Weekly Overview

14 November 2013

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Mission Statement

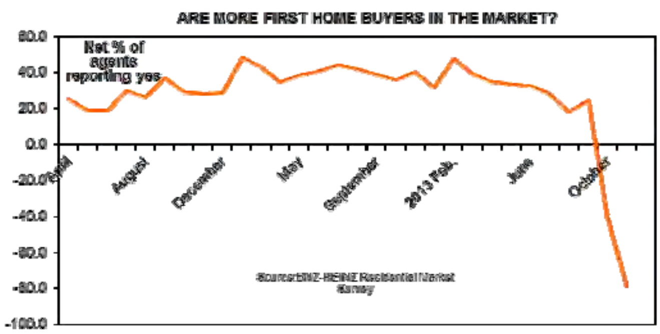
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

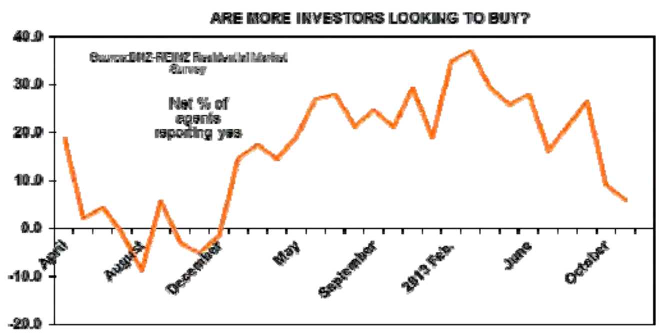
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here. http://feedback.bnz.co.nz/forms/lFdYSs5FGEq4kAjP95uzTA

First Home Buyers Gone

Apparently at the Finance and Expenditure Select Committee yesterday the Reserve Bank cited our October BNZ-REINZ Residential Market Survey as showing that demand was down across the board for properties following introduction of the LVR changes. They used this information to counter accusations from various politicians that the impact of the changes was being felt either only by or massively disproportionately by first home buyers.

Yet our November survey released this morning shows that the impact is over-whelmingly on first home buyers. A net 78% of the 250 responding agents said that they are seeing fewer first home buyers than last month when 41% said they were seeing fewer. Both these post-LVR results are below the average net 27% of agents who have said they are seeing more first home buyers.





With regard to investors while the average is that a net 16% of agents say they are seeing more and the latest result is below average at just 6%, the gap of 10% is vastly different from the 105 point gap for first home buyers. In addition the 6% outcome means more investors are appearing and that is what was indicated by the many written responses to our special question included in this month's survey "What effects have you noticed from the LVR rules?" Full responses are available here and it is a useful exercise to scan through the nine pages of replies to get the most up to date feel possible of hat real estate agents are seeing at the coalface. http://tonyalexander.co.nz/wp-content/uploads/2013/11/BNZ-REINZ-Survey-November-2013-Special-question.pdf

Japan

This past week I spent time in the city of Matsuyama on the Japanese island of Shikoku speaking at and sitting in on the 40th Joint Meeting of the Japan New Zealand Business Council. In my brief presentation I emphasised the positive factors which will drive NZ's growth rate soon to 4% and maybe more including

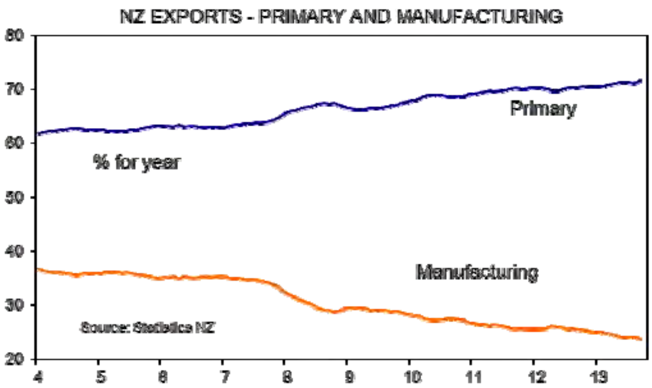
-the reconstruction of Christchurch
-catch-up house construction in Auckland
-infrastructure spending especially in Auckland

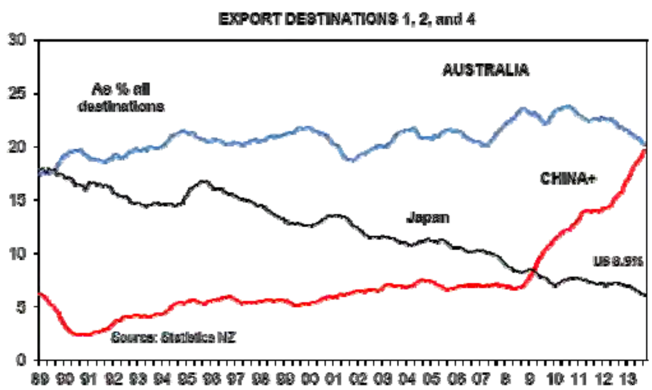
-incomes in and investment into the expanding dairy sector
-earthquake strengthening of buildings around New Zealand
-a migration boom.

After noting restraint from debt wariness, uncertainty about developments overseas, the high NZD and tightening fiscal policy, my conclusion was that growth will be strong and investment opportunities plentiful over the next three years. But there is a large challenge from a shortage of capacity including labour which will eventually force monetary policy tightening while policies remain loose for an extended period offshore, resulting in further appreciation of the NZ dollar.

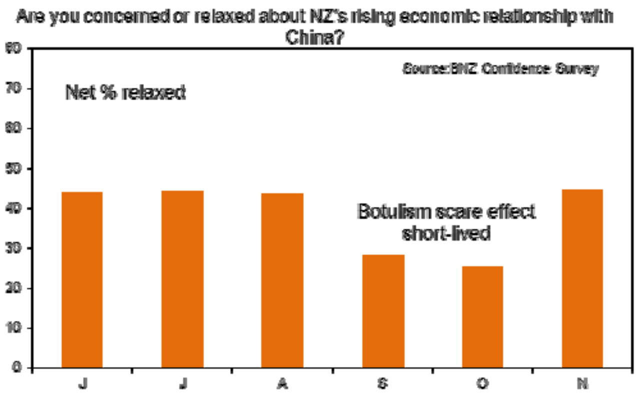
That is something which occupies the mind of the Reserve Bank and helps explain why two weeks ago they indicated that they were prepared to delay the start of the monetary policy tightening cycle in order to delay the inevitable upward pressure on the NZD.

Another challenge I noted is that New Zealand's manufacturing sector is experiencing long-term decline and as our export base becomes more and more dependent upon primary products and as our dependence upon China grows, our vulnerability to shocks is increasing. Diversification by exporters into non-Chinese markets is highly recommended especially in light of the eventual ructions likely to be associated with increasing Chinese purchases of NZ houses, Kiwi reaction to higher purchases 5 – 10 years from now, and China's anti-trade response to our expressions of disrespect.





I noted the disconnect which exists between the very relaxed attitude Kiwis have toward our growing economic relationship with China and the often visceral reaction to Chinese purchases of NZ property. China tends to use its economic clout in order to put foreign countries and companies in place. Foreign journalists and press organisations operating in China are increasingly finding the welcome they receive is dependent upon how closely they adhere to guidelines regarding what they write.



Satoshi Miyamoto, President of the Japan External Trade Organisation, JETRO, gave a generally optimistic outlook for Japan noting recent improvements in many economic indicators including an easing pace of deflation and 1.5% growth in industrial production. He discussed the Three Arrows policy but added a fourth – preparations for the 2020 Olympics in Tokyo in terms of infrastructure and a need to greatly boost the number of people about to interact in the English language. He noted that Japan is seeking to greatly expand inward foreign direct investment and that this can be one element helping the economy withstand the negative impact which will arise from the increase in the consumption tax in April next year from 5% to 8%.

He noted also the risk to growth from rising energy costs associated with the switch away from nuclear power generation following the Fukushima power plant collapse. Another speaker noted a rising Japanese drive to greatly boost inward tourism. Given the way food is cheaper in Japan than New Zealand there is probably a great untapped market of people who still believe prices are as stratospheric as they were in the late-1980s. A lot has changed since then and Japan is well worth considering as a holiday destination.

Japan's economy faces numerous challenges and it is not at all guaranteed that the Three Arrows policies will succeed. So far the acceleration in the pace of growth can simply be put down to loose monetary and fiscal policies. Going forward though the third arrow of deregulation is sorely needed to offset a long list of negatives.

- An already old and getting older population with a labour force shrinking for a couple of decades now and the pace of that shrinking picking up.
- Other countries catching up on Japan's manufacturing sector technological prowess.
- Huge government debt which effectively means the retirement savings of millions are not really there.
- A highly casualised workforce where 36% of salaried people are either part-time or working on temporary contracts.
- Falling wages
- The sales tax increase to 8% next year noted above.

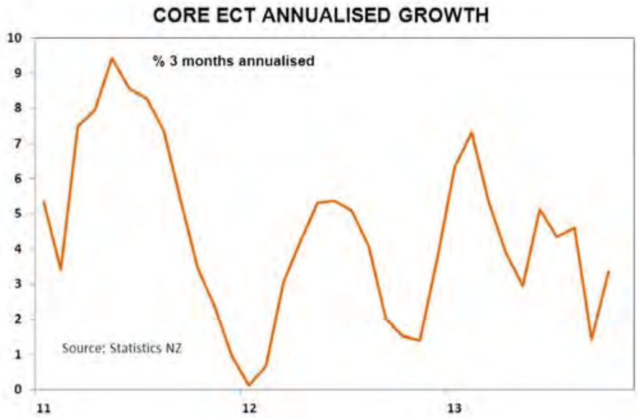
Some economic indicators have improved in Japan recently including core inflation which at 0% is higher than the rates of -0.5% to -1% usually seen over the past 10 – 15 years. The sharemarket has soared 68% from this time a year ago, the ratio of job advertisements to applicants has improved, GDP growth has accelerated, and export growth has improved. But the big questions are these. To what extent are these improvements based simply on unsustainable stimuli and wishful thinking? And, will true economic reforms actually be implemented?

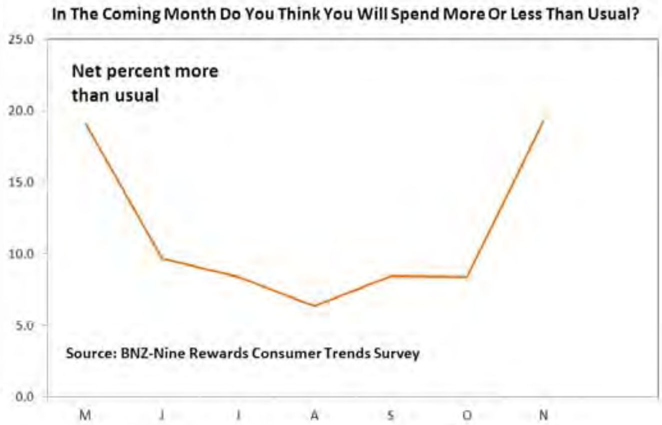
David McConnell of ATEED gave an excellent presentation looking at the infrastructure investment opportunities available in New Zealand. There is the Christchurch rebuild of course, along with the government's drive to turn Auckland into a true international city through substantial infrastructure upgrading. The oil and gas sector also provides growing opportunities, plus nationwide infrastructure upgrading and expansion of irrigation. In particular he emphasised six sectors.

- Food and beverage manufacturing beyond simply dairy and meat.
- Information and communications technology.
- Life sciences and health – medical device and product research and development utilising the research institutions, universities etc.
- Tourism
- Screen and digital content
- International education

Retailing Looking Better Heading Into Christmas

Core retail spending using debit and credit cards rose by a very strong 1.8% seasonally adjusted in the month of October. This however followed a 1% fall in September and it pays to smooth the data over at least a three month period. Doing that we get annualised growth of 3.4% which is down from 4.3% in the three months to July and 3.9% in the three months to April. So spending is by no means taking off and the first graph below shows that well.





Nevertheless, a year ago the annualised pace of growth in core spending was 1.5% so going into Christmas this year things are better than last year. Retailers are likely to enjoy some good though not stellar trading conditions and that view is not based upon the fact that interest rates are low and consumer confidence levels are high. This afternoon's Roy Morgan poll results showed a rise in their index to a near four year high of 128.4 from 122.3 in October. Good sentiment and low rates have been in place for quite some time now but they have not been sufficient to cause a strong rise in household spending.

This time around however the labour market is showing strength with a strong 1.2% jobs gain during the September quarter. In addition house prices have risen firmly in some parts of the country and house construction is rising. So the summer period should be okay for retailers. Our BNZ-Nine Rewards Consumer Trends Survey supports an outlook for good growth with a net 19% of the 524 respondents indicating they plan raising their spending levels in the coming month, up from net outcomes ranging from 6% to 9% in the previous five months.

Comments from retailing respondents in our BNZ Confidence Survey released on Monday are reprinted below. They show things as still tight in many quarters.

Retail/Wholesale

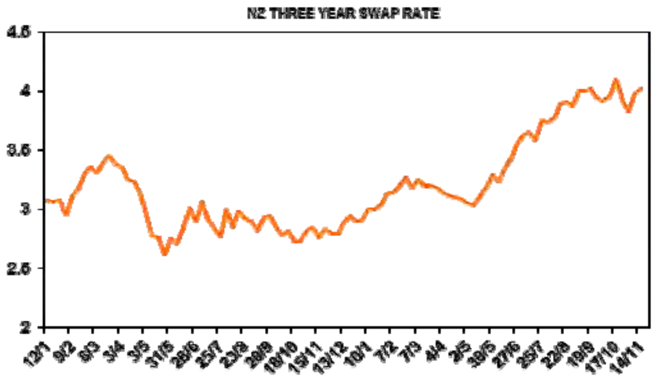
- Retail sector is steadily improving. Our business is vulnerable to reductions in NZ$ (so we are well hedged) and also increases in wage rates, but our expectations are for increased demand for our products, which should more than offset the downside for the next year or two at least.
- Grocery - flat growth industry but at least looking positive for some growth vs. other retail sectors.
- Distribution of quality natural dietary supplements: growth has been tracking at 6% per month compounding since beginning of 2013. Business for this start up is good! Nearly into profit!
- Improving, but this may just be seasonal. Textile wholesaling
- Furniture distributor - we are see a steady expansion in our business, but margins are continually squeezed. Price tags now only indicate what one wants for a product, not what the consumer will pay.
- Wholesale distribution, import/export. Getting paid is still a struggle. Sales improving
- Gift/Decor business...(rural Southland, Winton) .....I sell things people don't need...(as I explained to my MP Mr English once at my counter).....this industry has been decimated in the down turn (one major supplier told me they'd lost half the stores around NZ that they sell to).....I have come out of the winter in a very strong fiscal position....and am now having some very busy days. Hitting four figures some days. There is definitely more confidence with the buying public.

- Pharmaceutical wholesaling - volume growth but little revenue growth. Very tight margins and a few pharmacies are feeling the pinch as costs keep rising. Not much different from 3 months or even 12 months ago.
- Industry :- Furniture and bedding import and wholesale (Dependant on the fortunes of retail). We have had growth in the last quarter due to increasing our market share rather than reflecting the poor trading of the majority of stores we deal with.
- Retail Hardware. reasonably buoyant – hasn't suffered particularly over the last few years but is threatened by the availability of internet shopping
- Outdoor sports - hunting fishing. Not good - cost of fuel still major constraint to participation.
- Retail Services. Satisfied two current contracts have been extended. One with extra work on higher level due to a great team in the field excelling in their work. Lots of interest in our service.
- Retail - slow sales increase in Sep quarter on last year
- Slowly improving. Bicycle accessories
- Aspirational retail. Things definitely seem to be looking up people seem to be more happy to spend on higher priced quality products.

