

Input to your Strategy for Adapting to Challenges

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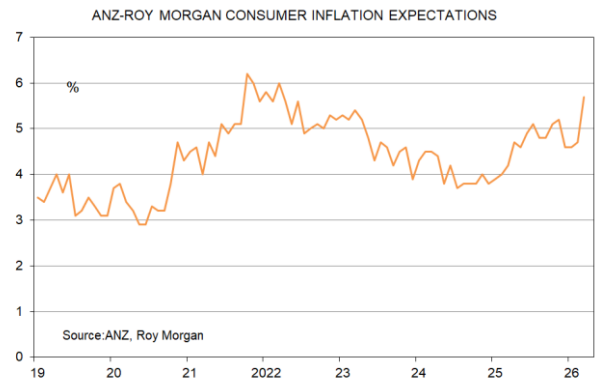
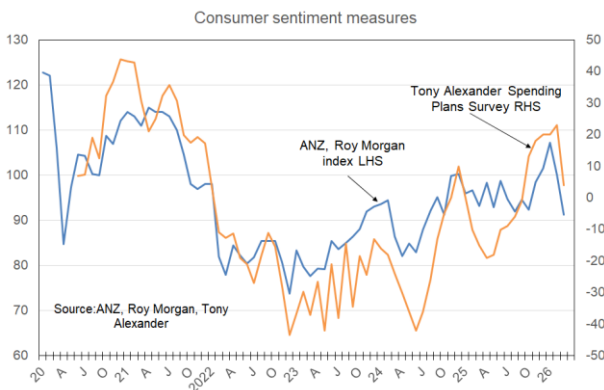
Positive sentiment erodes away

The ANZ Roy Morgan consumer confidence survey caught up with the decline in consumer spending plans revealed a few weeks back here following the onset of the Iran War. Their survey reading fell to 91.3 in March from 100.1 in February where 100 is neutral.

This followed my Spending Plans measure falling from a net 23% positive to just 4% almost a month ago. I sent out this month's survey link yesterday and there has been a further ugly fall which I will report on next week.


expectations of virtually everything else rising in price as the fuel effects feed through over the coming weeks and months.

In fact, average expectations of consumers for where inflation will be in a year's time have jumped to 5.7% from 4.7%. This won't hugely concern the Reserve Bank for the moment because the move is entirely understandable and reflective of the initial oil price shock.




Clearly the outlook for retailers has deteriorated as a result of the surge in fuel prices and


They will instead focus on actual business price rises and how inflation expectations and pricing intentions move in coming months. History




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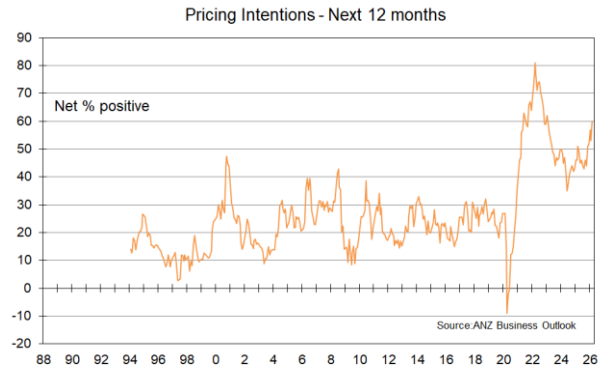


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suggests that they will be very reluctant to tighten monetary policy quickly in response to this shock.

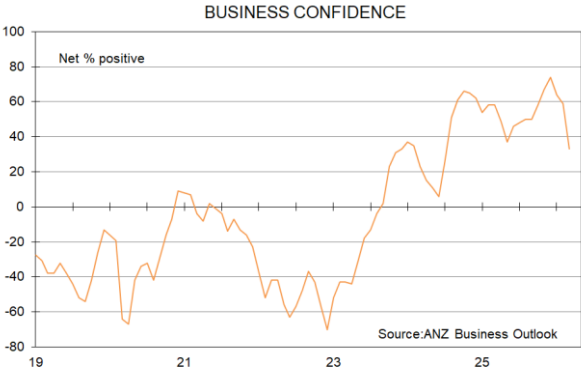
From the just-released ANZ Business Outlook survey we can in fact see solid evidence of pricing plans increasing. A net 60% of businesses said in March that they plan raising their prices over the coming year. This is up from 57% a month earlier and well above the 26% consistent with inflation averaging 2.4% since 1992.



Looking at just the responses received late in March (their response period stretches over 2-3 weeks) the net percentage of businesses planning price rises was an even higher 67%.

There is an inflation shock set to run through the economy which the Reserve Bank is going to do its utmost to look-through - until they won't be able to and then the policy response will come.

It is no surprise that business confidence about the year ahead fell to a net 33% positive in the ANZ survey from 59% the month before. But the end-month results produced a -23% reading. That means recession. But this is where things get complicated because weak economic activity will restrain second round price shock effects.



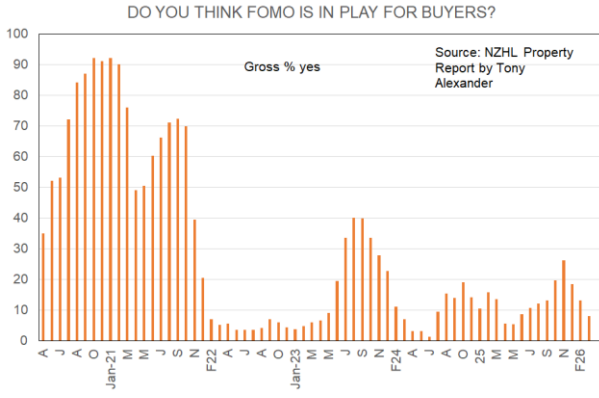
Employment intentions fell to a net 9% positive from 22% and investment intentions to 15% from 25%. Next month's results will be worse.

The outlook for our economy has clearly deteriorated. But by how much and for how long is anyone's guess. Good luck. Maybe 2027 will be better!

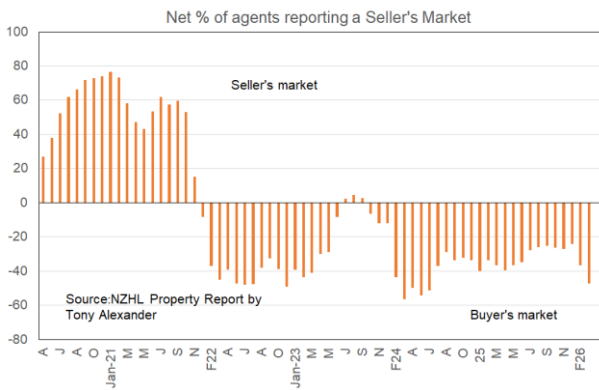
Real estate upturn over – again

For the third time since early in 2023 an upturn in the residential real estate market has come to an end and we can see this from my latest monthly survey of real estate agents around the country.

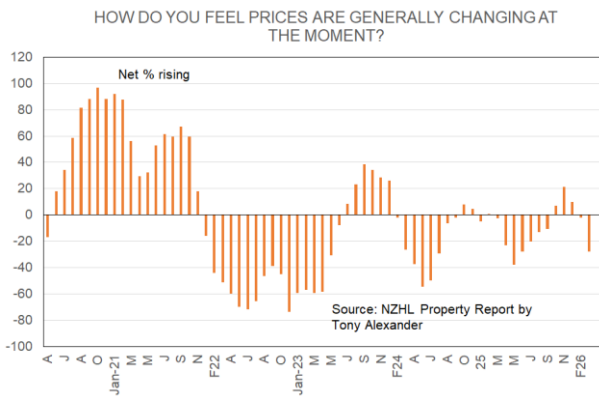
First, FOMO has almost entirely gone. Only 8% of agents feel that buyers are worried about missing out on something. This outcome is down from the recent relatively low peak of 26% at the start of December last year. Twice bitten third time shy – justifiably so as it turns out.



Agents report that fewer people are now showing up at open homes and auctions and that a solid buyer's market is back in place.

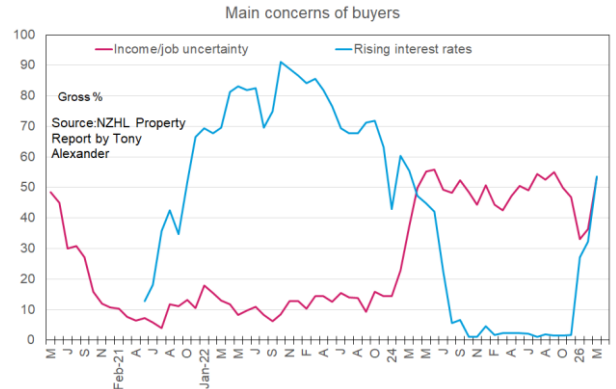


A net 28% of agents feel that prices are falling in their area of operations.



A couple of key factors driving the new retreat of buyers are surging worries about employment and interest rates. The pink income worry line is covered by the blue interest rate concerns line so to clarify, the latest readings are 53% and 54%

respectively of agents saying these are buyer areas of concern.



The full survey report will be released in a few days. Suffice to say, for first home buyers the market remains strongly in their favour as we continue through this structural shift in our housing market. Far fewer investor buyers, more investors selling, and young people reaping the rewards.

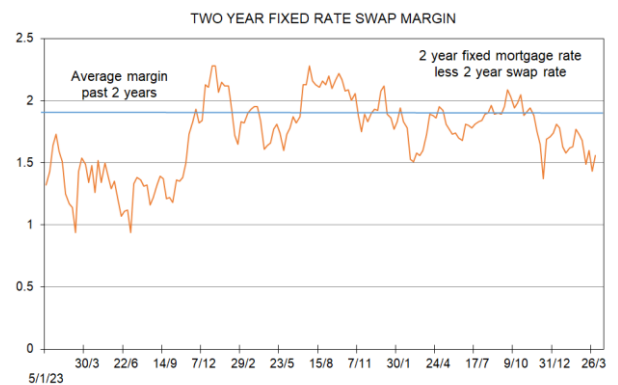
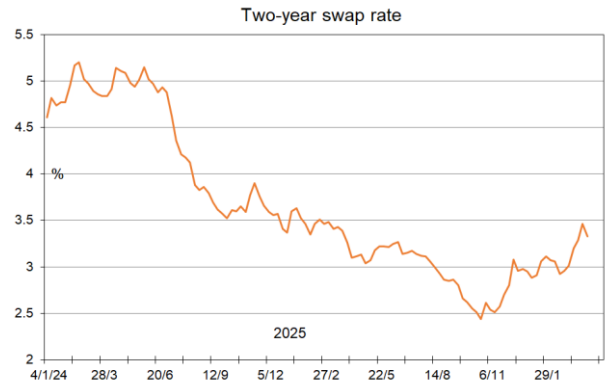
If I were a borrower, what would I do?

Wholesale interest rates have fallen about 0.1% this week in response to a small rally in US bond yields on the back of hopes that the war against Iran will shortly be over. The local declines came about in spite of the jump in price setting plans noted by businesses in the monthly ANZ survey.

As with many other indicators which we might normally pay intense attention to, these jumps and things like big declines in business and consumer sentiment could easily reverse if the Middle East calms down soon. We simply don't know and that is why we would be unwise to extrapolate the latest data and conclude deep recession lies ahead along with soaring inflation.

The Reserve Bank will wait I feel a long time to see how things eventually pan out and that means no rate rise next Wednesday. However, they start this tightening cycle behind the curve, and a period of catch-up rate rises will come at some stage – probably next year.

For now, the pressure on banks to undertake another round of fixed mortgage rate increases has eased. But margins remain below average and 0.2% rises in the near term could easily happen – again.



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

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