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

What Is Different This Time Around?

Take a look through this list of indicators showing how well the economy is doing currently.

1. GDP has risen by 2.6% in the year to June compared with 2.2% on average over the past 10 years.
2. The Roy Morgan consumer sentiment gauge in October hit a four year high of 128 where 100 is neutral.
3. The BNZ Business Confidence Survey recorded a record net positive high of 66% in November.
4. Core consumer spending using debit and credit cards rose by a record 1.8% in October to give +3.4% annualised growth during the past three months.
5. Job numbers rose by +1.2% during the September quarter to give growth of 2.4% in the past year.
6. The ANZ Business Outlook Survey revealed employment intentions at a net 19% positive in October which is near an 18 year high.
7. The number of dwelling consents issued during the September quarter was up 22% on a year ago.
8. The number of dwelling sales in the year to October was ahead 12% from a year earlier.
9. Dwellings sold on average 3.1 days faster than average in the October quarter.
10. Export receipts in the six months to September were up 2.7% from the previous six months seasonally adjusted.

Sounds great. Now consider the following list discussing the items in exactly the same order.

1. GDP growth was 2% mid-2010 then slowed to just 0.8%.
2. The Roy Morgan consumer sentiment measure was at 126 in May 2010 then fell to 101 mid-2011.
3. Our business sentiment measure was close to current levels in mid-2009 and mid-2011 and fell to a net 5% pessimistic in mid-2012.
4. Debit and credit card spending revealed annualised growth near 8% in late-2010 and early-2011 and a firm +7.3% in February this year. The latest rate of 3.4% is quite slow.
5. Annual jobs growth was 2% in mid-2011 then slowed to 0% mid-2012.
6. ANZ employment intentions have been near this high before in July 2011 then fell to a below average net 3% positive in mid-2012.
7. Dwelling consents for the quarter compared with a year ago were ahead a much stronger 35% in early-2010, come mid-2011 they were down 26%, and seasonally adjusted they have actually fallen by 3% in the September quarter of this year.
8. Dwelling sales in the year to early-2010 grew by 30% then fell 20% in the following year, and in late-2012 growth was +22% so the latest rate of 12% is the slowest since January 2012.
9. Dwelling sales were 3.2 days faster than average in late-2009 then slowed to 15 days longer than average early in 2011.
10. Export receipts rose by 9% in the year to mid-2011 then fell 4% a year later.

Every one of these indicators looked good or better somewhere between 2009 and 2013 than it looks now yet failed to maintain the strength. Why then is it that this time around as we see these things improving we are quite confident that growth will accelerate toward 4% and be sustained for a while? As part of answering that question we need to give thought to why those earlier positive indicators were not sustained.

Growth rates offshore failed to meet expectations with the Eurozone for instance shrinking for six quarters in a row until the middle of this year, the Federal Reserve having to resort to an extended period of money printing, the Reserve Bank of Australia having to cut interest rates 2.25%, and the Bank of Japan similarly initiating a new easing of monetary policy.

Offshore shocks principally in Europe have occurred frequently since the world emerged from the depths of the GFC in the first half of 2009. They include bailouts required in a number of Eurozone countries, worries about a break-up of the Eurozone back to individual currencies, a rapid slowing in growth in China, and seemingly intractable cliff edge debt negotiations in the United States.

Slow offshore growth and shocks have discouraged New Zealand businesses and households from maintaining spending, hiring, and investment surges. In addition willingness to expand and boost spending has been constrained by an unmeasurable desire to reduce indebtedness, or more especially in New Zealand's case a desire perhaps to limit the speed of additional debt growth.

Looking forward now, why do we think the growth indicators will be sustained?

1. This time the positive things are all happening at the same time rather than in a haphazard manner over roughly a three year period.
2. Evidence on the ground is that much as things may not be proceeding at anywhere near an optimal pace, the reconstruction of Christchurch does appear to be underway. This is a $40bn job stretching over perhaps a decade, capable of directly adding some 20% to GDP.
3. Compared with 2008 – 2011 there is now awareness and acceptance of a shortage of dwellings in Auckland. This will and is spurring extra construction.
4. The possibility of a Eurozone break-up is largely off the table, but slow growth at best does look like continuing given the inability of governments to convince their people that more than yet another debt-funded fiscal stimulus is what's needed to boost employment and long-term growth potential.
5. US growth is looking more solid if not stellar as such than for a long time with strength in the labour market and housing in particular, plus businesses running large cash surpluses and banks well capitalised (compared with Europe's seemingly worsening banking sector).
6. Net migration into New Zealand is booming and looks set to reach near 30,000.
7. Extra construction/engineering activity is to be undertaken associated not just with continued water-tightening but earthquake strengthening, infrastructure (roads of national significance), and dairy sector expansion (irrigation projects, milk processing plants, dairy conversions, intensification and mechanisation of dairying operations).

As many other forecasters are doing we are suggesting that there is strong upside potential for NZ growth over the next three years, with the pace probably hitting 4%+ at some stage. Given that this strong growth will occur when the capacity utilisation rate is already above average, businesses are reporting above average difficulties in sourcing skilled and unskilled labour, and the construction-focussed nature of the upturn is certain to drive materials costs and contractors rates upward, inflation will eventually become a major concern for the Reserve Bank.

For the moment the Reserve Bank is mainly concerned about limiting the exposure of banks to losses on low deposit home loans should a shock hit the economy causing house prices to correct radically downwards. That concern exists even though the Open Bank Resolution regime in place since July 1 means that should a bank encounter huge trouble they will open again the next morning with deposits not sequestered by the RB gaining a government guarantee.

Come the middle of next year however we expect the Reserve Bank to start raising the cash rate from 2.5% to eventually 4.5% come the second half of 2015. Given the extremely low probability that other central banks will be raising their rates, and given the stark contrast between NZ growth approaching 4% and many other parts of the world remaining near-munted, the NZD is highly likely to appreciate. Gains against the USD however will be limited by probable tapering of money printing and the overall environment will be one of potentially high volatility given the huge uncertainties surrounding foreign economies and their policy settings.

Accelerating growth in NZ will lead to a rapid rise in job numbers, big decline in the unemployment rate, and eventually a firm lift in wages growth over 2015-16. Businesses will want to review what they were doing from 2005-07 when the unemployment rate fell to 3.5%, finding staff was very difficult, and wages growth was an average 5% rather than 3% recently.

IF I WERE A BORROWER WHAT WOULD I DO?

If you are looking for reasons for the confusion regarding where interest rates are going here are some huge ones.

- In Japan annualised growth has slipped from 4.3% to 3.8% and now 1.9% and analysts are wondering if the BOJ may soon flood even more money into the Japanese economy. More sugar to feed on.
- In the United States a new Federal Reserve Chairman takes over officially on January 31 and analysts are wondering if her generally greater dovishness than Mr Bernanke will mean extending money printing (sugar throwing) for longer, or whether evidence of a robust jobs market means she will soon close the candy shop.
- In the UK the BOE has just brought forward in time by 18 months the period when it expects the target of 7% unemployment to be achieved so analysts are wondering if that means the base rate of 0.5% might be raised as early as before the end of 2014.
- In the Eurozone GDP growth has slowed anew, criticism is growing of the lack of progress in reforming rigid economies (OECD, IMF, EC), public debt burdens keep growing, social unrest is rising, and with the ECB President a year ago having promised to do whatever it takes to protect the Euro, and with inflation falling to just 0.7% deflation worries have surfaced. Does this mean that more sugar throwing is in the offing following the recent 0.25% cut in the cash rate?
- In Australia consumer confidence is strong but business confidence has eased, jobs growth is absent, the currency is rising anew and hitting manufacturing and tourism, yet retail growth is accelerating and house prices and construction rising. Will the RBA ease monetary policy again to stem the rising AUD (they warned of such this week), and if they do will they follow the RBNZ in adopting credit controls to try and control the inevitable extra push this would give to a housing market busily repricing itself upward? (Yes, they probably will.)

If you are going to forecast interest rates you need to be able to forecast central bank policy changes and that is not possible because we don't believe any of them really have a strong plan in place which they anticipate following with little change. You should not be making your decisions regarding whether to fix or float and what range of fixed rates to take based upon any view as to where interest rates will go. You should instead figure out what your psychological tolerance to the risk of big rate rises or falls is, what your cash-flow and equity tolerance is to big rate movements, discuss these things with your banker, and then make your choices.

Wholesale rates this week are where they were a week ago.

FINANCIAL MARKETS DATA

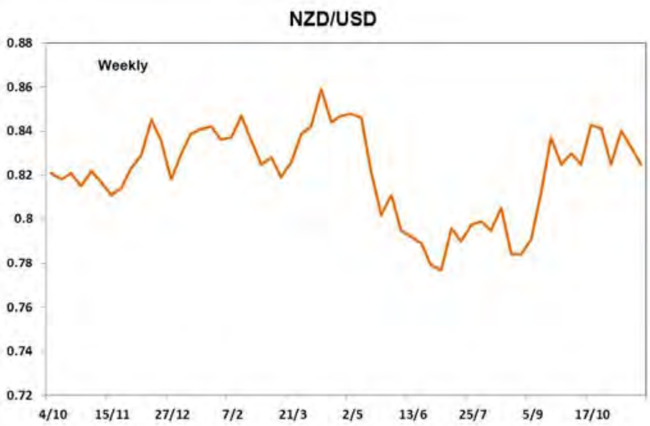
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.69%	2.69	2.68	2.67	2.76	5.7
1 year swap	3.14%	3.12	3.05	2.96	2.60	5.8
3 year swap	4.00%	4.00	3.92	3.91	2.83	6.1
5 year swap	4.52%	4.53	4.41	4.42	3.12	6.3
7 year swap	4.85%	4.86	4.72	4.74	3.44	

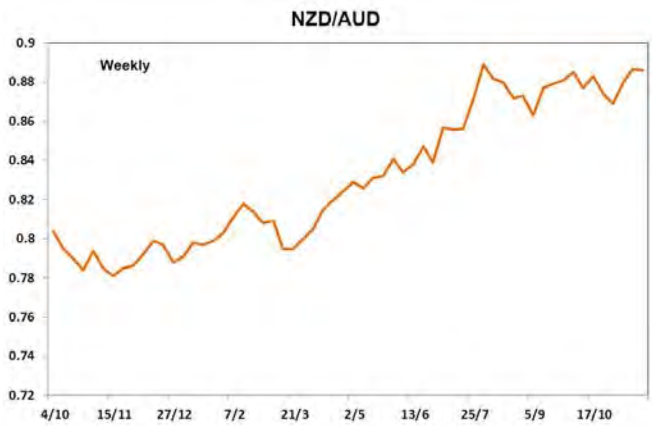
NZD Little Changed

Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr Average
NZD/USD	0.825	0.833	0.849	0.798	0.815	0.67
NZD/AUD	0.886	0.887	0.878	0.878	0.786	0.85
NZD/JPY	82.8	82.7	83.1	77.6	66.6	69.6
NZD/GBP	0.512	0.519	0.525	0.509	0.512	0.388
NZD/EUR	0.614	0.617	0.62	0.595	0.637	0.52
NZDCNY	5.03	5.07	5.18	4.89	5.08	4.99
USD/JPY	100.36	99.28	97.88	97.24	81.72	105.7
GBP/USD	1.61	1.61	1.62	1.57	1.59	1.72
EUR/USD	1.34	1.35	1.37	1.34	1.28	1.28
AUD/USD	0.93	0.94	0.97	0.91	1.04	0.788
USD/RMB	6.0932	6.0915	6.0964	6.1248	6.2326	7.56

Do you sell the NZD against the USD now because you believe the Fed. will soon start tapering its money printing and the USD will therefore go up? Or do you buy the NZD and sell the USD not just because tapering may not start for a long time but because NZ GDP growth is set to take off and the Reserve Bank will start raising its cash rate next year perhaps two years before the Federal Reserve starts the same process? Toss a coin. At least you'll get something out of the exercise in the form of improved hand-eye coordination. Try for best out of 100.

This past week the NZD has done nothing interesting. Going forward, given that monetary policy will tighten in NZ ahead of such moves elsewhere the chances are that the NZD will generally rise. Could the NZD stage a big move down at some stage in the next couple of years by about ten cents? Possible but not highly probably given the interest rate moves plus the story of a strongly growing economy.





China

China disappointed many people hoping for some big reform announcements following the meeting of top CCP members last week. But this week a few smiles appeared following the release of a blueprint for 60 reforms – though not actual policy changes as such as yet. The document from the Plenum recently held promised to relax the one-child policy by allowing couples where just one was an only child to have two children. Previously this exemption was only granted when both partners were only children. It is not likely that this change will lead to a new population explosion in China (Mao initiated one from 1949) as Chinese now live predominantly in small apartments. In Shanghai only 8% of couples eligible to have a second child took advantage of the policy. But it may eventually help address the new situation in China where the working age population has started shrinking.

