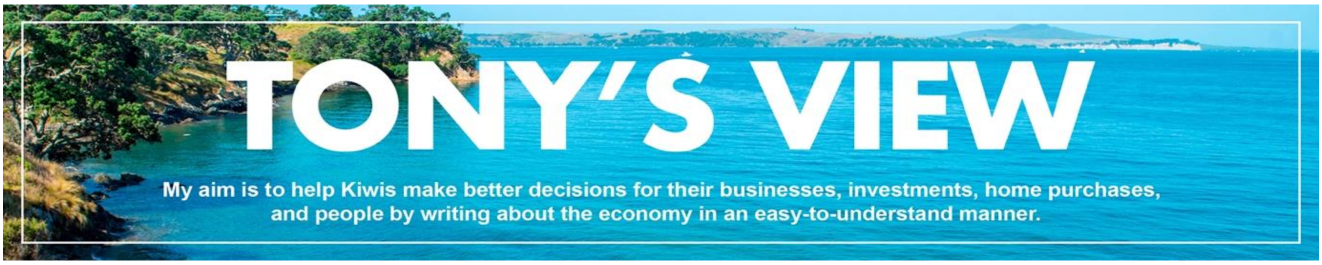

Input to your Strategy for Adapting to Challenges

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ISSN: 2703-2825 6 August 2026
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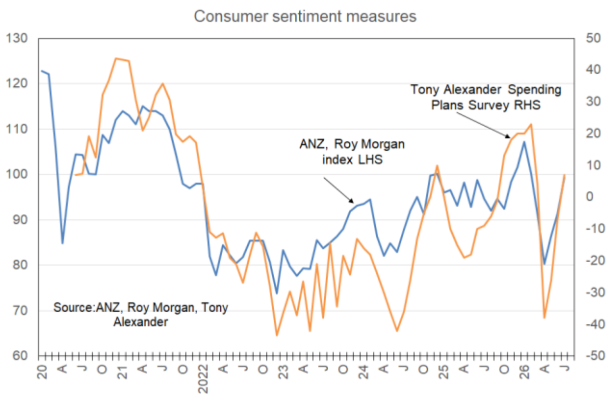
Sentiment improving

Last Friday the monthly ANZ Roy Morgan Consumer Confidence Index came out and like my own Spending Plans measure it showed some improvement in July. The reading rose to 99.3 from 91.3 in June while my reading released three weeks earlier went from -7 to +7. The graph shows the two measures.



The improving sentiment means chances are getting better that retailers will see higher sales in the near future. However, with the resumption of hostilities in the Middle East and higher petrol prices once more, there is little justification for talking in terms of great times lying just around the corner. Just an upturn is all.

In the retailing sector we should expect to see continued "rationalisation" of operators in general but superior outcomes for those who long ago figured out what they are good at and how to stay focussed on it. Periods of good growth bring new streams of opportunities, but those streams can quickly become burdens when conditions turn.

No offshore buying lift

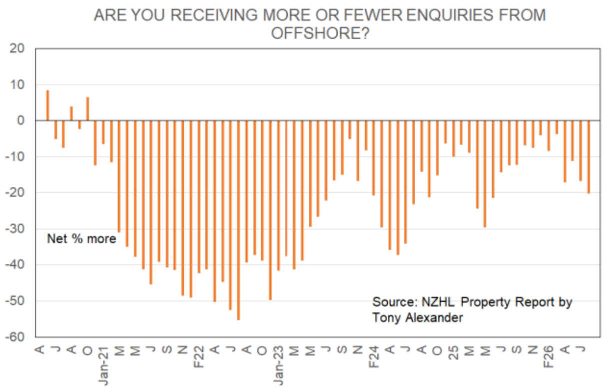
We have a strong cultural cringe in New Zealand which means we latch like limpets onto anything happening around the world which could be interpreted as meaning more people will want to move here or purchase our assets.

