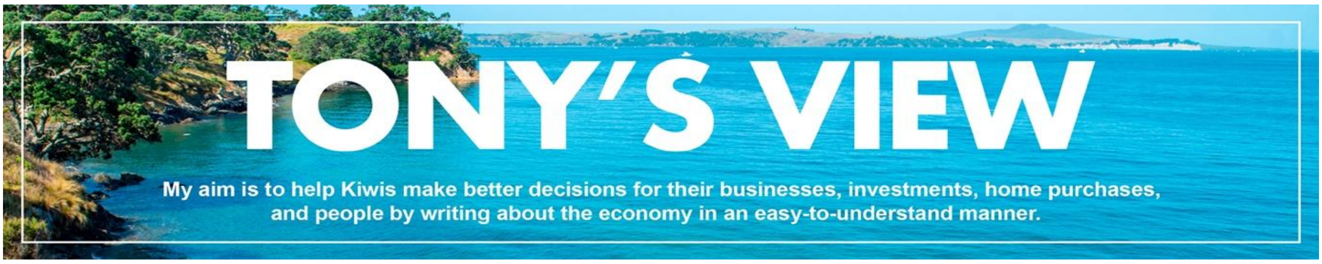


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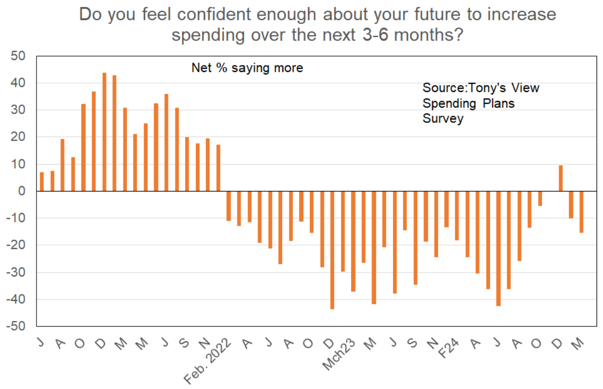
# Consumers still cautious

Last week I ran my monthly survey of people in their capacity as consumers and the results show that retailers should continue to exercise restraint in their sales projections for 2025.

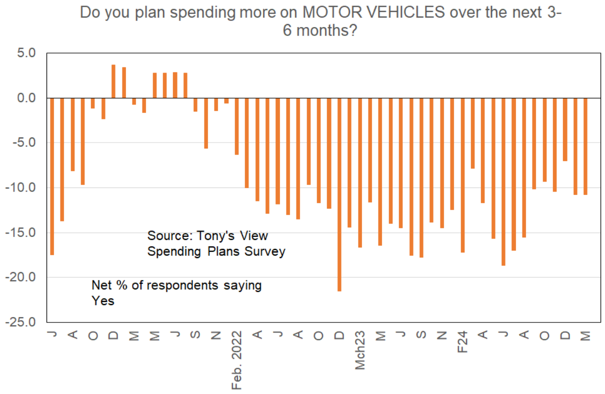
Back in the middle of last year when things were looking very bad a net 42% of the respondents in my Spending Plans Survey said that they would cut back spending on things generally in the next 3-6 months. By the end of the year that reading had reversed to a net positive 10% in response to falls in mortgage rates and anticipation of further falls to come.

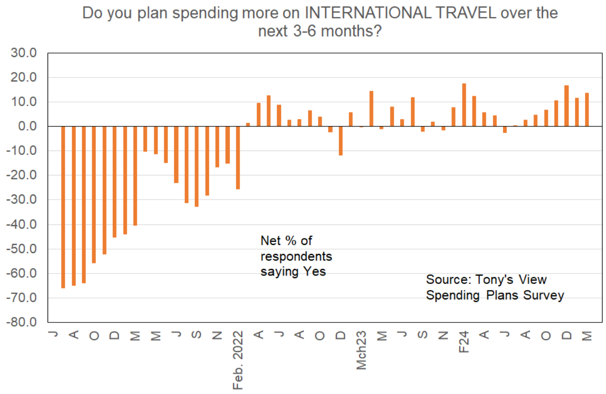
But my first survey for this year in February showed a change again back to a net 10% of people saying they will cut spending, and this latest result is a further deterioration to a net 15% negative.



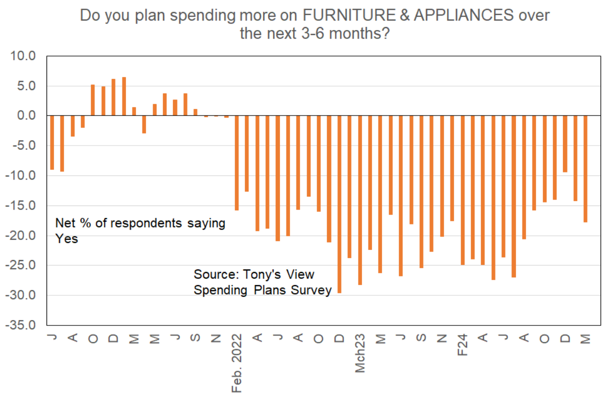

The result tells us that my interpretation from August last year that the euphoria about our economy was well misplaced has proved correct. People no longer see wonderful times ahead although we are nowhere near back to the high pessimism levels of last year.

A net 11% of people say that they will cut spending on motor vehicles. This is the same result as in early-February and not vastly out of line with the poor outlook for this sector which appeared at the end of 2021 when the credit crunch struck.

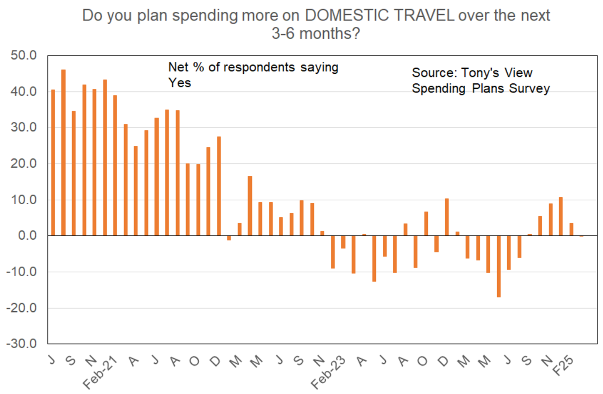




A net 18% of consumers plan spending less on furniture and appliances compared with 14% last month. Again, the result is not too far removed from poor levels of the past two years.

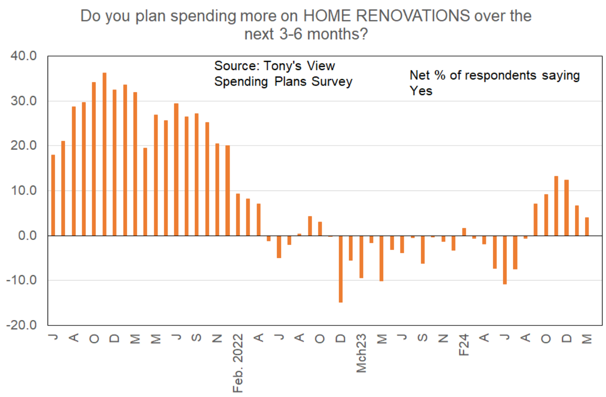



Our plans for travelling offshore however remain firm with a net 14% of us planning more spending versus 12% month ago. Note the upward trend in this gauge since the middle of last year.

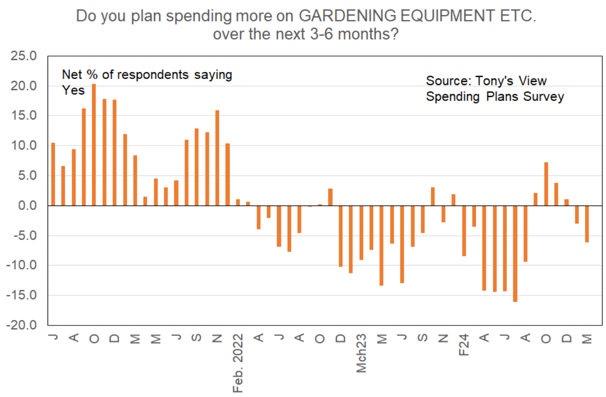
For domestic travel as many of us plan spending more as spending less. One imagines the cost of domestic airfares versus what one pays for a trip to Oz weighs heavy on peoples' minds and holiday plans. Or maybe concern about a Cook Strait ferry sinking dissuades people from holidaying here.



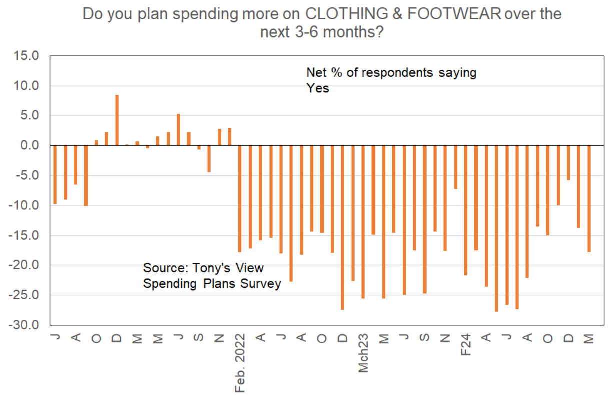

Plans for spending on home renovations remain positive at 4%. But the surge of late last year is fading away.

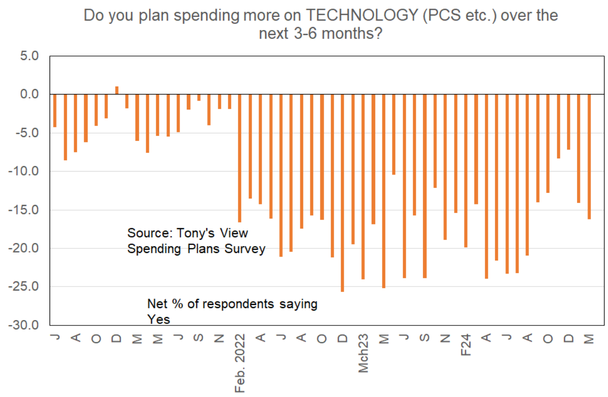



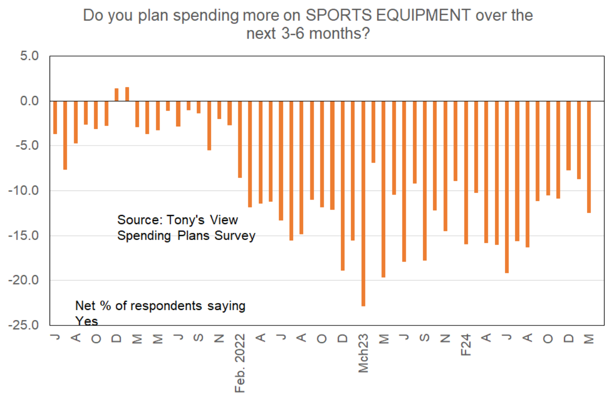

For those of us interested in gardening prospects look good for some discounted product as we head through Autumn into Winter (hopefully rhododendrons and azaleas). A net 6% of consumers plan cutting expenditure in this area which is the lowest reading since August. But March can be a weak month for this measure so garden centres should not necessarily despair.



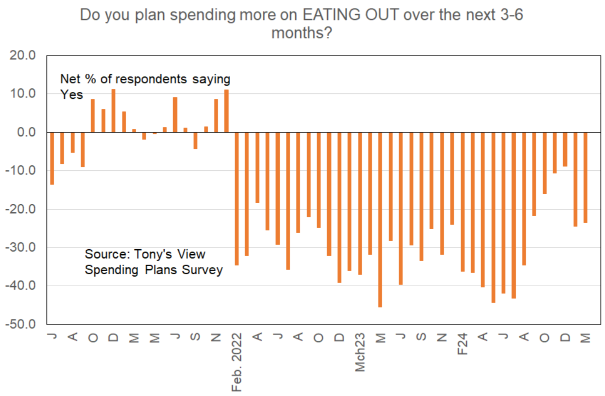

Plans for spending on clothing and footwear have deteriorated as have plans for spending on technology and sporting equipment.



