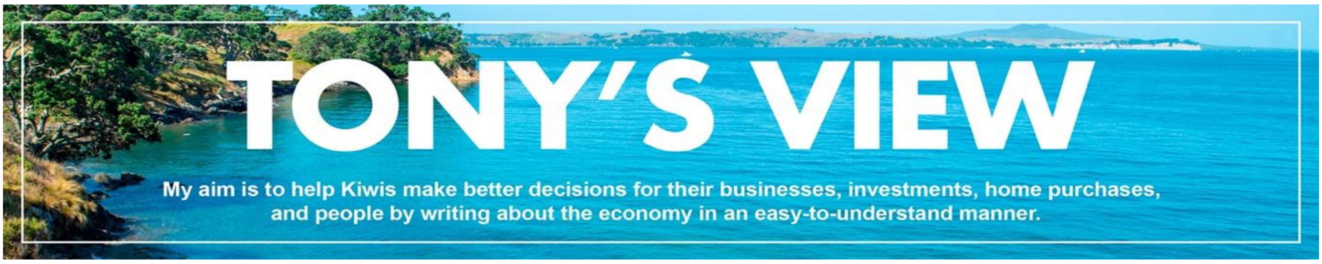

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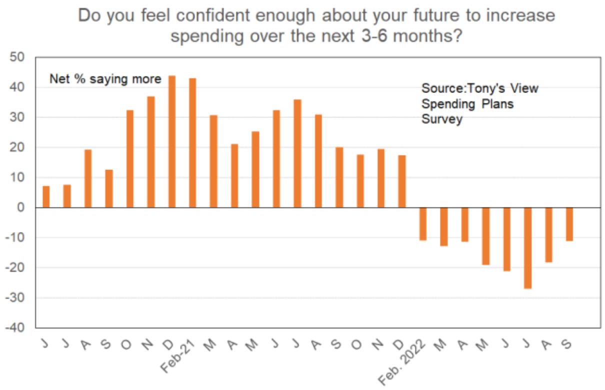
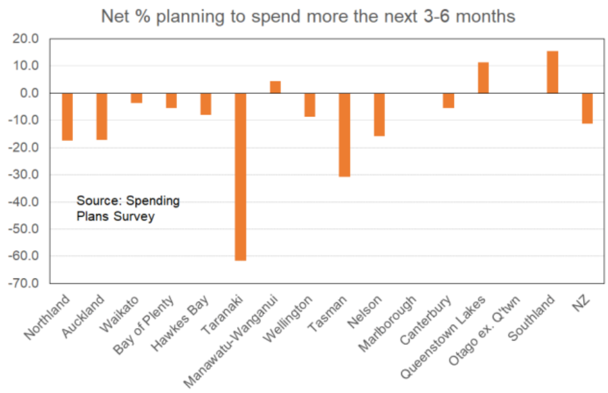
Regional spending insights

Here are some of the regional spending insights provided by the nearly 1,700 respondents to my monthly Spending Plans Survey. At the national level a net 11% of people say that they plan cutting back on buying stuff in the next 3-6 months. Plans have improved back to where they were in April.



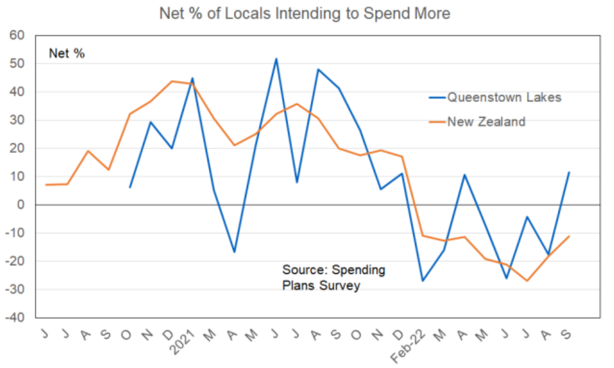
At the regional level spending intentions are at their weakest in Taranaki followed by Tasman then the grouping of Nelson, Northland, and Auckland.



