ANZ RESEARCH

NEW ZEALAND ECONOMICS
ANZ PROPERTY FOCUS

OCTOBER 2011

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PREREQUISITES TO A PICK-UP

SUMMARY

Our monthly *Property Focus* publication provides an independent appraisal of recent developments in the property market.

THE MONTH IN REVIEW

The global economy is in a very fragile state. New Zealand will remain susceptible to adverse swings in global sentiment. But at present we suspect the economy has enough momentum to remain a relative growth outperformer across Western economies, while not matching its debt-fuelled pre-recession pace. Housing-centric indicators remain mixed.

PROPERTY GAUGES

There has been a hesitant pick-up in a few indicators, but on the whole the real estate market is sitting on the sidelines, working through excesses via stability and letting incomes catch up. We suspect the September lull in housing turnover was largely driven by distractions posed by the Rugby World Cup. The Reserve Bank appears to be content with this conservative pace and won't want to lift the OCR until the global scene improves.

ECONOMIC BACKDROP

The New Zealand economy looks better than most OECD peers, but that isn't saying much! We don't expect a hike in the Official Cash Rate before mid-2012 at the earliest. Fine-tuning inflation is simply not the appropriate priority in times of extreme turmoil. If the global situation continues to deteriorate, one could easily put the case that the OCR will not be moving up for a year.

MORTGAGE BORROWING STRATEGY

Although the global sentiment has brightened in the last week or two, the improvement lacks substance and has all the hallmarks of a bounce off extremes, rather than reliable signals of a change in the trend. As such, we remain guarded, and expect the RBNZ to stand pat until mid-2012. The floating rate remains the cheapest rate, but also offers the most value when we assess the breakevens.

FEATURE ARTICLE – PREREQUISITES TO A PICK-UP

The housing market may experience dramatic cycles, but it is not driven by interest rate cycles alone. It is equally subject to structural factors. A prerequisite to a sustained upturn in the New Zealand nationwide property market is further improvement in some key structural indicators. We look at the journey undertaken so far, and consider what might lie ahead for some key structural bellwethers of the economy. We conclude that although some pockets of the market, namely Auckland and green-zone Christchurch, are lifting, the nationwide housing story will not turn definitively upwards for some time yet.

THE MONTH IN REVIEW

The global economy is in a very fragile state. New Zealand will remain susceptible to adverse swings in global sentiment. But at present we suspect the economy has enough momentum to remain a relative growth outperformer across Western economies, while not matching its debt-fuelled pre-recession pace. Housing-centric indicators remain mixed.

STATISTICS NZ, BUILDING WORK PUT IN PLACE – JUNE QUARTER

Hitting the bottom

The 6.6 percent decline in total building work put in place in Q2 was foreshadowed by weak residential consent issuance. **Residential work fell 11.6 percent to its lowest level since early 1993, a full third below its pre-recession peak.** Non-residential building work fell 1.4 percent in the quarter, its second quarterly decline. This contributed to a 4.3 percent decline in construction sector activity in Q2 GDP.

STATISTICS NZ, BUILDING CONSENTS – AUGUST

Finally turned the corner

The number of dwelling consents rose 13 percent s.a. in August, with a 17 percent increase on an ex-apartment basis. Residential issuance surged a massive 29 percent s.a. by area, which is now above previous year levels. This was on top of a strong outturn in July. **Despite the recent surge, dwelling consents remain about 36 percent below historical averages as a portion of the housing stock.** Non-residential consents fell 17 percent s.a. in value terms, but rose 5.4 percent s.a. in terms of area. Non-residential consent issuance across the various categories was mixed, with 4 seasonally adjusted rises and 7 falls in value. Residential construction costs averaged $1,460 per square metre in August, up 5.1 percent from a year ago. Statistics NZ have noted that as demolition work is not included in the consent figures, the relationship between consents and activity has changed. As such, actual levels of construction activity may be higher than that implied by consents over the second half of this year.

RBNZ, MORTGAGE APPROVALS – LATEST AVAILABLE (END-SEPTEMBER)

Lifting

The value of mortgage approvals continue to lift on an annual basis, with the latter now nearly 30 percent above last year's levels. The number of approvals also moved higher and is above the levels of a year ago, though weak in relation to earlier years. Rising approval values suggest that the value of house sales should hold steady, with some limited upside.

RBNZ, CREDIT GROWTH – AUGUST

Non-event

Household credit growth remains low. Housing market credit growth remains reasonably subdued at +1.3 percent year-on-year, although we expect this to gradually strengthen.

