BNZ Weekly Overview

6 November 2014

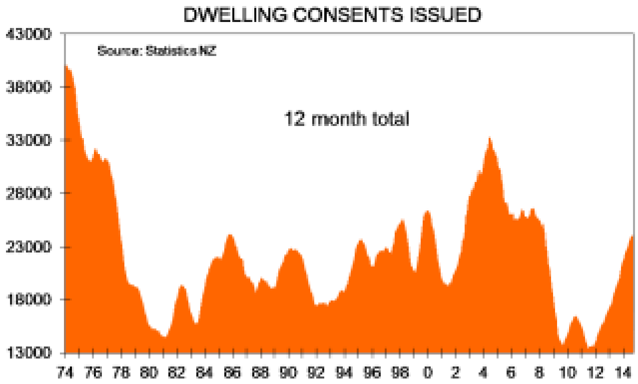
ISSN 2253-3672

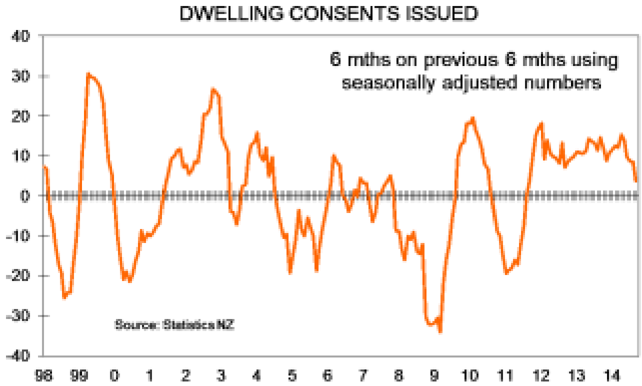
Mission Statement

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

A Few NZ Numbers

This week we learnt that in September there was a sharp 12.2% seasonally adjusted fall in the number of consents issued for the construction of new dwellings around the country. This means that a fall of 5% was recorded for the September quarter after rises of 6.3% and 0.2% in the previous two quarters. This is in fact the most negative result in three years. Does it mean that house building growth is stalling?





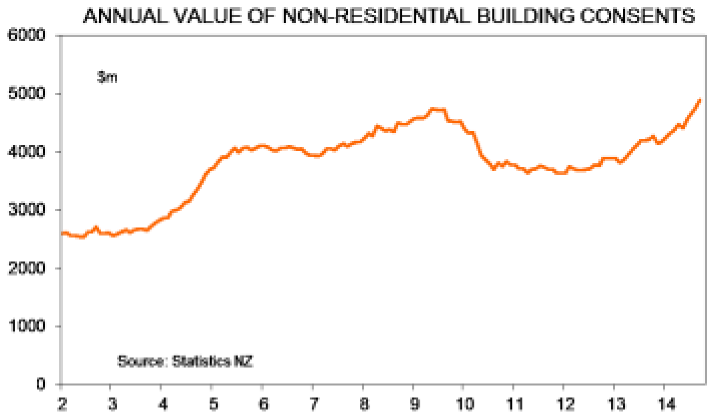
There are certainly constraints on the speed of growth in building caused by shortages of staff and in some cases shortages of land. And while one could cite pre-election nerves as causing the decline in September it actually made for three months in a row of falls with declines of 0.7% in August and 2.2% in July. There were also still falls if one strips out the sometimes volatile apartments component.

All up it seems safe to say that the trend pace of growth in dwelling consent issuance is easing off following a surge which has pushed annual consent numbers 8% above their 20 year average to 24,046 from just 13,533 three years ago – a rise of 78%. But activity is likely to remain at a high level for a number of years and probably go higher still due to the housing shortages driving construction in Auckland and Christchurch, and perhaps a little extra boost from a vastly changed outlook for interest rates over the past three months.

If one thinks back to the weak period of July through to September, it followed a series of interest rate rises which took the average floating mortgage rate up 1% with expectations of further rises from December. Now the expectation is no further rise until late next year, or 2016, or possibly not at all.

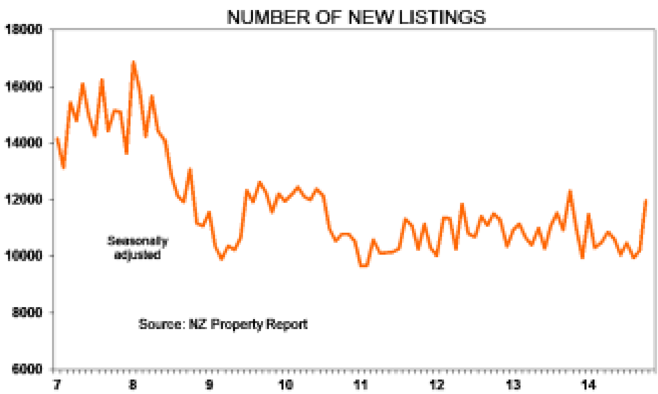
Thus builders and those who work with them are likely to remain busy for a good number of years. And speaking of being busy, those builders and others who work in the commercial rather than residential sector face bright prospects. In September the value of consents issued for the construction of non-residential buildings came in at $484mn. This was a 42% gain from a year earlier and means that for the year to September consent values rose by 16%. Leading the rise have been hospitals and nursing homes ahead by 84%, hotels and motels 34%, office buildings 32%, farm buildings 27%, and education buildings also 27%.

