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.

Mortgage Advisor Survey Results

Each month I ask mortgage advisors what they are finding from their unique position in the housing market. Here are the headline results. Full results, plus five pages of the most insightful comments available in this country on how banks are treating loan applicants at the moment, are in today's Tview Premium. Enjoy, or weep because the comments tell us that this might be the toughest time for getting a mortgage since before deregulation over 1984/85.

Compared with a month ago, are you seeing more or fewer first home buyers looking for mortgage advice?

A net 45% of advisors say FHBs are more active. This is down from a net 79% in June yet still a very high number suggesting that the rush of first home buyers hoping to take advantage of low interest rates (and perhaps some stressed vendors) is still quite strong.

Compared with a month ago, are you seeing more or fewer investors looking for mortgage advice?

A net 23% of mortgage advisors are seeing more investors in the market looking for advice, down from a net 51% in June. Given the easing off of investor hopes for a bargain revealed in my Spending Plans Survey, this fall could represent investors reacting to the complete absence of any story of properties selling at heavily discounted prices.

Compared with a month ago, are you seeing more or fewer property owners looking for refinancing?

Only a net 12% of advisors are seeing more refinancing enquiries compared with a net 29% last month. It's possible that the message has got through that banks are not much willing to take on clients of other banks at the moment, or maybe just the initial euphoria from low interest rates and thoughts of breaking one's fixed rate have passed.

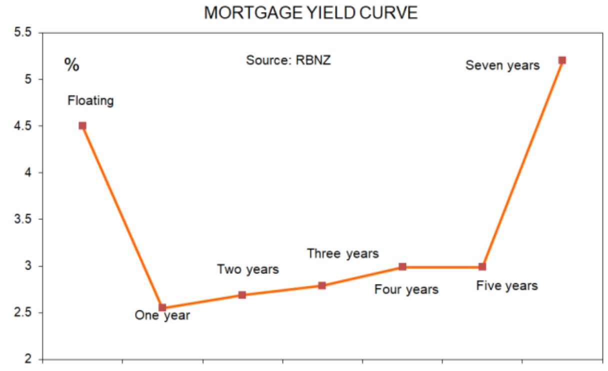
Compared with a month ago, are you finding lenders more or less willing to advance funds?

A net 53% of advisors say that finance availability is tightening up, not much changed from the net 60% of June. This is the most consistent result across the two months of this survey so far, and it gels with results from the Reserve Bank's recently released Credit Conditions Survey. Banks are hesitant to lend in this current uncertain economic environment.

What time period are most people looking at fixing their interest rate?

The results here are basically the same as in June. 74% of advisors say that customers are interested in fixing for one year or shorter, (from 76%) and 17% say 1-2 years is the preferred area (from 19%). One advisor only said the five-year term is preferred.

As noted in my comments here last month, most Kiwis base their decision on which term to fix purely on whichever rate is the lowest.



In summary what respondents tell us with their many comments is the following.

1. Banks are extremely slow to process requests and turnaround times seem to have got worse.
2. Lending criteria have been tightened, though at the margins some very mild easing may be appearing. One bank will soon announce an

easing of test interest rates used for calculating debt servicing ability.

3. Demand for finance from first home buyers and investors is very strong. But FHBs in particular are extremely frustrated with the lack of listings, some banks preferring investors, and extremely high hurdles needing to be climbed to qualify for a loan.

Tview Premium contains five or so pages of comments by advisors at the regional level.

Southland's Housing Market

In this week's Tview Premium I include my monthly examination of one of New Zealand's regions. Last month it was Northland. Next month it will be Auckland. This month I looked at Southland in light of Rio Tinto's announcement of the smelter's closure next year.

The full write-up extends over eight pages, but here is a basic summary of the main points discussed.

Positives

- House prices are only slightly above trend.
- Dairy farms may need employees if migrant staff are stuck offshore.
- Inner city redevelopment is occurring.
- Properties in Southland traditionally offer good yield.

Negatives

- There are only two months until the election and not only few votes on offer to the government to "bail out" the region, but with the other 98% of the population looking forward to cheaper electricity prices.
- There appears to be no local plan able to be dusted off outlining what to do when the smelter closes. That is, no disaster recovery plan as is commonly found in the business sector.
- International tourism may not return to assist the Southland economy until 2022.
- Domestic tourism which might have been directed to Southland might now instead go to Queenstown and Wanaka as Kiwis snatch an opportunity to visit places previously denied to them by capacity (filled with foreigners) and cost.
- Unemployed people in Southland have traditionally left the region to seek employment elsewhere.
- Southland's population in recent years has received a boost from growth in the dairy sector, but that surge may now have ended.
- Underlying population growth in Southland is very low at just 2% since 1996 versus 32% for all New Zealand.
- Amalgamation of all polytechs around the country may dent the unique reputation of the Southern Institute of Technology.
- There is no viable alternative to replace smelter employment, and in a time of weakness all around New Zealand, plenty of council "assistance" from deeper pockets will be available to businesses which might be thinking about relocating or expanding and inviting desperate regional representatives to put in their subsidy offers.
- There is firm demand for skilled manufacturing employees in the rest of New Zealand so many smelter employees may find ready work elsewhere relatively easily over the coming year.

Strong capital gains have been made by residential property investors in recent years, so their willingness to accept a haircut to reduce their exposure to Southland will be greater than would otherwise be the case, especially in light of my graph showing the extremely wide cycle which Southland property prices have around the NZ average.

Interest Rates

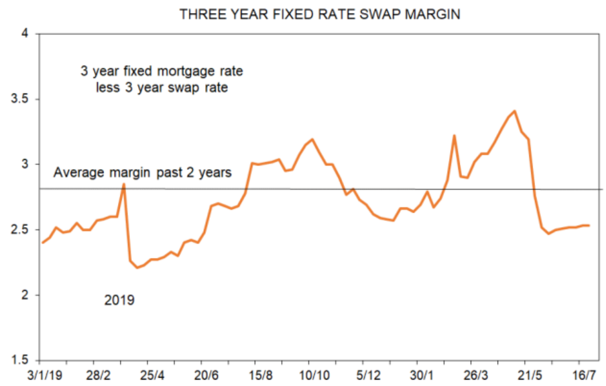
Tview Premium contains detailed graphs and analysis of rate alternatives for borrowers and term depositors.

Wholesale interest rates have crept very marginally lower this week, assisted by some firming of the NZ dollar and the Finance Minister's decision to only spend the remaining $14bn of the $50bn Covid fund if a new outbreak occurs.

None of the rate moves however are big enough to warrant any new expectations for what mortgage rates are likely to do in the near future.

Margins for terms beyond two-years fixed are below average, so scope for further declines in these already very low rates is limited if not non-existent. However, margins are about average for the 1-2-year terms and as we approach Spring it would not be surprising if one or two banks decided to fight for market share at a time when property listings traditionally have a seasonal lift, by cutting short fixed rates.

The full set of margin graphs is contained in Tview Premium – here is the one for fixing three years.



With regard to the NZ dollar, this week it rose to its highest level against the US dollar since the middle of January, to sit currently near 66.7 cents. This rise from just below 66 cents last week reflects some weakness in the US currency associated with investors feeling generally better about the world and moving out of current safe haven assets which include the Japanese Yen, Swiss Franc, and US dollar.

Our currency tends to go up when tolerance for risk rises and the sharemarkets around the world increase. But, before we get too optimistic, it pays to note that although vaccine developments so far are offering good news, the chances of widespread vaccine distribution before the end of 2021 still don't look that great. Our borders may remain closed until 2021. And, if everyone really believed the future is sweet, gold prices would not be at a seven year high above US$1860 an ounce.

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