TONY'S VIEW - Spending Plans Survey

Input to your Strategy for Adapting to Challenges

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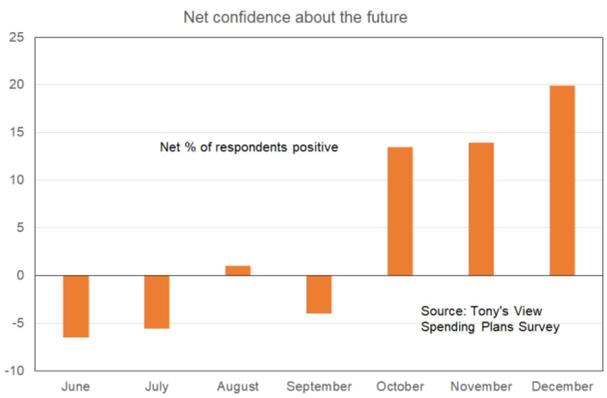
My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Consumers signalling more spending growth ahead

Over the past month there has been another improvement in the intentions of Kiwi consumers to spend more over the next 3-6 months. As discussed below, spending intentions have risen to a net 44% positive from 37% in November, 32% in October, and just 7% in our first survey in June.

This improvement in spending plans has been driven by a rise in the net proportion of respondents feeling confident about the future to a net 20% positive from 14% in November and net 4% pessimism in September.

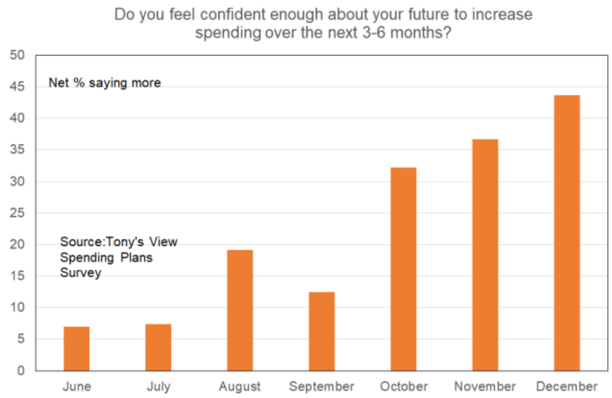


People have indicated they intend spending more of their rising wealth, that they have fewer worries about employment, whilst businesses are more confident about their profits. With spreading vaccination developments offshore, there are even some more people starting to make plans for overseas travel.

Results broken down at the regional level and by age group are presented in Tview Premium, with greater discussion also of housing-related outcomes. http://tonyalexander.nz/test.php

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

A strong net 44% of respondents have reported that they intend raising their spending levels over the next 3-6 months. This is a record high and a strong message to retailers that the summer will be a good one.

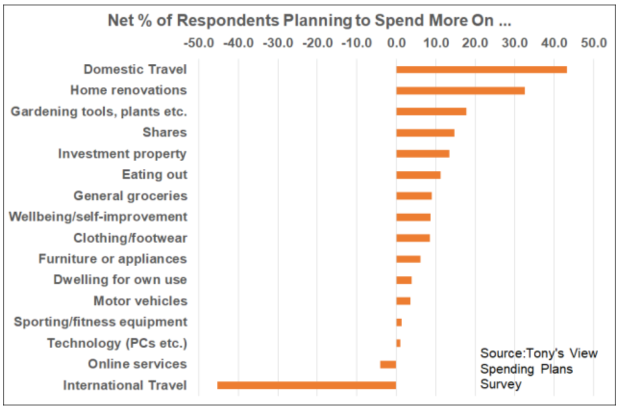


Apart from a dip in September following Auckland going back into lockdown, people have been signalling their intentions to spend more since July.

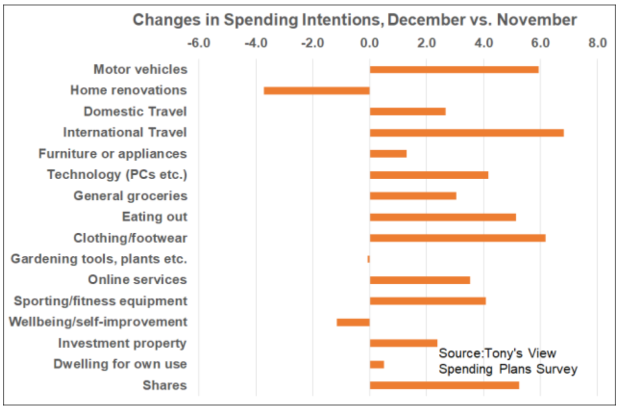
Where will people spend more?

There are now only two categories left where people say they intend spending less – international travel and online services. Both have recorded negative results in all surveys since the first in June. But it is interesting to note how the international travel outcome has become steadily less negative in recent months, and perhaps news about vaccinations starting in the UK has lifted hopes of travel within a six-month timeframe.

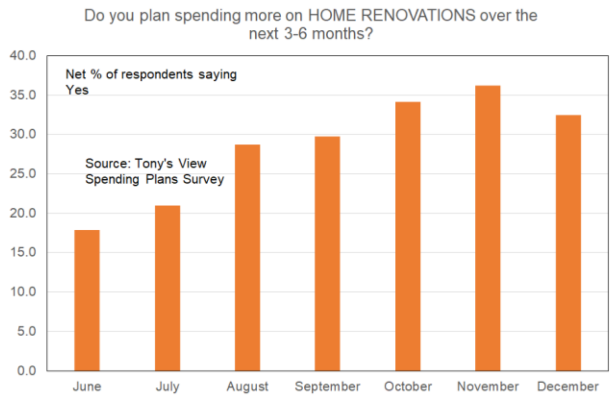
Across all categories, intentions of spending are again highest for domestic travel followed by home renovations and gardening. Around the world there has been a surge in home renovations activity in particular as people have redirected lumpy quantities of money previously allocated to international travel and sought to improve their nests for hunkering down against Covid-19.



Intentions of spending improved across all but three categories with the biggest gains being for international travel clothing/footwear, motor vehicles, and shares.



But intentions of spending on home renovations have pulled back to a net 33% from a net 36% positive in November



It will be interesting to track this category over 2021. Operators in the home renovations sector have experienced boom conditions in recent months. But home renovations and associated spending on things like furniture and appliances are things which can be undertaken at the discretion of the consumer, with a tendency for more spending when times are good and less when times are bad. These categories have a highly cyclical nature.

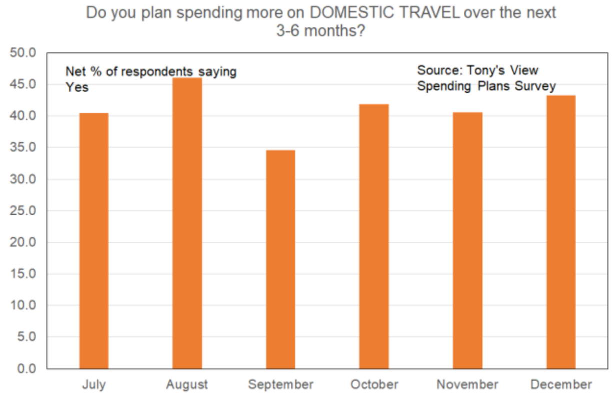
They have now just had a cycle the complete opposite of what history shows has happened in previous recessions. But this will mean that as the overall economy recovers, spending in these areas will pull back first of all toward more normal levels, then below normal for a period of time. After all, a spa might only need replacing once every 3-4 decades, or a wall moved every half a century.

We have no experience of a cycle like this so cannot put any definitive timeframe around when these easing off developments will occur. But as we approach a more normal world for 2022, operators who have boomed recently should plan for reduced activity at least over 2022 if not from late-2021.

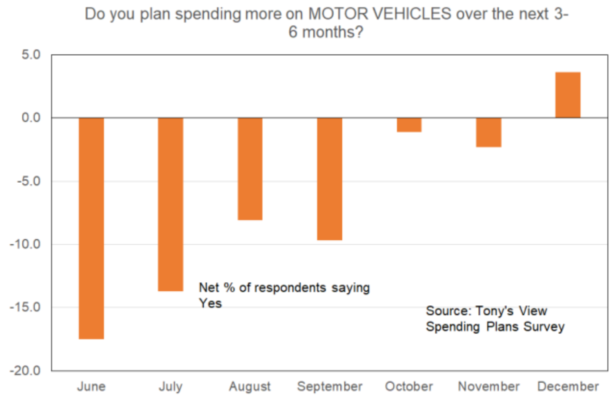
In last month's report we wrote it would be interesting to see if intentions for spending on investment property might soon decline in response to some fatigue on the part of investors. But the net proportion of people planning to spend on investment property has increased from 11% to a new high of 13.4%.

Momentum matters tremendously in asset markets and the upward drive in house prices appears to have overcome any concerns investors might have regarding banks reinstating Loan to Value ratios (LVRs) early. Determination to buy remains strong, but the REINZ & Tony Alexander Real Estate Survey tells us that some buyers are nonetheless backing off slightly, taking a summer break.

