House market unlikely to go pop - ratings agency

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New Zealand's residential property market doesn't mirror the US, says S&P expert

New Zealand's housing market is unlikely to mutate into a US-style bubble, says Standard & Poor's, although rising prices are at the upper level of the credit rating agency's tolerance, it told a briefing in Auckland today.

"We continue to believe there's some underlying demographic features that mean we don't have a US-style bubble in the property market," S&P senior director Peter Sikora told the NZ Capital & Credit Markets briefing.

He said annual growth in property values of 9.6 per cent, was "the upper range of our tolerance" but there were signs the market has stabilised, helped by the Reserve Bank's speed limits and higher capital requirements for banks.

Last month state-owned valuer Quotable Value said the annual pace of property values slowed to 9.6 per cent in the year ended Jan. 31 from 10 per cent a month earlier, and suggested restrictions on low-equity home lending may have started to bite.

The Reserve Bank introduced loan-to-value mortgage lending restrictions from Oct. 1 on concern rapidly accelerating house prices in Auckland and Christchurch may lead to an asset bubble and cause financial instability. The central bank is expected to start hiking interest rates from next week to cool the economy as inflation accelerates.

S&P still has what Sikora called a 'negative risk trend' on New Zealand because of "the material dependence of the economy to external borrowing." Yet the nation was unlikely to be punished for running a high current account deficit in the same way India or Indonesia have, he said.

New Zealand's current account deficit widened to $8.8 billion, or 4.1 per cent of gross domestic product, in the year ended Sept. 30, according to government figures, and is expected to deteriorate over the coming three years as households recover appetite for credit, forcing banks to seeking funding overseas.

S&P's Sikora said key risks from offshore were a hard landing for China's economy, which had a low probability but with "a potential impact that could be material." There was also a chance of Eurozone crisis contagion though that wouldn't have such an impact on New Zealand, he said.

Last year Reserve Bank governor Graeme Wheeler singled out a potential downturn in China's economy as the biggest threat to New Zealand, due to the increasing reliance by local exporters on the world's second biggest economy.

Government figures last week showed a trade surplus of $306 million in January, a record for that month, as exports into China almost doubled, cementing its status as New Zealand's biggest market.

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