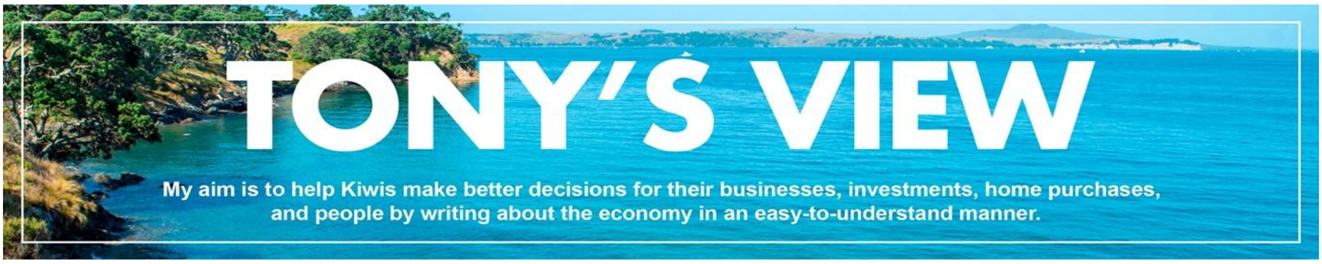

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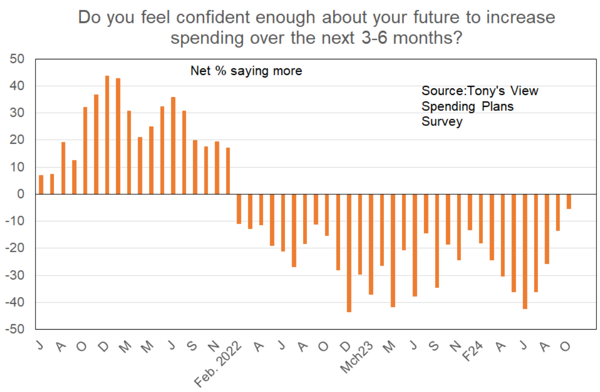
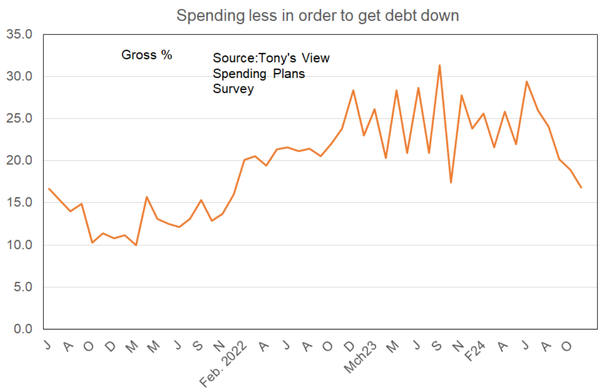
Consumer Spending Plans Improve

My monthly survey of people's plans for spending more or less on "stuff" over the next 3-6 months has just produced its strongest result since the end of 2021. A net 0% exactly of the 672 respondents in this month's survey have said they plan spending more. Last month this was a net 5% planning to spend less and back in June a net 42% planned to cut back on their expenditure.

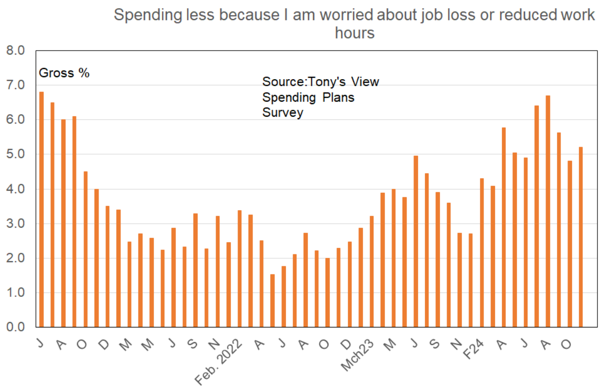
As this first graph shows we are not back into the positive territory of 2020-21. But the improving trend over the past five months is impressive and illustrates the way that Kiwis are highly sensitive to changes in interest rate expectations.

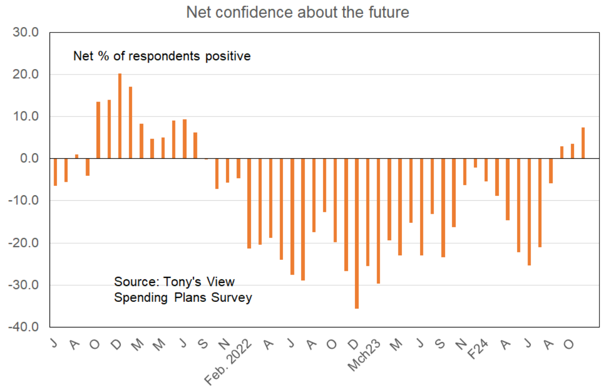


In fact, the gross proportion of people saying they will cut spending because they want to get their debt levels down has fallen to just 17% from 29% in June. This result suggests an acceleration in household debt growth lies just ahead and that would gel with data showing the residential real estate sector picking up.

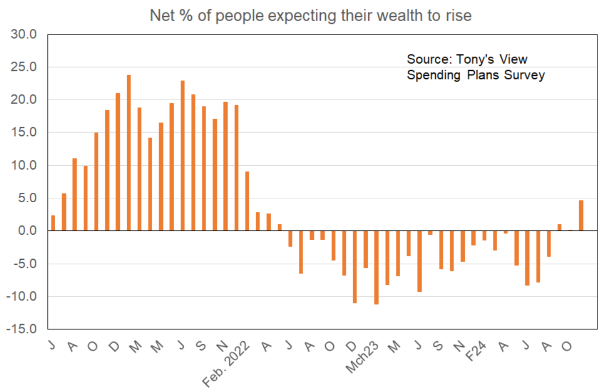


A few more people this month have reported that they are spending less because of job worries. But in line with the results from my real estate survey when I ask agents about the things people are concerned about, this result shows the peak in employment worries happened 3-4 months ago.





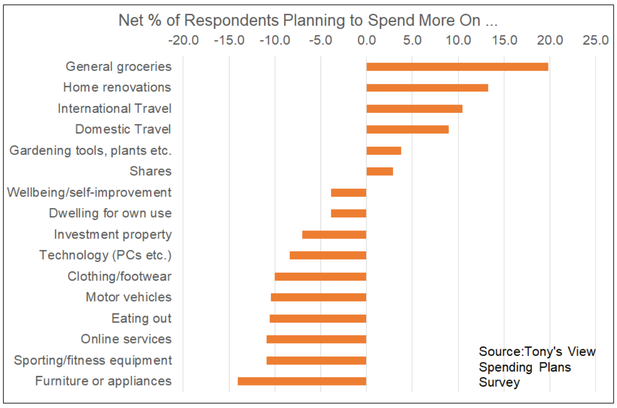
A net 5% of people now expect their wealth levels to rise in the next 3-6 months.



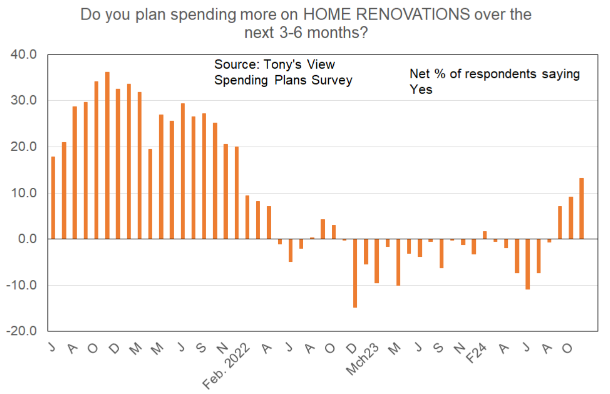
And confidence about the future is up.

With regard to the individual areas of spending we get the following net % spending intentions.

