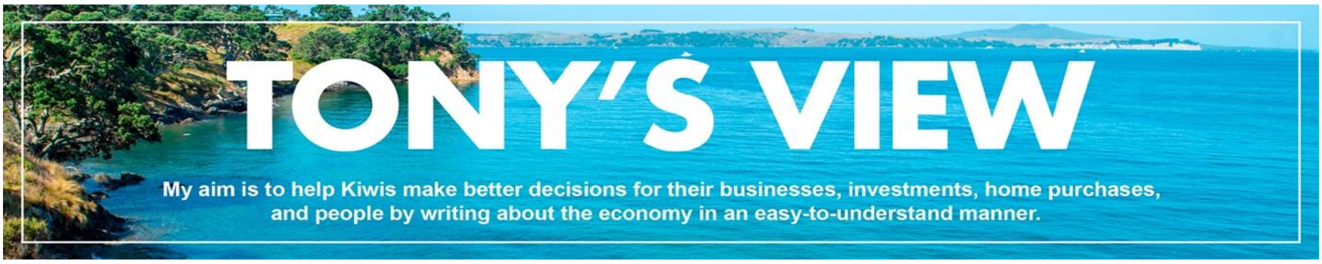

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ISSN: 2703-2825
Thursday 9 June 2022
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13 reasons for inaction

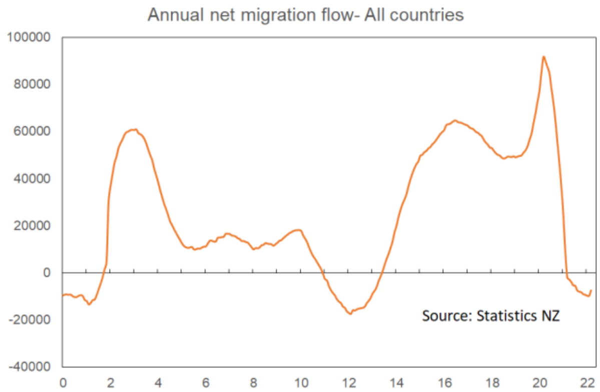
People seem to be quite interested in one or two articles I have written recently noting how potential buyers of property are actively looking for reasons not to make a purchase at the moment. This is the mirror image of how people with zero plans to buy actively looked for reasons to justifying their FOMO-driven need to buy from mid-2020 to the end of 2021.

I do like to spoon feed people information – so, for those looking for an excuse not to buy currently here is a list of reasons you can give to your partner. But you might want to only give one or two else they'll say "Hey, you just read that somewhere."

Next week, I'll produce a list of excuses for buying.

Brain drain

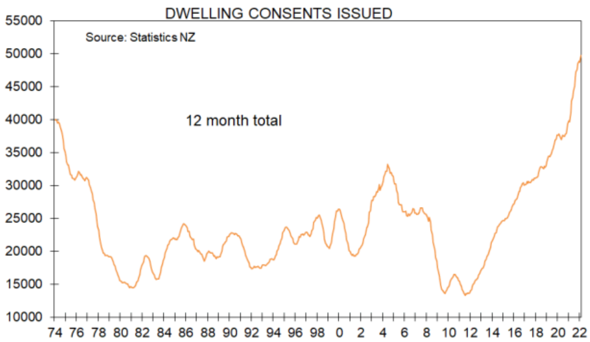
There was a net migration loss of 7,000 people in the year to March and no shortage of media articles about people going for an extended OE or shifting to Australia for work. The wages are much higher than here, houses cheaper, and the cost of living less as is being highlighted by comparisons of supermarket costs.



Why buy now when demand is shrinking because Kiwis are leaving?

Housing over-supply

The Unitary Plan from 2016 has led to a boom in townhouse construction in Auckland with a lot more to come because of other changes in intensification rules in place and some yet to be implemented. If you think there is a supply surge coming, then the natural incentive is to delay a purchase to see what discounts developers may need to offer to sell their stock.



Reef fish selling

An unknown number of people bought extra houses during the pandemic which they always intended to sell quickly for a profit. They don't want to be long-term landlords and are probably worried as they watch their paper gains diminish each month and a few will be sitting on losses.

Some will look to get out of their excess holdings before prices go down further and one is incentivised to wait for these people to cut their losses.

Vendors capitulating

The turnaround in the housing market has been so strong over a very short period of time that a lot of owners wanting to sell either don't realise what has happened or they don't accept the market has really moved. They are either sitting on their hands waiting for things to change or setting prices which attract no interest.

In all markets at some point sellers capitulate to the reality of where market prices truly sit. We are not at that point of capitulation yet so why not wait until it arrives, and sellers get realistic?

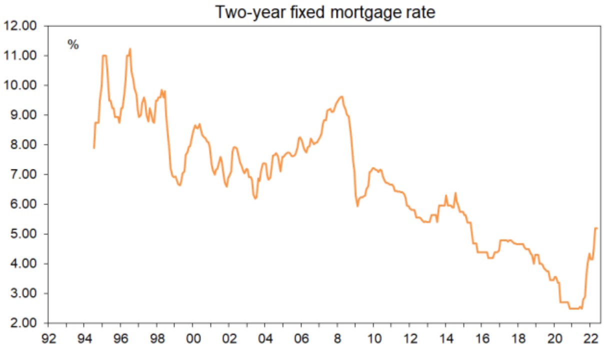
Developers failing

Over a year ago I warned that because of the overwhelming belief that there is a deep shortage of houses everywhere in New Zealand a lot of inexperienced, under-capitalised, over-optimistic developers would get weeded out once the cycle started turning. We are in the early days of that phase now.

Surely there will be a flood of discounted property being placed on the market by the receivers looking to get whatever they can? Why buy now when it seems best to wait for this dumping of property to hit the market?

Interest rate pain

Media are highlighting the sharp rise in weekly mortgage interest payments being faced by hundreds of thousands of people who took the candy and locked in for only one year at 2.19% - 2.49% rates last year. Surely the pain of having to slash spending on everything else from eating out to holidays on the GC will distress these people so much they will choose to sell up to free cash and retain their desired lifestyle.



Interest rates haven't hit their peaks yet, so the point of maximum pain and maximum selling is now here yet. Maybe it pays to wait for that.

No-one likes to feel silly

When prices were rising people bought because they didn't want to look back and regret not having bought any old piece of rubbishy property and made an "obvious" capital gain. Now, people are worried that if they buy and prices fall everyone will think they are an idiot for making a loss straight away.

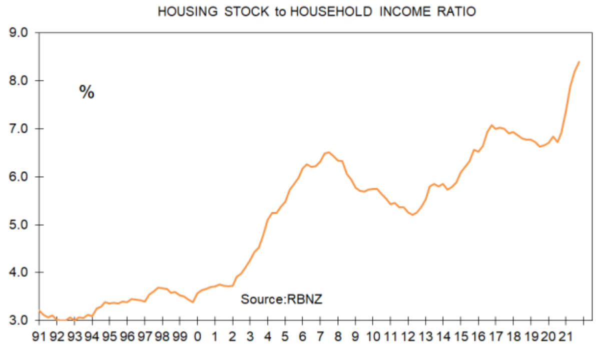
Many potential buyers are not going to feel safe buying until prices are shown as no longer falling. On the way up they were gripped by FOMO (now fallen to 4% from 92%), and now they are gripped by FOOP (was 19% in October, now 73%).

Wouldn't get a mortgage anyway

There is no shortage of stories about people with high net assets and good incomes being unable even to get a lift in their credit card limit let alone a new mortgage. Many people will see little point in looking for a house to buy when they see little chance of getting money from a bank.

Affordability demands lower prices

Many people will still be of the mistaken view that house prices have to go back to where they were relative to incomes in the 1980s. They will fixate on reports from international bodies noting where our prices "should" be and decide it is obvious that the long overdue correction of prices back to three times average incomes is now underway. They will hold off buying as this process is, in their minds, underway.



Investors yet to react to tax changes

In the financial year just ended investors lost the ability to deduct 12.5% of their interest expenses against rental incomes. This financial year they lose 25%, next 50%, the year after that 75%, and then 100% from April 2025.

Many people will believe that as the cash flow impact of this progressive loss of deductibility grows many investors will look to sell.

Listings are booming

The number of properties listed for sale around the country is now up 80% from a year ago. In some regions like Wellington the rise is 190%, Hawke's Bay 150%, Manawatu-Wanganui 140%.

As properties sit on the market longer and longer with few people attending open homes vendors will get more and more desperate to sell and more willing to cut their asking price.

Regional boost is over

House price growth outside Auckland was boosted first by a cyclical catch-up from 2015 to Auckland's earlier rise, then population growth from early retirements to the regions and working from home during the pandemic. Both phases have now about ended, and many regions will likely revert to their previous tendency to have prices go nowhere for many years. Why hurry to buy then?

Soaring cost of living

Many people wanting to buy are not going to be able to do so as they have to allocate more and more money just for the weekly groceries.

I'm sure that as soon as I print this list I will think of more things people can seize on to justify their decision not to buy at the moment. But this is enough for now. Next week I will put together a list of why one should not hold off for long. Then the partner wanting to buy can argue more forcefully against the partner wanting to hold off up to the point when one of them will say "Sod this, my mother was right about you, I'm off to Oz."

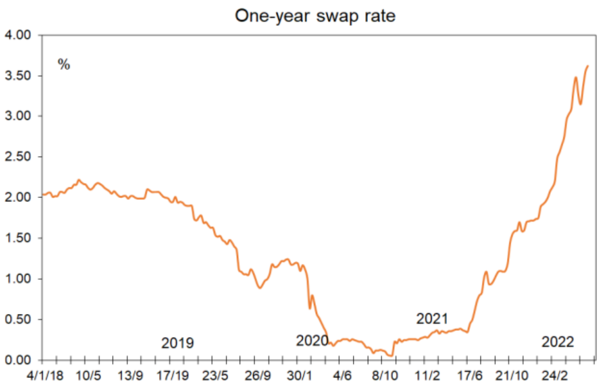
If I were a borrower, what would I do?

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.

Wholesale rates higher

The cost to banks of borrowing money to lend to you and I at fixed rates rose this week. The one year swap rate relevant to bank cost of funds rose to near 3.6% from 3.45% last week and 2.2% three months ago. The three year swap rate rose to about 4% from 3.87% last week and 2.9% three months back.

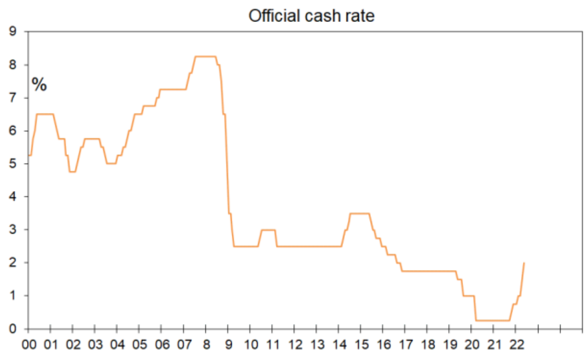
One mild source of upward pressure on NZ wholesale interest rates this week was a 0.5% rise in the Australian cash rate to 0.85%. The increase was greater than market expectations – hence a fall in the NZD/AUD cross rate below 90 cents.



For a long time the RBA Governor criticised those expressing concern about inflation and forecasting higher interest rates. Amongst the

2021 phase of denial from central banks regarding inflation risks his comments stick out as amongst the most ignorant. Now the tightening phase across the Tasman is well underway with two cash rate increases in a row and more to come.

In other countries central banks continue to send signals of higher rates with the European Central Bank meeting tonight expected to result in a policy tightening. Given the caution in Europe about the economic shock from Russia's invasion of Ukraine we are not likely to see however the same pace or magnitude of cash rate increases as is underway here.



I've got a slip on the driveway to clear away so that's all I've got time to write about interest rates this week.

My current expectation for the one-year fixed mortgage rate in June each year is shown in the first column of the table below. I focus on that rate because there are many people who have fixed one-year repeatedly since 2009 and the strategy has worked very well.

The second column shows what the one-year rate will average over the next 2-, 3-, 4-, and 5-year periods. The last column shows the current best 2 – 5 year fixed rates charged by the lenders I track.

	Forecast 1 year rate	Rolling average rates	Current fixed	
2022	4.49		4.49	1 yr
2023	5.75	5.12	5.19	2 yr
2024	5.00	5.08	5.39	3 yr
2025	4.25	4.87	5.55	4 yr
2026	4.00	4.70	5.79	5 yr

If these forecasts prove correct (I'd give that a 10% probability), rolling one-year fixed will deliver an average rate for the next two years of 5.12%, three years 5.08%, four years 4.87%, and five years 4.70%.

If I were a borrower, what would I do?

No change. I would still fix two years at the longest. I see scope for mortgage rates to start coming down towards the end of 2023, first half of 2024. Maybe earlier. Soon only fixing one year will be the optimal move.

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

Tview Premium contains more interest rates discussion and graphs than included in Tony's View.

Links to publications

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Business Survey

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