



New Zealand housing market

Presentation for Cabinet Economic Growth and
Infrastructure Committee

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Economic and financial challenges

- Global economy
 - *still a long way to go*
- Appreciating exchange rate
 - *near post float high*
- Drought
 - *around 0.7% of GDP*
- Fiscal Consolidation
 - *3¼% of GDP*
- Canterbury Rebuild
 - *around \$40 billion in real terms – 20% of GDP*
- Overheating Housing Market



Housing is a major source of risk ...

- To the housing sector
 - *around $\frac{3}{4}$ of household assets*
- To the banking sector
 - *mortgages are over $\frac{1}{2}$ of bank assets*
- Housing market relevant for price stability and financial stability



RBNZ Concerns

- Current escalation of house prices:
 - Increases financial system risk by increasing the probability and potential impact of a significant downward price adjustment
 - Increases inflation risk
- IMF, OECD, rating agencies also concerned



Reasons for House Price Appreciation

- Supply shortages
- Pent up demand
- Lowest mortgage interest rates since mid 1960s
- Immigration not a major influence



Supply factors are key

Christchurch

- 8,000 houses red zoned
- Insurance industry plans to build 10,000 houses

Auckland

- Current shortfall of 20,000 – 30,000 houses
- Productivity Comm identifies multiple issues:
 - Zoning and MUL
 - development costs
 - consent process
 - building costs

