

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.

Data Run-Through

Lets have a run-through of recent data to see if there are any signs of the pace of growth in the NZ economy slowing, perhaps because of capacity constraints in some sectors or worries about conditions offshore.

The National Accounts released last week show that growth was 2.4% in the year to March which is just below the average rate for the past two decades of 2.7%. But growth was 0.7% in the quarter after 0.9% in the December quarter and 0.8% the September quarter, so the underlying pace of growth is just over 3%. That is quite healthy.

Good contributions in the past year have come from construction +2.8%, retailing +5.6%, financial services 3.2% and professional services like accountancy +3.1%. Looked at from the expenditure side, private consumption rose 2.4%, house building 5.6%, business investment however just 1.4%, suggesting that like most other countries NZ may be suffering from very low productivity growth.

Jobs growth has also been strong recently with numbers 2% higher in the March quarter than a year ago but with firm rises of 1% in the December quarter and 1.2% in the March quarter. Businesses have been hiring lots of people.

This firm growth has occurred in spite of a fall in dairy earnings and in fact total exports have risen by 5.3% this past year and the current account deficit at just 3% of GDP is smaller than average. Export growth is continuing.

Recently we have seen signs of the rate of growth in house building being set to ease off. The number of consents issued for the construction of new houses was just over 28,000 in the year to April which is 24% above the two decade average. But in the latest three months seasonally adjusted numbers were flat in the previous three months.

Compared with a year ago the April quarter consents total was ahead 15% for the whole country. But Auckland was up only 4%, and Canterbury up 11% though trending down. The rest of NZ was up 28% and this reminds us of a point made here some months back. As house building rises in the regions the pace of construction growth will be constrained in Auckland where builders face higher living expenses than locating themselves in the regions.

The pace of growth in the value of consents being issued for non-residential construction might also be slowing – though these numbers can be highly volatile. The value of non-residential consents was ahead 11% in the year to April but just 6.5% in the six months to April compared with a year earlier.

Things look good for the overall pace of growth in the economy. Looking forward, while deepening capacity constraints risk causing further slowing in construction growth, they will also tend to push the period of strong construction out over a longer period of time. The questions we need to ask however are to what extent these constraints will push up building costs, how much the worsening shortage of houses in Auckland will further boost prices, and what problems are being laid in place for building quality – leaking, dodgy materials, poor construction by lowly skilled people.

History tells us that building booms always throw up dodgy builders and given our Kiwi history of building a lot of inferior houses the past two decades you had best make sure you get a good guarantee in place. before signing up for construction.

Speaking of housing shortages, one contributing factor is high net migration inflows (low gross outflows plus high gross inflows),

In the year to May the net migration gain amounted to 68,400 compared with 57,800 a year ago and 68,100 in April. It looks like the annual number has almost peaked and the net gain will fall away to perhaps 30,000 in two or three years time. This continuing above average flow will mean sustained upward pressure on house prices in Auckland and continuing strong demand for tradespeople which will push charge-out rates even higher.

For exports we need to give thought to world growth and the outlook there is for below average growth with downside risks surrounding issues such as the US Presidential elections, China's assertion in the China seas, China's economy and debt burden, Brexit, European and Japanese deflation, Russian militarism, and so on. Counting on commodity prices facing generalised upward pressure seems a tad too optimistic given global issues. But prices are good currently for many NZ exports so it is more a case of maintaining a good outlook for most of our exports as long as global recession does not occur.

With regard to household spending there is the big positive of anticipated continued firm growth in jobs and population along with rising house prices and low borrowing costs. However consumer confidence is sitting below average in a couple of measures and that suggests retailers should exercise caution in their forecasts without getting pessimistic.

Inflation looks set to rise back above 1% but sit still at too low a level for the Reserve Bank two or three years from now. So interest rates look likely to be cut one more time and stay low for perhaps decades.

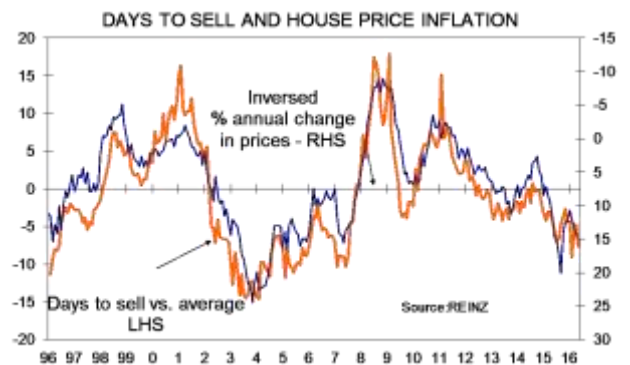
And the NZ dollar? As discussed extensively last week, the only scenario in which the NZD falls away from current levels is if US economic growth strengthens and the Federal Reserve raises interest rates aggressively. But the chances are no rate rises come this year as increasing concerns are being expressed by many about the lack of business investment and productivity growth and recent weakness in the labour market.

