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.

Hide, In Your Shell

Is there any evidence yet that the collapse in business sentiment since Labour came to power is manifesting itself as cutbacks in employment and investment? No. But then that is not surprising for a couple of reasons.

First, employment is what we call a lagging indicator. It changes after the overall state of the economy has changed. So realistically it is too early to be saying anything serious about the impact of the collapse in business sentiment on the labour market.

Job numbers rose by 0.5% during the June quarter and 3.7% from a year earlier. Growth has slowed a tad though remains firm, but will it reverse as the sentiment surveys suggest? To gauge that we can look at job ads.

Gaining a true feel using job advertisements can however be difficult. If firms believe they won't find a suitable candidate maybe they won't advertise at all. Or, maybe normally positions are filled off the radar but with staff shortages businesses have to advertise in the public market.

So we need to be careful when looking at job ads. Nonetheless, we see from the monthly ANZ measure that job ads were ahead of a year earlier by 4.7% in the three months to July. But a slight flattening in the growth trend does appear to be underway.

The Seek Employment Report showed job ads on the Seek website ahead 8.2% in the three months to July from a year earlier.

We can't yet conclude much from these numbers.

Second, in New Zealand we lack anything remotely approaching decent up to date measures of business capital spending growth. The value of imports of capital equipment reflects decisions made well into the past, the numbers are hugely volatile, and we have no measure of orders being placed for durable goods as exists in the United States.

Even the monthly value of consents issued for the construction of non-residential buildings can go all over the place. But the value of business consents (where we exclude health and education buildings) was ahead 11% over the past year and by 12% in the past six months versus a year ago. Construction looks strong, though that sector and retailing show us that firm activity levels are not always consistent with good trading conditions.

As yet one cannot conclude on the basis of the poor economic data available to us that the collapse in business sentiment is leading businesses to go into their shells. Maybe they will, and that is a risk which Treasury noted in their monthly commentary on the state of the NZ economy. But we need to be careful here. If we look at past survey results we see that they are reasonably well correlated with subsequent downturns in economic activity, employment, and investment. But as a rule these downturns were driven by macroeconomic factors like some version of a financial crisis, soaring interest rates, a soaring exchange rate, or drought. None of these things are in play this time around.

We shall keep monitoring the situation as will the Reserve Bank which this morning met market expectations by leaving the official cash rate unchanged at the 1.75% level they took it down to in November 2016. But they have pushed out their picked timing for when monetary policy will be tightened from late-2019 to late-2020. They have focussed more on some of the building economic negatives than the slight rise recently in some inflation measures. They have repeated their comment that the next move in the official cash rate could be either up or down. Makes sense. A good day for borrowers and exporters with the currency easing half a cent, but not so good for savers.

Small Businesses

Following on from last week's article looking at small businesses in New Zealand one emailer noted that the rise in minimum wage rates would likely be a factor. Perhaps. But wages growth remains 2% below the pace it was at last time the labour market was this tight so wage rises themselves are unlikely to be a big determinant of the high level of business pessimism.

But with such high pessimism the prospects for older business owners seeking to sell can only get worse with caution at the front of people's minds. Banks are also likely to get a tad more cautious in their lending policies as they look out at an increasingly uncertain world. In construction it is hard to imagine anything other than some further reduction in bank credit availability given the deepening problems for many operators – including poor management which has led too many to fail to manage risk properly.

As another emailer put it with regard to small businesses generally, , "…I get the feeling many business owners are starting to feel like they missed the boat on this cycle and need to get a sale process going unless they want to double down for another 5+ years. This is also a reason to be weary as a buyer."

More Than The Economy

I was listening to a radio interview with the principal of a nationwide retailer this week where difficult trading conditions were discussed. The retailer said that he put his weak sales down to depressed consumer confidence. If he genuinely believes that then prospects for his business are not good.

Consumer confidence as measured by the monthly ANZ Roy Morgan index stood at 118.4 in July. This is down from 128 in February and the lowest reading since August 2016. But it remains above the ten year average of 117.

The implication that sales are only good when people are feeling truly ecstatic is worrying, yet it backs up one of our key themes in recent years. The speed of change in many sectors including retailing is such that even if overall spending growth is strong individual operators failing to keep up with sectoral changes and challenges will have trouble. In retailing we have seen a high number of businesses fail in spite of strong consumer spending growth. Same in construction.

Candidate Clinton may have said in 1992 that "It's the economy stupid." But during the technological revolution which we are going through if you take the current and prospective state of the economy as your guide toward whether a business will do well or not you will be well off the mark. You'll need to focus in on a great range of indicators which lie outside this economist's expertise. But for your guide, one emailer this week noted that he is on the cusp of purchasing a small business which he intends modernising, but he had to sift through near 130 others to reach this point.

10 Years Since Lehmans' Collapse

Did you know that since the collapse of Lehman Brothers investment bank in September 2008 the following has happened?

- Employment has risen 450,000 or by 21%. Manufacturing employment has fallen 3%, agriculture +7%, construction 32%, retail trade 10%, financial etc. services 6%, professional admin etc. 45%, education 29%, health 37%.
- Our economy has grown by 23%.
- The ratio of exports to GDP has fallen from 29.3% to 27.3%
- The population has grown by 14% or 607,000 people, Auckland 21% or 295,000 people.
- Net immigration has boosted the population by 341,000 people.
- The housing stock has grown by about 190,000, enough to house around 470,000 people.
- The ratio of all bank lending to GDP has fallen from 155% to 151%.
- Consumer prices on average have risen by 17%.
- Wages on average have risen by 37%.
- Nationwide house prices on average have risen by 62% with Auckland ahead 91%, Wellington 51%, Canterbury 44%.
- The number of people visiting New Zealand has risen by 53%.

Are You Seeing Something We Are Not?

If so, email me at tony.alexander@bnz.co.nz and let me know.

If I Were A Borrower What Would I Do?

Nothing new. No RBNZ monetary policy tightening is imminent and it cannot be ruled out that if global economic conditions deteriorate (trade war etc.) that an easing will come. We expect a tightening from the second half of next year with the 1.75% official cash rate eventually peaking at 2.75%. Meh. But it pays to remember that since 2010 100% of forecasts made in New Zealand of a sustained tightening of monetary policy have been wrong and the pick for where the OCR will peak has been lowered again and again.

Were I a borrower at the moment I would feel fairly relaxed about my position and happy to fix for two years with perhaps some debt at a floating rate to allow for early repayments.

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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