Research

Economy Watch

3 July 2025

Households under pressure

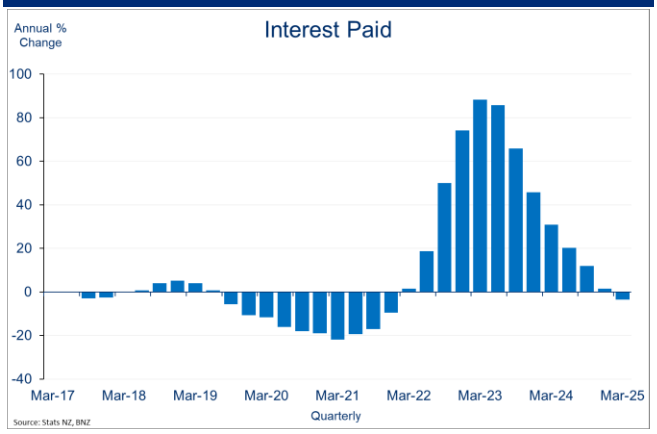
- **Falling interests help the indebted**
- **But they don't help everyone**
- **Wealth gains in absentia**
- **Real incomes stalled**
- **Don't expect a hike in consumer spending soon**

Stats NZ produces a quarterly update on the income, savings, assets and liabilities of the household sector. These releases are not followed that closely but we believe they contain a wealth of information. Granted the data are still a tad experimental in nature so should be treated with a modicum of caution especially with regard to levels. But we still think the direction of change provides great insight.

Perhaps the most interesting thing to glean from these data is that one should not necessarily assume falling interest rates will be sufficient to boost spending in the current environment.

There is little doubt declining mortgage interest rates are reducing the pressure on the finances of those that have debt. Interest paid in the March quarter 2025 was 3.5% below the same quarter a year earlier.

Interest paid falls

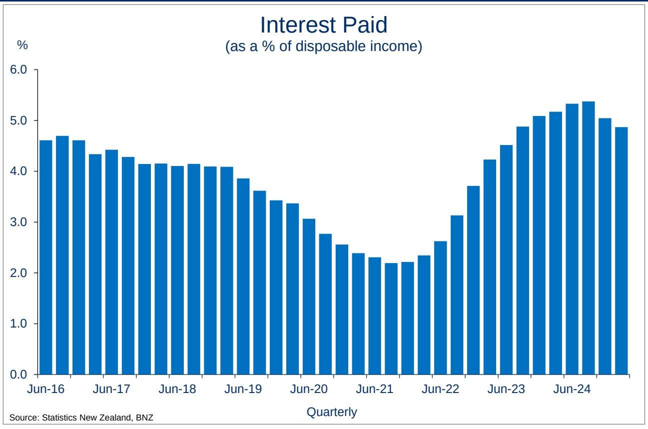


And interest as a percentage of disposable income has fallen from 5.4% to 4.9%.

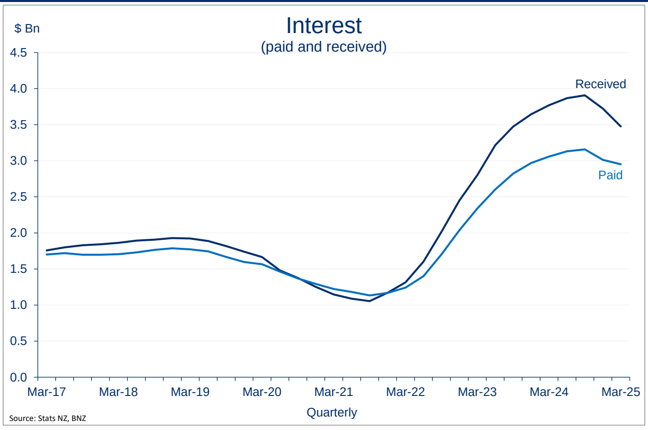
The really good news is that this is just the start with much of the increase seen since the second half of 2021 about to be wiped out.

But one shouldn't forget there is a significant chunk of the population that doesn't have any debt, many of whom rely on interest income for their day-to-day spending. Believe it or not, the income accruing to these folk has dropped by more than the reduction in the amount paid.

Interest paid falls



Interest received falls more

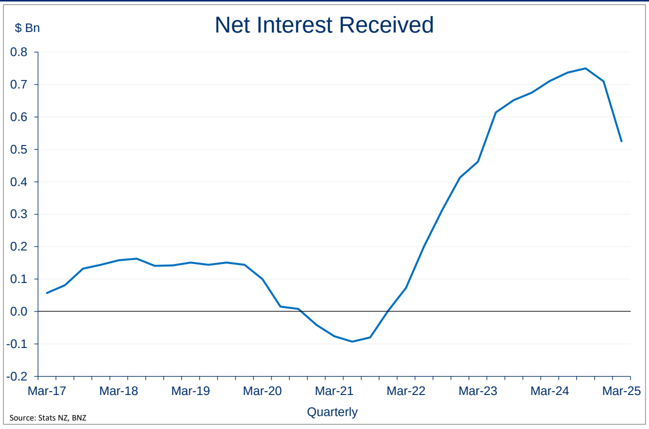


The net effect has thus lowered the quantum of money available for the household sector to spend.