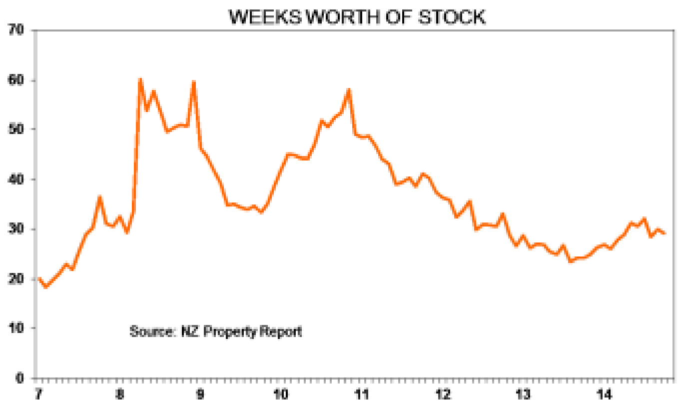
Growth is spread over a range of building types and one reads regularly now reports of rising demand for office space in Auckland. This could be because of more businesses shifting out of Wellington partly due to earthquake concerns. These concerns include that many Wellington buildings need a lot of work to upgrade them, and as noted by the Property Council this week, insurance premiums in Wellington are 175% higher than in Auckland. That means roughly three times as much.



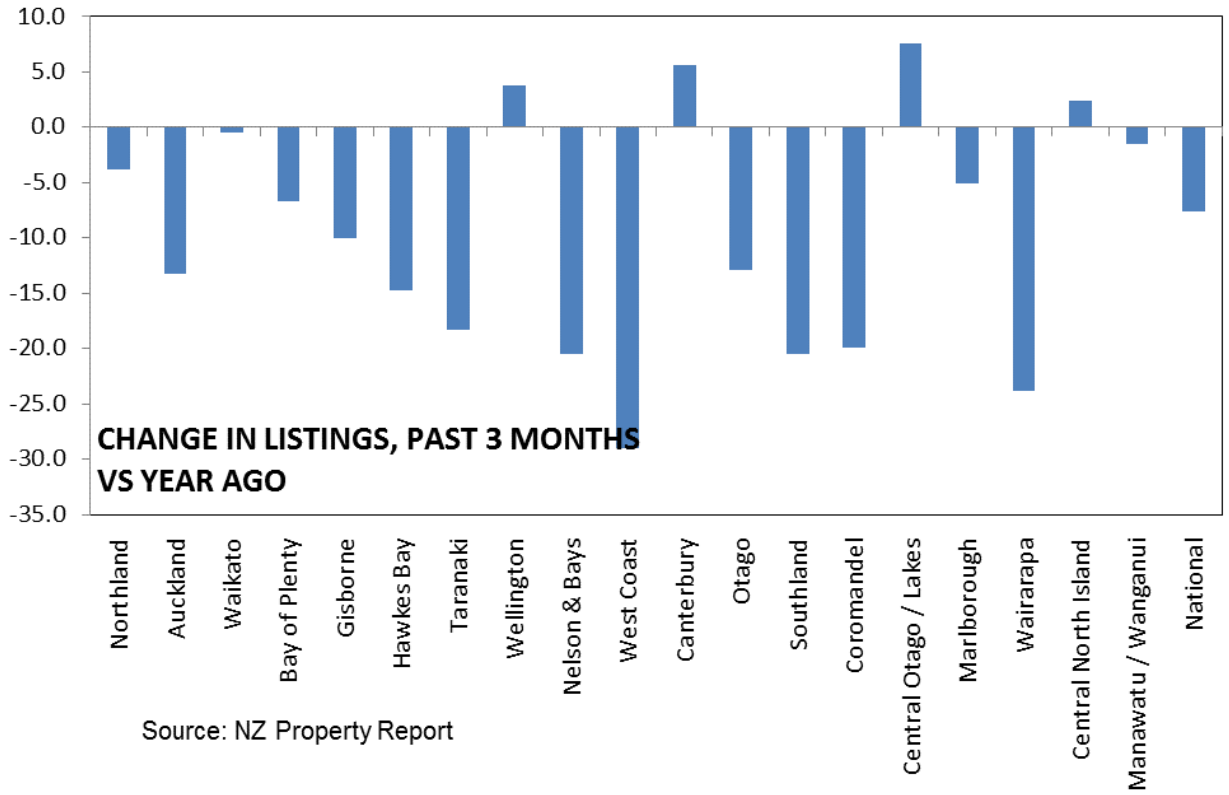
Again, speaking of busy, this week realestate.co.nz people reported a 17.5% seasonally adjusted rise in the number of fresh property listings received during October. This sounds like it might be a post-election bounce which is the first warning to buyers not to think that sellers are now flooding the market. The second warning is that in January listings surged 15.4% then fell 10.4% in February, in May 2012 listings rose 15.8% then fell 8.9% in June. Large jumps tend to be followed by large falls.

The actual stock of listings at the end of October was 3.9% ahead of a year earlier. So one might think that there is a mild sign of listings becoming more available. But speaking with many real estate agents in Auckland recently it is clear that their biggest struggle remains finding properties to sell. (See Barfoot and Thompson discussion below.) And new listings nationwide in the three months to October were still 7.6% down from a year earlier.

