

Sporadic

How Much Are We Slowing?

Sporadic 11

In Sporadic 9 (“The Wind Shifts Direction”) issued on June 3, I looked at how prospects for growth in the NZ economy were deteriorating. Eight days later the Reserve Bank eased monetary policy as they also acknowledged that since the start of the year the negative developments have outweighed the positive ones. Is that still happening? That is, has the news we have received since June 3 been weighted toward the good side or yet again the bad side? Lets run through the items.

The Negatives

Dairy

Global dairy prices have continued to slide with the average GDT measure falling another 1.3% on June 16. Experts in the field are pushing out their timing of an expected recovery in prices and feedback from farmers at Fieldays shows that discretionary spending is being reined in and hopes of a lift in the payout from Fonterra’s initial projection of \$5.25 are fading. Note however that as written in Sporadic 9 and 10, forecastability of the payout is close to zero. One day we will get a positive surprise as Chinese buyers start rebuilding their inventories. One day.

Russia

The Russians have announced that they will extend their ban on imports of Western food for another six months from August. This is negative largely for dairying.

China

At the margin things are a tad less positive. Although the annual pace of growth in retail sales lifted to 10.1% in May from 10% in April, and industrial production rose 6.1% versus 5.9%, investment in fixed assets slowed to a 15 year low of 11.4%, and employment gauges in the HSBC flash Purchasing Managers Index have deteriorated. Things are still slowing down in China and further policy easing looks likely.

Consumer Sentiment

Measured by the monthly ANZ Roy Morgan survey consumer sentiment has declined to a two year low of 119.9 in June from 123.9 in May and 126.5 six months ago.

Business Sentiment and Intentions

The ANZ Business Outlook confidence measure has declined to a net 16% positive in May from 30% in April and 32% six months ago. Employment intentions have declined to their lowest levels in two years at 17% from 22% in April and 20% six months ago.

GDP

The official measure of NZ economic growth, the change in gross domestic product, slowed to a far weaker than expected 0.2% in the March quarter from 0.7% in the December quarter and 1% in the September quarter. The pace is the weakest in two years. Investment in plant, machinery and equipment fell 11% in the quarter.

The Positives

United States

The most recent data for the US economy have been better than expected, including for employment, wages growth, consumer confidence, retail sales, and home sales.

Interest Rates

The Reserve Bank have cut the official cash rate 0.25% and are highly likely to cut again on July 23. It is not inconceivable that they cut another 0.5% after that. Lower borrowing costs will tend to boost economic activity though perhaps not by all that much given general reluctance to take on debt.

Exchange Rate

The NZ dollar was almost at parity against the Australian dollar on Tuesday 7 April. It is now near 89 cents which is the lowest level since November last year and not too much above the ten year average of 84 cents. Against the US dollar we are near 69 cents (ten year average 75 cents!) which is the lowest rate in five years. There will be little immediate impact from this decline and the falls against other currencies including the British pound where we are now near a four year low. But there will be a quick lift in spending by the growing number of visitors to the country and tourism's already good prospects are now better. The decline will do little to improve dairy sector sentiment, but will boost confidence in primary sectors doing well such as pipfruit, Kiwifruit and wine production.

Migration

Net migration inflows continue to grow with the seasonally adjusted gain rising to 5,140 in May from 4,770 in April and 5,000 in March.

Cold

Winter has started cold and this is good for sales of winter-related items such as heaters, clothing etc.

On balance, compared with June 3, things are slightly weaker – hence one reason for weakness in the NZD in particular. Will this pattern of a deteriorating outlook continue? Not necessarily. It pays to remember that for the next 2 – 3 years while weakness will flow from dairying, easing house construction in Christchurch, labour shortages, a trend decline in manufacturing, developing El Nino, and geo-political tensions, there will be very strong growth support from factors we have long cited. Catch-up spending in Auckland on housing, infrastructure, and office buildings, infrastructure around the country, Christchurch non-residential construction, leaky building repairs, earthquake strengthening, low interest rate expectations, a cyclical NZD decline, migration, plus strength in specific sectors including pipfruit, Kiwifruit, wine, tourism, and ICT.

Expect to see further tightening of the labour market, don't expect further substantial weakness against the USD though some decline is likely, watch for additional measures aimed at restraining Auckland house price rises, don't get greedy regarding fixed interest rates, look for some regional housing markets turning upward as investors here and from offshore scramble for yield, consider how to benefit from Auckland's long-term growth and development, an aging/living longer population, rising Asian population in Auckland, aging boomers looking to sell their businesses, the government eventually scrambling to address poor low cost housing quality. Examine exploitation of our massive unpatented agritech resource, think about how someone will disrupt your service delivery through technology changes, and develop and strengthen your own firm's innovation chain.

Sporadic Library

10. Fieldays 2015 <http://tonyalexander.co.nz/wp-content/uploads/2015/06/Sporadic-10-June-11-2015.pdf>
9. A Shift in the Wind – NZ Growth To Slow. <http://tonyalexander.co.nz/wp-content/uploads/2015/06/Sporadic-9-June-3-2015.pdf>
8. Eight Records Driving Auckland House Prices. <http://tonyalexander.co.nz/wp-content/uploads/2015/05/Sporadic-8-May-12-2015.pdf>
7. Auckland Housing Shortage Again. <http://tonyalexander.co.nz/wp-content/uploads/2015/05/Sporadic-7-May-5-2015.pdf>
6. Auckland Housing Shortage is how big? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-6-April-29-2015.pdf>
5. NZ Business Culture. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-5-April-23-2015.pdf>

Sporadic 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. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
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