TONY'S VIEW - Spending Plans Survey

Input to your Strategy for Adapting to Challenges

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

ISSN: 2703-2825
Sunday 31 May 2020

To subscribe click this link https://forms.gle/qW9avCbaSiKcTnBQA

Speaking enquiries tony@tonyalexander.nz

Back issues at www.tonyalexander.nz

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.

The New Retail Reality

On Wednesday I conducted the second Spending Plans Survey of Tony's View readers and received almost 4,000 responses. I was going to release the results on Tuesday morning but out of respect for the sheer volume of responses and because the results are quite important, I'm sending them out early.

There's a clear message to retailers and operators in the travel industry from the results. If you're enjoying a surge in activity this long weekend, be cautious in your optimism.

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

A net 7% of the 3,902 respondents said that they feel confident enough to spend more. This is a turnaround from last month's survey where a net 4% said they did not feel such confidence. It is likely that in normal times this outcome will average a lot higher than 7%. But the fact that it has turned up is a positive development.

But there is also a warning here to retailers currently enjoying a surge in sales. The turnaround from a month ago is not that large. Consumers are not indicating that they feel any sense of euphoria or happiness, and this is explicitly obvious in other surveys which directly gauge consumer confidence.

From next month I'll be able to start putting some graphs here.

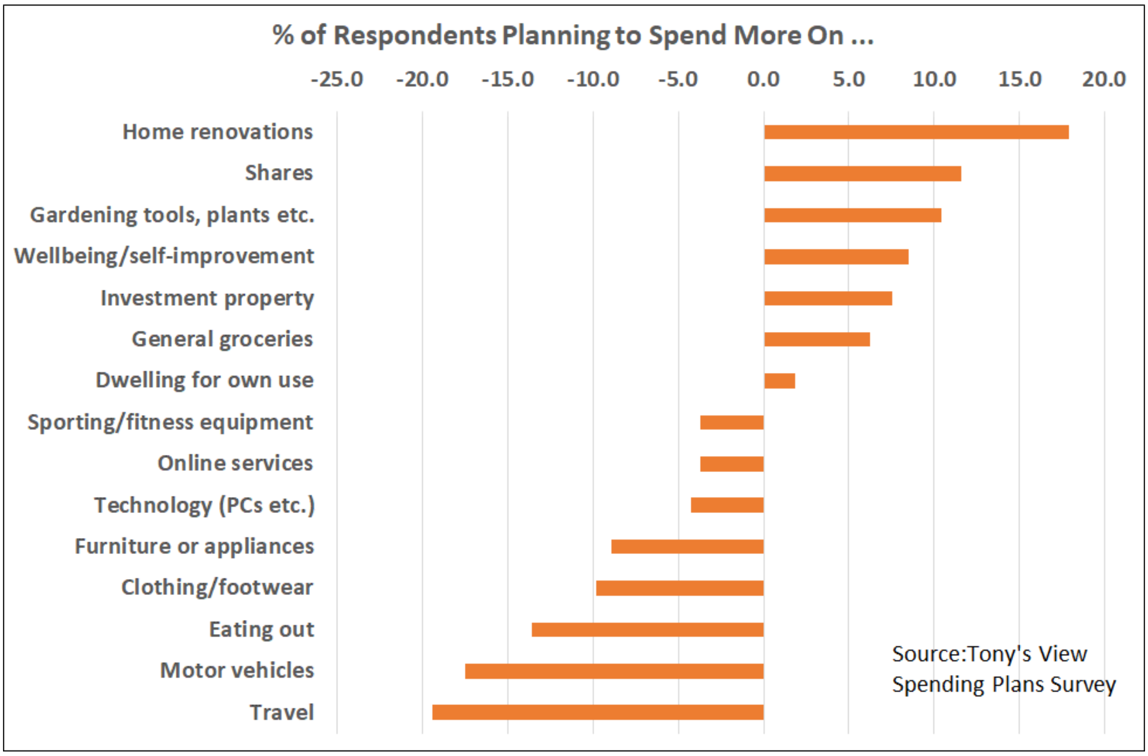
Where will people spend more?

In last month's survey I only asked people what they would spend more on. This month I asked also what they would spend less on. By getting both sets of intentions we can get far more accurate insight into how spending is truly likely to change for the different categories covered.

I listed 15 things which people could spend more or less on. By subtracting the number of people saying they will likely spend less from the number saying they are likely to send more, we can see where money may be flowing. The chart on the following page shows spending growth areas to the right and spending shrinkage areas to the left of the vertical zero line.

There are plenty of feel-good stories in the media regarding people going on holiday – especially over the long weekend. But a net 19% of the near 4,000 survey respondents say they will be cutting back on travel. Before operators in the tourism sector get too despondent, it is possible that some respondents interpreted this to mean international travel. From next month I will include two travel categories – but I suspect the result will be very similar because in times of deep recession people do not as a rule boost their spending on travel.

