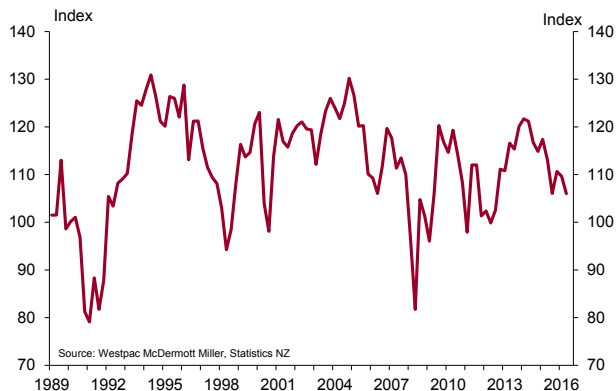


# Winter is coming

## June 2016 quarter Westpac McDermott Miller Consumer Confidence Index: 106.0

- Consumer confidence has fallen for a second quarter. Confidence is now well below the peak reached in 2014, and is below its long-run average.
- Households, particularly those on middle incomes, have become increasingly worried about where the economy is heading over the next few years.

### Consumer confidence



### Consumer Confidence Indices

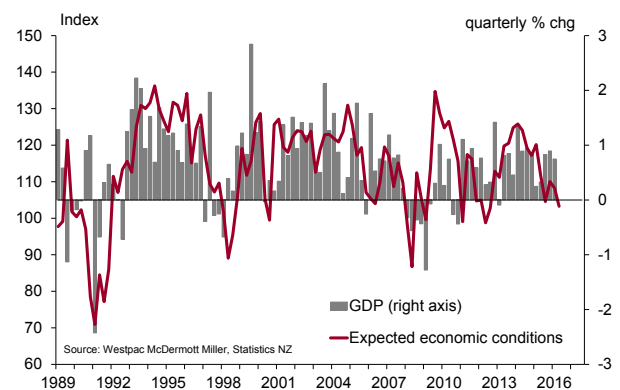
	Jun-16	Mar-16	Change	Average
<b>Consumer Confidence Index</b>	<b>106.0</b>	<b>109.6</b>	<b>-3.7</b>	<b>111.5</b>
<b>Present Conditions Index</b>	<b>110.0</b>	<b>111.7</b>	<b>-1.7</b>	<b>108.6</b>
<b>Expected Conditions Index</b>	<b>103.3</b>	<b>108.2</b>	<b>-5.0</b>	<b>113.4</b>
Current financial situation	-1.3	-3.2	1.9	-9.4
Expected financial situation	4.0	6.5	-2.5	12.2
1-year economic outlook	-1.3	1.4	-2.7	-3.3
5-year economic outlook	7.2	16.8	-9.6	31.3
'Good time to buy'	21.4	26.7	-5.3	26.5

New Zealand households have become increasingly nervous about the economic outlook. The Westpac McDermott Miller Consumer Confidence Index fell to 106.0 in June (versus 109.6 in March). That's the seventh decline in the past nine quarters, and leaves confidence at below average levels.

While households are feeling a little better about their current financial position, there has been growing pessimism about the economy's trajectory. The number of households expecting favourable economic conditions over the next year has fallen for a second quarter, and the number expecting positive economic conditions in five years time has plummeted to the lowest level in 25 years.

This degree of nervousness about the economic outlook has historically been seen when the economy is in recession. But as last week's GDP figures revealed, the economy is actually growing at a firm pace, with growth in the year to March coming in at 2.4%. And signs are that growth will continue around this pace for some time.

### Expected economic conditions and GDP growth

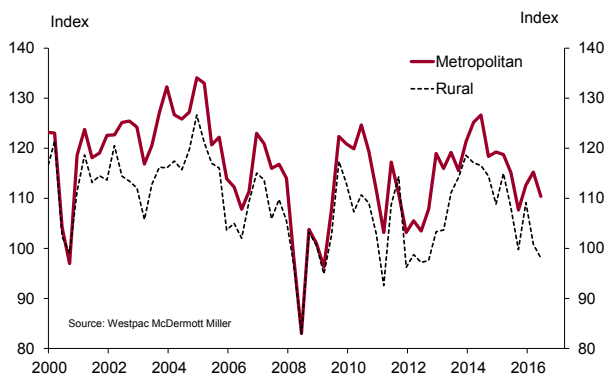


But the firm overall GDP figures mask a much softer picture for per-capita growth, which has trended down over the past year. Notably, per capita growth in household spending has now slowed to 0.4% in annual terms – its slowest pace since 2010 when the economy was emerging from recession.

This weakness in per-capita economic growth highlights the large boost to economic activity from strong migration and population growth in recent years. It also helps us to understand why the current economic environment feels very different depending on your perspective. For businesses, the increase in the number of bodies in stores is providing a buffer from the headwinds buffeting the economy, such as subdued global demand and weakness in dairy export prices.

However, for many individual households, the economic environment is likely to feel a lot tougher. This is especially true for those in regions that are closely linked to the primary sector. Indeed, those in rural centres have noted much more concern about economic conditions than their cousins in major urban centres.

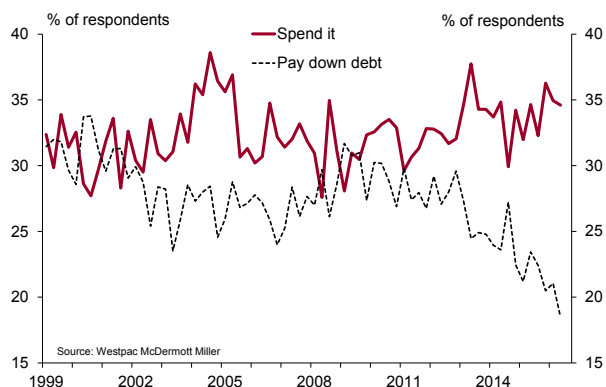
### Consumer confidence – urban vs rural



While households are nervous about the economic environment, they're not putting away their wallets just yet. A key reason for this is the current very low level of interest rates. 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 who said they'd use a cash windfall to pay down debt is currently at its lowest level since we started collecting this data in 1998.

It's also notable that, despite feeling nervous about the economic environment, New Zealand households haven't forgotten about each other. The proportion of households who said that they'd donate a windfall to family or to a charity is now at its highest level in 18 years.

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

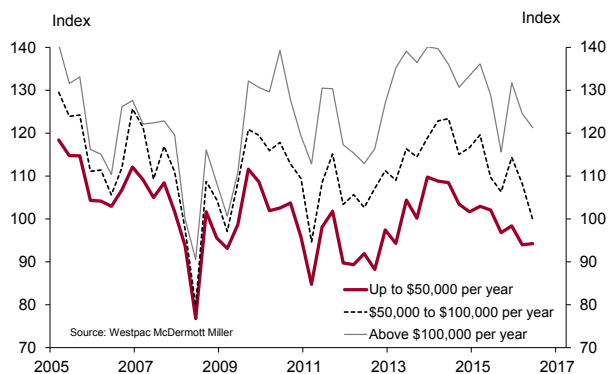


Looking into the details of the latest confidence figures reveals notable differences across the economy. While confidence has trended down among all households, those on higher incomes (above \$100,000) remain less pessimistic than others.

Among other households, the biggest declines in confidence have been among those earning \$50,000 to \$100,000 per year. These households are particularly concerned about how their financial position will evolve over the coming year. The reasons for this are not immediately clear, but it may reflect concerns about housing affordability and debt levels which have been splashed across the media in recent weeks.

Confidence has also fallen among households on incomes below \$50,000, but not to the same extent as among those on middle incomes.

### Consumer confidence by household income band?



## Survey description

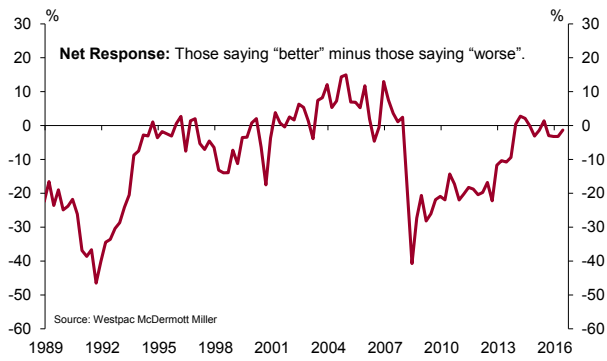
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

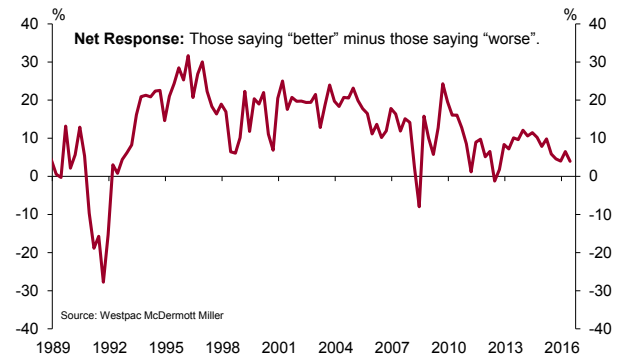
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 - 12 June. The sample size was 1555.

**Satish Ranchhod**  
Senior Economist

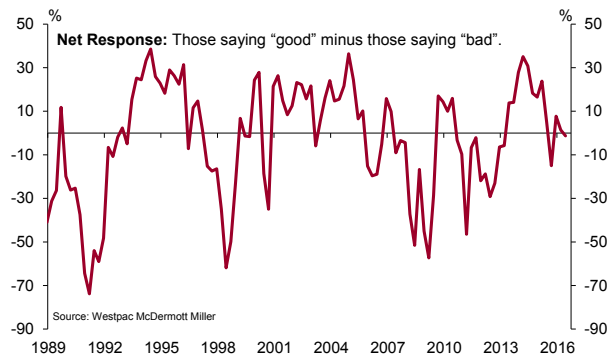
**Are you better or worse off financially than a year ago?**



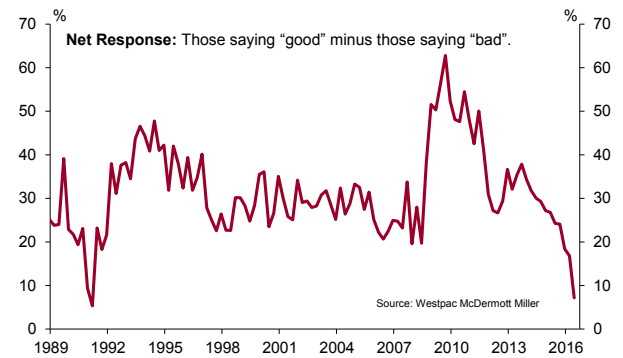
**Do you expect to be better or worse off financially in a year's time?**



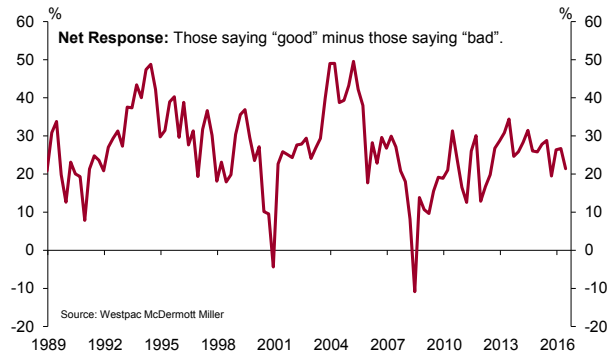
**Do you expect good or bad economic times over the next 12 months in NZ?**



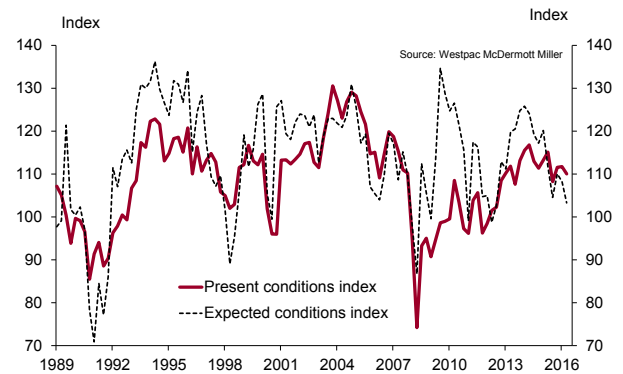
**Do you expect good or bad economic times over the next 5 years in NZ?**



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



**Present and Expected Conditions**



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