

Here comes the sun

Q3 Westpac McDermott Miller consumer confidence leaps from 106.0 to 120.3

- **Consumer confidence leaps to a four year high in the September 2009 quarter.**
- **Optimism is widespread, led by a material improvement in the short term outlook for the economy and year ahead financial conditions. Present conditions continue to provide sober reading.**
- **If current confidence levels are sustained, the risk is for more rapid and potent growth in consumer spending than the RBNZ is currently anticipating.**

Consumer confidence rocketed higher in the September 2009 quarter, lifting 14 points from the June quarter survey. The Index now stands at 120.3, the highest in four years and well above the series average of 111.4. 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.

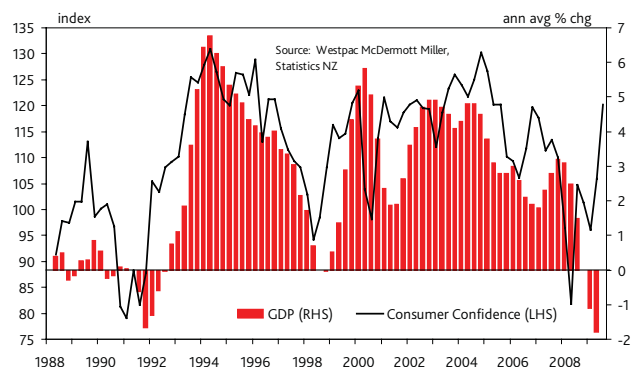
This is the second consecutive quarter that confidence has recorded a double digit gain – in the June 2009 quarter confidence lifted 10 points from 96.0 to 106.0. However, back then we put the improvement down to a collective sigh of relief – relief that the economy had avoided the doomsday scenario that was feared at the peak of the global financial crisis. Moreover, at 106.0, confidence was indicative of a period of flat consumer spending rather than growth. Certainly, the survey detail suggested a lack of conviction that a recovery was on its way.

However, this quarter, consumers, regardless of age, income group, gender, or region, have shrugged off any doubts they had a few months ago and are now convinced that good times are on their way. That is great news for the New Zealand economy. A precursor to any economic recovery is a return of confidence and, for the time being at least, NZ has that in spades.

Expectations lead the way

All of the survey components recorded increases this quarter. But the dominant influence was a sharp turnaround in the short term outlook for the economy.

Consumer Confidence and GDP



Consumer Confidence Indices

	Sep-09	Jun-09	change
Consumer Confidence Index	120.3	106.0	14.3
Present Conditions Index	98.6	94.7	3.9
Future Conditions Index	134.7	113.5	21.2

A net 17% of consumers now expect good economic times over the coming year, up a massive 45.7 points from the June survey when a net 28.7% expected bad economic times. This is the second biggest quarterly improvement recorded for this component (the biggest being a rise of 56.4 points in the December 2000 quarter), and is the highest response since the March 2005 quarter. The more upbeat global economic outlook and increasing talk that the NZ recession had ended will no doubt have fed these improved expectations. Rising house prices and signs that the labour market has held up better than expected will have also been influential factors.

The other major mover this quarter was consumers' assessment of their financial position in a year's time. A net 24.3% of consumers are anticipating that the next year will be more lucrative – a seven year high for this series, and up from a net 12.7% in the June quarter. The strength of this result is surprising given our expectation that unemployment will edge higher over the coming year, thus contributing to slower wage growth. Rising house prices and a turnaround in the economy more generally are likely to be contributing factors.

For further information, questions or comments contact Brendan O'Donovan, telephone (04) 470 8250, email bodonovan@westpac.co.nz

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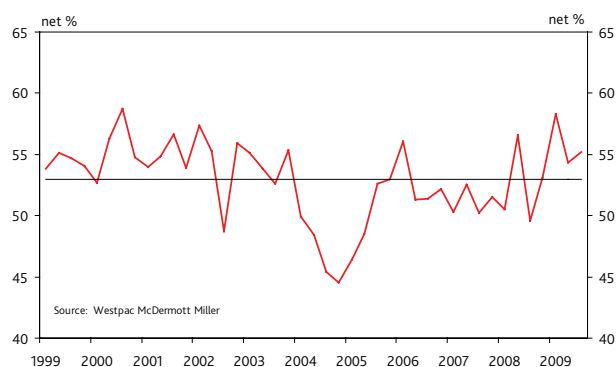
Perceptions around the longer term economic outlook continue to reach new highs, although the gains were far less spectacular than for the short term outlook. Still an overwhelming net 62.8% of respondents think there will be good economic times in the next five years. That is up from 56.4% in June and is well above the long run average of a net positive 30.3% for this series. For some time we have argued that the optimism reflected in this question was largely to do with where we were at in the economic cycle. That is, “things are so bad they can only get better from here”. However, optimism has reached such heights that the suggestion is there is some bigger force at play. It seems consumers across the country are beginning to buy into the story that New Zealand is well placed to benefit from the emerging market/global recovery given our strong agricultural base.

