

# A note of caution

## Q3 Westpac McDermott Miller Consumer Confidence Index: 115.4

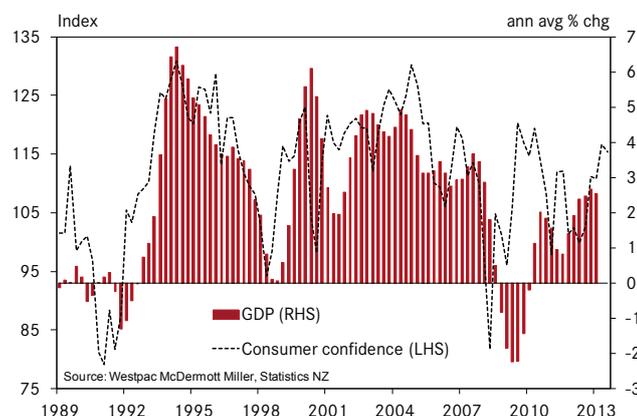
- Consumer confidence has eased slightly from three months ago.
- Respondents' reported financial situation continues to recover, and they have also become a touch more optimistic for the economy.
- But attitudes towards spending have become more cautious.

The Westpac McDermott Miller Consumer Confidence Index has fallen slightly since the June survey. This seems to reflect a greater degree of financial caution: fewer people are saying it is a good time to buy a major household item, and fewer are saying they would spend rather than save a cash windfall.

To some extent the impact of the lower exchange rate on petrol prices and other import costs may be playing a role here, by leaving less disposable income in consumers' pockets. In addition, we suspect this more cautious attitude reflects concerns around the housing market. In the last three months fixed-term mortgage rates have risen sharply, and the Reserve Bank has announced that it will introduce restrictions on low-equity borrowing. People may be worried about the impact this will have on their ability to buy a house, or on the value of their house if they already own one. We noted a particularly large drop in willingness to buy a major household item in the Auckland region, and in general urban areas fared worse than rural ones.

That said, consumer confidence remains the second highest since mid-2010, and continues to point to a strengthening economic recovery. We were particularly heartened to see an ongoing improvement in households' reported financial situation, and an associated lift in reported discretionary spending, though both are still low by pre-recession standards.

### Consumer confidence and GDP



### Consumer Confidence Indices

	Jun-13	Sep-13	Change
<b>Consumer Confidence Index</b>	116.6	115.4	-1.2
<b>Present Conditions Index</b>	111.8	107.6	-4.2
<b>Expected Conditions Index</b>	119.8	120.5	0.7
Current financial situation	-10.8	-9.4	1.4
Expected financial situation	10.1	9.6	-0.5
1-year economic outlook	13.8	14.1	0.2
5-year economic outlook	35.4	37.8	2.5
'Good time to buy'	34.4	24.7	-9.8

### Survey details

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; households' outlook for their financial situation over the coming year; and their near-term and longer-term outlook for the New Zealand economy as a whole.

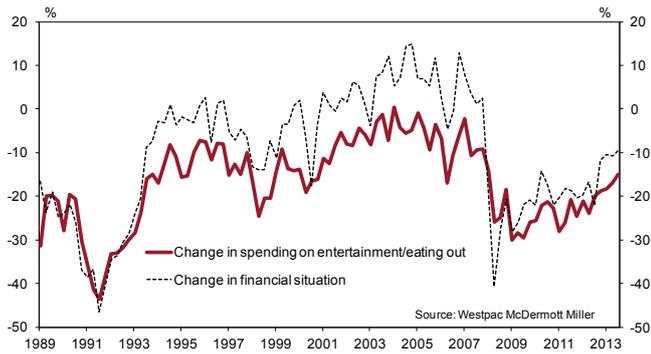
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. Survey interviews were conducted over the period 1 - 11 September. The sample size was 1571.

Among the component questions of the Index, there was a sharp fall in the net percentage of households saying it was a good time to buy a major household item, from 34.4% to 24.7% - the lowest since June 2012. The net percentage of households expecting their financial situation to improve over the coming year also fell slightly, but remains cautiously optimistic at 9.6%.

More positively, the net percentage of households saying their financial situation had improved over the past year rose from -10.8% to -9.4%, the highest since December 2007. Households' expectations for the economy also improved modestly, with a net 14.1% now expecting good times over the year ahead (up from 13.8%) and a net 37.8% expecting good times over the next five years (up from 35.4%).

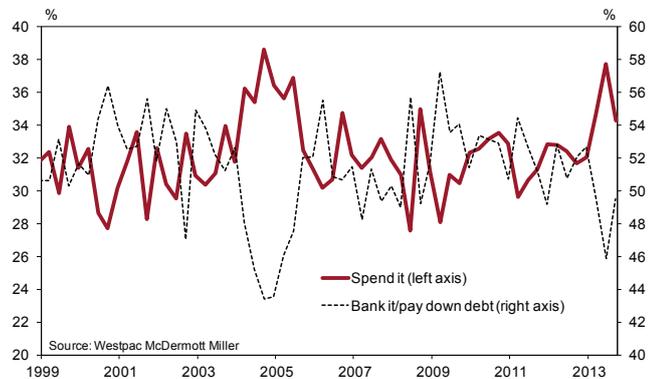
The survey also asks respondents how their spending on entertainment and eating out has changed over the past year, and what they would do with a \$10,000 cash windfall. The net proportion saying they have increased their spending on entertainment/eating out is rising, probably a reflection of the improvement in households' reported finances. It remains well below mid-2000s levels, but at -15% is now the highest since March 2008.

## Reported change in discretionary spending and financial situation



In the first half of this year, the proportion of households saying they would spend a \$10,000 windfall, rather than put it in the bank or use it to pay down debt, rose to levels not seen since late 2004. That proportion has fallen back noticeably in the past three months, though it remains at above-average levels.

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



## Demographic splits

**Sex:** In contrast to the last few surveys, females' reported financial situation improved more than males'. This may be another sign that the recovery is broadening out from the construction sector, which employs relatively more males. But while the gap may be closing, males are still significantly more confident than females.

**Age:** Confidence picked up among younger respondents but edged down among older age groups. There was a particularly large jump among young people's reported financial situation, to a net 30% positive - the highest since late 2007. This is in keeping with the clear downtrend in youth unemployment rates that is now evident in the labour market statistics.

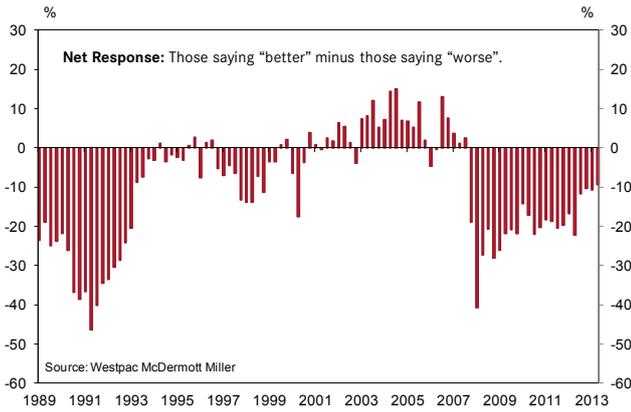
**Income:** Consumer confidence fell among all income groups, but particularly among those on lower incomes. There was a particularly large drop in the net proportion of low income earners saying it was a good time to buy a major household item, and lower-income households' reported financial situation also deteriorated.

**Urban/rural:** There was a clear urban/rural divergence in the latest survey, with confidence improving in rural areas, but falling in the main centres. We think this supports the idea that concerns around housing (most relevant in Auckland) have played a role in the latest dip in confidence. Rural confidence will also have been boosted by the end of the recent drought and the big lift in the coming season's forecast dairy payout.

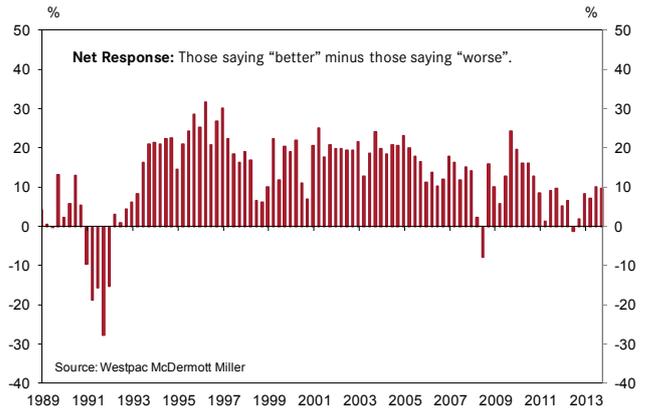
## Felix Delbrück

Senior Economist

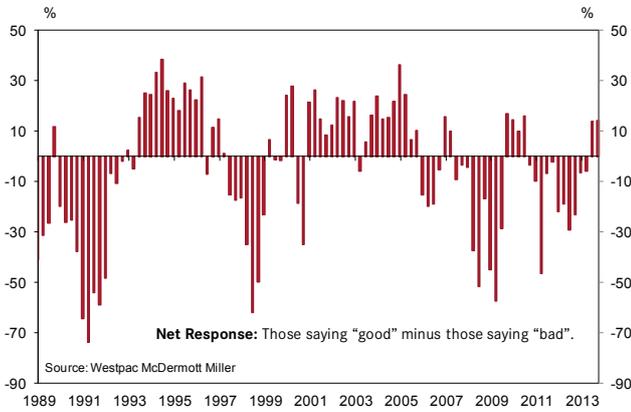
**Are you better or worse off financially than a year ago?**



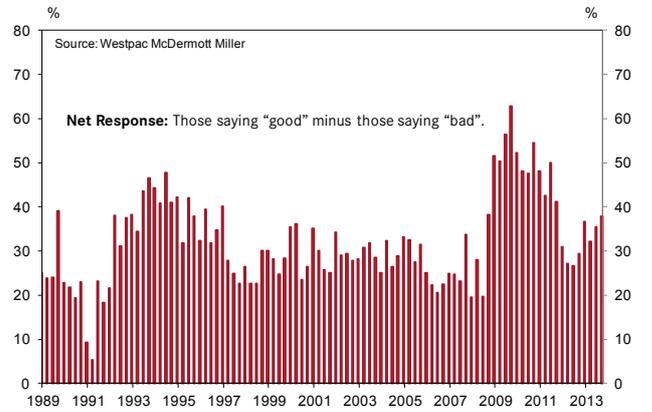
**Do you expect to be better or worse off financially in a year's time?**



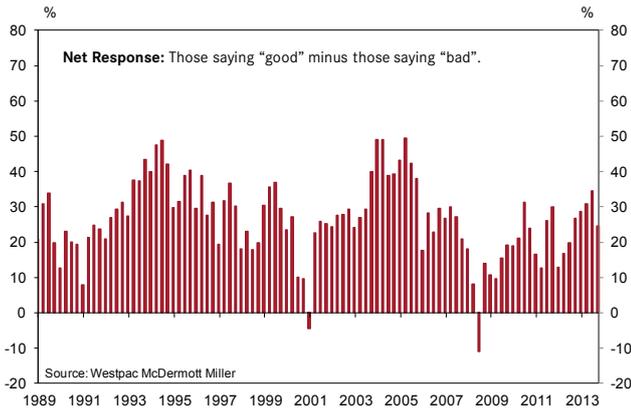
**Do you expect good or bad economic times over the next 12 months in NZ?**



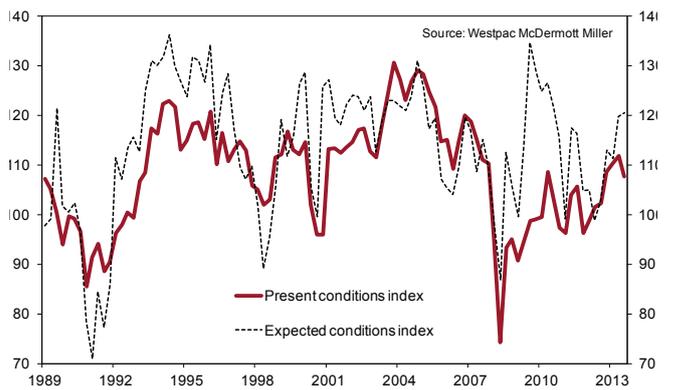
**Do you expect good or bad economic times over the next 5 years in NZ?**



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



**Present and Expected Conditions**



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