TONY'S VIEW

Input to your Strategy for Adapting to Challenges
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My Aim
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Not Munted

This week, you will notice that I have started running advertisements for a select group of businesses (maximum one per sector) in my publication. Just in case anyone is thinking I'm going to now go down the route of sensationalism to try and boost readership (keeping in mind my website is basic beyond belief and will stay that way), rest easy.

The TV focus will remain on delivering a reasonable view on where things are headed, explaining stuff going on around us, and dragging people away from unreasonable views on things like house prices, changes in the pace of economic growth and so on. If you detect sensationalism, let me know.

In that light, it's been a while since I ran through my list of reasons why we are not munted (stuffed for those of you not familiar with South Island terminology). So here is a list of things which neither eliminate the hits from fighting Covid-19, nor set the scene for an economic surge. But they limit the downside and give reason for believing sustained growth will return.

My intention in publishing lists like this since early this year, and emphasising them in presentations and on webinars, has been to encourage businesses to undertake restructuring rapidly, and to hang on to as many staff as possible because of underlying shortages, whilst also dragging people away from believing house prices will collapse. Enjoy.

1. The bulk of people (not all) losing their jobs are young, on below average wages with often highly variable hours and incomes in sectors like tourism, hospitality, accommodation, retail, and entertainment. They don't generally own houses.
2. The young generation affected by loss of work knows nothing other than change, new technologies, working in changing groups, multiple connections with others, and expectations of alterations. They are the most flexible and adaptable generation we have ever seen and, to use Boomer terminology, will "have a go ya' mug" at something new.
3. We entered this hit with interest rates cut 0.75% in 2019, delivering record low borrowing costs. Those costs fell further with another 0.75% cash rate cut in March, we all expect interest rates will remain low for years, and more rate cuts could even come next year. Interest rates are no longer an impediment to business investment or even home ownership for most.
4. The government has unleashed the mother of all fiscal easings with $60bn (20% of annual GDP) allocated for special assistance.
5. The mortgage deferral scheme has provided one year of space for borrowers and banks to calmly work together to resolve debt servicing issues.
6. The wage subsidy schemes have kept incomes up for hundreds of thousands of people and carried many jobs through from the initial crisis to the now better economic conditions we are experiencing.
7. Our economy entered the crisis in good financial shape with good growth momentum.
8. Our export prices have held up and the terms of trade have now risen to a record high.
9. 30% of our exports go to China and growth there has turned upward.

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10. We produce food and the world wants good quality food.
11. We have experienced a record immigration boom amounting to a net gain of 90,000 people in the year to March. With slow relaxing of visa and entry rules, monthly net migration flows from now on could even drift back up again.
12. House prices only fell 3% on average and have now recovered to sit 1.5% above March 2020 levels with few people now believing prices will fall. There is a positive house price wealth effect now running through the economy.
13. The shortage of property listings is such that young buyers are increasingly contracting for new houses to be built. The downturn in residential construction looks like being relatively minor, assisted by the government's change in Urban Development rules.
14. We spend $10bn a year on overseas travel. Those funds are now boosting, domestic travel, purchases of home furnishings, spas, pergolas etc. as we do up our nests.
15. Seven weeks of lockdown produced strong savings for most households, and we have been spending such savings since mid-May.
16. We entered this shock with little risky household debt, courtesy of the code for Responsible Lending, LVRs, and banks using high test interest rates for debt servicing calculations.
17. In the five years pre-GFC household and business debt grew about 85%. This time these debt growth rates were about 40%.
18. Banks entered this crisis with high levels of capital and Core Funding, and are awash with funding which is the opposite the GFC situation.
19. The Reserve Bank's bond buying (money printing) has converted private bond holdings to cash, and those cash holders have been looking to invest in other assets, contributing to prices rising for the likes of shares, houses, and commercial property.
20. Before the GFC, working visa migrants held 4% of jobs. This crisis that percentage is 8% and this provides a Kiwi-jobs buffer.
21. There is good growth in a number of sectors including horticulture (not just wine, Kiwifruit and apples), aged care, healthcare, space, games development, medical technology, etc.
22. Kiwi households have net worth of over $1.6 tn.
23. The government has made changes which assist business cash flows for a while, such as higher immediate expense deductions, clawing back tax to IRD, etc.
24. This recession has not been caused by the usual factors of very high interest rates and a very high exchange rate crushing farmers and other exporters.
25. Our society is midway between the extreme individualism of the USA and authoritarianism of China, and our leaders have displayed good management of our cohesiveness – though quarantine management has been sub-optimal.

Briefly, what is it I see as I cast my eyes forward?

1. The next change in bank lending practices will be an easing.
2. The next change in business capex plans will be an increase.
3. The next change in border management will be opening.
4. The next change in infectiousness will be vaccination (fingers crossed).
5. There is no interest rates threat.
6. There are shortages of labour people are becoming increasingly aware of.
7. There are many people who would like to get into New Zealand when they can.

TONY'S VIEW

New Zealand's Housing Markets

Dunedin & Queenstown Lakes

Last week I gave a talk to a large group of property investors down in Dunedin, with some people Zooming in from Central Otago. As promised, here is some analysis with a long-term focus which is relevant to the two principal housing markets down there of the city plus Queenstown Lakes District. Enjoy.

In the Queenstown Lakes area things were easing off before Covid-19 came along. We can see this best in the following two graphs. The first one compares the 12-month average of the area's House Price Index with that for NZ overall. The trend is upward over time. But the cycle peaked early in 2019 and price gains since then have been less than the NZ average. That is what the second graph shows explicitly with the blue line moving below the zero horizontal.

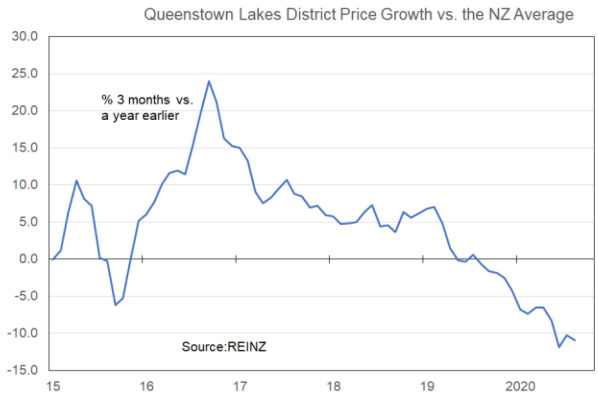
Queenstown Lakes District

Above average

Below average

Ratio of average price compared with all NZ

Source:REINZ



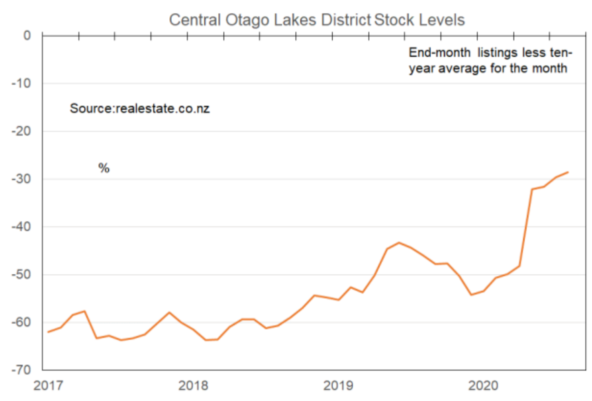
Prices are still a little bit above trend and history suggests to us that the area will continue to under-perform for perhaps the next few years.

More recently we can see that prices in the three months to August were down by 1.9% from a year earlier whereas all NZ recorded a gain of 9.0%. No other region shows a decline, with the next weakest being Nelson with a 6.2% gain.

In this post-lockdown period, I have taken to comparing the most recent month with March. For all New Zealand, prices are ahead by 1.5%. But for Queenstown Lakes they are down by 6.9%. Three other locations have declines, being Manawatu-Wanganui 4.2%, Dunedin 4.8%, and Southland 1.0%.

Prices have weakened in the district.

Now consider listings. Has the market been flooded with properties in Queenstown? The stock of listings at the end of August was 29% below the average for August over the past ten years. That sounds tight – until you realise that for all New Zealand August listings were 35% below average, and the country excluding Auckland 48% - which might be a more relevant comparison in this context.



In August the number of listings in Queenstown/Central Otago area was ahead 17% or 111 from a year ago at 757 versus 646. But for all

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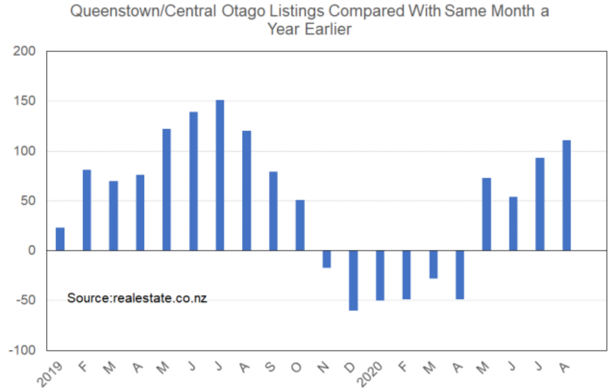
Property Investment Retirement Planning Wealth Creation

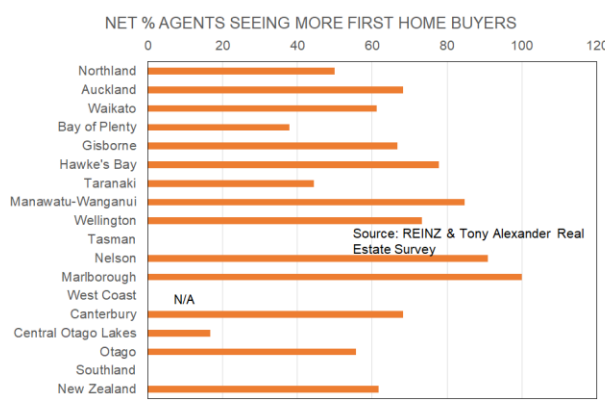
NZ listings were down 13%, with ex-Auckland NZ down by 17%. There has been an increase in listings in Queenstown/Central Otago. Southland and Hawkes Bay have listings ahead by about 5%, but for all other regions, listings are down.



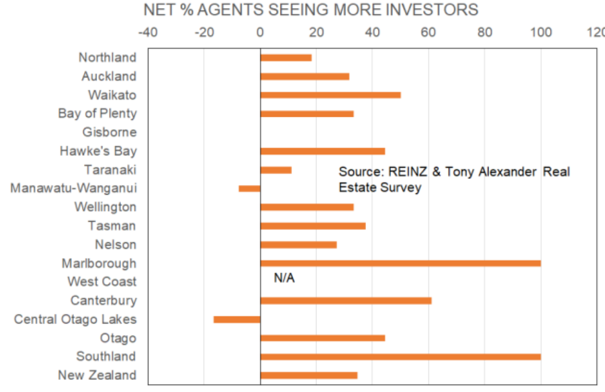
Finally, sales. In the three months to August, sales of dwellings in Queenstown Lakes District were ahead 20% from a year ago, which is about the same as the 22% nationwide gain and 18% ex-Auckland gain. However, looking at sales delivers us an insight into the situation on the ground in Queenstown which our examinations of prices and listings have not been able to reveal.

In rough seasonally adjusted terms, nationwide dwelling sales in the three months to August were ahead 83% from the three months to May. Ex-Auckland the rise was 85%. But for Queenstown Lakes District there was a rise of 136%. There has been a strong recovery in sales activity over the past three months.

Where is the strength likely to be coming from? It is not really first home buyers. We can see that from a monthly survey I run with REINZ of licensed real estate agents all around New Zealand. Asked whether they are seeing more or fewer first home buyers, in September a net 62% nationwide said they are. But this was just a net 17% in Queenstown.



