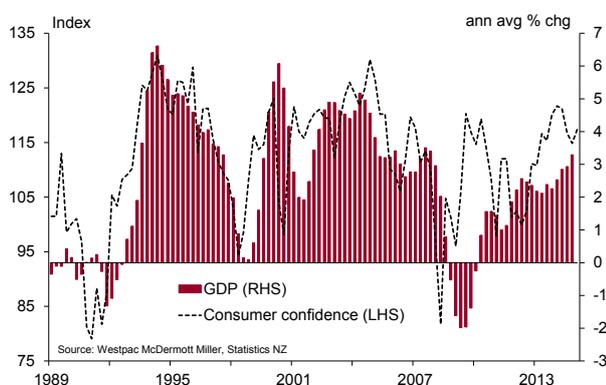


# Town and country

## March quarter Westpac McDermott Miller Consumer Confidence Index: 117.4

- Consumer confidence rose over the past three months and is once again comfortably above average, consistent with recent signs of buoyant retail activity.
- Surprisingly, the lift in confidence was biggest in rural regions and smaller centres.
- Confidence in the main urban centres continues to be healthy rather than exuberant.

### Consumer confidence and GDP growth



### Consumer Confidence Indices

	Dec-14	Mar-15	Change	Average
<b>Consumer Confidence Index</b>	<b>114.8</b>	<b>117.4</b>	<b>2.5</b>	<b>111.5</b>
<b>Present Conditions Index</b>	<b>111.4</b>	<b>113.2</b>	<b>1.8</b>	<b>108.4</b>
<b>Expected Conditions Index</b>	<b>117.2</b>	<b>120.1</b>	<b>3.0</b>	<b>113.6</b>
Current financial situation	-3.1	-1.4	1.7	-9.7
Expected financial situation	7.9	9.8	2.0	12.5
1-year economic outlook	16.5	23.8	7.3	-3.5
5-year economic outlook	27.2	26.8	-0.4	31.7
'Good time to buy'	25.8	27.8	2.0	26.6

The lift in the latest Westpac McDermott Miller Consumer Confidence Index comes as no surprise. Petrol prices and fixed mortgage rates have continued to fall since the previous survey, while share prices and house prices have continued to rise. Rising consumer confidence is also in keeping with the very strong electronic card spending data we saw over January and February.

What did surprise us was the regional breakdown. Falling dairy prices caused rural sentiment to tumble in the December survey, and after the recent drought we were braced for more rural gloom. However, consumer sentiment in rural regions and smaller centres has rebounded, and is now actually higher than it was six months ago. Meanwhile, urban sentiment moved marginally lower over the quarter, and is more or less where it was half a year ago.

The rebound in rural confidence may in part reflect recovering global dairy prices (the survey responses were collected in the wake of some large rises in the GlobalDairyTrade auctions). The lack of urban exuberance is more puzzling, given the combination of cheap petrol, falling interest rates and rising asset prices. One explanation may be the mixed blessing of high and rising house prices – good for existing property owners, not so much for those trying to get on the property ladder. Another may be the high exchange rate. While the NZ dollar has fallen against the US dollar, it has moved sharply higher against the euro, yen and Australian dollar. That is not good news for export-oriented and import-competing manufacturers, who tend to cluster in the urban centres.

### Survey details

Among the Index's component questions, the biggest change was to respondents' near-term economic outlook, with a net 23.8% now expecting mainly good economic times for the year ahead, up from 16.5% three months ago.

Respondents also became modestly more upbeat about their own finances, with a net 1.4% saying their financial situation

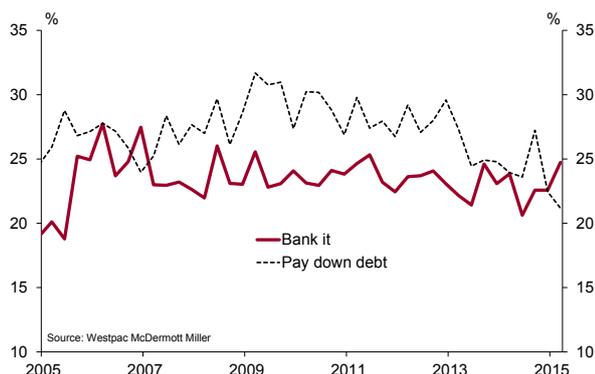
had deteriorated over the past year (down from 3.1%) and a net 9.8% expecting it to improve over the year ahead (up from 7.9%).

While respondents have become more upbeat for the year ahead, their longer-term economic outlook has continued to slide and is now below average.

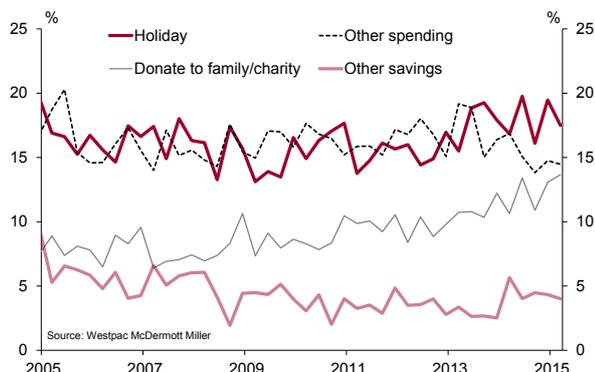
Responses to the survey's 'spending' questions were mixed. There was a modest lift in consumers' reported willingness to buy major household items (a net 27.8% said it was a good time to do so, up from 25.8% previously), but a modest fall in their reported spending on entertainment and eating out. Reported spending on entertainment and eating out is above average (though below the highs of last decade), while willingness to buy major household items is around average.

As usual, we asked respondents what they would do with a cash windfall. With mortgage rates at rock bottom, there is clearly no urgency to repay debt: the proportion of people saying they would do so is the lowest since records began in 1998. However, there hasn't been a corresponding increase in the proportion of people saying they would spend the money, which is only around average. Instead, there has been a steady 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? - continued



## Demographic breakdowns

Consumer confidence improved for all age groups, for both men and women, and for most income groups (the exception was those with household incomes between \$30,000 and \$50,000). However, looking beyond the last three months shows some changing social trends:

- Younger respondents (those under 30) have traditionally been more confident than older ones, but the gap narrowed sharply after the 2008/2009 recession and has if anything shrunk further in recent years – probably reflecting the combination of continued high youth unemployment and rising house prices.
- The confidence gap between those with household incomes above \$70,000 and the less well-off has widened steadily since 2009. It started to shrink in late 2013 but has widened again in the last six months.
- The confidence gap between men and women – which narrowed in the late 1990s and early 2000s – widened again since 2011, perhaps reflecting the fact that the Canterbury rebuild has boosted construction-related industries, which typically employ more men. However, there are signs that the disparity may have passed its peak.

## Survey Description

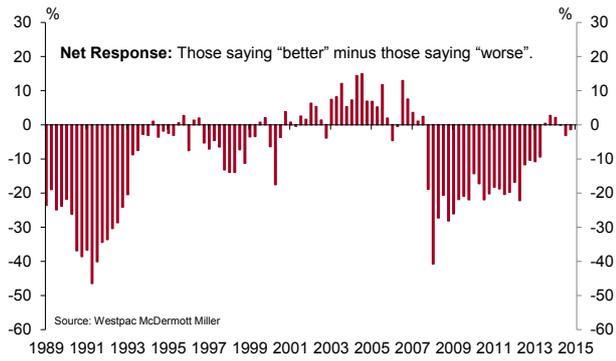
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

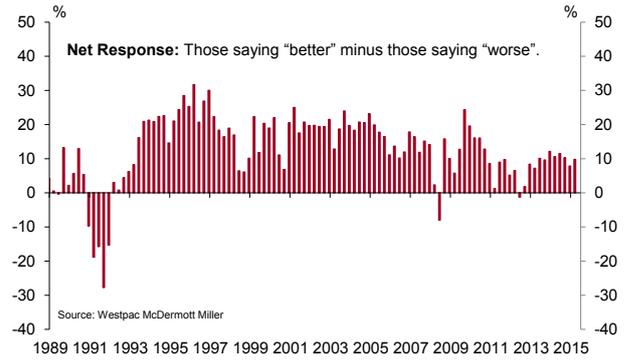
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 11 March. The sample size was 1561.

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Senior Economist

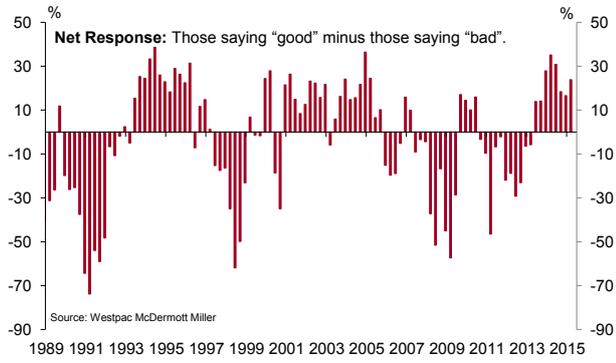
**Are you better or worse off financially than a year ago?**



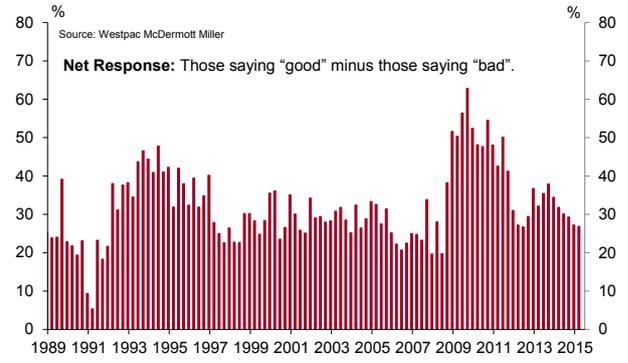
**Do you expect to be better or worse off financially in a year's time?**



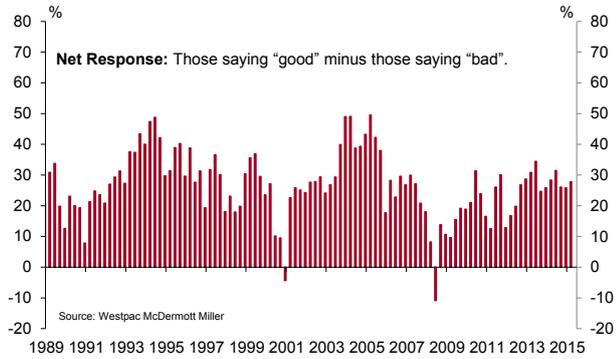
**Do you expect good or bad economic times over the next 12 months in NZ?**



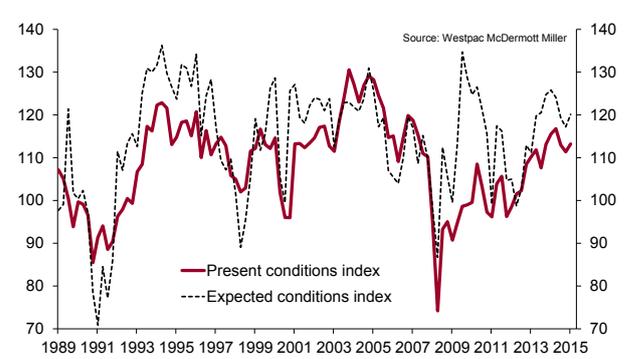
**Do you expect good or bad economic times over the next 5 years in NZ?**



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



**Present and Expected Conditions**



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