NEW ZEALAND ECONOMICS
ANZ PROPERTY FOCUS

SEPTEMBER 2015

INSIDE

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TOPPING OUT

SUMMARY

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

THE MONTH IN REVIEW

The Reserve Bank cut the Official Cash Rate by a further 25bps to 2.75% in September and maintained an easing bias. Despite the economy slowing and affordability stretched, the property market continues to dance to its own tune, with sales volumes and the days to sell at their strongest in eight years. Annual house price inflation has hit an eleven-year high, with the top of the North Island leading the charge. Net immigration inflows remain very strong. After a period of disappointingly flat issuance, residential consent issuance surged in July, to the highest level since April 2008. With the gain again led by Auckland, this is exactly the supply response officials are hoping to see. Credit growth has firmed, but the easing off in mortgage approvals signals a pending housing market lull.

PROPERTY GAUGES

Nationwide annual house price inflation continues to firm, with pockets of buoyancy spreading from Auckland. House prices remain stretched relative to both incomes and rents, but historically low fixed mortgage interest rates, tight dwelling supply, and high net immigration are providing upward impetus. There is a limit to how much further prices can rise given stretched affordability. A softer economy and pending RBNZ and Government policy changes to cool investor demand are expected to help level out price movements.

ECONOMIC OVERVIEW

Momentum across the economy has slowed over the year, and we expect more of the same over the coming 12 months. The nucleus resides in lower terms of trade (export prices), flattening Christchurch activity and capacity bottlenecks in some sectors. It's a deceleration, not a full-blown downturn, but this critically assumes the offshore scene stabilises; our eyes are on China. The economy nonetheless has a reasonable backbone. Pockets of strength exist and financial conditions are supportive, which will underpin a recovery in late 2016.

MORTGAGE BORROWING STRATEGY

Variable and carded rates have fallen further this month, with one and two year special rates offered by some lenders close to multi-decade lows. These rates look attractive as they offer a low rate, whilst striking the balance between providing flexibility and certainty. Borrowers may choose to spread fixed terms across the one and two year tenors, but we have a mild preference for the former given our view of the global risk profile. With the OCR expected to remain lower for longer, longer-term rates, while historically low, don't offer the same value, though they do provide certainty.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

In some respects recent property trends show a buoyant market, with the volume of national house sales having accelerated to around 8-year highs and with annual house price inflation the highest in more than a decade. Record net immigration inflows and recent cuts in mortgage interest rates have undoubtedly provided support, in which housing inventory levels remain historically low. Given the close to 40% rise in nationwide house prices over the last five years – with Auckland prices up 75% over that period – prices are becoming increasingly stretched relative to various metrics, and are approaching 2007 extremes. Mortgage approvals have tailed off over the last month or so and suggest the housing market will start to lose some of its fizz.

THE MONTH IN REVIEW

The Reserve Bank cut the Official Cash Rate by a further 25bps to 2.75% in September and maintained an easing bias. Despite the economy slowing and affordability stretched, the property market continues to dance to its own tune, with sales volumes and the days to sell at their strongest in eight years. Annual house price inflation has hit an eleven-year high, with the top of the North Island leading the charge. Net immigration inflows remain very strong. After a period of disappointingly flat issuance, residential consent issuance surged in July, to the highest level since April 2008. With the gain again led by Auckland, this is exactly the supply response officials are hoping to see. Credit growth has firmed, but the easing off in mortgage approvals signals a pending housing market lull.

SEPTEMBER *MONETARY POLICY STATEMENT*

RBNZ cut by 25bps and maintained easing bias

The Reserve Bank cut the Official Cash Rate by a further 25bps to 2.75%. The RBNZ maintained an easing bias ("some further easing in the OCR seems likely") and its 90-day bank bill projection implies the OCR being cut once more. While the tone and projections were a little more dovish than we had expected, we are not convinced that a fourth consecutive cut will occur in October, given the large bounce in dairy prices of late.

REINZ, HOUSE SALES – AUGUST

As the "very strong" run of housing market data continues

The REINZ release commented that the volume of sales activity "continues to be very strong" despite the wintry conditions, no doubt helped by the increase in property listings. Sales volumes rose a further 4.1% sa in August on top of the "exceptionally strong" July numbers, with the seasonally adjusted number of sales (8,548 according to our estimates) the strongest since May 2007, and annual growth in sales volumes strengthening to 42%. The median "days to sell" edged up to 32.8 days on a seasonally adjusted basis, well below the 37.9 of 12 months ago. Prices from the REINZ stratified house price index firmed 1.9% sa in September, with annual house price growth rising to 17.3%, the highest since July 2004. Annual house price inflation in Auckland strengthened to 26.3%, whilst there were signs of prices picking up in regions close to Auckland.

STATISTICS NZ, BUILDING CONSENTS – JULY

The supply-side is stepping up

The number of residential dwelling consents surged 20% m/m in July to the highest level since April 2008, following a period of disappointingly flat issuance. At a compositional level, the gain was led by multi-dwelling units (apartments, townhouses, flats etc), although issuance for houses also rose strongly (+11.6% m/m) to its highest level since August 2007. Our seasonally adjusted estimates show Auckland issuance rose 24% m/m, and although a number of other regions also experienced gains over the month, this outperformance continues a theme that has been developing for some time. On a 12-month running total basis, Auckland issuance is sitting near 8.6k – the strongest since mid-2005. Conversely, issuance in Canterbury has effectively flat-lined (holding at 7k on a 12-month running total basis in July).

STATISTICS NZ, EXTERNAL MIGRATION – AUGUST

With record immigration inflows supporting demand

There was a net inflow of 5,470 PLT migrants (sa) in August, fractionally down on the record 5,750 net gain in July, but still above the 5,172 person average over the last six months. On a three-month annualised basis, the net inflow is running at a 64K pace, and another new all-time high of 60,300 persons was recorded on an annual basis. High numbers of international student arrivals and fewer New Zealand citizens leaving for Australia have contributed to the strong net immigration flows. While this trend is expected to moderate shortly, there are few signs of this occurring to date.

RBNZ, HOUSEHOLD CREDIT GROWTH – JULY

Mortgage lending strong, but approvals easing off

The value of mortgage lending to households rose 0.7% sa in July (+6.0% y/y). Annualised 3m/3m growth rose to 7.1%, the strongest since April 2008.