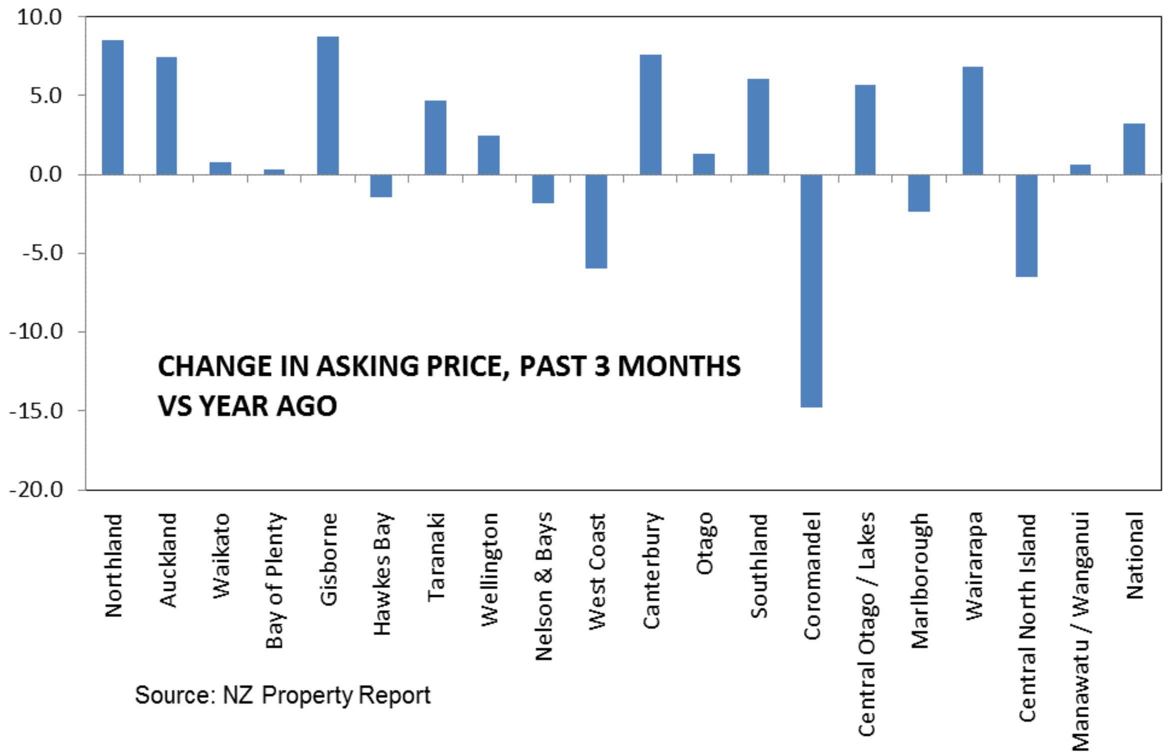




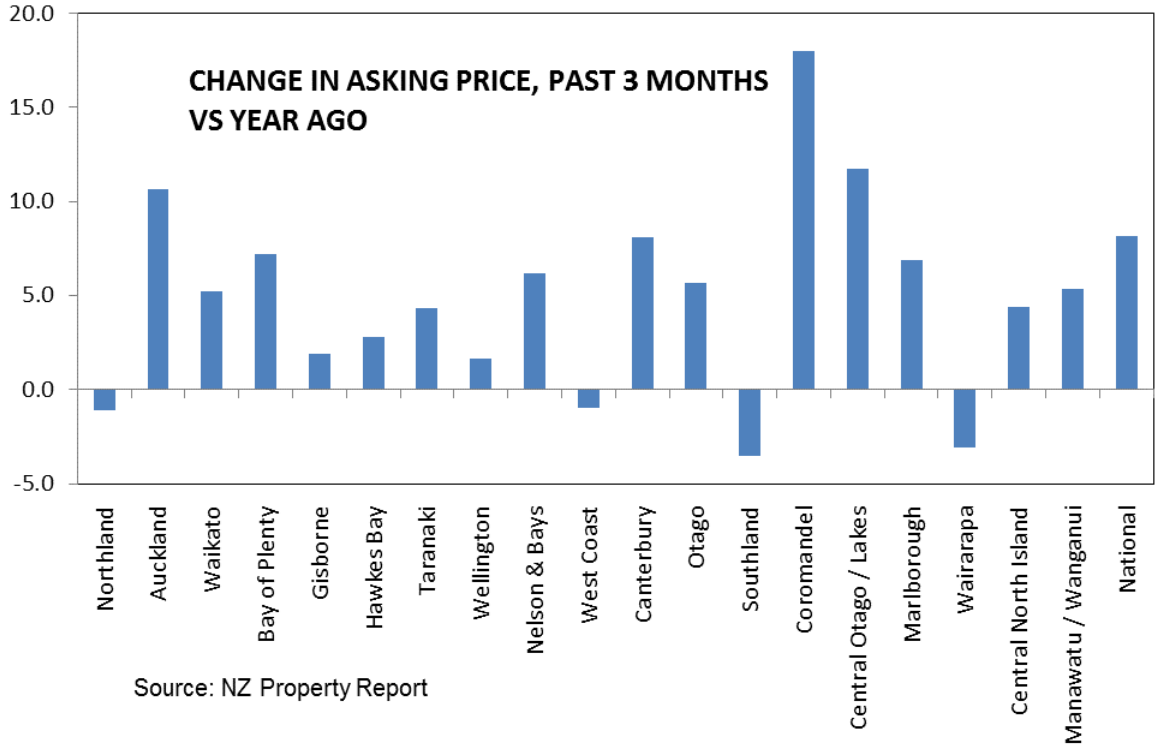
The rate of change in new listings from a year ago by region is shown in the following graph. Almost all regions show a big fall in fresh listings – some quite large.



