

NEW ZEALAND ECONOMICS ANZ PROPERTY FOCUS

JULY 2011

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HOME AND INCOME

SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we review the latest trends in the labour market.

THE MONTH IN REVIEW

Building approvals strengthened in May and house sales in June sustained this resurgence. Weekly mortgage approvals, which provide an even more timely series, have strengthened further in July. The market is slowly building momentum, off a low base and in the face of weak immigration.

PROPERTY GAUGES

The number of houses sold has ticked up over the past few months but the selling price has hardly moved. Mortgage rates haven't changed for three consecutive months. The last time that mortgage rates hadn't moved, for this length of time, was back in 1992. But this record is on borrowed time. Given the inflationary pressures building, it is only a matter of time until the Reserve Bank reverses the emergency OCR cut.

ECONOMIC BACKDROP

The NZ economy is navigating four large shocks simultaneously: debt payback, rebalancing, the Christchurch earthquakes and high commodity prices. And this is against a fickle global backdrop. The start to economic growth in 2011 looks better than we thought it might, and the second half of the year looks strong, as improving confidence translates into actual activity. Next year is expected to be a 4 percent plus growth year as the Christchurch rebuild kicks into gear. Better economic prospects come with bitter medicine: interest rates are set to move up.

MORTGAGE BORROWING STRATEGY

Mortgage rates have held steady, having not changed for at least 3 months. Although there are risks, New Zealand is now emerging as one of the few developed economies set to post above-trend growth over the next few years. With that comes the likelihood of higher interest rates. Despite this, it does not necessarily follow that now is the time to fix. Fixing does offer certainty, but the cost of doing so is higher, and our breakeven analysis shows that rates would have to move up at around the pace we expect them to in order for fixing to be worthwhile. That being the case, the decision to fix or remain floating is something of a line call.

FEATURE ARTICLE – LABOUR MARKET TRENDS

The labour market is improving, slowly but surely. While not an overarching influence on the property market, it's an influence nonetheless. Homeownership rates have declined the sharpest for younger age groups, as these cohorts have not been the major beneficiaries of the labour market recovery. Improving job prospects augurs well for a broadening in the economic recovery – providing a base to the property market. Better job prospects vis-à-vis Australia could deliver a sharp turnaround in migration flows. Our ageing population will have implications for the type (and location) of housing that will be needed to meet the changing needs of an evolving population structure.

THE MONTH IN REVIEW

Building approvals strengthened in May, while house sales in June failed to extend the gains made in May. Weekly mortgage approvals, which provide an even more timely series, have strengthened further in July. The market is slowly building momentum, off a low base and in the face of weak immigration.

LABOUR PARTY ANNOUNCES PLANS OF A CAPITAL GAINS TAX

Walking the tightrope

Labour released its tax manifesto. Headlining the changes is the introduction of a capital gains tax of 15 percent, although this would not include the family home and a host of other exemptions.

STATISTICS NZ, BUILDING CONSENTS – MAY

Building a better tomorrow

Residential building consent increased a seasonally adjusted 8 percent in May, reaching its **highest level since January**. May non-residential consent values rose 18 percent and by a massive 71 percent in floor area. While monthly non-residential consent issuance can be extremely noisy, this pick up is encouraging. Earthquake reconstruction work will provide more work for the non-residential sector but this will not become apparent until at least the latter part of this year.

MORTGAGE APPROVALS – LATEST AVAILABLE (MID JULY)

Lending a hand

The RBNZ experimental series of **weekly mortgage approvals lifted to a six week high** in mid July. The *number* of mortgage approvals is 3.1 percent below the same time a year ago but the comparable figure for the *value* of mortgages is 14 percent higher than a year ago.

RBNZ, CREDIT GROWTH – MAY

Low and slow

Household credit growth rose only 0.1 percent in May. The annual increase in the series drifted lower, **to only be up 1.3 percent on the level a year ago**. This represents a new low in the annual rate of change of the series.

REINZ, HOUSING DATA – JUNE

Split level homes

The number of house sales were broadly unchanged from May, slipping 0.4 percent in the month, after a solid rise the month earlier. The number of sales have been trending upward and were 14 percent above the same month a year ago. Prices lifted by 2.8 percent in seasonally adjusted terms in the month but, given the patchy period over the past 12 months, are only 2.1 percent above a year ago. **Days to sell improved to its lowest level in thirteen months.**

STATISTICS NZ, CPI INFLATION – JUNE QUARTER

Turning back time

The headline inflation rate hit a 21-year high of 5.3 percent. Abstracting from GST, inflation would have been 3.3 percent. The RBNZ estimate of core inflation remained steady at 2.3 percent. However, **rising inflation trends have economists increasingly looking for the RBNZ to unwind the additional 50 basis points of interest rate support** provided to the economy in March.

STATISTICS NZ, NET MIGRATION – JUNE

Gone, but not forgotten

Monthly net permanent and long-term (PLT) migration data showed **a seasonally adjusted net outflow 340 persons in June**, matching May's outflow. Annual net PLT immigration, at 3,867 persons, is well below the net inflow of 22,900 persons at the start of last year. **Canterbury was the main driver of the PLT outflow.** Indeed, the net PLT outflow from Canterbury has continued, with a net seasonally adjusted immigration outflow of 338 persons in June. Since February there has been an outflow of 1,786 persons from Canterbury. There was a net outflow of just 2 persons for the rest of the country in June, the first outflow since November 2008.

PROPERTY GAUGES

The number of houses sold has ticked up over the past few months but the selling price has hardly moved. Mortgage rates haven't changed for three consecutive months. The last time that mortgage rates hadn't moved, for this length of time, was back in 1992. But this record is on borrowed time. Given the inflationary pressures building, it is only a matter of time until the Reserve Bank says enough is enough and reverses the emergency cut that they made to the Official Cash Rate.

We use ten gauges to assess the state of the property market, and for signs that changes are emerging.

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.

