# BNZ Weekly Overview

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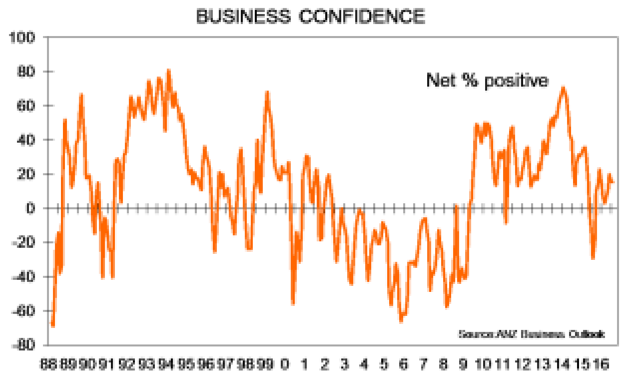
## Mission Statement

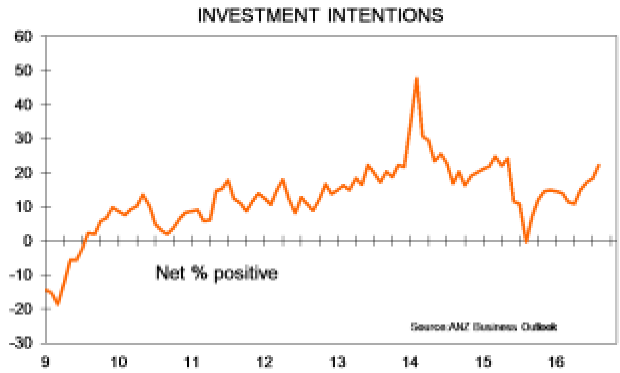
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

## Strong Business Sentiment

Having written quite a bit last week summarising my thoughts not too much fresh is jumping out of the grey cells this week. Suffice to say that we continue to get firm economic data being released including in the shape of our own quarterly BNZ Confidence Survey. Businesses are definitely feeling happy in many sectors, especially construction, tourism, and horticulture. Businesses are finding it more and more difficult to find staff and personally I have noticed more businesses with staff wanted signs outside their premises, or in the case of the Skybus which runs between Auckland airport and the city, inside the bus.

The ANZ Business Outlook survey also appeared this week. A net 16% of respondents feel confident about the economy, above the 11% average. A net 19% plan hiring more people. Above the 9% average and up from 17% in July. A net 22% plan boosting capital spending This is above the average reading of 9% and up from 18% in July.





## Housing

For the first time ever I attended an auction of houses last week. Over the past few years many people have delivered anecdotes of how at such auctions most of the people they saw were Asian. They then concluded without a skerrick of evidence that they were all or mostly foreigners who had flitted into the country to grab some real estate assets and would be on a plane out a few days later.

No evidence exists of such classification for these buyers and in fact even if we double the estimate based upon the IRD number submissions which buyers have had to make since October last year we get only 6% or so of buyers being foreign all up.

But that is not what I wanted to write about here because in the absence of truly reliable and accurate data scope exists for all sorts of views regarding foreign Asian buying. What I wanted to point out is this. The Auckland market has flattened out again slightly following the increase in the minimum investor deposit to 40%. It flattened also then eventually took off when the 30% requirement came in in October last year, and it flattened out then eventually took off again after the October 2013 introduction of the first LVR requirements.

Before the market flattened out recently people reported a predominance of Asians at the auctions. So what did I see when I attended an auction of many houses last week in the centre of Auckland?

First, I sat through 8 auctions before shooting through and only one house sold. The market has quietened down. Almost all the people in the room, though not quite, were Asian.

They are there whether the market is strong or weak. They are there now even though with the market slowing down previously frustrated buyers now once again have an opportunity to get in before things take off again. These frustrated buyers which we have been hearing so much about were not there.

The analogy I want to use is this. There are some rugby players in a team who will turn up for Wednesday night practice throughout winter no matter what the weather is doing. If it is fine they are there. If it is raining they are there. If it is calm and -5 degrees they are there. If their team is on a winning streak they are there. If their team is on a losing streak and sitting at the bottom of the ladder they are there. Even if they are not getting picked regularly, they are there. That is what the Asians are like.

