

Jingle all the way

December quarter Westpac McDermott Miller Consumer Confidence Index: Up 5.2 points to 113.1

- Households are feeling jolly, with consumer confidence rising for a second quarter in December, leaving it at slightly above average levels.
- Households in rural communities have become much more upbeat following strong rises in dairy prices. Households on lower incomes have also become more optimistic.

Consumer confidence



Consumer Confidence Indices

	Dec-16	Sep-16	Change	Average
Consumer Confidence Index	113.1	108.0	5.2	111.4
Present Conditions Index	111.4	109.2	2.2	108.6
Expected Conditions Index	114.3	107.2	7.2	113.3
Current financial situation	2.5	-1.5	4.0	-9.3
Expected financial situation	7.7	4.7	3.0	12.1
1-year economic outlook	18.0	1.8	16.2	-3.3
5-year economic outlook	17.2	15.0	2.3	30.9
'Good time to buy'	20.2	19.9	0.3	26.4

'Tis the season...

The festive season is upon us, and New Zealand households are in the mood to celebrate. However, it looks like the party will be more of a relaxing family barbeque, rather than a full-blown rager.

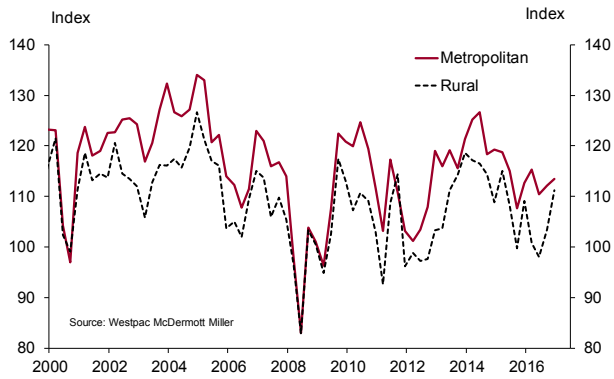
The Westpac McDermott Miller Consumer Confidence survey showed that household confidence rose by a solid 5.2 points in the December quarter - its largest increase in four years. That follows a modest increase last quarter, and leaves confidence sitting a little above its long-run average.

The pick-up in confidence comes on the back of an economy that is humming along. Growth figures due later this week are expected to show the economy expanded by a healthy 3.6% over the past year, supported by low interest rates, a large pipeline line of construction work, rapid population growth and strong tourist inflows. Importantly, this strength in economic conditions has been passing through to an improving labour market, with the number of full-time equivalent employees up 3.3% over the past year.

Against this backdrop, it's not surprising that households are feeling more upbeat. Looking at the underlying details of the survey we see that household have become much more optimistic about where the economy is headed over the coming year. And they're also feeling more upbeat about their own financial situation.

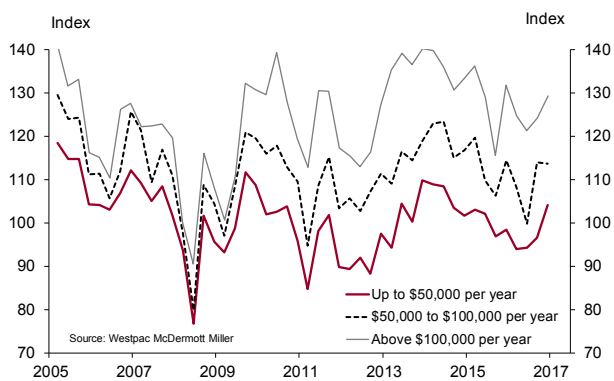
Confidence is up in most parts of the economy. Notably, there was a sizeable gain in confidence among rural households, building on last quarter's solid gain. This improvement follows a dramatic turnaround in the fortunes of the dairying sector. Export prices for dairy products have surged in recent months. As a result, cash flows for most farmers will be headed back into the black over the coming year. However, we don't expect to see a big rebound in farm-related investment and spending just yet. Many farmers will have taken on additional debt in recent years to carry them through the period of low prices, and this will need to be repaid.

Consumer confidence – urban vs rural



There's also been a strong rise in confidence among those households earning less than \$50,000 a year. Many of these households reported that they are now more optimistic about where the economy is headed. This is likely to reflect the strengthening of the labour market, which we expect to continue for some time. Confidence remains firm among other households, particularly those on higher incomes.

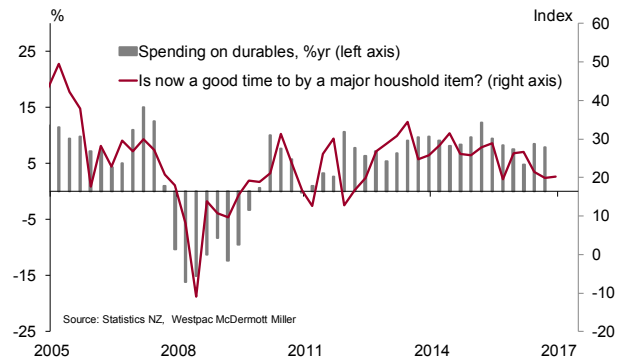
Consumer confidence by household income band



Celebrate responsibly these holidays

While households are feeling more upbeat than they were earlier in the year, they're still keeping an eye on their purse strings for now. The number of households who think now is a good time to purchase a major household item was steady in December, lingering at below average levels. We also saw a pull-back in the number of households who said that they would spend a cash windfall. It will be worth watching to see if this prudence is sustained into the new year.

Spending appetites



Survey description

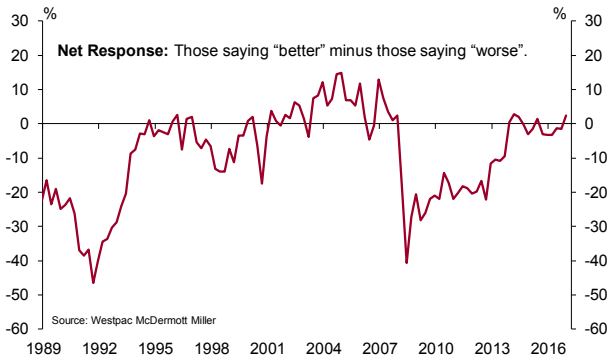
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time to buy a major household item; how households expect their financial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

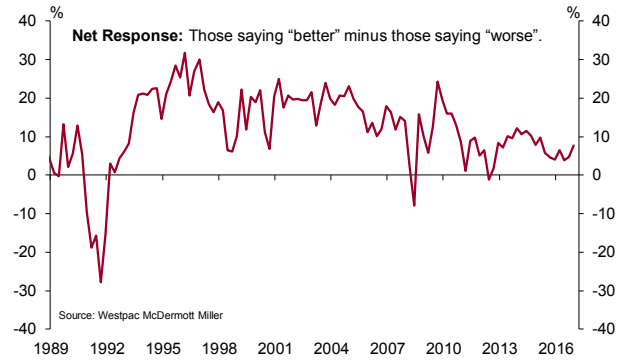
The survey also includes questions on respondents' spending on entertainment and eating out, and on what they would do with a \$10,000 windfall. Survey interviews were conducted over the period 1 – 10 December. The sample size was 1554.

Satish Ranchhod
Senior Economist

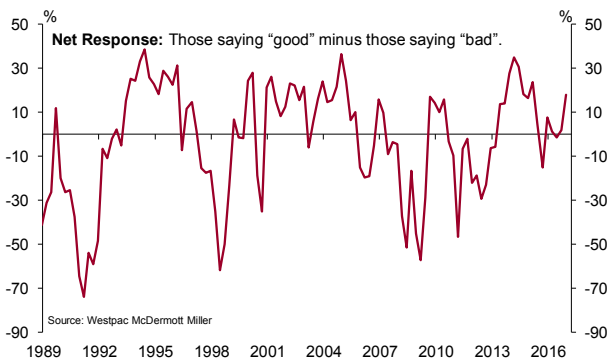
Are you better or worse off financially than a year ago?



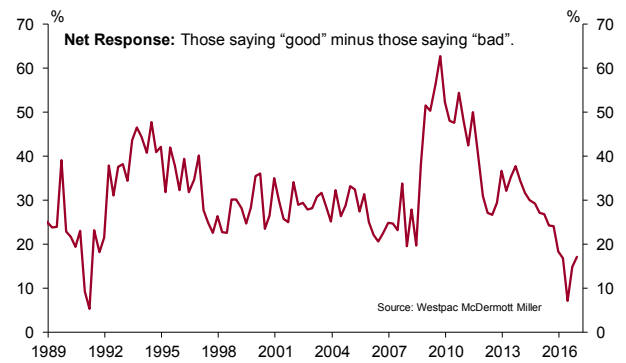
Do you expect to be better or worse off financially in a year's time?



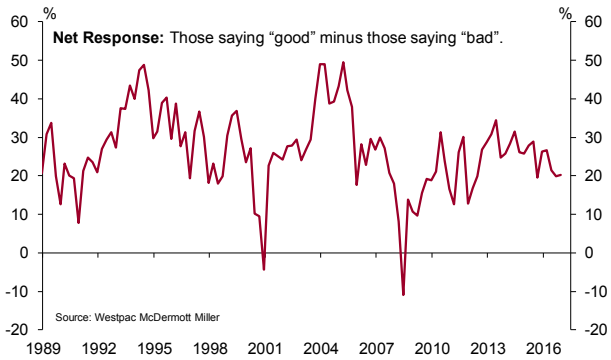
Do you expect good or bad economic times over the next 12 months in NZ?



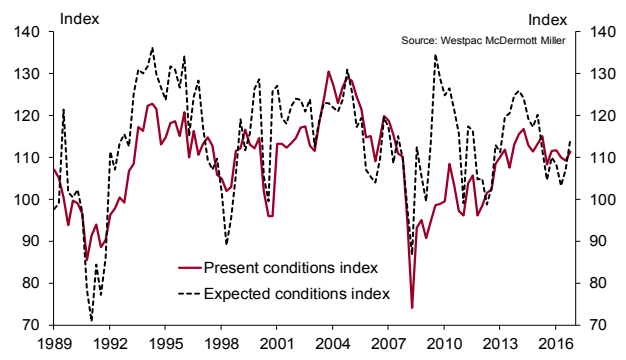
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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