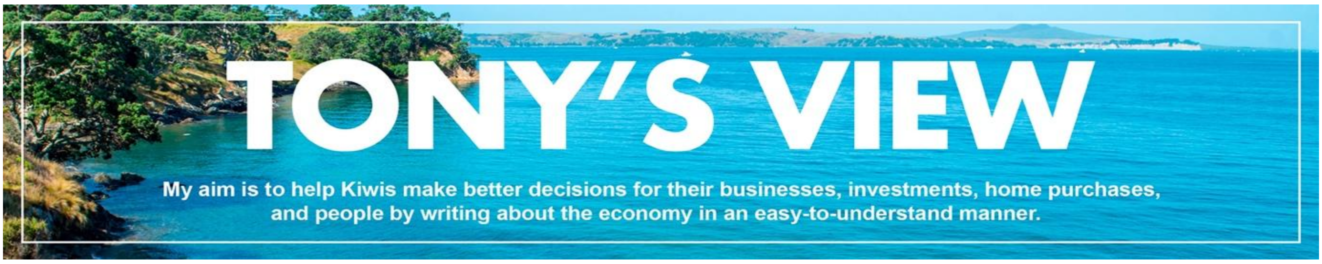

Input to your Strategy for Adapting to Challenges

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ISSN: 2703-2825 12 June 2025
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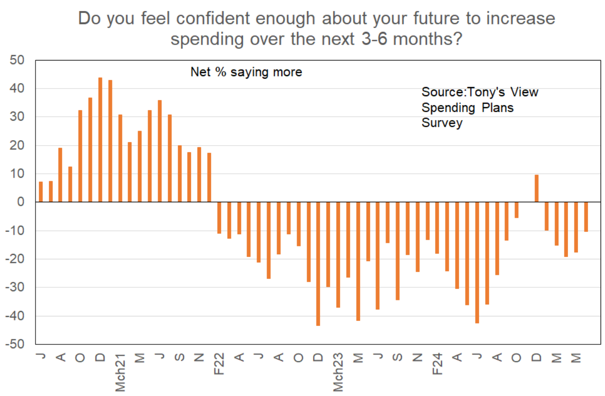
A piece of good news

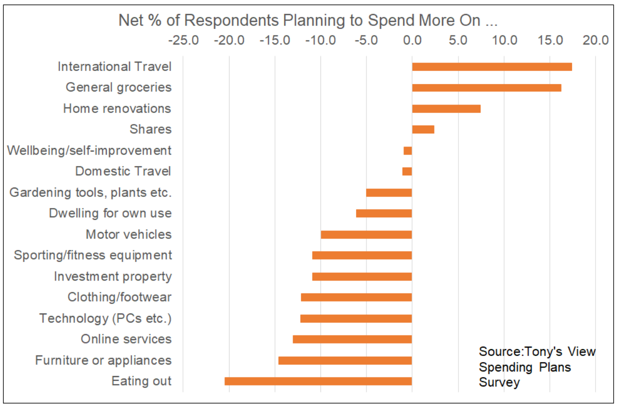
Since the start of this year all five of my monthly surveys have shown deteriorating measures of sentiment and activity. Finally, one has improved. My monthly Spending Plans Survey shows that the net proportion of consumers planning to buy more stuff generally over the next 3-6 months has improved from a net 18% negative in May to 10% this month.

This is a weak result which still tells retailers they should anticipate tough trading conditions through winter.

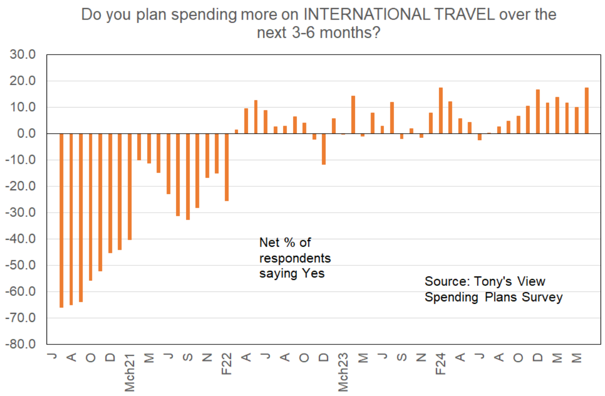


But it is the last negative result since February and subject to some turning of measures in my other surveys may suggest that the greatest part of the reality check after last year's second half excessive optimism may have passed. We shall see.