They are there now even though few people are buying. They retain their interest in the market, they want to know what is going on, and they take the time to find out. The rest don't bother.

If there is something you want to do then no matter what the market or weather conditions you will be making serious effort to do it. And as a culture where we generally value and respect hard work and those who put in an effort this continuing presence yet non-bidding of Asian buyers seems worthy of positive comment. The rest could have been in the auction room scanning the market looking for a bargain at a time when few people are buying. But they didn't front.

Interestingly the one property I did see sell went to a person of European descent. My message? You buyers are once again, for the third time in three years, presented with an opportunity to go to auctions and make a bid against far fewer other bidders than normal. Personally I would take up that opportunity because the chances are that with interest rates falling, migration staying high, construction costs rising, developers pulling out of projects, banks cutting back on finance provided to developers (don't think that one has hit the media yet), and Auckland's rate of growth in dwelling consents near plateauing, come early next year the market will once again take off.

Speaking of consents, in July in Auckland there were consents issued for the construction of 1,087 dwellings. This was down from 1,116 in July last year. In the three months to July growth from a year ago was 11%. Three months ago growth was 4%, three months before that 16%, three months before that 23%. Consents are rising but not at a fast pace.

There is a faster pace of growth outside Auckland and Canterbury. Consents in the rest of the country in the three months to July were ahead 25% on a year ago. Three months ago growth was 28%, three months before that 39%, three months before that 20%. Auckland, you are lagging behind.

In the year to July Auckland consents totalled 9,622 which was a total 28% above the 23 year average. Outside Auckland and Canterbury consents totalled 12,917 which was 17% above the 23 year average. The rest of the country however has only exceeded its average since November last year versus October 2014 for Auckland.

Hence the comment that Auckland consents are near plateauing while the rest of the country excluding Canterbury (down 7% three months on a year ago) is booming. That boom will attract builders and other tradespeople to the cheap cost of living regions, leaving Auckland increasingly short of such people. This will further constrain the pace of growth in Auckland's housing supply.

Hence our expectation that come early next year the chances are strong that Auckland will for the third time in three years reignite after a pause of 3 – 4 months caused by tighter Reserve Bank lending controls. Frustrated buyers – you have perhaps until the end of the year to make a purchase in a non-frenzied atmosphere.

All buyers – you should expect additional lending controls from the Reserve Bank next year, or maybe even before the end of this year if the RB agrees with our analysis. Good luck.

## NZ Dollar

The Kiwi dollar has risen against all major currencies bar the USD this past week. It sits near US72.6 cents from 73 cents last week with the USD having firmed a bit on slightly raised expectations of tighter monetary policy following comments by the Federal Reserve Chair last week.

Against the AUD we sit near 96.5 cents and with so much positive data coming out of New Zealand we think the time has once again arrived to order some precautionary sausage rolls in case we reach parity – be prepared for the parity party in other words.

NZ continues to stick out as a well supported economy with good fundamentals whilst the rest of the world has major problems which governments can no longer simply expect to be solved by their central banks cutting interest rates or printing money. The end of the road has just about been reached for those things and people are slowing remembering that monetary policy changes only buy time for other things to alter in an economy. Monetary policy cannot sustainably drive growth, cannot make up for inefficiencies in particular sectors, and cannot solve structural problems like rigid labour markets denying so many people the opportunity to get ahead.

As we have long, long stated here, the NZD is well supported. It stays strong and goes higher. Yippee for us as that means cheaper overseas holidays.

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

Nothing much new. I would fix 2 – 3 years. Note that in the ANZ's monthly Business Outlook survey the proportion of businesses planning to raise prices fell to 14.9% from 17.4% in July. The ten year average reading for this measure is 23%. Year ahead inflation expectations fell to 1.44% from 1.49%. Chances are strong, especially with the strong NZD, that the RB will cut the official cash rate another couple of times – probably in November then early next year.

**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/

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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