

She'll be right

March 2016 quarter Westpac McDermott Miller Consumer Confidence Index: 109.6

- Consumer confidence nudged down in the early part of 2016 as households have become increasingly worried about where the economy is heading over the next few years.
- But while households are nervous about the economic outlook in general, they remain more optimistic about their personal economic situation. As a result, households are still in the mood to spend.

Consumer confidence has slipped back a little

New Zealand households are feeling a little less upbeat about the economy, but only a little. The Westpac McDermott Miller Consumer Confidence Index nudged down to 109.6 in March (versus 110.7 in December). That leaves nationwide confidence at slightly below long-run average levels.

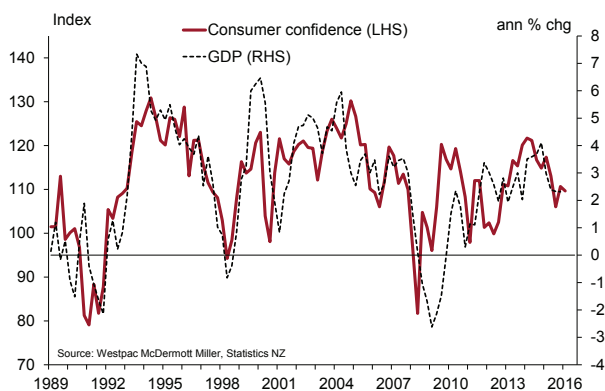
It's not surprising that there's been some pull back in confidence in recent months. The start of 2016 saw a barrage of bad news hitting the headlines. Much of this was related to signs that conditions in the global economy have deteriorated, signalling tougher times ahead for many in the export sector. There's also been particularly worrying news for those in the dairying sector, with continued declines in prices and Fonterra again revising down its forecast payout for this season.

These developments have clearly made households nervous about where the economy is heading. In fact, the proportion of households that are now expecting good economic times over the next five years has dropped to its lowest level since 1991.

But heightened concern about the economy's trajectory doesn't necessarily signal downside risk for household spending over the coming months. Despite their concerns about the economic outlook in general, households remain more optimistic about their own economic situation. In fact, the proportion of households who expect to be better off financially in a year's time actually picked up in March.

Households' more upbeat assessment of their personal economic conditions means that, even though they're nervous about the outlook in general, it's likely that they will remain in the mood to spend (at least for the time being). In fact, a growing proportion of households are reporting that they already have increased their spending on entertainment and eating out. In addition, the number of households that think it's currently a good time to purchase a major household item has continued to climb.

Consumer confidence and GDP growth



Consumer Confidence Indices

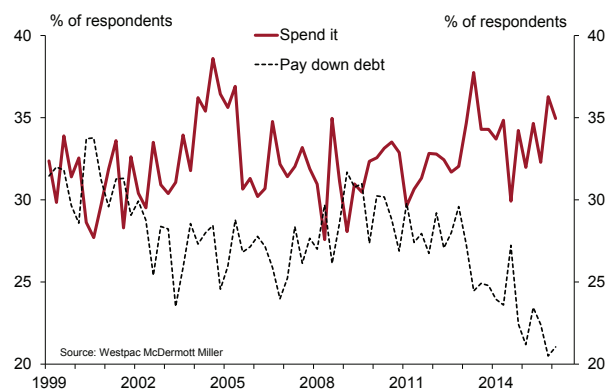
	Dec-15	Mar-16	Change	Average
Consumer Confidence Index	110.7	109.6	-1.0	111.5
Present Conditions Index	111.6	111.7	0.2	108.6
Expected Conditions Index	110.0	108.2	-1.8	113.4
Current financial situation	-3.2	-3.2	0.0	-9.4
Expected financial situation	4.0	6.5	2.5	12.2
1-year economic outlook	7.7	1.4	-6.3	-3.3
5-year economic outlook	18.4	16.8	-1.6	31.3
'Good time to buy'	26.4	26.7	0.3	26.5

Low interest rates are clearly playing a role in boosting households' spending appetites. When asked what they would do with a cash windfall, households reported that they are much more likely to spend it than to pay down debt. In fact, the proportion of households that indicated that they would use a cash windfall to pay down debt is only just above the record low it reached last quarter.

Also helping to boost household confidence are a number of other positive developments, including firm growth in domestic economic activity and strengthening in the labour market.

Putting it all together, we're left with the picture of an economy which, while still facing some challenges, is growing at a moderate pace. Consistent with this, consumer confidence is pointing to around average rates of GDP growth.

What would you do with a \$10,000 windfall?



Looking into the details of the latest confidence figures reveals important difference across the economy.

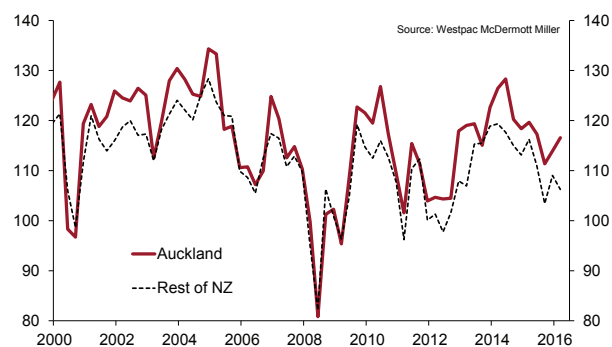
First, while the overall level of confidence among New Zealand households is a little below average, there is a divergence across regions. Aucklanders are noticeably more upbeat than those elsewhere. Auckland has been enjoying a potent cocktail of strong construction activity, rapid population growth, and a strengthening service sector. These conditions have boosted employment in the region and resulted in household spending growing at a solid pace. And with these conditions expected to persist for some time, Aucklanders are also more optimistic about the outlook for the next few years.

In contrast, households in other parts of the country are feeling more downbeat, with confidence in most regions below long-run averages. Our upcoming regional economic

confidence report (due for release next week) will look at the trends in these regions more detail.

Second, confidence levels continue to differ significantly according to household income levels. Households with higher incomes (above \$100,000) are much more positive on the economic outlook. In contrast those on lower incomes (below \$30,000) are much more pessimistic, and are particularly concerned about where the economy is heading over the next few years.

Consumer confidence by region



Survey description

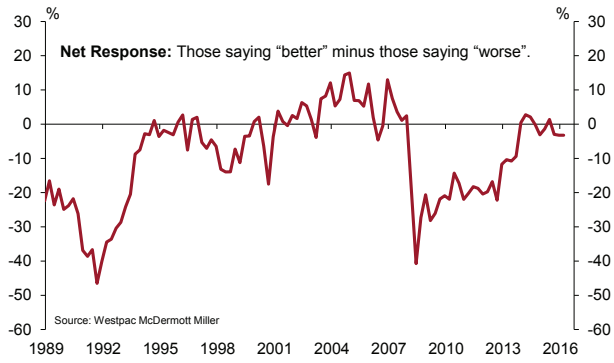
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

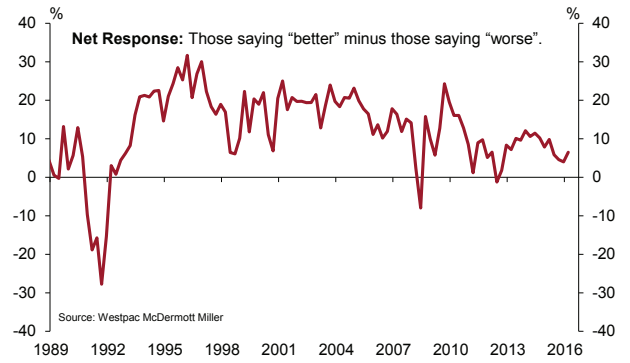
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 - 11 March. The sample size was 1554.

Satish Ranchhod
Senior Economist

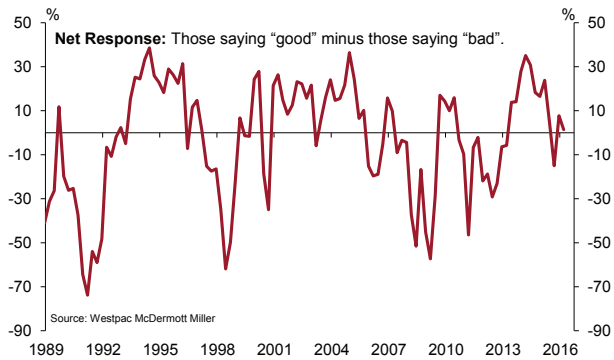
Are you better or worse off financially than a year ago?



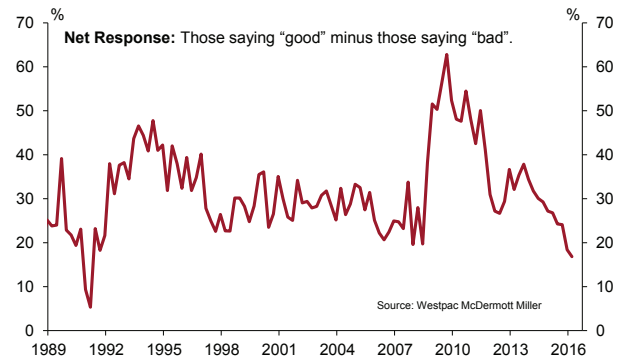
Do you expect to be better or worse off financially in a year's time?



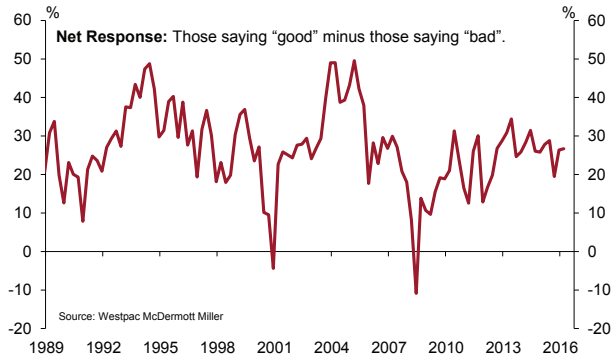
Do you expect good or bad economic times over the next 12 months in NZ?



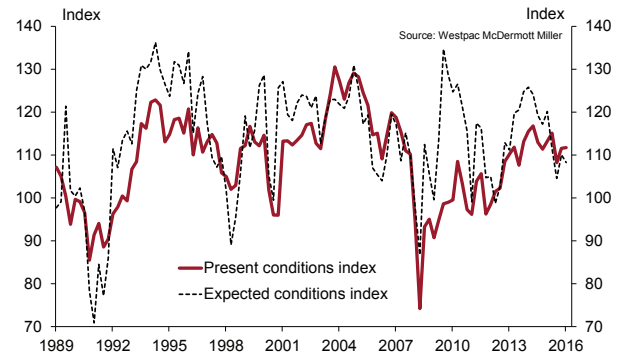
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

David Norman, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. 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. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.