

Input to your Strategy for Adapting to Challenges

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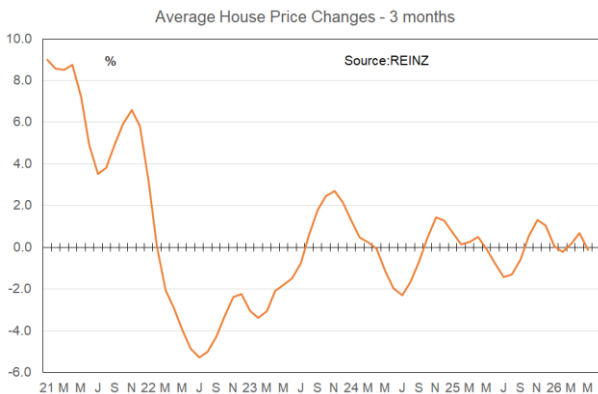
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House prices falling – but not everywhere

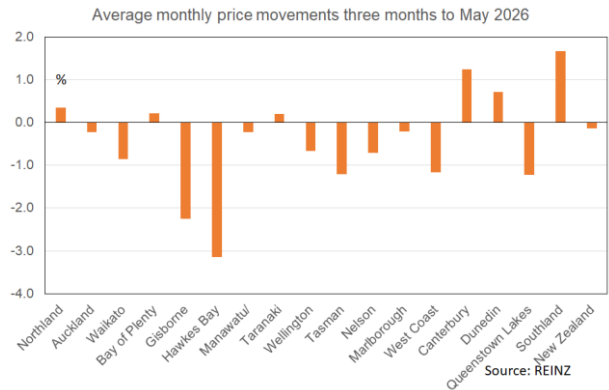
REINZ released their monthly data this week and they tell us these key things. First, house prices on average are not rising. In fact they have fallen on average as measured by the nationwide House Price Index some 0.1% over the past three months. I read that as prices being flat with a slight bias to the downside.



For Auckland the change in the three months to May from the three months to February was a 0.2% decline, Wellington 0.7%, but for Canterbury a rise of 1.2% with Southland up 1.7%.

These data help illustrate the impact of higher rural incomes down south and good population

growth for Christchurch – the latter on the back of good affordability and underlying post-quake upsides.



In my monthly survey of real estate agents with NZHL a net 37% of agents said that prices are falling in their area of operations. On that basis we shouldn't expect much price movement upward on average through winter. Instead some declines are likely, especially as a rise in the official cash rate looks possible three weeks from now.

With regard to dwelling sales things are easing off. In the three months to May sales were 2% down from a year ago. But in rough seasonally adjusted

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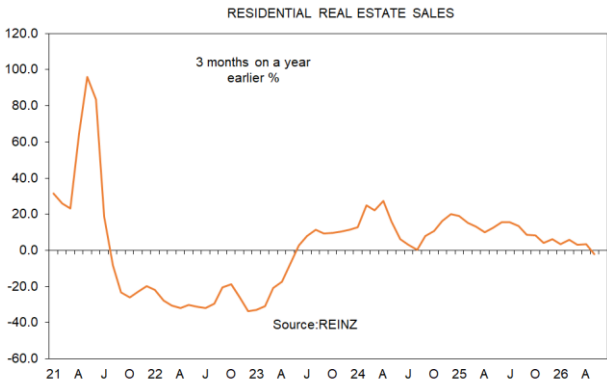
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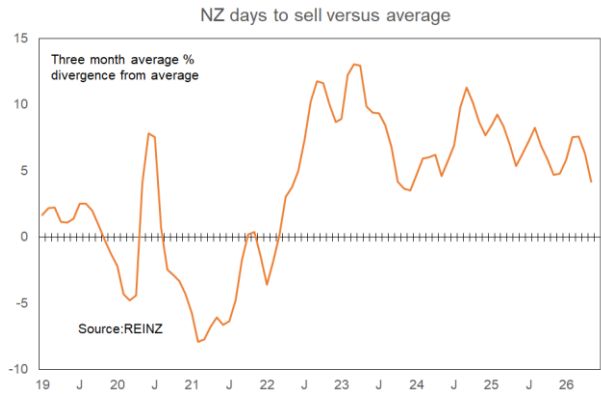
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terms they have fallen nearly 9% in the past three months.



The US attacks in the Middle East have had a depressing impact on economic activity in many sectors and residential real estate in New Zealand is one of them.

And for the record, on average in the three months to May it took 43 days to sell a dwelling around the country. This was unchanged from a year ago. The following graph shows by how much this average days to sell measure is sitting below or above the average for the relevant time period over the past ten years.



Things are slower than usual.

Will the change in some things back to their pre-February 28 status in the underlying conflict between the US and Iran have much impact in the real estate market this year?

The easing off of energy prices won't stop interest rates from undergoing their cyclical increases which started in November last year. Higher interest rates will tend to crimp improvements in house sales and prices. The issue however is whether underlying cyclical forces behind the recovery in our economy gain sufficient strength to offset the interest rates effect. In that regard we have to look at the labour market.

Will jobs growth become strong? Probably. But the labour market lags the economic cycle, and we cannot know when businesses will decide the outlook is sufficiently "safe" enough to switch from simply offering more hours to offering more jobs.

