Weekly Overview

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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.

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.
http://feedback.bnz.co.nz/forms/lFdYSs5FGEq4kAjP95uzTA

Save More For Retirement and One-offs – More Deja Vu

One of the points presented in this week's Housing section is about Australian investors moving into property because of low interest rates, and the possibility that shifting into equities may not be considered necessary by many as exposures are already high because of compulsory superannuation. The Aussie scheme in place since 1992 has delivered a $1.6tn asset pile for Australians to use to assist their lifestyles in retirement. Australians in fact have the highest level of retirement savings per capita in the world.

The amount people will retire with will influence how much they receive as a government provided pension. The basic fortnightly pension for a single person in Australia who meets residency etc. requirements is $751.70. A single person loses 50 cents for each dollar they earn above $156 a fortnight. So they lose it all if they earn over $1,191.40 a fortnight. They also lose $1.50 for every $1,000 in assets above $196,750 if they own a home or $339,250 if they don't. So they lose it all if assets (super, houses, cash etc.) exceed almost $700,000.

Thus there is a direct link between compulsory retirement savings in Australia and the Federal government's fiscal burden. The more people save the less the cost to future taxpayers of an increasing age dependency ratio (more pensioners per working person.)

In New Zealand the issue of compulsory saving is raised for debate every now and then, with the argument usually used by supporters being that the fiscal cost will be so great in future that the government will have no choice other than to cut the benefit so one had better have some extra monetary resources to live on. The National Party currently say they have no plans to either raise the age of eligibility or cut super, while Labour currently promise raising the age of eligibility to 67, leaving the payment unchanged at its current ratio to average earnings, and making Kiwisaver compulsory.

Statistics NZ's median projection is that from 13.3% of the population in 2001 the portion aged 65 and over will rise to 21.3% come 2031 then 25.8% in 2061. History shows a pattern worldwide for this proportion to exceed earlier projections, therefore the implied extra fiscal burden of financing NZ Superannuation is more than indicated here. According to the recent OECD report on New Zealand pension payments cost 4.7% of GDP compared with an OECD average of 8.2%.

The Financial Services Council, which represents the interests of those in funds management, Kiwisaver, insurance relating to people and financial advice policy, in March released an Infometrics-produced report on projected fiscal costs of an aging population.
http://fsc.org.nz/site/fsc/files/reports/LTFMScenarios4c2013.pdf

They modelled a scenario of very low mortality to get 21.8% of the population aged 65 and over come 2031 rather than the mid-assumption estimate of 21.3%, then 28.5% come 2061 rather than 25.8%. Then allowing for what they consider a more realistic labour productivity growth assumption than used by Treasury recently they estimate that come 2060 paying NZS will cost the equivalent of 9.2% of GDP rather than the 8% used by NZ Treasury.

Either way, 8% or 9.2%, keeping NZS payments at current levels down the track will require increased tax rates, large deficits, or decreased spending by the government elsewhere.

If you believe the NZS benefit will be cut then you have a strong incentive to raise your retirement savings. If you believe that voters won't support any changes and no cuts will be made to NZS then is one's incentive to build retirement savings diminished by much? That all depends upon how the level of national superannuation looks to you as regular income from the age of 65. Do you think a single person's payment of $18,585.84 after tax a year is good, ($357.42 a week), or $28,593.76 for a qualifying couple ($549.88 a week)?

If you think the income level does not look adequate then you had best have a savings scheme in place – Kiwisaver at a minimum. And even if the super level looks okay to you there is still an incentive to build retirement savings caused by the risk of ill health and sudden expenses such as home maintenance, delays in getting an insurance payout following a large natural disaster, a desire to assist family members with their finances (home-buying grandchildren?).

