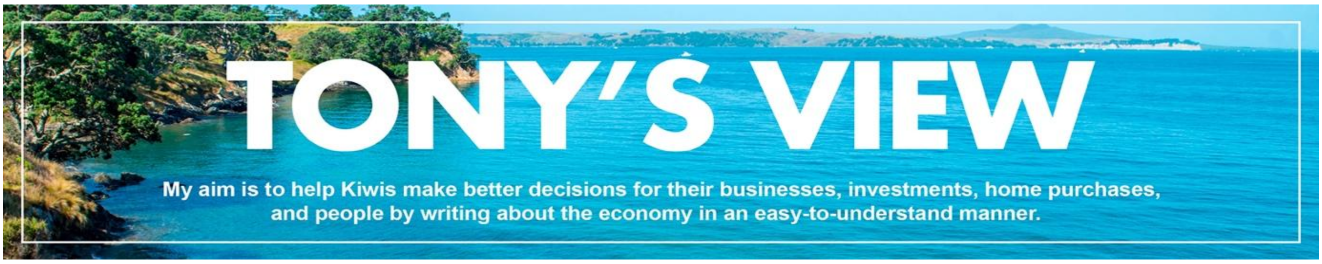


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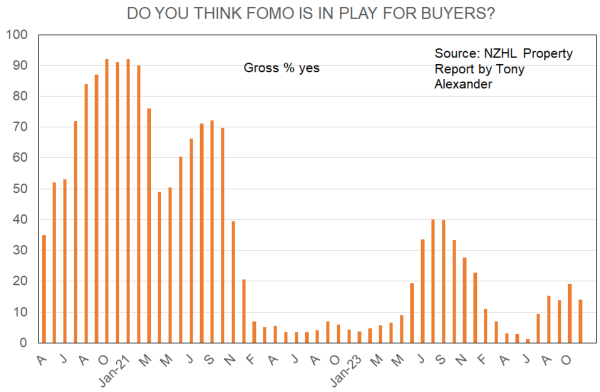
# No buyer frenzy

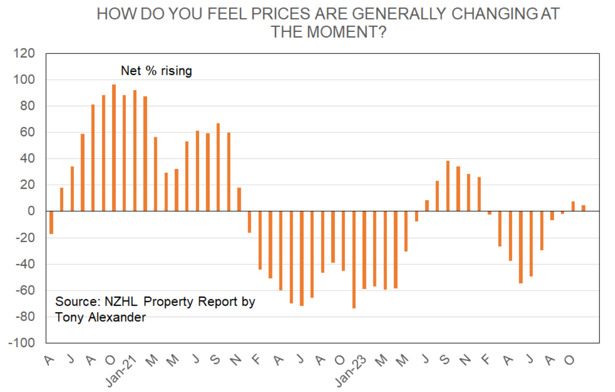
Yesterday I released the results of my last survey of real estate agents for 2024 and here is a quick look at some reasons why buyers are appearing, but they feel time is on their side and price pressures upward so far are present but mild.

Only 14% of agents say that buyers are worried about missing out. This is down from 19% at the end of October. The market is not running away with itself.

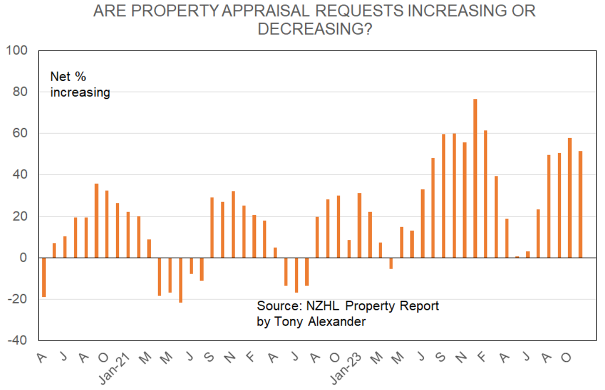



One reason is that price rises so far are not large enough to feed on themselves. That is – price rises begetting price rises because people have missed out on price rises and want to capture price rises they think may come – like Bitcoin.

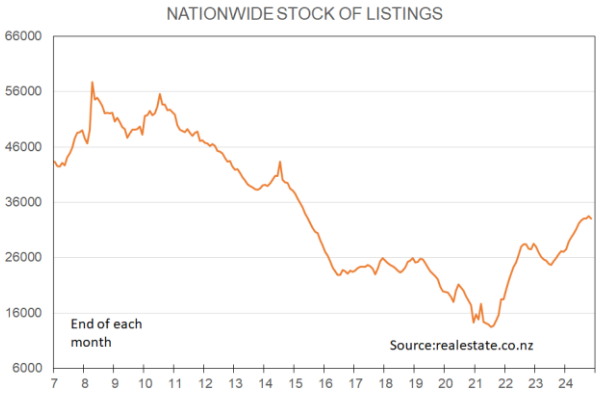
Only a net 5% of agents say that prices are rising, down from 8% a month ago.



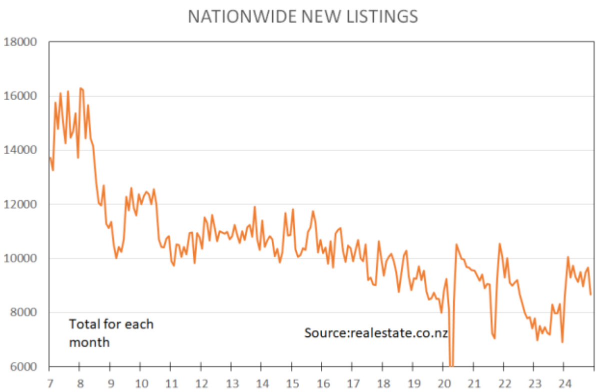

Another reason is that there are plenty of vendors. A net 51% of agents say that they are receiving more requests for property appraisals. This reading has been high since August.

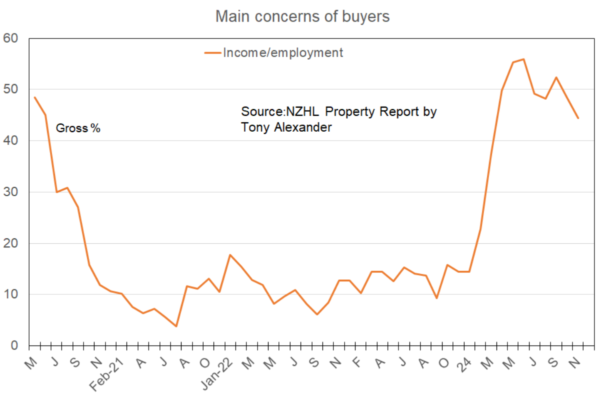

Yesterday realestate.co.nz released their data for the stock of listings at the end of November. We can see that at 33,100 the number of listings was 22% higher than a year ago.

