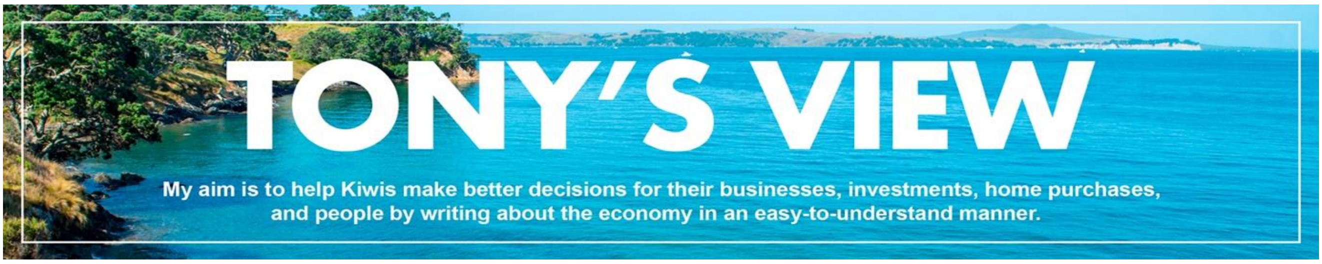

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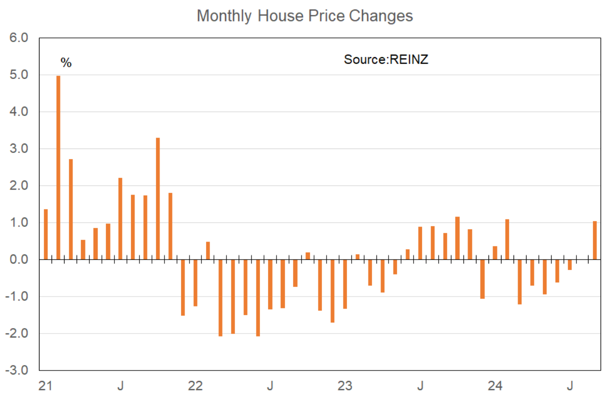
Housing cycle turning

This week REINZ released their monthly data on activity in the residential real estate market. Here are the main things worth noting.

First, prices are now rising. The nationwide House Price Index which adjusts for changes in the type of dwellings sold from one month to the next rose by 1.0% after sitting unchanged in August. This rise means that when we compare the September quarter as a whole with the June quarter prices were down 0.7%.

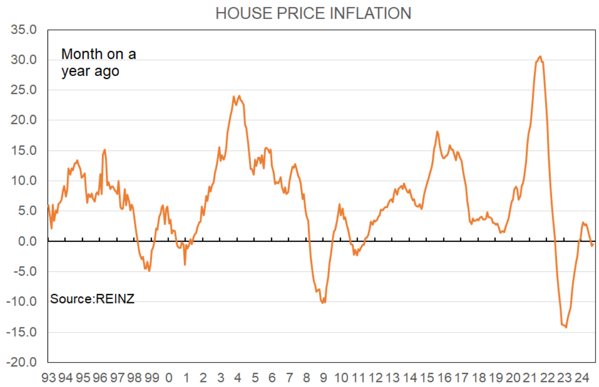
But the average change in the past three months has been +0.3% compared with -0.8% three months ago. Prices are rising again.

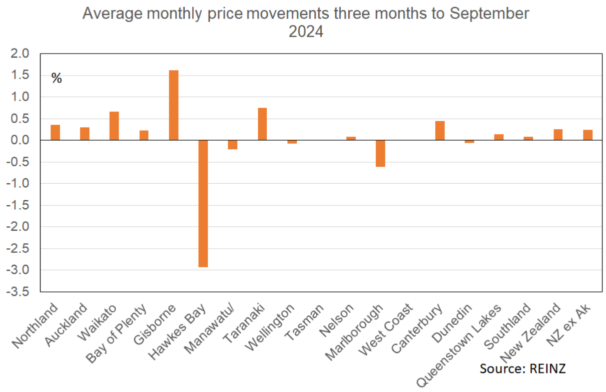


We've been here before, and the price rises have not continued. But as compared with last year now the borrowing costs which buyers face are going down with further declines indicated by the Reserve Bank.

