

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

To change your address or unsubscribe please click the link at the bottom of your email.

If you wish to email me a comment on any matter discussed here please feel free to do so. All emails will be treated in confidence and if I reprint any insightful comment it will be without any identifying material. tony.alexander@bnz.co.nz

Last Weekly Overview for 2012

Last week's commentary on how expats perceive the attitudes of NZ employers showed that while there is an issue on the part of some expats having unrealistic expectations of what they can achieve in a small country, the bigger issue is the culture of average NZ businesses. Because of that while the ten year effort of Kea in running social clubs overseas has been useful and undoubtedly fun, greater attention needs to be paid to altering the attitudes of Kiwi employers and matching them with keen expats they are able to effectively use

If you are an expat reading this and interested in offering your services while offshore to an NZ business wanting to effectively utilise the knowledge and connections you have then email me and we'll talk. tony.alexander@bnz.co.nz Equally if you are an NZ business looking to access an expat to see how they can assist you then also email me.

In fact, if you are interested in a project aimed generally at matching expats up with employers in NZ wanting to use their skills whether in NZ or while they are still offshore email me.

tony.alexander@bnz.co.nz

To continue...

In the words of Kea people they are disappointed at the way NZ businesses fail to make professional use of the contacts which they have provided offshore in the past. Our focus therefore needs to be not just on building networks of Kiwis overseas but also on

- educating Kiwi businesspeople about how best to use expats,
- educating Kiwi businesspeople about how best to use immigrants (and if the first task is difficult imagine this one!),
- teaching Kiwi businesspeople about the need for higher professionalism and time on the ground when they go offshore,

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- teaching Kiwi businesspeople to move away from a mindset of thinking that big markets offshore mean big opportunities when offshore distributors frankly only want to work with Kiwi companies which can scale up production massively should their products prove in high demand.

To finish off this issue for the time being, here is material received since last week's Overview and information showing that for expats seeking to return there is no shortage of information. Enjoy.

How Can Expats Find Work in NZ?

There are many sites which people can look at to find jobs in New Zealand. Some however are more oriented toward expats and foreigners with a view toward smoothing their entry into New Zealand (or Australia).

www.seek.co.nz

<http://www.trademe.co.nz/jobs>

<http://skilledmigrantjobs.com/JobSeeker/Jobs/List.aspx?c=NZ>

http://www.linkedin.com/jobs?displayHome=&trk=hb_tab_findjobs

For all the rest one can start searching here. There are quite a few job sites.

<http://www2.careers.govt.nz/>

For immigrants specifically the information search should optimally start with visa rules here.

<http://www.immigration.govt.nz/>

Just in case you are an expat reading this and looking for a position the following emails sent in may be of interest.

"I'm interested in talking to motivated kiwi expats with a good business acumen or who have a related property degree who would be suitable for the marketing, sales & leasing of commercial, industrial and investment property, predominantly in Christchurch and the South Island market."

If you want to follow this up then email me and I shall put you in contact with the person.

tony.alexander@bnz.co.nz

And...

"PMR specialise in the supply of Grain Drying, Storage & Handling Equipment.

Basically we are looking for an experienced sales guy in this field with a good working knowledge of Product, plant layout and erection times.

Have a quick look at our web page:- www.pmr.org.nz "

How Can Expats Promote Themselves?

CVs can be posted on these sites.

<http://www.trackmeback.com/nz/>

<https://www.seek.co.nz/MyAccount/Profile?cid=sk:main:nz:bannerhome:JSP-GetInFront>

<http://skilledmigrantjobs.com/JobSeeker/Upload.aspx>

http://www.linkedin.com/mnyfe/subscriptionv2?displayProducts=&family=jss&c=25&tmid=&openlinkOn=&trk=nl_job_nav

How Can NZ Employers Change Attitudes and Practices To Best Utilise Our Skilled Diaspora?

Did you know that percentage of population-wise NZ apparently has the second biggest diaspora after Ireland? One frequently quoted statistic is that 40% of our skilled workforce is overseas. Either expats can dumb themselves down to avoid scaring NZ's generally conservative employers, or employers can up their

game and embrace these go getters who went, got, and now want to bring some of it back. So how can an employer make the adjustments?

One way is by learning that there is a distinct NZ business culture. The expert in this area is Tony Smale of Forté Management <http://www.forte-management.co.nz/>

I wrote about his work on the cultural characteristics of NZ businesspeople and posted two papers on my website early last year.

<http://tonyalexander.co.nz/wp-content/uploads/2011/06/What-We-Lack-8.pdf>

<http://tonyalexander.co.nz/wp-content/uploads/2011/05/Our-Deficiencies-Summarised.pdf>

The second paper above on pages 3 and 4 gives a quick summary.

Expat Experiences

“My experiences coming back were consistent with the themes in your paper, I had to start my career again from the ground up. However, progress was fast, because as a scientist with an international network, I picked up O'seas consulting jobs (even while working in a CRI), and quickly moved into a consulting business model, where the incentives were better aligned with what is required to motivate me and make me successful.”

“People who come here from larger countries and returning ex-pats are generally realistic about salaries etc. i.e. we know it's not London, New York or Tokyo etc. We come for a better and safer life for our children and for far lower stress levels plus the fantastic environment. People in their twenties and thirties go off shore for experience and opportunities, people coming back to NZ can offer that experience and their contacts at a reasonable price. The smarter kiwi employers understand this and use it to their advantage by taking these people on. Congratulations , excellent work.”

“I have had discussions with a few NZ head-hunters over time and the main theme I get has been around “you have to be based here to discuss available roles”. To a point I can understand that but packing up from a well paying job in a large global company whilst working in an economy that is growing and where your family needs are well catered for is not something that can be taken lightly in these economic times. If that is the reality then it is a very difficult one to consider and I am therefore not surprised many expats stay where they are. I have met up with at least 5 expat people with families who returned to New Zealand to live only to move back to Singapore within 2 years. That is not a comforting trend for someone contemplating a return. “

“Friends who have returned have described a ‘dumbing down’ approach needed to avoid eliciting resistance from colleagues, managers and Board members. I have lived in China and Singapore for nearly 20 years and often get asked if I would ever return to NZ. Apart from becoming rather soft re climate from living in Singapore, it is the smallness of mindset regarding expats’ experience rather than of the economy which is the greatest barrier. My international experience is a greater contributor of value to my employers than the degrees I studied for – imagine if agencies were telling candidates that they should downplay their degree!. Why can't NZ employers take a lesson from China with the tremendous impact that the returnees are making to China's economy? In my biopharma industry the return of overseas talent is a key success factor for China.”

“I found that overseas experience seemed almost to be a disadvantage for my job search: the overseas companies are not known locally, and if your experience doesn't fit into a very small well defined box, then recruiters and employers have a hard time equating it with NZ (as an example, I have almost 10 years of project management experience, but have been rejected from some jobs as not having any project management experience). I also received a lot of almost apologetic comments about NZ's scale: "well its much smaller here in NZ, you might get bored". This couldn't be further from the truth, smaller companies are agile and innovative, and are not bogged down the by the bureaucracy of larger places.”

What Expats Want

The Global CareerLink annual survey last year asked expats what career path they wanted to follow back in NZ. Of the 512 respondents 54% wanted to work for a large organisation, 12% for a small business, and 23% wanted to start or buy into a business.

Of the 54% wanting a big business career asked to rate from 1 (low) to 6 (high) what motivates them

| | |
|--------------------------------------|-----|
| Progressing current career | 4.3 |
| Range of career opportunities | 4.2 |
| Training and support | 4.0 |
| International aspects | 3.9 |
| Availability of specialist positions | 3.8 |
| Working with like-minded people | 3.7 |
| Job security | 3.5 |
| Big business culture | 3.3 |

There are detailed results available also for the small business and entrepreneurial categories. If interested email me tony.alexander@bnz.co.nz

Hiring

“We have had no success recruiting expats. We would love to hire them, but anybody good enough to succeed in our business will likely have an option for a better job O'seas. We have managed to recruit some experienced NZers already working in NZ but the pool in our specialist areas is limited, and we are currently recruiting internationals with promising careers, good international qualifications, and who happen to come from countries like Poland, Spain and Brazil, so they truly value the good things NZ has to offer. They also bring language skills and home country networks that are different to what many expats offer.”

“We did a very small number of interviews with exporting firms as part of the ... work, and one of the things that came out of it is that often employers see migrants (as with returning expats) as just another worker, rather than a person with special networks or skills of which they could take advantage.”

“Tony, in the last 12 months we hired an Expat wanting to return to NZ with his family. I think the benefit of doing this is that you don't have to acclimatise the person and his family to the extent that you do when recruiting people who are not familiar with NZ.”

“Our experience is that returning Kiwis are great employees and we seek them out.... A worrying phenomenon that is getting worse is the hollowing out and dumbing down of management in foreign owned companies in NZ. We see it in our foreign owned clients where the Marketing Directors are now based in Sydney or Singapore and we are left to deal with marketing managers or worse. I recently recruited for a middle level financial role (qualified Accountant) and was surprised by the number of applicants that I considered too senior for this role. When I queried them they said the senior roles are all moving offshore and my role was one of the best available. They were willing to take a pay cut to stay in NZ or get back into the country. Some recently returned Kiwi accountants were considering returning overseas because of the shortage of fulfilling senior roles in NZ.”

