

# Media release

10 February 2016

**Strict Embargo 10:30am**

## **Consumer Sentiment bounces back**

The Westpac Melbourne Institute Index of Consumer Sentiment rose by 4.2% in February to 101.3 from 97.3 in January.

Westpac's Chief Economist, Bill Evans commented, "The Index has now recovered all the ground it lost in January when it fell by 3.5%. The Index has now returned to a level (above 100) where optimists outnumber pessimists. This is good news in that there have only been five months over the last two years when we have had optimists in the ascendency.

"Last month we interpreted the 3.5% fall in the Index as being mainly due to respondents' concerns with the sharp falls in share markets and the oil price from the beginning of the year. Between the beginning of the year and the final day of the January survey Australia's share price Index fell by around 8% and the oil price was down by 20%. Over the four weeks to the end of this February survey there has been little net movement in either share markets or the oil price although we have continued to see significant volatility. Respondents were clearly relieved that markets did not follow on from the steep declines we saw in early January.

“While the plunge in the oil price is disturbing from a market perspective, households are now benefitting from lower petrol prices. Since the survey in January “average pump price” has fallen by 8.5% providing households with a decent boost to disposable incomes.

“It is important to note that since the February survey closed on February 6 there has been renewed weakness with the Australian share market down by nearly 3% and oil prices down by 8%.

“Of course it is too early to speculate whether markets will continue to weaken over the next few weeks.

“The significant influence of markets on the recent Confidence measures is best demonstrated in the component of the Index measuring how respondents assess family finances relative to a year ago. In its recent Statement on Monetary Policy the Reserve Bank highlighted this component in its discussion on consumption indicators. In today’s survey ‘family finances relative to a year ago’ lifted by 11.3% following a 9.4% fall in January. This component of the Index is now up by 3.4% compared to a year ago.

“The other component of the Index which measures respondents’ assessments of their own financial position – ‘family finances over the next 12 months’ – was also strong – rising by 3.8%.

“The outlook for the economy improved by less than respondents’ own financial assessments. The sub-indexes tracking expectations for ‘economic conditions over the

next 12 months' fell by 0.6% and 'economic conditions over the next 5 years' increased by 4.0%.

"Retail signals were also encouraging with the 'time to buy a major household item' sub-index up by 3.1%.

"There has been a disappointing deterioration in respondents' confidence around the jobs market. Despite ongoing strong employment reports and a marked fall in the unemployment rate the Westpac Melbourne Institute Index of Unemployment Expectations increased by 1.9% to now be 7.7% above its recent low in October (recall that higher reads indicate a more pessimistic outlook for unemployment). Certainly, the Index is still below its level from a year ago by 1.7% but that compares with October when it was down by 9.2% over the previous year and was providing a signal quite consistent with the improving employment reports.

"After sending some encouraging signals in January, sentiment toward housing soured again in February. Some of this variation is likely to be seasonal. The 'time to buy a dwelling' index fell 12% to 99.3 after increasing by 14% in January. The Index is now back at its December level. It is 21% below its level of a year ago.

"Despite the overall Index being back at its December level there has been significant movement amongst the states with NSW and Victoria substantially above the December levels and the smaller states all well below.

“We saw a similar story for House Price Expectations. After lifting by 20.5% in January this Index fell by 12.5% in February. However the Index is still comfortably above its December lows.

“The Reserve Bank Board next meets on March 1. Following the recent turmoil, markets are convinced that the Reserve Bank will be cutting rates by May, if not earlier. Today’s report highlights that one of the Bank’s most significant concerns of whether international developments will weigh on domestic demand will need more time to resolve. Certainly the resilience of Consumer Sentiment, and in particular, respondents’ assessments of their own financial position are not pointing to a significant deterioration in domestic demand.

“The other key issue for the Bank is whether recent momentum in the labour market can be sustained. In that regard today’s report provides a less encouraging insight with the Westpac Melbourne Institute Index of Unemployment Expectations printing a disappointing result.

“We are maintaining our call that rates will remain on hold over the course of 2016”, Mr Evans 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 1 February to 6 February 2016. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.