

Input to your Strategy for Adapting to Challenges

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Consumer spending plans brighten again

The key to whether the emerging recovery in New Zealand's economy will be able to gather strength and sustain itself through 2026 into 2028 is household spending. Spending by you and I typically makes up around 65% or so of spending in a modern economy like ours (China is under 40%) and many factors influence whether people generally will spend more or less.

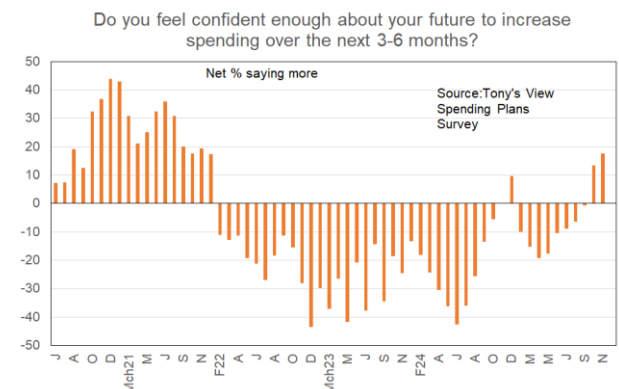
If we are worried about our incomes, affected by high interest rates, hit by falling asset prices, or concerned about the world in general we will tend to keep our wallets closed. But if we see brighter prospects ahead for our personal finances and the general environment around us, we will lift our spending levels.

Each month for the past five years I have run my Spending Plans Survey where I ask people whether they will buy more of less stuff over the coming 3-6 months. This can give us an early lead into changes in spending levels, changes in the economy's growth rate, prospects for retailers, and where inflationary pressures and interest rates will be headed.

I completed the November survey this week and it shows a rise in people's plans for buying stuff for the seventh month in a row. Back in April a net 19% of us said that we would spend less. Hence weakness in the economy and extra monetary policy easing by the Reserve Bank.

But since then things have been improving and this month a net 18% of people have said they will spend more. This is up from 13% last month and the second month in a row of a positive reading.

As the graph here shows, the past two months do stick out as being quite firm and the importance of this latest result is that it validates the movement into positive in October. September was -1%.



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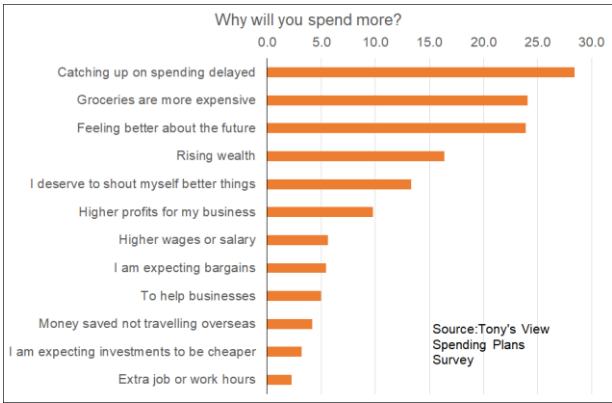
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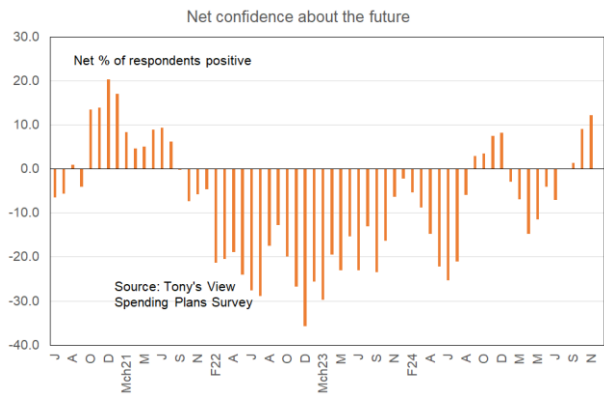
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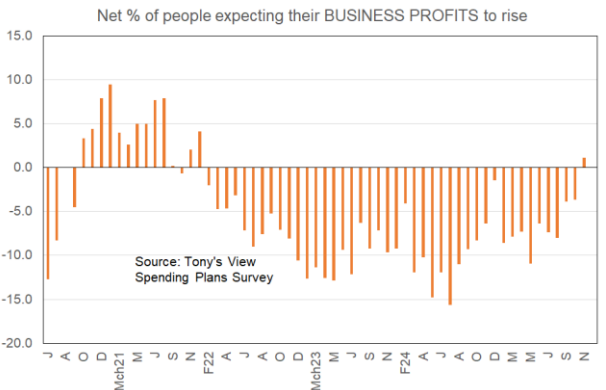
I ask people to indicate why they will spend more or spend less and from the results I develop a few indicators to try and explain shifts in spending plans. This graph shows the proportion of people citing each factor as reason for spending more. Some people may find the graph interesting – I don't really. It is shifts in things which matter in economics rather than a static snapshot.