There are, nonetheless, some important distributional effects to consider but we don't have the data to prove or disprove our assertions. Nonetheless, we think:

- In aggregate the people who are getting the interest rate relief are the ones with a higher marginal propensity to consume. Therefore, the net impact on household spending will still be positive.
- Retired folk who depend on interest income will not be enjoying the easing in monetary conditions.

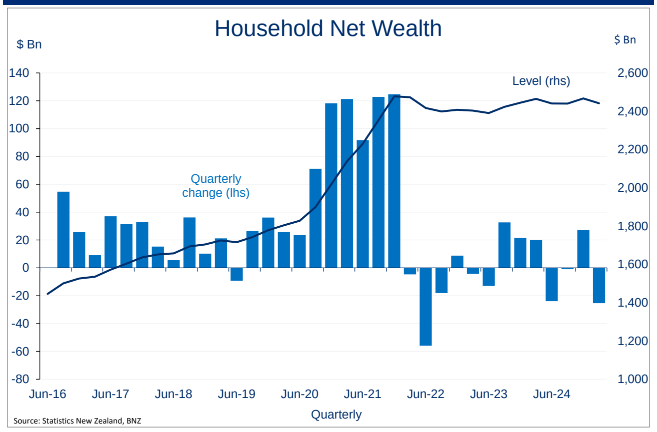
Net effect is negative



Often lower interest rates boost consumer sentiment by raising asset prices. We believe that lower rates are indeed supporting the housing market in that turnover is up and house prices appear to have stopped falling. But at this stage, house prices are not on a firm upward trend. And they certainly weren't when these March Quarter 2025 data were put together.

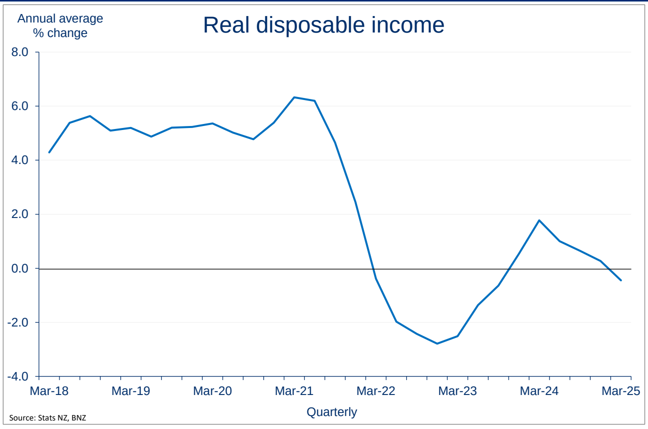
Household net wealth has flatlined since mid 2021. House value is the key component of this. While changes in net wealth do not impact cash flows they do affect the desire and capacity to borrow. Moreover, there is clear evidence that wealth effects have a big influence on consumer spending. With asset prices going nowhere fast it shouldn't be a great surprise that household spending is doing likewise.

Wealth going nowhere



But it's not just the wealth effect that's problematic. Overall, real disposable incomes, as measured in these data are going backwards, albeit only slightly. Unless either employment rises quickly, wages accelerate, or inflation falls then real disposable incomes will not jump any time soon.

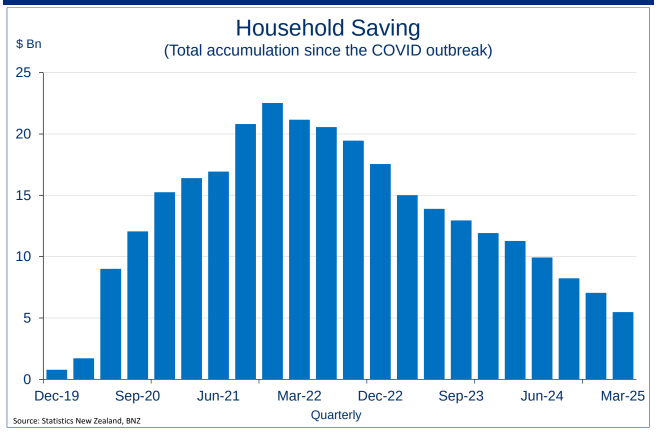
Real incomes under pressure



We are forecasting broadly flat employment, a drop in wage growth and a rise in the inflation rate for the next few quarters. None of which are particularly helpful.

One way that spending can be supported is if households utilise accumulated saving. There was clear evidence that in New Zealand, like most developed countries in the world, household saving rose rapidly during the COVID lockdowns. For once, New Zealand households became net savers. But our old habits have returned and we are now dissaving aggressively. Most of that COVID saving has been spent. As it wanes future support for spending from this source disappears.

Savings crumbling



Putting all this together, it becomes increasingly apparent just why the retail sector has been struggling. We still believe that, in the fullness of time, monetary easing and the strong income gains accruing to New Zealand's primary sector will support retail spending but these data are a salient reminder that we shouldn't expect a resurgence in activity any time soon.

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