And maybe these still often downbeat comments reflect the fact that this morning the data from Statistics NZ for the September quarter showed a real seasonally adjusted fall in core retail spending of 0.1%. This followed extraordinary growth of 2.1% in the June quarter so is not all that much of a surprise.

IF I WERE A BORROWER WHAT WOULD I DO?

Wholesale borrowing costs have risen back to their levels of two months ago, driven higher mainly on heightened expectations that the Fed. tapering exercise will start soon. These expectations reflect the far better than expected US jobs data for October released on Friday night. There are high expectations that at their December 17-18 meeting the Fed. will announce the commencement of a process of easing off on the $85bn a month money printing operation. Maybe, maybe not. Opinion regarding tapering has been all over the place since May this year when the Fed. Chairman said the time for cutting back was approaching.



Not just the Federal Reserve but other central banks including the Bank of England are trying to figure out if things are really looking good enough that they can start taking away the sugar they have been flooding the world with for 3 – 5 years now. Others have decided more icing is needed with recent easings by the European Central Bank, Bank of Japan and Reserve Bank of Australia.

The feeding has to stop fairly soon because more and more experienced fund managers are expressing their concerns about excess valuations in various asset markets and the risk of bubbles. Is that perhaps what the soaring price for Twitter is telling us? Money is chasing money is chasing money in a central bank-driven version of the excesses of the 2000s.

That in some regard is where our central bank is coming from with their reversion to credit as opposed to price controls to try and achieve their policy aims. As the new blood there are learning however the purity of price influences is completely absent when you start tinkering with volumes.

As we have been writing here for over three years now, the chances that central banks will withdrawal their extraordinary stimuli in an optimal manner are virtually zero. There will be many mistakes made and debt servicing costs are going to be quite volatile for a great number of years beyond those already registered. Maybe the 2020s will be a nice decade. Fat chance. What I've learnt in this job is that there is no stability. There is no long run. It's all a series of unpredictable shocks around general trends of magnitude one can usually only guess at.

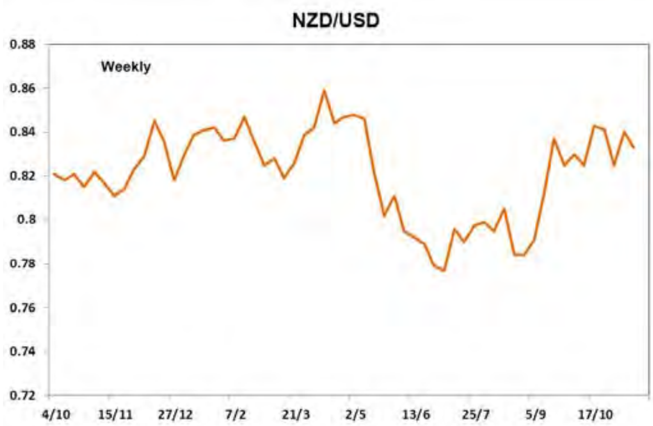
If I were borrowing at the moment I'd be trying to achieve a spread of time periods to diversify my risk. I'd have a lot floating, some out to two years, and some at three years fixed or beyond.

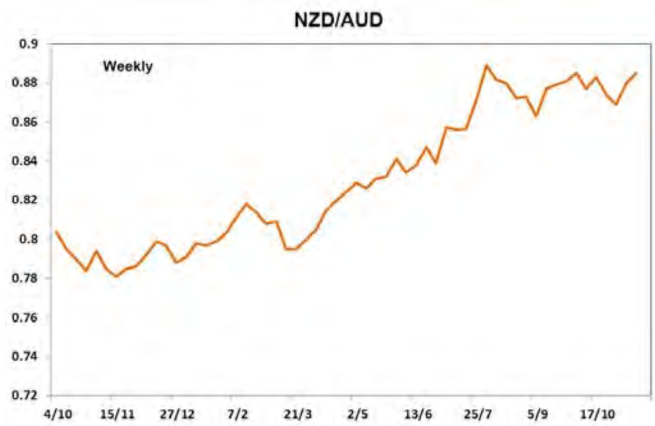
FINANCIAL MARKETS DATA

	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	2.69%	2.71	2.68	2.67	2.76	5.7
1 year swap	3.12%	3.09	3.11	3.01	2.55	5.8
3 year swap	4.00%	3.97	4.10	3.89	2.76	6.1
5 year swap	4.53%	4.47	4.64	4.35	3.05	6.3
7 year swap	4.86%	4.79	4.95	4.65	3.37	

NZD Goes Back Down vs. USD

The Kiwi dollar has been range-trading against the USD since rising from 78 cents two months ago and doing the same against the AUD for three months. Why the stability which sees us one week writing that the NZD has gone up and tad then the next week writing that it has slipped a bit?





This situation has arisen because of uncertainty surrounding factors which might otherwise be causing a decent move up or down. If US tapering occurs then the NZD will go down as money flows back into USDs. But the markets are experiencing big fluctuations in thoughts as to when tapering will start. When NZ monetary policy tightens the NZD will go up as no other major central banks are likely to raise their interest rates until one or two years after we do. But market expectations of NZ tightening are in a state of flux with the Reserve Bank recently toning expectations down by noting the disinflationary impact of a strong NZD, and building them up with repeated warnings to borrowers of where mortgage interest rates will likely go. The LVR credit controls have been sold by the Reserve Bank as supplanting 0.3% worth of official cash rate tightening.

