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.

On Holiday

I should have written last week that I am on holiday this week and next so the next issue of the Weekly Overview will come out on May 5. But now you know. But since I've had to send this out to let you know I am not sending this out here are some quick comments regarding developments in the economic world over the past week.

Inflation remains low in New Zealand at just 0.4% for the year to March. There are quite a number of measures produced by Statistics NZ and the Reserve Bank which try to get beneath the headline number to see what is really happening when one-offs are stripped out. They are not as low as 0.4% but do tend to be clustered toward the lower end of the 1% - 3% target range for the Reserve Bank.

That means we cannot really be justified talking in terms of a high risk of deflation in New Zealand. But it does mean that should a shock come along such a risk is high and for that reason of building an inflation buffer the RB will probably ease monetary policy a couple more times this year – possibly next week and again in June.

Lower interest rates will of course stimulate the housing market and most commentators now seem to have picked up on the point we were making frequently last year – a resurgence in house price inflation in Auckland and/or surging regional centre prices will probably prompt the RB to widen its credit controls.

That may mean a 50% investor depositor requirement in Auckland and Auckland's current 30% elsewhere. We'll just have to wait and see – but be in no doubt that this new world in which we live post-GFC is one in which economic relationships have changed and the old regime of simply raising interest rates to target generalised inflation and an over-heating housing market is no longer workable for our central bank and others overseas.

Housing

Strong in the regions and now again also in Auckland. Deeper credit controls to come. More Chinese buying likely as the Beijing leaders have opted to stimulate growth through increased infrastructure spending and looser credit conditions – kicking the can of an economic/financial correction further down the road again just as Europe has been doing. The improved growth (though it was just 1.1% during the March quarter) increases the chances that restrictions on capital outflows will be eased later this year.

Combine that eventual easing with

- buyers getting to grips with the IRD number requirements,
- banks across the Tasman cutting lending to offshore buyers, and
- rules affecting foreign buyers of residential property in Australia being tightened and applied effectively,

means we are likely to see some previously Aussie-bound buyers shift our way instead as we become one of the few residential markets left around the world completely open to foreign buyers.

NZ Dollar

Dairy prices rose a surprising 3.8% at the latest fortnightly auction held this week and as a result the Kiwi dollar for a while traded above 70.5 cents before ending this afternoon near 69.7. This easy rise above 70 cents on the back of such a small rise in dairy prices (which are unpredictable and could easily fall next auction) illustrates the key point we have been making about the NZ dollar for a long time. It has a bias to the upside because compared with the rest of the world we look great.

Our economy's growth rate is underpinned by construction and non-dairy exports, people are voting with their feet and staying or moving here, we have a vibrant democracy not throwing up (literally) the weirdoes hitting the stumps in the US Presidential candidate race, we are not on the verge of tearing our political structures apart (the EU and UK), we do not face a shrinking and old population returning to deflation with near zero growth (Japan), we don't have the corruption of China, Brazil, and Russia, and government accounts are in good shape.

This analysis does not allow us to forecast what the Kiwi dollar will do over any particular week, month or quarter. But it does tell us there is a wind behind the NZD pushing it up, not down, and so we repeat the comment we have been making here for a long time now. Exporters should strongly consider buying the NZD when it dips down because the chances are it will drift back up again when whatever shock caused it to fall eases from memory. Simple.

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?

I personally would lock in most of my debt for a two or three year fixed period with around 25% or so left floating. But I would start to give more serious thought to how much debt I am taking on board and whether I should be borrowing at all. Our country is filled with people who have "missed out" on the run-up in house prices since 2009 and they are scrambling to join the in crowd. This scrambling has pushed up prices in the regions with more to come and as the new reality of sustained low borrowing costs gets factored into house prices nationwide, and led to a refocussing back on Auckland quite a few months earlier than we thought would be the case.

But as prices go higher, the period of firm economic and jobs growth goes longer, and interest rates go lower, probabilities of prices continuing to rise start changing. We are not there yet but to those people who have read this publication the past few years and seen that our housing analysis has been correct while all other economists have called the end of house price rises many years too soon, this little section here is a tiny warning. There is an end game. It will come. It always does. It usually comes from rapidly rising interest rates. It won't this time. It will instead reflect a hammering from spreading, strengthening credit controls, but only become a painful rout if the economy's growth rate tanks at the same time as these restraining measures have their impact.

Will this happen? Maybe, because the credit control spread will be put in place and not removed until the economy does tank and excesses in the housing market are cleared out. Can we predict when this will occur? No. But are we close? Not yet. But the first necessary condition for a correction to come, widened credit controls, is imminent.

But would I still be a house buyer currently? Yes.

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
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz