

Input to your Strategy for Adapting to Challenges

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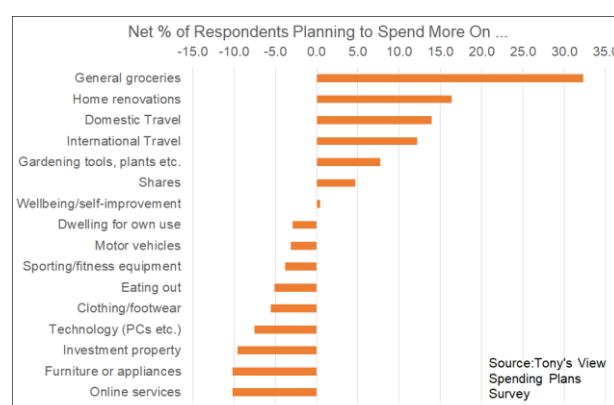
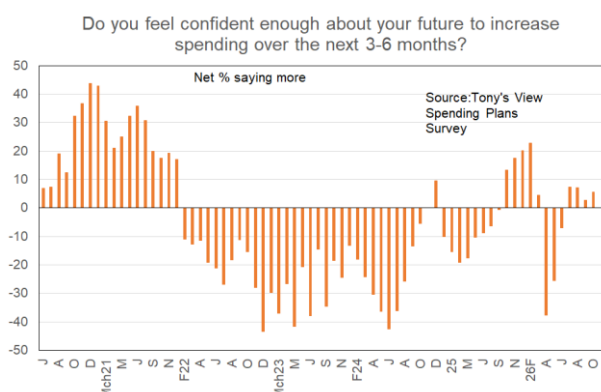
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Positive retailing outlook but no boom

This week I ran my monthly Spending Plans survey which gives us insight into where consumer spending levels may be headed. The net proportion of people saying they plan to spend more on "stuff" over the next 3-6 months came in at 6% which is almost the same as spending intentions revealed in the previous three surveys.



The high reading for groceries likely reflects price rise expectations as too many years of the Reserve Bank creating then tolerating excessive inflation has aggressively raised the cost of living and made people feel they are forever battling rising prices.

This is what high inflation does. The initial surge feels okay and gets associated with strong growth. But as it continues the negative effects build up and depress even those with strong pricing power.

This next graph looks at how the latest spending intentions for each category compare with the average since the start of 2022.

On the basis of this string of results there is reason for retailers to feel the Christmas season will be okay, but little justification for thinking that the spigots are about to open on spending.

By category here are the latest net spending intentions.

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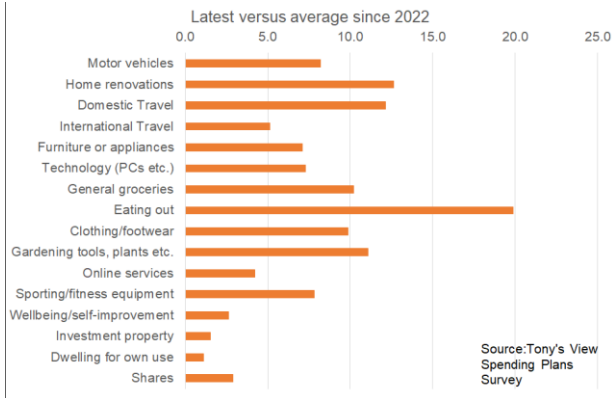
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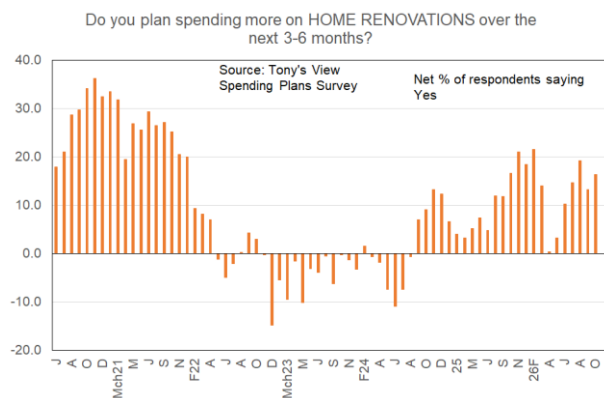
CONFIDENTIAL DISCUSSIONS



All plans are above average but especially so for eating out. If times were really as tough as the media portray then it is doubtful that our plans to purchase coffee and scones would be this strong.

