

WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

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Satish Ranchhod, Senior Economist
 ☎ +64 9 336 5668 | +64 21 710 852
 ✉ satish.ranchhod@westpac.co.nz

Nathan Penny, Senior Agri Economist
 ☎ +64 9 348 9114
 ✉ nathan.penny@westpac.co.nz



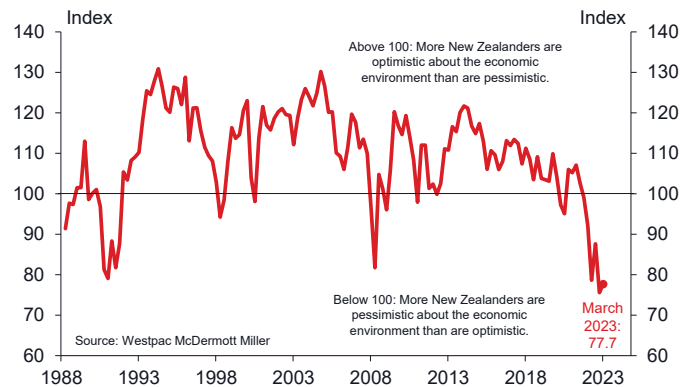
Consumer confidence still in the doldrums.

- The Westpac McDermott Miller Consumer Confidence Index rose 2.1 points to 77.7 in March. Even so, consumer confidence continues to languish at extremely low levels.
- Households across the country are continuing to grapple with skyrocketing living costs, higher mortgage rates and a deepening downturn in the housing market.
- Weakness in consumer confidence and mounting financial pressures are already weighing on household spending appetites. And with those pressures set to become even more pronounced, we expect to see increasing numbers of households winding back their spending over the year ahead.
- In the wake of the recent storms, households in upper and central North Island are very pessimistic about the outlooks for their regions. Confidence is especially low in Gisborne and Hawke’s Bay.

Consumer confidence indices

	Mar-23	Dec-22	Change	Average
Consumer Confidence Index	77.7	75.6	2.1	108.8
Present Conditions Index	72.0	71.0	1.0	106.1
Expected Conditions Index	81.4	78.6	2.8	110.6
Current financial situation	-31.8	-30.9	-0.9	-9.1
Expected financial situation	-3.8	-12.6	8.8	10.8
1-year economic outlook	-41.1	-41.5	0.4	-4.0
5-year economic outlook	-10.8	-10.0	-0.8	27.0
'Good time to buy'	-24.2	-27.1	2.9	22.7

Consumer confidence



The Westpac McDermott Miller Consumer Confidence Index rose 2.1 points in the March quarter to a level of 77.7. However, that follows a sharp fall over the past year, and still leaves confidence at extremely weak levels. The number

of New Zealanders who are pessimistic about the economic environment continues to outweigh the number who are optimistic by a wide margin.

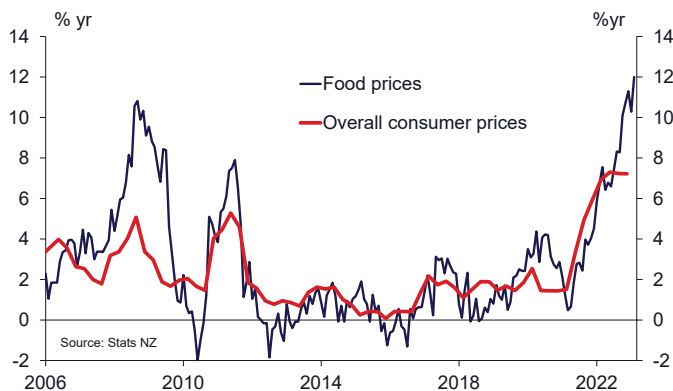
To put the results of our latest survey in context, confidence remains around the sorts of levels that we saw during the recession in the early-1990s and again during the Global Financial Crisis in 2008/09.

The cost-of-living crisis.

Financial pressures continue to be the big concern that is worrying New Zealanders, with increasing numbers of households telling us that their financial position has deteriorated over the past year.

Households' finances are being squeezed on several big fronts. First are the large and continuing increases in living costs, with housing and utility costs up 8% over 2022 and food prices rising by a massive 12% in the year to February. Those price increases are being felt by every family across the country. However, they've been particularly tough on those families who are on lower incomes, who tend to spend a larger share of their income on necessities. We're forecasting that inflation will remain elevated over the year ahead, with further large increases in food prices looking likely.

Consumer prices



Compounding the pressure on households' finances have been large increases in borrowing costs. The Reserve Bank has been hiking the Official Cash Rate at a rapid pace to offset the rise in inflation. That's seen mortgage rates rising to their highest levels in more than a decade.

Importantly, the pain for large numbers of households is still ahead of them. Most New Zealand mortgages are on fixed rates, and many borrowers are still on the very low rates that were on offer through the pandemic. However, around half of all mortgages will come up for repricing in the next twelve months, and many borrowers will face refixing at much higher rates. In some cases, borrowers will face interest rate increases of 2 to 3 percentage points.

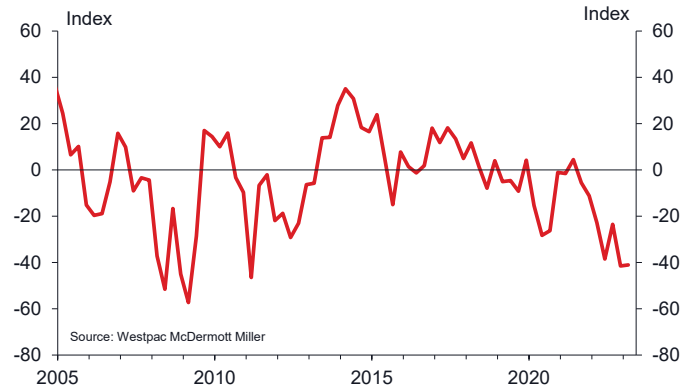
Finally, the pressure on household finances has been compounded by the continuing downturn in the housing market, with house prices across the country tumbling by an average of 17% since November 2021. And with New Zealanders

holding a large amount of their wealth in owner occupied or investor housing, that fall in prices represents a sizeable knock to many households' net worth.

Every household in the country will be grappling with at least one of the challenges highlighted above. As a result, it's no surprise that confidence is at low levels across all age groups and income brackets.

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

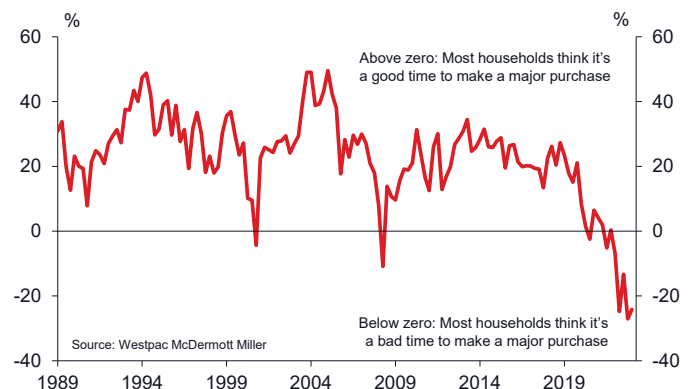
Expectations for economic conditions over the coming year



Splashing out more cash, but getting less bang for your buck.

The increasing pressure on household finances is weighing on their spending appetites. Many households have reported that they have scaled back their spending on leisure activities, like dining out. In addition, the number of households who think it's a good time to make a major purchase is languishing close to record lows.

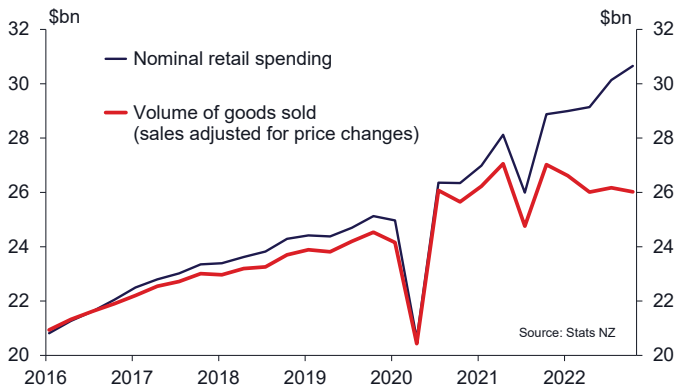
Is this a good or bad time to buy a major household item?



That weakness in spending appetites might seem at odds with recent spending figures. In fact, the latest update on retail sales showed that nominal spending levels rose by 5.4% in the year to December. At first glance, that sort of strong growth doesn't hint at any particular weakness.

However, digging under the surface, the squeeze on household finances is clearly evident, with red hot inflation eating away at consumers' spending power. In fact, despite the strong rise in nominal retail spending, the actual amount of goods we're purchasing (i.e. spending adjusted for price changes) has fallen by around 4% over the past year. In other words, even though we're splashing out more cash, households are getting a lot less bang for their buck.

Retail spending



The pressure on households' budgets is set to become much more pronounced over the year ahead, with inflation set to remain strong and mortgage rates pushing higher. Against that backdrop, increasing numbers of households are likely to wind back their spending over the coming months.

Gabrielle leaves its mark on regional economies.

While there have been a few ups and downs in confidence levels since our survey, economic confidence remains weak right across the country.

Regional economic confidence

	Mar-23	Dec-22	Change
Northland	-42	-35	-7
Auckland	-33.0	-40	7
Waikato	-18	-23	5
Bay of Plenty	-20	-26	6
Gisborne/Hawke's Bay	-61	-18	-43
Taranaki/Manawatu-Whanganui	-7	-21	14
Wellington	-27	-24	-3
Nelson/Marlborough/West Coast	2	-4	6
Canterbury	-18	-28	10
Otago	-10	-13	3
Southland	-14	-28	14

Source: Westpac McDermott Miller

Note: Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-14 March 2023, with a total sample size of 1,559.

Unsurprisingly, those in parts of the North Island that bore the brunt of the recent storms are particularly downbeat about the

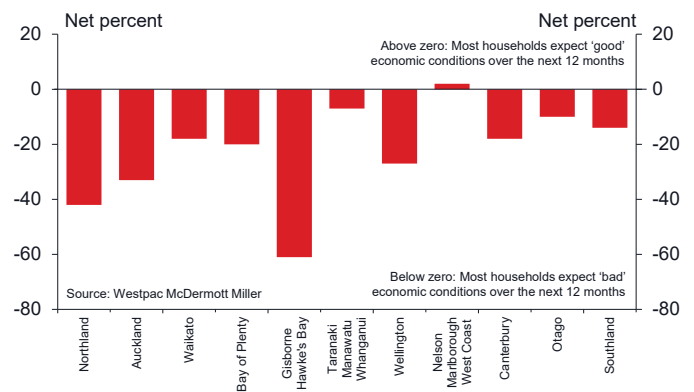
prospects for their regions. In many cases, that's reinforced an already pessimistic economic outlook.

Notably, confidence in economic conditions plunged in Hawke's Bay and Gisborne, where households, farmers and other businesses faced the largest disruptions to their day-to-day activities over the quarter. In some cases, activity will continue to be affected as infrastructure and other repairs are completed over coming quarters, if not years.

Similarly, households in Auckland, Northland, Waikato and the Bay of Plenty – where there has been large damage to housing and infrastructure following Cyclone Gabrielle and the recent floods – are also feeling very pessimistic about the outlook for economic conditions in their respective regions.

The only region where optimists outnumber pessimists is in Nelson/Marlborough/West Coast, where the West Coast in particular is benefiting from the return of international tourists. But even here confidence remains well below average levels.

Household confidence about conditions in their own region



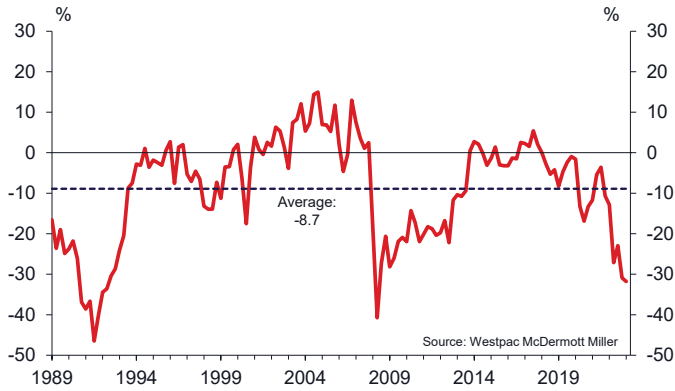
Survey description.

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.

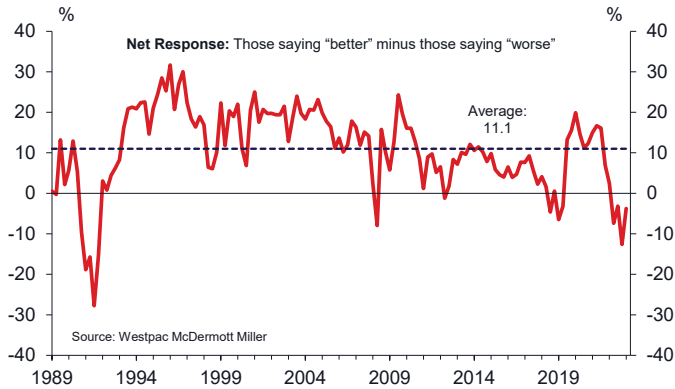
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 March 2023. The sample size was 1,559.

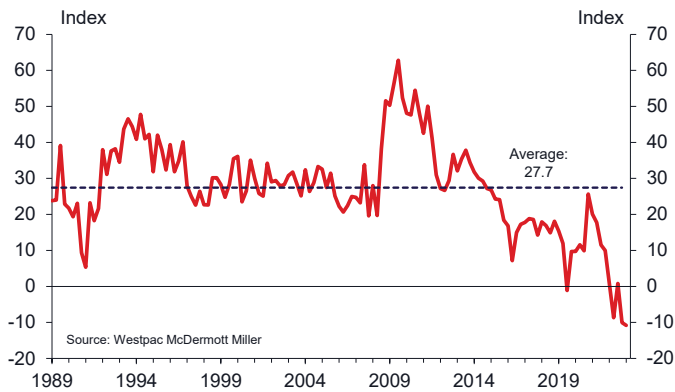
Are you better or worse off financially than a year ago?



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 5 years in NZ?



Consumer confidence by region

	Mar-23	Dec-22	Change
Northland	73	73.7	-0.7
Auckland	82.6	75.1	7.5
Waikato	76	74.2	1.8
Bay of Plenty	75.5	72.7	2.8
Gisborne/Hawke's Bay	74.2	73.2	1.0
Taranaki/Manawatu-Whanganui	76.2	72.7	3.5
Wellington	77.3	82.2	-4.9
Nelson/Marlborough/West Coast	74.3	75.3	-1
Canterbury	74.7	77.4	-2.7
Otago	74.6	79.3	-4.7
Southland	68.4	61.9	6.5
Nationwide	77.7	75.6	2.1

Source: Westpac McDermott Miller

Note: This table shows a breakdown of our overall consumer confidence data by region. It measures how households feel about their personal economic situation and the outlook for the nationwide economy. It differs from the 'Regional Economic Confidence' table above, which tracks how households feel about economic conditions specifically in the regions they live in.

Contact the Westpac economics team

Kelly Eckhold, Chief Economist

+64 21 786 758

Michael Gordon, Senior 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

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