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.

On The Road

I've had a busy week rising at all sorts of early hours in order to travel and deliver talks in Rotorua, Taupo, Auckland and Christchurch with more to come tomorrow. Often I don't get time to have a decent casual chat with people at every function but can get a feel for what people are thinking about from the questions they ask during and at the end of a presentation.

In that regard these are the sort of things people are seeking views on.

What are the main risks? People generally buy into the scenario pitched by all of us economists that there is some good underpinning to growth in the NZ economy for the next few years. But they wonder what could go wrong. So do we. So do the likes of the IMF and OECD who post-GFC seem to devote more of their outlook summaries to noting things which could go wrong. For NZ the main risk is an offshore disturbance, most notably something involving the China Seas. Brexit? Not really relevant to our immediate economic outlook. European banks? Nope. Trump? No-one has the foggiest.

What does the next 30 years hold? This type of question is unusual but we economists love them because no matter what actually happens in 30 years we will be well off doing something else. I like to point out the generally upward trend in NZ's terms of trade which is supportive of the NZD drifting up, the repricing of the housing stock which may be largely completed but which will not unwind. Also I like to discuss the trend change upward in New Zealand's net migration flows, plus the growing proportion of the population living and to live in our major cities, particularly Auckland with the hangers-on of Hamilton and Tauranga plus some bits and bobs in between.

What can the government realistically do to get more people to live in the regions?
No-one ever asks this in the cities, but it crops up in the smaller locations. There seems to be a view that somehow the government can strongly influence where people will live. They can't – especially in NZ. We are a disloyal bunch who will leave the country at the drop of a hat if things are not going the way we like. Usually we go to Australia. The idea that we will up sticks in Auckland, Wellington or Christchurch and relocate to the regions is always embraced by folk in the regions but it is not a realistic expectation for more than a small number of people – who frankly may enjoy better lives than those of us who cannot break away from a focus on maximum wealth growth over extended years through owning big city property.

Or more accurately, our FOMO drives us to stay in the cities because everyone has or has heard stories of people who sold up, shifted out, but now bemoan their inability to ever shift back to the city because they missed out on big house price rises.

Only one person asked about the sharemarket but that is not unusual. We economists generally steer away from talking about it and of course have to be careful not to sound like we might be giving advice – which is a great excuse to say nothing at all. There does appear however to be some underlying concern about the future of the NZ market which has been spurred by the exit of Xero. But their move is consistent with the long-term trend for the NZ exchange – challenged listing numbers and more of a nursery function than true component of the global capital market.

One general theme which has crept into questions at presentations in recent months has been around issues of social equity, homelessness, the health system etc. It's like people generally accept that the economy is okay, but what about the other stuff? This tone of people's thinking and concerns at the edges helps explain the comfort with the new government, the hopes people have for it, and the feeling that had Labour not ended up on top this time they certainly would have done in 2020.

What is notable with regard to the questions is what is not asked. No-one seems truly interested in where the Kiwi dollar is going. Exporters seem comfortable with current levels.

Housing

The REINZ released their monthly housing numbers this week. Meh. As pointed out here many times in recent months, the NZ housing cycle has finished its exciting upward bit in Auckland and the rest of the country will join in over the coming year. Monthly data from a variety of sources will get people excited. But in the absence of either a drastic change in net migration flows, sharp sustained change in interest rates, radical shift in the relative strengths of the NZ and Australian labour markets, or sudden big change in Reserve Bank rules nothing truly interesting is likely to happen for some time.

Having said that, the Reserve Bank will be making an announcement some time soon regarding their current view on LVRs. There is an increasing chance that they will ease up on the rules because they have been surprised at how quickly the housing market has pulled back.

But before some people get excited and start thinking that if they cut the 40% investor deposit requirement to 30% that this will spark a new lift in house prices from an investor surge – think again.

First, the RB do not want a new surge. All they ever search for is the sweetspot where their rules (or OCR) have the effectiveness they want. The 40% made effective from the third week of July last year hit that sweetspot at the time but perhaps a bit too much so now. So if and when they reduce the proportion it will simply be to find the new spot where things become stable.

Second, banks have tightened up their lending rules this past year over and above what is required by the Reserve Bank. It is very unlikely in an environment of tightened credit availability that there will be an easing in those new rules to match any LVR easing and drive a new rash of lending to investors.

Third, FOMO on the upside has gone for this cycle. People do not feel that they must buy any old piece of ex-hospital radioactive land to profit from soaring property prices. And reinforcing that, foreign buyers are to be banned at long last. That can't help but inject a note of caution into investors generally.

If I Were A Borrower What Would I Do?

There have been some small reductions in two and three year fixed rates offered by some lenders this past week. Our three year rate has been cut from 5.09% to 4.99%. Our two year rate is 4.69%. Am I prepared to shift what I personally would do if borrowing anew currently away from even splits between 1, 2 and 3 years and a tad floating to more three year fixed? Only a little bit.

There is still nothing truly jumping out which says to us that global or NZ inflation is lifting. Sure, wags growth in NZ is set to accelerate because of the planned increases in the minimum wage rate and extra tightening of the labour market to be caused by immigration restrictions, hiring of tree planters one day, and some young people of directionless nature x%#$ing a year away at varsity for free.

But can one truly believe that the pre-GFC relationship between jobs growth and wages is re-establishing itself? Every assumption that this has been happening since 2009 has been wrong in every country. I'll believe it when I see it.

On top of that, even if wages growth lifts, businesses outside of sectors such as building materials, local and central government, power companies, petrol companies, and entertainment (including TV) will struggle to get price rises past us consumers. Any lift in the pace of wages growth will more likely generate a reassignment of labour within the economy (which is a polite way of saying some businesses close down) rather than a good old wage/price spiral.

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. **This edition has been solely moderated by Tony Alexander**. To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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