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.

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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Last Survey For 2012

This is the first Thursday of the month (and the second to last Weekly Overview for the year) and we are running our monthly Confidence Survey. If you have not already done so using the link contained in the email please feel free to click on the url here and let us know whether you reckon the economy will be in better or worse shape in a year's time. Many thanks to past respondents. These survey results provide valuable early insight into how people are feeling and the comments respondents submit about how things are in their own sector (remembering to say what that sector is) are closely read by many.

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

Expat Perceptions of NZ Employers and Promoting A "Brain Gain"

During November 2012 there were over 120 comments (now over 200) posted largely by expat and returned Kiwis in a KEA group LinkedIn discussion on "How do employers view those coming home after an extended period of time?" The comments centred around a theme that NZ employers appear fearful of hiring expats and don't recognise the skills and global connectivity opportunities which they can bring.

Reading through the comments one can identify many factors which match those contained in material released on my website two years ago looking at the cultural impediments to growth of the New Zealand economy. So taking on board the strongly expressed hopes by many contributors that something would be done to highlight this issue of expat under-utilisation I have prepared a paper summarising the comments which I hope employers will look at to get a feel for how some highly skilled and experienced expats perceive potential NZ employers.
http://tonyalexander.co.nz/wp-content/uploads/2012/11/Expathiring.pdf

The fear which some NZ employers may have regarding expats is perhaps exactly what Acemoglu and Robinson refer to in my first summer reading book "Why Nations Fail", page 184 "Thus society needs newcomers to introduce the most radical innovations, and these newcomers and the creative destruction they wreak must often overcome several sources of resistance, including that from powerful rulers and elites." The elites in this case being employers.

As an example of the disappointment which many expats feel I offer the following email received on Monday.

"I was recently forwarded your excellent document summarising Expat experiences here in NZ. As a recent migrant (brought to NZ in 2009 from the UK for a Corporate role with …), the observations are spot on. To date I have been racking my brains, changing my approach and generally questioning how I can make a successful professional life here.

Recently I concluded that after 3 years of effort, my fortunes would be favoured in a larger market like Australia. There are significant hurdles there too and one which is particularly galling, Australia actively discriminates against not only Kiwis, but those living in New Zealand. Furthermore, my permanent residency status in NZ counts for nothing in Australia (which is not the case for Aussie PR's in NZ, they are welcomed here).

I would like to thank you for taking the time to write up such a poignant and timely document. I fear it only serves to reinforce my own views and experience of professional life here in NZ. My enlightened Kiwi friends already know the behaviours that hold this country back. Hopefully your work will bring the masses into the light and out of the collective delusion that NZ is number one."

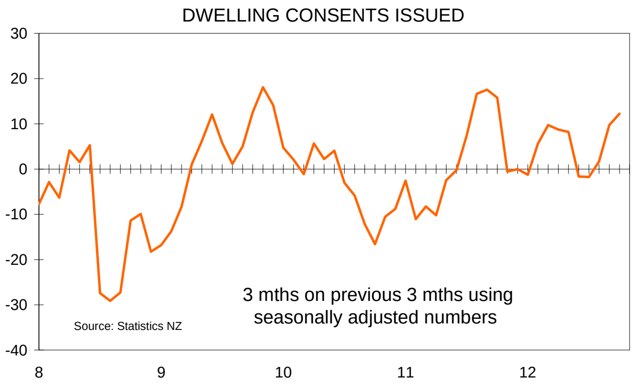
KEA work in the area of harnessing New Zealand's huge diaspora and "Friends of New Zealand" to benefit the New Zealand economy and that means not just the World Class NZ programme which assists NZ businesses going offshore with NZ-friendly contacts, but other avenues such as the just released yesterday "Kea Unlimited" magazine.
http://www.keanewzealand.com/KeaUnlimited

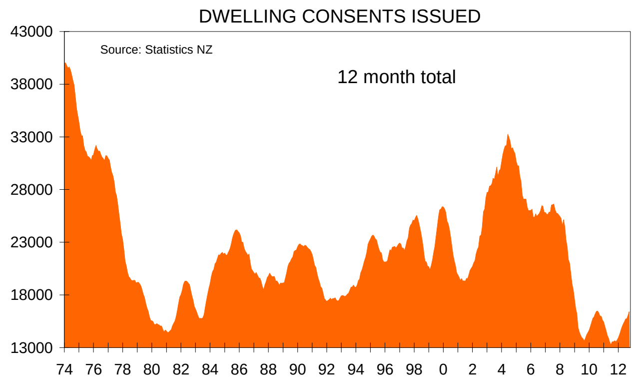
This magazine will look not just at the stories of NZ's nest and brightest overseas but also how returned expats can add something to NZ-domiciled businesses which they cannot easily find fishing in just the NZ labour pool.

As a matter of interest. If you are an employer and you think that an expat may deliver what you want in a new hire, how do you go about finding the appropriate person? Email me if you can as there are a number of us setting up a special group which would focus on the specific provision of expat expertise to NZ businesses, (a Brain Gain approach) and as any businessperson and banker knows there is no point starting up a business if you don't have some feel for how big the market may be and how it functions.
tony.alexander@bnz.co.nz

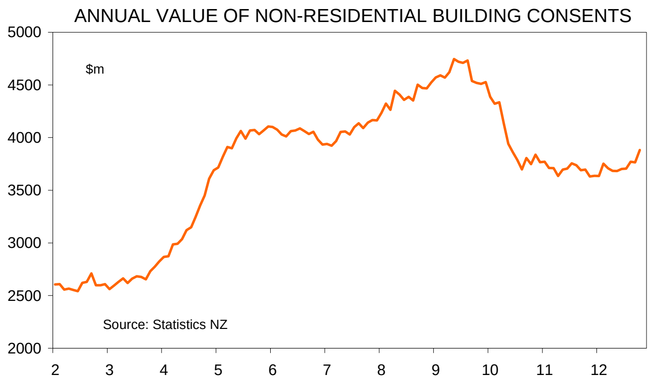
Some Economic Data

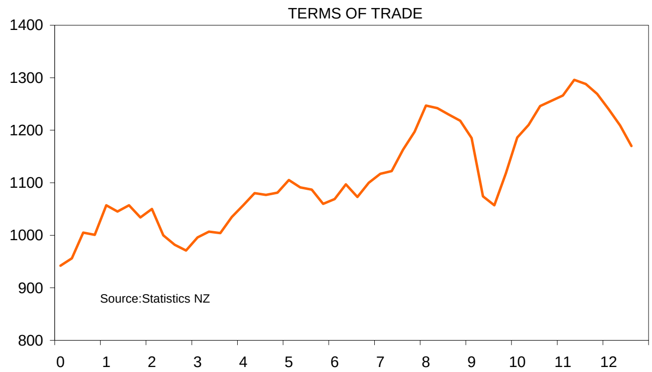
This week we received data showing what we have all been forecasting for some time and which the numbers have been showing for a few months anyway – rising residential construction. In October the seasonally adjusted number of consents issued for the construction of new dwellings fell by 1.6%, but monthly numbers are largely meaningless and the three month change is a strong rise of 12.2%. In the past three months consent numbers were ahead 17% on a year ago with Auckland up 16%, Canterbury up 50%, and the rest of NZ ahead 6%. Annual consent numbers now stand at 16,401 which is 27% below the ten year average but 20% up from a year ago. This pace of growth is likely to continue for some time and we will eventually see it manifest itself as more manufacturing of building materials, rising wages, and then some extra upward pressure on house prices once realisation sets in that we won't have enough skilled builders available to meet demand for construction.





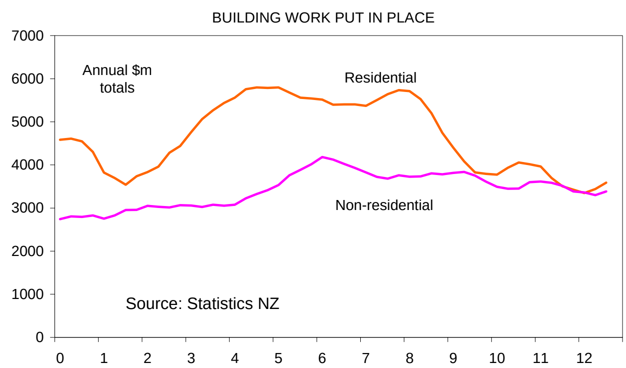
In the non-residential sector there is also some growth appearing with consents in the six months to October ahead 11% from a year ago.





We also learnt that New Zealand's terms of trade worsened by a further 3.3% in the September quarter and now sit 10% below their peak of just over a year ago. This is a relatively small decline from a high level, especially considering the renewed worries about world growth as recovery from the GFC continues to stretch out and Australia's terms of trade have fallen about 15%. The decline acts as a drag on the pace of economic growth. However the recent fortnightly Global Dairy trade auctions have been producing price rises averaging near 1% a time so this is positive when we think in terms of the willingness of people to invest in dairy production and infrastructure, and also the willingness of dairy farmers to spend in their communities.

Positive also were the Building Work Put in Place numbers released yesterday. They showed that during the September quarter the seasonally adjusted volume of construction activity (the number which forms part of the official GDP growth for the quarter) rose by a stronger than expected 9.6%. This placed the level of activity 14.2% ahead of a year earlier which is the strongest annual growth rate since early-2004. Statistics NZ note that only half the jump in activity during the quarter can be put down to the Christchurch rebuild so this is positive in terms of activity for the country as a whole.



Note that while the annual level of non-residential construction has not changed much in the past five years and is just 19% below its 2006 peak, residential building is 37% below late-2007 levels. Lots of upside looms.

Finally, we have also found out this week that in November the number of cars registered around the country was ahead 8.4% from a year earlier and for the three months to November was ahead 12%. So there is some growth occurring. There is more growth underway for commercial vehicles however where the increase from the three months to November a year ago was 19%. For tractors things are less strong with a 6.8% rise on a year ago.

The Next Financial Losers

The receivership of Ross Asset Management is a disaster for those who did not get their money out of this apparent pyramid scheme early enough. The collapse of finance companies from the mid-2000s has also been a disaster for those not fortunate enough to end up being bailed out by us taxpayers. The money lost by those involved with Loizos Michaels is also a terrible thing.

How do these things happen? One can read the many post-mortems which note that investors and financial advisors should have asked for more audited details on where money was going, questioned valuations and who was making them, dug deeper into relationships between company directors and who money was being lent to etc. But if one wanted to get things down to as simplistic a level as possible one can say that these disasters arise because of two things – greed and/or fear on the part of the investors, and abuse of societal trust by the money-takers.

The greed reason is apparent in the many commentators noting that if someone presents you with an investment option offering returns too good to be true then the chances are it is not true. But in the absence of any evidence early on in the life cycle of a pyramid scheme or a badly run finance company that anything is amiss one naturally becomes less fearful and fairly quickly what is known as “confirmation bias” sets in.

This is where a person pays attention only to information which supports their position and ignores everything else. One sees this much of the time in discussion groups on the internet where people promote their pet view and discount all challengers and all their arguments, eventually resorting to accusing the challengers of things completely irrelevant to the discussion and implying they do not have the full picture, but they do though they cannot go into details.

That seems to have been part of the approach of Loizos Michaels convicted last Friday of fraud. Keep implying that there are secret powers in the background supporting you and willing to act on your behalf should you be too aggressively challenged. These actions fall into the second category of abusing the natural trust we place in other people as members of our society.

Society functions because the rule is that unless you have reason to distrust someone you trust them – be they driving a car on the road at the same time you are with yourself trusting that they will not swerve into you, trusting the dairy owner to give you the correct change, trusting the doctor to give a drug recommendation not swayed by holiday perks she receives, trusting the directions given to you by another tramper you meet on a track, trusting the café owner not to spit in your cappuccino, etc.

In this world there are some people who abuse that trust and newspapers every day report upon these societal miscreants, their deeds, and we all hope to be able to recognise early enough someone of the same ilk should we ever encounter them. Business owners know this when it comes to getting payment from some of their customers. Promises to make payment are repeatedly made and excuses as to why payments have not been made come thick and fast from dying fathers to money not coming in which was expected to arrive.

Handling such recalcitrance and outright lies on the part of payers can cripple some businesses hence the demand for credit assessment services and the strong warnings we give people engaging in trade with China for the first time. Be very wary because if you take your normal assumptions of trust into the business arena you could be exposing yourself to abuse from the other party who may operate in an extremely low trust environment.

