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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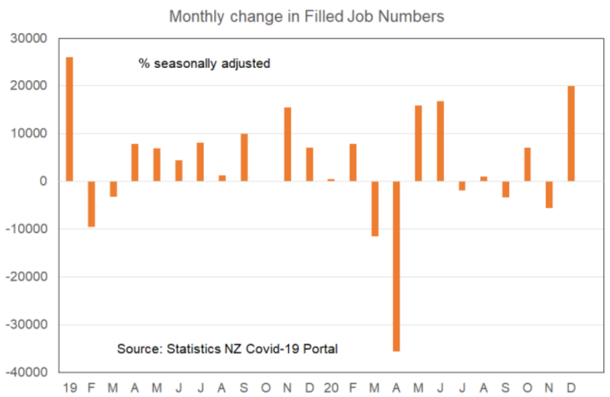
My Aim

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.

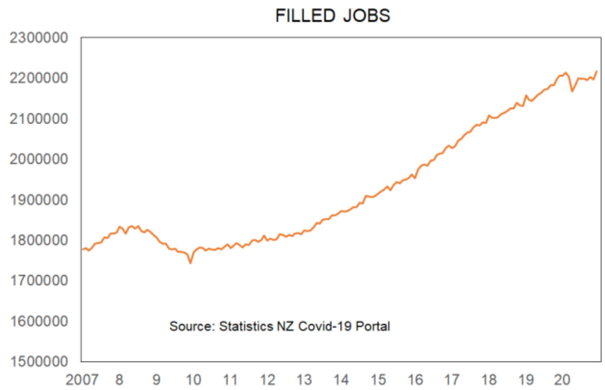
Jobs growth strong

The big piece of news this week has come from the labour market and I start this week's Tony's View by looking first at the Filled Jobs report, then yesterday's important Household Labour Force Survey numbers. There are strong interest rate implications which I have warned about for a long time, plus problems for employers looking for labour are going to get even worse – also long warned about here.

During December the seasonally adjusted number of filled jobs in New Zealand rose by 20,000 to sit 11,000 higher than a year earlier and 14,000 higher than just before lockdown in March. Job numbers have risen by 2.3% since the depths of April but we are still not where we would be had Covid not occurred.



The annual rate of jobs growth on average in the six months to March last year was 2.8%. Had that rate of growth continued now we would have about 50,000 more people in work now than we actually have.



So, we can say that the momentum of jobs growth resulting from our economy's far better than expected post-lockdown growth is strong. But we cannot say we are not affected. Some 50,000 people are not working who otherwise would be.

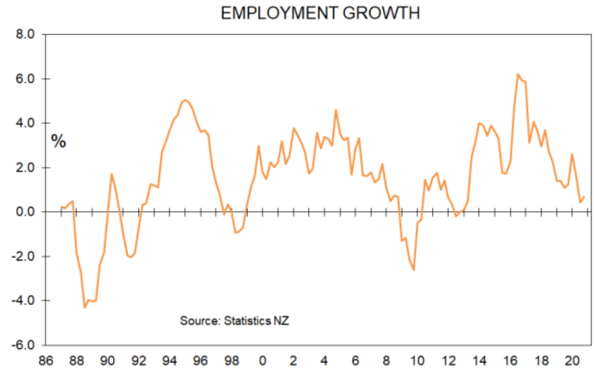
The consolation is that a lot of those people will have been on low wages in the tourism and hospitality sectors, and many of them would have been foreigners on work visas, including the likes of backpackers and students.

The actual number of jobs missing for us Kiwis will be substantially less than 50,000, but I'm not sure how to go about estimating it.

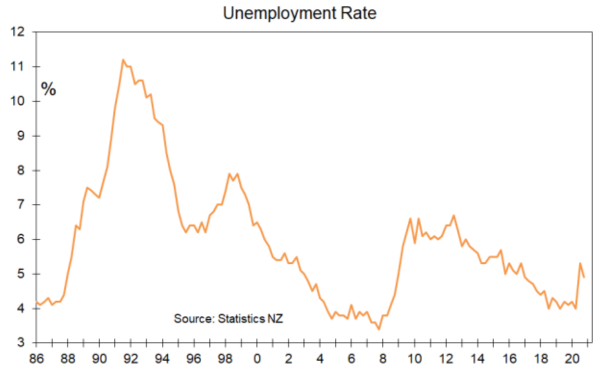
More jobs data

Following the release of Filled Jobs data early in the week, Statistics NZ followed up with release of the sometimes accurate (sometimes not) Household Labour Force Survey yesterday.

This measure tells us that in seasonally adjusted terms there was a rise in job numbers around New Zealand during the December quarter last year of 17,000 people or some 0.6%. Job numbers are now 0.7% ahead of a year earlier. But heading into Covid-19 the annual rate of growth in job numbers was around 1.6%, so by this gauge we could say there are only just over 20,000 jobs missing compared with the situation had Covid-19 not appeared. Let's call it 20,000 – 50,000 jobs lost utilising both sets of data.



Because of the recent jobs growth and because of some fairly slow growth in the size of the working age population recently, the unemployment rate completely defied the expectations of all of us and fell to 4.9% in the December quarter. The September quarter rate was 5.3% and the common expectation was for a rise to 5.8%.



The graph above shows that the unemployment rate had settled down near 4.2% before Covid-19, so after all the shock from the pandemic and closing of the borders, all that has happened is that after nine months the unemployment rate has gone up from 4.2% to 4.9%.

But we cannot ignore the fact that the burden of the shock has fallen disproportionately on some sectors, most notably tourism – though we don't have a category called "tourism" in any employment data release. Instead, we can look at the category "Retail Trade and Accommodation" and see that job numbers at the end of last year were down 2.6% from the year before.

But jobs in Public Administration were up by 7.4%, in construction they rose 8.2%, and in Agriculture, Forestry & Fishing they were up 3.5%.

What these very good numbers tell us is that the labour market is even tighter than people like myself had been thinking with reference to survey data from NZIER and ANZ. Rising job security is likely to manifest itself as greater underlying willingness to spend, and it will keep an undercurrent of support to the housing market even when we get beyond the froth apparent at the moment.

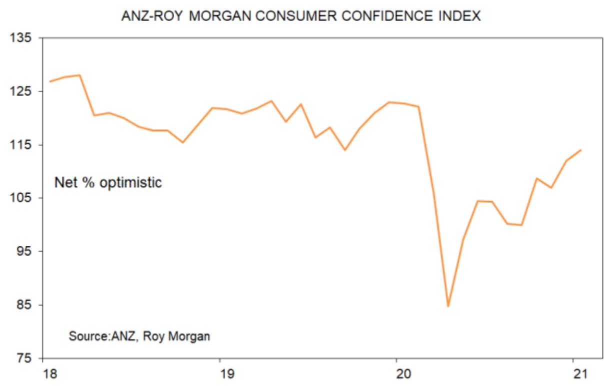
Spending Outlook Okay

In the short-term – as in out to six months – shifts in the level of consumer confidence are not very well correlated with shifts in consumer spending, according to international research. But there is a good trend in consumer sentiment in New Zealand which should leave retailers reasonably optimistic that even though booms in some areas of spending simply have to ease off firmly at some stage, the underlying level of household expenditure is likely to remain firm.

We already know from my monthly Spending Plans Survey that the net proportion of yourselves planning to spend more over the next 3-6 months rose from 13% in September to

32% in October
37% in November
44% in December

In other words, we went into Christmas planning to spend more. This week we received the results of the monthly ANZ-Roy Morgan Consumer Confidence survey showing a lift in their index reading to 114 in January from 112 in December, and 107 in November.



This is still below the ten-year average of 119, but the trend is clear as are the implications.

This coming week I am running my Spending Plans Survey again, so if you have not already done so, please click on the usual link here and let me know if you plan to spend more or less, and if so on what?

https://forms.gle/KzLvE4BbYEy5TyXj6

Take care with out-of-date reports

Just for your guide, and not as a criticism of any of the reports involved, be very careful if you pick up a yearly report into a particular sector and find it is predicting a substantial decline in activity. Anything produced up until late last year will have been using data and attitudes heavily affected by the lockdown and spreading pandemic overseas.

In many cases the good data we now have in hand, such as only 5.3% unemployment during the September quarter, will not be known. Circumstances have changed tremendously recently so take those annual reports with a grain of salt and await an update.

I mention this because someone obviously got quite worried about housing supply when they read the National Construction Pipeline Report 2020 which predicted a decline in dwelling consent numbers to 22,000 in 2022 from 37,000 over 2019.
https://www.mbie.govt.nz/assets/national-construction-pipeline-report-2020.pdf

The report came out just before Christmas and while it notes issues regarding materials supply and land availability, is off the mark. As best I can make out the report had in hand data up to June last year and there is a mention of an 18 September cut-off date for one set of inputs.

Things have changed substantially since then and the forecasts need updating in exactly the same way as every other forecast by all the rest of us economists over this period of time has had to be updated.

So, it would not be fair to criticise the writers of the report as out of date. Instead, I just want to warn people to be careful when examining these sorts of excellent, detailed, but yearly reports because they are often already out of date when released.

TONY'S VIEW

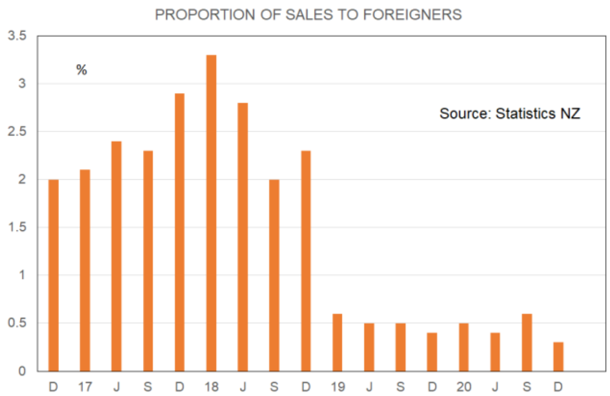
New Zealand's Housing Markets

The foreigner ban

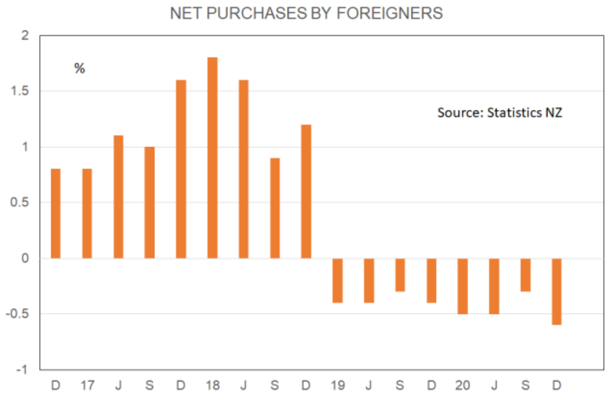
An emailer this week asked me about the impact of the ban on (most) foreign residential property buyers effective from October 2018. I replied that I could not see any obvious impact on house prices, with the nationwide index rising 33% since then.

We can however see an impact when we look at the net flows of buyers versus sellers in the Property Transfer statistics released each quarter by Statistics NZ.

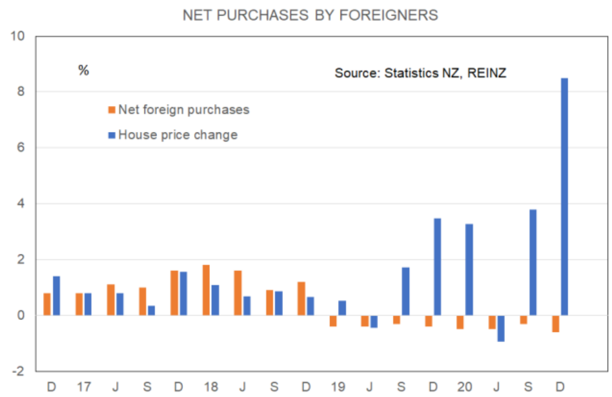
The proportion of sales (property title transfers) going to foreigners excluding Australians and Singaporeans, fell away notably from the March quarter of 2019.



We can compare purchases with sales to get a vague net purchases measure which also fell away from the March quarter 2019 – into net negative territory.



In the next graph I look explicitly at quarterly house price movements measured by the REINZ's nationwide measure and compare them with net foreigner purchases. The orange bars show net foreigner purchases, the blue bars the price changes. If the ban had had an impact the blue bars would have become shorter. They did – but only for two quarters. Then, assisted by the Reserve Bank cutting its cash rate from 1.75% to 1.0% and mortgage rates falling to record lows, house price inflation soared.



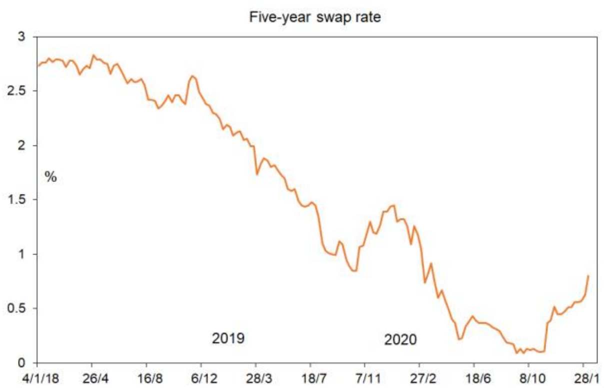
So, to be truthful, we can't really say for absolute certain or not whether the ban had a negative price impact. House price inflation was already slowing before the ban started, yet the pre-ban surge in foreign buying did not produce a prices surge.

