

Consumer sigh of relief

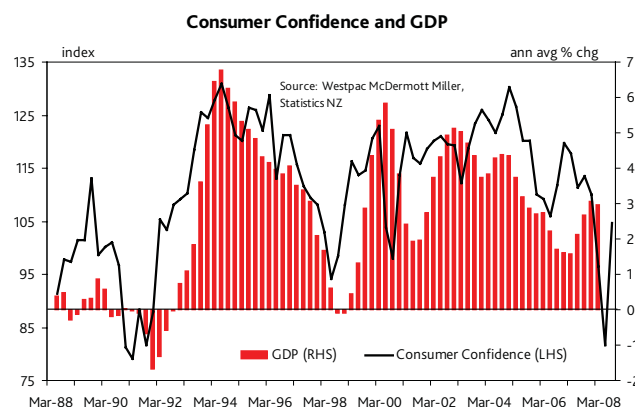
Westpac McDermott Miller consumer confidence rebounds from 81.7 to 104.8

- Consumer confidence stages a record improvement in 2008Q3, with the Index now back in optimistic territory.
- The rebound is broad based, led by an improvement in perceptions around the short term economic outlook.
- The recent slump in consumer spending looks to have been arrested, and risks outstripping the RBNZ's September expectations.
- However, domestic monetary policy will take its cue from world financial market developments over the next few months. We expect the OCR to hit 6.5% in January 2009 as the RBNZ fights to offset the rising cost of funds.

Consumer confidence staged an unprecedented recovery in the September quarter, lifting 23 points from the June quarter survey. The Index currently stands at 104.8, after reaching a 17-year low of 81.7 in the June quarter. An index number over 100 indicates there are more optimists than pessimists, while a number under 100 indicates that pessimists outnumber optimists. The margin of error in the survey is 2.5% at a 95% confidence interval. The survey was conducted during 1-15 September.

It seems lower petrol prices and interest rates are finally helping to revive the previously unconscious consumer. Since June petrol pump prices have fallen by 16 cents/litre as oil prices have tumbled from their highs. And, the RBNZ's surprise cut in the Official Cash Rate (OCR) in July – the first cut in five years, with the promise of more to come, will also be providing a fillip. Add to that, the pending tax cuts (starting 1 October) and it is no wonder that consumers are looking forward with more optimism.

Indeed, the biggest driver of the lift in confidence this quarter came from a sharp improvement in the economic outlook over the next 12 months. On net, 16.7% of consumers still think that we will face bad economic times over the coming year, but that is a spectacular improvement from the 51.6% in June. Most of the improvement came from a reduction in the number of



Consumer Confidence Indices

	Sep-08	Jun-08	change
Consumer Confidence Index	104.8	81.7	23.1
Present Conditions Index	93.3	74.2	19.1
Future Conditions Index	112.4	86.7	25.7

people thinking times will be bad (down from 63.6% in June to 41% currently), but those thinking times will be good also improved (up from 12% to 24.3%).

The outlook for the next five years doesn't appear so grim any longer either. A net 38% of consumers expect better economic times over the next five years – the most positive response to this question since December 1996, and up from a net 19.7% in June.

Regarding their own financial circumstances, again consumers are more upbeat than they were in June. On net, most consumers still say they are worse off than last year, but nowhere near to the same degree (a net 27.3% say they are worse off now compared to a net 40.8% in June). Furthermore, a net 15.8% expect to be better off next year – this is up a massive 24 points from June and is around similar levels seen in the June quarter last year.

The step up in sentiment around expected financial conditions is good news for retailers, but even better news is that consumers'

For further information, questions or comments contact Brendan O'Donovan, telephone (04) 470 8250, email bodonovan@westpac.co.nz

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. © 2001

For Australian clients: WARNING – This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

assessment as to whether now is a good or bad time to buy a major household item improved substantially from June. A net 13.9% of respondents think now is a good time to buy, up from a net 10.8% thinking it was a bad time to buy in June (which incidentally was only the second 'bad' reading in the history of the survey). Still, at current levels, this reading is well below the long run average of a net 28% thinking now is a good time to buy.