RBNZ, MORTGAGE APPROVALS – MID-SEPTEMBER

Approval values and numbers are 31% and 8% higher than this time last year, but the gap is closing, with a noticeable slowing evident in recent weeks.

PROPERTY GAUGES

Nationwide annual house price inflation continues to firm, with pockets of buoyancy spreading from Auckland. House prices remain stretched relative to both incomes and rents, but historically low fixed mortgage interest rates, tight dwelling supply, and high net immigration are providing upward impetus. There is a limit to how much further prices can rise given stretched affordability. A softer economy and pending RBNZ and Government policy changes to cool investor demand are expected to help level out price movements.

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	Chasing your tail	↔/↓	Prices are still going up and affordability is worsening – but with regional differences. The rubber band looks taut.
Serviceability/ indebtedness	Hard work	↔/↓	Lower mortgage interest rates are helping, but debt servicing to income is going up. Another rubber band at play.
Interest rates / RBNZ	Drifting down	↔	Further cuts to variable and fixed rates will help support borrowing. LVR changes should slow Auckland investor demand.
Migration	Record	↔/↑	Another record annual high.
Supply-demand balance	Akld vs Rest of NZ	↔/↑	Still a shortage, with regional dimensions. Most regions have a surfeit of supply; Auckland shortages are growing.
Consents and house sales	Low, High	↔/↑	Sales firming. Nationwide consent issuance flat-lining, but picking up in Auckland.
Liquidity	Firming	↔/↑	Credit is increasing as a share of (decelerating) nominal GDP. Housing credit growth is picking up.
Globalisation	In synch	↔	Major cities booming, other centres not so much.
Housing supply	Low	↔/↑	Inventory to sales falling in most regions, including Auckland.
Median rent	Yield drop	↓	Annual increases in rents are still below house prices.
On balance	**Toppy**	↔	**Initial momentum, but will be looking for signs of a policy impact on sentiment.**

PROPERTY GAUGES

FIGURE 1: HOUSING AFFORDABILITY

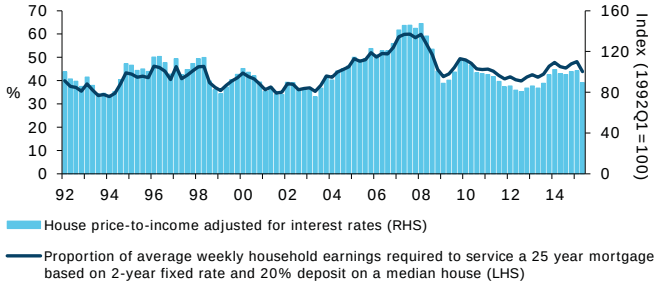


FIGURE 2: SERVICEABILITY AND INDEBTEDNESS

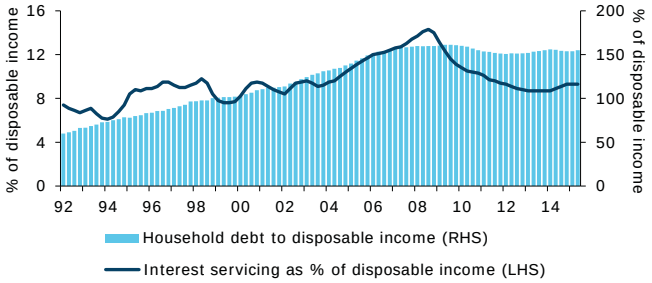


FIGURE 3: NEW CUSTOMER AVERAGE RESIDENTIAL MORTGAGE RATE (<80% LVR)

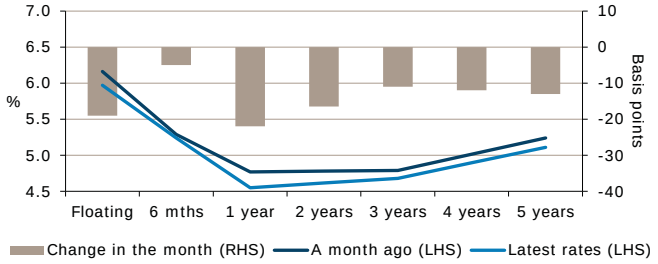


FIGURE 4: NET MIGRATION

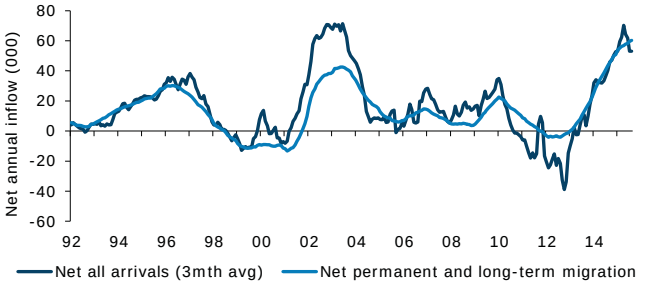


FIGURE 5: HOUSING SUPPLY-DEMAND BALANCE

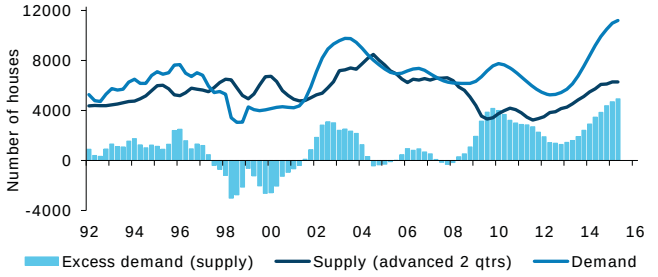


FIGURE 6: BUILDING CONSENTS AND HOUSE SALES

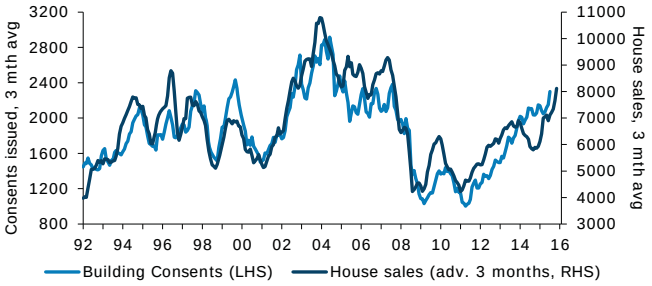


FIGURE 7: LIQUIDITY AND HOUSE PRICES

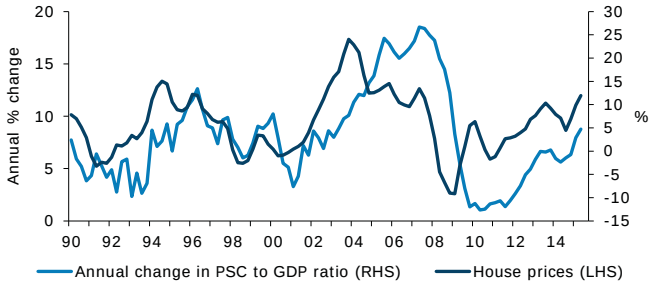


FIGURE 8: HOUSE PRICE INFLATION COMPARISON

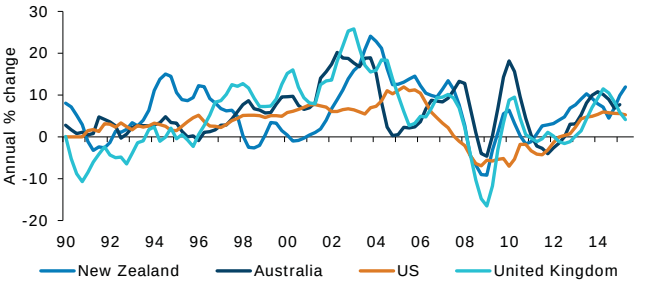


FIGURE 9: HOUSING SUPPLY

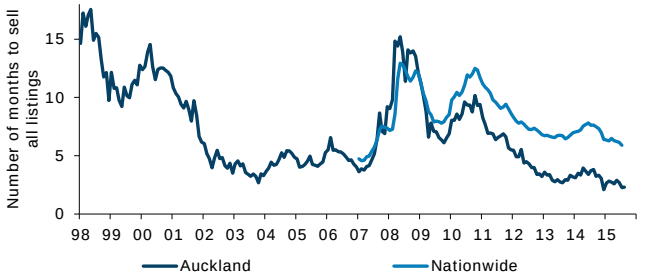
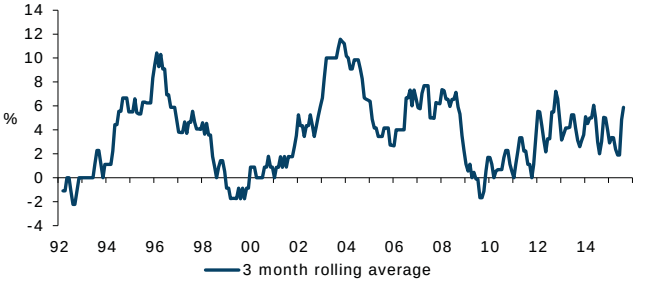


FIGURE 10: MEDIAN RENTAL, ANNUAL GROWTH



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 OVERVIEW

SUMMARY

Momentum across the economy has slowed over the year, and we expect more of the same over the coming 12 months. The nucleus resides in lower terms of trade (export prices), flattening Christchurch activity and capacity bottlenecks in some sectors. It's a deceleration, not a full-blown downturn, but this critically assumes the offshore scene stabilises; our eyes are on China. The economy nonetheless has a reasonable backbone. Pockets of strength exist and financial conditions are supportive, which will underpin a recovery in late 2016.

GIVING BACK

The economy is sluggish, although still recording positive growth. Confidence is soft, firms' own activity expectations are sub-trend, and our Truckometer has flattened. There are still bright spots and areas of greater solidity but the economic pulse overall has a softer beat. Annualised growth is tracking just under 2 percent. That's reasonable but not stellar.

Challenges come from four broad areas.

- **Low dairy prices.** They have started to recover but levels remain well below the marginal cost of production globally and an abundance of global supply remains. We continue to pencil in a likely 15% peak-to-trough fall in the goods terms of trade. All else being equal, that's enough to knock 2.5 percentage points off GDP growth over the coming two years. The average dairy farmer is making a sizeable loss so the chequebook is shut. It's being felt in the dairy-aligned regions but will have national consequences.
- **The Christchurch city rebuild has peaked and from a technical perspective it will now start to detract from growth despite being ongoing in terms of work itself.** This removes impetus to growth and will create issues in Christchurch; residential and commercial rents are already falling. We are more neutral on the economy-wide impact. Construction sector activity across the country has yet to peak; Auckland still has a profound shortage of houses. Several major Auckland projects are yet to kick off. Christchurch resources will be reallocated to other regions.
- **Structural metrics are deteriorating, though they are not as bad as prior to previous corrections.** Household debt to income is rising, the current account deficit is deteriorating, household saving is receding and Auckland house prices are surging (though anecdotally flattening of late); that's a potent mix and signals borrow-and-spend style growth – and accordingly a higher than normal degree of vulnerability.
- **Risk is being re-priced as the Fed moves closer to lifting the fed funds rate.** While rates are expected to move up in a very gradual fashion, there are a number of key issues. Asia has leveraged heavily, including in USD; weaker EM Asia currencies and a stronger USD in combination with higher interest rates is a potentially potent mix. Equity volatility has picked up as growth concerns start to dominate cheap money. New Zealand's fortunes are closely tied to the international scene.

Numerous positives remain across the economy, however.

- **The tenor of economic data is far from one-way traffic.** Migration inflows are at annual record highs. Large export earners outside of dairying, such as tourism, are performing well. Construction sector activity has yet to peak relative to GDP despite the Christchurch city rebuild topping out.
- **Skill shortages continue to feature as a restraining influence on businesses' ability to expand, according to our small business microscope.** That's a supply-side challenge, not a demand-side one.
- **Inflation is low and the RBNZ has lowered the OCR. We expect a further 25 basis points of easing.**
- **The NZD has fallen, although it has stabilised of late. Exporters are benefiting.**
- **Lower interest rates and NZD have delivered a material easing in financial conditions. Trends in our Financial Conditions Index bode well for an eventual uplift and recovery in momentum.**

We expect around 2% real GDP growth over the coming year; somewhat of a soft landing across the economy. The risk profile is down but mitigated by the potential for the OCR to move lower and the NZD too.

We are not buying into the speculation of a pending recession. Such talk is wide of the mark. Such a scenario requires a material external catalyst. The greatest candidate is China, but would likely be countered quickly by even deeper cuts in the OCR and the NZD moving to USD0.55. Fiscal policy has ample scope to support the economy in 2016.

MORTGAGE BORROWING STRATEGY

SUMMARY

Variable and carded rates have fallen further this month, with one and two year special rates offered by some lenders close to multi-decade lows. These rates look attractive as they offer a low rate, whilst striking the balance between providing flexibility and certainty. Borrowers may choose to spread fixed terms across the one and two year tenors, but we have a mild preference for the former given our view of the global risk profile. With the OCR expected to remain lower for longer, longer-term rates, while historically low, don't offer the same value, though they do provide certainty.

OUR VIEW

Mortgage interest rates have continued to ease following the 25bps OCR cut and dovish September *MPS* assessment. **Standard and "special" variable and fixed rates have fallen by 10 to 20bps for various tenors compared to a month ago.** Since the OCR was cut in June, variable and special one and two year rates have fallen by 70-80bps on average, reflecting cuts in wholesale interest rates and intense competition. More modest falls have been evident for other fixed rate tenors.

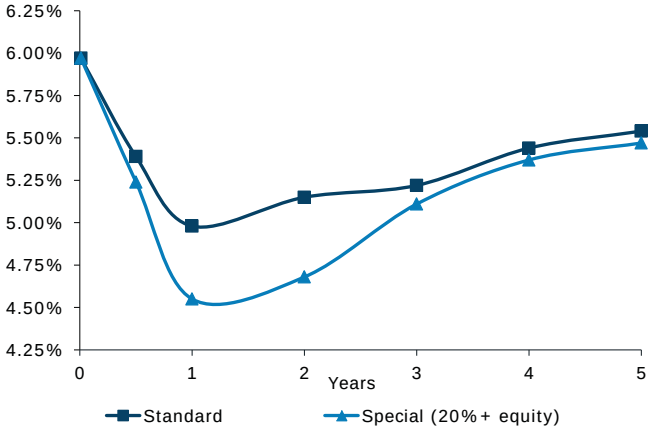
The lowest rates currently on offer are clustered around the one to two year terms for both standard and "special" rates, with sub-5% rates on offer for the latter. These rates are considerably below current variable rates and appear attractive, as they are very low in a historical sense and offer a balance between providing flexibility and certainty.

With the OCR having been cut by 75bps and with wholesale interest rates implying at least one further cut by early next year, the question is how much of this is currently factored into the current rates on offer, and what would it take for fixed rates to move lower still?

We don't expect recent developments to warrant a further near-term cut in the cash rate, but an adverse global event could see the OCR go below 2.5%, which would bring about even lower one and two year mortgage rates. With not much of a gap between the one and two year rate, borrowers could choose to spread fixed terms across both tenors to stagger rollovers, but we have a mild preference for the former given this is the lowest rate.

Our breakeven analysis for special carded rates (top table) certainly bears out the value evident in the one year term; they imply that 6-month rates need to fall sharply in order to make waiting more attractive. For example, you'd only pick the 6-month rate over the one year if you thought the 6-month rate had scope to move from 5.24% to 3.86% over the next 6 months, which seems extreme. For standard rates the one year fixed rate looks the most preferable, as the one year rate would have to rise from close to 5% to above 5.3% to make it more attractive to fix for two years. With the OCR not set to go up any time soon, this seems unlikely.

AVERAGE CARDED MORTGAGE RATES^
Current rates



Special Mortgage Rates		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.97%				
6 months	5.24%	3.86%	4.75%	4.88%	5.76%
1 year	4.55%	4.30%	4.81%	5.32%	5.97%
2 years	4.68%	4.81%	5.39%	5.71%	6.06%
3 years	5.11%	5.24%	5.64%	5.82%	6.00%
4 years	5.37%	5.44%	5.70%		
5 years	5.47%	*Average of "big four" banks			

Standard Mortgage Rates		Breakevens for standard mortgage rates*			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.97%				
6 months	5.39%	4.57%	5.24%	5.41%	5.33%
1 year	4.98%	4.90%	5.32%	5.37%	5.36%
2 years	5.15%	5.13%	5.34%	5.53%	5.73%
3 years	5.22%	5.32%	5.59%	5.70%	5.80%
4 years	5.44%	5.50%	5.68%		
5 years	5.54	*may be subject to a low equity fee			

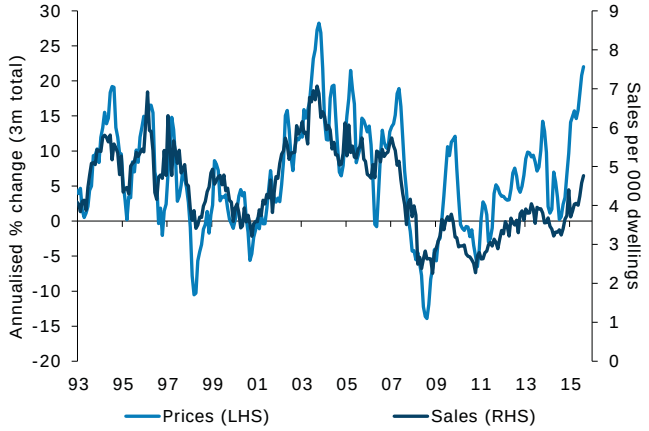
^Average of carded rates from ANZ, ASB, BNZ and Westpac. Sourced from interest.co.nz

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

SUMMARY

This month we provide an updated graphical summary of recent property market trends. In some respects it shows a buoyant market, with the volume of national house sales having accelerated to around 8-year highs and with annual house price inflation the highest in more than a decade. Record net immigration inflows and recent cuts in mortgage interest rates have undoubtedly provided support to the market, in which inventory levels remain historically low. Annual house price inflation in Auckland is at close to 20-year highs and prices in nearby regions are being boosted by the "ripple effect" of higher house prices in our largest city. Given the close to 40% rise in nationwide house prices over the last five years – with Auckland prices up 75% over that period – prices are becoming increasingly stretched relative to various metrics, and are approaching 2007 extremes. Mortgage approvals have tailed off over the last month or so and suggest that the market will start to lose some of its fizz, with pending changes introduced by both the Government and RBNZ intended to slow investor demand expected to prove effective, and slow the Auckland market in particular.

