

Input to your Strategy for Adapting to Challenges

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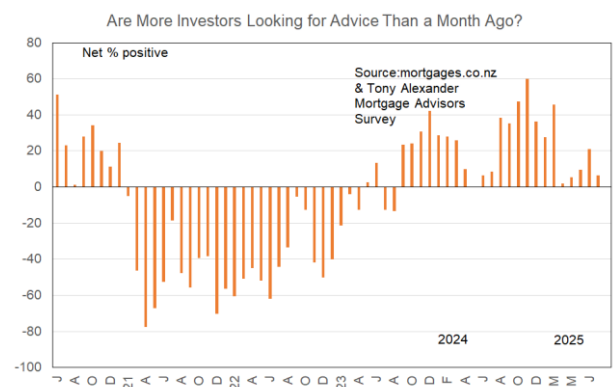
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A survey summary

I'm in the middle of writing up the first of my five monthly surveys which covers real estate agents. This close to releasing the full report I'll skip details and just note that it shows some early signs of mild improvement after a fairly tough period price-wise in recent months.

The key things I've learnt from my other four surveys include the following for August.

The survey of mortgage brokers with mortgages.co.nz showed a weakening in interest recently by both investors and first home buyers, although the two relevant gauges remain in positive territory still. Lenders are seen as quite willing to advance funds and the 12, 18, and 24 month periods are most popular for those fixing their interest rate.



There are no worrying trends being signalled which would call into question a view of improvement in the housing market having potential to gain mild momentum in coming months. Admittedly that is a bit like the seller of a health product saying "May relieve some of the symptoms of some illnesses."

The Spending Plans survey I run showed a small decrease in pessimism about buying stuff in the next 3-6 months. But the outlook is still relatively poor amidst a strong media focus on cost of living pressures, many stories of job losses, and retailer closures. More closures lie ahead, but again

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Turns out, money *does* grow on trees

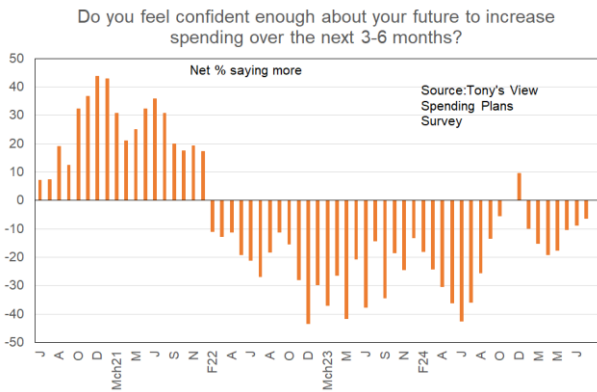
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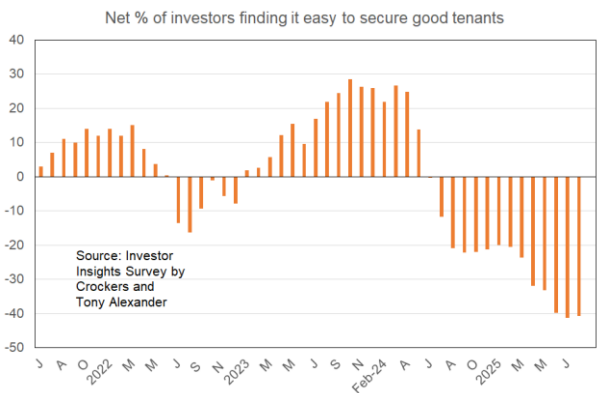


scope is there for a story of improvement as we head towards Christmas and then 2026.



My survey of residential property investors with Crockers Property Management also showed weak net buying intentions for existing investors.

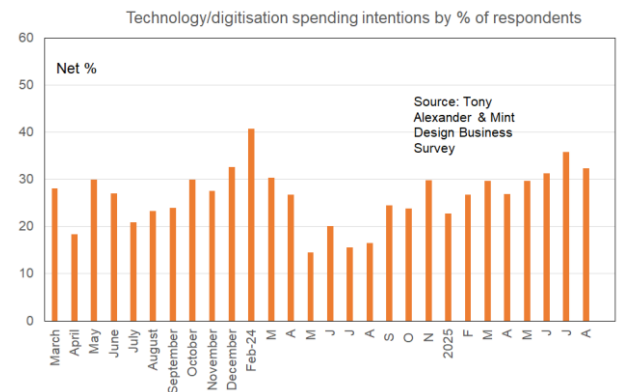
There was a hint that those looking to buy may be starting to become slightly more interested in purchasing a new property rather than an existing one. Hopes for rent rises continue to decline and a record net 41% of landlords report that it is difficult to secure a good tenant. 16 months ago in my April 2024 survey a net 25% said it was easy to secure a good tenant.



