BNZ Weekly Overview

20 June 2019

ISSN 2463-4328

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

This morning we learnt that our economy grew by 0.6% during the March quarter and by 2.7% in the year ending in March. Underlying annualised growth over the past six months was 2.4% so the bulk of the slowdown from growth rates above 3% over 2014-17 has occurred and things have settled down close to 2.5%. This seems like quite a reasonable rate of growth considering some of the growth restraining factors such as high business pessimism, a flattening of growth in tourist numbers, and most of all, a shortage of labour seeming to affect most industries one way or the other.

One pleasing aspect of the growth announcement this morning was some strength in business investment. This has been an area of concern, especially in light of labour shortages, in the context of businesses needing to invest strongly to handle the rapidly changing environment they now find themselves in.

During the March quarter business investment grew by 1.9%, suggesting that the December quarter 1.4% recovery from 2.5% weakness in the middle of 2018 was not just a flash in the pan.

Nonetheless, productivity growth and GDP growth per capita are very low in New Zealand and unless the former in particular improves businesses generally will struggle to handle rising costs as they come along.

The GDP result was fairly much in line with market expectations so there is nothing interesting to write about with regard to movements in either interest rates or the NZ dollar – where offshore influences remain the dominant factors.

Will growth sustain itself near 2.5%? Quite possibly yes. Although there is restraint from tourism flattening, business pessimism, capacity issues, and global trade disturbances, there are many supporting factors. These include fiscal policy in the near future being less contractionary than expected before last month's government Budget, good conditions in most of the primary sector, high job security, low interest rates, underlying growth in aged care, health care, and the digital sector. Plus the outlook for construction remains positive following 6% growth in house building over the past year and 17% growth in construction of non-residential buildings such as schools, office, motels, shops etc.

If the pace of economic growth is to fall away to any substantial degree in New Zealand it is probably going to have to be some shock from offshore which delivers it – and that shock being something new beyond what already concerns some people out there.

Housing

Good luck trying to get a feel for what is happening with house prices around the country by reading newspapers. Unless they are commenting on the House Price Index data released monthly by REINZ the numbers and commentary are all but worthless.

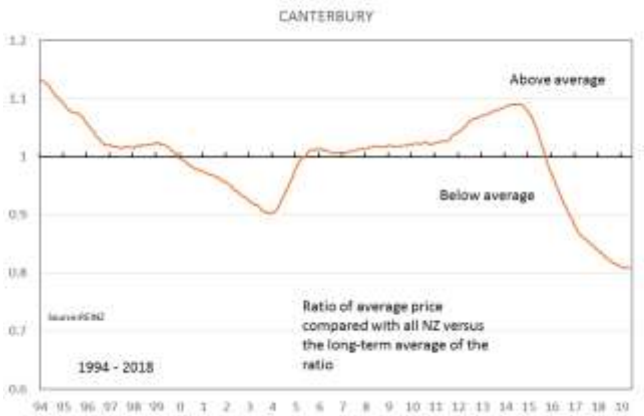
The non-HPI data get heavily moved around by changes each month in the mix of houses sold in an area for one thing, and that can lead to click bait stories of house prices plunging or soaring with implied easy capital gains to be made in Gisborne versus woe in Auckland. Its rubbish and the only price numbers I pay any attention to and analyse are the HPIs.

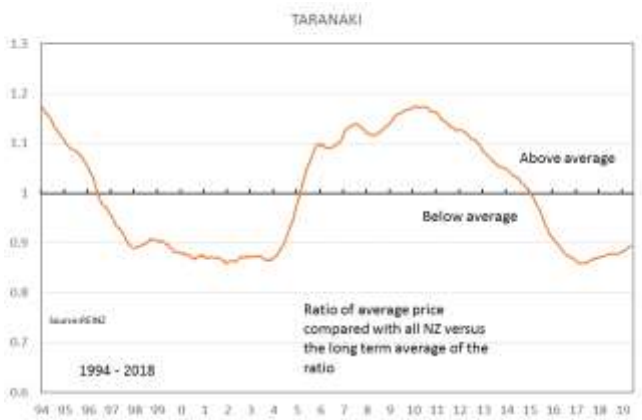
And what I do is smooth the numbers over three months because monthly changes can still be quite volatile. What we have is the following. In the three months to May average house prices in Auckland were down by 3.5% from a year ago while the rest of New Zealand was up by 6.8%. Three months back those annual changes were -2% and 8.1% respectively. So the easing back of Auckland has increased, while strength outside our main city is good but easing.

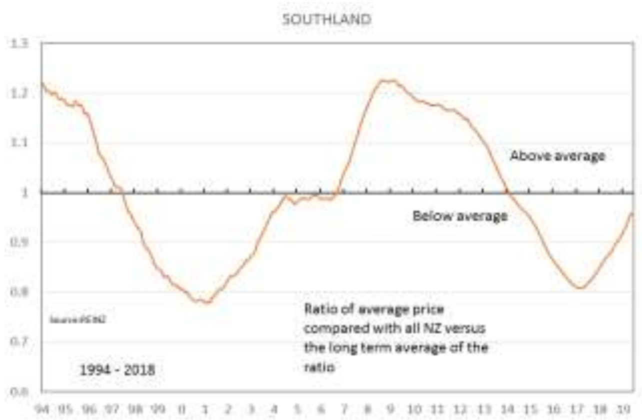
This table shows the relevant price changes.

	3 months to May vs. a year ago	3 months to Feb. vs year ago
Northland	3.2	7.0
Auckland	-3.5	-2.0
Waikato	5.3	6.1
Bay of Plenty	7.0	8.0
Gisborne	10.7	14.3
Hawkes Bay	10.7	14.3
Manawatu/W	16.4	17.6
Taranaki	6.3	5.6
Wellington	8.8	10.9
Tasman	6.2	8.4
Nelson	6.2	8.4
Marlborough	6.2	8.4
West Coast	6.2	8.4
Canterbury	1.4	0.7
Otago	8.7	12.7
Southland	15.5	13.5
New Zealand	1.8	3.2
ex-Akld	6.8	8.1

Price gains are easing everywhere except Canterbury, Taranaki, and Southland – though all these three show only marginal accelerations. Personally speaking, I would keep an eye on Canterbury. It looks due for a catch-up. Taranaki a bit also, Southland not so much. Taranaki has longer term energy sector worries, Southland has "adjustments" in the previously booming dairy sector. Canterbury however has catching up to do in many areas post-earthquake – inner city living, nice functioning CDB, young people seeking more affordable housing than Auckland (and now Wellington), and tourism.







For your guide, Auckland house prices have now fallen on average by 3.7% from their technical peak just over a year ago, but they flattened out, barring a price blip a year, back late in 2016. Turnover started falling late-2015, one year before prices basically plateaued.

So, if prices in Auckland plateaued in 2016 but have now fallen 3.5%, has new grimness set in? Not really as some of the downward pressure is likely to have been the result of foreign buyers being newly excluded from October last year and extra buyers having been in the market in the year before then. Some investors would have been selling because of worries about a capital gains tax. Some others in Auckland would have been cashing up to invest in the cyclically booming regions.

With regard to sales, they are falling everywhere except Hawkes Bay. Nationwide annual sales now total 73,478 from a peak of 76,432 in November.

Given that there was a one year lag between Auckland turnover peaking then prices plateauing, does this mean that if we find sales peaks in the regions we can pick when their prices will plateau? Not really. Auckland has a special characteristic. There are cheaper alternatives to it when prices are high and buyers struggle to save a deposit. People still looking to make a purchase can easily look elsewhere. The regions do not have an outlet alternative for frustrated buyers.

So I reckon that the lag between sales peaking and prices plateauing will be longer in the regions than in Auckland.

Here is something which I did not really understand until this week. The National Building Standards which buildings have to meet for earthquake resistance are based around a rating being achieved reflecting the ability of the building to protect its occupants in the event of a seismic shock. A high rating means people will probably get out alive. A low rating means injuries and maybe deaths.

But, as a mortgage broker pointed out to me while I was in the Te Papa café on level 4 this week biding my time ahead of a talk at a conference, the NBS essentially allows buildings to achieve a certain bike helmet rating.

Bike helmets protect the head in the event of a crash. But after the crash you need to throw the helmet away and get a new one. Meaning – after an earthquake a high rated building may have protected its occupants, but substantial and expensive repairs and possibly replacement may be necessary once the shaking stops.

Building owners and potential purchasers need to think about this when they are looking at a building. A high rating does not necessarily mean minimal cost after a seismic shock.

(What chance insurance being available soon on a low rated building close to water!)

If I Were A Borrower What Would I Do?

Nothing new to write here and I've run out of time this evening anyway.

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/lFdYSs5FGEq4kAjP95uzTA
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz