

Media release

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Consumer Sentiment consolidates

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 0.8% in December from 101.7 in November to 100.8 in December.

Westpac's Chief Economist, Bill Evans, commented, "The Index has held on to most of the gains from last month's surprise 4% lift and is 10.7% above its levels this time last year. There have only been two months since January 2014 with higher Index readings.

"In the December survey we ask respondents about the news items that most attracted their attention and whether these were viewed as favourable or unfavourable. This can give us a guide as to what factors may be driving movements in the Index.

"The most recalled news was around 'economic conditions' (48% of respondents); 'Budget and taxation' (42.8%); 'interest rates' (24.3%); and 'international conditions' (20%).

"The most important change was around 'Budget and taxation' with the proportion of respondents recalling news on this topic almost doubling since September and the news assessed as considerably less favourable. Presumably speculation around tax changes, particularly with respect to the GST, is beginning to unnerve respondents.

“Despite no official rate cuts from the Reserve Bank and mortgage rate increases from the banks before the November survey respondents viewed news on interest rates more favourably than in September. That comfort with the current level of interest rates is also emphasised by the 8% jump in the confidence of those respondents who hold a mortgage.

“News on ‘international conditions’ was less prominent than in September although a vast majority of respondents continue to view international events as unfavourable.

“Views around economic conditions were largely unchanged from September.

“Other topics that gained less attention were: ‘politics’ (more favourable); the Australian dollar (much more favourable); and employment (much more favourable).

“There is an important message from the movements in the components of the Index. Last month we saw a surge in sub-indexes measuring the economic outlook whereas respondents’ assessments of their finances deteriorated. We attributed the economic boost to confidence in the Government’s new leadership team, and the concerns around finances to the banks’ mortgage interest rate increases in October.

“In this month’s survey assessments around finances have almost fully recovered their October levels but expectations for the economic outlook have been pared back, albeit with these components still well above their October levels.

“The sub-index tracking views on ‘family finances vs a year ago’ increased 5.5% while the ‘family finances over the next 12 months’ sub-index jumped 5.8%. The ‘economic

conditions, next 12 months' sub-index fell 4.2% and the 'economic conditions, next 5 years' dropped 11.3% (the latter is still 10.2% above its October level).

"The component tracking assessments of 'time to buy a major household item' lifted 0.8% to be 11.8% above its level a year ago.

"All components have increased over the last year with gains ranging from 8% to 13.4%.

"Two months ago we saw a 13.7% fall in the Westpac Melbourne Institute Index of Unemployment Expectations (recall that a lower print indicates more confidence in the labour market). We have since seen the Index increase somewhat including a 1.7% lift this month. However the Index is still 9.4% below its September level and continues to point to an improving outlook for the labour market.

"Confidence around the housing market continues to deteriorate. The index tracking assessments of 'time to buy a dwelling' fell a further 3.4% in December to 99.5. The Index is now 5.3% below its level a year ago and 31.5% below its most recent high in September 2013.

"The news was worse on house prices. The Westpac Melbourne Institute Index of House Price Expectations fell 9.4% in December to be 19.7% down on a year ago and 38% off its high back in 2013.

"Housing-related sentiment continues to show sharper falls and considerably weaker reads in NSW and Victoria where the individual state 'time to buy a dwelling' indexes are at 78.0

and 83.4 respectively. House price expectations have also fallen more heavily in these two states although households in WA remain the most pessimistic on prices.

“In December we also ask respondents to nominate the ‘wisest place for their savings’.
Responses show that the proportion favouring bank deposits continues to drift down, with 26.2% nominating this option compared to 27.0% in September and 37% a year ago.
Preferences for equities are lifting somewhat with 9.9%, nominating equities compared to 7.0% a year ago. While the proportion nominating ‘real estate’ is up on a year ago there was a sharp fall between September (28.2%) and December (23.4%).

“The Reserve Bank Board next meets on February 2. We expect the Board will decide to hold rates steady pending further evidence on the labour market; commodity prices; the Australian dollar; and inflation. Westpac has long held the view that the RBA will be on hold throughout 2016 with the risk to any move being clearly to the downside”, 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 30 November to 6 December 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.