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Media release

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Consumer Sentiment stuck at 'slightly optimistic' levels

The Westpac Melbourne Institute Index of Consumer Sentiment rose 0.3% to 102.1 in June from 101.8 in May.

Westpac Senior Economist, Matthew Hassan, commented, "The consumer mood has shown a clear improvement in 2018, the first half of the year marking the best run of sentiment reads since 2014. That said, the Index has not built on the gains seen at the start of the year and remains well below the levels typically associated with a robust consumer. While there has been a clear lift in confidence around the economy, this has had a muted impact on views around family finances, which remain downbeat.

"The June survey detail suggests the sentiment mix may be starting to shift with a better read on family finances, albeit offset by a less upbeat assessment of the economy.

"The 'finances vs a year ago' sub-index rose 4.5%, recovering most of last month's surprisingly sharp 6.5% fall. The sub-index tracking expectations for 'finances, next 12 months' also rose 2.8% after a 0.5% gain in May that was disappointing given a well-received Federal Budget that included personal tax cuts. We suspect this month's gains are coming from a clearer assessment of Budget measures announced last month.

“However, even with the June lift, both ‘family finances’ sub-indexes remain a touch below the highs seen a few months ago and below their longer run averages. That points to ongoing pressures on household budgets from factors including continued slow growth in wages and, more recently, declining house prices and rising petrol prices (average pump prices are up over 20c a litre since mid-March).

“Consumers are a little less optimistic about the economy. The ‘economic outlook, next 12 months’ sub-index fell 2.8%, retracing most of last month’s 3.4% rise, and the ‘economic outlook, next 5yrs’ sub-index declined 3.1%. Despite the declines, both sub-indexes remain comfortably above long run average levels. The softer June read is a little surprising given that official figures released during the survey week showed the economy posted a solid March quarter, GDP rising 1% and annual growth lifting to 3.1%. Escalating global trade tensions may again be undermining confidence in the economy.

“Consumers views on unemployment also point to a softer tone to labour market conditions. The Westpac Melbourne Institute Unemployment Expectations Index rose 5.7% to 126.9, a sharp deterioration following a strong, sustained improvement over the last year (recall that higher reads mean more consumers expect unemployment to rise in the year ahead). The Index, which can be viewed as a measure of consumers’ sense of job security, has still improved significantly since this time last year with the June update 2.5% better than the long run average read. However, the jump this month confirms the softer tone coming out of the labour market since the start of the year.

“The broader news backdrop has improved significantly since March. Responses to additional questions on news recall show a marked turnaround on three months ago. The Federal Budget made a big splash with ‘Budget and tax’ news having the highest recall rate (29%) and the most favourable assessment since 2009. Other topics with recall were:

'economic conditions' (21%); interest rates (17%) and employment (14%). The news on all of these topics, and indeed across every major topic surveyed, was viewed as markedly more favourable than in March.

"Consumer views around housing had another mixed month with a solid improvement in buyer sentiment but price expectations pared back sharply. Indeed, the mix and the state detail suggests the market has some 'automatic stabiliser' effects whereby price declines lead to improved reads on 'time to buy'.

"The 'time to buy a dwelling' index rose 4.5% to 105.7 in June, marking the second highest monthly read since September 2016. While the index is still well below long run averages it continues to show a clear improvement from its 2017 low. Buyer sentiment showed a particularly strong 7% gain in NSW suggesting the price correction may be starting to ease affordability pressures in some areas.

"The Westpac Melbourne Institute Index of House Price Expectations fell sharply by 7.3% to 119.9, the lowest read since early 2016. Expectations showed particularly sharp pull-backs in NSW (–13.8% to 103.9), and Vic (–11.8% to 123.9). Some of this may be a seasonal softening heading into the winter period.

"Responses to additional questions on the 'wisest place for savings' continue to indicate high levels of risk aversion. Nearly 65% of consumers still favour safe options – deposits, superannuation or paying down debt – with only 12% nominating real estate and 9% nominating shares, the mix largely unchanged since March. More consumers continue to favour 'pay down debt' (22%) than real estate and shares combined.

"The Reserve Bank Board next meets on July 3. The Bank will again leave rates unchanged. While the improved tone to sentiment compared to last year is welcome, the mix is still not pointing to a sustained lift in consumer demand with views on family finances still downbeat and a clear 'risk averse' tone to other survey responses. That will be mildly disappointing for the RBA with their forecast for above trend growth this year and next resting in part on a lift in consumption growth.

Westpac continues to expect the cash rate will remain on hold throughout 2018 and 2019", Mr Hassan 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 4 June to 10 June 2018. The data have been weighted to reflect Australia's population distribution.