The strongest recent example of this is the suite of tax changes underway in Australia acting to decrease the attractiveness to people of investing in Australian residential property. Some commentators have expressed the view that these Aussie tax changes will cause investors to purchase here.

The first point to note is that there have always been Australians purchasing investment property here. One notable feature of periods in the past when the market boomed were stories of "busloads" of Aussies cruising suburbs looking for houses. At other times the nationality of choice was Chinese.

The second point to note is that there is no evidence of increased buying here from across the ditch. I can shed some light on this in a general manner using results to one of the questions I ask in my monthly survey of real estate agents sponsored by NZHL.

I ask agents whether they are receiving more or fewer enquiries from offshore. In my latest survey undertaken last week a net 20% reported that they are receiving fewer enquiries.



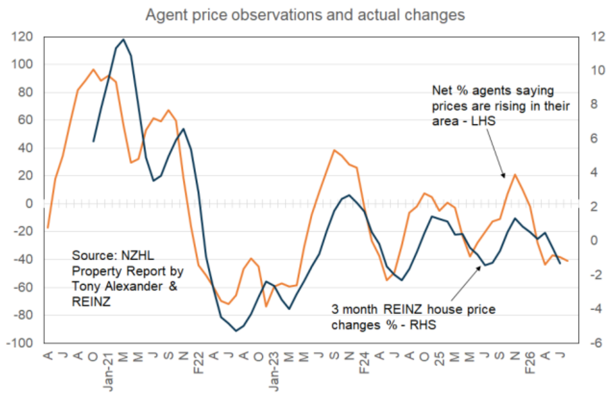
This is the weakest level of enquiry since June last year.

[NZHL-Tony-Property-Report-July-results-2026-2.pdf]

As regards the supposed strong interest in properties priced above $5mn – again, no evidence is at hand suggesting any purchasing demand out of the ordinary and expected.

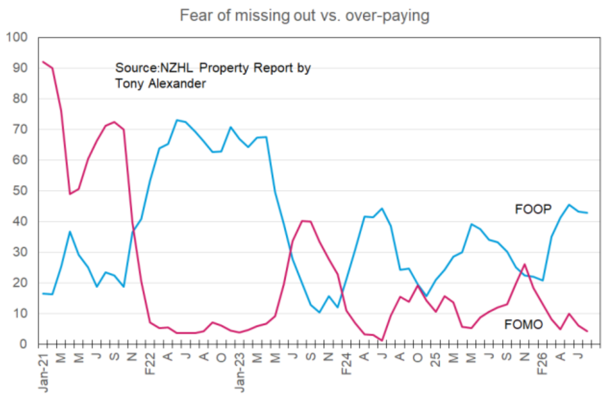
Another conclusion we can draw from my real estate agent survey is that on average house prices are still falling around the country.

The following graph shows as the blue line the three month rolling average change in NZ nationwide house prices using the REINZ House Price Index. The orange line shows the monthly net proportion of real estate agents in my survey who feel that prices are rising.



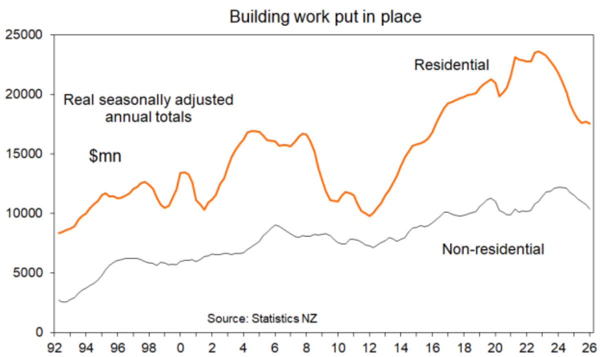
The correlation between the series is good. The latest result is a net 41% of agents saying they feel that house prices are falling. This suggests that when we get the July month numbers from REINZ they will show falling house prices for the fifth month in a row.

No wonder FOOP – fear of over-paying – is still high – shown as the blue line in this next graph.



House construction

There is a positive outlook for one of the most important sectors in the economy even though challenges are likely to remain for operators in the sector – as is always the case in every sector. Residential construction went on a big roller coaster ride following the GFC of 2008/9 when housing activity in NZ collapsed to its weakest in decades even though we did not enter the GFC with excess construction as had happened offshore.

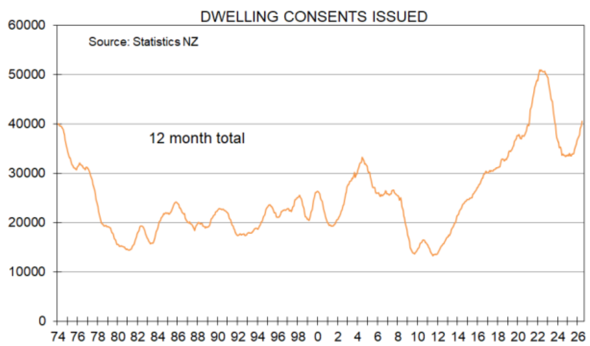


From 2012 there began a decade-long upturn in house building as the rebuild of Christchurch got underway and Auckland activity rose because of the shortage which had developed from around 2004.

Then Auckland got an extra spur with the Unitary Plan from 2016 allowing greater intensification of new dwellings. After that things went ballistic as we all scrambled to buy and build as many dwellings as we could because of the excess stimulus applied to our economy by the government and Reserve Bank during and after the pandemic.

Then things eased off as net migration fell away, interest rates soared from excessively low levels, and house prices fell. Now the situation is turning upward again though this has yet to be seen in the graph above which shows the volume of work undertaken.

The number of consents issued in New Zealand for the construction of new dwellings (95% - 98% of consents get acted on) fell from 26,000 GFC to 13,500 in 2011 then hit 51,000 in 2022 before bottoming out at 33,500 last year. Now the total is 40,600 which is the highest annual number since at least 1973 (my dataset starts in January 1974) excluding the pandemic binge.



In the past three months ending in June consents have risen by 34% from a year ago and 8%

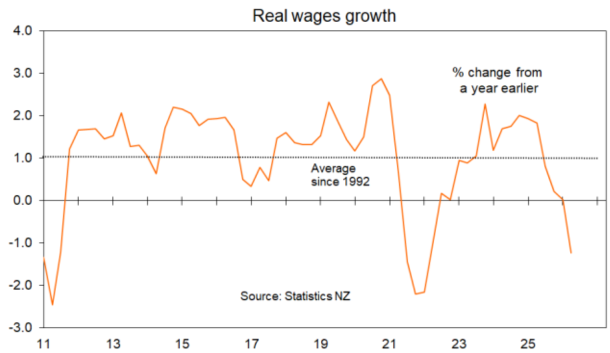
seasonally adjusted from the March quarter. Why is there such strong growth?

Interest rates have fallen, net migration flows have slightly improved, the economy has been growing since the September quarter of last year (with a blip down this June quarter), more land has been made available for residential construction than ever before, and greater intensification has been permitted.

Perhaps a key thing worth noting is that this may be one of the sectors where people are getting on with their lives despite the woe presented on our country in mainstream media. Having been in this business since the mid-1980s I can observe that the popular negativism about our economy and everything in it is far greater than seen before but without the actual degradation people have been convinced is newly occurring.

The best example of this disconnection between media position advocacy and reality can be seen with regard to the cost of living “crisis”. On average since 2019 the cost of living in New Zealand as measured by the Consumers Price Index has risen by 30%. Average hourly ordinary time earnings have risen by 36%.

That means real wages have risen on average 1% a year since the end of 2019. The long-term average rate of growth in this measure of inflation adjusted earnings has been 1%. Despite high inflation above 7% in 2022 people’s disposable incomes are improving.



