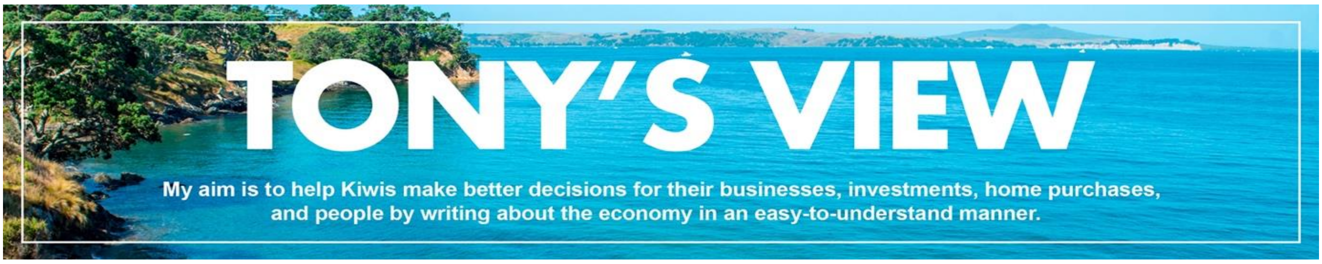

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ISSN: 2703-2825
8 August 2024
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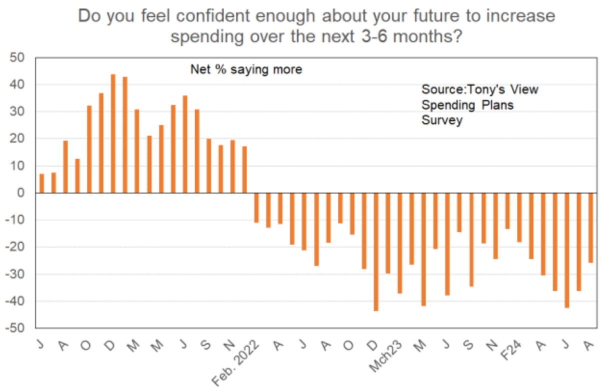
Consumer pessimism eases, but still bad

This week I conducted my monthly Spending Plans Survey of Tony's View readers and although pessimism dominates the degree of woe is easing.

In June a net 42% of people said that they plan spending less on stuff in the next 3-6 months. This improved to a net 36% in July and now in August a net 26% have said they plan cutting back.



This is a reading still well away from the average of -6% seen since I started the survey in June 2020 and only takes things back to where they were in March.

For retailers the main implication is that for the remainder of this year conditions will be tight. We should expect discounted goods and closures of stores to continue. But at least we can talk about light starting to appear at the end of the tunnel next year.

Not that there is any strong reason for believing 2025 will be a firm year for the NZ economy unless consumers and businesses react to falling interest rates by choosing to aggressively boost debt levels. That seems like a bold call to make considering that the unemployment rate will rise through perhaps all of next year, and that people have been burnt recently by debt pressures.

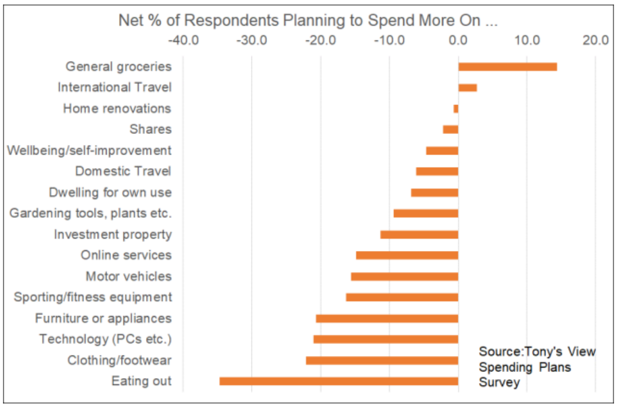
The extent of the interest rate decline-induced recovery in NZ's pace of economic growth will be constrained by factors including the following.

