Media release

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Political change further boosts consumer sentiment; Christmas spending outlook at a seven year high

The Westpac Melbourne Institute Index of Consumer Sentiment rose by 3.9% in November from 97.8 in October to 101.7 in November.

Westpac's Chief Economist, Bill Evans, commented, "This is a cracking result. Apart from the brief surge we saw following last May's Budget this is the highest print for the Index since January 2014. The Index is now 8.3% higher than in September, immediately preceding the change of leadership in the government.

"It marks only the third month out of the last twenty one that optimists have outnumbered pessimists".

"The increase also comes despite the banks' decisions to raise mortgage rates for both owner occupiers and investors. It is surprising that such events did not have a negative impact on confidence. It appears that such is the boost to confidence from the recent political events that the impact of the interest rate increases was comfortably contained Most remarkably, the confidence of respondents who hold a mortgage increased by 4.1% – a slightly larger increase than the rise in the overall Index.

"There is evidence to support this observation that the result is the net effect of two strong opposing forces. The components of the index that measure respondents' assessments of their own finances were down, on average, by 5.7% whereas the components of the index that measure respondents' expectations for the overall economy increased by an average of 15.0%.

"The assessments of personal finances were presumably linked to the interest rate increases whereas the outlook for the economy was most likely boosted by confidence in the new leadership.

"Following a spectacular 13.7% fall in October the Westpac Melbourne Institute Index of Unemployment Expectations rose by 3.3% in November. Recall that lower readings indicate fewer consumers expect unemployment to rise in the year ahead. The Index remains 10.9% below its September level and continues to signal a much less pessimistic attitude towards the labour market than we have seen for a number of years.

"As discussed there were some significant conflicting movements amongst the components of the Index. The sub-index tracking assessments of 'family finances compared to a year ago' fell 2.2% and the sub-index tracking expectations for 'family finances over the next 12 months' slumped 9.1%. Those falls were probably in direct response to the increase in mortgage rates.

"On the other hand the sub-index tracking expectations for 'economic conditions over the next 12 months' increased 5.8% while that tracking expectations for 'economic conditions over the next five years' soared 24.2% to its highest level since September 2013. It is likely

that a boost in confidence towards the economic credentials of the new leadership team played an important hand here.

“In an encouraging sign for retailers, the sub-index tracking views on ‘time to buy a major household item’ lifted 4.8% although it is still 2.2% below its level this time last year.

“Another encouraging sign for the Christmas spending outlook comes with our special question: “Do you expect to spend more; less; or about the same on Christmas gifts compared to last year”. Since we started this question, seven years ago, the average proportion proclaiming ‘more’ has been 12.5%. Today’s survey scored 16.9% whereas ‘less’ registered 29.6% compared to the average of 34.7%. Consumers in NSW were particularly upbeat with more planning to increase than cut Christmas spending compared to a year ago.

“In fact, this survey shows the most positive mix of Christmas spending plans since we began running this special question in 2009 – a very encouraging signal in the lead in to the holiday period.

“Prospects for the housing market remained soft in this survey. The ‘time to buy a dwelling’ index rose slightly in November but the 1.4% gain still leaves the index down 12.5% over the last year and 29% below its most recent peak in 2013. Weakness persists in NSW; Queensland softened markedly; while Victoria held up well. Possibly in response to recent price falls there was a marked boost in confidence in Western Australia.

“There was another sharp fall in house price expectations. The Westpac-Melbourne Institute House Price Expectations Index fell 7.9% to be down 18.7% over the year. The

biggest falls this month were in NSW and Queensland with price expectations in Victoria remaining remarkably robust.

"The Reserve Bank board next meets on December 1. Following its November meeting the Bank has adopted a 'medium' easing bias with the low inflation environment affording scope to ease if that is deemed necessary.

"However, the Bank currently expects growth in 2016 of 3.0% (above trend) building to 3.5% in 2017. The positive results from this survey will only bolster these confident growth expectations. There is little chance of a rate cut in December.

"The real issue is whether the Bank will eventually act to cut rates next year – as confidently expected by the market. It is our current view that the growth dynamics of the Australian economy will remain sufficiently supportive through 2016 to ensure steady rates. The lift in spending expectations and confidence around the employment outlook from the survey point in that direction", 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 2 November to 8 November 2015. 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.