After falling through much of this year, consumer confidence has picked up in the December quarter.

Consumers are in the mood to spend as we head into Christmas. However, they are more nervous about the outlook for the next few years.

It’s been another up-and-down year for the economy. But with the festive season now in full swing, New Zealand households appear to have found their Christmas spirit. The Westpac McDermott Miller Consumer Confidence survey showed that household confidence has risen a solid 4.6 points in the December quarter to levels that are just a touch below their long-run average.

This pick-up in confidence comes on top of other signs that the economy is continuing to hum along at a solid pace in the final part of the year. And with the RBNZ not only coming to the party, but also spiking the punch with 100bp of interest rate cuts in recent months, it’s shaping up to be a good season for many retailers.

But while the champagne corks may be popping right now, households will need to be careful that Christmas cheer doesn’t result in a nasty hangover in the New Year. Growth is set to slow over 2016 as the economy confronts headwinds in the form of drought conditions, softness in dairy prices, a slowdown in the Auckland property market, and the flattening of construction activity in Canterbury. It’s a combination of conditions that will push unemployment upwards. Against this backdrop, it will be important for households to ensure that they keep debt and borrowing levels manageable.

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

<table>
<thead>
<tr>
<th>Consumer Confidence Index</th>
<th>Sep-15</th>
<th>Dec-15</th>
<th>Change</th>
<th>Average</th>
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<tr>
<td>Present Conditions Index</td>
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<td>111.6</td>
<td>3.3</td>
<td>108.5</td>
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<td>Expected Conditions Index</td>
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<td>110.0</td>
<td>5.5</td>
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<td>-0.2</td>
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<tr>
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<td>5-year economic outlook</td>
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<td>18.4</td>
<td>-5.7</td>
<td>31.6</td>
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<tr>
<td>‘Good time to buy’</td>
<td>19.5</td>
<td>26.4</td>
<td>6.9</td>
<td>26.5</td>
</tr>
</tbody>
</table>

Source: Westpac McDermott Miller, Statistics NZ

Source: Westpac McDermott Miller

Source: Westpac McDermott Miller
Let the good times roll...

After sharp falls earlier in 2015, the December quarter saw a solid lift in the Westpac McDermott Miller Consumer Confidence Index. The index rose by 4.6 points over the quarter, taking it to 110.7. That’s just a touch below its long-run average.

Looking at the underlying detail of the survey, we see that households are in the mood to spend (at least for now). As in September, the proportion of households who said that they had increased their spending on entertainment and eating out remains at above average levels. In addition, an increasing number of households think that it’s currently a good time to purchase a major household item.

Low interest rates are clearly playing a role in encouraging spending. When asked what they would do with a $10,000 windfall, the proportion of households who said they would use it to pay down debt has fallen to its lowest level in 17 years! At the same time, the proportion of households who said that they would spend it has jumped to its highest level in more than two years.

Consistent with this picture of liveliness in spending appetites, the proportion of households indicating that they are better off financially than last year remains a bit above average.

...but don’t let the party get out of hand

Households are in the mood to party now, and there was a sharp lift in the proportion of households who expect better economic conditions over the next year. Nevertheless, they are still nervous about the outlook. Notably, the proportion of households expecting to be better off financially in a year’s time has fallen to its lowest level in four years. In addition, more households think that economic conditions will soften over the next five years. It wouldn’t be surprising to see some of this nervousness translating into a softening in spending over the coming year.

Regional breakdown

Gains in confidence were widespread, with households across the economy feeling more optimistic in December.

Following falls earlier in the year, there was a particularly sharp increase in confidence in rural regions. The agricultural sector is still facing some significant challenges. However, over the past few months, we’ve seen increases in some commodity prices, which will have been a welcome development.

Among the major urban centres, Auckland remains the most optimistic, and there has been a solid lift in sentiment in Wellington. Confidence also edged up in Christchurch, however it was down in Canterbury more generally with households there noting concern around the economic situation. That’s not surprising given the advanced state of rebuild spending. The rebuild has been a big driver of growth over the past few years. While reconstruction spending will remain strong for some time, we have seen activity levelling off.

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 December. The sample size was 1565.

Satish Ranchhod
Senior Economist
Are you better or worse off financially than a year ago?

Net Response: Those saying "better" minus those saying "worse".

Source: Westpac McDermott Miller

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

Net Response: Those saying "better" minus those saying "worse".

Source: Westpac McDermott Miller

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

Net Response: Those saying "good" minus those saying "bad".

Source: Westpac McDermott Miller

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

Net Response: Those saying "good" minus those saying "bad".

Source: Westpac McDermott Miller

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

Net Response: Those saying "good" minus those saying "bad".

Source: Westpac McDermott Miller

Present and Expected Conditions

Present conditions index

Expected conditions index

Source: Westpac McDermott Miller
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