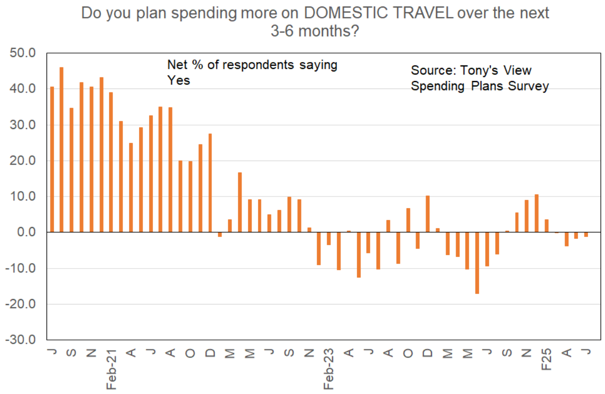
Ranked by areas where people have the most positive spending intention we have the following graph.



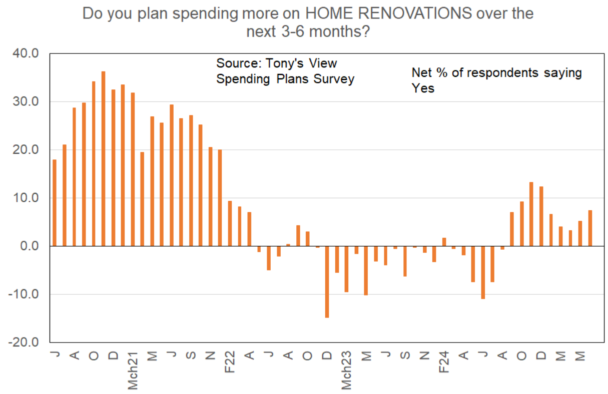
Positive spending plans exist in four areas led by the ever-fancied activity of travelling offshore. The net proportion of people planning to go overseas has in fact risen to a record high for the five year duration of our survey to +17% from +10% last month.



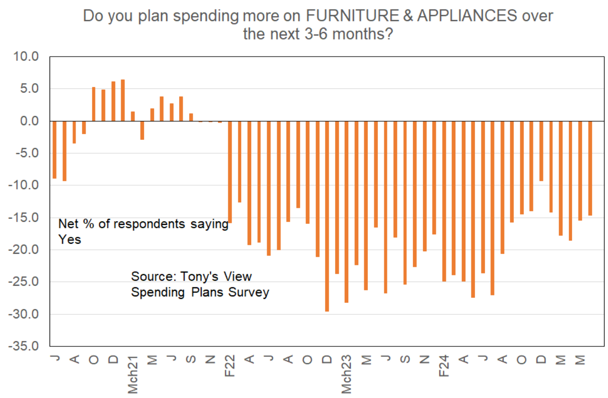
For domestic travel the result remains a net negative 1% from -2% in May.

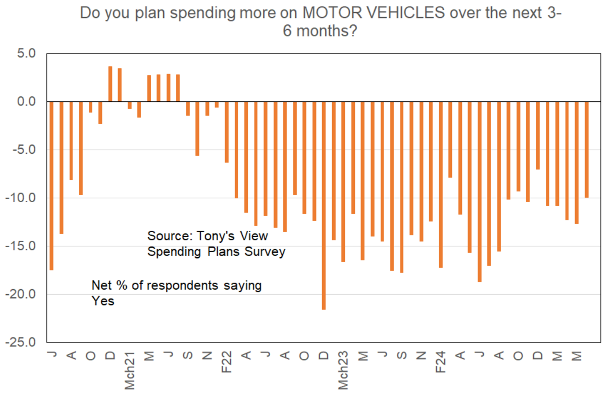


The net proportion of people planning to undertake home renovations has increased again to 7% from 5%.

