TONY'S VIEW

Input to your Strategy for Adapting to 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.

House Price Negatives

Let's go against the flow of commentary and reality for the moment and run through some arguments as to why house prices might fall rather than rise. My expectation is that the positives will continue to dominate the negatives and rises will occur. But it always pays to remember that other factors are in play. So, for the remaining pessimists out there, enjoy.

- Absence of foreign students will depress demand for accommodation.
- Absence of foreign tourists will also depress accommodation demand.
- Fewer people in work will reduce numbers willing and able to take out a mortgage. Some people will have to sell the house they already own, others delay their purchase as they fund ongoing spending by running down money intended for a deposit.
- Consumer confidence is at below average levels and this tends to be associated with reduced willingness to spend and invest, plus greater determination to build precautionary savings and reduce debt.
- Wages growth will slow down and this will reduce the pace at which people build housing deposits while cutting into projected future debt-servicing capability.
- Young people will tend to shift back home to save money.
- Some students will switch to online learning and that will reduce demand for accommodation.
- Banks have tightened lending criteria for people who are self-employed, receiving irregular income like commissions, and working in the most heavily affected sectors such as tourism and hospitality.
- Sustained low deposit rates may encourage more retired people to sell housing assets in order to free up cash.

Hypnotic Fail

I think that most of us, in our own way, would be of the view that the semi-lockdown in Auckland from early-August and association restrictions elsewhere, did not feel like the proper lockdown of March – May. There was less sense of willing sacrifice, less sense of us all being in it together, and more feelings of disappointment, anger, confusion, fear perhaps, and outright tiredness.

I have a couple of examples to offer regarding the impact of recent weeks. A business acquaintance in Dunedin this week noted that the number of red and yellow cards being issued by referees at community soccer games was running more than double normal levels.

In Rotorua last week, I attended a company's dinner midway through a conference, and there was "entertainment", sort of. A gentleman got up and did a magic trick then revealed that he was not a magician but a hypnotist. He managed to get five volunteers to go to the front of the room (not me) in order that they would be hypnotised, and we would presumably have a good laugh.

Unfortunately, he could not hypnotise anyone. He said that in 40 years in the business that had never happened before. Much as he used a good calming voice, and the technique of getting people to relax their body from the top to the bottom, people simply could not relax enough.

It's not the biggest performance failure one could imagine and he was very professional in handling it. But it perhaps illustrates the way in which we are all a bit antsy and want this virus to be over and done with, even though our experience in New Zealand is so much better than that of people in almost all other countries bar a handful.

But this is partly where I get my view that from here on out, much as we will see many problems around us, we will "live" in a future period. We will base our business planning, personal investment, and choice of attitude decisions on a period 12+ months down the track when we are hopefully vaccinated and the borders are open, or close to being opened.

We will choose to focus on better times down the track even as we deal with the continuing after-effects of lockdown and border closure around us.

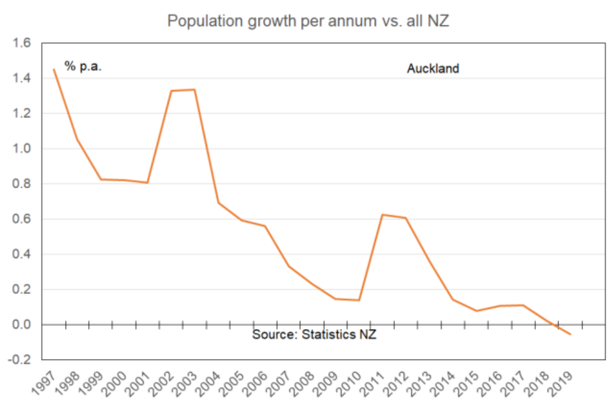
And that is a key reason why I am not in the camp of those believing that substantial woe lies ahead which will cause house prices to fall away and make their out-of-date forecasts one day come true.

Population Growth

Yesterday, Statistics New Zealand updated their population estimates for all New Zealand, all regions, and territorial authorities, to reflect the results of the 2018 census. They substantially lifted population estimates for all regions except West Coast. So, if you happen to run your own little model to predict house prices based on things like population growth versus consent issuance (I don't) then you'll now have to recalculate to produce greater shortages in your areas of interest.

