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27 June 2016

Dear All

Newsletter June 2016

The last time I wrote to you was on the 15 December 2015.

In that publication I summarised Tony Alexander, Chief Economist of the Bank of New Zealand, observations and projections.

The following material covers the period 16 December 2015 to 16 June 2016.

I have only selected material that I believe is insightful, or explains a concept or an event that I believe, and hopefully you do too, is worthwhile understanding.

Because we all receive so much material to read today, I have below indexed the enclosed. You may just want to refer to an issue that you are interested in.

1. **Annual Economic Growth Almost 3% (December 2015)** **Page 2**

2. **The Dairy Industry –** There are two articles about dairying in this newsletter.
The reason why it is so important –

   There are just over 40,000 people employed in New Zealand on farms working with cows or processing the milk. That adds up to 1.7% of all jobs in the country. Dairying however makes up 22% of our total exports of goods and services and that is why the sector attracts so much attention – along with the $38bn worth of debt which accounts for 64% of all lending to the farming sector. Lending to all urban businesses adds up to $89bn, and to households (including to finance rental property ownership $223bn.

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The dairying pain is being felt more and more amongst firms supporting the sector with an extra aggravating factor being new weakness showing up in sheep and beef. But outside of those primary sectors most others are doing quite well. This includes honey, venison, kiwifruit, pipfruit, horticulture and forestry. Wine sales and production are also going well. Then there are the sectors which are booming. Top of the list is tourism with huge rises in visitor numbers and spending spread throughout the country. Construction

is also very firm with a noticeable lift in positive comments from the regions backing up the growth apparent in monthly consent issuance data.

3. **Cost of Banks Borrowing Overseas has Increased (March 2016)** **Page 5**

4. **Migration Nation (March 2016)** **Page 9**

5. **Housing (April 2016)** **Page 10**

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6. **NZ Dollar (December 2015)** **Page 3**

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7. **BNZ Confidence Survey Results (June 2016)** **Page 11**

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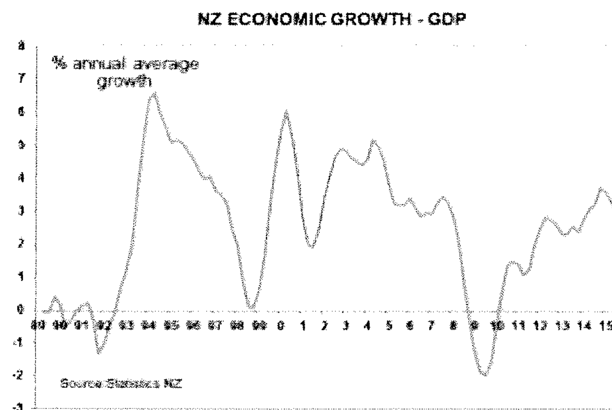
17 December 2015

Economic Growth Almost 3%

Growth in the NZ economy has averaged about 2.5% a year over the past two and a half decades and the latest growth rate revealed this morning was 2.9% in the year to September from 3.2% a year ago. A year from now the growth rate will probably be between 2% and 2.5% with the pace of growth suppressed by the dairying downturn, effects of El Nino, and slower growth in China.



This past year when we look at the gross domestic product breakdown at the industry level we see strong full year growth in retailing and accommodation (you and I spending, tourism), agriculture etc. though milk output now falling), construction, and the hard to gauge IT and science sectors. Mining and wholesale trade shrank.

	Full Year Growth %
Retail Trade and Accommodation	6.7
Agriculture, Forestry and Fishing	6.3
Construction	4.8
Information Media and Telecommunications	3.8
Professional, Scientific, Technical, Administrative and Support Services	3.3
GDP	**2.9**
Rental, Hiring and Real Estate Services (including Owner-Occupied)	2.9
Financial and Insurance Services	2.8
Public Administration and Safety	2.8
Health Care and Social Assistance	2.3
Manufacturing (excluding Food Manufacturing)	1.9
Manufacturing	1.8
Transport, Postal and Warehousing	1.6
Food Manufacturing	1.5
Electricity, Gas, Water and Waste Services	1.4
Arts, Recreation and Other Services	1.4
Education and Training	0.8
Wholesale trade	-0.3
Mining	-1.6

NZ Dollar

For your summer holiday thoughts on the NZ dollar let me offer the following. Compared with the rest of the world we are in very good shape. The government accounts are good, banking system had a good GFC and is in better shape than systems overseas, the economy is nicely deregulated, the political climate is stable, we have no war in our backyard, we have valuable food-related primary resources seen as good investments as Asian incomes rise, our economy is growing near a 2.5 – 3.0% pace, and we have strong population growth.

But where do the risks lie? Both ways frankly because one cannot rule out world growth falling away quite a bit this year. But in the absence of a global recession many other fundamentals are actually quite supportive of the NZD. These include the strong housing market and an economy supported by construction, tourism, services sector growth, and non-dairy exports generally. Booming net immigration is a plus as is the good state of government finances, low current account deficit, distance from deepening geo-political problems elsewhere, and low air pollution which is becoming increasingly a source of concern for growing middle classes in the emerging economies.

Dairy

Speaking of under-performance – dairy. For a number of years now it has been as politically incorrect to say anything negative about the dairying sector as it is to say cats should be killed. (I was jumped on by many 10-15 years ago for predicting a sub-$3 payout.) But thankfully we have been able to slip in a few reality checks along two themes. The first has been an observation from practising economics since the mid-1980s that while we can all generally make some good reasoned predictions about where demand for a commodity will go, we are all completely hopeless at forecasting supply growth – be that for oil, iron ore, coal, LNG, beef, wool, or of course milk. And if you can't accurately forecast both supply and demand changes then you have no hope of predicting prices.

Currently the Europeans in our media are being "blamed" for producing too much milk and depressing prices. But here in New Zealand we have invested in high cost feeding out regimes, pushed into more marginal land, and focussed capital on more and more milk production – rather than avoiding what has been our second theme – not going up the value added chain.

We have failed to radically boost the proportion of our milk going offshore as highly processed high margin items. The usual example is infant formula. To boost value added capital needs to be invested in such things. But that means lower payouts to farmers in the short to medium term. Yet farmers have raised substantial debt to boost production by buying increasingly expensive land and animals so they have made it clear that maximising the payout is everything and capital cannot be retained in any great magnitude to take dairy cooperatives up the value chain. And this will never happen in New Zealand. In dairy all we will ever be primarily is a bulk producer of milk which we dry out and bag for someone else to reliquify or process further.

Why? Because dairy farmers enter the industry taking on the daily challenge of working the land, working with their animals, handling the weather, the pests, the diseases, the regulations, the sheer unpredictability of so many things around them with the aim of extracting maximum milk from the land available to them. (Same as sheep and beef farmers for meat.) And the industry has a great career structure for doing this. Few aim to make enough capital as quickly as possible so they can get their organic infant formula from named animals into Asia. Some do. The vast majority don't. Dairy re-investment occurs almost always back in the land by the farmers, not up the chain.

Under the cooperative structure where someone will buy everything you produce once you are in we cannot rely upon dairy to lead our economy to higher wealth. Or any other commodity which we minimally process. But why then has our economy grown so long on the back of some animal? Because for a long time we were a low cost producer of high quality products. Now we are not so cheap, and other countries are getting in on the game as they try to boost their domestic food security. China has barely started on milk.

But this is not an argument against our primary sector in the end – only a reminder that our farmers survive as a driving force behind our economy because of what drove them to the land in the first place – acceptance of a challenge, willingness to learn as much as possible on the job and proudly teach it to others, and to change land use when the numbers demanded it.

That is the crux of it and the best current illustration is the land being given over to growing manuka bush for bees to feed on to produce high value manuka honey. Exports of honey from New Zealand are now worth $300mn. In same dollar terms that is where the wine industry was in 2002. Wine exports are now worth $1.5bn. Some farmers are also converting to milking goats.

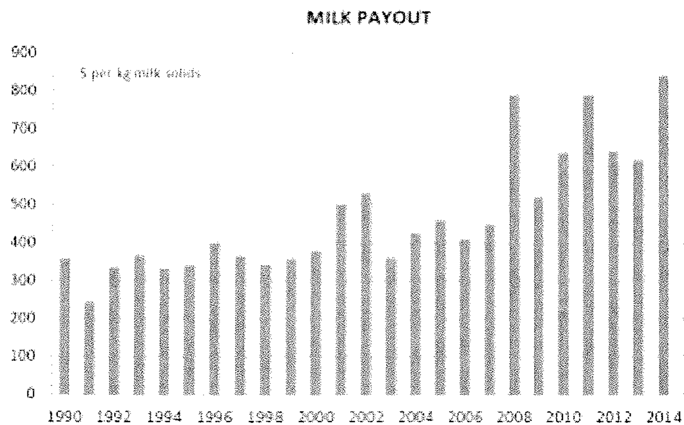
As long as land use can freely change in New Zealand then farming will always be a key part of our economic base, though it won't take us up the OECD ladder and that is why we need the Auckland agglomeration and the talented people developing and implementing new technologies. Only if a government were to ever try and retard that land use change process with artificial support mechanisms would we sink – like in the 1970s up until the painful removal of SMPs. Google it young ones.

