

Will housing be the key?

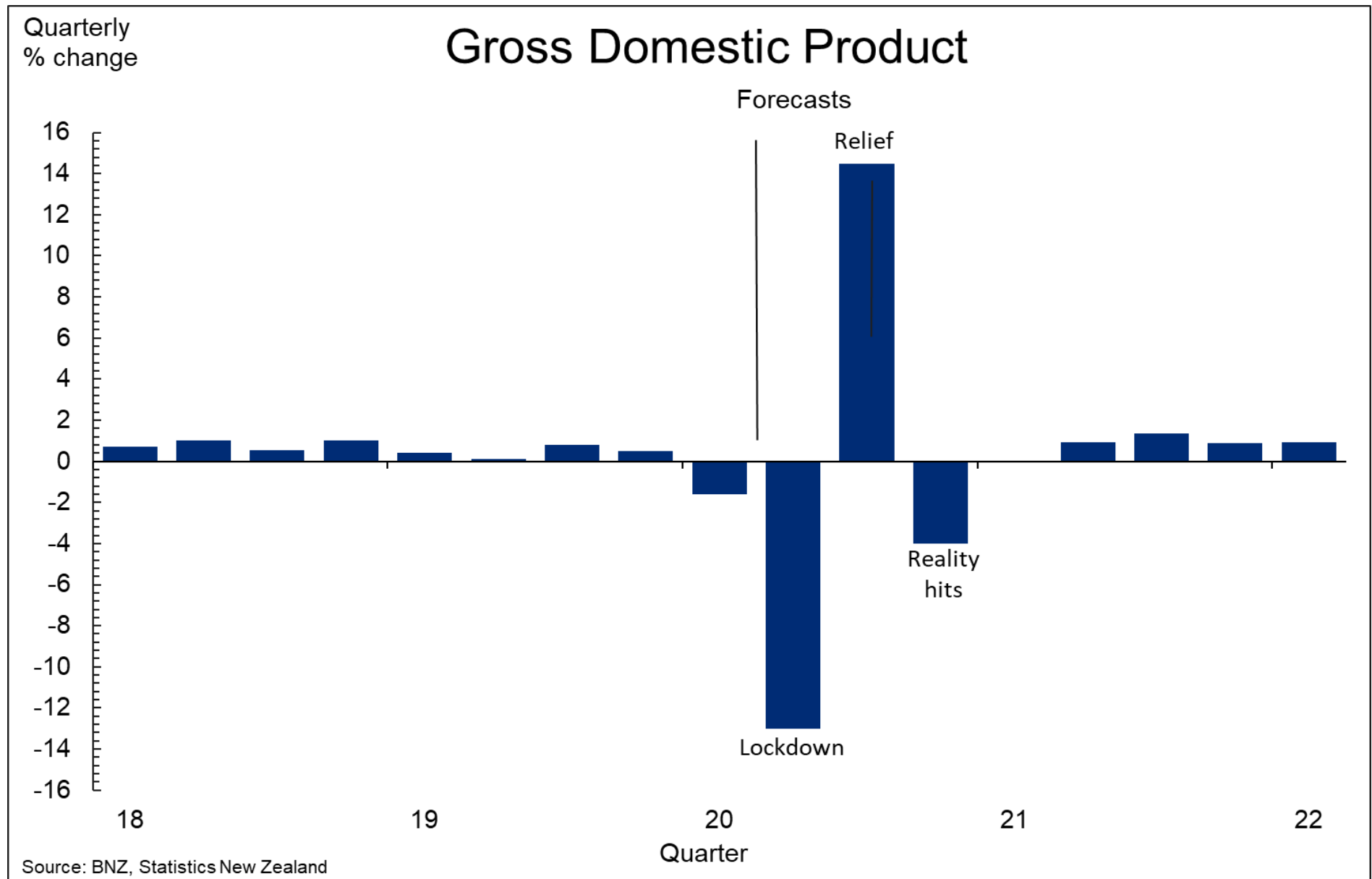


STEPHEN TOPLIS | October 2020

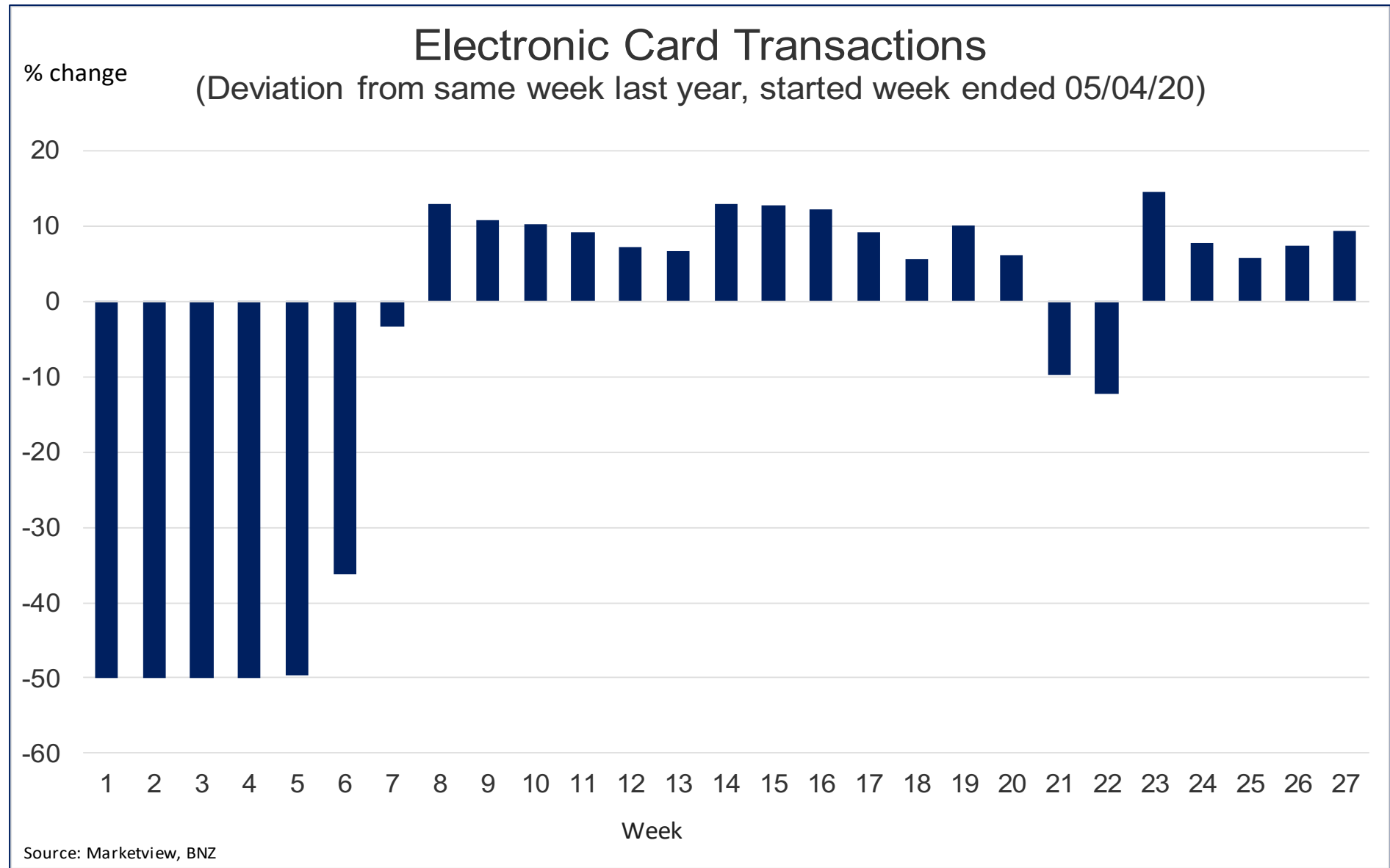
Introduction

- The recovery is well and truly underway
- The long term outlook is positive
- Optimism is warranted
- But a good dose of realism is needed too
- It's a long hard drag ahead
- And a return to pre-Covid activity is years away
- Generalisations unhelpful
- Here we come negative cash rates
- Property prices a concern

