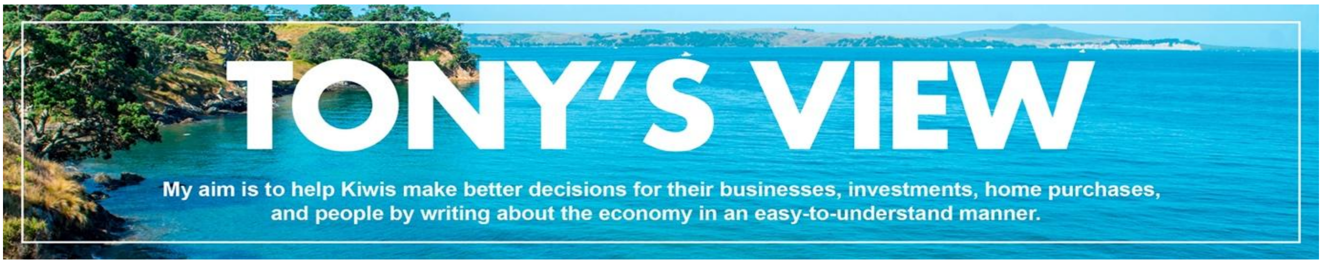


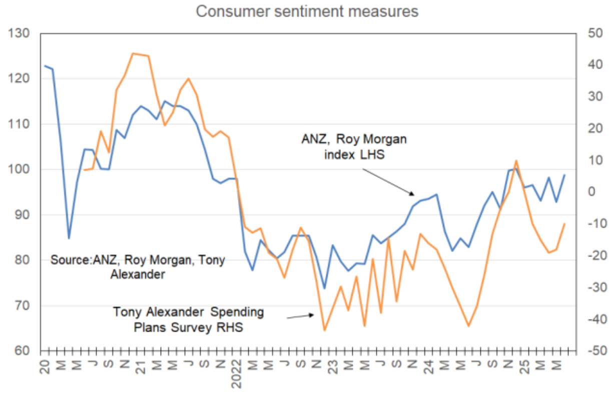
Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825
3 July 2025
Sign up for free at www.tonyalexander.nz

Sentiment improves a bit

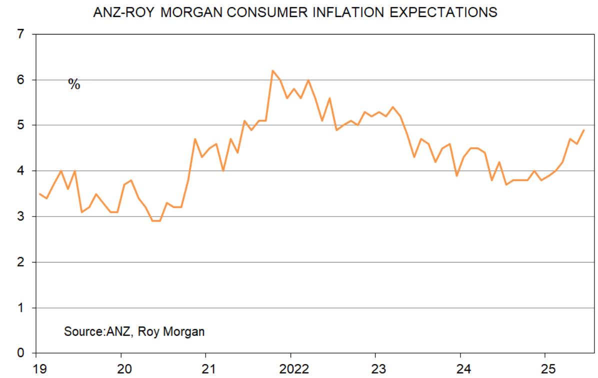
This week we learnt from the ANZ Roy Morgan Consumer Confidence Index that people are feeling a bit less bad about where things are headed. Their index rose in June to a six month high of 98.8 from 92.9 last month. Their measure is shown by the blue line below and my measure as the orange line.



The improvement in June is not surprising. But as the average level of this index for the past decade has been 112, we can safely say that consumers are still feeling below average levels of sentiment. That suggests weakness in retail spending for the coming few months.

The ANZ survey also showed a rise in the average expectation for where inflation will be in two years to 4.9% from 4.7% in May. This is the highest reading since April 2023 and is up from the low of 3.8% last December.

The graph here shows that the upward trend is fairly decisive. This backs up the view I've been expressing since August last year that inflation in New Zealand remains a threat and scope for extra easing of monetary policy is probably much less than many people are thinking.



Ups and downs summarised

Just to assist those who did not have the time to read all of last week's article listing the negatives and positives for our economy, here they are as two lists. The first is outright negatives, restraints, and sources of uncertainty. The second the positives. Enjoy.

