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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To enquire about having me in as a speaker, same address.

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.

Farming

I wanted to make a couple of observations about farming in last week's View but there wasn't enough space, so I'll offer them up now. First, there is a theory afoot about an urban/rural divide in New Zealand. Discussion and perception of it mainly come up in the countryside rather than the cities. Is there a divide?

Yes, in the sense that people in the cities are busy getting on with their lives, focussed on daily commuting, getting the kids to school, working, recreating, handling the rising cost of living and so on – and not thinking about farming. There is no general discussion about farming in the cities and I'd agree with the view that there is decreasing familiarity with farming as it happens now, and the role it has played in New Zealand's history.

But is there a divide in terms of people in the cities actively disrespecting farmers and wishing they would just turn their land over to native bush and stop animals defecating near waterways so the rivers would be clean again? At the wide end of the spectrum amongst deep greenies wanting us on pushbikes and growing all our own vegetables there probably is. And anyone this week reading an opinion piece penned for a major newspaper by a farmer predicting a 30% collapse in export earnings and return to the 1930s Great Depression if farmers have to fence off their waterways and reduce fertilizer use, might easily dismiss farmers as unrealistic doom-mongers. But for the average person there is not. They are just too occupied with their daily lives to think about these things.

Why do farmers however perceive a divide? Probably because that is the story which the media are feeding them. Bad news sells, and the best-selling news can be that which convinces a people that others are either against them or the cause of some of their woes.

Maybe this is why farmer confidence is back at the levels of 2006 despite their output prices in Kiwi dollars rising 70% since then.

Farmers naturally will pick up on news items implying a group dislikes them. My message to farmers and those closely involved in servicing the rural community is to not judge city folk on the basis of the stuff you read in the general media.

But that takes me to my second point, which is a message in the other direction to people in the cities with low familiarity with farming. Don't be thinking that farming will be fundamentally stuffed in New Zealand because of (your choice)

- plant-based proteins replacing meat
- costs of protecting waterways
- costs of mitigating greenhouse gas emissions
- competition from warehouse food farms (hydroponic largely)
- climate change bringing hotter weather, longer storms, more pests further south,
- the inevitable slowing in China's growth rate,
- potential reduced favourable access to some markets because of bilateral deals other countries may sign,
- lab-grown meat,
- inability to attract and keep staff including vulnerability to fewer backpackers should they start caring about their air travel emissions,

and so on.

There has never been a time in New Zealand's economic history when farming has been guaranteed a glorious future for which nothing much needs to be done in order to profit from it.

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Farming is an activity of change – change imposed on farms, and farmers reacting to those changes. Farmers adapt and they do it exceptionally well. Why? Because that is probably why they went into farming in the first place.

No farmer will have ever bought an existing farm hoping to do exactly what the previous owner did for the next 10-50 years day in day out, season in season out.

Farming is about explicitly taking on the challenge of adapting to changes which one cannot predict. Weather, pests, diseases, market price fluctuations, market access, new competition, regulation changes, the effects of urban sprawl, inspection costs, and of course new technologies.

Examples would be partial switching to milking sheep, glamping, farming experiences, better soil management science and so on – often spurred by young people coming back from some years of tertiary study filled with new knowledge.

As the world in which they operate changes, farmers will adapt and innovate. They always have, they always will. They will change how they use the land as temperature, sunlight hours, winds and rainfall change. They will alter their crops, their pipfruit etc. varieties according to the signals they pick up from marketers and consumer researchers. Basically, they won't stand still.

So, if there are deep green folk out there (well intentioned I believe) hoping that the wave of pressures currently facing farmers will lead to wholesale walking off the land and the reversion of not just hillsides but flat pastures to native bush, think again. Farmers are amongst the most resilient, adaptable and versatile people this country has. And sometimes I advise businesspeople trying to adapt to a new world where their ability to raise selling prices when costs increase has been squashed, to speak with people who have been in exactly that boat forever – farmers (including horticulturalists and increasingly apiarists).

Briefly, what is the long-term demand outlook for our food exports? The world's population is forecast to rise from 7 billion to 9 billion in three decades. Productive land offshore is being degraded by the climatic effects of global warming, and productive land is being lost to urban sprawl and infrastructure use. Household incomes globally are rising and projected to rise further and this will lift demand for non-traditional protein sources and better-quality food and beverages.

