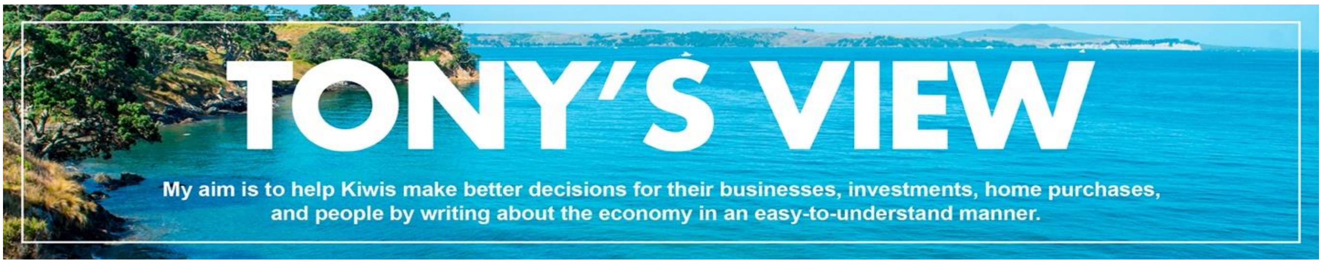

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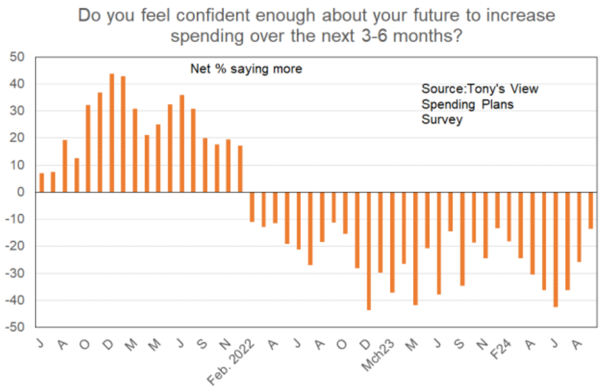
Consumer pessimism eases again

This week I ran my monthly Spending Plans Survey which aims to give retailers some insight into what levels of activity they might reasonably expect in the near future.

In calendar 2023 the worst reading came in May with a net 42% of people planning to reduce their spending over the following 3-6 months. Then in association with improvement in the housing market we saw this change to just a net 13% expecting to cut their spending in the December survey.



After that things got bad once more for the many reasons I have discussed here since the June quarter. They include the loss of job security by young people, loss of spending power by older people hit by soaring council rates and insurance premiums, pressure from the IRD on small and medium sized businesses, the using up of cash reserves built up during the pandemic, and new worries about interest rates from early-February when one group of forecasters predicted another 0.5% worth of hikes.

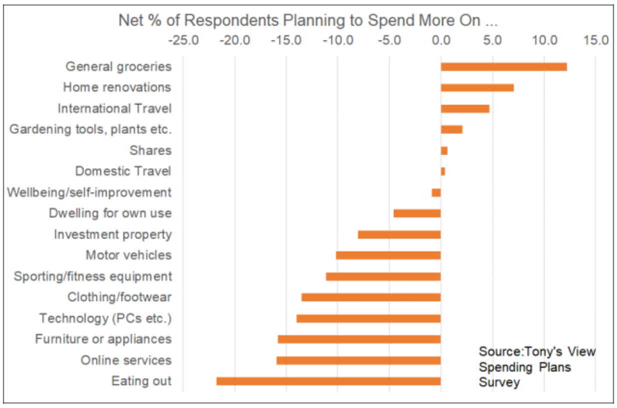
Come June a net 42% of my survey respondents were once again saying they would be cutting their spending on stuff generally in the next 3-6 months.

Now, in line with some rather sharp improvements in business sentiment recorded in one or two surveys, a net 13% of the 837 respondents are once again saying they will cut their spending.

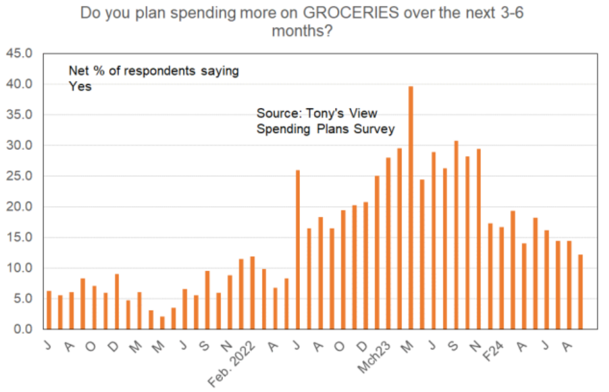
Whereas last year it took seven months to go from just over 40% negative to 13%, this year it has taken just three months.