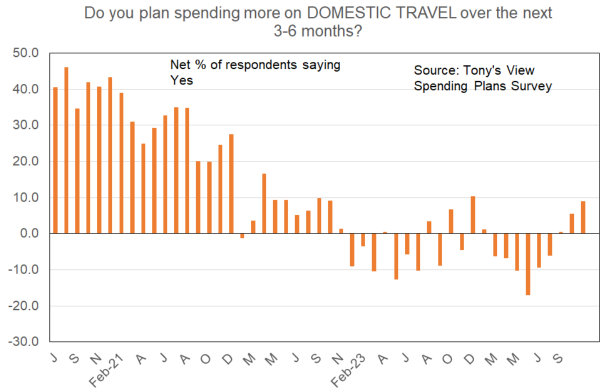
	November	June
Net % spend more	0	-42
Motor vehicles	-10	-19
Home renovations	13	-11
Domestic Travel	9	-17
International Travel	10	-2
Furniture or appliances	-14	-24
Technology (PCs etc.)	-8	-23
General groceries	20	16
Eating out	-11	-42
Clothing/footwear	-10	-27
Gardening tools, plants	4	-14
Online services	-11	-20
Sporting/fitness equip	-11	-19
Wellbeing/self-improve	-4	-6
Investment property	-7	-19
Dwelling for own use	-4	-10
Shares	3	-4

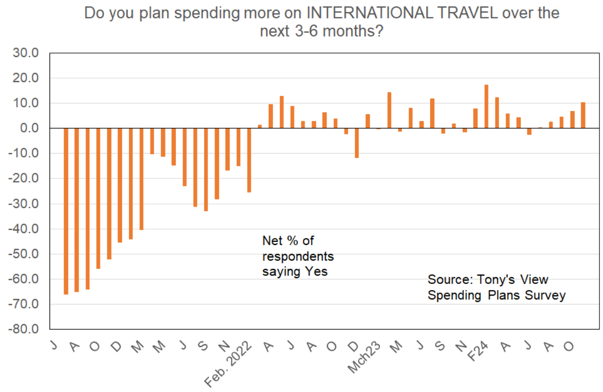


A net 13% of respondents expect to spend more on home renovations. This is the best result since the step down in home reno plans in February 2022. This is an important result because renovating one's home is an expensive business and something which people will only seriously consider when they are confident about their financial position.

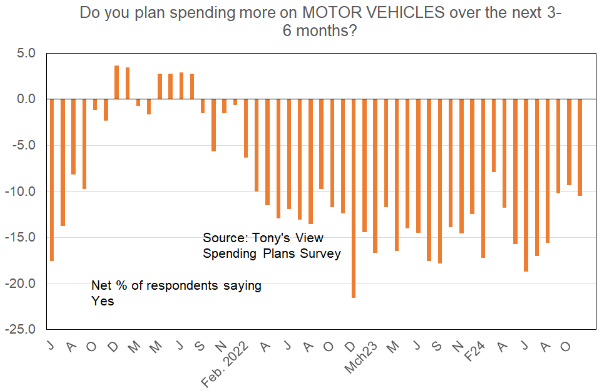


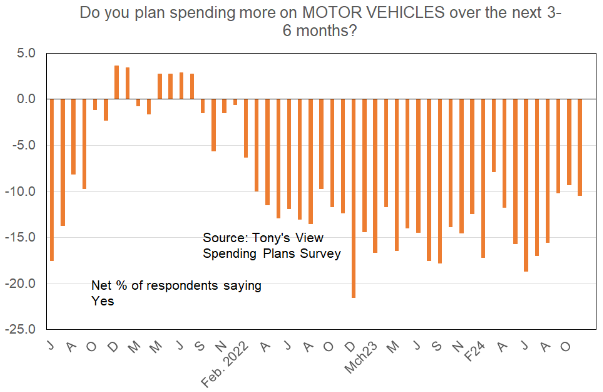
Domestic travel plans are trending upward and so are international ravel plans though to a lesser degree.



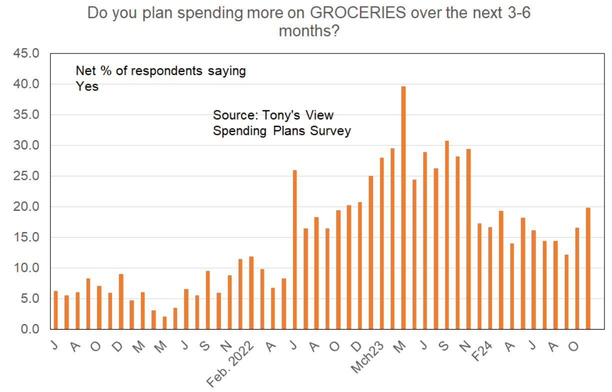


Interest in purchasing a vehicle and furniture remains low.

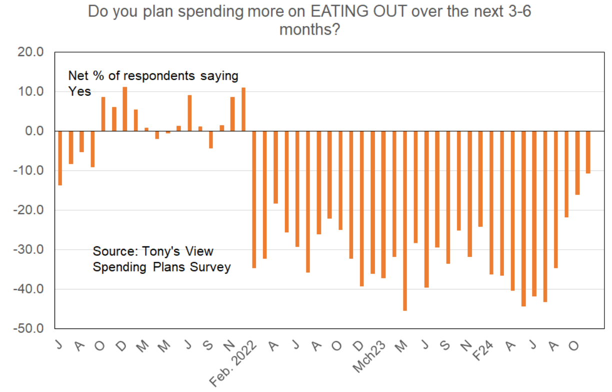




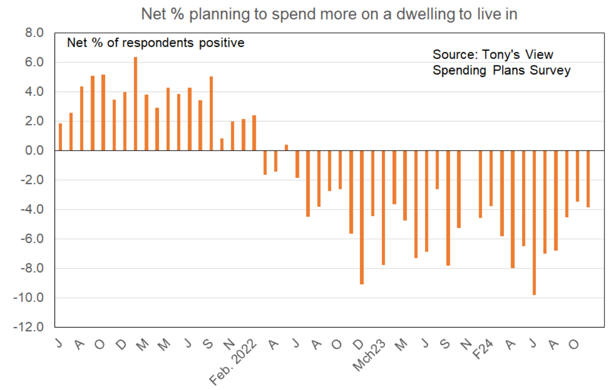
Plans for spending on groceries have interestingly firmed over the past couple of months and it is difficult to put this move down to higher prices as was the case for the sharp rise over 2022-23. But outside of such a factor one would not generally expect this measure to change all that much.



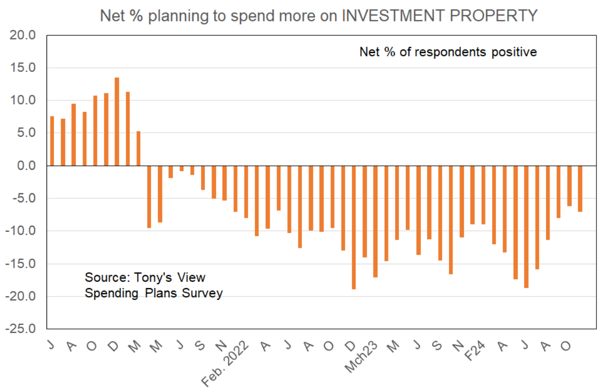
The area of spending to show the biggest improvement since the depths of despair in June has been eating out. Only a net 10% of people plan cutting back now as compared with 42% in June.



