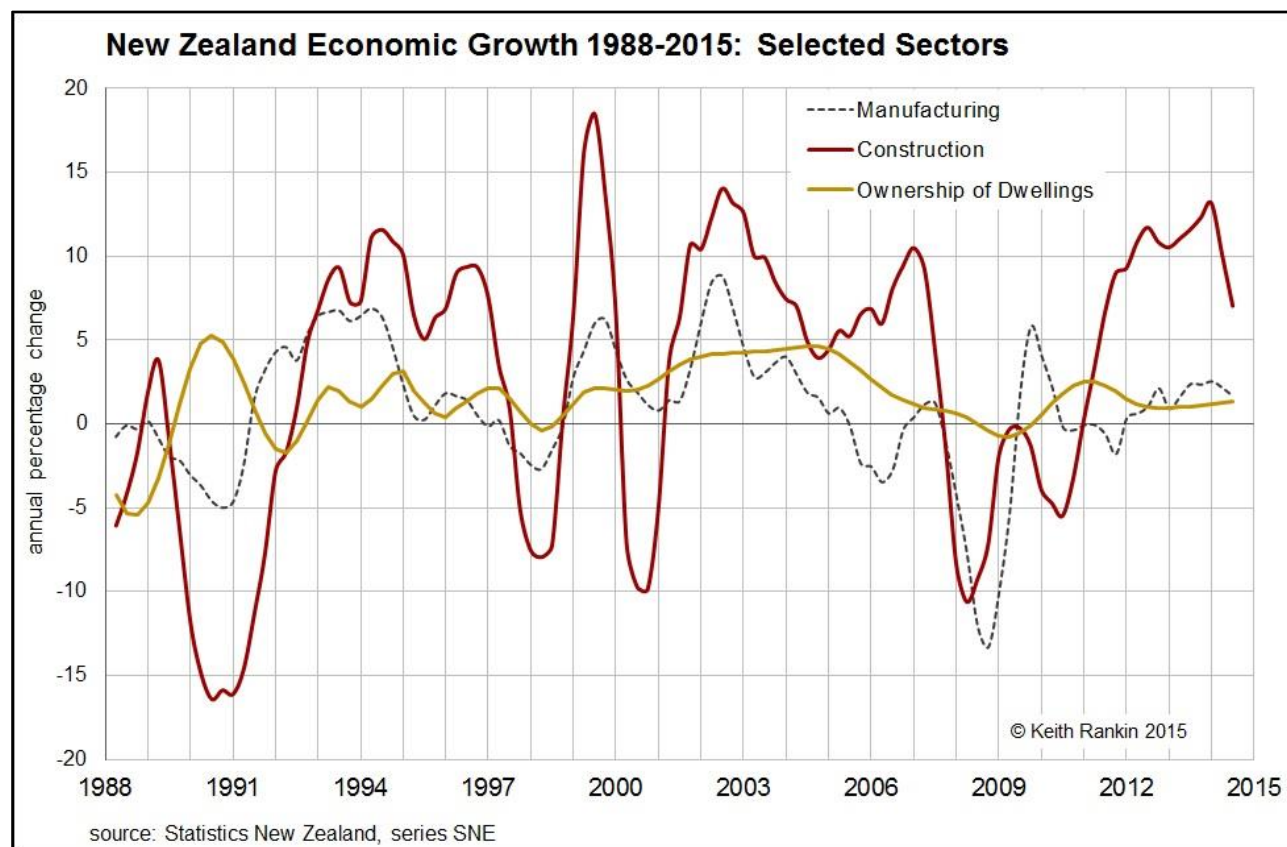


Chart for this Week: Housing-Related Growth 1988-2015

Keith Rankin, 11 November 2015



[Rock-Star Economy?](#)

New Zealand's present iteration of the national accounts – SNE – gives annual growth in quarterly increments for a wide range of sectors. Here I focus on those sectors that relate to housing.

Firstly, manufacturing acts as a kind of control sector. It's consistently the best indicator in the national accounts of the overall health of the economy (albeit in conventional production-focused terms). It tends to match overall GDP growth, but with bigger cyclical variations. It also tends to lead both the downturns and the recoveries.

So in manufacturing we see the recessions of 1991, 1998 and 2008. We also see an important dip in 2006 that was masked by somewhat contrived growth in the construction, financial and dairy sectors. And we see that manufacturing growth has been tepid in recent years, having barely recovered in the wake of the global financial crisis. In the years of overvalued exchange rates in the middle of the 1990s and 2000s, we can see the rot setting in.

Construction activity is known to be highly variable, though it would be much less so if governments followed proper countercyclical policies. For example, in the early 1990s, the huge downturn in private construction could have been countered by public works such as Auckland's south-western motorway, and overdue improvements to Auckland's rail system and electricity distribution grid. Instead, in the year of Ruth Richardson's 'Mother of all Budgets', huge numbers of unemployed workers fled to Australia. In many cases it's them and their children who got involved with petty crime (the Australian economy was not particularly flash in the early 1990s), and are now getting caught up in Australia's detention centres for overstayers and miscreant denizens.

Ownership of dwellings is a strange one to explain. Essentially it is the rental value of owner-occupied houses, and is included in the national accounts for the same reason that landlords' services are included. The national accounts try to treat all owners of occupied houses as landlords receiving rent. Thus this sector gives essentially a measure of growth of rents on residential land.

In the early 1990s we see market rental values rising as construction fell away sharply. They climbed strongly again in the early 2000s following construction contractions in 1998 and 2000. While rents have grown much less quickly this decade than house prices, the slow growth here also reflects falling proportions of owner-occupied housing.

(We might note that the construction peaks in 1997 and 2000 could be called the 'leaky peaks'. These were the core years of the 'leaky homes' fiasco.)

The rise in construction this decade is clearly linked to the Christchurch earthquake, an economic saviour for the present National-led government. Low growth in rental values – despite known and substantial rent increases in Christchurch – suggests that recent growth in house prices is not really related to a strong increase in the demand (as economists understand that term) for housing. (Demand is 'want' supported by cash.)

While there is clearly much unmet need in housing, rents can only rise in line with renters' capacity to pay rent. Likewise, the growth in construction generally has not been matched by growth in the construction of new houses that are affordable to new would-be owner-occupiers. (We note that the affordability of a house relates to lifestyle costs – eg long commutes, extended childcare – as well as to the price of a house, the cost of its maintenance, and the interest rate on the mortgage.)

There are already signs that we have just passed the peaks for this cycle in manufacturing and construction. Both of these 2014 activity peaks are looking weak compared to their peaks in 1995 and 2003. Compared to even our recent past, this decade's rock-star economy is at best faded glory.
