

Media release

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Consumer sentiment posts modest lift

The Westpac Melbourne Institute Index of Consumer Sentiment rose 2.3% in February, from 97.4 in January to 99.6.

Westpac's Senior Economist, Matthew Hassan, commented, "Despite another modest lift this month consumer sentiment remains below its October-November levels. At just below 100 the Index is in slightly pessimistic territory with consumers reporting family finances under pressure and a mixed outlook for the economy."

"All components of the headline Index improved this month. The sub-index tracking views on 'family finances vs a year ago' posted the biggest gain, up 4% but coming from a weak starting point after a 10.6% slide over the previous three months. The sub-index tracking expectations for 'finances over the next 12 months' has been steadier in recent months, posting a small 1.1% gain in February. On a combined basis, consumer views on family finances are still down 6.5% on a year ago and are 5.4% below their long run average.

Consumers are more positive on the economy. Near term expectations posted a solid gain, the 'economic conditions, next 12 months' sub-index up 2.8%, recovering all of the ground lost following the surprisingly weak September quarter national accounts. Recent commentary from the RBA may have helped ease concerns with the Bank re-affirming its positive growth outlook. Consumers are less convinced about medium term prospects though, the 'economic conditions, next 5 years' sub-index posting a milder 1.6% gain to be only slightly above its long run average read.

"Consumers are a little more inclined towards making major purchases. The 'time to buy major household item' sub-index rose 2.2%, building on a 4.9% bounce in January to be back near November levels. The rebound is a hopeful sign that the soft patch in retail sales late last year has not extended into 2017.

"While sentiment improved in February, the month saw renewed labour market concerns. The Westpac Melbourne Institute Unemployment Expectations Index rose 3.1%, the higher read meaning more consumers expect unemployment to rise in the year ahead.

"Notably, consumers are also wary about the outlook for interest rates. In our special question around the outlook for mortgage rates, 60% of respondents expect rates to be higher in 12 months; 35% expect rates to be steady; and just 5% expect further rate cuts. That compares to just 37% expecting higher rates when the question was last run back in August.

“Concerns about potential interest rate increases may have impacted sentiment towards housing. The ‘time to buy a dwelling’ index fell sharply, declining 7.8%. The index is now at its lowest level since May 2010 when the RBA was near the end of its last tightening cycle. Victoria, Queensland and WA all recorded 10% plus declines in the month although the NSW Index remains the weakest across the states. The fall points to a shaky start to the new year for housing markets.

“Most consumers still expect house prices to move higher. The Westpac Melbourne Institute Index of House Price Expectations rose 0.1%, holding on to last month’s 11% bounce. Over 64% of consumers expect price gains over the next 12 months compared to just 39% this time last year. In NSW and Victoria, where market conditions and price gains have been strongest, 70–75% of consumers expect prices to rise further in 2017 with one in ten expecting double digit price growth.

“The Reserve Bank Board next meets on March 7. We expect the Board will again decide to keep the official cash rate on hold. Recent commentary clearly sets out the Bank’s current policy approach. That is, to hold rates steady in anticipation of a gradual lift in growth and inflation while imbalances in the housing market remain contained. We expect this thinking will be sustained throughout 2017, being supported by a rising terms of trade, a peaking construction cycle and a gradually falling unemployment rate with rates remaining on hold.

We expect a similar policy stance in 2018 despite clear preferences in the market for the beginning of a tightening cycle. Indeed, Westpac's view of a slowdown to below trend growth pitches the risks to the 'on hold' call in 2018 to the downside, in clear contrast to current market views", Mr Hassan 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 February to 11 February 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.