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Media release

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Consumer Sentiment Index back below 100

The Westpac Melbourne Institute Index of Consumer Sentiment declined 1.7% to 99.7 in November from 101.4 in October.

Westpac's Chief Economist, Bill Evans, commented "Last month's return to slight optimism has proven to be short-lived. While the Index is still up 4.4% from its August low, the November decline takes it back below 100, indicating pessimists again outnumber optimists. In fact last month was the only month over the last year when optimists have been in the ascendency.

"Constant media coverage around the prospect of rising interest rates may be unnerving households. The confidence of respondents who hold a mortgage fell by 4.5% compared to a more modest fall of 1.4% for those owners who are mortgage free and a 0.5% increase for tenants.

"Overall, the consumer mood has been downbeat in 2017 with clear pressures on family finances and an uncertain economic outlook weighing on sentiment.

"Economic uncertainty again featured in November, likely affected by the 'citizenship saga' impacting Federal Parliament. The 'economic conditions, next 12 months' sub-index fell 6.2%, unwinding most of last month's strong rise. The 'economic outlook over the next five years' sub-index declined 2.2%.

“Consumers’ views on family finances improved somewhat.

“The ‘finances vs a year ago’ sub-index rose 1.3% but at 84.8 remains at weak levels, well below the long run average reading of 90. The sub-index tracking expectations for ‘finances over the next 12 months’ rose 2.9% to 105.4, still below its long run average of 107.8.

“The ‘time to buy a major household item’ sub-index fell 3.3%, retracing almost all of last month’s gain. The sub-index remains well below its long run average suggesting that the sluggish spending evident through most of 2017 is likely to extend into year-end.

“The November survey offers a critical read in the lead-in to the Christmas spending period. Aside from the downbeat headline, responses to our annual question on Christmas spending plans also point to moderate activity. Just under a third of Australians expect to spend less on gifts this year than last, with 54% expecting to spend about the same and just 11% spending more – the lowest proportion since we began running this question in 2009. Overall the net balance of ‘more minus less’ is marginally more negative than last year, suggesting we’re in for a repeat of last year’s lacklustre Christmas spend. The state responses show consumers in Victoria and NSW are a little less inclined to restrain spending while those in SA and WA are tilting more towards cut backs.

“The Westpac Melbourne Institute Unemployment Expectations Index rose 1.2% to 130.8 in November, but continues to show a marked improvement on a year ago, down 6.7% (recall that lower reads mean more consumers expect unemployment to fall in the year ahead).

“The ‘time to buy a dwelling’ index rose 3.4% to 98.3, a nine month high but still well below the long run average of 120. The sub-group detail showed improved readings in NSW (from a very weak starting point), Queensland and amongst the key first home buyer age groups. This was partially offset by a deterioration in buyer sentiment in Victoria and across older age groups.

“With house prices easing in the Sydney market but still increasing in Melbourne this contrast between Sydney and Melbourne may be reflecting improved relative affordability.

“Consumer expectations for house prices softened in the month. The Westpac Melbourne Institute Index of House Price Expectations declined 3.6% to 135.6, the lowest level since June. The Index for NSW was up marginally in the month but is still down by 19.2% since the beginning of the year compared to only 5.0% for Victoria and 9.4% for the national Index.

“The Reserve Bank Board next meets on December 5. The Board is certain to keep rates on hold for the 15th consecutive meeting.

“The Reserve Bank released its November Statement on Monetary Policy on November 10. There were some significant changes in the Bank’s forecasts in this document. The Bank has lowered its forecast for underlying inflation in 2018 to 1.75%, below the bottom of the 2–3% target zone. This compares with the forecast in the August Statement of 1.5–2.5% (a mid-point at the bottom of the target zone). Furthermore, it is now forecasting underlying inflation at 2% in 2019 – down from 2–3% in August.

“It continues to forecast growth of 3.25% in 2018 – 0.5% above potential growth of 2.75% although it has lowered its forecast for growth in 2019 from 3–4% to 3.25%.

“Our interpretation of these forecast changes is that whereas in August the Bank expected to be raising rates some time in 2018 that prospect is now much less clear. In fact, if their lower inflation forecasts prove correct the Bank is unlikely to move in 2018.

"Markets and most commentators continue to confidently expect a higher cash rate in 2018.

"We are maintaining our long held view that rates will remain on hold through 2018", 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 6 November to 12 November 2017. The data have been weighted to reflect Australia's population distribution.