

ANZ-ROY MORGAN NZ CONSUMER CONFIDENCE NO PRE-CHRISTMAS CHEER

DECEMBER 2011

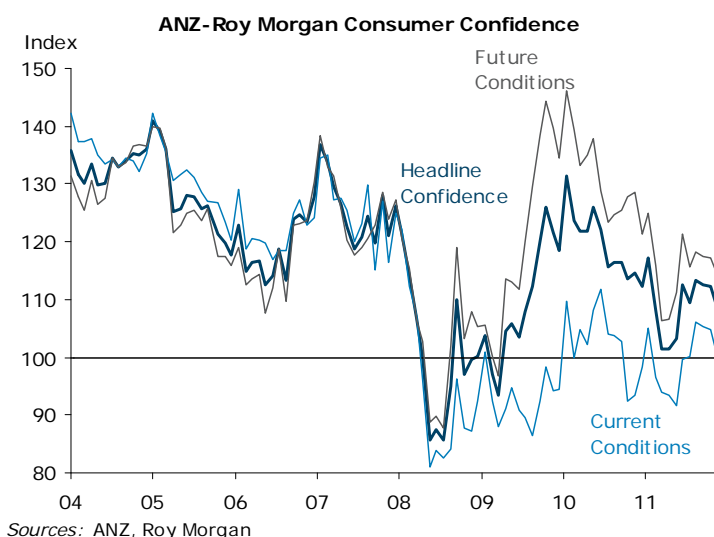
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SUMMARY

- Consumer confidence eased marginally in December, and there really isn't much in the details to provide any pre-Christmas cheer.
- The cautious consumer mood overall suggests that we are unlikely to get a big end of year spend-up.
- If there is some positive to take from this month's survey, it is that fewer folks are feeling financially worse off compared to last year, and more people expect house prices to increase over the next two years.

The ANZ-Roy Morgan Consumer Confidence measure fell marginally in December to 108.4, from the 109.0 reading last month. While the change is insignificant in the context of the series' monthly volatility, what is not so easily dismissed is the fact that this is the fourth consecutive monthly ebb lower in consumer confidence. The current reading is eight points below its historical average level. The Current Conditions index managed to post a 1.9 point increase to 102.5, but the Future Conditions index continues to fall, down another 2.4 points in December to 112.2. The "expectations" vs "reality" gap between the more positive Future and subdued Current conditions readings continues to close. Unfortunately, it is the former that is converging onto the latter.



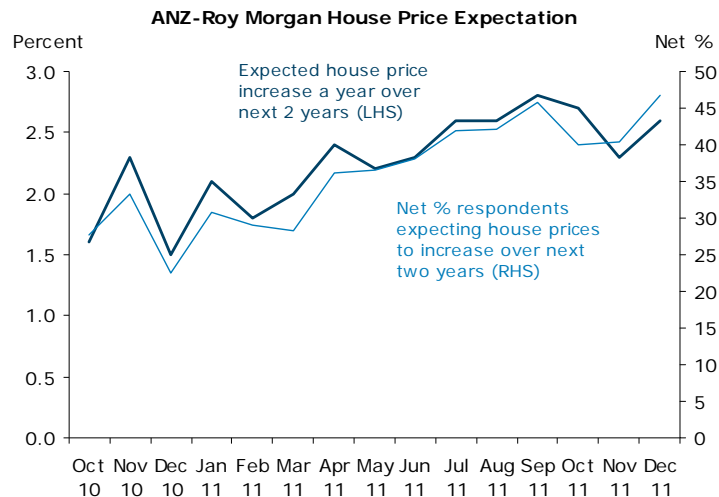
With the Rugby World Cup and General Election over, there is no sideshow to distract New Zealand consumers anymore. The local economy has so far proven reasonably resilient, against a backdrop of global fragility. Indeed, while the unemployment rate has been sticky at around 6½ percent, gross earnings by workers is up 4½ percent from a year ago, and the increase is even more on an after-tax basis. Those with fixed rate mortgages coming up for renewal will be facing lower borrowing costs, and food prices have fallen for three consecutive months.

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While it is easy to point the finger at **negative headlines coming from overseas as a dampener**, specifically those relating to the European debt crisis, there are also local specifics at play that continue to weigh on sentiment. **A decade of spending excess has weakened households' balance sheets.** Restoration requires saving more and spending less, a key reason the Current Conditions index – the key driver of spending today – has hovered around the 100 mark for successive years, even as optimism about the future rose strongly.

The five components that make up the overall measure of consumer confidence were mixed. Two rose, two fell and one stayed unchanged. The largest drop was in consumers' expectations of the economy five years out, which fell 8 points to +20, the lowest reading since March 2009. Perceptions over whether it is a good time to buy a major household item fell 4 points to +15, indicating that we are unlikely to see a pick-up in durables spending heading into year end. On the plus side, perceptions of households' current financial position improved from -18 to -10. On the face of it, this looks promising. However, the move only reversed the 9 point fall recorded in the previous month.

Of interest is the increase in the net percent of respondents who expect house prices to rise over the next two years. This increased from +40 to +47, the highest since we started asking this question in October 2010. Expectations of house price inflation remain modest at 2.6 percent, below expectations of inflation at 3.5 percent. But **there is a clear regional difference with Auckland consumers the most optimistic on house price gains** (net +60 expecting gains averaging 3.4 percent) **while Wellington consumers are the most pessimistic** (net +22 percent expecting gains averaging 1.7 percent).



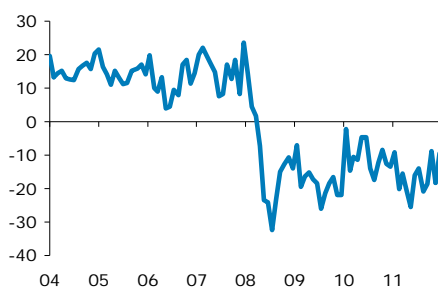
Sources: ANZ, Roy Morgan

Among the regions, confidence in Auckland fell the most for the second consecutive month, going from 112.8 to 109.5. We noted last month that we found it surprising then, and we find it surprising again this time. Particularly as Auckland now has the second lowest confidence level. Canterbury is now the most optimistic region with a reading of 112.7, while the mantle for least optimistic region stays with the remainder of the North Island at 103.6.

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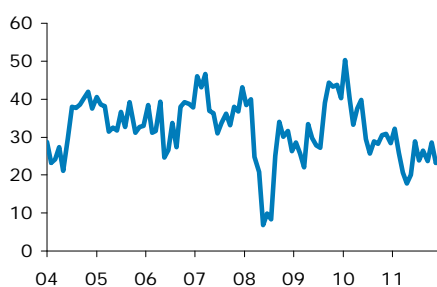
Survey Summary	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
No. of Interviews	1,078	1,030	1,012	1,048	1,037	982	1,053	1,010
Q1. Would you say you and your family are better-off financially or worse off than you were at this time last year?								
Better Off	22	24	27	26	23	26	22	25
Worse Off	48	40	41	47	42	35	41	34
Net Balance	-26	-16	-14	-21	-19	-9	-18	-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	43	48	44	48	44	45	42	42
Worse Off	23	20	20	21	20	17	19	19
Net Balance	20	29	24	27	24	29	23	23
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	27	28	26	30	27	25	26	26
Bad Times	43	31	34	32	31	30	33	32
Net Balance	-16	-3	-8	-2	-4	-5	-7	-6
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, or we'll have bad times, or some good and some bad?								
Good Times	50	49	45	46	46	41	43	36
Bad Times	20	11	15	16	13	14	15	16
Net Balance	30	38	31	30	33	28	28	20
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	45	50	48	58	57	51	49	48
Bad Time to Buy	36	35	34	25	28	33	30	34
Net Balance	9	15	14	33	29	18	19	15
ANZ Roy Morgan Consumer Confidence Rating (100 plus the unweighted average of the five net balances)								
Overall Index	103.3	112.5	109.4	113.3	112.6	112.2	109.0	108.4
Current Conditions	91.5	99.6	100.1	106.1	105.2	104.8	100.6	102.5
Future Conditions	111.2	121.2	115.6	118.1	117.5	117.2	114.6	112.2

Q1. Better off past year



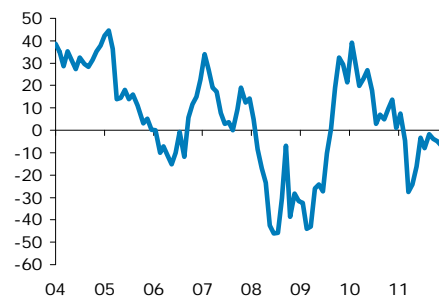
Sources: ANZ, Roy Morgan

Q2. Better off next year



Sources: ANZ, Roy Morgan

Q3. NZ economy 12mths time



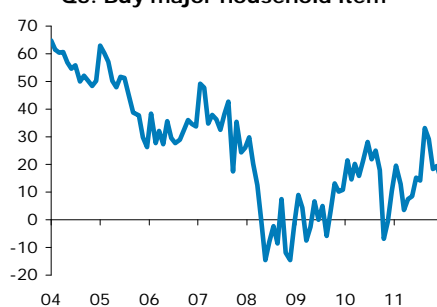
Sources: ANZ, Roy Morgan

Q4. Outlook 5yrs ahead



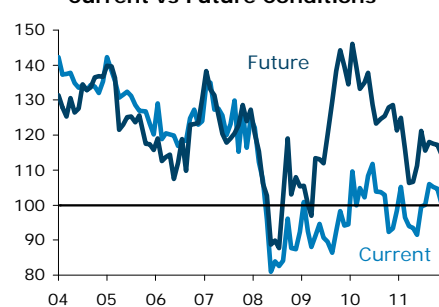
Sources: ANZ, Roy Morgan

Q5. Buy major household item



Sources: ANZ, Roy Morgan

Current vs Future Conditions



Sources: ANZ, Roy Morgan

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