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 23 January 2020
To subscribe, email me…tonyalexander5@outlook.com
To enquire about having me in as a speaker, same address.

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.

Retailing Okay – Sort Of

You might have noticed over the years since we economists hit the airwaves in the 1980s that we like to spend a lot of time talking about the sorts of things which influence the retail spending you and I do. These discussions easily exceed the amount of time and research we put into bigger sectors. Specifically, Retailing employs 219,000 people, but Manufacturing employs 250,000 and Health Care and Social Services 247,000. There are also 192,000 people employed in the Education sector and 186,000 in Professional, Scientific and Technical Services.

Why the retail focus? Partly it's because you're a fool if you stick your head above the parapet and start making comments about the Health and Education sectors – there are way too many groups pushing their barrows. Manufacturing used to be the same with Muldoonist dinosaurs campaigning for a return of import licences and other special protection measures. Most of those old men have left the sector or shuffled off this mortal coil now and the sector is very different – efficient and focussed on high tech though smaller overall.

Mainly though we avoid manufacturing because it is simply much too diverse and data are hard to come by.

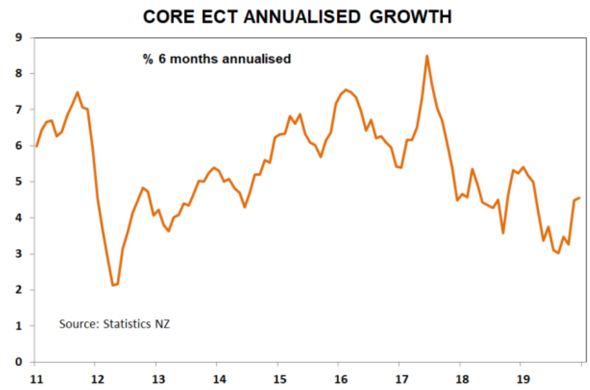
The main reason we focus on retailing is because consumer spending is the biggest driver of changes in countries' growth rates, inflationary pressures, labour markets, interest rates, and housing markets. If we see retailing figures falling away, we'll read that as solidly indicating slowing growth overall and that means probably lower interest rates, maybe a lower exchange rate, maybe a slower housing market.

So, what is it that we can see happening in the retailing sector – or more specifically with retail spending?

The most up to numbers were released last week in the form of the Electronic Cards Transactions data from Statistics NZ. The data are monthly but it's best to smooth things over three months to allow for volatility in the series. And we need to be a tad careful when getting into sectoral measures as they are even more volatile.

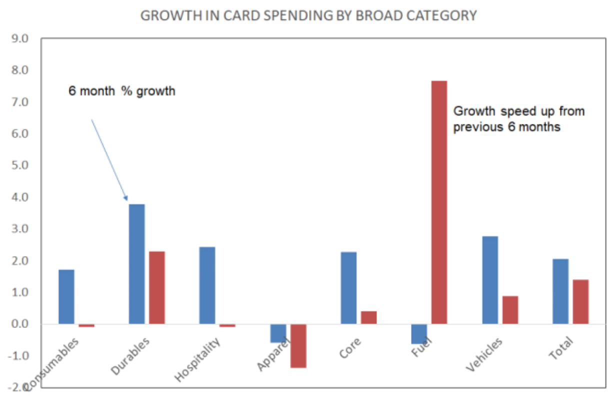
The data released last week show that over the December quarter spending using debit and credit cards rose by 1% after rising 1.3% in the September quarter and 0.7% in the June quarter. So, there is no underlying trend change apparent over the latter part of last year. Actually, not so fast.

The total spending measure includes items which can be quite volatile, such as fuel and motor vehicles. If we exclude them to get what we call a "core" measure, then growth accelerated from 0.6% in the June quarter to 1.1% in the September quarter and 1.8% in the December quarter. The graph I've chosen to include here smooths over not three but six months and still shows growth improving in the second half of last year.



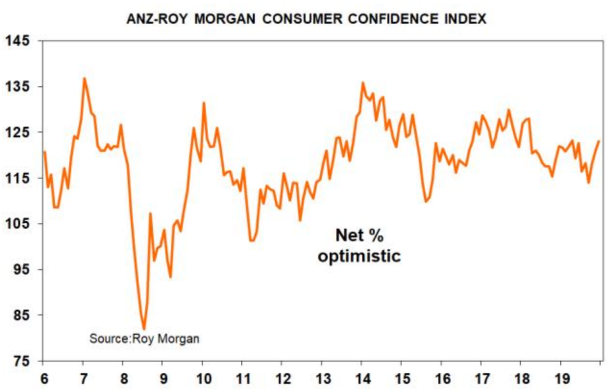
If you're a retailer reading this and bemoaning the lack of customers coming through your door then your problem looks like something to do with you and not the country's consuming population. Me and mine spent more.

