

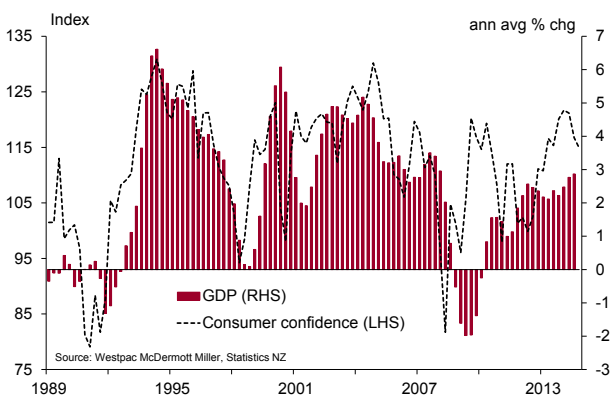
A glass half empty

December quarter Westpac McDermott Miller Consumer Confidence Index: 114.8

- Consumer confidence has fallen further, particularly in rural and provincial New Zealand.
- Consumers in the main urban centres are feeling more upbeat, but less so than we expected given falling petrol prices and mortgage rates.
- This goes against the grain of other evidence that the non-farm economy has accelerated in recent months.

Economic developments over the past three months have been a very mixed bag. On the negative side of the ledger, Fonterra slashed its dairy payout forecasts, against the background of generally poor economic news from offshore. But consumers' purchasing power has been boosted by plunging oil prices (while today's survey was in the field, petrol prices fell below \$2/litre) and falling mortgage rates. And with the election taking a capital gains tax off the table for the time being, the housing market has started showing fresh signs of life – bad news for those wanting to get on the property ladder, but good news for home-owners.

Consumer confidence and GDP growth



In the event, gloom around the dairy outlook seems to have loomed largest in consumers' minds, causing the Consumer Confidence Index to fall to its lowest level in over a year. While we had been braced for a sharp pull-back in confidence in the rural parts of New Zealand, we had expected more of a lift in consumer confidence in urban centres. But instead urban consumer sentiment is looking resilient rather than resurgent, and overall confidence is lower than expected.

That said, retailers will find some solace in the fact that the drop in consumer optimism doesn't seem to have led to significant belt-tightening – the survey's 'spending' questions have held up fairly well.

Consumer Confidence Indices

	Sep-14	Dec-14	Change
Consumer Confidence Index	116.7	114.8	-1.9
Present Conditions Index	113.0	111.4	-1.6
Expected Conditions Index	119.3	117.2	-2.1
Current financial situation	-0.1	-3.1	-3.0
Expected financial situation	10.2	7.9	-2.4
1-year economic outlook	18.3	16.5	-1.8
5-year economic outlook	29.3	27.2	-2.1
'Good time to buy'	26.1	25.8	-0.3

Survey details

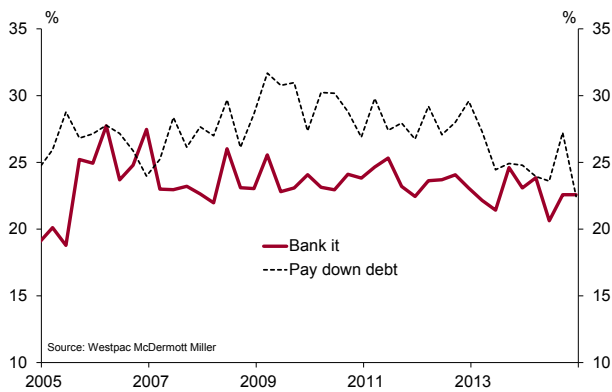
Consumers' expectations for the wider economy have continued to slide. The share of survey respondents saying they expected good times ahead over the next year fell to a net 16.5%, the lowest since September 2013. Those expecting good times over the next five years fell to a net 27.2%, the lowest since mid-2012.

Respondents' perceptions of their own financial situation have also deteriorated. Their assessment of their current circumstances is back in negative territory, with a net 3.1% saying their financial situation has deteriorated over the past year. Respondents have also become less optimistic that their finances will improve over the year ahead.

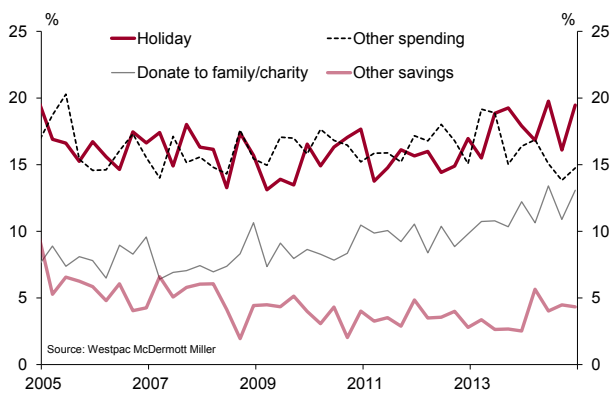
Households' spending intentions have held up better. The number of people saying it is a good time to buy a major household item was little changed, at a moderately positive 25.8%. And the number of people saying they had increased their spending on entertainment and eating out remains close to post-2007 highs.

Falling mortgage rates and rising property values did affect the survey results in one clear way: the proportion of people saying they would use a \$10,000 windfall to pay off debt has dropped to the lowest level since records began in 1998. But they don't seem to have become more spendthrift as a result. While there has been a lift in the proportion of people saying they would use the money to go on holiday – perhaps a reflection of the still-high NZ dollar and cheap overseas travel – the proportion saying they would spend the money in some other way isn't unusually high at the moment. Interestingly, we've continued to see an increase in the proportion of people saying they would give their \$10,000 windfall to charity or to family.

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



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



The demographic breakdown suggests concerns around housing

The survey showed a clear divergence among regions, age and income groups. Confidence fell in rural areas and smaller towns – with a particularly sharp drop in consumers' near-term economic outlook – but rose slightly in the three main centres. It fell sharply among those aged under 30, but was little changed among those aged over 50. And confidence fell among those on lower incomes but rose among those with household incomes above \$70,000.

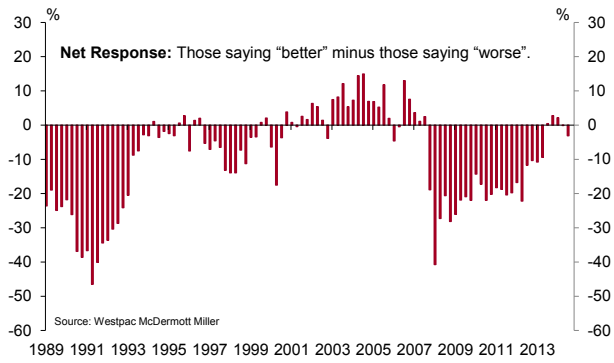
The split in responses by age and income may reflect the unequal impact of rising house prices (and possibly a centre-right election victory). While existing home-owners looking to trade down or cash in will benefit from a second wind in the housing market, those saving for a deposit are likely to be feeling less positive, particularly now that the Reserve Bank's mortgage lending restrictions are here to stay for longer.

Survey Description

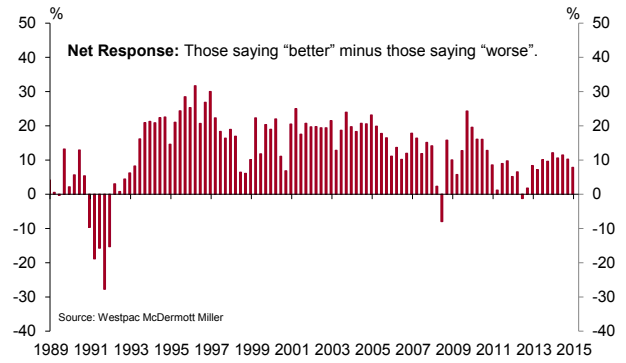
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial 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 – 11 December. The sample size was 1557.

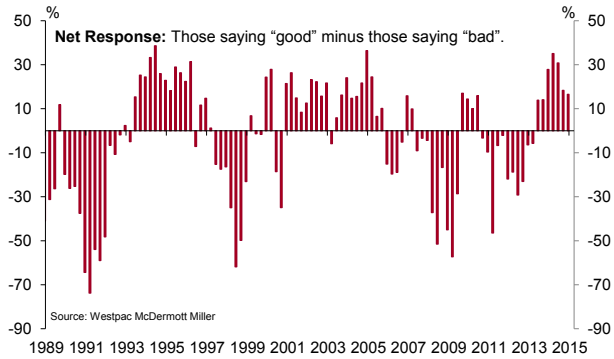
Are you better or worse off financially than a year ago?



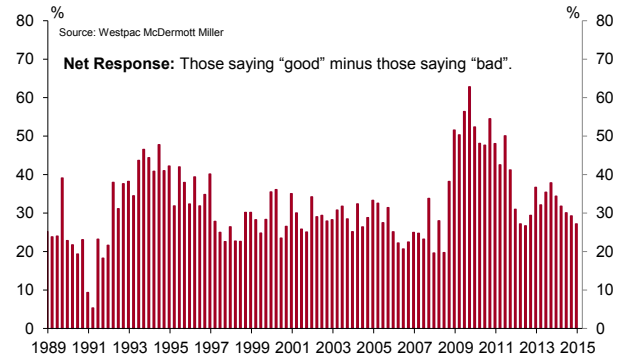
Do you expect to be better or worse off financially in a year's time?



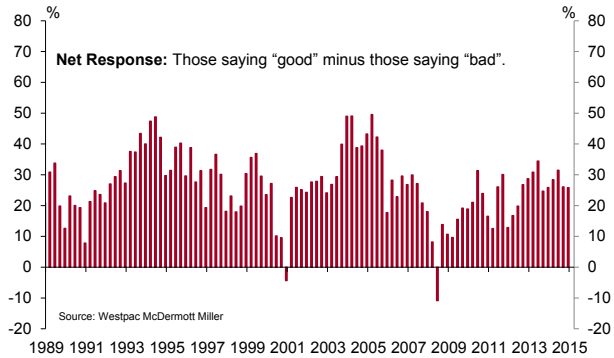
Do you expect good or bad economic times over the next 12 months in NZ?



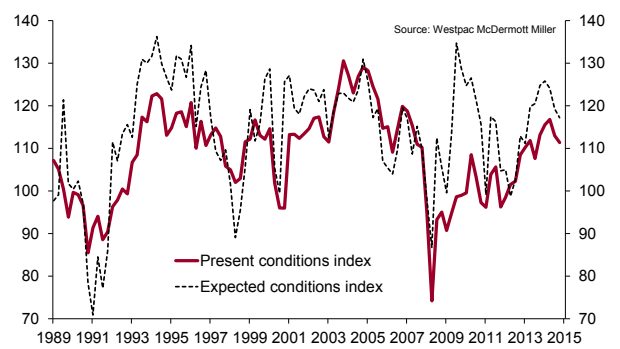
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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