BNZ Weekly Overview

19 April 2012

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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.

Are Things Good Yet?

So its April 19, we are almost one-third of the way through 2012 and can we say that the world looks like a safe place, NZ growth is set to go above trend, and we can ease off in our deleveraging efforts and look forward to a good run of economic conditions? Not at all. In the words of the IMF Chief Economist when releasing his latest forecasts this week "An uneasy calm remains…One has the feeling that at any moment things could well get very bad again." He was largely referring to Europe where investors are increasingly worried about the ability of Spain and Italy to get their deficits down, their debts controlled, and their economies reformed in an environment of increasing voter discontent, fiscal disunity within the monetary union, disgust from European partners paying for the bad ways of others, and seemingly decreasing ability to cobble together solutions.

The world remains a wobbly place and it would be unwise to ignore the risk of new disturbances offshore when looking at the NZ economy, how we are faring and where we are likely to go. With regard to our recent performance the news is not bad but it is not all that encouraging either. On the positive side we have evidence of something we have written and spoken about for over a year now – Australian companies shifting their operations to New Zealand. See the front page of yesterday's Dominion Post. http://www.stuff.co.nz/business/industries/6761043/Aussies-export-jobs-to-NZ This is a structural development not just a cyclical thing, so expect to see a lot more such announcements in coming years.

With regard to the housing market things are improving as seen in this weeks data from the REINZ where sales are running 25% ahead of a year earlier with good growth on a seasonally adjusted basis over the past two months, but with little evidence of rapid price rises. The quality-adjusted price measure compiled by the REINZ was flat over the March quarter after rising 1.7% during the December quarter and 0.5% during the September quarter.

But apart from that the labour market numbers are still not strong. The official data show that job numbers rose by only 10,000 over the last three quarters of 2011. The economy itself managed annualised growth of only 1.5% over the same period with growth of only 0.3% during the December quarter.

House construction is showing only minor upward signs with consents ahead 5% seasonally adjusted in the three months to February but the three month unadjusted total of 3,429 still 33% below the average for the past ten years. With regard to non-residential construction consent values were flat in the six months to February on a year earlier. Imports of capital equipment have fallen in value by 7.3% over the past three months while export receipts have fallen 0.6% seasonally adjusted over the same period.

Consumers have their hands in their pockets with the value of debit and credit card spending in the March quarter rising only 0.4% seasonally adjusted from the December quarter. That gives an annualised growth rate of 1.7% which is massively below the average growth rate of 6%.

For sure the sentiment measures available in our little country are good whether one looks at our own BNZ Confidence Survey at a net positive 34%, last month's NBNZ survey at 34%, or the NZIER's 24% seasonally adjusted reading. Investment and employment intentions are generally good – but here is where we get to the crux of our argument regarding the economy being weak over the past year and still remaining so in the short term. While in surveys we say we are going to spend, hire and invest, when it comes to getting the cash out we baulk. We step back as we consider the news offshore, the stories about the US housing market failing to rise, the worsening debt collapse in Europe, the slowdown (mild) in China, and the evidence in front of our eyes every weekend at the local mall of other people not spending.

As we have been pointing out for three years now there is no way of knowing when debt intolerance will change. Or specifically we have said that no-one on the planet has an economic model which tells them what usually happens when the world almost repeats the 1930s Great Depression. Plenty of people believe this situation of tentative growth with frequent setbacks will be with us for years and that seems to be a reasonable assumption to make when setting one's business plans for the next five years.

Caution is required but with an eye toward improving activity in NZ on the back of the Christchurch rebuild, catch-up house construction in Auckland, feed-through of higher farm incomes, and the usual factor of entrepreneurs developing new markets offshore. But keep an eye on downward revisions to forecasts for dairy incomes and farmer spending in light of this week's 9.9% fall in prices at Fonterra's regular auction.

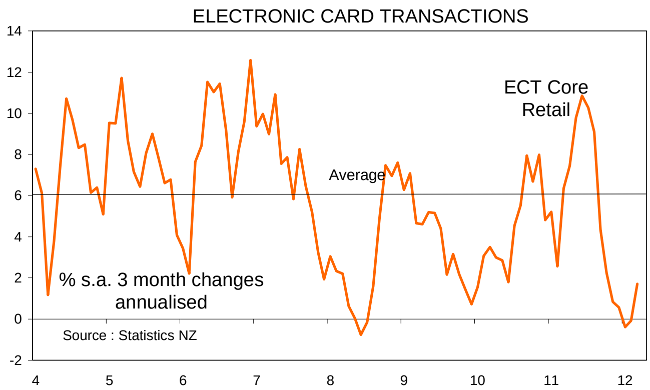
Is Our Economy Getting Better or Worse?

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

Not really. The data remain largely downbeat, the economy is growing at a below average pace, dairy export prices are 35% off their peaks, and anyone who has spent the past year looking at the real data rather than forecasts based on old relationships which no longer hold should be in a comfortable if unexciting position right now.

<u>Are householders opening their wallets more?</u>
Not much

In March spending using debit and credit cards improved by 0.5% seasonally adjusted. However this followed a 0.5% fall during February and for the entire March quarter this core retail spending measure grew by only 0.4%. This makes for an annualised growth rate of only 1.7% compared with an average of 6%. Therefore without question one can say that retail spending – to the extent we can gauge it using this particular measure – is very weak. That would explain why when walking through Queensgate Mall with daughter number one over the weekend there were so many sales.

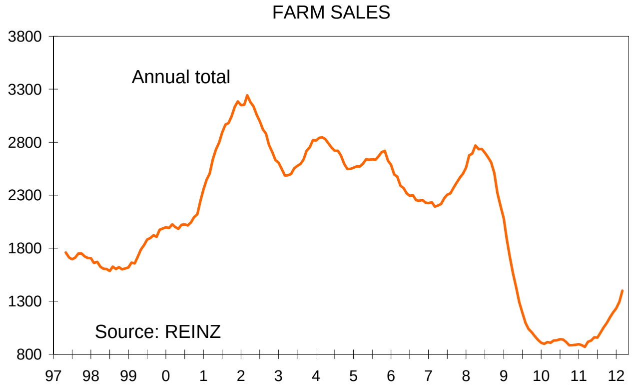


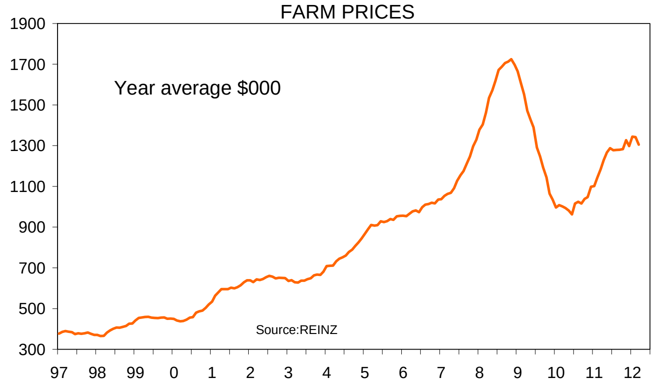
Is business output rising?
Nothing new

Are businesses hiring more people?
Not really

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/

In March there were 187 farms sold around New Zealand which was a 128% rise from a year earlier. In the March quarter farm sales were ahead 109% from a year ago and ahead over 20% seasonally adjusted from the December quarter. And of high significance, for the first time since early 2008 the number of sales over a three month period has risen above average. Activity is strong and the question becomes at what point will this land scramble shift to wider farmer spending on consumer goods.

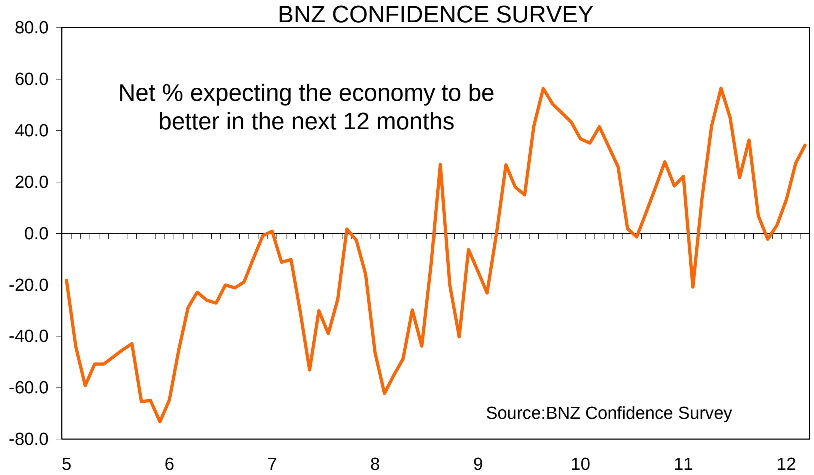




What Do The Leading Indicators Say?

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.

Our monthly BNZ Confidence Survey has improved to reach a six month high and we interpret that as meaning it is valid to buy into an improving speed of economic growth outlook. However – we have previously been in this position with a good run of survey results reaching high levels yet no resulting sustained acceleration in the pace of growth in our economy.

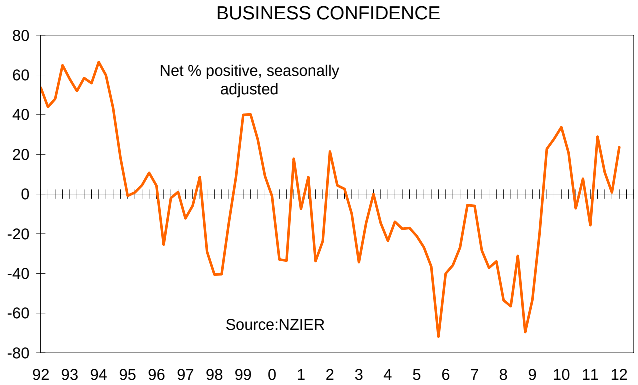


What matters is the willingness of businesses (and consumers) to back up their confidence with high hiring and spending actions. As yet, even though in other more detailed surveys the measures of spending and hiring intentions have risen, still when it comes to laying dosh down on the table the players baulk. This is why forecasting in this new post-GFC environment is such a dogs breakfast and why you'd be an idiot to place a lot of reliance on such forecasts when setting your plans for the coming year or two.

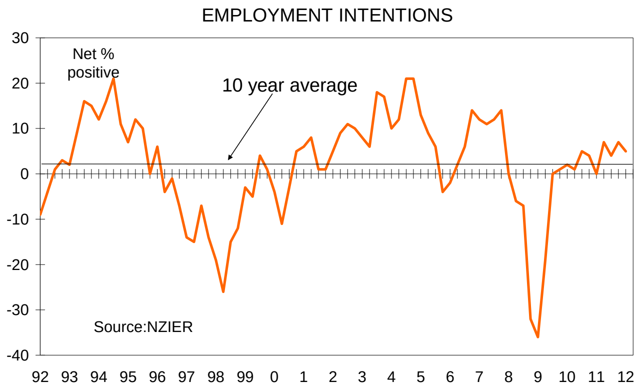
In a nutshell we have no way of knowing when and if business and household borrowing and spending decisions will settle back into their old patterns. That means caution is required with regard to expansion and hiring plans – though with awareness that the more cautious an approach one takes the faster one will one day have to scramble to catch-up with the economy when it does surge.

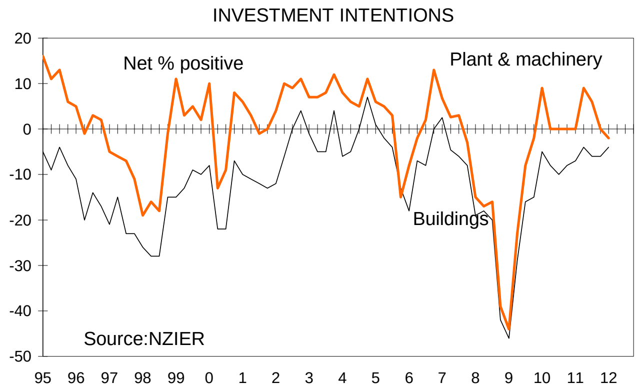
NZIER-QSBO

And so, taking on board our message of caution with regard to extrapolating confidence survey results we turn to the long-running NZIER Quarterly Survey of Business Opinion. In the old days I'd have a great time examining the many measures in detail, looking at their correlations with outcomes and making some reasonably detailed forecasts. But one can't do that these days. Still it is worth digging below the headline numbers to see what we can find and so one offers the following.

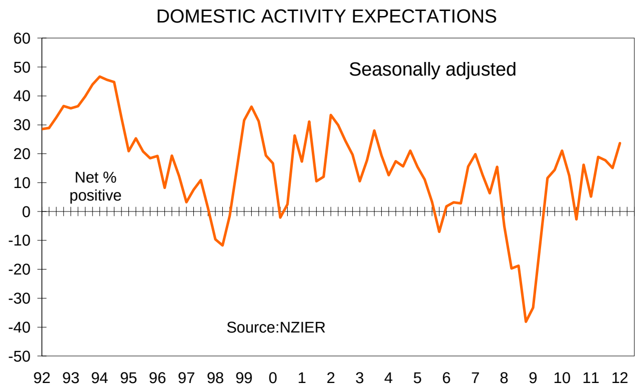


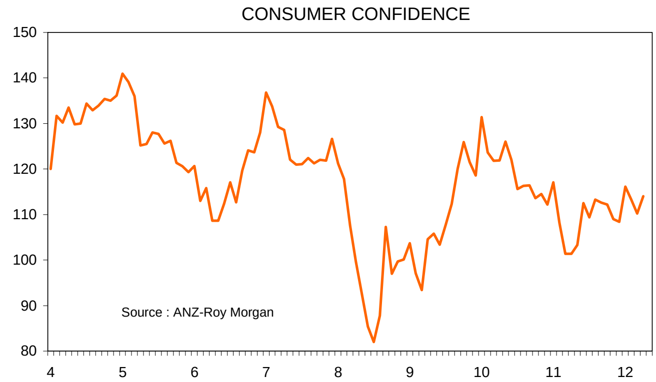
The headline business sentiment gauge rose to a seasonally adjusted 24% in the March quarter from 1% in the December quarter and -16% a year ago. Sentiment is strong. But only a net 5% of businesses plan hiring more people and a net 2% plan cutting spending in plant and equipment while a net 4% plan reducing spending on buildings. One would be very despondent on the back of these subsidiary indicators were it not for the fact that they are usually very low. At a net 5% positive the employment intentions measure is in fact above the ten year March quarter average of just a net 1% positive. The building investment intentions average is -10% so a -4% result is not bad, and the plant and machinery investment average is -3% so the -2% result is as good as average.





Yet while these results give no reason for projecting above trend growth, the domestic trading expectations measure lifted to a strong net 24% positive from 15% in the December quarter and a 7% average. That bespeaks of strong growth. In fact the result is the best since 2003.

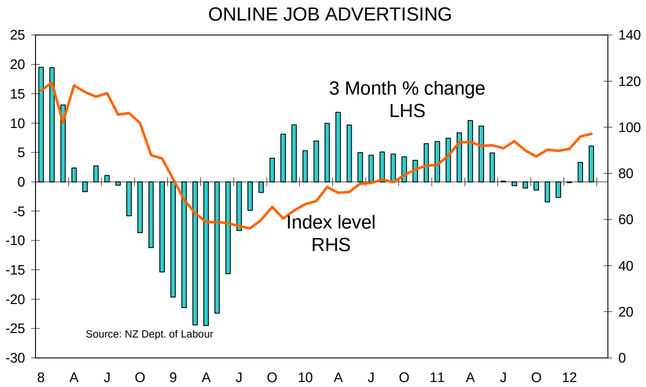


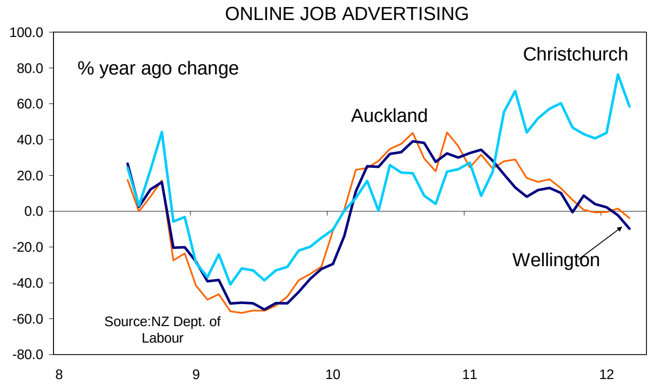


Overall we interpret the NZIER results as consistent with slowly improving economic activity – but not yet an above trend surge. The same goes for the release this week of the monthly ANZ Roy Morgan measure of consumer sentiment which improved to 114 from 110.2 in March with a 117 average for the past 10 years.

Labour Market Prospects Improving

With regard to the labour market, this week we saw the release of the monthly Department of Labour Jobs On-line Survey which covers the Seek and Trademe websites – you know, the ones we look at every morning. In seasonally adjusted terms job ad numbers fell 0.8% in March. But this followed a 6.9% surge in February and means that for the entire March quarter ads were up 6% from the December quarter where they fell 2.2% after rising 1% in the September quarter.





So the year has started quite well with regard to job advertising and one earnestly hopes that this strength feeds through into actual jobs growth. With regard to locations the breakdown is sparse but we see that during the March quarter job ads for Auckland rose 2.5% and Wellington 1.1%. But Christchurch soared by 15.2%. The second graph above shows annual changes in job ads by location.

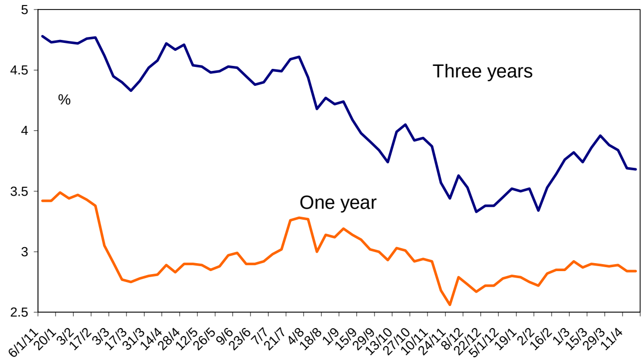
With regard to job type growth was strongest during the quarter for construction/engineering at 9.5%, followed by healthcare and medical. Ads fell for education and training jobs.

	3 months	Year ago
Accounting, human resources, legal & admin.	5.6%	2.8%
Construction & engineering	9.5	13.1
Other	3.3	7.3
Healthcare & medical	8.8	11.7
Hospitality & tourism	2.6	2.7
Education & training	-3.1	-9.0
Sales, retail, marketing & advertising	2.2	6.7
Information technology	3.3	-4.1

INTEREST RATES

Although the IMF this week lifted their forecasts slightly for world growth interest rates offshore have generally declined on the back of some weaker than expected data in the United States. This has fed through to our own rates with the three year swap rate for instance declining to an eight week low of 3.23% from 3.36% a fortnight ago.

WHOLESALE SWAP RATES



Domestically the NZIER's QSBO showed a small decline in the rate of capacity utilisation in the manufacturing and building sectors to 89.36% from 90.15% due largely to the building measure falling to 84.24 from 86.89. This is the lowest building sector measure since 1991 and shows quite clearly how weak construction is – for now. That means little inflationary pressure from that source in the short term. The net percent of businesses expecting to raise their selling prices in the QSBO firmed to 23% in the March quarter from 17% in the December quarter. But this was about equal to the ten year average and therefore suggestive of ten year average NZ inflation which is 2.5%.

Overall the NZIER's quarterly survey gives the RB little to worry about in the short term, but still leaves one wondering what the inflationary pressures will be further down the track when growth in the economy is stronger. That is, with annualised GDP growth only a below average 2% in the second half of last year and yet average pricing intentions, inflation risks lie to the upside further out. But as we have noted here previously, we think the RB is going to wait until actual solid growth is being recorded and the whites of the eyes of inflation are in sight before striking with tighter monetary policy. So the next rate rise from the RB is still most likely to be December this year at the earliest with a clear risk that they wait until 2013 – especially given upside risks facing the NZ dollar.

This morning's inflation numbers of 0.5% for the March quarter and 1.6% for the year were as expected.

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	2.77%	2.74	2.77	2.74	2.66	5.7
1 year swap	2.84%	2.84	2.89	2.79	2.83	5.8
3 year swap	3.23%	3.25	3.45	3.06	3.94	6.1
5 year swap	3.69%	3.68	3.96	3.50	4.67	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

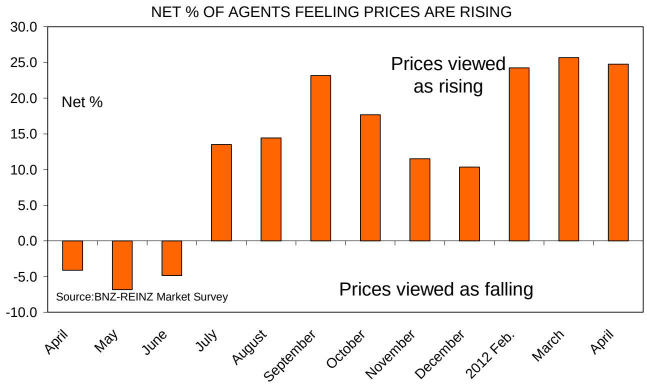
If I Were a Borrower What Would I Do?

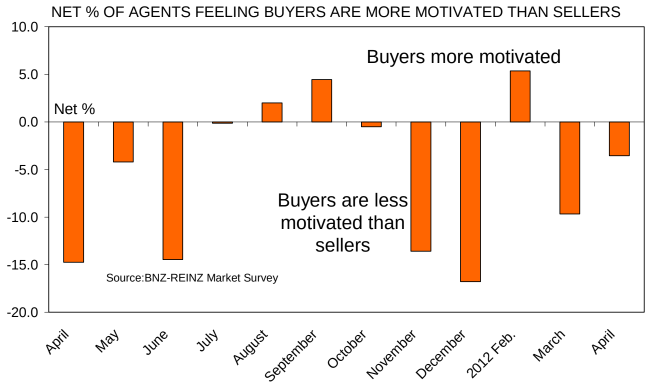
I remain happy to fix three years at 6.15% not because I believe either fixed or floating rates will shoot skyward in the near future – that simply is not going to happen given the weakness in the world economy and inability of the NZ economy to establish an accelerating growth path as yet – let alone cause the RB concern about capacity constraints. Instead I fix because the jump from floating is small and certainty in these uncertain times is something I value.

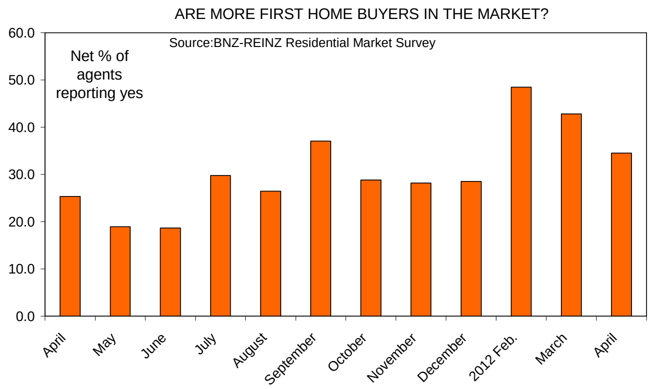
HOUSING MARKET UPDATE

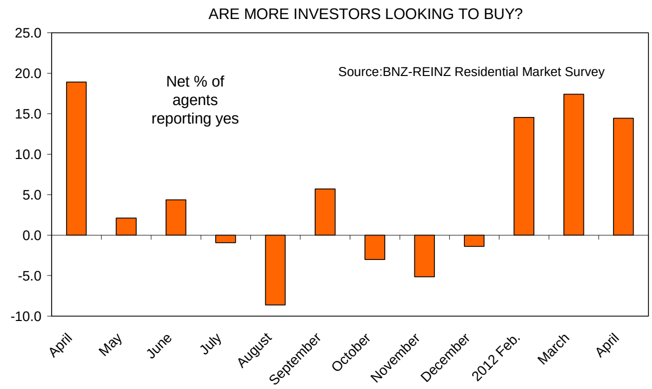
To view the most recent results of our monthly BNZ-REINZ Residential Market Survey click here.
http://tonyalexander.co.nz/bnz-reinz-survey/

This week we have been provided with some good up to the minute insight into the state of the NZ residential real estate market from the monthly REINZ sales dataset, our BNZ Confidence Survey. and the BNZ-REINZ Residential Market Survey. The latter shows that a net 25% of the over 10,000 surveyed licensed agents feel that prices are rising but a net 4% still feel that it is more of a buyers than a sellers market. More agents report people going through open homes etc. but almost all of the main measures were slightly less strong than in the March survey and we interpret that as meaning the market is improving but not in a bubble format. The url link to the survey is stated just above.









Our monthly BNZ Confidence Survey produced the following anecdotes specifically related to the housing sector. They show strength with worsening listings shortages by and large, but buyers not jumping in boots and all.

Real Estate – Residential

- Real estate Tauranga. Settled sales up 70% on March 2011!Thank goodness!
- Real Estate - there has been a lot more activity over the last 4 months. Values had shown no sign of increase until the last month - and they have been only very slight.
- Residential real estate Christchurch enquiry picking up, open home attendances better but people are still reluctant to commit. Many still sitting on the fence unsure of whether they really want to stay in Christchurch. One more major aftershock and the place will empty out very quickly.
- Real Estate, buyers still feel they have control. Good numbers through open homes, better auction and tender clearance rates which indicates buyers are happy to compete for properties. No movement on values yet in Rotorua
- Real estate sales (both commercial and residential- two person "boutique" agency) - Having the best run in living memory - long may it continue! Over $7.5m settled sales in last three months of financial year with another $2.6m signed up conditionally to kick off this year.
- Real Estate, cautious signs of recovery

- Real Estate in Gisborne saw a lift in sales in March, albeit clearance of mortgagee sales, first home buyers taking advantage of rates, families leaving town etc. At least it was activity which resulted in sales. Is it sustainable? Who knows? Time will tell!
- Residential real estate is strong
- Residential Property Tauranga Clear positive signs of more buyer enquires leading to completed purchasers in particular in under $400,000 bracket
- Real estate Auckland - The volume of sales is well up on last year. Buyers are competing for properties making it a sellers market.
- We are in Real Estate. We are seeing a gradual improvement month by month when we compare with the last four years.
- Real Estate - Eastern Beaches. Lack of listings very frustrating. Plenty of buyers but lack of stock.
- Real Estate , buyers still very hesitant, market sluggish
- Real Estate. Enquiry is increasing and vendors are becoming more realistic in their expectations. What everyone needs to remember is that when you buy and sell on the same market conditions there is still the opportunity for long-term gain
- Real Estate in Hawkes Bay- a very good March month residential sales wise. Rural still quiet - lifestyle blocks close in ticking over ok. New listings tight.
- Real Estate. Improving enquiry, more sales, diminishing listing stock, re-appearance of investors (particularly within the last 3 months), increased confidence both within and without the industry.
- Real Estate Johnsonville: Appears to be continuing steadily with good numbers of buyers and properties are coming to the market in reasonable numbers. Talk of Public servant layoffs is having a dampening effect on activity, have had two sales not gone ahead because of this aspect.
- Real estate Wanaka. Good turnover, shortage of stock in the lower price brackets. Prices at the bottom of the market moving higher, but by contrast too much stock in the top end of the market and upper end prices if anything are softer.
- Real Estate North Shore. It is very busy - lots of buyers and multiple offers occurring. On the shore it is a sellers market.
- Residential Real Estate - Hawkes Bay. Patchy with prices flat
- Real Estate - buyers are now realising that they need to make a move if they like a property, as well-priced listings are starting to sell quickly.
- Real Estate - more activity from buyers and vendors and greater confidence in the economy
- Residential Real Estate Hamilton: Still excellent activity from buyers on the ground. A lot of first home buyers to start, however now starting to see natural progression through the market into the upper price ranges. Good listings are still gold and sell in days rather than weeks. Buyers expectations are high, won't buy broken or run down & definitely won't pay too much. Listings are still in short supply as values haven't really moved so many vendors (Since 2006) are not really in a position to sell as yet without taking a likely loss.
- Real Estate: ChCh...More listings please!
- Residential real estate Looking very positive, with strong buyer activity across all price ranges.
- Industry Real Estate....Business is active, especially for those vendors who are realistic with their asking price. however the actual "sell price " is getting to around the same or lower than 4-5 years ago.
- Real Estate - more people buying
- Real Estate - Auckland. Most inner city suburbs within 5kms of the city centre are seeing very strong price growth with median prices now at record high levels, well in excess of the prior 2007 peak. As long as there is a shortage of supply, little new housing being constructed and very low interest rates, prices will continue to escalate. The number of buyers looking for homes versus number of homes available now at a level never seen before in the last 20 years!
- Listings are incredibly slow and causing some concern.

