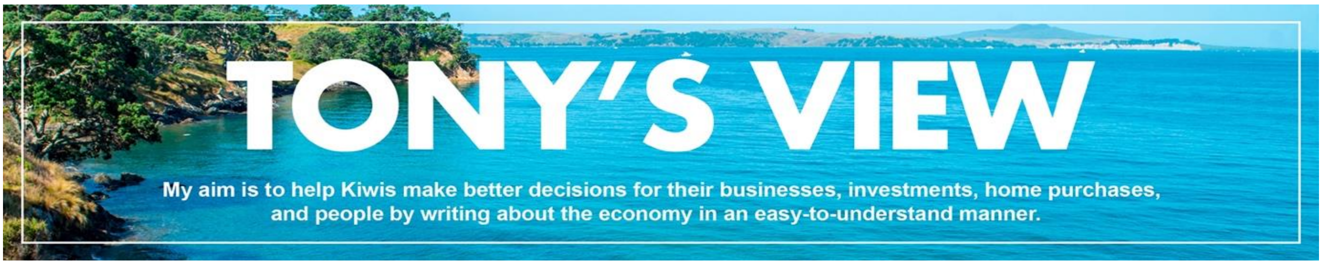

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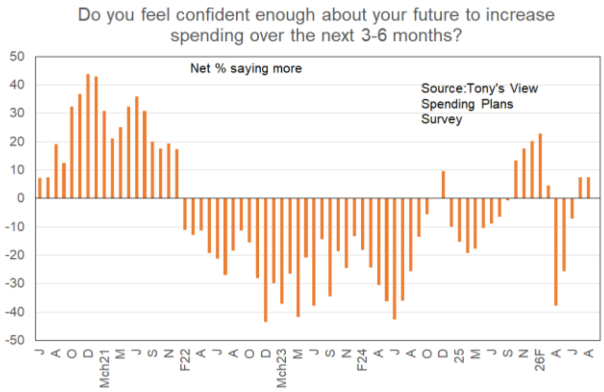
Consumer spending plans hold steady

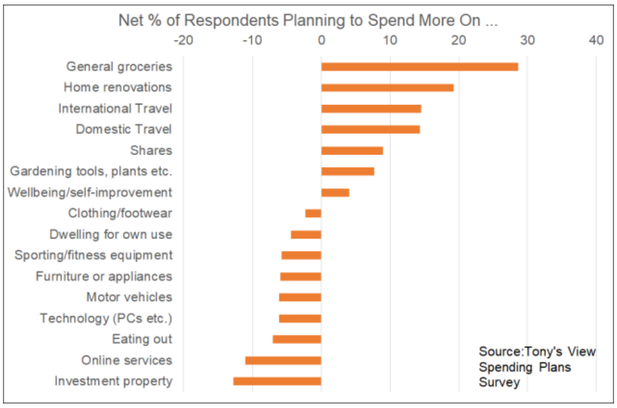
This week I ran my monthly survey of consumers and was quite interested to see how spending plans might be affected by the raft of negative developments over the past month. Specifically the tightening of monetary policy a month ago and recent increases in fixed mortgage rates, the resumption of problems in the Middle East and rises in petrol prices, and some challenging weather.

As it turns out that the net proportion of people planning to raise their spending on stuff in the next 3-6 months came in exactly the same as July at +7%.

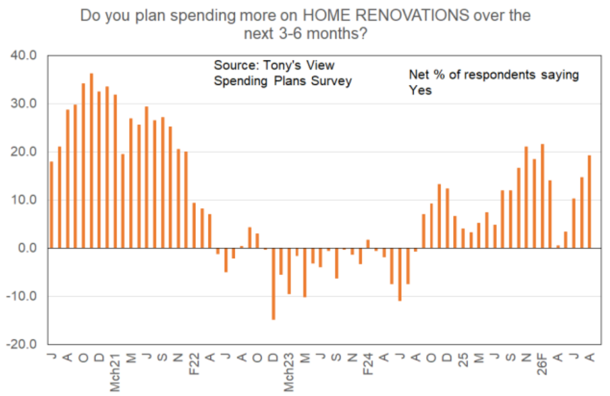


I choose a positive interpretation of this because of the negatives in play rather than a negative one along the lines of the string of improvements in this gauge over the previous three months coming to an end.

There are seven areas in which more people say they will spend more than say they will spend less.

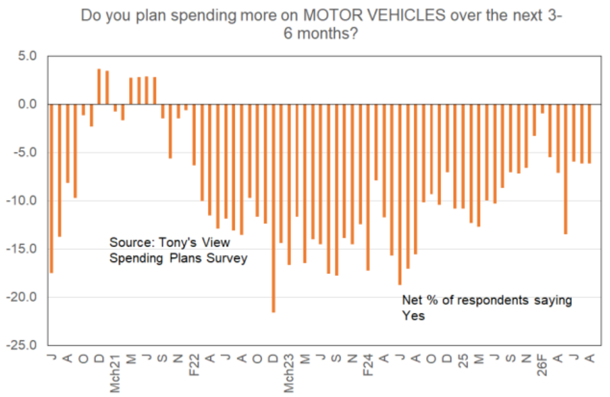


Since October 2024 plans for home renovations (probably including solar panels) have been in net positive territory. Plans now are almost as strong as they were before the US attacks of February 28.

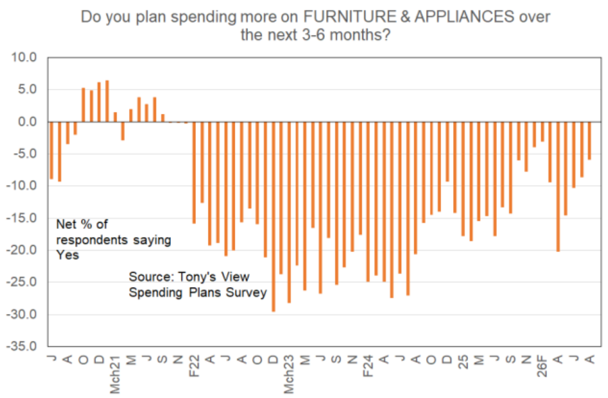


Is this rise in plans to undertake something usually quite expensive being seen in other high dollar amount areas? Not really for motor vehicles where spending plans remain negative. But then it looks like things are usually on the negative side of the zero line for this item anyway and the latest result of -6% is slightly better than the six year average of -9%.

So, if you are an operator in the motor vehicle sector and finding things tough at the moment – maybe you're not selling what people want.

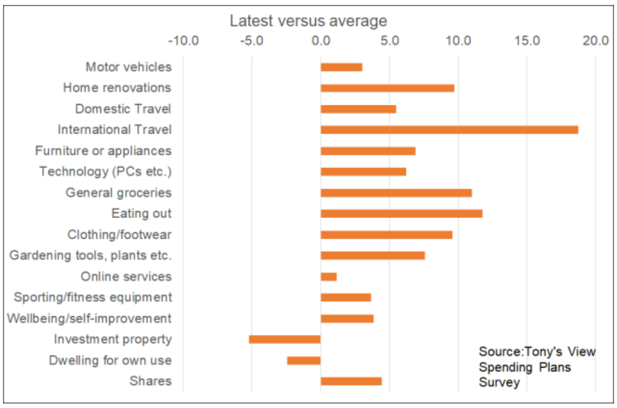


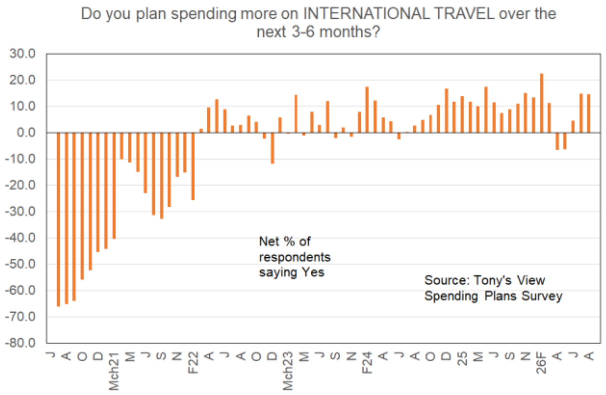
Plans for buying furniture and appliances have improved for four months in a row now and that bodes well for retailers and manufacturers in those two sectors.



Actually, having just looked at a couple of measures versus their six year averages, let's do it for all categories. The following graph shows latest readings versus average. It tells a useful story.

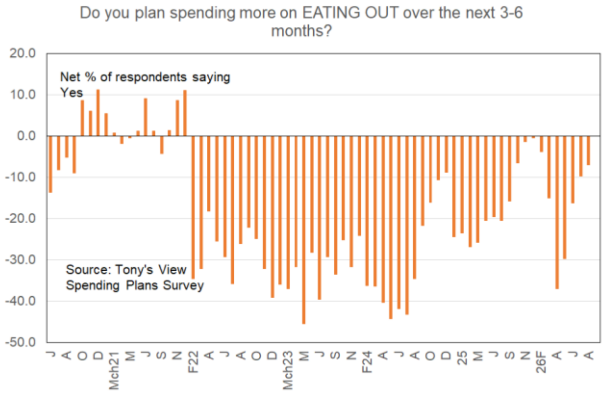
The high above average reading for International Travel will reflect the obvious role over 2020 and 2021 of borders being closed.





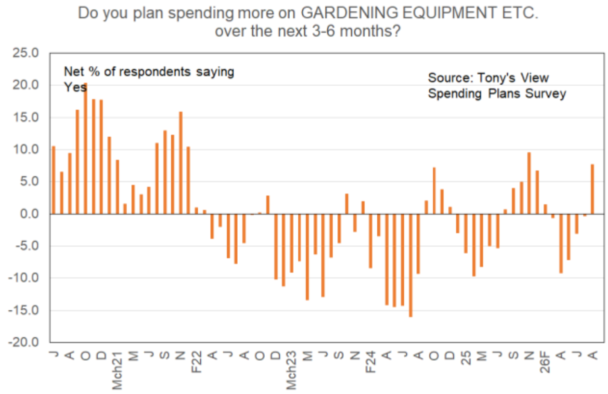
But if I do the calculation of latest versus average removing 2020 and 2021 then we get the August reading of 15% being 8% above average. Still good.

Next, I'd like to focus on how plans for eating out are well above average. As noted above for motor vehicle dealers, if you are in the eating out sector and struggling – sorry, but there is a good chance the problem is you and the way you run your business.

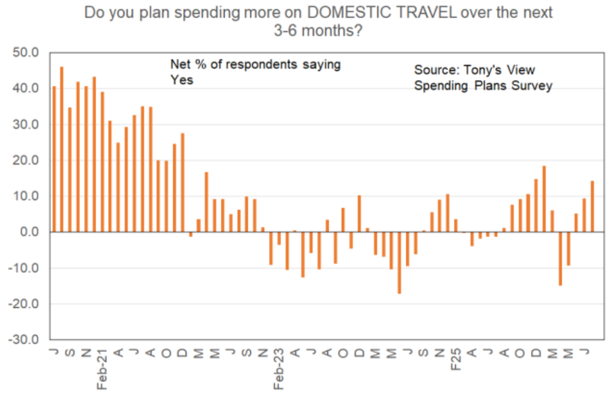


Yes, hospitality businesses are still closing down. But that is what has always happened. We celebrate those places that last many years precisely because they are the rarities.

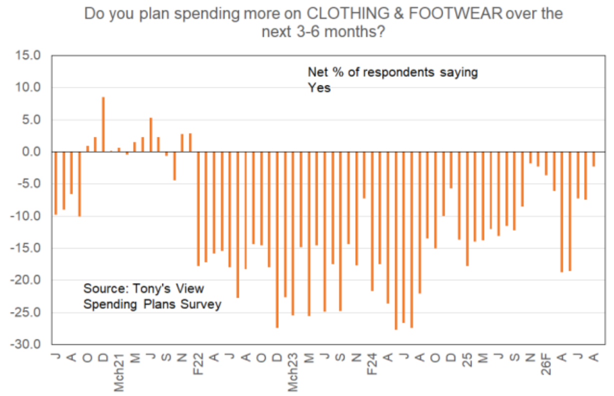
For gardening centres spending plans are about 8% above average with a firm rise recorded this month even though the weather has been horrid. The rise is much more than one would expect at this time of year.



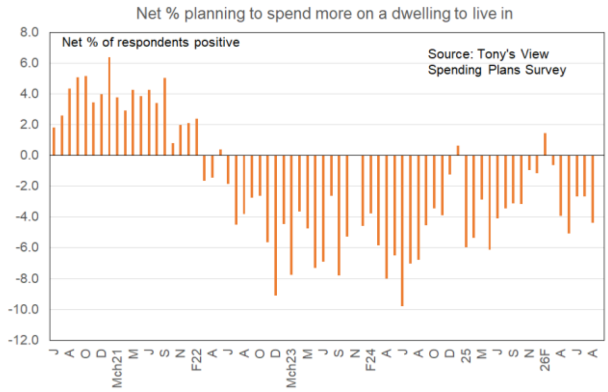
Plans for spending on domestic travel have firmed recently.



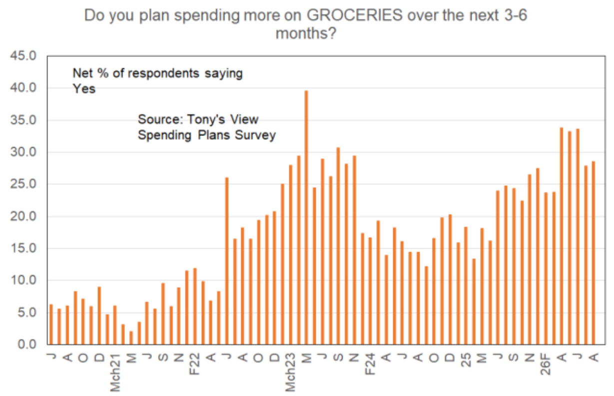
Things in the clothing and footwear sector are looking quite good in comparison with few years.



