

Westpac McDermott Miller Consumer Confidence Index

Consumer confidence down 5 points to 107.4 in December

19 December 2017

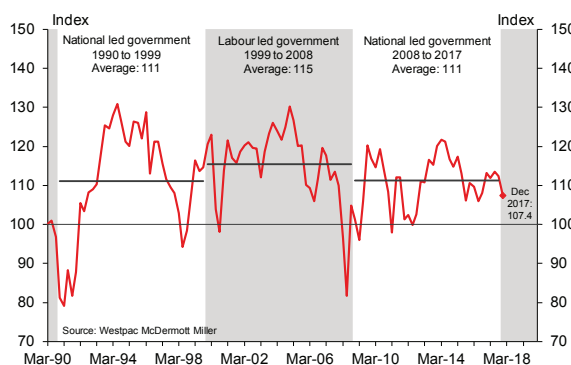


Consumer Confidence Indices

	Dec-17	Sep-17	Change	Average
Consumer Confidence Index	107.4	112.4	-5.0	111.4
Present Conditions Index	107.7	112.3	-4.5	108.7
Expected Conditions Index	107.2	112.5	-5.4	113.2
Current financial situation	2.1	5.4	-3.3	-8.8
Expected financial situation	2.3	5.6	-3.3	11.9
1-year economic outlook	4.9	13.4	-8.5	-2.6
5-year economic outlook	14.3	18.6	-4.3	30.4
'Good time to buy'	13.4	19.2	-5.7	26.1

- Consumer confidence dropped sharply in December and is now below average levels.
- The drop in confidence appears to be partly a response to the change in Government. The biggest drop in confidence was among better off households, while confidence actually rose slightly among households on lower incomes.
- Households are concerned about the general economic environment and their personal financial situation. This will put a dampener on spending plans ahead of the holidays.

Consumer confidence



Note: An index number over 100 indicates that optimists outnumber pessimists.

Not feeling that festive...

After a long winter, summer has finally arrived, and in many parts of the country champagne corks will be popping as holiday celebrations get underway. But despite the holiday season being upon us, it seems that many New Zealand households aren't actually feeling that festive. In fact, consumer confidence has fallen to below average levels late in 2017. That's been reflected in the latest Westpac McDermott Miller Consumer Confidence Index, which dropped 5 points in the December quarter to a level of 107.4.

Given the suddenness of the drop in confidence, it is likely that the outcome of September's election has had a big impact on household sentiment. The change in Government signals a very different policy environment over the coming years, including changes to family support payments, minimum wage levels, environmental policy and housing market policies. Against this changing backdrop, it's not surprising that many households are a little apprehensive about how the economic environment will shape up over the next few years.

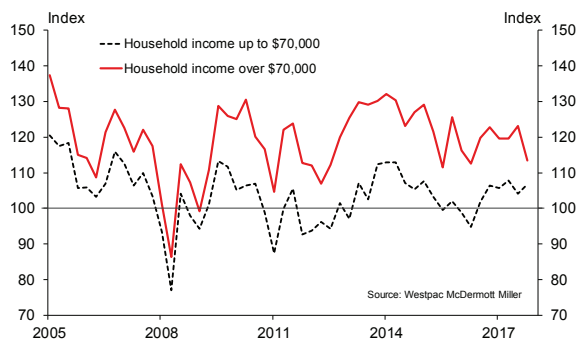
...but not everyone is feeling glum

Another reason why we think the election has had a big impact on household sentiment is the skew in confidence by income group. Confidence among those households earning less than \$70,000 per annum (who are usually thought of as being more likely to vote for centre-left parties) actually rose a modest 3 points in December. The lift in confidence among these households may have something to do with the range of measures that the new Government is planning on introducing as part of its Families Package, such as increases in Working for Families payments and the accommodation supplement.

In contrast, confidence among those households earning more than \$70,000 per annum fell sharply – dropping 10 points to below average levels.

Given the importance of the political backdrop, we took a look back at how strong confidence has been when different parties have been in power. When doing so, we accounted for factors like the strength of GDP growth and the housing market. What we found was that, while confidence naturally varies from quarter-to-quarter, there's no obvious pattern of consumers feeling more or less upbeat when the political dial shifts in either direction.

Consumer confidence by income group



Have yourself a frugal little Christmas

The change in government hasn't been the only important development in recent months. We've also seen GDP growth slowing, with some of the key drivers of economic activity from recent years easing off. With these sorts of big changes going in the background, it's no surprise that New Zealand households are less confident about the economic landscape over the coming years.

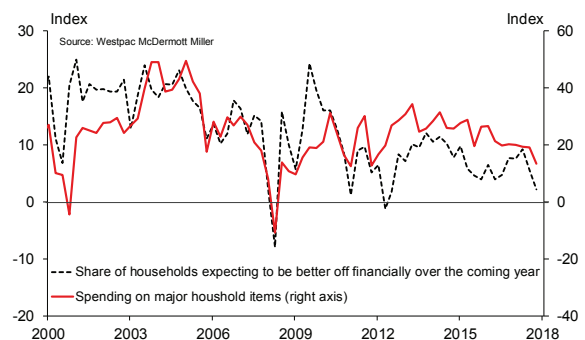
But it's not just general economic conditions that households are concerned about. Many households are also worried about their own financial situation, with the number of households who expect to be better-off financially over the coming year dropping to its lowest level since 2012.

Importantly, this nervousness looks like it's putting a dampener on holiday spending plans. The number of households who think it's a good time to buy a major item has fallen sharply. We've also seen a small drop in

households' spending on leisure activities like dining out. And when we asked households what they would do with a cash windfall, the number who said they would spend it has dropped back sharply, with households more focused on savings and paying down debt.

This increase in household nervousness comes atop of signs that the migration cycle has turned. And with big changes in housing market policy planned over the next few years, a period of weak house price inflation is on the cards. Together, these conditions signal a softer environment for retail spending over the coming year, especially in areas like household furnishings.

House spending plans and financial expectations



Break it down

While confidence is down across all age groups, it was younger New Zealanders (those aged 18 to 30 years) who reported the biggest drop. Confidence among younger New Zealanders fell 9 points in December, and is now well below its long-run average. In contrast, confidence among older New Zealanders was only down around 4 points. Like other groups, younger New Zealanders are nervous about the economic outlook. However, they are also reporting that they're concerned about their personal financial situation.

Confidence is down among both women and men. However, while confidence among women is only down 2 points to around average levels, men are noting much more concern about the outlook for the economy over the next few years. This has seen confidence among men fall by 7 points in December, leaving it at below average levels.

Looking at the geographic breakdown of consumer confidence, we've seen particularly sharp falls in metropolitan areas, with households in these areas noting increased concerns about the strength of the economy over the coming year. This may be related to concerns about the strength of the housing market, with the new Government planning to roll out a suite of policies over the next few years to dampen housing market pressures.

Confidence has also fallen among rural households, but only slightly. This is interesting as it suggests that the new Government's focus on regional development has outweighed concerns about environmental and regulatory changes among rural confidence.

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.

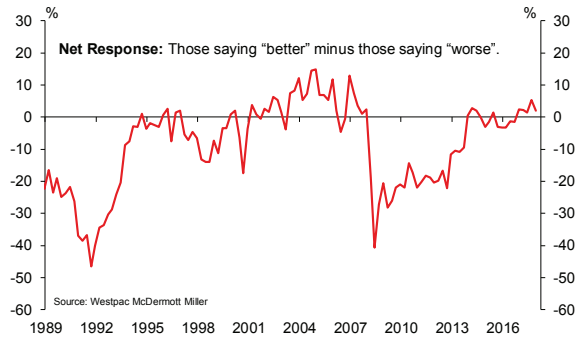
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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 – 10 December 2017. The sample size was 1,555.

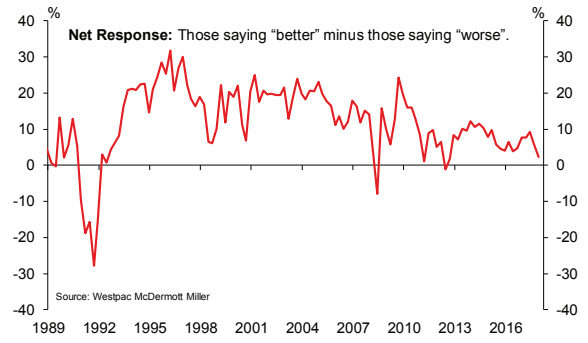
Satish Ranchhod

Senior Economist

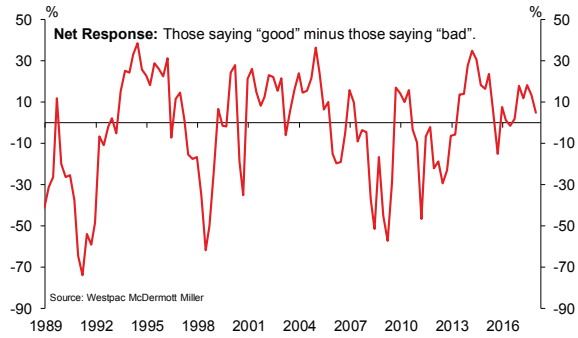
Are you better or worse off financially than a year ago?



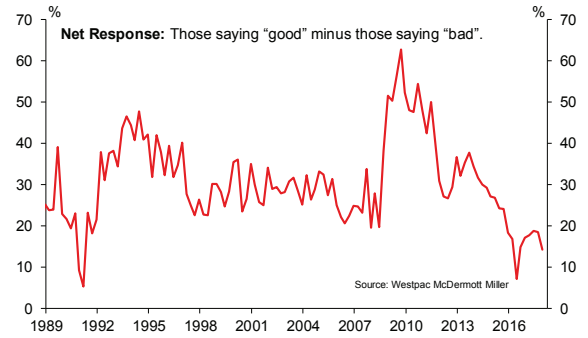
Do you expect to be better or worse off financially in a year's time?



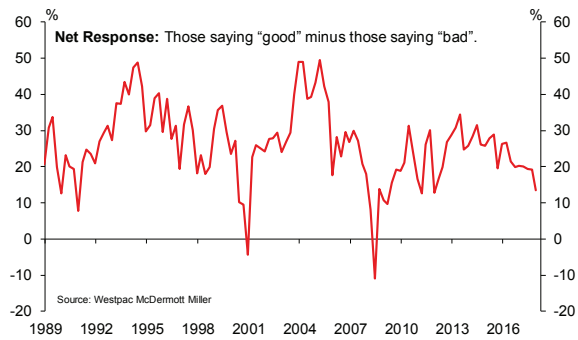
Do you expect good or bad economic times over the next 12 months in New Zealand?



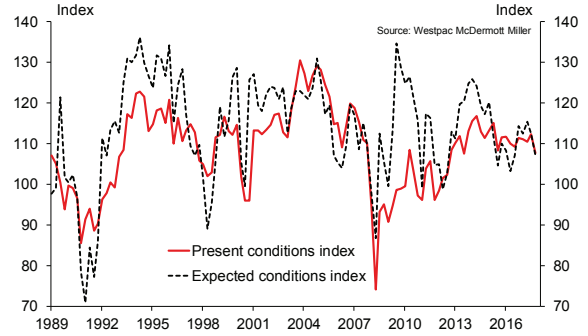
Do you expect good or bad economic times over the next 5 years in New Zealand?



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



Present and expected conditions



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Shyamal Maharaj, Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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