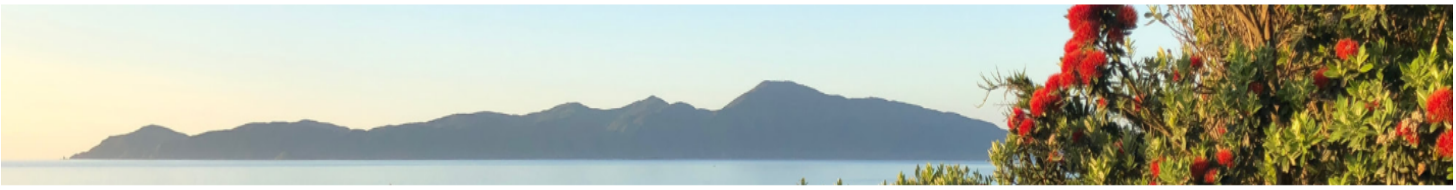


Insight

May 2020

Hi, I'm John Bolsover

I am an Authorised Financial Adviser, who has started a small business providing personal advice to address my clients' financial needs. For many this may be a simple home loan, with advice tailored to securing your loan and structuring your payments, the cost for which is paid by the lender. For others, this may be advice on Kiwisaver or their investments.

I can draw on 25 years' experience in economics, strategic planning, business planning, performance monitoring and business advisory to develop solutions for my clients' financial needs.

I can also draw on insights from 22 years of marriage guiding three children through to adulthood, coaching through the junior, youth and college grades, instructing at pony club and at times juggling a mortgage, retirement plans and children's education.

Please feel free to get in touch for a free, no obligation introduction, perhaps over a coffee.

The information contained in this newsletter is of a general nature and is not Financial Advice, as defined in the Financial Advisers Act 2008. All readers and investors should seek advice, from an authorised person, based on their own circumstances, before investing.

With all advice, you will be advised if there is to be a charge before I begin any work. This will be disclosed and agreed in my disclosure statements and scope of engagement documents. Generally, there is no cost when arranging finance for a residential property or investment property. This is because the lender that approves your loan pays approved financial service providers for successful applications. There are no hidden costs.

A disclosure statement is available on request.

Kapital Advice

This month I introduce a round-up of where the domestic economy is at following the Covid-19 outbreak, particularly relating to property and mortgages.

Low inflation has been behind a more generalised theme of low interest rates in recent years. More immediately, the desire of central banks around the world to provide support through low interest rates has also played a significant role, particularly as the Covid-19 outbreak has taken hold. This was evidenced by the RBNZ slashing it's already historically low interest rate setting, the Official Cash Rate (OCR), from 1.00% to 0.25% on 16th March.

The OCR is an overnight interest rate used for settlements between banks and has its most significant impact on shorter term rates. This was evidenced by retail banks passing the cut in the OCR through to cuts in floating mortgage interest rates at the time.

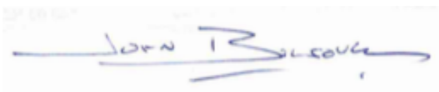
The interest rates that banks charge are also influenced by broader funding costs which has witnessed the Reserve Bank resort to another tool, quantitative easing, to influence a broader range of wholesale interest rates and through them retail interest rates.

I introduce this round-up using charts around four themes:

- The NZ economy was on a solid footing when the Coronovirus-19 pandemic hit, although a softer global environment had been weighing on domestic growth
- NZ will experience a massive economic hit as a result of the Covid-19 outbreak. The real toll will be revealed as businesses start to address restructuring
- House prices typically fall during downturns. The impact on the labour market will be significant, which in turn will weigh on sentiment and prices
- Low servicing costs and a more subdued market may provide opportunities for purchasers with a stable income and employment prospects.

If you would like to discuss these thoughts, or your own circumstances please feel free to contact me.

Regards,



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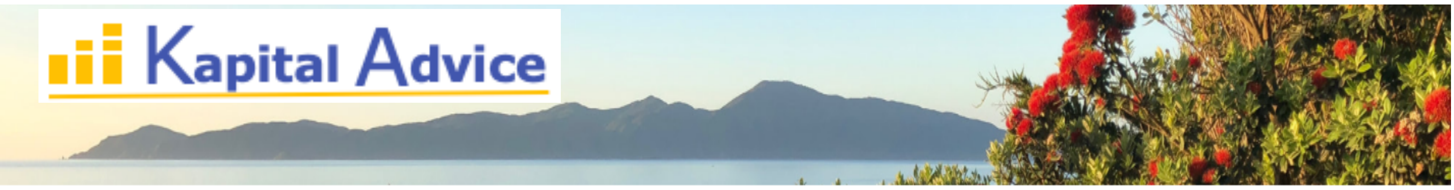
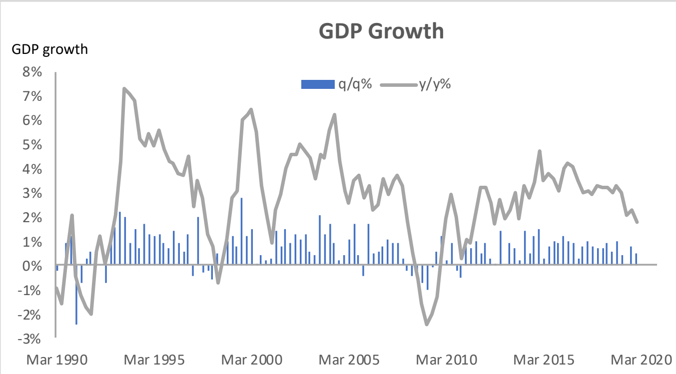
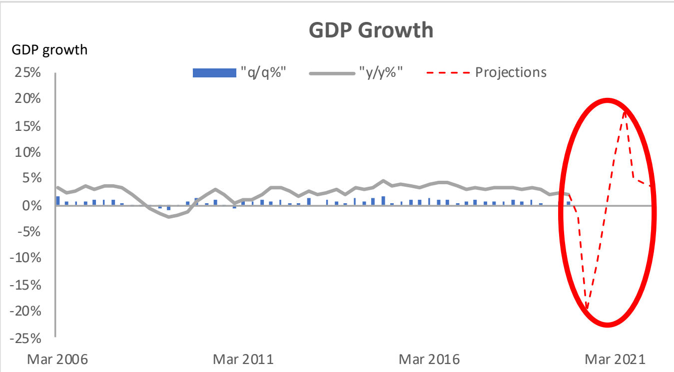


The NZ economy was on a solid footing when the Coronovirus-19 pandemic hit, although slowing global growth contributed to slower domestic growth in 2019



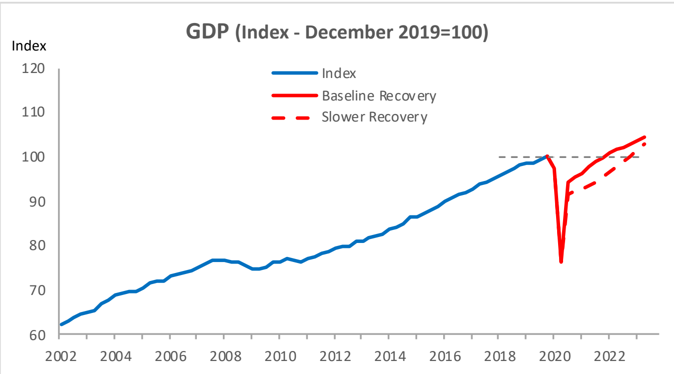
Sources: Statistics NZ, Kapital Advice

- Slower global growth acted as a headwind to domestic growth in 2019 amidst trade tensions
- As a result, growth slowed to 1.8% year on year
- Signs of easing trade tensions in early 2020 were swept aside as a result of the pandemic, we will now witness global and domestic recessions in 2020



