Weekly Overview

7 November 2013

ISSN 2253-3672

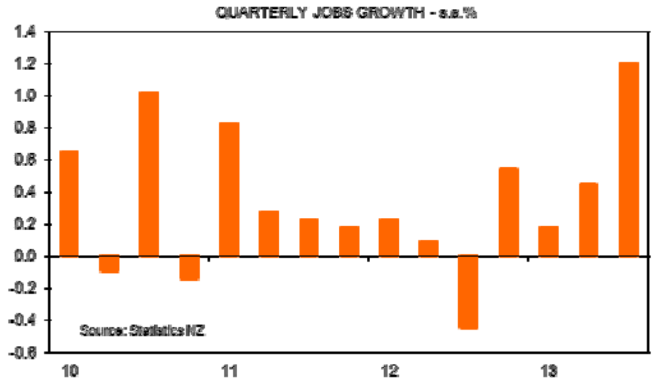
Mission Statement

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/lFdYSs5FGEq4kAjP95uzTA

Labour Market Gets Going

The main collection of economic data released this week relevant to our understanding of the NZ economy was the Household Labour Force Survey. It told us that job numbers rose by a much stronger than expected 1.2% during the September quarter to be 2.4% ahead of a year ago. That is the strongest pace of growth since 2006 and delivered an employment (as opposed to unemployment) rate of 64.4% That is, 64.4% of the working age population is in work. That is a rise from 63.7% in the June quarter, 63.5% a year ago, and the highest rate since the start of 2009.



The unemployment rate only dropped to 6.2% in the quarter from 6.4% but that is because more people stuck their hands up to say they are actively looking for a job. The participation rate rose to 68.6% from 68.1% which is not far off the record of 69%.

This sharp jump up in employment in New Zealand allows us to reinforce one of our key themes for the past three and a half years. At some point the labour market will tighten up aggressively as employers catch-up on delayed hiring and find that the people they want are not there with the skills they want after some years of under-investment in training. This will elicit a wages response with a lag of 12 – 18 months and cause major problems for businesses committing to outputs but unable to deliver them.

Back between 2005-07 when the labour market was last very tight we emphasised two key themes. One was that for many businesses better profitability could be gained by cutting rather than raising output and paying over the odds for lowly qualified unmotivated people who would quickly leave. We also said that the best thing that could happen to NZ would be that the pace of wages growth doubled – and we say that again.

When something is in short supply a price response is needed to ensure that thing goes to its most profitable use. In this case wage rises will cause some lowly profitable companies to fold as they could only exist with low wages. Take those low wages away and their sometimes very good staff and move to better paying more productive jobs elsewhere closer to the development frontier of our economy.

At this stage wages growth is still low and that is entirely to be expected. The experimental labour cost index put together by Statistics NZ rose by only 1% in the September quarter to lie 3.1% ahead of a year ago. This is a mild gain from a 2.8% annual rise in the June quarter and below the 3.2% rise recorded a year ago. The average rise has been 3.6% over the past five years and 4.2% over the past ten years.

Getting Ahead

Continuing with our best investment being education and career theme…What can go wrong? Plenty. No-one is perfect, we all make mistakes, but the measure of a person beyond what led to the mistake in the first place is how they respond to it. Some people make things astoundingly worse for themselves by denying they were in error (lack of maturity in failing to accept responsibility for their actions), or show a lack of empathy for others by failing to acknowledge what they have done has hurt others (lack of maturity in failing to accept responsibility for the outcomes as opposed to the original actions).

We see these disaster scenarios played out a few times every year usually by politicians either here or overseas. It is sometimes outright soul-destroying watching some offenders failing to fess-up and digging themselves into a deeper and deeper hole. In the United Kingdom the correct and generally expected result is that you accept responsibility as soon as possible and resign. In the United States you accept responsibility then show you are serious in seeking forgiveness (a religious angle there) and book yourself into a centre dedicated to correcting your alcoholism, drug or sex addiction or so on.

In New Zealand what is the best way to handle a mistake in your work environment? As a rule you don't have to resign unless you are in a special position such as a cabinet minister or your mistake badly affected a lot of people. Instead you confess right away to your error and let spill anything else which might be revealed later on, then work with your boss on ways of avoiding the mistake again.

