



GLOBAL VIEW

3rd February 2010

FEBRUARY 2009 NEWSLETTER

Hi %%First Name%%,

All economic systems are GO, despite current unemployment and credit situations.

In our 18th August 2009 addition of Global View – Out of Intensive Care – Now to the healing process! To read this newsletter [click here](#), we talked about the many facets of the then confirmed evolving economic recovery with conjecture and optimism however as to its shape and pace both internationally and here in New Zealand.

At the same time, despite that emerging optimism, referring to the pain in one form or another almost all New Zealand families and businesses were experiencing at that time.

Now some five months later, and having entered the new decade, all indications are that our own domestic recovery has exceeded expectations in almost all areas, including the speed of such, with emerging signs that even both new employment expectation figures are surging and last but not least, the gradual freeing up of credit markets and the resultant easier access to finance.

Despite the progress made the pain felt by many then is still being felt today and will continue to linger for months or years to come for some.

The January 2010 Westpac economic overview provides a good positive summary of the key drivers of our economy over the next few years. To read this article [click here](#). The days of Dr. Bollard's dovish rhetoric and jaw biting regarding the use of OCR cuts as a mechanism to force the NZ dollar down are long gone.

The currency has settled in the low seventies and despite some recent volatility all indications are that it will continue to stay strong and coupled with recent lower than expected CPI figures clearly suggests that the RBNZ will hold on a little longer towards the middle of the year before they start the inevitable OCR tightening cycle increases from its all time low of 2.5 per cent where it has remained since April 2009. To read more on this subject [click here](#).

Here in New Zealand it's just a case now of when this will occur, how often and by how much. We must all begin to seriously ask ourselves "are we ready for rising interest rates".

In Australia the RBA lifted the OCR off a 49-year low of 3% in October last year by 25 basic points. It matched that with two more 25 point rises in November and December. Most Australian economists expect the Bank will lift the rate to 4.0 per cent this week with many predicting it could hit 6.0 per cent by the end of 2010.

The Shape of the Recovery

The RBNZ and the Government continue to be determined not to repeat the "boom bust" debt – fuelled housing cycle environment of the mid-2000s when consumption was driven by people borrowing or withdrawing equity on the strength of swiftly rising house prices with spending driven by income growth rather than the wealth effect, this new environment being more about yield and cash flow. Examples to date from the RBNZ include monetary policy initiatives and regulation such as the changes made to the liquidity policy banks must adhere to, which is contributing to our slow credit growth.

The Government is focused on "growing the revenue line". Implementing a tax system that encourages savings and investments with international business ambitions focused in the Asia Pacific region. They see their role is about changing the balance and allocation of the country's resources by re-balancing the

economy so that there is more incentive for individual Kiwis (and businesses) to stay and invest.

Elements of this paradigm shift are getting business switched on to investing in research and development and getting business to learn to accept a higher dollar. New initiatives include scaling up petroleum production, utilizing New Zealand's water resources more effectively, and more focus on food production.

The recent announcements and the rolling out of the welcome mat to foreign oil and gas explorers show that they are intent on making a bigger oil and gas sector part of its efforts to achieve a "step change" in our economic performance hoping to improve the major fiscal deficit problem and boost our economic growth.

As regards better utilization of our water resources Government support in the form of grants culminating in the recent Environment Court decision approving New Zealand's first tidal power station in Northland is the first example of major developments in this area. The project involves the installation of 200 submerged turbines with a budget of \$NZ600m in the first ten years, with \$200m estimated to be spent locally and \$200m regionally. To read more on this subject [click here](#). Pending changes to the RMA will also impact on further initiatives in this area amongst others.

As regards changes to the tax system and structural economic reform we are being conditioned to possible Budget initiatives including tax cuts funded by raising GST and the scrapping of some asset depreciation rules.

Consumer Reports

The many regular consumer confidence reports go from good to better every month with the recent ANZ – Roy Morgan report [Click here](#), highlighting a three year high in January 2010, with projections that NZ consumers are gearing up to "open the wallet" as confidence across the board improves. The January ANZ CPI figures also show that overall the index remains at lofty levels and is only 6% below its all time record high recorded in July 2008.

Volatility in the 'soft commodities' market, so important to our New Zealand economy, has eased, with the key dairy price indicators having increased for the sixth consecutive month and are now 81 percent above their low in February last year.

As regards the 'hard commodities,' of particular interest, and further confirmation that the global economy is on the mend, is the 47 and 40 percent respective increases for aluminum and sawn timber prices over nine of the last ten months, with aluminum now 65 percent above their February 2009 low and sawn timber prices 56 percent above the level recorded in March 2009. To read this article [click here](#).

The February figures out today produced the eleventh monthly increase in a row, despite a slight 2 percent fall in dairy prices.

Housing Market

Predicting, commenting on, or second guessing the housing market in New Zealand is a full time science and industry for many.

In summary after reaching their peak in late 2007 nationwide house prices fell steadily throughout 2008 by approx 10% and by year end 2009 they had recovered by approx 5% or 95% of their peak. The recovery has been strongly influenced by consumer confidence, and as consumer confidence began to grow in 2009 so did the values, initially in the main centres. Provincial centres are now 92.3 percent of their peak with rural values 93.5 percent of the 2007 market peak over all.

New dwelling building consents have risen some 43 percent since January 2009, but fell back by 2.4 percent in December. They still remain not far from the lowest levels on record back in the 1960s. Coming at a time of strong population growth, helped by an upturn in net migration inflows, there is a growing risk of a housing shortage developing in coming years.