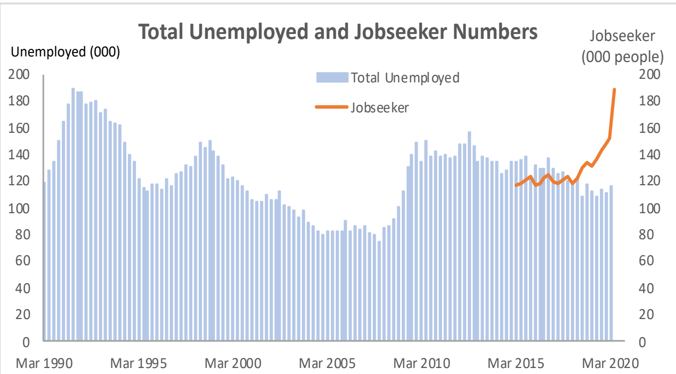
Sources: Statistics NZ, Kapital Advice

- The economy has suffered an unprecedented blow through dislocation and disruption to businesses and supply chains
- Demand has also suffered as a result of forced lockdowns, the threat to incomes and deteriorating confidence
- We will have a partial bounce, but full recovery will take years



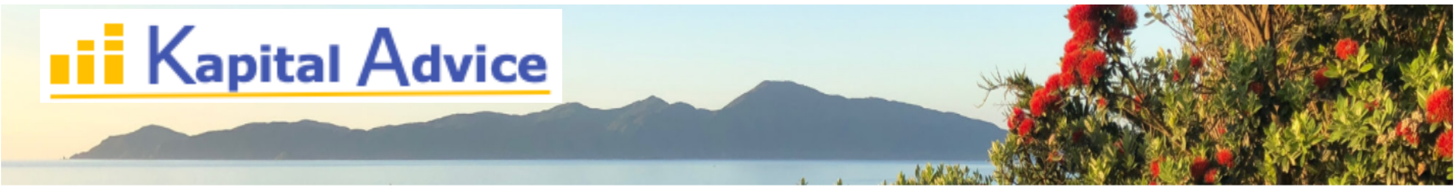
Sources: RBNZ, Kapital Advice

- In their baseline scenario the Reserve Bank anticipate a gradual recovery from 2021
- Their Slower Recovery scenario assumes a slower global recovery delays tourism and softens investment and consumption. This sees GDP return to the level prevailing in 2019 by late 2020. Some economists expect an even slower recovery



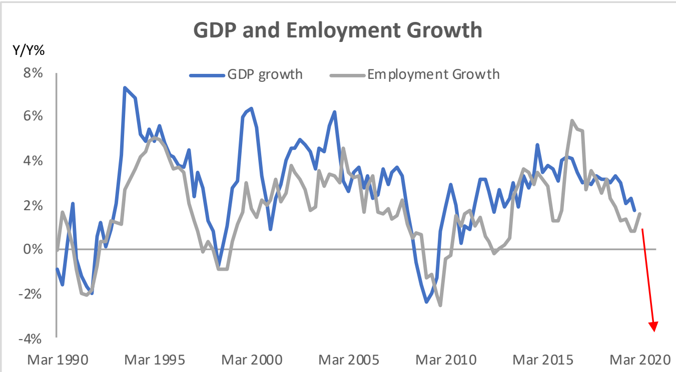
Sources: RBNZ, MSD, Kapital Advice

- 184,400 people were receiving Jobseeker support in May, up by 40,000 from the level in March
- This represents 6.1 per cent of the New Zealand's working age population, up from 4.9 percent at the start of the year



Even with support from Government spending and the Reserve Bank, NZ will experience a large economic hit. The real toll will be revealed as businesses start to address restructuring, particularly as the wage subsidy draws to a close

Source: MSD, Kapital Advice



Sources: RBNZ, MSD, Kapital Advice

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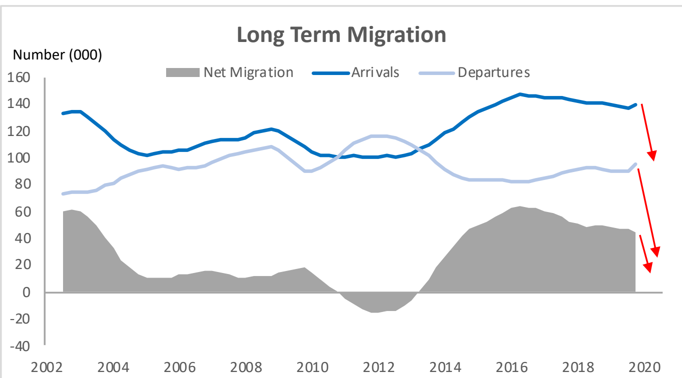


