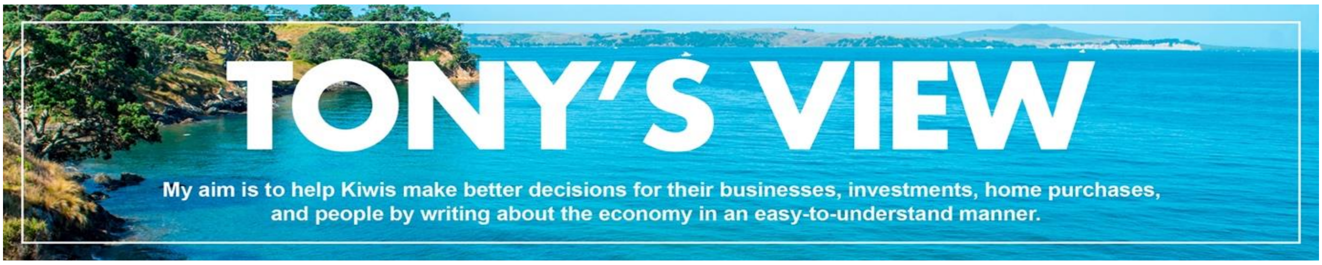

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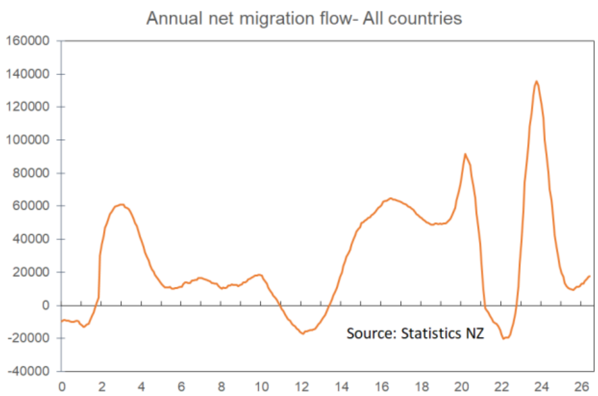
Migration meh

Statistics NZ released their monthly migration numbers this week and again they have been revised downward, so things don't look quite as acceptable as we were thinking. Whereas a few months back they had the annual number running near a net gain of 24,000 it is now 18,000 for June from a low in the year to August last year of 9,500.



The net migration cycle has turned upward but the improvement is very small and at 18,000 is well below the yearly average for the past ten years of 45,000.

At least things are not negative and the trend for now is up. But no acceleration in the rise is underway and it seems best for the moment to expect just mild extra improvement in the coming year.

That means there is no great assistance for the housing market coming up from population growth. But with housing supply showing good strength just around the corner, suppression of prices on average looks highly likely to continue through the remainder of this year.

Which does rather raise the issue of how excited one could justifiably feel about a lot of the housing data now floating around. Over the past three decades many new data series focussed on the residential real estate sector have been developed and considerable attention has been paid to them.

This is because what was happening with house prices was an immense matter of moment for the vast majority of the adult population. Every month, week, or day for 3-4 decades now we've been asking ourselves whether we are making money on our clever purchase of a property to live in or as an investment. If prices are rising we've gleaned a nice warm feeling not perhaps so much

from any concept of capital gain whether realised or not, but having simply bought a thing before it got more expensive. Like petrol, or a bag of potatoes.

Translation of this feeling into a view in many quarters that housing is all people think about and the thing that drives our economy is and always has been wrong. Our economy is strongly driven by the primary sector and influenced by house construction and lots of other things like tourism and monetary policy shifts. House price changes are a distraction and focus of envy and imagined victimhood for those feeling they are missing out and others are to blame.

Now, house price discussions are fairly boring outside of a few locations where prices are tracking well upward. And why are they rising in these locations like Southland and Queenstown Lakes? Because of rising primary sector incomes and population growth – relevant to Christchurch, a place in which it is best to think of the village of east CBD garage-less townhouses sitting empty except when a stadium event is on as a bunch of horizontal hotels, or just motels.