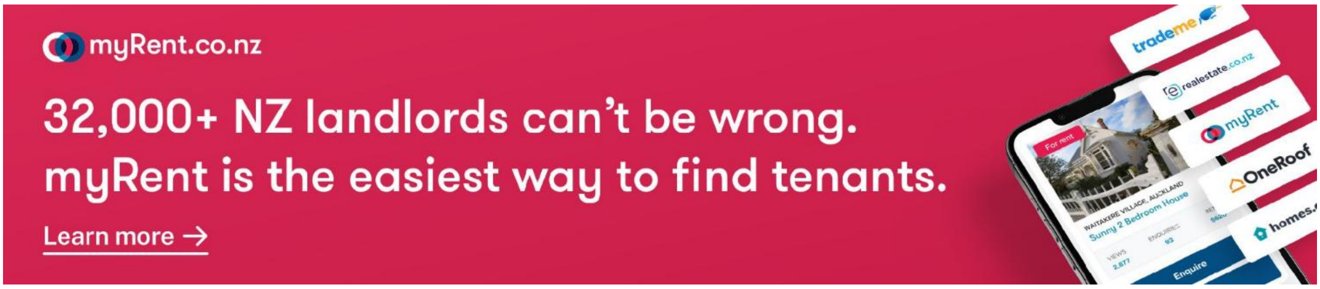



This total is actually down from 33,600 last month and seasonally adjusted fresh listings fell by 10% in November. But at this stage on the basis of just one month's pullback I'm not prepared to say the surge in vendor presence is fading. It's best to wait and see what happens by the traditional peak month for each year of March.

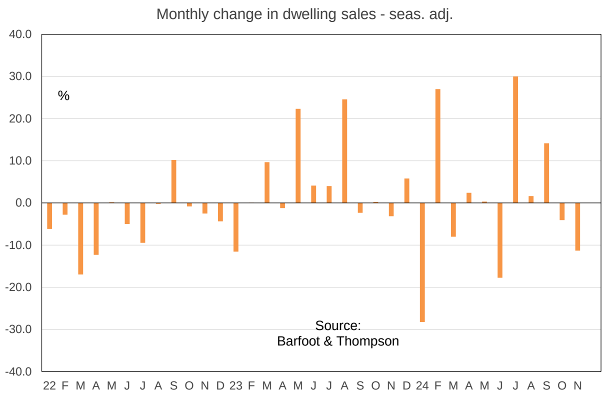



Finally, buyers are worried about their jobs according to 44% of agents. This reading was at a below 21% average of 14% in January.



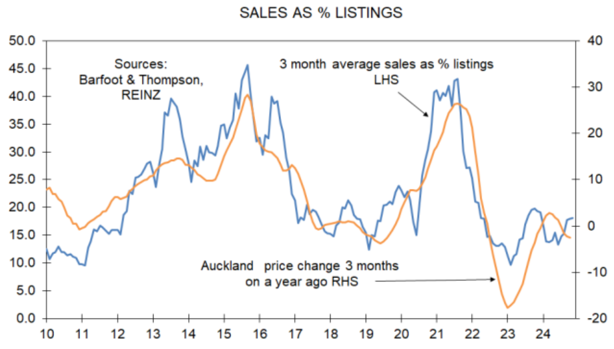




We can also backup these results from my monthly agent survey by looking at the numbers for sales in Auckland released by Barfoot and Thompson on Tuesday. The number of properties they sold in November was just 5% ahead of a year earlier and in rough seasonally adjusted terms down 11% from October and 3% from the three months to August. The underlying improvement in sales has levelled off for now according to their data.




I like to keep an eye on the sales to listings ratio from the BT data as changes in it tend to precede changes in the annual rate of growth in prices measured using the REINZ's House Price Index for Auckland.

The blue line has moved up recently so I'd expect minor price improvement to be showing through which is what we can see when we look at the most recent month to month price changes from REINZ.




Auckland average house prices have risen by 1% a month on average in the three month period of August, September and October compared with an average fall of 0.9% across the previous three months.


The residential real estate upturn this cycle is mild and may stay that way for the medium term given the limited scope for large falls in interest rates this cycle. This is what you get in an economy bereft of sufficient good business investment (and management expertise) to drive strong productivity growth. Early onset inflation.

Just for the guide of anyone thinking about what has happened with my paid publication Tview Premium, in May this year I stopped accepting new subscriptions with the intention of ceasing production in May 2025. However, to honour the fact that exactly 40 years ago this week in December 1984 I commenced my post-graduation working life with the Reserve Bank of Australia, and 10 years after that in December 1994 became Chief Economist at BNZ, the last TVP issue appeared today.

There are five reasons why I am ending this particular output despite it still being remunerative.

1. Often there are articles and pieces of information which I feel need distribution to my larger Tony's View audience. By cutting TVP I will be able to place these pieces of commentary and analysis in TV.
2. I wish to free up time for directing my energy into non-work activities. Landscaping, tramping, offshore travel. Relaxing will come when the lid's closed.
3. I have achieved my challenge of building and operating a self-employed business following my corporate career.
4. I no longer feel willing to have 39% of the income derived from my extra effort go to the government.
5. I now experience greater challenge in cutting output and remuneration to focus elsewhere than increasing both.

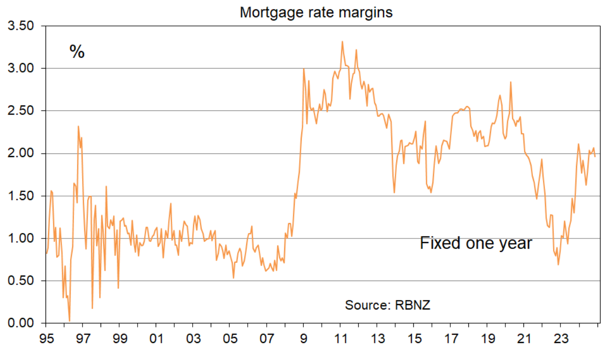
Production of the free weekly Tony's View will continue – this isn't a moment of choosing the rose garden over Madison Square.



## If I were a borrower, what would I do?

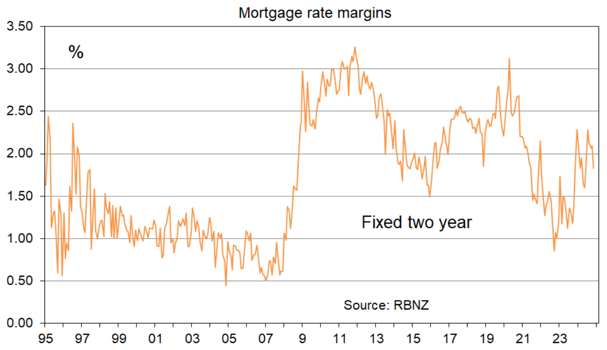
These graphs show the most basic calculation one can make of the margin which banks enjoy on their fixed rate mortgage lending. The orange line in the first graph shows the difference between the wholesale cost to a bank of borrowing at a fixed rate for one year (the swap rate) and the best available one year fixed mortgage rate.

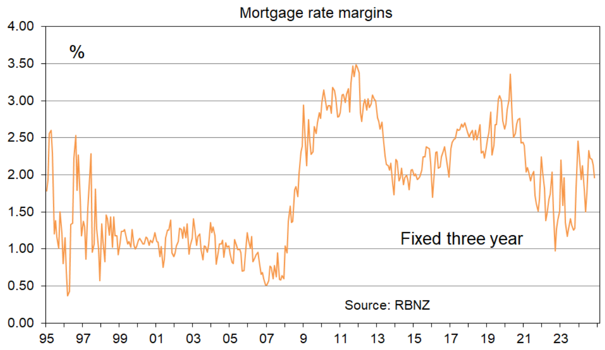





The calculation is not entirely accurate because it does not take into account changing proportions of the fixed rate lending funded by fixed term deposits and does not reflect rising costs associated with tighter credit rules etc. imposed by the Reserve Bank.

But you can still get a feel for whether current margins may or may not provide scope for a round of mortgage fixed rate cuts by comparing the latest reading to the far right with the past few months.




Bank lending margins have recovered strongly over the past two years from unusually low levels early in 2023. Is the current level near 2% unusually high compared with the old average from 1995-2008 of about 1%? We don't know because we don't know if other costs for banks have added 1% in the past 15 years. Probably not and because of that and because the margin is quite high in a two year context I feel scope exists for rate cuts in the near future outside of any timing of changes to the official cash rate.

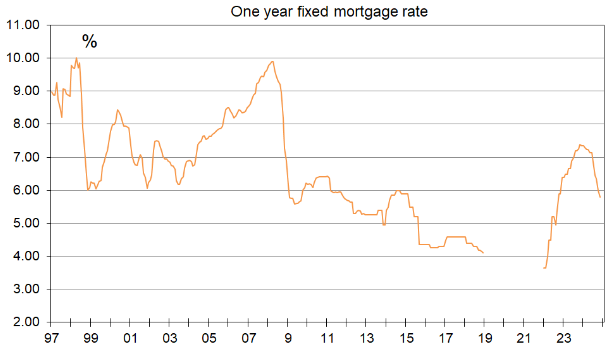
The issue however is that we cannot know when banks will start more aggressively competing for business. If they were really keen, then I'd expect them to already have addressed issues of very slow processing times for loan applications coming through brokers.

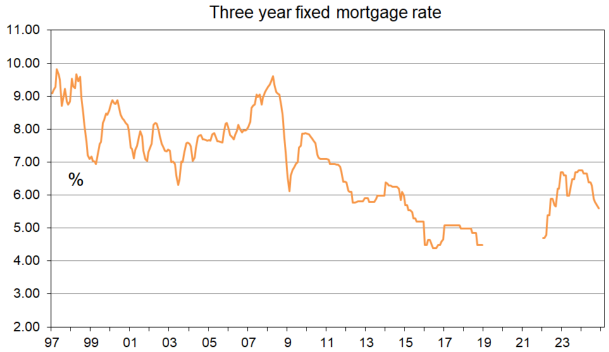
We have to remember that banking is one of the oligopolistic sectors in new Zealand akin to petrol retailing, air travel, building materials and electricity. Councils are monopolies. Their structures retard investment and growth in the NZ economy while causing prices to be higher than if there were true competition.

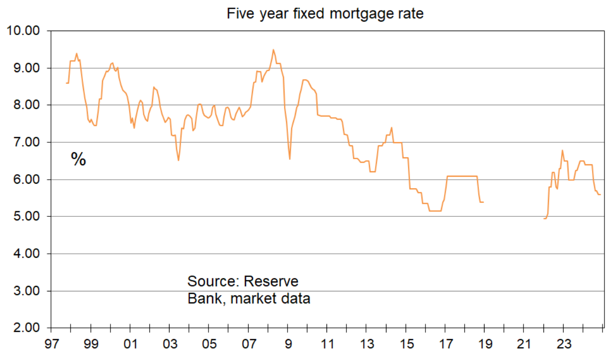
Here is the graph for the three year margin.

With regard to wholesale interest rate changes this week the direction has been downward slightly. The one year swap rate is little changed near 3.81% but the three year rate has eased from 3.63% to 3.54% and the five year rate from 3.73% to 3.61%. Falls from these levels are likely to be slow and small from here on out.

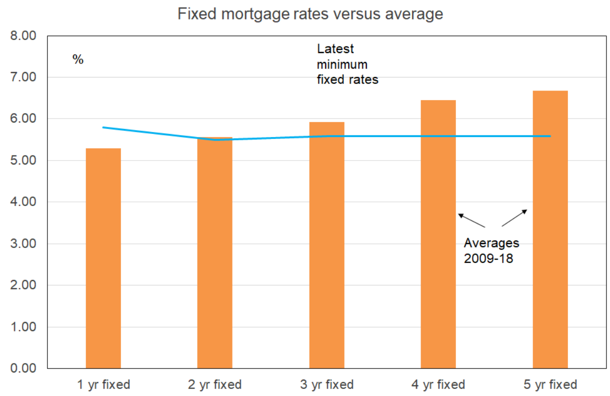
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.






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




I reckon scope exists for the 3-5 year fixed rates to be cut further once banks start more assertively competing for business. For the moment I don't think they are really feeling it. So, I'd still probably fix for a short-term (six months though some feel 12-18 is good), with a view to fixing 3-5 years probably sometime next year. When is anyone's guess in this very uncertain environment.

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.**