

Business Weekly

Housing market still heating up

This Week

It is a quiet week for NZ after an action-packed few weeks. Much of the focus for markets will be elsewhere, though even the international data calendar is relatively quiet. US releases on retail sales, inflation and housing will be the more closely-watched events. The Bank of England's meeting minutes will also be of interest for the flavour of deliberations leading to the decision to expand the Bank's quantitative easing programme.

Last week was essentially an update on NZ households, with several housing releases and retail sales out. The spending figures showed only modest gains in overall volumes, though some evidence that higher housing turnover has boosted housing-related spending. The housing market, in contrast, continues to show strong signs of supply constraints: rising prices and shortening days to sell, yet still-flat turnover. ASB's [Housing Confidence Survey](#) has shown a dramatic lift in house price expectations: a net 40% of respondents expect prices to lift over the next year, similar to levels seen in the heat of the last boom.

Where to from here for the housing market? Longer term we expect prices to flatten off and for a period during which the underlying fundamentals – incomes, rents, population – catch up to where house prices have galloped off to. Affordability is still quite stretched and the recent pace of house price increases is unsustainable. Demand has been given a firm lift this year by very low mortgage rates, but once short-term rates rise the door to cheap borrowing will close. Supply will also adjust. Higher prices will eventually attract greater numbers of listings onto the market. Furthermore, construction will start to pick up from very weak levels, bringing fresh supply on tap. And, with the Australian economy strengthening, the outflow of NZers will resume, contributing to both more listings and less population pressure. But meanwhile, the mismatch in the market will continue, and prices look set to keep rising into the early months of next year at least.

The RBNZ, which released its Financial Stability Report last week, expressed concern that the economy was again heading for a debt-fuelled housing-led recovery. The conflict between promoting overall economic recovery after prolonged recession but unhappiness with a household-led – rather than export-led – recovery will challenge the RBNZ's stated view that it will keep the OCR on hold until the second half of 2010. The RBNZ again expressed a desire for regulatory changes to aimed at the housing market but any changes made are unlikely to exert an influences soon enough for the RBNZ's liking. We see the risks being the RBNZ gets uncomfortable with a low OCR before mid-2010.

Click here for:

[Foreign Exchange](#)

- NZD remains very stable across the week.

[Interest Rates](#)

- Yield curve flattening continues as long-end interest rates fall.

[Week Ahead](#)

- No major NZ data except Net Migration next Monday.

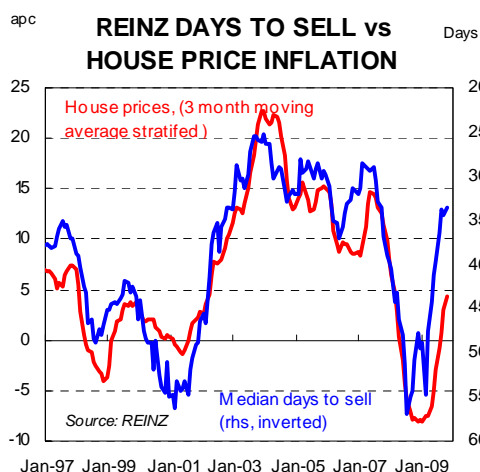
[Week in Review](#)

- Retail volumes remain flat, housing market tightens further as prices rise.

[Global Calendars](#)

- US retail trade, industrial production, CPI and housing construction data.

Chart of the week



- The number of days to sell provides a reliable gauge on the balance between supply and demand within the housing market, and points firmly towards a lack of supply. Days to sell are now well below average levels, and are drifting towards lows last seen in the previous housing boom.
- The mismatch in supply and demand is also confirmed with agent listing data, pointing to low numbers of new listings and relatively low stocks of houses for sale.
- The housing market remains tight, with low supply continuing to put pressure on house prices. House prices increased 3.3% over the 3 months to October, which is an annualised rate of 13.1%.
- House price growth is currently far stronger than many would have expected. The current strength is likely to test the RBNZ's patience with monetary policy.

