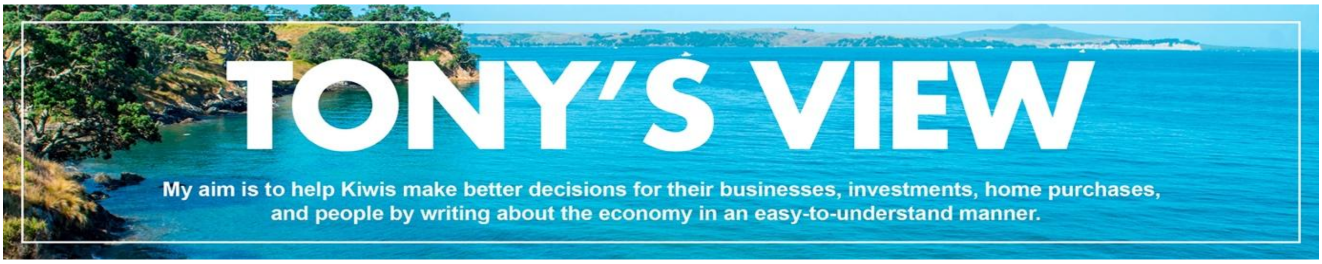

Input to your Strategy for Adapting to Challenges

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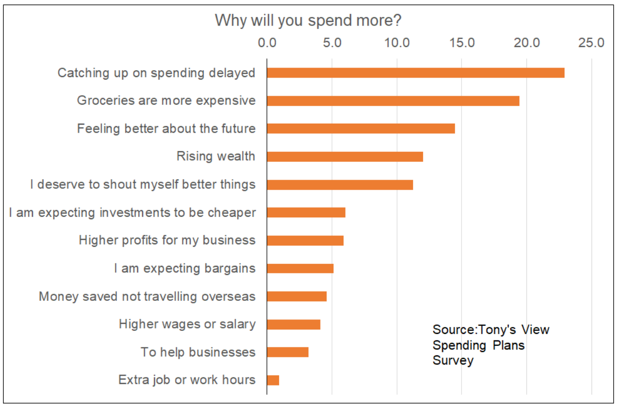
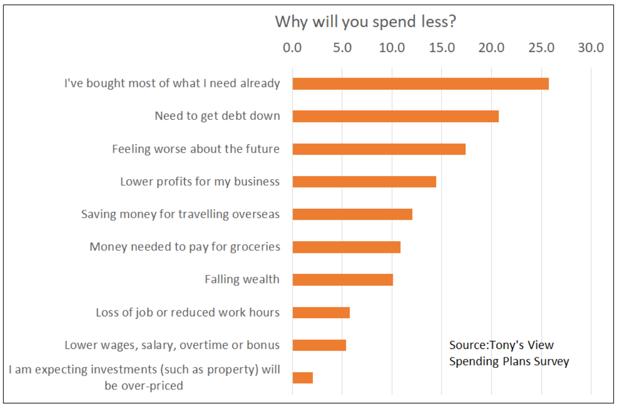
Consumers worried about incomes

Last week I wrote that I would take a look at my Spending Plans Survey insights regarding why people say they will spend more or spend less in the coming 3-6 months. This first graph shows the reasons people have chosen for spending more.



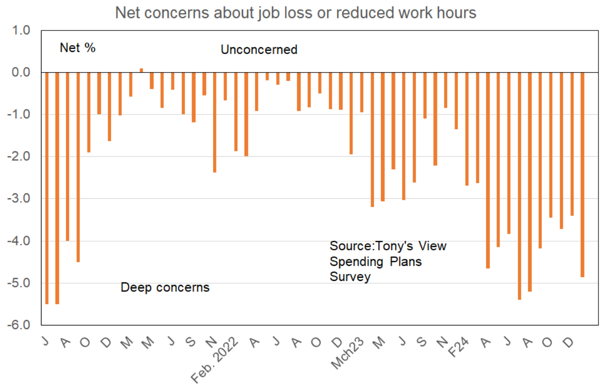
As always, the top rank is given to catching up on spending delayed from the past, followed by having to pay more for groceries. Very few people cited that they are earning or expect to earn more.

This graph shows the reasons for people spending less in the next 3-6 months.



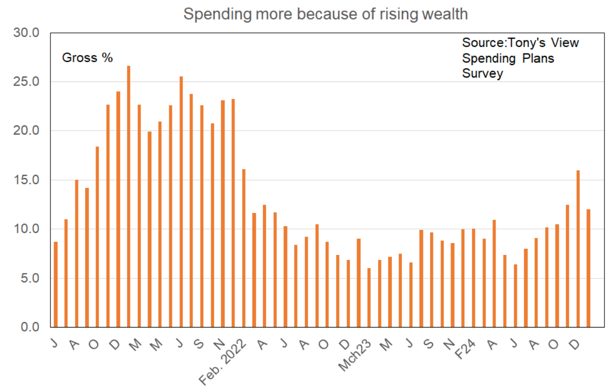
Second ranking is given to people needing to get their debt down. This graph shows the gross proportion of people citing a desire to reduce their debt levels. This fell away as a cause for concern over the second half of last year as people embraced an outlook of much lower interest rates. But this month the reading has taken a step up which appears consistent with people perhaps adopting a more realistic view about how much further mortgage rates will fall.

That reassessment of desire to reduce debt may be accentuated by concerns about employment and incomes as the unemployment rate now climbs higher. We can use the survey to calculate a net measure of employment confidence and can see a clear deterioration this month compared with the last Spending Plans Survey undertaken in December.

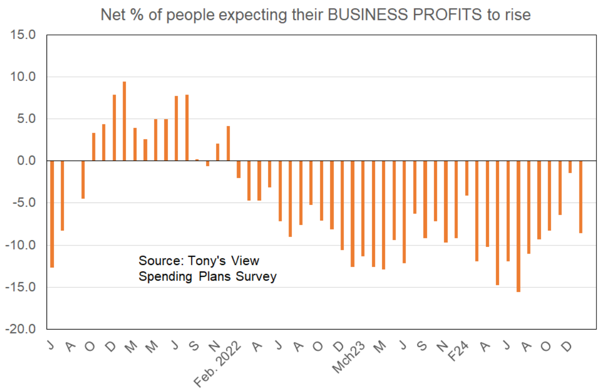


People don't have optimistic expectations for wages growth either and have not had such for a long period of time – shown in this net measure here.

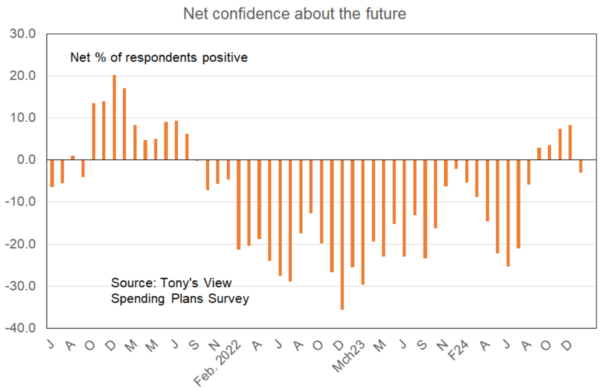
Feelings that wealth will rise and permit more spending have also eased back this survey, perhaps associated with reduced expectations for house price growth.



And perhaps we gain some insight into people's expectations for the economy from the notable decline in the net proportion expecting their business profits to improve.



And it is all summed up in a decline in the net proportion of people feeling better about the future to -3% from +8% in December.



