BNZ Weekly Overview

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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
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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 week we learnt that over the past three months the value of imports of capital goods in the three months to February fell by 7.3%, that job numbers measured using the National Employment Indicator rose 0.3% in the same period but this was a slowdown from 0.5% growth three months earlier, and that export receipts fell 0.6% from 1.5% growth previously. In other words, another week goes by and we have received another batch of data showing the NZ economy failing to gain any acceleration in forward momentum as yet. The implications are minimal pressure for monetary policy to tighten until 2013 but watch fixed rates as they are influence strongly by rate changes offshore and the trend in the United States is upward.

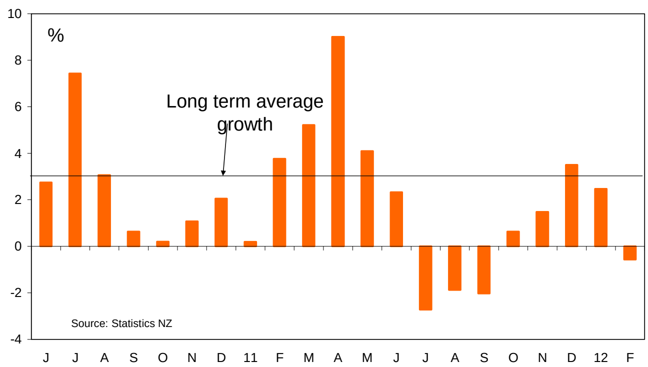
The continuing weak data also will help cap NZ dollar strength for now, but once tightening starts two and a half decades of a floating exchange rate regime tells us which direction the NZD will go – up.

Are householders opening their wallets more?
Nothing new

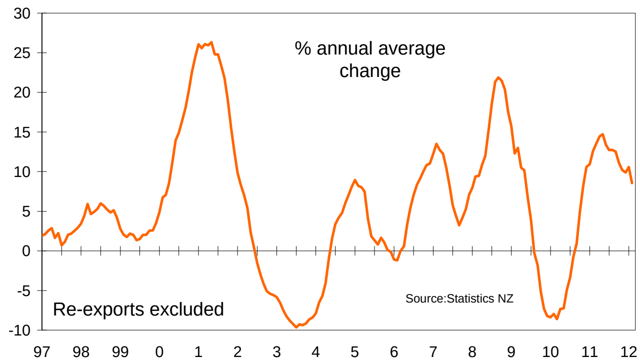
Is business output rising?

Exports in seasonally adjusted terms fell by 11.5% in February after declining 1.3% in January and that means the three month rate of change has slipped back into negative territory with a decline of 0.6% compared with growth of 1.5% three months earlier.

