

# From a boil to a simmer

## Q3 Westpac McDermott Miller Consumer Confidence Index: 116.7

- Consumer confidence fell in the September quarter, but remains elevated by historical standards.
- There has been a notable deterioration in consumers' view of the economic outlook over the year ahead, but little change to their longer term view.
- There were widespread modest declines in other key measures of confidence, consistent with a slower pace of growth in the economy over recent months.

Consumer sentiment shifted down a gear in the September quarter, on the back of less exuberant economic news, rising interest rates and, possibly, a bout of uncertainty ahead of the election.

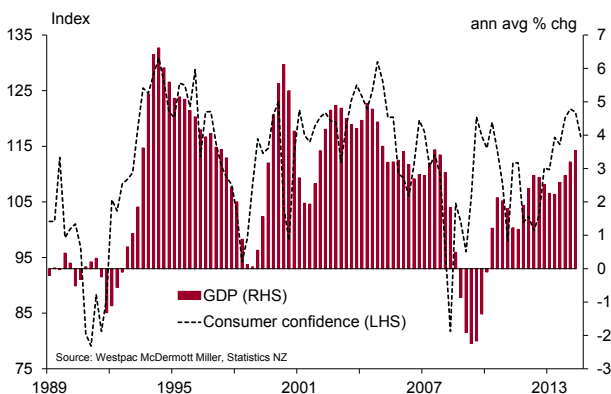
For retailers, a drop in confidence can often herald challenging times ahead. But the shift might not be quite as stark this time round. Although confidence has undoubtedly (and unsurprisingly) headed south, the overall level of confidence remains elevated. What's more, while economic optimism peaked back in March at levels last seen briefly during the mid-1990s and mid-2000s, actual growth in consumer spending in recent times has never looked like reaching such dizzying heights. Consequently, the more cautious attitude of consumers toward spending on the way up could well mean consumer spending remains relatively robust even as confidence eases.

For the first time this year, the survey also hints that the series of rate hikes from the Reserve Bank delivered between March and July might be starting to be felt by households. Consumers' attitudes toward their current and expected finances have both eased, and there was a notable drop the proportion of respondents reporting that now is a good time to buy a large household item. What's more, consumers were much more likely to pay down debt with any unexpected extra cash.

The most notable change amongst the components of the index in the September survey was the sharp fall in respondents' optimism about the outlook for the economy over the next year. A net 18.3% of respondents expect good times in the year ahead – still firmly in optimistic territory and relatively high by historical standards, but well down from the nine year high reached back in March.

Interestingly there wasn't the same downgrade to consumers' expectations of the longer-term economic outlook – optimism on this question eased, but only a touch. Although such a split is not unprecedented, it may also be an indication that some of the concerns weighing on consumers' minds are temporary. For example, the 2014 election campaign was a relatively tight tussle. Although it's difficult to know for sure what impact the election had on confidence, the uncertainty of the outcome alone could be weighing on consumers' minds. Similarly, while

**Consumer confidence and GDP growth**



**Consumer Confidence Indices**

	Jun-14	Sep-14	Change
<b>Consumer Confidence Index</b>	<b>121.2</b>	<b>116.7</b>	<b>-4.4</b>
<b>Present Conditions Index</b>	<b>116.8</b>	<b>113.0</b>	<b>-3.8</b>
<b>Expected Conditions Index</b>	<b>124.1</b>	<b>119.3</b>	<b>-4.8</b>
Current financial situation	2.1	-0.1	-2.2
Expected financial situation	11.5	10.2	-1.2
1-year economic outlook	30.8	18.3	-12.5
5-year economic outlook	30.1	29.3	-0.8
'Good time to buy'	31.5	26.1	-5.4

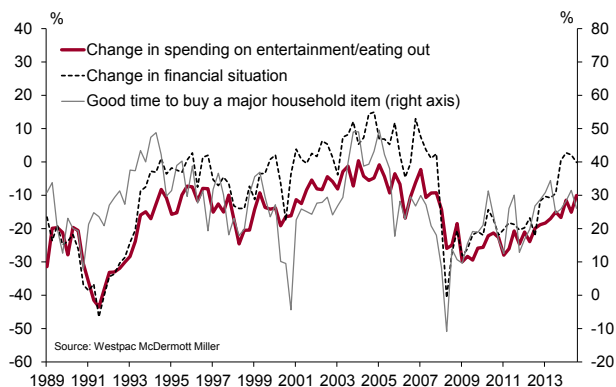
expectations for this year's payout to dairy farmers have been slashed on the back of plunging international dairy prices, consumers may be more upbeat about prospects for dairy over a longer horizon.