The main thing I take from this survey is that the way in which existing investors are finding things tough means their selling will open up opportunities for other investors along with first home buyers. Keep in mind that the quality of ex-rentals being offered for sale these days is better than in the past because of requirements that the properties have met Healthy Homes standards.

Finally, the survey of businesses which I run with sponsorship from MintHC showed these main things. Businesses remain deeply concerned about the state of the economy and their customer flows. The big thing to jump up in importance as a concern is the state of politics with increasing concern that a change in government could occur next year.

Good staff are seen as reasonably easy to find, hopes for better revenues over 2026 are strong, and intentions are firm for investing in digitisation/technology.



Strong terms of trade

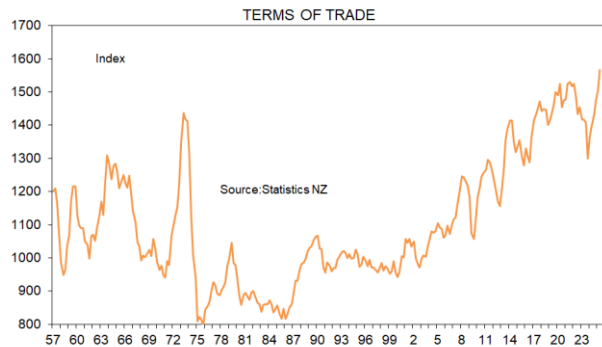
A piece of good news received this week was data from Statistics NZ showing that our terms of trade rose by 4.1% in the June quarter to reach a record high.

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The terms of trade measures the size of a basket of imports able to be bought with an unchanging basket of exports. That basket has grown by 12% in the past year and the line in the graph below is almost back onto the track for the upward trend which started just over two decades ago.



This development has been brought about by prices for our exports rising 75% since 2004 while costs for imports have risen by just 21%.

During the 1970s into the 1990s we commonly bemoaned the reliance of our export receipts on the primary sector. There was a view that it would surely be better to be competing with mega businesses overseas to make the things they made which people seemed to like – televisions, cars, and manufactured goods generally.

But sustaining competitiveness in these things would have required a level of research, development, and investment well beyond the

ability of ourselves to fund. Plus, we cannot generate the economies of scale needed to remain competitive in most consumer goods and certainly could not compete with the low labour costs which apply in countries like China and now the rest of Asia.

We can breathe a sigh of relief that the demand for our primary exports has grown over time. This has saved us from a fairly horrible economic scenario. If our terms of trade had remained on the broad downward track oscillated wildly around from the late-1950s to the late-1980s we'd have been in very deep trouble.

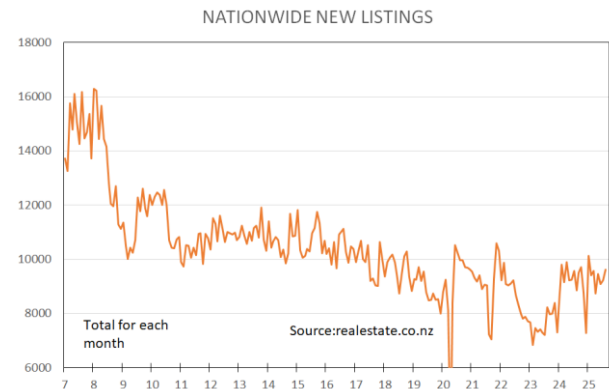
This isn't a case of thank goodness for the farmers because the prices they receive are set offshore and they just maximise production.

Plenty of houses available to buy

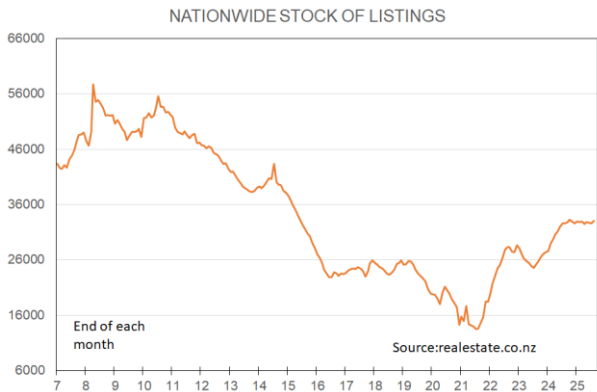
This week the realestate.co.nz people released their monthly data on property listings around the country.

