

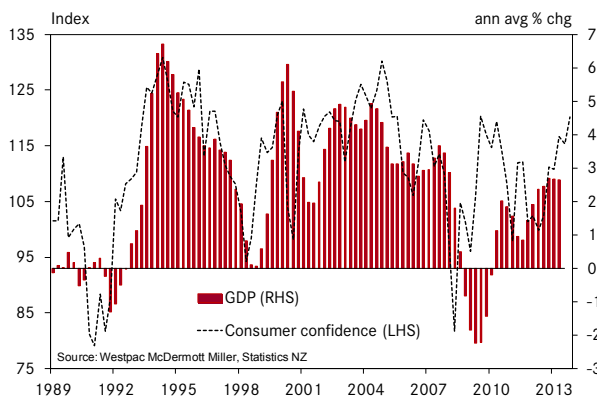
Happy days

Q4 Westpac McDermott Miller Consumer Confidence Index: 120.1

- Consumers have become much more optimistic about the economy, and more upbeat about their own finances.
- Consumers' professed willingness to spend hasn't increased as much.
- On balance, this suggests consumer spending should continue at a solid clip, but may not accelerate much further.

If any more evidence was needed that the economy is now in recovery mode, this is it. The Consumer Confidence Index has risen to its highest level since September 2009, when the economy experienced its first burst of recovery. And compared to then, consumers are both much more upbeat on the near-term economic outlook, and more positive about the state of their own finances. In fact, people are the most upbeat about their finances that they have been in six years, and economic optimists now outnumber pessimists by the widest margin since December 2004. What's more, the improvement has been remarkably widespread across age, income, and regional groups.

Consumer confidence and GDP



This is all very much in keeping with the facts on the ground. The construction sector is ramping up (not just in Canterbury), the job market is on the mend, house and share prices have continued to rise, and rural incomes are getting a big boost from post-drought recovery and sky-high export prices. (Consumer confidence in rural regions has risen particularly sharply over the past few surveys.)

Given all this positivity, we might have expected a similar lift in the survey's questions that relate more directly to spending appetites. Interestingly, those haven't moved much. In fact, the number of households saying that now is a good time to buy a major household item, or that they would spend a cash windfall, is lower than six months ago.

Consumer Confidence Indices

| | Sep-13 | Dec-13 | Change |
|----------------------------------|--------------|--------------|------------|
| Consumer Confidence Index | 115.4 | 120.1 | 4.8 |
| Present Conditions Index | 107.6 | 113.1 | 5.5 |
| Expected Conditions Index | 120.5 | 124.8 | 4.3 |
| Current financial situation | -9.4 | 0.4 | 9.8 |
| Expected financial situation | 9.6 | 12.1 | 2.5 |
| 1-year economic outlook | 14.1 | 27.8 | 13.8 |
| 5-year economic outlook | 37.8 | 34.4 | -3.5 |
| 'Good time to buy' | 24.7 | 25.8 | 1.2 |

It's worth emphasising that this doesn't equate to renewed consumer retrenchment. The survey's various 'spending' questions are still at, or slightly above, historical averages. And when people say their finances are improving they also tend to spend more. But it's a note of caution in what is otherwise a very positive report.

The most obvious culprit is housing-related concerns. With house prices marching steadily higher and restrictions on low-equity borrowing now in place, the hurdle to home ownership has risen. Meanwhile, talk that interest rates will rise next year may have made homeowners more uncertain about future property values and their own future mortgage payments.

We think it is suggestive that the signs of renewed spending caution were particularly noticeable among Aucklanders, as well as among older and higher-income respondents (who are more likely to fall into the existing homeowner category).

Survey details

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; households' outlook for their financial situation over the coming year; and their near-term and longer-term outlook for the New Zealand economy as a whole.

