

**Input to your Strategy for Adapting to Challenges**

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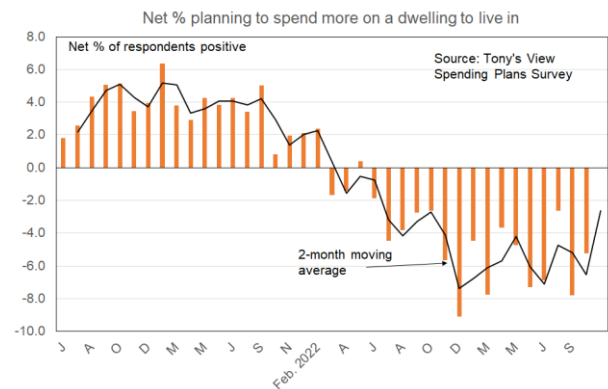
9 November 2023

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**Spending plan changes underway**

Each month I invite about half of the people signed up to receive my weekly Tony's View to give their thoughts regarding spending more or less and on what in the next 3-6 months. Accuracy regarding what time period they are comparing such plans with is of no importance – just the trend changes which might be underway. In that regard there is really just the one strong and interesting result from this month's survey. A lift in plans for buying housing.

The net percent of people saying they will spend more on a house to live in has just changed to 0% from negative readings as low as -9% since June last year. I find this result interesting because it suggests owner occupiers may be shifting their thinking regarding whether the time is right or not to downsize, upsize, or trade sideways.



The net percent of people indicating they will purchase an investment property has changed but to a much smaller degree. This measure has gone from -17% in October to -11% this month. To me that is still a fairly negative result not consistent with any claim that the investor market is getting back to levels of buying interest seen during the 2020-21 frenzy.

It looks like there is a trend of decreased negativity in this measure however which is consistent with the direction of travel in similar gauges gleaned from my surveys of real estate agents and mortgage brokers.

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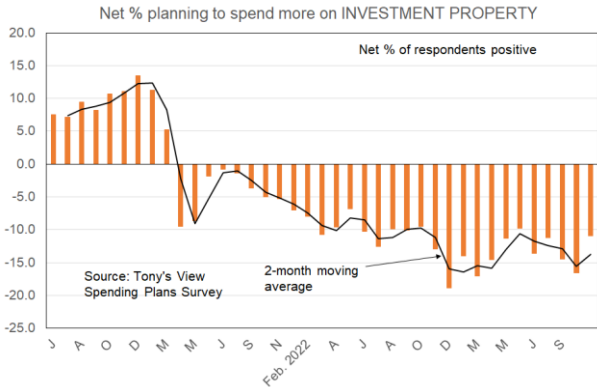
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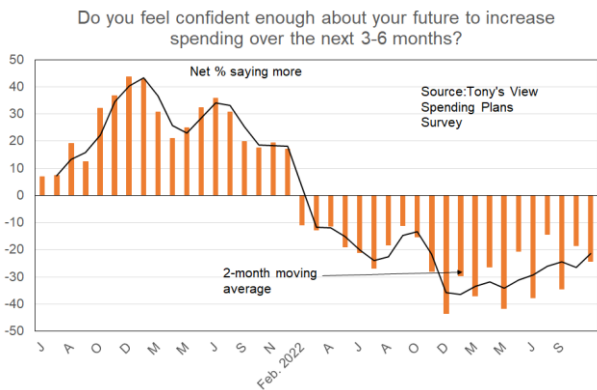
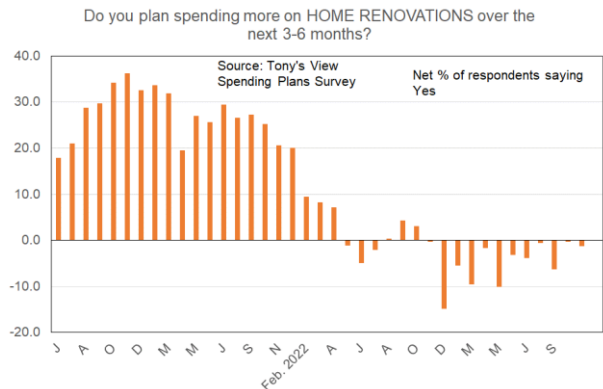
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We economists like to look beneath such headline data to see what is happening with spending on goods we consider to be durable – long-lasting and for which we can delay or bring forward our purchase dates as our circumstances change. Again, the news is poor.

Plans for home renovations remain negative and massively distanced from the levels during the pandemic.

