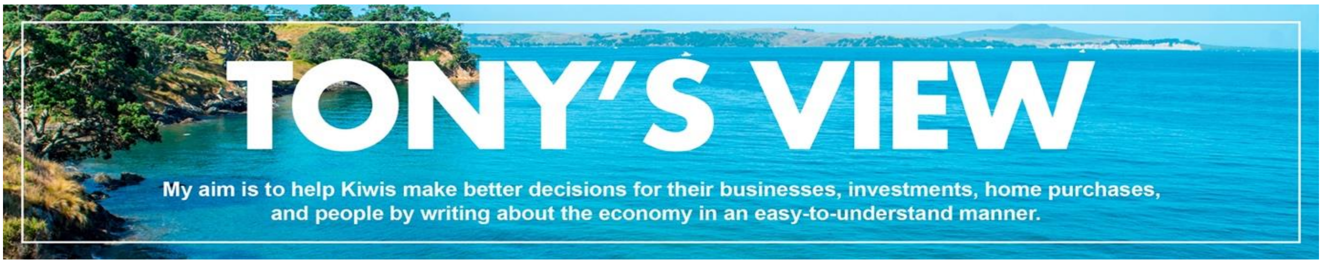


Input to your Strategy for Adapting to Challenges

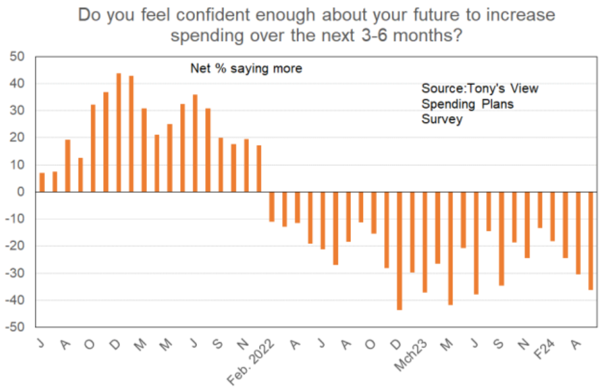
Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825 13 June 2024
Sign up for free at www.tonyalexander.nz

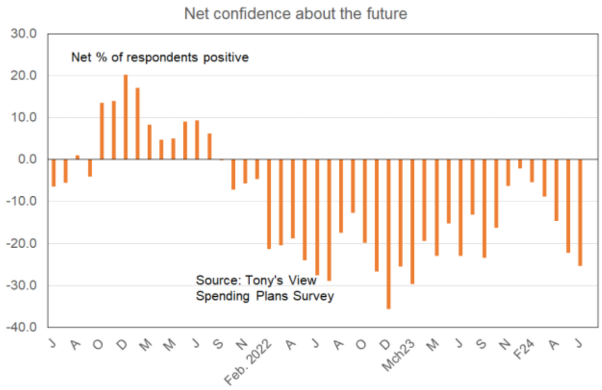
Retailing outlook gets worse

I conducted my monthly Spending Plans Survey earlier this week and the results continue to paint a bad and deteriorating picture for retailers and the housing market as we advance through winter and then spring.

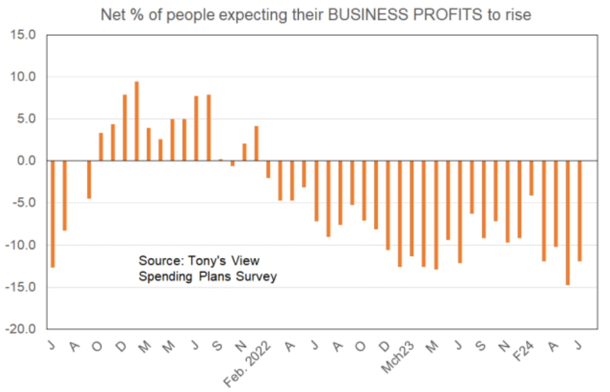
A net 42% of the 649 respondents have said that they plan cutting back on their spending in the next 3-6 months. This is a deterioration from a net 36% last month and just 13% negative in December.

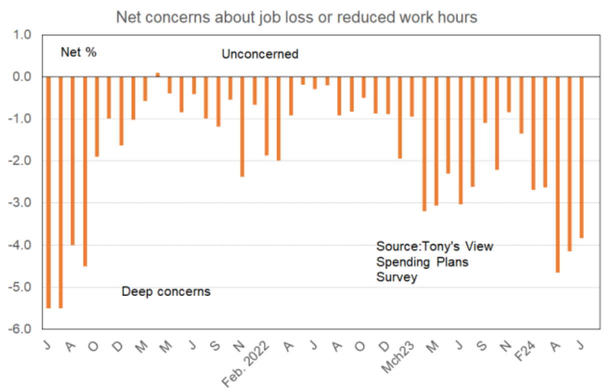


The result tells us that people are so fearful of a number of things that they do not feel it will be safe for them to spend more in the immediate future, or that they won't have the money to spend. Confidence about the future has deteriorated anew to a net 25% pessimism from 22% in May and 2% in December.



A net 12% of people with businesses expect their profits to go down compared with 15% last month and 9% in December. Expectations for business returns have been very weak since early in 2022.



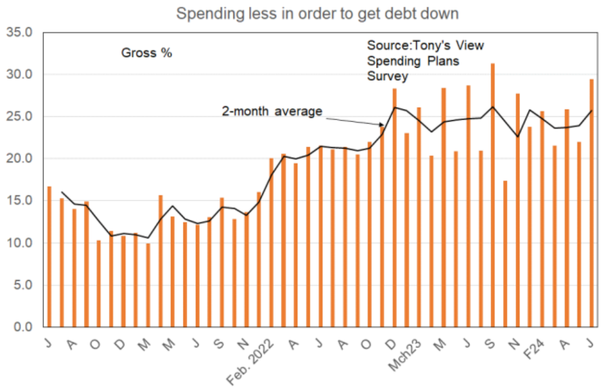


Frankly it is surprising how long this poor profit outlook has taken to manifest itself in a strong change in the labour market. We can tell from the Household Labour Force Survey that jobs growth in the economy roughly stopped in the middle of last year. But people's feelings about job security have only really fallen sharply away since early this year.

The net proportion of people expressing concern about their job and/or work hours grew about a year ago but only really plumbed depths of concern from April this year.

This is one of the new elements in play so far this year which I have written about in recent months as helping to explain the new worsened outlook for the economy and housing market. These things also underpin my view that monetary policy will be eased before the end of the year as the Reserve Bank is likely to be surprised by how weak the economy is this year. There is also underway now the traditional 18-24 month lagged response to the true tightening of monetary policy from November 2022 (0.75% OCR jump, “recession" word).

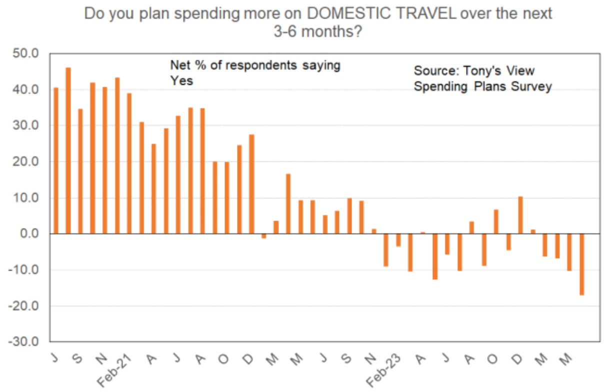
The proportion of people saying they are cutting spending because they want to get their debt levels down has jumped to the second highest reading on record this month. But this measure has a tendency to go up and down from month to month so pay attention to the two month average rather than the monthly results.



Now, let's run through individual areas of spending intentions to witness the true horror for some sectors. Let's start with the weirdest spending area of all during this period when overall retail sales per capita have collapsed – international travel.

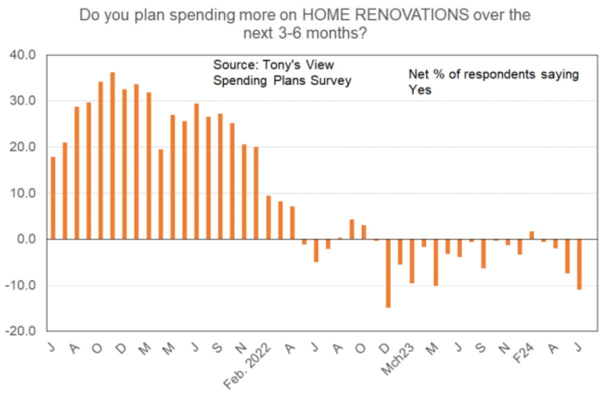
A net 3% of people plan cutting their spending on travelling abroad. This is down from net 4% positive travelling intentions last month. We have seen this sort of movement before and as yet there is no solid move back into negative territory. But surely by now the revenge travel drive post-pandemic is all over. Only the next couple of surveys will be able to tell us if this is the case or not. I'm not prepared to call it yet.

With regard to domestic travelling intentions the outlook is solidly trending downward with a net 17% of people planning less local travel. This is the weakest result on record.

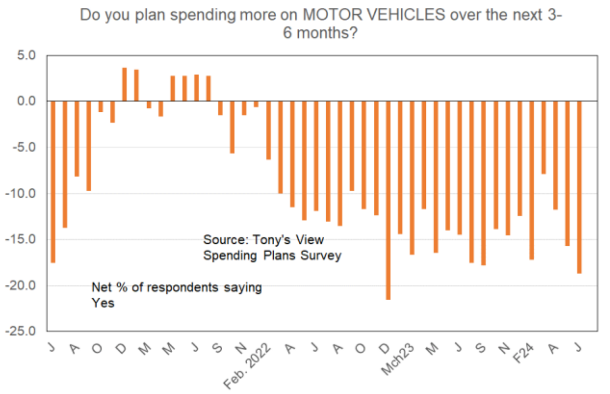


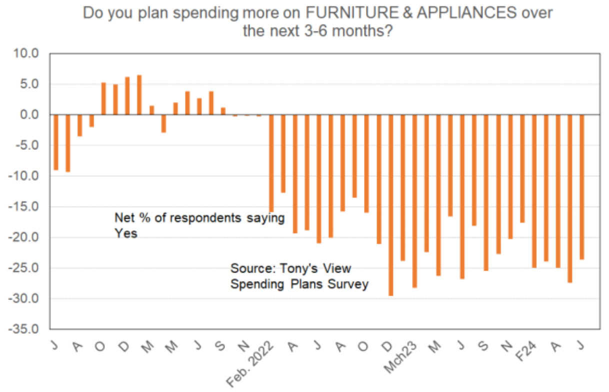
The outlook for businesses involved in home renovations continues to get worse. I recall pointing this out to some people in the sector a year and a half or so ago and they said they were

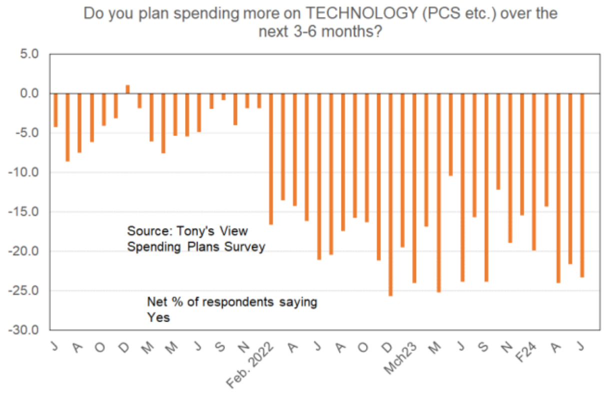
still busy. But as my survey looks ahead in time, I reckon they'll be struggling for much business now, especially as older people rejig their spending plans to allow for this year's hikes in rates and insurance costs and councils promising similar rate increases for many years. That's what you get with monopolies.



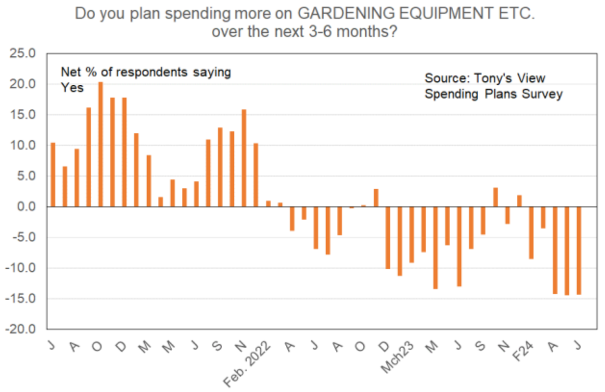
Here are the graphs for durable things showing the extreme spending intentions weakness one would naturally expect to flow from the poor economic outlook people have.



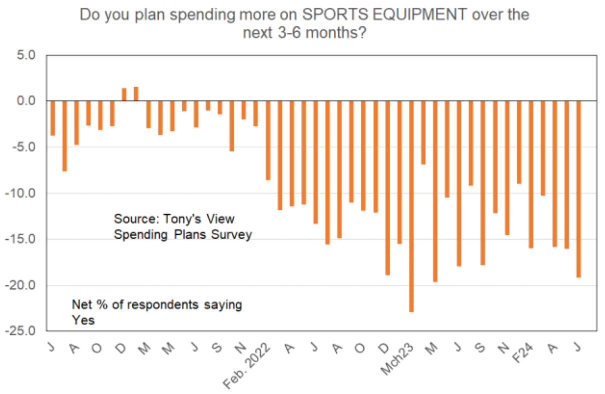




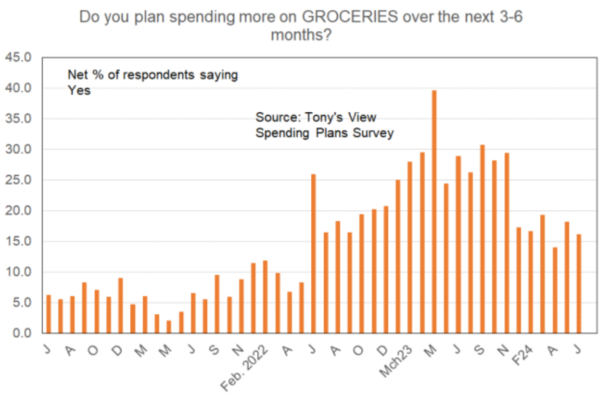
For garden centres prospects for sales continue to look poor. For the third month in a row a net 14% of respondents have said they plan cutting back on their gardening-related expenditure. Note that there is more than just a seasonal factor in play.



