BNZ Weekly Overview

1 March 2012

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.
http://feedback.bnz.co.nz/forms/Fx-I8ploskSGWgjN_7WOAw
To change your address or unsubscribe please click the link at the bottom of your email.

Survey Time

This is the first Thursday for March so we are as usual running our monthly Confidence Survey. This gives us good insight not just into how people are feeling about the economy down the track but in particular how they are finding things in their industry right now. Therefore if you have not already done so using the link included for sending out the WO this week please click on the url below and tick whether you think the economy will be better or worse in a year's time. Then if time permits please pen a sentence letting us know how things are in your industry right now. The survey results will be released on Monday.

http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur

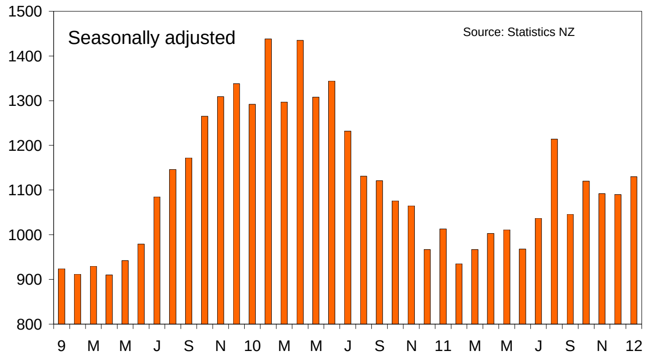
Is Our Economy Getting Better or Worse?

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

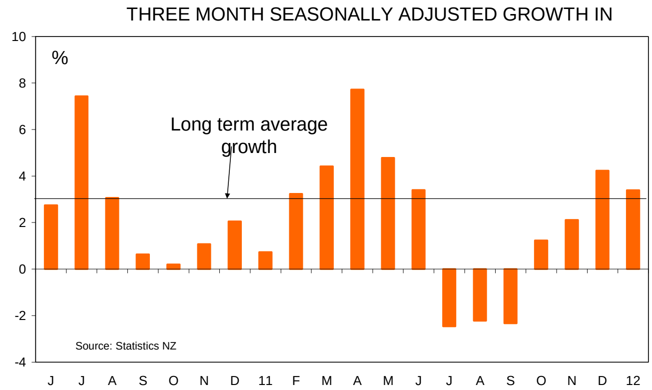
Are householders opening their wallets more?
Yes

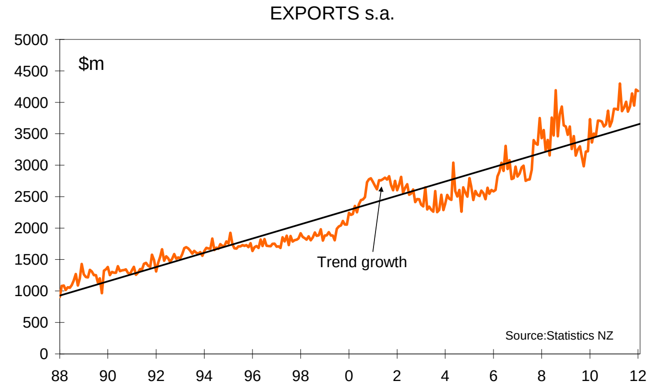
Yes with regard to housing though the level of activity is still low. In January there was a seasonally adjusted rise in the number of consents issued around the country for new dwellings to be built of 8.2%. This followed a 2.6% rise in December. However two-thirds of the gains are due to higher apartment consents which are very volatile. Excluding apartments consents rose 3.7% in January after falling 0.2% in December to give a change for the three months to January of -2%. This followed a 12.1% rise three months earlier. What all this means is that the trend is upward and this is best seen in the housing-only graph of monthly consent numbers.

MONTHLY NUMBER OF HOUSES ONLY CONSENTS



Is business output rising?
Exports are.
New Zealand's goods exports have increased by 10.2% over the year to January with the month's receipts ahead by 13% from a year ago. Although in seasonally adjusted terms receipts fell by 0.5% in January, over the past three months receipts have improved by 3.4% following 1.2% growth three months earlier. Looking at those numbers we feel it is reasonable to say that export growth is continuing at an underlying pace of about 12% or so per annum. That is very good.



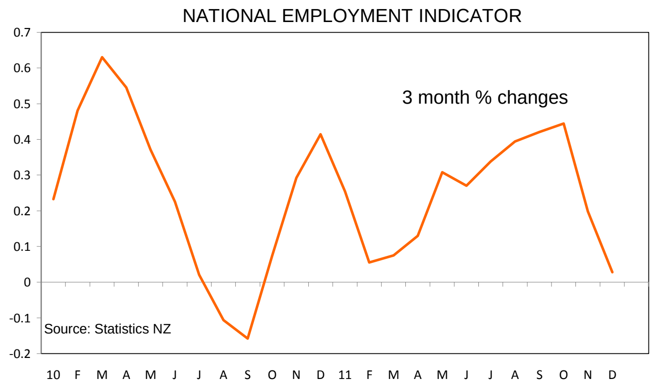


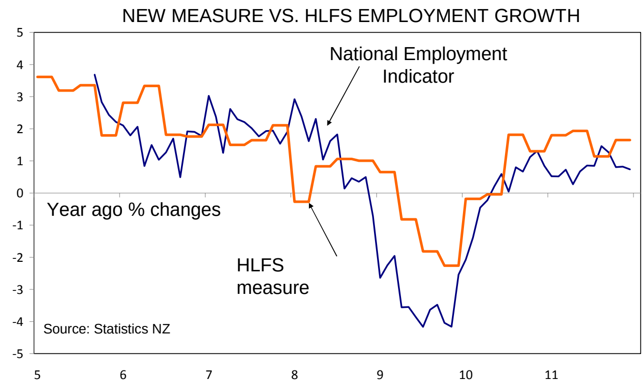
Note however that the implied economic stimulus is not what one might think because import payments have risen by a greater 11% in the past year, and in the past three months imports were up by 4.6% seasonally adjusted. Therefore net exports are falling and this acts as a drag on economic growth. That is, it means a lower rate of growth over the three month period than would otherwise be the case.

Over the past year the trade surplus amounted to $646mn compared with $909m a year earlier. The surplus therefore now stands at only 1.3% of exports compared with 2.1% a year earlier. The fact that the surplus is declining while our terms of trade are just coming off a four decade high and domestic growth has been weak suggests the current account deficit is highly likely to deteriorate firmly once domestic activity does pick up. That in turn means the country will probably get another credit rating cut 3 – 5 years down the track unless we see household savings behaviour change much more than it has.

Are businesses hiring more people?
No.
I have stressed the disconnect which has opened up between how businesses say they are feeling in sentiment surveys and what they are actually doing about it. This disconnect reveals itself in the labour market. Jobs growth in the last three quarters of 2011 was a miserable 0.5%. Now, according to the National Employment Indicator compiled using IRD wage and salary return data, jobs growth has ceased.

In seasonally adjusted terms job numbers rose 0.2% in the month of December, fell 0.1% in December, and for the entire December quarter were unchanged from the September quarter. What the survey gives us on top of the already released official data for the December quarter is news that the month of December did not produce a lift in employment. There is no acceleration in jobs growth underway. This has a number of implications. First it seriously calls into question the ability of retail spending to keep growing – let alone repeating the almost surrealistic rugby-inspired growth rates of 2.9% and 2.6% achieved in the December and September quarters respectively.





Second it implies lower PAYE receipts than Treasury will have budgeted for therefore a worse fiscal deficit outlook. Third it will make the Reserve Bank more cautious regarding monetary policy and decreases the probability of a cash rate rise this year.

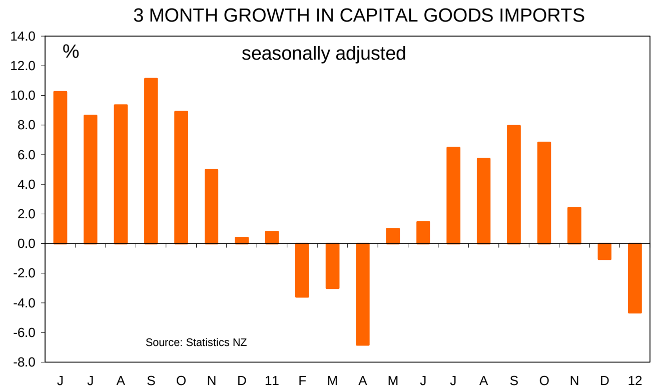
Basically bad news all around and something which leaves myself still feeling downbeat on very short term growth prospects for the NZ economy.

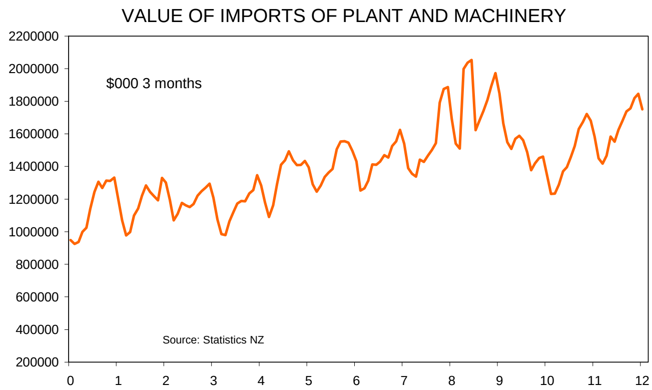
Are businesses boosting their capital spending?

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/

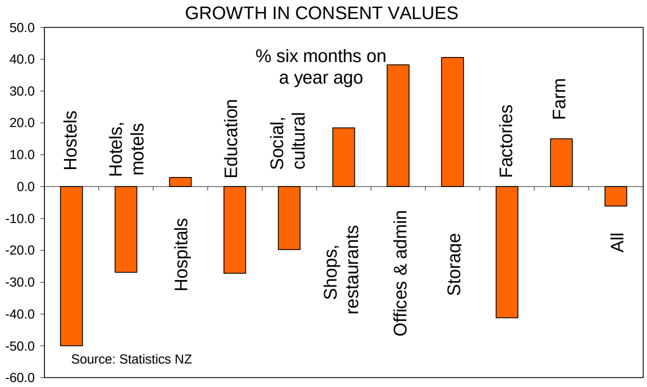
The value of capital goods imports in January fell in seasonally adjusted terms by 4.3% in January after declining 6.1% in December. The 4.7% fall over the past three months compares with a rise of 6.8% three months ago and 6.5% three months before that. So one is left asking the question as to whether this is a reversal in the upward trend last year or, as we have interpreted for the January fall in seasonally adjusted exports, just a natural blip.

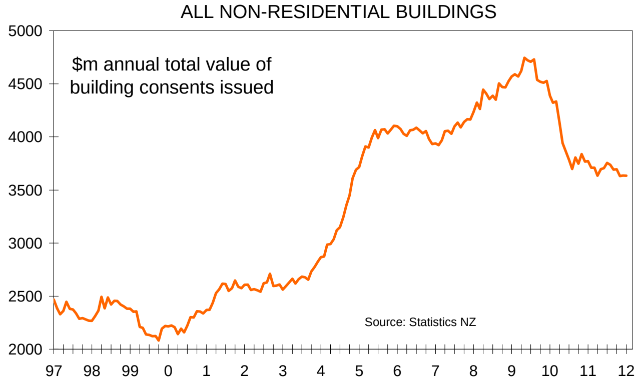




For the moment we shall interpret the weakness as simply a blip given that it follows a good period of strength and the level of capital goods imports over the past three months – shown in the second graph above – remained good. But another couple of months of falls will have us expressing concern about business investment weakness.

The value of consents issued for the construction of non-residential buildings came in at $226mn in January which was a 1% fall from a year earlier and delivered a 6% fall in the six months compared with a year before. Looking just at the business sector consents are ahead 3% from a year ago but allowing for cost rises this means no growth. There is no improving trend in place for non-residential construction all up.



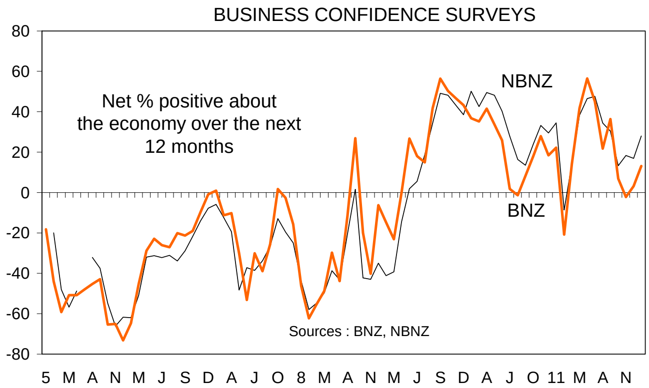


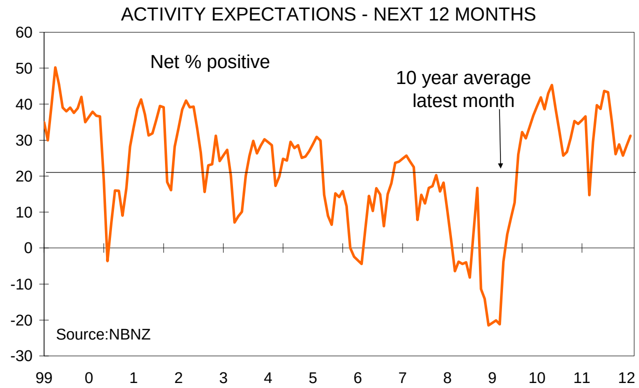
What Do The Leading Indicators Say?

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.

They say growth acceleration is not yet certain – but it seems probable.

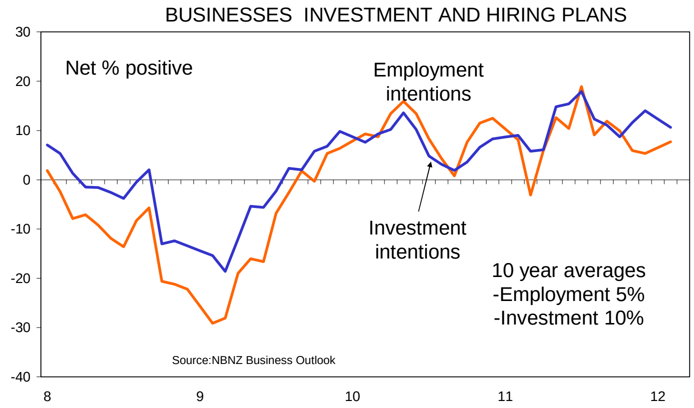
This week the monthly NBNZ Business Outlook Survey was released and because responses are collected near the time we conduct our monthly survey it shows what we reported here three weeks ago – namely that businesses have entered 2012 in good heart. A net 28% of respondents expect the economy to improve over the next 12 months. This is up from a net 17% in December and above the average reading for the past decade of -6%.





Of greater importance is firms' expectations for their own levels of activity and a net 31% are optimistic which is up from 26% in December. This is a good result which sits well above the net 20% long term average. But divergence from average is not so great when we get down to the real nitty gritty regarding what businesses intend doing in response to their buoyant sentiment.

Only a net 8% of businesses plan hiring more people. This is up from 5% in December and above the 5% long term average. So the result is positive but not suggestive of a boom in hiring. In fact it pays to note that during the nine month period from April to December last year when this reading averaged higher at 10% NZ jobs growth amounted to only an extra 10,000 people in work – or a 0.5% rise. That hardly leaves one willing to warn about a rapidly tightening labour market in the next few months.



Worse, although the net proportion of businesses planning to raise capital spending came in at 11% this was down from 14% in December and not significantly different from the long term average of 10%.

The headline business confidence and activity results are positive. But the intentions measures are not exciting and are not suggestive of an accelerating pace of economic growth unfortunately. As for monetary policy, pricing intentions edged up to a net 19% planning rises from 1% in December but this is below the average 21%. Year ahead inflation expectations eased to 2.7% from 3%. So there appears little for the RB to be concerned about there.

INTEREST RATES

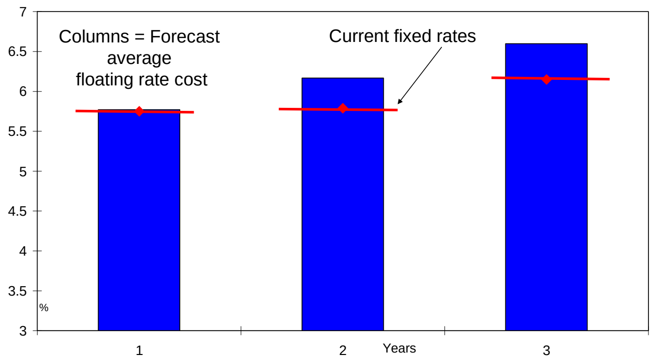
With a few more businesses showing interest in locking in fixed interest rates wholesale borrowing costs have generally crept up this week. The three year swap rate is now back to where it was in October. Note that back then the bank three year fixed housing rate was 6.99% - not the current 6.15%. Makes one think.

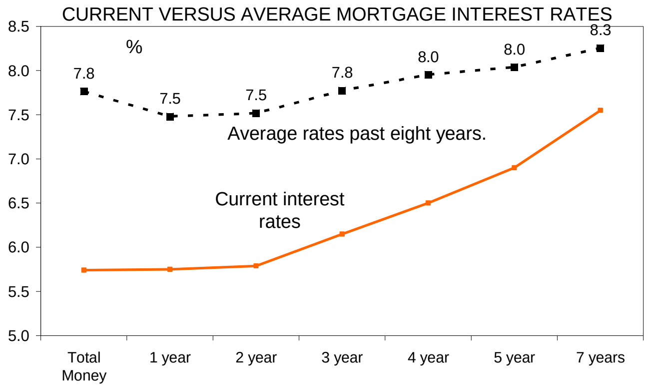
FINANCIAL MARKETS DATA

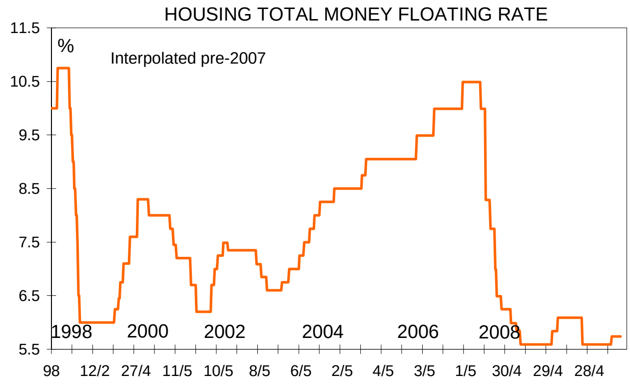
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	5.4
90-day bank bill	2.79%	2.76	2.76	2.74	3.22	5.7
1 year swap	2.91%	2.85	2.72	2.56	3.05	5.8
3 year swap	3.39%	3.29	2.95	2.92	4.00	6.1
5 year swap	3.86%	3.76	3.34	3.44	4.62	6.3
180-day term depo	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

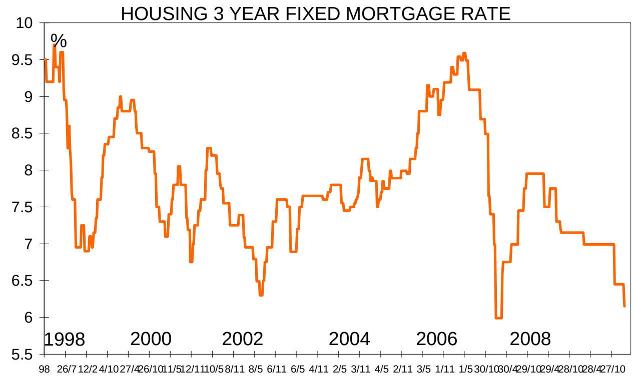
If I Were a Borrower What Would I Do?

I would move from floating to fixing three years – discussed in depth two weeks ago.







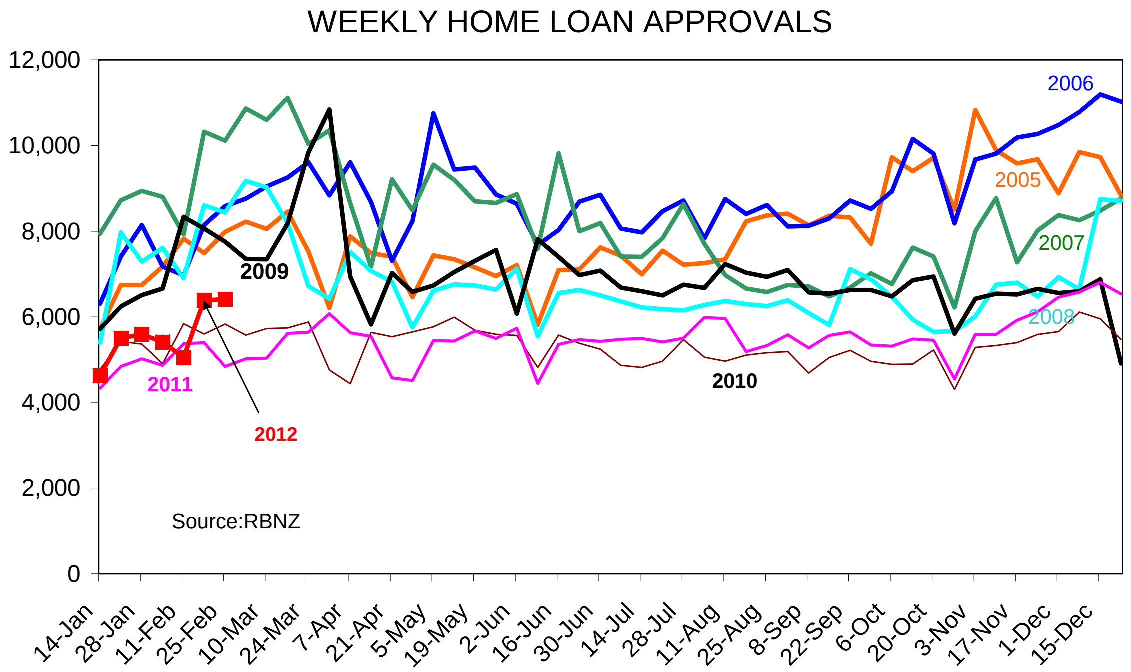


HOUSING MARKET UPDATE

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

Rate Switching Artificially Boosts Loan Approvals Data

There is an underlying upward trend in real estate activity underway which can be best seen in the monthly REINZ data. We can also try to get a more immediate feel for what is happening by looking at bank mortgage approvals. The graph below runs from January on the left to December on the right with a different line for each year since 2005 showing the week's worth of approvals. The bit to look at is on the far left for 2012 shown as a red line with red boxes. The weekly totals have shot up since the week ending Friday 17 February.

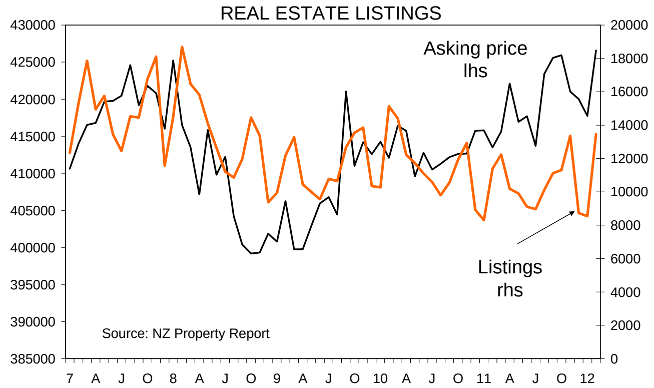


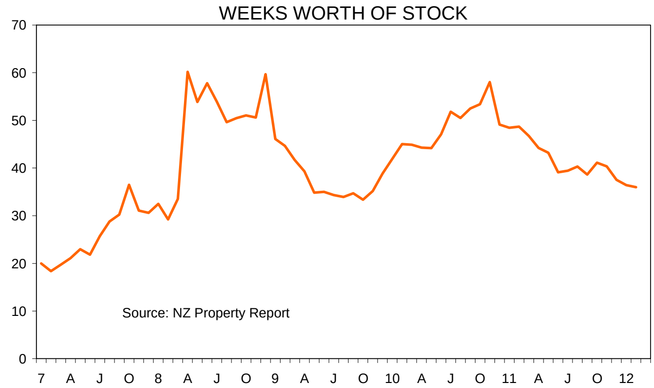
Does this mean that all of a sudden the real estate market has taken off? Probably not. There is an upward bias to the series at times caused by people switching their mortgages from floating to a fixed rate basis. This is evident in the 2009 line over late-March to mid-April when approvals surged as people locked in low fixed rates. In the February 16 Weekly Overview we wrote in terms of the time being optimal to move from floating to fixed, and the week before opined that fixed rates were probably at their lows. Banks had in fact just made fixed rate cuts.

Therefore it is highly likely that the jump in loan approvals seen in the past fortnight stems from people switching from floating to fixed and is not an indicator of a real estate boom. Having said that we do nonetheless believe the trend for this and other housing measures is upward.

Listings Rising

The latest NZ Property Report from realestate.co.nz shows that there are more listings coming onto the market. At the end of February 13,459 properties were listed which represented an 18% rise from a year earlier and a 58% rise from January. This large monthly gain is the highest since data started in 2007 and compares with a 37% rise in February 2011, 47% rise in February 2010, and 22% rise in February 2009.





However, given that sales have been trending upward in recent months the weeks worth of stock calculation based on sales data to January is not yet moving up.

MAJOR OFFSHORE ISSUES

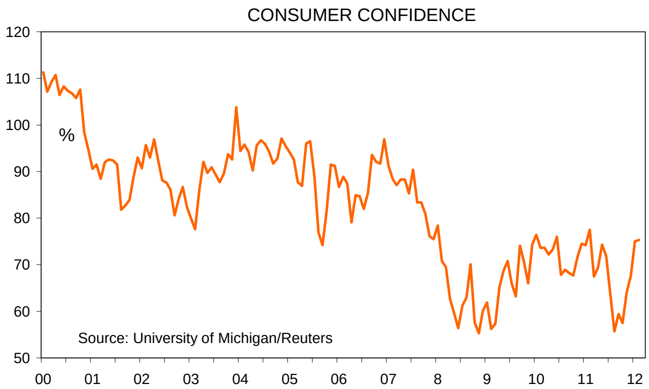
European Debt

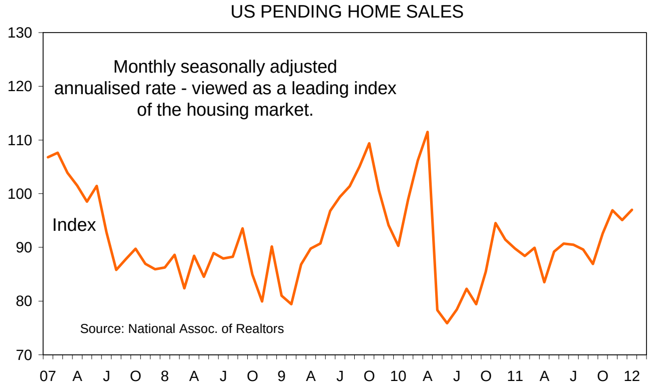
The European Commission have again cut their forecasts for EU growth and this time see shrinkage over calendar 2012 of 0.3% rather than growth of 0.5%. Growth is however picked to improve over the second half of the year, led by Germany where some of the recent business sentiment indicators have turned out much better than expected.

The ECB made a continuing strong contribution to ensuring the EU banking system remains solving by last night lending out at 1% p.a. for three years some €530bn.

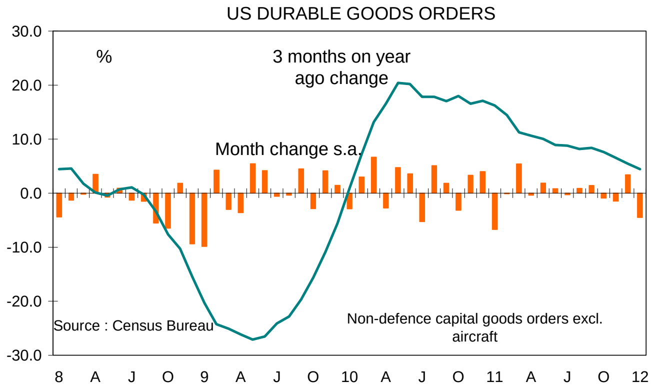
United States Growth

The week got off to a good start data-wise in the United States with the final reading for consumer confidence in the University of Michigan survey rising to a much higher than expected 75.5. The preliminary reading was 72.5 and January's reading was 75. The Conference Board measure also jumped to 70.8 from 61.1. The results do not suggest any particular strength in retail spending in the near future as an index level below 100 signals that pessimism dominates optimism. But the fact that sentiment has held up is a good sign which adds to some better than expected housing market data recently. In fact this week we learnt that pending home sales rose 2% s.a. in January to their highest level since early-2010.





