

## 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.

## School Holidays Almost Here

No great inspiration struck me this week and nothing substantial enough has happened anywhere to greatly alter the NZ or global outlook, so the Overview is on the short side apart from some space filling graphs in the housing section. Enjoy but watch for the Reserve Bank to potentially impose more housing credit controls as they cut interest rates most probably later this month and again toward the middle of June.

## Housing

Housing markets around New Zealand are chugging along, driven to various degrees by Auckland buyers looking for yield and lower mortgages outside of our biggest city, locals jumping onto their local bandwagons now that they see outsiders buying in, low interest rates set to go lower, record net migration inflows, and foreign buyers previously postponing purchases in order to get IRD numbers now having those numbers and back in the market again.

This latter effect explains why Auckland saw a lull in sales, prices, and lengthening of days taken to sell a dwelling from October last year. But as noted here four weeks ago that lull seems to have ended in February and March was strong as well. The period of a “paused” Auckland housing market responding to regulatory changes has ended and young buyers who did not take advantage of this window of opportunity to go to auctions and face fewer competing buyers have missed out. Again.

In Auckland in March the average sales price adjusted for changes in the mix of properties sold jumped by 4.3% after rising 5.5% in February. That price measure fell in total by 3.3% between September and January. The latest measure represents a rise of 13.3% from a year ago or 12% when comparing the March quarter with March quarter 2015.

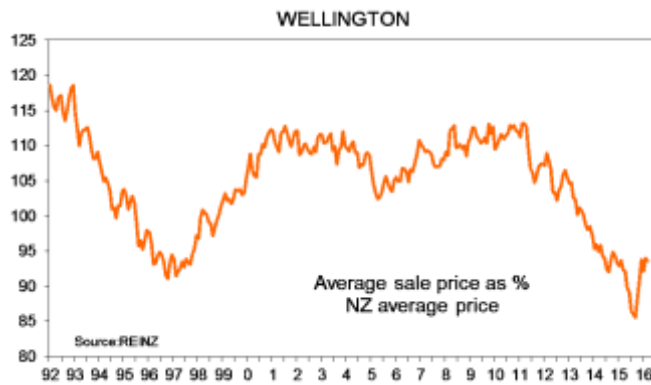
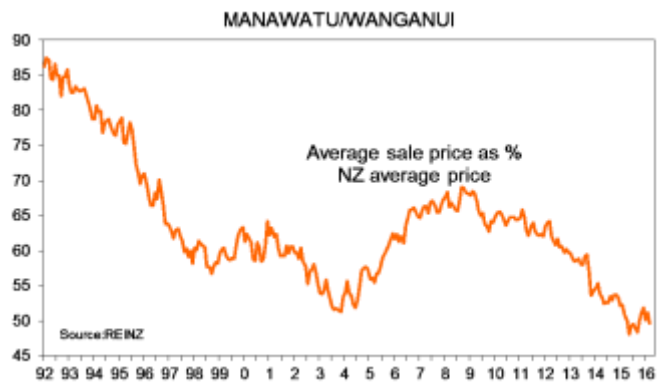
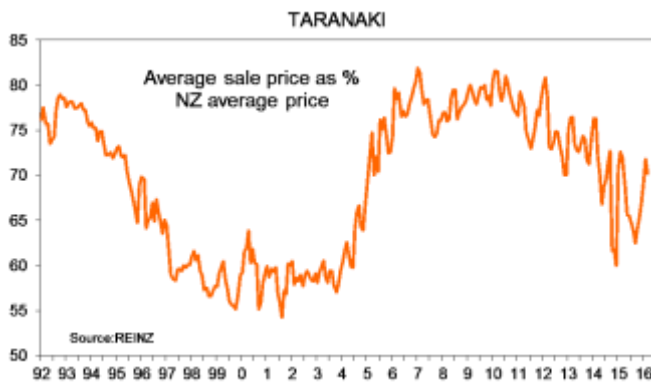
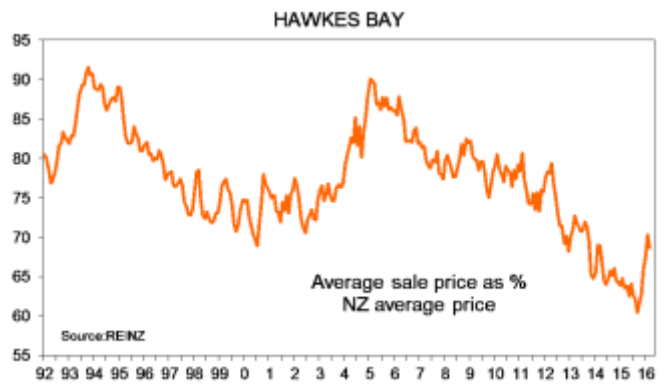
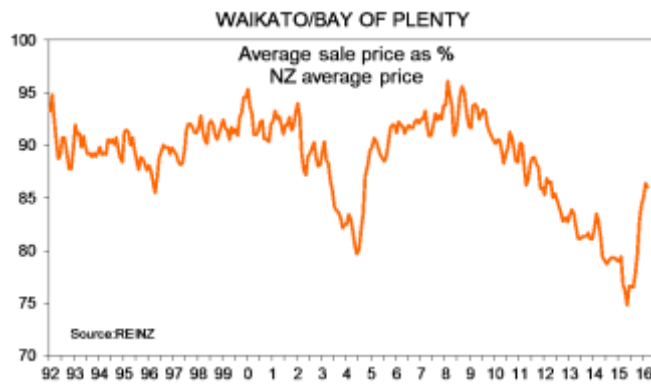
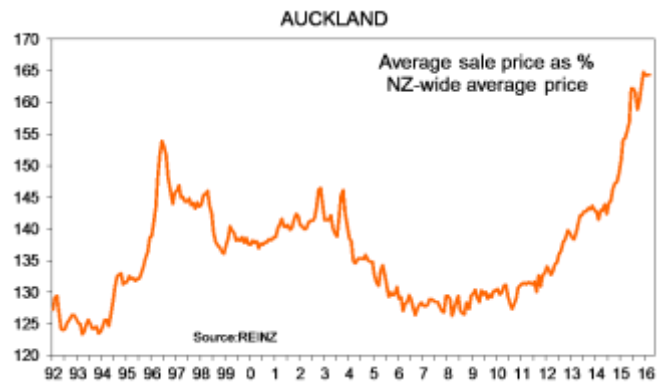
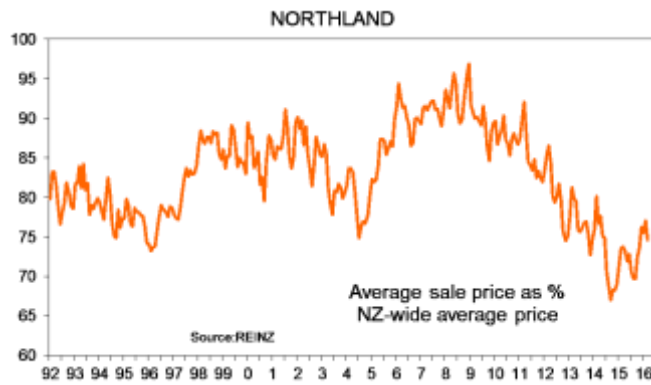
On average in March it took 31 days to sell a house in Auckland which was 1.4 days faster than average, slightly less strong than February’s 3.7 days faster than average outcome, but the second strongest result since September.

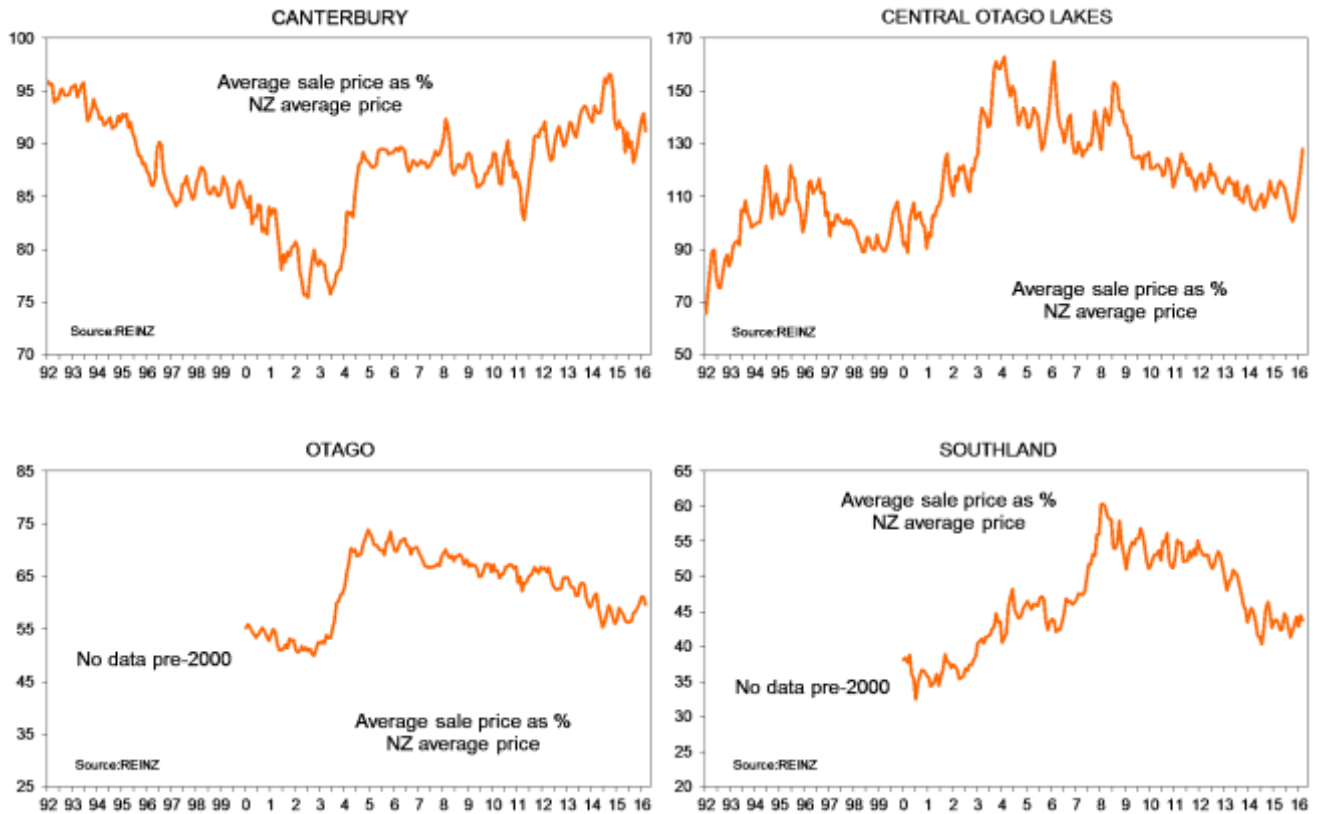
In Wellington prices in March were 12.8% ahead of a year ago and for the entire March quarter (a better measure) were up 10% from March quarter last year. Prices are now 19% above early-2009 levels versus a 92% rise for Auckland and 44% rise for Christchurch. Wellington is in the huge catch-up phase written about here last year. Houses sold 8.3 days faster than average compared with slower than average sales days for most months since the end of 2007.

In Waikato/Bay of Plenty price changes for the month and quarter on a year ago respectively were 22% and 17.2%, Hawkes Bay 12.7% and 13%, Nelson etc. 15.1% and 10.3%, Central Otago Lakes 26.5% and 17.4%. Elsewhere price changes were positive but not as startling.

How long will the surge in the regions last? All we can do is invite you to take your own stab at an answer by comparing where prices sit now with where they have sat versus the NZ average for the past couple of decades. Good luck. But before you get too het up about the likes of Northland and Manawatu/Wanganui, do take a look at the table following the graphs showing projected regional population changes from Statistics NZ. Over-optimism regarding regional population growth is a key cause of investor error.

# BNZ WEEKLY OVERVIEW





**Regional Population Growth Projections 2013-43**

Region	%
Northland	11.1
Auckland	49.3
Waikato	21.9
Bay of Plenty	17.5
Gisborne	1.3
Hawke's Bay	3.8
Taranaki	14.6
Manawatu-Wanganui	1.5
Wellington	12.7
Tasman	10.7
Nelson	14.8
Marlborough	4.5
West Coast	0.6
Canterbury	29.5
Otago	14.8
Southland	0.8
<b>All NZ</b>	<b>26.9</b>

Last housing cycle we saw a lot of people lose money as minimally regulated finance companies raised money and lent it for large developments which failed to produce the returns promised. With interest rates low and headed lower, and an increasing number of people searching for extra yield, one would expect more and more people to be actively searching out the new version of those finance companies so they can get higher promised returns.

But such vehicles for gathering little investors' funds and advancing them on grandiose projects are not there this time around and look unlikely to appear. The Reserve Bank has sharply extended its supervision of such businesses since failing to adequately monitor finance companies, and there are so many requirements which such companies need to meet now that setting up and running something akin to those 2000s enterprises is almost impossible.

This means that the rise in dwelling construction this time around will be more spread out than last cycle, and the risk of a correction caused by excess physical supply a lot ~~lot~~ less. This is a positive thing because when the cycle turns there will be harm to fewer uninformed investors chasing risks they have not properly priced.

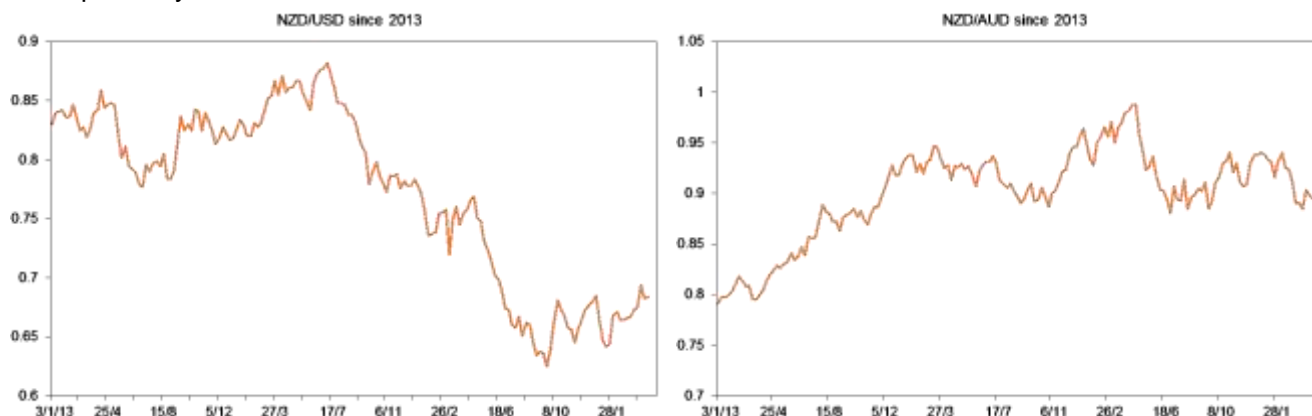
But the absence of investment vehicles for gathering small deposits does not alter the demand from people for property exposure to deliver extra yield. So what will they do? Many will seek to do their own investing, perhaps by purchasing a property with subdivision potential. That is one reason why investor demand is so strong in Auckland and property prices so high. People are investing in land able to be developed as intensification intensifies. People are not just buying expecting the price of what they have to go up. They are also buying expecting the price of what can be done to their property to go up in an environment where it is very unlikely that widespread moves will be made to reduce intensification. Hence the strong concern of some property owners over moves by other owners in their leafy suburbs to prevent the Auckland Unitary Plan allowing intensification. These are two powerful groups, (nimbies, potential ~~deveopers~~ developers), but only one group is growing in size and gaining more influence over time – the latter. Intensification will come. It's inevitable, which is why people will keep buying for future potential development driven by population growth pressures.

### NZ Dollar

~~The~~The Kiwi dollar has ended today unchanged from last week at 68.4 cents with an earlier rise to 69.5 cents assisted by good economic data in China (exports up 11.5%) and higher oil prices making investors slightly less risk averse. But our currency has ~~pullked~~ pulled back today to sit unchanged from where it was last week.

Global financial and economic conditions remain vulnerable to changing attitudes toward a very wide range of significant factors. These include how much the Chinese economy is slowing down (not that the data can be at all believed), whether the UK votes on June 23 to leave the EU (probably they will) and what the impact will be, US monetary policy (especially with the markets only pricing a 50% chance of one rate rise this year while the Fed talk in terms of two or three), ongoing weakness in emerging economies like Russia and Brazil, and commodity prices.

These uncertainties stand in contrast to the support for growth in NZ coming from booming non-dairy exports, construction and migration which will tend to keep the NZD firm even as the Reserve Bank cuts rates probably two more times.



You will find current spot rates here. <http://www.xe.com/currency/nzd-new-zealand-dollar>

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

Nothing much new really. Keep 20% - 25% floating and fix the rest probably for two years.

### **If I Were An Investor ...I'd see a BNZ Private Banker**

The text at this link explains why I do not include a section discussing what I would do if I were an investor.

<http://tonyalexander.co.nz/regular-publications/bnz-weekly-overview/if-i-were-an-investor/>

### **For Noting**

Nada.

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](http://www.tonyalexander.co.nz)  
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