

Tony Alexander expects the govt to tighten immigration rules, house prices to keep climbing, mortgage rates to keep rising at an uncertain pace and NZ to remain friendly yet not tight with China

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Tony Alexander

A turbulent week into Donald Trump taking office as US President, BNZ chief economist Tony Alexander shares his views on how New Zealand fits into the new world stage.

Alexander draws the following conclusions in his latest [BNZ Weekly Overview](#).

NZ economy unlikely to be badly stung by nationalist movement

"The new US President is in place signing so many executive orders he probably reckons he does not need to bare chest and wrestle a bear to win popular support as President Putin does.

"The world is moving away from the guilt-focussed victim-seeking liberal agendas of the past few decades towards individual self-interest, nationalism, liberal criticism, and a challenge to political correctness.

"What does it mean for us that nationalism in particular is on the rise in the US, UK, Europe, China, Japan, Turkey, Russia, Australia etc.?"

"Probably nothing in terms of foreign investment in New Zealand as although in theory outward flows from the United States will decrease as investors fear special tariffs being placed on goods imported into the US from foreign factories, in truth we traditionally attract little greenfields investment from offshore. Mainly we sell people our existing assets. No big economic loss there if such flows were to ease."

Government to tighten immigration rules, but population will keep being boosted by returning Kiwis

"Some people think the change in conditions offshore will bring a flow of migrants to New Zealand. Our cultural cringe and sense of smallness make us pay attention to such theories

and get a warm feeling in our tummies. But unless they are Kiwis they will have to join the queue to get in.

“Foreign migration to NZ is not going to be boosted unless our immigration rules are loosened. But the world is moving against free migrant flows and given that there is a general election here this year the chances are we will see some further tightening of the rules applied to people wanting to come here.

“But there are one million Kiwis offshore and 4.5 million or so here and it seems reasonable to expect that being a liberal, fair-minded bunch of egalitarians we will not feel comfortable with a lot of what is happening offshore and will choose to come back here or not to leave.

“That means net migration flows into New Zealand are likely to remain high over the next few years and that will put pressure on government to boost infrastructure spending, speak deeper words about housing affordability (yet achieve little), and revise downwards estimates of the taxpayer burden from an aging population because of the extra workforce growth strong migration flows imply. People who migrate tend to be working. People over 65 staying in the workforce will also boost tax revenues and reduce fiscal burdens.”

Auckland house prices aren't on their way down

“Potential buyers need to look at the fundamentals, not the valuation measures and the simple fundamentals for Auckland..

“House construction fell below levels required by population growth in the mid-2000s. That under-construction got much worse post-GFC when house building around New Zealand fell to levels of the 1960s. Even though construction is now rising it still is failing to keep up with population growth.

“Migration flows added about 42,000 people to Auckland's population last year. With an average household occupancy rate of three people per house that migration surge necessitated construction of 14,000 more houses. At best 9,000 were built. Auckland's housing shortage continues to grow.”

Mortgage holders should fix at three years

“Last year we saw rising bank funding costs and higher US bond yields following victory for Mr Trump. This prompted a rise in NZ home mortgage lending rates...

“Will this pace of rises continue? You cannot rule it out because we simply don't know to what extent policy changes by President Trump will boost US growth and inflation and the pace of tightening of US monetary policy. This is a new source of global uncertainty for the financial markets and something which people should take into account when considering their management of interest rate risk.

“In a nutshell it has become more risky to sit with the bulk of your mortgage floating and/or fixed for only one or two years...

“If I were borrowing at the moment I would have one-quarter to one-third floating and the rest fixed three years at 5.09%. If you are conservative then you might jump to five years at 5.79%.”

Cultural differences will prevent NZ getting heaps closer to China

“Will we respond to global changes by getting much closer to China? Probably not though our economic dependence upon them will likely grow...

“As analysts are increasingly finding when they examine the likes of Brexit and Mr Trump’s victory history, values and culture matter – and they matter a lot more than economics.

“There are big differences between Kiwi and Mainland Chinese CCP-driven cultures and in the event where we might have to choose sides in conflict between the United States and China, it seems fairly obvious who’s ships we will position our personnel on and alongside. God forbid we reach such a point however.”

New Zealand dollar to remain strong

“We enter 2017 with well above average readings of consumer and business confidence, employment and investment intentions, dairy prices well off their lows, booming tourism, booming construction, population growth near twice the long-term average, a current account deficit only 2.9% of GDP, and lots of political and fiscal stability.

“While we should fully expect lots of currency fluctuations as a result of the approach taken by President Trump to any issue... underlying support for the NZ dollar looks strong...

“So, if I were an exporter, I would look to take advantage of the occasional wave which comes along to push the NZD lower... to get extra hedging locked in.”