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.

Stay home? Yeah - nah

Is it guaranteed that demand for inner city office space and carparks will collapse because of telecommuting? Not necessarily, and investors looking out beyond a year may be able to pick up some discounted commercial space in the coming months.

The challenge to this currently popular view comes in the form of a Dilbert cartoon from some years ago. The pointy-haired boss says that he is setting up a working group to identify areas where labour resource no longer appears necessary. He asks for volunteers with time available to work on this new committee – and eagerly notes those who raise their hands.

Firms are looking to reduce their headcounts not just in response to Covid-19 but to allow for changes in their operating environment for which they really should have made adjustments 2-3 years ago.

Which employees are they most likely to replace? Quite possibly those who are not in the office in the bosses' grill showing her how hard they work and how determined they are to be a part of the new future which the company is getting shaped for.

If anyone thinks that hiring and promotion/team leadership decisions are made solely on the basis of measurable online metrics then they probably don't deserve retention or promotion. It's about those things as well as revealed determination, grit and perseverance, and outright assertiveness which you can't get across in a Zoom meeting.

There is a comment I have made for many years regarding why telecommuting hasn't taken off. It revolves around such work arrangements probably functioning extremely well at a point of time or over a six-month period. People know each other, they know their roles, they know their tasks. They know what needs to get done, how and with whom in order to meet marketplace requirements.

But we live in a fast-changing world and the chances that you can work like you do now in a year's time are not high. There will be new products in your market, new ways of product distribution and differentiation, altered uses to which your products are put, new competitors, new potential partners for collaboration, new regulations, new technologies, and so on.

Business is about change and adaptation. That is hard to do when lines of communication, dynamism of interaction and ideas generation and exchange, are impeded by people working remotely – whether that be in the suburbs of the same city, or in different towns.

Ultimately, sustained working from home for a business may be a measure of lack of dynamism – think public servants who have deserted Wellington's CBD. Within large corporates it will become a de facto ranking system which you won't find written down anywhere.

At the margin, some people are going to do more working from home. But bulk numbers will not do so, and guess which people will be foremost in the mind of the boss when she contemplates how to adapt to the next changes coming along?

Plus, holding meetings using Zoom is a nightmare. Webinars good, meetings frustrating.

Job Hunt Success

A reader asked that I let others know if anyone got a job as a result of the ads I'm running in the new Work Wanted publication. I'm sure a few of the advertisers have, but just one has emailed to tell me of their success.

"I sent you 100 words a week or so back to be published with your weekly views and the response I received from employers was quite incredible, your email went out on Thursday afternoon and less than 24 hours later I had been contacted by 5 employers looking to see if they had a role they could offer me

and this week I've been contacted by another 4… On Wednesday I had 3 interviews and today I was offered a job with xxx (Ed. Note, my xxs) which I have chosen to accept and will be starting on Tuesday the 2nd."

You may have seen reports late last week noting that in the United States the number of people making new jobless claims was 2.1 mn. Some attention was paid to this being a continuation of a downward trend since the massive 6.9mn of March 29 week and 6.6mn the following week. But less attention was paid to the fact that ongoing (continuing) jobless claims fell 4 million last week. People are finding jobs and being rehired after being furloughed.

There is a big risk here that people get too pessimistic on how high our unemployment rate will go. And so to the following little article…

Job loss calculations

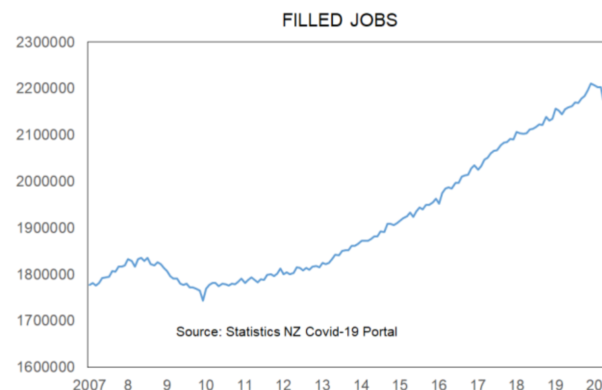
Many people have already lost their jobs as a result of the virus which started in China, and many more are still to be laid off. The numbers have been receiving much attention this past week. The Statistics NZ Monthly Employment Indicator of filled jobs declined by 1.7% in April and the decline since January has been 46,000. Over the same time period in 2019 the four-month change was a gain of 20,000, and over 2018 14,000. So yes, things are bad.

However, the claim was made last week that job losses so far exceed those during the GFC. This is not correct.

Between May 2008 and the low point in filled job numbers of December 2009, the decline in employment was 92,000.

Back then the number of people employed started at a peak of 1.8mn versus 2.2mn this time. So, if we adjust for the change in the size of our population/labour force then we can only say job losses are worse than during the GFC when the decrease using the Statistics NZ Filled Jobs monthly series reaches 113,000. We are 41% of the way there and it is not guaranteed that job losses will exceed those seen during the GFC. Time will tell.

The following graph shows the Filled Jobs series. Note something discussed here a couple of months back. The job losses this time around are front-loaded. The most common mistake people make in most things is over-extrapolating the most recent trend in whatever they are focussing on. If your child hits another kid at school you worry he'll become a mass murderer. If your partner glances at another girl you figure he'll be bed-hopping soon - bastard. And if a thing rises in price you expect it to keep rising – or falling as all those people who shifted their KiwiSaver funds late in March did.



The big mistake many people will be making now is predicting that the speed of employment decline will continue.

Remember, right at the start many of us said that for businesses affected by this you needed to act as fast as possible to trim expenses and if that meant staffing then so be it. For many businesses such a move was a no-brainer because their customers cannot enter the country.

So, is it possible that we see job losses exceeding 113,000? Yes, but perhaps only just. But 200,000? Not really.

On a related issue, back in 2008 4% of employees were migrants on temporary work visas. This time the proportion is 8%. They will take much of the strain of job loss and leave the country once flights allow. Also, back in 2008 the proportion of the working age population in work was near 66% versus 67.5% now. A lot of people in recent years have entered the workforce because of the sheer strength of labour demand. Many will now leave and not worry too much about it.

This means that the unemployment rate is likely to rise by a lot less than you would calculate by looking at just the job losses. But it's a mug's game currently trying to pick the peak in the unemployment rate and kudos to the RB Governor for recently refusing to do so.

Household Wealth

I saw an article on Friday claiming that our homes account for 75% of household wealth. This is not correct.

The article, like so many others, was aimed at giving the impression that we Kiwis are a debt-hungry bunch determined not to save and focussed instead on owning as much property as possible. The underlying theme behind the article and many others driving negative housing commentary is that gaining wealth through rising house prices is immoral and God will eventually strike down miscreants owning property with a collapse in prices. Those smart-alecs down the street will get their comeuppance.

In fact, according to Table C21 from the Reserve Bank, in the September quarter of last year (latest data) the total net wealth of NZ households was $1.6tn. Financial assets totalled $987bn, housing and land held by households totalled $867bn and household debt stood at $232bn of which $200bn was for housing loans.

Net financial assets at $955bn easily exceed net housing assets of $667bn.

Alternatively, one can look at the June 2018 Household Net Worth statistics from Statistics NZ. Their table shows total household assets of $1.6tn, with housing assets estimated at $876bn. Net housing wealth is $693bn and net financial wealth at $771bn. (I've yet to figure out why the SNZ net financial asset calculation is over $100bn lower than the RB estimate even allowing for slightly different time periods. Either way, net financial assets exceed net housing assets.)

Subsidy to hire someone?

Not necessarily. It's also an incentive to lay staff off.

National have said that if elected in September they will grant businesses $10,000 for every new full-time person they hire. This policy immediately provides any business with some doubt about future staffing requirements to lay those people off now if they believe National will win the election. Then if they find they do need them come October, they can claim the subsidy. The policy also provides a disincentive to hire someone before November. Waiting will garner an extra $10,000 if National win in September.

And finally, the policy provides an incentive to experimentally hire up to ten staff to collect the first $50,000, then lay them off well before the 90-day trial period ends.

This is a key problem with such subsidy schemes, and here is an example of another one. In Australia building businesses are upset at a proposal for the Federal government to give a $50,000 grant to anyone getting a new home built. Already, suspecting that such a scheme might be brought in, home buyers are withdrawing plans to get something built in the near future to see if they might score $50,000 if they wait long enough.

The policy proposal will worsen the current decline in construction, collapse in building firms, and the net long-term boost to building will not be as much as the policy supporters believe.

Back to National's policy proposal. A key thing they are missing here is this. Labour markets are always churning – people quitting and getting laid off, people being hired. There is a very high risk that the $500mn they would allocate for the policy would mainly get taken up by businesses who were going to hire someone anyway. Consider the Filled Positions data mentioned above for instance. Most people would probably think that when I wrote earlier on that there was a 92,000 drop in filled jobs between May 2008 and December 2009 that it was a straight-line decline.

In fact, net Filled Jobs rose by 5,746 in July 2008, 6,402 in October 2008, 356 in April 2009, 2,227 in July 2009, and 11 in September 2009. So, in a declining employment period you can have net job creation months which will gobble up an employment subsidy even without making reference to gross job flows. More than that, from one month to the next net job numbers may stay the same – but gross hires could be 20,000 and layoffs/quits 20,000.

National's new policy unfortunately fails to recognise the inherent churn in labour markets and would likely have no sustained effect in boosting job numbers.

Consider for instance that furniture retailer Nido is opening a large store in West Auckland employing 180 people. Would they qualify for $10,000 per new employee even though they are hiring regardless of not just any subsidy but the current recession?

Note also, in terms of considering what behavioural incentives are created by policies, the governments doubled dole payment for the recently laid off provides a disincentive to seek new employment – for the 12 weeks at least.

Opportunity to change the tourism crush

Global tourism has a negative impact on the natural environment through accelerated climate change, congestion in airports and tourism hotspots, accidents and deaths on roads driven by visitors, and denial of local enjoyment by locals. The benefits include increased employment and business opportunities for many, especially in some locations which might not otherwise be able to gain enough strength from other industries to sustain much population – the West Coast for instance.

Many arguments have been put forward over the years, and increasingly since visitor numbers coming here boomed from 2014 – for restrictions on the number of visitors. Some have proposed quotas, others special taxes. But always there has been the objection from those who enjoy the fruits of inward tourism but do not pay the costs, that such moves would be economically destructive.

Such businesses and tourism sector representative bodies have many times made statements along the lines of moving toward targeting high value customers rather than bulk numbers. However, there is little evidence that if any such strategic plans have been initiated that they have made any difference.

One big problem is the role of our national carrier as a benefactor and driver of inbound tourism. They have no incentive to limit visitor numbers. For them and other carriers it is bulk numbers which matter.

