

WESTPAC MCDERMOTT MILLER CONSUMER CONFIDENCE

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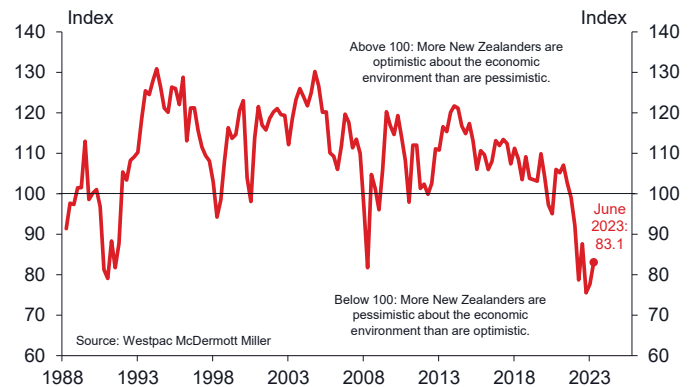
A little less glum, but still gloomy.

- New Zealand households remain deeply pessimistic about the economic landscape. While our Westpac McDermott Miller Consumer Confidence Index did rise 5.4 points in June, it currently sits at just 83.1 – a level that signals the number of households who are pessimistic about the economic landscape outweigh those who are optimistic by a wide margin.
- Financial pressures remain the major area of concern for households, with large increases in living costs and mortgage rates continuing to squeeze households' finances.
- Weakness in consumer confidence and mounting financial pressures are weighing on household spending appetites. We expect increasing numbers of households will wind back their spending over the year ahead.
- Confidence is at low levels across all age groups, income brackets and regions.

Consumer confidence indices

	Jun-23	Mar-23	Change	Average
Consumer Confidence Index	83.1	77.7	5.4	109.4
Present Conditions Index	74.6	72.0	2.6	106.6
Expected Conditions Index	88.8	81.4	7.4	111.2
Current financial situation	-29.1	-31.8	2.7	-9.3
Expected financial situation	-0.3	-3.8	3.5	10.8
1-year economic outlook	-31.6	-41.1	9.5	-4.2
5-year economic outlook	-1.8	-10.8	9.0	27.0
'Good time to buy'	-21.7	-24.2	2.5	22.5

Consumer confidence



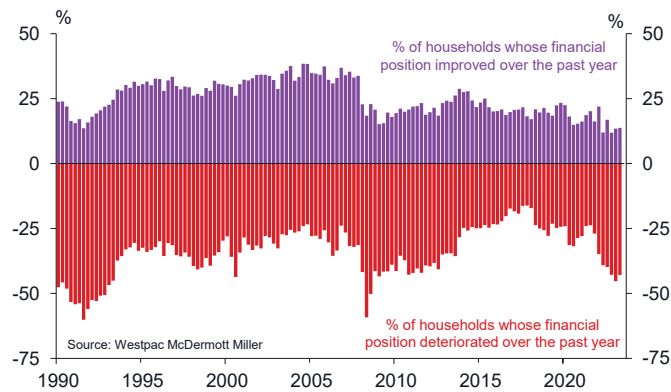
Consumer confidence remains in the doldrums. Despite rising by 5.4 points in June, the Westpac McDermott Miller Consumer Confidence Index is still only sitting at 83.1. That's well below average and signals that the number of New Zealand

households who are pessimistic about the economic environment continues to outweigh those who are optimistic by a wide margin.

Consumer confidence has been lingering around these sorts of extremely low levels for more than a year now, with confidence weak across all age groups and income brackets.

The major factor that is continuing to worry New Zealand households are financial pressures. 43% of the households we spoke to in June told us that their financial position had deteriorated over the past year, while just 14% had seen an improvement. Furthermore, the majority of households expect that their financial position will continue to weaken over the year ahead.

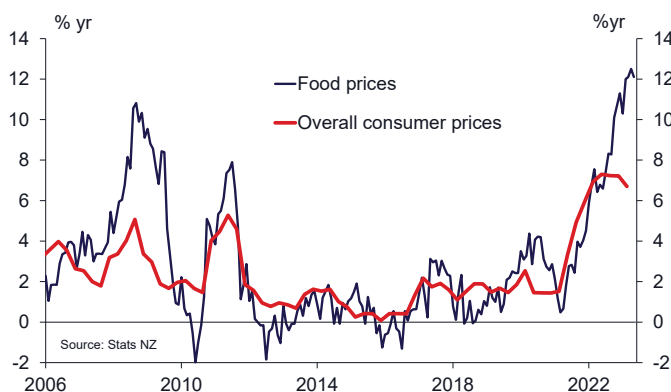
What's happened to households' financial positions?



This downbeat assessment of economic conditions comes at the same time as household incomes have been boosted by a very tight labour market and strong wages growth. Despite this support many households have seen their finances squeezed due to pressure on two big fronts.

