

## NZ house prices rise, rate hike seen on horizon

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WELLINGTON: New Zealand's housing sector recovered to its best position in a year in September and the central bank said it would end some emergency support measures amid an improving economy, bolstering expectations of interest rate rises early next year, according to Reuters.

The country is slowly emerging from its worst recession in more than 30 years and the return of some strength and normality in both housing and finance markets has analysts looking for a similar change in the Reserve Bank of NZ's rate policy.

"While we do not expect the RBNZ to increase the cash rate until June 2010, we see the risks skewed to an earlier start," ASB Bank economist Jane Turner said on Wednesday, Oct 14.

The central bank said the decision to remove some temporary measures brought in last year to boost liquidity amid the global financial crisis had no implications for its rate policy.

It has said in its past three rate reviews that it expects to keep rates at their current record low 2.5 percent or lower until the latter part of 2010, as it waits for clear signs the economy is back on a solid footing.

Market players have already priced in a full 25 basis point rise in the first quarter since the RBNZ dropped an explicit reference to rates possibly moving lower in its Sept. 10 statement.

Financial markets were unmoved by the real estate data, although the RBNZ's move was seen as a factor in the NZ dollar moving higher to settle around US\$0.7390 after resuming local trading around US\$0.7340.

A steady stream of data has shown higher retail sales and more confident consumers and businesses. The economy grew 0.1 percent in the three months to June 30 after five consecutive quarters of contraction.

But policy makers around the world are grappling with the question of whether signs of life are due far more to government stimulus measures than a real recovery in demand, which is key to a sustainable global rebound.

The RBNZ bank last month also renewed its warnings about the danger that a return to debt-fueled housing inflation could pose to an economic recovery, echoing concerns in some parts of Asia such as South Korea and Hong Kong.

### HOUSING MARKET IMPROVING

The Real Estate Institute of NZ data showed a near 10 percent jump in house sales in September from August, and more than 46 percent on a year ago, while prices were up nearly 1 percent on the month before and 6.1 percent on a year ago.

"We're seeing a slow, but steady, appreciation in sale values, and we're now back to the prices being fetched in the corresponding period in 2007," said Real Estate Institute President Peter

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McDonald.

However, the still fragile nature of the New Zealand economy was seen in the government's fiscal accounts for the year to June 30, which showed a core deficit of NZ\$3.89 billion (US\$2.88 billion), a third higher than forecast in May, as the recession savaged the tax take and forced up expenses.

Finance Minister Bill English said the government has accelerated its borrowing to around NZ\$10 billion a year for the medium term as it faces a decade of large deficits and high debt.

He also reiterated the oft-voiced worries about the strength of the currency, which could make exports less competitive and impede a broader economic recovery.

"It is quite a concern to us for the nature of the recovery," he told a media briefing on the government's annual accounts.

In relation to financial market liquidity, the measures being changed included dropping a weekly term auction facility that banks used to borrow using a wide range of collateral, changing lending periods, scrapping a weekly bill tender and amending its weekly open market operations.

"The usage of these special facilities has been very low in the last six months," said Deputy Governor Grant Spencer. "This decision has no implications for the stance of monetary policy." - Reuters