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ISSN: 2744-5178 Monday 9 May 2022
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Spending restraint intensifies

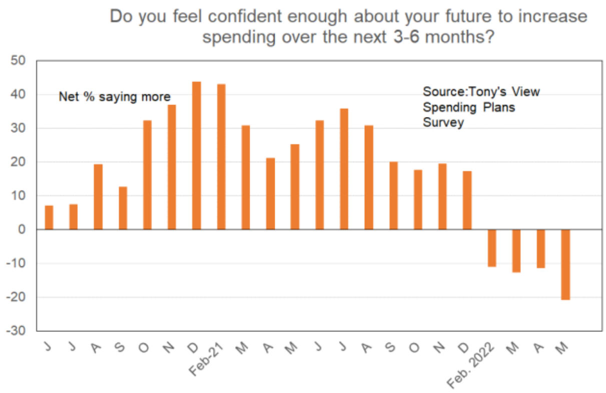
Each month since June 2020 I have surveyed readers of my weekly Tony's View to gain insight into their plans for spending over the next 3-6 months and the factors motivating them to think as they do. This month's survey attracted 1,048 responses and has shown that a fresh deterioration in consumer spending plans is underway following a shift towards restraint first seen at the start of the year.

The soaring cost of living, rising mortgage rates, falling house prices, Russia's invasion of Ukraine and China's Covid mismanagement hitting supply chains are likely to be factors contributing to the new unwillingness of people to spend.

This is negative news for retailers and especially businesses involved in previously booming home renovations, furniture, and eating out. However, the good news is that the Reserve Bank is seeing the weakness it wants in consumer spending as a means of encouraging businesses not to much raise their selling prices and accede to high wage demands. The path towards lower inflation next year is well established now.

Do you feel confident enough about your future to increase spending over the next 3-6 months?

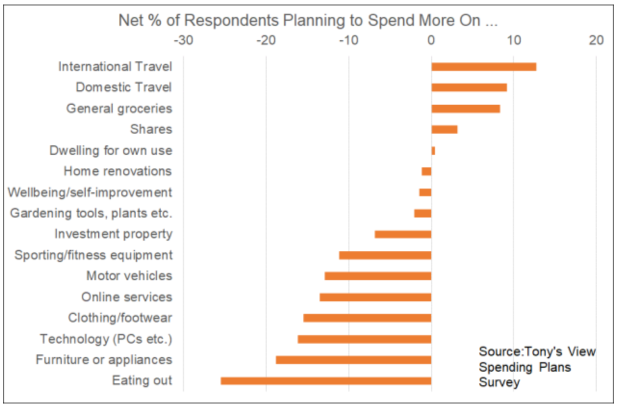
A record net 20% of people this month have said that they plan cutting their spending in the near future. This is a deterioration from results all very close to 11% in the previous three months. It is a substantial turnaround from the net 17% or so of people who up until December indicated that they will spend more.



A time of intense household spending restraint is now here, and with such spending typically accounting for up to two-thirds of overall spending in the New Zealand economy, unless exports, business investment, and/or government spending strengthen, the economy could easily slip into a recession later this year – though not a deep one considering the strong levels of construction activity, high job security, and good export prices.

Where will people spend more?

People do not plan cutting back their spending in all areas. For instance, as the following graph covering all options presented to respondents shows, spending increases are planned on international and domestic travel, groceries, and shares (an investment). Many respondents noted that the reason they will be spending more on groceries is because prices have gone up so much. They have no choice other than to allocate more of their weekly pay to supermarket costs.



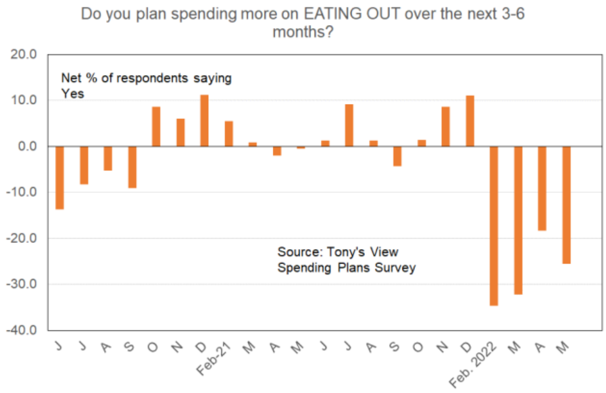
Focussing in on some of the individual categories we can note the following.

Eating out

There is no positive news in our survey for the hospitality sector. History tells us that in times of budgeting stress people will first look for cost savings by cutting something which in the past was considered a luxury – eating outside of the home.

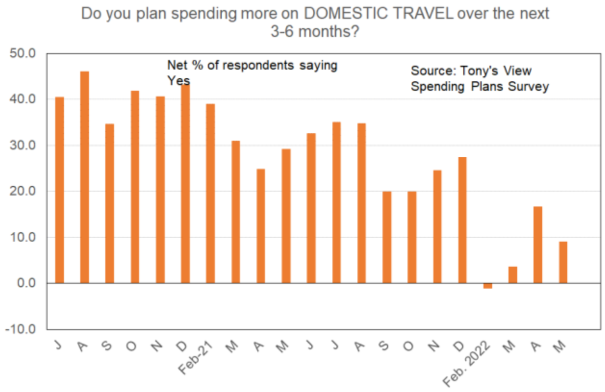
That is not the way we consider eating out now. But nonetheless, this is an early port of call for those looking to free up funds for higher bills elsewhere.

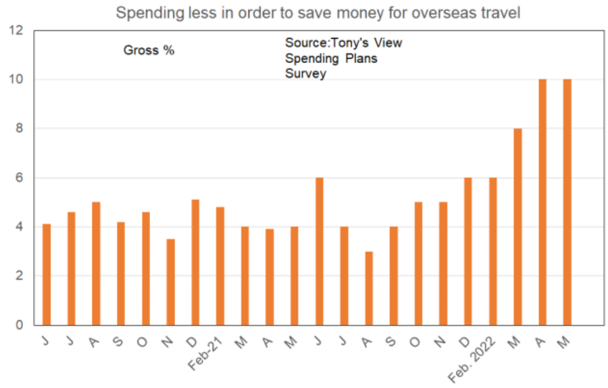
A net 25% of people plan reducing spending on eating out. Plans for eating out collapsed at the start of this year and have not improved to any meaningful degree despite the passing of most pandemic rules.



Domestic travel

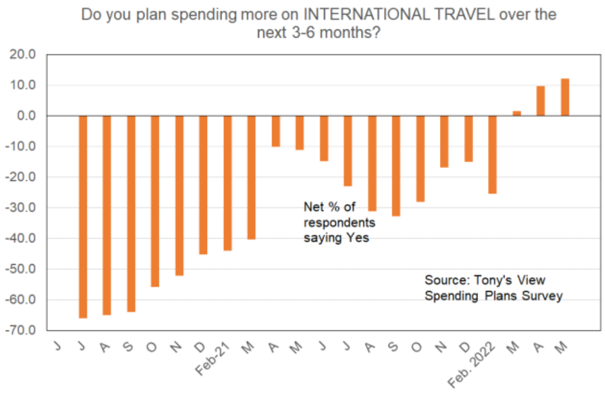
A net 9% of our respondents plan to increase their spending on domestic travel. This is a deterioration from April's net 17% positive result and the third lowest position since our survey started.





International Travel

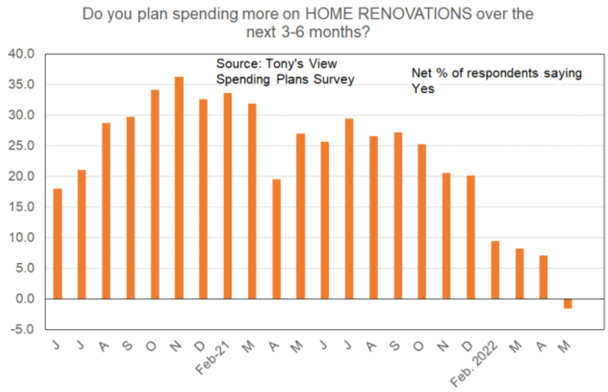
A record net 13% of people plan increasing their spending on international travel. This allocation of extra spending to something which tends to be relatively expensive and non-essential is likely to be actively taking money away from other areas of expenditure such as eating out, home renovations, etc.



In fact, a gross 10% of people say they are generally spending less in order to provide for offshore travel.

Home renovations

The home renovation boom sparked by the Covid pandemic is coming to an end. For the first time ever more people say they will cut spending on home renovations rather than increase it. This does not mean that operators in the sector will necessarily experience a substantial decline in orders in the near future. At this stage it seems reasonable just to conclude that the growth is over. Active decline however is highly likely before the end of the year.



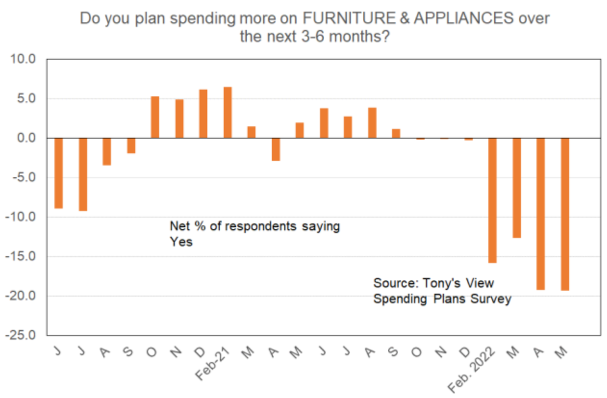
Household durables

We consumers don't have to buy a lot of the things we purchase when we do. We could have bought them earlier, and we can often buy them later. We base our timing of a purchase partly on how secure we feel about our future incomes and our potential need for spending elsewhere.

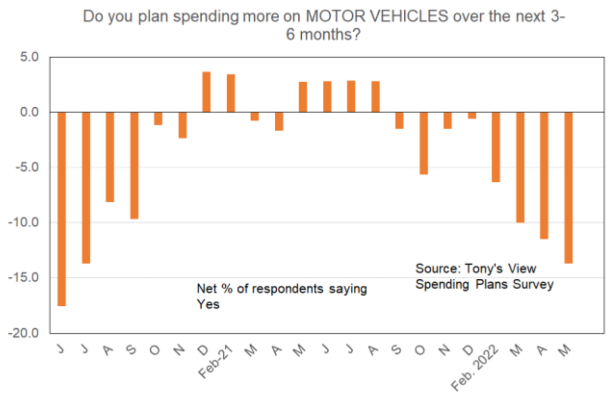
Currently, consumer sentiment is weak and there has been no jobs growth in New Zealand for six months. Interest rates are rising, house prices are falling, sharemarkets are weakening. This is the perfect environment for spending on goods considered as durable to be reined in – delayed to a later date.

Is this happening?

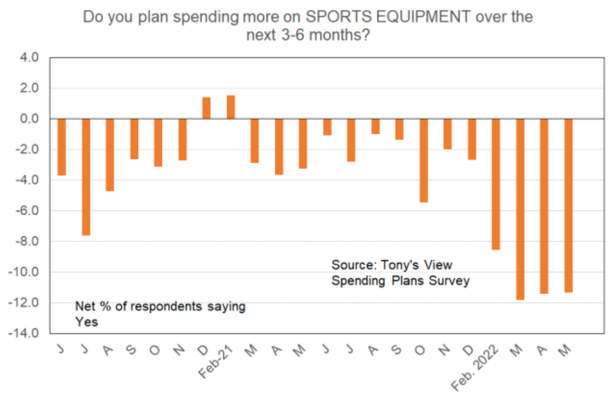
A net 19% of respondents this month have said they plan reducing spending on furniture and appliances. This latest weak set of intentions is in line with other months since the start of the year but down tremendously from all other months over the past two years. Retailers and local manufacturers of furniture etc. should anticipate weak sales for the rest of this year into 2023.

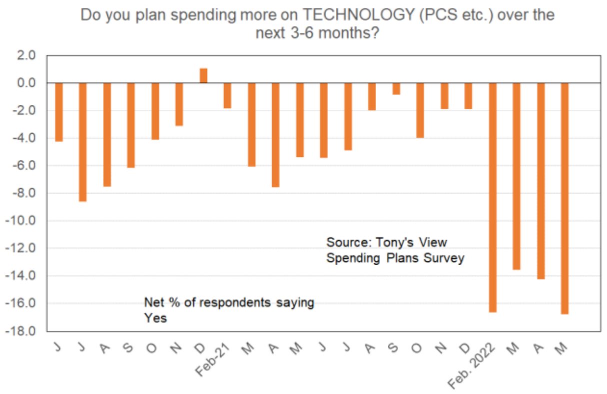


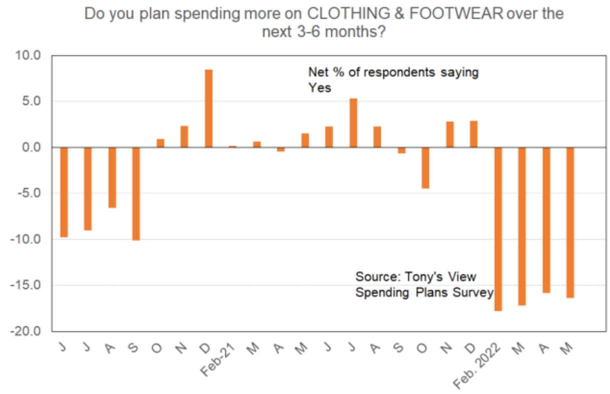
Prospects for motor vehicle retailers continue to worsen with a net 13% of respondents planning to cut their car spending. This is down from a net 12% last month and the weakest reading since July 2020.



Our plans for buying sports equipment are weak, as are our plans for spending on new technology.

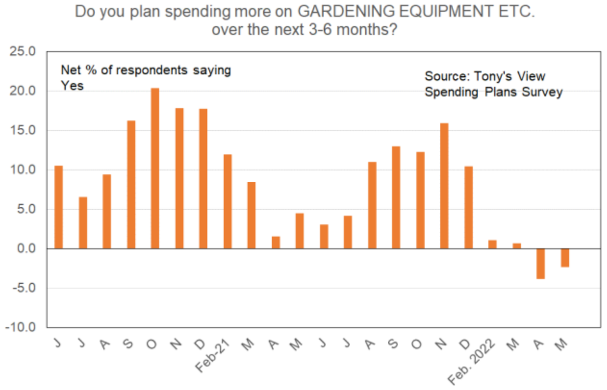






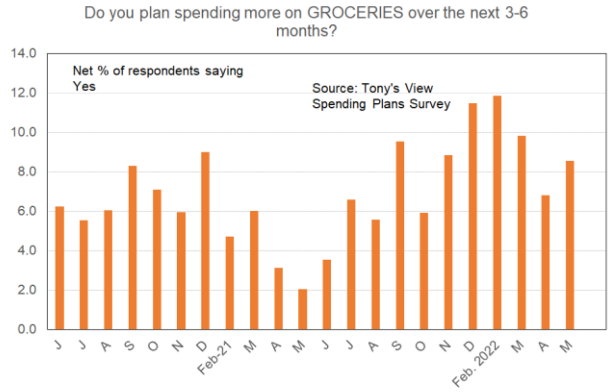
Discretionary spending

In times of belt-tightening people not only delay purchasing large, durable items, they also cut back on discretionary purchases such as already noted above for eating out. Domestic travel may also be getting caught by this tendency as well. Plans for spending on gardening equipment remain negative.



Spending on clothing and footwear is also being reined in.

Spending on groceries is expected to increase in the next 3-6 months and part of this will be a simple pricing effect.



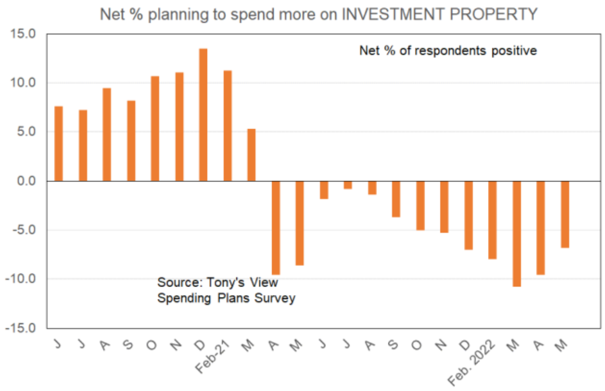
Housing indicators

The best coalface information on the residential real estate market which I can supply comes from my monthly survey of real estate agents with REINZ, and monthly survey of mortgage advisers with mortgages.co.nz

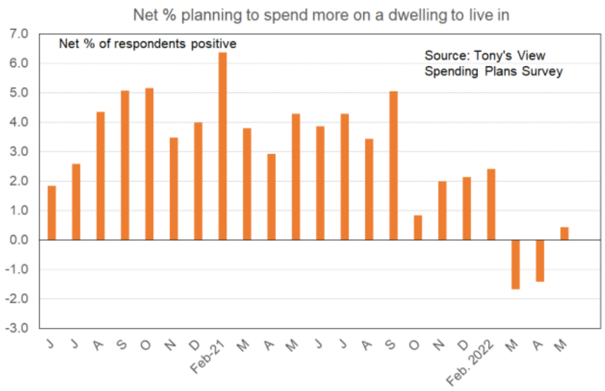
But we can supplement the many indicators from those two surveys with observations from my survey of portfolio investors with Sharesies, my survey of residential property investors with

Crockers Property Management, and this Spending Plans Survey.