THREE MONTH SEASONALLY ADJUSTED GROWTH IN

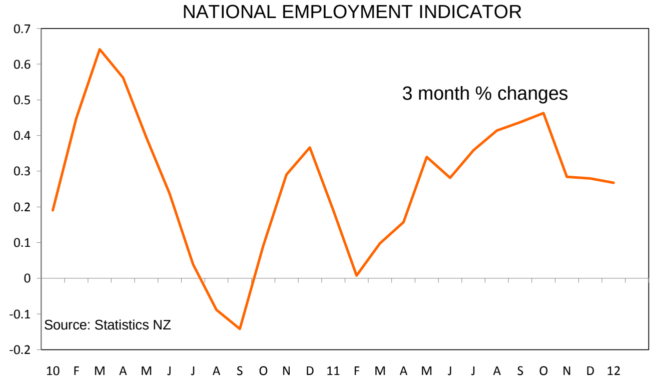


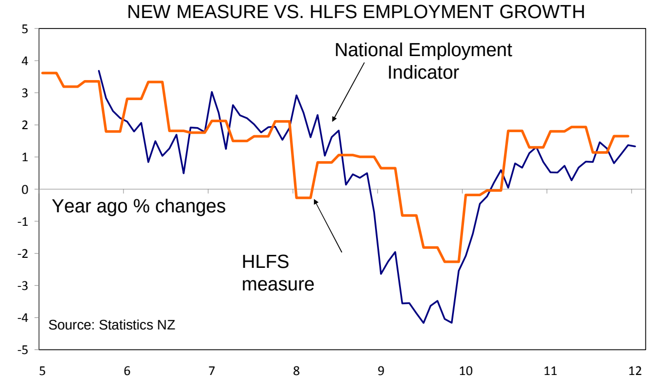
EXPORT GROWTH



Are businesses hiring more people?
Not really

The National Employment Indicator, which is based on data supplied to Inland Revenue, fell by 0.2% in January after rising 0.2% in December. On a monthly basis this seasonally adjusted measure can be revised quite a bit so one definitely should focus on rolling averages. Over the past three months this employment measure has risen 0.3% after rising 0.5% in the three months to October and 0.4% in the three months to July. So jobs growth which was appallingly weak during the last nine months of 2011 according to the official Household Labour Force Survey measure is getting even worse according to this gauge. That hardly leaves one feeling optimistic about retail spending growth in the near future and will make the Reserve Bank feel more and more determined to leave interest rates unchanged for a long time.

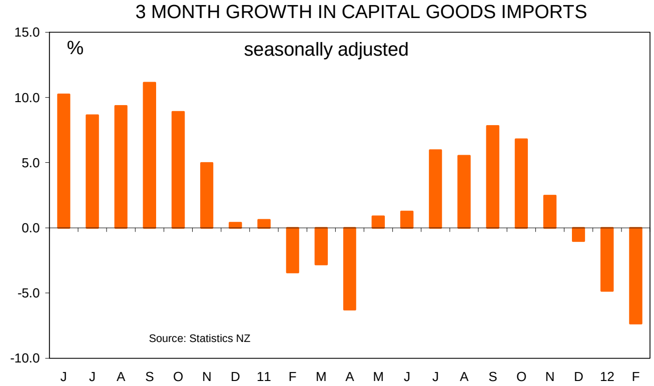


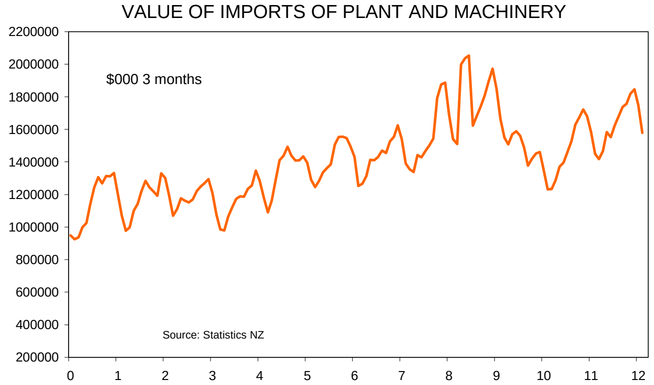


Are businesses boosting their capital spending?
For equipment no. Buildings = mixed.

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 February rose by 1.5% but as this paltry gain followed big falls in the previous two months the change over the three months ending February was a decline of 7.3%. After a splurge on capital goods bought overseas during the bulk of 2011, businesses more recently have been pulling back their purchases.

