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Recovery indicators

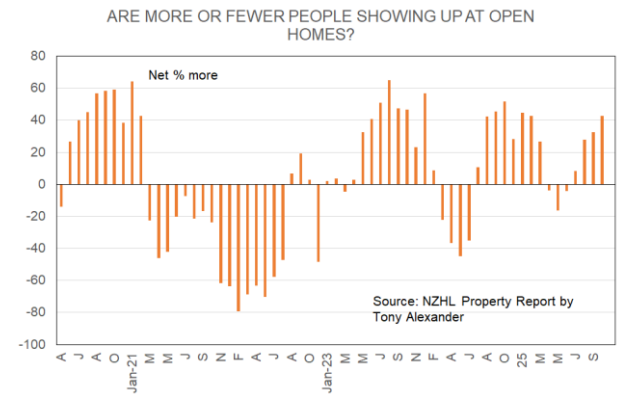
We are at the end of the month so here is a run-through of some of the main things I have taken away from the five surveys I've run this month.

First, from my survey of real estate agents with NZHL we can see that a recovery in housing activity is underway. The percentage of agents saying that they are seeing buyers display FOMO – fear of missing out – has lifted to 20% from a low of 5% in May. This is the best result since the very start of 2024 just before some deep economic rot set in and the economy shrank by 2%.

The market remains pushed up still largely by first home buyers with a net 58% of agents seeing more of them versus just 11% saying they are seeing more investors. Some upward pressure on prices is also appearing with a net 7% saying they are rising versus a low of a net 38% back in May saying they were falling.

Basically, the market was at its low point six months ago and is now moving upward assisted by low interest rates and firming confidence levels and despite weak net migration flows and an absence of any meaningful price momentum as yet.

This graph shows the net proportion of agents saying they are seeing more people at open homes. I include it here for two reasons. One is to show the recent rise. The other is to show that we have been here before a number of times in recent years and the recoveries have not been sustained. Anyone being cautious about the recovery is justified in feeling that way even though this time around I reckon things will remain firm. Third time's a charm!



Second, from my survey of property investors with Crockers Property Management we can see that times remain tough for many landlords. A record

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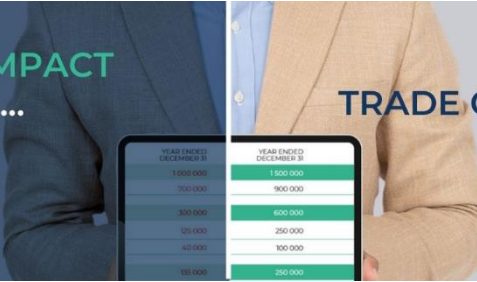
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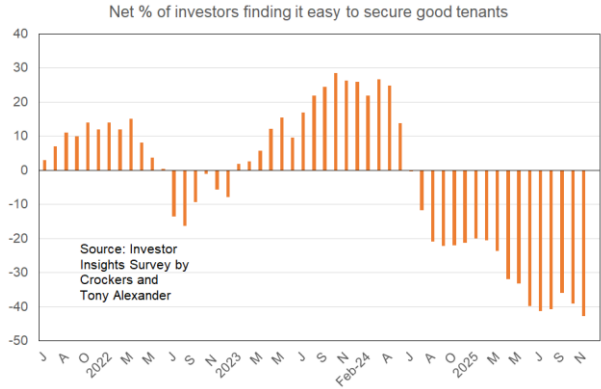
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net 43% have just reported that they are finding it hard to secure a good tenant. Some 18 months ago a net 25% had said this was easy to do.



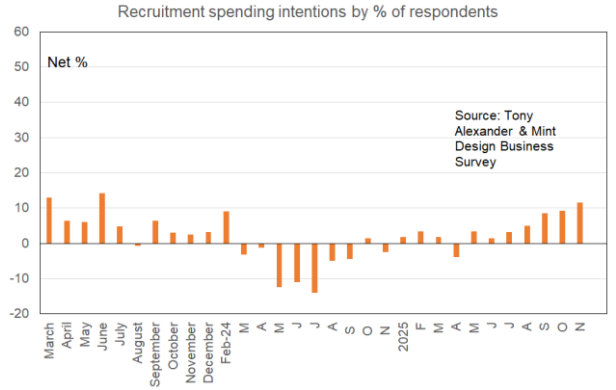
The average rise in rents which landlords are hoping to achieve in the next 12 months stands at 3.8% which is down from 4.4% one year ago and 6% two years ago.

The supply versus demand dynamic in the rental accommodation sector has shifted courtesy of much slower population growth at a time of extra townhouse supply.

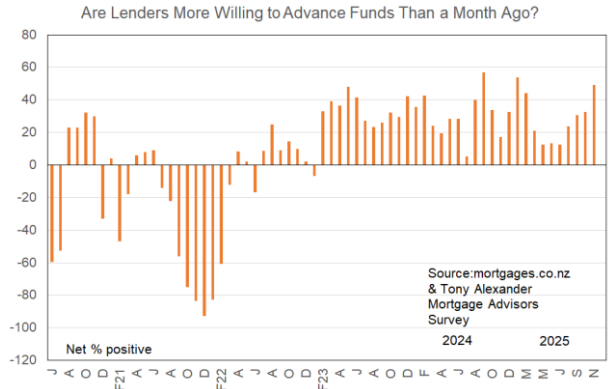
Third, from my survey of businesses with MintHC we can see that for the moment inflationary pressures from the business sector are low with a net 7% planning to cut or not raise their selling prices in the coming year. I have a theory that this will change once customers return in greater number through 2026. But for now inflation is not much of a threat – hence cutting of the cash rate by the Reserve Bank though I feel they are over-doing it – again.

Businesses are deepening their thoughts about hiring more people in the coming year with a net 12% saying they plan to spend more on recruiting people. This is the strongest result since the

middle of 2023 when the 18-24 month lagged impact of tightening in monetary policy aggressively from November 2022 had yet to become relevant. When it did come in the earlyish part of 2024 a net 14% of businesses said they planned cutting recruitment spending.



Fourth, from my survey of mortgage brokers with mortgages.co.nz we see that a strong net 49% of them feel that lenders are becoming more willing to advance funds. There is no credit crunch underway and there is evidence of increasing competition between banks for mortgage business, especially via cashback deals.



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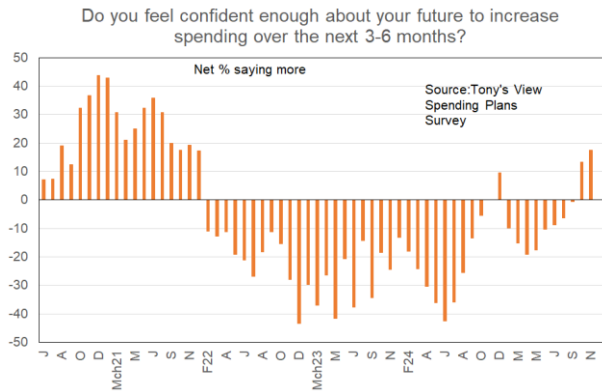


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Finally, from my monthly Spending Plans Survey we see that a net 18% of consumers plan to buy more stuff over the coming 3-6 months. This is a decent turnaround from the net 19% who in April said they planned cutting their spending.

Note the contrast between this turnaround from -19% to +18% over a seven month period with last year's switch from -42% to +10% over six months June to December on the basis of interest rates starting to fall. This recovery is calmer, and I feel not akin to last year's which I warned would not be sustained as the economy would not fire as people expected in 2025.



The economy is in recovery mode after bottoming out over the April – May period this year. This time around the upturn is highly likely to be sustained and to gain momentum because of at least two strong factors. They are the lagged impact of much lower interest rates and the lagged impact of higher incomes in most parts of the primary sector.

Enjoy the upturn as it strengthens through 2026 and 2027. But remember there will be another recession down the track and it will probably come about through tight monetary policy as the Reserve Bank reacts to unexpectedly high

inflation partly attributable to excessive policy easing over this latter part of 2025.

But that is a story for another day and certainly not now as we head into the Summer holidays.



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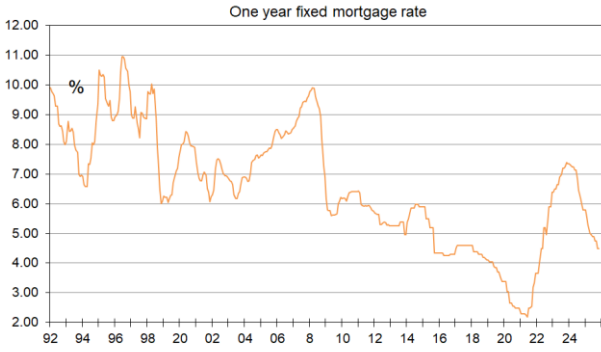
Slower growth in house prices

For your guide, here are graphs illustrating two of the factors which will produce slower average growth in house prices going forward than the 6.7% a year average seen since 1992.

First, there will be an absence from now of the broad downward trend in interest rates from back then. As interest rates fell for about three decades investors were incentivised to seek out assets other than simple term deposits and fixed interest securities.

Funds flowed into equities and forms of property and applied extra upward pressure on their prices. That process has ended and this extra lift in property prices will now be absent.





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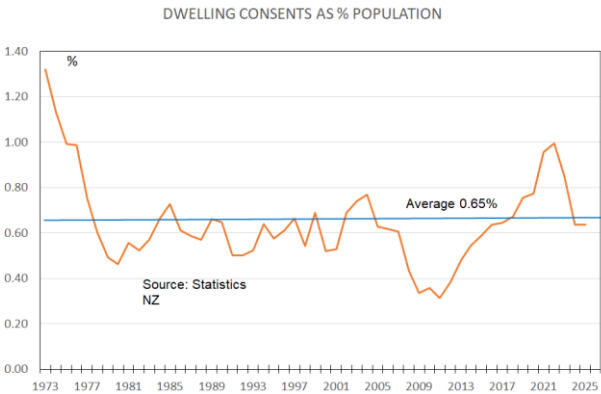


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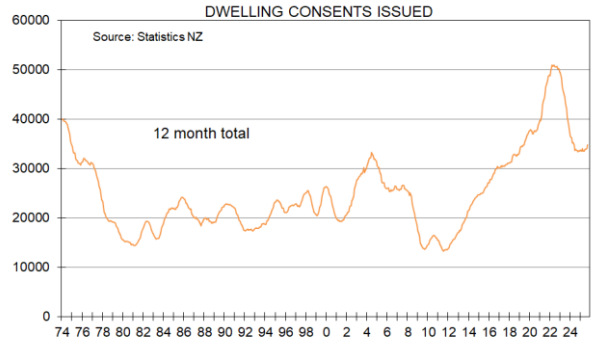
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Second, there has been a structural shift in the pace of new house supply in New Zealand. We can calculate the ratio of consents issued each year to the country's population for each year since 1973.

For instance, in 1973 40,000 consents were issued and the population was just over 3 million. That gives a proportion of 1.3%. The low was 0.31% reached in 2011. The graph here plots the ratio from 1973 and the important point to note is this. After the crunching effects of tight monetary policy and recently weak net migration flows, all that has happened is the ratio has fallen to the historic average from a peak of 1% in 2022 (all June years).



Consent numbers now appear to be trending up with a seasonally adjusted gain over the September quarter of 12% and the annual total at 34,882 from a low of 33,467 in October 2024.



Now, add in the much higher costs of owning a rental property caused by structural hikes in council rates, maintenance expenses, and insurance, shifts in legislation favouring tenants, freeing up of land, greater intensification, and an aging of the property owning population cohort and we get a structural downward shift in average house price inflation.

This doesn't mean wholesale desertion of the property market by investors, just the absence of the frenzied buyers who in the past were driven by FOMO and regret avoidance. More of the rental stock will end up owned by professional investors rather than Mum and Dads.

It also does not mean that prices stay flat. They are already rising and are likely to continue to do so for roughly the next three years. Such is the nature of cycles.



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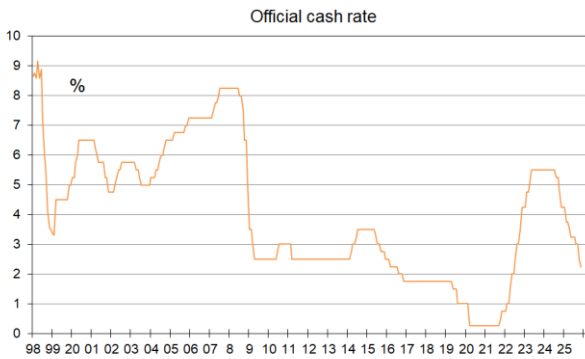
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If I were a borrower, what would I do?

Yesterday the Reserve Bank conducted their last scheduled review of the official cash rate for 2025 and as had been widely expected they cut the rate another 0.25% to 2.25%.



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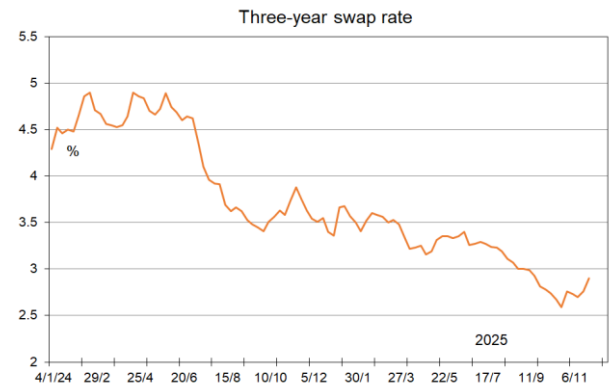
What was notable from their comments released with the review was the increased emphasis placed on upside risks to inflation as compared with previous discussions.

These included the inflationary effects of a downgrading in the country's potential growth rate to only 1.5% due to low productivity growth. They noted high business pricing plans and above average household inflation expectations, the effects from Fonterra's upcoming capital repayment to suppliers, and offshore politicisation of central banks.

The Monetary Policy Committee only debated the options of no cut and easing 0.25% and in the end five voted for the latter and one voted for no change.

The cash rate review all up was more hawkish than the markets were expecting that caused some upward movement in wholesale interest rates. However, over the week we saw some downward pressure on rates coming from weakness in some US economic measures causing their rates to fall. But we also saw upward pressure from stronger than expected inflation in Australia (now 3.8%) which means any further cut in their official cash rate from the current 3.6% is extremely unlikely.

The NZ one year swap rate at which banks borrow fixed to lend to you and I fixed for one year has ended near 2.49% from 2.42% last week. The three year rate has risen to near 2.9% from 2.76%.



Debate about monetary policy in New Zealand will now shift to when interest rates start rising again. The Reserve Bank have pencilled in official cash rate increases from towards the middle of 2027. Before then fixed rates will go up as they reflect expectations for the future path of the cash rate rather than where it sits in real time.

That is why the cuts in mortgage rates this week have been confined to floating rates. Fixed rates already reflected an expectation of the 0.25% cash rate cut.

If I were borrowing at the moment, I would be strongly inclined to lock in fixed for five years below 5% in order to get protection against upside risks to interest rates which will emerge from late-2027. The risk is these inflation worries appear sooner than that.





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

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