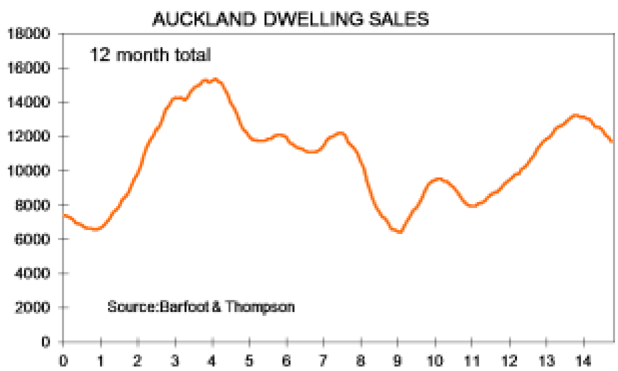
The average asking price in the three months to October was ahead by 3.2% from a year ago. For your amusement I have shown this on a regional basis in the graph just below, and followed that with the same graph for October last year. Note the easing off in price pressures in some regions, little change in others, and acceleration in some like Southland. Don't get too fixated on the changes however as regional data in our little country go all over the place and it can be hard to spot the underlying trend a lot of the time. Good luck.

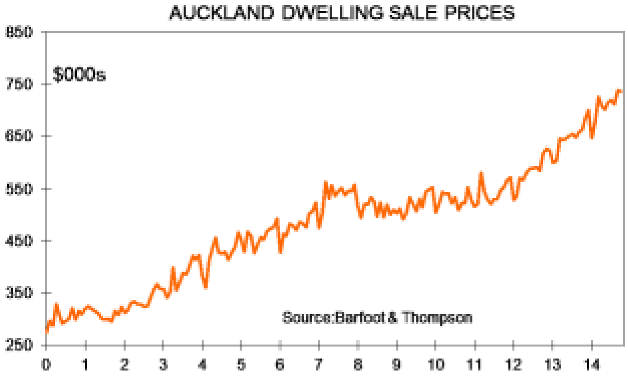


SITUATION AS AT OCTOBER 2013

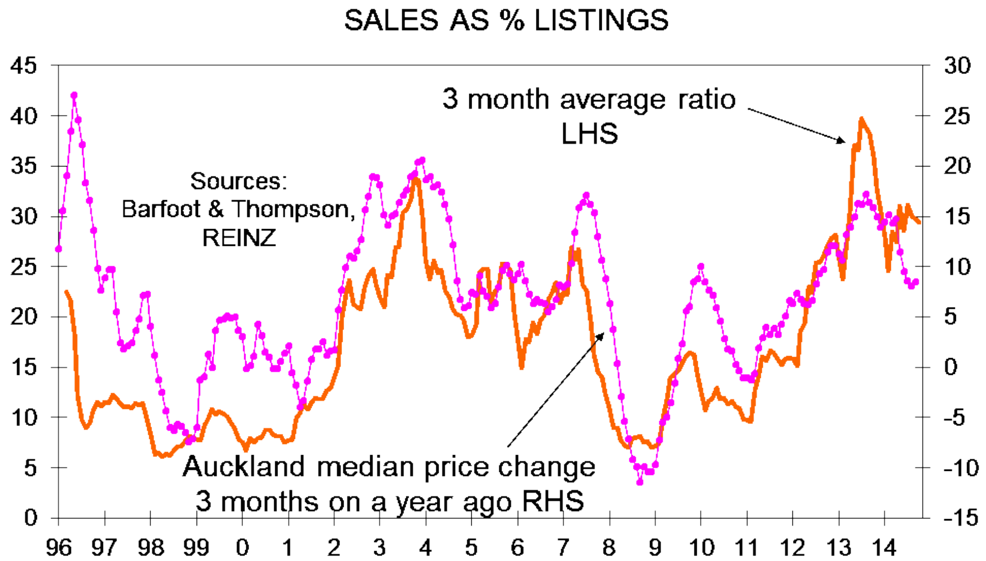


This week also brought us the monthly release on residential real estate activity by Barfoot and Thompson in Auckland. In October they sold 939 properties which was a decline of 22% from a year earlier but about a flat result when compared with September in seasonally adjusted terms. The trend in sales is downward, best shown in the first graph below. What about prices? The trend there remains upward with the October average sales price of $736,000 ahead 11% from a year earlier making for a 2.4% rise in the three months to October from the three months to July.





The number of new listings received in October was 12% less than a year earlier and the stock of listings at the end of the month was down 10.4% from a year ago – the most rapid annual pace of decline in inventory since December. Listings are in shortening supply. Note the following graph which shows the correlation between changes in the ratio of Auckland sales to listings (upward recently) and the REINZ median sales price adjusted for quality changes. The relationship suggests a possible lift in the pace of house price inflation soon. And heck, why not? Population growth is accelerating, the supply shortage is getting worse, wages growth must be even closer to accelerating slightly, (no evidence yet, see discussion further on) fixed interest rates are falling, and worries about additional rises in floating mortgage rates are going out the window.

