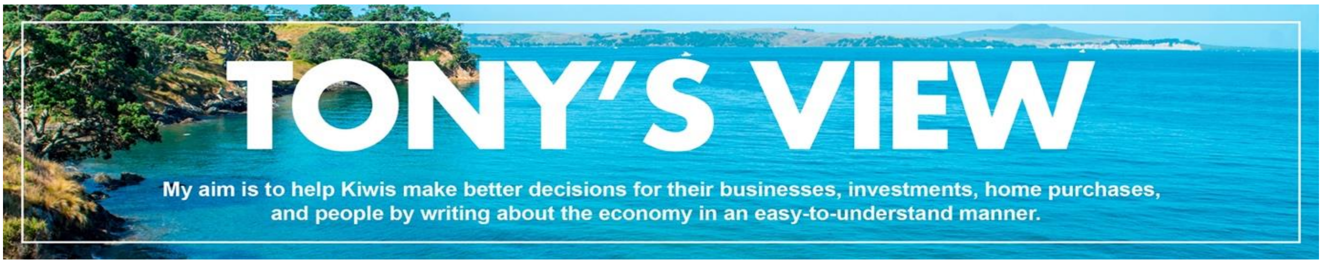

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Labour market confidence easing slightly

One of the key problems for the Reserve Bank and therefore borrowers during this inflation-fighting phase of the economic cycle is the strong state of the labour market. The March quarter employment data released last week showed that the unemployment rate remains at a low 3.4% which is roughly where it has been since the middle of 2021.

Job numbers grew by a firm 2.4% in the year to March with an increase of 0.8% in the March quarter which followed a 0.5% rise in the December quarter.

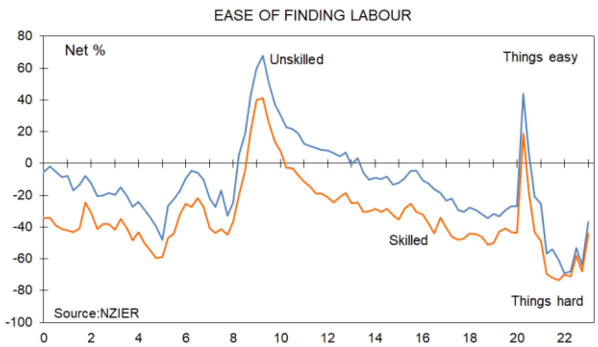
One would have expected by now that with interest rates rising firmly from the middle of 2021, we would have seen a lot more labour market weakness than we have to date. Perhaps an issue is that employers are unwilling to lay off people as they would have done in previous cycles because they lack confidence that when an upturn comes along for their sector, they would be able to rehire people with ease.

In fact, as discussed here many times before, New Zealand's labour market has been a problem for employers since 2004 with just two periods of easiness associated first with the GFC then for the first year of the global pandemic.

In the NZIER's Quarterly Survey of Business Opinion for the March quarter a net 44% of business respondents said that they are finding it hard to get skilled labour. This is a firm improvement from a net 71% in the June quarter of last year but is still above the average of a net 31%. Skilled people are hard to find. So too are unskilled people.

A net 37% of businesses recently reported that unskilled people are hard to find. This is above the average of just 8% but better than 68% in the June quarter last year.

The labour market is less tight than it was, but still businesses struggle to get staff. There are two quite large implications of this structural situation.



First, businesses are unable to quickly improve their cash flows as sales weaken by laying off staff. They are holding onto people and that means compressed profits. To try and maintain margins and meet bank cash flow requirements they are raising selling prices more than would otherwise be the case given the weak state of the economy.

This is a big problem for the Reserve Bank and one reason not to get optimistic about interest rates falling away at a swift pace once they truly start going down.

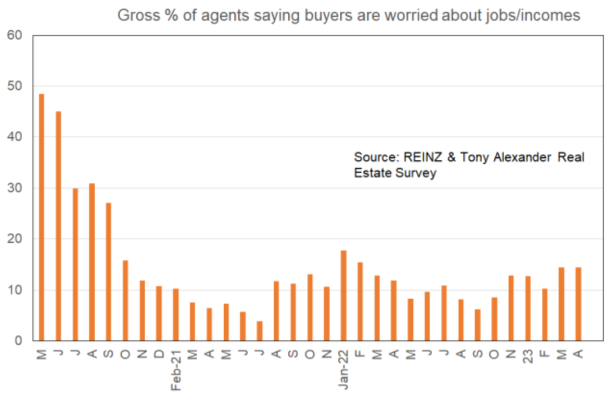
Second, people feel a high degree of job security and that means they are more willing to buy things than would normally be the case given the soaring cost of living and high borrowing costs.