Consideration is to be given to setting up a special court for examining copyright issues – a key deterrent to many Western companies operating in China. Market pricing is to be allowed in most industries (removal of price controls in other words on the likes of utilities and transport and industries where SOEs dominate. SOEs are to be required to lift their profits to the government. Property rights are to be improved for farmers, more private hospitals will be permitted, and migrants will find it easier to settle in smaller (not Tier one) cities and gain access to social services. Re-education through labour camps to which police can send recalcitrant people without trial are to be abolished. However such camps will remain for those who are convicted.

All up a good though not earth-shattering list of reforms with no dates set for when they will become effective.

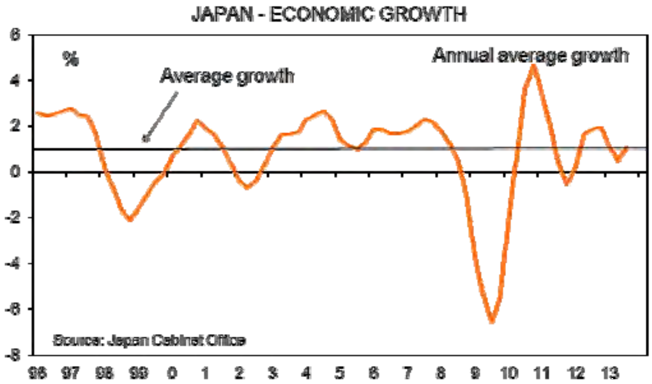
The document's release came a few days after China astounded the world by offering just $100,000 in monetary assistance to the Philippines following the typhoon. The Chinese thinking was that because they have a territorial dispute with the Philippines (the Philippines is daring to challenge China's authority over everything it considers was once it's at any stage during the past five millennia). This reminds us of the point made here a couple of weeks ago. China uses its economic strength to punish countries it is having disputes with and/or feels is not showing the middle kingdom enough respect. We will almost certainly eventually be in such a position and exporters to and investors in China should keep that particular dynamic of China in mind. Remember also that China is a one party state which enacts rules first and foremost in terms of whether they will strengthen or weaken rule of the CCP. Diversification to other markets would seem to be a good idea for most of New Zealand's primary producers who are currently very happy to sell to China.

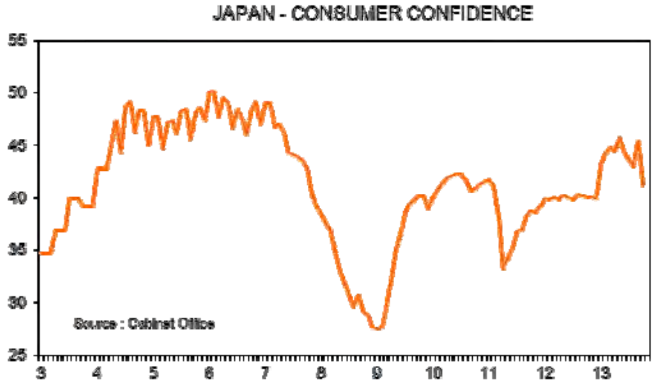
Australia

The minutes of the RBA's November board meeting were released this week and they showed that while the RBA sees signs that its recent cuts in interest rates are spurring some extra economic activity they are concerned about the high AUD and its impact and feel scope exists for still further interest rates relief. But in spite of their renewed expressions of concern about the high AUD the currency failed to fall in response to their comments. That is partly because the Chinese economy is looking better and the reform paper released during the week has given some hope regarding growth and other developments over the next few years. In addition there is a firm belief that with the Australian housing market accelerating at a high pace the RBA is concerned that it will grow a potential bubble even more if it cuts interest rates again. Hence why mild debate is growing across the ditch about potential imposition of credit controls along the lines of what the RBNZ has just introduced.

Japan

Last Thursday we learnt that the annualised pace of growth in Japan's economy slowed to 1.9% in the September quarter from 3.8% in the June quarter and 4.3% in the March quarter. The surge early this year was driven by rising net exports assisted by a weaker Yen, plus a rise in household spending and residential construction. The September quarter slowing reflected exports falling while imports rose in response to earlier strength in domestic activity, plus an easing off in the pace of growth of private consumption.





The graph shows the 12 month versus 12 month pace of growth we are more used to discussing in NZ. Japan's growth has averaged 0.8% p.a. the past two decades compared with 2.9% for NZ. But while their export growth has averaged 4.4% versus 3.3% for imports, our rates have been the other way around at 3.9% versus 5.3%.

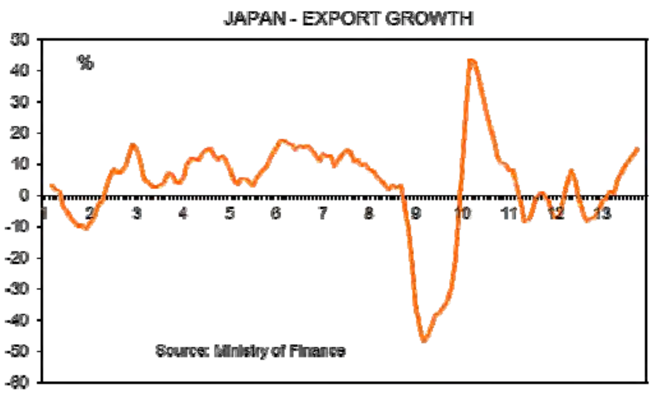
We learnt also a few days ago that consumer confidence in Japan, seasonally adjusted, fell to its lowest level in ten months in October as shown in the second graph above. This then raises the question everyone is wanting an answer to. To what extent has the recent surge in sentiment and growth merely been a flash in the pan surge of hope regarding the ability of returned Prime Minister Mr Abe to restructure the Japanese economy and drive strong economic, productivity, employment, and incomes growth? Is optimism fading in the absence of anything more so far than simple easing of monetary and fiscal policies? Without the Third Arrow of deregulation Japan's growth will not lift and simple exhortations recently from the government for businesses to boost wages of their employees are not replacement at all for market-opening reforms in trade, labour, agriculture and so on.

Lack of wages growth is a large problem. Businesses will not raise wages if they are unconvinced that selling prices are going to rise rather than fall. Only eight out of 105 companies surveyed by the Yomiuri Shimbun newspaper recently said that they were considering raising base salaries.

So far the signs are not all that good that reforms will come anywhere close to meeting hopes of those not tied into the many political straitjackets which have suppressed Japan's ability to thrive for the past two and a half decades.

Note as an aside, the workforce in Japan has been shrinking for a couple of decades and the population in the next fifty or so years will shrink from near 129 million to under 90 million. Incomes per capita have actually shown reasonable growth.

Yesterday however we learnt that the value of exports from Japan in October was 18.6% ahead of a year earlier (4.4% growth in volume terms, 1.5% s.a. for the month) which was a far better than expected result. So maybe the September quarter weakness revealed in the national accounts was a blip.



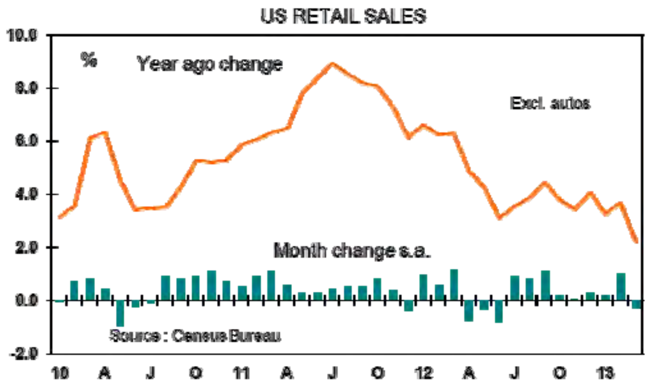
United States

The week started with a strong focus on testimony before the Senate Banking Committee by incoming Federal Reserve Chairman Janet Yellen (she takes over from Mr Bernanke on January 31). The strong market view is that she is more dovish than most including Mr Bernanke and that she would signal a continuation of money printing for a long time. Following her comments equity investors thought she had done that and pushed prices higher while those in the bond and currency markets were not so sure.

She made comments such as that the US economy and labour market are performing “far short of their potential”. But that housing has “turned the corner” and the auto industry is making an “impressive comeback”. Essentially almost as much uncertainty about the timing of tapering remains now as before. The USD will therefore continue to rise and fall as expectations for tapering alter and this will mean continuing movement down and up in the NZD.

Regarding housing turning the corner we received data on sales of existing houses last night. They showed average sales prices 12.8% ahead of a year ago, the month’s worth of inventory sitting at five months from 5.2 a year ago, and sales down s.a. 3.2% in October though ahead 6% from a year ago. The pace of sales growth has slowed and prices have been broadly static since May. Interesting.

With regard to consumer spending we learnt last night that retail sales growth is acceptable but possibly slowing. Sales excluding autos rose by 0.2% s.a. in October to lie 2.7% ahead of a year ago compared with 4.3% annual growth three months earlier. Core inflation data is running at 1.7%.



There is no slam-dunk case for arguing that growth in the US economy is accelerating, hence while last night Fed. board meeting minutes revealed general discussion about tapering starting in a few months, the case for immediate easing if money printing has not been made.

Eurozone

The Eurozone economy grew by just 0.1% during the September quarter after expanding 0.3% during the June quarter and shrinking in the six quarters before that. The economy is still about 3% smaller overall than before the global financial crisis of late-2008 whereas NZ GDP is about 5% higher.

Just to illustrate the way Europeans don’t understand the parlous state of their economy consider this comment from the ECB President Mr Draghi. “If you look at the euro area from a distance, you see that the fundamentals in this area are probably the strongest in the world." I'm looking in from the greatest distance one can do so and the fundamentals do not look good at all.

- The Eurozone is 3% smaller than in 2008.
- The unemployment rate is over 12% and not falling.
- Inflation is just 0.7% and there are worries about deflation.
- The ECB has slashed interest rates to just 0.25% and businesses still do not have the confidence to invest.
- At near 90% of GDP Eurozone gross government debt is above the US near 75%, ourselves near 38%.
- The Eurozone banking system is inappropriate for a single currency area stretching over many diverse economies.
- Labour markets in Eurozone countries are extremely rigid and young people are virtually locked out of job opportunities in many countries as structures focus on protecting jobs of far older people.
- Less well-off members of the Eurozone such as Greece have struggled and outright failed to implement policies needed to place themselves on a more sound footing.
- Germany has failed to do its part to assist recovery and address imbalances in the Eurozone by aggressively boosting domestic demand.
- Extremist political groups are in ascendancy, risking rolling back market-opening reforms in countries which have already been implemented.
- Cultural adherence to tax policies is absent in countries ranging from those on the Mediterranean to at least France.
- There is virtually a lame-duck President holding the reins of power in the Eurozone's second biggest country, France.
- An inability among policy-makers, politicians, and even the public to understand that ongoing fiscal stimulus packages cannot deliver sustained growth in productivity and intellectual capital.

The Eurozone has yet to emerge from the immediate post-GFC period and has certainly yet to place its economy on a safe enough footing to be able to handle the coming withdrawal of the global liquidity flood initiated by the Federal Reserve, let alone another bout of investor heeby geebies.

United Kingdom

The Bank of England are predicting that the UK economy will grow by 1.6% this calendar year and 2.9% over 2014. Contrast this with the European Commission forecasts for the Eurozone of 0.4% shrinkage this year and only 1.1% growth over 2014. Or consider the latest set of forecasts released by the OECD. They forecast UK growth of 2.4% next year whereas in May their forecast was just 1.1%. That is quite a substantial upgrade. For the Eurozone they forecast growth over 2014 of 1% which is a decrease from the 1.1% forecast made in May.

Based on these changes the implications for the exchange rate between the British Pound and Euro seem reasonably clear. Stronger GBP, weaker EUR.

In fact this week the BOE brought forward the time when it expects the unemployment rate in the UK to fall to 7% from mid-2016 to late-2014. It may get there earlier than that as the rate fell to 7.6% in September from 7.8% in June and 7.8% a year ago with 177,000 jobs created during the September quarter.

Housing Market Update

LVR Rule The Cause of FHB Desertion

The Finance Minister joined the Reserve Bank this week in playing down the impact of LVR credit controls on first home buyers. While noting the results of our BNZ-REINZ Residential Market Survey last week showing a net 78% of real estate agents seeing fewer first home buyers in the market he said that a similar drop has happened across the Tasman. He blames FHB reaction to high prices for the change. That is not correct for two reasons. First, FHB presence in the NZ housing market has changed radically over a two month period and prices have not suddenly gone through the roof.
http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11159185

Second, our survey shows that FHB interest has collapsed in parts of the country where prices have barely budged over the past year. Take Wellington for instance. A net 74% of agents this month noted that they are seeing fewer FHBs than last month. Yet over the past year on average Wellington house prices have risen by only 0.3%.

	# of Responses	. # of people through Open Homes	% of Written Sales Unconditional	Auction Clearance rate	Requests for Appraisals	Investors buying	First home buyers	Prices	Buyers more motivated?	Akld Buyers?
Northland	13									
Auckland	95	-67	-23	-57	6	15	-82	26	-1	20
Waikato	15									
Bay of Plenty	20	-20	0	11	-15	5	-90	5	-45	42
Hawkes Bay/Gisborne	16									
Taranaki	5									
Manawatu/Wanganui	8									
Wellington	23	-17	-9	-7	17	9	-74	30	-22	0
Nelson/Marl. W. Coast	8									
Canterbury	29	-45	3	4	0	10	-79	52	-10	5
Otago	11									
Southland	7									
All	**250**	**-45**	**-12**	**-28**	**8**	**6**	**-78**	**23**	**-17**	**22**

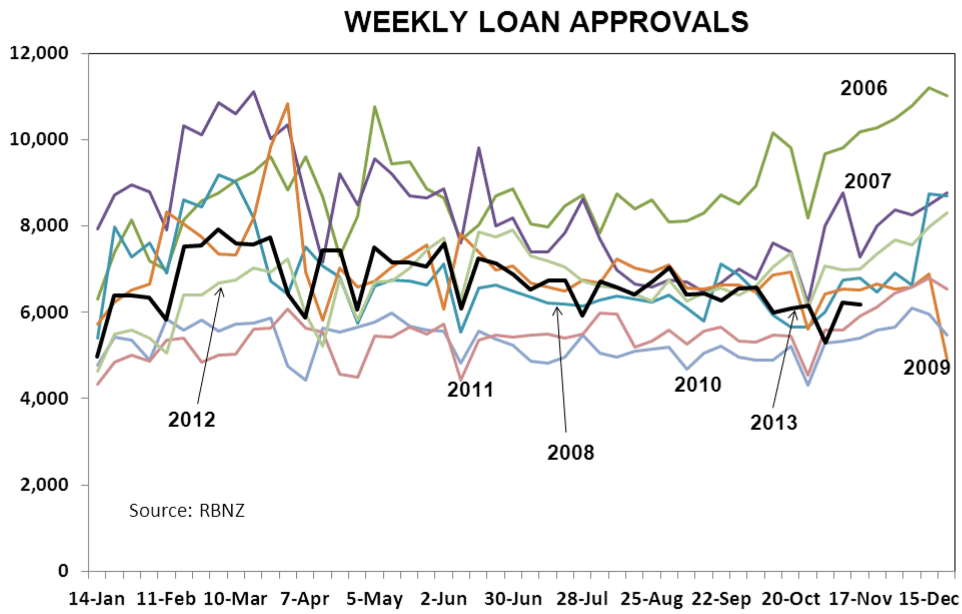
The Finance Minister made his conclusion that high house prices are to blame for the collapse in FHB presence on the basis of data released by the Australian Bureau of Statistics showing that across Australia in September 12.5% of loans went to FHBs compared with 19.3% a year ago and an average of 18.5% over the past ten years.

Unfortunately we have no comparable data in New Zealand.

The Housing Minister then joined in the attempt to paint the government as not responsible for pricing first home buyers out of the market (they passed the legislation giving the Reserve Bank power to impose LVR rules). Referring to the survey results he said “We do need to be cautious of data from ... the building, banking and real estate industries [they] all have an interest in ongoing house price escalation…”
http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11158031

Shoot the messenger in other words. Shame.

The weekly home loan approvals data from the Reserve Bank showed that in the week ending November 15 the number of home loans approved was down by almost 12% from a year earlier. Approvals have been running at levels below a year ago since about the week ending October 11. The LVR rule has clearly had an impact on lending activity. The question becomes then, how long will this last?



On average between 2004 and 2012 in the first three weeks of November the number of home loan approvals has run 9.5% above loans in the last three weeks of October. This year the change has been a fall of 2.9% and in no other year has a fall occurred. Therefore one can safely say that lending has been much weaker than one would have expected, especially as in other years when overall lending growth to September was similar (latest month available), increases still occurred.

	Change in 3 weeks to mid-November from last 3 weeks of October	**Annual household debt growth, September**
2013	-2.9%	5.5%
2012	2.5%	2.4%
2011	10.5%	1.0%
2010	11.0%	2.2%
2009	0.4%	2.4%
2008	13.4%	6.5%
2007	13.2%	12.9%
2006	5.4%	12.9%
2005	9.7%	15.5%
2004	19.5%	15.7%

In fact, one can argue that for the recent three week period the number of loans has been about 10%+ less than would have been the case without the LVR rule. The LVR rules therefore are working in terms of reducing bank exposure to loss of equity on home loans should a large shock occur. The issue however is that the cost of improving financial strength is being paid by first home buyers and the beneficiaries are all other buyers including investors and foreigners. The Reserve Bank's actions, while based upon the best of intentions, have skewed New Zealand's housing market toward a reduced rate of home ownership and increased ownership by investors.

Property Press

http://www.propertypress.co.nz/

For your guide, each fortnight I now write a column for the Property Press real estate magazine which you can find outside most real estate agencies around New Zealand. Here is what appeared a week ago.

Popular belief has it that Auckland leads the housing cycle and the rest of the country follows. This is broadly true but big year to year variations can arise and there is no consistency over a housing cycle with regard to how much prices move.

In this cycle so far we have seen Auckland house asking prices on average rise 26% from their low-point in January 2009. Next comes Canterbury at 21% from the same low-point. Central Otago/Lakes District also registers a 21% gain but from a vastly different late-2011 low. Then follows an 18% rise for Nelson from a mid-2008 low.

In contrast prices on average in Wairarapa are up just 1% from a mid-2012 low, Northland 3% from early-2012, and Wellington 7.5% from mid-2009. There is no relationship at all between length of time since a region's prices bottomed out and how much they have so far risen. Some exited early and have shown only minor rises, some exited late and have seen prices soar. The movements are unpredictable.

If one wants to try and find a region which might be currently under-priced by historic standards it is better to look at where prices sit as a proportion of the NZ average then see if that relationship is normal or well away from the norm.

We can do this exercise using REINZ data from 1992 and produce the following table. It shows most regions below trend but four above trend. Otago is on its average.

	Below Average	Above Average	Average
Northland	8%		
Auckland		6%	
Waikato/BoP	9%		
Hawkes Bay	10%		
Manawatu/Wanganui	8%		
Taranaki		6%	
Wellington	7%		
Nelson	4%		
Canterbury		7%	
Central Otago/Lakes	6%		
Otago			X
Southland		1%	

Does this mean that we can soon expect quick price rises from the likes of Northland, Hawkes Bay etc.? Not necessarily. Consider Hawkes Bay. Prices might be 10% below trend, but earlier on they were 5% below yet got worse. All these measures tell us is that the chances of price gains eventually exceeding the national average are good for the below trend regions. But we cannot put any time frame around their eventual price gains. More's the pity.

Taking a look at interest rates now, the chances are slim that floating mortgage rates will be rising much before the middle of next year. Inflation is low at 1.4%, wage rises are restrained, businesses don't yet feel they have strong pricing power (ability to raise prices and get away with it), and the strong NZ dollar is keeping import costs down.

So should one only borrow at floating rates for a house purchase? Not really. No-one in New Zealand (including myself) has got their interest rate predictions right for the past six years and huge uncertainty continues regarding factors offshore which influence our rates. Were I borrowing my goal would be to manage risk rather than try to pick how to minimise my cost. Only pure luck will deliver that outcome in these continuing uncertain times where it seems any month we might get a fiscal blow-up in the United States, currency breakdown in Europe, or stalling debt-laden economy in China.

Competition between banks is strongest in the 6 – 24 month fixed rate period. So at a minimum, were I borrowing, I'd have one-third floating for the repayment flexibility offered, then the rest split between one of the short-term discounted rates and maybe a three year or longer rate as well. If the jump to paying for a three year or longer rate is considered too great then I'd put two-thirds on a short-term fixed rate.

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 – 3.0	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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