In the New Zealand culture the power of apology is very, very strong. Contrast this with America where the power of asking for forgiveness is very powerful. If you apologise but people keep attacking you then that is saying more about them than you. As Kiwis we tend to accept apologies because to do otherwise means we are deliberately, by design and situation, taking a position of superiority over the person who made the mistake. As noted last week we are wary of relationships of inferiority and superiority. So if you play up your victimhood we actually lose respect for you because you are in fact claiming a position of superiority.

So as you do your job and make mistakes which are uncovered, fess-up right away and apologise. Of course this doesn't always lead to resolution in the timeframe you might like in the home environment but that's life.

IF I WERE A BORROWER WHAT WOULD I DO?

The Reserve Bank met expectations last week when they left the cash rate unchanged at 2.5%. But their comments were a tad more dovish than expected in terms of a comment that a strong NZD would do some of the expected monetary policy work. There is an inverse relationship between currency movements and the required official cash rate changes and the strong NZD we are observing means the chances are the RB won't now tighten monetary policy until mid-2014 rather than early in the year. So we have shifted our forecast timing for the first OCR increase to June from March.

This change goes to highlight the key point we have emphasised with regard to interest rate predictions over the past three and a half years. Uncertainty is massive and the chances of anyone's forecasts proving correct are very low. The post-GFC global environment remains massively uncertain. Just this week for instance the world is thinking about the risk of deflation in the Eurozone and chances have increased that the ECB will cut their 0.5% cash rate. This implies extra strength in the NZD thus less pressure for NZ interest rates to rise.

What borrowers need to focus on when considering how to manage their exposure to interest rate changes is that the question should be framed in terms of risk management and not cost minimisation. To minimise cost you need a set of interest rate forecasts which you expect to come right and no-one can deliver that.

It is for that reason that we suggest spreading one's risk by having perhaps one-third of one's mortgage floating, one-third at one of the short-term fixed rates near the two year or 18 month term, and another third for three years and beyond. Were I borrowing I would keep an eye out for discounted rates but it pays to note that this cycle the banks are mainly discounting short-term rates to win customers rather than long term rates.

That partly reflects the fact that hardly anyone in NZ ever takes one of the seven year rates, a few people opt for five years (usually at completely the wrong point in the interest rates cycle (a la 1998 and 2007-08), and for most people fixing long means locking in for three years.

This week wholesale interest rates initially fell away but then rose on Wednesday and today following rises in US bond yields following strong data there, plus yesterday's much stronger than expected NZ employment numbers.

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%	2.71	2.68	2.67	2.76	5.7
1 year swap	3.09%	3.02	3.01	2.97	2.62	5.8
3 year swap	3.97%	3.83	3.95	3.77	2.84	6.1
5 year swap	4.47%	4.32	4.47	4.23	3.14	6.3
7 year swap	4.79%	4.63	4.78	4.50	3.44	

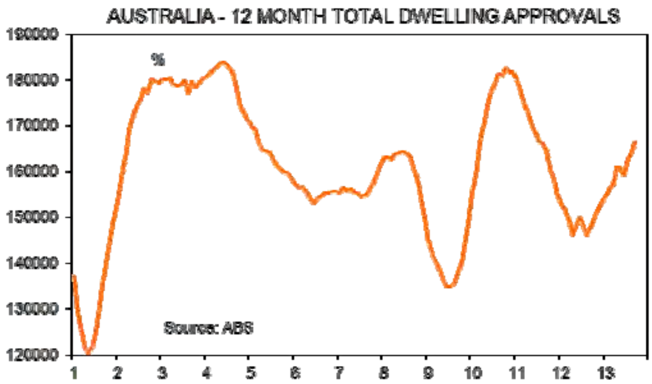
NZD Goes Back Up

On the back of stronger than expected job numbers, the ending of an extended period of profit-taking, and some late-week weakness in the USD the NZD has climbed about two cents against the greenback from where it was a week ago. A multitude of factors favour further appreciation of the NZD including a strong economic outlook combined with capacity pressures bringing tightening monetary policy well ahead of any moves by other central banks. Plus commodity prices for our exports are holding up well and it looks like the Federal Reserve in the United States will be printing money for quite a few more months.