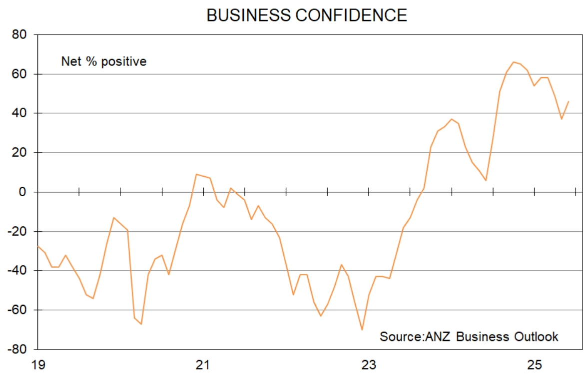
1. Falling productivity
2. Survive to '25 disappointment
3. House prices are falling
4. Household living costs keep rising
5. The media depress us
6. IRD tax catch-up
7. Stay off the roads
8. Net migration turnaround
9. Return of Labour
10. Margins have shrunk
11. War in the Middle East
12. Tariffs
13. Pandemic after-effects
14. Job insecurity
15. Tightening fiscal policy
16. Tourism growth has stalled
17. Shrinking rural communities
18. China slowdown
19. Climate change costs

Positives

1. Strong export prices
2. Business investment
3. Infrastructure
4. Export education
5. Strong business confidence
6. Lower interest rates

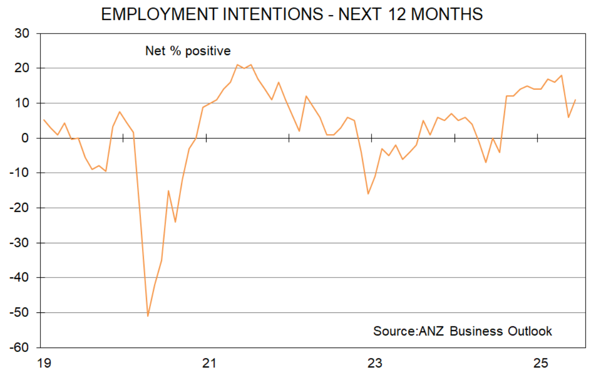
Business confidence recovers

Speaking of strong business confidence and positive investment plans, this week ANZ released their monthly Business Outlook Survey. The net proportion of businesses feeling optimistic about the economy over the next 12 months recovered to 46% early in June after falling to 37% in May from 49% in April.

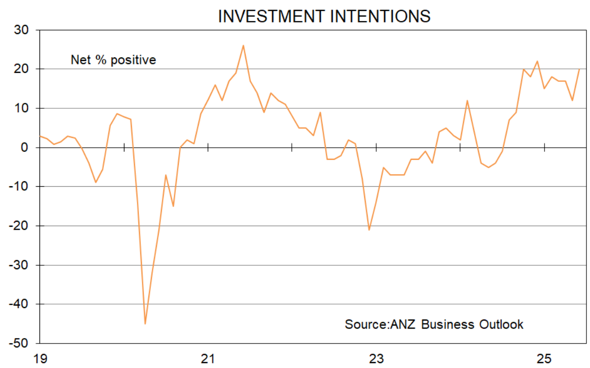


Many of the measures have undergone this same down then up movement which tells us that May was probably an outlier or at least the peak of tariff-related economic worries.

Employment intentions recovered to a net 11% positive from 6% versus 18% in April. The average for June is just 4% so we can say that businesses are positively developing hiring plans. This suggests it is reasonable to talk about some improvement in retail spending once actual jobs growth of reassuring nature kicks in – possibly in the first half of next year.



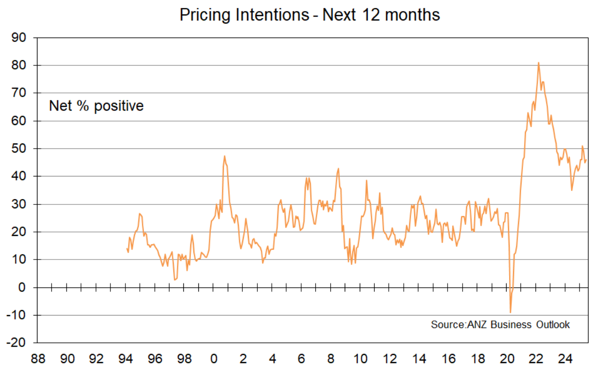
Investment intentions recovered to a net 20% positive from 12% in May and 17% in April where the average for June is 7%. This bodes well for an eventual lift in productivity to help offset the extra costs governments have been loading onto our beleaguered business sector in the post-Rogernomics year.



