

# BNZ Weekly Overview

## 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.

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The Weekly Overview is written by Tony Alexander. 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 click here.

[http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN\\_7WOAw](http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN_7WOAw)

To change your address or unsubscribe please click the link at the bottom of your email.

## Last Survey For 2011

This is the first Thursday of the month so we are once again running our BNZ Confidence Survey in which you get the chance to not just indicate whether you feel the economy will be better or not in a year's time but to write how things are in your industry right now – remembering to specify what that industry is. So if you have not already done so using the link in the email used for sending the Weekly Overview out please click on the link here and go for it. As an experiment we have also added an extra question directed at residential property investors.

<http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur>

Another week has gone by and while we do not have any particularly bad fresh news regarding the situation in Europe the continued drawing out in time of the slow burn crisis can have nothing other than a negative impact on global growth, export orders, commodity prices etc. as caution grows deeper in the minds of business operators. In fact there is increasing evidence of a credit squeeze developing with banks in Europe pulling back their lending in the face of increasing difficulties raising cash and the need to bolster balance sheets against expected future losses and capital level requirements. Last night's announcement by central banks of efforts to make USDs available to European borrowers will not likely stem the tightening in overall bank lending.

The OECD have also formally cut their forecasts for growth in various parts of the world over 2012. They see total OECD growth of 1.9% this year slowing to 1.6% over 2012 before recovering to 2.3% over 2013. They assume however that there will be no further deterioration in Europe and because quite clearly the risk is that things do get a lot worse the risk facing their forecasts is that they prove too optimistic. For the Eurozone they forecast growth of just 0.2% next year then 1.4% over 2013, for Japan 2% then 1.6%, US 2.0% then 2.5%, and NZ 2.5% then 3%.

Their NZ forecasts seem realistic in light of the downside risks we face and the way in which reconstruction of Christchurch keeps getting pushed further and further into the future.

In the words of Pascal Lamy, chief of the World Trade Organisation, "Frankly, things do not look good...The capacity of global leaders to address the problem is too weak...."

Yet here in New Zealand we saw some reasonable results in the latest NBNZ Business Outlook – though the employment measure was the weakest in a year. Plus in the United States people are excited following news that retail sales on the big shopping day after Thanksgiving day were ahead some 6.6% from a year earlier. And in Australia the economic data have been not bad recently – though it has been funny watching the huge criticism of the Aussie Treasurer for rearranging spending and revenue so as to project a budget surplus for 2012/13 in spite of the sizeable deterioration in global growth prospects. We last saw such outrageous “adjustments” to the true fiscal picture under Finance Minister David Caygill in 1989s Budget where forest sales were counted as revenue rather than an asset sale.

In China the big news this week was a cut in the reserve asset ratio applied to the larger banks from 21.5% to 20%. The cut is the first since 2008 and follows six rises earlier this year and comes about partly in response to evidence of lending tightening up aggressively (especially to SMEs), partly to evidence of slowing growth, and partly to reduced foreign currency receipts flowing into government accounts then reoffered as Yuan.

Next week the RBNZ will review their cash rate (we expect no change) and deliver their latest set of economic forecasts. The chances are they dampen their outlook for growth in light of events offshore. But outright negativism is unlikely (apart from warnings about bank funding difficulties growing) given the way our export commodity prices are still holding up, some of the recent not so bad economic data in NZ, and the stimulatory effect of the NZD's decline in recent weeks.

This week the following material has been added to [www.tonyalexander.co.nz](http://www.tonyalexander.co.nz)

**Weekly Newspaper Column** <http://tonyalexander.co.nz/newspaper-column/>

Retailing prospects.

Other Website Material

- **Weekly syndicated newspaper column** <http://tonyalexander.co.nz/newspaper-column/>
- **BNZ-REINZ Residential Market Survey** Released second week of each month. <http://tonyalexander.co.nz/bnz-reinz-survey/>
- **Real Estate Overview** Updated mid-late each month. <http://tonyalexander.co.nz/bnz-reinz-survey/>
- **Archived Weekly Overviews** [www.bnz.co.nz/tonyalexander](http://www.bnz.co.nz/tonyalexander)

## Is Our Economy Getting Better or Worse?

In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

Mild employment growth is occurring and we are importing a lot more equipment from offshore, but apart from that the data don't tell us much about our current state this week.

### **Are householders opening their wallets more?**

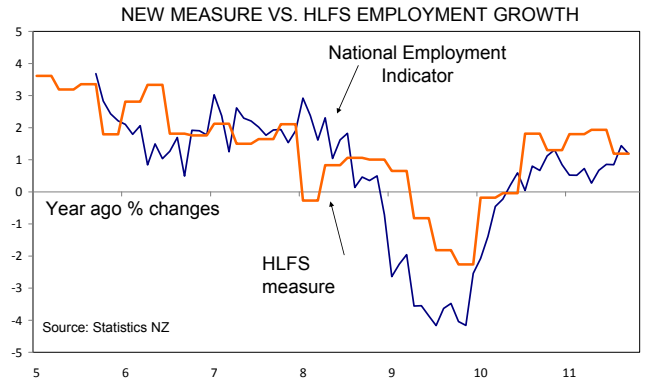
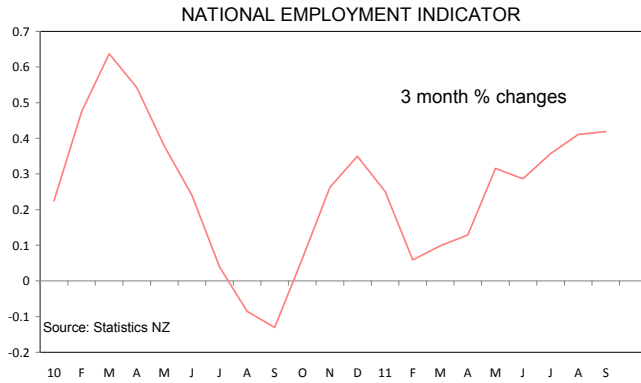
Nothing new.

