BNZ Weekly Overview

7 March 2019

ISSN 2463-4328

Mission Statement

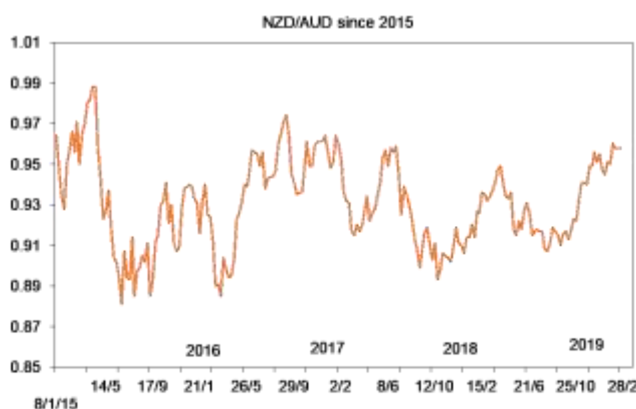
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Our Economy

Parity Party Time?

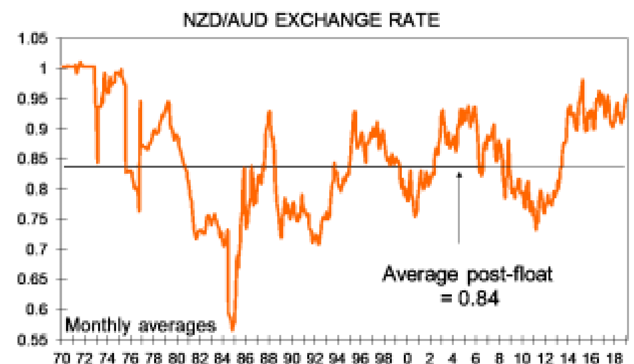
The Kiwi dollar has been trading very close to 96 Aussie cents since the start of February having jumped from 91 cents back in October. The surge has been driven mainly by weakness in the Aussie dollar associated with weakness in the housing market and worries about potential for consumers to rein in their spending from a negative housing wealth effect.

Over Summer the Reserve Bank of Australia, whilst continuing to express confidence in Australia's economic outlook involving growth near 3%, has pulled back from warning that rates may be about to rise. They have become more balanced in their commentary, as have other central banks worldwide in response to inflation failing to appear or their growth outlooks deteriorating. But yesterday we learnt Australia's growth rate has already fallen to only 2.3%.



Many commentators in Australia are now predicting that Australian monetary policy will be eased this year. If that happens then the chances seem reasonably strong that the Aussie dollar will weaken. And unless we receive fresh news by the time that happens suggesting that the NZ economy is newly deteriorating, we could see the widening of the interest rates differential in NZ's favour spur some extra appreciation of the NZD/AUD exchange rate.

It would be a bold call to predict that we will hit parity because the chances are non-zero that a cut in Australia will presage a rate cut here as well. And every time talk of a parity party with sausage rolls has surfaced since the Kiwi dollar was floated in March 1985, parity has not been reached.



We were last at parity in November 1972 – almost half a century ago.

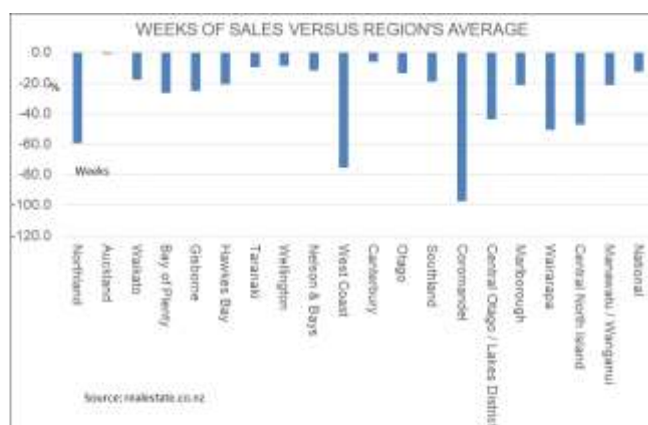
Will we reach parity? Maybe. One might argue that the slowing Chinese economy where the growth target has been cut to 6.0% - 6.5% will hit Australia hard because whereas some 25% of our goods export receipts come from China including Hong Kong SAR, for Australia the proportion is nearer 35%. However, the Chinese government has announced measures to stimulate growth which again have some focus on the construction and infrastructure sectors – which is good for Australia's coal and iron ore.