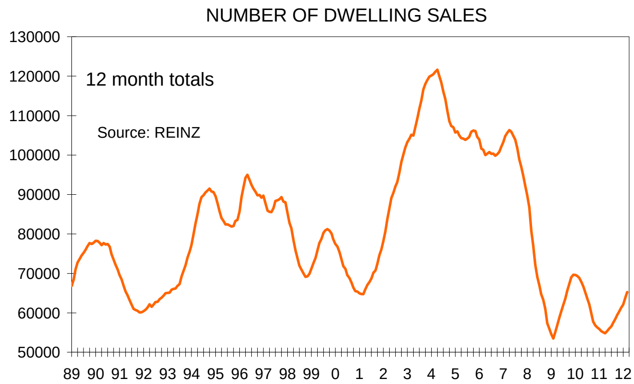
Property Management

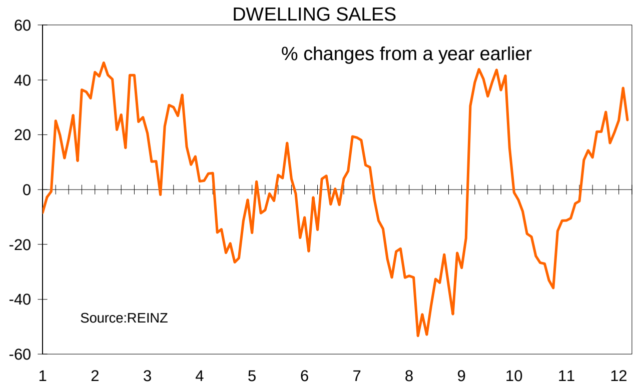
- As a property investor our Auckland properties are now fully lease but Tauranga still slow and sketchy.
- Property investment: still good deals out there. Rents look set to rise further.
- (Residential property investment). Good tenant demand as properties come empty. I am able to increase my rents between $10 and $25 per week when I get a new tenant in. It feels like a good time to be providing rental accommodation.
- Residential Property Management - Positive, fewer vacancies, strong demand, higher rents.

- Consultancy steady, more discretionary work appearing. Rental properties fully tenanted, rents being increased- 3 month lag due to reg's. Almost complete lack of good quality reasonably priced vacant property in ChCh.
- Property investment, Christchurch. Rental demand is as good or better than I've seen in 15 years, No doubt an effect of recent events. I can't see this changing for several years yet.
- Wellington Property Investor - This year we found it difficult to fill our rental properties in Eastern Well City. One was vacant for 4 weeks and in that house we had to reduce the rent from last year. The tenant demand in Feb / March was sluggish. No vacancies now!
- Property Manager North Shore Auckland. Rents have been climbing this year with generally 5% to 10% resets of tenancies. We have shortage of affordable housing under $500pw if we had the stock we can rent it. Our student accommodation is running at 96% occupancy with 5%increase effective this year. All good and predict further growth.
- Property management and enterprise development: 1.More Govt funded agencies looking for space - we see this as a maximum of 3 years of funding so expect reduced tenancies in 2013/4. We have had an increase in the numbers of commercial tenants but no changes in industrial tenants. 2.Local companies are finding it tough. We are providing free support to them to keep them sustainable and help with their business planning. 3. We are spending more time on risk assessment and management to ensure we can weather most crises.

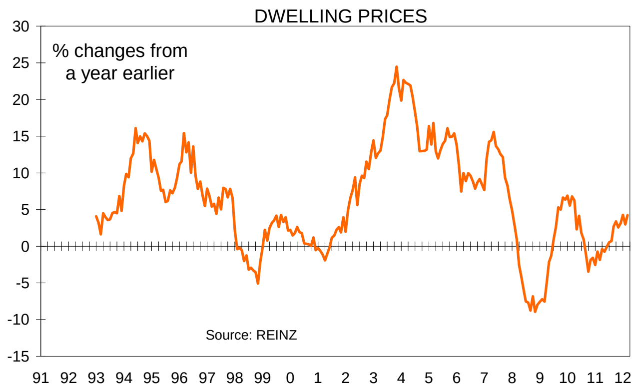
March Official Data Firm

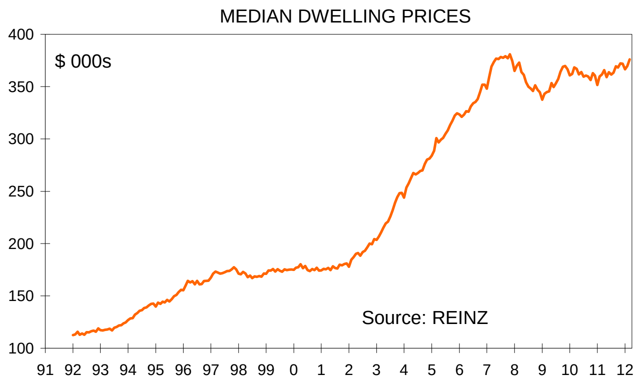
Around New Zealand in March there were 7,330 dwellings sold which was a 25.3% rise from a year earlier which followed annual gains in January and February of 25.3% and 37% respectively. In seasonally adjusted terms sales were up about 5% and this tells us that turnover in the housing market is continuing to improve.



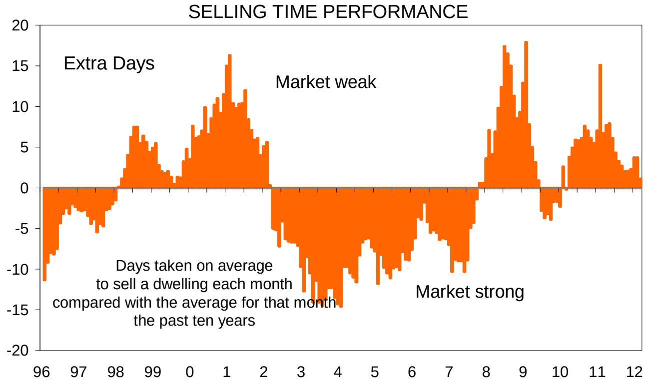


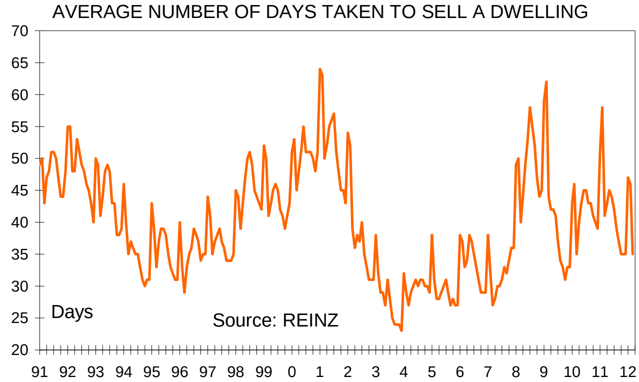
The median dwelling sales price adjusted for quality shifts improved by a firm 1.7% in March after rising 0.8% in February. Over the March quarter prices on average were still down 0.1% from the December quarter however therefore although the actual median dwelling sales price of $370,000 now sits above the previous record set back in late-2007 the underlying pace of price gains if we look over a one year period is quite low at just 3.7%.





