

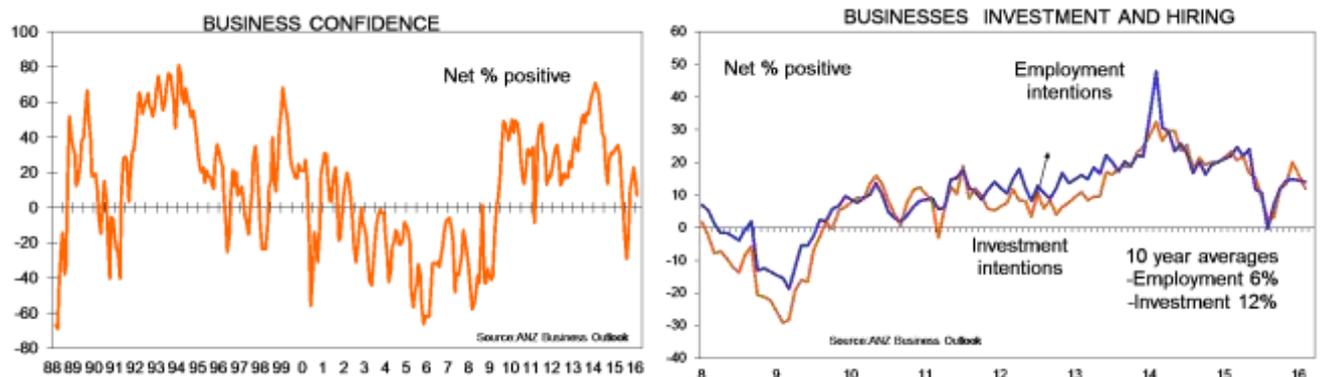
## Mission Statement

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

## Business Slightly More Cautious – But The Averages Hide Wide Disparities

We received evidence this week that the spike in concerns about world growth, wobbly sharemarkets, and renewed decline in dairy prices has dented the sentiment of the country's business sector. A net 7% of respondents in the latest ANZ Business Outlook survey say that they feel optimistic about the economy in a year's time. This is down from a net 23% in December and slightly below the ten year average reading for this measure of +10%. Thus caution prevails out there. Is it much denting intentions of hiring and investing however?

A net 12% of businesses say they plan hiring more people. This is down from 20% in December so a sizeable drop. But it is still twice the average February reading of just +6% so we remain prepared to say that jobs growth will be reasonable going forward. Though it depends of course upon what sector you are thinking about. Hiring intentions are well above average in retailing, manufacturing and services. But at -8.7% agricultural intentions are below the net 2% positive average and at 0% the construction sector reading is below the 10% average and December's 30% reading. That is probably the most interesting of the employment readings and worth keeping an eye on because it will probably not stay that weak given the volume of work coming up.



Intentions of investing in new plant and machinery etc. have not changed much in recent months and sit now at 14% from 15% in December and an average of 12%.

To put more flesh on the bones of these numerical surveys run by the likes of ANZ and NZIER we run our quarterly BNZ Confidence Survey the results of which were distributed to everyone on the Weekly Overview emailing list on Wednesday. In the dairying sector deep pessimism prevails and it would be quite bold to extrapolate this week's 1.4% rise in average prices at the Global Dairy Trade auction into an upward trend as yet.

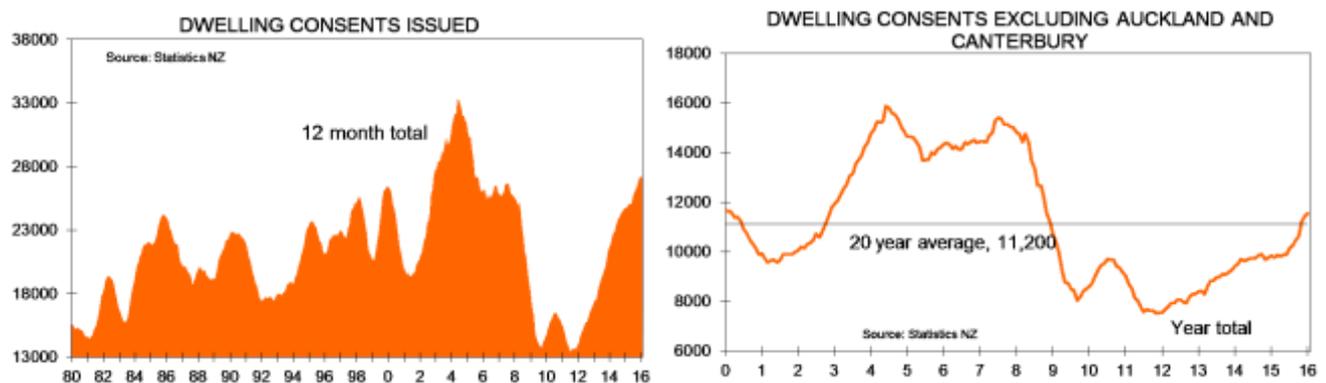
The dairying pain is being felt more and more amongst firms supporting the sector with an extra aggravating factor being new weakness showing up in sheep and beef. But outside of those primary sectors most others are doing quite well. This includes honey, venison, kiwifruit, pipfruit, horticulture and forestry. Wine sales and production are also going well. Then there are the sectors which are booming. Top of the list is tourism with huge rises in visitor numbers and spending spread throughout the country. Construction is also very firm with a noticeable lift in positive comments from the regions backing up the growth apparent in monthly consent issuance data.

The survey basically shows strong offset to the dairy sector weakness which leaves fairly much all of us forecasters continuing to speak in terms of 2% - 3% growth over each the next couple of years. For most of us the outlook also translates into the absence of any expectation of much weakness in the NZD. Regarding monetary policy views are more mixed. We don't think the RB will cut again but others who perhaps have failed to factor in the global development of monetary policy easings consistently failing to lift inflation rates still expect two more decreases. Possible but not probable.

### Housing

Construction of dwellings in New Zealand is rising with consents for 27,124 dwellings issued in the year to January ahead 9.9% from a year earlier and 95% higher than in the year to January 2012. But there are big variations around the country. In Canterbury consents have fallen by 13% this past year to sit at 6,311 from 7,255 a year ago. This is still well above the 23 year average of 3,700 but in the three months to January numbers were 25% down from a year ago. So things are falling away quite quickly now that a lot of the post-earthquake construction is done.

In Auckland there is in contrast good growth – though not enough to make many people think that the shortage is going to radically improve let alone disappear in the next few years. In the year to January in Auckland consents for the construction of 9,275 dwellings were issued. This makes for a 22% rise from a year before but in the three months to January growth was less than that at 16.4% from a year ago. So maybe growth is slowing a tad. Average consents issued per annum for the past 23 years total 7,400.

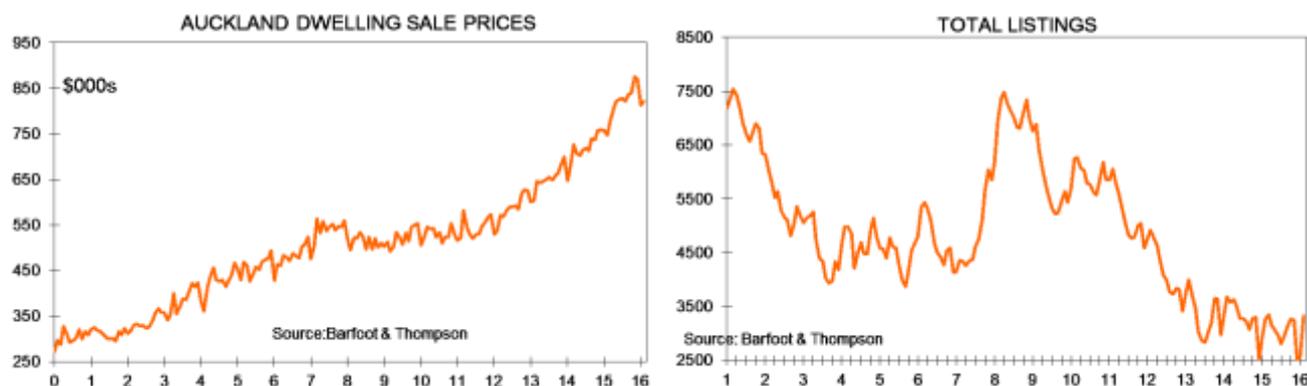


It is in the rest of the country however where things are getting interesting. In a traditional lagged response to a lift in sales and prices construction is rising with consents issued in NZ excluding Auckland and Canterbury ahead 39% in the three months to January from a year ago. Average consent issuance outside our two biggest cities has been 11,200 these past 23 years and the latest total is only just above that at 11,538.

What does it all mean? As the construction boom fades in Christchurch tail-end companies which might have over-traded will be caught out. Everyone knew this would be coming. In Auckland supply is not rising fast enough even to meet the needs of migration-driven population growth. Growth in building outside of Auckland will make it even harder for people to find builders in Auckland. Tradies are going to quit Auckland for work elsewhere. History tells us to watch out for over-optimistic building in some parts of the country which seem flavour of the month to investors currently and perhaps draw some media exposure, but which have fairly low population growth which in the end will generate a price impact down the track.

In other words, if you are an Aucklander in panic mode because you missed out on some cheap place in Huntly or elsewhere, watch what the locals may soon be trying to sell you and for most though not all locations don't blindly extrapolate the construction of houses on a new subdivision into a multi-year boom in construction in that area for which it would be a good idea to prepare for by snapping up sections in the next development. The one you see underway could soak up all that town's population growth if any for the next decade.

Speaking of Auckland, there was weakness apparent in the Barfoot and Thompson monthly numbers released this morning. Their sales in Auckland in February were down by 17% from a year ago and off a seasonally adjusted pace near 20% from January. The average sales price lifted to \$822,000 from \$812,000 in January to lie 10% ahead of a year ago. But this annual gain reflects rises earlier in the 12 month period and over the past three months prices have fallen on average by 1.9%. This change from +3.2% in the three months to November and +3% in the three months to August is largely a seasonal thing. Nonetheless the result still shows a market taking a decent summer pause.