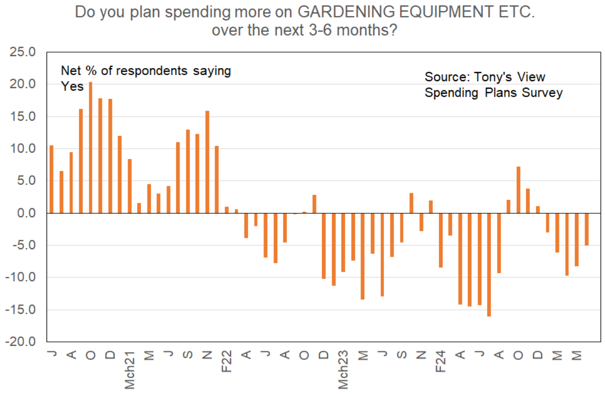


For other areas of large bill spending such as the traditional durables of furniture and appliances and motor vehicles, the situation remains quite grim. Spending intentions in both areas have improved marginally this month but the levels at -15% and -10% respectively remain poor.

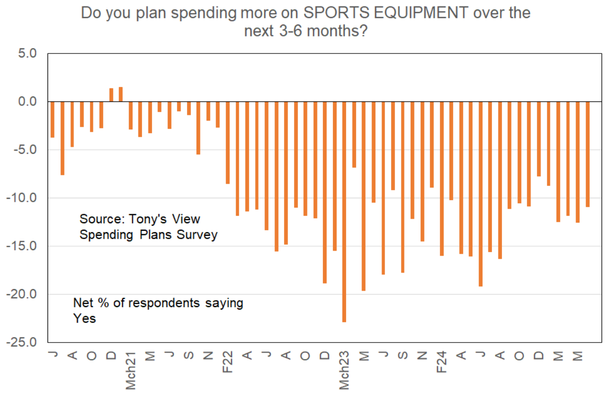


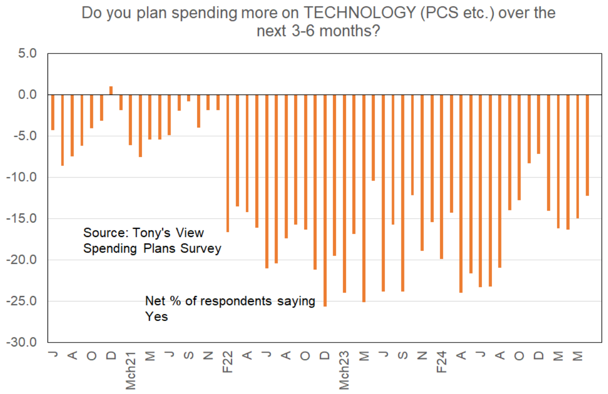


In our gardens the situation is still one of restraint with a net 5% of us planning cutbacks. This is however an improvement from -8% last month.

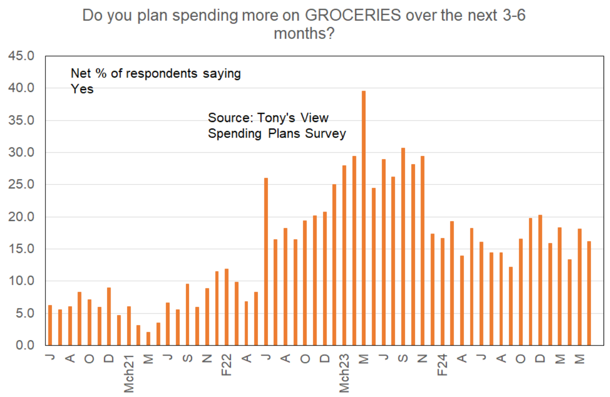


We are not very much interested in buying more sports equipment or technology at -11% and -12% respectively.

