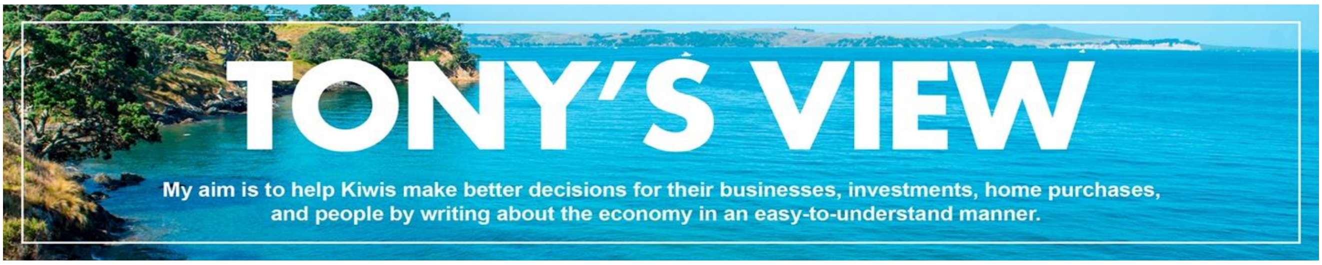

Input to your Strategy for Adapting to Challenges

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ISSN: 2703-2825 10 September 2026
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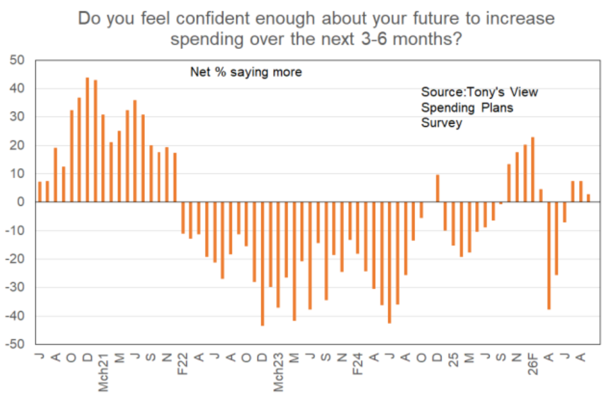
Mild improvement only in retailing ahead

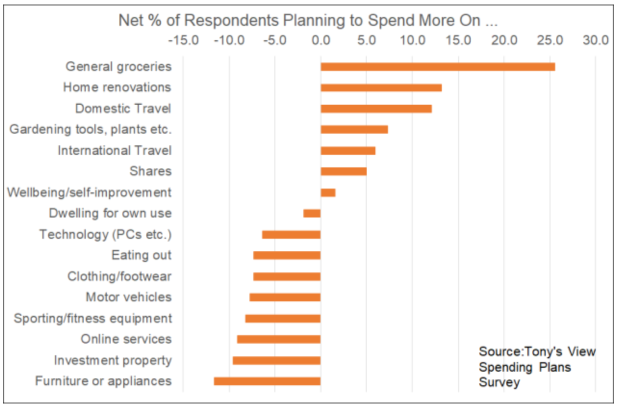
This week I have run my monthly Spending Plans survey which gives insight into whether or not more spending is likely to be undertaken by householders in the near future. The main result looks fairly much the same as in the previous two months.

A net 3% of the 394 respondents have said that they plan spending more on stuff generally over the next three to six months. The August and July results were both 7% and statistically speaking all three are the same.

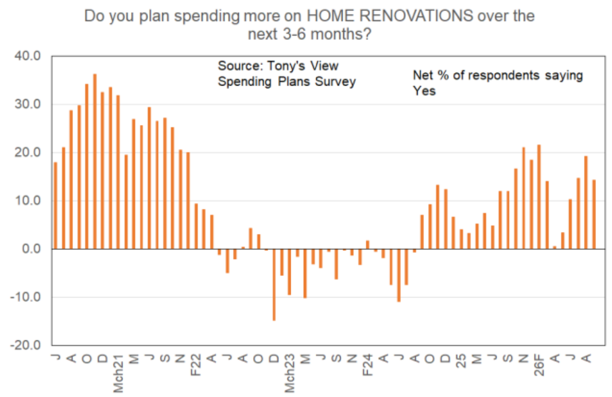


There has been a recovery in our willingness to spend since the war shock earlier this year led to a net 38% of us saying we would cut back on buying things.

