Pedestrians pass a real estate office in Christchurch. Agents across the country have reported fewer buyers at auctions and open homes. Photo / Peter Meecham

Tony Alexander: Reserve Bank's best weapon - scaring the bejeebers out of us

Tony Alexander

29 Nov 2022

Bank has predicted a recession, rising unemployment and falling house prices·

ANALYSIS: Most people who give the issue some thought believe that the only tool of monetary policy which the Reserve Bank of New Zealand (RBNZ) uses to fight inflation is interest rates – crunching things on the way up then causing an eventual borrowing binge on the way down. You'd be hard-pressed to say that our central bank is actually stabilising the economy because its tendency is both to loosen too much and tighten too much over the inflation cycle.
That criticism aside, there is another way in which the RBNZ implements monetary policy and last week showed one of the best uses of this other weapon – scaring the bejeebers out of people. The RBNZ predicted recession, saying that it needed to create one in order to get inflation back to near 2%. It predicted rising unemployment and additional falls in house prices. The media has amplified the worrying comments, articles have appeared telling us how to handle a recession and woe is generally in the ascendancy.

The more people go into their shells, the less high interest rates will need to go and the less downward pressure there will be on our valuable export sectors from a rising NZ dollar. The fewer also will be the number of people forced to sell their home, but the number choosing to do so may increase.

Can we see evidence that people have run scared for the hills? Yes. I am part-way though my monthly survey of real estate agents and with almost 500 responses in can say two important things.

First, numbers attending open homes and auctions have fallen away, investors have backed off even further, and agents say prices are falling more. But the second point is the more interesting one. First home buyers have backed off, but their presence remains far stronger than that for investors.

The current market is more in favour of first home buyers than at any other time in the last one to two decades. They face almost no competition from investors at auctions and tenders and will bump into few other people at open homes. The stock of listings is up over 70% from a year ago, vendors are more and more willing to negotiate and accept conditional offers, prices are on average over 12% off their peaks, and banks are slowly easing their lending criteria.

If the numbers for debt-servicing stack up, then first home buyers might not have it this good in comparison with other buyers again for a long time – especially given the way the polls are showing a strong chance that Labour will be out of office a year from now. Anticipation of interest expense deductibility returning will bring investors back from some point next year.

What young buyers need to watch for is a turning of the interest rates fear factor, which might come sooner than people are thinking. In just over four months the official cash rate will have hit its predicted cyclical peak of 5.5%. Probably before that happens attention in the financial markets will turn to the timing of rate declines.

Independent economics commentator Tony Alexander: “The current market is more in favour of first home buyers than at any other time in the last one to two decades.” Photo / Fiona Goodall

That will be complete guesswork for a long time. But the important thing is that not long from now borrowers will be able to visualise their worst case scenario. As a few nod their heads acknowledging that they can in fact handle non-floating mortgage rates of 6.5%, interest in taking advantage of a housing market very strongly in favour of buyers will grow.

We are definitely not there yet. And here is one other quick thing to keep in mind. The Reserve Bank predict that 1% shrinkage in our economy will produce a 2.4% rise in the unemployment rate to 5.7%. But 2.7% economic shrinkage over 2008-09 produced a 3.2% rise in the unemployment rate back then to 6.5%. With the labour market tighter now than at any time in the past half a century, to expect double the layoff impact from falling economic activity compared with 2008-09 does not stack up.

The ongoing tight labour market has two main implications. Job security will remain high and that will keep people interested in a property purchase and limit price falls from here. But wages growth will be slow to fall and when interest rates decline the pace will be very slow and nothing like the rate collapses of 2008-09 or 1998.