And why have I written this? Because for the first time in over two decades whilst speaking at a conference last week of people involved in the animal industry, someone asked if it might be a good idea for the government to help dairy producers with a price support mechanism. Then it happened again at a different session this morning in Matamata.

It would never work because farmers would not give up payout in good times, because no-one knows what average level payout can be accurately assumed for the next decade, because the taxpayer has in the past bailed out farmers who in the 1970s and 80s benefitted from price equalisation schemes set

with prices too high, and because it is necessary in all sectors that when hard times come the most indebted and highest cost units get weeded out. Same as happens in every other sector.

If price stabilisation is important then each farmer could have done it for themselves with a special bank account. The old hands probably did by keeping debt down. They will be the ones buying some of the assets which will come on the market in the next two years. Like they did in 2009, 2003, and 1991.



Cost of Borrowing Overseas Has Increased

The main thing happening in financial markets which is relevant to where interest rates go in the near future is not our Reserve Bank's monetary policy. Instead it is the investor concern about banks in Europe and general global bank exposure to the energy sector which is causing such investors to become far less willing than they were to fund banks. What this means is that it has become more difficult to borrow, say, $500mn for a five year fixed rate offshore. The cost of such borrowing has logically shot up.

Ahead of the GFC the extra cost to Australasian banks of raising such funding offshore rather than at home was about 0.2% or 20 basis points. This spread blew out to 300 points late in 2008 and since then drifted down to around 100 points. But in recent weeks the spread has risen to 125 points and more recently as much as 195 points.

Because we NZ banks still fund just under 30% of everything we lend to you from people offshore the cost of lending in New Zealand is going up even without any tightening of monetary policy or jump in the swap rates which pre-GFC used to always give an accurate guide to funding costs. Now they don't.

As a result of rising funding costs one bank last weekend actually lifted their floating lending rates 0.25% but then pulled them back down again by Tuesday, perhaps because for this first stab at lifting rates "out of cycle" no other lender was prepared to join them. But the signal was sent. The pressure is upward. This increases the chances that the RB will cut interest rates. But if they don't then you may well find both variable and fixed retail interest rates rising in the very near future. One signal may be a round of hikes first of all in term deposit rates.

17 March 2016

Dairying

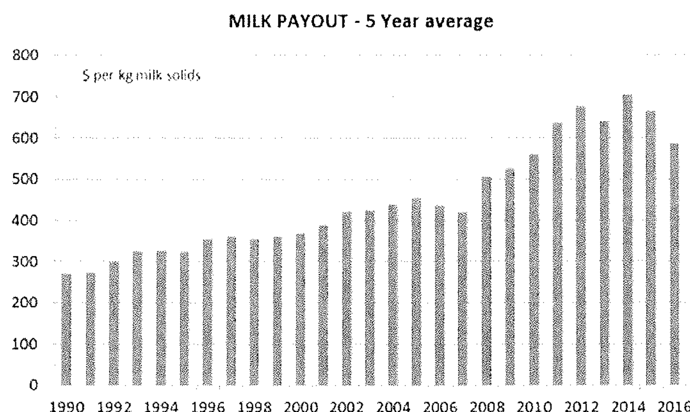
On another issue, media are scouring the countryside seeking dairy farmers upset at their banks during this time of stress. Memories run deep of the farming sector rout in the 1980s when farmers were hit by the combined effects of a high exchange rate, high interest rates, and removal of subsidies which had encouraged over-investment and over-production.

But the memories of those times and other periods run deep amongst bankers as well and since then practices related to handling businesses in trouble across all sectors, not just farming, have vastly changed. The monitoring by banks of client accounts and financial positions is far deeper and more frequent than ever before as most borrowers and accountants could attest, with one aim being to allow the early identification of problems and to work with the borrower to develop plans for handling issues as soon as possible. There is no desire simply to let the rot set in then force a sale of the business somewhere down the track.

Will there be forced ownership changes of dairy farms? Yes there will and there even was when the payout was $8.40. But it is often not the financier doing any forcing but rather mates, accountants, farm advisors, equity partners and family members reaching the unfortunate conclusion that the extent to which outflows exceed inflows cannot be offset through attracting new capital. Same as in every other sector. In fact the even more unfortunate realisation eventually arrives that the operation's growth in recent years should probably have been funded with capital rather than bank debt and the decision to use debt rather than get others to share the profits was not optimal. This scenario of decline through choosing to use debt rather than extra capital or choosing to self-fund growth at a slower pace is the same as in every other industry such as house building, forestry contracting, computer servicing, electronics retailing, women's clothing retailing and so on.

The dairy sector has been seen by many here and overseas to be a highly profitable one with huge growth potential based around rising demand from Asian countries. No-one probably ever seriously tried to convince anyone that their crystal ball made them certain about what prices would be in coming years, and some of us well over a decade ago proved we cannot forecast the payout. But now we have proof not a single person can predict dairy prices – and the same goes for oil, coal, iron ore and so on.

To get a feel for why the dairy sector boomed recently consider the impact on people's willingness to gear up and expand based upon what happened with prices. In the graph below we show the five year average Fonterra payout from 1990. Note the steady rise over time which accelerated after the global financial crisis assisted by rising demand from China. The latest projected payout of $3.90 is just two-thirds exactly of the five year average.



Assumptions always have to be made about what revenue from a business will be thus payouts have to be assumed and as it turns out those assumptions were too high. Why? Only partly because demand has surprised on the weak side from China since just under a year ago. Mainly it is because of the factor we have highlighted increasingly in recent years.

All of us can take a reasoned and probably reasonable view on where the demand for a commodity will go. But we seem all equally appalling at picking what will happen with supply. We have a tendency to assume few other people have seen the demand growth fundamentals we have. And when industry participants start to realise that their supply growth assumptions are proving too low, that is when a rapid price change can occur and that is what has mainly happened in the oil and dairying sector.

Three years ago most of us simply under-estimated by how much production would rise in the likes of the European Union and United States. Now the altered supply assumptions have been factored in and price expectations have been slashed. This is hitting our previously rapidly expanding dairy sector hard for a number of reasons.

First, the pace of expansion has naturally meant higher dairy farm expansion and set-up costs than would be the case if recent production system growth had been spread over a longer period of time. Debt levels have grown rapidly to fund this accelerated burst of growth. That is what debt does – it allows an acceleration in growth. But it comes at a cost of heightened exposure to shocks.

Second, related to this, farmers have been reluctant to fund their growth with capital even though all operators would know someone who in the past had to sell their farm to another farmer because they could not service their debt. Kiwi businesspeople suffer from an unwillingness to use outside capital to fund their growth because it leads to some loss of control over all decisions and sharing of the gains. There has been a preference in farming for rapid growth to be funded by debt rather than equity.

Third, any expanding agricultural sector naturally moves into less productive land so marginal production costs tend to be higher than for existing operators.

Fourth, there appears to be a problem for the dairy industry understanding the difference between marginal cost and average cost and this has led to the adoption of production-boosting supplementary feedout systems which either reduce profits or fail to boost them for 90% of operators according to a study released last year. Every extra pint of milk produced these past few years has gone into the production of low value milk powder sold in big bags to bulk buyers. No extra milk has been needed to produce more value-added products. This is a key failing of the cooperative system.

Fifth, dairy farmers want maximum payout and do not support retention of capital by their cooperative to move rapidly up the value-added chain to get to where the best dairy sector returns lie – off the farm. In fact milk suppliers have made it clear they also won't accept moving up the chain if funded by outside capital. Their growth focus is almost solely physically on the farm which surrounds them and that focus remains today the same as it has always been – maximising production. This is like a factory contracting out consultants to sell their toasters but reinvesting all earnings in producing more and more of the same toasters from more and more factories rather than investing in high priced heavily branded toasters which give nutritional advice, display updates on bread shape and colour as toasting occurs, and can untoast bread should one leave it in too long.

Land prices are falling as a result of the dairy downturn and they will keep falling for the coming year, but getting data on the extent of changes in farmland prices is notoriously difficult as no two pieces of ground are the same. But prices start from high levels and as we have highlighted for a few years now, the world is awash with money looking for a home. That money is increasingly willing to accept low yields, and that money is increasingly looking further afield and in the case of many Asian investors is seeking exposure to the agribusiness sector to benefit from rising food consumption sophistication in Asia. Thus falls in land prices are likely to be limited this time around as there are many willing buyers and that will help mitigate the pace of farm ownership changes.

In fact, while all the media attention is on farmers who have overexpanded in recent years and raised their production costs, there are plenty of old hands who have taken on board the message that debt is dangerous and constrained their growth. Some of them, now sitting on good cash reserves, will be willing purchasers of some of the farms which will come on the market. But only if the land is good. The properties which have been developed on marginal land in recent years may find very few buyers and they will suffer the greatest price declines as they revert to running sheep and beef or manuka for honey production. Golden gold, as opposed to white gold or the original black gold.

Does the dairy downturn need addressing with government legislation preventing banks from foreclosing in extremis? No, and were that to happen the long-term impact on the farming sector would be quite radical. Deprived of the backstop of protecting bank capital through having the ability to force a change in farm ownership to bring in extra capital banks would not be able to lend as much into the sector as has been the case and where lending would occur the cost would be higher to reflect the loss of that protective backstop. The farming sector would end up less indebted which would probably be a good thing, but immediate growth would cease as credit would have to be actively reduced across all dairy and non-dairy sectors to reflect the change in riskiness of farm lending.

Does the weakness in dairying justify a debt-funded infrastructure spending boom to boost economic growth as some commentators have suggested? No. The construction sector is already booming and does not have capacity to handle a swathe of new Think Big projects, and most non-dairy exporters are doing well – especially tourism operators and education providers. Plus any spending surge means more debt and as so many countries have shown us there are high dangers for governments in running high debt levels – absence of ability to insulate an economy when true big shocks come along, and diversion of revenue toward debt servicing rather than other projects. Plus, as we have been at pains to point out for so long now, while dairying may be weak other sectors are going gangbusters and it is factually incorrect to claim as some commentators are that everyone is suffering in New Zealand.

Even as it cut the cash rate last week the Reserve Bank predicted growth in each of the coming two years of over 3%. That is hardly an environment requiring a new splurge in government debt and probably dubious rushed construction projects.

Will there be dairy sector pain for many in the coming two or three years? Yes there will and that includes the non-dairying farms which have traditionally produced feed for dairy farms and are now switching to running their own stock, and companies which service and supply the sector, whether or not their payment terms are being stretched out to a three months.

But when can we expect prices to improve? Given that no-one has displayed an ability to accurately forecast prices for dairy products, oil, coal, and interest rates even there is no basis for believing any forecast of prices rising back to average levels in any given time period. Just look at Tuesday night's Global Dairy Trade auction which produced a 2.9% fall in the average indicator whereas all

expectations ahead of the auction had been for a small price rise. Forget forecasting the next five years. We can't forecast ahead 12 hours.

But if you really do need a forecast then I suggest this exercise. You will need to do it yourself as I have not made a payout forecast since getting one wrong many years ago and won't restart now. Go to the graph on page 6 showing the five year average payout from 1990. Pick up a ruler and draw a trend line through the tops of the bars running from 1990 to 2007. See where that ruler hits the scale at the far right. That is what the trend suggests is a reasonable expectation for the current average payout, and if you extend the time scale a tad to the right you can generate an estimate of the average payout for the coming five years ending in 2021. (Hint, draw a vertical line down from where the text ends on the far right in the line just above the graph to get a 2021 vertical end point.) Looks only just above the current much-cited average break-even payout doesn't it?

23 March 2016

Migration Nation

There was a lot of commentary this week following release of the monthly International Travel and Migration data by Statistics NZ. The data show that in the year to February there was a net migration gain of 67,400 people or 1.4% of the population compared with a 1,100 gain three years ago and 20 year average of 10,000. The impression given was that this surge in the net migration gain is due to lots more foreigners coming into the country and that they are taking our jobs and pushing up house prices.

Firstly, there are more people happy about house prices rising than there are unhappy. Second, lets have a look at what has caused the 66,000 turnaround in the net flow since early-2013. The gross inflow back then was 86,000 now it is 124,000. Thus 38,000 or 58% of the change is due to more people coming in. The other 42% or 28,000 is fewer people leaving New Zealand.