We can get more specific by looking at growth over the past six months for some broad spending categories supplied by Statistics NZ. The graph below shows results for Consumables, Durable goods etc. The blue column shows growth in the past six months. The red bar shows how that growth compares with the first half of 2019. If growth slowed down then the red bar is below the line, as is the case for those of you selling Apparel. But if the red bar is above the line then spending growth was faster in the second half of last year – for instance by 2.3% points for Durables and 7.7% points for Fuel.

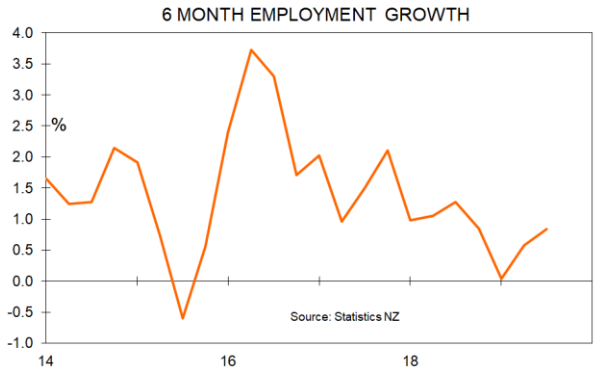


If I were outside New Zealand looking in, I'd be seeing signs here of good growth in consumer spending completely at odds with whatever it was that motivated the Reserve Bank to cut interest rates by another 0.75% last year. Hindsight tells us they made a mistake.

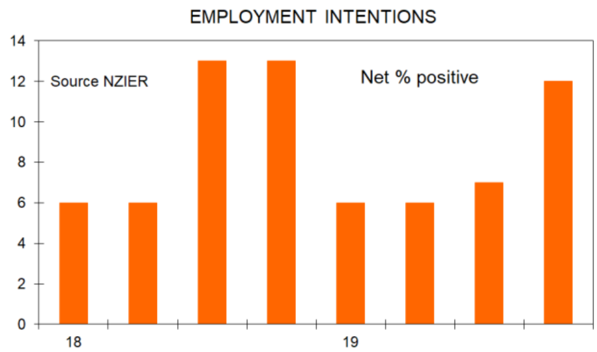
Looking ahead what do we think is going to happen? Consumers feel quite happy, and that tends to translate into a willingness to spend. The monthly ANZ Roy Morgan gauge of consumer confidence rose to an eight-month high of 123 in December from a low of 114 in September and average of 120. This suggests continued firm retail spending growth but nothing outside the norm.



If more people have jobs then more people can spend. The quarterly data can be volatile, so smoothing again over six months we see that in the half-year ending in September job numbers in NZ grew by 0.8% after growing just 0.1% in the previous six months. That means that when I see the annual rate of jobs growth falling to 0.9% in the September quarter from 2.4% a year earlier, I'm definitely going to acknowledge a slowdown, but not a continuation of the trend decline in employment growth apparent since the early-2016 peak.

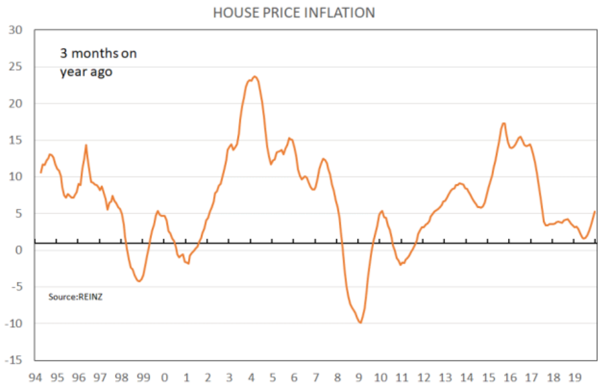


And looking ahead things seem okay. In the NZIER's Quarterly Survey of Business Opinion discussed here last week we saw that business employment intentions improved to a net 12% positive in the December quarter from 7% in the September quarter. This is a one year high and just above the 11% average. A net 4% of businesses said they expect more overtime to be worked – a two and a half year high. A net 44% of businesses say they are struggling to hire skilled staff and a net 27% are on the hunt for unskilled people they can't really find.



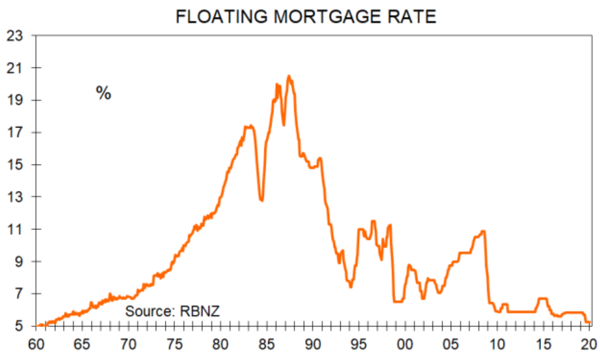
These are good times to be an employee, but tough if you're the boss. And this is the way things are probably going to be now for a long, long time. A greater share of the economy's earnings will slowly start shifting to labour and away from business owners – especially as those owners are pulling back on the very capital expenditure they need to undertake to adjust to the new structural shortage of labour. As a weeding out of low margin businesses happens, we should expect to see more of the good operators experimenting with the likes of a four-day week as championed by Perpetual Guardian, and summer work hours involving early Friday finish times.

People also tend to spend more when house prices are rising – and the pace of growth has picked up. The all-NZ annual pace of house price growth lifted to 6.4% in December from 1.7% six months earlier and 3.3% a year before. Growth was the strongest since mid-2017, driven mainly but not exclusively by a fresh upturn kicking off in Auckland. Strong price growth looks virtually certain to continue this year. Nice work RB.



Population growth looks like continuing at a good, though slowing, pace. Revised data just released by Statistics NZ show that the annual net migration inflow peaked at 63,000 late in 2016 and now stands at an actual 46,000 in the year to May 2019 and an estimated 41,500 in the year to November. The easing off in the net gain is fairly slow and may slow further in the near future given the slowing of world growth, virus worries, and developments in Australia – the place we Kiwis usually shift to.

Interest rates don't look like providing any great impediment to consumers wanting to finance their spending by raising more debt. Monetary policy was eased last year and while further easing this year is unlikely, tightening doesn't look to be on the cards either.



Basically, as long as a shock does not come along, (like the new flu virus out of China becoming a pandemic) the usual factors which we economists believe influence consumer spending changes overwhelmingly argue in favour of stronger growth. Which means what for the average retailer?

Certainly not that times will be good because competition just keeps on increasing. All that the strong spending growth means for most is that there is a little bit more than usual insulation against the competitive threats. But those threats will continue and probably strengthen and unless you respond well to them now (or close up shop whilst retaining some selling value), then come the next downturn you could be in a very poor position.

Climate Change

In another sign of how the climate change ball is rolling we saw the release this week of a special report by the banks' bank the Bank of International Settlements. They coined one of the many new words and phrases being spawned by this global transition – a Green Swan event. A Black Swan event occurs in the context of financial markets being hit by something out of the blue – even if that thing might have been building up for some time as was the case with the Global Financial Crisis – GFC.

They are referring to the following.

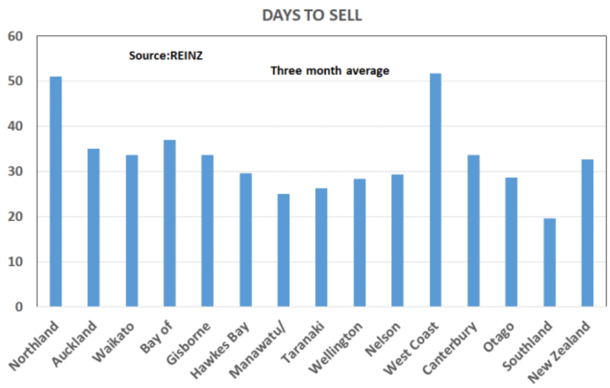
- Unpredictable volatility in asset prices which may come suddenly from the effects and responses to climate change or markets pricing in such things.
- The risk of governments being on the hook to bail out banks and large companies with "stranded assets". These are large things like loans to coal mining companies or the energy businesses

themselves suddenly left with worthless investments because the world turns against using their outputs.

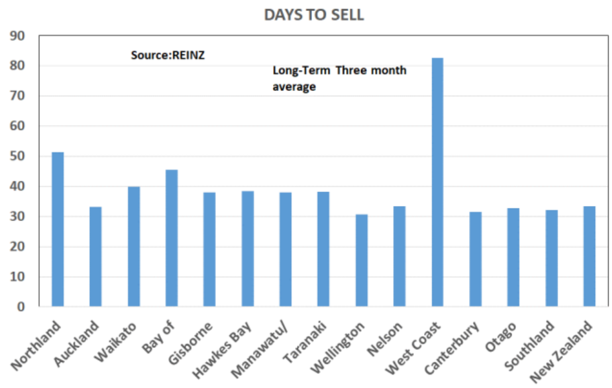
All investors need to give thought to their exposure to potentially large downward repricing of assets associated with the coal and oil industries in particular. Watch tourism also. But no-one should think there is any economic model which can give us reliable insight into how things will pan out. Watch for the green gold rush once it really gets going – that is the raising of capital by every man and his dog with an idea for generating energy cheaply.

Housing Market

If you are looking to sell your property, how long might that take? Every property is obviously specific, but we can still get a gauge by looking at averages. On average for instance during the December quarter, it took 51 days to sell a property in Northland versus 26 days in Taranaki and only 20 days in Southland.

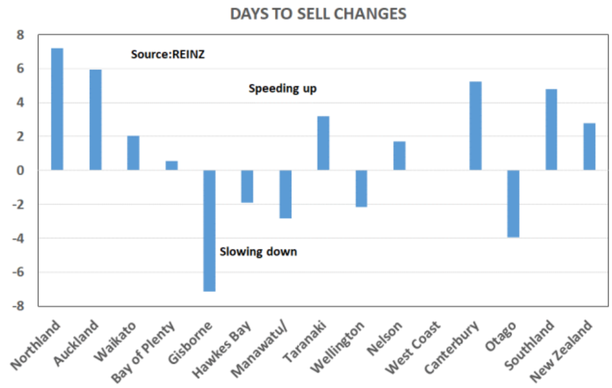


In fact, over the past ten years on average in the December quarter it has taken 33 days to sell a dwelling in Auckland and 30 days in Wellington. If you are an investor and ability to get a quick sale is something you like to have, then the graph backs up what you probably already know. There are some regions where you will struggle to get quick movement – Northland, Waikato, Bay of Plenty, and the West Coast.

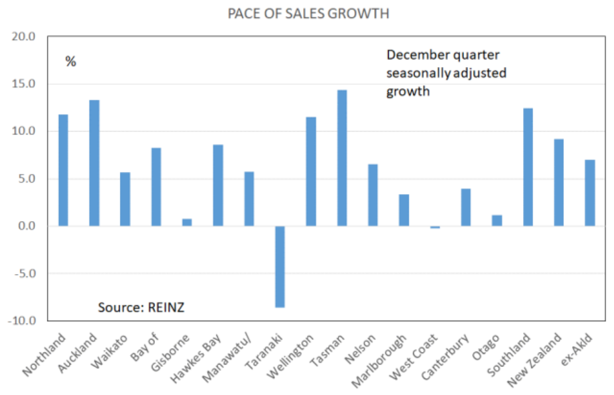


Can we use the Days to Sell measures to get a feel for where markets might be headed in the short-term? Sort of in that if the days to sell measure is falling then available stock is probably getting soaked up and that would suggest extra upward pressure on prices.

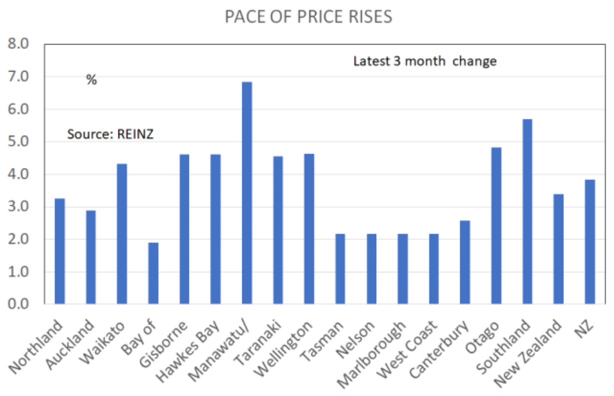
I've attempted to measure this by looking at whether the seasonally adjusted time to sell measure is accelerating or slowing down. Blue bars above the line in the following graph mean things have sped up in that region.



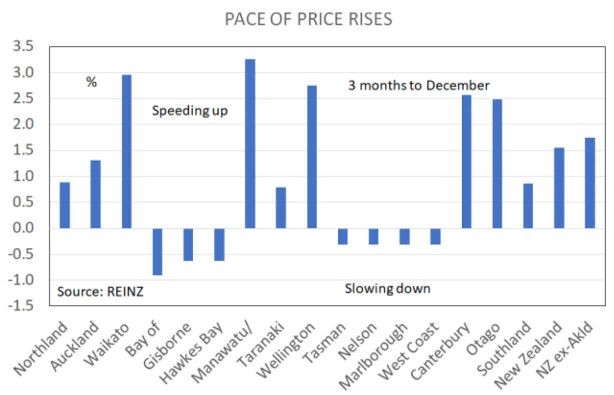
Can we look at other things to confirm speeding up or slowing down of a location? Obviously, sales. In rough seasonally adjusted terms sales grew by 12% in the December quarter in Northland and 13% in Southland. Things accelerated everywhere except Taranaki and the West Coast.



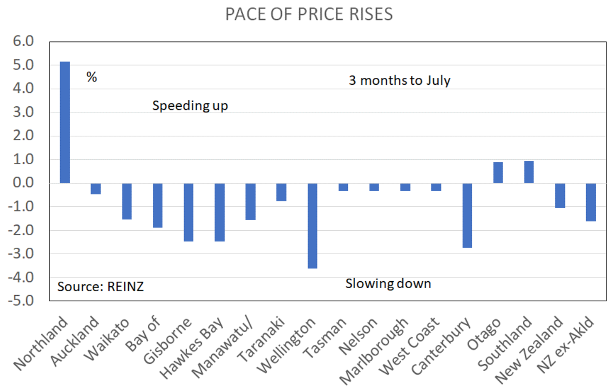
And finally, prices. The following graph shows by how much prices have risen in the past three months – almost 3% in Auckland, near 6% in Southland for instance.



And is the pace of prices growth accelerating or slowing down? We simply subtract the September quarter change from the December quarter change to get our final graph. The pace of house price inflation is rising in most locations except the centre stretch of the North Island and top of the South Island.



And this is what the graph looked like in the three months to July, just before the Reserve Bank stuffed things up for first home buyers by panic-slashing the official cash rate by 0.5%. These are the two graphs I have chosen to print in large form at the end of this week's TV. Feel free to print them out and stick them on your wall because they will help you understand the new surge in house price chatter.



Some graphs (in this case two graphs) really sum things up.

Is there any reason I can think of for believing that the pace of house price inflation in New Zealand is about to radically slow down? Let's see. Net migration numbers are strong and only slowly falling. Interest rates look like staying low for ages. The jobs market (discussed above) is strong. Consumer confidence is good. Export commodity prices are firm. World growth looks okay if unspectacular. Fiscal policy is easing. Capital gains tax plans got squashed. Rents are rising strongly, especially at annual review time now. Airbnb is taking up more housing stock (while motels take the destitute.)

Without a shock like a Middle East war or rapid and deadly spread of the new SARs variant, chances are prices will keep rising firmly this year – helped by the media once again discussing the housing market most days. FOMO beckons.

Interest Rates

No inspiration to write anything interesting here has come this week. Offshore we have seen the IMF slightly cut their global growth forecast for this year and next while economic data have been slightly better in the UK and US than the week before. People are still thinking however in terms of monetary policy easing in the UK and maybe Australia – though the feeling of many across the Tasman is that any easing of rates would be a pointless and potentially dangerous exercise. The last cut seemed to scare people and with the bush fire season still with a long way to go consumer confidence has fallen away already.

In NZ additional monetary policy easing looks very unlikely. But picking when our economy will cycle up and inflation pressures with it is difficult – that means picking when one thinks a sustainable lift in the official cash rate will come is near impossible. The chances are high that rates remain around current levels for a long time.

CHOOSING YOUR FIXED MORTGAGE RATE TERM

There are no changes in lowest available fixed rates this week.

When fixing a mortgage rate term most people take whichever rate is the lowest. So, each week I shall calculate what rates would have to be in the future to make this option better than some alternatives. Note, there are far, far more alternatives than calculated here. And always remember, it is worth paying a premium for rate certainty over a longer period of time. It's also worth using a broker to get the best deal. Broker use is far higher in Australia than New Zealand but we will probably catch up.

Current minimum fixed rates across the main banks. *

1 year	3.39%
2 years	3.55%
3 years	3.89%
4 years	3.99%
5 years	4.09%

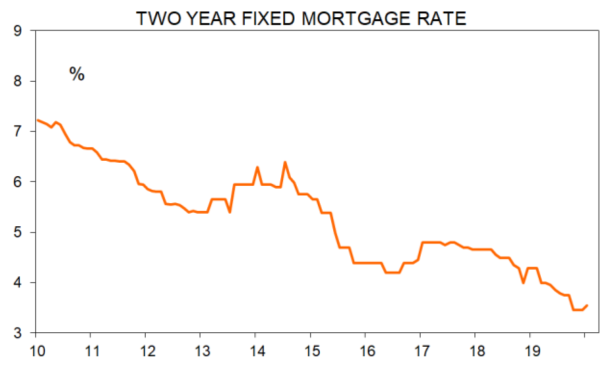
I can fix 1 year at 3.39%.

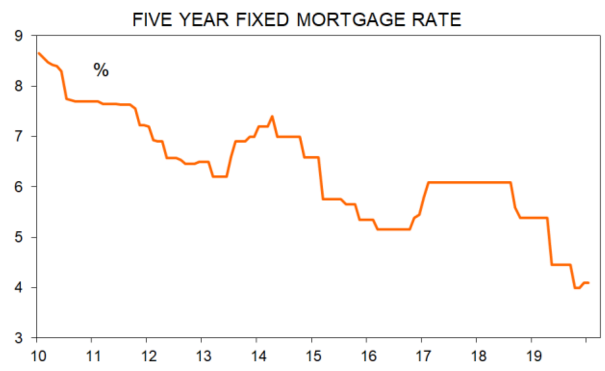
Is this better than fixing 2 years?	Yes, if in 1 year the 1-year rate is below 3.71%.
Is this better than fixing 3 years?	Yes, if in 1 year the 2-year rate is below 4.14%.
Is this better than fixing 4 years?	Yes, if in 1 year the 3-year rate is below 4.19%
Is this better than fixing 5 years?	Yes, if in 1 year the 4-year rate is below 4.14%.

If you fix one-year then you get a nice low rate. But the odds are now against further monetary policy easing, and tightening will eventually become more likely than any easing and interest rates will reflect this. Chances are in one year the one-year rate will be close to 3.51%, so if fixing two years was my preference, I'd be inclined toward that term instead of 3.39% as the cost of rate certainty looks quite cheap.

The odds that the two-year rate in one year will be below 4.14% look fairly good, so if three years was my preferred term, then taking the low one-year rate might be okay. But it is very easy to imagine that one year from now the three- and four-year rates will be higher than 4.19% and 4.14% respectively. So, if fixing for beyond three years was my goal, I'd be taking a gamble by fixing just one year now and personally would be inclined to take the current longer-term rate. Maybe this is as low as rates get outside of a recession situation. One might think about locking in for as long as possible.

*Minimum 20% deposit, owner occupiers.
Compounding is minor so is ignored.

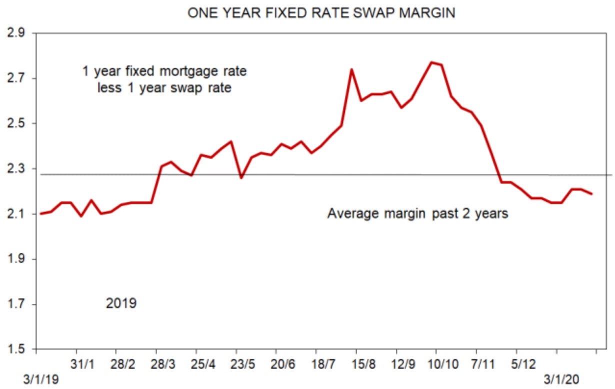


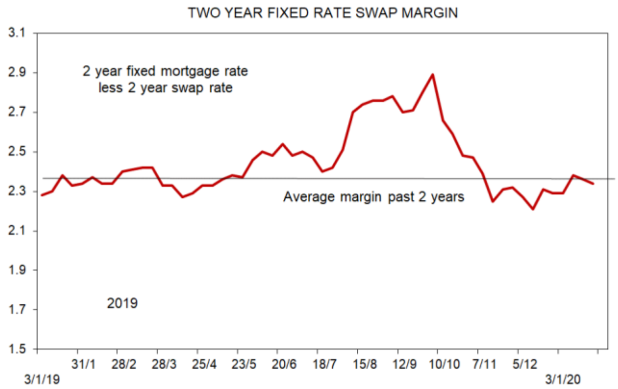


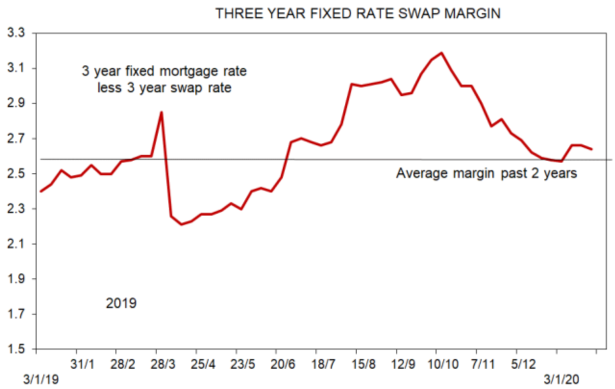
IS A FIXED RATE CHANGE IMMINENT?

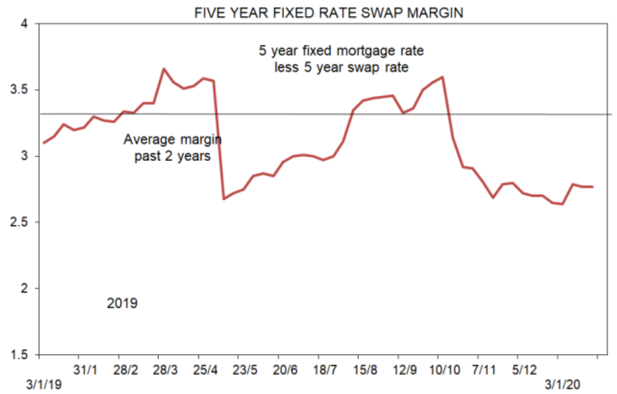
Basically, there have been no margin changes this week. Pressure on banks to shift fixed mortgage rates is low.

You can form your own opinion as to whether banks might be about to raise or lower their fixed rates by looking at the following graphs. They compare published fixed rates with the most frequently changing component of the total cost of funds – the swap rate. Note that there are other funding costs which will not be captured here, but they change infrequently. But be warned. There is no real forecasting insight delivered by a thing (equity, exchange rate etc.) moving further from some concept of fair value or average. If a thing is 10% above trend, it might simply be on its way to being 40% above trend. For good bank rate comparisons access www.interest.co.nz









Are You Seeing Something I'm Not?

Don't be afraid to flick me an email at tonyalexander5@outlook.com if you reckon I'm missing something happening in the economy, or you've got experience or insight into some of the developments underway which you'd like to share.

Online - It's A Family Thing

For your guide, in my family it is not just myself communicating and informing people principally online and working from home.

CHILD FORUM

My wife Dr Sarah Alexander manages the network of early education and care services around the country (www.ChildForum.com) and the website for parent ratings and reviews of children's services (www.myece.org.nz).

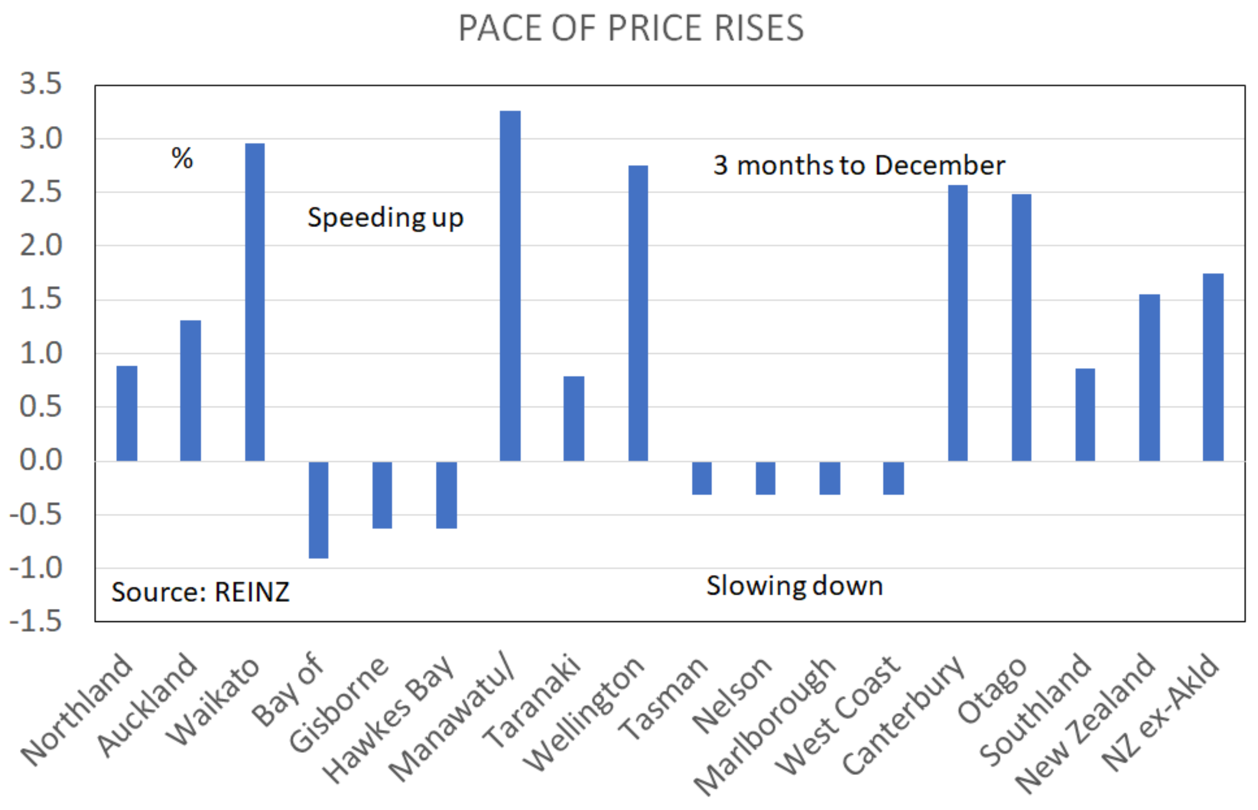
WL

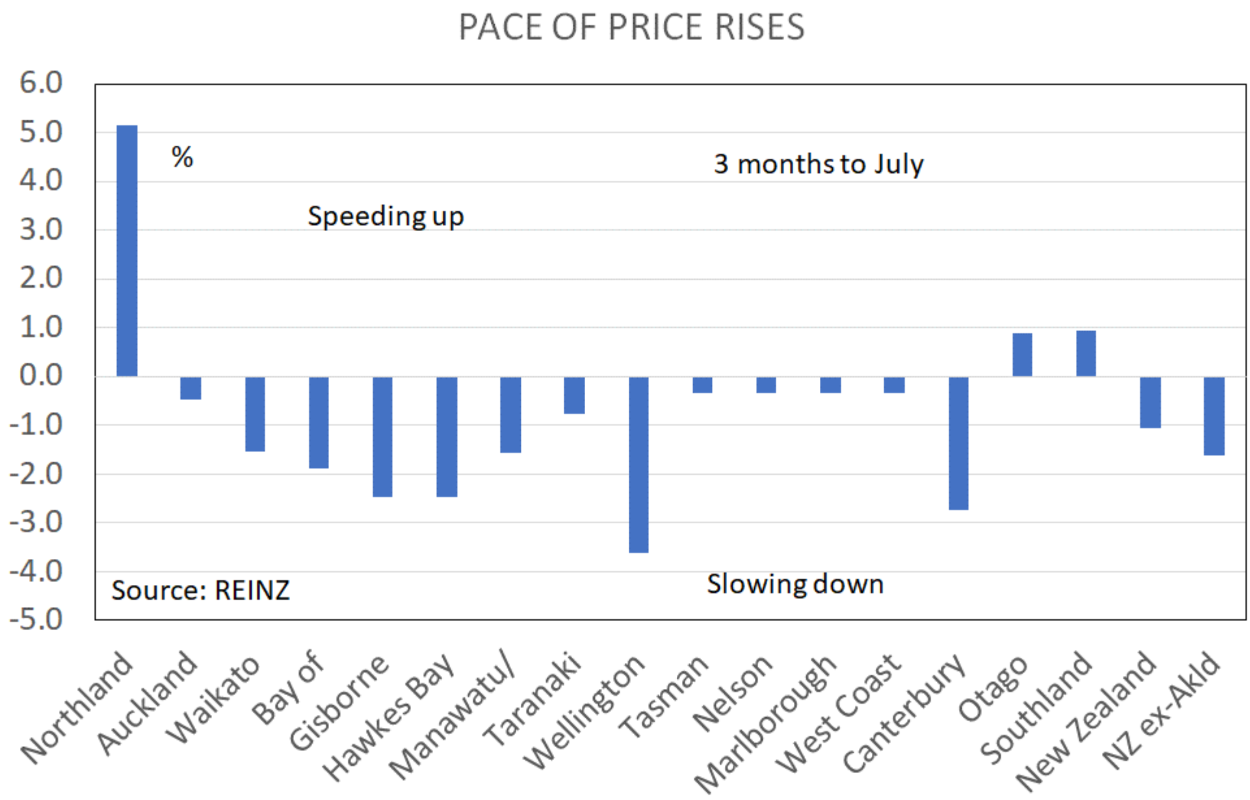
My daughter Lilia Alexander (finalist in the Youth category for Wellingtonian of the Year 2019) owns and runs Social Media based Wellington – LIVE (160,000 followers)
https://www.facebook.com/WellingtonLIVENZ/

"…the largest go-to social media-based updates and news platform for the Wellington region…" Wellington – LIVE offers advertising options for local events and businesses.
Email: info@wellington.live

This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email tonyalexander5@outlook.com

DETAILED GRAPHS ENLARGED




PACE OF PRICE RISES
6.0
5.0
4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
-3.0
-4.0
-5.0
%
3 months to July
Speeding up
Source: REINZ
Slowing down
Northland
Auckland
Waikato
Bay of
Gisborne
Hawkes Bay
Manawatu/
Taranaki
Wellington
Tasman
Nelson
Marlborough
West Coast
Canterbury
Otago
Southland
New Zealand
NZ ex-Akld