In the words of the Financial Services Council which on September 16 initiated their Not So Super-Annuation?" campaign
"New Zealand has a strong culture of self-sufficiency and sustainability but this has not historically extended to "Financial Self Sufficiency". This campaign aims to kick-start a discussion around why this has been the case and highlight steps that can be taken to ensure financial self-sufficiency for New Zealanders in their retirement."
http://fsc.org.nz/bulletin_display/x_blog_code/380.html

So today, perhaps more than 20 years down the track from the first official campaigns being launched to try and encourage Kiwis to spend less and save more, the battle is still being fought. The question becomes, is the probability of success in any such campaign higher now or lower? It is quite possible that people believe Kiwisaver will deliver all the extra income they might need in retirement given the lack of any link between the amount one saves in Kiwisaver and the superannuation benefit one gets paid.

IF I WERE A BORROWER WHAT WOULD I DO?

Nothing new to say here sorry. I would seek a spread of floating and fixed rates. Doing that I gain at least something from the low short-term rates on offer while also getting some insulation against rising rates further out. I'd be near explicitly acknowledging that with continuing huge global growth and inflation uncertainties, we struggle to assign a particularly high probability to any specific interest rate scenario coming true.

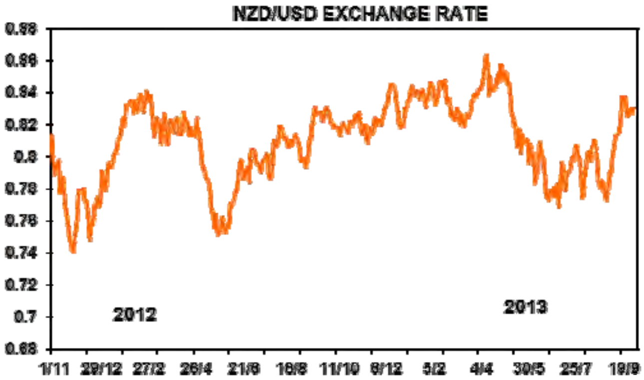
With regard specifically to monetary policy and when we think the Reserve Bank will start raising interest rates, our current pick is in the March quarter next year. We forecast the current 2.5% cash rate peaking at 4.5% a couple of years from now. But I personally would run my numbers assuming a 3% rise and then see whether I could handle higher debt servicing costs down the track and what I might do about it then and now in terms of fixing and how much I would feel happy borrowing.

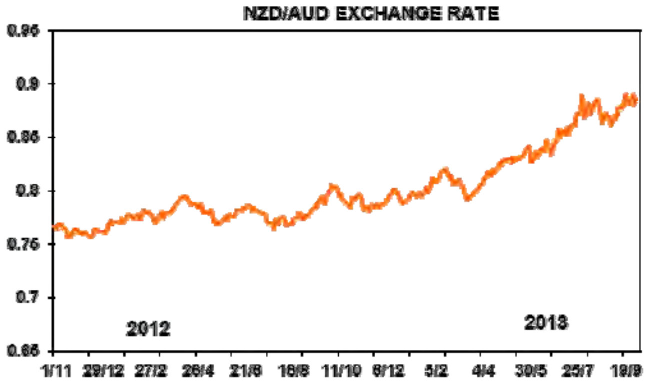
For the record, this week wholesale interest rates have crept down, largely in response to the return of the sequestration era in the United States where failure to pass legislation allowing higher spending has forced some Federal government outflows to be halted.

FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.67%	2.67	2.66	2.67	2.76	5.7
1 year swap	3.00%	2.97	3.01	2.88	2.62	5.8
3 year swap	3.92%	3.93	4.00	3.62	2.78	6.1
5 year swap	4.43%	4.45	4.58	4.06	3.04	6.3
7 year swap	4.72%	4.76	4.90	4.35	3.32	

NZD Higher But Generally Directionless For Now

Compared with a week ago the NZD is slightly higher against the USD and AUD but the changes are well within recent ranges of movement and Kiwi-specific factors are thin on the ground currently. Attention is most firmly elsewhere.





US Shutdown

The main piece of news occupying the minds of those in the FX market this week has been the shutdown of non-essential US Federal services from Tuesday resulting in some 800,000 people being stood down for an unknown period of time. The situation has arisen because the Tea Party element of the Republicans is using all weapons available to try and overturn what they see as the socialisation of American's health system through the guaranteed insurance scheme which was voted into legislation three years ago and became effective this week. Some 47% of American voters oppose the health scheme but it is a key part of the legacy which President Obama wishes to leave and goes some way to addressing a health system which by the standards of other Western countries is an abomination. The Republican Party controls the House of Representatives.

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.83	0.825	0.78	0.775	0.826	0.67
NZD/AUD	0.885	0.881	0.869	0.847	0.805	0.85
NZD/JPY	80.8	81.6	77.5	78	64.5	69.6
NZD/GBP	0.512	0.513	0.502	0.511	0.512	0.388
NZD/EUR	0.611	0.61	0.591	0.597	0.64	0.52
NZDCNY	5.08	5.05	4.77	4.75	5.23	4.99
USD/JPY	97.35	98.91	99.36	100.65	78.09	105.7
GBP/USD	1.62	1.61	1.55	1.52	1.61	1.72
EUR/USD	1.36	1.35	1.32	1.30	1.29	1.28
AUD/USD	0.94	0.94	0.90	0.91	1.03	0.788
USD/RMB	6.1212	6.1195	6.12	6.1335	6.3281	7.56

Analysts estimate that if the shutdown lasts just a week then GDP will be negatively affected by less than 0.1%. The 22 day shutdown in 1995-96 cost 0.9% - 1.4% apparently on an annualised basis. So for now no-one is talking about a large negative impact, hence limited evident weakness in sharemarkets around the world. However uncertainty has clearly gone up and that has placed some mild downward pressure on the NZD.

The uncertainty and worry will grow as each day goes by however, but not so much because of the shutdown but because come October 17 the legislated ceiling will be hit on US Federal debt and if a vote is not passed once again raising the ceiling the US will for the first time default on its debt. That event will have quite unknown implications and should it happen we can anticipate a lot more weakness in the NZ dollar and sharemarkets and a shock of unknown magnitude and duration through the global economy.

These remain very uncertain times.

Dairy Prices
One factor helping to support the NZD – more on a medium term basis than anything particularly massive and new this week – is high and seemingly once again rising global dairy prices. Average prices rose 2.4% at the GDT auction on Tuesday night. This followed a 0.3% rise a fortnight ago. Prices are now ahead 54% from a year ago.

Australian Monetary Policy
In Australia this week the RBA left the cash rate unchanged at 2.5% at their monthly meeting. This was no great surprise to anyone but the announcement contributed to the AUD rising almost one US cent and the NZD/AUD cross rate declining to 88 cents from 89 cents. This occurred because the RBA gave a relatively optimistic assessment of the Aussie economy noting that investors, businesses, and households are becoming more optimistic. In fact retail spending in August rose by the most in six months with a 0.4% gain. Manufacturing is looking a bit better, and of course as we have noted elsewhere this week the housing sector is gaining some substantial momentum.

Speculation will soon start turning to when the RBA will start raising interest rates. That may be some way off and our expectation is that the next change is still likely to be a cut, probably in February. But the important thing to take from this is that while there may be scope for the NZD to rise further against the AUD, the scope for gains is relatively limited. As an exporter I might be inclined to lock short-term hedging in place when the NZD dips below 88 cents and especially 87. But were I looking at receiving Aussie dollars a year from now I'd let it ride.

On the other hand…
Speaking of AUD transactions. Earlier this year I wrote an article in the Weekly Overview looking at the cost of owning an apartment on the Gold Coast. You can find it here, or just Google Tony Alexander Gold Coast Apartment. It is the first item. http://tonyalexander.co.nz/regular-publications/to-buy-or-not-to-buy-a-holiday-home/

I concluded that I would not buy one. I have though. No, you can't use it. Why did I buy in spite of the cost, which is actually less than calculated in my article? Gold Coast prices have hit their post-GFC lows and the boom occurring in Sydney and Melbourne will spread, thus delivering (taxed) capital gains. NZ term deposit returns are very low. The NZD is 12 cents higher against the AUD than over a year ago and near what I think is the new cyclical peak. We love Broadbeach. It is less busy than Surfers Paradise (classier is what the locals say), transport links are good and improving, lots of shopping is nearby, and the beaches are fantastic – even after the storm earlier this year when we were also there.

