

## 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.

## No Change In Views

We've had a few news items in the economic sphere over the past week, but nothing which would make me sit down with a view to potentially altering the views I have on where we are at and where we are headed.

For instance, the long-running NZIER Quarterly Survey of Business Opinion showed a drop in business confidence to a nine year low, and only a net 10% of businesses expecting to see their trading conditions improve in the near future. The ten year average for this measure is about 19% so activity expectations are below average and down from 27% just before the general election.

Asked why they feel the way they do, businesses with bad outlooks largely cited the government. Those with a good outlook put their historically weakish sentiment down to margin pressures, wage costs, and labour availability. So, if you're doing well you are focussing on the challenges we have been at pains to highlight here for a long time – margin management and handling a structural tightening of labour availability. If you are doing poorly then it's not you, it's not the market, but instead apparently it's the government's fault – which probably helps explain why such businesses are doing poorly in the first place. Their focus is in the wrong place.

The survey shows labour availability remains extremely tight and that cost pressures are rising. Will this spill out into the inflation surge and interest rate hikes many have been incorrectly forecasting for eight years now? Probably not, even with the extra pressure from rising fuel costs.

This week we also learnt that house prices are flat to falling in Auckland and Christchurch and that prices are still rising in most other places but at a slowing pace. Meh. There has been a greater than seasonally normal rise in listings however and it will be interesting to see what that does to prices. Probably nothing major in the absence of any of the traditional triggers for

housing market woe – soaring interest rates, recession, rising unemployment, net migration losses. Speaking of which, the annual net migration gain has (as expected) eased a tad further. It stands now at 63,300 from near 64,000 in the year to July, 72,074 a year ago, and an average of 32,500 over the past 10 years. The pace of decline is not rapid but it is likely to continue.

Offshore we have seen some more strong data in the United States and that accounts for expectations that US monetary policy will tighten again in December and two more times next year. It also accounts for the firm US dollar and our own decline against the greenback. In China meanwhile economic data are starting to show some impact from the deepening trade war with the United States. Given China's bad behaviour in the China Seas (illegal territory claims and militarisation), dangerous harassing of ships in international waters, and their (increasingly failing) attempts to establish a Pacific naval base through debt entrapment of a small country, backing down on their part in the trade war does not look imminent. Tariffs on virtually all Chinese goods imported into the US look increasingly likely.

In Australia meantime most economic indicators look good and the Federal Government looks like returning to a fiscal surplus much earlier than anticipated. So spending promises are now coming thick and fast ahead of next year's Federal general election. Loosening fiscal policy and the easing of the Aussie dollar will likely keep growth firm there though shifts in Chinese demand for commodities are likely.

And the 15% R&D tax credit coming in soon? It will mean more business and billing hours for accountants reclassifying expenditure as R&D. But NZ's historical experience and recent experience in Australia tells us it won't lift the low rates of research in NZ.

### If I Were A Borrower What Would I Do?

I personally would be fixing most of my mortgage for three years following the recent cut in that rate. Nothing new in that view compared with the past couple of weeks.

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](http://www.tonyalexander.co.nz)  
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