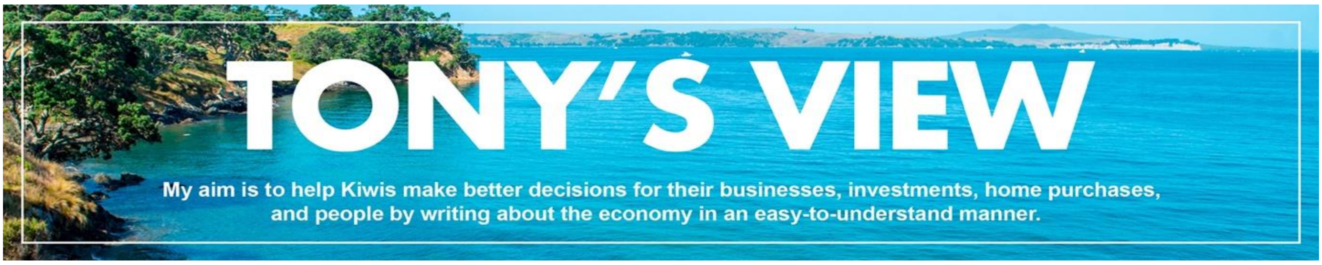

Input to your Strategy for Adapting to Challenges

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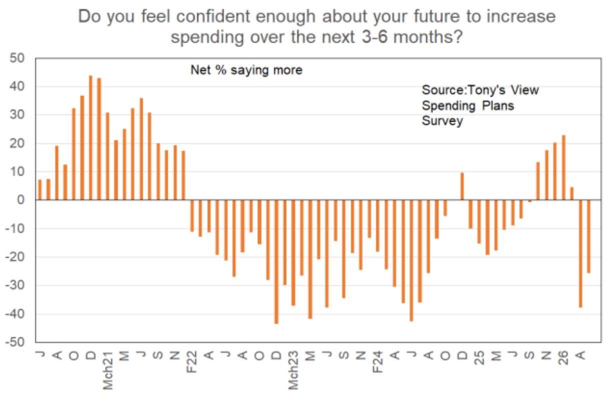
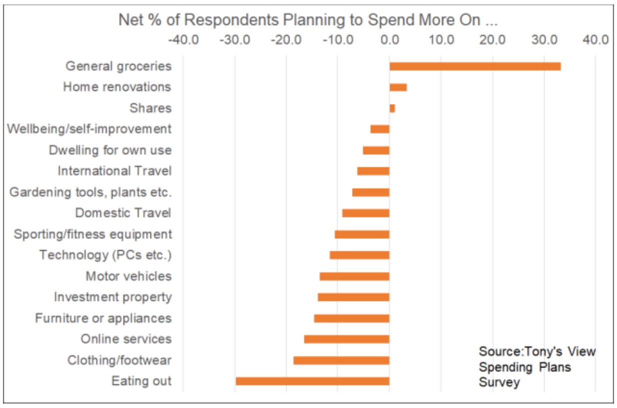
Consumers slightly less pessimistic

There has been a small improvement in the negativism people feel with regard to spending more on things generally in the near future. Whereas a month ago a net 38% of respondents in my monthly Spending Plans survey reported that they intend cutting spending in the next 3-6 months, now a net 26% are of that view. Adaptation to the new reality is underway.

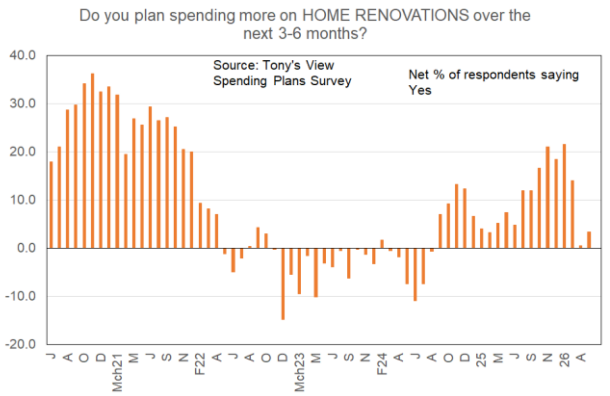


The result is still a poor one however and suggests that retailers should continue to expect challenging times through the approaching winter. Strong cutbacks in spending are planned for things like eating out, clothing and footwear, and online services. But people anticipate (unwillingly presumably) spending more on groceries in the near future along with home renovations and shares.

