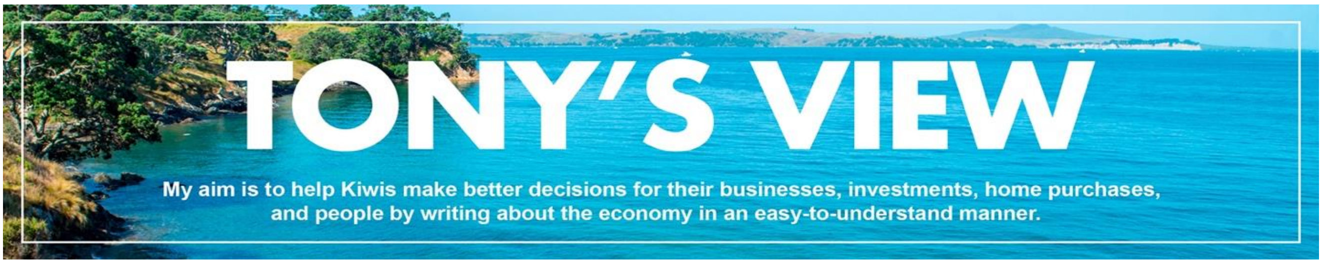

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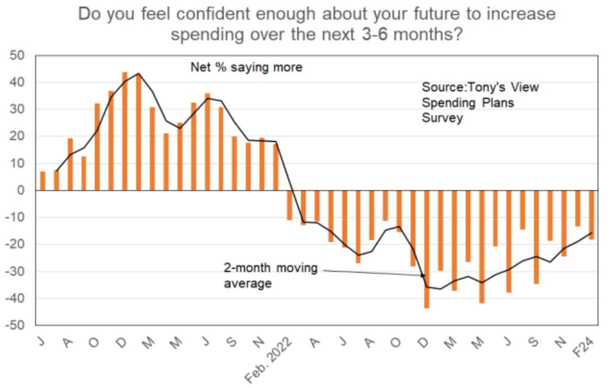
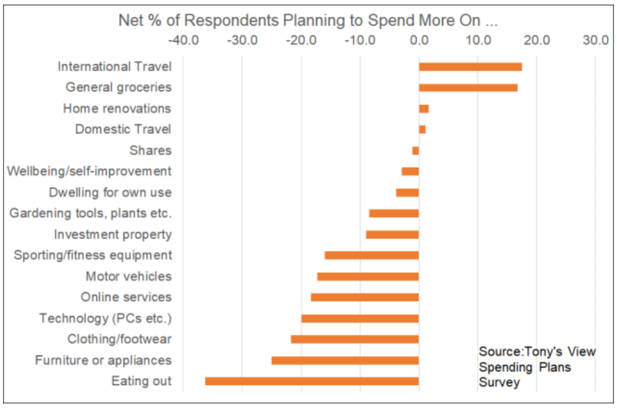
Outlook remains poor for retailers

This week I ran my first monthly Spending Plans Survey for the year and the results tell us that retailers should continue to exercise restraint in their revenue projections for 2024.

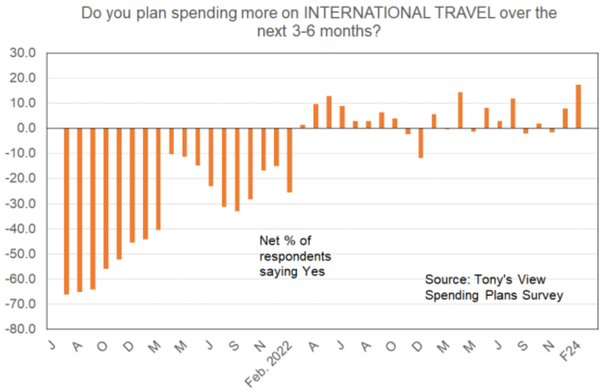
The headline result is that a net 18% of the 558 survey respondents intend spending less than usual in the next 3-6 months. This is a deterioration from -13% in early-December but at least the trend is one of slow improvement. At this pace of change the measure might go back into positive territory near the middle of the year, perhaps assisted by a better outlook for interest rates – one-day.



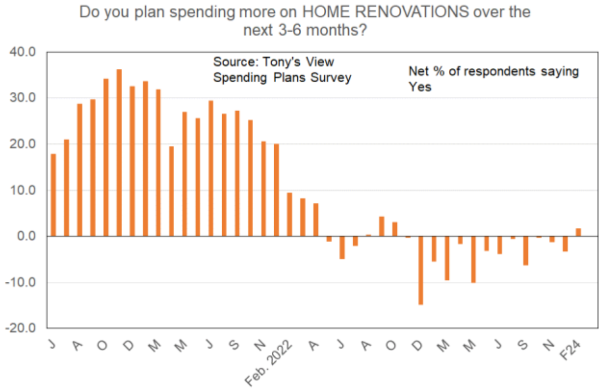
There are only two areas where appreciable proportions of people plan spending more – groceries (clearly because of higher prices) and international travel.