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr Average
NZD/USD	0.84	0.825	0.831	0.79	0.828	0.67
NZD/AUD	0.88	0.869	0.88	0.879	0.793	0.85
NZD/JPY	82.8	81.2	80.9	77.2	66.5	69.6
NZD/GBP	0.522	0.515	0.519	0.515	0.517	0.388
NZD/EUR	0.62	0.601	0.612	0.594	0.646	0.52
NZDCNY	5.12	5.03	5.09	4.84	5.20	4.99
USD/JPY	98.57	98.42	97.35	97.72	80.31	105.7
GBP/USD	1.61	1.60	1.60	1.53	1.60	1.72
EUR/USD	1.35	1.37	1.36	1.33	1.28	1.28
AUD/USD	0.95	0.95	0.94	0.90	1.04	0.788
USD/RMB	6.0936	6.0946	6.124	6.1216	6.2804	7.56

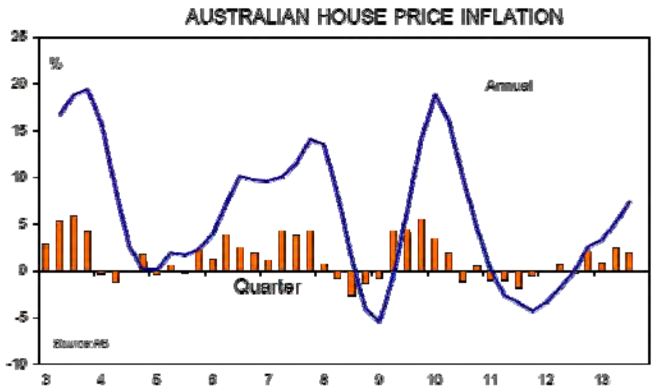
Australia

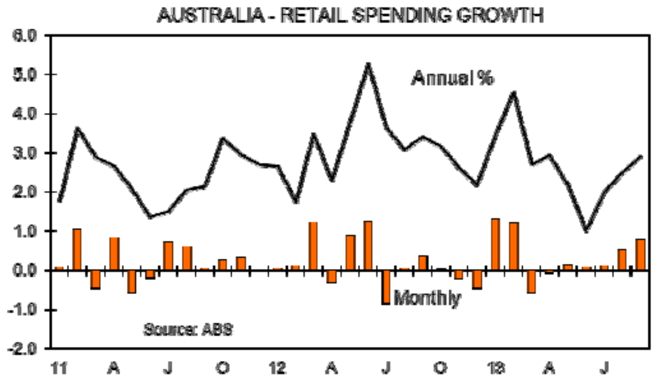
In Australia the house construction sector is showing increasing strength. In September the number of approvals issued for new dwellings rose in seasonally adjusted terms by 14.4% due to a 32% jump in approvals for apartments. Approval numbers were in total ahead by 18.6% from a year ago and for the entire 12 months to September grew by 4.5% with apartments up 15.6% and houses down 1.8%.



This rise is important because Australia's economy is undergoing a transition away from reliance upon resource development and needs other sectors to grow sustainably – principally retailing, housing, and business investment. The latter has yet to fire, but housing is rising along with retailing and the question then, as for most other countries experiencing improvement in household spending, is whether businesses will respond to stronger sales by raising investment.

On the house price front we learnt this week that the index of house prices covering the eight capitals rose in the September quarter by 1.9% to be 7.6% up from a year ago. This is a substantial change from a 0.1% fall one year earlier and 3.4% fall two years ago. Sydney prices have risen in the past year by 11.4%, Melbourne 6.8%, Perth 8.6% and Brisbane 4.1%. Prices on average nationwide are now 24% above GFC lows. Retail spending meanwhile rose by a firm 0.8% in September which was twice expectations and the strongest pace of growth in seven months following a 0.5% rise in August and 0.1% rise in July.

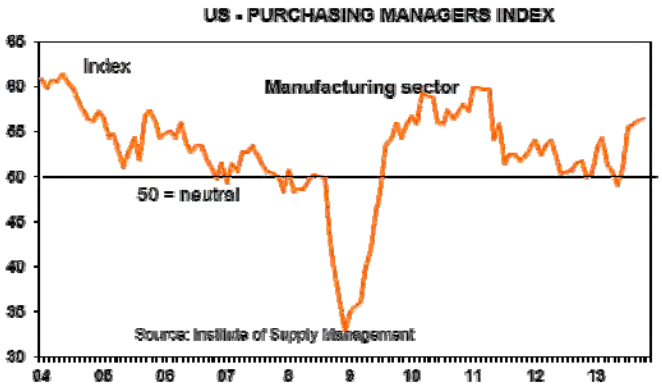


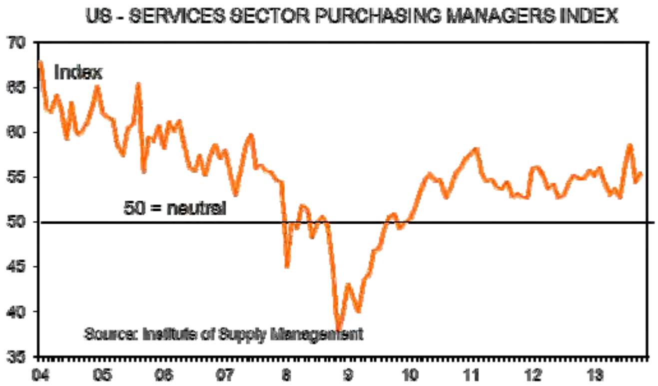


The RBA met expectations on Tuesday by leaving their cash rate unchanged at 2.5%. But some strong comments were made about the "uncomfortably high" AUD. This caused a tad extra weakness in the AUD.

United States

In the United States there were some good data released in the monthly Institute of Supply Managers report. The Purchasing Managers Index rose to a slightly higher than expected 56.4 in October from 56.2 in September and 51.7 a year ago. A reading above 50 means growth in the manufacturing sector and a decline to 55 had been expected. The result has slightly reduced worries that the recent government shut-down might seriously damage the US economy in the short-term. The rise in sentiment appears substantially driven by exports which is good. But the employment measure actually fell slightly to 53.2 from 55 and that means in the near future relatively mediocre monthly non-farm payroll reports may continue. The next report comes out on Friday.





The non-manufacturing PMI meanwhile also recorded a good October rise to 55.4 from 54.4 in September. But this was below 58.6 in August.

China

In China the monthly official PMI which mainly covers mainly large companies improved to a better than expected 51.4 in October from 51.1 in September. This is the highest reading since April last year and while reinforcing the argument that China's pace of growth is not slowing further does nothing at all to address concerns about a lack of rebalancing in growth or high debts for regional governments and banks.

House price inflation remains as high as ever in China (dominated by big city rather than small city rises). The Soufun index was 10.7% higher in October than a year earlier.

Eurozone

Meanwhile across in Europe the big new worry which goes on top of existing ones such as a banking system not suited to a single currency zone, under-capitalised banks, huge and rising government debts, rigid economic structures, dysfunctional parliaments, unpopular leaders, and fracturing societies, is deflation. The inflation report for October came in much weaker than expected with prices in the Eurozone on average down 0.1% and ahead just 0.7% from a year ago. The ECB's target is inflation of 2% and the latest rate is the slowest in four years.

Expectations are growing that the ECB will cut their 0.5% cash rate again but if their rate cuts had the capacity to make much difference then one suspects that would have happened by now. There are an increasing number of reports coming out estimating that the sustainable rate of growth in the Eurozone has dropped to less than 1% (compared with 2%+ in the United States) courtesy of weak business investment, a decreasingly useful labour force, and excessive public sector size in many economies. On Tuesday night the European Commission in fact cut their forecast for Eurozone growth during 2014 to 1.1% from 1.2%. At the start of this year their forecast had been 1.4%. Shrinkage of 0.4% is expected for this year.

