

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

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Quiet In NZ

Fresh data releases in New Zealand have been thin on the ground over the past week and the currency is not much changed from seven days ago. The Reserve Bank's three monthly Survey of Expectations revealed greater than expected declines in expectations for inflation one year and two years out. But fixed wholesale borrowing costs have risen during the week rather than falling as a such a result would imply because of improving economic data offshore and a rise in market expectations for NZ monetary policy tightening over the coming year.

Apart from that the week has been one of remembering the earthquake of February 22 last year, Greece getting its second huge bailout package and a whole new set of austerity measures, Australia's Labour Party fighting at the highest levels, US housing data turning for the better, and the Blackcaps meeting performance expectations. Roll on the NRL.

This week we released the first issue of our new monthly Growing With China. If you wish to go on the emailing list please contact me specifying your name, company name, and any existing connection with China. Tony.alexander@bnz.co.nz

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?

Nothing new

Is business output rising?

Nothing new

Are businesses hiring more people?

Nothing new

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/>

Nothing new

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.

Also nothing new.

INTEREST RATES

Swap rates have jumped this week with the three year swap rate ending near 3.29% compared with 3.17% last week. This is the highest rate since early November and comes about as a result of the markets in NZ pricing in slightly more tightening of monetary policy in the coming year, some better than expected data overseas (US and Australian employment), and hopes that agreement on the latest Greek bailout package will calm nerves generally and lift business and consumer sentiment and therefore spending and hiring.

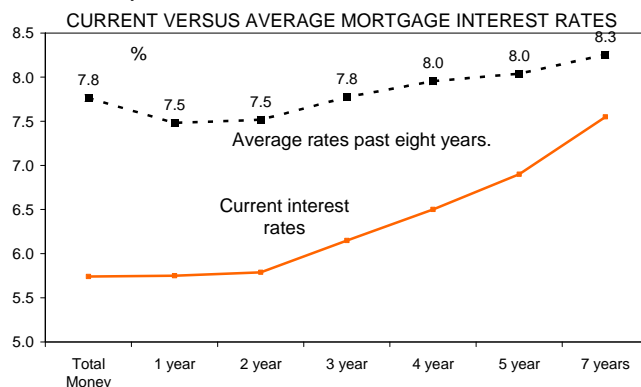
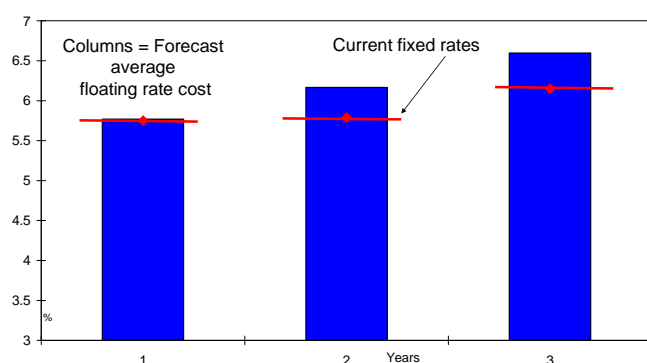
There has been little obvious upward pressure on swap rates as a result of NZ borrowers switching from floating to fixed interest rates. As noted last week, although we feel the time is at hand to make the jump given the low difference between floating and fixed rates, there is no evidence that borrowers are generally thinking about such a move. There is no media discussion regarding the speed with which the Reserve Bank might raise interest rates, no scare stories regarding the world getting better and medium to long term interest rates jumping up, and simply no worries generally about interest rates.

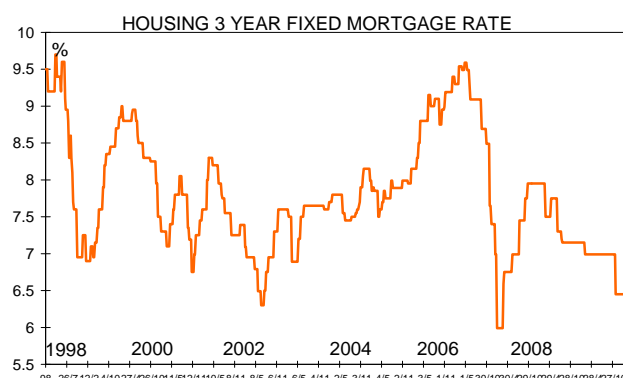
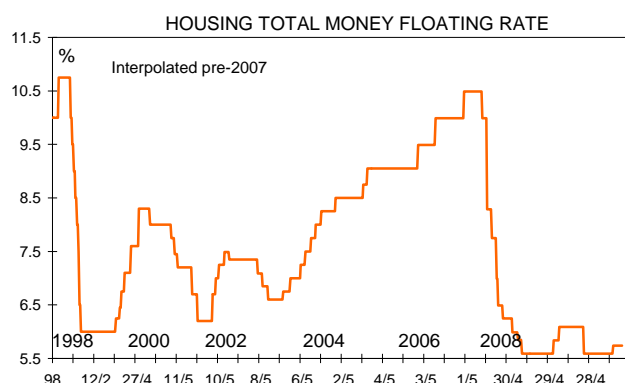
FINANCIAL MARKETS DATA