Does this sharp improvement mean that there are perhaps a few categories where people outright plan raising their spending on average? Yes – six of them as compared with just two last month.

The following graph shows that on average people plan spending more over the next 3-6 months on groceries, home renovations, international travel, gardening, shares (investing rather than spending), and domestic travel.

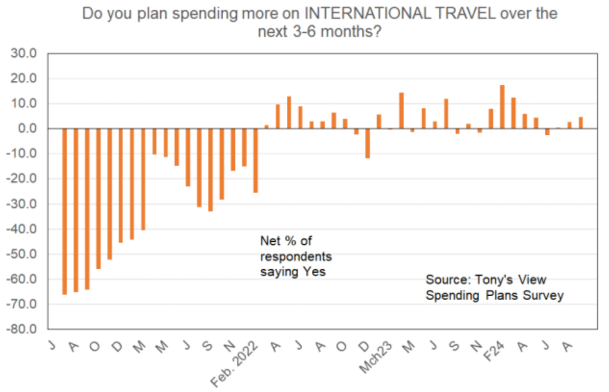


These next graphs look at the changes over time in plans for spending across most of the categories which I ask people about, starting with groceries. This one has been in strongly positive territory all through the period of high pessimism simply because prices have soared, so people have had to budget more for their regular supermarket shopping.

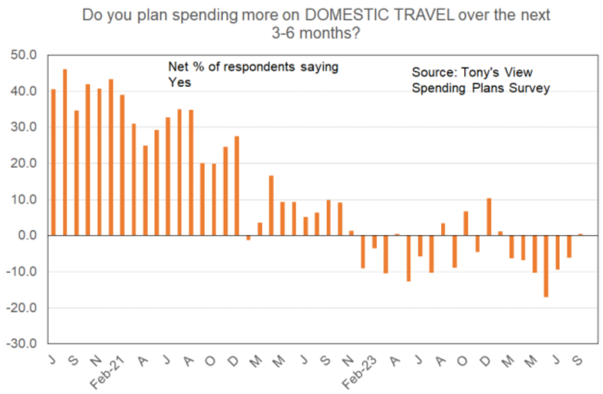


The reading of a net 12% positive is down from 14% last month but still above the levels of 2020-21 before prices started spiking upward.

For international travel the reading is only just positive at 5% from 3% last month and the graph tells us that there has been no sustained change in spending plans since the initial reaction to reopening of the borders in 2022.

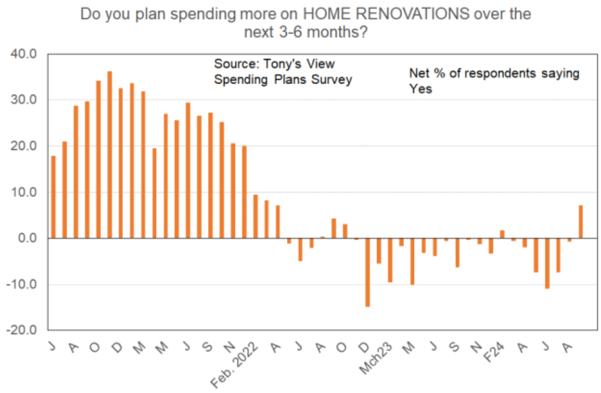


For domestic travel the net positive reading is only 0.4% but it is the first positive outcome since February after which most of the indicators in my various monthly surveys turned firmly downward.



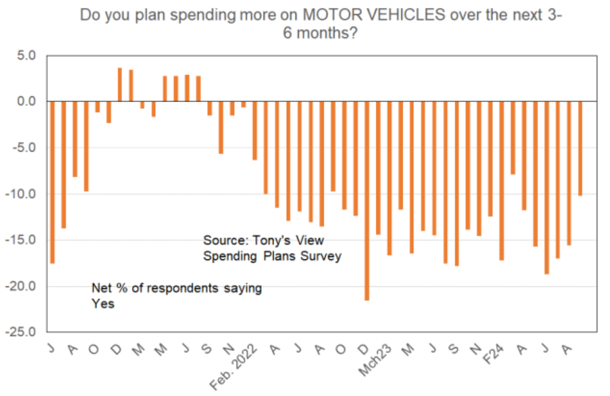
The jump of home renovations spending intentions into positive territory is quite strong with a rise to a net 7% positive from 1% negative last month. I read this as reminding us that not everyone in New Zealand is as poor and downtrodden as the media want to convince us and there are always plenty of people in good financial positions able to spend when they feel they time is right to do so.

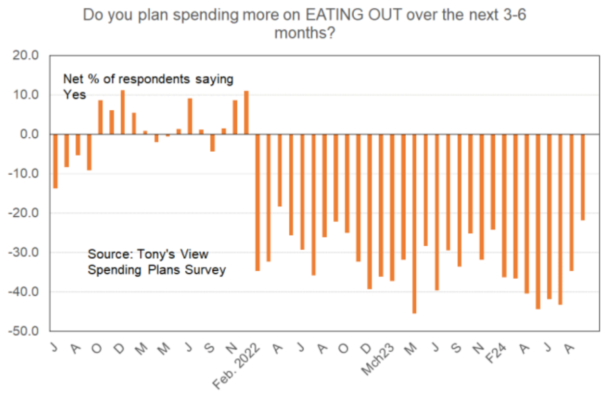
With respect to home renovations that may mean now when they see light at the end of the tunnel for the economy overall and the availability of people to undertake renovations is good – as is the case now with construction generally still falling away and developers still collapsing.



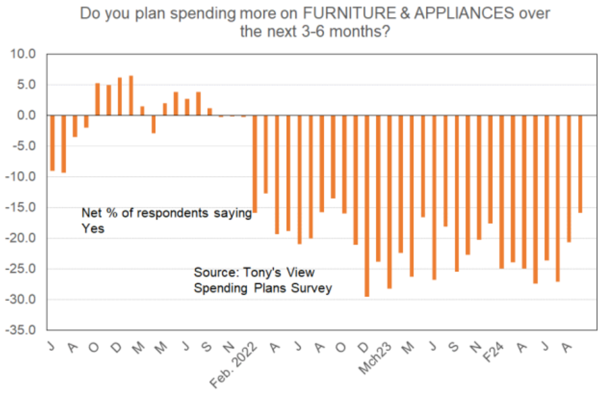
Does this willingness to spend on this particular lumpy item mean spending plans have also firmly lifted for what we commonly define as durable goods? Not really, although improvements have been recorded.

A net 10% of people plan cutting spending on motor vehicles this month as compared with 16% in August. This result is still well removed from the pandemic boom days.



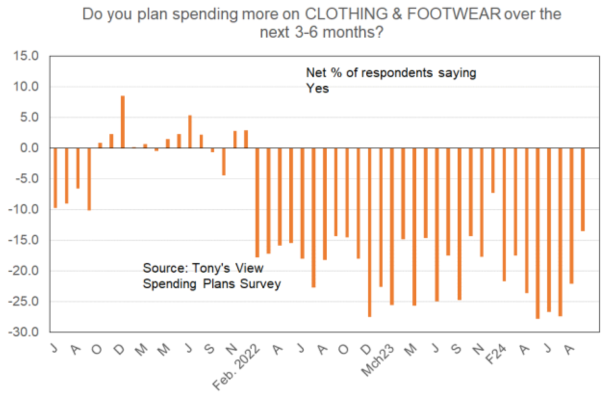


A net 16% of people plan cutting spending on furniture and appliances as compared with 21% last month. Again – less bad but still poor for operators in this sector.

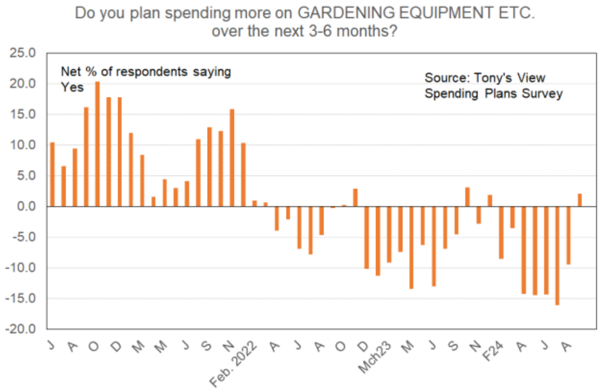


Looking at areas of discretionary spending we see a net 22% of people still plan cutting their expenditure on eating out. This is a firm improvement from a net 35% in August but is still very poor. The structural shift up in the cost of eating in a café or restaurant means we are probably witnessing a permanent cutting of the numbers of operators in these sectors.

A net 14% of the survey respondents plan cutting spending on clothing and footwear which is an improvement from 22% last month.



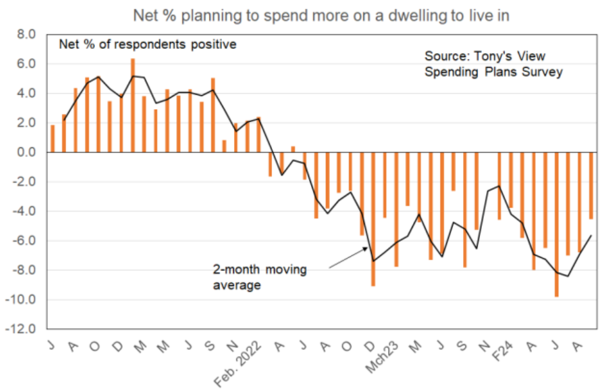
For gardening there has been a strong jump to a net 2% of people planning higher spending in the next 3-6 months from a net 9% planning cutbacks last month. Some of this improvement will be seasonal but when I look at the change in previous years it looks slightly on the high side and therefore suggestive of some underlying improvement for operators in the sector. But again, we are still well away from the levels of 3-4 years ago.



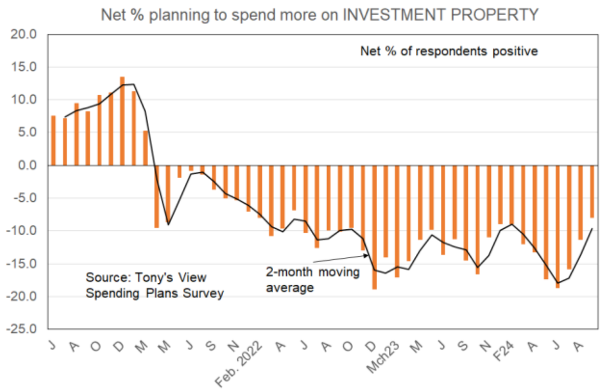
Overall, I read the survey results as telling us things are improving but for retailers overall the environment still looks quite challenging.

Looking now at the housing measures, a net 4.5% of people have said they will cut back on spending on a dwelling for their own use. Don't get too pedantic about the interpretation of what this means and just focus on the level and change in this measure.

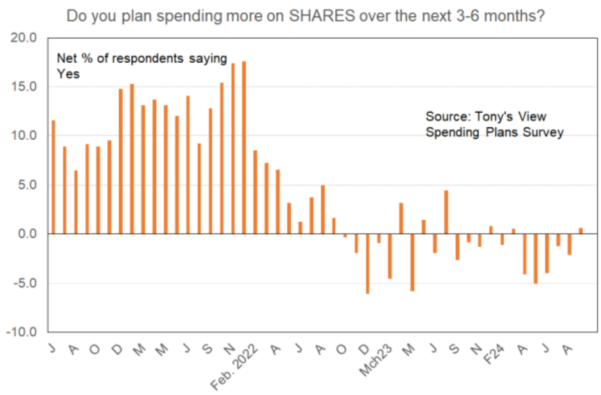
The reading is an improvement from -6.8% last month and the best since February's -3.8%. But it is still negative. There is a housing market recovery underway, but it is so far of muted nature.



A net 8% of people plan cutting spending on an investment property. Again, the level is negative, so the housing market remains constrained. But it is the least weak result since May 2022 and gels with other indicators telling us that there is a return of some investors to the housing market. Having said that I do not expect this upward leg of the housing cycle to be as driven by investors to the same degree as other upturns in the past 2-3 decades given the hikes in costs of running a rental business and more difficult access to credit.



