

# WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

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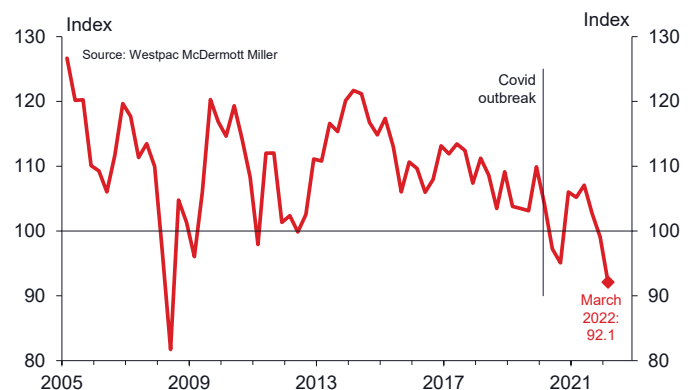
## Now is the winter of our discontent.

- Consumer confidence has continued to tumble in recent months and is now the lowest it has been since the Global Financial Crisis in 2008.
- Households have reported that their financial position has deteriorated as the economy has been buffeted by a multitude of headwinds. That includes rising consumer prices and higher mortgage rates, both of which are squeezing households' disposable incomes.
- The rapid spread of Omicron is also likely to have dampened confidence in recent weeks.

### Consumer confidence indices

	Mar-22	Dec-21	Change	Average
Consumer Confidence Index	92.1	99.1	-7.0	110.4
Present Conditions Index	90.1	94.8	-4.7	107.8
Expected Conditions Index	93.5	101.9	-8.4	112.2
Current financial situation	-12.9	-10.7	-2.2	-8.6
Expected financial situation	2.5	6.9	-4.4	11.4
1-year economic outlook	-22.8	-11.2	-11.6	-3.1
5-year economic outlook	0.8	10.0	-9.2	28.2
'Good time to buy'	-6.9	0.4	-7.3	24.2

### Consumer Confidence

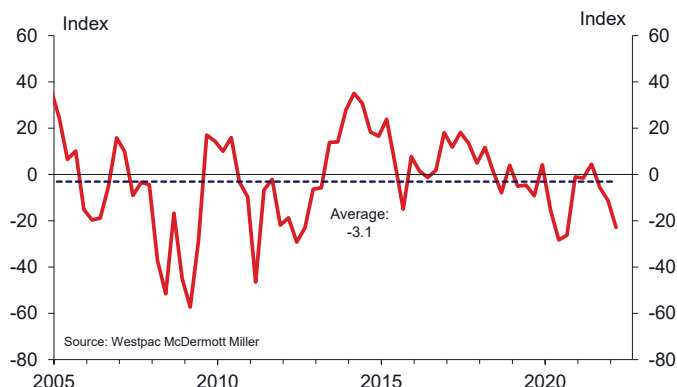


Consumer confidence has continued to tumble in recent months, with the Westpac McDermott Miller Consumer Confidence Index dropping to a level of 92.1 in March. That's down 7 points from the levels we saw at the end of last year

and is lower than when the economy first went into lockdown. In fact, the last time confidence was this low was in 2008 when the global economy was in the depths of the financial crisis.

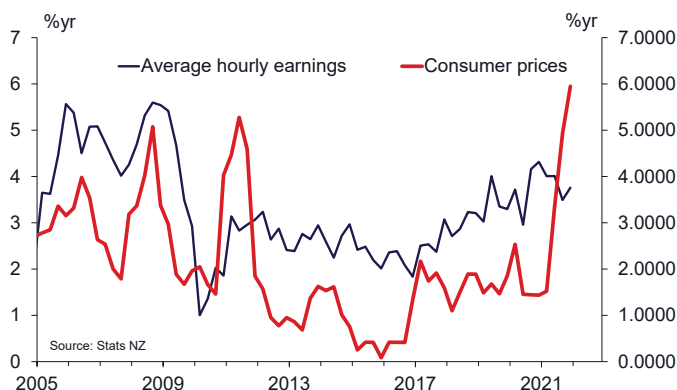
The economy is being buffeted by powerful headwinds, and households have become increasingly pessimistic about the economic outlook over the coming years. Among the developments that have been weighing on sentiment has been the surge in Omicron infections. That's been a big worry for many households, with large numbers of us choosing to spend more time at home, rather than going out. The resulting weakness in hospitality spending has been a particular drag in regions like Queenstown and Nelson, but areas like Auckland and Wellington have also felt the pinch.

