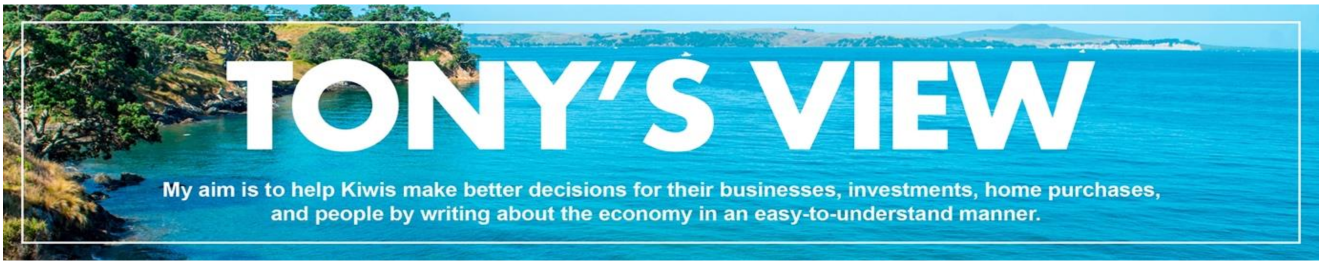

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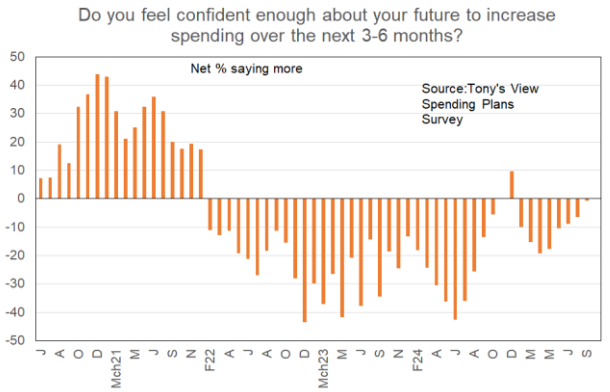
Spending Plans almost net positive

Earlier this week I ran my monthly Spending Plans Survey which aims to deliver insights to retailers on what their market conditions will be like in the next few months. The headline result is that a net 1% of people still plan cutting their spending on things generally over the next 3-6 months.

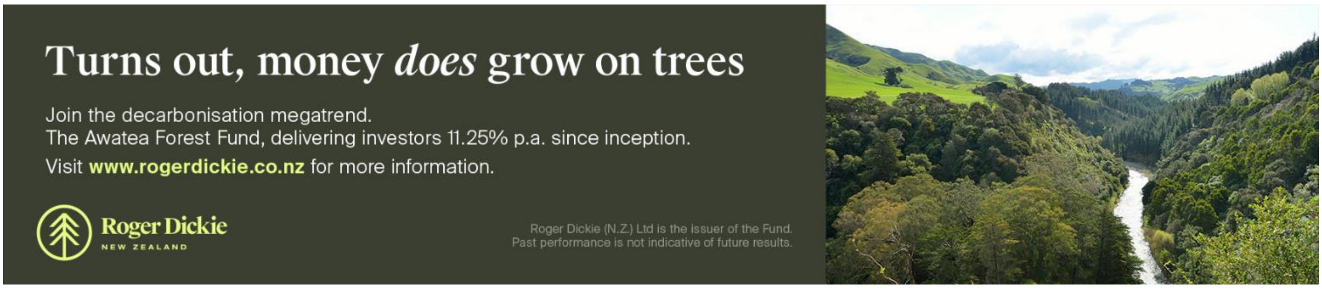


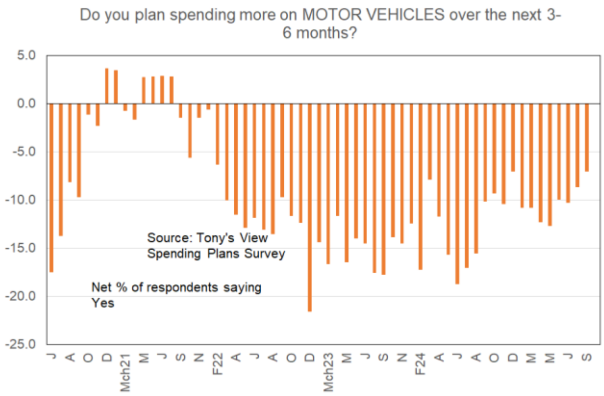
That sounds bad. However, it is an improvement from -6% last month and the low-point of -19% back in April. It is in fact the best result since the silly spike to +10% in December last year when too many people thought that falling interest rates would outweigh all other negatives and bring a robust performance for the New Zealand economy.

