

Westpac McDermott Miller Consumer Confidence.

17 December 2019

Consumer confidence up 6.8 points to 109.9 in December.

- After falling to low levels over the past year, consumer confidence rose sharply in December and is now back around average levels.
- New Zealand households are feeling more upbeat about the economic outlook, and increasing numbers of households expect that they will be better off financially over the coming year.
- The rise in confidence follows a drop in mortgage rates earlier in the year and a related resurgence in the housing market.
- Rising consumer confidence likely bodes well for the Christmas shopping season.
- The rise in confidence has been widespread across the country, and has been seen across all ages and income brackets. However, the pickup in confidence has been stronger among households on higher incomes.

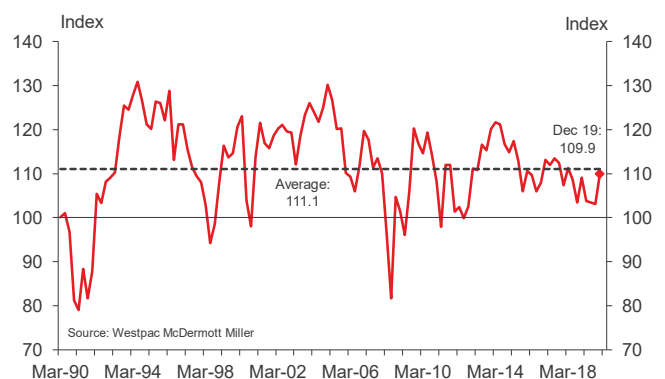
Satish Ranchhod, Senior Economist

+64 9 336 5668

Consumer confidence indices

	Dec-19	Sep-19	Change	Average
Consumer Confidence Index	109.9	103.1	6.8	111.1
Present Conditions Index	110.1	106.4	3.7	108.7
Expected Conditions Index	109.8	101.0	8.8	112.7
Current financial situation	-0.9	-2.4	1.5	-8.5
Expected financial situation	15.5	13.2	2.3	11.3
1-year economic outlook	4.2	-9.2	13.4	-2.5
5-year economic outlook	9.7	-1.1	10.8	29.3
'Good time to buy'	21.1	15.1	6.0	25.8

Consumer confidence



There's something in the air...

The festive season is upon us. Champagne corks are popping. And across the country, New Zealand households are getting in the Christmas spirit. That's been reflected in the latest Westpac-McDermott Miller Consumer Confidence Index which rose by 6.8 points to 109.9 in December. That sharp rise completely reversed the drop over the past year and leaves confidence back around its long-run average.



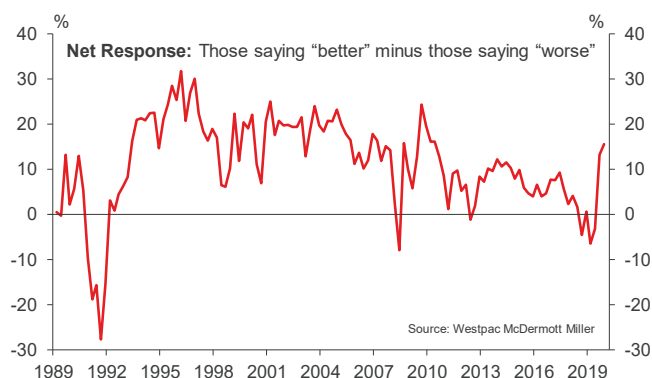
Notably, this rise in confidence isn't just holiday related euphoria. In fact, looking back over history, confidence is just as likely to fall as it is to rise in December.

December's lift in confidence was widespread, with confidence up in nearly all regions. There were particularly large gains in Wellington and Otago. Looking across household groups, confidence has picked up across all age and income brackets.

Underlying the turnaround in household sentiment has been increasing optimism around the economic outlook. Since our last survey in September, signs that economic activity is picking up have been accumulating. And while there is still some nervousness about the economic landscape, a growing number of New Zealand households expect that the economy will continue to improve over the coming years.

Importantly, increasing numbers of households expect that they will personally benefit from the improvement in economic activity, with the number of households who expect to be better off financially over the coming year rising to its highest level since 2009.

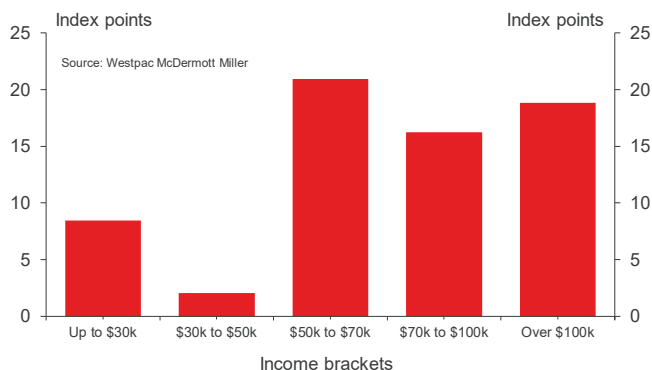
Do you expect to be better or worse off financially in a year's time?



As always, a range of factors will have contributed to these trends. However, the big one is likely to be the strength of the housing market. New Zealanders hold a lot of their wealth in housing assets, be that the family home or some form of investment property. And where the housing market goes, the economy usually follows. Over the past six months, we've seen mortgage rates falling to low levels. There's also been a related pickup in housing markets across the country. Those developments are likely to have left many households feeling more optimistic about how their personal financial position is shaping up.

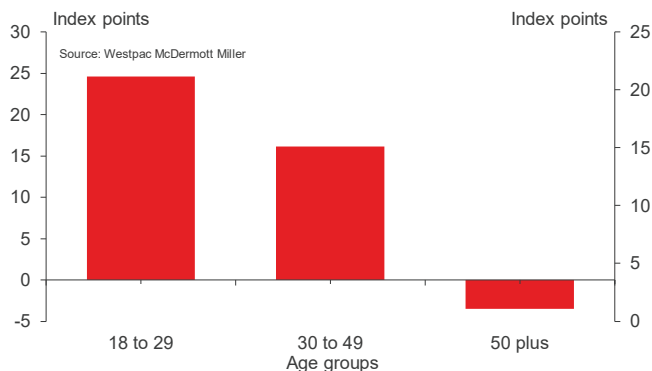
Of course, not all households are homeowners, and housing affordability remains a big concern for a lot of families. That may be one reason why even though confidence is up among all groups, the rise is most pronounced among those households on higher incomes.

Income brackets: Proportion of households who expect an improvement in their financial position (change since this time last year)



It's also important to remember that low interest rates will affect different household groups in different ways. For those who are paying down a mortgage, low interest rates will have been a very welcome development. But for savers, who are often in older age brackets, the current low interest rate environment is likely to have raised concerns about their spending power. Consistent with that, older New Zealanders tend to be more downbeat about the outlook for their financial position compared to other groups.

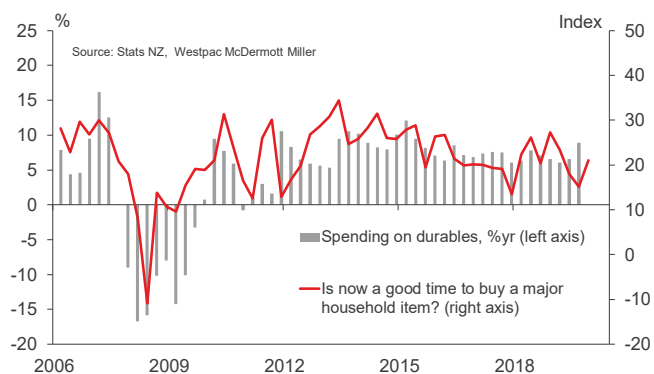
Age groups: Proportion of households who expect an improvement in their financial position (change since this time last year)