Compared with a year ago average NZ-wide prices were down 0.4% but this is not the most meaningful statistic to focus on when the price cycle is at a turning point. Unfortunately this was the statistic highlighted by media this week and this is one reason why at some stage in a few months FOMO will jump strongly.

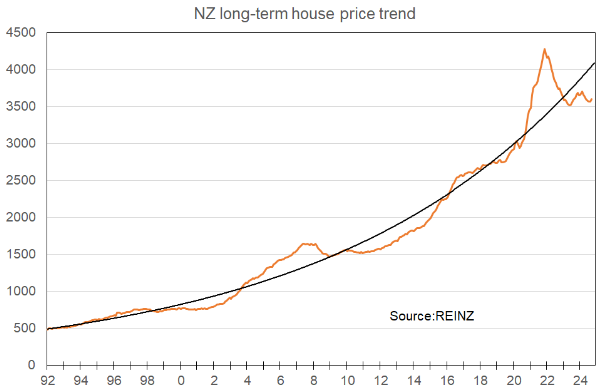
People are being told house prices are still falling. When they realise the cycle has turned and done so some months before their realisation there will be an extra movement of delayed buyers into the market looking to make a purchase before prices rise further.





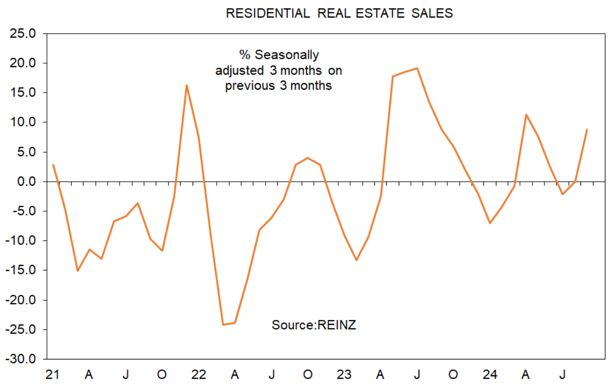
Are prices rising in all regions? This next graph shows the average monthly change in prices over the past three months for each region. The West Coast observation is +7.8% but I have stripped that out in the interests of highlighting what is happening in the other 99%+ part of the country.

We can see that prices are already on an upward trajectory in most parts of the country except Hawke's Bay, Manawatu-Wanganui, Marlborough, and Dunedin. In Wellington also prices have yet to start trending up though this will happen soon by this measure as average prices rose 0.6% in September and 0.4% in August.

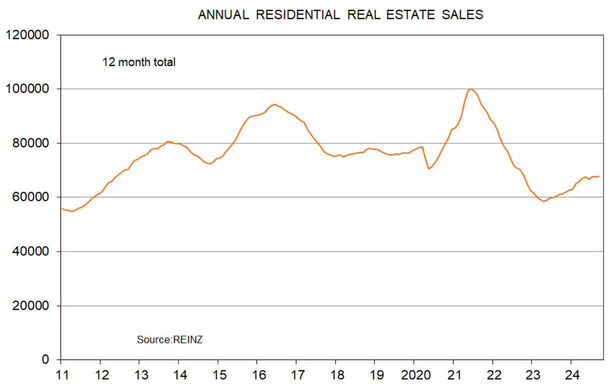


The house price cycle has turned upward. What about activity levels? Sales.

In the three months to September in rough seasonally adjusted terms dwelling sales around the country have risen by almost 9%. Things are picking up.

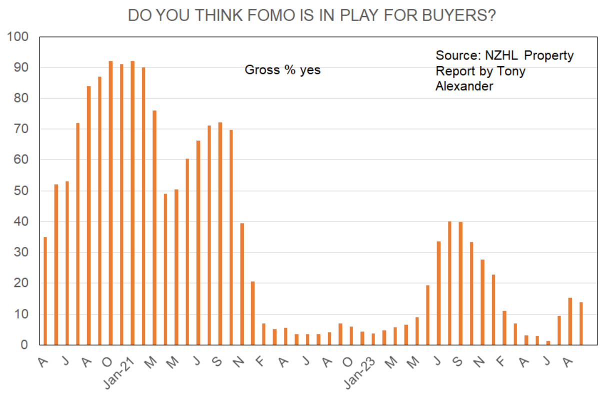


This measure can however move around quite a bit so let's have a look at the annual number of sales. This now stands at 67,700 from 61,000 a year ago. Activity is definitely picking up. In fact, as the following graph shows, sales have been improving broadly since the early part of last year.

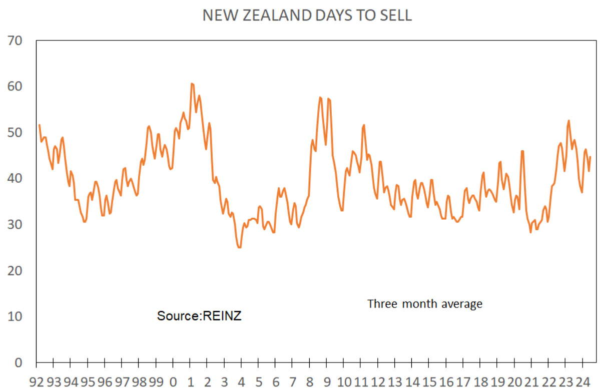


What about the third set of numbers released by REINZ each month – days to sell? At the turning point in the housing cycle you need to be careful. When buyers accelerate their purchases, you can get a clearing out of stock which has sat unloved on the market for some time and that can cause a blowout in the days to sell measure.

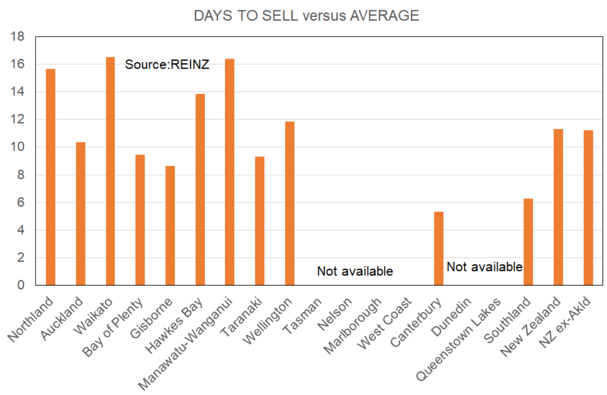
I don't think we are at that point yet given the low level of FOMO observed in my monthly survey of real estate agents.



For the record, in September the average number of days taken to sell a dwelling was 49. This was well up from 40 a year ago when the market was displaying some good strength just before it got swamped by new listings. In August this year the days to sell measure was 50 and July was 49. That's not very interesting.

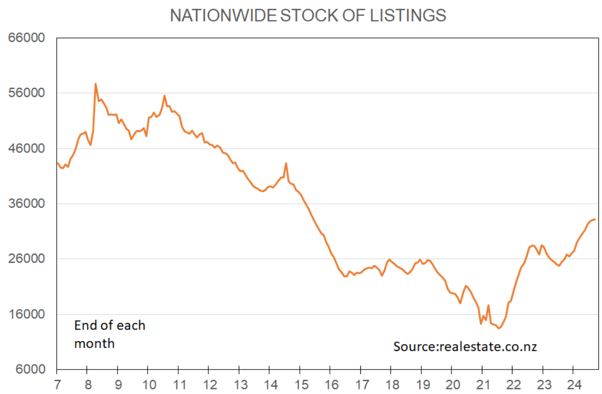


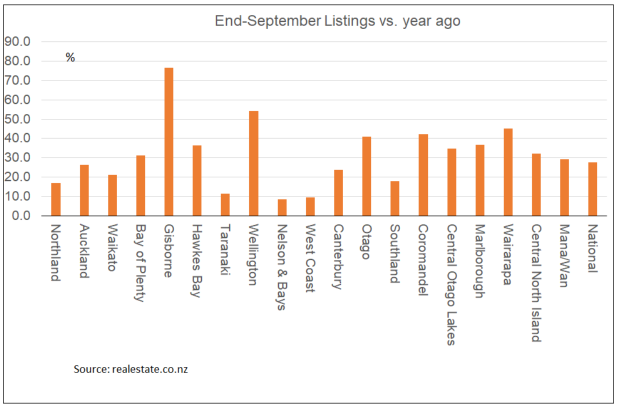
The latest result nationwide for September of 49 days was 11 days longer than average. This next graph shows this as the second orange column in from the right. Note the relative strength of Canterbury.



The housing cycle is turning upward but not at a fast pace. Note it usually takes four years from this point for the fastest pace of price increase to come around. If I were a young buyer wanting to make a purchase but preferring to build up a bigger deposit before doing so, what indicator would I look at for a sign that it might be better to move now rather than wait longer?

Obviously, the pace of price increase in your area of interest is important. But look also at listings to see if the available stock is falling away. People can panic once they hear stories that a thing may be in short supply. We are nowhere near that point yet however with the stock of property listed for sale around the country some 28% up from a year ago.



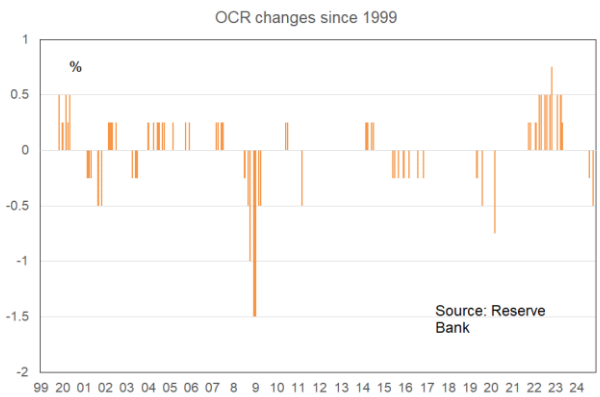


Now that the market is turning, maybe I'll give thought to presenting a bit more information here outside of the usual comment on REINZ's monthly data.

If I were a borrower, what would I do?

I saw a lot of commentary last week describing the 0.5% cut in the official cash rate as “massive”, and that the rate had been “slashed”. These descriptions are wrong.

Since the OCR appeared in 1999 there have been 28 cuts by my calculations. There were a 1% and two 1.5% cuts just after Lehman Brothers bank collapsed late in 2008 and the world began a temporary course towards a new Great Depression. There was also a 0.75% cut at the start of the pandemic.



There have been seven previous cuts of 0.5% and that leaves some 16 other occasions when the official cash rate has been cut by 0.25%. Eleven out of 28 cuts or 39% have been 0.5% or greater. So, describing the latest reduction of 0.5% as massive is not correct. It was average. That is, the average of the 28 reductions has been 0.46% mathematically speaking.

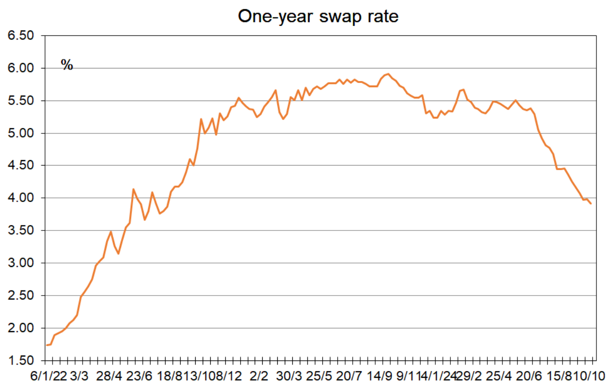
Back in November 2022 when the cash rate was increased 0.75% this followed the September quarter inflation number turning out to be 0.6% higher than expected. The latest inflation number released yesterday was only 0.1% less than the Reserve Bank had predicted.

Therefore, the case is not made for a further acceleration in the pace of cash rate cuts heading into the three month summer break. This is especially the case when we consider the breakdown of the reported quarterly rise of 0.6% and annual rise of a pleasing 2.2%.

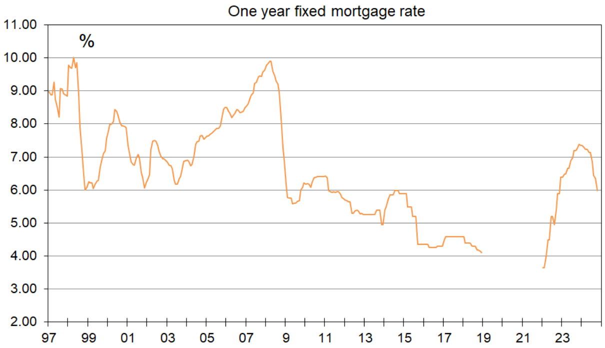
The annual rate of tradeables inflation now stands at -1.6%. We are importing deflation from overseas. But for the other 60% of the basket of consumer goods and services for which prices can eventually be affected by monetary policy (most of them) the annual rate of inflation still stands at 4.9%. This is above the 3.5% average for this measure since 2000 and results from the September quarter gain of a too high 1.3% following a 0.9% rise in the June quarter and 1.6% gain in the March quarter.

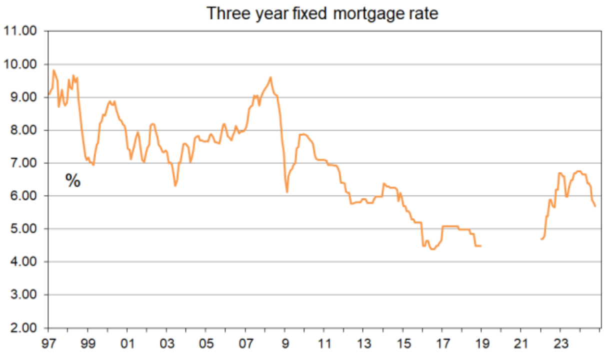
In the absence of a decent slowing in this measure of underlying inflation the case is hard to make for a 0.75% cash rate cut.

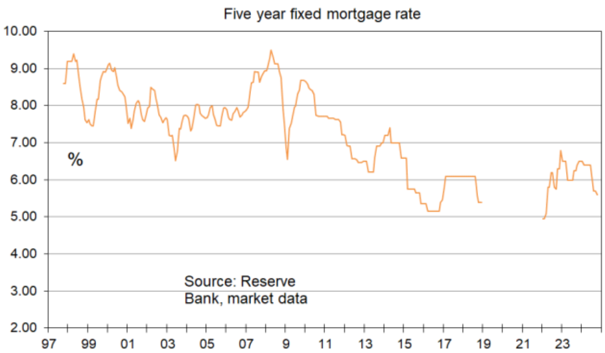
In the event this week amidst all the disturbances from offshore including oil prices going up then down we have seen the one year rate at which banks borrow fixed in the wholesale markets end near 3.92% from 3.98% last week. The five year rate in contrast has risen to near 3.67% from 3.59%.



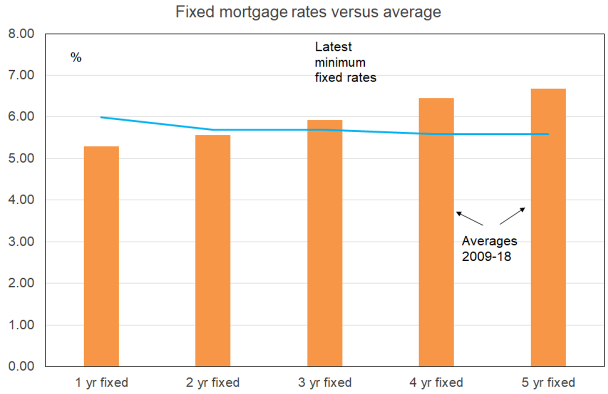
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







This graph shows how current rates compare with averages from 2009-19.



If I were borrowing at the moment, I would be fixing for either 6, 12, or 18 months looking to eventually fix for 3-5 years perhaps in 2026, perhaps 2027. It is impossible to say at this stage.

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

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.