

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.

Declining Real Estate Revenue

This week I've been on the road giving presentations to people in New Plymouth and Ohakune (the carrot capital of NZ). That, plus having written a lot in the past couple of weeks means this week's Overview is on the short side.

In recent months we have tried to subtly get a message across regarding employment levels for real estate agents. Perhaps a few missed it, so here it is in black and white. Many of you in the coming year will have to find something else to do.

In the year to June 2016 the number of dwellings sold by registered real estate agents peaked at 95,000. In the year to July this year that total had fallen to 80,000. The chances are that within a year or so the annual number will be near 65,000 with downside risk.

Previous lows for sales have been 55,000 in early-2011 and 54,000 in early-2009. The peak before then was 122,000 early in 2004 with a low before that of 65,000 in early-2001

Sales have been falling over the past year not because the economy has weakened, not because interest rates have risen, and not because migration has collapsed. Instead sales have been hit by the introduction from July last year of a requirement that investors nationwide have a 40% deposit when buying a property, tightening bank lending criteria from earlier this year because of difficulties raising deposits, and price fatigue on the part of buyers associated with the cycle simply getting tired.

From here we expect further tightening of lending criteria, some easing in net migration inflows, little movement in interest rates, but continued strong economic and jobs growth. That means expecting a fall in sales to 55,000 seems unreasonable. But 65,000 feels about right.

But here is a key problem which many agents will face. Back in 2001 when sales bottomed out at

65,000 the number of consents issued for the construction of new dwellings was 20,000. In early-2009 when sales fell to 54,000 consents totalled 14,000. In early-2011 when sales hit 55,000 consents were again 14,000.

But currently with sales at 80,000 consents total 30,000. In a year's time when sales sit perhaps near 65,000 consents are still likely to be at/above 30,000.

In other words, very soon a very unusually high proportion of dwelling sales will be of new units, not existing ones. This means that real estate agents who do not have representation arranged of builders will have a major sales revenue problem.

If I Were A Borrower What Would I Do?

No time to write anything.

NZ Dollar

Ditto.

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. **This edition has been solely moderated by Tony Alexander.** To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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