NZ monetary policy expectations are likely to remain in as much a state of uncertainty as for all other countries in this continuing uncertain post-GFC environment. Our view is that the first rate hike will come in June and the cash rate will peak at 4.5% come the second half of 2015.

Against the USD this week the NZD has declined about half a cent as the greenback has been boosted by good job numbers. Against the AUD however we have risen over 0.5 cents because of weakness in the AUD induced by a weaker than expected reading for business confidence in the monthly NAB Business Survey.

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr Average
NZD/USD	0.833	0.84	0.831	0.805	0.811	0.67
NZD/AUD	0.887	0.88	0.881	0.88	0.781	0.85
NZD/JPY	82.7	82.8	81.7	78.9	65	69.6
NZD/GBP	0.519	0.522	0.52	0.519	0.511	0.388
NZD/EUR	0.617	0.62	0.613	0.607	0.636	0.52
NZDCNY	5.07	5.12	5.08	4.93	5.05	4.99
USD/JPY	99.28	98.57	98.32	98.01	80.15	105.7
GBP/USD	1.61	1.61	1.60	1.55	1.59	1.72
EUR/USD	1.35	1.35	1.36	1.33	1.28	1.28
AUD/USD	0.94	0.95	0.94	0.91	1.04	0.788
USD/RMB	6.0915	6.0936	6.1185	6.1195	6.23	7.56

In Europe things are so bad the ECB is still easing monetary policy five years after they started and France has just been hit with another credit rating cut and growing criticism of its economic structure and lack of deregulatory policies which could boost growth potential from an increasing range of sources They are floundering basically with an extremely unpopular President and companies increasingly going elsewhere. France has an unsustainable economic structure and a President too weak to be able to convince his people of the need for change. In China pollution is killing people, censorship is rising, and as graduates sit unemployed factories can’t get staff. Growth is slowing but people demanding our lovely primary products keep growing in wealth and number. In Japan growth is firm but this could be a flash in the pan if hefty deregulatory reforms are not enacted soon. It’s great to be a Kiwi.

United States

Third quarter GDP numbers revealed growth at an annualised pace of 2.8% from 2.5% in the June quarter. This was above expectations of 2% and sounds good. However 0.8% came from a build-up in inventories and private consumption grew at its slowest pace in three years at just 1.5% annualised. Household spending is the largest driver of growth in the US economy so this bout of relative weakness may keep businesses cautious in their spending and hiring plans in the near future.

In fact business investment in equipment decreased at an annualised pace of 3.7%. Residential construction rose 14.% showing how that sector at least is putting in a stellar performance after leading the US economy into recession in 2008.

But on Friday night the non-farm employment report was released showing that job numbers rose by near 204,000 in October whereas a gain of 120,000 had been expected. The September rise previously reported as 148,000 was also revised up to 163,000. The strong result shows that employers actually looked through the government shut-down period toward what they clearly feel will be better output conditions down the track.

The result caused a sharp rise in US bond yields and the US dollar and also managed to push share prices higher even though the outcome suggests an earlier start to Fed. tapering than had been expected.

Eurozone – The Woe Continues

The ECB surprised everyone with a cut in its cash rate last Thursday night from 0.5% to 0.25%. Clearly the central bank has been scared by the previous week’s decline in inflation to just 0.7% from 1.1% and talk that Europe might be locked into a deflationary trap like Japan. Avoiding the Japanese scenario has been at the forefront of central bankers' minds since the GFC (and before, Greenspan 2003) and helps explain why monetary policies have been so aggressively loosened. Yet here we are, five years and one month after the ECB started its rate cut cycle with a 0.5% reduction from 4.25%, and still conditions are not loose enough.

At the core of the problem is the unwillingness of people to take advantage of the low interest rates by borrowing money and spending it. They, businesses and households, have logically been scared by the risks of running high debt levels and are continuing the now half-decade long deleveraging process. There is zero way of predicting when this will end.

If things were moving in the right direction in Europe more artificial stimulus would not be required. So I repeat the comment made here for over three years now. Europe will be struggling for upwards of a generation to get things back into order. Societies will undergo massive strains because of the disproportionate impact of economic weakness on different groups, voters will veer to the political extremities looking for someone with a loud enough and angry enough voice that they think can help them out, and Europe's role in the world economy will decline.

What is the relevance for ourselves down here in God Zone – a place increasingly looking like paradise compared with what I see on my trips offshore? First the Euro will remain weak and probably weaken further in coming years. While the ECB President Mr Draghi went to pains last week to say that the 0.25% cash rate cut was not intended to depress the Euro, a falling currency is one way to boost inflation. The chances are that some benign tolerance of a weakening Euro will eventually appear.

That will make things difficult for NZ exporters. Those exporters and tourism operators in particular will need to be very focussed with regard to which markets they target and how. Second, the woe in Europe will encourage more people to shift to Australasia and fewer of us to migrate up there.

Third, although there will be a natural tendency toward inward-looking trade policies, the massive easings of monetary policy show that the lessons of the Great Depression have been learned and one of the strongest lessons is not to restrict world trade. Therefore Europe is likely to soon show renewed willingness to engage with the US on trade talks just as President Obama has indicated he wants higher US exports as a way of combating domestic weakness. Yes there is somewhat of a zero sum game here at face value as not everyone can supplant production in another country with their exports. But the big benefit of liberalised trade comes from more efficient allocation of resources and boosted productivity over the long-term rather than any short-term hike in export receipts.

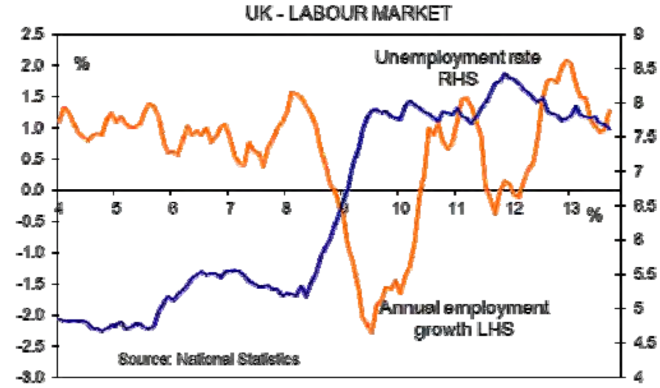
This desire for trade liberalisation is positive for us as we are highly dependent upon free flowing and open world trade. One of our huge vulnerabilities is disruption to freighting in Asian waters in the event of some military incident.

Fourth, the world is in a new monetary policy easing phase. There will be more money sloshing around the globe looking for a home. Some of this money will find its way into our currency (higher NZD) and property markets. That means higher prices for NZ farmland, commercial property, and of course houses and development land. Watch that latter space in particular. Bubbles will be formed in many asset markets and this is where a truly huge danger for the world economy arises. Bubbles generated by central banks throwing liquidity at commercial banks will eventually burst as all bubbles do. The risk is growing that when this happens underlying economic forces of good growth in household and business spending will not have enough momentum to avoid a fresh global recession.

Frankly, it looks like there will be a new crunch in the world economy in the near few years and those Kiwis gearing themselves into assets on the basis of price rise expectations would do best to look into the mirror and ask themselves this. If things were really safe from an investment point of view why is the world engaging in a renewed round of artificial policy stimulus half a decade after the GFC?

United Kingdom

One of the themes going around the planet at the moment is of inflation coming in below central bank expectations thus leading here and there to some worries about deflation, thus leading to extra monetary policy easing (ECB), or thoughts of delays in policy tightening (RBNZ). In the UK this theme has surfaced when it was not expected to given that UK inflation has been above 2% since the start of 2010. The October CPI data showed an annual inflation rate of 2.2%, down from 2.7% in September, 2.6% a year earlier, and expectations of a 2.5% rise.

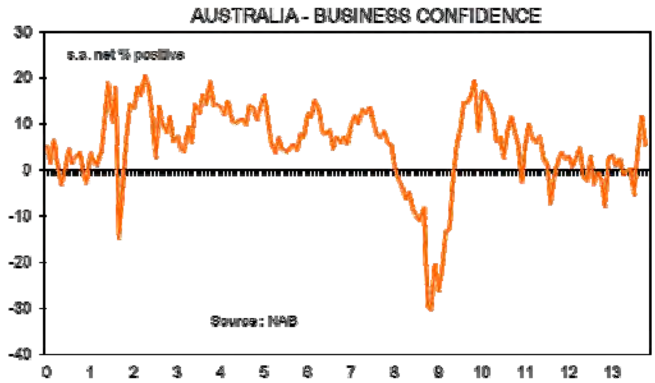


But there is little real pressure on the Bank of England to cut its 0.5% as the ECB did last week as there are plenty of signs of things picking up in the UK economy. In fact it is expected that soon the BOE will alter the guidance it gave some months ago regarding monetary policy not being tightened until the unemployment rate fell below 7% and that they did not expect this goal to be reached until mid-2016. The expectation now is that 7% may be reached late next year or early in 2015 and hence interest rates will start rising far earlier than previously thought. Last night we learnt that the UK unemployment rate fell to 7.6% in September from 7.8% three months earlier and that employment was 1.3% ahead of a year earlier.

As evidence of the employment optimism we saw this week the release of data from the Chartered Institute of Personnel and Development survey which found high employment confidence among SMEs in the manufacturing and retailing sectors.

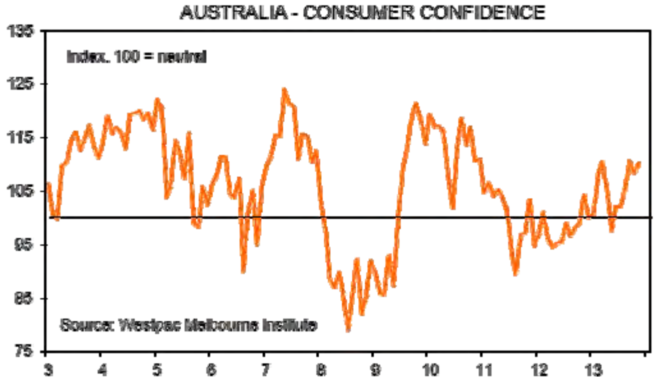
Australia

Australia's unemployment rate held steady at 5.7% in October but job numbers increased by only 1,000 to deliver change from a year ago of just 0.8%. Australia's labour market is in a weak, though not parlous, state by world standards, as the resource sector investment boom winds down but other sectors have yet to strongly respond to some lowering of the AUD earlier this year and cuts in interest rates.



We can see this weakness in the latest NAB Business Survey. Business confidence fell to a net 5.5% confident in October from 11.6% in September and the employment indicator remained negative at 3.2% from -6.1%. This suggest a continuing poorly performing Australian labour market. Businesses appear increasingly to be operating at low levels with the capacity utilisation rate falling to 79.3 from 80.2 in

September. But consumers are not unhappy and that could be because their house prices are rising. The Westpac Melbourne Institute sentiment measure rose to 110.3 in November from 108.3 in October and 104.3 a year ago.



China

Data for China came in on the good side this week. Industrial production in October was 10.3% ahead of a year earlier from 10.2% growth in September and 9.6% a year ago. Retail sales were ahead 13.3% - the same growth rate as in September and down from 14.5% a year earlier. Exports were ahead 5.6% in October from September. But most attention this week was on the outcome of a four day meeting of Communist Party leaders with hopes that there could be things such as allowing farmers to own and therefore sell their land, granting hukou rights to the 250mn migrants living in cities, vastly reducing the role of state-owned enterprises, financial market liberalisation and so on.

Initial reports have tried to put a brave face on the outcome but in essence it looks like few wishes have been granted. The communique issued on Tuesday spoke of a "decisive role" for the markets but never once used the term "private sector", attacking rampant bureaucracy across the five levels of government. But there was no mention of rolling back the growing power of state-owned enterprises, and only talk of improving property rights for farmers. The communique noted that a top level working group will be established to look at reforms generally.

All up there were no solid details on changes and hopes for big changes appear to have been quite misplaced.

The Global Times newspaper ran a poll ahead of this week's large meeting of communist leaders in China asking people what they wanted to see reformed. 80% of people said they want reform of the welfare system which is very rudimentary and not available to most in any meaningful manner in China. Only 33% ticked reform of the political system as their desired area of reform.

Welfare system	80%
Income distribution	55%
Anti-corruption	52%
Economy	48%
Household registration	34%
Political reform	33%
Rural land	3%

For your guide, this morning MBIE released results of a revised International Visitor Survey which better captures spending by visitors whilst in NZ and tells us that spending is about $1.7bn p.a. more than previously thought. China including Hong Kong SAR contributed about 12.6% of all spending which was about a 20% rise from the previous year. http://www.med.govt.nz/sectors-industries/tourism/tourism-research-data/international-visitor-survey/ivs-key-data

Also, the AFR this morning ran an article noting that an estimated US$1tn was taken out of China by corrupt officials last year, $600bn in 2011, $412bn in 2010, and $1.5tn is expected to be hidden offshore from CCP eyes this year according to China's Central Commission for Discipline Inspection. 18,487 corrupt officials have fled the country since 2000 according to China's top court.

Housing Market Update

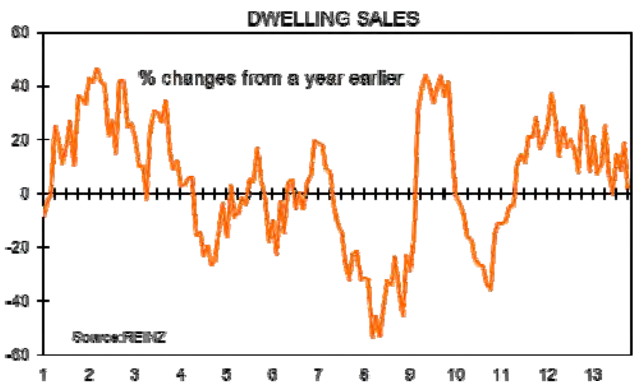
LVR Impact Here and There

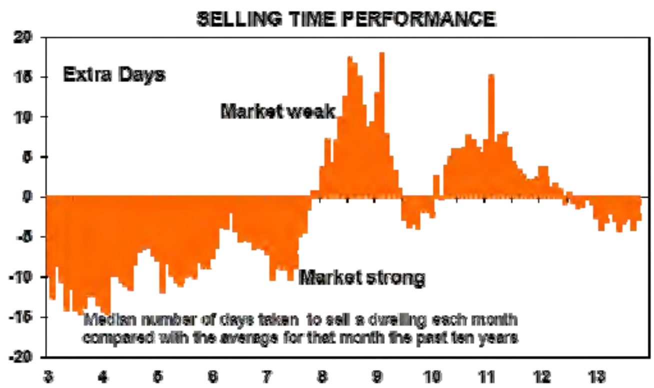
Our monthly BNZ Confidence Survey released on Monday (and BNZ-REINZ Residential Market Survey released this morning) showed that although there is clearly a withdrawal of first home buyers from the market, listings shortages continue. You'll find two pages worth of comments relating to residential real estate from page 13 of the issue available here.
http://tonyalexander.co.nz/wp-content/uploads/2013/11/BNZ-Survey-Results-November-2013.pdf
The real estate survey and full listing of responses to a special LVR question are here and here.
http://tonyalexander.co.nz/wp-content/uploads/2013/11/BNZ-REINZ-Survey-November-20131.pdf
http://tonyalexander.co.nz/wp-content/uploads/2013/11/BNZ-REINZ-Survey-November-2013-Special-question.pdf