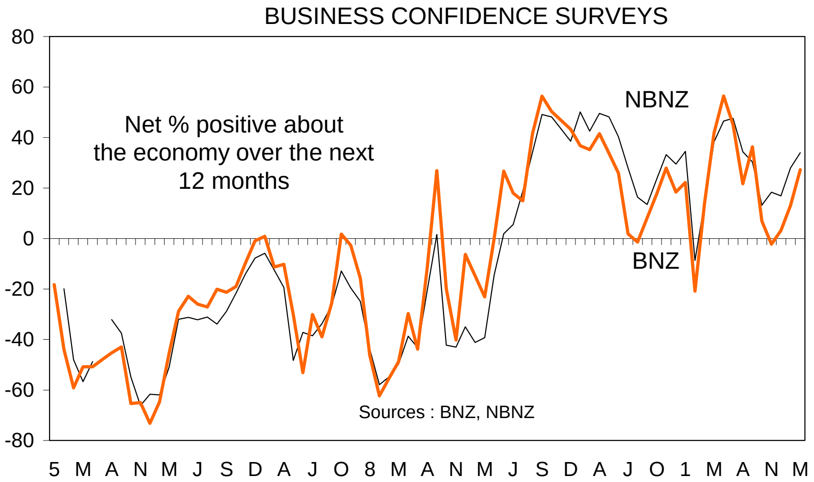




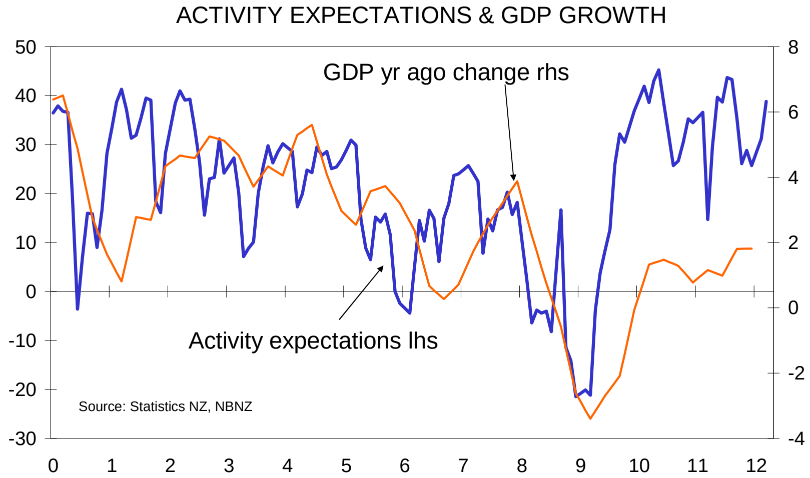
What Do The Leading Indicators Say?

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.

Today the NBNZ Business Outlook Survey was released. The survey is run near the same time as we run our BNZ Confidence Survey so the results tend to track what we have already reported. Therefore it is of zero surprise that following our survey showing a rise in business sentiment about the economy over the year ahead to a net 27% positive from 13% positive early in February that the NBNZ measure has also improved. Their net confidence gauge now sits at 34% from 28% in February.



A net 39% of businesses expect their own levels of activity to go up from 31% in February and a ten year average of 20%. A net 50% of builders expect higher residential construction, a net 36% higher commercial building, a net 12% of respondents expect to take on more staff versus a4% average, and a net 15% plan higher investment versus 9% average. So whoopee many of you are probably saying. This means the future is bright and we're soon going to rocket ahead. Yeah right. That may be what happens in 2013 once the residential rebuild gets cracking in Christchurch and the catch-up construction period is going in Auckland. But what we have highlighted here over the past year is the disconnect which has opened up between confidence results, intentions measures, and what actually happens in our cow of an economy (just got back from Fonterra's interim results release so it felt good to slip that in).



Therefore, if you read somewhere that on the basis of the latest sentiment result our economy is set to grow 4% - read something else. That type of analysis based upon the pre-GFC world no longer holds.

INTEREST RATES

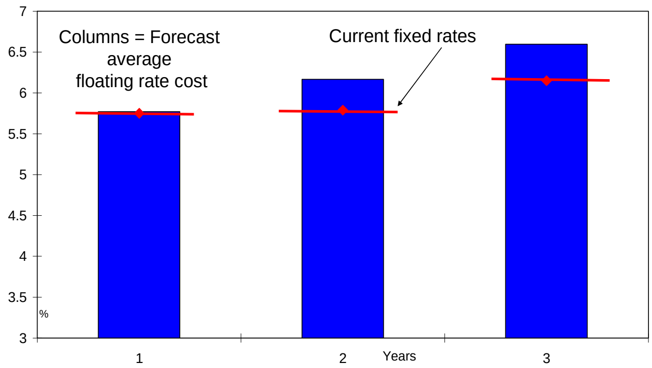
Wholesale interest rates have pulled back slightly this week in response to dovish comments from the US Federal Reserve Chairman. But the declines do not amount to much and the three year swap rate has only edged back down to 3.38% from 3.45% last week. The average for the past three months has been 3.2%. Bank bill yields are as ever unchanged in the absence of any reasonable prospect that monetary policy will be changed in the near future.

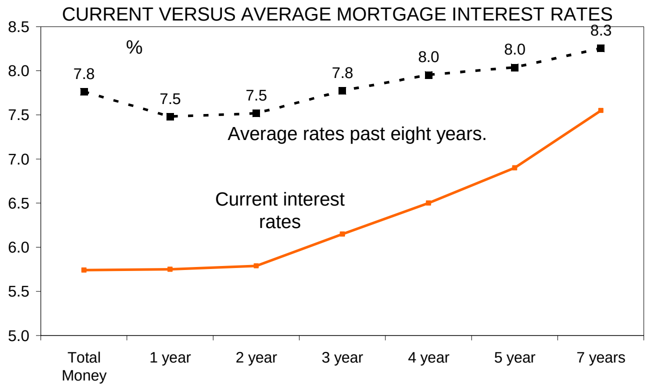
FINANCIAL MARKETS DATA

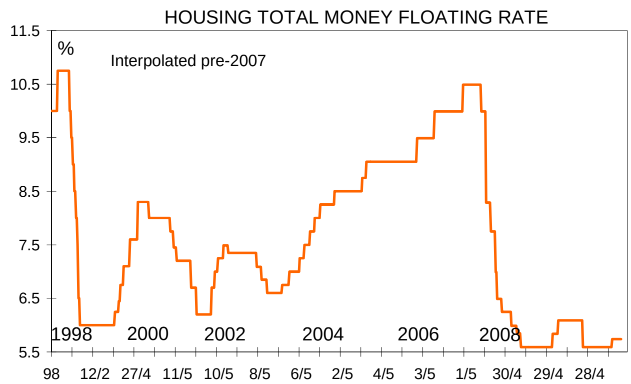
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.74%	2.74	2.76	2.74	2.68	5.7
1 year swap	2.88%	2.89	2.92	2.72	2.75	5.8
3 year swap	3.38%	3.45	3.36	2.96	3.71	6.1
5 year swap	3.88%	3.96	3.82	3.38	4.33	6.3
180-day term depo	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

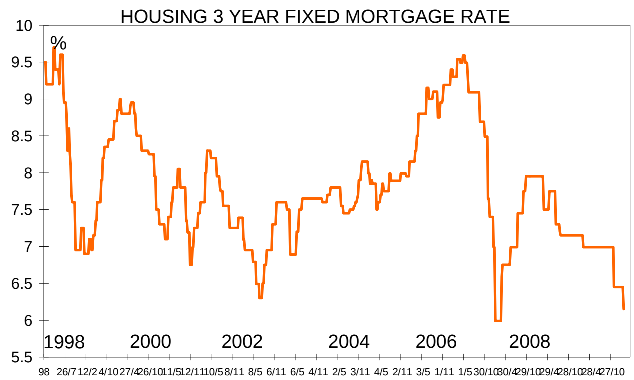
If I Were a Borrower What Would I Do?

Some more time to fix before rates creep higher was bought this week as wholesale funding costs pulled back slightly in response to dovish monetary policy comments by the US Federal Reserve Chairman. I remain willing to fix three years at 6.15% rather than stay floating at 5.74% as the premium to pay for rate certainty is quite low and the risk is that over 2013-14 the Reserve bank tightens monetary policy more than the market is currently pricing.









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 fresh information this week. More general media commentary however about the lack of construction which we have been highlighting as a key factor supporting prices since the second half of 2004.

MAJOR OFFSHORE ISSUES

European Debt

The week got off to a bad start in Europe with the release of some unusually weak manufacturing data. The monthly PMI fell to a three month low of 47.7 in March from 49 in February. Then worries grew about whether the new bailout fund would be made large enough to assuage investor concerns about countries other than Greece.

In Spain where the unemployment rate is the highest in Europe at 23% a new Budget will be unveiled tonight and it is expected that there will be massive spending cuts and some tax increases which will virtually guarantee that the Spanish economy remains in recession until 2013.