They have lifted their estimate of the NZ population in June 2018 by 60,000, and by 62,000 for June 2019. That means the country is short about 23,000 more houses than anyone's previous calculations would have suggested.

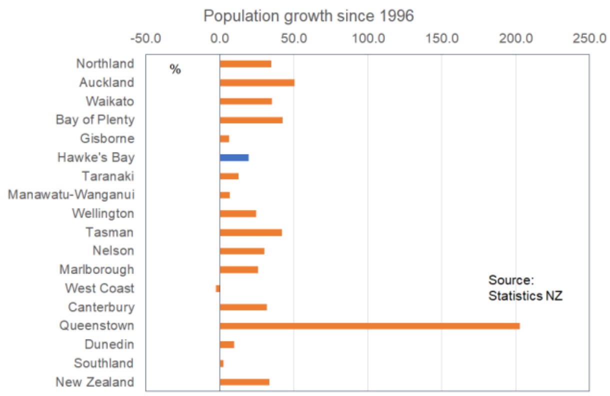
Previously we were able to calculate that the Queenstown Lakes District population between 1996 and 2019 had grown by 182%. Now we can estimate 203%.

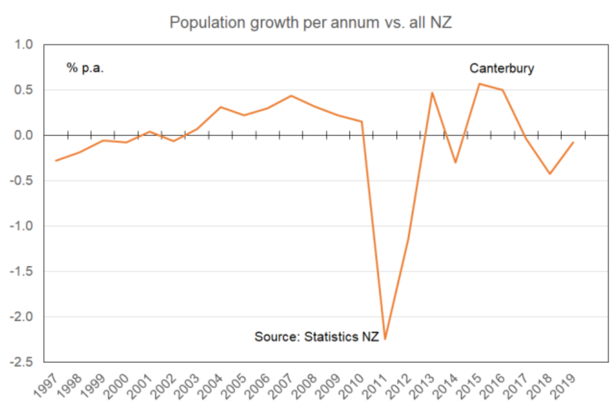


Here are the changes for all NZ regions, but with Otago replaced by Dunedin City and Queenstown Lakes District.

Population growth 1996-2019

	New %	Old %	Change %
Northland	34.8	34.1	0.6
Auckland	50.6	47.2	3.4
Waikato	35.3	34.4	0.9
Bay of Plenty	42.3	40.6	1.7
Gisborne	6.1	4.4	1.7
Hawke's Bay	19.4	18.5	1.0
Taranaki	12.7	12.6	0.1
Manawatu-Wanganui	6.8	6.5	0.3
Wellington	24.8	23.6	1.1
Tasman	42.0	41.2	0.8
Nelson	30.1	28.4	1.7
Marlborough	26.0	25.5	0.5
West Coast	-2.7	-1.8	-0.9
Canterbury	31.6	30.8	0.8
Queenstown Lakes	202.7	181.8	20.9
Dunedin City	9.5	9.0	0.5
Southland	2.5	2.2	0.3
New Zealand	**33.4**	**31.8**	**1.7**





