

Input to your Strategy for Adapting to Challenges

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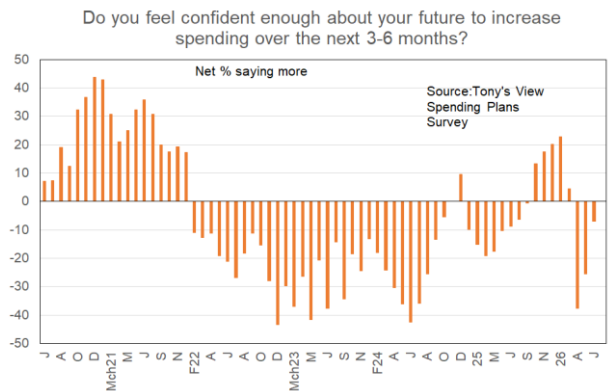
Consumers adapting to the new reality

There has been a substantial easing in Kiwi consumer pessimism over the past two months according to my monthly Spending Plans survey. Back in early-April a net 38% of respondents said that they planned cutting spending in the coming 3-6 months. This was about the same as the low-point towards the middle of 2024 before interest rates started falling, and was down from a nice +23% result at the start of February.

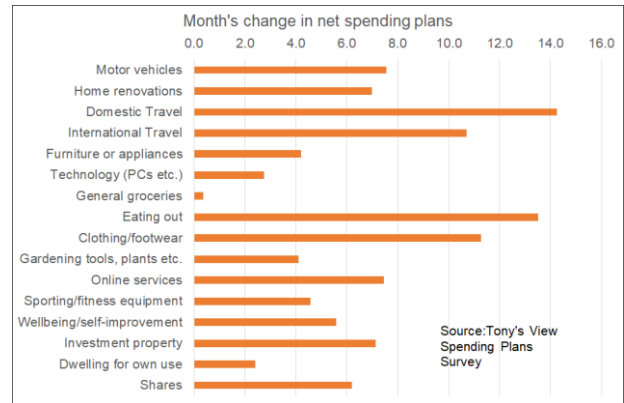
The US attacks on Iran caused a substantial spike in pessimism here and around the world as we all wondered in fear how the unpredictable events would affect us. Now, despite the war dragging on near three times as long as the protagonist said was planned people have adapted their behaviour and become less shocked.

Now, just a net 7% of people plan cutting back their spending, as shown in the survey's main graph just here.

Net spending plans have improved for all the measures I ask about in the survey with the biggest switch up for the past month being for domestic travel followed by eating out.



The change in results between last month and this month is shown in this second graph.



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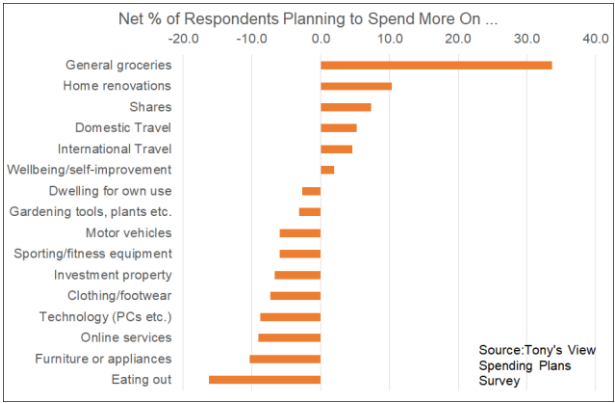
MR APPLE
 TENANT: OWNED BY AN NZX-LISTED COMPANY

20-YEAR
 TRIPLE NET LEASE (5+5+5)

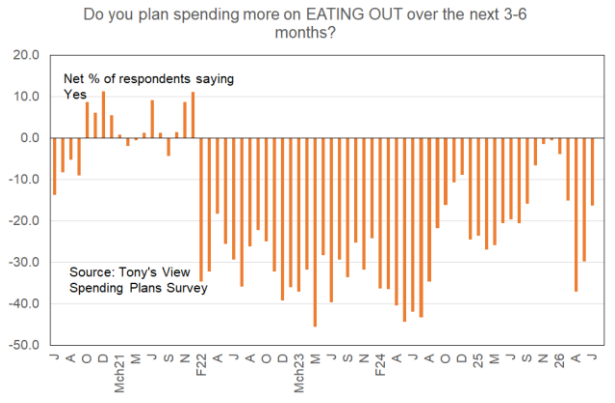
This offer is only available to Wholesale Investors.



The actual rankings of spending intentions are shown here. We plan spending more in six areas but less in ten others.



