BNZ Weekly Overview

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Mission Statement

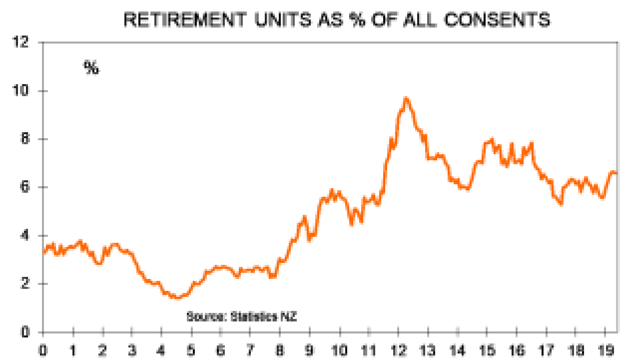
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Our Economy

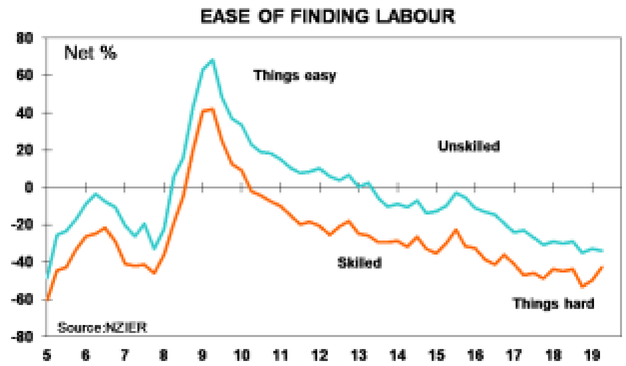
Just for your guide, a few weeks back I mentioned that over the past five years the NZ population has grown by 458,000 according to Statistics NZ estimates. At an average 2.7 people per house this meant we needed to have seen an extra 170,000 houses built these past five years to house these people. But the housing stock has only risen by 126,000. So whatever number you had in your mind as the national housing shortage five years ago in 2014, you need to boost it by about 44,000 now.

Actually, the rise in the shortage will be even more than that because post-GFC the proportion of housing consents issued which are for retirement units has jumped from 2-3% to 7%. Not many retirement units will house children. Many will have just one occupant.

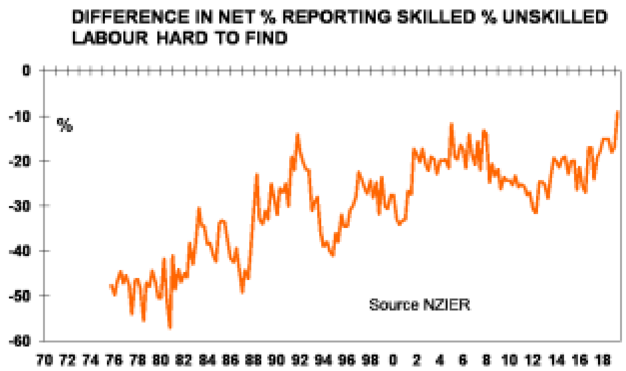
This is one way in which an aging population requires more housing units than a young population of the same number of people.



Here is something interesting to note which we did not highlight when commenting on the June quarter Quarterly Survey of Business Opinion from the NZIER. A net 43% of businesses report that they are finding it difficult to source skilled labour. The average is 30%. A net 34% report that it is hard to find unskilled people. The average is 8%. Difficulties finding unskilled people are unusually strong.



In fact the gap between these two measures is only 9% and this is the lowest such gap on record, as shown in the following graph.



This is the closest we have ever been in NZ to having businesses report that unskilled labour is harder to find than skilled labour. The September and December quarter survey results will be of high interest.

What does this small gap between these measures tell us? First, the incentive for staff to upskill is a lot less than in the past because there are plenty of jobs available should the current one cease to exist or become tiresome for any reason. Second, the boost to minimum wages is not seemingly bringing a lot of extra unskilled people into the workforce.

Third, if the government is going to tighten up more on immigration flows, businesses reliant on unskilled labour are about to have a huge, huge problem.

Low margin firms with minimal pricing power who are already struggling to remain profitable with higher minimum wages face closing down in large numbers in the coming couple of years.

The challenge for medium-sized firms employing unskilled but also a decent number of skilled people is now moving into new territory. Skilled, motivated, long-serving staff are starting to move on. They have kept their heads down post-GFC and been happy to have a good job they probably enjoy during a period when every week brings forecasts of some sort of major collapse overseas or in New Zealand.

A lot of those forecasts are still around and the probability of them proving right is about the same low level as all the other postulated horror scenarios of the past decade. But good staff are starting to feel that their boss has, frankly, been taking the proverbial these past few years with few wage rises and the occasional buying off of higher wage demands with increased work hours flexibility or gym memberships. Maybe they can see big changes happening around them in their firm, but communication of the changes is lax, implementation of the changes is poor, and they feel they are being left to sink or swim in the new structure.

Good people are starting to move to places where they can make a fresh start. In a way they are starting to feel like millennials – that the world is their oyster and they can pick and choose what to do.

The damaging aspect of these good, longer-serving people leaving is that they are taking "meta-knowledge" with them. This is knowledge of systems specific to a firm, awareness of how to do things right, how to train people to do things right, and awareness of early signs that something is going wrong. They are worth their weight in gold when recognising early that machinery is about to catch fire and they turn it off. They recognise early that advertising and branding material about to be sent out implies some self-identified victim group are a bunch of losers who should do the world a favour – and they get the print order and/or electronic distribution canned.

These people are moving on, and according to an expert in one corporate I chatted with recently, these people who leave are classified as "regretted departures".

Businesses need to be aware that this new trend is developing. They need to shift their focus away from trying to grow sales and source new staff (placing the training burden on existing people), and toward identifying people they cannot afford to lose and offering them more money.

Housing

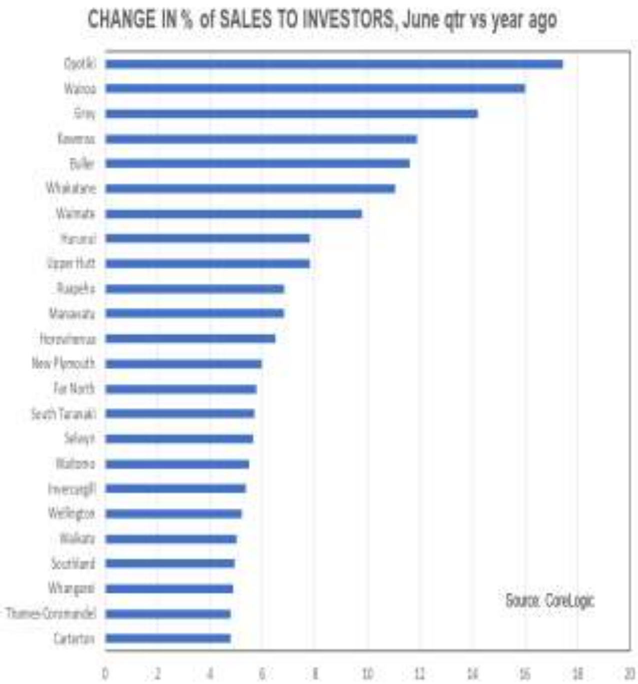
CoreLogic last week released their monthly data showing property sales by classification of the buyer – investor, first home buyer etc. For your information I have calculated for each of the 72 locations covered, the change in the proportion of sales going to investors between the June quarters of last year and this year. Why? To see if the confirmation of no capital gains tax in mid-June might have resurrected investor interest.

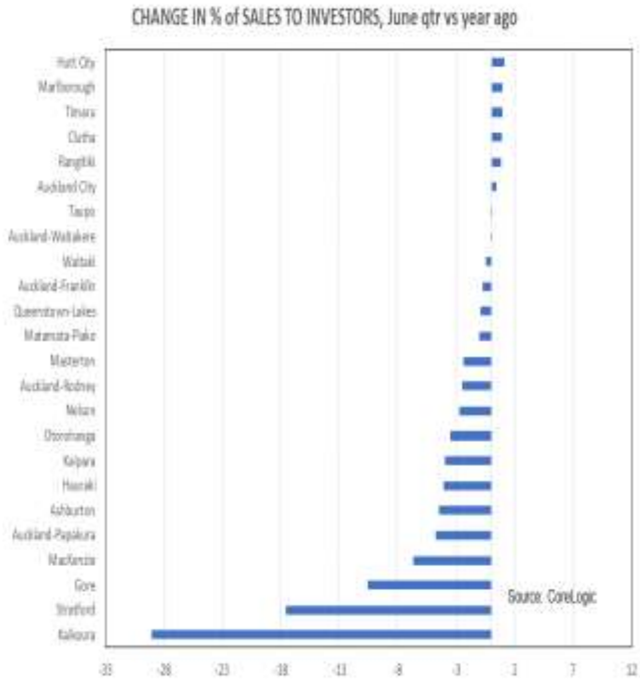
In 53 locations sales to investors have increased. That is a lot more than the 15 where the proportion fell and four where things remained the same. Do I conclude that confirmation of no CGT has encouraged a rush of buying by investors? No. The gains are in the regions where price rises have been strong and remain firm – but it is interesting to note that talk about speculators being greedy and such-like has died down as Auckland has flattened. Apparently in the regions such behaviour does not exist – or is it just unwoke to mention such behaviour outside of our biggest city?

Anyway, if investors were jumping back in I would expect to see it in Auckland and that has not happened. Auckland is split up into seven sections In Manukau 4% more sales went to investors in the June quarter than a year ago, and on the North Shore 2% more went that way. But these are small changes and in Papakura sales to investors fell 5%, in Rodney they fell 3%, and in Franklin they fell 1%. In Waitakere and Auckland City there was no change.

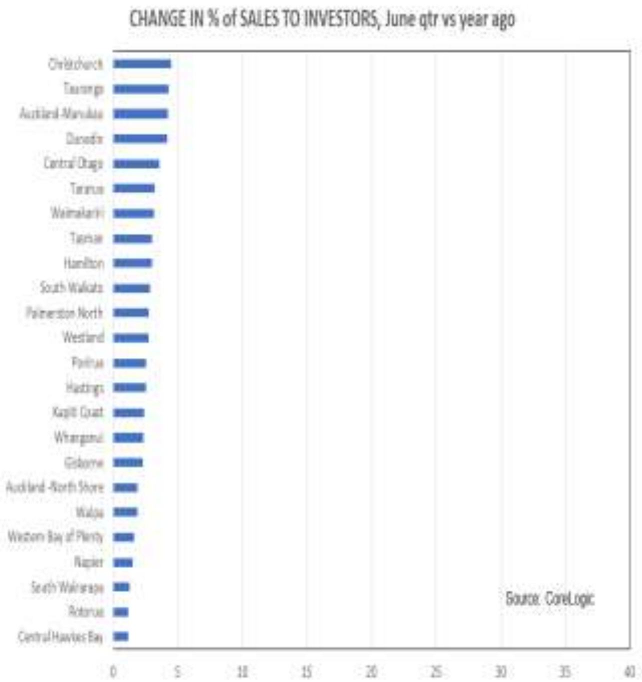
You cannot run the argument that the striking out of a CGT has reinvigorated investors.

Just in case this interests you, here are three graphs showing the changes for all 72 locations. Enjoy.





In Auckland there is no evidence of any widespread return of investors. In the regions however their presence has tended to go up.



If I Were A Borrower What Would I Do?

Nothing new. Go play with the kids or knit a jersey.

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
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