ECONOMIC BULLETIN

Retail Spending Pulse.

14 Mar 2025 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Retail spending won't pick up over night, but it will happen.

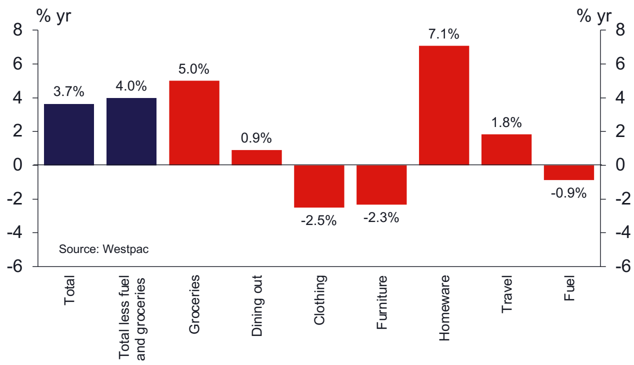
- **Retail spending is starting to pick up again, but the recovery remains gradual for now.**
- **Mortgage costs remain an important drag on spending for many New Zealand households.**
- **We expect further gradual increases in spending over the coming months, but a material lift in spending probably won't be seen until the latter part of the year.**
- **Spending in those regions with a strong rural backbone is outpacing spending in metro centres.**

Spending appetites continuing to thaw.

Our Retail Spending Pulse tracks New Zealanders' spending on Westpac issued credit and debit cards. It allows us to take a closer look at what's happening to spending around the country, and also provides insights on how different groups in the economy are faring.

Spending levels are rising again, with spending in February up 3.7% on this time last year. While that's not a bad rate of growth, it follows a tough 2024 for many retailers when sales undershot targets. And during our recent talks around the country, a number of retailers told us that they're still grappling with soft demand and tough trading conditions.

Spending growth (February vs same time last year)



The cost-of-living crisis hasn't ended.

The gradual recovery in spending isn't surprising. While the big pressures on households have eased, they haven't gone away.

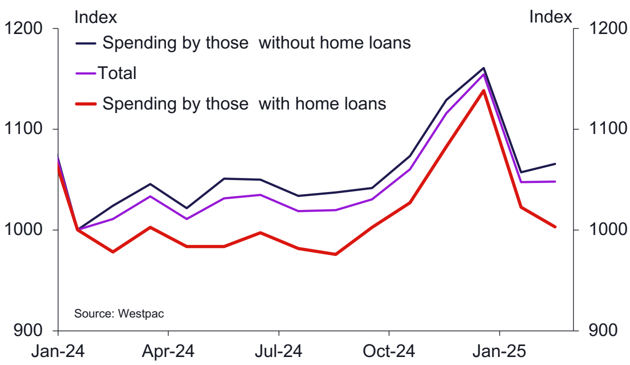
Although inflation has slowed back to more normal rates of close to 2%, many households saw their spending power eaten away by large increases in living costs over the past few years. Even now, we're continuing to see increases in the costs of necessities like food and utilities. We're also hearing a lot of concern about big increases in local council rates.

Mortgage pressures to continue easing.

The other big factor that squeezed households' spending power in recent years was the high cost of debt servicing. On this front, we have seen some sizeable falls in mortgage rates over the past few months. However, many households are yet to feel the impact of those rate reductions. In part, that's because many mortgages haven't come up for re-fixing yet and are still on the relatively high rates that were on offer in recent years.

We've also seen many borrowers choosing to go on to floating rates or fixing for short terms (e.g., six months) in anticipation of further interest rate reductions from the RBNZ. While that could allow them to eventually secure a lower fixed mortgage rate, in the meantime they're paying relatively high rates. As shown in the chart below, that's been reflected in softer spending by those households with mortgages than those without.

Spending – households with and without a mortgage

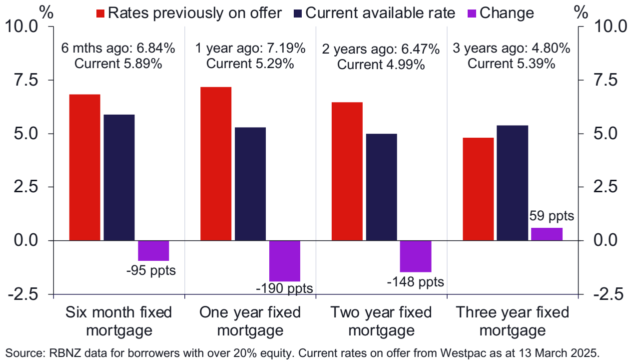


Longer term mortgage rates have fallen – in some cases significantly – and that reflects expectations the RBNZ will continue to cut the OCR. If you have a re-fix coming up, it's worth talking to a specialist who understands your specific needs to work out what's the best approach for you.

Over the next six months, around half of all mortgages will come up for refixing, giving borrowers the chance to secure a lower rate. For those borrowers who fixed up to two years ago, they could see their interest rate dropping by more than 150bp when they next refix their interest rate (depending on when they took out their mortgage and how long they fix for). If you have an average priced home and a 50% mortgage, that could shave about $300 to $400 off your monthly interest payments.

As increasing numbers of borrowers roll on to those lower rates, we expect to see spending pushing higher again over the coming months. However, it will take time for those lower interest rates to ripple through the economy. As a result, we're likely to see a more material lift in spending through the latter part of this year.

How much relief could borrowers see?

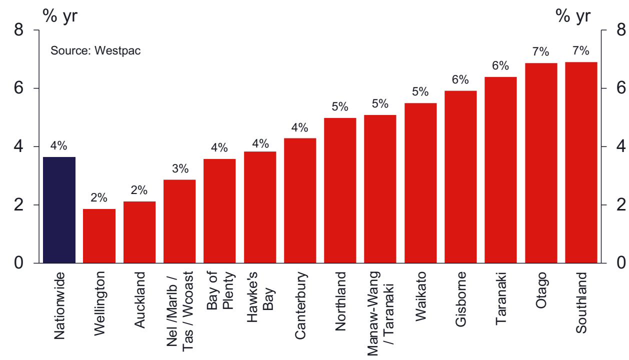


Town and country – a look at spending across the regions.

Looking across a country, spending growth remains fastest in those regions with a strong rural backbone. At the head of the pack is Southland, where spending is up nearly 7% over the past year. Otago has seen a similar gain, with an additional boost from the recovery in international tourist numbers. We're also seeing solid spending growth in other dairy power-house regions like the Waikato and the Taranaki.

Businesses we've spoken to in rural regions have told us that they're still seeing some caution among customers. However, the strengthening outlook in commodity prices is now flowing through to lift in spending appetites, and we expect continued gains over the remainder of the year.

New Zealand spending growth by region (February vs same time last year)



It's a different story in metro areas, with spending in Auckland and Wellington only up 2% over the past year, a little below the rate of inflation. Businesses we've spoken to in those regions have continued to tell us of tough trading conditions, especially in the Capital. But while sales remained sluggish in metro areas, most of the businesses we spoke to in those areas told us that conditions had stabilised in recent months (rather than continuing to weaken). They're also feeling more optimistic about where the economy is heading over the course of this year. However, they were conscious that the recovery is likely to be gradual, with most not expecting a material lift in activity until the second half of this year.

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