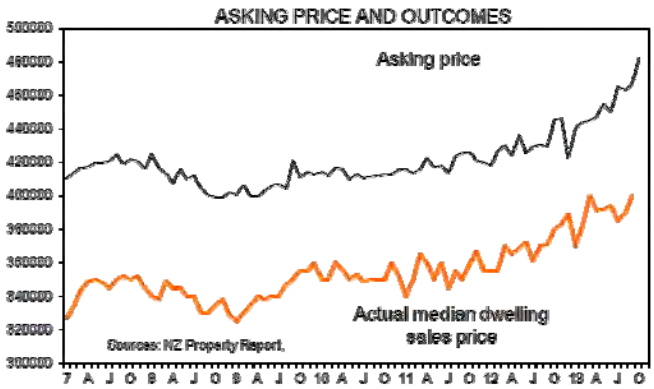
Housing Market Update

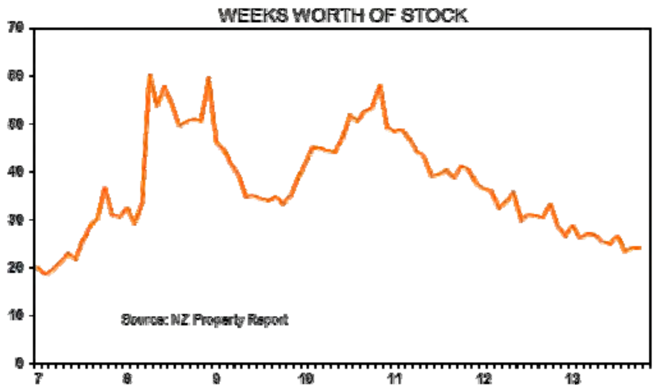
Listings Up – But Not As Much as Asking Prices

The NZ Property Report, which contains details on dwellings listed for sale at www.realestate.co.nz , showed that in October there was a firm seasonally adjusted rise in new listings of almost 13%. This followed a 5% fall in September and means that for the three months to October listings were up 7.4% after rising just 0.5% in the three months to July and falling 1.2% in the three months to April. Thus for the first time in a long time we are seeing some evidence of more vendors appearing. (Data seasonally adjusted)

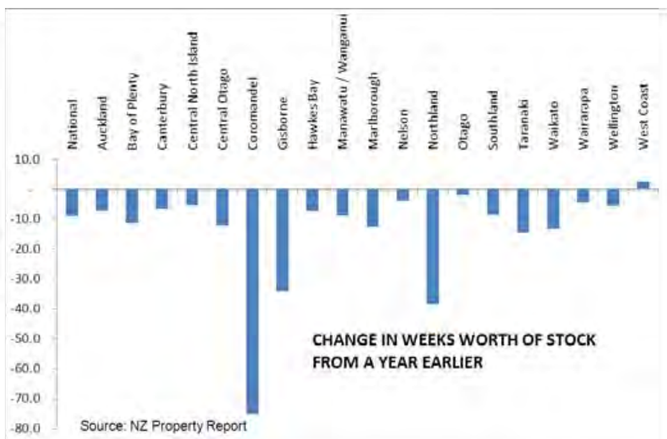
The end of month stock of listings was 38,541 or 12.2% down from a year ago. The annual rate of change in the stock of listings has been negative for three years now and that explains why the number of weeks of sales the stock can handle sits at the low level of 24.2 weeks. A year ago this was 33.1 weeks, two years ago 41.1 weeks, and three years ago 53.4 weeks. The second graph below shows this.

Thus the listings increase, while a positive development, makes barely a dent in the continuing low level of properties on the market for buyers to scrutinise. The implication is that prices are likely to continue to trend up. In fact the average asking price after removing the top and bottom ends of the market jumped in October to a record $482,000 from $466,000 in September. This was a rise of 8.2% from a year ago. The first graph shows that actual selling prices tend to eventually follow asking prices. See how the 2008 decline has faded to an uninteresting blip.





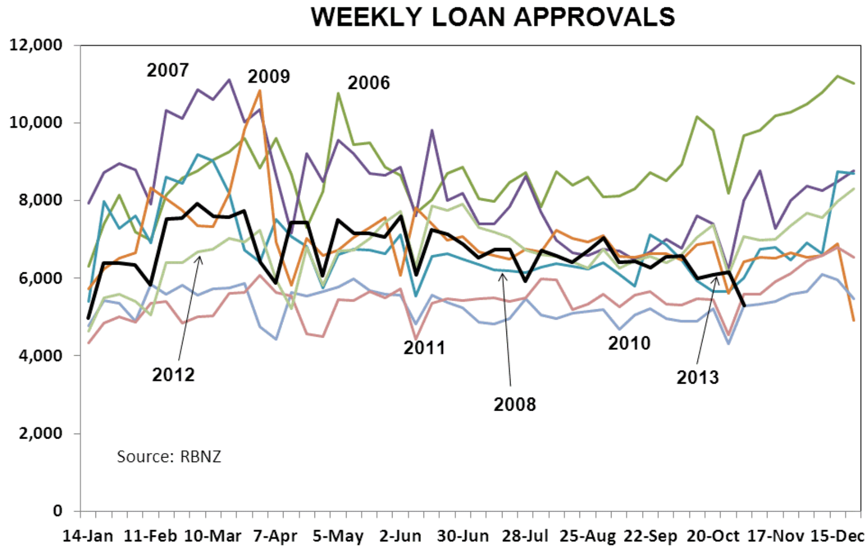
If we look at the data on a regional basis we see that asking prices in the three months to October compared with a year ago are ahead in all regions apart from Northland, West Coast, Southland, and Wairarapa. The second graph shows that inventory measured in terms of the number of weeks' worth of stock at the end of the month has declined in all regions except the West Coast compared with a year earlier. Note the change in the order of the regions presented. The NZ Property people for some reason deliver the data in differing orders in their spread sheets. Not very helpful. In the Coromandel something is afoot. Central Otago is giving hints of movement.



Barfoot and Thompson data for October show that while in rough seasonally adjusted terms sales rose by about 10% from September, fresh listings also recorded a firm rise to sit 23% ahead of a year ago. The stock of listings now sits just 5% down from a year earlier after being 15% lower in September, 21% lower in August, and near 30% lower from May to July.

Loan Approvals Weaken Further

In the week ending November 1 the number of home loans approved was down by 25% on a year earlier. That sharp decline comes about because Labour Day was on October 28 this year and October 22 last year. But if we look at just the past two weeks we see approvals down by 13% from a year ago and for the past month the decline has been 15%. So the LVR changes have definitely affected the pace of growth in lending. The question is how much is shock and how quickly might things revert to a new normal?



Old Folk Like Discipline

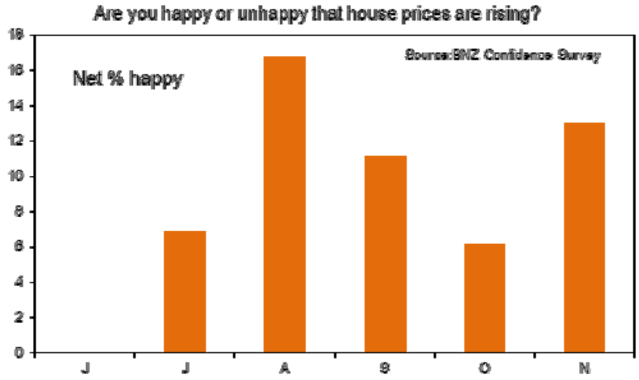
After all, back in their day….

Just in case you missed it, on Friday I sent out the results of our monthly BNZ-Nine Rewards Consumer Trends Survey. Breaking the responses down by age group and examining the question as to whether people support or oppose the LVR rules we find only one group in favour – the oldies. People who are probably quite some distance in time from feeling the desire and pressure to purchase their first home, and probably fairly low on the list of those purchasing an investment property to help fund their retirement as well. I forgot to put the numerical results in alongside the graph so here they are.

Age	Net % in Support
18-24	-17
25-29	-55
30-34	-8
35-39	-31
40-44	-22
45-49	-8
50-54	-12
55-59	-18
60-64	-12
65yrs+	22
All	**-15**

Happy To See House Prices Rising

In a few days I shall release the latest results from our BNZ Confidence Survey. But for your guide, asked about whether people feel happy or unhappy about house prices rising there has been a surge in happiness. In November a net 13% of the 469 respondents expressed happiness. In October the proportion was just 6%. This is the highest reading since August. We've said it before and we'll say it again. There is not a strong constituency in New Zealand for official measures aimed at causing our house prices to fall.



Key Forecasts

Dec. year		2011	2012	2013	2014	2015
GDP	annual average chg	1.4	2.7%	2.5 – 3.0	3.0 – 3.5	2.0 – 3.0
CPI	on year ago	1.8	0.9	0.5 – 1.5	1.5 – 2.0	2.5 – 3.0
Official Cash rate	end year	2.5	2.5	2.5	3.5 – 4.25	3.5 – 4.5
Employment	on year ago	1.6	-1.3	2.5 – 3.5	2.0 – 3.0	1.0 – 2.0
Unemployment Rate	end year	6.3	6.8	5.5 – 6.5	5.0 – 6.0	5.0 – 6.0

It's a Hard Life…

When your hotel can't get you an iron and ironing board so you make do using a trouser press. Actually the iron did eventually show up but it was quite small and did not do the job as well as the trouser press in my room in a hotel in Matsuyama in Japan. I am here this week for the 40th meeting of the Japan New Zealand Business Council and the location is superb – right in the centre of town near lots of shops and little restaurants and cafes. Not that one would necessarily go to one of the cafes expecting a coffee as you would get in New Zealand – unless you go to Starbucks as I did one time and received the usual milk-laden beverage common to all their outlets around the world.

