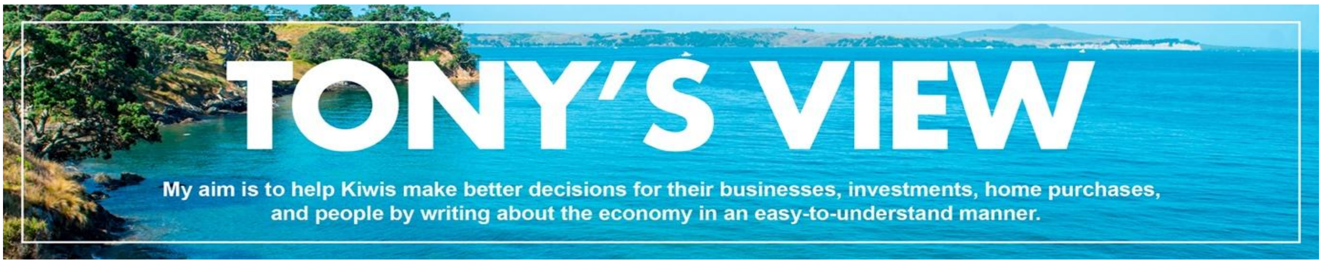

Input to your Strategy for Adapting to Challenges

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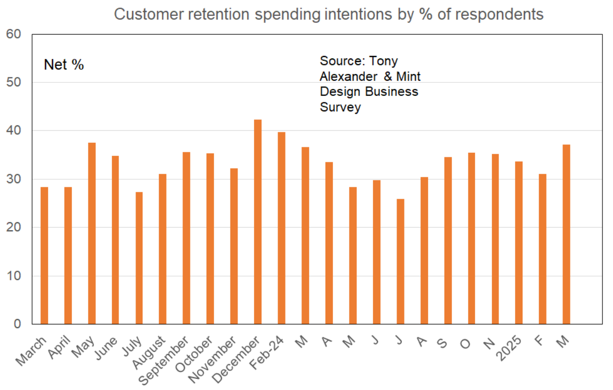
Businesses yet to see much interest rate boost

Yesterday I released the results of my monthly Business Survey conducted with sponsorship from Mint Design. The clearest thing to come through is that although a few businesses are seeing improvements since monetary policy started easing, for the majority the upturn has still yet to arrive.

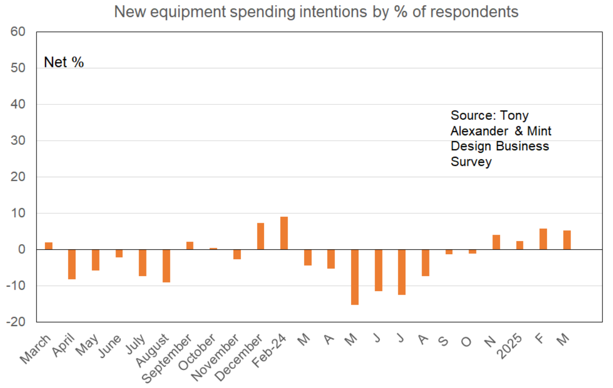
In fact, one notable feature was the absence of comment regarding the flow-on impact of falling interest rates.

Businesses indicate they are hoping for some better customer flows later this year but are despondent about the domestic political environment and increasingly concerned about what may happen internationally.

I have detected evidence of an easing off of price cutting plans as costs continue to rise, and there is a switch in attention back towards trying to retain existing customers rather than going large to try and attract new ones.



There is an upturn underway in business investment, but it looks small and is not yet gathering momentum.

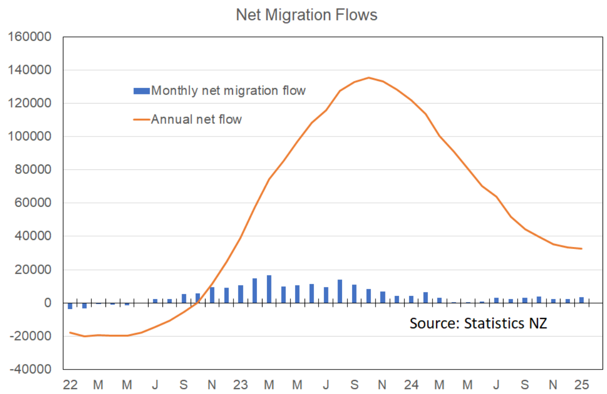


Many people talk about the economy's recovery being export led. But drought conditions, struggling tourism, and rising costs mean the extent of boost from this widely defined sector will be nothing like we have seen coming out of previous recessions.

The labour market remains in favour of businesses and some companies note price discounting by tradies trying to secure work.
[Mint Business Insights - March 2025 - Mint Design]

Net migration bottoming out?

Statistics NZ released their monthly migration data early this week and the numbers don't show anything particularly new going on. The annual net migration gain peaked at 135,000 in October 2023 and now stands at 32,500 with a very mild downward trend still in place.

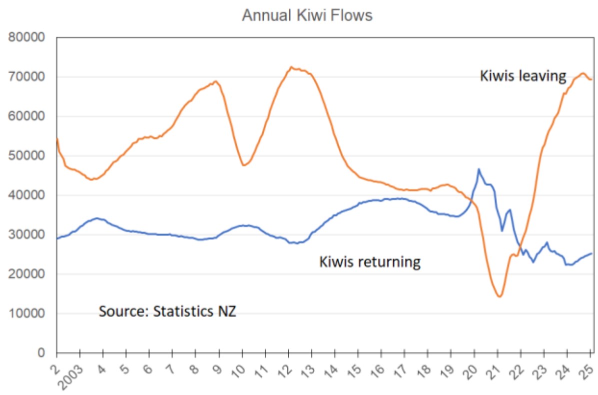


The bottom of the cycle feels like it is close but personal experience over three and a half decades tells me that it is not a good idea to take a strong position on where net migration flows are heading.

That is because New Zealand has one of the most churning populations in the world. Each year on average we lose about 1.8% of our population and gain about 2.5%. If one of these flows moves up at the same time as the other moves down, then the difference between them in terms of the number of people can shift quite violently.

Focussing in on Kiwi citizen flows there was a loss of 44,000 in the year to January and this annual total has been near that level for over a year now. The big change in this net flow happened from early in 2022 and was driven primarily by a large surge in the number of Kiwis leaving.

Note how this gross outflow shown as the orange line has recently peaked at about the level seen in the past. In other words, we have seen this outflow of people before. But it is rare to see it in conjunction with a deterioration in the number of Kiwis returning. That looks more like a structural shift than a cyclical one.



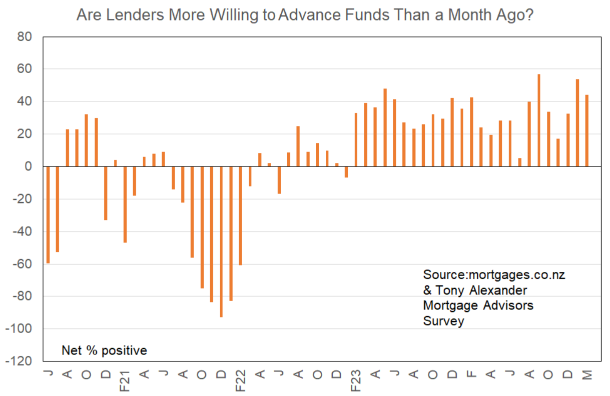
Improving finance availability

Media have recently been reporting examples of increasing competition between banks for mortgage business. There is also a debate underway regarding a potential easing of the possibly overly strict rules on bank capital holdings which the Reserve Bank has imposed in recent years.

I can get readings of changes in finance availability for both mortgages and business activity from the various surveys I run each month and here are those gauges.

First, from my just released survey of mortgage brokers with mortgages.co.nz the net proportion who report that bankers are more willing to lend funds came in at 44%. This is down from 54% last month and up from 33% in December.

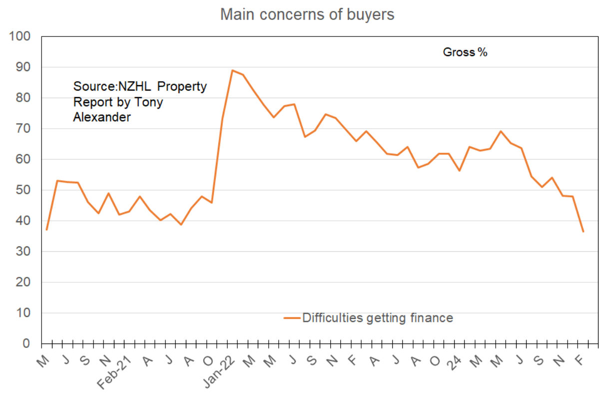
As the following graph shows the brokers' perceptions of improving funds availability undertook the biggest move upward at the start of 2023 and that occurred just before the surge of first home buyers into the housing market.



This suggests that the media reports are not capturing a change in availability of funds as much as a rise in things like cashbacks which can go up to 0.9% of a loan in some cases.

In my monthly survey of real estate agents sponsored by NZHL I ask agents to indicate which things are causing buyers most concern. They can tick the boxes for a range of things from interest rates to listings etc. as well as access to finance.

In the most recent survey undertaken at the very end of February only 37% of agents said that buyers are worried about getting access to finance. This is the lowest proportion since the first survey undertaken in May 2020.



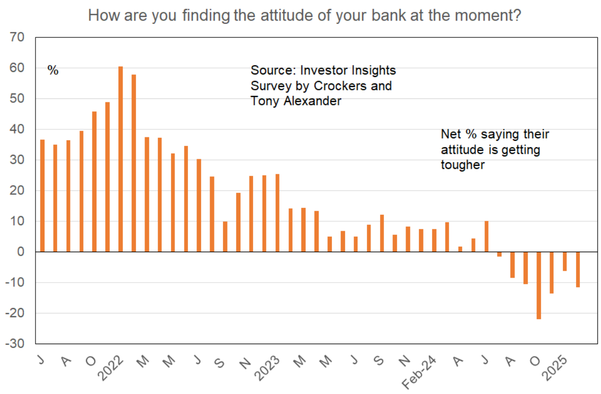
The graph above shows that access to finance soared as a concern late in 2021 when both the Reserve Bank and government turned the screws on finance availability. Those concerns pulled back slowly after that until rising a bit early in 2024.

But since August of last year as monetary policy began easing the level of concern observed by agents has fallen away quite rapidly. This survey then definitely is capturing a shift in the lending environment.

I also get a gauge of finance availability from the monthly survey of existing residential property investors run with Crockers Property Management.

I ask landlords how they are finding the attitude of their bank. On average since June 2021 a net 17% of landlords have reported that they have found their bank's attitude to be negative towards financing. Now, a net 11% say the attitude is positive.

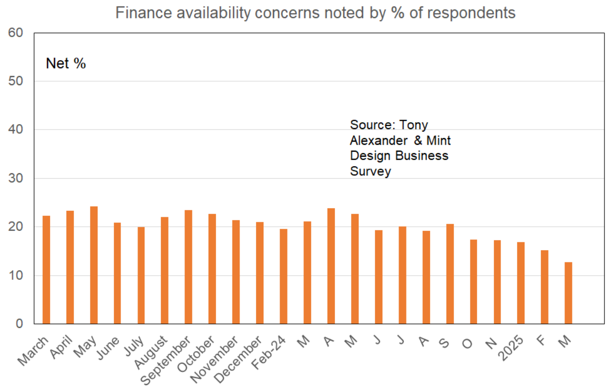
The graph for this series shows the spike in attitudes for the worse late in 2021 and then slowly decreasing restrictiveness by the bankers through to July last year. In that month a net 1% for the first time ever said that they were finding their bank's lending attitude to be positive.



I don't ask about access to finance in my monthly Spending Plans Survey but do ask about it in my Business survey run with sponsorship from Mint Design.

Specifically, I ask businesses to note the things which are causing them concern and one of the options they can choose is "Bank financing availability and terms".

The graph below shows that there has been a very gradual easing trend underway in this measure since the first survey in March 2023. The latest reading however is the lowest on record at just 13% of businesses listing access to finance as a concern. It's not a big move but it is a pleasing one coming as it does at a time when businesses say they are planning to invest more in plant, machinery, equipment, and technologies.



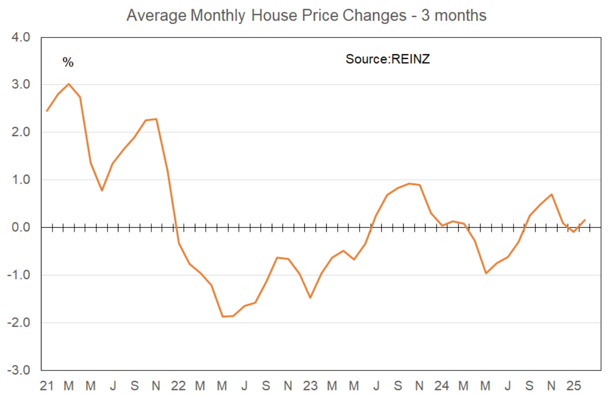
Overall then what we can say is that finance is increasingly becoming available to help facilitate the anticipated upturn in our economy this year and next. Here's hoping all of this is not derailed by President Trump's tariff war.

Muted housing cycle upturn underway

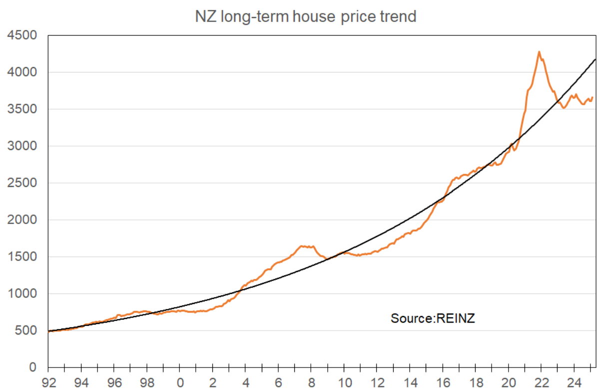
REINZ released their monthly data this week and these are the main things the numbers show at the NZ-wide level.

First, prices are looking like they are trending higher when we look through the month to month volatility. That is, while the REINZ index rose by a large 1.4% in February this followed falls of 0.1% in January and 0.8% in December.

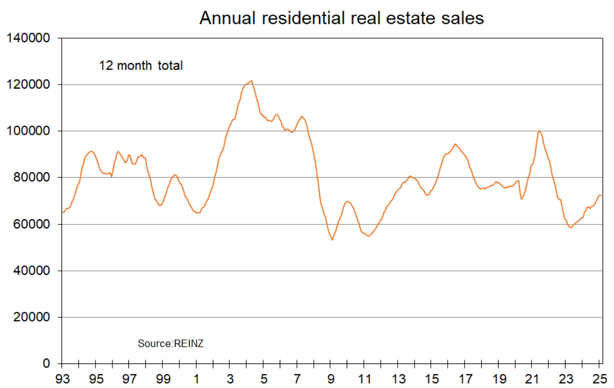
If we smooth over three months, we see the average monthly change in the three months ending in February was 0.2% compared with 0.7% in the three months to November and -0.3% in the three months to August.



Average house prices are about 14% down from their peak late in 2021 and about 1.2% down from a year ago.



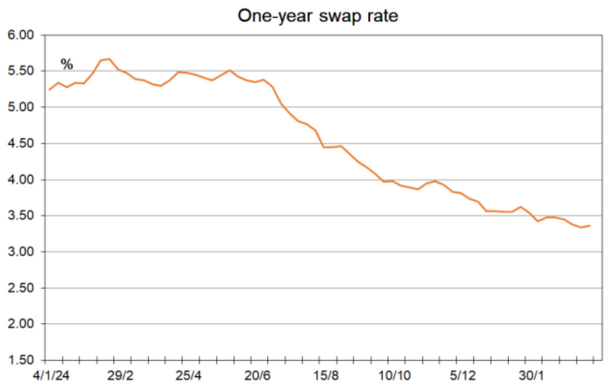
With regard to the number of sales these were 13% stronger in the three months to February than a year ago. The annual total of near 72,500 is up from the cyclical low of 58,600 seen in the first half of 2023.



If I were a borrower, what would I do?

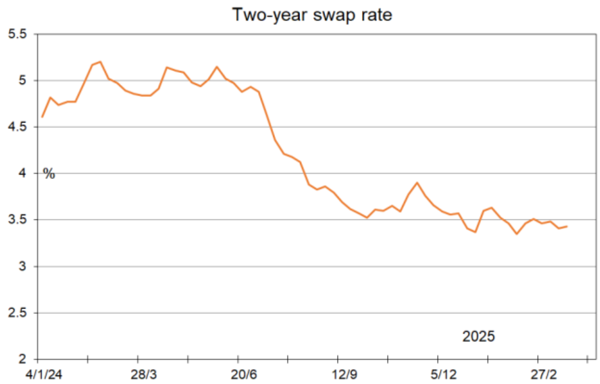
I don't have much of interest to write about interest rates and where they are headed this week. The wholesale rates which banks pay to borrow fixed are about the same as they were a week ago. That means the one year swap rate is close to 3.71% and the three year rate near 3.53%.

The key point borrowers need to note is that because the one year fixe rate is closely aligned with forecasts for what the official cash rate will do over the coming year, the expected cut in the OCR from the current 3.75% to 3% or 3.25% means some further reduction can be expected.

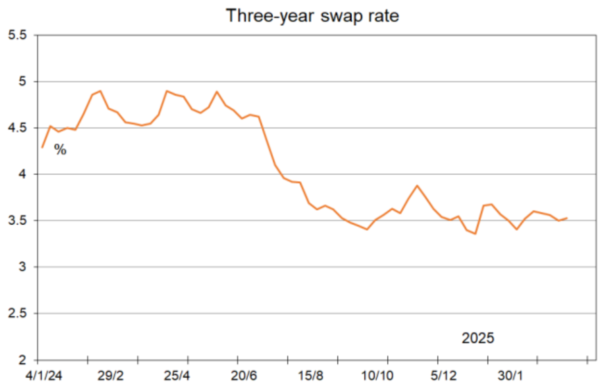


But the two year fixed borrowing cost to banks includes only a small time period during which the rate won't be 3.25% or 3.0% and therefore the extent of further declines in this borrowing cost is very limited.

The following graph in fact shows that the two year swap rate is not much different from where it was in September last year. The confirmation of the easing cycle commencing fairly much got factored into this rate right away.



This is even more the case for the three year wholesale borrowing rate which reached its lows six months ago.

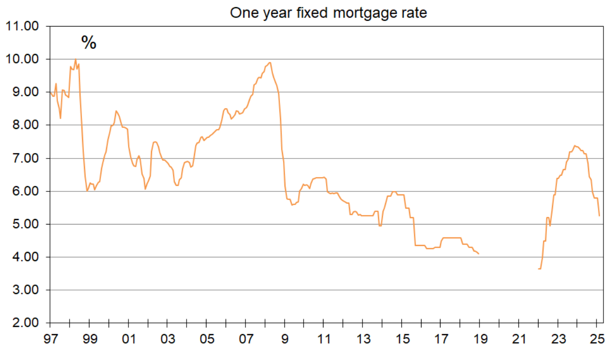


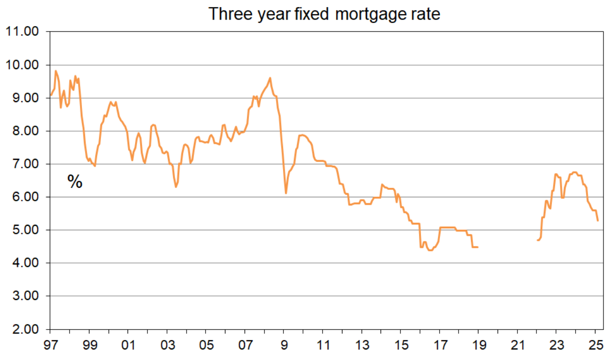
Looking ahead we have the next review of the official cash rate happening on April 9. A cut from 3.75% to 3.5% is likely and this will result in probably no changes to fixed mortgage rates for two years and beyond, a 0.25% reduction in floating mortgage rates, and minor declines in rates from 6 – 18 months.

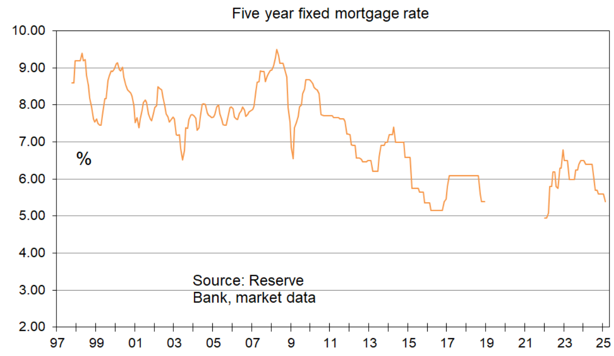
With regard to this morning's Gross Domestic Product numbers there was no impact in the markets from the higher than expected 0.7% growth reported for the quarter.

If I were borrowing at the moment I would probably fix two years at 4.99% but might wait a bit in case the 4.99% three year rate were to return again.

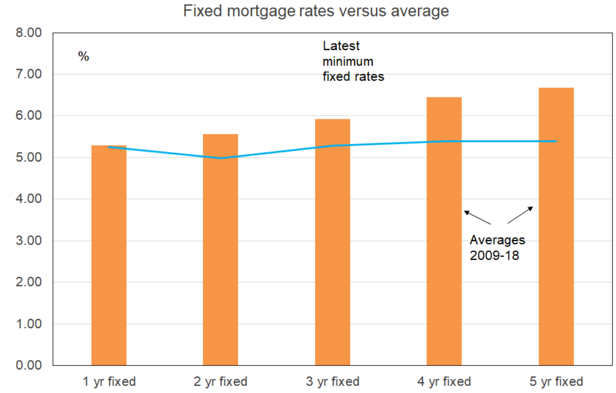
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.



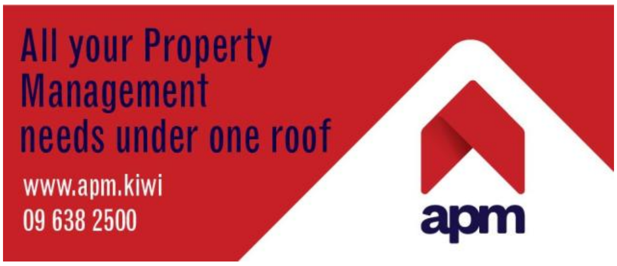




This graph shows how current rates compare with averages from 2009-19.



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



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.