Currently, the tourism sector is undergoing the biggest decline it has ever seen. Over the coming months many operators who have made it this far will close down. What will be left once borders reopen and people start flowing inward again is a much smaller tourism sector, no longer accounting for 5.5% of our GDP, 165,000 jobs, and 20% of our exports. Note however that the sector has become heavily dependent upon the labour of tourists passing through (backpackers) and migrant workers. The actual reduction in Kiwi employment as a result of the current shock will be substantially less than the total decline in employment in the sector.

At the start of the GFC migrant workers made up 4% of our workforce. Early this year they made up 8% and had accounted for 25% of the net growth in NZ job numbers over the past 11 years.

What we will be presented with however is an opportunity to control flows of visitors onto our shores without negatively impacting our economy, jobs, and businesses as much as would have been the case had moves of restriction been undertaken 1-5 years ago.

Some good signals have come from the government regarding the future of tourism in New Zealand not being the same as the past. But history tells us that the sector defaults to a numbers game and unless actual measures are put in place to shift flows from numbers to value, in 5-10 years' time we will be back to the level of congestion and environmental degradation that we saw last year.

The challenge here is not really to participants in the sector. The larger ones have proven themselves unable to implement a strategy of number restriction. The challenge is to Kiwis and politicians concerned about the environment and the living conditions of Kiwis to get a new structure in place before the borders open up again, or at least before we return to the days of high numbers through our airports, and on our roads and tramping tracks.

That might mean a visitor tax set in the hundreds of dollars rather than just a few, and generally taxes are a better way to control flows than outright quotas.

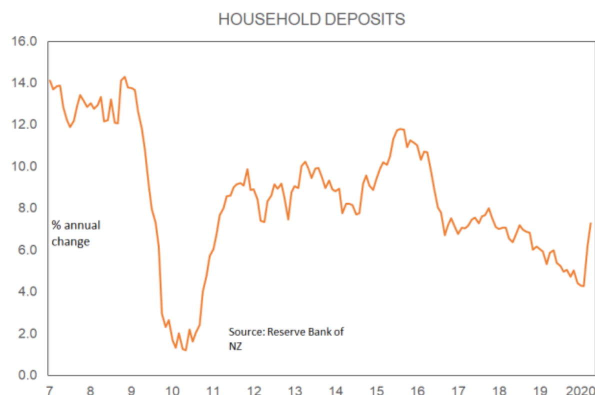
Just a quick note for your guide. International tourism makes up a bit over 3% of global GDP versus above 5.5% in New Zealand. It accounts for about 7% of global exports of goods and services versus 20% in New Zealand. Thus, we are far more affected by the closure of international borders than most other countries, including Australia where foreign tourism makes up a bit over 2% of GDP.

Households saving more

Households have responded to the onset of the Covid-19 recession and the resulting lockdown by boosting their savings. At the end of April households had almost $193bn on deposit at NZ registered banks. This was up from $184bn two months earlier and was a 7.3% rise from a year before. This is the highest annual growth rate since November 2017 which is not that long ago. So, you could not say that a shocking rise in saving has occurred.

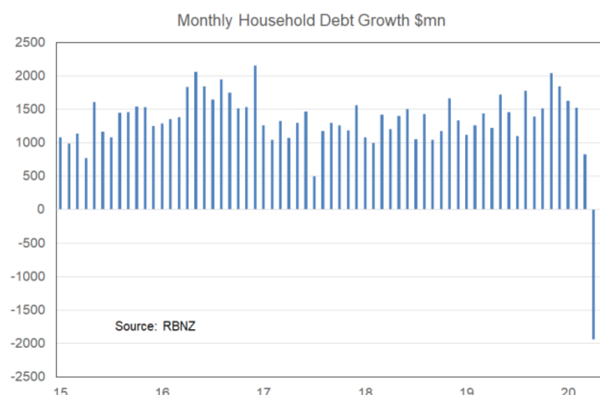
But one can say that households have some extra funds on hand which they might choose to spend, or not to spend, once they feel a bit better about the future. Which is why I've included the following graph and started it in 2006. Deposit growth was strong, it bumped up as we went into recession in 2008, then people drew down their savings to finance their living. Deposits picked up again once growth was

firmly established over 2011 – earthquake in Christchurch having no impact.



This suggests that later this year bank deposit bases will cease to grow so rapidly. An expectation of this happening may explain why the Reserve Bank a couple of months ago told banks that they could allow their core funding ratio to temporarily fall below the minimum 75% to 50%. This important metric is the proportion of bank lending funded from what are considered to be "stable" sources such as retail deposits and long-term loans.

We should also note that household debt fell by almost $2bn in April with the vast majority of mortgage holders continuing to make payments but new loans for housing purchases not being made. But this accounted for only $0.6bn of the debt decline. The rest was lower consumer debt – credit cards, personal loans etc. This would have been because of sharply reduced retail spending.



But before retailers start to get optimistic it pays to note that because household incomes will fall in coming months, people will be using their savings to finance ongoing household expenses rather than continue the current very temporary post-lockdown splurge.

Recent Publications

Kiwi consumer plans for spending.
http://tonyalexander.nz/resources/TV%20Spending%20Plans%20Survey%20June%202020.pdf

What property valuers are seeing.
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What real estate agents are seeing.
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Things which might be better as a result of this crisis.
http://tonyalexander.nz/resources/TV%20Covid-19%20No.8%20Supplement.pdf

Things which will slightly limit housing weakness.
https://www.stuff.co.nz/life-style/homed/121227636/heres-why-house-prices-may-not-fall-as-far-as-you-expect

Recession elders passing on their knowledge to newbies of what to do when these bad times arrive.
http://tonyalexander.nz/resources/TV%20Covid-19%20No.7%20Supplement.pdf

Emailed Queries

Is now a good time to buy a house in Wanaka?

If you find a place that will really suit you for many years and you can afford the price, then history tells us there is generally no point in waiting. However, sometimes the weight of forces in a market can be so strong that the time element does come into play and that is probably the case for three locations at least in New Zealand. Auckland's inner-city apartment market (students, tourists, supply), Rotorua (tourism, investor cycle), and the Central Lakes area in the Otago region.

For the latter region the issue is clearly the absence of foreign visitors and uncertainty regarding when they will be back. But there is also an economic cycle element in play here also. When times are good, we reach for things like holiday homes. When times are bad, not only do we pull back from buying these things, we also might sell an asset we already have in order to reduce monthly outgoings and/or free up cash to save one's business.

Auckland inner-city does not have this factor, Rotorua might have some of it in very light numbers. But Wanaka, Queenstown, and maybe Arrowtown do. Given the depth of pain underway it seems reasonable to expect that there will be some reluctant sellers in those markets before the end of the year. Wanaka may also have a section availability dynamic in play also – I'm not sure, I've

not been down there for a while as there have been too many foreigners on the roads down south these past few years.

So, to repeat. If I found something I liked down there right now and I could afford it, I'd submit a bid 10% - 15% below asking, haggle a bit, and settle for probably 6%-11% below asking. Just because one perceives that a window of opportunity has opened up does not mean that other people have not had the same idea, or that the window will stay open as long as one might think – and that latter point ultimately is where I sit on our housing markets.

Is NZ Government debt in US dollars?

It is in NZDs but some of the debt is held by people offshore. Details are contained in this table from the Reserve Bank.
https://www.rbnz.govt.nz/statistics/d30

At the end of April 34% of government debt was held by non-residents. These investors are probably very happy with the capital gains they have made from falling interest rates and will note that the credit rating agencies have retained their positive outlook for New Zealand fiscal policy, the economy, and debt management.

What impact do you see on the Wellington economy from Covid-19?

Good question because I think Covid-19 is going to reinforce a trend already underway and due to get a boost when the roading network is completed north of Wellington.

The population expansion will increasingly be up the coast. I expect more older Wellingtonians to make a shift to the Wairarapa. But the inner city might increasingly become the preserve of the young rather than Baby Boomers retiring to inner city units, while the suburbs will also do okay with more people shopping, socialising, and going to cafes locally. Opportunities will grow I think for suburban food and drink providers plus maybe some suburban-located shared working spaces. For inner city planners, if I were advising them, I'd be highlighting potential for turning the inner city into something more vibrant for the varsity and 30s age groups.

For the Wellington economy overall, being the seat of government is a big insulating factor. But there is an increased risk that more head offices go to Auckland. One thing stopping many in the past will have been the number of staff they would have had to relocate, or make redundant then replace. But remote working will reduce this constraint.

Therefore, there is a good chance that the impact of slightly more remote working will have a greater impact on the already seismically-risky Wellington office market than on Auckland's.

Does this mean Wellington City's outlook is bad? No. It just means growth in population and the city economy will not be as fast as Auckland, Hamilton, and Tauranga.

Why is popular media discussion of housing usually very pessimistic?

Probably for two reasons. First, we humans pay far more attention to negative things and headlines than positive things. It is simply our nature. Those people who thousands of years ago assumed that everything was alright outside the cave might have got eaten. Those who would not venture out if they heard a rustle in the long grass lived. We are the descendants of those mousy cowards.

Second, many people believe that wealth made from capital gains is immoral. They believe the gains do not come from hard work therefore they are inherently inferior to wages gained by the worthy people who have made their money through paid employment. This value judgement on housing gains distorts their thinking and analysis. They interpret developments affecting housing from the negative side, placing low weight on positive or supportive factors – if they willingly notice them at all.

A successful investor will take advantage of these two factors. At times like these, long-term focussed investors are incentivised to keep quiet and let the negativism roll. That is because they know negative discussions will lead people to worry and try to reduce their worries by selling their properties or holding back from buying anything. The skilled investor will then pick these properties up from the pessimism cannon fodder. These people would have loved the negative comments from QVNZ on Wednesday morning.

The same thing happens in sharemarkets and anyone able to step back from the negativism can trade their way to strong gains. The US Dow Jones Index fell 37% from peak to trough. But this declined happened only over a six-week period and that period ended over two months ago. The index now is only around 13% below its February high.
https://finance.yahoo.com/quote/%5EDJI/

New Zealand's Housing Markets

Turnover decline

I've got the view that once we get past this current period of

- catch-up property settlements,
- sellers hastening to buy somewhere to live before their settlement date, and
- buyers hastening to sell to void bridge financing

that housing turnover will settle maybe 40% down from a year earlier. That's a best guess based on annual sales following the GFC falling from 106,000 to 55,000, and in the Asian Crisis of 1997/98 falling from 89,000 to 69,000.

Some support maybe for this 40% or so figure comes in the form of a survey conducted in the UK in mid-May of would-be home movers. 41% had pulled away from their purchasing plans because of uncertainty about what was happening around them.

Investment plans

A month ago, when I conducted my first Spending Plans survey, I was surprised by the number of people who volunteered the information under the "Other" category of spending that they were looking to buy shares and property. So, in the second survey sent out last week and released to all Tony's View recipients on Sunday morning (so you could have some long weekend reading), I included extra purchasing options in the potential spending list. They were

- Shares
- Investment property
- Dwelling for own use.

I asked people what they planned to spend more on over the next 3-6 months and what they planned to spend less on. Almost 4,000 of you replied which is a fantastic result and I sincerely hope the results prove useful to retailers and travel operators contemplating the winter and spring seasons, and investors in such areas also – whether via listed stocks or direct equity.

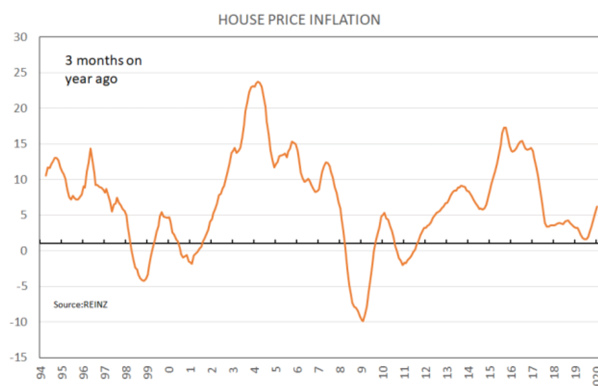
A net 12% of people said that they plan spending more on shares. A net 8% said they plan spending more on property, and a net 2% plan spending more on their own dwelling – which is really neither here nor there in statistical terms.

The net 12% planning more spending on investment property is at odds with the common mantra that things are so bad out there everyone will pull their heads in and do nothing for a long time, simply sitting on their cash.

That however is not what has happened in the sharemarket. The global period of equity market weakness lasted for only six weeks – though one would be naïve to think that further disturbance might not lie ahead, especially in light of the deepening Cold War between China and the rest of the world.

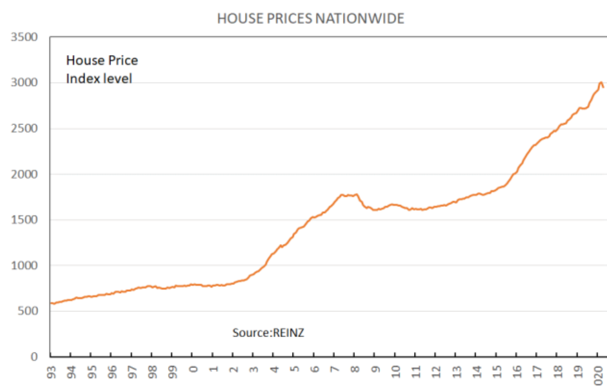
There is demand for investment property even though we know there will be downward pressure on yields because of falling rents responding to slower population growth for a while, plus reduced average household incomes. But there is upward pressure on demand coming from record low interest rates and Reserve Bank intentions to keep rates low – plus "encouragement" to banks to cut their lending rates even further.

This interest rates effect matters a lot. But so too does something else – history. This first graph shows annual house price movements measured using the REINZ House Price Index for the past quarter of a century when inflation has averaged exactly 2.06%.



Point one. Bargain price periods do not happen very often. In fact, they only come when we are in recession. So, what does that say to a long-term investor? You will get bargain-buying opportunities when the economy is in recession.

We are in recession now. This then is when one can make one's most canny purchases. It's quite simple really. The following graph shows the level of the nationwide HPI and how it has moved since 1993.



Point 2. This graph allows us to see that after the dips of recessions, average prices tend to sit relatively still for 3-4 years.

Point 3. Professional investors with a long-term focus buy during recessions for long-term holds because they have seen these downturns before and they know they will get their good returns over a long period. Fly by night investors without this long-term focus disappear. They reappear when prices start to rise firmly again and capital gains become the common focus.

In Tview Premium next week I will look at the Spending Plans Survey purchasing intentions at a regional level to see where buying might be strongest.

Changing views offshore

As a point of interest and just in case you are starting a feel a bit embarrassed that you do not share the view of some that house prices will fall sharply. In Australia earlier this week, one of the high-profile economists who predicted a few months ago that house prices there would collapse 20% has pulled back on his prediction. He now thinks declines in the range of 5% - 10% are most likely. I wonder how long before we see the 15% fall one of our economists was proffering recently gets retracted in the face of absence of evidence that prices are sliding rapidly.

Australian average house prices declined 0.5% in May.

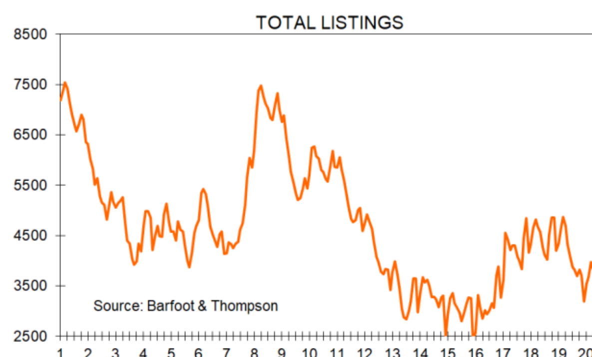
Auckland Data

Barfoot and Thompson released their data for May on Wednesday and while they show weak sales, there is as yet no evidence of price decline.

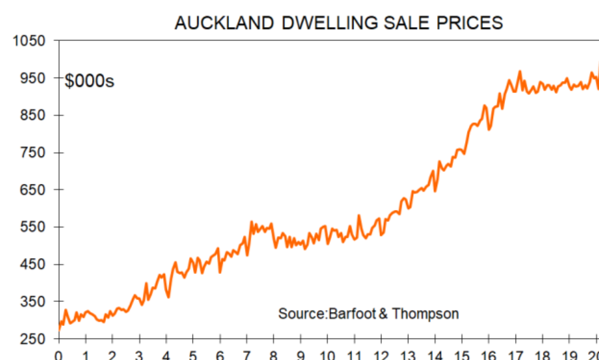
During the month they sold 396 dwellings which was a 52% fall from a year earlier after April was down by 17%. The lockdown has clearly affected the market to a huge extent and until we get a few months on from now it will be hard to gauge what the new pattern really is – though my view of the longer-term trends remains unchanged.

Are vendors rushing to list properties? During the month 1,097 new listings were received which was 8% fewer than in May last year. New listings in April were down 77% from a year before. But what matters here is the stock of listings and at the end of May that stood at 3,821. This represented a 12% fall from May 2019.

The pattern is hard to read, but there is no basis for claiming any rush of vendors looking to sell.



The average sales price eased in May to $947,000 from $962,000 in April but these numbers can move wildly and the best we can do is note that prices were 2% up from a year ago and 3% up for the quarter.

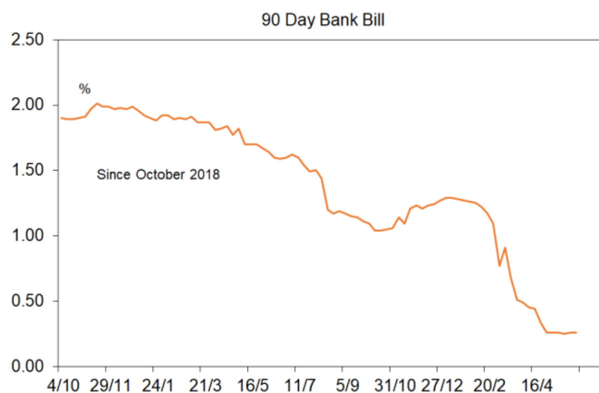


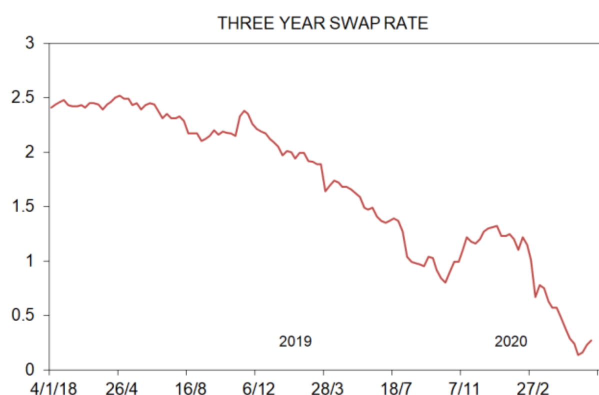
Interest Rates

Popular views regarding global growth are pulling back from dire to less dire scenarios, as seen in rising sharemarkets and rising risk assets such as the Kiwi dollar. This change in views means reducing expectations of negative interest rates and this is placing mild upward pressure on wholesale interest rates around the world and here.

The moves are not big, but they feed into a view that we may well have seen the lows for wholesale borrowing costs here. However, the change in sentiment does not imply expectations of rising interest rates which will manifest immediately as strong steepening of yield curves (long-term interest rate well above short-term interest rates).

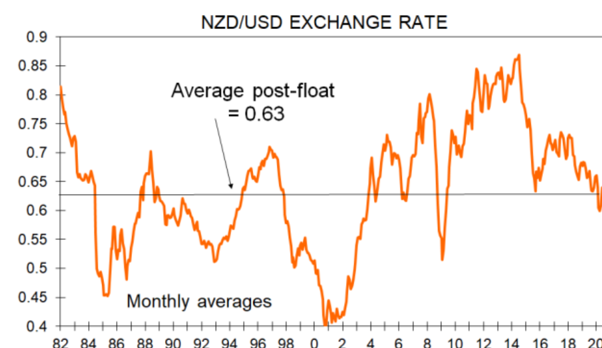
The 90-day bank bill yield relevant to floating interest rates is unchanged from a week ago at 0.26%. The one-year swap rate has stayed at 0.24%, but the three-year rate has risen to 0.27% from 0.23% and the five-year rate to 0.38% from 0.34%.





NZ Dollar

The Kiwi dollar was floated in March 1985 and since then has averaged US 63 cents. That is almost where the exchange rate sits at the moment, with the NZD having risen this past week to just above 64 cents from just under 62 cents last week.



The NZD is now seven cents higher than back in the middle of March when it traded below 57 cents. Why the move up? Mainly because of greater hopes since March of global recovery from Covid-19 and in the past couple of weeks more and more data turning in the right direction.

Locally we have seen both business and consumer sentiment and spending intentions measures improve, and an absence of any solid signs of property prices falling much. Anecdotes from the likes of the commercial real estate sector remain good, and the markets are pulling back their expectations for Reserve Bank money printing.

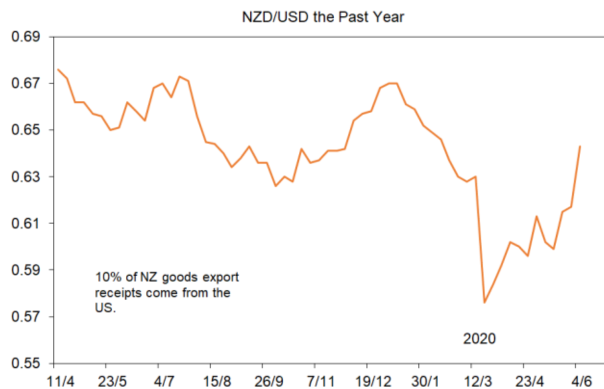
In Australia the RBA Governor has said that the economy looks like doing better than they earlier thought, and they've not had to print any money (buy bonds in the secondary market) for three weeks now.

