Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2744-5178
Sign up for free at www.tonyalexander.nz

Monday 13 June 2022

Wallets closed tight

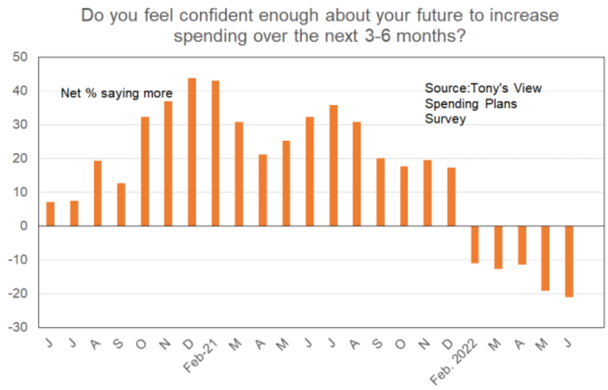
Each month since June 2020 I have surveyed readers of my weekly Tony's View to gain insight into their plans for spending over the next 3-6 months and the factors motivating them to think as they do. This month's survey attracted 1,021 responses and has shown intentions of cutting back on spending with deepening weakness across a range of sectors

The need to devote more household money to buying weekly groceries is eating into willingness and ability to spend on other things. A record net 29% of people plan cutting back their spending on eating out. Record weakness is also reported in plans for home renovations and buying furniture, technology, clothing & footwear, gardening supplies, online services (subscriptions etc.), sporting equipment, wellbeing services, and a dwelling for one's own use.

Basically, the consumer spending crunch sought by the Reserve Bank to eventually rein in inflation is in place with more likely to come as more people experience higher debt servicing costs, the brain drain offshore worsens, house prices fall further, and house construction levels start falling. There is also a 25 cent jump in petrol costs to come one day as the government reverses its price discount of three months ago.

Do you feel confident enough about your future to increase spending over the next 3-6 months?

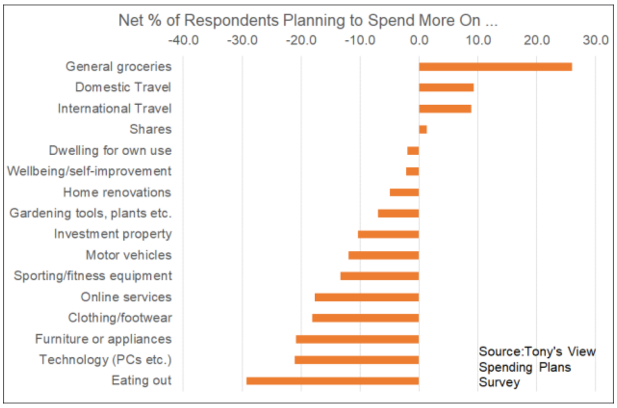
A record net 21% of survey respondents report that they do not feel confident enough to raise their spending levels in the next 3-6 months. The graph shows clearly how spending plans took a large step down at the start of this year and have worsened since.



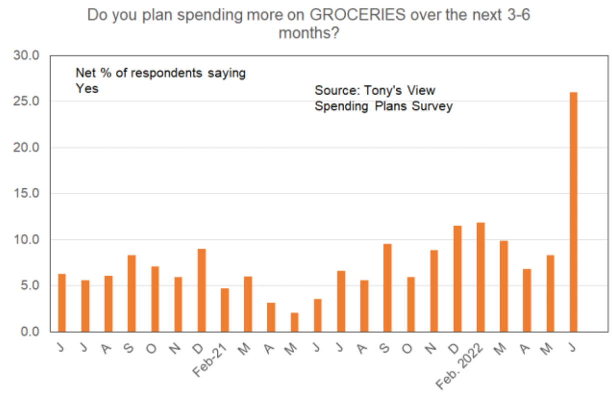
People are feeling the effects of rising debt servicing costs – but only those who have mortgages. Others are facing rising rents, some are likely responding to falling asset prices, and all will be rethinking spending plans in light of the need to allocate more money to groceries and fuel each week.

Where will people spend more?

The unique feature of this month's survey is the jump into top spot of groceries for the area in which people plan to spend more. This clearly is not a matter of choice but one of necessity. A net 26% of our 1,021 respondents report that they will boost spending on groceries, up from 8% last month.



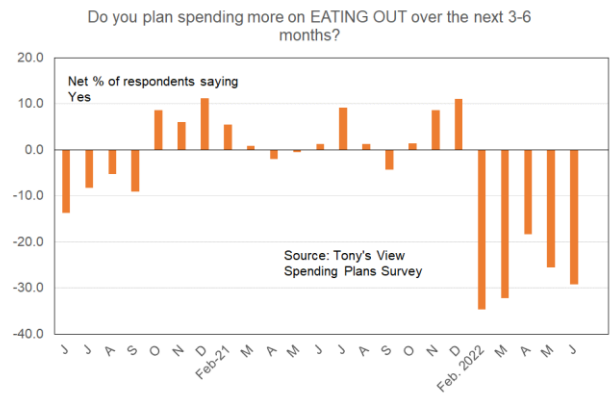
This graph says it all.



Focussing in on some of the other individual categories we can note the following.

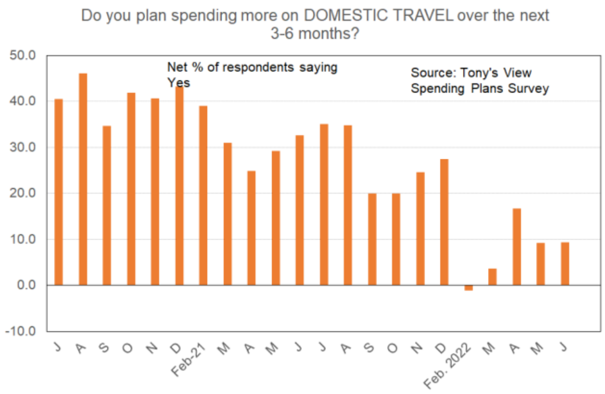
Eating out

A record net 29% of people plan spending less on eating out over the next 3-6 months. This is particularly depressing news for café and restaurant owners and the challenge for many will be gaining the business of foreign visitors when the borders properly open – plus getting staff.



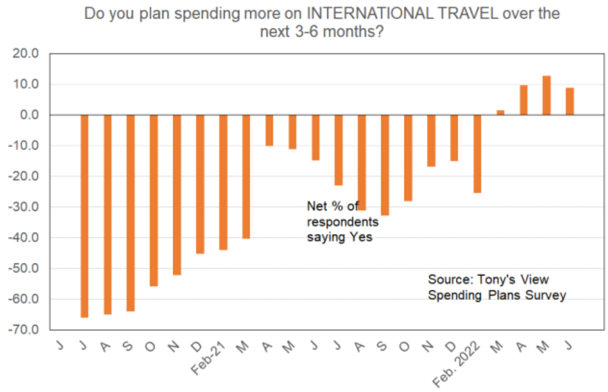
Domestic travel

Our plans for domestic travel have been reined in from the start of this year in response to the general slump in spending willingness and the anticipated reopening of the borders to our outward and decreasingly unhindered inward travel. A net 9% of people plan spending more on local travel, unchanged from last month but well down from pandemic levels.



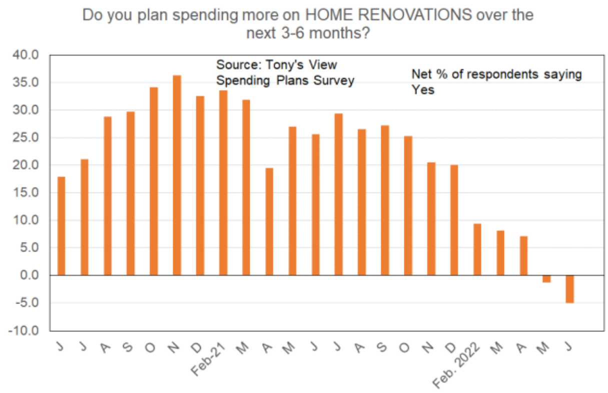
International Travel

Our plans for international travel jumped into net positive territory in March and have remained positive. But at a net 9% positive those plans are slightly weaker than 12% last month and it will be interesting to see how this spending gauge shifts in the next few months as the general spending crunch deepens.



