

Weekly Overview Cutout

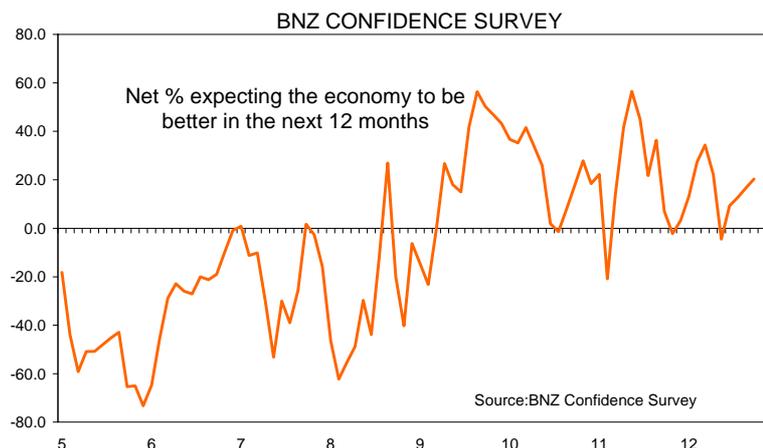
Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

This commentary is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. There is no emailing list for this particular publication which is part of the Weekly Overview.

In London Still

Our now eight year long monthly Confidence Survey this week revealed a lift in sentiment about where the economy will be in a year's time for the fourth month in a row. A net 20% of respondents feel confident about the economy compared with 17% a month ago and a net 5% who were feeling pessimistic back in June. A quick glance at the graph shows that this four month upward movement is not unusual and cannot be interpreted as reason for lifting one's growth forecasts by any appreciable degree in the near future. But the direction of change is important in that it signals to us that in spite of the high NZ dollar bringing pain for those manufacturers who's business models rely substantially on price rather than innovation and what they teach you at Harvard Business School, the NZ economy is not in bad shape.

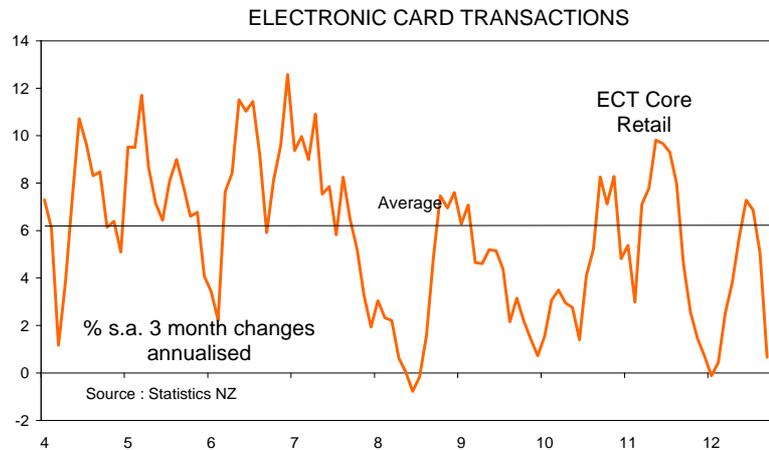


My other survey from last week regarding whether to change the frequency of the Weekly Overview led to a gross 54% favouring retaining output weekly, 39% fortnightly, and just 7% monthly. Many people noted it would be perfectly acceptable to write that there is nothing much happening and produce just a slim edition if warranted. Therefore what I shall do is keep the weekly format but have no hesitation to state in the introduction that content is near zero either because nothing much happened, none of the underlying trends have altered, or I have been too busy with my other publications and/or travelling for talks around the country – and now and then offshore. There was however extremely positive feedback regarding writings and observations about economic, recreational, and social conditions when offshore so I shall include more such things this issue as I am still in London.

But first some things on the economic side.

Apart from our survey showing rising business confidence, we also learnt from the REINZ that dwellings are selling at a faster than average pace but price gains are still occurring at a measured pace. It will be interesting to see if that latter dynamic continues next year when more retiring people look to earn yields higher than those offered in bank term deposits and start flocking to the residential property investment companies which appear to be springing up again.

The monthly Electronic Card Transactions data from Statistics NZ showed that core retail spending fell by a rather large 0.9% in September. However this monthly measure is quite volatile and it is best to smooth over three month periods. Doing that we see that core retail spending in nominal seasonally adjusted terms has grown only 0.2% in the September quarter from 1.8% in the June quarter and 0.6% in the March quarter.



So some unusually firm retail spending growth has now ended and this latest weak result while probably over-emphasising the restraint which is out there is more in accord with the feedback we have been getting from those in the retailing sector.

For instance from our latest Confidence Survey we have these comments relevant to retailing.

- Pharmacy - only average in retail. Some hopeful days but still some shockers.
- Retail giftware. Margins very tight. Customers wanting product within very limited \$ value. We are regionally based but also sell on line which has been our saving grace. Hopefully longer days and better weather will see more potential customers out and about
- Retail Flooring - Tauranga. Business is fairly brisk - lots of enquiry, a good ratio of confirmations.

Some Offshore Observations

I forgot to mention last week that in Paris the beggars don't just confine themselves to the streets. They also roam the train platforms and the trains themselves. Some simply ask for money while you are sitting in your seat, others walk past handing out a small note to each person detailing their circumstances. They then return a few minutes later gathering up the notes and clearly hoping that having read their story someone will feel inclined to donate some money.

On the trains there are also frequently musicians who will play their instruments then after three or so stops will go around shaking their tin for money.