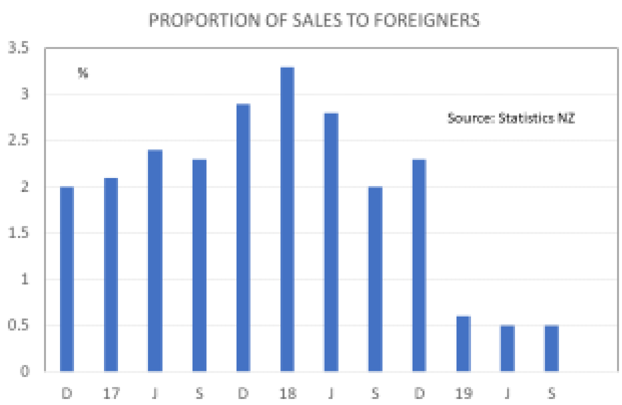
The demand side of the equation looks good. But history tells us that predicting the supply side is all but impossible. That means just as one cannot assign a high probability to foreign supply collapsing and prices for our produce soaring, one also cannot assign a high probability to new technologies aggressively boosting supply. Chances are that prices will trend up the next few decades, with big bumps along the way and increasing diversification from our producers.

Housing Market

Is Foreign Ownership Falling?

The following numbers don't really tell us anything new and worthy of study these days, but for the record lets note them anyway. Over the September quarter only 0.5% of property title transfers were to buyers who were not NZ citizens or residents. This was basically unchanged from the previous two quarters and down from 2.3% in the December quarter and 2.0% a year earlier.

The big decline of course reflects the impact of legislation effective from October last year banning sales to all non-citizens and non-residents excluding Australians and Singaporeans (courtesy of a trade agreement with the latter group).



Does the stabilising of the "outflow" to foreigners mean that there is still 0.5% of our housing stock going to foreign ownership each quarter? No because the data covers transfers and not the actual stock and those transfers (which we usually slightly inaccurately refer to as sales) form only a small proportion of the housing stock.

Also, over the September quarter 0.8% of the people selling property were foreigners, from

0.9% in the June quarter and 1.0% in the March quarter. In fact, in the December and September quarters this proportion was 1.1%. It has not collapsed as the foreign buyer proportion has. What this suggests is that the proportion of our housing stock owned by foreigners is probably slowly falling.

If foreigners are net sellers, is this a factor which those people who have incorrectly predicted collapsing house prices since 2006 will hang their hats. No. It has taken over a decade but most of those people have capitulated now.

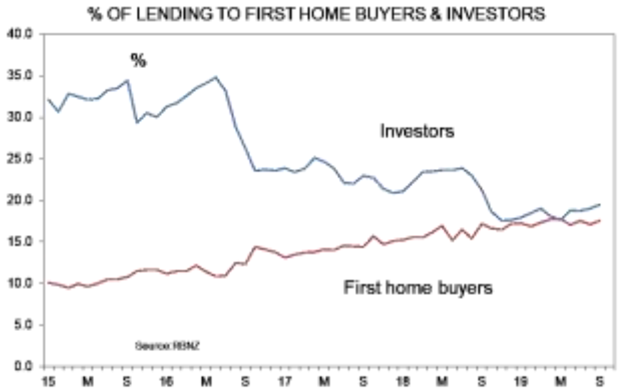
The popular view now is that NZ house prices will rise further in response to

- the new low levels for interest rates,
- confirmation of no capital gains tax, and
- net migration inflows staying high.

Forecasts abound now of Auckland recovering with prices rising 5%+ in each of the next three years. Those views seem quite reasonable, especially with the Reserve Bank likely to announce a slight easing of LVR rules on November 27. But talk of a new boom seems a bit strong considering the continuing rise in supply. Auckland dwelling consents rose by 13% in the year to September.

Are investors going in anew to the housing market? Anecdotal evidence says yes – mildly. More people are attending training seminars on how to invest in residential property. There was a small (not statistically significant) 1% rise to 25% in the proportion of sales going to multiple property owners over the September quarter according to CoreLogic data.

Bank lending to investors in September was ahead 5.9% from a year earlier which was the first annual rise in 13 months. But lending to first home buyers was up 17.8% and to other owner occupiers 18.5%. So, data do not yet support an argument of an investor rush. But I'll be keeping an eye on these numbers going forward. If you've got a view, email me.



My advice to young people now remains the same as it has been since Auckland's prices topped out late in 2016. Take advantage of the slowing of turnover, the pulling back by investors, and the absence of FOMO to peruse the stock available, throw in some low offers, and pick something up before the market next gets really strong again. Your window for doing so however appears to be closing earlier than I thought would happen.

If things do really get chugging ahead of next year's general election, watch for our centre-left government introducing further policies to try and help young buyers. If they do, expect further hikes in house prices because their actions will likely boost demand, not supply.

Interest Rates

This past year may go down as one of the most interesting ever in the history of interest rates. Faced with evidence of inflation failing to rise as expected, and with growth easing rather than accelerating because of trade worries, monetary policy expectations have quickly shifted from upward to downward.

That would not be unusual or interesting were it not for the fact that very few countries have managed to tighten monetary policy to levels above those achieved when fighting the 2008-09 Global Financial Crisis. That is, rates in most countries are lower than back then despite long records of economic growth and falling unemployment rates.

This has produced deep worries about what central banks will do to stimulate growth the next time a downturn comes along. And, increasingly in just the past few weeks, awareness has grown of the low usefulness of cutting rates and printing money as a means of boosting inflation. This is initiating the growing opinion that further cutting interest rates might be a pointless exercise.