“For what it is worth, my view of the IT market is that employers are generally open to ex-pats and new migrants working in the technology field, but with some caveats. The same biases do exist as in any industry sector, with companies preferring to hire the known quantity (home grown Kiwis), but the skills shortage is such that companies must look, and in general are looking off-shore for talent, when needs must.”

Suggestions for Expats

“That expats be advised that an option to help them to succeed here is to set up an offshore work stream before they come back. That way they can set up their own business, and be free of the shackles that I believe are a natural response of NZ businesses to the environment they face. People/businesses having a split of international and NZ work is, I believe, incredibly valuable to New Zealand.”

“The issue we find is that candidates are often offered lower salaries and positions to those which they left behind in their native or adopted countries. Top talent can find it difficult to accept that they are worth less, simply because they are moving country. They feel under-valued and under-utilised. Returning and new Kiwis alike are generally coming from larger markets and can sometimes find it hard to adjust to the slower, smaller scale of activity here in NZ. While candidates often accept jobs below their capability, until they have “New Zealand experience”, we recommend they match their new job as closely as they can to their skill set. “

Improving NZ Internationalisation

“That we look to embed the OE into a NZ career for our bright young talent. In our business, we actively send our starting and early career consultants O'seas to work with clients at or below cost to us, because of the value to our business of the contacts and self confidence they build. Most of our young talent comes back, because they see for themselves that we can offer them the international stuff to add spice to their NZ work, and the lifestyle and work environment advantages they enjoy when based here. We keep close contact with a few ex-employees (both are actually completing PhD's in top international Universities), and would do our best to employ them again if and when they are ready to come back.”

“For the larger companies it might be appropriate that direct line managers are not involved in the recruitment process (or at least not being solely responsible for decision making). Utilising managers located at least two tiers up from the post (or governance board if appropriate) would enable a better assessment of expat skills. This approach to recruitment would help to remove problems associated with ‘anxious’ line managers, and would encourage more internal competition between staff which I imagine if carefully managed could help the business be more aggressive and perform better.”

Reasons for Employer Attitudes

“It is tougher here, because of our small scale, and because there are a lot of educated, innovative and talented people prepared to work harder for less. They have chosen to stay here and enjoy our country, our lifestyle, and our culture, or maybe they just don't know of anything different. These people also know the ins and outs of working in a small country riddled with conflicts of interest and very strong networks (including old boys' networks). “Never left” NZers are not as prepared to take risks, because the consequence of a bad outcome are much worse here than in a large country or a country with more tolerance of failure. Thus a gung-ho and over confident expat used to throwing around big figure deals could be a significant risk in our business environment.”

Research Underway

David Ellis is half-way through a PhD looking at exactly the topic of expat experiences in NZ! Here is a summary of his work especially written for inclusion here.

PhD study on returning Kiwis

My PhD study in HR Management at Massey University is exploring the pre-repatriation expectations and post-repatriation experiences of returning Kiwis. The experiences of company-sponsored repats are quite well documented, with reverse culture shock having negative outcomes for career and broader life, as well as for employers. This typically happens when repatriation expectations are misaligned with reality, and research has already prescribed various actions to help close this expectations-experiences gap. However,

research into people returning under their own steam - who have issues unique to them - is now also gaining international traction.

My study is looking at the level of congruence between self-mobile Kiwi's pre-repat expectations and their post-repat experiences. Central to this is career impact; the opportunity repats have to use skills and experience gained abroad, and the perceived value placed on them by employers. Both repats and employers could benefit from research insights that lead to concrete actions. For example, multinationals may have management plans in place for sponsored repats, but what can employers and prospective employers of self-mobile repats do? What are repats' issues, and how can we help minimise shock and realise the true value repats have?

Research from Ireland (Begley, Collins & Scullion, 2008) suggests repatriation is more difficult for the self-mobile than the company-sponsored. A recent study looking at self-mobile repats to France, Germany and Denmark (Andresen & Walther, 2013) has revealed vast differences in how repats are received by prospective employers. Earlier work in New Zealand focused on "overseas experience" returners. For my research, I have interviewed 32 mostly professional pre-repat Kiwis, and will interview them again after they have settled in early 2013 to see what we can learn about self-mobile repatriation to New Zealand. My email address is d.r.ellis@massey.ac.nz

Another researcher at a research institute is examining the link between immigrants generally and boosting exports of NZ companies. His work however is not released yet and I cannot give a reference to it sorry.

Institute of Directors Accreditation

In my six pager on the expat issue <http://tonyalexander.co.nz/wp-content/uploads/2012/11/Expathiring.pdf> one person noted difficulties with gaining accreditation for directorships offshore. To wit...

“Prior to leaving NZ I served as a Director on a number of boards but have found on my return there is little interest in utilising my international contacts or experience. Even the Institute of Directors latest directors accreditation process gives little or no credence to having held multiple directorships in Asia, the criteria is mainly based on current NZ held directorships. In my case the overseas board director roles were significantly more challenging than most NZ companies come across.”

Lisa Docherty, Board Services Executive for the Institute of Directors emailed the following this week. “I read with interest your report of 30 Nov 2012 “Expat experiences of NZ hiring”, but wanted to correct a misunderstanding of one of the participants in your discussion thread. The IoD's Accreditation programme has never excluded from consideration experience on international boards. Our rules state quite clearly that eligible entities may be one of the following:

- a company constituted under the Companies Act 1993, a co-operative, trust, government or quasi government body, partnership, local authority trading entity or not-for-profit organisation (or equivalent to any of the above if formed outside New Zealand).

We are about to begin a consultation process in order to review and improve our Accreditation programme in 2013, but we will certainly still place value on the experience our members bring from a range of organisations around the world.

It may also be of interest to you to know that among the criteria given us by our DirectorSearch clients, international experience (either in an executive or governance role) is quite common.”

The Week's Economic Data

Some of it at least...

Debit and Credit Card Spending Recovering Slightly

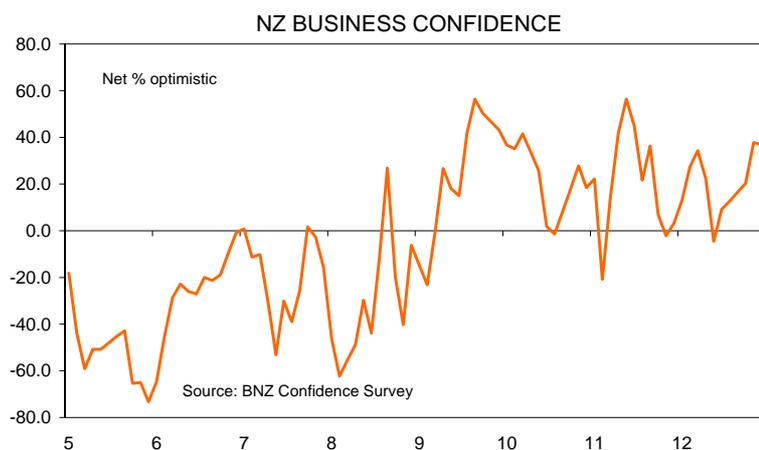
Spending using debit and credit cards grew by a seasonally adjusted 1% in November to give annualised growth in the three months to November of 0%. That is probably a better measure as the month to month numbers can be highly volatile. However the fact that in October this spending measure rose by 0.3% suggests that there is probably some underlying growth occurring in spending using electronic means – but it pays to remember that Statistics NZ explicitly warn us that this series is not to be considered a proxy for retail spending. But given that there is no monthly retail spending number we all do exactly that and conclude for the moment that retailing in NZ is struggling.

Looking through the comments from retailers in our monthly BNZ Confidence Survey however we can catch some indications that perhaps things are improving.

- Best sales in years this xmas. Android tablets
- Retail Flooring Tauranga 2012 has been better than expected - but not without some hard work. All indicators are for a good start for 2013. Bring it on !
- Small distribution business clothing from Europe and finding sales steady and increasing.
- Patchy in terms of real sales, plenty of enquiry and tendering but price seems to be the driver for everything. hard to make a margin let alone acceptable margins
- Clothing / sporting goods industry - Christchurch picking up, lull of RWC well and truly over , positive signs from retail partners for next 12 months
- Vending. Last 3 months are the worst ever experienced. Closures & lack of loose cash by cautious & worried workers have reduced turnover immensely. My other business ventures like Commercial cleaning are suffering reduced hours by Business operators cutting costs too.
- Lots of project work. Very little routine, bread-and-butter work. Shop fitting industry

Business Sentiment High

Our monthly BNZ Confidence Survey showed confidence still at a high level last week with a net 37% of respondents optimistic about the state of the NZ economy in a year's time. This was basically unchanged from the November result but well above average and quite some distance from the net 5% pessimistic back in June. At that time worries were growing again about Greece and there was strong evidence of growth in China slowing down.



Our survey basically tells you what the ANZ Business Outlook will subsequently say and our result means that in a few weeks time when they release their results we will see strong levels of not just confidence and activity expectations but probably employment and investment intentions as well.

Manufacturing – Growing and Shrinking

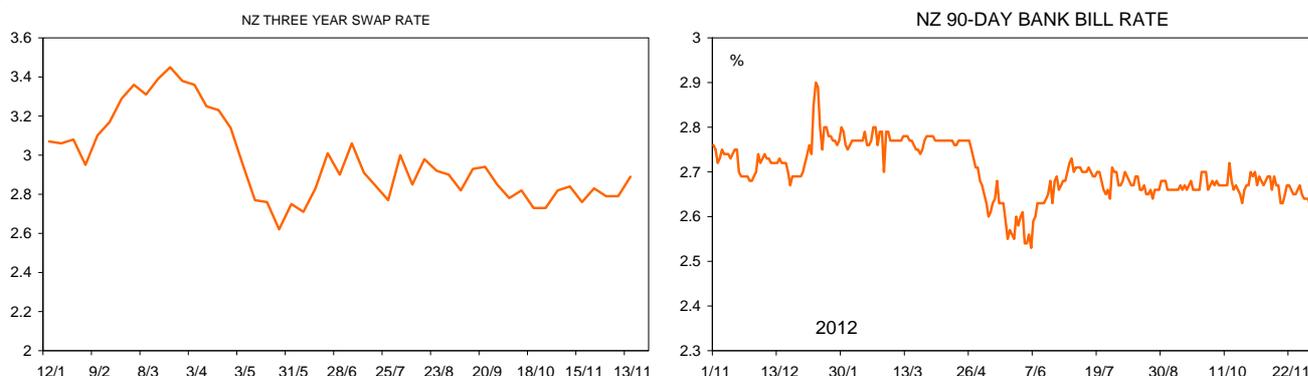
The quarterly Economic Survey of Manufacturing showed that during the September quarter total manufacturing output in real seasonally adjusted terms grew by 2.6% and was ahead 1.8% for the entire year. So one looks at that and says that there is an upward trend so that is okay. But the issue with manufacturing data in New Zealand is that about one-third of output is accounted for by the processing of primary products – basically meat and dairy. That sector grew 13.2% in the quarter and 6.1% for the year.

That means that non-meat and dairy manufacturing shrank by 1.4% in the quarter and was flat for the entire year. Output was actually down about 14% from seven years ago. And so we have the story of true NZ manufacturing – one which is mirrored in most other countries in the Western world regardless of the level of their currency, interest rates, R&D incentives, import protection and so on. The world changes and will continue to change and New Zealand showed the planet in the 1970s that if you try to lock in a set structure you send yourself skating down the OECD ladder and end up sending a net 156,000 people out of the country over a seven year period.

Protection for the manufacturing sector and special assistance therefore is of little use. The answer for helping the sector adjust to changes in products, competition, demand etc. lies not in the macroeconomic field but the microeconomic and business management field which is monumentally more complicated (at least to me as a macroeconomist) than tweaking major policy settings and waiting to see which businesses drive ahead anew.

INTEREST RATES

Wholesale interest rates have risen this past week in response to the more hawkish than expected Reserve Bank monetary policy review last Thursday morning, some better than expected data out of the United States, a generalised easing of worries about world growth in the near future assisted by some good domestic indicators out of China, and Fonterra's upward revision to their projected milksolids payout for this year.



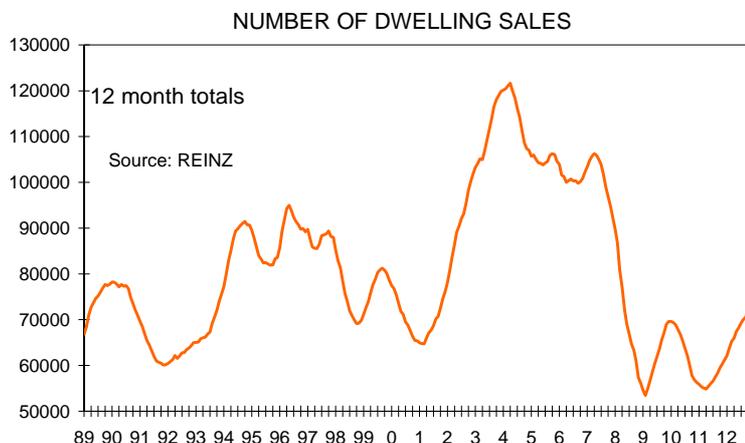
At this stage swap rates have merely moved back up to broadly where they were in the middle of September and there is nothing to suggest that this upward move is the start of a sustained move higher – though low predictability of interest rates means one also cannot rule such a thing out. All one can say is that the risk from here on out is that although the RB probably won't raise the official cash rate from its current 2.5% until 2014, before then fixed borrowing costs will rise assisted by accelerating growth in the NZ economy on the back of a construction boom, improving growth in China, and deepening signs of solidity in the US upturn as well.

FINANCIAL MARKETS DATA

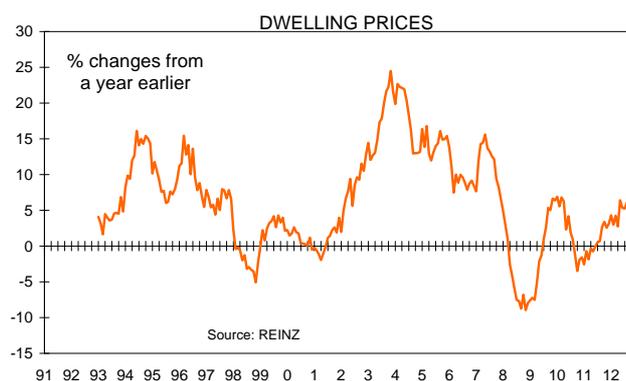
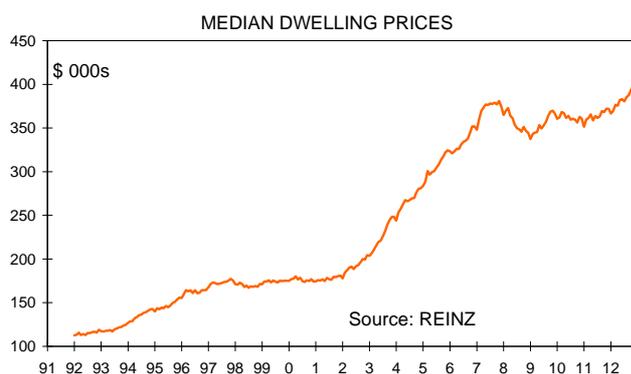
| | This week | Week ago | 4 wks ago | 3 months ago | Yr ago | 10 yr average |
|--------------------|------------------|-----------------|------------------|---------------------|---------------|----------------------|
| Official Cash Rate | 2.50% | 2.50 | 2.50 | 2.50 | 2.50 | 5.4 |
| 90-day bank bill | 2.69% | 2.64 | 2.66 | 2.67 | 2.76 | 5.7 |
| 1 year swap | 2.68% | 2.58 | 2.55 | 2.70 | 2.56 | 5.8 |
| 3 year swap | 2.89% | 2.79 | 2.76 | 2.98 | 2.92 | 6.1 |
| 5 year swap | 3.17% | 3.09 | 3.05 | 3.32 | 3.44 | 6.3 |
| 7 year swap | 3.47% | 3.41 | 3.37 | 3.66 | 4.27 | |

HOUSING MARKET UPDATE

The REINZ reported this week that during November around New Zealand there were 7,454 dwellings sold. This was a rise of 24% from a year ago and means that in the year to November sales of 73,562 were 21.9% ahead of a year earlier and the highest since March 2008. The low point for sales was 53,463 in the year to February 2009.



Not only are sales rising but prices continue to do so as well. The stratified median dwelling sales price advanced by another 1.4% in November after rising 1.5% in October to now sit 7.3% ahead of a year ago and 4.8% above the peak of the previous price cycle in November 2007.



Basically the market is rising, but with Auckland strongly ahead of the rest of the country. Auckland sales prices in the three months to November were 12.0% ahead of a year earlier, Wellington 2.4%, Christchurch 4.3%, the rest of the North Island 1.7%, and the rest of the South Island 3.7%.

So we end 2012 with the housing market continuing the upturn we have long predicted here on the basis of a deficiency of supply combining with low interest rates. The economy and labour market have been weaker

than anticipated however – which then rather raises the question of how much prices and sales would have risen had the labour market grown as we had expected rather than sitting static. Plus migration numbers turned negative on us during the year.

So now, while it is very politically correct to say that the pace of average house prices gains in Auckland will slow down – as the RB Governor said last week – one should not be so certain. Next year we see the pace of growth in the economy lifting, jobs growth appearing and the unemployment rate falling, net migration flows turning positive, more buyers coming out of the rising Asian middle class, rising construction costs, and more investors entering the market.

It is quite conceivable – though hardly desirable from a social stability point of view, that in a year's time the pace of increase in average NZ house prices will be above 7.3%.

If I Were A Borrower What Would I Do?

I don't see much chance of the Reserve Bank raising interest rates in the very near future so floating looks good. But I look offshore to a world where central bankers are under pressure to move away from targeting low inflation to give greater emphasis to boosting debt levels in the private sector by cutting interest rates further and printing more money. This makes me worry – a lot. While the loose monetary policies are in place we can expect to see low interest rates coupled with rising prices for assets like commodities, rising house prices in the US as the market there turns upward, and weakness in currencies of the money printing countries.

But underneath it all inflationary pressures will be building and at some stage when it looks like Western world growth has gained some decent momentum there will be efforts by central banks to rein in loose credit conditions and pressure from politicians and industry lobby groups not to do so. The result will be a potentially very messy and massively uncertain global monetary policy tightening cycle when it does come along.

On top of that, as discussed below where we look at the US economy, new uncertainty has been introduced into US monetary policy settings and that means potentially greater interest rate volatility and market shocks from Fed. announcements.