FIGURE 1. HOUSE PRICES AND SALES

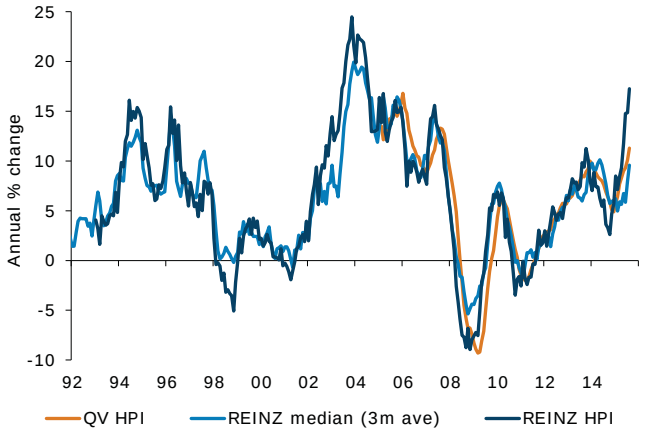


Source: ANZ, REINZ

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

Sales volumes were up 13% 3m/3m in August, and are up 42% from a year ago. They sit 8% above historical averages as a proportion of the dwelling stock, with greater buoyancy in the top half of the North Island. Low inventory levels are maintaining upward pressure on prices, with annualised house price inflation strengthening to 22%, the strongest since November 2003. While net immigration is at record highs, there is the likelihood that much of the recent market buoyancy has been the result of sales being brought forward ahead of regulatory changes to be introduced from October.

FIGURE 2. REINZ AND QV HOUSE PRICES



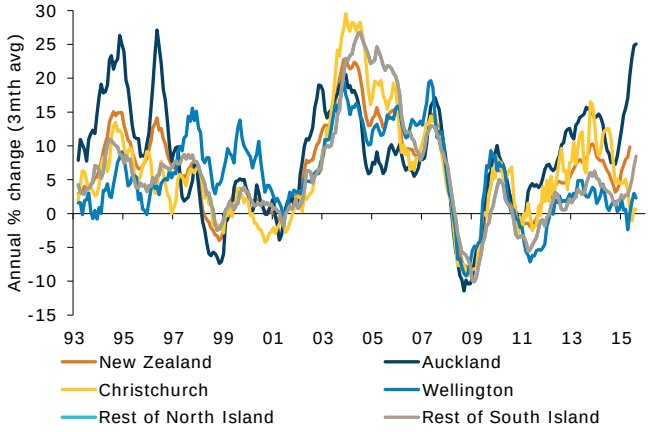
Source: ANZ, REINZ, CoreLogic

There are three key measures of house prices in New Zealand. They differ slightly but the broad trends are similar. The most frequently referenced 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 picking up on all three measures. The median sale price of houses sold by REINZ rose 11.8% in the year to August versus a year earlier. The stratified House Price Index rose 17.9% in the 12 months to August and compares with an 11.3% increase from the QV measure over the same period.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

FIGURE 3. REGIONAL HOUSE PRICES



Source: ANZ, Statistics NZ, REINZ

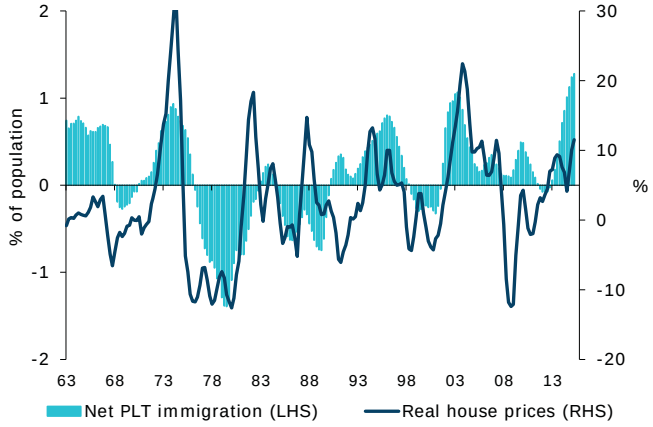
There are also differences by region. Annual house price inflation (based on the REINZ stratified measure) firmed to 26% in Auckland in the 12 months to August, the highest since 1996.

The "ripple effect" of stronger Auckland house prices is spreading to nearby regions where house price inflation is firming. Prices are also picking up in much of the South Island.

Possibly due to Government belt tightening, Wellington prices have treaded water over the last 12 months.

Christchurch house prices have essentially flat-lined over the past 12 months, with the increased supply of dwellings bringing more balance to the market.

FIGURE 4. NET PLT IMMIGRATION AND HOUSE PRICES



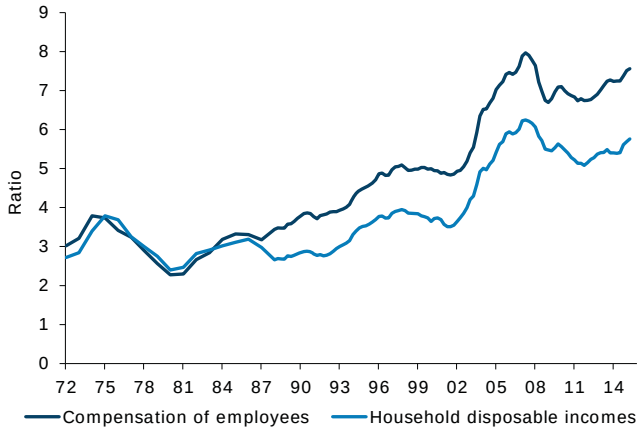
Source: ANZ, Statistics NZ, CoreLogic

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 60,300 persons in the 12 months to August, a record high and equivalent to around 1.3% of the resident population. While the climb in annual net immigration this cycle was initially due to fewer departures, around 80% of the increase over the past 12 months has been attributable to more arrivals.

The migration inflows have been the strongest in Auckland and Canterbury, which have accounted for around three quarters of annual net PLT population inflows.

FIGURE 5. HOUSING STOCK TO LABOUR AND HOUSEHOLD INCOMES



Source: ANZ, Statistics NZ, CoreLogic

Strengthening house prices have pushed up the value of the nationwide housing stock to six times household incomes and roughly eight times labour incomes. Both are approaching 2007 peaks and are well above the 3 times level evident prior to the early 1990s.

The drift up in the house price to income ratio has coincided with the shift lower in mortgage interest rates, which has helped households take on more debt (see charts on the following page).

Ultimately, incomes are the key determinant to house prices. Labour and household income growth is slowing and is likely to slow further this year as employment growth slows and the low dairy payouts permeate through the economy.

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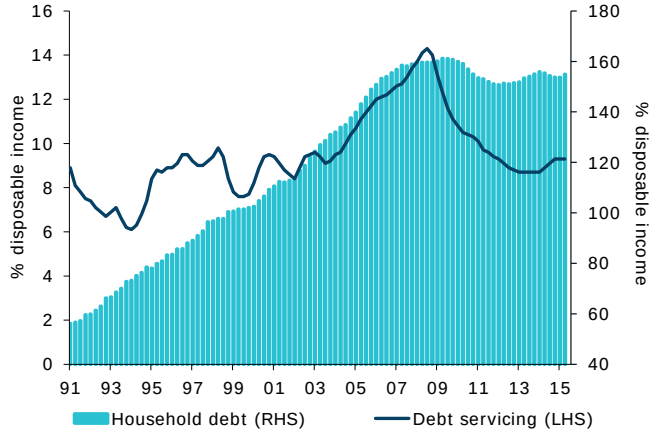
FIGURE 6. HOUSEHOLD DEBT AND DEBT SERVICING

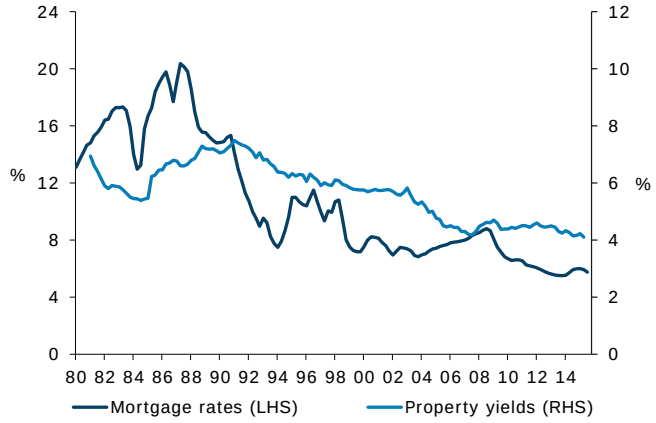


Source: ANZ, RBNZ

Household credit growth is currently running at about 6% per annum, above that of (slowing) household incomes. After having troughed in early 2012, household debt to income is now climbing (to 155% in 2015Q2), but it remains shy of its mid-2009 peak. The rise in debt has blunted the impact of historically low mortgage interest rates, with household debt servicing climbing as a share of incomes. With slightly less than half of owner occupier households not having an outstanding mortgage, there are distributional impacts.

A low nominal interest rate environment and financial liberalisation have enabled households to take on more debt, with house prices having more than trebled since the early 1990s.

FIGURE 7. MORTGAGE INTEREST RATES & RENTAL YIELDS



Source: ANZ, CoreLogic, MBIE, Statistics NZ

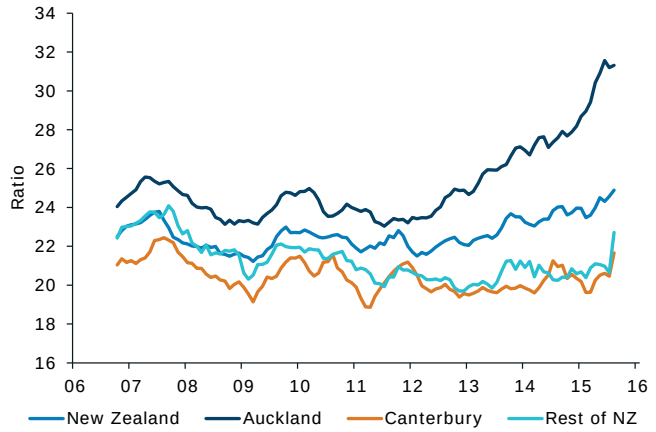
Nationwide rental yields (expressed as the ratio of annual rental payments to house sales prices) have been declining since the early 1990s, and are currently at a record low.

The fall in yields has coincided with a shift lower in nominal mortgage interest rates, which has helped households service more debt.

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

Differences are apparent by region. Despite median rents increasing about 8% over the last 12 months, Auckland rental yields have eased to just over 3%. Median rents have been static in Canterbury, with yields broadly stable.

FIGURE 8. MEDIAN HOUSE PRICES TO ANNUAL RENTS



Source: ANZ, REINZ, MBIE

Back in the early 1990s, the median sales price of an existing dwelling was equivalent to around 14 years of rental payments. House price rises have generally outstripped rent increases until a decade or so ago. The last three years have seen the upward trend resume, with the house price to rent ratio above 24, a record high.

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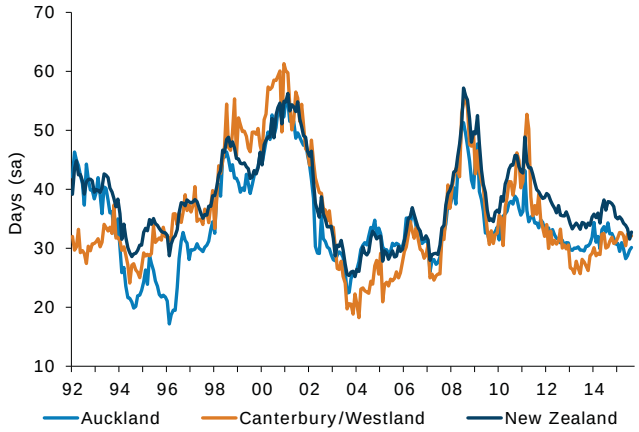
FIGURE 9. MEDIAN DAYS TO SELL



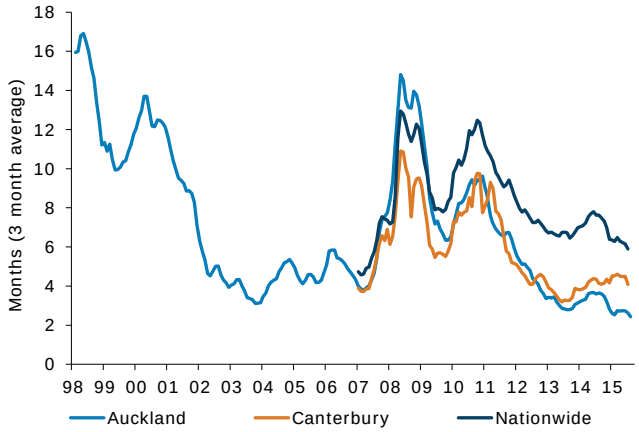
Source: ANZ, REINZ

The length of time it takes to sell a house is an (inverse) 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 edged up to 32.8 days in August, but this is around 5 days lower than a year ago, and below post-1990 averages (38.6).