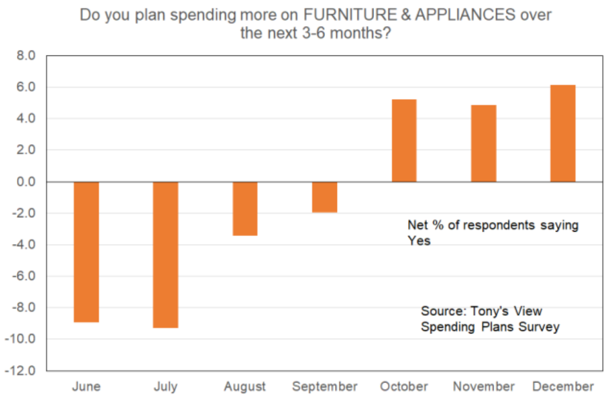
A net 43% of respondents have said that they intend spending more on domestic travel. Readings for this category have been high since the question was first asked in July. There is little reason to doubt the forecasts of those in the sector that the summer will be a strong one with roads replete with discounted price campervans and Kiwis undertaking activities avoided in recent years because of the numbers and pricing power of foreign visitors.



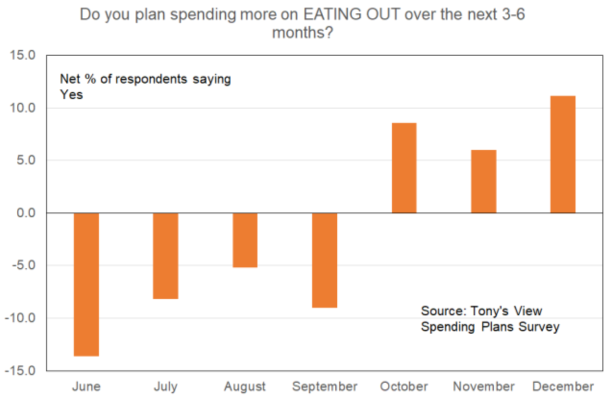
For the first time since our survey started more people are saying they intend spending more on motor vehicles than less. This looks more like a traditional spending pattern for a durable good than has been the case for home renovations. As such, motor vehicle dealers can look forward to a good 2021 – if they can get the stock delivered to our shores.



Retailers of furniture and appliances can also look forward to good trading conditions. But they have been exceptionally busy anyway since June and it looks like intentions revealed for this category could actually lag slightly behind the actual spending outcomes.



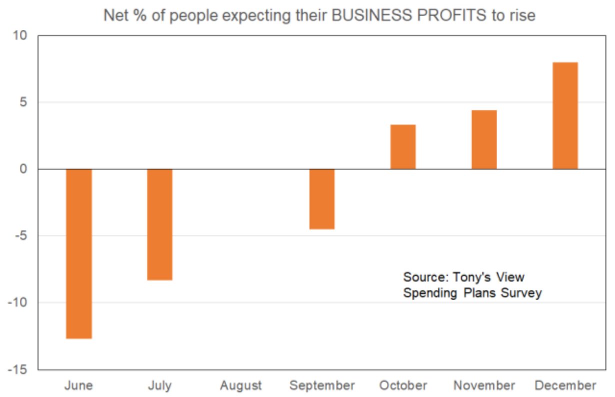
For the hospitality sector conditions continue to improve. A net 11% of respondents say they plan more spending on eating out, up from a net 6% last month and a net 9% as recently as September saying they intend spending less. This outcome would likely be vastly different in most northern hemisphere countries where virus management has been unprofessional and social distancing enforcement regimes of varying degrees remain in force.



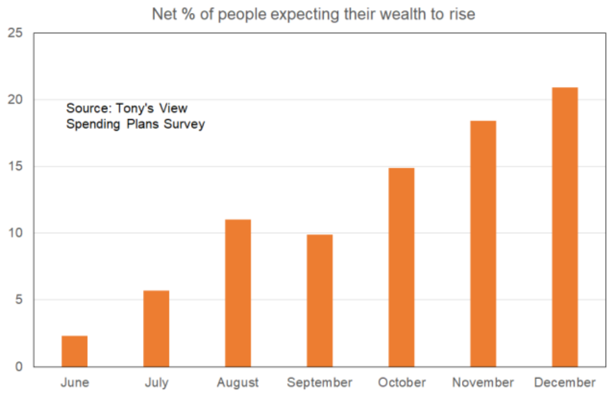
If you plan spending more, why?

People are still spending money which they had allocated to overseas travel. This $10bn has been of high benefit to a large number of businesses and their employees over the past six months and it is easy to imagine that some of next year's $10bn in planned offshore spending is also being redirected domestically.

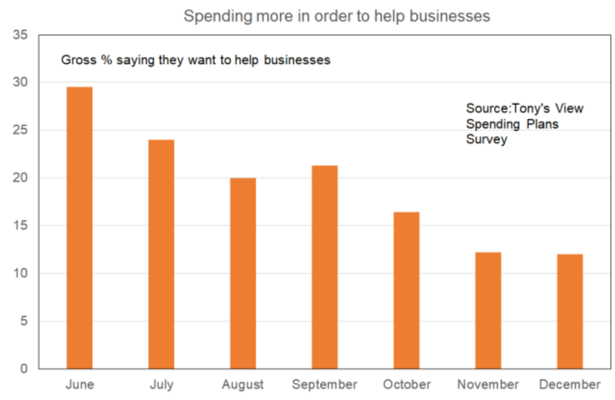
But there is much more than just spending reallocation in play. A gross 8% of respondents now say they plan spending more because their business' profits are rising. This good profit outlook stands in stark contrast to the situation earlier this year when despondency about the economy was still understandably very high.



There is evidence that more and more people feel secure enough about their rising wealth (probably housing) to engage in more spending.

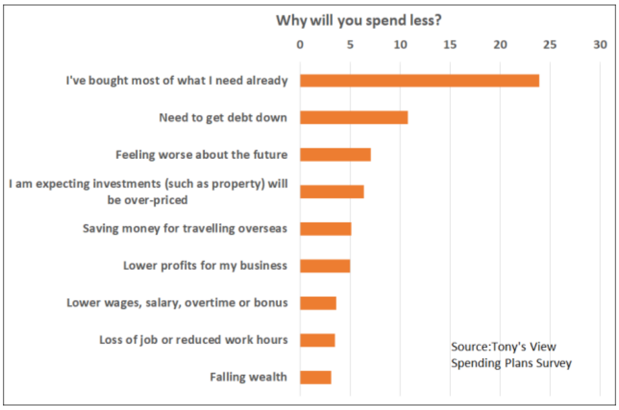


There are still some people saying they are willing to spend more to help out businesses, which is interesting considering the many good news stories now filling newspapers in recent months.

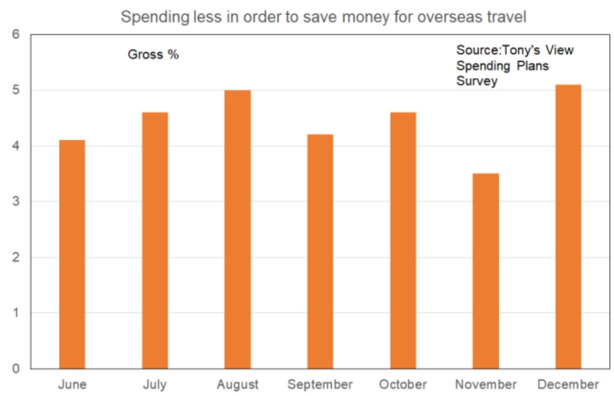


If you plan spending less, why?

One thing we are learning from the Tony's View Spending Plans Survey is that there is a persistently high gross proportion of people who say they intend spending less because they already have most of what they need. A gross 24% of people cited this reason. Technically, this is the lowest result for this question. But the range of answers over the months since June of 24% - 29% is unusually tight and this month's result may not necessarily reveal a new realisation dawning on people that they do in fact need an extra couch or more served coffees.



There has been a small rise in the gross percent of people saying they intend spending less because they are saving for overseas travel. It will be interesting to see how this outcome changes as 2021 advances and the possibility of us returning to trips offshore gets closer.



Respondents to the survey were distributed by age as follows.

< 30 years	5.3%
31 – 50 years	35.2%
51 – 65 years	41.4%
Over 65 years	18.2%

Distribution by region was as follows.

Northland	29.6%	Tasman	2.1
Auckland	42.3	Nelson	1.8
Waikato	6.1	Marlborough	0.8
Bay of Plenty	5.7	Canterbury	12
Hawkes Bay	3.5	Queenstown	1.6
Taranaki	1	Otago ex. Q'twn	3.5
Manawatu-Wanganui	3	Southland	0.7
Wellington	12.5	Other	0.7

Total responses = 1,237

The Tview Premium of December 17 will include analysis at the regional level, broken down by age, and special examination of the two housing categories.

This publication is written by Tony Alexander, independent economist and speaker. You can contact me at tony@tonyalexander.nz
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