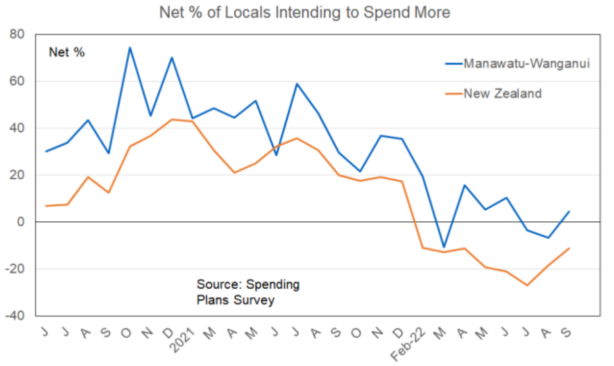
Plans are positive in Southland, Queenstown Lakes, and ManawatuWanganui. Are these good results blips or consistent through recent months?

Not for Southland, and because the graph looks silly with many months missing because of insufficient responses I won't print it.

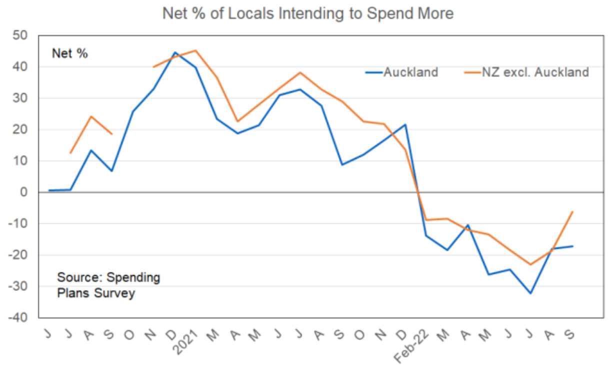
Yes for Queenstown Lakes, lifted by the higher than expected number of Aussie skiers over winter one imagines, along with anticipation of more tourists visiting.



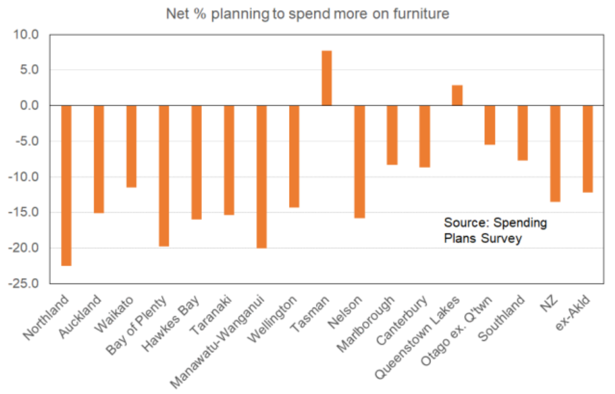
Definitely yes for Manawatu-Wanganui.



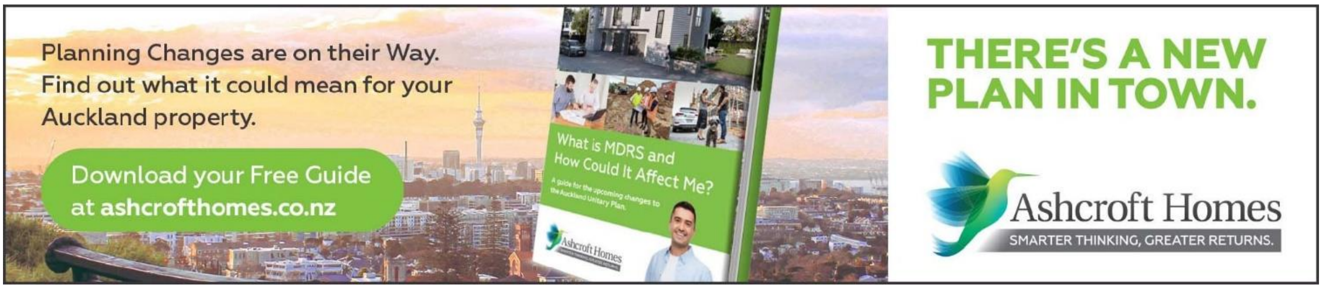
Auckland continues to show weaker spending intentions than the rest of the country. The city is lagging.



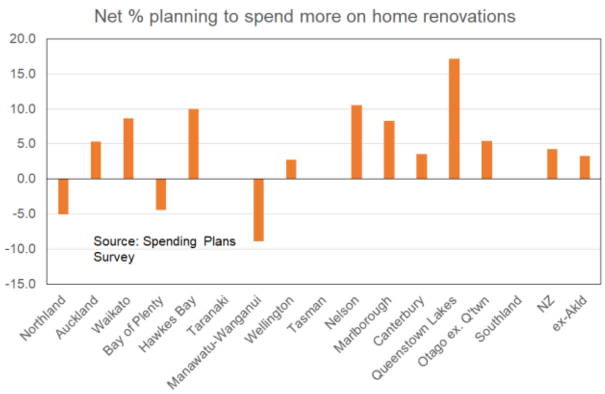
Plans for spending on furniture are weak everywhere except Tasman and Queenstown Lakes.



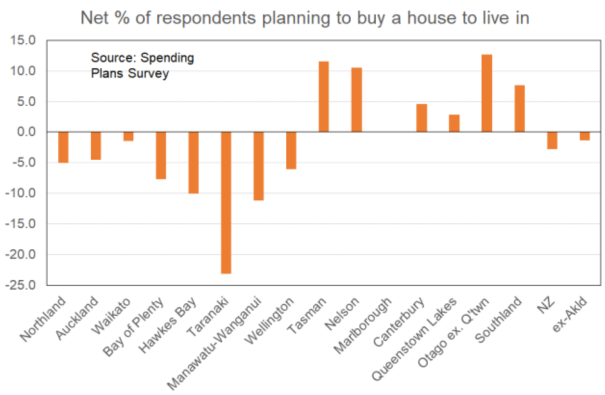
Plans for spending on home renovations are unusually firm and improving at the national level. They are firmest in Queenstown then Nelson and Marlborough. Of interest is the weakness in Manawatu-Wanganui which stands in contrast to



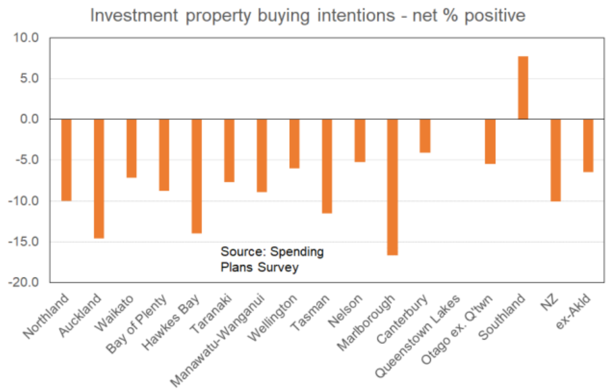
the good reading for spending overall in the region.



Now here's an interesting graph. It shows regional intentions for purchasing a house to live in. Note the clear difference between the North Island and the South Island.

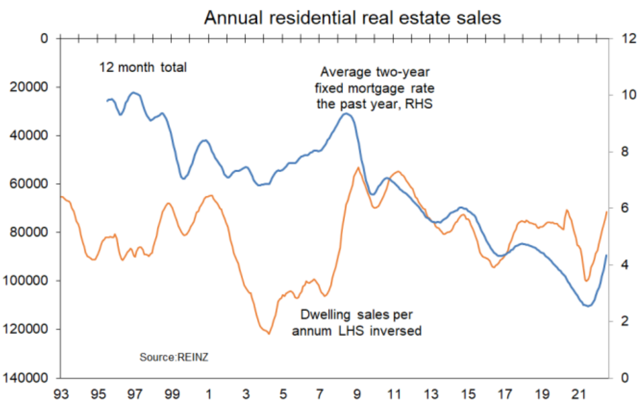


With regard to purchasing an investment property plans are negative everywhere except Southland.



Interest rates and dwelling sales

Here is an interesting graph. The orange line measures the total number of dwellings sold by licenced real estate agents for each 12 month period. It is measured on the left axis which is upside down. Why? Because the blue line shows the average two-year fixed mortgage rate which is measured on the right side.



When interest rates rise we would expect sales numbers to fall away. That is represented by the blue line going up and the orange line following suit. The relationship is reasonably good.

The latest data show dwelling sales adding up to just over 70,000 in the year to July. But the data also show the average two year fixed mortgage rate sitting at 4.3%. This is a full percentage point below where the rate commonly sits currently.

So, what you need to do is in your head extend the blue line up another 1% and make a similar move to the sales total. You'll see maybe we end up with annual sales at around 65,000 or so. Maybe less.

The more important point is that one shouldn't really expect much of a recovery in dwelling sales until interest rates are heading back down again. That might not happen in a sustained manner until the latter part of 2023 all going well (best guess in this uncertain world). That means still challenging times for real estate agencies around the country over the coming 12 months with rationalisation in the sector to continue.

Sales growth is likely to be improving on a sustained basis over the second half of next year.

If I were a borrower, what would I do?

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.

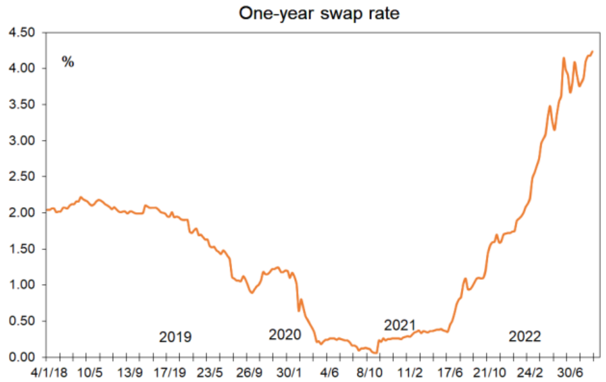
Rates up a tad more

Wholesale borrowing costs which banks face here in New Zealand have increased a tad this week in response to a jump in rates in the United States. Over there expectations had been high that a good (low) inflation number would be released on Tuesday night. Instead, it turned out to be higher than commonly expected.

The result suggests that there is more work for the Fed. to do in fighting inflation than previously thought and that means US monetary policy potentially tighter for longer than hoped.

The US ten year Treasury bond yield has lifted to around 3.41% from 3.26% last week and 2.9% four weeks ago. The rate is basically back almost to where it was in June.

Locally, the cost to banks of borrowing at a fixed rate to lend to you and me at a fixed rate for one year has lifted to around 4.24% from 4.18% last week and 3.9% four weeks ago. The increase in this rate has placed pressure on bank lending margins and they have responded by lifting their lending rates 0.2% or so over the past three weeks.



The cost to NZ banks of borrowing to lend fixed for three years has risen to around 4.23% from 4.27% last week and 3.8% four weeks ago. The cost peaked at over 4.5% in June.

We continue to live through a period of huge uncertainty about where interest rates will go and the speed with which they will get there. Practically no-one on the planet has any forecasting record to be proud of for interest rates since just before the 2008 Global Financial Crisis.

Worse than that, this is the most inflationary period we have seen globally since the 1980s with some inflation rates sitting at levels not seen since even just before then.

People should not base an interest rate risk management strategy on a firm view about where interest rates are likely to go. We economists know the huge unknowns in play and right in your face will change our "forecast"" for where rates are headed before we finish travelling in the elevator together if (when) we receive new information.

All I can say is that I am still sticking with my view that fixed mortgage rates here peaked back in June. But thank goodness a few weeks back my headline article was a warning not to expect rapid rate declines over 2023. My view currently is that late in 2023 we may see some interest rate reductions. But between now and then the changes are likely to be small and as we have just seen, down then up again at times.

If I were a borrower, what would I do?

Personally, I would fix one year – maybe with a bit fixed two years as well.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz