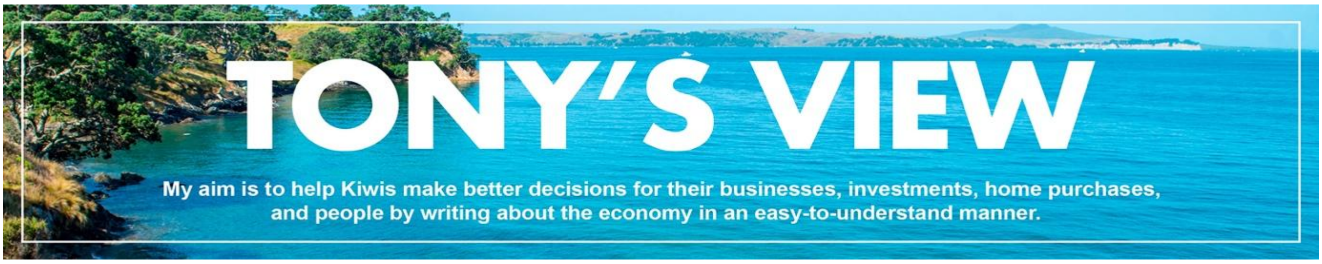

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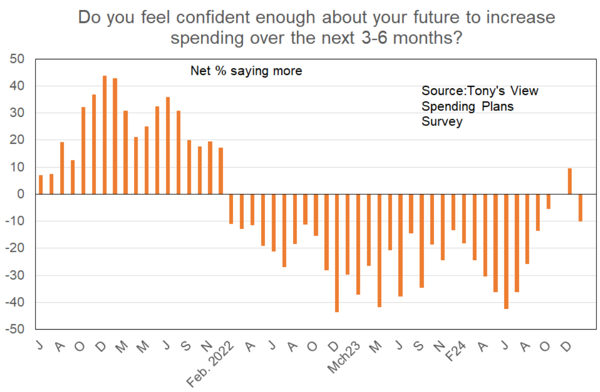
Consumer spending outlook deteriorates anew

This past week I have conducted my first monthly Spending Plans Survey for 2025 and the results continue to give no reason for retailers to believe better times are just one or two months away.

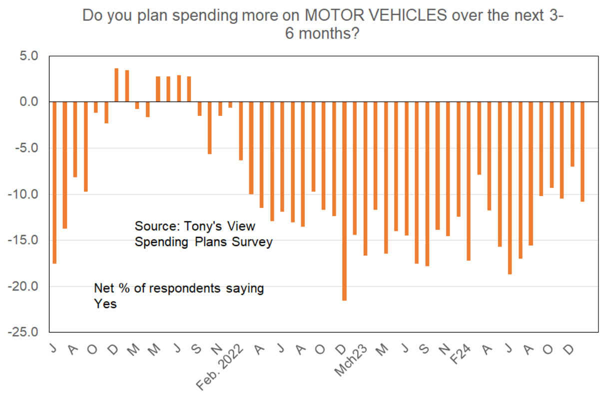
A net 10% of the 781 respondents have said that they plan cutting back their spending on stuff generally in the next 3-6 months. This is a deterioration from the net 10% who planned higher spending in my last survey for 2024 undertaken two months ago.



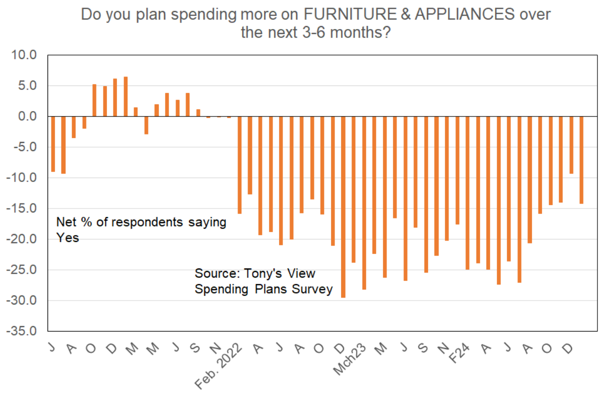
There is a lack of upward momentum in the movement of our economy away from the deeply recessionary conditions of mid-2024. All we economists can reasonably do is talk about a turning point having been reached involving the decline ending. But going up is not yet happening.