With regard to residential construction the net proportion of operators expecting to be busier in the coming year lifted to a well above -1% average of 45% from 36% in May. Given the large multiplier effect house building has on the economy this bodes well for growth further out. For now I still suspect that the flat real estate market with falling prices will tend to keep house building activity constrained for a few more quarters.

The net proportion of commercial construction businesses expecting to get busier firmed to 28% from 21% where the average is 8%.

Regular readers of my weekly publication will know that a key measure which I keep a close eye on in the ANZ survey is business plans for raising their selling prices. The net proportion planning to do so in the coming year has averaged 26% since 1992. The latest reading is 46% which is too far above average for comfort considering that the pain of tight monetary policy has gone and a cyclical upturn in the economy is underway.



Business margins are very tight and that helps explain high pricing plans. Businesses plan to raise prices when customer flows improve. But also, a net 79% expect that their costs will rise over the coming 12 months and that would explain a lot.

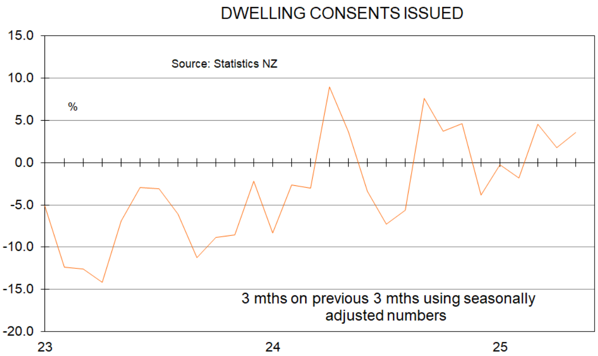
On this basis if I were sitting on the Reserve Bank's Monetary Policy Committee, I would not be voting in favour of another cut in the official cash rate.

Dwelling consents holding up

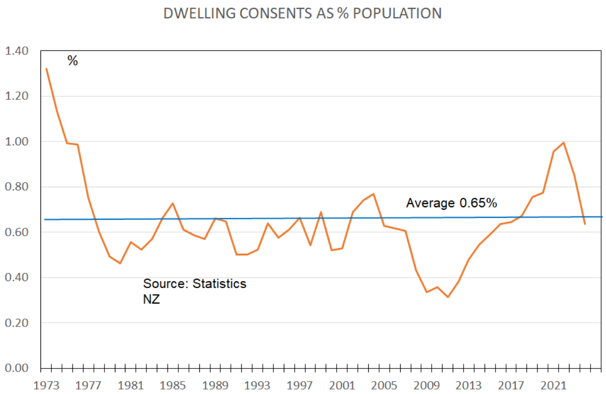
Statistics NZ reported this week that in May the number of consents issued for the construction of new dwellings around New Zealand rose in seasonally adjusted terms by 10.4% after falling 14.6% in April. The numbers on a month to month basis clearly go all over the place and that is why it is best to look at three month changes.

Over the three months to May consent numbers rose in seasonally adjusted terms by 3.6% after falling 1.8% in the three months to February. Is this an upward trend?

This graph shows the rolling three month changes and there is oscillating improvement underway. Given the lagged feed-through to come of falling mortgage rates it seems reasonable to speak in terms of dwelling construction bottoming out.



But there is no reason provided by any data series to start thinking in terms of a strong cyclical upturn in building activity. At about 0.6% of population the annual consent total of 33,500 is equal to the annual average such percentage since 1972. Activity is not at unusually weak levels.



Net migration flows of 21,000 the past year are well below the ten year average of 50,000 and down from a record 135,000 in October 2023.

There is anecdotal evidence of an over-supply of townhouses in some parts of the country, developers are sitting on unsold stock, listings are at ten-year highs, and young buyers are showing some wariness of commitment in this sector.

However, as noted above, the ANZ Business Outlook Survey shows an above average net 45% of operators anticipate higher activity levels, and the government is doing its utmost to try and get more supply out there.

From my point of view as an economist trying to balance changes in demand against changes in supply it adds up to minimal upward pressure on average house prices in the next wee while.

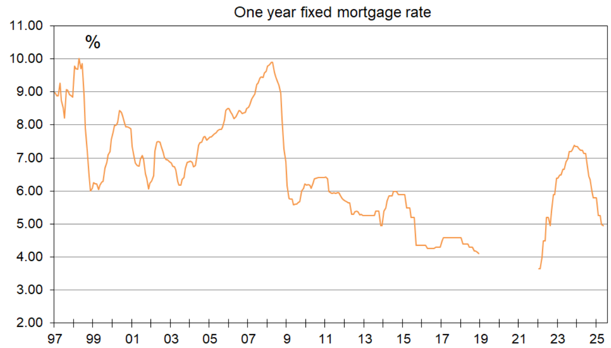
If I were a borrower, what would I do?

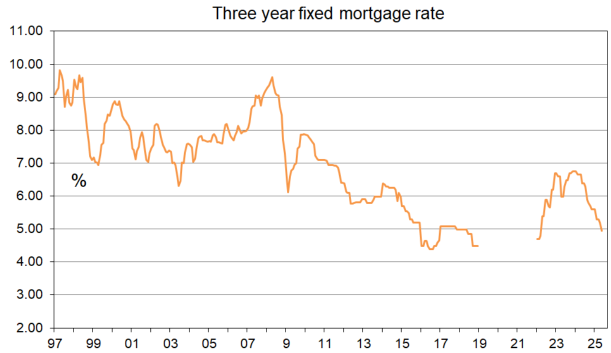
Wholesale interest rates today are almost exactly where they were a week ago. It doesn't look like rates will be changing all that much over the next few months, especially as the common expectation now is that on July 9 the next official cash rate review will not result in a change from 3.25%.

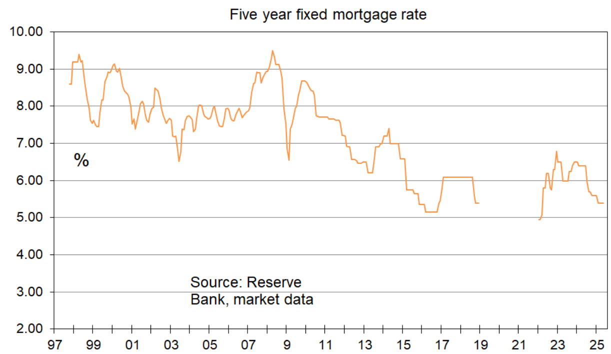
Earlier on this week I noted the upward moves in inflation indicators contained in the ANZ's consumer and business surveys and next week I'll make a mention of the NZIER's data and what it tells us.

If I were borrowing at the moment, I'd personally opt for fixing three years at 4.99%. The 4.95% rate disappeared a fortnight ago. But I don't have a view as yet that medium to long-term fixed mortgage rates will be embarking on an upward cycle in the next year, so fixing shorter is probably okay. But I'd fix three years and shift my mental energy towards other things.

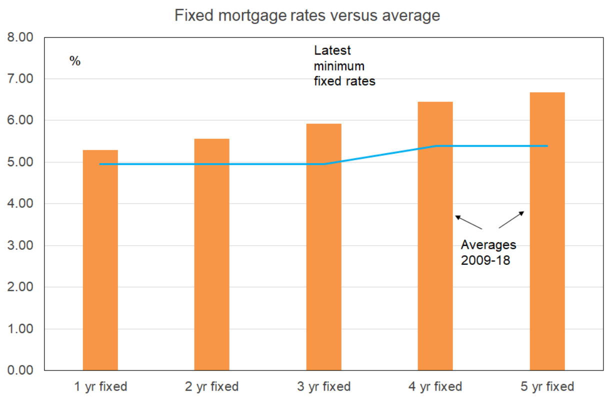
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







This graph shows how current rates compare with averages from 2009-18.



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.