

Westpac McDermott Miller Consumer Confidence.

17 September 2019



Consumer confidence down 0.4 points to 103.1 in September.

- Consumer confidence continued its downwards trend in September and remains at subdued levels.
- While households are more optimistic about their personal financial situation, they have become increasingly downbeat about the economic outlook more generally.
- Despite the fall in borrowing rates in recent months, households are reluctant to spend and are instead focused on paying down debt.

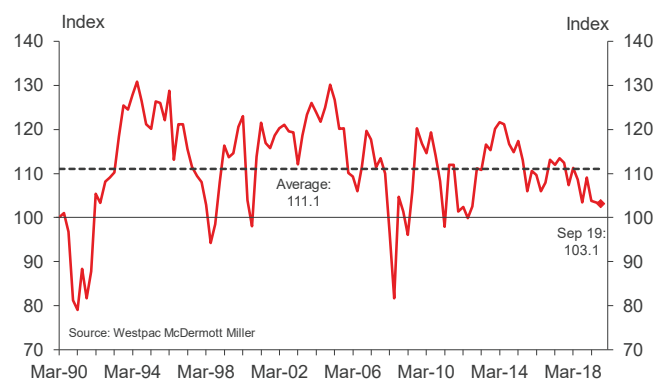
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Consumer confidence indices

	Sep-19	Jun-19	Change	Average
Consumer Confidence Index	103.1	103.5	-0.4	111.1
Present Conditions Index	106.4	106.6	-0.2	108.7
Expected Conditions Index	101.0	101.4	-0.4	112.7
Current financial situation	-2.4	-4.7	2.3	-8.5
Expected financial situation	13.2	-3.2	16.4	11.2
1-year economic outlook	-9.2	-4.6	-4.6	-2.5
5-year economic outlook	-1.1	11.9	-13.0	29.4
'Good time to buy'	15.1	17.9	-2.8	25.9

Consumer confidence



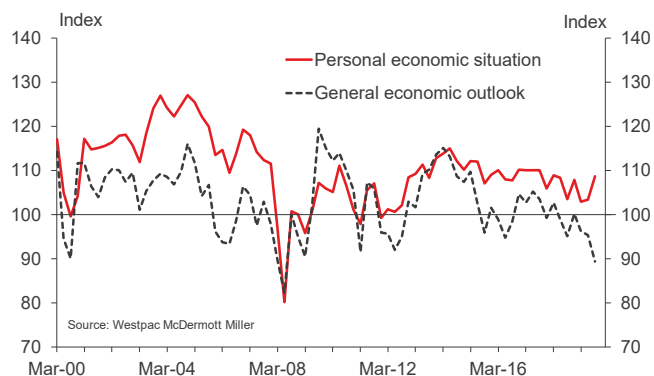
A rocky backdrop weighing on spending appetites.

Consumer confidence has fallen to its lowest level since 2012. The Westpac McDermott Miller Consumer Confidence Index fell 0.4 points in September to a level of 103.1. And while that is a relatively small drop, it continues the run of declines that we have seen over the past two years, and leaves confidence among New Zealand households at below average levels.



The fall in consumer confidence comes atop a more general deterioration in the economic landscape. Since our last survey, there has been a wave of negative headlines about conditions in the global economy. Closer to home, recent weeks have seen widespread reports of weakness in the business sector. There has also been ongoing softness in parts of the housing market. Against this backdrop, it's not surprising that households have grown increasingly pessimistic about where the economy is heading over the next few years.

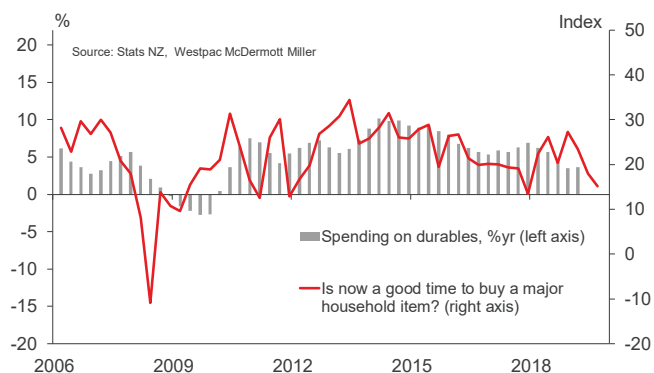
Personal and general economic conditions



However, while households are obviously worried about the recent stream of bad news on the economy, they are more positive about their personal financial situation. The number of households reporting that they are better off financially compared to a year ago has picked up. There's also been a sharp rise in the number of households that expect they will be better off over the coming year, even though they think the broader economy will weaken.

