in highly indebted countries, the exposure of banks to government debt, weakening business and consumer confidence, and rapidly tightening fiscal policies.

Although over the past week we have seen new Prime Ministers appointed in Greece and Italy it is by no means certain that they will be able to put in place the reforms (economic, fiscal, administrative) demanded by those entities bailing them out one way or the other, and it is certainly not clear that growth rates for those economies will meet expectations. Their debt burdens are so large just a small easing in projected growth can severely debt tax receipts and cause further revisions to deficit and debt forecasts.

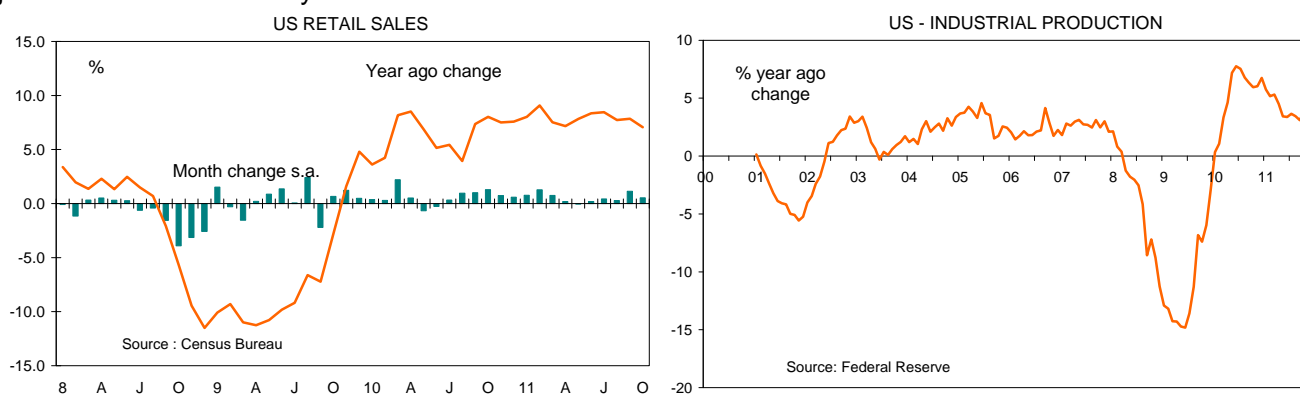
This is what investors are worried about and why yields on the likes of Italian and Spanish bond yields have been creeping up again following strong declines over the weekend following news of the new PM appointments. The risk of Italy being unable to fund itself at sustainable rates of interest rate remains, the risk of the Euro breaking apart remains, and the risk of a severe economic downturn and banking sector crisis also therefore remains.

Chinese Inflation

No time this week sorry.

US Growth Momentum

The general theme for the US economy currently is that a double dip recession has been reasonably well avoided and that there are signs of improving growth in consumer spending which hopefully will soon encourage businesses to increase their pace of hiring. The most relevant piece of news in that regard this week was retail sales rising 0.5% in October after gaining a strong 1.1% in September. Sales are running just over 7% ahead of a year earlier.



Industrial production was also reported this week as rising 0.7% in October after easing 0.1% in September and holding flat in August. Production is still just 3.9% ahead of a year ago but the trend does appear to be upward.

What we will be watching over the coming week is the November 23 deadline for the congressional committee charged with cutting the deficit and whether agreement between the Democrats and Republicans will be reached. The Democrats want tax increases but the Republicans won't have a bar of it so there is a risk that the debt ceiling becomes a binding constraint on spending again not too long after that date and that a rapid tightening of fiscal policy automatically occurs over 2012 which could cause a rapid slowing in overall US economic growth.

Australian Growth

No time to write this week. More marines up north, more industrial action coming from unions flexing their muscle in a tight labour market, more easing of monetary policy probable from the RBA due to offshore growth worries, and more volatility in the Aussie dollar.

