

# Consumer optimism wavering

Q1 Westpac McDermott Miller Consumer Confidence Index: 114.7

- **Consumer confidence moved modestly lower in the March 2010 quarter, but remains at a high level.**
- **Consumers' optimism about the future was tempered, while their assessment of current conditions improved slightly.**
- **The pullback in consumer confidence will keep the Reserve Bank comfortable with its current plan.**

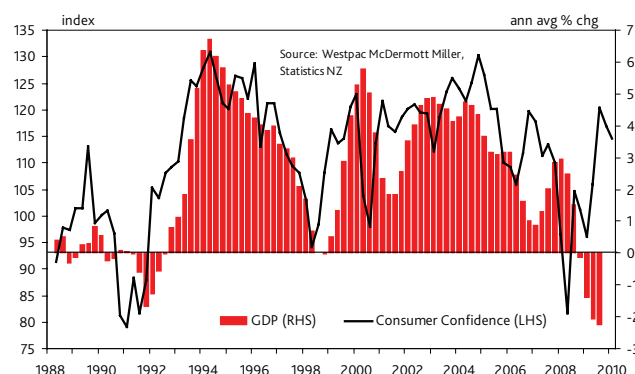
The Westpac McDermott Miller Consumer Confidence Index fell slightly in the March 2010 quarter, to 114.7 from 116.9. An index number over 100 indicates there are more optimists than pessimists, while a number under 100 indicates that pessimists outnumber optimists. The margin of error in the survey is 2.5% at a 95% confidence interval.

Consumer confidence peaked at a four-year high of 120.3 in September 2009, but has slipped back over the past six months. Still, consumer confidence remains in optimistic territory, and is well above the long-run average. At current levels, confidence is indicative of solid growth in consumer spending through the March quarter, although spending growth may not be as emphatic as it was at the tail end of last year.

Not much went the consumer's way in late-2009 and early-2010. Interest rates rose, petrol prices rose, and unemployment worsened. The housing market experienced a jarring slowdown, which may have affected confidence among home owners. Little wonder consumers became even more despondent about their personal financial situation than they were last quarter. A net 22% of respondents said they were worse off than a year ago, compared to 21% last quarter. Responses to this question had been steadily improving since the low-point in March 2009, so the deterioration this quarter broke the trend.

The exchange rate was one factor that did remain favourable for consumers. The only question to register an improvement this quarter was whether now was a good time to buy a major household item. No doubt the improvement was due to the falling price of durable goods such as appliances and cars, which in turn is a consequence of the strong Kiwi dollar.

Consumer Confidence and GDP



Consumer Confidence Indices

	Mar-10	Dec-09	change
Consumer Confidence Index	114.7	116.9	-2.2
Present Conditions Index	99.5	99.0	0.5
Future Conditions Index	124.7	128.8	-4.1

Consumers were optimistic about future conditions, but less so than last quarter. A net 48.1% of respondents still expect good economic times in New Zealand over the next five years, but that is down from the euphoric net 62.8% back in September last year. Optimism toward the short term economic outlook has also been reassessed, with only a net 10% saying there will be good economic times in the coming year, compared to a net 14.4% last quarter. Finally, only 10% of consumers expected their own financial situation to improve over the next 12 months.

Confidence was hit harder in secondary and rural areas than in metropolitan areas. Particularly sharp falls were registered in Southland, Nelson/Marlborough/West Coast, Taranaki/Manawatu/Wanganui, and Bay of Plenty. By contrast, confidence rose in Waikato and Canterbury.

By age, the decline in confidence was more pronounced among those aged 30 or over, with only a slight decline in confidence among 18 – 29 year olds. This furthers our suspicion that the decline in confidence may have to do with the return to

For further information, questions or comments contact Brendan O'Donovan, telephone (04) 470 8250, email bodonovan@westpac.co.nz

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falling house prices. By gender, males (114.9) remained more optimistic than females (110.5), but the gap between the two closed during the quarter. In terms of socio-economic grouping, there was a sharp fall in confidence among the middle group. The upper and lower socio-economic groups experienced smaller declines in confidence, while confidence among those not working rose slightly.

