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.

Getting better – with an interruption

When I sent out my report on the monthly REINZ & Tony Alexander Real Estate Survey yesterday I made some comments regarding how the change in our Alert levels is bad, but this is not a repeat of the March – May shock. Officials have been warning for months that we should expect Covid-19 to reappear, and so it has. Bank lending policies factored this in, probably so too have business sentiment readings.

I'd also noted the risks in recent articles including the ones I had already prepared for this week's Tony's View and Tview Premium before Tuesday night. So, I've not changed them. And so, into it.

I start this week by running through recent results from my monthly surveys which back up a view that our economy is on a growth path. But I'll then look at other data sources to illustrate how this path of improvement is one which doubles back every now and then.

From this week's **REINZ and Tony Alexander Real Estate Survey.**

1. More people are showing up at auctions.
2. More people are showing up at Open Homes.
3. More agents now feel that house prices are rising rather than falling or staying flat.
4. More investors and first home buyers are becoming active in the property market.
5. Fewer investors are looking to sell their property.
6. Buyers have become more motivated to get a transaction completed as compared with sellers – solidly a seller's market now in all parts of the country.
7. Fewer buyers are now worried that prices will fall.
8. Fewer buyers are worried about their income or job prospects.
9. Fewer investors are hopeful of finding a bargain.

From my **Valuers Survey**

1. Fewer valuers are noting reductions in off the plan financing requests (pre-construction pricing insights). Still negative – just less so.
2. Valuers are pricing more conservatively than before, but to an easing degree.
3. More valuers feel that residential property prices are rising, and fewer feel that commercial property prices are falling.

From my **Spending Plans Survey**

More people plan boosting their spending on

-Domestic travel

-Home renovations

-Gardening supplies

-Investment property

2. Fewer people plan cutting back spending on
-Motor vehicles
-Furniture & appliances
-Eating out
-Clothing & footwear
-Sporting/fitness equipment

3. Fewer people expect reduced incomes.
4. Fewer people expect reduced work hours.
5. Fewer people expect reduced business profits.
6. More people feel better about their future.
7. More people feel that their wealth is rising.
8. More people are confident about the future.

There are many risks out there of course, most notably potential failure to contain infection at the border and the return to social distancing restrictions. But what matters is the direction of change in a marketplace, and for now that direction is toward the better side of things.

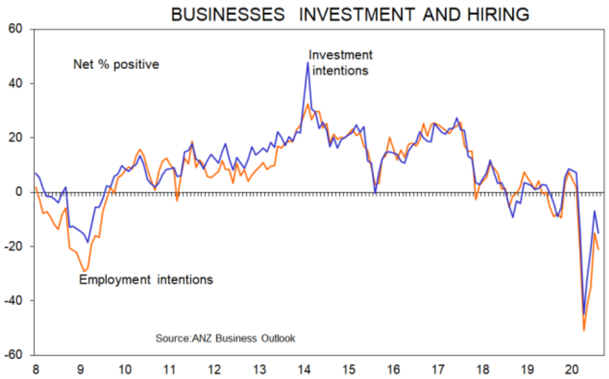
With regard to those risks, here are the main ones commonly cited.

- Ending of the wage subsidies
- Ending of the first mortgage deferral scheme
- Second wave of Covid-19
- Ending of the catch-up spending from lockdown
- The pipeline of current building projects may end without enough new projects.
- Declines in commodity prices in response to weak world growth.

Awareness of these much-discussed risks, along with the deterioration in Australia's economic outlook because of the outbreak in Victoria, may help account for the latest readings in the ANZ Business Outlook Survey.

The early-August readings from one week's worth of data collection show

- employment intentions falling to a net 21% negative from 15% in July versus 51% negative in April,
- investment intentions weakening to a net 15% negative from 7% in July and -45% in April.



