TONY'S VIEW

Input to your Strategy for Adapting to Challenges

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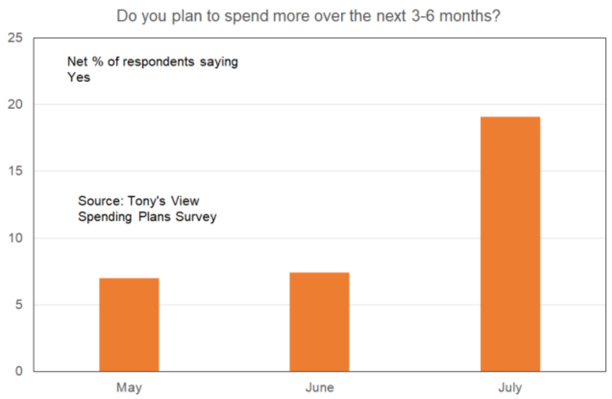
My Aim

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.

Spending plans improve = good for retailers

Over the past week I ran my monthly Spending Plans Survey and received almost 2,500 responses. Many thanks to those of yourselves who replied. The headline result shows a good improvement in the outlook for our retailing sector throughout New Zealand.

In May and June, a net 7% of respondents said that they plan spending more over the coming 3-6 months. This result has now risen to a net 19%. It is early days yet, but the extent to which recent spending numbers have been biased upward by post-lockdown catch-up spending might not be as great as thought (feared).



Looking through the results in the next graph we can see which areas of consumer spending have the brightest outlook. A net 46% of people plan spending more on domestic travel. Now, this is interesting because this result is up from 41% in June and tells us that the big burst of travel over the school holidays was not a one-off.

People are still intending to get out and about and that sends a clear message to the domestic travel sector. You need to make sure your brand, your attractions etc. are in the faces of Kiwis through Winter as they contemplate the next school holidays, Labour Weekend, and beyond. I should imagine that bookings will be filling up extremely fast for baches etc. over Summer with the chances of a Trans-Tasman bubble this year about nil and international borders probably closed until 2022. In the UK, bookings for holiday homes in the UK itself are basically full with queues as people avoid going abroad.

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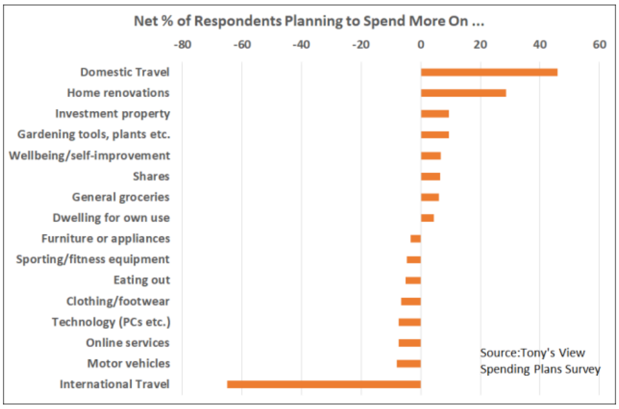


A net 29% of people plan spending more on home renovations. This is up from 21% in June and 18% in May. This also sends a clear message to any retailer selling relevant products. Make sure you take advantage of this structural shift in where Kiwis are spending their money so you don't only sell some stuff now, but build a marketing database for the future.

Of relevance to the surprisingly strong residential real estate market is the increase in the net percent of people saying they intend spending more on investment property to 9% from 7% in June. With regard to buying a dwelling for one's own use, the net percent intending to do this has risen to 4% from 3% in June and 2% in May. The numbers are not big, but the trend may be important.

What these housing numbers say to me is that the recent market strength looks set to continue, and I'll be able to comment a lot more on that next week when looking in detail at results from the monthly survey of real estate agents which I undertake with the REINZ.

Tview Premium contains another four pages of analysis of the survey's results, including full data at the regional level which might assist retailers in the likes of Northland, Otago, Waikato etc.

Housing Markets

Addressing first home buyer questions

Let's say you're contemplating a house purchase at the moment. For someone who doesn't own a house already the experience will be a new big challenge, and meeting that challenge tends to mean finding answers to certain questions.

