

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

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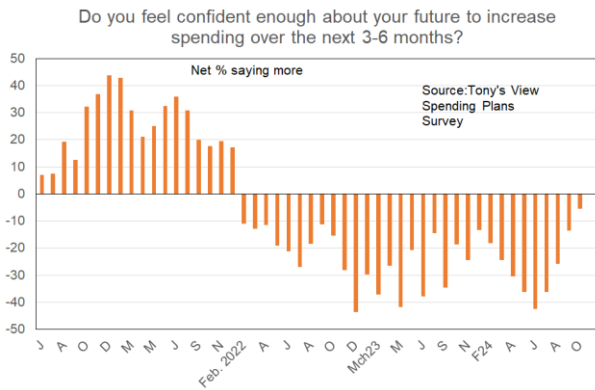
10 October 2024

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**Consumer pessimism eases again**

This week I have conducted my monthly Spending Plans Survey, and the results suggest retailers should continue to have downbeat expectations for summer, but the trend of change is in the right direction.

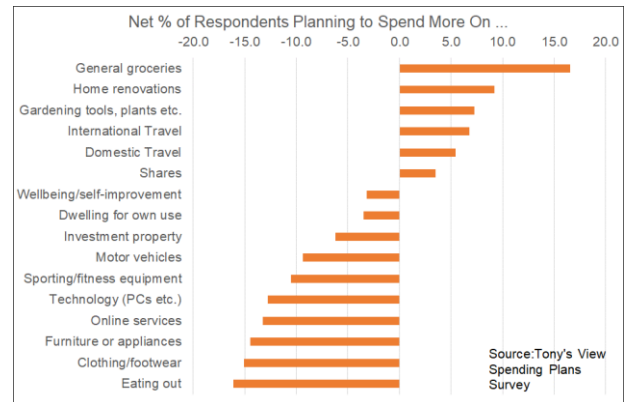
A net 5% of 666 respondents this month have said that they intend cutting spending on stuff generally in the next 3-6 months. This is an improvement from 13% last month and the near equal record low of a net 42% negative in June.



At -5% the key measure from this survey is the least weak since December 2021 as things were turning to custard following the imposition of a

credit crunch (debt availability matters in a country like NZ with an aversion to saving).

The biggest area of planned spending increase is groceries, and this has been the case for a long time.



For the second month in a row a good proportion of people have said that they plan spending more on home renovations. This is a very important result for the many small businesses involved in this large lumpy area of spending for people. Outside of buying a house or a car this is probably the third (or second) biggest amount of one off

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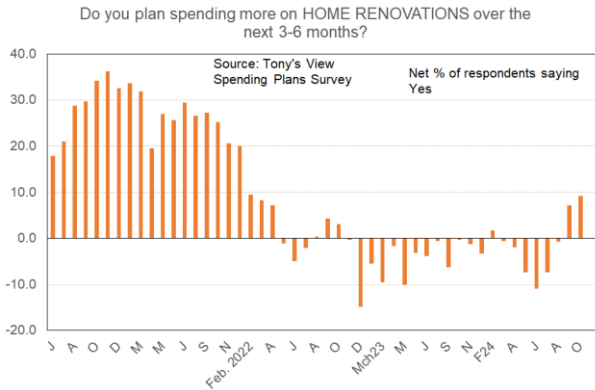
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spending most people will undertake in one go in their lives.

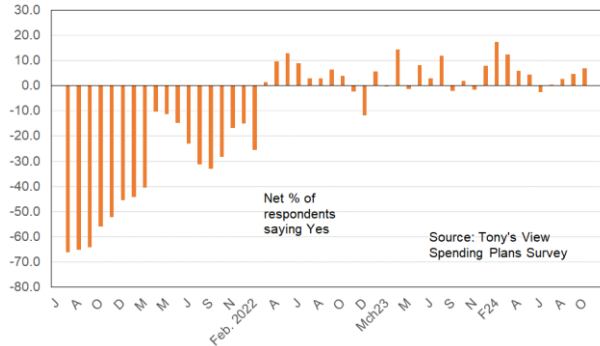


Plans for spending on international travel are showing no interesting change, but things are marginally better for domestic travel. The parts of our economy devoted to servicing people travelling around the country to look at stuff can reasonably anticipate recent levels of spending to continue with the usual seasonal pattern.

