

Westpac McDermott Miller Consumer Confidence.

17 March 2020



Consumer confidence down 5.7 points to 104.2 in March.

- With New Zealand wrestling with the twin headwinds of Coronavirus and drought, consumer confidence has fallen to below average levels.
- New Zealand households are worried about where the economy is heading, and that is weighing on their plans for spending.
- While households are nervous about the economic outlook, at this stage they are less concerned about how they will personally be affected. However, that could change over the coming months.

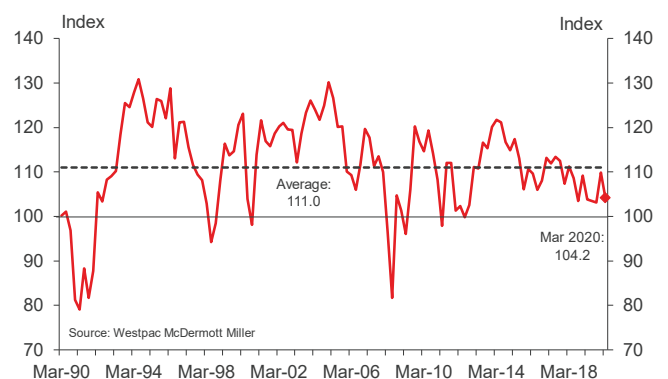
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Consumer confidence indices

	Mar-20	Dec-19	Change	Average
Consumer Confidence Index	104.2	109.9	-5.7	111.0
Present Conditions Index	103.4	110.1	-6.7	108.6
Expected Conditions Index	104.7	109.8	-5.1	112.6
Current financial situation	-1.6	-0.9	-0.7	-8.4
Expected financial situation	19.9	15.5	4.4	11.3
1-year economic outlook	-15.4	4.2	-19.6	-2.6
5-year economic outlook	9.7	9.7	0.0	29.1
'Good time to buy'	8.4	21.1	-12.7	25.7

Consumer confidence



The March Westpac-McDermott Miller Consumer Confidence survey provides one of the earliest readings on how New Zealand households are holding up in the face of the Covid-19 outbreak and droughts in some key agricultural regions. Our latest survey was run between March 1 and 10. That was after the initial restrictions on international travel were imposed and following the arrival of the virus in New Zealand. However, this does predate the more stringent



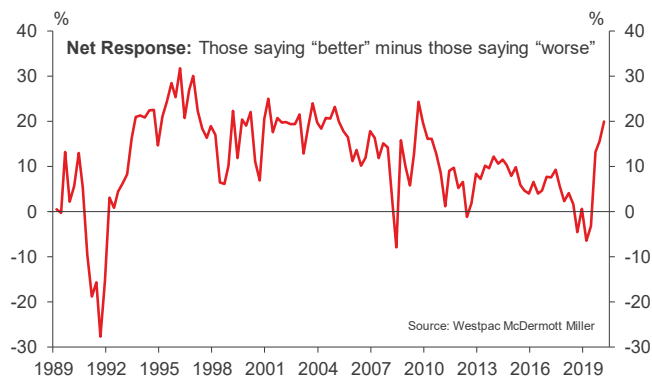
health measures that have now been introduced, and the related downturn in financial markets.

Unsurprisingly, consumer confidence has taken a knock in early 2020. The Westpac-McDermott Miller Consumer Confidence Index fell 5.7 points in March to a level of 104.2. That drop reversed the rise we saw in late 2019 and leaves confidence at below average levels.

Given the headwinds confronting the New Zealand economy, the drop in consumer confidence has actually been fairly modest. Households are feeling nervous about the economic outlook over the year ahead. But at least at this stage they don't appear too worried about how they will personally be affected. In fact, there has been a large increase in the number of households who expect to be better off financially over the coming year.

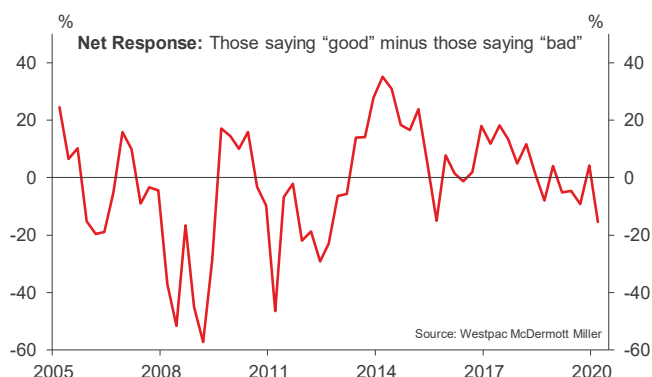
A key factor that will have helped to buoy many households' spirits has been the strength of the housing market. New Zealanders hold a lot of their wealth in housing assets, be that the family home or some form of investment property. Recent months have seen mortgage rates falling to low levels. We've also seen house price growth picking up a head of steam, with widespread and large gains in prices. Those developments are likely to have left many households feeling more optimistic about how their personal financial position is shaping up.

