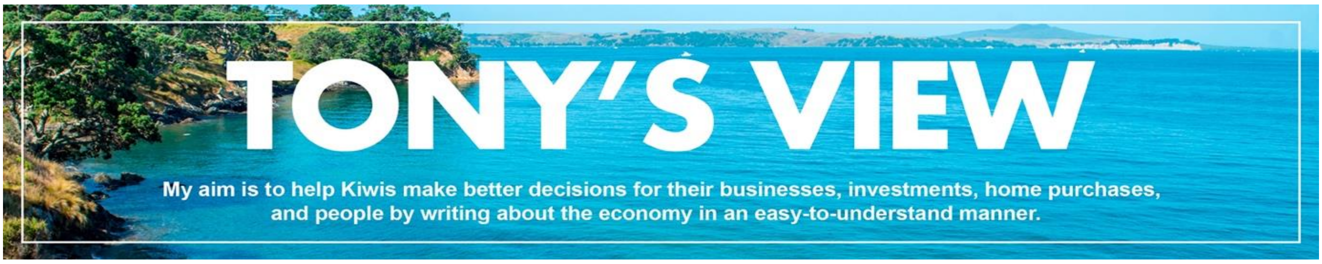

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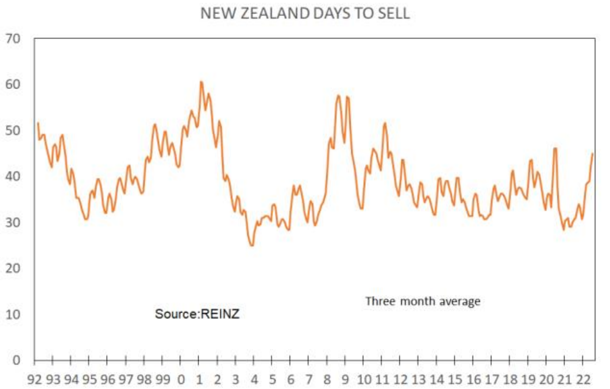
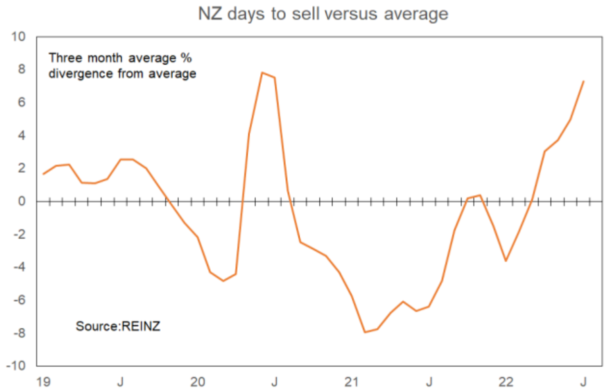
Housing market still weakening

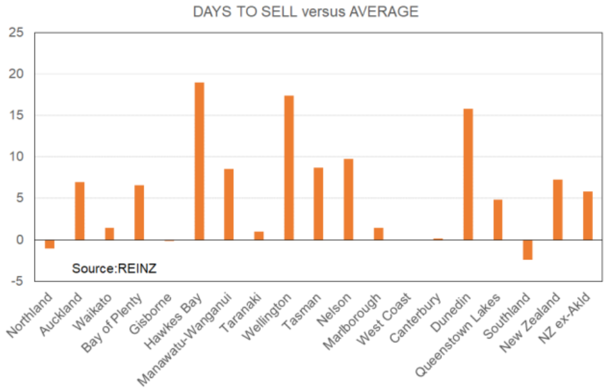
REINZ released their data on residential real estate activity for July last week and this is what they show. On average in July it took 47 days to sell a dwelling. This was 16 days longer than a year ago and 11 days longer than average over the past five years.



This graph shows by how much the days to sell measure is above average in each of the three month periods for the past few years.