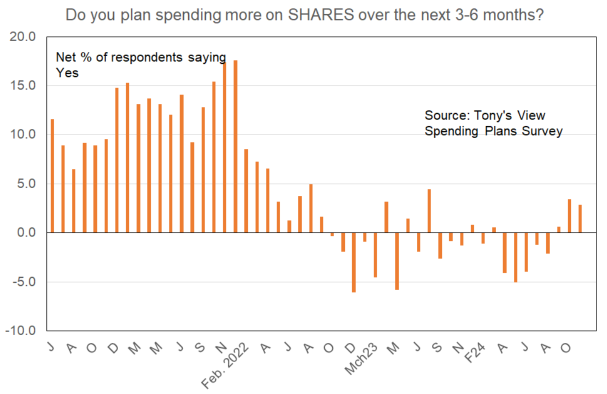
With regard to the two housing measures I gather from this survey we have further evidence to justify a view that the housing market improvement is not anywhere near qualifying as a frenzy. The net proportion of people thinking about buying a property to live in has risen from -9.8% in June to -3.9% now. This is down from -3.5% a month ago.



Similarly, while net buying intentions for an investment property have improved to -7% from -18.7% in June, the latest result is a move down slightly from -6.2% in October.



Net plans for buying shares have remained in positive territory.



Overall, the survey results tell us that the winter situation for retailers was poor, and we are now heading into territory which is less bad. But I wouldn't talks in terms of outright spending strength except maybe for home renovations.

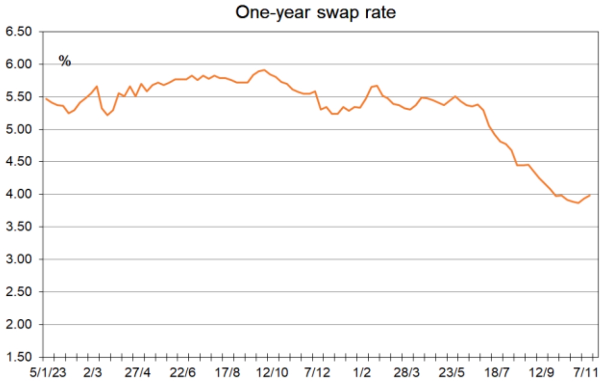
One thing the survey tells us is that there is no need for any supercharging of the monetary policy easing cycle in order to get the economy set for a turnaround. That process is already underway and if anything the Reserve Bank needs to be getting more cautious in light of

- the developments in the United States,
- persistent strength of underlying inflation in Australia,
- extremely tight margins in NZ risking a price surge once consumer demand gets greater upward momentum, and
- increases in residential construction costs (including council levies) occurring alongside recovering house prices.

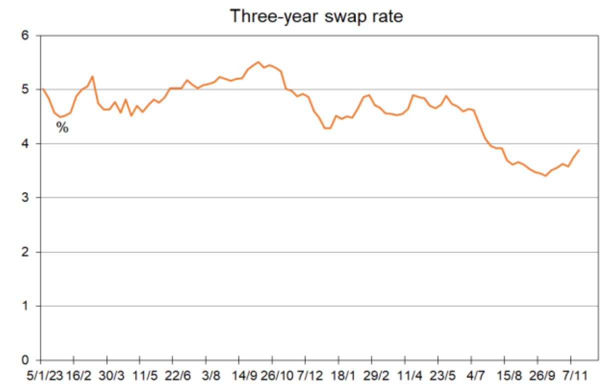
If I were a borrower, what would I do?

Wholesale interest rates in many countries have been increasing in recent weeks for a variety of reasons. These include better than expected economic data in the likes of Australia and the United States, anticipation of a slight lift in inflation due to Mr Trump's election victory in the US, and locally a pulling back from rate cut hopes which I always considered overly bullish.

The cost to an NZ bank of borrowing money at a fixed interest rate for one year in order to lend out at a fixed mortgage rate for one year (the swap rate) has risen to near 3.98% from 3.92% a month ago. This is at least down from 4.17% two months ago.



But the three year swap rate (relevant to three year fixed mortgage rates) has risen to 3.88% this week from 3.77% last week, 3.56% four weeks back, and 3.48% two months ago. The ten year rate (of interest mainly to farmers and commercial property owners) has risen to near 4.31% from 4.25% last week, 4.03% a month ago, and 3.79% two months ago – a rise since mid-September of about 0.5%.



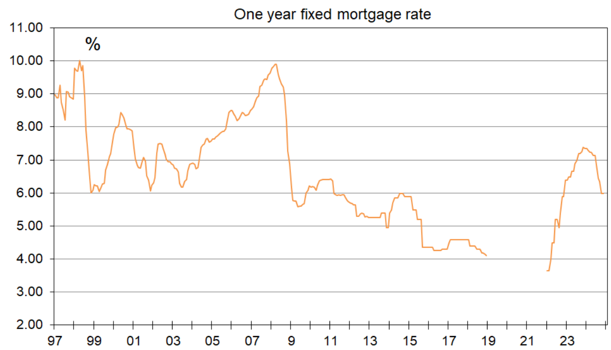
Few analysts now seem to expect that the Reserve Bank will cut the cash rate to 2.5% and there is strong consensus almost that the cut on November 27 to the cash rate will be 0.5% and not the 0.75% some panicking pundits are pleading for.

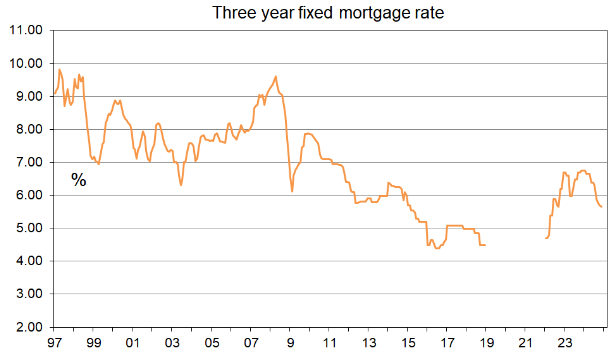
In the talks I am delivering around the country at the moment I continue to point out the half century peak in business margin compression implied by cost and price expectations readings in the NZIER's Quarterly Survey of Business Opinion. I also point out the still well above average and rising pricing intentions for 12 months out contained in the ANZ's Business Outlook Survey.

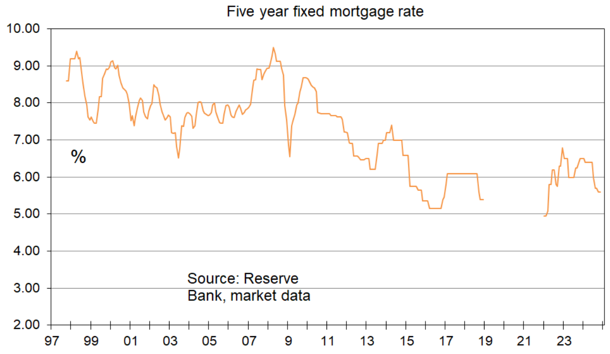
Add in expected rises in council rates, electricity bills, climate change-related costs, the effect of oligopolies in many NZ sectors and the need for many businesses to rebuild margins and inflation risks from the second half of 2025 lie on the upside.

This suggests that while extra cuts in the 3-5 year fixed mortgage rates are likely, they might not be all that great. Maybe 5% at best for fixing two years, 5.25% three years. Those rates generally now are around 5.65%.

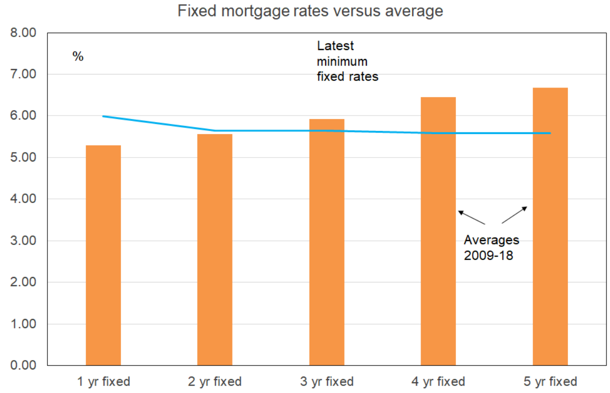
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







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



If I were borrowing at the moment, I would be happy to fix for just six months in anticipation of switching to a longer rate at some point from mid-2025 onwards.

To see the interest rates currently charged by major lenders go to 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.