To see what my survey means for retailers we can focus in on the net proportion of people planning to spend more on durable items. These are the things we tend to buy more of when we are confident about our incomes and outlook and fewer of when we have worries about these things.

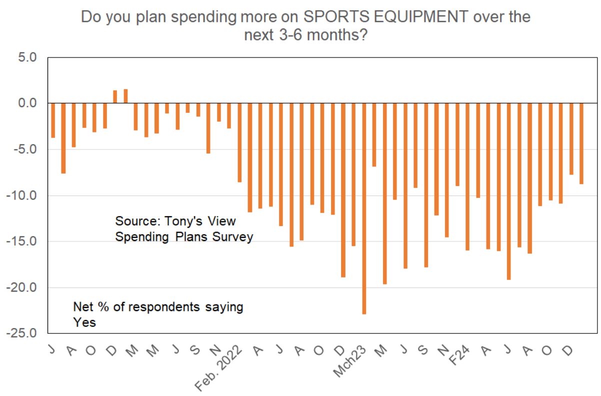
A net 11% of people plan cutting back spending on motor vehicles. This leaves the sector in the depressed conditions it has been passing through since early in 2022.



The same goes for our likely spending on furniture and appliances. A net 14% of us still plan reducing spending on these things.



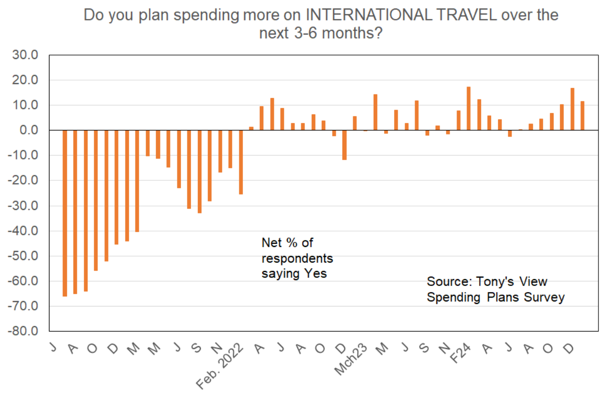
And for retailers of sports equipment times look set to remain tough with a net 9% of people planning cutbacks.



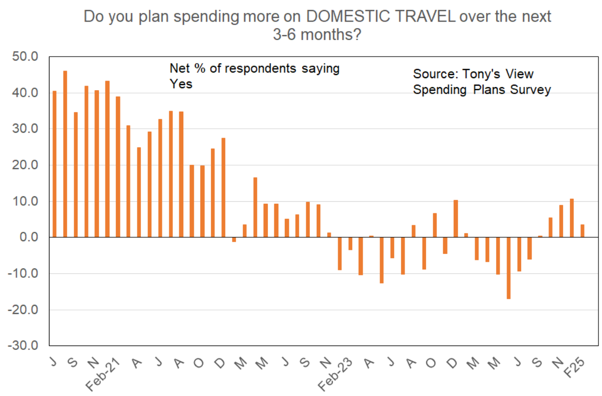
For international travel the outlook remains positive with a net 11% planning to spend more. That means a deterioration in our economy because the flow of people into the country has stalled at about 85% of pre-Covid numbers.

The reporters and some in the sector will often note that foreign visitor spending is above levels back then and we are left with a vague feeling that we are clever because we are getting higher paying people.

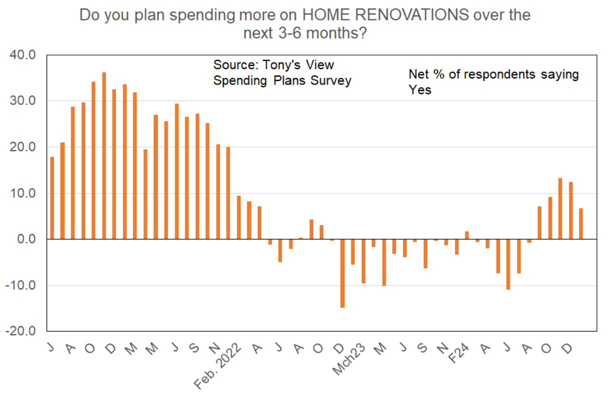
But things are more expensive than in 2019 so naturally revenues are higher. Numbers are down 15% pre-Covid but since the end of 2019 average consumer prices in New Zealand have risen by 23%.



