BNZ 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.

Not A Pre-Election or Reformist Budget

The new Finance Minister Grant Robertson released his first Budget today and it was fairly much as expected. The fiscal numbers look good with a string of reasonable surpluses causing the net debt to GDP ratio to slowly decline below the targeted 20% within four years. This leaves headroom for extra spending in future budgets as long as the economy stays strong.

The economic projections look reasonable and it would take a shock scenario to seriously threaten the fiscal outlook.

There is a noticeable dearth of solid key measures actually announced in the Budget. Instead there are numerous statements of how things will be different going forward, and hefty increases in funding for health, education, housing, and infrastructure. There will be a new research and development expenditure tax deduction but beyond that little of direct relevance to the business community. From a traditional restrictive economic and fiscal analysis point of view it was boring.

The Budget's focus however is largely on allocating higher spending aimed at catching up the many groups of people who have been left behind by the firm performance of the economy in recent years. There is nothing jumping out suggesting that announcements in the Budget will provide any impediment to the good growth outlook which we have. The challenge for the new government will be meeting the aspirations of the various sectors and pressure groups seeking and/or receiving more funding, and ensuring the extra money is well spent.

This was not a pre-election Budget, but neither was it a budget of big change which reformist governments or those needing to inflict pain to get fiscal numbers under control typically implement straight after being elected. The government has inherited an economy in very good shape with fiscal numbers reflecting good management through and after the GFC and effects of the Christchurch earthquakes.

The new government has not come to power promising an agenda of radical economic change, much as one might think they did going by the still unusually low level of business confidence. If change is what the government intends making then the Prime Minister and other senior people have already repeatedly made it clear that this lies not so much in the field of economic management as in the social and environmental arenas. Issues like housing affordability and availability (where they will fail), the environment, access to good healthcare, the regions and infrastructure dominate.

For additional information on increased spending allocations and the small number of new measures such as expanded access to the Community Services Card simply look at commentaries already readily available before this Overview went to print.

Managers Galore

Between the March quarter of 2013 and the March quarter of this year total job numbers in New Zealand grew by 403,000 or 18.5%. The following table shows this growth for different job types. Most growth has been for people classified as Managers and Professionals.

	5 year growth	% growth
Managers	145.7	38.3
Professionals	96.7	18.9
Technicians and Trade Workers	34.5	12.8
Community and Personal Service Workers	22.1	10.8
Clerical and Admin Workers	28.4	10.8
Sales Workers	18.3	9.4
Machinery Operators and Drivers	13.6	10.8
Labourers	28.4	12.4
Residual Categories	15.5	201.3
Total All Occupations	403.2	18.5

We can look at this another way. Growth in job numbers for Managers was 19.9% more than the 18.5% for all NZ and accounted for 36.1% of all 403,000 jobs growth. Professionals grew according to their 2013 share of all jobs. All other job types under-performed to similar degrees. This tells us that the only job type growing radically different from market share is for Managers. People physically making or moving things around accounted for about 19% of all jobs growth.

	vs NZ	% all NZ growth
Managers	19.9	36.1
Professionals	0.5	24.0
Technicians and Trade Workers	-5.7	8.6
Community and Personal Service Workers	-7.6	5.5
Clerical and Admin Workers	-7.6	7.0
Sales Workers	-9.1	4.5
Machinery Operators and Drivers	-7.7	3.4
Labourers	-6.0	7.0
Residual Categories	182.8	3.8
Total All Occupations	0.0	100.0

The Managers category is extremely wide and in the words of the statisticians "Managers plan, organise, direct, control, coordinate and review the operations of government, commercial, agricultural, industrial, non-profit and other organisations, and departments.
Indicative Skill Level:
Most occupations in this major group have a level of skill commensurate with the qualifications and experience outlined below.

Bachelor degree or higher qualification. At least five years of relevant experience may substitute for the formal qualification (ANZSCO Skill Level 1); or

NZ Register Diploma, or at least three years of relevant experience…"

This helps explain why the government is trying to encourage more people to go to the university – at the cost of not rapidly boosting spending in other areas like health and homelessness. Jobs increasingly require high skills and qualifications.

