BNZ Weekly Overview

5 July 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. To receive the Weekly Overview each Thursday night please click here.
http://feedback.bnz.co.nz/forms/Fx-I8ploskSGWgjN_7WOAw
To change your address or unsubscribe please click the link at the bottom of your email.

Monthly Confidence Survey

This is once again the first Thursday of the month so you have the opportunity once more to set the tone for what other surveys will show as the month goes by. If you have a few seconds please click on the link here and let us know whether you reckon the NZ economy will be better or worse in a year's. If you wish you may also tell us how things are in your industry currently.

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

The week has been one of global markets stepping back from the brink once more following last week's Euro-Summit delivering more solid results than expected toward an eventual overarching European banking authority. Such a body will have little relevance to the current bout of problems and a structure plus set of rules will take at least the rest of the year to figure out and maybe a few years beyond that to implement. In fact Europe is all about its negotiated exceptions so once some solidity starts to appear in the banking authority structure the lobbying for exemptions of one sort or another will start up.

But zero progress was made on Greece so the possibility of them leaving the Euro hasn't actually changed by all that much and the only real question here is how long the latest Eurozone poultice will hold in place – days, weeks, or months?

Meanwhile in the United States the manufacturing sector has dipped back into recession for the first time in three years with this information coming after weak data for durable goods orders and retail spending. Locally we have leant that although NZ house construction is rising the path upward is not a straight line with consent numbers falling over 7% for the second month in a row – though these changes followed a one-month 19% surge. We have also seen dairy prices fall another 5.9% at the fortnightly Global Dairy Trade auction thus suggesting restraint in dairy farmer spending and regional growth this year as Fonterra's likely payout heads toward something with a 5 in front of it.

In the currency markets the relief for the moment regarding Europe has propelled the NZD back above US 80 cents, 64 Yen, over 51 Pence, while the AUD has climbed to near US 1.03. NZ wholesale interest rates have crept higher as markets have pulled back from a global meltdown scenario.

Is Our Economy Getting Better or Worse?

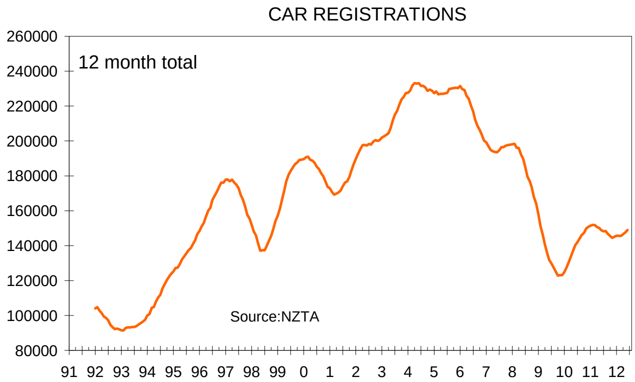
In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

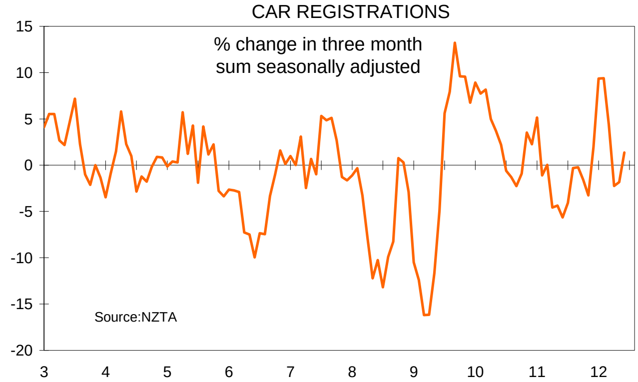
The week has brought the second monthly fall in a row in dwelling consents – but we believe the trend is upward still. Car registrations have weakened as have tractor regos, thus suggesting restraint in household spending and willingness of farmers to open their wallets. Registrations of commercial vehicles however are rising strongly and that is positive in terms of business investment.

Are householders opening their wallets more?

No Growth In Car Regos

In June there were 13,326 cars registered around New Zealand which was a 12% rise from a year earlier. For the year to June there was zero growth and for the June quarter seasonally adjusted rego numbers were largely unchanged from the March quarter. So there is no growth in car registrations underway and that calls into question the other generally more positive indicators of retail spending such as Electronic Card Transactions which grew at an annualised pace of 5.5% in the three months to May.