And it pays to note that both the NZD and AUD tend to be moved around together as news on China's economy shifts up and down.

I'd not yet be buying the sausage rolls, having wasted money doing so in 1988, 1995, 2002, 2004-05, and 2015. But I'd identify potential suppliers – just in case.

Housing

This week we received data from realestate.co.nz showing the stock of listings around the country measured in weeks' worth of sales. This first graph shows that compared with average week stocks over the past few years stocks are below average everywhere but especially so in Northland, West Coast, and Coromandel. But these are generally low turnover areas. The graph tells us that outside of Auckland residential real estate markets are far stronger than usual. Nothing new there it has to be said.



Sales in relative terms are strong. But is this strength easing? We get insight into that by looking at graphs showing the trend in weeks of stocks versus average. The graphs are reproduced below and looking through them all we can draw up two lists. The first shows where stocks are becoming a bit less strong versus average.

Strong But Easing From The Peak
Northland
Waikato
Taranaki
Canterbury
Southland
Manawatu-Wanganui
Marlborough
Wairarapa

This second list shows regions where things are either strong and steady or strong and getting stronger! The latter are marked with an asterisk *

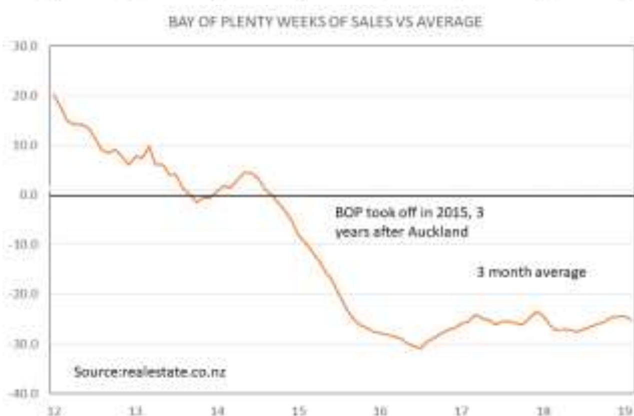
Strong And Steady or Getting Stronger
Bay of Plenty
Gisborne*
Hawkes Bay
Wellington
Nelson area
West Coast*
Otago*
Coromandel
Central Otago
Central North Island

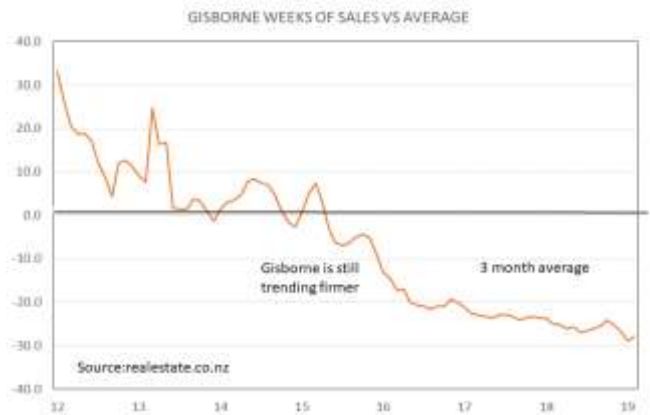
My expectation is that the first list will grow in length as this year proceeds.

When looking at these graphs note mainly the 2014-16 period then skip to the far right to see latest developments. Reprint at will noting realestate.co.nz as the data source.

With regard to Auckland and the slightly above average level of stock for sale, we have data for Barfoot and Thompson in hand for February showing a further rise in stock levels. At the end of February BT had 4,660 listings which was unchanged from a year ago. But sales in February of only 474 were down almost 30% from February 2018's 665, and the ratio of sales to listings was only 10.2%. This is the down from a February peak of 26% in 2015 and the weakest result since February of 2011. In 2008 and 2009 this ratio was just over 8%. So Auckland remains weak with regard to sales. There is no upturn in place which

might give the Reserve Bank pause for thought with regard to its credit control tool – loan to value ratios – being eased again in January. Prices held flat in the month on average. I fail to see the lift in sales (to investors) posited a few days ago by one commentator following on from the investor LVR rule being cut from a 35% minimum deposit to 30%.



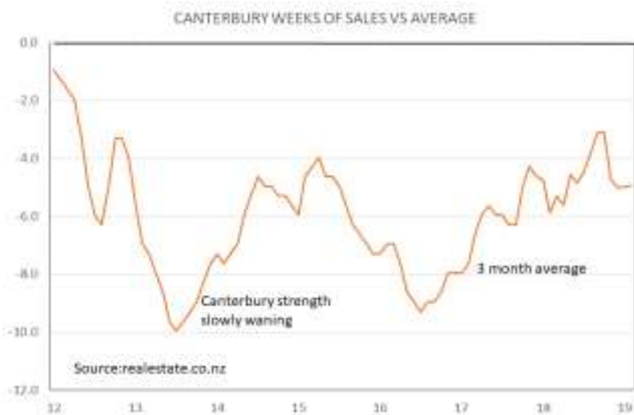


NELSON etc WEEKS OF SALES VS AVERAGE
Nelson is maintaining its strength
3 month average
Source:realestate.co.nz

SOUTHLAND WEEKS OF SALES VS AVERAGE
Southland may have peaked
3 month average
Source:realestate.co.nz

WEST COAST WEEKS OF SALES VS AVERAGE
3 month average
West Coast still getting stronger
Source:realestate.co.nz

MANAWATU-WANGANUI WEEKS OF SALES VS AVERAGE
3 month average
Manawatu-Wanganui may have peaked
Source:realestate.co.nz


CANTERBURY WEEKS OF SALES VS AVERAGE
3 month average
Canterbury strength slowly waning
Source:realestate.co.nz

COROMANDEL WEEKS OF SALES VS AVERAGE
3 month average
Coromandel on a lengthy peak
Source:realestate.co.nz

OTAGO WEEKS OF SALES VS AVERAGE
Excludes Central Otago
3 month average
Otago still getting stronger
Source:realestate.co.nz

CENTRAL OTAGO WEEKS OF SALES VS AVERAGE
3 month average
Central Otago on a lengthy peak
Source:realestate.co.nz

I was reading through The Australian newspaper on Wednesday and came across these data. According to SQM Research (whoever they are) the number of property listings in Melbourne is running 30% ahead of a year earlier. Sydney listings are ahead 14%. Canberra was up 21%.

This is really interesting. It tells us that the turnaround in the two biggest markets of Melbourne and Sydney where prices are off near 10% is scaring people into selling before things get worse. Interest rates are probably not pressing people to sell. But ability to refinance is low and investors are struggling to get funds for new purchases as banks have aggressively tightened up their lending.

Australia is suffering a credit crunch. That is not happening here in NZ. Other things not happening here and which make our markets unlikely to follow Australia's down include the following.

- There is an over-supply of property in Australia. We have an under-supply.
- Near 50% of recent consents issued in Australia have been for apartments. In NZ the proportion is about 11%. Apartment markets are far more volatile than standalone dwelling markets.
- States in Australia have levied punitive stamp duties and annual land taxes for non-residents.
- Banks in recent years engaged in bad lending in Australia, delivering credit to people who could not comfortably service it. In New Zealand the bad lending was done in the 1980s and since the 1987 sharemarket crash bank lending here for housing has been fairly vanilla with assessment of servicing criteria far more professional than the Aussies have done. I wonder if the paper they used for the old assessments was yellow and stored in undergarments?
- At the peak 45% of home lending in Australia was to investors. Our peak was 35%. In Australia recently 31% of lending was still for investment. We are at 18%. This dominance of investors in Australia, especially nervous new ones in recent years simply riding a wave, means plans by the Labour Federal opposition to remove negative gearing if they win the coming general election are having a far greater sentiment impact than the same plan here to introduce ring fencing.
- The household debt to income ratio is higher in Australia than NZ at 190% versus our 164%. Their debt servicing ratio (interest payments vs. income) is 9.1% vs. our 7.8%. Our ratio is well down from 14% in 2008 vs. down from 13% in 2008 for Australia.
- People managing their own compulsory superannuation funds a few years back started using them to gear into property. Banks now no longer lend for that purpose. We have no such switching off of such behaviour in NZ.
- Chinese buyers look to have been far more present in Australia than here and

their withdrawal has impacted more there than here.

- And courtesy of what I read this week, in Australia listings are rising. In NZ listings nationwide were down 2% in the three months to February from a year ago. Auckland was up just 5%.

Your Strategy

-Things to consider in your next annual strategy session.

If you are an employer who has been around for perhaps four decades, then there is a very good chance that you are not able to get the best out of your new, young, staff. To improve things you'll either need to re-educate yourself or get someone else to handle things for you, including the way people work.

In the old days going to school and university was largely a solitary affair. You would pretty much always do your studying and homework alone. Working in groups was rare. Developing something in a collaborative manner with others was not the norm. Yet that increasingly is the way young people learn today.

It is not just that they have a very high degree of familiarity with technology and use it to learn, they actively seek to exploit whatever attribute new technologies may offer, learning how to do so in conjunction with others whether in physical presence or online.

They are used to communicating through diverse means with a great number of people, and while risks of isolation in social media are high, in a learning environment things are different.

Young people tend to learn and undertake study more in group settings of changing membership than was ever the case in the past.

What this means is that if you employ a young person and dump them right away into a position by themselves, it does not necessarily matter if they have high or low levels of supervision. What matters is the extent to which they can find opportunities to learn and grow through interaction with others.

You may think it is enough that they simply follow long established rules. But they are not rote learners along the lines of some Asian education systems. They learn through developing and if you do not have the ability to alter work assignments in a way which can allow this to happen then you may struggle to keep your staff – especially when these new people have no experience of high unemployment and the sometimes visceral fear of it which can lead one to tolerate some fairly bad working and learning conditions. The bad old days of high unemployment in NZ disappeared some time back.

If you, an old-style boss or company, struggle to even understand that these are very different people coming out of our educational institutions, then chances are you are blaming the inability of your staff to perform as you want on those very institutions. You may accuse them of failing to deliver what you as an employer want. But the thing is, it is up to you these days to deliver a job crafted in such a way that the new young person can learn what you need them to know as they go. And they will probably be up to the task of doing so because all they have ever known since birth is a world of change and growing opportunity. For them, nothing has been constant and they expect things will continue to change.

And if you struggle to grasp this, then for goodness sakes hire someone who does to manage and interact with your young hires, and to structure their positions in such a way as to get the best out of them. Welcome to the new world where cynical whinging about kids these days not being taught what the employer wants and expecting to run the company within five years perhaps may say more about how out of touch the boss is than anything about them.

If I Were A Borrower What Would I Do?

Around the world worries about inflation continue to slowly ebb. Across the ditch indicators for the housing market are still softening and all attention now is on the extent to which falling house prices causes consumers to cut back on their spending. Anticipation of some cutback has prompted widespread forecasts of easing monetary policy. There is not a direct link between changes in Australian monetary policy and changes here. But there is an influence, via the exchange rate and of course via economic areas like Aussie visitor numbers to NZ and Aussie demands for NZ manufactured goods.

If monetary policy is eased in Australia later this year then that will reinforce the chances of a rate cut here.

So because of this, because of the blowout in bank lending margins noted here last week, and because global growth risks generally still lie on the downside, were I borrowing at the moment I would not be fixing for a long term. Two years is as far out as I would go and I might be in no hurry to lock the rate in given that market conditions suggest bank rate cuts could easily come in the very near future. And going by what one bank has done this week with a 3.69% rate to a restricted base, the one and two year terms may be where the battle continues to be fought.

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 here. http://feedback.bnz.co.nz/forms/lFdYSs5FGEq4kAjP95uzTA
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.