

WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

20 December 2021

Satish Ranchhod, Senior Economist
+64 21 131 3433
satish.ranchhod@westpac.co.nz



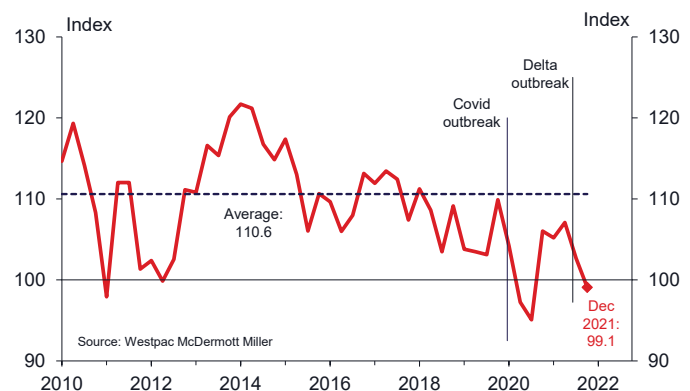
The holiday blues.

- Consumer confidence has continued to fall, and there are now more New Zealanders who are pessimistic about the economic environment than there are those who are optimistic.
- Among the factors that are likely to be weighing on consumer sentiment are rising mortgage rates, as well as ongoing concerns about Covid and its variants.
- Many households have reported that their financial position has deteriorated over the past year, and a growing number expect their finances will come under pressure in the new year.
- While there was a modest increase in Auckland following the easing in lockdown conditions, most other regions recorded sharp falls in consumer confidence this quarter.

Consumer confidence indices

	Dec-21	Sep-21	Change	Average
Consumer Confidence Index	99.1	102.7	-3.6	110.6
Present Conditions Index	94.8	95.6	-0.8	107.9
Expected Conditions Index	101.9	107.4	-5.5	112.3
Current financial situation	-10.7	-3.6	-7.1	-8.5
Expected financial situation	6.9	16.1	-9.2	11.4
1-year economic outlook	-11.2	-5.6	-5.6	-2.9
5-year economic outlook	10.0	11.5	-1.5	28.4
'Good time to buy'	0.4	-5.2	5.6	24.4

Consumer Confidence



The holiday season is upon us. And although the celebrations may be underway, New Zealand households are not feeling all that festive, with consumer confidence continuing to tumble over the past few months.

The Westpac McDermott Miller Consumer Confidence Index fell 3.6 points in the December quarter. That drop followed a similarly sharp fall last quarter and leaves confidence at a level of 99.1. With confidence below the 100 mark, this means that there are now more New Zealanders who are pessimistic about the economic environment than there are those who are optimistic.

The months since our last survey have been a mixed bag for the New Zealand economy. Since September we've seen activity restrictions being gradually rolled back. The labour market has remained in good health. And spending has been on the rise.

However, other developments have put a dampener on the party, with two developments in particular likely to account for much of the pessimism we've seen.

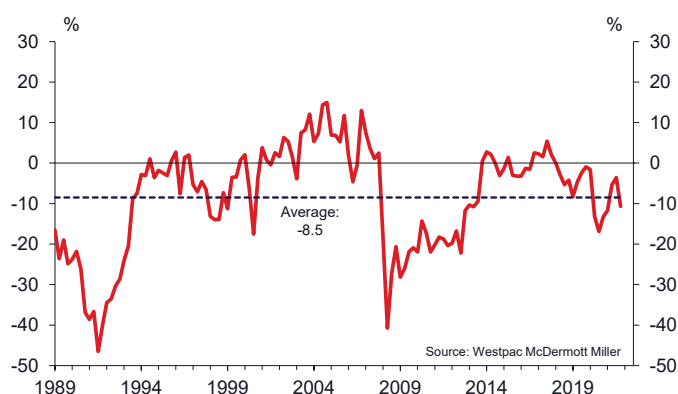
First is that mortgage interest rates have started to push higher, and forecasters – including ourselves – expect that they will continue to rise over the coming year. For many households, higher interest rates will have already taken a bite out of their disposable incomes, and many more will face re-fixing at higher interest rates over the coming year.

