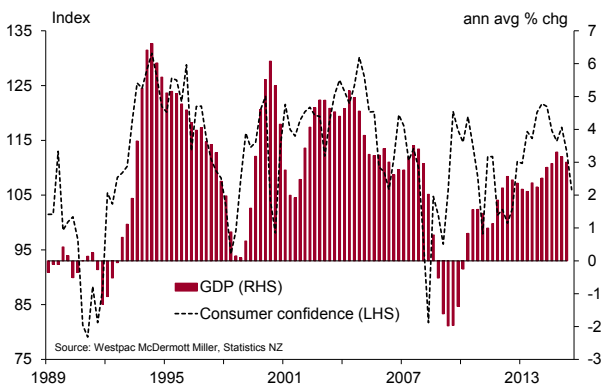


Down but not out

September quarter Westpac McDermott Miller Consumer Confidence Index: 106.0

- Consumer confidence has taken another step lower as the economic climate has soured.
- But for now, it suggests spending is coming off the boil, not grinding to a halt.

Consumer confidence and GDP growth



Consumer Confidence Indices

	Jun-15	Sep-15	Change	Average
Consumer Confidence Index	113.0	106.0	-7.0	111.5
Present Conditions Index	115.1	108.2	-6.9	108.5
Expected Conditions Index	111.6	104.6	-7.1	113.5
Current financial situation	1.4	-3.0	-4.4	-9.5
Expected financial situation	5.9	4.6	-1.3	12.4
1-year economic outlook	4.8	-15.0	-19.8	-3.5
5-year economic outlook	24.3	24.1	-0.2	31.6
'Good time to buy'	28.8	19.5	-9.3	26.5

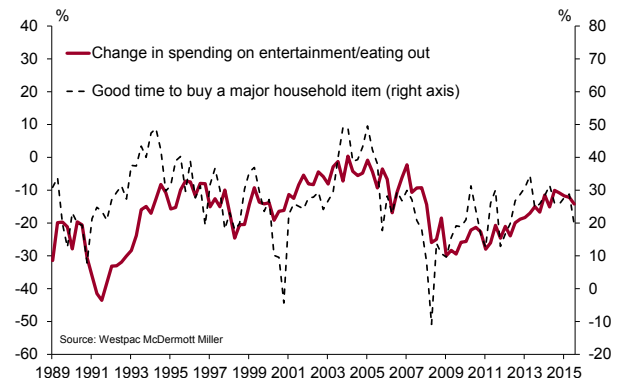
The last three months have been a rough ride for the economy. Fonterra has revised down its milk price forecast to below \$4/kg. It's become increasingly clear that the Canterbury rebuild has reached a peak. And concerns around the health of the Chinese economy have sent shock waves through global share markets.

Against that backdrop, it's not surprising that consumer confidence has fallen sharply. Consumers are much less optimistic for the wider economy, and their spending appetites have become more cautious, particularly in rural areas.

But if anything, we're surprised that confidence hasn't fallen further. Consumers were more downbeat about the economy in 2012, when the euro zone was threatening to go into meltdown. They still think their own finances will be relatively immune to an economic downturn. And overall, spending appetites are still reasonably healthy.

That's consistent with other recent economic indicators such as electronic card spending, which have been fairly resilient in the last few months. But while that resilience should give retailers some comfort, we aren't confident it will last. Over the next six months we expect the dairy industry to remain under pressure, unemployment to rise, and tax and lending restrictions to take some of the steam out of the Auckland housing market. As that occurs, consumer confidence could well fall further, and spending is likely to continue to slow.

Consumers' spending patterns



Survey details

The Westpac McDermott Miller Consumer Confidence Index fell to 106.0 in the September quarter, its lowest level since September 2012, when the Index was 102.5.

The main driver of the decline was a sharp drop in respondents' near-term economic outlook. The net percentage expecting mainly good economic times for the year ahead fell from 4.8% positive to 15% negative – the first time this series dropped into pessimism since December 2012, and its biggest quarterly drop since December 2011.

The other component series of the Index also fell, but not as sharply. There was a fairly large drop in the net percentage of people saying that now is a good time to buy a major household item – from 28.8% to 19.5%, the lowest level since early 2012. But consumers' assessment of their current and expected financial situation, and of the longer-term economic outlook, was little changed from three months ago.

It's worth noting, though, that consumers' expectations for their financial situation, and for the longer-term economic outlook, have been on a gradual downward slide for some time. In particular, consumers' long-term economic outlook – the net percentage expecting mainly good times over the next five years – has been declining ever since late 2013 and is now at levels last seen in 2008.

Attitudes to spending

The survey also asks households about their spending on entertainment and eating out, and what they would do with a cash windfall. Again, the responses weren't that different from 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 third quarter in a row, from -12.2% to -14.2% – still above the historical average.

The share of respondents saying they would spend a \$10,000 windfall fell slightly, to 32.3% – roughly its historical average. What continues to be stunningly low by historical standards is the percentage saying they would use the money to pay off debt – a reflection of just how low the cost of borrowing currently is.

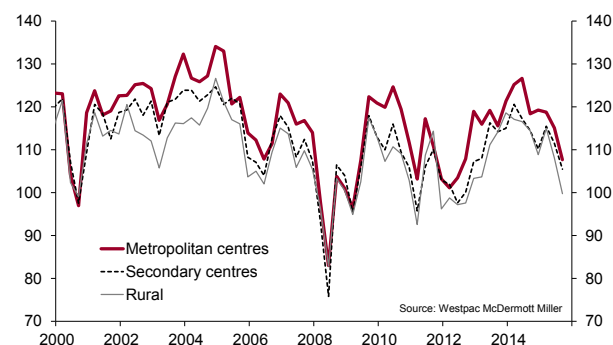
Regional breakdown

Unsurprisingly, consumer confidence has fallen particularly hard in rural areas. The net percentage of rural households saying that now is a good time to buy a major household item has plunged from 19.4% to just 6.4% – the lowest since early 2011, just after the second Canterbury earthquake.

