Weekly Overview

17 October 2013

ISSN 2253-3672

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

BNZ-REINZ Residential Market Survey shows first home buyers backing off in droves

Our October BNZ-REINZ Residential Market Survey tells us that LVR changes have led to a substantial withdrawal of first home buyers from the marketplace, lesser easing off of interest from investors, and only slight downward change in real estate agent expectations regarding house price rises. The result is to be expected and the issue now becomes one of to what extent first-home buyers find ways to meet the rules, and how much lasting impact if any there will be on turnover and prices. The Reserve Bank last week released a paper in which they estimate the impact will be average prices between 1% to 4% lower than would otherwise be the case. That is wide enough a range to qualify as the sort of pick anyone could make.
http://tonyalexander.co.nz/wp-content/uploads/2013/10/BNZ-REINZ-Survey-October-2013.doc

Managing Migrants

There was a good article in the NZ Herald this week noting how NZ has a high churning population and that employers need to pay attention to recruitment and effective use of migrants as our labour market tightens up. This is nothing new and covers ground I looked at intensely starting almost a year ago in the context of poor Kiwi employer utilisation of returning Kiwis. But I mention the article because of inclusion of a good statistic putting it all into perspective. Just over one-third of all employees in New Zealand are foreign born. In the words of Professor Bedford "Employers will need to learn how to manage diversity in the workplace and to see this as a benefit rather than a deficit."
http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11139610

Note that on October 24 in Auckland and November 15 in Wellington Immigration NZ is running workshops on "Retaining your skilled migrant staff" I strongly suggest employers give thought to attending one of these seminars as a shortage is not just coming, it is already here according to the NZIER's Quarterly Survey of Business Opinion. And this has happened even with the unemployment rate above the 4.6% average for the past ten years at 6.4% in the June quarter.
http://forms.newzealandnow.govt.nz/~/3745818-06885a51240d4c0119da08aef5828a8d/

Growing Your Wealth – Our Housing Preference and Equities Blind Spot

This week I write some more below about savings in the context of last week's report from the Commission for Financial Literacy and Retirement Income and this week's media releases from the Financial Services Council. (I wonder who's turn it will be next week.) And it occurred to me as I was writing that there is a world of difference between a diversified equity portfolio and residential property investments. Nothing the investor does will affect the return on equities beyond altering allocations perhaps in response to lots of research sitting at a desk. But when investing in property one has the opportunity to run it as a business and alter the return. And that is far closer to our strong Kiwi cultural characteristic of preferring hands-on activity to book-learning than equity investing ever will be.

Plus, as humans we have a very high "regret" emotion which means we are near four times as sensitive to the loss of a thing than a gain. What this means is that when people do the cash flow numbers on renting versus buying a house they may decide to rent. But a year down the track with Auckland house prices up 18% they will probably regret their cash flow-based decision and feel intense pain from the loss of a large tax free capital gain. The desire to get rid of that pain is strong, so they now enter the market to make a purchase they feel that they should have made a year ago. In the same vain older people chase returns in high yielding financial assets (finance companies, contributory mortgage schemes etc.) to avoid the regret of missing out on an extra 1% - 2% rather than necessarily to secure the gain of that 1-2% over a bank term deposit. But that is a story I'll be coming back to further on in this cycle.

And something else worth thinking about. Do we feel greater regret at missing out on an 18% gain in Auckland house prices or the 21% gain in the NZX50 share price index in the past year? I surmise the former because few people borrow to invest in shares whereas most of us do to invest in property so return on capital in property generally exceeds return on capital for shares. But psychologically more important is probably the fact that rising house prices are a topic of ongoing conversation we feel close to whereas this is not the case for share prices.

As equity investors we can still get the enjoyment we might get from discussing our residential property investment and how we are managing it if as Kiwis we liked to discuss our finances with each other. But we don't. Unlike New Yorkers we won't sit around cafes discussing which companies we like the look of, which we have worries about, which we feel like borrowing money to invest in and so on. Our shyness about discussing financial matters and our personal wealth is one factor behind our bias toward housing. We are wary of looking like we might be skiting and getting up ourselves if we talk about the good pick we made on a certain share. Yet if we speak about how much we have made on a property then that earns respect – a "good on ya mate" sort of thing.