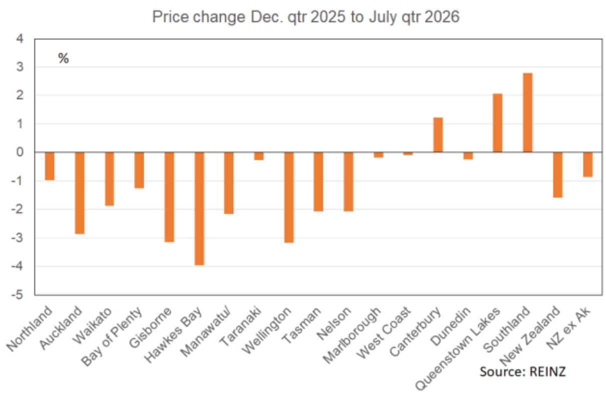
Back to housing data. I have created my own data series primarily from my monthly survey of real estate agents with NZHL, survey of mortgage brokers with mortgages.co.nz, and survey of property investors with The Property Consortium. I reckon each survey provides very useful flesh to place on the bones of key skeletal data from REINZ, and in particular the surveys give much earlier insight into shifts in the real estate market than other indicators do.

So, I'm definitely going to keep running them at a minimum because of their early indicator status, and we'll be able to see quickly whether rising interest rates are dominating activity or the improving economy and rising employment.

In that regard, my surveys have been showing that prices are still not rising and turnover is weak. We can see this confirmed in the likes of the REINZ monthly data released a few days ago.

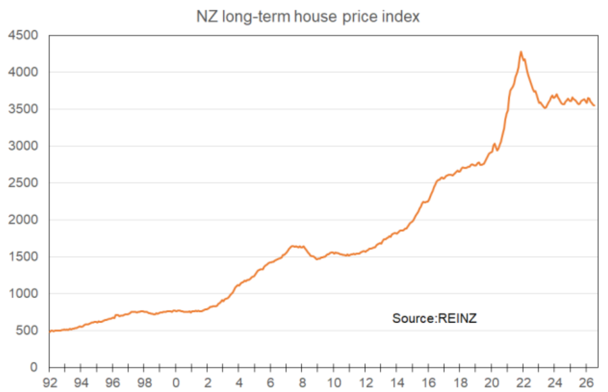
On average in the month of July house prices around the country fell 0.1% to sit 0.4% lower than a year ago. Prices have fallen for five months in a row now though they did jump an unusually strong 1.9% in February so best be careful about adding up the past five months to get a decline of 2.8%.

It may be best to say that since the start of the year prices have fallen 1.5%. If we compare the three months to July with the December quarter of last year we get this graph.



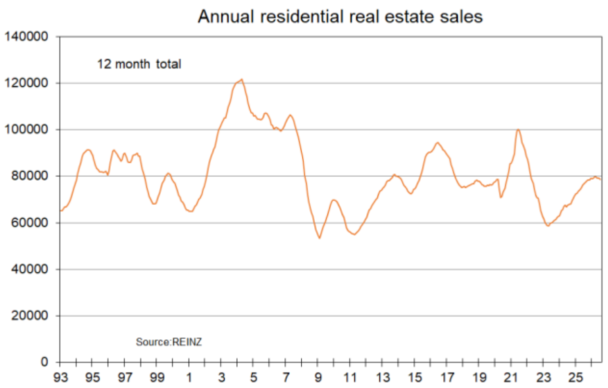
Prices have fallen everywhere except Canterbury, Queenstown Lakes and Southland. As noted above, these gains reflect higher farm incomes and firm population growth not matched by extra dwelling supply. Higher tourist inflows are also helping Queenstown, and housing affordability is an extra positive factor for Canterbury.

All North Island regions have shown price declines, even those with good farm income growth. House prices on average in New Zealand have now been flat for four years following the correction after the covid surge of 2020-21.

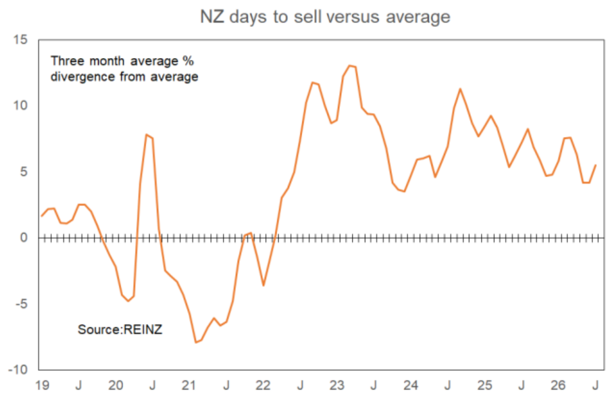


House sales in rough seasonally adjusted terms fell about 7% in the three months to July, were flat in the previous three months to April, and down 4% in the three months to January. Basically, sales have been falling since the start of the year.

The annual number of sales now stands at 78,700 from a peak of 79,700 in April.



I've got nothing interesting to say regarding the nationwide average number of days taken to sell a dwelling – which was 50 in July from 48 a year earlier. This graph compares the latest three month average days to sell gauge with the average for the period over the past ten years. Selling times have been above average since early-2022 but there is little downward trend underway. I read nothing into it because the average is declining as each weak year comes into the calculation.



Overall, the housing market in New Zealand shows excitement in only two ways. First, the relative strength in Southland, Canterbury, and Queenstown Lakes. Second, the surging number of consents being issued for new dwellings to be built. More supply, rising interest rates, weak net immigration, investor worries about worsening tax rules should Labour win the election, low rental growth, rising council rates.

The only positive on the horison is strengthening employment and that will take a while to happen.

Retail spending growth not as strong as just reported

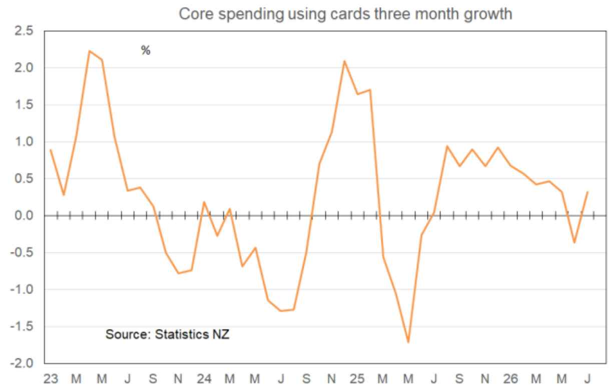
There was some excitement about strength in retail spending earlier this week in response to better than expected growth in use of debit and credit cards revealed in the monthly Electronic Card Transaction series from Statistics NZ.

Total spending rose 1.0% in the month (nominal seasonally adjusted), while core spending which excludes services, fuel and motor vehicles grew by a strong 2.2%. Sounds great and I do believe the situation in retailing is less dire than previous commentary suggests.

However, as noted literally hundreds of times before in my writings these past four decades, you don't want to read anything serious into monthly data in a small economy such as ours. Things can move strongly without the underlying situation changing.

It is best to smooth monthly data over at least a three month period (longer for things like non-residential building consents) to get a decent feel for what seems to be happening.

If we do that then core retail spending is 2.4% higher than a year ago (about equal to non-fuel inflation of 2.5%), while over the three months to July this key spending measure was up just 0.3%.



There is growth in retail spending underway in New Zealand. But things are not as strong as the data released this week suggest. Be careful when looking at NZ monthly data. Smooth over at least three months.

If I were a borrower, what would I do?

Nothing much has happened this week to alter market expectations of two more cash rate rises in NZ this year then a pause to see what happens next. What does happen next is just about anyone's guess given the many large and uncertain factors in play.

- AI impact on employment and productivity.
- Margin catch-up by businesses.
- Changes in our export commodity prices.
- Impact of the election in November on policies and sentiment.
- Impact of El Nino.
- Transition of high dwelling consent numbers to construction.
- Lagged tourism decline from high fuel costs.
- Middle East war developments.
- Trump presidency generally.

No-one can have reasonable certainty about any of these things. So, be wary of getting too fixated on a particular outlook for how your borrowing costs will track over the next couple of years.

This week wholesale interest rates fell slightly with help from some slightly better than expected monthly price gauges and US buying of long-term government bonds aimed at curtailing a selloff partly related to hefty bond financing by AI-related companies.

For now, if I were borrowing, I'd be happy still to fix three years at 5.35% and concentrate on addressing other things in my life rather than mortgage cost minimisation gambling.

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.