BNZ Weekly Overview

1 September 2011

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.

Monthly Survey Time

This is the first Weekly Overview for the month so if you have not already done so using the Thursday night email please feel free to click on the link below and let us know whether you feel the NZ economy will be better or worse in a year's time. Also, if time permits, pen a sentence letting us know how things are in your industry right now. This month we have also added a special question

"What is the most important thing to you about living in New Zealand?"

The main results will be released on Monday, to be followed later in the week by the results of our monthly BNZ-REINZ Residential Market Survey. Many thanks to past respondents.

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

This week we have added a new section to the Weekly Overview entitled "What do the leading indicators say?" In it we shall discuss only those new things which give some (sometimes extremely unsteady) insight into where our economy is going. The section follows the one looking at where we appear to be right now or recently "Is our economy getting better or worse" in which we completely ignore sentiment measures and things not focussing on already registered events.

This week the data on real activity which we have received show improvement in issuance of consents for dwellings and non-residential buildings, plus rising employment in the three months ending June measured in a new series produced by Statistics NZ using data employers must supply each month to the IRD on filled job numbers. So the week has been a positive one in that regard.

But when we switch to the leading indicators things are highly mixed. Although prospects have improved for builders, investment and hiring intentions measures contained in the monthly NBNZ Business Outlook survey have weakened, the currency has risen to a one month high which will concern exporters anew and curtail their willingness to spend, and forecasts for world growth have been reduced while sentiment indicators in Europe and the US have weakened anew and in Australia the house building downturn appears to be turning into a rout which will affect some NZ manufacturers. Yet the NBNZ survey also reveals still very high activity expectations and well above average confidence.

The environment is one in which our economy has been running at below trend growth but has strong prospects for 2012-13 on the back of Christchurch rebuilding and farmer spending. But the offshore growth environment is deteriorating at the time of a rising currency. This suggests low pressure for NZ monetary policy to be tightened in the very near future, ample reason for businesses to maintain low inventories, low debt, and a jaundiced eye, but does not alter a couple of our key messages. These are a housing shortage pushing up prices and construction, and a coming labour shortage which will push up wages and eventually drive strong productivity-enhancing investment (hopefully).

This week the following material has been added to www.tonyalexander.co.nz

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

This week we look at NZ growth prospects.

Other Website Material

- **Weekly syndicated newspaper column** http://tonyalexander.co.nz/newspaper-column/
- **State of the NZ Labour Market** Updated mid-month. http://tonyalexander.co.nz/nz-labour-market/
- **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

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.

We believe it is getting better but the data are not overwhelmingly moving all in the right direction and some sectors are in outright recession. One cannot say that we have strong growth at the moment or frankly even trend growth of 2.3% per annum. Retail spending is rising above trend but it could be discounting/couch potato rugby/post-earthquake related. Export growth is above trend, investment in plant and machinery appears to be growing at about trend, and non-residential construction growth is below trend. But tourism, house building and wine are in recession, and many exporters are negatively impacted by the high NZ dollar.

Its growth, but hardly inspirational stuff.

Are householders opening their wallets more?

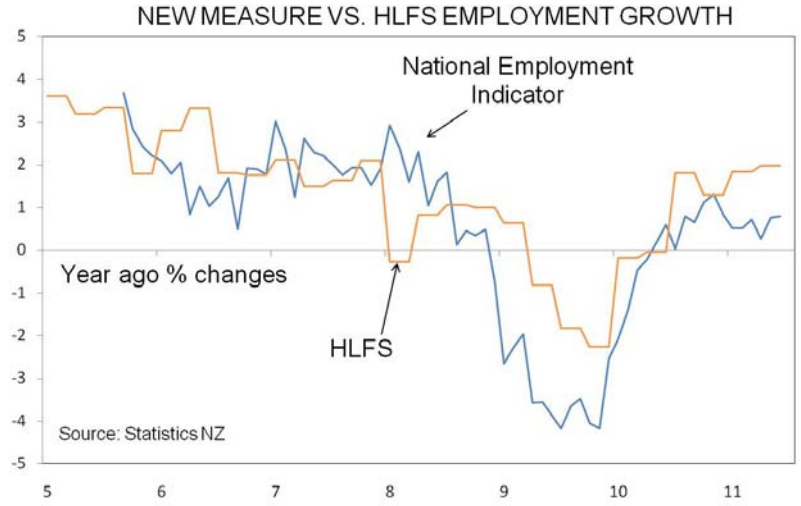
Maybe so when it comes to house building. Seasonally adjusted dwelling consents rose 13% in July after easing 1% in June, taking growth to 7% in the past three months and perhaps suggesting that the traditional lagged relationship between an upturn in dwelling sales and consents has started. We look at these numbers in more depth in the housing section. We include this measure here rather than in the leading indicators section just below because barring a huge surge in spec. activity by builders it seems reasonable to assume that rising dwelling consents mean more solid commitments by householders to buy houses – solid orders submitted as it were. The same goes for the non-residential building consent numbers, even though in both cases we know a proportion of consents don't in fact ever get acted upon or if they do the activity occurs a long time from now.

Is business output rising?

Nothing new.

Are businesses hiring more people?

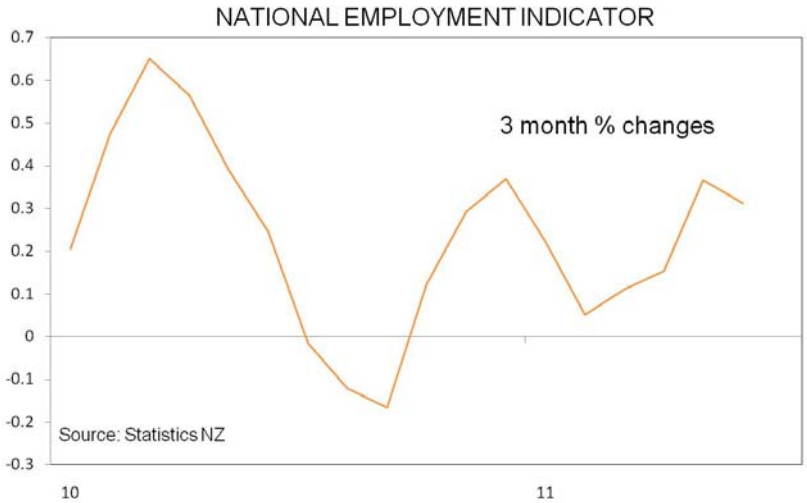
This week Statistics NZ made the first release of a new monthly series which they have called the National Employment Indicator. The series is experimental so must be treated with caution, but there is a broad correlation between changes in its annual rate of change in job numbers and that produced by the Household Labour Force Survey.