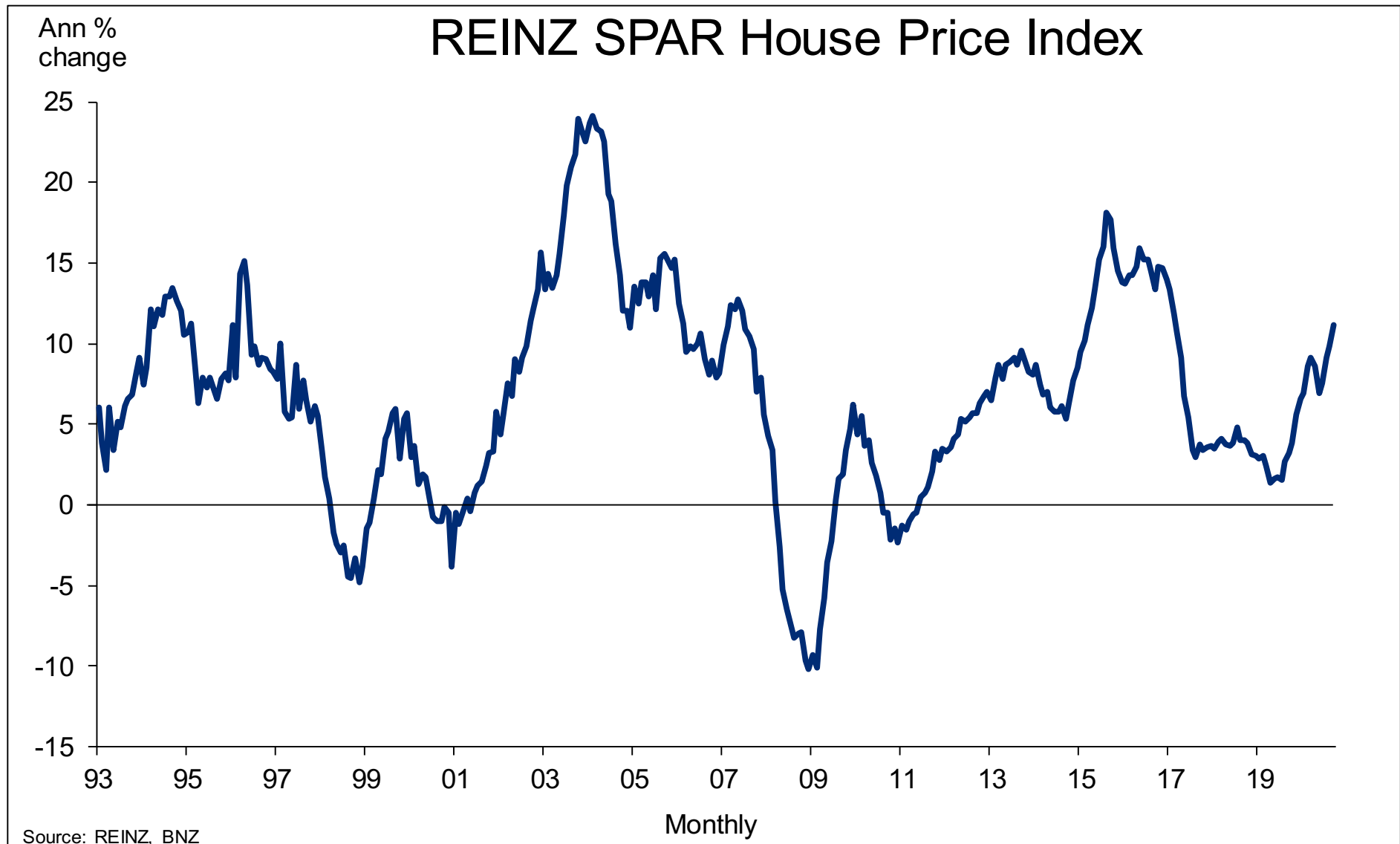
The Bounce Is Real



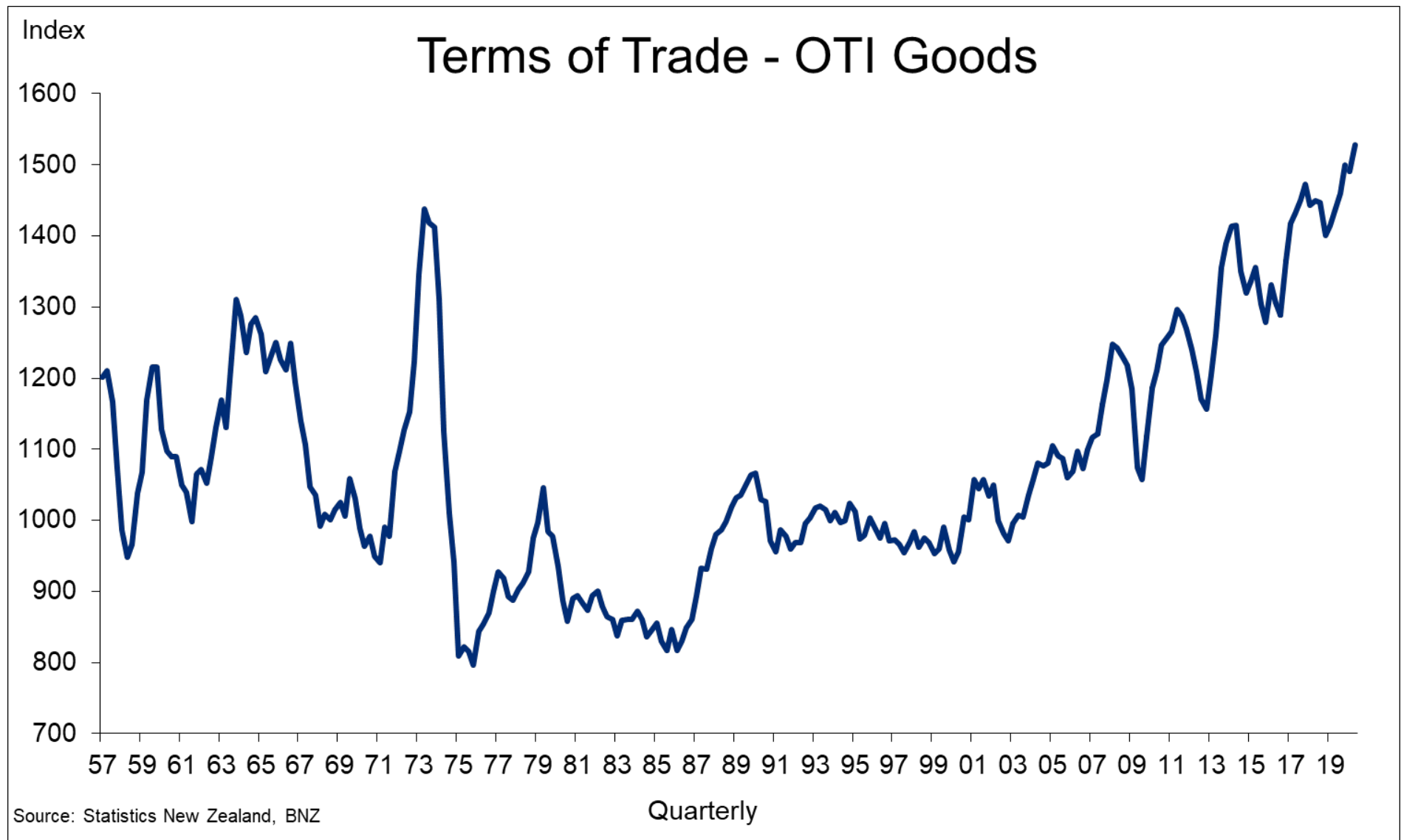
Retail Spending Leads The Way



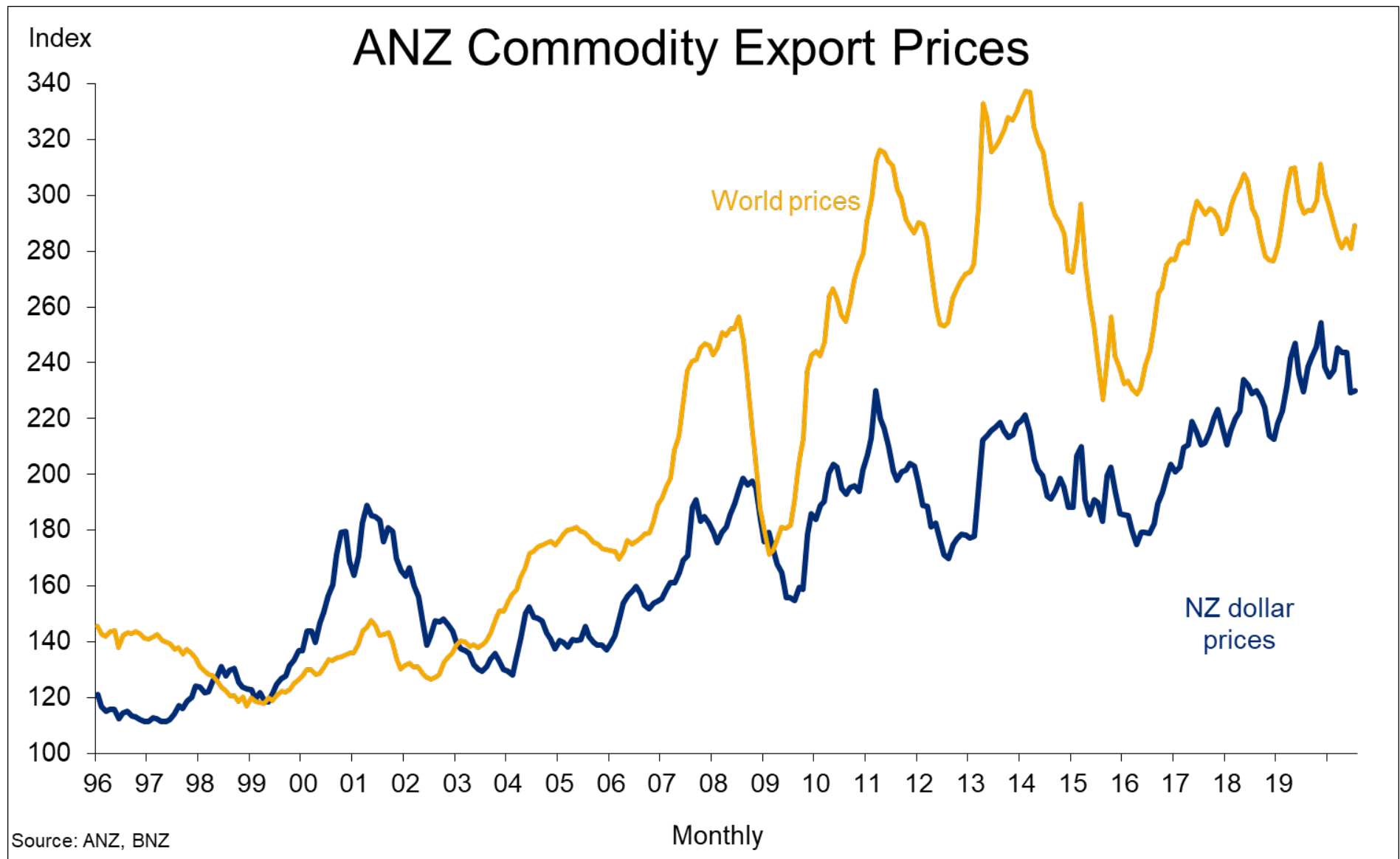
And House Prices Soar



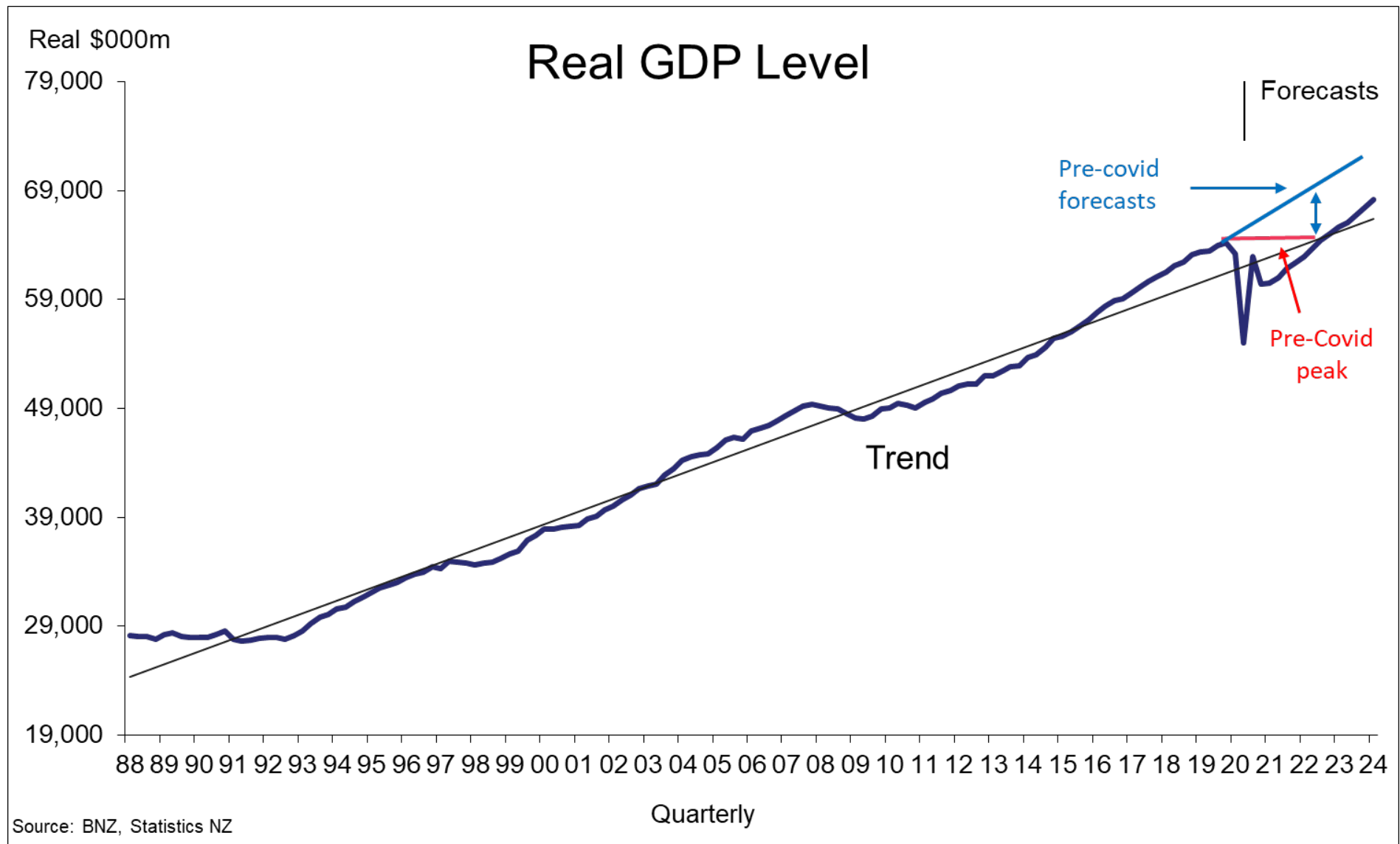
Terms Of Trade Unbelievable



As Commodities Hold Their Own



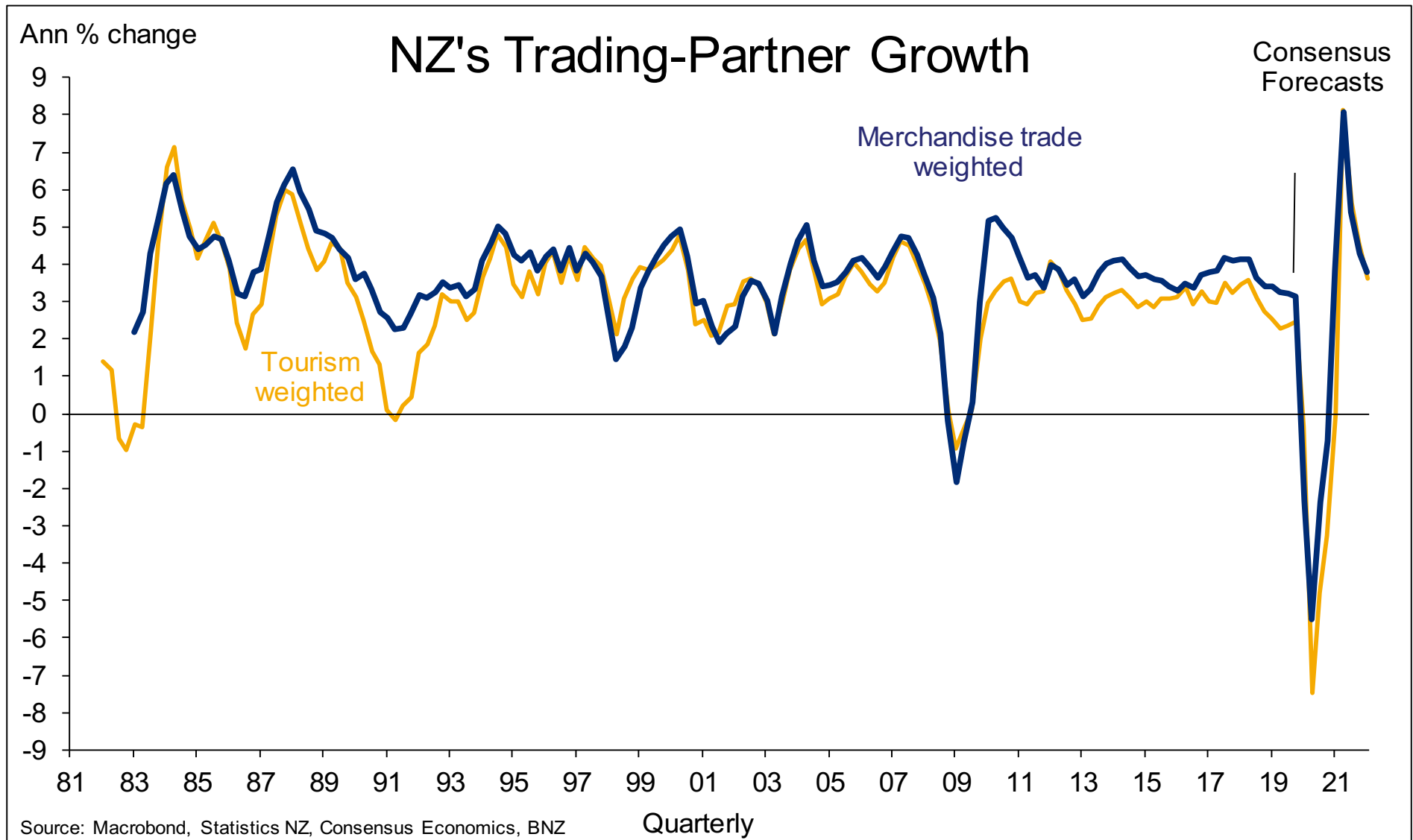
But There's Such A Long Way to Go



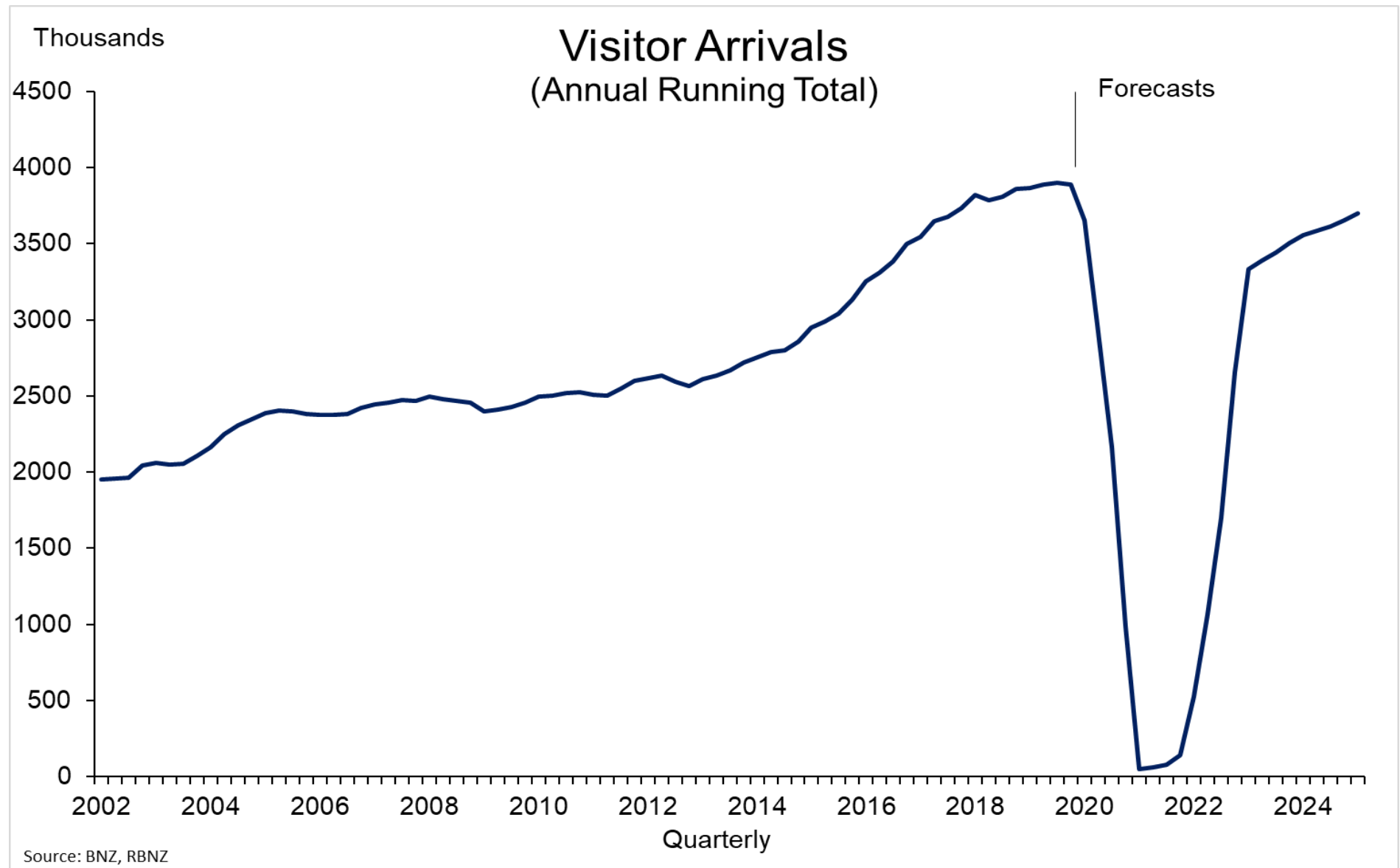
The Big Constraints

- Tourism slaughtered
- Global growth
- Slower population expansion
- Rising unemployment rate
- Skills mismatches
- Supply chain issues

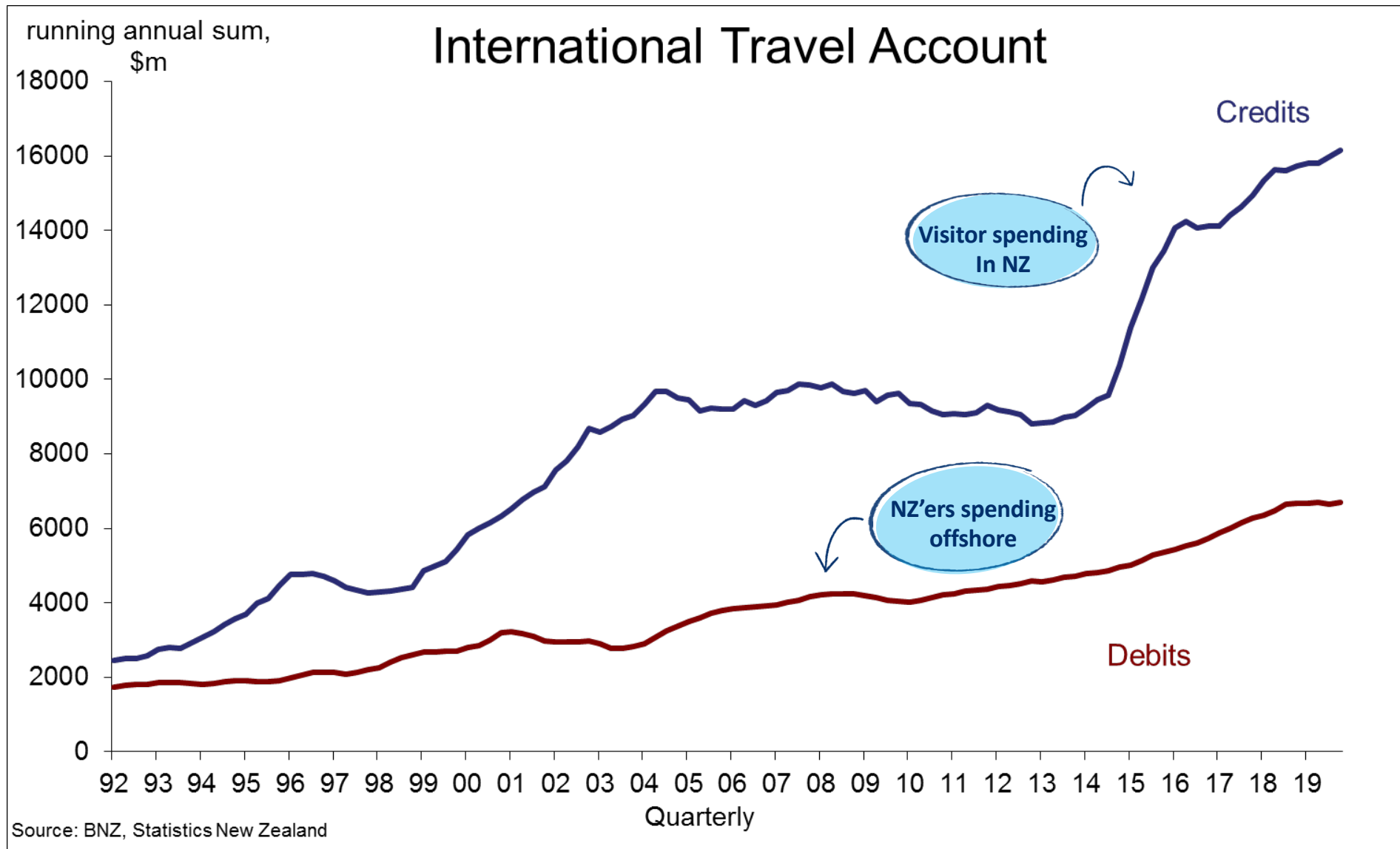
Global Growth Dives



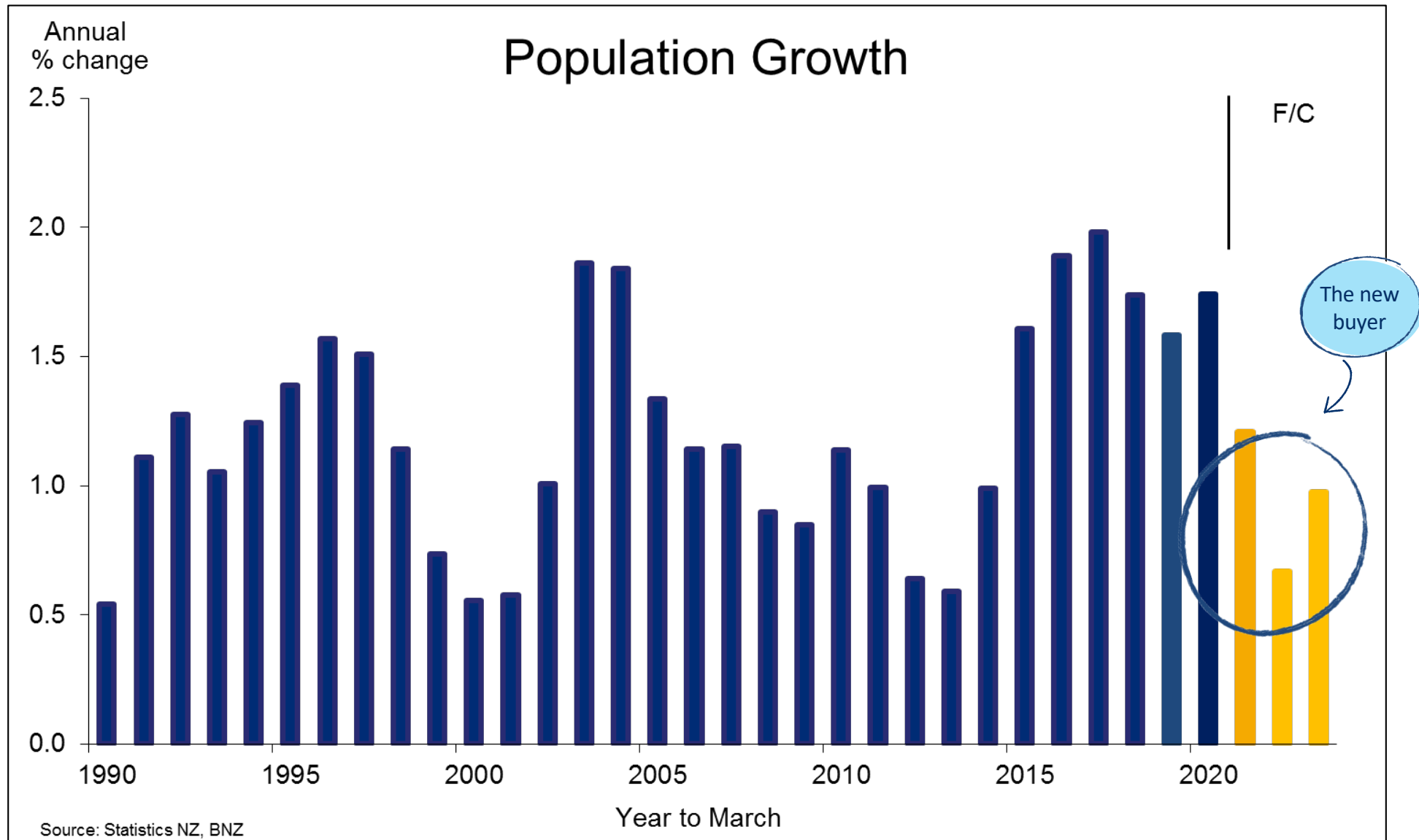
Tourism Slaughtered



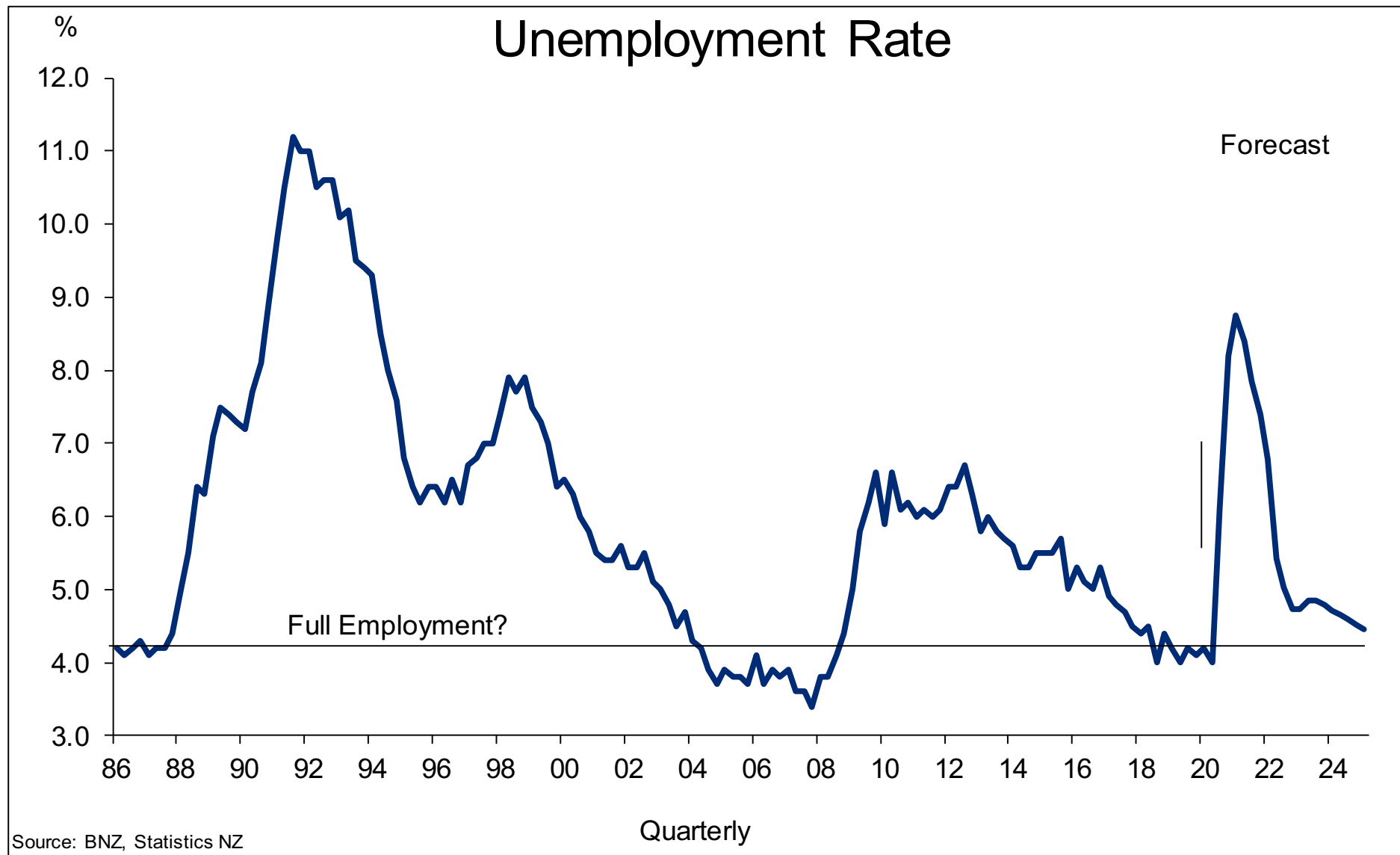
Domestic Spending No Offset



Population Growth Key



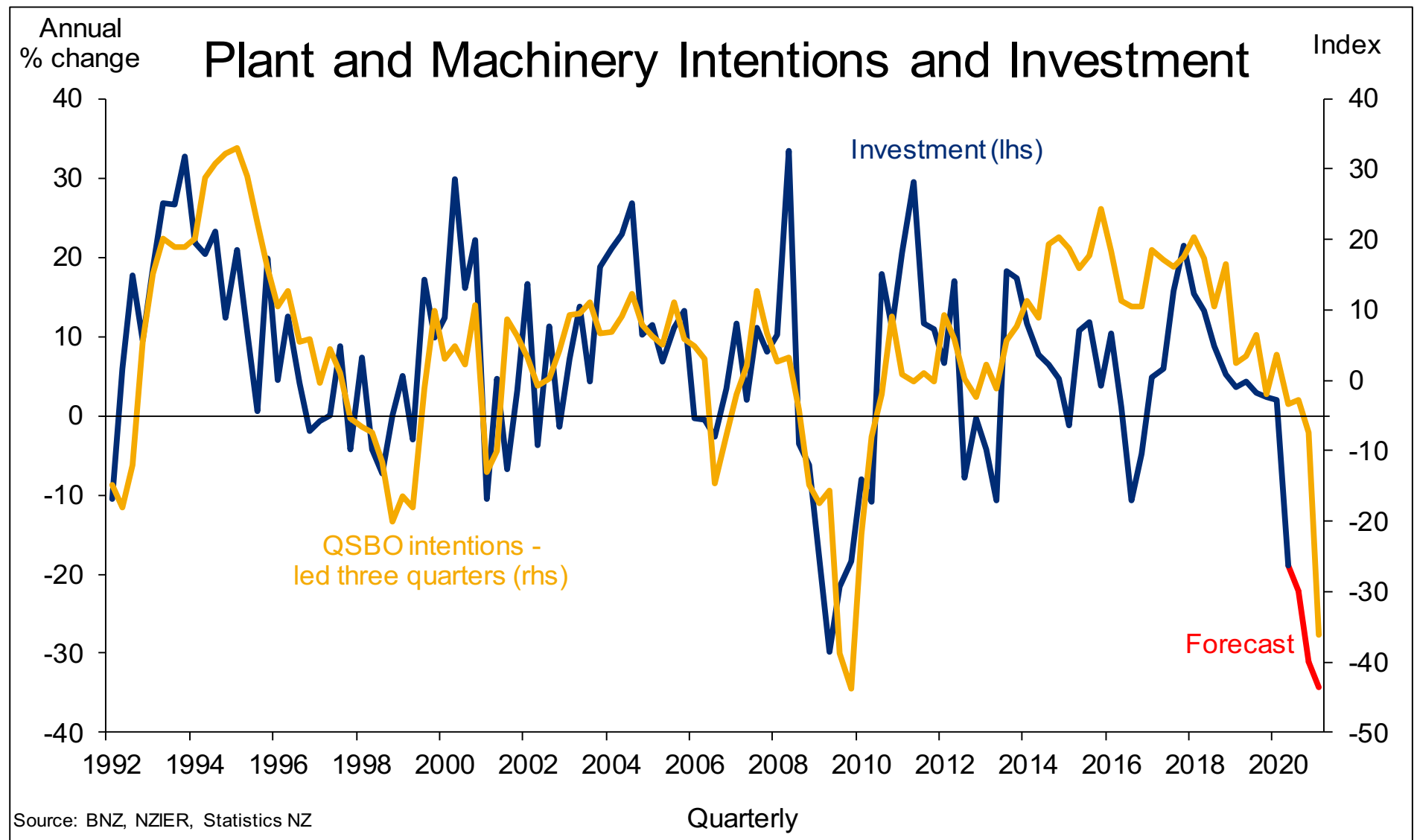
And Then There's Unemployment



Monetary policy transmission

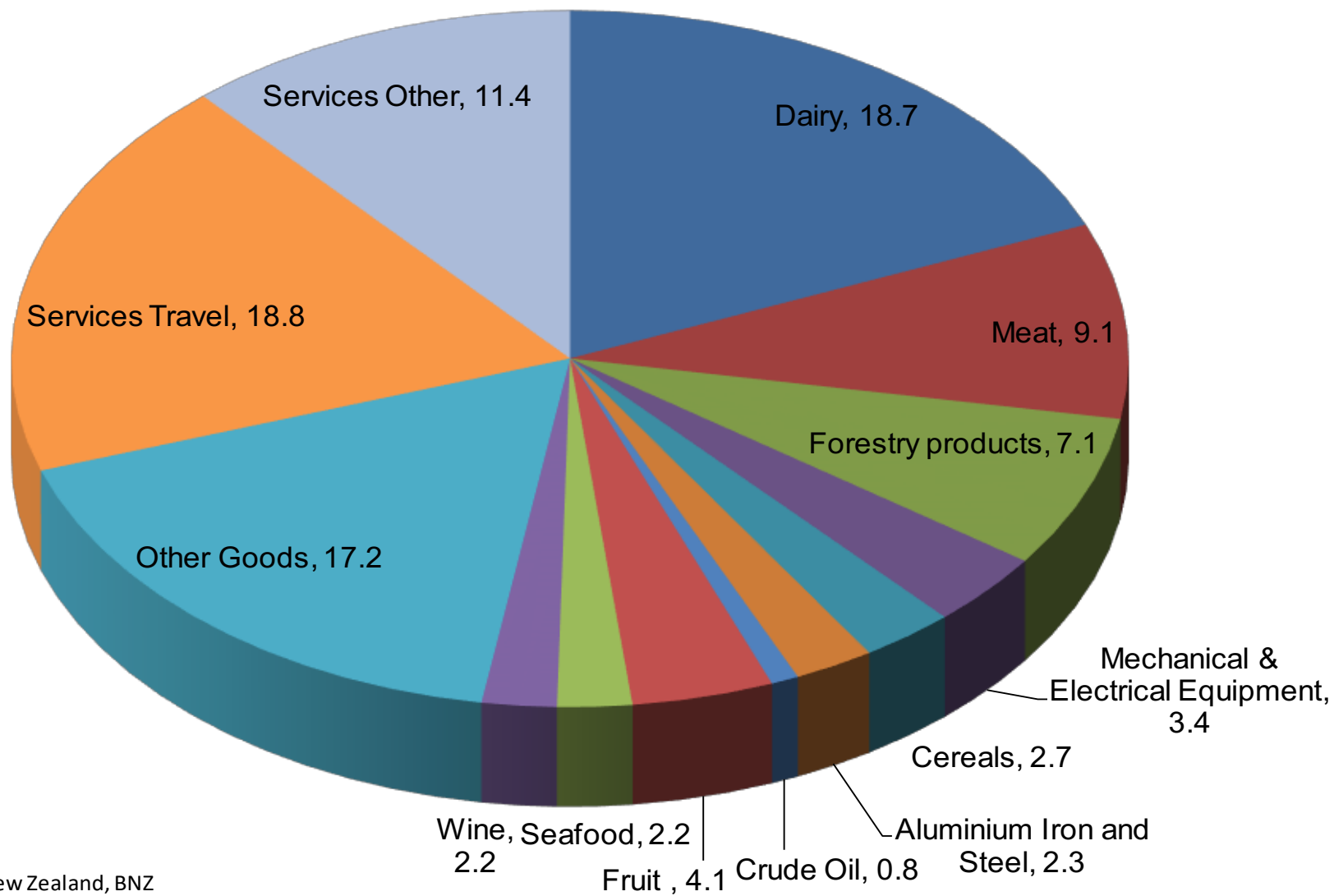
- Increased business investment
- Lower currency
- The wealth channel

Investment intentions collapse



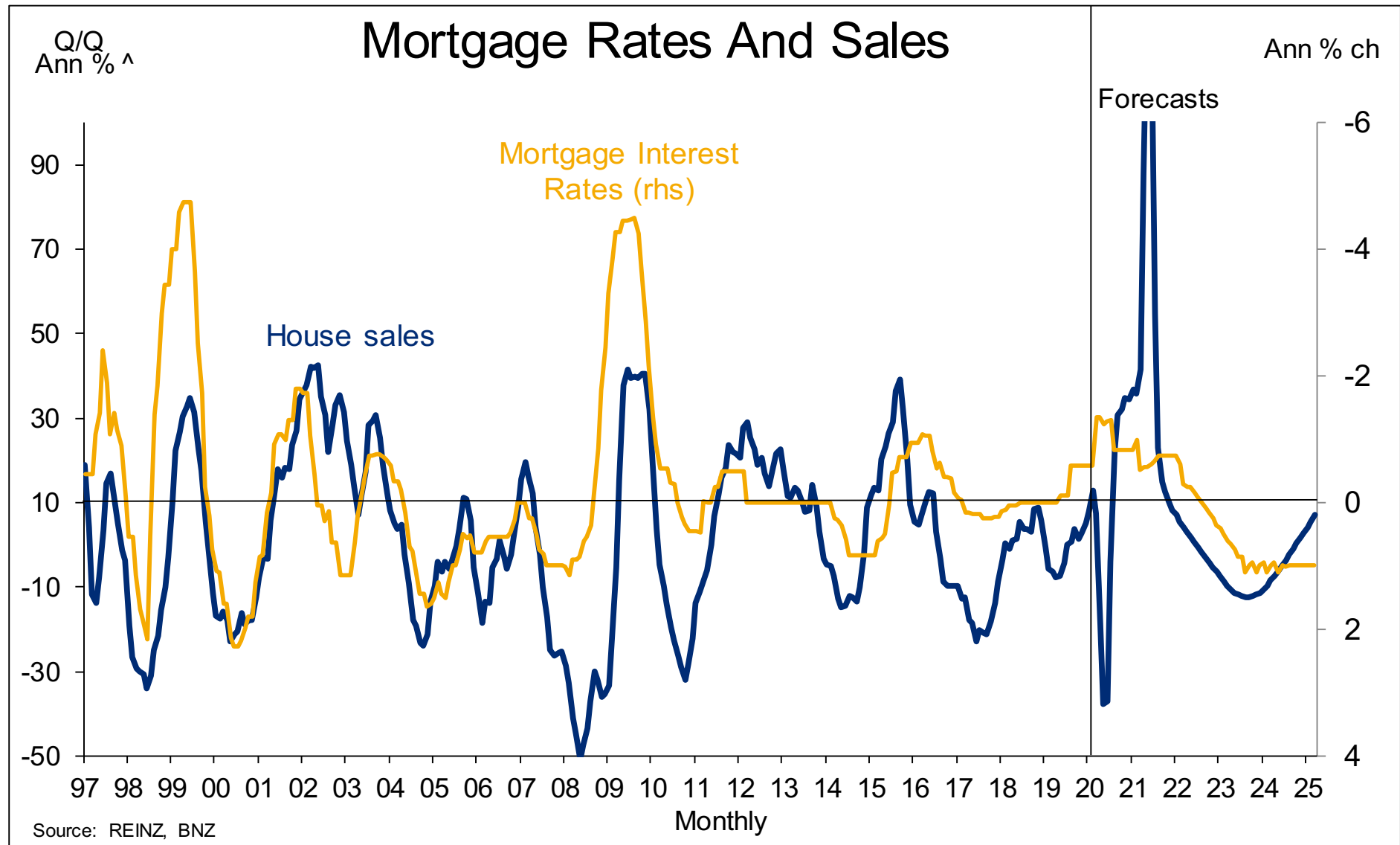
Currency impact deflated

Exports By Category

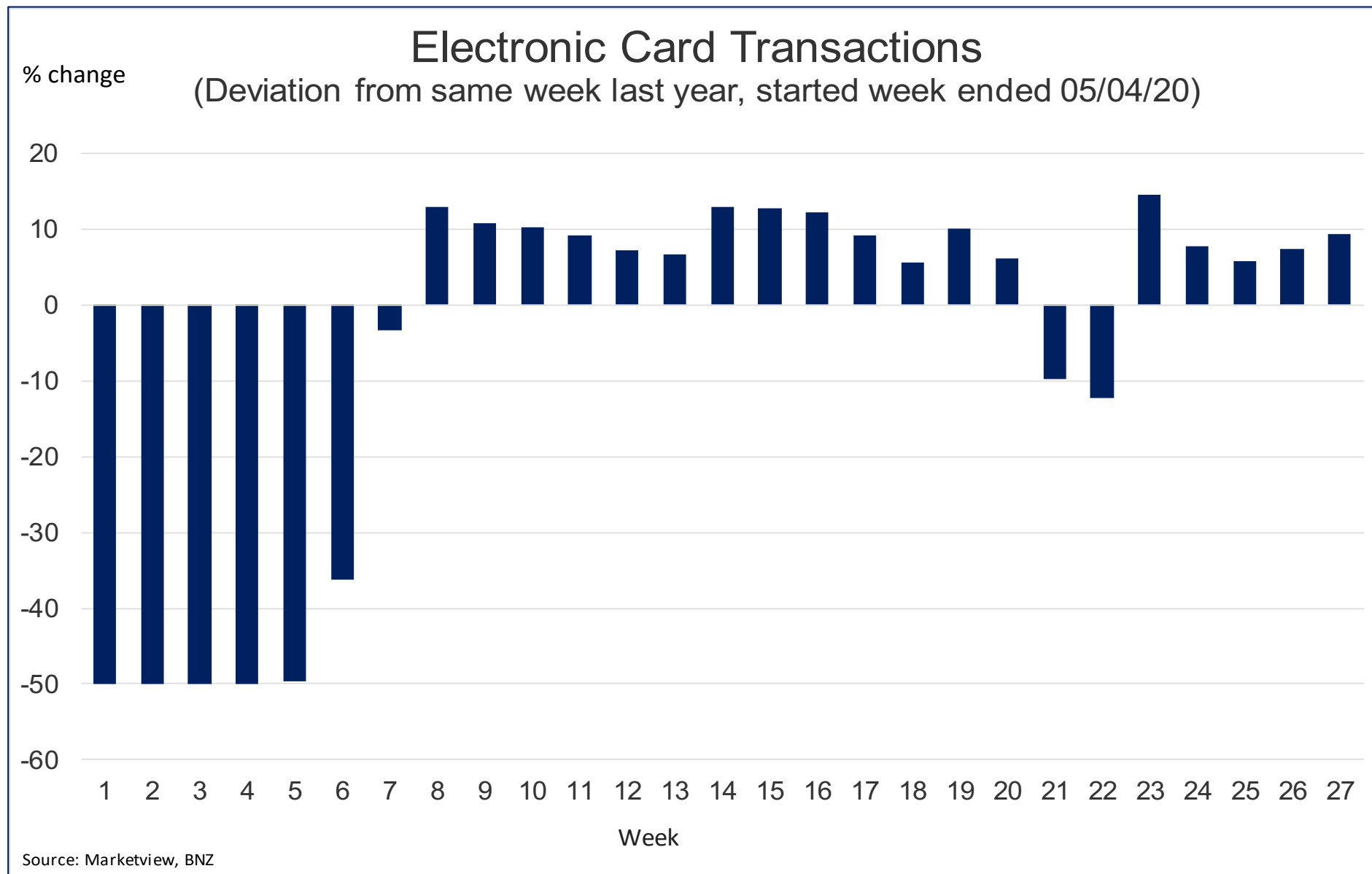


Source: Statistics New Zealand, BNZ

Wealth impact the saviour?



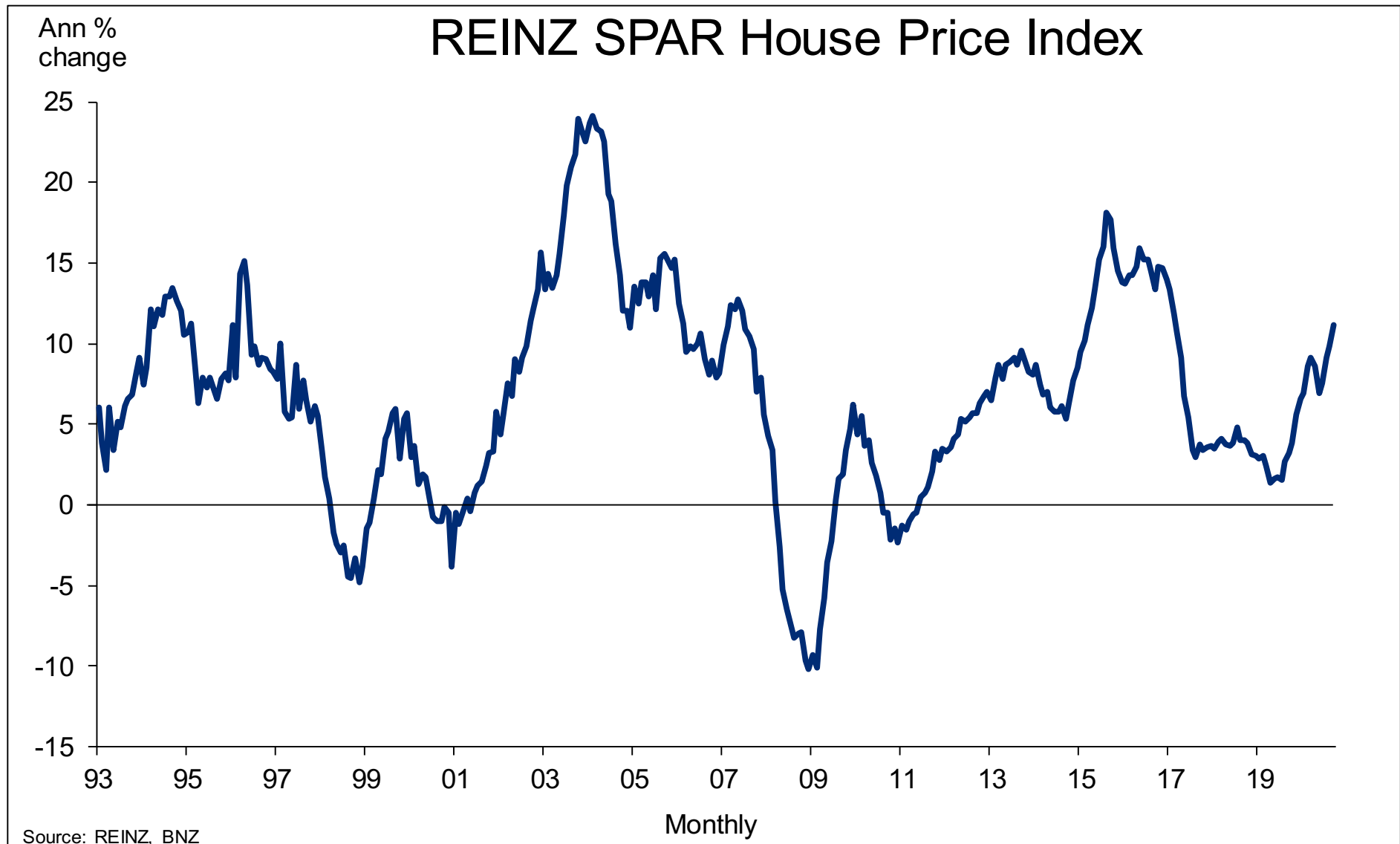
Spending growth real



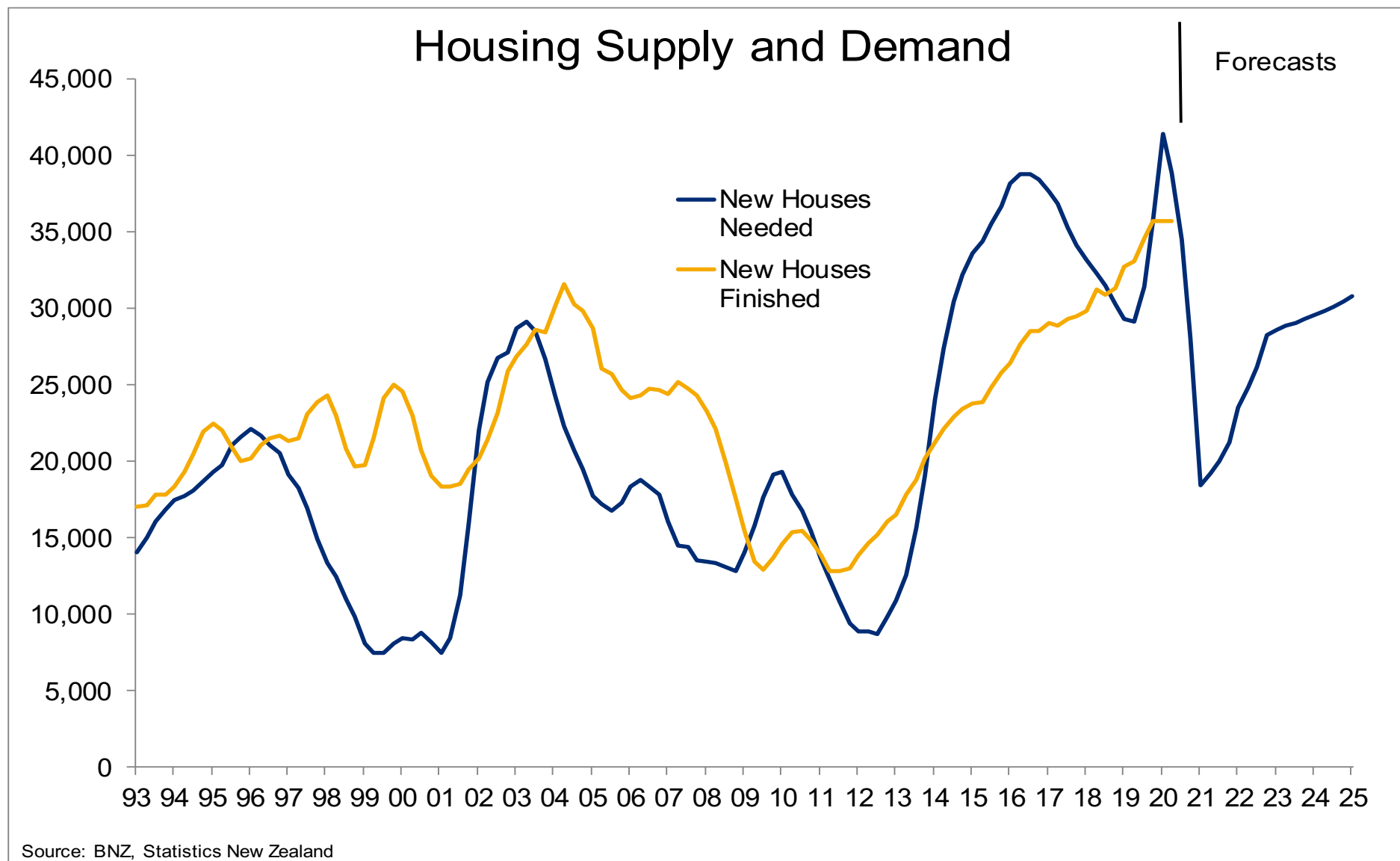
But currently distorted by:

- Pent up demand
- Government stimulus
 - Wage subsidies
 - Increased benefits
 - Winter heating benefits
 - Mortgage deferrals
- Lack of offshore travel

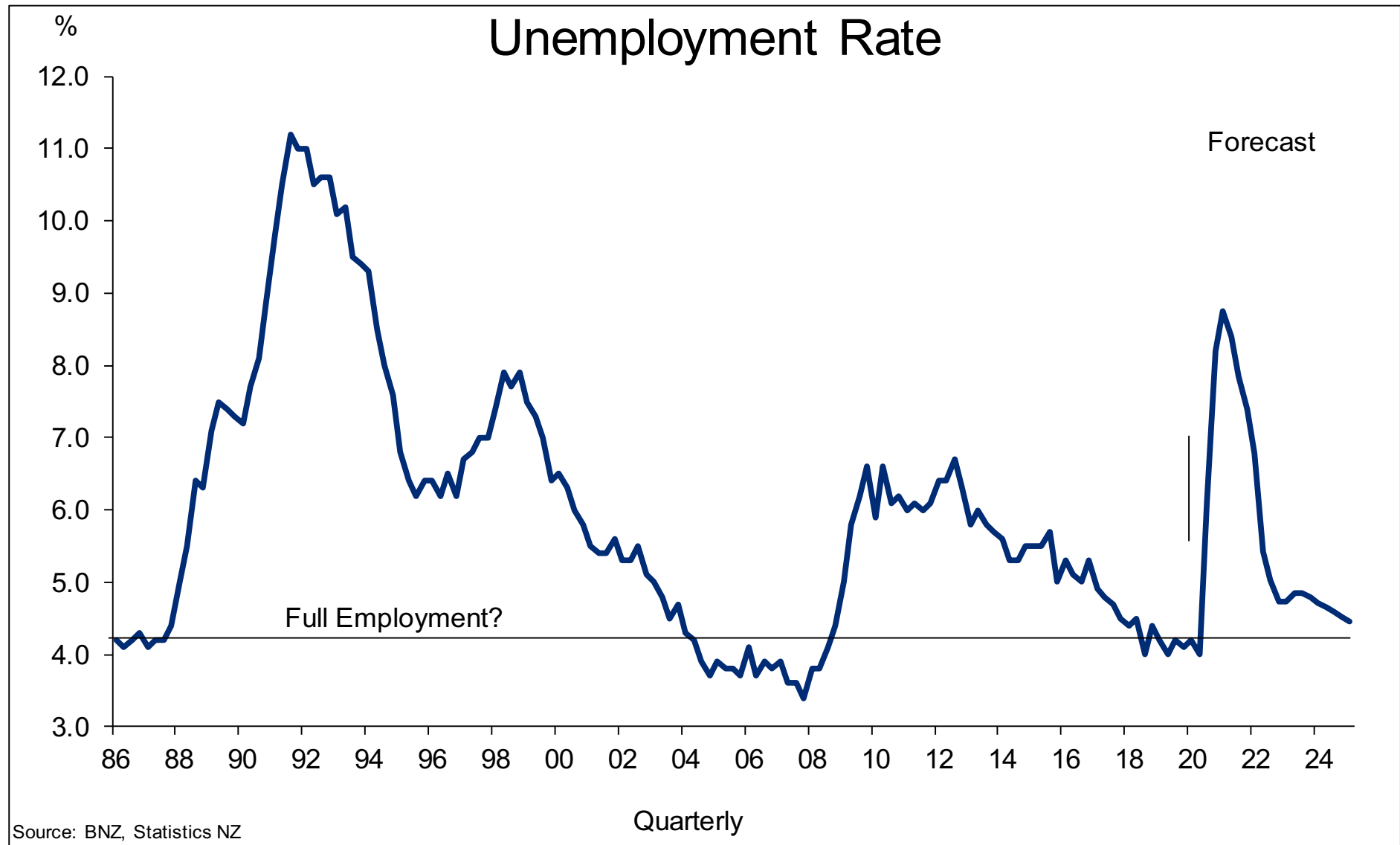
Housing market getting silly?



