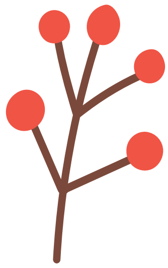
ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT

Newsletter

DECEMBER 2022



Welcome

Welcome to our final edition newsletter for 2022. An opportunity to say thank you to all of the wonderful clients and friends of Advice Knight and to wish you all a very merry Christmas and a Happy New Year.

It's certainly been a tumultuous ride throughout the duration of 2022 juggling COVID changes, new industry regulations, rapidly moving lender policies before becoming particularly wild in the latter stages as our Reserve Bank Governor, Adrian Orr, became scrambling to stamp out rampant inflation through a series of sharp interest rate hikes. The Official Cash Rate has incredibly climbed from a record low of 0.25% only 18m ago right through to the current 4.25% and is tipped to reach a potential high of 5.5% come April.

While your editor hasn't made it a secret that he isn't Mr Orr's biggest fan and strongly feels that things became too loose too quickly (i.e. interest rates were slashed rapidly and money printed in haste before any data existed) through to now where it feels as though rates have risen too quickly before having a chance to kick in, it is acknowledged that it is important for inflation to be brought into check. And for all his fumbling foibles he is only one man; one cog in a machine that almost feels pre-programmed to march right of the cliff, whether it is he or some other lever-puller standing at the control panel. Like a clown shot out of a circus cannon, New Zealand's economy trajectory feels firmly fixed for recession in 2023…

But at this stage, as far as we can tell the pumps still pump when we fill the car, the coffee still tastes the same (albeit more expensive), bakers still bake and economists still pretend to know what they're talking about it! So enjoy the ride dear readers.

In this Issue

Mortgage Rates Peaking

by Tony Alexander

Last month I noted that there was a 70% chance we were at the cyclical peak for fixed interest rates. But the 30% probability has come into play in the form of the Reserve Bank's tightening of monetary policy on November 23. The 0.75% increase in the official cash rate was marginally above market expectations as was their pick for the peak in the cash rate in April next year of 5.5%.

In response to the extra tightening of monetary policy and words from the Reserve Bank warning about the need for a recession and high interest rates we have seen some small increases in bank wholesale funding costs. By themselves these increases don't necessarily justify the 0.5% or so increases in fixed mortgage interest rates which are now under way.

But for much of this year bank margins on fixed rate lending have been well below average and it appears that banks have, logically from their point of view, taken advantage of the warnings from the Reserve Bank to restore margins back towards the average levels for the past two years.

Will interest rates for borrowers still go higher? Probably not, and this time around I would give a 90% chance to us now being at the peak in the fixed mortgage interest rate cycle. Why?

Offshore we are seeing evidence of inflation falling, oil prices have declined, shipping costs are going down, annual inflation rates have fallen in the United States and Europe, and central banks overseas are indicating they intend slowing down the pace of increase in their official interest rates.

Here in New Zealand, we have just seen the ANZ monthly Business Outlook survey reveal a new steep decline in business sentiment along with negative intentions of hiring more people and boosting capital expenditure. The important thing about this survey is that practically all the results came in before November 23. There is a risk that the Reserve Bank is now over-tightening monetary policy.

The financial markets in fact may be coming around to that view in light of the collapse in business sentiment along with a decline in building consent numbers now starting to appear, a fresh fall in consumer confidence, and the results of my latest survey of real estate agents all around the country.

The survey shows that as a result of the Reserve Bank's extra monetary policy tightening both first home buyers and investors have stepped even further back from the market. Agents are now newly seeing fewer people show up at auctions and open homes and more consider prices to be falling in their location.

I think there is an element of shock and awe in these results and in particular expect first home buyers to come back into the market as we move through summer. House prices have fallen over 12% from their peaks, incomes have risen almost 9% in the past year, banks are slowly easing their lending criteria, the labour market remains very strong, listings are well ahead of levels a year earlier, and first home buyers face very little competition from investors at auctions.

I'm still of the view that the housing market generally will bottom out in the autumn to winter period next year and a key factor likely to bring buyers generally back into the market is a change in view on interest rates. As soon as people can see the worst case scenario for mortgage rates, they will focus their attention on when those rates start falling.