Raising Your Earnings

I received a good response to last week's comment regarding the best investment I made being not housing, forestry, or financial assets but in my education then the way I pursued my career. My starting point is that it is a good thing suggesting to people that they build up financial assets for use when they retire and along the way for when expected and unexpected expenses and desires to spend come along. But the more you earn the more you can both spend and save. One trick of course is trying to keep your spending desires in check or growing at a slower pace than your income. Another is to recognise that through your working life there will be times when expenses are low and you can save or spend a lot, and other times when expenses are naturally high and saving frankly needs to be put on the back burner while you concentrate on things like paying for the education you want your kids to have (should private schooling be your thing, it's not mine but I was over-ruled), or paying off a home mortgage.

That latter one is quite important because research such as that noted last week in the triennial report from the Retirement Commissioner shows a strong difference in the retirement experiences of those who own their own home and those who rent. The latter are less well off. But then maybe they are less well-off not because they chose to rent rather than buy but because they did not earn enough money during their working lives to be able to afford to buy a house – particularly perhaps one as good as they could get by renting. They are less well off in retirement because they were less well off before retirement.

If earning good income and controlling spending before one retires is a far better route to take than thinking one will retire well simply with a regular low level savings plan, what does one do to get ahead? This week I shall throw one thing into the mix. It pays to be like a cat that catches a rat. It is no good for the cat to catch the rat then eat what it wants of it under a bush. It is best to take it to the doorstep, or if the door is open take it under the couch or onto someone's bed, then eat half of it and leave the rest for everyone to see how great a cat you are. This however is a challenge for us Kiwis as we think people who display their outputs are showing off and getting up themselves. We think they are wanting positive feedback – and positive feedback is not something we Kiwis like to give outside sports.

To help you understand this consider the following paragraph from an article written by the Vice Dean at the University of Maryland's Robert H Smith School of Business, Joyce Russell, printed in the AFR on Wednesday and originally posted here.

http://www.washingtonpost.com/business/capitalbusiness/2013/10/04/9c65dc2e-2b92-11e3-97a3-ff2758228523_story.html

“In US culture we are taught to take credit for our individual work and to stand out in front of people so that they understand our personal contributions. We are taught to be aggressive in promoting our accomplishments. We think that if we put the spotlight on ourselves, that we will get promoted faster.” (Hence the twerking?)

This is very un-Kiwi.

Too bad. When you produce an output in your job make sure as many people as possible see it, without throwing it in their faces. This is not just to prove you are doing something (be you a builder or an academic writing papers) so that when the next inevitable cost-cutting round occurs there are fewer thoughts of making you redundant. It also opens up opportunities elsewhere with those who might pay more for the output you produce than your current employer. I’ll bet young people would think this is naff, but if you can get away with it why not post your output on your Facebook page. After all, that is where your next employer will be looking to see how much of a *&^%head you are.

Retirement Report

I took a look through the 104 page report “Focusing on the Future – A Discussion Document” released by the Commission for Financial Literacy and Retirement Income last week. The paper is lengthy, covers a lot of ground, makes good reference to previous research and basically says that we know the dimensions of financial literacy and savings problems and it is mainly a matter of doing something about them.

Putting aside the financial literacy issues and concentrating instead on retirement income provision and household savings we can summarise as follows. After looking at the history of superannuation in NZ and the coming increased fiscal burden to be caused by the combination of a reduced birth rate in recent decades and increased life expectancy, the authors conclude that no drastic changes are needed to make national superannuation sustainable.

“NZS is an inexpensive scheme by international standards, but its cost as a proportion of GDP is projected to rise dramatically in the future. The issue that arises is not so much one of affordability as of future generations’ ability and willingness to pay the additional cost. It is unlikely that NZS will remain sustainable in its current form, but there is no need to panic about this, or to introduce draconian measures. There are available a number of reasonable policy responses which, if designed in the short term and implemented with plenty of notice, will preserve the affordability and other key features of NZS.” Page 47

Suggestions made in the report include slowly raising the age of eligibility for NZ super and slightly altering the way the payment is calculated.

One should note that there is a wide range of estimates for how much NZS will cost in the future as a proportion of GDP. The net cost currently (after tax) is just over 4% of GDP and projected to rise to near 8% or 9% come 2060. That would leave the cost below the current OECD average but does represent quite a jump which will require thinking about some combination of eligibility changes, government spending cuts, tax increases, and higher government debt.

What about the issue of whether or not Kiwis are saving enough for their retirement?

“…**much of the microeconomic evidence suggests that most New Zealanders may well be saving sufficiently for retirement. While the data lead to conclusions that are often equivocal, the weight of evidence does not suggest a widespread lack of saving. Rather, it is specific segments of society that are likely to be at risk…. Overall, it has not been established that New Zealand ‘has a national savings problem’ that needs to be solved through retirement income policies, although other**

policies may be needed. And on balance, there are some sections of society that are not able to save for retirement so this difference needs to be taken into account." Page 50

In other words, as noted here three weeks ago, if one is to call for people in general to do more saving then it needs to be on the basis of the simple story that having reserves for times of low income and high expense is a wise thing to do – as all good squirrels know. Scary stories regarding disappearance of NZ Superannuation are not backed up by the research and as long as mild changes to the scheme are slowly made over time then it can continue in a form not vastly dissimilar to what it is now.

"**Does this then mean that there is no need for individual New Zealanders to save for their retirement? It depends on the standard of living that they aspire to. NZS currently pays for a very basic lifestyle, which may suit those who are used to basic living prior to retirement.**"

"Indeed, some low-income earners experience an increase in standards of living when they become eligible for NZS. Those used to higher levels of income may wish to preserve those levels (or at least a proportion) into retirement. Many of the baby boomer generation are likely to have higher expectations of retirement than can be supported by NZS alone – in other words there will be a gap between what NZS provides and future retirees want to spend." Page 56

What I take from the Retirement Commissioner's report overall is that there is no need to panic about NZS, that there is time to make gradual changes for which people will have years if not decades of notice, and when it comes to saving, the bigger issue may be the inability of some segments of society to save rather than the household sector overall living like there is no tomorrow to worry about. Addressing that latter issue of low earnings for some is likely to yield far better results for the individuals concerned and society all up than concentrating only on scare stories regarding the disappearance of NZS. Finally, those who can afford to save might not be doing so to any great extent currently simply because they have not given enough thought to what their standard of living will be if they rely largely upon NZS when they retire.

Note that the Sunday Star-Times this week included some useful information from pensions researcher Michael Littlewood noting that over the past 14 years Treasury's estimate of the future net cost of NZS show a trend of downward revisions. The estimated cost of NZS as a ratio of GDP in the year 2060 has declined from 9.7% in 2000 to 6.6% this year.

The Financial Services Council which represents companies in the finance sector (banking, insurance, funds management) this week held a one day conference in Auckland and released a batch of notes. Their starting point is that their research suggests Kiwis estimate they need twice the current NZ Superannuation to live comfortably in retirement, and that to achieve that people need on average to save 10% of their income for 40 years. http://fsc.org.nz

They propose that NZS be left as it is (eligibility age etc.), but that Kiwisaver contributions be lifted to 7% of income. This 7% rather than 10% can be undertaken if people are shifted from low risk to higher risk portfolios early in their Kiwisaver years then shifted back toward conservative portfolios as they age. Also the tax rate applied to Kiwisaver earnings would need to be slashed. Plus remove the $1,000 start-up incentive and $520 p.a. government contribution to help fund the tax rate changes.

IF I WERE A BORROWER WHAT WOULD I DO?

The rate of inflation in New Zealand lifted to 1.4% in the September quarter from 0.7% in the June quarter and 0.8% a year ago courtesy of a September quarter CPI rise of 0.9%. The result was slightly more than expected but had only a minor impact on wholesale rates where direction instead is being taken from what is happening in the United States.

Inflation in New Zealand is still quite benign and last week we saw cost and price measures in the NZIER's QSBO edge down slightly. So immediate pressure on the RBNZ to tighten monetary policy is light, though it pays to note they have in fact done just that with the new LVR rules which they feel are the equivalent of a

0.3% rise in the official cash rate. Our expectation is that inflation will be near 2% late in 2014 then 3% late in 2015 and the RB will explicitly move to avoid a rise beyond that with their first rise in the official cash rate in March next year.

Wholesale borrowing costs have appreciably risen this week in response to the marginally higher than expected September quarter inflation number in New Zealand and a general burst of borrowing.

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	2.71%	2.67	2.66	2.67	2.76	5.7
1 year swap	3.11%	3.02	3.00	2.89	2.51	5.8
3 year swap	4.10%	3.95	4.02	3.58	2.73	6.1
5 year swap	4.64%	4.48	4.57	4.03	3.03	6.3
7 year swap	4.95%	4.80	4.89	4.32	3.32	

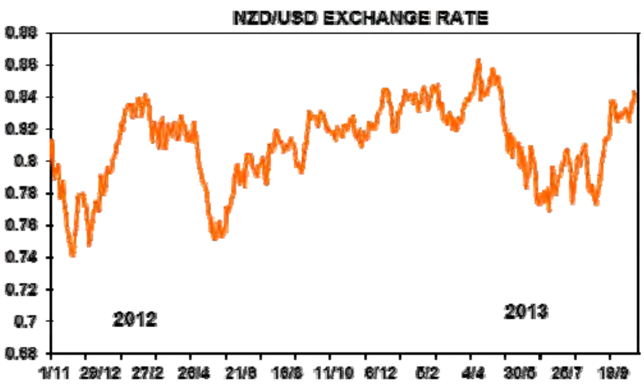
NZD Goes Up

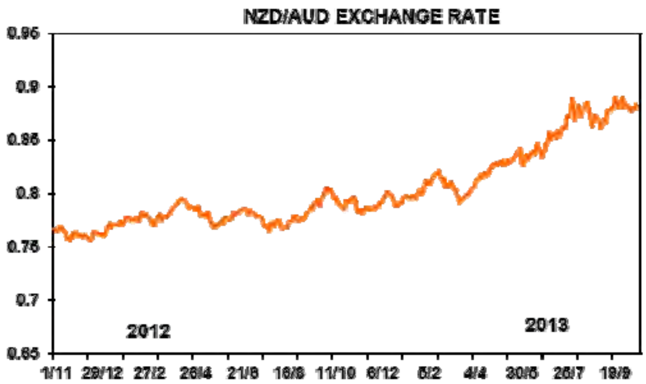
We learnt this morning that the dire outcome feared by many of a default by the United States on its debt has been avoided – by kicking the can down the road yet again. The Federal government is now funded through to January 15 and the debt limit raised until February 7. That means that unless there are some major changes in the Republican Party the problem and all the uncertainty surrounding it will appear once again.

If, come February, the US defaults then the radical repricing of risk for US government securities will see higher US interest rates which will place upward pressure on rates elsewhere, shock US consumer and business confidence and potentially send the US economy back into recession. This reversal of growth will hit the world economy directly and come on top of the global slowing already starting to appear in indicators such as consumer confidence in Canada.

Central banks would not be able to respond to the surge in uncertainty and disruption of global financial markets by slashing interest rates because rates are already very low. Governments could also not offset economic weakness with large fiscal stimulus packages because debt levels and deficits are already high. Central banks would likely flood their national and therefore global money systems with liquidity to ensure financial institutions remain liquid even though many would suffer hits to their capital bases form losses on US government securities.

But for now such a crisis is averted though there have been a number of economic indicators released showing some negative impact on sentiment which will tend to suppress US economic growth in particular going into Christmas. Aversion of the crisis has seen investors move funds back slightly into risky assets like shares and the Dow Jones Index this morning finished up some 3.5% from a week ago but largely where it was 2-3 weeks ago. The NZ dollar however has finished higher over both those time periods and we now sit at US 84.3 cents from 82.5 a week ago and near 83 2-3 weeks ago.



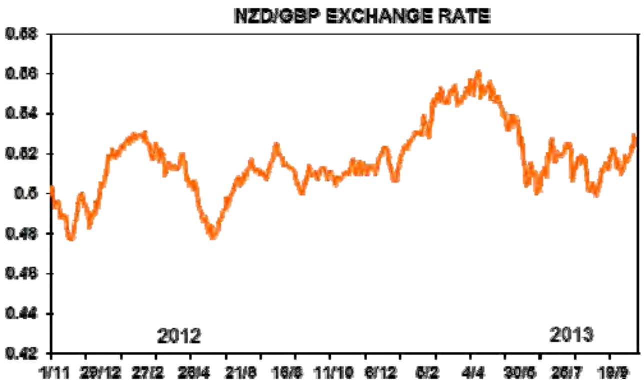


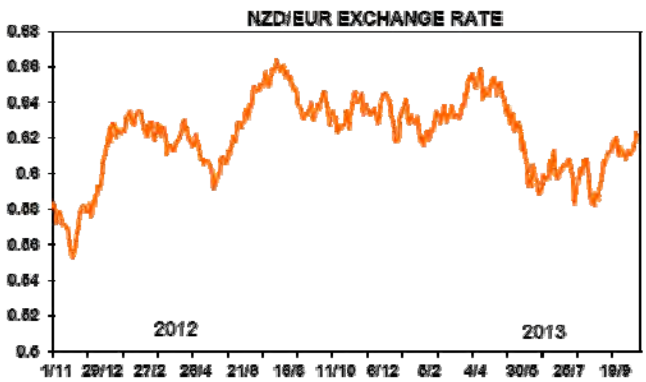
The NZD has moved very little against the AUD but the AUD itself has found some extra strength on average recently. Across the ditch the view is developing that the RBA will not cut interest rates again this cycle in light of the strong upturn occurring in the housing market in some cities which might turn into a bubble if rates stay low for a long period of time. In minutes of their most recent monthly meeting released a few days ago the RBA noted the assistance to growth being provided by the fall in the AUD from over US1.05 cents some months ago, and strong improvements in consumer and business confidence. The markets are pricing in a 50% chance that the cash rate will be increased from 2.5% in the coming year. We still think another cut could come in February.

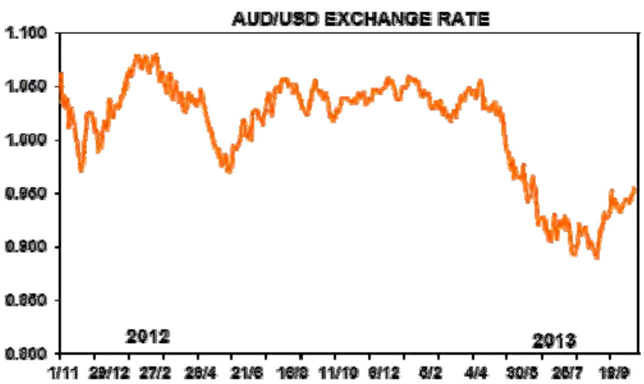
There is considerable uncertainty surrounding these policy expectations given the ongoing risk of shocks to the Australian economy from China which takes 35% of Australia's exports of which most are coal and iron ore heavily linked into the construction and infrastructure sectors and therefore the ongoing rate of growth in GDP in China. Risks also stem of course from the game of brinksmanship underway in the United States, not to mention Australia's exposure to the Japanese economy failing to maintain its initial positive response to the "Three Arrows" policy of the new Prime Minister Mr Abe.

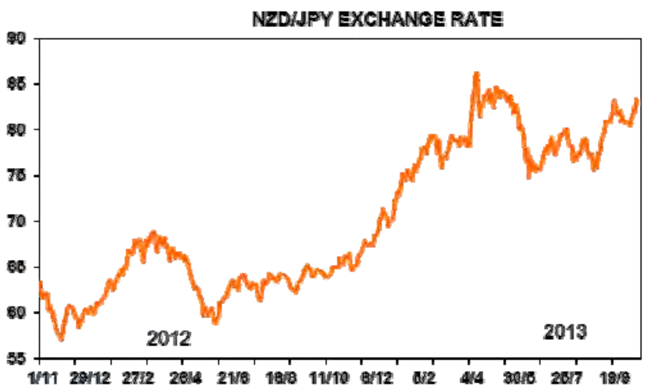
Nevertheless, if we take as our central scenario that there is some upward pressure developing for the AUD then this will cap the ground we will make against it (hence my purchase of AUDs a couple of months ago). But also the rising AUD will tend to push the NZD up against other currencies. Hence one more reason for our general upward bias for the NZD over the coming year. Another is the simple fact that on a long-term structural risk assessment basis US investments are now considered more risky than was the case previously. That means on average a slightly lower USD. In addition the ongoing fiscal mess reduces the chances that the Fed. will commence their tapering exercise soon and that means more extra USDs sloshing around the longer which again means a weaker greenback and higher levels against it for the likes of the NZD and AUD.

Note that the NZD has moved to five month high against the British Pound near 53 pence from 52 pence last week. We have also risen about one centime against the Euro to near 0.623 Euro and risen to a five month high against the Japanese Yen near 83.3.









Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.843	0.825	0.816	0.7881	0.818	0.67
NZD/AUD	0.883	0.877	0.876	0.853	0.792	0.85
NZD/JPY	83.3	80.6	80.9	78.21	64.4	69.6
NZD/GBP	0.529	0.518	0.513	0.5208	0.507	0.388
NZD/EUR	0.623	0.611	0.612	0.5994	0.623	0.52
NZDCNY	5.14	5.05	4.99	4.84	5.11	4.99
USD/JPY	98.81	97.70	99.14	99.24	78.73	105.7
GBP/USD	1.59	1.59	1.59	1.51	1.61	1.72
EUR/USD	1.35	1.35	1.33	1.31	1.31	1.28
AUD/USD	0.95	0.94	0.93	0.92	1.03	0.788
USD/RMB	6.1002	6.1199	6.1202	6.135008	6.2529	7.56

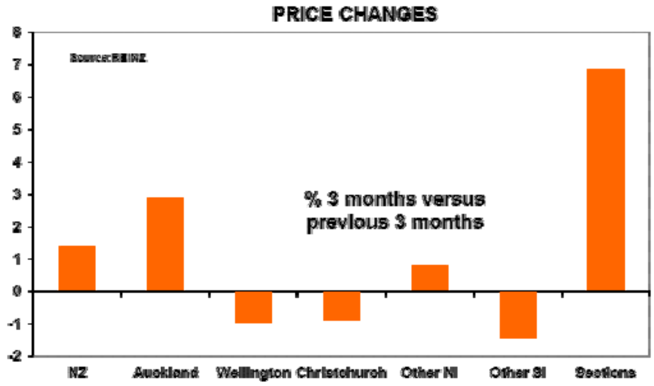
Housing Market Update

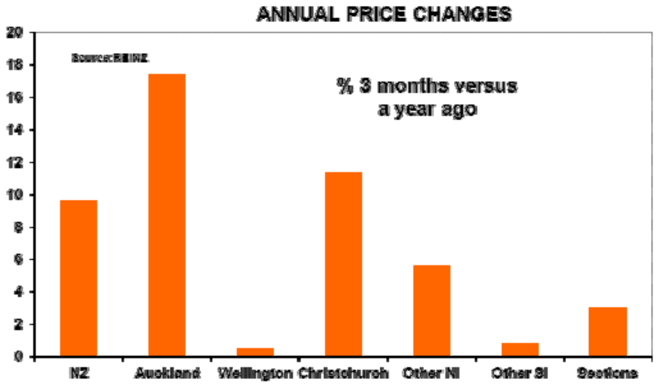
September Real Estate Market Firm

The REINZ released their monthly data this week and show a market in rude health during September – before the LVR changes became effective. Our monthly BNZ-REINZ Residential Market Survey suggests that their October numbers will look somewhat different with regard to sales, but not necessarily when it comes to the upward trend in prices.

During September there were 6,720 dwellings sold around New Zealand. This was a near 19% rise from a year earlier whereas the August annual gain was 8.5%, July 14.7%, and June 0%. Sales were strong with support probably from some buyers looking to beat the LVR rules. But I would not necessarily say there was a rush of buyers on this basis because no bank has left its lending criteria unchanged going into October 1. Rates for low deposit lending have been increased and availability of funds already curtailed well before the official effectiveness date.

As for prices they rose nationwide on average by 0.8% after rising 2.1% in July. For the entire September quarter prices on average were 1.4% up compared with a 3.5% rise in the June quarter and 1% rise in the March quarter. There is some evidence that the pace of house price gains has slowed down. In Auckland prices have risen almost 3% in the past quarter, in Wellington they have fallen 1%, and in Christchurch they have fallen by 0.9%.

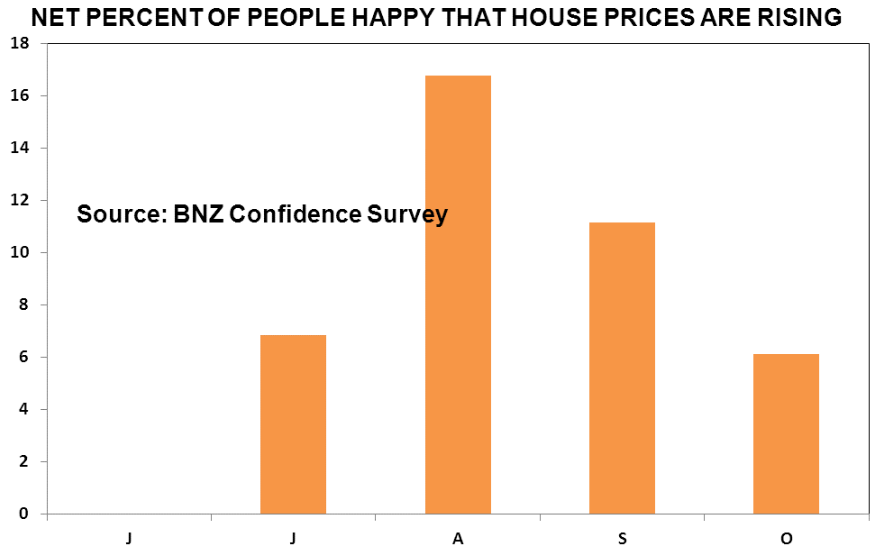




On average in September it took 31 days to sell a dwelling which was four days faster than average compared with 2.6 days faster than average in August and 3.2 days in July.

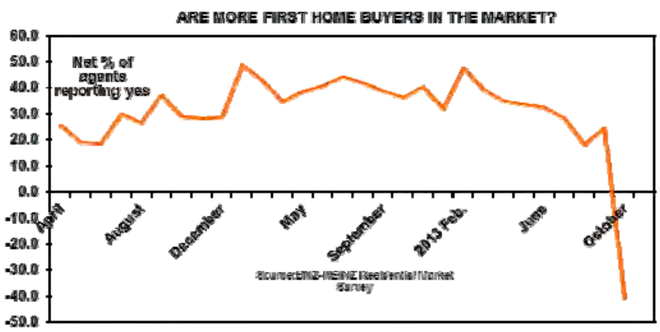
All up the results show a firm market but without any particularly rapid escalation in prices and perhaps a slight boost to turnover and the speed of selling in response to LVR changes.

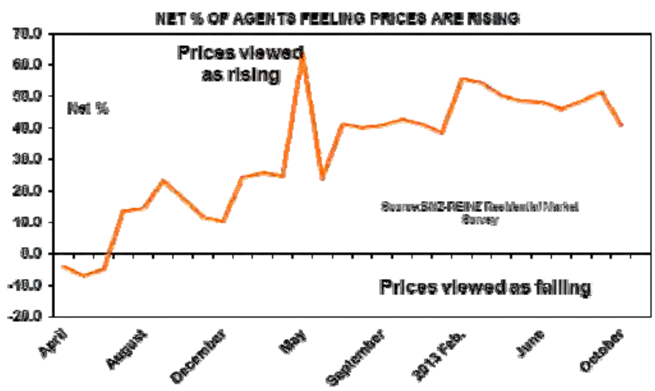
For your guide, it pays to remember that amidst all the media hand-wringing about rising prices and the difficulties facing first-home buyers, the bulk of people are actually happy that house price inflation has picked up. Each month I now ask respondents in my BNZ Confidence Survey whether they feel happy or unhappy that house prices are rising. The graph speaks for itself.



First Home Buyers Back Off – But Prices?

Our October BNZ-REINZ Residential Market Survey released this week showed that a net 41% of the 420 responding licensed real estate agents said that they are seeing fewer first home buyers in the market. This was down from a net 24% seeing more in September, well below the average result of 33%, and the only negative result on record.





One might look at that result and think it means the real estate market has been turned on its head and the cycle has ended. Not so fast.

First, investors remain out in force. This month a net 9% of agents said that they are seeing more investors. This was certainly down from September's 26% but far less of a decline than for first home buyers, and only just below the average reading for the past three years of 16%.

Second, the incentive for investors to buy has just been increased. Tenant supply has just been boosted by the LVR rule changes forcing young people and the deposit-poor to rent for longer than they may originally have planned.

Third, the net percent of agents feeling that house prices are rising barely budged this month to sit at 41% from 51% in September. This is above the average of 32% and little changed from 43% a year ago.

Then there is this fourth dynamic which I would like to point out. The new LVR rules will take some first home buyers out of the market so that instead of 24% of sales being to this group as agents reported was the case in March this year, the proportion will be less. Does this mean price restraint? Not necessarily. Consider what is happening in Australia.

In Australia the long-term average proportion of home loans extended to first-home buyers is 20.1% according to the Australian Bureau of Statistics. That proportion in August however was just 13.7%, down from 14.7% in July and 28% five years ago. Yet in spite of these buyers withdrawing from the market house price inflation in Australia is picking up.

The RP Data Rismark price index for the eight capital cities in Australia rose 3.7% in the September quarter to lie 5.5% ahead of a year earlier. Sydney increases were 5.2% and 8%, Melbourne 5.0% and 5.4%, Brisbane 1.2% and 1.1%, Perth 1.3% and 7.6%. A year ago all these indexes had recorded small annual declines.

In other words, even with first-home buyers pulling out of the market house price inflation can accelerate.
http://www.rpdata.com/research/capital_city_home_values_reach_new_record_high_in_september_2013.html

Reserve Bank Housing and LVR Paper – A Good Read.

This week the Deputy Governor of the Reserve Bank Grant Spencer delivered a speech on the housing market and made many comments including this. “Banks have competed aggressively for mortgage business and this has contributed to a ramp up in housing demand, which has far exceeded the housing supply.” There is certainly strong competition in the mortgage market but to say that bank lending is a key driving force behind price rises does overstate the situation somewhat given the still slow pace of lending growth.

Since December 2008 average NZ house prices have risen by 24% with Auckland ahead 46%, Christchurch 27%, and Wellington 9%. Dwelling sales in the past year were 44% higher than the year 2008 so activity is most definitely stronger. But is this debt funded? No.

Debt extended by banks for housing purposes has risen only 15% since the end of 2008. This is an average growth rate of about 3.3% per annum. Housing debt in the past year has grown 5.7%.

Debt growth is not the cause of surging house prices. Rather it is the simple fact I have been pointing out since late-2008 that NZ has a housing shortage. That shortage is concentrated in Auckland and since late-February 2011 also in Christchurch. That shortage has got worse over the past five years as construction fell to a five decade low two years ago with builders cutting supply in response to a combination of a lack of finance (note that – not a surge in bank lending but a shortage of it along with curtailment of funding from finance companies and other mezzanine financiers). The shortage also continues to get worse with residential dwelling consent issuance still running at levels below the average of the past ten years – which has delivered us the current shortage.

The RB estimate that the LVR rules are equivalent to a 0.3% increase in the official cash rate and will produce these outcomes.

- Mortgage credit growth 1-3% lower over the first year.
- Home sales 3-8% lower over the first year.
- House price inflation 1-4% lower over the first year.

Between December 2004 and December 2005 the OCR went from 5% to 6.5%. In the year beginning July 2005 (half of the tightening done) mortgage lending growth slowed from 17.4% to 15.9% then 14.3%. House sales fell 4% in the year to July 2005 then rose 4% the year after that. House price inflation was 9.6% in July 2005 from 14% a year before, then lifted to13.2% in the year to July 2007.

In other words the 1.5% rise in the cash rate from the end of 2004 to the end of 2005 only marginally affected lending growth, turnover, and prices with an important point to note being the resurgence in house price inflation after the minor slowing. Therefore I would place myself as accepting at most the estimates at the low end for each of the ranges presented by the RB as resulting from the minor 0.3% equivalent OCR rise they feel that they have just implemented by proxy with the LVR changes. That's hardly enough to scare the punters is it!

All that aside, I would recommend the speech to anyone interested in New Zealand's property market as it contains good data and graphics illustrating the shortage situation.
http://www.rbnz.govt.nz/research_and_publications/speeches/2013/5491478.html

Logical Implications Of The Foray Into Credit Controls

The job of us economists is to look at what is happening and give some indication as to what we think could happen in the future. So, what has just happened is that the RB has regulated bank lending to the housing sector because of their desire to limit price rises and the exposure of the banks, banking system, and therefore the economy should a large shock occur which pushes house prices substantially lower. By that rational the logical groundwork has been laid for credit controls in other areas.

For instance, while the focus currently is on housing, the RB has also in recent years expressed deep concern about the level of debt in the agricultural sector. Should land price inflation pick up we should factor in the risk that the RB will intervene to curtail bank lending to farmers. The RB has already done work in this area.

In the same vein, logic suggests that if the RB's goal is to suppress house price inflation and banking sector risks they could also contemplate loosening rules applying to bank lending into sectors which will boost housing supply and therefore also reduce house price inflation. Logic would suggest that the RB cut capital requirements applied to bank lending to property developers. However, before developers start their lobbying they should be aware that the logic of reducing bank exposure to the property sector means such rules should instead be tightened so we are less exposed in the event of a housing collapse.

And to go further. I took a call from a journalist yesterday seeking any data I might have (none) on the proportion of high LVR lending which was going to fund the purchase of newly built houses. (The Labour opposition are contemplating such a policy.) I said probably not much given the numbers bandied about recently saying that whereas in the 1970s over 30% of newly built houses were at entry level, these days the proportion is about 5%. The journalist said that in response to some lobbying the Reserve Bank might be going to examine this issue to see if there were grounds for exempting high LVR lending for new builds.
http://www.nbr.co.nz/article/house-builders-hurt-looming-rbnz-mortgage-lending-restrictions-seek-exemptions-bd-146446

My thoughts on that? This is why we ditched Muldoonist attempts to influence our economy through direct controls in the 1970s and 1980s. One set of controls begets another set which begets exemptions which begets other controls and so on. This ball appears to have started rolling only two weeks into the credit controls coming into play. What a mess. The signal appears to have been sent to all lobby groups out there now to ignore the proud talk for the past 2-3 decades of NZ central bank policy independence and purity of policy implementation, and instead to start directly lobbying the Reserve Bank, lobbying the politicians to lobby them, and lobbying the public through media campaigns to get our central bank to run the economy in their favour.

Or to look at this from another angle. At what point exactly do we conclude that housing policy in New Zealand has been handed over to our central bank – a non-democratic closed box organisation?

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

Tony.alexander@bnz.co.nz