

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.

To receive the Weekly Overview each Thursday night please click here.

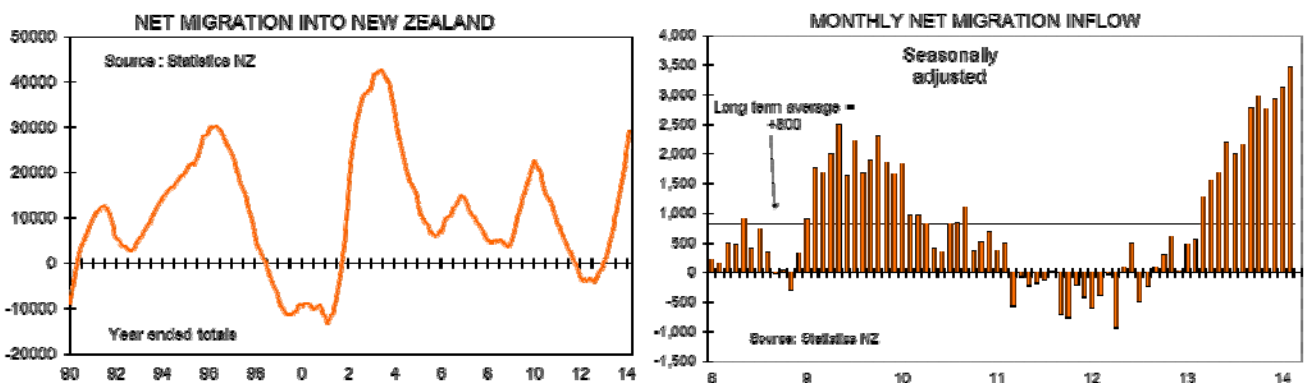
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2014 Themes

- Interest rates will rise
- The NZD will remain highish
- The labour market will tighten, pushing employment costs up
- House prices will rise with gains spreading out of ChCh and Auckland
- Construction will boom
- World growth will improve with unprecedented uncertainty regarding monetary policies
- Business capital spending will grow
- Household spending growth will accelerate

Staying Home

The most significant development of relevance to our outlook for the NZ economy this week was the release of monthly migration and travel numbers on Friday. They show a migration boom gathering in strength. Whereas in the year to February last year the annual net migration gain was below the near 10,000 average at 1,195, in the year to February 2014 the gain was a massive 29,022. More than that, in seasonally adjusted terms the gain for the month was 3,470 compared with 3,120 in January, 2,930 in December, and 2,760 in November. Thus the monthly gain is still going up.



In fact if we do our usual exercise of annualising the last three months' results we get a current annual pace of net migration gain of 38,000.

The 33,000 turnaround in our migration numbers from a net loss of 4,118 in the year to August 2012 mainly reflects a sharp 25,000 reduction in the net loss to Australia from 39,956 to 15,018.

The implications of the acceleration in population growth are fairly clear. It adds to demand for retailing goods and services and most notably housing, while adding some more workers to the labour force. On balance though the net impact will be to boost inflationary pressures given the pressures already emerging in the economy. This reinforces our outlook then for rising interest rates and a well-supported NZ dollar along with increases in house prices. House construction will be slightly more than would otherwise be the

case because the flow of people across the Tasman is more blue collar than to the likes of the UK so there will be Kiwi tradespeople staying in New Zealand.

Speaking of the UK, I am there now having travelled with Etihad from Sydney to Abu Dhabi then onward to Heathrow following a flight with Air New Zealand from Wellington to Sydney. Etihad have a brand new lounge in Sydney Airport and the service was extremely good - especially if you like dates of which there were a number of bowls. They offer a la carte dining plus a nice buffet and drinks are delivered to your table just like in a restaurant. Basically the lounge is a number of notches above any I have been in before.

Before the plane took off from Sydney bound for Abu Dhabi there was a prayer for safe travel broadcast over the aircraft speakers. The bed I found to be more comfortable than with Air New Zealand (travelling business class as one does) but getting in and out of my little alcove next to the window was a tad difficult and if you are fat you might want to choose an aisle pod instead. The ceiling of the cabin has little lights on it which look like stars, there is a little green light to indicate where the power plug is for one's PC near the floor, the TV screen is of a very good size and the selection of things to watch excellent. When I woke at 6.00am Sydney time having departed neat 10.00pm someone noticed and delivered to me a nice cappuccino in a mug along with a little pastry which was a nice surprise as with Air NZ one often gets given just a paper cup. I never thought to ask for an espresso coffee.

Food from the menu is available whenever you want it. That means if you want breakfast hours before everyone else you just ask for it. The crew are very courteous and helpful and for us remote Kiwis with our dearth of languages it was great to listen to the list of languages spoken by the crew announced at the start of the flight.

Key offshore debates

United States – Growth is improving and the labour market responding. But lots of people have left the labour force and as tapering morphs into rising interest rates next year will growth remain strong enough to seriously rebuild a society badly shaken by the sub-prime crisis?