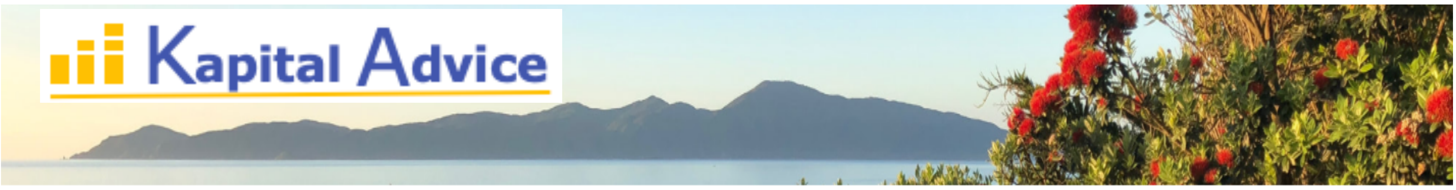
Sources: RBNZ, Kapital Advice. Note: GFC – Global Financial Crisis

- In addition, 1.7 million people were associated with paid applications for the wage subsidy
- The subsidy opened on March 17 to cover employees for a 12 week period
- As long as the subsidy is in place, businesses and employment will be propped up. Many businesses will need to make big adjustments when it ends

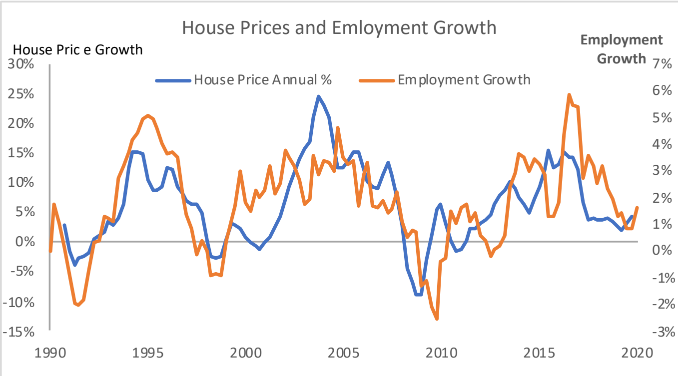
- The real toll to the economy and employment will be revealed in coming weeks as businesses start to address restructuring ahead of support ending
- Banks have initially pulled-back as they reassess the risk that certain sectors present

- Even with significant government stimulus and support through various packages and the budget, economists expect unemployment to reach levels around 9% to 12% later this year
- This compares with a peak of 6.5% in the wake of the GFC and 11% during the 1991-92 recession

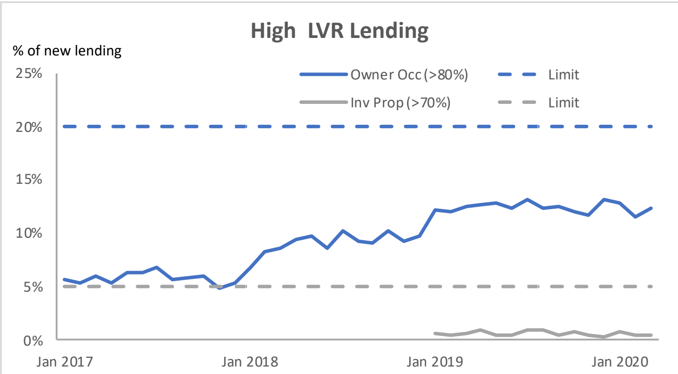
- Net Migration is expected to slow as it did after the GFC[1]
- Even when borders re-open, high unemployment will weigh on opportunities for migrants
- An unknown is the scale of the return of large numbers of Kiwis living overseas who may provide impetus to migration, the economy and the property market