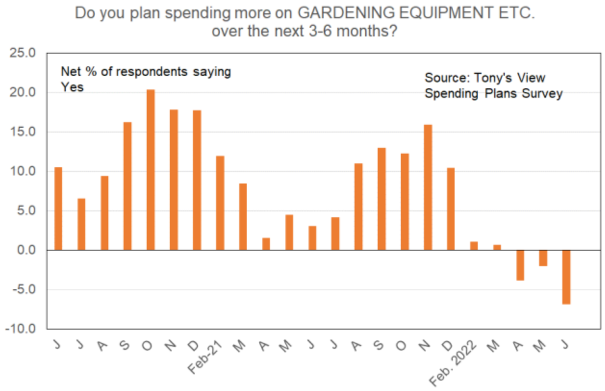
Home renovations

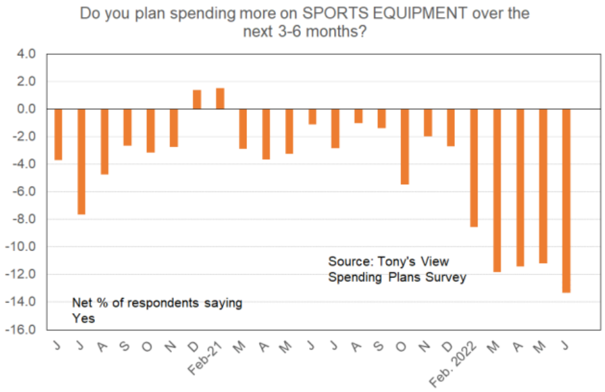
The boom for home renovation orders has ended. It will undoubtedly take some time to get a lot of the booked work completed, but once the materials arrive and the job gets completed, activity levels for those who have done surprisingly well from our home do-up drive during the pandemic will find things considerably quieter.



Household durables

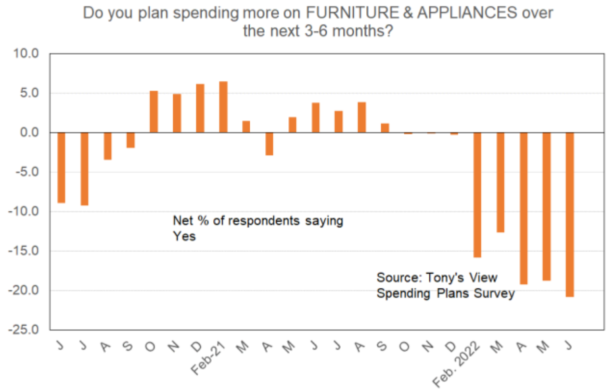
When times get tough, we consumers pull back on spending on discretionary things like eating out, garden supplies, and sports equipment (graphs below). We also put off buying things which can be put off, such as furniture and motor vehicles.

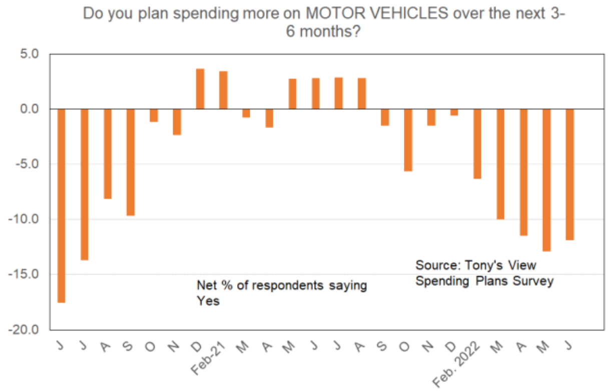


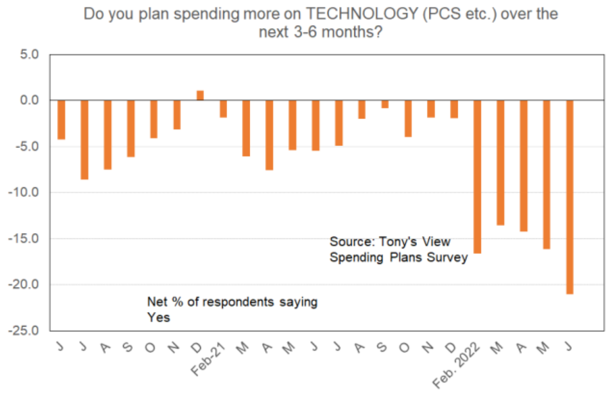


Unsurprisingly then, as we face a spending crunch from the soaring cost of living and some other factors, our plans for spending on such things have weakened considerably in my monthly survey.

