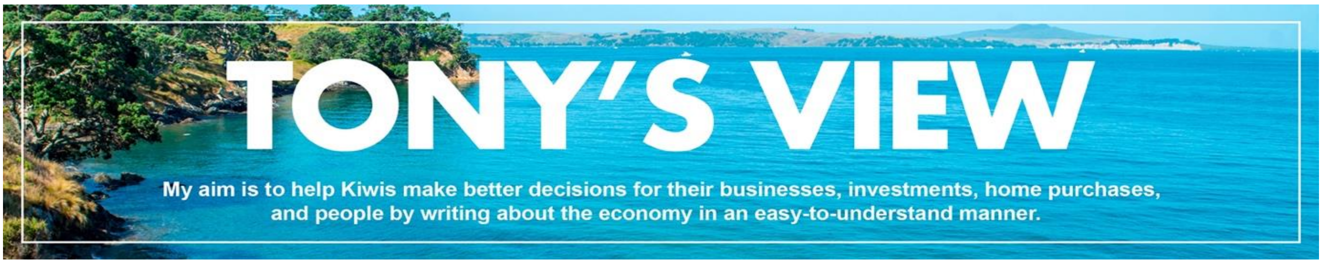

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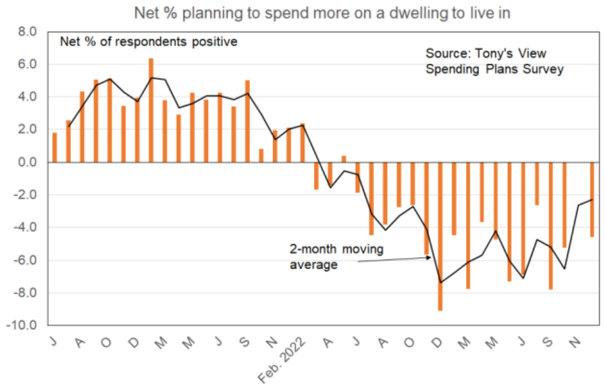
Consumer spending plans shifting

Each month I ask a sub-section of my near 31,000 subscribers to give their thoughts regarding buying more or less stuff over the coming 3-6 months. My aim is to gain some insight into whether retailers can feel optimistic or pessimistic (hint, it's the latter) and what areas may show greatest weakness or strength. I also gain a couple of extra data series as input into my analysis of what the housing market is doing. For the heck of it, let's start with those two housing indicators.

In this month's survey run just over a week ago a net 4.6% of the 370 respondents have said they plan spending less on a home to live in. What matters here is the trend and its strength. The graph here shows that the trend is towards weaker thoughts about not buying, but the improvement in purchasing intentions is mild and we are nowhere near the strength of 2020-21 before the credit crunch.



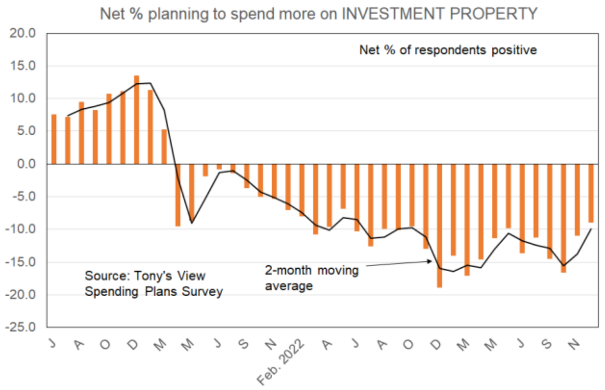
On the basis of recent results here you could not run the argument that people in general are feeling a need or desire to jump back into the housing market to buy then sell or sell then buy. Most of the respondents here I suspect are owner occupiers.

The other housing result is that a net 8.9% of people still do not have positive intentions of buying an investment property. We can say three things.

1. The extent of investor withdrawal from the housing market is easing.
2. The pace of that easing is mild and tells us there is no rush of people looking to invest in

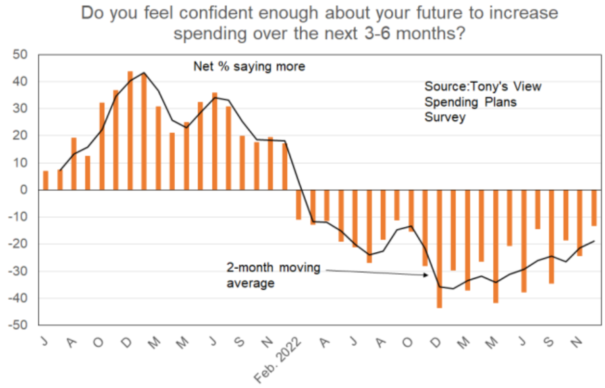
housing just because the rules are again changing.

3. Overall, interest in property investment is still relatively low.



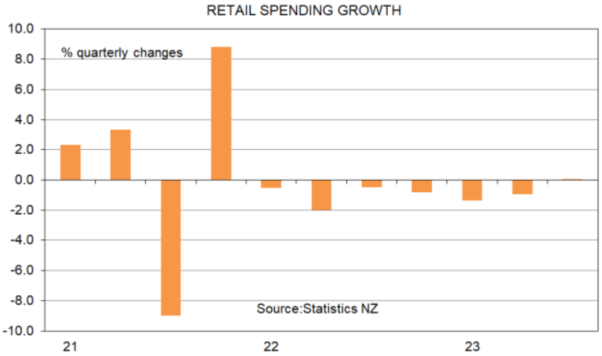
There is no housing frenzy, Summer looks like it will be subdued, panic from the Reserve Bank regarding housing running away on itself again is not justified.

Shifting now to the headline indicator from my survey – a net 13% of people say that they plan cutting back on their spending. There is no basis for retailers feeling optimistic for the coming year as yet. But at least the trend is one of decreasing intentions of cutting spending.



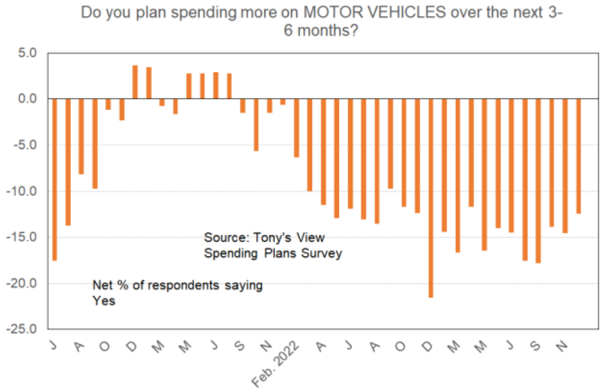
One might say the worst has passed for retailers, but that statement would miss two things. First, sales are still likely to shrink for many. Second, and more importantly, the period of time during which retail spending has been constrained by Reserve Bank policy principally is now getting quite long. Cash positions of retailers will be getting very challenged and for many the coming year will bring closure – either through choice or by being put into liquidation.

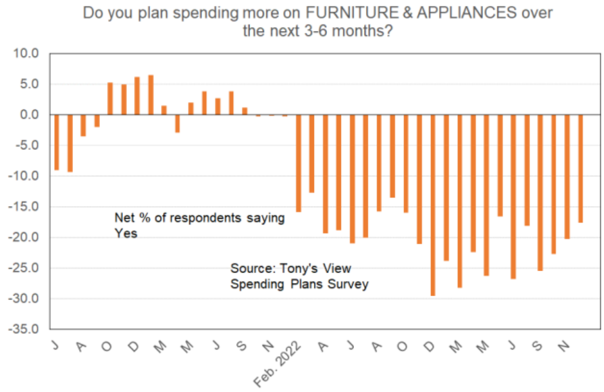
Note that the volume of core retail spending has been falling since the start of 2022 with the recent September quarter 0% change not much of a result considering the migration boom.

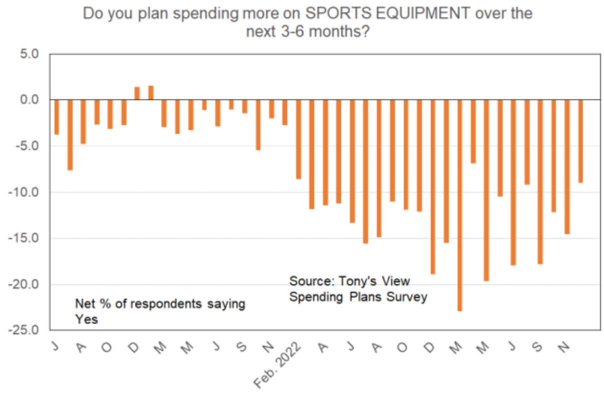


Where is the spending outlook the weakest? Mainly durable items (which are now falling in price in the United States because of weak demand).

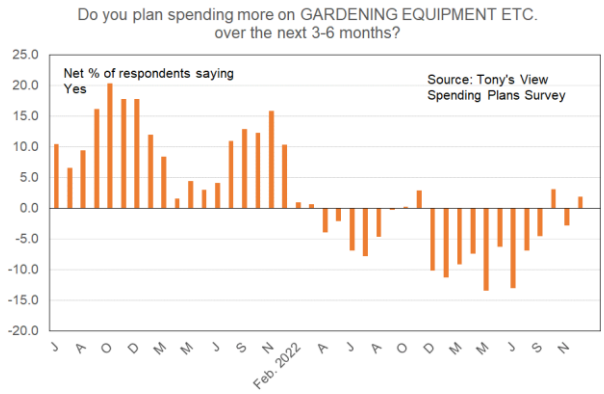
A net 12% of people plan cutting spending on motor vehicles, a net 18% on furniture and appliances, and a net 9% on sporting equipment.



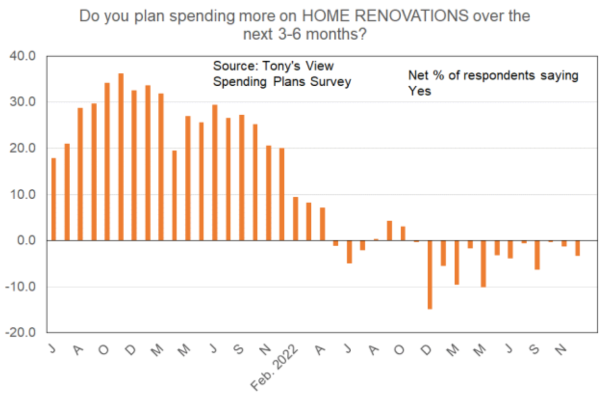




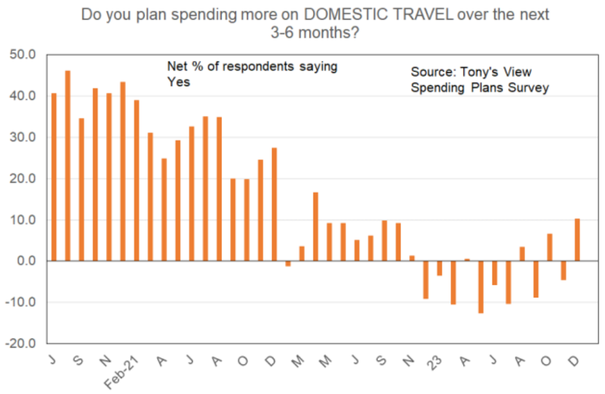
A net 2% however plan spending more on gardening items. But that might be seasonal.



A net 3% plan cutting back on home renovation spending. The greatest period of pullback in this area of spending which boomed during the pandemic has now been and gone.

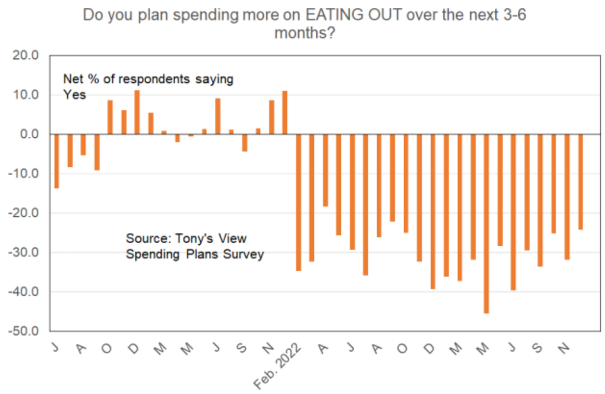


A net 10.3% of people plan spending more on domestic travel. That is good for the local tourism industry. But note the high volatility for this measure over the past year.

