



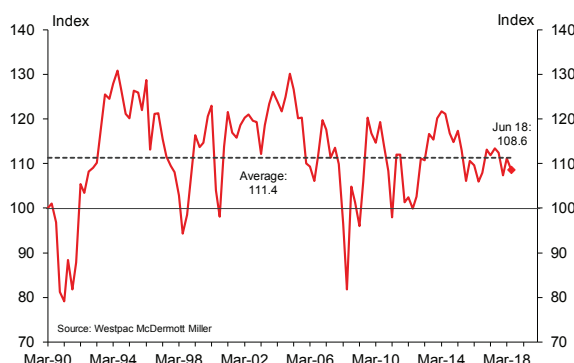
Westpac McDermott Miller Consumer Confidence Index

Consumer confidence down 2.6 points to 108.6 in June

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- Consumer confidence fell in June, taking it slightly below its long-run average.
- The drop in confidence was widespread, and is consistent with the recent signs that the edge has come off the economy's upturn.
- More households say that now is a good time to buy major household items, but this may reflect an expectation of price rises rather than a greater appetite to spend.
- Households' inclination to save remains low.

Consumer confidence



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

New Zealand households' views on the economy have cooled again after a more positive start to the year. The Westpac McDermott Miller Consumer Confidence Index fell 2.6 points in June, taking it to a slightly below-average level of 108.6.

There's no obvious political slant to the consumer confidence survey. Confidence initially fell after last year's election, suggesting that consumers were apprehensive about how the new coalition Government would work out, but it reversed most of this fall by March. What's more, the initial post-election reaction was mixed across household types, with some expecting to do better and some worse under the new Government.

Consumer Confidence Indices

	Jun-18	Mar-18	Change	Average
Consumer Confidence Index	108.6	111.2	-2.6	111.4
Present Conditions Index	111.7	111.2	0.5	108.7
Expected Conditions Index	106.6	111.2	-4.6	113.1
Current financial situation	-2.8	0.0	-2.8	-8.7
Expected financial situation	1.7	4.1	-2.4	11.7
1-year economic outlook	1.2	11.7	-10.5	-2.4
5-year economic outlook	16.9	17.9	-1.0	30.2
'Good time to buy'	26.2	22.5	3.7	26.1

In contrast, the drop in the June survey was fairly widespread, with confidence down across most regions, age groups and income levels. To us, this reinforces the evidence that the edge has come off the New Zealand economy in recent times, in response to a slowing housing market. The pace of growth slowed in the second half of last year, and the GDP figures released later this week are expected to show a further cooling in the March quarter.

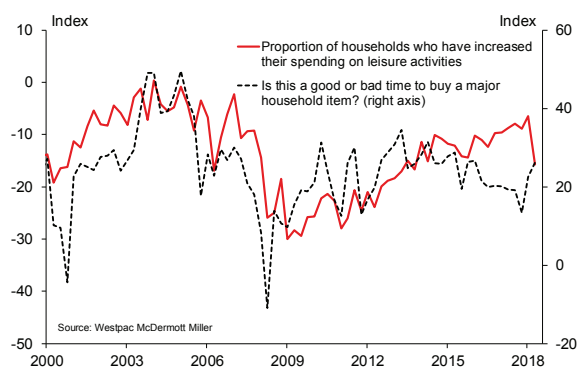
That said, the drop in confidence hasn't been particularly large to date. That speaks to more of a general malaise among households, rather than specific worries about the direction the economy is heading.

Confidence was down in terms of both households' own financial position and their views on the overall economy. There was a particularly sharp drop in economic expectations for the year ahead, though that only places this measure at a two-year low.

The exception to the weaker tone of the survey was households' perceptions as to whether it's a good time to buy a major household item, which rose for a second straight quarter. That may reflect a view that retail prices are going up from here – there's been some discussion recently around the impact of higher fuel prices, minimum wages and other government regulations on businesses' costs, which would ultimately be passed on to the consumer.

We don't believe this is a sign that consumers are ready to embark on a spend-up, however. The electronic card spending figures have already highlighted a slowdown in spending growth in recent months. And notably, the June quarter confidence survey showed a sharp drop in the number of households reporting an increase in spending on entertainment and dining out. It may be that higher fuel prices (which reached a new record high during the survey period) are eating into households' discretionary spending.

Household spending appetites

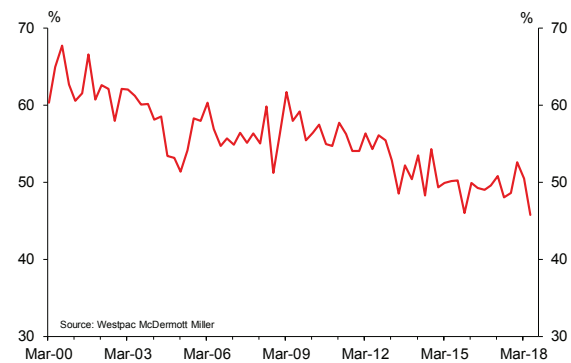


Each quarter, the survey asks households what they would do if they received a windfall of \$10,000. The June

survey maintained the long-running downward trend in households' inclination to save. However, the reported intentions varied, with more households saying that they would spend it, but also more of them would use it to pay down debt, or give it to family members or charity.

