

ANZ-ROY MORGAN NZ CONSUMER CONFIDENCE

BARK TURNS INTO BITE

May 2014

CONTACT

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The next issue of the ANZ-Roy Morgan Consumer Confidence is scheduled for release on 20 June 2014 at 1pm.

SUMMARY

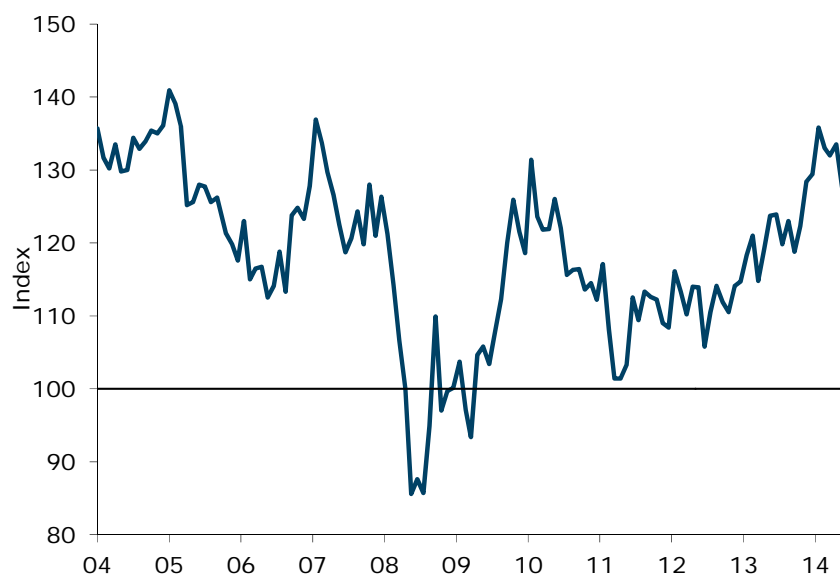
- Consumers remain upbeat, but the level of sentiment has eased to a six month low.
- Weaker household sentiment was reflected across most demographics.
- While the finger can be pointed at higher interest rates as undermining confidence, we're still tracking high levels of confidence across the economy.

Consumers reported a lower level of confidence in May, with the ANZ-Roy Morgan Consumer Confidence measure easing 6 points to 128 – down a cumulative 8 points from the high of 136 recorded in January. The index remains high by historical standards, notwithstanding two interest rate hikes by the Reserve Bank aimed at cooling households' spending enthusiasm.

It appears that higher interest rates are starting to bite with a drop in confidence across all five questions that we ask to gauge household sentiment. When we aggregate our questions into current and future components, the Current Conditions Index eased 7 points, while the Future Conditions Index eased 5 points. However, while interest rates are on the ascent and consumers more cautious, there is still much for households to smile about: employment growth is on the up, a high NZD dollar continues to suppress tradable inflation, making those big-ticket items cheaper, and a strongly performing economy will invariably be reflected in wage growth.

Across the five questions we use to gauge household sentiment, **the largest reduction in confidence related to whether consumers thought it was a good or bad time to buy a major household item**. This component fell from +47 in April to +36 in May; that's still a high reading, though the lowest level in six months. The next-largest drop in sentiment was with respect to general economic conditions over the next 12 months, with expectations easing from +33 in April to +27 in May.

FIGURE 1. ANZ-ROY MORGAN CONSUMER CONFIDENCE

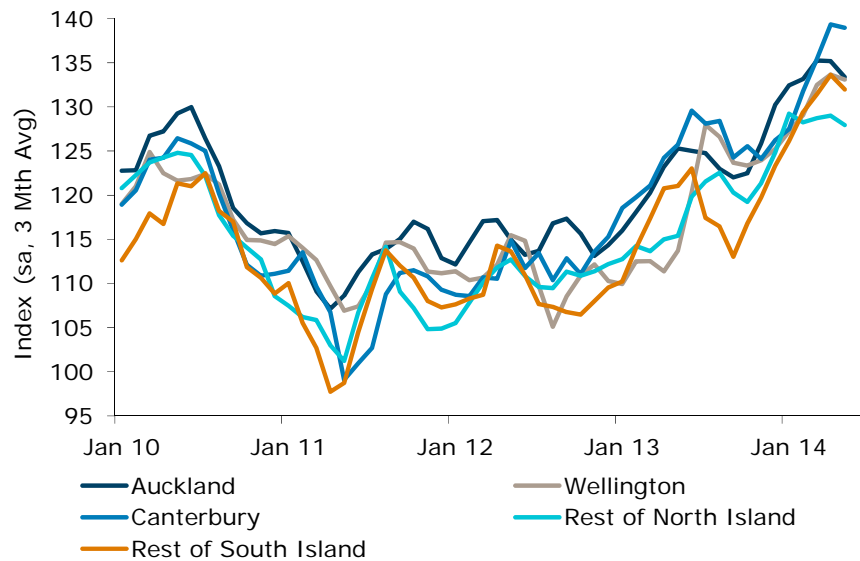


Source: ANZ, Roy Morgan

ANZ-ROY MORGAN CONSUMER CONFIDENCE

The latest dent in confidence has translated into a slowing in expected economic growth over the second half of 2014. With both business and consumer confidence measures now coming off their peaks, our Composite Confidence gauge is projecting 5½ percent growth later in the year, down from around 6 percent growth expected a couple of months ago. This is hardly ringing alarm bells – it's akin to moving from a gallop to a fast canter. The question continues to be whether the economy has the capacity to meet what still looks like very robust demand.

FIGURE 2. REGIONAL ANZ-ROY MORGAN CONSUMER CONFIDENCE INDEX, ROLLING 3-MONTH AVERAGE



Source: ANZ, Roy Morgan

The easing in household sentiment was evident across most of the demographics we track.

- **Confidence was equally weaker across the sexes**, with both dropping 6 points (to 135 for males and 121 for females). Both series returned to around the levels that prevailed six months earlier.
- **Confidence weakened in four of the five age groupings.** The largest decline was measured in the 35 to 49 year age cohort – the mortgage club – which dropped 10 points to 127. The youngest cohort (14 to 17 years of age) was the only cohort to record an increase in confidence, lifting 2 points to 138.
- **Household sentiment was weaker in four of the five regions.** Auckland and Wellington recorded an 8 point decline in confidence, while Canterbury registered a 4 point drop. The South Island excluding Canterbury was the sole region to record a lift in confidence, rising 2 points to 134. Canterbury continues to have the highest level of confidence across the regions.
- **The expected rate of inflation over the next two years eased to a 21-month low** of 3.1%, with inflation expectations for respondents aged between 35 to 49 years dropping to 2.6%, the lowest reading since the series began in December 2009. Expected house price inflation eased a fraction to 3.8%. Auckland and Wellington registered the two extremes of expected house inflation: Aucklanders the highest at 4.7%, and Wellingtonians the weakest at 2.2%.

ANZ-ROY MORGAN CONSUMER CONFIDENCE

Survey Summary	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
No. of Interviews	981	991	1,063	1,737	1,009	1,020	958	1,047

Q1. Would you say you and your family are better off financially or worse off than you were at this time last year?								
Better Off	36	38	37	37	36	36	39	35
Worse Off	29	28	28	26	29	28	26	25
Net Balance	7	10	9	11	7	8	13	10

Q2. This time next year do you and your family expect to be better off financially or worse off than you are now?								
Better Off	49	51	53	54	52	52	53	49
Worse Off	17	14	16	13	15	16	13	14
Net Balance	32	37	37	41	36	36	40	36

Q3. Thinking of economic conditions in New Zealand as a whole, in the next 12 months, do you expect we'll have good times financially, bad times or some good and some bad?								
Good Times	41	48	50	55	52	51	50	48
Bad Times	25	20	23	16	15	16	17	21
Net Balance	16	27	27	39	38	34	33	27

Q4. Looking ahead, what would you say is more likely: that in New Zealand as a whole we'll have continuous good times during the next five years or so, we'll have bad times, or some good and some bad?								
Good Times	41	51	53	52	50	51	48	48
Bad Times	18	16	17	12	13	13	14	18
Net Balance	23	35	35	40	37	38	34	30

Q5. Generally, do you think now is a good time, or a bad time, for people to buy major household items?								
Good Time to Buy	57	57	60	66	65	62	63	57
Bad Time to Buy	23	25	21	17	18	18	15	21
Net Balance	34	33	39	50	47	44	47	36

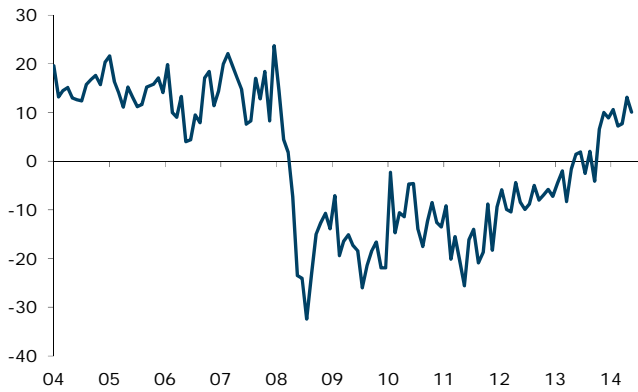
Q6. During the next 2 years do you think that prices in general will go up, go down, or stay where they are now? And if up, what is the expected percentage per year?								
Go Up	73	74	72	69	73	76	76	71
Go Down	6	5	6	7	6	5	6	6
Expectation (%)	3.2	3.2	3.8	3.3	3.5	3.4	3.2	3.1

Q7. Specifically thinking about the price of houses during the next 2 years, do you think that the price of houses in general will go up, go down, or stay where they are now? And if up, what is the expected percentage per year?								
Go Up	72	74	71	72	73	71	72	72
Go Down	9	7	7	7	8	8	8	9
Expectation (%)	3.7	4.2	4.4	4.2	4.0	3.8	3.9	3.8

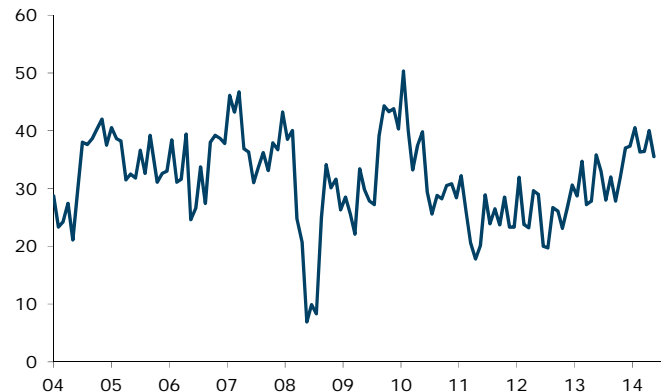
ANZ Roy Morgan Consumer Confidence Rating (100 plus the unweighted average of the net balances of Q1-5)								
Overall Index	122.3	128.4	129.4	135.8	133.0	132.0	133.5	127.6
Current Conditions	120.2	121.4	123.8	130.1	127.0	125.7	130.3	123.0
Future Conditions	123.8	133.1	133.2	139.7	137.1	136.2	135.8	130.7

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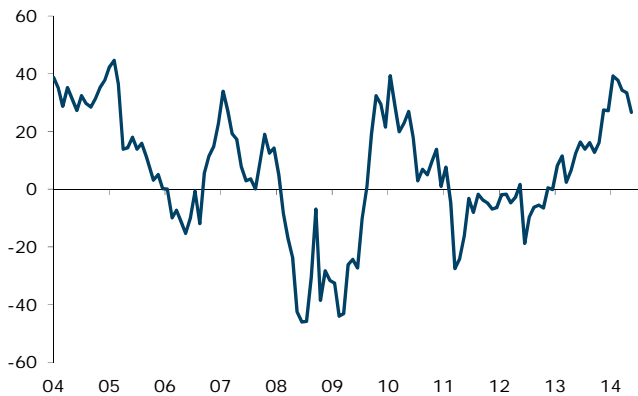
Q1. BETTER OFF PAST YEAR



Q2. BETTER OFF NEXT YEAR



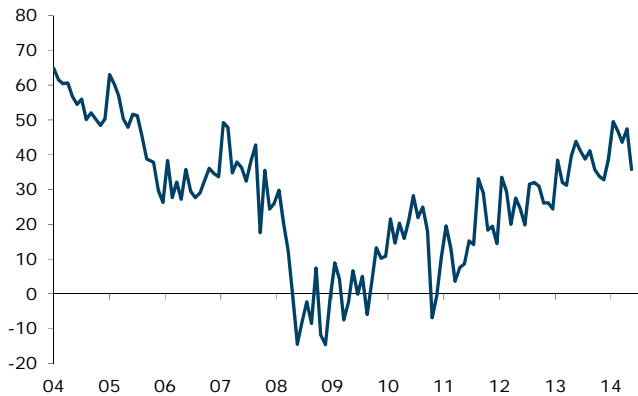
Q3. NZ ECONOMY 12MTHS TIME



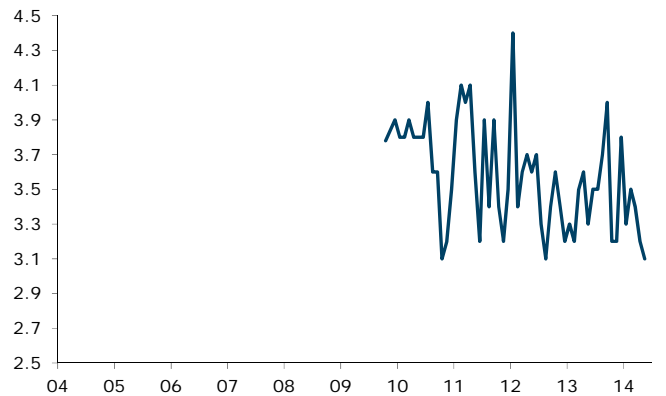
Q4. OUTLOOK 5YRS AHEAD



Q5. BUY MAJOR HOUSEHOLD ITEM



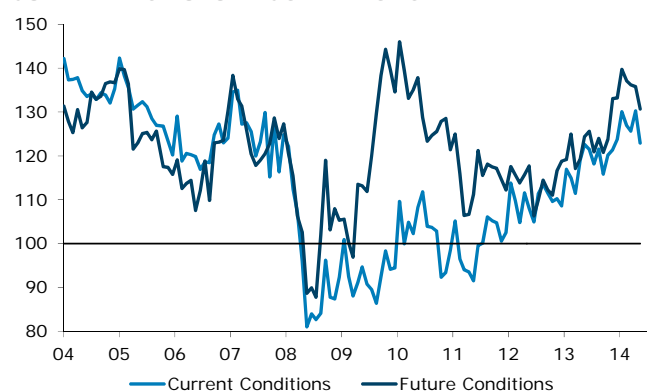
Q6. INFLATION EXPECTATIONS



Q7. HOUSE PRICE EXPECTATIONS



CURRENT VS FUTURE CONDITIONS



Source: ANZ, Roy Morgan



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