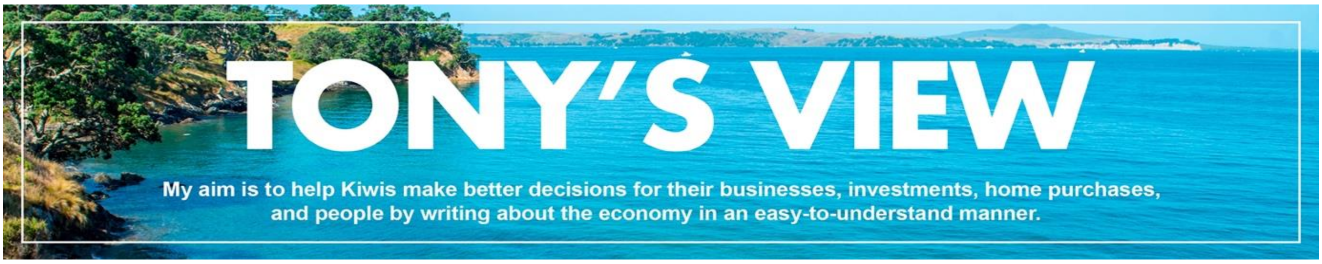

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ISSN: 2703-2825 16 May 2024
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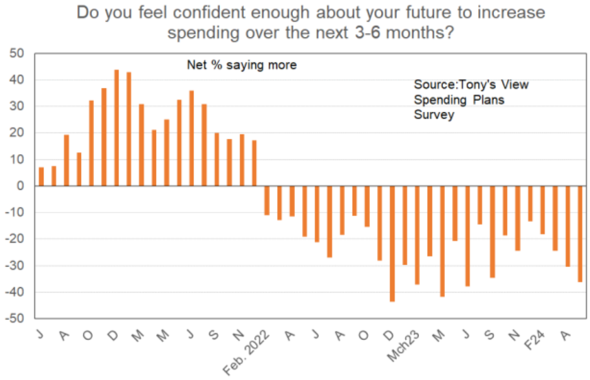
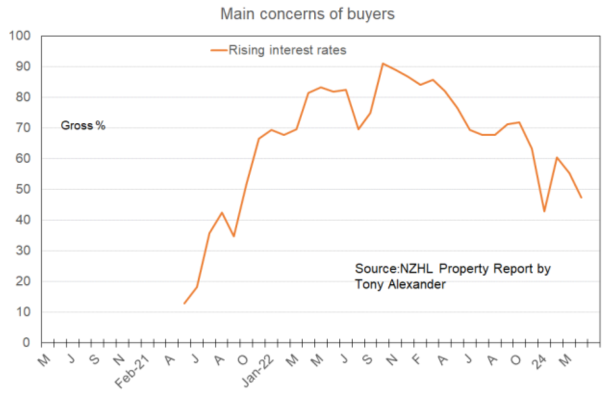
Consumer spending crunch deepens

Last week I ran my monthly Spending Plans Survey and yet again we have seen a deterioration in the willingness of people to buy things over the next 3-6 months. The news for retailers unfortunately gets worse, yet we still wait for the final transition of this crunch process into an assured lower inflation outlook and reductions in interest rates.

A net 36% of my 555 respondents have reported that they plan cutting their spending in the next 3-6 months. This is a deterioration from 30% last month and 13% in December. The four year average reading in my survey is -4% spending intentions so things are well below average and trending down.

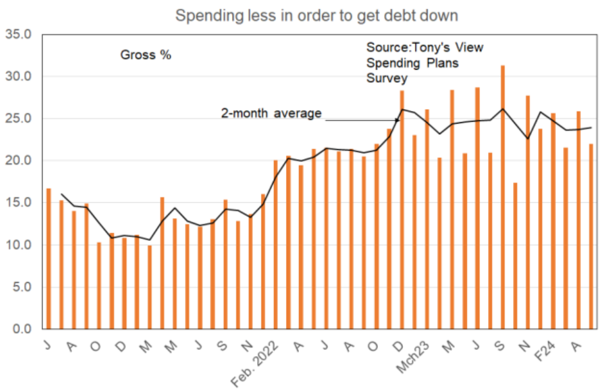


Why have we gone into our shells? Is it because of new interest rate worries as could be the case in the United States? Not really. Our central bank has not worsened its inflation or interest rate warnings and over the past three months there have been tiny decreases in NZ fixed mortgage rates rather than increases. I can also tell from my monthly survey of real estate agents with NZHL that agents are not seeing buyers getting more worried about interest rates. Instead, they are getting less worried.

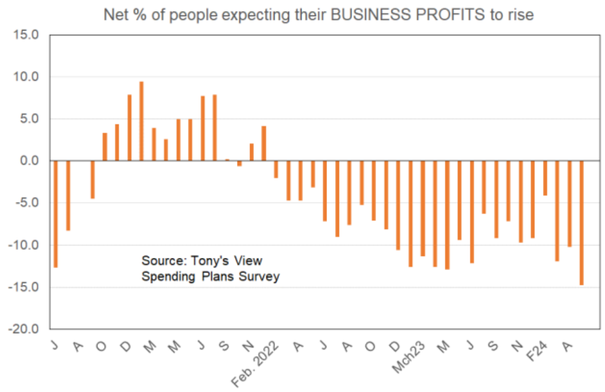


It is not because a new credit crunch was underway as happened late in 2021 and clearly visible in its impact on consumer sentiment in the first graph in this section.

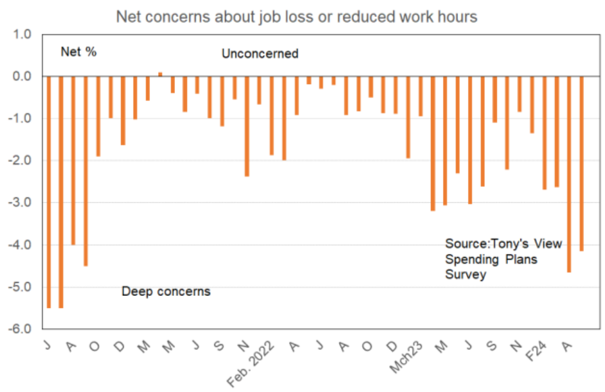
People are not reporting that they need to cut spending in order to get debt levels down to any greater degree than has been the case since the middle of 2022.



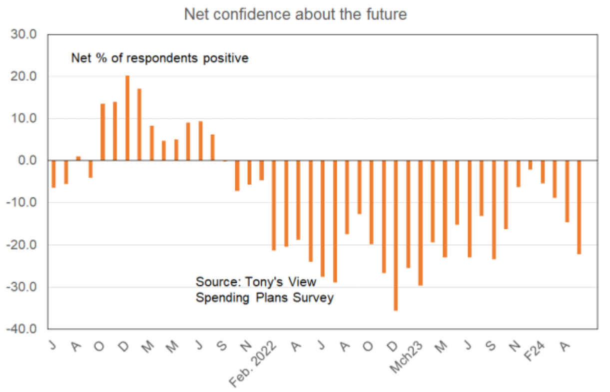
People in the business sector have become the least confident about their profits for the duration of the survey. A net 15% expect deterioration from 4% in February and 10% last month.



The main new thing in play as discussed last week in my analysis of results from my real estate agent survey is deepening concern about employment. Since February there has been a jump in the net proportion of people saying they are worried about their jobs.



All up, the general confidence which people have in the future has declined to a net 22% pessimistic from 2% in December.

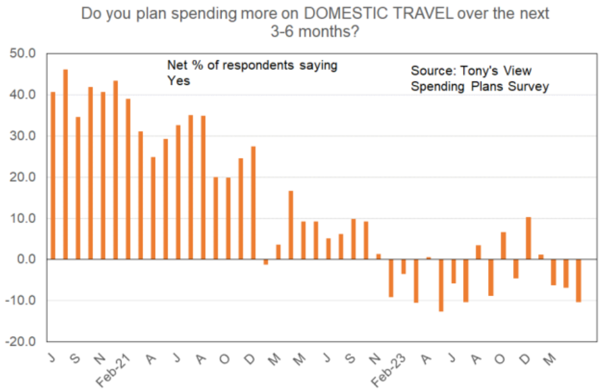


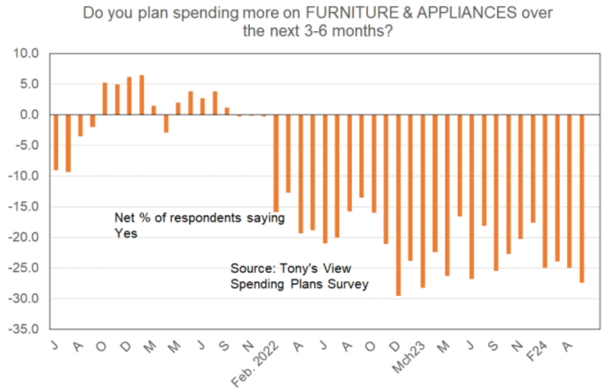
Are we economists freshly slashing our predictions of economic growth because of the sharp deterioration in labour confidence? No. The jobs market changes in lagged response to changes in the economy. It reflects what has happened and businesses realising they must cut their cloth to better suit the absence of – in this case – a totally unsustainable boom caused by excessively loose fiscal and monetary policies and unsustainable boom in house construction. We remain focussed on inflation gauges.

Looking back at my Spending Plans Survey results we have the following standard set of graphs which I know many people across different sectors like to see printed. It allows operators to gauge whether what they are seeing and expecting gels with what consumers are indicating they are doing and will do.

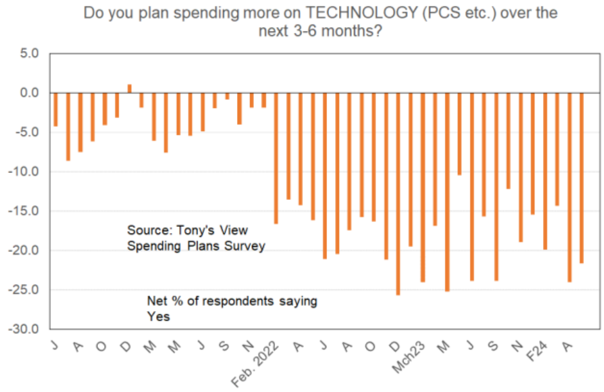
First, when it comes to international travel we don't care if the dish is hot or cold. It's revenge and we're serving it. (Klingon reference for those of you unawares.) But the intensity of our desire is slowly easing.

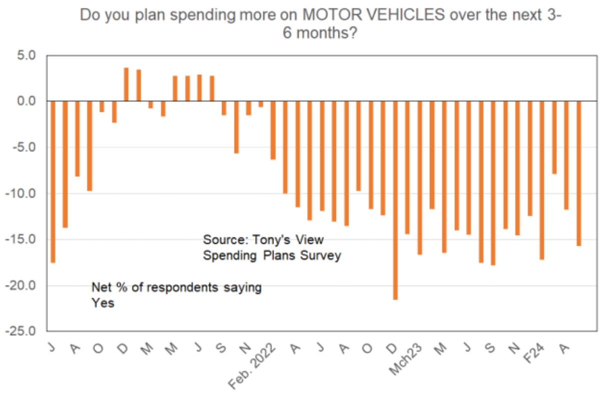
For domestic travel we are getting less willing to step outside the neighbourhood.



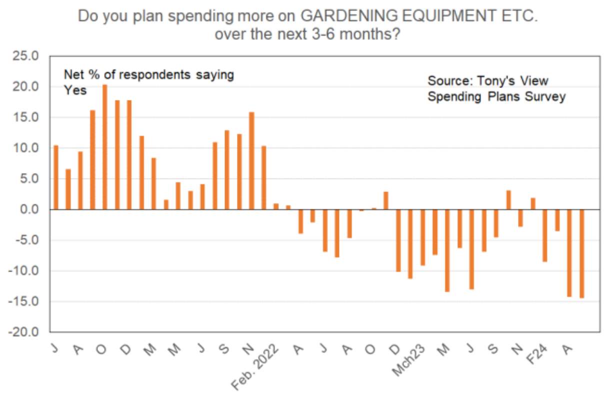


You'll have been reading in the media about very tough times for retailers of durable items, profit downgrades etc. Here's why. We binged on such things during the pandemic and don't need more stuff cluttering up the house, garage, balcony and yard.

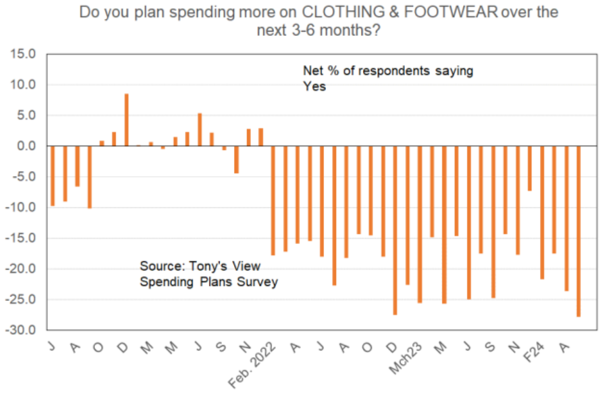




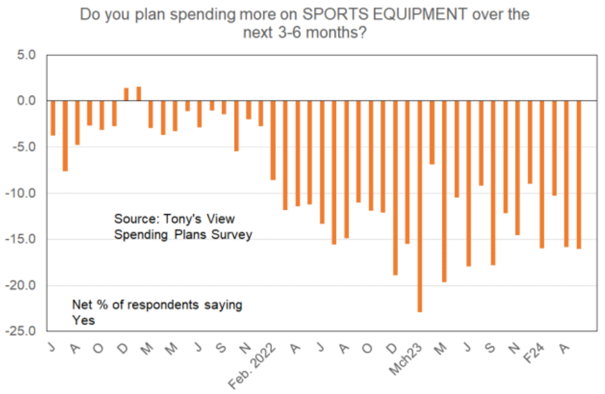
Even our desire for gardening is weak. We're not so worried about the future that we're tearing up the pavers to sow vegetables.



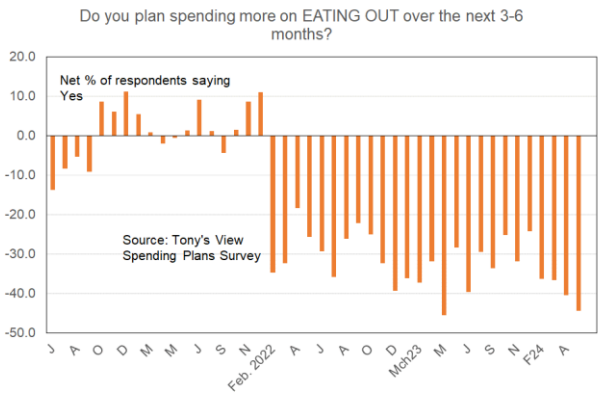
Even plans for spending on clothing and footwear are worsening and now at record low levels.



For sports equipment retailers the outlook remains bleak. Unless they're running deep discount sales these businesses will be seeing only light customer traffic.



Our plans for eating out are newly getting worse.



That's enough. Suffice to say the evidence strongly suggests a dark Winter for New Zealand's retail sector. They will experience this alongside a worsening situation for developers of multi-unit dwellings and the widely defined construction sector, plus increasingly operators in the hospitality sector.

Next week I will look at the two housing market indicators. Suffice to say they are not flash.

In case you missed it

Yesterday I released the results of my monthly survey of mortgage brokers undertaken with sponsorship from mortgages.co.nz. The key insights provided included the following.

- Amidst deepening concerns about job security fewer advisors are reporting that more buyers are entering the market.
- Buyers and existing property owners continue to overwhelmingly favour fixing their mortgage rate for one year or less.

[mortgages.co.nz & Tony Alexander Mortgage Advisers Survey - May 2024 - mortgages.co.nz]

If I were a borrower, what would I do?

There is intense downward pressure on the economy now coming from

- the lagged effect of monetary policy tightening from November 2022,
- soaring worries about job security,
- deepening concerns about some particular soaring costs such as council rates and insurance,
- running out of pandemic savings,
- new pressures on businesses from IRD, and worsening weeding out in the residential

construction sector now that house prices are easing again, and buyers don't feel they need to buy something new when listings of property have risen 23% since last July.

The case is strengthening for a period of early catch-up rate cuts from the Reserve Bank – but not yet. Maybe from November.

One positive development coming out of the deepening despair in the economy (note the record Kiwi migration loss of 53,000 of us in the past year), is easing business pricing plans.

My latest Business Survey undertaken with sponsorship from Mint Design shows that a net 12% of the 353 respondents plan cutting their selling prices in the coming year. This graph shows the turnaround.

This development won't be enough to assuage the still worried Reserve Bank. But coming measures of pricing plans from the long-running ANZ Business Outlook Survey will be important to watch.

As for wholesale rate movements this week – meh. Nothing much really.

If I were borrowing at the moment, I would take a mix of 6 and 12 month fixed rates and expect to make a similar decision in 6-12 months time.

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.