General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7438	0.7364	0.7462	0.5859	0.5659	UP	0.7300	0.7450
NZD/AUD	0.7965	0.7951	0.8078	0.7827	0.8564	FLAT	0.7850	0.8000
NZD/JPY	66.60	66.36	67.69	55.53	55.00	UP	66.50	68.50
NZD/EUR	0.4984	0.4934	0.4996	0.4357	0.4426	FLAT	0.4850	0.5000
NZD/GBP	0.4449	0.4407	0.4558	0.3867	0.3796	FLAT	0.4350	0.4500
TWI	66.2	65.7	66.8	57.1	57.6	UP	64.20	66.20

^Weekly support and resistance levels * Current is as at 10.45 am Monday; week ago as at Monday 5pm

- It was a very quiet week for the NZ dollar, remaining fairly stable throughout the week but winding up with small gains against all the major crosses.
- The NZD remained remarkably stable over the week (following Monday's gains following the Fonterra payout announcement). The NZD lost ground against the USD over Thursday night on the back of US dollar index strength. However, the greenback lost its gains following a larger than expected US trade deficit, poor US consumer confidence and speculation that Asian countries may be more willing to allow their currencies to appreciate against the US dollar.
- The NZD/AUD underperformed following the stronger than expected increase in Australian employment. The cross rate then recovered over the weekend.
- We expect the USD to remain low over the week as the near-term outlook for interest rates remains unchanged. Another increase in US industrial production and an improvement in deflation could add to volatility in the USD late in the week. Fed speak will be important this week, particularly Bernanke's speech on the economic outlook this Tuesday.

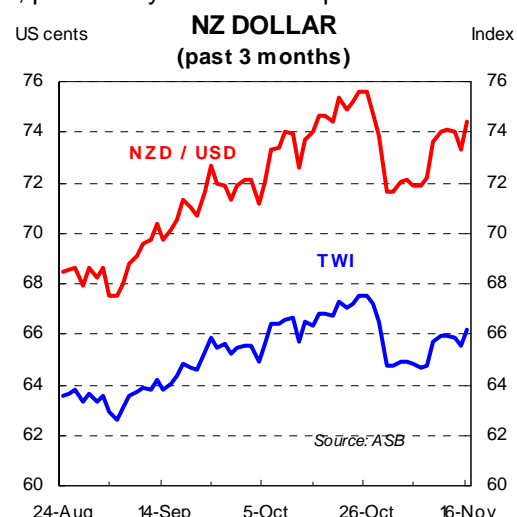
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Oct Net Migration	23/11	10.45 am	-

Potential currency movers from overseas this week: UK inflation, US retail sales, US business inventories (17th); Bank of England interest rate meeting minutes, US net long-term TIC flows, US industrial production (18th), UK retail sales, UK public finances, US inflation, US housing starts, US building permits (19th) OECD November Outlook (19th). Speakers: Bernanke, Fisher, Kohn, Yellen (17th); Lacker, Pianalto (18th); Fisher (20th).

Medium-term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- We continue to expect the NZD to appreciate further against the USD over the next 6-9 months. However, we have revised up our expected peak to USD 0.82. The story remains primarily one of USD weakness, also overlaid by some Downunder strength. We expect the USD to remain under pressure until the Federal Reserve starts to unwind its policy stimulus: the earlier that starts the sooner the NZD's rise is likely to be capped.
- The reasons for the expected USD weakness remain similar to the drivers in place since mid-March, namely:
 - US residents increase their offshore investment, encouraged by improvement in the global economy, with USD liquidity demand and safe-haven buying also no longer boosting the USD.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
 - And, related, concern about the USD's future role as a reserve currency.
- The NZD is also likely to mildly outperform other major currencies in the ongoing environment of improving global growth prospects and rising commodity prices. Outright weakness in the Pound will continue to hold the NZD/GBP rate at very elevated levels. The Pound, like the USD, is being weighed down by debt concerns and the state of its financial sector – both of which have ramifications for the future growth rate of the economy.
- The buoyant Australian dollar is also likely to contribute to an overall strengthening of the NZD. The RBA is likely to continue lifting its cash rate back to a less stimulatory level. Rising interest rates there will lift the AUD. The NZD will be caught in the middle: weakening slightly against the AUD but up against other currencies.
- For more on the relative fundamentals driving the NZD see our Economic Note ["NZD: The Flighty Bird"](#).
- The September MPS made it pretty clear the RBNZ is unlikely to cut the OCR to try dampening the NZD. Direct FX intervention also appears unlikely (at the least, very risky) with the dominant driver of the high NZD being the weak USD.