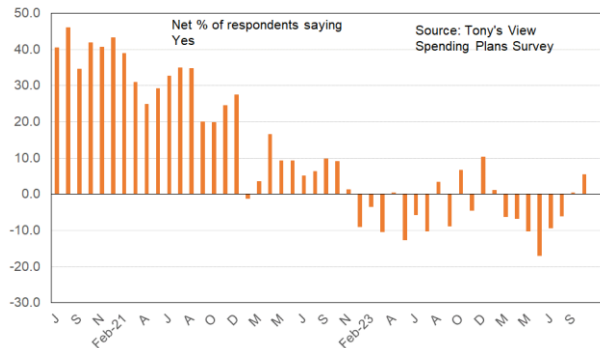
But it would be optimistic to count on an upturn and for the inward tourist market no optimism would seem justified until the Chinese economy and Chinese householders in particular are in better shape. It is unclear when that will happen and even with recent efforts made by the Beijing government to stimulate the economy the effects will be minor unless consumers are willing to take on more debt.

Also, it pays to note that concerns about people learning about the outside world have led the central government to require people working in key sectors such as education to hand in their passports so that their offshore travel can be better controlled.

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



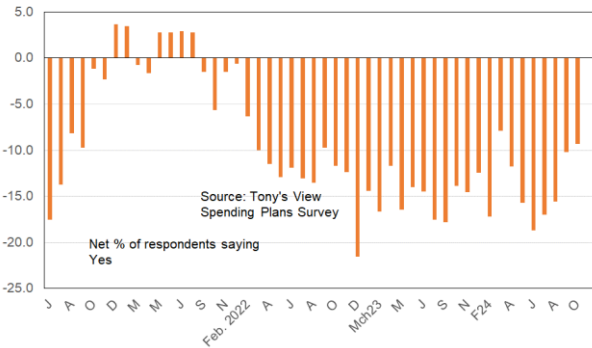
Do you plan spending more on DOMESTIC TRAVEL over the next 3-6 months?



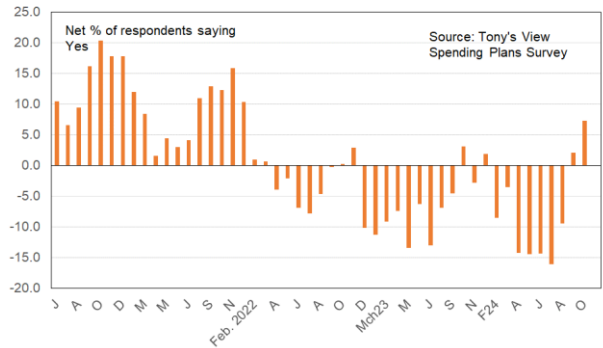
Things basically remain bad for people's plans to spend on motor vehicles – and why not? The ads for vehicles these days mainly concentrate around electric vehicles which are excessively expensive and increasingly out of favour. The industry has a price/image problem.



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

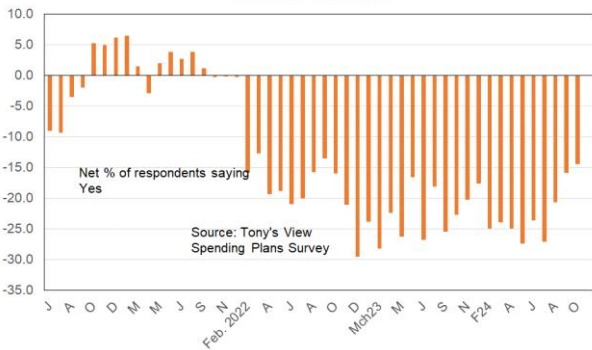


Do you plan spending more on GARDENING EQUIPMENT ETC. over the next 3-6 months?



For furniture and appliance retailers prospects remain quite poor.

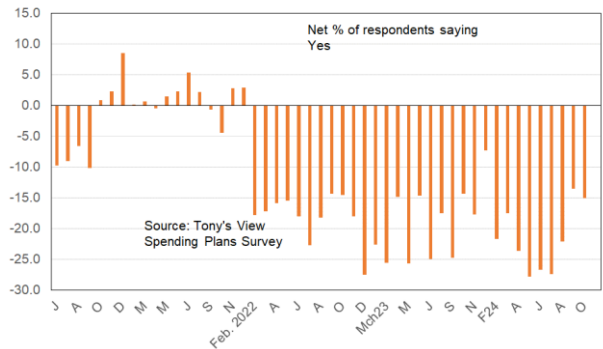
Do you plan spending more on FURNITURE & APPLIANCES over the next 3-6 months?



