

# WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

22 September 2022

**Satish Ranchhod**, Senior Economist  
 +64 9 336 5668  
 satish.ranchhod@westpac.co.nz



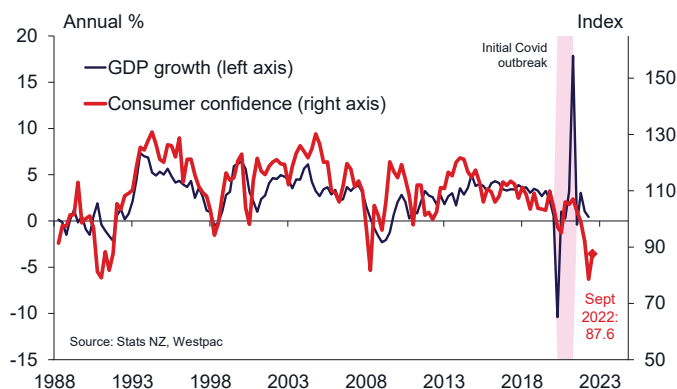
## Off the canvas, but still dazed.

- Consumer confidence has picked up over the past few months. Even so, it's hard to describe the mood in the country as anything but grim.
- Households' finances are being squeezed by high consumer prices and increases in borrowing costs.
- Against that backdrop, spending appetites remain subdued.

### Consumer confidence indices

	Sep-22	Jun-22	Change	Average
<b>Consumer Confidence Index</b>	<b>87.6</b>	<b>78.7</b>	<b>8.9</b>	<b>110.0</b>
<b>Present Conditions Index</b>	<b>81.9</b>	<b>74.0</b>	<b>7.9</b>	<b>107.4</b>
<b>Expected Conditions Index</b>	<b>91.4</b>	<b>81.8</b>	<b>9.6</b>	<b>111.8</b>
Current financial situation	-22.9	-27.1	4.2	-8.8
Expected financial situation	-3.2	-7.4	4.2	11.1
1-year economic outlook	-23.5	-38.5	15.0	-3.5
5-year economic outlook	0.8	-8.7	9.5	27.7
'Good time to buy'	-13.3	-24.8	11.5	23.6

### Consumer confidence and economic growth



The Westpac McDermott Miller Consumer Confidence Index rose 8.9 points in the September quarter to a level of 87.6. That's up from the record lows we saw back in June, with confidence likely to have been boosted by the firming in economic conditions and easing of health restrictions since the Omicron wave peaked.

Nevertheless, confidence is still languishing at very low levels. In fact, consumer confidence is sitting around the sorts of lows that we saw during the recession in the early-1990s and during the 2008/09 Global Financial Crisis.

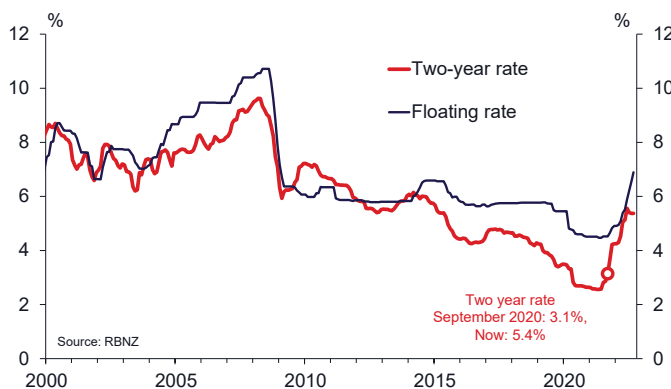
The current economic landscape is very different from either of those earlier periods. For a start the country is not in recession. In fact, economic activity grew by 1.5% through the first half of the year. In addition, the labour market remains in good health with the unemployment rate at just 3.3%.

But even with economic activity holding firm (at least for now), the pressures on households have been mounting. In particular,

with inflation at its highest level in more than 30 years, rapid price increases have been eating away at households' spending power. Notably, a large proportion of those increases have related to prices of items like food and rent. That's particularly concerning for those households on lower incomes who tend to spend a greater share of their incomes on necessities.

Adding to the pressure on households' finances has been the rise in interest rates over the past year. The RBNZ began raising the Official Cash Rate late last year, and the related increase in mortgage rates has already taken a sizeable bite out of many households' disposable income. Over the coming months, increasing numbers of borrowers will feel the pinch as they roll off the low interest rates that were on offer in recent years. In some cases, borrowers will face refixing at rates that are 2 to 3 percentage points higher. That will be a sizeable squeeze on their spending power.

