BNZ Weekly Overview

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Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Downward Growth Bias

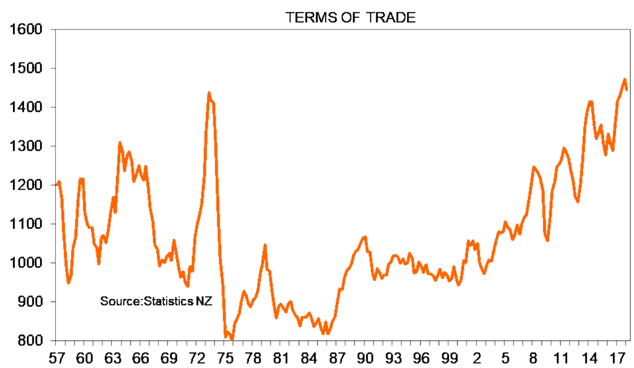
In a cold, wet and windy week we've seen a number of data releases but nothing which truly alters the outlook for the economy to any great degree. Having said that, just as there has recently been a pulling back in growth forecasts offshore in response to some weaker than expected numbers, so too has a downward bias crept into our thoughts for NZ growth recently and perhaps for the remainder of this year.

Clearly there will be a negative impact from the mycoplasma bovis outbreak and I'll get a better feel for that at National Farm Fieldays at Mystery Creek in Hamilton next week. In case you are going, I will as usual be in the BNZ tent Wednesday, Thursday and Friday, speaking at 11.00am and 2.00pm.

Business sentiment is also becoming weaker still, perhaps in response to some ham-fisted policy announcements from the government and the ever growing list of things under review.

I won't cover all data released over the past seven days, but here are a few bits of analysis – nothing earth-shattering.

One thing we learnt this week is that the Terms of Trade eased from a record high in the March quarter to sit 1.8% down from the December quarter but 2% ahead of a year earlier.

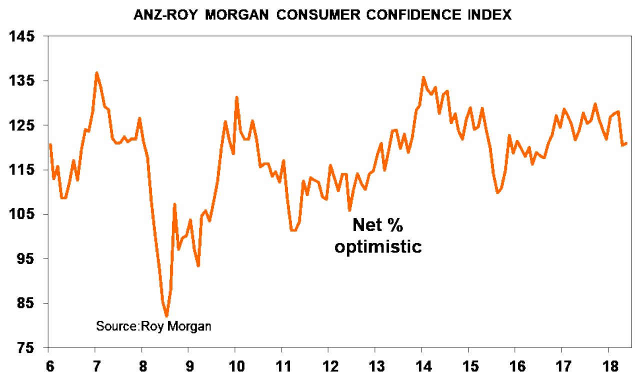


The terms of trade measure the size of the basket of goods we can import with an unchanging basket of exports. A rise to a high level means that the prices for what we export have increased more than the prices of things which we import.

This sort of thing is good for the current account deficit and tends to place upward pressure on a country's currency – one of the reasons why despite rising US interest rates the NZD is not falling away rapidly. Other reasons for the not weak NZD include downward revisions to forecasts of growth in major overseas economies in response to some weaker than expected data for the March quarter in many of them.

Then again, in a world of fracturing trade relationships peripheral trade dependent economies like New Zealand can see their currencies decline as investors become more risk averse and want their money closer to home.

Meanwhile, with regard to confidence levels on the ground in New Zealand the divergence between consumers and businesses continues. This past week we have seen the monthly ANZ Roy Morgan gauge of consumer sentiment firm to a reading of 121 from 120.8 in April where the average for the past ten years has been 117.



In contrast, business confidence measured in the ANZ Business Outlook survey fell away to a net negative 27% from 23% in April and 18% pre-election. The business sector does not like the new government and it is easy to imagine that the next survey could show even worse sentiment in light of

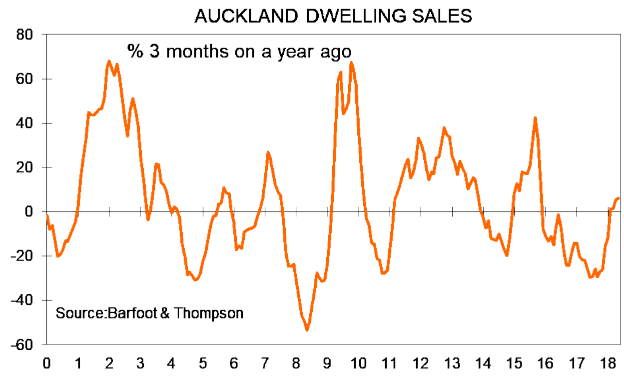
- the mycoplasma bovis problem,
- formation of a taskforce to promote collective bargaining for wages and conditions across industry,
- revelation of the political as opposed to analytical underpinning of the surprise decision to ban offshore oil and gas exploration,
- coming six week tenure as PM of a well-known divider of people,
- weaker foreign economic data,
- tightening of immigration criteria (post-study work plus more onsite inspections which will boost numbers leaving the country), and
- worsening global trade relationships.

A net 7% of businesses plan boosting staff numbers, down from a net 9% in April, and 17% in August. A net 3% plan boosting capital spending, down from 7% in April and 23% in August.

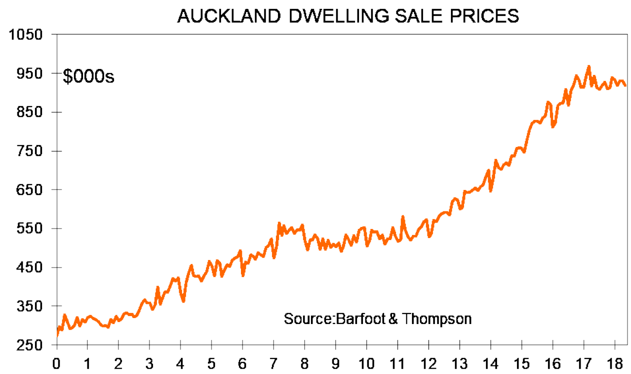
Will the weakening of these important intentions measures generate an actual weakening in the pace of growth of the economy? Possibly. But these things can move around quite a bit over short time periods. And despite what businesses may say, many if not most need to invest in a world of tightening labour availability and ever-changing technology and levels of competition.

Housing

We received Barfoot and Thompson's monthly data on their activity in the Auckland residential real estate market and the numbers show activity is flat. Over the three months to May in rough seasonally adjusted terms sales numbers were ahead just 1% from the three months to February.

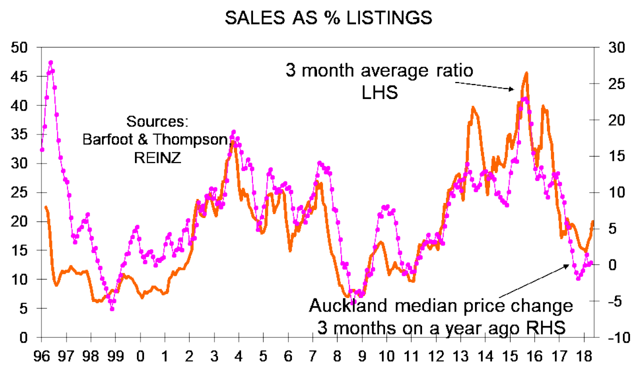


Average sales prices were down 0.5% from the previous three months and down 1.8% from a year ago.



As I've noted for upwards of a year now, the Auckland housing cycle's exciting part has done its dash and will now be generally directionless with an eventual upward bias for a few years – perhaps until 2021. Then a new upward leg may well kick into gear.

Why an eventual upward bias to prices? Because the ratio of sales to listings is slowly improving. This appears as a rise in the orange line below with which the annual pace of change in Auckland selling prices tends to be quite well correlated.



Where Auckland goes, direction wise, the rest of the country eventually follows. That is why we expect this flattening in activity and prices in Auckland to spread to the regions.

Are You Seeing Something We Are Not?

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

If I Were A Borrower What Would I Do?

Nothing new. World inflation remains elusive. Given falling NZ business sentiment and other factors mentioned above, it would not be surprising if market expectations for when NZ monetary policy tightens shift out again, and again, and again.

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The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. **This edition has been solely moderated by Tony Alexander.** To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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