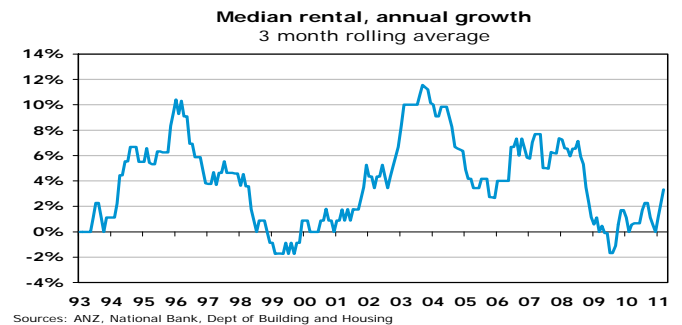
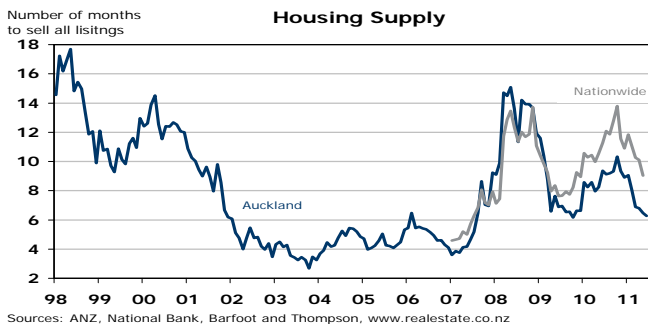
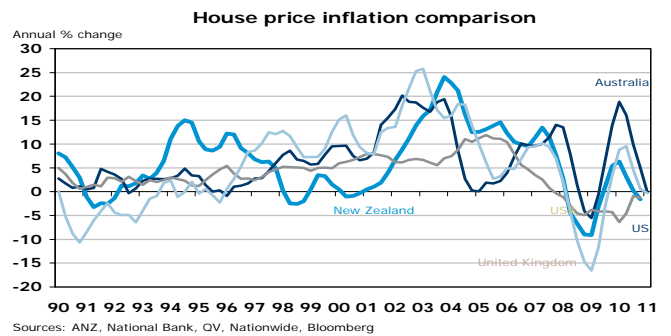
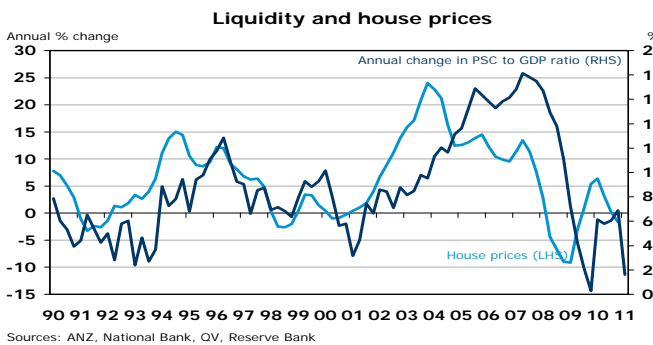
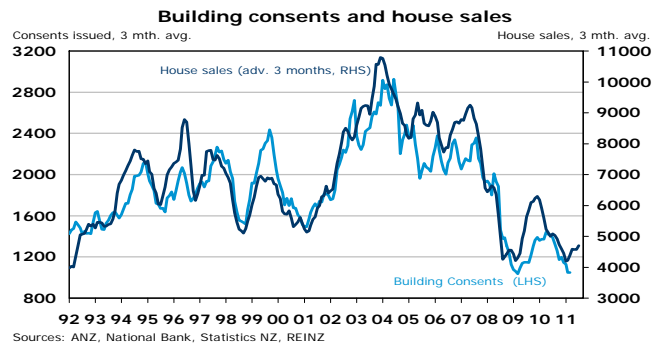
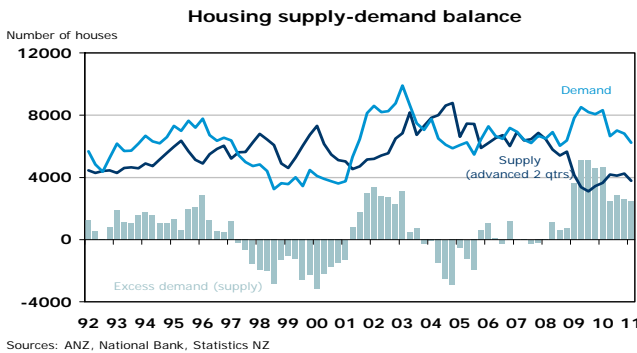
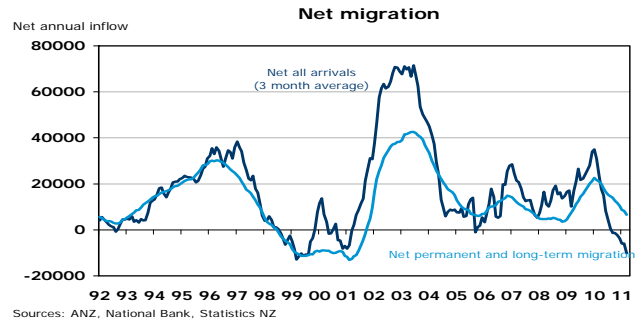
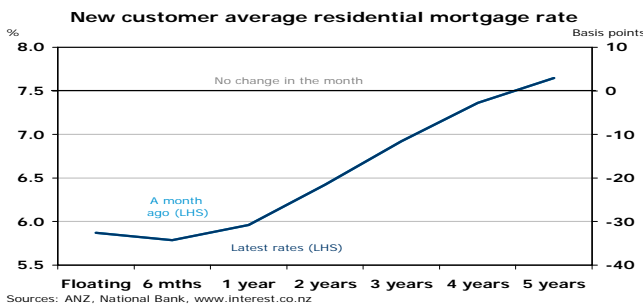
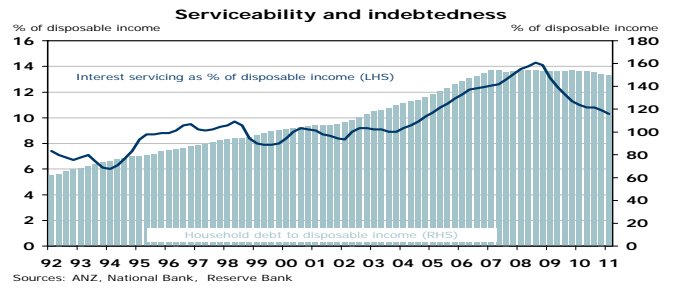
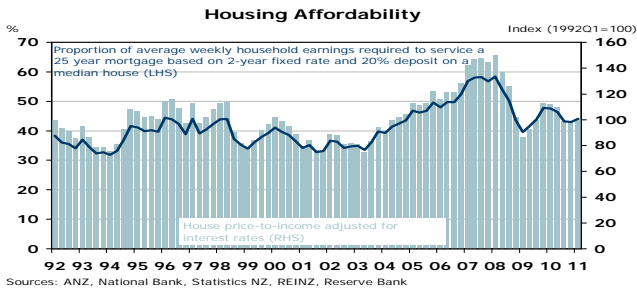
GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

