

Update February 2024



Unemployment rate reaches 4%. Interest rates likely to hold.

Statistics NZ released Labour Market Statistics for the December 2023 quarter on 7th February.

Unemployment Rate

- New Zealand’s unemployment rate has reached 4%.
- The ‘underutilisation rate’ has also increased to 10.7%.
- ASB forecasted a rise in unemployment to 4.3%, while Kiwibank predicted 4.2%.

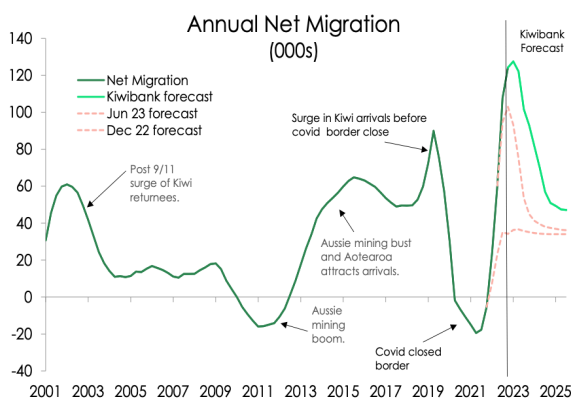
Lifting wages

- Average hourly earnings rose 6.9% to reach \$40.84, and average weekly earnings increased 6.1% to \$1,588.
- Private labor cost index rose by 1%, while annual wage inflation decreased to 3.9% from 4.3%.
- Public sector wage growth increased to 5.7%, with significant rises in average total hourly earnings in education (14%) and healthcare (10%).

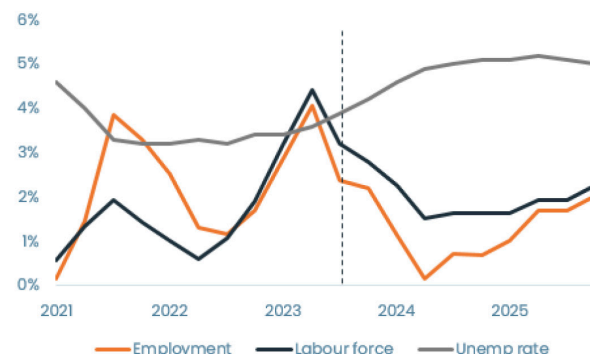
Migration

- An increase in net migration boosted the working age population by 3% during the year, meaning the country added 124,000 potential workers bringing the total to 4.3 million.
- Migration-driven recovery in labor supply is evident, but cracks are emerging as employment growth (2.4%) lags behind the working-age population growth (3%).
- Kiwibanks economists forecast unemployment rate to reach 5-5.5% in 2024.
- CoreLogic: “Unemployment rate might rise in 2024 but due to more people, not mass job losses”.

Net migration is up +130,000, compared to +40,000 forecast over the last 12 months.



RBNZ forecasts % change – employment, labour force, unemployment rate



CoreLogic

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Will interest rates be affected?

28 th February - the Reserve Bank's upcoming decision on the official cash rate.

ASB predicts interest rates “extremely likely” to remain unchanged.

ANZ Research revises forecast for New Zealand's OCR, predicting increase to 6% with two additional rate hikes expected by April 2024. Significant pivot from ANZ's January prediction of OCR cuts beginning in August.

Housing affordability outlook

Affordability measures still above historical averages.

Despite improvements since late 2021, New Zealand's housing affordability remains tight, with recent price hikes and high interest rates further burdening Kiwi households, according to the latest CoreLogic Housing Affordability Report.

Key takeaway from the report

- Kiwis are spending 49% of their gross annual household income on mortgage repayments.
- Properties in NZ are now valued at seven times the average household income. Regional disparities exist, with Tauranga being the most burdened city where mortgage repayments consume 60% of household incomes, followed by Auckland (55%), Hamilton, and Christchurch (47% each).
- Tauranga maintains the highest value to income ratio at 8.5, indicating continued affordability challenges.
- As for the path to home ownership, it takes 9.3 years to save up for a deposit. Tauranga and Auckland have the longest time to save for a deposit at 11.3 and 10.3 years, respectively, while other cities fall below the national average.
- Rents currently absorb 21.6% of gross average household income (which is back to past highs in the first half of 2022). Christchurch experiences worsening rental affordability, becoming the second most expensive city for renters after Tauranga.

	Value to income ratio		Share of income for repayments		Years to save deposit		Rent to income ratio	
Main centre	Latest (Q4 2023)	Average (2004-23)	Latest (Q4 2023)	Average (2004-23)	Latest (Q4 2023)	Average (2004-23)	Latest (Q4 2023)	Average (2004-23)
Auckland	7.7	7.1	55%	44%	10.3	9.4	19%	21%
Hamilton	6.7	5.4	47%	34%	8.9	7.2	20%	20%
Tauranga	8.5	7.2	60%	45%	11.3	9.6	27%	24%
Wellington	6.2	5.5	44%	35%	8.3	7.4	18%	18%
Christchurch	6.6	5.2	47%	33%	8.7	7.0	22%	20%
Dunedin	6.0	4.6	43%	29%	8.8	6.2	22%	19%
NZ	7.0	5.9	49%	37%	9.3	7.9	22%	20%

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Still a mortgage repricing vulnerability...

- More Kiwis are falling behind on their repayments, according to the latest report from Centrix. Currently, approximately 12 percent of Kiwis are in arrears, equating to 439,000 individuals or 20,800 mortgage accounts past their due dates.
- Centrix credit bureau data reveals a notable increase in borrowers with mortgages exceeding \$2 million, rising from 6,441 in January 2020 to 14,188 in January.
- Similarly, the number of borrowers with mortgages exceeding \$1 million surged by 100% during the same period, escalating from 53,317 to 107,538.

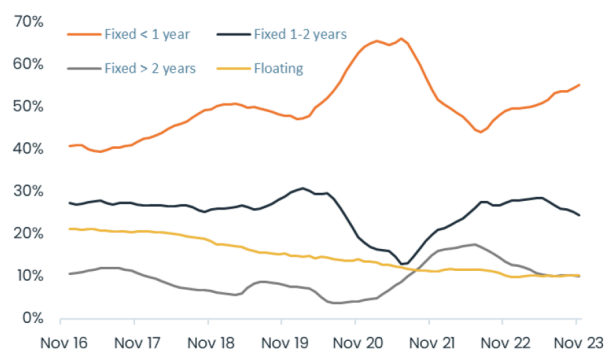
The table shows the change in New Zealand residential mortgage debt in the last four years.

Size of total mortgage(s)	Number of borrowers Jan 2020	Number of borrowers Jan 2024
\$2m-plus	6,441	14,188
\$1m-plus	53,317	107,538
\$500,000-\$1m	214,800	339,070

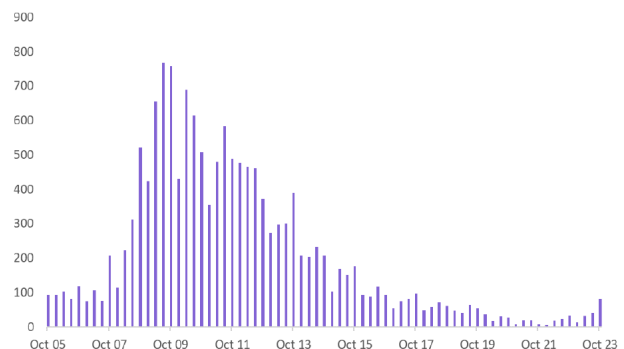
Table: OneRoof.co.nz • Source: Centrix • [Get the data](#) • Created with [Datawrapper](#)

- Repayments on a \$2 million mortgage, based on a standard two-year fixed rate of 7.48% over 25 years, amount to \$6,242 fortnightly or \$162,292 annually.
- Still more debt repricing to go. Many could still see another 1.1-1.5% rise in mortgage rate, but few mortgagee sales to date.
- Interest rate fixing preferences. The majority of borrowers are choosing to fix their mortgage rates for a year or less. Short-term fixes, particularly six-month terms, are experiencing a surge in popularity. This trend reflects borrowers' widespread expectation of a forthcoming interest rate decrease.

Breakdown of existing mortgages by time to next repricing



Mortgagee sales by quarter



Source: RBNZ, CoreLogic

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First home buyers likely to remain a force, but watching investors too

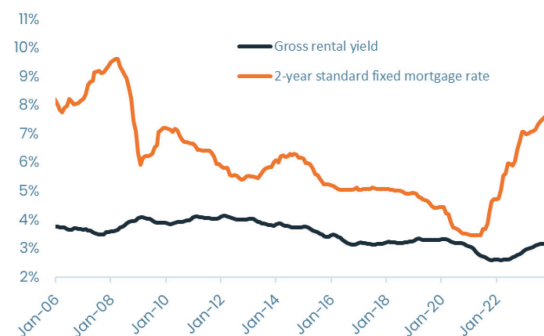
Housing market sees first rise in profitable resales in two years.

- The median gain for resales rose to \$305,000 in Q4, compared to \$297,000 in the previous quarter, marking the first increase since the end of 2021.
- Median resale loss decreased to \$45,000 in Q4 from \$50,000 in the previous quarter.
- Over 90% of properties are selling for a profit, although this is relatively low compared to the longer-term average, reflecting national values still below their peak.
- Properties resold for a gross profit in Q4 had a median hold period of 8.5 years, slightly longer than the previous quarter's 8.3 years.
- Houses continue to outperform apartments and flats in resale performance, with 93.9% of house resales profitable in Q4 compared to 74.2% for apartments.

The key factors

- Interest deductibility back
- 40% deposits have been an 'on/off' switch in the past so 30% seems much more manageable
- And mortgage rates probably tending to drift lower
- But the gap between rental yields and mortgage rates is still very high large top ups required (e.g. \$300 --\$400 per week) on a typical investment purchase

Gross rental yields and mortgage rates



Source: MBIE, RBNZ, CoreLogic

Auckland's CBD exceeds national growth, but local businesses encounter challenges.

- Auckland's CBD experiences robust economic growth, surpassing New Zealand's overall economic growth for two consecutive years, reaching 9.2% growth and a valuation of \$30.4 billion up to March 2023.
- The CBD becomes the country's largest employment hub with 157,500 jobs, supported by a 7.3% annual increase in employment, contrasting with the national average of 2.5%.
- Despite economic success, businesses along Queen Street and residents express concerns over declining foot traffic and vacant storefronts, highlighting ongoing struggles for small businesses.

At Vega, we are expanding our services in the field of small business funding, collaborating with specialised short-term business lenders. These lenders specialise in offering short-term loans with quick turnaround times, along with pre-agreed facilities. As the saying goes, it's wise to "take an umbrella because you never know if it's going to rain."

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A year on Auckland Anniversary weekend floods and Cyclone Gabrielle

The Auckland Anniversary flooding and Cyclone Gabrielle together caused significant damage across the northern and eastern regions of the North Island in early 2023. New Zealand insurers faced a substantial increase in insurance claims after both events, putting their claims resolution services under significant pressure.

These two events combined were the largest insurance event since the Canterbury Earthquakes.

A recent report by the New Zealand Institute of Economic Research revealed that one-third of the total property damage from these events, amounting to \$2.3 billion, was not covered by insurance.

Michael Bealing, principal economist at the institute, cautioned that the insurance gap in the country could widen further in the future, as insurers have indicated their intention not to renew policies in high-risk areas.

In this regard, we share a snapshot of claims volume and settlement rates from our partner in house and content insurance, Tower.

In the wake of two major flooding disasters last summer, homeowners have discovered their insurance paid for a fraction of today's rebuild costs. One man insured his house for \$350,000 before it was destroyed by Cyclone Gabrielle, only to find the estimated replacement would cost double that. This serves as a reminder of the importance of regularly updating insurance coverage to reflect property prices and the rapidly rising costs of rebuilding.

Overall, the events of 2023 are a reminder of the importance insurance plays in our economic, community and personal resilience. Key to this is ensuring insurance remains affordable and accessible.



Vega Financial Advisers are located nationally and can help you with all aspects of finance.

vegaland.co.nz 0800 834 253

*None of the above is intended to be financial advice so please discuss your situation with a financial adviser at Vega for your personal options.

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