

Riding on the coattails

Q1 Westpac McDermott Miller Consumer Confidence Index: 121.7

- Consumer confidence has edged up further, to its highest level since 2005.
- Economic optimism is close to record levels.
- Consumers' sentiment about their own finances is also improving, as is their willingness to spend, though both are still well below previous cycle highs.

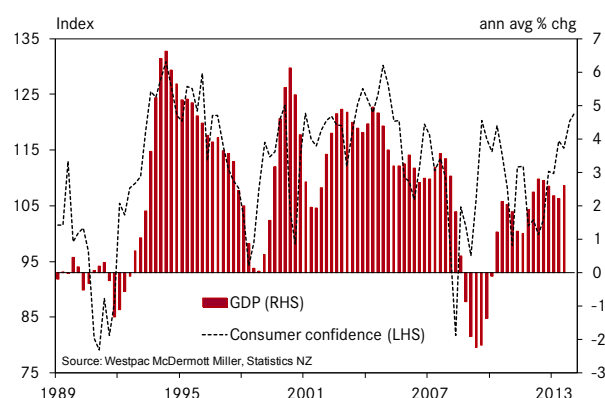
Over the past three months there has been a volley of good news stories about the New Zealand economy – prices for our major exports are at multi-decade highs, the Canterbury rebuild is surging ahead, the job market is on the mend.

At the same time, it's become increasingly clear that the Reserve Bank will lift interest rates, and that the housing market has slowed since the Reserve Bank introduced its mortgage lending restrictions.

The latest Westpac McDermott Miller consumer confidence survey suggests that the stronger economy has won out: consumers' economic optimism, their assessment of their financial situation, and their reported attitudes to spending have all continued to pick up. (The only sign of a possible impact of the recent lending restrictions was a drop in the number of respondents, particularly younger ones, saying they would spend rather than save a cash windfall.)

That said, while consumers' optimism for near-term economic prospects is now almost as high as it was at its peak during the mid-1990s and mid-2000s boom periods, their attitudes towards their own finances and towards spending remain relatively cautious. (In fact, as we note below, in rural areas they seem to have become more so.) Until this changes, we continue to be of the view that in the next couple of years consumer spending will be a passenger as other sectors of the economy sit in the driver's seat.

Consumer confidence and GDP



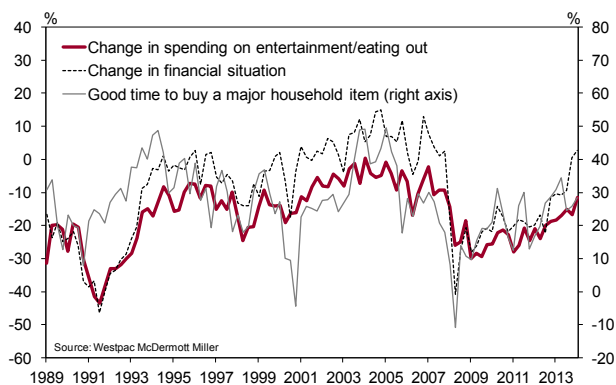
Consumer Confidence Indices

	Dec-13	Mar-14	Change
Consumer Confidence Index	120.1	121.7	1.6
Present Conditions Index	113.1	115.5	2.4
Expected Conditions Index	124.8	125.8	1.0
Current financial situation	0.4	2.7	2.3
Expected financial situation	12.1	10.6	-1.5
1-year economic outlook	27.8	35.0	7.2
5-year economic outlook	34.4	31.8	-2.6
'Good time to buy'	25.8	28.3	2.5

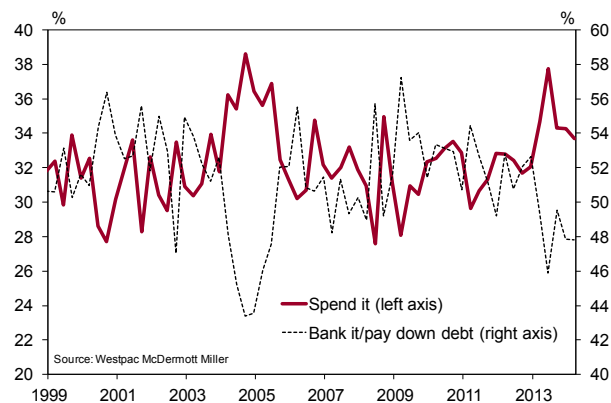
Survey details

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; 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.

Reported financial situation and spending patterns



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



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 – 10 March. The sample size was 1594.

Over the past three months there has been another substantial lift in respondents' economic outlook, with a net 35% now expecting good times for the economy over the year ahead. Near-term economic optimism has only been higher at two other times in the history of the series: back in June 1994 (38.6%) and again in December 2004 (36.4%).

The other components of the index moved relatively little. Households' assessment of their current financial situation has continued to improve, but remains fairly cautious at a net 2.7%, while their assessment of whether now is good time to buy a major household item rose to 28.3% - above the historical average of 26.5%, but well short of levels seen in the mid-1990s and mid-2000s. Meanwhile, there were modest drops in the percentage of households expecting an improvement in their

financial situation (to 10.6%, a bit below the historical average of 12.6%) and in households' longer-term economic optimism (back to the historical average of 31.8%).

The survey also asks respondents how their discretionary 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 balance saying they had increased their spending on entertainment/eating out rose sharply to -11.5% (from -16.7% in December) and is now the highest since December 2007, and well above the historical average of -17%. By contrast, the percentage of respondents saying they would spend a cash windfall (rather than save it, bank it, or use it to pay down debt) has come off significantly from its mid-2013 highs and is now only a little higher than average at 33.7%.

Demographic breakdowns

Sex: There was a significant lift in female confidence this quarter, with a particularly big rebound in the number of female respondents saying that they had increased their discretionary spending. After lagging behind in late 2012/early 2013, female confidence seems to be catching up – perhaps a sign that the economic upturn is no longer confined to construction-related sectors (which typically employ more males).

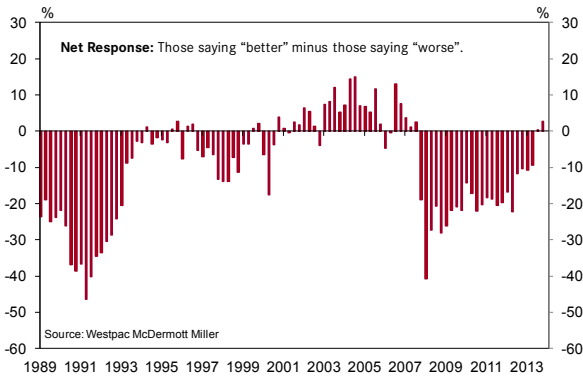
Age: Among age groups, the biggest increase in confidence this quarter was among younger respondents (18-29), who reported the biggest lift in economic optimism, their own financial situation, and their willingness to spend on discretionary and major household items. That's consistent with the significant improvement in youth employment statistics seen over the past year. That said, more young people said they would save a cash windfall – perhaps a response to the Reserve Bank's recent mortgage lending restrictions.

Income: The biggest increase in the past few surveys has been in the lower- to middle-income brackets. Those with household incomes between \$30,000 and \$50,000 reported a particularly big improvement in their financial situation.