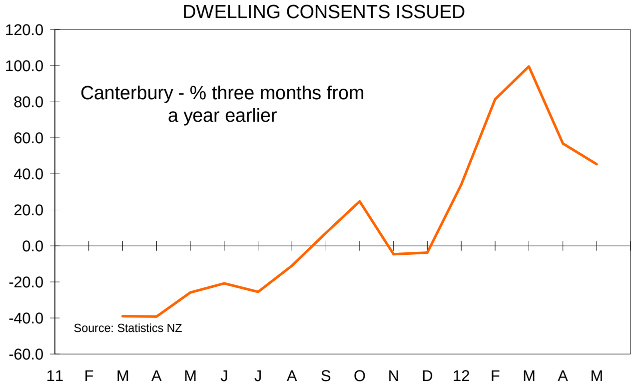


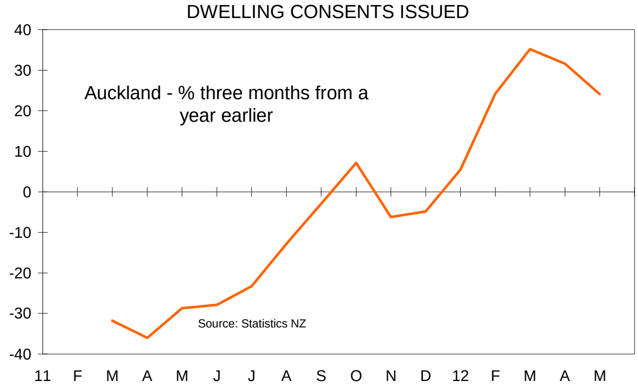
Consumer spending may be growing, but going by the comments from retailers it is at the expense of margins.

Dwelling Consents Trending Upward – Though Quite Volatile

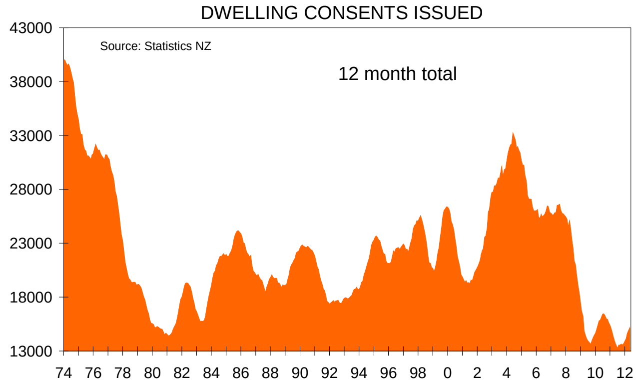
The number of consents being issued for the construction of new dwellings in New Zealand is trending upward – but not in a straight line. After jumping 19% seasonally adjusted in March consent numbers fell 7.6% in April and another 7% in May. Compared with a year ago numbers were up by a healthy 31%.

In the three months to May the number of consents issued for the construction of new dwellings in Canterbury was 45% ahead of a year earlier. But in Auckland the increase was 55% - hence why I have been speaking in terms of NZ's economic growth being underpinned not just by the rebuilding of Christchurch but by a period of catch-up construction in Auckland as well. Auckland lagged the housing cycle in the 2000s after leading in the 1990s.





Outside of Christchurch and Auckland the increase on a year ago was only 16.6%. Annual consent numbers for all NZ now stand at 15,165 which is the highest total since only January 2011. There is a long way to go to reach the ten year average of 22,845.



Is business output rising?

Nothing new.

Are businesses hiring more people?

Nothing new.

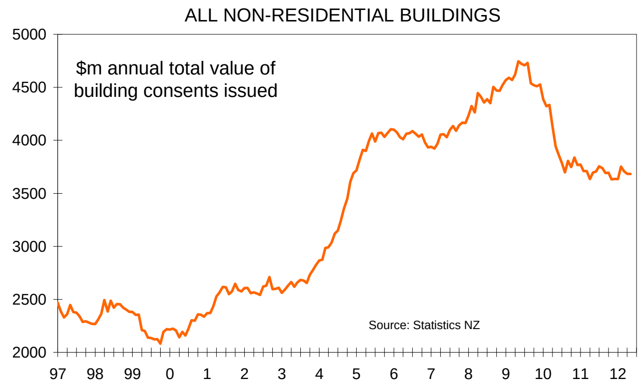
Are businesses boosting their capital spending?

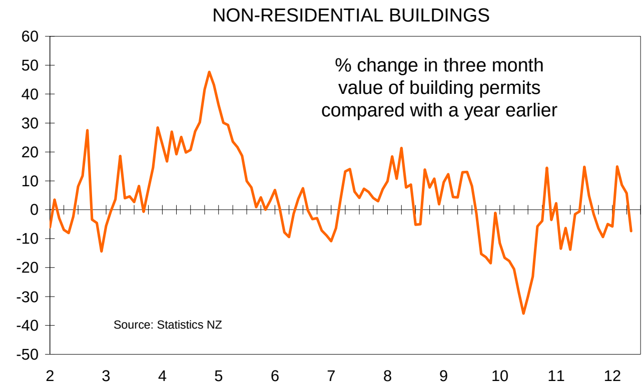
For equipment yes. Buildings = mixed.