The easing off of these and other measures in the monthly ANZ survey, reminds us that our economy remains challenged, and businesses are still playing things from the cautious side whilst being sensitive to the trend in news reports. They remind us that we are still some distance away from the government and Reserve Bank being able to completely rule out the need for additional economic support measures.

Housing Markets

Impact of Residential Tenancies Act Changes

I've been invited by a few people to make comments regarding the legislation just passed which changes the Residential Tenancies Act. I am neither a lawyer, landlord, accountant, or property manager, so forgive me if my position as a macroeconomist perhaps yields a perspective and view which investors might not want to hear.

Housing is less affordable in New Zealand than it used to be. People are also not as willing to settle down in one location as they were in the past. We live in a rapidly changing world and people naturally prize the flexibility to pursue opportunities which renting can deliver compared with home ownership.

For these and other reasons, more people need or want to rent property these days than was the case in the past. It is expected that the proportion of households renting where they live, rather than owning, will remain high over the long-term and may climb higher.

Over the past few years governments have been responding to the voices of this growing cohort of renters, concerned about the standards of properties they inhabit, and the terms under which they secure and rent a property.

At the same time as governments have been delivered this societal incentive to better reflect the growing proportion of our population's rental market concerns, another push has been in play. There have been many concerns expressed that investing in housing may confer tax advantages not available for other forms of investment. If any advantages exist then they almost entirely reflect the availability of finance for gearing an amount of money into housing as opposed to other assets such as shares.

Nonetheless, encouraged by concerns about affordability and incorrectly believing these concerns can be alleviated by reducing returns for property investors, numerous changes have been made over the years – as listed further on.

Unfortunately, the imposition of extra costs on landlords has caused rents to rise more than would otherwise be the case. Higher rents have made the renting community more vocal in their demands, and this has resulted in more political response – again against property owners.

At the same time, there has arisen pressure associated with unseen discrimination against tenants considered less desirable. The decreased ability of landlords to quickly respond to problem tenants has made securing accommodation more difficult for those whom landlords might categorise as belonging to problem groups. As social problems associated with probable increasing bias toward more desired tenants has grown, more people have found themselves becoming dependent on state accommodation provision. The waiting list for state accommodation has blown out and looks likely to keep growing despite a growing state house building programme.

Increasing concern about the marginalisation of those at the lower end of the socioeconomic spectrum, in a country like New Zealand, can do nothing other than bring increased prevalence of rules such as we have just seen introduced into law.

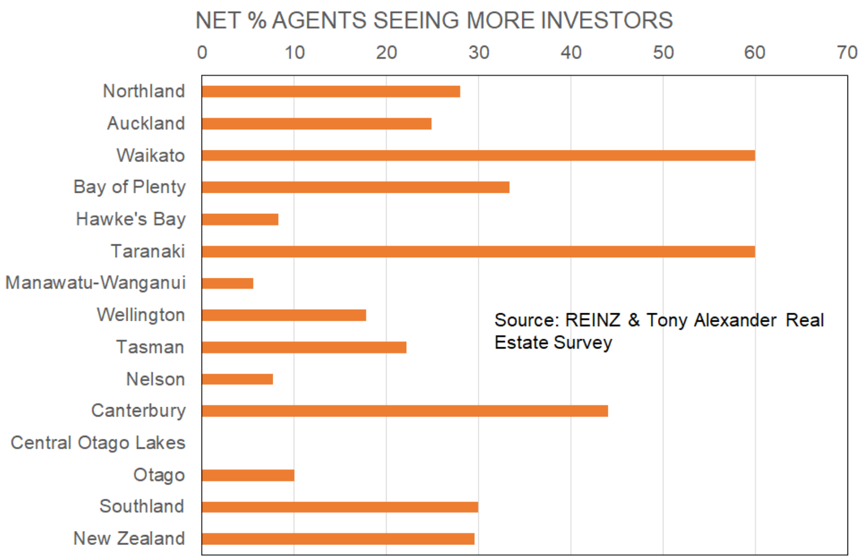
Property investors might gravitate toward thinking that government policies which negatively affect them are driven by a desire to punish them, reduce their returns, or improve housing affordability. But mainly, the legislative changes reflect government recognition that an increasing proportion of the population will spend a long time in rental accommodation compared with previous generations. Government desire is to try and make living conditions better for this growing group of people.