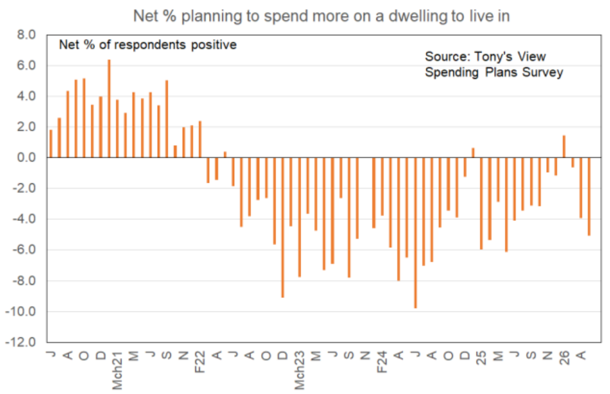


These next graphs show the changes in spending intentions across a range of areas since this survey started in 2020.

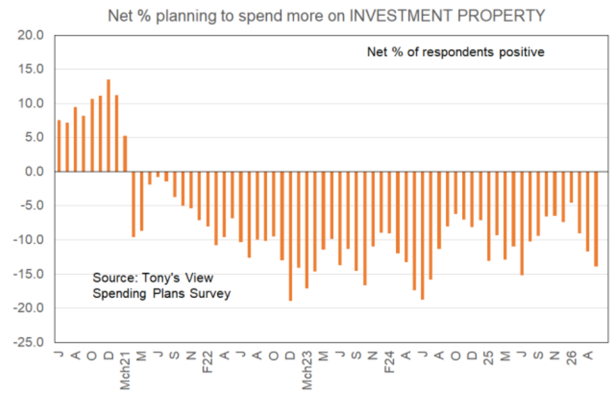
People still have positive plans for undertaking renovations of their homes and that is good news for the many tradies involved in this aspect of the building industry.



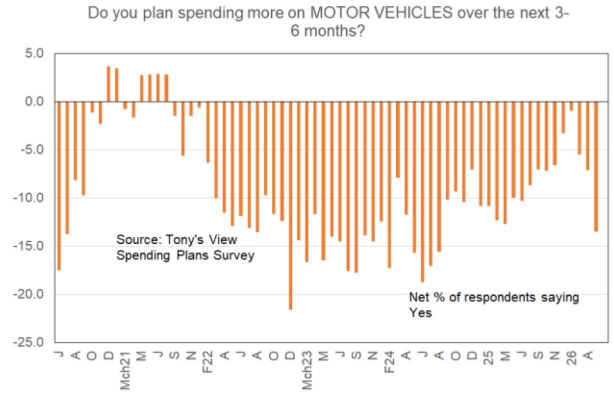
But for those involved in new dwelling construction a cautious take on the strong rise in consent numbers issued over the past year (from 33,500 to 38,000) would seem warranted. The improvement in our net home buying measure which has been correlated with the rise in consent issuance has gone into reverse and in fact worsened some more this past month while readings for most other measures in the survey have improved slightly compared with April.

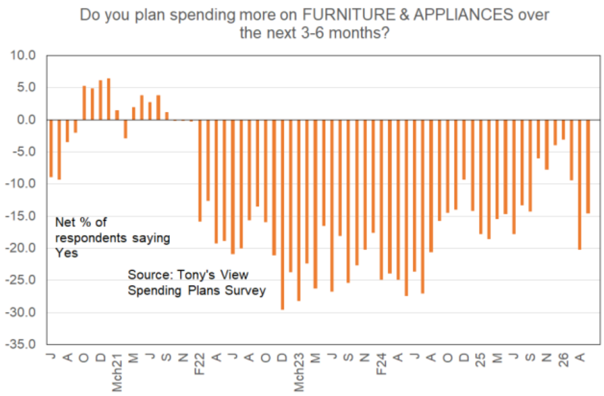


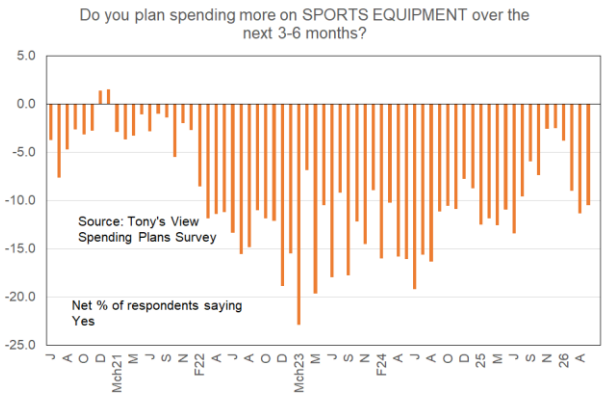
Plans for buying an investment property have also deteriorated again and this is consistent with the worsening of net buying intentions seen in the likes of my monthly survey of real estate agents. Demand for investment property has been weak for five years now as a structural shift in investor preference at the margin towards other assets (KiwiSaver, managed funds generally, some commercial) grows in momentum.



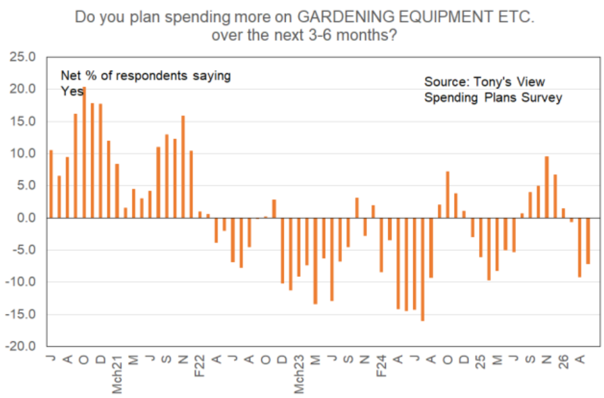
Looking at what we economists call "durable" goods we see a strong fresh deterioration in plans to buy a motor vehicle, slightly less negativity for buying furniture and appliances, and no real change in plans to cut back spending on sporting goods.



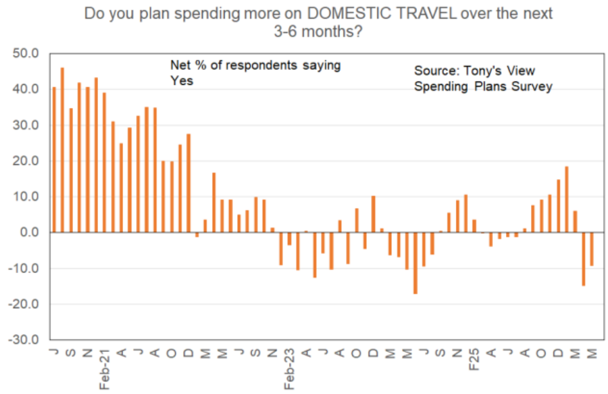




The seasonal decline in plans to spend in the garden is well underway.

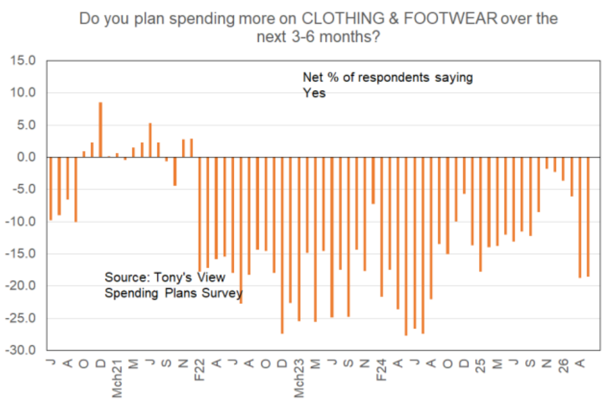


With regard to travelling we are looking to exercise restraint domestically in more than a seasonal easing.

