

# 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.

[http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN\\_7WOAw](http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN_7WOAw)

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## Invitation to Christchurch Construction Companies

It has been estimated that over 30,000 tradespeople will be needed to participate in the rebuilding of Christchurch following the 2010 and 2011 earthquakes. To help construction companies source labour BNZ through our owners National Australia Bank are offering free stands to Christchurch construction companies wanting to take part in two United Kingdom trades Expos. They will run over the weekends of April 21-22 and 28-29 in Twickenham and Birmingham.

The event will be aimed purely at UK trades people who are interested in a career and new life in Australia or New Zealand. The information provided to the attendees will be industry specific and will focus on training, regulations, as well as career opportunities for them - directly from key industry people.

With the downturn in the UK and Irish economies, more skilled people are seeking new opportunities in Australia and New Zealand. With more than 140,000 skilled experienced candidates projected to leave the UK and Ireland before the end of 2012, now is an ideal time to recruit talented and experienced people from the UK and Ireland.

If you want to find out more about this opportunity please contact

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Alternatively, please visit [www.skilledmigrantjobs.com](http://www.skilledmigrantjobs.com) for more information. Or you can contact me – I shall be speaking there. [Tony.alexander@bnz.co.nz](mailto:Tony.alexander@bnz.co.nz)

Note that the event is open to all NZ companies looking to source tradespeople – just the Christchurch companies will have their stands provided free.

## NZ Economy Growing

The past week has produced some major and minor pieces of data giving a picture of an economy growing but at an uncertain pace. Specifically, on the very positive side were the retail trade numbers for the December quarter which showed a record 2.9% leap in core sales. And on the good side also was a small 0.7% seasonally adjusted rise in online job advertising in January. But the monthly residential real estate market data from REINZ showed slight deteriorations in all three major measures of prices, sales, and days to sell.

Mixed also has been the news from Europe this week. The Greek Parliament passed legislation enacting changes demanding by the European Commission, ECB, and IMF. But the Netherlands have warned they might not vote in support of it, the Germans have said their Parliament will not consider it until next month, and a Greek opposition leader said he might not implement the legislated cutbacks. At the same time Moodys cut credit ratings for Spain, Portugal and Ireland and warned about possible cuts for the UK, Austria, and France. Data were also released showing that the Greek economy shrank at a 7% annual pace late last year.

But in Australia there was evidence of some life in the housing finance market and consumer confidence has just risen in spite of the Reserve Bank last week failing to cut interest rates as the markets had been expecting.

## Is Our Economy Getting Better or Worse?

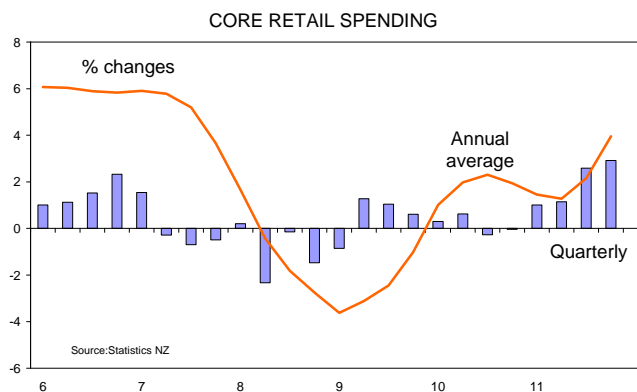
In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

### Are householders opening their wallets more? **This week we can definitely say yes**

The Electronic Card Transaction releases showed that over the December quarter core retail spending in nominal seasonally adjusted terms rose by just 0.1%. That is very weak. But yesterday the Retail Trade Survey data release showed that nominal seasonally adjusted core retail spending actually soared by 2.3%. In the September quarter the ECT measure rose 1.1% but the official retail gauge gained 2.7%. And in the June quarter the ECT measure rose 2.7% while the official growth rate was 1.6%.

There has opened up a very large discrepancy between the ECT and official retailing numbers to the point where one must place little faith in quarterly summations of ECT data – and one would suggest no faith in the validity of using monthly ECT changes as a proxy for monthly retail spending changes. That is fairly much the warning Statistics NZ have always given about the ECT data.

So, putting aside the fact that the ECT measure rose 1% in January what we have as an official measure is surging retail spending in New Zealand over the second half of last year. Core retail spending after adjusting for price and seasonal changes rose by a record 2.9% after gaining 2.6% in the September quarter. Compared with a year earlier spending was up by a huge 7.9% and for the year as a whole the volume gain was 4%. Spending on durable goods jumped 5.9% thus suggesting greater solidity to the rise than if it had all come in the supermarket category for instance.



Are there special factors which explain the jump? The Rugby World Cup would have had an effect in terms of extra visitors buying things, Kiwis buying expensive televisions ahead of the games, then Kiwis like me buying heavily discounted ones after the competition ended. Shifting the timing of school holidays also gave

an upward bias to the December quarter results, but then that implies a downward bias to the reported growth of 2.6% in the September quarter.