The other big development in recent weeks has been the emergence of the omicron variant. Reports on this new strain were hitting the headlines at the start of December, right at the time we were polling households. And with the country having just emerged from the Delta lockdown, that's likely to have stoked fears about the risks to health and the possibility that activity restrictions could be reimposed over the summer.

Against this backdrop, households have become increasingly pessimistic about the outlook for economic conditions over the next few years.

But it's not just worries about the general economic landscape that are causing concern. Many households have reported that their personal financial position has deteriorated over the past year, and a growing number expect their finances will come under pressure in the new year.

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



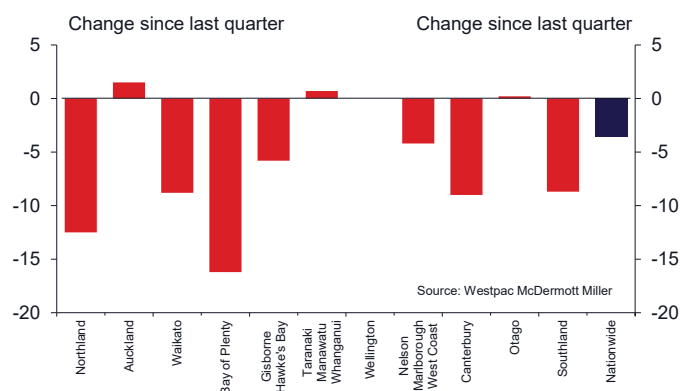
In part, households' increased concern about their financial position is likely to reflect increases in borrowing costs. However, many households will also be grappling with the sharp lift in the prices of many consumer goods over the past year. Consumer prices rose by 4.9% over the past year. That's the fastest pace in a decade. And for many households, wage

growth won't have kept pace, meaning their purchasing power will have been squeezed. Importantly, we're seeing no sign that inflation pressures will let up anytime soon, meaning that this is likely to become an issue for a growing number of households in the new year.

The rest of New Zealand is really missing Aucklanders.

Confidence is at low levels in every part of the country, but there are some differences across regions.

Consumer confidence by region



Auckland is one of the few areas where confidence picked up in December (albeit modestly). That modest improvement in sentiment likely reflects that, after a protracted lockdown, those in our largest city are now enjoying some well-earned freedoms. That's been very obvious walking around the Auckland Viaduct during the warm summer evenings, with spending in bars and restaurants on the rise again.

Consumer confidence by region

	Dec-21	Sep-21	Change
Northland	90.7	103.2	-12.5
Auckland	102.9	101.4	1.5
Waikato	97	105.8	-8.8
Bay of Plenty	91.7	107.9	-16.2
Gisborne/Hawke's Bay	95.7	101.5	-5.8
Taranaki/Manawatu-Whanganui	103.7	103	0.7
Wellington	106.7	106.7	0
Nelson/Marlborough/West Coast	94.6	98.8	-4.2
Canterbury	94.2	103.2	-9
Otago	94.5	94.3	0.2
Southland	89.1	97.8	-8.7
Nationwide	99.1	102.7	-3.6

However, confidence has fallen in most other regions, with sharp falls seen in many parts of the North Island and right throughout the South Island. In tourist hot spots like Queenstown, Nelson and the Bay of Plenty, that likely reflects that social distancing requirements and a lack of tourists from Auckland have been a significant drag on economic conditions. However, given widespread and large falls in confidence over

the past months, it's clear that households are also worried about the economic situation more generally.

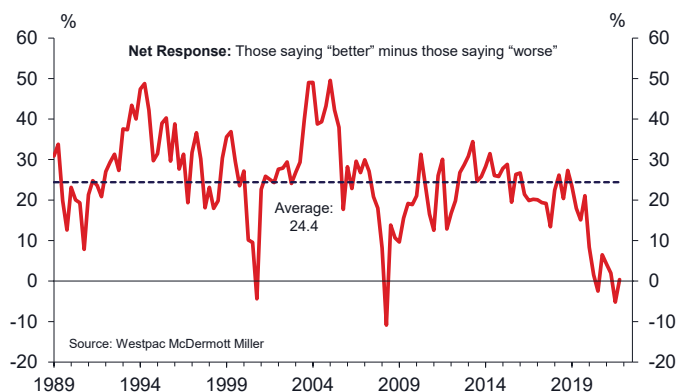
Our recent Westpac Regional Roundup¹ takes a closer look at economic trends across the country.

All I want for Christmas is consumer electronics, home renovation supplies, new furniture...

On top of concerns about the economic outlook, households are also apprehensive about making major purchases. Despite rising slightly over the past quarter, the number of households who think it's a good time to buy a major household item continues to languish at low levels.

However rather than signalling weakness in spending appetites over the holiday season, this apprehension likely reflects some well publicised difficulties in the retail sector. That includes widespread disruptions to global supply chains and large increases in shipping costs. Combined, those factors have meant that supplies of some consumer goods are limited. It's also meant that the prices for many in demand items have been rising rapidly. But despite those disruptions, retailers who have been able to source stocks have actually reported solid levels of consumer demand. In fact, recent weeks have seen households spending up on a range of durable household items like furnishings and recreational equipment.

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



Here's to a happy and financial prudent new year.

While spending has remained resilient in recent months, the drop in consumer confidence does indicate some downside for consumer demand in the new year. We already expect that household balance sheets will come under pressure over the coming years as mortgage rates push higher and the housing market slows. Spending appetites will also be challenged by continued uncertainty around the evolving Covid situation. However, the anticipated slowdown is expected to be moderate, with the strong labour market and robust export earnings still helping to buffer household incomes.

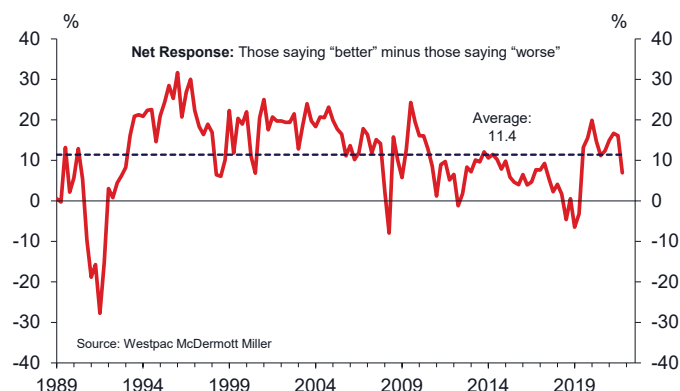
Survey description.

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.

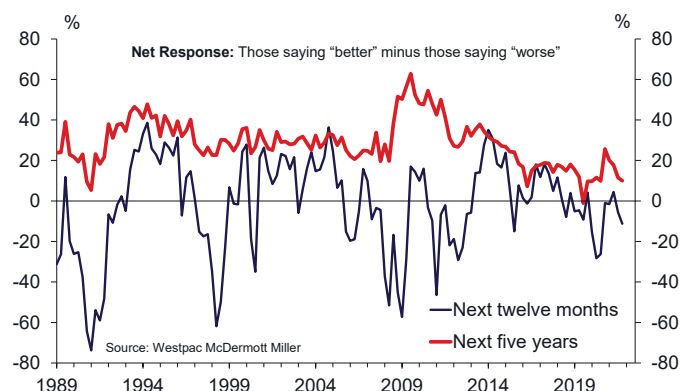
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 1-12 December 2021. The sample size was 1,558.

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 coming years?



¹ <https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2021/Other/Regional-Roundup-Dec-21-Westpac-NZ.pdf>

Contact the Westpac economics team

Michael Gordon, Acting Chief Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Gregorius Steven, Economist

+64 9 367 3978

Any questions email:

economics@westpac.co.nz

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong Branch also holds a licence issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.