1. The absence of a large fall in the NZ dollar,
2. The absence of a firm acceleration in the pace of global growth. Worries are deepening about growth in the United States and China in the coming year.
3. The risk of 10% across the board tariffs being introduced in the United States next year and

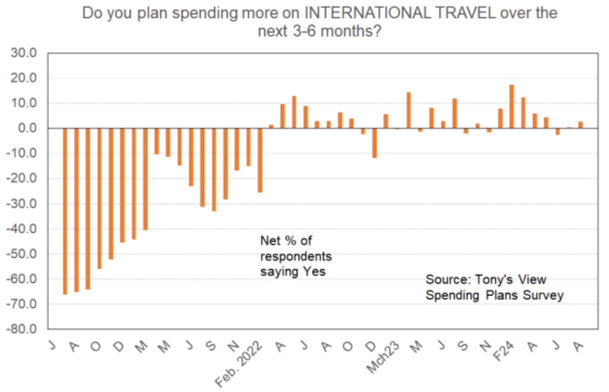
general pullback globally from multilateralism and open borders. This has historically been one of the many key risks facing New Zealand.

4. Rapidly falling net migration inflows and probably a still rising net loss of Kiwis offshore through 2025. It is hard to imagine that the picture young people gain of long-term prospects for living in New Zealand will be enhanced by the deepening media focus on what is wrong across many aspects of central and local government and society overall.
5. The cyclical decline in house construction is likely to continue through 2025.
6. The "weeding out" in all sectors of businesses unable to handle the absence of special pandemic assistance measures and presence of above average interest rates is likely to continue apace through the first half of next year.

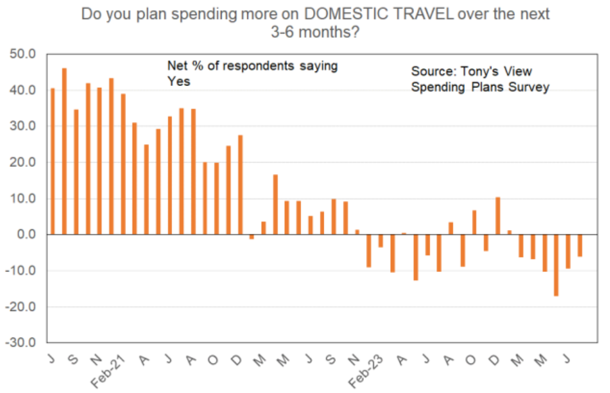
Looking at the detailed results from my Spending Plans Survey we see that cutbacks are planned over the next 3-6 months in all areas except groceries and international travel.



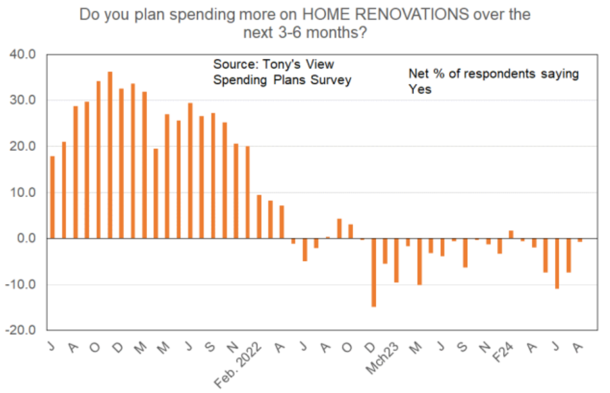
Offshore travel plans continue to hold up and this likely reflects the combined effects of an aging of the population, post-pandemic travel catch-up perhaps still lingering, young people planning to get out of NZ, and the way these days overseas travel is viewed as a normal annual part of life – not a luxury item or one-off retirement event.



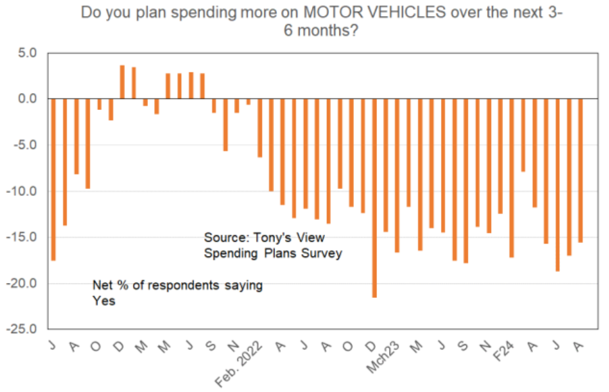
Plans for domestic travel remain negative, but an easing of the negativity is underway.

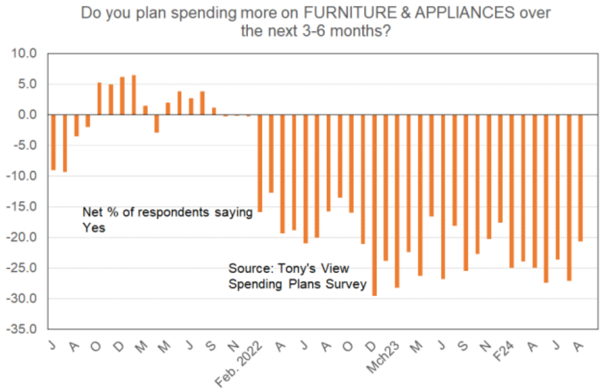


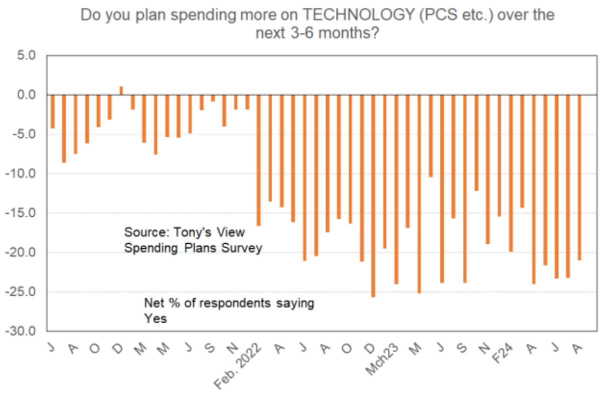
Things remain negative for those in the home renovations sector.

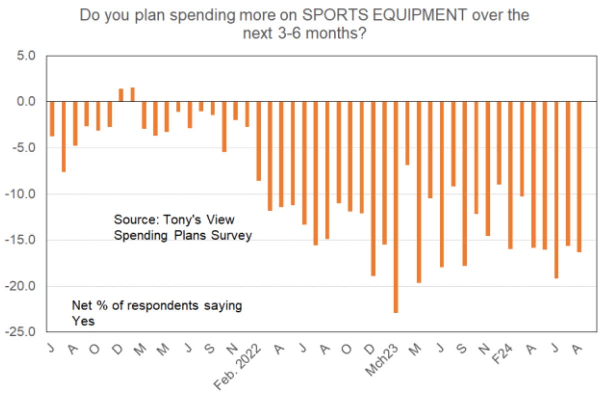


Spending plans on durable goods remain strongly negative. Hence the deep 30% discounting you can find at furniture stores. Even one generally over-priced chain which rarely discounts and instead has focussed on interest rate deals is now cutting prices.

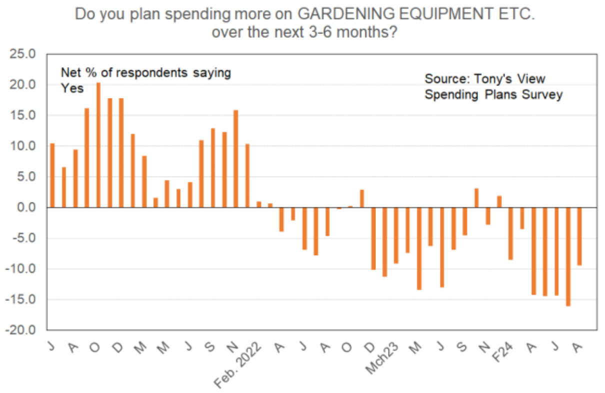




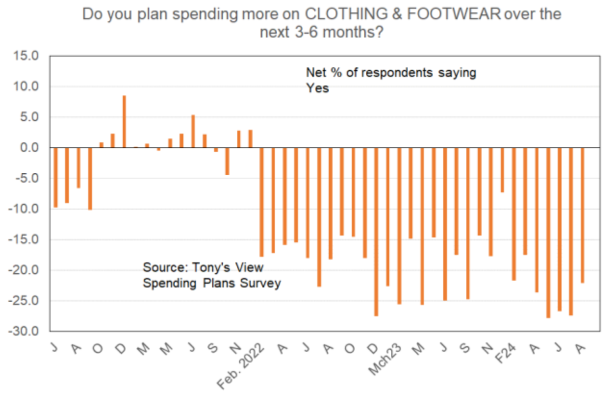




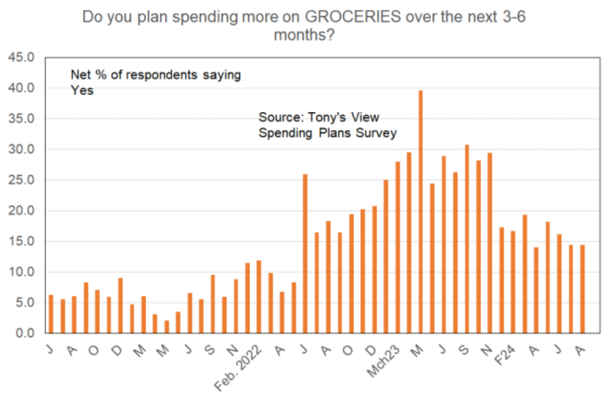
For garden centres the outlook remains poor and as noted previously, this is more than just a seasonal effect.



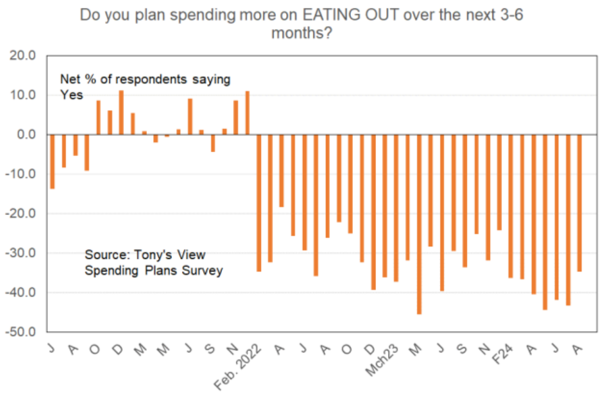
Based on the weak outlook for clothing and footwear we are likely to see winter sales start very early this year.



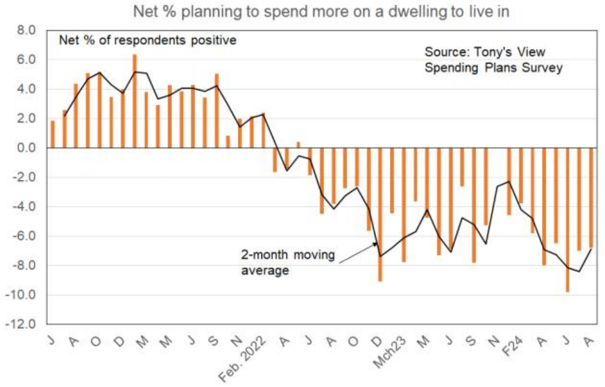
Plans for spending on groceries remain firmly positive and above levels before the price jumps of 2022.



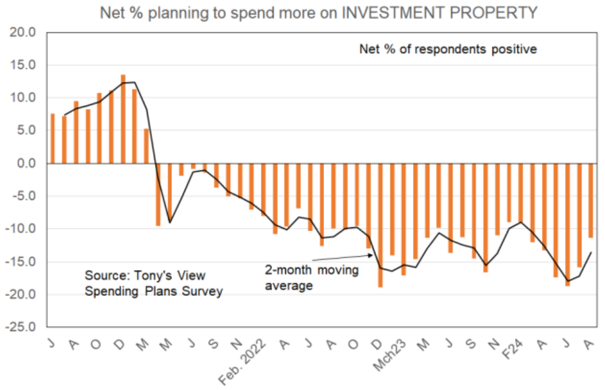
Each week we learn of more eateries closing and this is likely to continue for all the rest of this year.



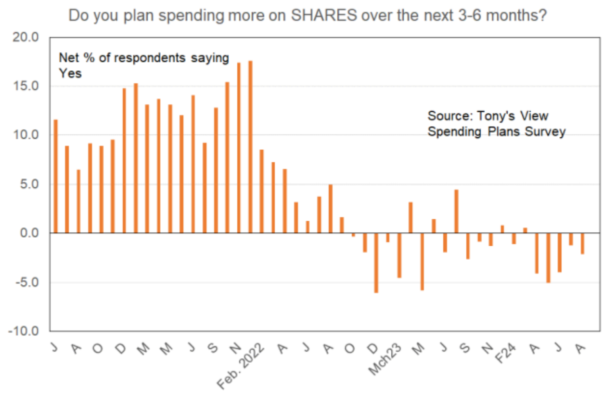
With regard to people's plans for buying a home to live in things are off their lows but still at very depressed levels.



The same comment applies to plans for purchasing an investment property.



Finally, plans for buying shares continue to lie in negative territory.



If I were a borrower, what would I do?

The rally in wholesale interest rates in New Zealand which has been underway since the second week of July continued this week. Falls were largely driven by a bout of weaker than expected data in the United States, most notably on the labour market.

Measures of employment and unemployment in the US tend to feature larger in inflation forecasts and monetary policy change predictions in the US than in New Zealand. US job numbers only rose by 114,000 in July whereas a gain of near 175,000 had been expected, and the unemployment rate rose from 4.1% to 4.3%.

The data have assumed importance in the US largely because of an underlying fear that the Federal Reserve may have kept interest rates too high for too long and will cause greater than necessary damage to the economy to suppress inflation.

This is the view I have had on NZ monetary policy for some time and discussion of this risk is likely to rise here fairly shortly. It will manifest itself in more forecasters bringing forward their predictions for when rates fall, but mainly a focus on the extent of rate cuts here being quite quick and large.

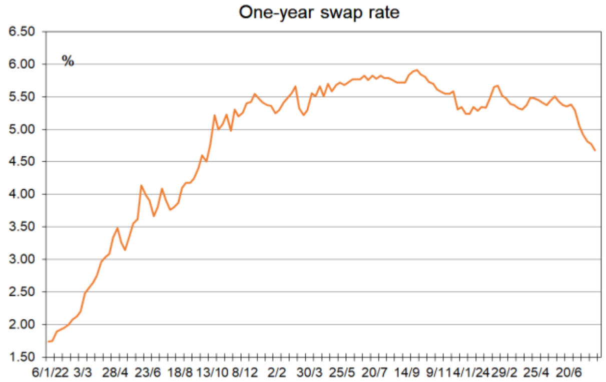
My view for some time has been that come the middle of 2025 the official cash rate will be 1% lower than its current 4.5%. I stick with that and install a risk that the rate won't be 4.5% but could be 4%.

Local markets have reacted to the weak US data and extra rally in US rates by taking NZ wholesale fixed borrowing costs lower again. Helping things also recently has been a shift in expectations for Australian monetary policy away from one more rise from 4.35% to one cut before Christmas.

Also, the Bank of England recently cut its cash rate 0.25% to 5.0%.

Today, after rallying hard early in the week then backing off as US equity prices recovered and yesterday's NZ jobs data were stronger than expected, the one year swap rate facing banks stood near 4.68% from 4.77% last week and 5.38% six weeks ago.

The three year swap rate is unchanged from last week at 3.91% but down from 4.64% six weeks back.



The margins for bank lending on fixed rate lending have blown out and there is scope for some sizeable mortgage rate reductions. But banks will wait to see what the Reserve Bank does and says in this coming Wednesday's Monetary Policy Statement.

They are certain to take a less hawkish tone than in recent months but a cut in the official cash rate from 5.5% is unlikely in light of the still too high level of business pricing intentions, wages growth, and even jobs growth.

If I were borrowing at the moment, I would look to take advantage of the expected declines in rates from current levels by fixing for just six months.

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.