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Media release

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Consumer sentiment reacts to mortgage rates and politics

The Westpac Melbourne Institute Index of Consumer Sentiment declined 3% to 100.5 in September from 103.6 in August.

Westpac's Chief Economist, Bill Evans, commented, "This is the weakest sentiment read since November last year. While the Index is still in positive territory, it is now only just above the 100 level. The detail suggests that confidence has been affected by increases in mortgage interest rates; political instability and household budget pressures. We expect there has been a partial offset from the strong growth figures which were announced during the survey period last week. It is also encouraging that respondents have boosted their confidence in the labour market with a significant improvement coming in the mining states.

"All index components recorded declines in September. The 'economic outlook, next 5yrs' sub-index registered the biggest move, a 5.8% fall. Interestingly, the mildest fall was a 0.1% dip in the 'economic outlook, next 12 months' sub-index, suggesting the stronger than expected June quarter national accounts may have provided some support to near term expectations. Despite back to back monthly falls, both 'economic outlook' sub-indexes remain above year ago levels and comfortably above long run averages.

“Consumer views around family finances remain notably weaker. The ‘finances vs a year ago’ and ‘finances, next 12 months’ sub-indexes both recorded 3.6% falls in September. Three of the four major banks recently lifted their standard variable mortgage rates by 14-16bps with two of these moves announced during the survey week. The decline in sentiment around family finances is broadly comparable to responses seen following mortgage rate rises in the past. Consumer sentiment amongst households with a mortgage recorded a more pronounced 5.6% decline.

“Aside from the rise in mortgage interest rates, household budgets are also coming under persistent pressure from slow growth in wages, declining house prices in Sydney and Melbourne and the rising cost of petrol. Average pump prices rose above $1.50/litre this month to a 5½ year high. Financial markets have also been unsettled. The ASX fell 2.1% over the last month and the AUD extended its slide to be down over 4.5¢ vs the USD since June.

“Consumers remain relatively downbeat on spending. The ‘time to buy a major household item’ sub-index declined a further 2.2% in September to the lowest level since November last year.

“The brightest spot in the September survey was around consumer views on the labour market which showed a significant improvement, reversing all of the deterioration seen between May and August. The Westpac Melbourne Institute Unemployment Expectations Index fell 6.6% in September to be 9.6% lower than a year ago (recall that lower reads mean more consumers expect unemployment to fall in the year ahead). The improvement comes despite slower employment gains seen since the start of the year. Notably, the detail showed improved unemployment expectations across all the major states. Particularly big moves in Queensland (–10.9%) and Western Australia (–22.1%) suggest that improving conditions in the mining sector are starting to provide a lift in these states. A more evenly spread growth profile is starting to emerge across Australia.

“The last month has seen a significant increase in political instability culminating in a change of Prime Minister on August 24. The impact of the leadership change was apparent in diverging sentiment responses across voter groups. Whereas those identifying as Coalition voters reported a 6.4% fall, ALP voters recorded a 4% rise. Those without a stated preference reported a 6.6% drop in sentiment.

“Responses to additional questions on news recall emphasise many of the themes identified above. The topics with the highest recall were “interest rates” (24%, the highest in 2½ years); ‘economic conditions’ (20%); ‘Budget and tax’ (20%); and ‘politics’ (14%, a four year high). In each case the news in September was viewed as more unfavourable than in June.

“Consumer views around housing deteriorated in September. The ‘time to buy a dwelling’ index fell 4.8%, giving back most of last month’s 5.5% gain. The move undoubtedly reflects the rise in mortgage rates. At 103.5, the index is still in slightly positive territory but well below the long run average of 120. The detail showed uneven moves by state with a sharper pull-back in Queensland (–15.7%) but a firming in NSW (+5.5%) where markets have seen a more significant price correction over the last year.

“Consumers continue to pare back their expectations for house prices. The Westpac Melbourne Institute Index of House Price Expectations fell 3.0% to 109.4 in September, the weakest read since December 2015. The index is now down 23% on a year ago. Expectations have shown a particularly sharp fall in NSW, down 12.8% in the month and over 40.6% on September last year. At 85.8 the NSW index is firmly below 100, indicating those expecting price declines outnumber those expecting prices to rise. Consumer house price expectations are less negative elsewhere. Other state indexes are still comfortably above 100 and are particularly strong in Queensland (131) and South Australia (130.7).

“Responses to additional questions on the ‘wisest place for savings’ continue to indicate high levels of risk aversion. Nearly 64% of consumers still favour safe options – bank deposits, superannuation or paying down debt. Only 12% nominated real estate and 8% nominated shares, the mix largely unchanged from June and March. About the same proportion of consumers favour ‘pay down debt’ (20%) as real estate and shares combined.

“The Reserve Bank Board next meets on October 2. Westpac reaffirms its view that rates will remain on hold through the remainder of 2018 and throughout both 2019 and 2020”, 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 August to 11 August 2018. The data have been weighted to reflect Australia's population distribution.