

Media release

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Consumer Sentiment drops on international and financial market concerns

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 3.5% in January from 100.8 in December to 97.3 in January.

Westpac's Chief Economist Bill Evans commented, "The Index is at its lowest level since September 2015 but remains 4.3% above its level of a year ago.

"With limited domestic news during the holiday season consumers appear to have been mainly impacted by the spate of negative news on the international front and the spill over effect on financial markets.

"Over the two weeks to the end of the survey the oil price has fallen by 20%.

"Furthermore, over the same period, the Australian share market has fallen by 7.6% and the US market by 8.0%.

"News on China's volatile share market may also be affecting households with the Chinese market down by around 15% since the beginning of the year.

“Partly reflecting those forces, we have also seen a fall in the Australian dollar from USD 0.73 to USD 0.69.

“Not surprisingly these concerns have weighed most heavily on how respondents assess their own financial position. The component of the Index tracking views on ‘family finances vs a year ago’ dropped by 9.4% to be at its lowest level since July last year. The component tracking expectations for ‘family finances over the next 12 months’ fell 2.3%.

“Among the other components: ‘economic conditions over the next 12 months’ fell by 5.0%; ‘economic conditions over the next 5 years’ improved by a modest 0.3%; and ‘time to buy a major household item’ fell by 1.7%.

“Both the Index and its components are seasonally adjusted to take account of the regular positive impact on confidence of the holiday season.

“Other Indexes in the survey are not seasonally adjusted so results for these Indexes in January need to be treated with some caution.

“The Westpac Melbourne Institute Index of Unemployment Expectations increased by 0.7% from 141.7 to 142.7. This implies a slightly more concerned feeling amongst respondents about the outlook for the unemployment rate. However, the Index is 5.3% lower than in January 2015 indicating that there has been a material improvement in respondents’ attitudes to the labour market over the year.

“There was a sharp 13.9% increase in the ‘time to buy a dwelling’ index from 99.2 in December to 113.0 in January. That is the highest reading for this Index since May last year. The Index is now only 1.4% below its level for January 2015. The sharp increase in the Index in January will reflect some seasonality but the move is so large that we can only conclude that this print may be signalling some improving optimism in the housing market. Most of the improvement in the national Index was driven by a sharp improvement in New South Wales which has regularly posted the weakest readings amongst the states in recent times. For this reason it is best to be cautious but nevertheless encouraged by this result.

“This improvement in the outlook for housing was also indicated in the Westpac Melbourne Institute Index of House Price Expectations. The Index increased by 21.1% in January from 103.7 in December to 125.8 in January. The Index is still down by 10.2% over the year but this read represents the best result since September 2015.

“The Reserve Bank Board next meets on February 2. Despite markets confidently expecting that the Reserve bank would cut rates by February Westpac has remained firmly of the view that the Bank will remain on hold throughout the second half of 2015 and the whole of 2016. We retain that view despite some concerns from this survey that consumers may slow their spending in response to this current global uncertainty.

“The Australian dollar has adjusted further providing the important ongoing boost to Australia’s competitiveness which is now assisting the economy’s adjustment as the mining sector slows. Furthermore the survey has provided an early signal that the

pessimism which has dominated the housing market in the second half of 2015 may be easing”, 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 11 January to 16 January 2016. 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.