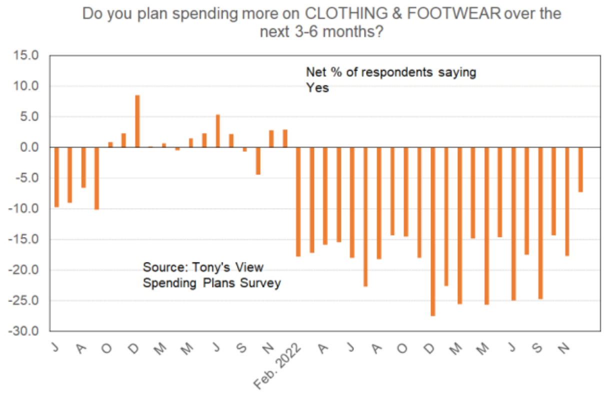


A net 7.8% plan spending more on international travel. The graph suggests that we remain interested in travelling overseas but the initial burst of revenge travel spending has passed.

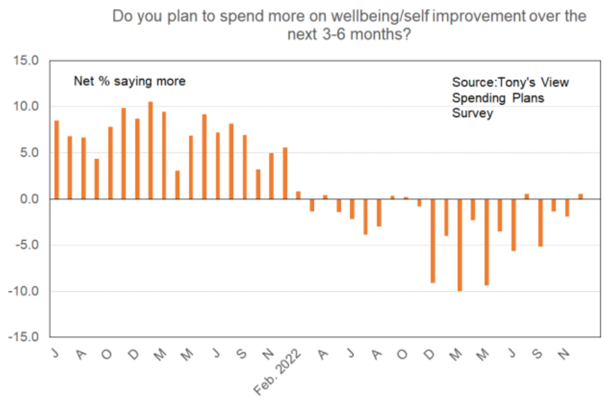
Plans for spending on eating out remain fairly dire.

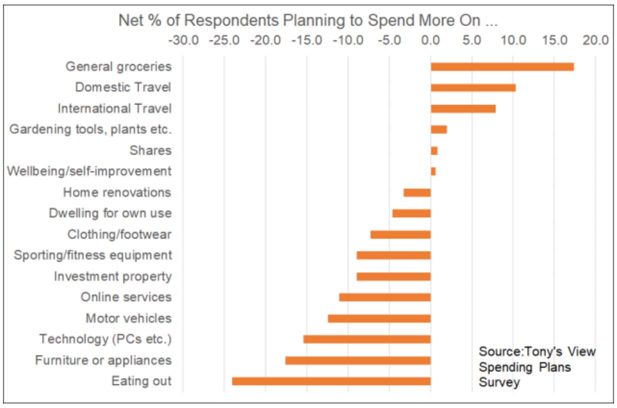


But there is the least degree of pessimism regarding spending on clothing and footwear that we have seen since before the housing credit crunch.



Plans for spending on self-improvement remain well away from pandemic levels. But there is an improving trend in place.





Next week I will have a look at some of the reasons why people say they will spend more or less. This can give us a feel for where job security feelings are tracking etc.

In case you missed it

No survey results were sent out this past week. But keep an eye out for my mortgage broker results tomorrow, sponsored by mortgages.co.nz

If I were a borrower, what would I do?

Wholesale interest rates (bank borrowing costs to lend to you and I) have fallen sharply this week in response to weaker than expected data offshore on economic activity and inflation. The monthly price gauges here in NZ were also weaker than expected at the margin and some forecasters have cut their inflation predictions. And this morning the GDP data showed our economy shrank 0.3% in the September quarter and did not grow 0.3% as the Reserve Bank had factored into their monetary policy decision. In fact with revisions to previous quarters the economy is about 1% smaller than they estimated.

The general trend of things is towards the Reserve Bank cutting the cash rate well before their mid-2025 timing. But how soon is difficult to know. I'd say near the middle of next year. Until then the drift for fixed mortgage rates will be slowly downward with banks wary of upsetting the still hawkish central bank and willing for the moment to bank extra profit from above average lending margins on home mortgages. But given today's data we cannot rule out pre-Christmas fixed rate cuts.

If I were fixing at the moment, I'd hold off to see how banks react to the fall in borrowing costs. The one year swap rate they pay for instance is now near 5.3% from 5.6% last week.

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.