

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-l8plokSGWgjN_7WOAw

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Offshore Spiral Continues

Last week's Overview was quite large so this week I have kept things short and have sent the publication out on Wednesday night rather than Thursday because I'm off tramping the Heaphy Track from Friday. The next WO will appear next Thursday night- probably.

This week completely zero of positive import for Europe's debt crisis happened. In fact things got much worse with Spanish ten year bond yields rising above 7.5%. details are given in the Major Offshore Issues section.

And I didn't read his speech but I did hear the reported comments of the Finance Minister last Friday speaking about the European debt crisis and describing it as something which will continue for a generation. That is spot on and reinforces why I have taken such an outrageously negative tone in the Weekly Overview on European matters since landing in London about four months ago.

There is so much debt sitting offshore and people are newly scared of it or can't get any more of it from their previous risk-misjudging lenders that deleveraging is underway and set to continue for – your guess. No-one has the foggiest idea at what point the deleveraging process ends. That uncertainty itself helps explain economic weakness offshore.

This weakness will affect us by keeping interest rates very low for a long period of time even as an under-supply of housing in Auckland keeps prices chugging up there. In the Housing section this week I give comments on a number of regions with regard to housing activity. For those interested in why the recent passage of house price inflation above 5% won't bring the same interest rate response as the last time this happened on a cyclical basis in March 2002 you can read my next column in the NZ Property Investor magazine which will be out in 1-2 weeks time.

Weakness and deep deep worries offshore will depress the NZ dollar – but not as much as overseas downturns in the past because we are frankly a safe haven compared with not just Europe and the UK, but even in some regards Japan and the United States. I therefore am cautious on farming incomes for the coming year or two even though the worsening drought in the United States has positive implications for our dairy prices – pity about the falling world demand though.

Good luck to all for the week and try not to be too surprised at what seems about to happen in Europe.

Is Our Economy Getting Better or Worse?

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

Are householders opening their wallets more?

No new data. In China the average size of a new flat screen TV purchase is 42 inches. In the United States it is 37 inches. I wonder what it is here? Bring on 70+ inches for \$2k full HD smart.

Is business output rising?

This morning the merchandise trade data for June were released. They show that in seasonally adjusted terms the value of exports rose by a strong 13.6% in June and 0.7% for the June quarter after shrinking 6% in the March quarter and growing 2.9% in the December quarter. This is obviously an improvement but as it appears to be driven by a run-down of dairy stocks does not look sustainable unfortunately.

Are businesses hiring more people?

Nothing new.

Are businesses boosting their capital spending?

To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey [here](http://tonyalexander.co.nz/bnz-confidence-survey/).

Imports of capital equipment in seasonally adjusted terms fell 0.6% in June but were ahead by a whopping 15% for the June quarter. The question is to what extent is the Christchurch rebuild driving this strong growth?

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.

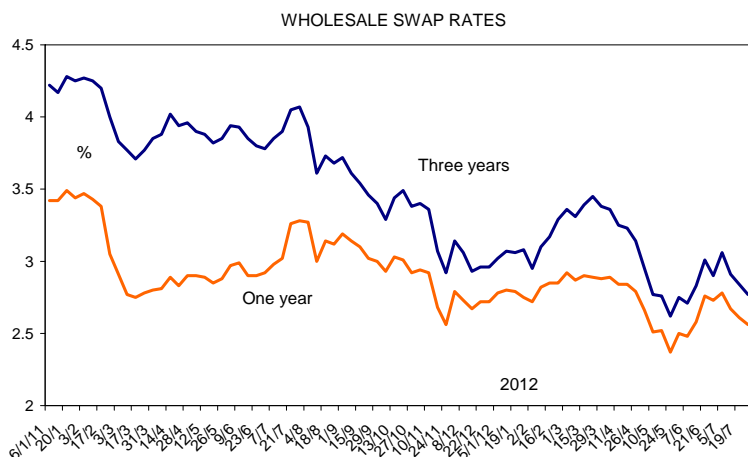
Nothing major.

