

# WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

21 June 2022

Satish Ranchhod, Senior Economist  
 +64 21 131 3433  
 satish.ranchhod@westpac.co.nz



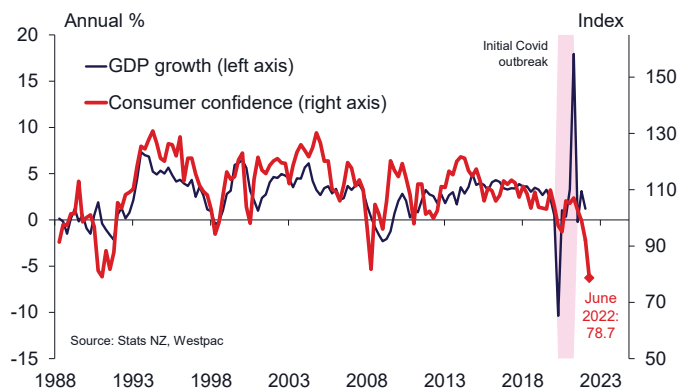
## Consumer confidence plummets to lowest level on record.

- Consumer confidence has fallen sharply in recent months as household budgets have been squeezed by higher mortgage rates and increases in living costs.
- Weak consumer confidence is weighing on household spending appetites, reinforcing our expectations for a slowdown in economic growth.
- The drop in confidence has been widespread across all age groups, income brackets and regions.

Consumer confidence indices

	Jun-22	Mar-22	Change	Average
Consumer Confidence Index	78.7	92.1	-13.4	110.2
Present Conditions Index	74.0	90.1	-16.1	107.6
Expected Conditions Index	81.8	93.5	-11.7	111.9
Current financial situation	-27.1	-12.9	-14.2	-8.7
Expected financial situation	-7.4	2.5	-9.9	11.2
1-year economic outlook	-38.5	-22.8	-15.7	-3.4
5-year economic outlook	-8.7	0.8	-9.5	27.9
'Good time to buy'	-24.8	-6.9	-17.9	23.8

Consumer Confidence and economic growth



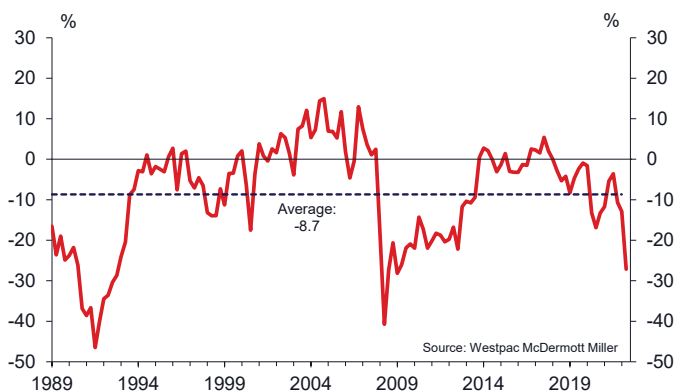
Confidence among New Zealand households has plummeted, dropping to its lowest levels since we began surveying consumers back in 1988.

The Westpac McDermott Miller Consumer Confidence Index fell 13 points in the June quarter to a level of 78.7. Confidence has only come close to these sorts of lows twice before - first during the recession in the early-1990s, and then again during the Global Financial Crisis in 2008/09.

Large numbers of households have told us that their financial position has deteriorated in recent months, and many expect that it will continue to weaken over the coming year. That's despite the introduction of policy measures to limit the pressure on living costs, such as the reduction in the fuel tax and halving of public transport charges.

And it's not just their personal financial situation that's got households worried. Increasing numbers of New Zealanders also expect that economic conditions more generally will deteriorate over the next few years.

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

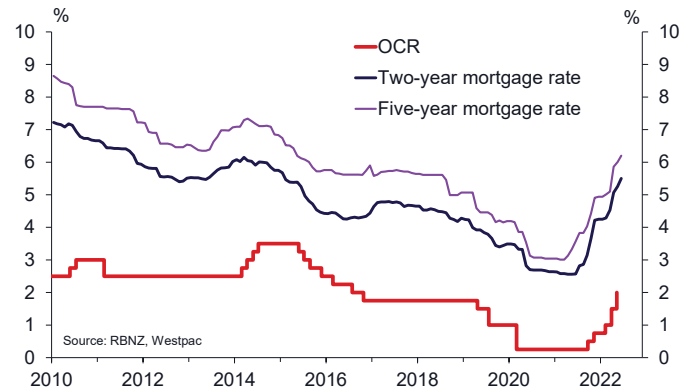


Underlying this increasingly grim assessment of economic conditions, New Zealand is being buffeted by some powerful economic headwinds. Key among the challenges that households are grappling with has been the increase in the cost of living, with prices for all manner of consumer goods continuing to charge higher in recent months. There have been particularly large increases in the prices of household essentials, with food prices up nearly 7% over the past year and petrol prices now running at over \$3/ltr across the country.

The pressure on household budgets has been compounded by the rise in interest rates. The Reserve Bank has been hiking the Official Cash Rate at a rapid pace, and they have signalled that it is likely to rise substantially more over the coming months. For many households, the related rise in mortgage rates has already taken a sizeable bite out of their disposable incomes. In addition, around half of mortgages will come up for repricing over the coming year, and another 20% will come due within two years. In some cases, borrowers will face re-fixing at interest rates that are 2% to 3% higher than the rates they are currently paying.

Adding to the concerns about the economic landscape, many households have seen the value of their assets falling in recent months. Nationwide house prices have dropped by 6% since November. Similarly, the value of KiwiSaver balances and other financial assets have dropped sharply since the start of the year.

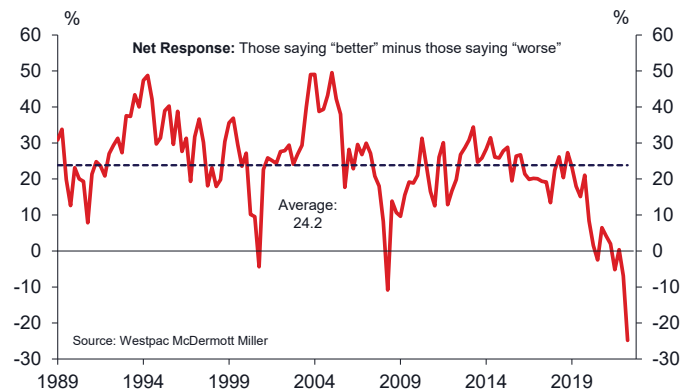
OCR and fixed-term mortgage rates



## Put your credit card back in your wallet.

With growing pessimism about the economic landscape and mounting concerns about their personal finances, households are keeping an increasingly close eye on their purse strings. In fact, the number of households who think it's a good time to make a major purchase has collapsed, dropping to the lowest level on record. At the same time, households have reported that they have scaled back their spending on leisure activities (like dining out) even as health restrictions have been gradually wound back.

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



The pressure on household finances and sharp fall in confidence reinforces our expectations for a downturn in household spending – and economic growth more generally – over the coming months. In fact, that's essentially what the RBNZ is trying to engineer: the recent sharp rises in the Official Cash Rate have aimed to dampen domestic demand in order to moderate the current strong domestic inflation pressures.

However, there are big questions about how quickly economic activity will slow and just how far the Official Cash Rate will need to rise. The RBNZ's own projections show the cash rate rising to 3.9%, while financial markets have started to price in the chance that it could go as high as 4.5%.

We agree that there's a substantial amount of work still to be done to bring inflation pressures back into check. However, if there is a more abrupt slowdown in spending than the RBNZ

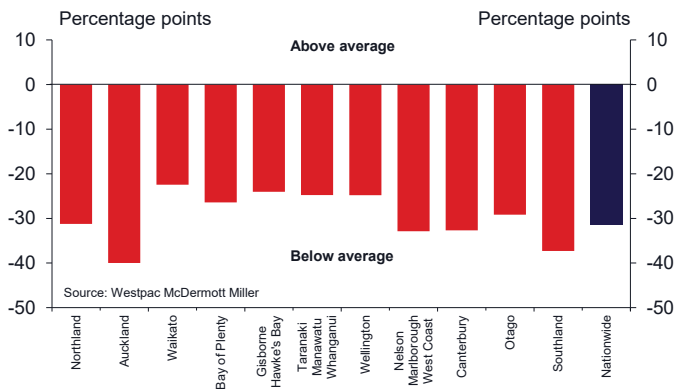
anticipates, then it's likely that increases in the cash rate will be more measured. And the pace and extent of the fall in consumer confidence certainly raises the risks of a sharper slowdown in demand. Consistent with that, we continue to forecast a peak in the cash rate of 3.5%.

## Misery loves company.

Normally each quarter we dive into how confidence differs across various household groups and regions in the economy. However, a particularly notable feature of this quarter's survey is how uniform the drop in confidence has been. Confidence has fallen sharply across all age groups and income brackets.

Confidence also is at low levels in every corner of the country. There have been particularly sharp falls in regions like Southland, Auckland, Canterbury and Northland. There were two regions – Wellington and Gisborne/Hawke's Bay – where we did see small increases in confidence this quarter. However, that follows earlier sharp falls. And even in these regions, confidence remains very weak.

Consumer confidence by region (compared to average)



Consumer confidence by region

	Jun-22	Mar-22	Change
Northland	75.6	93.4	-17.8
Auckland	73.6	99	-25.4
Waikato	85.2	97.4	-12.2
Bay of Plenty	82.2	83.3	-1.1
Gisborne/Hawke's Bay	83.5	74.7	8.8
Taranaki/Manawatu-Whanganui	82	86.4	-4.4
Wellington	88.1	85.6	2.5
Nelson/Marlborough/West Coast	73.6	77.3	-3.7
Canterbury	77.8	96.4	-18.6
Otago	78.3	82.2	-3.9
Southland	69.9	101.4	-31.5
Nationwide	78.7	92.1	-13.4

This broad-based weakness in consumer confidence highlights the extent and nature of the challenges households are grappling with. The pressure on household finances has not been limited to any group or region. And while economic conditions will vary across the country, all parts of the economy will be affected by the tightening in financial conditions now in

train. Similarly, the related slowdown in economic activity that we're forecasting is expected to be widespread.

Our upcoming Westpac McDermott Miller Regional Economic Confidence report (out next week) will take a closer look at economic trends across regions.

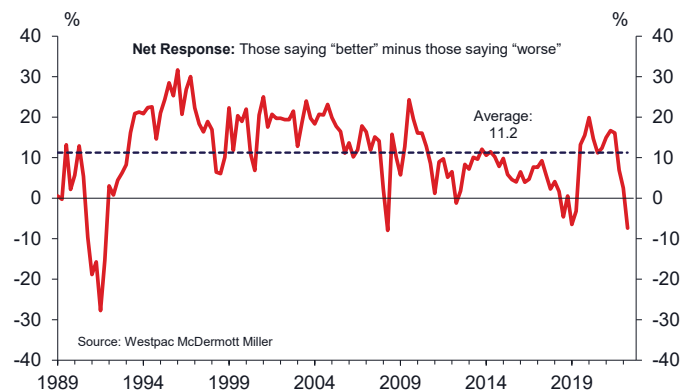
## Survey description.

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.

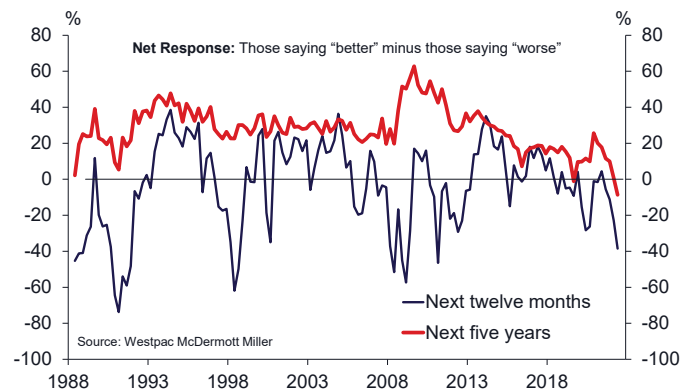
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 1-14 June 2022. The sample size was 1,559.

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 coming years?



# Contact the Westpac economics team

**Michael Gordon, Acting Chief Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Nathan Penny, Senior Agri Economist**

+64 9 348 9114

**Paul Clark, Industry Economist**

+64 9 336 5656

**Any questions email:**

economics@westpac.co.nz

## 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](http://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.

**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 in 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.

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.