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

Non-Residential Building Not Rising Yet

The value of consents issued for the construction of non-residential buildings was practically unchanged in May from a year earlier at $349m. This means that for the year to May grow in consent values was -0.4% and for the six months to May compared with the same period a year earlier the change was growth of only 3%. So there is essentially no growth in the non-residential construction sector – though as always the average hides sectional differences.



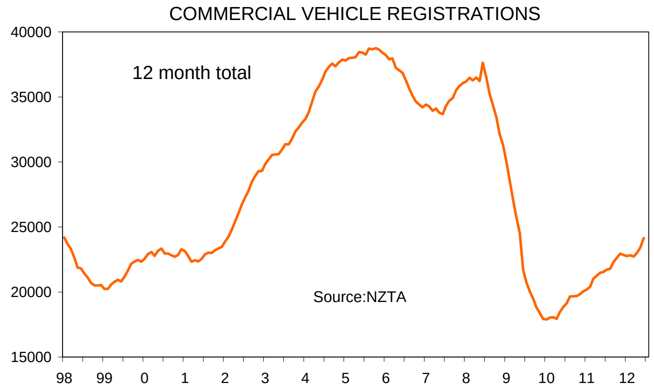


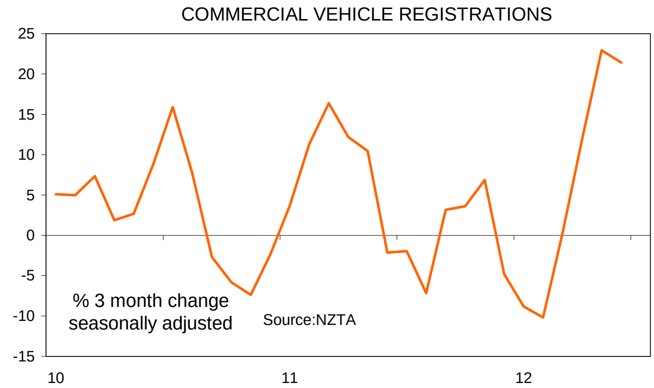
Using the six months measure as our guide we see that if we exclude government buildings as best we can then growth was 14% - which is positive. For farm buildings there was an 18% rise, for factories a 5% gain, and storage buildings 25%. Offices and admin buildings were up by almost 70% but hotels and motels were down 48% and hostels etc 46%.

Commercial Vehicle Regos Strong

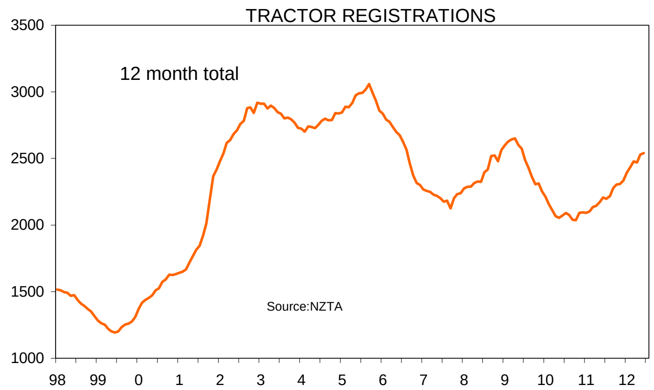
In June there were 3,199 commercial vehicles registered around the country. This was a strong 30% rise form a year earlier and for the June quarter there was a strong 21% seasonally adjusted gain from the March quarter. The three month total was also some 5% above average for the period during the past six years.

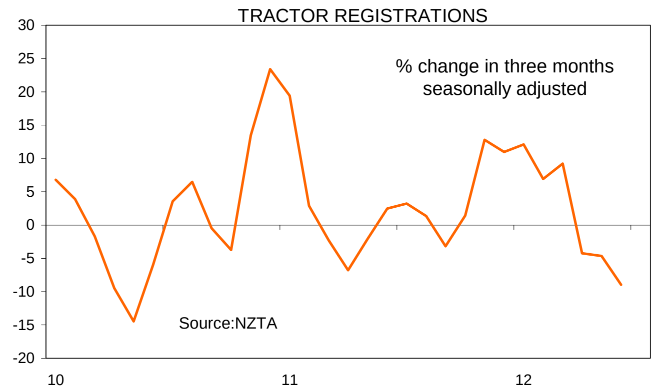
Therefore the data provide some good evidence of business investment rising in this particular area – though there may be a slight upward bias due to the ending of the negative effects of the Japanese tsunami and Thailand floods.





