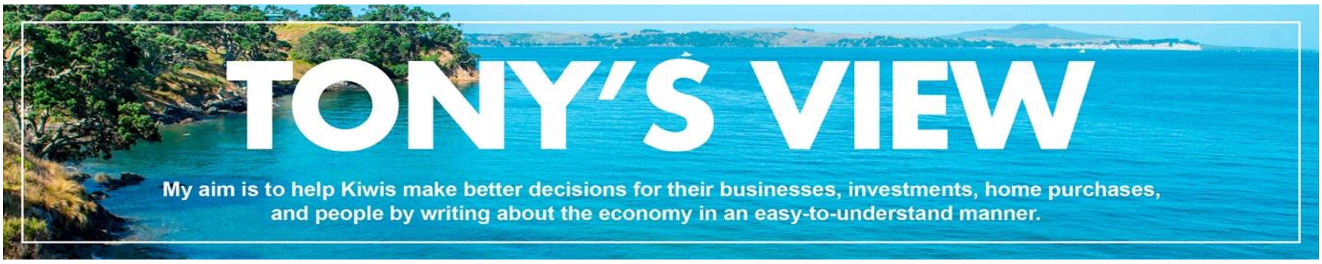

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Interest rate optimism is having an impact

Next week I will release the results of my latest survey of real estate agents which is sponsored by NZHL. I've already downloaded the preliminary numbers and they allow us to answer this specific question.

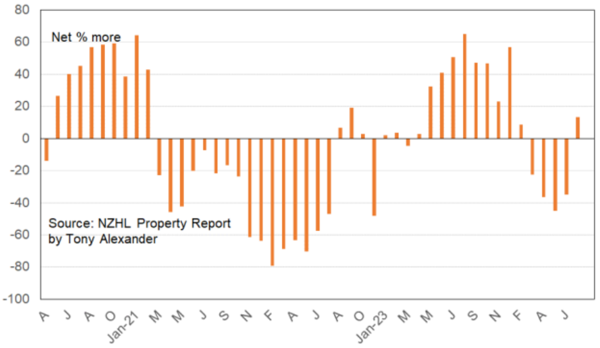
Has the surge in optimism about easing monetary policy and recent round of mortgage rate cuts by banks had an impact in the housing market?

The answer is yes. I won't go through all the numbers because they will change a little bit once all the data come in. But here are some of the changes which tell us that the altered outlook for interest rates is being greeted positively by house buyers – or at least it is carving away some of their pessimism.

Over the four month period from March to the end of June there were more agents saying that they were seeing fewer people at open homes than more. Sentiment was so bad that people were not even bothering to go out and kick the house tyres.

Now, just over a net positive 10% are saying that they are seeing more people at open homes.

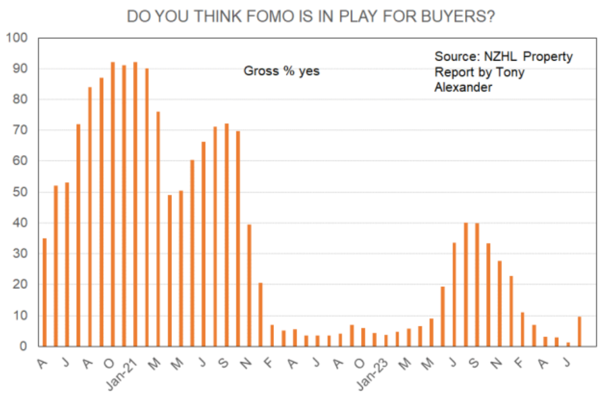
ARE MORE OR FEWER PEOPLE SHOWING UP AT OPEN HOMES?



If you look at the graph above, you should note that one swallow does not a summer make, and one cannot strongly say that the cycle is turning back the other way on the basis of just one month's result.

But the shift from a net 35% of agents at the end of June saying people were staying away is very large and worthy of note.

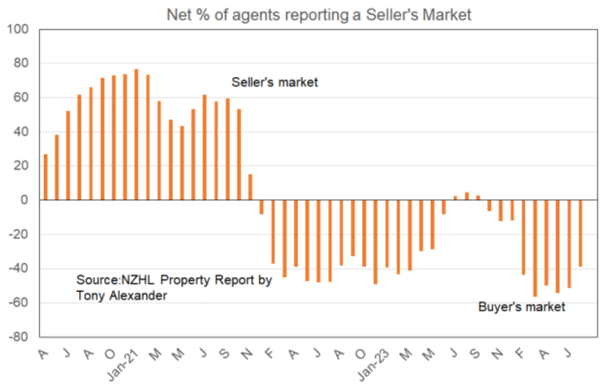
FOMO – fear of missing out – was observed by a record low 1% of agents at the end of June. Now that proportion has risen to 9%. That is still well down from 40% towards the end of last year and below the four year average of 34%. But a lift has occurred akin to one's cat lifting its ears when a bag rustles or a can bangs in the kitchen. Unless it is starving in which case it will run right in and start meowing.



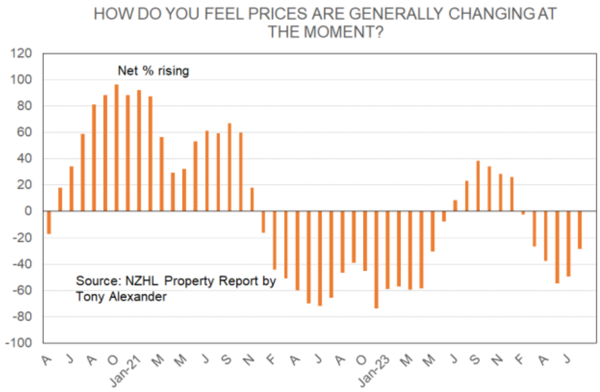
The analogy here would be buyers who have reluctantly held back from making a purchase for the past six months now jumping in. We can't tell that from this survey, but I suspect media-driven group-think has held back quite a few people since things turned sour in the March quarter.

The results show some improvement in the presence of first home buyers. But the bigger change is in the easing of investor pessimism and reduced intentions of selling. Interest rates matter for all home buyers but especially for investors who when running the numbers for the past 1-3 years have found things just do not stack up when taking into account higher interest rates and soaring costs of insurance and council rates.

We are still solidly in a buyer's market with a net 37% of agents saying that it is still the vendor who is most motivated to get a deal over the line – not the potential purchaser.



And a net 29% of agents still feel that prices are falling in their location of operations.



There are still very high proportions of agents seeing buyers worried about their employment, having difficulties accessing credit, and with concerns that prices may still be falling.

I will have full details in the release with NZHL next week. But what we can say here is that interest rates mattered a lot on the way up (though not as much initially as the credit shock of late-2021). Now, interest rates are going to matter a lot on the way down.

These are early days yet for the downward leg of the interest rates cycle and there is no way any of us can reliably predict how far mortgage rates will fall, how long they will remain low, and when they start rising again.

But the link with the housing market is clear and it has started to kick in.

If I were a borrower, what would I do?

Wholesale interest rates have fallen slightly again this week. Local news and data had little impact. But overnight the Federal Reserve Chairman's comments regarding monetary policy easing prospects were greeted positively and this caused some falls in US bond yields which have some influence on fixed wholesale rates here in New Zealand.

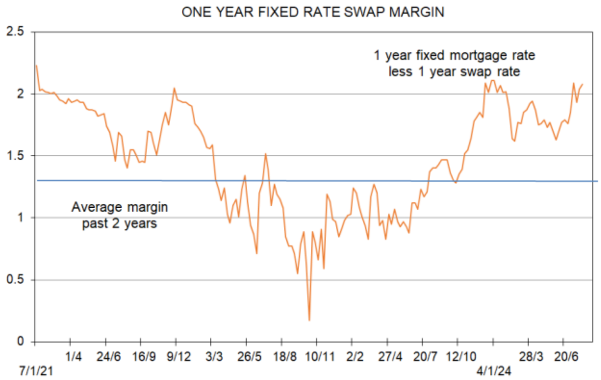
Also, across the Tasman the inflation number came in on expectations with the rise in the annual rate limited to a 0.2% gain to 3.8% from 3.6%. There are underlying concerns that the pace of decline from here could be slower than hoped. But worries that the Reserve Bank of Australia may feel the need to raise their cash rate again have been taken off the table.

The upshot is that here the one-year fixed wholesale interest rate has edged down to near 4.77% from 4.81% last week and the peak of 5.9% in October last year. The three year rate is near 3.9% from 3.95% last week.

Next week employment data will be released, and these may have an impact in terms of showing how much spare capacity may exist in the labour market. But it pays to remember that the labour market reacts with a lag to changes in economic activity levels, so the inflation implications are not that great – but they are there.

After that all focus will be on the August 14 review of the official cash rate.

Note that the margin on one-year fixed rate lending for banks has well blown out this year



If I were borrowing at the moment, I would look to take advantage of the expected declines in rates from current levels by fixing for just six months.

If I were borrowing at the moment, I would fix six months.

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.