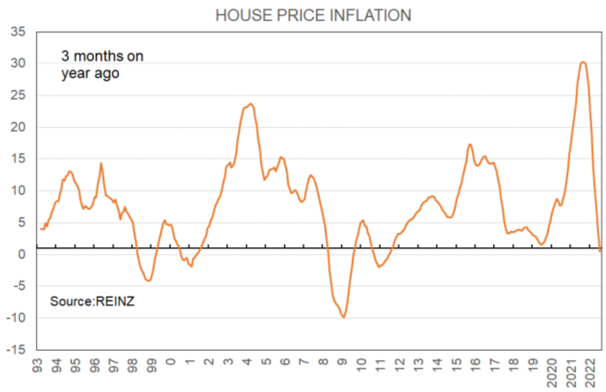
On a regional basis the slowest market is Hawke's Bay where days to sell are running 18 days above average versus six nationwide.



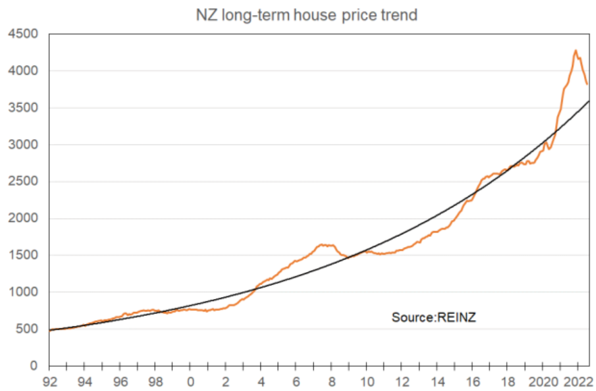
Note the strength in Northland and Southland, plus Taranaki for whom the pandemic boom was not that great.

With regard to prices measured using the only gauge I look at, the REINZ House Price Index, there was a fall of 1.4% in July. This followed a decline of 2.1% in June and means that over the past five months the average monthly price decline has been 1.8%. This compares with an average gain of 2.1% a month during the renewed frenzy in 2021 from July to November of 2.1%, and the average gain from June 2020 to February 2021 of 2.7% a month.

This graph smooths things a bit by comparing prices over three month periods with a year ago. We can see that average house prices are now lower than a year ago.

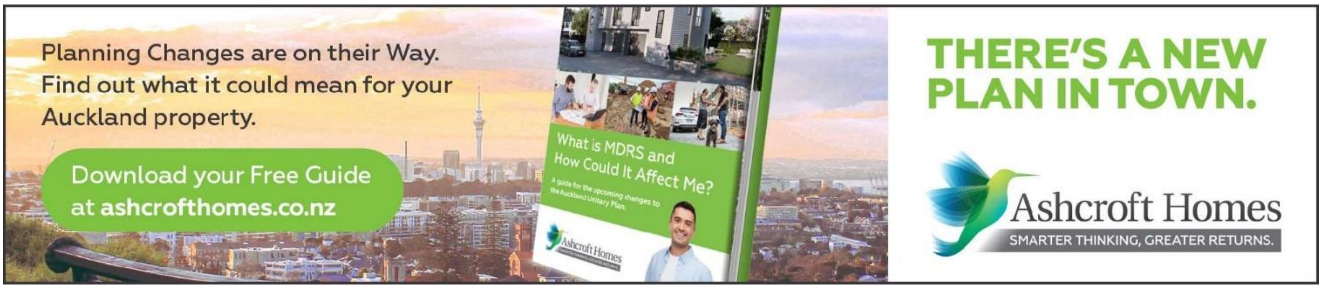


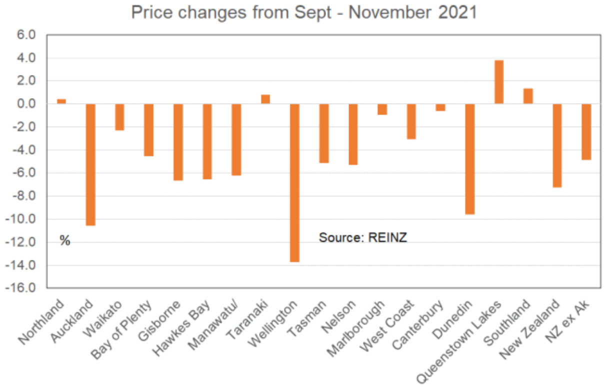
This graph runs a trend through the index of nationwide house prices, and we can see that prices are still well above trend levels. Further downside beckons as this corrective phase in the house price cycle rolls along.



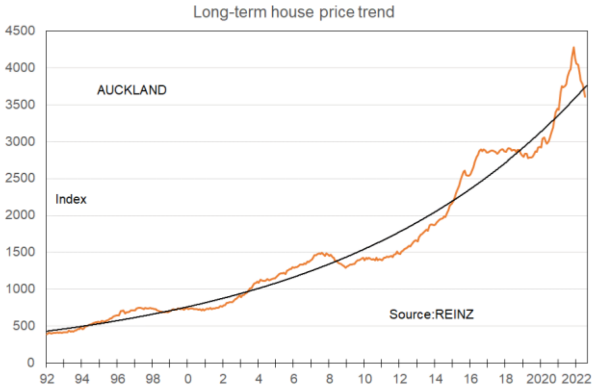
We can get a feel for where house prices are correcting down at the fastest pace by comparing prices on average over the past three months with the three months ending in November last year.

The nationwide pullback is 7.3%. The region with greatest weakness is Wellington at 13.7%, followed by Auckland at 10.6% then Dunedin at 9.6%. In contrast, prices are higher in Queenstown Lakes by 3.8%, Southland 1.4%, Taranaki 0.8%, and Northland 0.4%.

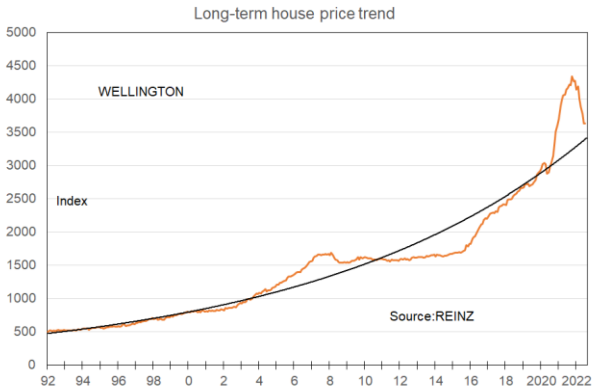




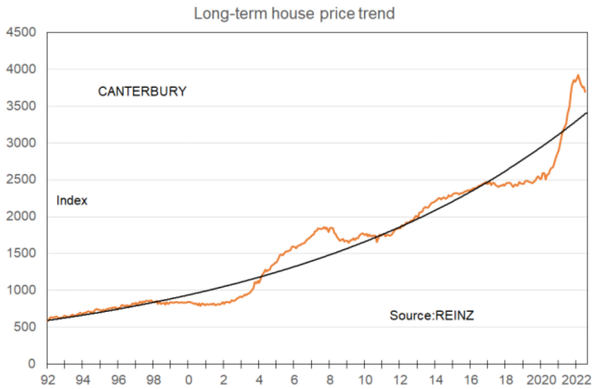
How do the regions compare with their long-term trends? I won't do all of them, but here are the main ones. Auckland is slightly below trend. The bounceback after this selloff could be quite interesting.



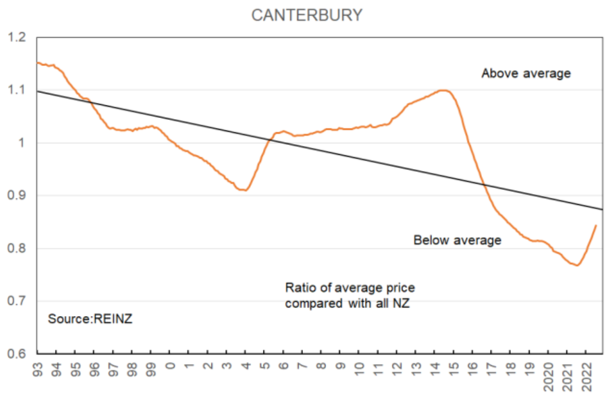
Wellington has further to go as yet.