It is based upon data submitted each month by employers to the Inland Revenue Department and measures filled jobs. If a person has three part-time jobs this shows up as three jobs. Statistics NZ recommend that we focus only on the changes in their measure and not the level so that is what we shall do.

In June the number of filled jobs in seasonally adjusted terms improved by 0.1% following a 0.5% rise in May and in the three months to June the improvement was 0.3%. The HLFS jobs measure was unchanged in the June quarter. In the March quarter the NEI grew 0.1%. The HLFS measure jumped 1.3%. In the December quarter the NEI measure grew 0.4%. The HLFS measure fell 0.3%. In the September quarter the NEI fell 0.2%. The HLFS measure grew 1%. Clearly on a rolling three month basis the NEI does not give much insight into the jobs growth which will eventually be reported in the HLFS.

However, on the face of it one would only expect there to be great divergence in the measures if full-time jobs were shifting to part-time or part-time jobs to full-time and that probably does not happen all that much over short periods of time. The NEI is a full population measure. The HLFS is based only on a survey and as we have noted for many years now it displays some erratic movements which have caused us to treat it with a grain of salt.

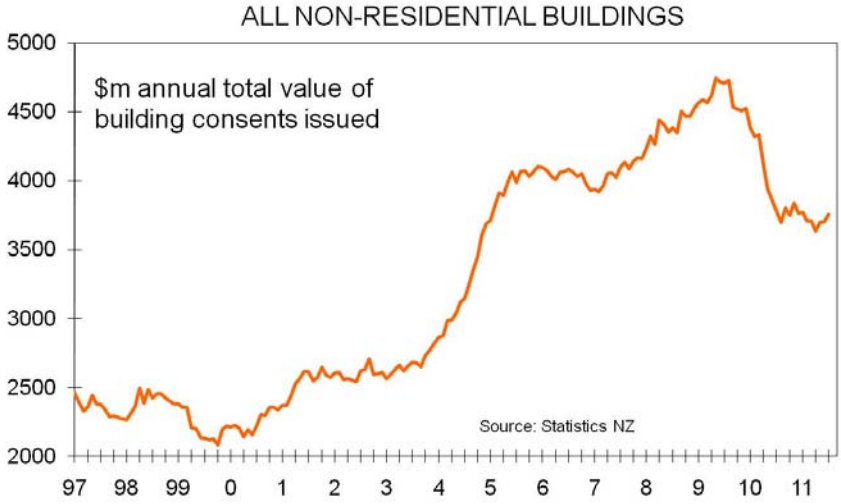


Therefore we shall give a firm focus to the new monthly measure in preference to the much more detailed yet dubious HLFS and note that it is moving upward but so far at a fairly gradual pace not suggestive of a labour market doing much more recently than chugging along at a pace probably matching population growth.

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/

Maybe. In July the value of consents issued for the construction of non-residential buildings rose by a firm 17% from a year ago. This sounds good, but these monthly data are very volatile and if we look at the past six months we see consent values were down 1% from a year earlier. But if we strip out as best we can non-private sector consents we end up with 5% growth on a year earlier in the past six months and a 7% gain for the past three months compared with a year ago. The value of farm building consents was ahead 27% in the past six months from a year ago, and for shops, restaurants and taverns the gain was 18%. But offices, warehouses, and factories are all still shrinking and that tells us that what we are mainly seeing here is further evidence of higher farm incomes feeding into farmer spending, plus some restructuring happening in the retailing sector. But manufacturing sector strength is not translating into generalised extra construction of facilities.



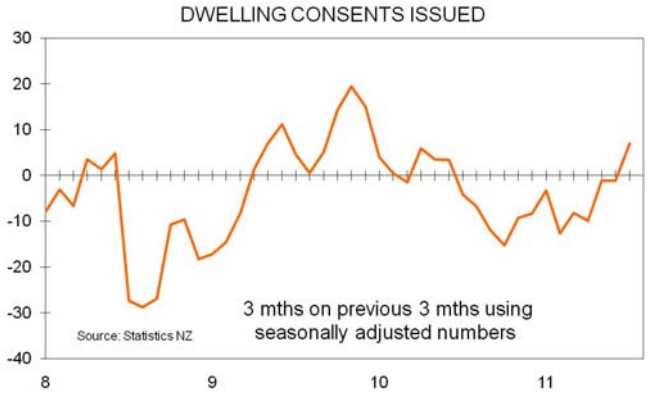
	% change 6 months vs. a year ago
Hostels, homes	53.1
Hotels, motels	30.4
Hospitals	61.8
Education	-9.3
Social, cultural	-45.9
Shops restaurants	17.9
Offices & admin	-6.3
Storage	-30.1
Factories	-6.8
Farm	26.7
Total	-0.9

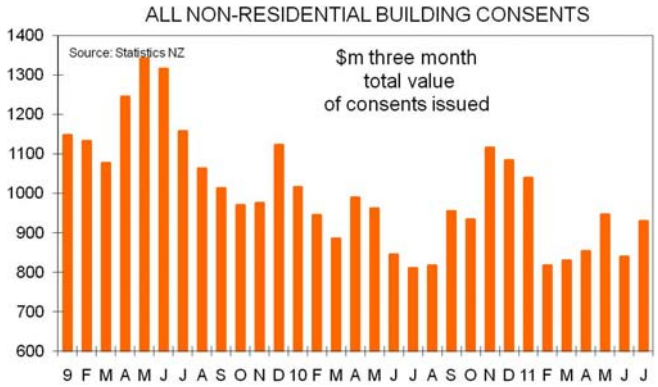
What Do The Leading Indicators Say?

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.

None of the measures validly suggests much above average growth in the NZ economy next year. Dwelling and non-residential consent issuance has improved but not by much, and high business own activity expectations in the monthly NBNZ survey could suggest either 2% - 2.5% growth in NZ GDP in our new global paradigm, or 4.5% - 5.5% based on old relationships. On top of that the growth outlook has worsened overseas and the Kiwi dollar has rebounded during the week. Were it not for the Christchurch reconstruction and record farm incomes (big factors) one would be very cautious about our economy next year.

Dwelling consent numbers rose 13% seasonally adjusted in July and have gained 7% in the past three months. They suggest an improvement in current recessionary levels of house building activity in the next few months.



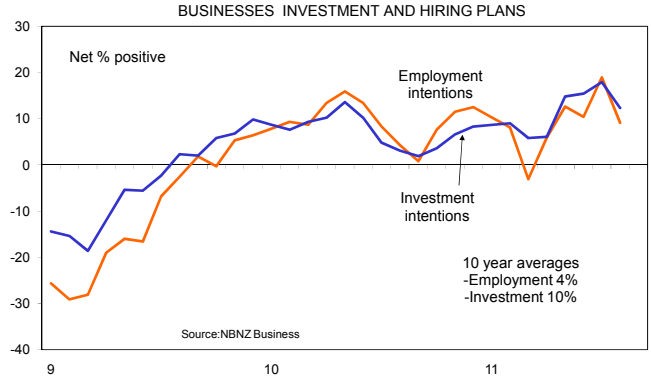


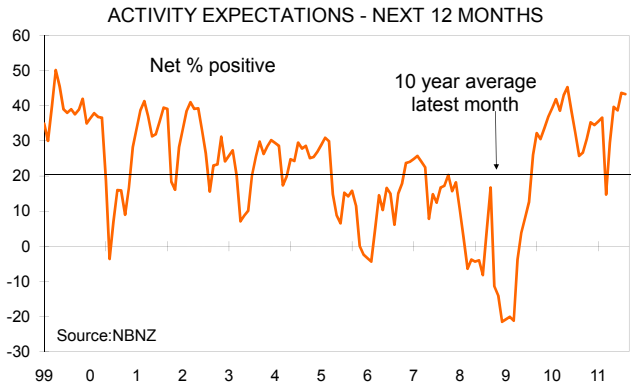
Non-residential consent issuance rose 17% in July from a year earlier and the graph just above is indicating a slow, though very unexciting, rising trend. Things are mildly improving for the non-residential construction sector, though from a low base some 10% below trend. The most positive bit in the monthly report is an upward trend in farm building consent issuance.

Growth forecasts are being lowered offshore – notably in Australia where evidence is growing of not just a pause in retailing and housing but a slump, Europe where sentiment has declined and the sovereign debt situation is worsening, and the US where confidence is also falling, new money printing is being talked about, and a public debt attack is only just getting messingly underway. According to an Italian newspaper claiming to have seen a leak of a statement due out on September 20, the IMF this week cut their forecast for growth in the US economy over 2011 to 1.6% from 2.5%, and over 2012 to 2.0% from 2.7%. It has also apparently cut its euro zone growth forecasts over 2011 to 1.9% from 2.0% and over 2012 to 1.4% from 1.7%. Global growth projections have however apparently not changed much, easing over 2011 to 4.2% from 4.3% and over 2012 to 4.3% from 4.5%.

The strong NZ dollar has risen further this week as investors have pulled back from truly bad fears about the world around them to mild paranoia. The trade weighted index has risen to near 73.5 from 71.2 a week ago. This implies some extra restraint on export sector profitability and risks extending the period over which farmers pay down debt before boosting their spending.

Business confidence measured in the NBNZ Business Outlook survey eased to a net 34% positive about the next 12 months from 48% in July. But this result is still well above the ten year average of -9% and the average for the previous six months of 29%. So it is a good outcome considering the huge volatility in markets recently. Similar goes for the net percent of businesses planning to hire people which fell to 9% from 18%. But the ten year average is 4% and the previous six months averaged 9%. Plus a net 12% said they plan boosting capital spending which was down from 18% in July but above the long term average of 10% and equal to the recent average. These results therefore are easily suggestive of reasonable growth going ahead.





But most positively perhaps, a net 43% of businesses expect their own activity levels to rise over the next 12 months. This result was basically unchanged from July, well above the 21% long term average and above the recent average of 34%. Businesses expect to be busy.

There is a reasonable medium term correlation between the activity measure in this survey and the annual rate of change in New Zealand's GDP, therefore the recent strong results are suggestive of – well your choice of growth actually. You see, based on pre-2008 correlations the activity expectations measure sitting above 40% would be consistent with strong growth between 4.5% and 5.5%. But in the context of a world focussing on deleveraging and where around the planet firm confidence measures have not translated into firm spending growth as past relationships would suggest, the latest NBNZ activity expectations numbers suggest NZ GDP growth closer to 2%.

INTEREST RATES

Growth vs. Economic Slack

In a nutshell this is what drives inflation along with institutional arrangements, imported inflation, and exchange rate changes. If you want to forecast monetary policy you need to monitor these things. So we will, adding stuff here when we learn it. The current common view is rate tightening from December. Have we learnt anything this week which alters this outlook?

Do not look for certainty with regard to projections of growth versus capacity availability in the coming couple of years and do not look for unchangeability of interest rate forecasts. They will change many times – as they already have done. At the moment we are trying to figure out how to trade off highly divergent growth factors such as a worsening world economy and some strong domestic leading indicators which may not actually be as growth suggestive in the new global order as past relationships would suggest. The week has produced a general easing in leading indicators of NZ growth so if anything some of the interest rates pressure has come off. However….

Other Inflation Influencers

The NBNZ Business Outlook survey for August showed a sharp jump in business inflation expectations to 3.45% a year out from 3.15% in July. This is the highest result since November 2008 when a rapidly falling exchange rate was pushing up cost expectations. But that is not the case this time around. Note that soaring inflation expectations over 1999 - 2000 were also associated with a collapsing NZD which reached below US 40 cents late in 2000.

This result would terrify the Reserve Bank were it not for the fact that the net percent of businesses planning to raise their selling prices fell to 21% in August from 29% in July. The average reading recently for this measure has been 29% and the ten year average is 25% so the latest result is quite good. Suffice to say that there is much to confuse the RB and being a cautious bunch we feel the results back up our expectation of no rate rise in September but one in December. Remember though that each week if not day brings new information so there is a very high probability that our forecasts and market expectations will change in the coming weeks, months, and definitely years.

Rate Movements This Week

Driven partly by US debt markets backing away from the edge and a lift in domestic hedging wholesale interest rates have increased slightly over the past week. The three year swap rate has risen to near 3.72% from 3.68% - which is not that big a move . Swap rates are still low by the standards of recent months as they reflect a pushing out of the forecast timing of monetary policy tightening in NZ and reduced expectations for how rapidly rates will rise overseas also in light of new growth and debt worries and the US Fed. promise not to raise rates for at least two years.

FINANCIAL MARKETS DATA

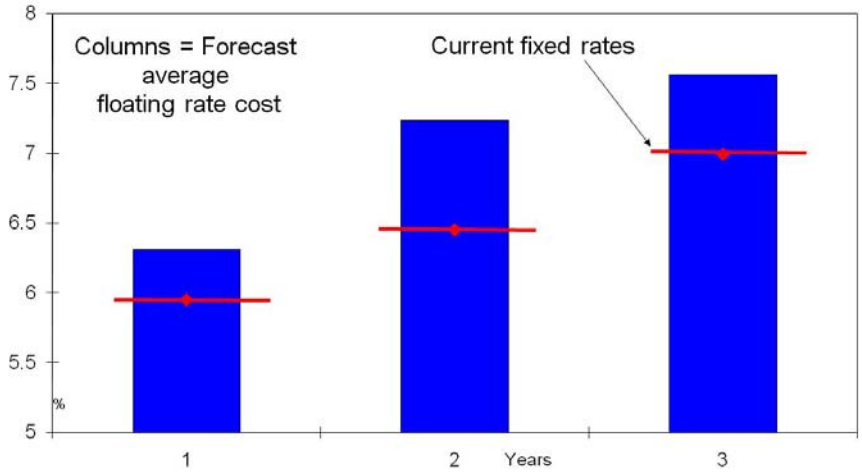
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	5.9
90-day bank bill	2.95%	2.95	2.93	2.72	3.22	6.2
1 year swap	3.19%	3.12	3.27	2.97	3.52	6.0
3 year swap	3.72%	3.68	3.93	3.94	4.00	6.2
5 year swap	4.24%	4.22	4.44	4.53	4.30	6.4
180-day term depo	4.30%	4.30	4.50	3.60	4.90	6.0
Five year term depo	6.00%	6.00	6.00	6.00	6.75	6.5

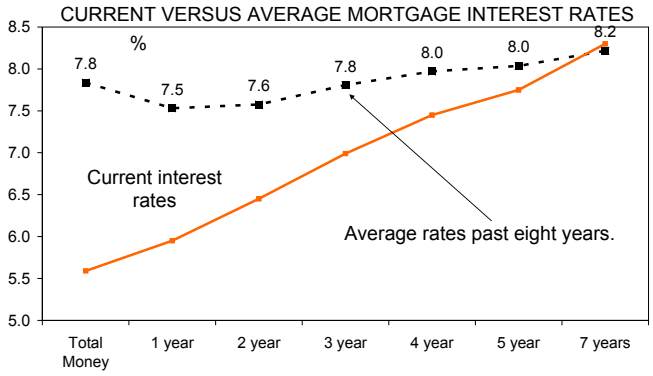
If I Were a Borrower What Would I Do?

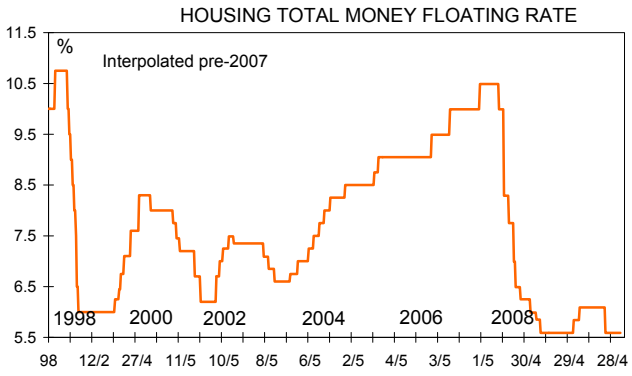
Nothing new I am afraid. I would still sit floating for now but plan to move to a fixed rate at some stage in order to get protection against forecast increases in floating rates from December into 2013 as the Reserve

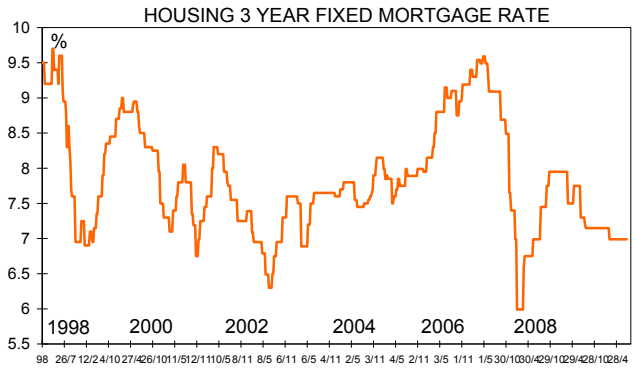
Bank acts against rising inflationary pressures by taking the official cash rate up maybe 2.5%. Such a move would in total take average floating mortgage rates from levels currently between 5.5% and 6% to between 8% and 8.5%. The graph below uses the blue columns to show where we feel the BNZ Total Money floating rate will average over the coming one, two and three year periods. The short red horizontal lines show current fixed rates for those terms.

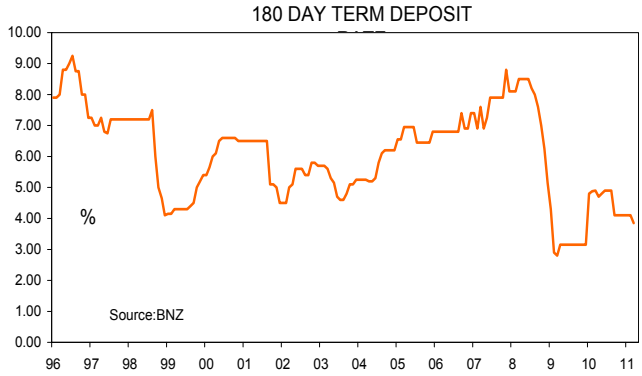
Our current one year fixed rate for instance is 5.95% and the floating rate 5.59%. Come December when we forecast a cash rate rise we see the floating rate at 5.84% then moving to 6.09% come perhaps late-January. That 6.09% rate will be above the current 5.95% one year fixed rate.









