Westpac Institutional Bank

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Media release

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Consumer Sentiment Index falls further

The Westpac–Melbourne Institute Index of Consumer Sentiment fell by 3.2% in July from 95.3 in June to 92.2 in July.

Westpac's Chief Economist Bill Evans commented, "This is the lowest print of the Index since December last year. The Index is now firmly in the range where pessimists outnumber optimists. In fact the Index has printed below 100 in 15 of the last 17 months.

"Having made that overall assessment it is not surprising that we saw a solid fall in the Index in July. We had a taste for households' sensitivity to disturbing news around European instability in December 2011 when the Index tumbled by 8.4% from 103.4 to 94.7. This time the concerns around Greece have been complemented by sensational coverage of the collapse in the Chinese share market.

"Back in 2011 the Index recovered by 6.7% once European fears settled down and it is likely that the impact on confidence of the European developments will once again prove to be transitory. However such volatility will not disguise the fact that underlying consumer confidence in Australia remains consistently low.

“While markets were volatile there was no net movement in the Australian share market between the June and July survey periods. However the Australian dollar did fall from around USD 0.77 to around USD 0.75.

“Further evidence that this headline impact from overseas news is unlikely to be sustained can be found in the response of households to the outlook for the unemployment rate. As readers will be aware we have been concerned for some time around the persistently elevated concerns that respondents have for the outlook for the jobs market. The Westpac Melbourne Institute Index of Unemployment Expectations actually fell 1.3% in the month indicating that slightly fewer consumers expect unemployment to rise. Households remain highly concerned about job prospects but the recent overseas developments did not exacerbate those concerns.

“There were some confusing movements in the components of the Index. The sub-index tracking views on ‘family finances compared to a year ago’ fell by 10.4% while that tracking assessments of ‘family finances over the next 12 months’ rose by 6.9%. The sub-index on ‘economic conditions over the next 12 months’ fell by 10.5% and that on ‘economic conditions over the next 5 years’ fell by 4.4%. The ‘time to buy a major household item’ sub-index rose by 0.2%.

“Sentiment around housing was, arguably, the most significant development in this month’s survey. The index tracking assessments of ‘time to buy a dwelling’ tumbled 16.7%. That Index is now at its lowest level since June 2010. The weakest read in this Index came in New South Wales where the Index fell 19% to its lowest level since

February 2008 when mortgage interest rates were peaking and there were clear early signs of significant difficulties in the global financial system. It is likely that this sentiment is being driven by affordability concerns and may be signalling a slowdown in the Sydney property market.

“Despite these affordability concerns respondents expect even further house price increases. The Westpac Melbourne Institute Index of House Price Expectations rose by 8.2% in the July survey including an 8.1% increase in the NSW Index.

“The Reserve Bank Board next meets on August 4. The Board has demonstrated recently that at these low levels of rates any further cuts will be gradual and most likely timed for the months of February; May; August and November when the Bank revises its forecasts for growth and inflation. Having cut rates in both February and May the August meeting does become a ‘live’ event.

“However we expect that it is very unlikely that the Board will decide to cut rates in August. In May it was still forecasting above trend growth in 2016 of 3.25% and we expect that the catalyst for any decision to cut rates would come from a substantial downward revision to its growth forecast for 2016 to ‘below trend’ territory. That decision will be largely influenced by the assessed momentum in the economy in the second half of this year and developments in the labour market. With insufficient available evidence on the former and, for now, the unemployment rate having stabilised there is almost no case for an August move.

"Despite current market expectations we would also put a limited chance of a move in November. In fact we are comfortable to retain the view that rates will remain on hold for the remainder of this year and throughout 2016," Mr Evans 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 6 July to 11 July 2015. The data have been weighted to reflect Australia's population distribution.