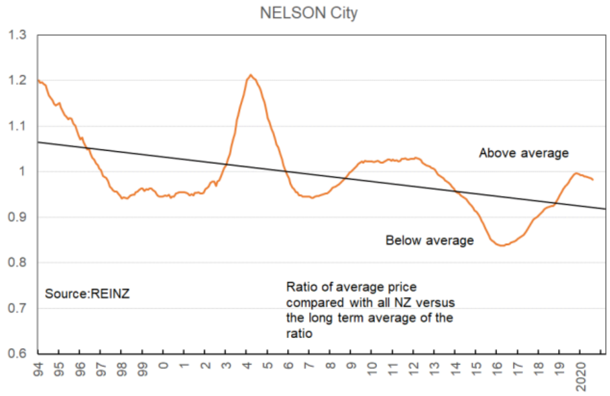
TONY'S VIEW

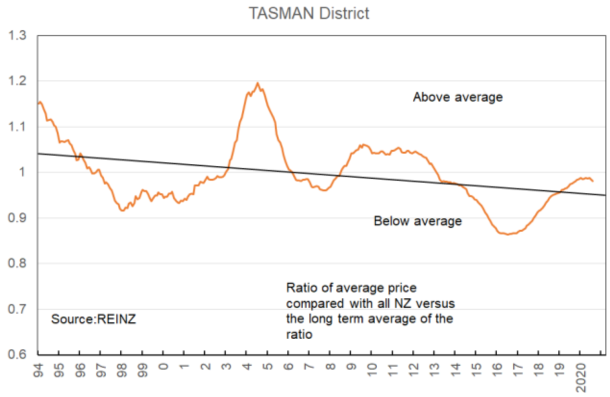
New Zealand's Housing Markets

Nelson and Tasman

Last week I gave a presentation to some property investors in Nelson, and for those who have signed up to my weekly publication, here are some graphs showing where your two principal regions are at – Nelson and Tasman. For the large number of people who attended and Zoomed into a similar presentation on Tuesday night in Dunedin, I will present similar material for their area plus Queenstown Lakes next week.

The trend in prices for Tasman and Nelson regions is very slightly down compared with the NZ average.



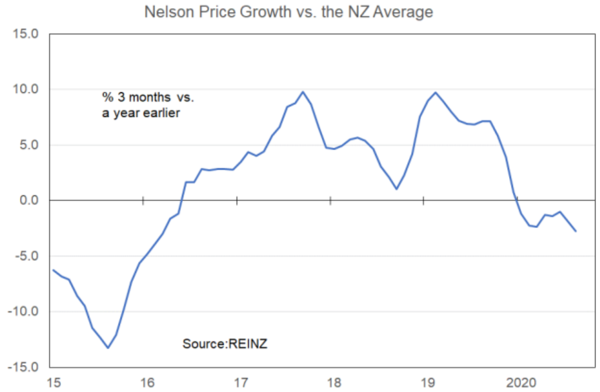


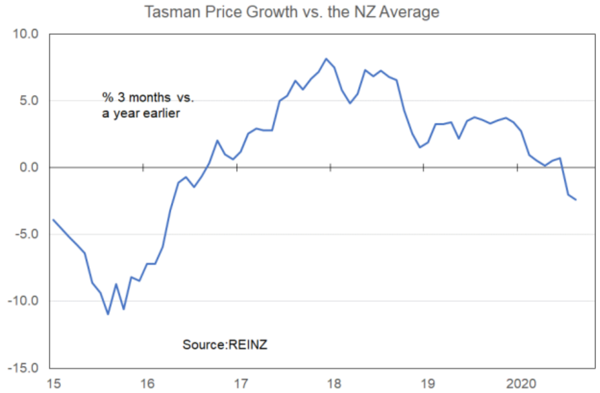
Since 2016 both regions have enjoyed greater than average price growth, as has happened for many parts of the country catching up to Auckland's earlier surge.

Now, those price catch-up periods have ended.

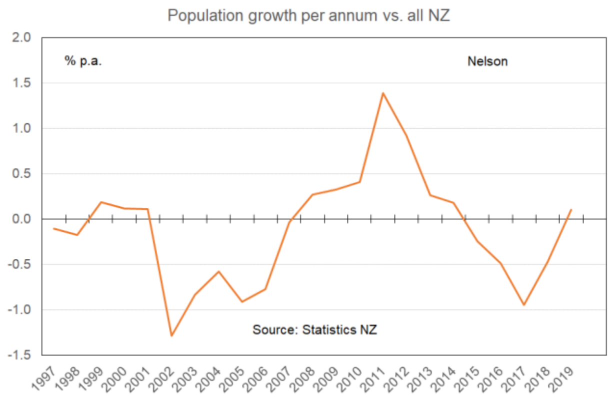
In the three months to August average house prices for all New Zealand were ahead 8.8% from a year ago. Nelson was ahead 6.2% and Tasman 6.6%.

Compared with the three months to March, nationwide prices have risen by 1.1% with Nelson flat and Tasman up 1.3%.

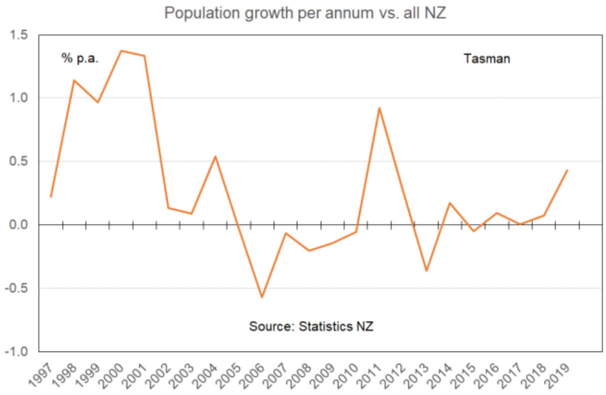




Since 1996, while the NZ population has grown by 33% and Auckland 51%, Nelson has grown 30% and Tasman 42%. The Tasman region is achieving strong population growth which is placing high pressure on transport infrastructure. Nelson's population growth recently has mainly been weaker than average.



But Tasman is still achieving slightly above average population growth.

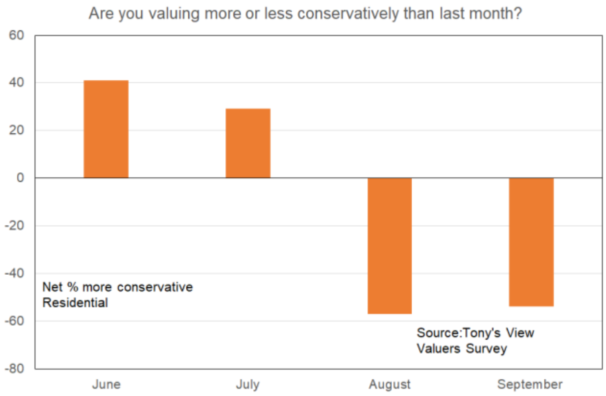


As a rule, internal migration sees Nelson lose people to Tasman and lose a greater number to Wellington. Tasman gains a greater number of people coming up from Canterbury, and both gain from Auckland.

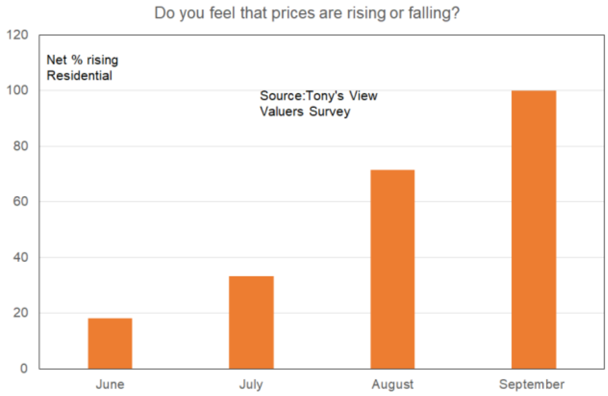
Valuers Survey

This month's survey of valuers around New Zealand attracted 35 responses and the results are consistent with many others showing property not doing what many expected when Covid-19 struck.

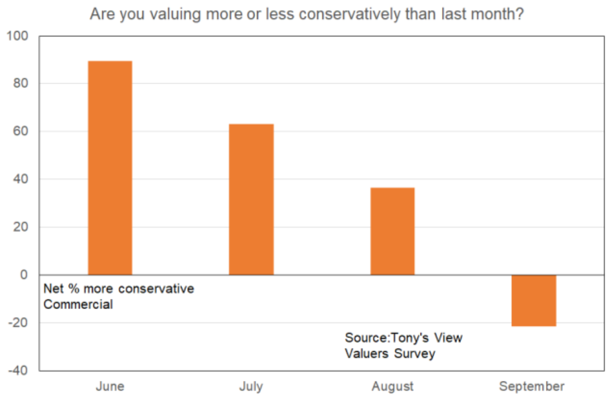
A net 54% of valuers say that they are valuing residential property less conservatively than last month – meaning, they have for the past two months adopted more of an upward bias to their valuation estimates.



A net 100% perceive residential property prices now to be rising. Back in June only a net 18% felt that price appreciation was in fact underway.



The results are similar for valuation of commercial property with a net 21% of valuers saying they have become less conservative in their pricing, and a net 57% saying they believe commercial property prices are rising. This latter result back in June was a high net 42% feeling that commercial property prices were falling.

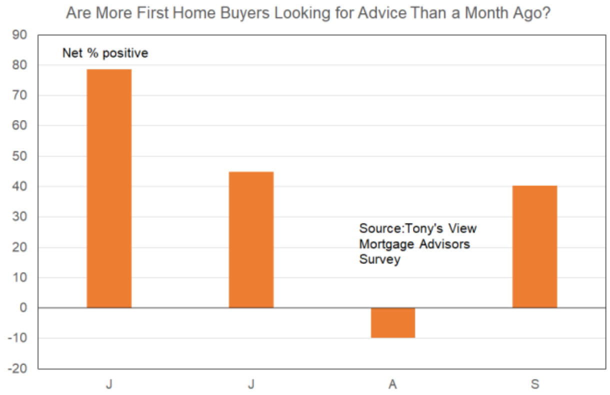


Tview Premium contains near three pages of insights offered by valuers regarding how they are seeing things in their location.

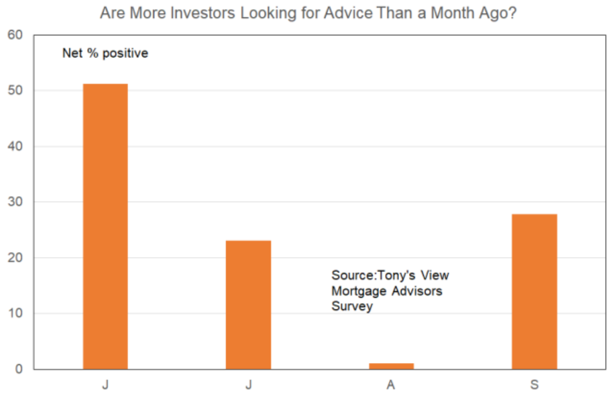
Mortgage Advisors Survey

This past week I have also run my monthly survey of mortgage advisors form all around the country and received 72 responses. The results show a bounce back up in various measures after the announcement of Auckland going into Level 3 Alert caused an easing all around the country.

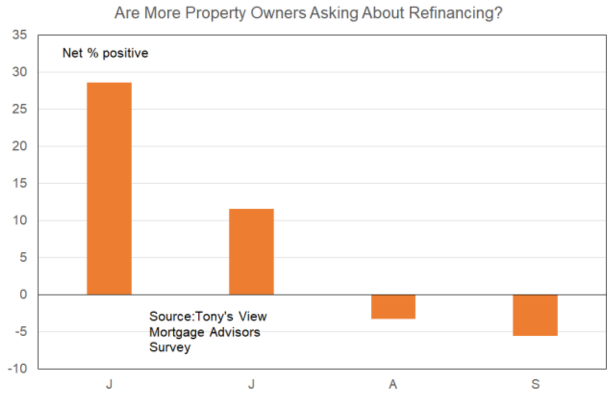
A net 40% of advisors say that they are seeing more first home buyers. This is well away from the net 10% seeing fewer in August and back near the 45% of July.



Similarly, a net 28% of advisors now see more investors out there, as compared with only a net 1% seeing them in August but a net 23% in July. What is the second interesting thing we see then beyond the bounceback of FHB and investor interest? That the recovery in investor interest is weaker than the recovery in FHB interest.

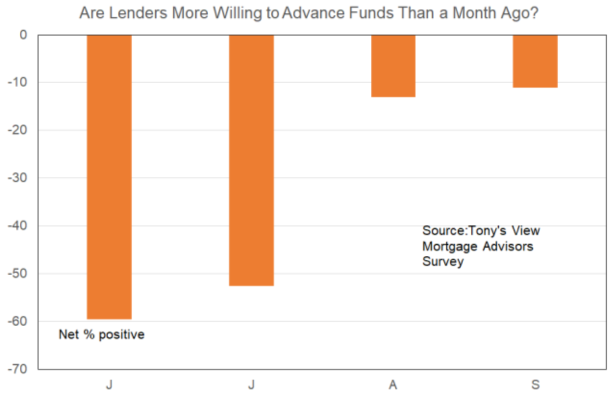


A net 6% of advisors report that they are seeing fewer people asking about refinancing their existing mortgage. So, perhaps the scramble to try and free up cash associated with falls in mortgage rates which largely stopped at the end of May, has itself ended. The survey was not running when mortgage rates were being quickly cut up to May.



But now we start getting to the real nitty gritty of this survey and why it exists – insights into bank lending willingness and practices. In the August survey, when investors and first home buyers backed off, mortgage advisors did not report a new surge in bank unwillingness to lend. Therefore, it is perhaps not surprising that the easing of Alert levels has failed to produce a surge in bank willingness to advance funds.

A net 11% of advisors still say that they are finding banks less willing to advance funds than a month earlier.



Tview Premium contains about 3 pages of insights offered by mortgage advisors for conditions in their region.

Interest Rates

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

Last week I was asked whether I thought NZ banks might soon introduce much longer fixed mortgage interest rates – out to as long as 30 years. This is the standard term in the United States. There are a number of reasons why this has not happened in New Zealand and will not.

First, in the United States the 30-year fixed mortgage rate is not really fixed. It is a cap. Borrowers have a legal right to get their bank to reset their rate lower if fixed rates decline. At the moment, people are doing exactly that. Sometimes this can be very costly for a bank, as one Aussie bank discovered when it expanded a couple of decades back into the US market, failed to cover the fixed rate book it bought by borrowing fixed, and lost about $4bn if I recall rightly.

Banks in the US can usually handle fixed rate lending by "riding the curve". That is, they lend long and borrow short. This tends to work well over there because historically short-term interest rates have sat below long-term interest rates.

However, in New Zealand we have an established history of periods when short-term interest rates have been strongly above long-term interest rates as the RB fought inflation by raising the official cash rate, but we Kiwis kept pushing house prices up regardless.

That behaviour may, or may not, have now changed. No bank is likely to take the risk of assuming things are now different and choosing a ride the curve strategy. Prudent risk management will keep banks borrowing fixed as they lend fixed.

That then switches the issue back to whether banks might lend fixed for 10, 20, and 30 years and simply borrow fixed. They could, but in the past have not because investors preferred their exposures to the NZ dollar to be of shortish duration. Things are different now and banks probably could comfortably borrow at fixed rates for long terms.

Which brings us back then to just one thing – borrower demand. Is there actually demand out there for long-term fixed mortgage rates? Definitely not.

The only time Kiwis in the past have shown high preference for fixed rates beyond the three-year term has been when those rates were noticeably lower than the floating and short-term fixed rates. The trouble is, when that happened in the past people would ignore the reason behind such an inverse (downward sloping) yield curve. The curve would be inverse because the RB was screwing rates up to screw the economy down. They always win in the end, and when that happens all interest rates end up falling sharply. This happened in 1998 and again pre-GFC, and on both occasions I recommended that people not touch the long fixed rates with a bargepole.

It was in 1998 in particular that thousands of people learnt about break costs, as they watched five-year fixed rates fall nearly 2% over a six-month period.

So, there has developed in New Zealand a tendency now not to fix for a long period. That tendency has been reinforced this past decade by interest rates continuing to surprise us all with their low levels. People who fixed long over the past few years have missed out on the surprise benefit of rates falling.

But the big issue is this. As a rule now, we Kiwis don't look to the future when we choose what term to fix at. We simply lock in whatever rate is the cheapest. That means currently virtually everyone is fixing for about one-year, with just a few out to the two-year period.

In my monthly survey of mortgage advisors, I ask what term people are choosing. My latest survey shows that 96% of people are fixing for one-year.

For the record, this week there were no meaningful changes in wholesale interest rates. Tiny falls were recorded, consistent with a rise in global heebie geebies associated with rising infection rates offshore and reintroduction of some control measures.

Tony's View

My daughter Lilia Alexander (finalist in the Youth category for Wellingtonian of the Year 2019) owns and runs Social Media based Wellington – LIVE (>220,000 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
She also now has a photography site. https://www.liliaalexander.com/photography

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