

Still chipper

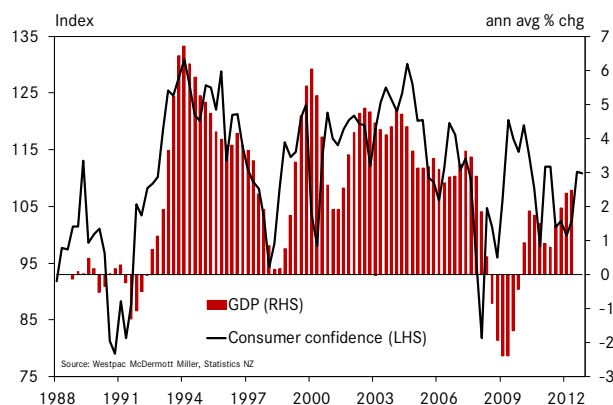
Q1 Westpac McDermott Miller Consumer Confidence Index: 110.8

- **Consumer confidence fell by a smidgen. Current conditions improved further, but expectations dipped.**
- **Households' assessment of their financial situation, and their willingness to spend on major household items, has been steadily rising.**
- **Consumer caution appears to be gradually dissipating against the backdrop of low interest rates.**

Consumer Confidence Indices

	Dec-12	Mar-13	Change
Consumer Confidence Index	111.1	110.8	-0.3
Present Conditions Index	108.5	110.2	1.7
Expected Conditions Index	112.9	111.2	-1.7

Consumer confidence and GDP growth



Consumer confidence has continued to cruise along at mid-altitude. According to the latest Westpac McDermott Miller survey confidence was essentially flat over the last three months - households' expectations for the future slipped back slightly, but their perceptions of current conditions have continued to improve.

If anything we had expected a greater hit to confidence from the intensifying North Island drought and media reports of ongoing job losses. That this hasn't happened (at least at national level) is a reminder of some of the strong positive forces acting on the economy: the Canterbury rebuild, low interest rates, and a housing market that has continued to trend up (particularly in Auckland and Christchurch). And while it's not good for

exporters' and manufacturers' incomes, the high exchange rate is boosting consumers' spending power by keeping prices low.

Consumer confidence is far from roaring away yet either: overall confidence is just back to its historical average, and households' expectations remain fairly gloomy. But it's clear that consumer caution is diminishing: households' perceptions of their finances are now the rosier since late 2007, and their professed willingness to spend on big-ticket items is also close to post-2006 peaks. Historically these are the parts of the survey that have been most relevant to actual spending. We will be keeping a close eye on how they evolve over the coming year.

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 March. The sample size was 1582.

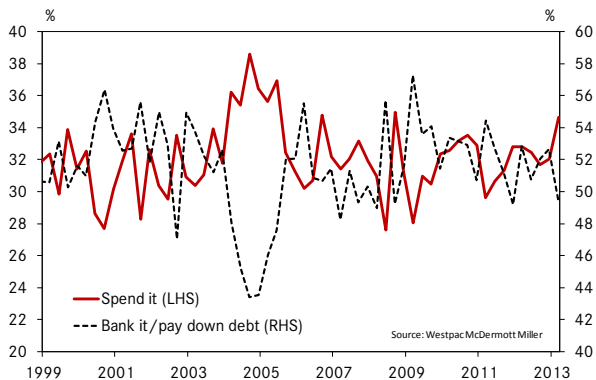
After rising strongly in the December survey, the Present Conditions Index lifted further (to 110.2, where it last sat in December 2007) whereas the Expected Conditions Index dipped slightly to 111. In the details:

- Households' perceptions of their current finances sit at -10%, up from -12% three months ago. This is close to the historical average of the series, and the highest since December 2007.
- A net 31% said that now is a good time to buy a major household item, up from 29% three months ago. This series has been steadily rising for the last five quarters. It is now back at levels last seen in March 2007 and during brief confidence bursts in mid-2010 and mid-2011.
- Households' near-term economic outlook was unchanged and marginally optimistic (net 6%). Their longer-term outlook slipped back, from 37% to 32%. Their outlook for their own finances also fell slightly, from a net 8% optimistic to net 7%. Overall households' expectations for the economy are now close to their historical average, whereas their expectations for their finances remain subdued.

Attitudes to saving and spending

The survey also asks respondents what they would do with a \$10,000 windfall. The latest survey saw a sharp lift in the fraction of households saying they would spend the money, and a corresponding dip in those saying they would either bank it or use it to pay down debt. These series are volatile, but over the past few years there appears to have been a gradual updrift in households' willingness to spend rather than save.

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



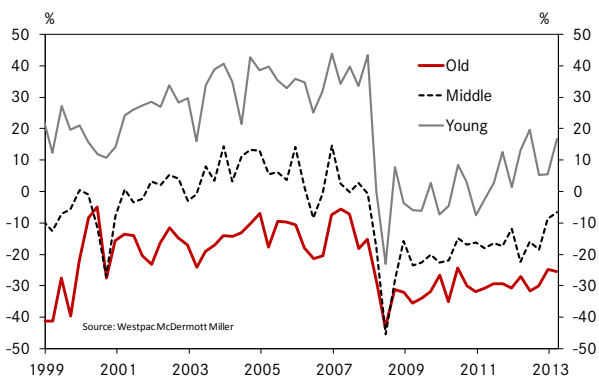
Demographic breakdowns

Over the past three months, confidence changed little across age, income, and gender categories (a sharp drop in confidence among those not working was the only major change).

Looking back over a longer period we can see some interesting demographic divergences:

Age: Over the past year or two the perceived financial situation of the young and middle-aged has improved significantly, whereas that of older respondents has stayed relatively flat. We think this reflects the economic realities of the past two years: interest rates have fallen, benefitting borrowers (who tend to be younger) at the expense of savers. The value of accumulated savings has also been eroded by the 2010 GST hike.

Present financial situation by age



By contrast, all age groups have seen a big lift in their willingness to spend on big-ticket items over the past few quarters, suggesting that other factors have been raising spending

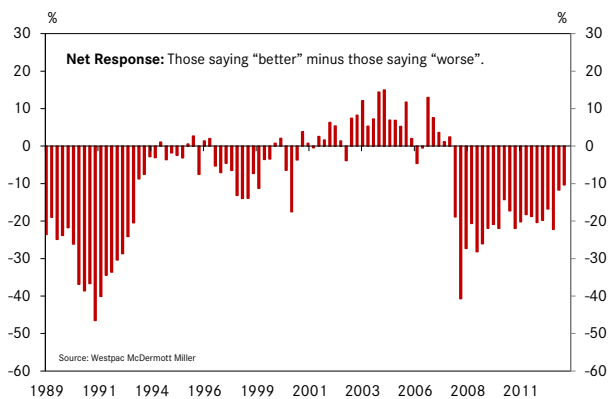
appetites as well – most probably attractive prices, which are a product of the high exchange rate.

Income: Over the past few quarters, there has been a steady improvement in the financial situation of upper- and middle-income respondents, whereas lower-income respondents and those not working have remained very gloomy. Again, this may be a sign of the extent to which low mortgage rates (and possibly wealth gains) have helped cushion the finances of those with higher incomes, who are most likely to be in the mortgage belt.

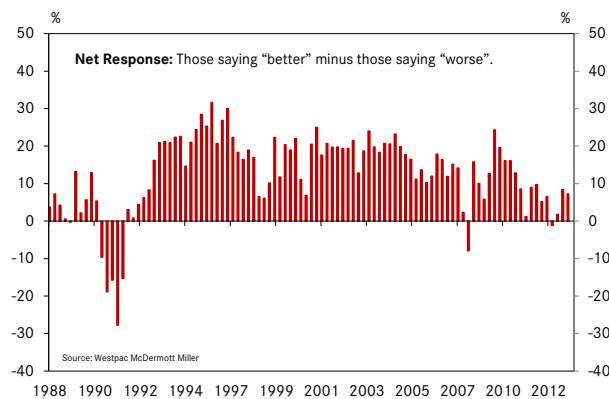
Sex: The usual gap between male and female confidence has been widening recently, with male confidence seeing a bigger lift. This may reflect the better fortunes of the construction sector, which employs far more males than females.

Felix Delbrück
Senior Economist

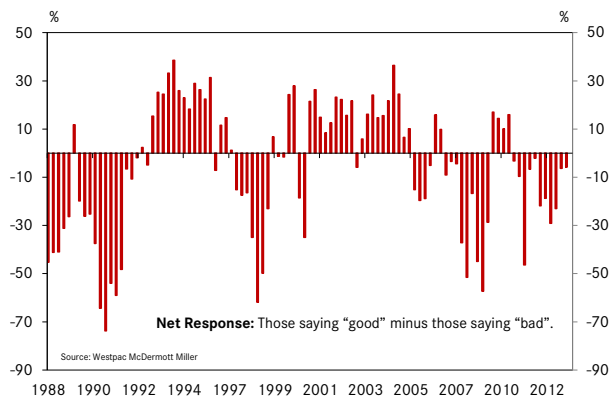
Are you better or worse off financially than a year ago?



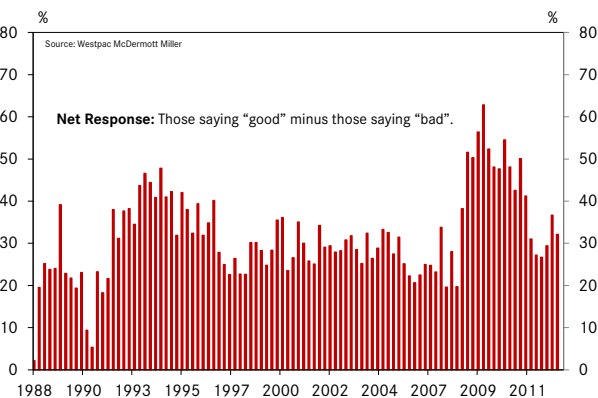
Do you expect to be better or worse off financially than a year ago?



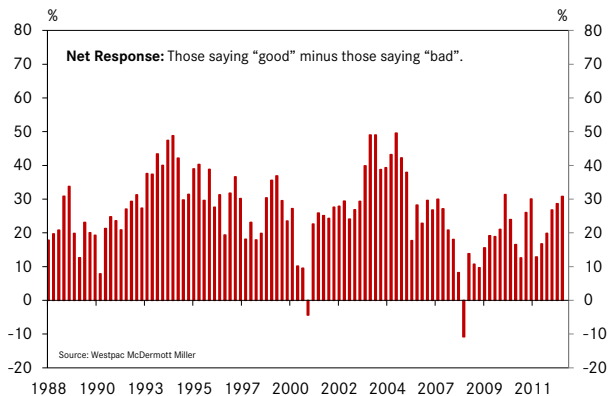
Do you expect good or bad economic times over the next 12 months in NZ?



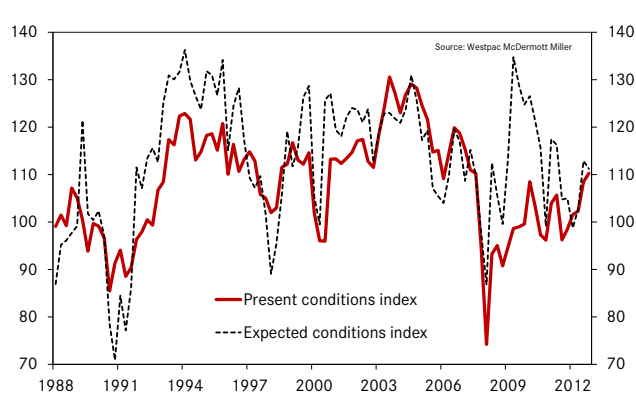
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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