Market Update

NZ house prices: the latest

According to the folks at Quotable Value (QV), residential property prices in 2018 have, for the most part, continued their onward and upward trajectory – albeit more slowly. In the year to April, prices rose 7.6% to average $679,000. Houses in and around Auckland, which has led NZ gains for the past five years, were not so fortunate, with a 0.3% drop to $1.05m. Ouch!

National prices are still rising but not with quite as much gusto. The reasons for the slowdown, say QV, are a mix of the usual hibernation for the approaching winter, and jittery investors watching anxiously from the sidelines. Interestingly, the national rise is now being driven in regional centres as main centres come off the boil.

The RBNZ's pressing challenge

The longest run of rates inertia continues with the official cash rate unchanged at 1.75%. The broad story remains the same: the economy and labour market are going forward but price and wage growth are going absolutely nowhere. Ergo, not much reason for the RBNZ to raise rates in the short term. In fact, given NZ's continued low inflation environment, it's quite possible we won't see a rate rise until 2019.

Unemployment, you're hired

Unemployment has been falling steadily for the past few years, and just fell for the fifth consecutive quarter, to 4.4%. That's pretty-much full employment, and the lowest it's been for a decade.

So, what's wrong with this picture?

The script should read … higher employment shifts power to workers because employers scramble to hire and will pay more for good people (the immutable laws of supply and demand in action). With more income, comes more disposable cash to spend on goods and services, which eventually pops the inflation genie out of its bottle, rates rise, etc., … end of story. Unfortunately, our economy isn't following the script. Despite more demand for the supply of workers, wage growth is MIA. It rose a mere 0.3% in the quarter and barely kept up with inflation. And this, BTW, is a global phenomenon, with the US, UK, Australia and Japan facing the same challenge. It's partly due to automation, underemployment, and the timeless march of globalisation. But, primarily, a debt-laden workforce, in fear of being shown the

door if they ask for a pay rise, isn't doing too much spending. And, like its counterpart across the ditch, the RBNZ will only raise rates if the inflation genie starts getting restless. Collectively, this points to a steady-as-she-goes holding pattern on rates for some time yet.

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