TONY'S VIEW

My aim is 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.

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What are your goals?

Every month I spend an hour on a Saturday from 4.00pm chatting with a couple of hosts on NewstalkZB and answering questions from callers around the broad subjects of residential property investment, interest rates, and the overall state of the economy.

Some of the callers ask very specific questions along the lines of whether they should sell their property and spend more time in Rarotonga (a 70-year-old) or having two properties whether they should sell one and remove debt off the remaining property.

There is no specific answer I can give without knowing what their goals are. And that seems to be the missing element in most of the questions I get asked. People default to thinking in terms of making as much money as possible, but they haven't really taken the time to figure out what is best for them and those they hold dear.

Sometimes during physical presentations and webinars people ask if I had a million dollars what I would do with it? People assume my goal is maximum growth in wealth and that I would invest in things which would produce the most money over an unspecified period of time.

I'm not really sure they understand when I reply that I'd place some of it in a bank account and put most in a diversified portfolio focussed on international shares. I'd park it out of sight so I could get on with my life without the hassle of trying to eke out the maximum return from money I might never need or use.

I can give people a forecast for how much I think average house prices will rise over such and such a period of time. But I have no idea what debt people carry, what their income sources are, why they bought an investment property in the first place, when they think they will die, how much money they want to leave their descendants, what their other income sources are, how much income they need from the property, what their ability is to boost property income, what other assets they hold, whether they are risk tolerant or risk averse, whether they seek income flow or capital gain whether they work or not, what their timeframe is for needing money built up over time, and so on.

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Basically, none of their questions can be easily answered, and ultimately what I try to do is get callers to think about what their goals actually are. I feel most people haven't really thought this out. They've invested in residential property because it is accessible, because lots of other people are doing it, because they feel they had been missing out on some simple gains, and because having more wealth seems better than having less.

But how much is enough? The chances are most people have never sat down and calculated what amount of dollars they need to be able to meet the goals they have for their life.

The starting point of course has to be figuring out what those goals are rather than just blindly doing what the Joneses are doing.

This sort of myopic follow the crowd process doesn't just happen in the residential property market. Young people are flocking to crypto assets. By and large they haven't any idea why anyone needs any of the cryptocurrencies they buy (they don't), and they have no understanding of how such assets will be heavily regulated once central banks get their mojo on and governments act to stem the criminal activity which cryptos facilitate.

But they've read the stories of people making quick gains, they've been brought up to believe more money is better than less, and they can easily get into the crypto game using apps – just as they can also easily get into share trading using the many excellent apps which are out there.

Is there anything wrong in young people doing this? I don't think so. The best money I ever "spent" was the $200 I lost in 1981 trading shares. I learnt about my lack of ability to stick with a trading strategy in the face of losses and the lesson helped guide my financial choices in life from that year on. Things seem to have turned out okay.

In my experience, most people haven't found out what they are good at, haven't found out what they have a passion for, haven't found out what they can do to produce a good regular flow of income, and have definitely not calculated how much is "enough". All they know is that more is better than less. I guess that's where global warming and wars come from.

But the majority of people are working nine to five in jobs they do begrudgingly simply for the money to live – to feed their family, to provide a roof over their heads, to purchase some good things, and to contribute to a retirement with more than just the basic superannuation.

So, I can understand perfectly the desire to grow some wealth through purchasing an investment property or trading crypto assets.

But ultimately the question still needs to be answered before you ask what I would do with a million dollars or what you should do with your current assets, debt, and income. What is it you want to achieve before you depart? How much money do you need to do that? How much is enough? I suspect for the average folk which I went to school and varsity with the answer is not actually all that much in dollar terms.

And that ultimately leads to this question. If you have an investment property and you've seen its price rise by 35% since we entered the first nationwide lockdown in March last year, how much more wealth growth do you need to achieve your life goals? How much more risk do you need to take? Would it be so bad if you sold, banked the profit in a highly diversified portfolio (see a financial advisor) and allowed some struggling, highly indebted first home buyer to get a home in which to raise a family as you might already have done?

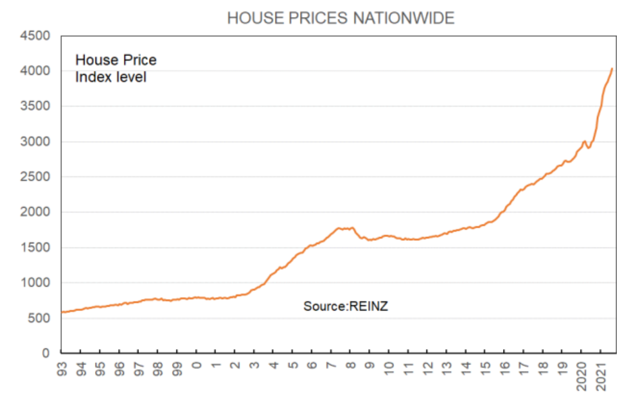

Figure out what it is you want. Only then can you figure out what to do with the assets you currently have and those you are in a position to acquire.

