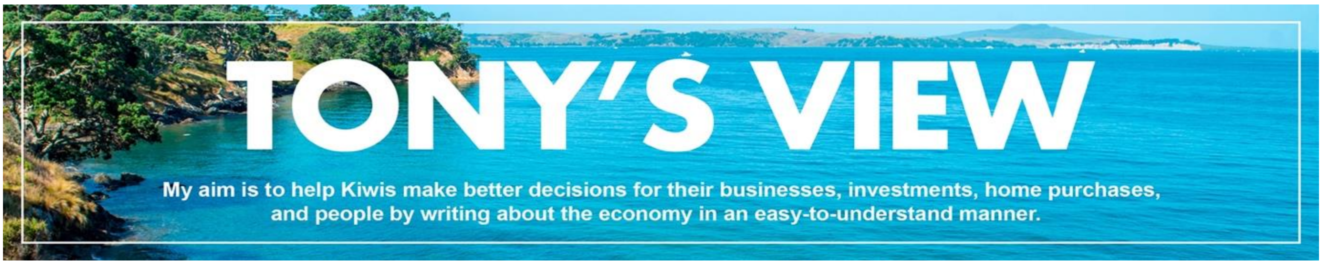

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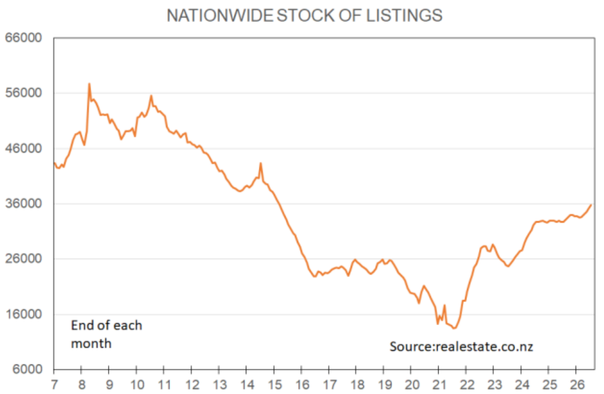
House supply matters

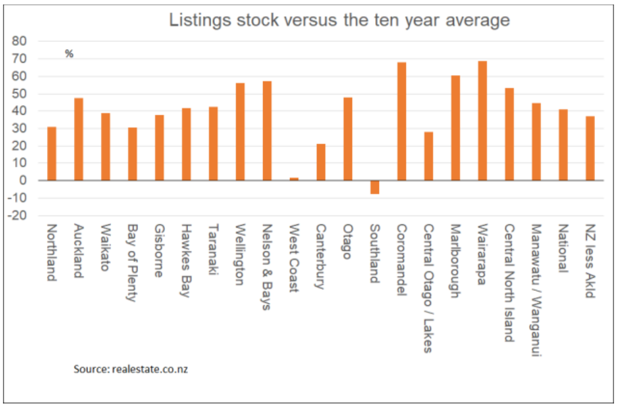
In the absence of any major news items in the NZ economics sphere this week, here is some stuff which fills up the space as we await next week's monetary policy review.

At the end of July the number of properties listed for sale around NZ by the folk at realestate.co.nz stood at 35,700 in seasonally adjusted terms. This was a 9% rise from a year earlier and the highest level of stocks since March 2015. There are plenty of properties for potential buyers to peruse.



The average nationwide stock for the past ten years has been 25,300 so the current inventory is 41% above average.

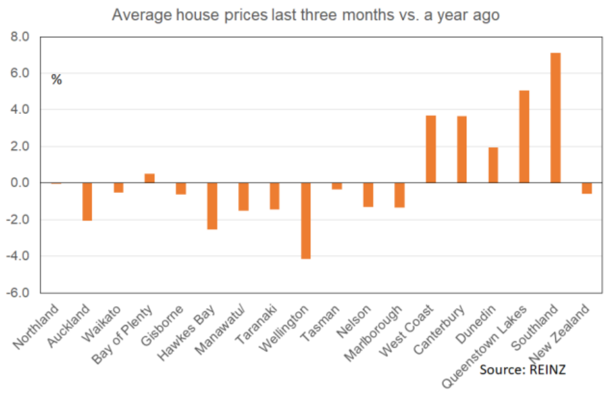
This next graph shows the percentage to which stocks are above average for each of the locations calculated by the realestate.co.nz people.



We can see that stocks are well above average everywhere except the West Coast (a tiny market with just 1% of the countries listings), and Southland (1.2% of nationwide stock).

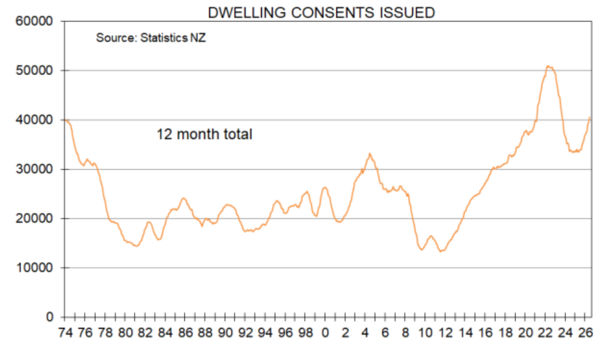
Canterbury stocks are just 21% above average compared with Wellington at 56% and Auckland 48%.

Compared with a year ago average prices nationwide over the past three months were running 0.6% down from a year ago. But West Coast was up 3.7%, Southland 7.1%, and Canterbury 3.7%. Wellington was down 4.1% and Auckland down 2.1%.

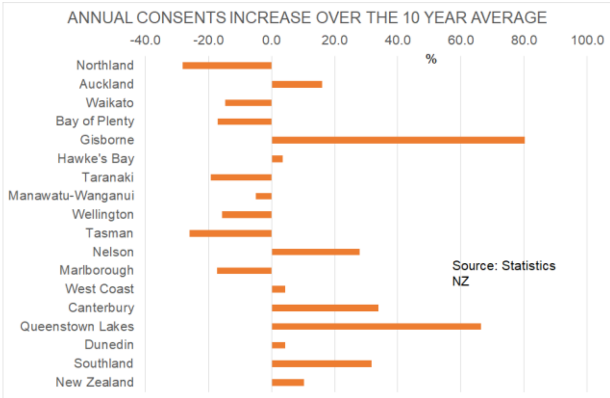


Supply matters and that is why the high level and rate of growth in the number of consents issued for new dwellings to be built is very important when considering what happens with prices going forward.

With mortgage rates rising and population growth below average prices growth will be constrained. But prices may keep falling if the 40,600 consents issued this past year (ahead 19% annually) get built at the usual percentage of over 95%.



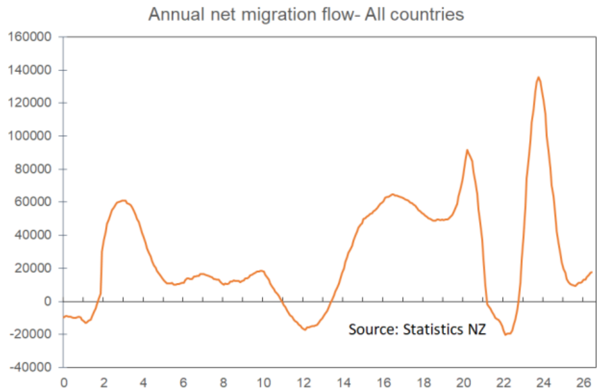
This graph shows for each region the percentage to which latest annual consent numbers are above the ten year average for that region.



There is a supply response underway to the relative shortage of listings and upward movement in prices in Southland, Canterbury and marginally on the West Coast. There is a response to weakness also underway in the Wellington region in the form of decreasing construction. The outlook for builders there is not strong.

Auckland is the odd one out (maybe in the company of Nelson). Listings are high, prices are falling, and supply growth is set to be above average if the consents get acted on.

In a nutshell the situation is this. If you are expecting some reasonable growth in house prices in Auckland over the next couple of years, given the high supply you need three key things to happen. First, you will need net migration to turn strongly upward because about 60%+ of immigrants go to Auckland. Currently the numbers are weak with the annual gain standing at just 18,000 versus a ten year average near 45,000.

