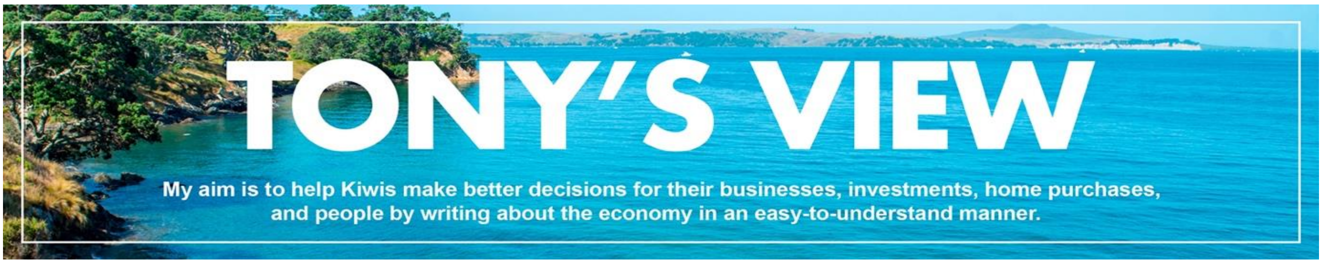

Input to your Strategy for Adapting to Challenges

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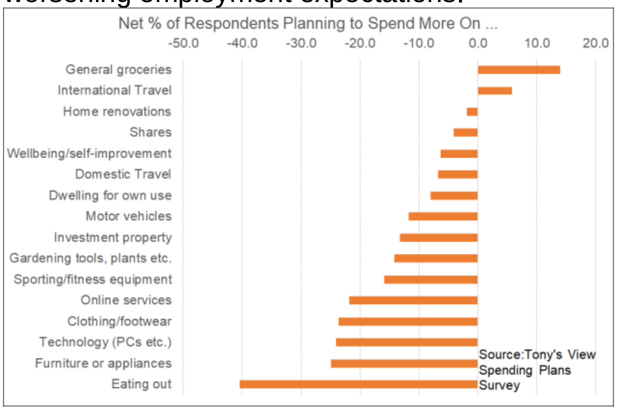
More evidence of economic retrenchment

This week I ran my monthly Spending Plans Survey, and the results add to the growing list of reasons for believing monetary policy tightening has gone too far and a period of quick rate reductions will eventually arrive – one day.

A net 30% of the 538 people responding in this month's survey have said that they intend cutting back on their spending over the next 3-6 months. This is a deterioration from a net 24% in March and the weakest result since September.

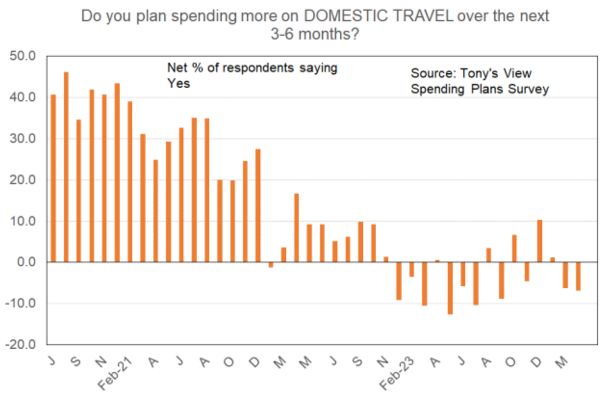
The trend change in this measure is shown quite clearly by the black two-month moving average line in the above graph. Things have become worse since February and the outlook for retailers therefore is also worse.

There are only two areas in which people plan to spend more money – groceries and international travel. The first is a reflection of higher prices and clearly is not voluntary. The second is voluntary and comes about despite some higher prices. In the face of tight economic times and depressed sentiment people are determined to travel and by the looks of the negative readings for spending on other things we will sacrifice in other areas to do so. This is a new reality which retailers have to grapple with on top of the cyclical negative of high interest rates and now rising unemployment with worsening employment expectations.



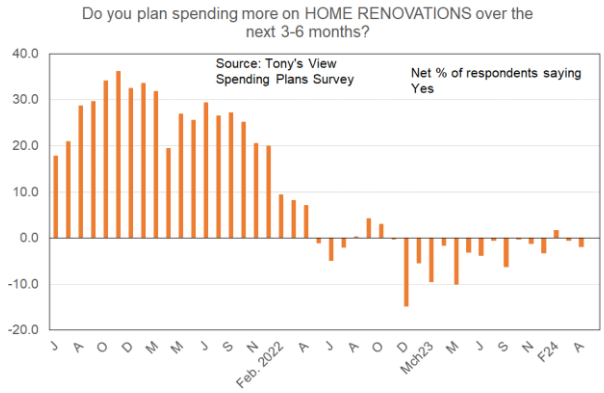
At least the desire to travel outside NZ is not increasing.

The desire for domestic travel remains negative.

