Westpac Institutional Bank

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Consumer Sentiment falls on renewed economic concerns

The Westpac–Melbourne Institute Index of Consumer Sentiment fell 6.9% in June from 102.4 in May to 95.3 in June.

Westpac Senior Economist, Matthew Hassan commented, “This is a surprisingly weak result. It now appears that last month’s surge of optimism was a brief ‘relief rally’ following the RBA’s May rate cut and a Budget that was less ‘damaging’ than many feared. With these factors now behind us, sentiment has reverted back to a level more reflective of broader concerns about the outlook for the Australian economy. At 95.3, the Index is 1% below its pre-Budget level and the weakest read since the start of the year.”

“Several factors are likely to have re-focused attention. The last month has seen further falls in the sharemarket (the ASX200 is now down 8.5% since the start of May); ongoing uncertainty in Europe; more signs of soft conditions in labour markets; and added nervousness about the outlook for house prices.

“The March quarter national accounts, released mid-way through the survey week, would also have played on concerns about the economy. Although GDP growth was stronger than expected in the quarter, with a 0.9% rise, the annual pace of growth remained subdued at 2.3%. Much of the detail in the accounts was also poor with incomes under continued pressure from falling commodity prices, and both consumer spending and business investment weak.

“Individual components of the index highlight these renewed concerns about the economy. By far the biggest fall in June was in the sub-index tracking expectations for ‘economic conditions, next 5 years’ which plunged 17%, reversing all of last month’s 20% jump. Consumers’ near term assessments also declined with the sub-index tracking expectations for ‘economic conditions, next 12 months’ down 7.7% following a 9.2% rise last month. Assessments of family finances were more resilient with the sub-index tracking views on ‘family finances vs a year ago’ actually up 1.6% in the month, although the sub-index tracking expectations for ‘family finances, next 12 months’ registered a heavy 8.9% fall.

“Attitudes towards spending softened in June. The ‘time to buy a major household item’ sub-index declined a further 2.5% in June after slipping 1% in May to be down 5.6% on a year ago. Although the sub-index is still well above the lows seen late last year, recent declines may indicate consumers are becoming more reluctant to spend.

“Job loss fears remain a major concern. The Westpac Melbourne Institute Unemployment Expectations Index rose 3.8% to 152.8 (recall that higher readings indicate increased expectations that unemployment will rise over the year ahead). Although the Index has improved slightly over the past year it is still at very high levels by historical standards – the average reading since the mid 1970s has been 130. High readings on unemployment expectations have been a persistent feature over the last 4yrs and point to a perceived lack of job security as a key restraining factor for consumers.

“Additional questions on news recall highlight some of the main themes for consumers. These questions are included in the survey every three months. Responses in June showed the highest level of recall was for news on ‘economic conditions’ (50% of respondents); followed by ‘budget and taxation’ (45%); ‘interest rates’ (30%); ‘international conditions’ (20%); and ‘employment’ (18%). Compared to March, economic news was more prominent than Budget and taxation issues, although news on both continues to be assessed as very unfavourable.

“The moderation in Budget-related concerns is more evident when we compare this month’s results on news recall with those a year ago. Following last year’s poorly received Budget, 74% of consumers recalled news on ‘budget and taxation’ – a 40 year record – with 78% assessing news as unfavourable. Budget 2015 has had about half the level of recall with ‘only’ 68% assessing the news as unfavourable.

“Consumer responses around housing indicate more nervousness, particularly around the outlook for prices. The index tracking views on ‘time to buy a dwelling’ declined 1.6% in June, but is still 3.4% above its pre-rate cut level in April. Expectations for prices showed a sharper weakening: the Westpac-Melbourne Institute House Price Expectations Index fell 8.5% in June following a 3.2% decline in May. At 134.9, the index remains in solidly positive territory, well above its long run average of 125, but the 11.4% drop over the last two months marks a shift to a much less bullish view. Just over 53% of respondents expect prices to rise over the next 12 months compared to 61% in May and 63% in April.

“Consumer views on the ‘wisest place for savings’ suggest risk appetite is largely unchanged since March. Consumers continue to favour ‘bank deposits’, ‘real estate’ and ‘debt repayment’ as the wisest place for savings, with 29.4%, 24.6% and 16.5% nominating these options respectively in June. The mix is almost identical to that in March but less ‘risk averse’ than seen late last year.

The Reserve Bank Board next meets on July 7. We expect that the Board will hold rates steady but continue to retain a 'soft easing bias'. Since the last Board meeting, evidence of weak consumer spending and a deteriorating outlook for business investment along with this survey result will keep the Bank alert to disappointing economic progress.

"Our current view is that rates will remain on hold throughout 2015 and 2016 while recognising that since the last Board meeting the case for even lower rates has strengthened," Mr Hassan said.

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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 1 June to 7June 2015. The data have been weighted to reflect Australia's population distribution.