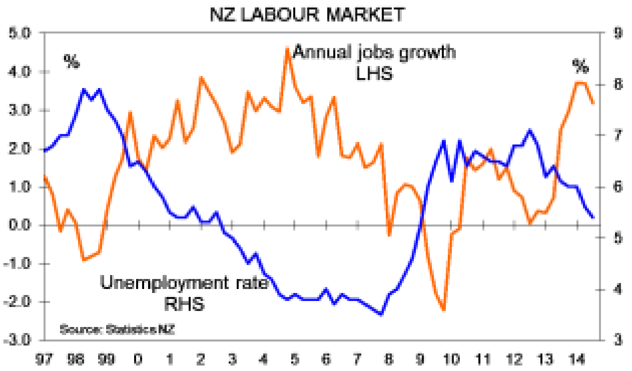


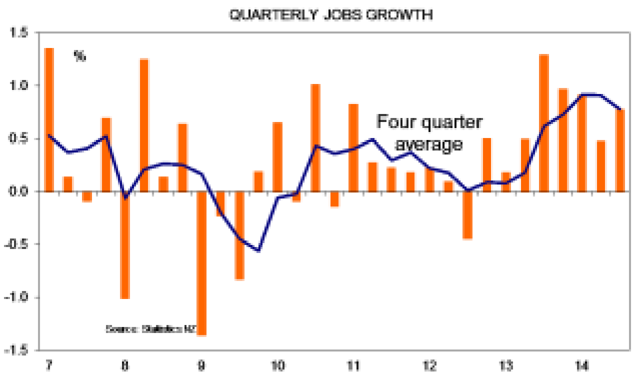
We also learnt this week that spending by international visitors to New Zealand in the year to March 2014 rose by 7.4% from a year earlier. This is a good strong pace of growth but at $10,311 the nominal level of spending is still slightly lower than levels seen in the years to March 2007, 2008, and 2009. In fact spending is 4% below the 2008 pre-GFC peak. International tourism now makes up 15.3% of total export receipts from 19.6% in 2008 and a peak of 22.1% in 2004. Thus the sector has been failing to pull its weight in the face of surging dairy exports. Were it not for whatever number of tourists have been encouraged to visit our shores by the Hobbit movies one imagines a lot of soul searching would be going on. In fact it is probably worse than that because without a surging Chinese economy causing a rise in Chinese tourist spending, as measured in the International Visitor Survey, from less than $300mn to near $900mn, the sector would look quite weak. In fact take a look at the following table from the IVS showing visitor spending each June year for major source countries from 1998.

$mn	Australia	UK	USA	Japan	Korea	China	Germany	Total
1998	839	504	501	622	110	39	152	3920
1999	964	675	673	627	64	33	172	4540
2000	1,083	741	779	760	153	88	193	5450
2001	1,165	932	962	722	137	152	229	6138
2002	1,211	1,118	912	720	240	204	230	6694
2003	1,392	1,207	840	590	278	303	242	6820
2004	1,770	1,291	700	588	424	263	244	7108
2005	1,791	1,205	710	501	278	285	232	6780
2006	1,936	1,477	748	428	227	293	251	7229
2007	1,956	1,276	852	394	274	301	298	7446
2008	2,259	1,440	763	426	229	314	257	7672
2009	2,105	1,162	667	402	170	340	330	7126
2010	2,315	1000	572	280	132	371	259	6867
2011	2,178	807	495	260	155	422	263	6535
2012	2,222	790	481	232	128	579	215	6646
2013	2,195	601	505	218	129	721	229	6431
2014	2,110	673	773	202	143	912	375	7150

Note basically zero spending growth since 2004, the collapse of spending from UK, Japan, and Korea. I guess in those countries they don't watch our movies, or boat races. Plummeting student numbers would actually explain some though not all of the Japan and Korea falls. But what lost us the UK market?

Continuing with analysis of data released over the past week, yesterday morning Statistics NZ released the September quarter Household Labour Force Survey. This showed that job numbers rose by a strong 0.8% in the quarter and 3.2% or 72,000 in the year. The unemployment rate fell for the fifth quarter in a row to reach just 5.4% from 5.6% last quarter and a peak of 7.1% back in 2012. By comparison the US rate is 6.1%, Australia 6.2%, UK 6.3%, and the OECD average 7.3%. Germany is at 4.9% which is where we are headed and lower as the data tell us that booming migration is not really preventing the unemployment rate from falling by all that much.





Where has jobs growth come from over the past year? Almost half the rise is in construction, 26% is in arts, recreation & other (what the heck is that?), 17% is in public admin and safety (how useful), 9% in healthcare and social assistance (very useful, pay them more), and the rest a statistically meaningless mish mash.

So, does this mean that we are only really talking about jobs growth in Auckland and Canterbury? Definitely not. The following table shows annual jobs growth by region in the past year in the first column. Auckland is ahead less than the 3.1% national gain at 2%. Canterbury however is 10.6%. Check out Nelson's 2.4%, Otago's 2.7%, Waikato's 7.7%, and Northland's 1.9%. Poor Wellington.

	% Jobs Rise vs. a year ago	**Rise Since 2007 Dec. qtr**
Northland	1.9	-1.5
Auckland	2.0	10.9
Waikato	7.7	-4.1
Bay of Plenty	-0.3	4.4
Gisborne/Hawkes Bay	1.5	0.0
Taranaki	1.4	1.3
Manawatu/Wanganui	1.8	-2.8
Wellington	-1.6	0.8
Nelson etc.	2.4	4.4
Canterbury	10.6	6.6
Otago	2.7	33.5
Southland	1.9	-2.2
NZ	**3.1**	**5.6**

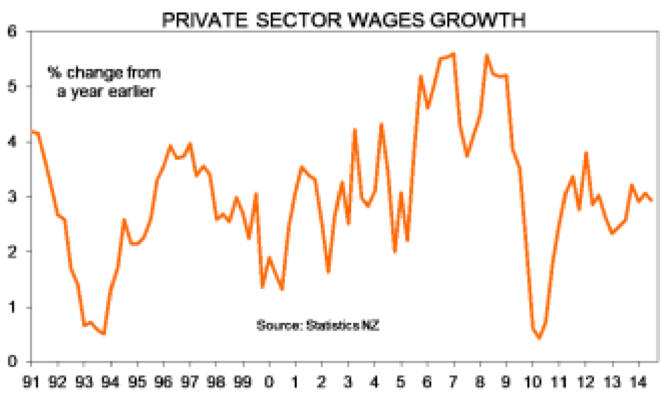
It is not accurate to say that the firm above 3% growth in the NZ economy is generating jobs only in our two biggest cities. But take a look at the second column of data. It shows jobs growth from just before the 2008 recession started. Nationwide we have 5.6% more people in work. Otago has recorded a 33.5% rise (Queenstown etc?), followed by Auckland's 10.9%, Canterbury's 6.6%, and the rest show below average growth, static in the case of Wellington, or falls in the case of Northland, Manawatu/Wanganui, and Waikato. The latter is catching up one can say now maybe, the other two trying but still lagging.

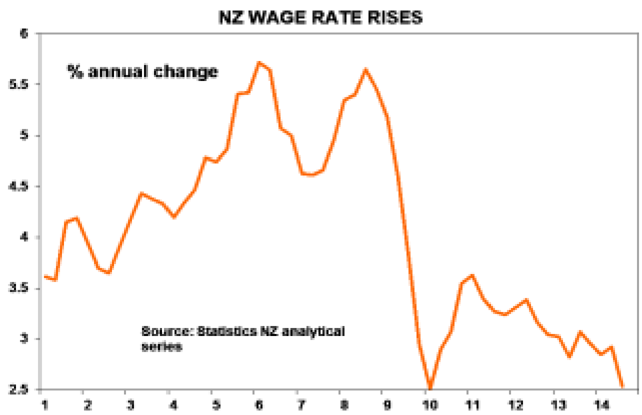
Some people are born whingers and will try to pick the HLFS to pieces to say that somehow the jobs growth is rubbish. Can they say that people are only getting part-time work? Nope. In the past year full-time employment has risen by 3.7% and part-time 1%. Since December quarter 2007 full-time employment has risen by 7.5%, part-time 4.7%.

The numbers are good though with a clear bias toward being driven by construction. We know that eventually the Christchurch rebuild will flatten out but there is growth in Auckland building coming to offset that plateauing and many construction/engineering projects to be undertaken all over the country over the next few years. So construction is likely to remain a driving force behind employment growth for some time. But more of the services sector is likely to be kicking in soon, not so agriculture, hard to say on manufacturing but perhaps some hopes there.

Is there evidence yet that wages growth is accelerating? Using the Quarterly Employment Survey also released yesterday we see that average hourly ordinary time earnings in the private sector were ahead 2.9% in the September quarter from a year earlier. A year ago this pace of growth was 2.6% but two years ago 3%. One would struggle to say that this shows any acceleration. The data are distorted by labour force compositional changes so to get a better feel for what is happening I like to look at an analytical series put together by Statistics NZ where they track unchanging job classifications.

This Labour Cost Index analytical measure was 2.5% higher than a year earlier in the September quarter. This rate of wage rate increase was down from 2.9% in the June quarter and 3.1% a year ago. It looks a lot like wages growth has slowed rather than lifted.





History and economic theory tells us that a falling unemployment rate will generate a wages response. But outside of some pressures in construction this is not happening. People remain hugely focussed on job retention and its not as if the bosses are going to voluntarily lift wage offers if they think they don't have to.

Did you know in fact that since the start of 2008 the Consumers Price Index has risen by almost 15%. Taking out the 2.5% GST rise that rounds down to just over 12%. That means that if your wage rate has not gone up by 12% since then you have suffered a real decline in your per hour income. You are poorer. If you have had no rise at all, you can buy around 12% less with your money than just over six years ago. Sucks to be us.

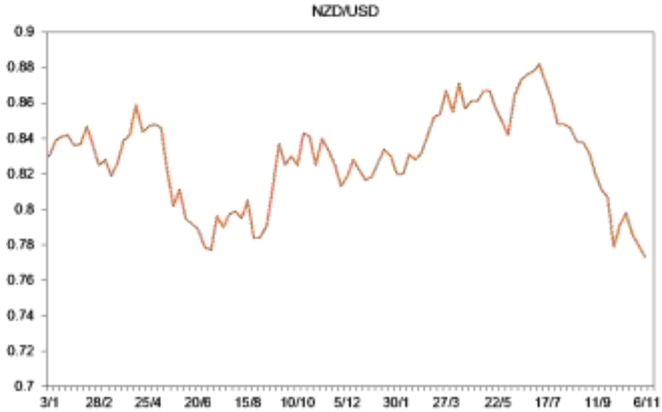
Try this. Maybe in the regions people don't agitate for larger wage rises because they are afraid of burning off the profits of their employers and forcing them to close or shift elsewhere. Maybe in Auckland people don't agitate because they are happy about their house price rising strongly. If they are young and without a house maybe they don't agitate because they realise they are last on and in the event of an economic decline they might be first off, perhaps they only care that they are making enough to buy the next iPhone, and perhaps they have zero knowledge of wage negotiations, the valuable role of unions and so on.

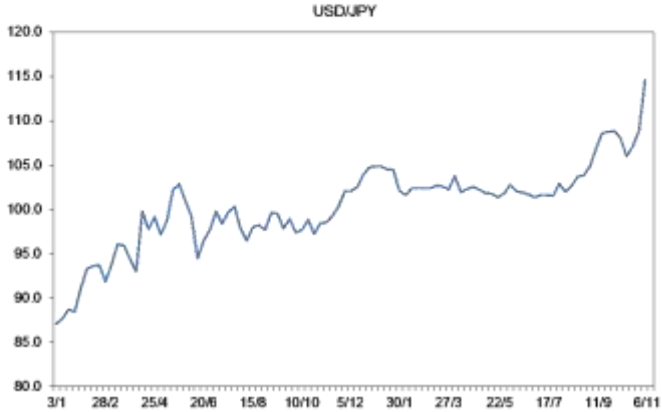
Perhaps they don't plan staying in their job long anyway so why rock the boat and instead just shift to get something paying more. According to a poll just conducted for the Australian newspaper 48% of employees say they anticipate changing jobs within five years, 11% within one to two years and 14% less than one year. 57% of those aged 18 – 34 expected to move within five years.

Whatever, the labour market dynamics have changed and we simply do not know when wages growth will accelerate. That will in some regards please the Reserve Bank and helps underpin an outlook for low interest rates, though theory again tells us that the chances are higher rates will still one day, some day, be needed when wages growth lifts and businesses feel that they have enough pricing power to pass the higher costs onto their customers. Outside of monopolistic local authorities forever jacking our rates up, oligopolistic electricity suppliers, and a few others, my theory is that most businesses post-GFC do not feel they have such power, just as employees feel they do not have their own pricing/waging power.

Some FX Comments

The Kiwi dollar this evening is buying around US 77.3 cents from 78 cents last week and 78.6 cents a fortnight ago. Why the decline? Mainly it reflects some aggressive buying of the USD against a weakening Japanese Yen (versus which we have jumped to 88.6 from 84.9).





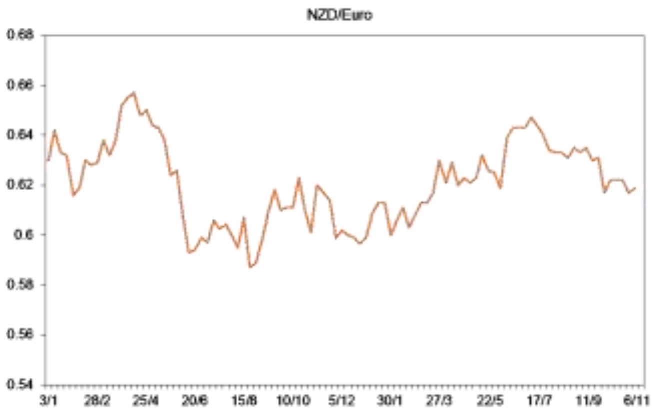
The Yen fell away last Friday after the Bank of Japan Governor surprised the markets with the announcement of an expanded programme of government bond purchases. Extra buying (financing of 75% of the Japanese government deficit) means more money sloshing around to depress the Yen and flow into other markets – hence a rise in sharemarkets on expectation of extra funds buying equities.

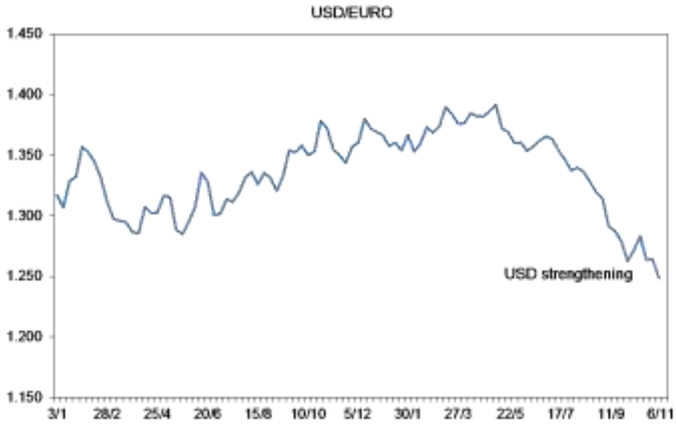
The BOJ has acted in response to the core inflation rate slipping back to 1% and seemingly away from the 2% target for some time in 2015 which the BOJ has refused to specify, plus the economy showing considerable weakness following the April 1 increase in the consumption tax from 5% to 8%. Housing starts in September for instance were down by 14.3% from a year earlier. The BOJ hope that a weaker Yen and more money available for lending will boost growth, but the risk is that more money will simply boost asset prices and achieve little if people do not wish to spend from their higher paper wealth – wealth which was decimated just two decades ago when a price boom reversed astoundingly.

The BOJ has a very hard task at hand to raise inflation and boost spending and the odds remain against their money printing working.

The chances are also high that the European Central Bank will be forced to embrace bond buying soon also as growth indicators for the Eurozone turn bad. This week the European Commission released a regular update to their economic forecasts and cut expectations for growth this year to 0.8% from 1.2%. The 2015 forecast was cut to 1.1% from 1.7% in the last set of forecasts made in May. They cut their 2014 inflation forecast to 0.5% from 0.8% and their 2015 inflation prediction to 0.8% from 1.2%. The ECB target is 2% hence speculation of additional unusual monetary policy easing. The unemployment rate is seen at 11.6% this year then 11.3% next year with 10.8% forecast for 2016 – still above pre-GFC levels eight years after the crisis. In the Economics dictionary under "mismanagement" see EU.

