BNZ Weekly Overview

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Mission Statement

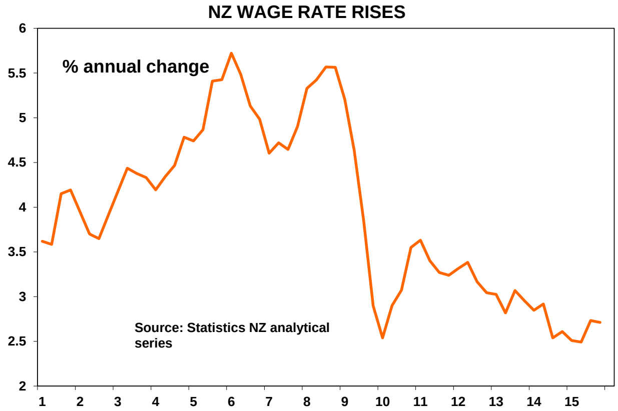
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Unemployment Rate The Lowest Since 2008

I started the Overview this year with an article noting that although there are worries offshore we have plenty of things helping support growth in the New Zealand economy, limiting the chances of further interest rate cuts, and keeping the currency well supported. These were the themes repeated strongly this week by many commentators following the good labour market data yesterday and by the Reserve Bank Governor as well.

Yesterday we learnt that during the last quarter of 2015 there was a good hike in job numbers around New Zealand of 0.9% or 22,000 people. This followed a 0.5% fall in the September quarter so the result does have an upward bias and it would be best to say that on average last year job numbers grew 0.3% a quarter and this pace was close to sustained in the second half of the year.

The unemployment rate interestingly and completely against expectations fell away to 5.3% from 6% in the September quarter and 5.8% a year earlier. In fact the rate is now the lowest since 4.6% at the end of 2008. The decline partly reflects some people leaving the workforce taking the participation rate down a tad to 68.4% from 68.7%. Nonetheless, the result remains a good one which is supportive of good consumer sentiment and household buying.



Compared with a year ago employment in agriculture was down 0.6% but in construction it was up 13.4%, real estate 10.4%, and all industries 1.4%.

But yet again there remains zero evidence that the pace of wages growth in New Zealand is accelerating as one would expect to have happened by now were it not for the role of the global financial crisis in changing the way things link economically these days.

The wages measure which I use, an analytical series created by Statistics NZ where an attempt is made to strip out changes in work quality and quantity, rose 2.7% over 2015. This was the same pace of change as the year to September and statistically-speaking unchanged from the 2.6% pace of 2014. The rises in 2012 and 2013 were both 3.0% and 2011 was 3.2%. But with inflation at 0.1% that means a 2.6% real wage rise which is brilliant! Hence strength in consumer spending.

This means that the Reserve Bank will struggle to look at the fall in the unemployment rate and conclude that wages growth is about to take off. Thus the door remains open for another cut in interest rates though our view is still that they don't want to cut and will just get by without doing so. This is the case even allowing for the further 7.4% fall in the average dairy auction price this week which raises the chances of Fonterra having to cut this year's payout forecast again.

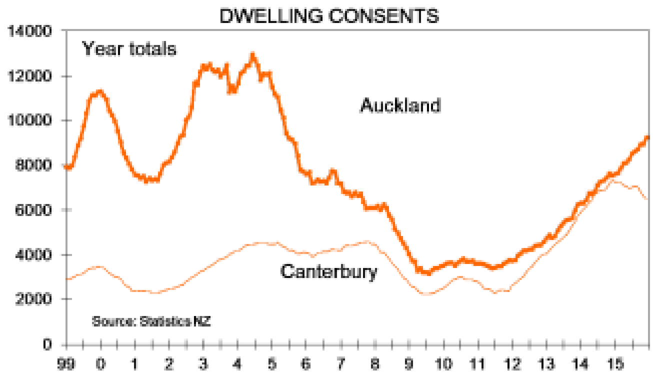
In fact on Wednesday the Reserve Bank Governor was at pains to stress that although headline inflation is low at just 0.1%, the Policy Targets Agreement requires the RB to take into consideration a lot more than just the main CPI reading when setting monetary policy, that price shocks stemming from the likes of oil price changes can be "looked through", and that core measures of inflation are close to the mid-point of the target band. Those comments dashed some optimistic expectations out there of another rate cut soon and coming on top of the strong jobs numbers caused a spike in the NZ dollar toward 66.5 cents last night.

To repeat, our currency is well supported by non-dairy exports doing well, the domestic economy being assisted by strong construction and migration, and now reductions in expectations of tighter monetary policy in the United States plus the desperation-driven cut in Japan's key rate to -0.1%.

Housing

Dwelling supply continues to move upward in Auckland while falling away rapidly now in Christchurch. In the three months to December the number of consents issued for the construction of new dwellings in Auckland was ahead by 24% from a year earlier while for Canterbury there was a decline of 24%. For all the rest of New Zealand there was a rise of 38%. Regional house building is rising strongly which will make boosting Auckland house supply even harder as builders doing the same job for the same wage in the regions will face far lower housing costs for themselves than working in Auckland.

For all of 2015 Auckland consents totalled 9,251 which was a strong 23% rise from 2014 and the highest annual total since June 2005. This is good news for Auckland and hopefully this year will bring another 23% rise to 11,400.

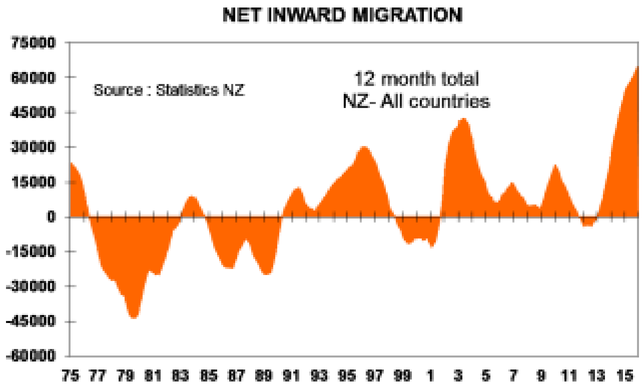


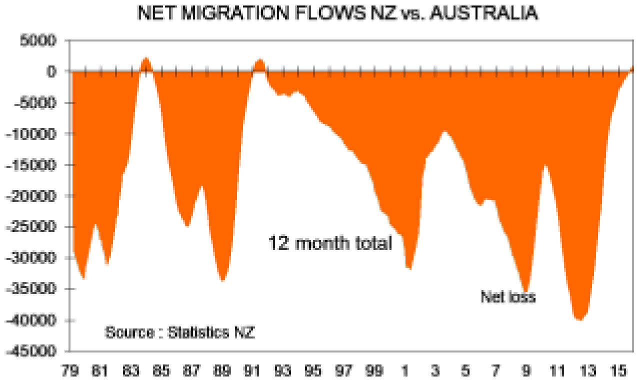
But while dwelling supply outside Canterbury is growing well, so too is demand. Adding to

- the pent-up demand from those people who have after seven years finally given up on expecting house prices to collapse,
- buyers edging toward minimum deposit requirements, and
- foreign buyers getting their heads around the very simple bank account, IRD number and bright line text rules,

we have still booming net immigration.

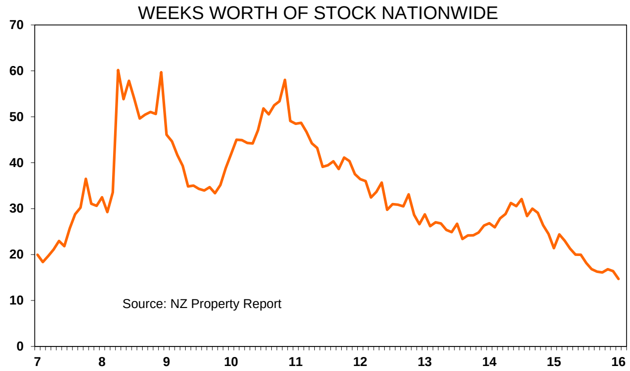
In calendar 2015 NZ received a net gain from permanent and long-term migration flows of 64,930 people. This was well above the average net gain of 10,000 people per annum, 2014's gain of 50,922, and the 2012 loss of 1,165. Over the past year departures have fallen 2.4% after declining 18.3% over 2014 signalling that the decline in you and I leaving is flattening out. But arrivals for the year were up 11.5% after rising 16.3% in 2014, signalling a far slower pace of flattening.





Is the net gain slowing down yet? In seasonally adjusted terms we can see some hints of this happening with the annualised net gain for the December quarter at 71,360 from 67,520 in the September quarter and 59,560 in the June quarter. But the numbers are still going up and with Auckland receiving over 60% of the net gain, their 38,900 extra people last year required 13,000 extra houses. Consents for only 9,251 were issued therefore the shortage got worse last year and even much worse than suggested here as natural population growth has not even been taken into account!

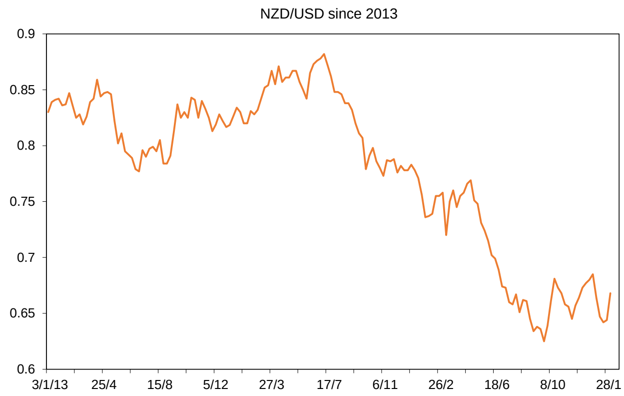
It is worth noting that according to the realestate.co.nz monthly report the inventory of listings nationwide at the end of January was 31% lower than a year before at 26,832. This represented 14.7 weeks of sales from 21.4 a year ago and shows us how so much stock out in the regions has been soaked up in the past year as buyers have shifted their attention from Auckland. Auckland's inventory in January was just 13% down from a year earlier and weeks taken to sell a property higher at 10.3 from 9.4.

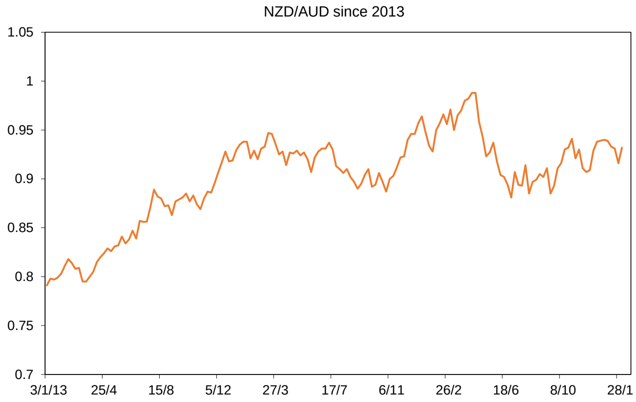


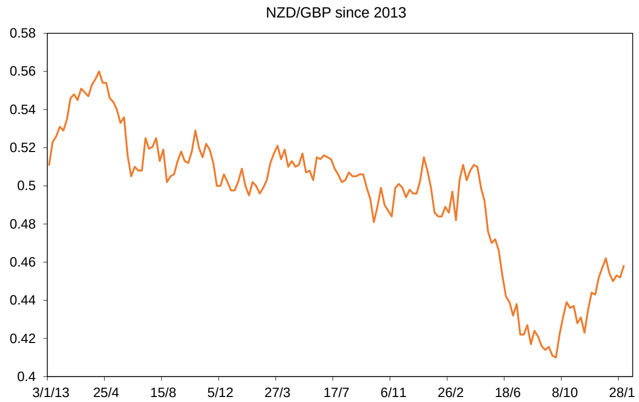
NZ Dollar

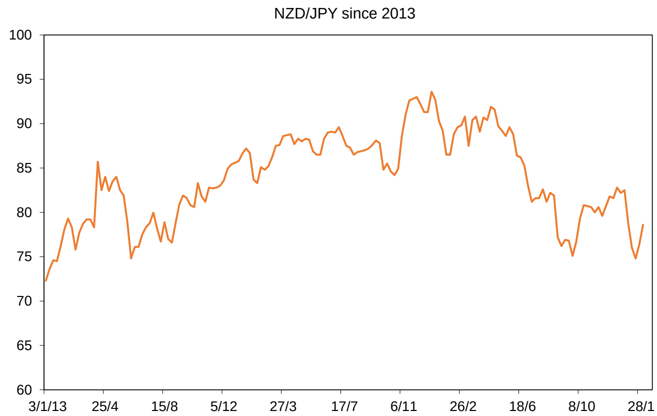
The Bank of Japan last Friday cut the interest rate banks receive for deposits with the BoJ which has been zero for many years to -0.1%, sending the Yen down and sharemarkets around the world skyward. The move follows the failure of money printing to generate sustained growth in Japan which followed failure of low interest rates to boost growth and failure of ongoing easing of fiscal policy. 90% of printed money is right back with the BoJ as banks find customers have little interest in borrowing more and corporates anyway are sitting on a huge pile of cash already. So the rate cut is very, very unlikely to have any noticeable impact on Japanese growth.

The relevance for us is some extra strength in the NZD against the Yen and we have risen to 78.6 from 76.4 last Thursday. This rise however mainly reflects the NZD's jump against the USD to 66.8 cents from 66.4 as the markets have reacted to NZ's good employment data and comments from the RB Governor dampening down expectations of further monetary policy easing in NZ. This change in view also accounts for us rising back up against the AUD to 93.2 from 91.6 meaning the NZD is back where it was a fortnight ago.









You will find current spot rates here. http://www.xe.com/currency/nzd-new-zealand-dollar

If I Were A Borrower What Would I Do?

Fix three years at 4.49%. Simple as that, but leave a proportion floating to allow flexibility for early repayment. Chances are good that the RB will not cut the cash rate again unless things turn to custard offshore, and while our official view is they start raising it late next year the risk is no move before 2018.

For Noting

A couple of weeks ago I noted the business opportunity available of buying Nespresso coffee capsules in Australia and selling them in New Zealand. The people from Muzzbuzz kindly sent me some of their capsules which cost 75 cents each postage free for three boxes of ten (even lower for boxes of 50) versus just over $1.00 for each Nespresso capsule bought instore. The taste is good and you might like to check them out at www.muzzbuzz.co.nz

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
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