

Economic Bulletin.

30 June 2020



New evidence on the outlook for household spending.

- Household spending has bounced back as Covid-19 restrictions have been rolled back. However, there are questions about how strong spending appetites will be over the coming months.
- Our recent Westpac McDermott Miller survey of households' leisure activities highlighted a mixed outlook across the economy. New Zealanders are in the mood to hit the town again, and we're also spending more on in-home entertainment.
- However, households remain cautious about making major purchases.
- Importantly for our tourism sector, at this stage we're not seeing a big lift in plans for domestic travel. Combined with the continued closure of the borders, that signals ongoing challenges for many tourism operators.

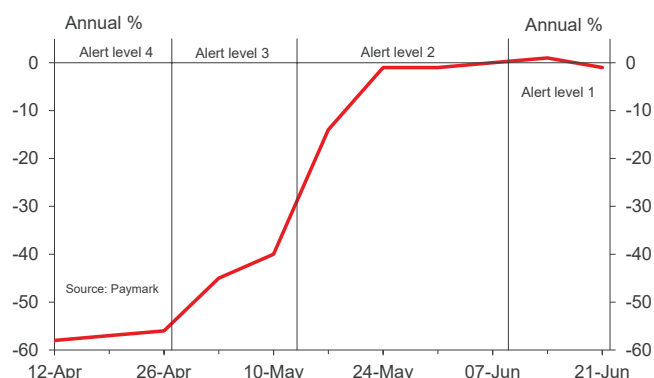
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As Covid-19 restrictions have been rolled back, New Zealanders have been opening up their wallets again. Even so, there are still questions around whether the recent lift in spending will be sustained, or if we're just seeing a temporary rise due to pent up demand.

We expect that there will be further softness in spending through the back half of this year, with demand weighed down by increases in unemployment, the closure of the border and continued nervousness about the economic outlook. However, the outlook is mixed across the economy. For instance, plans for spending on international holidays are now on hold. But as a result, many households are looking at increasing their spending closer to home, with a lift in spending in bars and increased interest in home renovations.

Weekly retail spending (% change to compared to same week last year)



As part of our recent Westpac McDermott Miller survey of consumers, we asked households about their plans for spending and leisure activities. The results of this survey provide new evidence on how New Zealand households are adapting their spending habits in the wake of Covid-19. As expected, nervousness about the economic environment is



dampening spending on durable items. We're also yet to see signs that households are planning to significantly increase their spending on holidays onshore. However, New Zealanders are in the mood to spend more in bars, and we're also spending more on in-home entertainment.

Gonna go out tonight, gonna feel alright...

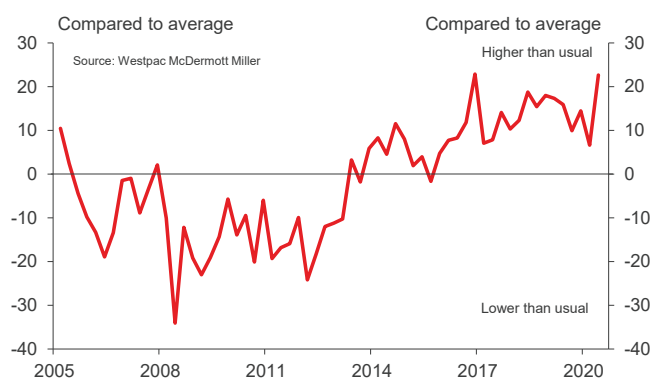
One of the sectors that saw the biggest drop in spending during the lockdown was the hospitality sector, with spending in bars, restaurants and other entertainment venues falling by 90% in April.

But after being stuck inside for a month, New Zealanders are in the mood to hit the town again. Following the easing in lockdown restrictions, weekly spending in the hospitality sector has bounced back (though in the week ending 21 June it remained down 9% on the same time last year).

Looking to the months ahead, indications for demand are positive. The number of New Zealanders planning to spend more in bars and clubs has rocketed higher and is now just shy of the record level reached in 2016. This lift in spending appetites has been particularly strong among those aged 50 and over and among women. It's been seen across all income groups but was largest among those earning less than \$50,000 per annum.

However, there are still some parts of the hospitality sector that will be struggling with weak demand. The number of households who think now is a good time to attend a major sporting event, live show or go to the movies has taken a sizeable step down in recent months.

Percent of households who think it's a good time to increase spending in bars and clubs



Don't leave town till you've seen the country.

Tourism is another sector that has been struggling with weak demand. The sector normally has around \$41bn of turnover each year. However, around 40% of that is due to spending by international visitors, who are obviously absent now.

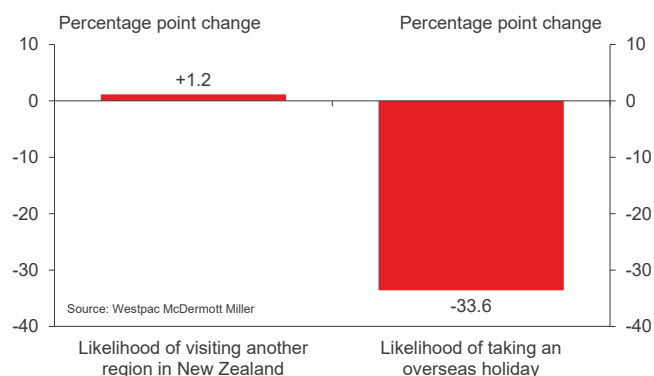
With the absence of international visitors, many tourist businesses have refocused their marketing efforts on the domestic market. And there have been indications that this is paying off, with a number of operators reporting firm demand over Queen's Birthday weekend.

Unfortunately, that lift in domestic spending looks like it will be well short of what's needed to offset the loss of international tourists. Since the arrival of Covid-19 on our shores, we've seen only a small increase in the number of New Zealanders planning on doing more travel domestically. That's despite a huge drop in the number of people planning on taking overseas holidays.

In part, this reluctance to travel might reflect ongoing concerns about health risks or concerns about the economic outlook.

We don't want to be too negative about the outlook for domestic tourist spending. It's normal for New Zealanders to take fewer holidays in the winter months. And provided the virus remains contained, we expect that the coming months will see a lift in domestic tourist spending. However, at this stage it looks like many operators could still be facing a big hole in their earnings, and that could ripple through local economies and labour markets. That will be a particular concern in areas like Queenstown which rely heavily on international tourism. In contrast, regions like the Bay of Plenty and Hawke's Bay, which have a larger proportion of domestic tourists, are likely to be less affected.

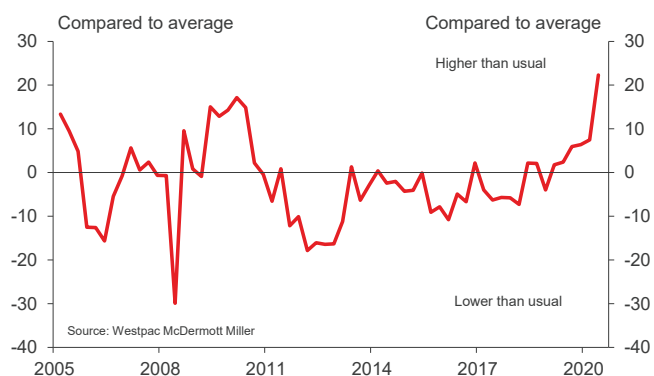
Change in travel plans since December



I want my MTV.

With travel looking less attractive and many of us stuck at home with the kids for a month, spending on in-home entertainment has ramped up. In fact, the number of New Zealand households that think now is a good time to increase their spending on in-home entertainment has risen to its highest levels since we started surveying in 2004. That will include increased spending on streaming services, like Netflix and Disney+.

Percent of households who think it's a good time to increase spending on in-home entertainment

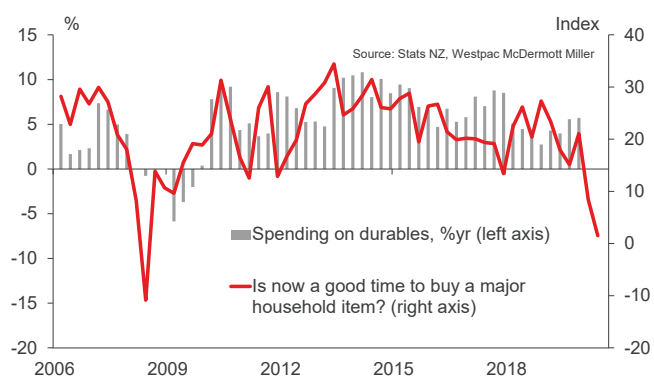


Let's go to the mall.

Looking at purchases of durable items like household furnishings, we have seen a large increase in spending as the alert level has been eased. However, much of that rise in spending may just be catch up spending that was delayed during the lockdown.

Over the next few months, we think that the risks for spending on durable goods are tilted to the downside. 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. Against that backdrop, 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.

Purchases of durable items and spending plans



Survey description.

The Westpac McDermott Miller Leisure Confidence Index is calculated from a specific section of the Westpac McDermott Miller Consumer Confidence Survey. This survey is carried out under joint sponsorship by Westpac and consulting firm McDermott Miller on a quarterly basis. Survey interviews were conducted over the period 1-10 June 2020. The sample size was 1,556.

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