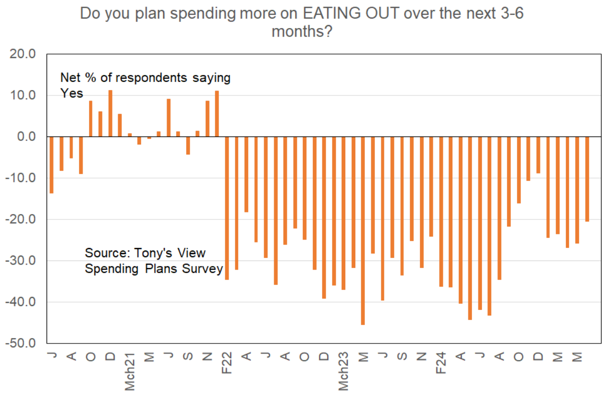




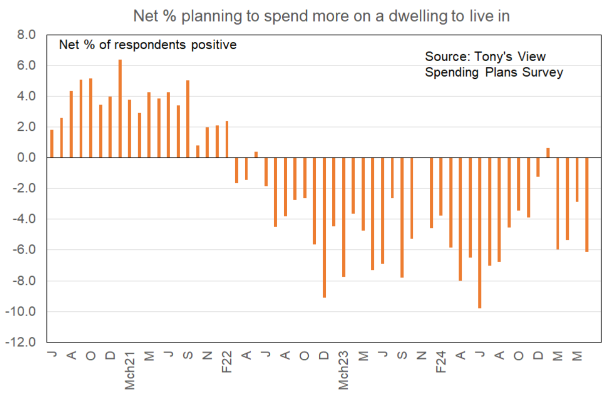
At least the grocery stores will remain busy as we go from one to another trying to find cheap butter or meat.



For the hospitality sector things remain negative with a strong net 21% of respondents planning to cut spending on eating out. At least this is a small improvement from -26% last month. But for cafes and restaurants deep challenges will remain through winter.

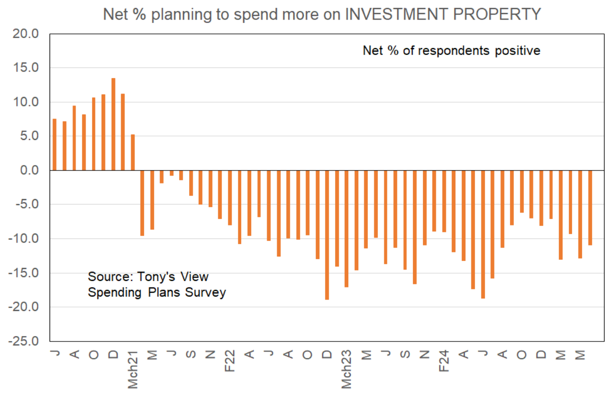


Taking a look at the two housing measures I glean from the Spending Plans Survey we can see somewhat of a reality check hitting plans of those contemplating buying a house to live in. This month a net 6% of people have said they plan less such buying compared with a net 3% negative last month.

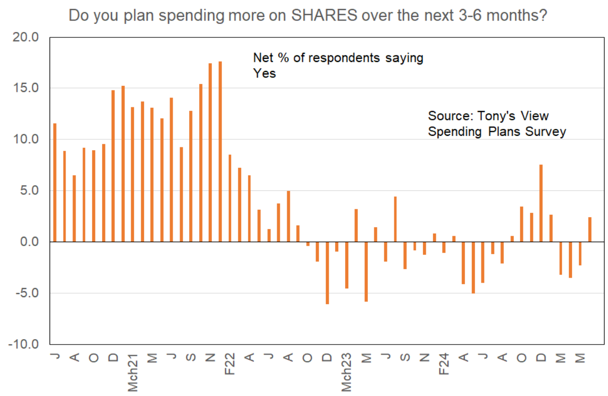


This correlates with results from my survey of real estate agents with NZHL showing fewer people attending auctions and open homes.

With regard to purchasing an investment property we have a small improvement recorded this month tom -11% from -13%. That is still a firmly negative number, and the graph tells us we cannot conclude the deteriorating trend in this measure underway since November last year has ended.



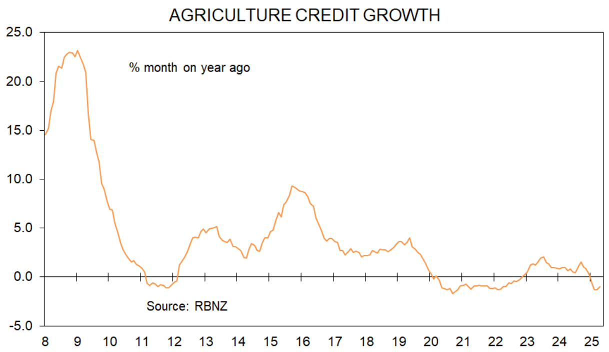
Finally, let's finish with the last of the four positive areas of spending growth noted at the start of this article – shares. A net 2% of people plan buying more whereas a net 2% planned buying fewer shares last month. The rally in markets after earlier tariff-induced declines may explain this change in heart. Shifts in the outlook for the New Zealand economy probably don't.



Are farmers gearing up higher incomes?

What would you expect to see happening if high export prices were boosting farmer morale and willingness to spend? Greater debt growth. That is not happening and that is why the filtering through of stronger incomes into first better regional activity levels and then stronger growth in the cities will be quite muted this time around.

The latest data gathered from registered banks and reported by the Reserve Bank show that at the end of April farm debt was down by 1% from a year earlier. Household debt was ahead by 4.2% and business debt up by 1.4%. Farmers are not "multiplying" the effects of their higher incomes by raising gearing and spending big.



Why the restraint in their gearing up of higher incomes? Probably a couple of reasons. First, costs have jumped tremendously and that means the improvement in profits is less than one would think when considering the likes of a $10 per kilogram of milksolids payout for two years in a row.

Second, New Zealand's farming sector is possibly the most indebted of all countries. Farmers have had access to credit not remotely attainable offshore, and this has boosted farmland prices and debt to worrying levels, especially in the dairying sector.

Strong warnings about the need to reduce dairy sector debt levels have been made for at least two decades now and although they are less strong these days the underlying desires by banks to curb their risk exposure to dairy sector turbulence is still there.

Thus, spending restraint remains the order of the day.

Orange sheep

Back in the mid-1980s when farmers were subsidised by the government to stock sheep, there were about 74 million woolly units in the country. Now there are around 23 million. One may think this would mean there are fewer people engaged in the sheep farming sector, especially shepherds. But I am not so sure. I think there are more people we could describe as shepherds of flocks now than back then.

How can this be? Because the nature of the sheep which these shepherds tend has changed. In the past they were predominantly wandering beasts. Now they tend to stay in one place. Back in the day they would generally be dispersed across fields and pastures or in blobby groups. Now, they tend to be arranged in a linear fashion.

Back then they would make noise. Now, they are silent despite their potential use as megaphones. Back in the old days they were almost all white. Now, they are orange, shaped conically, and very plasticky. But like back then, they need tending.

There are people who every day tend their orange flocks, often from the cabs of their cone-moving vehicles, sometimes from roadside locations. They arrive in the morning and put back into linear formation any stock units which have strayed during the night. Then, during the day they shift some of their flock if trucks need access to offload or onload materials such as wood and scaffolding material.

There is a guy outside the apartment I maintain in Auckland's Emily Place who shows up around 7.30am each morning and departs at about

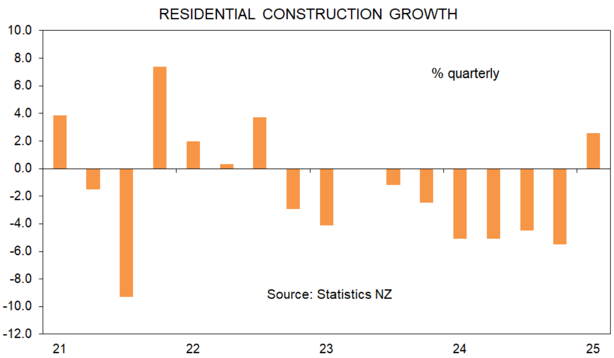
5.00pm. Some days he does nothing other than shift position from the steps of my building to the picnic tables in Emily Reserve and steps of other nearby buildings.

His orange conical sheep are well tended, don't stray, make no noise, and don't have to be shorn of wool which yields no positive return for farmers anyway.