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	Less affordable	↓	Little improvement over the past six months.
Serviceability / indebtedness	Saved by debt payback	↓	Debt payback still in play.
Interest rates	Poised for a change	↑	Mortgage rates were unchanged across the curve for the third successive month.
Migration	Fading	↓	Fewer immigrants and more emigrants
Supply-demand balance	Regional gaps exist	↔/↑	Lower demand and supply and a sizable gap persists.
Consents and house sales	Lifting but off low base	↔/↑	Sales picks up. Will the lift in section sales lift building consents?
Liquidity	Not moving	↓	Drop in borrowing, at a time that the economy is slowly expanding.
Globalisation	Dropping	↔	Double, or is it triple dip?
Housing supply	Drying up in Auckland	↔/↑	Time to clear market has shortened to an 18-month low.
Median rent	Upward	↑	Lifted to a 2½ year high and will go higher
On balance	Directionless	↔	Turnover recovering but prices remain listless.

PROPERTY GAUGES



ECONOMIC BACKDROP

The New Zealand economy is navigating four large shocks simultaneously: debt payback, rebalancing, the Christchurch earthquakes and high commodity prices. And this is against a fickle global backdrop. In cycling parlance, it is like having to climb three steep hills, but with a tailwind! The interaction of these shocks will create tensions for years to come. The start to economic growth in 2011 looks better than we thought it might, and the second half of the year looks strong, as improving confidence translates into actual activity. Next year is expected to be a 4 percent plus growth year, as the Christchurch rebuild kicks into gear. Better economic prospects come with bitter medicine: interest rates are set to move up. Our five year picture remains one of only moderate growth, as we continue to pay for past excesses.

THE BIG PICTURE

The New Zealand economy continues to navigate the long uphill slog of debt payback and rebalancing, helped along by the tailwind of a higher terms of trade. **An elevated level of commodity prices is helping NZ pay back its debt, and via taxes, pay for earthquake damage.** The Government has been forced to borrow more at a time when the economy as a whole needs to borrow less. Huge amounts are going to have to be spent on housing, when the economy really needs to be focusing on export growth to pay its way in the world. This is at a time when the Christchurch rebuild will absorb resources that would otherwise have been put to work elsewhere, such as addressing Auckland's housing shortage. **Both the Government and the RBNZ face several years of difficult decisions, as they weigh up competing challenges,** such as the allocation of scarce resources, or inflation versus growth. Reconstruction work of \$20-25bn is massive, equivalent to at least 10 percent of our annual GDP. Thanks to the Government's "get your cash out now" option there is clearly going to be immediate demand for as many houses on good land as can be thrown up in record time.

Meanwhile, **uncertainty continues to surround the global economy.** Recent data out of the United States has weakened, and the excuses for why it is temporary are starting to sound ever more desperate. Globally, the financial crisis in 2008 has been replaced by a sovereign debt crisis in 2011. This threatens to spark a new banking crisis in the European Union. These issues are going to be a factor for years (rather than months) to come. In addition, question marks hang over how well the Chinese economy will cope with the current policy tightening, as policymakers tackle high inflation there.

Looking forward, the picture is brighter than it may look to the person in the street. There are the obvious short-term fillips coming from the Rugby World Cup. We expect residential related activity in Christchurch to pick up towards the end of the year, though strengthening non-residential activity is a mid-2012 story. Farmers are starting to spend, not en masse, but chequebooks are starting to come out. It is not just growth that we are after, but also the right mix.

Business confidence is lofty and points to better times ahead. Of course we saw good confidence readings in mid-2010 and expectations failed to be matched by reality. We are more confident that firms' expectations are more "real" this time around, as we have had another year of progress in deleveraging.

Earthquake reconstruction will be a multi-year undertaking. We have factored in more reconstruction related activity in the latter part of 2011 than the consensus view. And the Government has already written off 5,100 homes and fast-tracked cash settlements, and significant volumes of land are ready to be built on

Given the enormity of the Christchurch situation and the backdrop of the drama being played out on the world stage, **it is easy to almost overlook the huge stimulus being provided by commodity prices.** At a time when the country is being urged to reduce its debt, sharply higher earnings potential is just what we need. The ANZ Commodity Price Index stands at a near record high. The dairy payout is phenomenal and looks promising for next season and volumes are up as well. Unlike the 2007 boom; lamb, beef and wool prices have joined the party, and just about everything else is either up to some degree or at least on par. Historically there has been a 6-9 month lag between strong commodity prices and the broader economy. Despite necessary debt reduction, it seems only a question of time before farmers really start to open their chequebooks.

Looking further out, the commodity price outlook (a secular story) looks fantastic. New Zealand currently has free trade agreements in place with 29 percent of the global population and is negotiating with another 26 percent. **India could well be the surprise upside stimulatory package of 2012** if New Zealand-China trade trends are repeated (NB: New Zealand's exports to India are currently \$0.9bn compared to \$5.6bn in China). Unlocking the story still requires hard yards. Brace for grumpy growth ahead.

MORTGAGE BORROWING STRATEGY

Mortgage rates have held steady, having not changed for at least 3 months. Although there are risks, New Zealand is now emerging as one of the few developed economies set to post above-trend growth over the next few years. With that comes the likelihood of higher interest rates. Despite this, it does not necessarily follow that now is the time to fix. Fixing does offer certainty, but the cost of doing so is higher, and our breakeven analysis shows that rates would have to move up at around the pace we expect them to in order for fixing to be worthwhile. That being the case, the decision to fix or remain floating is something of a line call.

OUR VIEW

Recent domestic economic data has improved markedly, bringing with it the likelihood that the RBNZ lifts the Official Cash Rate (OCR) by the end of the year, and we expect rates to lift soon. There are of course risks to this outlook, particularly offshore, where financial markets have been spooked by the European sovereign debt crisis and the US debt ceiling. Nonetheless, the domestic inflation outlook is now starting to look sufficiently "troubling" that we must acknowledge that the OCR is on borrowed time at 2.5 percent.

With the OCR set to rise, the question most borrowers are now asking is; is now the time to lock in a fixed rate, and if so, for how long? Without knowledge of a reader's individual circumstances, we can't make a recommendation. **But what we can do is offer our view of where interest rates may be heading in a broad sense, analyse the current set of mortgage rates on offer, and see what they imply about the future.** Individual borrowers can then compare these against their own expectations, and make a more informed decision, taking into account their own needs for flexibility or certainty. **We believe breakeven analysis is helpful when contemplating whether to fix, and if so, for how long,** as our regular readers will be aware.

Let's start with a view on where interest rates are heading in a general sense. As we noted in the opening paragraph, **RBNZ rate rises will be a key feature of the interest rate environment over the next few years, with the first hike likely soon, and we'd expect rates to gradual nudge higher after that.** The term gradually is important. We see the first move as really unwinding some of the exceptional interest rate support provided to March, which will see rates go from incredibly low to exceptionally low! At first glance, this may seem to be a reason to consider fixing. Given that fixed rates are higher than floating, it is certainly a pre-requisite (from a pure cost perspective). **But it's not necessarily a reason to do so.**

What really matters is when and how quickly rates might move up. We expect the RBNZ to lift the OCR over the coming months followed by a further 2 percent of rate rises by mid 2013. That may seem swift, and it certainly marks a change of pace relative to the inaction of the past few years. But it's not a long way away from what is implied by breakevens, as we will discuss in a moment. Furthermore, it means the OCR will peak at around 4.75 percent. This is low in level terms by historical standards, but it is a significant change from current levels, particularly with household debt levels near record highs, and more mortgage borrowers on a floating rate. It's also worth adding that Australia, often dubbed the "lucky country", has struggled to cope with just 1.75 percent of RBA rate hikes, despite the boom times. **So we need to be clear not to blindly assume that the level of interest rates is headed back to where they were prior to the global financial crisis.**

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.74%				
6 months	5.99%	5.91%	6.97%	7.09%	7.74%
1 year	5.95%	6.44%	7.03%	7.42%	7.99%
18 months	6.29%	6.66%	7.27%	7.69%	8.19%
2 years	6.49%	6.93%	7.51%	7.92%	8.41%
3 years	6.99%	7.43%	7.95%	8.22%	8.51%
4 years	7.45%	7.77%	8.14%		
5 years	7.70%				

So what do breakevens tell us? As the table above shows, **future mortgage interest rates are assumed to be higher than current rates.** Because mortgage interest rates have not changed in the past two months, the breakeven rates also remain unchanged. For example, the 1 year mortgage rate is expected to rise from its

MORTGAGE BORROWING STRATEGY

current level of 5.95 percent to 6.44 percent in 6 months, then up to 7.03 percent in 1 year, and so on until it gets to 7.99 percent in 2 years. That seems steep, but as we hinted at earlier, it isn't far away from what we expect (or for that matter – the RBNZ projected in their June forecasts). Indeed, we expect the RBNZ to raise the OCR by around 2.25 percent over the next two years. On that basis, **the decision to stay floating, or to fix for 1-2 years looks like a bit of a line call.** As noted, breakevens point to there not being much in the decision from a cost perspective. **Paying fixed costs more, but it does offer certainty. Staying floating will be cheaper now, but is likely to get more expensive later.** Risk-averse borrowers may see value in fixing for 1 year, 18 months or 2 years. But cash constrained borrowers may wish to take their chances. Over the near term, **we don't have a strong preference, and can see merit in both strategies. That is, neither seems to stand out as being clearly better than the other given our view of where the OCR is headed. What may swing the decision is your attitude to risk and your cashflow situation.**

Of course, fixing for 1-2 years costs only a little bit more. Indeed, **the 2 year mortgage interest rate is "only" 0.75 percent above the floating mortgage interest rate, and as noted, if you share our view that the RBNZ will start lifting rates later this year and into 2012, that difference is set to shrink.** By contrast, longer term fixed mortgage interest rates like the 5 year cost considerably more and in our view are too expensive to be of value. This judgement rests on our assumption that we are not likely to see the OCR move up by much more than 2 percent, so why pay a 1.96 percent premium (the difference between the floating rate and the current 5 year mortgage rate) to protect against that risk?

FEATURE ARTICLE – LABOUR MARKET TRENDS

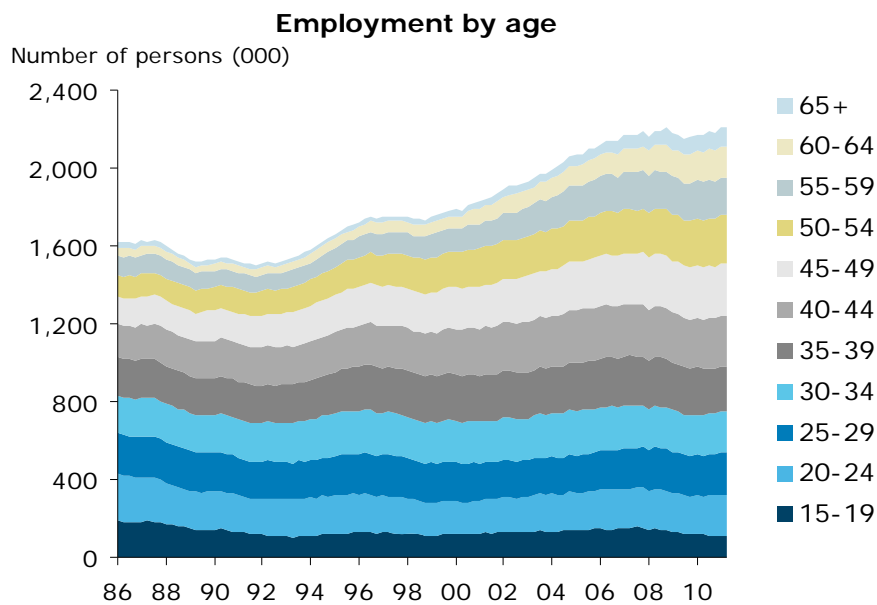
SUMMARY

The labour market is improving, slowly but surely. While we don't view it as the overarching influence on the property market, it's an influence nonetheless. It is noticeable that homeownership rates have declined the sharpest for younger age groups, as these cohorts have not been the major beneficiaries of the post early 1990s labour market recovery. Improving job prospects augurs well for a broadening in the economic recovery – providing a base to the property market. Better job prospects vis-à-vis Australia could deliver a sharp turnaround in migration flows, which in turn could provide more support for the local property market. Our ageing population will have important implications for the type (and location) of housing that will need to be put in place to meet the changing needs of an evolving population structure.

OVERVIEW

This month's feature article looks at the labour market. We don't view jobs as the binding or overarching constraint on the property market. Deleveraging and fixing the national balance sheet is the binding constraint in our view and we've written about this dynamic consistently for years. This constraint is becoming less harsh, but it's still the binding one. Some point to supply-demand balance as the more relevant issue for the housing market. It's important too but we view static one-year supply-demand balance calculations (i.e. annual consent issuance in relation to the sum of immigration and natural population increases) as misleading on two levels. It is the cumulative picture that is more relevant and swings in the average number of people per house can have huge implications for the supply-demand picture. Turning back to jobs, they directly impact on confidence, the pool of savings, household debt servicing ability and therefore, indirectly, access to credit. Hence, it's relevant and worthy of comment.

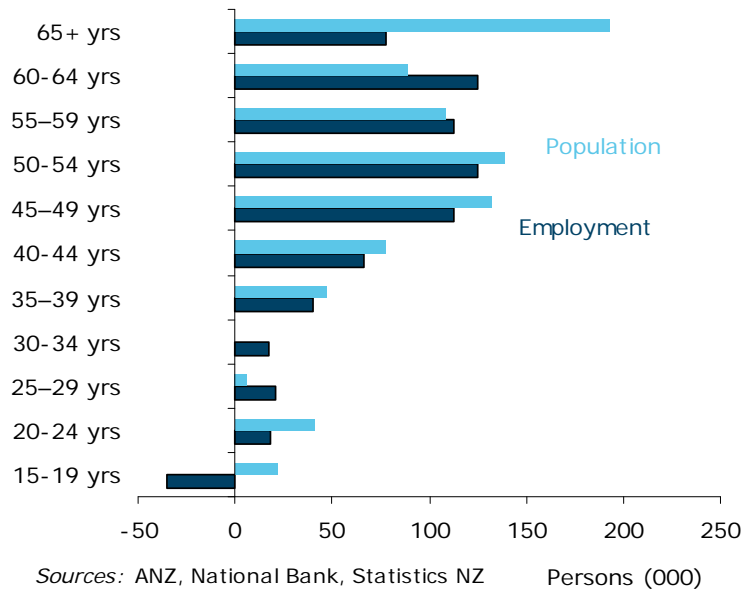
There have been some interesting secular trends over the past two decades. In the New Zealand economy, employment has increased by 45 percent since 1990, while the population of working age has increased by a third. This aggregate picture hides some cohort trends. Viewing employment by age cohort shows the strongest growth in employment has been in the 40 to 65 age group, with this group accounting for 90 percent of the increase in employment since 1990. By contrast, employment for the under 40's has failed to keep pace with population growth. Employment in the 15-19 age group has actually declined 24 percent, while the number of persons in this age bracket has increased 7 percent.



In part this reflects trends towards increased training and tertiary education, but also rising unemployment for younger age cohorts. Of the increase in the number of unemployed since 1990, approximately **half of this has come from the 15 to 24 age group**. Gains in employment have broadly tracked changes in the population structure, with the strongest gains coming for the 40 plus age group.

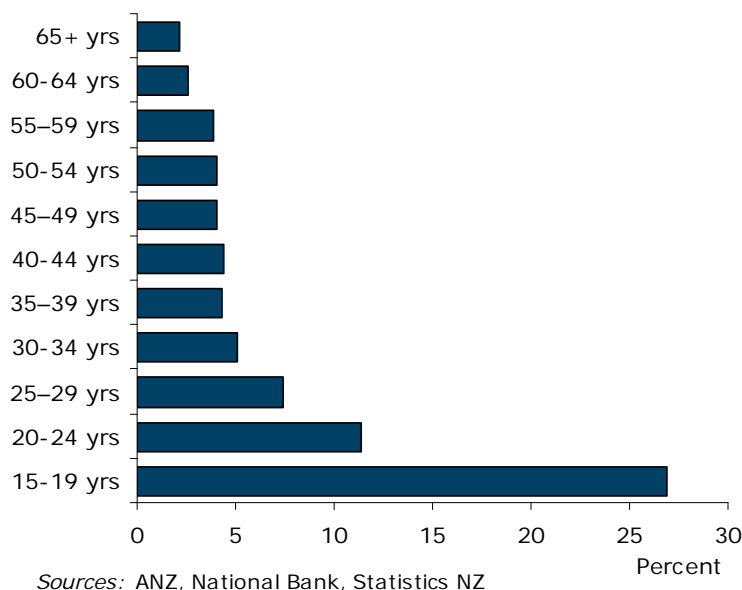
FEATURE ARTICLE – LABOUR MARKET TRENDS

Change in population and employment
1990-2011



Another interesting feature of the present labour market is that, abstracting from the 15-24 year age group, and arguably the 25-29 year group, **all other segments pretty well have close to full employment** (i.e. an unemployment rate around 5 percent). This disparity is something of a double-edged sword. The 30 plus group has the spending power, so greater job security in that pocket is healthy for the property market. The under 30 age group are typically first home buyers. However, they also have greater mobility, with the tendency to head overseas if the local labour market is weak.