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	2.50	6.50	FLAT
90-day bank bill	2.80	2.82	2.82	2.77	6.33	FLAT
2-year swap	4.59	4.61	4.68	3.41	5.66	FLAT
5-year swap	5.70	5.76	5.66	4.69	6.06	FLAT
5-year benchmark gov't stock	5.55	5.12	5.15	4.36	5.67	FLAT
NZSX 50	3169	3165	3207	2778	2765	FLAT

* Current is as at 10.45 am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ govt 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

- The NZ yield curve resumed its flattening trend (narrowing gap between the 2-year and 10-year interest rates) over the past week, following a brief period of steepening following the RBNZ October statement. This week's flattening came as the longer-end yields dropped lower following similar declines in US markets, in contrast to the trend over recent months where short-end yields have been lifting toward the longer end.
- US Treasury bond yields fell across the curve. The short end was weighed down by dovish comments by FOMC members. Meanwhile, longer-end yields declined as Treasury bond demand has benefited from recent caution on US equity market prospects.
- The downward trend in yields continued despite mixed results in last week's Treasury auctions. The 3-year auction earlier in the week was met with strong demand, with a 3.33 bid to offer ratio being the highest since 1993. However, demand was not as strong for the \$16 billion dollar 30-year note auction, with the lowest bid to offer ration since May. Yields had initially spiked, but managed to shrug off demand concerns later in the day. In general, huge Treasury bond issuance continues to be met by good demand.
- The Australian market saw 1-year swap rates lifting following the stronger than expected employment report. Economists and the market are in agreement of a 25 basis point hike by the RBA in December.

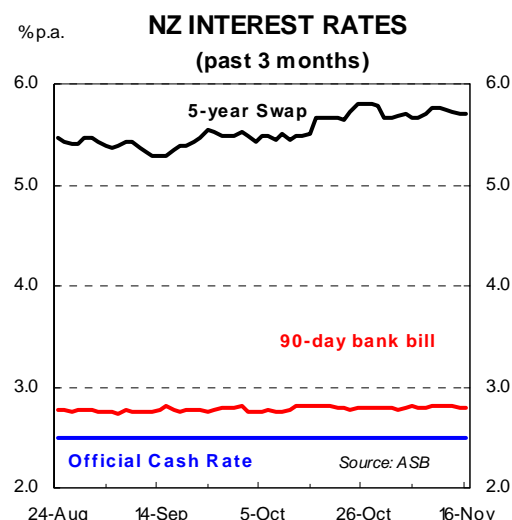
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Oct Net Migration	23/11	10.45 am	-

Comment: The Australasian calendar turns quiet after an action-packed few weeks. Net migration next Monday is the only NZ data out. NZ monthly data releases tend to be too volatile to move the market. Nonetheless, the strength in net migration has been behind the recent pick up in the housing market and will be a key monetary policy issue over the next 6 months. US data will be the focus, with retail sales, industrial production, CPI and housing data all scheduled for the week.

Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- The RBNZ continues to hold the cash rate at 2.5%. While the RBNZ has backed off its easing bias, it maintains a very dovish tone. The Bank has stated it sees no urgency to withdraw monetary stimulus, and expects to keep the OCR at the current level until the second half of 2010. However, given the recent improvement in the outlook, we see that stance becoming untenable in time.
- The RBNZ's overall growth and inflation forecasts were unchanged at the September MPS, despite incorporating significantly stronger monetary conditions. The RBNZ sees more inflation pressure in the economy stemming from a less weak global outlook, a pick up in net migration supporting the housing market, and improved business confidence.
- October's statement suggest some change in the RBNZ's outlook, though not enough to convince the RBNZ it is likely to hike in the first half of 2010. World demand has stabilised and the outlook for 2010 continues to improve. Dairy prices have lifted off lows and have led Fonterra to revise up its forecast payout significantly. Net migration continues at a robust pace, and continues to provide support to housing demand in a tight market. Housing supply has been slow to respond, resulting in a surprisingly strong lift in house prices over the past 6 months which is likely to make the RBNZ uncomfortable. Business and consumer confidence has surged pointing to an earlier recovery in growth than previously thought. Meanwhile, the downside risks to inflation have also abated.
- The next move in the OCR is up, it's just a matter of when. We expect the RBNZ will hike by April next year (previously June). The RBNZ has a substantial amount of policy stimulus to unwind, the first steps are likely to be bigger (i.e. 50 basis point moves).



NZ Data Preview: a look at the week ahead

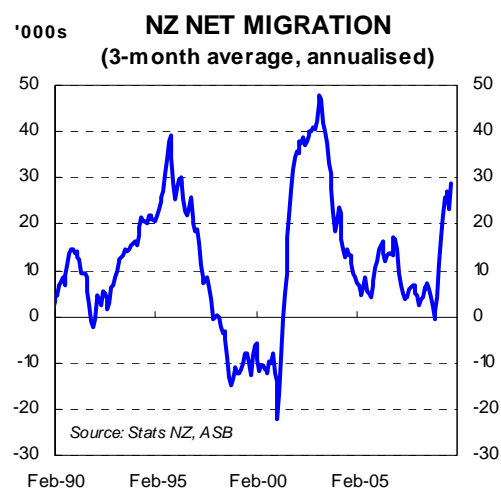
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Oct International Travel and Migration	23/11	10.45 am	17,000 pa	-	18,000 pa

October International Travel and Migration

Net Migration: previous +17,043 per annum (year to September)

Net migration inflows remain firm, mostly owing to a dramatic fall in the number of departures, particularly to Australia. The deterioration in the world economy is likely to be behind the decline in departures as a weakening labour market in Australia has deterred New Zealanders from heading across the Tasman. We expect these trends to continue in the short term, with net migration peaking early in 2010 at around 22,000 net new migrants per annum. However, the improving Australian economy is likely to see departures to Australia pick up in time.

Overseas short-term visitor arrivals are also expected to slow over the next year as weakening world growth reduces demand for international travel.

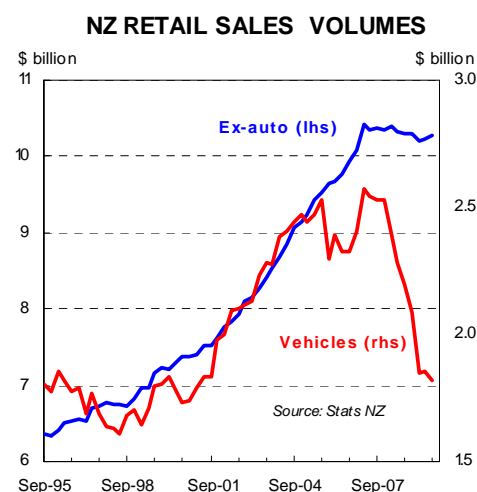


NZ Data Review: weekly recap

Retail Trade Survey

Overall retail volumes were a touch ahead of expectations, but not significantly so. Total volumes increased 0.1% (compared to market expectations of -0.1%), while excluding autos core spending volumes increased by 0.5%.

Qualitatively the message is as expected: the recovery in consumer spending is cautious to date. Ex-auto volumes were on the strong side of our expectations: the overall dollar spend was close to expectations but inflation took up less of a chunk than anticipated. In contrast to the strong CPI, there is more evidence of retail discounting keeping a lid on prices. The pick-up in net migration and household formation growth is driving an improvement in housing-related components such as furniture, hardware and appliances. Clothing sales were artificially inflated by extreme weather variations. Other areas continue to take a hit, suggesting some reluctance to spend despite the pick-up in confidence.



REINZ housing data

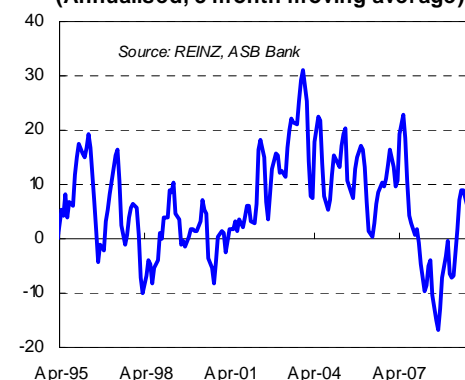
The housing market remains tight, with low supply continuing to put pressure on house prices. House prices increased 3.3% over the 3 months to October, which is an annualised rate of 13.1%. The increase in house prices was broad based, with firm increases in all regions as well as section prices.

Median days to sell fell as is typical with spring, but also fell on a seasonally-adjusted basis. The number of days to sell provides a reliable gauge on the balance between supply and demand within the housing market, and points firmly towards a lack of supply.

The number of sales fell during October, down 5.8% (seasonally adjusted), although remain fairly steady on a trend basis. The level of turnover likely understates the level of demand. The low number of days to sell and rising house prices are symptomatic of a tight housing market, constrained by lack of supply.

REINZ STRATIFIED MEDIAN HOUSE PRICE INFLATION

(Annualised, 3 month moving average)



Global Data Calendars

Note: Calendar 2 is in UK times. Add 12 hours for NZ times.

Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZST						Market	CBA
Mon 16 Nov	10.30	NZ	PSI	Nov	Index	~	~	~
	10.45	NZ	Producer prices – inputs	QIII	q%ch	0.0	~	~
	10.45	NZ	Producer prices – outputs	QIII	q%ch	-0.7	~	~
	12.50	JP	GDP	QIII	q%ch	0.6	0.7	~
	12.50	JP	GDP annualised	QIII	q%ch	2.3	3.0	~
	12.50	JP	Nominal GDP	QIII	q%ch	-0.5	-0.5	~
	12.50	JP	GDP deflator	QIII	y%ch	0.5	0.1	~
Tue 17 Nov	12.50	JP	Tertiary industry index	Sep	m%ch	0.3	~	~
Wed 18 Nov	11.05	AU	RBA Assistant Governor Guy Debelle speaks in Sydney					
	13.00	AU	WBC leading index	Sep	m%ch	1.1	~	~
	13.30	AU	Wage cost index	QIII	q%ch	0.8	~	0.8
						y%ch	3.8	~
19.00	JP	Machine tool orders	Oct	y%ch	-42.6	~	~	
Thu 19 Nov	13.30	AU	Average weekly wages	Aug	q%ch	1.2	~	0.9
						y%ch	6.1	~
	13.30	AU	RBA Bulletin	Nov	~	~	~	~
	17.00	JP	BoJ monetary policy meeting					
	17.30	JP	All industry activity index	Sep	m%ch	0.9	~	~
	18.00	JP	Leading index CI	Sep	Index	86.4	~	~
	18.00	JP	Coincident index CI	Sep	Index	92.5	~	~
Fri 20 Nov	~	JP	BoJ target rate	Nov	%	0.1	~	~
	15.00	NZ	Credit card spending	Oct	m%ch	-1.0	~	~
y%ch						-2.3	~	~

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	time	Econ	Event				Market	CBA
Mon 16 Nov	00.01	UK	Rightmove house prices	Nov	m%ch	2.8	~	~
	07.00	EZ	EU 25 new car registrations	Oct	%	6.3	~	~
	10.00	EZ	CPI	Oct	m%ch	0.0	0.3	~
	13.30	CA	Manufacturing sales	Sep	%	-2.1	-0.6	~
	13.30	US	Advance retail sales	Oct	%	-1.5	0.9	~
	13.30	US	Empire manufacturing	Nov	~	34.6	28.5	~
	15.00	US	Business inventories	Sep	%	-1.5	-0.6	~
Tue 17 Nov	09.30	UK	CPI	Oct	m%ch	0.0	~	~
	10.00	EZ	Trade balance	Sep	€bn	1.0	~	~
	13.30	US	Producer price index	Oct	m%ch	-0.6	0.5	~
	14.00	US	Net long-term TIC flows	Sep	\$bn	28.6	~	~
	14.15	US	Industrial production	Oct	%	0.7	0.3	~
	14.15	US	Capacity utilisation	Oct	%	70.5	70.8	~
	18.00	US	NAHB housing market index	Nov	~	18.0	19.0	~
Wed 18 Nov	09.00	EZ	Current account	Sep	€bn	-1.3	~	~
	09.30	UK	Bank of England minutes	~	~	~	~	~
	10.00	EZ	Construction output	Sep	m%ch	-0.4	~	~
	12.00	CA	CPI	Oct	m%ch	0.0	0.1	~
	13.30	US	CPI	Oct	m%ch	0.2	0.2	~
						y%ch	-1.3	-0.2
	13.30	US	Housing starts	Oct	'000	590	598	~
13.30	US	Building permits	Oct	'000	573	580	~	
Thu 19 Nov	09.30	UK	Retail sales	Oct	m%ch	0.0	2.4	~
	10.00	EZ	OECD November economic outlook (table)					
	13.30	CA	Wholesale sales	Sep	%	-1.4	~	~
	13.30	CA	Leading indicators	Oct	%	1.1	~	~
	13.30	US	Initial jobless and continuing claims					
	15.00	US	Leading indicators	Oct	%	1.0	0.4	~
	15.00	US	Philadelphia Fed	Nov	~	11.5	10.4	~
Fri 20 Nov	07.00	GE	Producer prices	Oct	m%ch	-0.5	~	~

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