Media release

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Sentiment declines on financial pressures, economic concerns

The Westpac Melbourne Institute Index of Consumer Sentiment fell 1.8% to 96.2 in June from 98.0 in May.

Westpac's Senior Economist, Matthew Hassan commented, "The index is now back in firmly pessimistic territory with the June reading the weakest since the RBA's 2016 rate cuts. Although confidence is not overly weak it has shown a clear downtrend since mid-2016.

"The component detail shows increased pressure on family finances and renewed concerns about the economic outlook as the main factors driving the June's fall. The 'family finances compared to a year ago' sub-index fell 1.5%. Latest official figures highlight continued weakness in household incomes, which have barely outpaced inflation over the last four quarters. Recent increases in mortgage interest rates and electricity costs have likely added to pressures. Despite this, consumers' forward view for their own finances is relatively positive, the 'family finances, next 12 months' sub-index rising 3.1% to 102.8 – a reading above the 100 mark indicating optimists outnumber pessimists.

Consumers were also reasonably positive on 'time to buy a major household item' this sub-index rising 1.7% to 117.1.

"Confidence around the wider economy fell sharply in June, the 'economic conditions, next 12 months' sub-index down 4.8% and the 'economic conditions, next 5 years' sub-index down 8.3%.

"The disappointing March quarter GDP update clearly had a hand in the weak result. Ahead of the release, many commentators feared the economy may have contracted in the quarter. While the final result showed a 0.3% gain, this was soft by historical standards with annual growth easing to 1.7%, the weakest pace since the GFC.

"The June survey included additional questions on news recall that adds further insight to the latest softening in sentiment. The highest recall was again around news on 'economic conditions' (29.2%); and 'budget and taxation' (25.5%). In both cases the news in June was viewed as more unfavourable than in March. The next highest recall was for news on 'interest rates' (16.6%) with assessments showing a sharp turnaround – whereas in March consumers viewed this news as only slightly negative, the June reading was the most unfavourable since June 2008.

"Consumers remain uneasy about job security. The Westpac Melbourne Institute Unemployment Expectations Index rose 3.5% from 135.5 to 140.3 (recall that lower reads mean fewer consumers expect unemployment to rise over the next year). Despite the deterioration, unemployment expectations have still shown a clear improvement – the average index read over 2015 and 2016 was 144.

“Housing-related sentiment remained weak in June. The Westpac Melbourne Institute ‘Time to buy a dwelling’ index recorded a small 1% rise but this was following a sharp fall in May. At 90.9, the index remains near seven year lows.

“Meanwhile consumer’s house price expectations have continued to decline. The Westpac Melbourne Institute House Price Expectations Index fell 3.4% extending the on the 8.7% drop in May. Despite the sharp slide, the index remains in positive territory and comfortably above its long run average.

“Responses to additional questions on the ‘wisest place for savings’ continued to show more risk averse responses. Around two out of every three consumers favour ‘safe’ options – bank deposits, superannuation or paying down debt – over ‘riskier’ ones such as real estate or shares. The proportion specifically nominating ‘pay down debt’ remained elevated at 24%. The proportion favouring real estate dropping rose to 13.3% but was coming from a record low 11.6% read in March.

“The Reserve Bank Board next meets on July 4. Policy is firmly on hold as the Bank assesses developments in housing and labour markets. This survey shows conditions remain lacklustre across the consumer sector, suggesting demand will remain sluggish near term. For policymakers, the main risks still surround the potential feedback from weak household spending to employment and investment. For now, the picture around labour market conditions still looks more encouraging. We continue to expect the Bank to leave rates unchanged over the rest of 2017 and throughout 2018."

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Further information:

Matthew Hassan	Viet Nguyen
Senior Economist	Melbourne Institute
Westpac Banking Corporation	
Ph: (61-2) 8254 2100	Ph: (61-3) 90353621

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 June to 10 June 2017. 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.