

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.

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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 please click here.

http://feedback.bnz.co.nz/forms/Fx-l8plokSGWqjN_7WOAw

To change your address or unsubscribe please click the link at the bottom of your email.

If you wish to email me a comment on any matter discussed here please feel free to do so. All emails will be treated in confidence and if I reprint any insightful comment it will be without any identifying material. tony.alexander@bnz.co.nz

Busy

I am afraid that this week I have simply been too busy to write all that much. You'll all hopefully have received the results of our monthly BNZ Confidence Survey on Monday showing sentiment broadly where it was early in December, strength in residential real estate, things picking up in construction, but a lot of woe for many exporters as a result of the strong and we suspect still rising NZ dollar. A lot of New Zealand's exporting sector is being hollowed out by the firm NZD which is riding high on the back of other countries printing money to try and get their households borrowing and spending more, generally good prices for our major commodity exports, and perceptions of NZ as a low risk place to put funds currently given the problems overseas. Note that these overseas problems include creeping signs of an outright currency war.

Earlier today you will hopefully also have received the results of our first BNZ-REINZ Residential Market Survey for the year. It shows all readings at high levels with buyers out in force, prices rising, and yet again no solid evidence of any wave of sellers hitting the market. My long held view has been that NZ house prices would be supported during the GFC by a shortage of supply and that has turned out to be the case. Now that a supply shortage is near universally accepted for some of the major parts of New Zealand both first home buyers and investors are looking to make purchases.

For the first time in the survey we ask agents about whether they are noticing more or fewer foreign buyers in the market and where they appear to come from. The top country is the United Kingdom with 27% of agents noting this, followed by China at 24%, then Australia 22%. In Auckland however Chinese buyers are seen as prevalent among foreigners by 45% of agents responding.

An extensive amount of time has also been taken up this week giving talks and holding meetings with people in Christchurch, on top of putting together the various pieces for a new monthly publication aimed at expats which will be distributed on Monday. If you are on the emailing list for the Weekly Overview then guess what – you're going to get it or a link to it as well!

Enough. Time up.

Recent Economic Data

The REINZ monthly housing data are discussed in the housing section. Apart from that we have Electronic Card Transactions data showing spending in core retail up 0.4% in seasonally adjusted terms in January and 6.5% annualised for the past three months. There is some interesting retail spending strength appearing assisted by a 10.6% annualised pace of growth in spending on durable goods.

No time for more.

INTEREST RATES

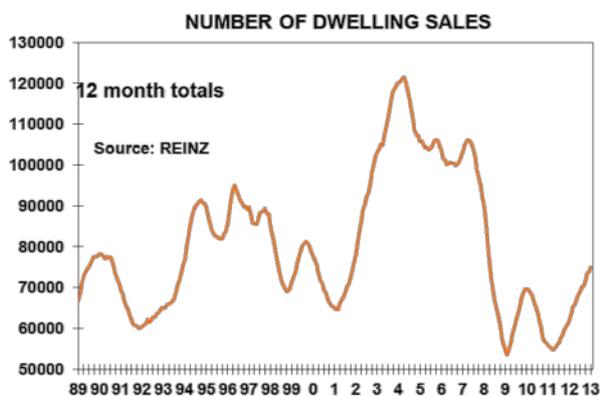
Swap rates have crept higher this week in response to signs of accelerating growth in credit demand in new Zealand plus some upward movement in longer term rates offshore, principally in the United Kingdom overnight. The markets are pricing in an 80% chance that the RBNZ will raise its cash rate 0.25% before the end of the year.

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	2.50	5.4
90-day bank bill	2.70%	2.70	2.66	2.67	2.76	5.7
1 year swap	2.86%	2.80	2.76	2.55	2.82	5.8
3 year swap	3.20%	3.16	3.00	2.76	3.10	6.1
5 year swap	3.52%	3.47	3.32	3.05	3.53	6.3
7 year swap	3.83%	3.79	3.64	3.37	3.93	

HOUSING MARKET UPDATE

Housing Market Robust

The REINZ data for January show that during the month there were 21.1% more dwellings sold than a year earlier. In fact the 4,933 sales was the highest January total since 2008 though 35% down from January 2007 when things were booming. Over the three months to January sales were ahead 17.8% from a year ago with Auckland ahead 24.9%, Wellington 17.6%, and Christchurch just 8.4%. The rest of NZ was ahead 14.7%.