But whereas commercial vehicle spending is rising, the same is not happening for tractors. In June there were 184 tractors registered in our little non-Pearl Harbour entering nuclear-free country, which was a 6% rise from June 2011. For the year to June tractor regos lifted 12%, but in the June quarter they were down in rough seasonally adjusted terms form the March quarter by 10%. The data suggest that the combination of a strong currency and falling commodity prices may be hoing into farmer willingness to spend.





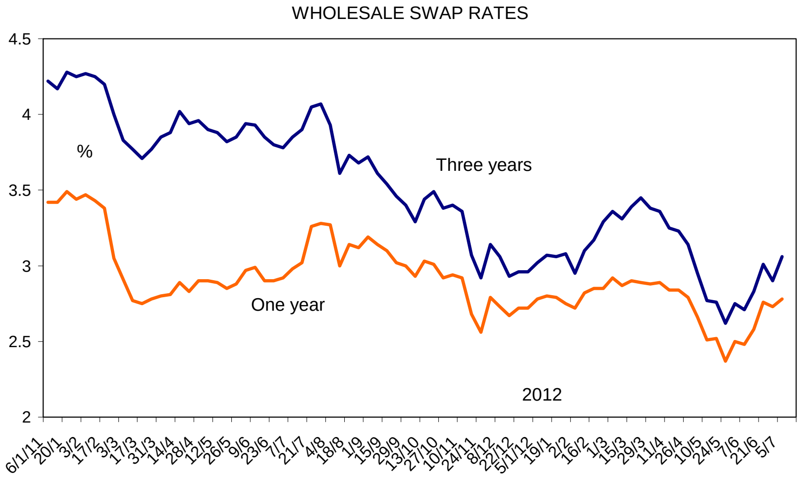
What Do The Leading Indicators Say?

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 new worth reporting on.

INTEREST RATES

Swap rates have climbed back to their highest levels since the end of April and now sit where they were three weeks before the round of fixed housing interest rate cuts swept through the markets. The three year swap rate for instance is now near 3.06% compared with 2.9% last week and 3.14% at the end of April. This is still below levels near 3.4% in March however.



The rise in rates has been driven principally by reduced worries about Europe following the agreements to move toward a pan-European banking regulator and allow the bailout fund to recapitalise banks, reached at last week's summit meeting.

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	2.68%	2.68	2.73	2.76	2.68	5.7
1 year swap	2.78%	2.73	2.48	2.89	2.98	5.8
3 year swap	3.06%	2.90	2.71	3.36	3.85	6.1
5 year swap	3.39%	3.23	3.09	3.84	4.50	6.3

If I Were a Borrower What Would I Do?

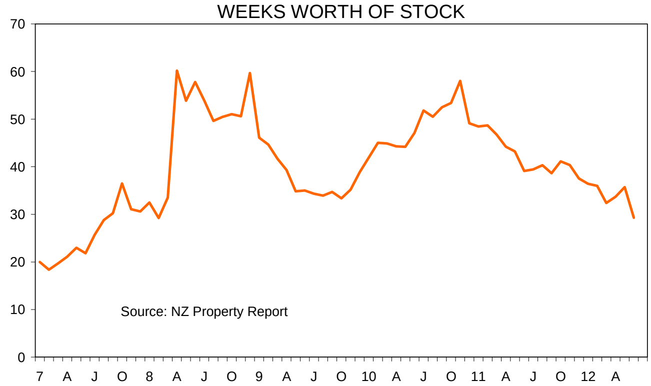
I still like the look of the three year fixed rate at 5.75%. If things settle down a tad more in Europe (before they then blow up again somewhere further down the track) then bank wholesale borrowing costs will rise further than they already have done and we will likely see some increases in fixed interest rates. But it depends very much upon wholesale rate movements and it seems fairly clear that competition between banks for home lending is strong, driven partly by the fact that the housing market has moved to its strongest position in over four years as shown in the graph in the Housing section following which displays weekly home loan approval numbers.

