BNZ Weekly Overview

22 September 2016

ISSN 2463-4328

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.

A Quick Summary

The things we learnt about the economy this week fall largely on the good for growth side of the ledger. Dairy prices rose another 1.7% at the Global Dairy Trade auction and Fonterra have lifted their forecast for this season's payout to $5.25 from $4.75. They started the season with $4.25. We also saw confidence of farmers rise to a three year high in a regular Rabobank survey – largely because of dairy farmers pulling away from a crisis scenario.

Statistics NZ reported that there was a seasonally adjusted net migration inflow in August of 5,600. This was in line with the previous six months and tells us that even though the annual net migration gain is hardly rising (69,119 from 68,432 three months ago and 67,391 six months ago), there is no sign of things falling away as yet.

The net annual loss of Kiwi citizens now stands at just 2,588 from 3,069 in July and 5,485 a year ago. Four years ago it was 39,840.

The Reserve Bank also this morning repeated their earlier statement that "...further policy easing will be required..." so we anticipate a cut in the cash rate from 2% to 1.75% come November 10. A further cut early next year is also possible. No rate cut was made today.

However offshore the OECD yet again cut their growth forecast for this year and risks remain on the downside as they have done since 2010. They forecast global growth of 2.9% this year down from 3% projected early in 2016, with 3.2% forecast for 2017, down from 3.3%. The changes are small and the more important thing is that they note a trend away from trade liberalisation.

Housing

Outside of Auckland people often say to me that they cannot understand why people want to live in Auckland. I reply that yes they are right, they cannot understand. That is because they have self-selected not to go there but to remain where they are. That's fine, but a better appreciation of why people go is often the missing element when locals get together to try and boost their locality.

Often they will come up with schemes the government could implement to make people live where they do not want to. None of these are ever likely to fly in a free country and if migrants are forced to live where there are no jobs then very few are likely to come.

The focus of their discussions needs to be on figuring out how to link local businesses with opportunities being presented in the rapidly growing cities – not just Auckland but Christchurch, Wellington, Hamilton, Tauranga and Queenstown. By all means one can make some effort to attract people leaving Auckland. But it would be unrealistic to expect that just because house prices are high in Auckland that Baby Boomers will relocate in droves to the regions to free up cash. Some will – a very small proportion.

Most won't because shifting means moving away from probably decades-long friendships, social circles, shops, churches, and familiar landmarks and memory joggers. In addition it may mean moving away from family including grandchildren.

But if you think selling up in an expensive place and shifting to a cheaper location is a great idea, then the following link is for you. It takes you to the Quotable Value average dwelling sales price measures for the main locations around New Zealand.

https://www.qv.co.nz/resources/monthly-residential-value-index

If you have an idea of what your current house will sell for, and have a good feeling for how much money you want to free up then your strategy is simple. Calculate how much more you will get for your house than your location's average. Take off the amount of cash you want to free up. Look at the remainder and ask yourself if you are prepared to live in an average, above average, or below average house in your new location. Lets assume you say average.

Simply look for a location where the average price is your expected sales price less the nest egg you want.

So say you are in Rotorua and you want to free up $200,000 and you have a house you feel is above average by 20%. You expect to sell it for about $418,000 ($348,000 average *1.2). Take off the $200,000 nest egg you want and say $30,000 for various fees including shifting costs, and you need to find a location where the average price is $188,000 or lower.

Your target markets (with the Statistics NZ projections of their population change from 2013 – 2043) include the following.

	Average Sales price August '16	**Projected Popn cng 2013-43**
Clutha District	$177,575	-8%
South Waikato District	$163,856	-15
Rangitikei District	$159,063	-15
Waitomo District	$156,971	-22
Tararua District	$155,186	-13
Wairoa District	$154,445	-25
Kawerau District	$152,647	-40
Ruapehu District	$144,459	-34

Or you could decide you are prepared to accept a below average house in which case the $200,000 could be freed up by looking at locations where the average price is perhaps $250,000.

Gisborne District	$250,509	1
Waitaki District	$247,240	6
Horowhenua District	$237,277	-8
Westland District	$235,405	-1
Central Hawkes Bay	$230,633	-9
Invercargill City	$228,652	3
Stratford District	$221,837	0
Southland District	$220,118	3
Grey District	$213,901	-3
Waimate District	$212,881	9
Buller District	$202,180	7
Whanganui District	$200,548	-8
Gore District	$200,025	-13
South Taranaki District	$192,166	-1

Some people may think this is a tongue in cheek exercise but it is not. There are plenty of people who are not highly dependent upon the things and people around them at the moment who are aging and prepared to move. These people may be your parents. It would seem useful for you to be able to present them with a list of locations ranked by average house price and start a whittling down process.

In fact were I in one of the non-big city locations wanting to attract retiring Baby Boomers then I would want to have statistics such as these right at hand.

But if cash in hand is your only criteria for where to retire, then perhaps you've wasted your life pursuing maximum dollars at the cost of things which use up those dollars – like children, holidays, etc.

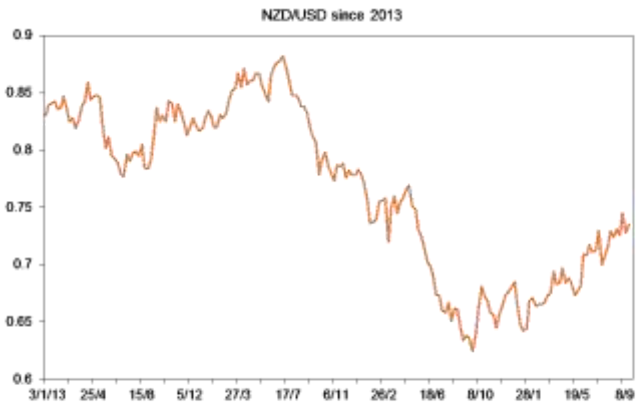
For your guide, there was a very good article published over the weekend looking at the issue of declining (and aging) regional populations.
http://m.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11710599

NZ Dollar

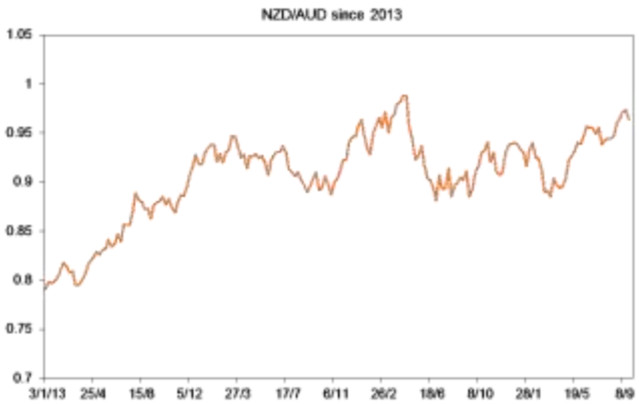
The main piece of news this week of relevance to the NZD market is that Fonterra yesterday morning raised their payout projection for this season to $5.25 from $4.75. The initial forecast for the season was $4.25. The jump reduces the chances that the Reserve Bank will feel the economy needs an extra boost from lower interest rates and reduces the chances that they will feel the currency is not justified being where it is. Thus the NZD has firmed this week and now sits near US.

This sentiment appears to have held sway over the comments from the Reserve Bank this morning that further policy easing will be needed, and that the "A decline in the exchange rate is needed."

As a result the NZD has finished this afternoon near US 73.4 cents from 72.8 cents last week.



Regarding the NZD's slow shuffle toward parity with the Aussie dollar the week has brought no advance. The cross rate sits near 96.4 cents from 97.4 cents last week. We still see a good chance of parity being achieved given the positive direction of the NZ economy relative to Australia's still acceptable growth outlook.



If I Were A Borrower What Would I Do?

In the past two weeks we have seen a bout of jitters go through markets offshore regarding the Fed. perhaps picking up the pace of rate rises following data showing inflation rising and a strong labour market. Maybe they accelerate the pace of rate rises, maybe they don't. Given that interest rate forecasts since 2007 have been appalling everywhere around the world we can realistically offer no insight into where US rates will go in the near future.

But the more important issue regarding the US rate rise debate and the inevitable flow-through to medium to longer term rates here is this. As Spock is asked on Star Trek IV: The Voyage Home, "How do you feel?". Does the debate about rate rises scare you? Did the jump in the US ten year government bond yield from 1.54% to 1.74% cause you to worry about where rates will be when your cheap one or two year rate matures? Did you contemplate running into the bank to lock in a longer fixed rate?

If so then you are risk averse and you should fix three years and longer rather than opportunistically chasing discounted one and two year rates.

Personally I like certainty and my natural default position is to fix three years. A year ago I locked into a combination of floating and two year fixed. Were I borrowing now I would go one-third floating, one-third two year fixed and one-third three year fixed.

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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