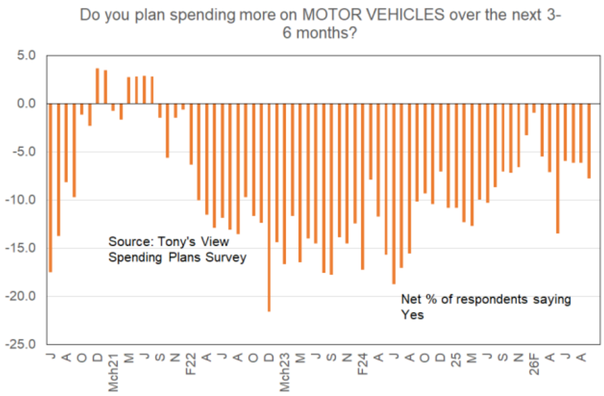
There are seven areas in which we plan spending more ranging from the obvious one of groceries (we expect them to be more expensive) down to wellbeing services.

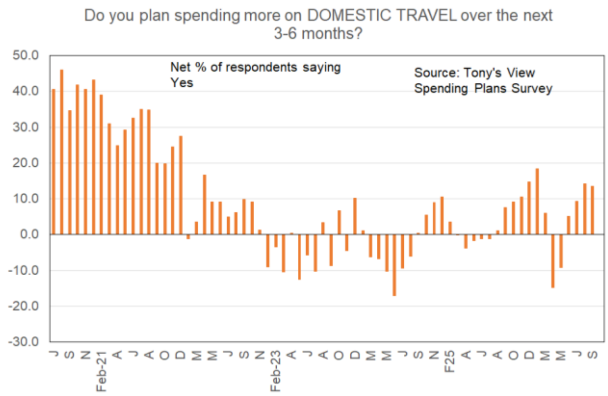


Prospects for businesses involved in home renovations remain very good with a net 13% of us versus 10% on average saying we will spend more on doing up our houses.



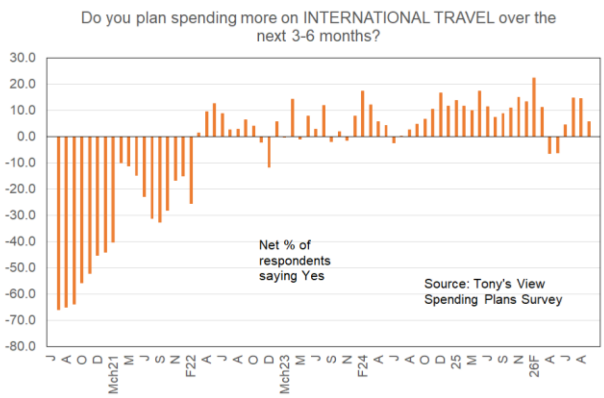
An area of spending even more above its average is Motor Vehicles. While a net 8% of us say we will cut spending on our cars, this is 8% better than the average reading over the past six years.





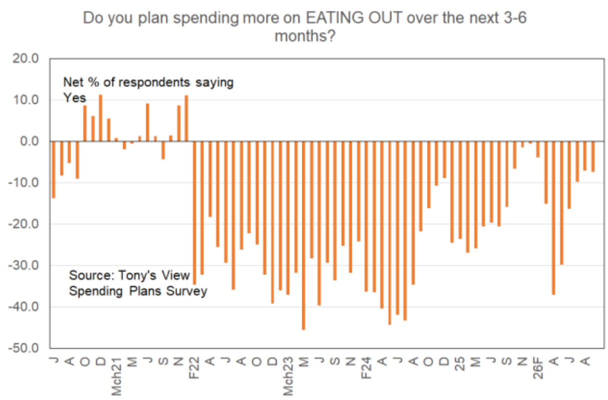
At some stage, maybe soon, I will make an average calculation which excludes the covid boom then bust period of 2020 – 2021. From that I might develop some new graphs which give superior insight into how weak or strong conditions may really be for the different categories which I ask people about.

