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Editor's note

In this edition of the Reserve Bank *Bulletin*, we focus on the theme of the household sector. Household spending, saving and investment patterns strongly influence developments in the economy and financial system. Household expenditure amounts to roughly two-thirds of GDP, and lending to households – the vast bulk of which is secured on houses – accounts for just over half of total lending by New Zealand banks and other financial institutions. A substantial part of this lending needs to be funded from overseas sources, as there is a shortfall of domestically-sourced funding. The household sector's behaviour thus profoundly affects the dynamics of the business cycle, the exposures of the financial system, and the conduct of monetary policy and financial system oversight.

In the first of our three articles relating to the household sector, Phil Briggs provides a stocktake of the extensive research programme conducted in the Reserve Bank on the persistent rise in household debt, decline in the rate of household saving, and rise in house prices. These phenomena have featured starkly in economic developments in New Zealand over the past few years. The article summarises a range of research, draws out the lessons learned and likely future trends, and outlines areas for further work. The research suggests that the high levels of consumption associated with negative saving have been sustained by equity withdrawal from housing and farms, as lowly-g geared sellers have sold property to highly-g geared buyers, in the environment of strongly rising house prices.

The second article is a report by external consultants, Janice Burns and Maire Dwyer, engaged by the Reserve Bank to conduct a small-scale, exploratory study into householders' attitudes to saving, investment and wealth. We deliberately asked sociologists, rather than economists, to undertake the study, as we wanted to see if a sociologist's perspective on the issues would yield insights not so readily revealed by the economist's approach we would typically take in-house. The New Zealand experience of the household sector's behaviour, at the macroeconomic level at least, has been somewhat different to that seen in other Western countries. The report sets out some of the cultural and psychological factors that, along with the economic and policy environment, may have been influential in this experience.

In the third article, Mark Smith looks at how household-level (microeconomic) data may be used to supplement macroeconomic data in the analysis of household sector issues. Looking at variables measured at the household level, such as householder age, whether or not the householder owns the house, and the level of debt secured against a house that is owner-occupied, can enrich our understanding of the relationships evident in macro variables. Alternative explanations for macro phenomena such as the positive association between house price inflation and household expenditure may be explored and tested using such household-level data. The article sets out an example and some broad results of work we will soon be reporting in more depth in this area.

In our fourth and final article in this edition, Matthew Wright and I take a brief, mostly photographic, look at the restoration recently of the MONIAC hydraulic economic computer now installed and in working order in the Reserve Bank Museum in Wellington. This computer was designed and built by the pioneering New Zealand economist, Bill Phillips, in the 1940s. Since that time, the economic models in use for regular policymaking at the Reserve Bank have evolved considerably, taking advantage of the enormous advances in computing power. In these models too, Phillips' significant intellectual contribution to economic thinking remains apparent.

I hope you enjoy the range of articles in this edition.

Tim Ng
Editor

 **RESERVE
BANK**
MUSEUM

The Reserve Bank Museum celebrates and records New Zealand's economic and banking heritage.

New displays for 2007 include the only working example in New Zealand of the MONIAC hydro-mechanical econometric computer developed by New Zealand economist and inventor Bill Phillips in the late 1940s.

Until early 2008 the museum is also hosting an exhibition of coins from the collection of James Berry, designer of New Zealand's decimal coins, celebrating his life and the fortieth anniversary of decimalisation, and the 'five cent' dress from the 2006 World of WearableArt Awards.

Open 9.30 a.m.–4.00 p.m. weekdays.
Closed weekends, public holidays, and for special events. Please call to confirm opening hours.

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Photography by Stephen A'Court.