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.

Nothing Much To Say

The past week has been a huge one for New Zealand sport with a current economic stimulus from the Lions Tour and a coming one of up to $1bn from defending the Americas Cup in four years. But apart from these two events nothing much has happened worth writing about so this week's Overview is really short.

On the currency front we have seen the NZD trade almost as high as US 73.5 cents and why not? The terms of trade are at their highest level since 1973 and set to go higher. Farmers have just reported their highest level of confidence about their futures since at least 2003. The government accounts are in great shape, consumer confidence levels have increased further above average, and today's ANZ Business Outlook report has revealed still strong business employment and investment intentions.

The only real chance of the Kiwi dollar going down stems from a (rapidly diminishing) expectation that the US dollar will go up – driven by accelerating economic growth from an anticipated fiscal stimulus from President Trump and further tightening of US monetary policy.

But most of the new President's plans are dead in the water as the increasing toxicity of his brand is causing supporters to distance themselves as they think of mid-term elections in just over a year and simple things like the 22 million citizens who will lose healthcare coverage if proposed reforms to the health insurance system are enacted.

Plus the IMF have just reduced their forecasts for growth in the US economy over 2017 and 2018 from 2.3% and 2.9% respectively to 2.1% and 2.5%. They then forecast further slowing with just 1.7% annual growth five years out.

Across the ditch, while employment growth has surprised on the positive side in the past three months, the desperation of the Federal and now state governments to raise revenue because they don't have the stomach or political ability to reform and cut their costs is increasingly alienating the business sector and concerning foreign investors. Federal politics looks like a deepening mess. The NZD is likely to oscillate higher still against the Aussie dollar.

Frankly, something fresh and negative is going to have to come along if the remaining forecasts of a falling NZD are going to prove accurate. Or something new and positive offshore and there is a little bit of that currently with improving growth prospects leading to warnings of accommodative monetary policy settings ending in the UK, Eurozone and Canada.

Just a simple comment to those who are doing the exercise of comparing the relative cost of renting versus getting a mortgage and buying a property to live in. Ask anyone who did that exercise in the past and opted to rent if they managed to grow their wealth more than if they had bought. One suspects not, not just because of long-term house price rises but because alternative investments may have been frittered away on overseas trips and such-like.

Staying with housing, a point we made three or so months back was that as Auckland plateaued we would see reports of prices falling 20% or even more in locations which had largely been driven by investors. Many investors are now to a large degree locked out by the 40% deposit requirement effective from mid-July last year. Here is an example regarding Albany north of Auckland CBD.
https://www.stuff.co.nz/business/property/94154549/house-prices-dive-in-albany-on-aucklands-north-shore

If you are worried about whether your job could disappear to robots here is one set of guesses as to how different occupations will be affected.
https://www.bloomberg.com/graphics/2017-jobs-automation-risk/

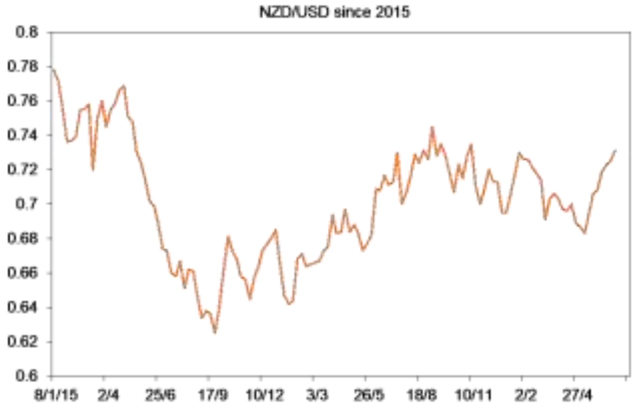
The graphic contains buttons you can click on to see worst at risk to the far right. Or you can enter a description of an occupation to see where it lies along the spectrum. Enjoy – but remember these are only guesses by the authors and history tells us that while we can often identify losers from change, more jobs are created than are lost but we cannot know what they will be.

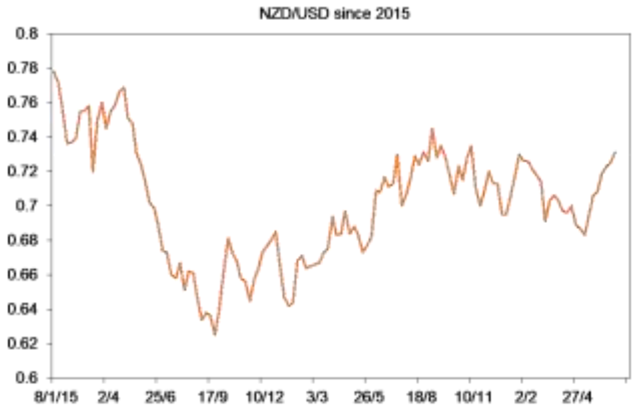
If I Were A Borrower What Would I Do?

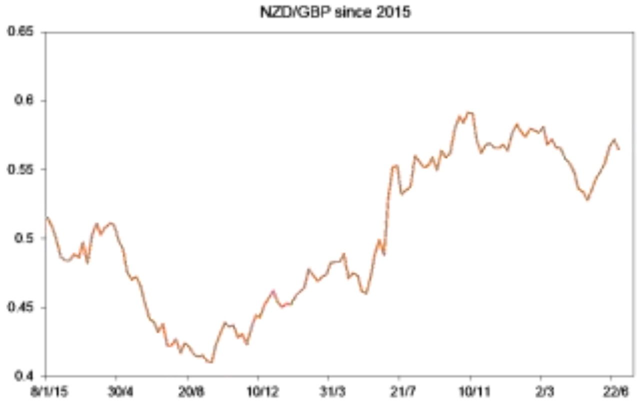
Nothing new.

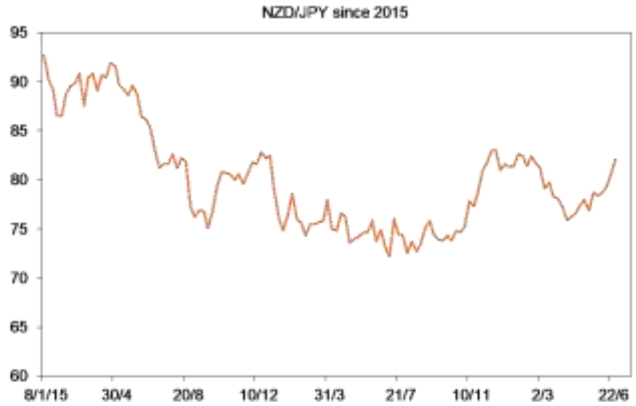
NZ Dollar

Discussed above – here are some graphs.









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
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