Of the extra 38,000 people coming in 9,000 are Kiwis and Aussies exercising their legal right to hop between our two countries. Another 14,000 are extra students coming to study here and contribute to the $3bn+ in exports we gain annually from the export education sector. That leaves a true foreigner migration increase from levels of three years ago of just 15,000. Of that 13,000 extra people have come in on work visas to undertake tasks such as rebuilding Christchurch and to supply skills which we are lacking sufficient depth of in New Zealand. Their presence has occurred over a time when the unemployment rate has fallen from 6.3% to 5.3% and 174,000 net extra jobs have been created.

If the government responded to calls for the net inflow to be slashed, perhaps back to the long-term average of 10,000, then in the past year a net flow of 56,000 people would have had to be stopped. The government can do nothing about the people choosing to leave, some 57,000 this past year, so they would have to stop 56,000 of the 124,000 people coming in. Since 36,000 of these are Kiwis and Aussies that means taking 56,000 out of the 88,000 foreigners.

So who do you tell to bugger off from this list of visa categories?

- 14,000 Residence
- 28,000 Students
- 39,000 Work
- 6,000 Visitors
- 1,000 Other

Refuse the students and you reduce export earnings. Refuse the workers and you deny businesses the ability to grow, function, and perhaps remain in New Zealand. Deny the visitors and again you hit export earnings. Deny people coming as residents, family linkages, and you renege on rules which were in place when earlier migrants were accepted saying they could bring family members with them such as a spouse and one's children.

In a nutshell, the surge in net migration inflows from three years ago to 67,000 from 1,100 has been driven by 28,000 fewer people leaving, an extra 9,000 Kiwis and Aussies leaving a weakened Aussie economy, and 14,000 higher student numbers. Only 15,000 of the 66,000 three year net inflow surge is true foreigners coming to live here.

7 April 2016

Housing

Here are our main housing themes

- Auckland's market has ended a pause and is now going up again underpinned by a worsening shortage of property.
- Regional markets are well underpinned by investor demand and that is propelling more construction which in some smaller lifestyle-like centres will eventually lead to excess supply.
- Falling interest rates will encourage more investors to seek property assets while having little impact on already outbid young buyers. A new wave of out bidders is coming.
- Construction costs will keep rising with the latest extra costs coming from better health and safety regulations.
- The Reserve Bank will soon again warn about housing and get closer to using non-interest rate controls in the regions – e.g. a 30% investor minimum deposit requirement.

NZ Dollar

If the NZD were going to drop lower on the back of dairy prices falling away it not only would have done it by now it probably already has done so given that the USD rate near 68 cents is 20 cents lower than the rate almost two years ago. First point. Second point, the commodity price link exists on the basis that reduced export receipts mean reduced demand for the NZD (to be converted from other currencies). But the NZ current account deficit is sitting at only 3.1% of GDP which is below the average for the past two decades of 4.1% of GDP.

On this basis, if anything, the NZD should be above average (if you believe trade flows are the main currency determinant, which they are not). So what are the 20 year averages and where do we sit now?

	20 Year Average	Current Rate	Difference
USD	66	68	2 cents above average
AUD	85	90	5 cents above average
JPY	70	75	5 yen above average
GBP	0.40	0.48	8 pence above average
EUR	0.54	0.60	6 centime above average
TWI	69	72	3 thingies above average

The NZD is above average, by about 4.5% on a trade weighted basis. That is not much considering the below average current account, and considering

- interest rates still above levels offshore
- the good state of our economy compared with economies offshore,
- the stable political situation in NZ compared with the crumbling European project, approaching potential Brexit in UK, frightening presidential contest in the United States, potential early election in Australia, and failing key economic policy for the Japanese Prime Minister.

Frankly, the NZD looks undervalued.

2 June 2016

Housing
Why homes are increasing in value

1. strong population growth is exceeding housing supply,
2. interest rates are at record lows so borrowing costs are minor and returns on the simplest of non housing investments extremely low, is means even land-banking is cheap,
3. people are living longer so preparing a wealth base,
4. older people are splitting up and needing two houses,
5. the population is aging thus also naturally requiring more houses as bedrooms sit empty – perhaps ready to accept tourists using Airbnb,
6. council rules make building a new house expensive,
7. central government keeps raising building standards and costs,
8. we Kiwis like expensive bespoke houses rather than little boxes on a hillside which we look down our noses at (our snobbery goes both up and down in the same people),
9. an oligopolistic industry structure keeps building material costs high,
10. we Kiwis seem to suck at building houses which pass inspections and don't leak,
11. most of us live in NZ for the nice leafy yard lifestyle rather than making big bucks (overseas) so we actively prevent housing intensification,
12. people are "catching up" on buying they did not do from 2008 until recently as they sat listening to people in the world of "should" expecting prices to fall 40%,
13. there is a shortage of skilled tradespeople needed to build extra houses,
14. investors have flooded out of Auckland seeking better yields and smaller mortgages as they do every cycle,
15. few people seriously believe the government and central bank have the tools to flatten house prices let alone cause them to correct downward to more "affordable" levels,
16. people are being driven by FOMO (fear of missing out) to buy as quickly as they can,
17. some are driven by housing investment seeming to have become the social norm with pictures of happy investors looking just like you and I,
18. Auckland is changing from looking like many Invercargills in one place to being a globally connected world city.

BNZ Confidence Survey Results – June 2016

Strongly Positive Industry Comments Abound
Our Latest BNZ Confidence Survey reveals a distinct lack of pessimism regarding how various sectors are tracking at the moment. Even in dairying where farmers are adjusting to lower incomes there has been a very noticeable pullback in negative comments compared with our last survey. Across many

sectors employers are finding it difficult to source skilled staff, especially construction and engineering.

In residential real estate stock shortages appear to have worsened. In Auckland two surveys ago negativity reigned. Last survey respondents noted things were improving again. This survey activity appears to be back to where it was well before new restraints were put in late last year.

The tourism and construction stand out as being particularly strong.

With regard to specific sectors the following broad comments can be made.

Accountancy
Very busy all around the country but spots of weakness in client accounts.

Advertising and Marketing
Strong but with a lot of competition and many changes.

Business Consultancy and Services
Busy for the majority of operators in this sector.

Construction and Construction Related
A boom is underway in most of the country though with a hint of easing in Christchurch. Finding labour is very difficult.

Engineering
Related to construction and therefore also booming but with deep shortages of skilled people.

Farming
Highly mixed, but the noticeable thing from last survey is an absence of dire comments in the dairying sector. Farmers appear to be knuckling under and adjusting to the current reduced payouts and expectations of less easy times long-term.

Financial Services
Activity is busy currently.

Forestry
Five comments, all positive. The sector appears to be trucking along okay though not booming.

Horticulture
Another bright spot for the economy – Kiwifruit, avocadoes, flowers, grapes.

Hospitality
In line with the official Statistics NZ data, comments from operators in the hospitality sector also show strong conditions.

ICT – Information Communications Technology
A hugely diverse sector which we economists don't often talk about because of the diversity of outputs and lack of data series. Conditions appear good.

Legal

Busyish as seems to usually be the case.

Manufacturing
Operators seem to be quite busy, especially those associated with the construction sector.

Property Development
Reports of things being very busy in Auckland, Queenstown, Manawatu, Mangawhai, Dunedin, Kapiti.

Property Management/Investment
Rents rising firmly with strong tenant demand in Wellington, but negative reports for Christchurch and Auckland showing signs of a rental over-supply in some areas.

Property – Non-residential/Commercial
Very strong everywhere it seems. Yields falling amidst firm investor and tenant demand.

Residential Real Estate
Stock levels are cited as low in Auckland, Tauranga, Christchurch (some price ranges), Bay of Plenty, Hawkes Bay. Not in Palmerston North. Prices appear to be rising everywhere. A common comment is that potential vendors are reluctant to sell until they have bought elsewhere – thus sales are constrained. Auckland investors are evident in the regions and low-priced properties are being priced out of the reach of low income earners. Auckland comments are noticeably a lot more positive than in our December 2015 survey http://tonyalexander.co.nz/wp-content/uploads/2015/12/BNZ-Survey-Results-December-2015.pdf and consistent with the many respondents in our March 2016 survey http://tonyalexander.co.nz/wpcontent/uploads/2016/03/BNZ-Survey-Results-March-2016.pdf noting that Auckland was starting to pick up again.

Retail
Fashion retailers hit by warm weather. Tourist centres very strong. Elsewhere generally firm and ahead of last year.

Tourism
Very strong conditions for most operators.

Yours Faithfully

Richard J Power