

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.

Lower NZD But Nothing Much Else

This is a weekly publication aimed at allowing someone of average attention span and intelligence to be quickly informed about a few interesting things to do with our economy, where things generally appear to be headed, and whether anything of substance has just happened warranting a change in outlook. Last week I noted how the quarterly retail figures tell us that retailing sales volumes are growing at an above average pace, but it seems only for those store types which are cutting their prices.

That is important because it suggests that consumers are still strongly in budgeting mode and that argues against inflation-driving growth. Why? Because it tells us that in the part of the economy where most spending is being done businesses almost certainly do not feel that they have pricing power. That is important news for our central bank as it tells them that time is on their side with regard to any further increases in the official cash rate. Thus you and I do not need to be making much extra effort at the moment to jump out of floating rate borrowing into fixed rate debt. That process should be occurring but the pace can remain measured.

We also noted last week the six yearly cycle in sharp dairy payout falls and the role being played currently by Chinese inventory adjustments. Our intention was to signal that panic over falling dairy prices is probably not warranted. Absence of any panic in response to lower prices is what we saw in the pre-election economic update released this week. Growth and revenue forecasts were cut slightly but fiscal surpluses continue to be expected.

That is more a signal of importance to investors offshore than it is to you because it tells them that our fiscal condition remains vastly different from situations overseas and that means no great worry is justified about fiscal changes pushing the NZD sharply downward.

Aside from the slightly updated fiscal outlook has anything really happened to justify inviting you to alter your outlook for our economy? No. It was not surprising that dairy prices stabilised at the fortnightly auction. It was not surprising that the producers price index fell because of lower dairy and log prices, or that the capital goods prices index rose because of higher construction costs. It is also frankly not surprising that economic data coming out of Europe is weak and that the French are again on the road begging others to give them more time to not undertake reforms needed to bring their economy into the 21st century.

It is also unsurprising that US economic numbers have been both weaker and stronger than expected and that Fed officials have talked up and down the chances of higher interest rates next year. But the most recent set of comments has been on the rates rising side and that has given some extra support to the US dollar during the week. As a result of that the NZD today has been trading just below US 84 cents compared with just under 85 cents last week. We have also moved down to almost below 90 cents Australian

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Will the NZD keep falling? For the moment it lacks fresh sources of upward pressure, there is pre-election uncertainty, and as each week goes by we get closer to the time when UK and US monetary policies will be tightened. So we have almost certainly seen the peaks this cycle against the Pound, USD, and AUD. But that may not be the case against the Japanese Yen (89.6 in July) or the Euro (66 April 2013).

In Japan severe doubts persist about the success of Prime Minister Abe's Three Arrows policy, especially in light of the 6.8% annualised decline in GDP during the June quarter. In Europe forecasts for growth are again being cut and it is expected that further easing of already very loose monetary policy may be undertaken to yet again buy time for underlying economic conditions to improve – a policy which has failed abysmally in France and substantially worries the Germans. The latter fear a surge in inflation but that appears very unlikely and the far greater fear is that the Euro-zone will fall into a Japan-like deflationary state.

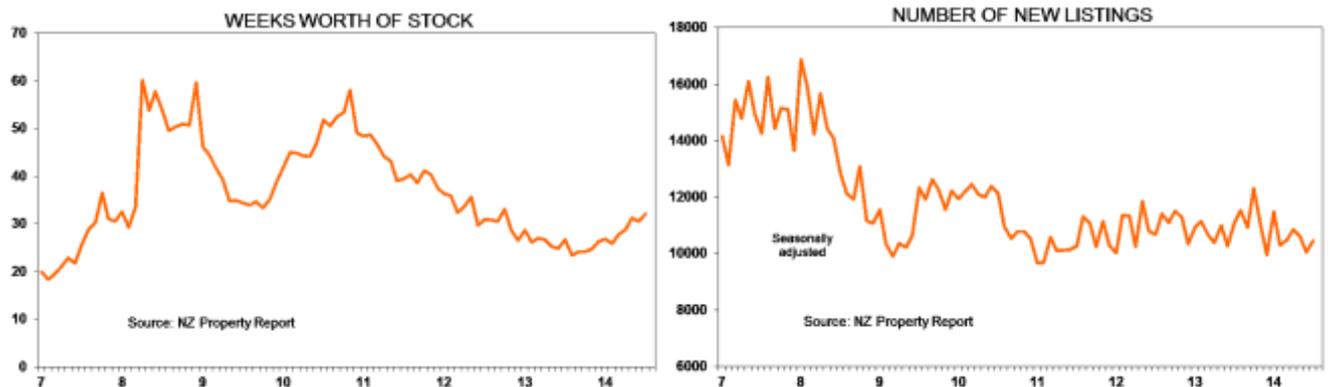
Keeping with the “nothing surprising” theme above, the very strong migration numbers released this morning are in line with those released on a monthly basis for some time now. They show that before the year is out the net boost to our population from permanent and long-term migration flows will probably exceed 50,000.

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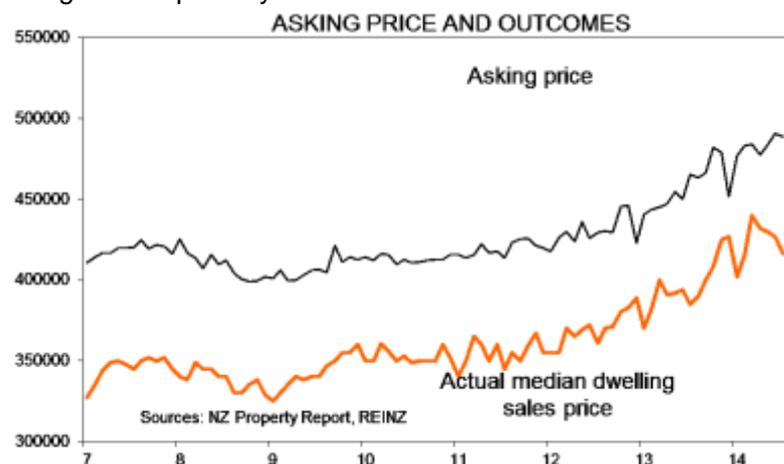
In July the net gain of 5,145 people was up from 2,440 in July last year and a net loss of 222 people in July 2012. The annual flow now stands at a gain of 41,043 from 10,569 a year ago and a loss of 3,799 two years ago. The average net flow for NZ is a gain of 10,000 people. The strong turnaround from two years ago mainly reflects the net loss to Australia declining from almost 40,000 to now just 7,303. At the current pace this net flow may turn slightly positive for the first time since a ten month period in 1991 and before that a ten month period in 1984.

More people = more demand for housing + more demand for retailing goods and services = more economic growth. But it also means more staff for employers so to some extent is helping to keep a cap on the pace of wages growth for a wee bit longer. Overall, given that for now there is no solid evidence that the migration boom is driving house prices upward the Reserve Bank will not be feeling that an acceleration in the pace of policy tightening is required.

Another piece of evidence showing a slowing of the housing market appeared this week in the form of the web-based NZ Property Report. It showed their stock of listings at the end of July was 9.3% greater than a year earlier whereas six months earlier this seasonally adjusted measure was over 6% lower than a year before. The number of weeks of sales to which stock levels are roughly equivalent now stands at 32.1 from 30.5 in June and 26.7 a year ago. The second graph here shows that new listings are not trending upward, thus the activity decline mainly reflects buyers backing off. Is this affecting prices?

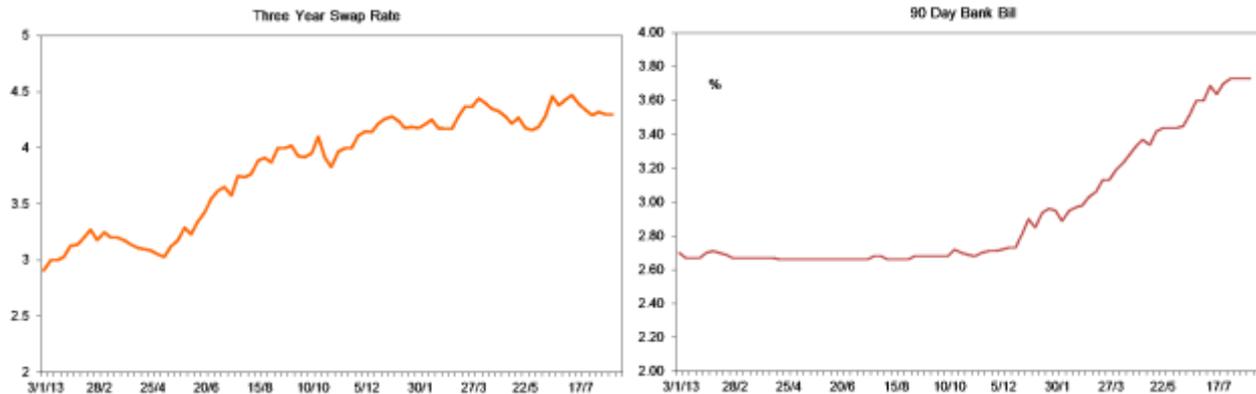


The seasonally adjusted average asking price (note, not the actual selling price) is still trending upward and was ahead 5.1% from a year earlier in July. But the rate of increase has slowed though not as much as for the actual average sales figure compiled by REINZ.



If I Were A Borrower What Would I Do?

Continue to seek out discounted fixed rates in the three to five year area and not place too much of my debt at the two year rate where the lenders are currently competing the most fiercely.



	This week	Week ago	4 wks ago	3 mths ago	Year ago
Official Cash Rate	3.50	3.50	3.50	3.00	2.50
90-day bank bill	3.72	3.72	3.64	3.42	2.66
1 year swap	3.94	3.93	3.98	3.73	2.96
2 year swap	4.11	4.14	4.18	3.99	3.49
3 year swap	4.27	4.30	4.34	4.18	3.91
4 year swap	4.37	4.41	4.45	4.31	4.18
5 year swap	4.46	4.50	4.54	4.42	4.42
7 year swap	4.57	4.61	4.66	4.63	4.74
10 year swap	4.69	4.74	4.78	4.81	5.02

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. 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 sign up at www.tonyalexander.co.nz To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz

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