REINZ, HOUSING DATA – SEPTEMBER

Trending up

Nationwide house sales fell by a seasonally adjusted 3.7 percent in September, following a 5.1 percent rise in August. Despite the fall, **sales are still trending up, with volumes 1.2 percent higher s.a. in the three months to September than the previous three months.** Prices rose, with the REINZ House Price Index up 1 percent s.a. after being flat in August. Prices are starting to gradually trend higher, with average prices in the 3 months till September up 0.5 percent on the previous 3 months. The median days to sell, at 39 days s.a., remains above the mid-30s range that is consistent with more robust price increases.

STATISTICS NZ, NET MIGRATION – AUGUST

Bums on seats

Net permanent and long-term (PLT) migration staged a net seasonally adjusted inflow (210 persons) for the first time since February. PLT arrivals rose 0.9 percent s.a. whereas departures fell 3.9 percent s.a. Annual net PLT immigration slowed to 2,257 persons, the lowest net annual inflow since October 2001.

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PROPERTY GAUGES

There has been a hesitant pick-up in a few indicators, but on the whole the real estate market is sitting on the sidelines, working through excesses via stability and letting incomes catch up. We suspect the September lull in housing turnover was largely driven by distractions posed by the Rugby World Cup. The Reserve Bank appears to be content with this conservative pace and won't want to lift the OCR until the global scene improves.

We use ten gauges to assess the state of the property market, and look for signs that changes are in the wind.

AFFORDABILITY. For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.

SERVICEABILITY / INDEBTEDNESS. For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

INTEREST RATES. Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.

MIGRATION. A key source of demand for housing.

SUPPLY-DEMAND BALANCE. We use dwelling consents issuance to proxy growth in supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

CONSENTS AND HOUSE SALES. These are both key gauges of activity in the property market.

LIQUIDITY. We look at growth in private sector credit relative to GDP to assess the availability of credit in supporting the property market.

GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

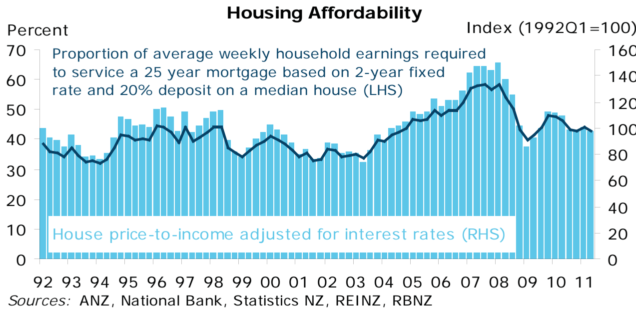
HOUSING SUPPLY. We look at the supply of housing listed on the market, recorded as the number of months needed to clear the housing stock. A high figure indicates that buyers have the upper hand.

RENTAL GROWTH. We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Flat	↓	Little change in affordability over the past nine months.
Serviceability/ indebtedness	Shrinking debt	↓	Getting our balance sheet in order still a major headwind for the property market.
Interest rates	More of the same	↔/↑	Little change in mortgage rates. Some falls in floating and short-term fixed mortgage interest rates.
Migration	Small inflow	↓	Annual immigration flows nearly at a ten-year low.
Supply-demand balance	Easing wedge	↔/↑	Lower demand and supply, and a sizable gap persists.
Consents and house sales	Uppish	↔/↑	Consents have turned the corner and sales are starting to trend higher.
Liquidity	Slight increase	↓	Low borrowing growth, at a time that the economy is slowly expanding.
Globalisation	Slipping	↔/↓	Weaker tone in global prices.
Housing supply	Upward	↔/↑	Months of supply has posted a hesitant rise, but remains historically low.
Median rent	Touchy feely	↑	Annual growth rate eased but the longer-term trend is positive.
On balance	**Cross-eyed**	↔	**On hold, while other forces are in play.**

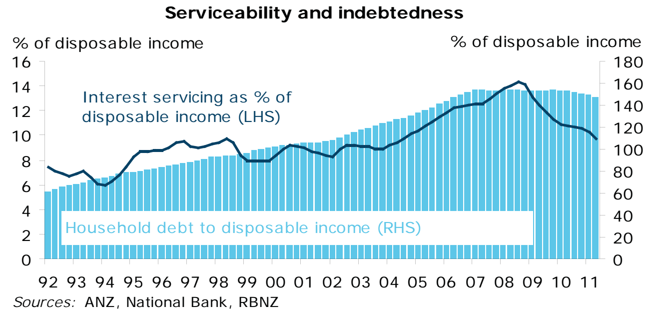
PROPERTY GAUGES

Housing Affordability



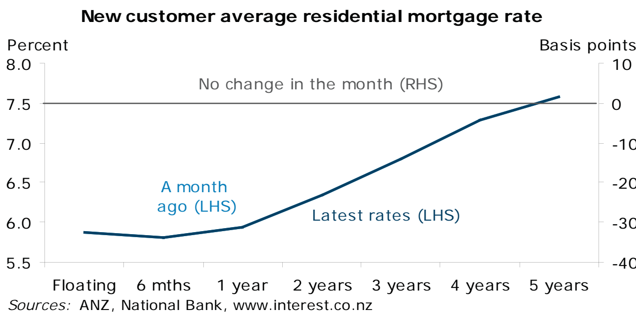
Sources: ANZ, National Bank, Statistics NZ, REINZ, RBNZ