The data tell us that buyers continue to face a good number of properties to peruse as they undertake their search.

In seasonally adjusted terms the number of fresh property listings in August was ahead 4.2% from July which was ahead 1.6% from June. In the past three months new listings were up 0.5% so there is growth, but it is fairly slow. The main thing I take from the fresh listing data is that it tells me vendors are not discouraged by the lack of price appreciation around the country.

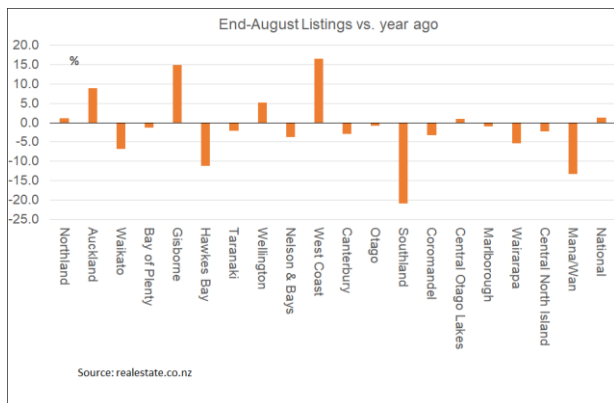


The total stock of properties listed for sale at the end of August stood at 33,100. This was up from 32,600 a month earlier and 32,700 a year ago. Stock levels are rising but at a very slow pace.

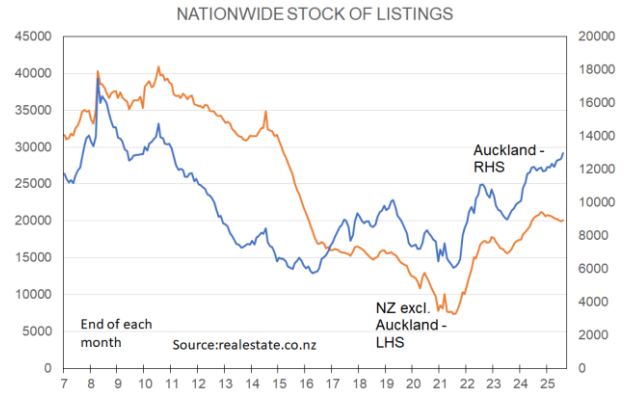


Again, it is more the case that vendors are still looking to sell but not flooding the market through pressures such as from interest rates. Were interest rates not falling then listings would probably be a lot higher because of the 5.2% unemployment rate and low feelings of job security.

This graph shows how listing stocks compare with a year ago for each region. Note Auckland stocks are 9% ahead of a year earlier, Wellington 5%, but Canterbury is down 3%.

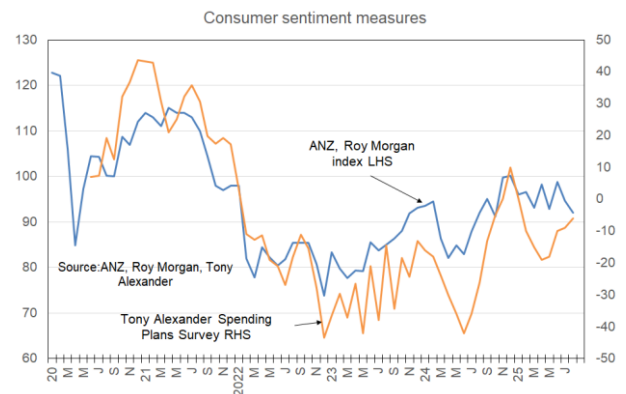


See how Auckland listings shifted to sit above those for the rest of the country after the Unitary Plan came into force towards the end of 2016. Allowing intensification has made a difference in property availability and that means a price impact.



More data showing economic weakness

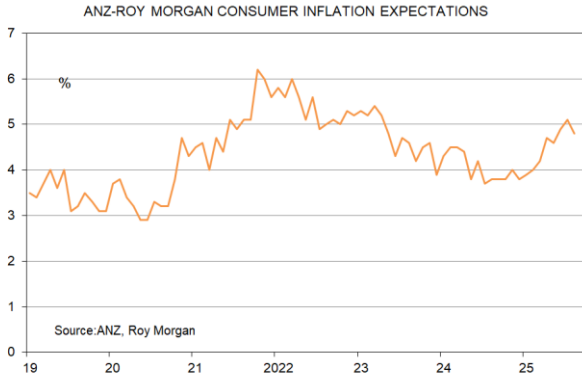
The ANZ Roy Morgan NZ Consumer Confidence index was released this week, and it showed falling household sentiment. Their main reading has averaged 106 over the past decade but sits for now at just 92, down from almost 95 a month ago. The reading is the lowest since October last year and shows how the early hopes for positive things from easing monetary policy peaked in December and have oscillated downward since then.



