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Economy still weak

The main piece of news relevant to assessment of where the NZ economy is at currently and where it is probably headed appeared on Tuesday in the form of the NZIER's Quarterly Survey of Business Opinion. This survey has been running since the 1960s and its main point of difference with other more frequent information sources already available from the likes of the ANZ Business Outlook Survey is some extra insight into capacity use and availability in the economy.

This can give insight into potential points of pressure or looseness (the latter currently), especially in the labour market. We can also gain some useful supplementary insight into business cost and pricing pressures. The included survey of architects can also provide some very leading information on where the construction sector is headed if you have the back data – I don't. C'est la vie.

So, what did we learn that perhaps we did not already know or were not sure about? In a nutshell, the results were on the weak side and tell us the monetary policy stimulus applied to the NZ economy from August last year has so far had minimal impact, which is a tad surprising.

The main measure of business confidence about the economy fell from a net 26% positive seasonally adjusted in the June quarter to just 15% this quarter. That is at odds with the improvement recorded in the ANZ survey which went from an average 44% to 49%.

Why the difference? Possibly because the NZIER survey does not cover the primary sector where things are looking quite strong on the back of high commodity prices. That means one needs to be careful not to get too depressed about the NZIER results because they are incomplete.

More worrying however is the fall in intentions of investing in plant, machinery and equipment to a net 13% negative from 8% positive in the June quarter.

The graph here shows the high volatility in this measure over recent years and tells us not to panic about this latest fall. But the fact it has happened after a lowering of borrowing costs and the investment boost policy in the May Budget is cause for concern and challenges one of the main reasons I have had a positive outlook for 2026.

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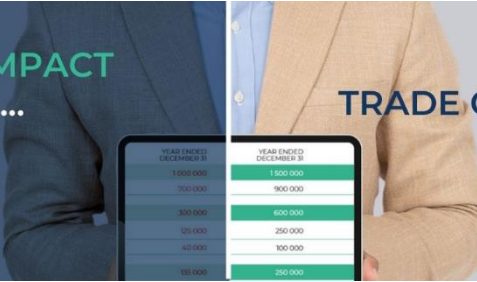
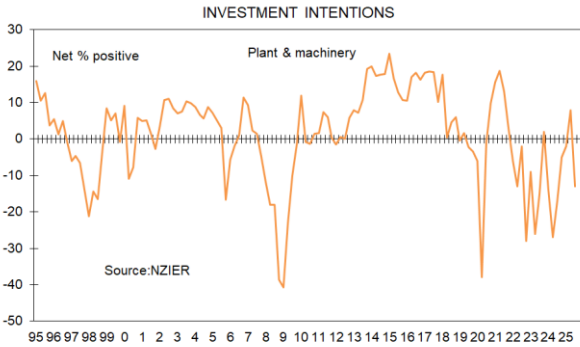
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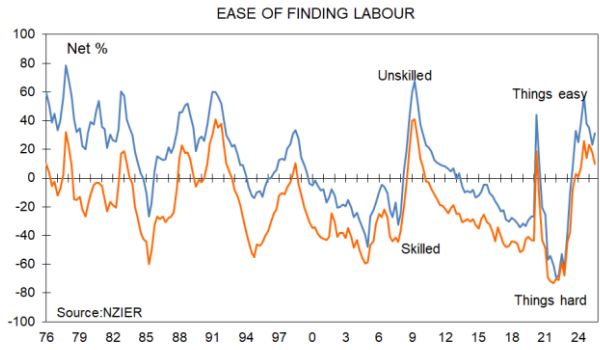


A net 23% of businesses said they shed staff in the quarter and only a net 4% now say they plan to hire more. This is below the 10% average but not too concerning as the labour market lags the broader economic cycle.

More interesting is the decrease in the net proportion of businesses saying they are finding it easy to source skilled labour to 10% from 18% last quarter and a peak of 26% a year ago. Skilled people are not that plentiful as compared with unskilled where a net 31% of businesses say such people are easy to find. This is up from 23% last quarter but not much different from the March quarter 35%.

The main thing you can take away from the following graph is how low the orange line is for skilled staff availability.



These numbers tell us that labour is not much of a restraint on business. But it is concerning that with the economy so weak the skilled reading is where it is. Labour shortages look like they could appear quite early in 2026 as the economy improves, and businesses should consider this in their personnel planning for the coming six months.

