

WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

19 December 2022

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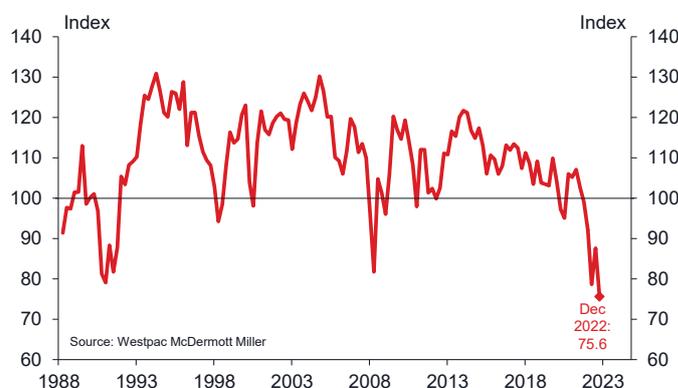
Consumer confidence tumbles to lowest level on record.

- Consumer confidence has fallen sharply heading into the holiday season, dropping to its lowest level on record.
- Mounting financial pressures are the major concern that is worrying households. Living costs have been skyrocketing. We've also seen sharp increases in borrowing costs.
- The weakness in consumer confidence is weighing on household spending appetites, reinforcing our expectations for a slowdown in overall economic growth.
- The drop in confidence has been widespread across all age groups, income brackets and regions.

Consumer confidence indices

	Dec-22	Sep-22	Change	Average
Consumer Confidence Index	75.6	87.6	-12.0	108.9
Present Conditions Index	71.0	81.9	-10.9	106.3
Expected Conditions Index	78.6	91.4	-12.8	110.7
Current financial situation	-30.9	-22.9	-8.0	-8.9
Expected financial situation	-12.6	-3.2	-9.4	10.8
1-year economic outlook	-41.5	-23.5	-18.0	-3.9
5-year economic outlook	-10.0	0.8	-10.8	27.2
'Good time to buy'	-27.1	-13.3	-13.8	22.9

Consumer confidence



As 2022 draws to a close, confidence among New Zealand households has tumbled, dropping to its lowest levels since we began surveying back in 1988.

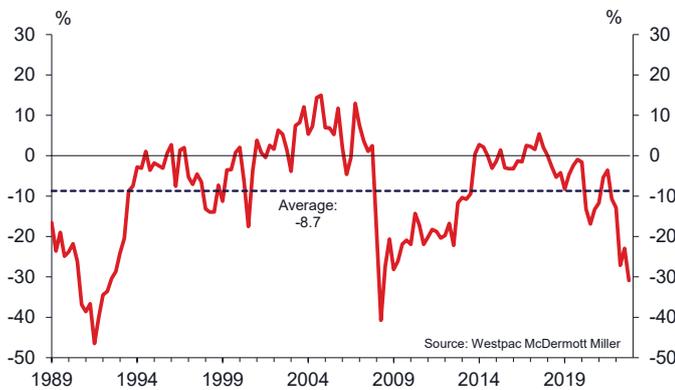
The Westpac McDermott Miller Consumer Confidence Index fell 12 points in the December quarter to a level of 75.6. With confidence well below the benchmark level of 100, this signals that there are many more New Zealanders out there who are pessimistic about the economic environment than there are those who are optimistic.

Confidence has only come close to these sorts of lows twice before - first during the recession in the early-1990s, and then again during the Global Financial Crisis in 2008/09.

Inflation – the grinch that stole Christmas.

Financial pressures are the big concern that are worrying households. Increasing numbers of households are telling us that their financial position has deteriorated over the past year. And the majority of households expect that their finances will continue to deteriorate over 2023.

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



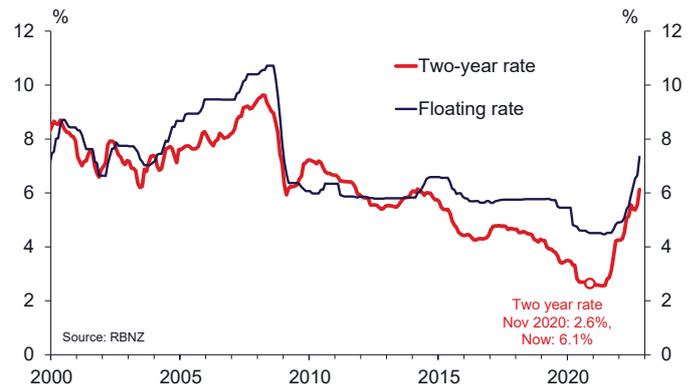
Household finances are being squeezed on several fronts. First is the sharp rise in consumer prices that has been eating away at households' spending power. The past year has seen particularly large increases in housing costs (up 9%) and petrol prices (up 19%), while food price inflation hit a 14 year high of 11% in November. Those price increases are being felt by every family across the country. They've been particularly tough on those families on lower incomes, who tend to spend a larger share of their earnings on necessities.

Compounding the pressure on households' finances have been large increases in borrowing costs. To offset the rise in inflation, the Reserve Bank has been hiking the Official Cash Rate at a rapid pace. In fact, the cash rate has risen by a total of 400 basis points since October last year. Those rapid OCR increases have seen mortgage rates rising sharply.

Importantly, the pain for large numbers of households is still ahead of them. Most New Zealand mortgages are on fixed rates, and many borrowers are still on the very low rates that were on offer in the early stages of the pandemic. However, that picture will change dramatically over the coming year. Close to half of all mortgages will come up for repricing over the next 12 months. In many cases, borrowers will face refinancing at substantially higher interest rates. For example, borrowers who fixed for two years in 2020 may have secured a rate in the 2.5% to 3% range. Those same borrowers are now looking at a

two-year rate that's more than 3 percentage points above what it was back then.

Mortgage rates



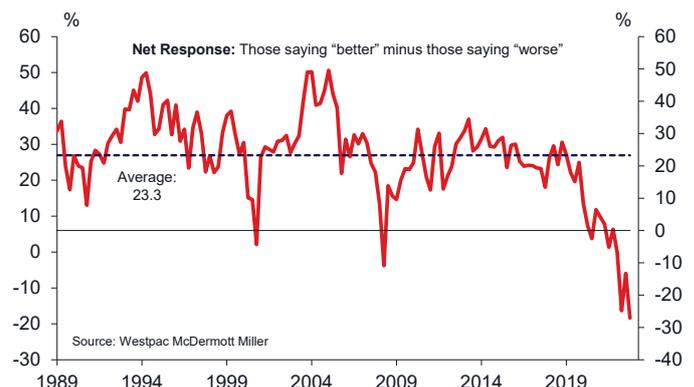
Adding to the pressures on household finances, house prices have tumbled, with prices dropping by an average of 14% across the country since November 2021. With interest rates continuing to push higher, we're forecasting that nationwide house prices will continue to fall over 2023. And with New Zealanders holding a large amount of their wealth in owner occupied or investor housing, the fall in prices now in train represents a sizeable knock to many households' net worth.

But it's not just their personal financial situation that's got households worried. Increasing numbers of New Zealanders also expect that economic conditions more generally will deteriorate over the next few years. On this front, we're forecasting that economic growth will drop to stall speed over the coming year as the full brunt of interest rate hikes ripples through the economy. That weakness in economic conditions will result in unemployment rising from 3.3% currently to around 4.8% over the coming years.

Here's to a merry, but financially prudent Christmas.

With prices charging higher and their finances being squeezed, households are putting their wallets back in their pockets. In fact, the number of households who think it's a good time to make a major purchase has fallen to its lowest level on record. Similarly, many households have reported that they have scaled back their spending on leisure activities, like dining out.

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

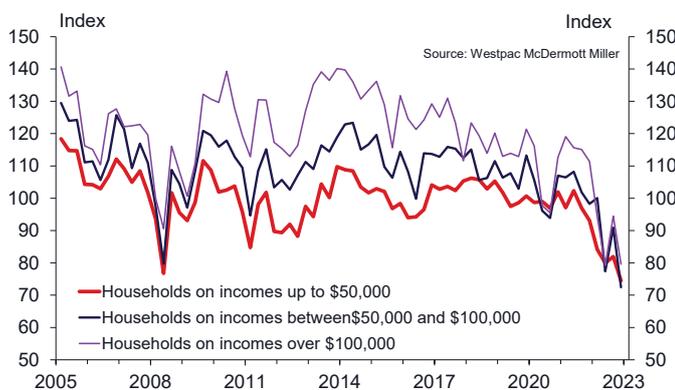


Those subdued spending appetites point to some soggy spending numbers over the Christmas shopping period. Importantly, we expect that spending will continue to weaken over the year ahead as borrowing costs push higher and the pressure on households' finances builds.

We're all in this together.

A striking feature of this quarter's survey is how widespread the drop in confidence has been. Confidence has now fallen to low levels across all age groups and income brackets. That highlights just how widespread the headwinds buffeting the economy are. Every household across the country is feeling the pinch from the large increases in the cost of living. And for those households with mortgages, those financial pressures are likely to be even more of a worry.

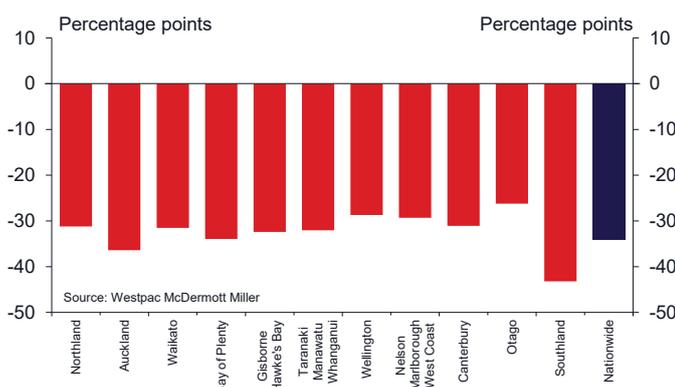
Consumer confidence by income bracket



Household confidence has dropped to low levels in nearly every corner of the economy. The past few months have seen particularly sharp falls in the Waikato and Wellington. Those are regions where confidence had been holding up, supported by factors such as the strong labour market and, in the case of the Waikato, firm export prices. However, the earlier optimism in these regions has now faded. All households are now feeling the squeeze from increases in the cost of living and rising interest rates.

The only region where we've seen confidence picking up in recent months has been Otago, which is benefiting from the return of international tourists. However, even here confidence remains low.

Consumer confidence by region (compared to average)



Our recent [Westpac Regional Roundup](#) takes a closer look at economic trends across the country.

Consumer confidence by region

	Dec-22	Sep-22	Change
Northland	73.7	79.2	-5.5
Auckland	75.1	87.2	-12.1
Waikato	74.2	103	-28.8
Bay of Plenty	72.7	86.8	-14.1
Gisborne/Hawke's Bay	73.2	79.4	-6.2
Taranaki/Manawatu-Whanganui	72.7	78	-5.3
Wellington	82.2	105	-22.8
Nelson/Marlborough/West Coast	75.3	80.7	-5.4
Canterbury	77.4	82.2	-4.8
Otago	79.3	75.4	3.9
Southland	61.9	76.7	-14.8
Nationwide	75.6	87.6	-12.0

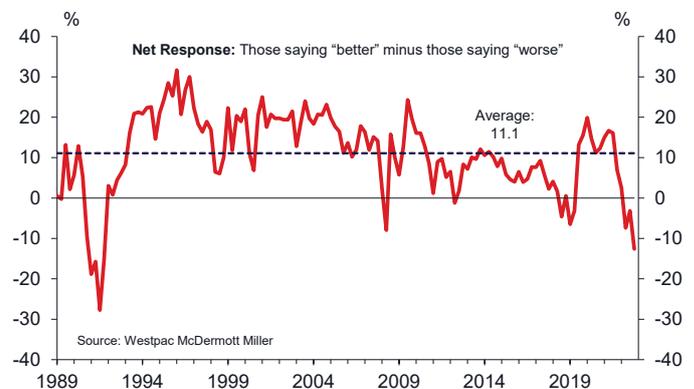
Survey description.

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.

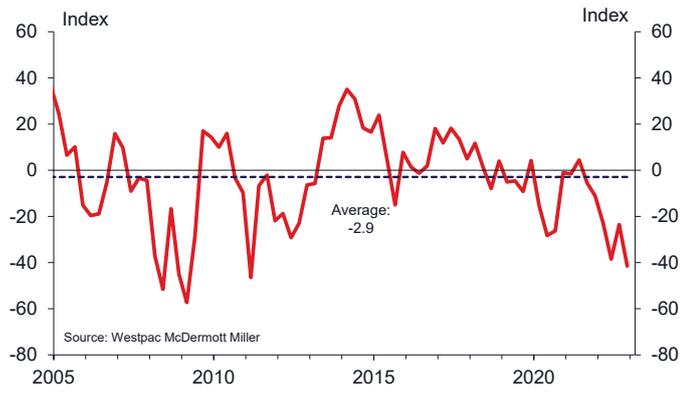
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 2022. The sample size was 1,559.

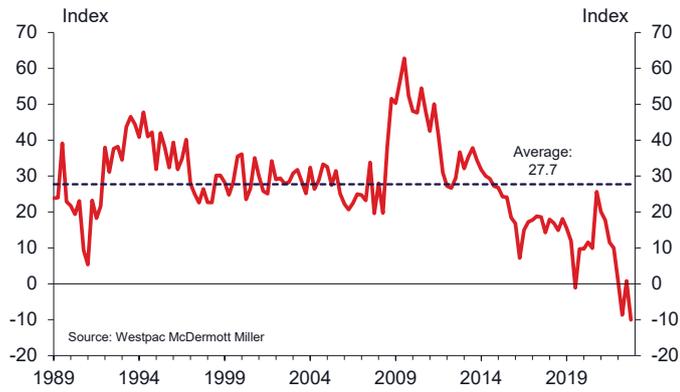
Do you expect to be better or worse off financially in a year's time?



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?



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