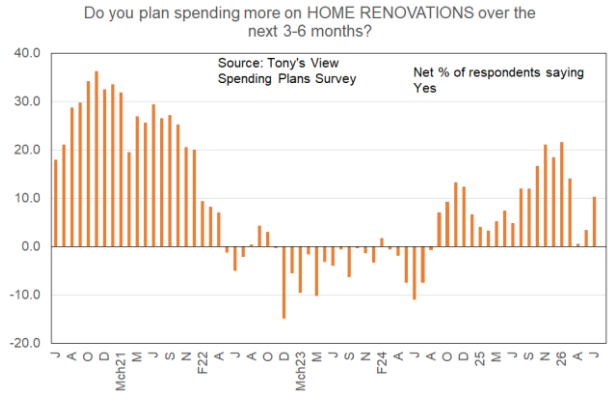
The big improvement in the eating out reading can be seen here. But the net result is still negative and not vastly different from last year's average. That means tough times still lie ahead for the hospitality sector as shown recently in business liquidations data.



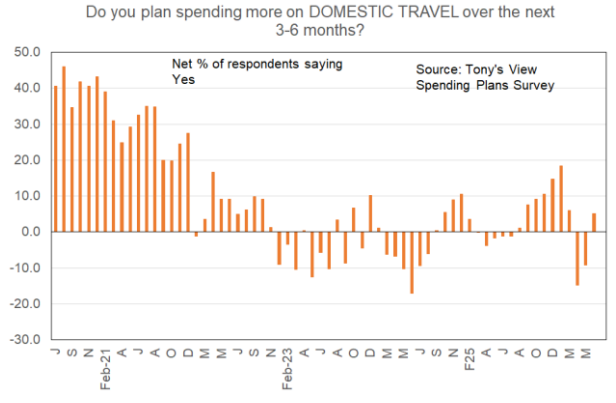
We continue to display firm intentions of getting home renovations done. Given worries about soaring construction costs (again) maybe it makes sense to rearrange and do up the next one

currently has rather than purchase a new one with the risks that entails. We Kiwis have a history unfortunately of building stuff which is not so great. It used to be no insulation. Then leaking. Now too hot in the afternoon, sometimes no parking, and things stacked on top of each other.

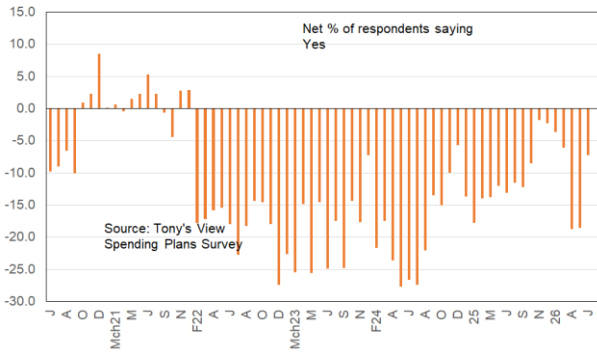
Townhouses can be fine. But in many instances one can't help thinking everyone would be better off if instead the developers vent vertical with nice balconied apartments rather than horizontal with handkerchief grass.



We have returned to net positive plans for travelling both domestically and offshore.

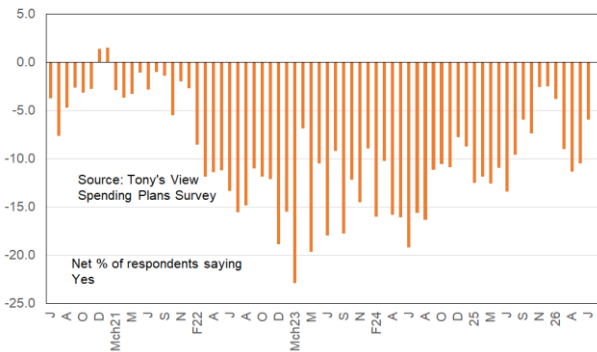


Do you plan spending more on CLOTHING & FOOTWEAR over the next 3-6 months?



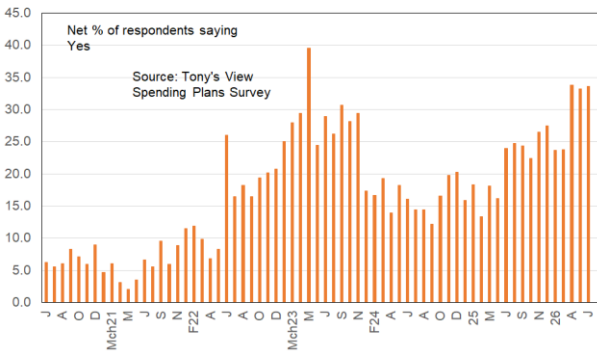
Ditto for sports equipment to some degree.

