

Barbarians at the gate: Consumer confidence plunges

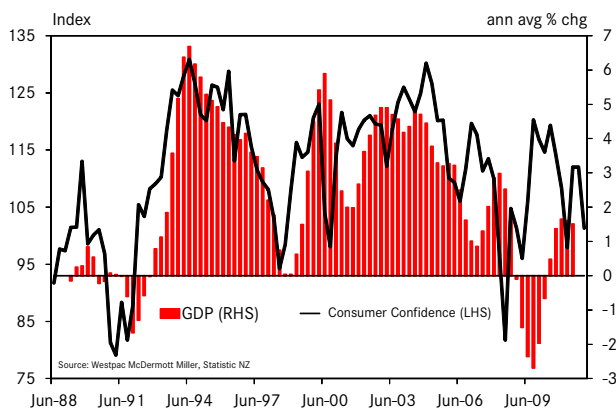
Q4 Westpac McDermott Miller Consumer Confidence Index: 101

- **The consumer mood has decisively soured. Households are now the least confident since immediately after the Christchurch earthquake, and, before that, early 2009.**
- **Economic optimism has fallen sharply, and households are also much less willing to spend on large items than they were in September.**
- **This points to weaker consumer spending in the near term, and supports an on-hold stance from the RBNZ.**

Consumer Confidence Indices

	Sep-11	Dec-11	Change
Consumer Confidence Index	112.0	101.3	-10.7
Present Conditions Index	105.7	96.2	-9.4
Expected Conditions Index	116.3	104.7	-11.5

Consumer confidence and GDP



The Westpac McDermott Miller Confidence Index fell 10.7 points in the three months to December, from 112.0 to 101.3. That's an even steeper fall than we saw back in March, shortly after the February Christchurch earthquake. And the last time the level of confidence was lower was in early 2009, at the trough of the recession.

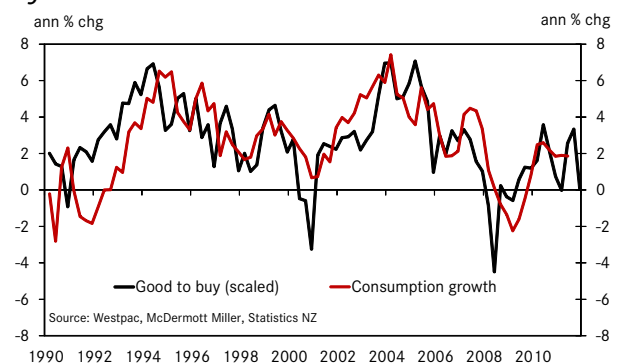
A number of things have happened since three months ago: the temporary spending boost from the Rugby World Cup has come to an end; evidence has mounted that the domestic economy entered something of a lull in the second half of the year; and the

economic news from abroad, particularly Europe, has become a lot more alarming. As we detail below, it's likely that the decisive blow to confidence has come from this increasingly gloomy international economic news. Rather than feeling significantly worse off, households now see very uncertain economic times head.

Today's fall points to a retrenchment in consumer spending early next year. Our previous forecast was for zero consumption growth in the March quarter, as households take a breather after the Rugby World Cup; with underlying confidence this soft, spending could actually fall. Particularly concerning in this regard is the fact that there was a sharp decline in households' willingness to spend on big ticket items. As the chart below shows, this series reached similarly low levels in the 1990, 2000 and 2008 downturns, when consumption growth slowed materially. Admittedly, it gave a false steer in March this year, when consumption held up relatively well, but that survey occurred just after a major earthquake.

Confidence is one of the channels through which the European crisis could impact on New Zealand. Up till now, consumer confidence had remained remarkably resilient even as business confidence had softened sharply. Now both business and household surveys show that confidence has, at the very least, become much more fragile. That's one more reason why the Reserve Bank is likely to want to keep rates on hold for the time being as the European crisis continues to play out.

Consumption spending and willingness to buy a major household item



For further information, questions or comments contact Dominick Stephens, telephone (09) 336 5671, email dominick_stephens@westpac.co.nz

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Survey details

The Consumer Confidence Index summarises the balance of optimistic/pessimistic responses to five questions: how respondents' financial situation has changed over the past year; whether now is a good time to buy a major household item; respondents' 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 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 – 11 December. The sample size was just over 1500.

The main movements this quarter were in households' economic outlook and their attitude to buying a big-ticket item.

- On balance 22% of respondents now expect bad economic times over the year ahead (up from 2% in June). That's not as bad as in March, following the Christchurch earthquake, when a whopping 47% were pessimistic on the near-term economic outlook. But it's still worse than at any time since June 2009. Meanwhile, longer-term economic optimism (for the next 5 years) has dropped sharply for the second quarter running, from 41% to 31%, the lowest level since mid-2008.
- Households' assessment of their personal financial situation was little changed by comparison. Households are downbeat on net about their current situation (a balance of 20% said they are worse off than a year ago), but this isn't much different from three months ago. And while households have become firmly pessimistic for the near-term economic outlook, a net 5% continue to think their own situation will get better over the coming year (down from 10% in September).
- There was also a large drop in households saying that now is a good time to buy a major household item. A balance of only 13% now think that it's a good time to buy, down from 30% three months ago. Responses to this question have tended to fluctuate with the near-term economic outlook over the past year, and this time is no exception. With falling petrol and food prices, interest rates at low levels, and little change in households' reported financial situation, it's clearly economic uncertainty which is prompting households to sit tight.

