



Westpac McDermott Miller Consumer Confidence Index

Consumer confidence down 5.1 points to 103.5 in September

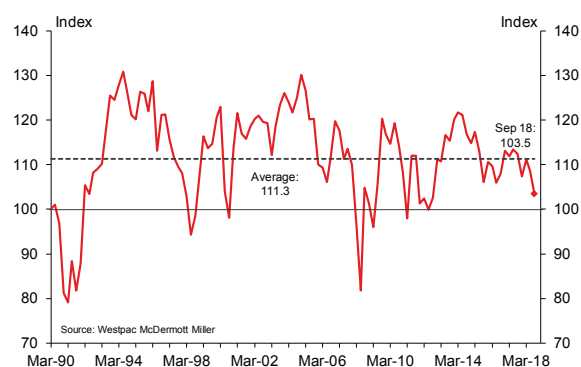
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Consumer Confidence Indices

	Sep-18	Jun-18	Change	Average
Consumer Confidence Index	103.5	108.6	-5.1	111.3
Present Conditions Index	107.5	111.7	-4.2	108.7
Expected Conditions Index	100.8	106.6	-5.8	113.0
Current financial situation	-5.3	-2.8	-2.5	-8.6
Expected financial situation	-4.6	1.7	-6.3	11.6
1-year economic outlook	-7.9	1.2	-9.1	-2.5
5-year economic outlook	14.9	16.9	-2.0	30.0
'Good time to buy'	20.4	26.2	-5.8	26.0

Consumer confidence



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

- Consumer confidence fell sharply in September, taking it to its lowest in six years.
- Households are particularly concerned about the outlook for their own finances and the general economy over the next year.
- This comes despite the Government's Families package, which was initiated in July. This has presumably been outweighed by other concerns, such as rising petrol prices and cooling housing markets.
- These results present a challenge to our expectation that the economy will regain some momentum in the short term on the back of Government spending.
- Households' inclination to save remains low.

Confidence among New Zealand households has seen a significant drop. The Westpac-McDermott Miller Consumer Confidence Index fell by 5.1 points to 103.5 in the September quarter, its lowest level in six years.

Unlike business surveys, consumer confidence covers the whole spectrum of voters, so it's not obviously slanted based on who is in power. In fact, up until now, the post-election consumer surveys have been mixed rather than consistently softer. So the latest drop in confidence

gives genuine cause for concern about how the economy is progressing.

Consumer spending growth has clearly slowed in the last year or so, in part reflecting the cooling in house price inflation. Our view has been that spending would continue to grow at a slow but steady pace in coming years, with a pick-up in the near term as the Government's Families Package put more money in households' pockets. However, the details of the consumer confidence survey present a challenge to that view.

The survey did show a lift in current financial conditions for households in the lowest income bracket, who are the most likely to have benefited from the Families Package (this group will include pensioners and beneficiaries, who received the new Winter Energy Payment). But these payments weren't enough to offset the other factors weighing on consumers' minds, with overall perceptions about financial conditions down for the quarter.

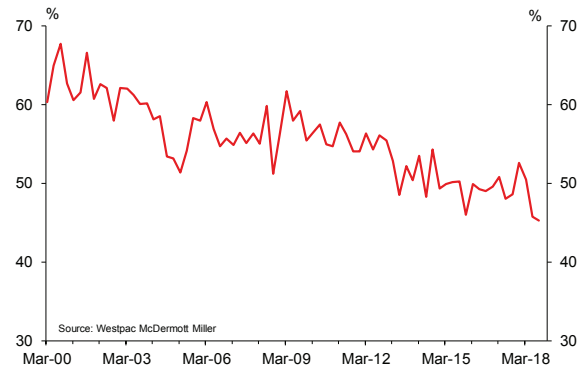
Similarly, current conditions improved for the old and the young, and fell for those in between. But beyond the initial boost from the Families Package, all age groups expected a decline in their own circumstances, and in the wider economy, over the coming year.

Indeed, expectations for the year ahead were particularly weak. Households' expectations of their own circumstances in the next year fell to a net -5, the lowest reading outside of an actual recession in the history of the survey. Expectations for the wider economy over the next year also fell sharply. Economic expectations for the next five years were only slightly weaker, but this measure was already at low levels and has been for some time.

As always, there is no straightforward answer as to what is playing on consumers' minds. The slowdown in house price gains is one potential factor; rising fuel prices is another. This would fit with the particularly sharp fall in confidence in the Auckland region, which has experienced the double whammy of falling house prices and the regional fuel tax that was introduced in July. It may be that consumers are starting to feel a real impact from the economic slowdown which began in 2017. Or it may just be that consumers are concerned by what they are hearing about business confidence.

Each quarter, the survey asks households what they would do if they received a windfall of \$10,000. The September survey continued the long-running downtrend in households' inclination to save. We'll be interested to see how this changes over time, as the Government introduces new policies that could discourage households from relying on housing as a savings vehicle.

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



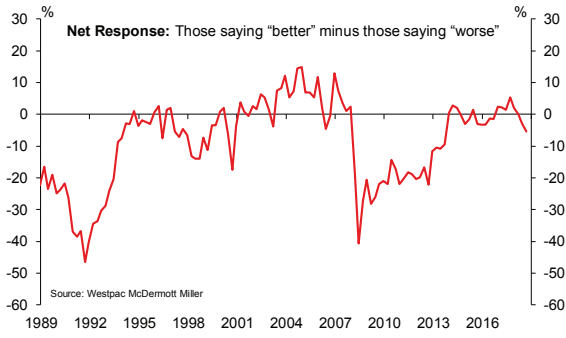
Survey description

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.

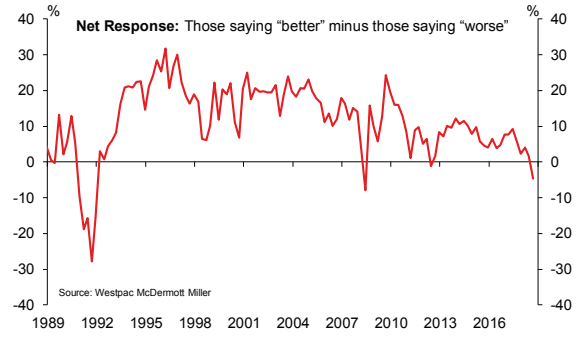
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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 1-10 September 2018. The sample size was 1,556.

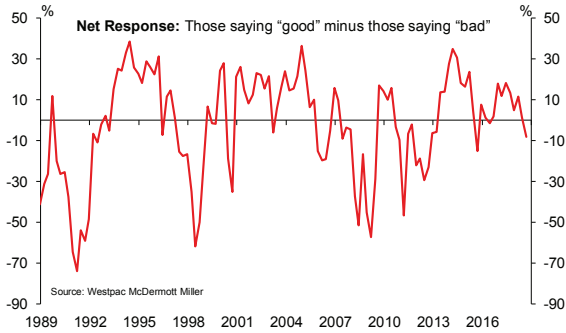
Are you better or worse off financially than a year ago?



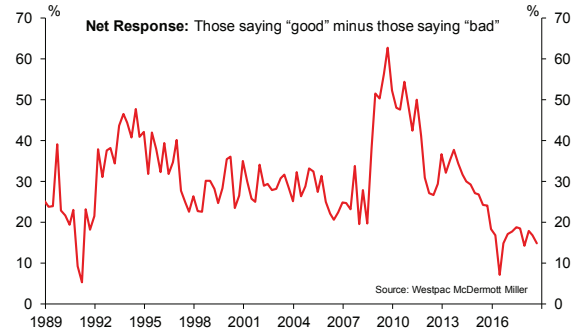
Do you expect to be better or worse off financially in a year's time?



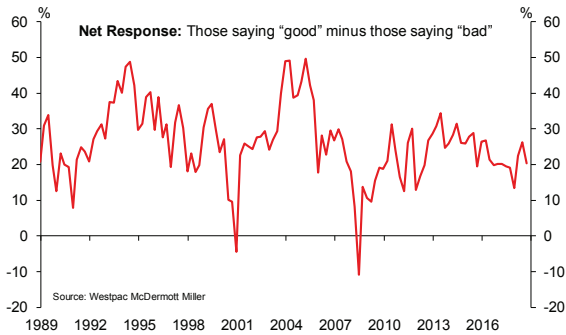
Do you expect good or bad economic times over the next 12 months in New Zealand?



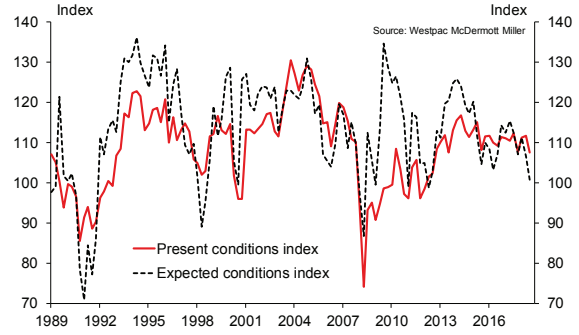
Do you expect good or bad economic times over the next 5 years in New Zealand?



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



Present and expected conditions



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