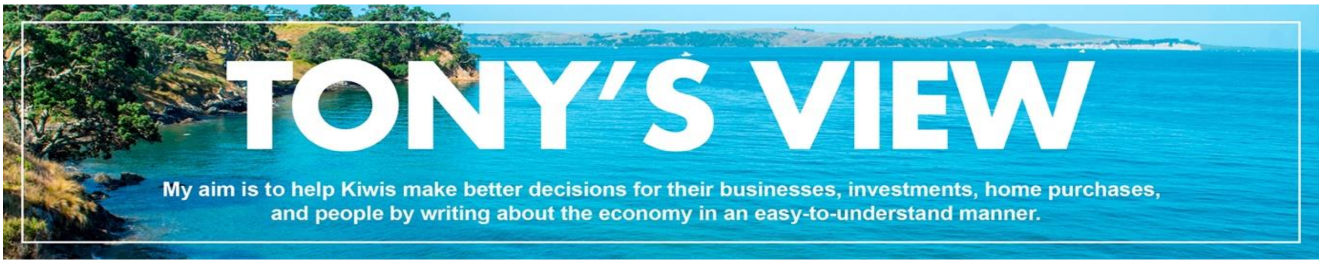

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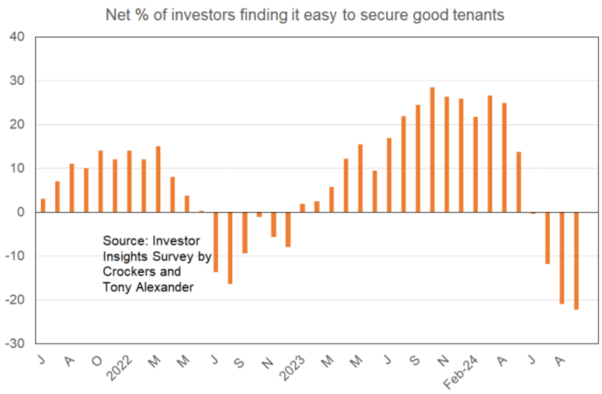
What my surveys tell us

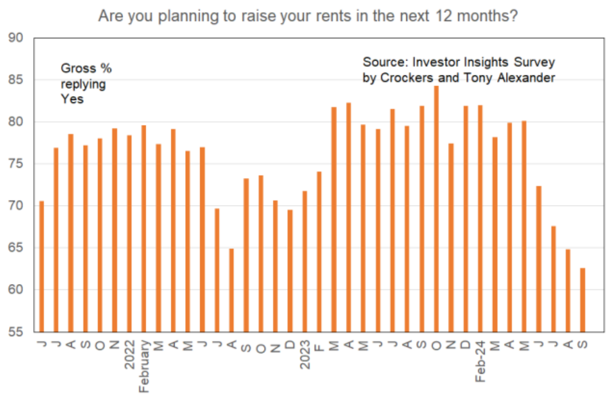
This week I thought it would be a good idea to run through the key changes underway which I reckon I can identify from the five surveys I run each month. Let's start with the most recent one which was released on Tuesday, my survey of property investors undertaken with Crockers Property Management.

First, there is no longer as plentiful a supply of tenants as was the case a year ago. A record net 22% of existing property investors have reported that they are finding it hard to get good tenants. A year ago a strong net 24% said that it was easy.

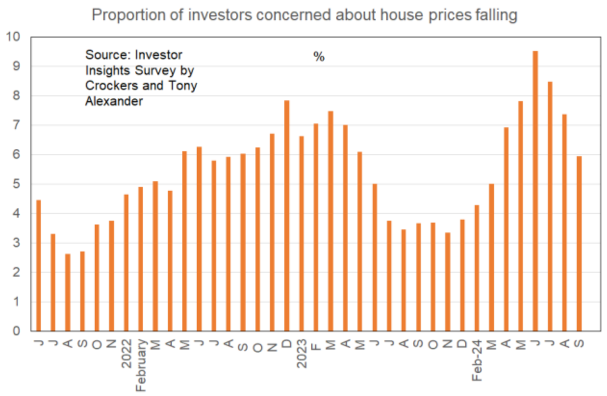


This probably reflects the impact of rapidly falling net migration flows perhaps also with a contribution from property developers placing unsold stock into the rental pool. Clearly the return of international tourists and shifting of some unknown number of properties back to providing short-term tourist accommodation is having little impact.

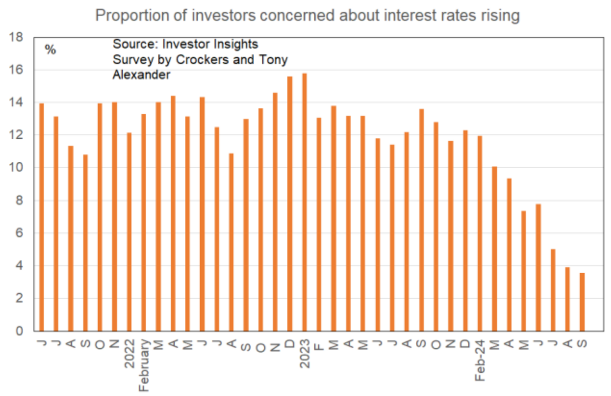
Landlords are reacting to the shortage of good tenants by pulling back on their plans to raise rents. A record low 63% this month reported that they are planning to raise their rents in the coming 12 months. The change from early in the year has been quite sharp.



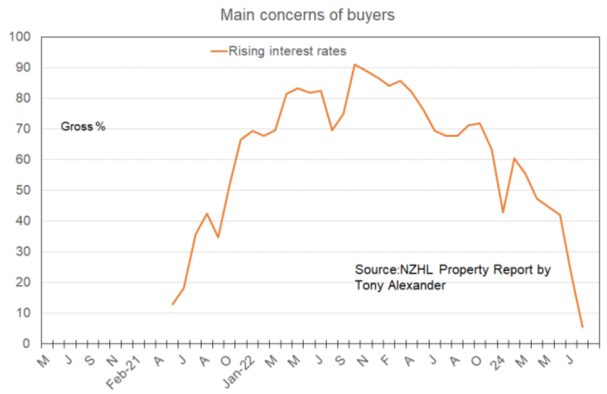
But because there are more factors driving the housing market and house prices than what is happening in the rental market, this shift is not leading to newly depressed price expectations. Landlord worries about prices declining are falling away as evidence of residential real estate market strength becomes more apparent.



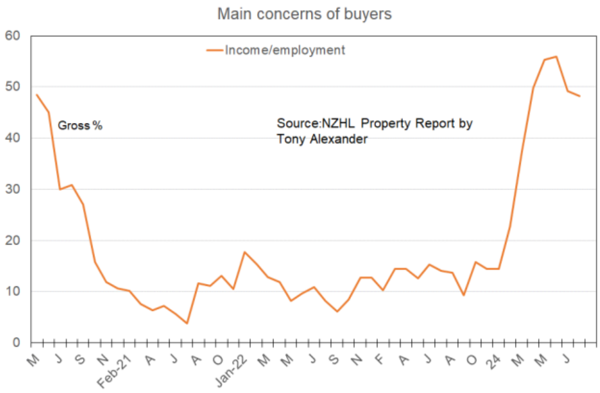
The reason for this market improvement is not of course any positive change in the labour market where the situation for employees is getting worse, but falling interest rates. Worries about interest rates have fallen sharply in this survey.



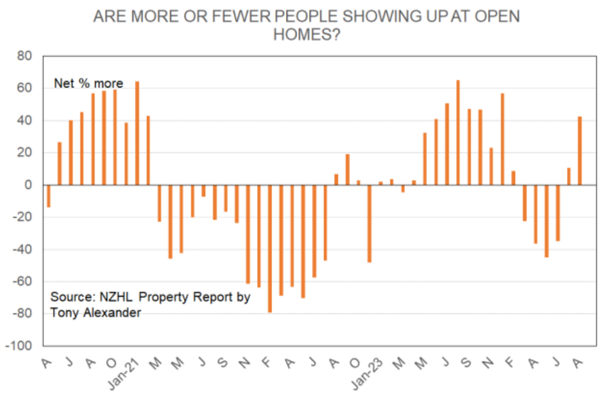
This is something we can also see in my monthly survey of real estate agents sponsored by NZHL. Only 6% of agents now say that buyers are worried about interest rates as compared with 68% a year ago and 42% at the end of June.



48% of agents however say that buyers are worried about employment as compared with a below average 14% at the start of the year. This survey allows us to see quite clearly the deterioration in people's feelings of confidence about the labour market.

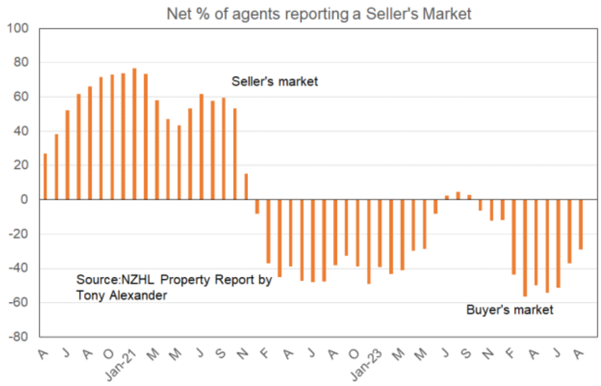


The key thing which my real estate agent survey does show is that buyers are returning to the market in good numbers. Two months ago a net 35% of real estate agents said that fewer people were attending open homes. Now, 42% say that there are more people sampling the free coffee and smelling the freshly baked bread.

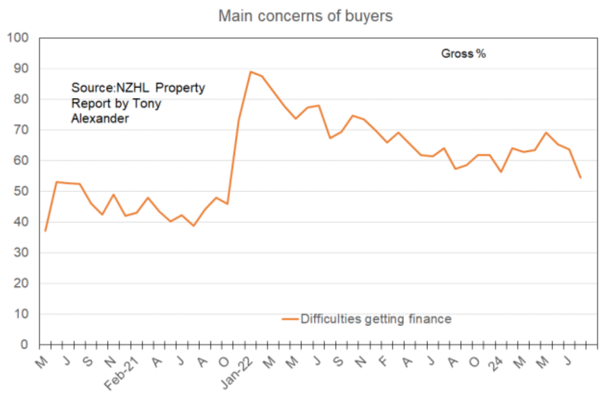


A net 43% of agents say that there are more first home buyers in the market from a net 3% seeing fewer two months ago. Also, a net 25% say they are seeing more investors compared with a net 24% seeing fewer at the end of June.

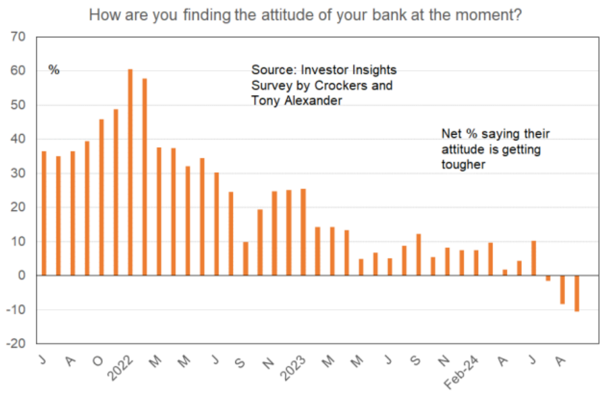
We remain solidly in a buyer's market however according to a net 29% of agents.



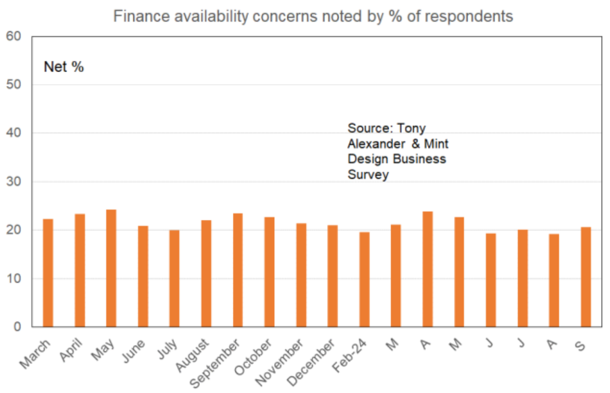
Conditions remain in favour of buyers with good listings, prices on average not rising yet, and banks becoming more willing to extend finance. The proportion of agents saying buyers are worried about finance has fallen to 54% from a recent peak of 69% at the end of May. Note however that conditions are still seen as tighter than before the end of 2021 when the credit crunch (not rising interest rates) caused house prices to start falling.