Nevertheless, there's still a reluctance to spend on big ticket items like household furnishings – the number of households who think now is a good time to purchase a major household item fell for a third quarter in a row and is now at its lowest level in two years. We've already seen that reflected in a slowdown in spending on household durables. That's reinforcing our expectations for sluggish spending growth over the remainder of 2019.

Spending appetites



Spend it or save it?

Each quarter we ask households what they would do with an unexpected cash windfall. This quarter, we saw two very big changes:

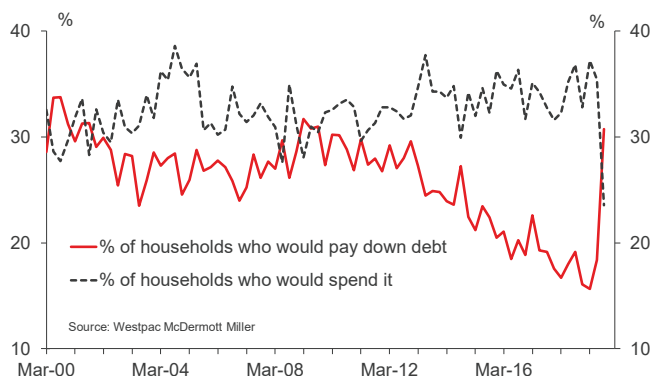
- First, the number of households who said they would spend it has plummeted, dropping to its lowest level in 20 years.
- At the same time, the proportion of households who said they would use a cash windfall to repay debt has rocketed higher, back to levels we last saw in 2009.

Those results were echoed across all income and age groups.

Those are particularly surprising results as since the time of our last survey, the Reserve Bank has cut the Official Cash Rate by 50 bps and mortgage rates have been slashed to their lowest levels in decades. Despite this, households are still reluctant to spend and are keeping an increasingly close eye on the purse strings.

This may suggest that the RBNZ's double-cut scared people more than it helped. Certainly, it raises questions about whether we will see economic activity firming through the back half of 2019 and early 2020 as the RBNZ is looking for. We expect that growth will fall short of the RBNZ's expectations, and that ongoing softness in GDP growth will prompt another 25 bp reduction in the OCR in November.

How would you use a cash windfall?



In the details.

Economic confidence remains low across the country, with particular softness in the South Island.

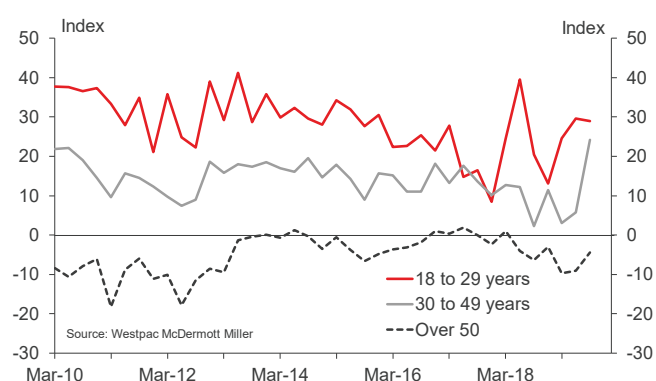
The fall in confidence over the past year has been seen across all income groups. However, confidence is particularly low among those households who earn more than \$50,000 per annum. Those in this income bracket are particularly concerned about the longer-term economic outlook and have wound back their spending plans accordingly.

Confidence levels are also down across all age groups, with the economy's trajectory over the coming years the major

concern highlighted by all households. However, there are some notable differences across age groups. In particular, those New Zealanders aged under 50 have become less pessimistic about the outlook for their finances over the coming year. In contrast, older New Zealanders remain much more concerned about their financial position.

As always, a range of factors may have contributed to these trends, but the big one is likely to be low interest rates. Older New Zealanders, as well as those on higher incomes, are likely to be more reliant on savings to support their spending. In the current low interest rate environment, many of these households may now find that their earnings fall short of expectations, raising concerns about their spending power. Meanwhile, younger borrowers will be finding their debt burdens easier to manage at lower interest rates.

Expected financial position over the coming year



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.

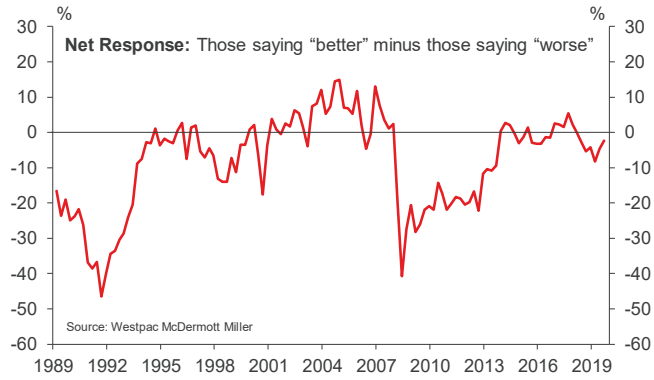
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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 1-12 September 2019. The sample size was 1,554.

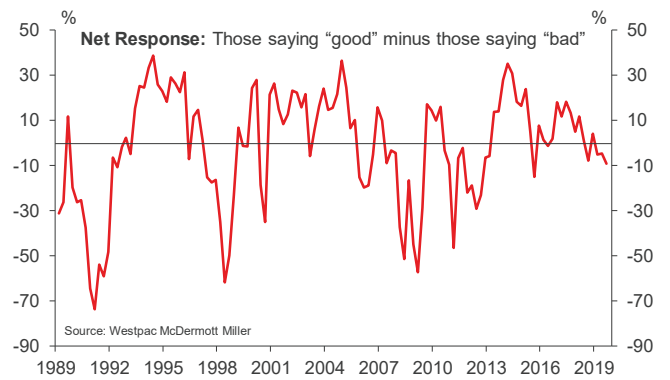
Consumer confidence by region

	Sep-19	Jun-19	Change
Northland	101.8	101.4	0.4
Auckland	106.7	101.8	4.9
Waikato	102.6	97.2	5.4
Bay of Plenty	104.8	97.0	7.8
Gisborne/Hawke's Bay	103.7	105.6	-1.9
Taranaki/Manawatu-Whanganui	105.9	105.9	0.1
Wellington	100.9	115.1	-14.2
Nelson/Marlborough/West Coast	103.2	103.2	0.0
Canterbury	96.3	102.4	-6.1
Otago	96.4	109.2	-12.8
Southland	104.8	99.2	5.6
Nationwide	103.1	103.5	-0.4

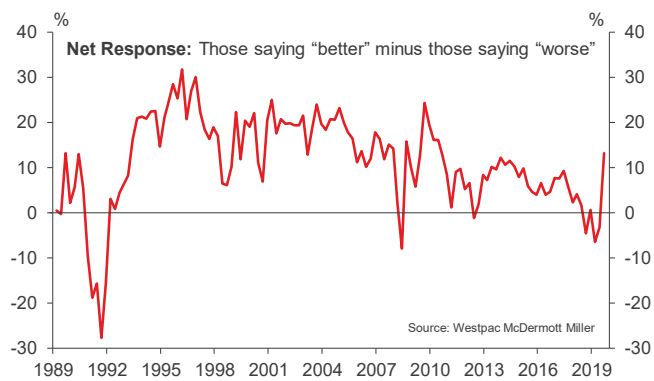
Are you better or worse off financially than a year ago?



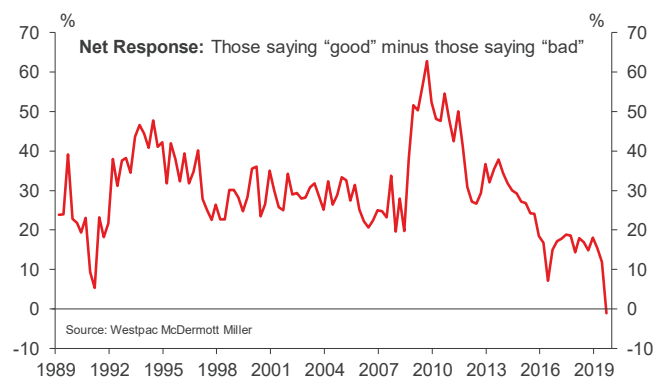
Do you expect good or bad economic times over the next 12 months in NZ?



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?



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