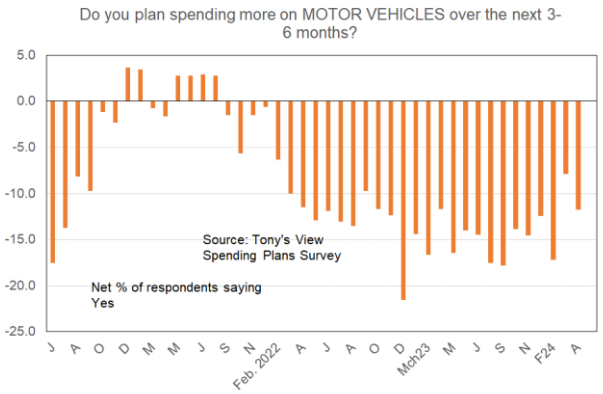


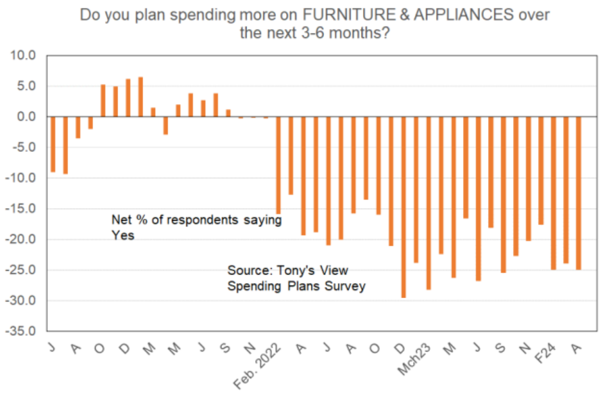
Presumably there is a similar profile of travel desires in other countries and that then becomes a positive for our export earnings, BnB operators etc. as more foreigners come to visit here. That will be a useful offset to the weakness of China's economy which has depressed prices for some of our key commodity exports. Why don't we hear more from farmers and economists about this export earnings weakness? Because the NZ dollar is low and that acts as a strong insulating factor.

For the part of the economy dealing with renovations of homes there was a boom during the pandemic. That boom ended right at the start of 2022 and is not coming back. I would expect things to worsen through the rest of this year even though a few older people enjoying higher earnings on interest-bearing deposits may financially be in a good position to get some work done. Their plans for doing so will be limited however by their memories of hard times in the past and the lessons learned of exercising restraint even if cash flows are good for a while.

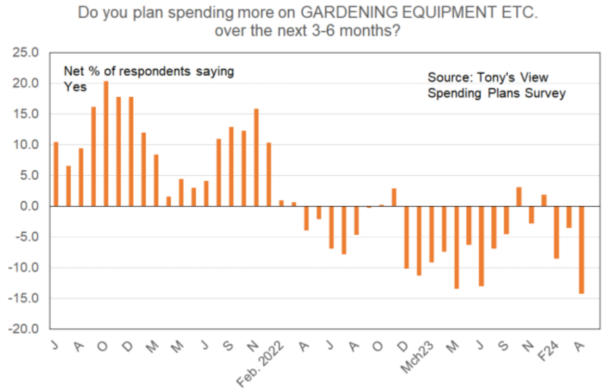


For spending on durables like motor vehicles and furniture the outlook remains ugly, and I would expect extra deterioration as the unemployment rate rises and before monetary policy becomes solidly easier.

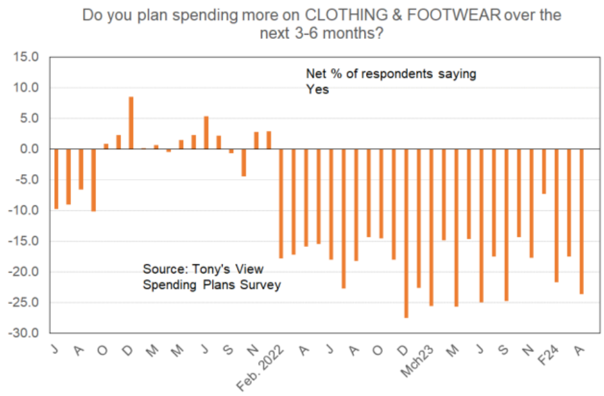




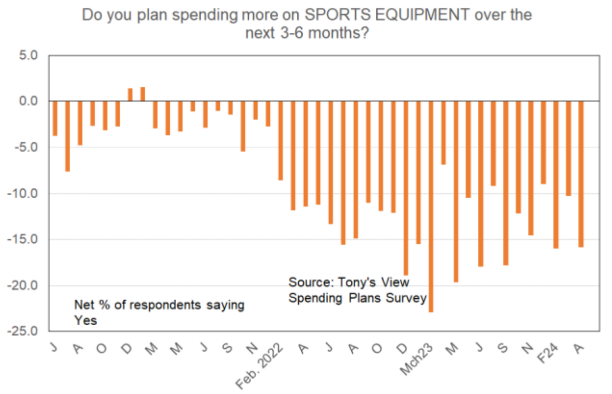
In the gardening sector there is usually a Winter deterioration, but this year's looks deep.



