TONY'S VIEW

Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825 Thursday 16 July 2020
To subscribe click this link https://forms.gle/qW9avCbaSiKcTnBQA
Speaking enquiries tony@tonyalexander.nz
Back issues at www.tonyalexander.nz

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.

What's Working?

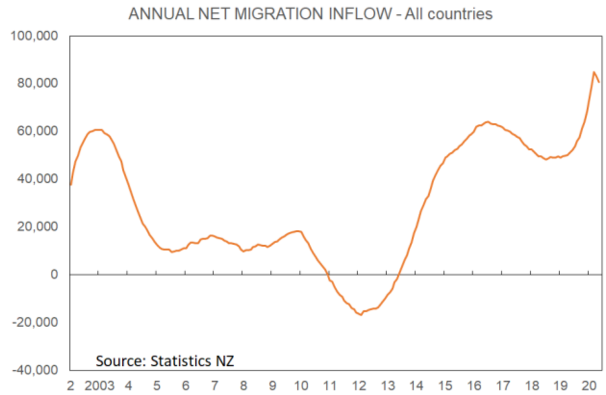
Last week, I asked readers to give their thoughts on strategies they had found useful or of no use over the past four months, for handling effects on their markets, people, and operations of Covid-19. 75 responses came in and I've summarised the main results in the list of dot-points below. In Tview Premium I have about five extra pages of direct quotes from the suggestions which people made, in an effort to better give other businesspeople a feel for what might work as they continue to navigate this ongoing uncertain period which will be with us one way or the other for a potentially long period of time.

Here are the main themes which came through.

1. Take government help where offered.
2. Embrace remote working but monitor it to be sure it works.
3. Ask more of your staff. If talked with maturely and delivered all the facts they will respond.
4. Work to keep staff morale up through special functions, small gifts.
5. Communicate openly, honestly, and if necessary, frequently, with all relevant parties including staff, bankers, suppliers, and customers.
6. Invest in IT and go online where possible.
7. Concentrate efforts on good customers and gaining new business from them whilst offloading poor clients.
8. Boost cash flow monitoring and planning.
9. Reduce ongoing costs and put long-term strategic plans on hold for a while.
10. Be ruthless in determining which forms of marketing work best.
11. Focus on boosting business agility and ability to react to unpredictable changes in your operating environment rather than trying to forecast what lies ahead and position only for that.
12. Don't treat this as a repeat of the GFC. The characteristics and pressure points this time are quite different, with some businesses much better off.

Net Migration Still Rising

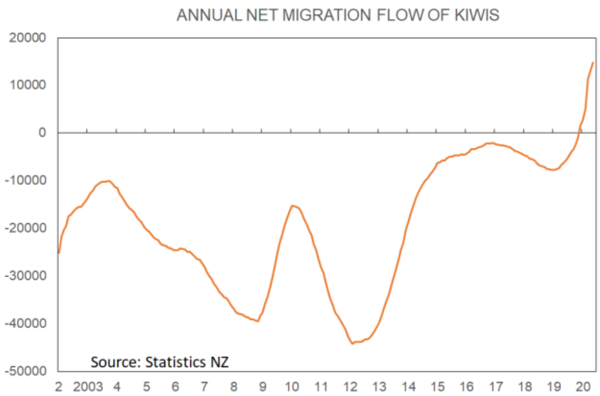
These numbers are preliminary and need to be treated with caution because revisions are frequently made. That caveat in hand, we can note that in the year to May there was a net addition to the NZ population from permanent and long-term migration flows of 80,700 people. This is a slight decrease from the highest total on record in March of 84,900 and compares with 51,000 a year earlier.



In a nutshell, there are a lot more people in New Zealand than was thought just ahead of lockdown. How many more? The original estimate for the net migration gain in the year to November 2019 was +41,500. Now the gain is estimated with reasonable certainty to have been 64,000. That means 22,500 more people than we thought back in January.

But, most of us had been running on the view that from 41,500 in the year to November the numbers would trend down below 40,000 come the end of this year. Let's use 40,000. But we already have those extra people in the country right now. So, all the earlier talk of net zero migration flows slashing demand for housing are completely wrong – for this year at least. There is not the downward pressure which many expected on house prices and that is likely to be one reason why the housing market remains strong, as I will discuss below in the housing market section in the context of the latest data from REINZ.

The net flow of Kiwis has averaged a loss of almost 20,000 per annum since 2002. There was a gain of 14,700 in the year to May, and even before any of us had heard of Covid-19 the flow had shifted to a net gain of 1,571 in the year to December 2019.



A key point I've been trying to get across here beyond the flow of Kiwis related to Covid-19, and beyond our expectations of continued flows of Kiwis plus foreigners once the borders open, is that a structural shift in net Kiwi flows was already in place.

We are no longer a country where we talk of a brain drain. We are a country providing plentiful job opportunities for people and a good lifestyle. We have an established record now of success (touch wood) in eliminating Covid-19 from the community (as long as returning Kiwis obey the quarantine rules). People want to be here and we need to start talking about brain gain.

With one million people offshore eligible to return to NZ as citizens or residents, the opportunities for foreigners to get in will decline in coming years over and above the employment effects of Covid-19.

Housing Markets

Valuers Survey Results

This week I ran my monthly survey of property valuers to gain their unique insights into what is happening in property markets. 56 responses came in, which is better than June's 51 replies, and in response to the specific questions they offered the following.

This past month has the volume of enquiry for valuations gone up or down?

	June	July
Residential	23%	50%
Commercial	16%	42%

Business activity levels have picked up, commensurate with the overwhelmingly positive stories regarding activity in the residential real estate sector, and the continuing activity in the commercial sector with evidence of many businesses looking to alter what they do and where.

Is refinance work going up or down?

	June	July
Residential	14%	21%
Commercial	0%	-11%

Responses to this question might tell a story. Enquiries for valuations to support the refinancing with a new lender of a currently mortgaged residential property have increased. But they have decreased for commercial property. This makes sense in that there is no evidence to date of any large decreases in residential property values, listings remain in short supply, and there is plentiful evidence of many buyers in the marketplace.

However, banks traditionally become very wary of taking on new commercial property exposure when economies go into recession, and it is highly likely that awareness of this amongst owners has deepened after perhaps making a mild enquiry with a new banker. Hence, no worth being seen in getting a new valuation for replacement financing which is unlikely to be forthcoming.

Is the volume of "off the plan" construction valuations rising or falling?

	June	July
Residential	-32%	-13%
Commercial	-37%	-26%

Things have become less negative here, but they are still negative. This tells us that we should expect to see decreased construction activity over the coming 1-2 years as developers pull back in the face of reduced enquiries from buyers and lower availability of funding from lenders.

If you stood back a bit and thought about it honestly, are you valuing more conservatively or less conservatively than before?

	June	July
Residential	41%	29%
Commercial	89%	63%

Valuers are essentially still adopting a conservative attitude (downward bias) toward their pricings and that seems entirely consistent with the attitudes we are all taking as we watch this Covid-19 recession unfold.

Do you feel prices are rising or falling at the moment?

	June	July
Residential	18%	33%
Commercial	-42%	-11%

Prices are still seen as falling in the commercial property market. But a change is notable on residential property from a net 18% seeing prices rising to 33% this month. This probably reflects the absence of any evidence of panic selling or big generalised price falls for residential properties.

In Tview Premium I include comments relevant to regions around New Zealand for both the residential and commercial property sectors.

Interest Rates

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

There have been no changes in wholesale interest rates worth mentioning this week. The 90-day bank bill yield has remained close to 0.3% and is likely to still be there a year from now and maybe even three or four years down the track. The chances of the Reserve Bank cutting the official cash rate from the 0.25% they took it to in March are not high given signs of improvement in the NZ economy. But a cut cannot be ruled out in the scenario of a new Covid-19 outbreak in New Zealand forcing a new lockdown.

With regard to mortgage rates, there is essentially no scope for cuts in fixed rates for three years and beyond with margins below averages for the past two years. In the absence of any community fears that interest rates might rise in a worrying way over the next few years, it is very unlikely that a lender will slash a long-term fixed rate and expect to attract a good wave of customers from other lenders.

Virtually everyone is fixing for either one year or two years so this strategy would be a waste of time. However, one definitely cannot rule out cuts in short-term fixed rates as margins are about average and the one and two-year terms are virtually all that borrowers are looking at.

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