On average in March it took 35 days to sell a dwelling. This was an improvement from 46 days in February but such a change is normal for the time of year and a better gauge using this measure is found by comparing the outcome with the March average. Doing this we see that the 35 days was just 1.1 days longer than average whereas in February the days to sell measure was 3.7 days longer than average. The March outcome is in fact the best since March 2010 and backs up other evidence of an improving real estate market.





MAJOR OFFSHORE ISSUES

How is the world looking? In the words of IMF head Christine Lagarde “The risks remain high, the situation fragile.” China’s growth has slowed to 8.1%, Europe appears to be in recession with newly worsening debt worries, and the US housing market continues to drag down growth in the entire economy with the latest labour market report surprisingly weak.

Over the past few months while I have been concentrating on getting the Growing With China publication up and running this section has been allowed to whither. But things should return to near normal now especially as tonight I head for London, Madrid and Paris for talks.

Europe

In Europe the song remains the same. The wave of optimism which swept over many following agreement on Greece’s second bailout and the passage of more fiscal tightening measures in a range of heavily indebted countries has given way to new caution centered in particular around six things. The first is Spain where last year’s deficit has turned out to be higher than expected at 8.5% of GDP and recent growth numbers have been so bad as to lead to predictions that high deficits are simply not going to go away for a while. This year’s is projected at 5.3% of GDP.

These concerns have led to upward pressure on Spain’s bond yields which for a few days rose back above four month highs of 6% and reawakened awareness that in what is likely to be a continuing low growth environment for Europe investor concerns about the ability of countries to reform their economies and control their debt will remain.

Second, recent data on the European manufacturing sector have been very poor and this is generally feeding into new worries about Europe’s growth. This is important because at the same time the data releases in China and the United States have been not so bad. So investors are looking once more at redirecting funds away from Europe to other places. Hence weakness in the Euro.

Third, the Socialist Presidential candidate in France’s elections is making a range of economically absurd promises which if followed through on will set France even further down the disastrous fiscal track it is already on and potentially cause a big enough falling out with fiscally conservative and economically dynamic Germany to throw future bailout accords into doubt. My Hollande is promising to reduce the retirement age back to 60 from 62 for some people, implement a top 75% personal income tax rate employ an extra 60,000 teachers, and to freeze fuel prices for three months.

Fourth, the €1tn which the ECB has extended to European banks at 1% for three years has by some been invested in Spanish, Italian etc. government bonds. Since yields on those bonds are now higher than where they bought them they are sitting on losses which clearly erode their capital bases further.

Fifth, Greece has scheduled elections for the first week of May and with key opposition parties planning to undo some aspects of the reforms potential for another firestorm surrounding Greece remain.

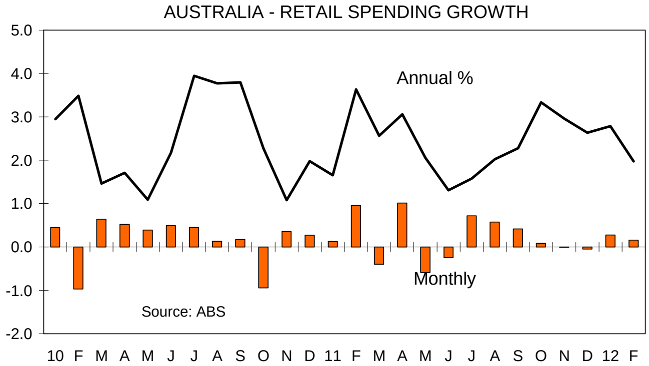
Sixth, Moodys have announced that they will release new ratings for about 114 European banks in early May. It is widely expected that they will cut ratings for most banks and that this will make raising funds even more difficult for these banks thus curtailing their lending and willingness to quit assets in order to shore up balance sheets.

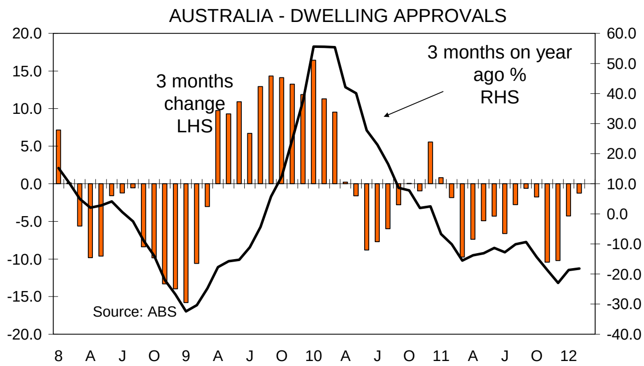
Australia

I have just returned from a holiday on the Gold Coast with family and one has to say that the lucky country's occupants do not appear to consider themselves to be very lucky at all. In no particular order here are some of the things which they with their minerals boom are whinging about.

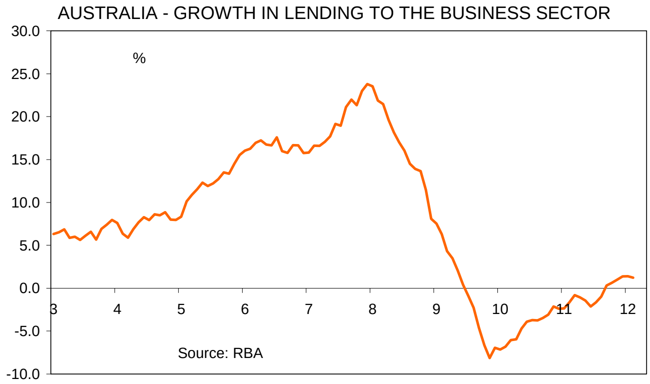
- Too much water – following a period of too little water.
- The Australian Labor Party government is extremely unpopular and expected to lose badly in next year's Federal election – although the extent of the loss will be mitigated by the fact that the alternative PM Tony Abbott is quite unpopular.
- The newspapers suggest that there is a lot of corruption in Australia.
- Shootings are increasingly common – especially in Sydney's west.
- Miners are up in arms about further proposals by the Federal Government to tax them after a decent soaking with the extremely unpopular Carbon Tax and Minerals Resource Rent Tax.
- Electricity prices are soaring partly because of the Carbon Tax with a doubling in prices over the past five or so years.
- Unions are getting more and more militant, industrial action is picking up and companies restructuring or closing down are using union pressure more and more often as an excuse for their actions.
- Outside of the minerals sector and the parts of the economy directed exposed to servicing it the economy is very weak. Retailer is very weak as one can attest from numerous visits to Pacific Fair at Broadbeach. Myers seemed almost empty much of the time.