First, people are more confident about what the future holds. Despair about our country is easing and this is the sort of thing which eventually causes migration flows to change.



Businesses are the most optimistic they have been in four years with regard to where their profits are heading. That is positive for upturns in capital spending and employment.



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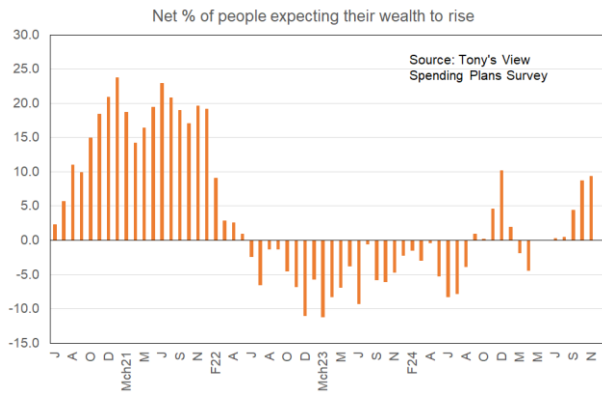
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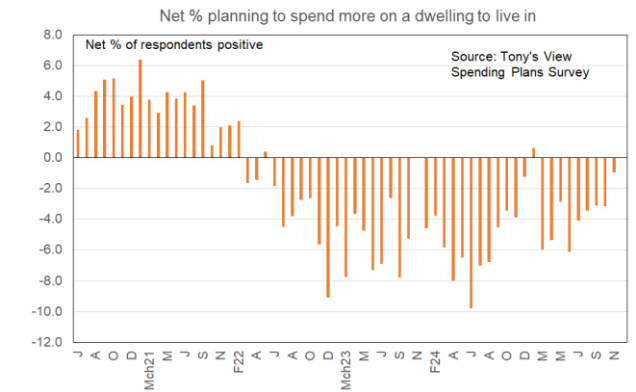
Business Outlook Survey, strongly tells us the labour market is turning. Sorry Opposition parties, but heading into next year's general election the labour market will be exactly where you don't want it to be – strong.

Just for good measure I throw this factor in as well, even though I feel it pales into insignificance besides the employment confidence gauge. An increasing net proportion of people say they will spend more because of rising wealth levels.

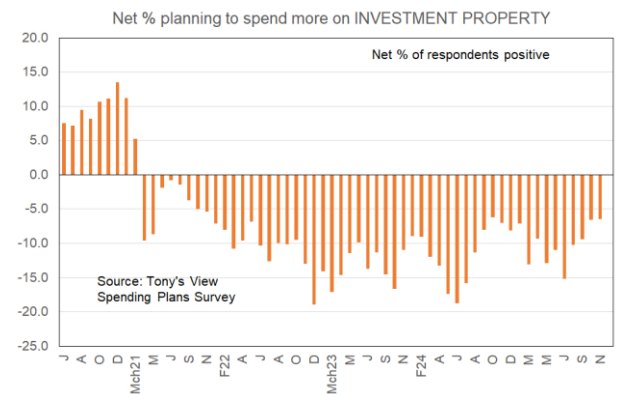


Let's now take a look at how things are changing for individual areas of spending and I'll reverse the order I usually do this in and look first of all at the two housing gauges.

