Tony Alexander: Odds of pre-Christmas rate cut increasing as economy deteriorates

Good news for borrowers, but buyers are in retreat.

Tony Alexander03 Jul 2024

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Inflation is heading towards the Reserve Bank's target band, but the housing market is feeling the pinch. Photo / Fiona Goodall

ANALYSIS: The chances of interest rates being cut by the Reserve Bank before Christmas keep increasing. That is good news for borrowers, but because the increased chance of a cut partly reflects deep weakness in the economy, the immediate economic outlook is fairly poor.

Two key measures which we economists keep an eye on to try and gauge where inflation is headed were released this past week. The NZIER in their Quarterly Survey of Business Opinion reported that a net 23% of businesses plan to raise their selling prices over the next three months. This is down from a net 33% in the March quarter and is the lowest reading since late-2020.

The average for this measure since inflation consolidated near 2% in 1992 is 22%. This tells us that inflation is firmly headed towards 2%. However, given that the pace of growth in our economy since 1992 has averaged about 2.7% a year versus near zero growth now, this measure will have to head towards 0% if not negative before immediate justification for an easing of monetary policy will be in place.

The same comment applies to the ANZ Business Outlook pricing intentions measure. It has just fallen to a net 35% of businesses saying they will raise their selling prices in the coming year from 42% a month ago. The average reading since 1992 is 25%.

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Again, the case cannot be made for the Reserve Bank to provide borrowers with interest rates relief right now. But the way in which the economy is deteriorating tells us an easing in the 5.5% Official Cash Rate before Christmas is an odds on bet.

Switching specifically to the housing part of the economy now, I have most of the results in from my monthly survey of real estate agents and things look just as weak as they were a month ago. A net 2% of agents say they are seeing fewer first-home buyers looking to make a purchase and a net 21% are seeing fewer investors. Buyers are becoming more scarce.

Again, a clear explanation for the easing in demand can be found in new worries about employment with 57% of agents citing job worries as occupying buyers' minds. Worries about interest rates however continue to creep lower. Forty-two per cent of agents say buyers are worried about borrowing costs which is well down from the 91% peak in October 2022 but still obviously something people have concerns about.

A record low 1% of agents said that buyers are displaying FOMO – fear of missing out. That is as good as saying no buyer feels that they need to be in a hurry to make a purchase. There is an important message in that for sellers. Hard bargaining on your part and refusal to accept buyer conditions will likely yield no sale and one's property staying on the market and becoming "stale".

Independent economist Tony Alexander: "Refusal to accept buyer conditions will likely yield no sale." Photo / Fiona Goodall

Interestingly, there is as yet no evidence of a blowout in the average number of days being taken to sell a property and that could be because vendors are relatively quickly assessing demand to be weak and putting their property up for rent. That would help explain the slowing in the pace of rents growth and the increasing difficulties which landlords say they are experiencing in finding good tenants.

Clearly, this rental market easing will reverse once buyers return to the real estate market and once people factor in a still falling number of new homes coming into the market. Consents for new-builds have fallen by 23% in the past year and are still going down.

- Tony Alexander is an independent economics commentator. Additional commentary from him can be found at [www.tonyalexander.nz]