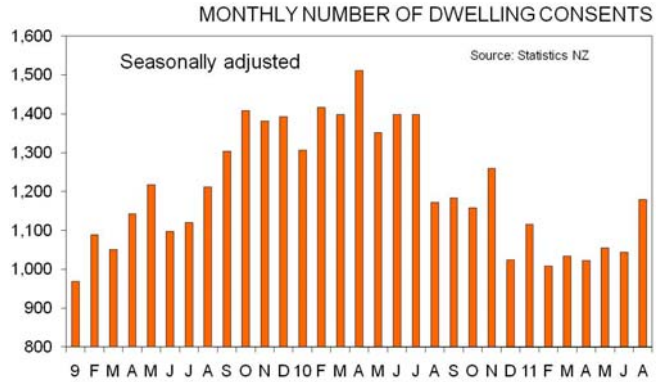


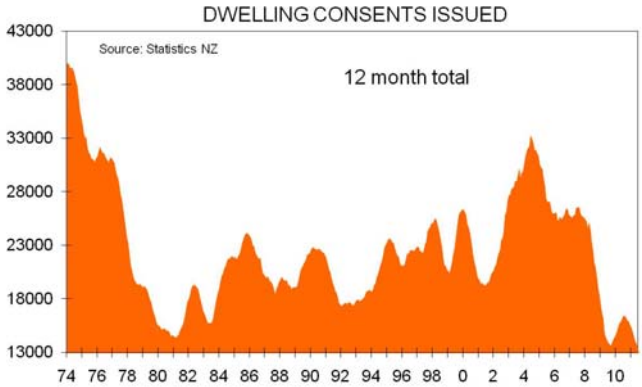
HOUSING MARKET UPDATE

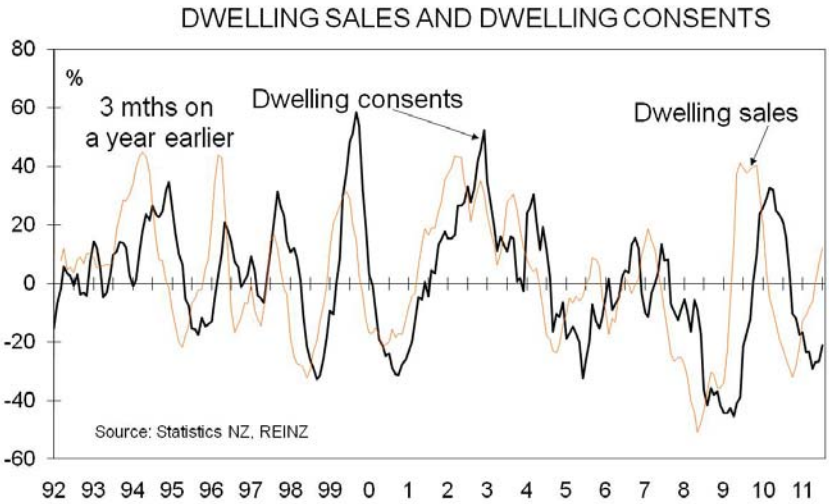
To view the most recent results of our monthly BNZ-REINZ Market Survey and read our monthly Real Estate Overview click here. http://tonyalexander.co.nz/bnz-reinz-survey/

Construction Starts To Rise

This week we learnt that the supply of new houses may be about to start recovering from a four decade low. In July there was a seasonally adjusted rise in dwelling consents of 13% which is the strongest one month gain since early 2008. Although the rise was mainly driven by a jump in apartment consents to 168 from 60, house consents also rose by a reasonable 6.3%. But as this followed a 4.3% fall in June we find ourselves not willing to interpret either the total or housing-only number as signalling that a big supply boost has officially started even though the very strong lagged relationship between dwelling sales and consents tells us that construction will soon rise firmly.







This week we also received the monthly data on real estate listings at www.realestate.co.nz. At the end of the month 10,120 properties were listed compared with 8,966 in July. So listings have risen quite a bit. The rise in listings of 12.9% is more than usual therefore one can run an argument that more vendors are appearing. We shall gain better insight into this from the real estate comments in this week's BNZ Confidence Survey plus next week's BNZ-REINZ Residential Market Survey.

Averaged over the past three months the stock of listings to July (no August sales data to use as yet) was equivalent to 36.7 weeks of sales. This was the lowest total since December 2009 and generally tells us that although listings are perhaps rising, the starting point versus sales is not that high.

The data suggest rising listings. Now we await August sales data.

Are You Seeing Something We Are Not?

If so, email us at tony.alexander@bnz.co.nz with Housing Comment in the Subject line and let us know.

MAJOR OFFSHORE ISSUES

European Debt

The new bone of contention with regard to the European debt crisis at the moment is the demand by Finland that they receive collateral from Greece before they will participate in the extended bailout fund. Granting such collateral is unlikely to happen as it is opposed by other contributing nations and the IMF in particular have noted that they would lose their status as always being first in line for repayment in the event of default and would not tolerate a change in that status. If Finland do not buckle the new bailout won't happen and we will have another bout of European market weakness. We will anyway again at some stage given the history of this situation.

The new problem has caused Greek bond yields to rise to record highs with the two year term hitting over 40%. Yet at the same time the corridors are abuzz with rumours that the ECB and European Commission may be about to short circuit the most important link in the European debt crisis with some sort of guarantee scheme for the capital of banks threatened by losses on their government bond holdings. The risk that a debt default leads to some banks collapsing and causing a late-2008 like collapse in global credit markets is the ultimate problem of the debt crisis. We await details.

Another focus currently is the extent to which the European Central bank will pull back on its warnings about inflation and expressions of intentions to raise interest rates following the two 0.25% rises undertaken earlier this year. Following new debt ructions and weak June quarter data the ECB President has recently avoided the use of various code words for a tightening bias such as "vigilant" and "upside risks". The ECB will release a new set of economic forecasts early this month.

Chinese Inflation

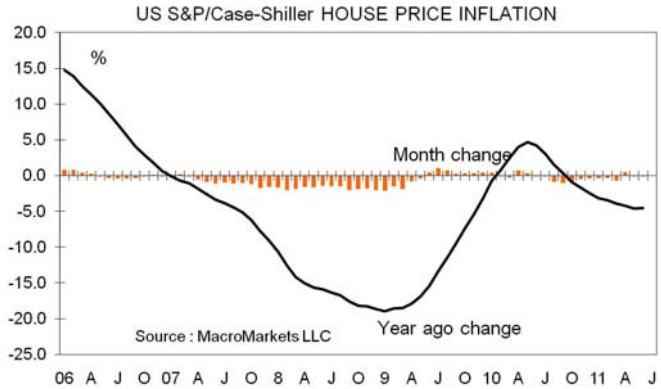
The people's Bank of China undertook a small tightening of monetary policy this week via requiring banks to place with the PBOC 21.5% of the margin deposits they receive from people placing security for letters of credit and guarantee. The move is estimated to take some US$125-140bn equivalent out of the Chinese banking system and to be the equivalent of a 1.0% - 1.5% increase in the already record level reserve ratio. The move appears to have been undertaken because banks have been trying to avoid placing reserves with the PBOC by shifting their lending away from straight loans to forms which up to now have not been included in reserve asset calculations. These include bank acceptance bills, trust loans, and designated loans.

The PBOC has increased its reserve asset ratio nine times since October and interest rates have been raised five times. The general view is that the tightening cycle is approaching an end. But with inflation at a three year high and few indicators of growth slowing outside of manufacturing, it may still be premature to reach that conclusion.

US Growth Momentum

Speaking at the Jackson Hole central banker annual retreat this week the Federal Reserve Chairman repeated his pledge to leave interest rates low for at least two more years and while leaving the door open to further stimulus gave no hint that he will be printing more money in the near future. He indicated he is reasonably confident in the economy – but then he is hardly likely to say much different given that the Fed.'s hope for some time has been that printing money and keeping low interest rates would boost asset prices and make people willing to spend based on rising wealth. But speaking worryingly about the economy would damage confidence and lead to lower asset prices thus weakening that wealth mechanism.

Speaking of confidence – it is already damaged if we are talking about consumers rather than equity buyers. The monthly Conference Board consumer sentiment measure fell to a lower than expected two year low in August of 44.5 from 59.2 in July.



Low confidence by householders helps explain why in seasonally adjusted terms the Case-Shiller house price index fell for the second month in a row in June easing by 0.1% to lie 4.6% lower than a year earlier. And it is hard to be optimistic about US household spending in the near future with sentiment so broken. That means that the US corporate sector is unlikely to have the degree of confidence they need in consumer spending plans to take on new staff and invest in new capacity.

But at least there is some activity in the manufacturing sector with orders placed with factories rising in seasonally adjusted terms by 2.4% in July to lie 13.5% ahead of a year ago for the three months ending in July.

The big monthly data release happens this Friday night in the form of the non-farm payrolls report. Few have hopes that the numbers will be good and it is considered likely that the unemployment rate will rise slightly. The report will provide the lead in to a statement expected from the US President on September 5 regarding a possible jobs package. What exactly he will be able to do in an environment where policy options are curbed by the need to cut spending is unclear however. Welcome to the US lost decade, joining Japan with their lost two decades so far and counting (Prime Ministers as well).

Australian Growth

The main point of economic interest in Australia this week was the set of generally more dovish than expected comments from the RBA Governor last Friday which although not suggesting anything like the over 1% of rate cuts which the markets have factored in, do mean the chances of a rate rise in the near future are minimal. So our NAB economists have shifted their expectation now from another tightening in December to one from the middle of next year.

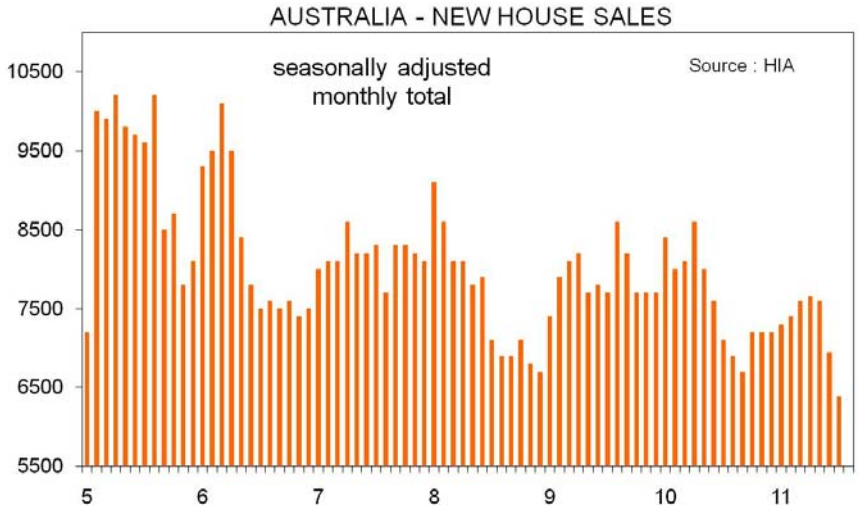
This has relevance for the NZD/AUD exchange rate given our expectation of an NZ rate rise from December as it implies upward pressure on the cross rate earlier than would otherwise have been the case.

Of a more long term nature the big debate across the ditch is all about the manufacturing sector and how it can survive when labour costs and the exchange rate are pushed high by the booming mining sector. Unions are calling for protection but thankfully the Federal Government has rejected that option – opening up as it does the door to other countries to retaliate and sullying the free trade credentials the government is keen on presenting as it pursues a free trade agreement with China which they do not want to see include bulk exemptions for Chinese businesses against which the Aussies will compete.

The government is encouraging the manufacturing sector to embrace innovation and boost productivity. The trouble however is that the government has acted to suppress productivity growth through increasing labour market regulation under its Fair Work industrial policy which has encouraged sector-wide rather than firm-specific wage negotiations. Plus the union movement in Australia is far more bolshie than here in NZ and able to call strikes at shorter notice than on our shores.

Options advocated by the non-protectionist elements of industry include the government tightening fiscal policy to help take pressure off interest rates and the AUD and creating a sovereign investment fund which would invest offshore. The selling of AUDs to achieve that would generate some downward AUD pressure. But the problem for the government is that some families are starting to struggle if they are not reasonably directly exposed to the mining and infrastructure sectors and the government's natural desire is to loosen fiscal policy in order to help them. Creation of a sovereign fund raises issues of what policies to put in place regarding the level and variability of contributions, how changes to contributions would be made, rules for when the funds would be used etc. In other words – how to do it while keeping the politicians away from using it to suit their electoral purposes which we can have no doubt they would do.

