TONY'S VIEW

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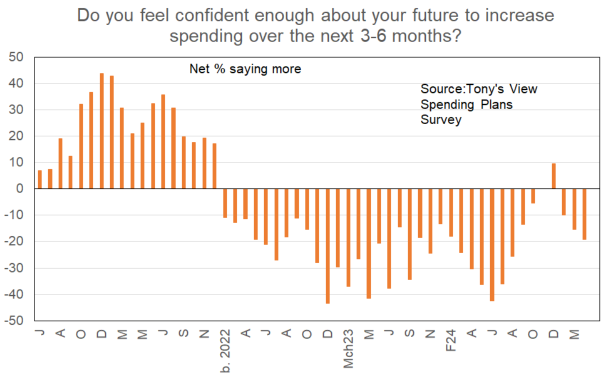
Outlook for retailers over 2025 remains poor

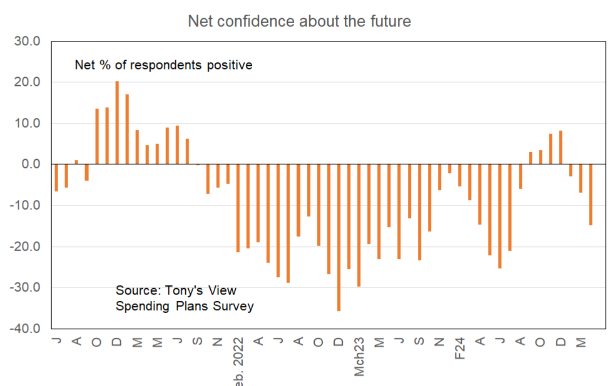
This week I ran my monthly Spending Plans Survey, and the results tell us that consumers in New Zealand are getting more pessimistic about the future as the year advances and their plans for spending are being reined in.

Last year the net proportion of consumers saying they would spend more on stuff generally over the coming 3-6 months hit a near-record low of -42% in the middle of the year. Then with interest rates falling a wave of happy feelings gripped people and by December a net 10% said they would spend more.



But in my first survey for the year at the start of February a net 10% said they would spend less. A month ago that reading worsened to a net 15% negative and in my latest survey this measure has deteriorated further to -19%.

A key factor behind this worsening trend is a deterioration in optimism about the future as seen in this second graph.



The latest reading is -15% from -7% last month and a peak of +8% in December. A net 4% of people now worry about where their wealth is headed from a net 10% feeling positive about such prospects in December. Note, all results

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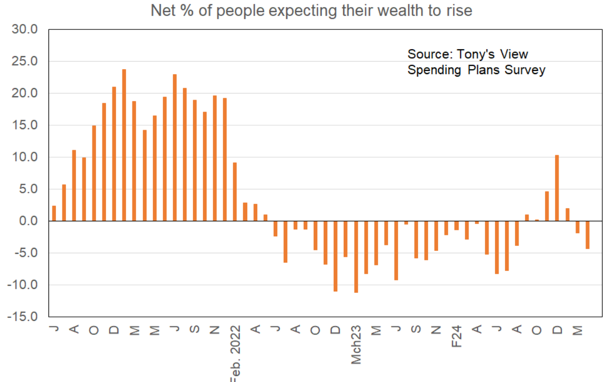
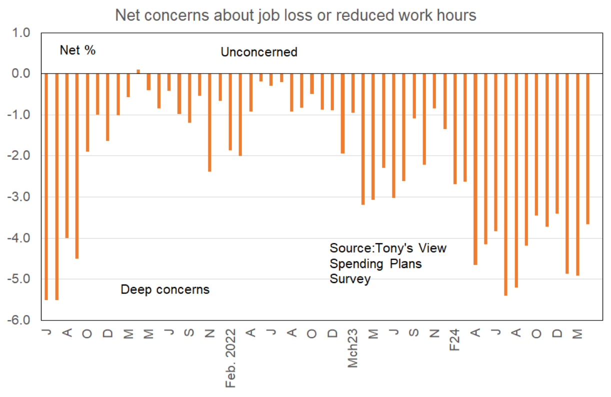
came in after President Trump's tariff announcement but before the rout in stock markets around the world.



I have highlighted these two factors behind the deterioration in sentiment at the start of this article rather than at the end because of this factor. There is no fresh deterioration in feelings about the labour market underway. The measure I create to measure this is minimally changed at a net -4% in April from -5% in March and -3% in December. It is the general environment in which people, their businesses, and the economy will be operating that has become of concern, not a round of layoffs.

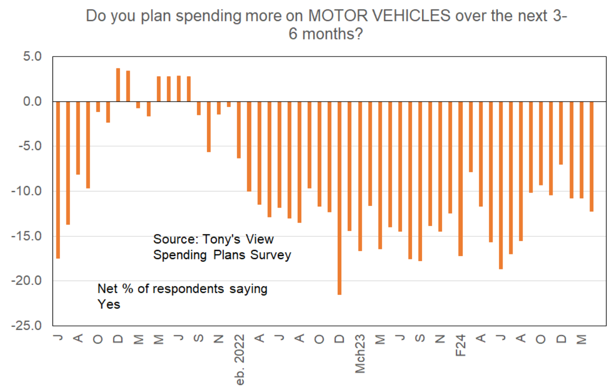


It's the "vibe" basically rather than the substance of personal concerns about borrowing costs and employment.

For retailers there is no good news here and all I can do is hope that people paid attention to the sharp warnings I gave in the second half of August and did not plan highly debt-funded expansions. Cash flow projections are not likely to be met.

Here are some of the spending indicators which I gather and which I know a good number of people like me to report when releasing the results of my Spending Plans survey.

First, the outlook remains poor for motor vehicle retailers with a net 12% of people planning to spend less in this area.



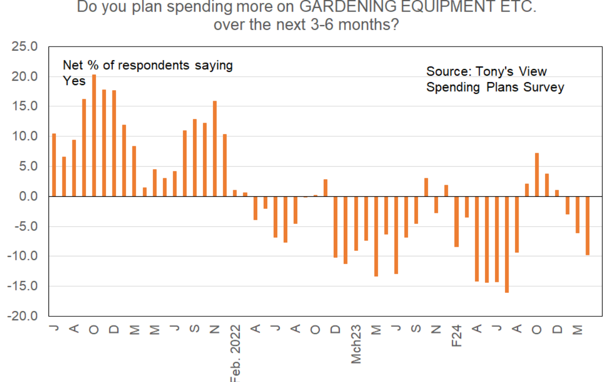
A net 19% of people plan spending less on furniture and appliances.

Do you plan spending more on FURNITURE & APPLIANCES over the next 3-6 months?

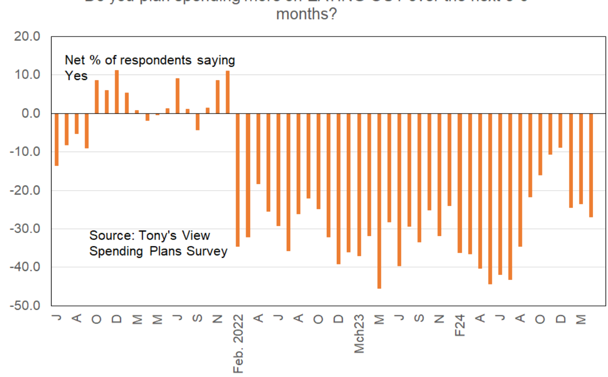
Net % of respondents saying Yes

Source: Tony's View Spending Plans Survey

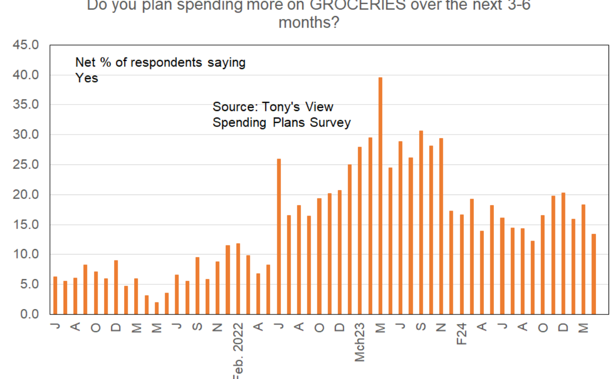
The surge in plans for spending on garden equipment and presumably plants proved short-lived and a net 10% of respondents plan cutting spending on their gardens.



Plans for spending on eating out have turned around quite a bit since December and the surge in prices of food and drinks consumed in cafes and restaurants may be a prime cause – it certainly is for me.

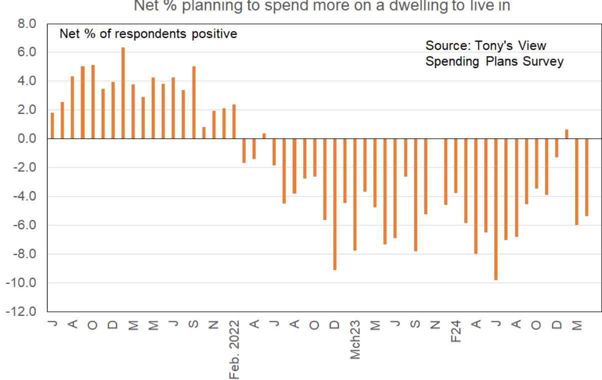


The outlook for supermarkets remains positive with a net 13% of us planning to spend more. That will be a function of expecting prices to rise largely but maybe a bit of extra spending to eat at home rather than at cafes and restaurants.

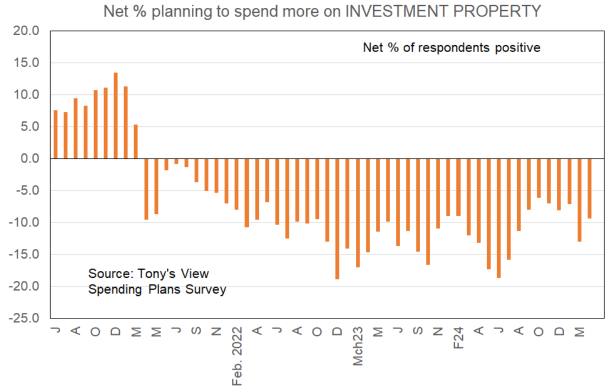


Housing outlook subdued

The two residential real estate measures I gather from this survey remain at weak levels. A net 5.4% of people plan cutting spending on a house to live in. Don't get hung up on what the number actually means but focus instead on the trend and whether things are getting better or worse. There has been a strong deterioration over the past two months. On this basis one could not say the housing cycle is yet kicking nicely upward.



For investors a net 9.3% of people from 13% in March say they plan cutting spending. The level of this measure remains poor and there is no improving trend underway. Some of the gains from July to October have been given back.



Overall, my Spending Plans Survey tells us that the outlook for our economy is subdued – as warned about in August. Consumer spending accounts for over 65% of total spending in a modern economy and if householders keep their wallets tight then the pace of growth in one's economy will be quite constrained unless there is a surge in exports. That is hard to see happening given the deteriorating international trade environment.

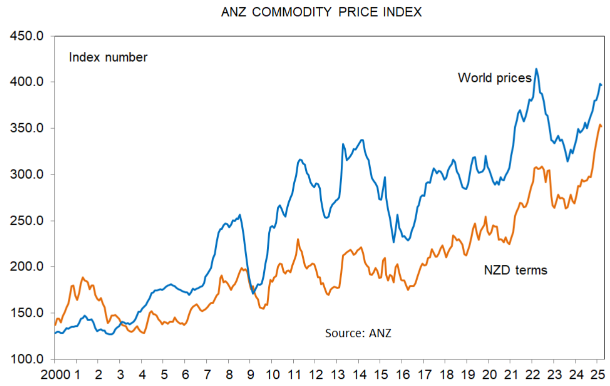
Impact on NZ of the tariff war

I have held off recently writing anything about the US-initiated global trade war because of the sheer lack of knowledge about what the US would do and how other countries would respond. And how the US then responds. And how other countries in turn respond. And so on.

But here are some general thoughts which I give for the record only but frankly consider to be a general waffle leading to no real conclusions beyond a recommendation to be cautious as high uncertainty is going to be with us for some time.

- Slightly slower NZ growth.
- Slightly higher NZ inflation.
- Slightly higher NZ interest rates, or lower.
- Uncertainty is very high and that will retard business investment and consumer spending.

Let's start with something positive. We are currently receiving good prices for the key goods we ship overseas with the ANZ Commodity Price Index in NZ dollar terms ahead about 23% on a year ago. The index level is shown as the orange line in the following graph. The surge is good for our economy though it places upward pressure on domestic food prices.



This means that as world growth slows to something less than it would otherwise have been we will be negatively affected but not to a large degree. We might expect slightly slower growth in inbound visitor numbers because of weakness in other countries. But the bigger issue there is

getting our far flung country back on their list of travel destinations rather than the small changes in world growth prospects.

We can expect to see higher inflation in New Zealand than would otherwise be the case. This won't be because we will place new tariffs on imported goods from the US because we will not. Instead, the goods which we import from overseas will be more expensive in many cases.

Goods we bring in from the United States will cost more to produce there than before as some of their components will have been imported into the US, incorporated in the final product, then shipped out to us and the rest of the world. One clear impact of US tariffs will be reduced competitiveness of US goods in other markets. Their exports will suffer.

Similarly, goods which we import from other countries will in some cases contain US parts or parts from local factories which use US inputs. Higher input costs for them will mean higher imported goods prices here. This is important because falling prices for our imports have been a substantial driver of our lower inflation rate.