INTEREST RATES

With the European economy on the point of imploding wholesale interest rates have fallen away again this week to fresh record lows for swap rates of five years and beyond. As expectations of prolonged deep recession in Europe grow expectations of monetary policy tightening in New Zealand have been getting pushed out (as I have said, 2014 for a rate rise maybe), and the markets are again moving to pricing in cuts in the near future.

Where this ends really is anyone's guess because no-one knows how the European situation is going to pan out, whether the US economy is heading back into recession, whether the US politicians will be kind enough to each other to avoid a 4% of GDP fiscal policy tightening come January next year, and whether China will take strong measures to boost growth or concentrate on avoiding a repeat of the 2009-2011 over-construction of property boom.

To repeat what I have written here many times over the past three years. You are a fool if you base your interest rate risk management decisions on a particular set of interest rate forecasts. Those forecasts have been changed more in the past four years than I have ever before seen and further big changes in whatever one's forecasts are seem certain over the next four years.



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	2.65%	2.70	2.68	2.77	2.70	5.7
1 year swap	2.56%	2.61	2.73	2.79	3.28	5.8
3 year swap	2.77%	2.84	2.90	3.14	4.07	6.1
5 year swap	3.05%	3.13	3.23	3.56	4.61	6.3

If I Were a Borrower What Would I Do?

Nothing new. I would fix three years but floating is fine as well.

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/>
- I also write a monthly column on the residential property market in NZ Property Investor magazine available at your bookshop or newsagent.

No Data

This week I spoke at a gathering of real estate agents in Taupo and gleaned the following comments regarding conditions in some selected parts of the country.

Rotorua

Turnover is down around 65% from 2-3 years ago, prices are low and flat around \$250,000 on average. Spikes of interest don't tend to last but one or two groups of investors have bused and flown in in recent times.

Christchurch

Insurance is a continuing major issue whether it be matters involving EQC or the insurance companies themselves. The average Red Zone house price is around \$360,000 and there is very strong demand and limitations of stock up to about \$500,000. Above that things seem weak. The rental market is tight with natural long term renters squeezed out by the many short-term renters.

Whakatane

BNZ WEEKLY OVERVIEW

The last four years have been steady apart from a rise in activity this year which paused after May. The average selling price is around \$310,000 which is up slightly from last year. There are many rentals available.

New Plymouth

Sales have fallen a tad in recent months. There is good support from dairying and the oil sector. Listings are scarce and the average sales price is around \$300,000.

Birkenhead

The last two months have seen very weak turnover mainly because few listings are available. Properties attract multiple bids and prices are rising. Rents have risen 15% - 20%.

Point Chevalier

Sales have reduced because of stock shortages. Demand from ex-pats is high.

Palmerston North

Some 75% of sales are for properties valued at less than \$300,000. The bottom end of the market is strong. Stock is hard to find. Coastal properties are showing some signs of moving assisted by credit becoming more readily available. The rental property vacancy rate is low.

Lower Hutt

Activity is flat, rents are falling, vacancies are rising. There are investors increasingly in evidence looking to buy and raise rents.

Upper Hutt

Sales are down around 40% from the boom days. Prices are ahead only around \$4,000 in the past two years. People are placing a high premium on geotechnical stability. Some businesses are moving out to Upper Hutt. But 50-60 year olds are starting to follow their kids to Australia. There is a lot of private equity available for property purchases and development especially Chinese with new builds going well.

Horowhenua

The past three months have been the best since 2006. Prices have eased with an average below \$200,000 but sales are up. In July however activity slowed sharply. Lifestyle blocks which a few years ago sold for \$500,000 - \$600,000 now sell for around \$350,000.

Kapiti Coast

Activity levels are steady, holiday home purchases are growing. The section market remains dead.

Porirua

Sales and prices are flat though investors are coming back in.

Manukau

Activity has recovered to almost double 2008 levels but is still just half 2006 levels. June and July were weak. Listings remain hard to find.

Papatoetoe

Rents are rising and investors are coming back into the market but prices are still down from 2006 levels.

Howick

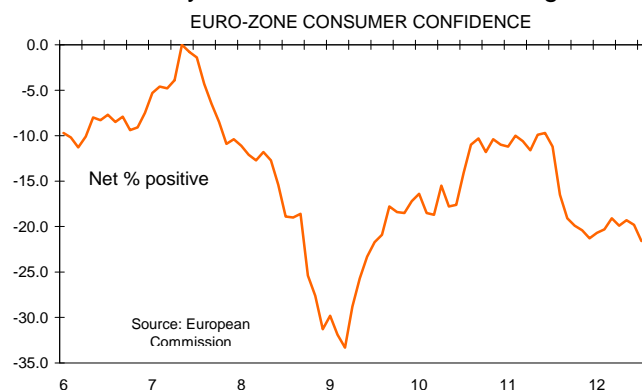
Prices are rising strongly.

MAJOR OFFSHORE ISSUES

Europe

Nothing good to report sorry folks.

- Spanish ten year bond yields climbed to a record 7.57% this week as the government said the economy would remain in recession right through 2013 and one of the regions asked for help to refinance debt and pay hospital bills. Another six regions may also seek bailouts from the already munted Spanish government.
- A formal €100bn bailout package for Spanish banks was signed off with €30bn available straight away but the Spanish government ultimately still the party responsible for repaying the debt.
- One of Angela Merkle's coalition partners said that Greece should leave the Euro if it cannot repay its debts.
- Spain's economy shrank by a greater than expected 0.4% during the June quarter according to a Bank of Spain estimate.
- Eurozone debt as a proportion of GDP has now climbed to 88% from 87% three months ago with Greece at 134%, Spain 72%, Italy 123%. Note that debt is not the only reason investors don't want to touch debt of these countries now. They are also economically inefficient with a history of poor management and in Spain's case have banks burdened by huge debts. The Greeks also lied about their data in the past and have failed to keep promises regarding economic and fiscal changes in the past two years so attract little credibility these days.
- On Friday the ECB said that it was suspending fresh loans to Greek banks.
- Italy imposed a one week ban on stock short-selling and Spain imposed a three month ban.
- Reports have appeared suggesting that the IMF will not provide any more aid to Greece.
- Eurozone confidence fell to -21.6 in July from -19.8 in June. The long run average is -12.8.



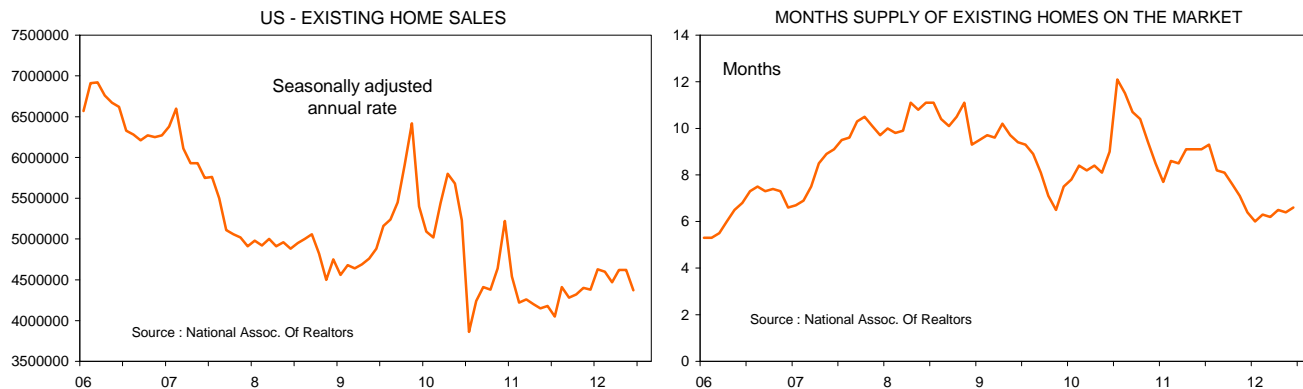
- For your guide Spain accounts for 12% of Eurozone GDP which is more than twice as much as Ireland, Portugal and Greece combined.
- Moodys issued a negative outlook for the credit ratings of Germany, the Netherlands, and Luxembourg.
- 'Europe is sleepwalking to a disaster of incalculable proportions' according to the Institute for New Economic thinking.

Australia

Why do I not bother making the time to write much about Australia each week? Because the things with capacity to affect us to a major degree are coming from Europe and the United States and because where Australia goes will depend hugely upon how those things pan out and what happens in China.

United States

After a couple of positive housing market indicators were released last week this week started out with a worse than expected number. The number of sales of existing homes in seasonally adjusted terms fell by 5.4% in June rather than rising 2% as had been expected. In addition the months' worth of supply on the market rose to 6.6 from 6.4 in May.



Nothing too important apart from some quite weak partial manufacturing gauges.

China

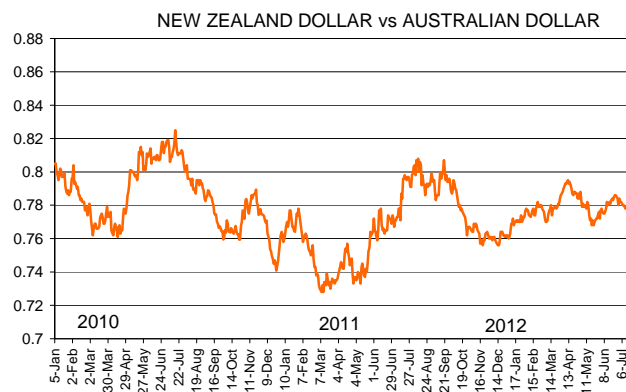
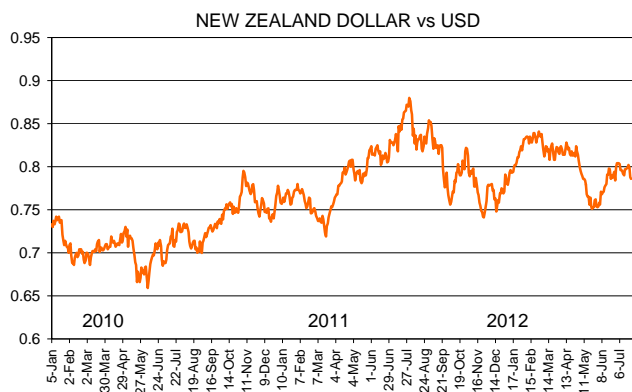
Chinese economic developments are now covered in our new publication "Growing With China", the July issue of which will be released in the 23rd. If you wish to receive this monthly then please email me at Tony.alexander@bnz.co.nz

Exchange Rates

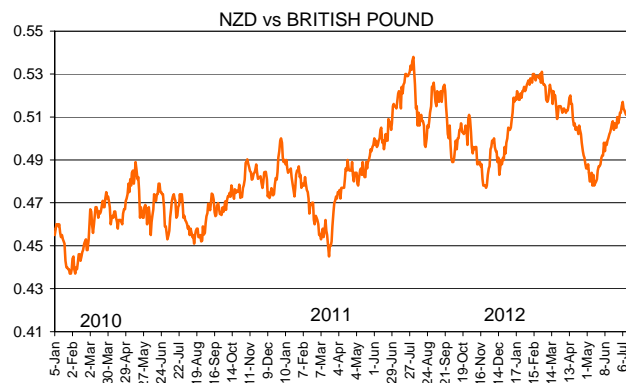
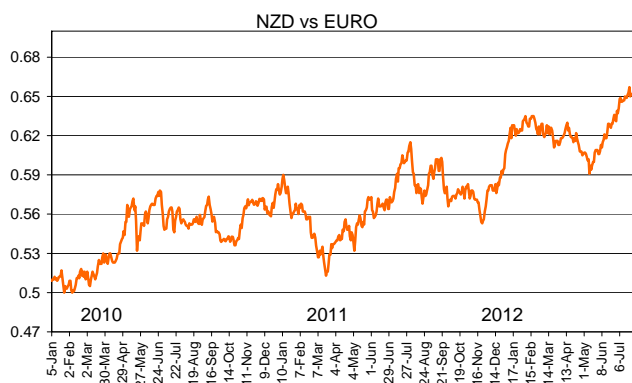
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.786	0.799	0.790	0.813	0.864	0.67
NZD/AUD	0.769	0.771	0.785	0.787	0.797	0.85
NZD/JPY	61.400	63.000	63.500	66.000	67.6	69.6
NZD/GBP	0.507	0.511	0.507	0.505	0.529	0.388
NZD/EUR	0.652	0.651	0.629	0.615	0.6	0.52
NZDCNY	5.021	5.090	5.030	5.125	5.570	4.99
USD/JPY	78.117	78.849	80.380	81.181	78.241	105.7
USD/GBP	1.550	1.564	1.558	1.610	1.633	1.72
USD/EUR	1.206	1.227	1.256	1.322	1.440	1.28
AUD/USD	1.02	1.04	1.01	1.03	1.08	0.788
USD/RMB	6.3881	6.3705	6.3665	6.3037	6.4472	7.56

Risk Aversion Rules

In a world where worries about the European debt situation have skyrocketed in the past week investors have been moving into the current safe haven currencies of the Japanese Yen and US dollar while selling the Euro most aggressively. The NZD has fallen just over a cent against the greenback though with losses capped by a slightly better than expected monthly manufacturing measure in China reducing worries about the feed-through into our economy of slowing Chinese growth – for now.



Against the Aussie dollar the NZD has continued its gradual decline over the past few weeks while against the Yen we have retreated to a five week low.



Where things go from here depends most significantly upon what happens in Europe. If the current downward spiral toward Greece exit from the Euro and Spanish bailout continues then soaring risk aversion will see weakness in the NZD though not as much as might otherwise be the case because of support from our interest rates and sheer distance from the problems offshore.

Key Forecasts

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.8	1.4	2.0 – 2.7	2.5 – 3.5
CPI	on year ago	4.0	1.8	1.5 – 2.0	2.5 – 2.9
Official Cash rate	end year	3.0	2.5	2.50	3.00 – 3.75
Employment	on year ago	1.3	1.6	1.5 – 2.0	1.0 – 1.5
Unemployment Rate	end year	6.8	6.4	6.0 – 6.5	5.0 – 5.8

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 26,000 subscribers each week and is one of a stable of regular releases which include the

- monthly Growing With China publication, <http://tonyalexander.co.nz/topics/china/>
- monthly BNZ Confidence Survey, <http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/> and the
- monthly BNZ-REINZ Residential Market Survey. <http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/> This latter survey provides information from a survey of over 10,000 licensed real estate agents on the current state of the residential property market in New Zealand.
- He has also written a weekly newspaper column since 1998, search www.stuff.co.nz
- writes a column for the Farming Show posted at <http://www.farmingshow.com/opinion/>
- produces a monthly column for the NZ Property Investor magazine, <http://www.propertyinvestor.co.nz/> and
- writes a monthly column for the NZ China Trade Association. <http://www.nzcta.co.nz/>

Most of these publications plus research into impediments to NZ's economic growth are available on his website. www.tonyalexander.co.nz

BNZ WEEKLY OVERVIEW

Tony Alexander has been Chief Economist at the BNZ since 1994 and apart from publications and advising management spends considerable time on the road around New Zealand making presentations and speaking with the media. He travels to the UK and Europe twice a year to assess economic conditions and present at numerous functions, has five children, tramps, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com



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