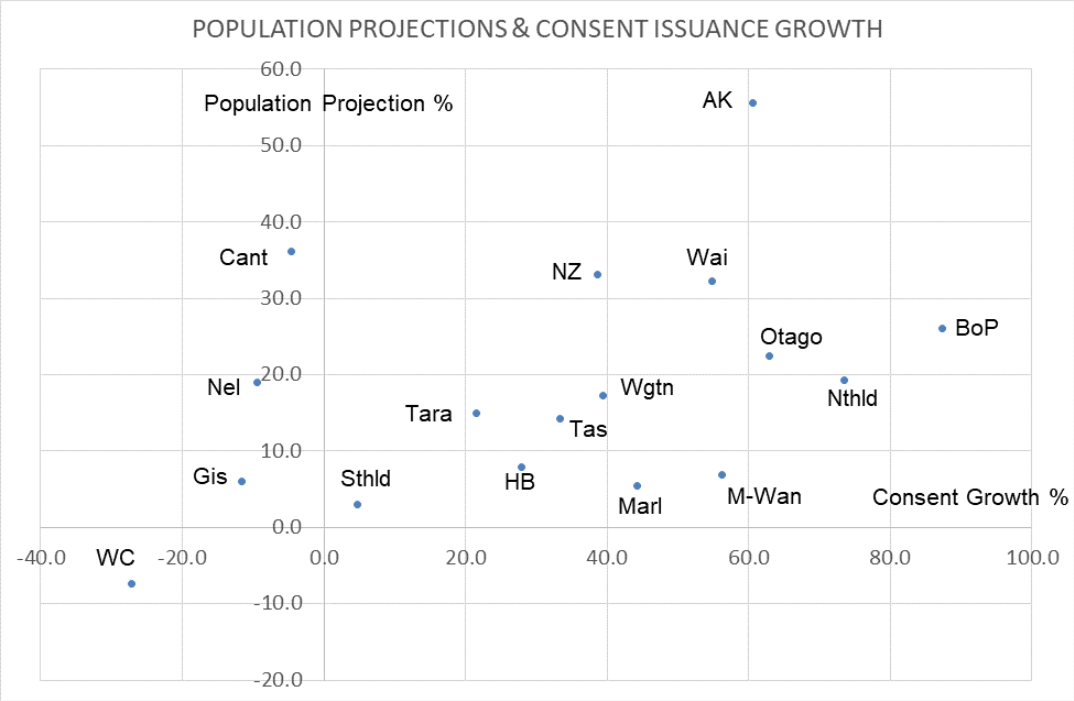
This does not mean university is however necessary for everyone because there are significant shortages of people in the trades sector. And the interesting thing about working in a trade is that it provides an opportunity after a few years for someone to go out on their own with the own business.

Housing

Last week I said we'd include Statistics NZ sub-national population projections so here they are.

	2013-43 Change	% growth
Auckland	833,000	55.8
Canterbury	204,400	36.3
North Island	1,209,700	35.6
NZ	1,481,000	33.3
Waikato	137,500	32.4
Bay of Plenty	73,400	26.2
South Island	271,200	26.0
Otago	47,300	22.7
Northland	32,000	19.4
Nelson	9,300	19.1
Wellington	84,600	17.4
Taranaki	17,200	15.1
Tasman	7,000	14.3
Hawkes Bay	12,800	8.1
Manawatu-Wan.	16,400	7.1
Gisborne	2,900	6.2
Marlborough	2,500	5.6
Southland	3,000	3.1
West Coast	-2,400	-7.3

We can run an exercise comparing projected population growth rates (vertical axis) against growth in dwelling consents issued over the past three years. As a rule we would expect to see a scattering of dots starting in the bottom left hand corner of the graph following, rising to the top right hand side. We would expect regions with high projected population growth on the vertical axis to have high growth in consent issuance measured on the horizontal axis.



This is what we see by and large. Auckland has 56% projected population growth and consents have risen by 61% in the past three years. West Coast has a 7.3% projected population decline and consents have fallen 27.4%. Canterbury we can ignore because of the earthquake impact.

But Nelson shows as having 19.1% projected population growth but a 9.6% fall in consents. That suggests thoughts of a housing shortage delivering price support and perhaps reinforces our positive interpretation of Nelson listings and asking price data discussed here two weeks ago.

But look at the other end of the spectrum. Bay of Plenty has seen an 87% jump in consents but population growth from 2013-43 of 26% is projected. Northland and Manawatu-Wanganui also stick out. Northland has projected population growth of 19.4% but consents have soared 73.3%. Manawatu-Wanganui has population growth projected at 7.1% but consents have jumped 56%. Marlborough perhaps has over-cooked itself as well.

This analysis cannot much guide us toward estimates of shortages or housing excess supplies. But it can deliver to us a suggestion as to which parts of the country over the past three years could have got ahead of underlying demand growth with their construction surge. And maybe the most relevant way that manifests itself is a recommendation to buyers looking at these areas to not be in a hurry. Just as there are developments falling over and no longer stacking up funding-wise and cost-wise in Auckland, some already completed developments in some regions may not attract the buyer demand which had been anticipated.

Every Week A Bigger Shortage

Back to Auckland, discussion continues regarding the impact of the new government's planned ending of using losses to offset tax bills from other work (ring-fencing), legislation favouring tenants, banning foreign buyers and so on. There is a common view that these anti-investor changes will fundamentally change the economics of the housing market and improve affordability through containing prices over an extended period of time. Such a view however will almost certainly prove wrong in the face of the strong underlying dominant driving forces which we have long emphasised here and elsewhere.

Population growth is strong in Auckland. Every week on average an extra 800 people boost the population and need to find homes. But growth in dwelling supply has not kept up with growth in demand and whatever one's estimate of the dwelling shortage was in 2012 or any year since, it is now bigger. The shortage will continue to get

bigger in the next few years, especially because rising construction costs and council compliance red tape and delays are pushing some builders out of the sector, and because resources are in short supply.

Each week there is a bang, bang, bang noise from extra housing demand. But for now the noise is covered up by ears tuned only to worries and expectations about what investors will do. Eventually however we will see that the number of investors quitting their assets is much smaller than people seeking cheaper housing want. When that realisation kicks through people will hear the persistent weekly banging again from a growing queue of people looking for something to buy.

Eventually we will get a new price response. If the focus on some unhappy investors goes long enough, as I suspect it will, we will see the Reserve Bank ease LVR rules a little bit more. Such easing has become marginally more probable as a result of last week's more dovish than expected Monetary Policy Statement and comments from the new Governor.

When will ears start hearing the banging from frustrated buyers and renters? There is no way of knowing but it could happen within 12 months. (It is interesting to sense the frustration already growing amongst government MPs and other agencies, the highlighting of the huge jump in the state house waiting list.) Trigger? Not a new interest rate cut, but perhaps revelation of KiwiBuild failure to boost construction as many hope. Perhaps collapse or closure of some builders unable to profitably manage an environment of deep regulation, bureaucracy, uncertain flows of materials and staff, and rising costs.

Related to this growing queue is news this week that officials are looking at shared equity schemes by which banks or government agencies will take part ownership of a property to help young buyers into home ownership. That represents a rise in demand. That means higher prices.

Where does this all end some years from now? Recognition that home ownership is an unrealistic expectation for many people until perhaps much longer in their working lives than currently desired. More legislation making long-term perhaps life-long renting a more comfortable proposition for people. A government scheme covering landlords for damage done to rental properties by tenants or perhaps certain categories of tenants. More managed fund construction of and investment in housing perhaps with contracts to make units available to government agencies.

And prices will go higher. Later. Eco101.

For your guide, Treasury are forecasting that average NZ-wide house prices will rise by 2.8% in the year to June 2019 then 2% the following year, 3.4% in the year to June 2021, and 3.7% the year after that.

If I Were A Borrower What Would I Do?

Nothing new really apart from some strong retail spending data in the United States causing a decent jump in ten year US government bond yields above 3%. This might place some mild upward pressure on NZ bank fixed borrowing and therefore lending rates. If so this would be consistent with the view we have all been expressing for a long time regarding tightening US monetary policy slowly pushing NZ fixed interest rates higher.

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. **This edition has been solely moderated by Tony Alexander.** To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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