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.

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/lFdYSs5FGEq4kAjP95uzTA

Economy Growing, Housing Tight

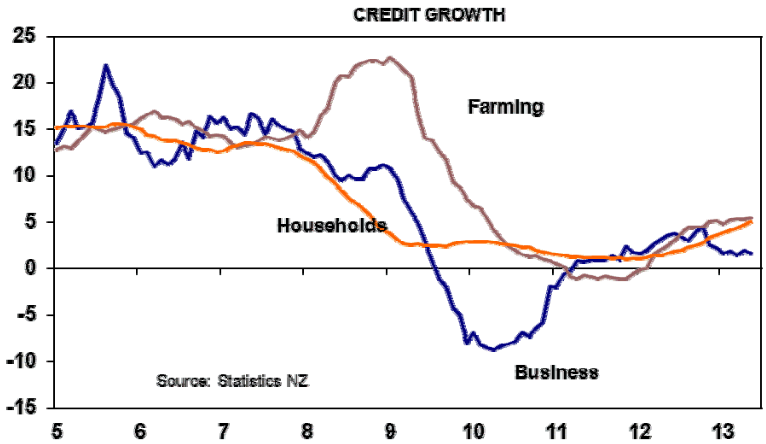
This week the power thankfully is back on at home following the worst storms to hit Wellington since 1968 though many city roads are still without lighting at night. The economic data meanwhile continue to appear in their usual fashion and what we see from these numbers is that growth in the NZ economy is picking up. That means some growing underlying support for the NZ dollar which exporters should recognise as they contemplate their hedging actions for the coming year or so. Accelerating growth also means rising interest rates and although the RBNZ is going to experiment with trying to influence the housing market (though primarily bank lending book structure) with LVR rules, in the end they will be forced into yet another period of catch-up interest rate rises. This is after all what they ended up having to do in the last tightening cycle which eventually they admitted was not optimal and that they should have acted sooner to get inflationary pressures under control.

For young buyers out there the news is all bad. Not only are house prices continuing to rise but the listings shortage is getting worse. You'll soon have greater difficulty raising a loan and be forced to get minimum deposits from non-traditional sources at higher interest rates. But it gets worse. The RBNZ will eventually have to push borrowing costs up anyway and there is little chance that when they do so the deposit requirements will be relaxed. And on top of that don't be thinking that the country is on your side and wants house prices to fall so that you can get your foot on the home ownership ladder. Our BNZ Confidence Survey released this Monday shows that 36% of our 642 respondents are Happy that house prices are rising and another 36% are Indifferent. You're on your own sorry. Oh, and one more thing. I learnt this week that there is a growing trend in Auckland for people buying their second house to keep their first home as an investment.

The Week's Data

Debt Growth Mixed

The Reserve Bank released the monthly lending aggregates this week and they show that in May the level of debt in the household sector was 0.5% higher than at the end of April. This is the third month in a row when household debt has risen 0.5% which compares with rises which averaged 0.4% a month in the three months to February, 0.4% in the three months to November, and 0.3% in the three months to August. So debt growth has accelerated but not by all that much. The annual rate of growth in household debt now stands at 5% compared with 1.5% a year ago.

