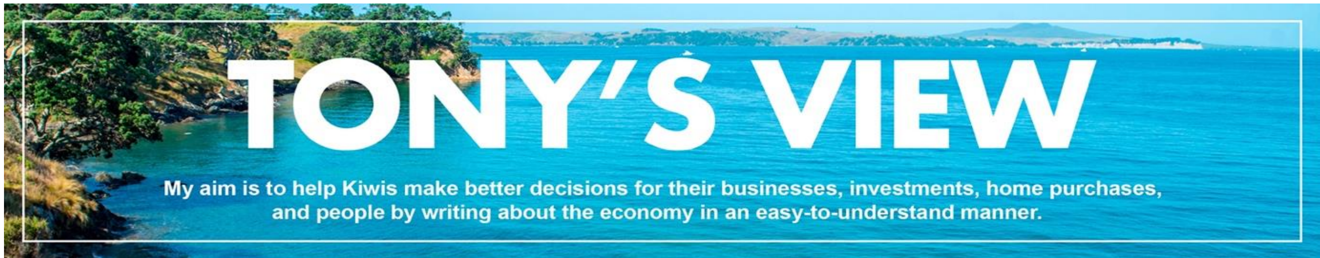

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Retailing outlook remains poor

Because I've got such a large number of outputs now I've decided to simplify things by no longer sending the results of my monthly Spending Plans Survey out as a separate document but instead will report the main results each month here.

I ask people if they will spend more or less on things generally in the next 3-6 months. A very distinct better and worse pattern has developed this year so it is best to run a two month moving average through the data to see what is happening underneath the fluffery.

There is an improving trend underway – but there is not really anything positive here for retailers. All that is happening is that very slowly as this year has advanced a slightly smaller net proportion of survey respondents have said that they plan cutting back on spending. A net 19% this month have said that compared with 34% in September and 14% in August. The improving trend is very minor.

The over-arcing thing to keep in mind when you look at indicators of consumer sentiment, spending intentions, and actual spending outcomes is this. The Reserve Bank's intention when running tight monetary policy is primarily that you and I will spend less. If we don't they keep raising interest rates until we respond. Then it becomes a waiting game to see how long it takes for businesses to respond to the decline in consumer spending and cut their prices or raise them at a slower pace.

There is no consistency of this lag between spending changes and business pricing responses between policy tightening cycles. Hence why you should not place any great faith in

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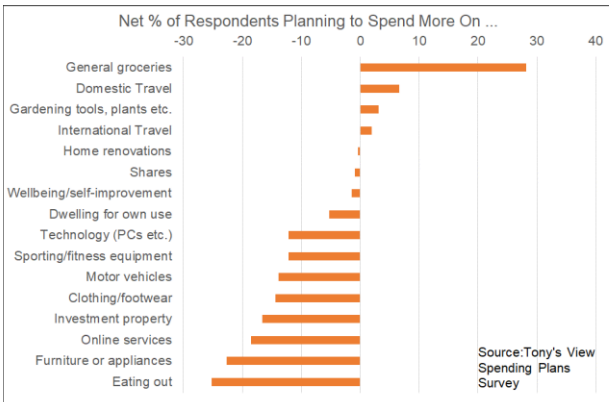
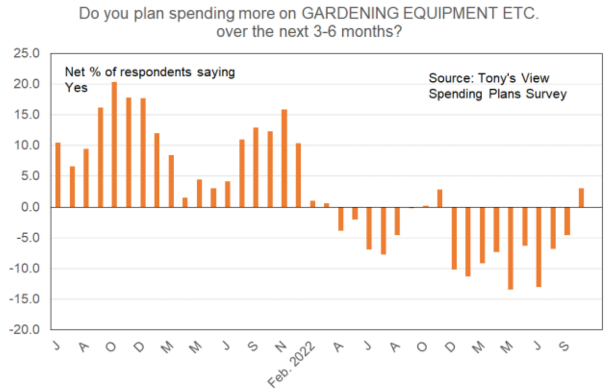
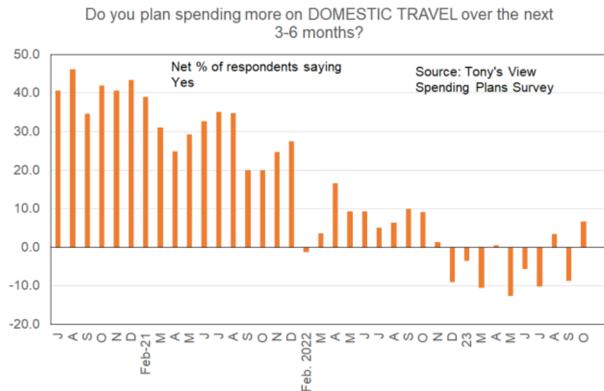
forecasts for interest rates once monetary policy embarks on a tightening path. All you can do is hope you locked in enough of your debt at long-term interest rates when the cycle was at its low-point - as in five years fixed mortgage rates at 2.99% from late-2020 to mid-2021.

