

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

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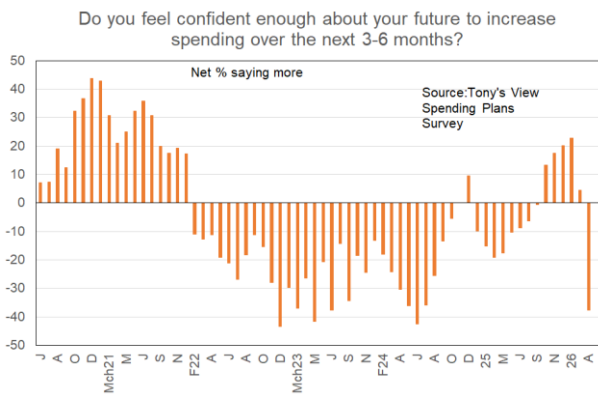
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**Consumers slash spending plans**

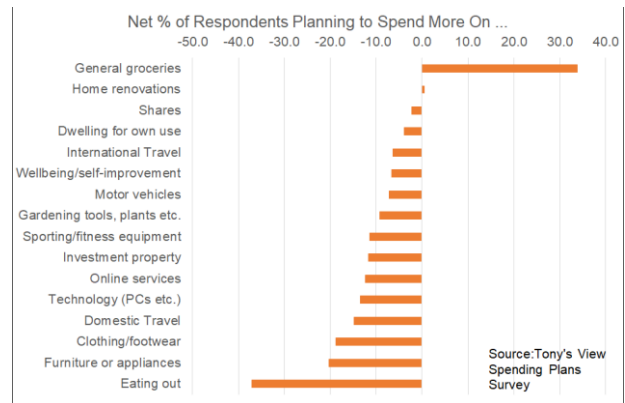
This week I have run my second survey of consumers since the Iran War started on February 28 and the results make for bad reading. The net proportion of people saying that they plan buying more stuff generally in the next 3-6 months has fallen from a healthy 23% early in February to 4% a month ago and now -38%.



That is, a net 38% of us say we plan cutting back and the situation is almost back to where things were in the middle of 2024 when our economy was in the prices of shrinking 2%.

This graph shows net spending intentions for each category I cover. The widespread warnings

about rising prices and our need to eat mean we expect to be paying much more for our weekly groceries in the near future.



This extra spending on food is coming strongly at the expense of eating out, furniture & appliances, clothing & footwear, and domestic travel.

Unfortunately I do not include a Fuel category but the evidence to date suggests we are continuing to prioritise driving as we have before and sacrificing spending in these other just-mentioned areas.

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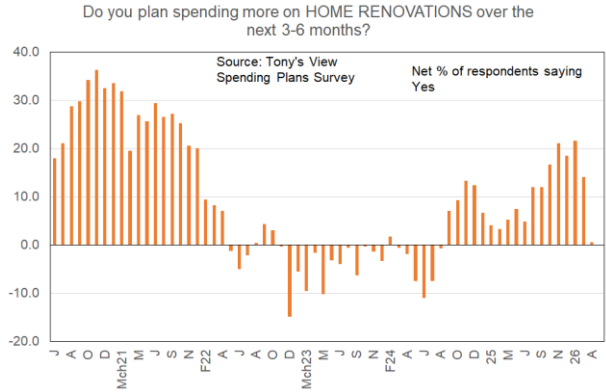
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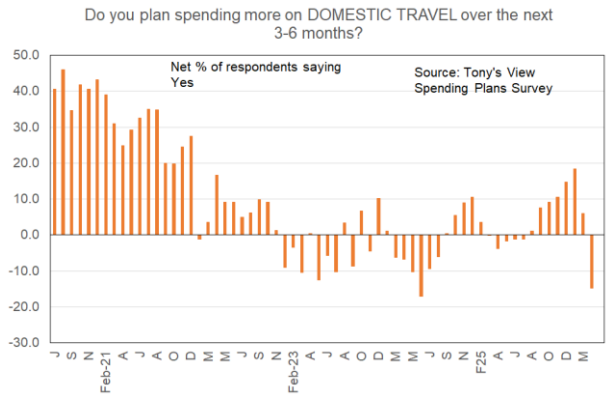
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Our plans for spending on home renovations have been quite healthy since the latter part of 2024 as the interest rates outlook changed. But now, with interest rates rising and expected to rise further and people newly worried about their jobs (seen from my survey of real estate agents), plans to do renovations are being shelved.



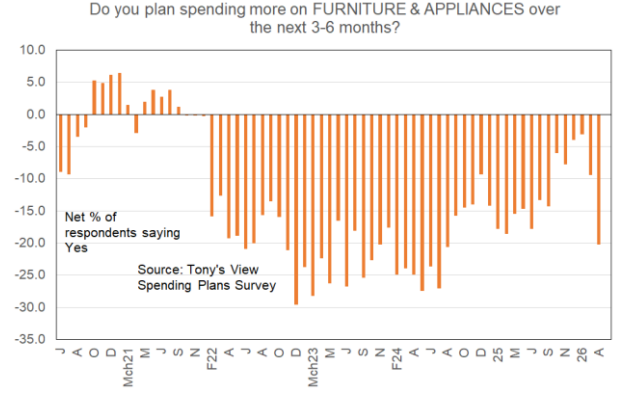
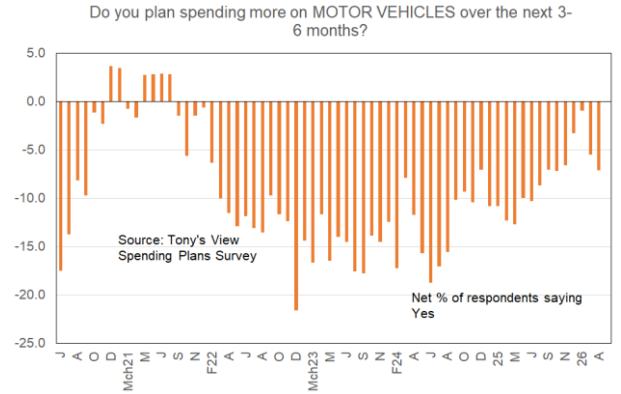
We are also cutting back on our domestic holiday plans, involving as they usually do a lot of long distance driving.



Net positive plans for going offshore have also disappeared though the monthly switch from positive to negative is less than for domestic travel – 18% versus -21% respectively.

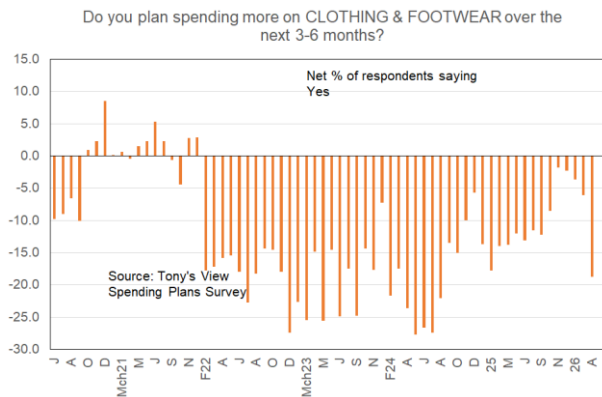


Two months ago spending plans for motor vehicles almost turned positive. Now they are back in the doldrums. The same goes for furniture & appliances and sporting goods.

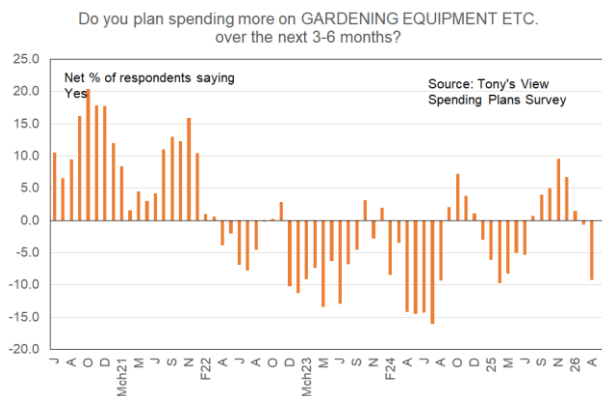




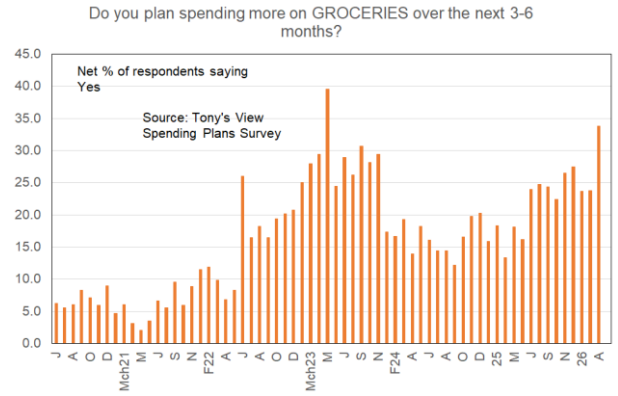
A big area of planned cutbacks is on clothing and footwear. It looks like we were just going to let what we have become more ragged.



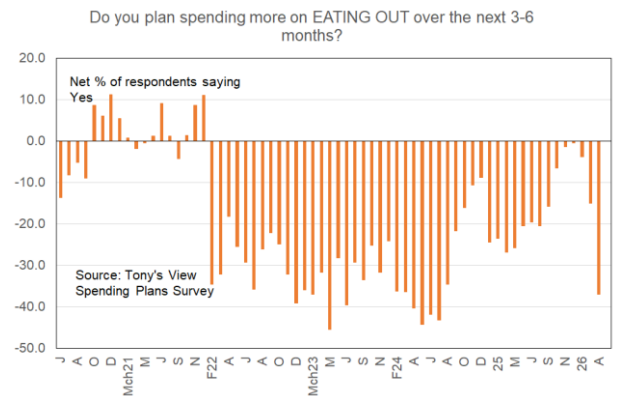
In the garden things have turned sour again in a more than seasonal decline.



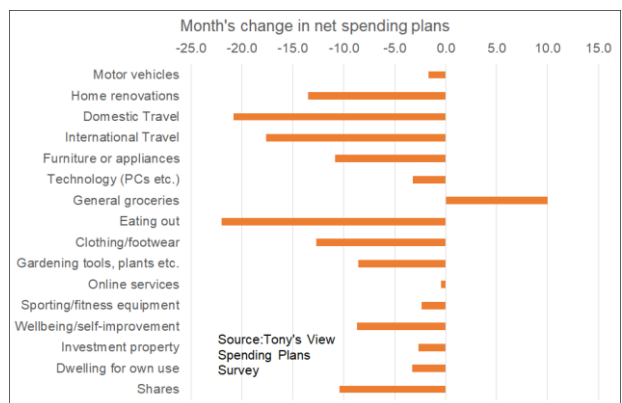
As noted above, we are saying we were going to allocate more of our budgets towards buying groceries.



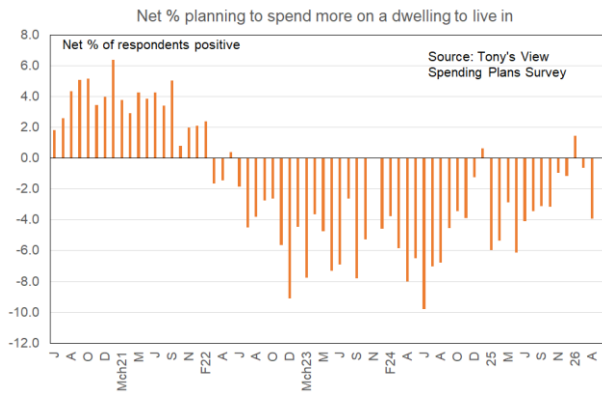
For the hospitality sector there is nothing positive to say and I can attest to the cutbacks being made in this area from low patronage by others at my daily café of choice.



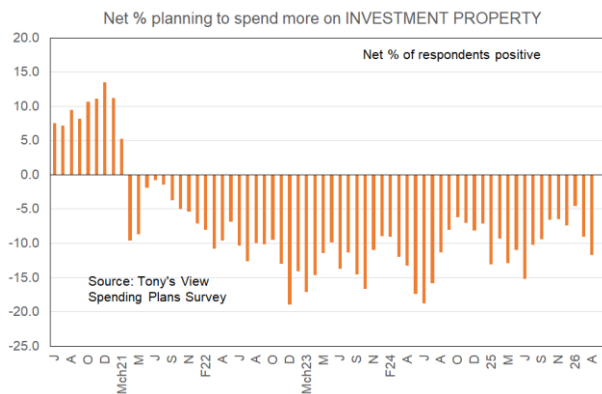
This table shows the extent of change in net spending intentions for each category over the past month.



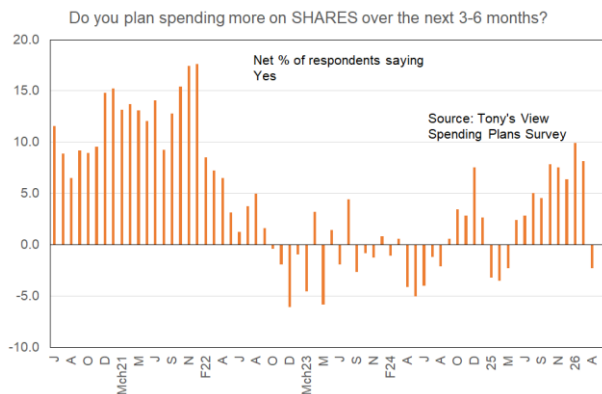
With regard to housing there has been a decline in the net percent of people planning to buy a house to live in to -4% from -0.5% last month.



For investment property the number has gone to -11.6% from -9%. Basically, the reading was already bad, and it has become worse.



Plans for buying shares have shifted to the negative.



All up, the results look like what one would expect to see given the shock running through our economy. That of course is where things get difficult to extrapolate because should the conflict

suddenly end and bulk items recommence flowing through the Straits of Hormuz, positive sentiment will likely return even though the price and supply chain effects may linger for many months.

This table shows the latest net buying intentions numbers for each category. The survey drew 662 responses.

Net % spend more	-37.6%
Motor vehicles	-7.1
Home renovations	0.5
Domestic Travel	-14.8
International Travel	-6.3
Furniture or appliances	-20.2
Technology (PCs etc.)	-13.4
General groceries	33.8
Eating out	-37.0
Clothing/footwear	-18.7
Gardening tools, plants etc.	-9.2
Online services	-12.4
Sporting/fitness equipment	-11.3
Wellbeing/self-improvement	-6.6
Investment property	-11.6
Dwelling for own use	-3.9
Shares	-2.3

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

There were two main pieces of news to digest in the interest rates market this week – the Reserve Bank’s review of the official cash rate and developments in the Iran War.

On the former the decision to leave the rate unchanged at 2.25% was near universally expected. But there was a slightly hawkish interpretation possible from the RB’s comments in their press release regarding developments in inflation expectations and the track for wages and prices. Namely, “If these conditions are not met, decisive and timely increases in the OCR would be required.”

That does not firmly mean a bias towards tightening early, but does mean they are aware of where the risks lie and that the expected change in interest rates from here is upward because of the inflation concerns and not downward because of weaker growth expectations.

As regards developments in the Middle East the prospect for oil prices staying well below recent

highs because of the temporary ceasefire was partly already factored into market rates.

The upshot is that wholesale borrowing costs facing banks as they set fixed lending rates ended up little changed from this time last week. Some pressure still exists for 0.2% or so rises in fixed mortgage rates as margins are below average.

But then margins in most sectors are currently being squeezed and not all businesses are quickly passing higher costs onto their customers.

In this highly uncertain environment the banks may tolerate low margins for a while in the interests of seeing where things are likely to settle.

If I were borrowing at the moment, I personally would still favour fixing three years in order to get insurance against the risk of our central bank having to play tightening catch-up somewhere down the track – basically 2027 and 2028.

To see the interest rates currently charged by major lenders go to [www.mortgages.co.nz](http://www.mortgages.co.nz)

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