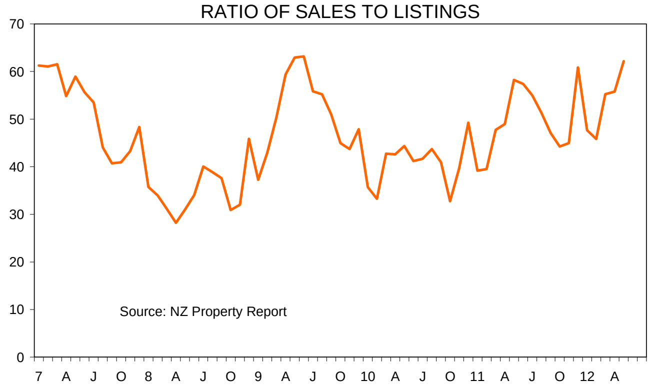
HOUSING MARKET UPDATE

- **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.**

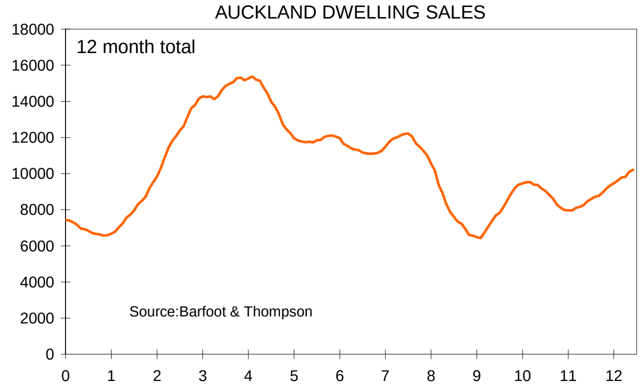
Up It Goes

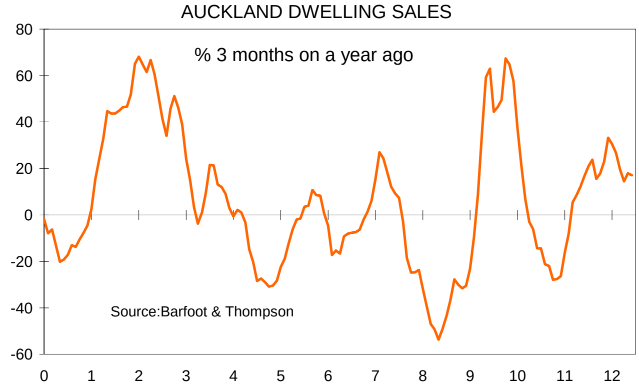
Just to back up what I have long been writing here regarding housing stock availability drying up and even legislative changes failing to bring a flood of vendors onto the market, here are a couple of graphs. They come from the NZ Property Report of real estate listings on-line and show decreasing stock in terms of weeks worth of sales, and an upward tend in the ratio of sales to listings. Nothing startling really – just confirmation of the NZ housing market tightening up as we have been expecting.



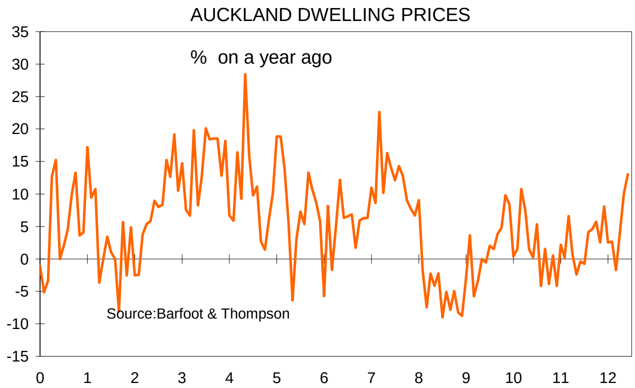


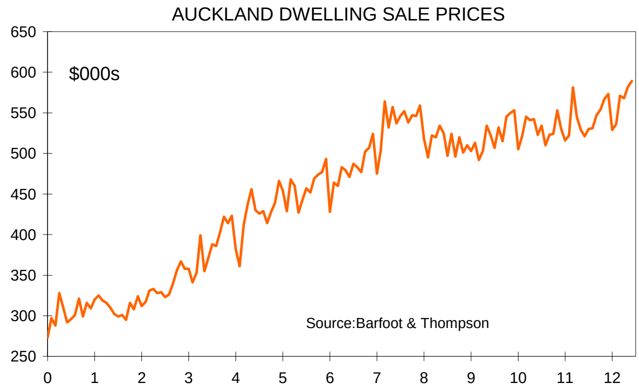
Speaking of which, Barfoot and Thompson released their Auckland data for June this week. During the month they sold 994 dwellings which was a 13% rise from a year ago but seasonally adjusted decline of 10% from May. The monthly sales numbers have actually been all over the place recently so we really need to smooth them and doing that we get sales falling a seasonally adjusted 8% in the June quarter after soaring 25% in the March quarter. The trend is up is what that tells us.