Plans for spending on clothing and footwear remain highly negative as people look to cut back on discretionary spending. One might think the need to wear clothes can hardly be considered discretionary. However, this is an age of disposable clothing, and chances are most people have a lot of old stuff they can drag out and wear again for a while, perhaps citing the desire for a retro look – pandemic retro, or pre-pandemic retro maybe.

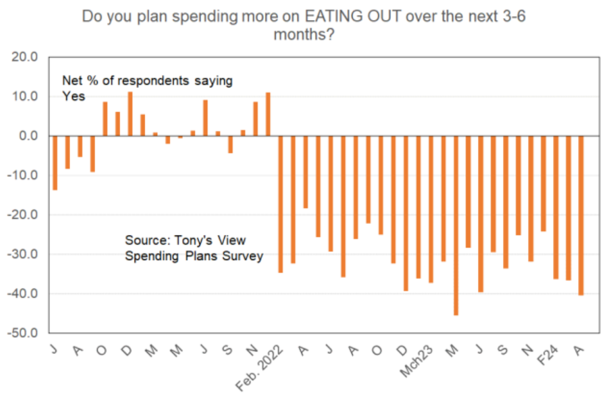


For the sports equipment sector of retailers' prospects are bad.



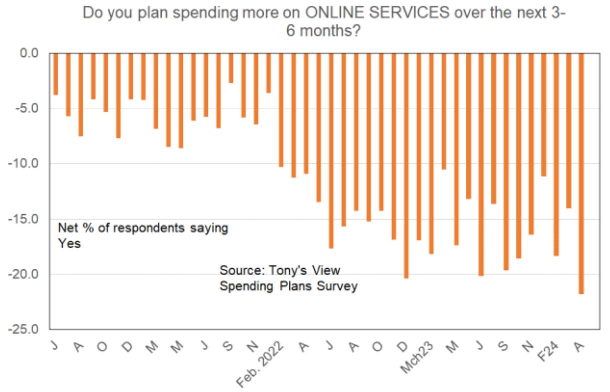
In the hospitality sector the situation looks exceedingly negative based on the next graph of spending intentions. But it can depend on the type of people who form your client base. Young couples in their 30s – bad due to debt servicing pain and now employment worries.

Young singles who are renting – less bad but still poor because they've never seen an economic shock which doesn't involve everyone pulling together for the betterment of the whole community. This is not an inclusive downturn like we treated the pandemic. For a monetary policy-induced economic decline you're on your own.

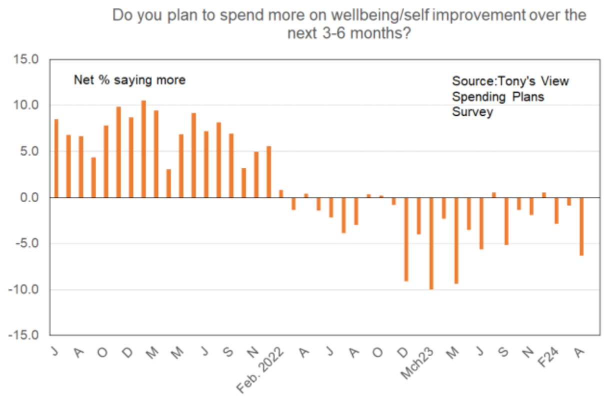


If your clientele are mainly older people, you could be doing quite well.

I guess people are doing more assessments of how much money has been getting spent on the plethora of online services now available. Strong cutbacks are planned.



In the self-improvement/wellbeing, trying to feel good about yourself sector, restraint kicked in from late-2021 when the credit crunch hit.



That's enough to depress everyone for this week. Next week I will look at the two housing measures and examine some of the factors behind the poor readings discussed here.

In case you missed it

On Tuesday I released the results of my latest survey of real estate agents undertaken with sponsorship from NZHL. The results clearly show new weakness running through the sector with buyers worried about their employment, listings rising, and investors unmotivated despite tax changes. A buyer's market is solidly back in place.

NZHL-Property-Report-March-2024.pdf

If I were a borrower, what would I do?

The Reserve Bank reviewed their 5.5% official cash rate yesterday and as was universally expected in the markets left it unchanged. Was there any sign in the accompanying statement indicating a shift in their thoughts about inflation prospects expressed most recently in their Monetary Policy Statement and cash rate review of February 28? No.

Despite this wholesale borrowing costs have increased this week in response initially to stronger than expected employment data in the United States then the third upside surprise in their monthly inflation measure in a row. Analysts are reassessing the likely speed with which the Fed. will cut interest rates in the coming year and that is something which may influence our central bank thinking, principally if the Kiwi dollar falls away further against the greenback.

The one year swap rate at which banks borrow fixed to lend fixed for one year has ended near 5.37% from 5.3% last week and 5.34% pre-Christmas. The three year swap rate is near 4.64% from 4.55% last week and 4.48% just before Christmas.

If I were borrowing at the moment, I would take a mix of 6 and 12 month fixed rates and expect to make a similar decision in 6-12 months time.

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.