Media release

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Budget fails to boost confidence

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 1.1% in May from 99.0 in April to 98.0 in May.

Westpac's Chief Economist, Bill Evans commented, "The survey was conducted over the period May 8 to 13. Hence two of the survey days were 'pre Budget' and four were 'post Budget'.

"However there was virtually no impact from the Budget. The Index for the 'pre Budget' period printed 98.1 and for the 'post Budget' period it printed 97.9.

"The small overall move this month masked some significant developments amongst other Indexes in the survey. Respondents' confidence in housing and the outlook for house prices deteriorated sharply while the assessment of the Budget around the outlook for family finances was decidedly weaker.

“In this survey we ask a special question: “What impact do you expect the Budget to have on your family finances over the next 12 months?” The survey showed 7% indicating ‘improve’ and 33% indicating ‘worsen’. The remainder indicated either ‘stay the same’ (50%) or ‘don’t know’ (10%). In fairness, the responses to this particular question appear to carry a consistent negative bias. In the previous three Budgets ‘improve’ registered: 10% (2016); 9% (2015) and 1% (2014). The average ‘improve’ score for the four previous Budgets was 7.3%.

“The disappointment for the Government will be that despite its high expectations and its focus on spending (particularly infrastructure; education and health) consumer sentiment remains ‘stuck’ below the significant 100 level indicating that pessimists continue to outnumber optimists.

“We can see an interesting story by analysing the ‘pre’ and ‘post’ movements in the components of the Index. The two components representing consumers’ assessments of their finances both deteriorated in the ‘post’ sample. The ‘family finances compared to a year ago’ sub-index fell from 83.4 to 81.4 after registering 85.2 in April. The ‘family finances over the next 12 months’ sub-index tumbled from 104.8 (‘pre’) to 92.1 (‘post’) after registering 106.2 in April.

“The components assessing the economic outlook improved over the month although deteriorated modestly post Budget. The ‘economic conditions, next 12 months’ sub-index fell from 96.5 (‘pre’) to 94.9 (‘post’) from 91.7 in April. The ‘economic conditions, next 5 years’ sub-index was steady over the Budget period (97 ‘pre’ and 96 ‘post’) but improved overall from the April print of 92.7.

“There was a surprising boost in spending intentions: the ‘time to buy a major household item’ sub-index jumped from 108.6 (‘pre’) to 124.9 (‘post’) following a print of 119.3 in April. Apart from some tax relief for businesses – the extension of the tax deductibility for SMEs purchasing items up to $20,000 for another year and extending it to a larger group of businesses there does not appear to be any other obvious aspect of the Budget that would have boosted this optimism.

“There was an encouraging improvement in the outlook for jobs. The Westpac Melbourne Institute Unemployment Expectations Index fell 3.4% from 140.3 in April to 135.5 (recall that lower reads mean fewer consumers expect unemployment to rise over the next year). This supports a pattern of gradual improvement in this Index. The Index registered its lowest print in the last 18 months and is down slightly on its level of a year ago. Over the last year this Index has averaged 138.8 compared to an average of 145 in the previous year.

“Confidence in housing was jolted in May. The Westpac Melbourne Institute ‘Time to buy a dwelling” index fell by 6.5% in May from 96.3 in April to 90.0 in May. Apart from one reading in 2010 this is the lowest print for this Index since 2008 when house prices were falling and the Reserve Bank was raising the cash rate. It is reasonable to explain this move around tighter conditions for bank lending; rate increases for investors supplemented by the spectrum of initiatives in the Budget to discourage housing investors.

“Consistent with that response sentiment towards house prices also took a substantial hit. The Westpac Melbourne Institute House Price Expectations Index fell by 8.7% with big falls concentrated in NSW; Queensland; and WA.

“The Reserve Bank Board next meets on June 6. Policy is firmly on hold as the Bank assesses developments particularly in the housing and labour markets. This survey is indicating that some heat may be coming out of the housing market as macro prudential policies and some Budget initiatives may be discouraging housing investors.

“Evidence around the labour market in this survey is somewhat more encouraging. However, with a flat response to the Budget, respondents remaining concerned about their finances and no signs of any improvement in wages prospects, the risks of weak household spending feeding back onto employment and investment will remain a concern for policy makers.

"Despite market pricing pointing firmly towards rate hikes we continue to expect that the Reserve Bank will keep rates on hold over the course of the remainder of 2017 and 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 8 May to 13 May 2017. The data have been weighted to reflect Australia's population distribution.