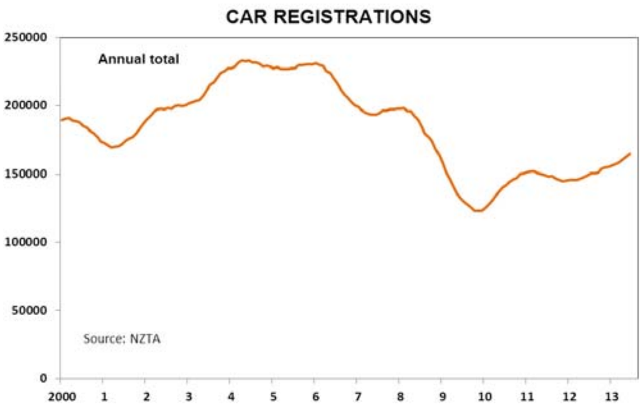


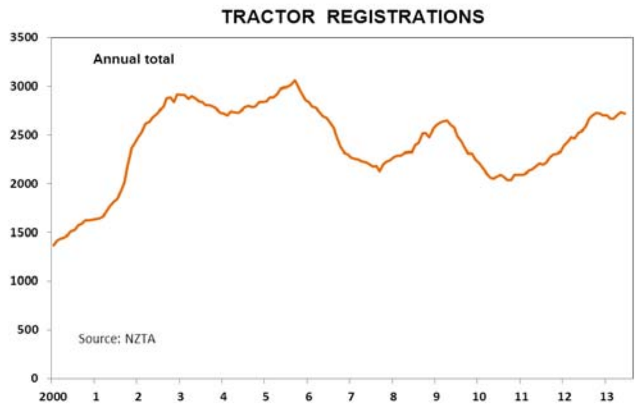
Business sector debt growth has declined to 1.6% from 3.6% last May whereas farm sector debt growth has lifted to 5.4% from 2.4%.

Vehicle Registrations Rising

In June the number of cars registered around NZ was ahead by 15.5% from a year ago giving a rise of 10.6% for the entire year to June. Growth appears to be accelerating. Our BNZ Nine Rewards Consumer Trends Survey to be released on Monday will show that in late-June as in May a net 14% of over 500 respondents are thinking about buying a new car in the next three months. Time will tell us whether this is a strong or weak result as the survey has only been going so far for three months.

The number of commercial vehicles registered in June was ahead by 12.6% from a year earlier and full year growth was 28%. Thus growth may be slowing down marginally. The number of tractors registered was down 9% in June from a year earlier though full year growth was 7%. Again growth may be slowing though in both cases the June quarter number of regos were well ahead of a year earlier at 22% for commercial vehicles and 10% for tractors.





Interest Rates

Steadyish for the week – trend is up though

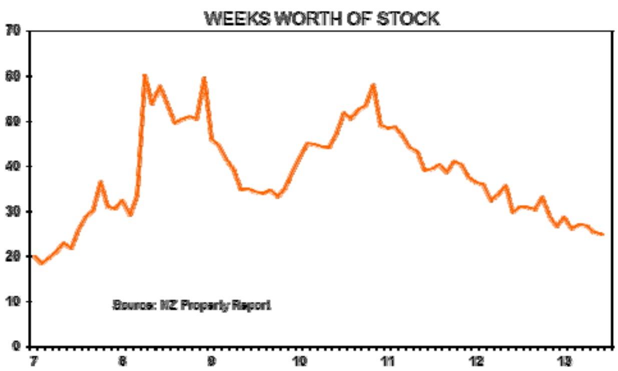
Wholesale interest rates have changed by little over the past week in the absence largely of any astounding news on the state of the NZ economy and our inflation or on the chances of US tapering. The direction for rates looks upward from here but the path is extremely difficult to predict, dependent as medium to long rates are upon how quickly the Federal Reserve eases back from boosting the supply of USDs, how the markets react to it, and how the Fed. reacts to market reactions. Already the Fed. are reacting by trying to calm things down, fearful of the recent 1% jump in the US 30 year mortgage rate. Be very wary of adopting an interest rate risk management strategy which is highly dependent upon a particular set of interest rate forecasts proving correct. These remain extremely uncertain times.

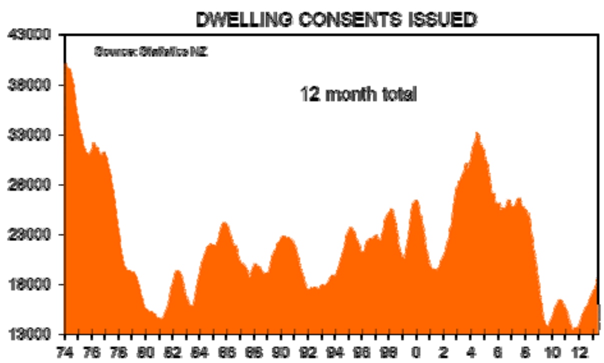
FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.67%	2.68	2.66	2.67	2.76	5.7
1 year swap	2.88%	2.88	2.78	2.79	2.58	5.8
3 year swap	3.62%	3.55	3.23	3.18	2.83	6.1
5 year swap	4.06%	3.96	3.57	3.53	3.18	6.3
7 year swap	4.35%	4.30	3.85	3.83	3.52	

Housing Market Update

Same Old – Listings Shortage

The NZ Property Report this week told us that number of weeks inventory at the end of June stood at about 24.9 weeks of sales compared with 25.4 at the end of May and 29.8 weeks a year ago. This is the lowest reading since June 2007 and backs up other evidence showing a shortage of listings.





This listings shortage is also evident in the monthly Barfoot and Thompson data for Auckland. In June B&T sold 1,059 dwellings, a 7% rise from a year ago, but fresh listings received during the month of 1,189 were 4% fewer than a year earlier and the stock of listings at the end of June was down by 30% from June 2012. The ratio of sales to listings for the month was 37% compared with 24% a year earlier. Basically sales growth is good though not exceptionally strong, and the strength is being contained to a great degree because agents cannot get properties to list and then sell. In this way the shortage of listings is constraining real estate agents' incomes.

Last week we learnt that the annual number of dwelling consents issued around New Zealand rose to 18,521 in the year to May from 17,922 in April and 15,165 a year earlier. This is the highest number since November 2008 but is still below the ten year average of 21,905 and 20 year average of 22,195. Therefore one could say that the housing shortage is still getting worse. In Auckland the annual number of consents issued for new dwellings reached 5,102 from 4,835 in April and 4,202 a year ago. This 21.4% growth for the year still leaves the total well below the average for the past 20 years of 7,435 and massively short of the 13,000 sought by the Auckland City Council.

BNZ Confidence Survey Results

This week I released the results of my monthly BNZ Confidence Survey and in case you missed it there were two pages of anecdotes supplied by people in the residential real estate sector. Go to page 15 of the document which is located here.
http://tonyalexander.co.nz/wp-content/uploads/2013/07/BNZ-Survey-Results-July-1-2013.pdf

The overall feedback theme is one of rising prices with listings shortages, plus a few comments appearing now indicating that strength is spreading from Auckland and Christchurch.

The first few comments are these.

- Real Estate is challenging as there is a shortage of stock. Continuous effort pays off.
- Real estate , few listings but what we get sells quickly
- Tauranga real estate just ticking along no urgency from buyers.
- House prices are not going up in Nelson.
- Real estate residential in Auckland is affected by shortage of listings but we are seeing good number of buyers and good prices being achieved for the vendors.
- Real estate Auckland, listings very tight.
- Looking good . Real estate
- Residential Real Estate - Hamilton. Strong buyer interest still & lack of stock taking its toll. Only around 600 active 3br+ properties on the market and sales now exceeding 300per month...do the sums. We need houses!! Values still strengthening & Auctions proving very successful for well-presented properties across all price ranges.
- Real Estate Johnsonville; Activity has picked up but numbers of sales remain approx the same due to a shortage of new listings coming to the market.
- Real Estate - most things are selling but shortage on stock.

In the survey I also ask respondents, of which there were 642 this month, whether they are Happy, Unhappy, or Indifferent about house prices rising. The proportion saying that they are Happy rose to 36% this month from 29% last month.

%	June	May
Happy	36	29
Indifferent	35	42
Unhappy	29	29
Net % Happy	**7**	**0**

Thus, a net 7% of people this month are happy that house prices are rising compared with a net 0% last month.

Anecdotes

I attended a gathering of residential real estate agents this week and garnered the following pieces of information amongst others.

- In Upper Hutt there are very few buyers, but it seems even fewer sellers.
- No major trend is yet apparent in Rotorua.
- In Manukau there are new investors in the market and very few listings.
- In Christchurch few buyers have houses which they want to sell. Investors appear to be leaving the market.
- On the Kapiti Coast there has been little land development for the past 4 – 5 years. Properties below $500,000 are heavily demanded but above that the market is weak. There are a lot of first home buyers.
- Around Whakatane and Eastern Bay of Plenty there are worries about a lack of land ready to be developed to handle population growth.
- In Lower Hutt staff are proving hard to find – let alone listings.
- In Porirua the market below $500,000 is strong but above that and in the lifestyle market activity is weak.
- Taranaki is beset by a shortage of stock with again properties below $500,000 in strong demand but a shortage of land to develop.
- On the North Shore listings are extremely difficult to come by. Some people are unwilling to move because they are uncertain about their employment future.
- In Auckland generally there are an increasing number of Kiwi property developers who are financing their activities with backing from Chinese investors.

And the most interesting comment of all was this. In Auckland there is a growing tendency for people moving up the scale to their second home to keep their first home as an investment property. Hence further aggravation of the listings shortage. Reinforcing that one agent noted that of 93 people through an Open Home recently only three had houses which they wanted to sell! The listings shortage is getting worse.

- People holding first homes as investments.
- People leaving Auckland not selling for fear of never being able to buy back in again.
- Employment uncertainty curtailing people's willingness to shift house.
- Low interest rates making the cost of holding an "extra" property low.
- Widespread expectations of capital gains.

Speaking of capital gain expectations – on Monday I shall release the latest results from our monthly BNZ-Nine Rewards Consumer Trends Survey. It will show strong consumer confidence and above average intentions to spend, and an average expectation nationwide that house prices will rise by 4.3% in the coming year. In Auckland an average gain of 5.2% is expected, Canterbury 4.6%, Wellington 3.6%.

Beating the Reserve Bank

Finally, soon the Reserve Bank will conduct an outright experiment trying to limit the volume of high loan to value lending as they pursue their requirement of maintaining stability in the financial sector. I am sure we can all think of many ways which borrowers – both first home buyers and investors – can use to get around the RB's restrictions. Suggestions are welcomed. Tony.alexander@bnz.co.nz

If I Were A Borrower What Would I Do?

Fixed rates are rising courtesy of the rise in US bond yields caused by expectations of Fed. tapering of its money printing operations from some time later this year. If your plan is to sit floating or on very short-term fixed rates (anything less than two years and a day) and jump to a long-term fixed rate when the Reserve Bank starts raising the official cash rate then you'll end up fixing at a rate much higher than what you can get at the moment. Most people fixing currently are doing so at short terms out to 18 months simply because the rates are lower than for floating. Were they fixing because of expectations that rates will rise they would be locking in for periods of three years and beyond. That is what the smarter people in the commercial property, farming, and urban business sectors have been doing for a couple of months now. They got very low rates, those very low rates have now gone and are unlikely to come back again this cycle.

Were I borrowing at the moment I would be taking a mix of floating, short-term fixing, and long-term fixed rates.

Offshore

No major new trends

United States' data have again been reasonably solid this week. The PMI index for the manufacturing sector rose to 50.9 in June from 49 in May thus signalling the return of growth to the sector and perhaps some company profitability good enough to offset downward pressure on equity prices from the eventual Fed. tapering of money printing. On the basis of that interpretation one would expect the USD to rise, bond yields to rise also, and the sharemarket to fall. But the opposite happened. Why? Because traders chose to focus not on the headline result which beat expectations centred around 50.5, but the employment index which fell to 48.7 from 50.1. That decline has fed fears that this Friday night's jobs result in the US could be weak and if that is the case then the Fed. will be further away from tapering than people have been thinking.

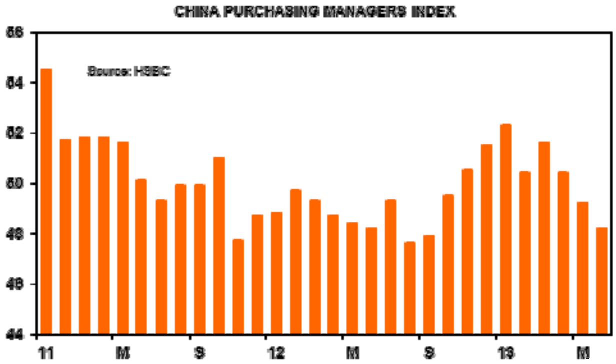
In fact various Federal Reserve officials have again been at pains this week to try and rein in the tapering expectations ignited by comments from the Fed. Chairman in recent weeks. One regional Fed. President noted that starting tapering this year was only "…one possible outcome…" and that an increase in the funds rate was "…very likely to be a long way off…" . Basically the Fed. has been scared by weakness in equity prices and jumps in bond yields sparked by rising expectations of money printing tapering. What they have learnt is that perhaps a lot more of the strength in equity and bond prices is due to money printing than they were thinking.

