

# 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.

Satish Ranchhod, Senior Economist

+64 9 336 5668

### 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.

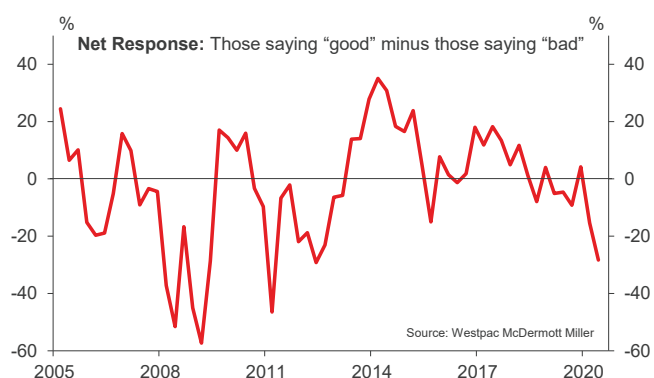
However, while economic confidence is at low levels, we were actually braced for a much larger drop. Covid-19 has pushed the New Zealand economy into a deep recession, and many households will unfortunately find themselves wrestling with some very tough financial challenges over the months ahead. Those 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.

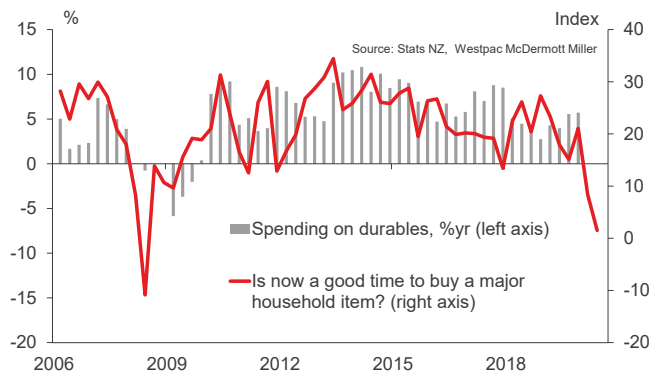
### Do you expect good or bad economic times over the next 12 months in NZ?



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

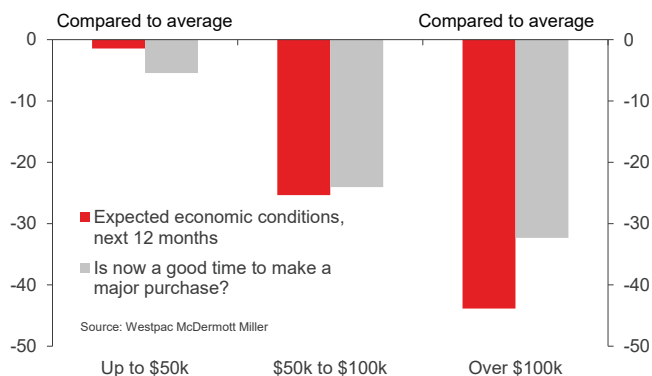
in spending on household furnishings and other durable items in recent weeks, some of that was likely due to pent up demand after the lockdown. This weakness in spending appetites points to the risk of renewed weakness in parts of the retail sector.

### Spending appetites



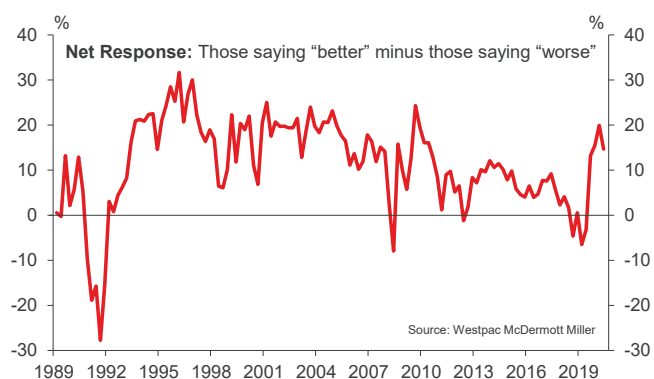
Confidence is down across all income groups. However, confidence is particularly low among those households who earn more than \$50,000 per annum. Those in this income bracket are particularly concerned about the longer-term economic outlook and have wound back their spending plans accordingly.

### Consumer confidence by income group

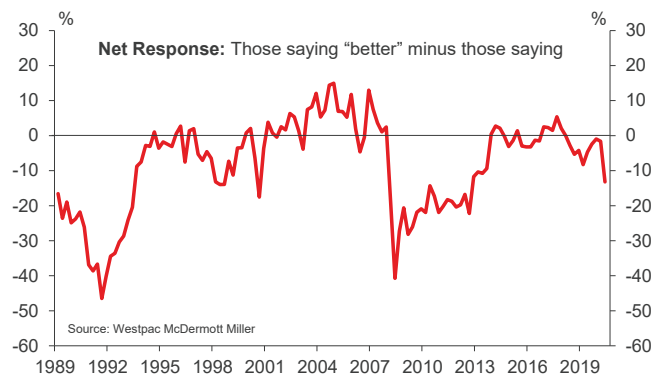


While we are looking at some tough economic conditions over the months ahead, most households are more optimistic about the outlook for their own finances than they are about the economy more generally. In fact, most households we spoke to think that their own financial position will improve over the 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?



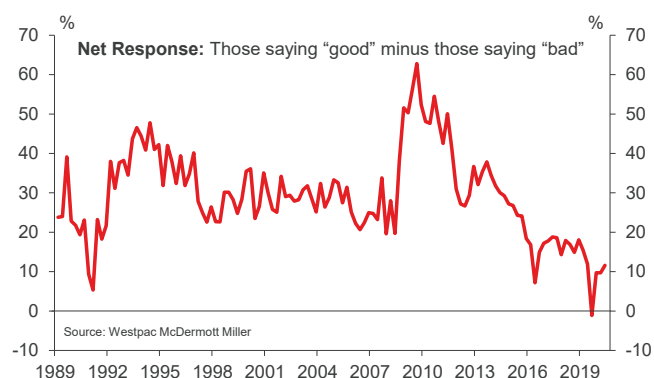
## Are you better or worse off financially than a year ago?



## 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

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



## 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.

# Contact the Westpac economics team.

**Dominick Stephens, Chief Economist**

+64 9 336 5671

**Michael Gordon, Senior Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Nathan Penny, Senior Agri Economist**

+64 9 348 9114

**Paul Clark, Industry Economist**

+64 9 336 5656

**Any questions email:**

economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

## Disclaimer.

### Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

### Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QF Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

### Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.