I've got five children and the apartment in a low rise (low body corporate) building 85 meters from the beach will be a multi-generational family asset. I need to get stress levels down and take a lot of solace when the black dog appears from picturing myself relaxing over there. I bought the property while last there on holiday in July and received excellent service from Matt and Amanda at Conduit Agencies. http://www.conduitagencies.com , great help with some temporary bridging finance from the BNZ people in Porirua, and smooth opening of an Aussie bank account through NAB in Broadbeach. Thanks Sofia.

The Gold Coast property market is still fairly subdued by historical standards at the moment having had to grapple with the GFC striking right when a big supply of apartments was hitting the market. A number of very large developments went bankrupt but the slack is now being taken up and one suspects that the many investors scrambling to purchase in the big Aussie cities will do as they have traditionally done and start looking for units elsewhere, including off the plan. They may be especially encouraged by the Commonwealth games to be hosted on the Gold Coast in 2018 and the new light rail system which had its first test run earlier this week.

Japan Rising

The Japanese economy grew at an annualised pace of 4.1% during the March quarter and 3.8% during the June quarter. The long running Tankan business sentiment survey has just risen strongly, the sharemarket has done well these past few months, and property prices appear to be rising. With some economic momentum developing the Prime Minister has decided that a rise in the sales tax from 5% to 8% will occur on April 1 next year. A further rise is expected to 10% late in 2015. The rises are needed because the Japanese government runs a level of debt equal to near 250% of GDP and only brings in revenue covering half of what it pays out. Fiscal management in Japan is much much worse than even Greece, Italy, Spain, Portugal etc.

Yet Japan has been able to get away with this terrible state of affairs involving minimal economic growth, deflation, soaring deficits and debt for near two decades because the debt is largely domestically funded rather than funded from offshore as is the case with the other countries mentioned. The trouble there however is what happens when the Japanese investors want to cash in their bonds to finance their retirement?

This huge and unsettling risk occupies minds at the likes of the IMF and explains why there are deep deep hopes that the PM's three arrows policies will work in driving economic growth. Those policies are loose fiscal policy (nothing new there), loose monetary policy (not such a great thing in many other countries), and economic structuring. The policies will only work if the last one is strongly implemented. The chances of that seem slim given that it was not at all a forgone conclusion that this week the PM would agree to the sales tax increase, reforms to the labour market appear to have been ruled out, and there is little clear evidence of a desire to take on the rural constituency by relaxing trade barriers.

But for the moment the markets are taking a glass half full approach to Japan. This does not however necessarily mean that the Japanese Yen is going to get all that firm. One factor driving improvement in the Japanese economy is an over 20% depreciation in the Yen against the greenback between the end of 2012 and April. A newly soaring Yen in the near future seems very unlikely, especially as the coming year will bring the commencement of a cessation of money printing in the US while in Japan the BOJ is undertaking a doubling of the money supply. The chances are that the NZD will rise against the Japanese Yen over the coming year.

UK Housing

In the UK the strong focus in economic debates currently is on rising house prices which are being pushed up by the Help to Buy house purchase subsidy. For the first time since 2007 all 13 UK regions are experiencing house price rises – rather than just the south-east area. The UK average price has risen 5% in the past year according to a Nationwide survey. The Help to Buy scheme focusses on building new houses but from next January will expand into a mortgage guarantee fund for anyone buying a property up to £600,000 with as little as a 5% deposit. Yes that's right. The government is doing exactly the opposite of what is happening in NZ and encouraging high LVR lending. Why?

Partly it is because there is a large fiscal tightening being applied in the UK, but mainly it is because bank credit dried up precipitously during the GFC and even now overall lending growth is still quite low. In New Zealand (and Australia) with our better managed banking system (lessons learnt from bullsing it up in the early-1980s) that element of a credit crunch was never as hard as in many other countries.

The rising UK housing market and accompanying lift in construction adds to other signs of improvement in the UK economy such as for manufacturing, retailing, business investment plans and means that some extra support has appeared for the British Pound. This is especially so in the context of the financial markets feeling that the guidance given by the Bank of England regarding not raising interest rates until perhaps 2016 is too pessimistic. That is, rates will likely rise before then is the growing view. This is Pound supportive and suggests I could be on the too optimistic side continuing to speak in terms of the NZD returning to the 55 – 60 pence range.

Italian Government Holds Together, But EU Economy Wobbly

In Europe the Euro has faced some downward pressure in response to worries that the Italian government may collapse as cabinet ministers in former PM Berlusconi's party resign over moves to strip him of his public office following conviction for tax fraud. It's hard to know which of the southern European countries is more of an embarrassment to the rest of the Eurozone, honesty and the work ethic and democracy.

As it turns out Mr Berlusconi backed down when it became apparent this week that not all of his MPs were with him and his party risked falling apart. But putting that aside, with regard to the Eurozone economy things are moving in the right direction, but almost certainly not at a fast enough pace to bring much improvement in the increasingly socially destructive labour market. The flow of credit within the zone remains constrained and the banking sector has yet to be reformed – unlike in the US which attacked the banking sector as soon as the GFC got rolling.

The ECB President last night described the Eurozone recovery as "weak, fragile and uneven" and indicated that he feels he has many options in hand should further stimulus be required. The ECB has a particular concern not just about a shrinking credit supply, but rising long term interest rates as markets anticipate an end sometime soon to bulk US money printing – an end which has clearly been delayed because of the fiscal troubles now deepening in the US.

Looking ahead overall for the NZD what are we left with? Good support from accelerating economic growth, high commodity prices, monetary policy near certain to be tightened before most other parts of the world, and far better government finances and banking system that elsewhere. The drift for the NZD is likely to be broadly upward over coming months. This is especially so as this morning the RB placed on their website a commentary noting "if the loan-to-value speed limit is unable to slow house price inflation, larger increases in the official cash rate would be required."

Housing Market Update

Rising NZ Housing Market Not Unique

We Kiwis can be fairly insulated from what is happening in the rest of the world and coverage of global events on the news does not contain the analysis one sees in depth overseas where developments in the likes of the Middle East are more a matter of moment. This blind spot regarding things offshore (a blind-spot we do our best to put in place by shifting back to NZ from a stint offshore) means we probably think that there is something unique about our housing market. That is not necessarily the case and in a number of other countries similarities exist.

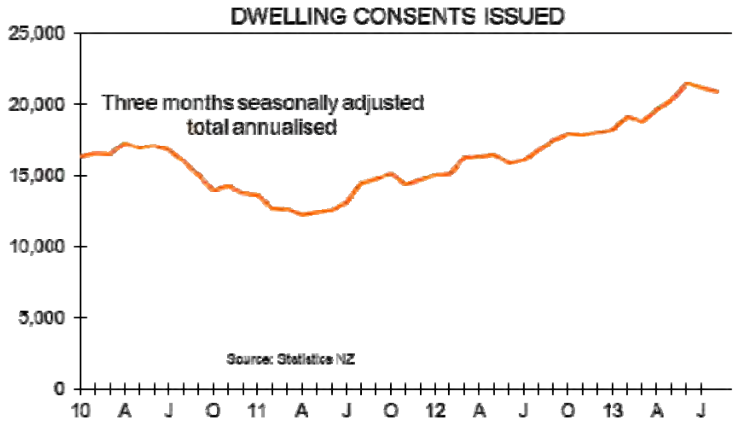
Consider our two culturally closest countries – the UK and Australia. In the UK the government's "Help to Buy" house purchase scheme has led to rising house prices – principally in the south-east of England, and a construction surge which is leading to deep worries about where builders will come from. The opposition Labour Party leader recently proposed to double house construction to 200,000 units a year but industry leaders have said such a level of building would be impossible to achieve given the resources available.

