

Media release

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Consumer sentiment stabilises

The Westpac Melbourne Institute Index of Consumer Sentiment rose by 0.1% in March from 99.6 in February to 99.7 in March.

Westpac's Chief Economist, Bill Evans commented "The Index appears to be stabilising around that point where optimists and pessimists are around equal in number. The encouraging 2.3% lift we saw in the Index in February has been sustained in March.

"In this survey we ask respondents for information on the news items that have affected their views and whether the news has been well received. This gives us an assessment of what may be on the minds of respondents.

"As we saw in December the two dominant news categories were 'economic conditions' (27.9% of respondents recalled news on this topic) and 'budget and taxation' (25.2%). On both counts respondents saw the news as less unfavourable than had been the case in December. In particular 'economic conditions' showed a marked improvement.

“It is also interesting to note that overall awareness of ‘budget and taxation’ news is down significantly from a year ago when 37.1% of respondents recalled news on this topic. That difference can be largely attributed to a fall from 17.6% to 3.7% in those respondents recalling news on taxation.

“Other well-recalled news items covered: employment (15.7%, up from 11.1% in December); interest rates (15.6%); and international conditions (12.0%). Despite no move by the Reserve Bank over the intervening period news on interest rates was much more positively received while the pessimism around international conditions eased. Respondents, who regularly assess the news on employment as unfavourable, were somewhat more concerned in this survey.

“The Westpac Melbourne Institute Index of Unemployment Expectations fell by 3.1% in March pushing the Index back to around the levels in December. Recall that lower readings on the index mean more consumers expect unemployment to fall in the year ahead. Our take on the index is that respondents’ assessments of the unemployment outlook have stabilised around a level which is consistent with spare capacity consistently available in the labour market with little prospect of that spare capacity actually clearing.

“There was one quite significant movement within the components of the Index: the ‘Family finances compared to a year ago’ sub-index fell by 5.3%. This component is now at its lowest level since June 2014 when respondents were shaken by the May Budget

announcement. However on that occasion the overall Index was much lower than we see today, indicating that, currently respondents are particularly concerned about their own finances. News from the December quarter national accounts that wage incomes had fallen by 0.5% is indicative of the source of these concerns. That news, of course, complemented other recent reports that wages growth had fallen to a record low of 1.9%.

“Other components of the Index are less newsworthy. The ‘family finances, next 12 months’ sub-index fell 0.2%, the ‘economic conditions, next 12 months’ sub-index rose 1.6%; the ‘economic conditions, next 5 years’ sub-index rose 3.9% and the ‘time to buy a major household item’ sub-index dipped 0.1%.

“Housing sentiment lifted in March. The ‘time to buy a dwelling’ index rose by 7.0%.

However that increase only recovered the 7.8% fall in February. The recovery was mainly attributed to a sharp turnaround in Victoria where the state government has recently announced a range of new measures including abolishing stamp duty for first home buyers. Despite this, the national index still seems to be drifting lower having fallen by 4.9% over the last year. That compares with the 13% fall we saw over the previous year. The Index is still around 25% higher than the deep lows we saw in the 2007/08 period.

“House price expectations continue to rise. The Westpac Melbourne Institute Index of House Price Expectations rose by 2.2% to be 26.7% above the level of a year ago.

“Every quarter we also ask respondents for their preference for their savings. This can provide us with any evidence that consumers are becoming more or less risk averse. There was a notable shift in March with the proportion nominating ‘pay down debt’ jumping from 20.5% in December to 25.7%, and the proportion favouring real estate dropping to just 11.6%, a record low since we first started asking this question back in 1974. The moves indicate a clear increase in risk aversion.

“The Reserve Bank Board next meets on April 4. The Bank will decide to keep rates on hold. Even though income growth and inflation are too low and there remains ample spare capacity in the labour market (unemployment rate of 5.7% compared to a ‘full employment’ rate of around 5%) the Bank has no flexibility to cut rates. The evidence is clear that the rate cuts the Bank embraced last year in the face of low inflation fuelled house prices and household leverage. The Bank is concerned about possible excesses in the housing market.

“Markets accept the view that rates will remain on hold in 2017 but are pricing in at least two hikes from the Bank next year. We expect that growth in the economy will slow in 2018 as the residential construction boom unwinds. As we saw in today’s report households are concerned about their finances, largely because of weak income growth. This concern is unlikely to fade in 2018 appropriately constraining household spending and discouraging investment. That is no environment for higher rates. Accordingly, we expect rates will remain on hold throughout 2018 as well”, 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 6 March to 10 March 2017. 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.