These bad people abuse the trust we naturally place (and want to place) in others – but because we strongly support functioning as a society rather than roaming hunter-gathering individuals we show strong bias toward continuing to trust people. And that brings me to what this article is really about and the subject which people need to think strongly about.

The point of this article…

As a macroeconomist I see things many people do not, (and as a macroeconomist I miss a lot of the factors on the ground which stop economic theory from working as we think it does), and one of the things I see now is a gathering of factors which may ultimately cost a lot of people a lot of money. After all, the David Ross affair shows the legislators cannot design a system which stops multi-million dollar rip-offs.

Interest rates available to investors are very low and are going to stay low for a potentially long time because of economic weakness and low inflation offshore as households, governments, banks, and businesses work to get their debt levels down and contain them.

Interest rates therefore are and will remain low for a longer time than many people assumed would be the case. These people are starting to search for extra yield just as a previous generation did in the early 1990s when term deposit rates fell from over 12% to near 6%. Back then they found finance companies offering an extra 2% yield, then residential property investment either directly through off-the-plan buying or via various investment vehicles.

Currently house prices in Auckland are rising and the experience of the 1990s tells us this rise will spread eventually to the regions (but watch the on the ground specifics for each location which I can never have enough time to capture). History also tells us inner city apartment construction will pick up and that new vehicles will appear for people to purchase apartments.

There is clear demand for financing for residential construction and eventually new finance company-type institutions will appear offering 1% - 2% more to investors than they can achieve in bank term deposits.

Early on in this cycle things will look great with prices rising and word will spread of how easy it is to do better than having one's money sitting in a bank.

Two extra special elements driving this investment cycle upward will be the increasing number of baby boomers retiring each year plus the increasing size of the lump sum these people will have in hand to do something with when they hit 65 and can access their Kiwisaver funds.

As the cycle progresses the investment offerers will look to work the societal trust angle by getting well trusted spokespeople who people do not associate at all with fraud to front their companies. At the same time the "fear" element will start to kick in with regard to people becoming fearful that they are missing out on something. The greed element will manifest itself as people gearing themselves into more than one apartment. But in my experience the greed element involved with people who get caught by collapsing schemes is heavily over-rated. Most people who lost money in finance companies simply trusted the material and people they were presented with and bad people deliberately abused that trust.

The upshot?

It is up to those of us with a bit more than average nouse to keep an eye on our aging friends and relatives as they bemoan low term deposit interest rates and talk about gearing their mortgage-free houses up to boost their yield or placing their funds with some vehicle fronted by smiling trustworthy looking people in sunny landscapes simply to get an extra 1-2%. For many of our relatives they simply have to admit to themselves that changing circumstances (low interest rates because younger people are less debt hungry than they were before) mean they have retired with "insufficient" money and that is the reality they will have to live (and die) with. Better to preserve the capital one has than hand it over to a smooth talking criminal and not only risk losing it but be unable to rebuild a nest egg as a young person caught in the same circumstances would be able to.

INTEREST RATES

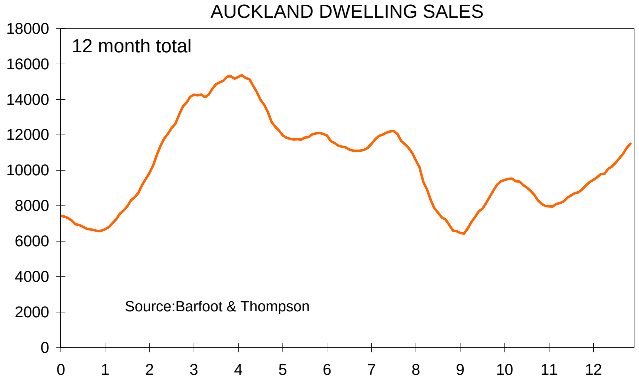
The RBNZ met expectations this morning by leaving the official cash rate unchanged at 2.5%. But some hawkish commentary means that the chances that the next move will be a rate rise have risen though this probably will not happen until 2014 given the still very uncertain world outlook and recent weakness in some key NZ indicators such as retail spending and the labour market. Why won't they ease? Because there is the mother of all construction booms about to start which will eventually generate inflationary pressures of uncertain magnitude and were the RB to cut rates now it risks putting them back up again in the middle of next year having meanwhile generated an even greater flow of money into residential property investment.