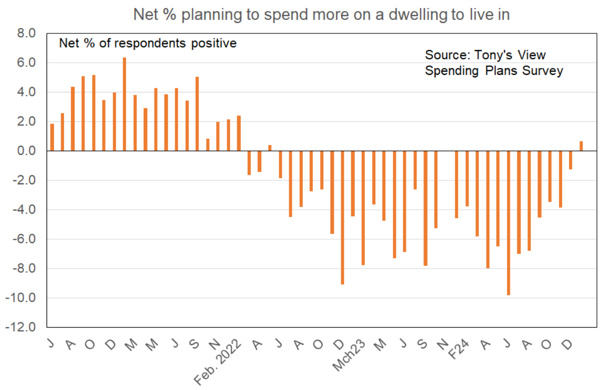
Our plans for domestic travel show no recent pattern up or down.



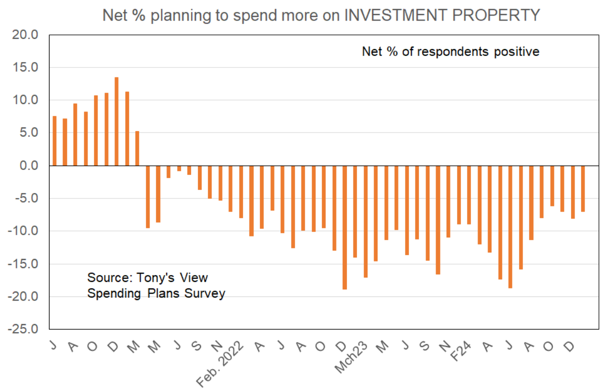
There are really just two areas which stick out in the survey as showing firm and sustained recoveries warranting some positivism. The first is home renovations where a net 7% of people plan to spend more. This is down from 12% two months ago, but I'll wait for next month's results before concluding an easing movement has truly occurred.



The other area of growth is with regard to housing. A net 1% of respondents have said they plan spending more on a house to live in. This broad indication of housing demand is in positive territory for the first time since May 2022.

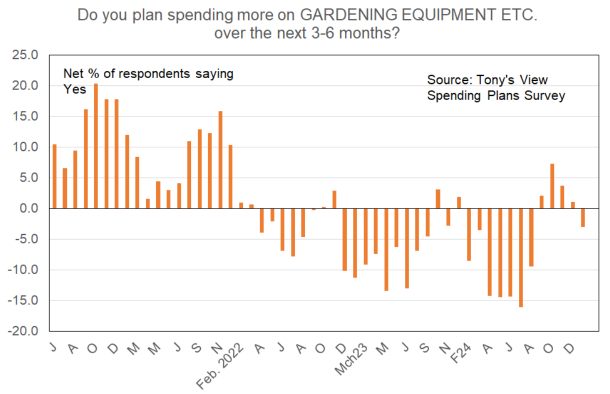


But as noted before and most recently based on my survey of real estate agents with NZHL, there is no sign that investors are truly moving back into the market. A net 7% of people plan spending less on investment property. This housing cycle is one so boring that investors are not feeling an urge to get in on it.

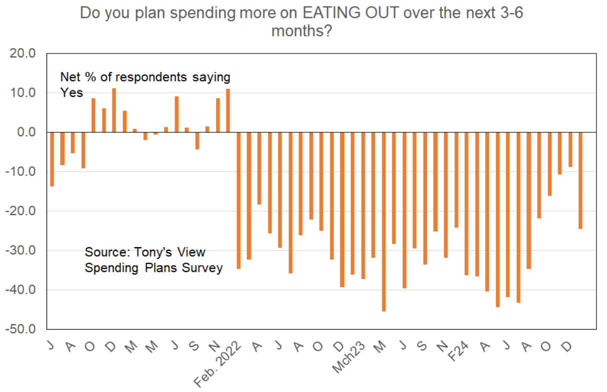


For the record here are the graphs for other measures I usually mention when discussing results of my Spending Plans Survey.

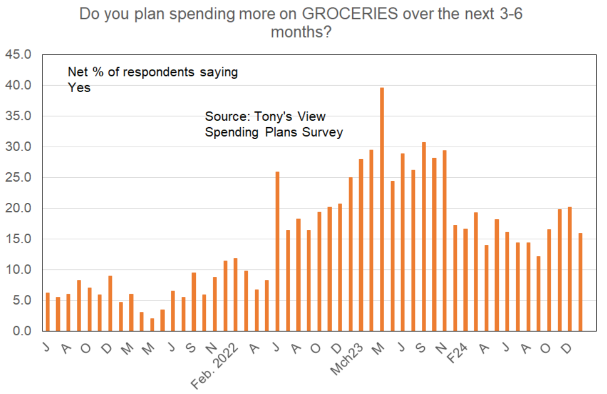
A net 3% of people plan spending less in the garden. No recovery is underway in this sector.



A net 25% of people plan spending less on eating out. No wonder considering the growing warnings from coffee providers that prices will need to soar soon because of bean prices hitting multi-decade highs.



A net 16% of people plan spending more on groceries.



Next week I will try and find something interesting from responses to the questions I ask regarding why people say they will spend less or spend more.

Real estate agent comments

In the monthly survey of real estate agents I run with sponsorship from NZHL I invite agents to pen a sentence describing what they are seeing in their area of operation. Here is a tidied up list of most of those responses with a lot for Auckland removed to save space. Enjoy.

Northland

- Real estate sales slow here
- We are in the Far North, we had a good flurry of sales prior to Christmas. It has been quiet since then. Plenty of listings, we are definitely getting the enquiry from buyers. People are cautious, taking their time. There is a lot of uncertainty out there, both nationally and internationally. We are expecting a modest rise in sales, nothing spectacular.
- 2 parties have pulled out of buying waterfront, because of insurance. Also Councils adding section 72 against the property if they think there might be an issue of flooding or slipping in the future, hence buyer wary or walking away.
- Although it's still a buyer's market in Kerikeri surrounds, there is clear evidence that the market is picking up with more buyers that are actually ready to pull the trigger and less quibbling on price. Having the State Highway finally reopen is now making a difference as traditionally the majority of our buyers come from out of town.
- Still a slow market in the Far North - enquiry is picking up. The market is well overstocked with low sales volume. Buyers are taking their time and in no hurry to make decisions

Auckland

- Sellers more keen to transact than buyers. Increasing number of buyers at open homes but no sense of urgency to act, lots of low offers. Lots of vendors and listings lined up for throughout the year.
- There were some pent up buyers who made moves over Xmas period. Listings are coming in thick and fast and there is going to be a lot of choice for buyers to be picky. Open home attendees are still light overall... New stock will bring them out. Looking forward to seeing what action that brings
- Lots of buyers in the top end of the market for larger family homes but are wanting everything 'done'. Little interest in properties requiring renovation. Buyers still have a long wish list and in many cases this doesn't align with budget. More first homes buyers out in the lower end of the market with some taking time to commit. Many listings are from previous rental stock in central area.

- With the loss of Kiwis to Australia, it feels like Auckland is emptying out. Adversely affecting the apartment market which is suffering from oversupply, perceived value or lack of and competing with lower levels of the house market which are more affordable. A number of blocks are facing remedials which continue to tarnish the trust in the construction of apartment blocks.
- Notice bargain hunters out there!
- Activity is generally on the increase with people planning to sell and buy, along with new buyers getting themselves qualified.
- The highest and lowest ends of the market seem to attract the most interest, while the mid-range segment is quite stagnant. Auctions mainly sell for less than the Current Valuation (CV), whereas negotiated prices tend to yield better results.
- It is a very difficult time for vendors. Buyers know they have the upper hand. I can't see much change for 2025
- Listing numbers are dramatically increasing, which will put a lid on any potential market pick up this year.
- Surprisingly, less activity than this time last year. Falling interest rates not creating the buyer activity that I would have thought. Top end properties difficult to move.
- Influx of listings to market. Seems to be a lot of investors selling their properties. Buyers are being very careful and slow in making decisions. Lack of good quality family homes on market. Buyers are wanting renovated properties.
- A big increase in low offers with cash buyers who are clearly of the opinion they are empowered right now. Frustrating dealing with Sellers who do not realize that our market is still in a slow freefall due to an oversupply of listings. I thought we had reached bottom in North Auckland, but no, we are still on the drop!
- The spring and summer lift is still very flat. There is no urgency with buyers to transact and sellers are frustrated with lowball offers up to 26 percent below listing which is already 12 per cent below cv!
- Based in Warkworth. Plenty of choice at the moment with more listings coming on which will continue to soften values in my opinion. Still plenty of buyers but they're incredibly picky (and why wouldn't you be if there were so many listings to choose from). Vendors that have bought in the last 3 years are trying to move on are taking significant hits and hoping to make it up on their next purchase. I think 2025 is still going to be a relatively tough year in general.
- Steady open home activity - buyers are more engaged and investors are now committing to properties
- The market in East/South Auckland is extremely quiet since pre Xmas. Very few coming to open homes. I guess long weekends, school holidays, anticipated interest drops are combining to delay any upsurge in interest. There is a glut of brand new terrace houses in some areas and sales of these are very slow.
- Appears, the investors are holding back, first home buyers are looking for the bargain and sellers do not wish to market because the price may not reach their expectations
- Slight improvement in the mood of the market but still very slow.
- Auckland, North Shore: More listings than ever - but no buyers
- I'm finding the first home buyers are older and the concerns about increasing rents is finding them looking back at the market
- Seems to be the same as the previous two years........lifeless.
- My year started early this year. Both buyers and sellers have not waited until after Waitangi weekend as they often wish to. They are ready to get on with it. I had good numbers at open homes on Sat and Sun of the long weekend. Thats a bit unusual.
- We are getting developers contacting to sell out of projects
- Auckland Central activity just picking up now with good enquiry. Predominantly first home buyers who are qualified and ready to buy.
- Auckland central apartment market definitely a investors market, buyers market for sure. Difficulty obtaining finance, huge lending restriction based around the size of the apartment having to be 50sqm allowing only 40 to 50% mortgage funding, no finance on anything under 50sqm of which is 70% of the available stock. Unless buying with cash or against huge equity (real equity in terms of capital) the corollary being buyers want a discount for cash. Sellers still taking losses, two thirds of listing are overpriced and "on the

market" for over 180 days, most apartments poorly presented and\or tenanted meaning restricted access for buyers. High body corporate levies', large increases in insurance costs eroding nett returns, poor tenant selection due to the last governments fast and loose MSD accommodation funds filling the vacuum of the lack of polite and conscientious foreign students left by the collapse of that market by covid still not reconciled to 2019 levels before the SHTF. Doubling down the lack of migration inflows and the rental market is the softest it's been in ten years.
- There is a significant number of vendors who paid significantly high prices for their homes through the C-19 period who have been or remain unable to service their level of debt. I am affecting sales under $2M from this purchase period where the vendors are having to take losses of $350K - $500K to remove the pain of the holding costs that cannot be sustained. Franklin Lifestyle.

Bay of Plenty

- Beach location with reasonable summer we expected more activity. There are selective buyers that are well informed and only purchasing at a level they believe the property should be. It is up to the vendors to consider or wait and hope someone will come along. Recent auctions well attended but only 1 bidder at each.
- Better start to 2025. More attending open homes and a bit more internet enquiry. Buyers still think they have all the time in the world though. Unwilling to commit in a hurry, in case something better comes along.
- Many buyers transferring from out of town, who have already sold and looking to purchase in a hurry. FOMO playing a part in the process.
- In the Eastern Bay a slow start to the year. Few more appraisals being done, but buyers are still taking their time. Lower numbers through open homes. There is optimism for a bit more activity, but I would describe things as still sluggish.
- Eastern BOP - very quiet market for sales in Dec and Jan. Open Home numbers still quiet, hopefully will pick up in Feb. More listings coming to market than selling.
- January is always a mixed bag however general activity has been good with appraisals, Listings and sales all up on last year so while no records will be broken it is a positive start to the year