Prices and sales volumes in all areas are expected to continue to rise slowly throughout 2010. Listings have been more abundant in provincial and rural areas with lower sales demand; however, there are emerging signs of confidence returning to the provincial markets with recent sales showing value

increases.

Despite low turnover and recent record low interest rates unfortunately house affordability has deteriorated to its worst level since November 2008.

The nationwide medium house price as measured by REINZ rose in December to a record NZ\$360,000, having risen 11 per cent from its January 2009 trough of NZ\$325,000. The average house price in the greater Auckland area varies from a high in Auckland City of \$615,450 to the low in Waitakere City of \$405,570.

Employment and unemployment

The NZ unemployment rate rose to a 9- year high of 6.5% in the September 2009 quarter, with 150,000 people unemployed. It is expected to rise slightly higher in the December quarter figures due out this week. The figure is expected to further increase to around 7% by the middle of the year. New Zealand's unemployment rate is the 10th lowest of the 30 OECD nations, well below the OECD average of 8.6%.

In comparison the unemployment rate in both US and Europe are around the 10 percent mark. By contrast Australia's unemployment rate fell in December to 5.5% from 5.6% in November, the first ever decline in the last eighteen months of all the 30 OECD nations.

Ironically the latest positive Australian figures have heightened beliefs that the RBA will further increase interest rates again this week.

Australia is one of the few developed economies not to have fallen into recession like its counterparts throughout the world. The Australian economy rode through the global downturn with remarkably little damage in 2009, and it seems to be weathering higher interest rates and the removal of fiscal stimulus handouts with equal alacrity as is the case in China. This is reassuring when nearly half of New Zealand's trade is with non-Japan Asia and Australia.

Conversely here in NZ the latest quarterly report from international recruitment company Hudson found that new staff employment expectations have grown to their highest level in nine months, buoyed by more confidence in the economy and pick-up in demand.

Strong growth was reported in the IT, telecommunications, and professional services industries, with increased expectation that residential construction will be a key driver of economic activity, as well as the \$50m national cycle way and Roads of National Significance project recently announced by the Ministry of Transport. To read this article [click here](#).

Improved access to credit

Access to credit, or lack of it, continues to be a problem particularly for business and commercial purposes. Currently almost all the remaining large finance companies have withdrawn from the market for various reasons, some struggling to adhere to the current Crown Retail Deposit Guarantee Scheme conditions.

As regards the big four Australian Banks that dominate the industry here in New Zealand all of them are rated AA and they are all rated in the Worlds top 20 Safest Banks October 2009 publication by Global Finance magazine.

In an article published last week ratings agency Moody's said that New Zealand's non-performing loans had peaked and consequently upgraded its outlook on the country's banking system to stable as the economy dragged itself out of its worst recession in 18 years. It commented that "overleveraging in the property sector helped contribute to the collapse of the finance sector over the past three years, which has left thousands of investors hundreds of millions of dollars out of pocket".

Whilst the banks are now somewhat happier to lend 80%, albeit under very cautious and tighter credit criteria, for "missionary" residential funding, lending for business and commercial purposes, particularly for new customers, is still very difficult to obtain.

History tells us that in a deregulated financial system growth in Bank lending lags economic growth.

History also tells us that in late 2009 the same big four banks lost tax avoidance cases with the IRD to the tune of \$2.22b., providing the monetary stimulus that will significantly improve the Crown accounts for the six months ended 31/12/09, to be released on February 19th. To read this article [click here](#). Considerable "damage control" is being undertaken by the banks to retain existing customers with good track records.

Whilst the current finance market dynamics remain difficult alternative and new lenders continue to emerge into the market while the Banks remain in hibernation or continue to adhere to credit criteria that is determined to find a reason why not to lend. With bank term deposit rates generally on the rise they still remain 3-4% less than that offered to investors by some first tier non bank lenders who consequently have funds available to prospective borrowers on good terms and conditions.

Global Pacific have available now a number of very competitive funding packages tailor-made for operating in today's climate, which are able to offer considerable flexibility over and above current bank lending criteria .

Key Features of the funding packages

- Genuine stand alone products.
- Loan types - Investment properties, commercial, industrial and residential, selected development funding and plant and machinery(wings, wheels and tracks)
- Transaction size - \$200k - \$6.0m
- Term 6mths – 3 y/s
- Rates 7.25% - 12.95% (depending on risk)
- Loan ratios - Up to 66% for L & B, higher for plant and machinery
 - Fees 0.5% - 2.0%
- Structuring - Capitalized interest option
 - revolving credit interest only
 - term loan – interest only
- Credit criteria - debt servicing cover on secured property should be greater than 1.3 times
 - generally clean credit required
- - defined exit strategy
- Available for properties located nationwide, with preference for main cities and major provincial centres.
- Property inspection required in most cases.

In addition to the above funding packages Global has access to a number of private lenders and privately owned finance companies that will look at second mortgage/mezzanine funding including underwrites etc.

As always to obtain funding it's a case of knowing where to go, the criteria each funder is looking for, and a proper presentation being the key essentials to success.

In today's market if we at Global cannot source funding for a particular deal, whatever the type or risk profile, then nobody can.

Should you or any of your clients or colleagues require finance of this type, or finance of any description, please call me anytime on 021 333 011, or contact me via email.

Cheers



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