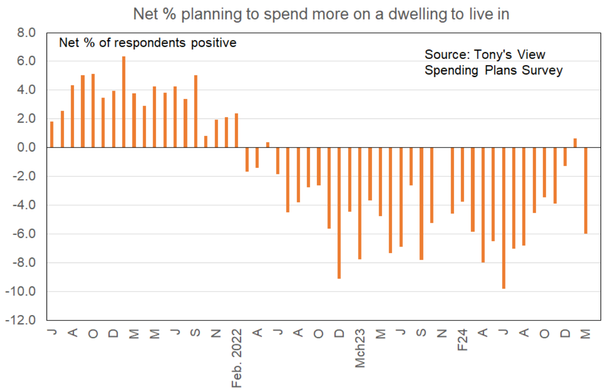




For eating out the outlook has noticeably deteriorated over the past two months. A net 24% of people plan spending less whereas in December this was just -9%.



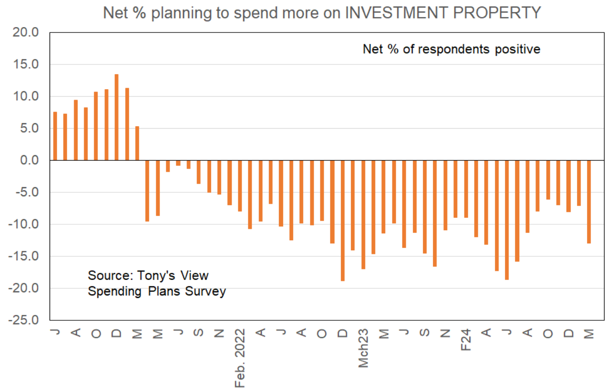

## Housing indicators

The sharpest deterioration in spending plans this month comes in the area of housing and is seen clearly in this following graph. It shows the net percent of people planning to spend more on a house purchase for their own occupancy. There has been a deterioration to a net 6% planning less from a net 1% planning spending more last month.



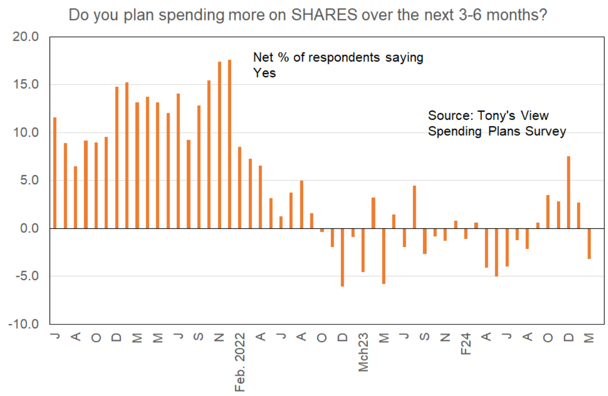

The jump downwards in this measure is unusually large when compared with past movements for this gauge. My interpretation is that it reflects a feeling by buyers that they do not need to be in a hurry. Perhaps people are not feeling that interest rate declines will be big enough to encourage a lot of other people to enter the market to make a purchase. FOMO is low.

A net 13% of people plan to spend less on purchasing an investment property. This is a deterioration from a net 7% planning cutbacks last month and the worst reading since July last year.




As I have noted previously, this is not a cycle where investors are going to be large drivers of housing activity.

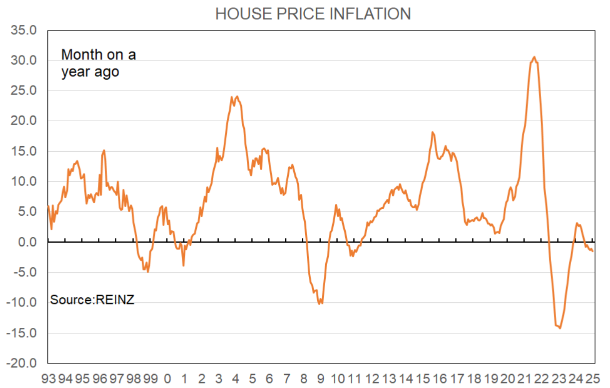
Finally, jitters in the sharemarket and articles in the newspapers telling KiwiSaver investors not to check their balances may have contributed to a deterioration in the net proportion of people thinking about buying shares, to -3% from +3% a month back.




All up, the monthly Spending Plans Survey backs my view that the economic recovery this year will be muted. That would imply a good outlook for inflation and further falls in interest rates were it not for the fact that some key prices are rising (rates, electricity) and businesses are saying they want to raise prices.

## House price restraint

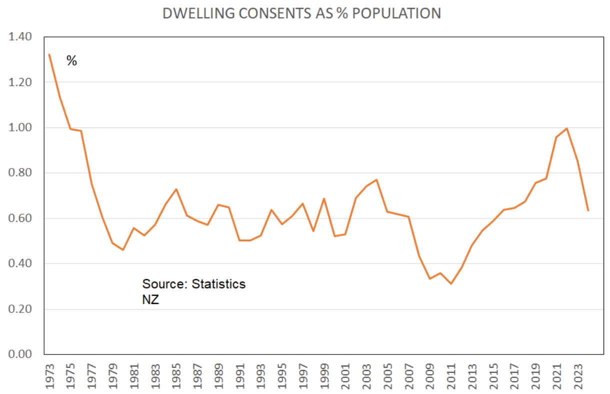
Here is a simple list of reasons why the average pace of house price increase nationwide for the next three decades will be less than the 7.2% experienced since 1992.




I'll start with the item which I feel overwhelms the others. Increased house supply.

On average since 1973 the annual number of consents issued for new dwellings to be built has equalled 0.62% of the NZ population. Following periods of high interest rates and recessions the proportion would spend time below that 0.62%.

For instance, in the 1991 recession the ratio fell to 0.5%, after the 1997/98 recession the ratio fell to 0.54%, and after the GFC it fell to just 0.31% in 2011. That low level explains why house prices surged so much after that event.

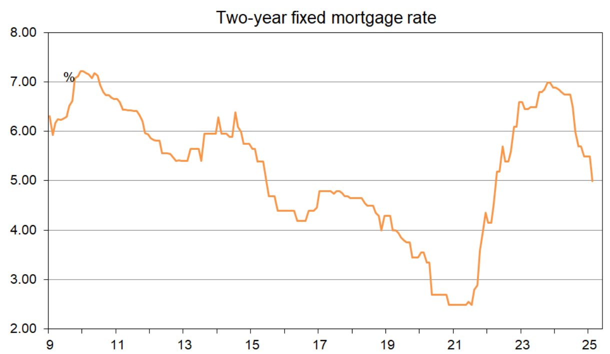



Now, following our most recent recession the ratio has fallen to only the long-term average just over 0.6%. Supply growth is remaining good and that reflects changes in rules for land availability and intensification as well as incentives for borrowers to build rather than buy an existing property.

Good supply won't cause prices to fall given the high cost of construction. But good supply growth as the cycle turns upward again for this ratio next year will constraint the pace of price increase.

Second, while there is now a cyclical recovery in bank finance availability underway (easily seen in my surveys), there are more rules than before. These include LVRs (Loan to Value Ratios) and DTIs (Debt to Income rules). The impact of these rules is twofold. They force some people to delay their property purchase and encourage construction for those bumping up against bank lending limits.

Third, the rise in prices for the next three years will be constrained by the absence of the very low interest rates we saw for much of the post-GFC period.



Fourth, the extra rules imposed on landlords, ring-fencing of cash losses, ban on foreign buying, and natural aging of the population bringing selling by Baby Boomers and Generation X (born 1965-80) will mean less net demand over the cycles from investors.

My best guess for the next 32 years is that average house prices will rise by 5.5% - 6.0% rather than the previous 7.2%. Give me a call in 2057 to see if I was right. Actually, by then we'll probably have a communication device hardwired in our body and we'll call an incoming call a buzz. So, buzz me.

## If I were a borrower, what would I do?

Considerable uncertainty surrounds the outlook for interest rates. If the developing trade war leads to a recession in the United States and slower global growth generally then we can expect further interest rate declines. If the economic outlook remains okay but tariffs still go up, then the extra inflation will push interest rates newly higher. If however the economic outlook remains okay because tariffs do not in the end get imposed or stay imposed for long, then the interest rates outlook is not much altered from what most of us were thinking a few weeks back.

The big uncertainty is US economic policy and there is no way we can know what is going to happen there. Therefore none of us can make any strong statements regarding where interest rates are headed, and we have to be prepared for surprises.

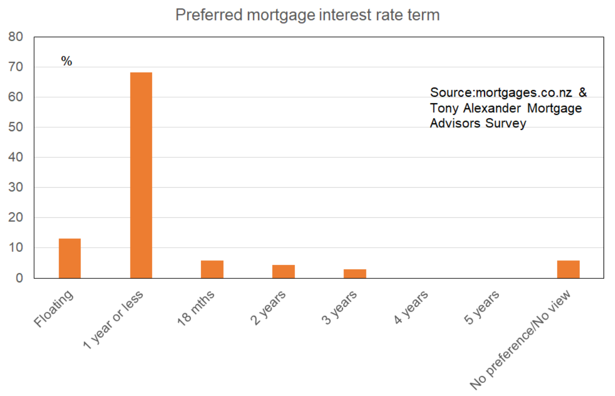
The view I am running with is that the economic outlook globally will remain okay, and that only a little bit of extra inflation globally will arise because of some tariffs being imposed and sustained. On that basis I see the official cash rate here bottoming out at either 3.25% or 3.0% near mid-year (probably 3.25%). Wholesale borrowing costs for periods three years and beyond may well have seen their lows for this cycle and that means only extra competition between the banks will see further falls in those fixed rate terms. 4.99% for three years could reappear and if that were to happen then that is where I personally would fix my rate.

There exists further scope for falls in shorter rates, but mainly for the very short terms of floating out to18 months.

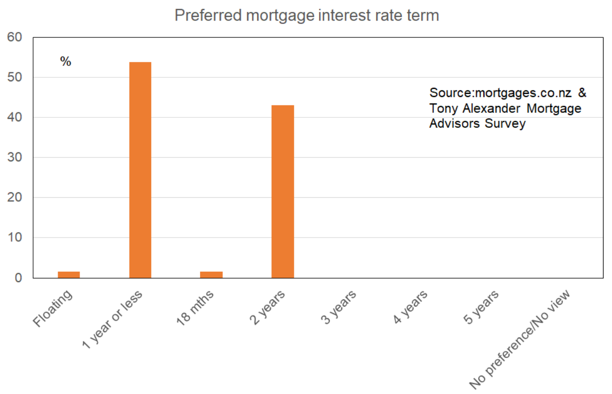
At the moment people are showing a firm preference for fixing two years at 4.99%. It represents a good reduction from the 7% or so rates which people are rolling off and some certainty is delivered for the near future.

We can see this preference in the feedback from mortgage brokers contained in the monthly survey which I run with sponsorship from mortgages.co.nz

This first graph shows the proportion of agents who a month ago said people were preferring each of the terms along the horizontal axis. 68% said the one year term was preferred (95% preference in the December survey) and just 4% said two years was the main borrower preference.