Evidence of first home buyers backing off because of the LVR credit controls can also be found in a First National Group survey available here.
http://www.firstnational.co.nz/?pagecall=misc&pageMode=realestatenews_article&contentID=113586

The survey shows 85% of agents saying fewer than 20% of attendees at open homes are first home buyers compared with 58% saying this a year ago. This does not allow us to calculate the exact percentage withdrawal. Investor numbers appear to have barely budged, and in the words of one "It's to our greatest advantage". The Reserve Bank will be pleased with the hit to first home buyers but should be wary if it thinks the market will take a sustained large hit. This is because you don't need surging demand and buying from first home buyers to drive a market upward. Across the Tasman prices are rising strongly but purchases by first home buyers as a proportion of all turnover have plummeted. First home buyers accounted for just 9.1% of the value of new home loans in September compared with near 25% a year ago.

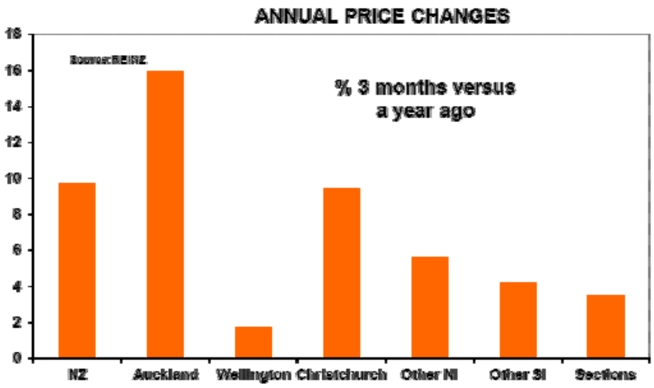
The REINZ data released on Tuesday shows no obvious impact on market activity from the LVR rules but that could be simply because people were still using up pre-approved high LVR lending. The number of sales for the month was down slightly seasonally adjusted from September but that is well within normal fluctuations. Sales were only 2% ahead of October 2012 but that low rate of increase is mainly because last year sales were 32% ahead of October 2011.

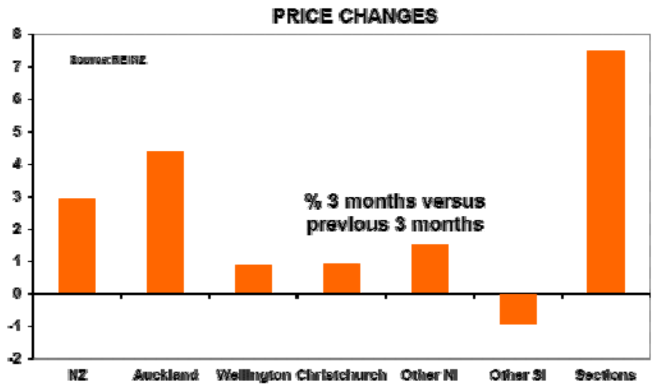




On average in October it took 31 days to sell a dwelling which was 2.8 days faster than average for the month over the past decade whereas September was four days faster, August 2.6 days, July 3.2 and June 4.2. No obvious hit to activity is evident there. But it is too early to expect it.

The median stratified dwelling sales price rose to another record high in the month with a 1.6% gain following a 0.8% rise in September and 2.1% rise in August. Prices were 9.7% ahead of a year earlier.





The Gold Coast property market is turning upward in lagged response to the rises in Sydney and Melbourne. On average in September it took 96 days to sell a dwelling compared with 113 days a year ago. Prices on average in September were 3.3% ahead of a year ago following a 2.1% rise in August. Another set of data - the Foreign Ownership of Land Register - shows that at the end of the 2012-13 year Kiwis owned 1,046 properties on the Gold Coast. In terms of fresh buying for the year the top flow was from China at $184mn, then UAE $121mn, Japan $100mn, Singapore $55mn, and USA $32mn. NZ property purchases totalled $10mn.

National Australia Bank run a Quarterly Australian Residential Property Survey involving the opinions of more than 300 real estate experts. Their latest report shows that in the September an estimated 12% of all newly built property sold in Australia went to foreigners. Foreigners (excluding Kiwis) may only buy newly constructed dwellings and can collectively purchase only to a maximum of 50% of the apartments in a multi-unit project.
http://business.nab.com.au/wp-content/uploads/2013/10/residential-property-survey-09-2013.pdf

They estimate about 7% of sales of existing houses are to overseas buyers and that appears to be the case courtesy of a rule change four years ago allowing foreigners who have been resident in Australia for a year to purchase an existing dwelling.

Key Forecasts

Dec. year		**2011**	**2012**	**2013**	**2014**	**2015**
GDP	annual average chg	1.4	2.7%	2.5 – 3.0	3.0 – 3.5	2.0 – 3.0
CPI	on year ago	1.8	0.9	0.5 – 1.5	1.5 – 2.0	2.5 – 3.0
Official Cash rate	end year	2.5	2.5	2.5	3.5 – 4.25	3.5 – 4.5
Employment	on year ago	1.6	-1.3	2.5 – 3.5	2.0 – 3.0	1.0 – 2.0
Unemployment Rate	end year	6.3	6.8	5.5 – 6.5	5.0 – 6.0	5.0 – 6.0

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