

Reality bites: consumer confidence falls

Q4 Westpac McDermott Miller Consumer Confidence Index: 108.3

- **Consumer confidence fell 5.8 points in the December 2010 quarter, to 108.3. This is the lowest level of confidence since the June 2009 quarter.**
- **Perceptions of both current and future conditions declined, but the key influence was a drop in perceptions of whether now is a good time to buy major household items.**
- **The fall in confidence implies that growth in consumer spending will remain modest in the near term.**

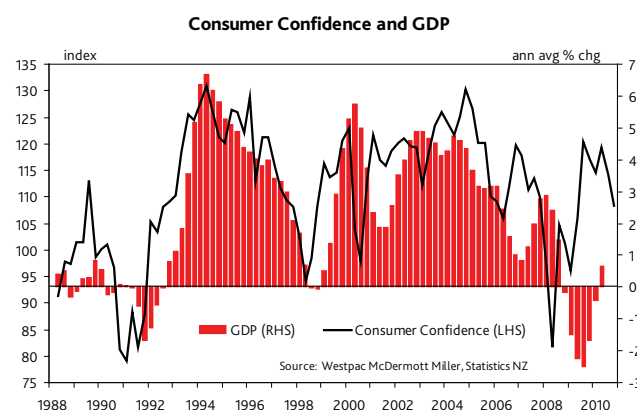
The Westpac McDermott Miller Consumer Confidence Index declined in December 2010 for the second consecutive quarter, falling from 114.1 to 108.3. Confidence is now at the lowest level since June 2009 when the Index was at 106.0. An index number over 100 indicates there are more optimists than pessimists, while a number under 100 indicates that pessimists outnumber optimists. The margin of error in the survey is 2.5% at a 95% confidence interval. The survey was conducted between 1-14 December.

A number of events over the past few months are likely to have made consumers a little more edgy compared to September, including the early onset of drought in Northland and Waikato, the ongoing slump in the housing market (at least through to October), the rise in GST from 12.5% to 15% on October 1, and rising fuel prices in excess of GST. Add in the hard reality of life after the Canterbury earthquake (remembering that confidence in the Canterbury region actually lifted in the immediate aftermath of the earthquake according to our survey), and the Pike River Coal Mine disaster, and it is little surprise that confidence has fallen.

Still, the fact that confidence has fallen, and indeed is now below year ago levels, suggests that consumer spending will remain modest in the near term.

Survey details

The fall in confidence was across the board this quarter, with all five component questions recording declines and the falls evenly spread between current and expected conditions. However, the most influential factor was a fall in consumer perceptions of their purchasing power, with a net 16.6% of respondents saying



Consumer Confidence Indices

	Sep-10	Dec-10	change
Consumer Confidence Index	114.1	108.3	-5.8
Present Conditions Index	103.3	97.3	-6.0
Future Conditions Index	121.3	115.6	-5.7

now is a good time to buy a major household item, compared to a net 23.9% in the September quarter. That is the lowest response to this question since the June 2009 quarter.

Consumers are also less optimistic about the economic outlook, both in the short and longer term. A net 9.7% of respondents now expect bad economic times over the next 12 months, deteriorating from the 3% expecting bad times in September. Meanwhile, a net 48% expect good economic times over the next five years, down from a net 54.5% in September. Still, at these levels consumers clearly remain overwhelmingly optimistic about the future.

Consumers have become more despondent about their own personal financial situation. A net 22% of respondents said they were worse off financially than a year ago, up from a net 17% last quarter. In terms of the coming year, consumers remain optimistic, but less so than last quarter, with a net 8.5% expecting their own financial situation to improve over the next 12 months – down from 12.8% in the September quarter and the lowest since March 2009.

For further information, questions or comments contact Brendan O'Donovan, telephone (64-4) 470 8250, email brendan_odonovan@westpac.co.nz

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Regional and demographic trends

By region, the drop in confidence was almost across the board, with particularly sharp declines recorded in Northland and Canterbury. In Northland, we suspect the sharp fall can be largely explained by drought, while as suggested above the fall in Canterbury may be partly explained by an unwinding of 'response bias' in the September quarter. By rural/urban grouping confidence remains the strongest in the cities by a decent margin, although the gap between rural and urban confidence continues to narrow.