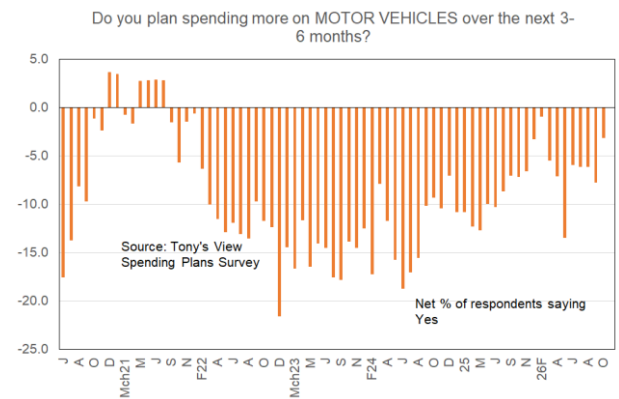
In contrast, note the relatively weak current settings for housing intentions. This reflects the now widespread realisation that the average pace of capital gains has shifted downward, plus the shift away of less experienced investors driven largely by FOMO and regret-avoidance.

Prospects for the home renovations sector have looked good since the middle of 2024 and remain so.

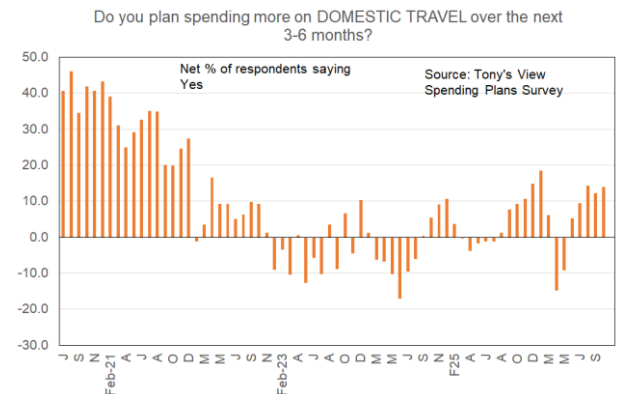


For motor vehicle retailers we have almost got a situation of net positive spending intentions.

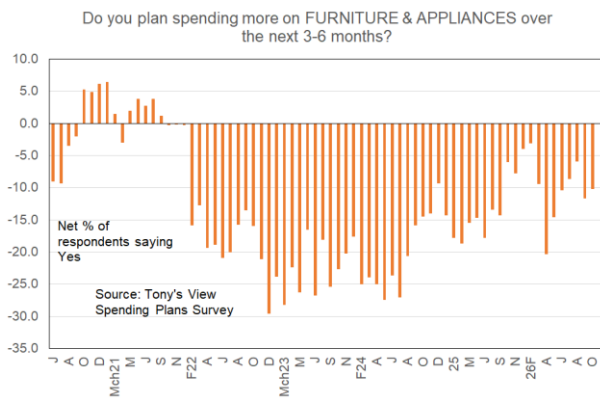
Maybe high petrol prices bringing desires for an electric vehicle are relevant here – and perhaps ditching of diesel vehicles also.



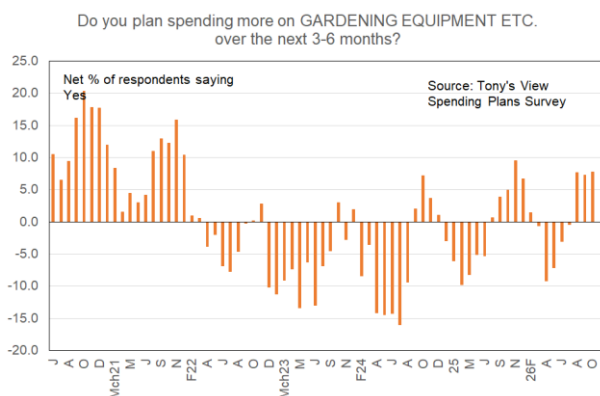
Plans for domestic and international travel remain okay.



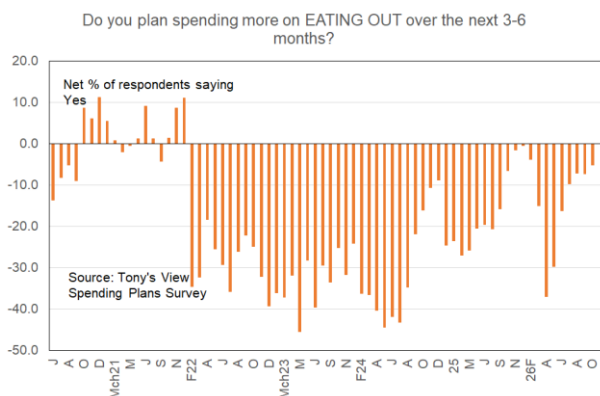
Unlike motor vehicles there is still some distance to travel before spending plans on furniture and appliances turn net positive.



The seasonal upturn in our gardening plans is underway.

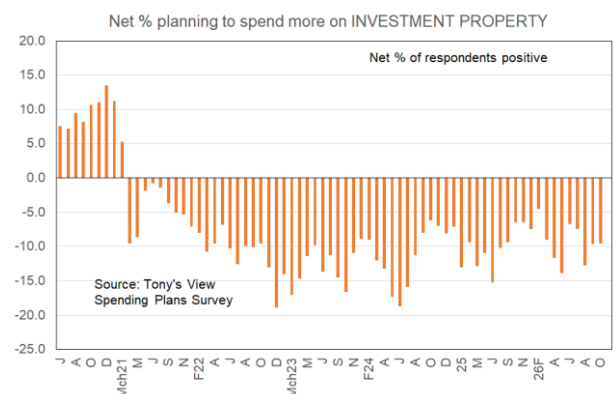
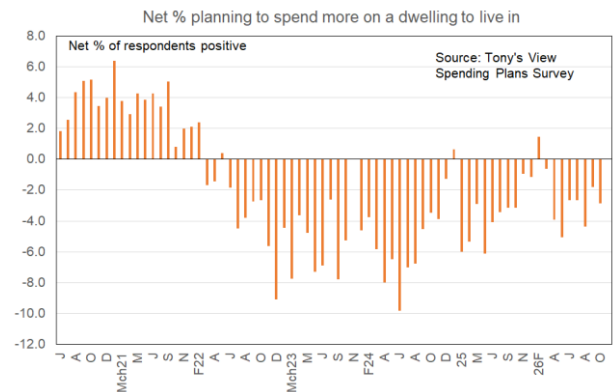


For the hospitality sector involving eating out a slow improving trend remains in place.

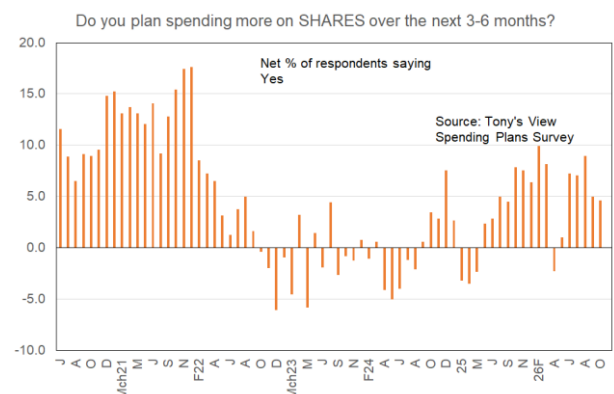


Looking at my two housing measures there is still nothing to suggest much market strength in the near future. A net 3% of people plan cutting back

spending on a house to live in and a net 10% plan reduced investment in housing.



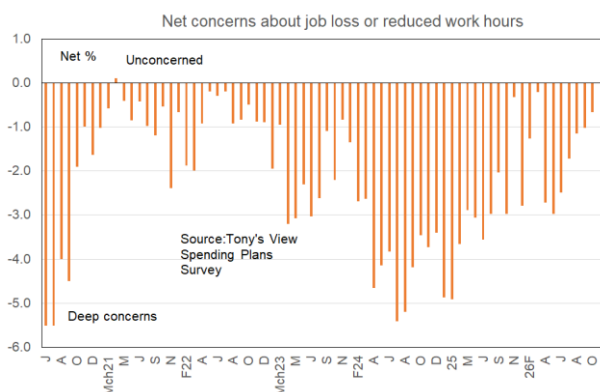
Finally, when it comes to investing in shares intentions have eased a bit this month but remain positive.



If I were a borrower, what would I do?

Can we gain any insights into inflation risks from my monthly Spending Plans survey? Yes, but nothing which alters the risks already identified.

For instance, we already know from my real estate agent survey that people's concerns about their employment situation are slowly ebbing away. We get the same result from this survey when I ask about expectations for hours to be worked. The improving trend is clear.



It is unsurprising that as this happens there appears to be a lift underway in plans for getting higher wages – even while the unemployment rate sits at a cyclical high level of 5.6% and jobs growth is still mediocre at 1.1% this past year.

The net proportion of people expecting their wages to rise has risen to 4% from below 2% last month. The change is small, but the result is highish in the context of this series. Nothing major – just a small reminder of how an economic recovery period brings higher inflation eventually

which is the opposite of what the Reserve Bank expects to happen.



For the moment the markets remain of the view that the official cash rate currently at 2.75% will peak at 3.25% - 3.5%. But I feel a 4.5% peak is probable given the inflation risks which have yet to be factored in.

If I were borrowing at the moment, I would personally be happy to fix three years at about 5.45%. But the last of the main lenders has just removed that rate and the best published one is now 5.59%. Most people are fixing two years at about 5.29% which is okay and probably what I would now opt for. The opportunity for really good protection against the inflation and interest rates surge to come has now gone.

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

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