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.

A Bath In My Driverless Carriage

I was at a function recently where another speaker ventured the opinion that in 15 or so years time we would all be using driverless cars. The gut reaction of 99% of you to that comment will be the same as mine which was no chance at all. I love driving. But there will be many people quite happy to use driverless cars, and plenty of people we all know who should be forced to use them.

So I took to thinking about this potential development in another way – the opening up of business opportunities and potential uses which could be quite wonderful. One's driverless car would effectively be like a part of the public transport system, but you would have your own private pod in which you could do – well, anything.

My thinking started by reflecting on the Simpsons episode where Homer discovers the power socket in his car and plugs in a massive range of appliances including a deep fryer, coffee maker, fax machine and so on.

Sitting in our driverless cars we could do the same thing, adding nice coffee machines, gaming systems etc. But we would not need to position these things so that they could be reached from a current driver's seat position because the non-driver could sit anywhere. In fact why sit. One could install an Air New Zealand-like flat bed system and sleep on the way to work, school and home again or watch a movie.

One could even install a massive TV screen in place of the window screen as there would be no point looking ahead to see what was coming – the car would take care of all that. Drink driving would be a thing of the past. You could get driven to a bar, get pickled, then get driven home. You could arrange with friends to meet for a drink in your car where you could install your own bar. The car would pick up and drop off each invitee. Thus we would not all gravitate automatically to little pod cars but being Kiwis will probably want the SUV equivalent or people/drinking mate mover variety.

Teenagers would no longer need to "park-up" on a date. Tint the windows and cruise. Partners could simply go on a date in their car, cruising through city streets, up hills for the view whilst sipping champagne and eating oysters and chocolate the whole time. Rather than some romantic vision of honeymooning in a private car on the Orient Express you could simply hire a driverless car in Europe programmed to follow a certain picturesque route for two weeks. It would be wonderful.

No more foreigners driving on the wrong side of the road. In fact countries would simply ban non-residents from driving in anything other than a driverless car. The cars would probably be electric driven and they could automatically plug themselves into an outlet to charge up each night, or drive over ten kilometre stretches of road into which recharge cables have been laid.

Coming home from school you could hire a tutor to travel with the kids to help them with their homework. You could turn the car into your office and hold meetings there.

The possibilities are massive and scope for profitable exploitation is open to everyone. So if you are of entrepreneurial flare you may want to think about how you can make money from the changes in what we would do in our cars, changes in our social interactions, and eventual ending of our description of a vehicle as “our” car. We would lose personal attachment to our cars, and instead form attachments with the things we put in them. Then, like the French shifting apartment and taking their kitchen with them, we would change cars and relocate our appliances, furniture, spa bath and massage table to our new vehicle.

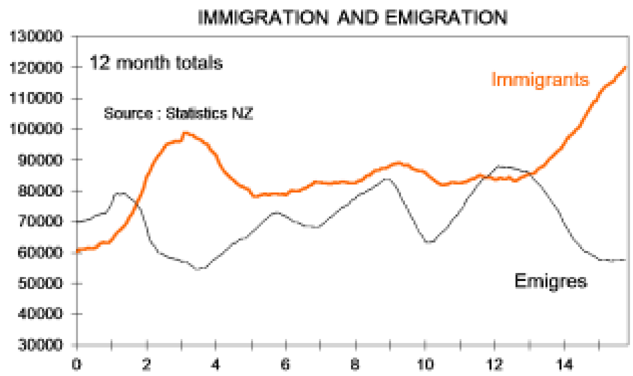
Would driverless cars swerve to miss possums? Guess it comes down to who programmes them. “Its either you or the possum” the ad says. Best hope extreme animal lovers don’t set the parameters. Imagine the Pukeko invasion!

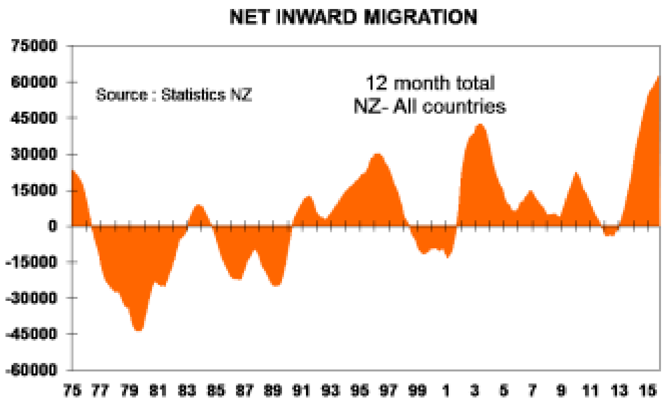
http://www.dezeen.com/2015/11/20/volvo-concept-26-self-driving-autonomous-car-transport-design/

Housing

This week, in the absence of any new data on changes in house prices, house sales and so on, it is hard to do anything other than focus on the net migration numbers which continue to go through the roof.

Back in late-2012 when I warned that Auckland house prices would rise a lot more than the 40% they were up since 2009 because of net migration flows turning from negative to positive, I figured the annual gain might get to 30,000 or 35,000. It has now, in the year to October, hit an astounding 62,477 courtesy of 120,123 people shifting to NZ for more than a year in the past 12 months and just 57,646 leaving. This is shown in the first graph below.





This annual net inflow total represents a 1.4% boost to the population. That is a lot of extra people needing accommodation and if we use the NZ average of 2.7 people per dwelling that means a need for an extra 23,000 houses. In the year to September the total number of dwelling consents issued was 26,000 so allowing for at least 10% of these houses not in fact being built or replacing demolished houses, all the additions to our housing stock are going simply to handle migration-driven population growth.