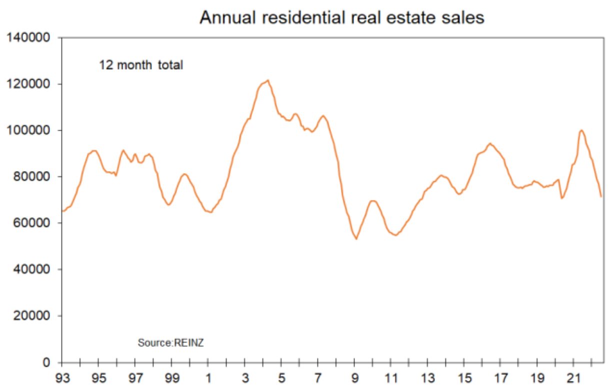
Canterbury is above trend suggesting that the catch-up period may be drawing to a close.



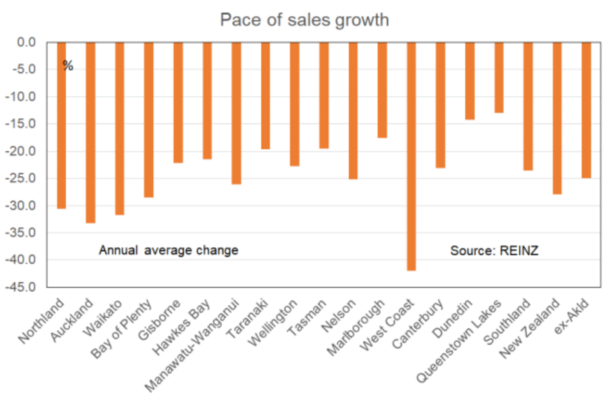
Then again, this graph comparing Canterbury with the country overall suggests there is catch-up yet to come. This is what you get when an earthquake messes things around.



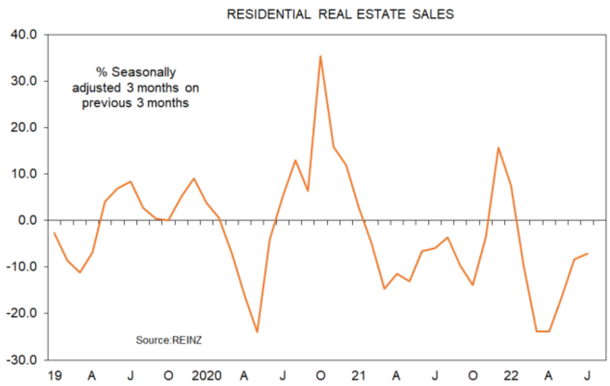
With regard now to the volume of sales activity, the nationwide number of sales in July was down 37% from a year earlier. The annual number of sales now stands at 71,500 from a peak of 100,000 in June last year.



The annual average change is a decline of 28% with the greatest fall being recorded by West Coast at -42% followed by Auckland at 33%. The smallest fall is for Queenstown Lakes at 13%.



Basically, the July data from REINZ show the housing market continuing to fall away with no convincing signs as yet of an underlying easing in the pace of monthly price declines, the increase in days taken to sell a dwelling, or the falling away of sales. That's why I run my monthly surveys. They give insight into things changing before the official data do.



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.

Monetary policy tightened again

The Reserve Bank met market expectations yesterday by raising its official cash rate 0.5% to 3.0%. But whereas back in May when the Reserve Bank last prepared a set of economic forecasts they indicated a likely peak for the cash rate of 3.9% in June 2023 now they see a peak of 4.1% in the same time period.

This slight change means there is a good chance come the next monetary policy review on October 5 that they will lift the OCR again by 0.5% to 3.5%. After that things will get more interesting.

The common view is that the cash rate will peak at 4.0% and given the more hawkish comments made by the Reserve Bank yesterday that seems reasonable – though one cannot rule out a slightly lower peak.

What is less certain and in fact less likely is the Reserve Bank's prediction of no cut in the cash rate until the second half of 2024 coming true. The chances are that they will start cutting the rate from most likely 4% before the end of 2023. Why?

Already we can see some disinflationary pressures emerging in the economy which the Reserve Bank appears to be paying as little attention to as they did last year to the obvious signs of strong growth and inflation risks which they ignored and therefore kept the official cash rate too low for too long.

Consumer confidence levels are near record lows and my monthly Spending Plans Survey shows a net 18% of people planning to cut back their spending levels in the next 3-6 months. Some of the inflation expectations measures tracked by the Reserve Bank have edged down recently, global prices are falling for a wide range of commodities including oil, minerals, and food, and the pace of wages growth so far in the New Zealand economy is not high enough to warrant concerns about a wage-price spiral developing.

There is also a wave of discounting likely to come soon from retailers quitting excess stocks.

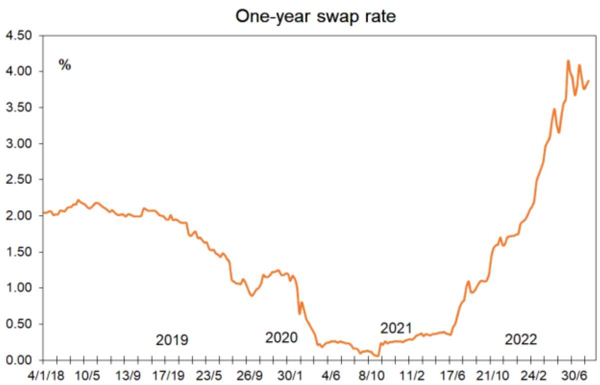
Nonetheless, before we pile in again on the Reserve Bank and the chances that having over-loosened they now over-tighten, there is something to keep in mind. Our central bank, like other central banks, has suffered a loss of credibility because of poor monetary policy setting over 2021 (not 2020). The central banks are striving to regain credibility as inflation fighters and that means rapid and large increases in overnight cash rates and some strong statements of intent regarding getting inflation back towards 2% - or in New Zealand's case below 3%.

The stronger the actions and words now the quicker the Reserve Bank can squash any thoughts that they are now permanently weak on inflation. That is a strong weapon for suppressing thoughts people might have of demanding extra high wage increases and plans businesses might put in place for hefty hikes in their product prices.

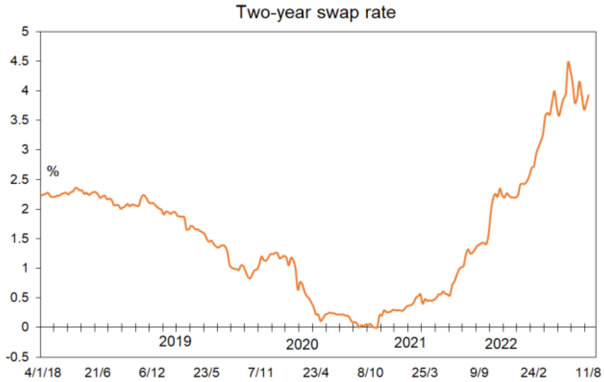
Because of this positioning from the Reserve Bank and the success their strong stance is likely to have regarding credibility and suppressing inflation thoughts, the chances are high that they start easing monetary policy sooner than the mid-2024 timeframe they have indicated.

That is why despite yesterday's words being more hawkish than expected and the inflation track slightly higher, there has been almost no lift in wholesale interest rates relevant to the cost of funds to banks for lending out fixed to you and I.

The one year swap rate finished yesterday near 3.9% from 3.87% the day before. But this rate is higher than 3.8% a week ago on the back of a lift in interest rates in the United States. The higher US rates help explain the rise in other wholesale borrowing costs in New Zealand over the week.



The two year swap rate has risen to 3.93% from 3.78% last week but was at 3.96% the day before the Reserve Bank OCR increase. Other rates have done similar things and these wholesale borrowing costs are now roughly back where they were three weeks ago.



Bank lending margins for fixed rates have been undergoing some big changes recently, especially in the one year space which has been the focus of the table I have been including at the end of this Interest Rates section for some time now. Until we can get a better idea of where those margins are going to settle down, I'll put the table on hold for a while.

If I were a borrower, what would I do?

I'd probably just fix one year, looking to take advantage of the easing of monetary policy I expect from late-2023.

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

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