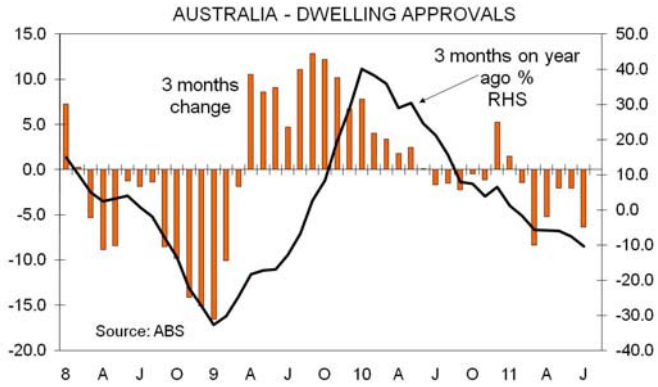
As far as economic data goes, this week we learnt that the new housing market is extremely weak. The Housing Industry Association reported that their monthly survey of new house builders produced an 8% fall in sales in July following an 8.7% fall in June. Sales are now some 10% lower than a year ago and at multi-year lows as seen in the graph just below.

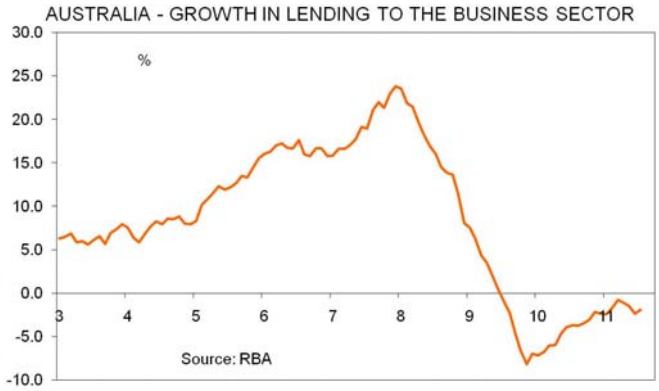


This development has relevance for us here in New Zealand in that it will act to slowly turn around the current surge in the number of Kiwis crossing the ditch as demand for tradespeople eases off. But we are unwilling to over-extrapolate this factor because while demand for such folk is falling from the house building sector it is strong and rising in the mining and infrastructure sectors and one has no doubt that employers there are becoming increasingly willing to take people on who have a good skill base and train them up in the specifics they will need in their new role.

Just to confirm the house building weakness is going to continue for a while, the monthly data on building approvals released this week showed a fall of 0.6% seasonally adjusted in July which makes three months

in a row of declines totaling 6.3%. Actually things are worse than that at the private sector core where approvals weakened 1.4% in the month and 10.5% for the three months.

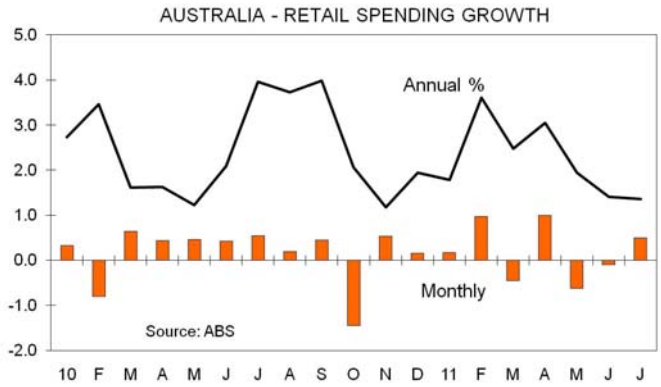


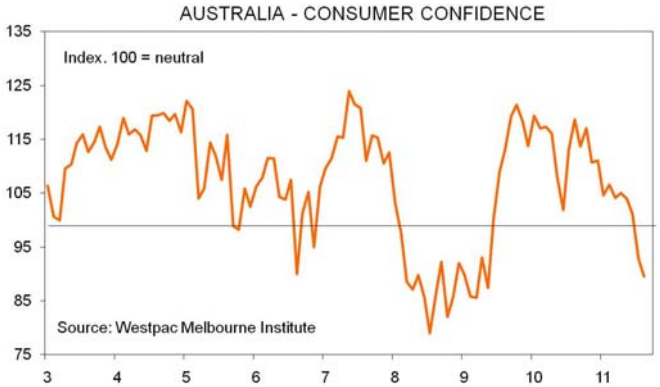


Plus, yesterday we learnt that the RP Data Rismark measure of capital city house prices across Australia was 2.9% down from a year earlier in July after being 2.1% lower in June. In July prices on average declined 0.6% after weakening 0.4% in June.

We have also seen the release of data showing deleveraging continuing apace in Australia. Total private sector credit grew just 0.2% in July after falling 0.1% in June. Compared with a year earlier credit was up only 2.7%. Lending for housing was ahead 5.9% from a year earlier with growth sticking close to about 0.4% a month recently. Lending to businesses was down 1.9% from a year earlier.

And finally, today we learnt that after falling 0.6% in May and 0.1% in June retail spending rose by 0.5% in July. That still left the annual rate of change at a 50 year low of 1.4% and given the way in which consumer confidence has deteriorated recently the chances are that in the near term the healthy 0.5% monthly improvement will not be repeated.





Exchange Rates

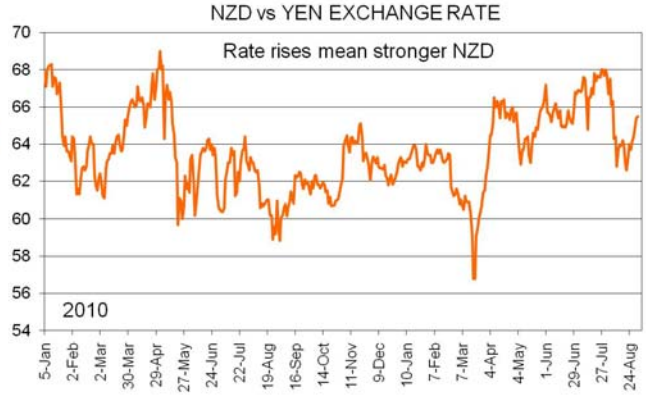
Exchange Rates	This Week	Week Ago	4 wks ago	mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.851	0.828	0.880	0.824	0.6998	0.689	0.629
NZD/AUD	0.797	0.791	0.798	0.772	0.78385	0.773	0.855
NZD/JPY	65.500	63.700	68.000	67.200	58.845	67.7	68.4
NZD/GBP	0.524	0.505	0.536	0.500	0.456	0.448	0.368
NZD/EUR	0.592	0.574	0.612	0.573	0.5518	0.52	0.511
NZDCNY	5.428	5.290	5.662	5.343	4.763		4.83
USD/JPY	76.968	76.932	77.273	81.553	84.088	98.3	109.9
USD/GBP	1.624	1.640	1.642	1.648	1.535	1.54	1.705
USD/EUR	1.438	1.443	1.438	1.438	1.268	1.33	1.229
AUD/USD	1.07	1.05	1.10	1.07	0.89	0.891	0.737

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

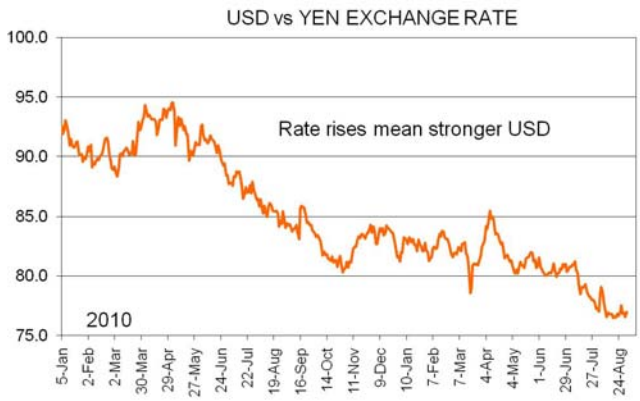
Back Up Again

The Kiwi dollar has firmed against the USD along with the AUD this week in response to an easing of global growth worries after the Federal Reserve Chairman indicated that if necessary he would take further measures to assist US growth.

Hopefully, if you are an exporter, you took advantage of the recent fall in the Kiwi dollar to get some extra hedging on board because the fundamentals suggest to us that the NZD is more likely to rise than fall against most currencies except the Chinese RMB over the coming year or two. But if you missed out don't despair. The situation offshore remains as precarious as ever with regard to the European debt situation, the US deficit problem and weak US growth so we will see further bouts of the heeby geebies go through the markets involving investors moving away from traditionally more volatile and growth oriented assets toward lovely low yielding ones such as gold, the Swiss franc and the Japanese yen. When this happens the NZD will fall again.



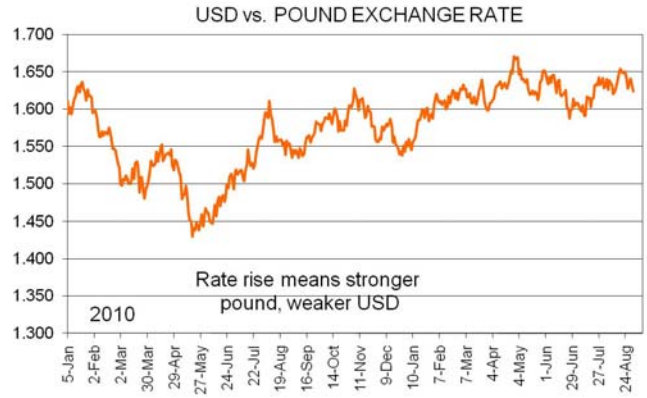
The Kiwi dollar is likely to rise also against the Japanese yen in the coming year (though probably not by much) even though the yen itself is likely to remain strong on the back of a continuing large current account surplus, low interest rates set to stay in place for a long time in the US, UK, and Europe, long term diversification away from the greenback as the global reserve currency, and short to medium term movement away from the other major currencies because of the various problems afflicting their economies.



The Japanese authorities have tried to stem the yen's rise to record levels against the USD including spending a record one day amount for intervention (selling yen) on August 4 estimated to amount to USD 6.5tn. But they have not succeeded. Hence why calls for intervention by the RBNZ to lower the NZD have to be ignored.

United Kingdom

Finding positive data on the UK economy remains as challenging as ever. Last week the Confederation of British Industry reported that their August survey of retailers showed a net 14% of respondents view their sales as lower than a year ago. The July result was -5% and the latest outcome is the worst since May 2010. UK consumers are reluctant to spend as they work on getting their debt down, worry about jobs, and are scared by the European debt crisis. A net 7% of survey respondents expect September to show lower sales.



Exchange Rate Assumptions

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.80	Higher++	0.81	Higher+
NZD/AUD	0.74	0.78	Higher	0.86	
NZD/YEN	64.2	69		70.0	Higher
NZD/GBP	0.44	0.49	Higher+	0.50	Higher
NZD/EUR	0.51	0.55	Higher	0.58	Higher
USD/JPY	88	86	Lower	86	Lower
GBP/USD	1.66	1.63		1.62	Higher
EUR/USD	1.43	1.45	Higher	1.40	Higher
AUD/USD	0.99	1.03	Higher+	0.94	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	1.0%	0.8	5.3	1.7	1.9
GDP growth	Average past 10 years = 2.6%	0.8	0.5	+1.5	-0.7	-1.5
Unemployment rate	Average past 10 years = 4.8%	6.5	6.5	.....	6.9	6.0
Jobs growth	Average past 10 years = 1.9%	0.0	1.3	2.0	0.0	-0.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	4.3	4.1	.....	2.4	8.0
Terms of Trade		0.9	0.8	6.8	0.1	-5.0
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%.	0.7	0.0	1.4	1.0	-3.6
House Prices	REINZ Stratified Index	-0.2	1.1	-0.1	2.8	-0.9
Net migration gain	Av. gain past 10 years = 13,900	+3,867	6,554yr	.....	16,504	12,515
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	-0.1	0.2	-0.1	3.8	-2.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	22	45	-21	-1	42
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	109	108	116	112
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.6	2.6	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	11.7	14.3	-11.3	-26.7	34.0
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	3.5 - 4.0	4.0 - 4.5
CPI	on year ago	4.0	3.0 – 3.5	2.5 – 3.0	2.5 – 3.0
Official Cash rate	end year	3.0	3.0 – 3.5	4.5 – 5.0	4.0 - 5.0
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