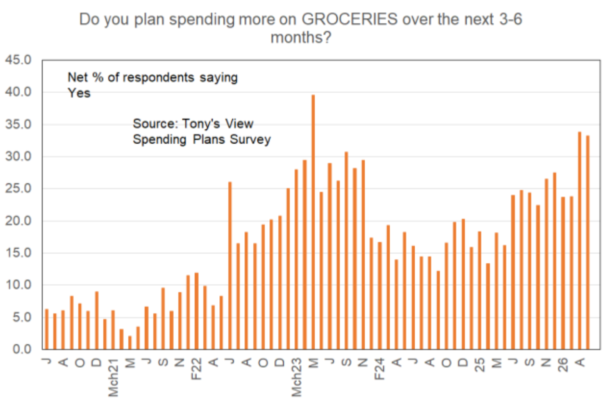


And for travelling offshore we are also looking to save funds.

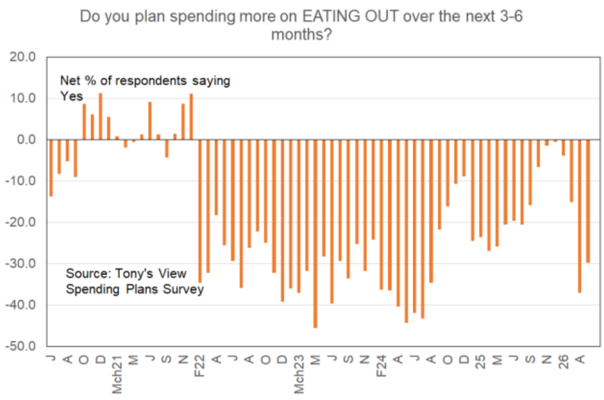
It is in the area of clothing and footwear that we have decided strongly to reduce spending since the oil price jump occurred.



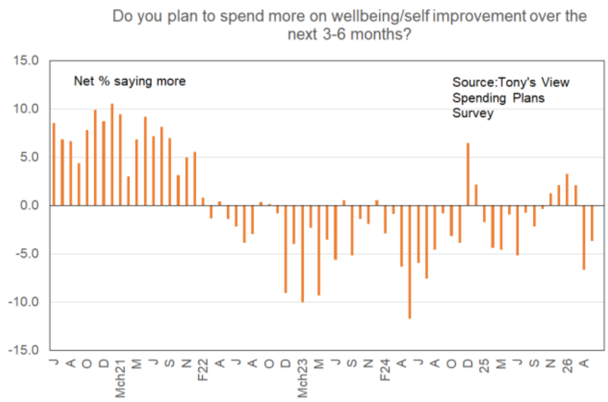
But we anticipate having to spend more on groceries amidst warnings of price rises for reasons ranging from higher freight costs to reduced fertilizer application cutting food production volumes offshore which will likely impact prices here also.



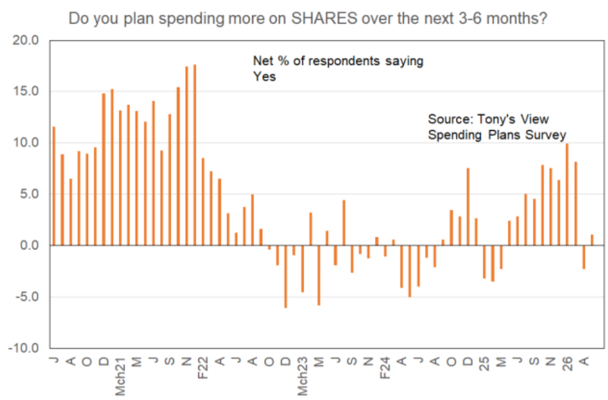
For eating out the outlook is quite poor - again.



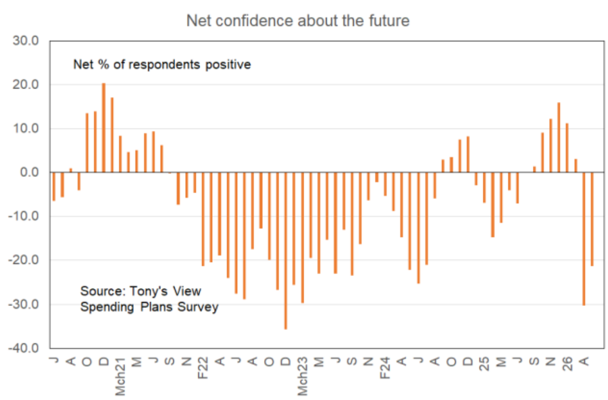
The wellbeing sector continues to struggle after the strong interest during the pandemic.



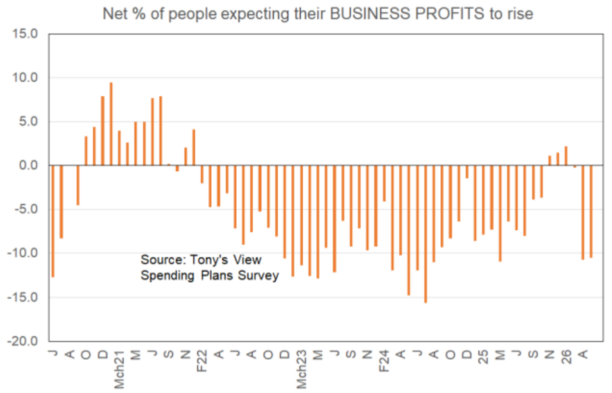
Finally, with the sharemarkets having recovered well recently there has been a small return of net purchasing interest for shares.



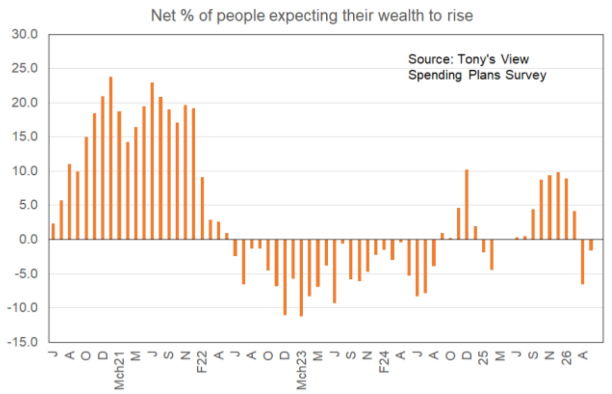
The main reason why consumers have become a lot more restrained in their spending plans recently has been a loss of confidence about what lies ahead. This has become almost a seasonal thing. We get confident entering into summer and then some reality comes along to shock us back into a depressed state again.



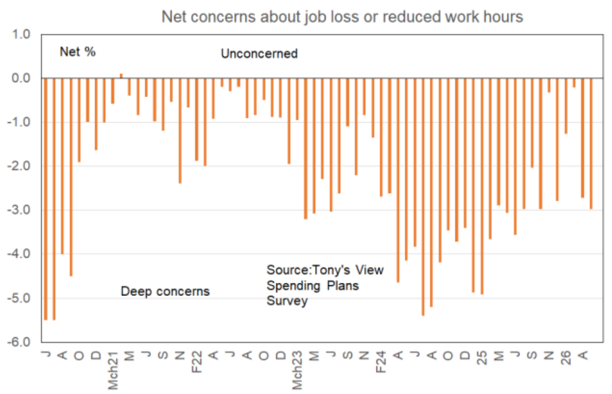
Business hopes for their profits have declined strongly.



Expectations for wealth growth have eased – though this month was less negative than April.



Worries about employment have surfaced strongly again.



