

Spend like it's 2005

Q2 Westpac McDermott Miller Consumer Confidence Index: 116.6

- **New Zealand households are back in spending mode.**
- **Households are increasingly optimistic, both for the economy and their own finances.**
- **Attitudes have shifted away from saving and paying off debt – to an extent not seen since the mid-2000s.**

People think it's a good time to spend. That was the key message from the latest Westpac McDermott Miller consumer confidence survey.

Headline confidence ticked up another notch, to 116.6, as households became more optimistic both for their own finances and the New Zealand economy. Consumer confidence is now the highest since June 2010, just before the first Canterbury earthquake.

The survey also showed a marked lift in households' willingness to spend rather than save. The net proportion of households saying that now is a good time to buy a major household item hasn't been this high since 2005. And the net proportion saying they would prefer to spend a cash windfall, rather than bank it or use it to pay off debt, is the highest since 2004.

There are several likely reasons for this shift. One is the upsurge in economic optimism. Another is falling prices for many key consumer goods. There has also been a lift in sentiment in rural areas, suggesting the focus has shifted away from the immediate impact of drought to higher dairy payouts.

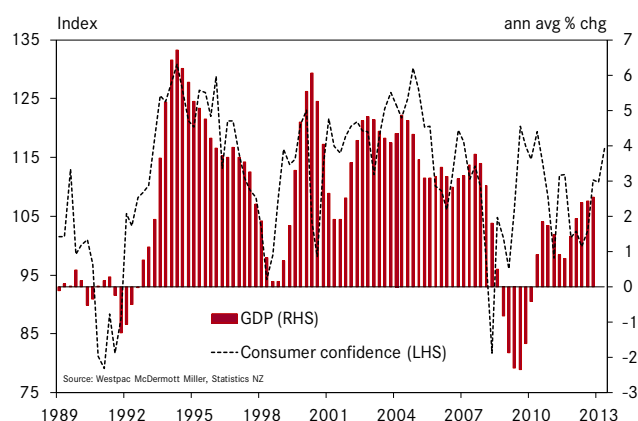
But the survey also chimes with our long-held view that low interest rates and the rising housing market would boost consumer spending. The demographics are revealing. Almost everyone is feeling more upbeat about the economy, and less focused on paying down debt. But the shift away from saving towards spending is particularly pronounced among older households, and among Aucklanders. These are precisely the people that have benefitted most from the housing market upturn.

Survey details

The Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; households' outlook for their financial situation over the coming year; and their near-term and longer-term outlook for the New Zealand economy as a whole.

The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. Survey interviews were conducted over the period 1 – 10 June. The sample size was 1568.

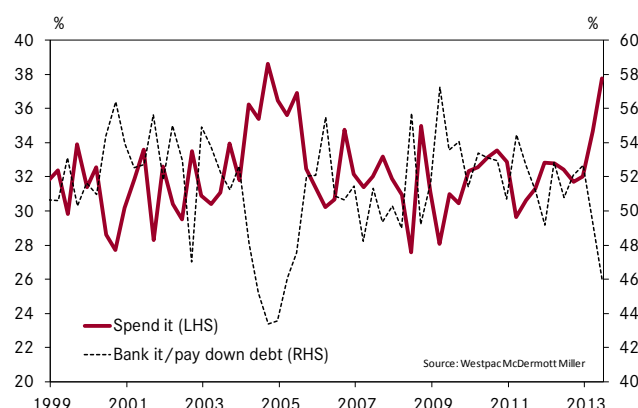
Consumer confidence and GDP



Consumer Confidence Indices

	Mar 13	Jun 13	Change
Consumer Confidence Index	110.8	116.6	5.8
Present Conditions Index	110.2	111.8	1.6
Expected Conditions Index	111.2	119.8	8.6
Current financial situation	-10.4	-10.8	-0.4
Expected financial situation	7.2	10.1	2.9
1-year economic outlook	-5.8	13.8	19.6
5-year economic outlook	32.1	35.4	3.3
'Good time to buy'	30.8	34.4	3.6

'What would you do with a \$10,000 windfall?'