The days to sell have edged up in Auckland (30), Canterbury (32) and Otago, but remain below both nationwide and historical averages. The days to sell have trended lower for other centres in the top half of the North Island. Manawatu/Whanganui (55), Northland (50), Central Otago Lakes (49) and Southland (49) have the longest median days to sell.

FIGURE 10. HOUSING SUPPLY (SEASONALLY ADJUSTED)



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

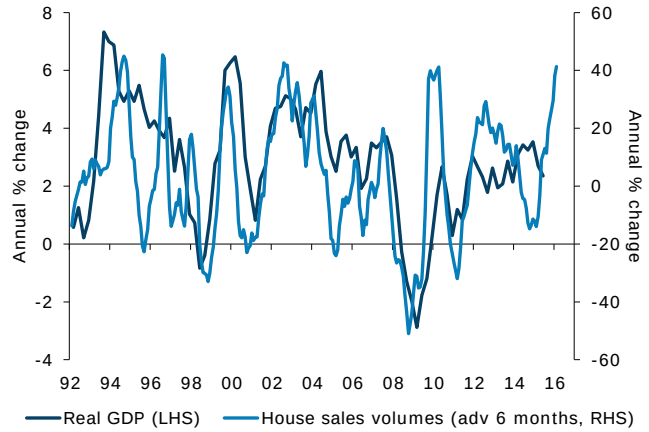
Strengthening sales activity has more than offset the increase in property listings, resulting in tightening inventory levels.

The time to sell the nationwide stock of real estate listings is currently 5.9 months (26 weeks), the lowest since June 2007.

It would take 2.4 months of sales in Auckland and 4.1 months of sales in Canterbury to clear inventories, versus 9.3 months for the rest of the country.

Inventory to sales ratios have fallen sharply of late in the Waikato/BOP (5.1 months), and also remain lower than the nationwide average in Wellington (3.6 months).

FIGURE 11. 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 have bounced strongly in recent months, supported by a combination of more listings and low mortgage interest rates, and anecdotal evidence of strong investor demand ahead of October changes by the Government to cool demand from local and overseas investors, and the November tightening of LVR criteria for the purchase of investor properties by the RBNZ.

Strengthening housing market turnover suggest that the economy is unlikely to fall into the abyss.

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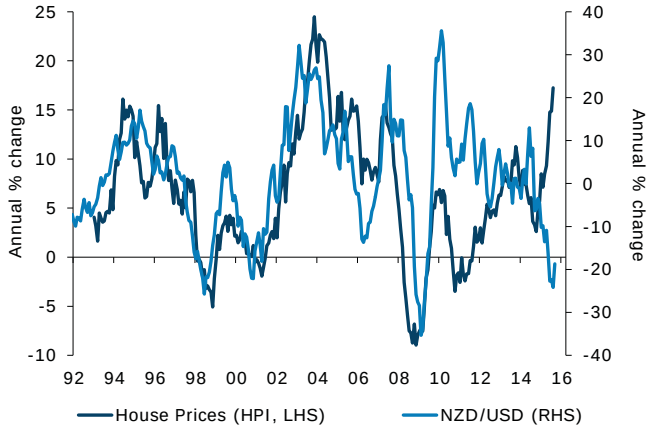
FIGURE 12. HOUSE PRICES AND THE NZD



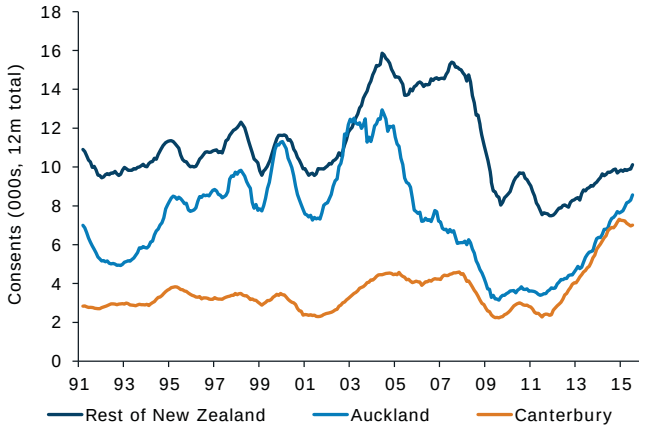
Source: ANZ, REINZ, Bloomberg

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).

Of late, however, the relationship has broken down, with the lower NZD occurring during a period of strengthening house price inflation.

Low global interest rates and pro-cyclical drivers such as net immigration are supporting both, but other global factors and factors weighing on the NZD have yet to impact the housing market.

FIGURE 13. RESIDENTIAL CONSENTS



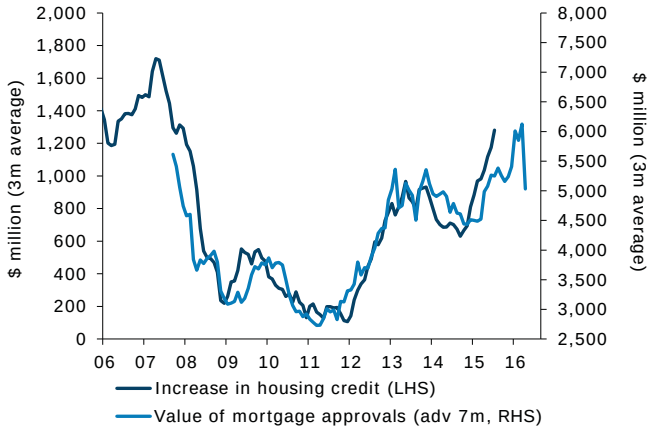
Source: ANZ, Statistics NZ

Nationwide residential consent issuance is strengthening, with the number of new dwellings consented in the year to July 2015 totalling 25,700, an 8-year high.

Consent issuance is 18% above historical averages as a proportion of the dwelling stock, with consents above historical averages in Auckland, Canterbury and the rest of the country.

Annual residential consent issuance, at around 7k, looks to be past its peak in Canterbury. It is climbing in Auckland, and at just under 9k was the highest in a decade in July, suggesting that the supply-side is starting to kick into gear to address dwelling shortages. Issuance in the rest of the country was at 6-year high.

FIGURE 14. MORTGAGE APPROVALS AND HOUSING CREDIT



Source: ANZ, RBNZ

Weekly housing loan approval figures are published by the RBNZ. These tend to provide leading information on the state of household credit and housing market activity.

The mid-2015 surge in approvals was consistent with anecdotes of investors rushing to get into the market prior to the looming Government and RBNZ changes.

Approval numbers are still tracking above those of last year, but have tailed off significantly over recent weeks and point to a spring lull in the housing market this year.

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FIGURE 15. HOUSE SALES AND HOUSING CREDIT

Source: ANZ, REINZ, RBNZ

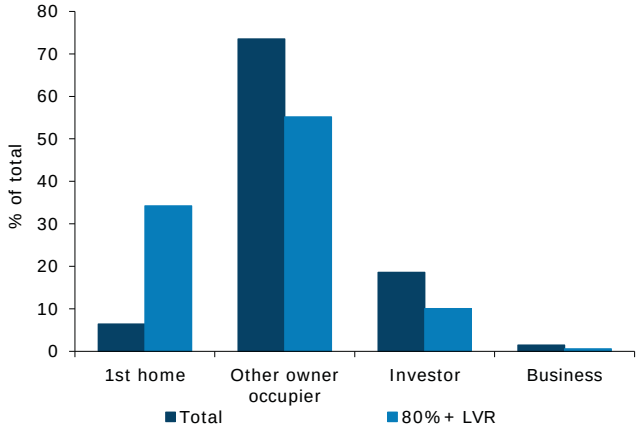
With a deleveraging undercurrent evident following the global financial crisis, mortgage lending has been lower than would normally be implied by the value of housing transactions.

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 in October 2013 is also likely to have impacted this relationship, with new mortgage lending to low-deposit borrowers falling from around 30% to under 10% of total lending since November 2013.

Of late, however, strengthening housing market activity and rising prices have facilitated an increase in the demand for credit.

FIGURE 16. NUMBER OF NEW RESIDENTIAL MORTGAGE LENDING BY BORROWING TYPE



Source: ANZ, RBNZ

Due to the high-LVR lending restrictions, new lending for borrowers with less than a 20% deposit has been below the 10% speed limit since November 2013.

This has resulted in some displacement, with first home buyers accounting for only about 6% of new housing loans. The RBNZ also cites figures suggesting that around 40% of Auckland sales were to property investors.

Government and RBNZ measures to be introduced in the next couple of months are designed to cool investor demand, particularly in the Auckland market, with the relaxation in the LVR speed limit to 15% of new lending outside of Auckland expected to further support prices in the regions.

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 August 2015 (based on REINZ data)

	House prices (ann % change)	3mth % change	No of sales (sa)	Mthly % change	Avg days to sell (sa)	Comment
Northland	16.8	1.5	288	+8%	50	Sales volumes 8yr high, 3m/3m price growth slowing at 1.5%
Auckland	20.4	5.2	3,252	+3%	30	Sales volumes +48% y/y, price rises slowing, days to sell up.
Waikato / BOP / Gisborne	8.3	4.6	1,616	+5%	36	Days to sell up 2, volumes +87% y/y, prices firming.
Hawke's Bay	9.0	3.5	281	+5%	48	Sales volumes +71% y/y, days to sell up 3, prices +9% 3m/3m.
Taranaki	4.3	4.1	292	+5%	55	Sales volumes +21% y/y, days to sell up, prices +4.3% 3m/3m.
Manawatu / Whanganui	-4.9	-2.8	178	-1%	36	Prices still falling, annual sales volume growth slowing.
Wellington	4.3	-1.8	793	+7%	42	Sales volumes +35% y/y, days to sell up, prices -1.8% 3m/3m.
Nelson / Marlborough	5.4	2.2	278	+3%	33	Days to sell at 6-year low, prices +2.1% 3m/3m.
Canterbury / Westland	4.0	0.6	979	+4%	32	Days to sell up, volumes +25% y/y, prices +0.6% 3m/3m.
Central Otago Lakes	11.6	0.7	168	-2%	49	Sales volumes +61% y/y, prices +0.7% 3m/3m, days to sell up.
Otago	9.7	1.0	240	+3%	31	Sales volumes +24% y/y, prices +1% 3m/3m, days to sell up.
Southland	15.8	5.2	180	+8%	47	Days to sell up, volumes +51% y/y, prices +5.2% 3m/3m.
NEW ZEALAND	12.0	2.5	8,548	+4%	33	Sales volumes at 8-year high (+49% y/y), prices firming.

Key forecasts

	Actual			Forecast						
Economic indicators	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
GDP (Ann Avg % Chg)	3.3	3.2	3.0	2.6	2.1	1.9	1.9	2.0	2.2	2.4
CPI Inflation (%)	0.8	0.3	0.4	0.3	0.7	1.5	1.5	1.8	1.9	1.9
Unemployment Rate (%)	5.7	5.8	5.9	6.0	6.0	6.2	6.3	6.2	6.2	6.1
	Actual			Forecast (end month)						
Interest rates (carded)	Jul-15	Aug-15	Latest	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Cash Rate	3.00	3.00	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.75
90-Day Bank Bill Rate	3.1	2.9	2.9	2.9	2.9	2.6	2.6	2.7	2.7	3.1
Floating Mortgage Rate	6.2	6.2	5.9	5.9	5.9	5.7	5.7	5.7	5.7	5.9
1-Yr Fixed Mortgage Rate	5.4	5.0	4.8	4.8	4.8	4.8	5.1	5.3	5.3	5.8
2-Yr Fixed Mortgage Rate	5.6	4.9	4.8	4.8	4.8	4.8	5.1	5.3	5.4	5.8
5-Yr Fixed Mortgage Rate	6.1	5.7	5.6	5.6	5.6	5.6	5.8	5.9	5.9	6.0

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