



Economic Research
Sydney

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New Zealand economic update

QVNZ house prices

QVNZ house price series post slowest growth in three years

According to the latest report by QVNZ, annual growth in New Zealand residential property prices decelerated to 7.7% (from 8.9% in January); this is the slowest annual growth rate since the monthly series began in 2005.

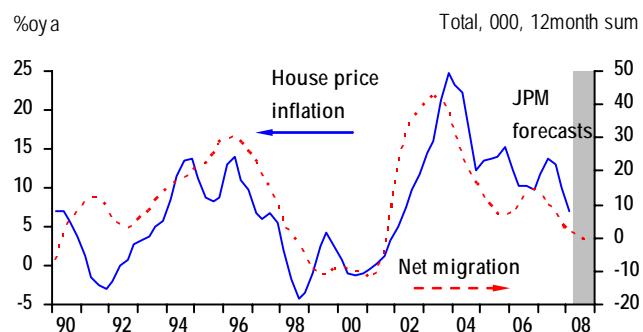
Annual growth rates fell in all major cities. The average sale price did increase marginally in February (up to NZ\$393,240 from NZ\$390,636 in January), but remains below the recent peak in October 2007. The deterioration in New Zealand's housing market comes on the back of high and rising interest rates, and reduced net-permanent migration flows. Despite the RBNZ being on hold since last July, local banks are passing on higher costs of funding (owing to the credit market turmoil), and net-permanent migration looks set to turn to a net outflow in coming months.

The deterioration in New Zealand's housing market was acknowledged in last week's monetary policy statement from the RBNZ, with the central bank incorporating a 5% decline in house prices this year in their forecasts.

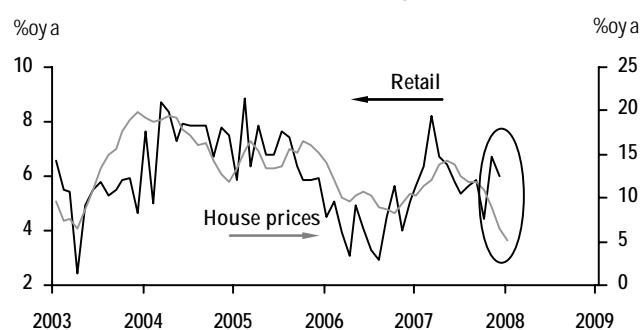
JPMorgan also expects a decline of 5% this year, but the downside risks to that forecast are growing by the week. The follow-on impact of a deteriorating housing market on consumption growth and residential investment are obvious, and point to weakening GDP growth this year and next.

The next key data-point to watch is the REINZ indicators out later in the week. The QVNZ series is a three-month moving-average, and as a result is a much smoother, but slower turning, house price series. The data is also based on settlement dated information, making it more lagged than the REINZ equivalent. Therefore, the REINZ's days to sell and volumes sold series are more timely indicators of turning points in the market - both series have recently fallen sharply and point to continued declines in house prices.

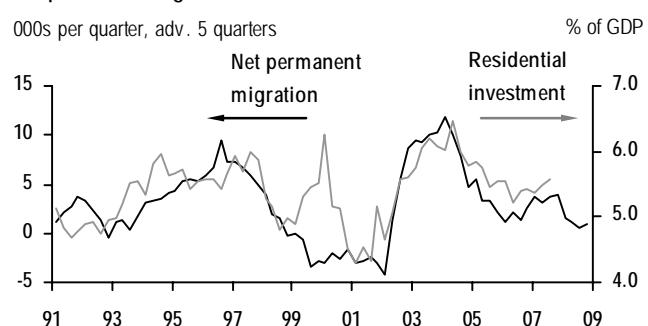
QVNZ house price inflation and net permanent migration



New Zealand: retail sales and REINZ house prices



Net permanent migration and residential investment



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