

Spend like it's 2005

Q2 Westpac McDermott Miller Consumer Confidence Index: 116.6

- New Zealand households are back in spending mode.
- Households are increasingly optimistic, both for the economy and their own finances.
- Attitudes have shifted away from saving and paying off debt – to an extent not seen since the mid-2000s.

People think it's a good time to spend. That was the key message from the latest Westpac McDermott Miller consumer confidence survey.

Headline confidence ticked up another notch, to 116.6, as households became more optimistic both for their own finances and the New Zealand economy. Consumer confidence is now the highest since June 2010, just before the first Canterbury earthquake.

The survey also showed a marked lift in households' willingness to spend rather than save. The net proportion of households saying that now is a good time to buy a major household item hasn't been this high since 2005. And the net proportion saying they would prefer to spend a cash windfall, rather than bank it or use it to pay off debt, is the highest since 2004.

There are several likely reasons for this shift. One is the upsurge in economic optimism. Another is falling prices for many key consumer goods. There has also been a lift in sentiment in rural areas, suggesting the focus has shifted away from the immediate impact of drought to higher dairy payouts.

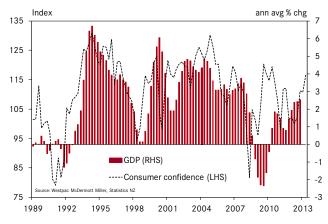
But the survey also chimes with our long-held view that low interest rates and the rising housing market would boost consumer spending. The demographics are revealing. Almost everyone is feeling more upbeat about the economy, and less focused on paying down debt. But the shift away from saving towards spending is particularly pronounced among older households, and among Aucklanders. These are precisely the people that have benefitted most from the housing market upturn.

Survey details

The 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; households' outlook for their financial situation over the coming year; and their near-term and longer-term outlook 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. Survey interviews were conducted over the period 1 – 10 June. The sample size was 1568.

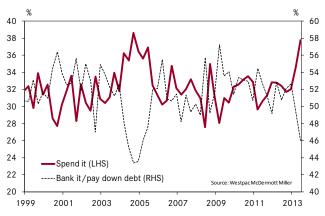
Consumer confidence and GDP



Consumer Confidence Indices

	Mar 13	Jun 13	Change
Consumer Confidence Index	110.8	116.6	5.8
Present Conditions Index	110.2	111.8	1.6
Expected Conditions Index	111.2	119.8	8.6
Current financial situation	-10.4	-10.8	-0.4
Expected financial situation	7.2	10.1	2.9
1-year economic outlook	-5.8	13.8	19.6
5-year economic outlook	32.1	35.4	3.3
'Good time to buy'	30.8	34.4	3.6

'What would you do with a \$10,000 windfall?'



June 2013

The rise in consumer confidence was mainly driven by a surge in economic optimism. The net percentage of households saying they expect good times for the economy over the year ahead sits at 14% - the first time it's been positive since June 2010. However most of the other components of the index also rose. The one exception was households' assessment of their current financial situation, which slipped a touch from three months ago.

Overall, households' attitudes towards their own finances (both current and future) remain subdued by pre-recession standards, though they have improved significantly over the past year (households' assessment of their current financial situation is the second highest since December 2007, and their expectations for their own finances are the most optimistic since September 2010).

The one component of the index which has clearly surpassed pre-recession levels is households' willingness to spend. The net percentage of households saying that now is a good time to buy a big-ticket item has risen steadily for the past six quarters, and is now the highest since September 2005.

Attitudes to saving and spending

The survey also asks respondents what they would do with a \$10,000 windfall. For the second quarter in a row, there was a big lift in the proportion of households saying they would spend the money, and a corresponding dip in those saying they would either bank it or use it to pay down debt. The last time the survey showed such a swing in attitudes in favour of spending and away from saving/debt repayment was in 2004.

Demographic breakdowns

Confidence rose across age, income and gender categories, reflecting an across-the-board lift in economic optimism. However there were revealing divergences in the details.

Age: There was a particularly big lift in older people's perceived financial situation and their willingness to spend on big-ticket items. At first blush this is surprising – interest rates are low, which tends to hurt older savers. However inflation is also very low, which is good for savers. And it's likely that rising house prices are making home-owners in this age group feel better off.

Incomes: Those not working and on lower incomes also saw a disproportionate improvement in their perceived financial situation and willingness to spend. This may reflect the preponderance of retirees in this group.

Sex: Over the past year male respondents have reported a much bigger lift in their perceived financial situation than females. That trend continued in the latest survey. That may partly reflect the current upswing in the construction sector, which employs far more males than females.

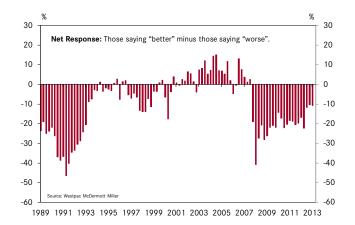
Urban/rural: Urban households remain the most confident. Surprisingly, though, urban households have become a little bit less upbeat about their own financial situation over the past three months, whereas those in smaller centres and in rural areas reported feeling better off. Like recent business surveys, that suggests the economic recovery is broadening. It also offers yet more evidence that the New Zealand economy has so far been fairly resilient to the recent drought.

Felix Delbrück

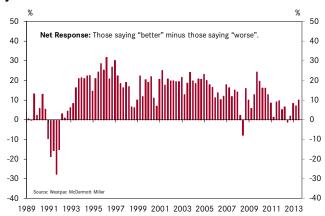
Senior Economist

2 June 2013

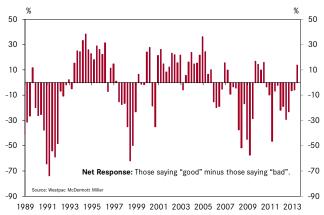
Are you better or worse off financially than a year ago?



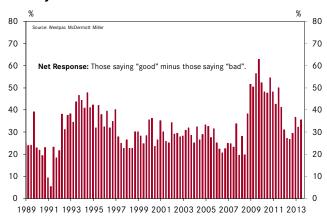
Do you expect to be better or worse off financially in a year's time?



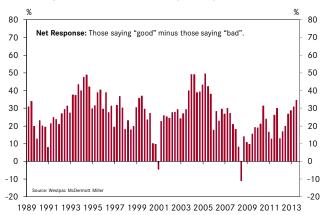
Do you expect good or bad economic times over the next 12 months in NZ?



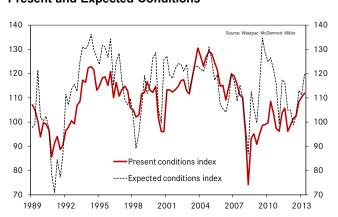
Do you expect good or bad economic times over the next 5 years in NZ?



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



Present and Expected Conditions



3 June 2013

Westpac Economics Team Contact Details

Dominick Stephens, Chief Economist Michael Gordon, Senior Economist Felix Delbrück, Senior Economist

Nathan Penny, Economist

 Ph: (64-9) 336 5671
 dominick_stephens@westpac.co.nz

 Ph: (64-9) 336 5670
 michael_gordon@westpac.co.nz

 Ph: (64-9) 336 5668
 felix_delbruck@westpac.co.nz

 Ph: (64-9) 336 5669
 nathan_penny@westpac.co.nz

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and 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 and this website 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 and this website 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. The forecasts given in this material and this website 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.

Transactions involving carbon give rise to substantial risk (including regulatory 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. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. 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. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: 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 license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. 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 material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). The investments to which this material and this website 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 material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Services Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

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 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.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.