A net 7% of respondents this month have said that they plan cutting back spending on investment property. This is consistent with results since December but well away from the positive readings we used to get before the tax changes announced in March last year. Note however the slight decrease in negativity underway.



When it comes to purchasing a house to live in a net 0.4% of people say they will spend more. This is a slight improvement from the previous two months and is consistent with data from my other surveys suggesting that the worst effects of the credit crunch have now passed.

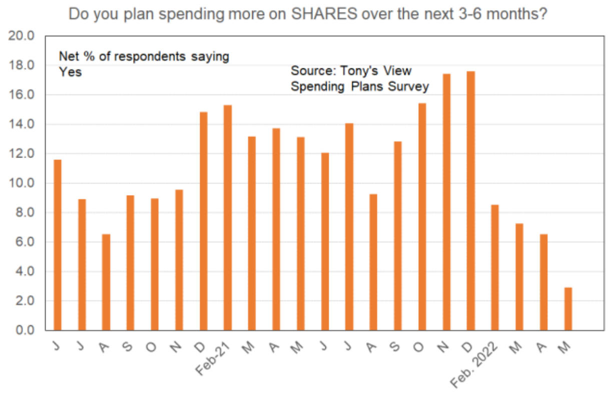


But demand from owner occupiers nonetheless remains fairly weak and nothing here is suggestive of a housing market turnaround upward in the near future.

Shares

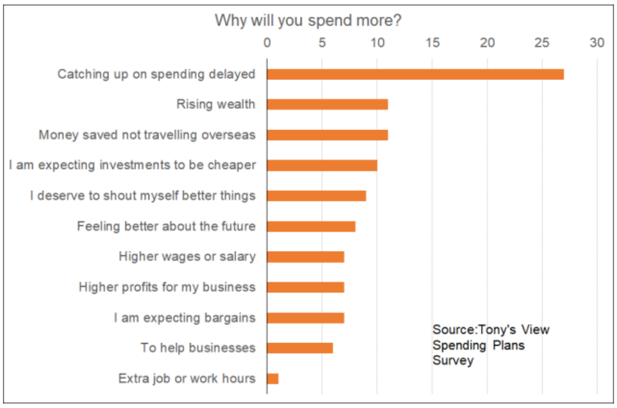
As noted last month, there are a lot of quite large negative factors in play for the world economy at the moment including China's ineffective approach to managing Covid which is newly affecting supply chains, and Russia's invasion of Ukraine which is causing disturbances in many markets.

Therefore, it is not too surprising that we can see a downward trend in the net proportion of people planning to spend more on shares in the near future. We can see the same thing in my survey of investors with Sharesies.

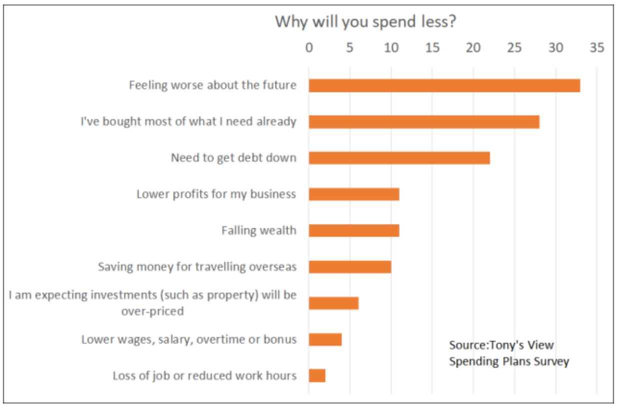


Why do you plan spending more or less?

Each month I like to examine the reasons why people indicate they might spend more or less, to see if there are some interesting outcomes which might be useful to businesses and even policy planners. Ranked by importance the reasons look as follows.

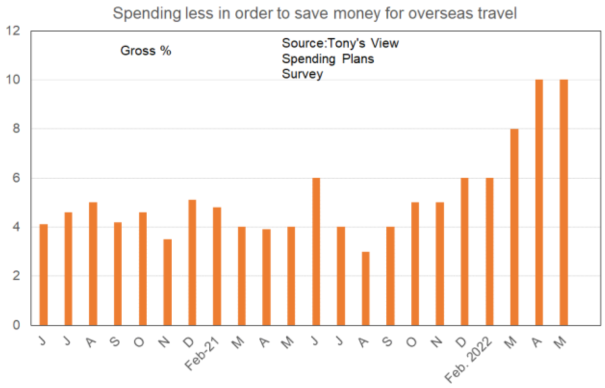


Similarly for spending less reasons.

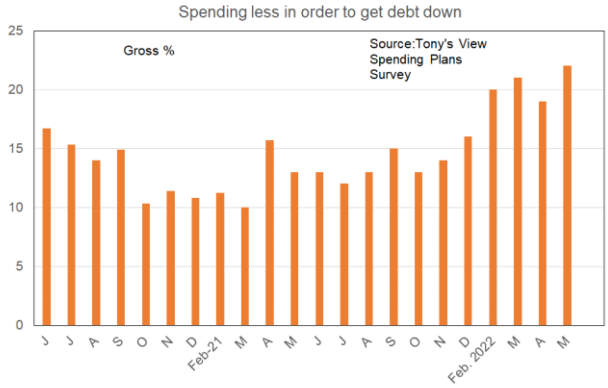


These graphs don't usually change much and for insights we need to look at the individual options, netting ups off against downs for some of them.

More people are putting money aside for overseas travel.

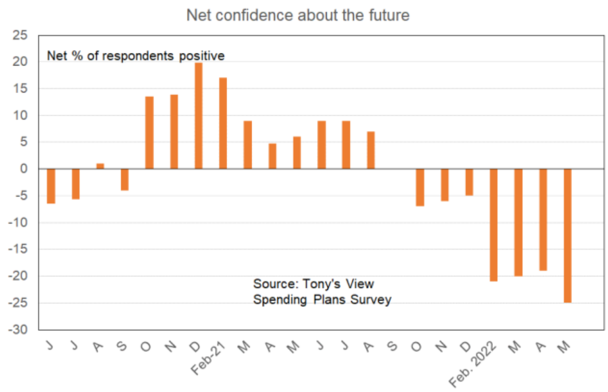


There is a mild upward trend in the proportion of people saying they will spend less so they can get their debt levels down. The levels don't seem all that high and that is why we note that there is more in play than just interest rates rising to explain the negative overall spending plans people have.

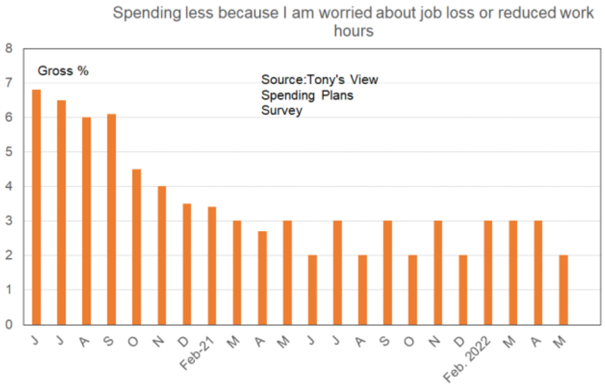


Wealth growth expectations have fallen away sharply since the start of the year now that house and share prices are falling. This is going to impact on consumer spending, just as central banks intend. The May 2022 datapoint is zero.

The confidence which people have about the future has fallen away. That probably helps explain why the political opinion polls are doing what they are doing.



Of importance is this graph showing no downward trend in the proportion of people saying they will spend less because they are worried about their incomes. This is how the current period of downturn differs from many in the past – job security is good.



Respondents to the survey were distributed by age as follows.

< 30 years	5%
31 – 50 years	34%
51 – 65 years	42%
Over 65 years	20%

Distribution by region was as follows.

Northland	2.0%	Tasman	0.8
Auckland	44.7	Nelson	1.3
Waikato	6.2	Marlborough	0.9
Bay of Plenty	8.4	West Coast	0.2
Hawkes Bay	2.9	Canterbury	11.1
Taranaki	0.9	Queenstown	2.7
Manawatu-Wang.	3.4	Otago ex. Q'twn	3.5
Wellington	9.2	Southland	0.8
Gisborne	0.5	Other	0.6

Total responses = 1,048

Links to publications

Tony's View Spending Plans Survey

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony Alexander Regional Property Report

Tony's Thoughts Vlog

REINZ & Tony Alexander Real Estate Survey

Crockers & Tony Alexander Investor Insights

Oneroof weekly column

Investing Insights with Tony Alexander

Handling high interest rates

Handling staff shortages

Handling high cost of living