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

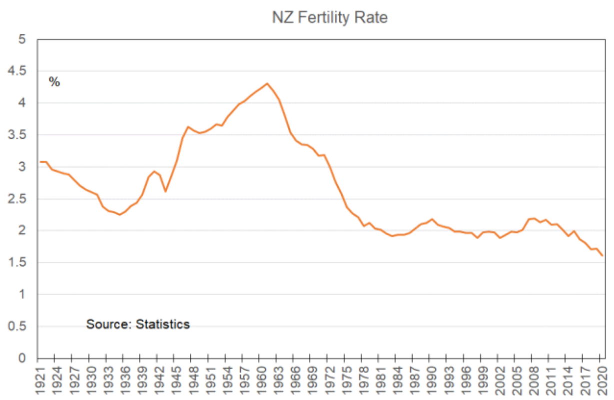
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy-to-understand manner.

Population growth to slow

Two weeks ago, I wrote about the population growth projections from Statistics New Zealand. They project that the country's population between 2018 and 2048 will grow by 27% or 1.3 million people.

People might think that this 27% sounds low in comparison with the 46% growth in our population between 1988 and 2018. But there are some good reasons for this slowing in population growth.

One is that the birth rate is falling. Women on average are having fewer children. The decline in the birth rate is shown in the following graph. Things were reasonably steady from 1980 up to 2015, but since then the rate has been easing off.



This means that unless the social forces encouraging this change reverse and it goes back up, we should anticipate less birth-driven growth in our population for the next 30 years as compared with the past 30 years.

In addition, the Baby Boomers will be dying in greater numbers.

There is some offset to this from the annual net migration gain for the next three decades being assumed at 25,000 per annum as compared with the average gain for the 30 years to 2018 of 16,000.

But the upshot is that if you are basing any of your revenue or activity forecasts on population growth in New Zealand over the past 1-3 decades – which has surprised on the high side – then you are aiming too high.

And before you start saying "What about the flood of Kiwis coming back home when the borders open?", think again.

First, there are very good reasons why some 650,000 people with Kiwi residency and citizenship are in Australia and the rest in other countries. Many are there to be free of their families and the constraints they impose on them back home.

Second, New Zealand is an expensive country to live in – especially housing and groceries – and incomes are usually lower than one can earn offshore.

Third, and as mentioned previously, Australia's economy is recovering rapidly and strongly. Job ads are surging along with consumer confidence and business investment plans. There is a boom underway in house construction and Australia is desperate for our tradespeople, shelf packers, agricultural workers and so on.

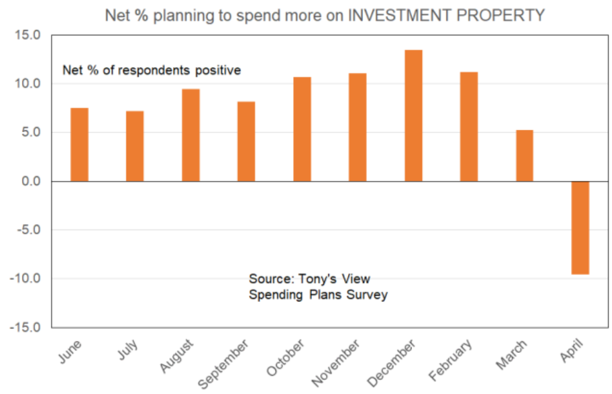
There is far greater mobility of us Kiwis between the labour markets of NZ and Australia than between ourselves and any other country.

So, chances are high that whatever extra inflow of Kiwis we get when borders properly open up could easily be offset by an outflow before then and after to Australia. Note also that there is a tendency for Kiwis to shift back to New Zealand, find the place too boring after London etc., and hop across the Tasman to a proper big city like Sydney or Melbourne rather than our big/not big Auckland.

Shift to shares?

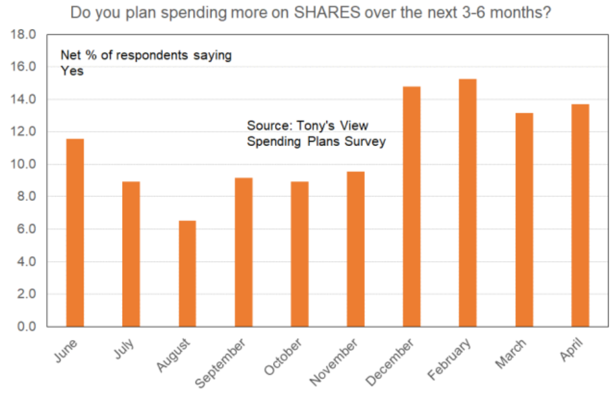
On LinkedIn, a fund manager commented that while they did not want to express any happiness about the apparent demise of an asset class, my Spending Plans Survey showed that a net 10% of people were now planning to reduce their spending on investment property.

This is the lowest result since the survey has been running – which is only since May last year, so we've got to be careful not to get too carried away here.



Their belief is that as people switch out of residential property, they might look at shares and other more traditional "portfolio" assets. Maybe.

There was a rise in the net percent of people planning to buy shares to 14% from 13%. This was unusual in that every other category of spending displayed a weaker reading this month than last month – international travel excluded clearly because of changing border arrangements.



TONY'S VIEW

New Zealand's Housing Markets

FOOP

This week I noticed a newspaper article about the appearance of FOOP – fear of over-paying. This is a situation where buyers start to get concerned about the ability of the residential real estate market to keep rising and worry that they are buying at the peak and could be in a falling paper wealth situation in the near future.

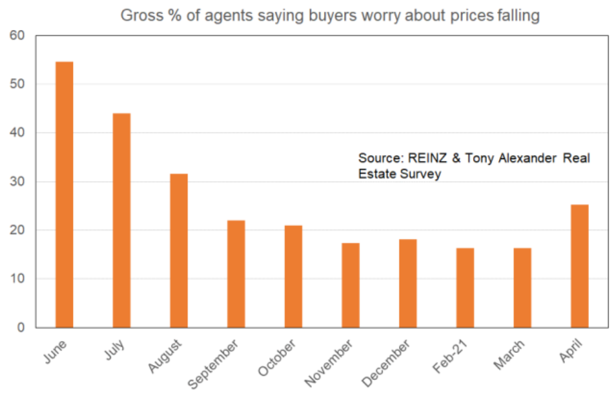
Note that this is not the same as saying people are fearing negative equity. That is the situation where a house price falls to below the size of the mortgage. Such a situation is extremely unlikely except for those buyers purchasing at the peak with a 5% deposit.

But for these people who might have made such a purchase recently, their bank is unlikely to feel any great concern should prices in fact ease off by over 5% in the next few months (I'd give that a 50% probability). The fall in prices will be a simple technical correction to the ridiculous speed of price gains since May last year rather than the start of a sustained downward trend. That situation lies maybe five years out.

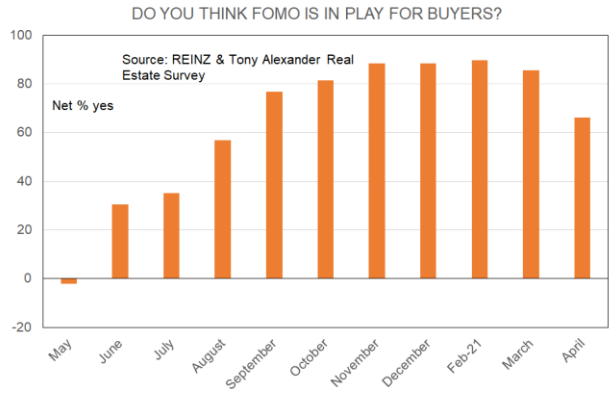
Do we have any evidence beyond some anecdotes of FOOP? Yes, we do. In my monthly REINZ & Tony Alexander Real Estate Survey I ask agents all around New Zealand a range of questions. One concerns the things which buyers are most concerned about at the moment.

The following graph shows the gross proportion of agents selecting worries about prices falling as the biggest concern of buyers. In last month's survey a gross 16% expressed this concern – a result about the same as for all months since November.

But this month a gross 25% of agents said this fear of prices falling was of prime concern.

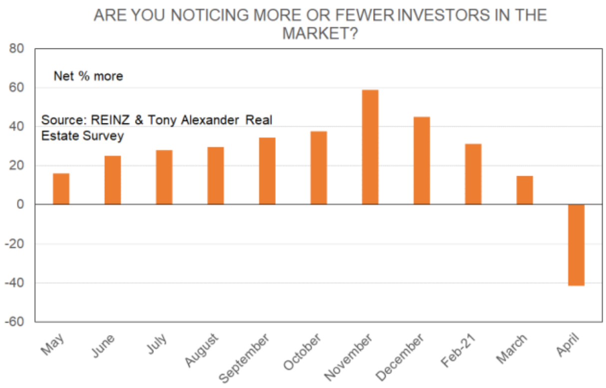


I wouldn't call it a high degree of FOOP yet. But consider the inverse relationship between this measure and that for FOMO shown in the following graph.



The net proportion of agents saying that they are seeing FOMO decreased this month to 66% from 86% in March.

As a result of the March 23 housing policy announcements, I think we can safely say that price expectations are shifting. And it pays to remember that a shift in the degree of strength in the housing market around New Zealand was underway before March 23. The following graph showing the net percent of agents noticing more investors in the market has been falling since December, as had the pace of monthly change in house prices before the buying binge to beat the 40% deposit requirement occurred.

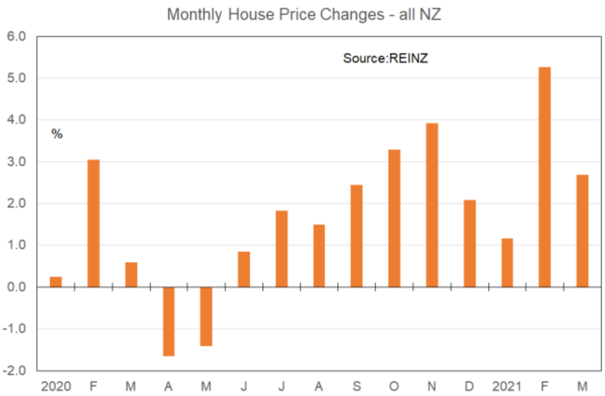


REINZ data

This week REINZ released their monthly data on transactions undertaken by licensed real estate agents throughout the country. This means the data do not capture sales by property developers direct to buyers, or private sales. The latter are always tiny, but with a house building boom underway there are more sales happening now than the REINZ will be capturing.

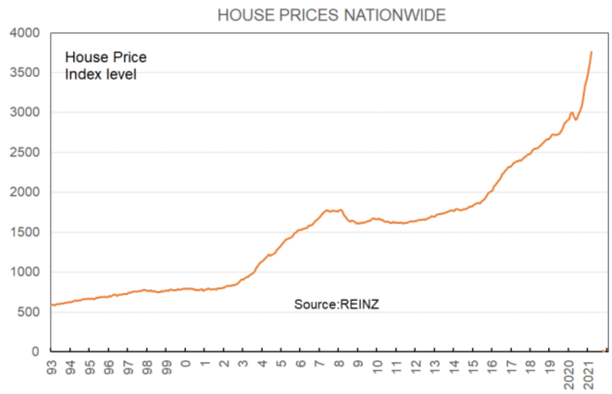
Still, in the absence of any over-arcing and consistent time series these are the numbers which we must continue to use.

We learnt on Thursday that whereas in February average dwelling sale prices around New Zealand rose by a near record 5.3%, in March the gain was "only" 2.7%. This rise however is still out of sync with the slowing pace of prices rising which started in December and this is likely to be because of the effect of the Reserve Bank on February 11 announcing the return of LVRs.



Wanting to avoid having to pay a 40% deposit many investors would have brought their planned purchases forward in time and been prepared to pay more at auctions in February and March in order to secure a property and make settlement before May 1.

That effect was strongest in February, eased off in March, and will probably be largely absent in April. And that is where things will get interesting.



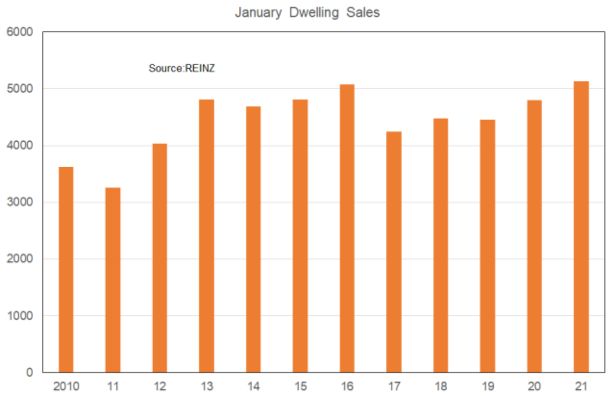
That is because the absence of the panic buying by investors will sit alongside the immediate cessation of some buying from March 23 when rules around deductibility of interest expense for fresh purchases were changed.

There is a very good chance that average house prices fall in April. In fact, I have no trouble at all seeing prices falling for a number of months during the remainder of this year. The falls will reflect the fading away of some of the factors listed above which produced the ridiculous 28% surge in prices between May and March, and the change in regulations.

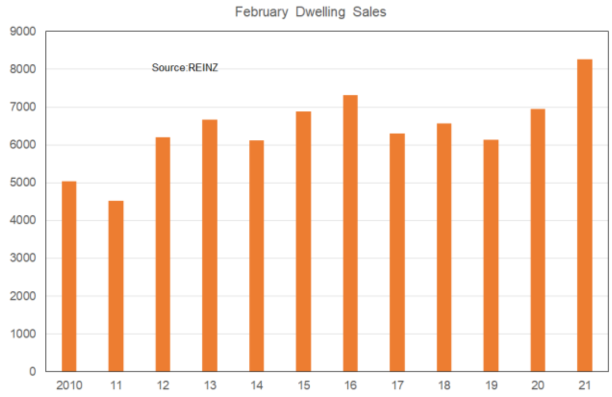
The falls won't reflect a deterioration in the underlying economy and I'm not anticipating writing worrying columns regarding how stuffed we must all be because house prices might fall 17% from current levels and go back to where they were in August. For all intents and purposes from an economic meaning point of the view the price falls will be meaningless.

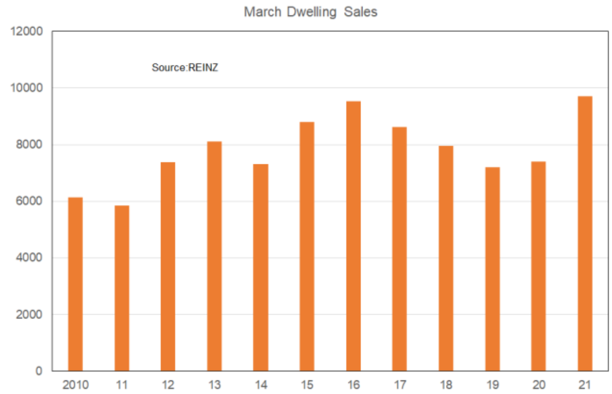
With regard to property sales, this is where we get data to back up the view that there was a rash of panic buying to beat the May 1 deadline.

We can get some insight into this unusual jump in sales from the following three graphs. The first shows nationwide sales for each January since 2010. There was an upward trend in sales in place for the past two Januarys.



But when we look at the month of February each year, we see an unusually large jump from last year, and the same for the final graph showing March.





The April graph is likely to look quite different.

Links to publications

[Tony's View Spending Plans Survey]

[Tony's View Business Survey]

[Tony's Thoughts Vlog]

NZHL HOME LOANS | INSURANCE

[REINZ & Tony Alexander Real Estate Survey]

Oneroof weekly column

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony Alexander Regional Property Report