

Input to your Strategy for Adapting to Challenges

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Flat housing, positive economic outlook

My monthly survey of real estate agents is underway with sponsorship from NZHL and having a quick look through the results in so far, I can say that as yet there is no solid sign of fresh life in the residential real estate market.

Agents report weakness in numbers at auctions and open homes, falling prices, minimal FOMO, easing buying interest from investors, but still good purchasing coming from first home buyers.

Buyers are increasingly worried about interest rates going up and prices falling after they make a purchase. But job worries have eased in recent months and that is an important measure to keep an eye on as rising jobs strength will be a source of demand growth through 2027 and 2028.



Yesterday ANZ released the results of their latest monthly Business Outlook survey. We economists have much liked this survey over the decades because it gives a reasonably up to date guide as to changes in business sentiment along with their hiring and capital spending decisions.

We also gain some good insight into cost pressures and pricing plans which are important for getting a feel as to whether the risks for inflation and interest rates lie on the upside or the downside.

The net proportion of businesses feeling confident about the economy in the coming year sits at 52% from 54% last month – basically unchanged.

Businesses might be worried about what multi-headed beast the November 7 general election will throw up, but they are strongly confident that better times for them lie ahead.



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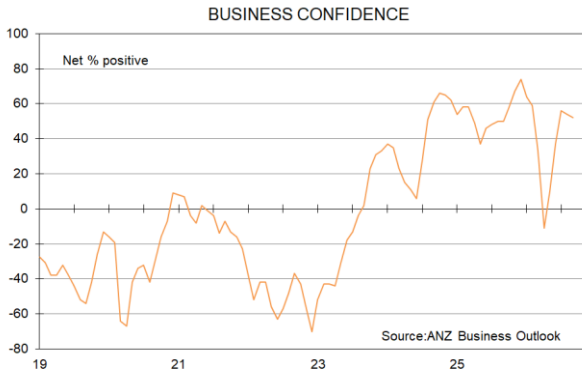
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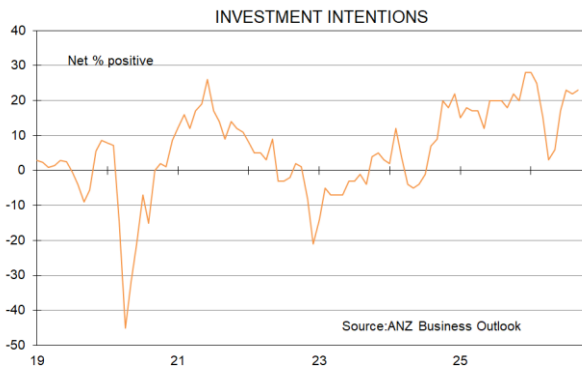
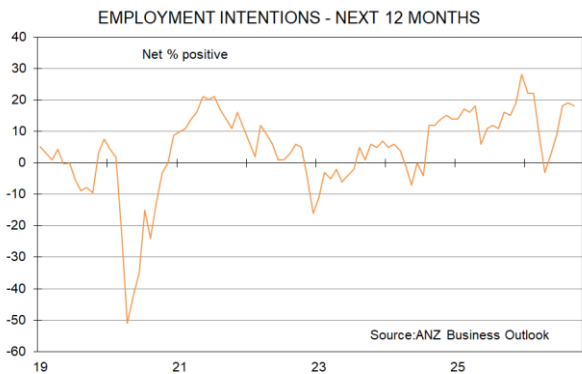
FAST DECISIONS

EXPERIENCED BUYERS

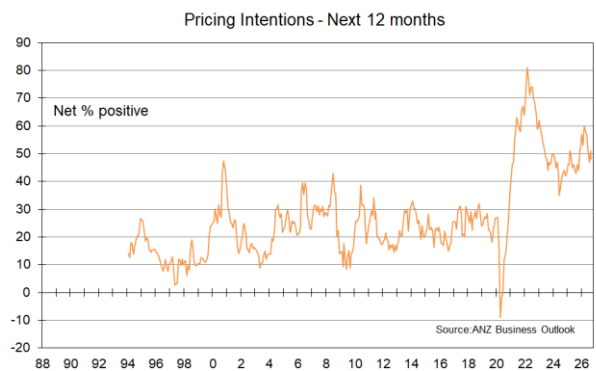
CONFIDENTIAL DISCUSSIONS



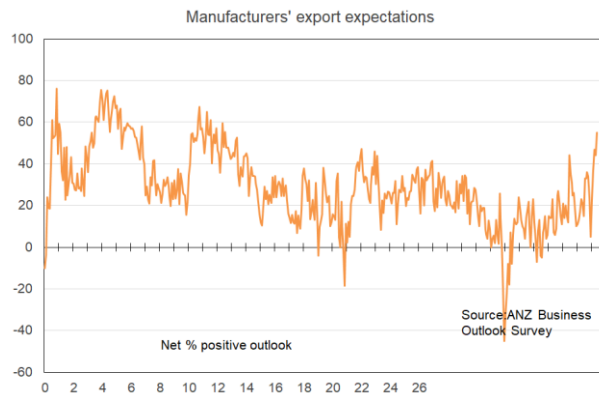
A net 18% plan to hire more people compared with a long-term average of 7%. A net 23% plan higher capital spending compared with an average of 11%. These are good numbers which help underpin the positive outlook almost all economists have for the next couple of years.



For the moment there is no fresh upward trend in the net proportion of businesses planning to raise their selling prices over the next 12 months. The latest result is 48% from 51% last month and 47% two months ago.



Overall there were no surprises in the survey, but the net proportion of manufacturers expecting higher exports has jumped to a 26 year high. This is what you can get when the NZD falls sharply against the Aussie dollar.



If I were a borrower, what would I do?

There was mild upward pressure on NZ wholesale interest rates this week as bond yields offshore took another move higher. The same factors are in play of worries about government budget deficits and debt levels, worries about higher than expected inflation, and increased bond issuance expected to finance some \$10tn of AI-related infrastructure development over the next six years.

Thankfully there was some mild downward pressure on NZ borrowing costs from the better than expected Pre-election Economic and Fiscal Update released by Treasury on Tuesday.

A return to surplus is projected slightly earlier than before as the fiscal numbers are tracking better than expected. But because this partly reflects some upward revisions to inflation projections the news is slightly less good than it seems.

Across the ditch the Australian central bank has raised its cash rate again by 0.25%, so it now sits at 4.6% compared with our own too low 2.75%. Our central bank cut the NZ cash rate 0.75% to 2.25% late last year after the economy had already recorded growth of 0.9% in the September quarter and was working towards 0.5% for the December quarter then 0.9% for the March quarter.

They misread the state of our economy as they have done many times in the past and it is this failure on their part which borrowers need to consider when managing their interest rate risk.

Our central bank sometimes has to make violent changes in interest rates to try and quickly rectify previous incorrect policy settings. But then they tend to go too far and as a result the degree of volatility in our economy over the economic cycle

is increased. This is probably one of the many factors helping explain why the level of productivity in our economy is falling. Yes, we are getting poorer.

I see a period coming up late in 2027 and through 2028 when the Reserve Bank will raise interest rates more than they are currently projecting because they cut too far last year and because inflation risks facing our economy are stronger than they let themselves imagine.

It pays to recall that when the March quarter inflation number came in it was 0.8% higher than they were predicting in November. The oil price shock only started in the latter part of the March quarter and contributed 0.1% to inflation over the quarter according to Statistics NZ.

Also, note that our central bank is projecting that taking the cash rate to just 3.25% will be enough to contain inflation as the pace of growth in our economy picks up through 2027. The Australian rate is 4.6% with additional tightening expected. The US rate is 3.75% with the markets pricing in another 1% to be added in the coming year.

A 3.25% peak for NZ does not appear credible. I reckon 4% - 4.5%.

If I were borrowing at the moment, I would fix three years in order to get my next rate reset beyond what I feel is going to be a messy period not too far down the track. Good luck.

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

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