When it comes to travel, we have positive plans to fly offshore or travel around the country.

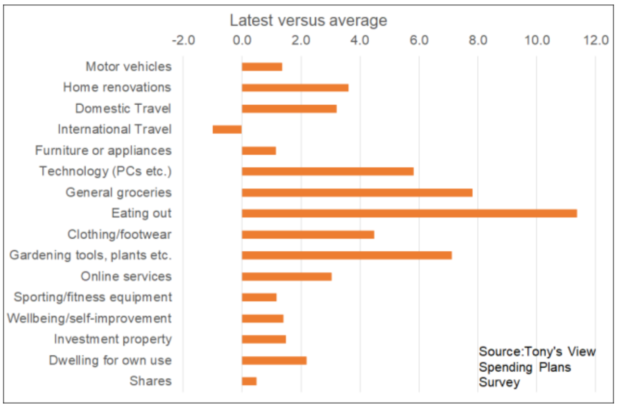


The domes travel upturn recently looks to be more than a seasonal thing so that is good for the motel etc. sector along with hospitality.

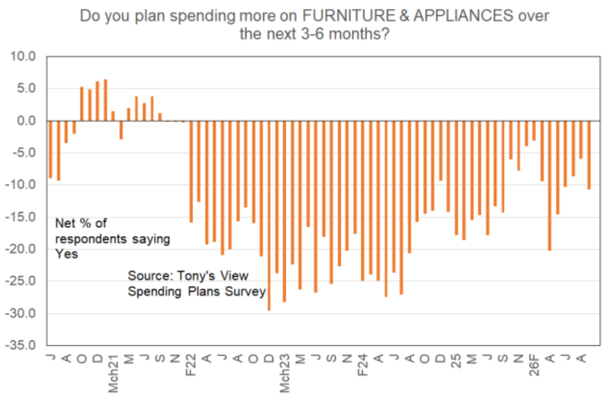
Speaking of hospitality, the category with a reading most above average is Eating Out. The reading is a net negative 7% but the average is -19%.



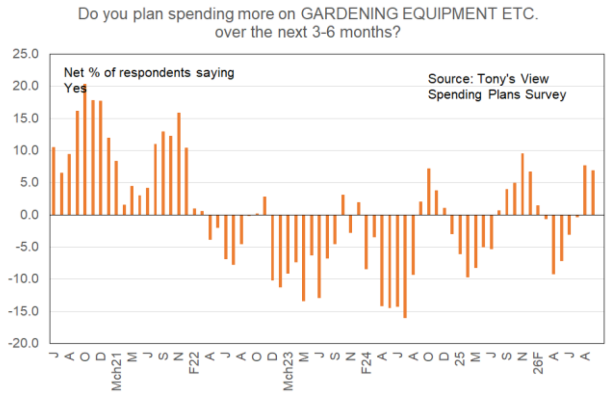
In fact, here is this month's version of the graph I introduced last month showing how spending plans for each category compare with their average. International Travel has the weakest outlook relative to the six year average.



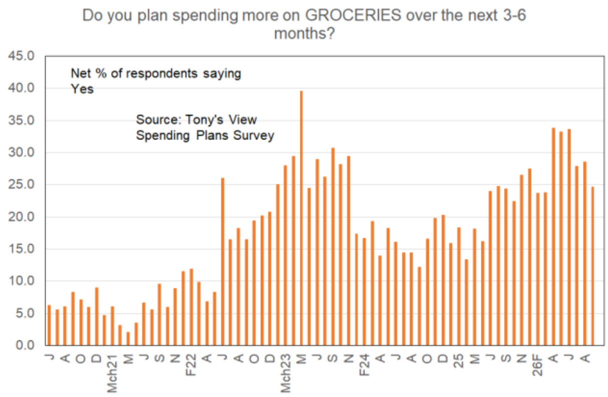
There has been a slight step back this month in our plans to spend on Furniture and Appliances.



But the outlook for garden centres looks to be improving in more than just a seasonal manner.

