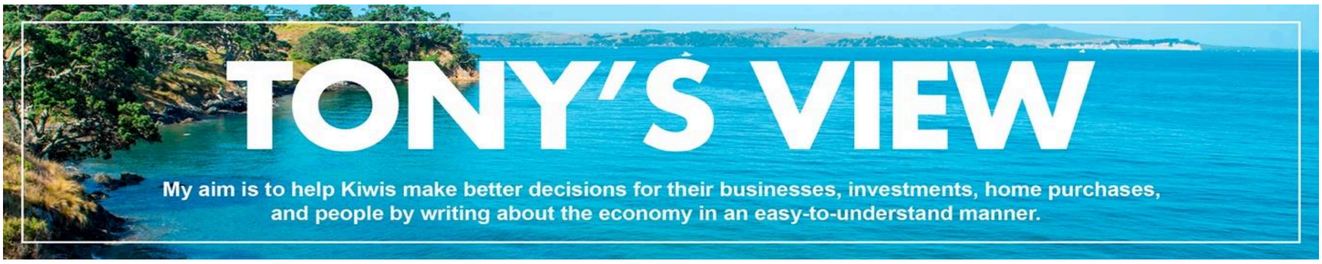

Input to your Strategy for Adapting to Challenges

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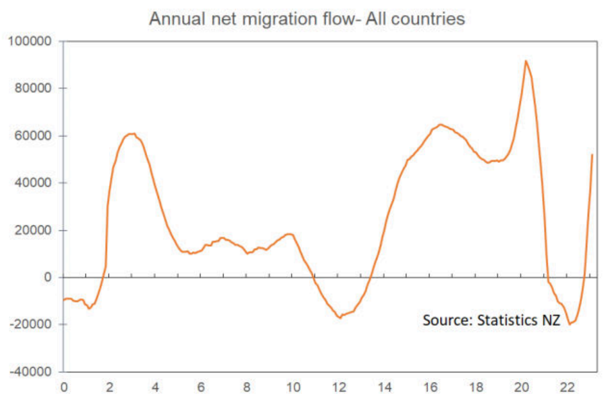
A new migration boom

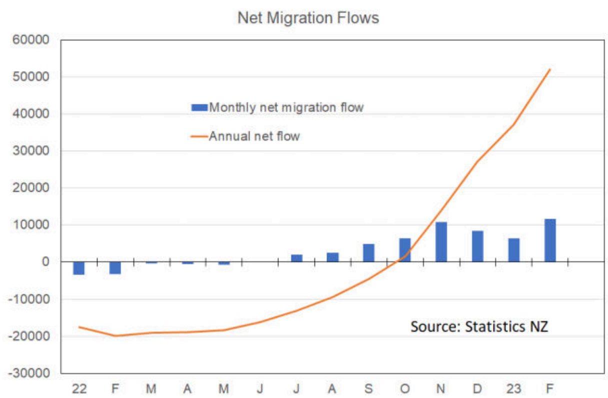
New Zealand's population has received a boost of almost 1% in the year to February courtesy of the net migration flow soaring from a loss of 20,000 a year ago to a net gain of 52,000.



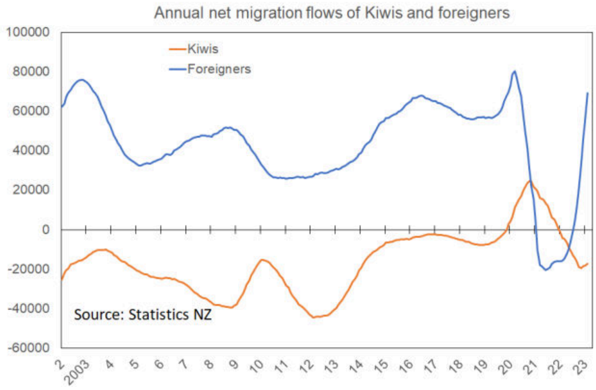
This turnaround of 72,000 over a 12 month period is the biggest on record, though the biggest downward move was an annual change of 93,000 in March 2021. The pandemic effect has been massive on our migration flows.

The latest result of +52,000 reflects a rise in inflows from 52,000 to 153,000 outpacing a rise in outflows from 72,000 to 101,000 or thereabouts.

The monthly net gain of 11,700 people was the highest on record if we exclude March 2020 when people were flocking back to NZ or not leaving for pandemic reasons.



The 52,000 net gain reflects a net Kiwi loss of 17,000 being offset by a net inflow of foreigners amounting to 69,000 people.



As stated here many times before. None of us had previously lived through a pandemic when covid struck in 2020. So, it is not surprising that many things happened which we did not expect. Equally, none of us has experience of what happens in a post-pandemic environment; therefore, we should not be surprised if things happen which we did not expect.

Already in Australia there is high awareness of the migration surge there which is expected to be at record levels for this year and next. We may be set for a similar situation and there are some major implications – some of which I have already discussed here.

More spending

First, more people mean more spending. The accelerating population growth is of benefit to retailers and domestic service providers being hit by customers cutting spending in the face of a soaring cost of living, falling housing wealth, warnings of recession, and high interest rates.

However, the effect is unlikely to be anywhere near large enough to offset these negative factors and challenging times remain for retailers particularly through 2023.

Less chance of recession

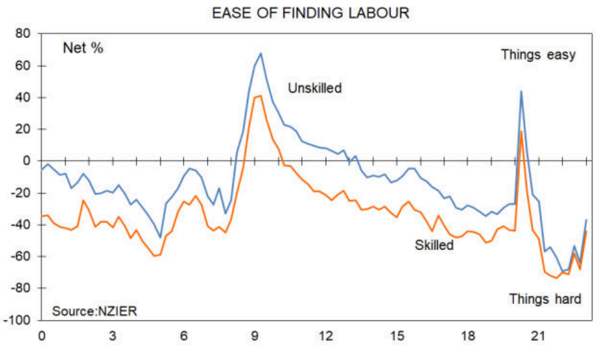
Second, we might roughly say that a 1% population boost could produce a 0.5% - 1.0% gross domestic product boost. This will mitigate the extent to which the economy goes into recession this year if it does.

Monetary policy firm

Third, less weak growth than the Reserve Bank is looking for to fight seemingly intransigent inflation will keep interest rates up for longer than would otherwise be the case.

Labour availability better

Fourth, more people around mean better ability for businesses to find staff. This probably helps explain the firm reduction in the proportions of businesses saying labour was hard to find in the recently released Quarterly Survey of Business Opinion from NZIER.



This development provides an inflation offset to that coming from extra consumer spending. We can only guess as to whether it will be stronger or weaker than the consumption effect, and for the moment the Reserve Bank will probably choose to play things cautiously.

House pressures will grow

House construction is about to undergo a substantial decline. Because residential construction has a large multiplier impact throughout the NZ economy the falling away of activity leaves the risk of recession on the table but implies downside risks to interest rates which could produce rapid falls through 2024.

Of significance however is the combination of falling house building at a time of accelerating population growth. There be upward pressures on rents, and we can expect substantial debate soon, possibly pre-election, regarding the supply of rental property in the context of the government actively taking moves to discourage its provision by individuals.

There will also be house price implications – especially once the migration boom enters popular consciousness.

At some stage something will come along, and people will look through the current level of interest rates and choose to take short-term financing pain in order to secure a property before the horde returns.

We have all proved that we cannot accurately forecast how the great unwashed sweep into and out of the housing market. But with the stack of delayed buyers getting higher every week, this risk of a dam bursting one day is growing.

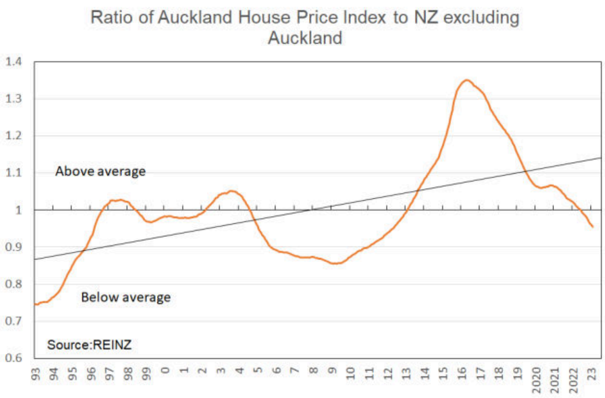
To repeat my main housing point of the past 6-9 months – if I were a young buyer and the bank calculations allowed, I would take advantage of the absence of investors and lower prices to secure a property to raise my family. I would not be trying to pick the bottom of the house price cycle.

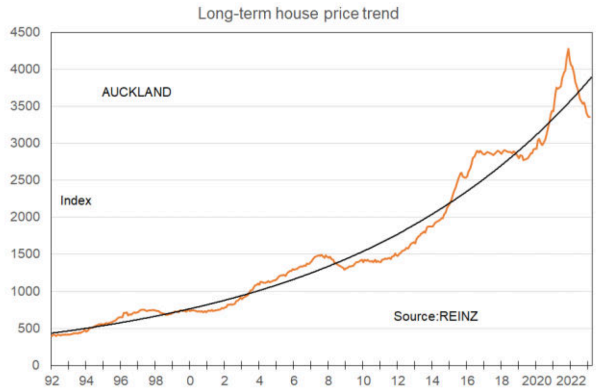
Another point to consider. The coming enhanced upward pressure on rents will act eventually to encourage more people to buy than sell. It will also encourage investors whose model is not highly reliant on debt financing to look at lifting their purchases because of the coming better returns.

Auckland surge

Migration flows are of particular relevance to the Auckland housing market. Net migration inflows disproportionately favour Auckland. This surge is happening at the same time as some normal outflows from Auckland to other parts of the country by retiring people have already happened during the pandemic. Plus, some of the people who shifted to the regions will now be looking at shifting back.

These Auckland-specific population boosts will come at a time when by long-run standards Auckland is under-priced. This does not mean Auckland housing is cheap, just that it is cheaper than we would expect if the long-term trends had continued.





And then we get the final kicker. Auckland has seen house prices fall more than average since late-2021 partly because of the surge in townhouse construction. Now that construction is set to fall away quite firmly, the interaction of rising awareness of increasing demand and rising awareness of decreasing supply growth will produce a price response.

We cannot predict when awareness levels become critical. But if you are trying to delay your purchase until you think the bottom has been reached, you may want to increase the frequency of monitoring of whatever media or indicators you use to gauge underlying sentiment.

If I were a borrower, what would I do?

There has been upward pressure on bank borrowing costs this week from renewed concerns offshore that inflation will prove harder to fight than previously thought. But there has come some downward pressure today following the March quarter inflation number which at 6.7% was below market expectations of a 7.1% rise and the Reserve Bank's forecast of a 7.3% gain.

The outcome is inflation still much too high for comfort. However, in the context of the Reserve Bank on April 5 withdrawing its warning of further rate rises and saying decisions will be driven by indicators of domestic demand and inflation, the news is good. The chances that the official cash rate will need to be raised at the next review on May 24 have declined.

The chances also that other banks follow those which have already lifted their one and two year fixed mortgage rates since April 5 have declined. They may hold their rates down to grab market share, keeping in mind that the Reserve Bank said on April 5 they did not want mortgage rates falling. They did not say they wanted them to go higher.

If I were borrowing at the moment, I'd probably fix one year but not turn my nose up at a discounted two year rate.

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.