

BNZ Weekly Overview

12 August 2010

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 email me at tony.alexander@bnz.co.nz with 'Subscribe' in the Subject line.

World Outlook Deteriorates A Tad

Have we learnt anything this week which would warrant one having more doubt about the strength of upturn in the NZ economy? At the margin yes as a result of weak jobs and foreign trade data in the United States and downbeat comments from the Federal Reserve. These developments have helped place some extra downward pressure on risky assets like the NZD, as well as long term borrowing costs with the result that sitting on floating still looks like a good bet for a bit longer – though we still favour jumping into fixed at some point. The hard part is picking exactly when.

That in fact is the essential characteristic of the recovery in our own economy and those overseas. There is massive uncertainty about the strength and longevity of the recovery because none of us have a model telling us what usually happens when the world just scrapes past a Depression scenario. At some point householders will decide the time is safe enough again to start borrowing and spending. We don't know when. At some stage businesses will decide the climate is safe enough to borrow and/or raise new capital to finance not just potentially temporary hiring but long payoff investment in plant and machinery. But we don't know when. At some stage investors will decide the environment is safe enough to start doing more than just buying shares to back their hopes. They will actively seek out direct equity opportunities. But we don't know when.

We also don't know how sensitive consumers and householders are with regard to interest rates. Few are willing to borrow, but if that unwillingness reflects caution rather than cash flow concerns then the level of interest rates becomes almost irrelevant. That means that the RB can get away with raising interest rates a bit further without major concerns about restraining growth because the determinant of whether businesses and consumers borrow and spend will be general sentiment rather than cash flow considerations.

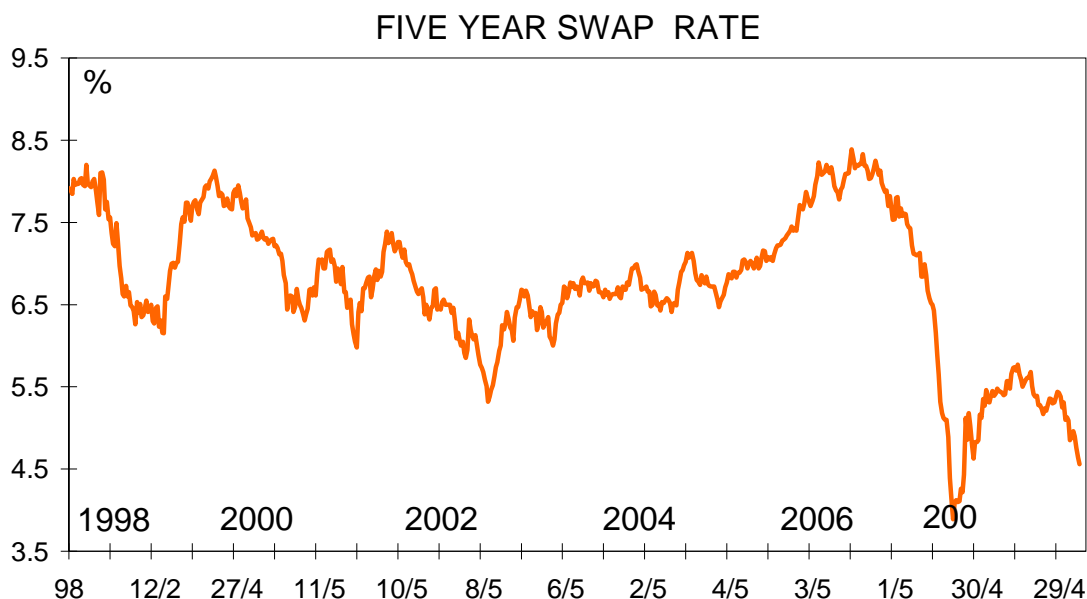
On top of these major structural uncertainties we have the usual unpredictability of the exchange rate, the low predictability of commodity prices (supply shocks tend to be unpredictable and sometimes large as is happening with wheat currently), plus uncertainty about the extent of the turnaround in migration flows.

Then it gets worse. As we have previously noted data relating to household spending for the remainder of this year is going to be messed around by uncertainty surrounding what we do ahead of the October 1 GST rise and what we do after.

The upshot of all this uncertainty is that anyone making personal financial and business decisions on the basis of economic forecasts needs to be extremely careful currently.

INTEREST RATES

With extra worries about world growth around at the moment and recent NZ data coming in weaker than expected we saw further falls in wholesale borrowing costs this week for periods beyond about two years. The three year swap rate has eased to near 4.2% from 4.25% last week and 4.6% four weeks ago. The five year rate has eased to near 4.56% from 4.64% last week and 4.96% four weeks ago.



