

# Westpac McDermott Miller Consumer Confidence.

16 June 2020

## Consumer confidence down 7 points to 97.2 in June.

- With Covid-19 pushing the economy into a deep recession, consumer confidence has fallen to low levels and households have wound back their plans for spending.
- Given the extent of the economic downturn, the decline in confidence this quarter was surprisingly moderate.
- This relative resilience in consumer confidence adds to other signs that the Covid recession may not prove quite as severe as initially feared.
- However, we still expect very weak GDP and a big increase in unemployment over the coming few months, so consumer confidence could fall further next quarter.

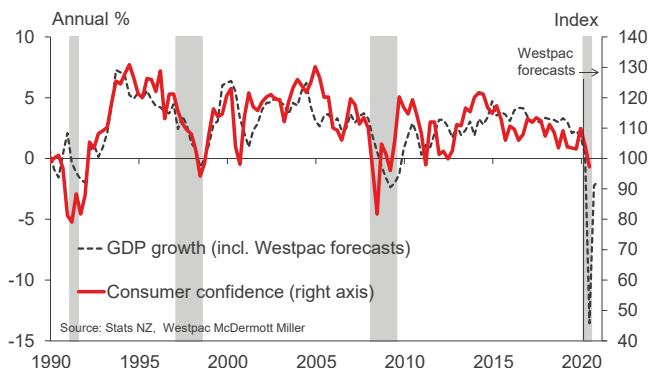
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### Consumer confidence indices

	Jun-20	Mar-20	Change	Average
Consumer Confidence Index	97.2	104.2	-7.0	110.9
Present Conditions Index	94.1	103.4	-9.3	108.5
Expected Conditions Index	99.3	104.7	-5.4	112.5
Current financial situation	-13.2	-1.6	-11.6	-8.4
Expected financial situation	14.7	19.9	-5.2	11.4
1-year economic outlook	-28.3	-15.4	-12.9	-2.8
5-year economic outlook	11.6	9.7	1.9	29.0
'Good time to buy'	1.5	8.4	-6.9	25.5

### Consumer confidence and GDP growth (recessions highlighted)



### Don't panic.

Our latest consumer confidence survey was run as the economy was emerging from three months of restricted economic activity, during which time economic output fell dramatically and unemployment rose. Against this backdrop, it's not surprising that confidence fell. The Westpac McDermott-Miller Consumer Confidence Index fell to 97.2 in



June. That's down from 104.2 in March and is the lowest level of consumer confidence since the Global Financial Crisis.

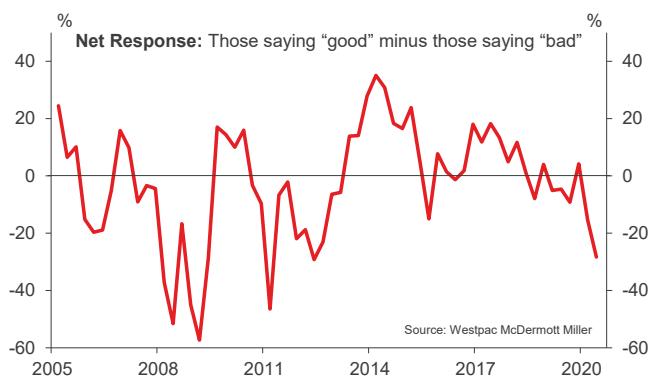
However, while economic confidence is at low levels, we were actually braced for a much larger drop. Covid-19 has pushed the New Zealand economy into a deep recession, and many households will unfortunately find themselves wrestling with some very tough financial challenges over the months ahead. Those conditions threatened to drag confidence to much lower levels, which could potentially compound the weakness in activity. But compared to previous large downturns, like the recessions in the 1990s or the Global Financial Crisis, the fall in confidence this time has been moderate so far. That's likely to reflect New Zealand's success in limiting the spread of the virus and the earlier than anticipated easing in lockdown restrictions.

This relative resilience in consumer confidence is a positive sign for activity through the back half of the year, and adds to a range of other indications that the economic fallout from Covid may not be quite as severe as we first feared. That said, we are still expecting a severe recession and a big increase in unemployment, so it is possible that consumer confidence will fall further next quarter.

### Put your wallet back in your pocket.

Looking into the details of the June quarter report, the downturn in the economy is hitting New Zealanders in their back pockets. A growing number of households have reported that their financial position has deteriorated over the past year. Households are also nervous about where the economy is heading, with the number of people who expect good economic conditions over the coming 12 months falling to its lowest level in eight years.

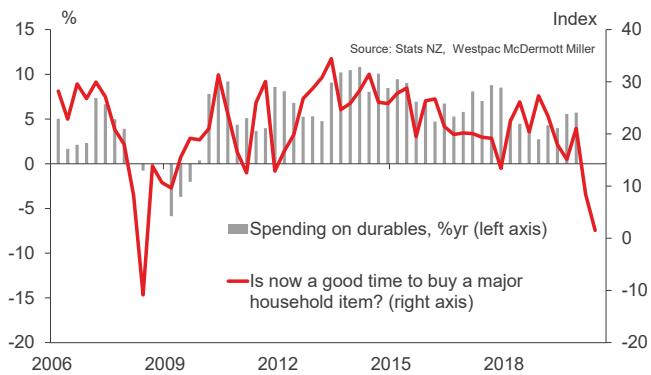
#### Do you expect good or bad economic times over the next 12 months in NZ?



Nervousness about economic conditions has been a drag on spending appetites. There's already been a big drop in spending on entertainment activities like dining out (a result that will have been exacerbated by the lockdown of the economy earlier in the quarter). Looking to the months ahead, the number of households who think now is a good time to purchase a major household item has fallen to its lowest level in more than a decade. Although we have seen a pickup

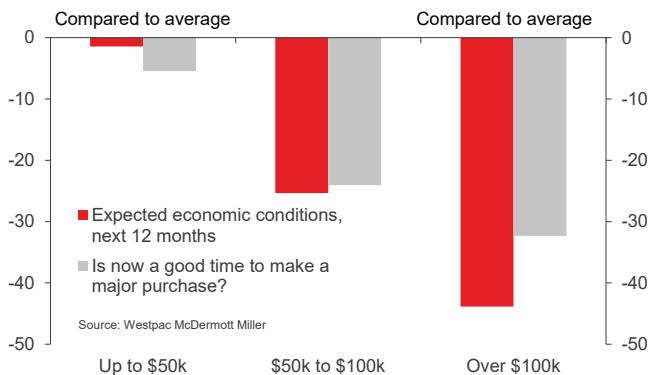
in spending on household furnishings and other durable items in recent weeks, some of that was likely due to pent up demand after the lockdown. This weakness in spending appetites points to the risk of renewed weakness in parts of the retail sector.

### Spending appetites



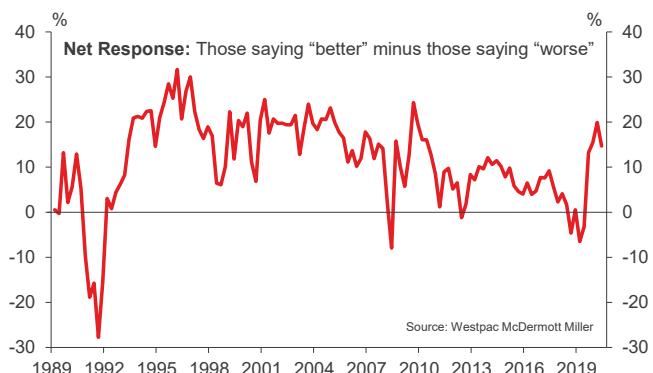
Confidence is down across all income groups. However, confidence is particularly low among those households who earn more than \$50,000 per annum. Those in this income bracket are particularly concerned about the longer-term economic outlook and have wound back their spending plans accordingly.

### Consumer confidence by income group

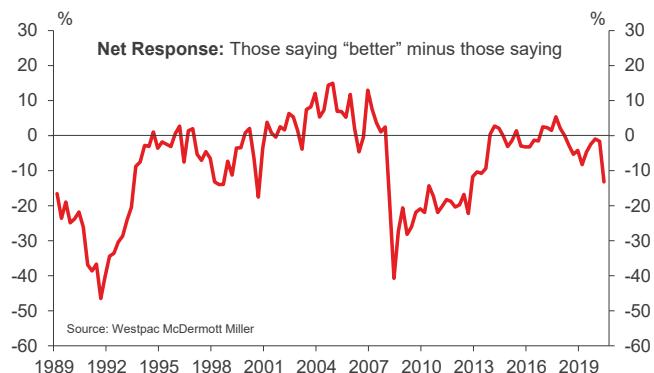


While we are looking at some tough economic conditions over the months ahead, most households are more optimistic about the outlook for their own finances than they are about the economy more generally. In fact, most households we spoke to think that their own financial position will improve over the coming year. We'll be watching if that optimism is sustained over the coming months, as it could have important implications for spending and activity through the back half of the year.

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



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



## Consumer confidence by region

	Jun-20	Mar-20	Change
Northland	91.6	96.8	-5
Auckland	96.0	105.9	-10
Waikato	102.8	109.1	-6
Bay of Plenty	100.2	103.8	-4
Gisborne/Hawke's Bay	107.2	100.0	7
Taranaki/Manawatu-Whanganui	103.2	108.0	-5
Wellington	95.7	108.0	-12
Nelson/Marlborough/West Coast	90.7	95.2	-5
Canterbury	92.6	102.0	-9
Otago	96.2	96.0	0
Southland	102.0	95.4	7
Nationwide	97.2	104.2	-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 June. The sample size was 1,556.

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