Westpac Institutional Bank

A division of Westpac Banking Corporation ABN 33 007 457 141

Media release

11 June 2014

Strict Embargo 10:30am

Consumer sentiment stabilises after sharp fall post budget

The Westpac Melbourne Institute Index of Consumer Sentiment rose 0.2% in June from 92.9 in May to 93.2 in June.

Westpac Senior Economist, Matthew Hassan, commented, "Sentiment has stabilised after registering a sharp fall in the wake of the Federal Budget last month. The Index is still in firmly pessimistic territory however, down 6.6% from its pre-Budget level in April and 15.6% below its post-election high in November last year."

"The absence of a significant bounce in sentiment in June is disappointing. The initial response to a Budget can sometimes be an overreaction that reverses in following months. For example, last year's Budget showed a similar immediate reaction with the Index falling 7% in May with sentiment regaining more than half of that decline in June with a 4.7% rise. That said, last year's rebound was assisted by interest rates cuts at the time. Other comparable post-Budget sentiment falls in 2010, 2006, and 1995 have shown more gradual recovery paths."

"The dominance of Budget concerns was apparent in responses to additional questions surveyed this month on news recall. A very high 74% of respondents recalled news on

‘Budget and taxation’ with a wide majority viewing the news as unfavourable. That is the highest level of recall for this topic since we began running the survey in the mid-1970s, surpassing those seen during the GST introduction in 2000, the mining tax announcement in 2010 and the Tax Summit in 1985. The topic effectively drowned out other news, with only 43% recalling the next highest topic, ‘economic conditions’, down from 66% in March. More respondents viewed news as ‘unfavourable’ although assessments of news on ‘employment’, ‘economic conditions’ and ‘international conditions’ were less unfavourable than three months ago.”

“Family finances remain the focus of consumer concerns. The sub-index tracking assessments of ‘family finances compared to a year ago’ fell a further 5.4% in June to a new low, the lowest reading since May 2013. The sub-index tracking expectations for ‘family finances over the next 12 months" managed a 5% rise but that was coming off a severe 23% slump in May, with this month’s reading still the second lowest since the early 1990s recession. Views around the economic outlook have been more mixed. The sub-index tracking expectations for ‘economic conditions over the next 12 months’ recovered somewhat in June, the 3% rise after May’s 14% drop perhaps reflecting the stronger than expected growth figures from the Q1 national accounts. However, the sub-index tracking expectations for ‘economic conditions over the next 5 years’ retraced 2.3% in June after a strong 11% rise in May – the Budget clearly being viewed as a positive for medium term growth prospects. Consumer assessments of ‘whether now is a good time to buy a major item’ have been more resilient throughout the last two months with the sub-index rising a further 1% in June after May’s 3.2% gain.

“Consumers are becoming slightly less fearful of rising unemployment. The Westpac Melbourne Institute Index of Unemployment Expectations, which tracks expectations for unemployment over the next year, registered a marginal decline, falling 1.1% from 158.3 to 156.5. That is a significant improvement on the peak in unemployment fears back in March when the index hit 164.4, but still significantly ‘worse’ than the 144.7 reading in November. Job loss concerns remain elevated.

“Consumer views on housing are showing some intriguing shifts. The index tracking assessments of ‘whether now is a good time to buy a dwelling’ rebounded sharply in June rising 11.4% after recording substantial declines over the previous three months. While that is a positive sign, the improvement is tempered by a significant mark down in expectations for prices. The Westpac-Melbourne Institute House Price Expectations Index fell a further 11.1% in June after a 9.8% decline in May. The Index is at its lowest level since July 2012, when house prices were emerging from a significant correction. While those expecting house prices to rise over the next 12mths still outnumber those expecting declines, nearly a third of respondents now expect prices to be unchanged.

“The June survey also included additional questions on the ‘wisest place for savings’. Responses show small declines in the proportions favouring ‘bank deposits’ (27.5%) and ‘real estate’ (24.5%) and small rises in the proportion favouring ‘pay down debt’ (17.3%) and ‘shares’ (9.9%). The mix suggests a further slight increase in consumer caution but still a marked improvement on the risk averse attitudes prevailing two years ago when well over half of respondents were nominating ‘bank deposits’ or ‘pay down debt’.

“The Reserve Bank Board next meets on July 1. The Governor’s statement accompanying the June Board meeting reiterated the view that the "the most prudent course is likely to be a period of stability in interest rates". While the continued weakness in the Westpac-Melbourne Institute Consumer Sentiment Index is likely to be viewed as a temporary reaction to the Budget, the soft patch in consumer spending it points to argues that the Bank’s on hold position is entirely appropriate. Westpac’s view is that the case for higher interest rates will not be sufficiently strong until the middle of 2015 at the earliest.”, Mr Hassan said.

Issued by: Westpac Banking Corporation

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Survey interviews are conducted by **OZINFO** Research on the telephone using trained interviewers. Telephone numbers and the household respondent are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 2 June to 8 June 2014. The data have been weighted to reflect Australia's population distribution.