

Media release

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Solid Lift in Consumer Sentiment

The Westpac Melbourne Institute Index of Consumer Sentiment rose 2.8% to 104.3 in November from 101.5 in October.

Westpac's Chief Economist, Bill Evans, commented, "Consumer sentiment has continued to recover from the mild setback in the September quarter. The headline index remains 1.6% below its July peak but is now more comfortably above the 100 line, indicating optimists outnumber pessimists. Indeed, while confidence may still not be particularly strong, there has been a clear improvement over 2018. November marks the twelfth successive month that optimists have outnumbered pessimists contrasting with the previous twelve months when pessimism held sway for 11 out of 12 reads.

"This is a surprisingly strong result. In particular, respondents are much more positive about their own finances. That is despite consistent reports around weakness in the housing markets in the major capitals and the sharp falls in the equity market through October. Low interest rates and their prospect of being sustained for some time are clearly supporting confidence. For example, the confidence of those respondents with a mortgage increased by 4.3%. However, on a more cautionary note, measures of spending intentions have been weaker.

"Four of the five index components recorded gains in November.



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“Assessments of family finances showed a promising rise, the ‘finances vs a year ago’ sub-index was up 4.9% to its highest level since early 2016. The ‘finances, next 12 months’ sub-index rose by 3.2%. Consumers in NSW showed particularly strong gains, a somewhat surprising result given the continued correction in Sydney house prices.

“Consumer expectations for the economy showed an exceptional rise in longer term expectations. This was supplemented by a positive for shorter term views as well. The ‘economic outlook, next 12 months’ sub-index posted a 1.7% rise, and, at 104.3, remains well above its long run average of 90.7. The ‘economic outlook, next 5years’ sub-index jumped 9.7% in November to reverse most of the sharp drop seen over the previous three months.

“The wider consumer mood is more buoyant but attitudes towards spending are more downbeat. The ‘time to buy a major household item’ sub-index fell 3.5% in November, to an 18 month low.

“Responses to our annual question on Christmas spending plans also point to a subdued near term outlook for demand. A third of Australians expect to spend less on gifts than they did last year, with 56% expecting to spend about the same and just 10% expecting to spend more. The net balance of ‘more minus less’ is marginally more negative than last year, and the weakest read since 2014. Despite the higher reads in overall confidence this question suggests that we are unlikely to see any improvement over last year’s lacklustre Xmas spend.

“Labour market expectations improved a touch in November. The Westpac Melbourne Institute Unemployment Expectations Index declined 1.9% (recall that lower reads mean more consumers expect unemployment to fall in the year ahead). The index continues to



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show a clear 7.9% improvement on a year ago, led by Victoria where the state index has fallen 16.5%.

“Consumer views around housing are very interesting. Buyer sentiment improved sharply but price expectations fell to new lows.

“The ‘time to buy a dwelling’ index posted a strong 11.8% surge to be up 16.7% on a year ago to the highest level since March 2015. Consumers in NSW showed a particularly strong gain with a 26% jump taking the state index to a five year high and suggesting the decline in Sydney house prices is starting to generate some interest from buyers. Because the NSW Index has been so low this stunning improvement only restores the Index to just below its long term average. The other state, Victoria, where prices have recently shown significant weakness improved only modestly with “Time to Buy” up only 3.3%.

“Consumer expectations for house prices posted another fall in November. The Westpac Melbourne Institute Index of House Price Expectations fell 2.3% to 99 – on a par with the weakest read we have ever seen on this index, when it was first compiled back in May 2009. The state detail continues to show particularly weak reads in NSW and Victoria, both hitting new lows in November with Victoria’s index down 25% over the last three months alone. The house price corrections underway in Sydney and Melbourne now look to be firmly embedded in consumer expectations.

“The Reserve Bank Board next meets on December 4. The Reserve Bank recently released its November Statement on Monetary Policy. In the Statement it noted that “the Board does not see a strong case to adjust the cash rate in the near term”. That confirms that no move can be expected at that December meeting.



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“On the other hand the Bank raised its growth forecast for 2018 and maintained its above trend growth forecast for 2019. Furthermore, it lowered its unemployment forecast and slightly lifted its inflation forecast.

“These moves could be interpreted that the Bank is more confident to raise rates during 2019. It is Westpac’s view that growth in 2019 will slow to 2.7% particularly under the weight of a weakening housing market; a contraction in construction; and a slowdown in jobs growth.

Today’s Consumer Sentiment Report portrays a more confident consumer than we had expected although this confidence is not boosting spending intentions.

Westpac continues to expect that the Reserve Bank will keep the cash rate on hold in 2018, 2019 and 2020”, 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 November to 9 November 2018. 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.