Serviceability and indebtedness



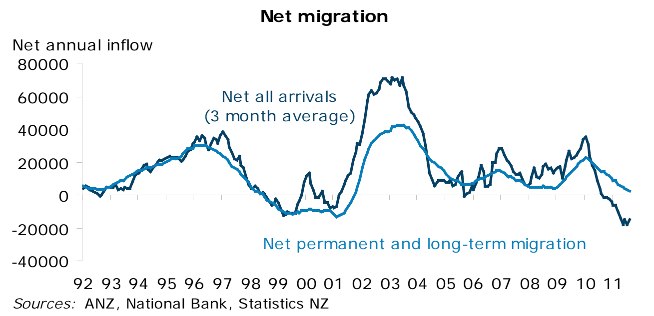
Sources: ANZ, National Bank, RBNZ

New customer average residential mortgage rate



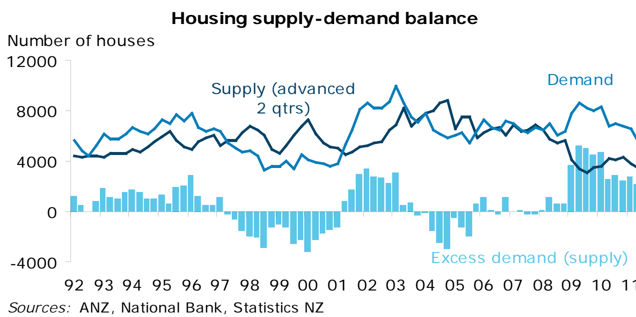
Sources: ANZ, National Bank, www.interest.co.nz

Net migration



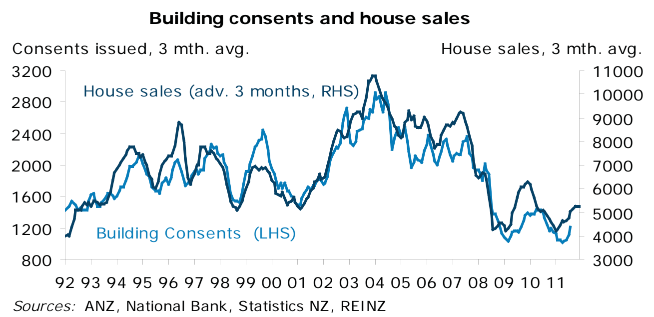
Sources: ANZ, National Bank, Statistics NZ

Housing supply-demand balance



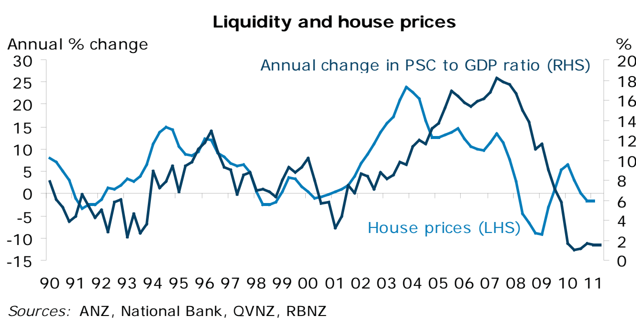
Sources: ANZ, National Bank, Statistics NZ

Building consents and house sales



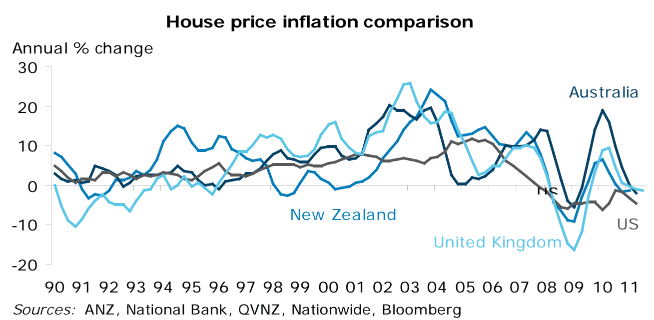
Sources: ANZ, National Bank, Statistics NZ, REINZ

