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.

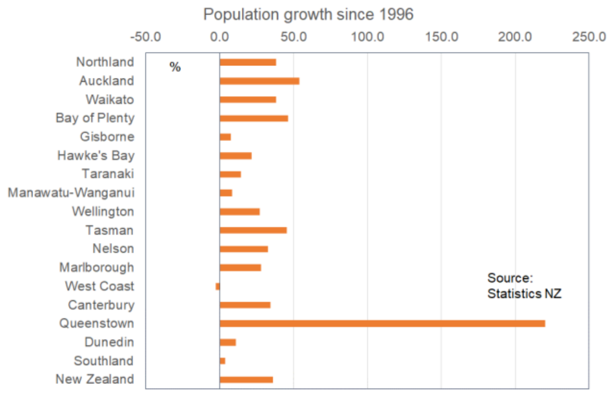
Population Growth

Each year I deliver up to 100 presentations and webinars, and almost all of them are to closed groups. But now and then one comes along which anyone can gain access to, and that is the case for a webinar I will be presenting next Tuesday 3rd November. If you are interested, click here. https://theengine.biz/business-briefing-navigating-the-road-ahead/

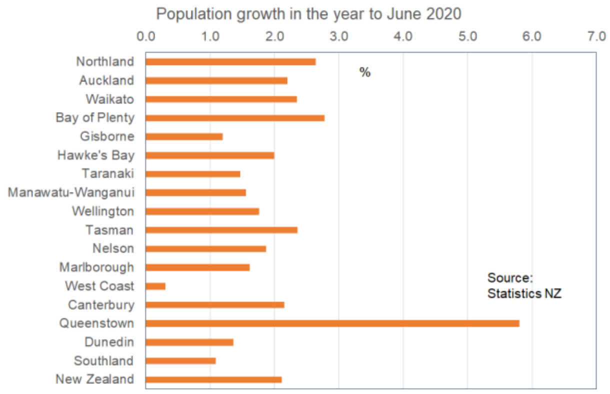
Statistics NZ this week released their latest population growth numbers by region and territorial authority, and they show us where population growth is the fastest, and where the slowest.

Let's examine things at the regional level, first by looking at where population growth has been the strongest since 1996. The top location amongst the 17 which I track (I split Otago into Queenstown Lakes and Dunedin) is Queenstown Lakes District at 220%, followed by Auckland at 54% then Bay of Plenty 46%, Tasman 45%, then Northland and Waikato at 38%.

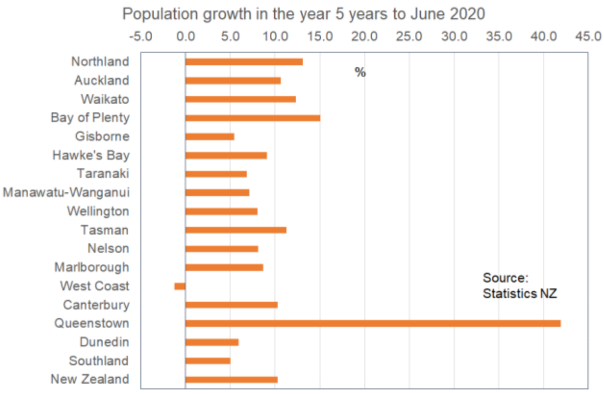
For all other regions growth is below average, with the West Coast shrinking by 2.4%, Southland growing just 3.6%, and Gisborne 7.4%.



Are these relative growth rates continuing? Over the year to June Queenstown continued to lead with growth of 5.8%. But Auckland at 2.2% was only just above the NZ growth rate of 2.1%, and behind Bay of Plenty at 2.8%, Northland at 2.6%, and Tasman at 2.4%.



The West Coast continued to be the laggard, along with Gisborne and Southland. In fact, consider the past five years. The following graph shows Auckland's population grew by 11% between 2015 and 2020, less than Northland's 13%, Waikato's 12%, and Bay of Plenty's 15%.

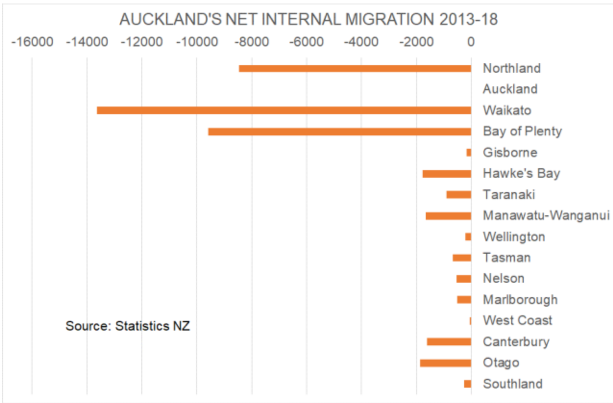


Auckland's population growth is no longer the strongest of all regions (excl. Queenstown).

The growth is becoming more widespread in the areas neighbouring Auckland. Development of the roading network around Auckland and in these neighbouring regions suggests this trend will continue.

And, as I usually highlight now when undertaking regional deep dive analysis for Tview Premium subscribers, internal migration flows out of Auckland are a key source of population growth now for many regions. This flow is likely to continue given the momentum which has developed in neighbouring regions, and the aging of Auckland's population. Now, we can add in the Covid-19 factor encouraging people to consider their overall lifestyle and for many that is meaning making a shift out of Auckland earlier than they might have been thinking.

This graph shows the net population losses for Auckland to other regions between the 2013 and 2018 censuses. Note the flows to Northland, Waikato, and Bay of Plenty.

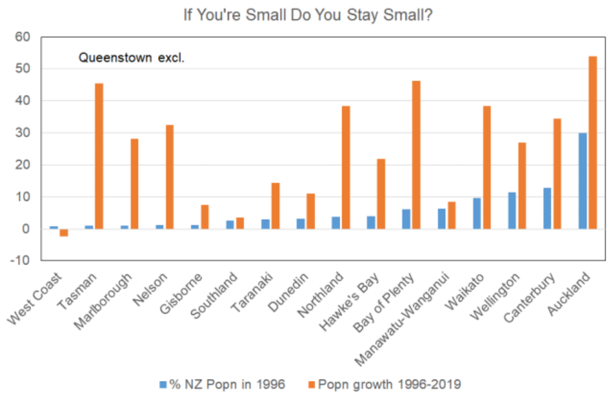


This is one of the reasons why although the Auckland housing market ended its fallow period late last year and has entered the period of cyclically strong price growth, this does not mean that the regions are going to lag pricewise this time around.

The kick up in the housing cycle initiated by the Reserve Bank cutting its cash rate 0.75% last year will bring price gains across the entire country, without Auckland uniquely leading as happened from 2012.

Small Forever?

A few weeks back I published some analysis addressing the question of whether regions which were small many years back stay small. The answer is no. The graph below ranks regions by the smallest 1996 population to the largest and shows strong growth for Tasman, Marlborough and Nelson. Same for Northland, Hawkes Bay, and Bay of Plenty. Queenstown is excluded from this graph because it distorts things too much.



Slow Growth ≠ Slow House Price Growth

But just because your population growth is slow or fast, does that mean your house price growth is slower or faster than average? This is a question I also looked at recently, with the conclusion that no, such a relationship does not exist.

The table in the next column shows average annual growth in house prices by region since 1996. There is no obvious under-performance by slow population growth reasons.

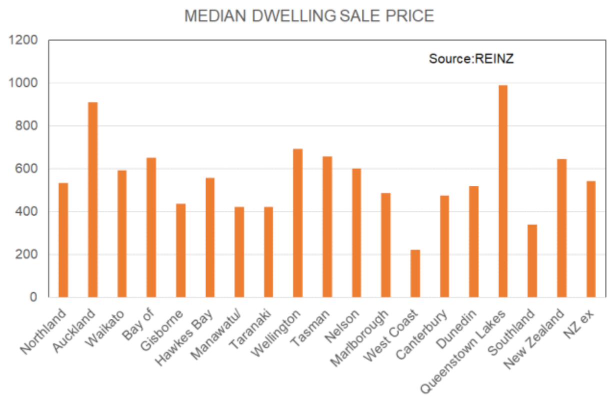
Why is population growth not a determinant of house price growth? Because regions with the strongest population growth have the strongest house supply growth.

Why have I repeated presentation of analysis discussed only recently? Because it can hopefully provide an answer to the question which many young buyers are asking themselves recently. Can I build enough equity to ever get into a big city housing market?

	% per annum
Northland	6.5
Auckland	6.8
Waikato	6.7
Bay of Plenty	6.6
Gisborne District	6.2
Hawkes Bay	6.5
Manawatu/Wanganui	6.3
Taranaki	6.3
Wellington	7.0
Tasman District	6.5
Nelson City	6.4
Marlborough District	5.9
West Coast	6.1
Canterbury	5.3
Dunedin City	7.0
Queenstown Lakes District	7.8
Southland	6.8
New Zealand	6.5
NZ ex. Akld	6.3

Many young people are considering investing in a property to get their foot on the property ladder, build equity (assuming prices keep rising), then taking the anticipated eventual capital gain a few years from now and financing their large city purchase. But for some they do not have enough of a deposit even to make an investment property purchase, substantially because they are fishing in the same pool as investors.

An option then is to purchase in the regions where average prices are lower. This following graph shows average house prices by region for the past year using REINZ medians.



It's not a guaranteed road toward building a deposit. But if you are going down that route and your cynical friends in Auckland tell you that you are stupid, show them the table above. Good luck.

TONY'S VIEW

New Zealand's Housing Markets

Construction

Prospects for construction look excellent – even if the government never gets it's "shovel ready" infrastructure projects off the ground. For young people seeking a real job, I have no hesitation in recommending the trades.

One interesting development with regard to the housing sector is well captured in this email I received during the week.

"What I have noticed, particularly in Auckland, is the volume of new-build terrace houses off the plan sales (as a result of the up-zoning due to Unitary Plan) going to investors. We have recently purchased two properties off the plans whereas prior to Healthy Homes and particularly the introduction of RTA Amendment 218-2 (no-cause 90-day termination removal) we wouldn't have looked at this type of product. Now we've made a specific shift in our investing towards newer stock with a view to hopefully obtaining a different type of tenant and possibly easier borrowing due to new build."

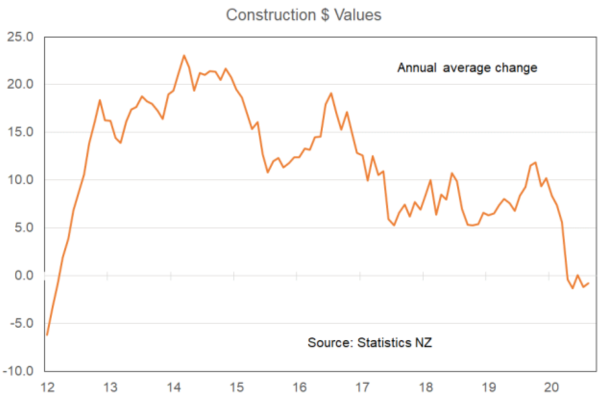
Investors are responding to their reduced ability to remove poor tenants and the need to have high spec. housing by shifting at the margin toward buying new properties. This will be good in the sense that

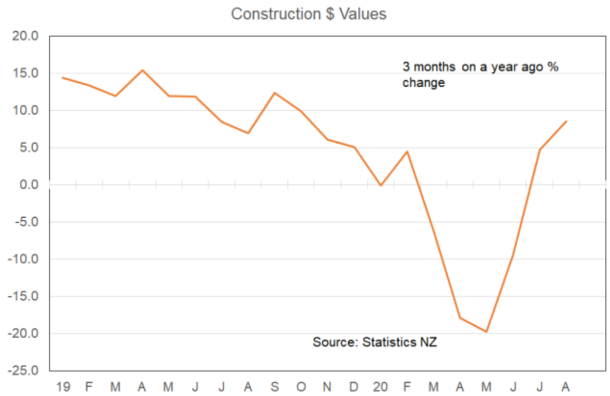
- it further improves the outcome for new home construction (more supply),
- reduces some of the upward pressure on prices of existing properties (very slightly), and
- provides an economic boost and employment opportunities from the construction and the widespread multiplier effect into a lot of other sectors.

I was asked during the week to provide some insight to an operator in the tradies sector looking to explain some of the recent movements in business flows for the likes of electricians and plumbers. There is no data series which tells us what is happening there beyond the flow of jobs being loaded to the likes of Fergus workflow management software systems.

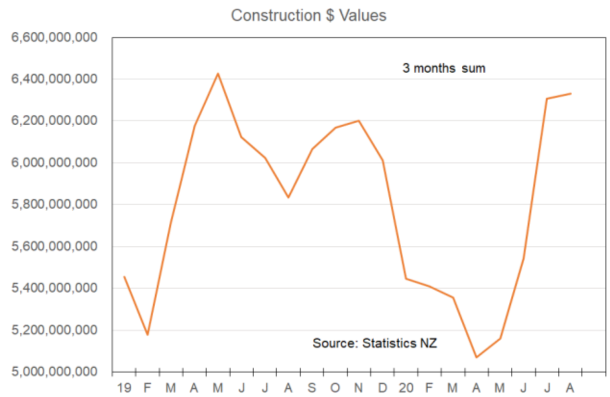
The closest I can get is looking at the number and value of work being consented for all building types around the country. So, the following data covers both residential and non-residential work, and I'm trying to give people working in the most widely defined construction sector a feel for the volume of work being consented. But we have to recognise that the issuing of a consent by a local authority comes quite late in the process of planning for work to be done and is not really the nice leading indicator of work coming ahead that we would like it to be. Still – there's not really anything else there beyond perhaps some series from the NZIER's Quarterly Survey of Business Opinion which I will look at below.

In the year to August the value of consents issued for all construction work – residential, non-residential, new-builds and alterations – was $23.1bn, down 0.8% from a year earlier. This is shown in the following graph where we can see that the pace of growth in the construction sector has been slowing since 2014 when measured by consent values.



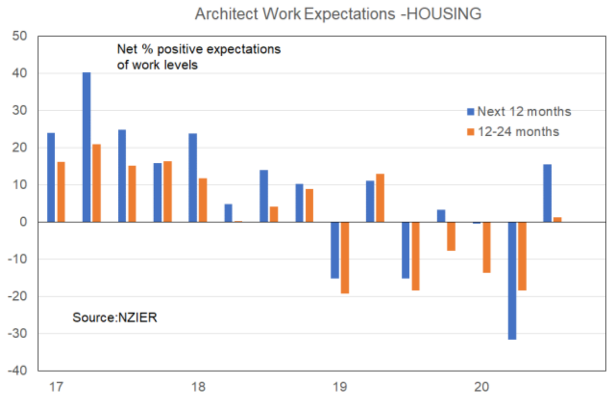


As one would expect, there was a large dip during lockdown and strong recovery since then. Do we think that the recovery has placed the construction sector back on a growth path, or does it look like just a technical bounceback?



It is too early to say. But some other leading indicators are looking good.

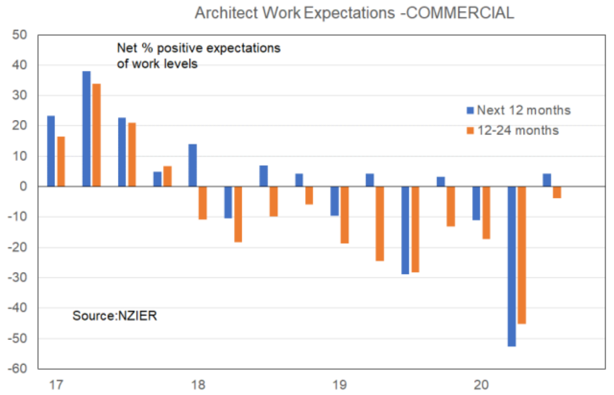
Every three months since 1995 NZIER have surveyed architects, seeking insight into how busy they expect to be over the coming one and two-year periods. The following graph shows the net proportion of responding architects each quarter expecting to be busier on housing work, with a big dive into the negative during the June quarter.

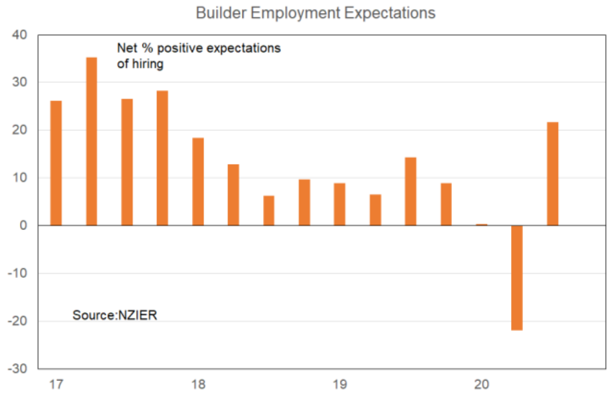


But for the September quarter survey released last week we have seen a jump in expectations for the coming year from a net 31% down to a net 16% up. That is the strongest result since early-2018 and right on the ten-year average. Expectations for the next two years have risen to a net 1% positive from -18%. But the ten-year average is +18%. This then could be one of the very few indicators which does actually allow us to deliver some insight with regard to the extent to which a thing happening is a simple mathematical bounceback from the lockdown slump versus a new upward trend.

The two-year result tells us that at this stage the sharp rise in architect expectations is just a bounceback. But the survey responses came in over September and October, and going by the anecdotes I print below, it is likely that the next quarter's NZIER survey will show much stronger results.

This next graph looks at expectations for commercial work. The results are weaker than for housing. A net 4% expect to be busier with commercial work over the coming year, and that is a recovery from -53%, but well below the 16% average. A net 4% expect weaker commercial work over the next 24 months, up from -45% in the June quarter but below the +16% average.





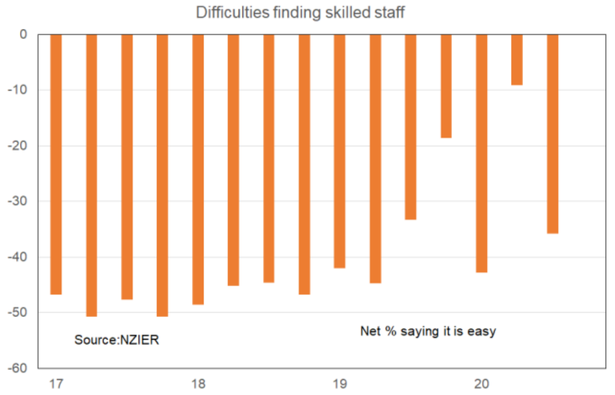
The interesting area is work expected for the government sector. A net 33% expect to be busier on such work over the coming year which is up from only -3% negativity in the June quarter, and a long-term average of +9%. The government's messages regarding stimulating the economy through increased government spending on infrastructure have driven expectations of such work skyward. The two-year expectation has risen to a net 28% positive from 3% positive in the June quarter and an average long-term of +9%.

NZIER also survey builders to get their feelings on how busy they expect to be. A net 20% expect their output to rise in the next 3 months which is about average and up from a net 3% expecting weakness in the June quarter survey.

The other indicators I look at for builders show a similar relationship and deliver about the same inability to as yet say that there is more than a bounceback underway.

Perhaps more interesting is the information gleaned from builders regarding employment. A net 22% say they will hire more people, up from -22% and above the 15% ten-year average. The construction labour market is picking up.

And then we get this. A net 36% say they are having problems finding skilled staff, up from a net 9% and just above the 33% average. A net 8% even say they struggle to get unskilled staff which is equal to the long-term average and a big turnaround from a net 43% finding unskilled people in abundance the previous quarter. The following graph covers skilled staff hiring difficulties.



Tview Premium contains four pages of insights into the home building sector provided by builders I contacted during the week. In summary what the comments tell us is the following.

1. Demand for sections and development land has jumped sharply and shortages are now appearing.
2. Skilled staff are back in very short supply again.
3. There is strength all around the country.
4. A lot of this strength appeared earlier this year despite the Covid shock.

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