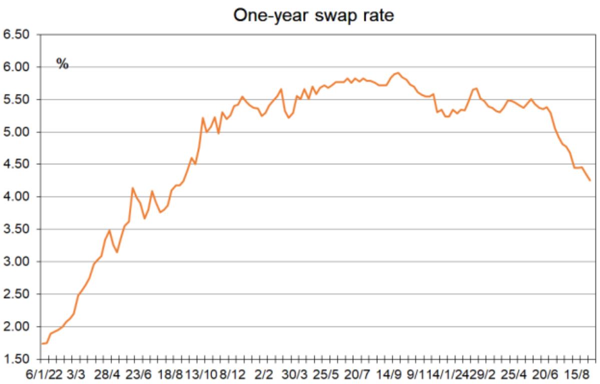
Finally, a net 0.6% of people have said they will "spend" more on shares. This is an improvement from -2.1% in August but mainly looks like the absence of caution rather than the presence of optimism.



If I were a borrower, what would I do?

Wholesale interest rates have edged slightly lower again this week in response largely to some slightly softer than expected labour market data in the United States.

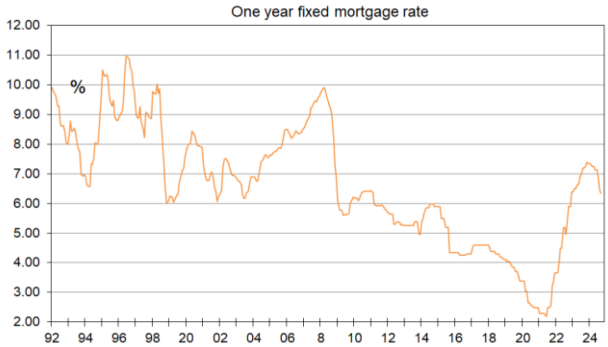
The one year swap rate at which banks borrow in the wholesale market to lend one year fixed has crept down to near 4.25% from 4.36% last week and 4.7% just before last month's 0.25% cut in the official cash rate.

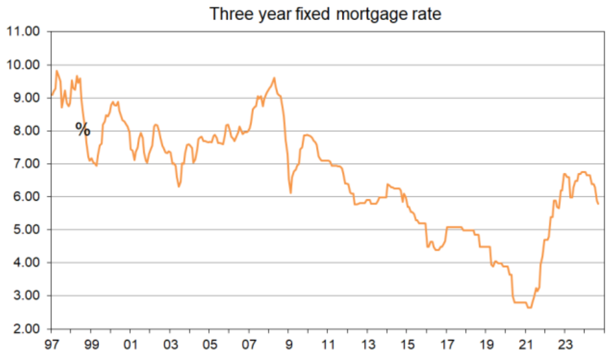


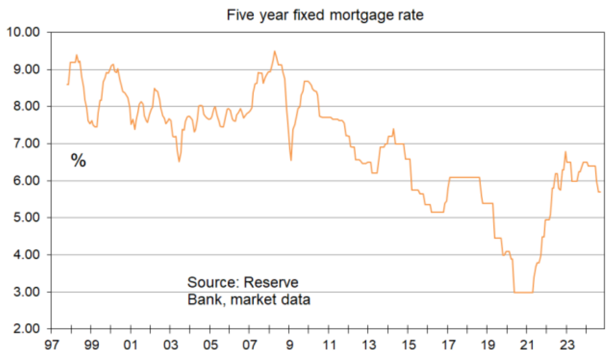
The three year swap rate has fallen to near 3.53% from 3.62% last week and 3.9% just before the policy easing.

The next cash rate review happens on October 9 and another 0.25% cut is expected then as well as at the November 27 meeting.

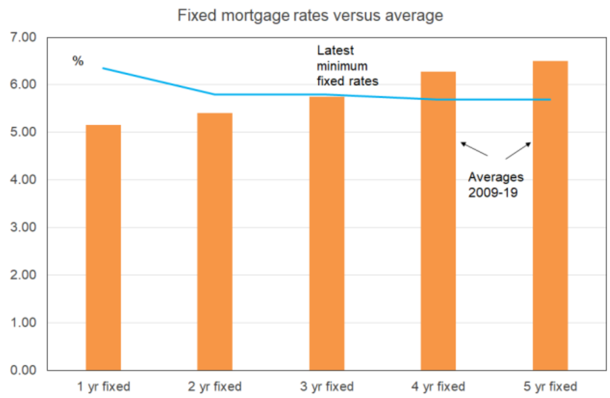
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







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



If I were borrowing at the moment I'd probably still just fix for six months. But keep an eye out for bank specials being offered but not advertised for the 18-month term.

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.