

Shake it off

June quarter Westpac McDermott Miller Consumer Confidence Index: Up 1.5 points to 113.4

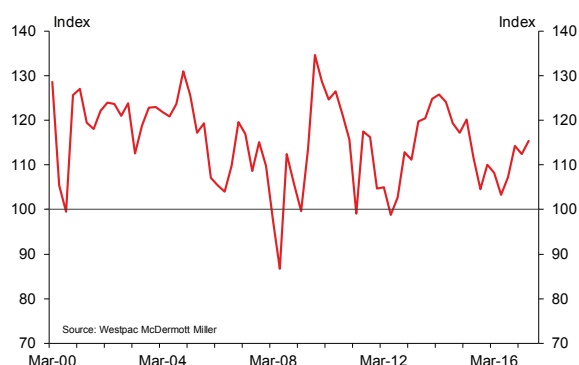
19 June 2017

- June saw widespread gains in consumer confidence.
- However, spending appetites have softened.
- Households don't seem worried about debt repayment, despite high levels of debt.

Consumer Confidence Indices

	Jun-17	Mar-17	Change	Average
Consumer Confidence Index	113.4	111.9	1.5	111.4
Present Conditions Index	110.5	111.2	-0.7	108.6
Expected Conditions Index	115.4	112.4	3.0	113.3
Current financial situation	1.5	2.3	-0.7	-9.0
Expected financial situation	9.2	7.6	1.6	12.0
1-year economic outlook	18.2	11.8	6.3	-2.8
5-year economic outlook	18.8	17.8	1.0	30.6
'Good time to buy'	19.4	20.1	-0.7	26.3

Consumer confidence



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

Households shake off the winter blues...

Winter typically sees a little bit of a dip in consumer confidence. But not this year. New Zealand households have shaken off their usual winter blues, with the Westpac McDermott Miller Consumer Confidence survey recording a 1.5 point rise in June. That took the index to 113.4 - its highest level since early 2015. And looking into the breakdown of this quarters survey, gains in confidence have been widespread, both geographically and by income levels.

June's rise in consumer sentiment reflects improved confidence in the economic outlook. Increasing numbers of households expect economic conditions to improve over the coming year. Importantly, households expect that this will pass through to an improvement in their own financial position.

This improvement in confidence has come on the back of a couple of big developments in the economy. First, we've seen a strengthening outlook for export earnings in recent months, which is being reflected in gains in confidence in rural communities.

Second, this year's Budget included planned adjustments to personal income tax thresholds and a family support package, both of which are scheduled to take effect from next year. If implemented, these changes will give a boost to many households' disposable incomes.

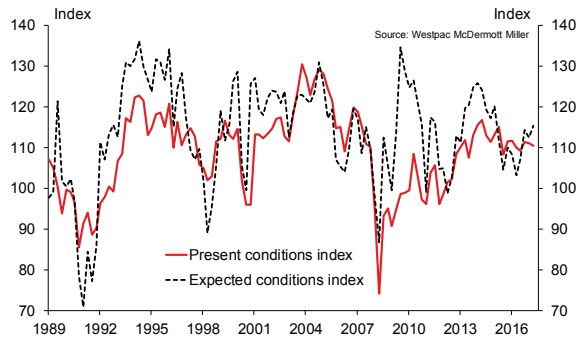
...but they're keeping an eye on the purse strings

While households are increasingly optimistic about the outlook, they have become a little less upbeat about the current economic environment, and this is weighing on spending appetites. Notably, the number of households who think now is a good time to purchase a major household item has been trending down. Households are also reporting that they have been reining in their spending on leisure activities like dining out.

Softening spending appetites are likely to reflect the rise in borrowing rates over the past year and the related slowdown in the housing market - both of which are key determinants of household spending (households will often purchase new items when moving homes). Such concerns are particularly pronounced in Auckland where the slowdown in the housing market has been most acute.

Nevertheless, even accounting for concerns about the current spending environment, households remain upbeat about overall economic conditions.

Present and Expected Conditions

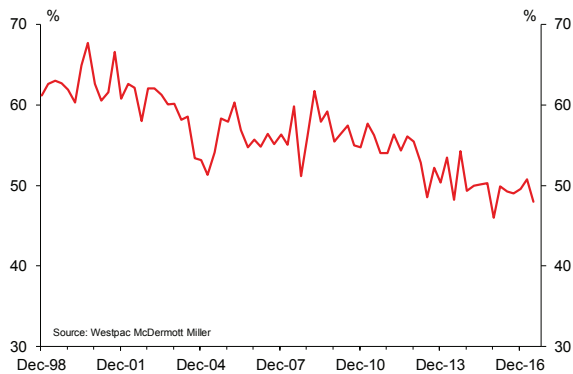


Households' attitudes to debt

An interesting feature of this quarter's survey are households' attitudes regarding debt. Each quarter, we ask households what they would do if they received a windfall of \$10,000. In June the number of households who said they would use these funds for savings or paying down debt actually fell. In fact, the proportion of households who are focusing on savings/debt repayment has only been this low once before in the 19 years that we've been asking them about it. This quarter's fall is all the more surprising given the rises in interest rates since late last year, and may be a by-product of the increased confidence in the economic outlook.

This will be an important area to watch over the coming year with regards both to household confidence and spending. Relative to disposable incomes, debt levels are now at record highs, with much of this leveraged against housing assets. And with the housing market slowing, this could have an important impact on households' financial health over the coming years.

Proportion of households who would use a cash windfall for saving or debt repayment



Survey description

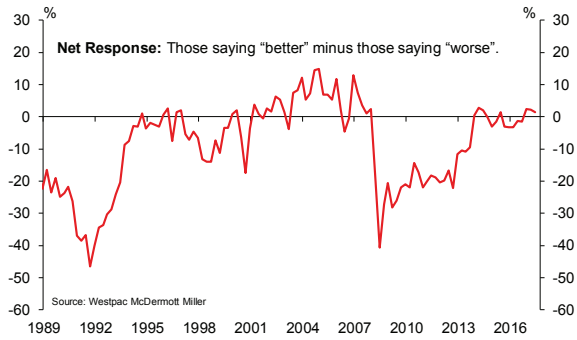
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

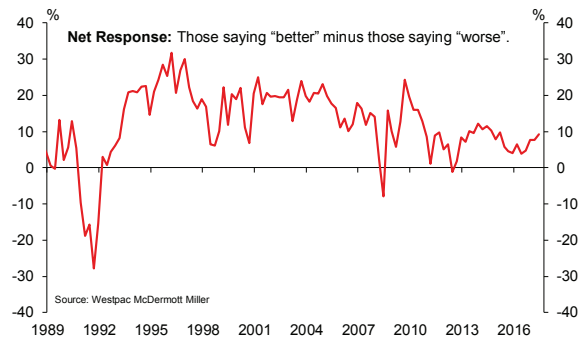
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 11 June 2017. The sample size was 1555.

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Senior Economist

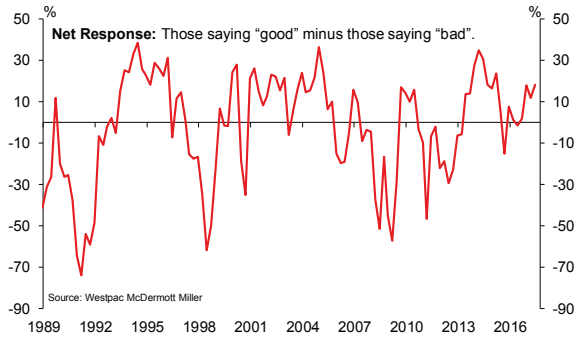
Are you better or worse off financially than a year ago?



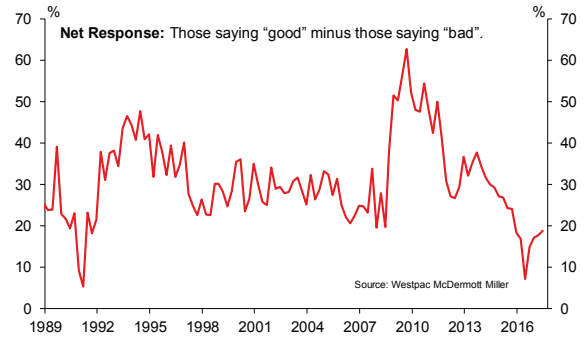
Do you expect to be better or worse off financially in a year's time?



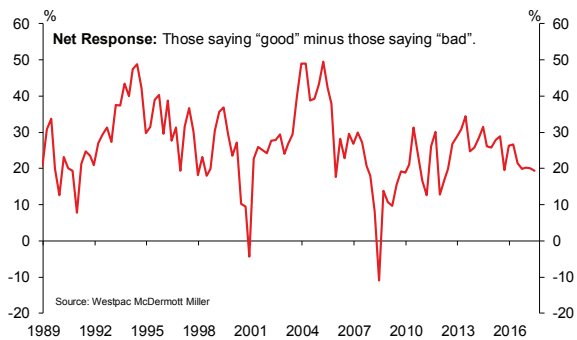
Do you expect good or bad economic times over the next 12 months in NZ?



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?



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