



ECONOMIC BULLETIN

Westpac McDermott Miller Consumer Confidence, June quarter 2024.



18 Jun 2024 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

The winter blues – Consumer confidence drops to low levels

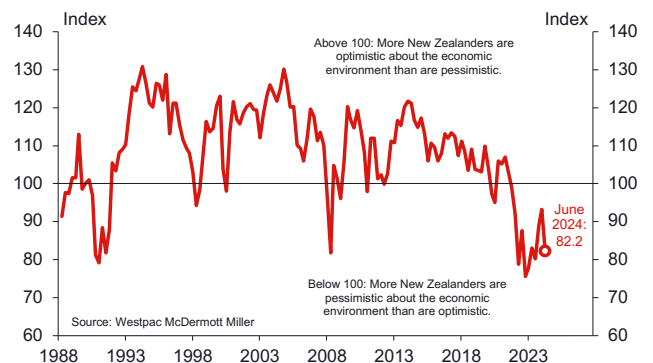
- The Westpac McDermott Miller Consumer Confidence Index fell 11 points to 82.2 in June. That fall erased the gains seen over the past six months, leaving consumer confidence at low levels.
- Household finances continue to be squeezed by high interest rates and large increases in living costs. Households are also nervous about where the economy is headed over the coming year. That combination of factors has prompted many families to wind back their spending.
- Confidence is low right across the country and across all age groups.

Consumer confidence indices

	Jun-24	Mar-24	Change	Average
Consumer Confidence Index	82.2	93.2	-11.0	107.9
Present Conditions Index	74.4	85.1	-10.7	105.8
Expected Conditions Index	87.3	98.6	-11.3	110.7
Current financial situation	-27.8	-18.4	-9.4	-9.8
Expected financial situation	-3.5	5.4	-8.9	10.5
1-year economic outlook	-30.7	-16.4	-14.3	-4.8
5-year economic outlook	-3.8	6.9	-10.7	26.3
'Good time to buy'	-23.3	-11.4	-11.9	21.4

The lift in household sentiment that we saw over the past six months has now reversed. The Westpac McDermott Miller Consumer Confidence Index fell 11 points in June, taking confidence to a level of 82.2. That's back around the lows that we saw over much of the past year with the number of New Zealanders who are feeling pessimistic about economic conditions outnumbering those that are optimistic by a wide margin.

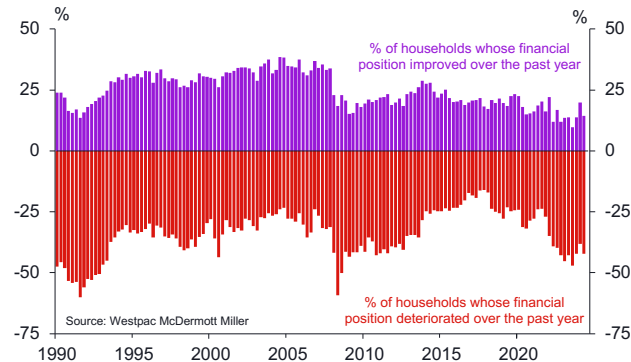
Consumer Confidence



The big issue that is worrying New Zealand households is the ongoing pressure on their wallets. 42% of the households that we spoke to have told us that their financial position has deteriorated over the past year,

while only 14% have seen an improvement. Looking ahead, most of the households we spoke to expect their financial position will continue to deteriorate over the year ahead.

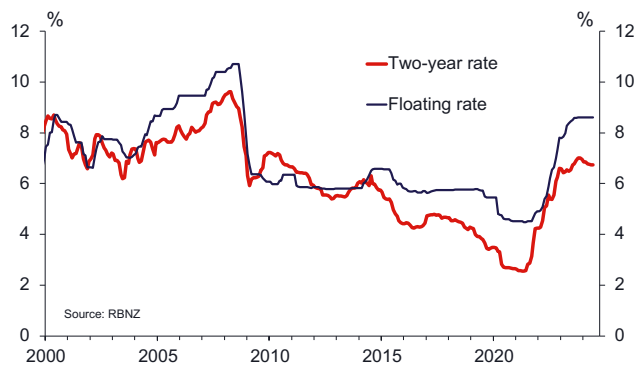
What's happened to households' finances?



Cost of living pressures remain front of mind for nearly every household that we've spoken to recently. While the slowing in overall inflation from rates of over 7% in 2022 to 4% at the start of this year will have been a relief to many families, we're still seeing large price increases in some areas. There have been particularly large increases in housing costs like rents (up close to 5% over the past year), insurance (up nearly 25%), as well as rates and other local council services (up around 10% across the country).

Many households have also faced large increases in their mortgage costs as they've rolled off the very low interest rates that were on offer in the wake of the pandemic. In addition, there had previously been some suggestions that the RBNZ might start to reduce the OCR through the middle part of this year (which likely contributed to the rise in economic optimism that we saw starting to emerge late last year). However, lingering inflation pressures have poured cold water on the chances of near-term rate reductions from the RBNZ, with rate cuts now likely to be a 2025 story. That will have been a disappointment to those households who had been hoping for near term relief on their borrowing costs.

Mortgage interest rates

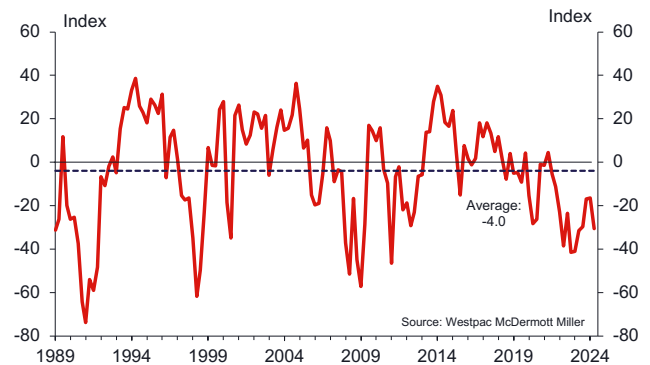


Compounding the concerns about their own financial position, increasing numbers of households also expect

tough economic conditions more generally over the year ahead. Economic activity in New Zealand has fallen in four of the last five quarters. And with widespread reports of continued weakness, it's perhaps unsurprising that 42% of households we spoke to expect economic conditions will weaken over the next 12 months, compared to just 11% who expect an improvement.

Consistent with that nervousness about the economic outlook, many of the households we've spoken to during our recent travels around the country mentioned concern about the softening in the labour market and job security. Unemployment has already risen to 4.3% and we're expecting a further rise over the coming months. We'll take a closer look at how confidence in the labour market is shaping up next week in our Westpac-McDermott Miller Employment Confidence report.

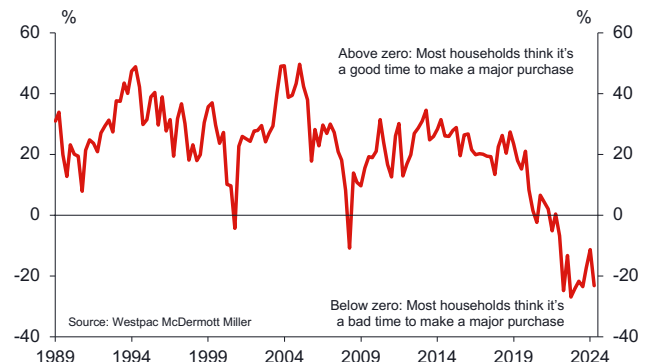
Do you expect good or bad economic times over the coming year?



Spending downturn deepening.

With high living costs sucking money out of their wallets, as well as growing nervousness about the economic outlook, it's no surprise that many households are leaving their credit cards in their wallets. The past few months have seen increasing numbers of households scaling back their spending on leisure activities like dining out. Similarly, the number of households who think it's a good time to make a major purchase is languishing close to record lows.

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



Those subdued spending appetites have resulted in weak retail spending. In fact, even with strong population growth and large increases in consumer prices, retail spending levels have fallen nearly 2% over the past year.

From Cape Reinga to the Bluff: Confidence low right across the country.

With cost of living pressures widespread, confidence is low in every corner of the country. The June quarter did see some slight upticks in confidence in areas like Otago and Gisborne. However, those moves were well within the margin of error and confidence in those regions remains subdued. In addition, while the early part of this year had seen confidence in regions like Auckland and Wellington pushing higher, those gains have now reversed.

Consumer Confidence by region

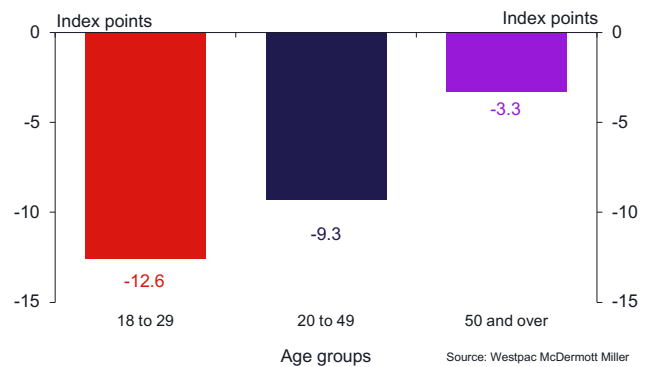
	Jun-24	Mar-24	Average
Northland	85.6	99.1	105.4
Auckland	81.0	105.7	112.1
Waikato	88.7	88.1	106.4
Bay of Plenty	77.6	86.7	107.2
Gisborne/Hawke's Bay	85.1	83.3	106.1
Taranaki/Manawatu-Whanganui	85.1	83.8	105.3
Wellington	79.3	90.1	111.4
Nelson/Marlborough/West Coast	80.3	83.9	105.0
Canterbury	82.8	86.2	108.9
Otago	82.1	77.3	105.8
Southland	76.5	100.4	105.5
Nationwide	82.2	93.2	108.7

Confidence is also low across all age groups. However, the downturn in confidence seen in recent months has been more pronounced among those aged less than 50 years. Households in these groups are more likely to have mortgages or be renters (rather than owning a home outright). And with significant increases in both mortgage rates and rents over the past year, many of those households are feeling squeezed.

The deepening downturn in the jobs market is also likely to be a particular concern for many younger New Zealanders with a sharp rise in unemployment among those aged less than 25 years in recent months.

While confidence among those aged 50 and over is also at low levels, it hasn't fallen as sharply as it has among other age groups. Those in this age group are more likely to own their own home mortgage free, meaning the current level of borrowing costs is likely to be less of a concern. At the same time, this age group is more likely to have financial assets, and could be seeing higher returns on term deposits.

Change in confidence by age groups



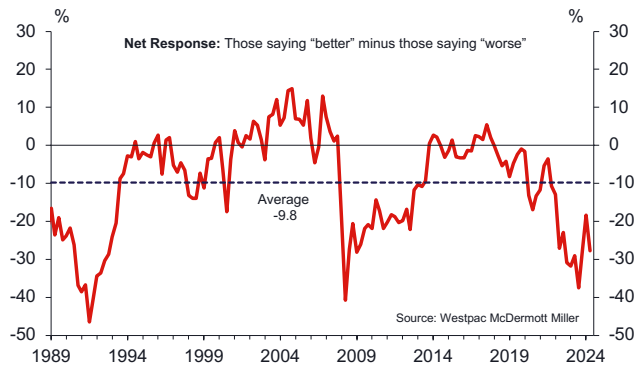
Survey description.

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.

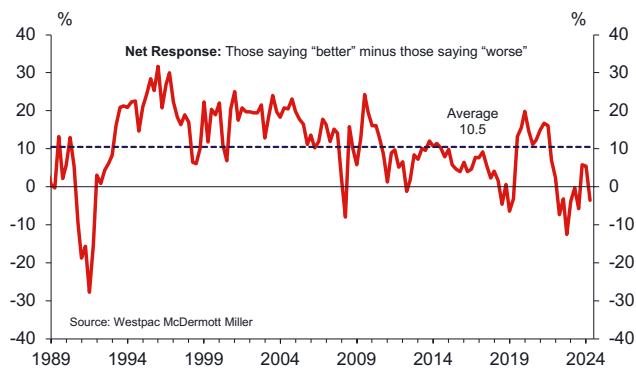
The first two of these questions are summarised in the Present Conditions Index, and the last three are summarised in the Expected Conditions Index. An index number over 100 indicates that optimists outnumber pessimists, though the series may be above or below 100 on average. The survey also includes 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 2024. The sample size was 1,553.

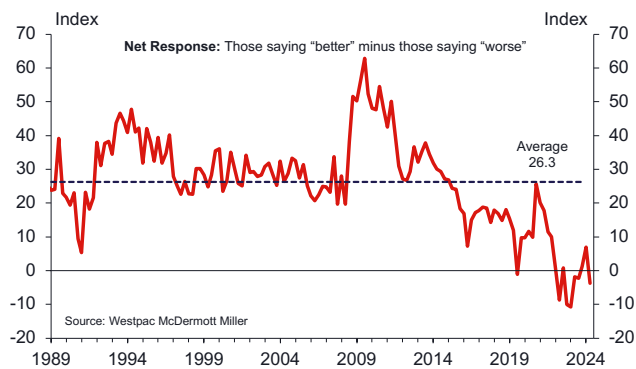
Are you better or worse off financially than a year ago?



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 NZ?



CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

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