Before I write a bit about Japan, and I will write more next week, here are some observations from the start of my journey back in Wellington.

At Wellington Airport it would be good if they shifted the security checkpoints for Gates 10/11 and 16/17 to the start of the corridor running to them just near the coffee shop. That way with the Koru Club on the other side and visitors rather than passengers already discouraged from going there anyway there could be speedier loading of the moving freight (people). Also, the entrance to the parking and drop-off area is quite a mess. There are about five toll booths one can go through and you are supposed to choose the right one for what you are doing – parking uncovered, covered, dropping someone off, taxis etc.

But that just creates confusion and attempted sideways driving of cars and people try to get to where they are supposed to be. I think the trick is to use any booth except the one which applies to Covered parks. That one may result in a higher charge upon departure. One can see the signage being dropped and all booths being accorded equal relevance not too far down the track.

Why is it that hotels like the one I stayed at beside Auckland airport on Sunday night which require you to swipe your access card in the lift to get to your floor have buttons for the floors usually on both sides, but the security pad for swiping on just the one side?

Flying to Narita was easy with lots of reading and writing for the 11 or so hours, and exiting the airport after landing only took about ten minutes. Such is the benefit of having an APEC card in some locations. Unlike my last time landing at Narita I did not leave my cash sitting at a bus ticket machine and have some nice person chasing me to return it. I simply hopped on the shuttle to the Hilton Narita Airport Hotel which seems to be where the Air New Zealand crew stay. The hotel has a pool but I had to pay about 1,150 Yen to use it.

Early the next morning I flew to Matsuyama on a Jetstar flight. This is the first time I have flown Jetstar and I had no hesitation using their service in Japan. Japan is all about good service and I even allowed my bag to be checked in which is something I try to avoid everywhere else on this planet. They were superb.

In Matsuyama there are bikes everywhere and in the city centre many special buildings or at least floors of buildings devoted to providing parking spaces for all the bikes. You have to be careful walking along the footpaths where the bikes ride, but I saw no accidents. Outnumbering the bike parks however are the car parks and these usually take the form of tall skinny windowless buildings where you drive your car into a slot at ground level and after a door closes behind you the large escalator takes you to your allocated floor.

Speaking of slots, the pachinko parlours are here and the noise when the doors open then close again as a person enters or leaves is amazing. Regulars must surely develop hearing problems very quickly. But it looks like fun dumping hundreds of ball bearings at a time into a machine and I am told there is skill involved.

As noted from my previous trips to Japan there are many people employed in the traffic directing sector waving cars into and out of driveways and car parks, plus simply ushering people from one part of the footpath to the next. I saw that outside a site where a building is being refurbished, and on the exterior of the building was a light showing two numbers then the letters “dB”. I think they were noise level measures.

I have pigged out on McNuggets here. The ones in New Zealand are dry but here they are much more moist and eventually I figured out how to tell the server that I wanted the big box with untold and not the small box with just four or five. Bring back McWings.

Cafes are interesting. Not because you can never be sure how off par the coffee will be, and it seems not remarkably different from the dross which gets served up in Europe. The interesting thing is when someone leaves the café. As they do so one of the counter staff will say something which I guess means thanks for coming, have a great day, come again. And then all the other staff join in as well. It’s like a flock of birds where one squawks and then the others join in but in melodic enthusiastic fashion. It seems like a good team-binding thing.

If you were a Japanese person in France, had a cold, and put your facemask on to avoid spreading your germs as people helpfully do in Japan, would you be arrested by the police for covering your face up as Muslim women wearing veils are? Speaking of France, there are a huge number of shops here in Matsuyama which have French names.

More next week.

Tony.alexander@bnz.co.nz
Tony Alexander has been Chief Economist at the BNZ since 1994 and apart from publications and advising management spends considerable time on the road around New Zealand making presentations and speaking with the media. He travels to the UK and Europe twice a year to assess economic conditions and present at numerous functions, has five children, tramps, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com www.myece.co.nz