

Media release

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Consumer Sentiment consolidates after rate cut driven bounce

The Westpac Melbourne Institute Index of Consumer Sentiment dipped 1% in June to 102.2 from 103.2 in May.

Westpac Senior Economist, Matthew Hassan, commented, “Coming after an 8.5% surge in May, the small decline in June mostly represents a consolidation at improved levels. Last month’s surprise rate cut from the RBA was the main catalyst behind May’s rally and although confidence has slipped back a touch in June this is a fairly common pattern following an interest rate driven bounce. At 102.2 the Index is still in slightly ‘positive’ territory overall – recall that readings above 100 indicate optimists outnumber pessimists.

“Responses to additional questions on ‘news recall’ point to a somewhat calmer backdrop compared to March although the majority of consumers still assessed news as being unfavourable. The highest recall levels were for news on ‘economic conditions’ (27.8%) and ‘Budget & tax’ (25%) but both were notably lower than in previous quarters. That is despite the May Budget and campaigning in the lead up to next month’s Federal election. News on ‘international conditions’ was also much less prominent with the 10% level of recall on this item the lowest read in over a decade. Unsurprisingly, there was higher recall

for news on 'interest rates' (16.5%) with the news on this topic viewed less negatively than in the previous four quarters.

"Responses to additional questions on the 'wisest place for savings' showed a slightly less risk averse tone but attitudes still appear to be more conservative than seen throughout 2015. The proportion of consumers nominating 'pay down debt' fell from 24.4% in March to 20% in June. This compares to an average reading of 17% in 2015. Consumers continue to heavily favour 'safe' options as well, with the proportion nominating bank deposits rising from 27.4% in March to 29.5% in June. That contrasts with continued lower readings for the proportion nominating real estate (15.8% in June vs 14.7% in March and average 25.4% in 2015) and shares (8.0% in June vs 7.6% in March and an average of 8.9% in 2015).

"Consumers' assessments of labour market conditions also consolidated on recent improvements. The Westpac Melbourne Institute Index of Unemployment Expectations declined 0.1% from 136.3 in May to 136.2 in June. This Index measures respondents' assessments of the outlook for the unemployment rate so lower reads indicate improved confidence in the employment outlook. The Index has fallen 7.5% over the last three months and is now down 10.9% on levels a year ago but is still 4.9% above its long run average – assessments have shown a steady improvement but are still more negative than usual.

"The component detail behind the headline sentiment index showed firmer reads on 'family finances' but a softening in expectations for the economy. Most notably, the sub-index tracking respondents' assessments of 'family finances compared to a year ago' – a

component the RBA has emphasised as an indicator of demand – increased 4.3%. The sub-indexes tracking the one and five year outlook declined 3.8% and 5.2% respectively, with falls following particularly strong gains in May, of 13.2% and 14.8% respectively. The ‘time to buy a major household item’ sub-index was unchanged.

“Consumer views on housing also consolidated in June. The ‘time to buy a dwelling’ index declined 2.7% but the retracement followed a strong 12.1% surge in May. Price expectations firmed in the month with the Westpac Melbourne Institute Index of House Price Expectations up 3.6% to the highest level since September 2015. Both buyer sentiment and price expectations are still well below the readings seen a year ago but have shown a clear firming from the weak levels in early 2016, the RBA’s May rate cut clearly a supporting factor.

“The Reserve Bank Board next meets on July 5. A move at that meeting is highly unlikely. The key considerations for the Bank are around the outlook for inflation. On its current forecasts the RBA does not expect inflation to return to the bottom of the band until 2017, and that is on the assumption of a further rate cut given that the Bank’s forecasts are based on ‘market pricing’ for rates. The most important and immediate information about whether the RBA’s May assessment is correct will come from the June quarter inflation report which prints on July 27, after the July Board meeting but ahead of the August 2 meeting. It is our assessment that the information in this report will confirm to the Board that another cut is indeed necessary”, Mr Hassan said.

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Further information:

**Institutional
Bank**

Matthew Hassan	Viet Nguyen
Senior Economist	Melbourne Institute
Westpac Banking Corporation	
Ph: (61-2) 8254 2100	Ph: (61-3) 90353621

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 June to 10 June 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.