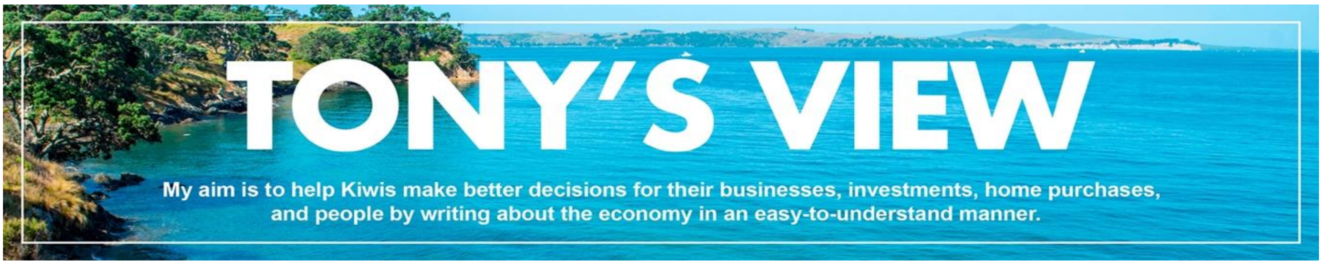

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Consumers pulling back from the brink

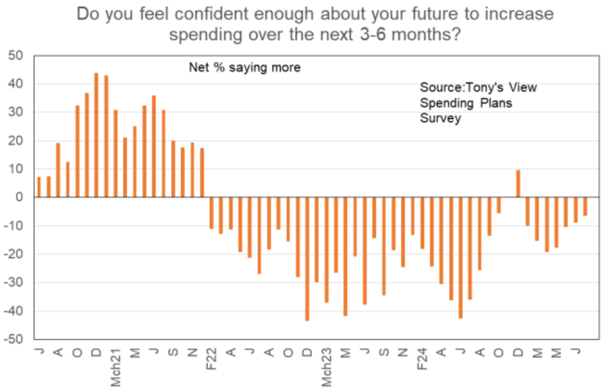
My latest monthly Spending Plans survey tells us that conditions are set to remain poor for retailers over the remainder of 2025 but that the extent of worsening is easing. That feeds into a general view that 2026 will be better than this year across most sectors, assisted particularly by the lagged effect of the monetary policy easing from this time last year, higher rural incomes, higher infrastructure spending, and stronger business investment

However, the message from political opinion polls and renewed open discussion of higher government spending and higher taxes (both bad for productivity and income per capita) will act as a disincentive to many businesses and individuals to invest. This will be one of the factors likely to see 2026 turn out to be a year of disappointment again – just not as bad as this year's disappointment.

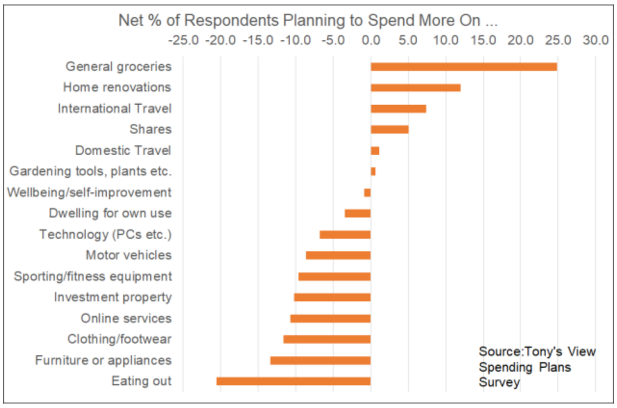
New Zealand's economic debate unfortunately revolves around the incorrect view that extra taxes will boost growth. Capital gains, wealth, tourists, beds, road use etc.

It pays to remember that next year is an election year and the popular and encouraged focus will be on falling productivity, supposed "crises" in scores of areas sometimes listed here, and Kiwis leaving the country.

