TONY'S VIEW

Input to your Strategy for Adapting to Challenges
Feel free to pass on to friends and clients wanting independent economic commentary

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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.

Making WFH Work

Each month I invite Tony's View readers to give their views on whether they plan spending more or less over the next 3-6 months, on what and why. I also usually include an extra question at the end, and in the most recent survey asked people this question.

What have you found works and does not work for effectively doing your job from home rather than where it was located pre-Covid?

Some 56 pages worth of responses came in and following is a summary of the main points which people made. The key themes included these.

1. Making working from home effective requires discipline involving creation of a distinct workspace, limiting work hours, taking breaks, staying in touch with co-workers, and being more task-oriented than in an office environment.
2. Managers risk losing staff morale, work culture, and the benefits of collaboration unless they have a well-defined plan for reinforcing all these things.
3. Working from home does not suit all people. Senior and long-serving staff tend to handle it well, but newer staff risk losing the benefits of learning in a busy environment with more experienced people and managers at hand.
4. It rarely works with small children in the house.

Communication with staff can suffer
"Working from home is significantly impacting mental wellbeing through the loss of human connection and an increasing expectation to work normal office hours but without the break that a commute provides."
"… it's putting the business back into silos, and doesn't allow for easy quick conversations that you would get in an office environment."
"Isolation is a problem."
"Does not work when it comes to managing my key managers- we need to be in same room to help us all navigate these most challenging of times."
"I hate not being in a busy energetic office environment with a sales team to keep each other motivated."
"The worth of the job becomes less since the work environment was the biggest attractor to this job."
"It is harder to keep control of staff workloads when people are isolated. Some efficiencies appear to be lost as a result."
"You can lose a day checking in with all staff to make sure their mental health is ok."
Training new staff is very difficult working remotely. We're even more hesitant to hire new staff at the moment."
"Junior staff have less confidence making small decisions, and need more contact time."
"It's difficult for newer & younger staff to be productive working from home. They simply haven't had time to learn our awful cumbersome technological systems & therefore they reach a roadblock in not being able to process work. If they are in the office there's always someone with more experience that can immediately point them in the right direction so that they can keep working."
"Face to face meetings for creativity, conferences, problem solving can't be beaten."
"Less pressure so less productive."

- It is harder to gauge amongst staff where roadblocks to processes lie, and then to fix them. Getting the vibe of staff morale is more difficult.
- The engagement of staff can suffer.
- Staff learn less from superiors and others.
- It is harder to deal with employees who do not self-manage well.

Possible Solutions
- "Have a team phone call or zoom to start the day, covering current work, challenges, wins, and daily goals."
- "Zoom board meetings are problematic - you miss the non-verbal communication clues and true debate is stifled. A fellow director advised

me to never make a crunch decision over Zoom."

- "If you're a people person, all day long zoom with other colleagues, set up on non-working screen so that you have 'company'"
- A number of respondents noted the benefit of having dual screens.

Communication with customers can suffer

"The passion and the relationships with staff and customers are compromised - it is very much transactional."
"Lack of face to face meetings means building new business relationships is difficult."
"Clients still prefer a formal office environment and face to face contact."
"Deeper trusting client relationships need more than periodic zoom calls."

Possible Solutions

- "My partner and I are both sole traders, clearly it significantly lowers our costs. However, without human interaction with other people in our respective work environments we've always made sure we engage in industry events and social circles to keep ourselves up to date and maintain networks."
- Don't treat them the same way you would a normal face to face meeting. Different facilitation techniques are needed to get best results.

Maintaining One's WFH Focus

- Be disciplined. Try to work fixed hours and have a number of different rest breaks to recharge.
- "I spend half an hour each morning planning my day, including time away from my desk."
- "… you need to force yourself to leave the house for a change of scenery."
  -go down the road to a local café for a coffee
  -walk around the block
  -go for a run or quick gym session
  -ring a colleague for a chat
- "Keep dressing well, maintaining similar office routines re start/finish, coffee breaks etc."
- "I set 45-minute-long timers to keep me focussed in chunks throughout the workday."
- "Planning out your day and letting family household members know I'm not available in advance."
- "Turn off the video on Zoom calls to reduce screen fatigue."

Workspace

"Living in a shared house with multiple people working from home means workspace is at a premium - 5 young professionals trying to work off one dining table is difficult."
Presence of small children significantly negatively impacts productivity."
"I have found I can work at 80-90% efficiency from home, but the distraction factor from young kids and wife is massive, and am looking forward to returning to the office."
"Lack of proper printing/scanning equipment is a downside."