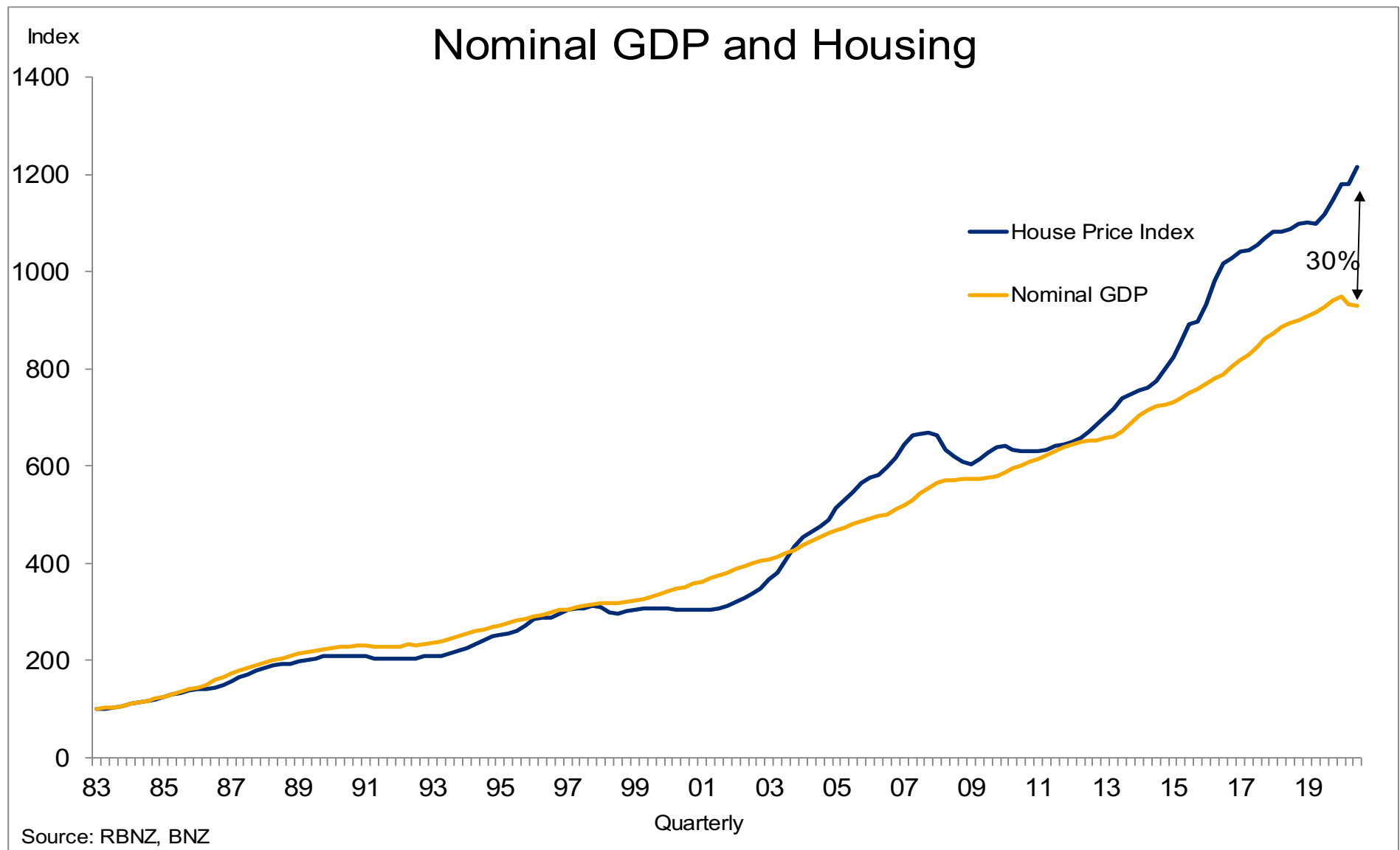
As need for new houses falling



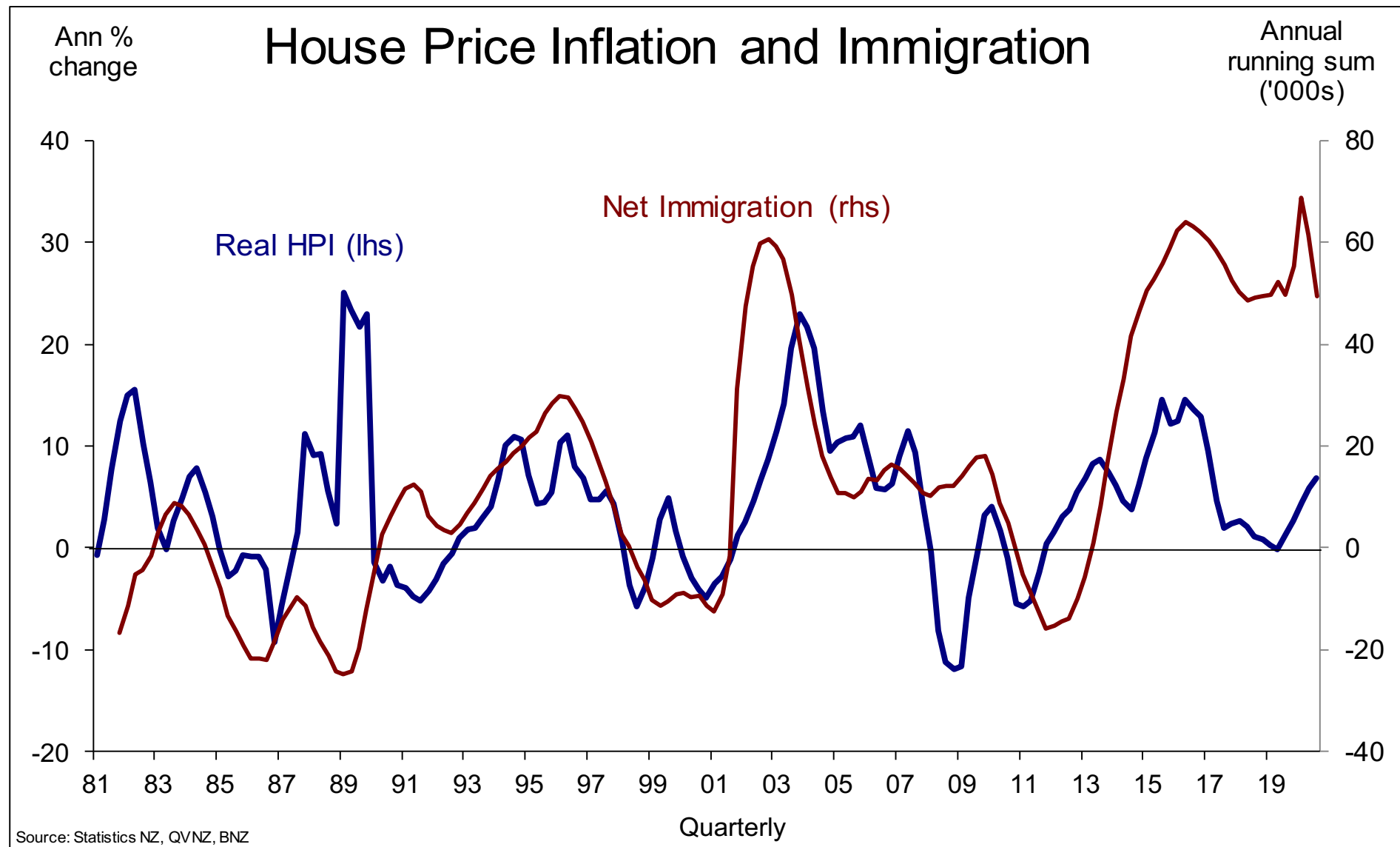
Unemployment rate yet to peak



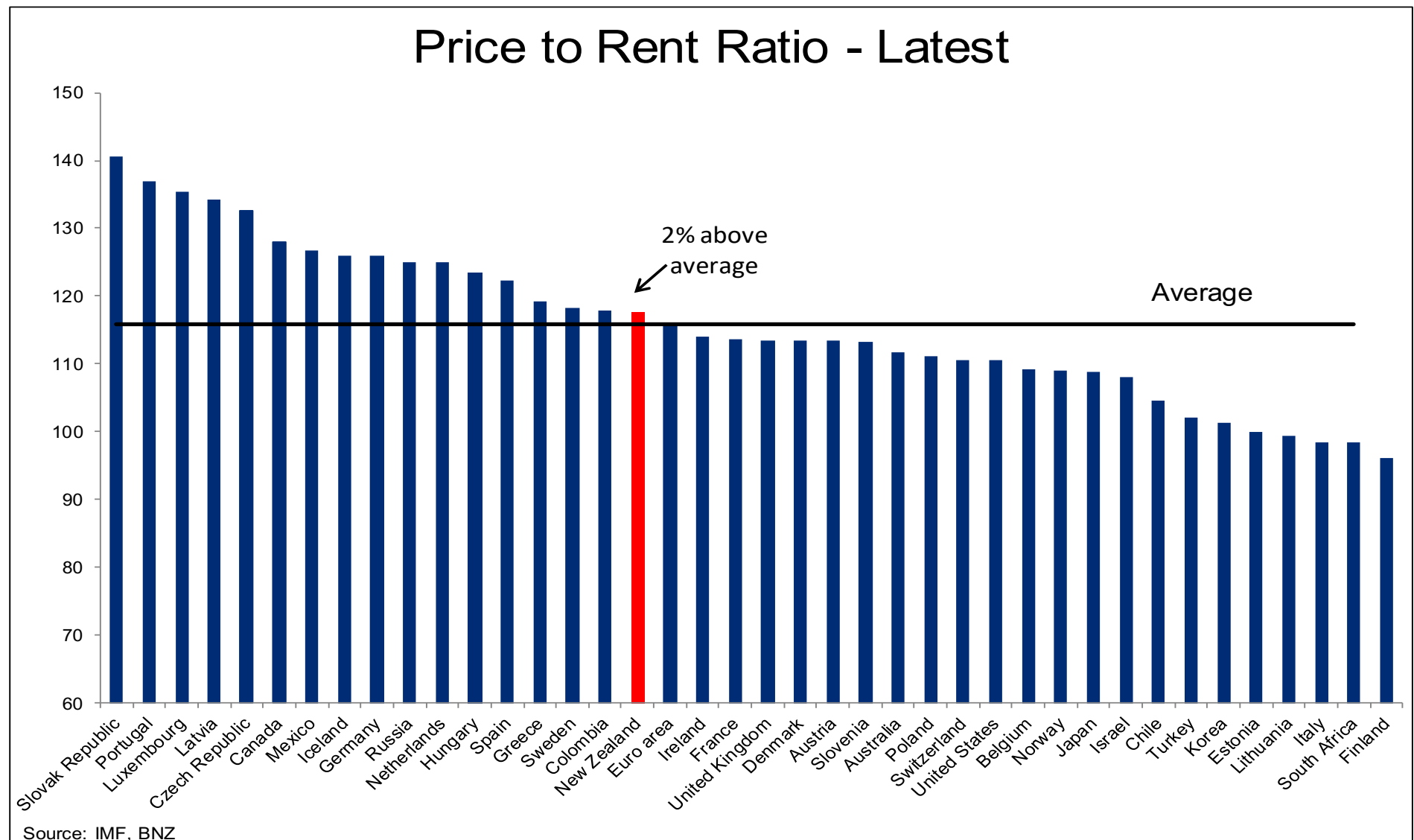
House prices overvalued compared to GDP?



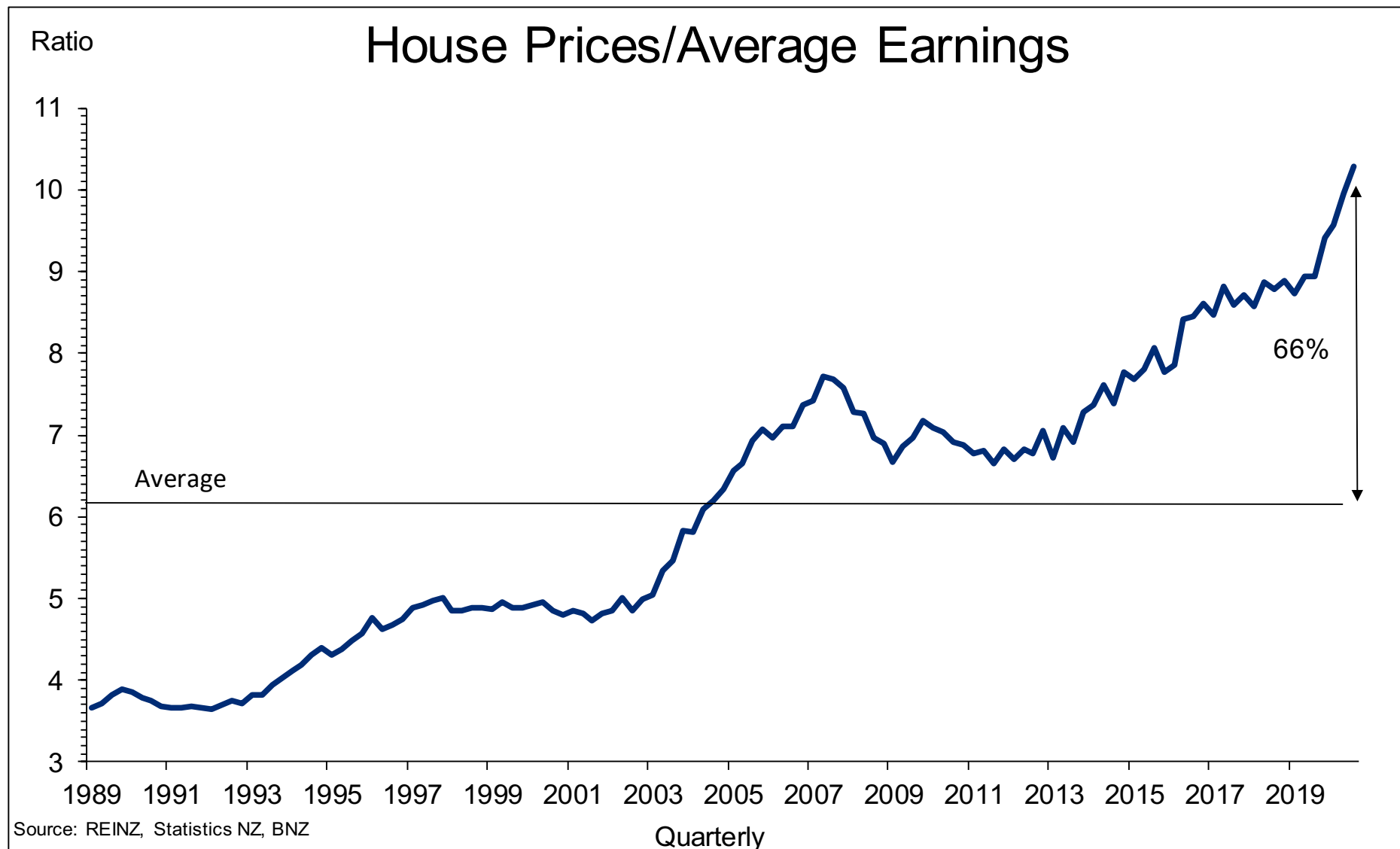
Does immigration justify higher prices?



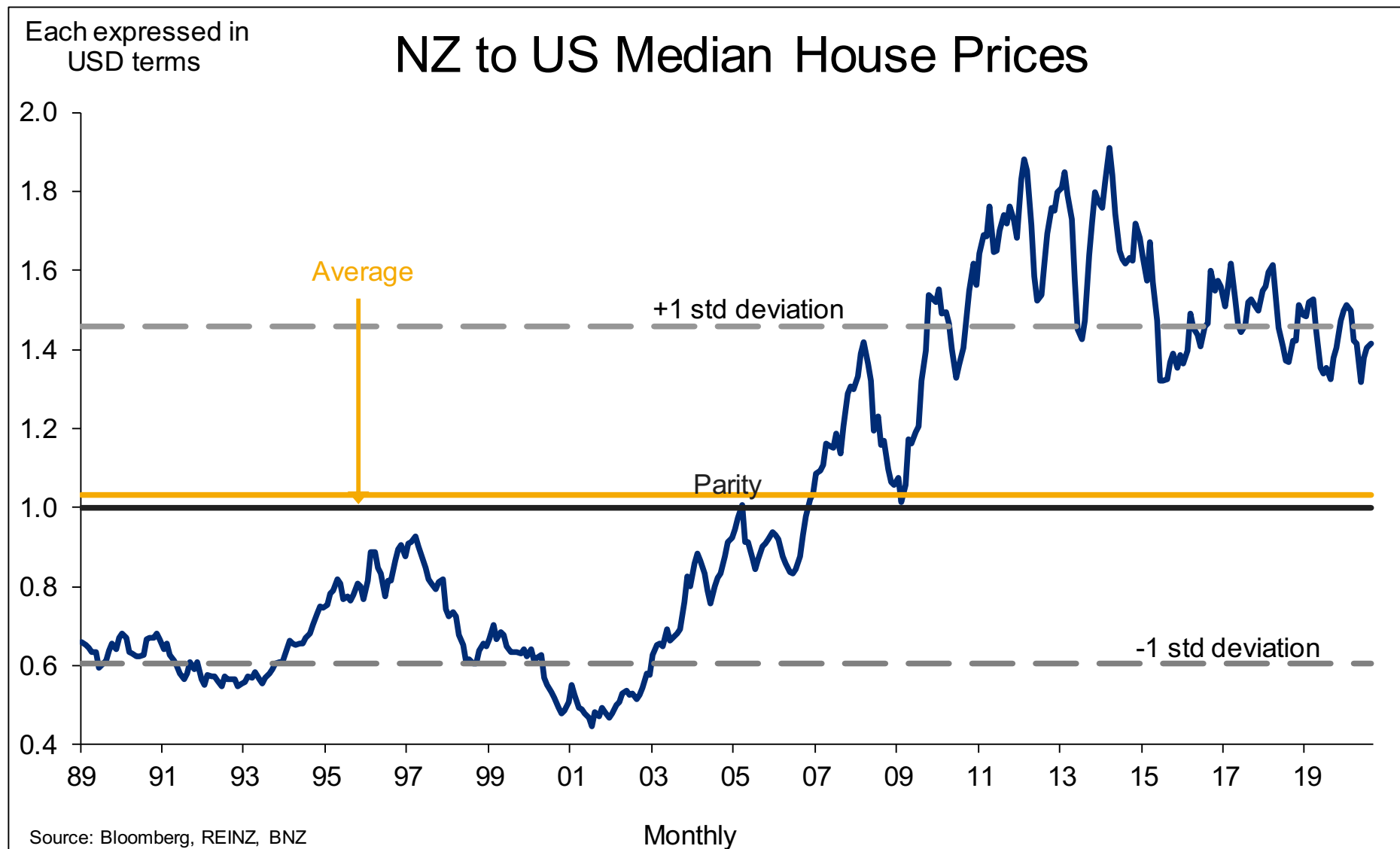
Price to rent ratio not outstanding



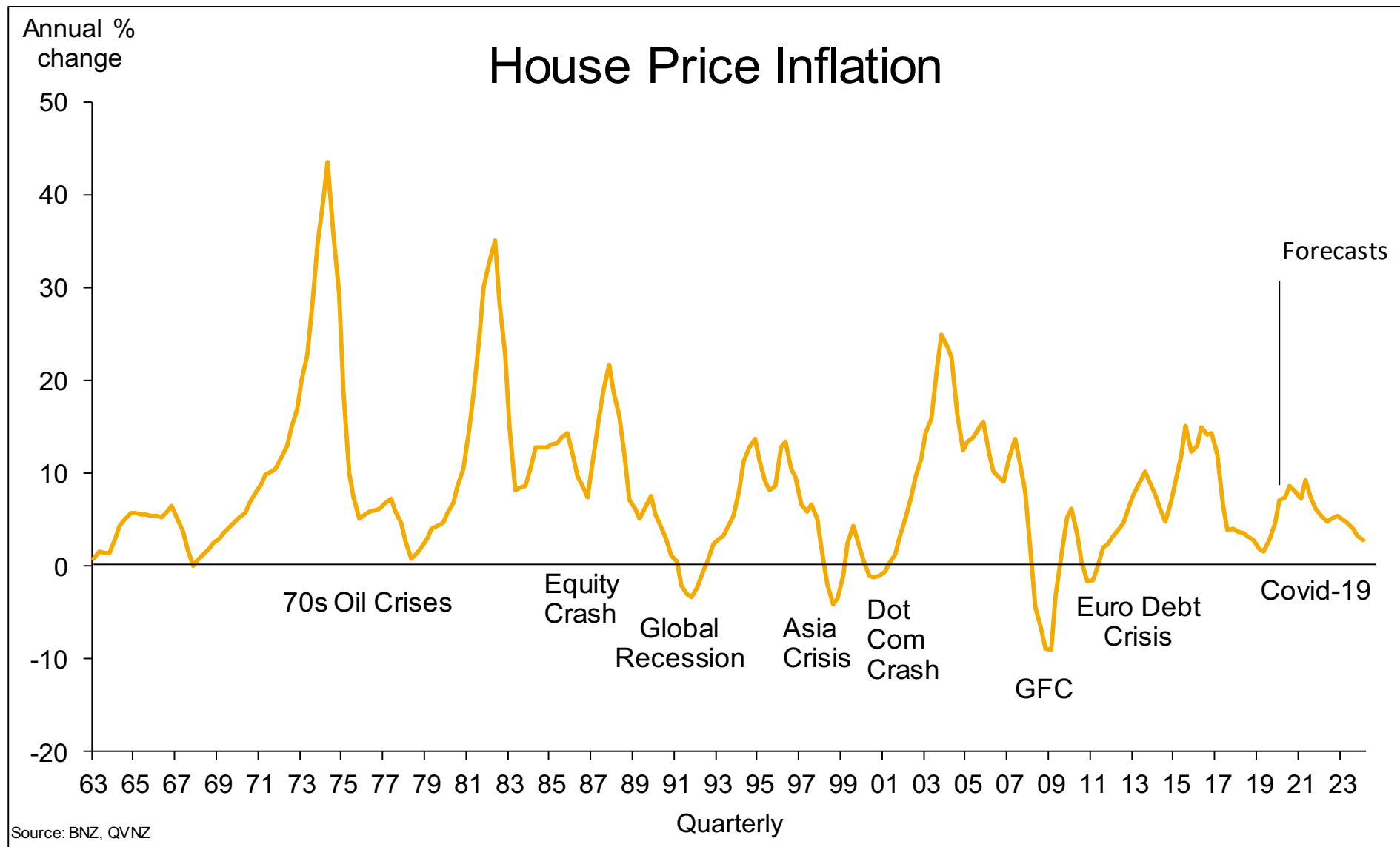
Houses overvalued 66% compared to earnings



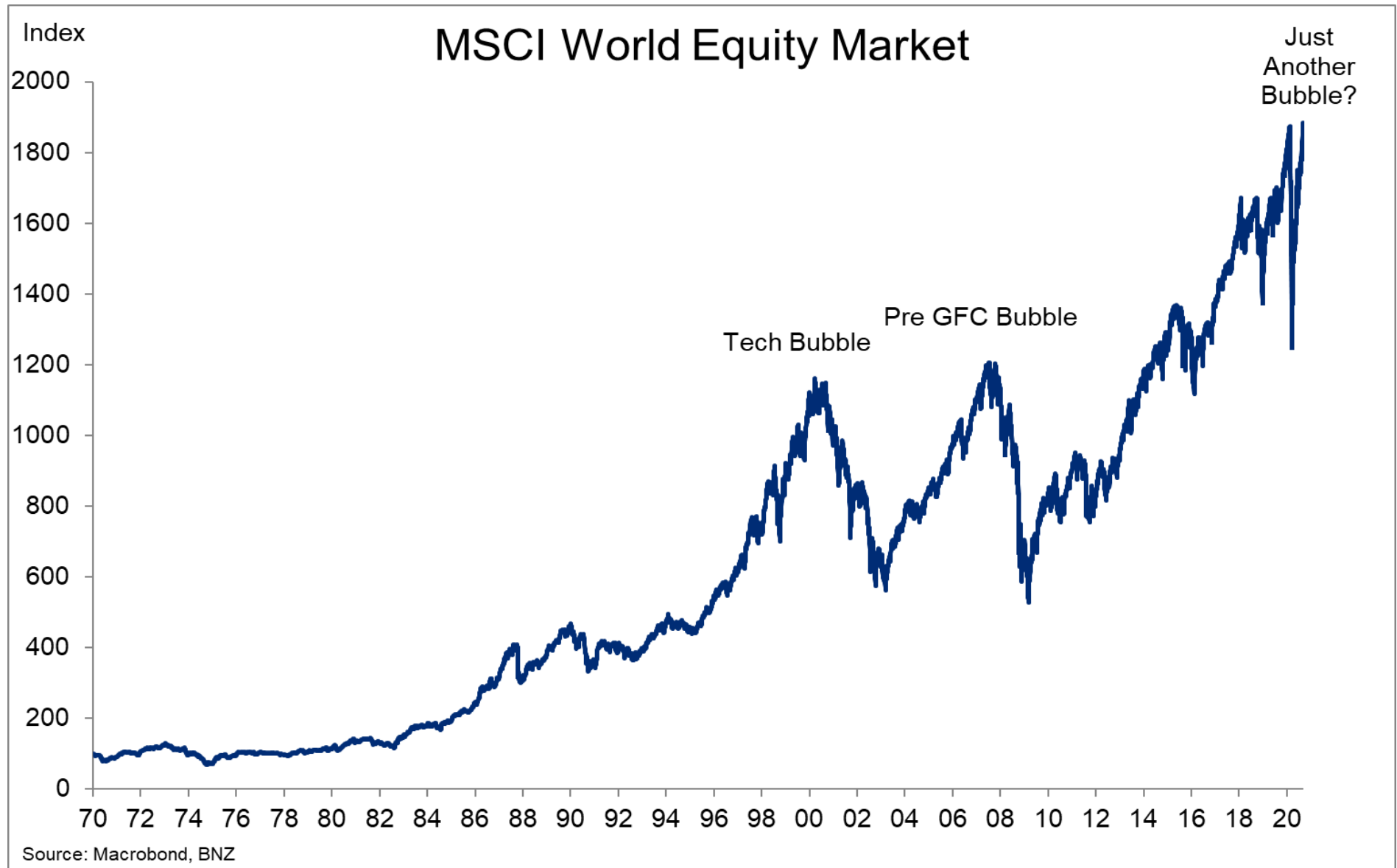
But very overvalued compared to the US



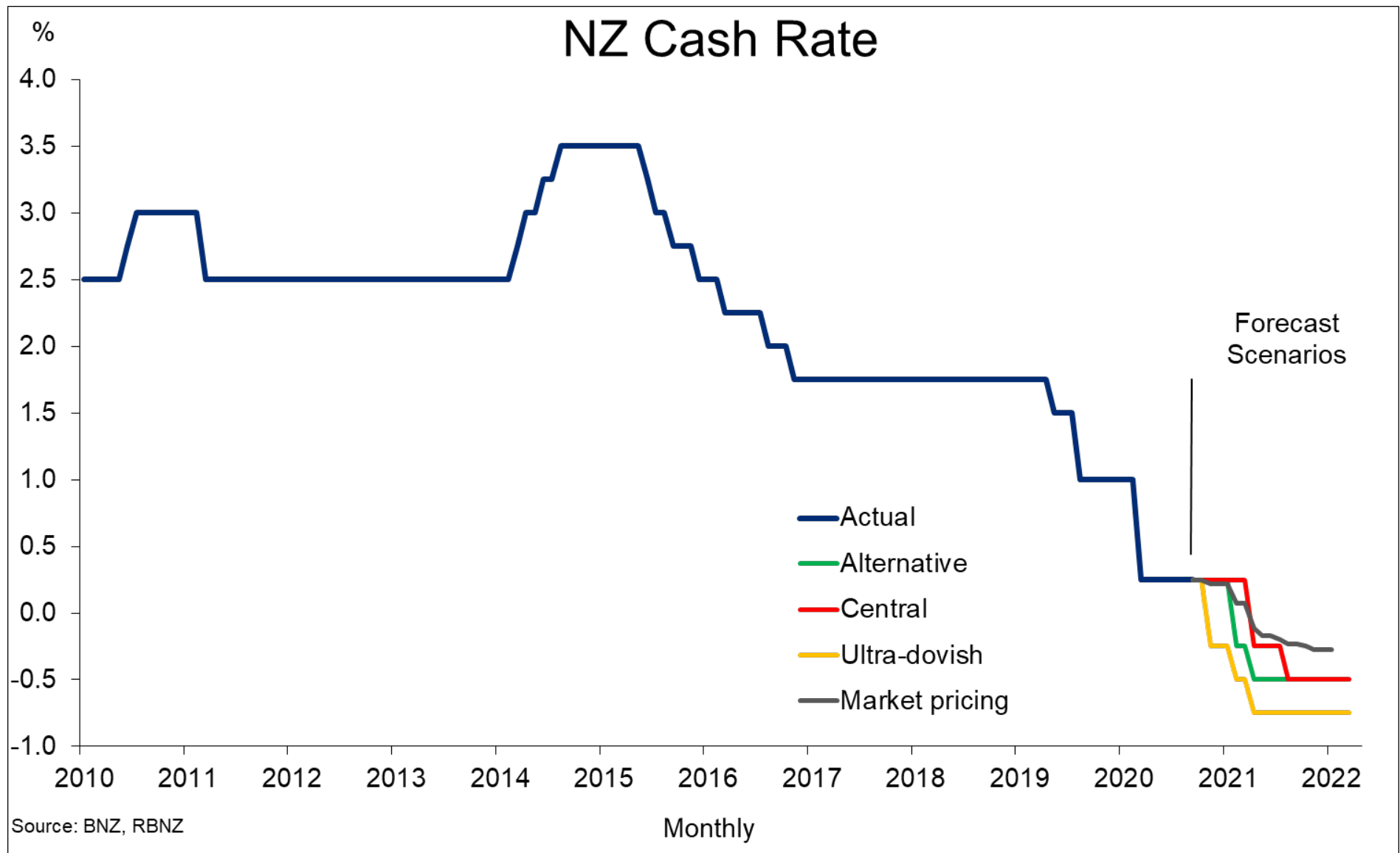
Higher for longer?



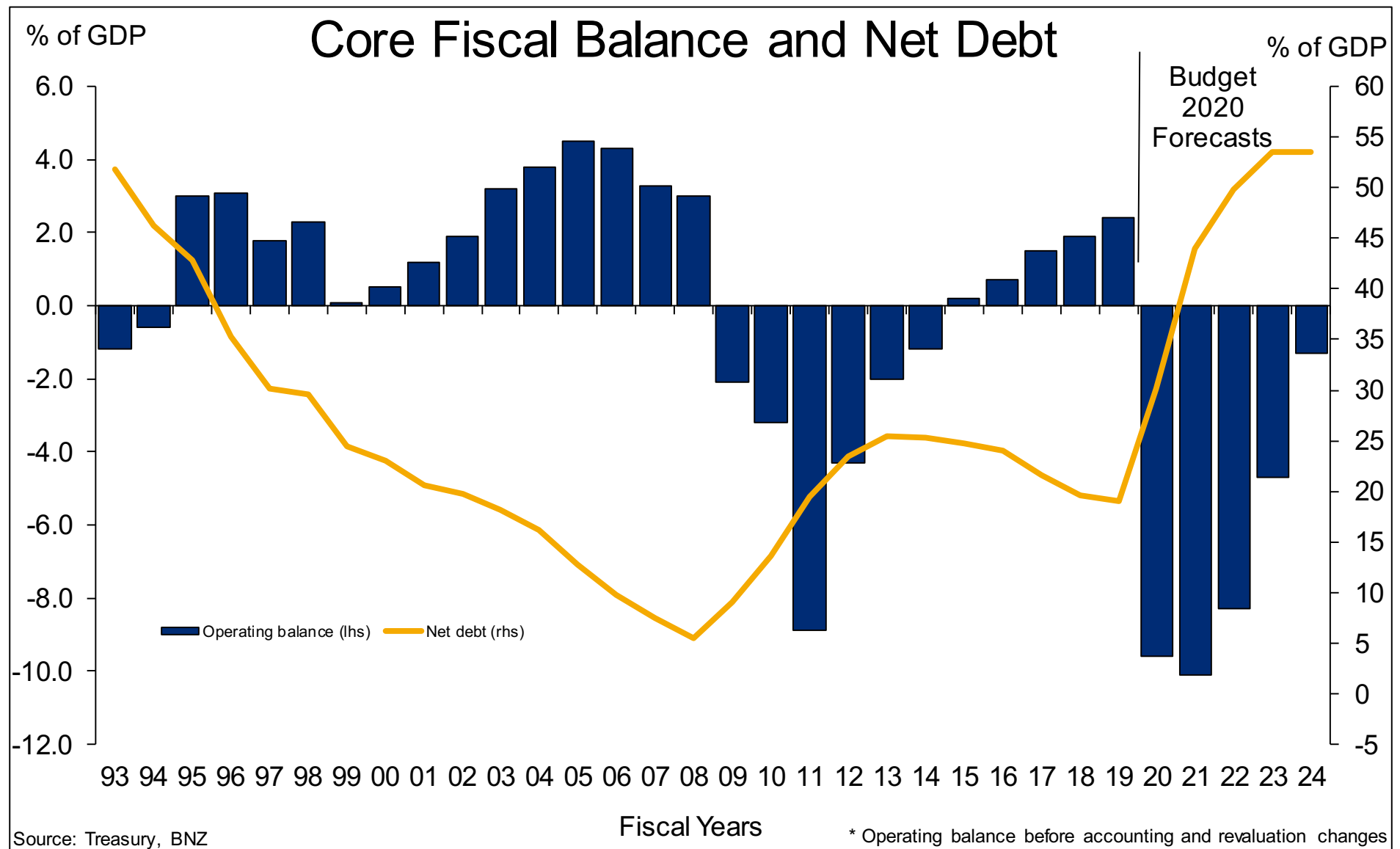
Equities Just As Silly



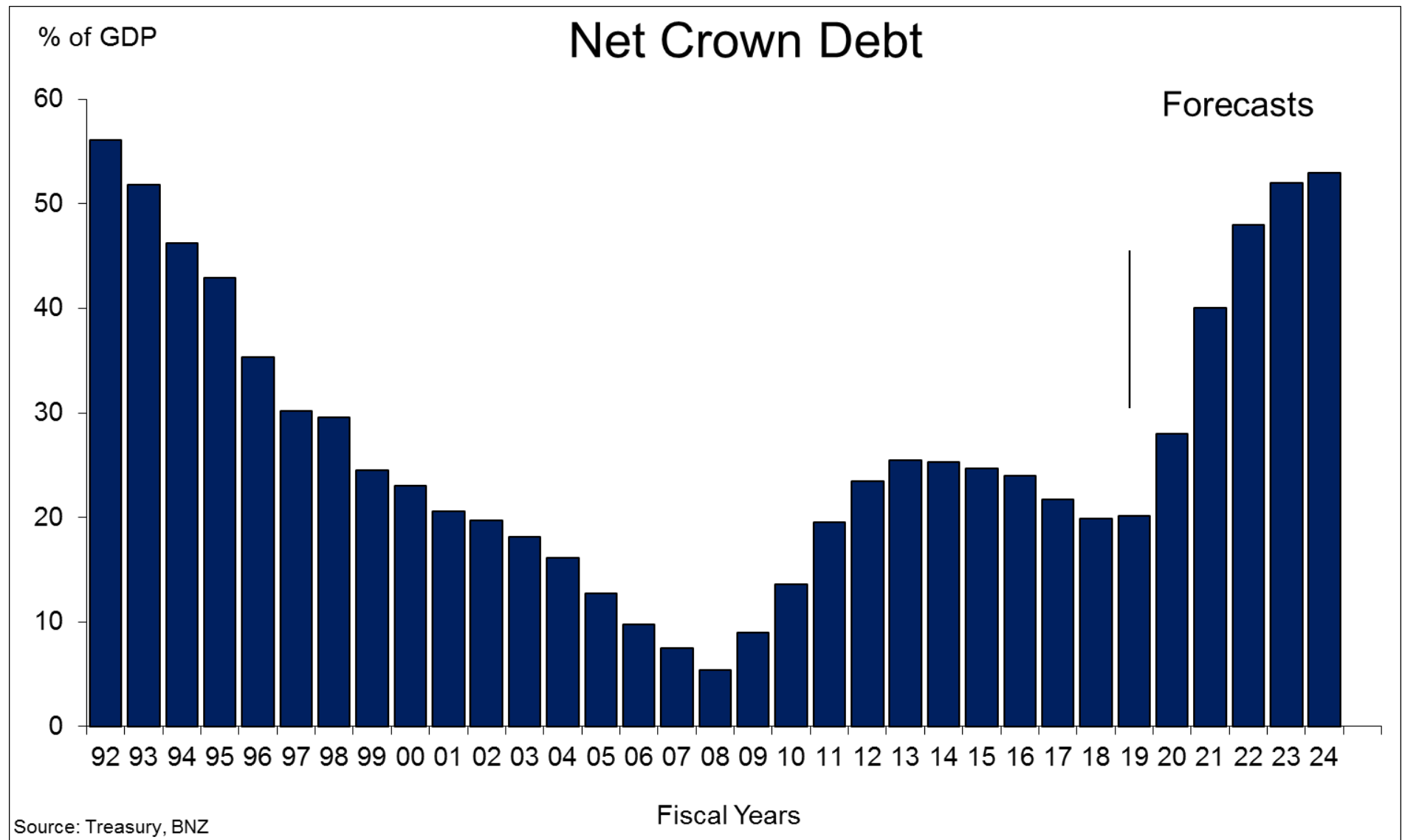
Cash Rate Headed Negative



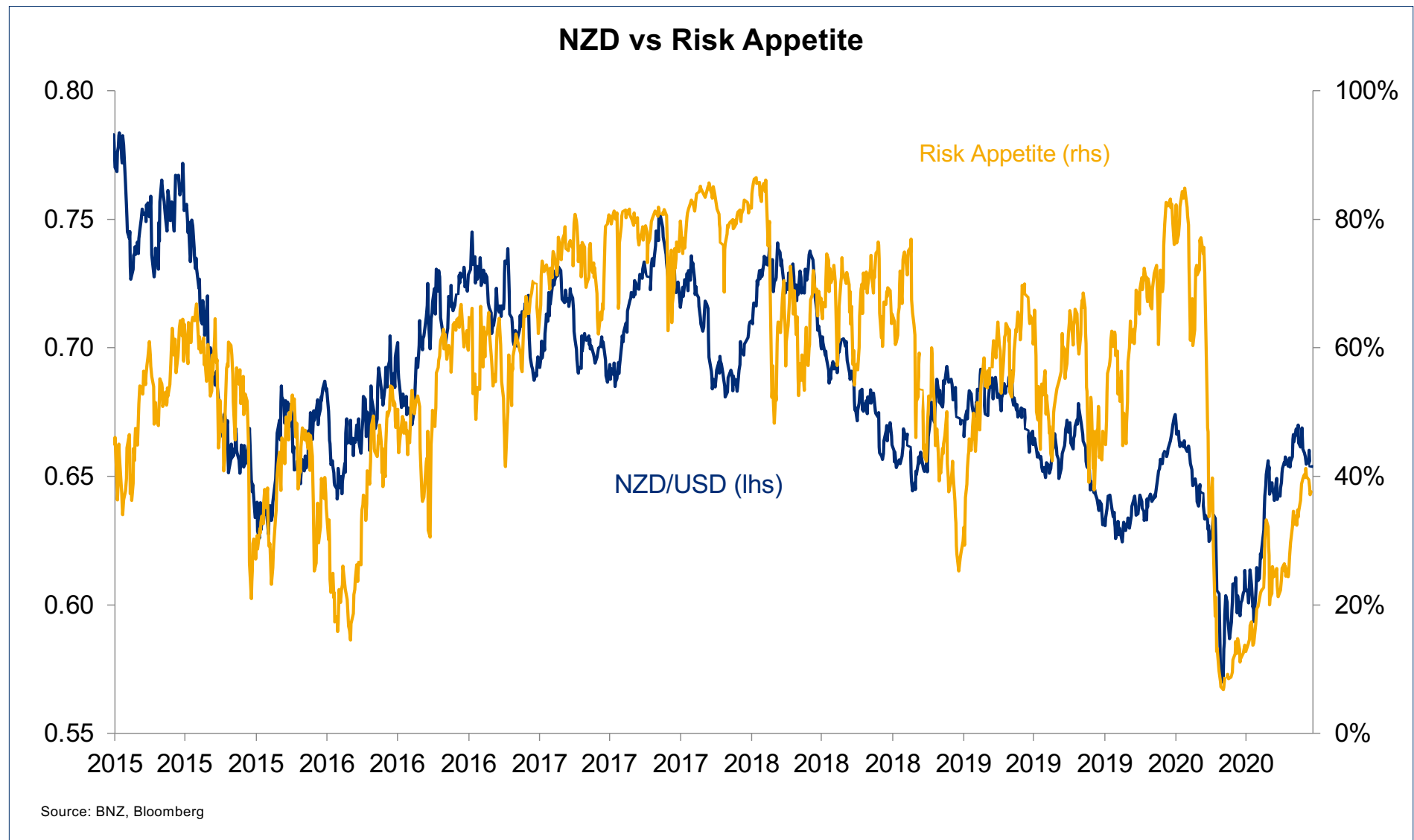
Government Does The Heavy Lifting



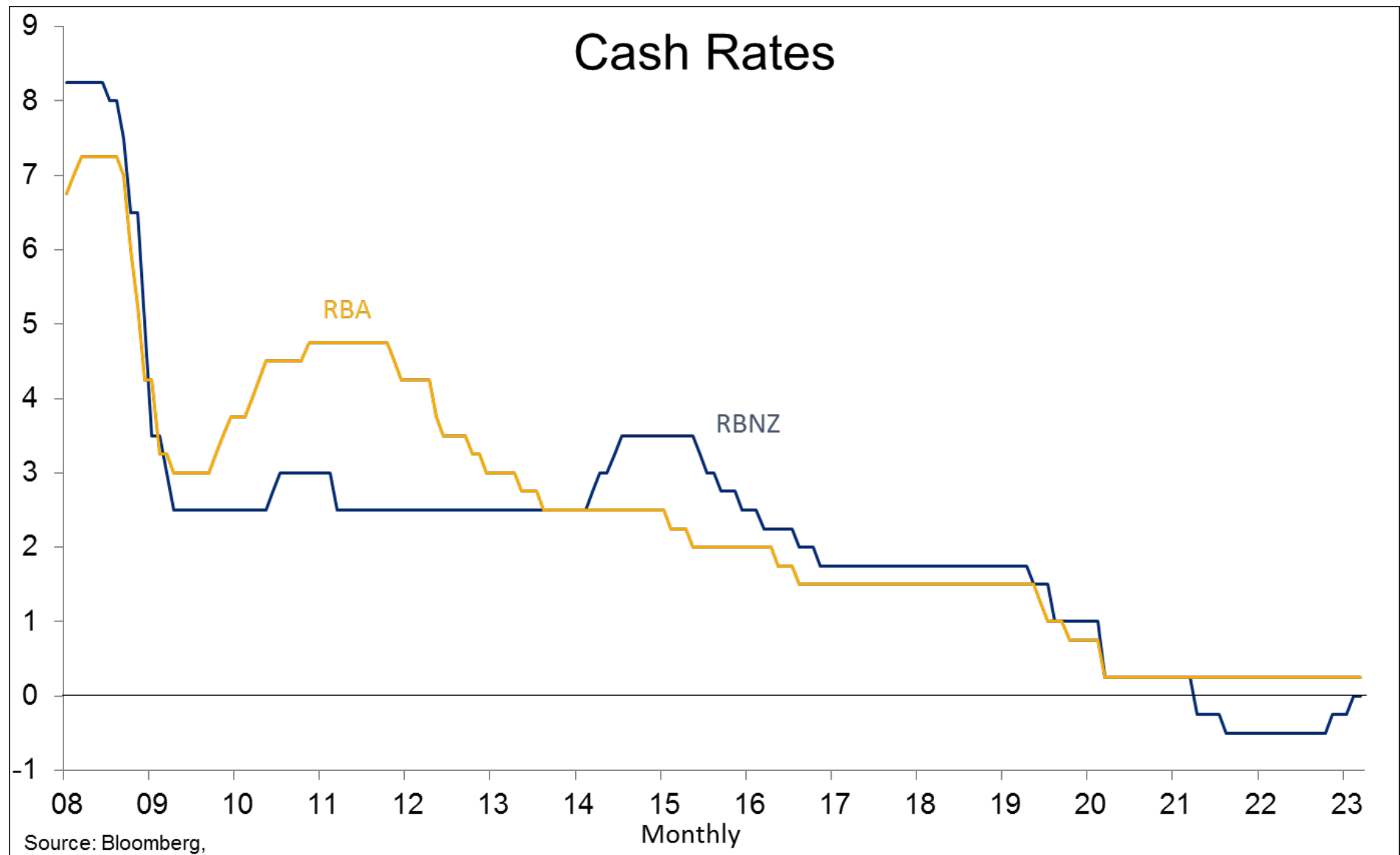
Debts To Be Repaid



Risk Appetite Most Important Factor For NZD



Though A Different Approach Key To NZD-AUD



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