Supply is key to boom end

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There's no immediate end in sight to the challenges presented by New Zealand's housing boom, according to a new HSBC report.

By Miriam Bell 24 January 2017 New HSBC Report

The international bank released its latest report on the New Zealand economy today and it highlights rising housing prices and household debt as ongoing financial stability risks.

Overall, the economic outlook for New Zealand is positive with growth being driven by record migration, rising construction activity and a booming tourism industry.

HSBC chief economist Paul Bloxham said they have been optimistic about New Zealand's economy for quite some time now and they remain so.

Growing ties to Asia, underlying flexibility and a positive reform agenda have all worked in New Zealand's favour, he said.

"Dairy was, until recently, a downside risk, but it has now bounced back and the country's economy is firing on all cylinders again."

Having famously described New Zealand as having a "rock star economy" back in 2013, Bloxham returned to the terminology and said the economy is now in a "rock star revival".

While the challenges of global uncertainty and low inflation remain, it is the risks contained in New Zealand's skyrocketing house prices and the related household debt which HSBC focuses on in the report.

Bloxham said the increased presence of speculative investors in the housing market, along with the exposure some investors were building up, was worrying.

While the Reserve Bank's macro-prudential actions have mitigated some of the financial stability risks, household debt has still been rising very quickly.

This leaves households exposed to the risk of higher interest rates in future and has led to the possibility of debt-to-income ratios being introduced.

However, from a policy perspective, the key measure that is likely to be most effective in materially improving housing affordability is an increase in housing supply, Bloxham said.

This is because the main reason for New Zealand's housing market challenges, including affordability, is a lack of supply.

Building more housing supply and infrastructure, especially in Auckland, should be a priority because there will be sub-optimal outcomes if there is no action, he said.

“The Auckland Unitary Plan should achieve this over time but, given the current rates of construction and the existing undersupply, it will take many years just to bring the Auckland market back into balance.”

The situation has presented an ongoing challenge for the Reserve Bank, which wants to stimulate inflation, and it means that housing affordability is set to be a key issue in this year’s election.

However, HSBC is forecasting that national house price growth will slow from 17% in 2016 to an annual rate of 7% in 2017 and 2018.

There are several reasons for this: one is the expected rise in mortgage rates, while another is that macro-prudential settings are likely to remain tight.

The third reason is an expected pullback in demand from foreign buyers.

But Bloxham said that while they expect housing price growth to slow, they still see solid price growth in 2017 and 2018.

“This is given that new building is not expected to keep up with continued strong population growth, particularly in Auckland.”