Waikato

- Our usual seasonal pick-up on the east coast of the Coromandel hasn't happened so far this year. After a steady 2024 our open homes and viewings are very slow although we are continuing to list, so not all bad.
- Some purchasers putting in ridiculously low offers in the hope of getting a bargain
- On the east coast of the Coromandel Peninsula we are seeing our traditional influx of visitors over Xmas and throughout January. A lot of browsing going on and some deals are getting together and still some breathtakingly low offers being put to vendors that are not proceeding to an agreement. Seems to be a bit more confidence around but I feel it is only early days in a recovery in our area and still more sellers than buyers.
- Pre Xmas saw greater buyer activity. Which has slowed since Xmas. As a potential investor the returns are not there for the money invested in the current market and commercial is also not that bright.
- Seems to be a balanced market at the moment.

Gisborne

No comments this month.

Hawkes Bay

- A busy start to the year, we shall wait and see if it lasts
- Very slow start to the year, but seems to be picking up again.
- After holding off selling last year, sellers are keen to transact. Buyers still need to see a property well priced before they get fizzed up enough to make an offer.

Taranaki

- Enquiry in January is at least double if not more on January 2024. We have 9 sales this month between $180k and $900k. and we are seeing fewer listings.

- Getting a lot of bargain hunters at this present time making offers well below the asking prices. Most vendors are not accepting offers and will withdraw their property till the market picks up again. Not too sure when that's going to happen?? Time will tell I suppose as a lot of vendors are all looking to go overseas to Oz. Thinking its better over there.

Manawatu-Wanganui

- Market showing signs of coming back to life. stock levels starting to dwindle. Could soon be a shortage, most likely the middle of the year. Prices will start to firm up and potentially rise.

Wellington

- On the Kapiti Coast there has been a real change since the 6th of January. More buyers and sellers wanting to get a deal together. Listing numbers are growing but so is demand which is creating a solid market with choice for buyers and good properties with few issues, good presentation and good marketing, getting results.
- Massive number of listings in January. Buyers have choice and time...bugger !
- Feels very much like this year will be like last year with added problems of low immigration and fewer jobs available
- Seeing a widening gap in buyer / seller expectations (Hutt Valley, Northern suburbs).
- It is a typical big rush of listing for this time of year, with lots of choices for buyers. By the time your following survey comes around, we will have a better understanding of where we are at. One thing for certain is Apartment confidence will keep declining.

Tasman

- Interest in new listings died away in November, not much has sold that was listed in the spring, those that have did not get premium prices. Banks are being difficult. Buyers are super cautious if there is anything at all that needs doing to the property.
- Our Nelson Tasman market has over a 1000 listed properties with a lot of overpriced stock, 600 k to 800k plenty of buyers but above a million there is too much choice, lots of agents doing deadline sales as vendors expectations are too high

Marlborough

- Certainly more appraisals and listings coming forward. First home buyers have backed off after a big pre Xmas push so maybe they are all on holiday still. A lot of residential stock and pricing incredibly important.
- Some great sales for well marketed new listings - otherwise the demand dies quickly. A dire outlook for the viticulture market may see some pressure on employment opportunities with uncertainties in that area.
- In general there is still a gap between vendor expectation and where buyer see value.
- There is a significant amount of stock on the market currently in our region. First home buyers are out in full force as they have worked out it is an exceptional time to buy. First home properties are moving well, with most deadlines resulting in multiple offer situations. We're finding mid range stock far harder to move (Late $600,000's - $800,000).
- No sales pattern has emerged yet in the new year. There can be a considerable difference between where a buyer sees value and sellers are prepared to take. Some buyers feel they have absolute power over the market and are making really low offers or at open homes they throw around really low opinions on price

Nelson

- After a slow December there is a lift in turnover of homes however there doesn't seem to be any lift in prices being paid. Have had a couple of multi offer situations but buyers certainly not adding anything more to their offers. They seem to be happy to wait for the next one to come along. Are we hitting a flat market for a couple of years now, or will it go down some more? I personally do not see increases for a while.