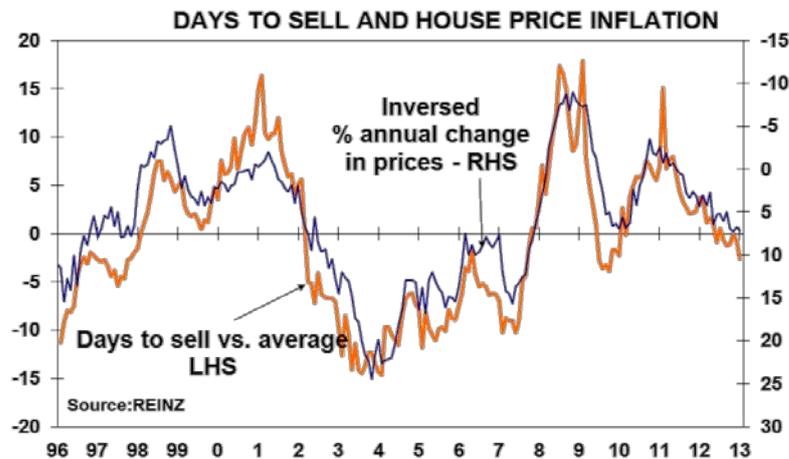


In terms of price the national average eased 1% in the month after falling 0.6% in December but rising 1.4% in November and 1.5% in October. Month to month changes are fairly meaningless, but over the past three months the average price change has been a rise of 1.9% which follows a 1.9% rise also in the previous

three months ending October. Therefore it seems fair to say that prices are rising at about an 8% annual pace.

However, comparing the latest three months with a year ago we find that in Auckland prices are ahead by a strong 11.2%, Christchurch 8.5%, but Wellington just 1.2%. The rest of the country is rising near a 4% pace.

Reflecting the way in which listings are in relatively short supply was the days to sell measure in January which was 2.6 days faster than the ten year average at 41 days. December was 0.8 days faster than average and the January result is the strongest since October 2009 when a sigh of relief surge in sales occurred.



Overall the results show a strong housing market – something which came through clearly in the comments on residential real estate contained in this month's BNZ Confidence Survey. To whit...

- Real Estate Hawkes Bay. Residential sales ticking over well especially in the \$200-\$400k range. Close in lifestyle blocks creating good interest.
- Real Estate Wanganui Quite static - 1000 properties on the market and approximately 5% selling each month.
- We are an Auckland CBD fringe firm. We finished with an excellent year last year despite our misgivings that it wouldn't last, and are off with a hiss and a roar this year. House agreements are flying in thick and fast. It seems that Pt. Chevalier is the new Westmere, and Sandringham prices have also taken off. If interest rates hold, and with lack of housing stock, we are on the upswing of a new cycle, providing some offshore issue doesn't rock the boat...
- Real Estate interest in purchasing picking up but still a serious shortage of listings available
- Residential Real Estate Christchurch we are still experiencing strong buyer enquiry, the supply of listings remains very tight. Open home numbers remain strong. We anticipate these conditions will continue for some months, as it will be sometime before the new builds begin to impact on the market.
- Auckland City Fringe real estate. Slow January but has picked up now. Still an excess of buyers and a shortage of listings.
- Real Estate Low stock levels Hard to get listings Good buyer interest
- Real estate - Nelson. Properties in the 800k plus brackets are sitting on the market and even the historically low interest rates are not enough to entice buyers. Many owners have given up trying to sell, but rather than reducing their price expectations, they are now trying to rent them as many owners have already returned overseas.
- Real Estate Johnsonville More activity with listings and more buyers in the market. Good quality of listings coming onto the market and property pricing by vendors is realistic.
- Real Estate Manukau - The market is particularly buoyant at the moment. If however the shortage of listings we have currently continues then prices will begin to rise at an increased rate and affordability for many will become critical.
- Real Estate - Mangawhai. Best it has been since before the recession - some buyers lost (kdc/rates) but more arriving to buy.

- I'm a property finder, and see the market picking up with listings not taking long to sell
- Real Estate....Gradual Improvement
- Real Estate Tauranga. Good enquiry levels for realistically priced property especially new stock to the market. Sales level maintaining 2012 levels so far. Prices not really moving, maybe firming a little. More sales above \$500k in last couple of months which may indicate confidence in the market.
- Property Valuation - 100% comments received say there was a surge of activity from October 2012 that has not abated. Comments from Residential RE Agents, builders, Commercial property developers. Central NI.
- Real estate Tauranga, we have as a company the best January since January 2005. Plenty of listings and buyer enquiry. Beach front and apartment sales picking up at lower prices.

A Comment on Investing

One reader sent in the following good email during the week.

"Hi Tony. Always enjoy reading you and you are right about the issues re holiday investments. Re your comment about the "ranchslider in Whanganui," my thoughts as a small time property investor of both resi & commercial; Sure it's not for everyone.

