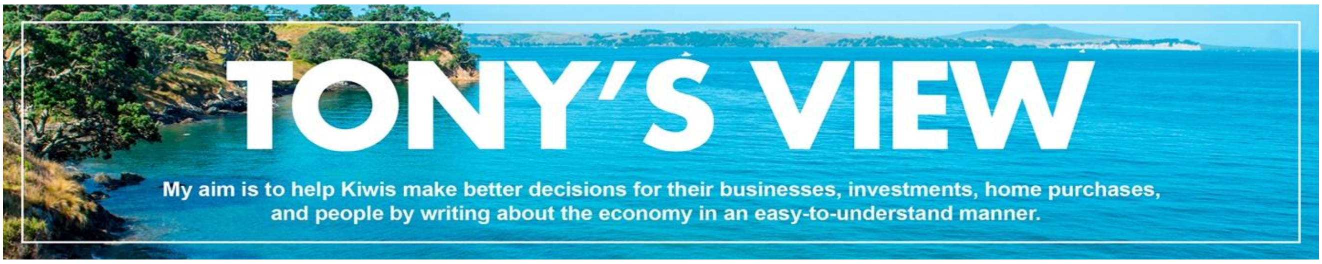

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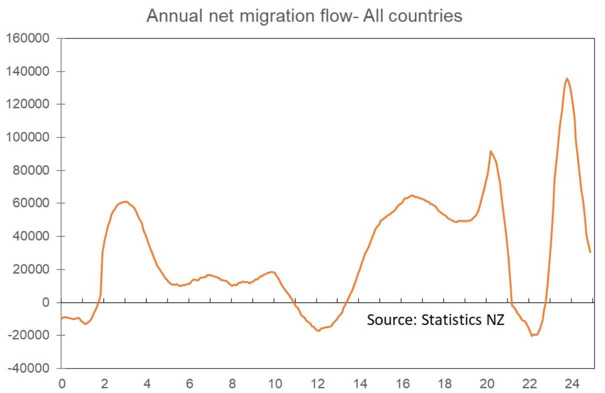
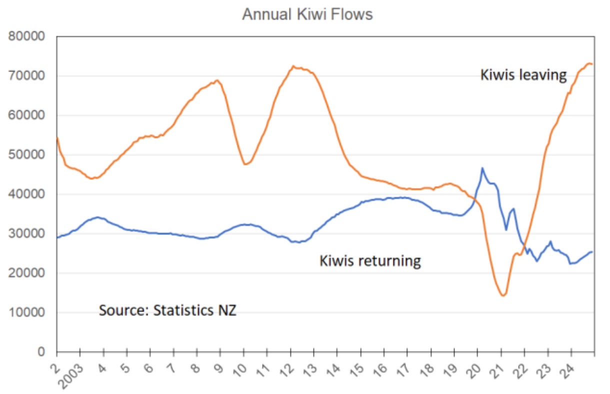
End of the migration boom

Statistics NZ released the monthly migration data last week and what they show is a decreasing rate of growth in our population stemming from flows of people across the border.

The annual net gain has shrunk to 30,600 from 35,500 a month earlier in October and 133,300 a year before. The large change this past year reflects a fall in numbers coming in of about 75,000 and lift in numbers leaving of about 28,000.



So, it is mainly fewer people coming in which is driving the numbers rather than people wholesale quitting the country. Having said that the net loss of Kiwis stands at 47,800 this past year from 41,600 a year ago and an average loss these past two decades of about 18,000 a year.



Statistics NZ keep revising the Kiwi flow data month to month and the annual net loss previously shown as peaking above 55,000 now reads as peaking at about 48,000. That is still bad.

Can we take a reasonable view on what the net flow is likely to be this year? No. Having three and a half decades of experience in trying to predict migration flows I can firmly state that these data elude accurate prediction.

But it seems reasonable to expect that a high net loss of generally young Kiwis offshore and to Australia in particular will continue. To whit…

Reliance on tourism

Last week the new Minister for Economic Development announced that one thing she would work towards is higher numbers of tourists coming to New Zealand.

I recall when the pandemic struck in 2020 tourism sector leaders saying that when the borders opened again their focus would be on high quality and high paying visitors rather than bulk numbers. Many of us expressed doubt at such an approach with expectations that the country would eventually revert to a quantity focus. That is now happening.

Will more people visiting our country help the economy? Yes. But here are the words of the MBIE in their briefing to the Tourism Minister in 2023.

"MBIE is of the view that unmanaged tourism growth over the medium - to long-term is unlikely to tackle New Zealand's broader economic challenges, including productivity and lifting per capita incomes."

More foreign visitors will not lift average Kiwi incomes. There will be increasing pressures on the environment. As people shift properties into the short-term rental sector to take advantage of the higher flows there will be upward pressure on house prices and rents and reduced availability for Kiwis. More people will be driving on the wrong side of the road – especially in the South Island. Airports will become more congested. Ratepayers will be asked to foot higher infrastructure bills.

Because Kiwis don't generally send their kids to school, uni, and poly to become waiters and cleaners we can expect pressure for immigration numbers to be boosted. The Minister accompanied her tourism comment with one that higher numbers of immigrants will also be targeted – bringing presumably their skills in putting plates on tables and picking them up again and cleaning toilets. Not technology.

Add in Fonterra ditching consumer brands to focus on bulk commodity production and we are undergoing a reinforcement of New Zealand's underlying economic dependence on bulk exports. I don't think this is what most of us hoped for four decades ago as the deregulation process ran through our economy. More minimally processed farm products. More jobs serving people food and drink.

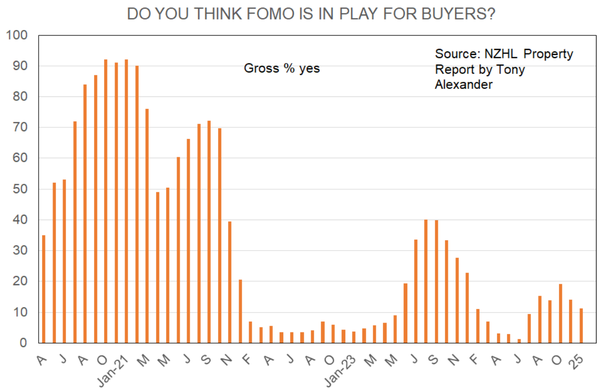
It is becoming increasingly easy to understand something I have noticed bit by bit happening. The outflow of young Kiwis to Australia is being added to by an outflow of their parents.

Not much FOMO

This week I have been running my monthly survey of real estate agents around the country sponsored by NZHL. The full results will be released next week but I'd like to highlight a couple of the key ones which illustrate the main point I am making about the housing market at the moment.

That point is that the upturn is very mild, and prices look to have flattened out after a brief period of growth driven by optimistic hopes for interest rates falling a long way.

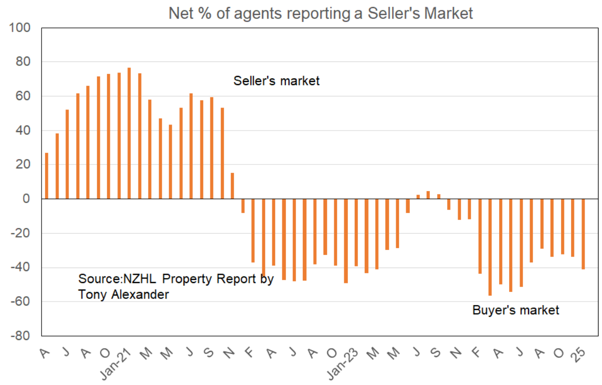
The proportion of agents saying that buyers are feeling FOMO – fear of missing out – has retreated to 11% at the end of January from 14% at the end of November and 19% at the end of October.



That 19% was the highest reading since 40% in September 2023 and the results over summer tell us that buyers do not feel they need to be in a hurry to make a purchase.

In fact we can see this quite well also when I ask agents which party in the transaction seems most eager to get a deal across the line – the buyer or the seller. A net 41% have reported that the seller is the most motivated of the two.

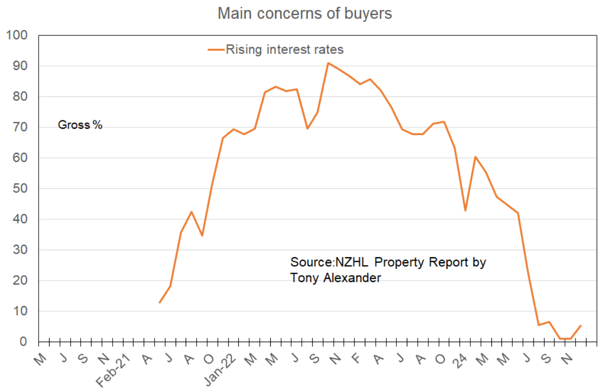
This means we are strongly in a buyer's market.



Why are things so subdued? The labour market is weak and that will make people cautious about making a purchase themselves. Also it will encourage buyers to feel that a lot of other potential bidders on a property will not be able to make a purchase because they are unemployed, on reduced hours, or fearful of losing their job.

The earlier optimism which people had about interest rates falling a long way has probably backed off as well, perhaps encouraged by the strong stance I have taken here warning about limited scope for big interest rate falls.

I wouldn't give this factor too high a rating however as the lift in the proportion of agents sating buyers are worried about interest rates has been fairly minor in this month's survey, as shown here.



The upward leg of the housing cycle this time around is proving to be very mild.

If I were a borrower, what would I do?

I'm afraid I have nothing interesting to write about interest rates this week. There have been some small declines in wholesale interest rates on the back of a slight easing in similar rates in the United States. Next week, if the US rates go up ours will too as we wait for the next review of NZ monetary policy in three weeks time.

The chances are high that the Reserve Bank will cut the cash rate by 0.5% from 4.25% down to 3.75%. But I would not rule out just a 0.25% cut.

The drift of inflation concern both here and in countries offshore of relevance to us recently has been decreased optimism regarding the levels to which inflation will fall. Only two rate cuts are expected in the United States this year from four expected just a few months ago.

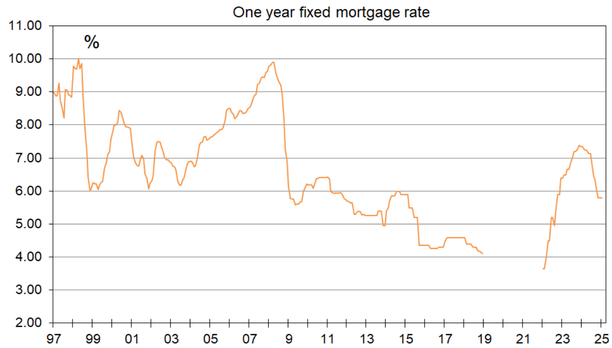
In Australia the Prime Minister has capitulated to the risk of no cut happening ahead of the late-May Federal election by saying his party can win again even without a rate cut. But the slightly better than expected Oz inflation number out yesterday means a rate cut next month is still a possibility. The situation is fluid.

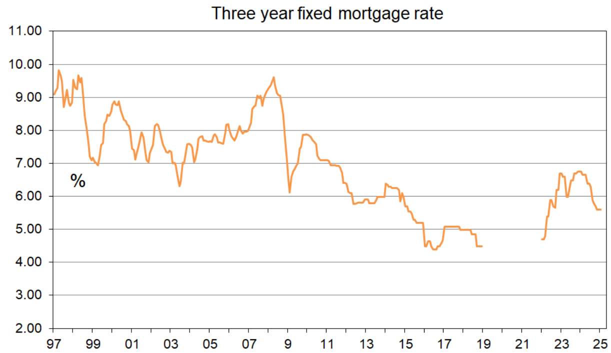
Locally the next main thing which could alter expectations one way or the other is the release of December quarter labour market data next Wednesday 5th February.

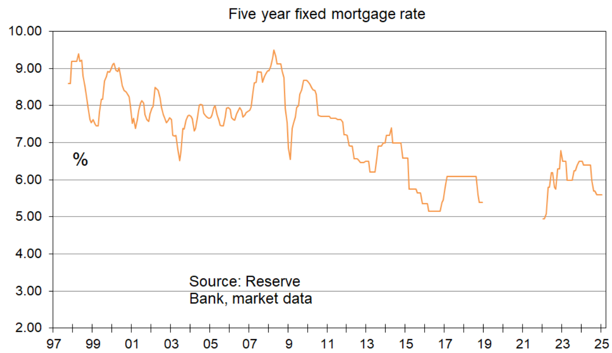
If I were borrowing at the moment, I would be hoping for a spike of competition between NZ banks to produce a three year rate close to 5%.

While waiting for that I'd probably fix just six months.

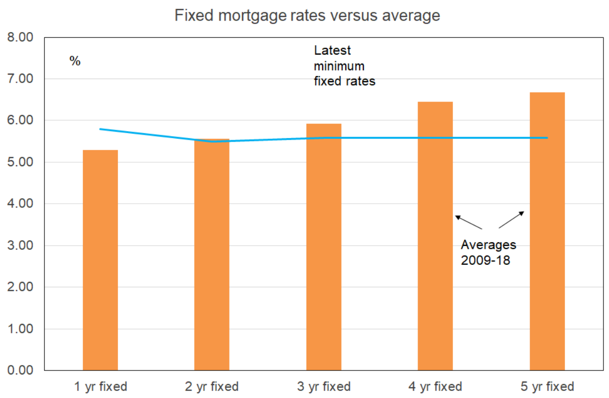
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







This graph shows how current rates compare with averages from 2009-19.



To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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.