

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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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 morning we received data from Statistics New Zealand backing up the downbeat view we have been espousing regarding growth in the NZ economy recently. Contrary to market expectations that growth of 0.6% would be reported during the December quarter NZ gross domestic product in fact rose by only 0.3% in the last three months of 2011.

The result is not a disaster and when averaged with the downwardly revised 0.7% growth during the September quarter shows an economy growing at a marginally below trend 2% annualised rate during the second half of last year. But still, the miserable 1.4% growth achieved over all of 2011 is not a particularly strong rate of growth – especially when one considers three things.

1. Normally when exiting a recession as we did in the June quarter of 2009 the NZ economy will grow at a 5% pace within two years. To grow only 3.6% over almost an entire three year period is quite a contrast and shows that getting back on our feet after the greatest global financial crisis since the 1930s and following our home-grown debt binge ahead of our own 2008 recession is proving to be a long drawn out affair.

2. Our terms of trade have been near a four decade high and as a primary product trading nation one would have thought such good news would have things booming.

3. The Rugby World Cup was on late last year and brought an extra 130,000 people into the country.

So is growth accelerating? The data are highly mixed and the recent falls in international dairy prices and Fonterra's payout cut will inject a little bit of caution into the dairying sector.

On the positive side we have such good numbers as the following.

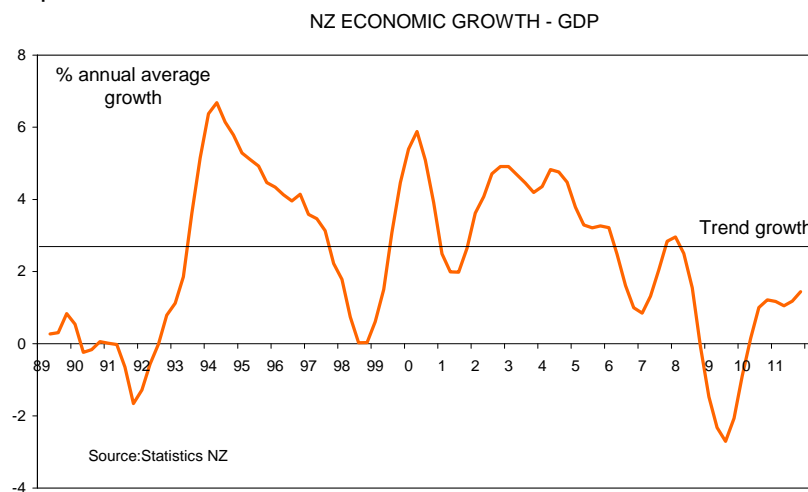
- The number of job advertisements placed on-line soared 6% in February to be 10% ahead of a year ago.
- Exports have risen 3.4% seasonally adjusted over the past three months and are 11% ahead of a year ago.
- Car registrations were up 10% seasonally adjusted in the three months to February.
- Tractor registrations were ahead 5% seasonally adjusted in the past three months.
- Farm sales in the three months to February were 72% ahead of a year earlier.

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- Core retail sales soared 2.9% during the December quarter after growing 2.6% the previous three months.
- Dwelling sales were 37% ahead of a year earlier in February and up 4.3% seasonally adjusted over the past three months.

But on the negative side we have these numbers.

- Output from the manufacturing sector excluding meat and dairy processing shrank by 0.7% during the December quarter following a 1.2% fall the previous quarter.
- Registrations of commercial vehicles were down 10% seasonally adjusted in the three months to February.
- The value of imported capital goods has fallen 5% seasonally adjusted over the past three months.
- Spending using electronic debit and credit cards fell at an annualised pace of 0.2% in the three months to February.
- The number of consents issued for the construction of new dwellings fell 1.5% seasonally adjusted in the three months to January.
- Job numbers rose only 0.2% during each of the December and September quarters last year in spite of the Rugby World Cup.



