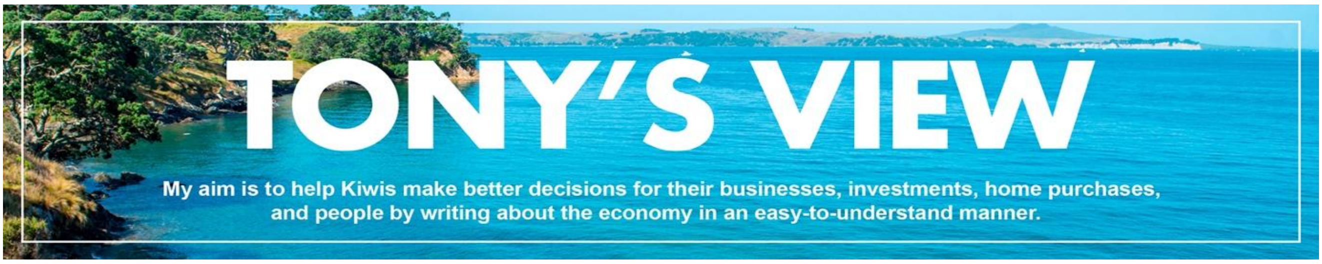

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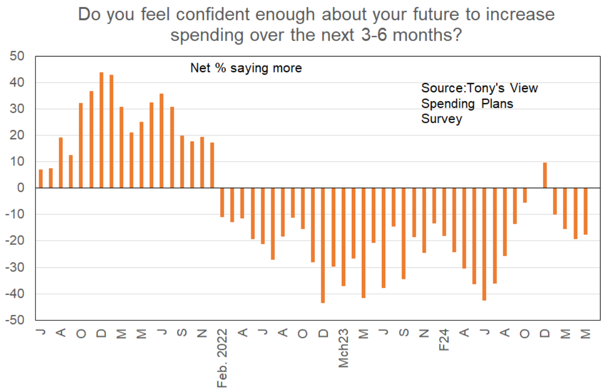
Retailing outlook still poor

This week I ran my monthly Spending Plans Survey which gives retailers insight into what their trading conditions might look like over the next 3-6 months. The results show that things are not getting any worse overall than they were in April, but the outlook remains poor for the Winter-Spring period.

When asked whether they plan spending more or less on stuff generally in the next 3-6 months a net 18% of the near 700 respondents said they would spend less. This looks statistically the same as the -19% result for April and -15% for March.

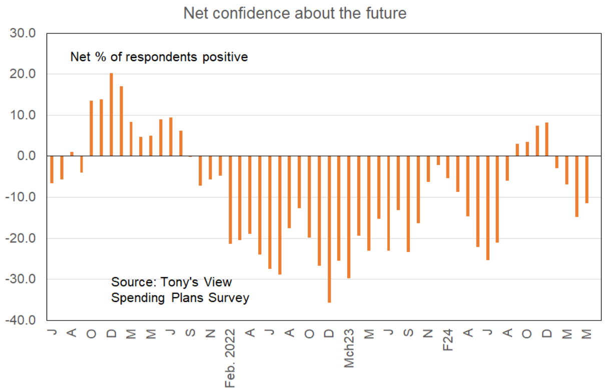


The most recent positive result came early in December when a net 10% of people said that they would spend more. This was the peak for optimism following the low of June last year when a high net 42% of people said they planned cutting back on their spending. That result came before the Reserve Bank hinted that it would soon cut interest rates, and the +10% number reflected misplaced optimism regarding what the impact would be of removing tight monetary conditions.