Canterbury

- The pent up demand over the Xmas holidays is seeing good numbers at open homes, and offers coming in more steadily. Hopefully this is sustained!
- Over December and January, our local Timaru township market has been active, with 60 sales ranging from $180,000 to $1.8 million. Strong activity was seen in the $300,000 to $500,000 and $500,000 to $600,000 price brackets, reflecting solid demand in these ranges. Notably, six sales exceeded the million-dollar mark, a positive sign of renewed confidence in the higher-end market.

Otago excl. Queenstown Lakes

- I'm finding well priced property that buyers perceive to be value for money are selling quickly. Property in the $600,000 range seems to be taking longer to sell due to the high number of those properties available for buyers to choose from. Buyers are in no hurry and are willing to miss a property as there are many to choose from.
- The second half of 2024 was strong for investors with the market almost back to normal levels for enquiries and sales, and so far, the momentum seems to be continuing.

Queenstown Lakes

- Starting to see a surplus of rental properties and a levelling of prices in the lower third. A good number of sales were seen above $3m in November December, albeit at levels well below asking prices.

Southland

- Invercargill has had a large influx of buyers in the market since December, resulting in a resurgence of multi offers on properties and open home attendances have shot up drastically.

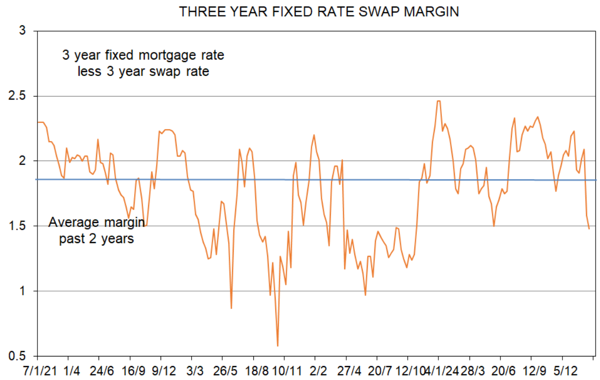
If I were a borrower, what would I do?

Have I seen anything meaningful this week to draw me away from my view expressed since around the middle of last year that scope for interest rate falls in NZ this cycle is relatively limited? No.

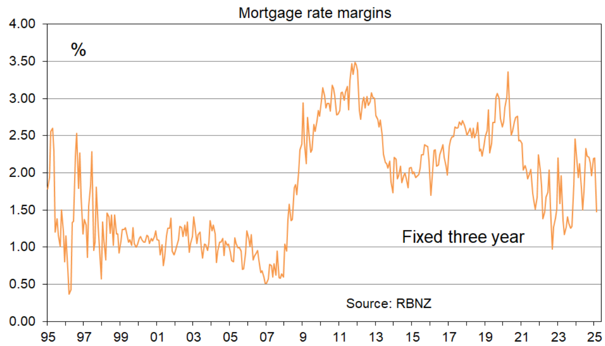
In the United States data released on Friday showed the unemployment rate unexpectedly falling from 4.1% to 4.0% and a measure of consumer medium-term inflation expectations rose to its highest level since 2008. Also, last night the US inflation rate came in higher than expected at 3.0%, causing wholesale interest rates to rise as expectations for easier monetary policy backed off.

In NZ this week no data releases of any importance to the inflation outlook have occurred.

The one year swap rate has edged up to near 3.48% from 3.42% last week and the three year rate has risen to near 3.52% from 3.41% last week. Compared with the 4.99% three year fixed mortgage rate which one bank is offering we see in the next graph that the very roughly calculated margin being earned is below average (blue line) for the past couple of years.



But if we look over a longer time period starting in 1995, we see that the current near 1.5% margin is between average margins over the pre then the post-GFC period.



Depending on what you think of as normal the current margin and therefore lending rate may be okay, unsustainably low, or high and able to fall further. Good luck.

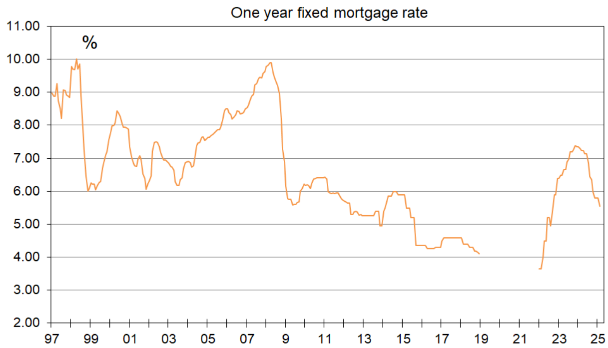
All I can say is that if we exclude the period of deflation worries over the second half of 2018 and through 2019, then the pandemic period to early-2022, we are left with the three year fixed rate being available in NZ for about 331 months since 1993. During only 13 of those 331 months (3.9% of the time) has the three year fixed rate been less than 4.99%.

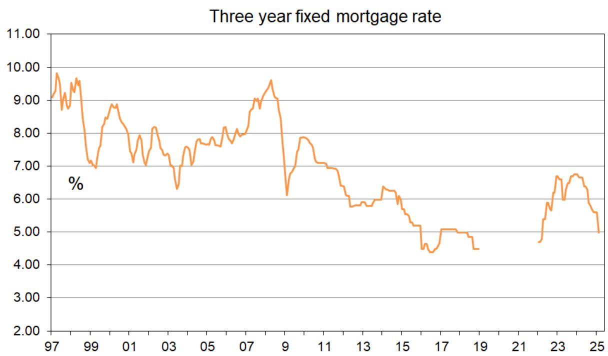
If you are betting on the three year fixed rate falling below 4.99% you are backing a long shot. It might pay off, but personally speaking, if I were borrowing at the moment or had a rate to fix which has been floating or bobbing along at short fixed periods, I would take the 4.99% five year rate and focus on other stuff in my life.

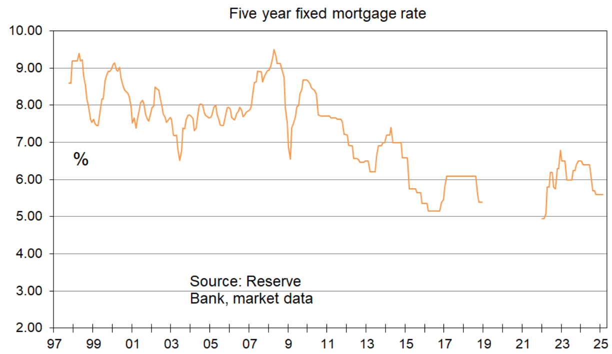
What about if you signed up for the five year 2.99% rate available from May 2020 to April 2021? Would I break this rate and refix? If I break will the bank pay me out the 2.0% difference for the remainder of my five years? Probably not. Do I think there is a strong risk of fixed mortgage rates jumping a lot higher in the next 14 months? No.

So, if I were in such a position I would run the 2.99% out to its maturity and continue congratulating myself on being clever for fixing back then rather than taking the candy of the 2.29% for one year.

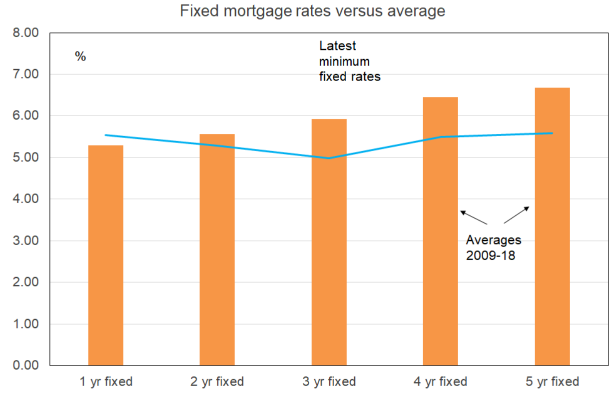
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







This graph shows how current rates compare with averages from 2009-19.



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.