But for garden centres things are looking up with a net 7% of people now saying they will spend more compared with a net 14% in June saying they would spend less. There is a seasonal element to this lift, but the gain does appear bigger than usual.

For spending on clothing and footwear it looks like most of us see no real point in the near future. We'll just keep wearing what we've already got.

Do you plan spending more on CLOTHING & FOOTWEAR over the next 3-6 months?

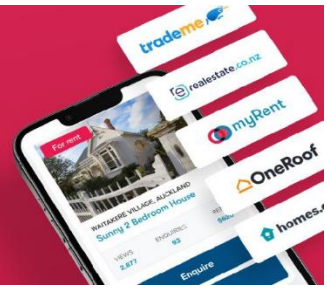


And remember the days when technology was something exciting? Now, only the deepest of gamers could get excited over expanded RAMs and other sheep-relevant computer measures. For 99% of us the technology reached the stage of being more than good enough for what we want to achieve a long time ago. We've even said "meh" to virtual reality after doing the same for 3D TVs.

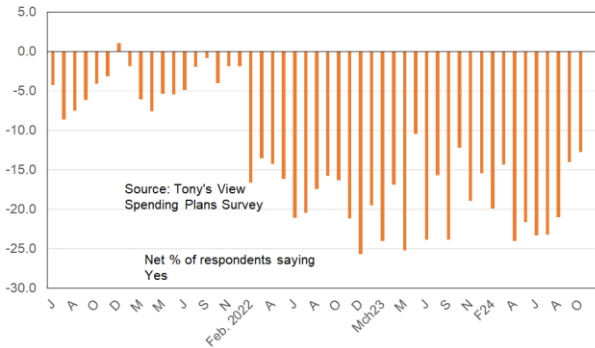
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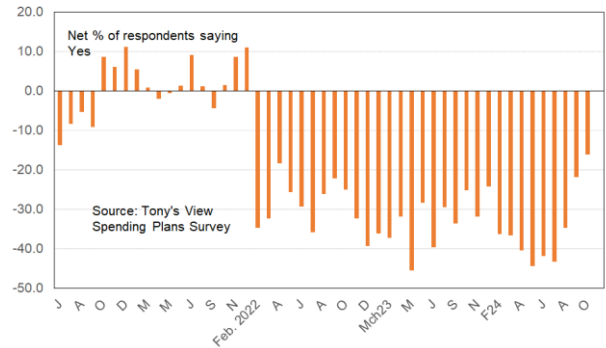
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Do you plan spending more on TECHNOLOGY (PCS etc.) over the next 3-6 months?

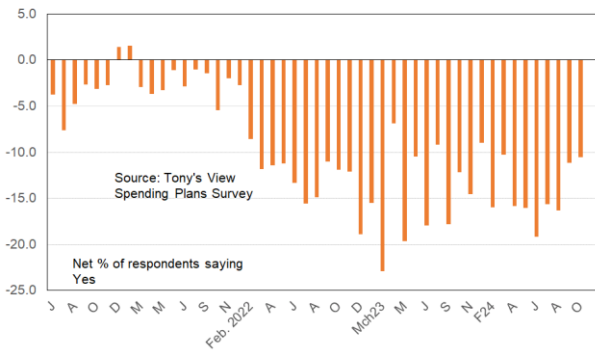


Do you plan spending more on EATING OUT over the next 3-6 months?



For sports retailers maybe more will be closing down soon.

Do you plan spending more on SPORTS EQUIPMENT over the next 3-6 months?

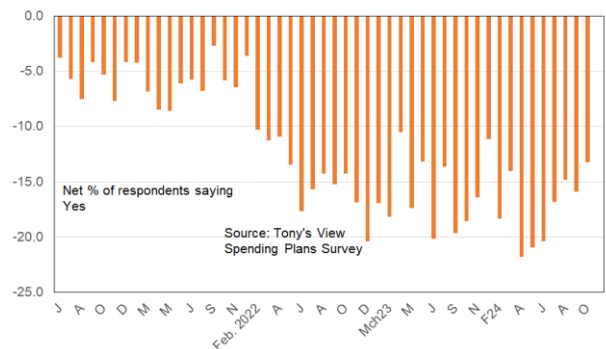


Prospects for the hospitality sector are looking less bad. But they are still poor with a net 16% of people still saying they plan cutting spending in this area.

I reckon this next indicator is a general overall good measure of how we feel about spending – are we watching our pennies or relaxing and not thinking about budgeting too much?

A net 13% of us plan cutting spending on online services. This is better than a net 20% planning cutbacks in June but note the structural shift at the start of 2022 which has yet to disappear. We are probably still ditching a few things we know we don't really need.

Do you plan spending more on ONLINE SERVICES over the next 3-6 months?



I make the same penny pinching focus comment with regard to spending on our wellness.

**ELLERSLIE**  
EVENTS

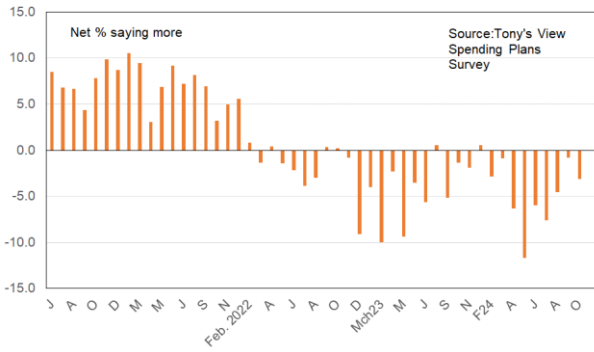
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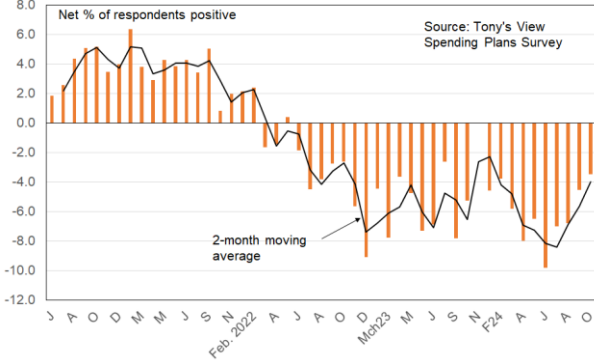


Do you plan to spend more on wellbeing/self improvement over the next 3-6 months?



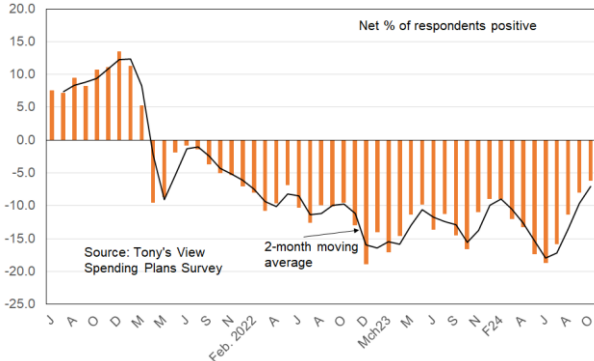
With regard to the housing market we are becoming less pessimistic. But consistent with results from my real estate-focussed surveys, we still don't feel the need to jump much into another house purchase or a first one in the near future.

Net % planning to spend more on a dwelling to live in



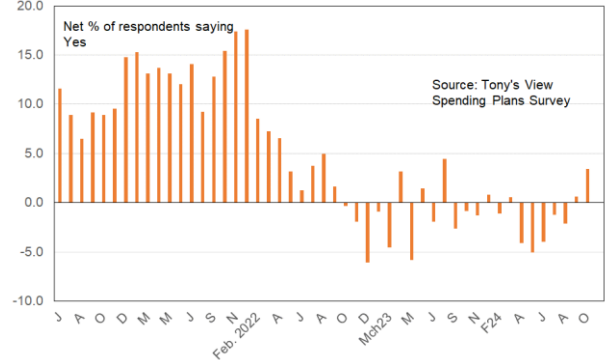
This comment applies to both a house to live in ourselves shown in the graph above, and a rental property shown in the graph below. But the trends are very clear and are consistent with the housing cycle having turned upward.

Net % planning to spend more on INVESTMENT PROPERTY



Finally, with regard to buying shares some positivity has appeared. But I wouldn't call it a trend.

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



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October 2024 net spending intentions %

Net	-5.4
Motor vehicles	-9
Home renovations	9
Domestic Travel	5
International Travel	7
Furniture or appliances	-14
Technology (PCs etc.)	-13
General groceries	17
Eating out	-16
Clothing/footwear	-15
Gardening tools, plants etc.	7
Online services	-13
Sporting/fitness equipment	-11
Wellbeing/self-improvement	-3
Investment property	-6
Dwelling for own use	-3
Shares	3

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

The highlight of the economics world for New Zealand this week was yesterday's review of the official cash rate by the Reserve Bank. As has become their habit they have undertaken the review just a few days before the quarterly inflation data are released which seems somewhat sub-optimal but not necessarily bad as markets can always price rates lower should a surprisingly weak number appear.