With regard to the headline result from my monthly Spending Plans Survey, a net 24% of people still say they plan making cutbacks. This is a deterioration from 19% last month and seems consistent with other measures of consumer confidence which are still firmly in negative territory. For retailers the news remains bad.



A net 15% of respondents still plan cutting spending on motor vehicles.

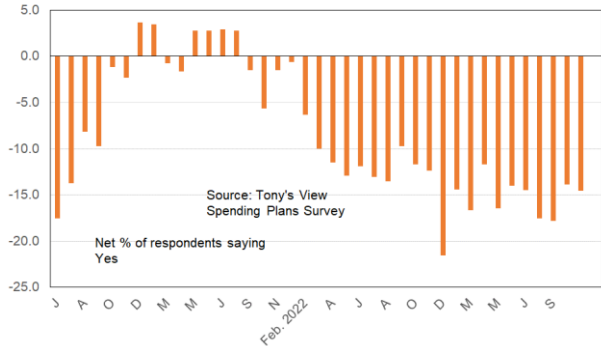
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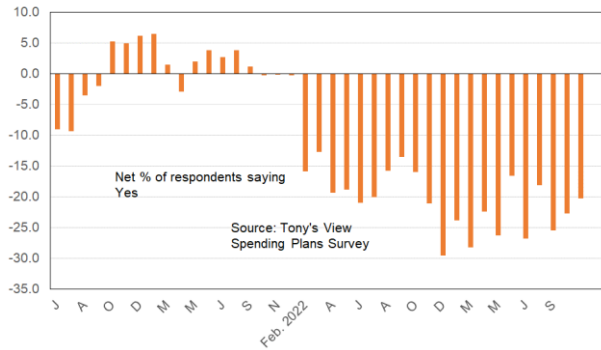


Do you plan spending more on MOTOR VEHICLES over the next 3-6 months?



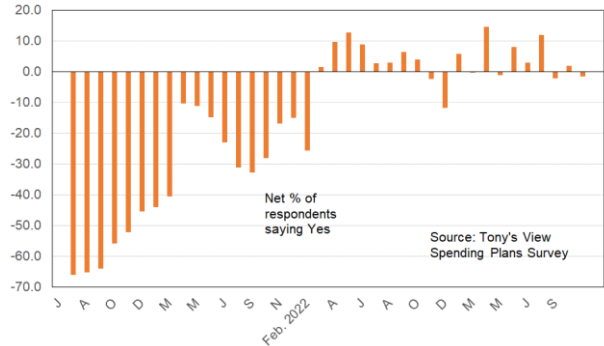
A net 20% still plan cutting back spending on furniture and appliances.

Do you plan spending more on FURNITURE & APPLIANCES over the next 3-6 months?



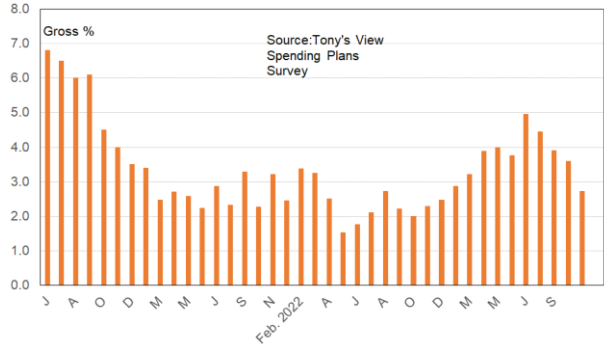
Perhaps our period of revenge travel spending is coming to an end as well. A net 2% of people now plan reducing spending on trips offshore. For three months now this measure has been essentially zero.

Do you plan spending more on INTERNATIONAL TRAVEL over the next 3-6 months?



Are people yet feeling less secure in their employment? There is actually an easing trend in the proportion saying they will spend less because of job worries. From that I conclude people's feelings of job security are still pretty high and that has relevance for the strength of demand for housing – existing and new.

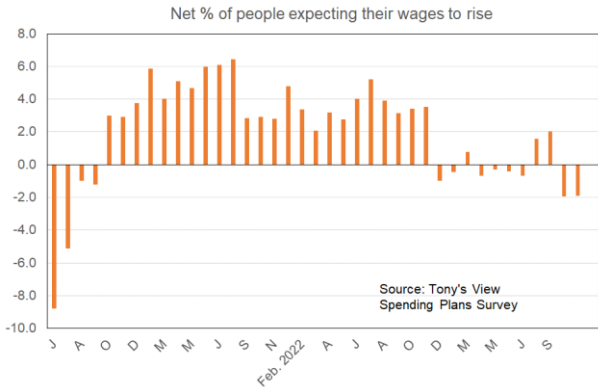
Spending less because I am worried about job loss or reduced work hours



Here is a result which hopefully will interest any Reserve Bank employees who read this. People's expectations for wage rises seem to be getting scaled back quite quickly.







**In case you missed it**

This week I released results from my monthly survey of real estate agents sponsored by NZHL. The main results include the following.

- Investors are becoming more obvious in the residential real estate market.
- Very few buyers are now worried that prices will fall after making a purchase. FOOP (fear of over-paying) has reached a record low.
- The market is strengthening, but there are no solid signs of a frenzy, seen most clearly in FOMO easing marginally this month.

[The NZHL Property Report by Tony Alexander | NZHL](#)

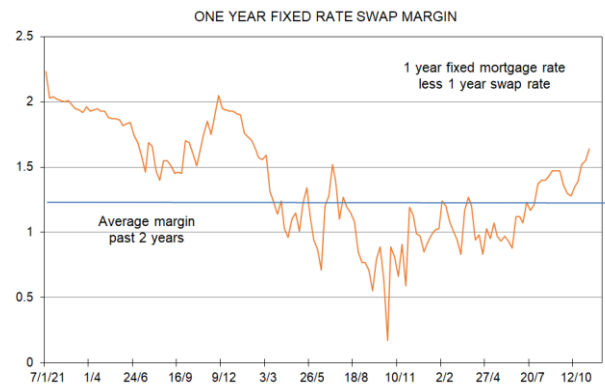
**If I were a borrower, what would I do?**

Wholesale interest rates which banks pay to borrow money to lend to home buyers and businesses have fallen again this week. The main cause was weaker than expected data on jobs growth, wage rises, the unemployment rate,

and manufacturing production in the United States.

The data over there have caused a fall in the ten year US government bond yield to near 4.54% from 4.95% last week. Locally the one-year swap rate has fallen to 5.61% from 5.7% last week and a peak of 5.91% at the start of October.

Banks took advantage of the rise in borrowing costs to push their fixed mortgage rates up in recent months and now the margin they are getting for one year fixed rate lending is well above average. Scope exists for the one year rate to be cut.

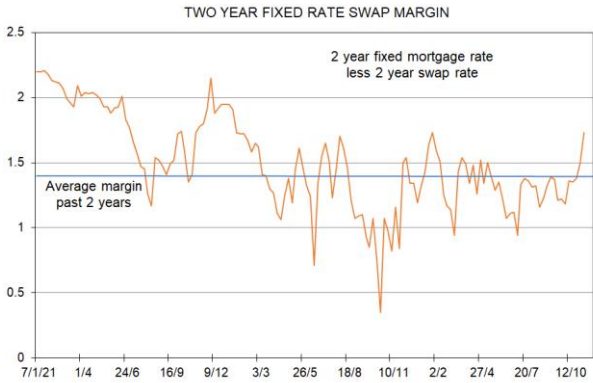


Will they? Given the absence of any Spring mortgage campaigns this year it doesn't look like they are much interested for the moment in boosting or in many cases protecting their market shares. So, rate cuts probably are not imminent.

For the two year term the cost to banks of borrowing this money in the wholesale markets has fallen this week to near 5.26% from 5.49% last week and a peak of 5.7% in early-October.

If you look to the right of this following graph, you'll see the margin for this term has just shot up for the banks.





But this move probably gives the best insight into why rate cuts are not going to happen immediately. The change is sudden and the uncertainty around the ability of rates here and in the United States in particular to stay down is high. If I were advising on pricing, I'd be saying its best to hold off a while to see where things might be settling down. The alternative is cutting and running the risk of putting the rate right back up again as people are partway through getting their ducks in a row for their mortgage management and causing bad tempers.

The five year swap rate has this week retreated to near 4.86% from 5.24% last week and a 5.3% peak five weeks ago.

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Looking ahead the drift for NZ wholesale rates could well continue to be down in fits and starts. But a repeat of the declines in the past week would seem an over-optimistic expectation. Of main significance for ourselves is the need for solid data showing not just an easing in the labour market but rapidly slowing wages growth.

Given that our labour market is highly deregulated and responded strongly with high wage rises when labour was in short supply, the flood of migrant workers is likely to cause a rapid slowing. If we get evidence of that in the first half of next year, then scope for rapid mortgage rate cuts from mid-year will be strong.

If I were borrowing at the moment, I'd probably fix 12-18 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.**