Liquidity and house prices



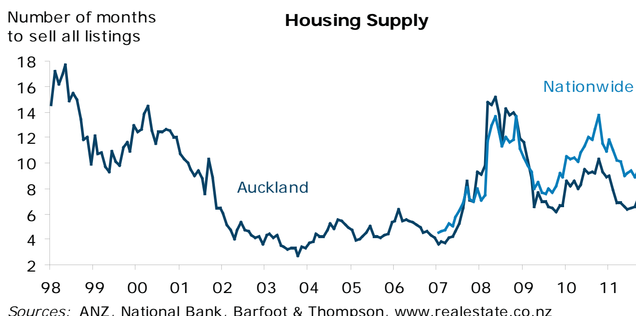
Sources: ANZ, National Bank, QVNZ, RBNZ

House price inflation comparison



Sources: ANZ, National Bank, QVNZ, Nationwide, Bloomberg

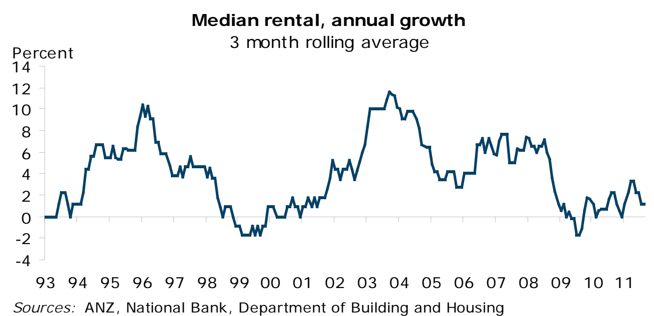
Housing Supply



Sources: ANZ, National Bank, Barfoot & Thompson, www.realestate.co.nz

Median rental, annual growth

3 month rolling average



Sources: ANZ, National Bank, Department of Building and Housing

ECONOMIC BACKDROP

SUMMARY

The New Zealand economy looks better than most OECD peers, but that isn't saying much! We don't expect a hike in the Official Cash Rate before mid-2012 at the earliest. Fine-tuning inflation is simply not the appropriate priority in times of extreme turmoil. If the global situation continues to deteriorate, one could easily put the case that the OCR will not be moving up for a year.

OUR CORE ECONOMIC VIEW

The global economy is on a knife-edge. A recession in Europe is all but assured, and the dangers for the US economy are clear. China rolls on but the anecdotes regarding the scale of the mess left from the indiscriminate massive stimulus of the last few years are getting ever more alarming. Even our major trading partner, recession-proof Australia, is suffering to some degree, in the domestic economy anyway. New Zealand is somewhat insulated but not immune to global events. The Reserve Bank is right to watch, wait and worry.

European policymakers are working hard to stabilise the system but solutions on offer remain frustratingly short-term because of the realities of crisis management in a bureaucratic conglomeration of countries. Markets have rallied recently on optimism that a grand plan will be developed in the next couple of weeks, but we expect markets will be disappointed. The sovereign debt crisis is moving closer to becoming a fully fledged banking crisis, due to banks' holdings of dodgy government debt. The poisoned baton will then be passed back, with bank recapitalisations and bailouts stretching already thin credibility regarding some countries' levels of sovereign debt. Additional liquidity measures have been put in place to ease tension in money markets, but the banking system is on the edge of a repeat of 2008. Monetary policy has largely done its dash, and politicians need to now step up to the plate and face some pretty nasty curve balls.

How will New Zealand be affected? Watch the four Cs:

- **Commodity prices.** Despite the first lift in four months in the mid October event, dairy prices are still more than one quarter off their March peak at Fonterra's fortnightly auctions. However, they remain at least 50 percent above their 15-year average in USD terms. Soft commodities are outperforming hard, as emerging market consumption is expected to outperform global investment. But the froth has gone decidedly flat.
- **Currency.** In line with our commodity prices, the NZD has taken a hit due to a global spike in risk aversion, but it has recently bounced back somewhat. Though the lower NZD could make the next round of the RBNZ's inflation forecasts interesting, this is a helpful offset from the economy's safety valve – an adjustment mechanism Greece, Italy and Spain would love to have.
- **Confidence.** So far, both consumer and business confidence have proven remarkably robust. But on-the-ground anecdotes suggest a growing wariness that could see marginal investment and hiring decisions shelved.
- **CDS spreads. These are a proxy for bank funding costs** in global financial markets. These have increased for the big 4 banks to where they were in 2008, and while they have eased recently, it is still a warning sign that the global financial system is on a knife-edge. Australasia's banks currently remain well funded. But the longer the turmoil persists, the greater the likelihood that higher funding costs will need to be built into retail rates, providing a de facto tightening in monetary conditions. The cost of borrowing internationally remains expensive and a key point of vulnerability to a nation that has a large external borrowing requirement.