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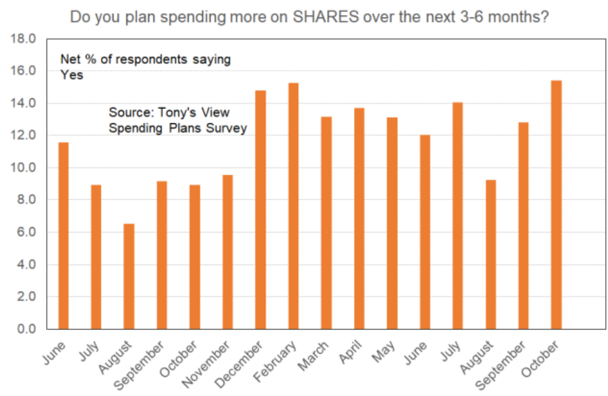
Buying Houses & Shares

It's going to be a few months before I can make really pretty graphs from my new monthly Portfolio Investment Survey. So, for the moment, let's content ourselves by seeing what we can extract from my monthly Spending Plans Survey.

When invited to indicate the things they will buy more or less of, one of the options is shares. That's not the normal sort of thing one would see in a survey which is focussed on delivering useful information to retailers. But when I ran the first survey in May last year there were so many people who wrote houses, investment property, and shares in the Other option for spending that I just had to include each asset from June onwards.

This first graph shows the net proportion of people saying they will buy shares since June last year. Note that at 15.4% the latest reading is a record. That is interesting because you'd think on the face of it that in a rising interest rates environment people would ease off on shares and focus on other investments. Then again, rising interest rates don't really count for much when the starting point is so low, the central bank is making soothing sounds telling us not to be frightened and the lightning will pass soon, and the economic outlook is good. High and rising interest rates matter when people decide they matter – and that time is well off.



We can look at these share buying intentions broken down by age. That will give us some insight perhaps into which deliverers of share owning services might do better – app platforms for the new investors, brokers for the older ones.

When we do this, we get a lovely, interesting result bespeaking of a shift in asset preference. This following graph starts in June last year. The orange line shows the net proportion of people aged below 30 years of age planning to buy shares. The level is high at 28% and has been high relative to other age groups in almost every month. The yellow line is for people aged over

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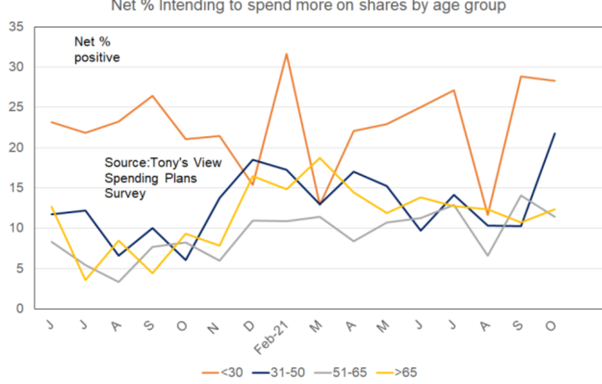
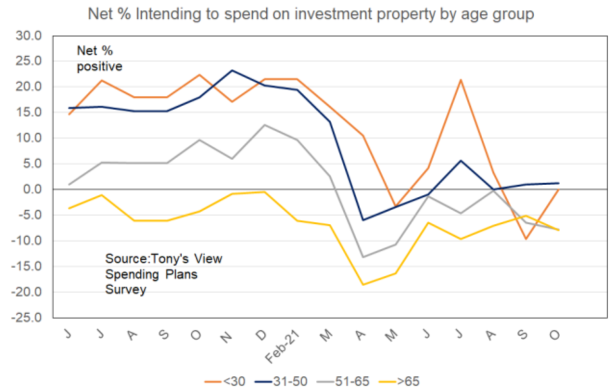
65. Nothing much presents there. The grey line is for people aged 51-65.

But the blue line for people aged 31-50 has jumped sharply this month to a record net 22% positive from 10% last month.



This is a group which probably has not enjoyed the many years of investment property prices soaring as the 51–65-year-old group in particular has. Their thinking on retirement planning may be shifting and to gauge that we can look at intentions to buy an investment property broken down again by age.