It is a certain amount of work yes however if one expects to make money one should expect to do work for that. So whenever I am inconvenienced, I tell myself this!

You can have them managed of course and never meet a tenant if you so prefer.

Due to leveraging, one can make a huge % gain over time on the little or no deposit paid by using other property or sleeping equity as security.

Provides a home for someone/meets a need.

For many, the long terms gains from investment are their only means of savings/getting ahead.

Even with negatively geared property, at least the tenants are helping you to buy real estate at a price locked in at the purchase date.

Always remember the risks (property down-turn risk, tenant risk, locality risk, natural disaster risk, or pushed your personal financial security too far by over extending).

Creates an interest/activity away from work.

Be involved- by being so you can protect your investment and influence outcomes, meet people and learn new things & skills.

Good example for your kids of what they too can aspire to do."

If I Were A Borrower What Would I Do?

Maybe seek out one of the discounted long term fixed rates appearing in the market to lock up half of my mortgage while having the offer half fixed 1 – 2 years.

OFFSHORE

Worries have grown again about the European debt and political situation in the past couple of weeks, driven principally by worries about a scandal hitting Spanish leaders and the return of Mr Berlusconi to polling presence in Italy. There are elections in Italy on February 24 – 25 which could disturb the current broad consensus of spending restraint and stringent policy implementation in Italy, there is a bail-out of Cyprus to be sorted out, and Euro volatility has been introduced into the equation.

The French President recently called for the Euro to be lowered in order to boost growth and in his monetary policy address last Thursday night where the cash rate was left at 0.75% the ECB President Mr. Draghi made comments which indicate some desired capping of the recently strong Euro. He said that the ECB would "...remain overall accommodative..." and "we will closely monitor conditions in the money market and their potential impact on the stance of our monetary policy, which will remain accommodative with the full

allotment of liquidity provision". What this means is that he is aware of the recent rise in market interest rates and stands ready to act if there are signs that these rising borrowing costs and firm Euro start to retard the recovery in Europe's economy expected later this year. The economy appears still to be shrinking at the moment.

In the UK this week the Bank of England kept its cash rate unchanged as expected at 0.5% but not to restart the asset purchase programme which stopped a few months ago having reached a total of £375bn. The UK economy remains weak with exports burdened by 50% going to Europe, and the government continuing a stringent fiscal austerity programme planned to run through to 2015-16 but which might be extended for two more years. Inflation is currently above the BOE target. But this reflects mainly administrative price changes rather than any capacity or bubble pressures in the economy and it is extremely unlikely that there will be any tightening of monetary policy in the next two years.

Not enough time for more here sorry.

Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.847	0.837	0.842	0.82	0.835	0.67
NZD/AUD	0.818	0.811	0.796	0.785	0.777	0.85
NZD/JPY	79.3	78.1	75.2	65.1	64.8	69.6
NZD/GBP	0.546	0.535	0.524	0.516	0.53	0.388
NZD/EUR	0.63	0.619	0.63	0.645	0.633	0.52
NZDCNY	5.28	5.22	5.23	5.11	5.26	4.99
USD/JPY	93.62	93.31	89.31	79.39	77.60	105.7
GBP/USD	1.55	1.56	1.61	1.59	1.58	1.72
EUR/USD	1.34	1.35	1.34	1.27	1.32	1.28
AUD/USD	1.04	1.03	1.06	1.04	1.07	0.788
USD/RMB	6.2325	6.232	6.217	6.231	6.2972	7.56

Kiwi Up

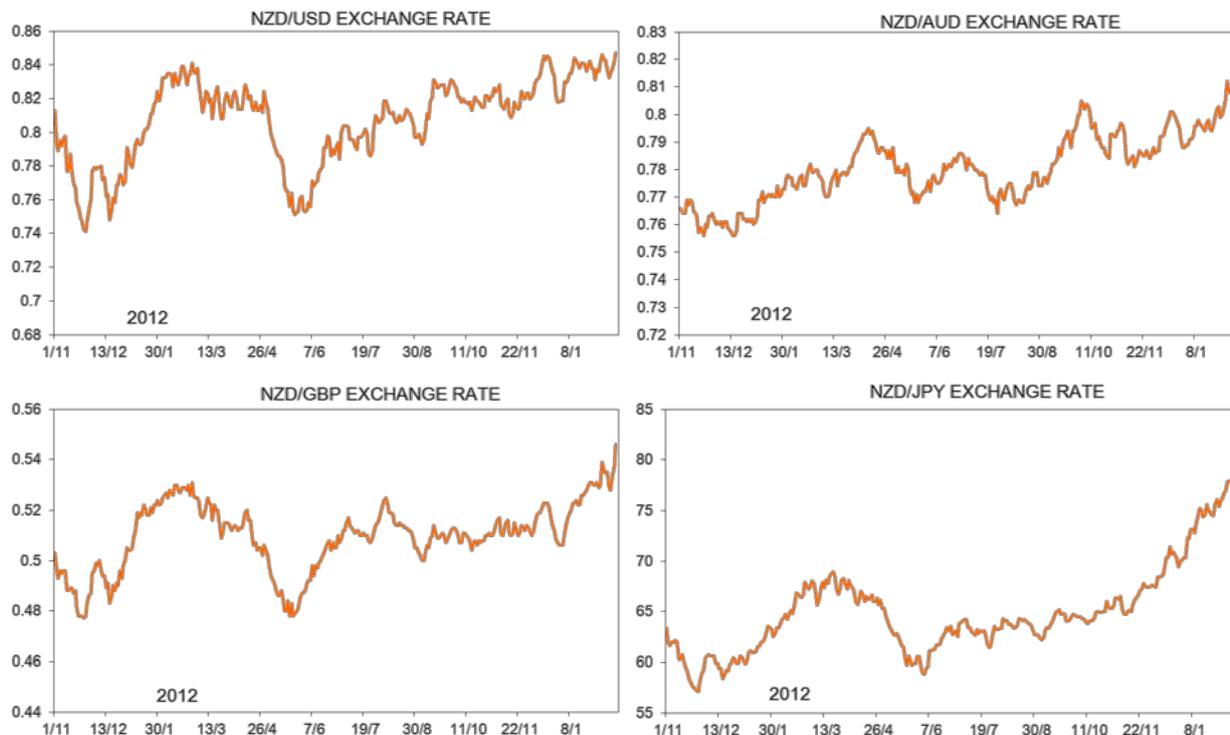
The Kiwi dollar has risen against all the currencies we track above in response to some increasingly positive forecasts being made for the NZ economy on the back of firm housing and retailing numbers, plus perhaps some people wanting to escape the creeping currency war which seems to be settling into place offshore.

Early in the week the Yen bounced a tad against other currencies after the Japanese Finance Minister opined that his country's currency had weakened more than expected. It then sank away again after a communique from the G7 meeting appeared to adopt a stand-off approach to actions by individual countries. However after hitting a 33 month low against the greenback the Yen was bought back up again after a G7 official later said that the markets had "misinterpreted" what the communique intended and that there were worries about "excessive moves" in currencies.

This weekend Group of 20 Finance Ministers and central bankers meet in Moscow and the topic of a potential currency war is likely to be high on the agenda – with a good chance of some sort of joint statement aimed at calming speculation that such a destabilising fight could be at hand.

In their Quarterly Inflation Report the Bank of England revised down the UK growth forecasts to 1% this year and 1.9% next though revise dup their inflation forecasts slightly. The markets sized on the downbeat economic outlook and pushed the Pound down thus taking the NZD/GBP cross to its highest level since the float in 1985. The range of 55 – 60 beckons, as does AUD 85 cents and USD90 cents.

BNZ WEEKLY OVERVIEW



Key Forecasts

Dec. year		2011	2012	2013	2014
GDP	annual average chg	1.5	2.0-3.0%	2.0 – 2.5	1.0 – 2.0
CPI	on year ago	1.8	0.9	1.0 - 2.0	2.0 – 2.5
Official Cash rate	end year	2.5	2.5	2.5 – 2.75	2.75 – 4.25
Employment	on year ago	1.6	-0.5 – 0.5	1.0 – 2.0	0.5 – 1.5
Unemployment Rate	end year	6.4	7.0 – 7.5	6.0 – 7.0	6.0 – 7.0

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 27,000 subscribers each week and is one of a stable of regular releases which include the

- monthly Growing With China publication, <http://tonyalexander.co.nz/topics/china/>
- monthly BNZ Confidence Survey, <http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/> and the
- monthly BNZ-REINZ Residential Market Survey. <http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/> This latter survey provides information from a survey of over 10,000 licensed real estate agents on the current state of the residential property market in New Zealand.
- He also produces a monthly column for the NZ Property Investor magazine, <http://www.propertyinvestor.co.nz/> and
- writes a monthly column for the NZ China Trade Association. <http://www.nzcta.co.nz/>
- Most of these publications plus research into impediments to NZ's economic growth are available on his website. www.tonyalexander.co.nz

Tony Alexander has been Chief Economist at the BNZ since 1994 and apart from publications and advising management spends considerable time on the road around New Zealand making presentations and speaking with the media. He travels to the UK and Europe twice a year to assess economic conditions and present at numerous functions, has five children, tramps, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com

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