Our expectation remains that the RB will raise rates further in the near future but the probability of a pause around the end of the year is very high and that means floating rate borrowers still have time to enjoy those low rates before switching to fixed – unless the world outlook improves and those fixed rates jump up. That does not seem on the cards in the very near future.

Key Forecasts

- Tightening through to mid-2012.

FINANCIAL MARKETS DATA

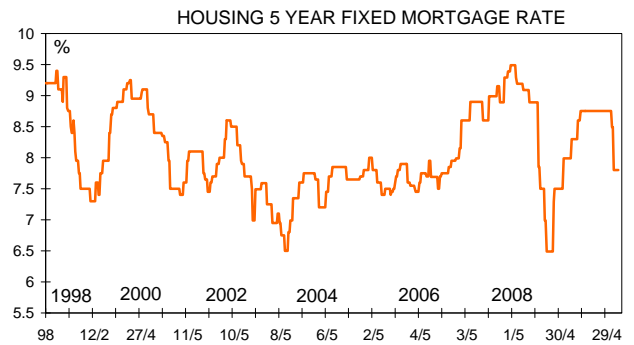
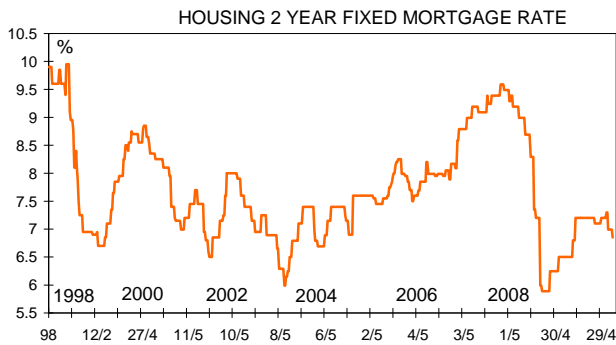
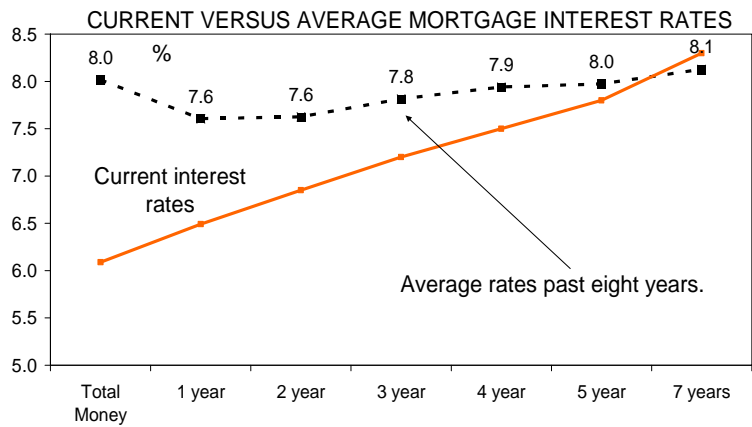
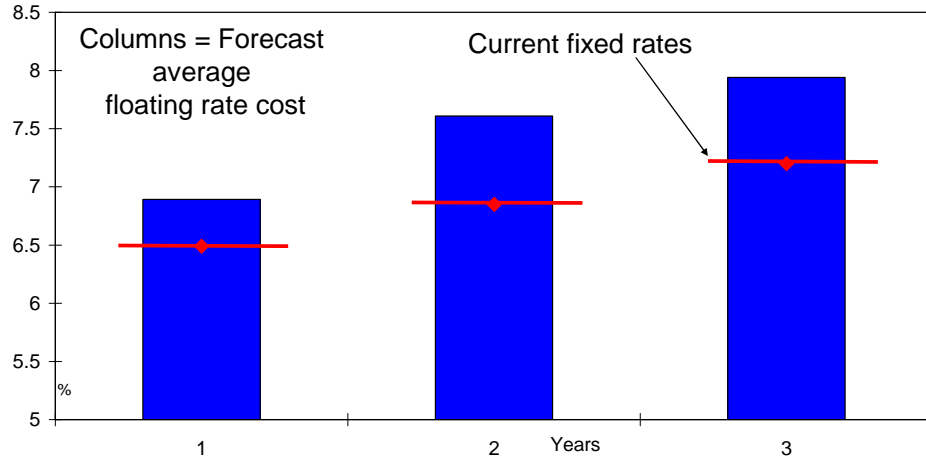
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	3.00%	2.75	2.50	2.50	2.50	5.9
90-day bank bill	3.32%	3.30	3.21	2.76	2.77	6.2
1 year swap	3.65%	3.65	3.75	3.79	3.10	6.3
5 year swap	4.56%	4.64	4.90	5.44	5.42	6.6
180-day term depo	4.10%*	4.10	4.80	4.90	3.15	6.0
Five year term depo	6.50%	6.75	6.75	6.75	6.00	6.5