President Trump's hope is that businesses will shift production back to the US. They will only do that if they expect the tariffs to remain. But if they anticipate the eventual return of a Democrat President to lead to them being unwound then the investment will not be undertaken.

In this way tariffs negatively impact global productivity which is a similar thing to saying they raise inflation and make people poorer than would otherwise be the case.

One final thought. Most of what we send offshore comes from the primary sector, is minimally processed, and buyers are used to high price fluctuations. They will interpret the coming 10% price hikes in the US as just another fluctuation and the impact on volume demand will be constrained. The same will not be the case for our manufactured exports and those are the ones most at risk – not beef and wine.

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If I were a borrower, what would I do?

Uncertainty has sharply increased. Accepting that situation is vital because it leads to some clear conclusions. First, medium to long-term fixed mortgage rates become more valuable as they remove one potentially very volatile element in one's cash flows and leave space and energy for managing other impacts of the changing environment.

Second, well it may be too late for you to do anything about this one. Mr Trump is a known quantity. He is a source of instability and represents extreme risk. Equities are financial assets which are highly sensitive to changes in risk assessment. It is surprising that global share markets failed to take this into account when he was elected.

The Dow Jones Industrials Index stood at 41,800 the day before the US Presidential election last year. It then rose to a peak of 45,000 one month later and was still at 44,600 in the third week of February. The fall now will be a shock to many people. But adjustment to heightened risk from a known source of instability was going to happen at some stage.

When will the uncertainty end? Not before his second term expires, I suspect. Does that mean equities keep weakening? No. It just means the discount to reflect heightened risk will be with us for the next three and a half years at least.

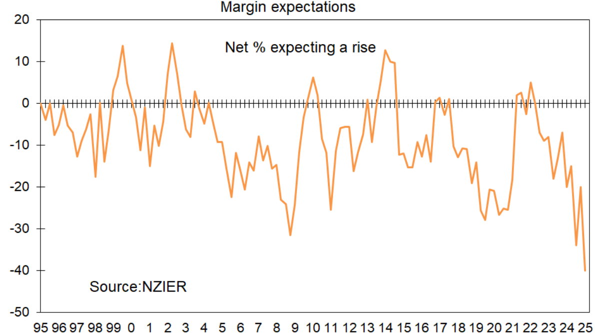
The main influence on wholesale interest rates this week was the decline in US rates as markets more strongly factored in the risk of a recession in the US economy. But there was also some mild downside pressure from the NZIER's Quarterly Survey of Business Opinion which was released on Tuesday. All results were collected before the April 2 announcement of US tariffs so there is no point in undertaking any deep analysis of the results. However, one thing they do clearly show is the extreme margin pressure which businesses are under.

On average since 1992 a net 21% of businesses have said they plan raising their selling prices in the coming three months. In the December quarter the outcome of the NZIER survey was a below average net 15% planning to raise their prices. That provided easy justification for loosening monetary policy.

This quarter only a net 2% said they plan raising their prices. At face value this suggests a high risk of inflation falling to settle below 2% and the need for a quick cut in the cash rate to below 3%. Borrowers might rejoice.

However, there are cost pressures to consider – pressures which will one day manifest themselves as higher prices. On average a net 29% of businesses say they expect their costs to rise in the next three months. In the December quarter this proportion was 35%. Now it is higher at 42%. We would not expect to see this happening if underlying inflationary pressures in New Zealand were easing.

This graph shows the quarterly difference between the pricing and cost expectation measures. The graph starts in 1995, but the latest result is the worst on record going back to 1970.



This series strongly tells us cash flows will be bad for many non-rural businesses this year. More liquidations are coming. It also tells us inflation risks lie on the upside further out where monetary policy is aiming (18-24 months from now).

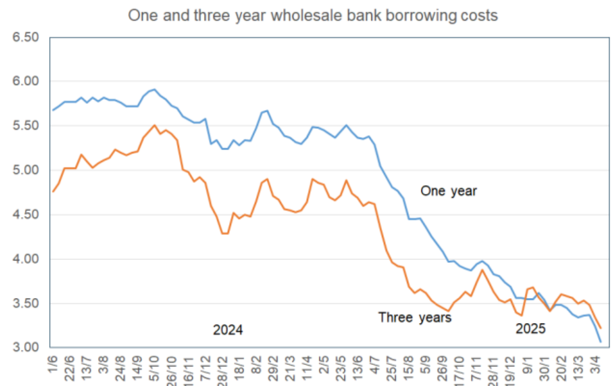
And so, with all this uncertainty swirling around and with contradictory inflation portents contained in the NZIER's survey (capacity measures are low), the Reserve Bank have had to make a monetary policy decision. When times are this uncertain it is not a good idea to make big changes. So, it is unsurprising that the Reserve Bank stuck with their previously indicated track and cut the official cash rate by 0.25%.

The only real "news" in their release was a focus on their ability to cut the OCR should the deteriorating international economic environment warrant it. They did not discuss raising the cash rate should the environment spring the other way.

As it is, overnight the US President announced a 90 day pause on the over-10% tariffs apart from China which has placed an 84% tariff on US goods and the US has responded with a 125% tariff in total.

The deterioration in the US-China relationship is cause for concern and leaves a mild downside bias to all our interest rate forecasts for now. Having said all of that (and in 24 hours who knows what extra can be added to the mix), we find that wholesale interest rates in NZ initially rallied during the week then sold off this morning.

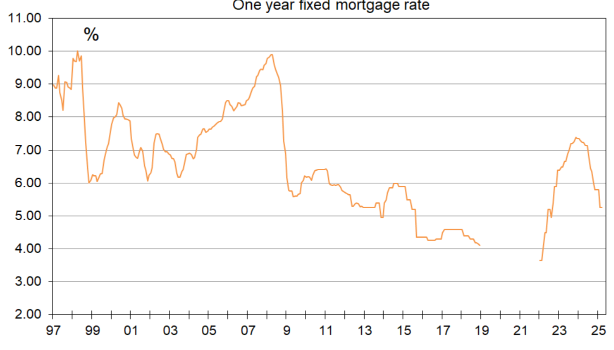
The one year swap rate at which banks borrow to lend at a one year fixed rate to you and I has fallen to near 3.07% from 3.24% last week and 3.5% just before banks reduced their one year mortgage rates to 5.25% from 5.49%. The three year swap rate has fallen to near 3.22% from 3.34% last week and 3.5% just before mortgage rates went from 5.59% to 5.29%.

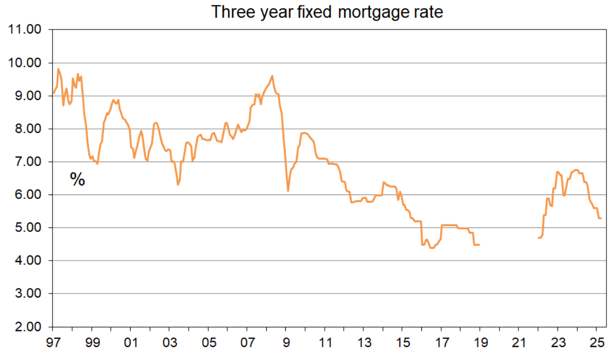


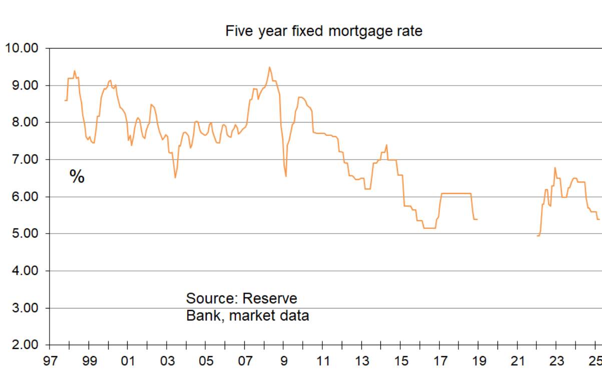
It looks like scope exists for a cut in the one and maybe two year swap rates. Beyond that will depend upon whether banks feel they might gain some competitive market share by discounting their three year rate.

If I were borrowing at the moment, I would probably fix two years at 4.99% but might wait a bit in case the 4.99% three year rate were to return again.

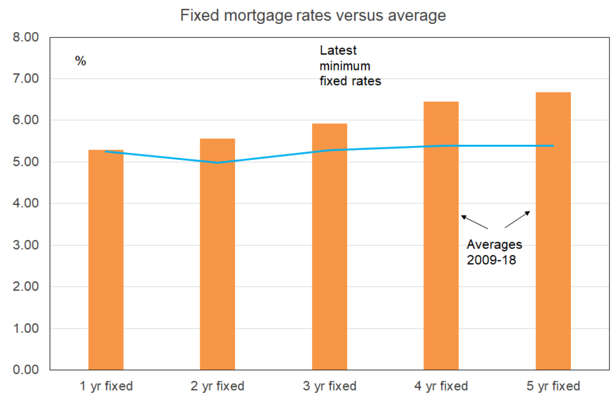
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







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



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

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