The net balance of households reporting that now is a good time to buy a household item fell to 26.1%, almost entirely reversing the increase observed over the last three quarters. That brings this series back to a touch below long run average levels, and may be an early sign of consumers becoming a touch more cautious with their spending as the economy has shifted down a gear and interest rates have risen.

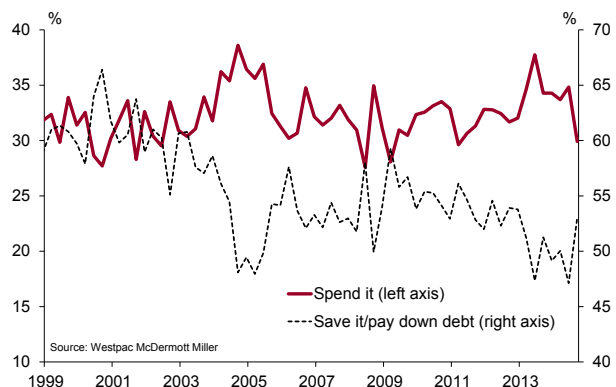
The impact of higher interest rates is also consistent with a tick up in the proportion of people who would use a \$10,000 cash windfall to pay down debt (which increased to 27%) and a slight reduction in the proportion of people who would spend the cash. This quarter we've also looked separately at consumers' willingness to donate windfall gains to charity or family. Interestingly, while people's willingness give away their windfall gain fell this quarter, Kiwis do appear to be getting more generous over time. This series has clearly trended higher over the history of the survey which also reports that women are noticeably more willing to give the cash away than their male counterparts.

However, the modest belt tightening theme wasn't quite consistent across all aspects of the survey. Households reporting increased spending on entertainment/eating out over the last year rose to its highest level since March 2008 (up from a net -15.1% in June to -10% in September).

### 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 led by households in metropolitan and smaller urban centres, with a smaller decline in confidence amongst households in rural regions. This is somewhat surprising given the big declines in international dairy prices and the flow on effect to farm incomes this season. In fact, rural households' assessment of both their current and future financial situation actually improved slightly this quarter, perhaps pointing to the lingering effects of strong incomes in the previous season and a positive attitude about growth prospects in the sector over a longer horizon.

**Sex:** Both men's and women's confidence fell in the September quarter. The yawning gap between more optimistic males and more cautious females remains a feature, and this gap only narrowed only a little further in the September quarter. The only category where male and female confidence headed in opposing directions was their assessment of their present financial situation. While males were more downbeat this quarter about their own finances, women were a little more positive.

**Age:** Confidence amongst younger people (18-29) bucked the broader trend by improving in the September quarter as this group became more upbeat about both their own finances and the near-term outlook for the economy. However, this burst of relative optimism was restricted to the near term. This group's outlook for their own finances and the longer term economic outlook actually fell. All age groups were less willing to buy a major household item in the September quarter.

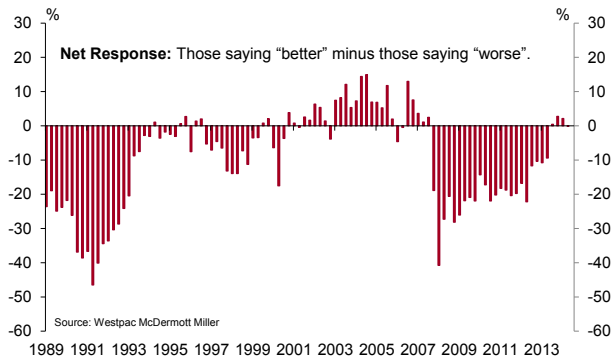
**Income:** Consumer confidence fell across all income brackets this quarter. Those earning less than \$30,000 were the only group to become more optimistic about their own finances, and to become more willing to buy a major household item. However, this group remains the least optimistic overall, with headline consumer confidence dipping into negative territory this quarter.