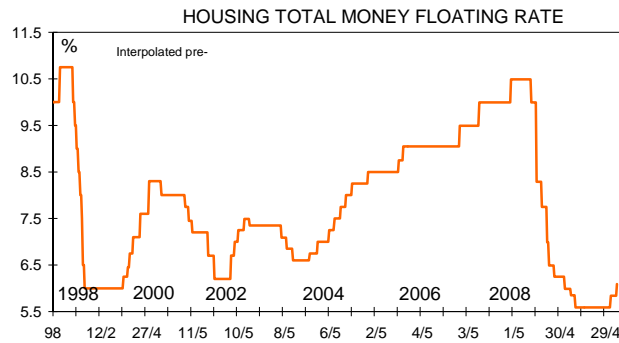
* 150 days = 5%

If I Were a Borrower What Would I Do?

You win some and you lose some. Only four weeks after switching from saying I'd stay floating (had that view for many months) to saying I would take advantage of an unexpected fall in fixed rates to fix 2-3 years, those fixed rates have fallen again. The gap between floating and fixing following the fixed rate falls and the

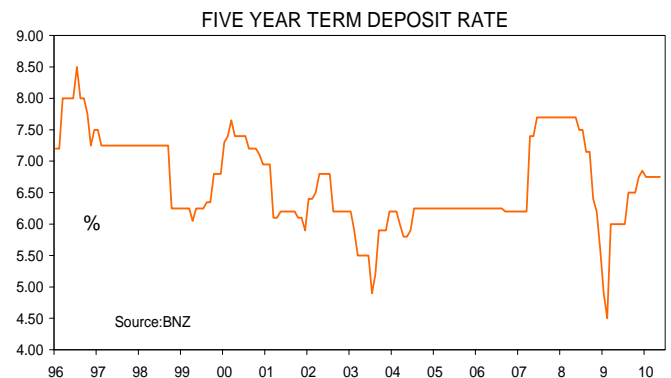
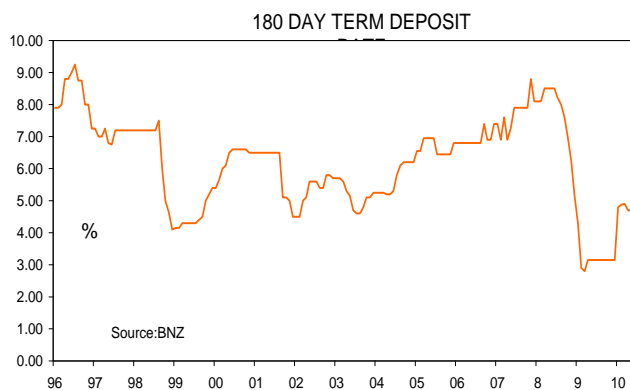
extra 0.25% on floating rates makes the jump even easier now for those contemplating fixing. The Total Money Floating rate is now 6.09% and the two year fixed rate 6.85%. But the chances of the Reserve Bank pausing in their tightening cycle have definitely increased and that means one can probably stay floating for a while longer before hopping into fixed because those fixed rates could even fall a tad further in the near future.





If I Were a Term Deposit Investor What Would I Do?

Same as before. Most short but some placed longer to pick up some extra yield.



HOUSING MARKET UPDATE

Nothing meaningful learnt this week apart from the excellent responses in our monthly survey. The tone was decidedly downbeat. To whit...

- It has been a very quiet 2 weeks in my office, no sales, which is the first time in 10 years that I can remember that happening. Residential Property Sales, Christchurch
- Residential Real estate sales are slow at this time of the year. Quality well priced properties will sell usually within the month
- Real Estate - The sales numbers are very low - similar to 2008 levels. Listings seem to be freeing up a little and there is a glimmer of hope that there is a little more enquiry starting to come in.
- Bay of Plenty real estate market very flat. Buyers in control of a depressed market. Auctions are the only bright spot.
- Residential Real Estate in Havelock North is puddling along. Properties are selling however it is still very much a Buyers' market. I think property prices are flat and will remain that way for some time yet. We have a lot of enquiry for property in the \$300k region, and not a lot of stock in this area!
- Real Estate....Extremely frustrating times with the future direction of housing particularly cloudy. Makes it very difficult for business planning at present.
- Real Estate: 40% below 2008, which was the worst sales year in a decade
- Real Estate Kerikeri Very slow market, more listings than buyers, buyers very reluctant to commit.
- Real Estate - seems to be more activity lately. Here's hoping it lasts!
- Its tough in coastal/holiday real estate so its got to get better!! 7 sales in Whitianga last month between 5 RE companies.
- Investment property is understandably dead quiet.

BNZ WEEKLY OVERVIEW

- Residential/Lifestyle real estate in Rodney: not many new listings, sales are still ticking over for properties priced to meet the market.
- Residential real estate Howick & Pakuranga - very slow, only realistic sellers selling, lots of property just sitting; buyers know they have the advantage and being very picky.
- Quiet in the real estate market but houses are still selling getting listings is the key
- Napier Real Estate Residential business is very slow needing more listings. Sellers just aren't interested in taking properties to the market in its current state.
- Real estate sales (resort property) Very quiet with few in a position to commit to second/holiday home purchase
- Real Estate with fewer sales numbers in our area for June and July (worst for 20 years) its very hard work with less properties coming on and buyers not making decisions
- Real Estate Hamilton. Been a quiet start to the year, however have seen very strong enquiry off the internet and also excellent numbers through open homes, however it has only been in the last 3 weeks that we have seen buyers actually start to make decisions and go to paper. Many contracts taking a long time to negotiate as we try and close the gap between vendors expectations and what buyers are willing to pay, but it is happening albeit slowly. Looking more positive for the coming months, still essentially down on stock, and new well presented and priced properties to the market is getting great results. 5 In competition deals in the office last week, and that doesn't happen in a "Buyers Market". Current low sales volumes can't continue for long, otherwise no one will be changing homes for the next 27 years!
- Real estate - more appraisals and lift in the stock and better feel to the market
- Real Estate Eastern Beaches Times are tough, things are harder than I've seen for 20 years, nothing but doubt and confusion largely the result of lazy inaccurate journalism. Prices being achieved that are in no way depressed but in low volume. Nothing will change until populace feels confident to spend.
- Real Estate, Eastern Suburbs Auckland. General enquiry low, listing stock low, lots of appraisals for spring?, Vendors not wanting to list as very poor selection to buy themselves. Recent OCR rate increase knocked confidence.
- Real Estate Agency. Steady business albeit at lower volumes. Fewer listings prevent it being more of a "buyers market" We are aware of clients waiting until Spring/Summer before listing their homes for sale. If this proves to increase stocks then sales volumes should follow. OCR changes seem to affect perception more than reality.
- Real-estate - steady
- Real Estate, Hawkes Bay Sales volumes are back 40% from a year ago. Still good cash buyers around but they are very hesitant and enquiry very slow.
- Real estate. Still real lack of confidence to commit from purchasers. Asking prices moving down albeit slowly
- Property services (property management & body corporate) - static, no growth. Real estate sales - hard work.
- Real Estate - Eastern Beaches. There has been a marked difference during the last two weeks of the number of enquiries being received - whether internet, media or phone. They are half what they had been. Resulting in a much quieter market place and some very concerned vendors. There are vendors who would like to sell before the increase in GST but the buyers are not being reasonable in their offers and a stalemate situation develops.
- Property - pretty slow. We definitely have brackets that are selling and a great priced place that is well presented also isn't lasting long
- Real estate, 20 year low in volume of sales in the BOP.
- Residential Real Estate Wellington. Getting worse. Winter shortage of stock, buyers very cautious. Weakness in prices. Little market optimism for future.
- Residential real estate central eastern suburbs - Huge buyer demand under \$1.1million. Multi offers on these types of family homes. Asian based buyers investing and very active. Their reason for investing is often because they perceive their money is safer here than their home country. Could be some truth in that.
- Slow in Real estate in ChCh, but still good business if priced strongly
- Residential Real Estate. Much the same as it has been all year although signs of an increase in listings in the coming spring. Many Vendors under financial pressure and at some stage soon will decide to cut their losses and move on with life.