### **Is business output rising?**

Zero.

### **Are businesses hiring more people?**

There is no clear change in employment growth underway. While on a monthly basis the seasonally adjusted change in the National Employment Indicator compiled from tax data by Statistics NZ recorded a decline of 0.1% in September, the three month rate of change has moved between 0.3% and 0.4% since May. Before then it was weaker so one can reasonably say perhaps that job growth has improved over the second half of the year.



In the six months to September the Household Labour Force Survey showed 0.3% job growth in total. The NEI showed 0.6% growth. Lets call it underlying growth just below 1% annualised which is not enough to make much of a dent yet in the unemployment rate which has been stuck near 6.5% for two and a half years.

Our conclusion is that only mild jobs growth is underway in NZ and it may be a tad concerning to realise that with a lot of temporary extra jobs being created for the Rugby World Cup the underlying jobs growth may well be closer to the HLFS 0.3% than the NEI 0.6% for the six months. Note that both measures are exactly 1.2% ahead of a year earlier.

**Are businesses boosting their capital spending?**

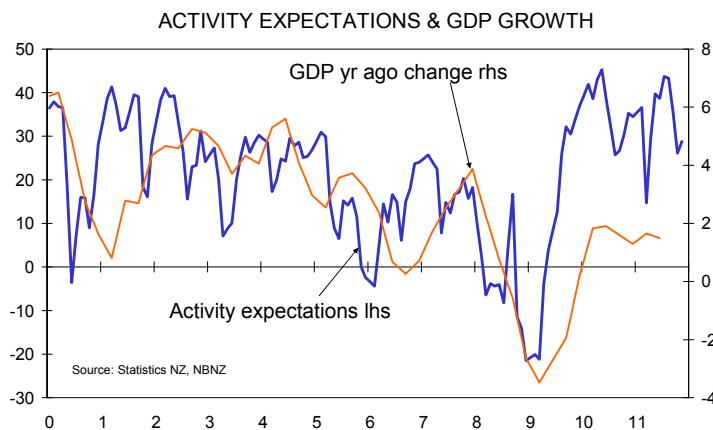
To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey here. <http://tonyalexander.co.nz/bnz-confidence-survey/>

We have already noted many times over the past few months that imports of capital equipment have been growing firmly and this suggests some good growth underway in business capital spending. There was confirmation of this import surge in the Terms of Trade data released today which revealed that the volume of capital goods imports excluding transport goods rose by 14.9% in the September quarter. Many companies have probably been taking advantage of the (previously very) high level of the NZD against the Euro, Pound, and USD.

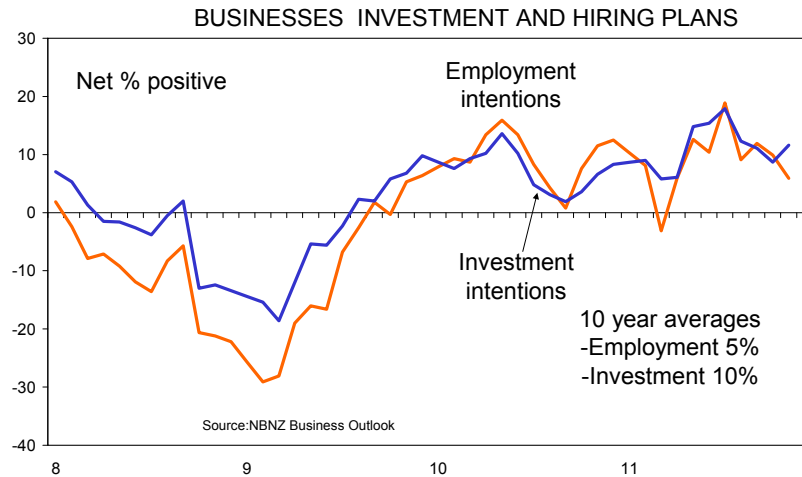
**What Do The Leading Indicators Say?**

In this section we look only at the factors which can at times give insight into where the economy is headed. Generally we will only cover newly released information.

This week we saw the NBNZ Business Outlook survey reveal a small rise in confidence about whether the economy will be better or worse in a year's time to a net 18% optimistic from 13% in October. The activity expectations measure improved to a net 29% optimistic from 26% in October. In the old days this latter result would be suggestive of good growth in the NZ economy of around 4%.



But these days the willingness of businesses to act on their positive outlook has structurally declined and as the graph above shows the latest result is only consistent with growth of maybe 1.5% to 2%. Perhaps reflecting the low willingness to act on above average activity expectations the proportion of businesses saying they intend hiring more people fell to 6% in early November from 10% in October. Barring the collapse in sentiment right after the February 22 earthquake this outcome is the least positive when compared with average employment intentions since September 2010 and therefore is not suggestive of the NZ labour market roaring ahead in the near future. That implies retailers should not be expecting a strong Christmas on the basis of people feeling job happy.