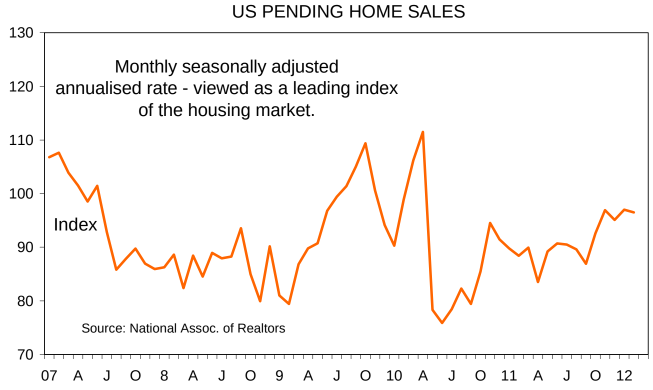
United States Growth

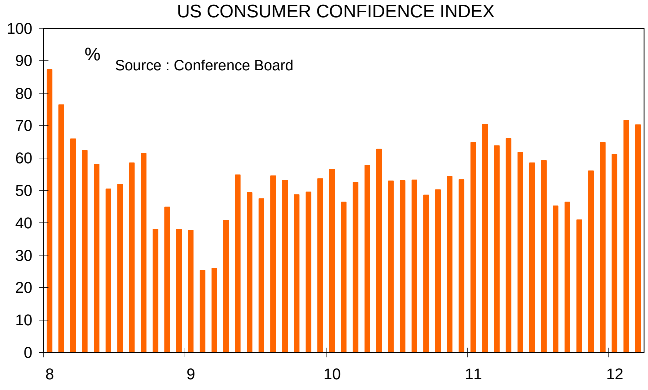
Improving data, more upbeat Fed = USD, equities and US interest rates all up.

The pattern of data releases in the US is largely one of two-thirds good, one-third worrying, thus leaving a general air of optimism but with lingering doubts here and there. In fact the big event in the US this week was the expression of such doubts by the Federal Reserve Chairman. He indicated that in order to get unemployment down further monetary policy stimulus may be needed.

Mr Bernanke has said he intends keeping the 0.25% funds rate low until the end of 2014 but the markets think he will need to move sooner than that. These expectations have been placing upward pressure on medium to long term fixed interest rates in recent weeks with the US ten year government bond yield for instance rising to 2.4% from 1.9% a few weeks ago. Since the Chairman's comments the yield has fallen back below 2.19%.

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. But as we have been seeing for perhaps a couple of years now, one good housing market indicator gets immediately countered by a bad one. In this instance pending home sales for February fell by 0.5% whereas a rise of 1% had been expected. The index is off its lows – shown in the graph below – but there is an absence of upward momentum.

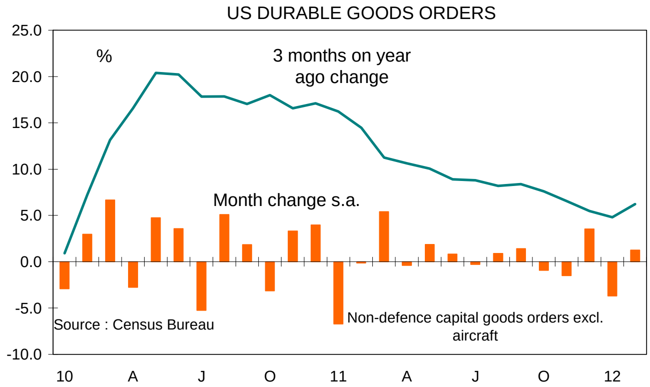




However maybe there is some upward momentum developing in consumer sentiment. The Conference Board monthly sentiment measure retreated only slightly in March after jumping to a one year high in

February. The sustained acceptable level of sentiment likely reflects six months of reasonable improvement in the labour market.

Last night the monthly durable goods orders release showed a 2.2% gain in orders which means the improvement in the past three months compared with a year ago was a strong 10.4%. However the 2.2% gain was less than expected following a 3.6% fall in January and of greater concern the core measure excluding defence and aircraft rose only 1.2% after falling 3.7% in January. So as noted above, there remain lingering doubts about the momentum of the US economy and in this particular instance the momentum of business investment.



Australian Growth

The general theme for Australia remains one of booming minerals but weakness elsewhere with that weakness enough this week for the markets to price in near 0.6% worth of cuts to the 4.25% cash rate over the coming year with a 30% probability assigned to a rate cut next week.