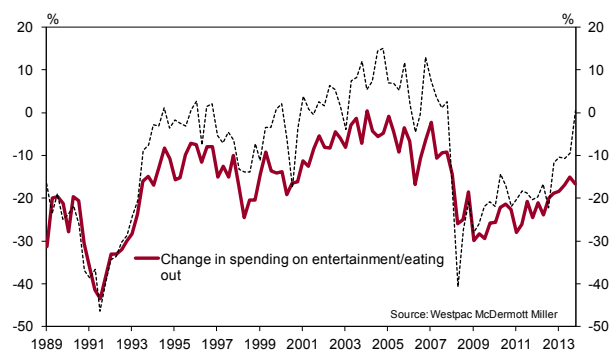
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. Survey interviews were conducted over the period 1 – 10 December. The sample size was 1569.

The biggest increases were in the net percentage of households saying their financial situation has improved (to a net 0.4% positive, the highest since December 2007) and in the net percentage of households expecting good economic times over the coming year (to a net 27.8% optimistic, the highest since December 2004). There was also a smaller rise in the net percentage of people expecting their finances to improve over the year ahead, from 9.6% to 12.1%, the highest since September 2010.

Other aspects of the survey saw less improvement. The net percentage of households saying that now was a good time to buy a major household item rose slightly, from 24.7% to 25.8%, but remains well below its recent peak of 34.4%, in the June survey. Meanwhile longer-term economic optimism (looking 5 years ahead) fell back from 37.8% to 34.4%, close to the historical average of 32%.

The survey also asks respondents how their spending on entertainment and eating out has changed over the past year, and what they would do with a \$10,000 cash windfall. The net proportion saying they have increased their spending on entertainment/eating out slipped back slightly (to -16.7% from -15.0%), despite the improvement in their reported financial situation. The percentage of respondents saying they would spend a cash windfall (rather than save it or use it to pay down debt) held steady at 34.3% - below the recent peak of 37.7%, but still slightly above the historical average.

Reported financial situation and discretionary spending



Demographic breakdowns

Sex: Both male and female respondents have become more upbeat about their own financial situation and the near-term economic outlook. However, women have become noticeably more cautious about spending compared to men. In fact, the number of women saying it's a good time to buy a big-ticket item, and reporting an increase in their spending on entertainment and eating out, is now the lowest since late 2012. By contrast, men's responses to these questions ticked up.

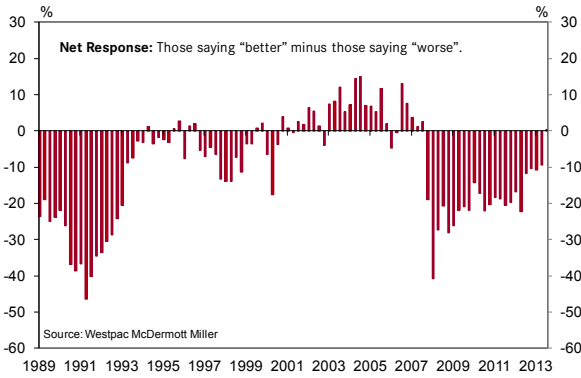
Age: All age groups are feeling more positive about near-term economic prospects. But young respondents stood out for reporting an increased desire to buy a major household item and to spend a windfall – despite becoming slightly less upbeat about their current financial situation. There was certainly no clear sense that the Reserve Bank's restrictions on low-deposit lending have prompted this group to save more overall.

Income: Unsurprisingly, the income breakdown continues to reveal wide disparities, with higher-income respondents generally much more upbeat. That said, economic optimism has risen among all income groups, and there was also an across-the-board improvement in people's reported financial situation. Interestingly, respondents whose household income is less than \$70,000 reported the biggest lift in their optimism for their own future finances and in their willingness to buy a big-ticket item.

