

Off the boil

June quarter Westpac McDermott Miller Consumer Confidence Index: 113.0

- Consumer confidence fell to 113.0 in the June quarter. This is the lowest level since early 2013, though confidence remains slightly above average.
- Concerns around the economy drove much of the decline – unsurprisingly so given the downturn in the dairy sector’s prospects.
- Consumers’ reported spending appetites have also come off from recent peaks, but remain moderately upbeat.

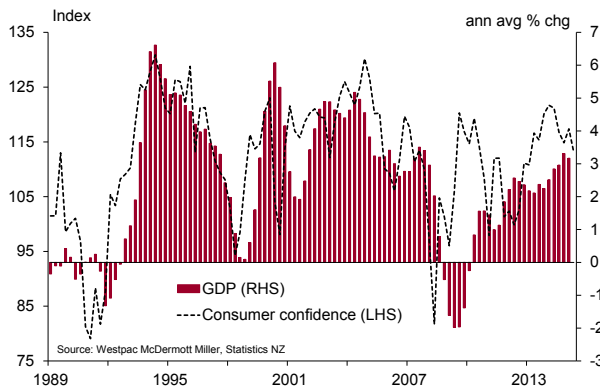
Consumer confidence has softened noticeably in the last three months. While it is still above its historical average of 111.5, it is now at its lowest level since March 2013.

The drop comes as no surprise, given the steady drumbeat of bad news around the dairy sector. It’s also in line with other recent evidence of cracks in the domestic economy, from softer business confidence to a slowdown in electronic card spending.

But while today’s survey is consistent with other signs that the economy has come off the boil, it doesn’t ring any additional alarm bells. Consumers may be distinctly less upbeat about the economic outlook than they were three months ago, but they haven’t battened down the hatches. They do feel a bit less optimistic about their own finances, but they continue to report fairly healthy spending appetites. Broadly speaking, this was true for rural as well as urban regions.

While that is reassuring, it’s not the final word on how consumer confidence and spending will respond to the combination of lower dairy prices, higher petrol prices, a lower exchange rate, and lower mortgage rates. The reality of a low dairy payout is only just starting to affect farmers’ cash flows. Today’s survey also won’t fully reflect the Reserve Bank’s recent rate cut (this occurred on 11 June, when about 75% of survey responses had already been collected) and the subsequent lurch lower in the exchange rate. For borrowers, lower mortgage rates will bring relief, but for consumers across New Zealand, the reality of a lower exchange rate will hit home as more prices of imported goods start to rise. We wouldn’t be surprised to see confidence fall further in the next quarter or two, and the regional disparities becoming more pronounced.

Consumer confidence and GDP growth



Consumer Confidence Indices

	Mar-15	Jun-15	Change	Average
Consumer Confidence Index	117.4	113.0	-4.3	111.5
Present Conditions Index	113.2	115.1	1.9	108.5
Expected Conditions Index	120.1	111.6	-8.5	113.6
Current financial situation	-1.4	1.4	2.8	-9.6
Expected financial situation	9.8	5.9	-4.0	12.4
1-year economic outlook	23.8	4.8	-19.0	-3.4
5-year economic outlook	26.8	24.3	-2.5	31.6
'Good time to buy'	27.8	28.8	1.0	26.6

Consumers are more worried about the economy...

The drop in the consumer confidence was entirely due to a decline in respondents’ future expectations, particularly their assessment of New Zealand’s economic prospects.

The net percentage of respondents expecting mainly good, rather than bad, economic times over the year ahead fell 19 points, from 23.8% in March to 4.8%. This was the single

biggest drop since December 2011. That said, economic confidence is still substantially higher than it was in late 2011, when pessimists outnumbered optimists by a wide margin.

There were more modest declines in respondents' longer-term economic outlook and their expectations for their own financial situation. The net percentage expecting mainly good economic times over the next five years fell 2.5 points, from 26.8% to 24.3%, while the net percentage expecting their own finances to improve over the year ahead fell 4 points, from 9.8% to 5.9%. Responses to both these questions have slowly become less upbeat since late 2013 and are now below average.

...but spending appetites have held up

When asked about current conditions, respondents were slightly more positive than three months ago. The net percentage saying their financial situation had improved over the past year rose from -1.4% to 1.4%, while the net percentage saying it was a good time to buy a major household item rose from 27.8% to 28.8%. Both these responses are still comfortably above average, though down slightly from their recent peaks in early 2014.

We also asked households about their discretionary spending and their willingness to spend a cash windfall. Responses to both were much the same as three months ago.

The net percentage of respondents saying they had increased their spending on entertainment and eating out over the past year fell slightly for a second quarter in a row, from -11.7% to -12.2%, but remains relatively high by historical standards.

The share of respondents saying they would spend a \$10,000 windfall rose slightly, and is now just above the historical average, at 34.6%. (Among other options, the share saying they would bank it or use it to pay down debt also rose slightly, but remains well below average – not surprisingly, with interest rates at historic lows and likely to fall further.)

Consumers' spending patterns

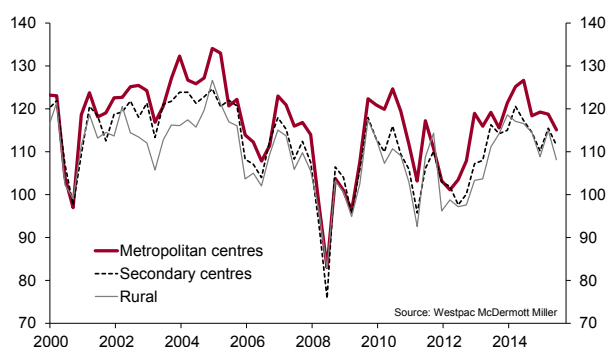


The results were evenly spread

Reflecting the widespread rise in economic concerns, consumer confidence has fallen across the board, for men and women, across income and age groups, and for urban and rural respondents.

Unsurprisingly, the decline in consumer confidence was larger in rural regions than in urban centres, but the difference was not particularly large. Unlike their urban counterparts, rural respondents feel less upbeat on their current situation than three months ago, but not dramatically so – their assessment of present conditions is still above average, and higher than six months ago, when drought fears were running high.

Consumer confidence – urban vs. rural



Survey Description

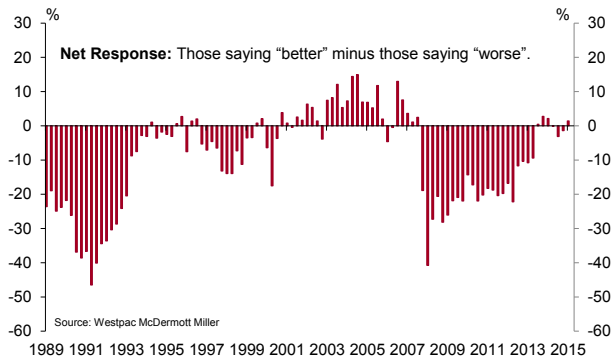
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial 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.

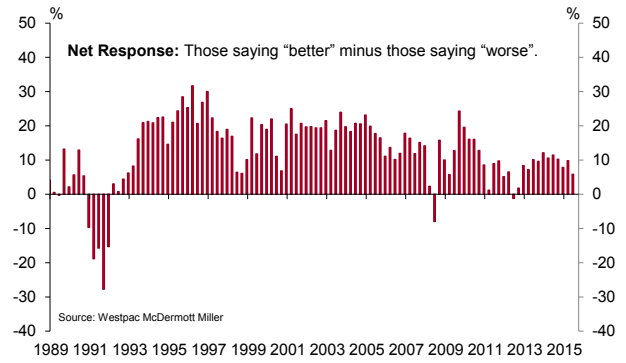
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 2 – 13 June. The sample size was 1581.

Felix Delbrück
Senior Economist

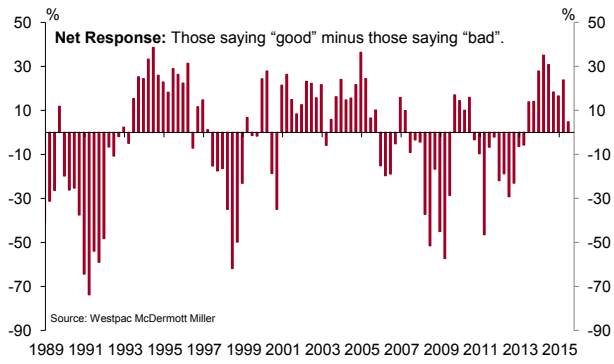
Are you better or worse off financially than a year ago?



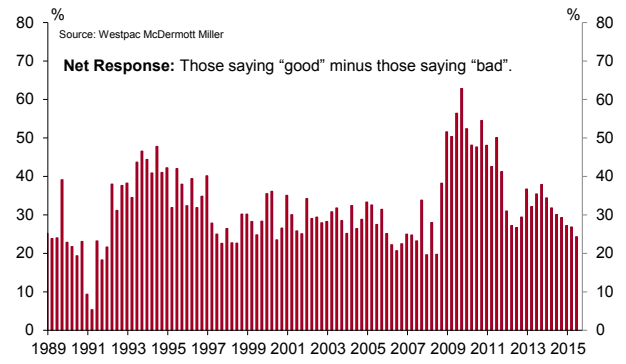
Do you expect to be better or worse off financially in a year's time?



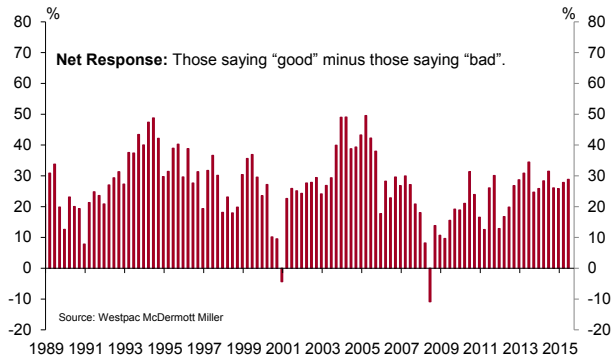
Do you expect good or bad economic times over the next 12 months in NZ?



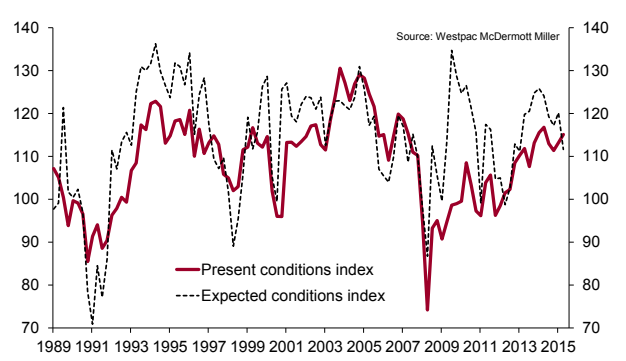
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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