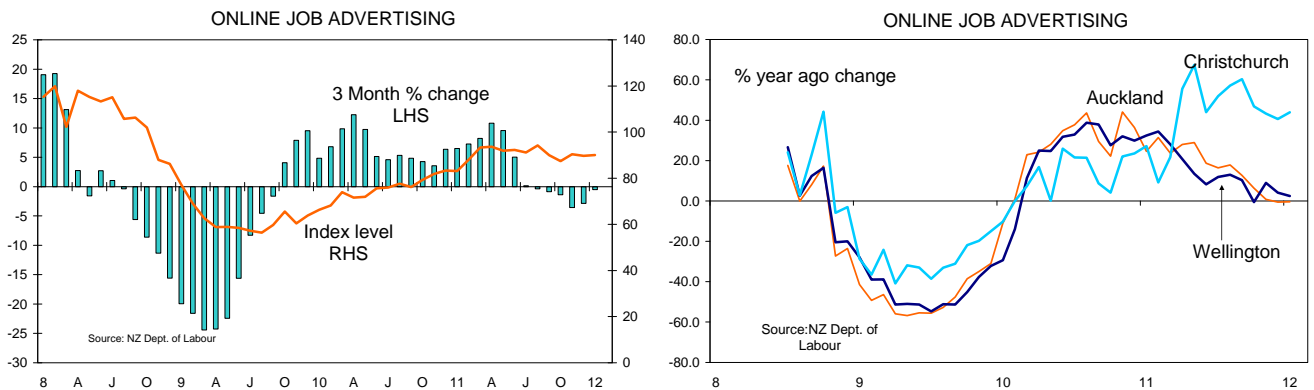
Overall the results look genuinely strong though perhaps with an upward shift induced by price discounting of 0.3% on average for the second quarter in a row.

**Is business output rising?**

**Are businesses hiring more people?**

**Not really.**

The Department of Labour Jobs Online seasonally adjusted advertising measure improved by 0.7% in January after falling 1.6% in December. The improvement does not yet convincingly re-establish an upward trend in job advertising and in the three months to January online job ad numbers fell by 0.7% compared with the three months to October.



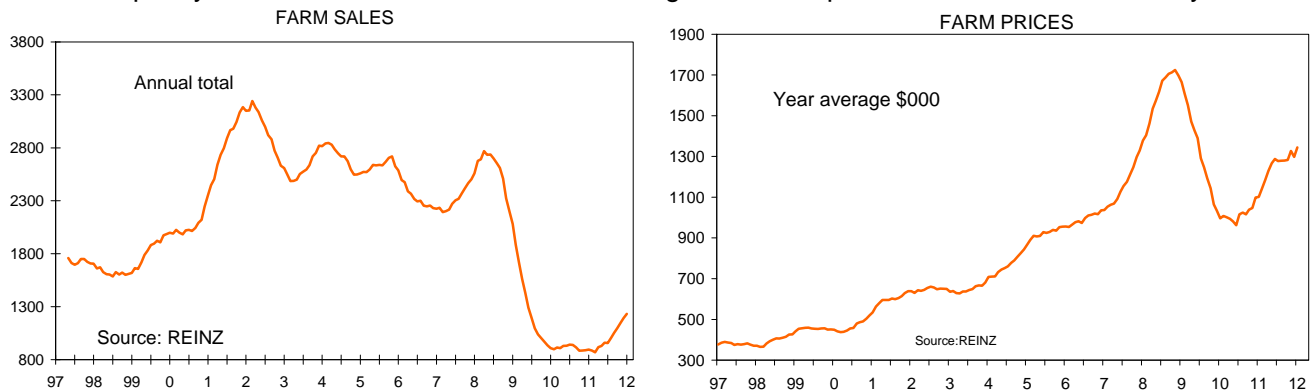
Compared with a year ago total job ads were ahead almost 10%, but Auckland was flat, Wellington up 2%, and Christchurch ahead 44%. The data show employers still reticent to hire apart from in Christchurch.

**Are businesses boosting their capital spending?**

**For equipment yes. Buildings = mixed.**

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

If buying a farm counts as capital spending then there is strong investment occurring. In January there were 90 farms sold around New Zealand which represents a 73% rise from a year ago. In the three months to January sales were 61% ahead of a year earlier and up about 10% seasonally adjusted from the previous three months. For prices we advise strongly against looking at monthly, quarterly, and even half yearly data. But for the past year as a whole we see that the average farm sale price was ahead 22% from a year earlier.



## 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.

No new information this week.

## INTEREST RATES

With a fresh Greece bailout deal agreed investors have taken a glass half full interpretation of developments in Europe at the same time as there is scepticism regarding the ability of the US Federal Reserve to refrain from raising its cash rate before the end of 2014. Therefore medium to long term wholesale interest rates offshore (apart from for debtor countries in Europe) have generally moved up this week.

It would be good to be able to conclude that things around the planet have now turned a corner and growth prospects are quite bright. But we have been here before with positive inclinations dominating, rates creeping up – then Europe tumbling once more and interest rates falling away. The last time was in the middle of last year when a fresh surge in bad European news coincided with weak US economic data. The NZ three year swap rate which rose from 3.8% in June to 4.1% in July fell sharply to 3.6% in August, 3.3% in October, then about 2.95% a fortnight ago. It is now back up at 3.17% with an extra small lift coming yesterday after the December quarter retail trade data blew away all forecasts with a core rise of 2.9%. Because the result explicitly shows strength in household spending it removes some of the Reserve Bank's scope for sitting still all year and leaves the door open still for a tightening of monetary policy late in the year.

### FINANCIAL MARKETS DATA

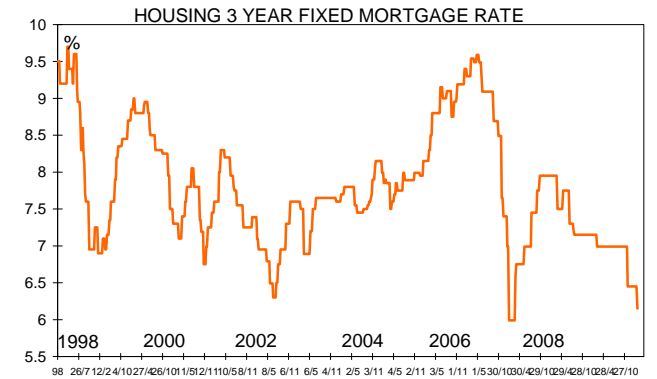
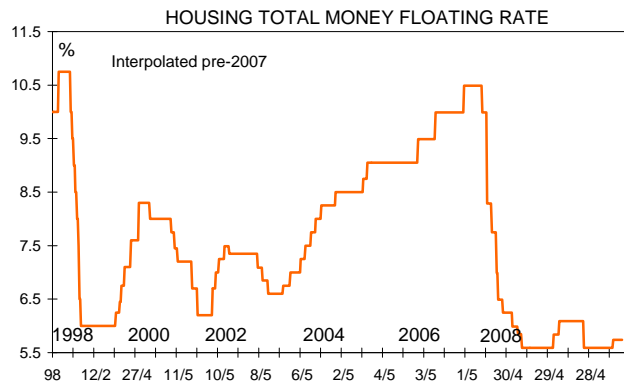
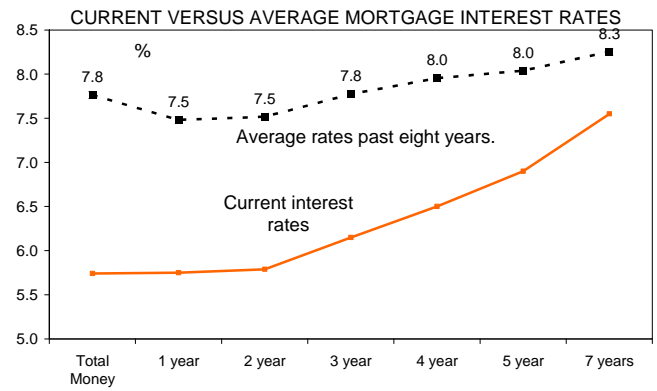
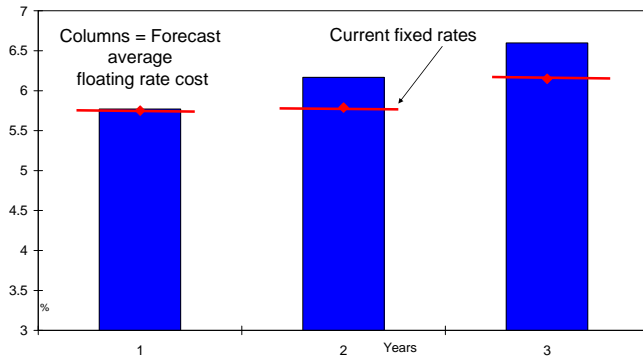
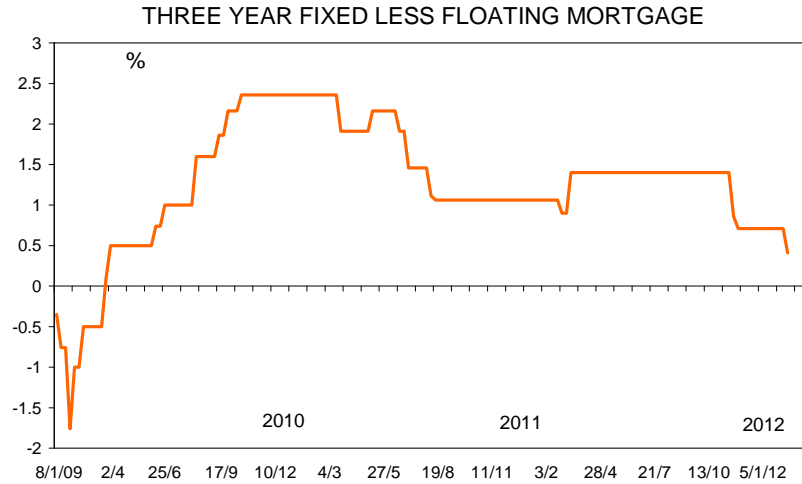
	<b>This week</b>	<b>Week ago</b>	<b>4 wks ago</b>	<b>3 months ago</b>	<b>Yr ago</b>	<b>10 yr average</b>
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	5.4
90-day bank bill	2.76%	2.77	2.76	2.74	3.22	5.7
1 year swap	2.85%	2.82	2.79	2.68	3.38	5.8
3 year swap	3.17%	3.10	3.06	3.07	4.20	6.1
5 year swap	3.64%	3.53	3.50	3.57	4.77	6.3
180-day term depo	4.00%	4.00	4.50	3.60	4.90	5.7
Five year term depo	5.85%	5.85	6.00	6.00	6.75	6.4

### If I Were a Borrower What Would I Do?

**I would fix three years.**

Banks have just engaged in a round of fixed interest rate cuts which when combined with evidence of wholesale interest rates moving back up lead me to the view that it has become optimal to switch from floating to fixed. At a minimum I would fix two years as that would cost me only 5.79% compared with floating at 5.74%. The 0.05% gap is miniscule and is the lowest since May 2009. Three months ago this gap was 0.86%.

