BNZ Weekly Overview

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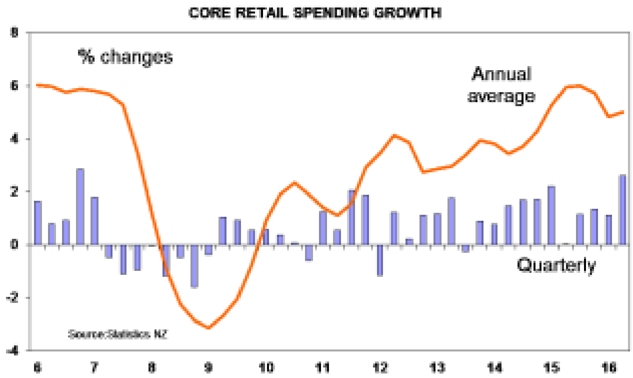
Mission Statement

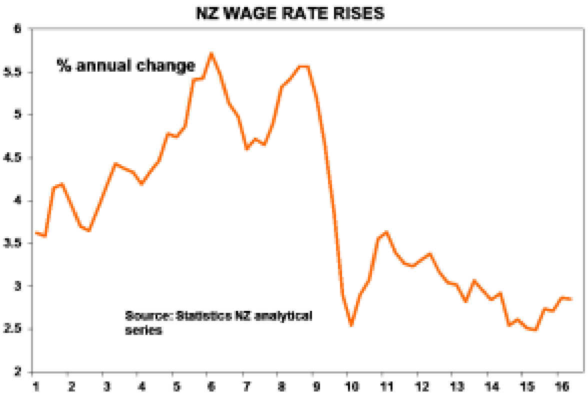
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Trying To Boost Inflation

The Reserve Bank are cutting interest rates in the hope that this will stimulate people to borrow more money and spend it or to save less and spend it, and that this will cause inflationary pressures which will get the annual inflation rate back above 1%. They are failing (along with almost all central banks these days) and we got good insight into this failure last Friday when the Retail Trade Survey numbers appeared.

They showed that during the June quarter inflation and seasonally adjusted spending rose by a massive 2.6%. Growth from a year before was 6.4% and for the entire year 5%.





Consumers are already opening their wallets and spending up large and if this recent massive growth is not driving inflation then it is hard to imagine whatever stimulus coming from lower interest rates will make much difference.

Similarly, we learnt yesterday that the labour market may be booming, but analysis is difficult. Job numbers are reported to have surged by 2.4% during the June quarter and by 4.5% from a year earlier. However Statistics NZ have lifted their estimate of employment starting this quarter to better capture people who are self-employed. Thus there is a definite upward bias to the 2.4% quarterly growth rate but we don't know by how much.

Suffice to say that all reports from employers are that staff are hard to find in spite of fewer Kiwis leaving the country and more coming back, plus a few more foreigners coming in to work than four years ago.

Yet, as previously noted, in spite of strong jobs growth and lowish unemployment at 5.1% from 5.5% a year ago there is no sign that wages growth is accelerating. The Labour Cost Index measure we prefer was ahead 2.8% in the June quarter from a year ago from a 2.5% rise one year ago, 2.9% two years ago, 2.8% three years ago, and 3.4% four years ago.

So no inflation coming from the labour market it seems in spite of rising remuneration in the construction sector and a booming tourism industry.

And it is hard to see much upward pressure on prices coming from the dairy sector in the near future even though average prices improved another 12.7% at this week's auction after rising 6.6% two weeks ago. The rises are good but they won't stop dairy farmers from continuing to crunch their expenses and pull back from wasteful supplementary feeding systems.

Housing

Starting from over a year ago Auckland investors began flooding into the regions looking for bargains, smaller mortgages, and better yields in the residential property sector. Once they appeared and snapped up property the locals woke from their slumber and piled in. Now there are major listings shortages all around the country and people are desperate to buy anything they can get their hands on – which means we are in the part of the cycle where those owning rubbish they have wanted to sell for the past nine years can finally get rid of it.

History tells us that at this point in the housing cycle people tend to invest in the regions with a view that there will be a population surge as Aucklanders flood out of their expensive city and baby boomers retire to their beautiful location. This never happens to the degree people expect. Worse than that, there are many parts of the country where short of Mount Rangitoto blowing up population is not going to grow at all.

To get a feel for how populations are likely to change in different locations we make use of the Statistics NZ Population Projections available at the following link.

http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/SubnationalPopulationProjections_HOTP2013base.aspx

There is a good graphic showing projected average annual rates of population growth by region with Auckland showing strong growth followed by Canterbury, then Waikato and Bay of Plenty. On the West Coast, Southland, Gisborne, Manawatu-Wanganui, Hawkes Bay and Marlborough statistics show no or minimal growth projected out to 2043.

This following table shows projected total regional population growth from 2013 – 2043 under the Medium scenario which assumes a net annual migration gain for NZ of 12,000 p.a.

	Projected % Population Change 2013-43
Auckland	49.3%
Canterbury	29.5
North Island	29.0
NZ	**26.9**
Waikato	21.9
South Island	20.4
Bay of Plenty	17.5
Otago	14.8
Nelson	14.8
Taranaki	14.6
Wellington	12.7
Northland	11.1
Tasman	10.7
Marlborough	4.5
Hawkes Bay	3.8
Manawatu-Wanganui	1.5
Gisborne	1.3
Southland	0.8
West Coast	0.6

All regions are projected to enjoy some population growth – but not all local authorities, and buyers of regional property would be advised to pay attention to this following list before selling up in Auckland to buy a few houses elsewhere thinking that capital gains will be the same.

	2013-43 %
Upper Harbour	93.0%
Selwyn district	91.4
Waitemata	86.7
Franklin	83.3
Rodney	73.3
Queenstown-Lakes district	70.4
Papakura	68.7
Maungakiekie-Tamaki	62.0
Henderson-Massey	56.0
Hibiscus and Bays	56.0
Whau	54.5
Auckland	49.3
Waimakariri district	49.1
Tauranga city	43.7
Puketapapa	43.5
Howick	42.6
Hamilton city	41.7
Orakei	41.6
Mangere-Otahuhu	41.3
Waikato district	38.5
Albert-Eden	37.3
Waiheke	36.7
Otara-Papatoetoe	35.9
Ashburton district	31.9
Devonport-Takapuna	30.8
Total, New Zealand	**26.9**
Waipa district	24.0
Waitakere Ranges	23.9
Hurunui district	22.9
Christchurch city	22.5
Kaipatiki	22.2
Wellington city	22.0
New Plymouth district	21.7
Carterton district	20.1
Whangarei district	19.2
Central Otago district	18.4
Kapiti Coast district	18.3
Palmerston North city	18.3
Western Bay of Plenty district	16.5
Mackenzie district	15.1
Nelson city	14.8
Upper Hutt city	12.3
Manurewa	12.1
Tasman district	10.7
Manawatu district	9.5
Waimate district	8.8
Hastings district	8.2
Porirua city	7.3
Timaru district	7.0
Buller district	6.6
Great Barrier	6.3

Dunedin city	5.8
Waitaki district	5.6
Kaipara district	4.9
Napier city	4.9
Matamata-Piako district	4.9
South Wairarapa district	4.6
Marlborough district	4.5
Southland district	3.3
Invercargill city	3.0
Far North district	1.7
Taupo district	1.4
Gisborne district	1.3
Stratford district	-0.2
South Taranaki district	-0.7
Westland district	-0.8
Kaikoura district	-0.8
Masterton district	-1.7
Lower Hutt city	-2.1
Grey district	-2.9
Thames-Coromandel district	-4.0
Rotorua district	-4.7
Wanganui district	-7.6
Whakatane district	-7.6
Clutha district	-7.8
Horowhenua district	-8.3
Hauraki district	-8.6
Central Hawke's Bay district	-9.1
Otorohanga district	-10.3
Tararua district	-13.2
Gore district	-13.3
South Waikato district	-14.9
Rangitikei district	-15.5
Chatham Islands territory	-18.3
Waitomo district	-21.7
Wairoa district	-24.6
Opotiki district	-27.4
Ruapehu district	-34.3
Kawerau district	-39.8

NZ Dollar

As previously noted, the Kiwi dollar sitting close to USD65-70 cents is where it goes after our international dairy prices have collapsed by about 60%. Now those prices have recovered to just 40% off their peak with a 19% average rise the past fortnight.

Now throw in new weak economic data out of the US, UK, and Japan. Add in a spreading realisation that US monetary policy might not tighten at all from current levels for a very long time, plus strong NZ economic data on retail spending this week and it is only a matter of time before the Kiwi dollar powers through very hefty resistance at 73 cents to settle perhaps near 75.

Basically we have the same message here. The Kiwi dollar sticks out as well supported in a world failing to get onto a firm growth track post-GFC.

And for your guide, generally the dollar and house prices move in the same direction, with migration flows on the same boat.

This afternoon the NZD was trading against the greenback near 72.4 cents from 72.9 last week, unchanged against the Australian dollar near 94.5 cents, and down marginally against the Yen, Pound and Euro near 72.7, 55.6, and 64.2 things respectively.

If I Were A Borrower What Would I Do?

Given some of the good data this past week we have pushed out our expectation for the next and probably (hopefully!) final two OCR cuts from September and December to November and February.

The direction in rates remains slightly downward but be careful in placing too much weight on any specific set of interest rate forecasts given the way basic economic relationships have radically altered post-GFC. Thankfully we have been giving that message for seven years now. Doesn't much help anyone trying to optimally structure their risk management however.

Were I borrowing at the moment I would have a portion floating and fix the rest in the two or three year area. Five years at 5.15% is a nice low rate which will suit conservative borrowers. However I struggle to see monetary policy being sustainably tightened for quite a number of years so personally would feel little need to insulate against much upside risk at this stage.

If I Were An Investor ...I'd see a BNZ Private Banker

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/

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