China – The data show growth slowing down at the same time as worries grow regarding bank bad debts and corporate bond failures, excess capacity, housing bubbles, and lack of an obvious switch in growth drivers from exports and investment to consumption. The chances of stimulatory moves to keep growth above 7% this year look very high. China faces challenges, but a crunch is almost certainly not at hand and reforms are continuing.

Australia – vulnerable to slowing growth in China and regional tensions and hit by a budget deficit blowout, chooks coming home to roost in an inefficient manufacturing sector, and winding down of a huge resource sector investment boom. But household spending is lifting along with house prices and building. Further monetary policy easing looks decreasingly likely meaning the AUD may be better supported than exporters would like.

United Kingdom – Growth is picking up in manufacturing, construction, and retailing and businesses are showing willingness to invest. The BOE's next move will likely be a tightening but not this year.

Japan – Prime Minister Abe's Three Arrows policy involves easier fiscal policy, easier monetary policy, and deregulation. The first two are proceeding, the last not. This implies that the recent lift in growth could be short-lived, especially if households react badly to the consumption tax rise from 5% to 8%. Japan's trajectory does not look all that good given huge debt, an aging and shrinking population, and mildly resurfacing nationalism.

Eurozone – Voters are shifting to the right as societies bend under the weight of inefficient economies weighed down by high public sector debt, employment, intransigence, and deficits, and now strains with old for Russia are alive again. Growth is improving but prospects do not look bright.

In **China** the data releases continue to come in on the disappointing side. The flash HSBC PMI stayed below the 50 neutral level for the third month in a row in March with a weaker than expected reading of 48.1 from 48.3 in February. The result means that one can no longer write off the previous two weak results as reflecting distortions associated with the Lunar New Year.

The **United Kingdom** Chancellor of the Exchequer released the 2014/15 Budget last week and projected GDP growth this year of 2.7% then 2.3% next year. Three months ago those forecasts were 2.4% and 2.2% respectively. This growth is assisting efforts to rein in the budget deficit but an outcome equal to 6.6% of GDP is still expected for 2013/14 5.5% this coming year. That means austerity policies continuing. Fortunately there are some sectors in the UK economy which are improving well including house construction and prices where gains appear to be spreading out of the traditional hotspot of London.

The Office for National Statistics shows average UK house prices ahead 6.8% in January from a year earlier following a 5.5% annual rise in December. London prices were ahead 13.2%. Consumer price inflation is about equal to NZ's 1.6% at 1.7% which is just below the BOE's 2% target – a target which appears to be favoured by our new RBNZ Governor. The previous one's target was annual cost of living increases for average NZ households closer to 3%.

In **Japan** the consumption tax is about to go up from 5% to 8%. There are concerns that with consumer prices now rising faster than wages household consumption may decline and remove a key source of economic growth. If this happens the nascent revival of Japan's economy after near two decades of deflationary stagnation may stall completely. In fact such stalling may already have occurred with signs that the government will not much deregulate the economy perhaps contributing to weakness in the likes of business investment. Over the next few months data will be closely examined to see how much the tax rise might dent spending.

Some indicators show growth improving in the **Eurozone** – but this is probably merely a brief period of growth before the financial markets again asked themselves whether the Eurozone is on a sustainable financial footing and is implementing economic changes which will make it competitive in an ever-changing world. The promise by ECB President Mr Draghi late in 2012 that he would do "whatever it takes" to hold the Eurozone together saw an immediate easing off of financial pressure on governments to undertake the harsh changes needed to improve their finances and economic structures. Financing costs fell away, sharemarkets rallied, and sentiment levels have improved.

However central banks through their promises to flood monetary systems with liquidity can only buy time for reforms to become effective. They cannot themselves drive growth and gains in productivity. The ECB has bought more time with its promise of over a year and a half ago but the problems remain, especially in the large economies of Italy with its ever-changing government,, and France with its belief that soaking the successful and raising government spending can produce a well-based modern economy. Unfortunately, this week the chances of additional monetary easing in the Eurozone and further reductions in pressures on governments increased. The President of Germany's Bundesbank indicated a reduction in his opposition to the ECB undertaking quantitative easing via purchases of government bonds.

IF I WERE A BORROWER WHAT WOULD I DO?

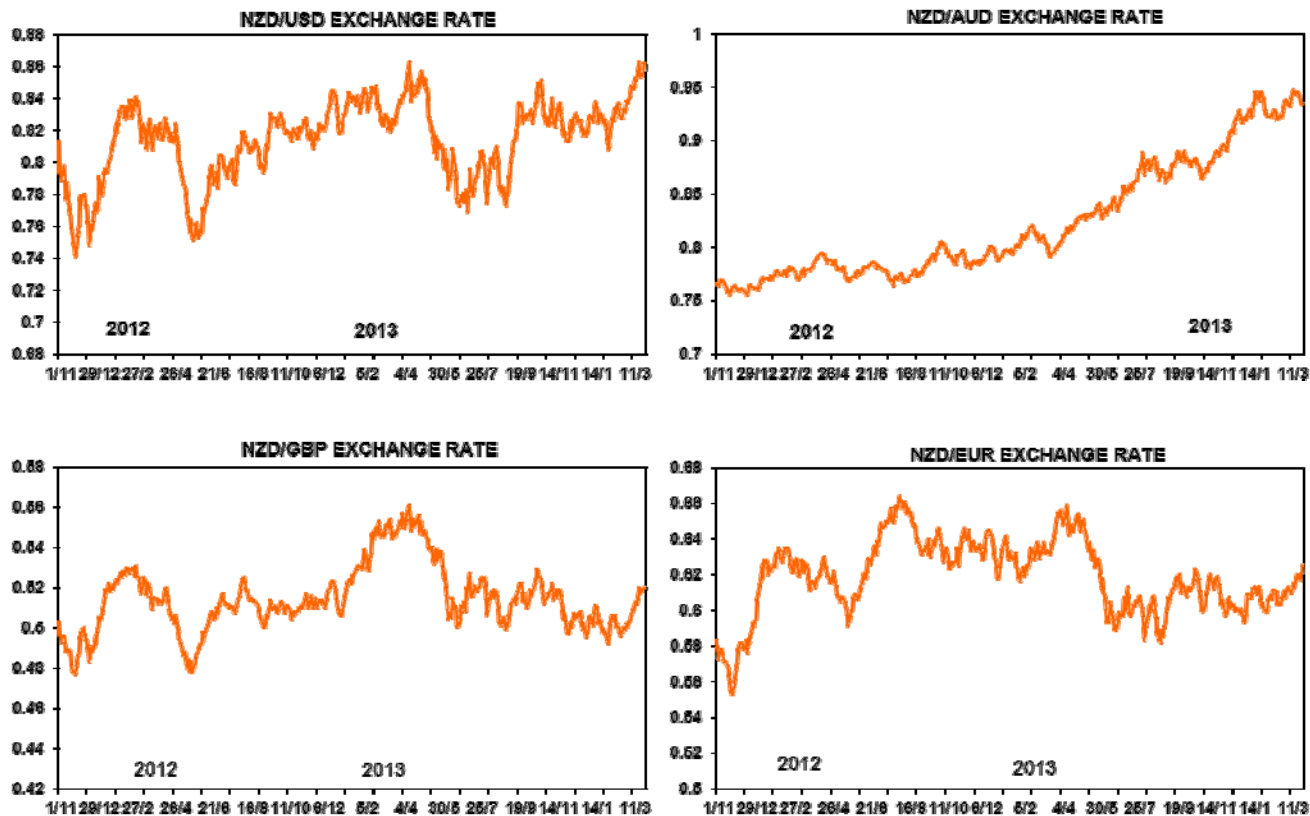
I wrote over three pages last week so no need to add more this week. I would fix at least three years to buy time to adjust to NZ average mortgage rates adjusting from crisis-driven extraordinarily low levels to new norms about 1% - 3% higher than where they are now. The higher rises will come for floating and short-term fixed rates. Long-term fixed rates will rise less.

This week wholesale rates haven't changed much.

FINANCIAL MARKETS DATA						
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.75%	2.75	2.50	2.50	2.50	4.9
90-day bank bill	3.13%	3.06	2.89	2.70	2.70	5.2
1 year swap	3.66%	3.64	3.52	3.41	2.79	5.3
3 year swap	4.37%	4.37	4.17	4.26	3.18	5.5
5 year swap	4.70%	4.66	4.56	4.76	3.53	5.7
7 year swap	4.90%	4.86	4.85	5.08	3.83	5.8

Little Movement

The Kiwi dollar has edged higher against everything we monitor this week except the Aussie dollar. This reflects some strength in the AUD which is a tad surprising considering the weak data in China but appears to reflect a general rise in global risk tolerance as tensions have eased regarding Crimea. The rise against the Euro reflects increasing expectations that the ECB may ease monetary policy again while the gain against the Yen comes amidst worries about the impact of the rise in the consumption tax in a few day's time



Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr Average
NZD/USD	0.867	0.854	0.832	0.8167	0.839	0.726
NZD/AUD	0.936	0.946	0.931	0.9179	0.8	0.839
NZD/JPY	88.6	87.6	85.2	85.59	79.2	72
NZD/GBP	0.521	0.517	0.499	0.4976	0.553	0.423
NZD/EUR	0.63	0.617	0.608	0.5965	0.652	0.545
NZDCNY	5.39	5.29	5.10	4.96	5.21	5.1
USD/JPY	102.19	102.58	102.40	104.80	94.40	99.3
GBP/USD	1.66	1.65	1.67	1.64	1.52	1.72
EUR/USD	1.38	1.38	1.37	1.37	1.29	1.33
AUD/USD	0.93	0.90	0.89	0.89	1.05	0.87
USD/RMB	6.2139	6.1943	6.1244	6.074691	6.2118	7.15

For more detailed FX analysis including the 'BNZ Markets Outlook', "BNZ Strategist" "BNZ Commodities Wrap" and lots more go here. <https://research.bnz.co.nz/Research/NewZealand/Pages/NZpublications.aspx>

Housing Market Update

Additional analysis and commentary are available fortnightly in the NZ Property Press and monthly in the NZ Property Investor magazine.

Nada

No fresh data of significance – migration boom noted above an obvious positive.

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