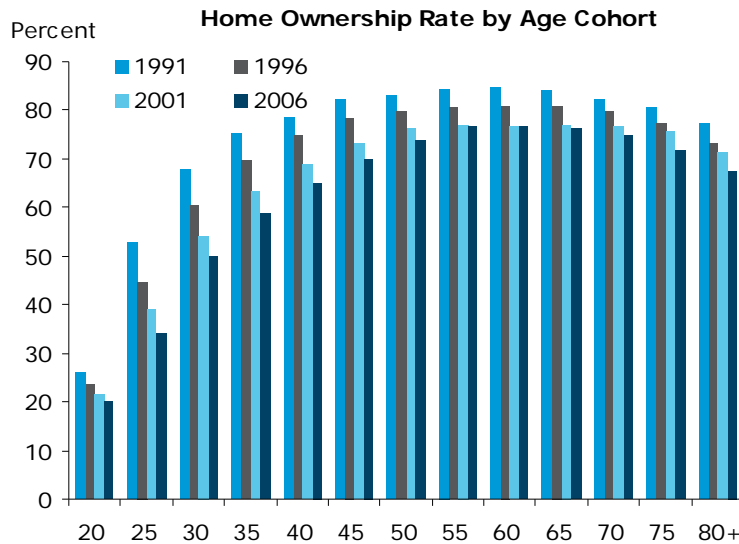
Unemployment rate by age
March 2011 quarter



There is a connection between the labour market and the housing market. Movements in employment tend to precede increases in house sales and prices. For most households, employment status is also an important determinant of home ownership.

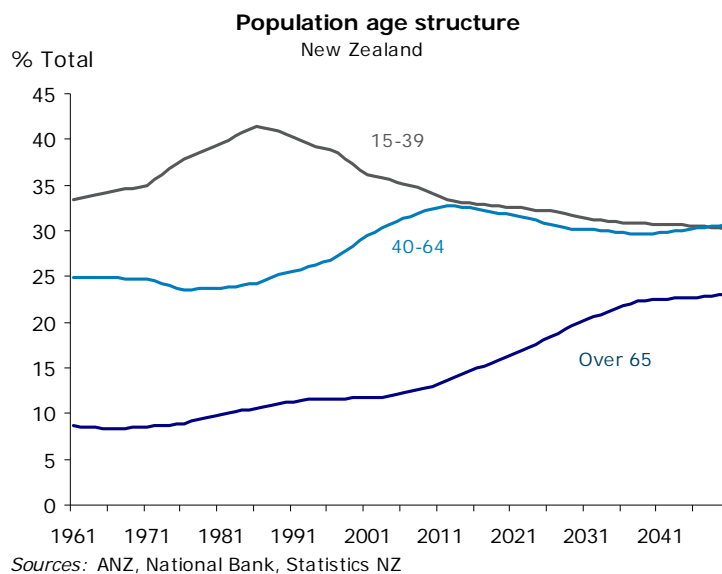
FEATURE ARTICLE – LABOUR MARKET TRENDS

Home ownership rates have steadily declined since the mid 1990s. The widespread fall in home ownership rates reflects increased use of family trusts (which have biased down reported home ownership rates) and growing numbers of rental dwellings.¹ The drop in home ownership has been particularly severe for younger households, which seems more than coincidental given the relatively poorer labour market outcomes of these groups.



Sources: ANZ, National Bank, Statistics NZ, CHRANZ

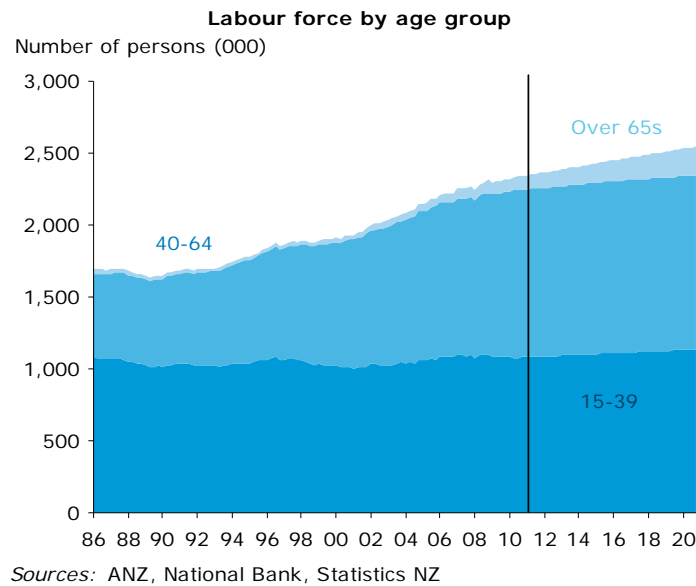
Demographic projections indicate the over 40s are have been a rising force since the early 1980s, and while the population share of this group is set to stabilise, the 40 plus age group will increase to half of the population by 2030 (from 45 percent, currently). While labour force participation rates tend to be lower for the older age cohorts, **the 40 plus age group look set to account for an increasing share of the labour force.** This, in turn, will have important implications for the type (and location) of housing that will need to be put in place to meet the changing needs of an evolving population structure.



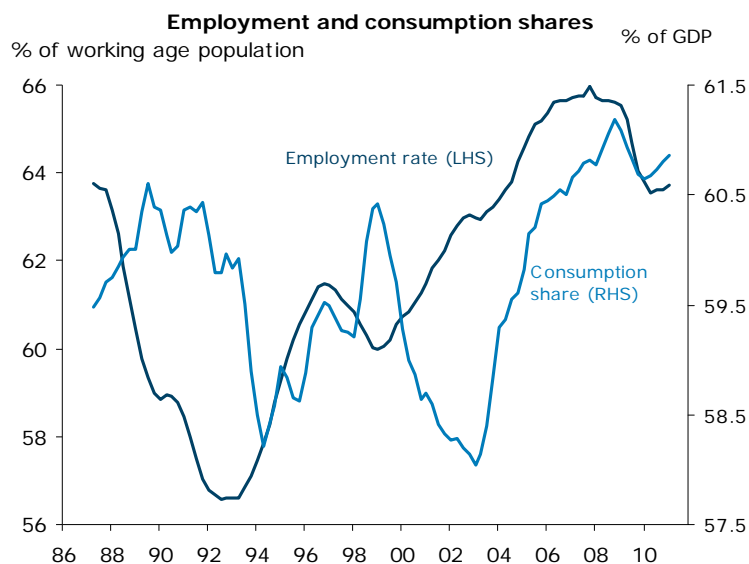
Sources: ANZ, National Bank, Statistics NZ

¹ Since 1991, the number of owner occupied dwellings has risen by nearly 20 percent, while rental dwellings have risen by two thirds.

FEATURE ARTICLE – LABOUR MARKET TRENDS



Employment is a key determinant of consumer spending, with econometric evidence confirming increases in employment tend to lead increases in private consumption volumes. The employment rich upswing from the late 1990s preceded a period of strong consumer spending and house price growth. **The deleveraging dynamic, and falls to housing equity, have seen consumer spending ease more quickly than we would have thought otherwise.**



The changing population age structure also looks to be playing a role. We know that the portion of older aged workers has gone up and is set to increase for a while yet. Could this have an impact on consumer spending given that the older age groups tend to hold most of the balance sheet wealth and have higher incomes?

Increases in employment tend to track those in private consumption spending, with our research confirming a one to one relationship between both. House prices matter too. Our econometric work also confirms that the structure of the labour force matters. In short, a one percent increase in employment for someone aged 40 or

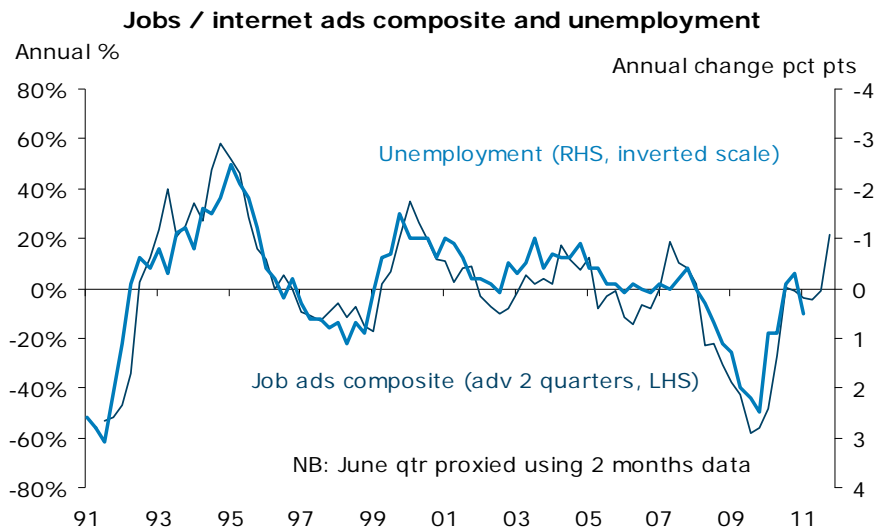
FEATURE ARTICLE – LABOUR MARKET TRENDS

over will translate into a 0.25 percent increase in consumption over and above that implied by the higher population of working age.

The outlook for jobs is improving. The official statistics tell us that the unemployment rate has wobbled around 6 to 7 percent for the past 18 months, finally settling around 6.5 percent. What we know from more timely gauges is that:

- **The number of people receiving the unemployment rate is falling.** Official numbers on the unemployment benefit (seasonally adjusted) peaked at over 65,000 in November last year. Latest figures show a fall to below 57,000. Tightening eligibility could be at play here, the decline also ties in with other timely measures such as job advertisements (refer below).
- **Lead indicators of employment are improving.** Both the National Bank's *Business Outlook* survey and NZIER's *Quarterly Survey of Business Opinion* have showed improving employment intentions over the start of the year.
- **Skill shortages are rising.** The recession saw a drop in skilled labour, partly as a result of migration to the relatively greener pastures of Australia. The latest level of online job vacancies, as compiled by the Department of Labour, has noted a 44 percent lift in skilled vacancies since the lowest point of the recession.
- **Job ads are picking up.** The ANZ job advertisement series lifted 2 percent in June, its fifth month of solid increases. While the *level* of job newspaper advertisements remains low, newspaper job ads have *grown* 37 percent since the start of the year and 22 percent since June 2010. For the past three months Christchurch has featured more newspaper vacancies than in Auckland and Wellington combined. Internet listings have lifted around 75 percent since 2009 (after collapsing the year prior).

