

Media release

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Consumer Sentiment rises strongly; jobs confidence rises sharply

The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 4.2% in October from 93.9 in September to 97.8 in October.

Westpac's Chief Economist, Bill Evans, commented, "This result is a little short of the increase we would have expected given the strong boost the government received in the polls following recent leadership and ministerial changes.

"The rise in the Index has failed to offset the loss we saw last month with the Index 1.6% below its August level and still below the key 100 level indicating pessimists still outnumber optimists. The Index has now been below 100 for 18 of the last 20 readings.

"Given that politics is probably the most significant factor in the result it is noteworthy that the Index is 11.6% below the level (110.6) it reached following the election of the Abbott Government in September 2013.

"Other factors that may have contributed to the boost in sentiment this month include recent recoveries in the Australian dollar and the sharemarket, complemented by a steady improvement in the labour market.

“The AUD rose just over 2¢ against the USD between the September and October surveys, and the ASX 200 was up 3.4%.

“The unemployment rate was recently reported to have fallen to 6.2% and jobs growth has been much stronger than anticipated over the past year.

“In that regard, there has been a very significant and unexpected boost to respondents’ assessment of the state of the labour market which looks to be an even more significant result than the increase in the overall Index.

“The Westpac Melbourne Institute Index of Unemployment Expectations fell by 16.3% from 156.3 to 134.9. Because the Index measures respondents’ outlook for the unemployment rate, a fall indicates an improvement in expectations around the labour market. This Index is now at its lowest level since November 2011 indicating a very significant improvement in how respondents assess the labour market including job prospects for those out of work and job security for those in work. This comes after a recent business survey which also showed a significant boost in businesses’ hiring intentions.

“Four of the five components of the Index increased in October. Both components measuring views on family finances increased: the sub-index on ‘family finances vs a year ago’ increased by 1.3% and the sub-index on ‘family finances over the next 12 months’ rose by 3.5%.

“Expectations around the economy were more mixed: the sub-index on ‘economic conditions over the next 12 months’ rose by 20% whereas the sub-index on ‘economic conditions over the five years’ fell by 7.9%.

“That caution about the longer term outlook contrasts with the 7.1% increase in the five year economic outlook which occurred following the September 2013 election.

“The sub index tracking assessments of ‘time to buy a major household item’ increased by an encouraging 6.3%.

“Confidence around housing remains weak. The ‘time to buy a dwelling’ index slipped from 101.7 to 101.3 (down by 0.4%) to be down by 11% over the year. This Index peaked in September 2013 at 145.3 and is down over 30% from that peak.

“There was a sharp fall in confidence around the outlook for house prices. The Westpac Melbourne Institute Index of House Price Expectations fell by 3.9% to 124.2. It is now down by 14.9% over the last three months and 25% from its peak in December 2013.

“The Reserve Bank Board next meets on November 3. It will be encouraged by the signals from this survey and the official data that employment conditions and confidence around employment prospects appear to be finally improving. However it will probably be a little disappointed that confidence remains below the 100 level where pessimists outnumber optimists.

“Westpac has been firmly of the view that rates will remain on hold for the remainder of 2015 and 2016. Improving conditions in the labour market are very important from this perspective. However, changes in financial conditions will also warrant scrutiny in the period ahead”, 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 5 October to 11 October 2015. 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.