

Christmas cheer

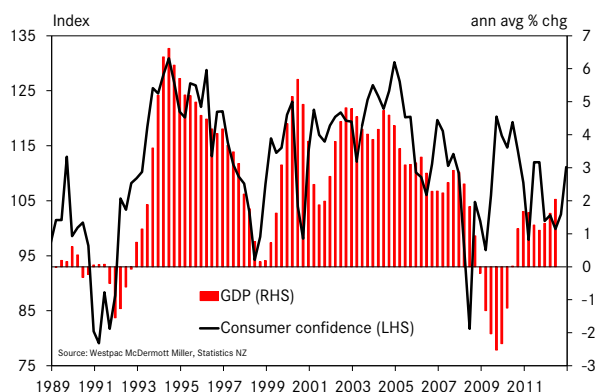
Q4 Westpac McDermott Miller Consumer Confidence Index: 111.1

- **Consumer confidence has lifted to its highest level in over a year.**
- **The improvement was pervasive, with households both more positive about the present and more optimistic for the future.**
- **This adds to a wide range of economic data that picked up in the December quarter.**

Consumer Confidence Indices

	Sep-12	Dec-12	Change
Consumer Confidence Index	102.5	111.1	8.6
Present Conditions Index	102.3	108.5	6.2
Expected Conditions Index	102.7	112.9	10.2

Consumer confidence and GDP growth



And we have lift-off! After a depressingly earthbound year consumer confidence leapt to 111.1 in December, just a bit below where it was in September last year. And the improvement was pervasive: not only have households become more optimistic for the future, but their assessment of their current financial situation is the best it's been in five years. The balance of households saying it's a good time to buy a big-ticket item rose as well.

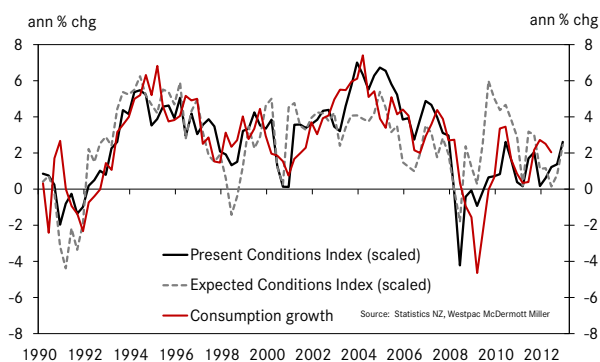
In fact, the willingness to buy a big-ticket item was the highest we've since in a December survey since the mid-2000s, which will be welcome news to some retailers ahead of Christmas.

Such an improvement in consumer confidence was far from assured given some of the bad economic news to have hit the headlines over the past few months (particularly news of layoffs and that shocker of an unemployment report). Then again, other developments have been more positive: the Canterbury rebuild

is accelerating, we've had slightly better news on the global economy, and a continued high exchange rate has helped keep prices for some imported goods low. Low interest rates and a warming housing market may also have been a factor – there was a particularly big improvement in households' reported financial situation among those of middle age and middle income (who tend to dominate the mortgage belt) and in Auckland (where house prices have risen the most).

Make no mistake, this isn't a return to the heady times of the mid-2000s. Households continue to be significantly less upbeat about their finances than they were before the 2008/2009 recession, and as we detail below, their attitudes towards saving and spending remain correspondingly cautious. But it's a welcome change from what we've seen so far this year, and supports our view that consumer spending should strengthen in the December quarter. More broadly, today's survey adds to the evidence that the economy has picked up pace in the past few months.

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 – 10 December. The sample size was 1577.

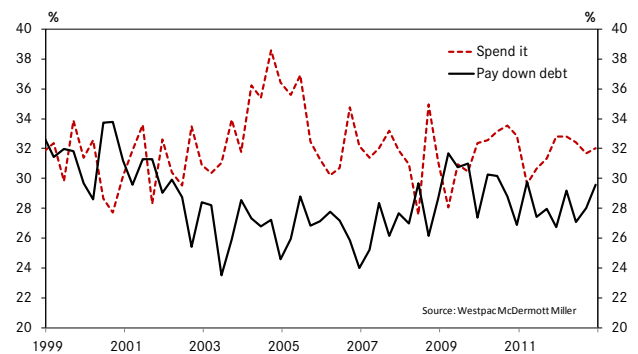
All the subcomponents of the survey improved:

- While households continue to describe their financial situation as poor on balance (a net 12% said their situation has deteriorated over the past year), they are a lot less gloomy than three months ago (when a net 22% said things had got worse). In fact, this is the least downbeat that households have been since December 2007, shortly before New Zealand went into recession.
- Looking ahead, households are now also cautiously optimistic for their financial situation, with a net 8% expecting things to get better over the coming year – up from 2% in September, and the highest since September last year (in the lead-up to the Rugby World Cup).
- When it comes to the wider economy, households continue to be pessimistic for the near term (a net 6% expect mainly bad times over the year ahead) and optimistic for the longer term (a net 37% expect mainly good times over the next five years). But on both counts this is again the most upbeat result we've seen since September last year.
- Given the sharp lift in overall sentiment the increase in households' professed willingness to spend was relatively small – a net 29% said that it was a good time to buy a major household item, up from 27% last time. Even so, this is again the highest since September 2011 and, before that, mid-2010.
- Reflecting the improvement in households' personal and economic outlook, the Expected Conditions Index rose from 102.7 to 112.9, the highest since September last year. The Present Conditions Index didn't rise quite so much in the quarter – from 102.3 to 108.5 – but overall is now the highest it's been since December 2010 (when it was also 108.5) and, before that, December 2007.

Attitudes to saving and spending

While consumer confidence has increased, households continue to be financially cautious. In addition to its core questions, the survey asks households what they would do with a \$10,000 windfall, and the proportion saying that they would use it to pay down debt remains higher than it was in the mid-2000s – indeed it increased a touch compared to three months ago.

"What would you do with a \$10K windfall?"



Demographic breakdowns

Male vs female: Male and female confidence showed similar increases – both are roughly back where they were in mid-2011. However, males continue to report a higher level of confidence than females.

Age: Confidence rose for all age groups, though there was a notable split on households' assessment of their current financial situation: younger (18-29 year old) respondents remain less positive on that score than they were 6 months ago, while those of middle age (30-49) saw the biggest increase. Overall confidence among the young continues to be much higher than for older age groups.

Income: Confidence rose for middle- and upper-income households, but fell back for the lower-income group. While all income groups have become more optimistic for the future, the lower-income feel more downbeat about their financial situation than they did three months ago and there was a sharp drop in their willingness to buy a big-ticket item (just 10% thought it was a good time to do so, compared to 36% of higher-income households and 25% of middle-income households). Overall, confidence remains much higher for upper-income households than for other groups, but both higher- and middle-income households are now optimistic on balance (confidence above 100).

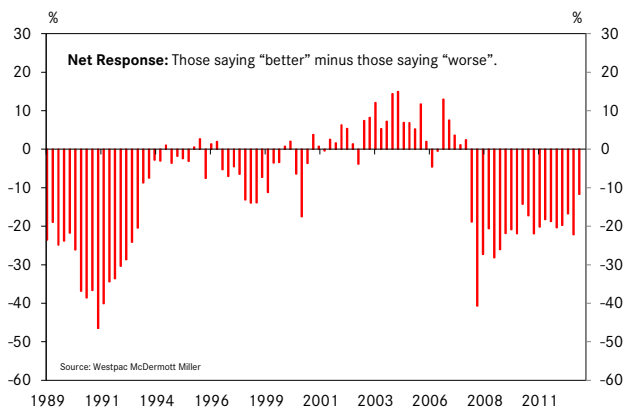
Felix Delbrück
Senior Economist

Westpac Economics Team Contact Details

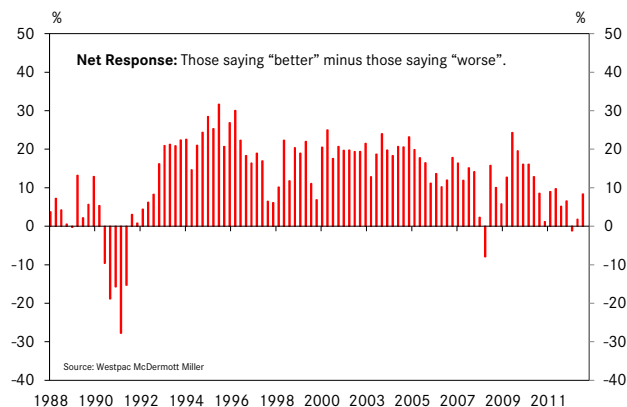
Dominick Stephens , Chief Economist	Ph: (64-9) 336 5671	dominick_stephens@westpac.co.nz
Michael Gordon , Senior Economist	Ph: (64-9) 336 5670	michael_gordon@westpac.co.nz
Felix Delbrück , Senior Economist	Ph: (64-9) 336 5668	felix_delbruck@westpac.co.nz
Nathan Penny , Economist	Ph: (64-9) 336 5669	nathan_penny@westpac.co.nz

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. 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. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. © 2011 For Australian clients: WARNING – This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

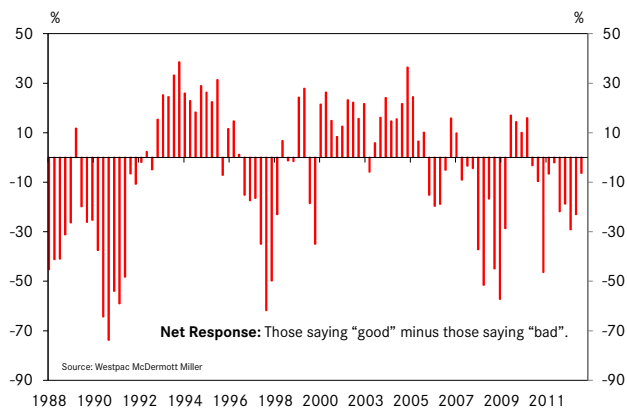
Are you better or worse off financially than a year ago?



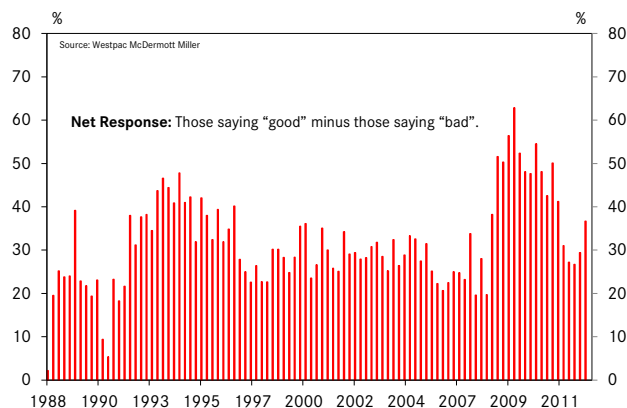
Do you expect to be better or worse off financially than a year ago?



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?

