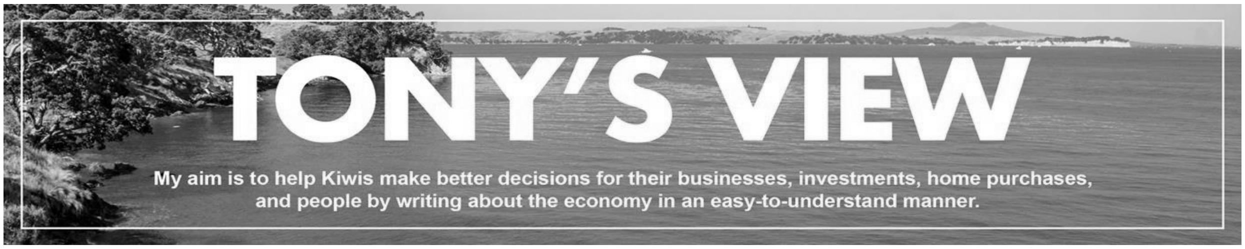

Input to your Strategy for Adapting to Challenges

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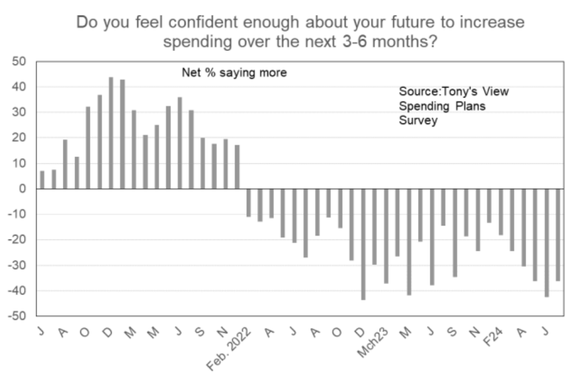
Retail prospects still bad

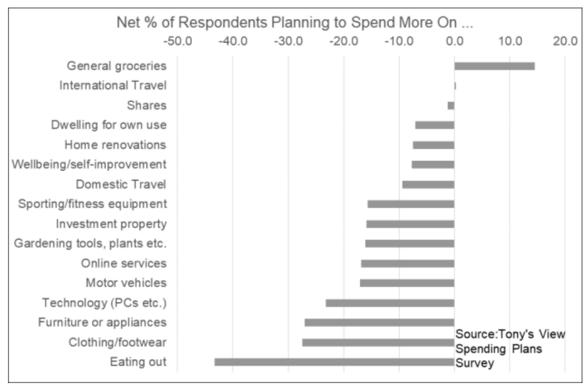
I don't think anyone really needs to hear it, but here is more evidence telling us that the outlook for retailers through 2024 remains quite bad.

The results from my monthly Spending Plans Survey show that a net 36% of the 500 respondents intend cutting back on their spending on stuff generally over the next 3-6 months. I read this as being in line with the -40% result last month, -36% in May, and -30% in April.



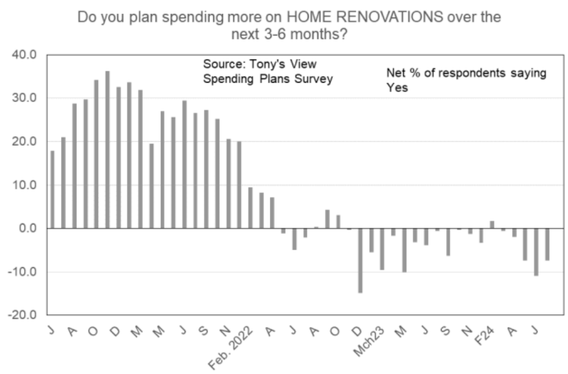
In fact, taking another look at my main graph we can say the situation now regarding plans to buy stuff is at the same bad level reached at the end of 2022.

This second main graph shows the net percentage of people who say they will spend more on each of the options offered.

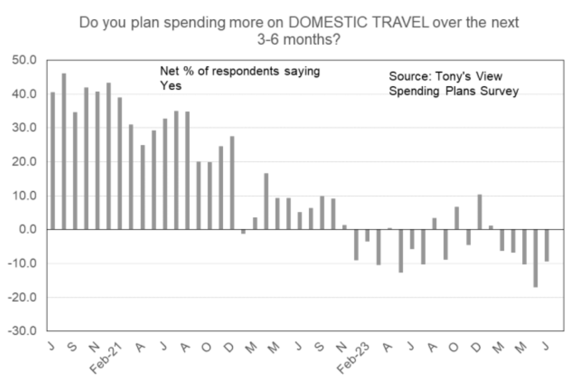


Groceries is positive undoubtedly because of rising prices. But apart from a small +0.2% for international travel (not everyone is reining in what we used to consider luxury spending), cutbacks are proposed on everything else.

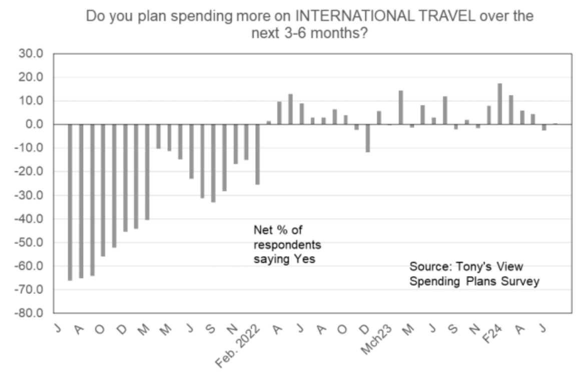
Plans for spending on home renovations have been in negative territory largely since mid-2022 and the outlook remains poor with a net 7% of people planning spending less.



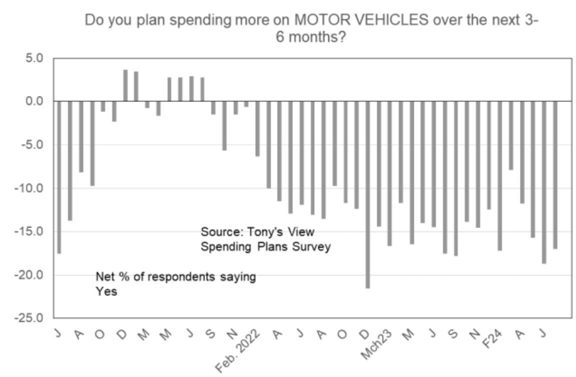
Plans for domestic travel have consolidated in deeper negative territory than at any other time in this four year survey.



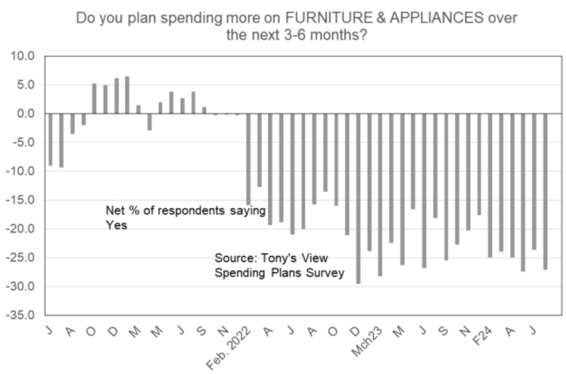
As noted, plans for international travel are positive, but only just.

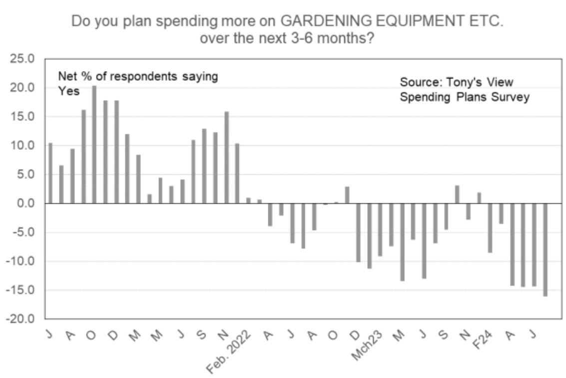


As has been the case since early-2022, plans for spending on motor vehicles are shot.