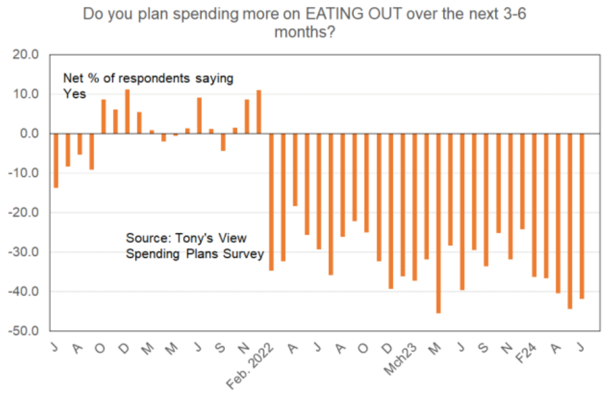
Plans for spending on sporting equipment plunged with the end of the pandemic and have remained weak ever since.



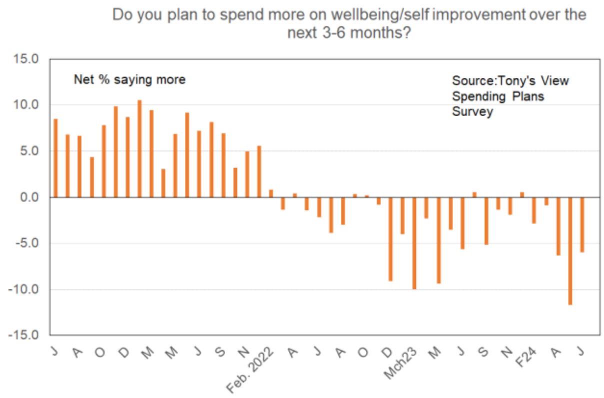
For groceries we still have a high net 16% of people saying they plan to spend more. But note the downward trend which will reflect a combination of worsening household finances outlook and inflation slowing down.

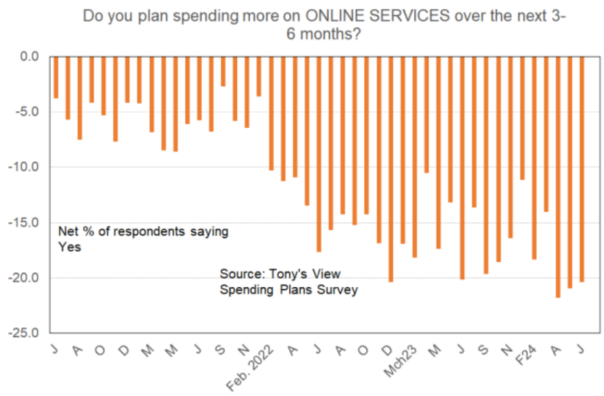


When it comes to eating out intentions our plans are as horrible as ever at a net 42% negative. My view is that the better restaurants frequented by those who to date have been little affected by the recession will now be suffering because of soaring bills for rates and insurance.



Finally, plans for spending on wellbeing and online services remain poor.





Next week I will look at results for spending on a property to live in and investment property. Don't hold your breath if you're looking to sell your house.

In case you missed it

This week I released results of my monthly survey of real estate agents sponsored by NZHL. Key insights included these.

- FOMO has almost completely disappeared.
- There is evidence that the wave of fresh listings may be easing off. But a flow of investor sellers is still apparent.
- Most agents feel that prices are falling in their area.

The-NZHL-Property-REport-May-2024.pdf

If I were a borrower, what would I do?

Wholesale interest rates have fallen from where they were when I last wrote two weeks ago. The key driver has been a decline in United States rates (although for a while they had jumped higher). Their declines reflect a slight fall in the inflation rate to 3.3% reported last night and expectations of monetary policy easing in September this year.

Locally we've seen some improvement in price gauges in the ANZ's monthly Business Outlook Survey, net migration flows falling away relatively quickly, and more weak measures for the housing market.

My expectation remains that weakness in the economy to a greater degree than allowed for currently by the Reserve Bank will bring the first OCR cut in November rather than the common pick of the first half of next year.

The one-year swap rate currently sits near 5.37% from 5.51% two weeks ago and 5.24% at the start of the year. The three year swap rate is near 4.69% from 4.89% two weeks back and 4.29% early in January.

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.