

A nation in shock: consumer confidence plummets

Q1 Westpac McDermott Miller Consumer Confidence Index: 97.9

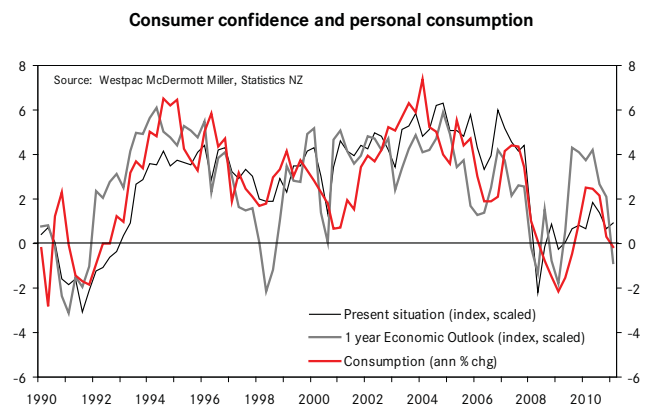
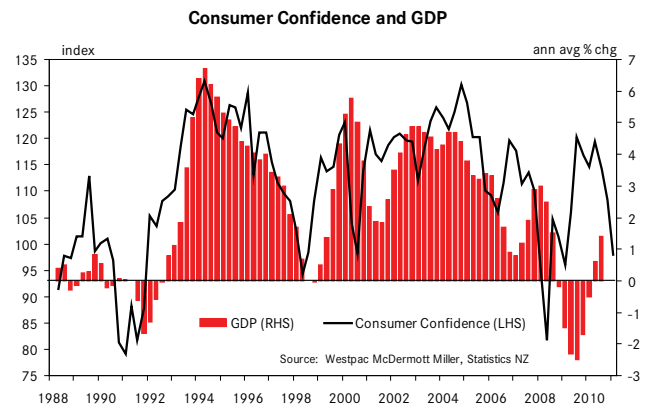
- The New Zealand Consumer Confidence Index fell 10.4 points to 97.9 in the March quarter. The survey was conducted in the weeks following the devastating 22 February Christchurch earthquake.
- Across the board, consumers are much more pessimistic about the near-term economic outlook.
- Other details of the survey are less gloomy but the outturn offers retrospective support for the RBNZ's confidence-boosting 50 basis point interest rate cut.

The Westpac McDermott Miller Consumer Confidence Index plummeted in the March quarter, falling 10.4 points to 97.9. The survey was conducted during the period 1 - 13 March 2011, between one and three weeks following the 22 February Christchurch earthquake - clearly the dominant influence on the outturn. This is the lowest that confidence has been since March 2009: less pessimistic than at the depths of early 1990s recession or the Global Financial Crisis, but akin to levels we saw during the 1997-1998 Asian Crisis.

Out of respect for the situation of Christchurch residents following the quake, Christchurch households were not interviewed in the March survey; instead, additional households from the rest of Canterbury were interviewed. An index number under 100 indicates that pessimists outnumber optimists, although the historical series average may be above or below 100. The margin of error in the survey is 2.5% at a 95% confidence interval.

Survey details

Looking into the detail, there was one clear driver of the fall in the Index: consumers are much more pessimistic about the near-term economic outlook. The net percentage of households expecting bad economic times over the next 12 months surged from 9.7% in December to 46.5%. Longer-term (5-year-ahead) economic expectations, expectations for households' own financial situation, and their readiness to buy big-ticket items, also declined, but by much less. Indeed, looking back on how their own financial situation had changed over the past year, on net households were slightly less negative than they were in December.



Consumer Confidence Indices¹

	Dec-10	Mar-11	change
Consumer Confidence Index	108.3	97.9	-10.4
Present Conditions Index	97.3	96.2	-1.1
Future Conditions Index	115.6	99.1	-16.5

¹ The Present Conditions Index is an average of responses to the questions regarding current personal financial situation and readiness to buy major household items. The Future Conditions Index is an average of responses to questions regarding next year's personal financial situation, the 1-year economic outlook, and the 5-year economic outlook.

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The nation is clearly in shock, but time will tell whether this translates into much lower spending. Historically, movements in households' economic outlook have been reasonably good harbingers of upswings and downswings in consumption growth, but not necessarily of their magnitude. For example, in both the 1992 and 2010 recoveries, consumption initially remained more cautious than the household outlook heralded, and in 1998 spending held up better than the exceedingly gloomy outlook might have led us to expect.

Regional and demographic trends

The fall in confidence was across the board – geographically, by age, by income group, and by sex. Not surprisingly, confidence fell more in the South Island, although steep declines were also seen in (earthquake-prone?) Wellington and Gisborne–Hawkes Bay. Because Christchurch residents were not interviewed this quarter, the very steep fall for Canterbury (by 19.5 points to 90.4, the lowest since June 2008) has to be interpreted with caution, as the sample mix has shifted towards (historically less optimistic) smaller urban and rural areas, but also excludes those worst affected by the disaster.

Regional Confidence Data

Region	Mar-10	Dec-10	Mar-11
Northland	107.7	97.3	90.9
Auckland	119.5	109.5	101.6
Waikato	113.0	109.6	103.4
Bay of Plenty	114.0	101.2	95.2
Gisborne/Hawke's Bay	108.5	104.4	94.2
Taranaki/Manawatu-Wanganui	108.2	101.6	97.1
Wellington	118.6	115.1	101.6
Nelson-Marlborough/West Coast	107.7	106.2	91.1
Canterbury	118.0	109.9	90.4
Otago	104.4	113.2	97.4
Southland	103.0	104.0	92.8

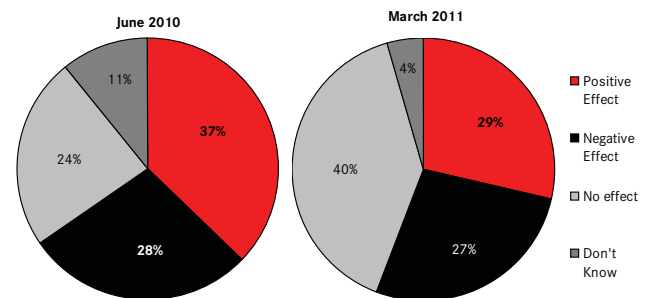
Financial impact of last year's tax and benefit changes

In the March survey we repeated (with past tense replacing future) the additional question we asked in March and June last year, regarding the impact of changes to the tax and benefit system on households' financial situation. It appears that respondents have increasingly accepted that the combined impact on their financial situation of the increase in GST, on the one hand, and the personal income tax cuts, on the other, would be broadly neutral – 40% now report 'no change', nearly double the 24% in June last year. In June 37% expected the impact on their financial situation to be positive; that number has fallen to 29%.

Respondents in the upper socio-economic group remain more positive about the tax changes than the lower socio-economic group, and people aged 50 or over are still more pessimistic about the financial impact of the changes than younger folk. This age and income split matches our assessment of how the tax and benefit changes affect different groups: lower income tax is a clear benefit to most people, but more so

for high income earners. And our assessment is that the tax changes have had a negative impact on house prices, which is by-and-large a boon to the young and a detriment to the old. Also, higher GST lowers the value of existing savings. But there has been a remarkable convergence of the different groups towards a more neutral view, with the upper-income and young having become less positive on net, and the lower-income and old less negative.

Expected impact of tax changes on overall personal financial situation



Source: Westpac McDermott Miller

Implications

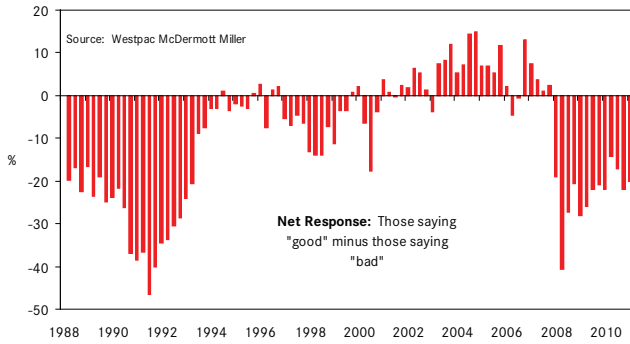
Consumer confidence matters: it has the potential to affect household spending, retail activity, and the strength of the domestic economy. 2010 showed how cautious domestic spending can dampen economic recovery, even in the face of record high commodity prices and all that means for national income prospects. And risks to confidence following the Christchurch earthquake were a key factor behind the RBNZ's decision to cut the OCR by 50 basis points on 10 March.

This survey confirms that the hit to confidence was indeed a material risk in the weeks leading up to the OCR review, and as such provides retrospective support for the Bank's call. Time will tell whether that risk is realised – the extent to which consumers' gloomy assessment of near-term economic prospects translate into lower spending, and, for that matter, how that assessment responds to the OCR cut in the June survey.

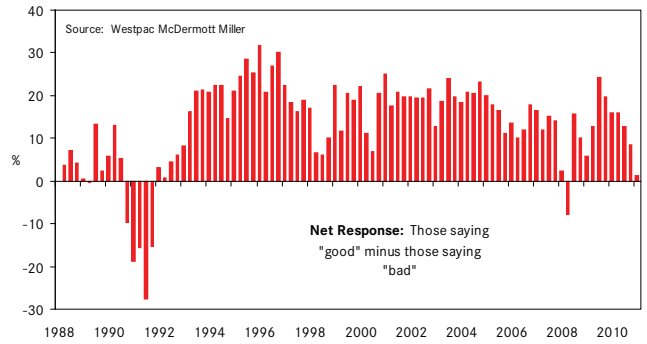
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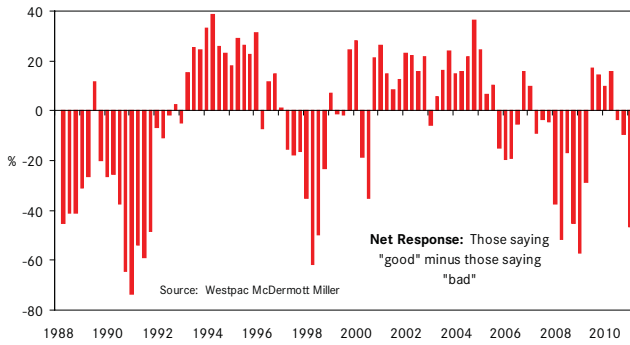
Are you better or worse off financially now than a year ago?



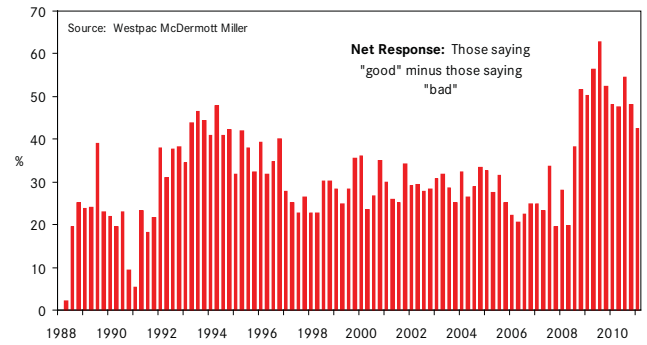
Do you expect to be better or worse off financially this time next year?



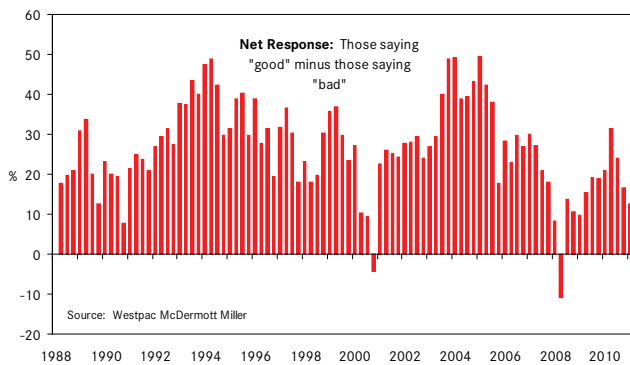
Do you expect good or bad economic times over the next 12 months in NZ?



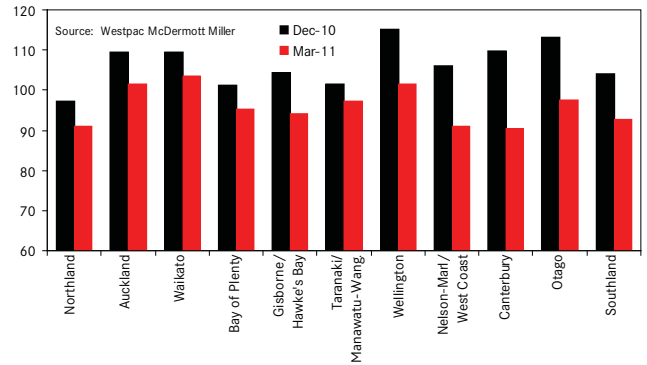
Do you expect good or bad economic times over the next 5 years in NZ?



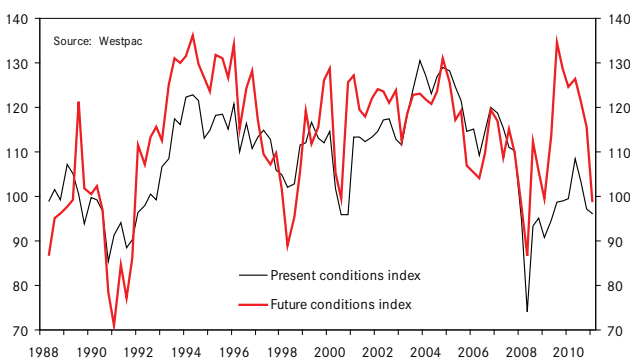
Is this a good or bad time to buy a major household item?



Regional Confidence



Present and Future Conditions Index



Consumer Confidence Data

Quarter	Index
Mar-09	96.0
Jun-09	106.0
Sep-09	120.3
Dec-09	116.9
Mar-10	114.7
Jun-10	119.3
Sep-10	114.1
Dec-10	108.3
Mar-11	97.9