With regard to the data it is easy to see the weakness. Retail spending in seasonally adjusted terms rose by just 0.2% in February after rising 0.3% in March and that means growth from a year ago was only 2%.

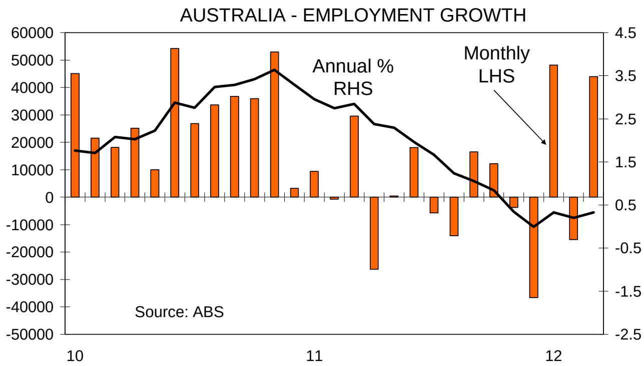


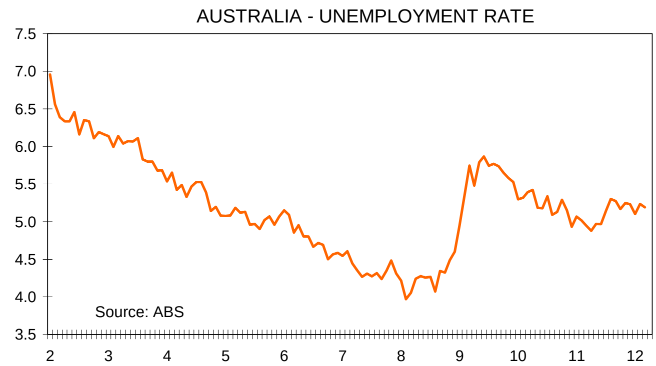


The total number of dwelling approvals in Australia in February fell by a seasonally adjusted 7.8% to lie 15.2% down from a year earlier. Construction is in recession. Lending growth remains very weak with business credit rising only 1.4% over the past year.



However job numbers in Australia rose by a much stronger than expected 44,000 in March and this outcome has for now caused market expectations of a series of RBA rate cuts to be put on hold – though a 0.25% cut from 4.25% is still near universally expected come the first week of May when the cash rate is next reviewed.

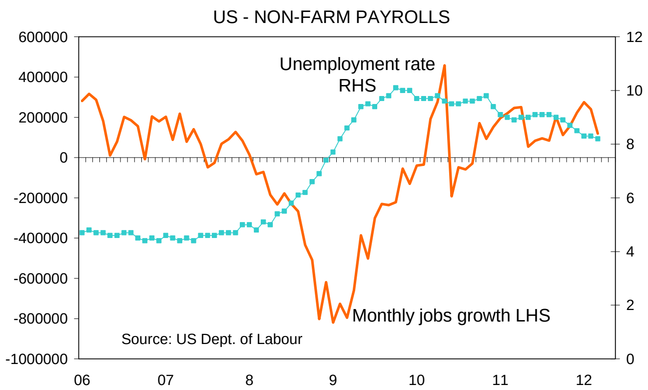


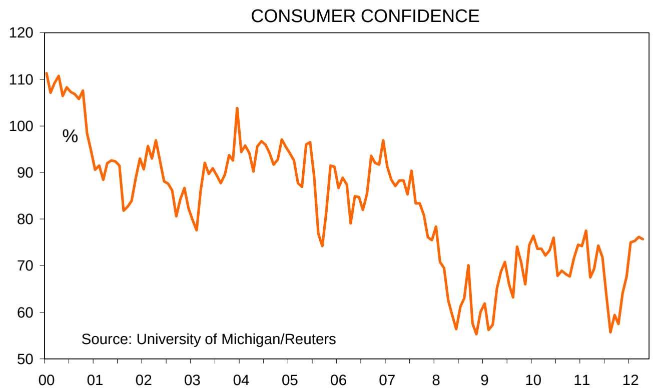


United States

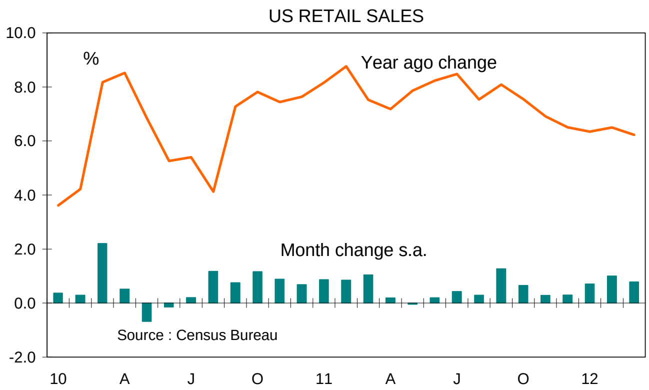
The general theme for the US remains one of economic recovery but there are doubts that strong growth as such is imminent with improvements in many indicators failing to continue and a few reports coming in weaker than expected in recent weeks. Of high importance in this regard was the non-farm payrolls report for March which showed jobs growth of 120,000 which was much less than expected and about half the growth in each of the previous three months.

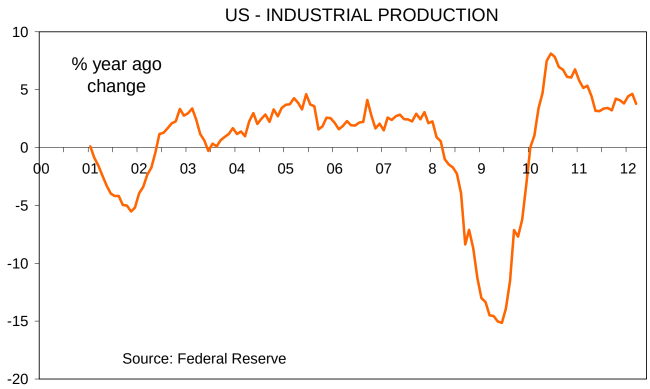
Consumer sentiment measured in the monthly University of Michigan survey is drifting neither here nor there with an outcome of 75.7 for the early-April measure from 76.2 in March and 75.3 in February. This implies little reason for expecting much change in retail or housing spending in the near future.





Having said that, retail sales actually grew by a much more than expected 0.8% in March leaving core sales 5.9% ahead of a year ago.





But industrial production recorded near zero growth for the second month in a row though activity was ahead a reasonable 3.8% from a year earlier. In the housing market however there was yet again evidence of things not firing properly yet. The number of houses upon which construction was started in March fell in seasonally adjusted terms by 5.8% from February. For the March quarter as a whole there was growth of 2.5% which was down from 8.9% in the December quarter and 7.5% in the September quarter. But a more forward-looking indicator, building permits, gained 4.5% in the month, 7.5% in the quarter, and was 30.1% up from a year earlier.

So a construction recovery is underway but some new tentativeness appears to have crept in over the first part of 2012.

China

Annual GDP growth has slowed to a three year low of 8.1% in the March quarter from 8.9% in the December quarter, the trading band for the Yuan has been widened from 0.5% to 1% daily, and house prices have now fallen for seven months in a row.

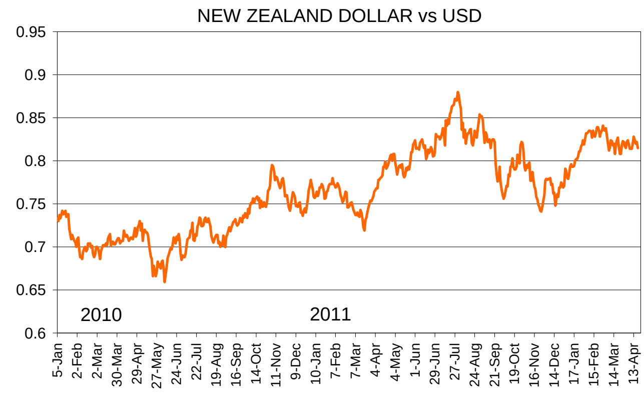
Chinese economic developments are now covered in our new publication “Growing With China”, the next issue of which will appear on April 24. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. Tony.alexander@bnz.co.nz

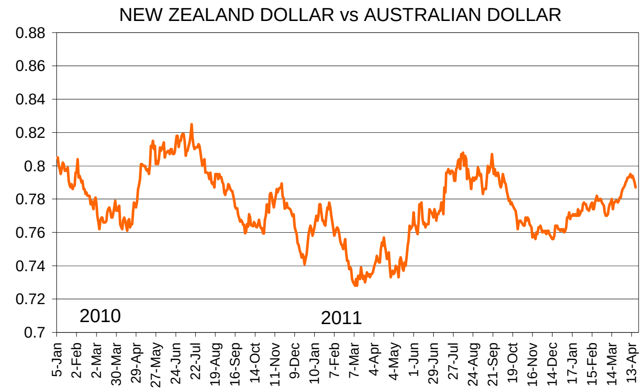
Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.815	0.820	0.824	0.802	0.791	0.67
NZD/AUD	0.787	0.795	0.778	0.770	0.752	0.85
NZD/JPY	66.200	66.400	68.700	61.600	65.4	69.6
NZD/GBP	0.509	0.515	0.520	0.520	0.486	0.388
NZD/EUR	0.621	0.625	0.626	0.624	0.556	0.52
NZDCNY	5.135	5.166	5.209	5.062	5.164	4.99
USD/JPY	81.227	80.976	83.374	76.808	82.680	105.7
USD/GBP	1.601	1.592	1.585	1.542	1.628	1.72
USD/EUR	1.312	1.312	1.316	1.285	1.423	1.28
AUD/USD	1.04	1.03	1.06	1.04	1.05	0.788
USD/RMB	6.3003	6.3	6.3222	6.3117	6.5287	7.56

Kiwi Steady

The Kiwi dollar has weakened slightly from last week but at 81.5 US cents still sits easily within the trading range in place since late-January and as the graph here shows there is no obvious trend in place beyond an oscillation upwards from the second half of 2010.



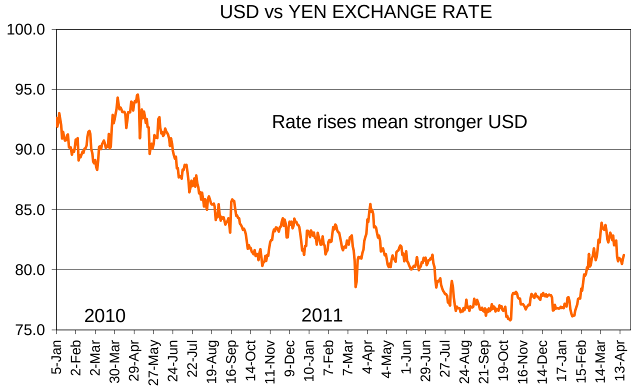


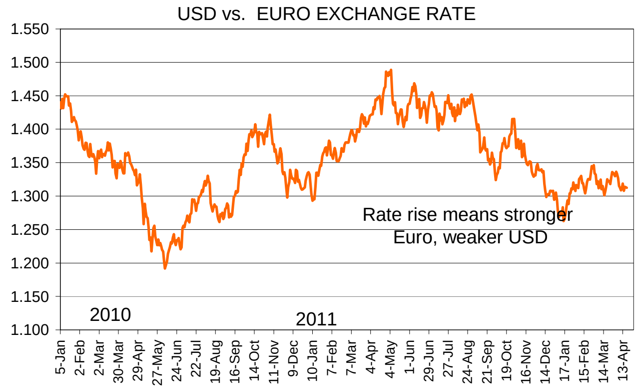
One factor suppressing the Kiwi dollar this week was a large 9.9% fall in prices at Fonterra's fortnightly auction. Prices now sit some 35% below their peak of March last year and the latest decline will reinforce the sentiment we picked up in our Confidence Survey regarding farmers becoming increasingly cautious about next season's payout. As predictions for the payout decline the timing and magnitude of the feed-through of higher farm incomes into the general NZ economy will be constrained. This will tend to push further out in time the next tightening of monetary policy.

Against the Australian dollar the NZD has pulled back from a recent peak near 79.5 cents to now sit near 78.7 cents. Trading ranges have also been respected against the other major currencies where movements recently against the USD have been mild apart from the Japanese Yen. The Yen weakened away to 84 in the middle of March but is now back just over 80.

Weakness in the Euro early in the week on the back of deepening concerns regarding Spain eased off on Tuesday night following a better than expected auction of Spanish government bonds and a slight lift in the IMF's global growth forecasts to 3.5% and 4.1% for this year and next from 3.3% and 3.9% in their January World Economic Outlook report. http://www.imf.org/external/pubs/ft/survey/so/2012/RES041712A.htm

Looking ahead we expect the NZD to remain well supported by the fact much of the rest of the world will continue to struggle with debt issues while we simply struggle with getting growth at a stronger pace. Our mediocrity wins out in the minds of investors over the shock scenarios possible elsewhere. Hence NZD strength even though gains from now will be limited to some extent by easing commodity prices.





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	0.83	Higher	0.75	Higher
NZD/AUD	0.76	0.85		0.82	
NZD/YEN	60.0	71		60	Higher
NZD/GBP	0.50	0.52	Higher	0.49	Higher
NZD/EUR	0.60	0.61	Higher	0.54	Higher
USD/JPY	78	85	Lower	80	Lower
GBP/USD	1.54	1.58	Lower	1.56	Lower
EUR/USD	1.30	1.35	Lower	1.38	Lower
AUD/USD	1.01	1.00	Higher	0.95	Higher

Key Forecasts

Dec. year		**2010**	**2011**	**2012**	**2013**
GDP	annual average chg	1.2	1.4	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	2.50 – 2.75	3.25 – 4.25
Employment	on year ago	1.3	1.6	1.0 – 1.6	1.5 – 1.9
Unemployment Rate	end year	6.8	6.3	5.5 – 6.0	4.8 – 5.5