

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.

Our Economy

Nothing Much

Fresh data of meaning outside real estate have been thin on the ground this week so I've not much to write in this introductory section. Suffice to say we have seen the Kiwi dollar edge higher against an Aussie dollar being depressed by deepening worries over the state of the Australian economy, mainly surrounding the extent to which consumers pull back their spending in response to falling house prices. Meanwhile the UK Brexit situation continues to worsen and the clear risk is that the UK economy shows minimal growth this year. Expect still more bad news from that part of the world for the next few months.

Just for the record, we received the debit and credit card spending measure from Statistics NZ this week – and I deleted the email right away because the data are unfortunately not useful with little correlation in movement on a quarterly basis with the eventual Retail Trade Survey. The data are in fact about as useful as the migration numbers – which will be released later this week, likely with hefty revisions and permanent absence now of data telling us what the trans-Tasman migration flow is. All SNZ need to do now is release some data from last year's census and we can dub this rubbish data week.

Housing

Last week I looked at data from realestate.co.nz which gives insight into inventory levels of dwellings for sale around the country. We could see that of 18 non-Auckland locations covered, three were strong and getting stronger, eight were strong and steadyish, while seven were strong but showing signs of starting to ease off.

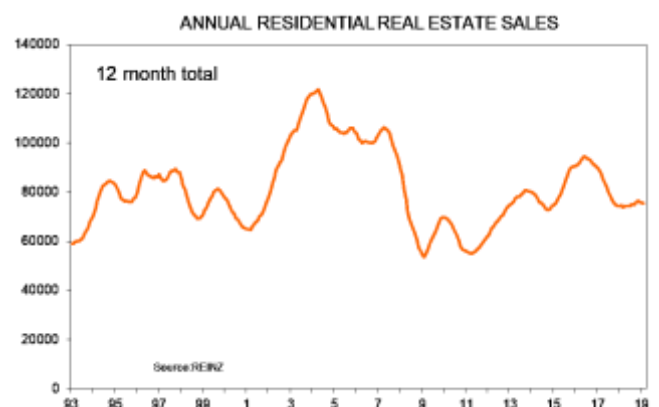
This week we received data from REINZ. I look to their dataset for the House Price Indexes and sales. Let's start with sales activity. Point one to

note is this. REINZ annual rates of change in sales are always biased downward, showing things falling away more than they really are. Why? Because their old data are accurate but latest months and the most recent month in particular have yet to be increased to reflect sales not yet notified.

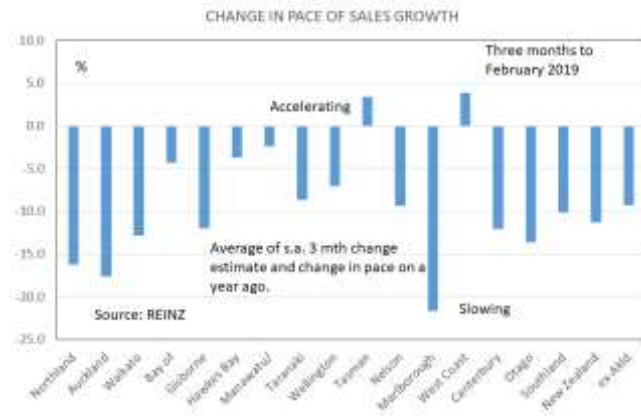
So when you read headlines yesterday along the lines of sales nationwide in February being 9.5% down from the year earlier, keep in mind the actual decline was probably closer to 6.5% and Auckland's decline was closer to 15.2% than their reported 17.9%. But sales are still down nonetheless so why quibble all that much?

Its best to look at the most recent three month period versus a year ago and doing that we see sales falling in most areas apart from Bay of Plenty, Gisborne, Hawkes Bay, Tasman, West Coast, and Southland.

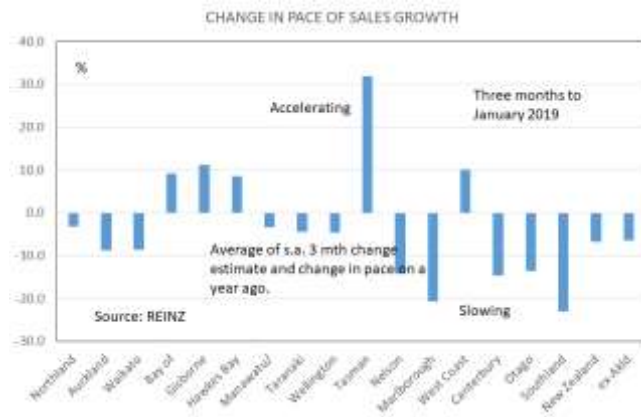
This graph shows the 12 month total number of sales all around New Zealand. Note the ending of a decline in sales from the start of 2018, but a tiny bit of extra weakness kicking in currently.



What I like to do is try and gauge sales strength by not just looking at three month sales versus a year ago, but seasonally adjusted sales from the previous three month period as well. Averaging the two we get the graph below showing sales activity easing everywhere except Tasman and West Coast.



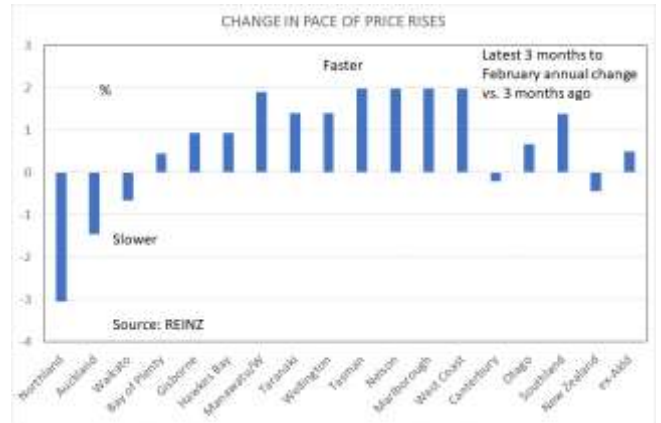
Compare this graph with the one made a month ago covering the three months to January. Note the shift in sales from growth in Bay of Plenty, Gisborne, and Hawkes Bay to decline. Things are turning.



So, is this slowing sales growth manifesting itself in slowing rates of house price inflation in most parts of the country? This next graph shows the pace of increase in prices in the past three months versus a year ago for all regions covered by REINZ. Prices are rising everywhere except Auckland.



To answer the question of whether price growth is accelerating or slowing we simply compare the observations in the graph above to where they were three months ago. Outcomes below the zero line in the following graph show house price inflation slowing, above accelerating.

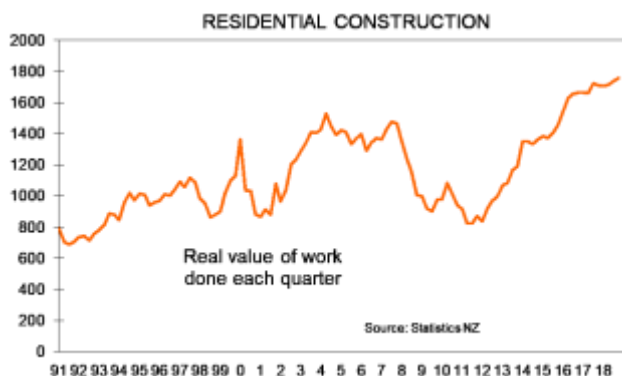


The pace of house price inflation is slowing in Northland, Auckland, Waikato, and Canterbury. But elsewhere the pace has picked up.

So, although sales activity is easing in most parts of the country apart from Bay of Plenty, Gisborne and Hawkes Bay, this has yet to manifest itself in price growth slowing down – and that is normal because you usually get sales easing before price inflation comes off the boil. Presumably that will soon start happening in most parts of the country.

We learnt this week that the volume of housing construction grew by 1.2% in the December quarter and 2.4% for the full year versus 2017. This low level of growth followed a 4% rise in 2017, 16% rise in 2016, 4% rise in 2015, and 20% rise in 2014.

This series of numbers tells us that growth has slowed. But it also tells us growth can slow then take off again. So you could not definitely conclude that we have reached peak construction in the housing sector – though the shortage of labour and seemingly steady flow of failing construction companies suggests expecting strong growth to return could be unreasonable.



If you are running a business in the construction sector, be aware that with house prices falling in Australia construction is starting to follow. We are likely to see a few tattooed Kiwis heading back our way. But don't expect a flood. While too many units have been built in the big eastern state capitals, the Gold Coast is still in the rising supply phase of its cycle. But when that turns things get very interesting on the ground.

Just a quick comment regarding the claim by some Labour-led government MPs that if we increase taxes on property investors providing rental accommodation we will get homeless people off the street and out of their cars. These MPs seem to be assuming that property investors purchase houses then let them sit empty. They are rented and if sold for whatever reason will continue to be occupied. Transfer of ownership will do nothing to alter the availability of housing for people forced or choosing to live on the streets. That is why there is a growing need for increased construction of outright social as opposed to affordable housing.

Not that all that much actual extra construction can as yet be attributed to KiwiBuild because so far the programme seems mainly to involve peeling a sticker and placing it as a branding exercise on dwellings which were going to go up anyway.

What about the increasing number of media stories regarding pre-fabricated housing? Sorry folks, but what I saw on the tv this week reminded me of the sleepout I stayed in as a kid many years

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 here. <http://feedback.bnz.co.nz/forms/IFdYSs5FGEq4kAjP95uzTA>
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ago. A little bit more attention to exterior design might go a long way to helping gain acceptance from Kiwis of this new construction style. It would be very positive if we could get a rising proportion of houses constructed using standardised techniques in new Zealand.

Your Strategy

-Things to consider in your next annual strategy session.

Nothing this week. Very busy with talks in Auckland.

If I Were A Borrower What Would I Do?

Nothing much new. With a couple of rate cuts in Australia now likely this year the resulting rise in the NZD/AUD exchange rate toward parity will place pressure on our own central bank to cut rates. However to do so they will probably need more than just the rising NZD to nudge them over the line, especially as research post and even a bit before the GFC suggests exchange rate changes up and down no longer have quite as large an impact on the underlying pace of economic growth in a country as used to be the case. Same goes for the inflation feed-through.

So for now I would not personally be factoring in a rate cut in NZ. But I would remain happy not to fix my mortgage interest rate longer than two years and I might be happy to wait a tad to see if banks cut lending rates which have not changed for quite some time. There is a new slowing in housing turnover revealed in REINZ data this week, with sales nationwide in the three months to February down 6.5% from a year ago. As lenders find modelled sales levels not being achieved it seems natural to expect some increase in competition through rate discounting soon by those who might already be behind on market share.

BNZ WEEKLY OVERVIEW

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