This means the pace of growth in the economy risks holding up better than the Reserve Bank is seeking to constrain inflation.

I can get some monthly insight into how people perceive the labour market from two of my monthly surveys.

In the survey of real estate agents which I run with REINZ I ask agents what the main things are that buyers are concerned about. On average over the past three years 15% of agents have said buyers are concerned about their jobs and/or incomes. The highest reading was 48% in May 2020 but since October of that year concerns have been low.

The latest reading is just 14% and it would be brave to say that there is an upward trend in concerns going by the graph of monthly results here.



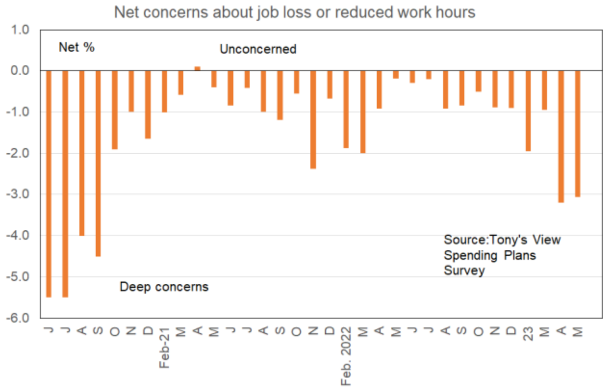
The other insight comes from my monthly Spending Plans Survey. People have terribly bad outlooks for things to such an extent that a near record net 42% of respondents say they plan cutting back on their spending. That is good and just the sort of thing the Reserve Bank needs.

But here and offshore a gap has opened up between the dire views which consumers have and the extent to which they do in fact cut back on their spending.

A key element in play is continuing good feelings of job security. In my Spending Plans Survey, I ask people why they are spending more and why they (others) are spending less. I can net the positives off against the negatives for each factor and that includes “Higher wages or salary” and “Extra job or work hours”.

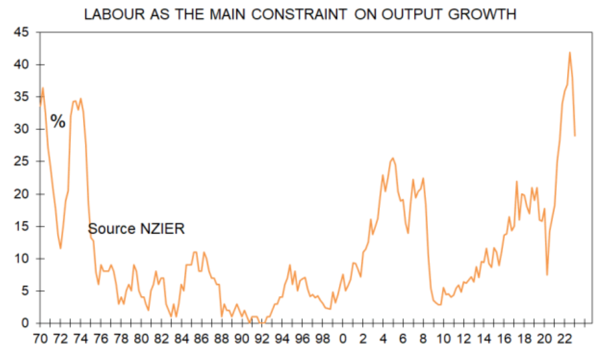
These two measures are presented in the following two graphs. The first shows that optimism about wages growth has fallen away since December. But results for each month since then have been balanced in terms of confidence versus pessimism and we have not returned to anything like the worries in the early days of the pandemic. Note how quickly those worries evaporated in 2020.

However, things look less relaxed when we look at net feelings about job retention and work hours. Pessimism has definitely set in over the past two months.



Maybe this tells is that when the June quarter labour market data appear we will see more of the weakness which the Reserve Bank is expecting – especially for wages.

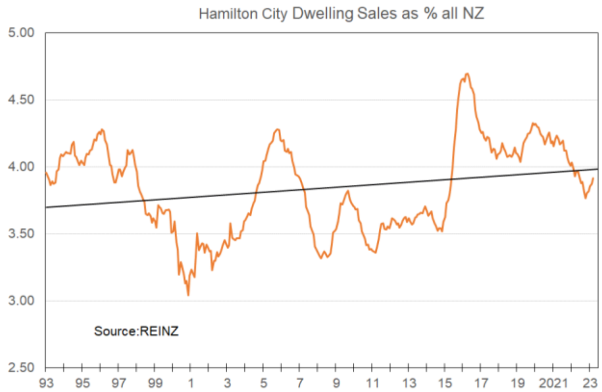
Interestingly, perhaps this result gels with that from the NZIER's survey showing that the proportion of businesses citing labour as the main constraint on their ability to grow has fallen recently.



In a nutshell, interest rates started creeping up in NZ in the middle of 2021 then rose rapidly. The impact on the labour market may be set to start showing through almost two years later. But the chances of a sharp jump in the unemployment rate as happened over 2008-09 are exceptionally low. The absence of mass layoffs is one of the many factors likely to prevent a rapid decline in interest rates once the downward leg of the cycle gets going.

Weekly Housing Extra Bit

Each week in Tview Premium I include graphs which show relative house price trends and the strength of house sales recently for about seven of the 65 local authority areas around New Zealand, eventually covering the whole country then starting again. EG.



I'm not going to place that material here in Tony's View, but we are approaching a bottoming out of the price cycle and the turning will be interesting because there are some big factors coming into play.

1. Booming net migration
2. Ending of rising mortgage rates and falls being predicted.
3. A queue of buyers built up over a year and half of price declines and probably two years if we include those who weren't prepared to buy when prices were exceedingly high.
4. Listings already falling from their cyclical peaks and set to go lower.
5. Easing LVRs but new debt to income rules appearing next year.
6. A surprisingly strong jobs market.
7. The rental market tightening up again making more people think about buying.
8. Falling house construction soon of only guessable magnitude.

We cannot possibly know the month in which prices stop falling and have no hope of picking the speed with which prices will rise over the following three to five years. I give little credence to statements that we are now in a new equilibrium and price gains will be only mild for an extended period of time. That is wishful thinking. I give equally low credence to predictions that prices will soar because the list of factors I've just printed is long.

All I can say is that the opportunity to purchase in a buyer's market is set to come to an end and if I were looking to purchase my first home and make my stand, I'd be eager to get the job done.

So, how can I best help people make up their minds outside of the main article which in this publication looks at housing perhaps three out of every four weeks?

You tell me. What information of maximum 1.5 page length would you like to see here each week to assist you or someone you know make their property decision? Only suggest something not already easily available elsewhere.

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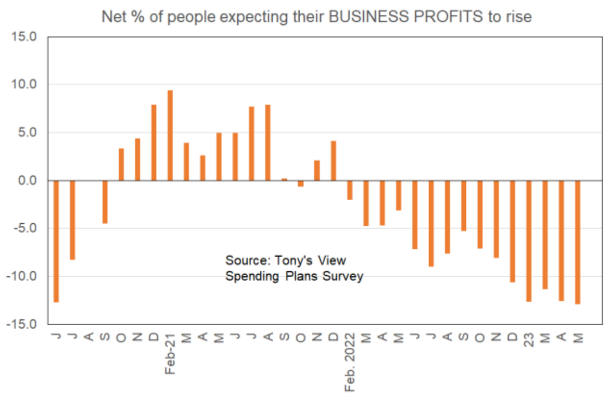
In case you missed it

This week I released results of my monthly Spending Plans Survey. They show that consumers have a pessimistic outlook for the economy, we intend slashing our spending on everything but groceries, we're still not thinking much about buying a house or investment property, and we expect profits for our businesses to worsen. Yuk.

TV-Spending-Plans-Survey-May-2023.pdf (tonyalexander.nz)



If I were a borrower, what would I do?

We continue to go through a period of waiting to see if inflation is really coming down. Interest rates have been rising for two years at the fastest pace on record. Business and consumer sentiment readings are ugly as are hiring, capital spending, and consumer purchase intentions. Yet the jobs market remains very strong and retail trade data are not as weak as we would expect.

There is extra upward pressure on inflation from the wide effects of climate change, deinternationalisation, rising costs in China, new government regulations etc. But there is downward pressure coming from over $150bn worth of mortgage debt rolling off fixed rates near 3.5% towards 6.5%. That negative has yet to hit the economy. And on balance what will be the impact of booming migration? Upward on inflation because of housing and economic growth pressures, or downward because of improved staff availability?

You should not expect clarity on what interest rates are likely to do over the next couple of years until very late this year.

Until then we should anticipate some weeks of optimism and rates falling in the wholesale markets, then others of pessimism and rates rising. And just to confuse matters even more, there is a chance of a repeat of the situation of early-April.

On April 5 the Reserve Bank raised the official cash rate 0.5% not to boost NZ mortgage rates but to stop them from falling because of declining borrowing costs in the United States related to their banking sector ructions.

For the record, this week in NZ the one-year swap rate which most influences bank one year fixed mortgage rates fell to near 5.58% from 5.7% last week and 5.51% four weeks ago. The trend is not yet down, but it's looking imminent.

The three year swap rate has eased to 4.59% from 4.7% last week and 4.58% four weeks ago. The peak was 5.24% early in March and the trend for this cost and those for longer terms is now down – hence 3-5 year fixed mortgage rates now sitting 0.7% down from their peaks.

I discuss rates a lot more in Tview Premium with lots of useful graphs to help your decision-making process.

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.