BNZ Weekly Overview

15 November 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
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Run of Weak Data

Many of the data releases in New Zealand recently have turned out on the much weaker than expected side and this just reinforces the caution we've been advising regarding the strength in our economy. People seem to still be intent on controlling their spending (outside housing in Auckland) and businesses remain cautious in their hiring. This then is a continuation of the situation we have seen for over three years now – namely ongoing uncertainty and complete lack of insight into when cautious attitudes will change, leading to less than expected strength in economic activity.

Last week it was the turn of the Household Labour Force Survey which showed job numbers falling an unexpected 0.4% in the September quarter to sit unchanged from a year earlier. This week it was the Retail Trade Survey which showed ex-auto spending after adjusting for inflation and seasonal factors falling 0.3% during the September quarter. This result therefore is in line with the sometimes wobbly Electronic Card Transactions monthly series which showed nominal seasonally adjusted core retail sales falling at an annualised pace of 0.1% in the three months to October.

Do these weak numbers mean the RBNZ will cut the official cash rate soon? The probability of a cut has risen. But we all know that just around the corner lies an inflationary surge in construction spending associated with the rebuilding of Christchurch, catch-up house construction in Auckland, infrastructure activity, water-tightness corrective work, and earthquake strengthening. Therefore the chances remain low that the RBNZ will ease monetary policy again. But the data do reinforce the point that while the next change in monetary policy is likely to be a rate rise, this probably won't happen until 2014.

I remain on the pessimistic side of those forecasting growth and deriving interest rate forecasts and see myself staying there for quite some time – though growth will clearly lift next year for some obvious reasons. But there will be an offset to the construction upturn from the high and probably still rising NZ dollar crimping exporter returns – especially for manufacturers – plus tightening fiscal policy (when will they get around to delaying the surplus target one year?) and wealth losses associated with the PSA outbreak affecting Kiwifruit, plus all our cash flows being constrained by rising insurance premiums.

Labour Market

Last week's surprisingly weak job numbers were noted by some as being inconsistent with other indicators of the labour market. For your guide here are some of those other indicators.

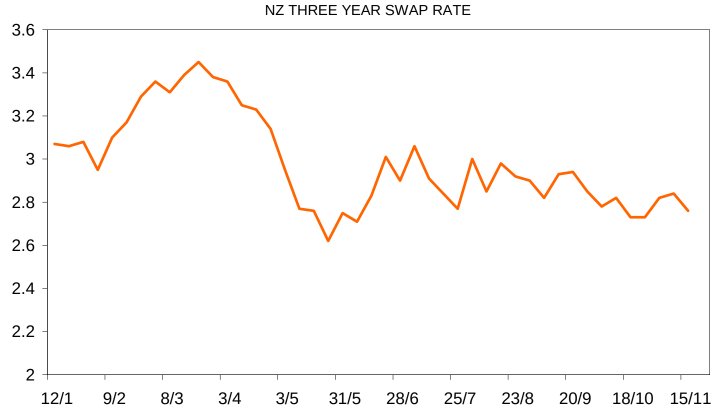
The monthly ANZ business survey showed in early October that a net 4% of businesses plan hiring more people. This is equal to the ten year average reading and follows a reading which averaged twice the ten year average at 8% in the first nine months of the year. In manufacturing the latest reading is a positive 3% which is above the average outcome for that sector of -1%.

The seasonally adjusted number of online job advertisements in the September quarter was ahead 0.9% from the June quarter which showed a 2.8% rise following March quarter's rise of 5.6%. Ads in September were 4.5% ahead of a year ago.

The labour market is almost certainly not as weak and more especially not as newly weak as the Household Labour Force Survey numbers show. The survey has become quite volatile for inexplicable reasons in recent years and as we have noted here before needs to be treated with a grain of salt. Nevertheless, even though it does not throw up rouge results every now and then if we take an average for the first three quarters of this year we get jobs shrinkage of 1,000 a quarter. So the NZ labour market is fundamentally weak.

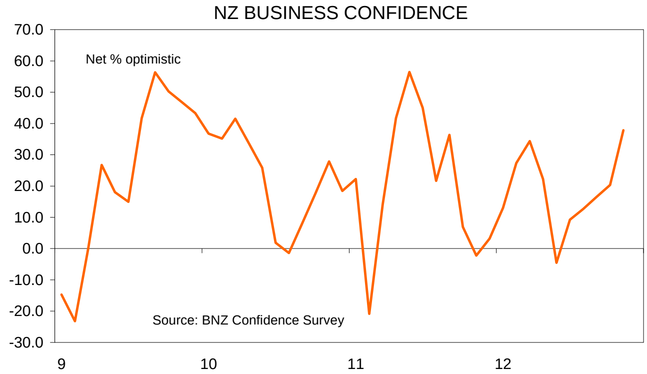
INTEREST RATES

Nothing major to report. The RBNZ is unlikely to raise the cash rate until over a year from now while the direction for swap rates looks more likely upward than downward but nothing suggests that we are yet close to a decent jump. That is because just as we are receiving better than expected data on the US housing and labour markets plus consumer confidence, and while data from China are getting better, business confidence in Australia has fallen quite a bit as businesses scale back their investment plans, and recent releases for France and Germany have been worse than expected.



Specifically, why won't the RB ease monetary policy because of weak NZ data? First, the housing market is rising already and will become a source of inflationary pressure from next year so cutting rates now and encouraging even more aging investors to quit low yielding bank deposits for residential property investment vehicles will not only hasten and enlarge the housing boom-bust but eventually destroy the wealth of many unsophisticated and unlucky people.

Second, there is no evidence that businesses are refraining from investing and hiring because interest rates are too high. In fact decades of research shows the biggest influence on businesses is their confidence and that is fine currently.



Third, for those arguing that relative interest rates are key currency determinants and because our 2.5% rate is above some foreign rates our NZD is high – think again. Since September 2011 the extent to which Australia's cash rate sits above our own has shifted from 2.25% to 1.0%. But rather than rising against a less interest rate supported AUD the NZD has fallen from 79.4 cents to currently just over 78. Currencies are being driven by factors other than interest rate differentials currently.

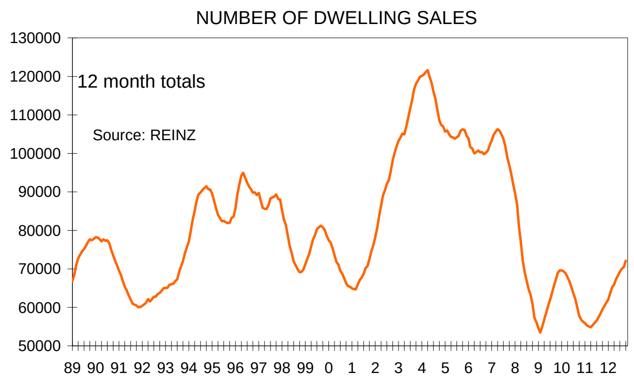
FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.67%	2.67	2.66	2.67	2.76	5.7
1 year swap	2.55%	2.62	2.51	2.70	2.92	5.8
3 year swap	2.76%	2.84	2.73	2.98	3.36	6.1
5 year swap	3.05%	3.14	3.03	3.32	3.97	6.3

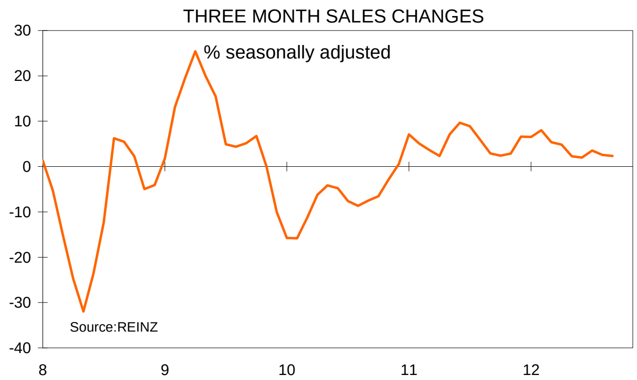
HOUSING MARKET UPDATE

- **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.**
- **Read the Housing Section in the November 1 Weekly Overview for a list of 19 reasons why Auckland house prices will keep rising. http://tonyalexander.co.nz/wp-content/uploads/2012/11/WONovember-1.pdf**

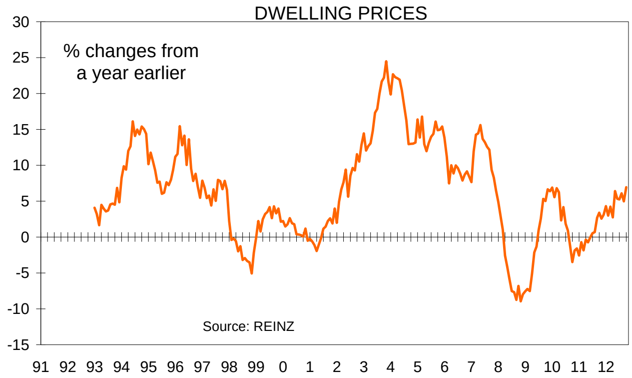
Nothing New. Market Rising

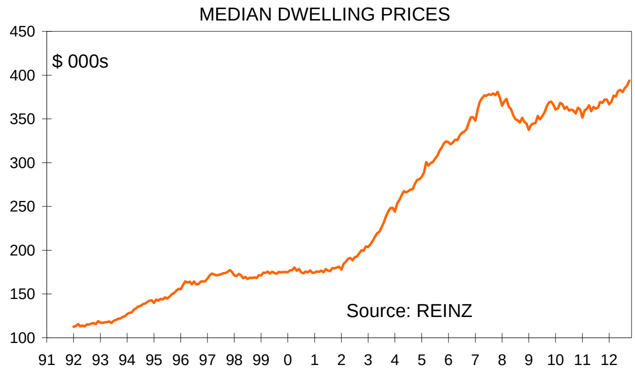
The REINZ released their monthly data this week and as with most months since the start of this year they show a rising housing market. Sales numbers nationwide in October were a very strong 32.6% ahead of a year earlier and in seasonally adjusted terms were 5.7% up from September. People are buying lots of houses and the annual sales total now stands at 72,116 which is a 21.2% rise form the year to October 2011 and the highest annual total since May 2008.



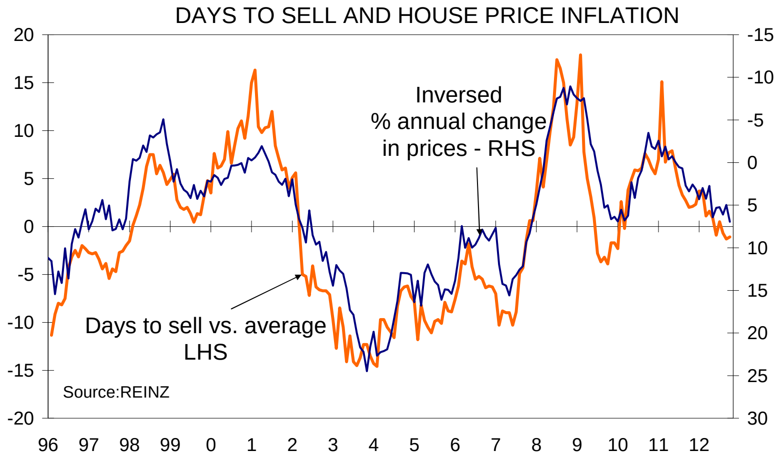


The median dwelling sales price adjusted for changes in the mix of properties sold rose 1.5% in the month to sit 6.9% up from a year earlier and 3.9% ahead of the late-2007 peak. In Auckland prices rose by 5.3% in the month and 14.4% from a year ago. Auckland prices are now 12.3% up from their late-2007 peak.





On average in October it took 32 days to sell a dwelling which was 1.1 days faster than average. This is only a small divergence from average so one could not really say that the market is going gangbusters.



All up the market is rising and prices are lifting.

If I Were A Borrower What Would I Do?

I would either sit floating or fix for one year at 5.25%. But I would also keep an eye open for a discounted long term fixed interest rate in order to get some certainty about my cash flows during these continuing uncertain times and because at some stage interest rates will blip up. But we do not appear remotely near that point yet so borrowers look like facing good conditions well into 2013. Pity us savers though.