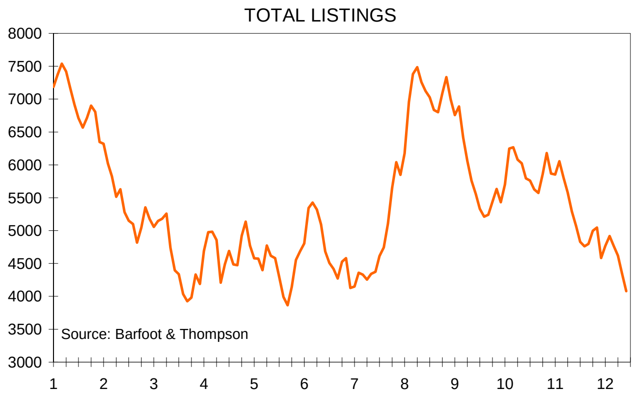


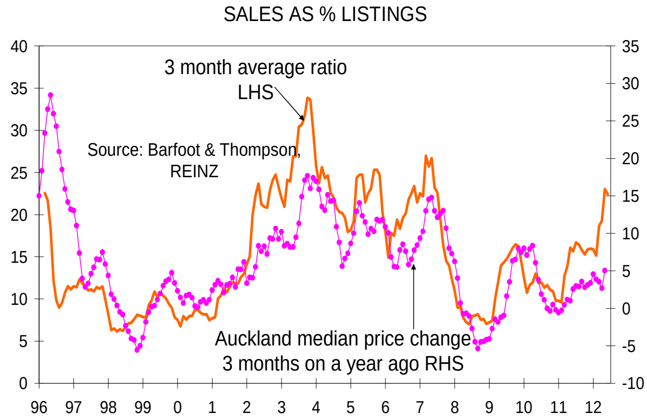
The median dwelling sales price lifted to a record $589,000 in the month from $582,000 in May and was 13.1% ahead of a year earlier. The price rise comes about for exactly the factor we have long written about here – not enough stock.





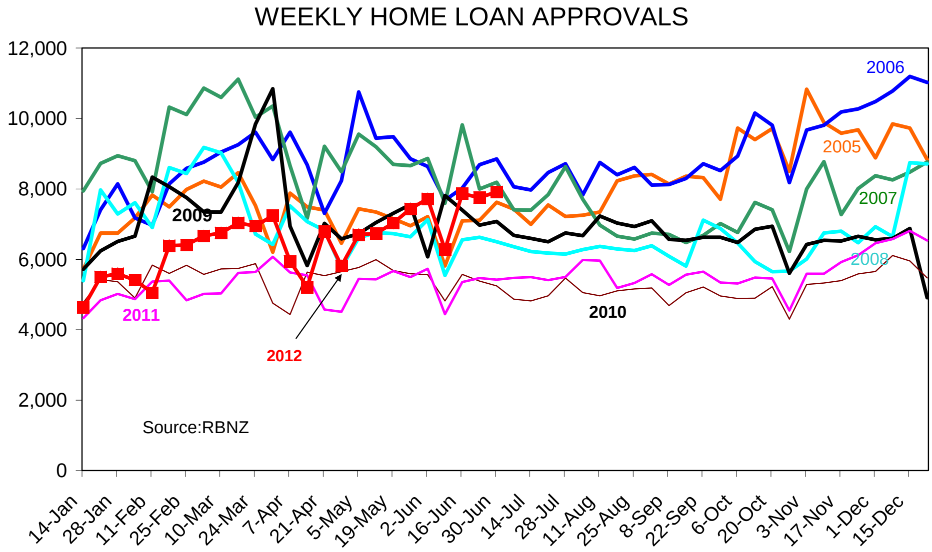
At the end of June B&T had just 4,078 dwellings on their books – the lowest number for any month in seven years. This total was 19.5% down from a year earlier. The first graph easily shows the downward trend in listings. The second shows the upward trend in the ratio of sales to listings and how this is well correlated with changes in prices.





Basically the numbers show upwardly trending sales, decreasing stock availability, thus rising prices – exactly as we have long predicted.

Here is an update on the home loan approvals series prepared and released by the Reserve Bank. Notice the way in which the bright red line with red squares representing 2012 weekly numbers is ploughing upward through all other years shown so far except the boom years of 2006 and 2007. The data show the number of home loan approvals and not the value so there is no pricing effect and since 2005 the NZ population has grown by only around 7%.



MAJOR OFFSHORE ISSUES

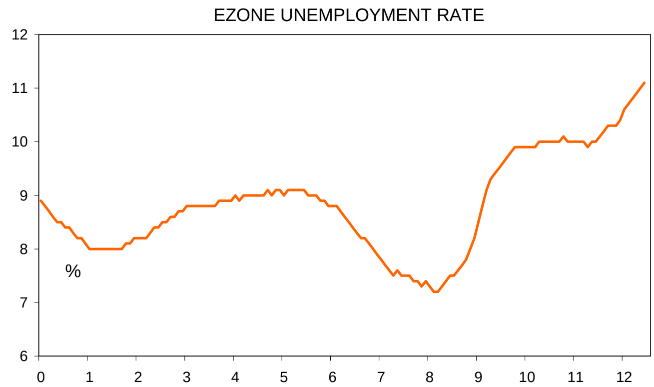
Europe

The poultice has been applied – yet again. Now it is a matter of guessing when the next bout of the heeby geebies will grip investors in European banks and government bonds and once again the break-up of the Eurozone and potential major ruction in global financial markets will become the debates of the moment. The poultice this time around was not agreement on a new bailout package as such (and nothing was agreed of much benefit to Greece), but a set of measures which take some of the heat out of current worries. Specifically three things were agreed.

- A single supervisory body will be created for all European banks to replace the national bodies which have proved very ineffective (under political influence sometimes) in some countries in curbing bank lending. This will be positive in the long term but has little short-term relevance as it will time quite some time to set up and it is unclear what influence it will have over risky bank lending and how it will hold banks accountable.
- The fund set up to bail out Eurozone governments will be able to be used to bail out banks without the money having to be funneled through relevant governments. This means reduced risk of banking failures as it breaks the direct link between using ESM funds to lend to governments who bail out their banks but then because of higher sovereign debt need to impose additional fiscal austerity measures. It therefore stops the situation which Spain was facing. The debt will not rank higher than private sector debt.
- A €120bn growth package was agreed involving increased lending (more debt) by the European Investment Bank and reallocation of so far unused European structural funds.

But already Finland and the Netherlands have indicated they do not support the European Stability Mechanism being able to buy government bonds on the secondary market.

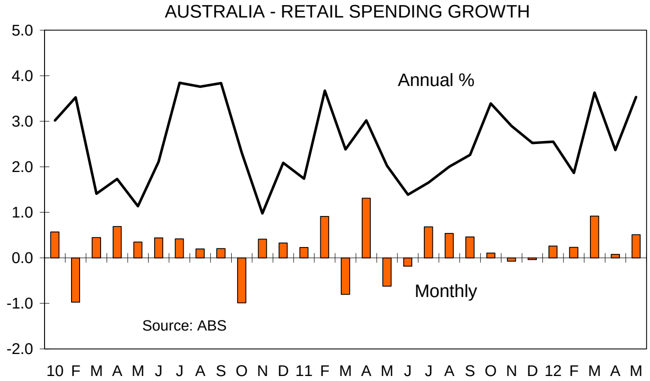
A monthly measure of business and consumer sentiment issued by the European Commission fell to its lowest level since October 2009. Plus the Eurozone unemployment rate rose to a record 11.1% in June.



Tonight the ECB hold their monthly meeting and expectations are high that they will “reward” the banking supervision progress of last week’s summit with a 0.25% cut in their currently 1% overnight cash rate. Ireland will also test the debt markets on Thursday night with the auction of ten year bonds. This will be the first primary sale of bonds since September 2010 and comes with ten year yields recently at 6.25% which is close to Spain’s near 6.4% thus not exactly a sign that markets yet have much confidence in Irish government debt.

Australia

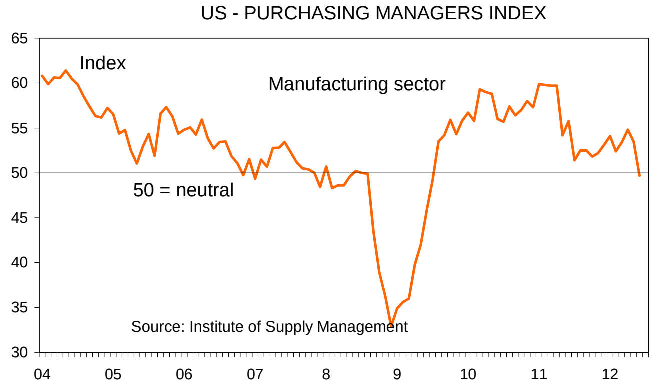
As had largely been expected the RBA left their cash rate unchanged at 3.5% this week and the tone of their comments was less dovish than in earlier months thus suggesting they might not cut again unless fresh bad news appears from overseas. In particular they noted that recently the domestic Australian economy has performed reasonably well. This week we learnt that retail spending rose by 0.5% in May to be 3.5% stronger than a year ago.

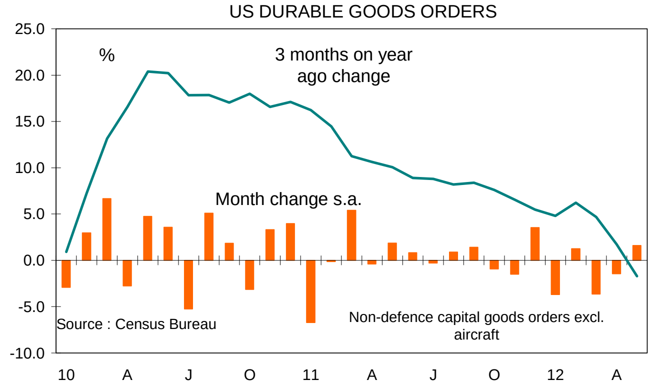


United States

The IMF this week lowered their forecast for growth in the US economy this year to what they describe as a “tepid” 2% this year and 2.25% over 2013 from 2.1% and 2.4% forecasts respectively back in April. They noted downside threats to growth from the European debt crisis and domestic US fiscal problems.

The most watched piece of monthly US economic data will appear this Friday in the form of the non-farm payrolls report. The last three months jobs growth has been much weaker than expected and when coupled with weak retailing numbers suggests the US faces downside risks to growth forecasts this year. Those risks were reinforced this week when the monthly ISM manufacturing measure fell back into recession territory for the first time in three years with a reading of 49.7 from 53.5 in May. The result was worse than anyone expected and suggests weakness in foreign markets is affecting the US manufacturing sector. This weakness helps explain last week’s poor durable goods orders result where non-defence non-transport orders fell 4.5% in June from a year earlier.





China

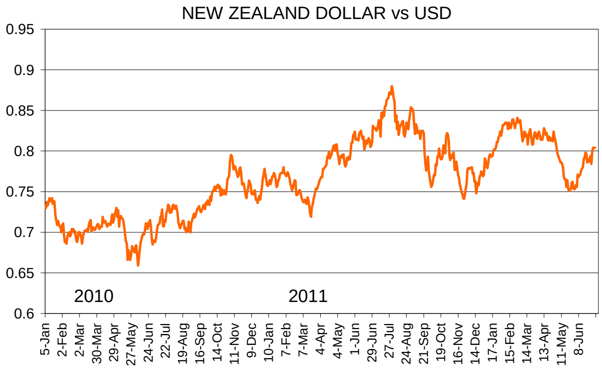
Chinese economic developments are now covered in our new publication “Growing With China”, the June issue of which was released June 21. If you wish to receive this monthly then please email me at Tony.alexander@bnz.co.nz

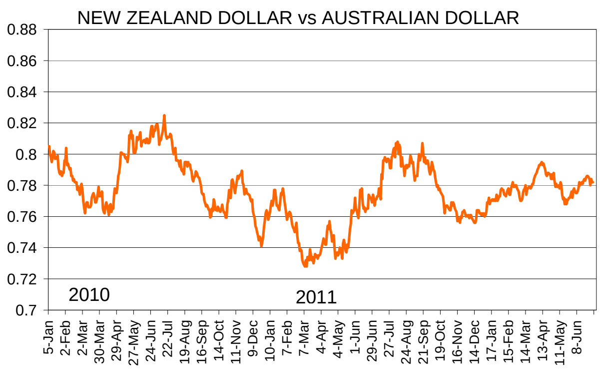
Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.804	0.794	0.758	0.814	0.828	0.67
NZD/AUD	0.782	0.785	0.778	0.793	0.771	0.85
NZD/JPY	64.200	63.100	59.400	67.100	66.9	69.6
NZD/GBP	0.515	0.510	0.492	0.512	0.515	0.388
NZD/EUR	0.641	0.636	0.606	0.619	0.57	0.52
NZDCNY	5.104	5.049	4.825	5.127	5.351	4.99
USD/JPY	79.851	79.471	78.364	82.432	80.797	105.7
USD/GBP	1.561	1.557	1.541	1.590	1.608	1.72
USD/EUR	1.254	1.248	1.251	1.315	1.453	1.28
AUD/USD	1.03	1.01	0.97	1.03	1.07	0.788
USD/RMB	6.3486	6.3585	6.3651	6.2985	6.4629	7.56

Kiwi Up Again

With worries about Europe backing off in the past week we have seen some movement of funds out of the current safe havens of Yen and USD. That movement has pushed the NZD back above US 80 cents, the AUD toward $1.03 against the greenback, and the NZD above 64 Yen. Next week if worries dissipate further the NZD will rise. If worries return the NZD will pull back. We don't know which direction sentiment will shift but do know that tomorrow night's non-farm payrolls report in the United States could cause some market ructions if it turns out to be as weak as the previous three months. In that case while the USD would weaken the NZD would also likely be sold to some degree. Nothing more to say – school holidays.





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, http://www.stuff.co.nz/business/opinion
- 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

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, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com

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