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.

No Game-Changing Developments

Nothing truly startling regarding prospects for the NZ economy jumped up to surprise us this week. But because this is such a driver of much debate and mover of the economy and housing market, lets do what we have been doing quite strongly since 2012 and focus on migration.

This week we learnt that in the year to March New Zealand had a net migration gain of 71,932 people. This 1.6% boost to our population was a record and reflected some 129,000 people coming in (2.9% of all of us) and about 58,000 (1.3% of us) leaving. Five years ago when the net annual flow was a loss of 3,400 the number of people leaving was near 88,000 while the number coming in was about 84,000.

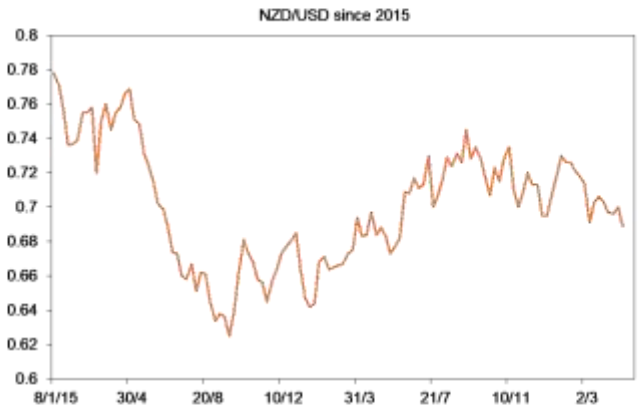
So the gross number of people coming in is up about 43,000 from five years ago. That is the immigration boom. How is it made up? The number of foreign students has increased about 10,000 so that means more foreign exchange earnings. The number of extra foreigners coming in on residence visas has risen about 4,000 to 17,000. The number of people on work visas has jumped about 17,000 or 66% to 44,000. The number of Kiwis and Aussies coming in is about 10,000 higher and bits and bobs make up the rest.

Actual extra foreigners coming in excluding students adds up to 21,501 of the total 74,000 turnaround. Not exactly the job-sapping and wage-depressing surge some people would have you believe it is. And the fact that businesses still can't get the staff they want tells us that there is more to wages growth restraint than immigrants sloshing around the place – though any increase in supply will tend to produce a price of a thing lower than had that supply increase not occurred as long as the market is relatively free. When it comes to the labour market it is in New Zealand but it is not at all in much of Europe and especially France where young people are virtually locked out of the labour market. One truly wonders when this time bomb they have created for themselves there will truly explode.

The ongoing high net migration inflows imply good support for retail spending growth, housing demand – basically everything.

NZD

The Kiwi dollar has fallen just below US69 cents this week, its lowest level against the greenback since June last year. In January the NZD was above 73 cents. Why the decline?



It hasn't been caused by any pullback in expectations for the speed with which monetary policy will be tightened here. If anything the opposite has happened with the March quarter inflation outcome of 2.2% annual change a lot higher than many people were expecting a few weeks back.

It may partly reflect a few signs of easing growth in the economy – though this runs counter to the argument that monetary policy risks have shifted to the upside. The pace of growth in tourism receipts has slowed down with visitor numbers in the March quarter in seasonally adjusted terms flat from the December quarter.

The number of consents issued for the construction of new dwellings has declined by 8% seasonally adjusted in the past three months and 5% three months before that. Business and consumer confidence levels have each declined slightly. Retail spending growth on durable goods measured by the Electronic Card Transactions data has fallen to quite weak levels. Growth was at an annualised pace of 2% in the March quarter after falling 2% in the December quarter.

But labour demand and investment intentions both remain well above average, booming receipts for the government suggest a firm economy and provide scope for a fiscal stimulus, world growth forecasts have been lifted marginally in recent months, and dairy prices on the global auction have risen 53% in the past year whilst anecdotal reports suggest dairy farmers have completed their adjustments following the sharp fall in the payout a couple of years ago.

Maybe plans are being drawn up for more cows on more dairy farms. The need for acceleration in efforts to mitigate the polluting effects of dairy farming is soaring and farmers should be in no doubt what the implications for their sector will be if this year’s general election produces a Labour-Green government. The Reserve Bank comes from a different angle in their warnings about this white gold sector, focussing on dangerously high debt levels held by a portion of operators.

Neither should landlords be complacent as legislation under a Labour-Green government would inevitably move more in favour of tenants while the two year brightline test for paying capital gains tax will inevitably be increased to perhaps five years or seven.

Back to the NZD. Some weakness reflects selling against a rebounding Euro given that the first round of French Presidential elections produced a result which based on past elections will lead to non-National Front parties collaborating to make sure Ms Le Pen does not win. Some NZD weakness reflects a lower Aussie dollar hit by a pullback in iron ore prices, weak consumer confidence, and maybe even the nuclear strike threat from North Korea.

Weakness in the NZD overnight partly reflects an expected US fiscal stimulus from the proposed tax package (which will have to undergo huge and protracted negotiation). Plus NZD weakness reflects the tweet from President Trump attacking the Canadian dairy sector and stories that an executive order may be used to scrap NAFTA. There are worries that in an environment where the new President has very few runs on the board and has backtracked on many campaign trail promises, protectionist trade positions could be focussed on although earlier proposals for a border tax (maybe 20% on all imported goods) appear to have disappeared.

Does the NZD keep tracking lower from here? Given the likelihood of tighter monetary policy next year, the solid underpinnings to NZ economic growth, the low current account deficit and growing Crown budget surplus, plus a near 6% lift in the terms of trade in the past year with recent weakness in (imported) oil prices and higher dairy prices, it does not seem reasonable to expect much more NZD weakness.

However it will easily come about if things get much worse on the Korean Peninsula, if the US President shifts more toward protectionism, or if dairy prices take a new step back. In the short-term the NZD weakness might be overdone, and there is good NZD support from our economic fundamentals. But in the absence of either an upward commodity price or interest rate shock it seems reasonable to expect that as this year and 2018 advance the NZD will slowly lose some ground. Or the opposite will happen. Good luck.

If I Were A Borrower What Would I Do?

Personally I would seek some insurance against the risk of upside rate surprises by fixing three years at 5.09% but having maybe 25% floating or fixed just the one year.

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. **This edition has been solely moderated by Tony Alexander**. 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