Households' attitudes towards saving will be an important area to watch. We expect little in the way of capital gains on housing over the next few years, as a result of the new Government's housing policies and an eventual rise in interest rates. That in turn could leave some households feeling uncomfortable with the high levels of debt that they are holding, relative to their incomes.

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



Survey description

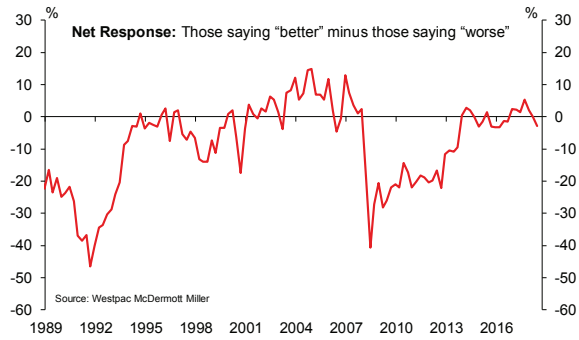
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

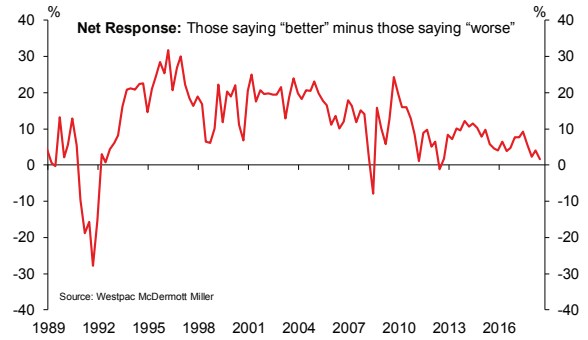
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1-11 June 2018. The sample size was 1,555.

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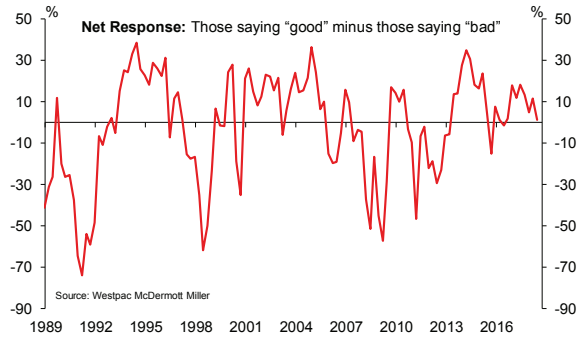
Are you better or worse off financially than a year ago?



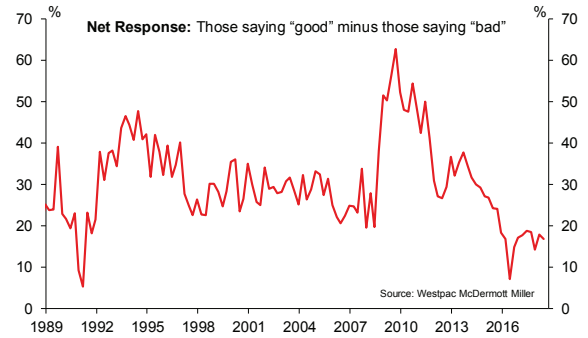
Do you expect to be better or worse off financially in a year's time?



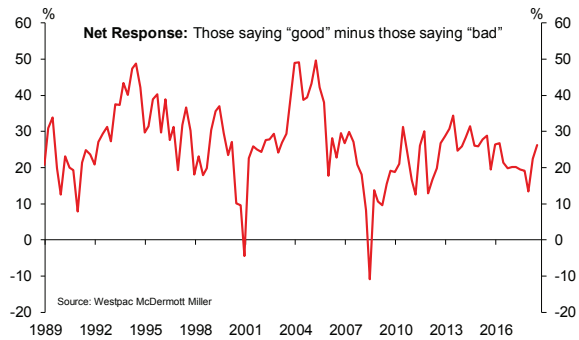
Do you expect good or bad economic times over the next 12 months in New Zealand?



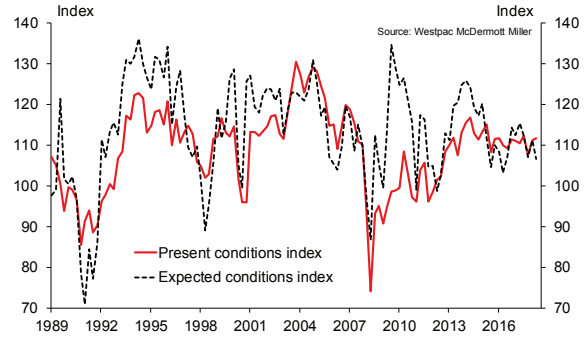
Do you expect good or bad economic times over the next 5 years in New Zealand?



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



Present and expected conditions



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