

A break in the weather

September 2016 quarter Westpac McDermott Miller Consumer Confidence Index: 108.0

- Consumer confidence has picked up, but it remains a little below average levels.
- Households on middle to high incomes are feeling more upbeat. However, those on lower incomes remain concerned about the economic outlook.

Consumer confidence



Consumer Confidence Indices

	Sep-16	Jun-16	Change	Average
Consumer Confidence Index	108.0	106.0	2.0	111.4
Present Conditions Index	109.2	110.0	-0.8	108.6
Expected Conditions Index	107.2	103.3	3.9	113.3
Current financial situation	-1.5	-1.3	-0.2	-9.3
Expected financial situation	4.7	4.0	0.7	12.1
1-year economic outlook	1.8	-1.3	3.1	-3.3
5-year economic outlook	15.0	7.2	7.8	30.9
'Good time to buy'	19.9	21.4	-1.5	26.4

Shaking off the winter blues...

Spring is finally here. The weather is warming up. It's sunnier in the mornings. And households are feeling a bit more upbeat. But just a little bit.

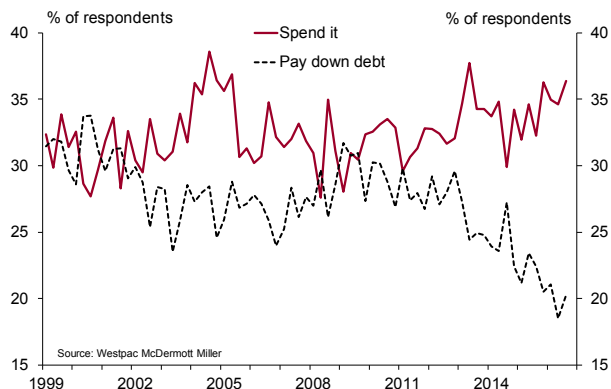
The Westpac McDermott Miller Consumer Confidence Index rose to 108 in September. That's up 2 points on the June reading, though still a little bit below average levels.

This pick-up in consumer confidence comes on the back of firm economic activity through mid-2016, with the latest GDP figures showing that the economy expanded by a solid 3.6% over the past year. And it's looking like the economy will keep trucking along for the next year or so, with a range of economic indicators pointing towards continued momentum in activity.

The strengthening in economic conditions has been rippling through the household sector. Employment is up, with business surveys showing a 2.8% increase the number of full-time equivalent employees over the past year. Conditions in the housing and construction sectors are very strong. And households have been in the mood to spend, with retail sales up 5.5% over the past year. It's true that much of the recent strength in retail spending has been due to increases in the population. However, after weakness in earlier quarters, we've seen per capita spending also picking up again in recent months.

Helping to support households' spending appetites has been the low level of interest rates. When asked what they would do with a cash windfall, households reported that they are much more likely to spend it than to pay down debt. In fact, the gap between the proportion of households who said they'd spend a cash windfall and those who said they'd use it to pay down debt is now at its widest since we started collecting this data in 1998.

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

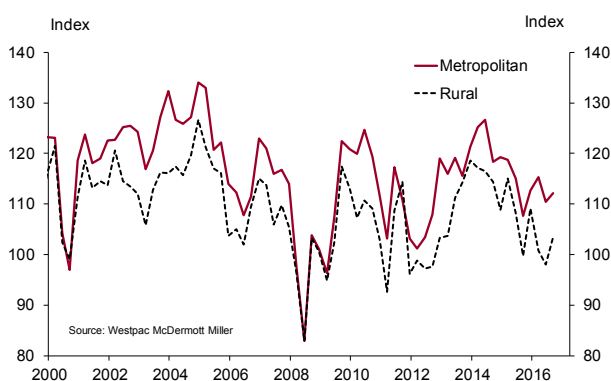


...but there are still some clouds, especially in rural regions

While economic conditions are looking good for now, there's still an air of nervousness about the economy's trajectory. Despite picking up, the number of households expecting favourable economic conditions in five years' time remains at some of the lowest levels we've seen in decades, with those in rural areas especially downbeat.

Many in rural communities, especially those in the dairying sector, have been wrestling with challenging global demand and supply conditions for an extended period. The resulting softness in commodity prices has squeezed cash flows. Recently, we've seen global prices for dairy starting to improve, and we'll be watching to see if confidence in rural regions also starts to lift over the coming months. However, for many farmers, cash-flow will certainly remain a pressing concern for some time yet.

Consumer confidence – urban vs rural



Not everyone is upbeat

Looking into the details of the latest confidence figures, we did see a pick-up in confidence across all households. However, there are still some noticeable differences across households, especially when we look at income distribution.

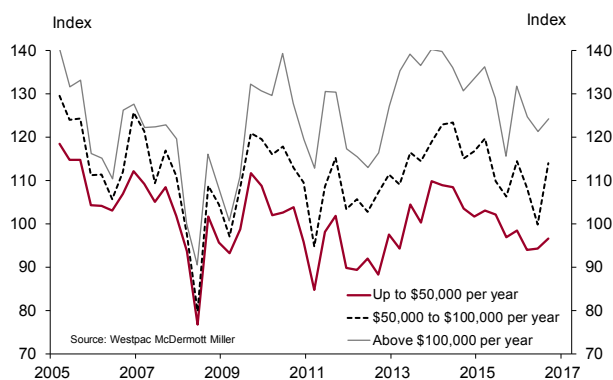
The increase in confidence was largest among middle income households (those earning between \$50,000 to \$100,000 per year). Many of these households have reported that their

financial situation has been improving, consistent with firm growth in jobs and inflation adjusted earnings over the past year. And while these households still have some reservations about where the economy is heading over the next few years, their nervousness has started to recede.