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



Also weighing on confidence, a large number of households have told us that their personal financial position has deteriorated over the past year. A key reason for that has been the rapid rise in consumer prices, with inflation hitting a three-decade high of 5.9% in the 12 months to December. Earnings growth has not kept pace with those cost increases, with average wage rates rising by 3.8% over the same period. That's meant many households will have seen the purchasing power of their pay-packets going backwards in recent months.

Consumer price inflation and wage growth



While the rise in consumer prices has been widespread, there have been two standouts. First, energy prices have spiked as the conflict in Ukraine has intensified. Local pump prices cracked \$3/ltr in most parts of the country earlier this month. And although the recent reduction in fuel taxes (announced

towards the end of the survey period) has provided some relief, fuel prices are still running 8% above the levels we saw at the end of last year. The other area where we've seen particularly large increases is food prices, which have risen by around 7% over the past year. Combined, food and fuel account for a sizeable share of most household's spending. And unsurprisingly, the drop in confidence has been particularly sharp among those households on lower incomes, who tend to spend a greater share of their earnings on these essential items.

Compounding the pressure on household balance sheets, mortgage interest rates have continued to push higher. For many households, that will have already taken a bite out of their disposable incomes, and many more will face refixing at higher interest rates over the coming year.

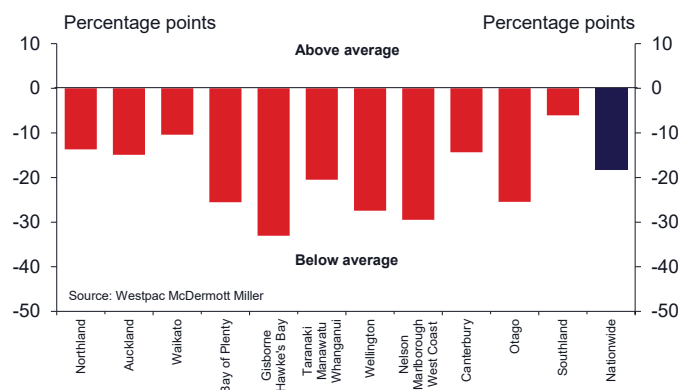
## Misery loves company.

Confidence is at low levels in every part of the country.

Recent months have seen particularly sharp falls in confidence in both Nelson and Otago. That's likely to be related to the significant challenges that the hospitality sector is grappling with, including subdued consumer demand and widespread worker absenteeism as Omicron has rippled through the workforce.

However, there have also been sharp drops in confidence in many other regions. This likely reflects that the headwinds buffeting the economy, like the growing pressure on households' disposable incomes, have been felt right across the country.

Consumer confidence by region (compared to average)



The only region where we saw a material rise in confidence this quarter was Southland. To date, Southland's economy has been less affected by Covid and the related softness in hospitality spending. It is also benefiting from the firmness in commodity export prices and resulting boost to farm incomes. Nevertheless, even here consumer confidence remains at below average levels.

Our upcoming Westpac McDermott Miller Regional Economic Confidence report (out on Friday) will take a closer look at economic trends across the country.

## Consumer confidence by region

	Mar-22	Dec-21	Change
Northland	93.4	90.7	2.7
Auckland	99.0	102.9	-3.9
Waikato	97.4	97	0.4
Bay of Plenty	83.3	91.7	-8.4
Gisborne/Hawke's Bay	74.7	95.7	-21.0
Taranaki/Manawatu-Whanganui	86.4	103.7	-17.3
Wellington	85.6	106.7	-21.1
Nelson/Marlborough/West Coast	77.3	94.6	-17.3
Canterbury	96.4	94.2	2.2
Otago	82.2	94.5	-12.3
Southland	101.4	89.1	12.3
Nationwide	92.1	99.1	-7.0

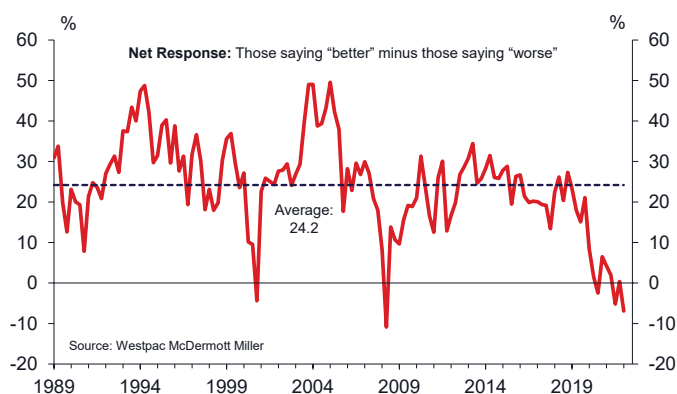
## Keeping an eye on the purse strings.

With growing pessimism about the economic landscape and their personal finances, households have become increasingly apprehensive about making major purchases. The number of households who think it's a good time to buy a major household item has now fallen to its lowest level in 14 years.

Spending on major household items has actually been resilient over the past year. In fact, as households have wound back their spending on dining out and hospitality activities, they have been spending up on a range of durable household items like furnishings and recreational equipment.

However, while spending appetites have been resilient to date, the growing nervousness about the economic landscape does signal some downside risk for consumer demand over the coming months. That risk has been compounded by the sharp rise in the prices of many household necessities which is squeezing households' disposable incomes.

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



## Survey description.

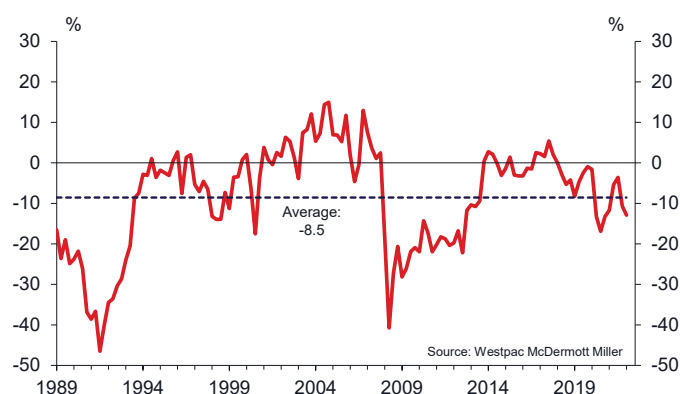
The Westpac McDermott Miller Consumer Confidence Index summarises the net balance of optimistic/pessimistic responses to five questions: how households' financial situation has changed over the past year; whether now is a good time

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.

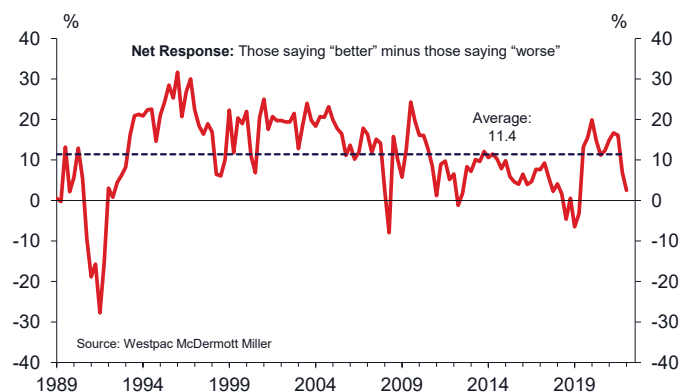
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 1-17 March 2022. The sample size was 1,559.

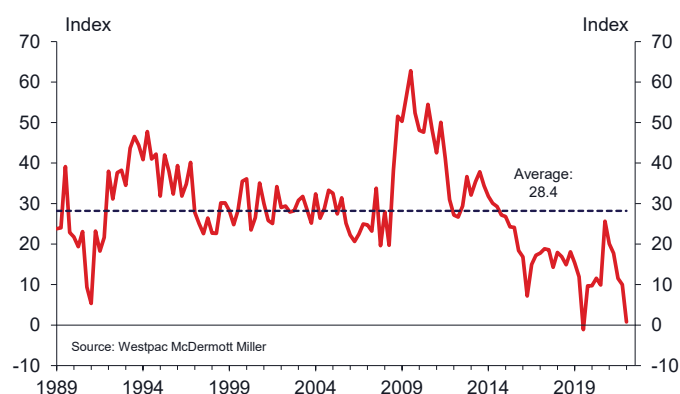
### Are you better or worse off financially than a year ago?



### 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 5 years in New Zealand?



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