

# BNZ Weekly Overview

8 December 2016

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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.

## Fiscal Numbers Good

This afternoon the NZ Treasury released their delayed Half Yearly Economic and Fiscal Update. As had been widely expected the economic forecasts contained therein look good and fairly consistent with what most other forecasters are running with. Growth is forecast to average almost 3% per annum over the next five years. Importantly the fiscal projections look excellent with a third surplus in a row projected for this year, at about \$0.5bn.

Surpluses are forecast to steadily rise to 2.7% of GDP or \$8.5bn come 2020/21 and they will provide scope for a very interesting pre-election Budget in May 2017. Spending is likely to be boosted across a wide range of areas to reflect accelerated population growth requiring a response in areas like policing, health, education etc. More funds are likely to go toward trying to speed up house construction in Auckland.

The accounts take onto the books anticipated costs of the Kaikoura earthquake which after insurance net out at about \$1bn.

All up the numbers look great, especially by world standards where governments have blown out debt levels fighting the GFC, have poor taxation structures in place, poor spending controls, parliamentary structures which make reform difficult, populations which appear to have little grasp of the need for fiscal prudence, and a variety of new challenges.

## Housing

In the Weekly Overview of July 7 we wrote that the end game for the period of high strength in the housing market had been entered. We took as our sign of this the capitulation of people holding out for price declines. That this – they had given up hoping for price falls and were admitting they were wrong and jumping into the market. We discussed this in terms of the sudden strength in Wellington's residential real estate market completely unrelated to any change in the

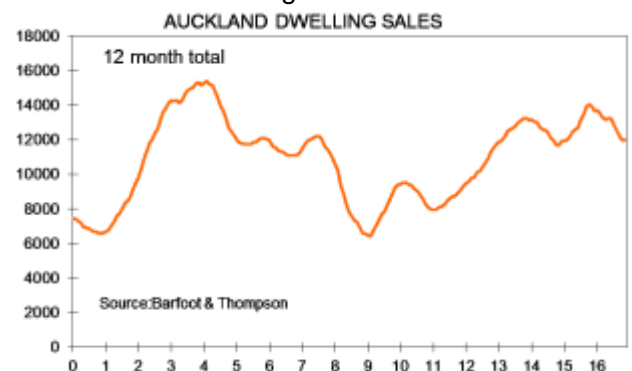
fundamentals of the Wellington economy or housing supply situation.

We went on to postulate that ahead of the election the government would look to take some enhanced measures to boost housing supply and that the Reserve Bank would further tighten credit supply rules.

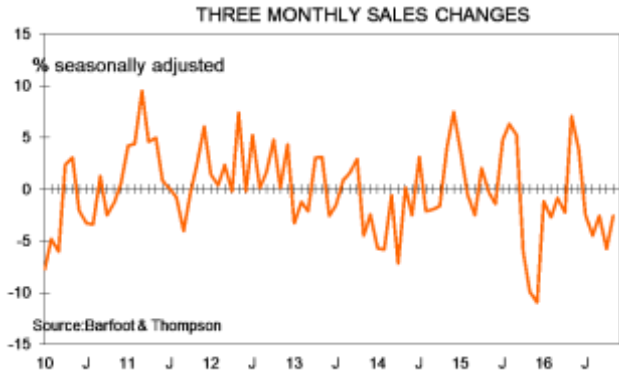
A few weeks ago we saw the government lob \$300mn at the provision of emergency housing and earlier on July 19 the Reserve Bank started consultation on new LVR rules and said they expect proposed rules to be voluntarily introduced by lenders right away. And they were.

So how have things changed since then? The housing market in Auckland has slowed down and some mild heat has come out of some other markets. But because most places outside Auckland look cheap relative to Auckland the denting of their momentum has not been all that great.

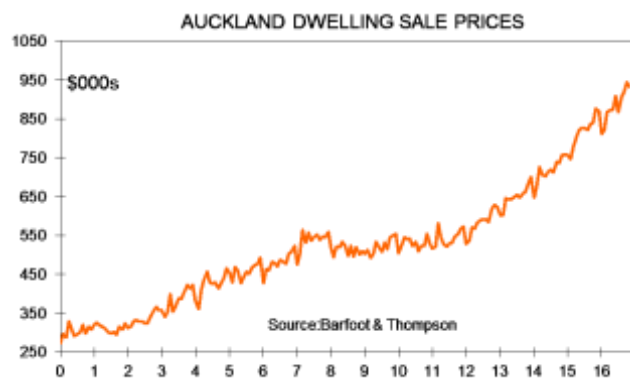
In Auckland itself this week we saw the release of Barfoot and Thompson's numbers for November. Covering about 40% of the market they showed a seasonally adjusted fall in sales over the past three months of about 3% which followed a 5% fall three months earlier. So sales have eased off recently but not horribly so. The decline actually looks a bit less than after the October 2013 and 2015 LVR rule changes though the anecdotes regarding the extent of the decline do seem stronger.



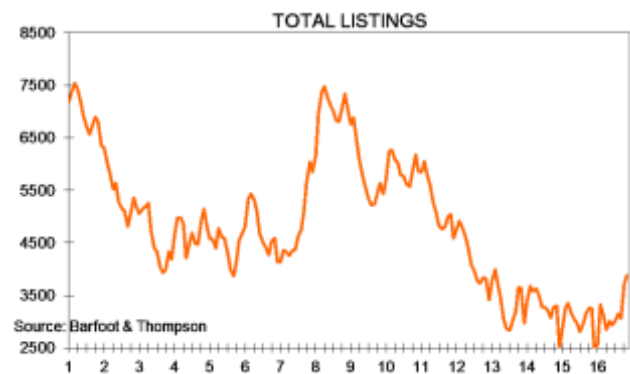
## BNZ WEEKLY OVERVIEW



The median dwelling sales price for the three months to November was up 4.2% after rising 2.6% three months ago and 4.5% six months ago. Prices are about 10% ahead of a year back and while we can say that the pace of price rises has slowed down – ignoring the volatile monthly data means one cannot conclude that price rises have stopped.



Listings at the end of the month were ahead 19% from a year ago so more vendors are choosing to put their properties on the market. New listings received in November in fact were 12% more than in November 2015.



This rise in listings suggests that the pace of price growth will slow further and this will naturally

please the Reserve Bank which has tightened credit supply rules to achieve this sort of outcome. Will prices actually fall? That is not their aim. Their very concern is that prices will fall and they will not want to be held responsible for an overly aggressive tightening of lending rules which produces the very thing they are seeking to avoid. Thus any talk of prices now having a decent pullback reveals a misunderstanding of what the Reserve Bank is trying to achieve (prices rising more slowly or staying flat) and avoid (prices falling sharply).

Regarding the rise in listings, we take these data and create a series showing the ratio of sales to listings and see how it correlates with the annual pace of price changes using the more representative REINZ Auckland price measure.



Where to from here? Personally I am waiting to see what February brings with a gut feeling that some of the effects of the most recent LVR rule tightening will be wearing off. Hopefully I am wrong and we have entered a period of stability. The case for the impact being sustained this time around of LVR changes can be made by looking at the monthly sales to listings ratios for Barfoot and Thompson in Auckland.

	Ratio of Sales to Listings*		
	2013	2015	2016
October	33	33	21
November	31	30	24
December	28	33	

\*End of month listings stock

If I were working at the RB I would be quite happy with the LVR impact this time around.

### NZ Dollar

Sorry but the brain is close to shutting off for Christmas holidays. Suffice to say most other parts of the world look like rubbish from an economic, social, or political point of view and we don't. The NZD briefly dipped after John Key announced his resignation as Prime Minister but it quickly recovered in anticipation of unchanged policies and an unchanged, good, outlook for the economy.

The NZD this afternoon trades close to US 72 cents from 71 cents last week and 73.5 cents a month back. Against the AUD we are back just above 96 cents assisted by heightened expectations of easier monetary policy across the ditch next year in response to the just reported 0.5% decline in Australian GDP during the September quarter.

The NZD retains good support and the two main risks are weakness in the Yuan which could drag us and the Aussie dollar down by association, and

strength in the US dollar associated with an anticipated fiscal stimulus starting next year under incoming President Trump.

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

Nothing new. I'd look mainly at the three year term as protection against an anticipated tightening of NZ monetary policy from 2018, and rising fixed rates driven by rising US interest rates including a likely increase in the Fed funds rate next week.

### 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](http://www.tonyalexander.co.nz) To change your address or unsubscribe please click the link at the bottom of your email. [Tony.alexander@bnz.co.nz](mailto:Tony.alexander@bnz.co.nz)

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