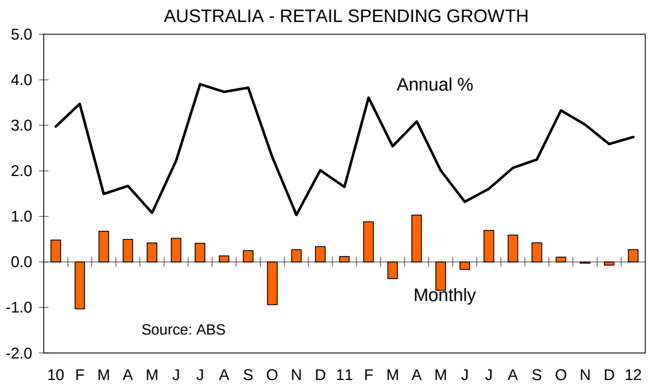
But on Tuesday some weak numbers appeared. Orders placed for durable goods fell by an unexpectedly large 4% in January (4.5% excluding defence and aircraft orders). The graph below shows that the trend rate of growth for this measure of business capital spending is clearly slowing and that somewhat calls into question the underlying strength in the US economy's current improvement in activity. In addition the Case-Shiller measure of nationwide US house prices fell by 0.5% in December to lie 4% down from a year ago, almost 34% down from the mid-2006 peak, and at the lowest level in nine years.

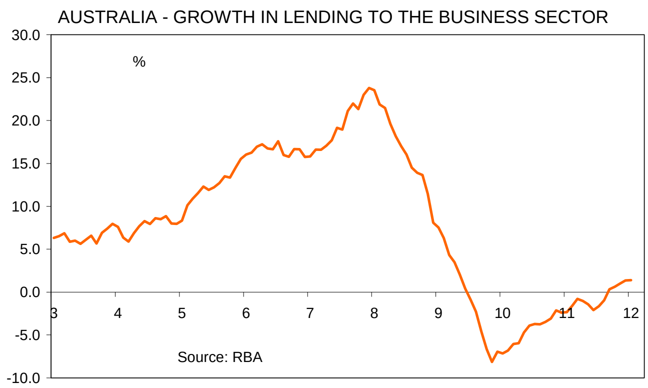


In addition, with tensions growing in the Middle East and oil prices already creeping upward there is potential for an oil price shock which history suggests would sap consumer sentiment and willingness to spend and hit overall US and global economic growth. We await to see what happens.

Australian Growth

Not much fresh was learnt about the state of the Australian economy this week. Retail spending growth in January was just 0.3% which was less than expected and delivered growth from a year ago of only 2.7%. No wonder there is some severe rationalisation occurring in Australia's retail sector.





And in the business sector there was a negative indicator in the form of lending to businesses falling 0.2% s.a. in January leaving growth on a year ago at just 1.4%.

Basically the story for Australia remains one of booming mining and infrastructure but struggling retailing, housing, manufacturing and tourism. Industrial action from increasingly militant and strengthened unions is picking up and this is part of Australia's normal commodity cycle. It eventually produces generalised inflation which elicits a response from the RBA which causes the currency to rise higher and eventually things crunch on the other side. That might be 2-3 years from now though one should be very wary of anyone engaging in economic analysis on the basis of traditional cycles. Such things – with regard to their timing at least – have been thrown out the window by the continuing effects of the global financial crisis.

China

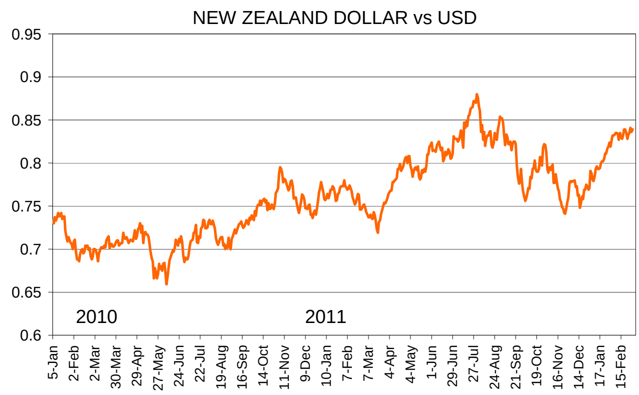
Chinese economic developments will now be covered in our new publication "Growing With China", the next issue of which will appear on March 20. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. Tony.alexander@bnz.co.nz

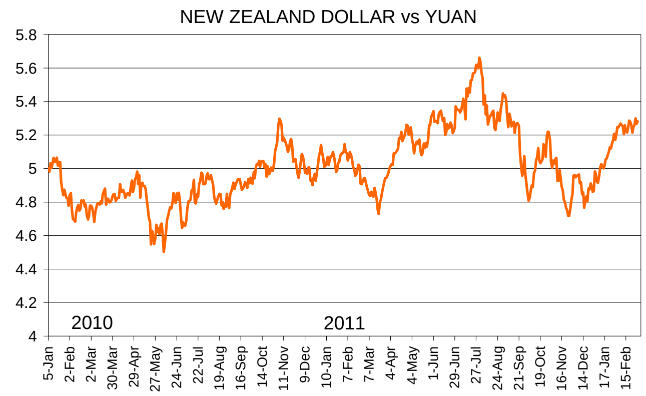
Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.835	0.828	0.825	0.777	0.752	0.67
NZD/AUD	0.777	0.779	0.777	0.761	0.739	0.85
NZD/JPY	67.600	66.400	62.800	60.400	61.6	69.6
NZD/GBP	0.525	0.528	0.523	0.495	0.462	0.388
NZD/EUR	0.626	0.625	0.631	0.578	0.545	0.52
NZDCNY	5.256	5.214	5.204	4.957	4.942	4.99
USD/JPY	80.958	80.193	76.121	77.735	81.915	105.7
USD/GBP	1.590	1.568	1.577	1.570	1.628	1.72
USD/EUR	1.334	1.325	1.307	1.344	1.380	1.28
AUD/USD	1.07	1.06	1.06	1.02	1.02	0.788
USD/RMB	6.2948	6.2974	6.3082	6.3793	6.5719	7.56

Range-Trading

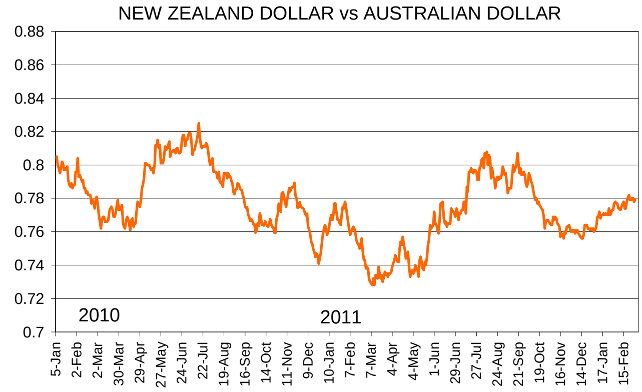
The Kiwi dollar has generally strengthened against other currencies this week though remains within recent trading ranges – nothing much interesting then. One supporting factor for risky currencies like the NZD this week was the Germen Parliament's approval of Greece's latest bailout package. But the positive import of that was somewhat weakened by Standard and Poors' decision to cut Greece's already junk credit rating by another notch to reflect the fact that private bond holders are effectively being forced to accept losses – a technical default in other words.

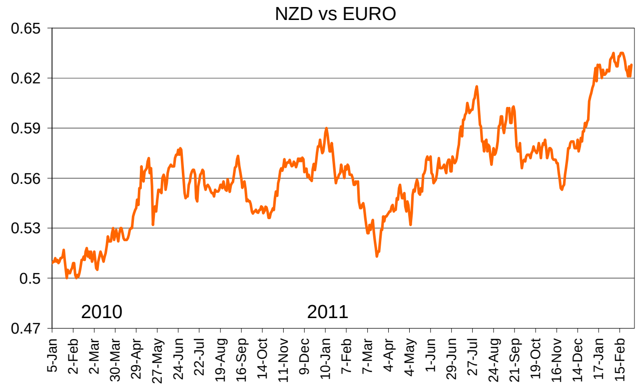


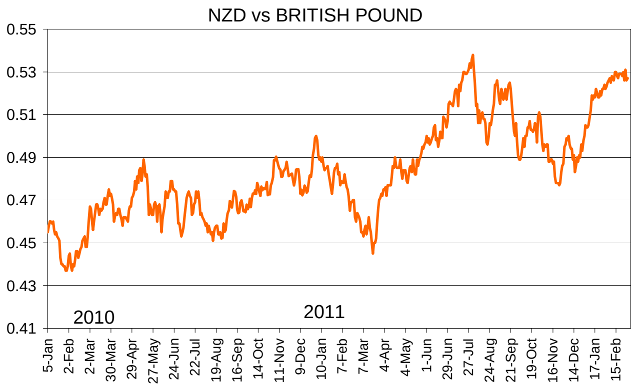


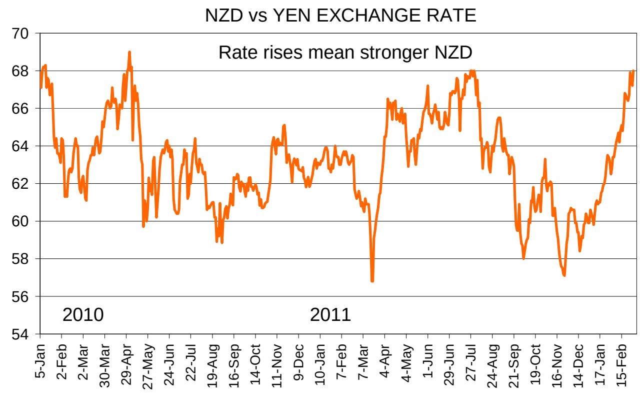
Support for the NZD generally remains good from a combination of high commodity prices, riding the coat-tails on an in-demand Aussie dollar, and simply looking better than most of the other major currencies which are afflicted by various deep economic problems which will take years to resolve. What that says to us is that the NZD will be strong for many years – especially as one would struggle to say that the upward leg of our traditional economic cycle has yet to properly get under way. History shows that when it does the NZD goes up primarily on the back of rising local interest rates.

This time around once those interest rates start rising – from late this year maybe – rates overseas are likely to still be low and the growing interest rate differential will likely reignite the carry trade again. Exporters therefore will want to have some rigorous hedging policies in place and be seriously considering how they will diversify their revenue exposure away from the structurally relatively declining parts of the planet – the UK, Europe and to a lesser extent the USA – toward Asia. Good luck.









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.

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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