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Media release

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Consumer sentiment remains soft

The Westpac Melbourne Institute Index of Consumer Sentiment rose by 0.4% in July from 96.2 in June to 96.6 in July.

Westpac's Chief Economist, Bill Evans, commented "This is the eighth consecutive month where the Index has printed below 100 indicating that pessimists continue to outnumber optimists. The Index is not sending encouraging signals about the outlook for consumer spending.

"Having said that, developments around interest rates during the month could have been much more damaging for confidence than turned out to be the case. Banks increased rates on 'interest only' mortgages while there was considerable media speculation about prospects for rising rates overall.

"In the event confidence amongst respondents with mortgages actually rose by 4.8%. However, the interest rate increases may have contributed to softer reads in some subgroups with higher exposure to investor housing – sentiment down about 10% in the month for those aged over 55.

"The key components of the Index gauging respondents' assessments of their own financial position were mixed. The component measuring assessments for family finances relative to a year ago lifted slightly by 1.2% while the component tracking assessments of the outlook for finances over the next 12 months fell by 4.2%.

"Overall however both of these components are down significantly over the year by around 4%. While-ever respondents remain concerned about their own finances prospects for a marked lift in spending patterns will remain remote.

"On the other hand there was an improvement in how respondents assess conditions in the labour market. The Westpac Melbourne Institute Index of Unemployment Expectations fell by 3.1% (a lower number indicates that fewer consumers expect unemployment to rise) but really only recouped the increase we saw in the last month. Over the last year this Index has remained fairly steady despite the encouraging developments in the stunning employment reports which indicate that 141,000 jobs were added in the three months to May.

"Other components of the Index were also mixed. The 'economic conditions over the next 12 months' sub-index increased by 1.8% while the 'economic conditions over the next five years' sub-index fell by 1.5%. Over the last year, 12 month prospects have increased by a modest 1.1% while 5 year prospects have fallen by 8%.

"The 'time to buy a major household item' sub-index improved by 4.2% to be up 1.0% over the year.

"Conditions in the housing market appear to be stabilising, at least for the time being. The 'time to buy a dwelling' index lifted by 3.1% in the month – the first significant increase we have seen for this year. Recall that in the first half of 2017 this indicator fell consistently by just over 10%. Recent increases in state government assistance for first home buyers appears to have been a big factor in the July rise with the 'time to buy a dwelling' sub-index for 25–34 year olds surging 36% in the month.

"The outlook for house prices also partially reversed the recent deterioration. The Westpac Melbourne Institute Index of House Price Expectations increased by 8.6% following the cumulative 11.8% fall we saw in the previous two months. With banks raising some mortgage rates and overall confidence soft it is too early to call a recovery in confidence in the housing market.

"The Reserve Bank Board next meets on August 1. Rates will remain on hold.

"We continue to predict that the Reserve Bank cash rate will remain on hold throughout the remainder of 2017 and 2018. A cautious consumer; a slowing housing market; and a weakening in the labour market with limited prospects of any boost to wages growth all point to another year of steady policy", 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 3 July to 7 July 2017. The data have been weighted to reflect Australia's population distribution.