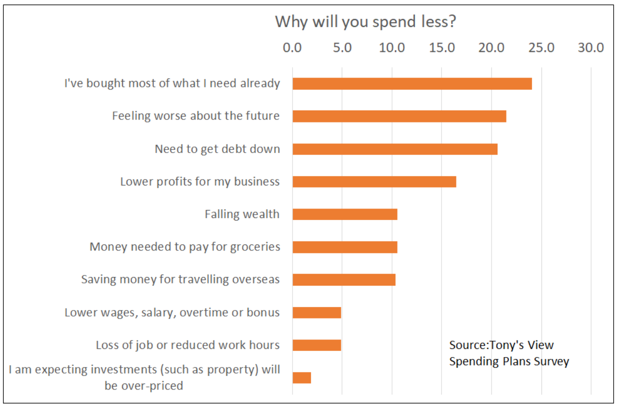
The latest -18% result tells us that retailers should be wary of their sales projections and inventory levels. Cash flows will need very tight monitoring and don't be surprised if one's bankers want extra, more frequent information on trading flows. Before the year is out another batch of retailers is likely to go into liquidation.

As I pointed out back in August, there is more to the economy than just the level of interest rates. Things like job security matter and I can see from my survey of real estate agents discussed last week that a still high 47% of agents say that people are worried about their employment. The five year average is 21%, the mid-2024 result was a record high of 56%, and we started last year with just 14%.

Looking at the Spending Plans Survey we can see that one reason for the continuing high restraint on spending intentions is worries about the future – expressed by a net 22% of respondents as shown in the following graph.

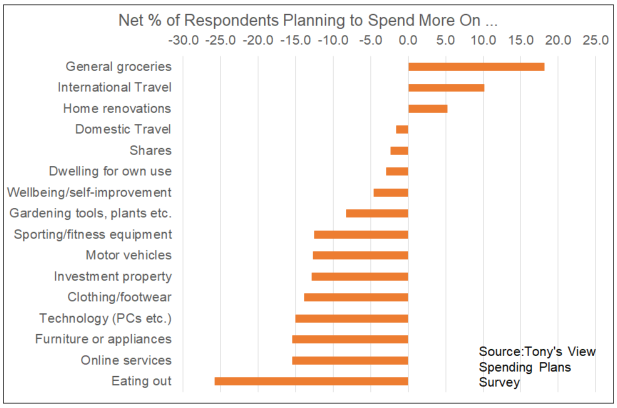


This next graph shows the proportions of people citing the factors shown as reason for spending less.

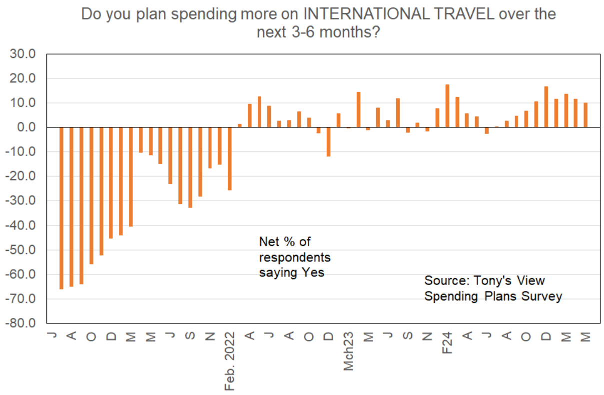


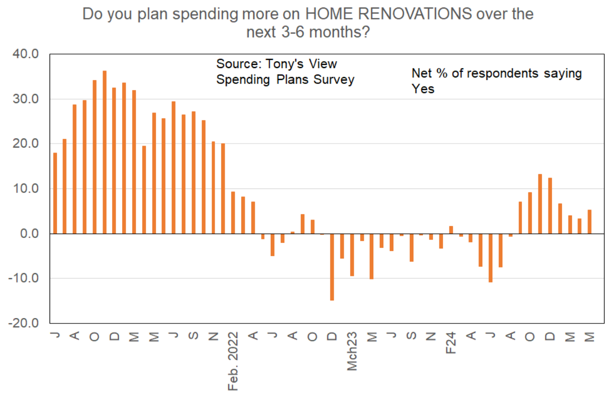
The proportion citing a need to have enough money to buy groceries is 11%. The initial shock of higher grocery prices has passed, but concerns are still there. I only started asking about this factor in July 2022.

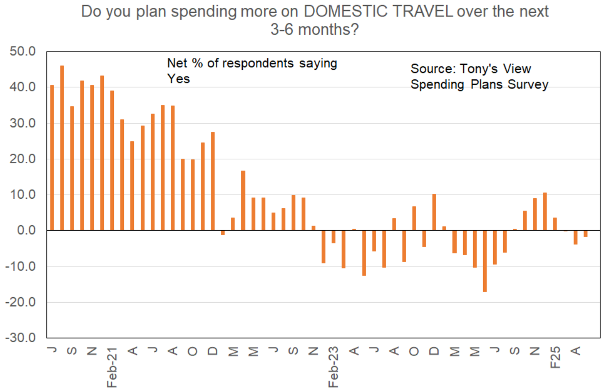
Looking at individual areas of spending plans we can see strongest plans are held for spending on groceries and international travel. We love to travel out of our own country – just like most of the winners on The Chase when asked what they plan doing with their winnings. Not everyone wants to blow it all on a handbag or new chicken run.



Plans for offshore travel are holding up, but for viewing our own country there is no increase underway.

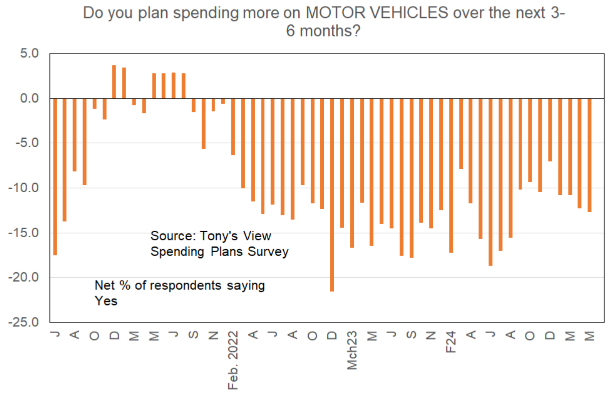




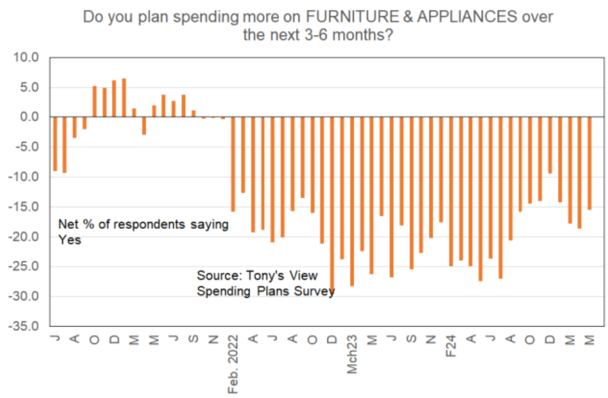


There has been a small recovery in plans for spending on home renovations. This area of spending has held up quite well in recent times and that might reflect expectations of better availability of tradespeople along with plenty of people not being affected by the rise in the unemployment rate to 5.1%.

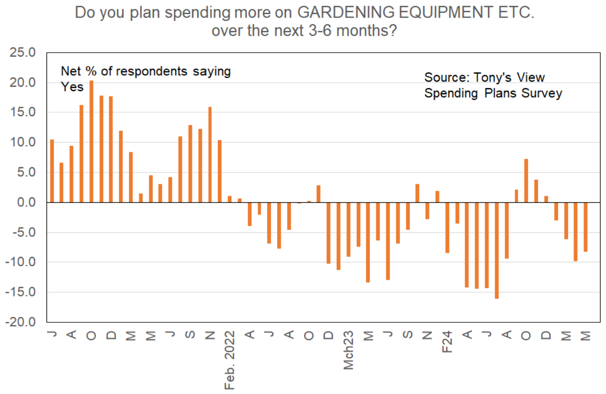
There is no reason for dealers in motor vehicles in aggregate to be expecting better sales in the near future.



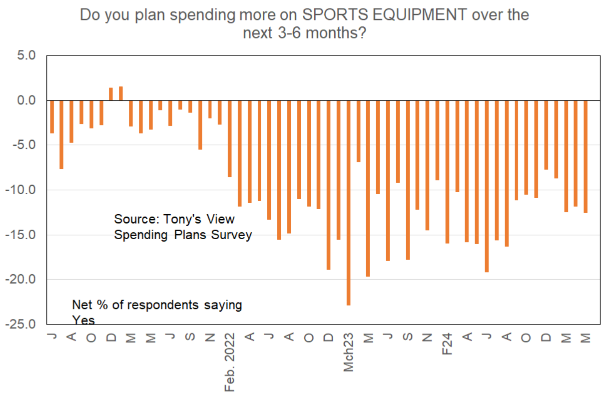
The same goes for retailers of furniture and appliances.



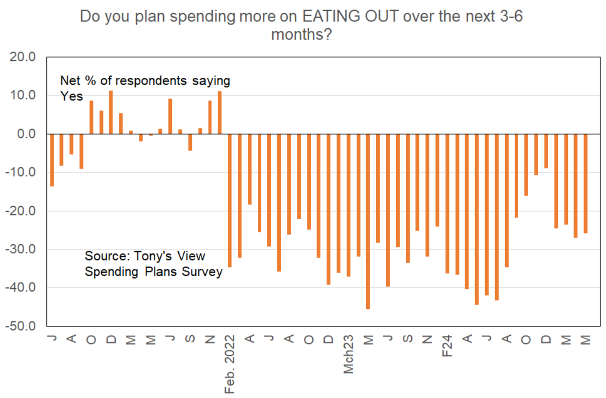
For those who sell stuff for our gardens the picture remains poor as we head into the traditionally quiet time of Winter.



Retailers of sports equipment look like still doing it tough.

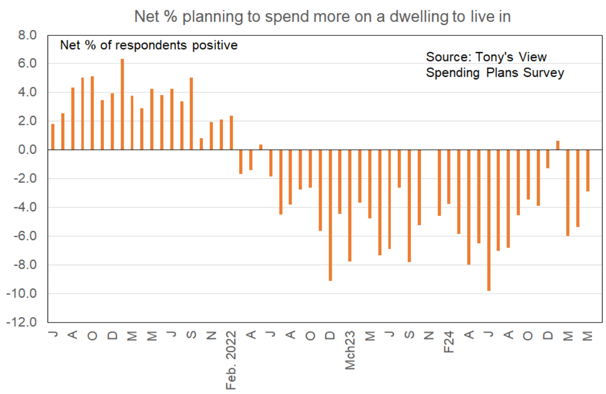


And there seems little reason for optimism on the part of the average operator in the hospitality sector. The net proportion of people planning to cut their spending on eating out fell to only 9% at the end of this year from a horrid 44% in May 2024. But the reading now is back at about 26%.

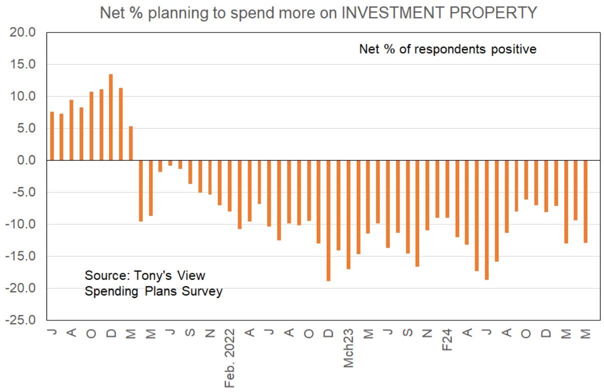


Given the way butter prices are rising it looks like the cost of getting a tasty something to eat at a café will go higher again. Increasingly, eating outside the home in locations other than one of the fast food chains is becoming something reserved for special occasions – like Mother's Day.

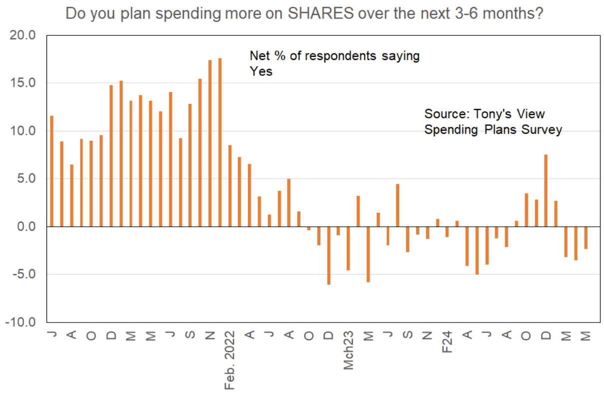
Looking now at our two measures for the housing market we see divergent movements over the past month. A net 2.9% of respondents have reported that they are not looking at buying a property to live in over the next 3-6 months. This is better than the net 5.4% of a month ago but still not a strong signal for real estate activity and house prices. The optimism of January disappeared in a flash.



When asked about purchasing an investment property a net 12.8% of people have said they have no plans. This is a deterioration from -9.3% a month ago and about the same as the -13% of two months back. Note the comparison with 2021.



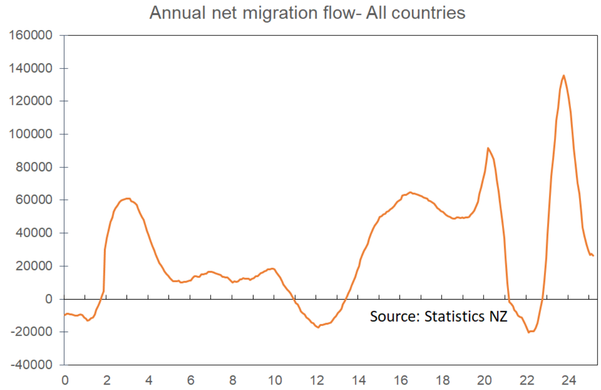
Finally, taking into account the recent high volatility in share prices associated with the US-initiated trade war it is not surprising that more people plan selling shares than buying them in the next 3-6 months. However, at -2.3% the result this month is better than -3.5% one month ago and -3.2% two months back. Volatility tends to make people hold back on investment decisions just in case the thing they want to buy gets cheaper. Of course when looking at the long-term horison this doesn't matter all that much.



Overall, Kiwis remain worried about the future and plan keeping their spending levels in check even though for the one-third of households with mortgages debt-servicing costs are declining. The other two-thirds rent or have paid off their mortgage.

Net migration eases

With help from a revision downward of 5,000 to the previous annual total the 12 month sum of the net flow of migrants in and out of NZ fell to 26,300 in March from 27,600 in February and 100,400 a year earlier.



Although the total is at its lowest since December 2022 there still looks to be a broad flattening of the numbers just below 30,000. But it pays to remember that it is impossible to accurately forecast net migration flows for New Zealand.

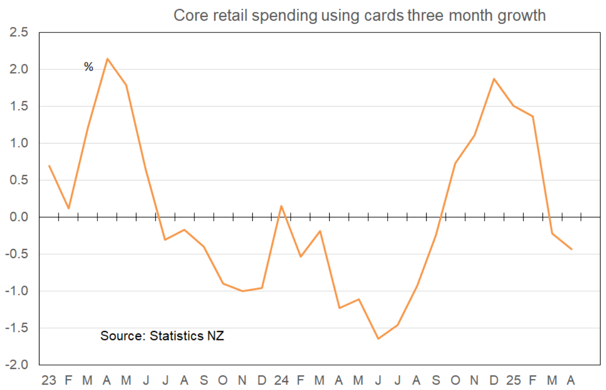
This is because we have one of the most churning populations on the planet with a gross inflow each year of around 2.7% of our population and outflow of 2.0%. It does not take too much of a change in outflows in one direction and inflows the other for the net result to whip around tremendously.

The main implication of the below ten year 50,000 average net inflow of 26,300 people is slower growth in consumer spending and slower growth in demand for housing and rental accommodation perhaps in particular.

At a time when there is an over-supply of rental properties this implies it is reasonable to expect below average demand for property from investors and therefore less than usual upward movement in prices – which is what we are currently seeing.

Retail spending constrained

I think this graph well sums up the way I am seeing a lot of things in the economy at the moment including general GDP momentum. In seasonally adjusted terms over the three months to April spending using debit and credit cards fell 0.4% from the three months to January.



This was a slowdown from growth of 1.5% in the three months to January and 0.7% in the three months to October.

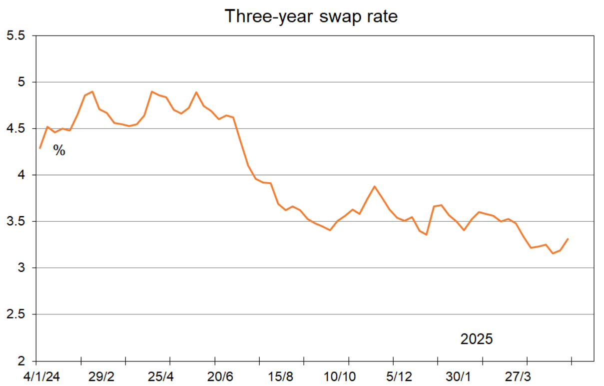
The surge in consumer spending in response to the surge in sentiment over the second half of 2024 following the easing of monetary policy commencing has faded away.

If I were a borrower, what would I do?

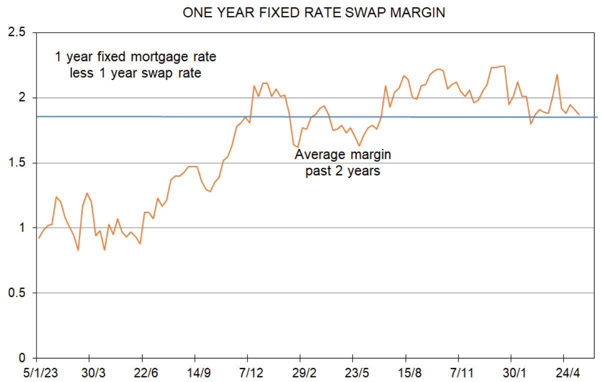
Wholesale borrowing costs facing NZ banks have increased this week, largely in response to the easing of trade tensions between China and the United States. Analysts in the US still see the trade war as being detrimental to US and world growth, but not by as much as they were thinking a few days ago.

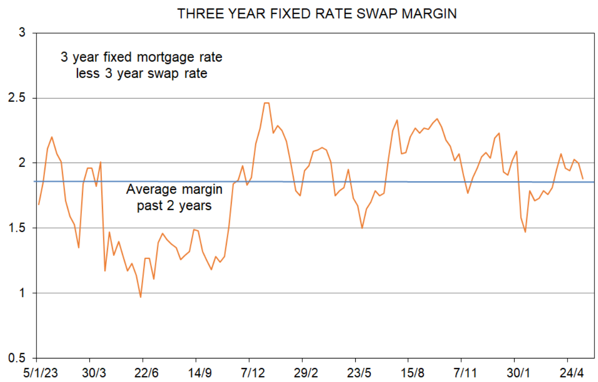
This means that predictions for easing of monetary policy by the Federal Reserve Board have been reined in and that accounts for some of the rise in US interest rates. The US ten year Treasury bond yield for instance has jumped to 4.53% from 4.26% last week. This is the highest yield since mid-February.

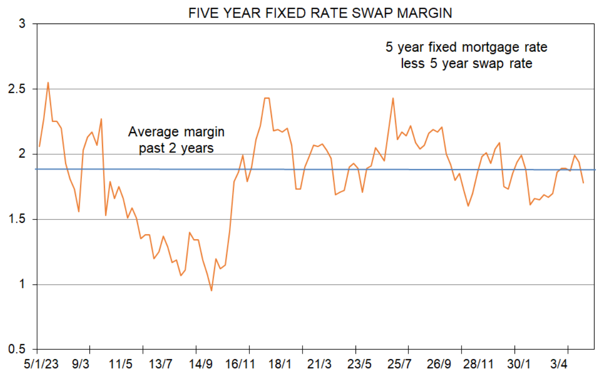
The three year swap rate at which NZ banks borrow in order to lend at a fixed rate for three years has risen to a six week high of 3.31% from 3.19% last week.



The following three graphs show rough margins between bank fixed lending and wholesale fixed borrowing costs for the one, three and five year terms. No great scope exists for fixed mortgage rates to be cut at the moment and given backroom processing delays no cuts seem likely.

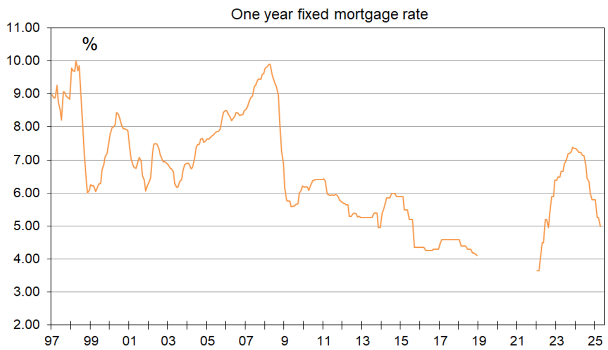


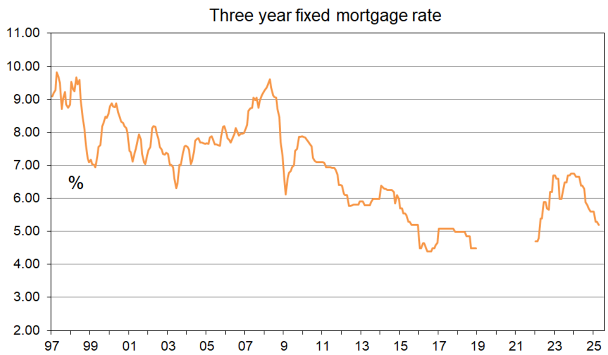


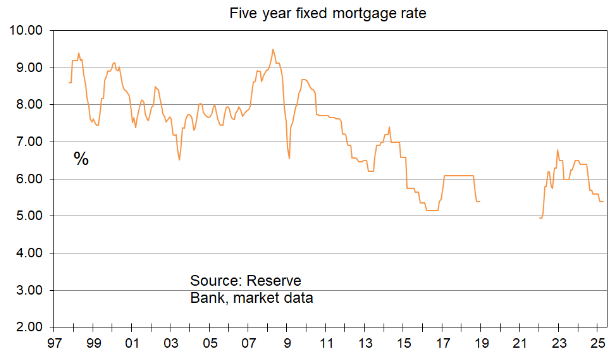


Nonetheless, if I were borrowing currently, I'd still be looking for a 4.99% three year or longer rate given my belief that wholesale interest rates for terms of three years and beyond and maybe two years have already bottomed out this cycle.

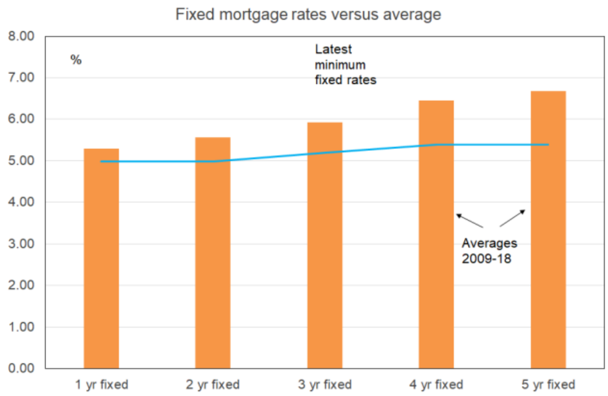
These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.







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

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.