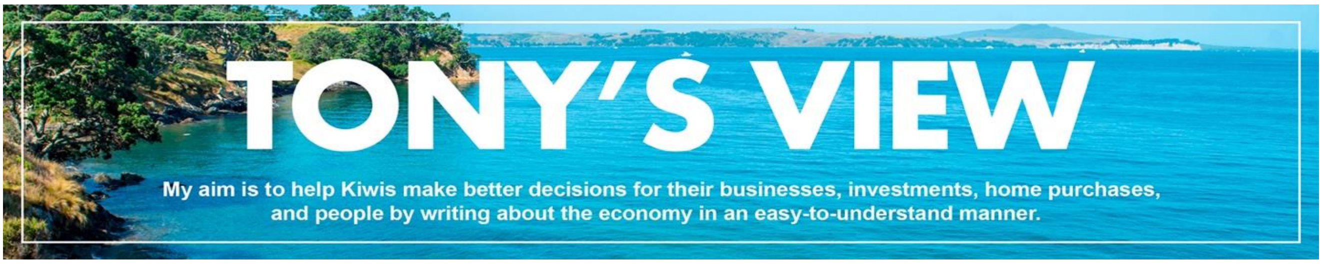

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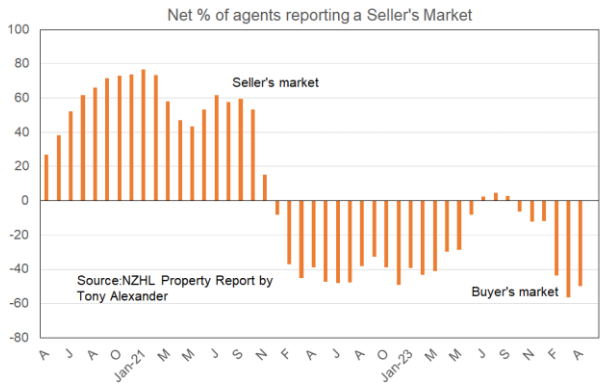
Buyer's market solidly returns

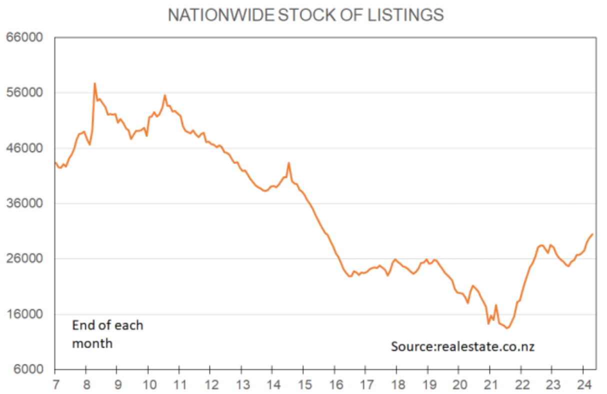
Each month in my survey of real estate agents run with sponsorship from NZHL I ask agents to identify which party in the property transaction seems more motivated to get a deal done. If they say on average it is the buyer then we can say that we are in a seller's market. This means the market is in favour of the vendor and they can hold firm on their price and refuse to accept lengthy settlements or conditions if that suits their circumstances or attitude.

We are not in a seller's market. Instead in my most recent survey a net 50% of agents said that we are in a buyer's market.



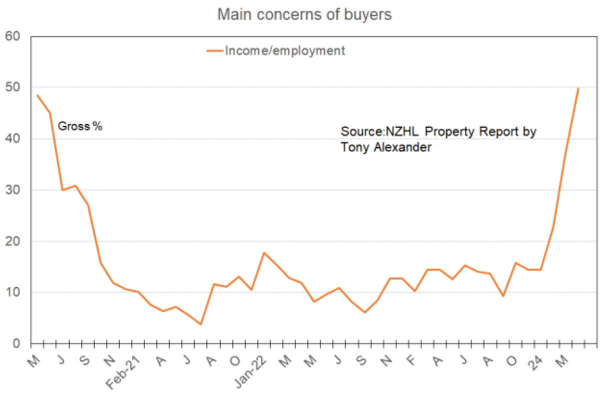
This is a market where the buyer has greatest power and can add conditions to an offer and throw in low bids sometimes with high ability to walk away if they don't get what they want.

Helping them in this situation is the high availability of listings. The number of properties available for sale in New Zealand has risen 23% over the past nine months to sit at a nine year high of 30,400 units.