This graph shows where people plan to boost spending – only in four areas – and where they plan cutbacks. The groceries result obviously reflects higher prices. The onset of Spring probably accounts for net positive plans to spend on gardening. But note how the lift in such intentions fizzled out last year.





The domestic travel result is a bit more positive than usual.



But for international travel perhaps we may have now sated our post-pandemic desire to engage in revenge travel.

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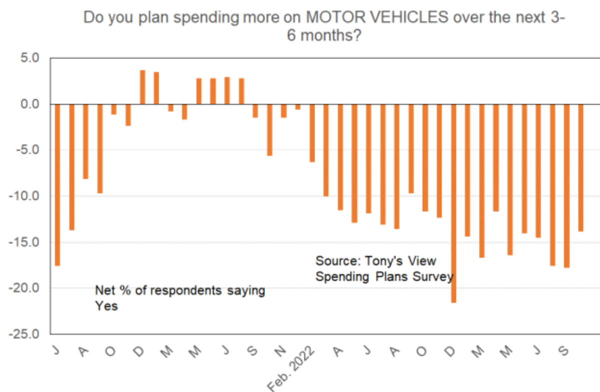
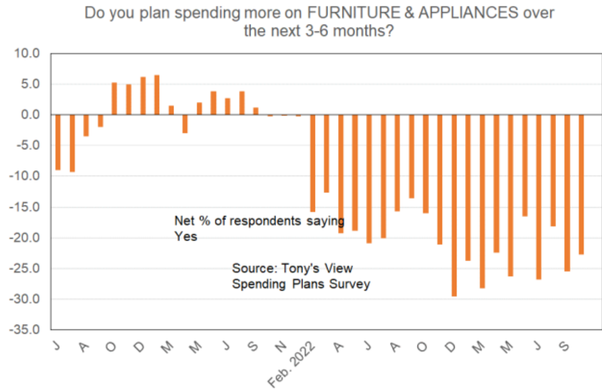
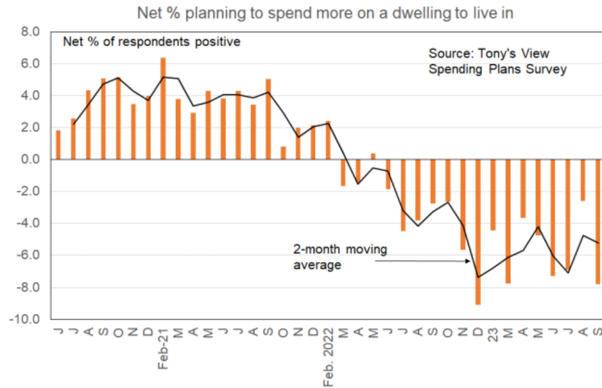
Note how hard times impact on plans for spending on big items like motor vehicles and furniture. Yuck.



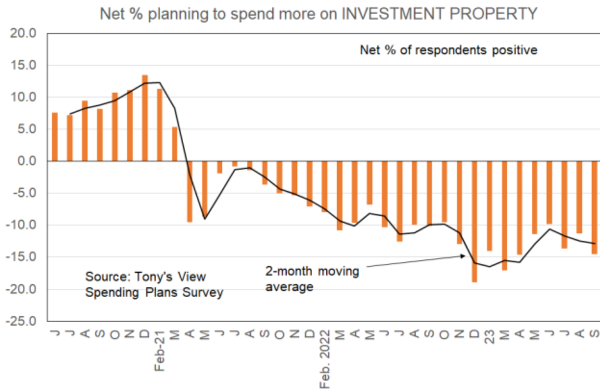


I garner two housing market measures from this survey and largely they reflect the thoughts of existing owner-occupiers rather than first home buyers. There is no improving trend. For now the residential real estate market is principally being moved about by first home buyers.



What about investors for whom other surveys show rising interest? This survey does not. For the moment the general masses do not feel that it is

a matter of moment to give active thought to investing in residential property. We are a long way from the days of 2020 before the tax rules changed, LVRs returned, and interest rates started their long haul upward.



Overall, my monthly survey of yourselves in your capacity as consumers yields nothing much of positive import for the country's retailing sector. Next week I'll take a look at some of the insights garnered by asking people why they will spend more or spend less.

In case you missed it

Nothing this week.

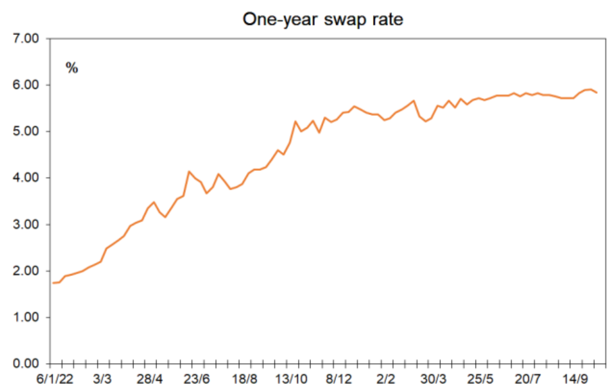
If I were a borrower, what would I do?

The first main piece of news this past week relevant to where NZ interest rates are headed came out of the United States on Friday night. The number of extra jobs added to the US economy in September came in at 336,000 which was well above expectations just above half of that. This growth means good support for consumer spending which is not what the Federal Reserve wants to see as it tries to crush household spending to suppress business repricing plans.

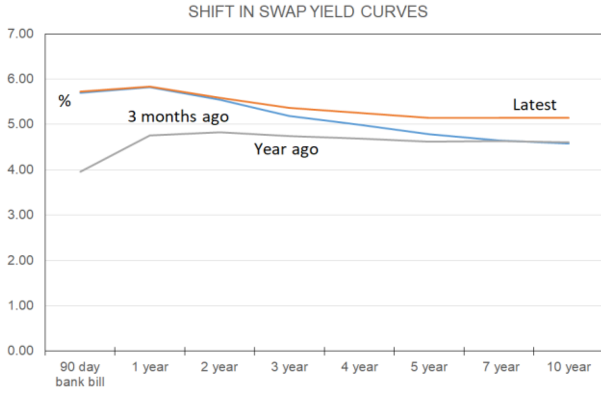
The growth also suggests wages growth could remain firm. However, in that regard things were a bit messy with some evidence that the jobs growth is mainly occurring in areas not considered to be leaders when it comes to propelling wages generally higher. Also, the rate of wages growth in the month was slightly slower than expected.

The second piece of news was a few comments from senior Fed. people noting that rising bond yields had done part of the job for the Fed. The implication is that they likely feel less inclined to rake the funds rate higher than if market rates had not shifted up.

These comments have caused a decline in bond yields over the week in the United States and that has fed through into lower bank wholesale borrowing costs here in New Zealand. The one year swap rate has edged down towards 5.84% from 5.91% last week. But as the graph here shows, no downward trend has been established.



The three year swap rate has edged down to 5.36% from 5.51%.



For now confusion remains in this continuing post-pandemic environment. But the drift for wholesale borrowing costs remains slightly upward as we head into release of New Zealand's annual inflation number next week on October 17.

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.

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