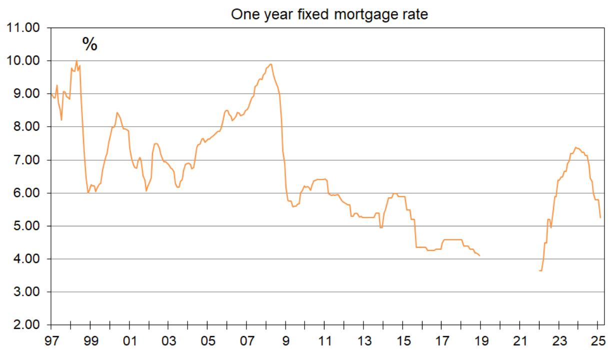

Now, 43% prefer two years as shown in this second graph which comes from the survey I ran earlier this week.

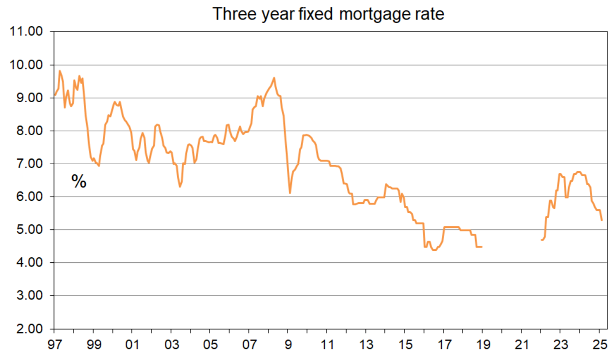


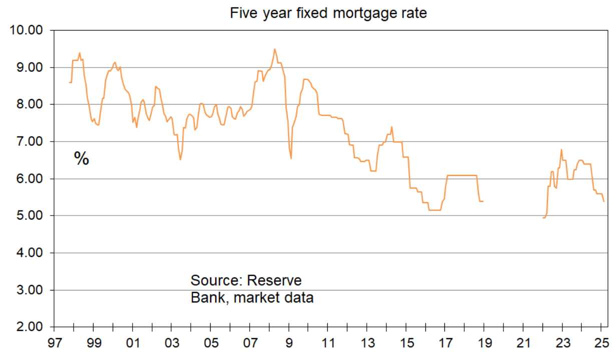

Other results from this survey will be revealed in the full release next week.


In the wholesale markets this week we have seen just some small moves down in rates of no significance.

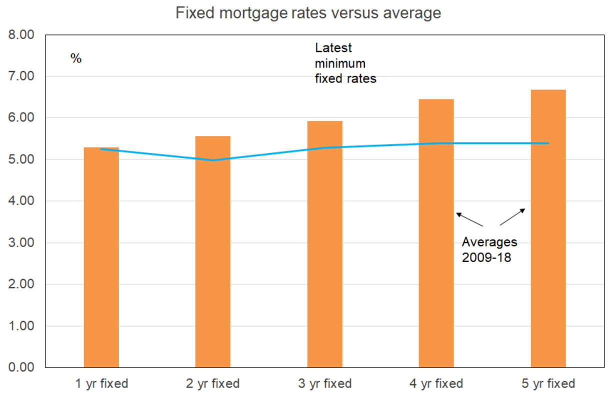
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.



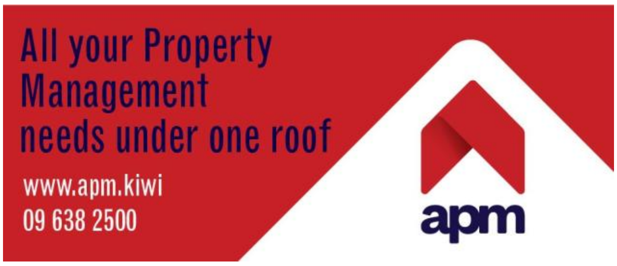




This graph shows how current rates compare with averages from 2009-19.




To see the interest rates currently charged by major lenders go to [www.mortgages.co.nz](http://www.mortgages.co.nz)



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**You should discuss your financing options with a professional.**