The gap between floating and fixing for three years has declined to only 0.41% from 1.4% three months ago and is now the lowest since March 2009. Personally I would take the three year rate because I like certainty and the 0.41% cost is very small. Most people however seem to be very comfortable sitting floating so if they change will probably only jump to the two year rate. The chances are however that with little discussion in the media regarding interest rate rises and picking low points, very few people will in fact shift away from floating. This will likely happen even though it is a complete gimmie because the chances of either the two year rate or floating rates falling again this year are low (though not zero given Europe uncertainty) and our official view is that the Reserve Bank will start tightening monetary policy before the end of the year.

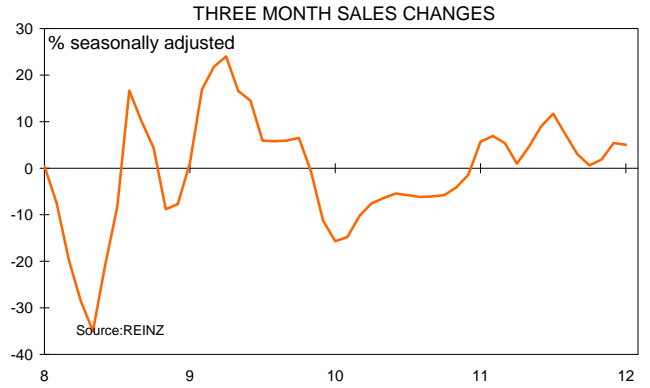
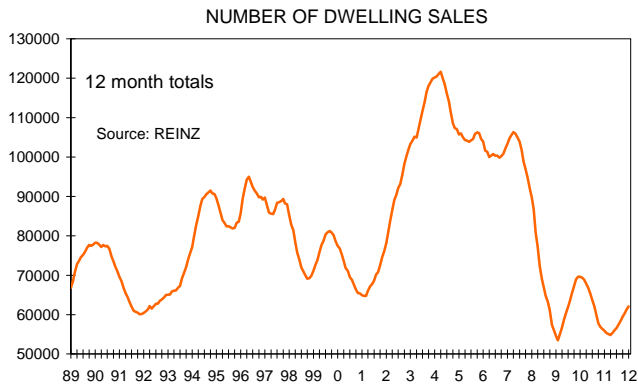


## HOUSING MARKET UPDATE

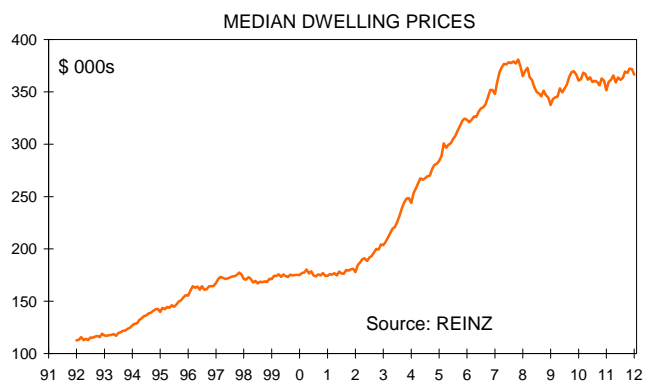
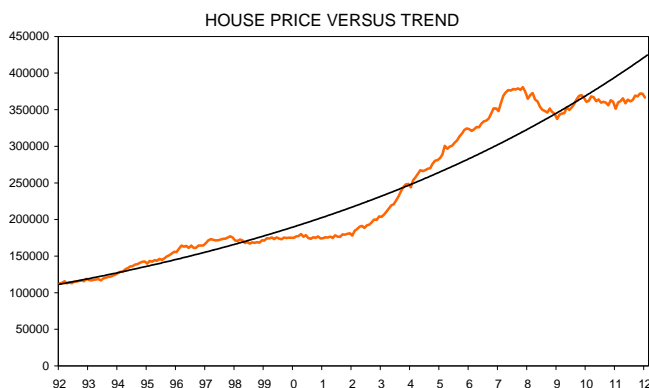
To view the most recent results of our monthly BNZ-REINZ Residential Market Survey [click here.](http://tonyalexander.co.nz/bnz-reinz-survey/)

### Housing Market Pauses In January

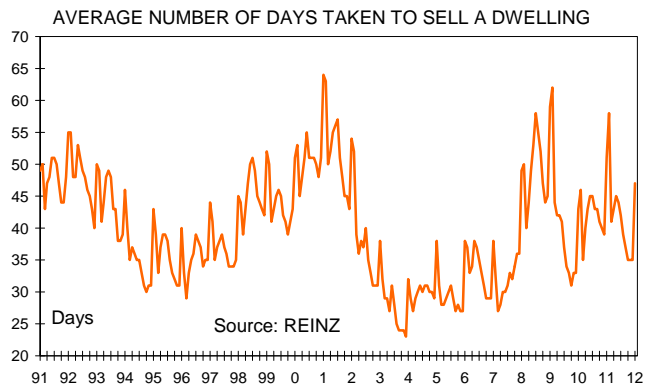
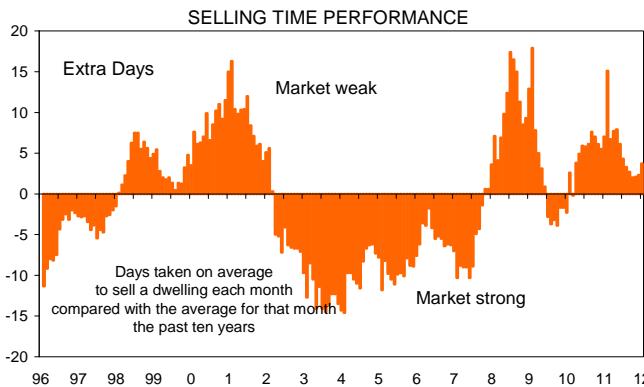
During January there were 4,074 dwellings sold around New Zealand. Compared with a year ago this was a rise of 25% but in seasonally adjusted terms it was a fall of 4% from December. Monthly data can be volatile around a trend however and that trend still appears upward with a gain in sales of 5% over the three months to January.



In terms of prices there was also a slight move down in the month of 1.4%, but a rise from a year ago of 3.3% and rise on average over the past three months to 0.9%. So prices are drifting upward but with no strong momentum or acceleration yet evident.



There was also some weakness in January in the days to sell measure. It came in at 47 days in January which was 3.7 days longer than average whereas December was 2.3 days longer than usual and November 2.1 days.

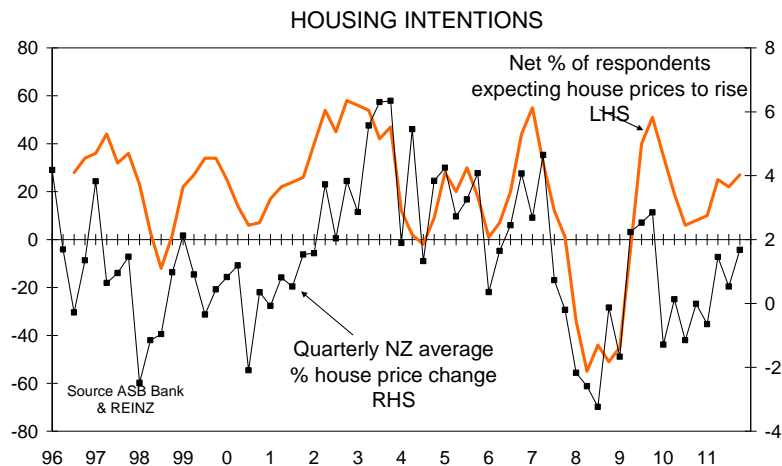


So for the month of January this year all three measures which we track backed off to some degree. But as noted above, monthly data can be volatile and the results of our BNZ-REINZ Residential Market Survey suggest there is upward momentum in the real estate market which will probably become obvious in the monthly official numbers fairly soon.

**Price Expectations Rising**

We don't think the information content of the following survey with regard to picking where things are going is all that high, but nonetheless it is always interesting to take a look at the quarterly ASB Housing Intentions Survey. Their latest survey for the three months to January shows a rise in the net percent of people expecting house prices to go up to 27% from 22% in the three months to October. This is the strongest

reading since 35% in the March quarter of 2010. But since that quarter average prices have gained about 1.4% so one should be careful of reading too much into the latest small gain in price expectations.



### Are You Seeing Something We Are Not?

If so, email us at [tony.alexander@bnz.co.nz](mailto:tony.alexander@bnz.co.nz) with Housing Comment in the Subject line and let us know.

## MAJOR OFFSHORE ISSUES

### European Debt

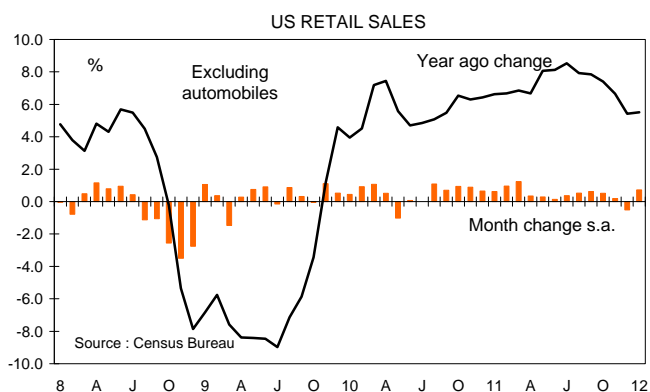
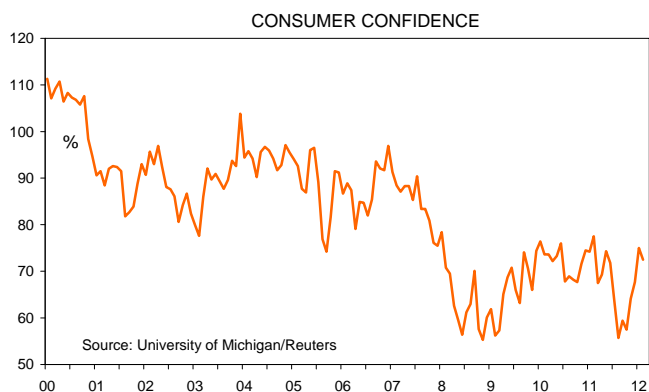
The Greek Parliament has passed legislation enacting pension cuts, wage reductions and public servant layoffs demanded by the ECB, IMF, and European Commission before they will extend another €130bn in loans. But Germany, which will pay the largest portion of the bailout money, has to get approval for extra funds from the German Parliament and is making it clear that distrust over whether Greece will actually do what it has legislated for is high. The Greeks proved themselves to be liars leading up to early 2010 with regard to reporting deficit and debt figures, and have repeatedly failed over the past two years to make changes they promised in exchange for assistance. Therefore the Greek saga continues amidst a flurry of newspaper articles regarding rioting Greeks unwilling to pay the price for their economic inefficiencies and profligacy, people attending soup kitchens, and the cost of bailout conditions stacked up against simply leaving the Euro. So far the Greek economy has shrunk 15% and unemployment is 20%. Much worse is to come.

Recognising the continuing problems Moodys cut credit ratings this week of Italy, Spain, and Portugal while placing those of France, Britain and Austria on negative watch.

We learnt last night that the EU economy shrank by 0.3% during the December quarter.

### United States Growth

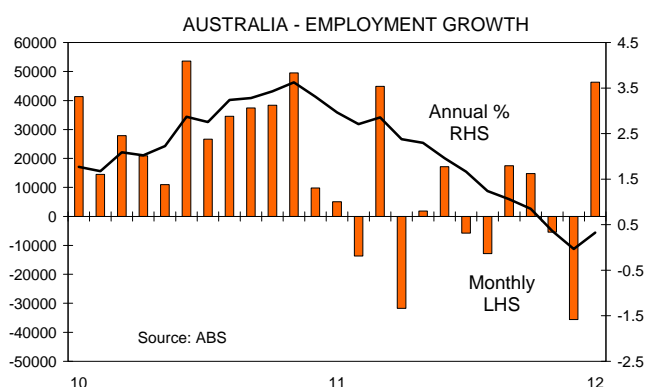
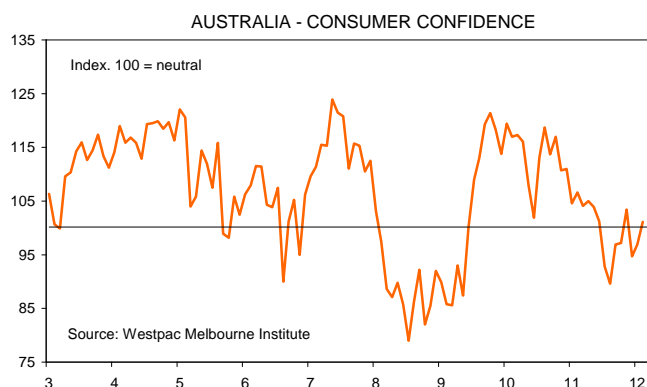
Data releases in the US this past week started out on the weak side with the University of Michigan consumer confidence reading falling to a reading of 72.5 in February from 75 in January where 100 is neutral. The result is not so much suggestive of any particular change in consumer spending growth given the lack of short term correlation between sentiment and expenditure, but suggestive of no upward trend in retail spending growth.



In fact US retail spending improved a good 0.7% in January after falling 0.5% in December (cars excluded) but there is no lift in underlying growth underway.

### Australian Growth

In spite of the RBA's decision last week to leave its cash rate on hold and banks announcing small mortgage rate rises, consumer sentiment amongst Australian consumers improved slightly in February. The Westpac/Melbourne Institute gauge rose to 101.1 from 96.9 in February. The graph shows clearly that sentiment is off its lows of mid-2011 but still well away from levels from late-2009 to late-2010 and not at all suggestive yet of much strength in retail spending. Maybe confidence rose because the labour market was very strong in January with jobs up 46,335 seasonally adjusted and unemployment easing to 5.1% from 5.2%.



Attention across the ditch at the moment is focused strongly on when the Foreign Affairs Minister Kevin Rudd will challenge Julia Gillard for leadership of the ALP, big problems for the manufacturing sector stemming from the high Aussie dollar, cosseted car manufacturers flipping the bird at the taxpayers financing their economically inefficient existence by giving 28% wage rises, and government moves to raise shipping costs with new measures to rein in foreign ships on coastal shipping routes.

Australia appears to be becoming a less and less viable place for many manufacturers to be located. Hence improving attractiveness of New Zealand given the structural shift downward in the NZD against the AUD, generally non-militant unions, much lower wages and slower wages growth, and tariff free access for most goods into China.

### China

Chinese economic developments will now be covered in our new publication "Growing With China", the first issue of which will appear on February 21. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. [Tony.alexander@bnz.co.nz](mailto:Tony.alexander@bnz.co.nz)

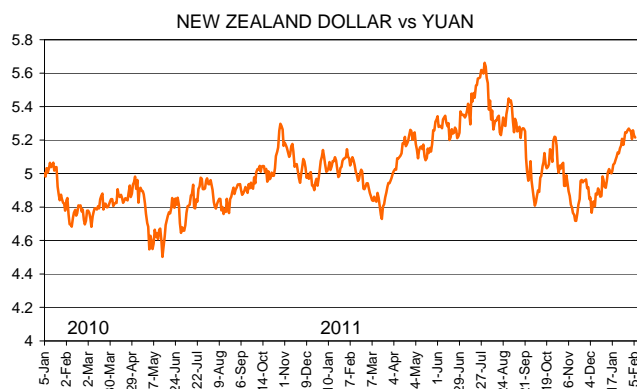
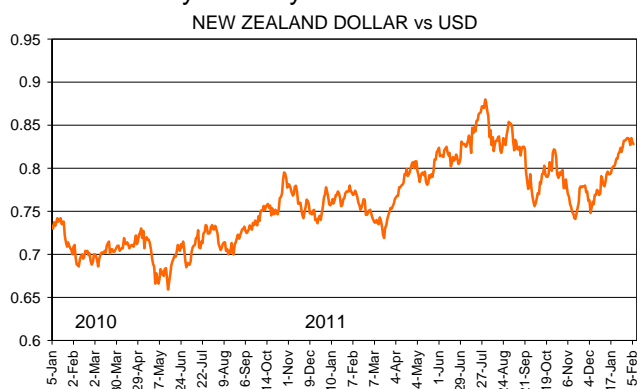


# Exchange Rates

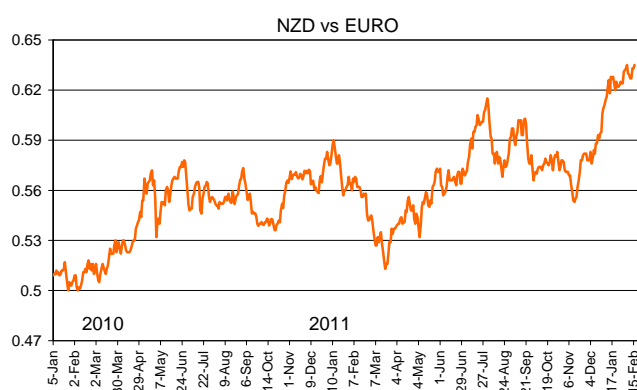
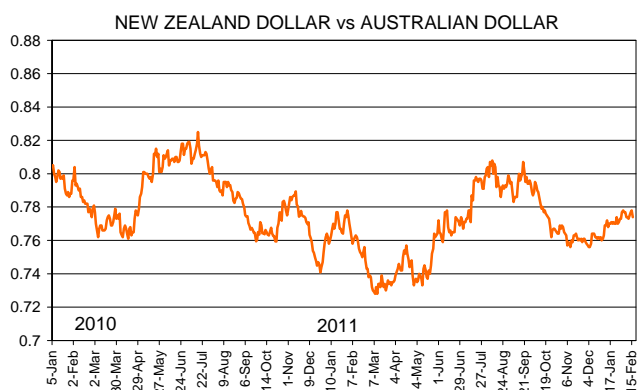
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average	
NZD/USD	0.828	0.835	0.793	0.770	0.752	0.67	0.67
NZD/AUD	0.774	0.774	0.770	0.757	0.753	0.85	0.85
NZD/JPY	64.800	64.400	61.000	59.400	63	69.6	69.6
NZD/GBP	0.528	0.528	0.519	0.487	0.465	0.388	0.388
NZD/EUR	0.635	0.629	0.628	0.569	0.556	0.52	0.52
NZDCNY	5.215	5.259	5.001	4.894	4.956	4.99	4.99
USD/JPY	78.261	77.126	76.923	77.143	83.777	105.7	105.7
USD/GBP	1.568	1.581	1.528	1.581	1.617	1.72	1.72
USD/EUR	1.304	1.328	1.263	1.353	1.353	1.28	1.28
AUD/USD	1.07	1.08	1.03	1.02	1.00	0.788	0.788
USD/RMB	6.2985	6.2984	6.3066	6.3552	6.5907	7.56	7.56

## Kiwi Little Changed

The Kiwi has ended the week virtually unchanged against the crosses but has fallen against the greenback mainly on the back of today's (long overdue and realistic) warning from NZ Treasury that the NZ government may not return to surplus in 2014/15. Weakness against the British pound and Euro has been stemmed by their generalised selling following Moody's decision to cut some credit ratings and warn about others. There was little reaction overnight to the 3% fall in average prices at Fonterra's fortnightly auction, though some light buying followed the much better than expected retail sales numbers for the December quarter which were released yesterday.

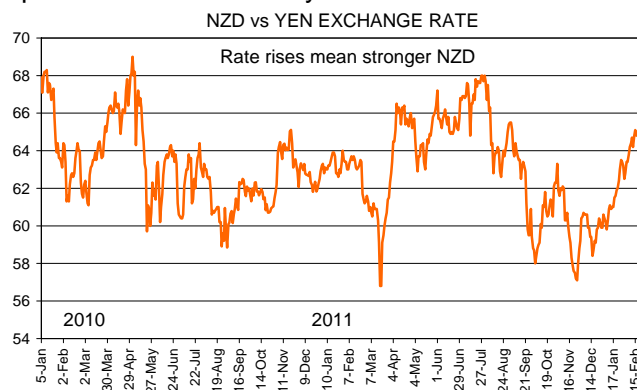
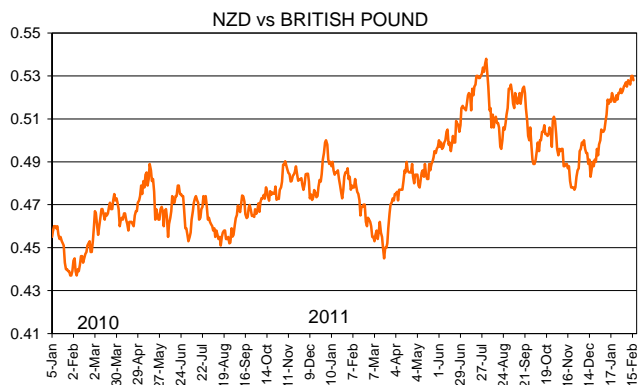


Looking through it all nothing has appeared to dissuade us from the view that risks for the NZD this year lie predominantly on the upward side.



But equally, although there have been some positive thoughts surrounding the latest Greek bailout process with investors buying risky assets like the NZD and AUD, there is a huge risk that at some stage not too far from now sentiment turns sour once again. If and when that happens the Kiwi dollar will fall away and that is the situation NZ exporters will need to be hanging out for as they look for opportunities to boost hedging.

For Kiwi ex-pats in the UK still waiting for a sharp decline in the NZD so they can ship their pounds back and buy a better house than their funds will get currently, such Greek terror-induced weakness is also probably the only realistic opportunity for gaining a reasonable rate of exchange over the coming year. My view remains that the NZD will rise to a range of 0.55 – 0.60 pence. We are currently at 0.532.



### Exchange Rate Assumptions

This table contains the latest NAB currency forecasts. In red I indicate where I believe the risk lies for these rates. You are welcome to toss your own coin and generate an equally valid table.

	2011	2012	Risk	2013	Risk
Year end					
NZD/USD	0.77	0.82	Higher	0.77	Higher
NZD/AUD	0.76	0.82		0.81	
NZD/YEN	60.0	66		63	Higher
NZD/GBP	0.50	0.53	Higher	0.50	Higher
NZD/EUR	0.60	0.64	Higher	0.57	Higher
USD/JPY	78	81	Lower	82	Lower
GBP/USD	1.54	1.56	Lower	1.53	Lower
EUR/USD	1.30	1.29	Lower	1.36	Lower
AUD/USD	1.01	1.00	Higher	0.95	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	-0.3%	0.4	1.8	4.0	2.0
GDP growth	Average past 10 years = 2.6%	0.8	0.1	+1.3	1.0	-2.7
Unemployment rate	Average past 10 years = 4.8%	6.3	6.6	.....	6.7	6.9
Jobs growth	Average past 10 years = 1.9%	0.2	0.2	1.6	1.3	-2.2
Current a/c deficit	Average past 10 years = 5.5% of GDP	4.3	3.7	.....	3.5	3.0
Terms of Trade		-0.6	2.4	3.4	17.9	-14.1
Wages Growth	Stats NZ analytical series	1.0	0.8	3.4	3.4	3.7
Retail Sales ex-auto	Average past 9 years = 3.9%.	2.9	2.6	4.0	1.9	-1.0
House Prices	REINZ Stratified Index	1.7	0.5	3.0	0.7	-0.4
Net migration gain	Av. gain past 10 years = 13,900	-1,855	773yr	.....	10,451	22,253
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	2.9	1.2	2.9	2.8	-0.0
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	13	3	45	22	37
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	116	113	108	124
Household debt	10 year average growth = 10.3%. RBNZ	1.0	1.1	1.2	1.8	2.9
Dwelling sales	10 year average growth = 2.5%. REINZ	20.9	16.9	14.3	-11.3	15.2
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	5.74	5.74	5.59	6.09	5.59
3 yr fixed hsg rate	10 year average = 7.8%	6.45	6.45	6.99	7.15	7.95

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](mailto:tony.alexander@bnz.co.nz) [www.tonyalexander.co.nz](http://www.tonyalexander.co.nz)

**Key Forecasts**

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.4	1.5 – 2.0	1.5 – 2.2	2.5 – 3.5
CPI	on year ago	4.0	1.8	2.0 – 2.6	2.5 – 2.9
Official Cash rate	end year	3.0	2.5	2.25 – 2.75	3.25 – 4.25
Employment	on year ago	1.3	1.5 – 2.0	1.0 – 1.6	1.5 – 1.9
Unemployment Rate	end year	6.8	6.0 - 6.5	5.5 – 6.0	4.8 – 5.5

\*extrapolated back in time as TotalMoney started in 2007

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