Barring that spike the result then is the best since December 2021. This is some cause for celebration even if the details of the report suggest things are still going to be tight for most retailers and further liquidations almost certainly lie ahead.

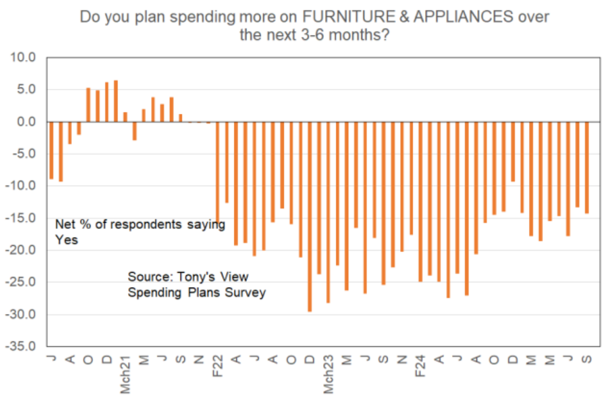
The truth for some, such as recently seen with Smiths City Market and Kitchen Things, is one of two things. Either a long overdue restructuring or closure has now finally been forced by poor cash flows, or cash flows are so poor that ability to get a sustainable model through to the spending recovery is not quite there.

When we look at areas of lumpy consumer spending, we still see weakness. A net 7% of people plan spending less on motor vehicles. But this is the least weak result since the start of 2022. Or to put it another way, net intentions of spending on motor vehicles are at a three and a half year high.

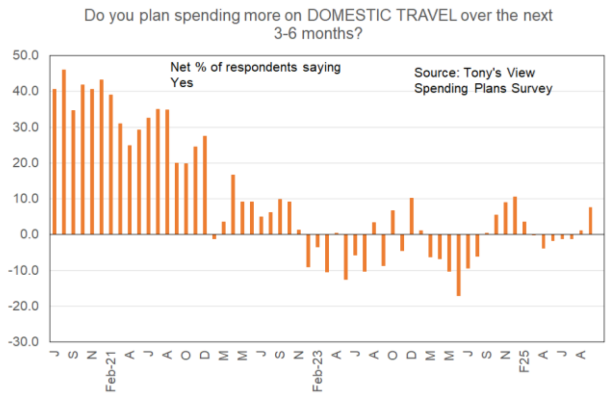




The net proportion of consumers planning to spend more on furniture and appliances has worsened to -14% from -13% last month and the situation does not look quite so positive (less bad) as for motor vehicles.

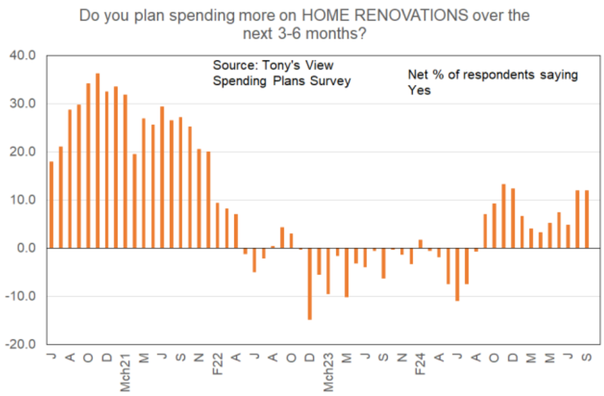


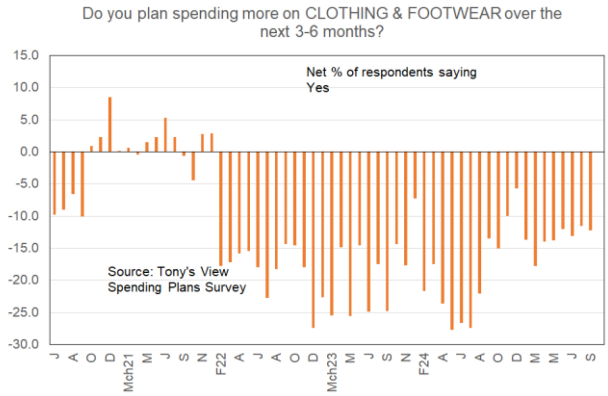
A net 8% of people plan spending more in the next 3-6 months on domestic travel. The improvement looks greater than one would expect from the simple approach of summer so that is good news for the parts of our tourism sector servicing Kiwis moving around the country.



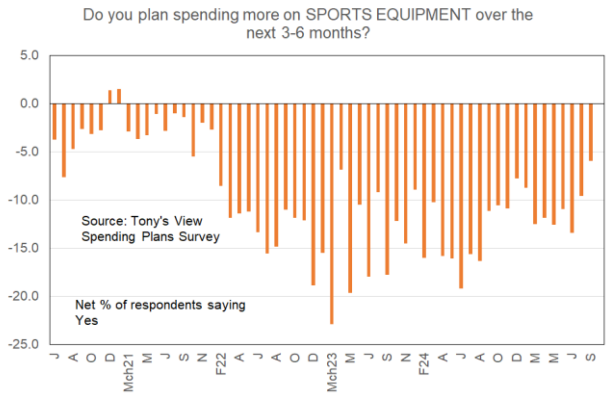
A net 9% of people plan spending more on international travel. The graph here tells us that this is neither here nor there in comparison with spending intentions over the past year and a half. This sector experienced a sustained recovery in activity perhaps at the cost of other areas of household spending from the reopening of the borders.

Prospects for the home renovations sector have been positive since late last year and remain so. A net 12% of people plan extra spending in this area.

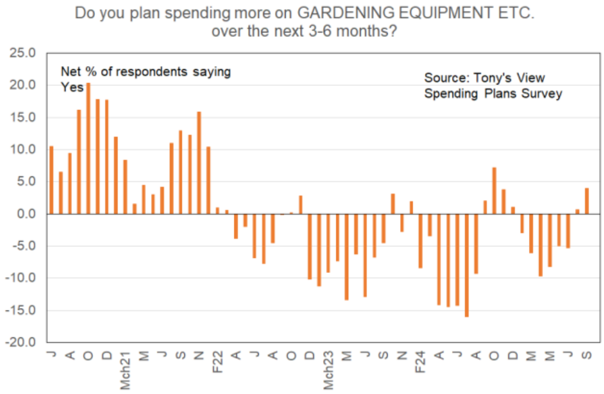




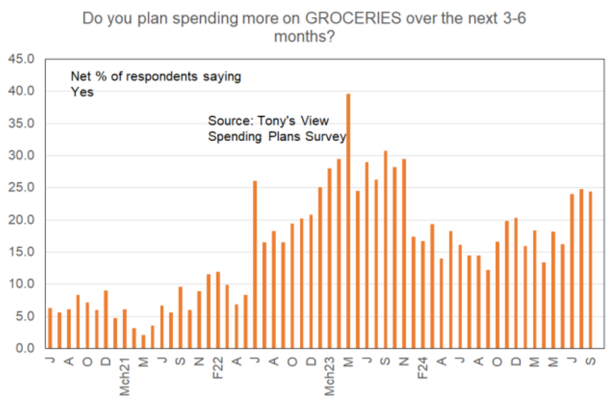
But perhaps we are hoping for a good summer and many chances to get outside and recreate. The net proportion of people planning to spend more on sports equipment has improved to the least bad since late-2021 at -6% from -9% last month.



But will this spending on our nests extend into the garden? The graph suggests yes with net 4% positive spending plans. However, there is a clear seasonal pattern to this measure and the improvement from just 1% last month and -5% two months ago is probably just a seasonal rise.

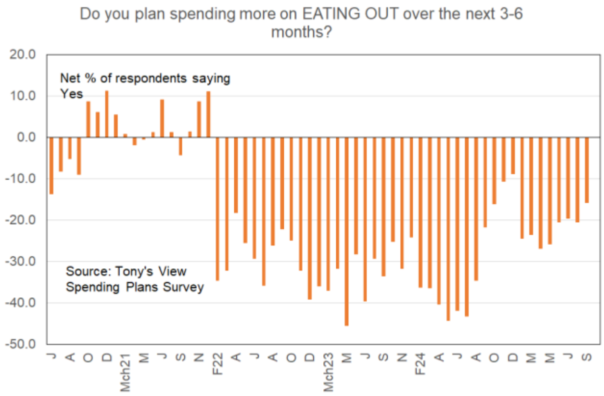


For groceries the need to eat means we have to stump up for the increasingly expensive items and therefore an unsurprising net 24% of people from 25% last month plan spending more.

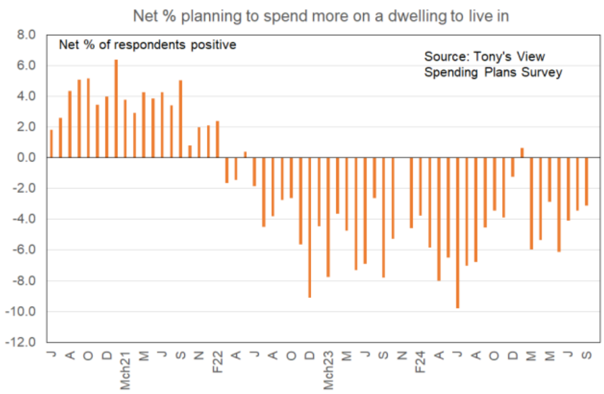


With household budgets strained by soaring costs for council rates, electricity and food, people are still exercising great restraint when it comes to buying clothing and footwear. A net 12% of us plan spending less. This is not all that much better than most other months for the past year.

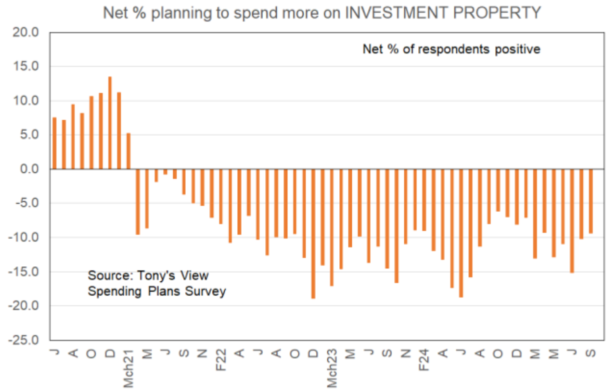
For restaurants and cafes things still look tight. A net 16% of us plan cutting back spending on these things from a net 21% last month.



From the survey we gain two insights into where the housing market may be headed. A net 3.1% of people say they plan cutting spending on buying a place to live in themselves. The result is not much out of line with most others for the past three years and tells us that as yet groups other than first home buyers are still hesitant to act in the current climate.

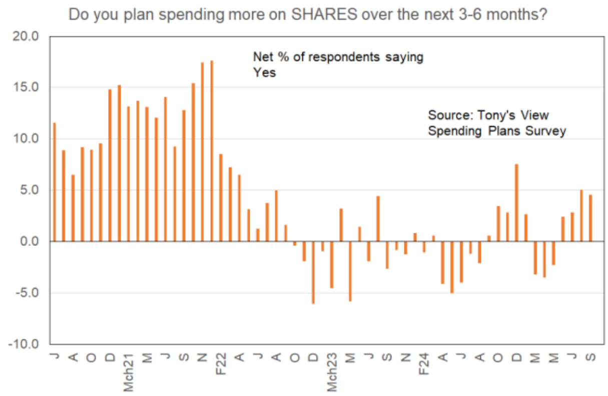


A net 9.4% of us plan spending less on investment property and as the graph shows there is no improvement underway from the situation since 2021.



As noted in my writings many times before, there is evidence of more people investing in residential property, attracted by lower interest rates and desires to build wealth. But what the other measures fail to capture is the selling of investment property by those who are moving onto other assets. This measure captures this as do some of the measures in my other surveys.

Finally, a net 4.5% of people say they will spend more on buying shares in the next 3-6 months. This measure has been quite positive for the past four months and correlates with the improvement in the US sharemarket despite worries about the tariff attacks and now evidence of a stalled US jobs market.



If I were a borrower, what would I do?

Wholesale interest rates this Thursday look almost the same as they were a week ago apart from a 0.1% fall in the ten year swap rate. This decline has been driven by long-term rates in the United States falling to their lowest levels since April in response to weaker than expected employment data and a better than expected producers inflation number last night.

The markets have factored in 0.75% coming off the Fed funds rate by the end of this year with further cuts over 2026. The impact of President Trump's tariff attacks is proving especially negative in the US labour market and particularly in the manufacturing sector.

Many businesses are having to cut labour costs because materials expenses have gone up. Those who would potentially benefit from sustained high tariffs are refraining from expanding because it is not only not clear that the tariffs will persist beyond Mr Trump's term but may not be able to continue at all if the Supreme Court fails to overturn a recent Federal court decision that most of the tariffs are illegal.

Next week in NZ we will get GDP data for the June quarter and a negative number approaching 0.5% is expected. However, some special factors will drive the result and a technical bounceback will occur for the September quarter.

In addition, my various surveys tell us that the worst point for the economy occurred over the April-May period and things are now improving.

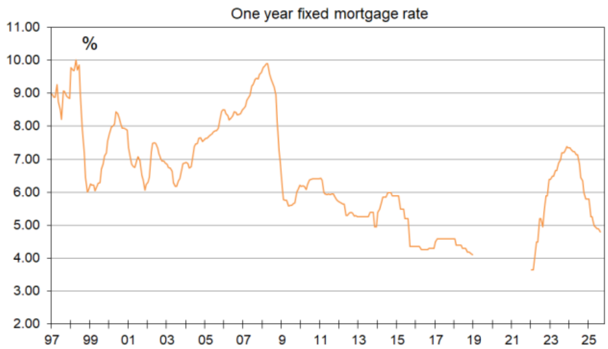
Business investment intentions are positive, and consumers are becoming more inclined to spend. There is the lagged impact of easier monetary policy yet to hit the economy along with the lagged impact of strong farm incomes.

These developments mean a cut in the official cash rate below the 2.5% level indicated by the Reserve Bank and factored into market pricing is unlikely. The risk is that in a couple of months expectations may shift to a 2.75% low-point – but it depends upon how quickly the more widely-watched economic indicators begin to show improvement.

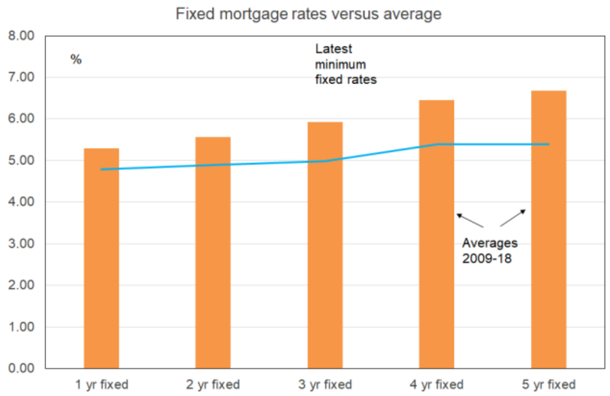
Just briefly. There was some debate this week about changing the Reserve Bank's inflation target from a range of 1% - 3% to 2.5%. This would not be a positive development for households because it implies official tolerance of higher cost of living increases (another word for inflation broadly). No change is likely.

If I were borrowing at the moment, I'd be happy to fix three years but have no issue with anyone opting for a shorter term. Splitting across a couple of terms is often a good idea in order to smooth the impact of rate changes down the track.

These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.



This graph shows how current rates compare with averages from 2009-18.



To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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