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.

Reasons not to worry so much

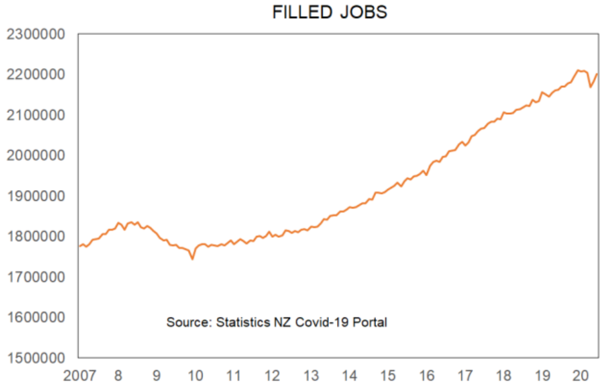
Two people this past week have asked me to give them some points which they can deliver to a family member down in the dumps about the current situation and thinking we are all destined for the breadline. (Seriously, in these gluten-free days?)

So, here are some points to make to them in no particular order of significance.

1. There is some $10bn which we Kiwis were going to spend on trips overseas which is now being spent instead on holidaying around New Zealand, spas, pergolas, new bathrooms and kitchens, etc.
2. Borrowing costs for home buyers have fallen to record lows with most fixed rates now below 3%.
3. Clearly, their despondency is not shared by the multitudes of home buyers attending Open Homes and perusing real estate websites, and the many owners feeling little pressure to sell.
4. Businesses are getting less despondent by the day with their confidence about the outlook for their levels of activity lifting from a net 55% pessimistic to just 7% pessimistic this month.
5. Consumer confidence has already shifted back into optimistic territory with a 105 reading in the ANZ Roy Morgan index from a low of 85 in April where 100 = neutral. My own Spending Plans Survey shows that a net 7% of near 3,500 respondents plan boosting their retail spending over the next 3-6 months.
6. A generation of young people have seen how rapidly a deposit for one's first home can grow if spending is suspended for seven weeks and overseas trips are not taken.
7. The negative sentiment is not evident in sharemarkets which by and large are now only 5% - 10% below their March record levels, with some measures at new highs.
8. Many Kiwis are bringing forward their plans to return to New Zealand, and even before the borders were closed to foreigners or we had heard of Covid-19, a structural improvement was underway in Kiwi net migration flows from Brain Drain to Brain Gain.
9. The NZ government, on our behalf, has one of the best fiscal tracks in the OECD and even at the pessimistic projection peak in the net debt to GDP ratio of 54% our numbers will be better than pre-Covid starting points for many other economies.
10. Some sectors of the economy are doing very well including farming, fishing, forestry, horticulture, dairy, logistics, IT, medical equipment and supplies, warehouses, couriers, outer space,
11. Plans are being advanced to accelerate the catch-up in upgrading of New Zealand's over-burdened infrastructure.
12. We will be in a far better state of preparedness for when the next pandemic comes along.
13. Our society is one in which care for the health of others is placed above individual rights to do as one pleases as seen in the United States, Australia, and Europe in particular. In that regard we are closer to the Asian societal model than the traditional Western one.
14. People are achieving better work-life balance through more working from home, with lost more time spent by working parents with their kids. Hopefully this means fewer institutionalised in childcare businesses.
15. Congestion on the roads, in the airports, and in public transport is down, along with heat-creating emissions.
16. More people are riding bikes and bike sales have soared.
17. Kiwis are getting to see more of their own country.
18. Young people may not have built up resilience as previous ones have, but they are learning and have the advantage of being far more open to change and expecting of it than previous generations.
19. Universities are returning to a focus on their domestic students rather than battery farming foreign kids.
20. Online learning is more readily available.
21. Our societal bonds have strengthened as a result of our success in eliminating Covid-19 in the community (hopefully it stays that way).

22. Businesses are finally rapidly adjusting to many other changes which have occurred in recent years and which they have been tardy at adapting to.
23. Our export commodity prices are holing up very well, with the ANZ world price index down only 5% from a year ago in June.
24. 30% of our goods exports go to China and the Chinese economy has recovered well from its outbreaks.
25. Ending of the second tranche of the wage subsidy scheme probably won't much affect consumer spending as redundancies occur because most people to be laid off are likely already highly aware of that possibility and have accordingly already adjusted their spending.
26. The absence of house price declines and now switching in media commentary completely from dire discussion to a focus on first home buyers seeking homes means banks are highly likely to extend mortgage payment deferral for anyone needing it. Banks feel good about their mortgage security as long as house prices are holding up.
27. There is likely to be a surge in the number of people setting up their own small businesses and becoming their own boss.
28. The number of filled jobs has risen for two months in a row, as now discussed.