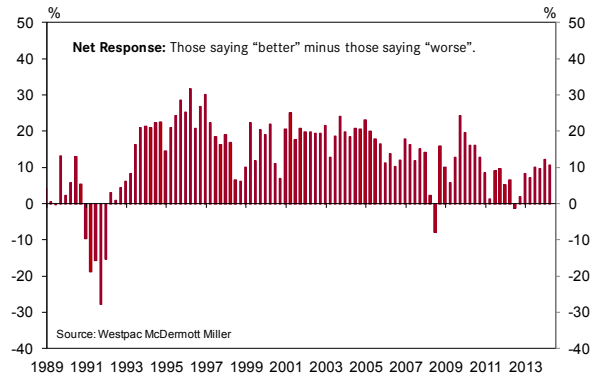
Urban/rural: The biggest lift in confidence this quarter was in smaller urban centres – though confidence in the biggest cities also rose modestly and remains the highest overall. Interestingly, while rural households' reported financial situation continues to steadily improve, rural households have become less willing to spend a windfall or to buy major household items, and their overall confidence is now lagging behind urban areas. So far there is no suggestion that rural consumers are splurging on the back of this season's expected dairy bonanza.

Felix Delbrück
Senior Economist

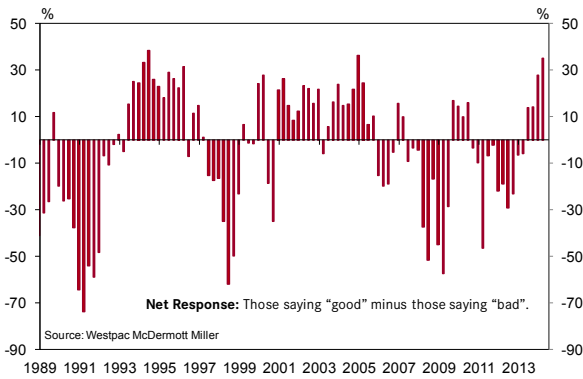
Are you better or worse off financially than a year ago?



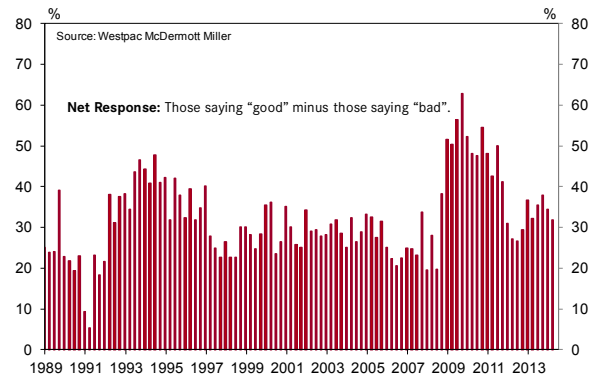
Do you expect to be better or worse off financially in a year's time?



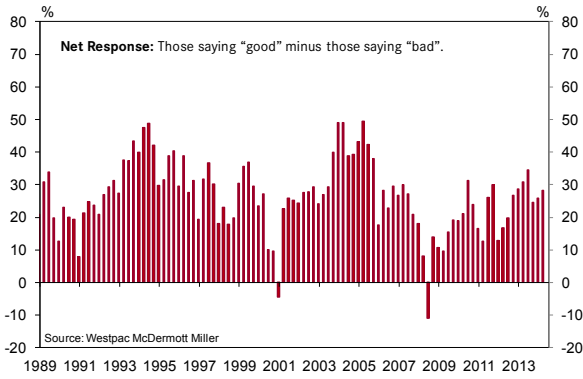
Do you expect good or bad economic times over the next 12 months in NZ?



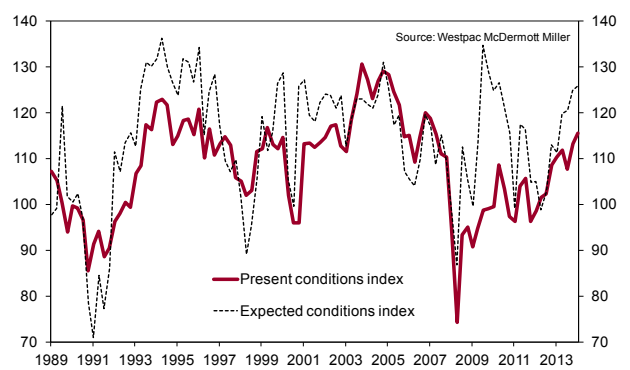
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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