My own Spending Plans survey has become less negative in recent months and that is likely to show through in the ANZ Roy Morgan survey before the end of the year as a general feeling of

kicking 2025 into touch with a better 2026 ahead comes into being.

Thankfully, their inflation expectations measure for a year ahead eased from the rather high 5.1% of July to 4.8% in August. That is still quite high, but the main thing is we did not get another increase. Now, we wait to see if the trend up from early this year has truly ended.



apm property management

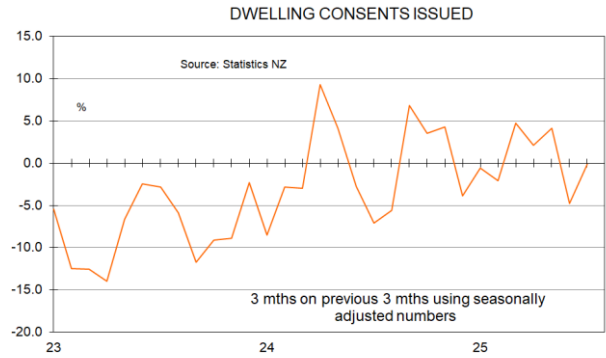
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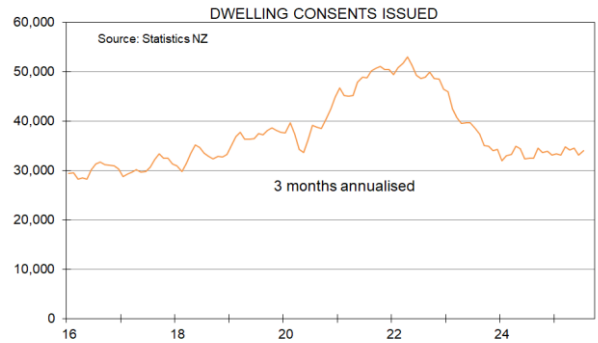
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No house construction crash

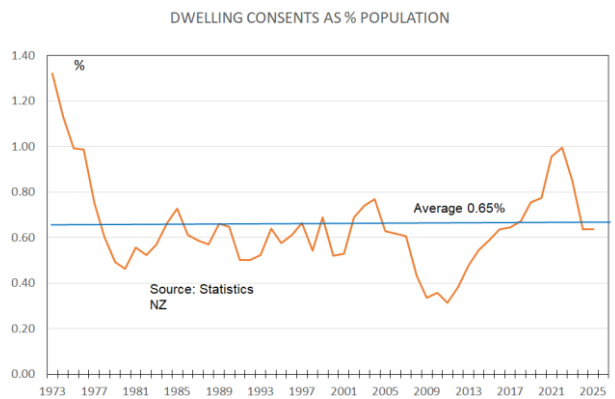
Data from Statistics NZ show that in July the seasonally adjusted number of consents issued around the country for new dwellings to be built rose by 5.4% after falling 6% in June. Over the past three months consents have registered no change from the previous three months and compared with a year ago the three months to July total was ahead by almost 4%.



The data continue to tell us that consents have settled after their pullback from a record 51,000 in the year to March 2022. In fact they have stood near an annualised total of the current 33,900 for almost two years. There is stability set alongside the continuing weeding out of some imperfect operators.



The thing which interests me is that this annual total equates to about 0.64% of the population and the average ratio of consents to population since 1972 has been 0.65%.



After the period of tight monetary policy and pullback from the pandemic binge the annual number of consents has only fallen to about the

long-term average. I interpret this as meaning there has been a structural shift upward in the average level of house construction in New Zealand each year. That's great.

This reflects the combined impact of forcing councils to ditch urban planning ideology based on restricting urban sprawl, and by allowing intensification rather than preserving suburbs as they were when their houses were first built. The result of abandoning ideology-cased urban planning rules is a good environment for young people to make a house purchase.

If I were a borrower, what would I do?

Wholesale interest rates today sit almost exactly where they were a week ago in NZ. The markets have largely factored in an expectation that the official cash rate will be cut from the current 3.0% to 2.5% by the end of this year and that that will be the end of the rate cut cycle.

Next on the agenda will be thoughts regarding when rates may edge back up again. Such thoughts for the moment are minor as there is no evidence of new inflationary pressures emerging in the New Zealand economy.

Spare capacity exists to handle growth as it strengthens through 2026, and it is not clear what the impact on our inflation will be of whatever happens with the tariff attacks initiated by the Western world's supposed ally/leader the USA.

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However, I am concerned about businesses signalling they will look to recoup cost increases once customer numbers improve. Plus in sectors described as monopolies (councils) and oligopolies (domestic air travel, building materials etc.) further price rises are guaranteed. Then there are cost increases stemming from deliberate policy choices – electricity.

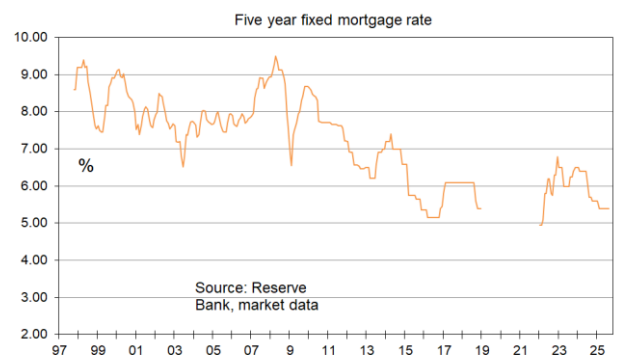
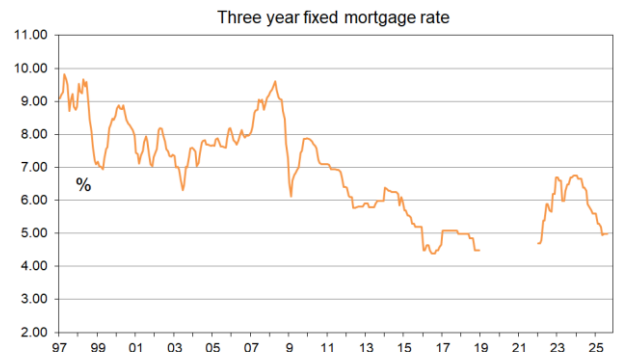
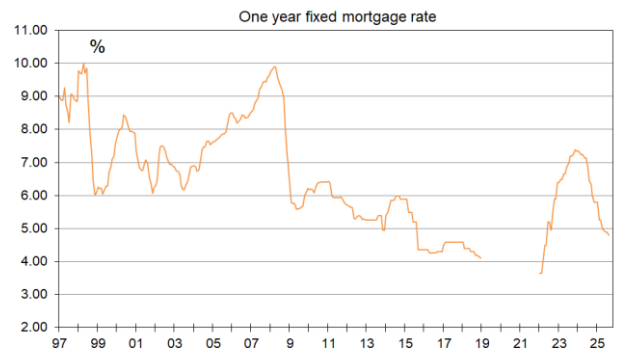
Plus, higher inflation is implied by the recent record of falling productivity levels in NZ which may continue as we see more stuff already built having to be rebuilt because of incompetence by the original businesses – Transmission Gully Motorway resurfacing being an example.

All that this adds up to is a warning for now not to assume that low interest rates are here to stay.

But rises of concerning magnitude remain some distance away in time for now. Enjoy the lull.

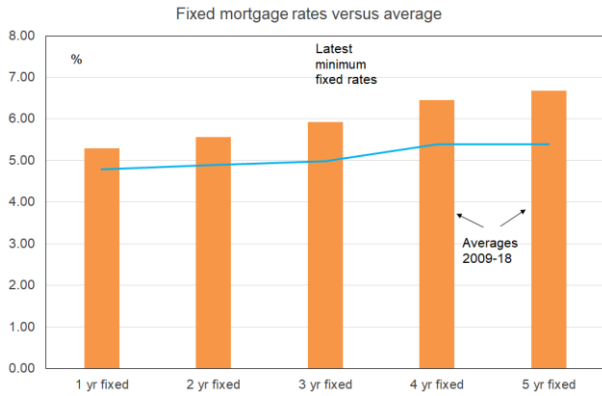
If I were borrowing at the moment, I'd be happy to fix three years but have no issue with anyone opting for a shorter term. Splitting across a couple of terms is often a good idea in order to smooth the impact of rate changes down the track.

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

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