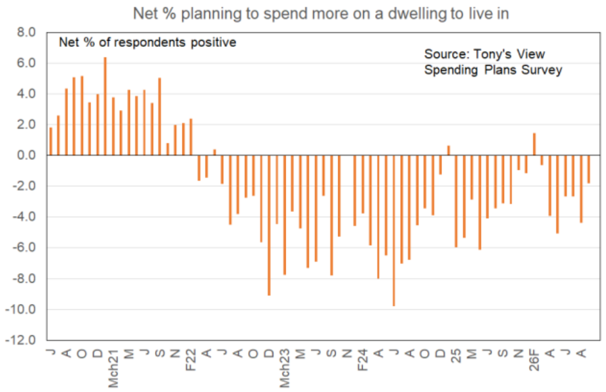


Plans for spending on Groceries are trending downward, perhaps reflecting a slowing in the pace of price increases or increase expectations.

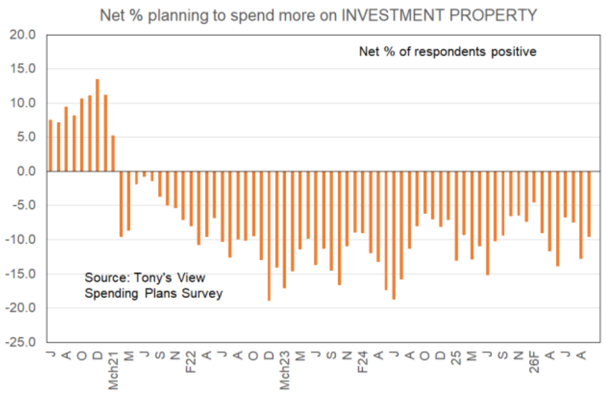


Something interesting has happened with the two housing gauges. Both have improved quite a bit this past month despite the recent tightening of monetary policy and increased awareness of falling prices.

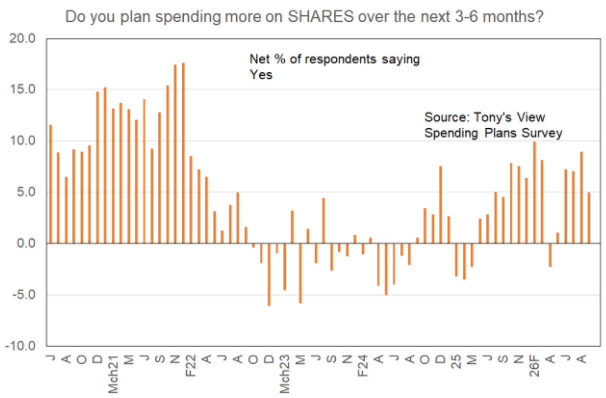
The net proportion of people planning to buy a house to live in has improved to a six month high of -1.8% from -4.4% last month.



The net proportion of us planning to buy an investment property has improved to -9.6% from -12.8% though this reading is less relatively firm versus the past few months than the one for owner occupancy. This tells us that the housing market heading into summer is still likely to be one dominated by owner occupiers rather than investors. Such is the new norm.



Finally, our plans for buying shares are running near average and have weakened this past month.



All up, the results are consistent with a positive outlook for growth in consumer spending but definitely no boom. Retailers are still likely to remain relatively challenged.

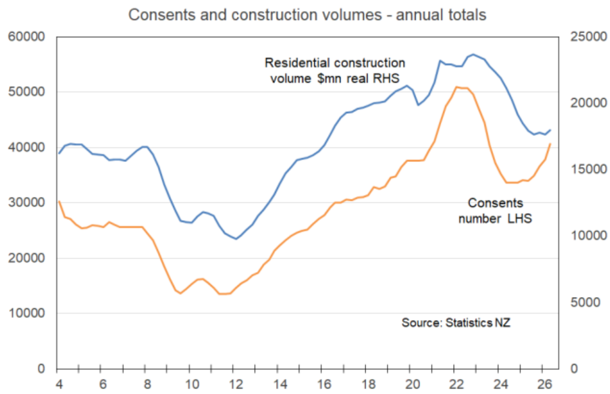
Rising house construction

One of the curiosities afoot currently is the soaring number of dwelling consents issued this past year not translating into a strong upturn in actual construction. At least that is how things seem to be.