	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	5.4
90-day bank bill	2.76%	2.76	2.76	2.74	3.22	5.7
1 year swap	2.85%	2.85	2.75	2.56	3.05	5.8
3 year swap	3.29%	3.17	3.08	2.92	4.00	6.1
5 year swap	3.76%	3.64	3.52	3.44	4.62	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 move from floating to fixing three years – discussed in depth last week.





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/).

No new data

MAJOR OFFSHORE ISSUES

European Debt

European leaders have voted to give Greece a new bailout package of €130bn to follow up the €110 package of early 2010 while private sector debt holders have largely agreed on taking a 53% haircut on their holdings. The aim of the package is to reduce Greece's debt to GDP ratio from 160% to 121% of GDP come 2020 and through requiring sharp economic policy changes to improve the competitiveness of the Greek economy. History would suggest that the Greek economy will not improve as much as hoped, especially as growing social discontent risks generating support for parties running a more nationalistic line involving breaking away from Europe and the Euro in some regard. The troubles are highly likely to continue and there still seems to be a high chance that eventually Greece will default and may leave the Euro. But for now the planned swapping of maturing debt for new bailout debt will calm the markets. Which means what? Probably that attention will soon turn somewhere else – possibly Portugal.

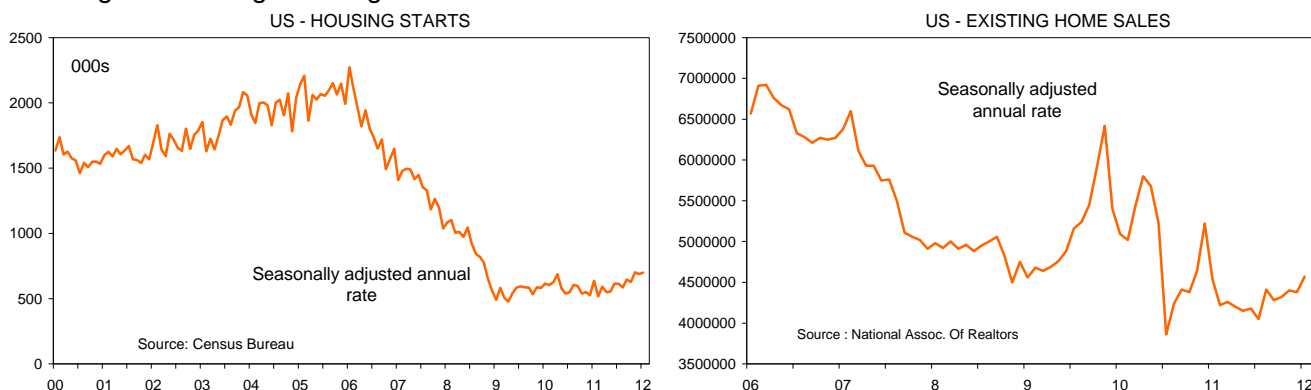
The Europeans are probably going to continue to lobby the Chinese and other emerging economies to buy the bonds issued by Euro-zone governments to try and ease their debt pain – even though income per capita in Europe is about 12 times that of China and China's foray into US dollar denominated assets over the past few years may have produced losses of between 20% and 25%. But you can't blame for trying. Sometimes begging can work.

With regard to economic data in Europe, German numbers continue to look strong, but the Markit Economics PMI composite measure fell back into recessionary territory in February with a reading of 49.7 from 50.5 in January. The chances are that the Euro-zone has slipped back into recession. The question is when it will emerge.

United States Growth

The number of new houses for which construction started in January rose by a greater than expected 1.5% in January which was interpreted as a positive sign for the US economy. But the rise followed a 1.9% fall in December and saw the change from a year ago decline to 9.9% from 31% in December and 27% in

November. The result shows a house construction sector struggling to rise though the graph makes it clear that things are drifting in the right direction.



Moving in the right direction also is the number of existing home sales which rose a seasonally adjusted 4.3% in January.

Given that it was in the housing market where the greatest whack to the S economy arose from the signs of mild improvement auger well for the current period of growth in the US economy continuing on a self-sustaining basis. Hence risks moving toward interest rates drifting upward.

Australian Growth

Like NZ Australia has had a quiet week as far as economic data go and attention instead is all on the likely labour Party leadership vote next week.

China

Chinese economic developments will now be covered in our new publication "Growing With China", the next issue of which will appear on March 20. 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

Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average	
NZD/USD	0.828	0.828	0.805	0.747	0.746	0.67	
NZD/AUD	0.779	0.774	0.770	0.759	0.748	0.85	
NZD/JPY	66.400	64.800	62.000	57.500	61.7	69.6	
NZD/GBP	0.528	0.528	0.518	0.478	0.462	0.388	
NZD/EUR	0.625	0.635	0.625	0.553	0.546	0.52	
NZDCNY	5.214	5.215	5.101	4.752	4.909	4.99	
USD/JPY	80.193	78.261	77.019	76.975	82.708	105.7	
USD/GBP	1.568	1.568	1.554	1.563	1.615	1.72	
USD/EUR	1.325	1.304	1.288	1.351	1.366	1.28	
AUD/USD	1.06	1.07	1.05	0.98	1.00	0.788	
USD/RMB	6.2974	6.2985	6.3362	6.3619	6.581	7.56	

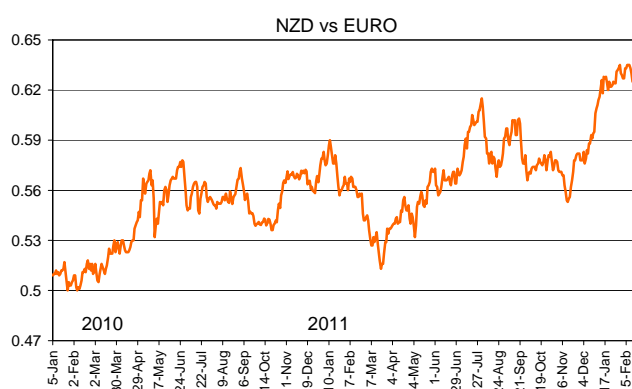
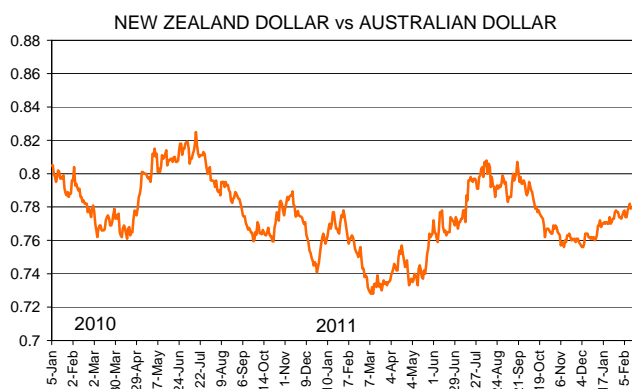
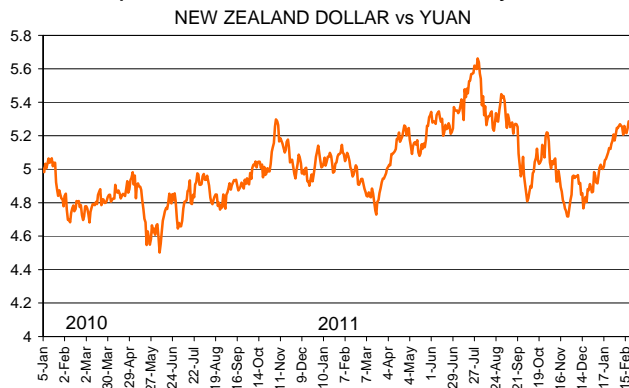
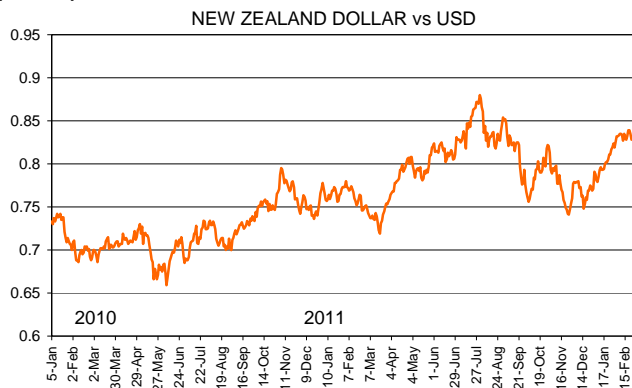
Quiet

The Kiwi dollar this week has only made two moves worth commenting on – up against the Yen and down against the Euro. With some sighs of relief surrounding agreement on the latest Greek bailout package investors have bought back a few Euro and sold one of the current safe haven currencies the Yen. The fact that the Kiwi dollar has not been much of a beneficiary of the bailout agreement suggests that maybe it is

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due for a small move down in the near future. If so exporters may want to get some extra hedging on because the risk is that the NZD is strong for almost all of this year.

Against the Aussie dollar the Kiwi has moved up slightly in response to mild AUD selling following RBA Board meeting minutes showing the door remains open to another easing if things get bad enough, and perhaps with a tad weakness associated with the turmoil at the top of the Australian Labour Party.



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 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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