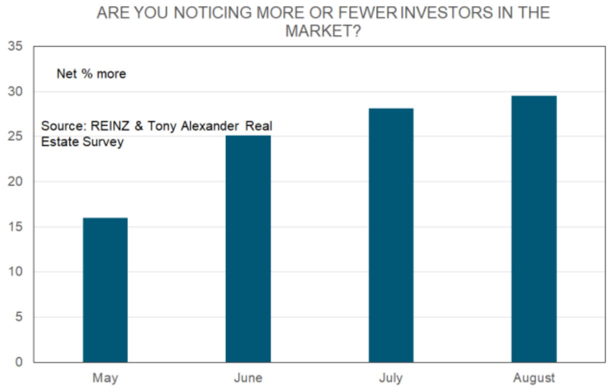
Sometimes simple analysis will make it clear that the policies they introduce will have the opposite effect. But one could never accuse social policy-driven politicians of having an excessive level of knowledge about what motivates the actions and changes of investors, businesspeople, and capitalists generally.

Therefore, much as lobbying from various groups may focus on the ways in which changes will negatively affect property investors, the ears of the policy-setters in a centre-left government will be closed to them – as we have just seen. And, while the current Opposition may promise repeal of recent changes, history tells us something about National when they get into power. Their tendency is not to unwind policies of social equity introduced by Labour except in areas like asset ownership, benefit eligibility, and tax rates.

Investors have threatened that as a result of the recent legislative changes they will sell their assets and the supply of rental accommodation will decline. This is likely to happen but only in small numbers, and we have seen such threats made repeatedly over recent years as changes have made property investment management more difficult. Yet still we see a flood of people seeking to become property investors and to expand their portfolios.

In fact, there is even an increasing number of young people seeking to become property investors – landlords – before they become owner occupiers. And, in my latest survey of real estate agents with the REINZ, a net 30% of responding agents said that they are seeing more investors in the market – up from 16% in May.





This tells us that as a result of the new lockdowns we will see investors back away from the market for a while – then return again. Yet knowing that this will happen, many investors won't leave the market at all because they will expect the hoards to return again.

By region, the chart at the bottom of the previous page shows agent perceptions of investor presence – excluding three regions without enough responses – Gisborne, Marlborough, and West Coast.

Interest Rates

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

With the country moving back up the Covid-19 Alert Level we have seen slight falls in wholesale interest rates this week. This reflects some easing back of economic growth expectations along with heightened expectations that the Reserve Bank will keep rates low for longer. Expectations have risen that the official cash rate will be cut from the 0.25% it was taken to in March, but this is still a low probability outcome given the upward momentum which is apparent in the economy.

If the Alert levels are kept in place longer than three days and even strengthened, then we can expect wholesale interest rates to fall further. We shall wait and see.

Apart from the change in Alert status announced on Tuesday night, the other big development of relevance to wholesale interest rates this week was the Reserve Bank's reassessment of monetary conditions and policy contained in its Monetary Policy Statement released yesterday.

The RB adopted a decidedly dovish tone – meaning a bias toward seeing low inflation and low interest rates with the potential need for more monetary policy stimulus. They delivered some by expanding their money printing operation from $60bn to $100bn and extending it for one year. Their explicit aim is to keep interest rates down for terms beyond one year and they are actively looking at other ways of doing this, including lending directly to banks at low medium to long-term interest rates, as the Reserve Bank of Australia has been doing since March

The picture adds up to one of wholesale interest rates staying at low levels for a long period of time – and we know what that means for asset prices outside of an initial shock lockdown period.

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA