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.

Just in case you were wanting to hear me present in person, on July 22 I will be one of the presenters at a Workplace Wellness Business Forum on July 22. Full details here.
https://theengine.biz/businessforum/

Confidence Matters More Than Ever Now

Because of very strong growth in my Tony's View subscriber base in the past three months I've been able to get up and running four monthly surveys aimed at delivering insight to anyone interested in the housing market and retailing. The four surveys are

- Spending Plans Survey
- REINZ and Tony Alexander Real Estate Survey
- Valuers Survey
- Mortgage Advisors Survey

There is also a quarterly survey of bankers which I'm about due to repeat. Plus, the occasional ad hoc one – which I will send out next week.

My aim is to deliver unique insights rather than just repeat what is already known from other statistics, and that is something I've had a go at in extra form in the Spending Plans Survey sent out yesterday morning. If you haven't done it and want to do so before I start fully collating results from Friday morning, you can click here.

https://forms.gle/KzLvE4BbYEy5TyXj6

Towards the end of the survey I ask respondents what scares them more – the health effects of the Covid-19 virus or the economic effects. Of the 2,500 people who have responded so far, 19% say the health effects and 81% the economic effects. This highlights the awareness people have of the cost to us all of fighting the outbreak which is being so badly mismanaged by many other countries – and at our own border now. The virus might have started in China, but its mismanagement elsewhere has become the greater crime.

I also ask people if they are willing to go back to Level 4 Lockdown should we again get community spread – a risk still present only because of incompetent border management. 46% say yes, but 43% say no and 11% do not know.

I read that as saying the goodwill which people have had toward letting the government take action necessary to protect vulnerable groups, has now been lost.

Why have I mentioned these things? Because confidence matters when it comes to the willingness of banks to ease up their recently tightened lending criteria – discussed below.

Confidence also matters when it comes to not just the willingness of businesses to hire new staff, but their willingness to keep them on in a few weeks when the final version of the wage subsidy scheme ends. If businesses believe that good management means better economic times lie just ahead, then the feared wave of new layoffs come the end of the subsidy might not happen.

But if business owners feel that recovery still lies well into 2021, they will be more inclined to let people go. There is currently a direct link between what is happening at our borders and what happens with job losses just ahead of the general election.

This isn't about monetary policy, it's not about fiscal policy, it's all about border policy.

What about consumer confidence? Given that household spending typically makes up 65% of GDP, the confidence that you and I have to go to the shops matters most of all – and that is why I focus my Spending Plans Survey on the things you and I will tend to buy more of and less of. With 2,500 responses in so far, I know the answers, (one will be a big relief to domestic tourism operators) but will save them up until I release the writeup early next week. Details on regional differences and age differences will be included in Tview Premium.

Housing Markets

Banks still scared

Last week I ran my first monthly survey of Mortgage Advisors. Full results have been sent to all those who responded and Tview Premium subscribers. In summary, what the results tell us is this. If you're an advisor and want to be included in next month's Mortgage Advisors Survey, email me and ask to go on that list tony@tonyalexander.nz

A net 79% of advisors are seeing more first home buyers in the market and a net 51% are seeing more investors. But potential buyers are having two problems. The first is finding something to buy because listings remain so low. The second is that banks have tightened up their lending criteria according to a net 60% of advisors.

Most people are looking to fix their mortgage rate for just one year.

The advisors supplied many pages of insights into how the banks are operating at the moment and I've printed two pages in Tview Premium containing representative quotes from around the country, with particular insights for Auckland and Canterbury.

What they tell us is that banks have yet to reduce the interest rates they use for testing debt servicing ability of borrowers, and those rates remain more than twice the rates people are actually locking in. Typically, these test rates range from 6.5% to 7.5%.

Banks have yet to pass on the removal of LVRs (though one or two cracks are appearing just this past week), and they are requiring substantial proof of post-lockdown incomes. They are also actively discriminating against borrowers working in certain industries most heavily affected by the virus and border closure.

And banks are still taking a long time to process mortgage applications, typically out toward 10-12 days and sometimes longer.

From a housing fundamentals point of view some people might look at this reluctance of the banks to lend as placing downward pressure on house prices in the short-term. Technically that is true. However, it means that the queue of people wanting to buy and as yet unable to do so is growing longer and longer by the week. When the banks do eventually ease up their lending criteria there could be some new extra upward pressure on house prices.

This is important because it sends a signal to people owning a property they were thinking about selling, to hold off for when the long-term funded fundamentals can reassert themselves, and the upward trend in house prices returns.

When might banks start loosening the lending reins? Not until they are confident that the economic outlook is better and risks lie on the positive side. For the moment their requirement to undertake responsible lending means they simply cannot open the spigots. They cannot say that our economy is improving sustainably as yet and that the worst is over for most people. And they can't yet have confidence that house prices are not going to fall away.

When might they get that confidence? Certainly not before the government can show that after we 5 million did our part to control Covid-19 that they are capable of doing their part and controlling the borders. If anything, the failures of the public servants in recent weeks have delayed our economic recovery and will have made banks even less willing to lend.