The rise in consumer confidence was mainly driven by a surge in economic optimism. The net percentage of households saying they expect good times for the economy over the year ahead sits at 14% - the first time it's been positive since June 2010. However most of the other components of the index also rose. The one exception was households' assessment of their current financial situation, which slipped a touch from three months ago.

Overall, households' attitudes towards their own finances (both current and future) remain subdued by pre-recession standards, though they have improved significantly over the past year (households' assessment of their current financial situation is the second highest since December 2007, and their expectations for their own finances are the most optimistic since September 2010).

The one component of the index which has clearly surpassed pre-recession levels is households' willingness to spend. The net percentage of households saying that now is a good time to buy a big-ticket item has risen steadily for the past six quarters, and is now the highest since September 2005.

Attitudes to saving and spending

The survey also asks respondents what they would do with a \$10,000 windfall. For the second quarter in a row, there was a big lift in the proportion of households saying they would spend the money, and a corresponding dip in those saying they would either bank it or use it to pay down debt. The last time the survey showed such a swing in attitudes in favour of spending and away from saving/debt repayment was in 2004.

Demographic breakdowns

Confidence rose across age, income and gender categories, reflecting an across-the-board lift in economic optimism. However there were revealing divergences in the details.

Age: There was a particularly big lift in older people's perceived financial situation and their willingness to spend on big-ticket items. At first blush this is surprising – interest rates are low, which tends to hurt older savers. However inflation is also very low, which is good for savers. And it's likely that rising house prices are making home-owners in this age group feel better off.

Incomes: Those not working and on lower incomes also saw a disproportionate improvement in their perceived financial situation and willingness to spend. This may reflect the preponderance of retirees in this group.

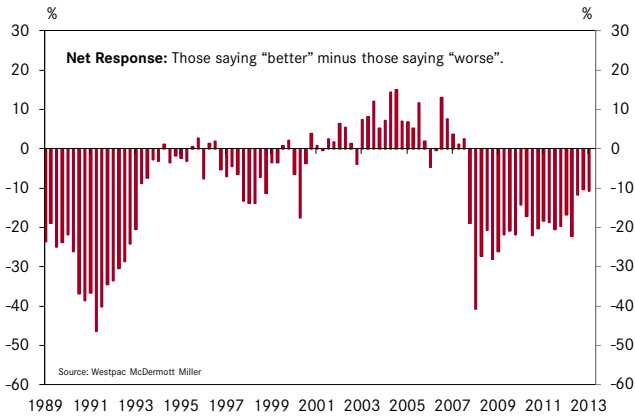
Sex: Over the past year male respondents have reported a much bigger lift in their perceived financial situation than females. That trend continued in the latest survey. That may partly reflect the current upswing in the construction sector, which employs far more males than females.

Urban/rural: Urban households remain the most confident. Surprisingly, though, urban households have become a little bit less upbeat about their own financial situation over the past three months, whereas those in smaller centres and in rural areas reported feeling better off. Like recent business surveys, that suggests the economic recovery is broadening. It also offers yet more evidence that the New Zealand economy has so far been fairly resilient to the recent drought.