Given the approaching general election and the deep concerns businesses have about what might result it would seem unreasonable to expect this transition from hours to positions growth to happen before the end of this year.

That means one of the key factors relevant to people's housing decisions is likely to remain subdued until 2027. But then momentum will kick in and drive extra buying in the housing market. The question then reverts to how high interest rates will need to go this cycle in order to contain inflationary pressures.

Your starting point when considering this for yourself has to be this. No-one realistically knows what the peaks in the various interest rates will be and when they will occur.

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It pays to keep in mind that at the start of the tightening cycle from late-2021 the Reserve Bank's pick was that the cash rate would rise from 0.25% to peak at about 2.5%. It reached 5.5%.

At the start of a tightening cycle it is impossible to accurately pick the rate peak and when it will occur. That is a key reason why I favour fixing my mortgage interest rate for three years if I happened to have a mortgage. The levels of uncertainty we face are huge. I would like certainty for my debt servicing outflows freeing up my time and energy to focus on other aspects of my life be it directed towards investments, work, business, or simply family.

At the moment the forecasts for where the official cash rate will peak are perhaps 1% above the current level of 2.25%. That sounds optimistic. We'll just have to wait and see and that includes with regard to the timing of the first policy tightening.

The next cash rate review is on July 8, and the markets are largely primed for a rate rise of 0.25%. So, should it happen – and odds say it will – then the actual impact on mortgage rates other than floating will be minimal.

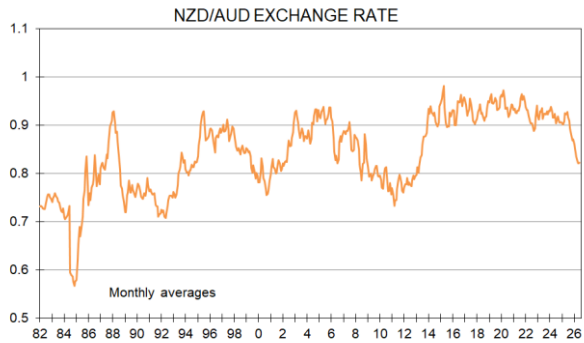
However, there is a good chance that the Reserve Bank's tendency to tighten too late each cycle (then tighten too much) will mean they find an excuse to hold fire. That excuse may be a desire to see how the proposed reopening of the Strait of Hormuz will affect global energy prices, sentiment, and inflation expectations.

Final thought – keep an eye on the NZD/AUD exchange rate. The Reserve Bank of Australia this week left their cash rate unchanged at 4.35%

via a unanimous committee vote. Negative factors are adding up for the Australian economy including the effects of the recent Federal Budget tax changes.

But here in New Zealand we have a flowthrough into growth coming from strong rural incomes and our central bank soon to start the tightening cycle in either July or September.

The key driver of the fall in the NZD/AUD exchange rate has been the opening of a strong gap between the key interest rates of our countries. As that gap gets closed a recovery from the current sub-83 cents could easily occur.

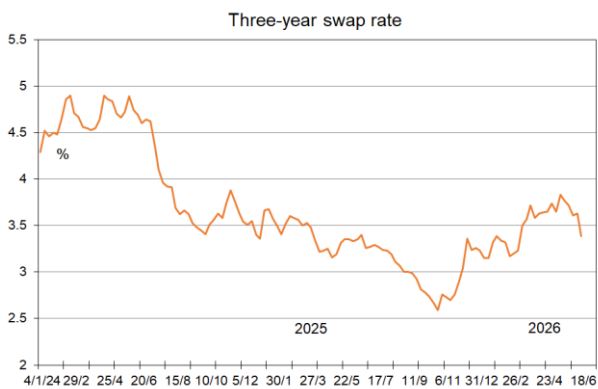


As for timing, that is anyone's guess. Good luck.

If I were a borrower, what would I do?

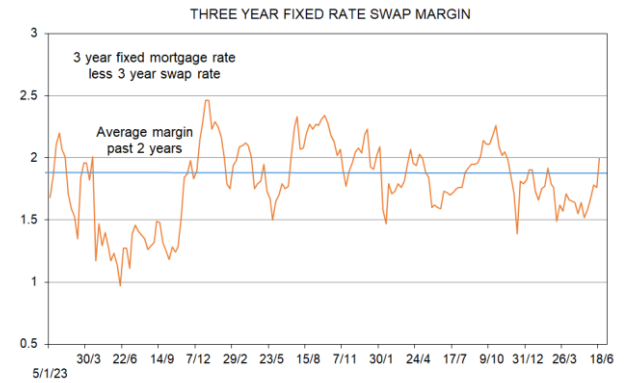
Assisted by some slightly better than expected partial inflation numbers in New Zealand alongside falls in global energy prices following the new US/Iran ceasefire news wholesale interest rates have fallen this week.

The one year swap rate at which banks borrow one year fixed to lend one year fixed has eased to near 3.04% from 3.16% and the three year swap rate has fallen to near 3.4% from 3.65%.



For now the pressure has come off banks to initiate another round of small increases in their

fixed lending rates. Assuming this morning's GDP data released after I finalised this week's publication was not shockingly up or down, chances are good that banks will hold fire for now to await the next cash rate review on July 8.



If I were borrowing at the moment, I would still favour fixing three years.

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

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