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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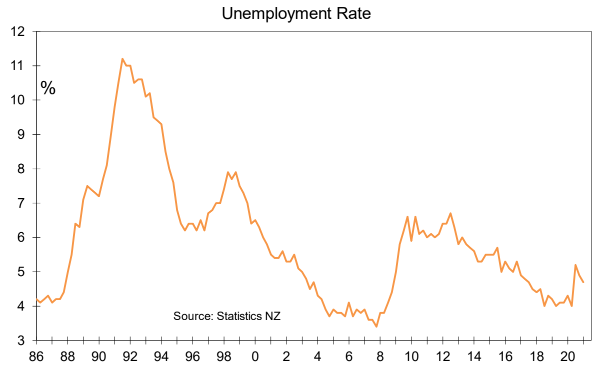
My Aim

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.

Labour Market Strong

Yesterday, Statistics NZ released latest results from their quarterly labour market surveys and the numbers were stronger than expected. The unemployment rate fell to 4.7% from 4.9% in the December quarter and a peak of 5.2% back in the September quarter. This is still above the low rate of 4% exactly a year ago pre-Covid and debate is now growing about what the Reserve Bank might be using as a definition of sustainable full employment when it considers monetary policy settings.



Jobs growth during the quarter was a better than expected 0.5% seasonally adjusted and job numbers now sit 0.3% or 8,000 higher than a year ago. This is a very impressive performance considering the near complete absence of the inbound tourism sector which had been accounting for some 165,000 jobs directly and indirectly.

The data are likely to reinforce growing awareness in the business sector that the staff they want are simply not available. In the context of the government just announcing a review of immigration policy settings amidst concerns about excessive numbers of low-skilled migrant workers entering the country in the past, businesses are going to have to make some very serious decisions for how they operate in coming years.

There will need to be far greater focus on boosting productivity, improving skills and work-familiarity of increasingly less motivated new hires, and decisions made to restrict output. This latter change will be a deep challenge to the many businesspeople who still believe the best route to higher profit is higher output.

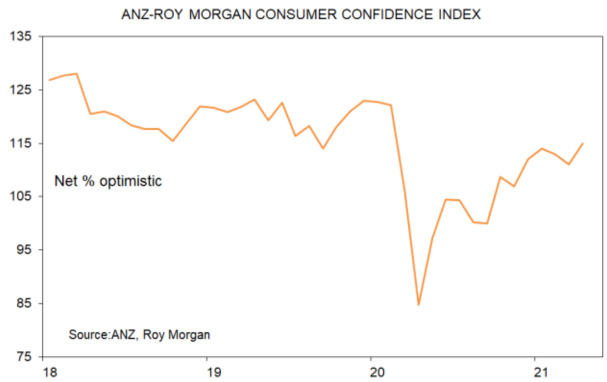
That is not necessarily the case if the resources you need to grow output are in short supply. By continuing to try and grow businesses risk sending themselves bankrupt through being unable to deliver product on time and suffering declining product quality which requires expensive reworking.

This perhaps is a useful point for me to reinforce one of my key themes which I am attempting to develop in a non-scary manner. Resources are short in the construction sector. Quality of output is at risk. Yet demand for new builds has soared and is soaring again as investors have been incentivised to shift away from existing houses.

Throw in increasing government and council efforts to get more and more dwellings built and there is a problem which will appear somewhere down the track for builders with not much experience. Quality, longevity, reputation, and restraint are going to increasingly count as measures of builder/developer success in the next five years.

Consumer Spending

One good piece of news received this past week was a rise in the ANZ Roy Morgan Consumer Confidence Index to a reading of 115 in April from 111 in March. This is still below the average for the past decade of 119 but is the strongest reading since February last year just before we went into lockdown.



There is not a strong correlation in the short-term between changes in consumer sentiment and actual consumer spending. So, it is unlikely that the month's change will be noticed, especially as the readings have been there or thereabouts since December last year.

But things do suggest that even as people pull back from their huge binge on consumer durable items like spas in the next 12 months, there will still be a good underlying level of support for household spending.

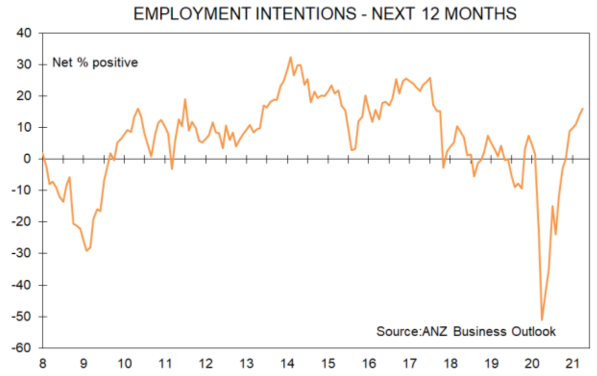
In fact, support is going to come from a number of areas. One is the continued low level of floating interest rates through to the end of 2022 which will make debt-financing of purchases relatively inexpensive still by long-term standards.

Then there is the extra near $10bn which households have in their accounts with registered banks, over and above what we would have expected to see without Covid-19.

Of relevance to many retailers will be the strong level of house building activity. This will generate some good support for purchases of durables like carpet and appliances which have soared in the past year but have to come off at some stage as noted above.

Additional support for household spending will come from the strong labour market, seen for instance in the final results for April in the ANZ Business Outlook Survey and yesterday's firm employment numbers.

The net proportion of businesses saying that they intend hiring more people over the next 12 months has increased from the preliminary reading of 14% to 16%. This is well above the average for the past ten years of just 5% and suggestive of high job security going forward – plus eventually we can expect that wages growth will start recovering.



Another factor helping to underpin consumer spending will be the aging of the population and people outfitting their houses to see them through retirement. But there is a point at which this process will reverse as the Baby Boomers start dying in greater numbers.

One factor spurring good retail spending in the past year will have been the leap in residential real estate turnover. Either people have been upgrading their houses to make a sale, or they move into a newly bought used dwelling and upgrade then.

In general, we should expect that the renovation surge here and overseas of the past 12 months will fade. But given the shortage of tradespeople there will be some people getting their Covid renovations done through the remainder of this year into 2022.

With investors looking at altering the way they manage their residential property investments in light of the government's rule changes, we are highly likely to see a number look to not just raise their rents but to help justify the rent rises by lifting the fitout quality of their dwellings and avoiding renting to people either with "issues" or simply at the lower end of the socioeconomic part of the spectrum.

This is where the government is highly likely to have a problem as a result of the continued hits they are delivering to investors in residential property. There will be increasing pressure on Kainga Ora (Homes and Communities) to provide social housing over and above the underlying pressure which stems from the proportion of our housing stock devoted to such housing being below 4% compared with an OECD average above 7%.

There is some way to go before the government provides an adequate quantity of social housing in New Zealand and that is one reason why house construction will be so strong over the next 3-5 years and why retailers and manufacturers of items which go into new builds can reasonably anticipate strong sales levels for beyond the Covid-binge period – though off the highs seen last year.

Another interesting aspect of the change in investor rules may be if some investors do sell and young people buy such houses. There is a tendency that when young people move out of their parents' home the folks then embark on a process of modernising their dwelling now that wear and tear from big lumps lying around the place staring at little bitty screens will be less.

Just to finish off from mentioning the ANZ's monthly survey just above, it was not just the employment intentions measure which improved as April went by. The net proportion of businesses saying that they plan raising their capital spending levels also increased – from 12% to a much healthier net 17%.

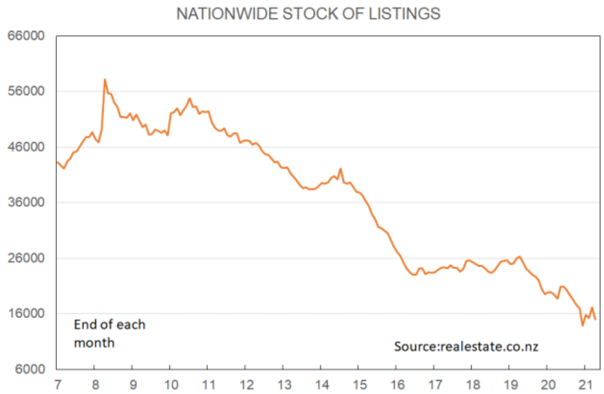
TONY'S VIEW

New Zealand's Housing Markets

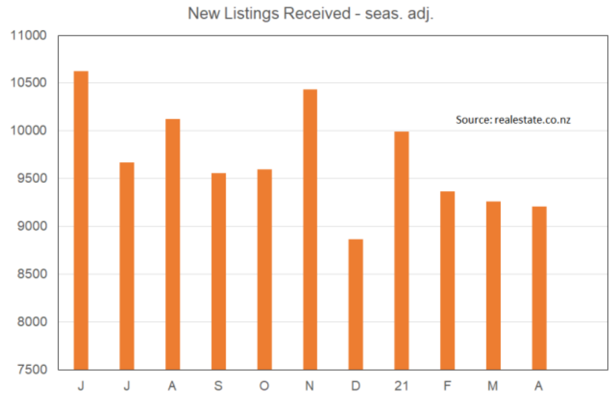
Property Listings

Is there any evidence from the monthly data provided by realestate.co.nz that we are seeing a rise in listings to back up the view that investors might be looking to sell? No, but this effect is likely to be getting swamped by vendors generally stepping back from the market for a while to try and get a better feel for where the rules will end up and what other people are up to.

The number of properties listed for sale in New Zealand on the realestate.co.nz website at the end of April stood at 15,040. This was down from 17,114 a month ago and over 26,000 in April 2019. There is no point doing a comparison with April last year when numbers were drastically affected by the nationwide lockdown.



The number of new listings received during the month was a seasonally adjusted 9,208 which was about the same as the 9,400 in April 2019 though down 0.6% from March. In fact, new listings also fell 1.2% in March and 6.2% in February.



There is no upward trend in new listings, but these are early days yet for gauging market response to the March 23 policy changes and other developments such as the return of LVRs – strengthened for investors.

Property

Each month when I survey real estate agents around New Zealand in conjunction with REINZ, I invite them to make comments about what they are seeing in their locations. I reprint those comments (after tidying them up) each month in Tview Premium.

As I have a bit of space to fill in Tony's View this week, here are a small number of those comments from a few of the regions. Enjoy.

Auckland

- Some investors still around but much smaller numbers. Other buyers are still in play.
- Properties in our areas still seem to be very high and I guess it will take some time for the price to settle down.
- We are finding numbers are dropping through open homes and auctions however sale prices are not changing. We are seeing a lot more conditional buyers after auction which

are then going to multi's and great prices are still being achieved.

- The upper end of the market is still very strong - i.e., $5m plus, however the first home buyers and investors have just dropped off in last couple of weeks. Still unsure if this is due to Government policy or Easter, School Hols and Anzac weekend. No doubt it will be clearer in May!
- Most owners are only looking to see the value of their property in the current market and not really ready to sell. Its as if they are looking at what they could have gotten had they acted sooner but feel that their window of opportunity may have passed. Buyers are hesitant, saying they would not be able to afford the capital input should their equity fall after buying. Investors seem uninterested in purchasing at this point.
- A few more listings on the market. We still have lots of buyers and prices seem to be holding so far.
- Investors are on pause. I get the feeling that when our listings dry up over winter and the price squeeze goes on, investors will realise prices are not falling and will buy back in again come spring. Still solid demand currently despite this - yes auction clearance rates have dipped but it couldn't go on like it was forever, it was out of control Jan/Feb. Currently we still have a very strong market but not out of control.

Wellington

- General slow down in market.
- The market is changing as we speak but not sure of the result yet, is it just a glitch or will buyer demand drop off. Time will tell.
- First home buyers are really struggling - budgets up to $800k and still can't secure anything. Also, the banks are so strict with them - one buyer couldn't get finance because the builders report showed a high moisture level reading around a shower! Ridiculous.
- It's concerning that there are fewer buyers willing to offer on property. There is very little Fomo. In Porirua, we've seen houses receiving 15-20 offers down to 2-3 offers now. Properties have also been selling lower than expected compared to 2-3 months ago. There is still the exception to this however but they're becoming less and less.
- I think we have reached our peak in prices; I specialise in inner city apartments and most of my vendors are investors getting rid of there stock. Enquiry from purchasers is well down from the previous 6 months but as we are in school holiday mode this could be having an effect, a lot of purchasers are sitting and waiting to see what happens over the next 2 to 3 months.

Canterbury

- I work as a buyer's agent for investors and have noticed a huge decrease following the announcements. Slowly, as EOY gets completed and consultations are had with their advisors, investors are coming back to the market to invest strongly. There are many opportunities that investors are interested in while some have had to defer their next investment and reduce debt to handle the tax changes.
- Buyers who have got to a point of understanding the market forces in play are keen to transact. Those who have no understanding usually will miss out on properties before they realise it is a seller's market and adjust their behaviour accordingly.

Queenstown Lakes

- The market has definitely slowed, with the urgency gone from buyers. Very hesitant about paying too much and in no hurry. Sellers have high expectations on price, price correction to happen by 5 to 10%.

Links to publications

Tony's View Spending Plans Survey

Tony's View Business Survey

Tony's Thoughts Vlog

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