## Survey Description

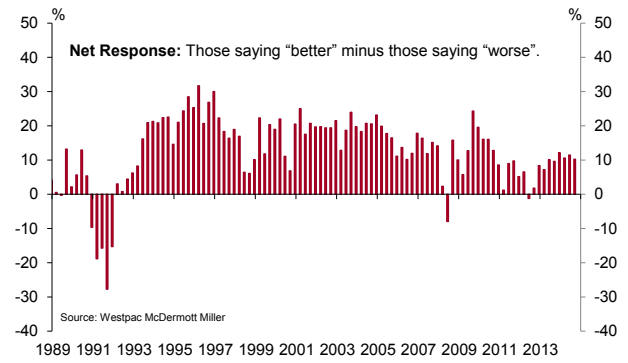
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial 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 - 12 September. The sample size was 1555.

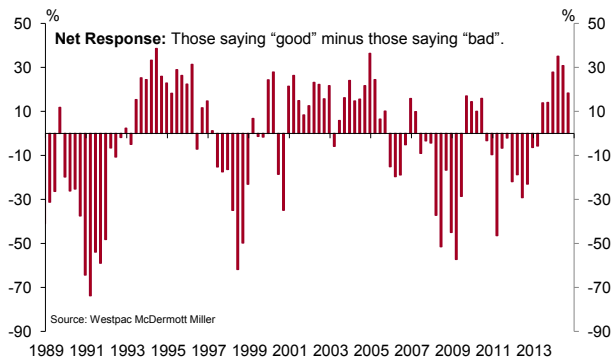
**Are you better or worse off financially than a year ago?**



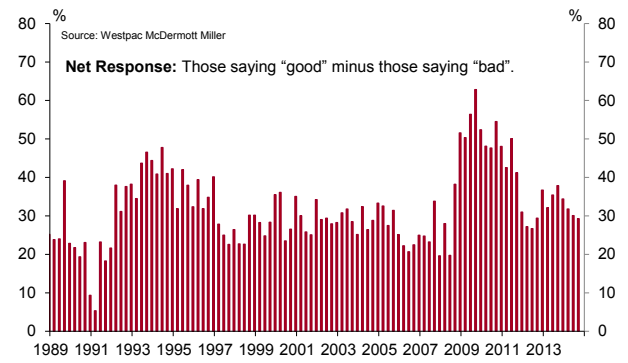
**Do you expect to be better or worse off financially in a year's time?**



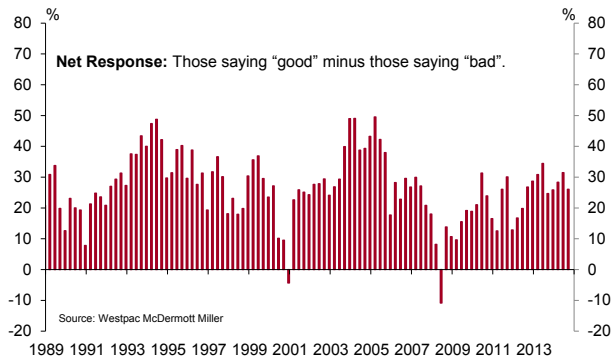
**Do you expect good or bad economic times over the next 12 months in NZ?**



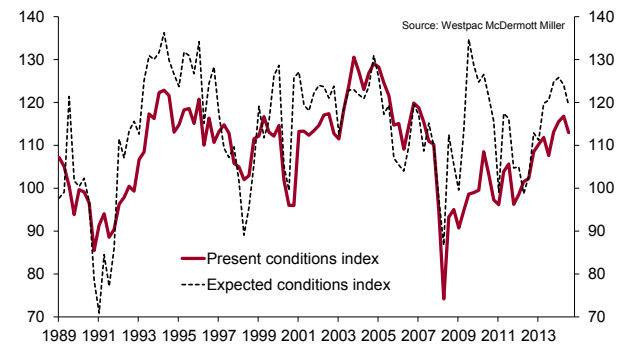
**Do you expect good or bad economic times over the next 5 years in NZ?**



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



**Present and Expected Conditions**



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