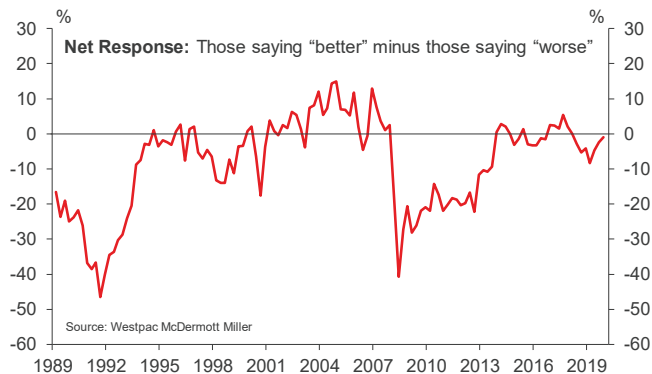
Jingle all the way!

Rising consumer confidence also bodes well for the Christmas shopping season. The proportion of households who think now is a good time to make a major purchase jumped higher in December, and the numbers who have been ramping up their spending on entertainment activities remains at firm levels. We've already seen this strength in spending appetites boosting retail sales in recent months, and that's likely to continue into the new year.

Spending appetites



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



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.

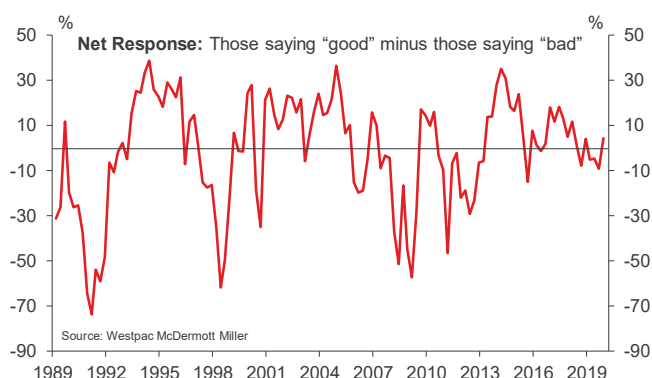
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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. The sample size was 1,557.

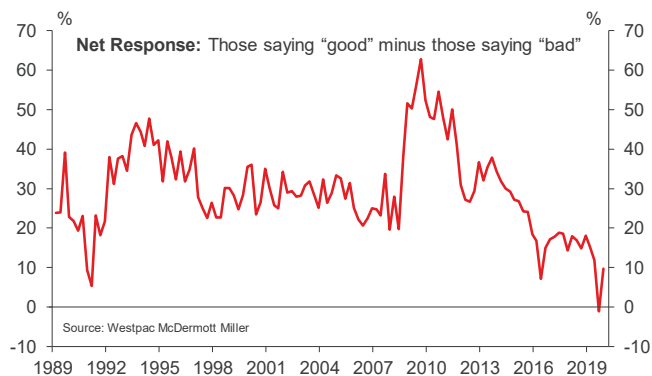
Consumer confidence by region

	Dec-19	Sep-19	Change
Northland	105.2	101.8	3
Auckland	112.9	106.7	6
Waikato	108.1	102.6	6
Bay of Plenty	110.1	104.8	5
Gisborne/Hawke's Bay	109.6	103.7	6
Taranaki/Manawatu-Whanganui	107.8	105.9	2
Wellington	114.0	100.9	13
Nelson/Marlborough/West Coast	106.5	103.2	3
Canterbury	105.0	96.3	9
Otago	108.0	96.4	12
Southland	106.1	104.8	1
Nationwide	109.9	103.1	7

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?



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

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

electronics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document 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.

Disclaimer.

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material 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 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 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. 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.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. 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 QF Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. 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 licence 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 activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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 communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication 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 communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

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. All disclaimers set out with respect to Westpac apply equally to WCM. 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.