

Input to your Strategy for Adapting to Challenges

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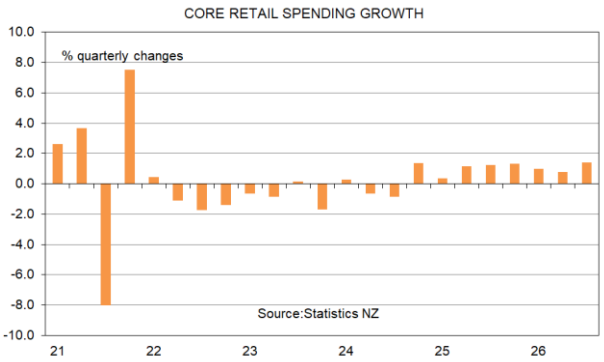
Consumers spending

On the data front this week we learnt that during the September quarter there was good 1.4% seasonally adjusted volume growth in core retail spending around the country. This is the measure which excludes the volatile fuel and motor vehicle categories and better indicates whether consumers are truly spending their money or not.

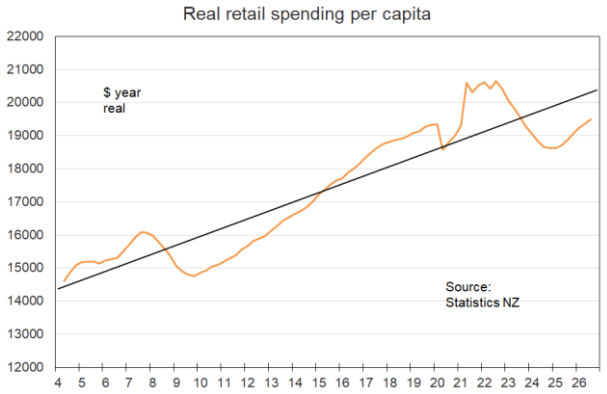
The answer is that they are, and the 1.4% quarterly growth follows gains of 0.8% in the June quarter, 1.0% in the March quarter, and 1.3% in the December quarter.



It is not accurate to say that everyone in the country is suffering, that spending is being slashed, and retailers are suffering badly. Some retailers are suffering but then that happens even during booms as we shift where we spend over time.

If this is a cost of living crisis then someone forgot to tell Kiwi shoppers because the volume of spending has grown by 4.5% for the whole of the past year versus the year before.

The per capita volume of spending measure supplied by Statistics NZ (covers all categories) has risen by 3.2%. Per capita sales are still below where the trend would suggest they would be even if we blot out the unsustainable covid boom seen clearly in the following graph.



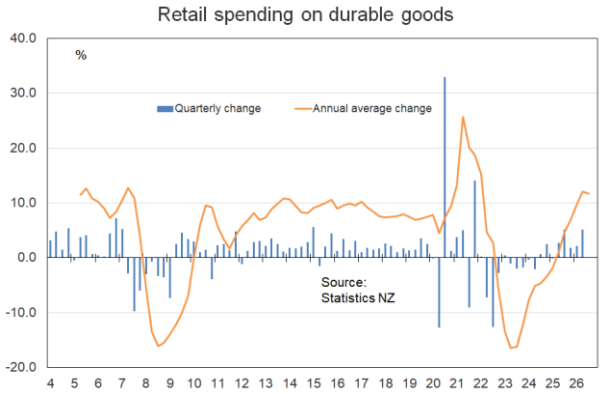
This perhaps gives us insight into why retailers are feeling sour. Many remember the boom times of 2020-22. Some may also still be suffering the whiplash of sales back down again as people previously bought a lot of what they might need for a number of years.

Perhaps more realistically though, a common cause of retailers' malaise is the hollowing out of many prime shopping areas caused by the covid lockdowns, shift of people to buying online, and appearance of street people.

Us economists like to burrow into the numbers to try and identify what is happening with spending on goods which tend to last a long time and which we tend to buy more of when optimistic about our coming incomes. These are called durables.

The durables grouping in the retail trade data showed 0% growth during the September quarter – which sounds bad. But it followed an unsustainable rise of 5.1% in the June quarter so isn't quite as bad as it looks.

For the entire year to September the volume of durables spending was ahead by 11.7%. No shopping recession is evident there. But some of this unusual strength will be simple recovery from the post-covid collapse.



Hopefully what you've picked up from this is the fact that the echo of covid is still running through the data and that means it would be unwise to make any strong statements about how firm our spending growth really is. There is not really a boom underway and there is not a spending recession. But there is some confusion.

Looking ahead the prospects for retail spending and growth in the economy generally are good. The big positive is the upturn in the farming sector courtesy largely of high prices being received for our red meat, dairy, and Kiwifruit outputs. There is also a good upturn underway in the tourism sector which is being increasingly helped by the NZ dollar's weakness against the USD and AUD in particular.

The export education sector is growing, some city centres are looking better (not Wellington – worse to come there), businesses are saying they plan investing and hiring, and there is an upturn in residential construction underway following 18% growth in consent numbers this past year.

Offshore is where the bulk of uncertainty regarding our upturn stems from. This is not just because of unknowables such as where oil prices are headed, but how much of a slowdown the Australian economy may have as it responds to higher interest rates and lower house prices.

The main domestic uncertainty revolves around how high interest rates will eventually need to be pushed by the Reserve Bank. They have missed their 2% target by 100% for the past six and a half years when inflation has averaged 4%.

There is upward pressure on inflation to come from eventually declining capacity availability, the feedthrough of the lower NZ dollar, businesses rebuilding margins, higher inflation offshore, and higher prices for goods containing computer chips. But there is some downward pressure to eventually feed through from lower oil prices.

If I were a borrower, what would I do?

Bank wholesale borrowing costs have declined this week in response to some falls in US bond yields. There is mild scope for some downward tweaking of bank fixed mortgage rates. But the lenders may want to wait to see if wholesale rates stay down before making any moves.

Given the uncertainty, if I were borrowing at the moment, I would fix at least for two years but would consider three years if I could get a rate slightly better than currently advertised by the main banks.

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