

Input to your Strategy for Adapting to Challenges

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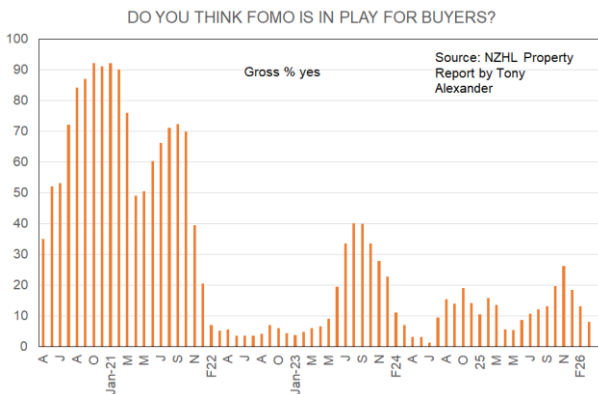
War impacts clear to see

I have completed my five monthly surveys for April, and it shouldn't come as a surprise to anyone that the results bespeak of an economy yet again facing a poor outlook. The cause is obvious – the US war against Iran and the resulting soaring of energy prices and fears of fuel shortages.


From my survey of real estate agents with NZHL we can see an immediate impact. FOMO has all but disappeared again with buyers firmly feeling that time is on their side and the high quantity of properties listed for sale is unlikely to fall away in the foreseeable future.

First home buyers remain active in the market and while there are some investors their level of interest has declined anew at the same time as more investors are looking to realise the value of their asset.


From my survey of existing property investors with Crockers Property Management we can see that the two main factors driving people's desires to sell are failure of the property to financially stack up any longer and the need to fund retirement. Each factor accounted for about 28% of all reasons given. But the desire to sell and then buy a better suited property accounted for 15% of proposed sales.




This reminds us that much as the financial returns from residential property investment have structurally altered now for a long list of reasons, it remains a desired area of investment for many people. It pays to remember that historically 32% of properties in New Zealand have been occupied by people who are renting them. That is a lot of people needing rental accommodation to continue to be provided for them going forward and there is thankfully no shortage of people willing to do that.




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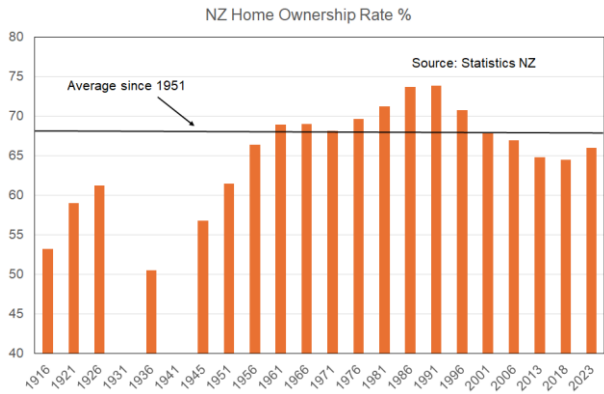
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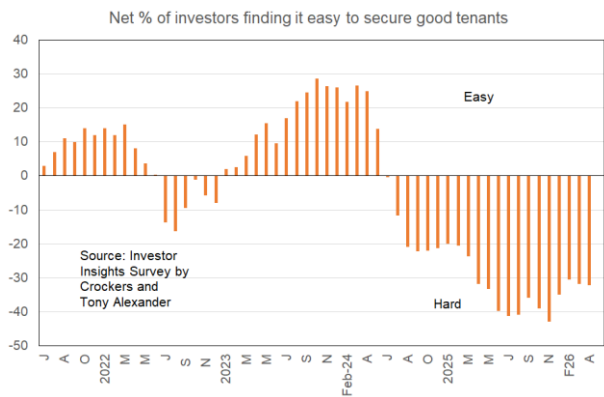
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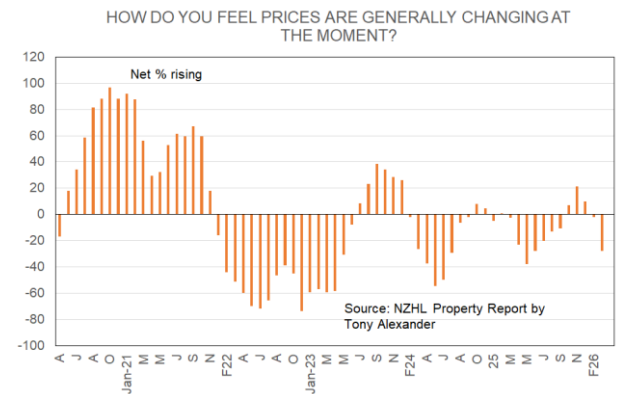
Note that our average home ownership rate since 1951 of 68% is the same as the EU's current average rate. Our most recent recorded rate was 66% in the 2023 census.

For the moment there is a relative shortage of tenants compared with the stock of rental properties and this is causing rents to fall in many parts of the country. Although the net migration flows are starting to improve this is likely to remain the case for some time going forward.

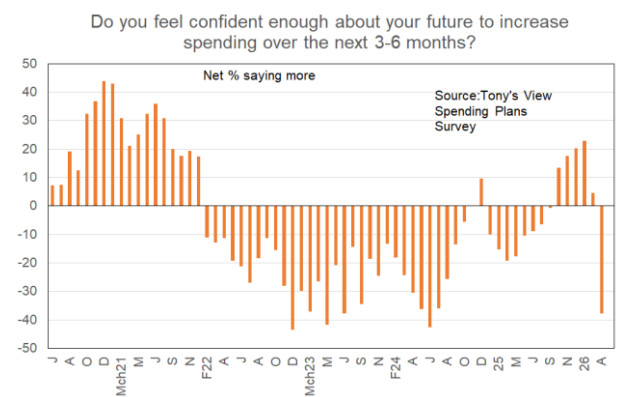


Another thing we can tell from my real estate agent survey is that people have suddenly become newly worried about their employment and about where interest rates are headed. The

result is that house prices still do not look like trending upward anytime soon.



These worries help explain why the net proportion of consumers planning to buy more stuff in the next 3-6 months has fallen to -38% from +4% early in March and +23% two months ago. With increased funds having to be allocated towards fuel and groceries expected to soon cost more, the implications for sales of other things are quite bad.



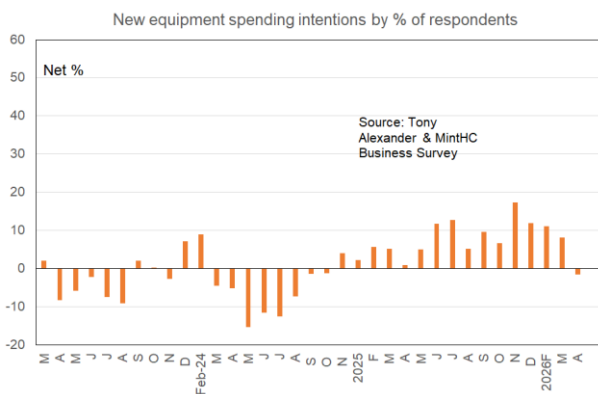
The worst impacts look like being for hospitality, footwear and clothing, plus travel both domestic and international.

In the business sector my survey with MintHC shows a firm falling away of confidence about revenues over the coming month. Plans for spending on advertising have taken a step back along with spending on recruitment, remuneration, acquisition of competitors, and development of new products and markets.

A lift in intentions of expanding expenditure on plant and machinery which started back in November 2024 as interest rates fell and optimism for 2025 soared has now been erased. That is not good news for our productivity growth which in turn is bad news for inflation.

central bank must set monetary policy to handle the coming rise in inflation from not just the Middle East war's effects but their excessive policy easing of last year.

To which we now turn in the following section in light of Tuesday's data showing inflation holding at 3.1%.



It is in this environment that the government is setting its Budget for delivery on May 28. Given the increasingly strong need to get the fiscal accounts in order following the previous government's wasted splurge from 2017-23, new initiatives will be thin on the ground. Credit rating agencies are growing increasingly concerned about New Zealand's fiscal track in light of our tendency to have a costly crisis every ten years or so and the impact of an ageing population.

This year's Budget is unlikely to bring tax changes aimed at altering the fiscal track all that much, but it is likely that sometime in the next few years a government will take advantage of a handy crisis to enact some large changes. Absence of any reform to the superannuation system for decades suggests the conditions will need to be especially politically and economically right for this to happen.

It is also in this environment of a newly deteriorating economic outlook that our befuddled



If I were a borrower, what would I do?

Ahead of this quarter's inflation data the Reserve Bank in February predicted a rise of 0.6% for the three month period. It turned out to be 0.9%. Ahead of the December quarter release the Reserve Bank had expected a quarterly change of 0.2%. It turned out to be 0.6%.

Recall that as the country's inflation rate over 2024-25 lifted from 2.2% to 3.0% the Reserve Bank cut the official cash rate from 3.5% to 2.25% and predicted that as a result of the rate of growth in our economy going from -1% to +3% inflation would fall to 2% and stay there.

They cut the cash rate too far. In fact, at the time they cut it by a larger than usual 0.5% in early-October last year (only six months ago) they were forecasting that the inflation rate now would be 2.3%. They still had that forecast in November when cutting another 0.25%. Instead it is 3.1% with very little impact coming through as yet from the Iran War.

In fact, according to Statistics NZ the 3.5% rise in petrol prices during the March quarter added only 0.1% to inflation. The war impact has yet to arrive.

This is a poor forecasting performance from an organisation charged with predicting inflation and setting monetary policy to try and keep it near 2% 18-24 months down the track. They have failed at containing the cost of living increase for Kiwi families – yet nothing is evidently being done to address why they can no longer make accurate predictions and how they can improve things.

Did the wholesale interest rate markets react to the 3.1% annual inflation rate coming in 0.1% to 0.2% higher than expected in last week's round of private sector forecasts? Only slightly.

Rates rose a bit, but the increases were contained by the latest business survey from NZIER showing newly negative intentions of businesses to invest and hire people.

If I were borrowing at the moment, I personally would still favour fixing three years in order to get insurance against the rapidly increasing risk of our central bank having to play tightening catch-up somewhere down the track – basically 2027 and 2028.

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

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