	Net %
Net % spend more	-26
Motor vehicles	-13
Home renovations	3
Domestic Travel	-9
International Travel	-6
Furniture or appliances	-15
Technology (PCs etc.)	-12
General groceries	33
Eating out	-30
Clothing/footwear	-19
Gardening tools, plants etc.	-7
Online services	-16
Sporting/fitness equipment	-10
Wellbeing/self-improvement	-4
Investment property	-14
Dwelling for own use	-5
Shares	1

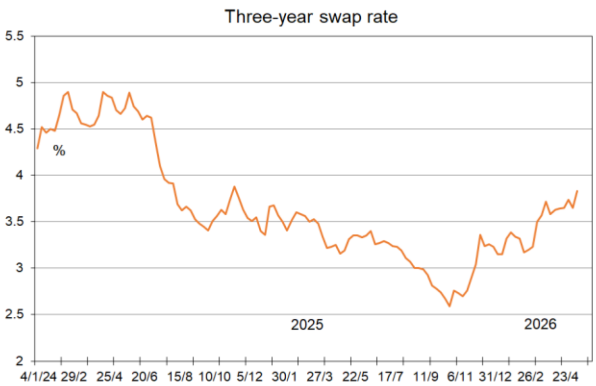
If I were a borrower, what would I do?

Wholesale interest rates have been on an upward track since hitting their policy related easing lows in October last year. The initial drift up in rates was driven by expectations of improving NZ growth eventually bringing higher inflation and tighter monetary policy probably from the first half of 2027.

More recently the continuing rate rises have reflected expectations of a strong lift in inflation due to the latest war in the Middle East restricting supplies of vital things including oil.

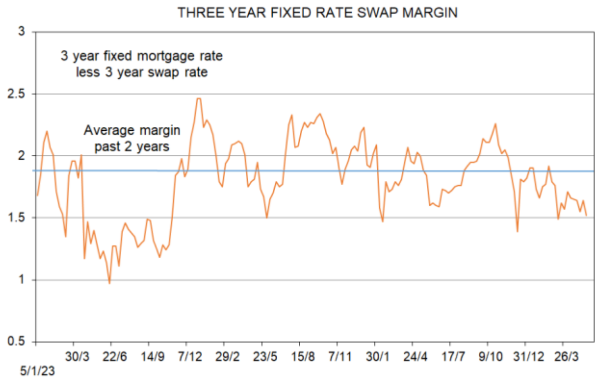
Unlike Australia, there is probably not much of the increase in rates here since October which can be attributed to a belief that the central bank eased too much last year. But current pricing of at least three cash rate increases before the end of the year would not be as strong if the Reserve Bank had not rashly taken the OCR down to 2.25% as inflation lifted from 2.2% to 3.0%.

At the moment the likes of the one year swap rate at which banks borrow fixed to lend fixed is sitting near 3.2% compared with 2.35% in October. That is a rise of almost 1%. The three year rate has gone to near 3.8% from 2.6% and the five year rate to near 4.05% from 2.9%.



However, fixed mortgage rates have not risen by as much. The increases since October for the one, three, and five year terms have been respectively 0.16%, 0.6%, and 0.6%.

Fixed rate lending margins are quite compressed, and borrowers should expect to see lending rate rises at unpredictable times over the next few weeks.



Why not immediately? Possibly because the banks are only slowly adjusting to the new reality of an absence of strong lending opportunities to investment property buyers. At some stage they will reduce their lending targets and maybe that will act as a catalyst for generalised rate rises.

The upshot remains that if I were a borrower at the moment I would still favour fixing three years – not just to beat the round of rate rises yet to come but to get over the messy rises in rates coming up in response to the uncertain extended inflation hike coming from the war and businesses rebuilding margins.

The inflation picture is very unclear and because of that I retain my view that the Reserve Bank will not move soon to raise rates. They have proven themselves unable to accurately predict inflation six months in advance even without a war distorting things. That plus their established tendency to tighten late each cycle then tighten too much (then loosen too late and loosen too much) means rate rises may lie further down the track than the markets are pricing.

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

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.


TONY'S VIEW
My aim is to help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy-to-understand manner.