But the drop in confidence hasn't been limited to rural regions. People everywhere are feeling more pessimistic about the economy, and signs of spending caution also came through in the main cities.

Interestingly, confidence has fallen hardest among higher-income households, among middle-aged and older households, and among men rather than women. We're not quite sure why men have become relatively more downbeat, but we suspect that concerns around asset values and investment returns have weighed heavily among the better-off and older consumers.

Consumer confidence – urban vs. rural



Survey description

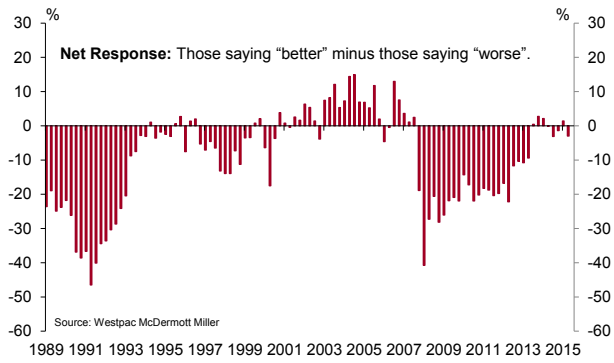
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

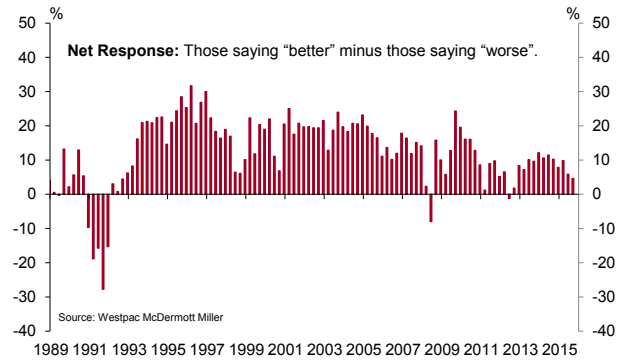
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 11 September. The sample size was 1550.

Felix Delbrück
Senior Economist

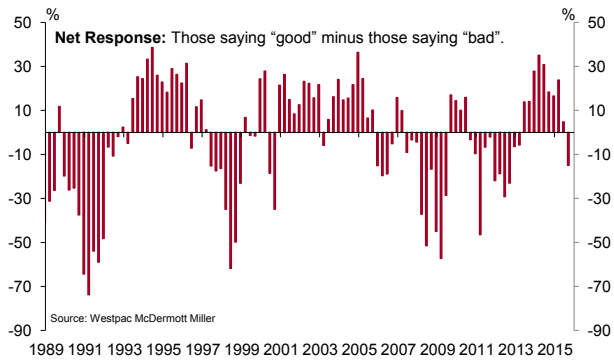
Are you better or worse off financially than a year ago?



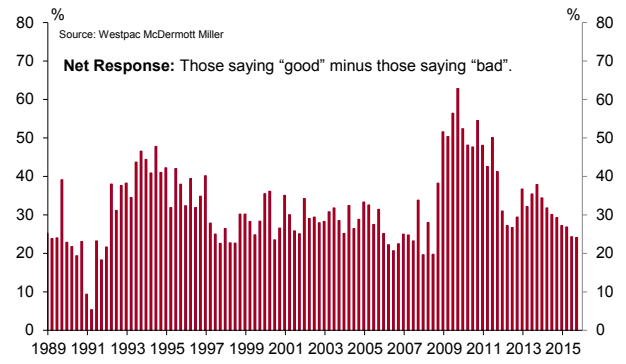
Do you expect to be better or worse off financially in a year's time?



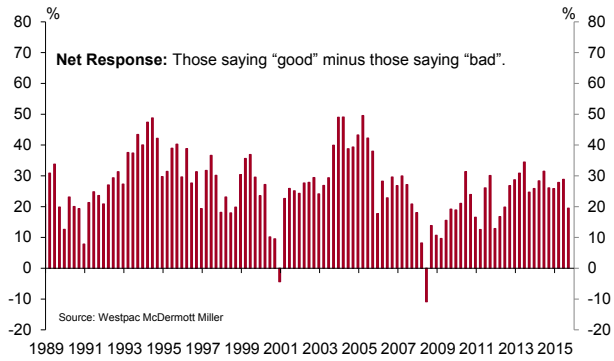
Do you expect good or bad economic times over the next 12 months in NZ?



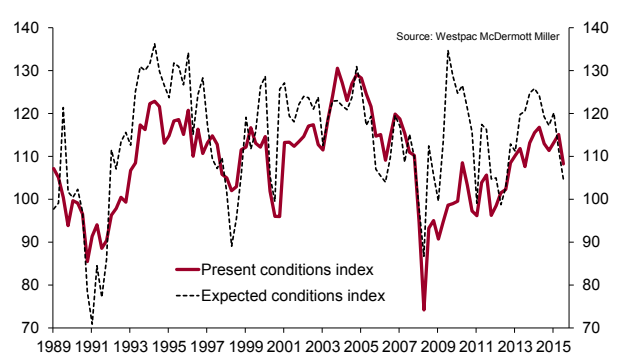
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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Disclaimer continued

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