NEW ZEALAND ECONOMICS
ANZ PROPERTY FOCUS

NOVEMBER 2014

INSIDE

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MOVIN' ON UP

SUMMARY

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

THE MONTH IN REVIEW

Despite what we suspect was an election-related fall in consent issuance, housing market activity rebounded in October, which along with increasing mortgage approvals is expected to result in a subsequent increase in household lending from 2-year lows. Cuts to fixed mortgage rates and net PLT immigration at record highs are providing strong support.

PROPERTY GAUGES

The ten gauges we monitor continue to provide mixed signals for the property market. Affordability and indebtedness urge caution. Households' appetite to take on credit remains subdued, and the supply of credit is also being restricted by high-LVR lending limits. In contrast, a supply-demand imbalance persists, migration is booming, and while interest rates are higher than earlier in the year, they have eased of late. Net on net it looks to be a market that's starting to simmer again.

ECONOMIC BACKDROP

The outlook for the economy remains solid, despite precipitous declines in dairy prices, our major export earner. Construction sector activity is surging, migration inflows are strong, confidence is high and outside of dairying, commodity prices remain elevated. Three percent real GDP growth beckons over the year ahead; that's not stellar but still at the top end across international peers. A low inflation backdrop means the OCR is on hold for an extended period, helping elongate the expansion. While the NZD has lost some of its shine, we can't foresee a dramatic fall. While the export sector may desire a lower currency, economic success (better growth vis-à-vis peers) has unwanted side-effects.

MORTGAGE BORROWING STRATEGY

Longer-term fixed mortgage interest rates are lower than a month ago, with falls of around 0.3% to 0.5% for 3, 4 and 5 year rates for both high and low equity borrowers. Smaller falls were also evident for most shorter-term fixed rates. Given the slim likelihood of the RBNZ cutting longer-term fixed rates and our view that the RBNZ is likely to be on hold for the next 12 months, we think the 2 year term is the most attractive. Longer terms do offer more certainty, but breakevens suggest rates need to see some brisk increases for this option to prove economic in the long run.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

This month we provide an updated graphical summary of recent property market trends. The volume of house sales is broadly where it was compared to a year ago. Annual house price inflation is slowing. The high-LVR speed limits, stretched affordability, and climbing floating mortgage rates appear to have taken some of the wind out of the housing market's sails. Despite this, pockets of strength remain, with an Auckland and Canterbury vs rest of New Zealand divide still apparent. Booming net immigration could provide the market with a second wind, with the housing market set to remain on the RBNZ's radar screens for a while yet.

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STATISTICS NZ, BUILDING CONSENTS – SEPTEMBER

Election slump

September residential consent numbers plummeted 12.2% seasonally adjusted (sa) m/m and were down 10.4% sa ex-apartments. Consents were down 2.2% q/q both including and excluding apartments. Growth in issuance by floor area has flattened off (-0.6% sa 3m/3m) suggesting a softening in residential construction activity, though we note broad trends are still up. Annual residential issuance firmed to 24,102 consents, the highest since May 2008. Eight of 16 regions reported a climb in issuance compared to a year ago. Residential construction cost inflation (proxied by value of building work divided by square meterage – a rough guide) remained elevated at a 6.6% annual rate in the three months to September, down slightly on the last few months.

REINZ, HOUSE SALES – OCTOBER

October sales lift

Sales volumes rebounded 7.3% sa in October (3.7% 3m/3m), the strongest monthly increase since last July, with REINZ noting "a noticeable increase in the level of activity in the real estate market". The lift in sales volumes is off low levels (the market went to sleep mid-year), with volumes 3% below October 2013 levels and 18% below historical averages as a proportion of the housing stock. The days to sell eased slightly to 37.8 sa, but that is considerably above where it was a year ago. The stratified house price index, which partly controls for the composition of dwellings sold, experienced a 0.6% lift sa, the highest since March, with prices up 0.7% sa over the last three months. Annual house price inflation eased to 3.9%, a 2014 low.

RBNZ, HOUSEHOLD CREDIT GROWTH – SEPTEMBER

Lending slowdown

The value of mortgage lending to households increased 0.3% sa in September, with the $565m monthly increase the lowest in nearly two years. Annual growth in housing credit slowed to 4.7%, the lowest rate of increase since March 2013. The household sector in aggregate continues to deleverage (borrowing growth is below income growth).

STATISTICS NZ, EXTERNAL MIGRATION – OCTOBER

Migration maintained

October showed a net PLT migration inflow of 5,250 persons sa, a record high. Annual net PLT inflows rose to 47,700 persons, the highest on record, and remain on track to approach 50,000 persons by the end of the year. Arrivals still outnumber departures by roughly 2:1. The strong NZ economy is attracting a considerable number of non-NZ citizens, with strong annual net PLT migration inflows from India (9,500), China (7,200), and the UK (5,300). Nearly all of the regions reported a gain in net PLT immigration over the past 12 months. Fewer PLT departures have also been a major factor contributing to the pick-up in net immigration, reflecting the relative strength of the NZ economy. Annual net PLT departures to Australia fell to 5,311 persons, a 20-year low, as compared to a 23,500 person exodus 12 months ago. That's a consequence of New Zealand's labour market looking perkier.

RBNZ, MORTGAGE APPROVALS – MID-NOVEMBER

Moving up

Mortgage approval numbers and values have ticked up over the last few weeks, building on the October 2014 lift. Approval numbers in mid-November are about where they were a year ago and around 15% below historical averages, with values some 13% higher than a year ago. Approval numbers in October were up 15% sa (13.2% 3m/3m), with the value of approvals up 27% sa over the last three months.

PROPERTY GAUGES

The ten gauges we monitor continue to provide mixed signals for the property market. Affordability and indebtedness urge caution. Households' appetite to take on credit remains subdued, and the supply of credit is also being restricted by high-LVR lending limits. In contrast, a supply-demand imbalance persists, migration is booming, and while interest rates are higher than earlier in the year, they have eased of late. Net on net it looks to be a market starting to simmer again.

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

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

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

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

MIGRATION. A key source of demand for housing.

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

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

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

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

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

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

Indicator	Level	Direction for prices	Comment
Affordability	Snipped	↔/↓	House price gains saw a continued deterioration in affordability, though recent falls in fixed interest rates have helped.
Serviceability/ indebtedness	Bitten	↔/↓	Servicing cost as a proportion of income has risen to a 2½-year high. Monetary policy has some bite, even with rates still low.
Interest rates / RBNZ	Uncertainty	↔/↑	Rates are higher than they were at the start of the year but fixed rates have fallen of late and rates do not look set to go as high as flagged earlier in the year.
Migration	Not letting up	↑	Annual net PLT immigration inflows reached another record high.
Supply-demand balance	Rebalancing	↔/↑	Still a shortage but the gap is the narrowest it has been in 18 months.
Consents and house sales	Itchy	↔/↓	Consents are up to a seven-year high, with a minor rebound in house sales.
Liquidity	Constrained	↔/↓	Households are still focused on deleveraging, keeping credit growth below income gains.
Globalisation	Flickering	↔/↓	NZ is in a different stage of the house price cycle.
Housing supply	Still tight	↔/↑	Available listings have eased over the past five months.
Median rent	Corrected	↔	After dipping in July, rents have returned to the level measured over the first six months of 2014.
On balance	**Stirring**	↔	**Most buoyant since the LVR limits took effect a year ago.**

PROPERTY GAUGES

FIGURE 1: HOUSING AFFORDABILITY

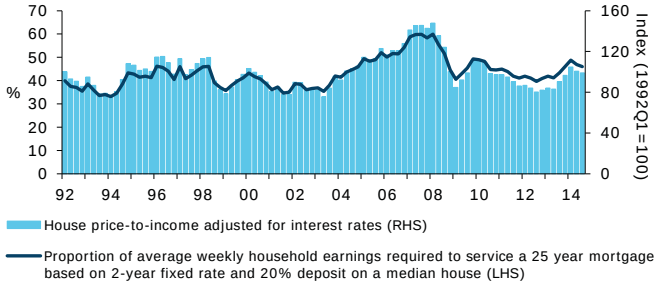


FIGURE 2: SERVICEABILITY AND INDEBTEDNESS

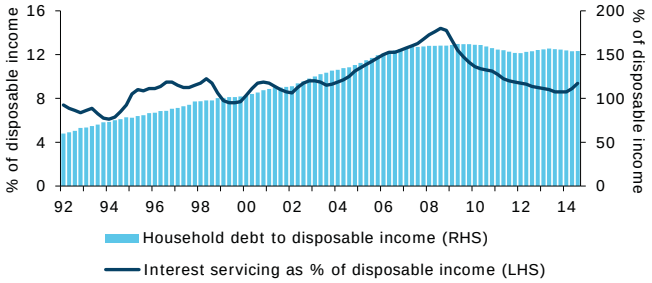


FIGURE 3: NEW CUSTOMER AVERAGE RESIDENTIAL MORTGAGE RATE (<80% LVR)