GDP growth somewhere around 2.5% - 3.5% per annum looks like a reasonable expectation for each of the next three years, but with downside risks attached to world growth potentially falling away.

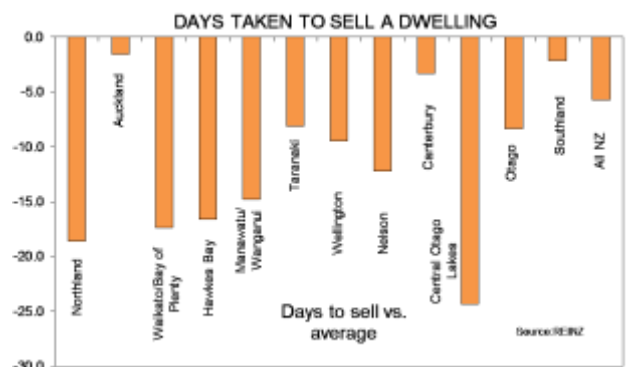
Housing

I use the monthly REINZ data to get an up to date feel for the strength of activity in residential property markets around the country. What am I seeing at the moment?

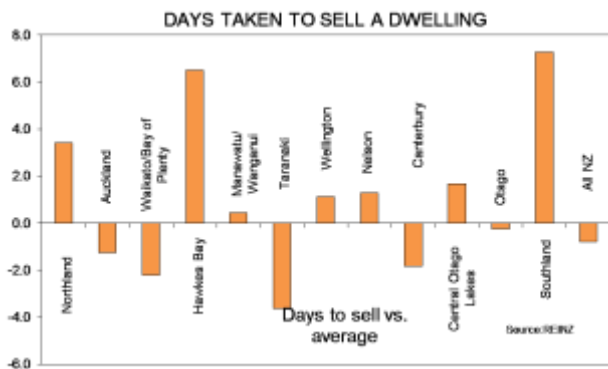
Shortages of supply. On average properties are selling 7.6 days faster than the average in May for the past decade. This is shown as the orange line in the following graph. The blue line shows the annual pace of house price inflation nationwide. The 15% p.a. pace of price increase is consistent with properties selling quickly.



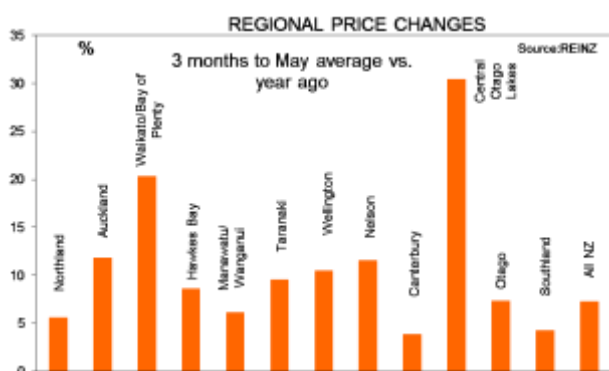
For your guide, this next graph shows days to sell versus average over the past three months for NZ regions. You may need to increase the size of your image to read the region names properly or have enough sense to read this report on a large screen rather than your silly itsy bitsy telephone TV.



Compare this graph with the one below showing how things were 18 months ago.



The regions are booming and it is showing through in prices as seen here.



These trends will continue because there is no serious candidate for stopping them. Interest rates are more likely to go down than up. Population growth is above average and set to stay that way with some internal migration also out of Auckland to the regions with regional cities in turn shedding people to smaller locations. Supply growth will be constrained by builder shortages – not sections in the provinces. Watch how much you gear yourself into section purchases.

But from a central bank point of view, the acceleration in the nationwide annualised pace of house price increase to a 13 year high of 29% in

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the three months to May from -2.5% three months ago and 11.7% six months ago is scary. At any time now the Reserve Bank may make the announcement we have been warning about for some months of tighter controls on credit supply.

The easiest step would be raising the Auckland investor deposit from 30% to 50% and requiring 30% in the regions. Impact? Short-lived and merely a precursor to deeper credit supply controls next year. In this business you need to always be looking toward what new thing is coming, whether people see it coming, and what they will do upon seeing it coming. The more people who anticipate new controls one can argue the greater the current market frenzy as there is an incentive to borrow and buy early before the money supply booms get lowered.

NZ Dollar

Nothing much following last week's rundown. Waiting for Brexit poll results like everyone else planetside.

If I Were A Borrower What Would I Do?

Fix most of my debt 2 – 3 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/>