The data do not yet show an economy gathering speed – though underneath it all we believe that we are close to such a change occurring. The level of deconstruction and construction activity in Christchurch is picking up, the world economy is looking less worrying, business sentiment has improved recently, there is more evidence of farmers doing more with their record incomes than just paying down debt (a wise idea), and Auckland's residential construction catch-up is kicking off with consent numbers 17% ahead of a year earlier in the three months to January compared with only a 5% rise in the rest of the country.

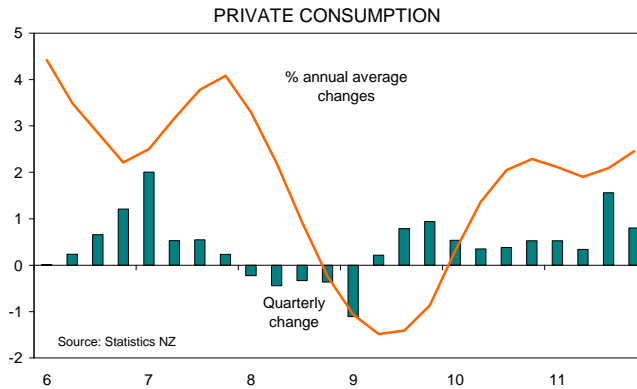
But for now, the best one can realistically say is that we are nowhere near recession, but we are not close to achieving trend growth yet.

Are householders opening their wallets more?

During the December quarter private consumption grew by a relatively healthy 0.8% after jumping 1.6% during the September quarter to give full year growth of 2.5% which is about trend. But allowing for

- the effect of the rugby
- you and I buying tvs to watch it
- others replacing household goods damaged in the earthquakes, and
- retailers slashing margins

the underlying growth in consumer spending is not that impressive.



Is business output rising?

Are businesses hiring more people?

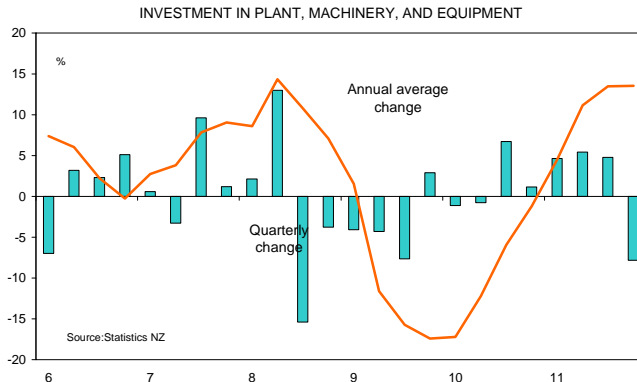
No fresh evidence.

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/>

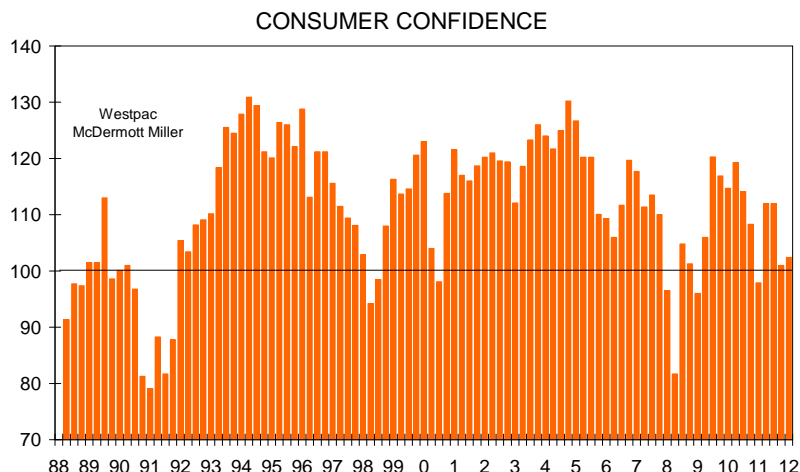
During the December quarter expenditure on plant, machinery and equipment fell by 7.8% but as this followed three strong quarters full year growth was a healthy 13.6%. While the quarterly fall is large it is probably best interpreted as a pullback after the earlier surge and at this stage we do not read it as the start of a downward trend in this important area of capital spending.



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.

Last week we reported that consumer confidence measured in the monthly Roy Morgan survey had declined slightly to a reading of 110.2 in March from 113.3 in February with a long term average of 118. This week we learnt that the Westpac McDermott Miller measure edged up to only 102.3 in the March quarter from 101 in the December quarter. These sentiment readings are in positive territory and suggestive of reasonable growth in retail spending – but nothing more. A bit of a yawn really in the context of three years of waiting for sustained strength to return to consumer spending. The best hope for retailers looks like being the sharp rise in residential construction which will hit the economy at some stage.



INTEREST RATES

Wholesale interest rates have climbed again over the past week, not so much in response to anything happening here on our shores but reflecting rises in rates overseas as investors start to pull back from a fresh global Armageddon scenario and give more benefit of the doubt to improving growth. That means they are moving funds out of cash and fixed interest assets into shares. That can be seen most easily in the yield on the US ten year government bond rising this week to a seven month high near 2.4% from 1.9% a month ago before pulling back to 2.29%

The benchmark NZ three year swap rate which establishes a base from which bank three year funding costs are calculated has risen to a five month high near 3.45% from 3.1% six weeks ago. Doing the maths on what this means for lending rates is fairly easy and as businesses increasingly undertake such an exercise they have been going into their banks and fixing increasing portions of their debt interest rates. Some are switching from floating to fixing right now, but many are locking in a fixed rate which starts late this year.

Still, with regard to monetary policy pressure has yet again come off the Reserve Bank to do anything with dairy prices falling more than expected in the latest fortnightly sale and this mornings GDP growth numbers coming in well below expectations. Our view currently is that the official cash rate will remain at 2.5% until very late this year or more probably early 2013.

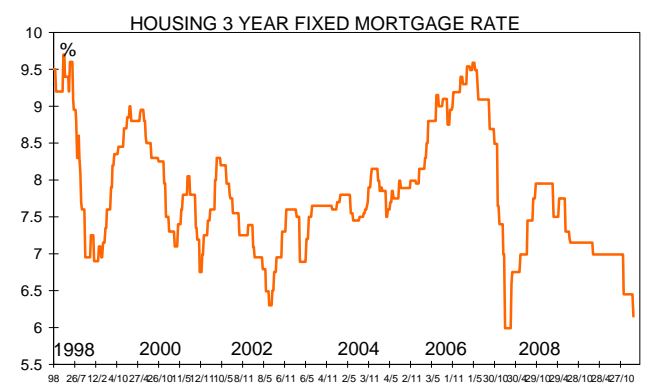
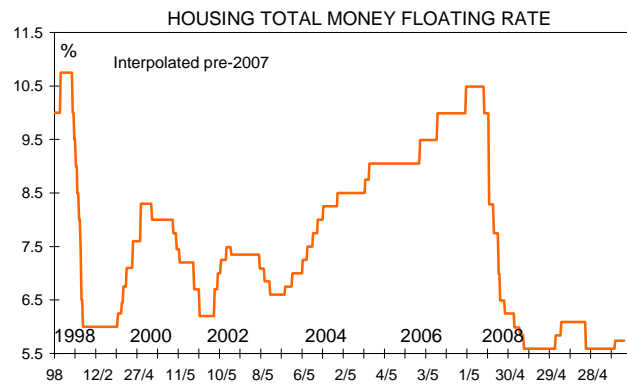
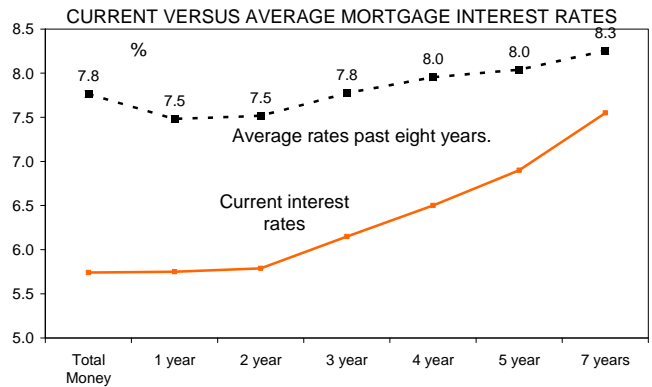
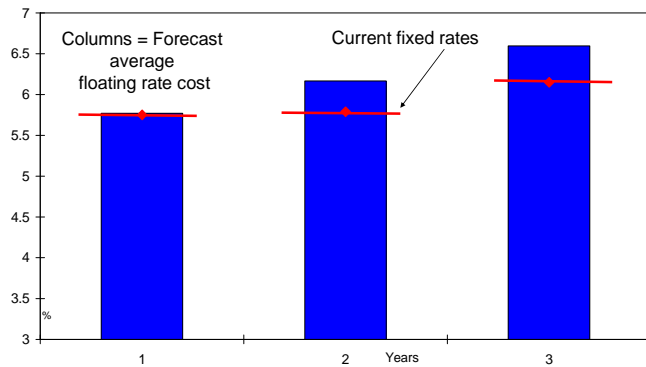
FINANCIAL MARKETS DATA

	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	2.50	5.4
90-day bank bill	2.74%	2.77	2.76	2.74	2.68	5.7
1 year swap	2.89%	2.90	2.85	2.72	2.75	5.8
3 year swap	3.45%	3.39	3.29	2.96	3.71	6.1
5 year swap	3.96%	3.86	3.76	3.38	4.33	6.3
180-day term depo	4.50%	4.50	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?

As I wrote here on February 16 I would switch from floating at 5.74% to fixing three years at 6.15%. The jump in immediate cost is only 0.41% compared with 1.4% back in November and the risk from here is that fixed housing rates go up. To realise that one need only look at these numbers. Back in November when the fixed home loan rate was 6.99% the three year swap rate was around 3.4% so the gap was 3.6%. Currently the three year swap rate is above November's levels at 3.5% but the fixed lending rate is 6.15% giving a gap of 2.65%.

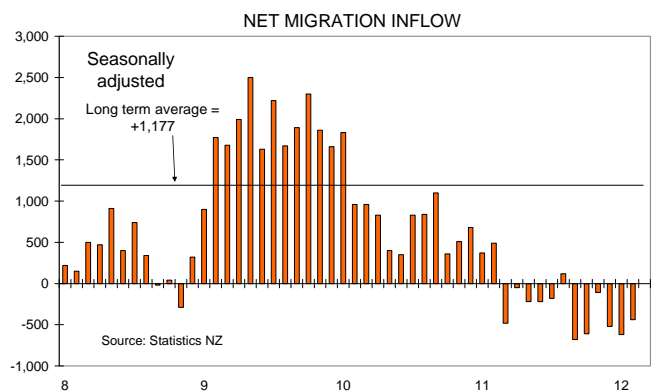
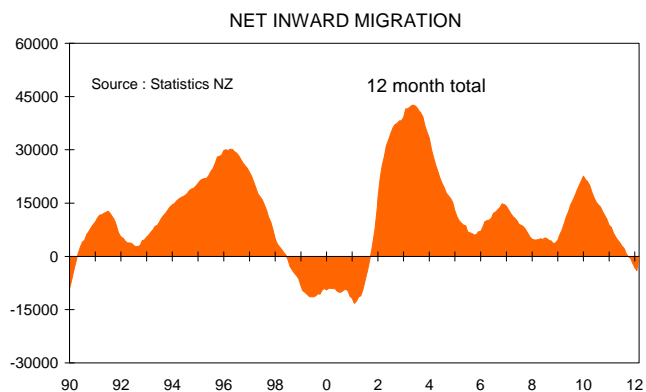
There is scope for a substantial lift in bank fixed lending rates in the very near future and it is only the fact that credit demand still remains low and competitive pressures strong which explains why rate rises have not yet occurred. But seriously folks. How long do you think this situation can last?

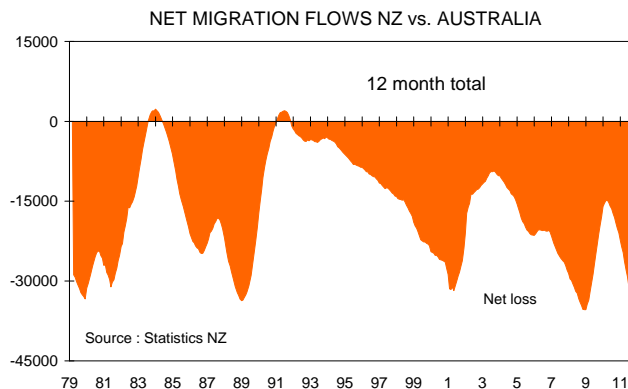


HOUSING MARKET UPDATE

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

This week we learnt that in seasonally adjusted terms NZ suffered a net migration loss in February of 440 people which was slightly fewer than 620 in January and 520 in December. There is a small improving trend (less bad) in this measure which generally feeds into the argument of migration flows ending their cyclical decline phase before the end of this year and net gains returning. But before then the headline numbers will get worse and in the year ending February the net loss was 4,068 people compared with 3,134 in January and a gain of 8,249 a year ago. This latest annual loss is the greatest since August 2001 and is entirely attributable to a net loss to Australia of 38,452 in the past year compared with 23,518 a year ago





For the year to February NZ had a net migration gain from the UK of 5,298, from India of 5,029, and from China including Hong Kong 5,139. We are either one or two months away from China becoming our largest single country contributor to net migration gains.

MAJOR OFFSHORE ISSUES

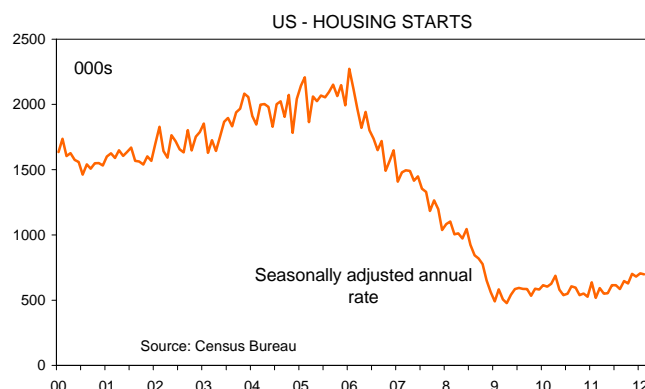
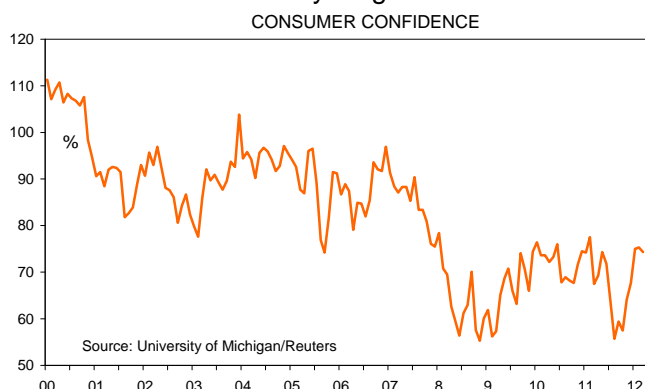
European Debt

No time this week – nothing major anyway.

United States Growth

Improving data, more upbeat Fed = USD, equities and US interest rates all up.

Consumer confidence eased a tad in March according to the University of Michigan monthly survey. Their index fell to 74.3 from 75.3 in February where a reading of 76 had been expected. In the short term there is not much correlation between sentiment changes and spending shifts and the result caused more of a pulling back in rapidly growing optimism about the potential rate of US growth this year rather than leading to downward revisions in anything.



The number of houses which builders started to put up in February was ahead 35% from a year earlier thus strongly suggestive of a solidifying upward trend in residential construction.

Australian Growth

No time for commentary this week.

China

This Tuesday we released the March edition of our new monthly publication ‘Growing With China’ You can find a copy of it here. <http://tonyalexander.co.nz/topics/china/>

BNZ WEEKLY OVERVIEW

To receive it regularly email me at tony.alexander@bnz.co.nz stating your company name and any connection you have with China if relevant. The summary we wrote for this month's edition is as follows.

Welcome to the second issue of "Growing With China" – our publication which focuses on the economic relationship between New Zealand and a country which will likely be our most important export destination within 5 – 10 years.

In the March issue we look at the following.

China's race against time to develop and implement policies aimed at addressing two worsening problems.

- Growing discontent with widening income disparities, pollution, corruption, and migrant worker access to social services.
- Rising costs which are reducing international competitiveness. (Page 1)

In our "Finding Customers and Contacts in China" section we profile World Wide Access which helps NZ companies access China's millions of on-line shoppers. (Page 5)

We summarize some of the key learnings from a conference in Auckland on March 1 examining branding and channel management issues in China. (Page 6)

Our monthly run-through of data shows China's growth is slowing but it continues to look like a soft-landing scenario with the best news over the past month being lower than expected inflation which provides scope for easier monetary policy should negative growth shocks occur. (Page 8)

In our "Guest Contributors" section this month we profile GlobalHort. This is an NZ fruit company focused mainly on Kiwifruit growing and distribution in Shaanxi Province with expanding orchards, contract growers, and the aim of turnover equal to 25% of NZ's entire annual Kiwifruit production by 2016. (Page 11)

In the "NZ-China Economic Data" section we examine trade data showing China (including Hong Kong) now accounting for 14.3% of export receipts, growth in visitor numbers in the past year of 18.3% compared with 3% from all sources, and net migration gains rising to 5,104 compared with 3,887 a year ago.(Page 12)

In the "Information Snippets" section most space is devoted to examining sentiment following the High Court's reinterpretation of rules for foreigners buying farmland in New Zealand. For now concern seems contained but potential for NZ to gain a reputation as being unwelcoming to all foreign investors is growing. (Page 14)

Feedback is welcome and necessary to guide the shape of GWC in future issues so please feel free to email me your thoughts and experiences with China at tony.alexander@bnz.co.nz

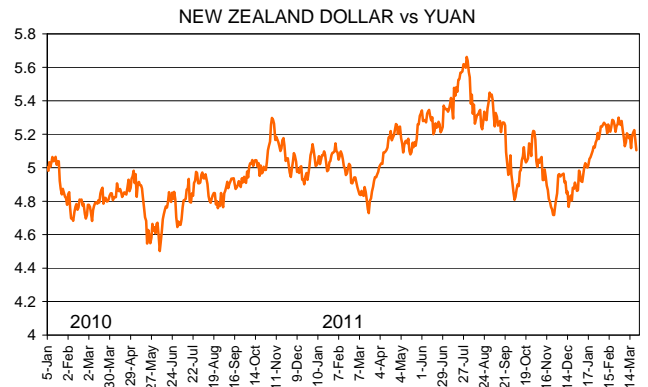
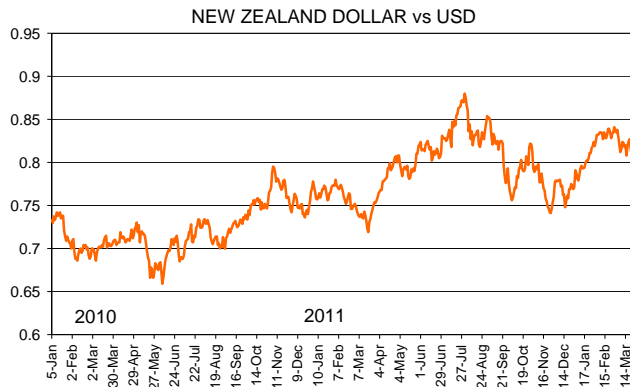
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Exchange Rates

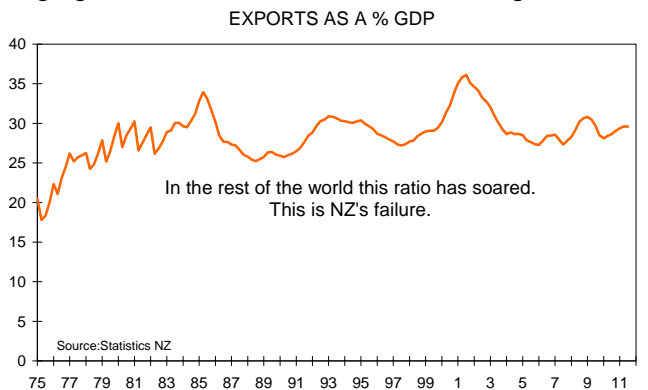
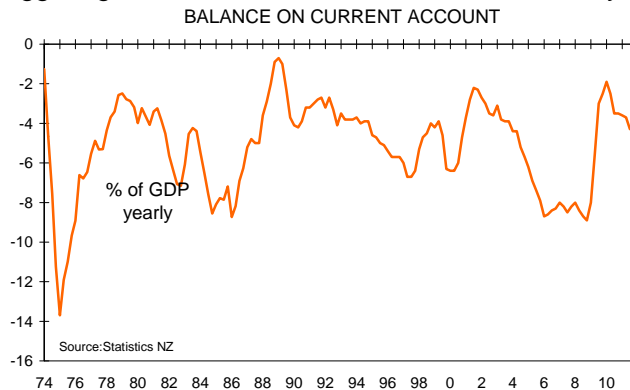
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average	
NZD/USD	0.808	0.808	0.835	0.769	0.734	0.67	
NZD/AUD	0.778	0.774	0.782	0.762	0.73	0.85	
NZD/JPY	67.300	67.800	66.500	59.900	59.5	69.6	
NZD/GBP	0.509	0.516	0.529	0.490	0.45	0.388	
NZD/EUR	0.611	0.621	0.630	0.588	0.516	0.52	
NZDCNY	5.105	5.117	5.258	4.875	4.816	4.99	
USD/JPY	83.292	83.911	79.641	77.893	81.063	105.7	
USD/GBP	1.587	1.566	1.578	1.569	1.631	1.72	
USD/EUR	1.322	1.301	1.325	1.308	1.422	1.28	
AUD/USD	1.04	1.04	1.07	1.01	1.01	0.788	
USD/RMB	6.3178	6.3332	6.2974	6.3391	6.5614	7.56	

Kiwi Just Above US 80 cents

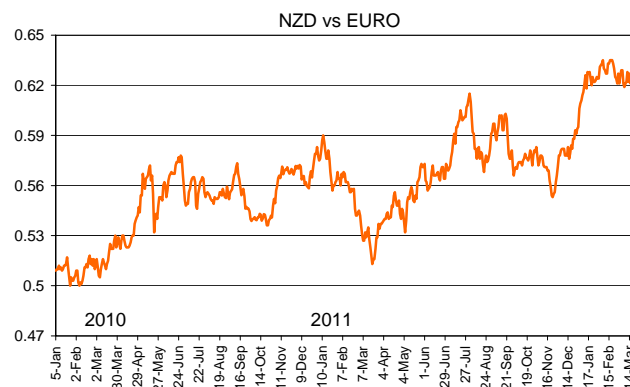
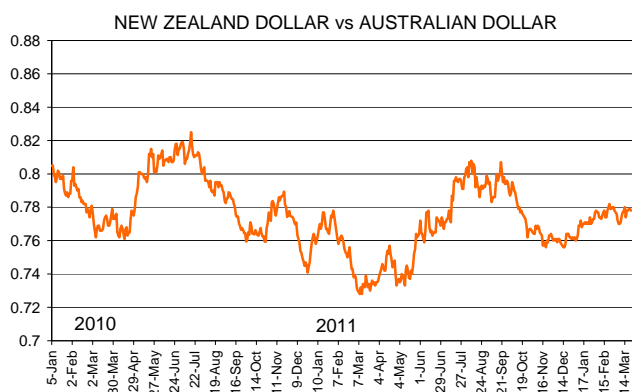
The Kiwi dollar has finished the week where it started against the greenback, but because the USD went up we have shed some ground on the crosses. That shedding mainly came about over the past 24 hours in response to lower international dairy prices and this morning's worse than expected GDP numbers.



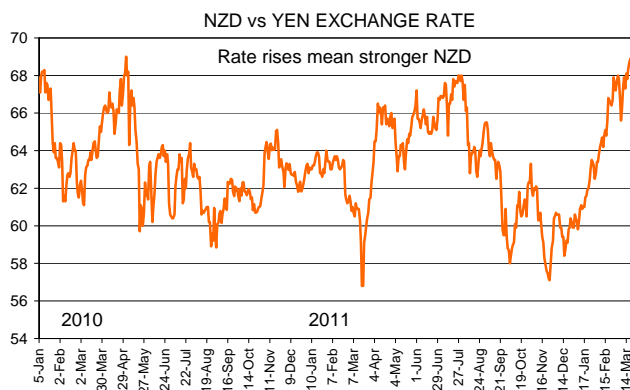
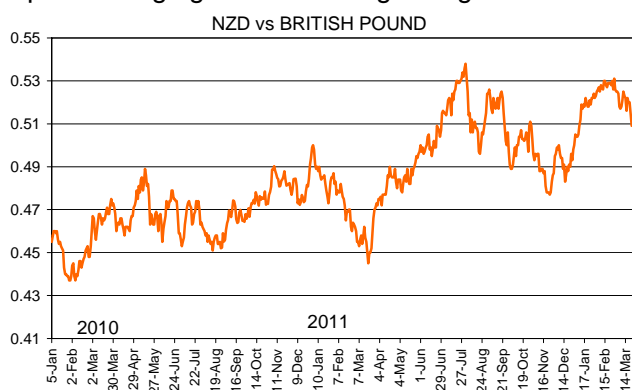
For your guide there was as practically always no impact on the NZD from quarterly current account numbers. NZ's annual deficit came in at a slightly higher than expected 4% of GDP during 2011 from 4.3% in the year to September and 3.5% over 2010. Considering that our terms of trade were near a four decade high last year, there was a services export boost from the rugby men, and the domestic economy was depressed, one can only wonder in horror as to what the deficit will reach at its cyclical peak when domestic economic activity goes up at the same time as our terms of trade are easing. Hence the high probability of another credit rating cut for NZ 3 – 5 years from now. We are simply not paying our way – as seen by the biggest global financial scare since the 1930s only managing to create a 0.2% household savings rate.



BNZ WEEKLY OVERVIEW



For the moment the NZD is generally going through a weak period in response to investors moving into USDs on the back of rising growth prospects, some easing in our commodity prices, generalised pulling back after a long period of strength, and easing off a tad further in expectations for when our central bank will raise interest rates. But given that the world outlook is generally improving and we expect export commodity prices to remain at high levels, this period of respite merely provides exporters an opportunity to improve hedging rather than signalling the start of a downward trend.



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%	0.3	0.7	+1.4	1.2	-2.1
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	4.0	4.3	3.5	-2.5
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	-0.2	2.0	2.7	-0.6	5.5
Net migration gain	Av. gain past 10 years = 13,900	-3,134	-103yr	8,689	22,588
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	27	13	36	-12	35
Consumer confidence	ANZ-Roy Morgan 100=neutral	110	113	113	101	122
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	37.0	25.2	21.1	-10.5	-3.8
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%	6.15	6.15	6.99	6.99	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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