Possible Solutions

- "We bought a Portacom office building to work from. Has been a big help to separate work and personal spaces."
- "You need a good desk/chair/monitor setup. Just a laptop and an uncomfortable chair is a waste of time."
- "I tided and packed away my "desk" each night, I was working at my dining table. It helped me disconnect from work at the end of the day and reclaim the space again as my home."

Personal Benefits of Working from Home

1. Absence of commuting saves time, is better for the planet, and reduces stress associated with daily trying to avoid peak flows.
2. More family interaction and cohesion.
3. For some people there are fewer distractions working from home than in the office.
4. Money saved not buying lunch each day, though some people did note deteriorating eating habits.
5. The ability to work split shifts built around other activities such as helping kids with homework.
6. Small business operators save on rent and other workplace costs.
7. Ability to get household chores done throughout the day makes the evenings less stressful."
8. "Avoiding winter illness – but the trade-off is social isolation."

Personal Downsides of WFH

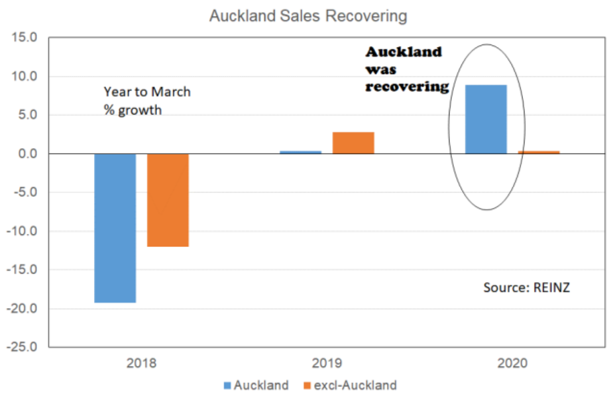
1. People can expect you to be available all hours.
2. Distractions from other household members, the neighbour's renovations.
3. Reduced exchange and development of ideas with colleagues which happen more easily when people can chat in an open space.
4. Merging of work and home lives can be mentally draining and feelings of getting a break can disappear if work is ever-present. "Feels like I live at work, and never get a break."
5. Increased utilities costs (e.g. electricity)
6. Establishing relationships with new service providers like a hairdresser, dentist, mechanic etc. close to home rather than work.

TONY’S VIEW

New Zealand’s Housing Markets

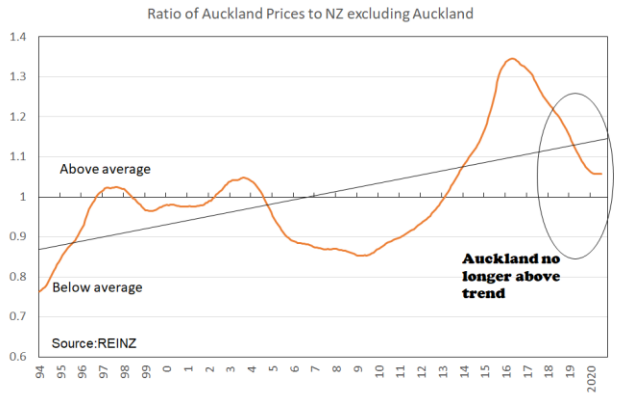
The Nationwide Housing Picture

In the year leading into the shock from Covid-19, the number of properties being sold in New Zealand was starting to trend up, with a flattening outside of Auckland being more than offset by a recovery in the large Auckland market from early in 2019. Annual sales nationwide had risen 2.8% in the year to March with Auckland sales rising 9% and sales flat elsewhere.

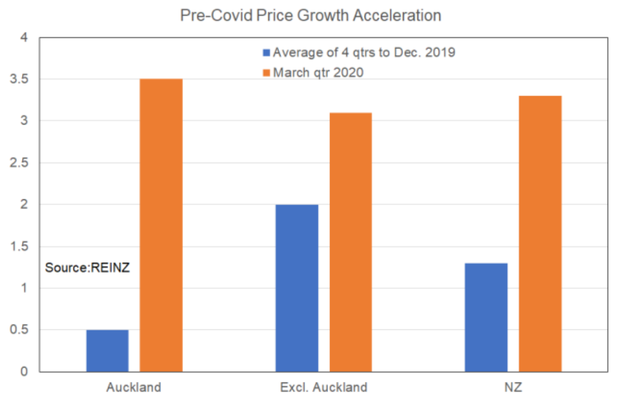


The key forces in play were these.