I fall on the side of those saying the ban has had no impact, especially for this reason. There have been plenty of comments made to me that foreigners with close links to their communities in New Zealand have been able to easily find ways around the rules. There is no proof one can offer, and even if one could, whatever impact such back door buying might be having at the moment is massively swamped by us Kiwis going on a buying binge anyway.

Mortgage rates will go up when?

I was asked by an emailer this week if I felt the five-year fixed mortgage rate would be moving up this year. I replied yes. Long-term interest rates reflect expectations of what is going to happen with short-term rates (by and large) over the next five years. No-one expects the official cash rate to be raised this year, but popular opinion has swung toward a move up before the end of 2022 in light of yesterday's strong employment data.

The fall in the unemployment rate to 4.9%, recent strong data on capacity utilisation, reports of deepening labour shortages, booming construction, frenzy in the real estate market, all point to no need for further monetary policy stimulus and instead for restraint.



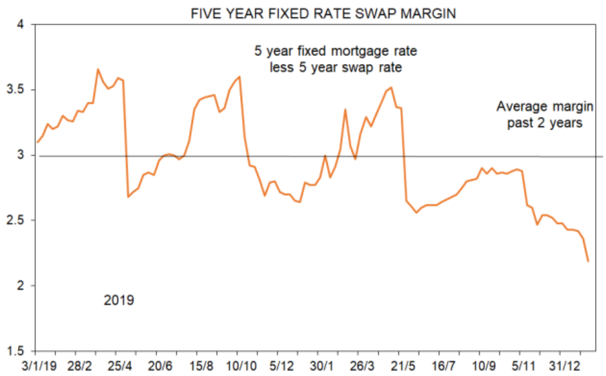
Before yesterday's data came out, I wrote for this section that I expected the five-year swap rate – then at 0.63% from 0.1% at the start of November - would reach 1% before the end of this year. The rate has actually already risen to 0.8% and is likely to be closer to 1.5% than 1% now come December.

That's just a guess as no model gives us reliable insight into how inflationary pressures will move this year and picking what our behind-the-play central bank will do is a psychological exercise.

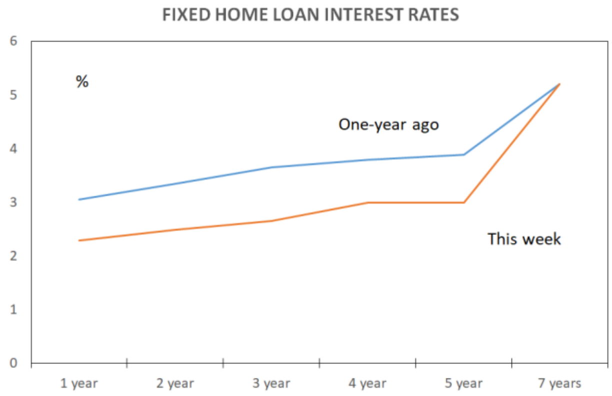
For many months my warning has been that inflation and therefore interest rate risks were more likely to surprise on the upside and borrowers should seriously consider forsaking the candy of cheap short-term fixed rates to lock in long rates at levels they may never see again in their lives.

I have consistently noted I would accept the temporary pain of the five-year rate at 2.99% rather than fix shorter, because of these risks. The way things are moving now, it won't be long before banks are raising their fixed rates for the medium to long terms. In Tview Premium I produce graphs showing how far below average bank margins are on fixed rate lending. It would take rises of 0.4% to 0.8% to get back to those averages.

What the heck, because I think this issue is important, on the next page I have reproduced the graph showing the margin on the five-year fixed rate mortgage. Seriously, how much risk do you want to take of missing this?



One thing encouraging banks to raise rates, or at least removing fear of losing market share if they do, will be the sheer number of people trying to borrow as much money as they can as quickly as they can to get more property in their portfolio. Banks have spent the past nine months battling internal capacity constraints limiting their ability to service customers. Those constraints continue and will be sorely pressured over the next few weeks.



Links to publications

Tony's View Spending Plans Survey
REINZ & Tony Alexander Real Estate Survey
Tony Alexander Regional Property Report
Tony's View Business Survey
Tony's View Mortgage Advisors Survey
sponsored by First Mortgage Trust

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz including for speaking enquiries. Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA