

Consumers fine-tune expectations

Q4 Westpac McDermott Miller Consumer Confidence Index: 116.9

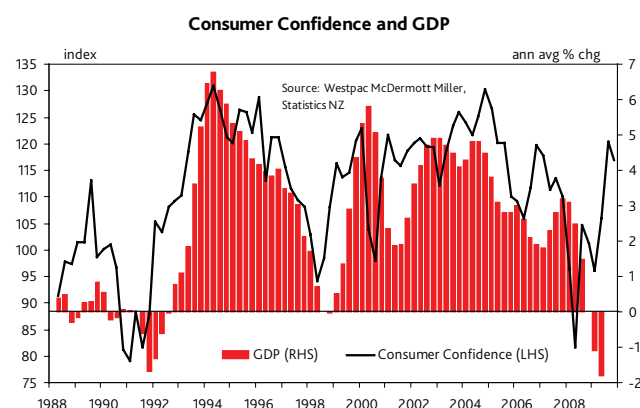
- **Consumer confidence moved modestly lower in the December 2009 quarter, but remains at a high level.**
- **A small adjustment to future expectations drove the decline, while present conditions improved.**
- **Overall, the high level of confidence implies a solid pick up in spending over the Christmas period.**

The Westpac McDermott Miller Consumer Confidence Index fell modestly in the December 2009 quarter, to 116.9 from 120.3 in September. 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.

In the September quarter, consumers regardless of age, income group, gender, or region, were convinced that good times were on their way and confidence soared to a four-year high as a result. The last three months have seen a small adjustment in the extent of that euphoria, but overall confidence remains high – and certainly well above the long-run average. At current levels, confidence is indicative of solid growth in consumer spending through the December quarter. We expect real consumer spending to grow by 1.3% in the December 2009 quarter, the strongest gain since the March 2007 quarter. These data support that view and should provide some relief to retailers.

Four of the five component questions registered falls this quarter, the biggest declines coming from the three questions regarding future conditions. A net 52.4% of respondents still expect good economic times over the next five years, but that is down from the euphoric net 62.8% in September. Optimism toward the short term economic outlook has also been reassessed, with a net 14.4% saying there will be good economic times in the coming year compared to a net 17% last quarter. Nevertheless, this is the second highest response to this question since December 2006.

The other downward move this quarter was in consumers' assessment of their financial position in a year's time. While a net 19.6% of consumers anticipate that the coming year will be



Consumer Confidence Indices

	Dec-09	Sep-09	change
Consumer Confidence Index	116.9	120.3	-3.4
Present Conditions Index	99.0	98.6	0.4
Future Conditions Index	128.8	134.7	-5.9

more profitable, that is down from the seven year high of a net 24.3% reached in the September quarter. Perhaps consumers are coming to the realization that a stronger economy in the future also means higher interest rates, thus tempering the improvement in disposable incomes they had previously anticipated.

Responses to the two questions regarding present conditions showed more resilience through the quarter. In fact, perceptions around current financial conditions actually improved. A net 20.9% of respondents still say they are worse off financially now compared to a year ago, but that better than the net 21.9% expecting to be worse off in September, and is far better than the net 40.7% saying they were worse off in June last year. Even so, consumers remain wary about buying big ticket items. Only a net 18.9% of respondents say now is a good time to buy major household items – broadly unchanged from September's net 19.2%.

By region, confidence has been hit the hardest in the secondary and rural areas, with Otago, Waikato, and Southland registering

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the biggest declines. That is somewhat surprising given the large upward revision to Fonterra's dairy payout for the current season. Less surprising is that confidence is the highest in Auckland and Wellington where gains in house prices have been strongest.

Consumer Confidence Data

Region	Index		
	Dec-08	Sep-09	Dec-09
Northland	98.8	109.2	110.8
Auckland	102.3	122.7	121.5
Waikato	96.0	119.8	108.8
Bay of Plenty	105.7	116.2	120.7
Gisborne/Hawke's Bay	104.5	115.3	109.9
Taranaki/Manawatu-Wanganui	102.0	119.4	115.1
Wellington	103.2	121.4	121.1
Nelson-Marlborough/West Coast	105.6	117.9	116.4
Canterbury	95.7	122.7	116.9
Otago	104.2	117.4	104.4
Southland	102.6	122.8	112.8

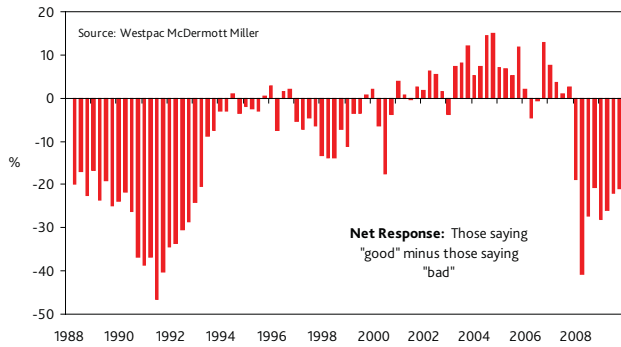
By gender, males (120.1) are still more optimistic than females (113.0), although the gap between the two closed during the quarter. By age, all groups recorded declines, although the 50+ age group saw the biggest decline and is the least optimistic group. In terms of socio-economic grouping, the upper income groups remain the most optimistic, but again all groups recorded declines compared to the September 2009 quarter.

In the December *Monetary Policy Statement* the RBNZ revised up their forecasts for consumer spending. The current level of confidence is consistent with the RBNZ's 0.2% forecast for consumer spending growth in the year ended March 2010. On that basis, these data have few implications for monetary policy. We continue to anticipate an earlier start to the tightening cycle than the RBNZ, with the first OCR hike in March 2010.

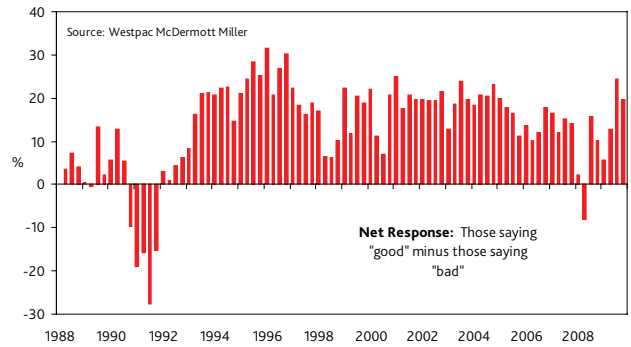
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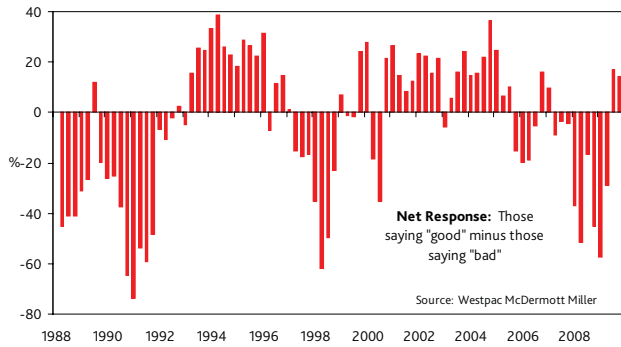
Are you better or worse off financially now than a year ago?



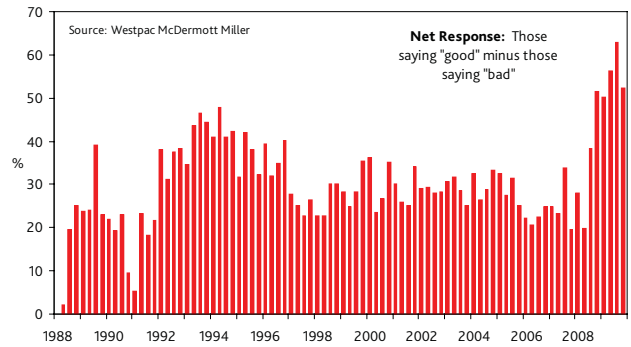
Do you expect to be better or worse off financially this time next year?



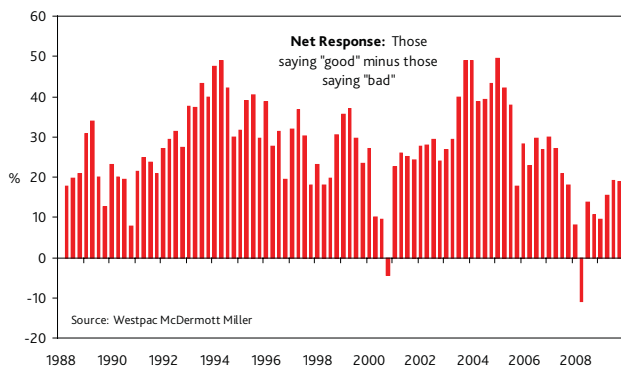
Do you expect good or bad economic times over the next 12 months in NZ?



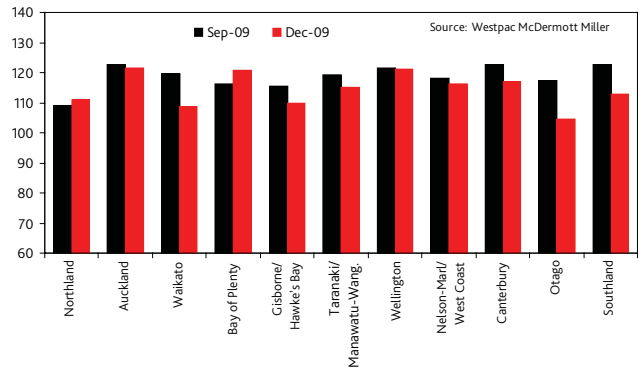
Do you expect good or bad economic times over the next 5 years in NZ?



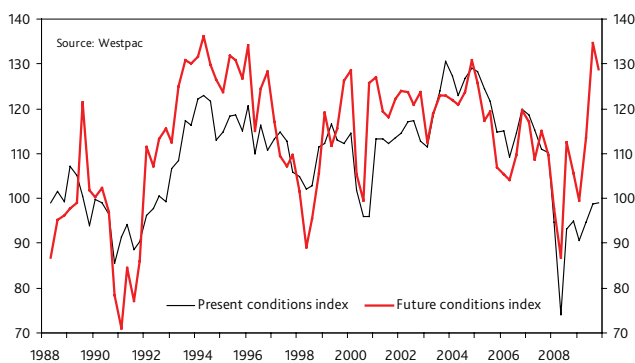
Is this a good or bad time to buy a major household item?



Regional Confidence



Present and Future Conditions Index



Consumer Confidence Data

Quarter	Index
Sep-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
Dec-09	116.9