But this week Statistics NZ released the official gauge of the volume of construction work undertaken around the country in the form of the Building Work Put in Place data collection.

In the year to June while the number of dwelling consents rose by 21% the volume of house building undertaken rose just 0.3%. But of course there is a lag between a consent being issued and work being undertaken.

We can see this lag at work in the following graph which plots the annual volume of work done as the blue line and the annual number of consents as the orange line.



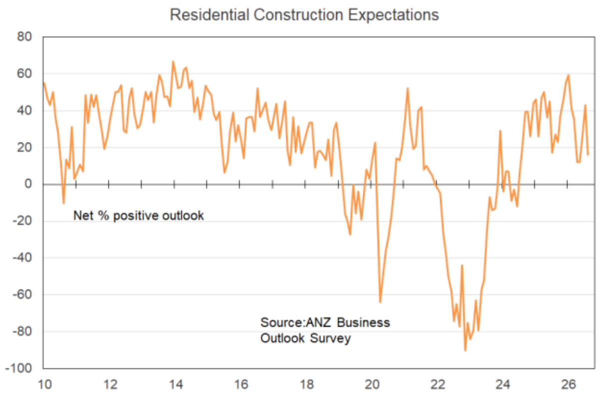
Consents have turned up strongly but the lag to construction improving seems longer than usual. However, it may be starting.

In seasonally adjusted terms the volume of house building work undertaken rose by 4.8% in the

June quarter after falling 0.1% in the March quarter.

It would be unwise to blindly extrapolate this quarterly growth into the future because the data are quite volatile. But if you are a glass half full person as I am then an interpretation one can take is that the construction upturn has started. We shall see.

Builders themselves are reasonably confident that better times lie ahead. From the ANZ's monthly Business Outlook survey released a week and a half ago we see that in the early part of August a net 16% of builders expected more residential construction activity.



The shock following onset of the Iran war has not entirely dissipated.

My outlook is a positive one for the residential construction sector but not to the degree suggested by the past year's 21% rise in consent numbers to their highest level since 1973 excluding the pandemic boom.

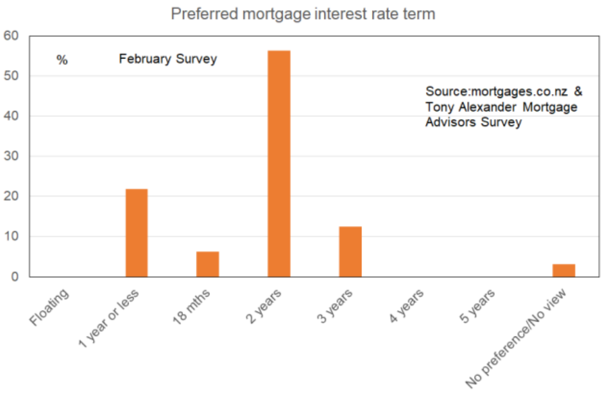
If I were a borrower, what would I do?

I remain concerned that people including those at the Reserve Bank are underestimating inflationary pressures over 2027 and 2028. It is brave to expect inflation to fall as the pace of economic growth accelerates while productivity levels are falling and global inflation is lifting.

More than that, the underlying inflation starting point for the cycle between 2.5% and 3.0% depending on your measure is high considering the unemployment rate is 5.6% and most businesses for the moment lack pricing power.

Add in rising costs associated with the AI boom (electricity, computer chips and therefore most modern electronic products), rising council rates and especially water charges, plus higher costs being promised by some key contenders in the general election. Let's not forget upside risks to food prices from El Nino and bird flu.

There is no need to panic but I would seek insurance against the upside risks by fixing for a term most people have little interest in according to my monthly survey of mortgage brokers with mortgages.co.nz Namely, three years. Good luck borrowers increasingly favouring the cheapest option of one year. You'll need it. Ask those who took the one year candy back over 2020-22.



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.