

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-l8plokSGWqjN_7WOAw

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Growth – Just Not Stellar

Just in case anyone out there is feeling extremely pessimistic about our economy's prospects on the back of the situation in Europe, fiscal cliff in the United States, and cessation of export growth in China, here are some numbers showing that our economy is growing though not at a high pace.

- The number of commercial vehicles registered in the three months to July was ahead near 15% in seasonally adjusted terms from the three months to April and 25% from a year ago at the highest three month total since August 2008.
- Retail spending grew by 1.3% during the June quarter and by 4.9% in the year to June in price and seasonally adjusted terms.
- The value of capital goods imported into New Zealand was ahead a seasonally adjusted 15% in the three months to June from the March quarter.
- The value of consents issued for the construction of non-residential buildings in the business as opposed to public sector was ahead 11% in the June quarter from a year earlier.
- The number of tractors registered in the three months to July was ahead about 10% in seasonally adjusted terms from the previous three months.
- The rate of growth in lending to the business sector has lifted to 3.9% from 0.6% a year ago which is the highest pace of annual growth since May 2009. The level of debt is 6.8% below its peak.
- The number of consents issued for the construction of dwellings has risen 14.1% in the past year and in June was 28% higher than a year ago.
- The number of dwellings sold in the three months to July was ahead 21% from a year ago with average sales prices up by 5.7%.

In addition global dairy prices have risen over 10% in the past fortnight as worries grow about reduced supply from drought-hit United States, our business sentiment survey has revealed a stabilising of confidence in positive territory, and consumer confidence is steady and positive.

But there are also a reasonable number of weak indicators including the following

- Job numbers fell 2,000 in the June quarter, the unemployment rate is back near its 2010 peak of 6.9%, and in the past year employment has grown by only 0.6%.
- In the three months to June the value of exports was ahead only 1% seasonally adjusted from the previous three months.

- Farm sales in seasonally adjusted terms have fallen by near 10% recently.

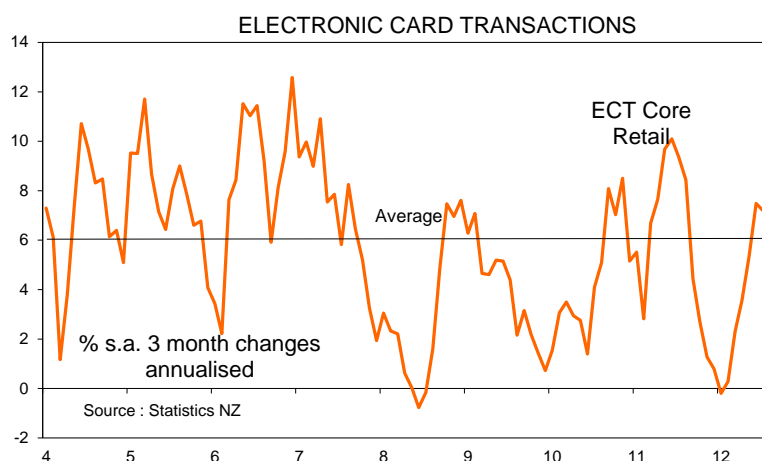
It adds up to a picture of an economy growing with good prospects from the coming work in Christchurch but downside risk attached to developments offshore and restraint from the high NZ dollar.

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?

In July the value of spending using debit and credit cards fell a seasonally adjusted 1.5% after rising 1.3% in June. The first point to make then is that series is quite volatile so one needs to average it across a number of months. Doing so we see that in the three months to July core spending grew at an annualised pace of 7.2% which compared with growth of 3.6% in the three months to April. Therefore spending growth has accelerated.



However this does not accord with the anecdotal evidence we have been receiving from the retailing sector. Neither do the data supplied in the Retail Trade Survey released this week. During the June quarter core retail spending in real seasonally adjusted terms grew by 0.9% after falling by 1.4% in the March quarter. One might think that this looks like a weak six months result. But spending soared 2.2% in the December quarter and 2.6% in the September quarter to give full year growth to June of a strong 7.7%.

Looking at that number can we see something which gels with the anecdotes of consumer spending weakness? Not really. While electrical store sales rose 20% over the year, even taking that out leaves growth in core sales of 4.4% compared with just 0.6% a year ago and core growth including electrical of 5.2% from 1.3%.

So one is left in two minds. Either we are hearing only from the retailers doing poorly, or there is a big whip-back in the retailing numbers to occur at some stage. The best interpretation would be that household spending in New Zealand is growing in areas more than televisions and itings, but that retailers are experiencing tight margins which will likely see the sector undergo further rationalisation in the coming years. The main monetary policy implication is that the need for lower interest rates to boost household spending is not there. That therefore delivers ongoing currency support.

Are businesses boosting their capital spending or hiring?

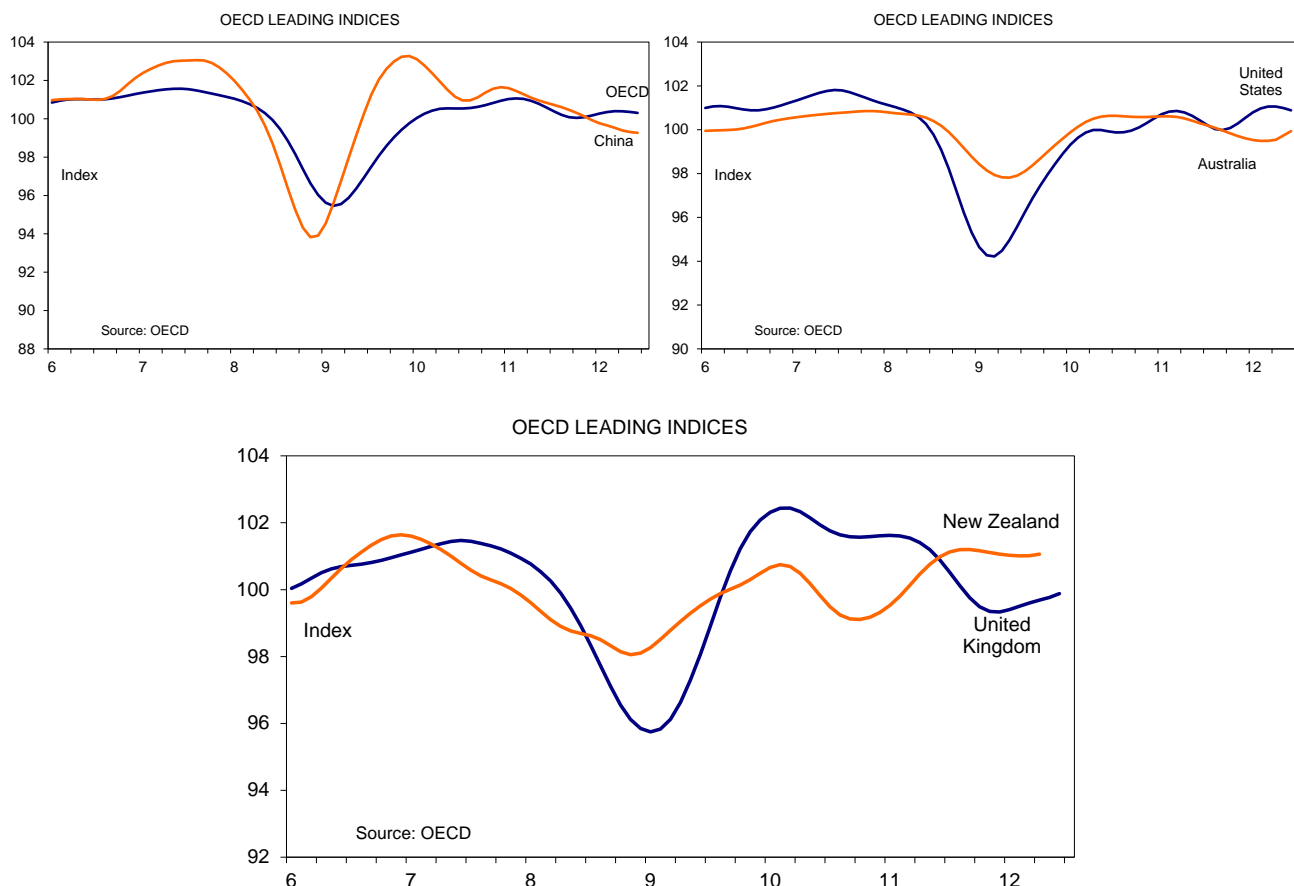
To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey [here](http://tonyalexander.co.nz/bnz-confidence-survey/).

Nothing new in this area this week.

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.

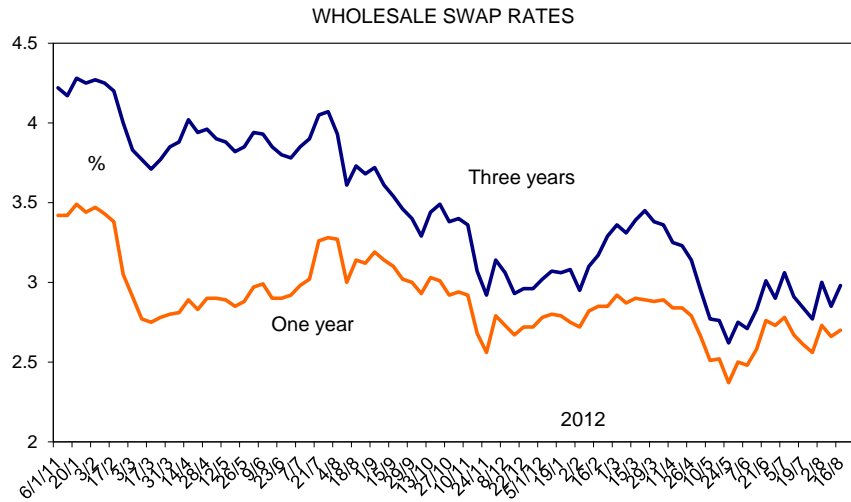
The OECD recently released their Composite Leading Indicators and they do not look pretty for China or the United States. But the Australian index has turned up and feeds well into a slowly improving picture from economic data across the ditch recently. The overall OECD index in the first chart has started to head down. These indexes only run to June and the NZ one only goes to April, but for the record I have placed it below along with the UK which is creeping up a tad.



INTEREST RATES

There remains in the short term little pressure for interest rates to rise with recent data for the NZ economy failing to showing inflation at just 1%, food prices falling 1.7% in the year to July, and prospects for world growth deteriorating including in China where weak data have been released in the past week. Is it possible however that the Reserve Bank might cut interest rates in the near future? That is not a high probability outcome in light of the natural desire they will have to keep maximum dry gunpowder in case the world turns to custard, the stimulus to come from the Christchurch rebuild and wages pressure from labour shortages, and the fact that the housing market is already rising well in major parts of the country.

This past week wholesale bank funding costs initially fell back toward the lower end of their range over the past few months – thus continuing a pattern of rises and falls with no clear direction recently. Then they rose following the better than expected retail sales report in the United States on Tuesday night which sent the US ten year government bond yield to its highest level in three months near 1.8%.

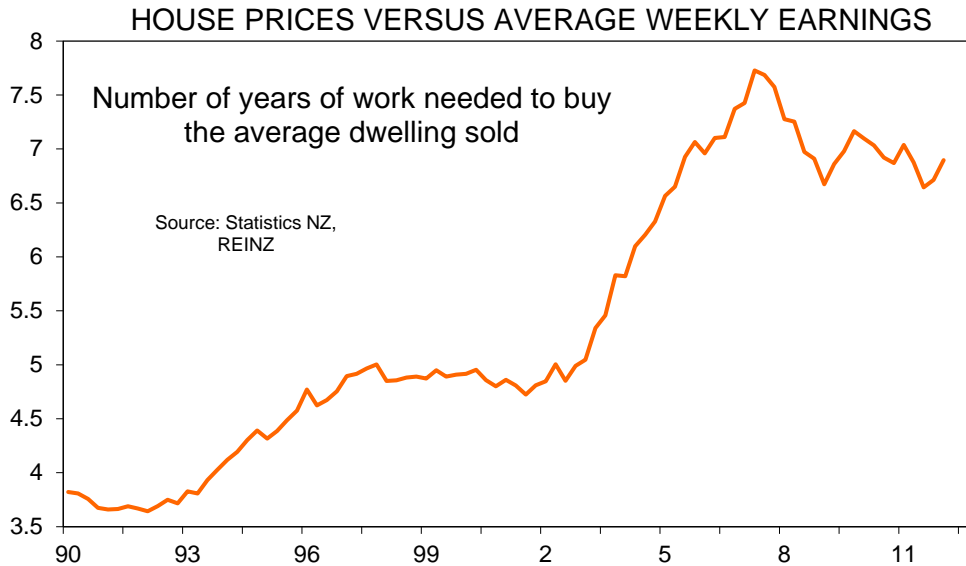


FINANCIAL MARKETS DATA						
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.66%	2.65	2.68	2.77	2.70	5.7
1 year swap	2.70%	2.66	2.61	2.52	3.00	5.8
3 year swap	2.98%	2.85	2.84	2.76	3.61	6.1
5 year swap	3.232%	3.27	3.13	3.17	4.18	6.3

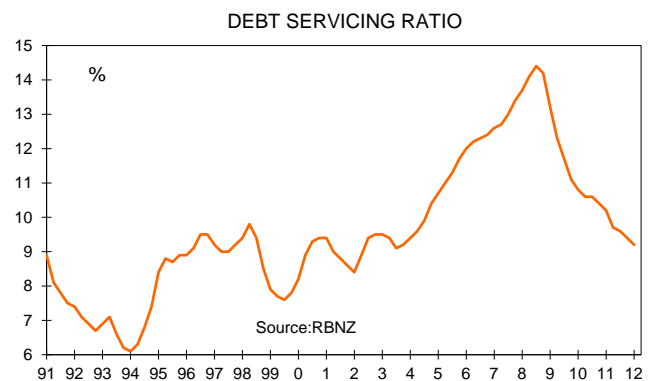
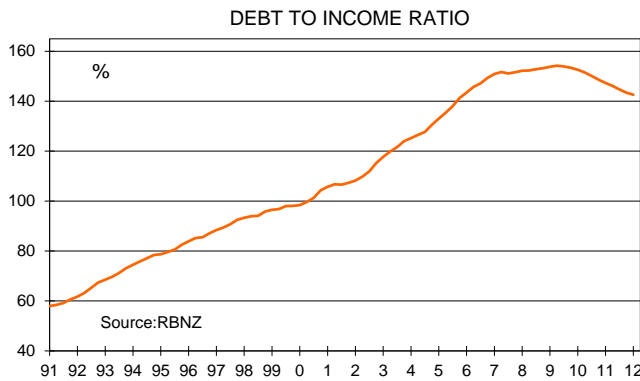
If I Were a Borrower What Would I Do?

I like certainty so I would fix three years at 5.75%. However floating is a good choice also given that floating rates may well not be pushed up by the Reserve Bank until 2014 given the poor world growth outlook. Basically it is a good environment facing borrowers and those of us who paid 18.5% for our first mortgage back in 1987 (and especially those who got munted with 23% rates) can only look on and say to today's youngsters that they don't know how lucky they are and things were much tougher back in our day.

But of course back then in 1987 the ratio of the average house price to a year's average income was below 4 and not 7 as now. The graph below only goes back to 1990.



And with house prices so much higher than means debt servicing ratios are not as low as one might think. RBNZ data show that the average household debt to income ratio (all debt, not just housing) stands near 143% now from 58% back in 1991 when the data series starts. The debt servicing ratio is now near 9.2% from 8.9% in 1991 but given that by then floating mortgage rates had fallen to “only” 15%, I’m going to claim sob story victory still for the 1987 comparison with today.



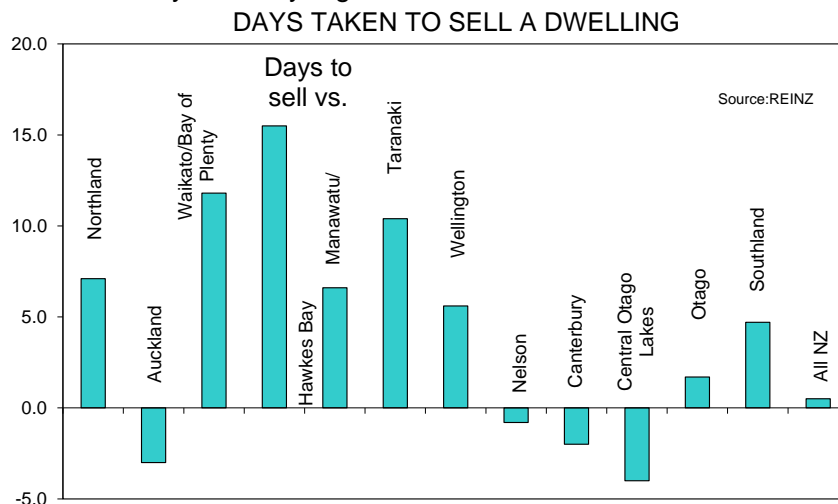
HOUSING MARKET UPDATE

- 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.

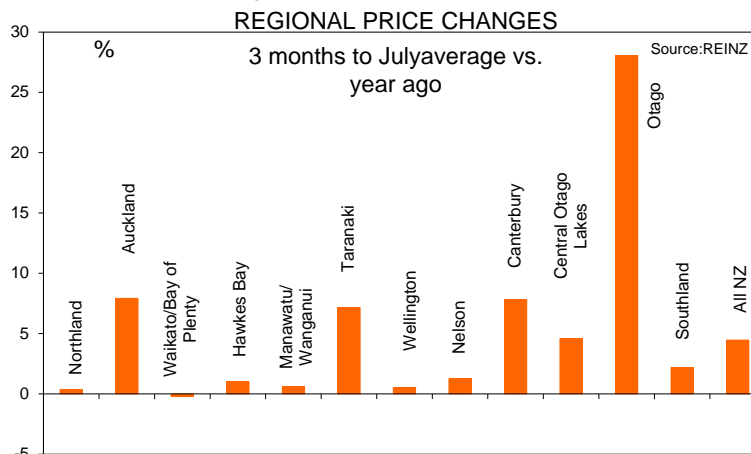
Housing Market Edging Up

Last week I forgot to report the July residential real estate data released by REINZ so here they are. In July there were 5,907 dwellings sold around New Zealand which was a 20% gain from a year ago following similar rises underway for a full year now. So turnover is rising and now stands at 69,222 for the past year which is the highest total since February 2010 as the surge in activity from March 2009 eased off.

On average in July it took 38 days to sell a dwelling which was 0.5 days longer than average whereas June days to sell was 0.9 days faster. So although turnover is rising there is not yet a wholesale straight-line switch toward properties selling as soon as they are listed. Having said that, Auckland days to sell was three days below average in July compared with 5.6 days above average in Wellington and 11.8 days above average in the broad Waikato/Bay of Plenty region.



With regard to prices the stratified median eased by 0.7% in July to sit 5.2% ahead of a year earlier. Over the past three months prices have on average risen by 2.1%.



MAJOR OFFSHORE ISSUES

Europe

Summer holidays are underway in Europe at the moment so there are few meetings to discuss the deteriorating fiscal situation and as for the economic data – they show gross weakness. To whit...

- Greece's economy shrank 6.2% between the June quarters of 2011 and this year.
- The Eurozone economy shrank by 0.2% during the June quarter after sitting flat during the March quarter.

United States

The main piece of data out of the US this week was retail sales for July which rose for the first time in four months with a greater than expected gain of 0.8% following a 0.7% fall in June. The result takes away some of the pessimism which had been building regarding the feedback loop between weak employment and consumer spending – but still leaves ample room for doubt about the rate of growth in the US economy as

China

China's influence on the world economy and our own has soared and will grow further. If you have a question you would like to ask regarding China or a point of view you feel it would be useful for me to take on board in my studies then please email me at Tony.alexander@bnz.co.nz

To get a feel for what I mean you can check out the one hour online Q&A session I did for nzherald online on August 3.

http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10824117

Strong, self-assured members of the international community don't whinge that others disrespect them. China however is in the very early days of trying to figure out how to conduct itself on a Western-dominated international stage and maybe that is why we saw this headline in the CCP-controlled Global Times newspaper the morning after the closing Ceremony of the Olympic Games in London. "Beijing Was Better: Survey". China still has a lot to learn when it comes to gaining global acceptance and trying to improve its poor international brand and weak soft power. One of the definitions of soft power (as opposed to military and economic hard power) is that people want what you want, want to do what you do, therefore tend to support the actions you take.

84% of respondents to the newspaper's on-line poll felt that "amassing gold medals is a sign of the progress of national power." I guess by that measure New Zealand is almost as powerful as Australia on the global stage as we won six gold medals and they gained only seven. Of course being that powerful might mean we will be invited to have a US Marine base located here. 85% of the 1,700 respondents felt "the London games was clearly biased against some Chinese athletes"

For those who are new to the business of finding out what is going on in China, the newspaper Global Times along with China Daily is an official mouthpiece for the CCP. Journalists are not free to write what they want, give interpretations which they might want, or investigate news as they might want. Nevertheless the two newspapers are useful for gaining insight into developments in the Chinese economy, policy announcements and so on. I have yet to find an easily readable English language daily on China – Hong Kong's South China Morning Post being a mess to try and read through with layout all over the place and only a small section devoted to Mainland China.

Having stopped officially learning French two years ago I gain intellectual stimulus these days through studying China with a focus on reading as many books as I can find – but only the up to date ones and with an eye to the bias which some clearly have. The book I am plowing through at the moment is Jonathan Fenby's "Tiger Head, Snake Tails". It is filled with some good insights - though for an ex-editor of the South China Morning Post the editing could have been better. Chapter 13 on China's foreign policy is however very good and will lead me nicely into the just released "The China Choice" by Hugh White.

I reference Fenby's latest book here solely for this purpose – to give insight into State control of the media by reprinting what he reprinted with regard to instructions given to the Chinese media over a short period in May 2011. From page 152.

31 May

From the Beijing Municipal Government internal document: "War Time Coordination Mechanism of Intelligence and Information for Maintaining Stability during the June 4th Sensitive Period"

All units are requested to collect and report information regarding potential threats to stability in the capital as well as all work-unit activities conducted during this sensitive period.

28 May

From a provincial Internet-Administration Office

Reporting of news related to the ethnic conflicts between Mongol minority and Han majority in Xilinhot is prohibited. No discussion of any form on all micro-blogging sites, blogs, and discussion forums. Violators will be subjected to a RMB 30,000 fine.

From the State Council Information Officer

All websites are requested to immediately remove photos and new reports regarding Chengdu bus explosion incident from front pages. Interactive spaces must immediately work on preventing the spread of related information and commentary.

From the Central Propaganda Department to all print and TV media.

The serial bombings in Fuzhou, Jiangxi must be referred as "5.26 Criminal Case". No mentioning of "administration building" or "bombing incident" will be allowed.

There is more but one should have the picture by now.

Okay, so at this point you may be thinking that Chinese media is quite biased. You are right. But unless you went to journalism school or paid good attention at media studies at school you probably don't realise that free as the Western media is it has a self-produced bias against China. To whit...

- Western media focus on the growth of China's economy and how accruing FX reserves will lead to China buying up the planet. Given that China accounts for only 5% of global wealth and multinational sales of Chinese businesses produce only 4.9% of the global total this is somewhat far-fetched. In

addition the \$3.2tn pales into insignificance beside managed funds in the US having assets of \$35tn and European funds near \$25tn. One US fund alone has more than \$3.2tn in assets. No-one expresses concern about them buying the world or asks that they play the game and bail out Europe.

- Western attention has been strongly on the acceptable “Western-like” symbols of China’s rise such as tens of thousands of skyscrapers and long bridges. But little attention goes on the way 650 million people have been dragged out of poverty, how the average dwelling area per person has risen from around 7 square meters in 1978 to 30-35 (that latter number however in dispute by many young city-dwellers.)
- Western media speak about China’s activities in Africa in terms of stripping minerals, supporting corrupt regimes, creating pollution, and denying Africans jobs by bringing in their own labour. Few consider the fact that in spite of decades of aid and visits by truck loads of movie and music stars Africa has remained mired in economic woe and poverty – until now. Growth is lifting with hefty infrastructure spending by China and provision of many jobs and opportunities for acquiring skills.
- Western media have for the past fortnight focused on allegations of doping of Chinese athletes, cheating (proven for a number of countries), etc.

Western-media phone hacking is also hardly a good look.

Western and Chinese media speak at cross purposes and deliver what they feel their readers want or need to know rather than inform them in an unbiased manner about what is going on. China’s media is an instrument of state aimed at promoting stability, harmony and the primacy of the CCP in maintaining such stability, holding China together, delivering strong economic growth, and regaining China’s international respect. Western media is called the Fourth Estate. It has the explicit role of keeping those in power honest and limiting their ability to get away with things citizens do not want to happen. We elect a group of people to rule us and limit their power through the Parliamentary voting system on Executive decisions, independence of the bureaucracy, independence of the judiciary, regular elections, and things here such as retaining the Queen as Head of State, respecting the Treaty of Waitangi, and the MMP system of parliamentary proportionality.