### Mortgage rates

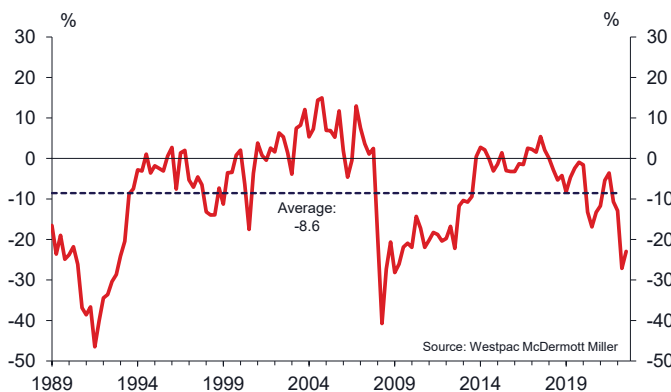


Compounding the above headwinds, many households have seen the value of their assets falling in recent months. Nationwide house prices have dropped by 9% since November. Similarly, the value of many KiwiSaver balances and other financial assets has continued to slide.

In the face of those headwinds, a large number of households have told us that their financial position has deteriorated of the past year. Many households also expect that their financial position will continue to weaken over the coming year.

But it's not just their personal financial situation that's got households worried. Large numbers of household also expect that economic conditions more generally will deteriorate over the next few years.

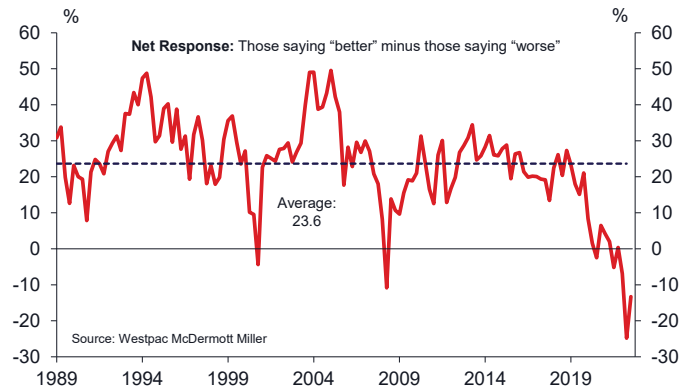
### Are you better or worse off financially than a year ago?



## Hey there moderate spender.

As with economic confidence more generally, households' spending plans have nudged higher in recent months. Even so, households' spending appetites remain very weak – the number of households who think it's a good time to make a major purchase remains close to the record lows that we saw in the June quarter.

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



Looking to the next few months, we expect to see mixed trends in spending across sectors. We expect to see demand in the hospitality sector picking up now that Covid related health restrictions have been rolled back. Spending in the sector will also get a boost from the return of international tourists, with arrivals having already retraced 40% of their pre-pandemic levels.

However, even as spending in the hospitality sector ramps up again, we expect spending in other areas will lose steam. The pressures on households' budgets from rising interest rates and high inflation are already weighing on demand, with spending on items like household durables having softened in recent months. Looking ahead, those financial pressures are set to become an increasing drag on household spending.

## Youth is wasted on the young.

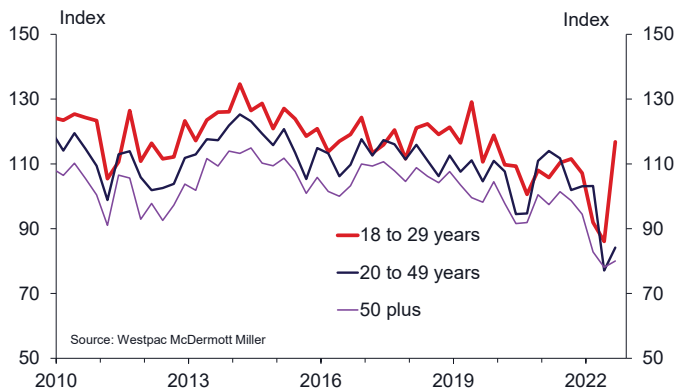
While confidence in most parts of the economy remains very low, there's one group that's bucking the trend. Since our last survey, confidence among younger New Zealanders (those aged 18 to 29) has rebounded and is now back around the levels we saw prior to the pandemic.

Digging under the surface, younger New Zealanders are feeling more upbeat about both their personal financial situation and the economic outlook more generally. A key reason for that is likely to be the strength of the labour market. Younger workers typically change jobs more often. And with the labour market the tightest it's been in decades, many of those in the early stages of their careers will have found that their skills are in hot demand. That's meant they are well positioned to secure themselves pay rises, which in some cases have been substantial.

Younger New Zealanders are also less likely to be homeowners or have very large holdings of financial assets. As a result, the sharp falls in asset values in recent months which have affected

many older New Zealanders, is likely to have been less of a concern for this group.

Consumer confidence by age group



Looking across the country, confidence remains low in most regions. However, there are two exceptions.

The first is the Waikato where the easing in earlier drought conditions and firmness in agricultural export prices has helped to bolster sentiment.

The other area to record a large rise in confidence this quarter is Wellington – now the most upbeat region in the country. Those in the capital are feeling much more positive about both the economic outlook over the coming year and their personal financial situation. Wellington’s labour market has been extraordinarily tight, with unemployment of just 2.7%. Consistent with that, we’ve been seeing solid increases in earnings for many public sector positions and professional roles, which account for a large share of the region’s labour market.

Our upcoming Westpac McDermott Miller Regional Economic Confidence report (out next week) will take a closer look at economic trends across regions.

Consumer confidence by region

	Sep-22	Jun-22	Change
Northland	79.2	75.6	3.6
Auckland	87.2	73.6	13.6
Waikato	103	85.2	17.8
Bay of Plenty	86.8	82.2	4.6
Gisborne/Hawke's Bay	79.4	83.5	-4.1
Taranaki/Manawatu-Whanganui	78	82	-4
Wellington	105	88.1	16.9
Nelson/Marlborough/West Coast	80.7	73.6	7.1
Canterbury	82.2	77.8	4.4
Otago	75.4	78.3	-2.9
Southland	76.7	69.9	6.8
Nationwide	87.6	78.7	8.9

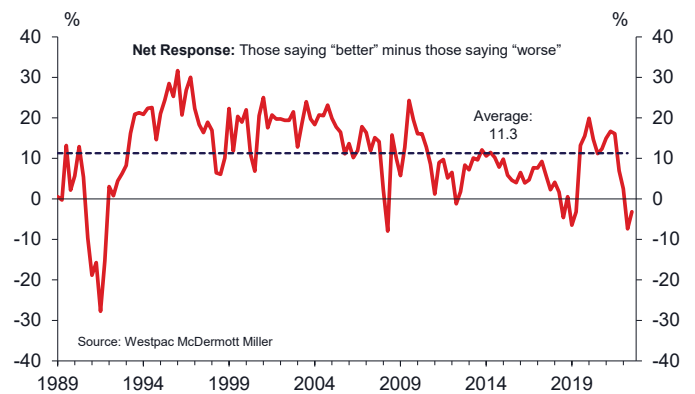
## Survey description.

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.

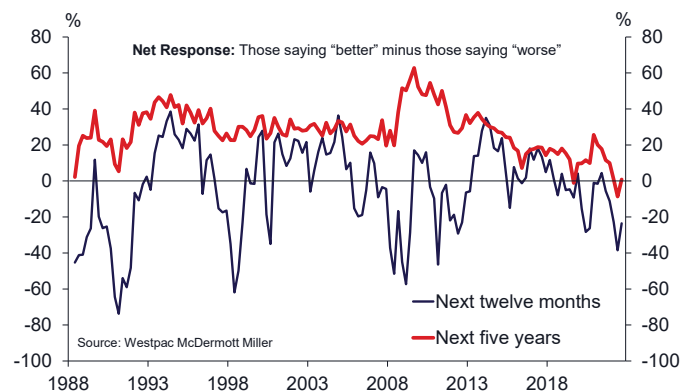
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 September 2022. The sample size was 1,559.

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 coming years?



# Contact the Westpac economics team

**Michael Gordon, Acting Chief Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Nathan Penny, Senior Agri Economist**

+64 9 348 9114

**Paul Clark, Industry Economist**

+64 9 336 5656

**Any questions email:**

economics@westpac.co.nz

## Disclaimer

### Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

### Disclaimer

This material contains general commentary, and market colour. The material 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 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 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. 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.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). 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.

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. 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 licence 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 activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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 communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication 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 communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

### Investment recommendations disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**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. All disclaimers set out with respect to Westpac apply equally to WCM. 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.

Past performance is not a reliable indicator of future performance. The forecasts given in this document 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.