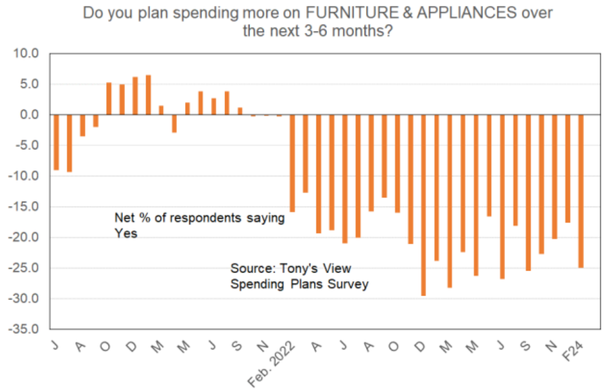
There has been no trend up or down in offshore travel plans since the switch to positive early in 2022 as the borders opened.



Plans for renovating one's home remain fairly lacklustre. Lots of people of course have already done this during the pandemic.



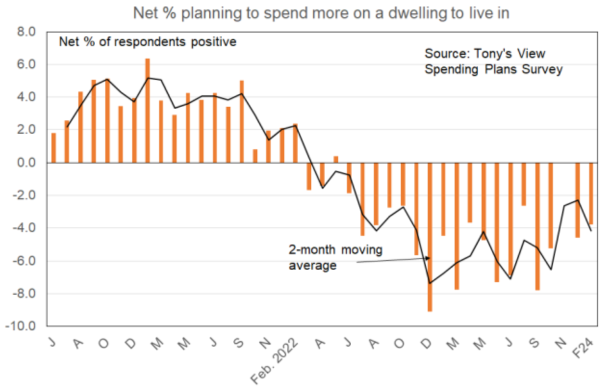
For spending on durable goods the outlook remains bad. A net 25% of people plan cutting back spending on furniture and appliances, and 17% on motor vehicles. No improving trend is apparent for either spending category.



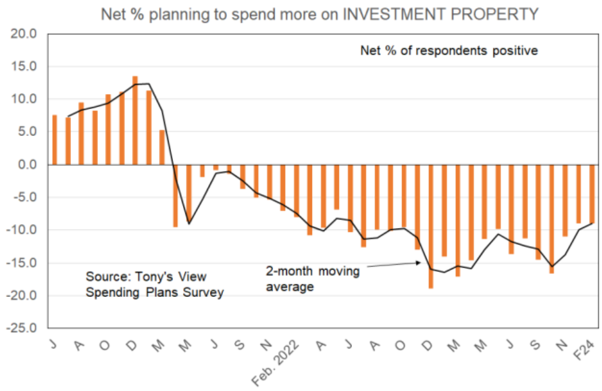
We should continue to expect more closures of eating out establishments this year with a net 36% of us still saying we plan to spend less on food outside of the home. That makes sense in the context of the hike in the cost of living in the past three years and the easiest way to make spending savings being reducing eating out expenditure.

Of course even when times are good eateries can close left right and centre as optimism about customer flows can lead to expenditure levels which prove unwise in hindsight. Plus there are ever rising labour costs (wages, new public holidays), compliance costs for central and local government bureaucrats to keep their jobs, and food expenses which can fluctuate substantially at times. Training and retaining staff can be an issue for some places – not all in my experience such as in the case of one well run café in my area.

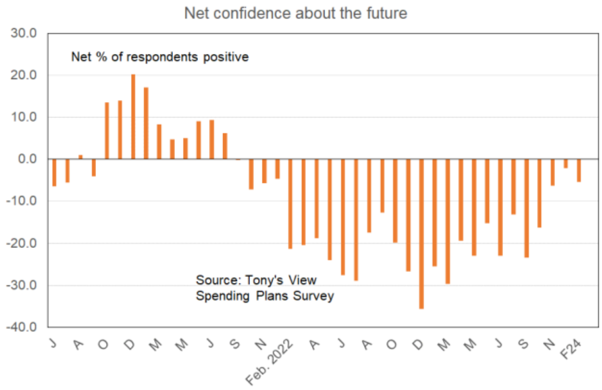
The two results relevant to the housing market are in line with the outcomes of my recent surveys of mortgage brokers and real estate agents. A net 3.8% of respondents say they plan spending less on their own home. (Don't get caught up on the exact nature of the question. It's the trend in this measure which matters.)



In addition, a net 9% of people say they plan cutting back on investing in residential property. Again, the trend matters, and the graph here shows that despite the tax change coming for investors there remains no great interest as yet in getting anew into the sector.

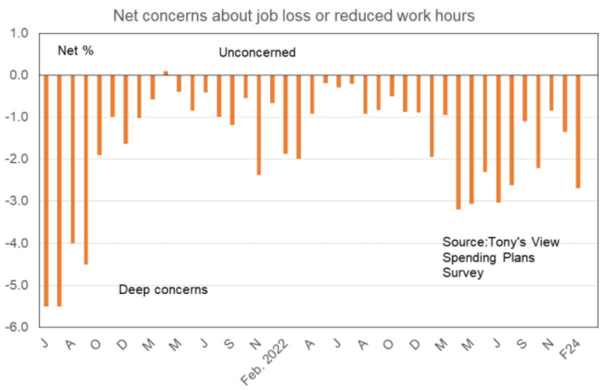


I ask people why they plan spending more or less and from the results I can derive some interesting measures. Net confidence about the future remains negative with a big improvement after the election gave people the change in government they wanted, but no extra gain since then. Pressure from tight monetary policy remains.



A still high gross proportion of people say they plan spending less because they are going to get their debt levels down.

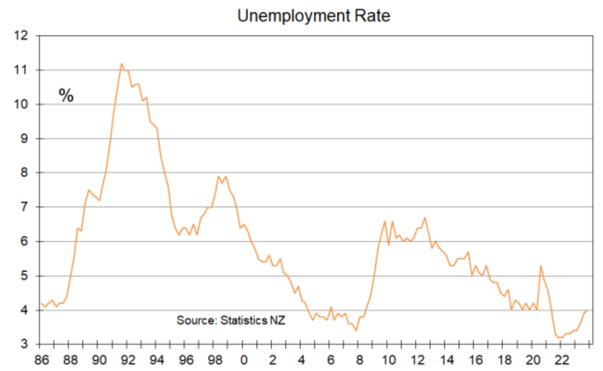
One option is spending more or less because of hours of work and job expectations. There has been a deterioration this month to a net 2.7% of people expressing employment concerns. This is the sort of thing the Reserve Bank needs to see to feel certain that tight monetary policy is having the labour market impact they want.



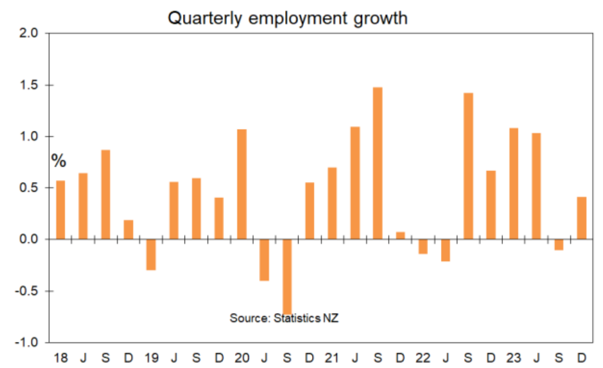
But we saw worse readings in the middle of last year so it would be hard to run an argument that the loosening of the labour market as yet is really causing people much concern.

Which brings me now to write about the jobs data which were released yesterday. The labour market tends to respond with a lag to changes in the pace of growth of economic activity. With the economy having been in recession a year ago and dipping another 0.3% in the September quarter last year one would expect perhaps more weakness than just the rise in the unemployment rate from the 3.2% low in 2022 to 3.9% in the September quarter last year.

Yesterday we learnt that the unemployment rate increased only slightly in the December quarter to 4.0%. This was below the 4.2% expected by the Reserve Bank and factored into their outlook for inflation.



The number of people in work rose 0.4% in the quarter which was stronger than the 0.2% gain expected by the Reserve Bank.

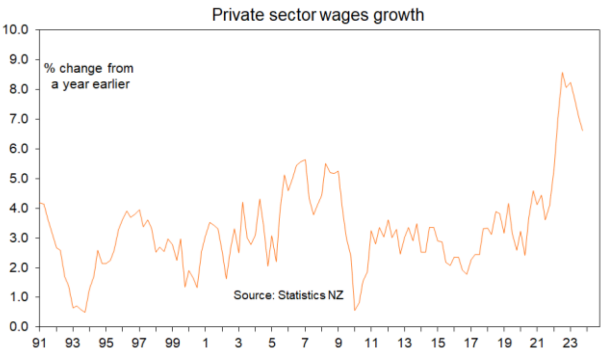


These data do not provide scope for an optimistic view regarding the speed with which monetary policy will be eased this year. They also somewhat belie the view that the economy is munted and there is no growth. The chances are strong that we will stay out of recession at the turn of 2023 into 2024 and through this year.

With regard to the pace of wages growth, are we seeing the good slowing needed to feel optimistic about inflation heading comfortably below 3%? Not yet.

Average hourly ordinary time earnings in the private sector grew by 0.5% in the December quarter. This was down from 1.9% and 2.0% in the June and September quarters respectively. But the last quarter of the year almost always shows low wages growth and the same quarter in 2022 saw a rise of just 0.9% and late-2021 1.4%.

The annual rate of change in this wages growth measure is now 6.6% from 8.1% a year ago. This is too far above the average increase since 1992 of 3.3% which has been consistent with inflation averaging just over 2.2%. Therefore we remain well away from the wages growth comfort zone for the Reserve Bank and need to conclude that monetary policy easing is still many months away.



In case you missed it

My monthly survey of real estate agents alongside NZHL revealed the following main things.

- Buyers remain in the market but with little feeling that they need to get a purchase across the line as soon
- as possible.
- Prices are rising but not at an accelerating pace.
- Lack of finance is a high barrier for many buyers.
- More and more investors are looking at selling their rental property assets

NZHL-Property-Report-January-2024.pdf

If I were a borrower, what would I do?

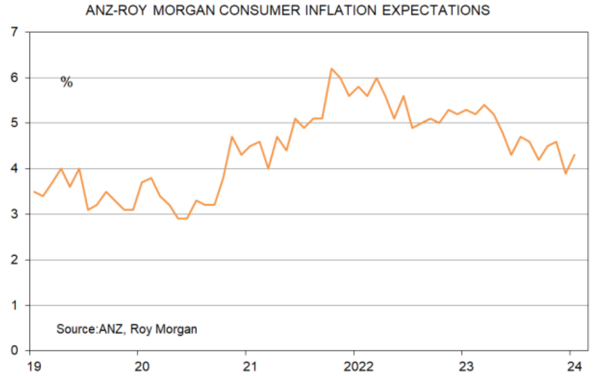
NZ wholesale interest rates moved higher this week initially in response to stronger than expected data in the United States. US employment rose by twice market expectations in January with a gain of 353,000 jobs, and changes for previous months were revised up by 126,000.

The data alongside some other indicators have led to an upgrading of economic growth forecasts in the US this year which is a factor boosting asset prices. However, the data also reduce scope for easing of monetary policy by the Fed as soon as and as much as the markets have been optimistically pricing in for the year.

In fact, on Monday the Federal Reserve Chairman said "**We want to see more evidence that inflation is moving sustainably down to 2%. Our confidence is rising. We just want some more confidence before we take that very important step of beginning to cut interest rates.**"

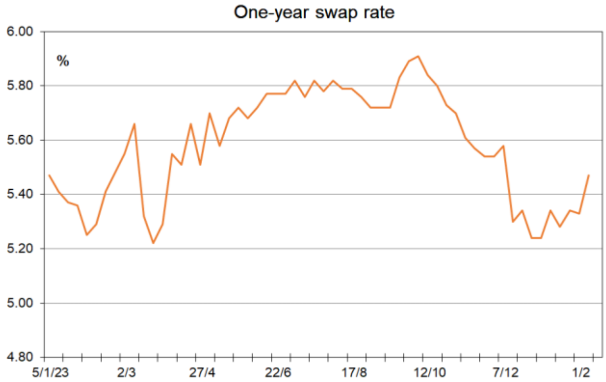
The result has been a lift in US wholesale interest rates though not back anywhere to the levels of a few months ago. The US ten year government bond yield for instance has risen to near 4.11% from the somewhat unusually low level a week ago of 3.88%. Last week there was strong downward pressure on US interest rates from data showing strong productivity growth and a rise in claims for unemployment insurance – jobless claims.

One factor here suggesting the Reserve Bank will remain in no hurry to send a pleasing signal about inflation was the year ahead inflation expectations measure contained in the ANZ Roy Morgan Consumer Confidence report. The average one year expectation lifted to 4.3% from the previous 3.9%.



The trend in this measure is down but not at a rapid pace. Inflation risks for NZ remain. And further ample justification for them keeping the official cash rate at 5.5% and signalling behind closed doors to banks that they should not cut their fixed lending rates came yesterday in the labour market statistics. The unemployment rate did not rise as much as they expected in the quarter, jobs numbers grew more than they had factored in, and at 6.6% the annual rate of increase in private sector wages is almost double the average of 3.5% consistent with low inflation near 2.2% since 1992.

The markets have scaled back their expectations for rate cuts this year with the result that the one year rate which banks pay in the wholesale markets to borrow fixed for one year has risen to near 5.47% from 5.33% last week.



The two year swap rate has risen to near 4.96% from 4.77% last week which is the highest yield since early-December. The Reserve Bank will review their official cash rate on February 28 and no change is likely.

If I were borrowing at the moment I would either float and wait for lower rates or do what I tend not to favour because of the hassle and fix 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.