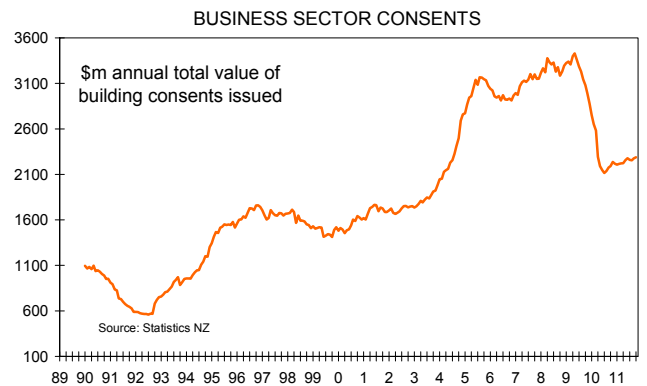
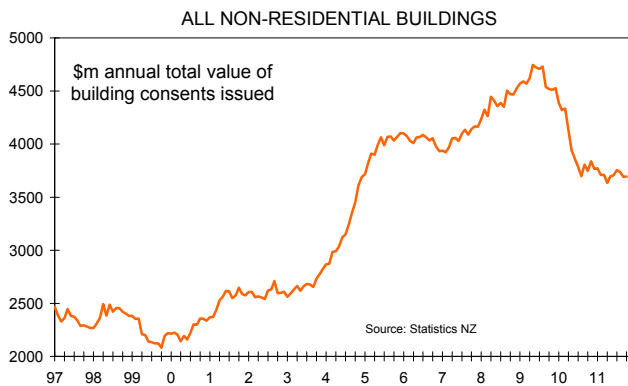


The net percent of businesses planning to raise their capital spending improved slightly however to 12% from 9% in October and an average November reading of 10%. So investment plans are above average but only slightly so. Perhaps driven by the increasing delays in Christchurch rebuilding the net percent of builders anticipating higher levels of residential construction fell to 19% from 29%. This is the lowest reading since March.

Overall the survey results suggest that as long as Europe does not fall over it is acceptable to expect okay growth in the NZ economy next year. Relevant to monetary policy, the net percent of businesses planning to raise their selling prices fell to a one year low of 18% from 19% in October and a peak of 34% in May.

**Commercial Building Essentially Static**

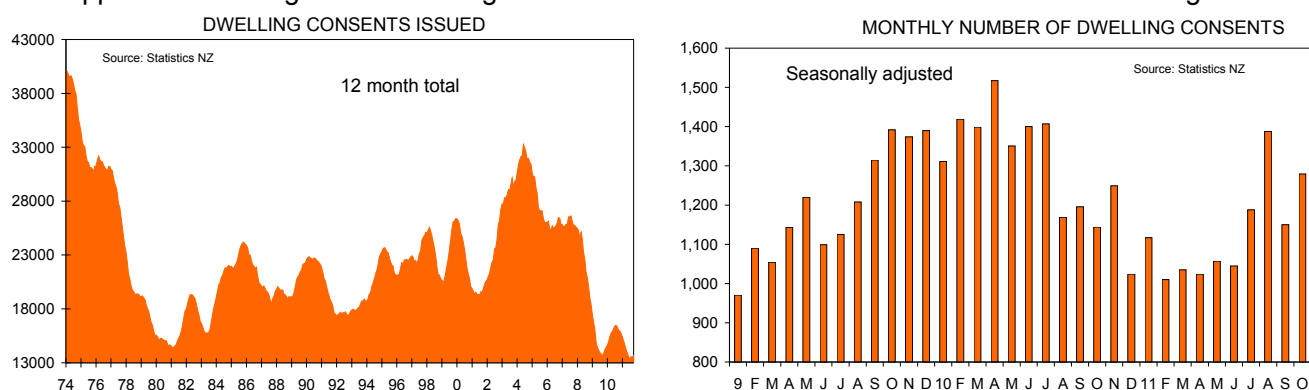
The value of consents issued for the construction of non-residential buildings was just 1.3% ahead of a year earlier in October at \$276mn bringing the year's total to \$3.7bn which was a 1.4% fall from a year earlier. In aggregate there is no growth in this leading indicator of non-housing building but there may be a very small rise underway for business consents which were ahead 4.8% in the three months to October from a year ago. But allowing for the usual volatility we think the best interpretation here is that the numbers are flat.



## House Construction Prospects Improving

With regard to house construction the picture is more positive. Dwelling consents rose 11.2% seasonally adjusted in October from September to be ahead 16% for the three months and 10.5% higher than the three months a year earlier unadjusted. There is an upward trend in place for this measure for which there is a reasonably stable lagged relationship with actual dwelling construction.

One of the indicators we look at to see if the trend is really positive – apart from smoothing over three months – is dwelling consents excluding apartments. This housing only measure grew by 7.1% in October to be ahead 12.2% in the past three months. Therefore although there has recently been a spurt in the number of consents issued for apartments and history suggests such spurts can easily reverse, the underlying housing measure is rising. This therefore bespeaks of improving activity levels in the near future for builders and suppliers of building materials along with manufacturers and retailers of household furnishings.



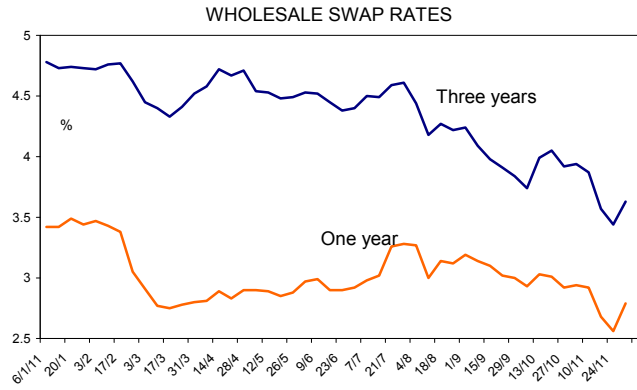
But it pays to note that at 13,648 the annual number of dwelling consents is still down 15% from a year ago, 41% below the ten year average of 23,200, and only just up from a four decade low. The sector therefore is experiencing a recovery from very depressed conditions.

## INTEREST RATES

Wholesale interest rates have risen sharply this week back to levels they were at about two and a half weeks ago. But they remain low by the standards of the past few months – and in fact years with the likes of the three year swap rate near 3.14% from 3.36% three weeks ago but 2.92% last week. Yields have jumped in response to some better than expected data in the United States overnight, an easing of monetary policy in China easing worries about a sharp slowing of growth there, but mainly the agreement announced last night between central banks to extend USD funding to commercial banks at 0.5% lower interest rates.

None of these developments change the basic dynamic of private sector investors being unwilling to keep buying the bonds issued by heavily indebted European governments and the policy easings have come about precisely because of the worsening economic outlook – not because things look rosy. Therefore the chances are after potentially a few more days of improving markets and firm wholesale interest rates we will see another bout of heebie geebies strike the markets and yields will rally again.

These remain extremely uncertain times and just as for so long now we have seen violent changes in sentiment there seems no reason for expecting anything other than that in the near future – especially as we still have not necessarily entered the end game for the European crisis.

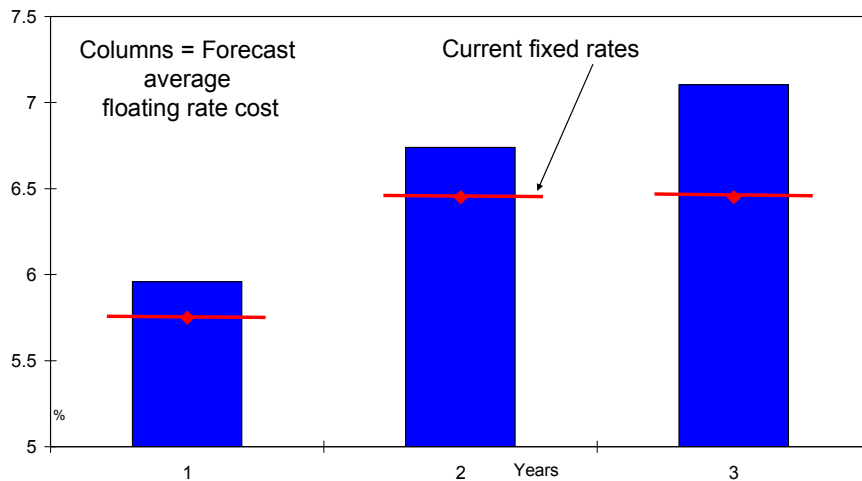


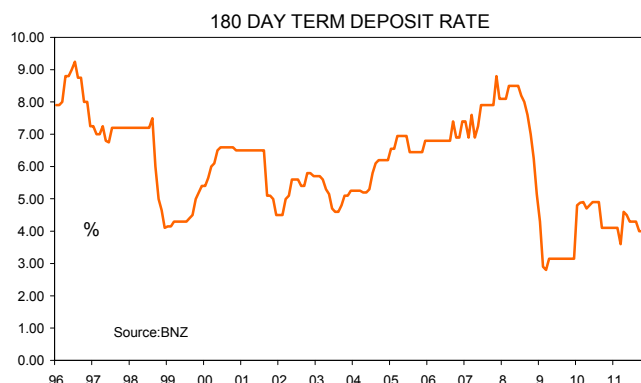
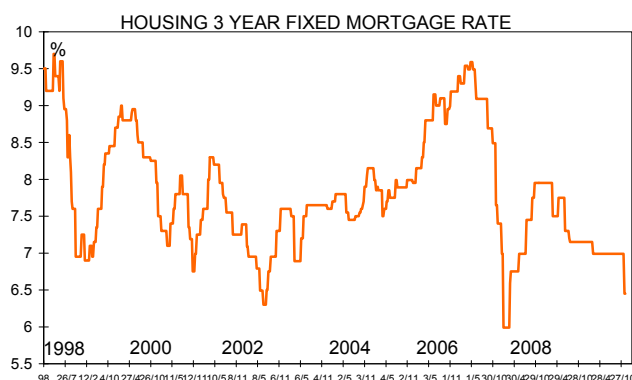
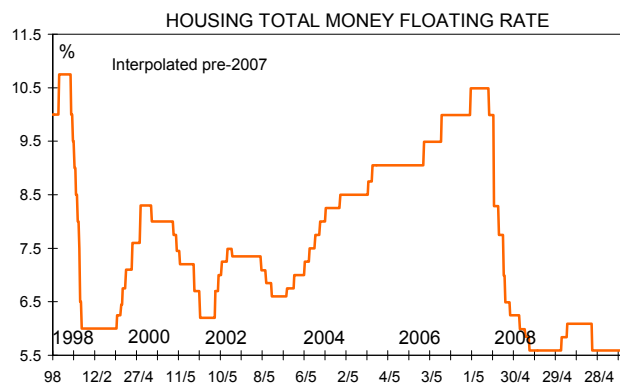
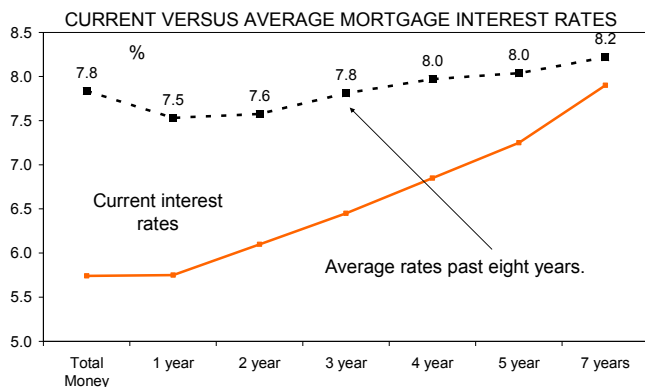
**FINANCIAL MARKETS DATA**

	<b>This week</b>	<b>Week ago</b>	<b>4 wks ago</b>	<b>3 months ago</b>	<b>Yr ago</b>	<b>10 yr average</b>
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	5.9
90-day bank bill	2.72%	2.68	2.76	2.95	3.21	6.2
1 year swap	2.79%	2.56	2.94	3.19	3.48	6.0
3 year swap	3.14%	2.92	3.40	3.72	4.28	6.2
5 year swap	3.63%	3.44	3.94	4.24	4.82	6.4
180-day term depo	4.00%	4.00	4.50	3.60	4.90	6.0
Five year term depo	5.85%	6.00	6.00	6.00	6.75	6.5

**If I Were a Borrower What Would I Do?**

This week we have increased our Total Money floating home loan rate 0.15% from 5.59% to 5.74% and made cuts in our fixed lending rates. So I can borrow one year fixed at 5.75%, two year fixed at 6.1%, three year at 6.45% and five year at 7.25%. Personally I still see an extremely high probability that the European situation gets worse and the deterioration in the global economic outlook will cause falls in wholesale funding costs greater than the upward pressure which will come from funding spreads rising. Therefore I find myself still happy to float, even though the cost of doing so has just gone up 0.15%.





## HOUSING MARKET UPDATE

To view the most recent results of our monthly BNZ-REINZ Residential Market Survey click here. <http://tonyalexander.co.nz/bnz-reinz-survey/>

### Better Info. Next Week

This week we are running our BNZ Confidence Survey then the BNZ-REINZ Residential Market Survey so we will get some excellent insight into the state of the housing market to report in next week's Overview.

### Are You Seeing Something We Are Not?

If so, email us at [tony.alexander@bnz.co.nz](mailto:tony.alexander@bnz.co.nz) with Housing Comment in the Subject line and let us know.

## MAJOR OFFSHORE ISSUES

### European Debt

Markets rallied strongly last night after moves were made to address the growing problem of European banks not being able to refinance maturing USD loans because American banks are aggressively cutting back their European exposures. Central banks in six countries have cut by 0.5% the rate they charge banks to lend foreign currencies and special swap arrangements have been put in place for the Federal Reserve to supply other central banks with dollars. The move helps alleviate some of the strains facing European banks – but it would not have been necessary had the situation been getting better. In fact one indication of things worsening overnight was news that the expansion of the European Financial Stability Facility will be less than many had hoped.

Realistically, the most up to date theme for Europe is increasing expectations in the financial sector that the Euro will collapse with plans being made for how to handle the event. At the same time the Germans are determined that it will not happen yet steadfastly refuse to let the ECB print money to remove immediate funding problems for governments and will not countenance joint Euro bonds to finance deficits.

The week did bring some excitement based on a leak from Italy that the IMF will provide €600bn in funding to Italy made possible via a loan from the ECB. The ECB is unable to lend directly to Euro members but can lend to institutions such as the IMF. However the IMF have officially denied that any such talks are underway.

For the record Fitch downgraded Portugal's government debt to junk status.  
Standard and Poors cut the credit rating of Belgium by one notch from AA+ to AA.  
Moody's cut Hungary's rating to junk status.

Worries about Germany reflected in and following the failure of a bond tender this week helped cause the yield on UK ten year government bonds to fall below German yields for the first time since 2009 – even though the budget deficit in the UK is far greater than in Germany.

Ireland is growing about 1% now on the back of rising exports. However, being non-labour intensive export growth is leaving unemployment near 15% and the housing market still very weak. That raises the chances of further bad debts for banks which will boost government debt thus leaving open the chance that Ireland, with a 100% debt to GDP ratio, will need another bailout down the track. Vulnerability to weaker growth in the rest of Europe is high.

Portugal remains an economy which is extremely inefficient and needing vast reform at a time when fiscal policy is being aggressively tightened. The populace are more docile than in Greece but if social unrest does pick up the politicians may balk at continuing fiscal restraint and economic reform thus also raising the possibility of default or another bailout. As with Ireland exposure to weakness in the larger European economies is high.

### Chinese Inflation

The main piece of news on China's economic prospects this week appeared yesterday in the form of the People's Bank of China cutting bank reserve ratio requirements 0.5% to 21%. The cut is the first since 2008 and comes in response to signs of slowing growth in the Chinese economy and worries about bank balance sheets stemming from exposure to the building boom that followed the substantial easing of credit conditions from 2008 into 2010. In fact speaking of worries, here is a quick little list of things which occupy the minds of the Chinese currently – without even touching the military/security issues such as the return in force of the Americans to the Asia-Pacific region with open arms by the looks of it from all countries bar China.

- Food safety
- A population imbalance between males and females
- Coming labour force shortage (not now) due to an aging population running into slower population growth courtesy of the one child policy.
- A middle class increasingly worried about falling wealth from falling property prices.
- Banks with heavy bad debt exposure to a no longer booming housing sector.
- Excess industrial capacity
- Electricity shortages
- Clean drinking water
- Over-burdened schools in urban areas.
- Over-burdened school buses in rural areas and frequent accidents.
- Unaffordable housing for low income earners
- Infrastructure reliability/construction standards – high speed railways for example

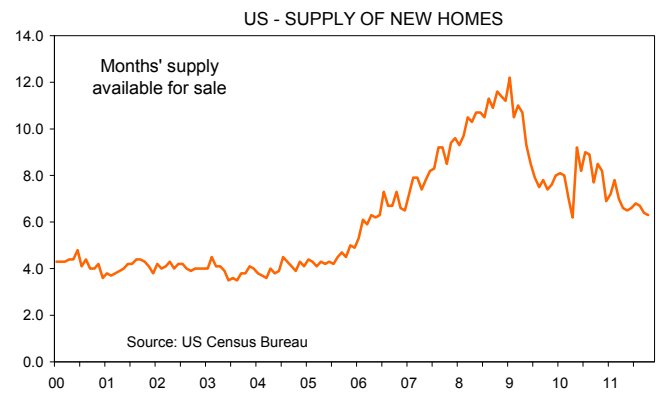
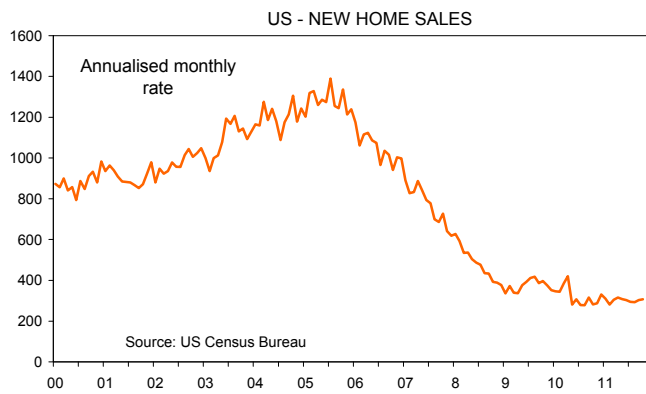
- Vast and growing income disparities between educated/uneducated, urban/rural, east/west and central regions.
- Inefficient health sector

To help alleviate the incomes issue the government this week issued a plan to fight poverty over the next ten years.

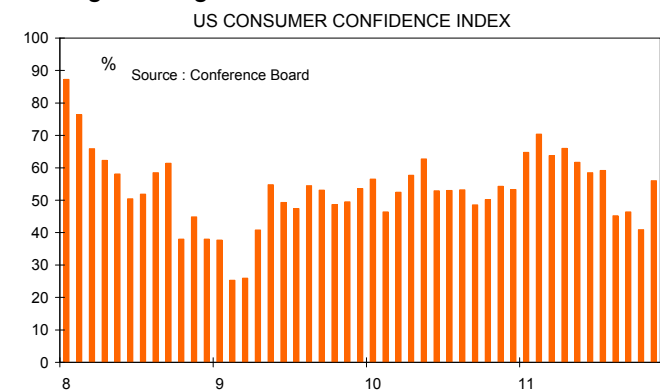
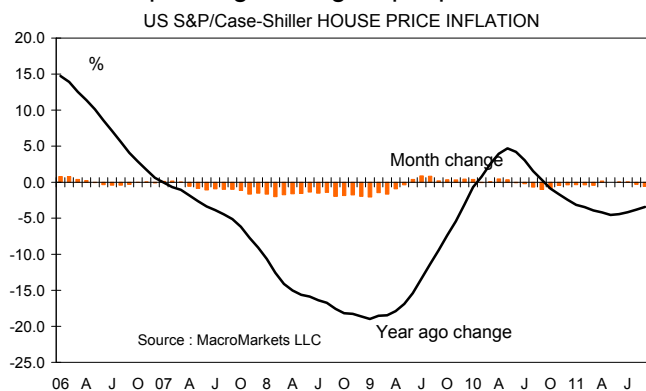
**US Growth Momentum**

Each year right after Thanksgiving in the US there is Black Friday shopping which analysts believe one can look at to get a good feel for what Christmas will be like for retailers. This year sales were reported to be on average some 6.5% ahead of Black Friday a year ago. Last year the annual gain was a miserable 0.3%.

At the end of October builders in the US had 6.3 months worth of stock on hand compared with 6.4 months in September and 8.5 months a year ago. So the over-supply situation has eased and in fact could radically fall if dwelling sales were to quickly pick up. But there is no sign of that as yet and it remains essentially an article of faith to say that the US housing market has bottomed out.



The Case-Shiller national house price index fell another 0.6% in September after easing 0.3% in August, taking prices 3.3% down from a year earlier and suggesting that as yet the rout in the US housing market with regards to prices has not ended. This is important because it is hard to imagine sustained growth in household spending as long as people see themselves losing housing wealth.



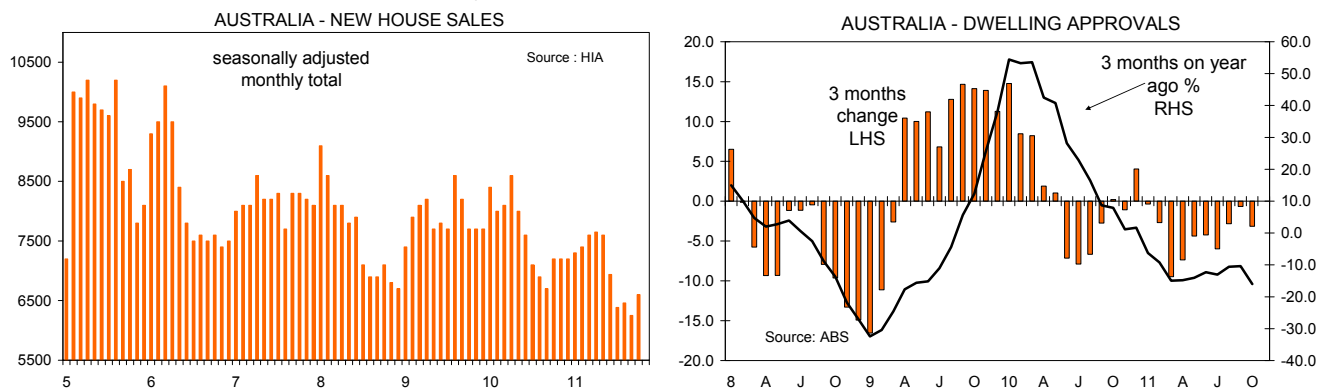
Having said that however, a more up to date indicator of how consumers are feeling was the Conference Board consumer confidence index which jumped well above market expectations to 56 in November from 40.9 in October. This is the best reading in four months though is still well below what one would consider to be a strong level.

**Australian Growth**

In contrast to the OECD forecast that total OECD area economic growth will slow to 1.6% next year from 1.9% this year, for Australia they forecast a jump to 4% growth from 1.8%. Here is one reason why.

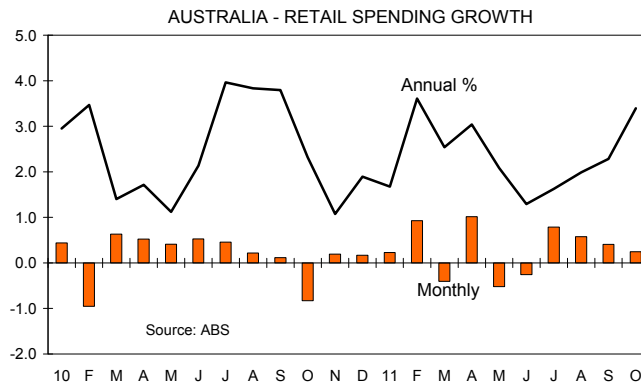
The Bureau of Resource and Energy Economics this week released their latest estimate of the value of resource development projects underway. It now totals AU\$232bn compared with AU\$174bn just six months ago. Onto this one can add another AU\$224bn of less advanced projects. This huge level of activity is going to create a lot of jobs over the next few years, especially in the engineering sector and for New Zealand that means a lot more skilled engineers moving to Australia to benefit from this continuing resources boom.

But while the minerals sector is chugging along non-stop, the housing sector still looks weak overall. There was a small rise of 5.5% seasonally adjusted in the number of new houses sold throughout Australia in October. but sales were still down around 8% in total over the past three months and near 8.5% lower than a year earlier according to the Housing Industry Association survey of large builders. Average dwelling sale prices fell 0.5% to lie 4% down from a year earlier.



And as if those numbers were not bad enough, the number of approvals issued for the construction of new dwellings fell 10.7% in October with the 7.5% fall for private houses being the greatest monthly fall in seven years.

But at least retail spending rose for the fourth month in a row in October with a gain of 0.2% following a 0.4% rise in September. Sales were 3.4% ahead of a year earlier which although a fairly low growth rate when inflation gets taken into account is still one of the best over the past two years and perhaps a signal that the easing off of the labour market in recent months is not viewed as a lasting trend by the bulk of households. Then again, the trend of monthly rises is fairly downward.



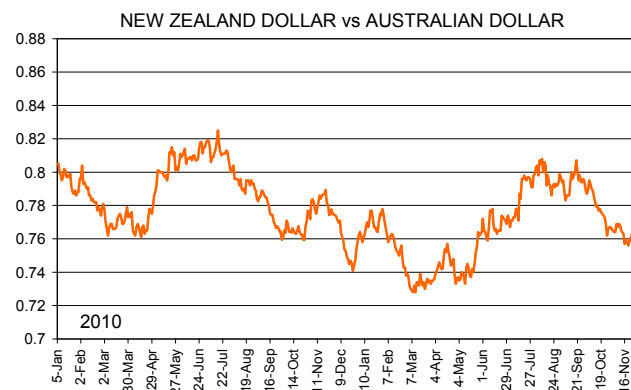
## Exchange Rates

Exchange Rates	This Week	Week Ago	4 wks ago	Mths Ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.777	0.742	0.813	0.851	0.742	0.689	0.629
NZD/AUD	0.761	0.763	0.766	0.797	0.7744	0.773	0.855
NZD/JPY	60.400	57.200	63.300	65.500	62.06	67.7	68.4
NZD/GBP	0.495	0.477	0.503	0.524	0.4769	0.448	0.368
NZD/EUR	0.578	0.555	0.583	0.592	0.5717	0.52	0.511
NZDCNY	4.957	4.718	5.167	5.428	4.945		4.83
USD/JPY	77.735	77.089	77.860	76.968	83.639	98.3	109.9
USD/GBP	1.570	1.556	1.616	1.624	1.556	1.54	1.705
USD/EUR	1.344	1.337	1.395	1.438	1.298	1.33	1.229
AUD/USD	1.02	0.97	1.06	1.07	0.96	0.891	0.737

\*Sourced from Consensus Economics. <http://www.consensuseconomics.com/>

### Less Risk, Kiwi Up

This week the markets have decided the chances of a European collapse are less than a week ago courtesy of the USD swap agreements put in place by central banks overnight, so sharemarkets have rallied and the NZD has gained over three cents against the greenback. We are unchanged against the AUD indicating that nothing specific to ourselves has been in play. But commensurate with the rise against the USD we have also gained against the Pound, Yen, Euro, and Yuan.



Next week if worries grow we will go back down. If worries ease further the NZD will climb higher. One should expect continued very high volatility and as we have previously mentioned, exporters and importers may want to supplement their straight currency hedging with options.

### United Kingdom

Did you know that the annual net migration total into the UK hit a record of 252,000 people in 2010 courtesy of 591,000 immigrants offsetting 339,000 emigrants with the latter total easing off. Over the past year numbers heading to NZ from the UK have stabilised near 14,800 and the net flow is also steady near 5,700. This however is well down from 9,200 two years ago.

The OECD are forecasting that the UK will fall back into recession over the first half of 2012 and achieve full year growth of 0.5% rising to 1.8% over 2013 from 0.9% this year.

The Chancellor of the Exchequer delivered his Autumn Statement (fiscal update) this week predicting a deficit this financial year equal to £127bn or 8.4% of GDP.

## Exchange Rate Assumptions

Remember that exchange rates are impossible to forecast with reasonable accuracy. Treat the numbers below as assumptions for modelling purposes only.

	2010	2011 Risk	2012 Risk
Year end			
NZD/USD	0.73	0.70 - 0.8	0.84 Higher
NZD/AUD	0.74	0.73 - 0.79	0.85
NZD/YEN	64.2	56 - 63	72.0
NZD/GBP	0.44	0.45 - 0.50	0.52
NZD/EUR	0.51	0.54 - 0.58	0.60
USD/JPY	88	75 - 79	86 Lower
GBP/USD	1.66	1.52 - 1.62	1.62 Higher
EUR/USD	1.43	1.28 - 1.40	1.40 Higher
AUD/USD	0.99	0.95 - 1.05	0.99 Higher

## ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.4%	1.0	4.6	1.5	1.7
GDP growth	Average past 10 years = 2.6%	0.1	0.9	+1.5	0.5	-2.4
Unemployment rate	Average past 10 years = 4.8%	6.6	6.5	.....	6.4	6.5
Jobs growth	Average past 10 years = 1.9%	0.2	0.0	1.1	1.8	-1.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	3.7	3.6	.....	2.5	5.6
Terms of Trade		2.3	0.8	7.0	12.7	-13.5
Wages Growth	Stats NZ analytical series	0.6	1.0	3.6	2.5	5.2
Retail Sales ex-auto	Average past 9 years = 3.9%	2.4	1.1	2.1	2.3	-2.5
House Prices	REINZ Stratified Index	1.5	-0.2	2.3	-1.3	4.3
Net migration gain	Av. gain past 10 years = 13,900	-103	2,867yr	.....	12,610	18,560
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	2.5	-0.6	2.5	3.2	-1.0
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	-2	7	42	28	50
Consumer confidence	ANZ-Roy Morgan 100=neutral	109	112	103	115	122
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.5	2.4	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	28.3	21.1	-4.2	-35.9	36.3
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	5.59	6.09	6.09	5.59	6.49
3 yr fixed hsg rate	10 year average = 7.8%	6.99	7.15	7.15	7.95	5.99

All actual data excluding interest & exchange rates sourced from Statistics NZ.

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## Key Forecasts

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.4	2.0 - 2.5	3.0 - 3.5	3.5 - 4.0
CPI	on year ago	4.0	2.5 - 3.0	2.5 - 3.0	2.5 - 3.0
Official Cash rate	end year	3.0	2.5	3.0 - 4.0	4.00 - 4.50
Employment	on year ago	1.3	2.0 - 2.5	2.0 - 2.5	2.0 - 2.5
Unemployment Rate	end year	6.8	6.0 - 6.5	5.0 - 5.5	<5.0

\*extrapolated back in time as TotalMoney started in 2007

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