

Hints of hope: consumer confidence rebounds

Q1 Westpac McDermott Miller Consumer Confidence Index: 112

- **Consumer Confidence rebounded 14.1 points to 112 in the June quarter.**
- **The move reflects a recovery in near-term economic confidence from its post-quake lows, but other survey details also improved.**
- **Along with a recent uptrend in retail spending, this pickup in confidence is pointing to a revival in the domestic economy this year – but not to an extent that should surprise the RBNZ.**

The Westpac McDermott Miller Consumer Confidence Index rose from 97.9 to 112 in the June quarter, fully unwinding March's earthquake-related decline. Confidence is now higher than in December, though still well below last June's 119.3 (before confidence was hit by the economic slowdown and the first, September Christchurch earthquake).

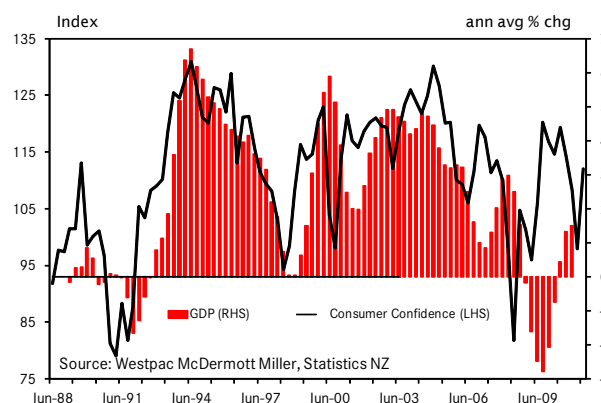
Survey interviews were conducted over 1 – 12 June. An index number of 100 indicates that pessimists outnumber optimists, although the series may be above or below 100 on average. The margin of error in the survey is 2.5% at a 95% confidence interval.

Survey details

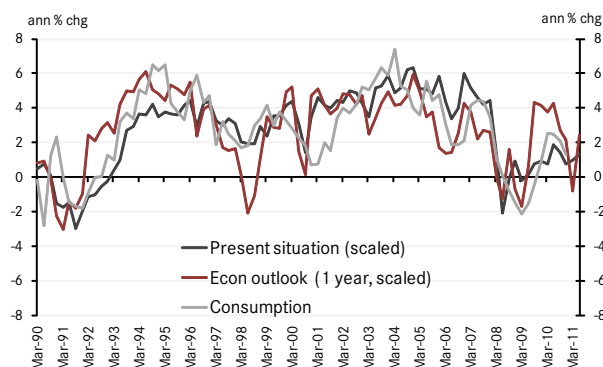
The deterioration in households' near-term economic outlook following the 22 February Christchurch earthquake appears to have been short-lived. While a net 6.7% of households continue to expect bad economic times over the next 12 months, this represents a full reversal of March's decline in economic confidence (a net 46.5% expected bad times last quarter) and is the least pessimistic response since December last year.

But other components of the survey also improved. On balance, 50% of households now expect good times over the next five years (up from 42.5 in March). And the Present Conditions Index rose from 96.2 to 103.9, meaning that a majority of households now see conditions as better than a year ago. This is partly because their assessment of their own financial situation continued to improve (though a net 18.3% still think they are financially worse off than a year ago). But there was also a jump in households thinking that now is a good time to buy a major household item (from a net 12.5% to a net 26%).

Consumer confidence and GDP



Consumer confidence and personal consumption



Consumer Confidence Indices¹

	Mar-11	Jun-11	change
Consumer Confidence Index	97.9	112.0	14.1
Present Conditions Index	96.2	103.9	7.7
Future Conditions Index	99.1	117.4	18.4

¹ The Present Conditions Index is an average of responses to the questions regarding current personal financial situation and readiness to buy major household items. The Future Conditions Index is an average of responses to questions regarding next year's personal financial situation, the 1-year economic outlook, and the 5-year economic outlook.

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Households' assessment of their own financial situation has in the past tended to be a better guide to spending behaviour than general economic confidence, but at the moment both are pointing to a modest pick-up in spending in the first half of this year.

Geographic breakdown

Consumer confidence lifted in all parts of the country. Confidence remains highest in the three main metropolitan areas (including Canterbury), as well as dairy country – Southland and the Waikato.

After being excluded from the March survey due to the February earthquake, urban Christchurch is back in the sample. Unsurprisingly, Christchurch residents remain a lot worse off (relative to a year ago) than most of the country, but they expect some bounceback in their personal financial situation over the coming year (on balance 25% expect it to improve). And Christchurch residents' expectations for the New Zealand economy are about as pessimistic as Wellingtonians', with a balance of 12% expecting bad times over the year ahead.

As well as national economic prospects, the survey asked respondents for their outlook for their regional economy. This reveals some interesting divergences:

- Cantabrians remain a lot more pessimistic for their region than for New Zealand as a whole, or for their own personal prospects (a net 22% of Cantabrians expect bad economic times in the region in the year ahead).
- Auckland residents are not only the most optimistic for the New Zealand economy over the coming year (indeed, the only major region which expects good times on balance), their optimism for their own region also saw a big rebound this quarter (a similar rebound was seen last December).
- Southland, Waikato and Taranaki are enjoying by far the strongest regional optimism in the country, with a net 61% expecting good times in Southland over the coming year, a net 54% in the Waikato, and a net 34% in Taranaki. What's more, this is the most optimistic that these regions have been since late 2009 (Southland and Waikato) and June 2010 (Taranaki). This buoyant regional outlook in dairy producing regions is clearly a reflection of strong prices and strong growing conditions, but may also be a sign that farmers are finally beginning to spend in the high streets.
- While confidence among Wellingtonians remains relatively high overall, their outlook for their own city has become more pessimistic (a net 6.8% now expect bad times for Wellington over the year ahead, the worst since June 2009). This may be a response to the public sector cutbacks announced in the May Budget.

Consumer confidence by region

Region	Jun-10	Mar 11	Jun-11
Northland	111.4	90.9	105.4
Auckland	126.8	101.6	115.4
Waikato	116.0	103.4	112.5
Bay of Plenty	119.0	95.2	111.1
Gisborne/Hawke's Bay	104.8	94.2	108.8
Taranaki/Manawatu-Wanganui	119.0	97.1	109.7
Wellington	122.6	101.6	116.6
Nelson-Marlborough/West Coast	111.2	91.1	98.2
Canterbury	114.7	90.4	112.0
Otago	114.3	97.4	103.4
Southland	114.6	92.8	111.3

Implications

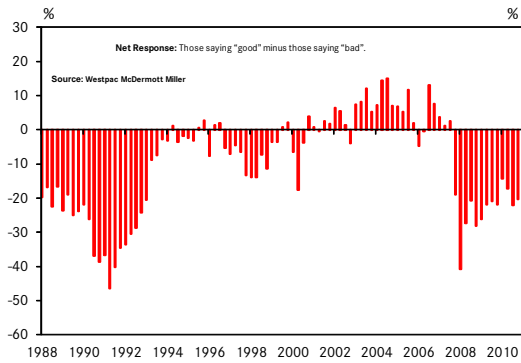
Given last year's retail-driven slowdown, and the fears around economic confidence following February's earthquake, today's consumer confidence data are a welcome sign of recovery. Along with signs of life in retail activity, they are pointing to a revival in household spending off a very low base, at least outside Christchurch. The regional optimism seen in Auckland and in dairy farming regions are consistent with the pickup we have seen in the Auckland housing market, and with ongoing strength in New Zealand's commodity export earnings.

In its latest Statement the Reserve Bank highlighted that one of the key judgements underpinning its forecasts was that households would continue to focus on repaying debt and that consumer spending would remain subdued. Today's confidence survey is a much better outcome than the Bank would have feared when it cut interest rates by 50 basis points in March, but it won't challenge the Bank's updated view. It's consistent with the Bank's assessment that the impact of the February earthquake on confidence outside Christchurch has been limited, and also in line with the Reserve Bank's (upgraded) forecasts for modest increases in consumption growth in the first half of 2011.

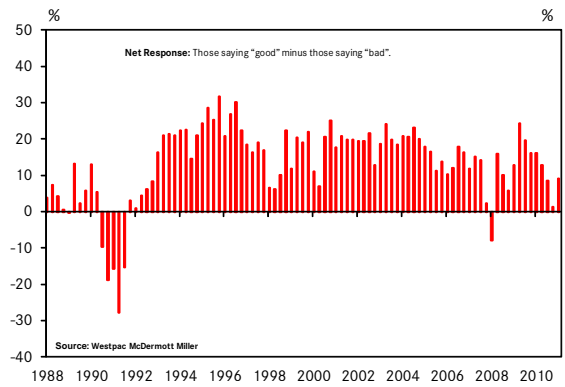
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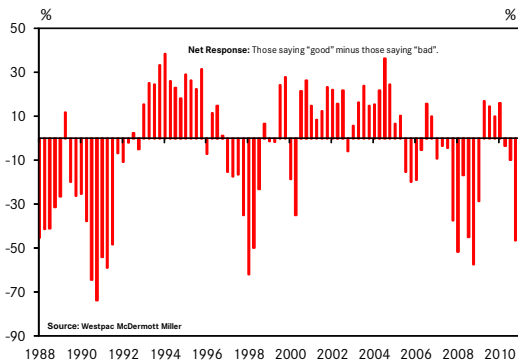
Are you better or worse off financially than a year ago?



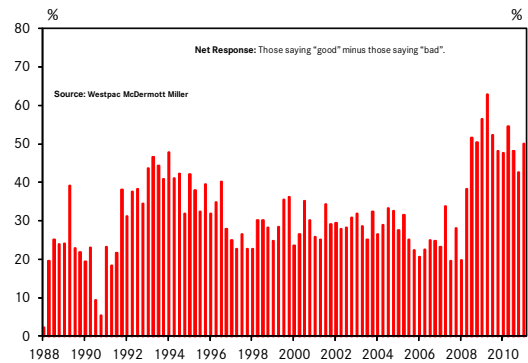
Do you expect to be better or worse off financially than a year ago?



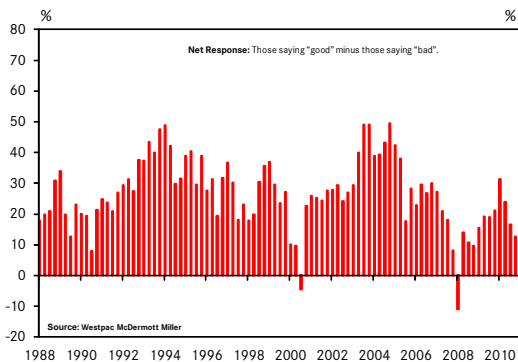
Do you expect good or bad economic times over the next 12 months in NZ?



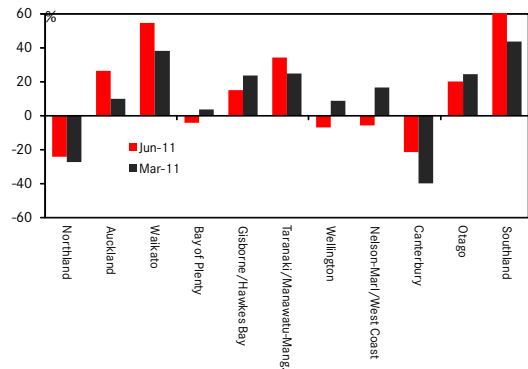
Do you expect good or bad economic times over the next 5 years in NZ?



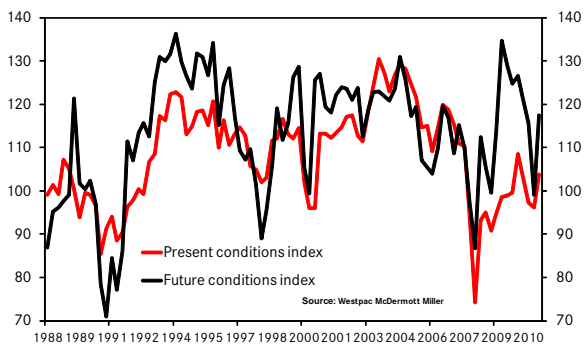
Is this a good or bad time to buy a major household item?



Regional confidence



Present and Future Conditions Indexes



Consumer Confidence Data

Quarter	Index
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
Mar-11	97.9
June-11	112.0