In the UK the television system shows starkly how appallingly behind the times we are with our stone age internet. There are a number of TV programme companies like our Sky offering their services including the ability to access any programme on demand which they have shown in the previous seven days, and being able to search online and have made available for instant viewing any programme containing the key word which you enter – such as Kung Fu according to the advertisement which I saw. It looks like the programmes are sent on demand and not stored on one's black box and for that one needs good internet which we do not have. The building we are staying in at Millharbour beside Canary Wharf is in the process of upgrading to 1GB – vastly superior to the 10MB we are aiming for with the National Broadband rollout.

Seriously – how can we hope to attract people wishing to live a modern life in a more relaxed environment while they ply their services over telecommunications networks if the best they can hope for is 10MB – if there are few other people are on the network at the same time? Like insulation in our houses we are a

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country which does not offer the modernity which skilled highly mobile people overseas are demanding. It is almost like we require that they step back in time if wishing to settle in NZ.

I prefer staying in apartments to staying in hotels because you get much better bang for your buck. But attention to detail can be lacking and things can seem a bit strange. For instance in the apartment we are in one of the cushion covers was held in place not by stitches or even staples – but large pins! The curtains are draw cord-driven blinds in four vertical sections which keep hardly any light out so if you are not used to sleeping with a streetlight beaming through your window you'll need nightshades. My wife woke up at 5.00am and seeing the light shining through got changed into her running gear, had a cup of tea and was about to set out when she chanced to pull aside a blind and saw that it was still pitch black outside. So she went back to bed – without waking me thank goodness.

There is heating at certain times of year but no cooling – in other words no air conditioning. In fact the extraction fans in the two bathrooms and the kitchen do not even work. The doors have an automatic closing spring loaded which means they slam when closing and to keep them open to allow air to circulate you need to wedge a shoe in the opening.

The apartment has windows which open by leaning back at the top – which is fine for windows, but the doors opening to the balconies do it as well. So when one of the children turned the large latch and the top of the large glass door started falling towards him we thought he was about to be crushed to death. But it stopped of course and after much head scratching we realised that by pushing the door back in and turning the handle the other way it became a door. Culture shock. Its funny in hindsight, embarrassing at the time.

On Sunday night we had a good dinner at one of the oldest pubs in London – the Crooked Billet at Wimbledon. The area used to be frequented by highwaymen and one was hanged nearby. The pub like so many others is warm, welcoming, relaxed, with children and dogs allowed to roam freely and good food on the menu for those wanting to eat. In summer people take their drinks and food across the small road to a grassy paddock and eat and drink there.

We went to visit Greenwich Village which is just a few stops down the Docklands Light Rail line (no, I don't think Wellington or Christchurch should waste money on a light rail system) and it is worth a visit. There is the wonderful Maritime Museum to wander through, the Observatory, nice parks, the village itself, and a great market with interesting stalls and ethnic food able to be perused and consumed respectively in a far less bustling atmosphere than you will find at Covent Gardens. We went there as well on a Saturday and it is a madhouse though well worth spending time at for the various forms of entertainment. Don't use the Underground there as it can only be entered using a couple of large lifts and you can only get out using either the same lifts or waking up untold stairs.

At Greenwich we also visited the restored (yet again) Cutty Sark tea and wool clipper which is quite good. The kids are fascinated by the squirrels which seem to be in most parks and keep asking about whether we can take one home. I explain about what the possums have done to our forests, plus the devastation of the bunnies, the deer, pigs, and so on.

D1 had her birthday on the Saturday and said she wanted to have clothes bought for her at Primark on Oxford Street. I knew what to expect and despite warning her that it would be better to go on a day other than the late afternoon of a Saturday she insisted. So we went. As we entered the store I gathered everyone for a briefing on what to do if they got lost and as we walked in the security guard backed up my warning with his own regarding it being a madhouse in there and did we really want to take the kids in? With his support I managed to encourage everyone back out again but D1 still insisted so she re-entered with my wife and our small boy (B2, B1 is back home) while the rest of us strolled north of Oxford Street to the calmer environs there. I later learnt that D1 was unable to try on any garments because the queues for the fitting rooms were simply too long and they ended up spending most of their time standing in line simply waiting to pay and get out.

If you are going to go to Primark and mix there with the Eastern Europeans and Londoners looking for cheap stuff, do it during the day on a weekday and remember to leave your dignity at the door. Speaking of dignity,

apparently a few of the customers frustrated at their inability to get into the changing rooms simply try outfits on in the aisles. Free entertainment.

We also managed a visit to the biggest shopping mall in Europe which is located just along the DLR line from Canary Wharf at Stratford. It is just beside the Olympic Stadium and apparently was a madhouse when the games were on. We were there on a Wednesday afternoon and it was quite pleasant. The bottom floor contains the sort of stuff you find in most NZ malls with a food court as we understand the concept. For decent food the second floor contains a good range of restaurants along with many better presented shops which you'll also find many of on the first floor and in the "street" outside. One level has a champagne bar but seriously – that seems a bit naff in a mall. I think to myself would that sort of thing slot into Shirley where I grew up in Christchurch and I'd say most definitely not – though I could name a few relatives who'd give it a go and think they were well up the ladder.

There are two or three stores there which are quite dark on the inside and I think one was called Holister California but it was hard to tell because there was no name out the front. Another might have been Gilly Hicks of Sydney and their thing is to have lightly clad male and female models hanging around out front.

As with just about every shop in London we went into there are security guards in the stores. English people must be very dishonest I guess, or maybe it is all the foreigners who visit there.

This article cut out of the BNZ Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand and is one of a range of releases including the following.

- Weekly Overview sent directly each Thursday night to 27,000 people <http://tonyalexander.co.nz/topics/regular-publications/bnz-weekly-overview/>
- 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
- Discussion of New Zealand's relationship with China can be found here. www.facebook.com/TonyAlexanderNZ

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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