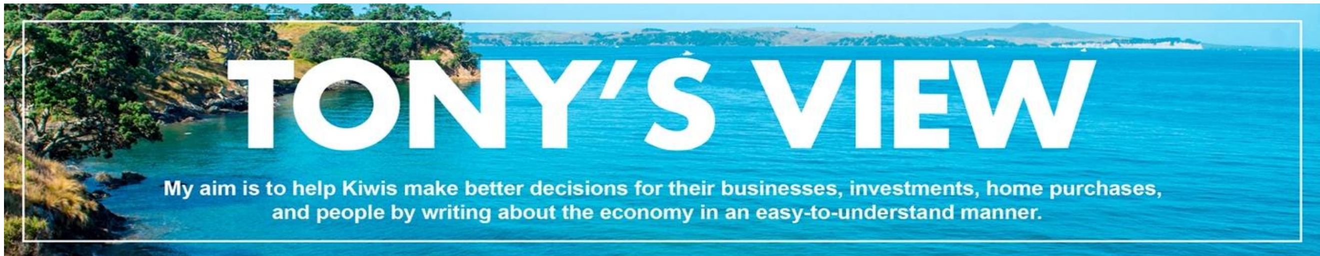

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New business caution evident

When it comes to considering the results of surveys and reading the headlines, pay very close attention to one thing. What time period are the latest results being compared with?

This week a survey of businesses was released showing things strongly on the way up. Headlines included "Good sense of optimism" and "Green shoots are growing". Commentary included that optimism about the economy in the next 12 months was at the highest level since 2016.

This all sounds great, the survey is well-respected, and there is no reason for doubting the accuracy of the results. However, the basis of comparison for the latest results was this time a year ago. Almost all survey results are better than a year ago, primarily because the deliberate cash flow and sentiment pain being imposed by the Reserve Bank has been reduced since April 2024 and the cash rate cut from 5.5% to 3.5%.

What really matters for businesses giving thought currently to whether to continue with their plans, whether to try special changes for improving cash flows etc. is the direction of travel now – not now versus a year ago. You've already made that particular adjustment.

That is why I run my surveys monthly – not annually or quarterly. Doing that allows us to see that the happy hopeful feelings which have been associated with monetary policy easing have been pulling back in recent months. New caution is afoot, and we saw that last week in my report on consumer spending plan changes. This week I discuss the same thing from my survey of businesses sponsored by Mint Design.

A year ago a net 25% of businesses reported that they expected their revenue to improve in the coming year and a month after that in May this reading fell to only 10%. The latest reading is a net 37% positive. So yay – the future is brighter.

However, this 37% result is down from 47% a month ago 51% in October last year, and is the weakest result since 26% in July 2024.

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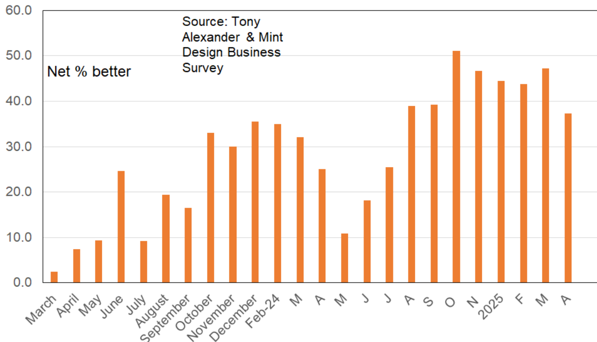
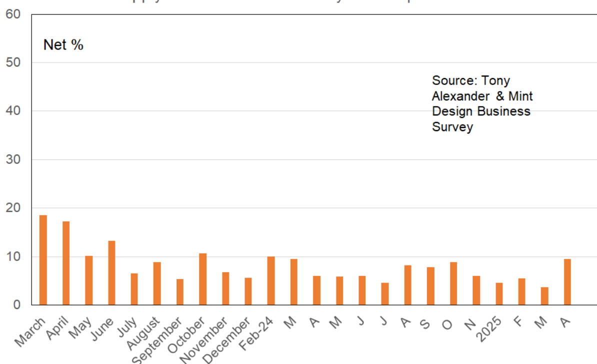


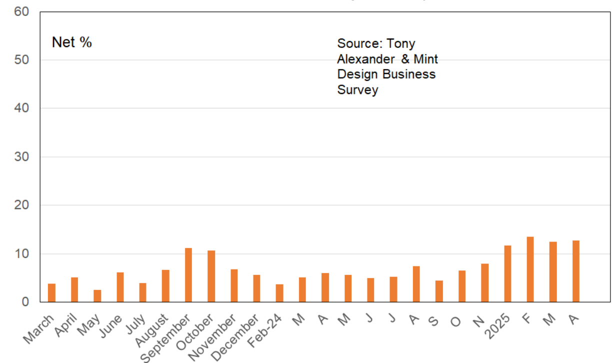
The key thing to focus on is that the great hopes people held as interest rate prospects turned have given way to a new bout of caution and disappointment at the absence of new strong customer flows.

Supply chains, NZD, and politics

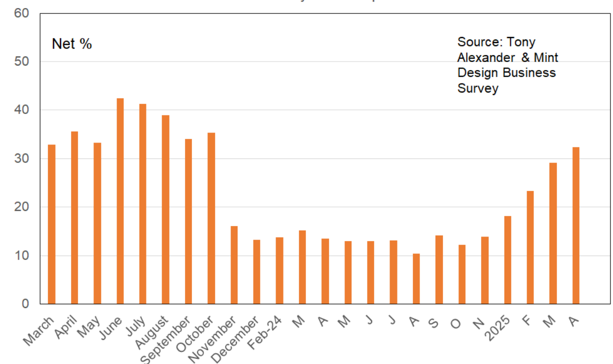
Why is concern about our economic prospects over 2025 growing? One issue is new worries about supply chains functioning properly. This is being driven by the US-initiated tariff war. Tight and malfunctioning supply chains during and after the pandemic placed large upward pressure on business costs and the same thing might happen again businesses fear.



Another area of rising concern is that the Kiwi dollar is too low. This is worth noting because the traditional focus when our currency weakens is on the benefits which will flow to unhedged exporters. However, in an environment where margins are tight and being squeezed further, expectations of rising costs for imported inputs are of high importance.

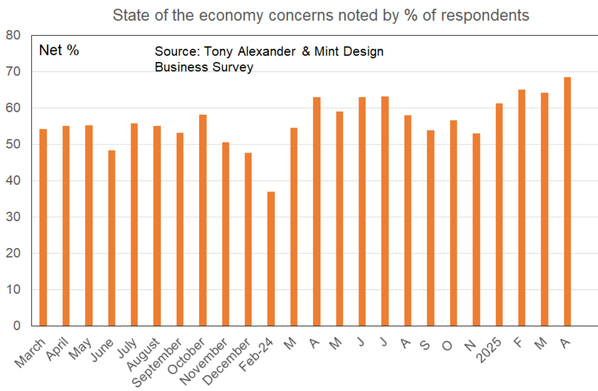


Then there is the factor which has shot to prominence as an area of business concern since October last year – politics. Back then, just six months ago, only a net 12% of respondents said this was a concern for them. Now a net 32% say that.



The concerns of business are almost back to where they were before the 2023 general election when the deeply-disliked Labour government was still in power.

These three areas of concern have interacted with the deteriorating forecasts for global growth and uncertainties created by the tariff war to push concern about our economy to a record high for my survey of 69% from 64% a month ago and 63% a year ago.



But hang on. Didn't I note above that all measures are looking better than a year ago simply because interest rates have fallen? That brings me to a closing comment regarding the second thing you need to pay attention to when assessing what a survey is telling you. After noting what time period the results are being compared with, find out when the latest results were gathered.

My results when released are about a week old. The results from the other survey noted above (excellent as it is) were gathered between January 24 and March 3. Unfortunately they are well out of date in the context of US tariffs being taken to century highs and the potential dismantling of post-WW2 international trade and geopolitical structures. As long as you know that you can adjust your interpretation of the results appropriately.
[MYOB 2025 Business Monitor: First time in five years optimism leads SMEs' economic outlook for year ahead](#)

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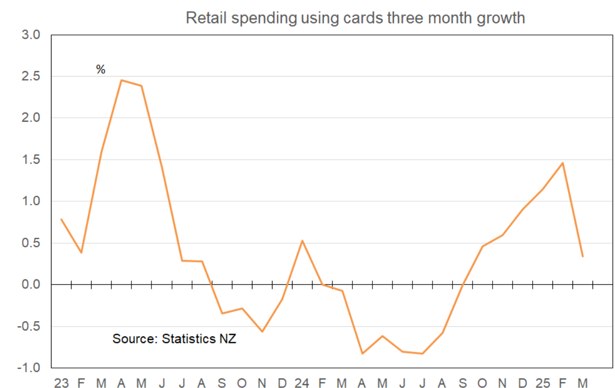
Consumers cutting back

This week Statistics NZ released their monthly data on the spending we Kiwis do using our debit and credit cards. I don't give high weighting to this dataset as a gauge of household spending as the correlation with the eventually released quarterly retail sales data can be quite variable.

Nonetheless, we have no other up to date gauge of actual consumer spending so let's see what the numbers tell us.

In the month of March seasonally adjusted spending using cards fell by 1.5% after falling 0.1% in February and 0.1% also in January. The numbers are weak and illustrate why retailers are still feeling pain.

This graph shows the changes smoothed over three months as you really don't want to focus on monthly movements in a small economy like ours.



The pain in the sector is evident in some of the comments which retailers submitted in my

monthly business survey with Mint Design. To whit…

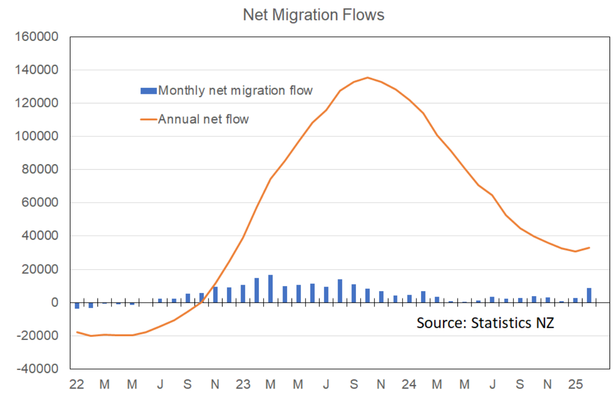
- Fashion retailing - Cost of importing higher due to USD, we have to pass it on as we have no capacity to absorb it. Sales down since mid-Dec except for major discount weeks.
- A slight improvement with customer inquiries, but still customers are looking for the cheapest options and generally seek to repair what they have rather than purchase new.
- I sell hobby supplies and sales have dropped to lowest in many years, average sale value also significantly down, my goods are discretionary, so buyers are simply not buying as much.
- No better than last quarter of last year - no real evidence of recovery in customers spend. Still surviving not thriving mindset!

Based on the volatile international environment and the results of my Spending Plans survey, I expect further store closures throughout 2025. That means I see opportunities for those who are cashed up to secure good locations they can benefit from when the sustained recovery comes along and for the long-term.

Net migration jumps – sort of

In February New Zealand experienced a net migration inflow of 8,800 people. This is an unusually high number being 6,100 higher than the 2,700 net gain for January.

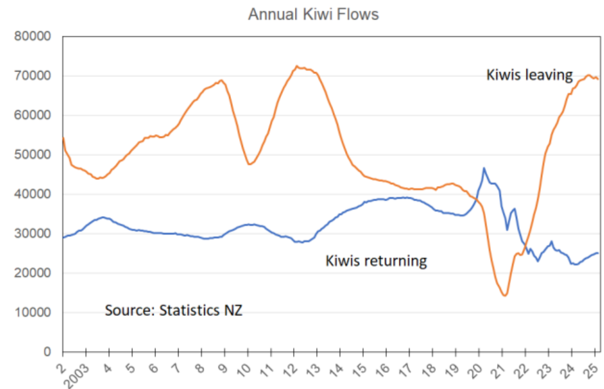
It looks to be due to a large influx of students and that thankfully accords with my inclusion of upside risk for student inflows on my list of economic positives since scaring everyone with pessimistic talk last August.



From a housing market pressure point of view the positive news is that the net migration numbers seem to have stabilised. The annual total net flow now stands at almost 33,000 from 30,900 in January. A year ago the total was 113,000.

If I am right about the student flow, then this bodes well for the likes of Auckland's inner city apartment demand in particular.

At least the net Kiwi flow away from here looks to have peaked at a loss of 46,000 in the year to September 2024. The annual loss now is 44,000 – better, but hardly a major shift. Note that three quarters of the net annual outflow is to Australia.



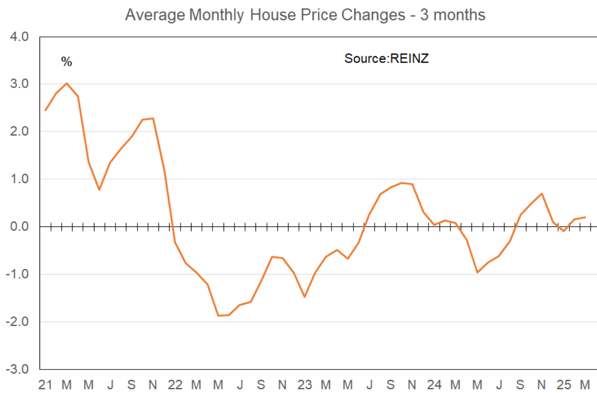
Housing market is not firing

REINZ released their monthly data this week and this is what they tell us. First, on average prices are rising by only a small amount.

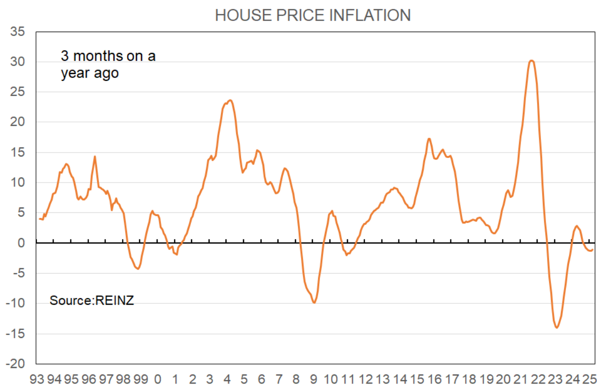
During the month of March the national House Price Index fell by 0.6% after rising 1.4% in

February and falling 0.1% in January. Smoothing over three months we see the change on average for the March quarter was a rise of 0.2% a month from 0.1% in each month of the December quarter and 0.3% in the September quarter months.

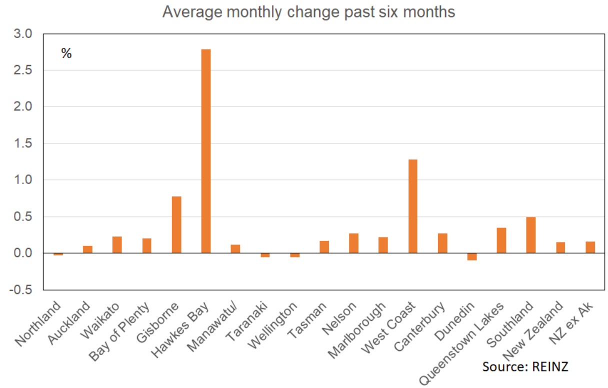
One could sum up the extent of excitement one feels about these price changes as meh. Declines have ended but rises are not gaining momentum.



Compared with a year ago prices over March were down by 1.1%.

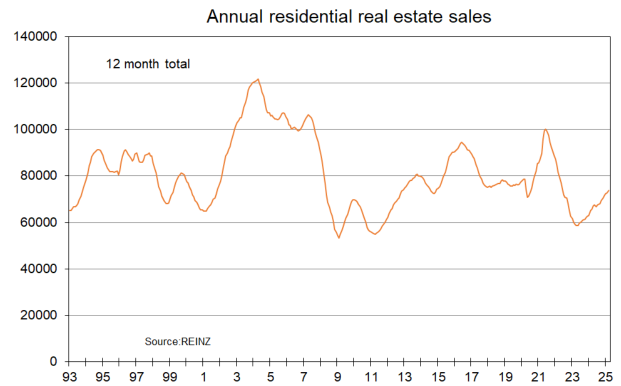


At the regional level we can calculate price changes over rolling six month periods. Anything less is not useful given inherently greater volatility for sub-national gauges. Doing this allows us to see in the following graph that there is relative strength in the Hawkes Bay region with prices on average rising by a strong 2.8% a month to sit 1.1% down from a year earlier in March.



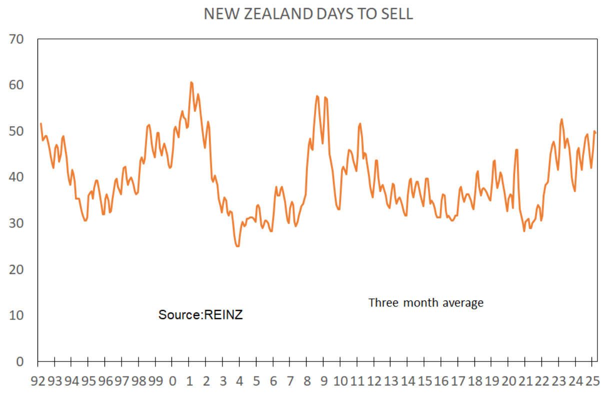
Note the relative weakness in Wellington but also Dunedin.

Turning to turnover we see that nationwide sales were 14% ahead of a year ago in March and at 73,700 for the year were 12% ahead of the year to March 2024. Sales activity has increased.



However, in rough seasonally adjusted terms in the March quarter sales fell 5% after rising 9% in the December quarter and 10% in the September quarter. The surge in sales activity has at best flattened out and may be edging back down again.

And finally, with regard to the number of days on average taken to sell a dwelling the March reading of 41 days was up from 38 a year ago. The average time to sell for the March quarter was 50 days which was eight days longer than average. The December quarter average was also eight days above average and the September quarter average 11 days longer than average.



Turnover is slower than average but days to sell are not blowing out.

None of the indicators we have in hand paints a picture of a firming market. Let's run with flatness.

If I were a borrower, what would I do?

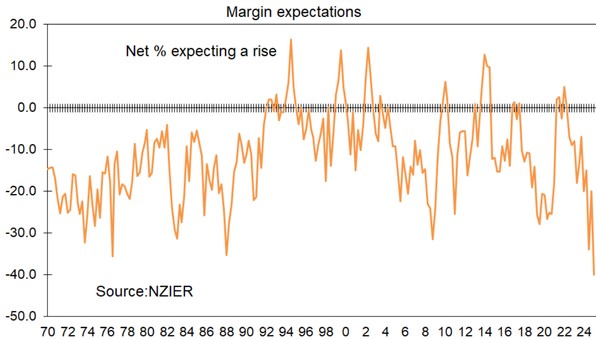
The monthly Business Survey which I run with sponsorship from Mint Design contains a lot of questions and one of them is aimed at getting a feel for what businesses might plan doing with their prices. As with the price gauges which have been running for decades in the regular NZIER and ANZ surveys what one wants to do is see where the trend is headed.

At the moment there is optimism about inflation staying low and the Reserve Bank having a lot of scope to keep cutting interest rates. The natural bias of us Kiwis is towards believing interest rates will fall. All the turmoil in global financial markets caused by the US President means we have firmly veered towards believing that our central bank will look to offset the coming economic weakness by cutting interest rates.

We view our central banks mainly as inflation fighters but also as good Samaritans we expect to help us when times are concerning. But my job as an economist is to recognise these sorts of human biases and try to get people to see the underlying picture stripped free of views about what "should" or "must" happen.

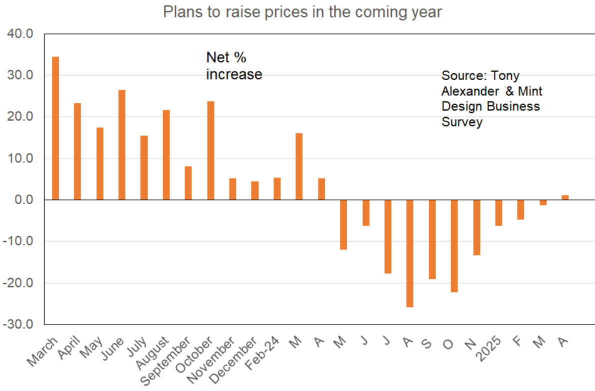
In that regard I retain my warning that inflation is not dead, and our central bank will be wary of cutting interest rates too far and setting the scene for a rapid rise in rates down the track once inflation returns.

Last week I emphasised my main concern regarding inflation which is that business margins are highly squeezed (meaning more liquidations are coming) with a focus on the NZIER's quarterly survey. The gap between what businesses expect their costs to do and where they see their selling prices heading is the worst in over half a century.



Now consider what weakness in growth means. Like a tightening of monetary policy (higher interest rates) it reduces the ability of businesses to raise their prices even if their costs go up. That ability is about to be further compromised. But tariffs will raise their costs one way or another and margins will therefore get even tighter.

My latest Business Survey showed that a net 1% of respondents do not plan cutting their prices or leaving them unchanged in the coming year. Last month a net 1% did plan such cuts/inaction, two months ago 5% did so, and in October a net 22% had these disinflationary plans.



The trend is what matters here, and the trend is not towards lower inflation but higher.

What does this mean for borrowers? It means keep an eye out for when the opportunity comes along to secure a 3-5 year fixed mortgage rate at a low level. Fixing at 4.99% for two years currently is hard to fault given that one can only sit around waiting for banks to compete more aggressively for market share for so long. Given the lack of bank resources for processing mortgage applications according to my latest broker survey with mortgages.co.nz we will probably not see any attention-grabbing and resource-straining rate cut for the two year term in the near future.

But given the reluctance of Kiwis to think long-term and therefore fix longer than two years, maybe a bank can get a good reputational hit by cutting a 3+year rate like Westpac did earlier this year but without generating a lot of stressful business flows. When they briefly had that rate, I am aware of some people who bargained with their own bank and secured 4.79% for three years.

This week has been a bit less chaotic in local and international fixed interest markets. The three year swap rate at which NZ banks borrow in the wholesale markets to lend to customers at a three year fixed rate has ended the week unchanged from where it was last Thursday. But it is down 0.3% from four weeks ago and a 4.99% rate is looking more and more likely.

If I were borrowing at the moment, I would wait a bit in case the 4.99% three year rate were to return.

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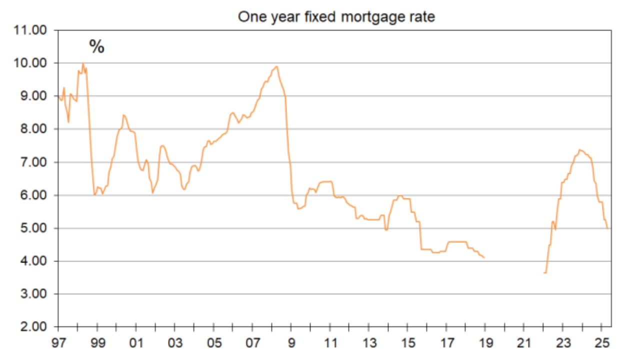
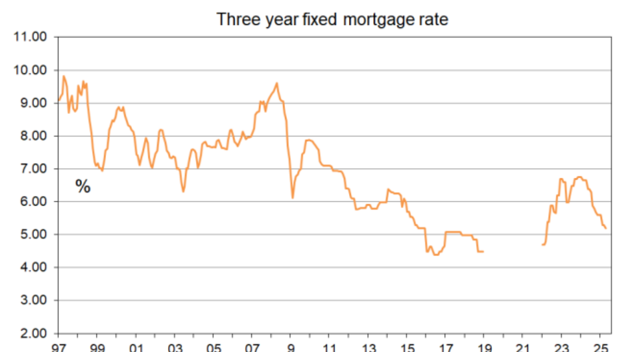
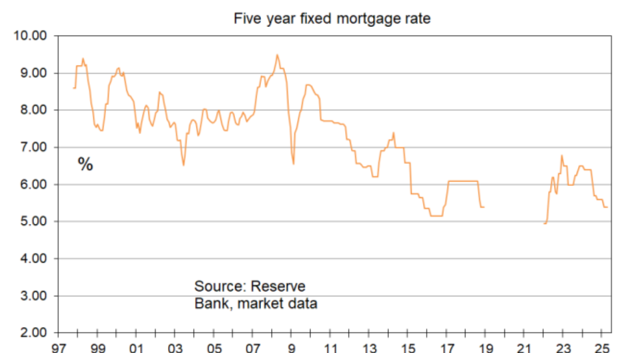
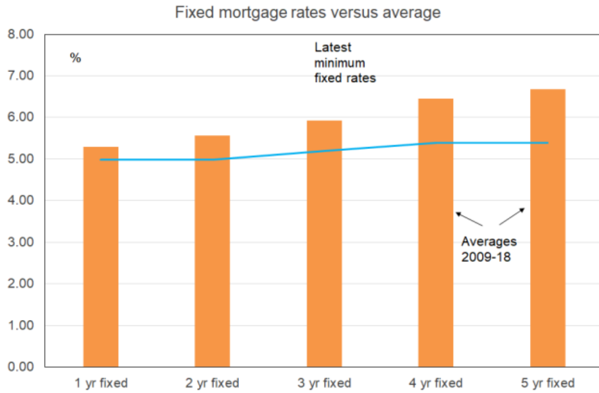
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







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



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

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