The NZD risen against a weaker Euro this week to 61.9 centime from 61.7.



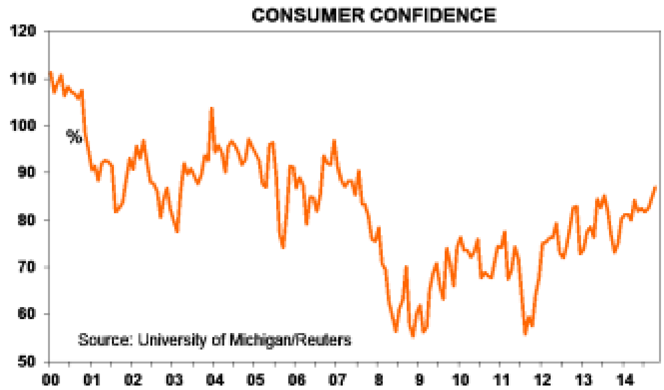


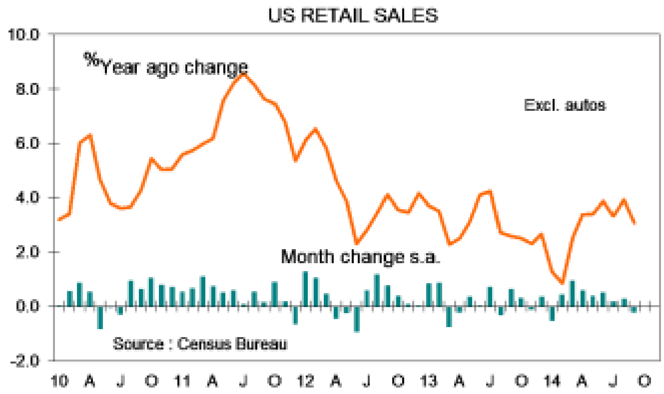
In China such outright monetary stimulus via bond buying is unlikely as there is no great concern about deflation and the latest GDP growth rate was 7.3%. However the housing market has revealed falling prices on average for the past five months, and the manufacturing sector is struggling to grow. The latest official Purchasing Managers Index for instance came in at 50.5 for October which was down from 51.1 in September and below expectations.

Regional authorities have already taken some moves to ease up on previously tightened housing policies and the PBOC eased up on credit controls recently. But with weakness in other parts of the world expected to hit exports, a big oversupply of apartments, and an ever-deepening anti-corruption drive hitting sales of high-priced consumer goods, forecasts that growth will not only fail to reach the 7.5% target this year but fall below 7% in 2015 are growing.

The relevance for ourselves is that weakness in China will tend to keep export commodity prices suppressed. However with household incomes still rising there seems little reason for becoming pessimistic about tourism and that is a sector which can provide benefits for parts of NZ not currently enjoying the growth driven by construction in the likes of Auckland and Christchurch.

In contrast in the United States there has just been a run of good economic data. These include a higher than expected 3.5% annualised rate of growth in GDP for the September quarter, plus a good bounce in consumer sentiment to a seven year high. There are even some signs of wages growth picking up at last and retail spending growth remains in healthy territory as shown in the second graph below.

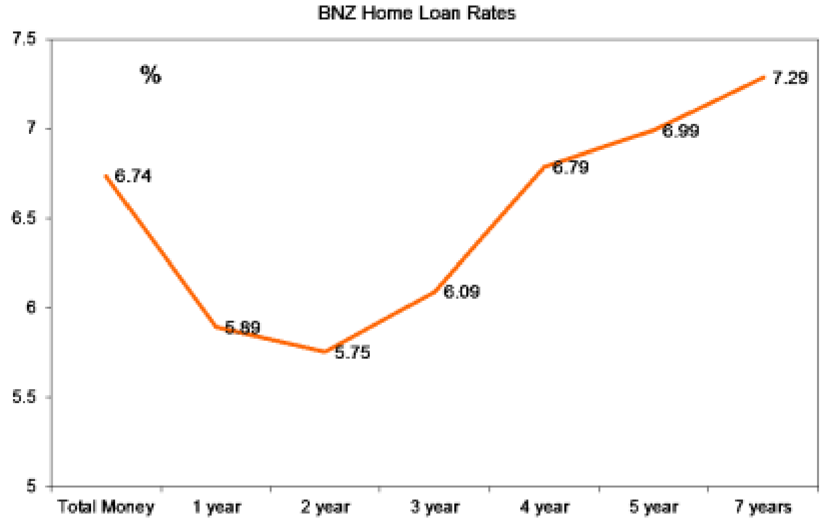




The NZD would probably be a tad lower at the moment were it not for the stronger than expected employment report released yesterday. The good jobs growth raises the chances of accelerating wage rises. But there is zero evidence of that happening yet so the chances remain strong (this week, who knows what interest rate forecasts will be next week) that the RB will not alter the cash rate again for some time.

If I Were A Borrower What Would I Do?

Nothing new to write here. The home lending yield curve is likely to look like a bowl for some time so I would be bargain hunting in the 2 – 3 year area for the bulk of my mortgage. I'd get off floating as it costs a lot more than medium-term fixed rates. Four year rates look too expensive and I would not fix there.



The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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