Against this backdrop, the risks around the outlook for New Zealand must have a sharp downward bias. One-offs in terms of the Rugby World Cup and the earthquake rebuild are providing nicely timed stimulus to overall GDP, but this is not the same thing as a cyclical pickup. To be sustainable at this juncture, growth has to be led by income, not borrowing, as our recent credit downgrades highlighted. This is not your ordinary economic cycle: there are deep-rooted structural forces at play. The Western world's Big Debt Payback will be a headwind for years. But the growth of Asia's middle class and the accompanying structural strength in commodity prices are delivering a massive income boost to commodity producing countries. The net of these forces – even without adding cyclical influences into the mix, is a sustained period of volatility and wobbles.

The glass is half full. Net external debt has fallen from 85 to 70 percent of GDP. The household saving rate is now positive. We have a credible plan to get back to fiscal surplus. New Zealand is seeing its income-generating potential lift, giving the economy some much needed backbone. Monetary conditions are highly stimulatory. We'll get there.

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MORTGAGE BORROWING STRATEGY

SUMMARY

Although the global sentiment has brightened in the last week or two, the improvement lacks substance and has all the hallmarks of a bounce off extremes, rather than reliable signals of a change in the trend. As such, we remain guarded, and expect the RBNZ to stand pat until mid-2012. The floating rate remains the cheapest rate, but also offers the most value when we assess the breakevens.

OUR VIEW

Although it is highly likely that the Reserve Bank's next move will be to lift interest rates, such a move will be many months away, with the timing highly conditional on how global developments pan out. **Although markets moved last week to put a fair amount of faith in European leaders to come up with a timely and credible plan to sort out the debt debacle once and for all, we are more sceptical.** Recent history and political arrangements suggest the way forward is likely to be bumpy and protracted, as opposed to plain sailing. As we noted last month, speedy resolution of such a complex issue seems rather unlikely. Europe's problems run deep and the US is no better on many metrics. Against a backdrop of rising populism (most notably, German public opposition to bailing out profligate Mediterranean countries and political gridlock in the US), one wonders what hope there is for decisive action.

Of course, all of this seems half a world away – and it is. But the impact European problems are having on New Zealand can't be underestimated. Most readers will be aware of New Zealand's reliance on global markets for funding. These markets have been very volatile of late. But swings in global sentiment have also played an unusually large role in dictating markets here as well. **It is the global picture, rather than local economics, that is driving markets, and that isn't likely to change until we see signs of stability.**

We continue to monitor the key transmission mechanisms – the four C's described in the previous section – which are showing mixed messages. Net on net New Zealand still looks okay and relatively insulated, but with obvious risks. While we also need to be attuned to other potential boosts to growth such as the earthquake rebuild, a key bellwether for the Christchurch rebuild, Fletcher Building, just released a very cautious assessment in their latest market update, flagging delays well into 2012.

All of this leaves us somewhat circumspect. Given clear downside risks it is difficult to envisage mortgage rates moving anywhere soon, and if they were to, it would hardly be by a significant degree. With mortgage interest rates having not changed significantly for months, and longer-term fixed rates costing more than floating or short-term fixed, one needs to be confident that floating rates are set to rise in order to be inclined to fix now (if minimising cost is the goal).

Regular readers will be familiar with our breakeven tables, which bear this out. They show that **mortgage rates would have to move up fairly quickly in order to make fixing attractive.** For example, you'd need to see the 1 year rate move up from 5.95% to 7.03% in a year's time in order for it to be more economical to fix for 2 years. In our view, this is incongruous with the economic prognosis. **Time would seem to be on the borrower's side, and our preference is floating.**

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.74%				
6 months	5.99%	5.91%	6.97%	7.09%	7.74%
1 year	5.95%	6.44%	7.03%	7.42%	7.99%
18 months	6.29%	6.66%	7.27%	7.69%	8.19%
2 years	6.49%	6.93%	7.51%	7.92%	8.41%
3 years	6.99%	7.43%	7.95%	8.22%	8.51%
4 years	7.45%	7.77%	8.14%		
5 years	7.70%				

Finally, we should reiterate that we are aware that some borrowers may be uncomfortable with uncertainty, and might prefer to be fixed. This is understandable, and if that is you, just be aware that it does come at a cost. **That cost is low for 6, 12 and 18 month terms, but escalates quickly from 2 years and beyond.**

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PREREQUISITES TO A PICK-UP

SUMMARY

The housing market may experience dramatic cycles, but it is not driven by interest rate cycles alone. It is equally subject to structural factors. A prerequisite to a sustained upturn in the New Zealand nationwide property market is further improvement in some key structural indicators, in effect our national balance sheet. We've made a lot of progress but it's a journey that is probably around 60 percent complete. Until this process is finished cyclical drivers, including supply-demand balance and interest rates, will remain second-tier in terms of dictating direction.

THREE YEARS ON – A LOOK AT STRUCTURAL MEASURES

Three years on from the Global Financial Crisis, one might be forgiven for a sense of déjà vu. Equities have had a dreadful September quarter. The NZD has been all over the place. Commodity prices are falling in NZD terms. Safe havens are filling up. Bank CDS spreads are wide. Liquidity is drying up. Forward indicators of growth in key nations are wobbling. Here we go again.

So was the GFC just a prelude to the main event: GFC2? **For some countries, it may have been, and Round Two could be considerably more painful than what went before,** when the blow was cushioned with expansionary fiscal policy and large falls in interest rates. With policymakers' arsenals now severely depleted, things could get very ugly. **This is clearly a risk for New Zealand as well. But it's not our central view.** Earthquakes aside (admittedly a rather significant omission), New Zealand has made good progress in getting its house in order in the three years since the Global Financial Crisis, and as a result, is better placed to weather the coming storm.

We came to the end of a multi-year leveraging super-cycle in 2008. Any economic model that at its core involved credit growth running at 2 to 3 times the rate of nominal GDP was always going to be on borrowed time. The market called time in 2008.

So what has happened since? It is worth summing up what we have seen in the past three years.

- **After a recession and a tepid recovery, the New Zealand economy is the same size as it was in 2007. In per capita terms we are still almost 5 percent smaller.**
- **Commodity prices have lifted strongly (after being pole-axed in 2008), giving a huge boost to rural incomes,** and mitigating what could have been a very nasty adjustment for heavily indebted parts of the rural sector. They are down of late, but from impressive highs.
- **House prices are still around 3 percent below their mid-2007 peak in nominal terms, and have fallen 15 percent in real terms.** This is far from the collapse feared or mooted in some quarters. Reasons for the correction being milder than might have been implied by affordability fundamentals include:
  - The reality that pockets of the housing market simply don't clear quickly (i.e. if sellers can't achieve an "acceptable" price then they remove the house from sale and sit it out).
  - A mature approach by the financial sector to handling the downturn, with only a modest uptick in foreclosures, and no crunch in credit availability such has been seen in the likes of the US.
  - Exceptionally easy monetary policy settings, with the OCR remaining at its lows far longer than could have initially been envisaged.
  - No overhang in housing supply, which helped drive the US housing market off the cliff. Indeed, there are now pockets of shortages after two years of barely building anything, topped off by an earthquake destroying thousands of houses.
- **The household saving rate has improved from -6.0 percent of disposable income in the year to March 2007 to -1.5 percent in the year to March 2010.** It may well now finally have turned positive for the first time in nearly 20 years (the data is released with a long delay).
- **The current account deficit has fallen from its peak of 8.9 percent of GDP at the end of 2008 to 3.7 percent as of June 2011.**
- **The net external debt position of the nation has fallen from 85 percent of GDP in March 2009 to 70 percent of GDP as of June 2011.**
- **Households have been deleveraging – to some extent.** Household debt as a share of income has fallen from 154 percent in March 2008 to an estimated 147 percent today. Technically, households haven't been deleveraging at all: debt is slowly going up but is being offset by rising incomes. Other nations have made more rapid progress on this front, but this has tended to be under the severe duress of a collapsing housing market – perhaps not something we should wish for as a nation.

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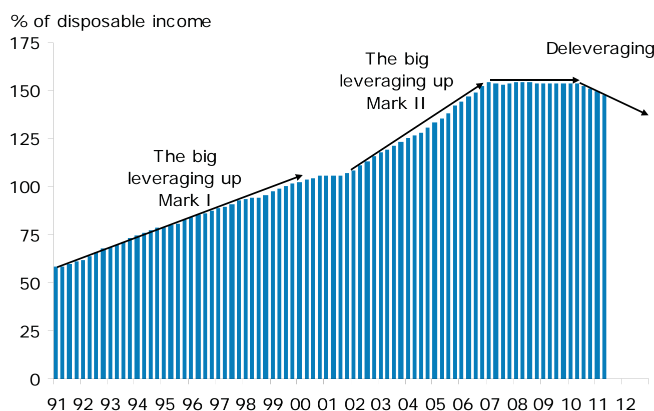
PREREQUISITES TO A PICK-UP

- **We've seen changes to the tax system and financial sector regulation.** Income tax rates have been cut, bringing the top personal rate more into line with the rate charged on companies and trusts, but consumption tax rates (GST) have been raised in exchange. The treatment of depreciation for landlords has changed. New supervisory regimes have kicked in for finance and insurance companies, and regulatory requirements for banks have tightened as well, particularly with respect to funding. The Financial Advisors Act has introduced much more stringent requirements for those who provide financial advice.
- **The fiscal position has deteriorated markedly.** This is partly due to automatic stabilisers kicking in during the recession and the fairly lacklustre recovery, but is in much greater part due to the Canterbury earthquakes – not our fault of course, but still something the nation has to deal with in a fiscally responsible manner.
- **Our credit rating has been downgraded by both Fitch and Standard & Poor's.** The lack of more concrete progress on private sector deleveraging was cited as a cause, as well as the impact of the earthquakes on the fiscal position.



Sources: ANZ, National Bank, RBNZ

The improvement in a lot of these balance sheet metrics such as household saving and debt to income has involved a fair degree of pain across certain parts of the economy. The retailing environment has been poor and trading is still tough. While housing market volumes have stabilised, sales in the past 6 months remain around 37 percent lower than levels seen in 2005-07.

ARE WE THERE YET?

The short answer is no. Structural indicators have merely improved from being awful to poor. **As a nation we still carry too much debt and are too reliant on a narrow range of sectors for income generation.** The lowering of our credit rating is a reminder that we still face challenges and are facing a sustained period of penance for past excesses.

This will inevitably impact on the housing market. Translating the above macroeconomic factors into housing market specifics, the housing boom encouraged a borrowing binge that inflated house prices beyond what is sustainable in terms of affordability. There are two possible fixes: house prices fall, or they grow by less than incomes. The latter is a much more desirable adjustment path, and so far that is the path we're on. But if we want to stay on the tarmac rather than the yak track then there is still some austerity ahead.

So what about cyclical support factors such as supply-demand balance? Of course the balance between supply and demand is relevant, but we would question whether it is the most relevant factor at present. Cyclical support factors are simply superseded by the requirement to get our balance sheet in order. We are also mindful that supply-demand metrics can change rapidly when you tweak assumptions about the average number of people in a residence. After decades of falling, this metric is now headed back up.

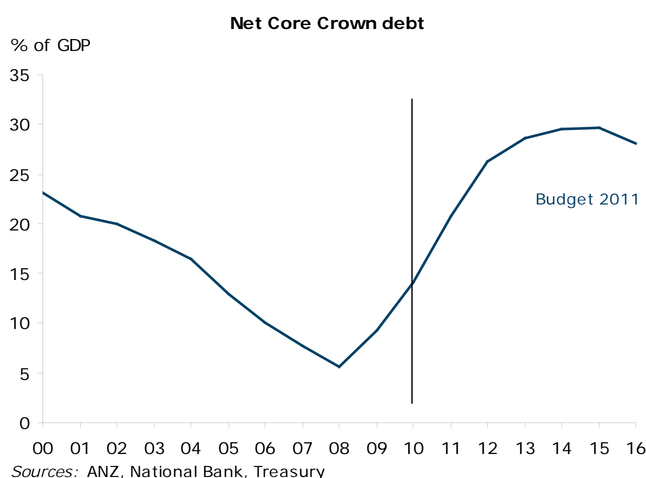
WHERE DO WE NEED TO BE?

So where do we need to be to set the stage for the good times to roll again – including for the housing market?

- **The global scene needs to stabilise** – it's hard to envisage this happening any time soon.
- **Net external debt needs to get below 60 percent of GDP** – a tough ask when there's an earthquake rebuild pending. This means trade-offs in the economy: in "share of GDP" terms we'll have to consume less so we can invest more.
- **The household saving rate probably needs to get north of 5 percent of income.** This is difficult when the cost of living for key necessities outpaces the rate of general inflation, and the job market remains uncertain. It doesn't paint a pretty medium-term picture for the retail sector. However, when we eye income support from greater connectivity with Asia (the pending boost from free trade agreements), a strong outlook for commodity prices, and New Zealand's huge natural resource base, we can also envisage the household savings rate improving progressively via reasonable income generation.

PREREQUISITES TO A PICK-UP

- **Fiscal deficits need to turn into surpluses.** As well as getting the all-important government debt-to-GDP ratio down, we need to stock up the pantry again, with the EQC fund now completely exhausted. Taxpayers are on the hook here. A key challenge will be increasing government saving without hitting household incomes to the extent that the household savings rate worsens. There's only so much money to go round.
- **Housing affordability needs to improve further.** Low interest rates look locked in, which helps from a repayment point of view, but overall the house prices to income ratio still looks stretched at a factor of 6.7 (down from 7.7 in 2007, with the post-1992 average being 5.6 times income).
- **Net migration needs to turn around.** A slow-down in the Aussie mining sector would help!



Sources: ANZ, National Bank, Treasury

HOW CAN THESE METRICS BE ACHIEVED?

In short, we need to **focus on the basics**. Just as a household with a debt problem shouldn't rely on the weekly Lotto ticket, there are no magic potions out there for policymakers. We need to knuckle down and pay the bills. **The best policymakers can do is provide an economic environment conducive to solid income growth** to ease the process. This means unlocking the economy's natural endowments (such as water), but without undermining other areas of strategic advantage, or endangering economic and environmental sustainability. **Growing incomes faster is far more appealing than numerous years of scrooge-like behaviour.**

The productivity side of the equation cannot be underestimated. Incomes can be grown by either working harder or working smarter. We know which we'd prefer. This means smart investment – not the government picking winners, but non-distortionary policies (especially tax policy) that encourage resources into the areas where they can add most value.

Improved savings will ultimately strengthen the economy, even though it will temper growth in the short to medium term. A solid structural foundation for the economy is necessary to underpin the property market as a sustainable long-term investment. **Looking further forward, there are more structural challenges looming that mean some sacred cows need to be sized up for steaks.** New Zealand is on the cusp of a baby boomer retirement wave that will put enormous pressure on the long-term fiscal position. Politically unpalatable options must be considered, including raising the retirement age for superannuation, and/ or making KiwiSaver compulsory. We need to be having more informed debate about pulling income levers such as water and mining. The latter does not mean we should shoot ourselves in the foot by undermining the tourism sector. But the realities are simple: generate more income or face a longer period of austerity and spending restraint.

While the housing market is at the forefront of the structural adjustment and headwinds the economy is facing, it also has a strong vested interest in making sure progress is made. Housing's attractiveness as a long-term investment is strongly dependent upon the economy having greater spine and backbone in the form of balanced growth, and solid income generation. Without the spine, housing's long-term attractiveness will be seriously questionable. Getting our house tidied is one thing, but it's not much use if the piles are rotting.

KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size ($'000)	Mortgage Rate (%)													
	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935

Housing market indicators for September 2011 (based on REINZ data)

	House prices (ann % change)	3mth % change	No of sales (s.a.)	Mthly % change	Avg days to sell (s.a.)	Comment
Northland	–3.0	–2.9	149	(+22%)	60	Largest lift in sale numbers in September
Auckland	5.4	0.9	1,790	(-7%)	34	Strongest annual lift in house prices
Waikato/BOP/Gisborne	–4.4	–2.4	697	(-10%)	58	Number of sales below 700 for first time since April
Hawke's Bay	2.4	0.8	169	(-5%)	44	Time to sell at a twelve month low
Taranaki	2.0	–4.1	249	(+5%)	55	Annual price growth back into positive territory
Manawatu-Whanganui	–3.0	0.1	115	(-13%)	81	Recorded the largest percentage fall in sale numbers
Wellington	–4.8	–1.7	535	(-11%)	42	Number of sales eases to seven month low
Nelson-Marlborough	–1.5	–1.9	204	(+0%)	53	Sale price continues to improve from June low point
Canterbury/Westland	4.9	3.5	761	(+2%)	39	The strongest three month percent change in prices
Central Otago Lakes	–16.5	–5.4	78	(-12%)	80	Slump in annual house price growth
Otago	–0.1	0.1	229	(+6%)	42	Time to sell remains at a twelve month low
Southland	–7.1	–2.1	139	(+6%)	39	Median house sale price falls to 15 month low
NEW ZEALAND	0.0	–0.9	5,178	(-4%)	39	Eyes on the rugby rather than the real estate

Key forecasts

	Actual			Forecast						
Economic indicators	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**	**Mar-13**
GDP (Ann Avg % Chg)	1.7	1.6	1.5f	1.7	2.1	2.3	2.6	2.7	2.6	2.9
CPI Inflation (%)	4.0	4.5	5.3	5.0	2.9	2.7	2.5	2.7	2.7	2.8
Unemployment Rate (%)	6.7	6.5	6.5	6.4	6.1	5.8	5.6	5.5	5.5	5.4
	Actual			**Forecast (end month)**						
Interest rates	**Aug-11**	**Sep-11**	**Latest**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**	**Mar-13**	**Jun-13**
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
90-Day Bank Bill Rate	3.0	2.9	2.7	2.8	2.8	3.2	3.5	3.5	3.9	4.0
Floating Mortgage Rate	6.1	6.1	5.8	5.8	5.8	6.0	6.4	6.4	6.6	6.8
1-Yr Fixed Mortgage Rate	6.0	6.0	5.9	6.0	6.0	6.2	6.4	6.5	6.8	6.9
2-Yr Fixed Mortgage Rate	6.5	6.3	6.3	6.4	6.6	6.8	6.9	6.9	7.1	7.2
5-Yr Fixed Mortgage Rate	7.7	7.7	7.6	7.7	7.7	7.6	7.7	7.6	7.6	7.4

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