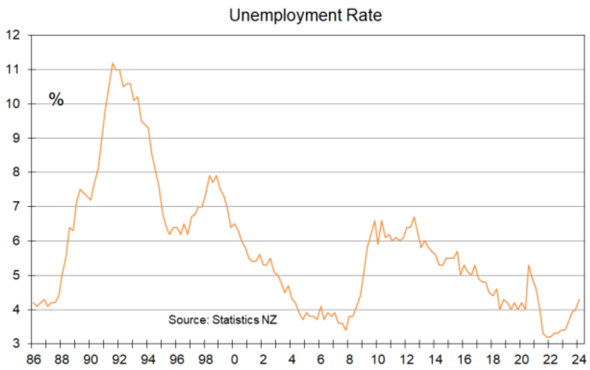


One might try to write that the situation currently is about as good for buyers as it was through 2022 into mid-2023. But that would miss some of the other reasons why we are in a strong buyer's market.

Buyers are more worried about their incomes than at any other time during the four year period of my monthly survey. A net 50% of agents have reported that they are observing people express concern about their jobs etc. The average for this measure is 16% and only three months ago the reading was below this average at 14%.



This has been the key change in the economy since the start of the year. People, and especially young ones who have known nothing other than strong employment conditions, are shocked by the reports of layoffs. I use the word shock because in reality the overwhelming majority of people are not affected. The unemployment rate only sits at 4.3% which is well below the three decade average of 5.3%.



But jobs growth essentially stopped in the middle of last year and the long-running ability of people to pick and choose amongst potential employers has ended. The ability to tell a current boss or a potential new one how many days you plan to work from home is eroding.

The media have this past week noted the jump in youth unemployment and asked why this is happening. Three reasons. First, this always happens when labour markets soften. The quantity of new young people entering the workforce continues to go up whereas this is largely not the case for most other age groups where people are already in the workforce. It's a purely mathematical thing.

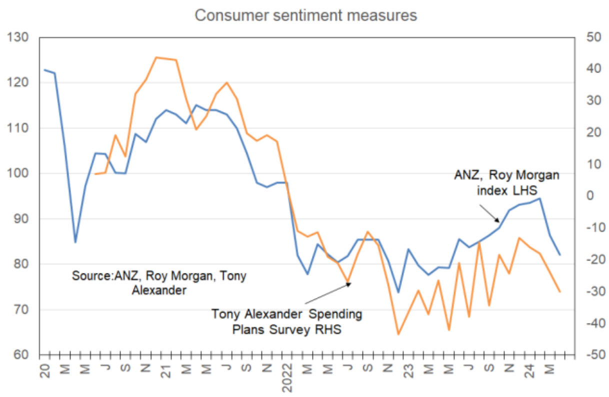
Second, it is possible that the expectations of young people seeking employment are less realistic than those of older folks. The older people may have mortgages to service, partners and children to support, and will be more willing to "eat bitterness" as the Chinese would say than young people with lower regular cash outgoing requirements and parents to fall back on.

Third, young people offer less experience and have less knowledge of what they are good at and what they enjoy than those who have been in work for a few years. They tend to be a riskier bet for businesses hiring staff than older folk.

The downturn in employment will be good for the educational sector as many young people will do what they have always done in the past when economic conditions are tough – use the time to get some extra qualifications.

Turning back now to the housing market. Buyers can pick and choose amongst many listings, but many are not doing any of that because they are worried about their jobs. They are now out of the market until things look better. But things are looking worse, and we can see that in the ANZ Roy Morgan Consumer Confidence Survey.

On average their sentiment reading sits at 112. It hit 74 at the end of 2022 then recovered to 95 this February. It is now down at 82. People are scared and shocked into their shells.



I can attest to a version of this relevant to business sentiment from my own experiences. People have closed up shop. I have had an email address since sometime in the mid-1990s initially in the corporate sector and since late-2019 while running my own business.

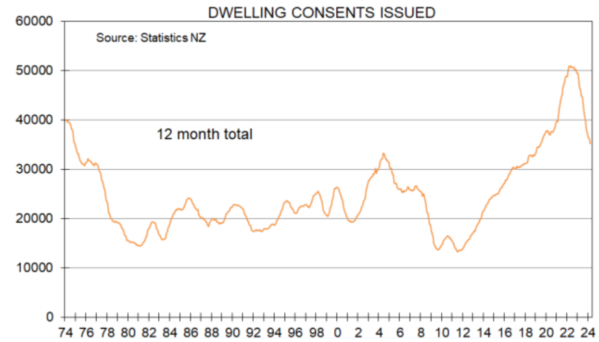
I have never seen the email flow as low as it is now. People have stopped making enquiries about things. Requests for presentations have collapsed. From the point of view of getting a lot of stuff done on the property, restarting tramping, chain sawing, renovations etc. this is great. But it bespeaks of businesses pulling their horns in on spending across many sectors.

For businesses it is not just lower than expected sales. Like households they have probably used up cash reserves built up during the pandemic when the government went on an irresponsible spending spree. They are also having to deal with the IRD which is catching up on delayed tax obligations having taken a light hand for a few years because of pandemic stresses.

Psychologically everyone is being shocked by soaring bills for council rates (using their monopoly powers as monopolists always do), and insurance.

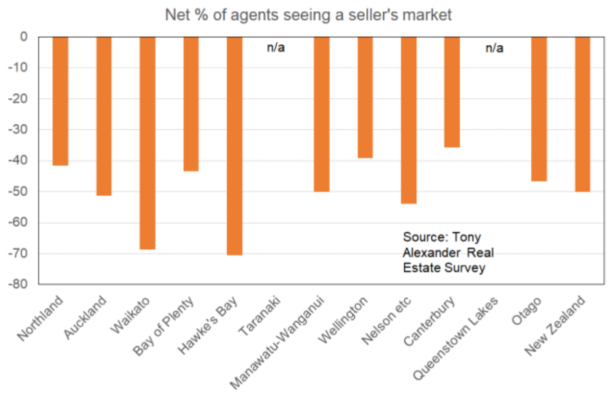
There is also a widespread and increasingly greater than expected downturn in house construction now underway. I warned about the coming "weeding out" period three years ago and now we can see that as more and more potential buyers back away from new-builds for a variety of reasons, many operators are closing or slimming down.

Statistics NZ last week noted that the number of consents issued for new dwellings to be built fell 26% from a year ago in March with the annual total now at 35,200 from 36,300 one month ago, 40,400 six months ago, and 46,900 a year back.



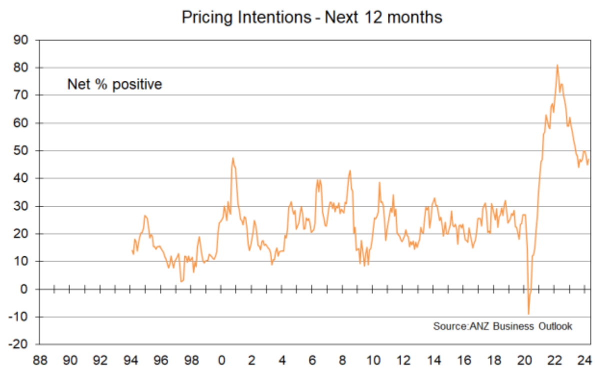
The way things are going we look headed for an annual number comfortably below 30,000 before things bottom out and an upturn appears assisted by firm population growth and eventually falling interest rates.

To finish off here is my standard graph showing the extent to which each region is in a buyer's market. Note that I did not get enough agent returns from Taranaki, Southland, and Queenstown Lakes to allow their numbers to be calculated.



And finally a reminder. My long-running view regarding monetary policy is that just as the Reserve Bank over-loosened during the pandemic and afterwards they have now overtightened. At some point they will cut interest rates rapidly and my best guess for when that starts is just before the end of this year. Before then they will hold out with minimal comment for as long as they can with good justification for doing so because of one key central thing.

Businesses are still planning to raise their selling prices and have yet to completely capitulate to the altered economic environment.



Until many more realise that despite their costs jumping 10%, they can only raise prices 2% and must find savings and boost productivity, monetary policy will not be eased. Householders are certainly doing their part in drastically cutting back spending. The central government is as well. Councils are not and neither yet are businesses. The ball essentially is in their court. Customer demand won't come back until they give in.

The longer they take the worse will be this end-game period for monetary policy tightening. Remember that it takes 18-24 months for tight policy to have its greatest impact on inflation. You might think that because the first cash rate increase came in October 2021 that we should see falling interest rates now because 31 months have passed since then.

But the initial rate rises were only 0.25% and we did not get the 0.75% jump and warning from the Reserve Bank of recession until November 2022. In May 2024 we are only 18 months along from that shock tightening. Only now are we in the really intense period of the deepest grinding into cash flows and attitudes of the policy tightening.

Good luck as we proceed through what is going to be a very challenging Winter for many businesses. You might think your only hope of an early policy easing from the Reserve Bank will be if the government delivers extra tightening of fiscal policy in the May 30 Budget.

But with tax cuts planned that is unlikely and even if they did radically tighten things up the early interest rate falls would only go to offset the new source of downward pressure on the economy anyway.

In case you missed it

This week I released results from my monthly survey of residential real estate agents. Key results included the following.

- FOMO has almost completely disappeared as buyers firmly feel that time is on their side.
- Attendance is weakening again at auctions and open homes.
- The early year surge in fresh listings may be about to ease as fewer agents are noting people coming forward for property appraisals.

Microsoft Word - NZHL Property Report - April 2024

If I were a borrower, what would I do?

I've nothing much new to report beyond noting wholesale rates have drifted slightly lower this week in not an exciting fashion. They are still slightly higher than four weeks ago. We await more data in coming months not so much regarding how weak the economy is but how much businesses are pulling back on their plans to raise prices. They are the inflation problem now, not profligate households nor a rampant housing market nor an extremely tight labour market.

If I were borrowing at the moment, I would take a mix of 6 and 12 month fixed rates and expect to make a similar decision in 6-12 months time.

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.