In the **United Kingdom** one less than welcome piece of news was a downward revision to GDP growth in the year to March from 0.6% to 0.3%. But the June PMI came in better than expected at 52.5 from 51.5 in May. These data just feed into a picture of no recession in the UK but not necessarily all that much growth either. After all, manufacturing these days only accounts for 10% of GDP compared with 18% in the late-1990s.

In **Australia** the RBA reviewed their cash rate this week and left it unchanged at the record low of 2.75%. This is a sad thing to contemplate – that they have so mismanaged the biggest resources investment boom in decades that artificially low interest rates are needed to hold the economy together. No wonder a change in government is near universally expected at this year's Federal election. And no wonder the migration flow between NZ and Australia is turning so sharply from a net loss of 39,622 a year ago to a net loss of 32,862 in the latest year. It will be interesting to see how low that net loss gets before the cycle once again turns in perhaps 2-3 years.

This week we learnt that retail spending in Australia is still lacking strength with growth of only 0.1% in May and growth rates for the previous two months revised downwards.

In **China** there were some more weak data released this week and that has caused yet again a cut-back in forecasts for growth this year and projected demand for resources such as coal and iron ore. That is why the Australian sharemarket fell firmly on Monday. The data were the official PMI measuring manufacturing sector strength falling to 50.1 from 50.8 in May, and the HSBC unofficial measure for June being revised down to 48.2 from 48.3 previously and 49.2 in May.



The Chinese authorities have not expressed any major concern about the slowing in growth, concerned as they are about growing levels of wealth leading to speculative and potentially destructive asset market surges, including for housing where affordability in the large cities has plummeted. People in China are looking for places to put their rising wealth and being a very competitive society no-one wants to be left behind as they see others making capital gains. So individuals have been pouring money into property, ignoring stories of empty apartments and in fact in many cases not even bothering trying to rent out the apartments they buy because the yield would be so low.

It is estimated that there are some 65 million empty apartments in China – though that number is hard to verify. Each year about 10 – 15 million people keep moving from the countryside to the city so the demand is there and the question is less about whether empty apartments get filled and more about a destructive price collapse as the property pyramid scheme rolls on.

For your guide, my BNZ Confidence Survey for this month shows that a net 44% of the 642 respondents are Relaxed about New Zealand's economic relationship with China. This result was unchanged from last month's result with 93 respondents.

%	June	May
Relaxed	64	66
Indifferent	16	13
Concerned	20	21
Net % Relaxed	**44**	**44**

In **Japan** there is optimism regarding the potential success of the government's three arrows economic policy platform of extraordinarily loose monetary policy, more loose fiscal policy, and lip-service paid to economic reforms. The quarterly Tankan survey of large companies improved to a reading of +4 in the latest quarter from -8 in the March quarter survey.

