BNZ Weekly Overview

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Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Migration Nation

There was a lot of commentary this week following release of the monthly International Travel and Migration data by Statistics NZ. The data show that in the year to February there was a net migration gain of 67,400 people or 1.4% of the population compared with a 1,100 gain three years ago and 20 year average of 10,000. The impression given was that this surge in the net migration gain is due to lots more foreigners coming into the country and that they are taking our jobs and pushing up house prices.

Firstly, there are more people happy about house prices rising than there are unhappy. Second, lets have a look at what has caused the 66,000 turnaround in the net flow since early-2013. The gross inflow back then was 86,000 now it is 124,000. Thus 38,000 or 58% of the change is due to more people coming in. The other 42% or 28,000 is fewer people leaving New Zealand.

Of the extra 38,000 people coming in 9,000 are Kiwis and Aussies exercising their legal right to hop between our two countries. Another 14,000 are extra students coming to study here and contribute to the $3bn+ in exports we gain annually from the export education sector. That leaves a true foreigner migration increase from levels of three years ago of just 15,000. Of that 13,000 extra people have come in on work visas to undertake tasks such as rebuilding Christchurch and to supply skills which we are lacking sufficient depth of in New Zealand. Their presence has occurred over a time when the unemployment rate has fallen from 6.3% to 5.3% and 174,000 net extra jobs have been created.

If the government responded to calls for the net inflow to be slashed, perhaps back to the long-term average of 10,000, then in the past year a net flow of 56,000 people would have had to be stopped. The government can do nothing about the people choosing to leave, some 57,000 this past year, so they would have to stop 56,000 of the 124,000 people coming in. Since 36,000 of these are Kiwis and Aussies that means taking 56,000 out of the 88,000 foreigners.

So who do you tell to bugger off from this list of visa categories?

14,000	Residence
28,000	Students
39,000	Work
6,000	Visitors
1,000	Other

Refuse the students and you reduce export earnings. Refuse the workers and you deny businesses the ability to grow, function, and perhaps remain in New Zealand. Deny the visitors and again you hit export earnings. Deny people coming as residents, family linkages, and you renege on rules which were in place when earlier migrants were accepted saying they could bring family members with them such as a spouse and one's children.

In a nutshell, the surge in net migration inflows from three years ago to 67,000 from 1,100 has been driven by 28,000 fewer people leaving, an extra 9,000 Kiwis and Aussies leaving a weakened Aussie economy, and 14,000 higher student numbers. Only 15,000 of the 66,000 three year net inflow surge is true foreigners coming to live here.

That is hardly an unsustainable boom in the context of a gross annual flow of people in and out of 181,000 (57,000 out plus 124,000 in). What should the government do if society truly decided the net flow is excessive and causing angst? Pay people to leave. Maybe people without the skills we are short of. Maybe shout them some funding to get tattoos so they can feel right at home amongst Kiwis on the Gold Coast. Assisted passage westward.

Housing

I gave a talk on the Auckland property market to some 700 people at Ellerslie Event Centre last night and here are the nine key points which I spoke to in terms of whether they represented a threat to the strength in Auckland's market. The answer for all was no. Hence, as written since 2009, Auckland prices rise.

NZ economic growth.
Is the growth outlook bad meaning the outlook for jobs and incomes is bad meaning people will find themselves unwilling and in more and more cases unable to buy a house?
No.
While dairying is weak there is a lot of strength in tourism, export education, wine, pipfruit, kiwifruit, honey, manufacturing even, and construction.

Auckland growth
Has the surge been a flash in the pan and will we go back to the old world of Auckland being just a bigger version of Wanganui?
No.
Auckland is New Zealand's agglomeration delivering growth from the fast interaction of talented young people from diversified backgrounds. Auckland was 21% of NZ's population in 1961 and now it is over 34% heading to 40%.

Migration
Is the migration boom about to bust?
No.
Migration busts when we head across the ditch to make money during an Australian minerals boom and our economy is in or close to recession. But our economy is not forecast to enter recession soon and Australia's mining boom has been and gone and won't come back for a generation. Net migration is likely to remain strong for a number of years and 60% of the net flow goes to Auckland.

Construction
Is Auckland house supply about to boom?
No.
There is a shortage of builders, shortage of developable land, shortage of land not simply being land-banked, development costs to finance infrastructure can be huge. Supply will rise but the shortage is still getting worse.

Interest rates
Are they about to rise strongly?
No.
The RBNZ is still easing monetary policy and the bigger global problem is low inflation rather than any inflation threat. Interest rates look like staying low for a great number of years/decades.

Regional investing
Are investors flocking to the regions for yield and low mortgages going to keep doing this at the expense of investing in Auckland for the next few years?
No.
Investors, having soaked up cheap stock which has sat on the market a long time in the regions will soon start to ask themselves whether population growth will justify growth in supply they see in some locations. In certain locations like Hamilton and Wellington prices are likely to rise with logical economic and population growth support for a number of years. But in many locations elsewhere population growth is likely to be less

than some people are thinking and investors questioning growth assumptions will eventually wonder whether they can liquidate their asset quickly should times and rentability again get tough in the less popular places.

Aging population
Are baby boomers going to sell their housing investments soon to fund their retirements?
No.
They need yield over a greater number of years (rising life expectancy) than people were thinking just a few years ago. The boomers will hold their housing assets for the income they yield.

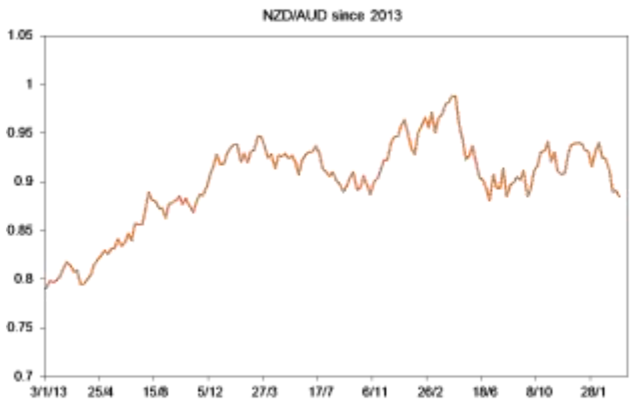
Chinese buyers
Have they disappeared for good?
No.
They are returning in force going by the anecdotes over the past four weeks with more to come when eventually the Chinese implement their Qualified Domestic Individual Investor 2 regime in six large cities. There is no timing on when this will happen and it probably won't until the capital outflow from China seen this past year eases off.

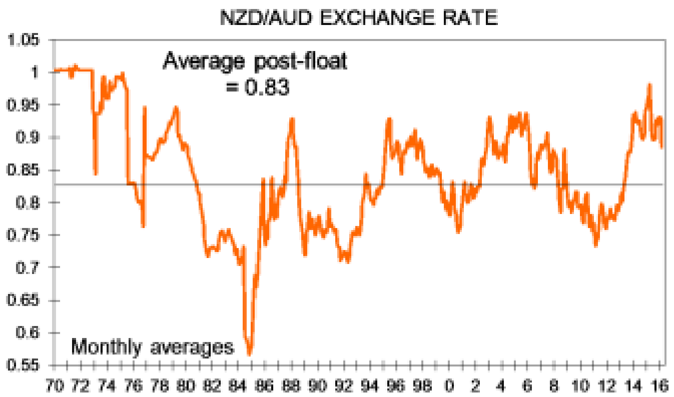
Backlog
Have potential buyers given up all hope? No
There is no shortage of people bemoaning their decision to hold off buying since 2007. They want to buy and eventually will raise the deposit to do so.

There are other factors but these main ones sum up the situation. Pressure on Auckland prices is upward though it is not only doubtful that we will see prices rise at the same average speed as in recent years, we had better not else the Reserve Bank will impose stronger lending controls. Should the regions produce widespread rises near 20% per annum then the 30% minimum deposit requirement for purchase of investment properties in Auckland will be applied to the rest of the country.

NZ Dollar

The only reasonable change in the NZ dollar between last Thursday and this afternoon has been some extra weakness against the Aussie dollar. We now sit at a six month low near 88.5 cents courtesy of the Aussie dollar attracting some more buyers on the back of hopes of higher infrastructure spending in China and therefore higher demand for coal and iron ore. In addition the Aussie economy seems to be doing okay and for now the threat of an early election (but only by a few months) is not having much impact.





You will find current spot rates here. http://www.xe.com/currency/nzd-new-zealand-dollar

If I Were A Borrower What Would I Do?

Slap myself to be sure I was awake. Having paid 18.5% for my first mortgage in 1987 the current level of rates is amazing. Of course what has happened since then is that the benefit to borrowers of low borrowing costs has been offset by having to borrow a lot more because prices are a lot higher. Prices would not have skyrocketed if interest rates had not fallen so far. The lower borrowing costs have been factored into house prices to different degrees around the country.

So when young people moan about how we older generations paid so little for our houses, remember that we paid interest rates which you can't relate to – though which are still lower than what you probably pay on your credit card should you take the time to think about what that quick source of credit is costing you. First move in building a house deposit? Get rid of your credit cards, then your coffees, then nights out drinking, then annual trips overseas, fags of course, and your growing number of television service subscriptions. Just as you may have invested in your career by sacrificing wages to spend some years studying at university, now you need to invest in your house purchase (if that is your goal) by sacrificing consumption.

Then when you make your purchase in a suburb more distant from your workplace than you wanted (like most first home buyers through history) you switch back to investing in your career through longer commute times with the aim of getting up your relevant ladder and eventually being able to shift closer to your workplace.

Or you can bypass this investment oriented life cycle development process by living in a small town – and being vulnerable to the local big employer closing down. What sounds optimal? Living in a small town with occasional trips to a big city whilst pursuing a net-based career.

Were I borrowing at the moment I would look to fix most of my mortgage in the 2 – 3 year area. Investors should always seek slightly longer timeframes as an extra hedge against interest rate risk.

If I Were An Investor ...I'd see a BNZ Private Banker
The text at this link explains why I do not include a section discussing what I would do if I were an investor.
http://tonyalexander.co.nz/regular-publications/bnz-weekly-overview/if-i-were-an-investor/

For Noting

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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