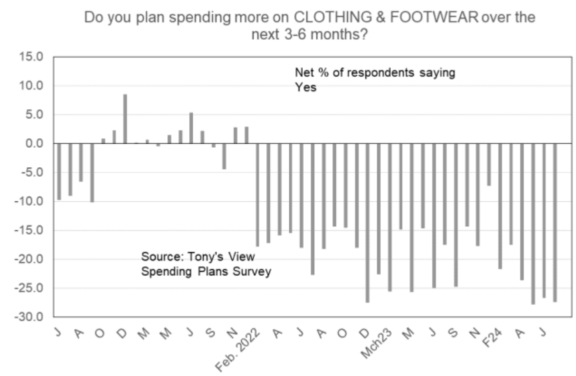


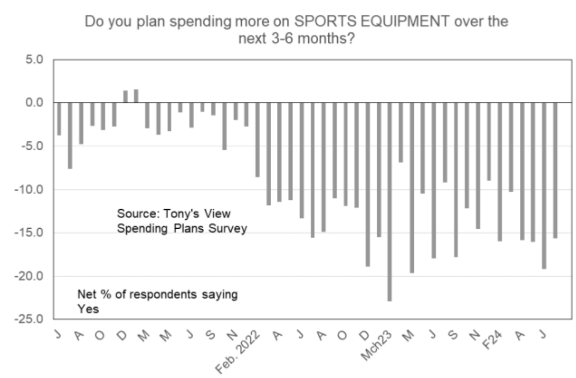
Same for furniture and appliances and gardening for which there is more than just a seasonal weakness in play.



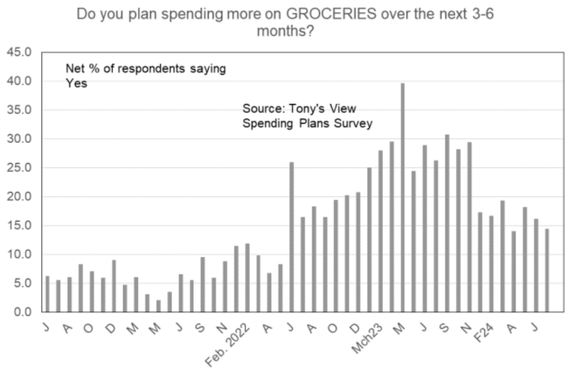


No hope exists for an upturn in sales for retailers selling clothing and footwear in the near future and this is reflected perhaps in the sales underway. Quitting of winter stock will likely start earlier than usual this year with the process made more difficult by planned closures of some retailers bringing deep discounting already. Similarly for sports retailers.

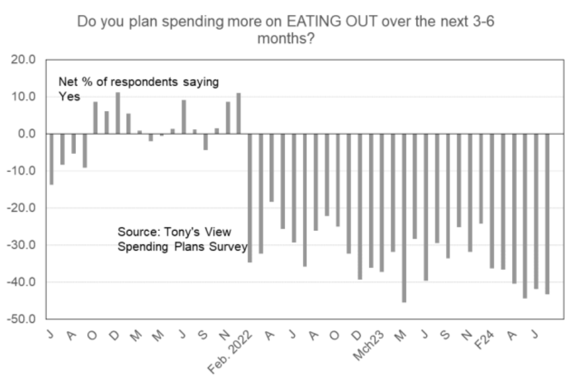




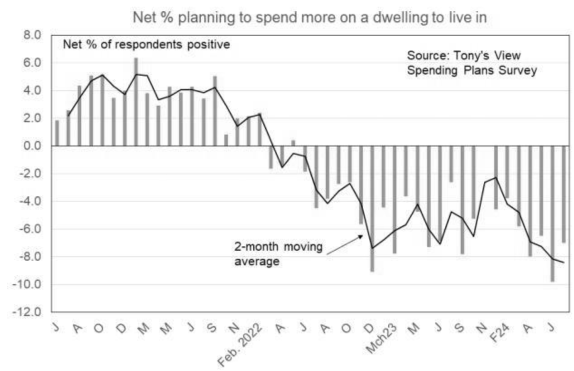
For groceries it is good to note that plans for spending more are easing off and in coming months are likely to fall back to levels in place before inflation took off.



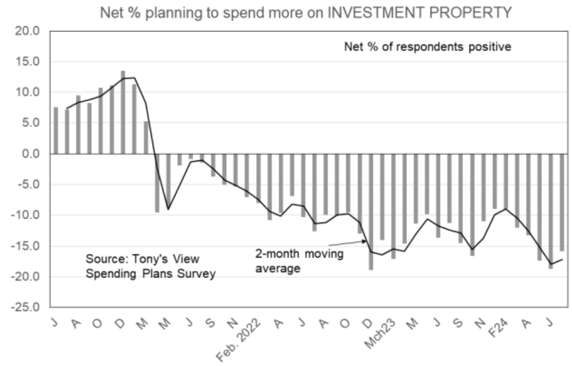
For eating out the data here are appalling. But experience on the ground around the country is perhaps more variable between operators than I have ever seen before in a sector. Some seem to be thriving and out of this I would expect some serious studies to be undertaken to determine why this cream is rising to the top. Maybe that comment especially applies when we consider that the large hike in meal prices means whole swathes of people are likely to again treat eating out in restaurants as they and their families did in the 1980s and earlier – reserved for special occasions only because of the cost. At least these days there is much more on offer than roast chicken and beef schnitzel.