The chances are good that the medium to long term fixed interest rates will be falling before the middle of next year and the popular one and two year rates are likely to head slightly lower before the end of 2023.

Another thing to keep an eye on is where the political opinion polls are going. As the probability assigned to a change in government at next year's general election goes up, we can expect more investors to re-enter the market in anticipation of interest expense deductibility returning.

Overall, the residential real estate market remains in a considerable state of flux. In particular, we are in a period now when the effects of rising interest rates from the middle of 2021 are starting to show up. Inflation forecasts will fairly soon start falling. The state of confusion is likely to lead to some small downs and ups in interest rates and borrowers should keep an eye out for the specials which banks will be running. After all, it pays to remember that banks are in the business of lending money and with their margins on fixed rate lending now having been restored we should not be surprised if any falls in wholesale interest rates partly attributable to an improving inflation outlook offshore lead to some early rate discounting here in New Zealand.

Tony Alexander is an independent economist with additional commentary available at **www.tonyalexander.nz.**

Sage Advice

Should I break and re-fix before my roll-over date?

by Anthony Sage

As interest rates continue to rise, we are often asked by clients if they should consider breaking and re-fixing their existing interest rate prior to their scheduled rollover date.

This is a good question and really depends on a combination of your overall risk tolerance and your ability to service lending at a higher interest rate in the future if required.

We have seen 12 month fixed rates rise from lows of 2.19% to 6.49% in less than 2 years – which is certainly unprecedented in the NZ market. It is hard to imagine now that the 60 month fixed rate of 2.99% available not long ago wasn't overly popular!

Banks are now paying healthy cash contributions of up to 1% of the loan amount, and are tending to price new business favourably giving many borrowers the incentive to refinance as banks compete for market share in a slowing market.

When you refinance you also have the option to adjust the loan term and structure to suit your goals and cashflow requirements. You can utilise innovative products like revolving credit or offset facilities to store that cash contribution and any other cash you may have on hand. This minimises interest payable and provides you with enhanced flexibility if you need access to these funds in the future. Offsetting a mortgage rate of 6% also beats any savings or term deposit product available in the market (and it's a 'net return' vs savings accounts returns that are taxed).

The Bank assessment process has improved in recent months with most lenders responding inside 5 business days. Once a loan is approved the pricing can be locked in through loan documentation. Most banks allow you to execute those documents within 60 days, meaning you can reap maximum benefit from the low interest rate you possess for a further two months post documentation and pull the trigger when you're ready (e.g. on rate expiry or sooner if desired). This hedges your position against further rises to interest rates while keeping your current rate in-tact as long as possible – the best of both worlds.

If you have multiple properties, another consideration to keep in mind is avoiding the dreaded 'one bank trap' and splitting your portfolio up between two or more banks (situation dependant) to ensure any one bank does not hold too many cards if you want to sell or make changes in the future. As advisers we specialise in this sort of transaction and ensure you are well informed and can consider all options on the table.

Speak with your Advice Knight adviser today to see if a similar solution may be the right choice for you.

Anthony Sage is an Advice Knight Adviser; you can reach him by email anthony@adviceknight.co.nz or phone 022 651 7802.

Chris' Corner

Preparing for Higher Cost of Living

by Chris Dilks

The 'Cost of Living' crises is a hot topic in New Zealand currently with high inflation and the rapidly rising OCR leaving the majority of us more than a bit concerned about our income to expense ratio.

The best piece of advice we can give clients is to be prepared and start making adjustments sooner rather than later. If you have a home loan coming off its fix-rate in the next 12 months then start budgeting for the additional mortgage repayment now so that when it does happen, you have already adjusted to this increased payment (we can help to give you estimated repayments for this depending on when it does roll over).

If you do not currently have a home loan, then it is worth reviewing your accounts and seeing what excess income you have left over after you have paid all your expenses. If you are finding that you are unable to save any money after paying your expenses, then it is worth seeing what adjustments you can make now before costs rise further.

Another great tool that will help take the pressure off in the event of unexpected expenses is to build an 'emergency fund'. Asides from all else, people's sense of wellbeing increases if they have at least three months of required household expenditure set aside to cover unforeseen expenses that can arise. Access to funds will help you maintain your budget and prevent you from taking on expensive short-term debt or having to make drastic sacrifices in your lifestyle if something unusual does come up.

Having an emergency or survival fund allows us to bounce back faster and navigate life's unforeseen challenges that can arise. Events ranging from unexpected dentist/car bills to job loss or even a health crises. Don't let the sum of three months required income as savings intimidate you, we can assist in building that buffer through some sensible budgeting tips and you can cleverly use these funds to offset against your mortgage interest cost or to gain a healthy return on their own.

It's important to maintain a positive mindset as well as fiscal sensibility and know that the current economic climate won't last forever. Don't make knee jerk reactions with current investments e.g. selling assets at a discount in a suppressed market. KiwiSaver provides a great example and the volatility and negative fluctuations people have recently seen within their funds can cause alarm. If you are currently invested in a more aggressive type fund and have noticed your account balance dropping, it can feel tempting to switch to a more conservative setting. By doing so, you are essentially locking in or 'crystalising' your losses and can miss the upturn during recovery phase. By holding firm and understanding that this is a marathon and not a sprint you will end up with far better gains over a 5–10-year period.

If you have not yet purchased your first home and were planning on using your KiwiSaver towards your deposit, then it may be worthwhile reviewing your fund choice and making sure it is best suited for your goals. If you have any concerns about your KiwiSaver and whether your provider or fund type aligns with your goals then it is worthwhile reaching out to a Financial Adviser and reviewing your position.

Keep calm, stay the course and reach out to our team if you would like any assistance.

Chris Dilks is an Advice Knight Adviser; you can reach him by email chris@adviceknight.co.nz or phone 021 169 2845.

Product Spotlight

BNZ Launches Green Home Loan

Joining their peers, BNZ too have now launched a great ‘Green Loan’ option for clients. The product allows for up to $80,000 to be raised at only 1% per annum fixed for three years and is available to use on a range of green options.

The funds can be used for anything from Energy Efficient Transport (electric / plug in hybrid vehicles, EV chargers even e-Bikes) to Energy Efficient Modifications to the home such as solar panel installation, home batteries, heat pumps, insulation, double glazing, ventilation, or Sustainable Water such as rainwater tanks.

If you were thinking about any of the above, do get in touch and we can help you access these funds (and similar offers) through a range of providers. With the cost of fuel where it is – upgrading that gas guzzler to a more fuel-efficient vehicle can save you thousands and improve your cashflow strongly in the year ahead.

Using this type of product a $50,000 Tesla, fully financed on a 8 year loan term would have repayments of only $125 per week for the first three years – probably not dissimilar to the cost of your fuel tank.

Note at the end of the three year term, rate will roll to standard housing rates.

In the Media

Since our last update, we've had the pleasure of being interviewed for the following articles.

Mortgage Broker's Advice as Interest Rates Up, Recession Looming

Radio New Zealand: Checkpoint

The Official Cash Rate has been hiked 75 basis points to 4.25 percent - the highest in more than a decade.

Mortgage broker Malcolm Knight from Advice Knight talks about the effects with Lisa Owen.

Expert Warns Of One-Year Mortgage Rates Passing 7%

TVNZ: 1News

1News business correspondent Katie Bradford looks at what New Zealand's stubbornly high inflation could mean for employment and mortgage holders.

One Year Investments Are Always A Gamble

NewstalkZB: The Weekend Collective

Director of Advice Knight, Malcolm Knight, joined the Weekend Collective to discuss what to do once you're mortgage free, D.I.Y investing, how to pick a good financial advisor and more.

Meet the Team

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Disclosure

Please **click here** to download our disclosure information; key information you need to know to help you understand what type of advice we are able to give you, so that you can make an informed and confident choice when engaging Advice Knight.

Final Word

'The best things in life are free'

We talk a lot about money and getting ahead but just remember so many of the best things in life are free. It's summer in our beautiful country, get out and make the most of it. Hit the walking tracks of the Waitakere's and picnic on our world class beaches with friends and family alike.

Have a fabulous Christmas and New Year period from the team at Advice Knight. We very much look forward to working with you all further and seeing what 2023 brings.

Malcolm Knight
Director, Financial Advisor

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