Here in New Zealand a similar concern is developing – as we have long forecast that it would. As house construction rises concerns here are growing about where the builders will come from. Architects are already well in short supply, engineers are scarce on the ground, companies in Wellington even are struggling to get builders – and all of this well before the Christchurch rebuild gets cracking, let alone Auckland house construction even reaching long term average levels.

As evidence of Christchurch not yet even surging ahead construction-wise we can look at the construction sector responses in our monthly BNZ Confidence Survey.

- Shed building-steady progress
- Good construction
- It is not looking that good in the building industry in Picton.
- Commercial Construction Wellington. Plenty of seismic work
- Commercial Construction. Good levels of enquiry and activity.
- Construction consultant. Steady
- Construction - Looking up
- Too much work(high end building). Can't keep up!
- Home refurbishment business. Business has been great, home owners happy to spend while they see their wealth increase by way of capital gains.
- Construction: workload & opportunities are increasing
- It has been an up and down sort of year with many different types of delays. However I believe the worst is behind us and our forward order book is certainly filling up. (Construction)
- Construction (reinforcing steel fabricator and supplier - Auckland). Workload increasing but margins still low because of competition. Expecting a build-up of work leading up to Christmas and into 2014.
- Construction Industry / Christchurch: It seems like there is finally some positive movement in our industry locally after a lot of procrastination
- Construction - Client side in Christchurch - Very busy, anticipate resource & cost escalation to be big issues in near future

There is no dominance of Christchurch comments and certainly no indication that things are approaching an activity peak. In fact we learned on Monday that in seasonally adjusted terms the number of dwelling consents issued nationwide rose only 1.3% after falling over 5% in total in the previous two months, and the annual total of 19,445 is still 10% below the long-term average despite rising near 24% in the past year. The big question currently in relation to new building supply is this – has the rise in consent issuance since the multi-decade low in early-2011 plateaued? The graph below is suggesting this but that is not our conclusion at this stage as the data can be quite volatile.



In Australia the housing market is going off like a rocket in terms of sales and more recently prices in Sydney followed by Melbourne, and expectations are rising of activity also surging in Brisbane. Investors are driving activity with people seeking better returns than those available in term deposits following the RBA cutting its cash rate in the past two years from 4.75% to 2.5%. A further cut or two cannot be ruled out given the RBA's desire to lower the currency – yet they are also worried about inflation spreading from the housing market. Hence a close eye across the ditch is being kept on the impact of the credit rationing rules our central bank has put in place, though with a general sentiment in Australia that such a Muldoonist approach will not be followed.

Australian investors are being driven to purchase not just by low interest rates but also by high and rising awareness of a shortage which the chief of one Aussie bank recently estimated to be 270,000 rising to 370,000 come 2015. Investors are so keen to get into housing that it now looks like some 2% of the near A$1.6tn in compulsory superannuation funds has been placed by investors directly into property from the one-third of schemes which are now self-managed. Yet surveys apparently show that Aussies who manage their own super funds want to invest 30% into property – and since 2007 they have been able to do that assisted by borrowed money.

Thus even without taking on debt another $150bn Aussie dollars would like exposure to Aussie property. Hence the growing discussion in Australia – as in the UK – about a housing bubble forming.

In Australia one could run the argument that because investors feel that their long-term equity exposure is already well taken care of by compulsory savings they do not need to build up their own portfolio of shares but instead should logically veer toward property in response to low interest rates. That logic does not apply here in New Zealand but there appears to remain some cultural aversion to equities perhaps attributable to high market volatility and some big declines in the past and the small size of our market and lack of diversification.

What does all this mean?

1. We should be wary in our assumption that house construction will be able to surge in New Zealand because we will be easily able to source builders from the UK and Australia. We won’t be able to.
2. The GFC and evidence of some big house price falls in certain countries does not weigh heavy on the minds of investors in countries which did not experience a massive construction surge – the UK, Australia, and of course New Zealand.
3. Aussie investors are highly likely to increase their purchases in New Zealand as they seek better yields than those available in Sydney and Melbourne.
4. Just because you build up large retirement savings does not at all mean that you avoid a shortage of houses, high prices relative to world norms, or high investor willingness to gear into property. Australia has all three and that is even with the capital gains tax some in NZ think will make a strong contribution to shifting our investment preference away from property toward managed funds. It almost certainly will not. The impact probably would be to push rents even higher.

Kiwis are likely to continue to highly favour property as a long-term investment. And not only is history on their side when it comes to good capital gains, so too are interest rates now in a world where central banks want to speed up rather than slow down credit growth, rising migration flows, a physical shortage of NZ property, and awareness of that shortage.

“If it's good enough I could live in it, otherwise it could be an investment property."

This was the comment made by a person in an NZ Herald article regarding difficulties facing first home buyers. He has a 10% deposit saved for a house in the $400,000 to $500,000 price range and is rightly aggrieved by the new LVR rules. The gentleman, Mr Mongia, was introduced to the media by the Labour leader during a media set-piece in South Auckland.

“"I think a lot of people like myself might be stranded out of the market. I think it doesn't help the situation in any way. I think something needs to be done, it's just a matter of what.

"I'm not alone, I think there's a lot of people in this situation."

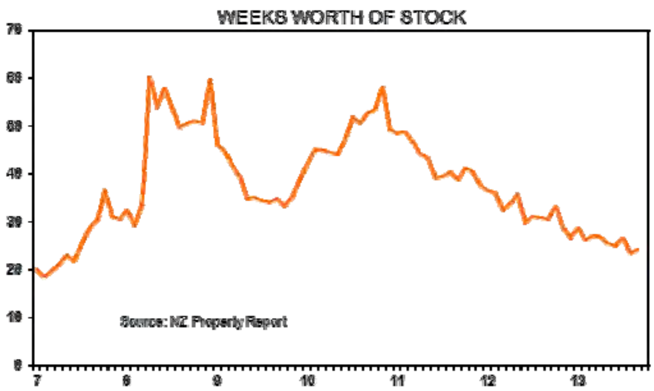
Mr Cunliffe said the new restrictions would lock "hard-working young people like Kanik out of the market - that's wrong".

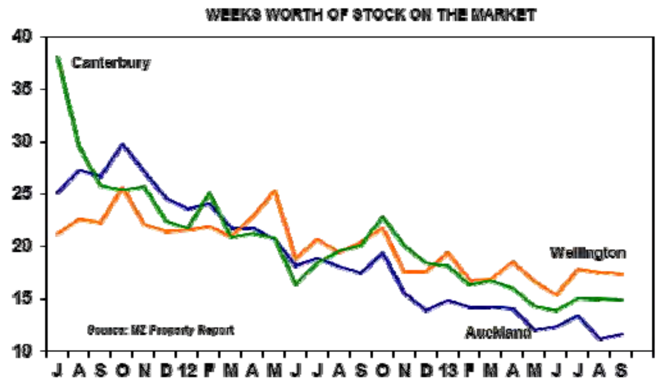
Yes – but what I take from the article is something I've been increasingly coming across recently. First home buyers aren't just looking for a home to raise their family in. They, like so many other people already invested in property, want to be investors themselves. The desire is very strong by people to get their foot on the ladder rather than just secure their family home. The constituency of support for a capital gains tax on property investment may not be as great as some policy advocates are thinking.
http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11132378

Listings Tighten Up Further

The NZ Property Report tells us that during September there were 11,000 properties newly listed for sale on the internet. This number was down from 11,514 in September 2012 and 11,117 in September 2011. It was also a 5.3% seasonally adjusted fall which followed a 4% rise in August. There is no unusual surge in property listings underway.

The inventory of listings at the end of September was equivalent to 24.2 weeks of sales compared with 30.5 a year ago and 38.6 weeks two years ago. Supply is tight relative to turnover so unsurprisingly the seasonally adjusted average asking price in September was 8.7% up from a year ago at a record high of $466,500 from $463,100 in August. Frankly there is nothing surprising in these numbers but they are very useful in confirming the tightness in the residential real estate market.





The second graph above shows us that the tightening in supply relative to turnover is strong in Auckland and Christchurch but not so in Wellington. The NZ Property Report people provide data which shows this measure for other parts of the country as well and you can find the numbers in a file here.
http://unconditional.co.nz/blog/nz_property_report_august_2013/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+unconditionalconz+%28Unconditional.co.nz%29

Auckland Listings Surging? Buyers – Do Not Get Excited. Here's Why

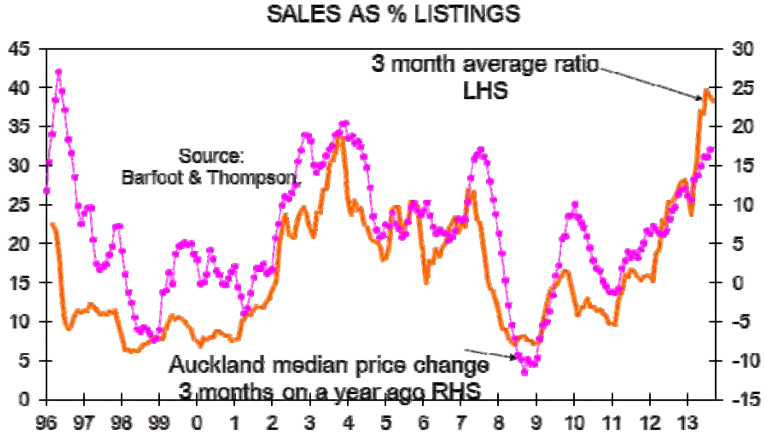
For the record, given that the numbers were released this morning, Barfoot and Thompson sold 1,105 dwellings in September in Auckland which was a 14% rise from a year ago. Nothing major there and in rough seasonally adjusted terms sales have risen about 1.5% in the past three months which is an improvement from the 2.5% fall recorded during the June quarter.

The total number of listings at the end of September stood at 3,191 which was 14.5% fewer than a year earlier. The three month ratio of sales to listings (end month) of 38.2% compares with 26% one year ago and 15.8% two years ago. So far nothing major from what we know and feel about Auckland. But now consider this titbit which some people are excited about.

The number of new listings received during the month was ahead 29.2% from a year earlier at 1,636. The total last September was 1,266, and in September 2011 1,263. The total is the highest in fact for the month of September since 2,087 in September 2003. Does this mean buyers should start smiling their heads off? Not at all. Why?

Back in September 2003 the 2,087 new listings were well above the 1,658 of September 2002, which were a strong 21.7% up from the 1,362 of September 2001. Thus this year's number of 1,636 and rise of 29.2% looks like what happened in 2003. So did the market wonderfully calm down from 2003 and price rises fall away? Not at all. The average sale price come September 2003 was 18.5% ahead of September 2002. And that happened with the three month average ratio of sales to listings in September 2002 sitting at 22.9% rather than the far stronger and near record 38.2% we have now. Check out the solid orange line in the graph.

I read nothing into the 29.2% rise in fresh listings compared with a year earlier to suggest to me that the pace of house price gains in Auckland is going to slow down from the latest reading of 12.5%. History suggests that instead, the pace will pick up.



Key Forecasts						
Dec. year		**2011**	**2012**	**2013**	**2014**	**2015**
GDP	annual average chg	1.4	2.7%	2.5 – 3.0	3.0 – 3.5	2.0 – 3.0
CPI	on year ago	1.8	0.9	0.5 – 1.5	1.5 – 2.0	2.5 – 3.0
Official Cash rate	end year	2.5	2.5	2.5	3.5 – 4.25	3.5 – 4.5
Employment	on year ago	1.6	-1.3	2.5 – 3.5	2.0 – 2.5	1.0 – 2.0
Unemployment Rate	end year	6.3	6.8	5.5 – 6.5	5.0 – 6.0	5.0 – 6.0

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