Media release

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Consumer Sentiment lifts on rising optimism around economy

The Westpac Melbourne Institute Index of Consumer Sentiment rose 3.9% to 106.1 in July from 102.1 in June.

Westpac Senior Economist, Matthew Hassan, commented, “The consumer mood showed a clear improvement in July. The latest reading is the most positive result since November 2013 with the Index 8% above the average in 2014 to 2017. This is the eighth month in which the Index has been above 100, indicating optimists outnumber pessimists, a clear turnaround on the previous year in which 11 out of 12 readings were below 100.

“Despite the positive run, the overall level of sentiment is still not that strong – at 106.1, the July reading compares favourably to recent years but is still below the 108.3 average recorded over the ten years prior to the GFC, and peaks well above the 110 mark. Much of the improvement over the last year reflects a more balanced growth profile across states with stabilising conditions in the mining sector driving a recovery in Queensland and WA.

“The survey detail shows the latest lift in sentiment is being driven by growing optimism about the economy. The ‘economic outlook, next 5yrs’ sub-index surged 9.8% in July to be up nearly 20% on a year ago. The ‘economic outlook, next 12 months’ sub-index also posted a solid 3.9% rise to be up 13.5%yr. Both sub-indexes are now well above their long run averages.

“Some of this lift likely reflects developments around tax policy with the Government’s multi-year tax cut package passing into legislation in June and the first round of relief coming into effect on July 1. Sentiment amongst the ‘middle income’ households that benefit most from initial changes showed a particularly strong rise in July – with a 12.3% gain across those with annual incomes in the $60-80k range.

“There may have also been some positive sentiment response to proposed changes to the distribution of GST revenues that along with additional funding is expected to leave no state worse off. Notably, the improvement in expectations for the economy has come despite a continued escalation in global trade tensions.

“Consumer views around family finances showed a lift although gains were more muted and sentiment is still subdued overall. The ‘finances vs a year ago’ sub-index rose 2.3% and the ‘finances, next 12 months’ sub-index rose 2.1%. Both remain a touch below long run average reads. Household budgets have come under persistent pressure from a range of factors, including: slow growth in wages, rising electricity and petrol costs, and declining house prices.

“Consumer views around spending showed a muted gain. The ‘time to buy a major household item’ sub-index rose 1.7% in July to be up 3% over the last three months. At 124.5, the sub-index is near the top of the range seen over the last two years. However, it is still 3ppts below its long run average and well below the levels associated with buoyant spending conditions.

“Consumer views on unemployment continue to show a softer tone. The Westpac Melbourne Institute Unemployment Expectations Index dipped 0.8% to 125.8, but after a

5.7% jump in June the index remains 3% above the average read over the first five months of the year (recall that higher reads mean more consumers expect unemployment to rise in the year ahead). The Index, which can be viewed as a measure of consumers' sense of job security, looks to have stalled after posting a significant improvement over the second half of 2017 and the first few months of 2018.

"Consumer views around housing deteriorated, price expectations in particular. The 'time to buy a dwelling' index declined 2.5%, unwinding just over half of last month's gain. At 103.1, the index is positive – more Australian's saying it is a good time to buy rather than bad – but well below the long run average read of 120.

"The Westpac Melbourne Institute Index of House Price Expectations slid 6.2% to 112.5, a new low since early 2016. Over half of all consumers expect prices to be unchanged or lower over the next year. Expectations continue to show particularly sharp pull-backs in NSW (–9.6% to 93.9), and Victoria (–13% to 107.8).

"The Reserve Bank Board next meets on August 7. The Governor has made it plain in recent comments that the official cash rate is unlikely to be changed any time soon. While the improved tone to sentiment this month will be a welcome shift given the Bank's concerns about an uncertain outlook for the Australian consumer, the detail will be less comforting with family finances still under pressure, what had been a steady improvement in labour market expectations stalling, and further signs of weakness in housing-related sentiment. All up, a lift in consumer demand still looks unlikely near term.

"Westpac continues to expect the cash rate will remain on hold throughout 2018 and 2019", 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 2 July to 7 July 2018. The data have been weighted to reflect Australia's population distribution.