The exceptions to the drop in confidence this quarter were in Nelson/Marlborough/West Coast and Otago regions. In terms of the former, the rise in confidence is a little surprising given the events at Pike River Coal Mine.

By age, the fall in confidence was more pronounced among those aged 30 or over, and for those in the non-working socio-economic group. These trends may in part be explained by the changes in tax policy, with those not working and in the 50+ age group hit hardest. By gender, the decline in confidence was greater amongst females, with confidence down 7.5 points to 103.3 compared with a 2 point drop amongst males to 112.3.

Consumer Confidence Data

Region	Dec-09	Sep-10	Dec-10
Northland	110.8	109.3	97.3
Auckland	121.5	117.3	109.5
Waikato	108.8	111.8	109.6
Bay of Plenty	120.7	106.8	101.2
Gisborne/Hawke's Bay	109.9	107.8	104.4
Taranaki/Manawatu-Wanganui	115.1	110.9	101.6
Wellington	121.1	115.4	115.1
Nelson-Marlborough/West Coast	116.4	104.3	106.2
Canterbury	116.9	120.6	109.9
Otago	104.4	110.7	113.2
Southland	112.8	112.4	104.0

Implications

The RBNZ maintained a very weak outlook for the consumer in their December *Monetary Policy Statement*. Real consumer spending is forecast to slow from 1.6% in the year to March 2011, to just 0.5% in March 2012. In particular, households are expected to increase their savings rates as they watch the value of their biggest asset – housing – fall back towards their recessionary lows.

Today's data will likely reinforce the RBNZ's view. Consumers have clearly become more cautious over the past few months, and indeed over the past year, despite falling unemployment, lower income tax rates, strong commodity prices (particularly in the dairy sector), and lower fixed term interest rates. But even though these confidence figures suggest that consumers remain cautious for now, we continue to hold the view that consumer caution will not be sustained through 2011. As the economy gathers momentum over the coming year, bringing more jobs

and income growth, we expect growth in consumer spending to match that of income, growing by around 2-3% per annum in real terms.

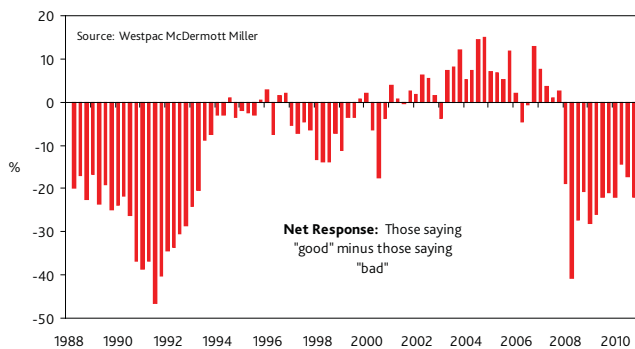
Our view is further supported by tentative signs that sentiment in the housing market may now be starting to turn. Indeed, in contrast to the RBNZ's latest forecasts which show house prices falling at a faster pace over the next few quarters, the most recent data suggests that the housing market may be stabilising instead.

Nevertheless, even if the housing market or the economy more generally starts to show greater momentum in coming months, we don't think the RBNZ could bring itself to resume tightening any earlier than June next year.

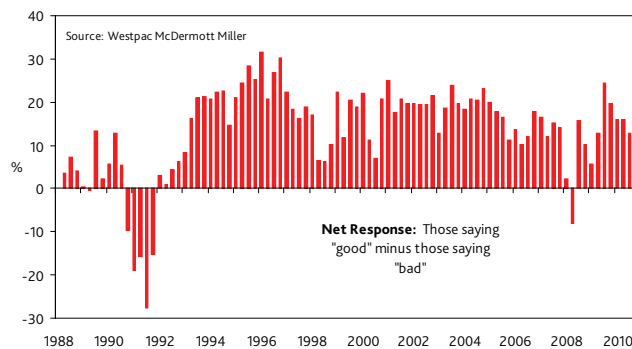
Brendan O'Donovan, Chief Economist, Ph: (64-4) 470 8250

Donna Purdue, Senior Economist, Ph: (64-4) 381 1407

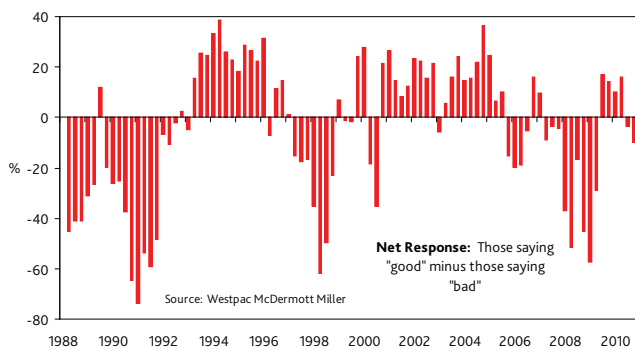
Are you better or worse off financially now than a year ago?



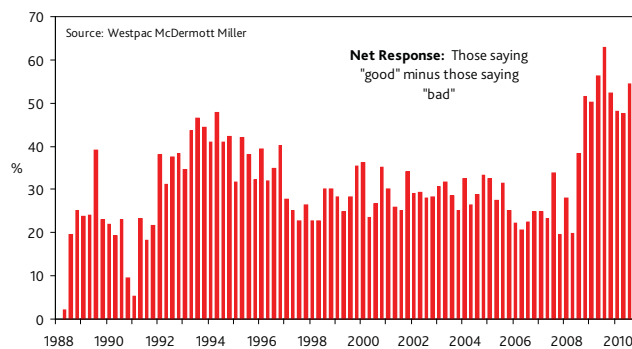
Do you expect to be better or worse off financially this time next year?



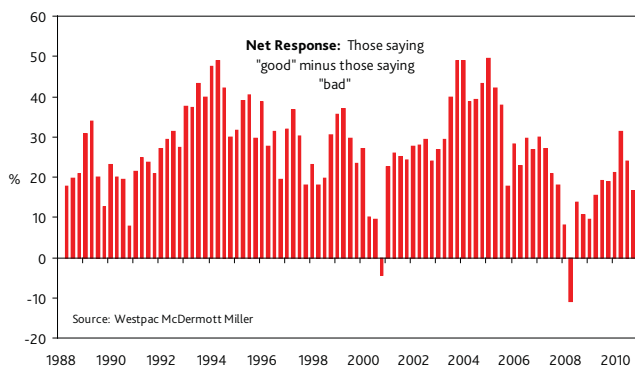
Do you expect good or bad economic times over the next 12 months in NZ?



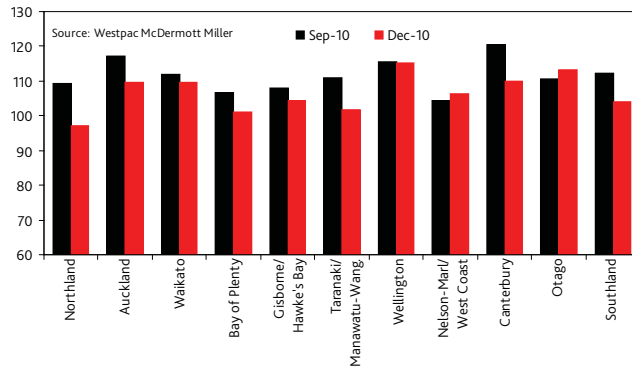
Do you expect good or bad economic times over the next 5 years in NZ?



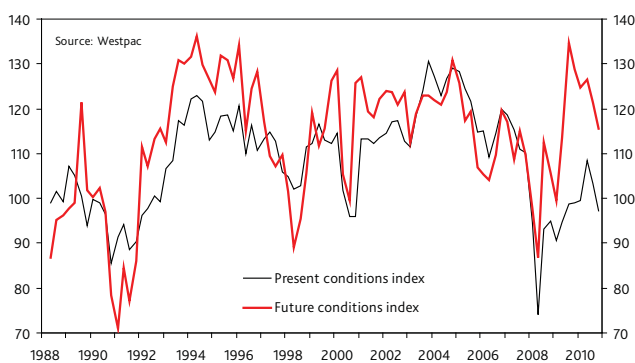
Is this a good or bad time to buy a major household item?



Regional Confidence



Present and Future Conditions Index



Consumer Confidence Data

Quarter	Index
Sep-08	104.8
Dec-08	101.3
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