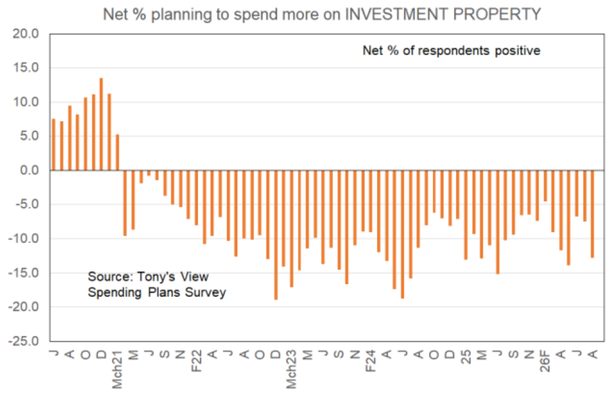
investment. There is no improving trend underway as yet for either measure.



The groceries reading is strong – but that will reflect our perception of strongly rising prices even if that is not necessarily the case. We're just in shock after the inflation of recent years has added up to prices being much higher than before the pandemic. That is what the sustained above target inflation generated by our central bank in recent years delivers. Their inflation credentials have as much credibility as fiscal rectitude intentions of the major political parties.



In fact, when it comes to purchasing investment property things have become worse over the past month as interest rates have risen further and worries grow about what policy changes the general election may throw up.



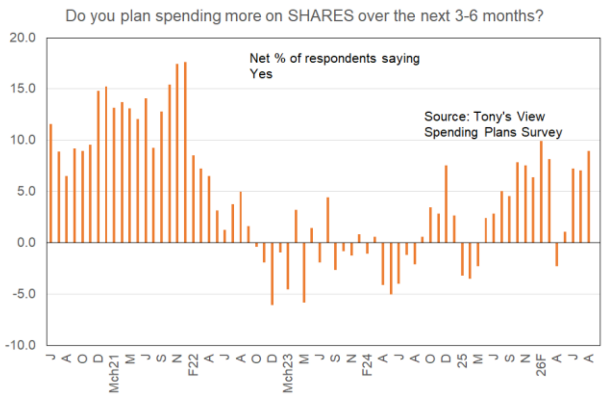
You will by now have noticed the two categories in the outcome versus average graph on page 2 which are in negative territory – buying a house to live in and especially buying one as an investment.

The world of residential property investment has changed. The sector is not dead; it is just no longer populated by people buying largely because they feel they are missing out on something and would be stupid not to. The buying is being left to those who have done it for generations, and those who are getting the right advice with a long-term yield focus not reliant on well above inflation capital gains.

What would the latest result for net investment intentions be if I did the same exercise for the category as I did for international travel? The latest outcome of -13% would be compared with a 2022+ average of 11% (rather than -8%) to give an August result just 2% below average rather than -5%.

So, still decidedly on the weak side but not horrible.

Finally, with net plans to buy shares 4% above average at a reading of +9% net for August we see people continuing to favour this area for "spending" their money.



Overall, consumer spending plans are running at above average levels across all categories except housing to own or as an investment.

If I were a borrower, what would I do?

Early this week there was some mild downward pressure on wholesale interest rates this week brought about by the monthly employment data in the United States coming in weaker than expected. The 23,000 fall in jobs over July and downward revisions to some previous months' numbers have led to a pulling back in expectations for tightening of US monetary policy this year. That hasn't altered the outlook for NZ monetary policy changes but has lowered slightly medium to long term fixed interest rates in the US and around the world.

However, the falls were reversed by this morning to leave wholesale rates little changed from last week.

The next review of monetary policy in New Zealand happens on September 2 when the Reserve Bank will also release an updated set of economic forecasts. There is a near unanimous view that having started the tightening cycle with a 0.25% rise on July 8 there will be another 0.25% increase, and then another one on October 28.

After that things are very unclear. When the cash rate reaches 3.0% late in October the Reserve Bank will have unwound the extra 0.75% of easing hey undertook last year when the economy had already started growing again yet inflation was in the process of running almost 1% higher than they were forecasting.

Going ahead we should expect to see some poor forecasting from our central bank and borrowers need to factor the high rates uncertainty from this source and so many others into their risk management decisions.

We no longer live in a world of reasonably predictable economic cycles. There are not just shocks in play like the Middle East war but things like the uncertain impact on productivity and electricity prices of AI, continuing lack of competition in many NZ sectors, and growing political risks.

This means it is hard for me to get a decent feel for when to give up on fixing one's mortgage interest rate for a long period and hop onboard the ride of the one year rate.

For now, if I were borrowing, I'd be happy still to fix three years at 5.35% and concentrate on addressing other things in my life rather than mortgage cost minimisation gambling.

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.