The stock of listings at the end of the month was ahead 1.8% from a year ago but of greater interest is the strong lift in new listings received during the month to 2,060 from 1,771 a year ago. This is the greatest number of new listings in February for at least the past 15 years so price restraint is likely to continue in the near future as buyers focus their attention on the regions. But before anyone starts thinking that sellers are rushing agents it pays to note that in the middle of last year for a while new listings were running 88% ahead of the same month a year earlier.

### NZ Dollar

This has been a week in which investors have smiled a bit more because the People's Bank of China cut reserve requirements for Chinese banks thus injecting more money into their banking system, the US Treasury reduced their worries about a Chinese currency devaluation, economic data in the United States came in better than expected, and the Reserve Bank of Australia left monetary policy unchanged feeling slightly less worried about their economy.

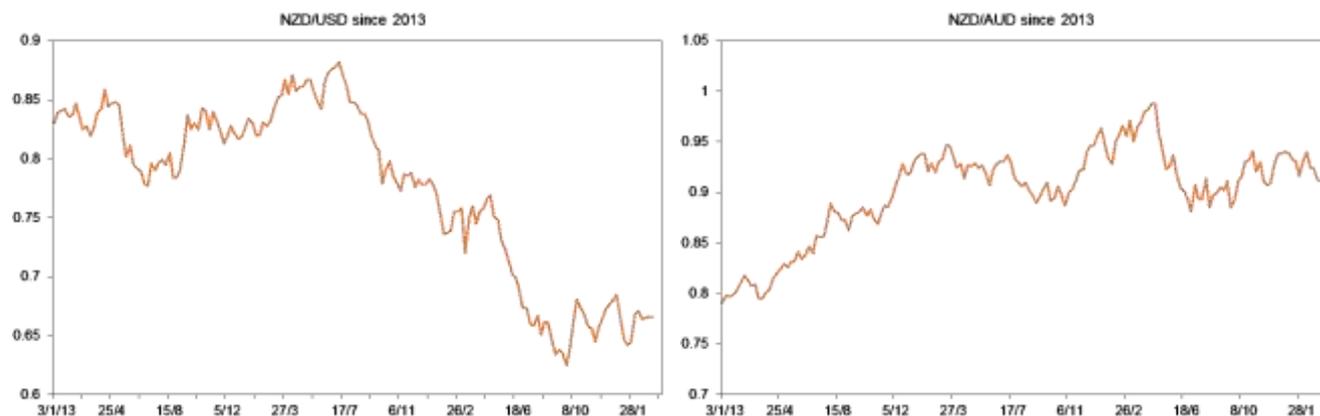
The improvement in risk tolerance has caused sharemarkets to rise, the Yen to weaken slightly, and we have lost ground slightly against a marginally firmer Aussie dollar boosted by the no-change stance from the RBA and better than expected 0.6% growth in Australia's GDP during the December quarter. Full year growth was a good 2.5%.

Yet no decisive blows have been struck against the many factors which since the start of the year have been occupying the minds of people. These include weak energy and commodity prices, the ineffectiveness of monetary policy and limited ability of central banks to respond if something new and nasty hits world growth, the rising probability that the UK will exit the EU, deepening divisions between EU members over the projects appalling floundering on the refugee crises, the militarisation of the South China seas by China and rising rhetoric against such expansionism by the US and directly affected countries who are boosting military spending in response, the Middle East crisis in its many forms, the unpredictability of financial and economic variables as the GFC has changed relationships between things, and to top it all off the now rising prevalence of questions regarding what a United States led by Donald Trump might look like and do.

Late today the NZD was buying the same USDs as a week ago near 66.5, more Yen of about 75.5 from 74.3, fewer pounds near 47.3 from 47.8, more Euros near 61.3 from 60.4, and fewer AUDs near 91.2 cents from 92.4. This is about as low as the NZD has been against the Aussie dollar since early December so for the many people out there holding AUDs wanting them in NZDs one wonders if this might not be an

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opportune time to transact some – whilst realistically having no idea personally about where the rate will be in a week, month, year, or decades time.



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?

US bond yields have risen this week amidst a mild rise in expectations of more Fed tightening this year. But more easing remains likely in other parts of the world like Japan and Europe, and wariness of banks in Europe has blown out NZ bank offshore funding costs which you might notice have been passed on slightly this past week in the form of higher fixed lending rates. Would I still fix three years now that our rate has been lifted from 4.49% to 4.64%. Yes. I would be great security for a low price as compared with October last year when I fixed two years near 4.4% but the three year rate was a tad out of reach at 5.19%.

### If I Were An Investor

The text at this link explains why I do not include a section discussing what I would do if I were an investor. <http://tonyalexander.co.nz/regular-publications/bnz-weekly-overview/if-i-were-an-investor/>

### For Noting

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](http://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](mailto:Tony.alexander@bnz.co.nz)

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