1. A 0.75% cut in the official cash rate mid-2019 driving mortgage interest rates and bank term deposit rates to record lows, e.g. 2-year fixed rates fell from 4.3% to 3%.
2. Auckland prices looking less expensive compared with the regions than back in 2016 when the regional price catch-up to Auckland’s earlier surge got underway.
3. Some regions looking expensive and losing momentum.
4. Strong net migration inflows believe to be just over 40,000 in calendar 2019 but subsequently revealed by Statistics NZ to be a record 69,000.
5. Firmly improving business and consumer sentiment levels after an early-2019 slump.
6. Firm jobs growth above 2% p.a. and low unemployment at 4.2%.
7. Accelerating growth in housing lending hitting 7.2% annual growth in February.



The pace of growth in house prices around NZ was accelerating. In the March quarter, average prices as measured by the REINZ House Price Index rose by 3.3% compared with quarterly rises which had averaged 1.3% a quarter for the previous four quarters covering calendar 2019. For Auckland the price growth lift was to 3.5% from only 0.5% while for the rest of NZ the gain was a smaller lift to 3.1% from an average 2.0%.



Strength seen in prices and sales was not leading to improving listing numbers ahead of Covid-19. In fact, in the three months to February the number of new listings received was down by 4% from a year earlier. The nationwide stock of listings at the end of February was just 19,325, a 21% fall from a year earlier, and down 63% from ten years ago. Auckland and non-Auckland listings falls were about the same for the past year. But compare with ten years back Auckland listings were down 55% but they were 70% lower for the rest of New Zealand. So many people in recent years have turned their attention to the regional housing markets that stock has all but dried up.

In fact, since 2008, on average the number of sales in Auckland has been 2.8 times listings at the end of all months whereas the NZ average has been 2.2 times. But in February, Auckland’s ratio was slightly stronger (tighter supply) than average at 3.2 times, but for the rest of New Zealand things were exceedingly tight. Sales for the year to February outside of Auckland were 4.6 times the year's sales.

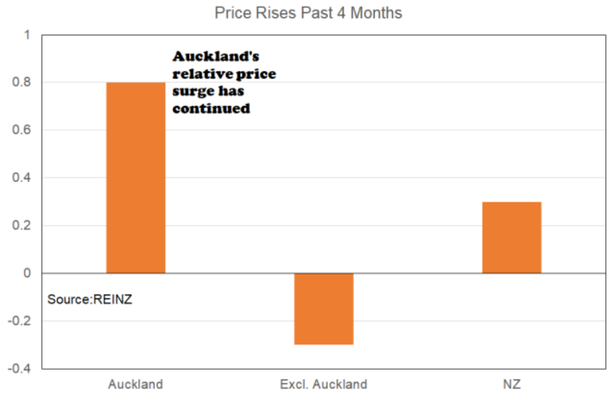
Before Covid, the outlook was for Auckland gaining extra strength while the regions remained strong but would become slowly less so because prices had risen by 48% since the start of 2016 while Auckland prices had risen just 20%.

The Covid-19 Impact

Seeing the onset of a global pandemic, an unprecedented thing called a lockdown, and forecasts of deep recession and rapidly rising unemployment, virtually everyone expected falling house prices and collapsed house sales. Reporters asked us economists for numbers on the expected extent of declines, and with zero historical precedents to go on we guessed prices would fall on average between 5% and 15% (I picked 5% - 10%) and that sales would settle around 40% down from last year's levels once an initial surge following the end of the lockdown had passed.

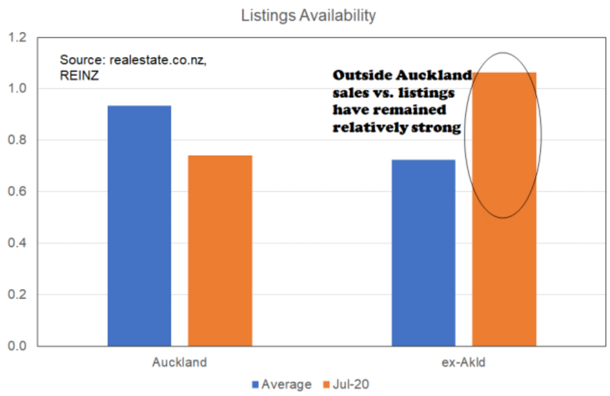
What has happened is this. NZ average sale prices over the four-month period from April to July were up 0.2% from the previous four-month period. These has been no price collapse. Auckland prices have risen 0.8% but they have fallen 0.3% on average elsewhere.

Thus, the acceleration of Auckland price growth over the rest of the country has continued.



Since 2007, on average in a four-month period, sales of dwellings in Auckland have equalled 90% of listings stock, and outside of Auckland 70%. In the four months to July Auckland sales were 70% of stock versus 110% elsewhere.

Therefore, although price action is picking up in Auckland relative to the rest of the country, the superior strength of sales outside of Auckland has continued.



Does this mean that sales have been relatively weak in Auckland post-Covid? No. In the four months to July while nationwide sales were down by 22% from a year earlier, they were down 15% for Auckland versus 25% elsewhere. Sales activity is quite good in Auckland. The difference is in new listings.

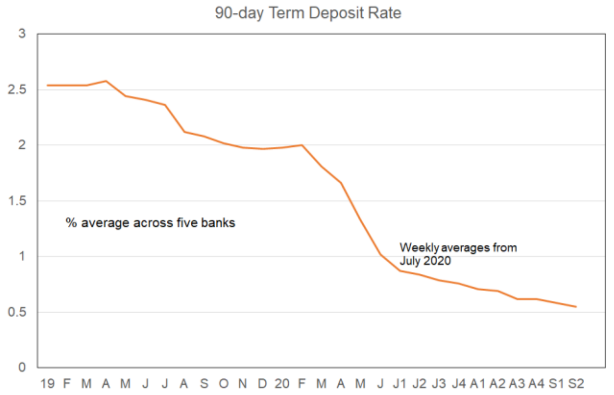
Over the past four months total new listings for Auckland were ahead 19% from new listings over the May-August period in 2019. For the rest of New Zealand new listings were ahead just 5%. Good listings growth is happening in Auckland, but it is not happening elsewhere.

However, the price response in Auckland is superior to outside of Auckland. What does this tell us? That the relative price graph shown two pages up is becoming dominant. The regions are starting to look pricey when compared with Auckland.

Interest Rates

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

Banks have been cutting their term deposit rates bit by bit over the past few weeks, and that process has yet to show any sign of ending. The average 90-day rate across the banks I look at has fallen to just 0.55% this week from 0.69% four weeks ago, 0.84% eight weeks ago, and 2% in February.



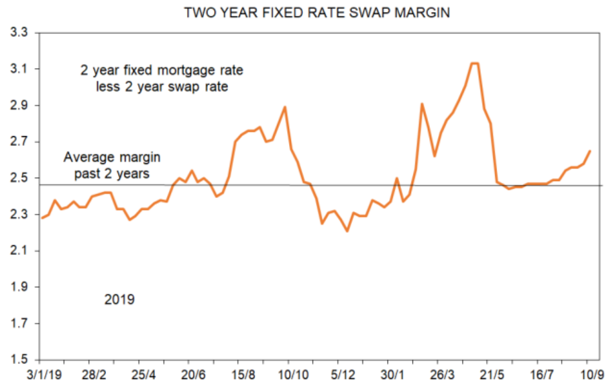
This decline well exceeds the 0.75% cut in the official cash rate undertaken by the Reserve Bank in March and shows that one way in which banks are looking to offset losses expected from the Covid-19 shock is by slashing returns paid to depositors.

They are able to do this because one characteristic of this shock around the world is an increase in deposits held in banks by households and businesses. This deposit growth reflects a combination of pulling back on capital spending, money not spent during lockdown or on travelling overseas, and payments for bonds purchased by central banks.

Also, banks have been given leeway to run retail funding ratios below usual levels.

The chances are good that deposit rates will fall further over coming weeks.

What about mortgage rates? Swap rates have edged lower this week and margins on fixed rate loans have risen to levels for the 1-2-year terms where it would not be at all surprising if some banks were to cut those rates slightly. For terms of three years and beyond margins are still tight or negative and scope for cuts is not yet strong – not that most people will care because almost all borrowers are only choosing the 1-2-year periods anyway.



Tview Premium contains margin graphs for some of the other terms.

My daughter Lilia Alexander (finalist in the Youth category for Wellingtonian of the Year 2019) owns and runs Social Media based Wellington – LIVE (>200,000 followers)
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