September also saw a modest pick-up in confidence among households on higher incomes (above \$100,000), who generally remain a bit more upbeat than other households.

But things look a bit different for those households earning less than \$50,000 a year. These households did report a slight improvement in confidence in September. Nevertheless, they remain noticeably less upbeat about the economic environment than other households. Compared to those on higher incomes, a larger proportion of households on lower incomes reported that their financial situation has not improved over the past year. In addition, these households are more concerned about the outlook for the economy over the next few years.

Consumer confidence by household income band



Survey description

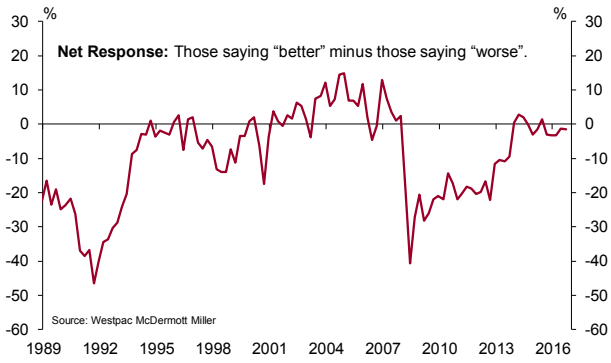
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

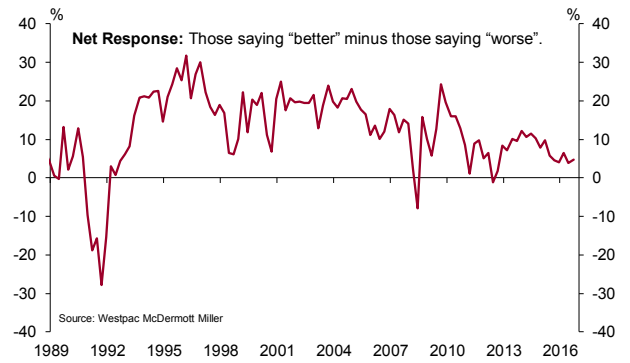
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 11 September. The sample size was 1559.

Satish Ranchhod
Senior Economist

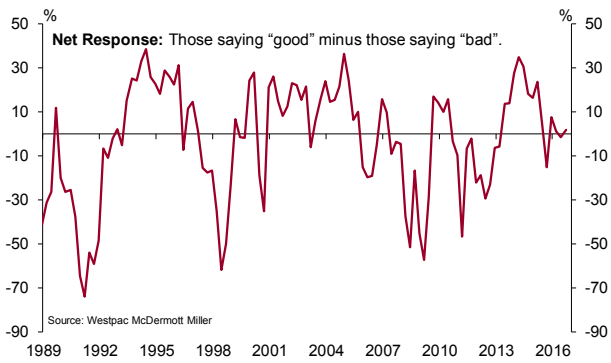
Are you better or worse off financially than a year ago?



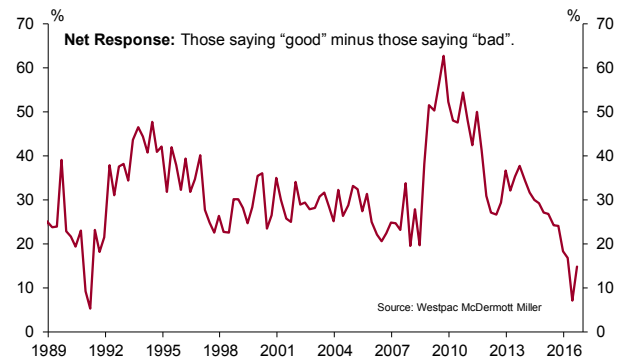
Do you expect to be better or worse off financially in a year's time?



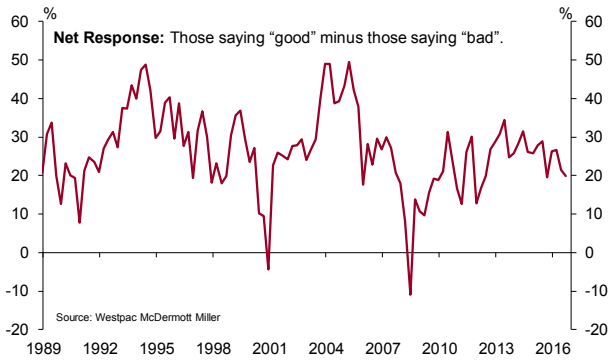
Do you expect good or bad economic times over the next 12 months in NZ?



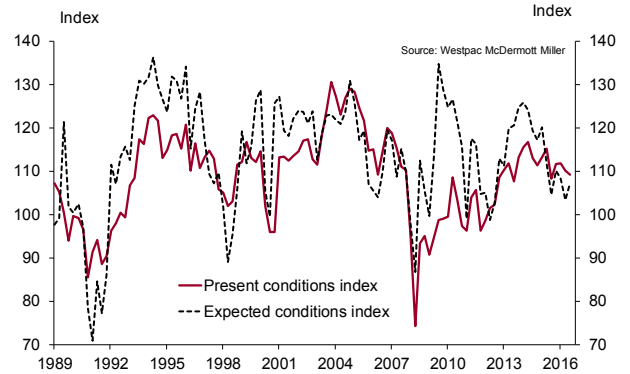
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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