

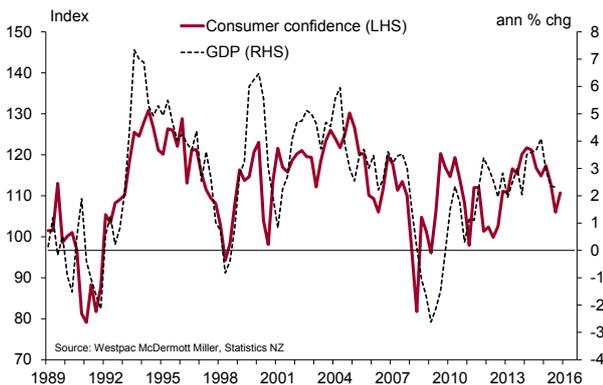
A little bit of Christmas cheer

December quarter Westpac McDermott Miller Consumer Confidence Index: 110.7

- 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.

Consumer confidence and GDP growth



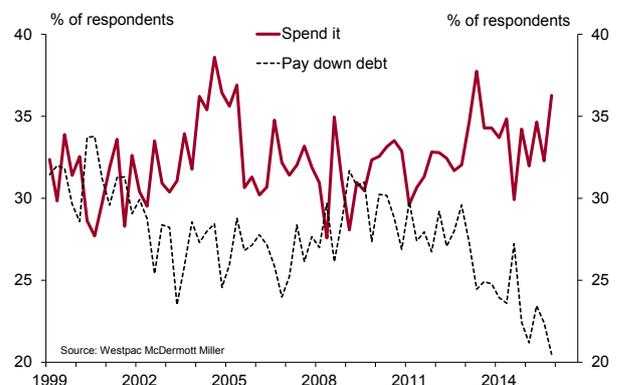
This pick-up in confidence comes on top of other signs that the economy is continuing to hum along at a solid pace in the final part of the year. And with the RBNZ not only coming to the party, but also spiking the punch with 100bp of interest rate cuts in recent months, it's shaping up to be a good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

Consumer Confidence Indices

	Sep-15	Dec-15	Change	Average
Consumer Confidence Index	106.0	110.7	4.6	111.5
Present Conditions Index	108.2	111.6	3.3	108.5
Expected Conditions Index	104.6	110.0	5.5	113.5
Current financial situation	-3.0	-3.2	-0.2	-9.5
Expected financial situation	4.6	4.0	-0.6	12.4
1-year economic outlook	-15.0	7.7	22.7	-3.5
5-year economic outlook	24.1	18.4	-5.7	31.6
'Good time to buy'	19.5	26.4	6.9	26.5

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



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.

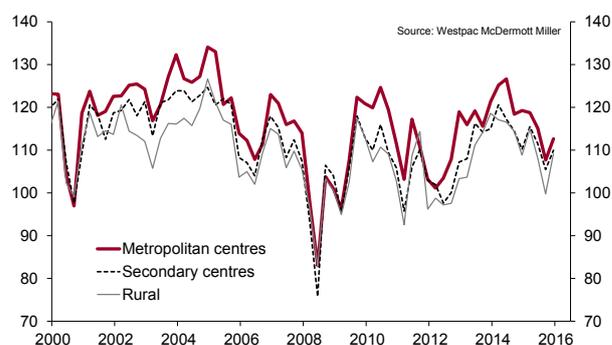
Regional breakdown

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.

Consumer confidence – urban vs. rural



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.

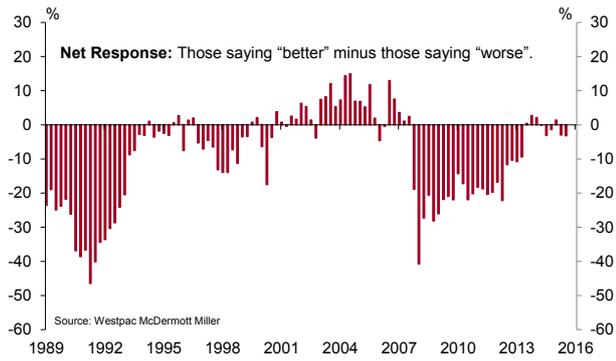
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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.

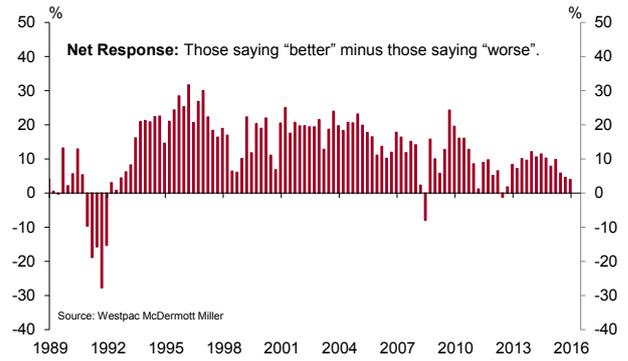
Satish Ranchhod

Senior Economist

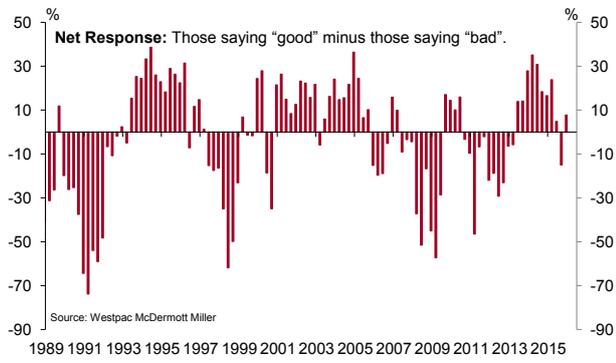
Are you better or worse off financially than a year ago?



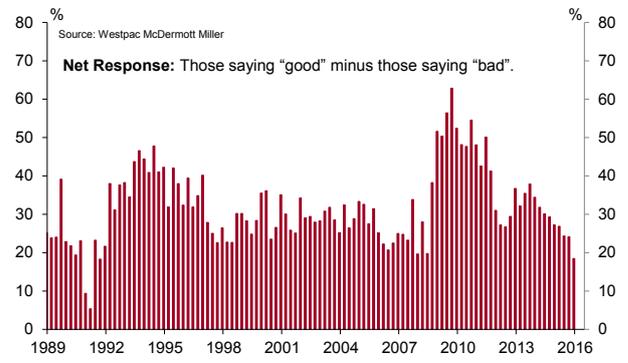
Do you expect to be better or worse off financially in a year's time?



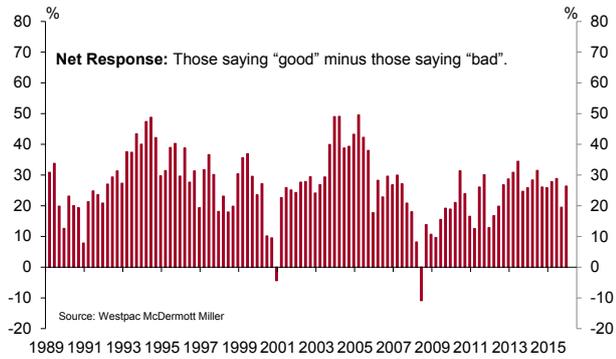
Do you expect good or bad economic times over the next 12 months in NZ?



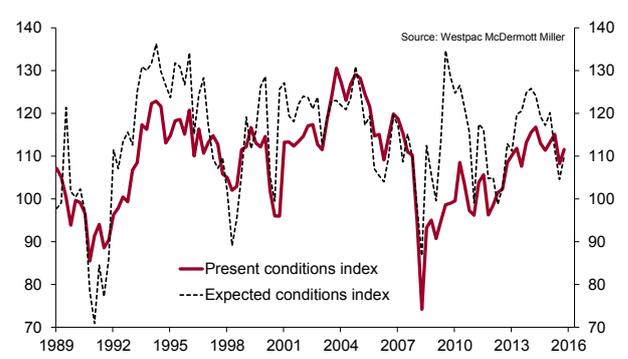
Do you expect good or bad economic times over the next 5 years in NZ?



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

Satish Ranchhod, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

David Norman, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.