- Real Estate in Gisborne. Sales numbers are at an all time low with sales resulting from sellers who are prepared to meet the market thus setting lowered sales history. Buyers are enjoying their power while banks are also creating problems as they unexpectedly refuse finance on occasions. A miserable wet winter has not helped either! Roll on spring! Real estate will pick up again, it always does!!!
- Real Estate: Really quiet at present, July being the slowest month for a very long time. Still confident that NZ is on the right track and that the year will be OK. Still many vendors who are unrealistic and some buyers who want to steal the property. Both parties need a dose of realism.
- Mum and Dad Property Investors - still ratbags and nice people out there so still always needing to be careful. Tidying up our long term holds to show we care, when we can, as cashflow seems to be coming out a small tube at the moment. Getting appraisals done to keep the finger on the pulse but no intention of selling. Rents are due to go up, testing market with vacant property now. Thinking now is probably either the best or worst time to buy so will sit on the fence until I decide what is best then probably start buying up a storm...
- Real Estate: Negative mood from majority of vendors, selling more from necessity (downsizing to reduce debt or selling investments. Buyers still being ruthless when making offers. A 'fun' year ahead with GST cost increases ahead as well.
- Real estate is still very difficult with buyers quite often finding it difficult to get funding. Values are soft as buyers still feel that they have control of the market. We are still finding that very thorough research into a homes value can still be too high as new properties are coming onto the market with that are priced below other homes on the market leading to a ratcheting down effect. Volumes are still only around 35% of the peak of the market 3 to 4 years ago. This is the Rotorua residential market.
- Residential real estate is quiet with a reluctance by vendors to lower prices to meet the market. Still some activity out there. Buyers in a cash position will do well over next 3-6 months.
- Real Estate in Wanaka Rural and lifestyle sections are falling rapidly in price Home prices are drifting lower.
- Real Estate - East Auckland - Market still positive for the "right properties" while others languishing and not selling, if we knew the right formula we would tell you !!! Prices stable and still a low supply / high demand situation although investor market quiet.
- Residential Construction (Auck) - Very tough at present. Enquiry levels down. Now closed on weekends
- Real-estate investment. Still slow, finance still hard to come by, some good deals if you can get the money. Hard to on sell at reasonable profit.
- AKL City apartment sales steady
- Real Estate - things are just starting to seem better, we are well ahead on our figures for last year so far this financial year. But we describe the market as lumpy
- Real Estate in Richmond, Nelson. July was a record month for our office for written sales in the 20 years we are operating. 85% of sales were unconditional. Serious sellers are meeting the market with some properties selling below what they were purchased for some 1 to 3 years ago. Auction results much better and good attendance in our auction room. Amount of listings are down due to high number of sales, but it seems more listings are now coming to the market. We are feeling very positive towards the future.
- Real estate. Flat, low listings. but some strong sales anyway. Selling prior to auction and under the hammer still, however there are some properties that remain priced too high with vendor expectations, and they are not moving at all. I predict that this spring / summer will see a lot of new listings, but not because of the usual pattern - after all that disappeared 2 years ago - but because since Nov 2009 there have been few listings, and life goes on - births deaths and marriages go on, and the bubble will burst. Question will be what the vendor expectations will be amongst a lot more competition.
- Property investor Auckland CBD: increased activity, a number of the existing tenants are sounding cheerful again. Good interest from new retail tenants as has been the case throughout.
- Real Estate Wellington Central - more enquiry in last couple of weeks than preceding 2 months. Buyers putting pen to paper although cautious about pricing. I expect some pent up buyer activity come spring.

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.

Key Forecasts

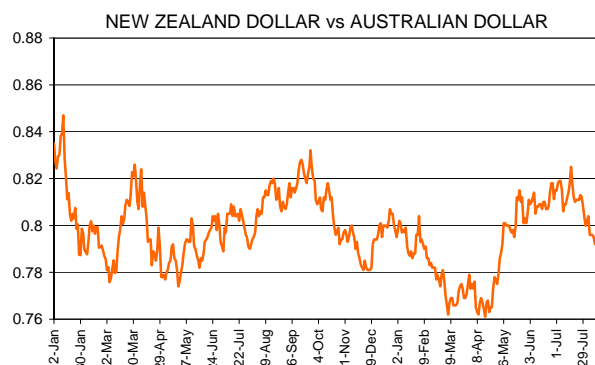
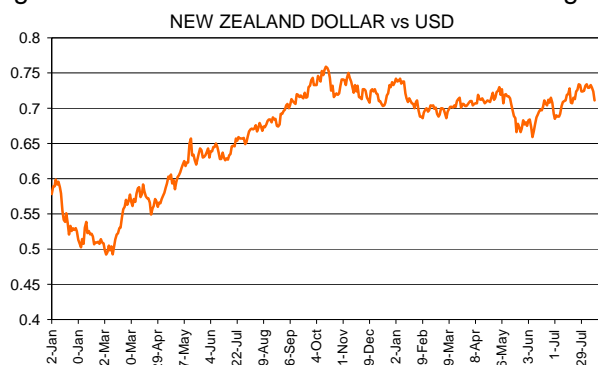
- Dwelling consent numbers to recover now with potentially good activity from late-2010.
- House prices edging higher after tax change effects wend their way through.

Exchange Rates & Foreign Economies

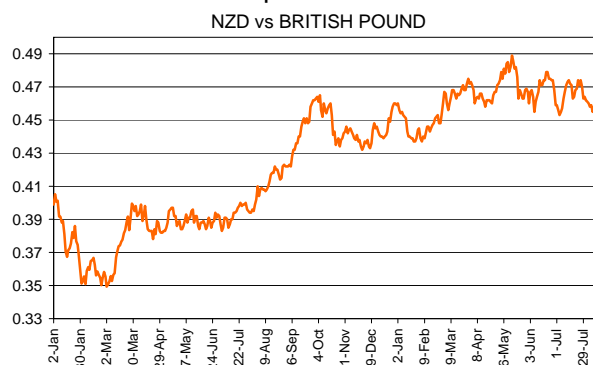
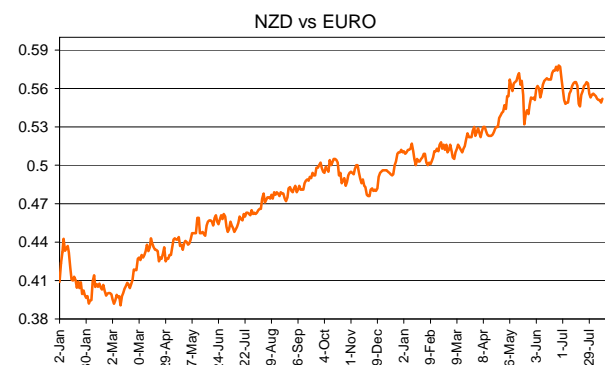
Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average	
NZD/USD	0.713	0.729	0.710	0.710	0.717	0.667	0.610	0.592
NZD/AUD	0.796	0.796	0.809	0.809	0.800	0.804	0.770	0.856
NZD/JPY	60.60	63.00	63.00	63.00	66.40	64	61.366	66.8
NZD/GBP	0.454	0.458	0.471	0.471	0.479	0.404	0.380	0.345
NZD/EUR	0.553	0.554	0.562	0.562	0.565	0.471	0.445	0.51
USD/JPY	84.99	86.42	88.73	88.73	92.60	95.95	100.600	113.9
USD/GBP	1.570	1.592	1.507	1.507	1.497	1.651	1.607	1.709
USD/EUR	1.289	1.316	1.263	1.263	1.269	1.416	1.372	1.156
AUD/USD	0.896	0.916	0.878	0.878	0.896	0.830	0.792	0.69

Worried World Lowers NZD

As we have pointed out for a long time now the fluctuations in the Kiwi dollar in recent months have been driven almost entirely by unpredictable changes in global risk tolerance and that has proved the case over the past week. Courtesy of worries about the US economy the NZD has fallen to end just over US 71 cents this afternoon from 73 cents last week. We are unchanged against the AUD, Euro and Pound, but down against the Yen as a result of investors moving funds out of USDs into Yen.

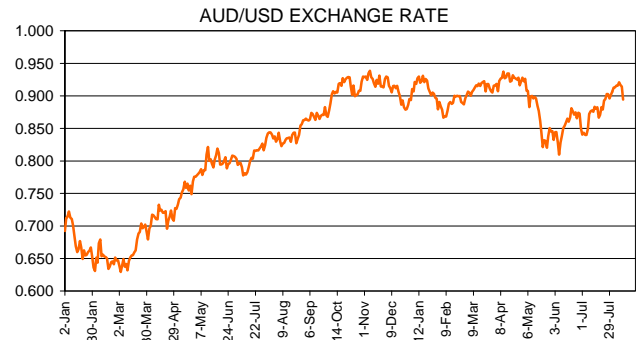
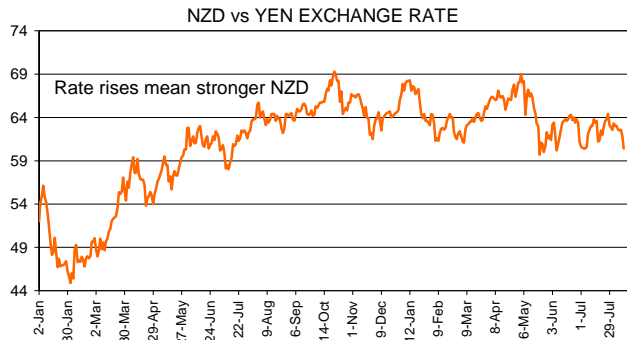


The worries started late last week. The monthly non-farm payrolls report in the United States came in weaker than expected with the private sector failing to offset the ending of 147,000 temporary census jobs with the result that total employment fell 131,000 in the month. This was worse than the average expectation of a decline of 65,000 as was the 96,000 downward revision to June's change which now stands at a decline of 221,000. The bad data have instilled renewed caution regarding the ability and willingness of US consumers to enter retail stores in the near future or lift credit demand to purchases houses.

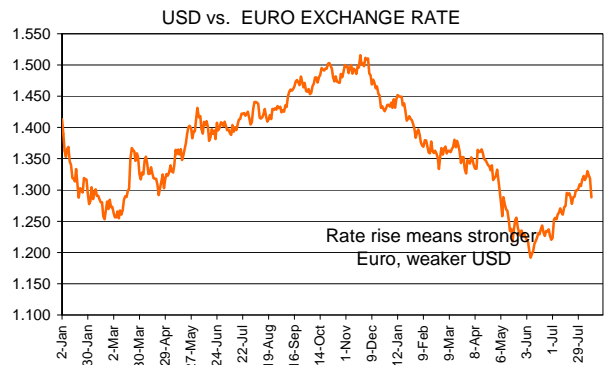
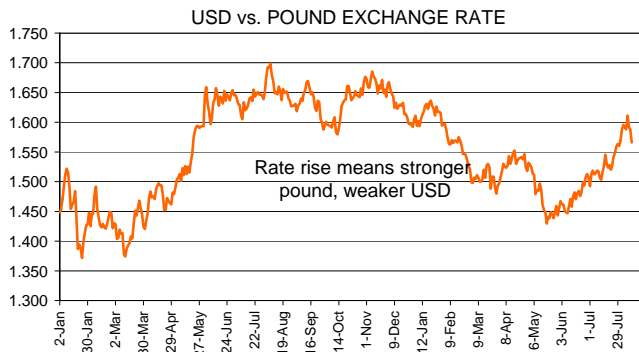


Then last night we saw the release of worse than expected US export data, and the day before some Chinese trade data which although very good showed growth slowing. Also last night the Federal Reserve Chairman made some quite downbeat comments about the US economy essentially calling into doubt its

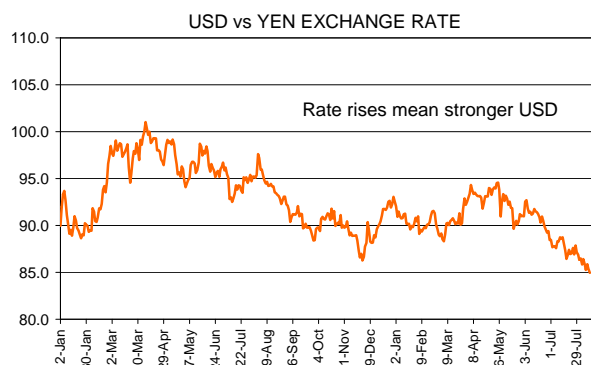
ability to keep growing now that short term stimulus measures are fading, and he announced a small extra easing of quantitative monetary policy.



There are few forecasters seriously speaking in terms of a double dip recession for the US or world economy. But expectations for the timing of interest rate rises in the likes of the US, UK, Japan and EU have been pushed further out and this has led to lower long term interest rates around the world – which we have seen here in NZ as well. At the same time worries about the short term growth prospects for the US economy have hit investor confidence with the result that the Dow Jones Index in the US fell over 250 points or 2.5% last night and the NZD has been slammed down to near 71 cents.



Overnight the Euro also suffered on rumours that Ireland was having sovereign debt difficulties and reports that the Slovak Government had refused to extend bilateral loans to Europe. One wonders when there will finally be debt restructuring for Greece? And the British pound was hit by a dovish inflation report from the Bank of England including scaled back economic projections.



Where we go from here is anyone's guess on a weekly basis as one cannot predict how risk tolerance will change. We continue to expect improving world growth which will support the NZD, but for the moment the indicators are tending to look bad and as long as that lasts the NZD will weaken. Interestingly however in Australia the labour market measures continue to show strong jobs growth and a falling unemployment rate and that suggests there could be further NZD weakness against the AUD in the near term, especially as the chances of the RBNZ raising the cash rate at each of the three reviews left this year get smaller and smaller.

BNZ WEEKLY OVERVIEW

For more detailed commentaries from BNZ and the NAB group on foreign currencies, commodities, etc click on the following link.

<https://research.bnz.co.nz/Research/Pages/default.aspx>

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

This week's Overview is slightly shorter than usual as I am in Fiji for a conference and feeling knackered after four solid weeks on the road giving talks around the country (NZ).

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ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.3%	0.4	1.8	1.9	4.0
GDP growth	Average past 10 years = 2.6%	+0.6	0.9	-0.4	-1.4	2.8
Unemployment rate	Average past 10 years = 4.7%	6.8	6.0	5.9	4.0
Jobs growth	Average past 10 years = 2.0%	-0.3	1.0	0.0	-0.9	0.8
Current a/c deficit	Average past 10 years = 5.9% of GDP	2.4	2.9	7.9	7.8
Terms of Trade		5.8	-1.6	-8.2	1.8	8.8
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.9%	1.3	0.7	1.3	-0.6	2.8
House Prices	REINZ Stratified Index	0.7	-1.2	5.1	-5.0	-1.9
Net migration gain	Av. gain past 10 years = 13,900	+16,504	20,973yr	12,515	4,735
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	3.8	4.2	3.8	-2.8	0.9
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 3%. Colmar survey	46	36	57	3	-34
Business activity exps	10 year average = 19%. NBNZ	32	39	39	13	-8
Household debt	10 year average growth = 10.3%. RBNZ	2.5	2.7	2.7	2.6	9.4
Dwelling sales	10 year average growth = 2.5%. REINZ	-24.2	-17.2	15.2	40.3	-42.4
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	5.84	5.59	5.99	5.99	10.49
3 yr fixed hsg rate	10 year average = 7.8%	7.30	7.75	7.95	6.99	9.09

ECONOMIC FORECASTS

Forecasts at July 29 2010

March Years

December Years

	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012
GDP - annual average % change										
Private Consumption	-1.1	0.6	2.7	2	1.4	-0.3	-0.5	2.7	2.1	1.6
Government Consumption	4.2	1.4	2.7	1.4	0.9	4.8	1.6	3	1.4	1
Investment	-7.2	-9.5	4.5	5	3.3	-3.6	-12	2.2	5.9	2.9
GNE	-1.5	-3.2	5.2	2.3	1.7	0.4	-5	4.9	2.7	1.7
Exports	-3.4	2.9	2.4	6.4	2.4	-1.4	0	2.8	5.8	3.2
Imports	-4.7	-9.6	9.1	3.3	2.6	1.9	-14.9	9.5	3.6	2.9
GDP	-1.5	-0.4	3.2	3.2	1.6	-0.2	-1.6	2.8	3.4	1.7
Inflation – Consumers Price Index	3	2	4.5	2.8	2.6	3.4	2	4.3	2.7	2.6
Employment	0.7	-0.1	2.4	2.3	0.9	1	-2.4	2.6	2.9	0.8
Unemployment Rate %	5.1	6	5.7	4.9	5	4.6	7.1	6	4.9	5
Wages	5.1	1.6	2	3.6	3.4	5	3.1	1	3.2	3.5

EXCHANGE RATE

ASSUMPTIONS

NZD/USD	0.53	0.7	0.72	0.66	0.61	0.56	0.72	0.73	0.68	0.62
USD/JPY	98	91	99	105	105	91	90	97	103	105
EUR/USD	1.31	1.36	1.21	1.25	1.24	1.34	1.46	1.2	1.24	1.28
NZD/AUD	0.8	0.77	0.83	0.84	0.84	0.83	0.79	0.82	0.83	0.83
NZD/GBP	0.37	0.47	0.47	0.4	0.38	0.37	0.44	0.49	0.42	0.38
NZD/EUR	0.41	0.52	0.6	0.53	0.49	0.41	0.49	0.61	0.54	0.48
NZD/YEN	51.8	63.7	71.3	69.3	64.1	50.9	64.2	70.8	69.5	65.1
TWI	53.8	65.1	69.9	65.3	61.6	55.1	64.7	70.5	66.3	61.6
Official Cash Rate	3	2.5	4	5.5	5.25	5	2.5	3.75	5.25	5.5
90 Day Bank Bill Rate	3.24	2.67	4.15	5.65	5.4	5.23	2.78	3.95	5.57	5.65
10 year Govt. Bond	4.77	5.86	6.3	7	7.5	4.88	6.02	5.9	6.8	7.5

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

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*extrapolated back in time as TotalMoney started in 2007