# The Mike Pero Mortgages – Infometrics Property Cycle Indicator

**September 2007**

## House sales volumes hit six-year lows

- **House sales growth deteriorated over the three months to August, with sales down 15% on a year ago.**

- **House price inflation eased to 12%pa in August, from 14%pa in May.**

- **Fixed mortgage rates remained at high levels, with only the five-year rate currently below 9%.**

- **The average number of days to sell property remained low in August, at 33 days.**

- **Rental inflation remained steady in August at 6.7%pa.**

The Mike Pero Mortgages - Infometrics Property Cycle Indicator eased from 5.42 (revised) in the June quarter to 2.23 in August. The slowing momentum in the property market is most evident in house sales volumes. However, the nationwide Indicator remains positive on the back of strong house price growth.

All 12 regions recorded a lower reading than in June. Northland, Auckland, and Southland are now the only regions with positive Indicator readings.

Activity at the low-priced end of the market has eased in recent months. This trend is due to weaker demand from property investors, as well as a softer market in provincial areas.

The recent collapse of a number of finance companies is unlikely to have a major direct impact on the real estate market. However, household confidence has come under pressure. Households are becoming more cautious when making spending and investment decisions, which is adding to existing weakness in the property market.

One positive side-effect of the credit crunch is that the Reserve Bank is unlikely to raise interest rates again during the current cycle. However, the effects of rate rises from earlier this year are now becoming apparent, and momentum in the housing market is set to remain soft throughout 2008.

Map values:
3.50
5.16
-0.50
-6.19
-0.27
-2.81
-2.77
-0.67
-0.29
-3.68
-4.57
2.01
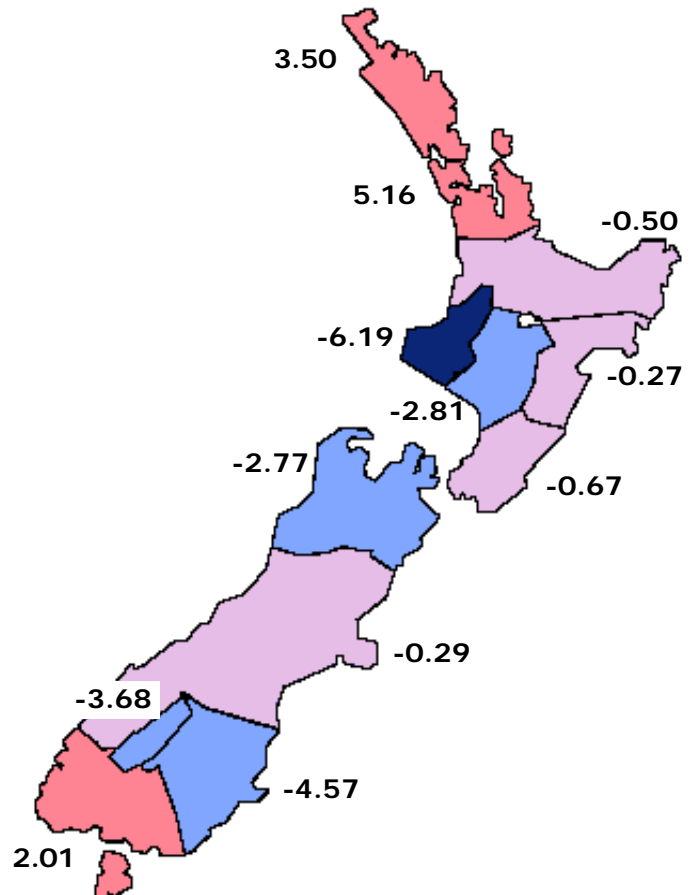
**New Zealand**
Property Cycle Indicator
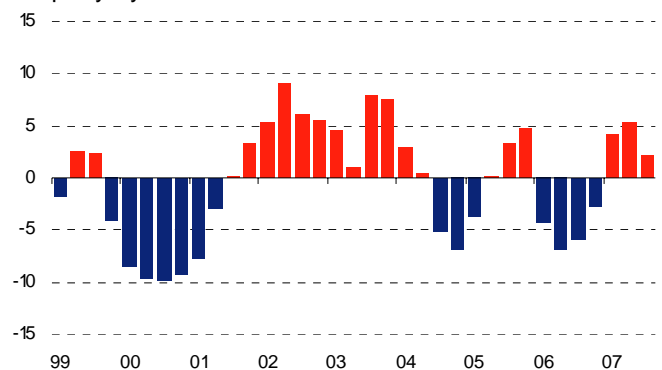
**The Mike Pero Mortgages - Infometrics Property Cycle Indicator is prepared jointly by Infometrics and Mike Pero Mortgages.**

## Understanding The Mike Pero Mortgages - Infometrics Property Cycle Indicator

The Mike Pero Mortgages - Infometrics Property Cycle Indicator is constructed using analysis of changes in house sales, price movements, and days on the market from data provided by the Real Estate Institute of NZ. Each region is assigned a number between 10 and -10 depending on the strength and direction of these three variables. Any figure above zero suggests a region's property market is gaining momentum, and the further above zero, the stronger that momentum. The converse is true for figures below zero.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator may show a region is losing momentum even when house prices are still rising. However, house prices are usually the last variable to change direction when the property cycle turns. Generally, lower sales volumes will be the first sign of a slowdown, followed by properties spending longer on the market, eventually resulting in less upward pressure on house prices. By incorporating all three variables, The Mike Pero Mortgages - Infometrics Property Cycle Indicator attempts to pick up shifts in the market earlier, and provide a signal of possible future movements in house prices.

## Mike Pero Mortgages

Mike Pero Mortgages is New Zealand's largest, most trusted mortgage broking company (Colmar Brunton May 2006). Mike Pero Mortgages has been arranging mortgages for New Zealanders since 1991, and has helped more than 60,000 Kiwis achieve home ownership. Mike Pero Mortgages remains independent from the banks, and its brokers pride themselves on providing professional, impartial mortgage advice to their clients.

## Infometrics

Infometrics offers a range of economic consulting and forecasting services, and the building and property sector is one of its areas of expertise. Over the past 25 years, Infometrics has built a reputation for rigorous and independent work. The company has economic models and modelling expertise to apply to specific consulting projects. Infometrics presentations are widely regarded as entertaining, thought-provoking, and professional.

## Disclaimer

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Data on residential property sales and prices is provided by the Real Estate Insititute of NZ (www.reinz.org.nz).