Gains in the remaining two component questions were far more muted, and paint a more sobering picture. A net 21.9% of respondents still say they are worse off financially now compared to a year ago. That is a small improvement from the net 26.0% in June, and is far better than the net 40.7% saying they were worse off in June last year when cost pressures were at their highest. But even so, the response to this question serves as a reminder that current cash flows remain tight.

An air of caution also exists in the response to the question around whether now is a good or bad time to buy a major household item. A net 19.2% of respondents say now is a good time to buy major household items – up just 3.6 points from the June survey (the smallest increase of all the component questions) and still below the long run average of +27% on this measure. The enthusiasm consumers feel about the economy, along with the elevated NZD, has yet to translate into a willingness to buy big ticket items.

It is also noteworthy that when asked what they would do with a \$10,000 cash windfall, the majority of consumers still say they would either save it or pay down debt, despite feeling far more confident about the economic outlook.

Pay off debt or save



Happiness all around

The lift in confidence was very broad based. Every region showed an improvement with all the regional indices now well

in optimistic territory. Southland, Canterbury and Auckland consumers are the most optimistic, albeit possibly for different reasons – Southland and Canterbury being driven by stronger commodity prices, and Auckland by the stronger housing market. Northland consumers are the least optimistic, maybe reflecting the sharp rise in unemployment in that region in recent quarters.

By gender, males remain the most optimistic, although confidence also increased sharply amongst females. By age, all groups recorded double digit increases, although 18-29 year olds are the most confident group by a reasonable margin. In terms of socio-economic grouping, the upper income groups remain the most optimistic, but again all groups recorded double digit increases compared to the June 2009 quarter.

Consumer Confidence Data

Region	Index		
	Sep-08	Jun-09	Sep-09
Northland	104.7	101.6	109.2
Auckland	101.3	108.6	122.7
Waikato	106.7	98.0	119.8
Bay of Plenty	109.5	103.2	116.2
Gisborne/Hawke's Bay	103.5	106.6	115.3
Taranaki/Manawatu-Wanganui	100.6	109.5	119.4
Wellington	111.0	102.5	121.4
Nelson-Marlborough/West Coast	104.3	105.0	117.9
Canterbury	106.9	109.7	122.7
Otago	103.8	104.6	117.4
Southland	108.0	104.0	122.8

Implications

Despite the high level of confidence, the temptation is to downplay the implications for consumer spending for two reasons. First, the surge in confidence is heavily weighted toward expectations rather than current conditions – indeed the gap between the Expectations Index and the Present Conditions Index has never been wider. Second, consumers still face the considerable hurdles of high household debt, tighter credit, and rising unemployment.

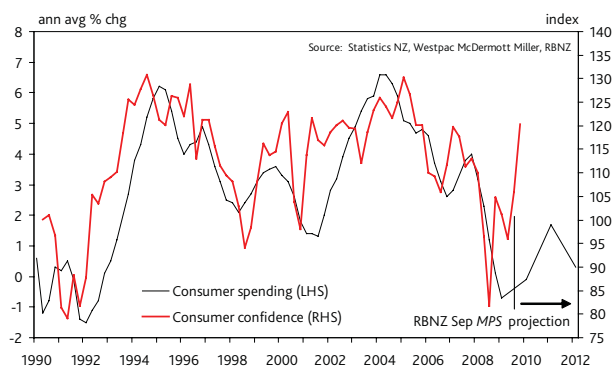
Yet, history tells us that when confidence rises, spending will follow. There is no compelling reason to think that this time will be any different. Sure, the hurdles facing the consumer may affect the timing and magnitude of the recovery in spending relative to previous recoveries, but they won't preclude it.

Moreover, the reality is that plenty of factors have now turned sharply in favour of the consumer. The cost of living has slowed dramatically with inflation expected to remain below the mid-point of the 1-3% target band over the next year; the housing market is picking up with house prices now firmly on the rise in many areas; Fonterra has recently lifted its forecast payout for the current season; and anecdotes suggest that labour market sentiment has also shifted with employment intentions suggesting the pace of layoffs has slowed and recruitment

firms reporting a pick up in job advertising. Add to that extremely stimulatory monetary and fiscal policy and a rebound in consumer spending later this year looks more certain.

In their latest *Monetary Policy Statement*, the RBNZ revised up their forecasts for consumer spending, highlighting strong net migration flows and higher house prices as key influences. Even so, the current level of consumer confidence suggests they may still be underestimating the pace at which consumer spending

Consumer spending vs consumer confidence



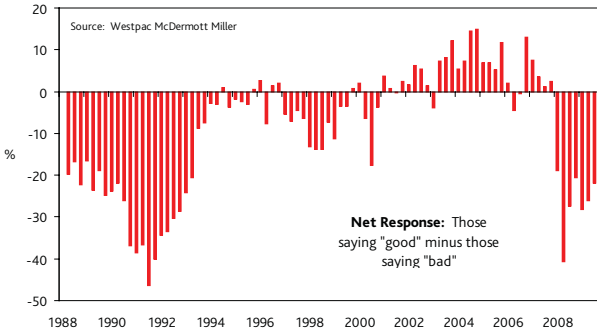
returns.

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

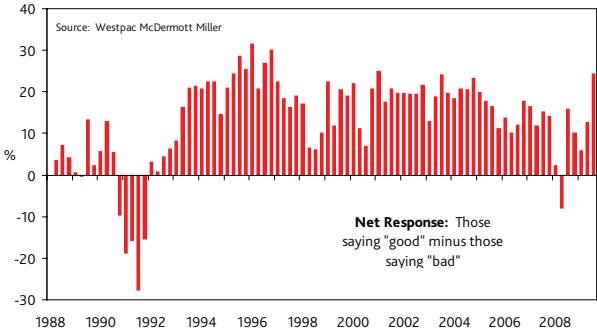
Donna Purdue, Senior Economist, Ph: (64-4) 381 1407

**Q4 consumer confidence will be released on
Monday 21 December 2009**

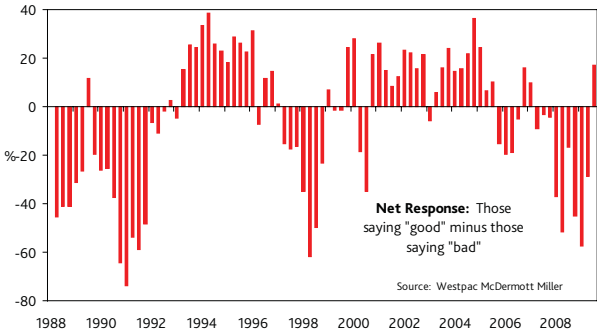
Are you better or worse off financially now than a year ago?



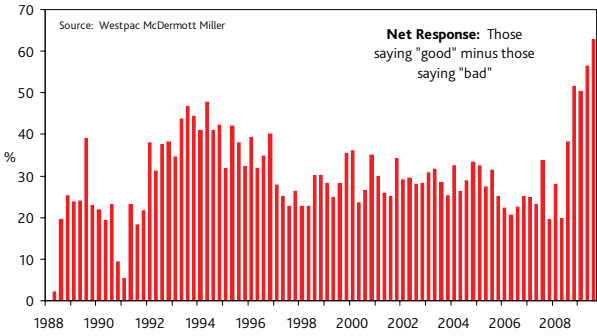
Do you expect to be better or worse off financially this time next year?



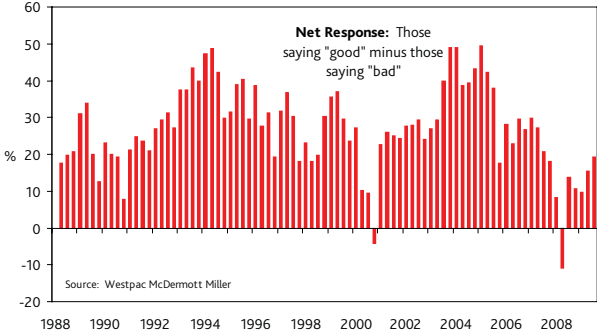
Do you expect good or bad economic times over the next 12 months in NZ?



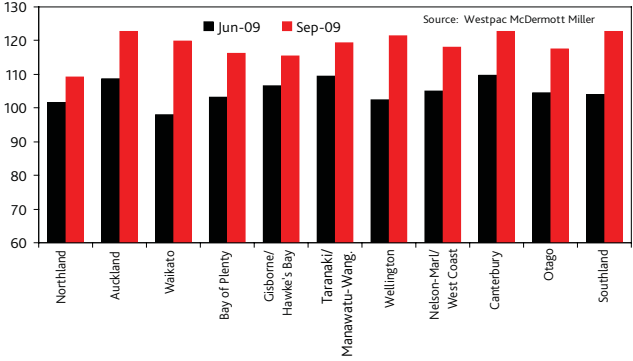
Do you expect good or bad economic times over the next 5 years in NZ?



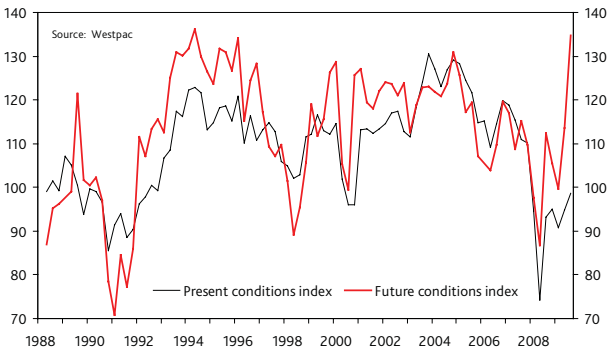
Is this a good or bad time to buy a major household item?



Regional Confidence



Present and Future Conditions Index



Consumer Confidence Data

Quarter	Index
Jun-07	111.4
Sep-07	113.5
Dec-07	110.0
Mar-08	96.5
Jun-08	81.7
Sep-08	104.8
Dec-08	101.3
Mar-09	96.0
Jun-09	106.0
Sep-09	120.3