China

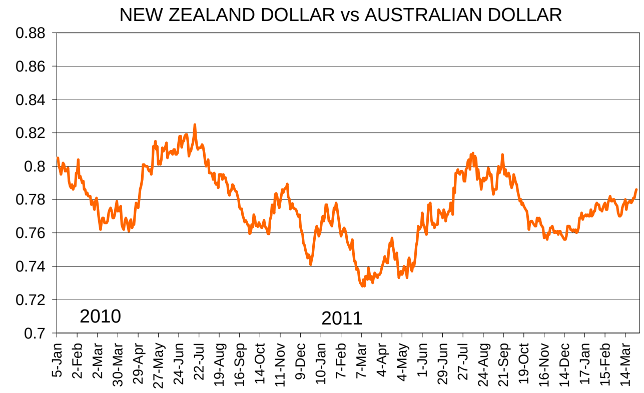
Chinese economic developments are now covered in our new publication “Growing With China”, the next issue of which will appear on April 24. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. Tony.alexander@bnz.co.nz

Exchange Rates

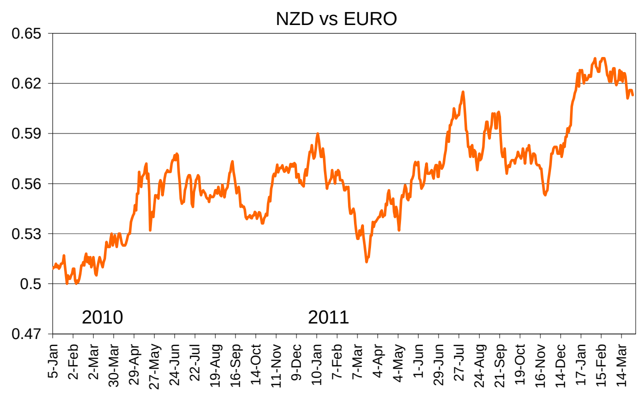
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.817	0.808	0.836	0.769	0.753	0.67
NZD/AUD	0.786	0.778	0.778	0.762	0.733	0.85
NZD/JPY	67.700	67.300	67.200	59.900	61.5	69.6
NZD/GBP	0.514	0.509	0.526	0.498	0.471	0.388
NZD/EUR	0.613	0.611	0.621	0.594	0.534	0.52
NZDCNY	5.146	5.105	5.267	4.862	4.943	4.99
USD/JPY	82.864	83.292	80.383	77.893	81.673	105.7
USD/GBP	1.589	1.587	1.589	1.544	1.599	1.72
USD/EUR	1.333	1.322	1.346	1.295	1.410	1.28
AUD/USD	1.04	1.04	1.07	1.01	1.03	0.788
USD/RMB	6.2987	6.3178	6.3003	6.322	6.565	7.56

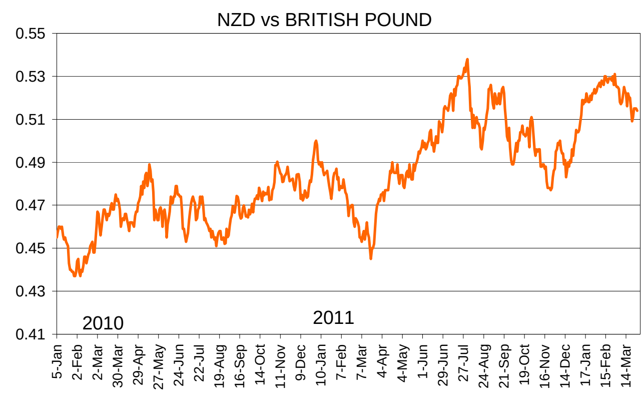
Kiwi Directionless

The Kiwi dollar has regained a cent against the US dollar this week on the back of some buying by traders quitting the AUD amidst expectations of easier monetary policy, profit-taking following the NZD's decline from US 84 cents a month ago, and mild weakness in the USD of no great magnitude. But as the first graph here shows, the NZD is been trending nowhere against the greenback for about a year.



The USD started the week on a firm note in response to the recent string of generally good economic data. But on Monday night the Federal Reserve Chairman noted that further stimulus may be needed to get unemployment down and the markets read that as meaning more quantitative easing. That caused the sharemarket to rally and the USD to fall – against which the NZD bounced up quite easily.





Apart from that the AUD has weakened for the reason noted above and against it the NZD is at a five month high – good timing for one's family trip to the Gold Coast next week.

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