

Input to your Strategy for Adapting to Challenges

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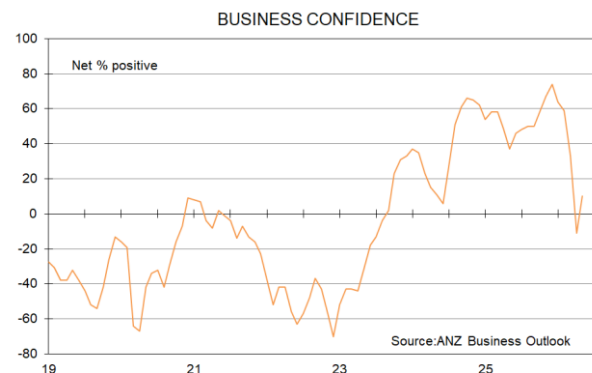
Easing negativism

ANZ released their monthly Business Outlook survey results just before the long weekend and virtually every measure became less bad than it was in April – apart from the cost and price expectations gauges. Hence, I retain my underlying concern about inflation rising and eventually some upside surprises for interest rates. Timing however is complete guesswork.

Ahead of the February 28 US attacks on Iran a net 59% of businesses were confident about what lay ahead for the economy and a net 53% expected their own levels of activity to go up. These were both very strong results at well above average levels.

However, with numerous worries about supply chains, fuel availability, cost pressures, reduced demand etc., come last month a net 11% of businesses said they had a bad outlook for the economy though a still not horrible net 20% said they expected to get busier.


This time around confidence about the economy has gone up to 10% and the activity expectations measure to 26%. The latter measure is about average for the past couple of decades.



Based on this survey we can say that just as has already been evident from my own more timely surveys, things are pulling back from the brink. This is good.

A net 3% of businesses say they plan hiring people (-3% the previous month) and a net 6% plan higher capital expenditure (3%).


Of interest are the price and cost measures. A net 57% of businesses still plan to raise their prices in the coming year. This is consistent with other results in recent months and if anything perhaps




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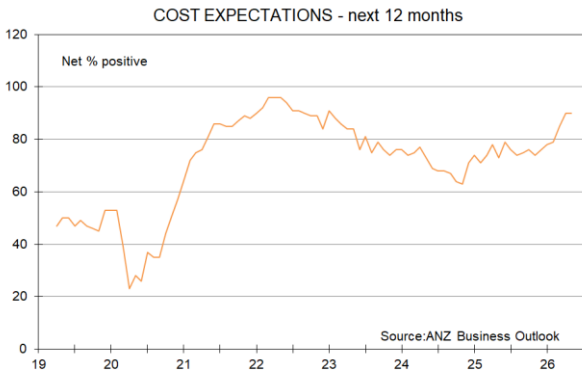
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a tad low considering the pressures moving through the system.

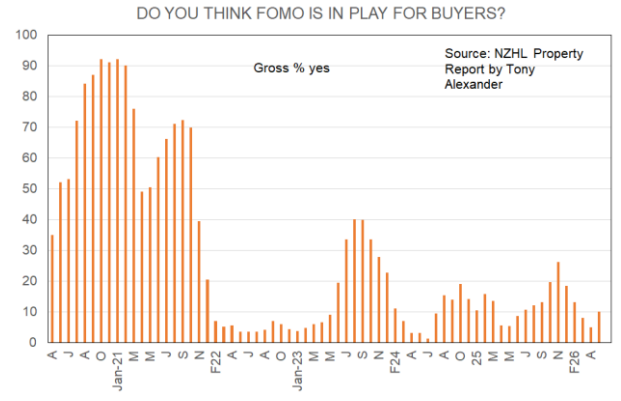
Specifically, a net 90% of businesses expect their costs to rise in the coming 12 months. This is unchanged from last month and up from 79% ahead of February 28.



Real estate also less negative

Late last week I ran my monthly survey of real estate agents, and the results were also slightly better than the previous month but still tell us that conditions are very hard out there for sellers.

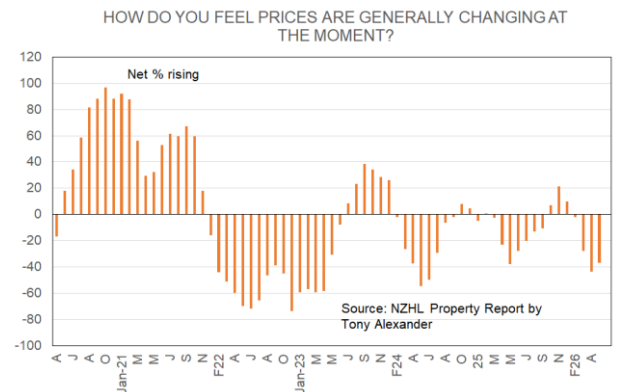
FOMO has improved from only a lowly 5% of agents a month ago saying buyers were feeling a bit antsy to 10% now.



Investors remain in the shadows with a net 35% of agents saying they are seeing fewer of them looking to buy. This is at least better than the net 50% of last month.

As has been the case since early in 2023 the market remains driven by and in favour of first home buyers with a net 29% of agents this month saying they are seeing more young purchasers.

For prices the immediate direction remains downward. Whereas back in late-January a net 10% of agents said that prices were rising in their area a net 37% now say they are falling.





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For the moment the biggest concerns of buyers are interest rates, employment, and increasingly FOOP – fear of over-paying.

It seems reasonable to believe that a similar decline in productivity and rise in costs has occurred here in New Zealand.

Housing Trends

Just a reminder, here are some of the underlying trends in residential real estate.

Reduced “natural” upward pressure on prices now that supply growth has structurally lifted, interest rates ended three decades of downward oscillations in 2021, and average annual net migration flows also ended a three decade period of cycling upward in the middle of last year.

Reduced demand from less sophisticated investors because of higher running costs, tax changes, and ultimately reduced expectations of capital gain. FOMO has structurally declined although cyclically will still go up and down.

Many older investors are selling in a casual, not panicked manner, in order to fund retirements which are turning out to be substantially more expensive than expected.

Still firmly rising construction costs. In fact it is worse than this simple statement suggests. A study recently completed by the Committee for Economic Development of Australia – CEDA – made these findings.

Australian residential construction costs have risen 80% since 2014.

The average number of houses built per construction worker has fallen 40% since the 1970s.

The average time taken to complete a dwelling has increased 40% since the end of the pandemic.

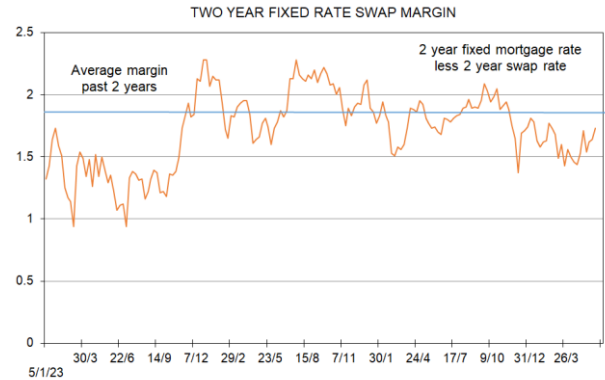
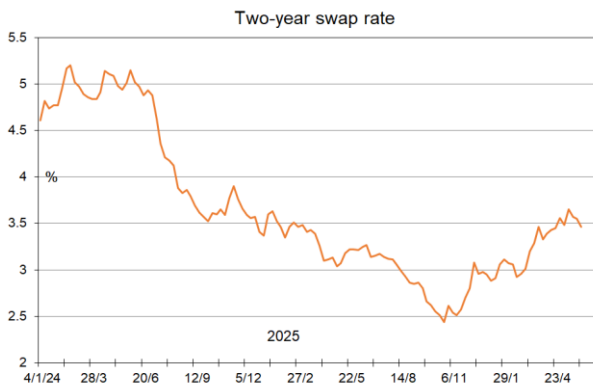


If I were a borrower, what would I do?

There is nothing much of strong newness to report this week following the two big events of last week – the Budget and cash rate review.

Wholesale interest rates are down slightly from where they were last week, but the declines have not been enough to prevent a round of fixed mortgage rate rises being initiated. Not all main banks have yet raised their rates so the numbers I use are still where they were last week – based as they are on the best main bank rate available for each term from one to five year.

But margins are below average and the others are likely to follow the leader fairly shortly.



If I were borrowing at the moment, I would favour fixing three years but can understand why most people prefer just two year terms. At the start of a tightening cycle people have difficulty imagining that interest rates will rise all that much. Just remember however that at the start of the post-lockdown rises the Reserve Bank pencilled in an OCR peak of about 2.5%. It reached 5.5%.

The lesson here is that you cannot blindly rely on rate predictions when deciding how to manage your interest rate risk. Plenty of people did back then and they stayed at a one year fixed rate rather than fixing 3-5 years perhaps because they saw no great upside risk.

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

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