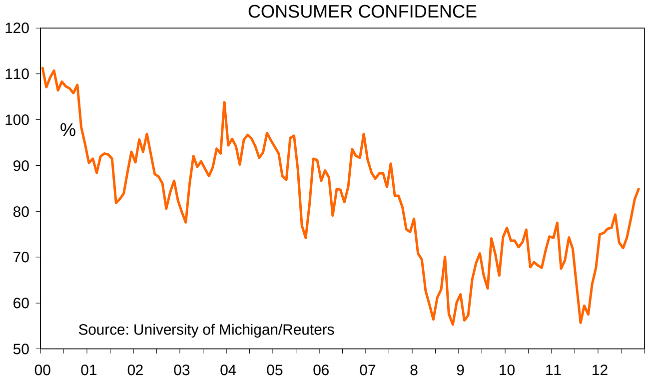
MAJOR OFFSHORE ISSUES

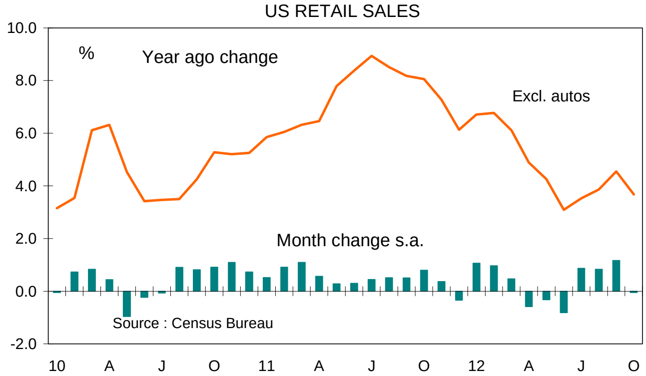
Europe

The Greek Parliament voted on new austerity measures and in response the Euro-zone finance ministers have given them two extra years in which to get deeper into debt – I mean get their finances under control. So effectively Greece has been given yet another bailout aimed at keeping them in the Euro-zone and EU and avoiding a contagion effect whereby investors would flee other countries which they fear other investors may think they think will be next to quit the zone. The Euro under such a scenario would fall very sharply in anticipation of the whole edifice falling apart.

United States

The early November measure of consumer confidence from the University of Michigan rose to a reading of 84.9 from 82.6 in October and a recent low of 72 in July. This is the strongest reading since July 2007 and bodes well for some improvement in household spending, the housing market, and therefore maybe the US economy overall. The result generally supports improving forecasts for US growth – though with all such forecasts having a huge caveat associated with the US budget deficit and newly approaching Federal debt ceiling.





But as has been consistently happening for three and a half years now, as soon as a string of good numbers appears and markets get optimism, bad data come out. Last night this came in the form of worse than expected retail spending in the US. During October sales fell 0.3%. However this followed an unusually strong 1.3% rise in September and still left sales 3.9% up from a year earlier.

For the moment it appears valid to buy into a recovering US economy story – subject to a deficit reduction plan being worked out and worries about such a plan will likely keep markets very volatile going into the end of the year.

China

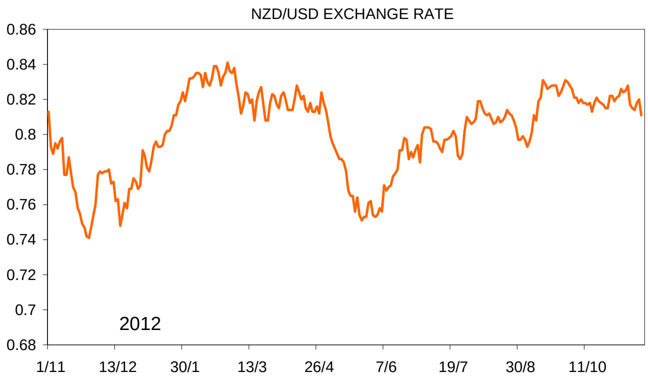
You can find my China page on Facebook at http://www.facebook.com/TonyAlexanderNZ I have set up this page specifically for discussing the NZ-China relationship and as a tool for disseminating information and furthering my own still inadequate knowledge.

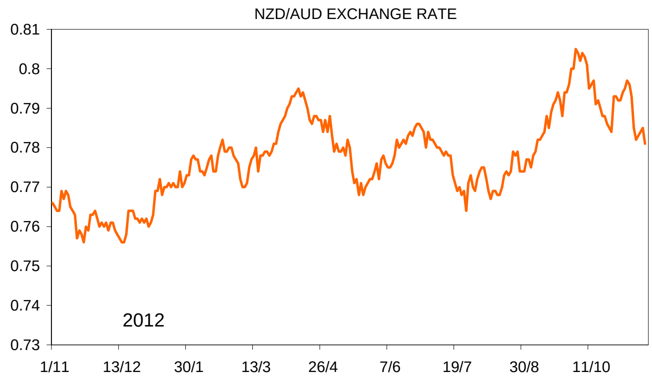
Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.811	0.817	0.818	0.806	0.778	0.67
NZD/AUD	0.781	0.785	0.797	0.768	0.763	0.85
NZD/JPY	65	65.2	64.1	63.4	60	69.6
NZD/GBP	0.511	0.511	0.508	0.514	0.489	0.388
NZD/EUR	0.636	0.64	0.631	0.654	0.571	0.52
NZDCNY	5.05	5.13	5.12	5.13	4.94	4.99
USD/JPY	80.15	79.80	78.36	78.66	77.12	105.7
USD/GBP	1.59	1.60	1.61	1.57	1.59	1.72
USD/EUR	1.28	1.28	1.30	1.23	1.36	1.28
AUD/USD	1.04	1.04	1.03	1.05	1.02	0.788
USD/RMB	6.23	6.2755	6.2644	6.36	6.3552	7.56

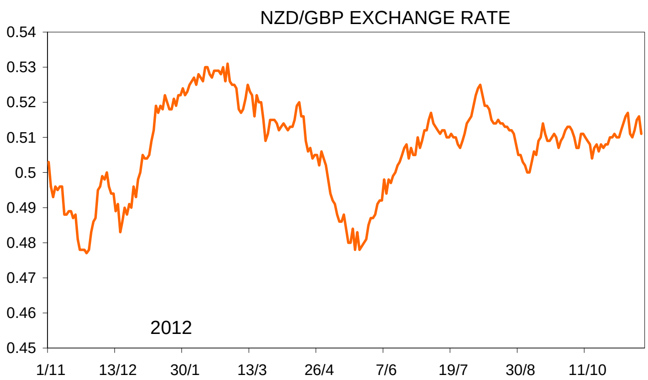
Other Currencies Bad

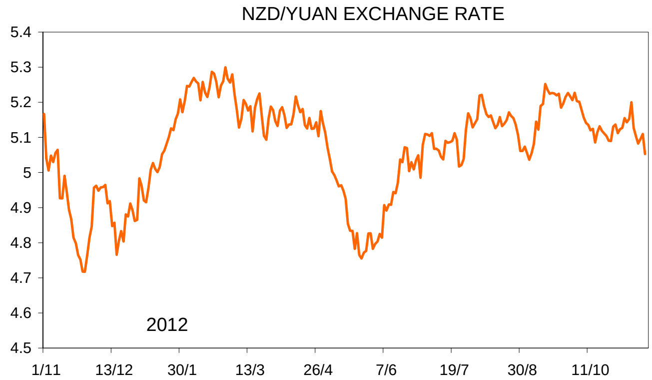
In spite of the recent weaker than expected employment and retail spending data the NZD has fallen only marginally against the USD from a week ago and sits above where it was three months ago. Overnight the weakness in sharemarkets associated with worries about the US budget deficit and new unrest involving Israel and the Gaza Strip saw the greenback weaken. The Yen meanwhile weakened following data earlier in the week showing 0.9% shrinkage in the Japanese economy during the September quarter and expectations of more Bank of Japan monetary policy easing. The Euro meanwhile remains negatively affected by continuing concern about Greek indebtedness and rising social unrest.





Amidst all of those woes we shine out as being a lucky country with good food exports and low government debt offsetting any worries about growth seeming to have stalled for the moment – ahead of the biggest construction boom in a long time.





Key Forecasts					
Dec. year		**2011**	**2012**	**2013**	**2014**
GDP	annual average chg	1.3	2.0-3.0%	2.0 – 2.5	1.0 – 2.0
CPI	on year ago	1.8	1.3	2.2 - 2.9	2.5 – 3.5
Official Cash rate	end year	2.5	2.5	2.5 – 2.75	2.75 – 4.25
Employment	on year ago	1.6	0.0 – 0.5	1.0 – 2.0	0.5 – 1.5
Unemployment Rate	end year	6.4	6.5 – 7.0	5.5 – 6.0	5.0 – 5.6

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 27,000 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
- 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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