Do you plan spending more on SPORTS EQUIPMENT over the next 3-6 months?



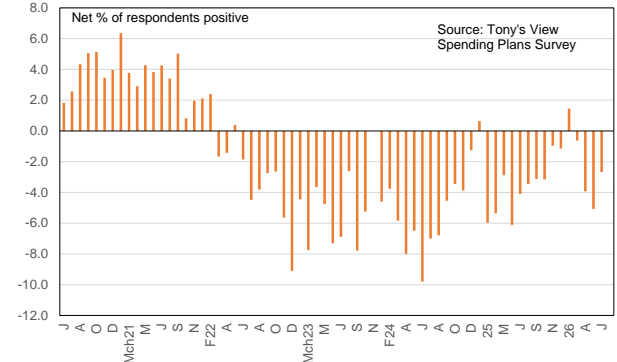
Anticipation and faced reality each week of higher food prices probably explains the continuing high level of spending intentions on groceries. In a sector 82% dominated by two operators we can expect nothing other than at least full pass-through of cost increases and probably more on top of that in one of our country's most oligopolistic sectors.

Do you plan spending more on GROCERIES over the next 3-6 months?



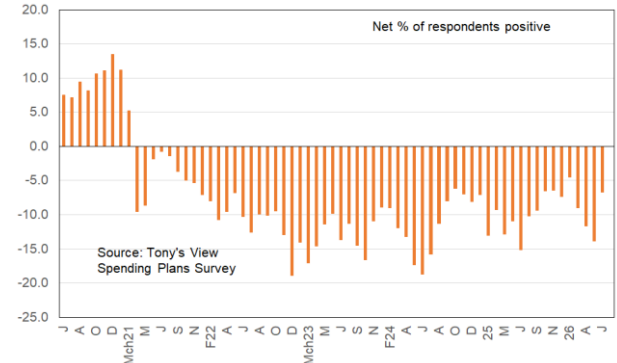
Plans for spending on a dwelling to live in are less bad but remain firmly negative.

Net % planning to spend more on a dwelling to live in



And for investment property the immediate outlook remains muted.

Net % planning to spend more on INVESTMENT PROPERTY

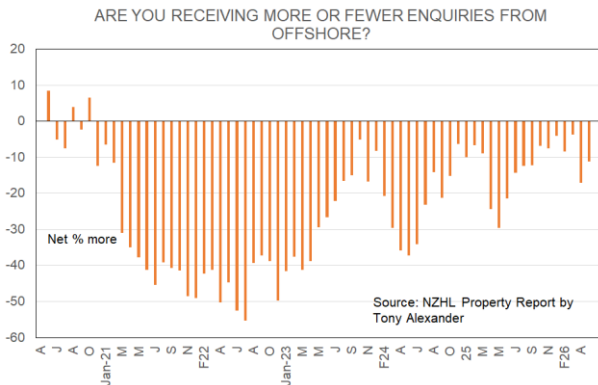


Speaking of investment property. We Kiwis get excited when we find ourselves able to construct a narrative whereby some folk offshore might be interested in shifting to our country or investing here. Maybe it's a US billionaire, or a few successful Kiwi businesspeople coming back for a look around. Our cultural cringe is strong.

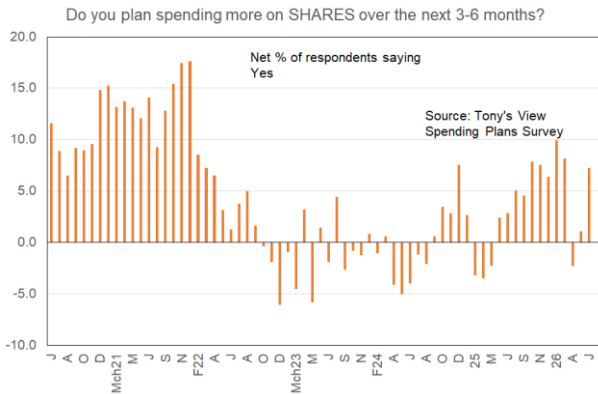
But what about Australian buying of property? Australians have always had a presence here with sometimes strong buying on the upward leg of the cycle. But is a lift in offshore enquiry following the early-May Australian Federal Budget's tightening of capital gains tax rules evident? No.

In my most recent survey of real estate agents undertaken a couple of weeks ago a net 11% of agents still said that they are receiving less enquiry from offshore. This was better than the net

17% of late-April but still the second worst result since September last year.



Finally, when it comes to buying shares, people are once again quite interested. That's what tends to happen when share prices go up.



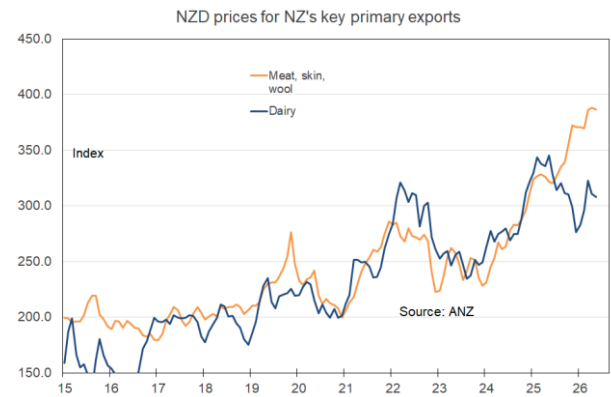
Net % spend more

Motor vehicles	-5.9
Home renovations	10.3
Domestic Travel	5.2
International Travel	4.6
Furniture or appliances	-10.3
Technology (PCs etc.)	-8.8
General groceries	33.6
Eating out	-16.2
Clothing/footwear	-7.3
Gardening tools, plants etc.	-3.1
Online services	-9.0
Sporting/fitness equipment	-5.9
Wellbeing/self-improvement	1.9
Investment property	-6.7
Dwelling for own use	-2.7
Shares	7.3

Good export prices

As previously noted for some time here, of great importance for our economy is what happens in the primary sector. While costs for farmers have risen firmly, as they have for all other businesses in recent times, they are receiving the benefit of strong prices on world markets.

Average dairy prices for instance according to the monthly index compiled by ANZ have risen firmly by about 14% since the end of last year though remain about 11% down from where they were for a brief period last year.



Average prices across red meat and wool are at record levels ahead some 20% from a year earlier.

Coupled with the repayment by Fonterra of \$3.2bn in supplier capital (thus proving again that NZ does not lack capital or depth in capital markets, it lacks competence to effectively use capital) this brings good strength to regional economies.

With a lag this strength always feeds through into the cities and that will be one of the many factors contributing to firmer economic growth from the second half of this year.

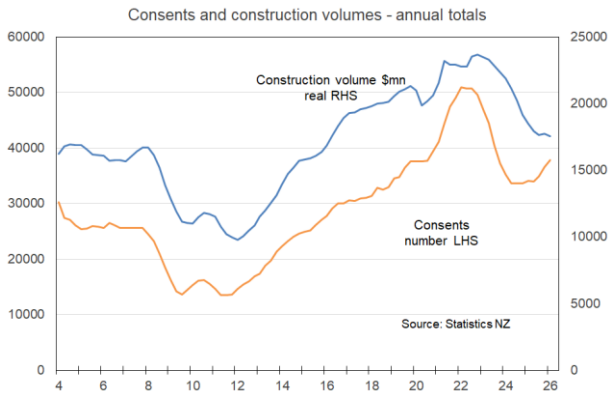
House building

There is a question about the timing of the boost in residential construction implied by the strong rise in consent issuance this past year. The annual number of consents now stands at 39,000

from 33,500 in the middle of last year and historically 95% - 98% of issued consents get acted on. But data released this week show that the volume of residential construction undertaken around New Zealand fell some 2.2% during the March quarter.

While the full-year decline of 3.9% could be put down to the lag between consents being issued and activity being undertaken, one would have thought the March quarter number would have benefitted from the consent upturn which started in about July last year.

This graph shows the annual number of consents issued as the orange line which has recently turned firmly upward. The annual volume (inflation adjusted) of residential work done is shown as the blue line which has yet to turn upward.



In all probability it is just a lag thing. But because of the many comments on the ground from builders and architects regarding difficult trading conditions, lack of investor interest in new-builds, soaring and uncertain costs, and an over-supply of sometimes nasty townhouses, I'm adopting a cautious attitude towards this sector's growth over 2026/27 for the moment. Strength lies ahead but it may be slightly delayed.



If I were a borrower, what would I do?

Wholesale interest rates this Thursday are about where they were a week ago. Confusion remains here and offshore about where inflation rates will peak because of the latest US military adventure, and how strong underlying medium pressures will be boosted by the initial one-off impacts.

One source of upward pressure on rates this week was the release of much stronger than expected jobs growth data in the United States on Friday night. Expectations have strengthened regarding the Federal Reserve raising interest rates soon

and the higher US wholesale rates have applied mild upward pressure on rates for the rest of the world. But the return of war worries bringing renewed economic growth worries has added some new caution in financial markets seen most clearly overnight with weakness in sharemarkets.

If I were borrowing at the moment, I would still favour fixing three years.

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

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