This week I run through those typical questions, though I am certain there are many more which occupy the minds of fresh buyers.

Will house prices fall away and make me lose wealth in the short-term?

In Queenstown maybe yes, Invercargill potentially as well. But outside of that, in locations of any reasonable size and turnover the chances are high that prices will creep higher during 2021 with no clear direction apparent for most places for the remainder of this year.

The country is not over-supplied with housing as happened in the United States, Ireland, Portugal, Spain, and a few others ahead of the Global Financial Crisis. The ban on foreign buyers had zero noticeable impact on prices. Investors are expressing concern about the effects of ring-fencing and plans to make getting rid of a bad tenant much harder. But I've been listening to such expressions of concern for many years now as governments have made things more difficult for investors. And, despite all the threats by people to quit the sector and shift to Australia, prices have continued to rise and investors have continued to seek out property.

I expect no noticeable overall impact from tenancy law changes, though acknowledge fully that groups representing tenants will lobby against the changes and warn of dire consequences.

Will interest rates jump up soon after I get in debt with a mortgage?

No. Rates are at record lows and if you're worried you can lock a rate in for five or seven years if you like. But mainly, the world economic outlook is weak, inflation is quiescent, and even before Covid-19 there had been structural changes in our economies supressing inflation and delivering a sustained low interest rate outlook.

Will there be a good quantity of listings to choose from?

No, and the chances are not high that if one holds off a lot of new listings will appear. There has been a structural decline in listings as a proportion of the housing stock over recent years and this is unlikely to change. With interest rates low people want to purchase property for yield – and hold onto it. There are very few people who are likely to be in sufficiently stressed a financial position to be forced to be a weak seller in the coming year, and banks will have little interest in forcing sales given the absence of worrying price weakness which would make them concerned about their loan's security value.

Will I keep my job?

The biggest problem facing most businesses pre-Covid was a shortage of labour and that problem is likely to return come 2022. But high awareness of the need for staff has not prevented layoffs from happening with more to come once the second tranche of the wage subsidy ends in three and a half weeks. To date, averaging across a range of measures such as Filled Jobs, people classed as Under-employed, Jobseeker benefit numbers, and the Household Labour Force Survey out yesterday, it looks like around 30,000 jobs have been lost so far.

We do not know how many more people will soon be laid off. But it is likely that the people who will, already know what is coming and will have adjusted their spending to reflect that.

For some people, the environment is not safe for purchasing a house. But for perhaps between 95% and 98% of employees, unemployment does not beckon.

Will the economy tank in the near future?

It did over the late-March and June quarters but is now on a recovering path. The international tourism sector has already gone, as has most of the foreign student sector. Now, as each month or quarter goes by, we will get closer to the time when some numbers will start flowing back – though I'd put a

2022 timing on foreign visitors returning in any decent numbers and next year maybe only a few extra students will be allowed in.

But for other sectors, things look okay. There is strong international demand for our largely primary sector minimally-processed exports. There is growing investment in sectors like horticulture, space, games development, aged care, health care, logistics, and so on. Consumer and business confidence levels are recovering with my own Spending Plans Survey showing a rise in the net proportion of people intending to spend more over the coming 3-6 months to 19% from 7% over May and June.

But won't the closed borders mean net migration has gone?

It doesn't matter until the middle of next year. In the 17 months to May 2020 a net migration inflow of 102,000 people was recorded, with a boom in Kiwis coming in and fewer leaving before we had even heard of a virus in China. This is the flow most of us had been expecting in total for the 30 months ending in the middle of 2021.

Looking at the news, it is clear that many of the one million Kiwis offshore want to come back. Chances are that net migration flows will continue at very small positive levels for most months while the borders are closed to foreigners coming in.

Al up, across the things which fresh buyers tend to ask most about – prices, listings, unemployment, interest rates, migration, the economy, and jobs, the situation does not look bad for housing.

Interest Rates

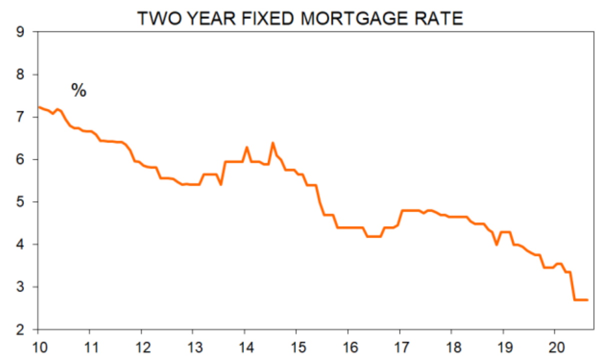
Tview Premium contains detailed graphs and analysis of rate alternatives for borrowers and term depositors.

Wholesale interest rates eased marginally lower this week, principally in response to a fall in the US ten-year government bond yield to a record low of about 0.5%. Worries have grown about the upward momentum in the US economy as infection levels have risen again, and a lot of attention will be on the July employment report due out this Friday night to see if the infection spread is impacting on what has been a strengthening labour market.

Locally, while yesterday's labour market report was a lot better than expected, showing job losses of just 11,000 in the quarter, and the unemployment rate falling to 4.0% from 4.2%, the data are all but worthless. Many people did not officially qualify as unemployed because they were not officially searching for a job through the likes of knocking on doors and doing interviews – during lockdown! Plus, the jobs of many people were kept intact by the wage subsidy scheme.

My own analysis looking across a range of indicators including the 39,000 rise in Jobseeker (dole) numbers, and estimated 25,000 loss of filled jobs compared with what would otherwise be the case, suggests June quarter job losses of maybe 30,000 or so people, implying maybe an unemployment rate of 5% - 5.5% depending on too many unknowable things and pure guesswork assumptions.

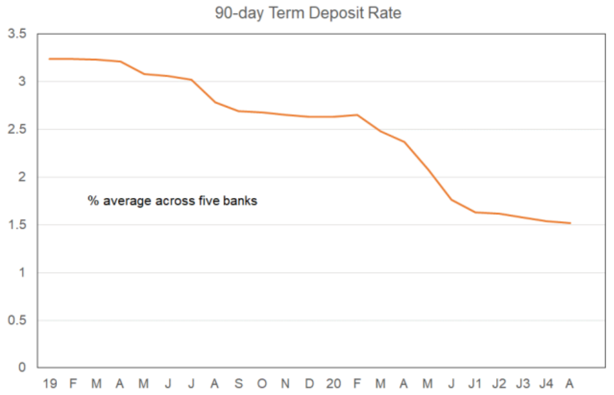
All up, the jobs data yesterday did not cause rises in local interest rates on expectations of the Reserve Bank unwinding stimulus measures. Next week the Reserve Bank will review the official cash rate and release their Monetary Policy Statement which will contain updated economic forecasts. Treasury will release their updated assessment and predictions on August 20 and in both cases the numbers are likely to be better than those released in the middle of May.

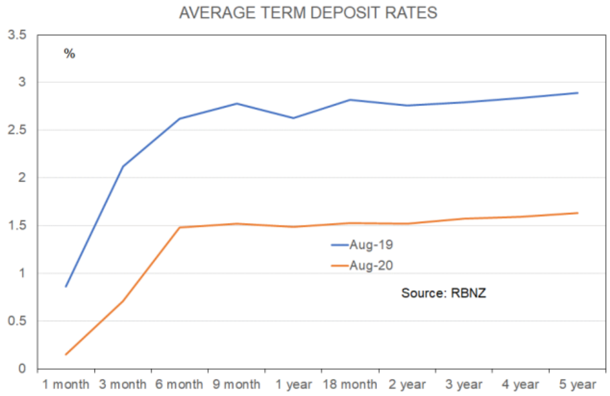


Term Deposit Rates

Every week the term deposit rates offered by banks creep a little bit lower – while the mortgage rates remain unchanged. The first graph below shows monthly average 90-day term deposit rates up to June, then weekly averages across five banks from then. The average rate at the start of July was 1.63%, now it is 1.52%. The average rate for one-year term deposits was 1.66%, now it is 1.49%. And for five-year terms the decline has been from 1.79% to 1.63%.

Tony's View





There seems no reason to believe that these small reductions will stop.

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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