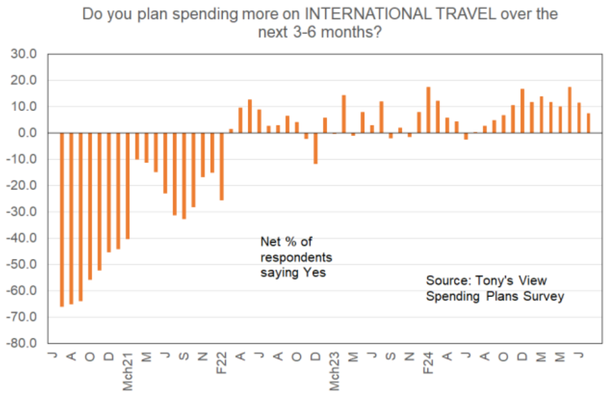
Back to my Spending Plans survey. The 638 responses produced a net 6% saying that they plan cutting their spending over the next 3-6 months. This is negative but slightly better than -9% in July and the -19% of April. The improving trend is clear in the graph.

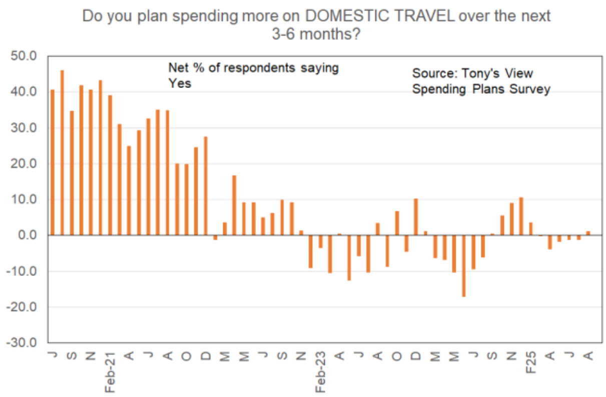


The areas where spending intentions are most positive are as shown in this next graph. Namely, general groceries (forced by higher prices), home renovations (tradies more available), international travel (get me out of here for a while), and shares (upward momentum recently despite President Trump-generated uncertainty).

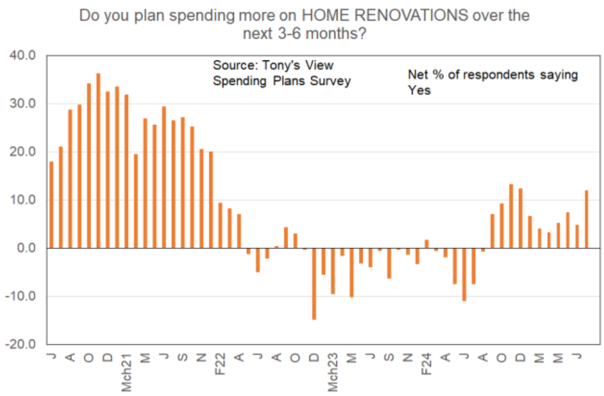


Plans for spending on a trip offshore have been firm for some time. Any why not? The most common pick of people hoping to win money on The Chase and Tipping Point is a trip outside their country. But for domestic travel things remain constrained. This helps explain the Queenstown boom and return of congestion issues (foreigners acting like us to get offshore) alongside still tight conditions in other parts of New Zealand more reliant on you and I hitting the road in our cars.

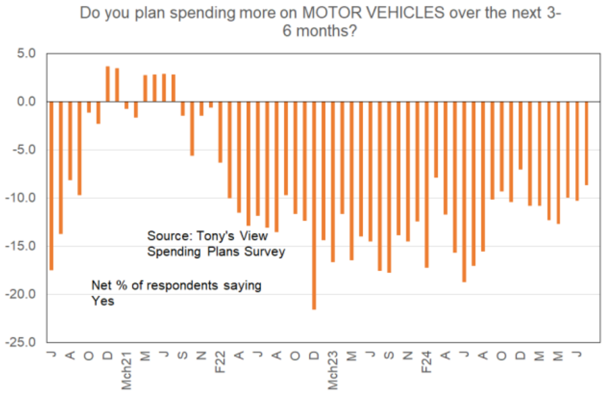


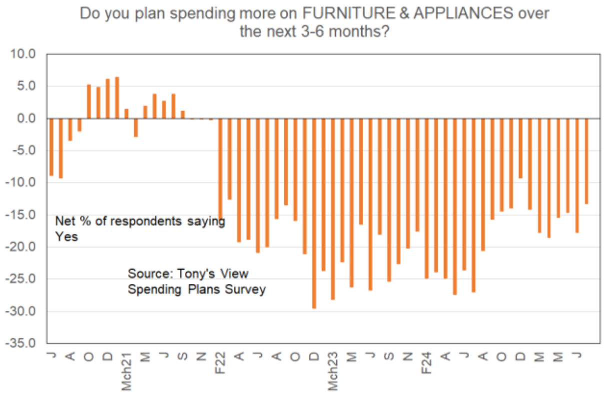


The lift in plans for home renovations is quite strong this month and that might reflect the increasing attention being paid recently to builders collapsing and people looking for work. Once the construction sector regains strength skilled people will be harder to find, they will become more expensive, and perhaps less focussed on quality and timeliness of the work done.

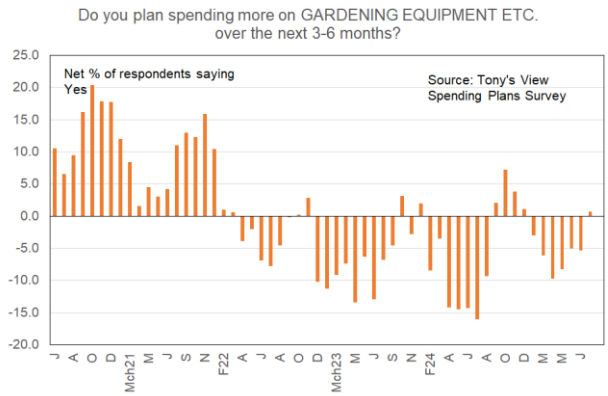


Plans are still negative for spending on lumpy durable items like motor vehicles, and furniture and appliances.

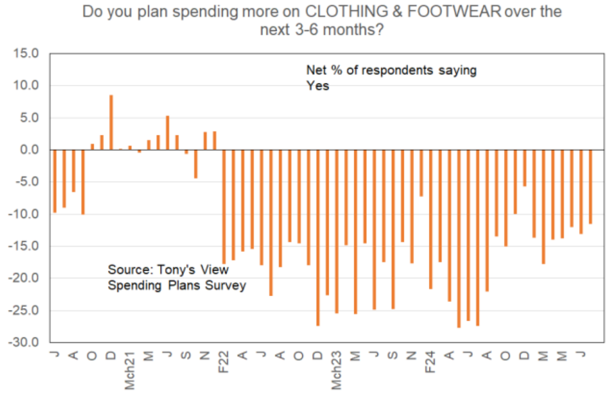




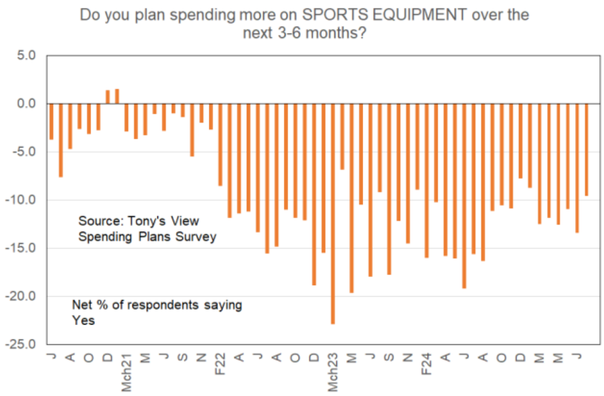
For gardening equipment etc. there has been a shift to the positive in spending plans after a run of strongly negative months. The sharp change however could be a blip so if I were running a garden centre I'd hold off celebrating to see if next month's result is similar before starting to get excited about the potential for Spring sales activity.



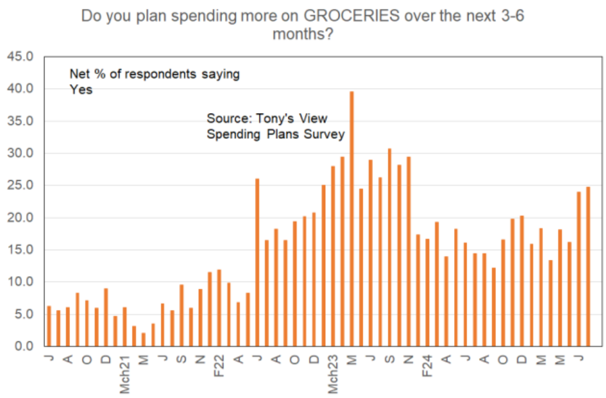
For clothing and footwear retailers the outlook remains poor with a net 12% of people planning cutbacks.



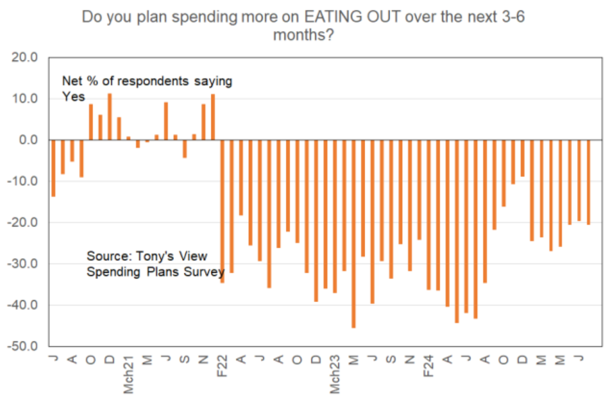
A net 10% of people plan spending less on sports equipment.



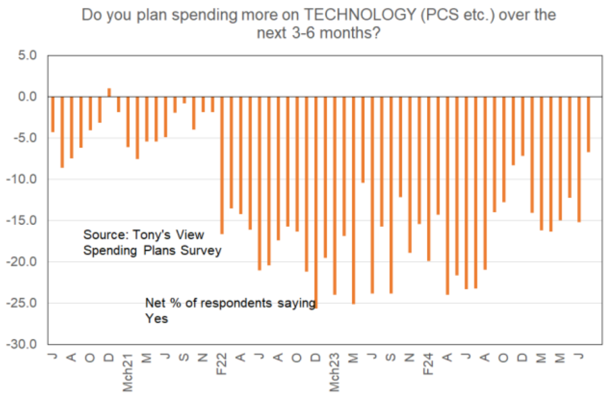
Over the past two months there has been a strong jump in the net proportion of people anticipating spending more on groceries. This could reflect the widespread publicity given to hikes in butter prices.



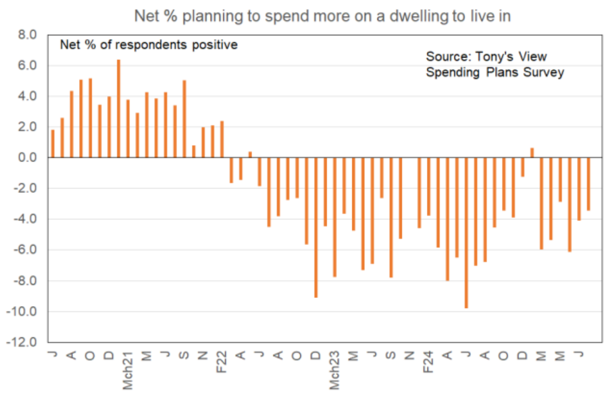
For eating establishments the outlook remains as poor as ever with negative net 21% spending intentions.



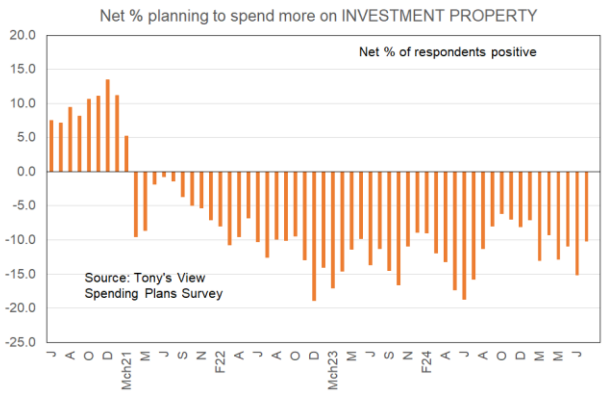
A net 7% of people report that they plan spending less on technology. This is the best result since late-2021. However, this measure has made some big jumps in the past so it would be best to treat this result with a grain of salt unless confirmed next month.