What that means is that while at the moment one struggles to generate a realistic scenario involving high interest rates over the next three years, there is a risk of growth-crunching interest rate jumps further out.

Overall, I find myself still looking at a world where uncertainty is very high and interest rate predictability still very low. I retain my comment that if you base your interest rate risk management decisions on a particular set of interest rate forecasts then you are foolish. No-one has a good interest rate forecasting record for these past four years so there is no reason for taking a large bet that any of us forecasters will be accurate in our picks for the next four years.

That uncertainty leaves me thinking that were I a borrower I would for the moment look to minimise my cash outflows and work quickly to get my principal down by taking a floating or one year fixed interest rate. However I would keep an eye out for any outbreak of a lending war between the banks which could produce heavily discounted interest rates for periods out to five years. If I could get a five year fixed interest rate for below 6% then my inclination would be to lock half of my mortgage up at it while keeping the rest short.

OFFSHORE

Out of the United States this week the main piece of information updating us on the state of the US economy was the non-farms payroll report released on Friday night. It revealed a stronger than expected rise in job numbers during November of 146,000 and another slight fall in the unemployment rate to 7.7% courtesy of more people leaving the workforce. The data do not by any means show a labour market powering ahead, especially as there were slight downward revisions to increases reported for the previous two months and because the unemployment rate fall will to a large extent reflect people giving up on looking for work. But the trend is in the right direction and that is important for potential retail and housing spending and therefore the willingness of businesses to prepare for and profit from that by boosting capital spending and undertaking additional hiring.



However the latest data releases have clearly not been enough for the Federal Reserve which last night announced that when Operation Twist (buy long-dated bonds, sell short-dated) ends this month they will replace it with US\$45bn of outright Treasury purchases to run for the same indefinite period as the existing monthly \$40bn of purchases of mortgage backed securities. In other words – more money printing. The move prompted a tad more weakness generally in the USD against the pound and Euro but mainly boosted high beta currencies like the NZD and AUD.

However at the same time as they have eased monetary policy further the Fed. have also changed the guidance as to when they will end their extraordinary pressures. To now the rule had simply been that they would keep rates low until 2015. Now they say they will do that until the unemployment rate moves below 6.5% - unless inflation starts to get uncomfortable with the gauge there being projected inflation above 2.5%. This introduces new uncertainty into US monetary policy and interest rate projections which those in NZ managing their interest rate exposure should take into account when balancing fixed and floating rate exposure.

In Europe we saw some very weak data for industrial production in Germany and the Bundesbank slashing their forecast for growth in Germany's economy over 2013 from the 1.6% pick mid-year to just 0.4%. Their forecast for this year almost ended has been reduced from 1% to 0.7%. The European Central Bank while announcing their decision last week to leave their cash rate unchanged at 0.75% also cut their Euro-Zone growth forecasts. They now see a contraction next year of 0.3% whereas as recently as September they were forecasting growth of a still terrible 0.5%.

Basically the story for Europe, as outlined in recently released OECD forecasts, is for a very bad economic performance during 2013 into 2014 at a time when US growth is accelerating along with Chinese and therefore wider Asian growth – apart from Japan where the woes are deepening. In Greece the woes are manifesting themselves as social tension and voting for extremist parties. The Japanese do not generally go in for mass protests and rioting. Instead ... read below.

In Japan data confirm that the economy shrank by 0.9% in the September quarter and because revised June quarter data now show slight shrinkage one can say Japan is officially back in recession using the commonest short-hand measure of such. A general election on the 16th is expected to see the return of the

Liberal Democratic Party led by the PM of five year's ago Mr Abe who has been making some nationalistic right-wing statements recently – emboldened by the conflict with China.

2013 is likely to bring a further heating up of diplomatic tension in Asia as the rise of China militarily and their lack of experience on the world stage creates friction with other Asian countries uncertain of what their huge neighbour wants. Is it payback for years of humiliation in wars and treaties, dominance of all the seas near China, the ousting of the Americans from Asia, control and influence through economic power, or truly benign engagement as China professes it seeks? There is ample room to believe all views and it is almost certainly that uncertainty which lies behind the US “pivot” back to Asia and the probable pleas to do so they have received from many Asian countries over the past 2 – 3 years as they have seen China again and again rub countries the wrong way with their international actions.

The latest example of China's ham-fisted approach to international relations comes with its printing of a new passport showing many territories disputed with other countries as lying within China – Japan, the Philippines, Vietnam, India, Brunei, Malaysia, Taiwan etc. The affected countries have refused to issue visas in these new Chinese passports and print off separate ones for Chinese visitors instead.

The tensions arise because at the heart of China lie two key things. One is absolute determination to retain and regain the integrity of what is considered to be China. Second is a strong desire that unlike the Western approach to international relations of pursuing a universalist agenda (everyone to end up looking like the West with regard to democracy etc.) China strongly supports each country being left alone if that is what they want. Hence their votes against intervention in Iran, Syria, African nations etc.