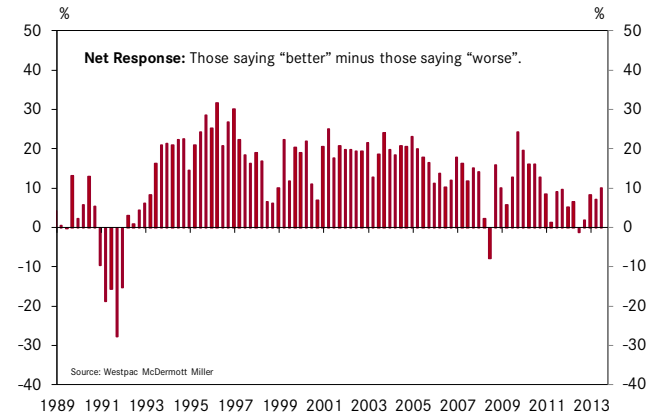
Felix Delbrück

Senior Economist

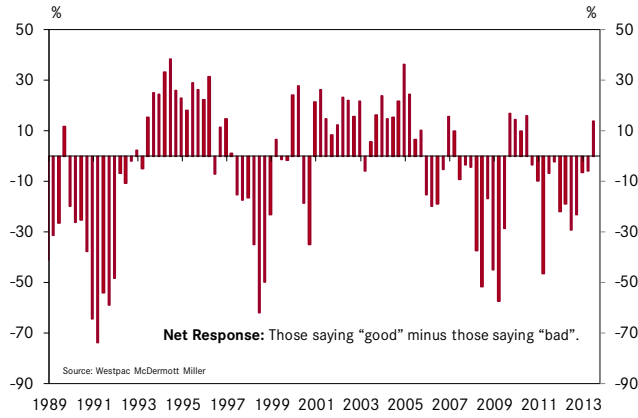
Are you better or worse off financially than a year ago?



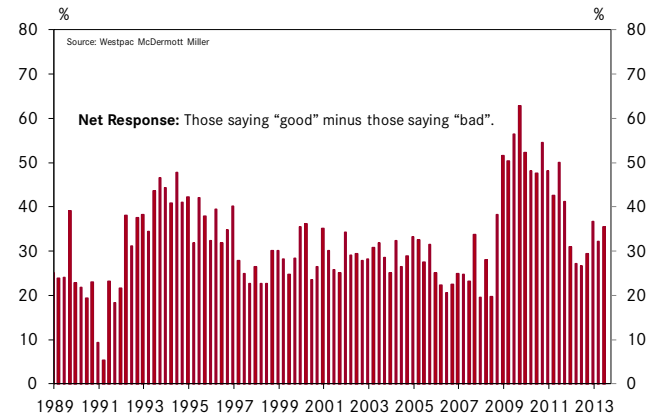
Do you expect to be better or worse off financially in a year's time?



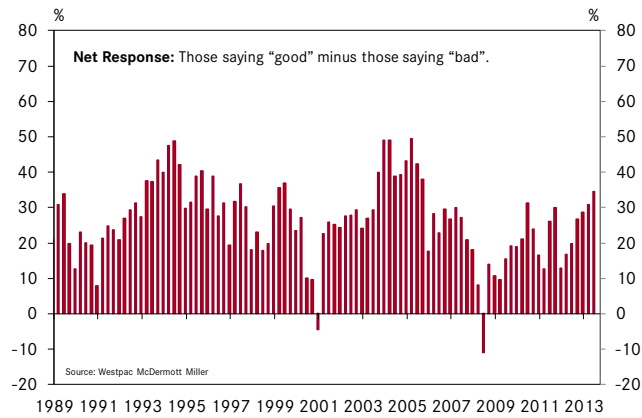
Do you expect good or bad economic times over the next 12 months in NZ?



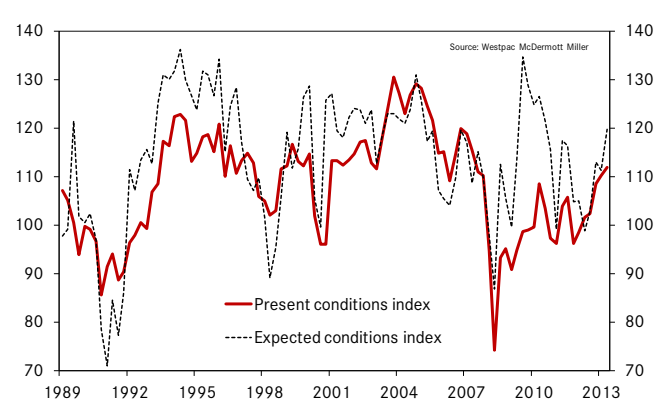
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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