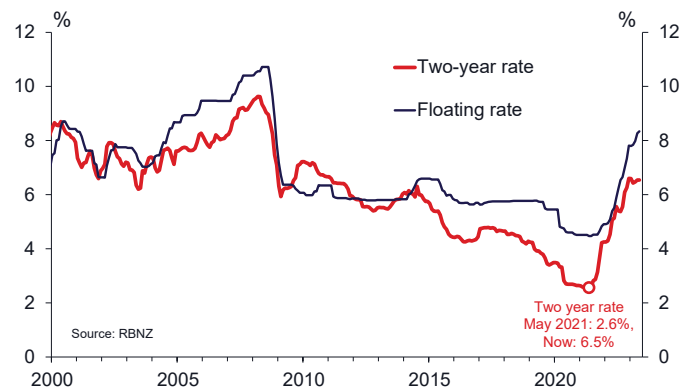
First, living costs have been charging higher, with consumer prices up 6.7% over the past year. Notably, a big chunk of that increase has been due to increases in the costs of necessities – housing and utility costs were up 7% in the year to March and food prices were up an eye watering 12% in the year to May. Those cost increases are hitting every family in the country in the pocket. They have been especially tough on those families who are on lower incomes, who tend to spend a larger share of their income on necessities.

Consumer prices



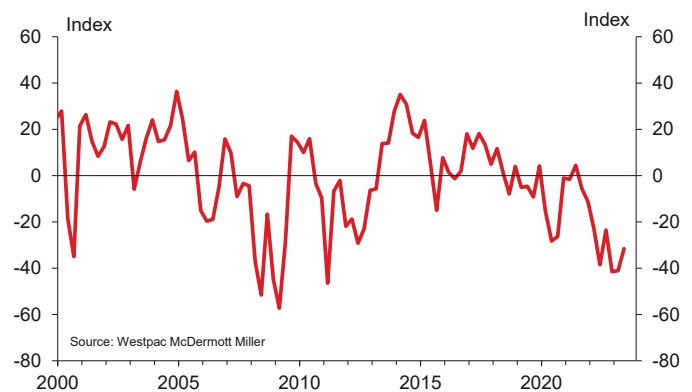
The other big factor squeezing many households' finances has been the rise in mortgage rates. Interest rates have been on the rise for well over a year now. However, as most New Zealand mortgages are fixed for several years, many borrowers were insulated from those increases for a while. But that picture has now changed. Large numbers of households have now rolled onto higher rates. And a further 25% of mortgages will come up for re-fixing over the coming year, with some borrowers potentially looking at a 2 to 3 percentage point rise in their mortgage interest rate.

Mortgage rates



On top of those concerns about their personal finances, the majority of New Zealanders also expect that economic conditions more generally will deteriorate over the next few years. On this front, the latest GDP figures have shown that the economy has been losing steam, with economic output falling by 0.8% through the December and March quarters. We expect that economic growth will remain subdued over the course of this year as households and businesses continue to grapple with tougher financial conditions.

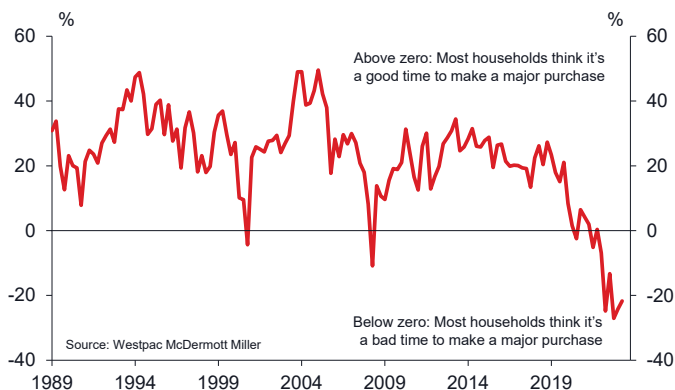
Expectations for economic conditions over the coming year



The mounting pressure on household finances is already weighing on spending appetites. Many households have reported that they have scaled back their spending on activities like dining out. In addition, the number of households who think it's a good time to make a major purchase is languishing close to record lows, with price rises meaning households are having to splash out more cash but getting less bang for their buck.

With financial headwinds continuing to mount, we expect that households will continue to rein in their spending over the coming months. That will be a significant drag on economic growth through the latter part of the year.

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



But while there's no denying that households are grappling with significant challenges, consumer confidence has actually picked up a bit from the record lows we saw at the end of last year. And looking ahead, there's reason to think that we could see a further rise over the coming months with some big shifts in the economic landscape already in train. Notably, the interest rate cycle is looking close to a peak. Consistent with that, we're already seeing signs that the housing market is finding a base, with both house sales and prices rising over the past few months. In addition, the high rates of inflation that have been eating away at households' spending power have started to moderate, and a further easing is on the cards over the coming year.

Regional confidence off its lows, still in the dumps.

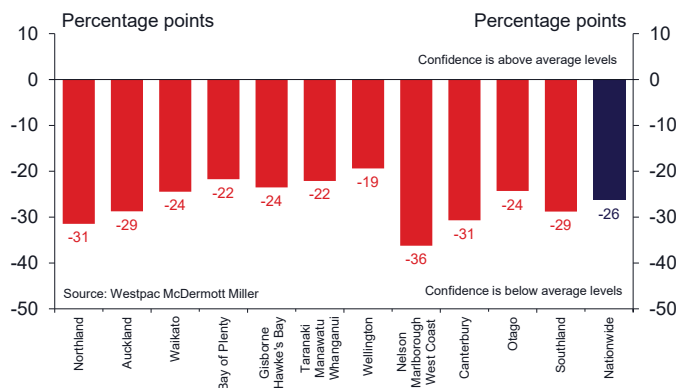
Looking across the country, confidence has picked up in most regions since our previous survey in March. However, that has been a rise from extremely low levels. In every corner of the country, economic confidence remains weak. This widespread pessimism about the economic landscape reflects that the financial headwinds buffeting the economy, especially the large increases in living costs, are being felt by every household across the nation.

Consumer confidence by region

	Jun-23	Mar-23	Change
Northland	74.5	73.0	1.5
Auckland	84.0	82.6	1.4
Waikato	82.5	76.0	6.5
Bay of Plenty	86.1	75.5	10.6
Gisborne/Hawke's Bay	83.2	74.2	9.0
Taranaki/Manawatu-Whanganui	83.8	76.2	7.6
Wellington	92.8	77.3	15.5
Nelson/Marlborough/West Coast	69.4	74.3	-4.9
Canterbury	78.9	74.7	4.2
Otago	82.3	74.6	7.7
Southland	77.4	68.4	9.0
Nationwide	83.1	77.7	5.4

Relative to our previous survey, consumer confidence has lifted in many parts of the central North Island, including Hawke's Bay and Gisborne. However, that followed sharp falls in the wake of January and February's devastating storms and still leaves confidence in these regions at low levels. Many households, farmers and other businesses in the affected regions are grappling with ongoing disruptions to their day-to-day activities, as well as a long reconstruction process.

Confidence by region compared to average



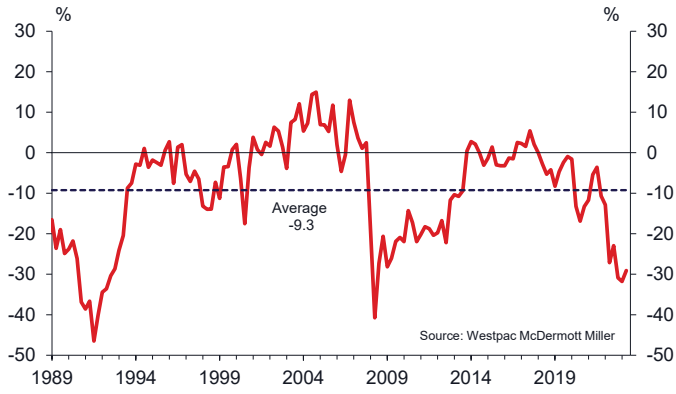
Survey description.

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.

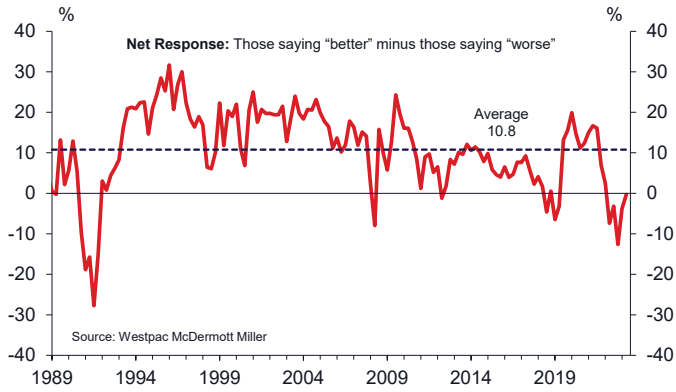
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 June 2023. The sample size was 1,560.

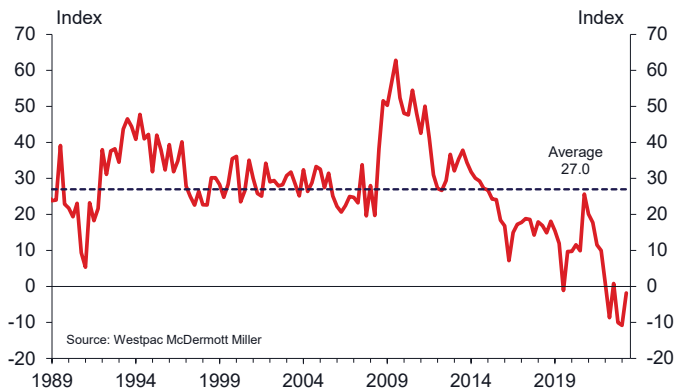
Are you better or worse off financially than a year ago?



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 5 years in New Zealand?



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