Weak residential investment since 2008



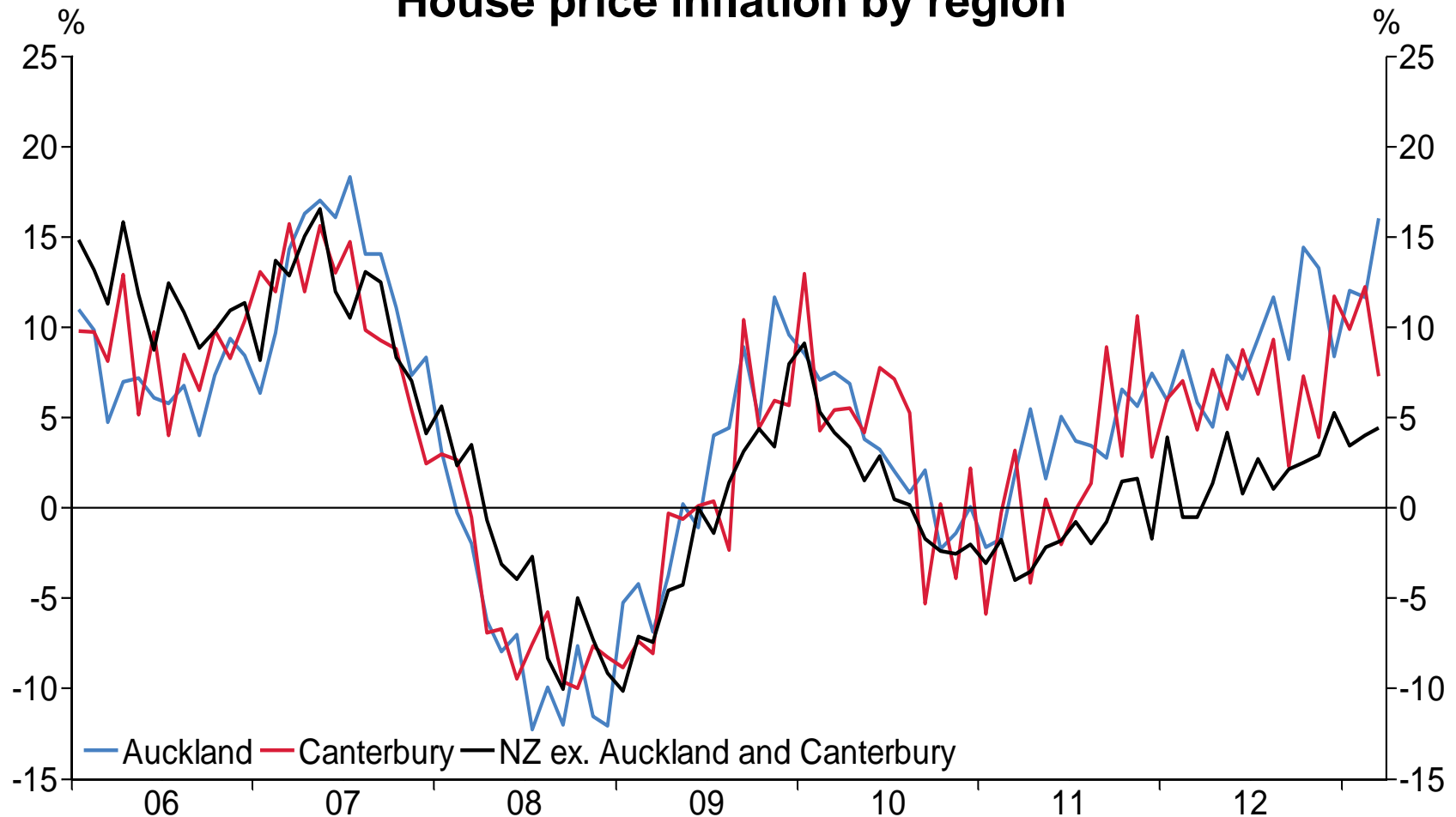
Residential investment



House prices rising, led by Auckland and Christchurch



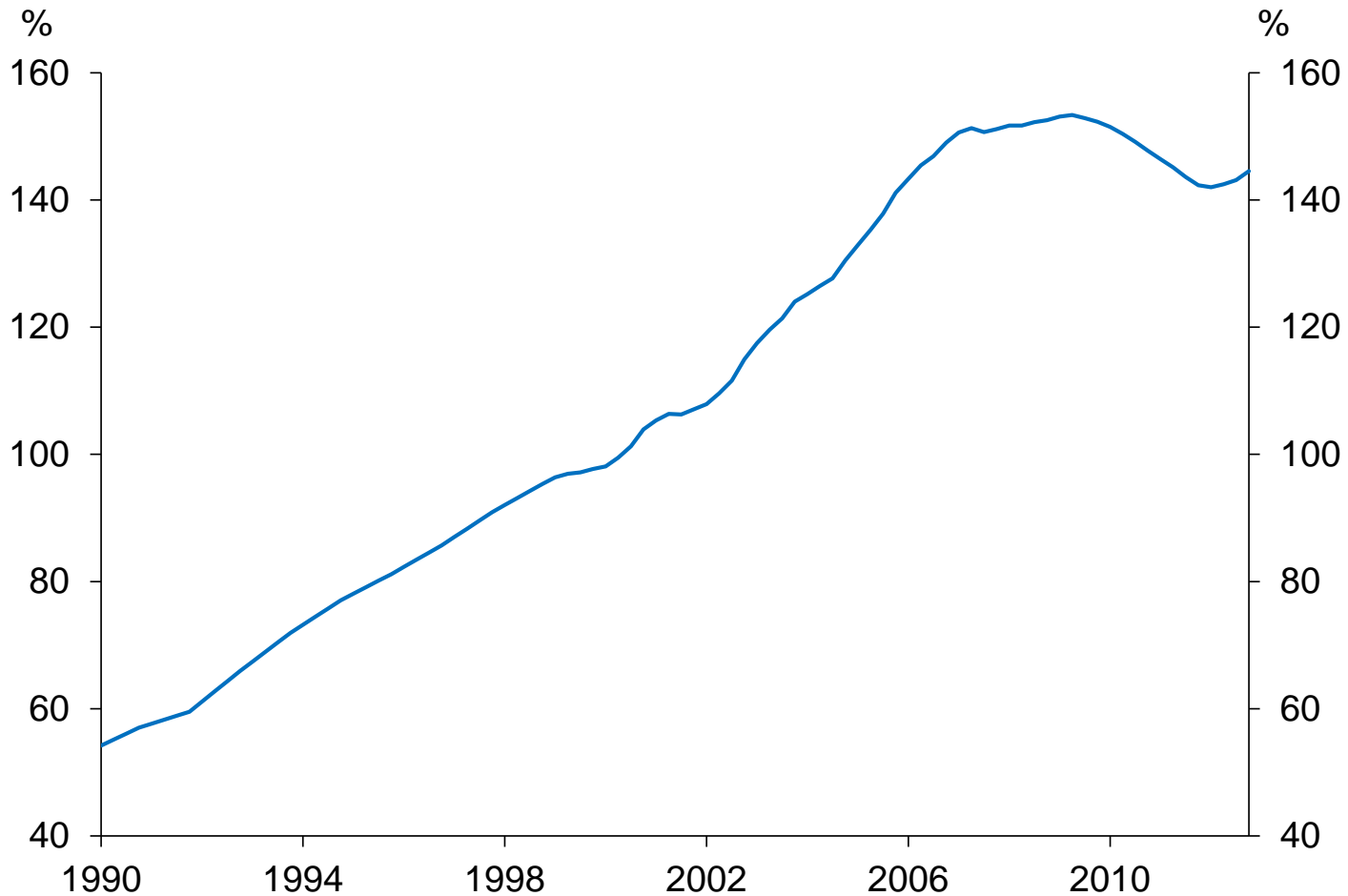
House price inflation by region





Households still highly leveraged despite post GFC correction

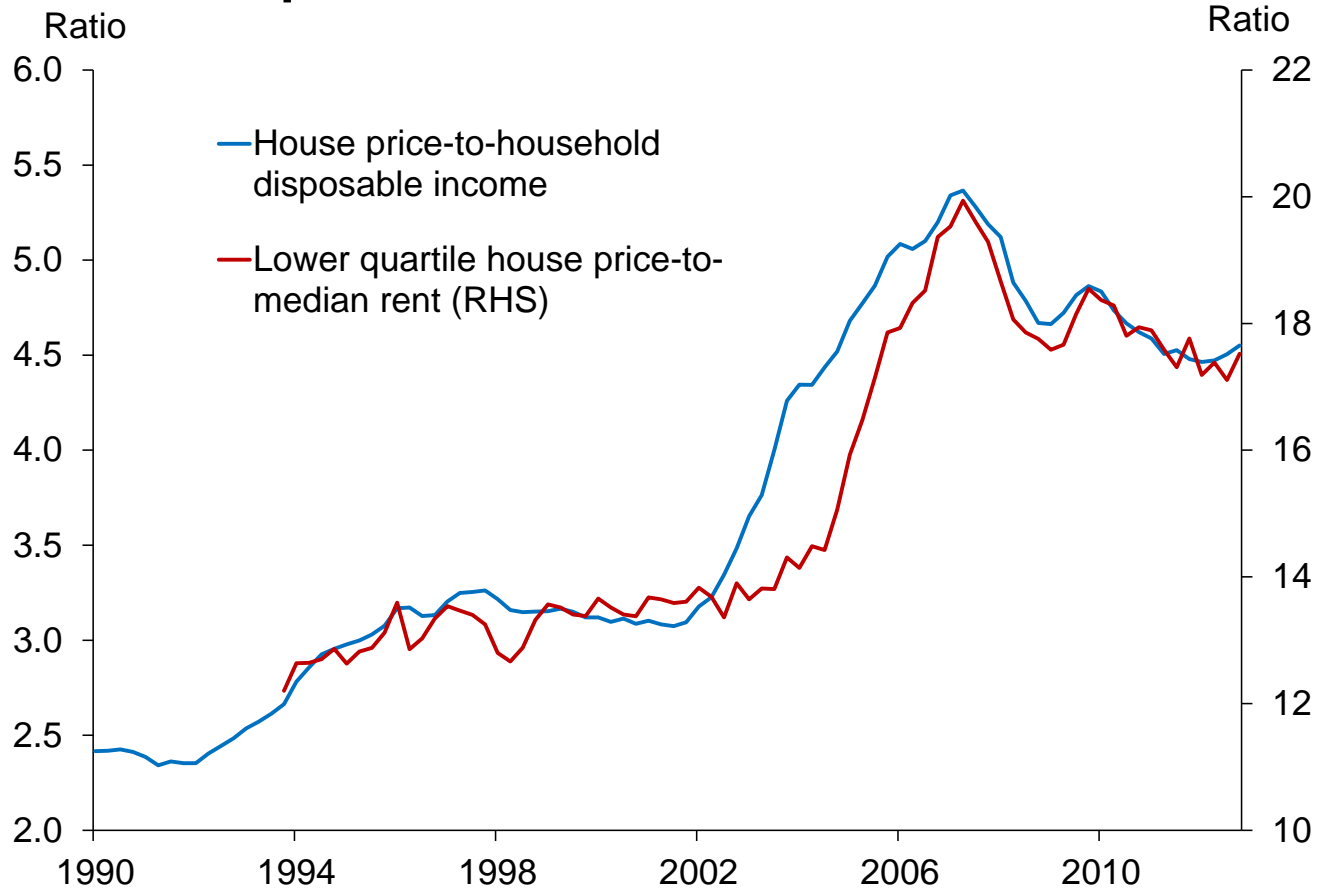
Household debt as a percent of disposable income





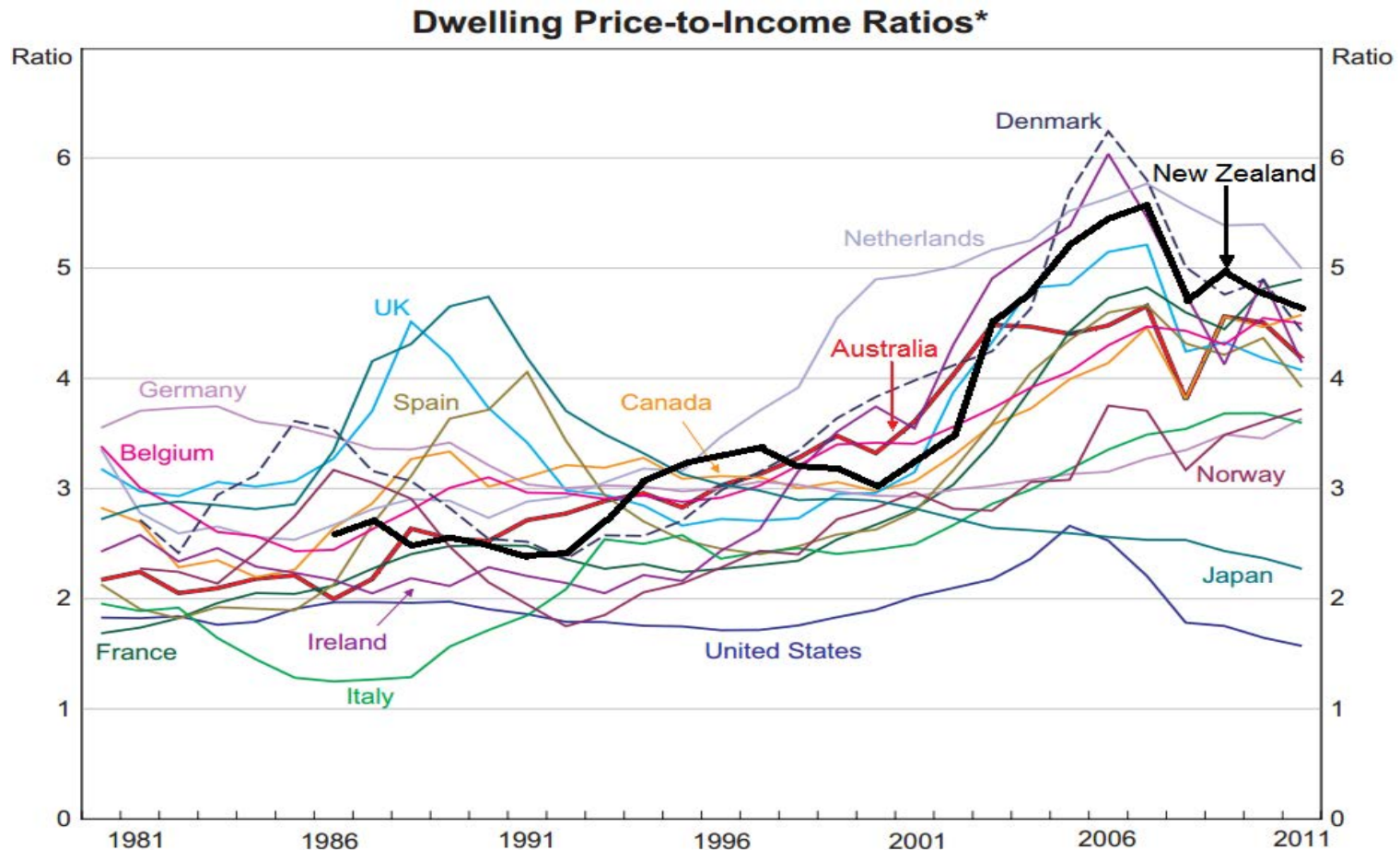
House prices already look high – increasing downside risk

House prices relative to income and rents





NZ's house price to income ratio elevated by international comparison



* Average dwelling prices to average household disposable income
Sources: BIS; Bloomberg; Canadian Real Estate Association; Halifax; Japan Real Estate Institute; OECD; Quotable Value; Realkreditttraadet; RP Data-Rismark; Thomson Reuters; United Nations; national sources (statistical agencies, central banks and government departments)



Reducing the imbalances

Supply Response

- Free up land for subdivision
- Reduce time and cost of development
- Improve productivity of building sector

Monetary policy

- Increase OCR if necessary



Reducing the imbalances

Prudential measures

- Increase bank capital requirements against high LVR lending
- Possible use of macro-prudential instruments