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# Media release

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## Budget well received but Sentiment drifts lower

The Westpac Melbourne Institute Index of Consumer Sentiment declined 0.6% to 101.8 in May from 102.4 in April.

Westpac Chief Economist, Bill Evans, commented, “This is a disappointing update. Despite what appears to have been a well-received Federal Budget, consumer sentiment has continued to drift lower. The survey detail points to a positive boost from policy measures, which included personal income tax cuts, being more than offset by weakening current assessments of family finances”.

“The survey was conducted over the period May 7 to 12. Sentiment over the course of the week showed a clear Budget boost. About half of all responses were collected before the 2018-19 Federal Budget was released on May 8 – the Index for this sub-sample printed at 99.9 (down by 2.4% on April). The index for the sample collected ‘post Budget’ printed at a notably firmer 104.8. The 4.9% lift between pre and post Budget reads is the most positive turnaround since we began tracking sub-samples in 2011.

"Our May survey includes the extra question: "What impact do you expect the Budget to have on your family finances over the next 12 months?" Responses indicate the Budget was relatively well-received. Just over 10% of consumers expected the Budget to improve their finances; 58% expected no change; 19% expected it to worsen their finances and 13% reported 'don't know'. While the overall balance is negative (the net improve/worsen reading of –10% for those with a view) it is much less negative than last year (a net –29%) and the 'best' response we have seen since we began running this question in 2010. Consumers appear to carry a consistent negative bias around budget assessments.

"The long time frame on the Budget's centrepiece – the seven–year personal income tax plan – and the lump sum refund approach to near term tax relief may also have dampened responses. The planned reductions in tax will not impact family finances until beyond the next tax year (including the refunds). Notably the 'pre' and 'post' Budget movements in the components of the main Index show the key driver of the lift over the survey week was a significant improvement in expectations for the economy over the next 12 months (up 9.4% between pre and post samples) rather than family finances (up only 0.3%).

"This result indicates that respondents expect tax cuts to be positive for the economy overall but have limited significance for their own financial position.

"As discussed, the component detail shows that deteriorating assessments of current finances have more than offset any Budget boost to expectations. The 'finances vs a year ago' sub-index dropped 6.5% to just 83.0 – its lowest level since September last year and 7.3% below its long run average.

"Consumers continue to face significant headwinds from weak income growth. Other concerns would be reports of falling house prices and rising petrol prices. The average pump price has increased to around $1.45/litre up over 11c (over 8%) in the last two months.

"Other components of the Index showed much smaller variations. The sub-index tracking views on 'finances, next 12mths' rose 0.5% but remains relatively soft after a sharp 5.8% fall last month. The 'time to buy a major item' sub-index rose 0.2% to 121.2. The 'economic outlook, next five years' sub-index declined 1.4% to 98.1, but remains 7pts above its long run average read.

"While family finances may still be under pressure, consumers are becoming more confident about labour market conditions. The Westpac Melbourne Institute Unemployment Expectations Index, which can be viewed as a measure of consumers' sense of job security, dropped 4.5% to 120.0 in May, a seven year low (recall that lower reads mean fewer consumers expect unemployment to rise in the year ahead).

"Consumer views around housing have deteriorated further. The 'time to buy a dwelling' index fell 2.8% to 101.1 – a six month low and well below the long run average read of 120 but still 10% above the most recent trough in mid-2017. Buyer sentiment remains notably weaker in Sydney (91).

"The Westpac Melbourne Institute Index of House Price Expectations dipped 0.5% to 129.4, and is now down 13.6% from its recent peak in February last year. It continues to hold slightly above its long run average of 127.5. Expectations remain notably weaker in NSW, with a state index reading of 120.6.

"The Reserve Bank Board next meets on June 5. The minutes of the May Board meeting which were released on May 15 indicate that the Board feels no urgency to move on rates. Indeed the Board implies that there should be no 'embarrassment' in holding rates steady in a world where rates are being increased in other countries as it has become a "source of stability and confidence".

We expect that the conditions required to justify an interest rate increase are a long way off. Westpac continues to expect that the cash rate will remain on hold for the remainder of 2018 and 2019", 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 7 May to 12 May 2018. The data have been weighted to reflect Australia's population distribution. 