

# 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-l8plokSGWgjN\\_7WOAw](http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN_7WOAw)

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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](mailto:tony.alexander@bnz.co.nz)

## Confidence Survey Time

If you have not already done so using the link in the email please feel free to click on the url here and complete the short BNZ Confidence Survey. Results will be released before the end of Monday.

<http://feedback.bnz.co.nz/surveys/Fi8Go-yFGEu0bwjPu5Waww>

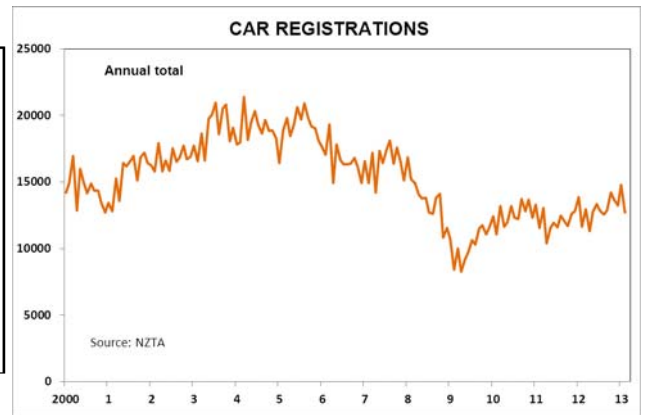
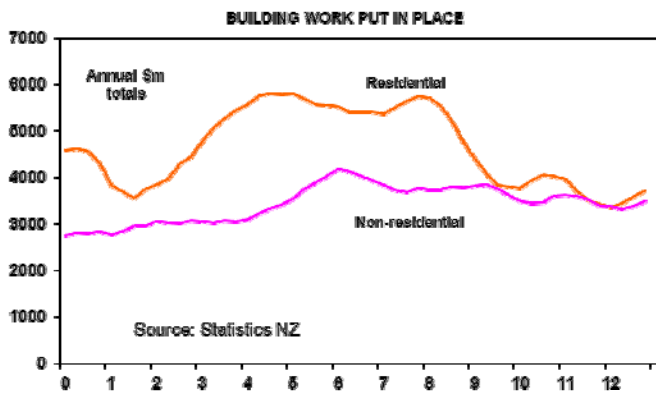
## Visiting Singapore

I shall be in Singapore over the coming week checking out their economy, links with China, and using up accrued leave. I've already arranged a number of appointments but if you are there and would like to catch up please drop me a line.

I've no lead article as such this week (but do have three pages on the housing market) but it is worth noting that the drought which is spreading across the country is another factor likely to stay the hand of the Reserve Bank until next year. That means that outside probably the smaller rural towns the increased period of time during which NZ mortgage rates are at multi-decade lows will spur house price rises in the main centres at a greater pace than if there were not a drought.

## The Week's Data

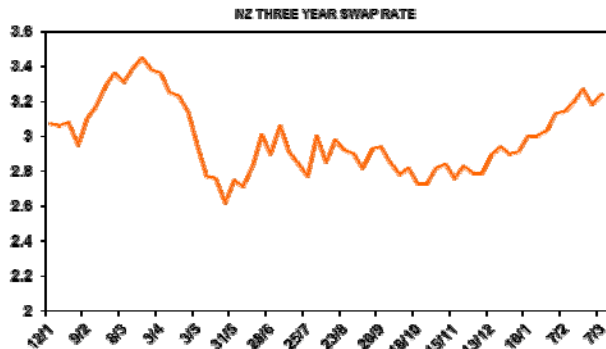
During the week we learnt that in the December quarter the volume of building work undertaken rose 1.8% seasonally adjusted after gaining 9.8% in the September quarter. Activity was 13% ahead of a year ago with residential work up 14% and non-residential 12.1%. So the construction sector in the NZ economy, which usually accounts for around 7.3% of GDP, is rising firmly and set to be a driving force for growth over the next three years due to the rebuilding of Christchurch, catch-up house construction in Auckland, and lots of water tightening and earthquake strengthening.



We also received one of the smaller indicators of business investment in the form of commercial motor vehicle registrations. In February these regos were 37% ahead of a year ago and up 24.3% for the full year. So some fairly strong growth is underway.

## INTEREST RATES

Nothing too major has happened with regard to interest rates this week whether one is speaking about offshore or here in NZ. The chances remain slim that NZ interest rates will rise in the next few months and the most likely timing for a rise in the official cash rate is either very late this year or more probably in the first half of 2014 when one takes into account the restraining effect of the drought.



### FINANCIAL MARKETS DATA

	<b>This week</b>	<b>Week ago</b>	<b>4 wks ago</b>	<b>3 months ago</b>	<b>Yr ago</b>	<b>10 yr average</b>
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.68%	2.67	2.66	2.67	2.76	5.7
1 year swap	2.85%	2.81	2.81	2.69	2.92	5.8
3 year swap	3.24%	3.18	3.13	2.79	3.36	6.1
5 year swap	3.57%	3.52	3.43	3.11	3.82	6.3
7 year swap	3.86%	3.76	3.74	3.43	4.19	

## HOUSING MARKET UPDATE

### The Housing Ball Gets Rolling

And so the housing market ball is now well and truly rolling and this is now the fourth housing cycle I will experience as a practicing economist in New Zealand. There is increased media interest in the rising market and I did both TV and radio interviews on the issue in the past week centred around frenzied buying, offshore demand, and possible measures to cap and maybe even push prices lower. One commentator noted that the government would not want to go into next year's election with high angst regarding home unaffordability. Actually, there are a lot more people who want house prices to rise than there are wanting them to fall. Or to put it another way, governments probably don't want to go into an election having taken measures which make people feel poorer.

More significantly however, proposals to reduce prices by freeing up land and cutting building costs are unlikely to have the results many people seek. Firstly, few people are interested in further urban sprawl in Auckland given the poor public transport system. Second, there is no shortage of land in most regions of the country outside Auckland. Even in Christchurch there is a lot of land available to build on – yet prices still rise. Third, not everyone in fact believes there is a shortage of land in Auckland. In the opinion of NZ Mortgages and Securities principal James Kellow in a Sunday Star-Times article this week there is not a shortage of land but a shortage of developers and financiers.

Fourth, building material costs reflect the style and size of the houses we like to build, and the ever tightening standards which get applied for construction – insulation, water-tightness, inspection frequencies, earthquake standards etc. There is no magic wand which one can wave to make prices of 4 by 2 or gib go lower. In fact construction costs will only rise in the next few years due to labour shortages across the construction field.

And then there is the issue of whether this is really a bubble which we have entered. I think not - yet. In a true bubble debt growth in the household sector would be a lot more than the 0.4% a month we are currently seeing. Second, in a bubble one would expect to see the entire spectrum of the housing market rising but that is not (yet) the case. Partly this is because for the upper end to move you need a lot more business profitability for the SME sector which is something we do not yet have in the economy.

What we have is simply a reinforcement of the realisation which set in about 15 months ago that there is a fundamental shortage – especially with some five year's worth of young buyers now entering the market to make the purchase they should have made in 2008, 2009, 2010, 2011, or 2012 but did not because people told them house prices were going to fall sharply – simply because various measures showed them to be over-valued.

And to repeat the comments made recently regarding the imposition of maximum loan to value ratios. If you impose a minimum deposit of 30% say many young buyers will be immediately excluded from the market. Those still committed will take on higher costing second mortgages or unsecured loans. Investors will shift from buying \$900,000 properties to chasing \$600,000 ones and again first home buyers will face higher competition in their price bracket. Plus, not everyone buys with a mortgage and the anecdotes suggest many overseas buyers pay cash.

Therefore minimum deposit rules would favour foreign buyers unless foreign purchase rules are introduced. To whit....

### Australian Foreign Purchase Rules

These are the rules as I understand them for buying a property in Australia. If you are an Aussie, a Kiwi, or anyone else with residency you can buy what you want. If you are an outright foreigner then you may not buy an existing house. However you may get a new house built. In this way the residential purchase rules applying to foreigners act to boost the supply of housing across the Tasman. In the context of a housing

shortage in New Zealand that would seem like a good idea. In one week we should have data which can inform public debate about this issue. To whit....