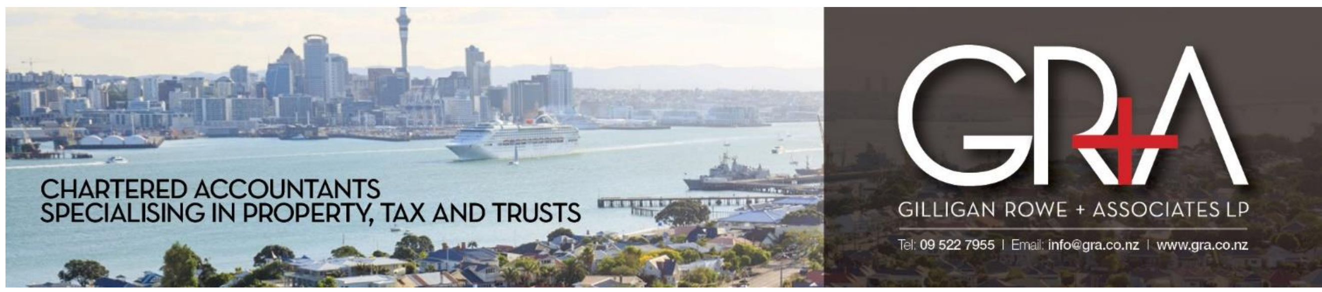
The following graph shows that only a net 1.3% of these people plan spending more on investment property. This is the highest of a very low bunch of readings compared with outcomes up until March when the government brought down the hammer.

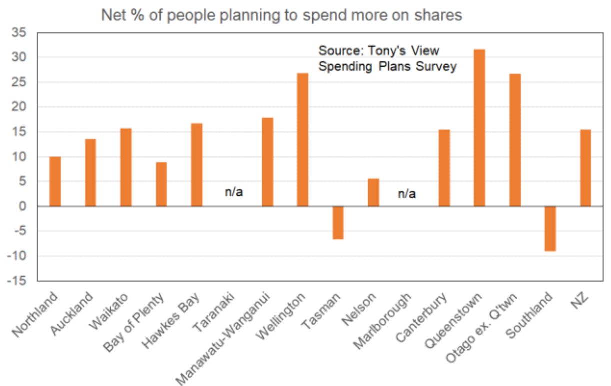


So, we cannot say that this group is swearing off residential property. But we can perhaps say that their interest in the alternative asset of listed equities has been piqued.

I'm not convinced this final bit will necessarily lead to any great conclusions for those involved in the brokering of shares. But for the record, here is the regional breakdown of share purchase intentions across my 1,103 respondents this month.

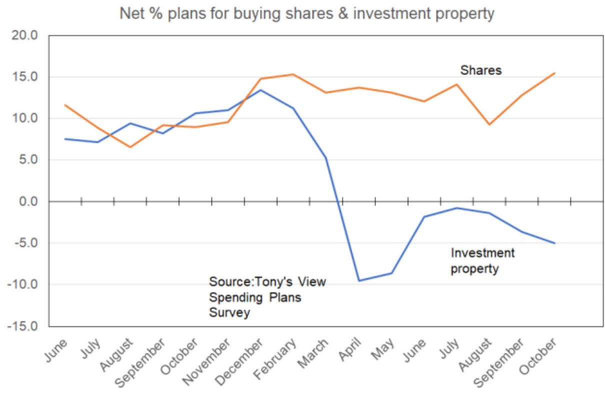
We can see that across all age groups plans to buy shares are strongest amongst people in Queenstown followed by the rest of Otago and then Wellington.



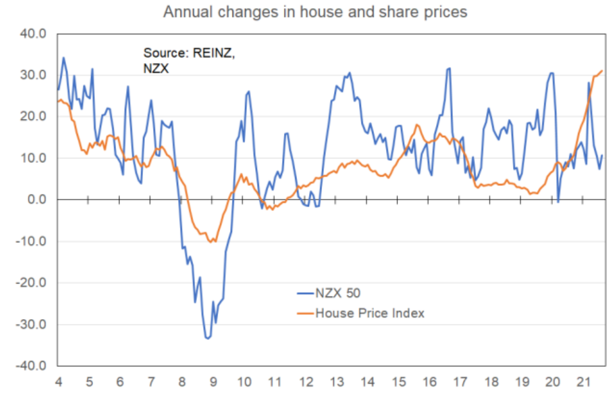


Purchase intentions are weakest in the Tasman region and Southland.

For your guide, here is a graph comparing people's intentions of spending on shares versus residential investment property.



And now, just in case you think this is evolving into a story of housing being dead and shares being the way to go, here is a graph showing house prices and the NZX50 share index. We aim for the long-term, but we live in the short-term, and it is the short-term repricing of shares and volatility across just a few months which ultimately keeps many Kiwis focussed on housing.



As for a comparison of returns over the long-term – I'm not going down that rabbit hole.

If I were a borrower, what would I do?

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.

My central theme with regard to rising inflation here and overseas has been that the longer it goes on the less relevant becomes the argument that the rise is only “temporary” or “transitory”, and the greater the risk of high inflation getting entrenched.

Our central bank has been behind the curve with regard to the strength in our economy and rising inflationary pressures and risks for all this year, and recently indicated they are happy to still be taking a complacent attitude towards inflation risks.

But offshore we are starting to see central bankers change their tone and begin to express concern about how long inflation will remain above desired levels.

The new Bank of England Chief Economist this week noted “the balance of risks is currently shifting towards great concerns about the inflation outlook”. So, expectations are strong that a cash rate rise in the UK is imminent.

European Central Bank people have also just said similar things.

The problem is that supply chain disruptions look like continuing through potentially all of 2022, partly because of Covid but also because of energy shortages in China and India cutting factory output. Also, there is a new energy price shock underway in the northern hemisphere. These things are especially worrisome because tightness in labour markets means there will be a far greater feedthrough of a higher cost of living into higher wage claims than we have seen since before the GFC.

Moreover, beyond the bargaining power which employees now have there exists an increased willingness of employers to give wage rises because the disruptions to supply chains mean they can raise selling prices with less risk of customers being able to easily go online and find ready-to-deliver alternatives.

The situation is ripening for high sustained inflation which will eventually elicit a reaction from our highly distracted central bank.

The cost of their having taken their eyes off the inflation ball for almost a year now will be paid by borrowers currently being lulled into a sense of comfort regarding where interest rates will go and how rapidly they will rise. Part of that cost will be an eventual sharper correction in the housing market in terms of turnover, prices, and construction than currently appears likely to be the case.

In the end a central bank will always revert to fighting inflation. But the longer they take to do so the greater the economic and social cost.

My expectation for the one-year rate in October each year is shown in the first column of the table below. I focus on that rate because there are many people who have fixed one-year repeatedly since 2009 and the strategy has worked very well.

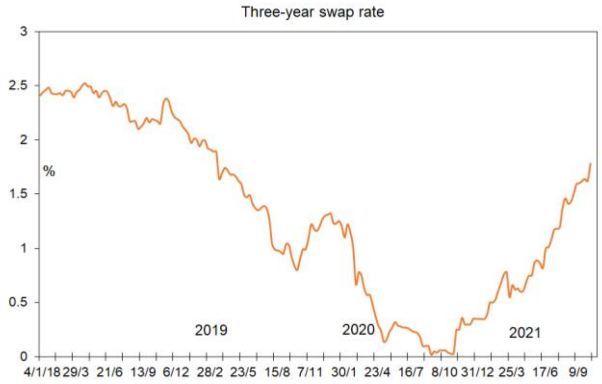
The second column shows what the one-year rate will average over the next 2-, 3-, 4-, and 5-year periods. The last column shows the current minimum 2 – 5-year fixed rates charged by the six biggest lenders I track.

	Forecast 1 year rate	Rolling average rates	Current fixed	
2021	2.79		2.79	1 yr
2022	4	3.40	3.15	2 yr
2023	4.5	3.76	3.49	3 yr
2024	4.4	3.92	3.89	4 yr
2025	4	3.94	3.99	5 yr

If these forecasts prove correct (I'd give that a 10% probability), rolling one-year fixed will deliver an average rate for the next two years of 3.40%, three years 3.76%, four years 3.92%, and five years 3.94%.

The last column shows what the current minimum fixed rates are for those time periods. Given that there is a rate premium one should be prepared for rate certainty, rolling one-year fixed will easily deliver a cost higher than one could get by fixing at the moment – if the forecasts are right.
This week wholesale interest rates have moved upward in response to the new inflation concerns offshore and assisted by high business pricing plans here in New Zealand.

For the increasingly popular three-year term, the swap rate at which banks borrow to lend fixed has risen to 1.8% from 1.6% last week, and 0.6% six months ago.



If I were a borrower, what would I do?

Putting aside the fact that I'd already be fixed five years at 2.99% if I were in fact still a borrower, for fresh borrowing at the moment I'd probably fix most for three years.

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