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.

Lots of Talking

I've been on the road giving nine talks around the country this week so haven't had much time for writing, hence the lack of a lead article this week.

Housing

If the Reserve Bank introduces limits on bank lending according to income levels, will there be much market impact, remembering that the Reserve Bank won't be aiming to create a market of falling prices but merely to slow the pace of price gains? To answer this question why not take a look at the Irish experience.

In Ireland banks may not lend more than 3.5 times the borrower's income. Across Ireland in March average house prices were 7.4% ahead of a year earlier. In Dublin they were up 10.5%.
http://www.cso.ie/en/statistics/prices/archive/releasearchive2016/

Note however that Irish house prices are still about 34% below levels at the silly peak in 2007 before the reality of massive excess building was realised.

In the UK banks can do very little lending where debt exceeds 4.5 times the borrower's income. One of the house price gauges, from Halifax, rose 10.1% in the year ending March. Another, Nationwide, estimated a rise of 5.7%.

It is not certain that introducing debt to income restrictions in New Zealand will radically affect house prices but we would expect sales to decline and the pace of price rises to slow.

And here is something interesting for you. I don't mean to be critical of the Reserve Bank because after all they have some big jobs to do in a hugely uncertain global economic environment. But in their recently released and excellent Financial Stability Report on page 26 there is discussion of the net migration gain for Auckland in the year to March of about 30,000 people.

If you download the data yourself from the Statistics NZ Infoshare service you get for the year to March 2015 a gross migrant inflow to Auckland of 52,443, a gross outflow of 21,213, thus a net gain of 31,230. But here is the problem. Listed in the Not Applicable/Not Stated category for inflows are 21,131 people and outflows 5,633 people. Some of these N/As apply to Auckland. Given that Auckland's net gain accounted for 60% of the country's net gain of 52,121 excluding the N/As, it's share of the N/As is probably also 60% of the net N/As which amount to 15,498, or another 9,283 people.

Thus Auckland's net population gain in the year to March from net permanent and long-term migration flows is really closer to 41,000 than the 30,000 estimate used by the Reserve Bank in their commentary and analysis. Another 9,283 people implies the need for about another 3,000 houses given an average household occupancy rate in Auckland of three people.

Even at the most senior level of housing market analysis in this country people are still under-estimating the rate of growth in demand for housing stock in Auckland. As realisation of this little bit of extra under-counting gets through to the Reserve Bank policy makers the feeling of a need to get a new tool in place to hammer back down the rate of growth in home lending in our biggest city will grow.

NZ Dollar

Nothing new worth talking about in terms of any different trend influences appearing. If you want to take a view that the NZD will go down you can seize on potential influences such as another possible cut in the official cash rate, high and rising probability of new measures to slow the pace of growth in housing lending by banks, falling dairy receipts, lots of uncertainty overseas making investors flock to traditional safe-haven currencies not far flung ones, and a rising greenback on the basis of expectations that the Fed. will raise interest rates two more times this year.

If you want to take a view that the NZD will rise you can focus on the accelerating annual pace of growth in the NZ economy, strongly rising non-dairy export receipts, a coming fiscal stimulus from the government, good external accounts, another budget surplus looking possible, and lots of uncertainty overseas making investors seek out economies doing well.

Personally I fall into the latter camp. To say that our economy if not society is in good shape compared with the situations for so, so many other countries appears an understatement – hence the strong net migration flows partly driven by many of our up to one million diaspora members self-selecting to come back to Godzone.

If I Were A Borrower What Would I Do?

Aim to fix most of my debt at a two or three year term and keep some floating for flexibility. I'd not be thinking about breaking a long-term fixed rate I might already have in place because that sort of break and refix tactic only yields savings if you have a view different from the market that the yield curve is about to fall away and that view proves correct. It's a punt basically which could prove costly not just in terms of the break cost you will pay, but the loss of rate certainty and the possibility that rates actually rise if for instance a high inflation number should appear out of the blue in the United States or here.

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/

As each month goes by and more people who have built up savings the past three decades realise that simple bank term deposits are not going to deliver the income they were anticipating in retirement, we see more and more turn toward investing in property to deliver some yield in an asset which has a history of either rising in price every year, or barely falling when a decent recession comes along. These people are not speculators. They are not interested in a quick buy and flick strategy. After all, that would still leave them with a lump sum earning little at the bank. They are long-term holders and their impact is probably still being under-estimated as a source of support for house prices around the country.

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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