

TONY'S VIEW

My aim is to help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy-to-understand manner.

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29 January 2026

Wariness returns on interest rates

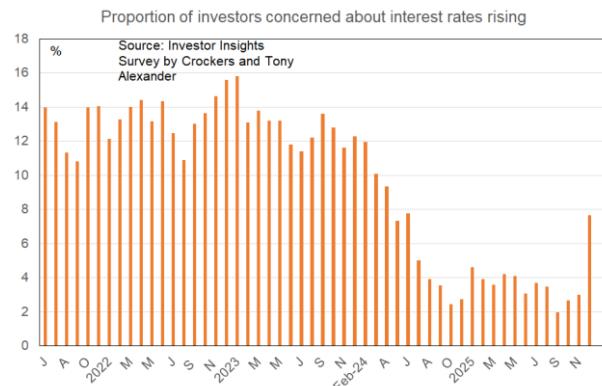
This week I have released the results of my first survey for 2026 which was of existing residential property investors, undertaken with Crockers Property Management. The results can give us insight into what is happening in the residential real estate market and in particular some feeling for a particular thing not captured in the other information flows out there – investor selling.

This month the gross proportion of investors saying that they are thinking about selling their property over the coming 12 months lifted to a record high of 38% from 32% in the previous survey undertaken late in November.

I like to offset these selling intentions against investor buying intentions to get a net result. That is shown in the graph here. What we see is that although investor demand is rising (Cotality data for instance), selling interest is also increasing. This will help explain some of the flatness in house prices currently despite the big falls in mortgage interest rates over the past year.



Speaking of which, the proportion of investors saying they are worried about interest rates has just undertaken a sizeable lift.



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Naomi Yueh
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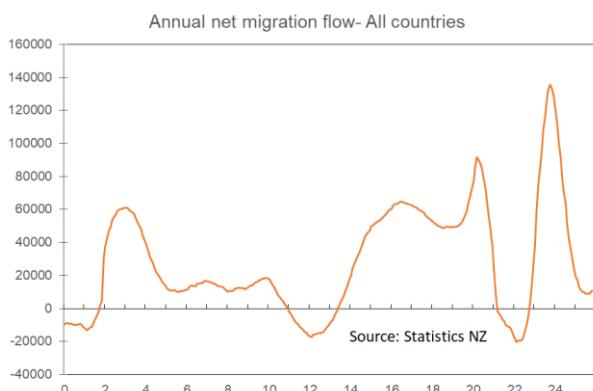
There is a lagged positive impact on the economy to come from people rolling off of high interest rates into lower ones. But when we concentrate just on the impact of expectations, a lot of that positivity is already out there.

This helps explain why you're not seeing any predictions of really strong growth in our economy this year. The interest rates effect will not necessarily be all that large.

Migration turning – maybe

Data from Statistics NZ released this week tell us that in the year to November there was a net gain to our population from migration flows of about 10,700 people. This is up from an annual low of 8,800 in August so we can start to run an argument that the trend is upward.

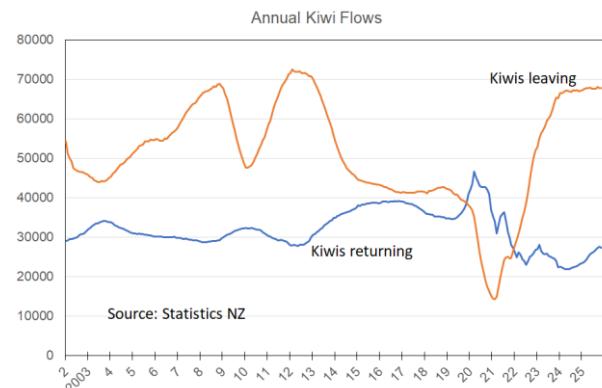
However, at 10,700 the net flow is well below the average of about 50,000 a year over the past decade. Slow population growth means slow growth in demand for consumer goods and services plus slow growth in demand for housing. Hence falling rents and difficulties for landlords in sourcing the type of tenants they might like.



If we annualise flows over the past three months, then things are running at a net annual gain near

23,000 from 18,000 in the three months to August annualised. Again, some upward movement is apparent but not at any interesting pace. This factor in our economy remains a drag and generally off the radar for the moment – except for the net flow of Kiwis.

In the year to November there was a net loss of Kiwis offshore to all countries of 40,400. The peak was 45,200 in the year to April 2024. Things are remaining at high net outflow levels over an extended period of time and there is no evidence in the most recent data to suggest any particular new improvement in flows is underway.



We should expect to see the issue of a loss of Kiwis to Australia continue to appear in the news this year and be discussed ahead of the November 7 general election.

If I were a borrower, what would I do?

Back in August 2024 just after a journalist said falling interest rates from easing monetary policy would make us a “rockstar” economy I hammered two points.



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The first was that 2025 would be disappointing with regard to strength in the economy and I repeatedly ran through a long list of reasons why things would be restrained. Tick. Now, for 2026, growth in our economy is apparent though no boom is imminent.

The second point I have been hammering since August 2024 was that inflation is not beaten in New Zealand and that once customer flows became better businesses would start rebuilding crushed margins. I would repeatedly discuss for instance the results from ANZ's monthly Business Outlook Survey showing business plans to raise their prices running at twice the average consistent since 1992 with inflation averaging 2.3% - despite our economy being weak.

I reckoned that the Reserve Bank would take the official cash rate down to about 3.0% because surely they would have some concerns about underlying inflationary pressures.

But for reasons perhaps tied to their insularity and over-dependence on failed macroeconomic models they cut the cash rate to an unexpectedly low 2.25% with a special 0.5% cut in October last year.

Now, consensus outside the RB is building that they have cut too far and over-estimated the amount of spare capacity in the economy. This

consensus opinion, which is manifesting itself as a bringing forward of expectations for when policy starts tightening again, got a boost this week with the December quarter inflation numbers.

The Reserve Bank had predicted late last year that the quarterly rise in prices would be 0.2% and the annual rate 2.7%. But the actual quarterly rise was 0.6% and the annual rate 3.1%. This is a large miss and again calls into question their analytical abilities unfortunately.

Carping aside however the issue now being recognised is the same as I discussed almost a year and a half ago. Underlying inflation in New Zealand is too high with pressures from falling productivity over the past three years, and the role played by our many oligopolies and monopolies. Crunched margins for businesses generally are the icing on a high inflation cake.

Note that one way I have been trying to get this inflation (and interest rate risk) message across is with the following sentence. The Reserve Bank are forecasting that as a result of the pace of growth in our economy accelerating from -1% to +3% the rate of inflation will fall to 2% and comfortably stay there.

It doesn't add up.

The situation then is this. There was a window of opportunity late last year for borrowers to lock in cyclically low long-term fixed interest rates (business and mortgages). Now that window has closed and the direction for borrowing costs is upward.

A key point however is this. It is impossible for any of us to accurately pick the pace with which borrowing costs increase through 2026 and 2027. Things may sit flat for many months then jump 0.5% as a collective bout of the inflation heebie geebies runs through the market in response to some trigger.

It might be a CPI release, a gathering of extra strong economic growth numbers, rate rises offshore.

Whatever, the drift for rates is up and at some point the Reserve Bank will capitulate to a reality they did not predict. Oh, and to make things really impossible to pick is this final thing.

Even if we economists could with 100% accuracy predict the economy including inflation, we could not accurately pick monetary policy changes. That is because policy alterations and indications are driven by the particular psychology of the Reserve Bank public servants on The Terrace in Wellington.

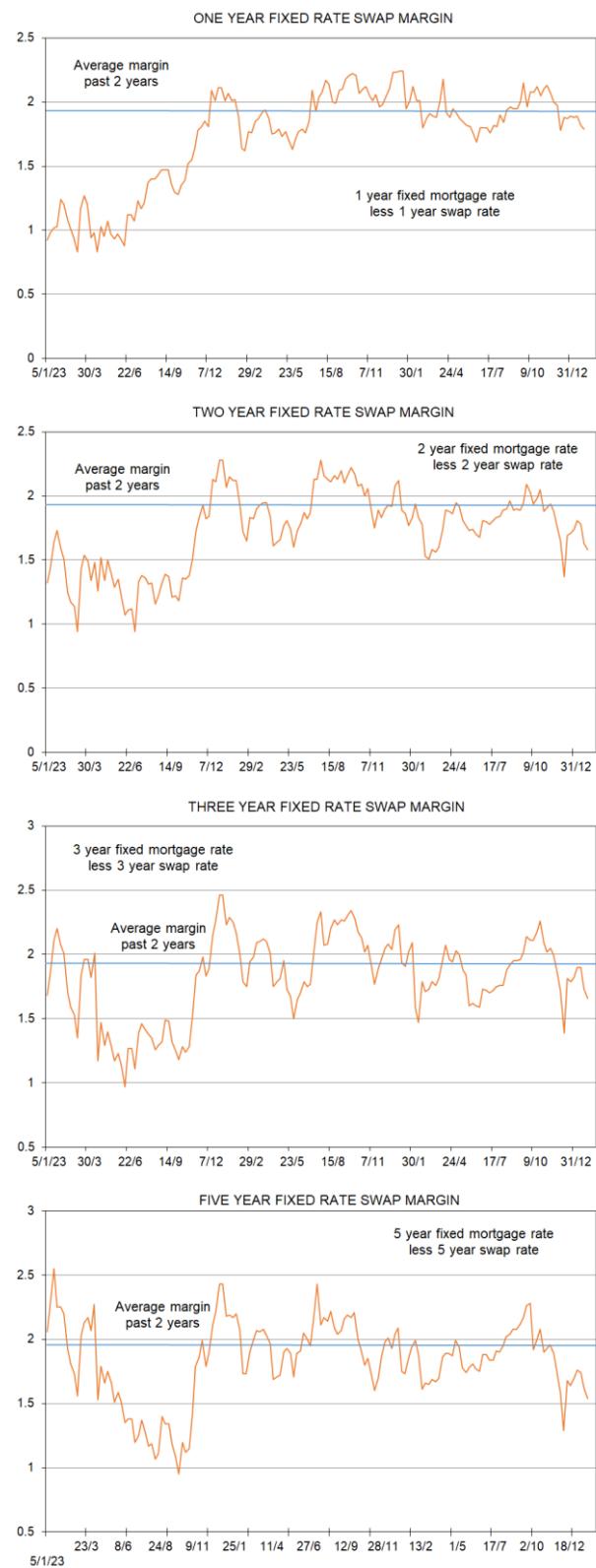
Their tendency to date has been to tighten too late then tighten too much, then ease too late and ease too much. Will that change with the new Governor? She is coming across as a somewhat error-prone individual, so anything is possible.

So, we are in an election year with unpredictable monetary policy developments and a radically altering and uncertain global economic and geopolitical environment. Don't be surprised if a lot of businesses put investment plans on hold or at least space them out more than might otherwise be the case. And don't be surprised if the same caution and uncertainty keep the cyclical upturn in the residential property market relatively subdued.

If I were borrowing at the moment, I'd probably fix three years. Fixing five years is no longer possible at the good rate of 4.99% and at about 5.30% the leap from fixing one year near 4.5% is too large to seriously consider for all but the highly risk averse.

Are banks under any particular pressure at the moment to undertake a round of increases again in fixed mortgage rates? These four graphs show roughly calculated margins for the 1, 2, 3, and 5 year fixed rate terms.

Margins have fallen recently but perhaps the only true imminent risk is for the five year term.



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

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