

## 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.

## Beware Offshore Travel

The government's recent decision to not issue any more offshore oil and gas exploration licences was made without any consultation with either the industry or the region likely to be most negatively affected economically in the long-term – Taranaki. This reminds us all that predictability of policies is not a direct function of coalition agreements and pre-election manifestos and it pays to read between the lines with an eye toward the underlying ideological drivers of the people we have put in charge.

The timing of the announcement was probably driven by the timing of the current PM's trip abroad. Perhaps other sectors should check the PM's calendar for the next time a trip to major centres is planned.

The positive effects of curtailing oil and gas production and hopefully use will by all accounts of the experts take a long time to show through. More is the pity because as each year progresses we should expect to see not just greater manifestation of the effects of global climate change but market pricing alterations to reflect anticipated effects.

For instance, in the United States a recent study of housing markets has found a so far 7% discount has appeared on properties located in areas at risk from inundation as sea levels rise and storm events become more frequent and powerful. We should expect the same discounting to start happening in New Zealand. We should also expect to see insurance companies starting to price flooding risk into premiums charged for coastal property, just as one provider has started premium adjustments on the basis of broad earthquake risk.

Buyers should think carefully before committing themselves to a low-lying coastal purchase and factor flooding risk and higher insurance premiums into the price they offer. Don't rely on the LIM to inform you. We have already seen

locals affected by revelation of the truth about their flooding risk preventing councils from including such information in Land Information Memorandums. As Dr House said "Everyone lies."

And this is where things start to get interesting. American house prices are adjusting to reflect anticipated long-term effects of climate change. We should expect the same pricing adjustments to slowly be made over time to reflect anticipated transport changes associated with the slow movement toward self-driving cars. Perhaps actual effects on the ground of this shift in car type will occur over the same time period as climate change-induced flooding.

The effects could include reduced relative pricing for properties located close to centres of employment as commuting in theory becomes a lot quicker and more hassle free. This will require a fully networked car transport system (under development offshore) which is still many, many years off.

But here is the big but. In the long-term the development of this system will have a negative impact on close-in property prices and a positive impact on further out property prices. But years before the actual effects are seen prices of both groups of property will have been affected in many other ways by many other things.

Consider for instance the spreading ability and willingness of councils to impose petrol taxes to help fund transport developments. Driving one's own car is going to get more expensive compared with using public transport. This increases the relative benefits of living close to employment centres and close to transport nodes – train stations, maybe new bus stations.

In cities like London astute investors study closely where such nodes will be developed and make long-term property investment decisions based upon such plans. It would be foolish not to consider a similar approach in our big cities, especially in light of the \$28bn Auckland transport plan just announced.

Speaking of population shifts, research in Australia into migration flows and population shifts is showing that areas of greatest migrant inflow have greatest movements of incumbents to other places. That makes complete sense because after all, immigrants do not bring houses and sections with them when they arrive.

But the research also shows strong population growth in satellites of the major cities. There is a flow of people out of the state capitals into locations not too far distant from which they can commute and/or still easily access the city for entertainment etc. reasons.

In the New Zealand context this is something which has received quite a spur in Canterbury from the 2011 earthquake. In Wellington the spread is up the coast population-wise, and into the Hutt Valley price-wise. For Auckland the main city benefitting from satellite activity is Hamilton. One suspects a lot more is yet to happen in that regard however given that the expressway between Auckland and Hamilton has yet to be developed, practically no commuter railway system exists, and even more the Southern Motorway is a dysfunctional nightmare for which all responsible planners should hang their heads in shame.

Speaking of heads hanging in shame – be careful what you wish for and warn about is the lesson from the Gold Coast's Commonwealth Games. (And don't get Americans to run your opening and closing ceremonies.) For months ahead of the event locals were told to get off the roads during

the near two weeks of competition, take time off from work, get on their pushbikes, and basically just get the hell out of the way of the visitors.

The visitors certainly showed up with 1.2 million event attendances. And the locals just disappeared. Businesses experienced big reductions in revenue before and during the Games period with only a few enjoying a surge very late in the piece – as calls officially went out for locals to come back. The roads flowed freely and the notoriously congested M1 motorway worked like a charm.

As it turns out a report actually predicted the downturn in economic activity but it was withheld. Which takes us right back to redacted LIMs and to the start of this week's simple article. Politicians like to look good. They like to build edifices, leave legacies, be seen to be doing something, and just love, really love, receiving the accolades of their peers offshore.

Watch very carefully for the next time our top politicians swan off overseas, and have your wallets ready for the levies they will be demanding from you for the things they want to build – some of which are needed right now, such as better public transport.

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

US interest rates are creeping higher. But there is a negative economic hit to come from rising oil prices and slowing growth in the EU. I still do not personally feel so worried yet as to shift myself to a fixed mortgage interest rate period beyond three years. The leap in price is still too great.

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](http://www.tonyalexander.co.nz)  
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