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Media release

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Consumer Sentiment bounces back

The Westpac-Melbourne Institute Index of Consumer Sentiment rose 3.6% to 100 in August from 96.5 in July.

Westpac Chief Economist, Bill Evans, commented, "Superficially this result comes as somewhat of a surprise given that the survey was conducted against a turbulent backdrop with global financial markets roiled by escalating trade tensions between the US and China, the ASX down 3.4% and the AUD off 3¢ US since the July survey.

"However, the result does come in the aftermath of an unexpected 4.7% fall in the Index in June/July that came despite consecutive rate cuts from the RBA and the restoration of political certainty following the May Federal election. At the time, particularly following the July fall of 4%, we speculated that households may have been unnerved by the unusual sequence of consecutive rate reductions, implying that there might be some alarming drop in confidence in official circles around the economic outlook.

“Realising that lower rates are in the offing but that there is no need for further consecutive changes might be a more encouraging signal for households than a rapid sequence of rate cuts.

“Indeed part of the gain is consistent with firming expectations for additional interest rate cuts. The RBA left rates on hold at its August meeting, pausing after the two cuts in June and July but retained a clear easing bias. The media and economic forecasters now expect a further lowering in the official cash rate in coming months.

“This is influencing consumer views. Responses to an additional question on expectations for mortgage interest rates, run every six months, show just 31% expect rates to be higher in a year’s time compared to 43% when the question was last run in February and 50% this time a year ago. This is the most dovish mix of responses seen since mid-2012 when the RBA was moving through a significant policy easing cycle.

“This less alarmist but nevertheless confident view on interest rates appears to have calmed expectations for the economic outlook. The sub-index tracking expectations for the ‘economy, next 12 months’ rallied 9.6% in August, reversing most of last month’s 12.3% slump but still down 8.3% since May. Longer term expectations for the economy also recovered, the ‘economy, next 5 years’ sub-index rising 4.5% after recording a 6.7% fall last month.

“Views around family finances have shown a more muted improvement. The sub-index tracking consumers’ expectations for ‘finances, next 12 months’ rose 0.7% but remained in slightly pessimistic territory. The ‘finances vs a year ago’ sub-index lifted 0.9% to a five month high, although at 86.5, the sub-index remains at weak levels overall. The muted gains are despite further signs of improvement in Australia’s housing market and the “Federal government's tax relief which may be starting to see cash flow to some households.

“Spending attitudes showed a firmer gain, the ‘time to buy a major household item’ sub-index is up 2.8% in August to the highest level in over a year.

“A major influence on the near term economic outlook is going to be the mix between spending and saving as households receive their increased tax rebates. With sentiment flat and households remaining risk averse we expect consumers to favour saving over spending so this lift in ‘time to buy’ is an encouraging sign for retailers.

“Consumers’ job loss fears eased slightly in August. The Westpac-Melbourne Institute Unemployment Expectations Index improved slightly recording a 0.8% decline to 133.3 (recall that lower readings indicate that more consumers expect unemployment to fall in the year ahead). While the Index is around its long run average level, it has risen 10.3% since May, a significant deterioration from what were consistently better than average readings seen over the six months to February.

“Housing-related sentiment continues to show a clear positive response to lower interest rates with assessments of both ‘time to buy’ and house price expectations recording further gains in August.

“The ‘time to buy a dwelling’ index rose 3.0% to 126.9, comfortably above the long run average of 120 and the highest level since early 2014. Sydney and Melbourne continue to lead the turnaround although buyer sentiment posted particularly strong gains in WA and SA this month. Buyer sentiment has been notably softer in Queensland, the state index down 6.4% this month and down 11.6% on a year ago.

“The Westpac-Melbourne Institute Index of House Price Expectations Index posted a solid 5.1% increase. At 125.4, the Index is up 40% since May and back on a par with levels in mid-2018, although still 18% below its previous peak in March 2017. All major states recorded a lift in price expectations this month.

“The Reserve Bank Board next meets on September 3. Westpac expects that the Board will decide to keep rates on hold in September before cutting rates by another 25bps at the October meeting with a final 25bp move taking the cash rate to 0.5% in February.

“Signals from the RBA are quite clear. In its recent Statement on Monetary Policy the RBA lowered its forecasts for inflation, wages and growth, while lifting its forecasts for the unemployment rate. Those forecasts were despite basing them on the technical assumption of adopting market pricing, which anticipates two more rate cuts.

"Accordingly we feel reasonably comfortable that the RBA Board will be cutting rates at least twice more in this cycle", Mr Evans commented.

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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 5 August to 10 August 2019. 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.