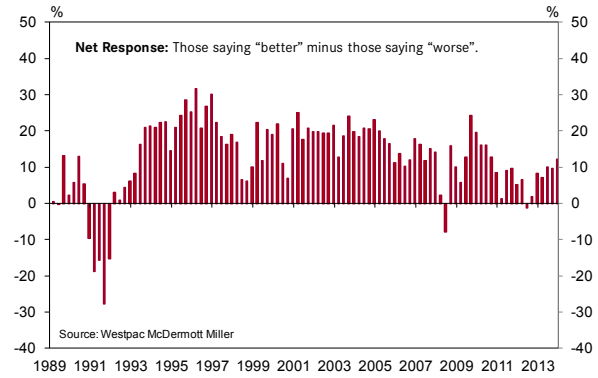
Urban/rural: Again, people in both urban and rural regions felt more positive about the economy and their own financial situation. However, attitudes to eating out, spending a windfall, and buying a major household item, have now clearly pulled back in the major centres (especially Auckland), while spending attitudes among rural respondents have become less cautious.

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Senior Economist

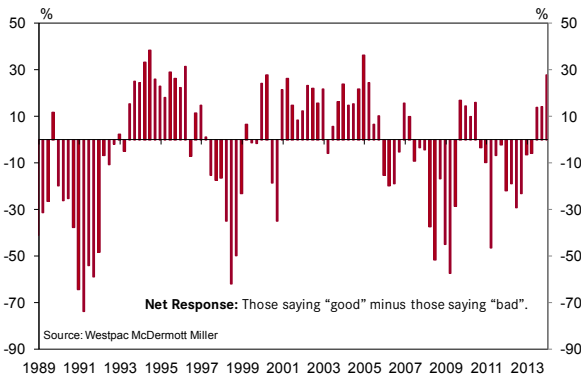
Are you better or worse off financially than a year ago?



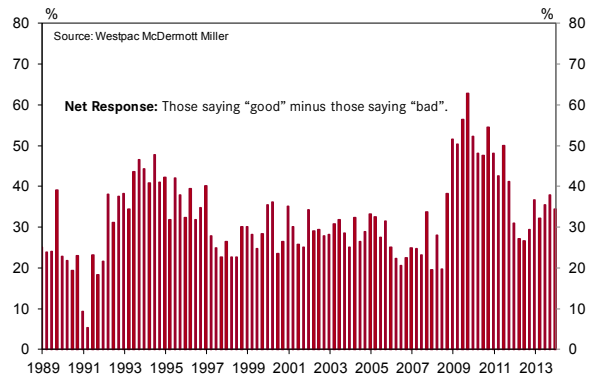
Do you expect to be better or worse off financially in a year's time?



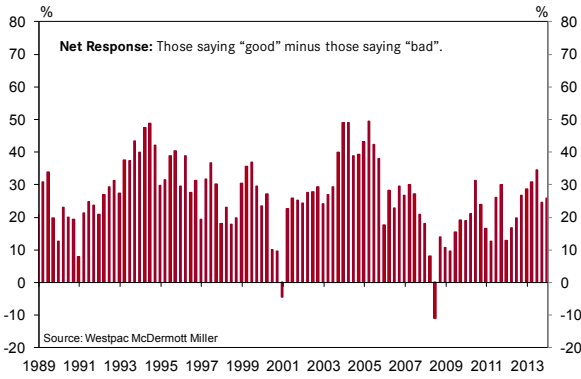
Do you expect good or bad economic times over the next 12 months in NZ?



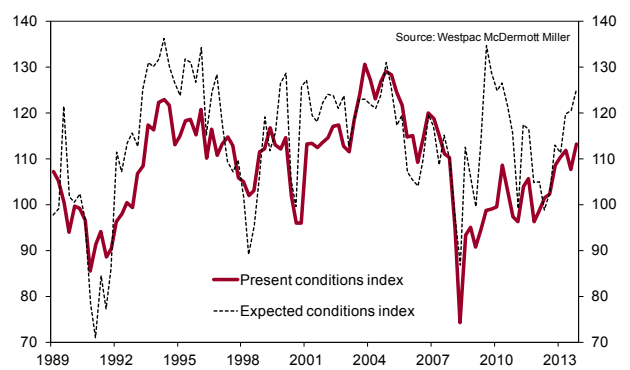
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



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