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BNZ Weekly Overview

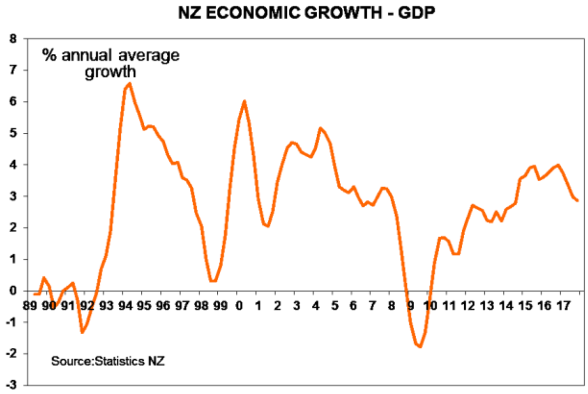
19 April 2018

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.

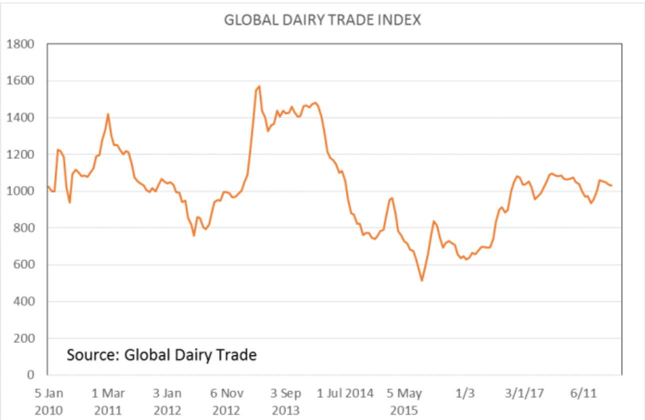
Strong Growth For Four Years

In the absence of any truly useful economic data releases this week I thought it might be useful to take a look at the past four or so years. In calendar year 2017 our economy was 14.7% bigger than in 2013. That means growth has averaged near 3.7% per annum. That is a strong performance from three points of view.



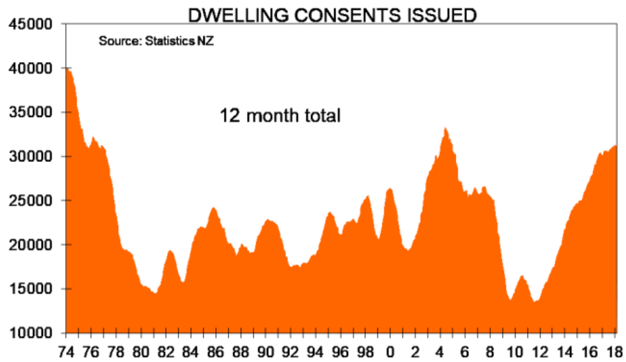
First, it is well above average annual growth for the past 20 years of 2.8% per annum. Second it is well above rates of growth over recent years in countries against which we have traditionally compared ourselves such as Australia, the UK, USA, Japan, the EU and so on.

Third, it is a much stronger performance than any of us were expecting to follow the 60% fall in international dairy prices between 2014 and 2015.



And it is not just in the GDP figures that we see a strong period of growth. Job numbers have grown near 15% or 350,000, the government's accounts have moved from deficit to surplus (how long before our new Finance Minister blows them away however?), and the current account deficit has shrunk.

The decline in dairy sector income was very easily offset by a number of factors. One was a sharp recovery in the construction sector. The number of consents issued for the construction of new dwellings hit the lowest level since the 1960s (when the population was below 3 million) come 2011. That total of 13,500 is now dwarfed by consents in the year to February of just over 32,000.



The volume of non-residential construction in 2017 was ahead almost 30% from 2013 levels. Plus, infrastructure spending has picked up. Employment in construction at the end of 2017 was ahead 42% from the end of 2013. (Manufacturing was unchanged, a result consistent with it's long-term flat to downward trend..)

Our economy has also received a strong boost from a surge in visitors coming to our shores. In the past five years visitor numbers have risen by 46%. In the previous five years ending in February 2013 they grew by only 4%.

This boom has created plenty of extra jobs and created significant capacity issues in the accommodation sector in particular. And now that Immigration NZ are cracking down on migrants in the hospitality and retailing sectors employers are really struggling to find staff. Be mindful of these staffing issues the next time your stay at a hotel is not quite up to expectations. And be sure to book ahead else you could find yourself being billeted with company staff in the location you are visiting and imagine the mess that could create in this day and age.

Our economic growth rate has also of course been pushed higher by a huge migration surge. Our population has grown about 8% over the past four years assisted by a net immigration inflow of about 263,000 since early-2014.

There has also been assistance to growth from the large fall in oil prices from 2014 levels, and the Reserve Bank cutting it's official cash rate 1.75% over 2015-16 after raising it 1% over 2014 then watching as inflation came in near 2% lower than they were expecting. Opps.

That opps is important. Having twice raised interest rates post-GFC and had to quickly slash them the Reserve Bank will want to poke the whites of the eyes of threatening inflation before it will raise rates a third time.

So is this strong pace of economic growth continuing? Over the December quarter GDP (gross domestic product) rose by 0.6% after rising 0.6% in the September quarter. So in the second half of last year growth was running at about a 2.5% annual pace. Growth has slowed down. Why?

Weakness in agriculture and food processing by the looks of it which we can generally put down to the unpredictable impact of weather and such weakness is unlikely to persist. But we've also seen a surge in imports probably driven by strong growth in personal consumption and increased business investment. Imports count as a negative in the GDP accounts but to the extent that the goods coming in will go toward building the country's economic base this will be good for future growth.

In fact as we look ahead we see scope for some good growth in business investment because a key constraint now on the ability of businesses to grow is a shortage of labour – as we discussed last week. With labour unavailable businesses need to boost capital spending to raise capacity and boost productivity.

But perhaps next week or the week after we will take a proper look at factors underpinning our expectation for continued good growth in the economy. Suffice to say, unless we get some major offshore disturbance, prospects for growth look strong.

If I Were A Borrower What Would I Do?

Competition between banks in the one and two year fixed terms remains intense. I would look to have a decent chunk of my mortgage at those terms and a tad fixed three years. Longer than that is too expensive for my taste and the fall in the annual inflation rate from 1.6% to 1.1%, and the core rate excluding energy and food to 0.9% from 1.1%, suggests our central bank remains a long, long way off raising the official cash rate.

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
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz