

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.

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The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

http://feedback.bnz.co.nz/forms/Fx-l8ploskSGWgjN_7WOAw

To change your address or unsubscribe please click the link at the bottom of your email.

This week's Overview is being sent early because of Easter and there will be no Overview next week as I shall be on leave.

This is the first issue of the Weekly Overview for the month so we are once again running our monthly Confidence Survey. If you have not already done so using the link included in the email please feel free to click on the url below and let us know whether you feel the economy will get better or worse over the coming year. More important, if you have a spare minute tell us how things are in your industry right now, remembering to specify what that industry is. The results will be released after Easter.

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

These past four and a half days nothing earth shattering has happened in the field of macroeconomics so stick to whatever your business plan is but be aware that there are of course many interesting trends in place. One is that data for the United States are generally coming out on the better than expected side and this will tend to lift the NZD against most currencies while applying increasing upward pressure on fixed wholesale funding costs. In Europe things have been dampened down for now but the chances are exceptionally high that the debt crisis will rear up again within the next 12 months. This will cause currency and confidence volatility.

In China the soft-landing scenario remains a valid expectation with some good manufacturing data received during the week. Locally there have been no data releases worth getting excited about. The NZ economy grew at a below trend pace of 2% p.a. during the second half of last year and while there are strong reasons for believing growth will lift this year there is no evidence that this is happening currently – as highlighted for so long in our next section where we look only at what the real data are telling us.

This means that the RBNZ will be keeping monetary policy unchanged until most likely early next year while the NZD drifts upward – then goes higher still once the policy tightening actually starts. This remains an environment in which one's primary focus should be on the resilience of one's business. That is, it pays to focus on the ability of one's business to handle shocks and continued disappointment while looking for market share opportunities. Keep a close eye on relationships with employees however. Our long held view has been and remains that once the rebuild of Christchurch kicks off, this combined with catch-up construction in Auckland, generalised debt comfort, and farmers spending high incomes will cause the labour market to dry up very quickly. Smart employers will want to prepare for this by maintaining good relations with staff during these still constrained times.

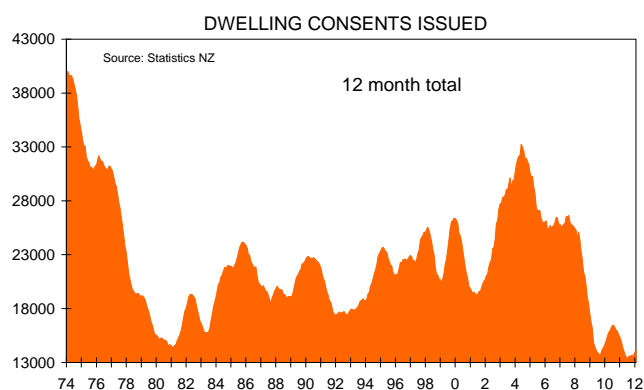
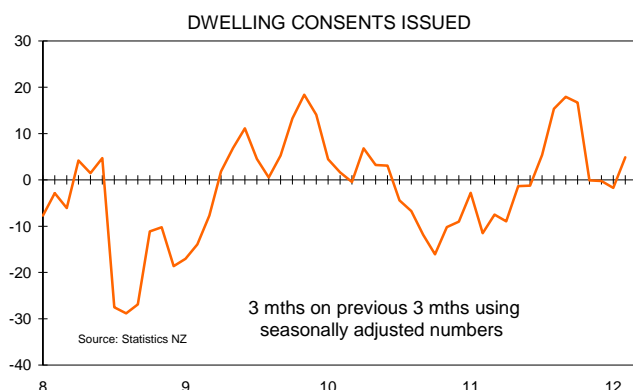
Is Our Economy Getting Better or Worse?

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

Not really. The data remain largely downbeat, the economy is growing at a below average pace, and anyone looking at the real data rather than forecasts based on old relationships which no longer hold should be in a comfortable position right now.

Are householders opening their wallets more?

