TONY'S VIEW

Input to your Strategy for Adapting to Ongoing 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.

No Game-Changers

Fresh economic data have been thin on the ground this week – which is good because the Housing section is quite long. We've had the good news of Fonterra revising their forecast payout range for this year up by 30 cents, an absence of anything much new on the US-China trade relationship, some slight firming of the NZ dollar reflecting an easing off of world growth worries, and intensifying bank competition for mortgage business.

But we've also seen some growing international concern about business junk bonds and their vulnerability come the next big global slowdown. The new debacle for the NZ government over the light rail system to Auckland's airport can do nothing other than weaken any remaining confidence our business sector had of this government's ability to manage anything other than a stop work meeting. Expressions of concern have spread regarding the behaviour of our Shane Jones-like Reserve Bank Governor (I received no phone call), and the Sky City Convention Centre fire will negatively impact Auckland's economy in a small way for some time whilst restricting availability of people for building houses rather than commercial buildings.

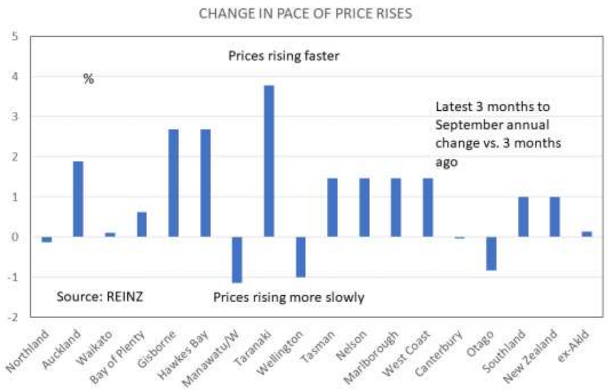
The announcement by Rio Tinto that they are undertaking another review of the Tiwai Point aluminium smelter and would like electricity prices cut further (who doesn't?) has sent shares of listed electricity retailers down. If they close then the economic impact on Southland will be severe. But the freeing up of about 13% of the country's electricity generating capacity will lead to lower prices and presumably a jump in the proportion of our generation undertaken using sustainable methods – not coal, oil or gas. Great for meeting our emissions goals, but again, bad for Southland.

Housing Market

Last week REINZ released their nationwide and regional data for September and I said I'd have a look at it so here goes. It is best to smooth things over at least a three-month period in order to get away from the high volatility which data can experience in NZ and see what the underlying trends are. Doing that we get the following.

Nationwide property prices in the September quarter were ahead 2.6% from a year earlier with Auckland down 1.8% and the rest of the country up 6.7% led by 17.6% in Southland. The following graph shows these rates of change and the two graphs showing regional data are reproduced in large format at the end of the document.

This doesn't really tell us anything we don't already know and what we really need insight into is whether the pace of price change is altering around the country. The following graph compares the September quarter annual change with that in the June quarter. We can see that the pace of price rises is accelerating in all but Northland, Manawatu/Wanganui, Wellington, Canterbury, and Otago.



Graph reproduced in larger format on the last page.

In fact, during the September quarter Auckland's prices rose by 1.6% and this is the equal most interesting piece of information gleaned from the prices data. The other attention-worthy thing is the way in which strength in the regions is continuing in spite of prices having already risen quite some way.

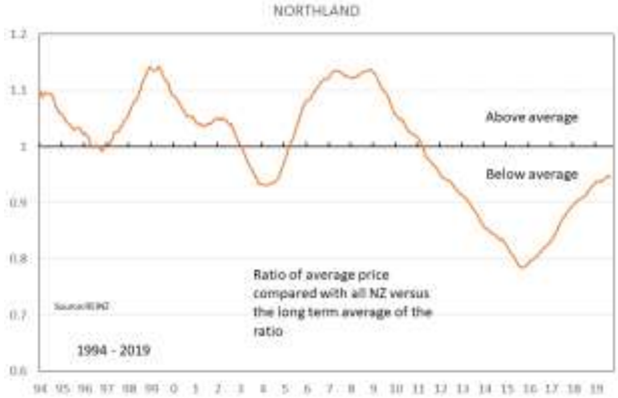
I had thought that by the end of this year the period of regional price catch-ups would be about done and dusted. But extra life in regional markets and perhaps a turning of the Auckland market can be put down to perhaps three things.

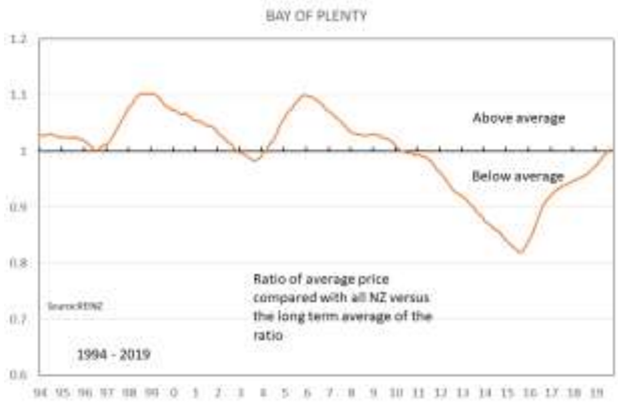
1. Confirmation of no capital gains tax.
2. Easing of LVR rules effective from January.
3. Interest rate cuts, expectations of further reductions, and expectations that rates will stay low for a very long time.

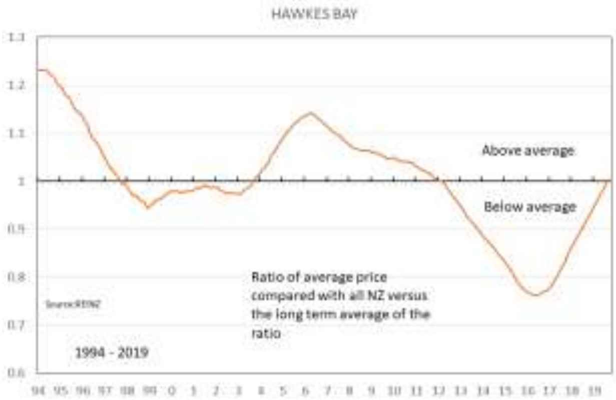
I give the first two factors only small weighting and feel the big factor is the change in interest rates. It is certainly the factor attracting a lot of attention in some other parts of the world.

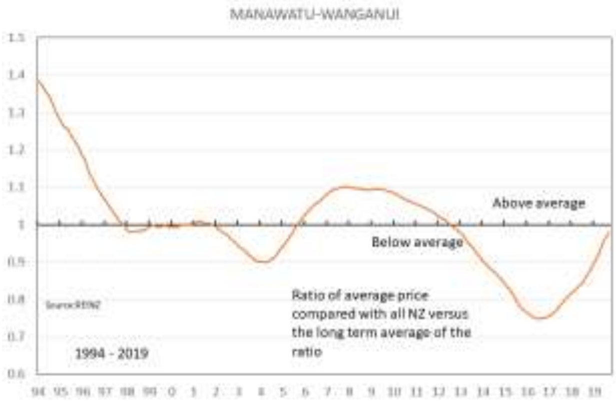
How much further will regional prices rise, and is this the start of a new stellar period for Auckland? Even before economic models were rendered near worthless by changes in behaviour attributable to the GFC and technology changes suppressing inflation, I never saw one accurately predict house price changes. In our new world one cannot reasonably expect to get a price forecast correct. Instead I try to get a feel for whether a region looks out of whack with national trends and every few months reproduce graphs showing this – which I will do this week given that the REINZ data just released are significant.

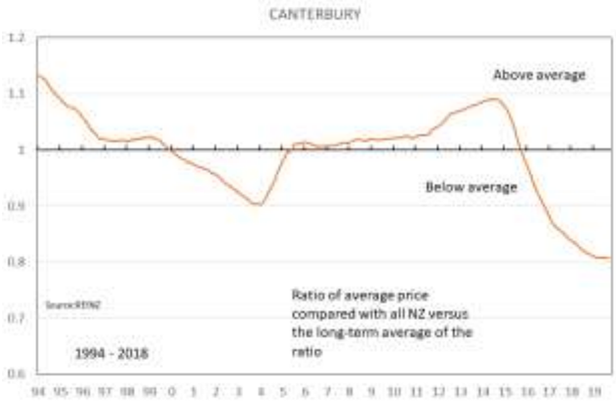
This first graph covers Northland and suggests prices are still below trend. The implication is that strength may continue longer than for Waikato, Bay of Plenty and Hawkes Bay.

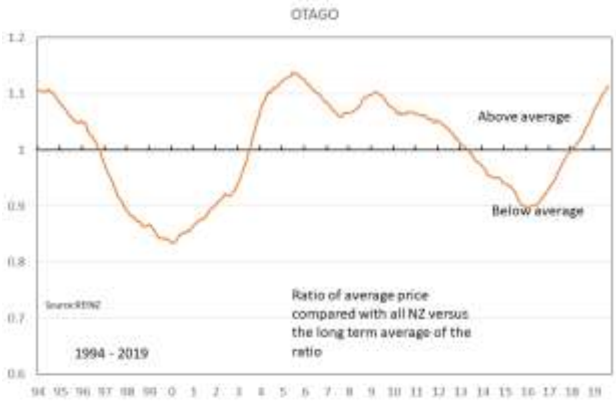


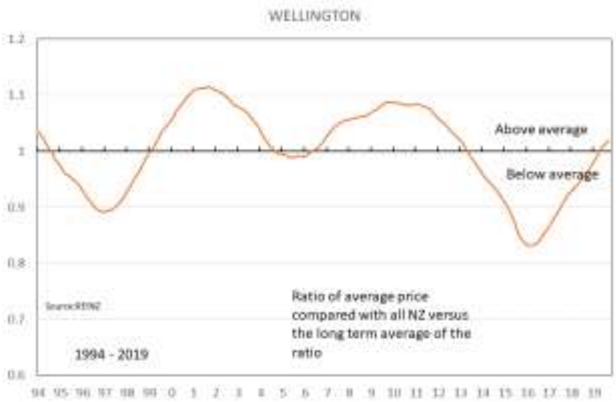


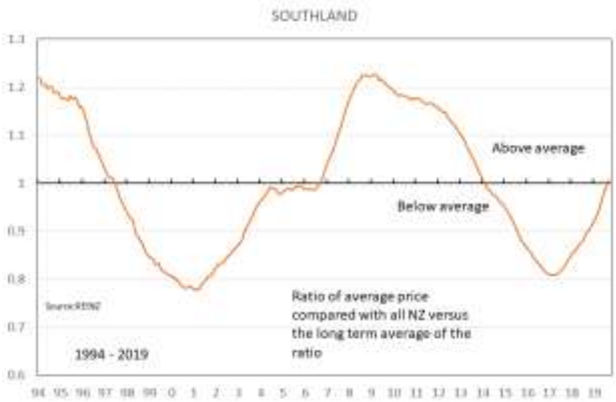












Taranaki, Nelson, and especially Canterbury look out of whack. Does this mean Canterbury in particular is a screaming buy? That would be a bit too strong a conclusion considering the disturbance created by the 2001 earthquake which will reverberate through the housing market for many more years. But if I did have a property down Christchurch way, I would feel quite relaxed about its long-term price potential – unless it were in one of the locations in Christchurch and around the country starting to appear in lists of places set to go under as world sea levels rise.

With regard to Auckland, do I think that prices could soon be rising 10%+ per annum for two or three years? No, but gains close to those predicted by others in the media recently, 7% or so for each of the next two years, are quite possible. Prices are not out of whack with long-term trends.

But more than that, there is not a major turning around of one of the key driving forces of price movements from depressing to boosting price settings. That is, net migration is not recovering from very low levels toward normal then above. The net annual flow of just over 50,000 is well above the ten-year average near 30,000 and not too much down from the peak of 64,000 in mid-2016.

Banks are not aggressively loosening lending criteria. But, having said that, LVRs are likely to be eased again effective from January when the Reserve Bank release their next Financial Stability Report at the end of November.

In addition, cashbacks are back. A few years back banks introduced cashbacks to attract new customers. Then the realisation went through that they were costing a lot of money. So, one by one the banks removed their cashback offers. Now they are back in force with some operators offering up to $3,000.

So, if I were borrowing at the moment, I would fully expect to get a cashback of at least a couple of grand, plus an attractive rate less than that advertised

Is house supply newly collapsing? No. The number of consents being issued is at the highest level since 1974 and 50% above the 20-year average.

Have house prices just fallen quite a bit so that buyers are now thinking things are cheap? Definitely not in the regions and Auckland prices only pulled back about 3.5%.

Are interest rates newly falling? Yes, and this is the big factor newly in play which suggests prices will turn upward for the next three years in Auckland, assisted by the big events over 2021.

Nelson

One email recipient asked for my thoughts regarding a planned boost in the supply of sections on the suburban fringes of Richmond just outside of Nelson. The potential gain of easily over 1,000 sections sounds like a lot. But the increase in supply may be stretched over the next 4-8 years. And I would expect the aging population to produce a boost in the wider Nelson area's rate of population growth given it is such a lovely place to retire to. For young people seeking affordable homes there is also sufficient critical population and business mass there – along with the great sunshine and access to the outdoors (and Wellington).

So, while we have seen many times in the past that the supply of sections can easily exceed demand and those sections sit unsold and unused for many years, there may be a different dynamic there than elsewhere.

In this regard, if time permits take a look at the report recently put out by the Productivity Commission looking at employment changes around NZ from 1976 to 2013.
https://www.productivity.govt.nz/assets/Documents/bcea812a17/New-jobs-old-jobs-Working-paper.pdf

There is a lot of stuff which we all fairly much know. But one point attracted my attention. They note that the economies of towns and cities had become less reliant on single industries and looked more like each other. That makes it easier for people to move from one place to another. And that means greater consideration can now be given by people, young and old, to a location's climate, outdoor access, transport linkages, CBD appearance, sports facilities, and heck maybe even it's history.

What this means is this. For now, I feel there is excess-optimism in some locations around New Zealand associated with the one-off adjustment in house prices in lagged response to Auckland's earlier surge. Once the surge in prices ends people will focus anew on the underlying fundamentals for their location and I can see local planners paying a lot more attention to issues like retail precinct appearances and recreation facilities aimed at both young and old.

And this is why the exit of Jetstar from some regional routes is very important. It will take some locations off the shopping list for people who can do their jobs in many locations.

Not that the regions do not have reason to crow for a bit based on population growth numbers. On Tuesday Statistics New Zealand released their subnational population estimates as at June 2018 and 2019. They show that while between 2013 and 2019 New Zealand's population in total grew by 10.7%, growth in Northland was 14.6%, Waikato 13.5%, Bay of Plenty 15.9%, Tasman 12.3%, Canterbury 11.7%, and Otago 13.1%. Auckland grew by 10.0%.

	2013-19	2018-19
Northland	14.6%	2.3%
Auckland	10.0	1.5
Waikato	13.5	2.1
Bay of Plenty	15.9	2.0
Gisborne	4.9	0.8
Hawkes Bay	9.9	1.3
Taranaki	8.0	1.4
Manawatu-Wang.	8.0	1.4
Wellington	8.4	1.1
Tasman	12.3	1.5
Nelson	8.6	1.0
Marlborough	10.1	0.8
West Coast	-1.2	0.3
Canterbury	11.7	1.8
Otago	13.1	1.7
Southland	5.4	0.8
North Island	10.7	1.6
South Island	10.8	1.5
NZ	10.7	1.6

On the basis of these numbers the chances are pretty low that the "vote for us if you want the money" slush fund – sorry, Provincial Growth Fund – is actually needed for now in the regions. Having said that, to the extent the fund boosts infrastructure in the regions that is good. But as for direct loans to businesses – if a bank won't touch them, as in not one of them, then there is probably a message in that.

This recent period has been one in which regional growth has been unusually strong. Will this continue? It pays to note that three things have delivered an artificial boost to regional growth in recent years.

1. Housing affordability and investment yield issues have encouraged movement by owner occupiers and investors out of Auckland.
2. There has been a tourism boom which has by its nature been regionally based.
3. There has until recently been a boom in the dairying sector and industries supporting it.

But now house prices have risen a lot in the regions it seems reasonable to think that regional growth relative to Auckland will ease off. The tourism boom has ended and future growth is vulnerable to rising climate change concerns. The dairy sector has probably finished expanding – though returns remain good with Fonterra lifting their projected payout projection range this week in response to market prices rising from shrinking supplies overseas and the lower NZ dollar.

In no way will these three factors see a return to the deep worries about regional economic and population growth of the 1990s-2000s. I don't buy the "zombie towns" argument. Not with improving roads, an aging population, and investment in the horticultural sector. But people may just want to curb some of their regional growth enthusiasm if they are basing it a lot on recent growth numbers.

For your guide, we will get updated sub-national population projections from Statistics New Zealand sometime next year.

Investors in Rotorua

Last weekend I gave a presentation at the national conference for the NZ Property Investors Federation, held in Rotorua. I love visiting Rotorua, partly because when I was growing up in Christchurch Rotorua was considered an exotic domestic destination in my family and I highly valued a ruler my parents brought back once as a gift after they visited there for a golfing holiday and/or Master Builders gathering.

Like many other centres around New Zealand Rotorua clearly faces some challenges with regard to central city retailing, especially with the mall looking like it attracts people away from the traditional strip shopping areas. But I think there might be a small positive effect on those shops from the special covered restaurant street (Eat Street) near the Novotel being at the other end of the central city from the mall.

Some of the things which I learnt from chatting with people at the conference include the following.

- There has been a surge in recent months in the number of people seeking information on investing in residential property.
- This surge in interest is directed more toward the main centres than the regions.

Havelock North

On Tuesday night I gave a presentation in Havelock North and stayed the night. This was the first time I have ever been in the town. I can see why so many people over the decades have chosen Havelock North to retire to. The climate seems good and the trees are just wonderful with beautiful blossom abounding. I imagine in autumn the colours must be excellent.

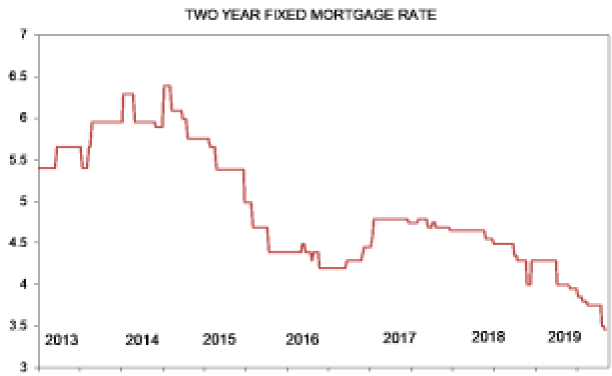
Unlike a lot of other small-town centres around New Zealand I found a good cohesiveness to shops in the central town area with no empty shops as far as I could see. At least three cafes opened at 7.00am but opening hours for many shops seemed to be 10.00am – 4.00pm. Fair enough. What I saw in Rotorua on Friday night just before 5.00pm were deserted streets in front of the CBD shops.

Hawkes Bay traffic? Challenging. A high mix of cars and commercial vehicles, and you’ve got to have your wits about you as a visitor when at the numerous roundabouts. The distance from the airport and changes in direction to Havelock North can be deceptive.

In other words, pretty much like every other part of the country enjoying good population growth, infrastructure is struggling to keep up.

Interest Rates

Nothing new to comment on this week. Further rate cuts are expected here and offshore, and it is difficult to know how much of each 0.25% rate reduction will feed through to reductions also in term deposit rates. Banks need to retain a large deposit base with people locking money in for longer than just 30-90 days in order to meet Reserve Bank liquidity requirements. So perhaps unlike Australia, where banks have just cut some deposit rates by more than the 0.25% rate reduction, we won’t see a full feed-through here.



As previously noted, the Reserve Bank is cutting interest rates in the hope that you and I will boost New Zealand’s already high household debt to income ratio by borrowing more money as well as saving less. At the same time the Reserve Bank is sending a signal to banks that they should lend less money because they will probably soon have to start holding more capital for every loan they make. Go figure.

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

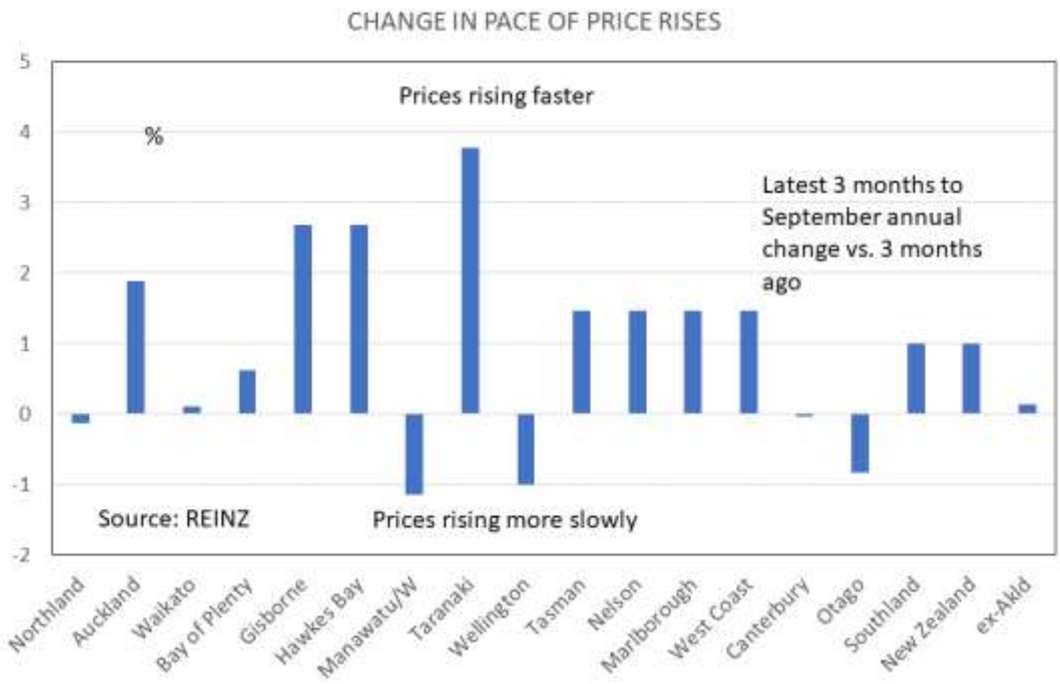
For your guide, in my family it is not just myself communicating and informing people principally online and working from home.

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).

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/

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

DETAILED GRAPHS ENLARGED


CHANGE IN PACE OF PRICE RISES
Prices rising faster
%
Latest 3 months to September annual change vs. 3 months ago
Source: REINZ
Prices rising more slowly
5
4
3
2
1
0
-1
-2
Northland
Auckland
Waikato
Bay of Plenty
Gisborne
Hawkes Bay
Manawatu/W
Taranaki
Wellington
Tasman
Nelson
Marlborough
West Coast
Canterbury
Otago
Southland
New Zealand
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