The latest result however of 1.2% real earnings shrinkage reflects soaring petrol prices because of the US attacks against Iran. This will eventually reverse and for a while deliver unusually high real earnings growth.

You can pick your own reason for why the media are no negative, but if you embrace the dystopic scenario, it might be a good idea to consider the most basic underlying feature of our economy. We have been, we are, and we always will be heavily dependent on the primary sector. There is no future for New Zealand in which we thrive on the back of manufacturing be it bulk or niche. We never were and never will be a financial centre of relevance to the rest of the world. We will never get rich from tourism because that is a low yield activity and we have just proven that when presented with an opportunity to focus overwhelmingly on high value flows, we revert to bulk inflow numbers. We’re not going to see much benefit from becoming an exporter of tokens via allowing data centres to be set up here. Job creation from such is minimal and profits will go to offshore owners. Meanwhile marginal pricing of electricity means higher prices for everyone in New Zealand than would otherwise be the case. We are no longer a low cost producer of electricity therefore it makes little sense to try and base export growth on electricity transformation.

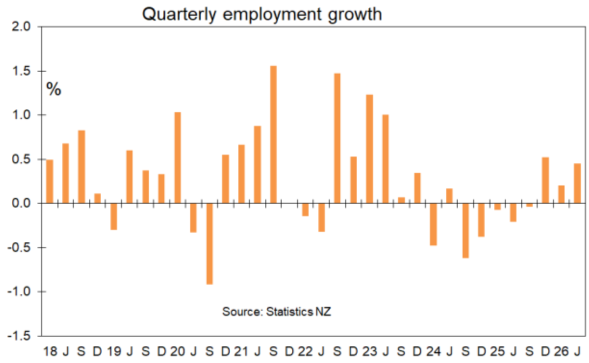
Our future depends on the primary sector, and we have what the rest of the world wants – quality products and protein in particular.

If I were asked to present a vision for New Zaland's economic future I would pay note the benefits of the technology sector, tourism, etc. But I'd put money and regulatory reform into backing the primary sector. When you're good at something then that is where you devote your resources.

That aside and back to the housing sector, dwelling construction is important because it has a large multiplier effect. House building affects many sectors upstream and downstream, many businesses large and small, and many operations over all the country. It also presents a career and business growth path for individuals clever enough to realise going to university for them is probably an expensive waste of time. You'll be able to use AI as a tool like a spanner whereas varsity people will have to learn how to use AI as a co-worker on the cusp every year of taking their job and requiring retraining, then more retraining – at their cost.

The continuing strong growth in dwelling consent numbers tells us that it is valid to have a positive view for the domestic economy over the next couple of years. It also tells us that it would be wise of one not to expect any great growth in house prices in the near future. There is more supply coming forward, the net migration upturn is relatively weak, interest rates are rising, older investors are selling to fund expensive retirements, and FOMO has gone.

For the record the June quarter labour market numbers were released yesterday. They showed a rise in the unemployment rate from 5.4% to 5.6% but good growth in job numbers of a stronger than expected 0.4%. Businesses are hiring people and it is valid to talk in terms of the employment cycle turning upward – especially with the ANZ survey showing a net 18% of businesses planning to hire more people.



It is worth noting the difference between unemployment rates in some regions. 3.6% in Canterbury and Otago versus 4.9% in Wellington and 6.5% in Auckland. No wonder there is internal migration to Christchurch.

If I were a borrower, what would I do?

As warned recently banks are going through a process of raising their fixed mortgage rates currently because of increases in wholesale funding costs. The popular two year fixed mortgage rate looks to be settling near 5.45% which is about 1% higher than late last year.

If I were borrowing at the moment, I would continue to favour fixing three years because I see a risk of upside surprises on inflation from domestic and offshore sources. But I also see considerable uncertainty about what is going to happen, and I'd like to take away interest rate risk management worries by just locking in a medium term rate and focussing my attention on things I am good at doing. In other words, I'd focus on boosting my income, not minimising one of my unpredictable costs.

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.