

Raindrops keep falling on my head

March quarter Westpac McDermott Miller Consumer Confidence Index: Down 1.2 points to 111.9

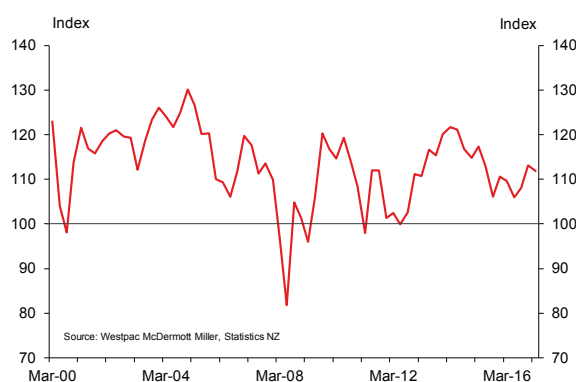
20 March 2017

- Confidence among New Zealand households nudged down in March, but only a touch.
- Households are in the mood to spend – but on entertainment, rather than goods.

Consumer Confidence Indices

	Mar-17	Dec-16	Change	Average
Consumer Confidence Index	111.9	113.1	-1.2	111.4
Present Conditions Index	111.2	111.4	-0.2	108.6
Expected Conditions Index	112.4	114.3	-1.9	113.3
Current financial situation	2.3	2.5	-0.3	-9.3
Expected financial situation	7.6	7.7	-0.1	12.1
1-year economic outlook	11.8	18.0	-6.2	-3.3
5-year economic outlook	17.8	17.2	0.5	30.9
'Good time to buy'	20.1	20.2	-0.1	26.4

Consumer confidence



Note: An index number over 100 indicates that optimists outnumber pessimists.

A damp start to the year

Confidence among New Zealand households nudged down a little in the early part of 2017. But only a little. Rather than signalling any material softening in the household sector, it looks more like households are continuing to saunter along.

The Westpac McDermott Miller Consumer Confidence survey showed that household confidence edged back in the March quarter, falling 1.2 points. Given normal quarter-to-quarter volatility, and the soggy summer weather, that's a fairly small fall. And after gains in the past two quarters, this still leaves confidence among households at around average levels.

March's slight fall in confidence mainly reflected a little less optimism about the economic outlook over the next year. That may reflect some anxiety about the upcoming election. It might also reflect concerns around housing affordability or political developments offshore, both of which continued to hit the headlines in recent weeks.

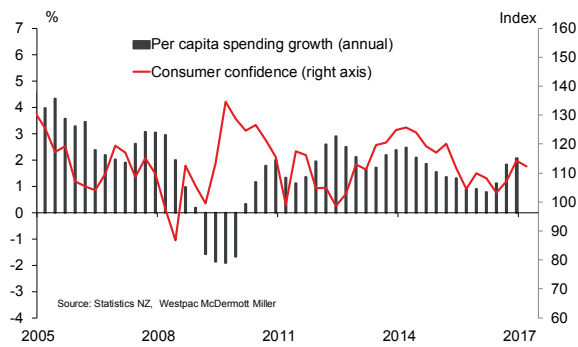
But while households may be a little less optimistic, they're certainly not pessimistic. On top of this, the proportion of households reporting that they are in better shape financially than they were last year is higher than average.

Still in the mood to spend...

These healthy (but not exuberant) levels of household confidence have seen household spending growth continuing to trend along. The latest GDP figures showed that on a per-capita basis, household spending rose by around 2% last year. While certainly not roaring away, that's not an unhealthy rate of spending growth.

Importantly, these increases in per-person spending and relatively firm levels of confidence are coming on top of the fastest population growth we've seen since the 1970s and solid growth in employment. Together with low interest rates, these factors are providing a solid boost to retail spending. And with most of last year's gains in confidence carrying through in to the new year, cash registers should continue ringing though 2017.

Per capita spending growth and consumer confidence

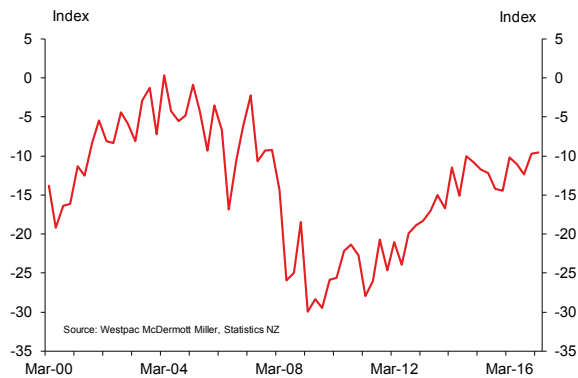


...but not on everything

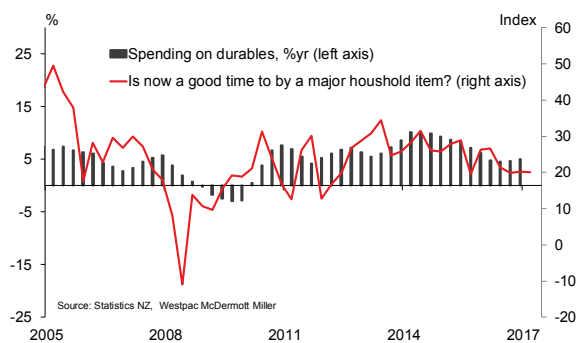
One of the interesting features of the consumer confidence survey has been spending intentions. Households continue to signal that they're in the mood to spend, but only on certain items.

For the past five years, we've seen continuing gains in the number of households who have been increasing their spending on entertainment and dining out. This trend has been particularly marked among those aged 30 and upwards.

Family spending on entertainment and eating out



Durables spending



However, it's a different picture with regards to spending on durables. The number of households who think it's a good time to buy a major household item, like furnishings or appliances, has pulled back in recent surveys. That's despite strength in the NZ dollar (which has held down the prices of imported goods) and relatively low interest rates. In part this reluctance to spend may be related to the softening in the housing market since mid-2016. Households will often purchase new furnishings when moving home, but home sales have fallen more than 20% since last April.

Survey description

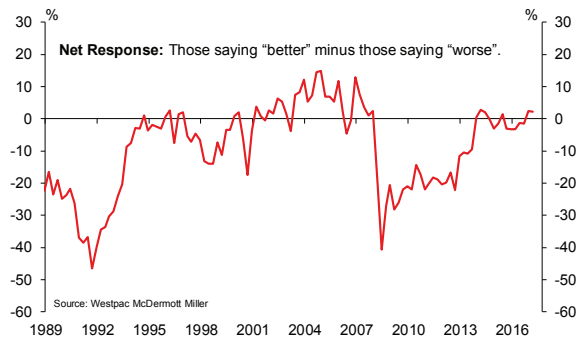
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial 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.

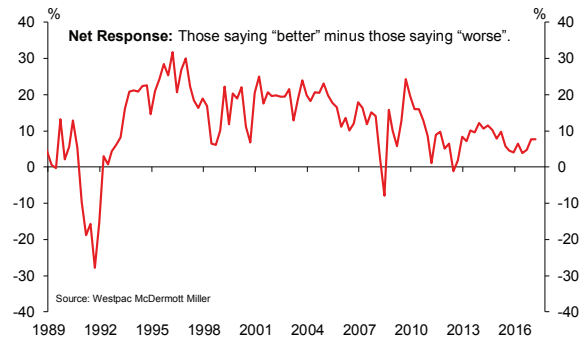
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 11 March 2017. The sample size was 1555.

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Senior Economist

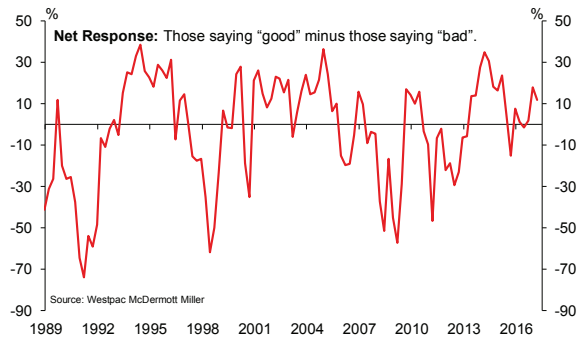
Are you better or worse off financially than a year ago?



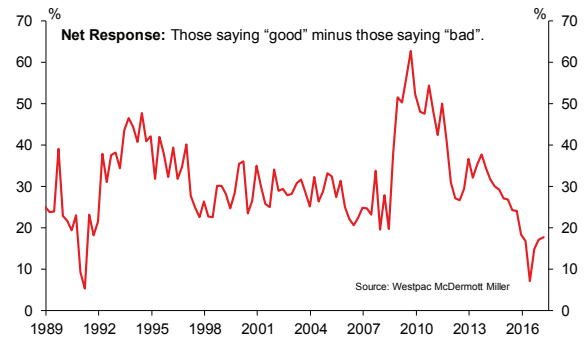
Do you expect to be better or worse off financially in a year's time?



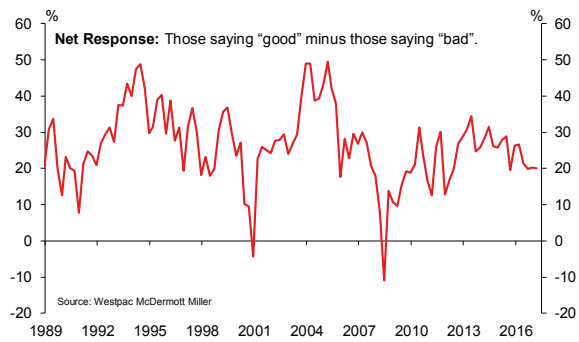
Do you expect good or bad economic times over the next 12 months in NZ?



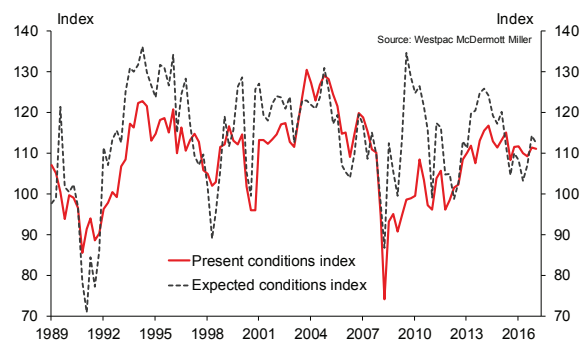
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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