There is slow growth in residential construction as measured by the monthly building consents data, but the pattern is still a bit erratic and there is little evidence as yet suggesting we are actually en route to reaching the long term average level of consents. In seasonally adjusted terms in February dwelling consent numbers fell by 6.7% after rising 8.1% in January. But over the past three months consents have improved by 4.9% after falling 0.1% in the previous three months and rising 15.4% three months before that. So as noted, the trend is upward. But at 14,157 the number of consents issued over the past year is still 38% below the ten year average of 23,000. There is a long way to go before conditions will be strong in the residential construction sector and the industries which support it including building materials manufacture and distribution.



Is business output rising?

Nothing new

Are businesses hiring more people?

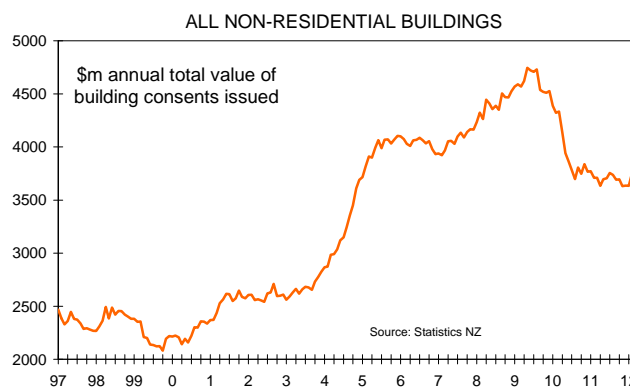
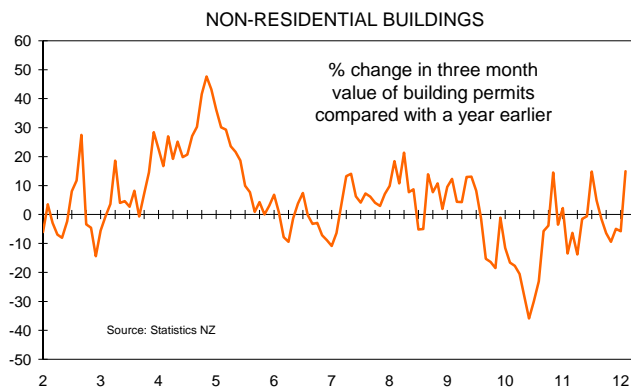
Not really

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/>

The value of consents issued for the construction of non-residential buildings came in at \$375m in February which was a strong 46% rise from a year earlier due principally to rises in hospitals, factories, and office buildings. The growth means that in the year to February non-residential consents were ahead 1.1%. But we have had periods of strong growth in the past – as shown in the first graph below – and as yet one would be brave to conclude that the trend in the annual \$ total of consent values is moving upward.



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.

Business and consumer sentiment measures are all running at good levels. In the old days pre-GFC these readings would lead us to be very bullish about the economy and the Reserve bank would already have interest rates up 0.5% - 1.0%. but the GFC has changed everything and just because people say they expect good economic growth does not mean they are in fact going to back that view by hiring people, investing, and buying consumer goods.

Forecasting in this new environment is extremely difficult – so why worry. Its sunny here.

INTEREST RATES

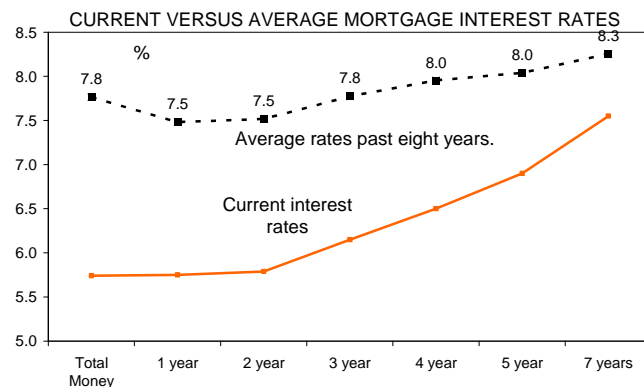
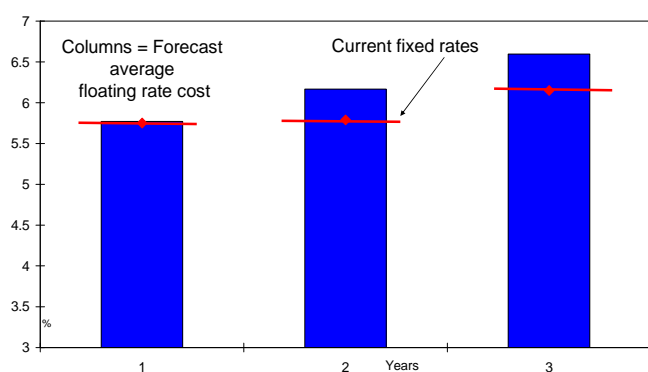
The RB is likely to start oh so very experimentally tightening monetary policy early next year or maybe late this year if the Christchurch rebuild kicks off as hoped. But until then bank bill yields are likely to remain flat. For medium to long term rates however we expect to see rises on the back of improving growth overseas. But don't for goodness sakes look for any accuracy in interest rate forecasts as yet. The changes in forecasts over the past two years and more have been the biggest I have ever seen and there is as yet no reason for believing that the effects of the global financial crisis have dissipated and old economic relationships have re-established themselves. Surprises will continue.

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	2.89%	2.88	2.87	2.78	2.81	5.8
3 year swap	3.36%	3.38	3.31	3.02	3.88	6.1
5 year swap	3.84%	3.96	3.74	3.45	4.58	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 would fix three years as the jump from floating is so small and some low cost certainty in this uncertain world seems like a good idea. After all, if we can see interest rates suppressed by a series of negative shocks they could just as easily be boosted by a series of positive ones.



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/>

Maybe next week when we shall report comments related to residential property from our Confidence Survey and the key results of our monthly BNZ-REINZ Residential Market Survey.

MAJOR OFFSHORE ISSUES

I'm on holiday on the Gold Coast so have canned this section this 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

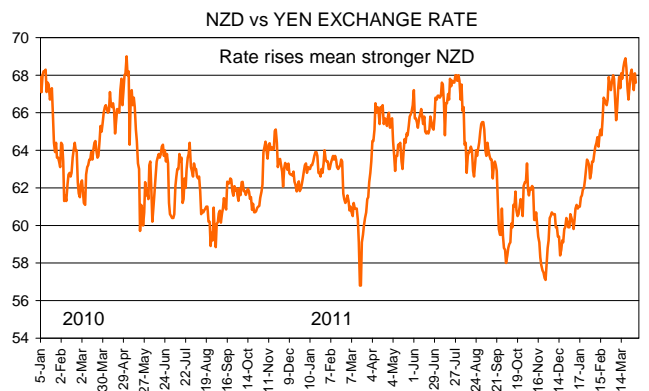
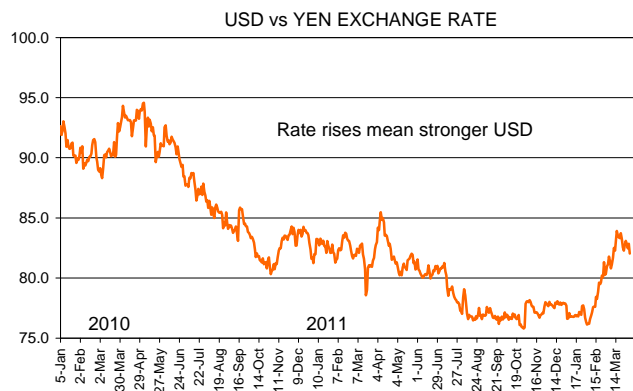
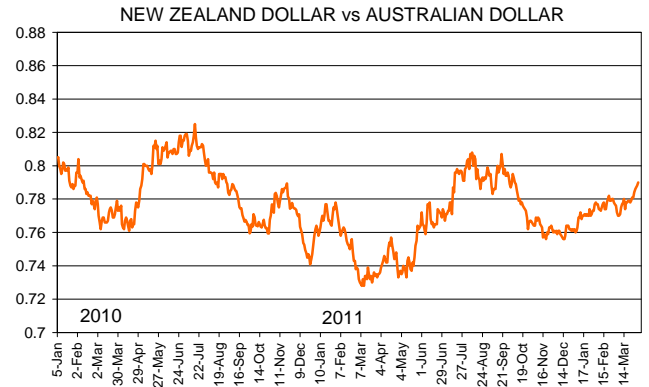
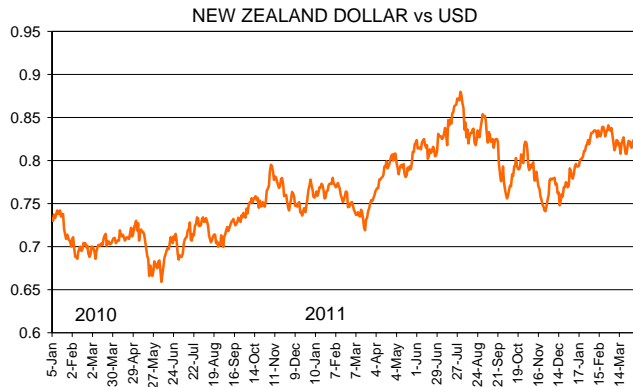
Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average	
NZD/USD	0.824	0.817	0.838	0.791	0.766	0.67	
NZD/AUD	0.790	0.786	0.776	0.762	0.739	0.85	
NZD/JPY	67.600	67.700	68.000	60.600	64.5	69.6	
NZD/GBP	0.514	0.514	0.525	0.505	0.475	0.388	
NZD/EUR	0.618	0.613	0.629	0.606	0.539	0.52	
NZDCNY	5.186	5.146	5.279	4.983	5.016	4.99	
USD/JPY	82.039	82.864	81.146	76.612	84.204	105.7	
USD/GBP	1.603	1.589	1.596	1.566	1.613	1.72	
USD/EUR	1.333	1.333	1.332	1.305	1.421	1.28	
AUD/USD	1.04	1.04	1.08	1.04	1.04	0.788	
USD/RMB	6.2938	6.2987	6.2998	6.3	6.5477	7.56	

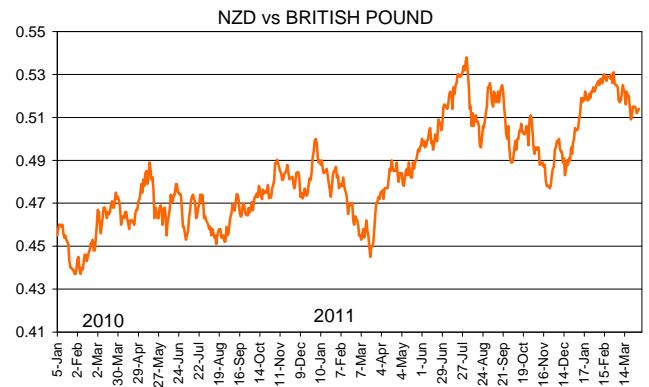
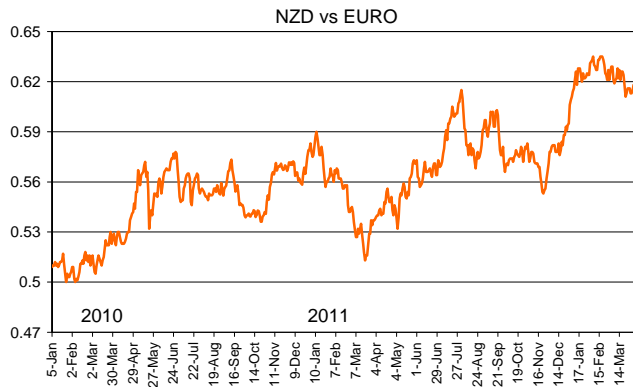
NZD Trading Within Ranges – Except Versus JPY

This week the NZ dollar has stayed well within recent trading ranges against all currencies except the Yen and there is nothing on the horizon suggesting to us that a big break upward or downward is likely against

the greenback. Frankly, the only interesting FX developments in recent times have been a strong flow of funds out of the Japanese Yen as safe haven worries driven by global growth worries have eased, some extra strength in the USD on the back of good economic data, and the NZD hitting a seven month high against the Aussie currency.



For the coming year the usual volatility is likely with worries about Europe likely to resurface at some point and some unknown shock to come if there is military action involving Israel and Iran.



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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