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.

School Holidays

Its the second week of school holidays this week and with people either enjoying time with their kids, hating time with their kids, or enjoying fewer cars on the road, attention on things in the economic sphere usually wanes a bit. So here is a quick run-through of stuff we have learnt of relevance to our economy this past week – none of which changes our underlying view.

That view is we have good growth prospects from a range of sources including construction, tourism, services, and net immigration which continues to surprise on the high side. Expect some policy changes there next year and especially post-election.

Business confidence remains very strong yet inflation pressures very low. The Reserve Bank will probably cut interest rates again in a month but it won't achieve much other than more money being borrowed by households where the debt growth rate is now the highest in over a decade.

The housing market has, as pretty much all of us predicted, gone into a bit of a holding pattern since the 40% minimum deposit requirement for investors started to be applied by lenders late in July. This quiet period is likely to last 3 – 4 months so come December we are likely to see buyers jumping back in again. That means the Reserve Bank will probably raise the minimum from 40% next year and implement restrictions on mortgage sizes as a multiple of household incomes of the borrowers. As always as has been our key point since the middle of 2009, the incentive for people contemplating making a purchase remains buy now rather than wait when prices will be higher and lending restrictions tougher.

The Kiwi dollar remains well supported by our good economic state and below average current account deficit but this week there has been some small currency decline.

Housing

Next week.

NZ Dollar

Ditto

If I Were A Borrower What Would I Do?

I personally would have one-third floating, one-third fixed two years and one-third fixed three years. Higher floating rates could be years away while fixed rates continue to face the risk that if and when US monetary policy tightens there will be some increases. Trouble is no-one has a model able to predict accurately when and by how much US monetary will be tightened post-GFC.

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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