WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

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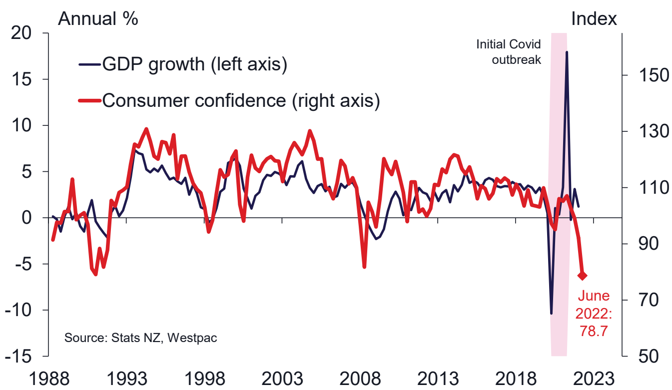
Consumer confidence plummets to lowest level on record.

- 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



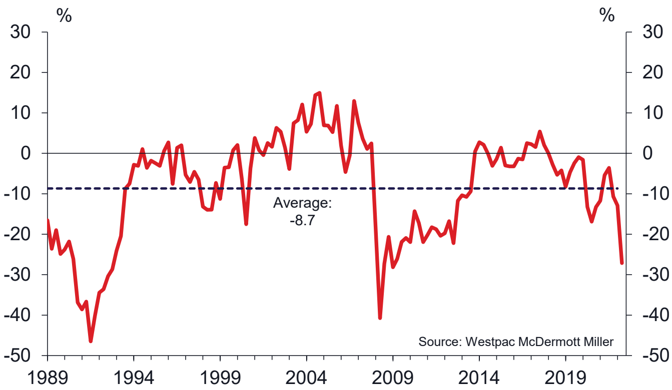
Confidence among New Zealand households has plummeted, dropping to its lowest levels since we began surveying consumers back in 1988.

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?

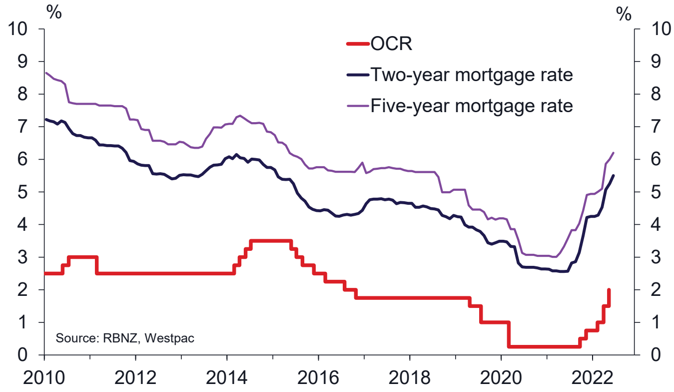


Underlying this increasingly grim assessment of economic conditions, New Zealand is being buffeted by some powerful economic headwinds. Key among the challenges that households are grappling with has been the increase in the cost of living, with prices for all manner of consumer goods continuing to charge 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.

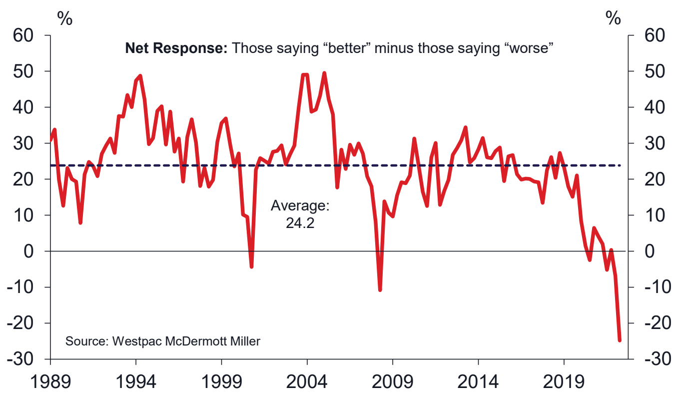
OCR and fixed-term mortgage rates



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%.

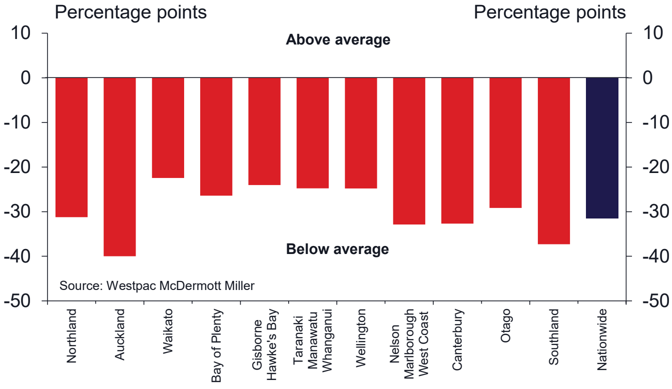
We agree that there's a substantial amount of work still to be done to bring inflation pressures back into check. However, if there is a more abrupt slowdown in spending than the RBNZ anticipates, then it's likely that increases in the cash rate will be more measured. And the pace and extent of the fall 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.

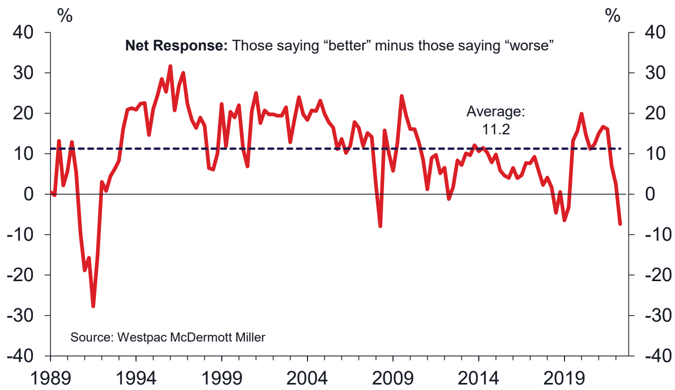
Survey description.

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.

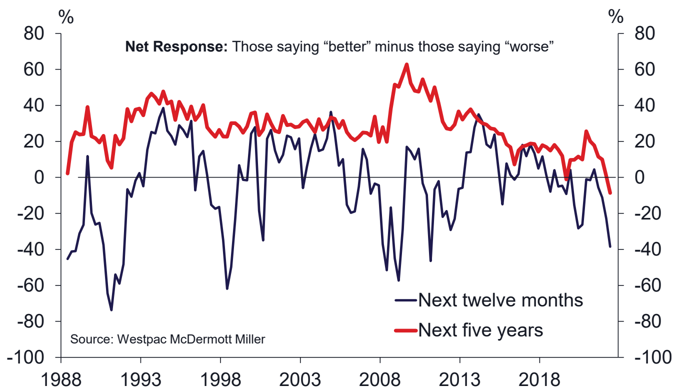
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes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



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