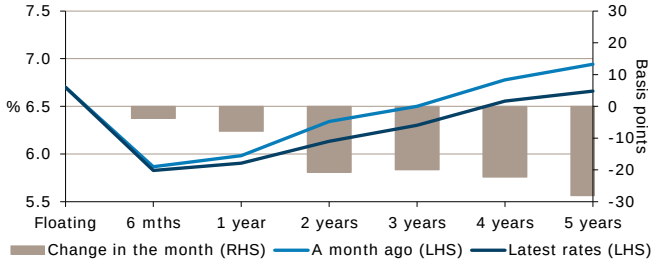


FIGURE 4: NET MIGRATION

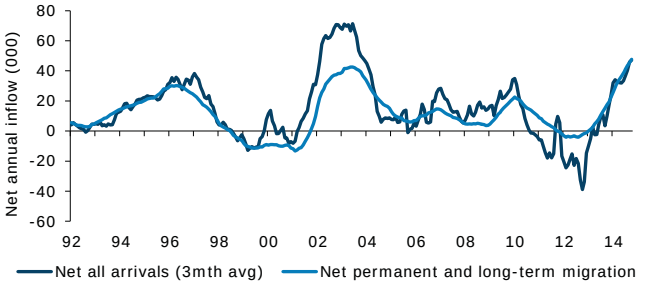


FIGURE 5: HOUSING SUPPLY-DEMAND BALANCE

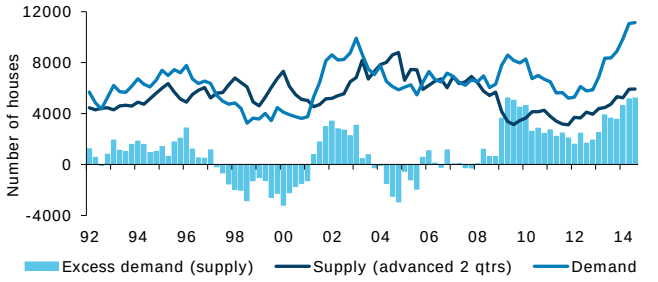


FIGURE 6: BUILDING CONSENTS AND HOUSE SALES

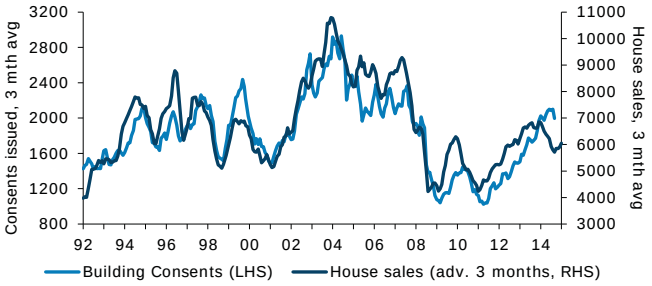


FIGURE 7: LIQUIDITY AND HOUSE PRICES

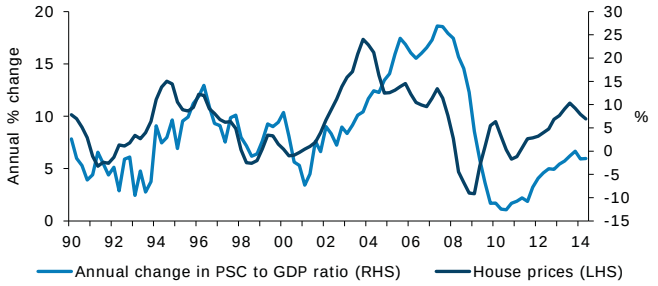


FIGURE 8: HOUSE PRICE INFLATION COMPARISON

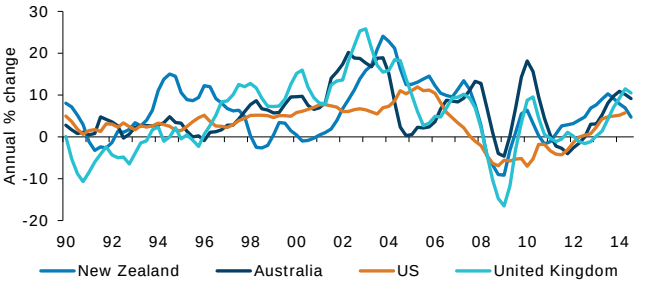


FIGURE 9: HOUSING SUPPLY

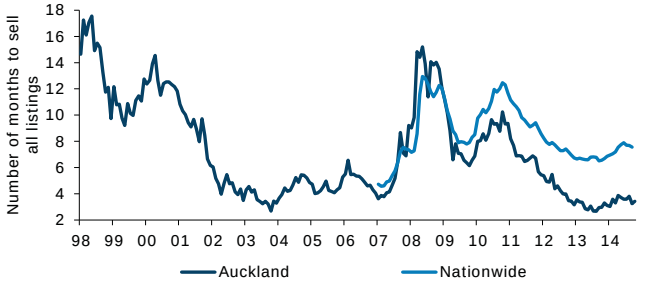
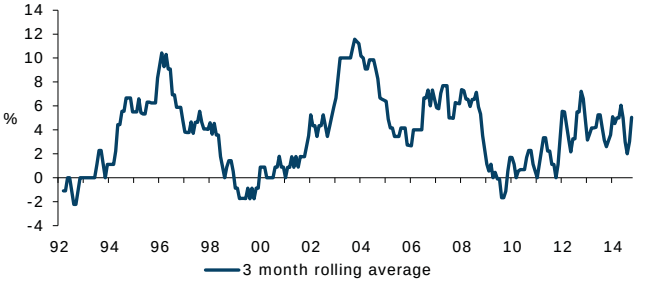


FIGURE 10: MEDIAN RENTAL, ANNUAL GROWTH



Source: Statistics NZ, REINZ, RBNZ, www.interest.co.nz, QVNZ, Nationwide, Bloomberg, Barfoot & Thompson, www.realestate.co.nz, Department of Building and Housing, ANZ

ECONOMIC BACKDROP

SUMMARY

The outlook for the economy remains solid, despite precipitous declines in dairy prices, our major export earner. Construction sector activity is surging, migration inflows are strong, confidence is high and outside of dairying, commodity prices remain elevated. Three percent real GDP growth beckons over the year ahead; that's not stellar but still at the top end across international peers. A low inflation backdrop means the OCR is on hold for an extended period, helping elongate the expansion. While the NZD has lost some of its shine, we can't foresee a dramatic fall. While the export sector may desire a lower currency, economic success (better growth vis-à-vis peers) has unwanted side-effects.

OVERVIEW

The economy is slowing, but that's natural at this juncture. As an economic expansion matures and gets a firmer footing (a good thing) it's natural for an economy to track towards its natural speed limit. For New Zealand that's real GDP growth a tad under 3 percent. Sustained pushes above that place pressure on inflation (necessitating the OCR moving higher), and can result in deteriorating structural metrics that can precipitate purging processes. The same applies for the property market; it's slowed of late and the new normal the RBNZ looks to be targeting is house price growth sitting broadly in line with income growth. That makes intuitive sense if affordability is not to keep deteriorating.

The obvious drivers of the growth picture are:

- **The lagged impact of more accommodative financial conditions.** Interest rates may have moved up this year, but the RBNZ is on hold, rates are still historically low, and they have nudged lower of late.
- **Rising construction sector activity** (projected to lift from 10 to 12% of GDP). Yes, we know about housing shortages in Auckland and the Christchurch city rebuild, but there is a swathe of regional projects too, and residential building consents are trending up.
- The (still) strong **terms of trade;** commodity prices outside of dairying remain high.
- Strong underlying **net migration flows** (more than 1% of the population, implying more natural buyers).

Of course there are material drags on growth too.

- **Dairy prices have been hammered;** that's $6 billion of lost export earnings.
- **High-LVR lending restrictions are likely to remain in place for some time.**
- **The NZD remains elevated.** That's not great for an export-dependent nation.
- **Restrictive fiscal policy is a headwind;** we're paying more in tax than the Government is spending, which is necessary to get the fiscal books back in order.

The growth picture is still far broader than these dynamics and is being underpinned by smaller subtleties that – while hard to quantify – are supporting medium-term growth prospects. These include strong uplifts in productivity growth, a good microeconomic reform program, unlocking NZ's natural resource endowment (witness the growth in the likes of Ashburton), a reasonable political platform (particularly relative to what we see offshore), building connectivity with Asia, and progress in the free-trade arena.

Business and consumer confidence remain very high despite interest rates moving up and the NZD remaining elevated; this is testament to the wider forces supporting the expansion.

We're expecting a solid year. Three percent real GDP growth beckons. That's not across-the-board strength so there will be the odd patch of grumpiness. But generally things are looking okay. The economy is still generating sufficient growth to see the unemployment rate fall; attracting labour and the right skills is going to become more of an issue for businesses. That's a better problem to have than a lack of demand.

We expect the RBNZ to keep the OCR unchanged for 12 months. A solid growth outlook would normally be fuelling inflation at this juncture; it's not. Some of the reasons look temporary (i.e. a high NZD) while some are more structural (people don't have that same borrow-and-spend mentality). The endgame is interest rates that will still need to head higher (that's a late 2015 story) but not end up as high.

The NZD looks set to remain elevated. The gloss (peak) has been taken off it against the USD, with the US economy looking better. However, relative to Europe, Japan and Australia, New Zealand's economic credentials look pretty good, and one by-product of that is currency strength.

MORTGAGE BORROWING STRATEGY

SUMMARY

Longer-term fixed mortgage interest rates are lower than a month ago, with falls of around 0.3% to 0.5% for 3, 4 and 5 year rates for both high and low equity borrowers. Smaller falls were also evident for most shorter-term fixed rates. Given the slim likelihood of the RBNZ cutting longer-term fixed rates and our view that the RBNZ is likely to be on hold for the next 12 months, we think the 2 year term is the most attractive. Longer terms do offer more certainty, but breakevens suggest rates need to see some brisk increases for this option to prove economic in the long run.

OUR VIEW

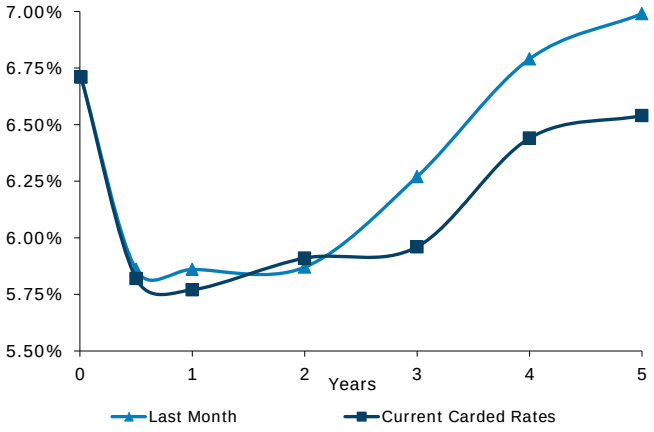
Average mortgage fixed rates offered by the "big four" banks to borrowers have fallen sharply compared to a month ago, with falls of 0.3% to 0.5% for 3, 4 and 5 year rates. Falls have been evident in both high and low-equity lending rates.

The recent fall in medium-term fixed rates is a positive development. Most borrowers prefer the certainty fixed rates offer, and most commentators – ourselves included – expect the RBNZ to resume lifting the OCR later next year, and to be in "rate hike mode" for a few more years yet. While further falls in long-term rates can not be ruled out, the RBNZ still has a tightening bias, with the objective of borrowers at this stage in the cycle being to get the longest rate at the cheapest possible rate. For much of the year, the 6 month and 1 year terms have been the cheapest and have provided borrowers with the flexibility to take advantage of recent falls in fixed rates. We've always been attracted to those rates on the view that they'd roll off and you'd get the opportunity to re-fix before the RBNZ started lifting the OCR again. Current two and three year fixed rates also offer comparatively low rates, and also provide some short-term protection from increases in the OCR.

Floating remains unattractive unless you can secure a substantial discount or you put a high value on repayment flexibility. With such a large gap between the floating rate and the 6 month rate, anyone looking at floating ought to consider using a string of back-to-back 6 month fixes as a proxy.

As always, we must also ask; **is it worth fixing for longer?** The 6 month rate looks better than floating for those looking for some flexibility, and the 2 year rate looks even better for those looking for cost savings and more certainty. The three year rate is also looking increasingly attractive given recent cuts. But how do even longer terms stack up? As our breakeven table shows, **rates need to rise reasonably briskly for fixing for 4-5 years to be worthwhile.** For example, if you have at least 20% equity, let's say you are considering fixing for 4 years at 6.44%. An alternative strategy would be to enter back-to-back 2 year fixes. You'd pay just 5.91% for the next 2 years, implying that when you do re-fix in 2 years for a further 2 years, that rate would need to have jumped to close to 7% for you to have made the wrong call versus fixing for four years. That's not as big a jump as compared to a few months ago, and this decision is likely to be a closer call given our view that the RBNZ will lift the OCR by only 1% over the next 2 years. Certainty has value, and some borrowers will want to fix a portion of their debt for longer terms including as long as 4-5 years. But the cost imperative still suggests a bias towards fixing a larger portion for 2 years makes sense.

AVERAGE CARDED MORTGAGE RATES



Average Mortgage Rates*		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.71%				
6 months	5.82%	5.72%	5.98%	6.12%	6.04%
1 year	5.77%	5.85%	6.05%	6.08%	6.06%
2 years	5.91%	5.96%	6.06%	6.47%	6.97%
3 years	5.96%	6.26%	6.66%	6.82%	6.96%
4 years	6.44%	6.57%	6.73%		
5 years	6.54%	*Average of "big four" banks			

Low-Equity Rates		Breakevens for Low equity borrowers*			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.71%				
6 months	5.82%	6.22%	6.35%	6.57%	6.44%
1 year	6.02%	6.29%	6.46%	6.51%	6.48%
2 years	6.24%	6.40%	6.47%	6.66%	6.84%
3 years	6.32%	6.53%	6.71%	6.77%	6.79%
4 years	6.54%	6.65%	6.71%		
5 years	6.57%	*may be subject to a low equity fee			

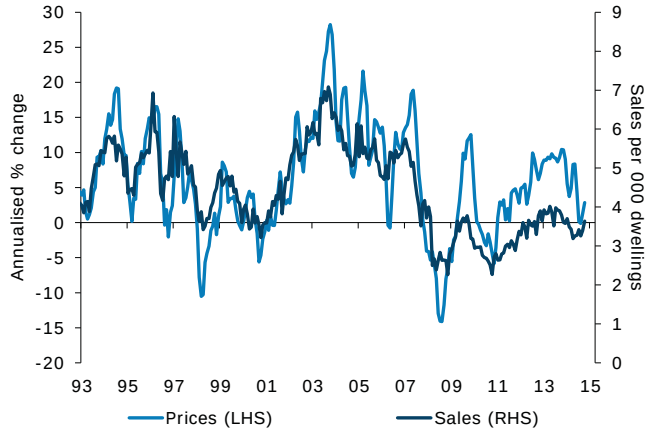
^ *Sourced from interest.co.nz*

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

SUMMARY

This month we provide an updated graphical summary of recent property market trends. The volume of house sales is broadly where it was compared to a year ago. Annual house price inflation is slowing. The high-LVR speed limits, stretched affordability, and climbing floating mortgage rates appear to have taken some of the wind out of the housing market's sails. Despite this, pockets of strength remain, with an Auckland and Canterbury vs rest of New Zealand divide still apparent. Booming net immigration could provide the market with a second wind, with the housing market set to remain on the RBNZ's radar screens for a while yet.

FIGURE 1. HOUSE PRICES AND SALES

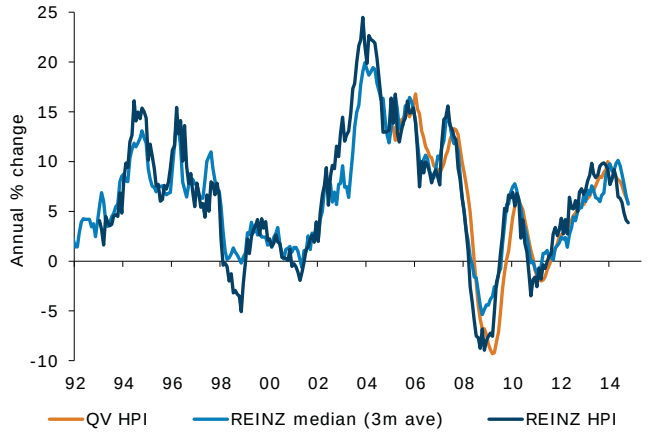


Source: ANZ, REINZ

Sales volumes and prices tend to be closely correlated, with periods of strong housing turnover coinciding with higher rates of house price inflation.

Of late, the truncated stock of dwellings on the market, rising short-term mortgage rates, and the high-LVR lending restrictions have kept residential sales numbers low, with October volumes 3% lower than a year ago and 18% below historical averages as a portion of the dwelling stock. Annual house price inflation has slowed and is low, although recent monthly data does hint at a potential second wind.

FIGURE 2. REINZ AND QV HOUSE PRICES



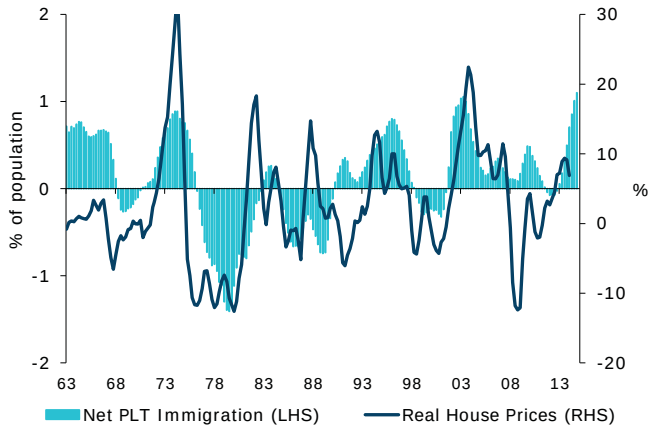
Source: ANZ, REINZ, PropertyIQ

There are three key measures of house prices in New Zealand. They differ slightly but the broad trends are similar. The most frequently referenced measure is the median house price measure published by the REINZ. REINZ also produce a stratified house price index, which attempts to adjust for variation in the quality of houses sold. Property IQ produce the QVNZ house price index, which is calculated from the average sale price based on all residential sales, but captures sales at a later stage of the transaction process.

Annual house price inflation is slowing on all measures. The median sale price of houses sold by REINZ rose 5.5% in the year to October versus a year earlier. Prices from the stratified House Price Index rose 3.9% in the 12 months to October as opposed to a 5.9% increase from the QV measure over the same period.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

FIGURE 3. NET PLT IMMIGRATION AND HOUSE PRICES



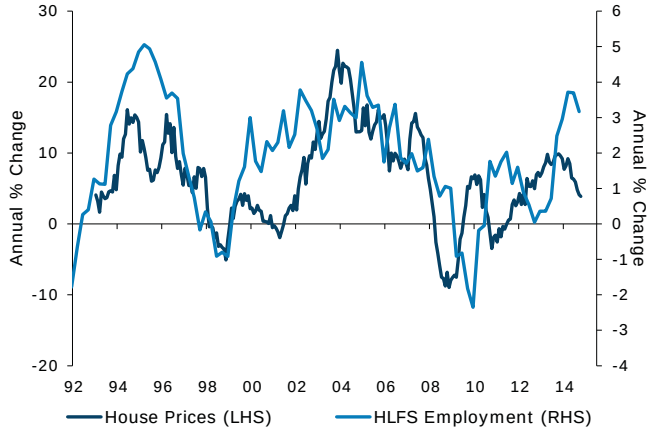
Source: ANZ, Statistics NZ, REINZ

Migration flows to and from New Zealand are one of the major drivers of housing market cycles. The early-1970s, mid-1990s and mid-2000s booms coincided with large net migration inflows.

Annual net PLT immigration rose to 47,700 persons in the 12 months to October, a record high and equivalent to around 1.1% of the resident population. While more than half of the increase in net PLT immigration over the past 12 months reflects fewer departures (which typically have a smaller impact on the housing market), this proportion is gradually decreasing.

The migration inflows have been the strongest in Auckland and Canterbury, which have accounted for around 80% of the net PLT population inflow, despite accounting for less than half of NZ's resident population.

FIGURE 4. HOUSE PRICES VS EMPLOYMENT

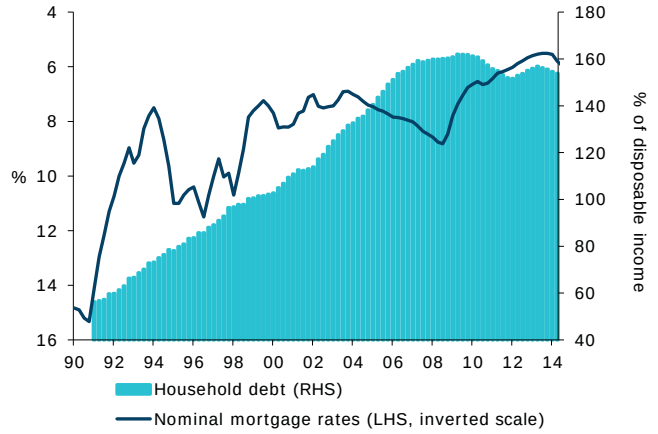


Source: ANZ, Statistics NZ, REINZ

With the economic expansion becoming more mature, still-elevated surveyed employment intentions are translating into hiring. Contained wage inflation has contributed to a slowing in labour income growth to around a 5% annual rate in the September year.

While house price inflation has slowed, the ratio of the value of the nationwide housing stock to household incomes is close to 6, slightly below the circa 6.5 level seen during the 2007 housing boom, but well above the sub-3 level usually evident prior to the early 1990s.

FIGURE 5. HOUSEHOLD DEBT AND NOMINAL MORTGAGE RATES



Source: ANZ, PropertyIQ, Statistics NZ, RBNZ

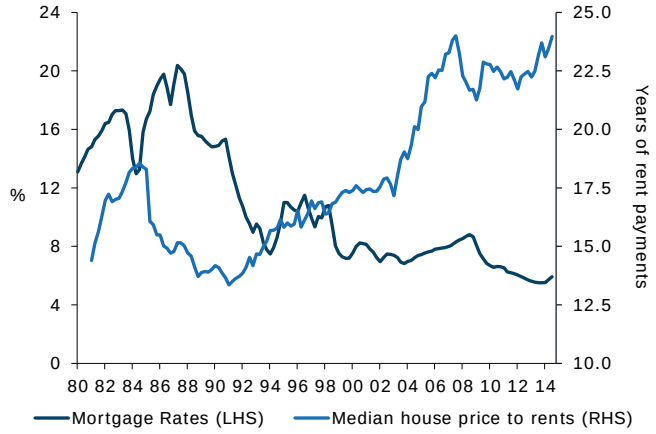
Nominal mortgage interest rates hit 50-year lows last year. After adjusting for current rates of CPI inflation, real mortgage interest rates are close to historical averages and well above the negative real interest rates commonly observed in the 1970s.

A low nominal interest rate environment and financial liberalisation has enhanced the ability of households to take on more debt, and has been linked with the period of rising house prices since the late 1990s.