Auckland gained a net migration flow in the year of 38,000 people, a population boost of around 2.5%. That means the need for an extra 12,700 houses using Auckland’s three per house occupancy rate. Consents in the past year have totalled 8,700. Auckland’s housing shortage continues to get worse and worse and that is the key reason why during this pause in Auckland’s housing market as Chinese buyers struggle to get funds off their mainland and investors look for bargains elsewhere in NZ, Auckland buyers face a small window to pick and choose from stock on offer to a slightly better degree than a few months ago.

Eventually however the economics 101 of the situation will shine through again in an environment of sustained low interest rates, and prices will rise. They are probably still rising, though simply at a slightly slower pace than before.

And just in case you still hold the belief that Auckland house prices are about to fall, the city's total population growth last year was about 3% meaning the need for an extra 15,000 houses in total.

Real action for now however is in the regions excluding Christchurch with buyers literally snapping up anything they can find. They have a price range in their minds reflecting what they are used to in Auckland. Faced with much lower prices elsewhere, 50% lower in fact on average, their willingness to buy easily exceeds that of the locals who have stood idle these past few years not buying the lower priced stock on offer.

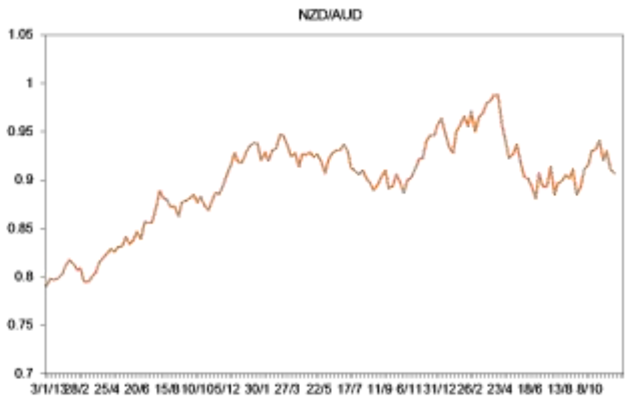
Where does all this end? Well that is the key issue. There may not be an "end" as such as we have seen in the past, simply periods such as Auckland is going through now when some buyers back off for a tad. In the absence of any serious interest rates threat in the next few years the cycle is only likely to definitively head downward if we get a combination of booming supply (very unlikely in the short to medium term), imposition of much tougher finance access rules by the RBNZ (highly probable), and a reasonable-sized economic shock right after tighter rules have been introduced (unknowable).

For the record, the migration flow with Australia has officially turned positive on an annual basis for the first time since 1991.

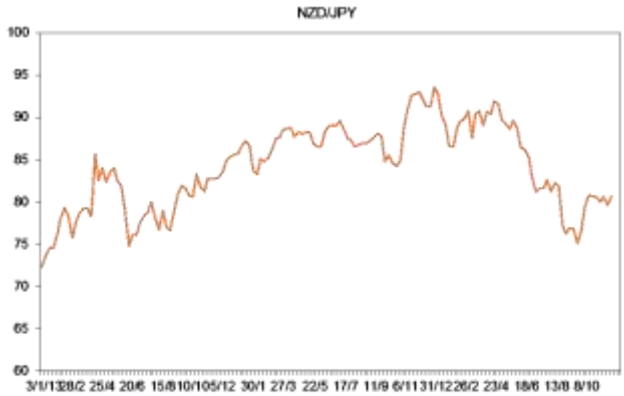
For noting, Auckland Council are debating opening up many suburbs for higher density dwelling construction. Thus the less forward-looking people may start to understand why people have paid such high prices for many properties with land – land-banking for future subdivision and multiple unit development opportunities. Final decisions on the affected suburbs will occur next year. But current occupiers should expect changes as Auckland has no option other than to intensify given the lack of funds to allow development of an efficient transport system which will allow people to live a long way from their places of work.

NZ Dollar

A week ago the NZ dollar was buying 64.5 US cents and now it sits over one cent higher near 65.8 cents. This rise mainly reflects some weakness in the greenback over the past week as profits were taken following last week's rise partly on the back of weakness in the Euro following the events in Paris. In other words, the NZ dollar is back where it was a fortnight ago against the US dollar – and also there or thereabouts against the British pound, Yen, and Euro. However we are at a two month low against the Australian dollar near 90.7 with the AUD boosted by a pullback in expectations of additional easing of monetary policy by the Reserve Bank of Australia.



Going ahead we feel the NZD retains good support in a world where although the US economy is improving and interest rates may be raised soon, elsewhere tough economic conditions continue. Be on the lookout for any rebound in dairy prices which could easily see the NZ dollar stage decent rises against most other currencies.



If I Were A Borrower What Would I Do?

I would still opt for the two year fixed rate. Note how competition is however even stronger with new discounting of one year fixed rates and the medium term rates also coming down a tad further.

For Noting

One of our key themes has been that while the decline for now in dairying will sap growth in the economy, there are plenty of insulating factors. One we have emphasised is many non-dairy exporters doing well especially with new assistance from the extra weakness in the NZ dollar caused by the fall in dairy prices. And one of the non-dairy export sectors we have noted has been tourism.

This week the International Visitor Survey figures for the year to September were released. They show visitor spending in New Zealand has soared by a massive 38% in the past year. Here are the growth rates by country. The tourism sector is still substantially smaller than dairy as an export earner and unlikely to surpass it once you strip export education from the tourism figures and ensure casein revenue is included in the dairy export total. But the sector has good upside potential and positive impacts spread all over the country.

	Spending rise in the past year
Australia	22.7%
China	78.1
UK	43.4
USA	54.9
Germany	34.7
Japan	5.2
Korea, Republic of	8.5
Canada	45.5
All	**37.6**

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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