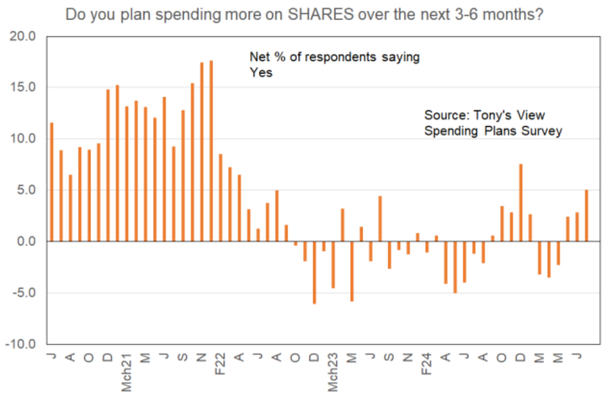
When we look at the two housing measures derived from this survey we continue to see negativism. A net 3.4% of people plan cutting back on buying a house to live in. I consider this series as showing no improving or deteriorating trend.



A net 10.2% of people plan spending less on an investment property. This result is consistent with most others since early-2021 and agrees with measures from my other surveys which show disinvestment from the residential property sector.



A net 5% of people plan buying more shares. This may well reflect the recent strong performance of the US sharemarket despite worries about President Trump's policies and evidence of a rapid weakening in the US jobs market.



Monetary policy relevance of a weak labour market

The employment numbers released here last week enhanced expectations in New Zealand of additional monetary policy easing by the Reserve Bank. The data show that there is spare capacity in the labour market and theory tells us that this will feed through to reduced wages growth and therefore reduced pressure on businesses to raise their prices. But there are a number of things to keep in mind when considering this disinflationary link.

First, the labour market is a lagging indicator of the state of the economy. It changes after the economy changes and does not tell us where the economy generally is headed except to the extent that the reporting of weak numbers influences household sentiment and spending intentions.

Second, wages growth is still unusually high. The most referenced measure among economists is the change in average ordinary time hourly earnings in the private sector. This rose by 4.6% in the June quarter from a year ago. A year earlier the change was 4.0%. Real wages growth remains quite firm and there is a suspicion that the recent experience of labour shortages is encouraging businesses to hoard labour. Some are of the view that this hoarded labour may soon be shed and that will generate strong disinflationary momentum in the economy.

However, the high level of confidence which businesses are expressing about the state of the economy next year – backed by positive investment and employment intentions – suggests a period of fresh labour-shedding does not lie just around the corner.

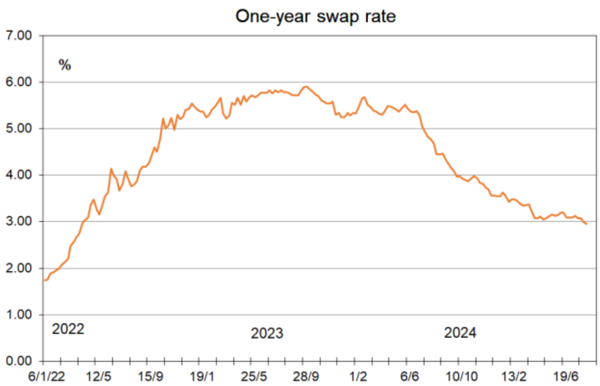
Third, very few firms are saying that higher wages are the prime cause of their costs going up and their margins being slashed. Instead mention is often made of employment rules like sick leave, alongside higher materials costs, regulations, and things like council and central government imposts. These points won't stop a probable 0.25% cut in the official cash rate next Wednesday. But strong confidence about additional cuts in some quarters after that may not be warranted.

If I were a borrower, what would I do?

Wholesale interest rates have crept slightly lower again this week with assistance from the 0.25% rate cut in Australia with indications there of a couple more to come. No major changes in US rates occurred and the monthly inflation data for the US released this week contained no great surprises.

The feedthrough of tariff increases into US consumer prices still appears quite mild.

The NZ one year swap rate at which banks borrow to lend out to customers for a one year fixed term has ended this week near 2.95% from 2.99% last week and 3.13% four weeks ago. The rate is now at its lowest level since April 2022.



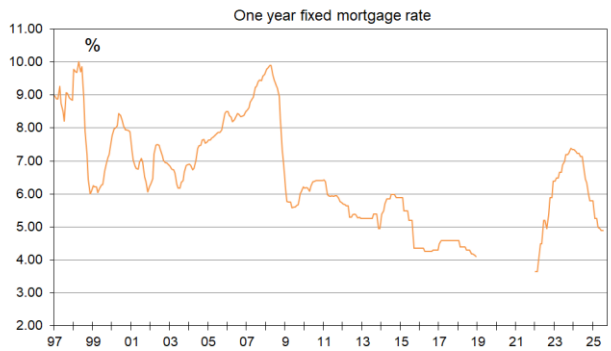
In response to still easing borrowing costs banks are cutting little bits and pieces off of their 1-3 year fixed mortgage rates. Average customers can now fix one year at 4.79% and three years at 4.99%.

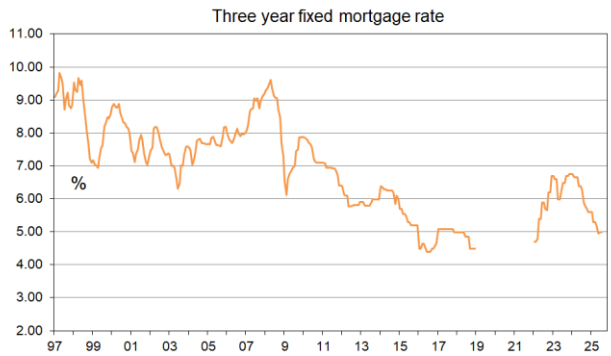
Six months ago the one year rate was 5.49% and three year rate 4.99%. The absence of declines beyond the 1-2 year terms reflects the fact that easing of the official cash rate has already largely been factored into wholesale interest rates.

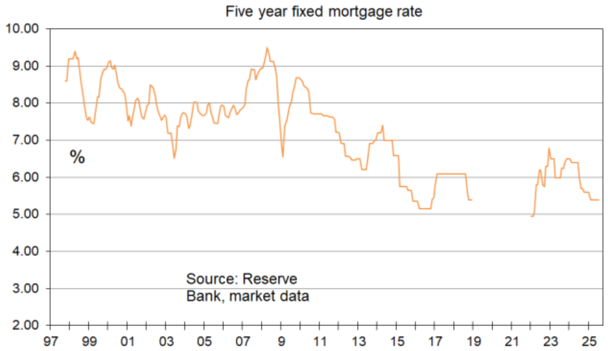
The economy may again be surprising on the weak side and suggesting to some that many extra 0.25% cuts lie ahead. But inflation gauges remain unusually high given the state of the economy, various extra price hikes for consumers are promised (rates, electricity etc.), the country's productivity is falling, and businesses are essentially saying that when customer flows improve they will generally hike their prices.

If I were borrowing at the moment, I'd personally opt for fixing three years at 4.99%. But no particular term truly jumps out to me as looking like a great pick and I couldn't fault someone fixing just one year. Kiwis hardly ever fix longer than three years and mainly stick to the one and two year terms anyway.

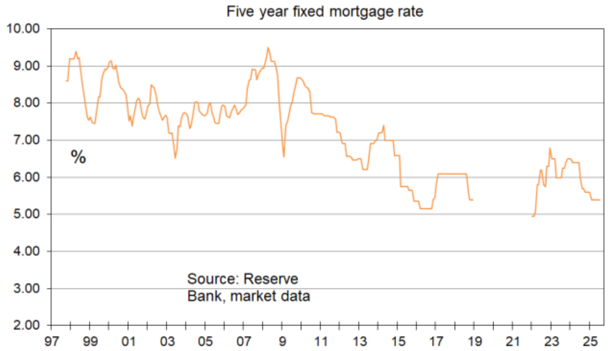
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







This graph shows how current rates compare with averages from 2009-18.



To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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