Unlike the 1970s period, where high rates of inflation eroded the real value of debt, inflation at present is low.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

FIGURE 6. HOUSE PRICES TO RENTS AND MORTGAGE RATES



Source: ANZ, PropertyIQ, REINZ, Department of Building and Housing, Statistics NZ

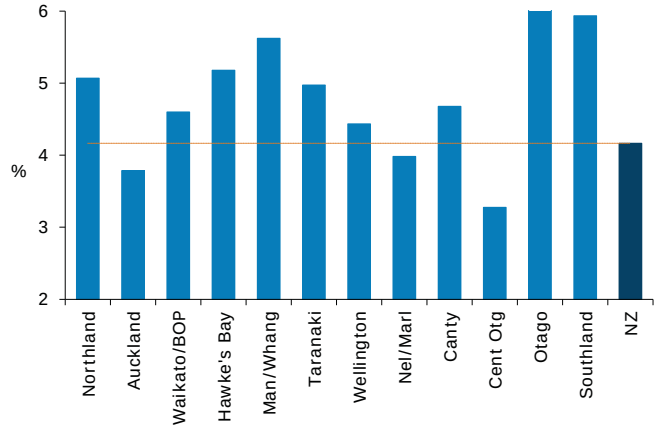
Increases in property prices have outpaced those in incomes and rents. Median house prices have quadrupled since the early 1990s, while dwelling rents have slightly more than doubled.

Back in the early 1990s, the median sales price of an existing dwelling was equivalent to around 14 years of rental payments. It is now around 24, back to where it was in 2007.

Nationwide rental yields (expressed as the ratio of annual rental payments to house sales prices) have been declining since the early 1990s, with this fall coinciding with the shift lower in nominal mortgage interest rates, which has increased debt serviceability.

Annual house price inflation is slowing (sub-4% pa), but it remains above that of increases in residential rents (sub-3% pa).

FIGURE 7. RENTAL YIELDS BY REGION



Source: ANZ, REINZ, Department of Building and Housing

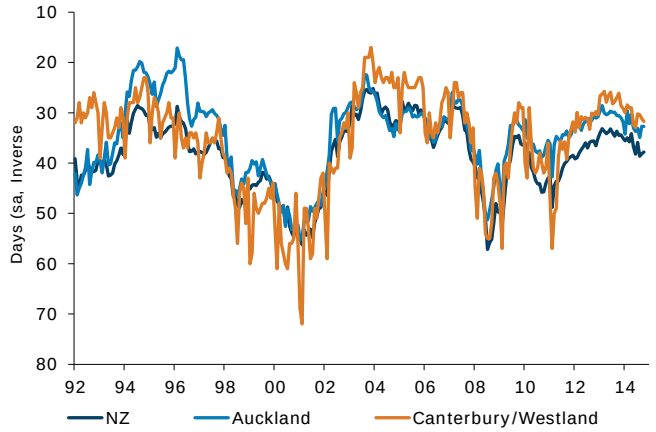
The nationwide rental yield is around 4%, almost half what it was in the early 1990s.

Differences are apparent by region.

Despite the Auckland region being generally judged to have a housing shortage, rental yields remain below nationwide averages, whilst yields are above nationwide averages in Canterbury.

Rental yields in Otago and Southland are about twice those in Central Otago.

FIGURE 8. MEDIAN DAYS TO SELL



Source: ANZ, REINZ

The length of time it takes to sell a house is an indicator of the strength of the real estate market. It encompasses both demand and supply-side considerations.

Nationwide, the median time to sell a house was just over 38 days in the three months to October, around 4 days more than a year ago, and just a shade below post-1990 averages (38.7).

The days to sell have edged up in most regions and only Canterbury (31), Auckland (33) and Otago (37) have lower median days to sell than the national average. Northland (64), Hawke's Bay (60) and Central Otago Lakes (54) have the longest median days to sell.

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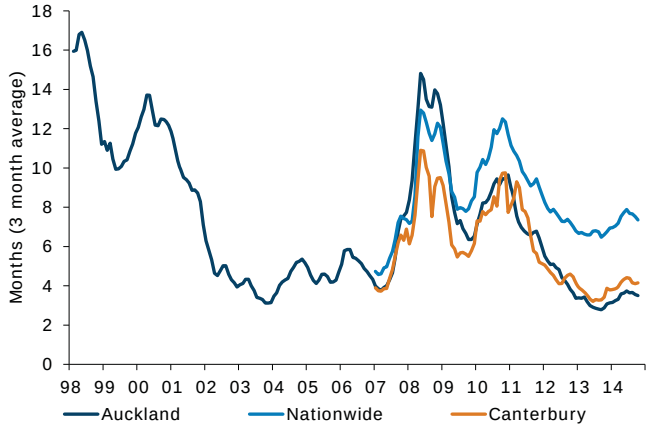
FIGURE 9. HOUSING SUPPLY (SEASONALLY ADJUSTED)



Source: realestate.co.nz, Barfoot & Thompson, ANZ

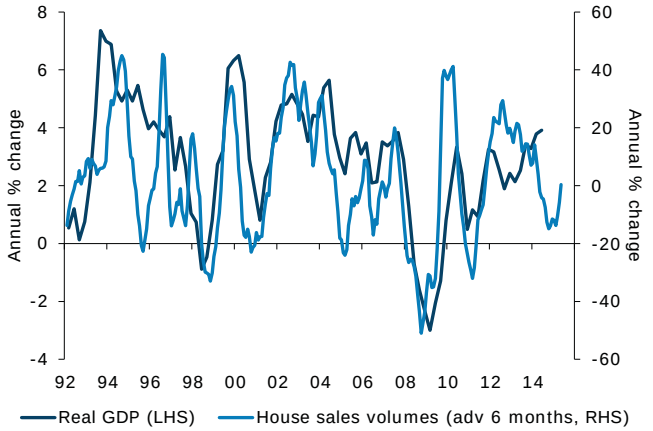
The low inventory of property listings has kept inventory levels tight despite subdued sales volumes.

The time to sell the nationwide stock of real estate listings is currently 7.4 months (32 weeks), somewhat above the level of a year or so ago.

Inventory to sales ratios have tended to move up for most regions, although there are regional differences. It would take 3.3 months of sales in Auckland and 4.1 months of sales in Canterbury to clear inventories, as opposed to 11.4 months for the rest of the country.

Inventory levels are broadly unchanged relative to a year ago in NZ. Inventory levels have risen 20% in Canterbury, and are up 2% in Auckland, but are down 2% in the rest of the country.

FIGURE 10. HOUSE SALES AND GDP



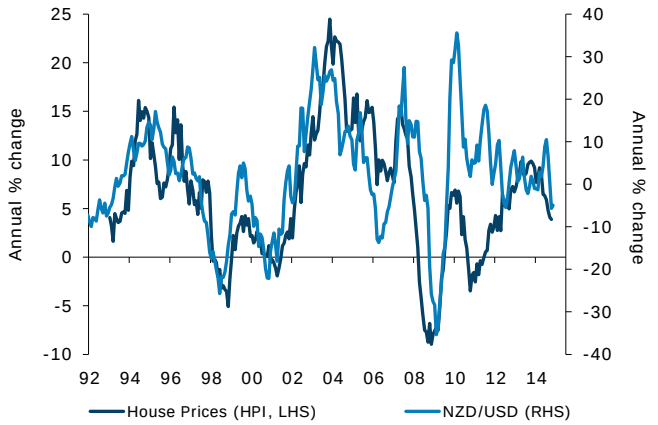
Source: ANZ, REINZ, Statistics NZ

Housing market activity has traditionally been closely correlated with movements in economic activity. Rather than indicating that the housing market is a major driver of economic activity, it is more likely that both are impacted by common determinants, including immigration, interest rates, and cyclical dynamics.

House sales volumes fell sharply following the introduction of the high-LVR lending speed limits, and while broadly unchanged on October 2013 levels, they are around 18% below historical averages as a proportion of the housing stock.

While low housing market turnover suggests downside risks to the outlook, the economy has a number of other support factors.

FIGURE 11. HOUSE PRICES AND THE NZD



Source: ANZ, REINZ, Bloomberg

There is also a close correlation between housing market activity/house price inflation and the NZD. Rather than house prices being the driver of the NZD, both are likely to be determined by common elements (see above).

The lift in house prices since the GFC has been modest in relation to the strengthening NZD. While the low global interest rate environment has been a factor supporting both the NZD and NZ house prices, other global factors and NZ specifics outside of the housing market (eg an elevated goods terms of trade, the Canterbury rebuild) are likely to have been influential.

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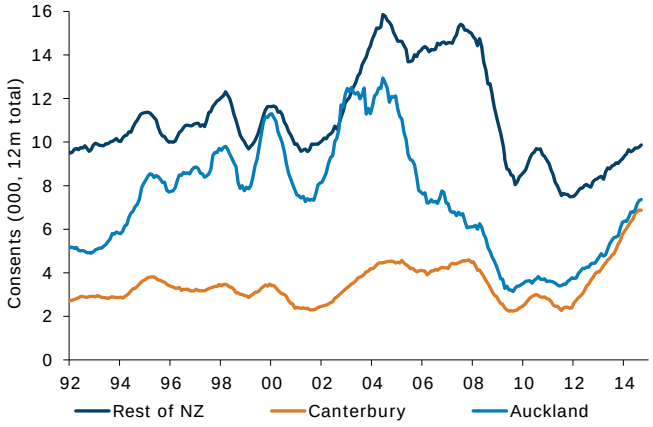
FIGURE 12. RESIDENTIAL CONSENTS



Source: ANZ, Statistics NZ

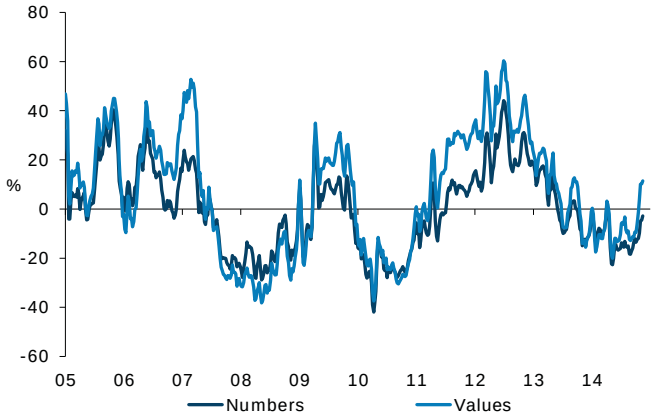
Nationwide consent issuance is recovering from historically low levels. Annual consent issuance has risen to its highest since March 2008.

Annual residential consent issuance is hovering around record highs in Canterbury, and is back to around historical averages for Auckland.

Residential consent issuance is climbing, but is still around 10% below historical averages for the rest of the country.

FIGURE 13. MORTGAGE APPROVALS

4 week moving average vs prior year



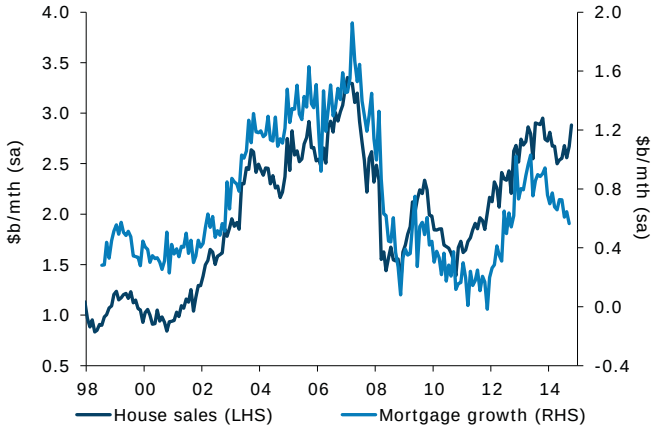
Source: ANZ, RBNZ

Weekly housing loan approval figures are published by the RBNZ. Approval numbers have picked up over the last few months, but remain below levels prior to the October 2013 introduction of the high-LVR lending speed limits.

Approval values have also climbed, with the average value per approval, at around $200,000, about double that of a decade ago.

Strengthening mortgage approvals point to a pending lift in household credit and housing market activity, albeit to still-moderate levels.

FIGURE 14. HOUSE SALES AND HOUSING CREDIT



Source: ANZ, REINZ, RBNZ

With a deleveraging undercurrent evident following the global financial crisis, mortgage lending has been low in relation to the value of housing transactions.

Households have used the period of low mortgage interest rates to retire debt by keeping mortgage repayments unchanged.

The introduction of the high-LVR lending restrictions has also had an impact, with new mortgage lending to low-deposit borrowers falling from around 30% to under 10% of total lending since November last year.

The ratio of household debt peaked at around 162% of household disposable income and is now around 154% according to RBNZ figures.

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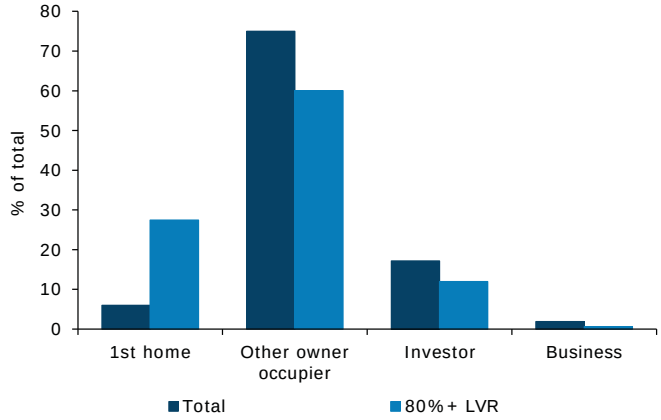
FIGURE 15. NUMBER OF NEW RESIDENTIAL MORTGAGE LENDING BY BORROWING TYPE



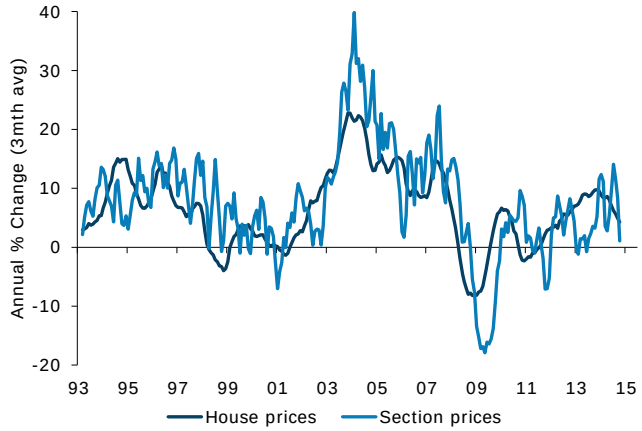
Source: ANZ, RBNZ

The high-LVR lending restrictions have been effective in slowing the demand for credit.

The share of new lending to borrowers with less than 20% equity remained below the 10% speed limit, as it has done since November 2013.

There are likely to have been displacement effects. September figures showed that first home buyers accounted for just 6% of new mortgages (28% of high-LVR lending).

FIGURE 16. HOUSE AND SECTION PRICES



Source: ANZ, REINZ

Section prices are more cyclical than prices for existing dwellings on account of both the low numbers of sections in relation to the dwelling stock and to the highly cyclical nature of residential construction activity.

Section prices slumped by more following the global financial crisis and have had a roller-coaster growth profile ever since.

Section sale prices in the three months to October were up 1.1% as opposed to a 4.3% rise in prices for existing dwellings over a similar period.

KEY FORECASTS

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

Mortgage Size ($'000)	Mortgage Rate (%)												
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1,000
600	809	829	850	870	891	913	934	956	978	1,000	1,022	1,045	1,068	1,091
650	876	898	920	943	966	989	1,012	1,036	1,059	1,083	1,108	1,132	1,157	1,182
700	944	967	991	1,015	1,040	1,065	1,090	1,115	1,141	1,167	1,193	1,219	1,246	1,273
750	1,011	1,036	1,062	1,088	1,114	1,141	1,168	1,195	1,222	1,250	1,278	1,306	1,335	1,364
800	1,078	1,105	1,133	1,160	1,188	1,217	1,246	1,274	1,304	1,333	1,363	1,393	1,424	1,454
850	1,146	1,174	1,204	1,233	1,263	1,293	1,323	1,354	1,385	1,417	1,448	1,480	1,513	1,545
900	1,213	1,244	1,274	1,306	1,337	1,369	1,401	1,434	1,467	1,500	1,534	1,567	1,602	1,636
950	1,281	1,313	1,345	1,378	1,411	1,445	1,479	1,513	1,548	1,583	1,619	1,655	1,691	1,727
1000	1,348	1,382	1,416	1,451	1,486	1,521	1,557	1,593	1,630	1,667	1,704	1,742	1,780	1,818

Housing market indicators for October 2014 (based on REINZ data)

	House prices (ann % change)	3mth % change	No of sales (sa)	Mthly % change	Avg days to sell (sa)	Comment
Northland	2.8	-3.1	163	+3%	62	Prices have been very weak here in the past 3 months
Auckland	10.0	1.7	2,404	+6%	33	Median house price up strongly to hit a new record high
Waikato / BOP / Gisborne	2.1	0.5	981	+7%	50	Annual house price inflation drifts down to a 16 month low
Hawke's Bay	7.3	2.1	199	-1%	61	Only drop in sales volumes, with time to sell at a 14mth high
Taranaki	9.9	1.7	265	+2%	47	Strongest annual increase in house price in 14 months
Manawatu / Whanganui	-1.1	3.6	154	+9%	39	Selling price fell below $300k for the first time in 5 months
Wellington	0.5	-1.0	669	+3%	38	The time to sell has quickened to a 6 month low
Nelson / Marlborough	-1.4	-0.2	227	+8%	52	Time to sell a house is the longest wait at 28 months
Canterbury / Westland	8.6	-0.6	898	+6%	32	Quickest place to sell with sales numbers at 18 month high
Central Otago Lakes	2.5	1.8	120	+15%	56	Median selling price has risen to a 15 month high
Otago	-2.7	2.8	256	+21%	41	The largest drop in house prices in the past 12 months
Southland	6.0	6.3	150	+15%	41	Strongest increase in prices over the latest 3 months
NEW ZEALAND	5.5	-0.4	6,456	+7%	38	Prices are weakening but volumes are on the up

Key forecasts

	Actual			Forecast						
Economic indicators	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
GDP (Ann Avg % Chg)	2.8	3.1	3.1(f)	3.1	3.0	2.8	2.8	2.8	2.8	2.8
CPI Inflation (%)	1.5	1.6	1.0	0.9	1.0	1.2	1.3	1.6	1.8	1.9
Unemployment Rate (%)	6.0	5.6	5.4	5.3	5.4	5.3	5.3	5.3	5.3	5.2
	Actual			Forecast (end month)						
Interest rates (carded)	Sep-14	Oct-14	Latest	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Official Cash Rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.00	4.00
90-Day Bank Bill Rate	3.7	3.7	3.8	3.75	3.8	3.8	3.8	4.2	4.3	4.3
Floating Mortgage Rate	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.8	7.1	7.1
1-Yr Fixed Mortgage Rate	6.0	5.8	5.8	5.9	6.1	6.3	6.4	6.8	7.0	7.0
2-Yr Fixed Mortgage Rate	6.3	5.8	6.0	6.0	6.2	6.4	6.5	6.8	7.0	7.2
5-Yr Fixed Mortgage Rate	7.1	6.9	6.6	6.7	6.8	6.9	6.9	7.0	7.2	7.3

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