

Unbowed

Q2 Westpac McDermott Miller Consumer Confidence Index: 121.2

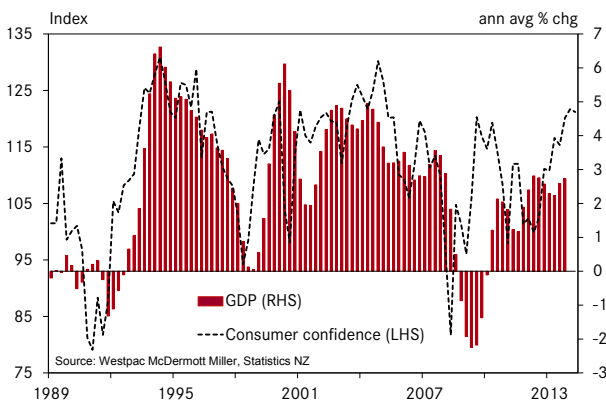
- Consumer confidence has edged lower, but remains near nine-year highs.
- The drop was mainly due to a drop in economic optimism – particularly in smaller centres and rural areas, consistent with the recent drop in dairy prices.
- The survey showed little impact so far of rising interest rates.

After a period where it seemed that all New Zealand economic news was good news, it's been a more mixed bag in the last three months. While the construction boom has continued apace, there has also been a more than 20% drop in global dairy prices, the Reserve Bank has begun raising interest rates, and the housing market has been sluggish.

In view of all this it's perhaps surprising that consumer confidence hasn't fallen more. While consumers' economic optimism has come off the boil – especially in smaller centres and rural areas, where the drop in dairy prices will have been particularly salient – overall consumer confidence remains extremely high, and today's survey gives little sense that households' spending appetites have cooled.

In particular, the survey suggests that the impact of rising interest rates on consumers has been minimal to date – perhaps reflecting the fact that borrowers have had the opportunity to fix their mortgages at favourable rates. Compared to three months ago, consumer attitudes towards their own finances are little changed overall; and their attitudes towards saving and debt repayment are back where they were in the spendthrift 2000s. The Reserve Bank will be taking note, and feeling validated in its decision to signal more rate hikes to come.

Consumer confidence and GDP



Consumer Confidence Indices

	Mar-14	Jun-14	Change
Consumer Confidence Index	121.7	121.2	-0.5
Present Conditions Index	115.5	116.8	1.3
Expected Conditions Index	125.8	124.1	-1.7
Current financial situation	2.7	2.1	-0.6
Expected financial situation	10.6	11.5	0.9
1-year economic outlook	35.0	30.8	-4.3
5-year economic outlook	31.8	30.1	-1.7
'Good time to buy'	28.3	31.5	3.1

Survey details

The Westpac McDermott Miller 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; how households expect their financial situation to change over the coming year; and near-term and longer-term prospects 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 1565.

The biggest change among the component questions of the Index was a drop in near-term economic optimism, from a net 35.0% positive to 30.8%, still the second highest in ten years. Longer-term economic optimism also edged down, from a net 31.8% positive to 30.1%, a little below the historical average.

The other components of the Index held up better. Households' assessment of their own financial situation remains cautiously optimistic overall, with slightly fewer saying their finances had improved (a net 2.1%, down from 2.7%) but slightly more expecting them to get better over the coming year (a net 11.5%, up from 10.6% last time).

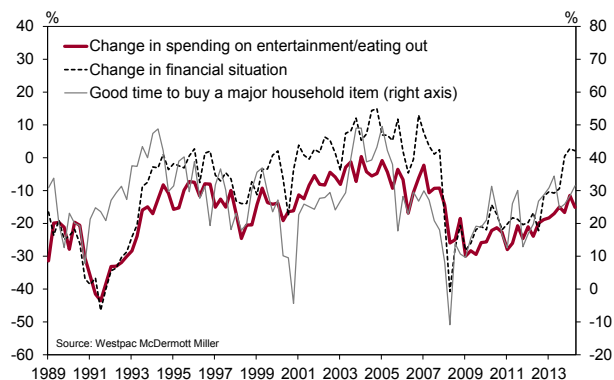
Meanwhile the net balance of households saying it is a good time to buy a major household item rose for a third time in a row, to 31.5% - above the historical average, though still well below 2005 peaks.

The survey also asks households how their spending on entertainment and eating out has changed over the past year, and what they would do with a \$10,000 cash windfall. The net balance saying they had increased their spending on entertainment/eating out fell back, from a six-year high of -11.5% to -15.1% - roughly where it was back in September 2013. Meanwhile, when asked what they would do with a cash windfall, more people said they would spend it on a holiday, but fewer said they would spend it some other way.

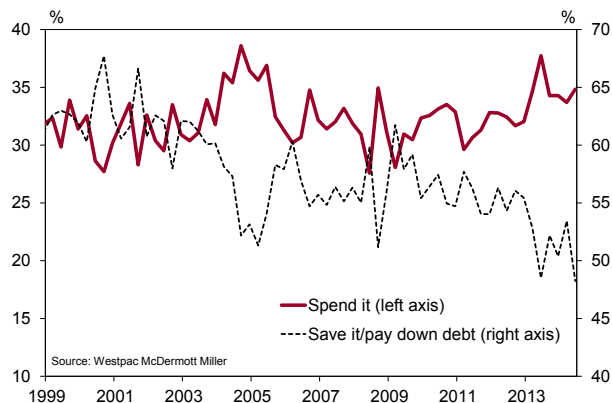
One factor that may square up these mixed responses to the survey's 'spending' questions is continued bargain-hunting by consumers: more people saying that it's a good time to buy a major household item, and that they would use a windfall to go on holiday, suggests the continued drawcard of cheap imported goods and overseas trips.

Strikingly, though, there was no sense that rising interest rates or a less stellar economic outlook are prompting a greater desire to save or pay down debt. Indeed, the percentage saying they would invest a windfall in some form of savings (including real estate) or use it to pay down debt is at a 15-year low.

Reported financial situation and spending patterns



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



Demographic breakdowns

Urban/rural: The drop in confidence this quarter was concentrated in smaller urban centres and rural areas, consistent with the recent drop in dairy prices. Surprisingly, there was a lift in the number of rural consumers saying it's a good time to buy a major household item - but then, rural spending appetites had been relatively subdued to begin with, consistent with other evidence that farmers have taken a cautious approach to last year's dairy windfall.

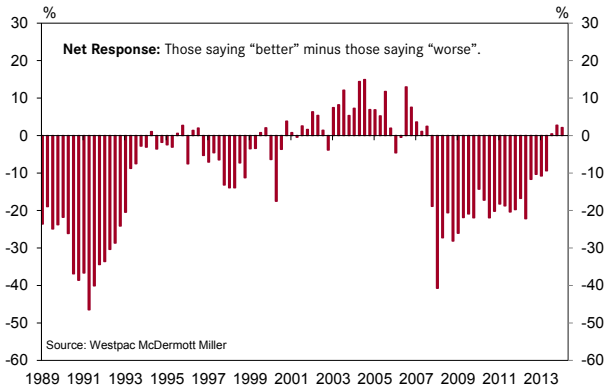
Sex: Both men and women reported a slight drop in economic optimism this quarter. However, the gap between reported male and female confidence - with the former generally higher - continues to persist, with men becoming a bit more positive about their own finances and spending attitudes, women a bit less so.

Age: Younger respondents (those aged 18-29) reported the biggest deterioration in their current financial situation, and also stood out for becoming less willing to buy a major household item, and more in favour of using a windfall to pay down debt. This group has probably been hit hardest by the trifecta of LVR restrictions, rising mortgage costs, and the last few years' rise in house prices.

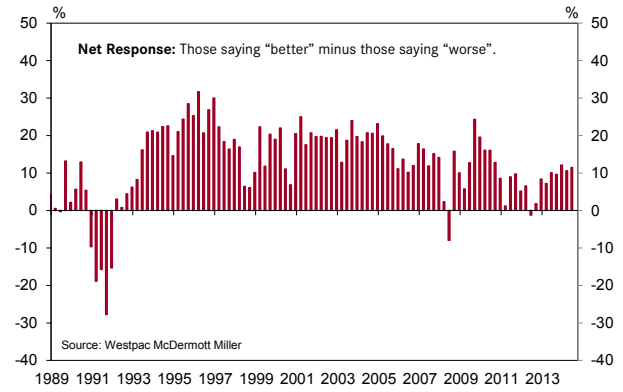
Income: Consistent with a broadening economic upswing, the confidence gap between high-income and middle-income households narrowed further, with confidence among the former (income \$100,000+) easing but confidence among those earning between \$50,000 and \$100,000 continuing to edge up. Overall, though, consumer confidence still tends to rise with household income.

Felix Delbrück
Senior Economist

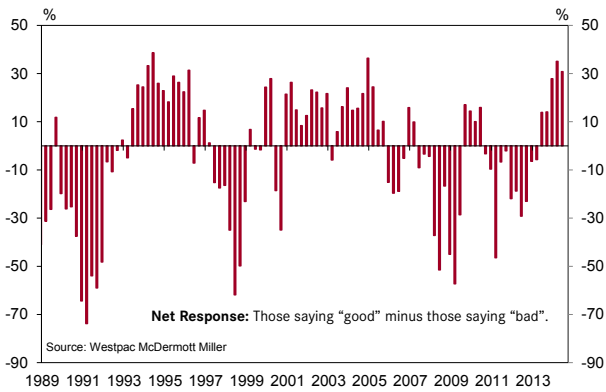
Are you better or worse off financially than a year ago?



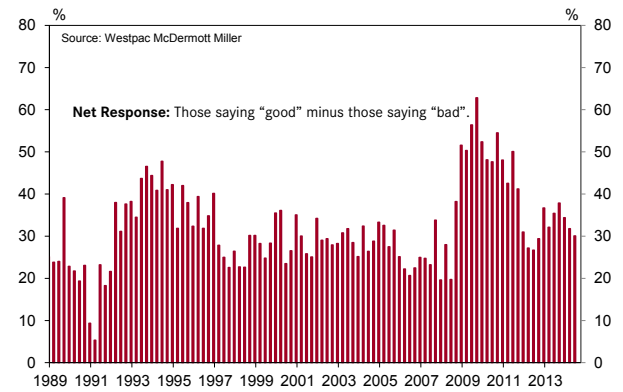
Do you expect to be better or worse off financially in a year's time?



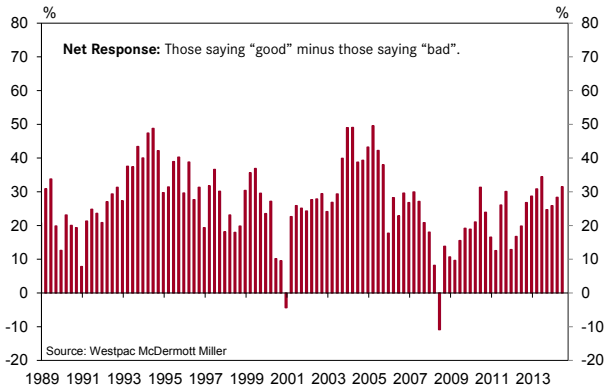
Do you expect good or bad economic times over the next 12 months in NZ?



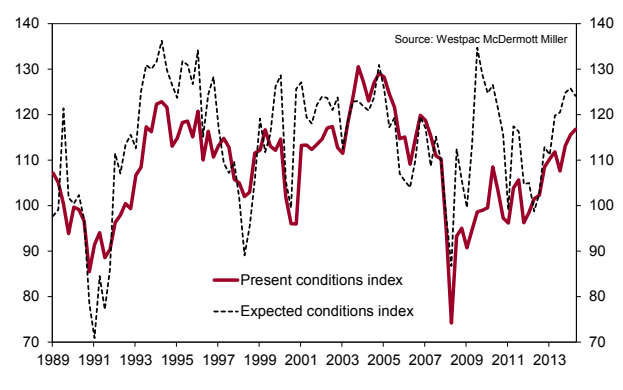
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

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