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Media release

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Consumer Sentiment holds the line

The Westpac Melbourne Institute Index of Consumer Sentiment rose 0.1% to 104.4 in December from 104.3 in November.

Westpac's Chief Economist, Bill Evans, commented, "The consumer mood continues to hold at cautiously optimistic levels. With another reading above 100, December now marks a full year in which optimists have outnumbered pessimists, a turnaround on 2017 which saw ten out of twelve sentiment updates below the 100 line. That said, the margin is still fairly small with some of the detail in the December update on the soft side. The component indexes show more downbeat views on family finances and longer term economic prospects offset by a solid rise in buyer sentiment.

"Given the negative atmospherics around falling house prices in Sydney and Melbourne; falling share markets (the ASX200 now down around 13% from its recent peak in late August and 4.5% since the last survey); ongoing concerns around global trade wars; and political uncertainty, it is reasonable to question why consumer sentiment has held up so well.

"There are several significant positives supporting consumers. Firstly, interest rates remain low and fears about rising rates must be subsiding. To this point, the confidence of respondents who hold a mortgage improved by 2.9% in the month to be up by 8.8% over the year. The labour market also remains a source of comfort with the unemployment rate widely reported at a six and a half year low. Finally, a sharp drop in petrol prices has likely provided some additional support over the last month with the average pump price down around 20% since the November survey.

“Without a doubt our housing-related indexes show considerable unrest, particularly in NSW and Victoria, while our survey also shows that risk aversion continues to rise.

“The ‘finances vs a year ago’ sub-index recorded a 1.9% decline, reversing about half of last month’s surprisingly firm 4.9% gain. The ‘finances, next 12 months’ sub-index also posted a small 0.6% decline following a solid 3.2% gain in November. In both cases, the state detail shows more pronounced monthly declines in NSW and Victoria partially offset by strong gains in the mining states. While some of the weakening in the eastern states may be a sign that the housing downturn is starting to undermine consumer views on their finances, these state measures are still comfortably above their earlier 2018 lows.

“Consumers were a touch less optimistic around the economy. The ‘economic outlook, next 12mths’ sub-index rose slightly by 0.1% but the ‘economic outlook, next 5yrs’ sub-index retraced 1.5% – giving up some of the 9.7% jump in November. Both sub-indexes remain well above long run averages. The mix suggests relatively little impact from the disappointing September quarter national accounts update.

“The ‘time to buy a major household item’ sub-index rose 3.7%, more than reversing a 3.5% decline in November. While this marks a promising lift in buyer sentiment leading into the Christmas retail peak the lead-in is still less upbeat than a year ago, the sub-index down 1.9% on December 2017. Recall that our survey in November signalled that the

Christmas selling season would somewhat underperform the disappointing results of last year.

“The Westpac Melbourne Institute Unemployment Expectations Index rose 0.5% in December (recall that higher reads mean more consumers expect unemployment to rise in the year ahead). While this still marks a 5.2% improvement on a year ago, expectations are flattening, suggesting labour market momentum is slowing.

“Responses to additional questions on news recall emphasise some of the key themes. News on ‘economic conditions’ had the highest cut through with nearly a third of consumers noting news on this topic (up from 20% in September) and the news viewed much more unfavourably. The next highest recall was for news around ‘interest rates’ (21%); ‘Budget and tax’ (20%); and ‘international conditions’ (14%). Assessments of the news on ‘interest rates’ showed some improvement compared to September while ‘Budget and tax’ news was viewed about the same as three months ago but much less negatively than in December last year. Not surprisingly, there was a sharp deterioration in assessments of news around international conditions.

“The ‘time to buy a dwelling’ index fell 3.9%, giving back just over a third of last month’s surprisingly strong 11.8% surge. There was a notable fall back in the NSW index (down 12%) which posted a very sharp 26% jump last month, while the Victorian index increased by 5.6%. Despite choppy month to month reads, the state detail continues to show some improvement in buyer sentiment in NSW and Victoria where price declines are seeing some improvement in affordability.

“The Westpac Melbourne Institute Index of House Price Expectations rose 1% to 100 in December from 99 in November. Expectations have steadied over the last three months.

While the national read means the proportion expecting price rises matches the proportion expecting declines, the state detail shows price pessimists still dominate in NSW and Victoria (with state index reads of 81 and 84 respectively).

“Responses to additional questions on the ‘wisest place for savings’ suggest risk aversion has intensified. Nearly two thirds of consumers now favour safe options – bank deposits, superannuation or paying down debt. Only 10% favour real estate, a new record low going back to 1974. Low points in the two previous cycles when house prices were falling were around 14%. The extreme low stands is in contrast to the more supportive reads on ‘time to buy a dwelling’ index. The savings view is likely being dominated by investor sentiment whereas ‘time to buy’ captures the sentiment of owner occupiers.

“Underscoring the risk averse and uncertain tone: only 6% of consumers nominate shares – the lowest proportion for six years – while over 7% of consumers simply said ‘don’t know’ – the highest share since 1974.

“The Reserve Bank Board next meets on February 5. The recent GDP report for the September quarter, which showed the Australian economy grew by only 0.3% in the quarter, is likely to prompt the RBA to lower its growth forecasts for 2018 and 2019.

“The atmospherics of a central bank forecasting strongly above trend growth is likely to change to one talking more about near trend growth. We even heard the Deputy Governor in a speech following the report refer to the Bank’s capacity to further cut rates if necessary.

"Accordingly markets, which had been pricing in a higher cash rate by end 2019 and a further increase in 2020 have largely moved towards Westpac's rate outlook that the cash rate will be unchanged over the course of both 2019 and 2020", Mr Evans commented.

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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 3 December to 7 December 2018. 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.