



ECONOMIC BULLETIN

Retail Spending Pulse.



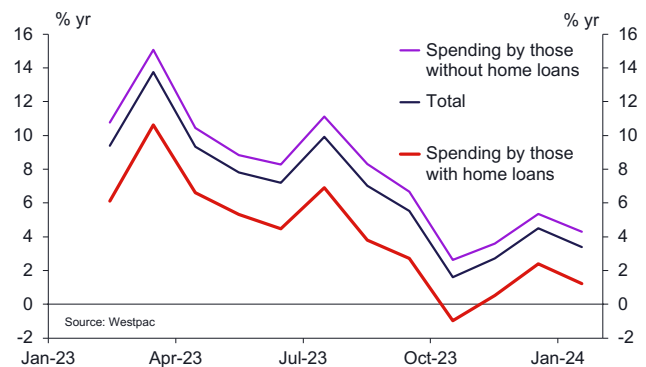
27 Feb 2024 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

- **New Zealanders have become increasingly cautious about their spending. Spending growth on Westpac issued debit and credit cards slowed to just 3% in the year to January. And with strong population growth and increases in retail prices over the same period, that means many New Zealand households are actually getting less bang for their buck each time they tap their cards.**
- **All households have seen their spending power eaten away by strong price increases.**
- **The pressure on household budgets has been especially stark for those households with mortgages, many of whom have kept their cards in their wallets as interest rates have pushed higher over the past year.**

Retail spending continuing to slow.

Household spending has remained weak as we've moved into the new year. Our tracker of spending on Westpac issued debit and credit cards¹ showed that nominal spending for the three months to January was up just 3.4% compared to the same time last year. To put that in perspective, over the same period New Zealand's population has grown by around 2.8%. We've also seen retail prices rising by around 4%. That combination means that even though we're splashing out more cash, many New Zealand households are actually getting less in their trolleys.

Annual spending growth (rolling three-month averages)



Mortgage rate pressures adding to the cost-of-living squeeze.

Spending growth has slowed sharply over the past year as the pressures on household finances have continued to mount. All households have seen their spending power eaten away by the large increases in consumer prices in recent years.

On top of that, many households have been grappling with large increases in mortgage interest costs. In fact, adjusting for when households fixed their mortgages, the average mortgage interest rate that households are paying has risen by around 260bps since 2022.

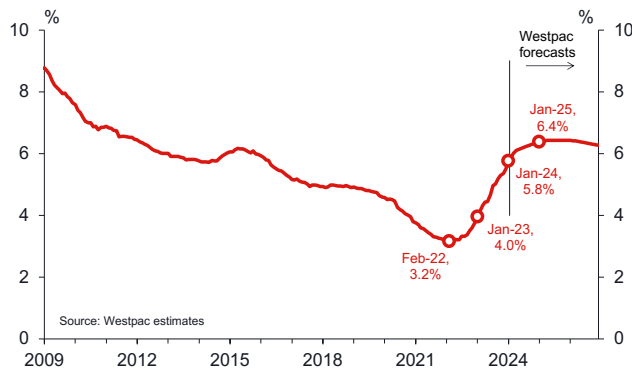
¹ This data excludes spending on non-chip EFTPOS cards.

For households with mortgages, that's seen their spending on interest costs rising to around 15% of their disposable income (up from around 10% in 2022).

Looking at households with and without mortgages, the impact of interest rate increases over the past year is clear. While spending by households without mortgages was up 4% over the past year, among households with mortgages it was up a paltry 1%.

Importantly, even though we don't expect further rate increases from the RBNZ, many households will still face increases in their debt servicing costs this year. Around 90% of New Zealand mortgage interest rates are fixed for a period, and over the coming year around 60% of all fixed rate mortgages will come up for repricing. That will see many borrowers rolling on to higher rates. In fact, we estimate the average mortgage rate that borrowers are paying will rise by a further 60bps on average in 2024. (Note: We are basing this on current mortgage rates and are not assuming any changes in the interest rates that are on offer from lenders.)

'Effective' average mortgage rate*



* The 'Effective mortgage rate' is an estimate of the average interest rate borrowers are currently paying. It accounts for the fact that most borrowers fix their mortgages, rather than paying the interest rates that are currently on offer.

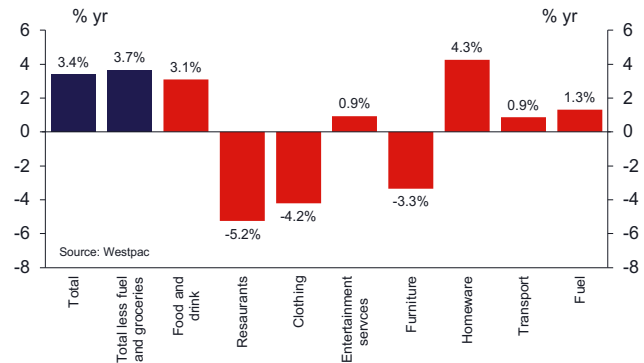
Spending in interest rate sensitive areas dropping back.

Looking across spending categories, it's a mixed picture. Spending on groceries and other food items has held up, supported by strong population growth. However, in our recent talks with grocery retailers, a number of operators have noted a change in consumers spending patterns – there's an increasing focus on value for money, with households switching their spending to lower cost options and necessities, rather than 'nice to haves'.

Looking at spending non-essential items, the past year has seen spending on furnishing dropping by 3% and spending on apparel falling by 4%.

Notably, that reduced spending on goods isn't being offset by spending on services. Spending in restaurants is down 5% over the past year, and spending on other entertainment activity has been tracking sideways.

Annual spending growth (three months to January vs same time last year)



Regional trends.

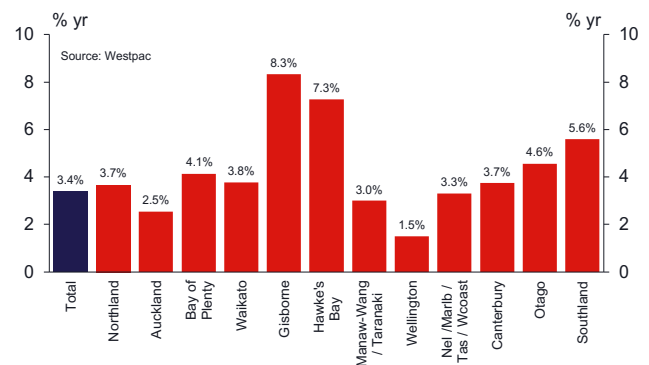
Looking across the country, there are some big differences in spending trends.

Spending in Auckland is up just 2.5% over the past year. That's despite surging population growth – with Auckland attracting the lion's share of new migrants, we estimate the region's population has grown by more than 3% over the past year. In part, that softness likely reflects that housing costs are particularly high in Auckland. In addition to high house prices and increases in mortgage interest costs, the cost of new housing rents in the region are up nearly 7%.

Spending in Wellington has also been cooling, with spending growth slowing to just 1.5% in the year to January. Households in the region have been spending less on apparel, furnishings and appliances. Our recent talks with businesses in the region highlighted growing concerns that spending will turn down sharply this year in response to reductions in public sector spending.

Bucking the trend, spending in the Hawke's Bay and Gisborne is up around 7%. As the recovery from last year's severe weather continues, we're seeing strong spending on appliances and household furnishings. We're also seeing increase spending on apparel. Many in the region are also spending more on travel.

Spending growth by region (three months to January vs same time last year)



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