#### Consumer Confidence Data

Region	Index		
	Mar-09	Dec-09	Mar-10
Northland	91.8	110.8	107.7
Auckland	95.4	121.5	119.5
Waikato	98.2	108.8	113.0
Bay of Plenty	93.4	120.7	114.0
Gisborne/Hawke's Bay	98.3	109.9	108.5
Taranaki/Manawatu-Wanganui	93.9	115.1	108.2
Wellington	97.8	121.1	118.6
Nelson-Marlborough/West Coast	96.9	116.4	107.7
Canterbury	98.7	116.9	118.0
Otago	93.4	104.4	104.4
Southland	93.8	112.8	103.0

#### The financial impact of tax and benefit changes

This quarter an additional question was included in the Consumer Confidence survey: "If there are changes to the tax and benefit system over the next 12 months, do you expect it will have a positive or negative effect on your overall financial situation?" The results were evenly split, with 33% expecting a positive effect, 34% expecting a negative effect and 22% saying they expected no effect. Respondents in the upper socio-economic category were the most positive about the prospective tax changes, with optimists outnumbering pessimists by two percentage points. By contrast, the lower socio-economic group was decidedly pessimistic about the changes, with negative responses outweighing positive by 18 percentage points. People aged 50 or over were also markedly more pessimistic than younger folk about the financial impact of possible tax and benefit changes.

The tax changes have not been formally announced, but hints so far indicate that income tax will be lower, GST will be higher, the rules on property investment will be tightened, and national superannuation will be increased. The age and income split from the survey matches our assessment of how these hinted-at tax changes might affect different groups. Lower income tax is a clear benefit to most people, but more so for high income earners. Some older people may find the GST hike has eroded the purchasing power of their savings (although a boost to national superannuation may ease the pain a little). And our assessment is that the tax changes will temper the rate of house price inflation, which is a boon to the young and a detriment to the old.

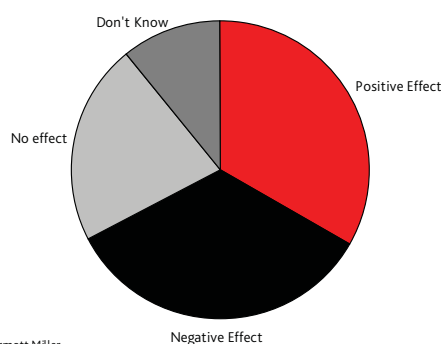
#### Implications

The slight drop in consumer confidence was widely anticipated given the more moderate tone of economic news recently, so we do not expect today's data will be market moving. In the March *Monetary Policy Statement* the RBNZ noted the acceleration in consumer spending, and registered some concern about the possibility of a return to unsustainable spending levels. However, that was kept as a risk scenario, with the RBNZ's official forecasts featuring only a modest increase in consumer spending. Today's consumer confidence figures suggest New Zealand consumers will indeed behave themselves, so there is no reason for the Bank to deviate from its announced plan of hiking around the middle of the year. We interpret that to mean June.

**Brendan O'Donovan**, Chief Economist, Ph: (64-4) 470 8250

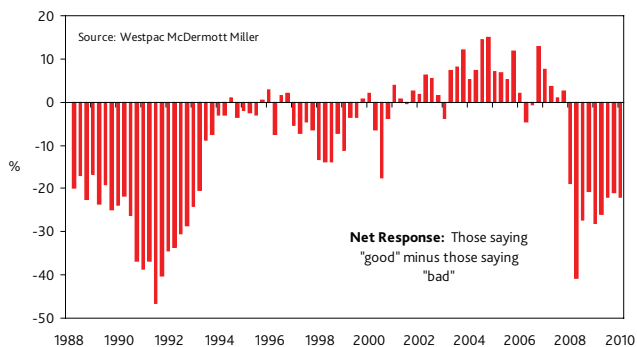
**Dominick Stephens**, Research Economist, Ph: (64-4) 381 1414

Expected impact of tax changes on overall personal financial situation

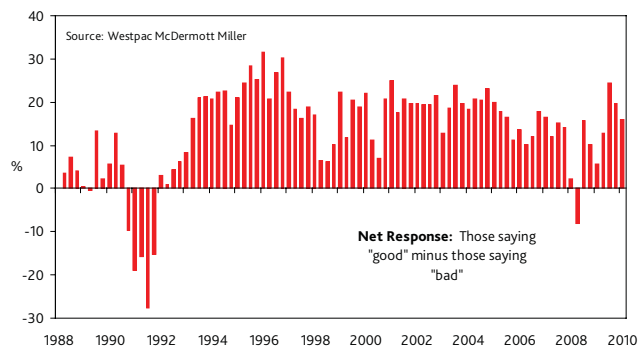


Source: Westpac McDermott Miller

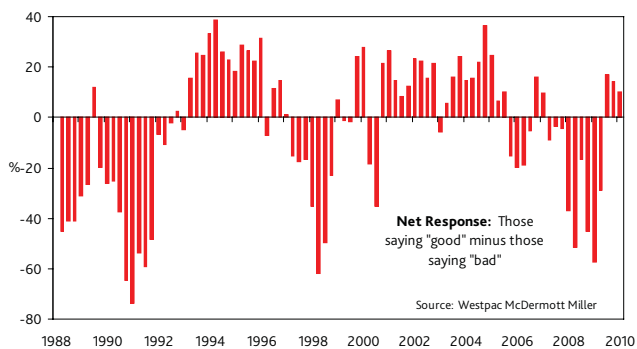
**Are you better or worse off financially now than a year ago?**



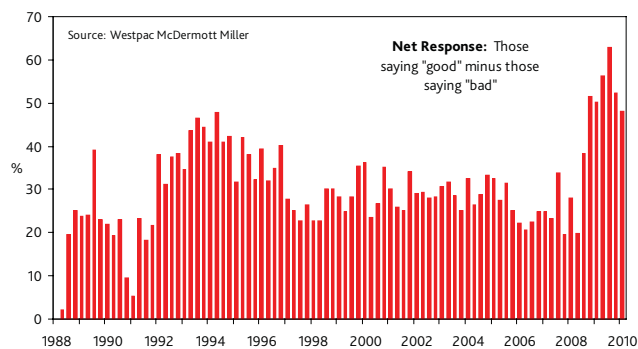
**Do you expect to be better or worse off financially this time next year?**



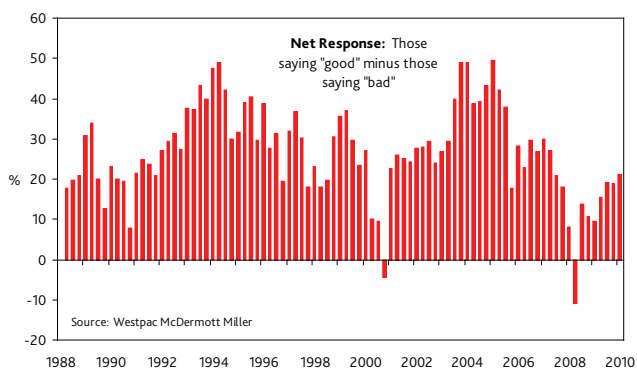
**Do you expect good or bad economic times over the next 12 months in NZ?**



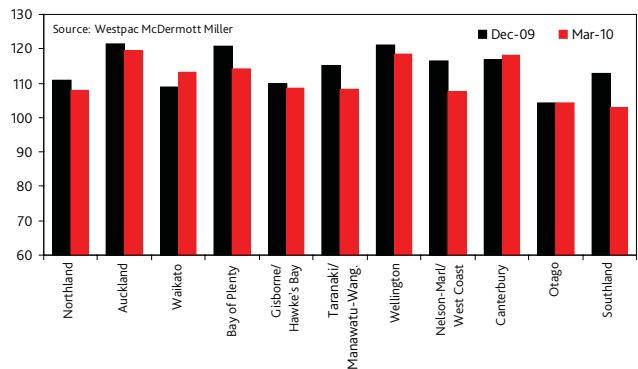
**Do you expect good or bad economic times over the next 5 years in NZ?**



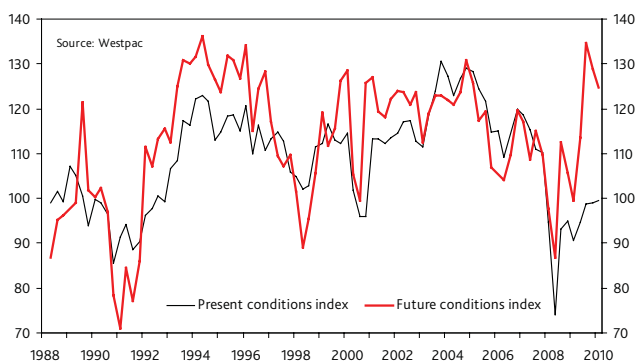
**Is this a good or bad time to buy a major household item?**



**Regional Confidence**



**Present and Future Conditions Index**



**Consumer Confidence Data**

Quarter	Index
Dec-07	110.0
Mar-08	96.5
Jun-08	81.7
Sep-08	104.8
Dec-08	101.3
Mar-09	96.0
Jun-09	106.0
Sep-09	120.3
Dec-09	116.9
Mar-10	114.7