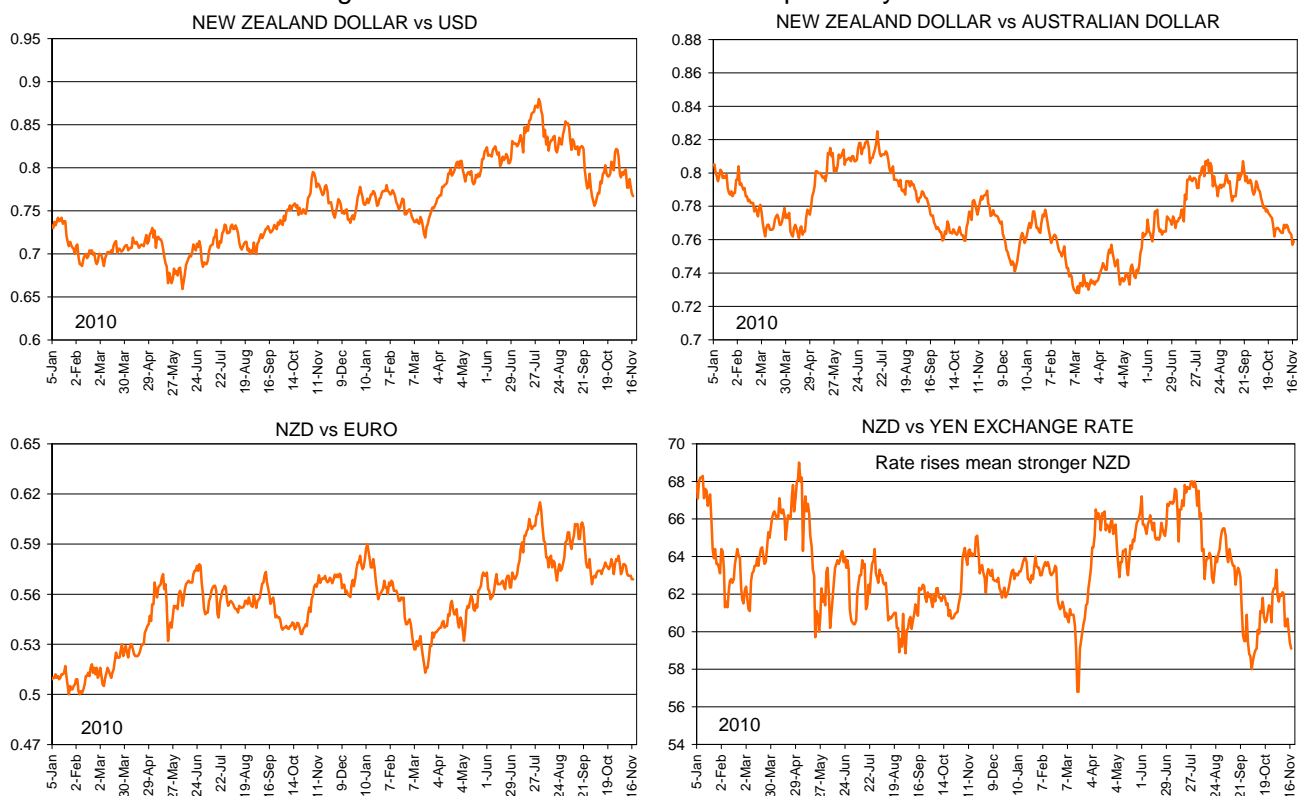
Exchange Rates

Exchange Rates	This Week	Week Ago	4 wks ago	Mths Ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.767	0.777	0.803	0.836	0.7682	0.689	0.629
NZD/AUD	0.759	0.768	0.777	0.798	0.7861	0.773	0.855
NZD/JPY	59.100	60.300	61.800	64.200	64.03	67.7	68.4
NZD/GBP	0.488	0.488	0.507	0.508	0.4836	0.448	0.368
NZD/EUR	0.569	0.572	0.579	0.580	0.5695	0.52	0.511
NZDCNY	4.867	4.927	5.123	5.336	5.099		4.83
USD/JPY	77.053	77.606	76.961	76.794	83.351	98.3	109.9
USD/GBP	1.572	1.592	1.584	1.646	1.589	1.54	1.705
USD/EUR	1.348	1.358	1.387	1.441	1.349	1.33	1.229
AUD/USD	1.01	1.01	1.03	1.05	0.98	0.891	0.737

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

Risk Returns Again

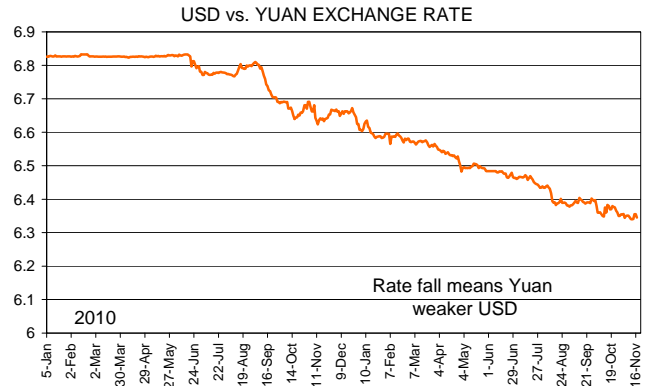
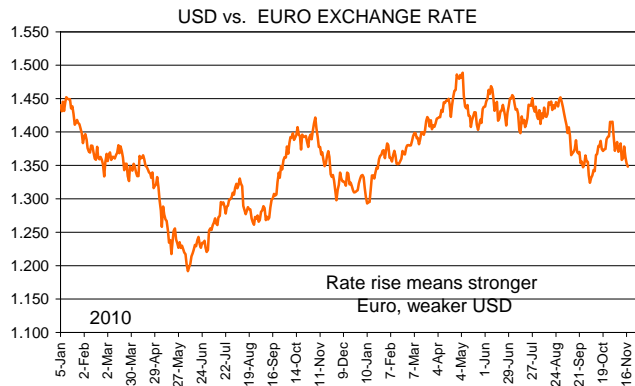
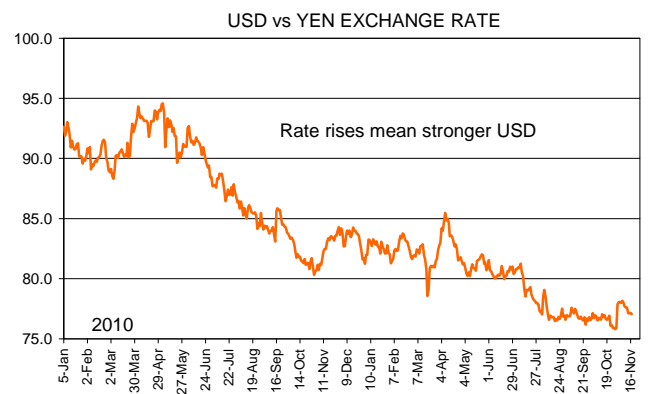
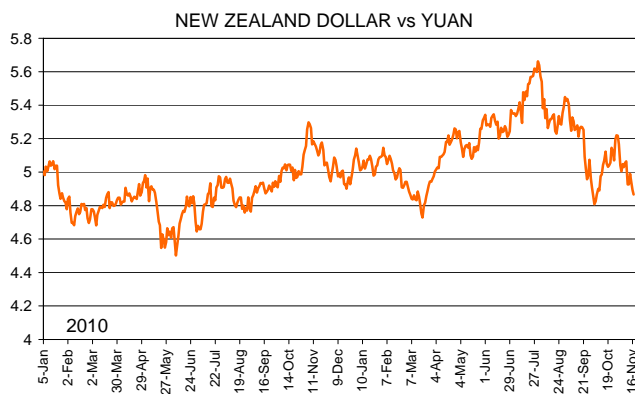
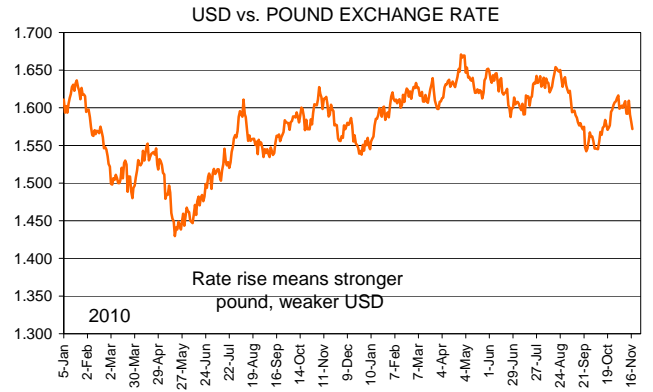
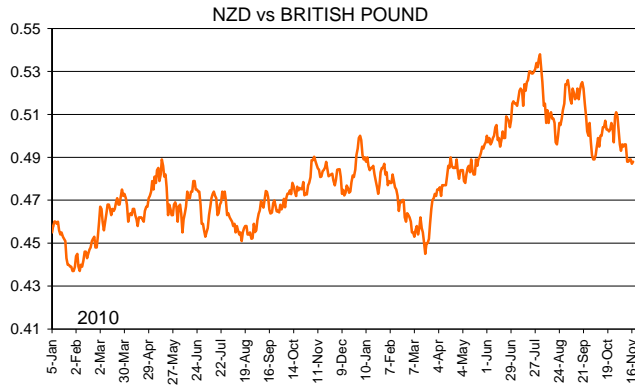
Writing this section used to be the bane of my existence. Now it is as easy as pie. If worries about Europe increase the Kiwi goes up generally, the USD, Yen and Swiss franc down generally, and the Euro goes up. If worries about Europe increase the opposite happens. So what was it this week? Envelope please. Worries increased therefore exchange rates have moved as above. Simple really.



