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Saving More

Many things have changed since the GFC of 2008-09 and one day I may attempt a listing of the ones which come to mind - such things as debt aversion, heightened sensitivity to interest rates, price sensitivity but not increased aversion to investing in **residential property**. This week we received information confirming that Kiwi household savings behaviour has changed.

The following graph shows the household savings rate improving firmly from 2007 as we eased off from a big spending splurge, and moving into positive territory from the year ending March 2010. The rate has now been positive for five years though there is no increase underway. The latest rate is 2.1%, the worst rate was -7% in 2003. What will be interesting to see is if this positive rate will be sustained once people start feeling more confident about their employment and perhaps start spending some of the paper wealth gained from rising house prices in our two biggest cities. Did you know that since the start of 2009 average house **sale** prices in Auckland and Christchurch have gained 46% and 41% respectively.

Keep an eye on Auckland in the coming year. The pace of price rises looks like it might accelerate not just because of the migration boom, new outlook for low interest rates, and the worsening shortage, but a new flood of **Chinese** buying is likely as the Australian’s are on the cusp of radically tightening rules and enforcement of rules around foreign **residential property** purchasing.

Monetary Policy Easing Offshore

In another example of how central banks are having to adjust their settings in response to growth surprising on the weak side, last Friday the People’s Bank of **China** cut its two key interest rates for the first time in two years. The main rate, the One Year Benchmark Lending Rate, has been cut from 6% to 5.6% while the One Year Benchmark Deposit Rate has been cut from 3% to 2.75%.

BNZ WEEKLY OVERVIEW

The move followed news from HSBC of a further fall in their largely small **company**-focussed Purchasing Managers Index to a neutral reading of 50 in November (preliminary) from 50.4 in October. The result means no manufacturing sector growth and reinforces the chances of GDP growth this year in **China** coming in below the official target of 7.5% with the latest pace being 7.3% in the September quarter - not that one should consider the numbers to be accurate in a country where greater emphasis is given to preserving social harmony than delivering statistical accuracy.

That emphasis perhaps explains why in Brisbane last week the **Chinese** President acted politely while the US President slammed his hosts for not doing enough in his opinion to preserve the Great Barrier Reef. In just one week the status of **China** in the Pacific has been handily elevated while the US President has rubbed people the wrong way. Thankfully no-one offshore considers we have anything here of global significance for them to weigh in on or we could find ourselves indignant and challenged as well like the Australians. Except cows. Imagine how wealthy we could be if we could get **Chinese** consumers hooked on sugar-enhanced chocolate milk!

Click here for the full report (pdf).

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