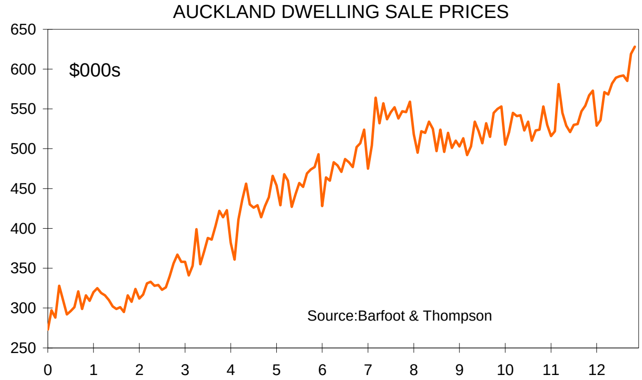
FINANCIAL MARKETS DATA

	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	2.64%	2.67	2.66	2.67	2.76	5.7
1 year swap	2.58%	2.69	2.62	2.66	2.56	5.8
3 year swap	2.79%	2.79	2.84	2.85	2.92	6.1
5 year swap	3.09%	3.11	3.13	3.27	3.44	6.3

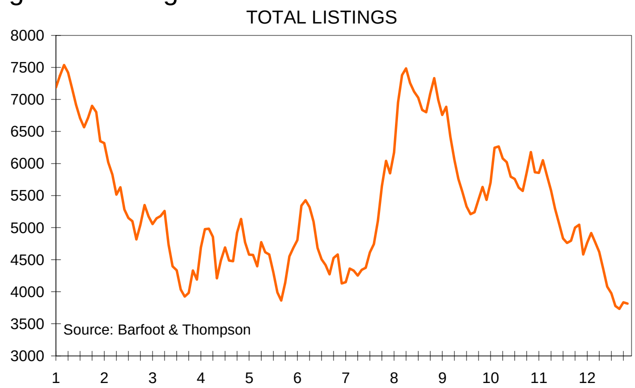
HOUSING MARKET UPDATE

Barfoot and Thompson this week reported that in Auckland (where they have about one third of the residential real estate market) they sold 1,124 dwellings in November. This was a 26% rise from a year earlier and the strongest November result in nine years. The average sales price climbed yet again – this time to $628,000 from $619,000 in October and was ahead 10.8% from $567,000 a year ago.