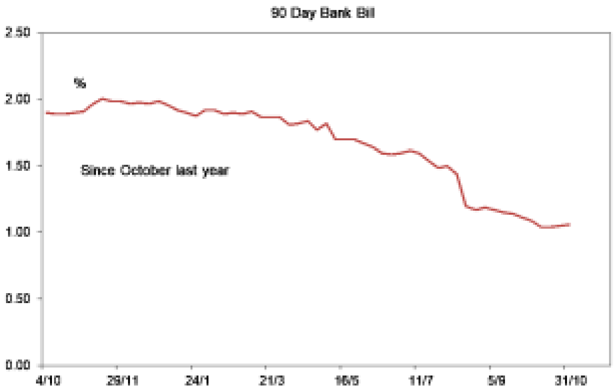
Does this mean we should stop expecting further interest rate declines in countries which failed to boost rates post-GFC? No. But we may be very close to a situation where when cutting rates, the central bankers explicitly warn about the lessening impact of rate cuts as those rates approach or fall below 0%.

Thus, there is a potentially big new source of uncertainty entering the financial markets. The extent to which central bankers do issue such commentary and how markets will react as they slash their rate cut expectations whilst at the same time raising their worries about how bad the next global downturn will be without strong interest rate weapons.

Be careful if you are strongly expecting big declines in interest rates after the end of this year. And watch for the point at which medium to long-term borrowing rates start reflecting decreasing rate cut expectations.

All that means is don't turn a completely blind eye to the record low three-year plus fixed mortgage rates on offer. If your risk management is based upon your belief that you know what central bankers will say and do, be careful. Those people like to shock now and then to keep punters on their toes.

For the record, and of relevance to businesses borrowing at floating interest rates, 90-day bank bill yields this week ended near 1.06%. This is where rates have been for over a month now after falling from 1.5% at the start of August and 1.9% in February and a year ago. Given the very low levels of business confidence this tells us that the Reserve Bank has been ineffective in its efforts to boost business growth by easing monetary policy.



Instead, as is happening in Australia, the main impact of pushing interest rates lower is coming via higher asset prices – shares and increasingly housing.

The next review of New Zealand's cash rate occurs on November 13 and the markets give a 75% and decreasing chance to the cash rate being cut from 1% to 0.75%. Last night the US Federal Reserve cut their funds rate 0.25% to a range of 1.5% - 1.75%, and an easing bias was signalled by the Bank of Canada. But in Australia, expectations of another rate cut by the RBA are getting pared back quite quickly.

CHOOSING YOUR FIXED MORTGAGE RATE TERM

When fixing a mortgage rate term most people take whichever rate is the lowest. So, each week I shall calculate what rates would have to be in the future to make this option better than some alternatives. Note, there are far, far more alternatives than calculated here. And always remember, it is worth paying a premium for rate certainty over a longer period of time. It's also worth using a broker to get the best deal, especially as increasing bank preference to lend outside the farming, property development, and business sectors has encouraged the return of mortgage cashbacks.

Current minimum fixed rates across the main banks. *

1 year	3.55%
2 years	3.45%
3 years	3.89%
4 years	3.99%
5 years	3.99%

I can fix 2 years at 3.45%.

Is this better than fixing 1 year?	Yes, if in 1 year the 1-year rate is higher than 3.35%.
Is this better than fixing 3 years?	Yes, if in 2 years the 1-year rate is below 4.77%.

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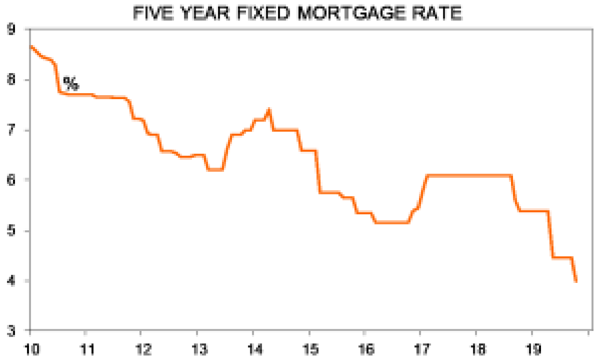
Is this better than fixing 4 years? Yes, if in 2 years the 2-year rate is below 4.53%
Is this better than fixing 5 years? Yes, if in 2 years the 3-year rate is below 4.35%.

The odds for now favour 1+1 being cheaper given the global and local monetary policy easing cycles underway. But not by much. I'd be happy with 3.45% for 2 years. But should central bankers talk more strongly about further interest rate cuts being pointless, I'd start eyeing up a longer term.

*Minimum 20% deposit, owner occupiers.
Compounding is minor so is ignored.



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.

CHILD FORUM

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).

WL

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/
"…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.
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DETAILED GRAPHS ENLARGED

None this week.