### A Message To Real Estate Agents

On the evening of Monday 11 March you will be sent the usual link for completing the monthly BNZ-REINZ Residential Market Survey. There was a great response of 572 people last month and that means we can make some fairly strong statements with regard to the true strength of real estate activity in the country's different regions and overall.

As noted in the past couple of weeks, for the next survey we shall be asking better questions than we did in February with regard to where overseas buyers are coming from. On top of the usual questions about Open Homes etc. we shall also ask these three and repeat the "Where are offshore buyers coming from?" question.

- What proportion of your sales are to first home buyers?
- What proportion of your sales are to investors (regardless of source)?
- What proportion of your sales are to offshore buyers?

We will also ask whether the offshore buyers are planning to shift to New Zealand.

When we get the results in we will then be able to see to what extent the many anecdotes regarding foreign buyers are true or not. Therefore if you are a licensed real estate agent reading this be sure to respond to the survey this month (and following months) as the responses will be very important with regard to New Zealand's increasing integration with Asia in particular and how this integration will affect us in many ways.

The challenge to us Kiwis is to move beyond myopic Yellow Peril thinking to figuring out how we can best make money out of the boom in Asian economies and the centre of global economic activity shifting from the North American-European axis to our doorstep of Asia for the rest of the history of this planet.

Hence,

- my monthly publication introduced last year, 'Growing With China' <http://tonyalexander.co.nz/wp-content/uploads/2013/02/GWC-February-2013.pdf>
- my paper last week "Sources of Western Apprehension About China" <http://tonyalexander.co.nz/wp-content/uploads/2013/02/Sources-of-Western-Apprehension.pdf>
- trips offshore and particularly to Asia (I will be in Singapore for the next week and a bit),
- attempt to better connect the NZ business community with our many skilled (and far better than us internationalised) expats via 'Brain Gain NZ' <http://www.braingainnz.co.nz/>
- and attempt also to raise awareness of some of the challenges which our business culture throws up when it comes to engaging with Asia in particular – a special section in BGNZ.

But also, it is entirely possible given the worsening home affordability problem in Auckland in particular that legislative changes may be needed – not just in New Zealand but in other countries as well.

<http://www.propertyobserver.com.au/china-watch/chinese-real-estate-listings-portal-juwaicom-expands-european-property-coverage>

"Juwai.com co-founder Simon Henry says the pool of high-net-worth individuals in China will expand at a 20% compound annual growth rate over the next three years.

"One-third of Chinese millionaires have assets overseas. They have a voracious appetite for overseas property investments."

### Chinese Buyers

An emailer noted this.

“And it’s not just Auckland where Chinese clients are buying property. We are spec building in Johnsonville, Wellington, and traditionally spec building means you complete a house, then sell it. Now we are lucky to get foundations completed before we have a buyer on it.

Of the 7 we completed last year we sold all but one to a Chinese family, which was sold to an Indian family. As one client of a 190m<sup>2</sup> home built on two levels on a 250m<sup>2</sup> site said, “ I am 35, until I was 30 I never lived lower than the 24th floor and I had to change countries to achieve that. I have a freehold home here in NZ financed in China, my parents live upstairs and I can walk out onto my own grass at ground level and have two cars in my own garage. You can even get abalone inside harbour! – yes I am happy”

The 10 sites we have under construction at present are all sold – only two have been sold to non-Chinese, but still Asian buyers. The 9 sites we have in planning; we are already receiving enquiries from ... (insert any nationality beginning with Ch)”

### Barfoot and Thompson February Data

Auckland-based real estate firm Barfoot and Thompson in February sold 892 dwellings in Auckland which was a 17% rise from a year earlier and brings a rough seasonally adjusted change for the past three months of -1%. So sales growth is showing signs of stabilising. The median dwelling sales price crept up to sit 12.7% higher than a year ago at \$604,000 from \$601,000 in January.

The number of new listings received during the month was 1,752 which was a 13% rise from a year ago – a growth rate consistent with the past few months on average but much less than January’s 40% annual rise in listings. The total stock of listings at the end of February stood 19% down from a year earlier at 3,988. In fact you have to go back to 1996 to find a lower end of February stock. The February 2011 stock was 6,053 and 2009 6,247.

Therefore unequivocally one can say that the supply of dwellings is very very low and as listings in February have on average risen 257 from January and as this year’s rise was 225, the gain in stock from 3,763 at the end of January is normal and not a sign that supply is increasing.

### One First Home Buyer’s Learning

One emailer noted this during the week.

“I have recently had a dinner with some real estate agents who told me that some of the agents on the market, seeing that the buyers are "first home" buyers, start telling them that there is a multi-offer on the house and they try to bump up the price as the first home buyers go through this for the first time and do not know what to expect. I think it is very unfortunate if some of the agents behave this way and it could potentially be one of the reasons why it is so expensive to buy the first house besides having or not having the deposit.

In 2010 when we put an offer on the house we faced the same thing where it was our first home and our offer was the asking price. The agents came back to us saying that there were multiple offers and if we wanted to get it needed to put an extra 10k at the top. We refused that and ended up buying the house at the price that we asked. What we found out later on by meeting other real estate agents and becoming friends was that the house we put an offer on was not even listed on the market at the time - let alone having multiple offers.....

So going back to Auckland, looking through some sites there are definitely some houses that are affordable but they are usually in South Auckland.... is Auckland considered unaffordable because 1st home buyers don’t want to live in the south side ?”

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

No change. I would look for discounted long term fixed rates and place half my mortgage there while keeping the other half floating and in 1 – 2 year fixed rates which is where the competition between lenders is most fierce.

## OFFSHORE

The developing theme with regard to Europe at the moment is of things getting worse. This comes about as a result of the Italian election outcome and recently weaker than expected data. For instance, the Euro-Zone unemployment rate climbed to 11.9% in January from 11.8% in December and 10.8% a year earlier.

In contrast to Europe, in the United States the economic data continue to come in on the positive side. For instance, the University of Michigan monthly consumer sentiment gauge was revised up in the final February reading to 77.6 from an earlier estimate of 76.3 and January's outcome of 73.8.



The ISM manufacturing gauge improved to 54.2 in February from 53.1 in January to sit at the highest level since a reading of 55.8 in June 2011.

But on the fiscal policy front things continue to deteriorate. The inability of President Obama to follow up his tax raising package of a few months ago with another version acceptable to Republicans who want only spending cuts has forced him to sign into law some US\$85bn worth of spending cuts known as the “sequester”. The cuts will be followed by more automatic reductions according to a deal worked out in 2011 as both major parties failed to reach agreement on how to cut the deficit over time so signed up to a radical \$1.2tn reduction package they expected would force clear heads to formulate a steady and achievable reduction path in future negotiations. But that strategy has failed and so growth forecasts for the US are now being revised downward with the current round of spending cuts expected to take as much as 0.5% off US growth this year. Note that the \$85bn in cuts amounts to just 2.4% of US Federal Government spending.

In Australia the economic data continue to show an economy growing and although the odd weak number has been leading to renewed speculation of the RBA cutting interest rates again, yesterday's better than expected release showing December quarter GDP growth of 0.6%% has largely put those expectations to rest. The economy grew by 3.1% for calendar 2012.

## Exchange Rates

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.828	0.825	0.837	0.831	0.812	0.67
NZD/AUD	0.809	0.808	0.811	0.792	0.77	0.85
NZD/JPY	77.7	75.8	78.1	68.4	65.6	69.6
NZD/GBP	0.551	0.545	0.535	0.518	0.517	0.388
NZD/EUR	0.638	0.629	0.619	0.641	0.619	0.52
NZDCNY	5.15	5.14	5.22	5.18	5.13	4.99
USD/JPY	93.84	91.88	93.31	82.31	80.79	105.7
GBP/USD	1.50	1.51	1.56	1.60	1.57	1.72
EUR/USD	1.30	1.31	1.35	1.30	1.31	1.28
AUD/USD	1.02	1.02	1.03	1.05	1.05	0.788
USD/RMB	6.218	6.227	6.232	6.2282	6.3153	7.56

### Back Above 55 Pence

The Kiwi dollar is little changed against the greenback from a week ago. But because the USD has been boosted by positive data, deepening worries about Europe, and strong performances in sharemarkets we are higher on all the crosses – except against the Aussie dollar.



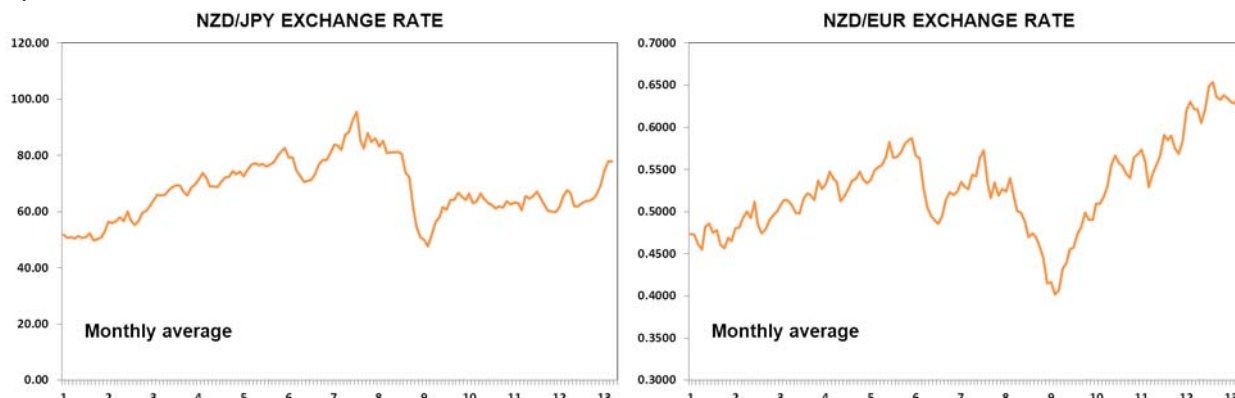
While one can write many pages about the little blips up and down in the NZD and other currencies on a weekly basis, apart from those trading currencies or looking for opportunistic hedging levels the best approach when discussing exchange rates is to stick with the big picture. For the US dollar that picture is one of downward pressure from money printing, but upward pressure from the improving US economy, rising sharemarket, and flows of funds out of the Yen, Euro, and Pound. Those latter three currencies are being depressed respectively by money printing and an unspoken low Yen policy, poor political and economic factors, and for the Pound weak growth and association with the moribund Euro.

In contrast here in New Zealand we have accelerating growth coming from the domestic economy, interest rates likely to rise before they move upward offshore, and some reasonable levels for major export commodities – though not all of them.

The fundamentals suggest a rising NZD this year so exporters might want to take advantage of the sometimes short-lived periods of weakness to boost their short-term hedging.

With regard to picking when and at what levels the NZD will peak and how quickly it will decline – caution is highly advised. No-one I am aware of has a record of success in picking NZD peaks – whether the level or the timing – and picking the decline on the other side is essentially impossible. The risk is that as the world continues to suffer the after effects of the credit boom in the 2000s and the GFC, not only will predictability of all financial variables be a lot less than during the 1980s, 1990s, and 2000s (and predictability then was

poor), but risks of shocks are higher. That is because of the extraordinary role being played by central bank money printing exercises and the very low probability that withdrawal of the extra cash will happen in an optimal manner. Be careful out there.



### Key Forecasts

Dec. year		2011	2012	2013	2014
GDP	annual average chg	1.5	2.0-3.0%	2.5 – 3.0	3.0 – 3.5
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	1.0	1.0 – 2.0	1.5 – 2.0
Unemployment Rate	end year	6.4	6.5 – 7.0	6.0 – 7.0	5.5 – 6.0

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 27,500 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 Brain Gain NZ publication <http://tonyalexander.co.nz/topics/brain-gain-nz/>
- monthly BNZ Confidence Survey, <http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/>
- monthly BNZ-REINZ Residential Market Survey. <http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/>
- Monthly column for the NZ Property Investor magazine, <http://www.propertyinvestor.co.nz/>
- 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](http://www.tonyalexander.co.nz)

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