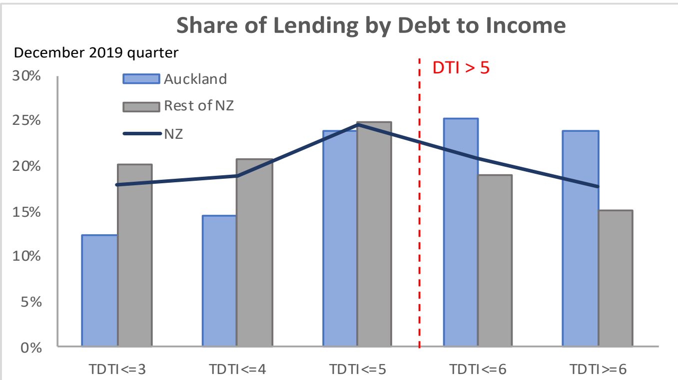
Competing forces will push and pull on house prices. Prices typically fall during downturns and the weak labour market, declining household incomes, financial distress, weaker net migration and weaker environment will weigh on sentiment



Source: RBNZ, Kapital Advice



Sources: RBNZ, Kapital Advice; Note: 1. LVR – Loan to Value Ratio



Sources: RBNZ, Kapital Advice

Banks have revealed significant Covid-19 related support:	
ANZ	Provided financial help to around 30,000 personal, home and business loan customers through repayment deferrals or adjustments covering lending of around $12 billion
BNZ	Assisted over 16,000 customers with new and restructured home lending to the value of $7 billion
Westpac	Granted mortgage or personal loan repayment relief to 22,118 customers on loans totalling $7.0 billion

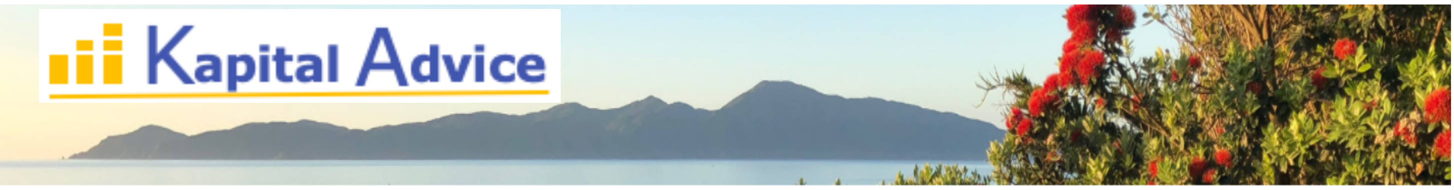
Source: ANZ. BNZ, Westpac interim results announcements

- House prices are expected to fall as typically happens when the labour market weakens
- Prices fell by 9% during the GFC and a fall of 10-15% is anticipated in coming months as the impact on demand bites
- On the flip side, this will provide opportunities for those with secure incomes

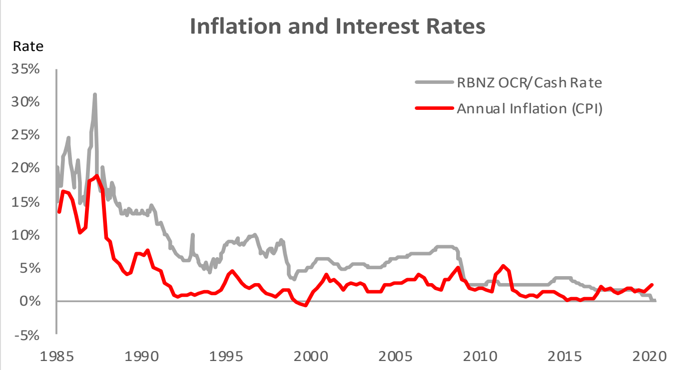
- LVR[1] restrictions were removed in late April which will avoid uncertainty concerning the mortgage deferral scheme
- In removing LVR restrictions the Reserve Bank noted that it considers it unlikely that banks' will weaken lending standards and the more likely risk is that they are overly cautious lending to credit-worthy borrowers

- The Reserve Bank also noted that job security has reduced, and the ability of people to service a mortgage will likely decline in coming months
- In 2019 around 40% of new loans had a debt to income ratio above 5, which is considered high; expect banks to be more cautious in 2020

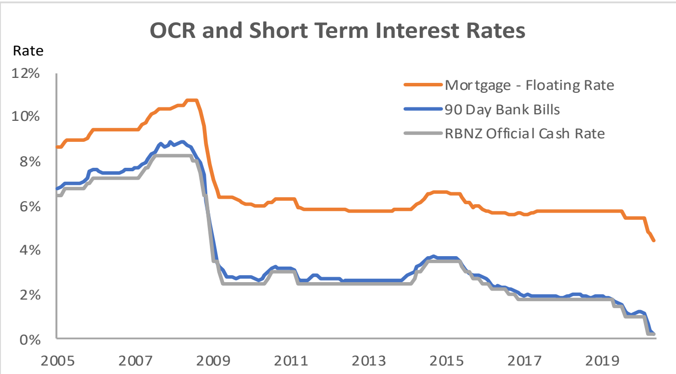
- ANZ, BNZ and Westpac noted significant support, totalling $26 billion, when they announced their half-year results in May
- In this environment, the lifting of LVR restrictions is likely to have little impact while banks remain cautious about the prospects for debt servicing and property prices.



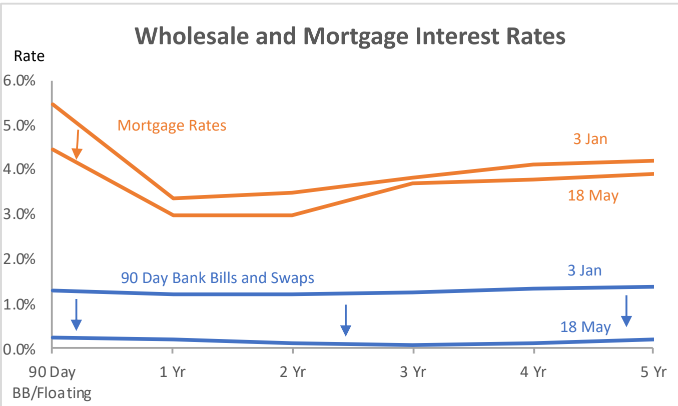
Interest rates are expected to remain low for a long period of time. Low servicing costs and a more subdued market will provide opportunities, with credit available for purchasers who can show a stable income and employment prospects



Sources: RBNZ



Sources: RBNZ, Kapital Advice



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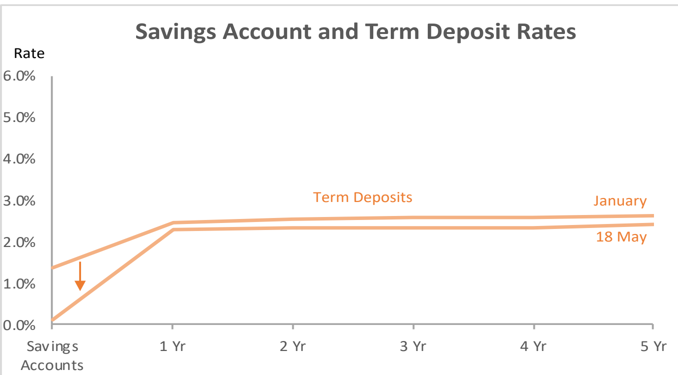

Sources: RBNZ, Kapital Advice

- Low inflation has been behind a more generalised theme of low interest rates in recent years
- More recently, the desire of central banks around the world to provide support through low interest rates has also played a significant role as the Covid-19 outbreak takes hold

- This was evidenced by the RBNZ slashing an already historically low Official Cash Rate from 1.00% to 0.25% on 16th March
- The OCR is an overnight interest rate used for settlements between banks and principally influences shorter term rates as highlighted by banks moving to cut floating mortgage interest rates at the time

- Longer term rates are also influenced by broader funding costs which has witnessed the Reserve Bank resort to another tool, quantitative easing to influence a broader range of wholesale interest rates and through them retail rates
- A broader reduction in wholesale rates hasn't yet fully translated to fixed term mortgage rates

- As the OCR has fallen to record lows, there has tended to be less pass-through to deposit rates
- In its' May Monetary Policy Statement the Reserve Bank commented "As the economic environment stabilises and funding costs ease, we expect further reductions in retail interest rates".