They also do not buy cars and a net 18% of respondents say they are going to cut their spending on motor vehicles. In times of weakness people also cut discretionary spending on things like clothing and eating out. And so, we can see that a net 14% of people plan cutting spending on meals away from home, and a net 10% plan spending less on clothing and footwear.



This supports the generally cautious attitude which people in the hospitality sector have as they see pictures of people in some streets sitting again at café tables. Many operators in the sector who got themselves through the lockdown period are still likely to be forced to close down as this year progresses because people will restrict spending on eating out at cafes and restaurants.

Clothing store operators are also likely to have to make some more hard decisions about their stores as consumers cut back clothing and footwear spending. The other dynamic in this particular area which is not captured here is that people shift where they buy their clothes downmarket.

We economists also know that when times are tough people cut back spending on durable items like couches. And so, we see that a net 9% of people plan reducing spending on furniture and appliances.

Switching to the right-hand side of the chart, where are people indicating that they will spend more? Home renovations is the standout winner and this replicates the result last month. Stuck at home for many weeks people appear determined to improve their living arrangements, and presumably, all those home owners who were planning to travel overseas now have $10bn available to engage in some home improvements.

This will present good opportunities for tradespeople first to do the work for people, then second, to fix up the work some people will initially do for themselves.

Clearly related to the desire to improve one's living environment is the strong net 11% of people planning to spend more on gardening supplies.

But then things get interesting, and this backs up my view that the easing off of average house prices is going to be a lot less than people are thinking. A net 8% of respondents say they will spend more on investment property and 12% on shares. New Zealand is not a nation of people so indebted that any recession will cause financial mayhem. Net financial assets stand at almost $750bn after deducting mortgage debt according to the Reserve Bank. Plenty of people are in strong financial positions (43% of owner occupiers do not have a mortgage on their house for instance.)

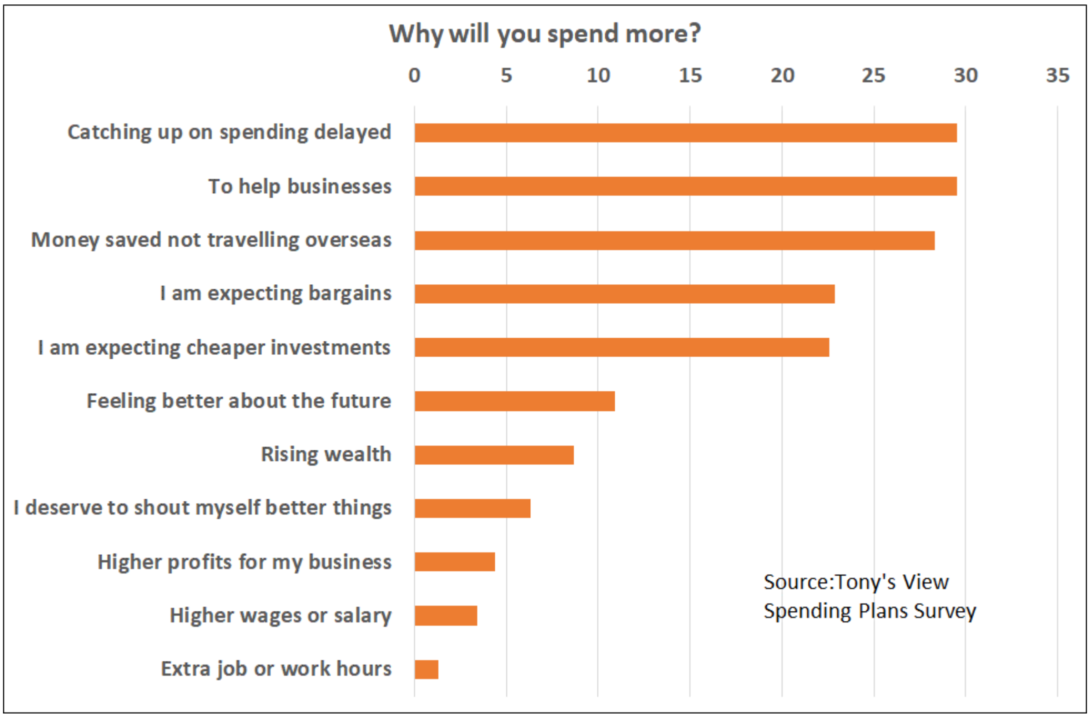
Sharemarkets have rallied strongly since reaching their low points in late-March, and in the two months since then capital gains have been exceptionally strong. People probably hope to make some purchases on the assumption that this recent trend will continue – and that is why it is a pity our sharemarket is so small. Around the world investors are eager to take part in fresh capital raisings by good listed companies needing to bolster their balance sheets. If there was ever a time when NZ listed companies could tap the market with reasonable expectation of being fully subscribed, it is probably now.

If you plan spending more, why?

For those people planning to spend more, 30% said it was because they would be catching up on spending delayed. This then goes to reinforce the central concern many currently busy retailers have. This surge in spending probably will not last.

30% of people say they want to help out businesses, so that is good. As highlighted right from the start of this crisis, there is some $10bn which Kiwis would have been going to spend overseas this coming year which they can now spend domestically. 30% cite the diversion of this money as reason for the higher spending they anticipate doing in the coming 3-6 months.

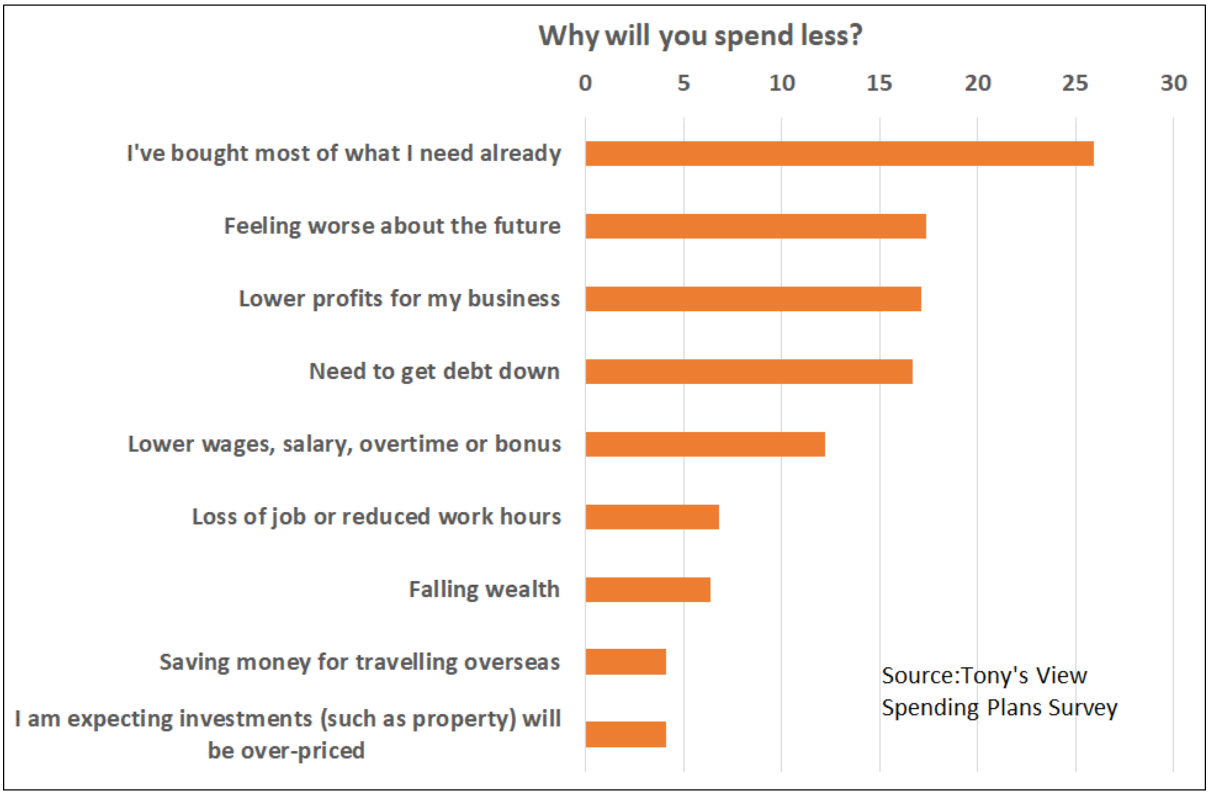
Some people are bargain hunters with 23% citing this. And 23% say they are at least hopeful of finding some cheaper investments.



If you plan spending less, why?

It's hard to know what to say regarding the 26% of people who say they will spend less because they already have what they need. Well done, I guess. 17% say they are feeling worse about the future, and comparing that with the earlier 11% saying they are feeling better we can in fact create a net confidence reading of -6% pessimistic.

People are planning to cut spending because they anticipate lower earnings – 12% for wages etc. and 17% for business profits.



Respondents to the survey were distributed by age as follows.

< 30 years	8.5%
31 – 50 years	43.1%
51 – 65 years	36.8%
Over 65 years	11.5%

Distribution by region was as follows.

Northland	1.8%	Tasman	0.8
Auckland	46.2	Nelson	1.7
Waikato	6.0	Marlborough	0.7
Bay of Plenty	5.9	West Coast	0.1
Gisborne	0.3	Canterbury	13.9
Hawkes Bay	2.6	Otago	6.3
Taranaki	0.9	Southland	0.7
Manawatu-Wanganui	1.6	Offshore	0.9
Wellington	9.6		

This publication is written by Tony Alexander, independent economist and speaker. You can contact me at tony@tonyalexander.nz
Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA