# 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.

## Trumpit Here?

Could we see next year's general election produce a very unexpected outcome, with voters gravitating strongly toward a party or candidate quite different from the incumbents and usual competitors?

Here are some arguments in favour of this not being the case in New Zealand. These are simply the thoughts of a macroeconomist and there are bound to many more points for and against an NZ parallel with Brexit and Trumpit that skilled sociologists, historians and political analysts could make.

Our labour market is strong with plenty of job opportunities. Not only is the proportion of the traditionally defined 15-65 working age population in work at a record high of 70.1%, it is massively above the US rate of 62.4% and the employment rate for Kiwis 65+ has jumped from 5.8% to 23.6% since 1998. Many people in the United States feel there is so little chance of getting a job that they are not even making themselves available for work. They are no longer part of the labour force. They have given up hope of advancement for themselves and their families and have felt disenfranchised by a leadership more focussed on issues of social equity than the economy.

That is not the case here where job opportunities abound in construction and tourism and the biggest problem for many was summed up by the leader of the Labour Party Andrew Little recently when he said "Some young people occasionally do need a kick up the backside to get them out the door."
http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11743211

Our economy is performing well and expectations are high that strong growth will continue, assisted by sectors such as tourism, construction, technology. Plus we have a structural boost from strong net immigration and a boost to come from reconstruction following this week's earthquake.

For most Americans there is no safety valve if they feel their country cannot offer them what they want. For us Kiwis we simply go to Australia. And that is what many did when our economy tanked over the 1970s and parts of the 1980s. Those laid off by the removal of protection for the manufacturing and farming sectors moved on from their disenfranchisement a generation ago.

We have a strong welfare system. In the United States they have food stamps, time-limited unemployment insurance, and minimum wages which range from $5.15 an hour to just over $10. The NZ minimum adult wage is $15.25.

New Zealanders got rid of their perceived "nanny-state" government in the 2008 general election.

Our MMP system for electing parliamentarians means disaffected voters can already gain representation.

We do not have a society displaying the same depth of concern about immigrants – whether legal or not – as in the US and UK. It is virtually impossible for anyone to turn up in NZ unannounced.

We have no feeling that we have lost deserved prestige on the world stage and are increasingly regarded by other large powers as directionless. We're small, we're irrelevant, and we know it.

We do not have a person performing the role of President with a strong base of power and ability to impose change.

Many might disagree, but personally speaking I do not find many NZ politicians to be as disconnected from the concerns of common working class and middle class people as the recent administrations clearly have been in the United States and UK.

Kiwis have actively voted against change since 1992. Parties going into general elections with bold policy platforms have tended not to fare well.

We don't tend to have the ghost town phenomena of the United States delivering visually obvious gauges of failure for some locations and people.

We don't have the same visceral dislike between supporters of our main parties and supporters of our main politicians.

We have not had a large number of people lose their homes following the GFC as happened in the US.

US real family incomes are lower now than in the 1970s. Ours are higher. US income disparities have increased. Ours have stayed the same this past decade – but.

- First home buyers are frustrated at the difficulties they face getting on the housing ladder.
- Some in the regions resent the focus on Auckland's growth. But their resentment is being tempered by the booming tourism industry, great strength in non-dairy sectors, and now the strong recovery in dairy prices and their house prices rising strongly.
- There are concerns about the role migrants are playing in the Auckland housing market and about the number of people on short-term working visas.
- Older people are deeply concerned about low interest rates making their retirement incomes much lower than anticipated, with higher house prices no consolation for those not planning downsizing.
- Lack of construction of sufficient houses in Auckland since the mid-2000s coupled with rapid Auckland population growth has produced a visible increase in homelessness.

There are more areas of discontent one could add here. But the point is that the differences between our economy/society and the US and UK versions seem more than large enough to preclude a Brexit/Trumpit-like electoral event here.

Nevertheless, any Western government would be negligent not to take on the lessons of these two voter backlashes. All governments will now likely be actively searching out areas of discontent, groups of people who feel left behind, and cohorts who have been ignored or outright derided.

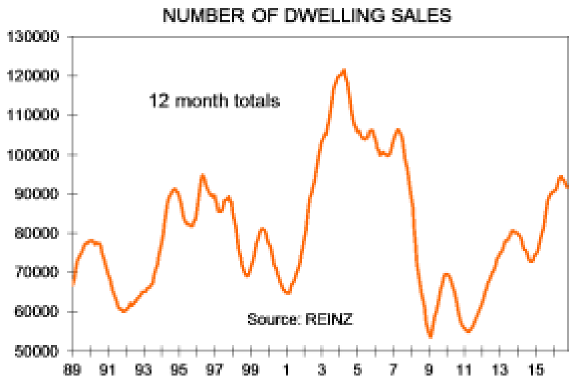
And they will be asking themselves what they can do to start addressing some of their concerns knowing that if they don't, those people will exercise their ballot in numbers.

The current NZ government is enjoying a period of positive budget surplus surprises. It seems reasonable to expect that the May 2017 Budget will contain a range of measures aimed at stamping out any bushfires of discontent which may be coming into the limelight. This happened with the raising of welfare benefits in the 2015 Budget, the recent tightening of immigration rules, and last week's allocation of $300mn to rapidly expand emergency housing provision.

## Housing

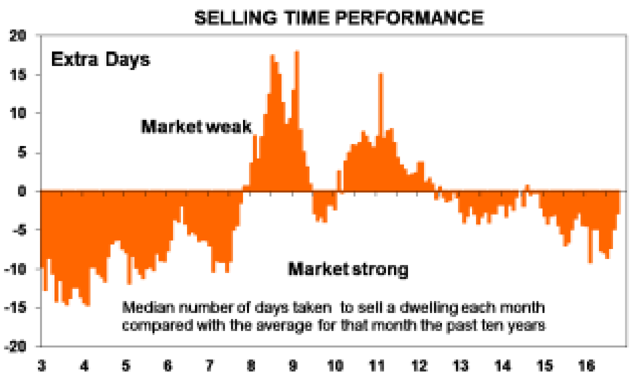
This week REINZ released their October data and they show as expected that sales are down around the country. But prices continue by and large to rise.

Nationwide sales in the month were down 14% from a year ago and off 9% in the three months to October from a year back. A year ago sales had been aggressively boosted by buyers getting in ahead of October 2015 rule changes so the negative annual change is not surprising.




A better feel for the way in which the imposition of a 40% investor deposit requirement by banks from late-July is affecting sales can be gained by looking at seasonally adjusted changes. In the three months to October s.a. sales were down about 5% from the three months to July. But they were ahead 1.6% in the three months before that and 8% three months ending April. So again this pullback is not really all that much.

A yet better feel can perhaps be gained by looking at the average number of days taken to sell a dwelling. The October time was just 2.8 days faster than average, September 4.8 days, August 7.2 days. The October result is the weakest since December 2014. Activity has eased off but it still remains acceptable.




With regard to prices these rose nationwide by an average of 0.4% in October and by 1.5% in the three month period. This latter pace of change was down from 5.6% three months earlier and 5.6% three months before that ending in April. Thus the pace of price rises has slowed. Everywhere? Almost.

| | 3 mths to Oct. | 3 mths to July |
|---|---|---|
| Auckland | 1.5% | 5.1% |
| Wellington | 3.6% | 5.8% |
| Christchurch | 0.1% | 3.8% |
| Rest of N.I. | 1.8% | 5.6% |
| Rest of S.I. | 4.3% | 2.5% |

Where now. I remain of the view that come the New Year the market will be lifting again. Here's waiting then.

## NZ Dollar

Things haven't gone so well for my view that the NZD rises broadly from here. This past week the Kiwi dollar has fallen against all the majors. We sit near US 71 cents from 73.5 last week. Meh.

But while the risk of higher interest rates in the United States is a negative for the Kiwi dollar against the greenback, this is not the case on the crosses. And most other factors favour the NZD going up.

The economy is strong and set to remain so.
Political risk has grown offshore and could escalate especially through Europe next year.
Our export commodity prices have turned up, mainly for our equal largest export earner of dairying.
The next change in NZ monetary policy is quite likely to be a tightening, though not until 2018 at the earliest.

The main reason the NZD might stay weak is a global flow of funds into the US dollar away from peripheral commodity-linked currencies.

## If I Were A Borrower What Would I Do?

If I had a hankering for fixing five years I'd be doing it today because swap rates which underpin fixed rates have jumped sharply following the win for Mr Trump. Expectations of tax cuts and a spending splurge driving widening budget deficits and perhaps some inflation have sent the likes of the US ten year government bond yield to 3.2% from 2.8% a couple of weeks ago.

The NZ five year swap rate has jumped to near 2.8% from 2.5% a fortnight back and 2.1% two and a half months ago. The three year swap rate is now near 2.5% from 2.35% two weeks back and 2% three months ago.

Fixed housing rates are headed higher so if I were a borrower at the moment I would do what I wrote last week and fix two-thirds of my loan for a three year period and float the rest. But that reflects my position of envisaging paying off a mortgage quickly. Were I borrowing for the first time in my life as was the case back in September 1987 (interest rate 18.5%) then I would like some longer rate protection and perhaps float 20% of my debt, fix 40% three years and the other 40% five years. Basically I'd move further out along the curve before fixed rates potentially jump half a percent.

**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/](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
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