

Input to your Strategy for Adapting to Challenges

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No monetary policy tightening yet

There were two big events this week. The first was the Reserve Bank's review of the official cash rate and publication of a new set of economic forecasts. As had been near universally expected they left the cash rate unchanged at 2.25% and signalled the first rate rise coming in September with two quick rises after that and an eventual peak of 3.25% late in 2028.

That is a fairly mild cycle considering the high level of business pricing plans, cost pressures yet to run through the economy from the Iran War, and where rates have gone in the past.

The chances are high that the peak in the official cash rate will be more than 3.25%. But this far out and with so many uncertain factors in play it is impossible to place any reasonable confidence in what the cash rate peak will be and when exactly it will arrive.


Note that at the time of the first fresh set of economic forecasts when the Reserve Bank started tightening monetary policy away from a 0.25% cash rate in late-2021 their prediction was that the cash rate would peak at 2.5%. It actually reached 5.25%.

This is why I remain a fan of fixing three years rather than two in order to get beyond as much of the upside risk for rates lying ahead as possible at a reasonable cost.

Note that with bank fixed rate lending margins running 0.1% - 0.4% below average we should see some more lending rate rises coming through fairly shortly even though the change in wholesale interest rates following the cash rate review was fairly minor.


The little upward pressure which did arise reflected the fact that three out of the six members of the Monetary Policy Committee voted for a 0.25% rate rise immediately. The Governor however has a casting vote which meant her choice of no change from 2.25% for now prevailed. But the balance was closer than the markets were expecting.

Note that the three members who voted for no change all work at the Reserve Bank while the other three do not. This reinforces my belief that the Reserve Bank's policy change bias has not changed. That is, they tighten too late, then




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tighten too much, then loosen too late, then loosen too much.

Regarding their economic outlook, among all the numerous uncertain factors the Reserve Bank have predicted NZ economic growth of 1.7% in the year to March 2027 then 3.1% after that. The previous predictions were 2.8% and 2.8%. The near-term slowing in expected growth seems reasonable given the decline in world growth underway, supply chain shocks, declines in business and consumer sentiment and spending plans etc.

They lifted their inflation forecast for the year to March 2027 from 2.1% to 3.7% but left their picks for March 2028 and 2029 unchanged at 2.0%. But these are not forecasts. They are bold statements of intentions to achieve 2%.

“Go team. We have the ability to win this game and the next one and that’s what I’m pencilling into my coaching book right now.” We’ve got this! Yeah right.

Be sceptical and seek cover. That is what fixed rates are for.

Budget mainly about addressing past fiscal laxity and coming fiscal burdens

This afternoon’s Budget read by the Finance Minister contained few policy changes which had not already been well discussed over the past 2-3 weeks. The focus was very much on improving the country’s fiscal track in the face of an increasing burden coming from an ageing population and rising expectations of spending in areas like health, plus warnings recently from credit rating agencies.

There were virtually no pre-election goodies and instead we saw a special ongoing levy introduced on financial institutions to help pay for their monitoring. It is not a levy which aims to claw back the hefty profits being earned by the Aussie owned banks, but it does establish a mechanism via which this might be approached some year down the track.

The health sector did okay with some \$5.5bn worth of extra spending, as did Defence.

The best piece of news from an economics point of view was the bringing forward of the timing for a projected fiscal surplus by one year to 2028/29. But it pays to note that it was only six months ago that this achievement had been pushed out by a year, and Treasury note that in aggregate the risks facing their economic growth projections lie largely on the downside.

In the financial markets there have been few changes in prices worth noting and attention now goes back to trying to gauge how much inflation ultimately will derive from the nascent cyclical economic recovery and Middle East war.



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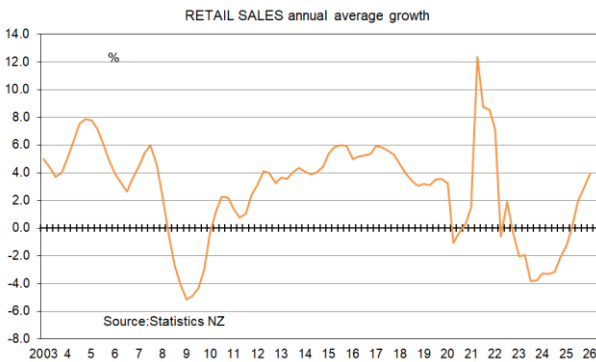
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Growth in retail spending

This week Statistics NZ released data on retail spending during the March quarter. Core retail spending which excludes petrol and cars grew by a healthy 1% in inflation and seasonally adjusted terms. This followed growth of 1.4% in the previous quarter, 1.3% before that, and 1% in the June 2025 quarter. Total growth from the year before therefore was almost 4%.



Leading the annual average gains were electronics ahead 19% then recreational goods 7%, pharmacies 6.9%, accommodation 6.4%, and furniture and floor coverings 4.3%. The biggest decreases were for liquor 3.5%, clothing and footwear 3.2%, fuel 2.4%, and groceries 0.7%.

There has been reasonable growth in retail spending this past year which is important information for many retailers. If you have struggled during this period when sales volumes have grown near 4% best give thought to what you're doing wrong or whether people really want what you are offering these days.

Price increases for many things are causing people to look at alternatives. Take books for instance. Prices seem to have climbed quite a bit

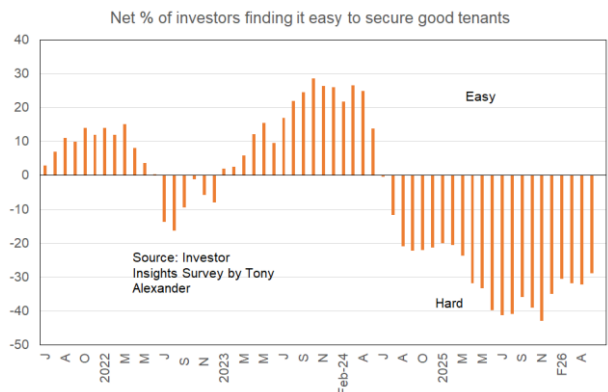
in my observation from the last time I forsook TV watching for reading a year or two ago. So, I'll be perusing the second-hand book shops to a greater degree.

Property investors

On Monday I released the results of my latest survey of residential property investors, available here.

[Property-Investor-Survey-May-2026.pdf](#)

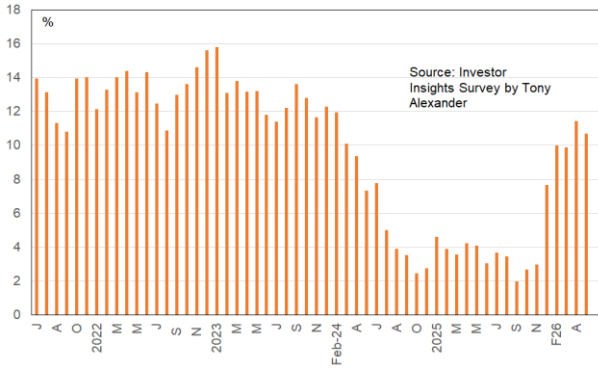
One of the key things to note is that although a net 29% of landlords say that they are finding it difficult to source good tenants, this is better than the peak of 43% reached in November. The market remains in favour of tenants, but a slow rebalancing is underway.



Another key result is that concerns about insurance are slowly easing along with worries about migration flows. But worries have jumped about interest rates and there is a decided upward trend in concerns about tenant legislation as we approach this year's general election.

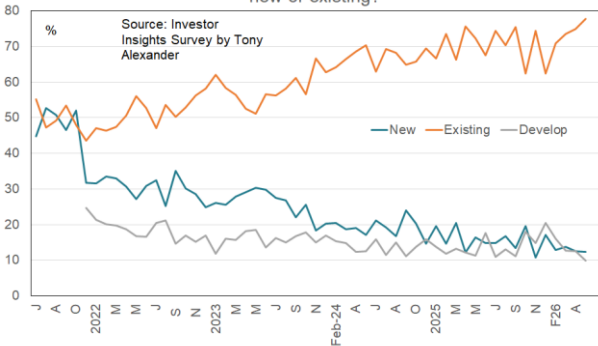


Proportion of investors concerned about interest rates rising



For house builders it should be noted that for those investors looking to make a purchase in the coming year, very few are interested in a new build. That may be because of high construction costs as compared with the price of buying something already in existence.

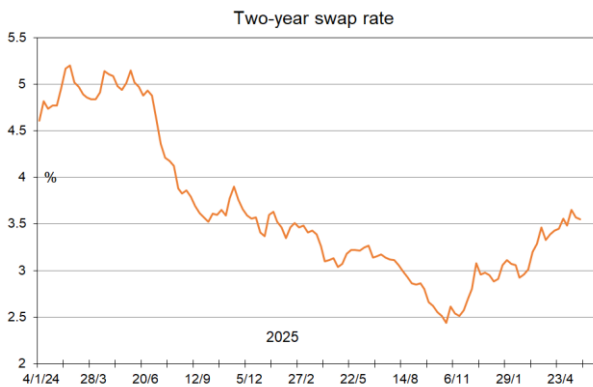
If you are thinking about buying another property will it be new or existing?



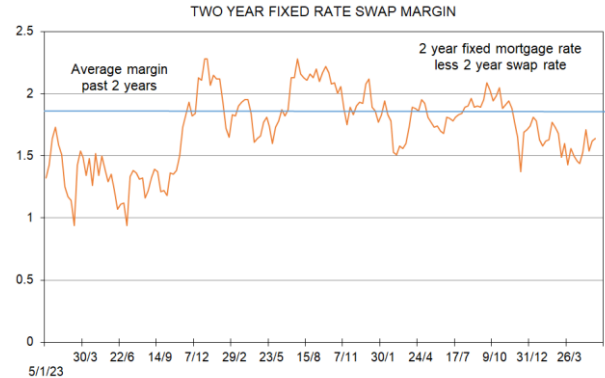
If I were a borrower, what would I do?

I'd fix three years as already discussed at the start of this week's publication. Here are some graphs!

This one shows the cost to banks of borrowing at a fixed rate for two years to lend at a fixed rate for the same period. Note the slight dip this week. That is because the slight hawkishness of this week's Monetary Policy Statement from the Reserve Bank was offset by a decline in US bond yields feeding through.



This one is a roughly calculated margin on two year fixed rate lending. Margins are below average so don't be surprised if we see some additional edging up of fixed lending rates in the very near future.



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

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