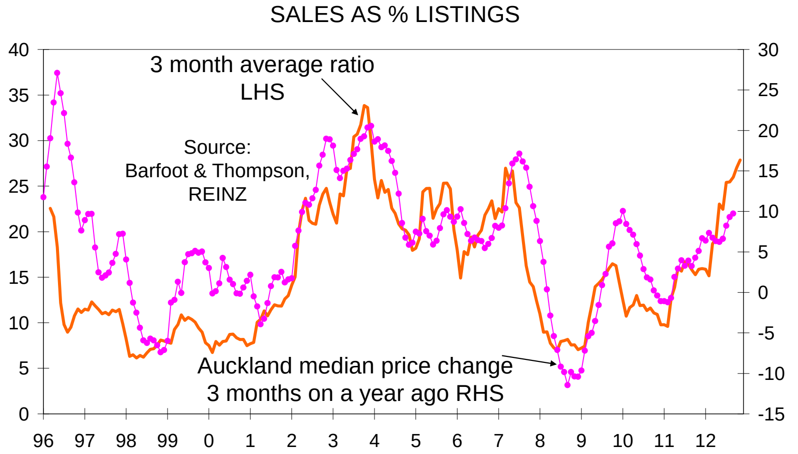




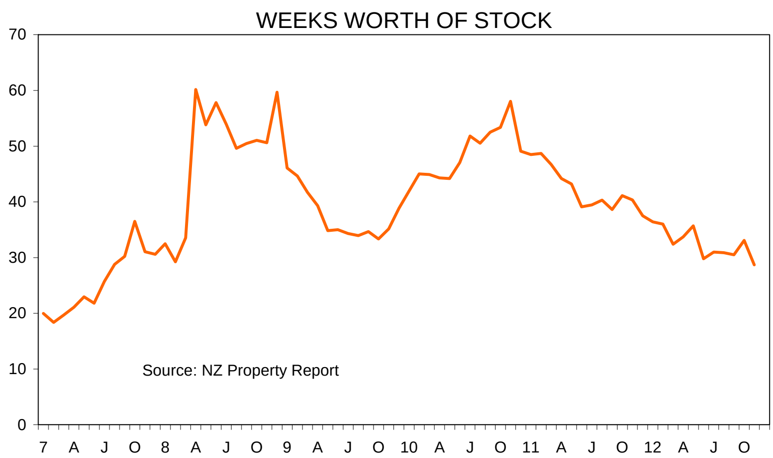
The total number of listings on their books at the end of the month stood at 3,816 which was a 24.4% decline from a year earlier. The three month ratio of sales to listings now stands at 29.5% from 26.4% three months ago and this is the highest reading since March 2007.



The data show a market with strong sales growth, rising prices, but a shortage of stock. Having said that some more properties are appearing with the number of new listings in November ahead 13.3% from a year ago at 1,769.



The other piece of data received this week on the state of the NZ housing market came from the monthly NZ Property Report. It showed that based on sales data for the three months to October but stocks data for November the number of weeks worth of stock available on the market for people to buy fell to a five and a half year low of just 28.7 weeks from 33.1 a month earlier and 40.3 a year ago. As we have long been pointing out – there is a listings shortage and it will get worse even as construction booms because there will not be enough resources to build the houses demanded and because a fresh wave of investment money will be chasing properties for yields better than those available in banks. Economics 101 as we have been saying for four years now.

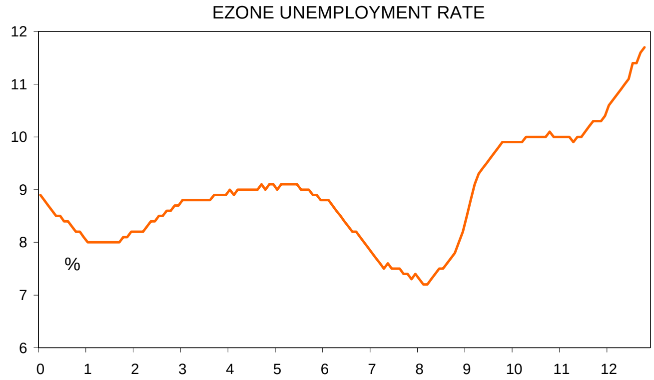


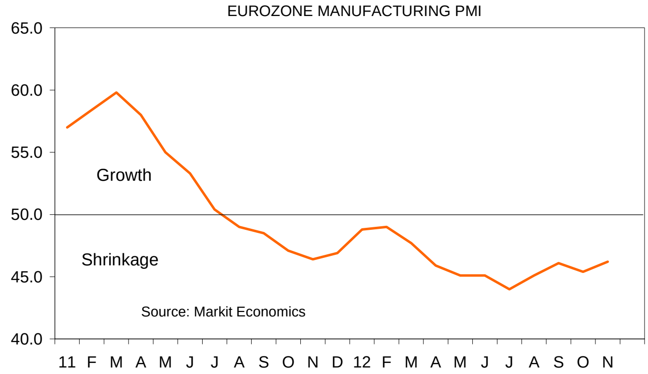
If I Were A Borrower What Would I Do?

Nothing new to write here I am afraid. I'd float or fix one year but break and fix 3 – 5 years if I could get a rate from 5.5% - 6.0% as certainty would be good for a portion of one's mortgage interest rate exposure during these very uncertain times.

OFFSHORE

The Eurozone unemployment rate headed to a record high of 11.7% in October from 11.6% in September. This important measure of Europe's increasing woe initially rose from 7.2% in March 2008 to settle near 10% at the end of 2009. But it has been climbing steadily and strongly again since the middle of 2011 and there is no sign as yet that the pace of increase is slowing.

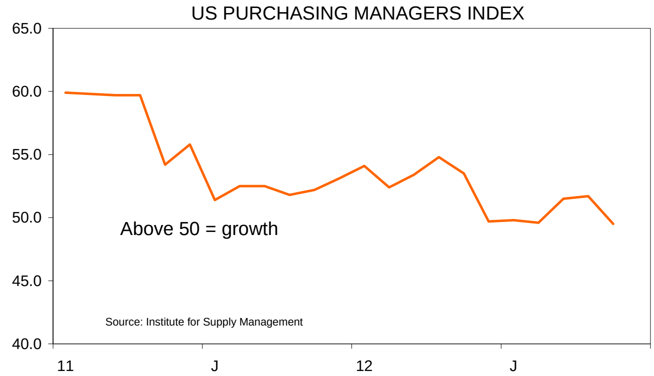




In Spain and Greece unemployment is near 25% and rising with youth unemployment rates heading toward 60%. In New Zealand the youth unemployment rate using the common classification in Europe of those 24 years old and under stands at about 17%.

The monthly PMI for manufacturers in the Euro-Zone improved 0.8 points in November. But before anyone gets excited it pays to note that the change was from a horrible 45.4 to a terrible 46.2 which means that the sector is still shrinking.

In the United States the manufacturing sector unexpectedly slipped back into shrinkage territory in November with the PMI falling to 49.5 from 51.7 in October. Uncertainty regarding fiscal policy is being cited as a prime reason for caution in the US business sector.



In Australia the main piece of news during the week was the RBA meeting expectations by cutting its cash rate 0.25% to 3.0%. They have now taken the rate back to where it was cut to in April 2009 from 7.25% in August 2008. They raised the rate to 4.75% in November 2010 when hopes were high of global growth improving and Australia's economy was being boosted by surging growth in China following their massive fiscal stimulus and demand for the likes of iron ore and coal was growing rapidly. But cooling growth in China, reduced global growth optimism, and strains in Australia's housing, manufacturing, tourism, and retailing sectors have encouraged a series of interest rate cuts starting in October last year.

This time around the RBA specifically cited as justifying their cut the weakness in Europe, uncertainty about the US fiscal situation, a 15% fall in Australia's terms of trade, an approaching peak in resource sector investment, and an easing in the strength of the labour market. The chances seem good that interest rates will be cut slightly more in coming months.

Exchange Rates

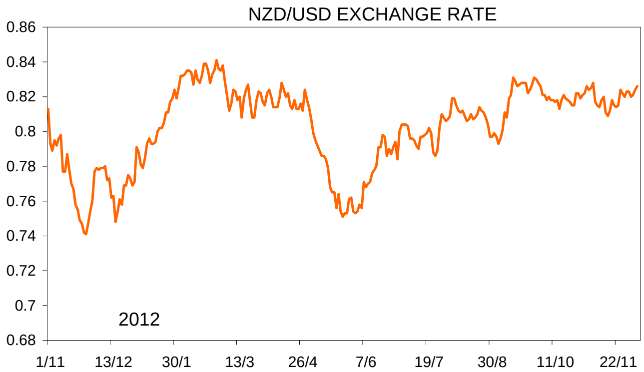
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.829	0.823	0.825	0.796	0.779	0.67
NZD/AUD	0.792	0.786	0.796	0.778	0.759	0.85
NZD/JPY	68.4	67.4	66.2	62.4	60.6	69.6
NZD/GBP	0.515	0.514	0.516	0.5	0.498	0.388
NZD/EUR	0.635	0.637	0.645	0.632	0.582	0.52
NZDCNY	5.16	5.13	5.15	5.06	4.96	4.99
USD/JPY	82.51	81.90	80.24	78.39	77.79	105.7
USD/GBP	1.61	1.60	1.60	1.59	1.56	1.72
USD/EUR	1.31	1.29	1.28	1.26	1.34	1.28
AUD/USD	1.05	1.05	1.04	1.02	1.03	0.788
USD/RMB	6.2255	6.2273	6.2454	6.3507	6.3639	7.56