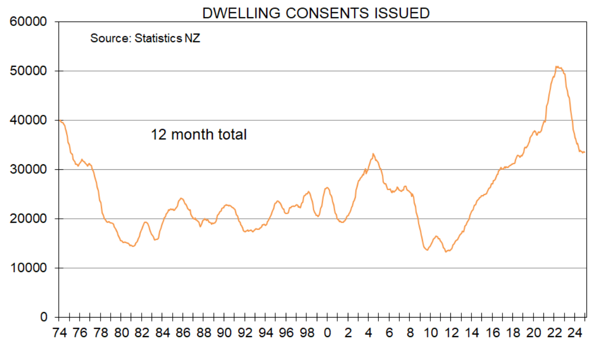
Basically, over Summer our hopes for 2025 have deteriorated - or by my assessment have become more realistic. Simply because the pain of cyclically high interest rates is being removed does not mean we will become a "rock star" economy as a journalist opined in August last year. There are many underlying long-term structural problems with our economy which will constrain income growth to a pace slower than across the Tasman and eventually manifest itself as a step down in the average NZD/AUD exchange rate.

It is impossible to predict when this reassessment of our economy will fully occur and when it will then be reflected in an exchange rate adjustment and maybe even an upward movement in the risk premium attached to NZ interest rates.

House construction realism

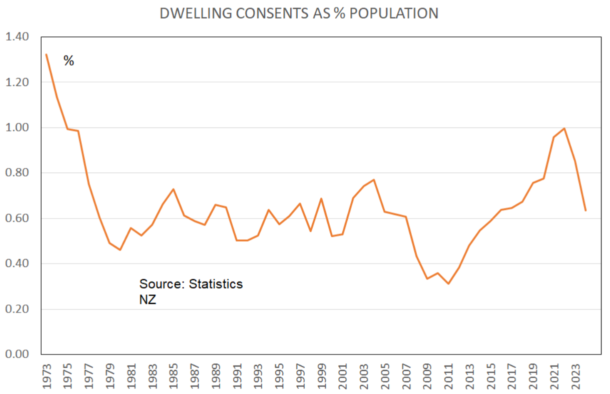
Let's try to get a feel for whether the currently still unusually high annual number of consents (near 33,600) and recent peak of 51,000 mid-2022 mean that house supply growth has structurally changed in NZ. If it has then this is one of the strongest arguments in favour of only very slow price growth from here on out – unless construction costs keep rising at well above the inflation rate.

This first graph shows annual consent numbers since 1974. The pandemic peak was unusual (as a pandemic is) but things seem to have settled at a high level compared with the past. Great – lots of houses.



But we also have lots more people. A better rough feel is gauged by comparing consents with population. This next graph does that from 1973 and plots a percent. In 1973 consents equalled over 1.3% of the population. Post-GFC in 2011 they were just 0.3%. Currently they are 0.64%

(year to June 2024). The average since 1976 (treating the early-1970s as the aberration they were) has been 0.62%.



Consent numbers are bang on the long-term average for the past half century. There is no basis for claiming that house supply growth is now running structurally higher than in the past. All we can say are a couple of things.

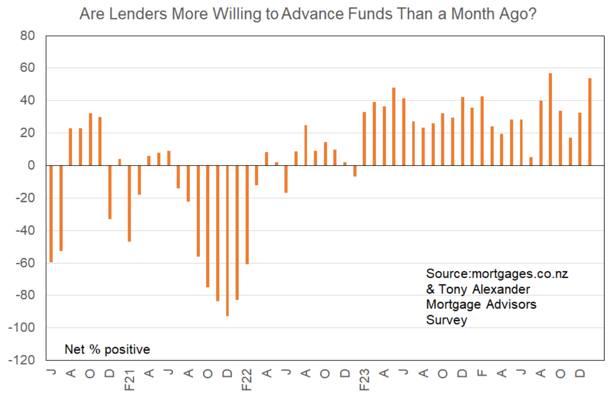
- Construction has weakened from the ultra-low interest rates driven period of the pandemic.
- History suggests that the pullback has a bit further to run.

I have a concern about the over-abundance of townhouses in Auckland which when set alongside slowing population growth and a weak economic outlook suggests an overall upturn in construction because of lower interest rates is more a story for 2026 than 2025.

Offsetting his however is the evidence of banks becoming more willing to lend. The introduction of a fixed five year mortgage rate of 4.99% by one institution is a manifestation of their increased willingness to lend.

In fact, in my monthly survey of mortgage brokers sponsored by mortgages.co.nz I ask brokers if they feel banks are becoming more or less willing to advance funds.

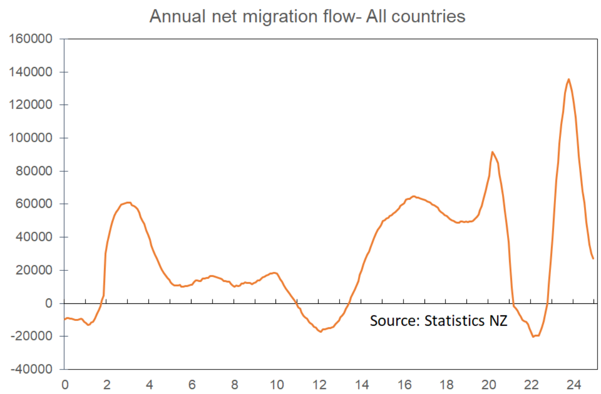
Back late in 2021 when the credit crunch struck a net 93% of brokers said that banks were less willing to lend. Now, a net 54% say that they are more willing. This is a gain from 33% two months ago and 43% a year back.



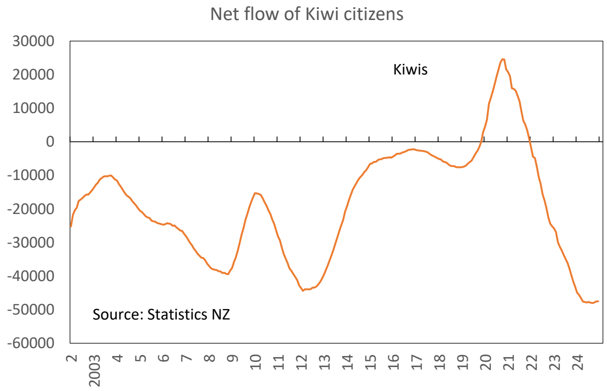
Net migration falls further

But now, lets cloud the outlook more by noting something on the restraining side – migration flows.

The annual net migration gain has declined to just over 27,000 in calendar 2024 from a peak of 135,000 in October 2023. One thing which stands out is the quite small net gain in December of only 976 which is well down from 4,200 in December 2023, and 9,025 in December 2022.



New Zealand is attracting fewer migrants and also has lost a net 47,000 Kiwis over the past year. With the unemployment rate rising, household sentiment newly deteriorating, slowing wages growth, and tightening fiscal policy, it seems reasonable to expect the net Kiwi flow to remain large and negative through this year and probably 2026.



If I were a borrower, what would I do?

You blinked, you missed. The bank offering a three year fixed rate of 4.99% has lifted it up to 5.39% following yesterday's cut in the official cash rate to 3.75% from 4.25%. How can this be?

Competition between the banks for mortgage business is hotting up as noted above from my mortgage brokers survey. It will have gained them some extra business, but they might now have switched to a less costly method of gaining market share in light of the Reserve Bank not delivering a shock dovish interest rates scenario. Who's to know?

The OCR cut was expected and although the Reserve Bank's pick for when the cash rate reaches just above 3% has shifted from late-2026 to late this year, that new profile was already factored into market wholesale rates.

That means that the one year swap rate in NZ has ended this week unchanged from last week at 3.48%. But the three year rate has risen to near 3.6% from 3.52%. Two weeks ago it was 3.41%. On that basis one would have to say margin squeeze was behind the lift in the discounted three year fixed mortgage rate.

The five year swap rate has climbed to near 3.78% from 3.71% last week and 3.6% a fortnight back.

Can we talk about the lows for medium to long-term wholesale rates having already been reached this cycle? If one accepts a 3% low for the official cash rate which implies a low for 90-day bank bill yields near 3.25% from 3.8% now, then at 3.6% the three year swap rate does look awfully close to the cyclically low allowing for the normal shape of the yield curve. I believe the cash rate low will be 3.5% or 3.25% based on my worries about business pricing plans once customers return later this year.

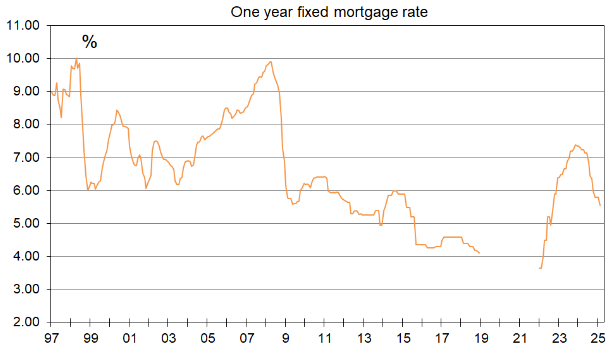
In all probability we will again see some discounting of the 2-5 year fixed mortgage rates. But the extent from current levels may be minor and that leaves me writing what I was going to write a fortnight back a day before the 4.99% three year rate was announced.

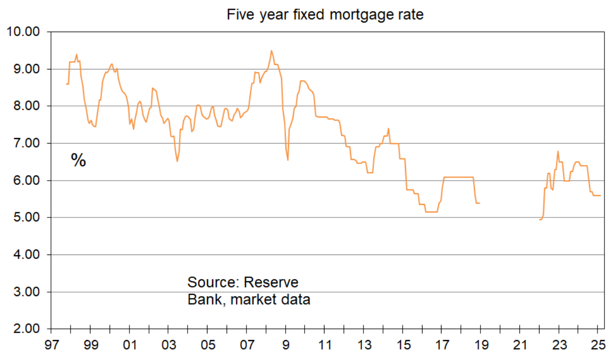
If I can get a 3-5 year rate close to 5.2% then I would be inclined to take it.

At the moment if I were borrowing (as in, if I wanted to fix but missed the 4.99% rate), I would possibly fix three years at 5.39% and get on with my life. But in all probability the bank would offer me a lower rate. One bank was bettering the 4.99% three year rate at 4.79% behind closed doors. That offer may just have been pulled, however.

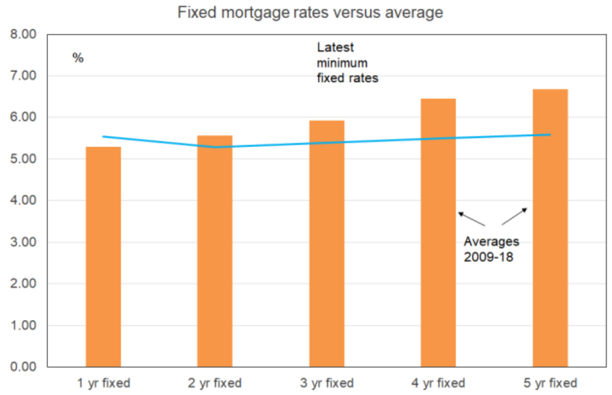
Most people will likely continue to float or fix short waiting for lower medium to long term rates given that the commentary in media following yesterday's rate cut has focussed around further falls to come. But those falls will be concentrated on the one year fixed rate rather than the longer rates.

Insight can be gained by looking at the three regular graphs I include here. Note how the one year rate on offer at the moment is still reasonably above past lows. But the three and five year rates are not far off low levels reached in the past – as long as we ignore the silly pandemic period.





This graph shows how current rates compare with averages from 2009-19.



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.