

# Snapping up bargains?

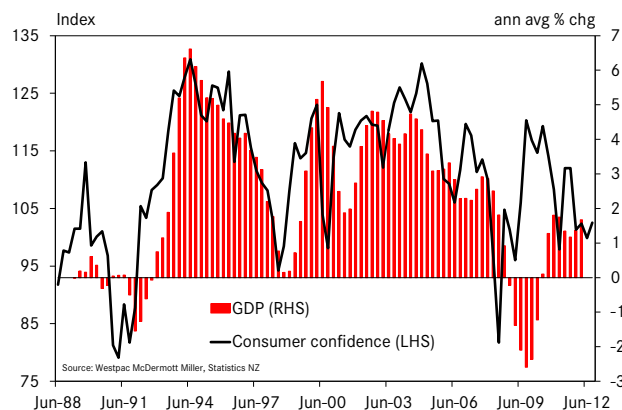
## Q3 Westpac McDermott Miller Consumer Confidence Index: 102.5

- **Consumer confidence picked up modestly.**
- **Households feel financially worse off than three months ago, but their reported willingness to spend continues to increase.**
- **On balance today's survey suggests continued, albeit modest, positive momentum in household spending.**

### Consumer Confidence Indices

	Jun-12	Sep-12	Change
Consumer Confidence Index	99.9	102.5	2.7
Present Conditions Index	101.5	102.3	0.8
Expected Conditions Index	98.7	102.7	4.0

### Consumer confidence and GDP growth



Consumer confidence has recovered from the modest drop it saw in the June survey, rising 2.7 points to 102.5 – just a touch above where it sat back in March. However, the overall trend remains weak. Consumer confidence has effectively gone sideways since tumbling late last year, when the European debt crisis took a sharp turn for the worse.

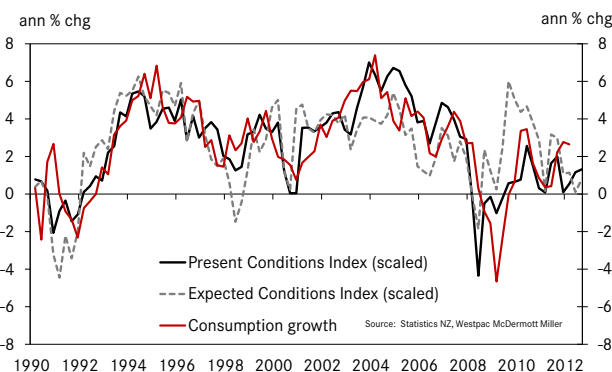
Within that humdrum headline the details were mixed. Households' economic outlook improved a little, but remains weaker than in March and much weaker than a year ago; and households reported feeling even worse off financially than three months ago (indeed, the worst since mid-2009). On the more positive side there was another big lift in the number of households saying that it's a 'good time to buy' a major household item.

Households' willingness to buy big-ticket items has been gradually improving since late last year. This is strikingly at odds with how downbeat households continue to be in other respects

– including their personal financial circumstances. We suspect it's a reflection of current low prices, particularly of imported goods, thanks to the high NZ dollar and the weak global economy. Annual traded goods inflation was -1.1% in the June quarter – with furniture prices down 1.4%, household appliances down 0.4%, and AV equipment and computers down 14.5% (cars, another 'major household item', were a notable exception – prices were up 2.8% over the year). Falling mortgage rates, and a general easing in lending conditions, may also have played a role.

In any case, households' sense that it's become a better time to buy has outweighed their deteriorating financial circumstances – overall their assessment of present conditions saw another modest improvement. It's this part of the survey that has traditionally been most relevant for actual spending, and the lift that it's seen in recent quarters is consistent with the pickup in actual retail activity this year. That said, even this part of the survey is less upbeat than in mid-2010 and late-2011, when consumer spending last saw growth spurts. So while today's survey points to a continued uptrend in spending, it also suggests that underlying momentum remains fairly modest.

### Present and expected conditions and consumer spending



### Survey details

The Consumer Confidence Index summarises the 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; households' outlook for their financial situation over the coming year; and their near-term and longer-term outlook for the New Zealand economy as a whole. The first two of these 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. Survey

interviews were conducted over the period 1 – 9 September. The sample size was 1553.

- Households continue to see their financial situation as very bleak. Their assessment of their current circumstances deteriorated further, with a net 22% saying their financial situation has deteriorated over the past year – up from 17% three months ago, and the most since June 2009. Their outlook for the year ahead improved a little, shifting from marginal pessimism (a net 1% expecting their situation to get worse over the year ahead) to marginal optimism (a net 2% expecting it to get better).
- Households' near-term outlook for the economy as a whole also remains downbeat, with a net 23% of households expecting mainly bad times for the economy over the year ahead. This is an improvement from the previous surveys survey's 29%, but households remain more pessimistic than in March, not to mention a year ago (when just 2% were pessimistic on net).
- The longer-term economic outlook is more optimistic, with a net 29% expecting good times in 5 years' time – but again this is well below the net 41% who were optimistic a year ago.
- More positively, the balance of households saying that it was a good time to buy a major household item rose sharply for the third time in a row, from 20% to 27%. This is below the net 30% who thought it was a good time to spend a year ago, but still the second highest since June 2010.

Reflecting the general improvement in households' personal and economic outlook, the Expected Conditions Index rose modestly from 98.7 to 102.7, but remains lower than in March. Meanwhile the Present Conditions Index rose just a touch (from 101.5 to 102.3), with households' more downbeat assessment of their finances largely outweighing their greater willingness to spend. This component of confidence has been steadily improving from its low point of 96.2 back in December last year.

## Demographic breakdowns

**Male vs female:** Male and female confidence showed very similar movements this time round, with both unwinding their June losses to be roughly back where they were in the March survey. However, males continue to report higher confidence than females.

**Age:** Confidence rose for all age groups, with all thinking it was a better time to buy a big-ticket item than three months ago. But younger (18-29 year old) respondents stood out for being much less positive about their financial situation than in the last survey (offsetting this, they became more optimistic for the economy as a whole). Even so the young remain much more optimistic than older age groups.

**Income:** Confidence bounced back for both lower- and upper-income households, but took a sharp knock for middle-income households and those not working. These groups feel unambiguously more downbeat about the present: they've become a lot more downbeat about their financial situation (a net 42% of middle-income households feel worse off than a year ago, the most since March 2010, and a net 51% of those not working feel worse off). And unlike other groups, these two groups also reported a sharp drop in their willingness to spend on a big-ticket item. Overall, and not surprisingly, confidence remains significantly higher for higher-income households than for other groups – in fact that's the only socio-economic group currently expressing optimism on balance.

## Felix Delbrück

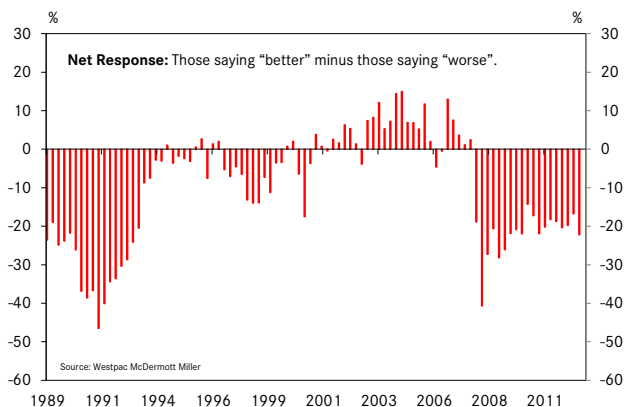
Senior Economist

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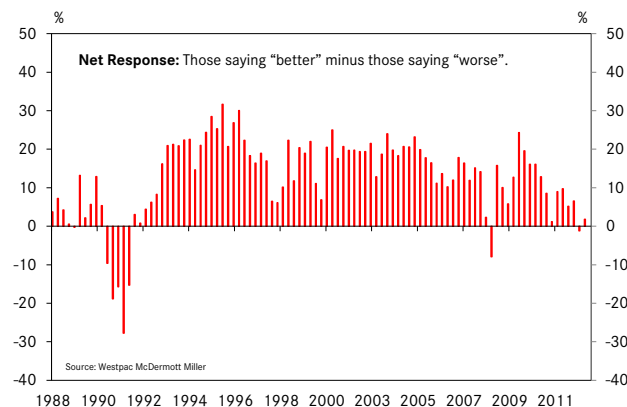
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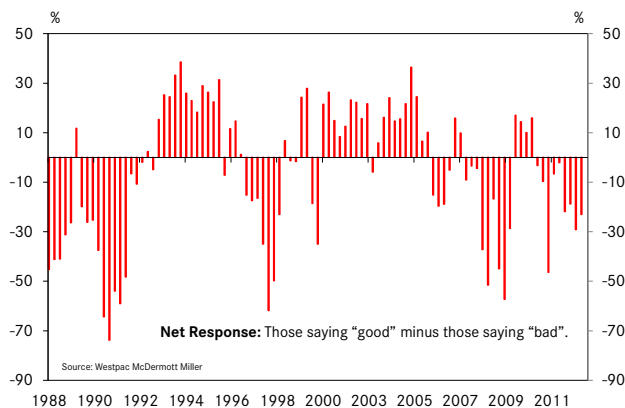
Are you better or worse off financially than a year ago?



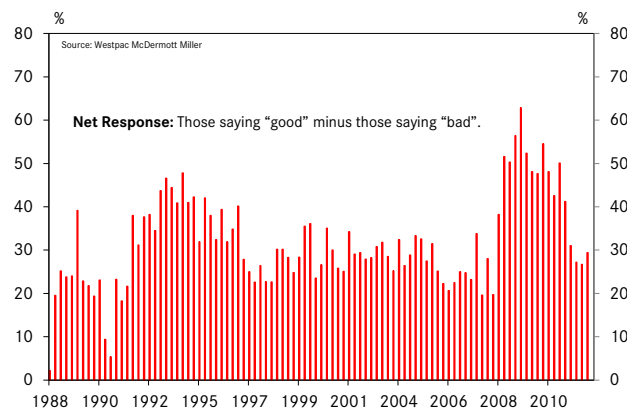
Do you expect to be better or worse off financially than a year ago?



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



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



Is this a good or bad time to buy a major household item?