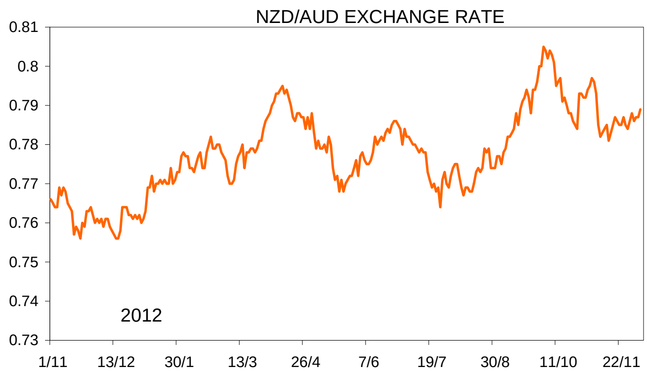
NZD Stronger

As we have noted here on a number of occasions recently, interest rate differentials are not large key drivers of currencies currently and such has proved the case this past week with the NZD/AUD cross rate barely moving in spite of another cut in Australia's official cash rate. In fact over the time in which the gap between our cash rates has shrunk from 2.25% to just 0.5% the Kiwi dollar has actually fallen (from 79.4 cents in September 2011) rather than risen against the Aussie dollar.

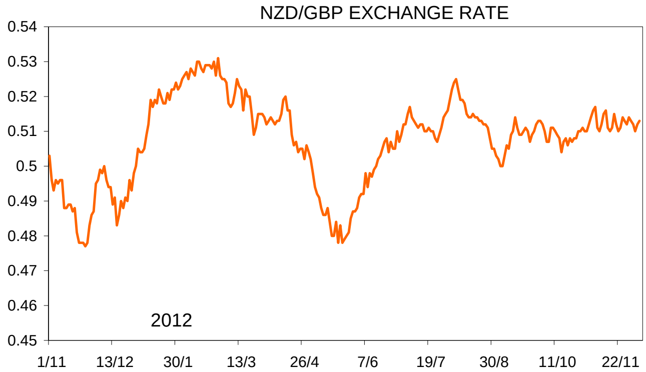
However, this is not to say that interest rate expectations do not matter because they do. This morning the Reserve Bank of New Zealand issued a more hawkish commentary on monetary policy than had been expected and as a result the NZD received an extra 0.3 cent boost today – though it still sits just below the US 83 cent mark. That barrier is likely to be comfortably breached within the next few weeks given the signs which we expect to increasingly see of the NZ construction sector picking up.

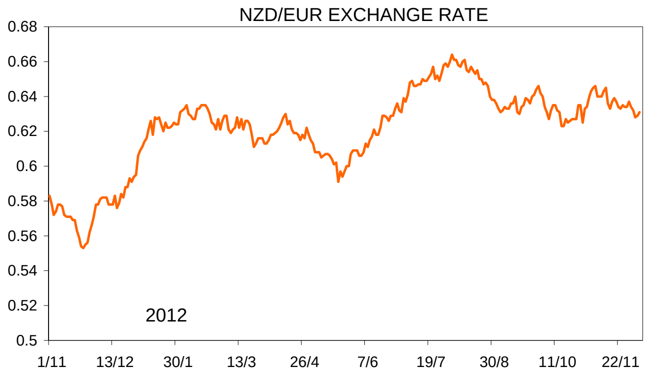
With regard to the other exchange rates we note above one can see that little has changed from a week ago and the only change from a month ago really worth mentioning is weakness in the Japanese Yen caused by worries about the economy, a trade deficit, and the possibility of increased money printing by the Bank of Japan.

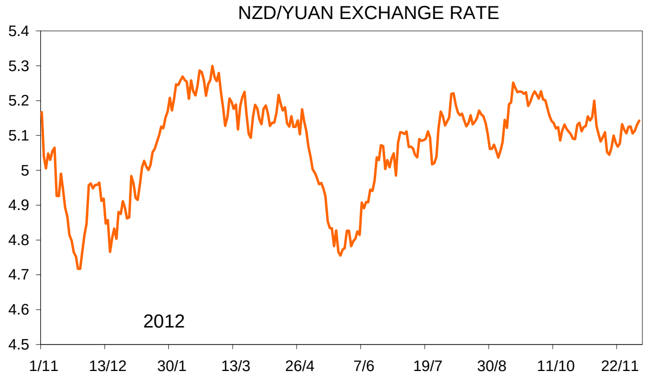




Note the upward drift in the NZD against the USD shown in the first graph just above.







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 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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