

# 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.

## Exports

Exports of goods and services from New Zealand typically make up about 27% of GDP. This proportion has taken a dip over the past year in the absence of foreign tourism receipts.



This 27% is actually a lot smaller than in many other countries and one might think this challenges the idea that we have a special vulnerability to weakness in our trading partners and loss of export markets. However, for most other economies exports have a very high imported component.

That is, they export things which they have already imported. The imports get processed, assembled, etc. and then shipped to another country, perhaps to get further processed then exported from that country – possibly right back again.

In contrast, virtually everything which we export from New Zealand is actually produced here. Our exports come from our land and sea rather than partly off the wharves.

This is delivering us a slight export income advantage currently because supply chain disruptions matter less to us than other countries where for instance cars cannot be produced because the necessary computer chips are not available. For ourselves the grass is there, the sunshine is making the trees grow, and the oceans continue to exist. Our big problem is labour shortages, but that mainly affects harvesting of certain crops and rest time for many existing operators on dairy farms for instance being reduced through lack of staff.

Demand for what we produce is very good offshore. Our export destinations are facing strong growth off the back of a variety of factors such as fiscal stimuli, successful vaccination campaigns, strong factory production (China), and healthy household balance sheets.

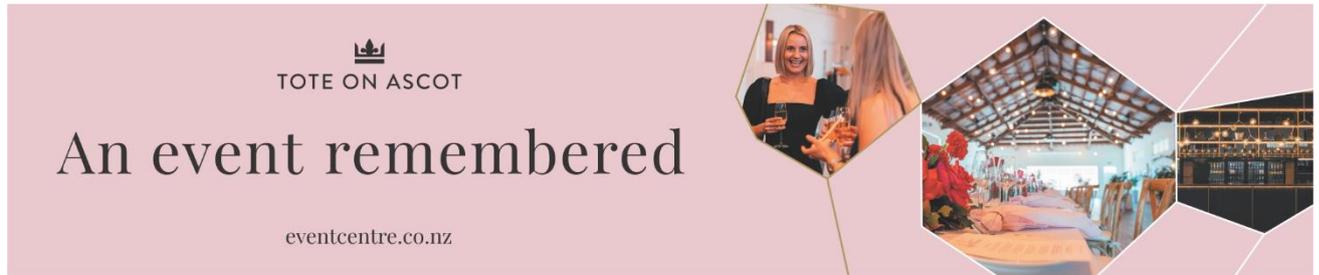
The good demand offshore is showing through in good prices for the things we ship offshore (when the shipping space is available). The ANZ Commodity Price Index in world price terms rose by another 1.3% in May to sit 24% ahead of a year ago and 18% up from the end of 2019.



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The prices for most of the main things we export are moving upward. Compared with the end of 2019 the ANZ's index covering dairy products is up by 24%, horticulture 27%, and forestry 17%. The index for meat, skins and wool is unchanged from late-2019, but the trend recently has been upward and will probably remain so given rising demand offshore and African Swine Fever again hitting Chinese pork production. Grass growth in Australia will be encouraging farmers there to hold animals back to rebuild their herds – hence less supply on the market.

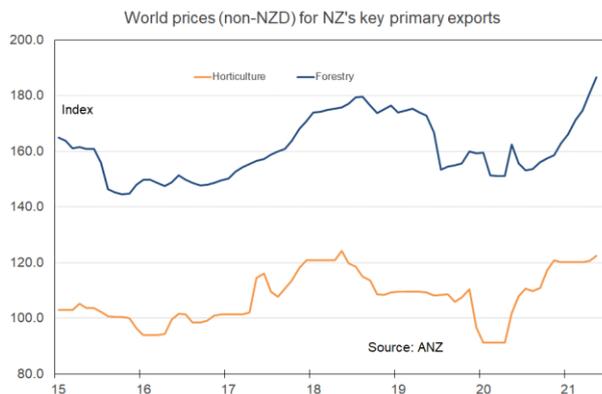
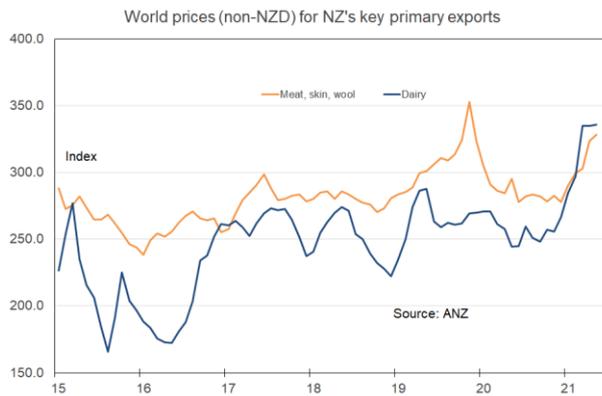
These developments are important to our economy and to the regional economies in particular. The strength of the primary sector has been a key source of support for our economy over the past year and it would be good if the government could recognise the important role played by farming in particular by making extra effort to get badly needed staff through MIQ facilities.

**Invercargill**

This week I travelled briefly down to Invercargill to speak with some people in the construction sector. My main messages revolved around conditions being good for the next three years or so but to watch for an eventual stepping back of buyers once interest rates rose and talk of shortages switched to feelings that plentiful supply exists.

I also spoke about shortages of labour being set to get worse soon as the one million Kiwis offshore are not going to come flooding back to our low wage country when the country they are in now faces labour shortages and strong growth. Plus, the government intends restricting issuance of working visas more forcefully.

And to finish things off, the 650,000 Kiwis in Australia are definitely not going to come back here when there are deep labour shortages across many sectors in Australia and soaring demand in particular in mining, farming, care (aged, health etc.) and of course residential construction.





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## Tony's View

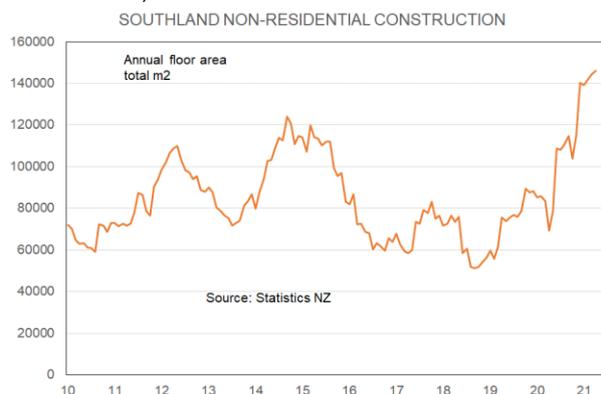
Demand in Oz is in fact going to drag a lot of Kiwis across the Tasman westward in the next couple of years. My understanding is that packing supermarket shelves will earn you more than working in nursing here.

I finished with the message I've been delivering here for some time that if you can't get the resources you need to even manage your current level of production it is extremely dangerous to keep seeking new clients who you might not be able to service at all. Reputational damage will ensue if one has to cancel contracts through lack of staff in the next 1-3 years and financial penalties may ensue for delayed completion dates.

Also, complaints regarding quality of finished product delivered by residential builders are starting to rise.

But repeating these messages is not why I am writing this little section here. I just wanted to mention that despite what we think is happening down in Invercargill as the smelter heads towards closure, the level of building activity is exceptionally strong.

A whole block in the CBD is being redeveloped, a new multi-storey hotel is underway, Southern Institute of Technology is expanding as is a local supermarket, and there is good growth in house building. Issuance of consents for non-residential construction (measured by floor area) has soared since 2019, as shown here.



People definitely expect an impact when the smelter closes, and much as some expect labour supply issues will be solved when staff get freed up from the smelter, others are of the view that ability of staff there to switch to other roles may be more limited than people think.

There are expectations of improved growth when the borders reopen again one day and hopes that some new businesses will move in to take advantage of the electricity availability once the smelter shuts down. There is also anticipation of a lot of work to be done cleaning up after the closure – half a billion dollars or so.

With high dairy prices and upside potential for red meat the prospects for the primary sector look good and that is always positive for towns like Invercargill and Riverton.

The median price of a dwelling sold in Southland over the past year was just \$375,000 compared with \$1mn in Auckland, \$780,000 in Wellington, and \$516,000 in Canterbury. If it is affordable housing, you want then Invercargill is the place for you.



More comments about Southland are contained in this week's Tview Premium if anyone is interested.



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# TONY'S VIEW

## New Zealand's Housing Markets

### House price support into 2022

Here is a reminder about why I feel predictions of house prices sitting flat over the coming year are too optimistic from a potential buyer's point of view.

#### 1. Low interest rates

Most people continue to borrow one-year fixed and as banks raise their medium to long-term fixed rates, they are in some cases introducing special low one-year rates.

#### 2. Expectations of rates rising

Like a fire extinguisher when first used on a fire (it pushes a gust of extra oxygen in at the start), expectations of interest rates rising can cause some accelerated buying. People want to buy and lock in a low rate before they rise.

#### 3. Strong economy

Our economic outlook is good. The labour market is already tight. As job security and wage expectations growth rises, people will be more inclined to buy houses.

#### 4. Rising construction costs

As discussed above, the cost of building is soaring, and this will cause some buyers to switch back to looking for an existing house.

#### 5. Construction delays

Shortages of materials and people mean anyone wanting to buy a section and build could be waiting years for their project to even be started. Seeing discussion of this some people will revert back to looking for a house already built.

#### 6. Rental shortages

I am receiving a number of emails from people who track rental property availability along the lines that the stock of rentals on the market is declining. I have no data series maintained to verify this, but if true will tend to encourage people to bring their house purchase plans forward in time.

#### 7. Inflation worries

The debate about rising inflation is growing. If some forecasters are right and the NZ inflation rate soon jumps to 3%, we can expect a debate about how to protect oneself against rising inflation and the answer for some will be purchasing property.

#### 8. Returning expats and migrants

While the first 6-12 months of migration flows when the borders reopen could be very messy, the expectation of most people is going to be that there will be a net population gain for New Zealand. That expectation, until it gets shattered, will tend to accelerate planned purchases of property.

### Two population flow challenges

I have a number of themes which are challenges to prevailing opinion. One of those opinions this past year has been the view that our country's population is about to be boosted by up to one million Kiwi expats flocking back to our shores to escape their Covid horror offshore. My view is that we Kiwis have a strong tendency to think we are a more attractive place to live than we really are, given that most of us have self-selected to be here for lifestyle rather than income given the

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higher wages offshore and lower living costs.

Most Kiwis when they go overseas do so for reasons of employment, along with simply escaping their immediate and maybe wider families so they can be their own person rather than what their folks tell them they should be. Bravo.

Countries offshore are experiencing strong economic growth just as we are and there are deep labour shortages. Given the strong propensity to work we Kiwis show when we are offshore this acts as a strong disincentive to up sticks and come back to this far-flung corner of the world.

The absence of a rush back of Kiwis – especially from booming Australia – is one reason why our housing market will continue to cool over the next one to five years.

Another challenge I make is to the idea that an aging population in our big cities will see a flow of people to the regions looking to benefit from cheaper housing and better access to the outdoors.

There certainly are people leaving our cities and this does definitely make a difference. But regional towns, attractive as some are, do not offer the same level of some particular lifestyle and living services which the cities do, and this was partly summed up in this following quote.

It comes from last Saturday's Dominion Post, page B12, in an article about farmer attitudes towards banks.

"Provincial towns are under all sorts of pressures, with workforce gaps, farm jobs disappearing as productive land is planted out in pines for carbon credits, competition from online sales trends that all traditional retailers face, to name some of the factors."

Farmers often complain about conditions in the regions, then complain again when people fail to shift there having read their stories of provincial woe.

The expected population movement to our regions is not anticipated as being for employment reasons, though the example of Tauranga tells us that when older people move younger ones go with them to provide the services and activities required such as construction.

Here are some reasons why you need to step back and consider the assumption you may be running under that it is a good idea to keep buying houses in small locations.

1. The regions look to have completed their catch-up to the earlier house price surge in Auckland
2. The reduction in physical retailing as a result of online shopping is more apparent and challenging to commercial centre appearance in small rather than large towns. Having said that, Greytown in the Wairarapa is great while Queen Street will be a shocker until the roading mess is sorted out.
3. Health facilities are less good in smaller than large locations and health services are an important consideration for older people.
4. The closure of bank branches is a far more meaningful negative in small rather than big towns.
5. The type of dwellings being built in Auckland will allow aging people to sell their expensive standalone house, free up a lot of cash, and stay in the neighbourhood they have long lived in by shifting to a new townhouse just down the road.

Build price per dwelling, excluding site works, from **\$219,000**

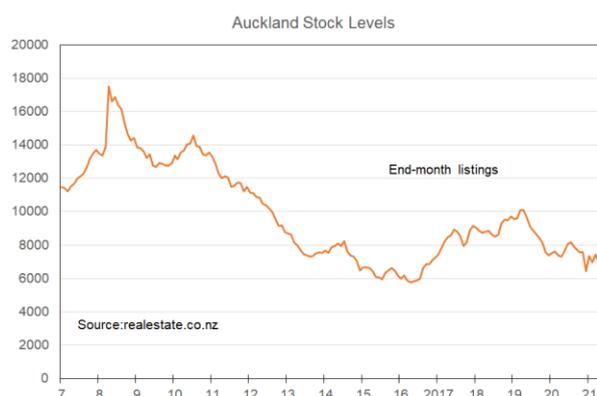
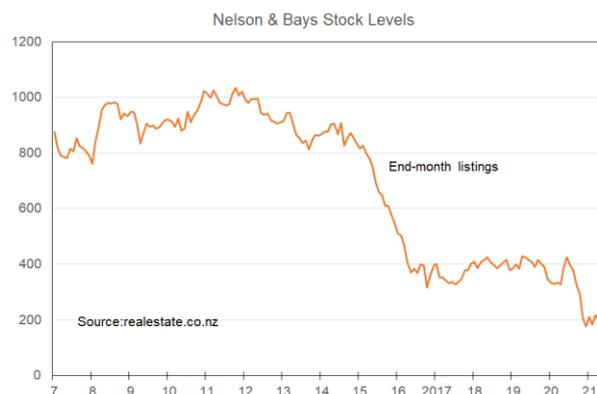
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6. In a world where people are increasingly concerned about carbon emissions, the presence of improving public transport in cities will prove attractive compared with reliance on a car in the regions – unless one lives right near a town centre in which case walking might take care of most regular activities.

None of these things necessarily detract from living in the regions for many people. But there is a risk that people over-extrapolate what has happened in the past year as a result of Covid-19. Some people have accelerated their long-term plans to move to the regions while some have embraced working from home to live further away from their previous five days a week place of work. This is perhaps why the quantity of listings available for people to choose from in some regions has declined sharply since lockdown ended. The best example is Nelson, seen in the following graph, followed by Auckland for comparison.



## Links to publications

[Tony's View Spending Plans Survey](#)

[Tony's View Business Survey](#)

[Tony's Thoughts Vlog](#)



[REINZ & Tony Alexander Real Estate Survey](#)



[Onerooft weekly column](#)



[mortgages.co.nz](https://mortgages.co.nz) & Tony Alexander Mortgage Advisors Survey



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