Maybe this is what happens when you put people in charge who are not at risk of losing their jobs should the economy tank anew, and are not held accountable for their failures. Maybe they should all be renamed Phil or David.

Maybe they should have put the military in charge of KiwiBuild, or Auckland Light Rail.

Perhaps Spring will be the time for some easing in criteria, coinciding with the traditional lift in listings over October and November.

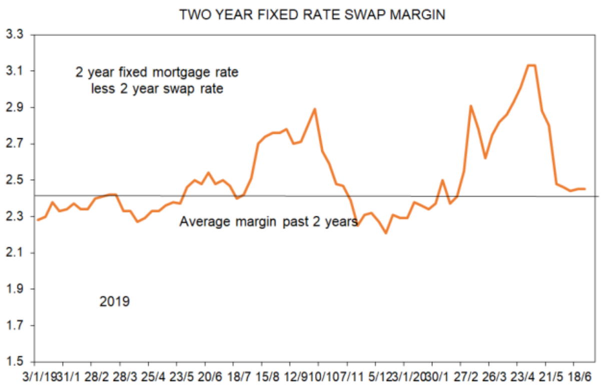
Interest Rates

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

This week the Reserve Bank reviewed their official cash rate and surprised no-one by leaving it unchanged at 0.25%. Back in March when they cut it to 0.25% from 1.0%, they said they would be leaving it at that level for a year and there seems no reason for expecting that they will not follow through with that plan.

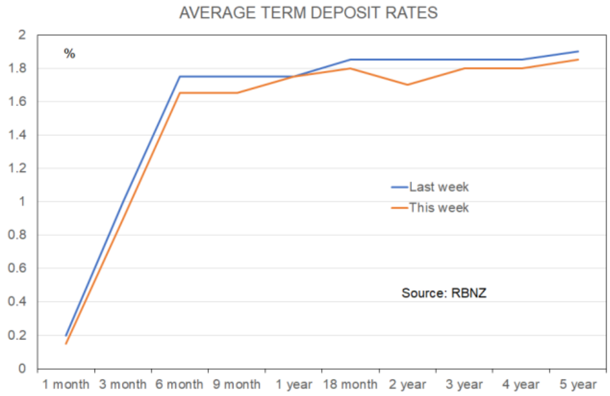
However, they do retain the ability to tweak other things and we have already seen that with their attempt to inject a little bit more stimulus through removing LVRs. As yet, the impact of their removal has been almost zero and that possibly explains why in yesterday's review of the cash rate they made another comment along the lines that it would be in the banks' best interests if they were to ease things up some more.

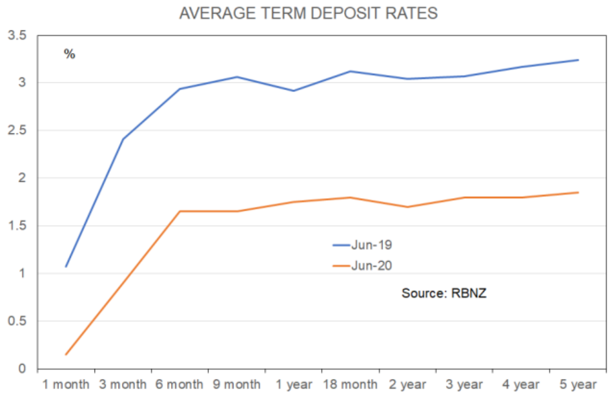
Margins on fixed rate lending are not out of whack with levels of the past two years therefore it does not seem reasonable to expect that banks will respond to the renewed threat with another round of mortgage rate cuts. But as my new survey of Mortgage Advisors shows, there are plenty of other areas in which banks can boost their lending and help stimulate the economy.



The 90-day bank bill yield remains just below 0.3% and is likely to be there for a long time. The three-year swap rate is marginally lower than last week also just below 0.3%.

For term depositors the news remains bad with rates edging lower last week as they have done for a few months, opps, years now. These two graphs show these changes for average term depo rates across the main deposit-takers in the form of yield curves now and last week plus a year ago. Read 'em and weep.





If I were a borrower what would I do?

I'm pretty much a lone wolf with my personal preference for fixing five years. Maybe that reflects my conservative attitude toward financial management, and memory of very high interest rates over the past three and a half decades.

But 2.99% for five years is not good enough to entice virtually anyone else with my Mortgage Advisors Survey showing overwhelming preference for one and then two-year terms. This reflects the fact that people simply chase whichever rate is the lowest. Intelligent you say? Not so fast.

For the moment the risks in rate-chasing are low. But I well recall the periods leading into 1998 and 2008 when yield curves were negative, (short rates were well above long rates), people flocked to fixing five years to save cash, then streamed into their banks a few months later trying to break those rates when monetary policy got slashed.

Rate chasing is the most dangerous thing you can do when the yield curve is inverse. But we are years away from that happening. So, for the moment, people locking in just 1-2 years are likely to be okay. What could go wrong? Oh yeah – the scientists develop a vaccine quickly, borders open, the outlook improves a lot, and record easy monetary policies start to get unwound. One can only hope. Unless you're borrowed to the hilt and fixed for just one year.

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