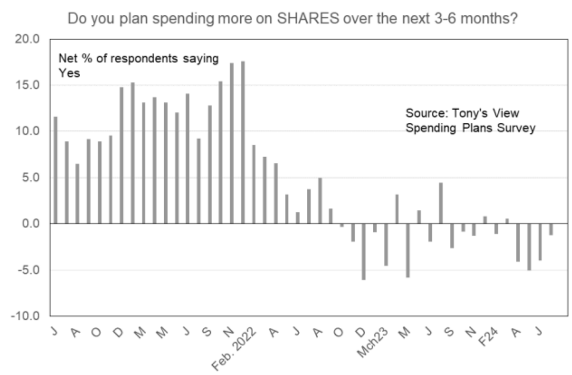
With regard to housing, intentions for purchasing a place to live in remain depressed with a net 7% planning cutbacks (focus on the trend rather than the number). Note the month to month volatility in this measure and the direction of the two-month moving average line. Yet again we have a negative indicator for housing market activity as we advance through winter into what I think will be a similarly ugly spring.



Things remain bad for plans to purchase an investment property, even though personally I think the time is opportune to do so as long as long-term capital gain predictions are kept in check. New government plans to open up areas for development and intensification will have a price impact. That is what we have learnt from Christchurch post-earthquake and Auckland since the Unitary Plan started.

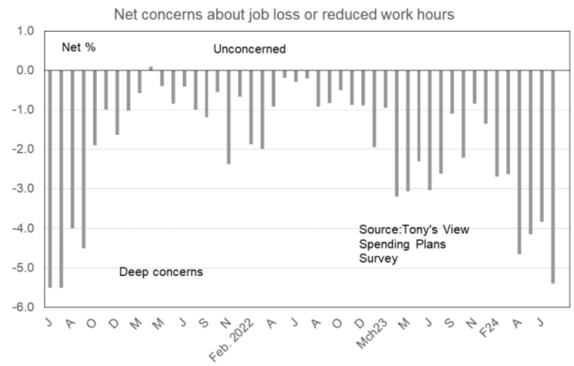


Plans for buying shares remain negative but not greatly so. The key thing I took away from the now discontinued survey of investors which I ran with sponsorship from Sharesies is that the vast majority of people are not actively moving in and out of the portfolio asset market. They have a plan and they stick to it through the years.

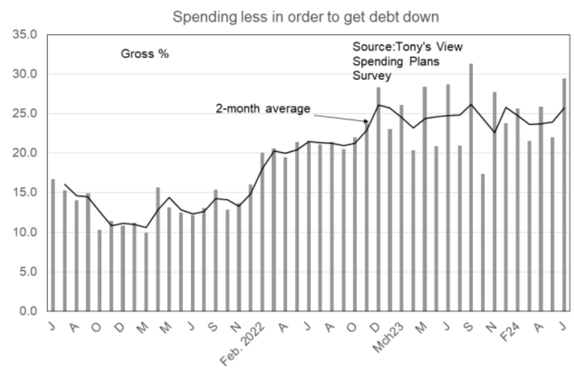


Beyond the specific spending intentions measures I calculate from my survey we can gain insight into what is motivating people. The main thing to change and contribute to a shifting of predictions for our economic growth, housing market, and ultimately monetary policy this year is the labour market.

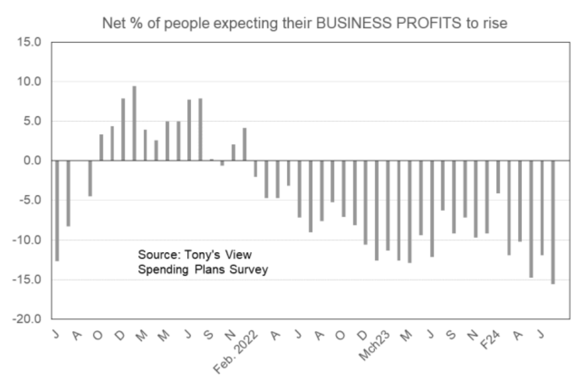
A net 5.4% of people have a negative employment outlook. This doesn't sound like much but it is a level of despair commensurate with that in the early days of the pandemic in 2020.