Or the other way round which is what we saw for instance in October 2022 when the inflation number came in 0.6% higher than expected which is rare – and wholesale interest rates shot upward in anticipation of the Reserve Bank's subsequent 0.75% rate increase late in November.



The RB have accelerated the pace of policy easing now that they have become more certain that the data are showing a weak economy with easing pricing pressures. They cut the rate 0.5% to 4.75% and we can anticipate another 0.5% cut on November 27 before they go on holiday for three months.

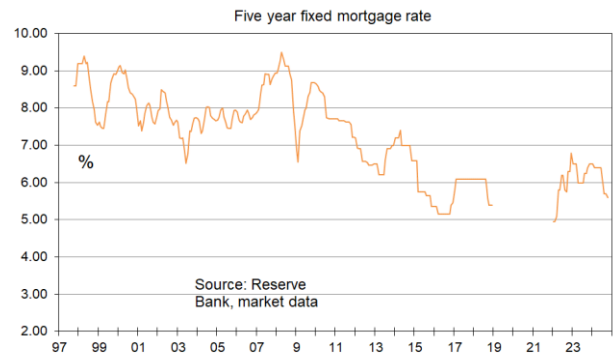
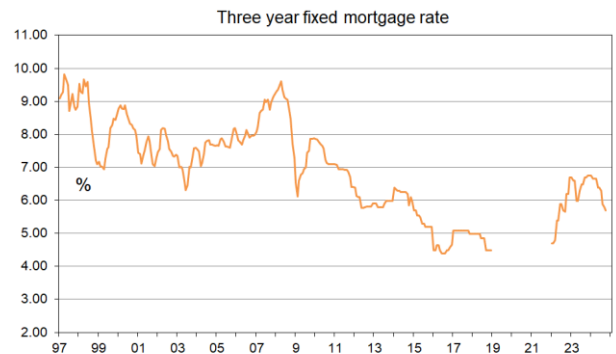
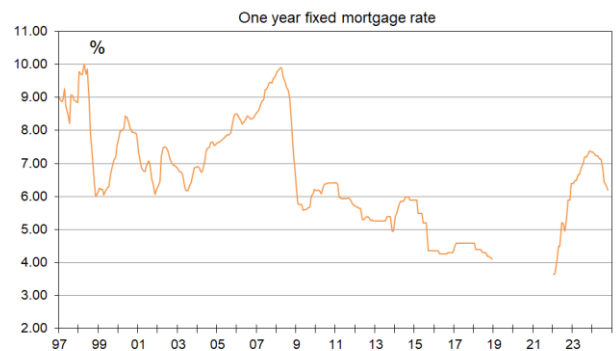
The rate cut was largely expected in the financial markets but was still greeted positively. However, wholesale interest rates faced some upward pressure earlier this week after the US jobs growth report was stronger than expected and markets scaled back their predictions for the speed of policy easing over there.

The one year swap rate in NZ which forms the base for bank calculations of their one year fixed mortgage rate has finished about where it was last

week just below 4%. But all rates further out have risen about 0.1% because of the US situation.

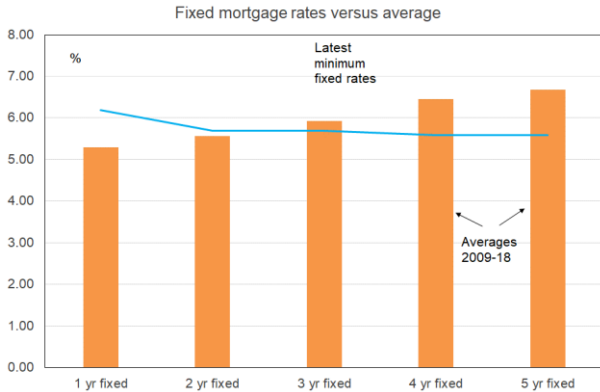
Banks have responded to confirmation of the expected 0.5% cut by cutting fixed mortgage rates very slightly. That is, by about 0.1%. Floating rates have dropped from commonly around 8.35% to about 7.89%.

These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.



Source: Reserve Bank, market data

This graph shows how current rates compare with averages from 2009-19.



If I were borrowing at the moment, I would be fixing for either 6, 12, or 18 months looking to eventually fix for 3-5 years perhaps in 2026,

perhaps 2027. It is impossible to say at this stage.

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

**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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