This first determination lies behind China's nationalistic international engagement and has caused the Philippines Foreign Secretary to support the dropping by Japan of its pacifist constitution and its rearmament as a counterweight to China. “we are looking for balancing factors in the region and Japan could be a significant balancing factor.”

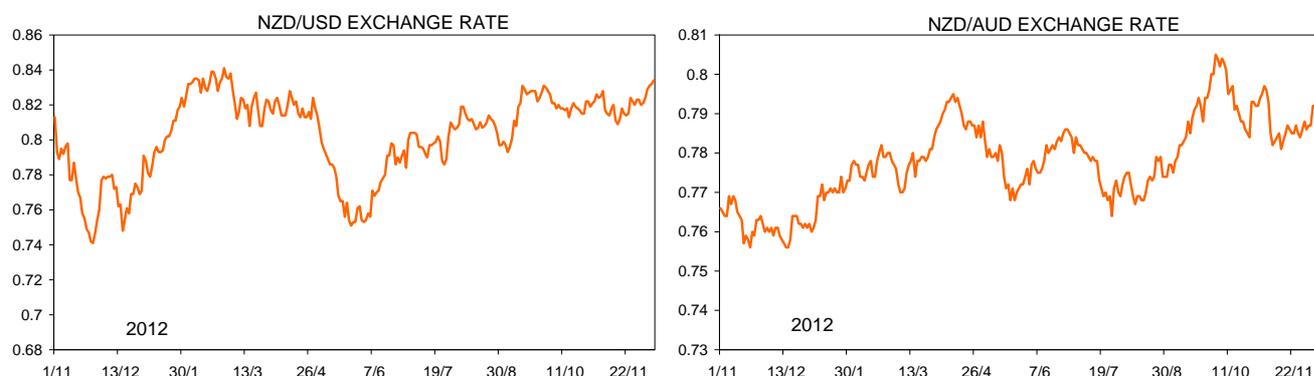
We, NZ, are located now not only near what will forever be the economic centre of the planet, but a region where tensions between Asian neighbours will at times create trade and financial markets (plus military) disruption, and where Western universalism runs up against (and inevitably treats as an enemy) the Chinese/Confucian non-interference social harmony (at the sacrifice of individual freedom) philosophy. This century will be quite an interesting one. So much for the end of history Mr Fukuyama.

Exchange Rates

| Exchange Rates | This Week | Week ago | 4 wks ago | 3 Mths ago | Yr ago | 10 yr average |
|----------------|-----------|----------|-----------|------------|--------|---------------|
| NZD/USD | 0.845 | 0.829 | 0.818 | 0.796 | 0.762 | 0.67 |
| NZD/AUD | 0.799 | 0.792 | 0.784 | 0.821 | 0.757 | 0.85 |
| NZD/JPY | 70.3 | 68.4 | 65 | 0.784 | 59.4 | 69.6 |
| NZD/GBP | 0.523 | 0.515 | 0.515 | 63.9 | 0.489 | 0.388 |
| NZD/EUR | 0.645 | 0.635 | 0.643 | 0.51 | 0.578 | 0.52 |
| NZDCNY | 5.28 | 5.16 | 5.10 | 0.64 | 4.85 | 4.99 |
| USD/JPY | 83.20 | 82.51 | 79.46 | 5.19 | 77.95 | 105.7 |
| USD/GBP | 1.62 | 1.61 | 1.59 | 77.83 | 1.56 | 1.72 |
| USD/EUR | 1.31 | 1.31 | 1.27 | 1.61 | 1.32 | 1.28 |
| AUD/USD | 1.06 | 1.05 | 1.04 | 1.29 | 1.01 | 0.788 |
| USD/RMB | 6.2515 | 6.2255 | 6.2291 | 1.047194 | 6.3609 | 7.56 |

NZD Almost 85 cents

The NZD has climbed back to near 84.5 US cents this afternoon on the back of a range of factors, the main one of which was last night's announcement by the US Federal Reserve of more money printing. But the NZD received some of its support this week from Fonterra's 25 cent upward revision to its forecast payout for the current 2012/13 season. The prediction now stands at \$5.50 per kilogram of milksolids and the rise is worth another \$400mn to the economy. There was further support from the run of largely better than expected data for China received over the weekend.



The NZD has also risen during the week against all the other currencies which we report on above and at this stage there seems little reason for expecting any sizeable pullback in the near future unless we receive some startlingly bad news out of Europe, the US, or China. Domestic NZ data – even including next week's current account and gross domestic product releases – are very unlikely to cause any substantial exchange rate changes.

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 |

BNZ WEEKLY OVERVIEW

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 also 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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