Westpac Institutional Bank

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Media release

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Consumer mood brightens

The Westpac Melbourne Institute Index of Consumer Sentiment rose 1.8% to 105.1 in January from 103.3 in December.

Westpac Senior Economist, Matthew Hassan, commented "Sentiment has continued to recover from the weakness seen in the September quarter last year, bolstered by a less threatening outlook for interest rates and improving confidence around the economy and jobs. While the mood is 'cautiously optimistic' rather than buoyant, this is the best monthly index read since late 2013 and the most positive start to a calendar year since 2010.

"The consumer mood has posted a clear improvement since the September quarter. The average Index reading over the last three months is 6.3% above the average in July-September last year. That in turn points to some recovery in spending which saw a disturbing slump in the third quarter, a view broadly consistent with recent more positive updates on retail sales and vehicle purchases. However, the degree to which spending improves still looks likely to be constrained with the survey detail suggesting family finances are still under pressure, limited scope for further reductions in saving to support spending, and high debt levels an ongoing concern for many households.

"Four of the five index components improved in January with the strongest gains around expectations for the economy. The 'economic outlook, next five years' sub-index surged

5.4% and the 'economic conditions, next 12 months' sub-index rose 2.6%. Both sub-indexes are now comfortably above their long run averages.

"Views around family finances were more mixed. The 'finances vs a year ago' sub-index remained weak, declining 1.1% to 88.6, retracing some of last month's solid gain and remaining well below 100, indicating more consumers are seeing their finances deteriorate than improve. The forward view was more positive, the 'finances, next 12mths' sub-index rising 1.7% to 109.1, the highest level in over four years. "The 'time to buy a major household item' sub-index posted a slight 0.5% gain but at 122.8 remains well below its long run average of 127.5.

"The sub-group detail showed a particularly strong rise in sentiment across households with a mortgage, a sure sign that interest rate expectations played a supporting role.

"The rally in Australia's sharemarket – the ASX hitting a ten year high in early January – likely provided some additional support although continued weakness in housing markets would have been a dampener. Dwelling prices declined over the second half of 2017 after posting strong gains over the previous twelve months, with performances varying significantly across different regions.

"Both the Index and its components are seasonally adjusted to take account of the regular positive impact on confidence of the holiday season. Other Indexes in the survey are not seasonally adjusted so need to be treated with some caution.

"Consumers continue to become more comfortable about the outlook for jobs. The Westpac Melbourne Institute Unemployment Expectations Index declined 3.8% to 122.8 in January (recall that lower reads mean more consumers expect unemployment to fall in the year ahead). The Index, which can be viewed as a measure of consumers' sense of job security, is now comfortably below its long run average of 130 and at a 6½ year low. That said, the view is still not particularly optimistic – over the five years prior to the GFC for example, the index averaged 115.6.

“Consumer views around housing showed mixed results with buyer sentiment improving but price expectations pared back.

“The ‘time to buy a dwelling’ index rose 6.1% to 106.7, the most positive reading since September last year. The state detail showed strong gains in Victoria and Western Australia while buyer sentiment remained steady at much weaker levels in NSW (89).

“The Westpac Melbourne Institute Index of House Price Expectations declined 4.4% to 129.1, bringing the index broadly in line with its long run average. The biggest declines in January were in Victoria and Queensland but NSW consumers continue to have the most subdued price outlook after sharp falls in previous months.

“The Reserve Bank Board next meets on February 6. Westpac continues to expect that the board is likely to hold rates steady throughout 2018”, 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 8 January to 13 January 2018. The data have been weighted to reflect Australia's population distribution.