

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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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.

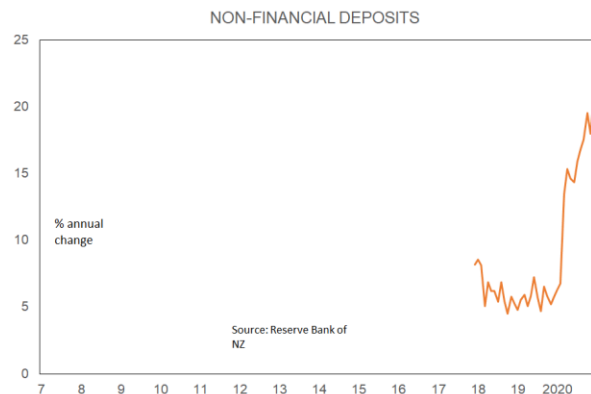
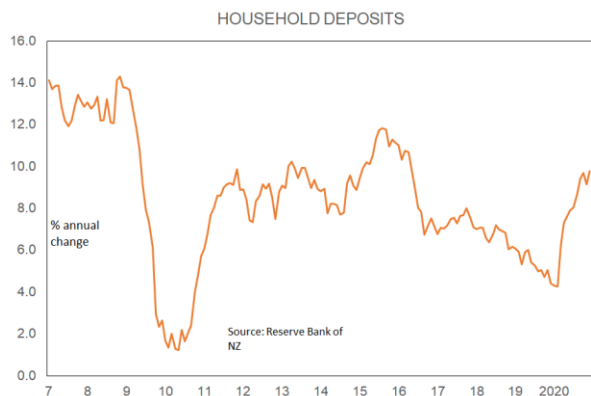
Cash in hand

When times get tough not everyone finds their bank balances shrinking. As a rule, we cut back on spending where we can and try to increase our levels of spare cash in case things get a lot worse, or in case some absolute bargains come along.

This shock, assisted by money printing in the context of a large fiscal deficit, we have seen some big jumps in bank deposits held by households and businesses.

As at the end of December it looks like households were holding about \$10bn more than expected and businesses \$12bn. This amount, equivalent to about 7% of GDP, will go some way to underpinning growth in both consumer spending and business capex this year and next.

These two graphs show the sharp growth in household deposits since early last year, and the growth since then also for business deposits – though with a far shorter time period of data available for the latter.



Businesses cautious but hiring

On Tuesday ANZ released the preliminary results from their monthly Business Outlook Survey. They show a small reduction in confidence about where the economy is going to a net 0% from 7% in February, and a smaller pullback in expectations of how busy one's own business will be to a net 17% positive from 21%.

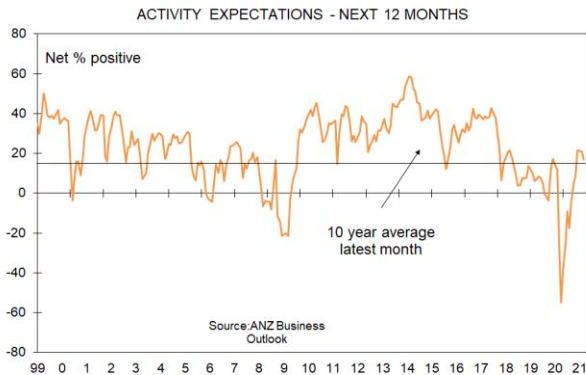
The first graph on page 2 shows the net proportion of businesses with a positive outlook for their own activity. Note the dip last year then the strong recovery.



Funding opportunities since 2003
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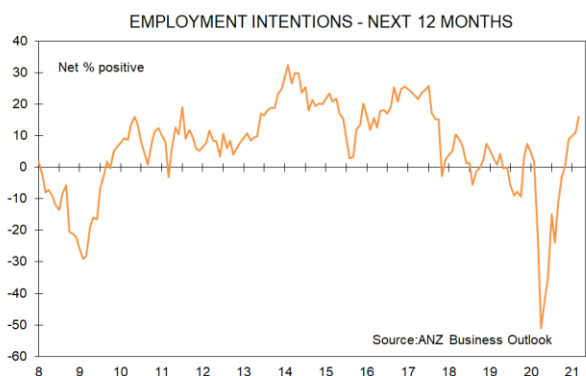
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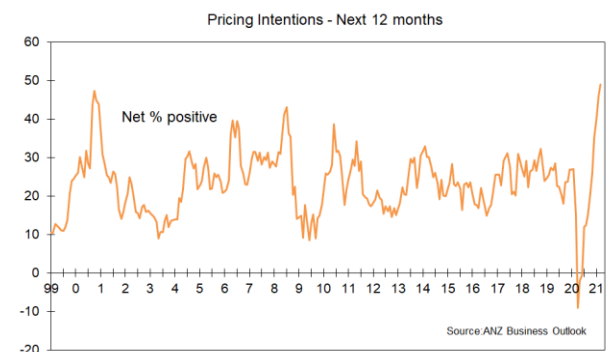
However, intentions of hiring people lifted from a net 11% to 16%. This is an important result. It tells us that businesses have probably become more aware of the tightness in the labour market, and even though courtesy of the most recent lockdowns they have probably become a tad more cautious about economic and business growth prospects, they still know they're going to need more people and they plan looking for them.

Note the high level of employment intentions shown in the following graph.



In similar vein investment intentions were fairly steady at a net 14% positive from 16%. But if businesses are going to handle the increasingly tough labour environment facing them, they are going to have to strongly lift their investment in labour-saving technology, whilst also probably pulling back on their expansion plans and refocussing outputs more strongly to where they have good pricing power.

Speaking of which, a net 49% of businesses now say they plan raising their selling prices. This is up from 46% in February, 15% a year ago, and an average for the past ten years of 20%. This is the highest reading since the series started in 1994 (shown in the next graph) and is one reason why we are seeing medium – to long-term interest rates going up. Inflationary pressures are building in New Zealand and one of the sources of such pressures is supply chain problems.



Here is an email I received this week from someone noting price dynamics in the motor vehicle sector.



Tony's View

"We have just gone through the exercise of getting agreed valuations for our car insurance renewals. All of our vehicles (4) and a motorbike have gone up in market value since renewal last year.

This confirms the difficulty mentioned in your Tony's View in purchasing cars and also suggests spending re-directed into the used car market is pushing up values.

Dealers have commented that new car sales are without extras and at full retail price, selling within days of coming onto their yards. This is across Subaru, KIA, Mazda and Toyota."

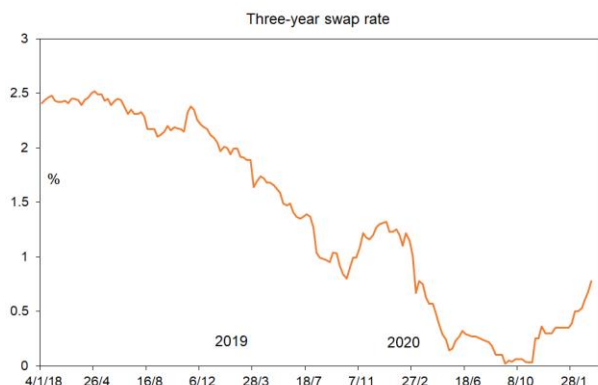
Plus, I was forwarded an email from someone in the bee business noting price rises such as these.

Frames // Plastic and Wood // 10% to 15%
Ready to Go Boxes // 5% to 7%
Bottom Boards // 5% to 7%
Imported products // 7% to 13%
Suits // 4% to 7%
Feeders // 3% to 5%
Queen Excluders // 3% to 5%
Hive Mats // 3% to 5%

The second to last might reflect a surge in demand from a family in the United States.

Interest Rates

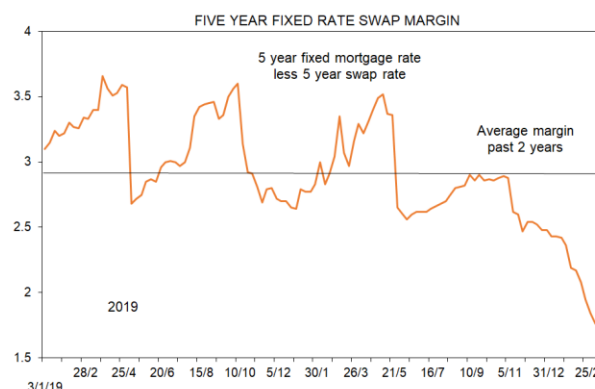
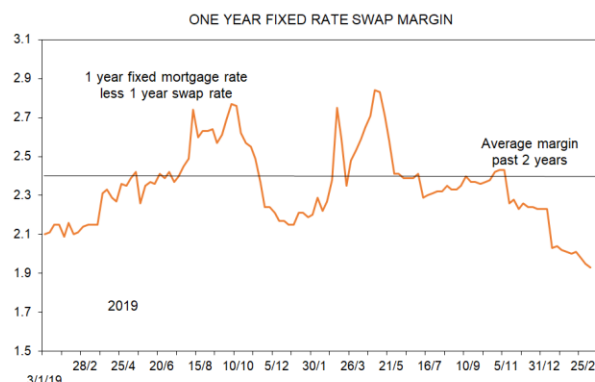
The cost to NZ banks of borrowing money at a fixed rate for one-year to lend fixed for one-year has increased by about 0.3% since October. The cost of three-year fixed rate funding has risen near 0.7%, and the cost of borrowing money to lend fixed for five years has risen by 1.1%. The following graph shows the rise in the three-year funding cost since October.



Banks have yet to raise their fixed mortgage rates to reflect these changes. That could be because

almost everyone continues to borrow at the one-year term for 2.29%. But once we see a bout of worries about higher rates cause a movement of borrowers towards the longer terms, we are likely to see those fixed mortgage rates go up.

For your guide, here are a couple of graphs showing the way bank margins for lending fixed have declined sharply in recent months for the three-year and five-year terms.



With regard to short-term bank funding costs – those are locked in place for now by the official cash rate being kept at 0.25%. Our central bank is probably still thinking along the lines of other central banks which recently have stated that they will keep their current low cash rates through to 2024.

But the chances of that happening are very slim in light of the speed with which forecasts for world growth are rising in response to the accelerating rollout of vaccinations and the huge 9% of GDP fiscal stimulus coming in the United States.

NZ monetary policy will probably be tightened next year.

TONY'S VIEW

New Zealand's Housing Markets

Being a sensible investor

In every asset market you have a pyramid of players. At the top are people with massive access to capital and finance, mega-years of expertise themselves and amongst the people they work with, tendrils feeding in good information from all levels of the market, and a keen sense of when things are cheap, and when they are over-blown.

As you go down the pyramid you encounter layers of less well capitalised, less well-informed people, with emotion playing a larger and larger role in decision-making.

At the bottom of the pyramid is the great mass of average people not having a high degree of understanding about the asset but buying in the market because they are under the control of FOMO and will take desperate measures to secure themselves a stake. (Most of the Bitcoin pyramid is this bottom layer.) They will borrow where they can, pay high interest rates, take out large mortgages, and be sold assets by sometimes unscrupulous people looking to take advantage of their desperation and their naivety.

Rules on lending are designed to try and minimise the extent to which the bottom layers of the housing pyramid over-commit themselves and potentially set the scene for a destabilising shock to the economy.

As the housing cycle progresses, different layers of the pyramid do different things, though sometimes everyone is moving together. Approaching the top of the cycle for instance all layers are likely to be buying.

But there are points in the cycle where the upper layers make a decision which the people further down may be incapable of making. They step back. They choose to sacrifice the potential

upside left in the asset's price because they are concerned about the dominance of the bottom layer, the hype, the desperation, and the risk of a sharp market decline – perhaps caused by a ham-fisted policy reaction to government or central bank concerns about what is happening.

The top layers may sell some poor assets to desperate people with a visceral need to own anything so they can get rid of the FOMO demon chewing every day on their shoulder.

Where is the New Zealand housing market at right now? Demand remains high. But I am being sent emails from people describing extreme prices which some people have been paying. I am also receiving information suggesting that some at the top are rationalising their portfolios.

I also can see early signs of turning across the official data from REINZ, and all three of my monthly surveys which address housing market issues.

What does it mean for an average investor when we start to see these things happen?

First, it does not mean one stops buying. Residential property investment has a long, well-established record of delivering retirement wealth for average Kiwis. And history tells us that as a rule house prices in New Zealand only fall to any firm degree when the economy is physically in recession.

Second, there are many strong underlying factors which suggest that prices will continue to rise on average over the next few years. These include the return of net migration inflows, shortages of land and labour limiting supply growth, low interest rates by historical standards, and rising incomes.

Third however, the need for greater selectivity of what one purchases, and which auctions and tenders one walks away from has increased.



Property Investment



Retirement Planning



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There are some people prepared to pay prices which you know a property does not warrant.

You need to work with people who have knowledge of these things to develop the following skills.

1. The ability to pick a property with potential for good returns.
2. The ability to determine what that property is worth in the current market.
3. The ability to recognise when others in the market are not driven by analysis, and to step back to let them be the top bidder.

You need good analysis skills, and you need to understand FOMO's impact on you and on others so that if you do find yourself in a bidding war you have the discipline to hold to your limit and not get caught up in the moment.

In a nutshell, if you are new to the property scene, be prepared to spend time and some funds gaining these abilities before you make a potentially costly mistake.

Investing in residential property has secured the retirement wealth, income, and peace of mind for a generation of people who have heeded government calls to save and invest in case national superannuation payments are less "generous". The warnings about fiscal pressures limiting future super payments are likely to arise again once government and popular attention turn back toward government debt levels. When this happens, it is hard to imagine anything other than an increase also in discussion about the worthiness of residential property investment and the worth also of building up good KiwiSaver funds over time.



managing, growing and protecting your wealth

"We take the time to look at who is behind the numbers because in the end, that's what it's all about"



Property Investment



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Links to publications

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[Tony's View Business Survey](#)

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



[Onerooft weekly column](#)



[mortgages.co.nz & Tony Alexander Mortgage Advisors Survey](#)



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