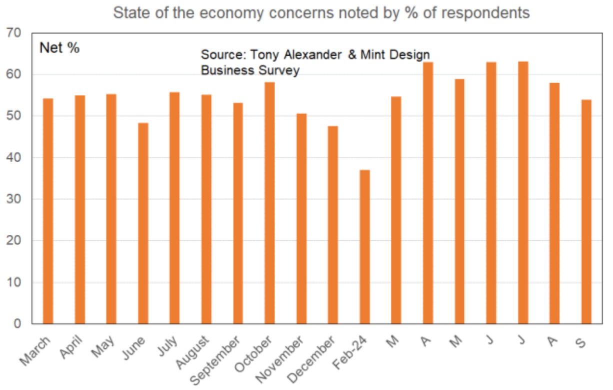
My survey of property investors also allows us to say that finance is becoming more available. A net 10% of landlords say now that finance is becoming more available whereas early in 2022 a net 60% said finance was getting harder to get.



From a business point of view my survey sponsored by Mint Design shows few concerns – or at least no new concerns.

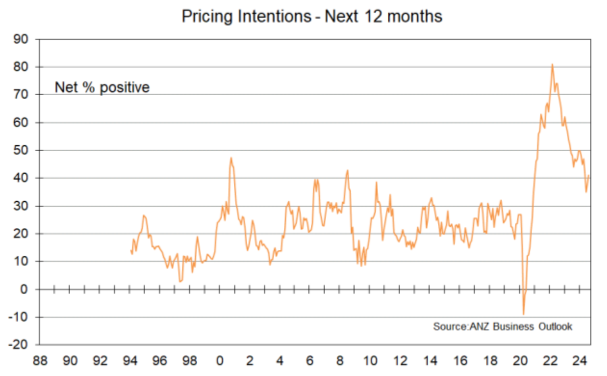


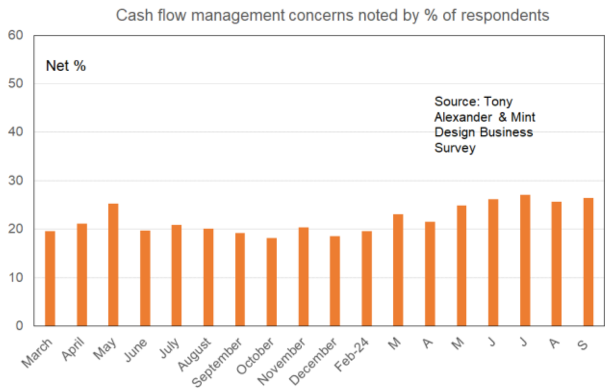
Businesses still remain primarily concerned about the state of the economy and the 54% reading shown here I think is a more accurate assessment of what is out there than the high confidence coming through in the ANZ's long-running survey.



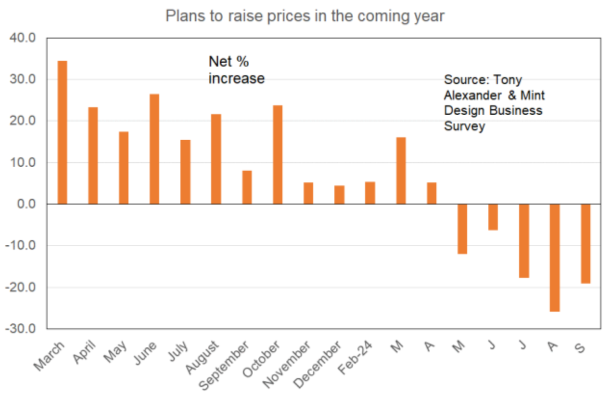
Speaking of which, it is to their survey I turn when trying to get a feel as to whether the back of high inflation in New Zealand has truly been broken. As noted here dozens of times in the past year the average net proportion of businesses planning to raise their prices in the coming year has been 26% during the period since 1992 when inflation has averaged 2.3% a year.

The latest reading of 41% is up from 35% two months ago and this encourages me to warn that people may be getting too optimistic with their forecasts for how low the Reserve Bank will take the cash rate this cycle. It perhaps pays to remember that coming out of the GFC in 2009 and for all the following ten years expectations for interest rates were wrong – on the other side. That is, too high.



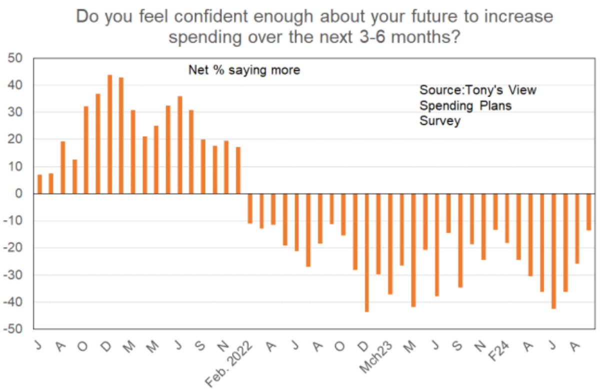


I have a pricing intentions gauge in my monthly business survey as well but as the survey has only been running since March last year I take the levels of the results with a grain of salt. But as for the changes things are more accurate I feel, and it pays to note the recent slight decline in the net proportion of businesses planning to hold their prices steady or cut them.

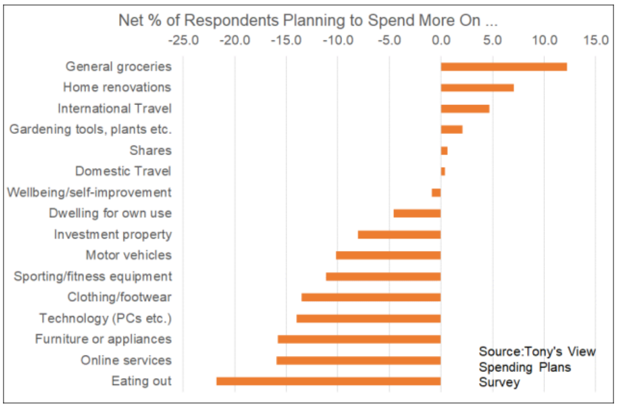


My monthly Spending Plans Survey (unsponsored) still shows a net 13% of people plan cutting their spending on stuff generally in the next 3-6 months. This is a good improvement from a net 42% planning cutbacks three months ago – but nonetheless is still negative.

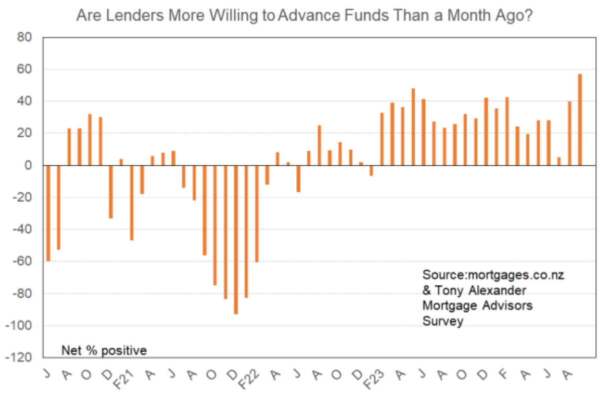
The name of the game for businesses this year at the end of the recessionary phase of the business cycle is eking out sufficient positive cash flow to prevent late cycle liquidation. Cash flow concerns have grown, and I see them getting worse because households still say they are planning to cut their spending, the IRD are chasing debts, and costs continue to go up.



This graph shows that people still plan cutbacks on most things. Note especially the poor outlook continuing for the hospitality sector (eating out) down the bottom.



Finally, from my monthly survey of mortgage advisors sponsored by mortgages.co.nz we can see the same increase in presence of first home buyers and investors as my survey of real estate agents. We can also see the improvement in finance availability from the banks. Coupled with falling interest rates and optimism about further declines (for now – watch for the reality check next year) this tells us that it is reasonable to expect the nascent upturn in the residential real estate market to continue.



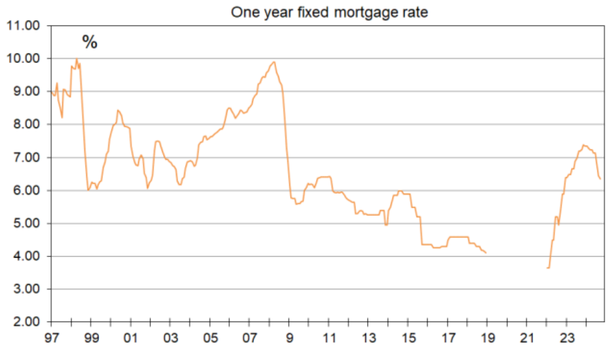
The five surveys I run tell us a lot more things than I have discussed here but the above is enough for now. The housing market is embarking on a cyclical upturn. The parts of the economy dependent on consumer spending will have to wait for next year – hopefully the first half rather than the second. As for exporters which get no mention here – they will not be driving the economy's overall cyclical recovery this time around because of the absence of a large decline in the NZ dollar, absence of any strong chance of better world growth next year, flat-lining of the recovery in foreign visitors, high costs in the agricultural sector limiting net returns, and some bigger issues of focus regarding environmental impacts, passing of "peak China", and declining trade openness of national borders.

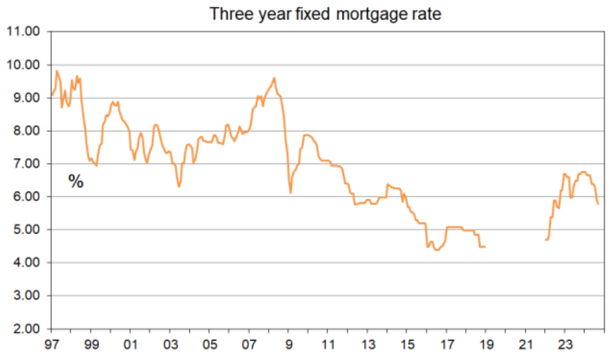
If I were a borrower, what would I do?

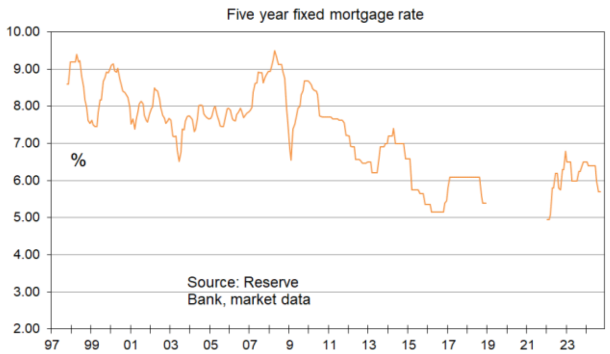
Assisted by the simple passage of time closer to the next expected cut in the official cash rate on October 9 wholesale interest rates have crept lower again in New Zealand. The one year swap rate is now near 4.08% from 4.17% last week. However, in response to a rise this week in longer term yields in the United Stats the long rates here have also crept up slightly. The five year swap rate now sits near 3.52% from 3.5% last week.

I've nothing new and insightful to write about interest rates this week so will keep this section short. Maybe however it is worth nothing that just because the Americans started their easing cycle with a 0.5% move does not mean the next move here is going to be 0.5%. I don't see that the economic data released since mid-August here alongside inflation indicators have changed sufficiently enough to warrant an acceleration in the pace of policy easing. A 0.25% reduction is most likely.

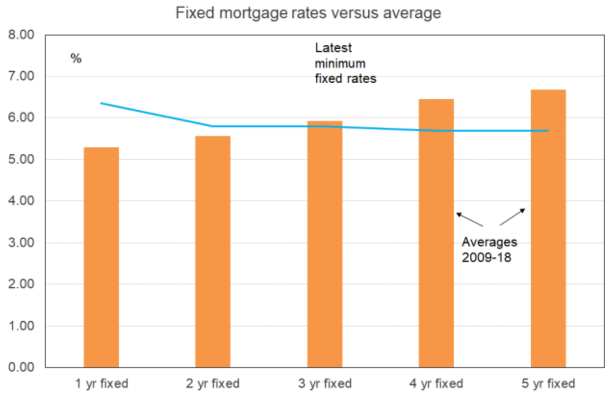
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







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.