Statistics NZ on Tuesday reported that in seasonally adjusted terms the number of filled jobs in New Zealand at the end of June was ahead 17,900 from the end of May which w\as ahead 13,900 from the end of April. This means that since the peak in February employment has dropped by only 7,700 filled positions. On average since 2011 between these four months the number of filled jobs has risen by 13,300 each year. Allowing for population growth, let's call that at least 15,000, and say that at the end of June the number of filled jobs in New Zealand was about 23,000 lower than would otherwise have been the case.



This is not a large number and it tells us that there is a lot of employment occurring which offsets high profile job losses that we are simply not able to see. Or the data are crap.

For the moment, let's just say that if you have a very negative view on the state of the labour market, you're going to be struggling to find data as yet which truly support that position. But maybe these are early days, and maybe there will be a lot of losses come the start of September when wage subsidies are gone.

Optimistic as I am, the filled job numbers seem suspiciously too good to be true.

Interest Rates

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

Frankly, things don't change much these days with regard to NZ wholesale interest rates. They were low heading into the Covid-19 crisis with inflation here and overseas failing to appear in association with strong employment and economic growth as tended to happen before the GFC. Rates got cut further to help offset the effects of fighting the current crisis, and now there is very little potential for any further cuts in rates.

Our central bank is highly unlikely to take the official cash rate negative given the absence of any evidence from overseas that countries which have done this in recent years have improved their economic outcomes. It should be noted that no country which went into this crisis with negative official interest rates has cut them further.

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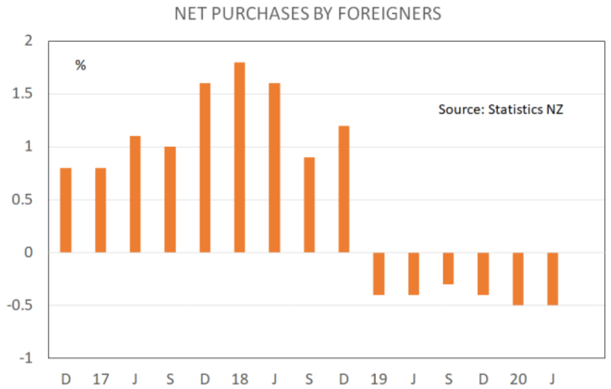
This however does not mean there is no scope for either term deposit rates or mortgage rates to fall further. In fact, every week brings some new, small, declines in term deposit rates as banks seek to build their interest rate margins to try and offset the losses they know they will eventually book from business failure and debt restructuring associated with this crisis.

For mortgage rates, when I compare bank borrowing costs with current rates, I see little scope for any further reductions in rates for terms of three-years and beyond. However, there is a good chance that the 1-2-year rates could be cut as we head into Spring and banks feel better about the economy overall, and see evidence of the housing market performing a lot more strongly than expected.

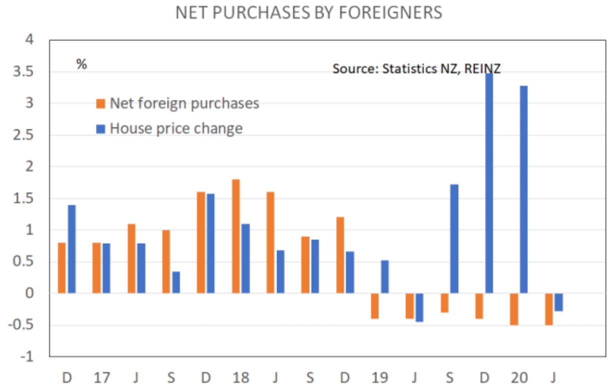
Housing Markets

Offshore parties are net sellers

Over the June quarter property owners with no NZ citizenship or residency accounted for 0.4% of property purchases as measured by title transfers, and 0.9% of property sales. The proportion of sales has been exceeding that of purchases since the March quarter of 2019 just after the ban on sales to foreigners came into force.



Has the passage of this legislation produced the price restraint which its proponents were hoping for? Heck no! The orange bars show net foreigner purchases per quarter as above. The blue bars show quarterly NZ-wide house price changes measured using the REINZ's House Price Index



House prices have continued to occur at a strong pace through 2019 despite overseas owners becoming net sellers. This is just another reminder that there is no silver bullet for the issue of housing affordability, and it is in that light one needs to place some recent developments.

For instance, will the government's new legislation requiring councils to allow multi-storey buildings up to 6 levels in metropolitan areas radically change housing supply? No. The shortage of builders will likely be back by the time projects get developed and started under this rule change 2-3 years from now.

Will planned repeal of the Resource Management Act, and its replacement by two new pieces of legislation, lead to radical improvements? I'll wait to pass judgement on that until the new laws are in place, the zealots have dived in to see what they can stop, the lawyers have discovered and exploited its weaknesses, and the court cases have delivered required interpretations of what the legislators really meant by such and such a section.

The direction of change toward freeing up development is good. But it will probably pale into insignificance alongside continued firm population growth, especially when the borders open maybe in 2022, continued low interest rates, and the evidence in our face right now that the deepest (short-lived) recession in our economy in yonks has failed to discourage home buyers to any obvious degree.

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