United Kingdom

Unemployment continues to rise along with worries about the impact on the UK economy of deepening woe in Europe. Short term prospects for growth look poor, the Bank of England is expected to announce

additional quantitative easing, and this adds up to general downward pressure on the pound against the likes of the USD and JPY and also the NZD if things happen to settle down in Europe.



Exchange Rate Assumptions

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.87		0.84	Higher
NZD/AUD	0.74	0.81		0.85	
NZD/YEN	64.2	68		72.0	
NZD/GBP	0.44	0.53		0.52	
NZD/EUR	0.51	0.60		0.60	
USD/JPY	88	78	Lower	86	Lower
GBP/USD	1.66	1.64		1.62	Higher
EUR/USD	1.43	1.45	Higher	1.40	Higher
AUD/USD	0.99	1.07		0.99	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	0.4%	1.0	4.6	1.5	1.7
GDP growth	Average past 10 years = 2.6%	0.1	0.9	+1.5	0.5	-2.4
Unemployment rate	Average past 10 years = 4.8%	6.6	6.5	6.4	6.5
Jobs growth	Average past 10 years = 1.9%	0.2	0.0	1.1	1.8	-1.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	3.7	3.6	2.5	5.6
Terms of Trade		2.3	0.8	7.0	12.7	-13.5
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%.	1.0	1.0	1.3	1.9	-3.1
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	+773	3,867yr	13,914	17,043
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	1.2	-0.1	1.2	3.9	-1.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	7	36	14	18	50
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	113	101	116	120
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.5	2.4	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	21.1	21.1	-5.1	-33.1	43.7
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	3.0 – 3.5	3.5 - 4.0
CPI	on year ago	4.0	2.5 – 3.0	2.5 – 3.0	2.5 – 3.0
Official Cash rate	end year	3.0	2.5	3.0 – 4.0	4.00 – 4.50
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

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