The economic numbers are still weak, but what matters in financial markets, as in our personal lives, is expectations of what the future holds. If we think the girl we fancy will be at a party next Saturday night, our expectation of that will drive our decisions about what clothing to buy today, not ten minutes before showing up.

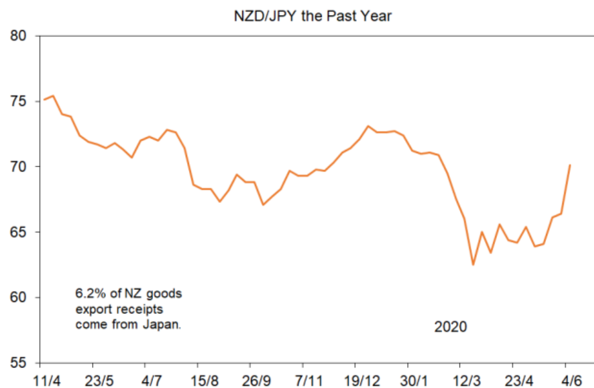
Should we now straight-line the NZD's rise back into the trading range for the year leading into the Covid-19 crisis of 63-67 cents? It looks like we are headed back there, but currencies do not move in

straight lines. At times like these when sentiment shifts you get people who bet the other way having to cover their positions and that can cause temporary overshooting ahead of the trend.

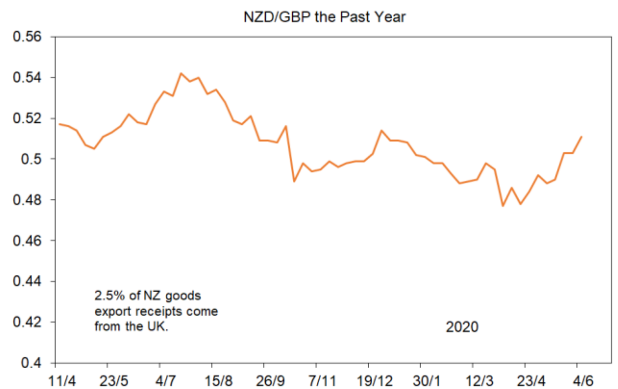
So, exporters are highly likely to be presented with some more opportunities in the next few weeks to get some extra hedging on board. But unless something new and truly bad for the world economy or specifically NZ comes along, the drift for the NZD now looks to be back upward.



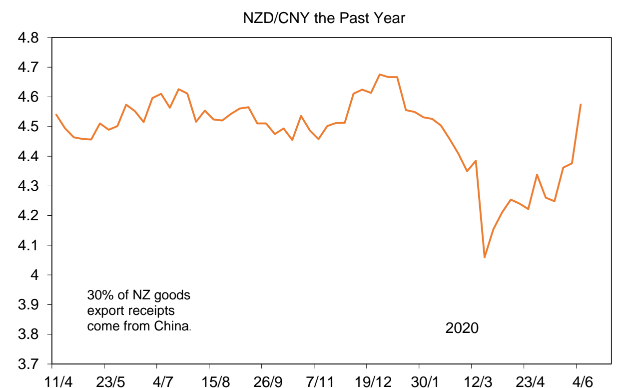
If you want to see a big shift, have a look at the NZD's weekly movements against the Japanese Yen. Our currency falls when the world is gripped by worries, theirs rises. Currently the opposite is happening. If you like to trade risk, that is one of the exchange rates you'd want to be active in.



Against the British Pound the NZD has moved above 51 pence for the first time this year.



Against the Chinese Yuan the NZD has also been rising higher since March.



CHOOSING YOUR FIXED MORTGAGE RATE TERM

No major rate moves have happened this week, just some catching up by banks on some cuts to medium to long rates undertaken by competitors last week.

Current minimum fixed rates across the main banks. *

1 year	2.65%	down from 2.79% 2 weeks ago
2 years	2.69%	down from 2.95% 2 weeks ago
3 years	2.99%	down from 3.35% "
4 years	2.99%	down from 3.49% "
5 years	2.99%	down from 3.59% "

I can fix 1 year at 2.65%.

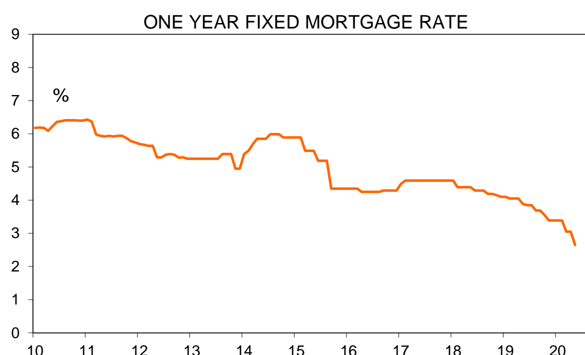
Is this better than fixing 2 years?	Yes, if in 1 year the 1-year rate is below 2.73%.
Is this better than fixing 3 years?	Yes, if in 1 year the 2-year rate is below 2.86%.
Is this better than fixing 4 years?	Yes, if in 1 year the 3-year rate is below 3.10%
Is this better than fixing 5 years?	Yes, if in 1 year the 4-year rate is below 3.08%.