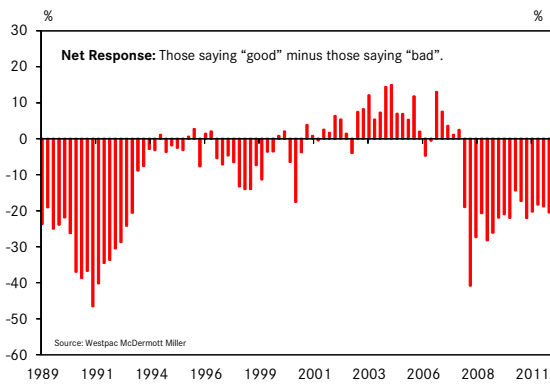
The confidence declines were across the board – male, female, across age groups, and across socio-economic strata. In particular, two of the demographics that were beacons of optimism in the September survey – the young (18 to 29 year olds) and the better-off – have now also reported sharp falls in confidence. Confidence among the young is now back at its June, post-earthquake lows (at 111, down from 126) and confidence among the rich is at its lowest since early 2009 (the post-earthquake drop in March excepted), having fallen from 121 three months ago to 107.

By far the steepest drop in confidence, though, was seen among middle-income New Zealanders, where confidence fell from a fair degree of optimism (107) to under 90. The last time middle New Zealand was more pessimistic than this was in June 2008 and, before that, in the early 1990s recession. In particular, this group's expectations for their personal finances have swung from cautious optimism to net pessimism, with a net 11% now expecting their situation to get worse over the coming year – again the worst since the early 1990s.

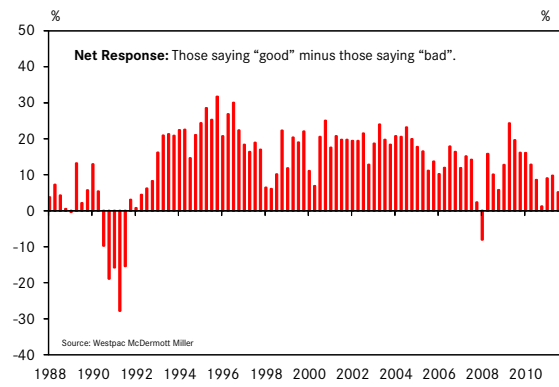
Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671

Felix Delbrück, Senior Economist, Ph: (64-9) 336 5668

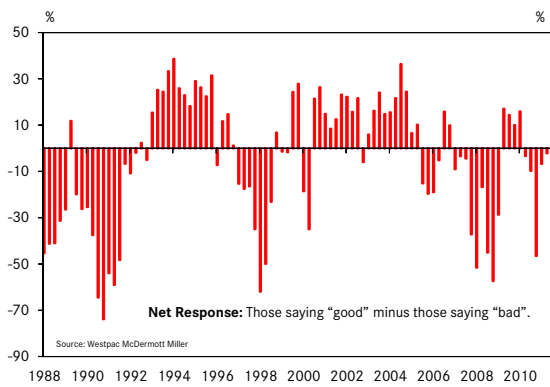
Are you better or worse off financially than a year ago?



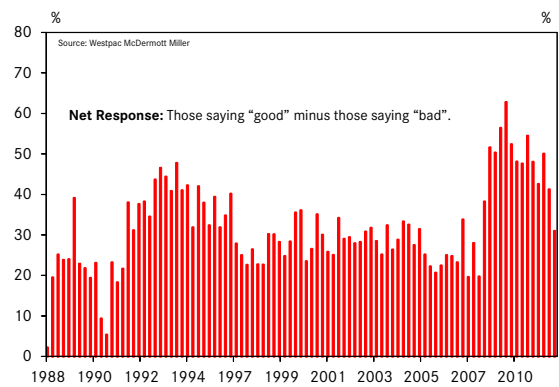
Do you expect to be better or worse off financially than a year ago?



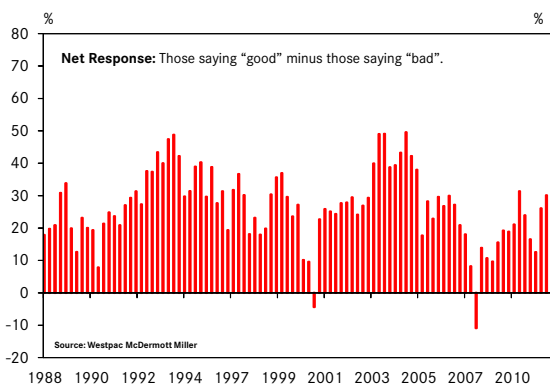
Do you expect good or bad economic times over the next 12 months in NZ?



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 Future Conditions Indices