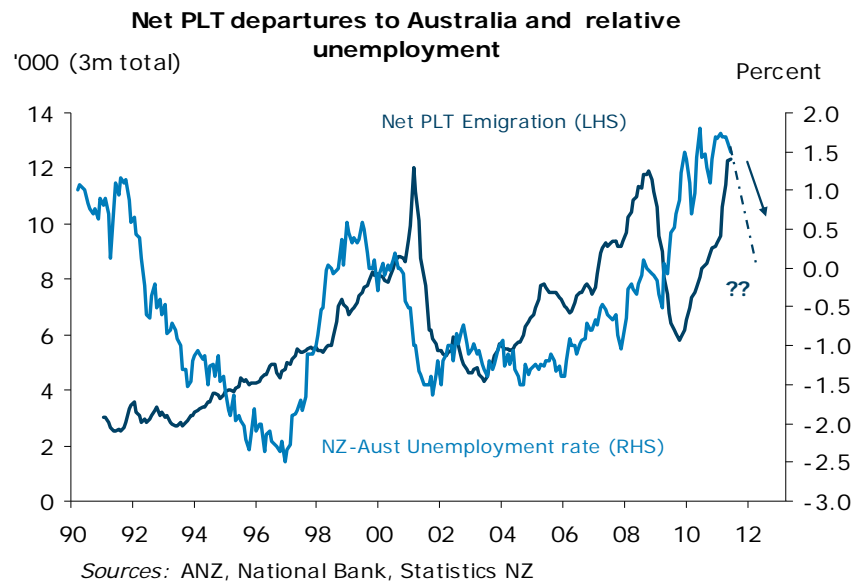
Of course we are still seeing the odd major headline of job losses. It's not one way traffic and it's easy for some indicators (i.e. job ads) to recover off low levels. Yet, looking at the collective picture and through the noise **our composite jobs ads / unemployment indicator suggests the HLFs unemployment rate will continue falling.** This will add further to incomes and help broaden the recovery process for the economy.



Sources: ANZ, National Bank, Statistics NZ

An improving outlook for jobs could help turn migration trends sharply favourable. Over the past year 20,000 more persons have left New Zealand than have arrived on a short-term and long-term basis. Many of the departures have been to Australia, with the lure of higher wages, sunnier weather and an earthquake-free environment to work. This has contributed to a net exodus of about 40,000 persons in the last 12 months. With the Australian labour market now slowing and with the gap between NZ and Australian unemployment rates set to narrow, **we could see a turnaround in migration flows towards the end of the year.**

FEATURE ARTICLE – LABOUR MARKET TRENDS



The conventional view is that an increase in migration has a larger impact on the demand than supply-side capacity, largely on account of the impact on the housing market. A population inflow from immigration could potentially add to inflation, particularly if the additional population chooses to reside in areas where housing shortages are more acute. Conversely, a turnaround in migration would also help boost labour supply and could help alleviate supply bottlenecks. Given that the labour market (rather than the housing market) is likely to be the area of greater inflation concern, we view the potential inflation impacts of a migration turnaround as being a little more balanced than if the focus was more on the housing market.

THE UPSHOT

The health of the labour market is an important determinant of property market activity. It appears more than coincidental that over the last 20 years lower jobs growth in the younger age groups have coincided with sharper falls in homeownership of these cohorts. **Slowly but surely the labour market is picking up, with improving job prospects auguring well for a broadening in the economic recovery.** Better job prospects vis-à-vis Australia could deliver a sharp turnaround in migration flows, which in turn could provide further support to the local housing market. The population is ageing, with the over 40 age bracket making up an increasing share of the labour force, and accounting for half of our population by 2030. This, in turn, will have important implications for **the type (and location) of housing that will need to be put in place** to meet the changing needs of an evolving population structure.

KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

		Mortgage Rate (%)													
		5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
Mortgage Size (\$'000)	200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
	250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
	300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
	350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
	400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
	450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
	500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
	550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
	600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
	650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
	700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
	750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
	800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
	850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
	900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for June 2011 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	14.8	-5.6	108	(+1%)	77	Prices have lifted strongly from a year ago
Auckland	3.7	-0.1	2,047	(+2%)	36	A lift in annual prices but 3mth change is flat
Waikato/BOP/Gisborne	-1.9	2.0	740	(-5%)	63	Sales down but still second highest in 18mths
Hawke's Bay	-11.1	-2.5	167	(-7%)	47	Largest fall in annual price change
Taranaki	5.0	1.2	265	(+1%)	51	Average selling price up to 3-year high
Manawatu-Whanganui	-10.7	-3.7	144	(-19%)	70	Average selling price down to 3-year low
Wellington	-6.2	-3.9	602	(+6%)	49	Sales hit the 600 mark for first time this year
Nelson-Marlborough	-7.1	-0.3	235	(+14%)	43	Strongest increase in sale numbers
Canterbury/Westland	-7.7	4.1	516	(-20%)	34	Big drop in sales but time to sell shortened
Central Otago Lakes	4.1	4.4	100	(+0%)	53	Sale numbers remain at a healthy level
Otago	-1.4	5.4	246	(+4%)	50	The strongest 3 month change in sale prices
Southland	7.0	-5.0	136	(-5%)	37	Annual growth in prices but 3mth weakness
NEW ZEALAND	2.1	0.4	5,311	(0%)	42	Small improvement on the same level of sales

Key forecasts

Economic indicators	Actual			Forecast						
	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
GDP (Ann Avg % Chg)	1.7	1.5	1.5f	2.0	3.0	3.8	4.6	4.8	4.4	4.0
CPI Inflation (%)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7	2.6	2.9
Unemployment Rate (%)	6.7	6.6	6.4f	6.1	6.0	5.7	5.5	5.4	5.3	5.3
Interest rates	Actual			Forecast (end month)						
	May 11	Jun 11	Latest	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
Official Cash Rate	2.5	2.5	2.5	2.50	2.75	3.25	3.50	3.75	4.00	4.25
90-Day Bank Bill Rate	2.7	2.7	2.7	2.7	3.1	3.7	3.8	4.2	4.3	4.8
Floating Mortgage Rate	6.0	6.1	6.1	6.1	6.3	6.8	6.9	7.0	7.1	7.4
1-Yr Fixed Mortgage Rate	6.1	6.0	6.0	6.1	6.4	6.7	6.7	7.0	7.1	7.6
2-Yr Fixed Mortgage Rate	6.5	6.5	6.5	6.5	7.0	7.3	7.4	7.7	7.7	8.1
5-Yr Fixed Mortgage Rate	7.7	7.7	7.7	7.7	8.1	8.3	8.5	8.6	8.5	8.6

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