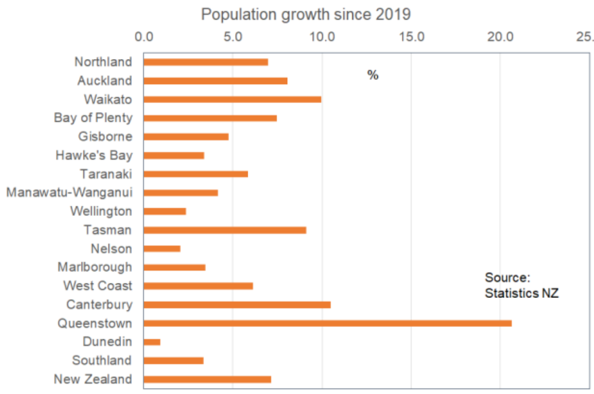


Second, you will need a large number of Auckland dwelling consents not proceeding to construction.

Third, you will need the common forecast of a peak in the official cash rate of 3% - 3.5% to prove correct.

For the record, here is a graph showing population growth for the regions I cover between 2019 and 2025. I include it just in case Auckland population growth might be unusually strong or weak. Not really.

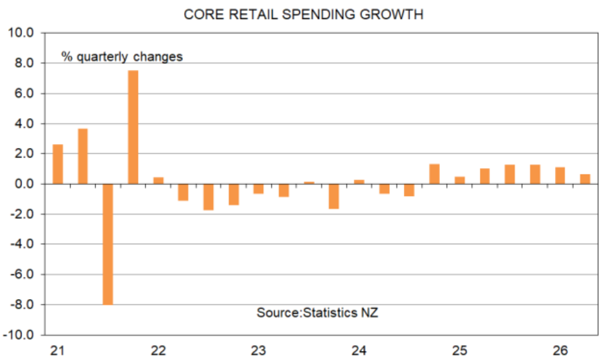
Canterbury is strong at 10.5%, Southland low at 3.4%, Queenstown very high at 20.6%, Wellington weak at 2.4% (less than Southland). Auckland's growth for this period was 8.1%, versus all the rest of NZ at 6.7%.



Retail spending growth minor

In seasonally adjusted terms and after stripping out the effects of prices changing, retail spending in NZ fell 0.5% in the June quarter. That sounds like one might expect taking into account the US attacks on Iran from February 28.

But if we remove the ever volatile components of fuel (volume of spending down 13%) and motor vehicles (down 2.3%) we get a core retail spending rise of 0.7%.



That is not horrible considering the continuing talk of a cost of living crisis (average wages have grown 6% more than consumer prices since 2019). Retailing is not dead in NZ or in crisis – it is more a matter of it being challenging for some operators not up to speed with optimal product lines, marketing methods, service levels, pricing, and perhaps location. The challenge is being heightened by weak employment growth, cautious consumers, weak population growth, and falling house prices in most locations.

If I were a borrower, what would I do?

There is a lot of activity in offshore bond markets at the moment with yields rising in three key markets of the US, UK, and Japan because of concerns about debt levels. The hefty bond financing of AI investment is also a factor in play amidst concerns that investors are generally reassessing the riskiness of government debt.

This reassessment is contributing to some movement of funds into other assets like precious metals and gold.

Where exactly things go is anyone's guess, especially with regard to the success or not of US Treasury efforts to suppress rising long-term bond yields by buying back government debt.

The relevance for us is that the higher offshore bond yields go the greater the upward pressure on our own yields including the cost to banks of borrowing to lend at fixed interest rates. The link is definitely not one for one, especially as the overwhelming bulk of fixed rate lending in New Zealand is quite short-term in nature (1-3 years) and not in the five years plus territory which the offshore bond markets are more focussed on.

Of highest relevance for us in the very near future is the Reserve Bank's review of the official cash rate next Wednesday afternoon. A rise of 0.25% to 3.0% is widely expected and 90% factored into market pricing. Greatest interest will be in the statement accompanying the rate decision.

However, because there is not an update of economic forecasts being released with the rate decision (no Monetary Policy Statement) the chances of any comments greatly divergent from those made early in July are low.

If I were borrowing at the moment, I would seek certainty in a vastly uncertain world, so I'd fix three years and focus on other more important things in my life, business and career.

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.