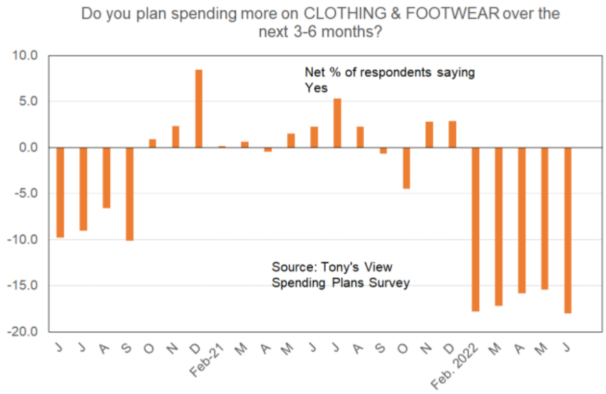
A large net 21% of people plan spending less on furniture, 12% on motor vehicles, 21% on technology (PCs etc.), 7% on garden supplies, and 13% on sports gear.



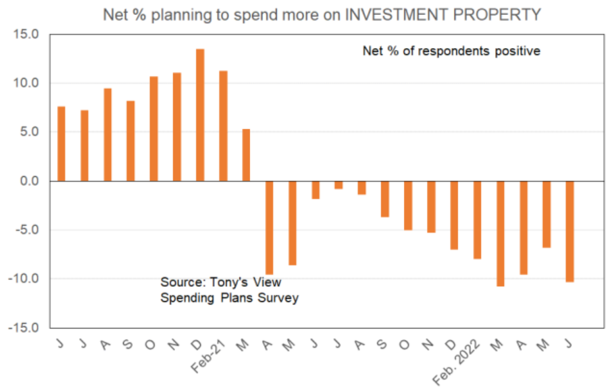




Spending on clothing and footwear is also being reined in.



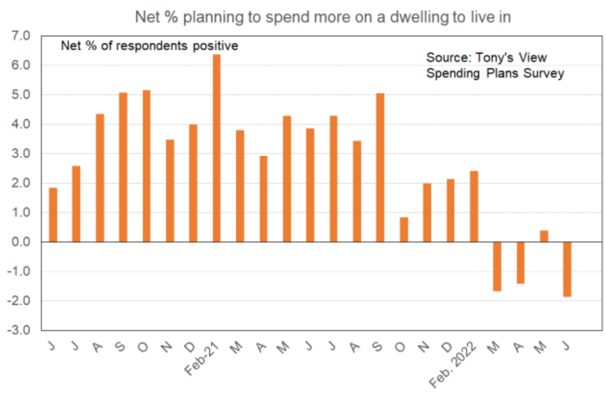
A net 10.3% of respondents have said that they plan spending less on investment property. As with all my other indicators of investor demand for property this one plunged early in 2021 when LVRs returned and then tax rules were changed. Buying intentions now are about as weak as they were when those two factors came into play.



Housing indicators

I like to supplement the deep details on the current state of things in the residential real estate market which I gain from surveys of real estate agents and brokers with a couple of results from this Spending Plans survey.

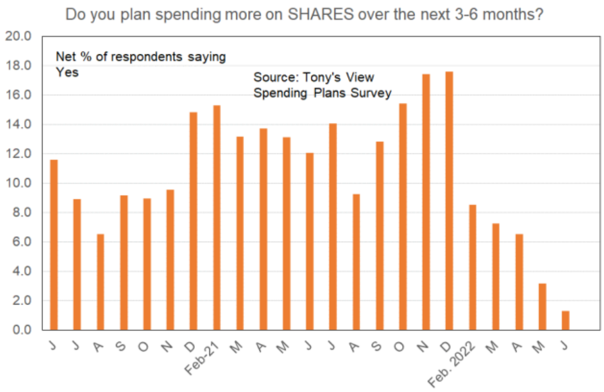
This month a record net 1.9% of respondents have said that they plan cutting back spending on a house which they would live in.



This decline gels with my other indicators to tell us that buyer demand in the housing sector is weak and getting weaker as interest rates rise and the cost of living crisis bites.

Shares

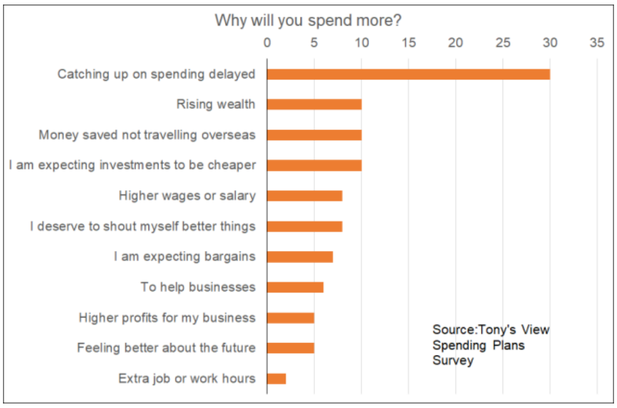
Is the recent weakness and volatility in share prices around the world causing people to back away from this asset? Maybe. Only a net 1.3% this month have said they plan buying more shares, down from 3.1% in May and 18% in December.



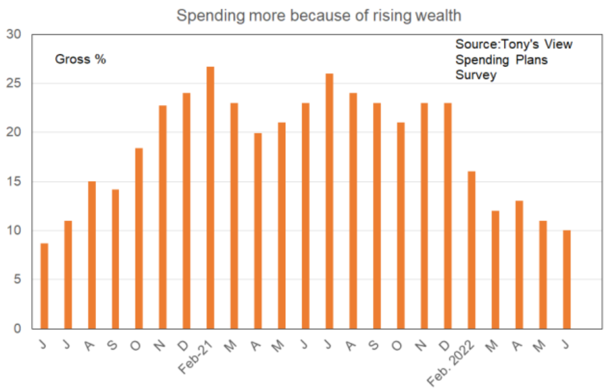
Why do you plan spending more or less?

Each month I like to examine the reasons why people indicate they might spend more or less, to see if there are some interesting outcomes which might be useful to businesses and even policy planners. Ranked by importance the reasons look as follows.

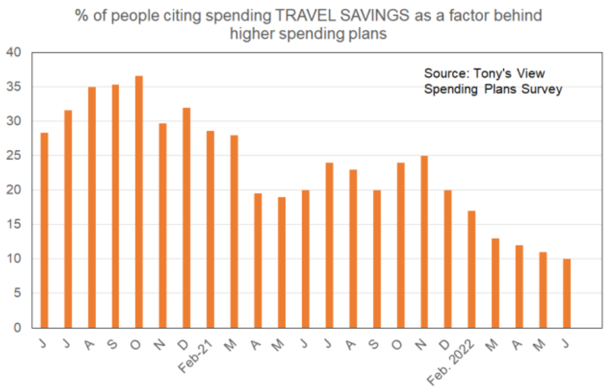
Every month more people say they are catching up on delayed spending than for any other reason. But this measure hardly ever changes. That is useful. It means we can fairly much ignore it and concentrate on other factors in play.



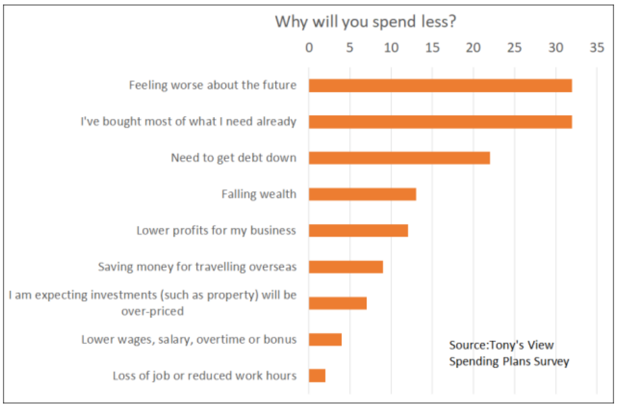
The proportion spending more because of rising wealth is falling.



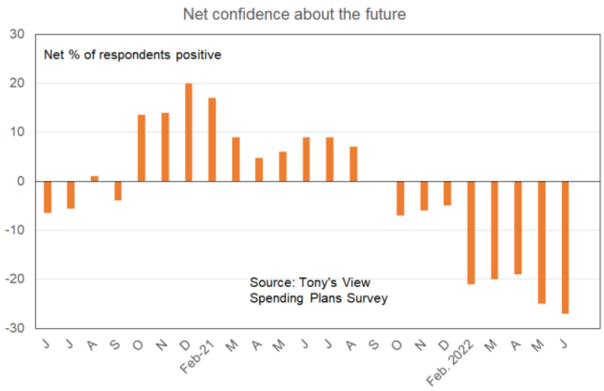
The proportion spending from money saved not travelling overseas continues to decline.



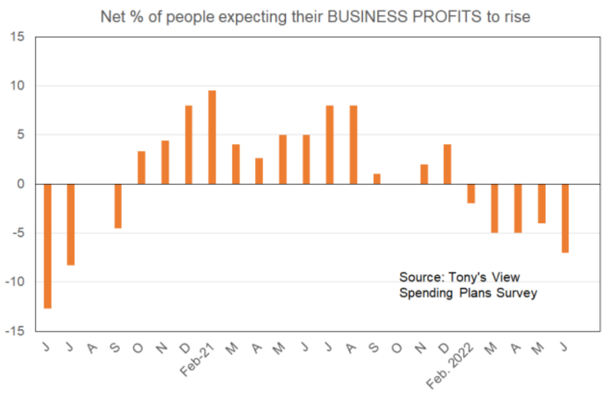
We also ask people why they plan spending less in general. I don't have a specific option of having to devote more money towards groceries, but we can take that as a given from information discussed earlier on.



The main reason people plan spending less is that they are feeling worse about the future. Their confidence is falling. I like to look at this in net terms as shown here. Consumer sentiment continues to worsen, and this is a result we are likely to see repeated in other monthly gauges of consumer confidence in the next few weeks.

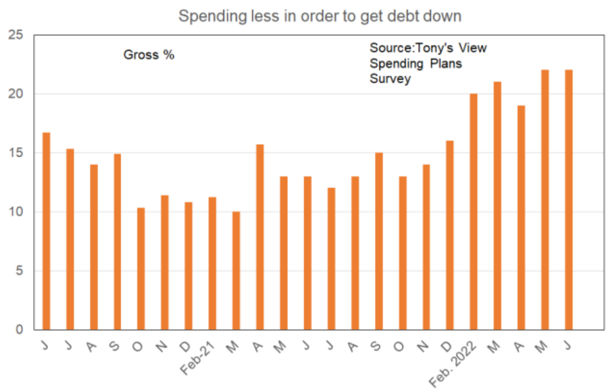


Business profit expectations are worsening.



And a net 3% of people now expect their wealth levels to decline.

From this survey we can get a feel for the extent to which debt levels may be concerning people. An increased proportion of people have been indicating heightened plans to get debt levels down since December last year. But there is no recent surge in this proportion. Plans to get debt down are firm but not extreme or any longer rising.



Respondents to the survey were distributed by age as follows.

< 30 years	6%
31 – 50 years	34%
51 – 65 years	40%
Over 65 years	20%

Distribution by region was as follows.

Northland	2.3%	Tasman	1.6
Auckland	43.4	Nelson	2.4
Waikato	8.3	Marlborough	0.8
Bay of Plenty	7.7	West Coast	0.1
Hawkes Bay	3.3	Canterbury	10.1
Taranaki	0.9	Queenstown	2.3
Manawatu-Wang.	2.8	Otago ex. Q'twn	2.3
Wellington	9.7	Southland	0.8
Gisborne	0.3	Other	0.9

Total responses = 1,021

TONY'S VIEW
Spending Plans Survey

Links to publications

Tony's View Spending Plans Survey

Tony's Thoughts Vlog

REINZ & Tony Alexander Real Estate Survey

Oneroof weekly column

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony Alexander Regional Property Report

Crockers & Tony Alexander Investor Insights

Investing Insights with Tony Alexander

Handling high interest rates

Handling staff shortages

Handling high cost of living