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



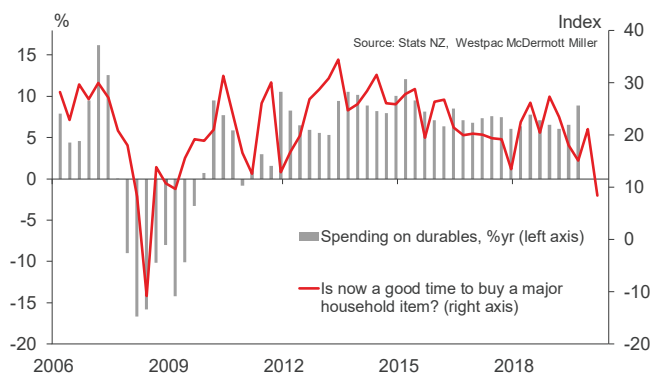
But while households don't appear too concerned about their personal financial situation (at least for now), they are clearly worried about where the economy more generally is headed over the year ahead. The proportion of households who expect economic conditions will improve over the coming year has dropped to just 16 – equal to the nine year low we saw in September. At the same time, the proportion of households who expect economic conditions will weaken over the year ahead has risen to 32%, up sharply from last quarter.

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



That nervousness about broader economic conditions is weighing on households' spending appetites. The number of households who think now is a good time to purchase a major household item has fallen to its lowest level since 2008, when the New Zealand economy was in the depths of the global financial crisis. That's particularly notable given the firming in the housing market over the past year, which tends to be a big driver of spending, especially on durable items like household furnishings.

Spending appetites



Thus far, households have reported only a slight deceleration in their spending on leisure activities, like dining out or attending events. It seems that, at least during the early stage of the Covid-19 outbreak, most New Zealanders were still getting out and spending on leisure activities. That's a particularly notable result. Social distancing – when people choose to limit social activities – can be a major drag on economic activity during public health crises. And we are hearing numerous comments from those in the hospitality sector that turnover in many restaurants has fallen sharply in recent weeks. However, thus far it looks like health concerns have prompted a shift in where New Zealanders go to enjoy leisure activities, rather than prompting them to stop going out altogether.

We suspect that New Zealanders' spending on leisure and entertainment activities will fall significantly over the coming months in response to efforts to prevent the spread

of Covid-19. That will be reinforced by the reduction in international tourist arrivals, signalling significant headwinds for the hospitality sector.

Sentiment among New Zealand households will be challenged over the months ahead by the weakening in economic conditions. Given the more stringent measures being introduced to protect public health and the related deterioration in financial conditions, it wouldn't be surprising to see a further fall in household confidence, and a related drop in spending. Household spending could be particularly hard hit if unemployment increases (as we expect it will), or if health concerns prompt households to avoid social situations.

Consumer confidence by region

	Mar-20	Dec-19	Change
Northland	96.8	105.2	-8.4
Auckland	105.9	112.9	-7.0
Waikato	109.1	108.1	1.0
Bay of Plenty	103.8	110.1	-6.3
Gisborne/Hawke's Bay	100.0	109.6	-9.6
Taranaki/Manawatu-Whanganui	108.0	107.8	0.2
Wellington	108.0	114.0	-6.0
Nelson/Marlborough/West Coast	95.2	106.5	-11.2
Canterbury	102.0	105.0	-3.0
Otago	96.0	108.0	-12.0
Southland	95.4	106.1	-10.7
Nationwide	104.2	109.9	-5.7

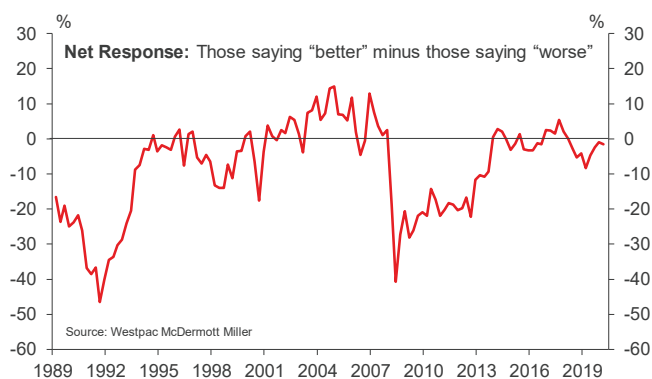
Survey description.

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.

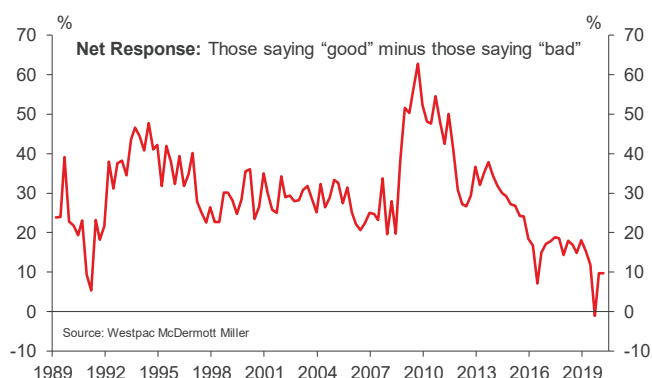
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average.

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 March. The sample size was 1,558.

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



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



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