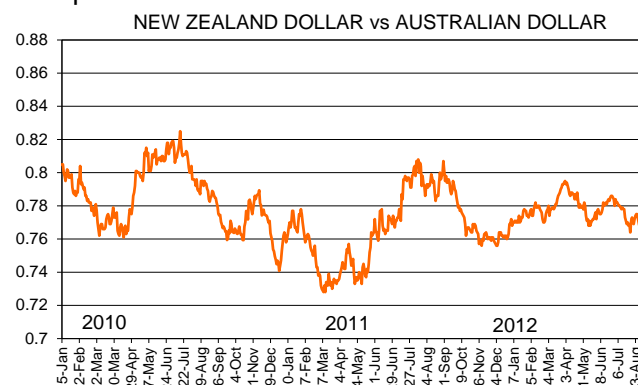
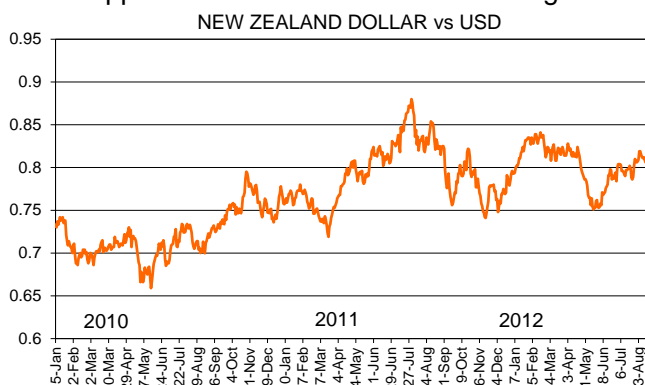
As Stevie Wonder said in his and Paul McCartney’s 1982 song
There is good and bad in everyone,
We learn to live, we learn to give
Each other what we need to survive together alive...

Exchange Rates

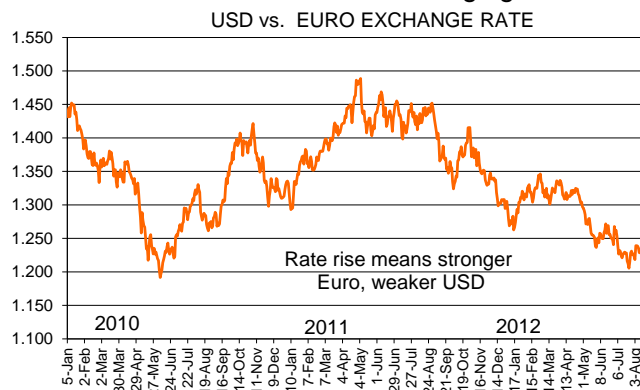
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.807	0.812	0.797	0.768	0.832	0.67
NZD/AUD	0.768	0.769	0.778	0.774	0.792	0.85
NZD/JPY	63.600	63.700	63.200	61.600	63.9	69.6
NZD/GBP	0.514	0.519	0.512	0.480	0.508	0.388
NZD/EUR	0.657	0.657	0.650	0.604	0.576	0.52
NZDCNY	5.135	5.166	5.090	4.854	5.317	4.99
USD/JPY	78.810	78.448	79.297	80.208	76.803	105.7
USD/GBP	1.570	1.565	1.557	1.600	1.638	1.72
USD/EUR	1.228	1.236	1.226	1.272	1.444	1.28
AUD/USD	1.05	1.06	1.02	0.99	1.05	0.788
USD/RMB	6.3633	6.3624	6.3863	6.32	6.3909	7.56

Not Much Change

Hardly any of the exchange rates we note above have altered to any appreciable degree over the past week apart from maybe the dollar against the Euro which has strengthened in favour of the USD. That comes about because of the firm US retailing number and reduced expectations of extra Federal Reserve money printing. The good result at the Global Dairy Trade auction last night where prices rose an average 7.5% have supported the Kiwi dollar but failed to generate new upward movement as such.



As usual the weeks ahead will see our currency rise as worries about Europe dissipate and fall as worries grow. All you have to do is forecast how those worries change. I can't though my bias is toward things getting worse. Does that mean therefore that the NZD will fall strongly? No because we look to be in good economic, fiscal and banking shape compared with much of the rest of the Western world, because our dairy prices are rising again, and because we face good long term growth prospects on the back of strong demand for our quality and safe food from China and other emerging economies.



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



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