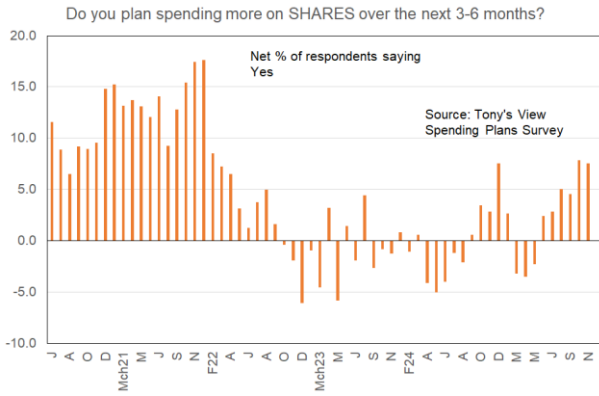
A net 1% of people say they will cut spending on a house to live in. The result allows one to start thinking that owner occupiers may soon begin entering the property market to buy then sell or sell than buy.



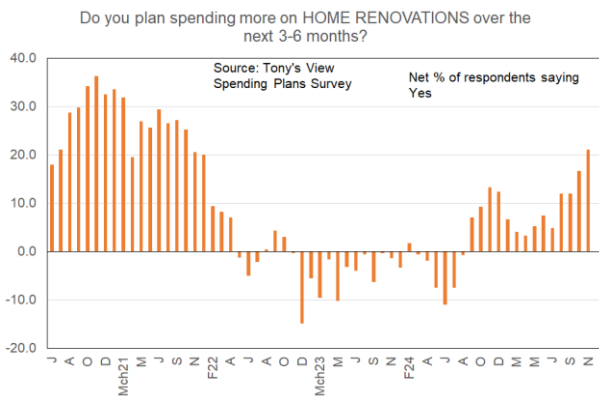
But reinforcing again the message I have been delivering for a long time regarding a structural shift in the propensity of average Kiwis to invest in residential property, we see only mild recent improvement in net plans for rental property buying.



And here is the graph for intentions of buying shares. Talk of a potential AI bubble bursting is gaining no obvious traction.

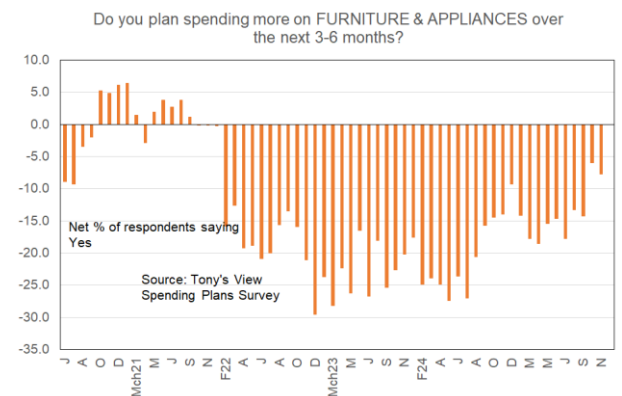
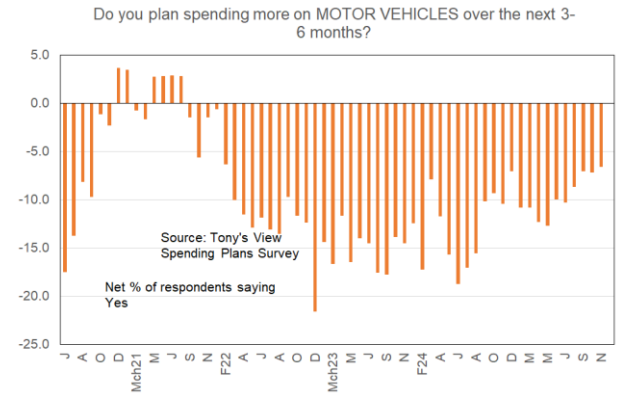


Now let's switch to looking at the gauges of spending changes in specific areas which I glean from the survey. Plans for spending on home renovations continue to strengthen. This is an important gauge of how serious people view the economic environment lying ahead.



The same goes for plans to spend on durable items like motor vehicles and furniture. These gauges are not recovering to the same degree and that tells us that just as businesses for now are hesitant to back their improving view with a burst of hiring, consumers also don't want to spend and then find their optimism misplaced – again. There is no imminent boom in

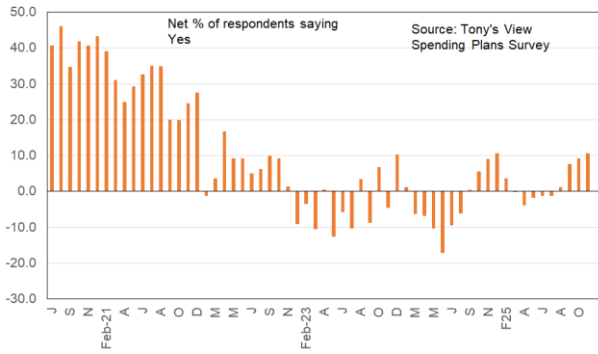
householding spending is what this tells us – just a recovery.



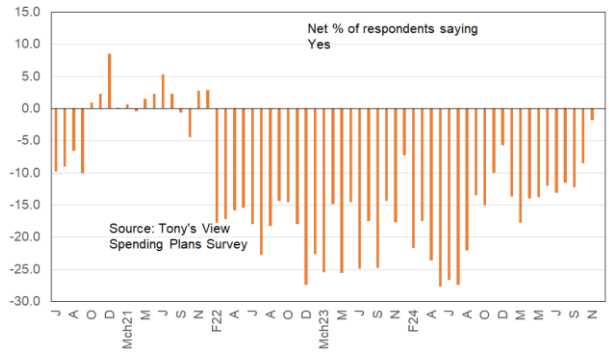
We still plan heading offshore if we can, but we are also increasingly willing to check out our motels.



Do you plan spending more on DOMESTIC TRAVEL over the next 3-6 months?



Do you plan spending more on CLOTHING & FOOTWEAR over the next 3-6 months?



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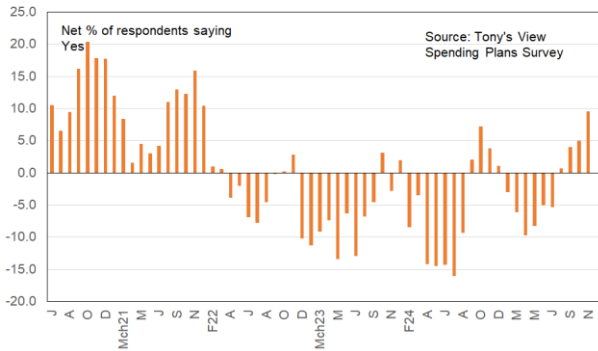
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There has been a good jump in plans for buying stuff for the garden this month and it looks like more than a seasonal thing.

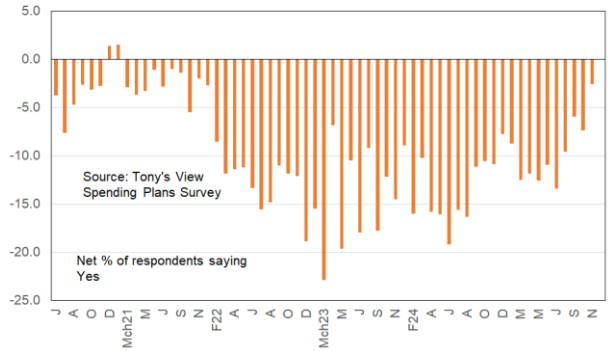
Do you plan spending more on GARDENING EQUIPMENT ETC. over the next 3-6 months?



Very interestingly, people are indicating they plan replacing the rags they've been running around in for almost four years now.

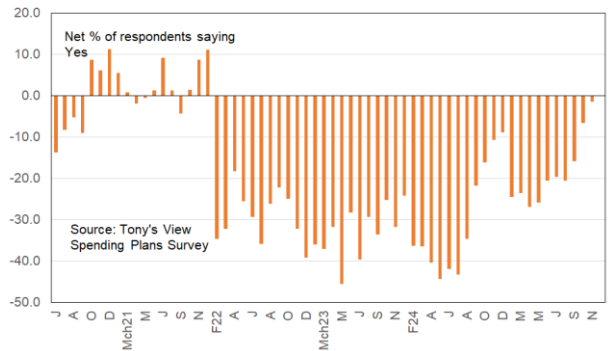
Sports equipment retailers can start to feel a tad better.

Do you plan spending more on SPORTS EQUIPMENT over the next 3-6 months?



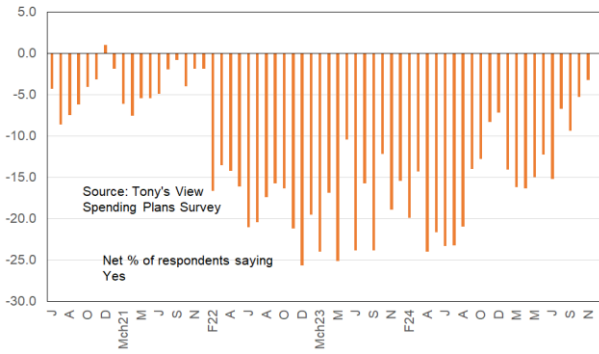
And there are almost as many people now saying they will spend more on eating out as say they will spend less. This is quite a big change from what we have gotten used to in recent years.

Do you plan spending more on EATING OUT over the next 3-6 months?



Things are also looking less bad for technology retailers.

Do you plan spending more on TECHNOLOGY (PCS etc.) over the next 3-6 months?



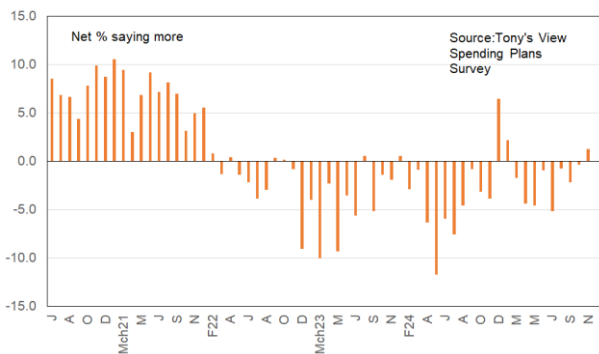
This table shows the latest net positive spending intentions result for each category.

Category	Net positive spending Intentions %
General groceries	26.5
Home renovations	21.0
International Travel	15.1
Domestic Travel	10.6
Gardening tools, plants etc.	9.5
Shares	7.5
Wellbeing/self-improvement	1.3
Dwelling for own use	-1.0
Eating out	-1.4
Clothing/footwear	-1.8
Sporting/fitness equipment	-2.6
Technology (PCs etc.)	-3.2
Investment property	-6.4
Motor vehicles	-6.6
Furniture or appliances	-7.7
Online services	-11.1



And if you flog wellness services and goods, things also seem to be improving.

Do you plan to spend more on wellbeing/self improvement over the next 3-6 months?



If I were a borrower, what would I do?

No local news of major importance has appeared this week to move wholesale interest rates all that much. Offshore, some central banks are receiving data indicating they will need to apply additional stimulus through cutting interest rates while others are receiving stronger than expected data.

The Australian Reserve Bank falls into the latter camp with the Deputy Governor recently noting that spare capacity in the economy at the start of an expected economic recovery is the least it has been at this point in the cycle for decades. This raises the risk of early onset inflation as growth improves.

For the moment with our unemployment rate at 5.3% and the capacity utilisation rate measured in the NZIER's quarterly survey sitting reasonably below average, the situation is not the same here. But the chance that the RBA does not cut its cash rate below the current 3.6% will limit scope for further declines in wholesale rates here while also keeping the NZ dollar weak against the AUD.

If I were borrowing at the moment, I would still be inclined to lock in fixed for five years below 5% in order to get protection against upside risks to

interest rates which will emerge from late-2027. There is a chance that the Reserve Bank are over-stimulating the economy now and it is hard to imagine that with inflation already at 3% an acceleration in growth from -1.1% to near 3% will see inflation fall to 2%.

Having said that, most people will be very comfortable locking in fixed for one year near 4.5%. There is a chance that a year from now long-term fixed rates may still be reasonably low. But I would be too risk averse to take that punt.

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