The proportion of people spending less in order to get debt down remains at elevated but not newly escalating levels.



Finally, for those with businesses, sending plans are worsening on the basis of a deteriorating outlook for profits.



In case you missed it

The results from my monthly survey of real estate agents include the following main things.

- Most readings are very similar to a month ago.
- More agents see fewer of both investors and first home buyers than say they are seeing more.
- Prices are widely seen by agents as declining throughout the country.

NZHL-Property-Report-June-2024-2.pdf

If I were a borrower, what would I do?

The key focus for NZ interest rate markets this week was the review of monetary policy yesterday by the Reserve Bank. As was universally expected they left the cash rate unchanged at the 5.5% level they took it to in May 2023.

At times like these when no rate change is expected the focus of analysts is very strongly on the words the Reserve Bank uses to describe the inflation situation and outlook and the way in which they describe the likely monetary policy track. In that regard there were indications that they recognise the NZ economy may be on a weaker track than they have been assuming.

Specifically they noted **"A range of business and consumer surveys, and higher frequency spending and credit data, all point to declining activity. Members discussed the risk that this may indicate that tight monetary policy is feeding through to domestic demand more strongly than expected**."

They also tweaked their comment about when inflation will fall within the 1-3% band. In the May Monetary Policy Statement they wrote

"The Committee noted that annual headline CPI inflation was expected to return to the target band in the December quarter of this year."

But now they have in a number of places in their much shorter commentary "**Headline inflation is expected to return to within the 1 to 3 percent target range in the second half of this year**."

They also did not repeat the comment from May of the following.

"Monetary policy may need to tighten and/or remain restrictive for longer if wage and price setters do not align with weaker productivity growth rates."

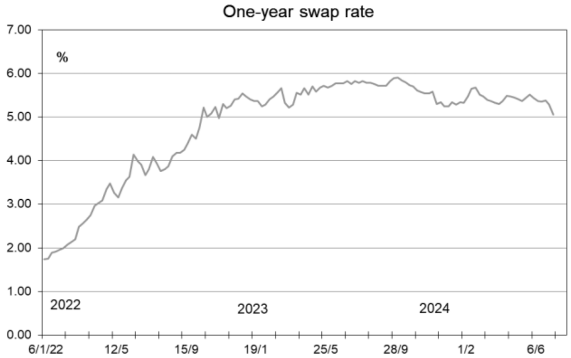
Finally, in May they wrote "The Committee agreed that interest rates need to remain at a restrictive level for a sustained period to ensure annual headline CPI inflation returns to the 1 to 3 percent target range."

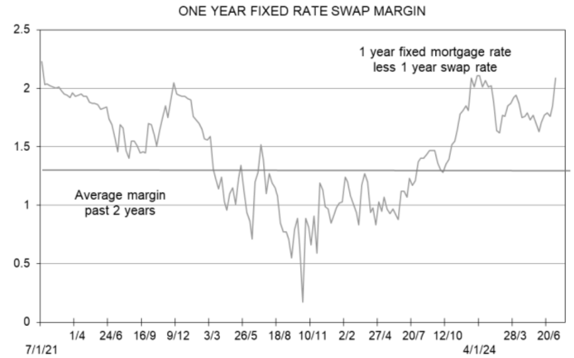
This time they wrote the following.

"The Committee agreed that monetary policy will need to remain restrictive."

The comments were certainly not indicative of an intention to ease monetary policy in the very near future. But they were more dovish than expected and this has caused a rally in wholesale fixed borrowing costs.

The one year cost to banks of borrowing money to lend fixed for one year has fallen to its lowest level since October 2022 near 5.05% from 5.3% last week. The three year borrowing cost is near 4.35% from 4.62% last week – the lowest level since the very start of this year.





At these levels scope exists for fixed mortgage rates to fall up to 0.7% for the one year term to 0.4% other terms. But I doubt this will happen immediately. Banks will be wary of a warning from the Reserve Bank that they are moving too soon and like everyone else these days there are extra costs which need to be priced into selling prices (mortgage rates).

If I were borrowing at the moment, I would fix six 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.