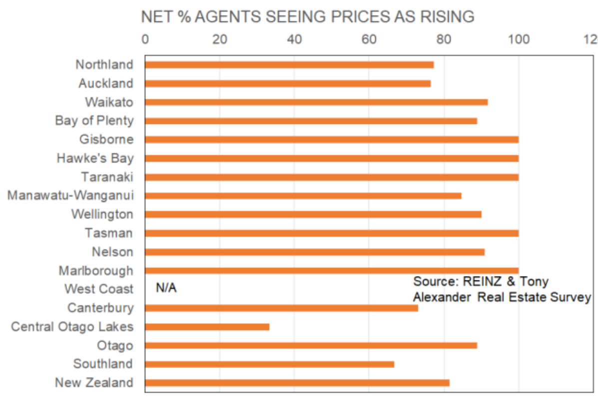
Asked whether they are seeing more investors, a net 35% nationwide said they are, but a net 17% in Queenstown said they are not.



Demand for property in the district is likely to be coming from people seeking holiday homes, people buying who had given up on the idea of buying some years ago, and people bringing forward in time purchases they had planned to make for retirement in maybe 3-5 years time.

Will the strength of demand cause a price spike? That is unlikely given the poor financial condition of many business owners in the district and the ongoing absence of foreign tourists until the borders reopen. And we can see that on the ground real estate agents are not seeing prices rising to any firm degree.

In September whereas a net 81% of agents nationwide said they see prices as rising, for Queenstown this was just 33%.

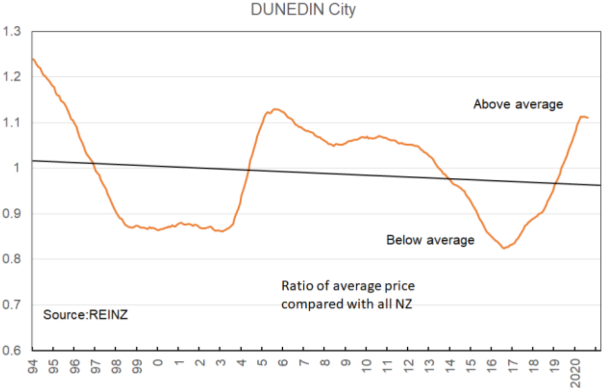


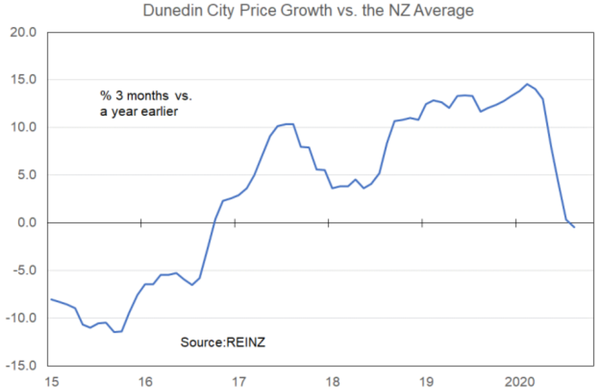
How does one best interpret the current market in the Queenstown Lakes District? A blip on a long-term upward trend evidenced in the first graph in this section starting in 1994, and the locations massively superior population growth shown in this final graph. It is hard to imagine that the long-term factors underpinning this growth will disappear as a result of the temporary impact of fighting Covid-19.

What about Dunedin City? I'll keep this short in the interests of space. There is a near unnoticeable decline in prices versus the NZ-wide average, but the city has been enjoying price growth above average since 2016 – shown in the second graph below where the blue line is above zero.

That period of superior price performance has ended. The end seems sudden. Is something dire underway?

Prices in the three months to August were ahead 8.6% from a year ago. But between March and August they have fallen by 4.8%. The data seem unusually volatile in this Covid environment – so I am taking that firmly negative result with a grain of salt for now.





The two horizontal bar graphs above showing data from the REINZ & Tony Alexander Real Estate Survey show there is good interest from both first home buyers and investors in Dunedin. There is also a universal perception by agents that FOMO (fear of missing out) is in play for buyers.

There is no flood of listings onto the market from worried sellers. Listings at the end of August were 51% below the August average for the past ten years versus 48% below average for all NZ excluding Auckland. Listings were also 12% down from a year earlier versus a 17% ex-Auckland decline.

Sales in the three months to August were ahead by 22% nationwide but just 8% in Dunedin. Seasonally adjusted sales have only recovered 60% in the past three months versus 83% nationwide. But then they only fell 35% in the three months to May compared with a 50% NZ-wide pullback.

All up, it simply looks like Dunedin has completed its cyclical price catch-up with the country overall, and history suggests it will now go through a period of price gains below the national average for a few years.

Interest Rates

Tview Premium contains detailed graphs and analysis of rate alternatives for borrowers and term depositors.

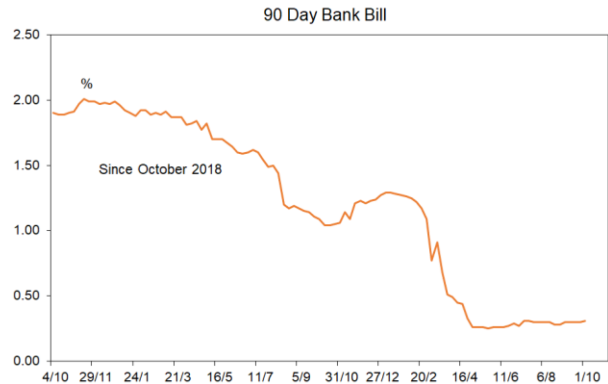
During the week an emailer asked the following question.

What are your views on taxation on term deposits? TDs are taxed at 28-33%, which seems very high, and especially in this low interest rate environment, will encourage speculation in the property market. Isn't saving something that is to be encouraged, and given those tax rates, it certainly isn't attractive at present.

I replied as follows.

I can't see a good reason for encouraging more people to save in banks when the banks are not short of funds in any way, and as regards simply boosting the returns of savers, that is the opposite of what the Reserve Bank wants and would act as encouragement for them to cut the official cash rate further. They want people not to save and to spend instead during this weak environment. Any decision regarding taxation on a particular financial asset would need to be made during more normal times of steady, neutral monetary policy and as part of a wider review of relative returns between investment assets and desirability of funds flowing to one in preference to the other.

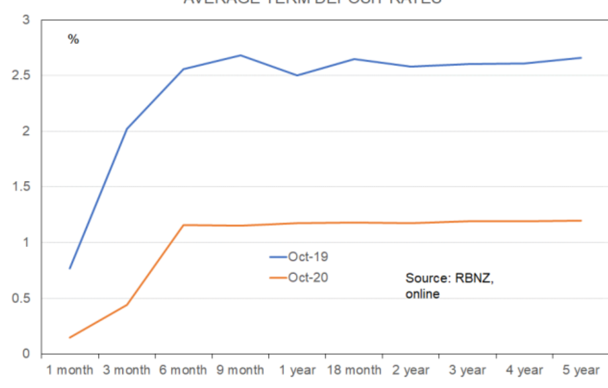
This week, frankly, nothing of much interest happened in the wholesale interest rates market. The 90-day bank bill yield remained at about the 0.3% it has been at since April. The two-year swap rate, which is of relevance to two-year fixed bank lending rates, sits near 0.05% from 0.02% last week. But unlike the steady bill yields of the past five months, this is down from 0.3% in April.



Why this swap rate decline when bill yields have held steady? Increased expectations of monetary policy remaining extremely accommodative for years, with potential for the cash rate going negative in the first half of next year.

However, I remain sceptical of the OCR in fact falling to below 0% on the basis of the folllowing.

- Absence of evidence that negative rates have had much positive growth or inflation impact offshore.
- Absence of any cuts to negative cash rates by the four central banks running them, since the Covid-19 crisis started.
- The growing run of positive data in New Zealand in areas of construction, employment, residential real estate, farming, and business sentiment.
- Ranking by businesses of interest rates and credit access as the absolute least of their concerns.



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