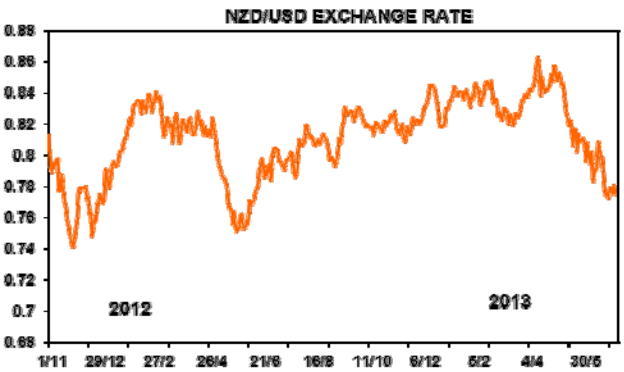
Exchange Rates

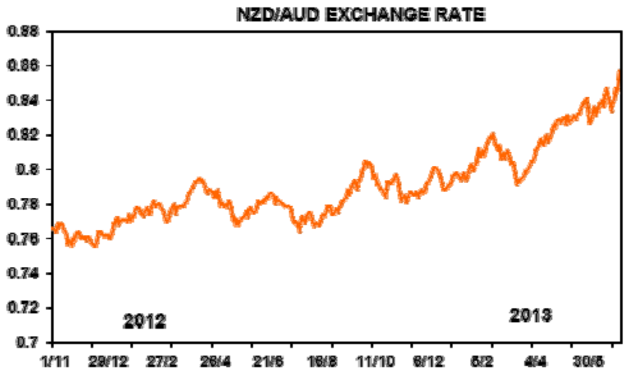
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.777	0.779	0.808	0.842	0.804	0.67
NZD/AUD	0.857	0.839	0.827	0.805	0.782	0.85
NZD/JPY	77.5	76.1	80.4	78.3	64.1	69.6
NZD/GBP	0.508	0.508	0.528	0.556	0.512	0.388
NZD/EUR	0.597	0.599	0.618	0.655	0.637	0.52
NZDCNY	4.76	4.79	4.95	5.22	5.11	4.99
USD/JPY	99.74	97.69	99.50	92.99	79.73	105.7
GBP/USD	1.53	1.53	1.53	1.51	1.57	1.72
EUR/USD	1.30	1.30	1.31	1.29	1.26	1.28
AUD/USD	0.91	0.93	0.98	1.05	1.03	0.788
USD/RMB	6.1305	6.1476	6.1313	6.2014	6.3536	7.56

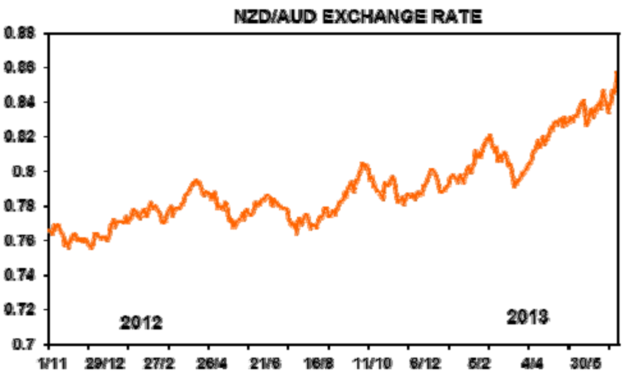
NZD Jumps vs. AUD

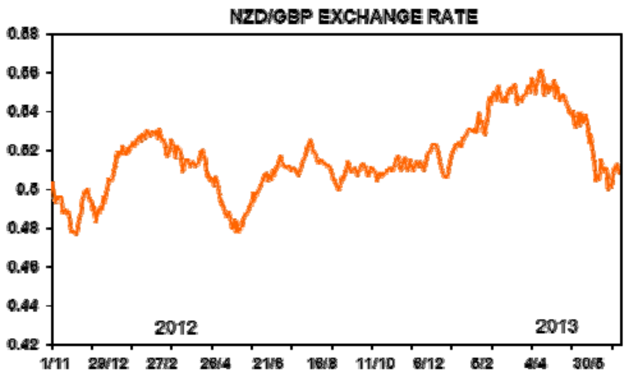
Just a reminder – I don't write much in this section. There are two reasons for that. People invariably want to read FX commentary because they hope for some indication of where exchange rates are headed but in my experience no-one really has much idea. Second, there is no shortage of commentary on the factors which have caused the most recent FX movements and therefore not feeling that I can add much value I write little – thus allowing more time for other areas of analysis and writing such as housing, China etc.

This week the most interesting FX change relevant to ourselves was a jump in the NZD against the Australian dollar to just below 86 cents from 84 cents last week. Three months ago the rate was near 80 cents. This change has come about mainly because of a two cent fall in the AUD against the USD over the past week on the back of weak economic data plus comments from the RBA Governor strongly implying that the RBA is close to cutting interest rates again.









Key Forecasts					
Dec. year		**2011**	**2012**	**2013**	**2014**
GDP	annual average chg	1.4	2.5%	2.5 – 3.0	3.5 – 4.0
CPI	on year ago	1.8	0.9	0.5 – 1.5	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	n/a	2.0 – 3.0	2.0 – 2.5
Unemployment Rate	end year	6.3	6.8	5.0 – 6.0	5.0 – 5.5

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 28,000 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 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 BNZ-Nine Rewards Consumer Trends Survey http://tonyalexander.co.nz/topics/surveys/bnz-nine-rewards-consumer-trends-survey/
- Monthly column for the NZ Property Investor magazine, http://www.propertyinvestor.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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It's a Hard Life

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