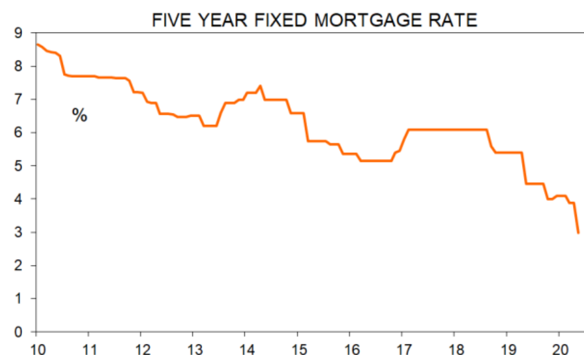
Opps. Last week I said there was a 0.24% difference between the 2.65% one-year fixed rate and the 2.99% five-year fixed rate. It is of course 0.34% but I'm still personally inclined to take the certainty of the five-year rate as opposed to the better short-term cash flow impact of the one- or two-year rates.

If you're only interested in your mortgage costs over the next two years, the balance of probabilities is suggesting you'd be better fixing two years than one-year with another one-year fix 12 months from now. If three years is what you're running your numbers on, then you've got to ask yourself, do you think the two-year rate will be below 2.86% one-year from now? It is currently 2.69%. It's looking like a toss of the coin. Same decision if you are looking just at the four and five-year interest rate cost periods.

Basically then, everything at the moment comes down to whether you are a risk-taker, or you are like me and are conservative in your rates management. For me personally, if I were borrowing currently, I'd be fixing for five years. But that's just me. Make your own decision in consultation with your mortgage broker. The actual cash flow advantage of fixing one-year now does not really amount to much.

*Minimum 20% deposit, owner occupiers, 6 largest lenders.
Compounding is minor so is ignored.



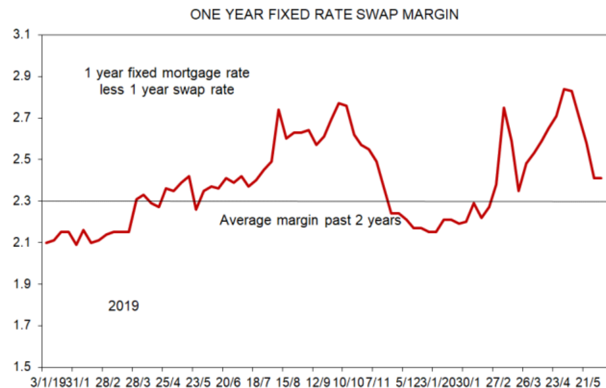


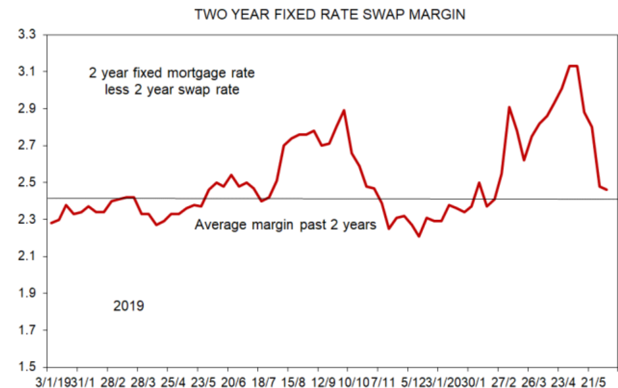
IS A FIXED RATE CHANGE IMMINENT?

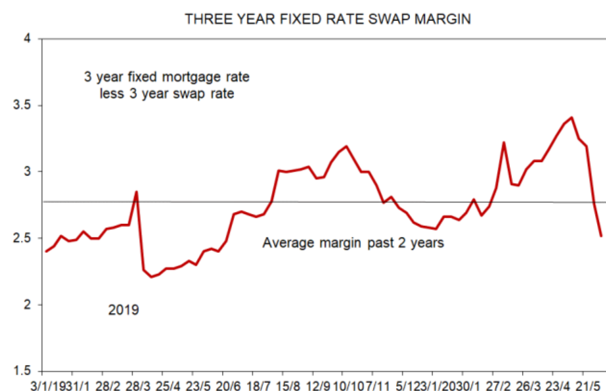
I'd bet against it. The margins I calculate and show in the graphs below do not look out of whack with two-year averages, and the three and five-year margins are below average. Best guess for the next cut in rates of any decent meaning? Spring, if it happens.

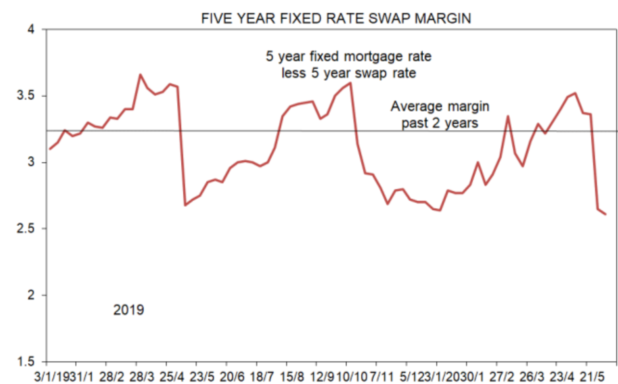
You can form your own opinion as to whether banks might be about to raise or lower their fixed rates by looking at the following graphs. They compare published fixed rates with the most frequently changing component of the total cost of funds – the swap rate. Note that there are other funding costs which will not be captured here, but they change infrequently. But be warned. There is no real forecasting insight delivered

by a thing (equity, exchange rate etc.) moving further from some concept of fair value or average. If a thing is 10% above trend, it might simply be on its way to being 40% above trend.









My daughter Lilia Alexander (finalist in the Youth category for Wellingtonian of the Year 2019) owns and runs Social Media based Wellington – LIVE (>200,000 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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