By region, the lift in confidence was very broad based. Every region showed an improvement (the smallest improvement being 18 points), with all the regional indices now in optimistic territory. Wellington consumers are the most optimistic, followed by the Bay of Plenty, and Southland. The least optimistic region is Taranaki/Manawatu/Wanganui, just nudging Auckland out of the bottom spot.

Consumer Confidence Data

Region	Index		
	Sep-07	Jun-08	Sep-08
Northland	111.5	78.2	104.7
Auckland	114.8	80.8	101.3
Waikato	110.6	78.8	106.7
Bay of Plenty	107.5	86.9	109.5
Gisborne/Hawke's Bay	110.5	78.9	103.5
Taranaki/Manawatu-Wanganui	111.5	80.2	100.6
Wellington	120.2	92.8	111.0
Nelson-Marlborough/West Coast	106.8	77.5	104.3
Canterbury	113.4	81.7	106.9
Otago	113.8	76.4	103.8
Southland	118.6	72.8	108.0

Overall, this is a very strong bounce in consumer confidence and is undeniably good news. However, we caution reading too much into the result. The lift in confidence merely reinforces our view that the recent slump in consumer spending has been arrested, rather than giving us an indication of the likely pace and magnitude of any upturn. Consumers still have some pretty major hurdles to overcome in the form of high mortgage rates (those people rolling off a 2-year fixed mortgage rate will still be fixing at a higher level), very high levels of debt, and a rising cost of living. Consumer spending will be muted for some time yet.

Still, the current level of consumer confidence is significantly higher than what would be consistent with the RBNZ's rather dire short term view of consumer spending in the September *Monetary Policy Statement*. That, despite international distractions, will be noted. As will the improvement in other second tier data picking up of late, including: business confidence, credit card billings and electronic card transactions, consumer and capital goods imports, building consents and migration.

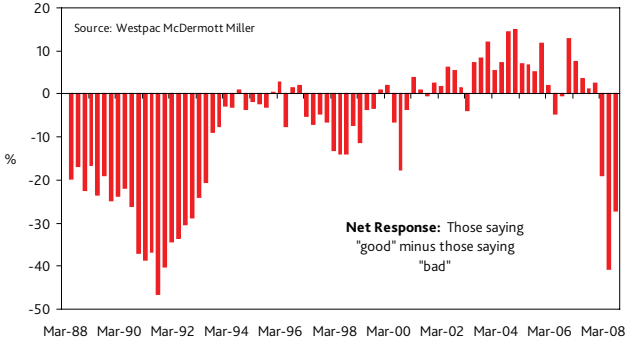
Nevertheless, we note that all these data pre-date the latest turmoil on world markets. In that respect, we expect domestic monetary policy over the next few months will be dictated more by developments in world financial markets than any domestic data outturns. The RBNZ firmly believes that lower growth will take care of inflation over the medium term, and there is little that will change their view on that front before the end of the year. As such, they do not want to see households and businesses facing higher mortgage and business lending rates and will be doing all they can to offset any increases in funding costs coming from the global financial market turmoil. We see a second consecutive 50bps cut in the OCR in October, followed by two further 25bps cuts in December 2008 and January 2009. This will see the OCR at 6.5% early next year. However, OCR calls are likely to remain as fluid as financial market developments.

Brendan O'Donovan, Chief Economist, Ph: (64-4) 470 8250

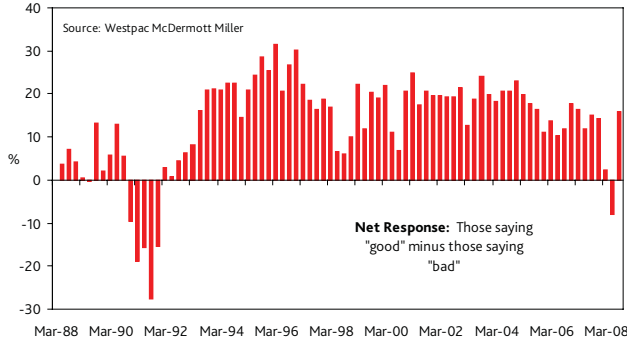
Donna Purdue, Senior Economist, Ph: (64-4) 381 1407

***Q4 consumer confidence will be released on
Wednesday 17 December 2008 (tentative date)***

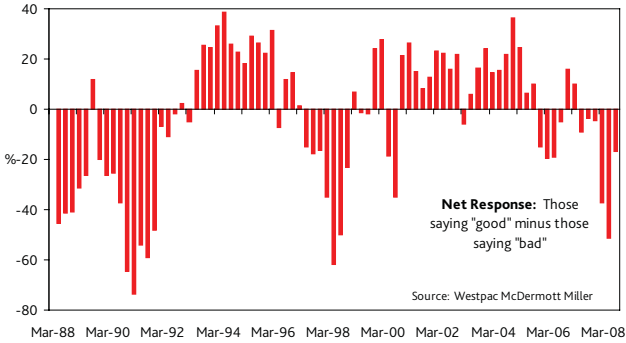
Are you better or worse off financially now than a year ago?



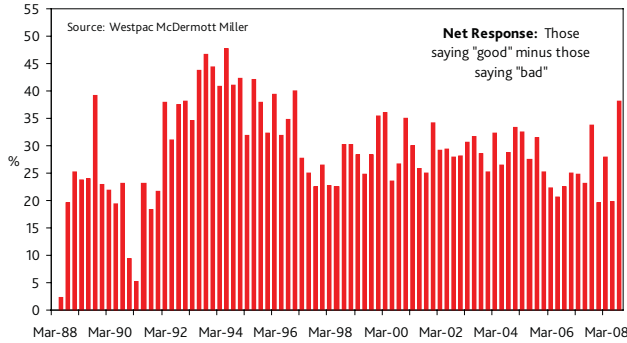
Do you expect to be better or worse off financially this time next year?



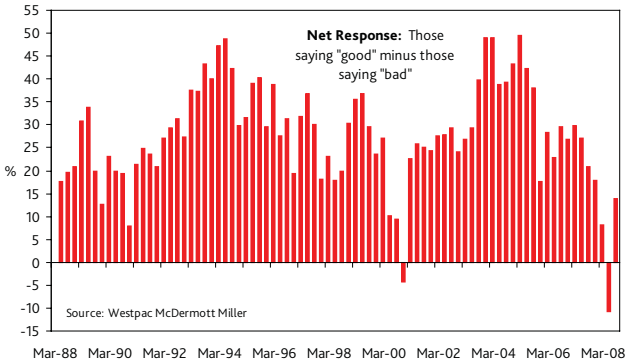
Do you expect good or bad economic times over the next 12 months in NZ?



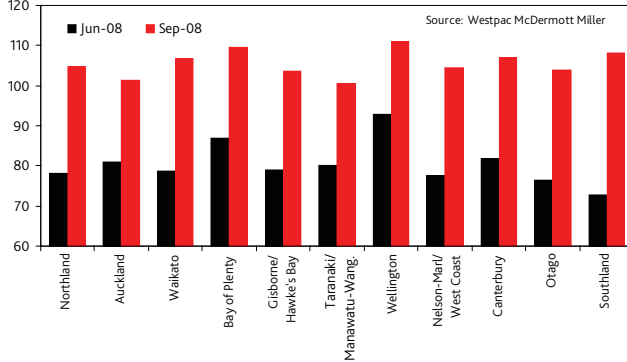
Do you expect good or bad economic times over the next 5 years in NZ?



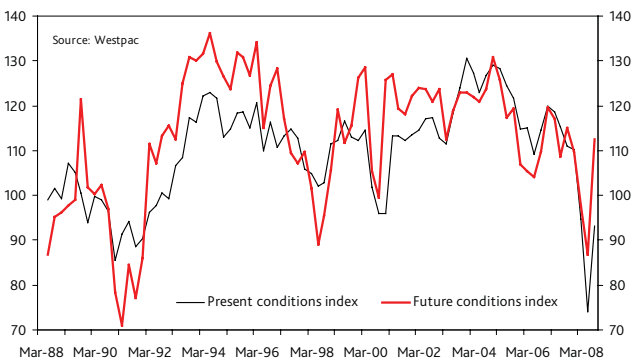
Is this a good or bad time to buy a major household item?



Regional Confidence



Present and Future Conditions Index



Consumer Confidence Data

Quarter	Index
Jun-06	106.0
Sep-06	111.7
Dec-06	119.7
Mar-07	117.7
Jun-07	111.4
Sep-07	113.5
Dec-07	110.0
Mar-08	96.5
Jun-08	81.7
Sep-08	104.8