

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.

Nothing Much

As we wait for the formation of a new government and the list of dead rats the bigger party will need to swallow to regain the Treasury benches, the things we have learnt about the state of the NZ economy have not changed the outlook or implications of such in any meaningful way.

We have confirmation of an already revealed fall in business sentiment – this time in the NZIER's Quarterly Survey of Business Opinion. A seasonally adjusted net 7% of non-rural sector respondents expect the economy to get better – down from a net 17% in the June quarter and ten year average of 10%.

But the important indicators or intentions all remained very positive. A net 19% of businesses expect to hire more people. This is up from a net 12% in the June quarter and well above the average reading of a net 10%. A net 17% plan spending more on plant and equipment – down from 20% in the previous quarter but still well above the 5% average.

A net 46% of businesses say they are finding it hard to source skilled labour and a net 27% say unskilled labour is very hard to find. Both readings reveal conditions in the labour market to be far tighter than average with things about as tight as in the previous two quarters.

A net 24% of businesses expect their costs to go up and to raise their prices. Cost expectations are slightly below the 27% average and pricing intentions slightly above the 17% average. But there is no clear signal being sent here to the Reserve Bank suggesting it should be contemplating tightening monetary policy anytime soon.

The same goes for the capacity utilisation rate which fell to 91.3% from 92.1% last quarter. This is the lowest reading since September quarter of 2014.

There is nothing really startling in the QSBO results. The same goes for monthly data on the state of the Auckland residential real estate market revealed in Barfoot and Thompson monthly numbers. Their sales in September were down 37% from a year ago and off roughly 15% seasonally adjusted from August. This decline reflects partly the effect of the general election dampening people's willingness to commit to spending in case of a new government bringing in a range of new taxes. Meaning much of October will probably be weak as well.

But it also pays to remember that the Auckland cycle grew tired a year ago and this is just the flattening out of activity to be normally expected, but with extra downward pressure on sales resulting from investors being unable or unwilling to raise a 40% deposit for new purchases.

During September Barfoots received 1,414 new listings which was 8% fewer than a year ago. The stock of listings at month-end however was 25% above levels of a year ago. Properties are sitting and not selling and the ratio of sales to listings in the month of 17% is the lowest for any September since 2011.

The average sales price improved to \$928,000 in the month from \$919,000 in August to lie just 0.9% ahead of a year ago. Prices are flat to slightly falling.

So that is that as far as this cycle goes for Auckland. For the next exciting episode tune back in perhaps in five or so years' time when the basic fundamental of supply failing to grow as rapidly as demand will see a new period of rapid price gains commence. Or maybe four years, or six. Just not for a while.

Which means, as we have pointed out for some time now – many real estate agents need to find alternative work. Try construction where demand for labour is very high. Same for teaching.

There was a little bit of excitement on Friday when data released by Statistics showed that the number of consents issued for the construction of new dwellings around New Zealand rose by a strong seasonally adjusted 10% in August. The raw number jumped to 3,166 from 2,834 a year earlier.

In Auckland consents rose to 1,184 from 774 in July and 970 a year ago. Does this mean a supply boom is coming which will seriously affect the extent of the dwelling shortage in Auckland? No.

These numbers are highly volatile on a monthly basis even when seasonally adjusted. A key driver of this volatility is issuance of large lumps of consents for apartment buildings and rest homes – in Auckland.

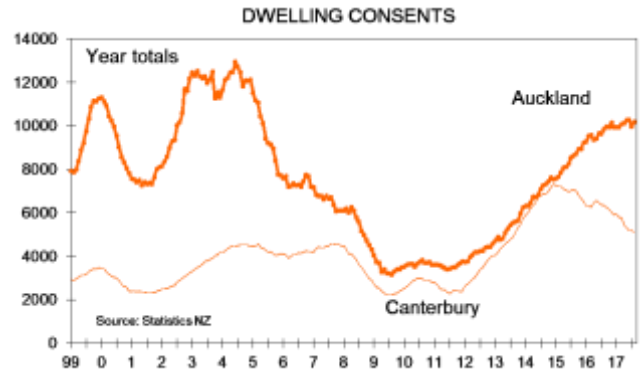
Nationwide in August last year only 72 retirement unit consents were issued. This year the number was 295. A year ago 232 apartment consents were issued – this year 384. Actual house consents were about the same at 2,025 from 2,015.

It is best to smooth data over at least three months in NZ to get a reasonable picture as to how things are trending. Doing that we see seasonally adjusted consent numbers nationwide rose 5.6% in the quarter ending in August. Three months before growth was also 5.6%, three months before that -6.1%, and three months before that -3.9%.

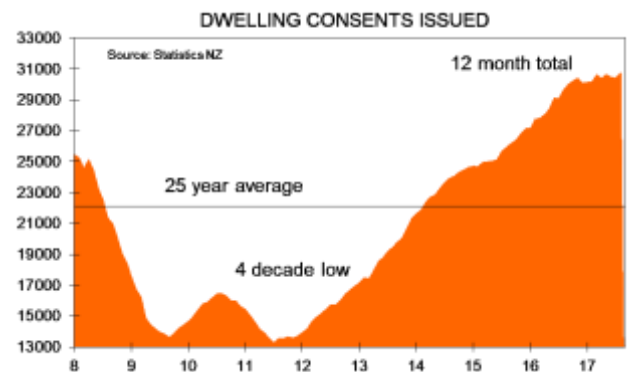
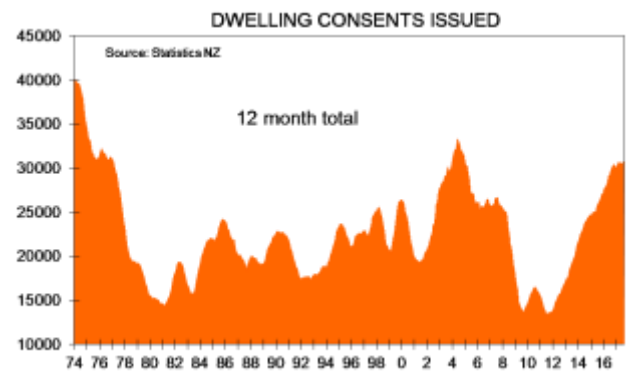
There is an upward trend in consent issuance if you focus only on the last six months. But that would not seem to be a wise thing to do given the new tightening of bank lending criteria affecting the ability of developers to get projects off the ground, the increasing feedback of a shortage of builders, and the history of six month trends easily reverting.

Frankly, consent issuance looks best described as flat nationwide with annual average growth (12 months on 12 months a year ago) of only 3.7% from 14.3% one year ago and 8.4% two years back.

For Auckland annual average growth is only 3.2% from 14.3% and 18.5%. For Canterbury the changes have been -19.4% from -10.3% and 2.5%. For the rest of NZ 15% from 31.1% and 5%.



As previously highlighted, in the regions there has been a very quick supply response to prices rising in part-catch-up response to Auckland. This brings the risk of regional over-supplies, especially in areas of projected population decline or minimal population growth.



If I Were A Borrower What Would I Do?

Nothing at all new to offer here I am afraid. No rate change is likely from the Reserve Bank until the second half of next year. Before then a slow rise in fixed rates is expected in response to further tightening of monetary policy in the United States. Should war break out between North Korea and the United States/UN police action grouping then presumably interest rates will decline sharply in expectation of a substantial

slowing in Asia-Pacific economic growth as trade routes are interrupted and confidence slumps.

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/>

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