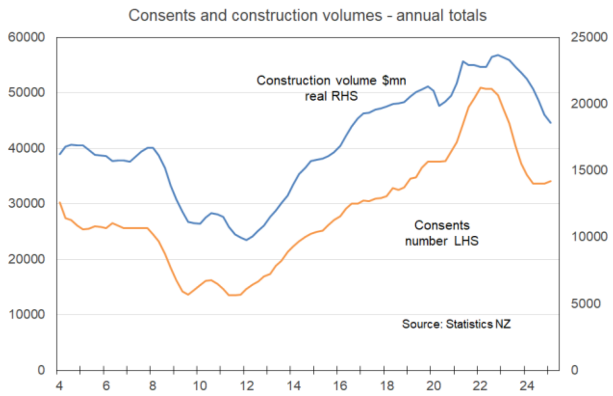
Such is the change in the nature of the New Zealand economy. We farm fewer sheep but have more shepherds. We have abundant sheep-possible land but encourage foreign businesses to plant pine trees which may never be harvested. No wonder productivity has fallen for three years in a row. We are going backwards.

Higher house construction

For nine quarters in a row starting from the December quarter of 2022 the volume of residential construction work undertaken in New Zealand fell. Now, for the March quarter of this year an increase has been recorded of 2.6% after a large decline of 5.5% in the December quarter of last year.



The following graph shows the annual level of dwelling consents issued as the orange line and residential work volumes completed as the blue line. The recent flattening of consent numbers suggests we have hit the bottom of the construction cycle. However, it is too soon to speak in terms of construction turning upward and the recent 2.6% gain is probably best interpreted as a bounce off the bottom after an unusually weak December quarter rather than the start of a string of nicely positive numbers.

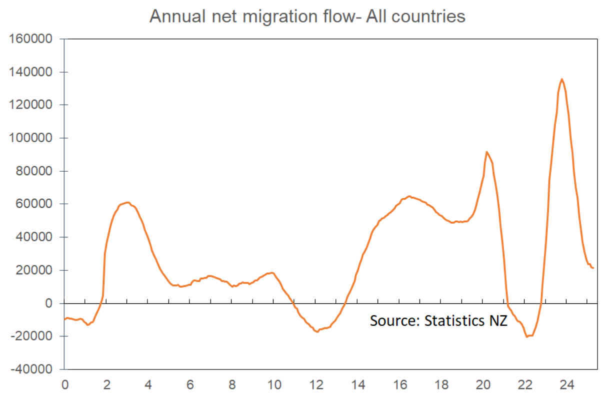


An issue for the residential construction sector is that there are a large number of properties already on the market for sale and construction costs are high and keep rising. In most instances for buyers it is cheaper to buy an existing property than commit to a new one.

However, with interest rates down it seems reasonable still to speak in terms of standalone house construction rising from late this year/early-2026. For multi-unit developments however the upturn will be further down the track. There is an over-supply of terraced townhouse properties and wariness of quality and completion which holds buyers back. That will pass, but probably not until the housing market tightens up considerably from where it is now.

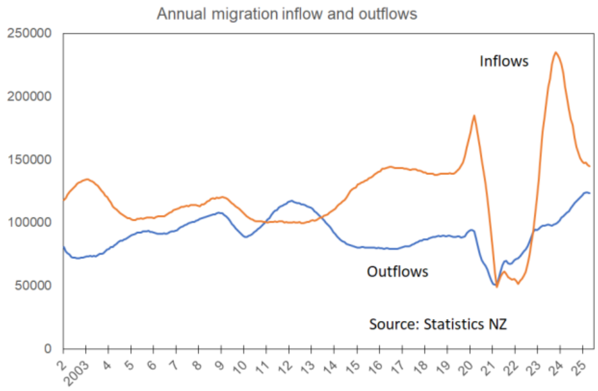
Weaker migration flows

Data released yesterday by Statistics NZ show that in the year to April the country enjoyed a net migration gain of 21,300 people. This was well down from 91,000 a year ago and the peak of 135,000 in October 2023.



The change for the year resulted from the number of people coming in falling by about 54,000 or 27% while the number of people leaving rose by about 16,000 or 15%.

So, we can say that the decline in net flows mainly reflects fewer people coming into New Zealand than before. In fact, at 145,000 the annual gross inflow was the weakest since mid-2019 if we exclude the pandemic period. Note the rise in outflows in recent years shown in the following graph.



Does it look like the annual net gain has bottomed out at 21,300? Maybe not. The net gain for April was only 125 people. However, as I have stated here many times before, predicting net migration flows for New Zealand is essentially impossible.

On average our population is boosted 2.7% from gross inflows and we lose 2% to gross outflows. These are big percentages, and it doesn't take much of a move upward in one measure and downward in the other for the net balance to whip around quite substantially.

If I were a borrower, what would I do?

Nothing of major importance to inflation and interest rates in New Zealand was learnt this week. Wholesale interest rates are roughly where they were a week ago.

The next review of our central bank's cash rate occurs on July 9, and it is not certain that a further reduction of 0.25% will be made. Business pricing plans remain too high, councils are taking their rates higher and there are increases in electricity prices and broadband services underway, not to mention hikes in food prices.

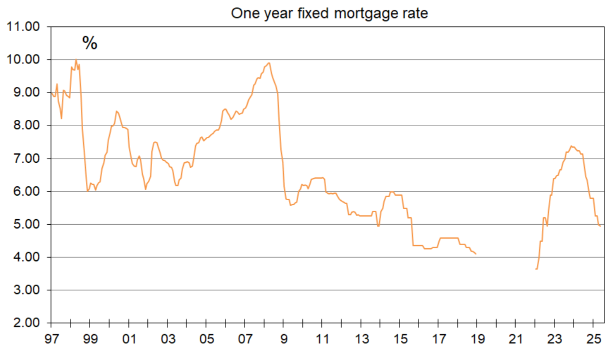
There is a stimulus coming through the economy from strong export prices, and consumer sentiment has just got less bad.

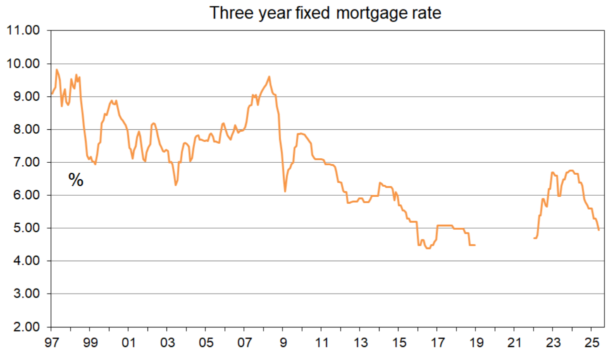
But the outlook is extremely clouded because of the fraught international environment and net migration flows have weakened further.

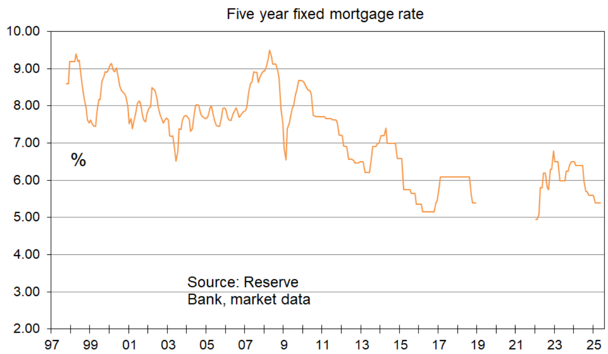
With so many uncertain factors in play and having just again learnt the lesson about the costs of easing monetary policy too much, the Reserve Bank may well feel incentivised to pause rate changes for now. Keep in mind that at the last review not only was a 0.5% cut not discussed, one committee member voted for no rate change.

If I were borrowing at the moment, I'd fix three years at 4.95% but see no great problem if people fix shorter. I don't have any strong view as yet on what interest rates will do in the next five years.

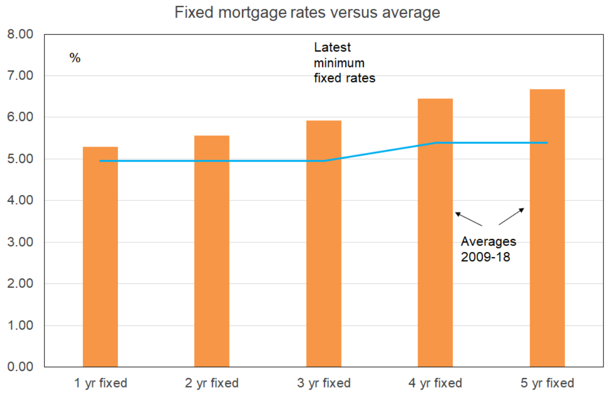
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







This graph shows how current rates compare with averages from 2009-18.



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

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.