63% of non-farm businesses report that the main reason they cannot increase output is a shortage of customers. This is well above the average of 47% and tells us in another way that the economy is weak and people have yet to respond much to the easing of monetary policy.

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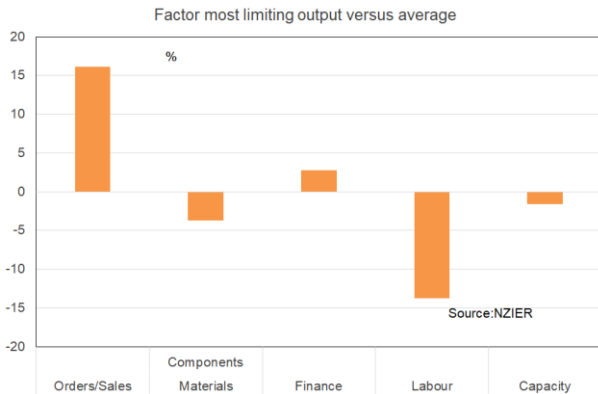
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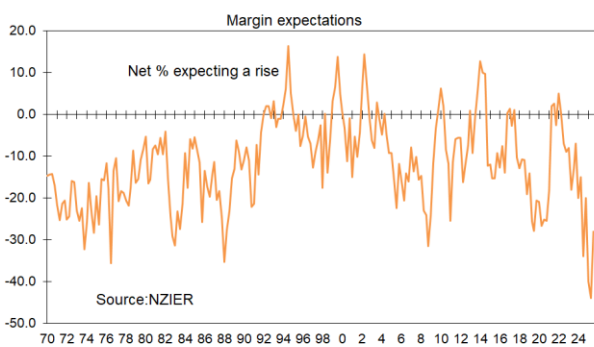
This graph shows the proportion of businesses rating various factors as constraining their output level versus average. It shows lack of customers

as a big problem versus not the case for labour and materials.



With regard to inflation prospects I continue to find reason for concern about what will happen once growth in the economy picks up. A net 7% of businesses have said they plan raising their selling prices in the coming quarter from a net 2% last quarter planning to cut them. This lift has happened despite the worsening in confidence levels.

This graph shows a really rough margin pressure measure which is well into negative territory as measured by for instance price expectations at +7% for the coming quarter versus cost rise expectations at a net 35% of businesses.



My concern is that when customers return margins will be rebuilt via higher prices. The pullback in investment intentions reinforces this risk.

Overall, the NZIER's survey was on the weak side and shows that the best we can say about the impact of monetary policy easing is that it has

removed the braking of the economy from high interest rates. But acceleration of growth from low interest rates has yet to kick in. That should be a story for 2026.



What real estate agents are seeing

Each month when I survey real estate agents around the country with sponsorship from NZHL, I invite the agents to give some insight into what is happening in their areas. Here are most of those comments grouped by region.

Northland

- The pickup continues in the Kerikeri market and the price range for buyers is also extending. Equalled our best month in 10 years in real estate.
- Paihia is starting to see an increase in enquiry from prospective purchasers. They are wanting to make offers that are a little lower 10 - 14 % under CV whereas Vendors are still wanting to hold the prices up. Just in the last 2 weeks there are signs of vendors being a little more flexible.
- Things are starting to improve slowly
- Far North - Sub 600k market receiving good enquiry. \$1.1M-\$1.5M still struggling with an over-stocked market and few cashed up buyers. Vendors have competition and need to be competitively priced to sell.
- In Northland we are seeing more buyer activity with one listing generating 9 offers. The sellers are determined to achieve the price that they placed on the property although it was 50K higher than it had been appraised at.
- Notable increase in sales and activity over the last few weeks in Whangarei.



- We are in the Far North. We have plenty of listings. Buyers are slowly coming back into the market, but are very conservative, and taking their time to make a buying decision.



Auckland

- Investors are still listing houses for sale. The spring surge in listings seems to have come early and stopped the fall in stock levels earlier than previous years - late August and stock levels were already levelling out.
- South-East Auckland. Appraisals on the rise; fairly typical for this time of the year. Good stock is moving, the rest languishes.
- Enquiry on Waiheke is picking up a little. Top end still very soft and most transactions are in the \$1-\$1.8million range.
- We are getting a lot of focus on the very high end properties both from Local and Offshore buyers. With proposed changes for overseas buyers locals are getting a move on before it happens, and offshore buyers are doing their homework on the market.
- The search level is very high along with information download but this is not translating to open homes
- Seems to be 2 distinct markets - 1 being an oversupply of apartments and new build terraced townhouses, and the other being family homes that are in short supply and in demand.
- There is a total lack of motivation to transact, we are selling 1 a day, and have been for months, but we were doing 2/3 per day.
- The buyers are taking way longer to purchase, sometimes 3 to 6 months as there is no FOMO, on average we see them losing on 3 - 4 properties before they become realistic and offer what is the right price for the property.
- East/South Auckland, mainly new builds. Interest from websites is increasing which is a good sign. Still fairly low numbers at open homes but most are serious buyers. Only very well priced listings are getting offers where the value is obvious to first home buyers. Lots of deals done subject to selling an existing property as long as developers are willing to wait. Values still seem to be falling slightly . Another decrease in interest rates should turn the tide, prior to Christmas.
- I'm noticing that buyers across Ponsonby, Grey Lynn and nearby suburbs are moving fast to buy. Often making pre auction offers. Highly motivated and well funded. Elsewhere in Auckland buyers still seem to be overly picky and indecisive but those transacting below \$1m are active and securing some good deals.
- There appears to be more buyer activity especially for good quality well-presented homes in Westlake & Rangitoto senior school zones on the North Shore have been selling well over CV.
- Little stock is coming to market at the moment, but I'm guessing that will change once the warmer weather arrives. Buyers still have the upper hand and are taking their time looking for the perfect property with low budget. Hopefully the market will shift soon.
- Def seeing more first time buyers and the chat with them is that they are wanting to get in before the interest rates fall again as they are feeling that might start a push on prices rising.
- Wow Auckland market has hit spring. More enquiry than for four years. And very genuine consensus we are through the worst of the economy. Quite a dramatic sudden activity level.
- Realistic vendors are doing well in this market. School zones are increasing in relevance. Flood zones still biggest detractor.
- More multi offers and pre auction offer market gets momentum one week then seems to stall a lot of uncertainty effecting confidence
- I started in RE in 1988, My friend who I will not name started in 1987, he has been a large business owner and a CEO of a big brand plus other management and licensee

positions. He says this is the toughest it's been for business owners since he started [39 years], I sell so I love a market like this.

- There seems to be a high demand for low priced properties.

Bay of Plenty

- Noticing a lot fewer buyers looking at townhouses/apartments versus stand-alone houses in the Mount. Buyers making low offers and not budging on price. Vendors still hanging out for high prices.
- Still a depressed market, with the odd sale trickling through. Certain price ranges ok, others are hopeless with little interest. Properties with conditional contracts on them taking ages to go unconditional, usually held up by house sale.
- Here in Papamoa stock has reduced to just two months worth of sales based on recent selling numbers at time of writing. All going well, we are on the cusp of the market changing from buyers to sellers so long as there is not a deluge of new stock that floods the market, or sellers start asking for unrealistic prices (greed).
- In the Western Bay the market is stable price wise though otherwise active; there are more pre auction offers coming forward, auction clearance rates are moving up and though the available stock levels are low, buyer activity is strong.
- The gap between sellers and buyers are as high as ever, buyers are being very cautious.

Waikato

- Tragically, some vendors are still holding out for 2021 prices to return before considering selling. Overpriced lifestyle stock tends to sit the longest, and properties under \$ 1.3 million are moving quickly now in Hamilton.
- On the East Coast of the Coromandel, most buyers remain price-driven and are offering well below the already adjusted levels our vendors are marketing at. Vendors who are market-aware are pricing realistically, while a smaller group still hold on to 2021 expectations. Our role continues to be

guiding and educating and not being able to afford fancy cheeses!

- Still a challenging market, because there are so many listings available purchasers are putting in some pretty crappy offers, hard work to get it over the line. We have lots of enquiry lots of viewings, the negotiation process is hard work.
- Here in Cambridge we have more and more listings. We have both cashed up buyers and those subject to house sales just very reluctant to commit to a property- even one that ticks all their boxes. They're all instead waiting for prices to fall or for more stock to come on. No sense of urgency.
- I have noticed a trend for investors to trim their portfolios to reduce their debt and/or exposure to price uncertainties.
- Met several buyers from Auckland feeling that entry into the market is easier purchasing in Hamilton - happy to commute each day to achieve home ownership.
- Noticeable interest from First Home buyers. and Investors sniffing around too. Sellers having to meet the market if wanting to move on. The bottom and mid price bracket is moving the most. Some multi Offers popping up for some listings. The amount of listing coming to the market has slowed though.
- On the east coast of the Coromandel Peninsula we had a reasonable winter with some upper level price range properties selling mainly to locals moving within town. This is different to what we are used to as the majority of our sales are usually to bach or second home buyers who are not yet active en masse.

Gisborne

- Certainly feels like the spring bump is here, there are more buyers in the market and activity in general. I don't necessarily feel that house prices are increasing however as the amount of stock seems to be offsetting the lift in enquiry. Preparation and presentation are as important as ever, and those vendors who are taking the time and putting in the effort are generally getting luckier than those who don't.

Hawkes Bay

- The warmer weather has brought increased interest in appraisals and listing numbers are on the rise. First-home buyers remain an active group across Hastings. We also saw some older stock starting to move before the warmer weather arrived, as listings had been lower. I have met several groups recently who have returned from overseas or are looking to relocate from Auckland to Hawke's Bay, which is a positive sign for buyer activity.
- Buyers are being very discerning, firm with offers price. Vendors struggling with lower prices being submitted. Often not listening to the advice of agents. Some buyers holding back, awaiting further interest rate reductions. Lots of spring stock now coming on the market giving buyers more of a choice. First home buyers active in the marketplace.
- First home buyers are keen to transact and will often force a multi offer situation for property. Some are paying more because they missed out previously.
- Not as many listings on in the \$900,000 to \$1,200,000 range and there seems to buyers wanting to transact at this level. Buyers still after a deal. Sellers still too hopeful - relaying all media stories of hope that will get them a good price. Sellers are after deal with agents again - back to multi agents for appraisals and the cheapest fee and marketing is their prior high again.

Taranaki

- Market is up and down - very fickle with a lot of uncertainty in Taranaki. One week busy one week dead. Vendors' expectations and money to move on scenario and purchasers low balling offers making it sometimes impossible to get the 2 parties together.
- We are seeing consistent activity in the first home buyer's market with an increase in multi offers in the lower to mid price ranges. Good numbers through open homes. Buyers are taking more time to work through their due diligence with more and more building

inspections proving challenging, especially on older homes.

Manawatu-Wanganui

- We personally have been quite busy for some time (18 months). The job market is a little less volatile in the Manawatu so interest rates have been a big driver of activity which will ramp up again shortly with the next OCR announcement. Due to the large number of properties available to rent we are seeing quite a large number of owners who can't rent their investment property try and sell and generally they have owned them for some time (pre '21) so their gain is considerable. There is still plenty of choice for buyers and we are commonly seeing multiple offers. We have been doing large numbers of appraisals with the conversion rate close to 50% which is massive. (hope this helps).
- We are still experiencing a reasonably challenging market. The volume of sales confirmed during the last month appear to have increased and available listings have also increased which is expected in the Spring-Summer timeframe. New listings are attracting strong interest in the first couple have weeks on the market and during that time FOMO may well be in play. Vendors who have high expectations for their property may well be subject to an extended period on the market. Buyers appear to be well educated and price savvy.

Wellington

- Tough market. Buyers are very slow to make decisions. Plenty of choice available, no urgency.
- The Wellington Market is showing good green shoots of life. Increase in both appraisals and buyers present as they know this is probably as good as it will get for buying and those looking to sell are being more realistic.
- Working in the Wellington city market has been challenging for the last two years. While we seem to be at the bottom of the market (we hope), we see no signs of price rises.

- Finally apartments are starting to have people come through open homes - but only if they are sharply priced. Mum & Dad investors seem to be slowly coming back - buying for their kids at uni
- The market in Upper Hutt is now steady; first home buyers have become more motivated.
- Listings coming to the market have stalled in the last 2 weeks. We are expecting the spring rush to kick off once the school holidays finish, as our listings are backed up sitting in the system, waiting to be released, other companies will be in the same situation we would imagine.
- Wellington is a very flat market.
- More and more investors are telling us that once their existing tenants leave, they will sell their investment property due to falling rental income, extended vacancy periods, increasing rates and insurance costs, and stagnant house prices that show no signs of improvement.
- Townhouses/Units anything with a bodycorp fee is hard to shift
- The Waikanae / Waikanae Beach market has seen a definite lift in activity with a few more listings coming to the market and overall more attendees at the open homes. Long may it last.
- First time ever I have had buyers for quality family homes and also some smaller property investors feedback that they can purchase for better value in Wellington than here on the Kapiti Coast - it has always been the other way round!

Tasman

- Getting good numbers through open homes. Example 25 groups through an 800 k house over 3 open homes to end up with 1 buyer. Lots of buyers waiting to see what else is coming on the market.
- Properties selling if vendors willing to meet the market.

Marlborough

- The market is very steady currently, with average house numbers being sold and the

median days of 41 is roughly average as well. Some positive agents out there would say sale prices are starting to look better than what they have been in the last 18 months but there are also some really good bargains being bought. A few more out of town buyers looking while open home numbers have been quiet recently.

- Anything over a million is hard to transact. Cash buyers are very tough and want bargains - or to test vendors. - Banks are keen to lend to first home buyers and any new property is being keenly sought after in the 600 k bracket . Lifestyle buyers are spoilt for choice and presentation is very important.
- Well presented, well located homes are getting snapped up. A number of homes we have had on the market for 3-4 months are now getting offers. Interesting to see owners holding out for prices and quite a few are getting them. Not the same Spring rush of new listings at the moment. May be delayed? More young families looking to upsize or invest.

Nelson

No comments this month.

Canterbury

- Shortage of stock driving competition at auctions and have 60% clearance rate.
- Market is definitely stronger than it was same time last year. Buyers more confident. First home buyers under \$800k very busy with some great results at auction in this price range. We believe the ChCh market is on the improve for sure.
- There's definitely a pickup in the Christchurch market. We operate in the new build space and while there is a lot of stock in some suburbs we have run out in better suburbs. Offers are happening more at Ask Price so less discounts, specials are being required. Some suburbs are still very difficult to move even with price drops, so good priced stock in good areas are doing well as to be expected

- The North Canterbury market has taken off since the last interest rate drop. Multiple offers, old stock selling, back up offers coming in, buyers from the North Island and Australia re-appearing too. Very busy times!
- So far in September, Timaru has recorded 45 property sales, with 36 of those between \$300,000 and \$700,000, six above \$700,000, and just three under \$300,000, showing the market is strongly centred in the mid-price range

Otago excl. Queenstown Lakes

- Good quality and well-presented properties obviously are getting more interest and offers. Vendors need to ensure that their property is presented to its highest possible standard to ensure it is competitive with the market. Buyers have plenty of choice and are willing to walk away from a property that has any deferred maintenance.
- Still plenty of competition and multi offers for the right properties. Buyers expect more for their \$. Sellers are having to meet the market to sell.
- The market in my area is always quietly rising, without the hype of sharp rises with subsequent downward trends. It may be a spring trend, however it is noticeable that there are more people/potential buyers at Open Homes, as well as website enquiry.
- I've had some big numbers through open homes in recent weeks, with plenty of multi offers and increased competition in the auction rooms, prices seem to be increasing slightly. Homes with issues, like unconsented work or in the flood prone areas are definitely attracting less interest but on the whole it's a great market for both buyers and sellers to meet. Interesting that we don't appear to be seeing the big increase in spring listings but partly that's because they are selling well, so most good properties are coming and going quickly, and the listing levels remain static.

Queenstown Lakes

- Good enquiry for off plan listings, especially if they have visitor accommodation consents.

Good increase in viewings from the US on lifestyle property.

- There seem to be more on sight inspections than internet inquiry. Buyer inquiry is good, listings short in some areas. Some Sellers are being overly optimistic on price, with higher expectations than current market value.

Southland

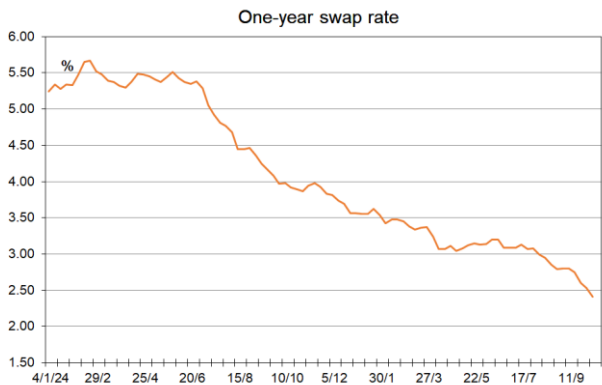
No comments received this month.

If I were a borrower, what would I do?

Yesterday the Reserve Bank reviewed the level of their official cash rate and made the accelerate their pace of easing in light of a recent bout of much weaker than expected data. They cut the cash rate 0.5% to 2.5% and said they may move again depending on how the data pan out.

Banks have reacted to the easing by cutting their mortgage lending rates though the reductions for fixed rates have been limited. This is partly because some rates had already been cut ahead of the event. But also these rates are based on funding costs which reflect where the cash rate is expected to go over coming years. Extra cuts now raise the risk of extra increases further out.

This means that compared with two months ago the one year cost of funds (swap rate) has fallen almost 0.6% but the three year rate is down 0.45% and five years 0.35%.



What happens now? We are at or almost at the end of an easing cycle which has gone further than any of us were expecting when the first cut occurred in August last year. The economy has failed to show much response to falling interest rates and some new negatives have appeared such as weak net migration.

There may be another cut in the cash rate, but this could be about as good as it gets for fixed mortgage rates this cycle.

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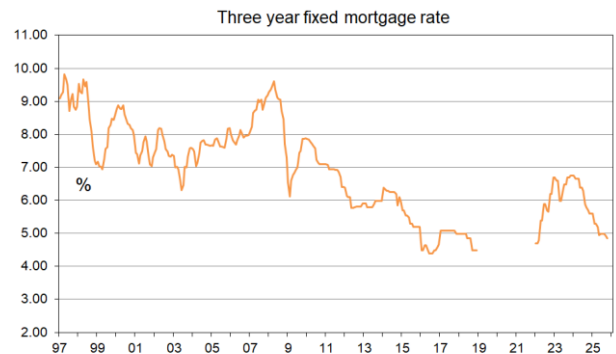
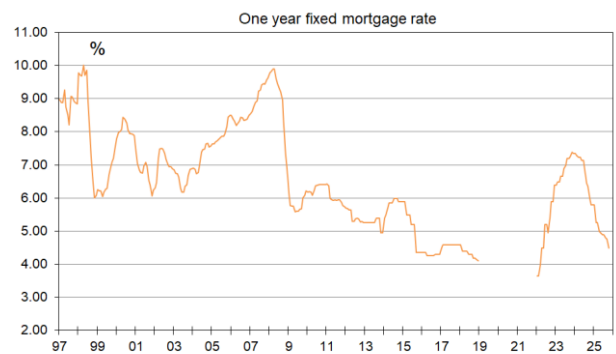
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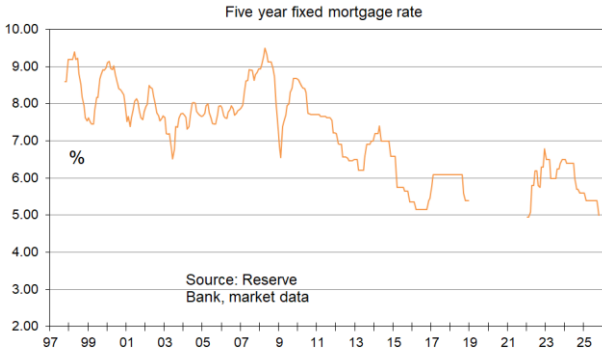
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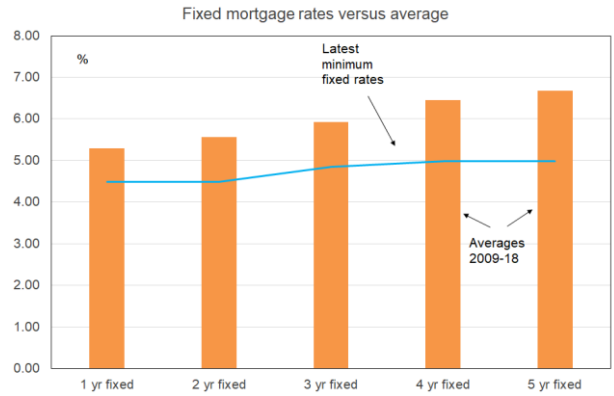
If I were borrowing at the moment I would look to fix for five years at 4.99%. The rate is relatively low and would give high protection against the risk I see of extra tightening of monetary policy from late-2027 because of the extra easing having to be undertaken now as a result of the weaker than expected economy. Having said that, I could not fault people fixing for just one year or thereabouts because the cash flow advantage is good and worth having for many at a time when many other costs are rising.

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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