Media release

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Consumer sentiment falls on economic concerns

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 3.9% in December from 101.3 in November to 97.3 in December.

Westpac's Chief Economist, Bill Evans, commented," Over the last six months the Index has held in narrow range between 99.1 and 102.4. Over that period the Index has generally held above 100 indicating that optimists have slightly outnumbered pessimists (100 being the cut- off point).

"However, today's result has jolted that air of stability and confidence. The Index is now at its lowest level since April this year when it printed 95.1. Note that in May, in response to the Reserve Bank's decision to cut the overnight cash rate and a better than feared Federal Budget, the Index surged by 8.5% to 103.2 and has remained in that tight range until today.

"At 97.3 there is now a clear majority of pessimists over optimists with the Index down 3.5% relative to a year ago.

"It is likely that the key reasons behind this fall in Confidence are related to renewed concerns around the economy; interest rates; and the labour market.

"Note that this fall in Confidence has occurred despite around a 9% lift in the Australian share market.

"Every three months we have a suite of questions in the survey asking respondents about their recall and assessment of news items. These provide us with some indication of the issues that may have been responsible for shaping respondents' attitudes. For this survey the most recalled news items were around Australian economic conditions with: 26.9% of respondents recalling news on this topic compared to 21.9% in September. The second most recalled news topic was 'budget and taxation' although at 25.2%, recall on this was down a little from September's 26.0% and down significantly from a year ago (42.8%) when Australians were somewhat unnerved by discussions around potential tax changes.

"Other news items which registered with respondents were around international conditions; employment; politics and interest rates.

"Since September respondents reported significantly less favourable assessments of Australian economic conditions; employment; and interest rates. Assessments of budget and taxation; international conditions and politics were about the same.

“Supporting these concerns would have been the announcement that the Australian economy contracted in the September quarter although because the media, quite appropriately in my view, chose not to raise any ‘recession’ scares the impact on confidence seems to have been relatively modest.

“News that banks have been raising some interest rates, partly in response to a sharp increase in wholesale rates following the US election result, appears to have unnerved respondents around the interest rate outlook.

“Official data on the labour market continues to disappoint with employment growth remaining very soft.

“Surprisingly, there was no further increase in the Westpac Melbourne Institute Unemployment Expectations Index. The Index fell by 0.8% from 140.2 to 139.1 indicating marginally lower concerns around the unemployment outlook but certainly continuing to depict a relatively soggy labour market.

“All components of the Index fell in December. The ‘family finances vs a year ago’ sub-index fell by 2.0% while ‘family finances, next 12 months’ fell by 1.8%.

“The economic outlook deteriorated: the ‘economic conditions, next 12 months’ sub-index down 5.2% and the ‘economic conditions, next 5 years’ sub-index down 2.5%.

"Of most concern at this time of year was a disturbing 7.0% fall in assessments of 'time to buy a major household item'. This component is down by 6.3% on the comparable print from a year ago.

"Views on the housing market were mixed. 'Time to buy a dwelling' index lifted by 2.6% to be up 3.7% on a year ago. This improvement mainly reflects a sharp recovery in confidence in the Sydney which has seen large sentiment swings over the last two years. Overall, however, the average reading for Sydney over the last six months is 45% higher than over the second half of 2015.

"The Westpac Melbourne Institute Index of House Price Expectations fell by 4.5% in December. However, the general vibe around house price expectations remains solid. The average over the last six months is 8.5% higher than the comparable period last year.

"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. In that regard there was minimal change from September. The proportion favouring bank deposits fell from 29.9% to 29.5%; while preferences for real estate also fell somewhat from 15.4% to 14.3%.

“However, over the year, there has been a marked increase in risk aversion. A year ago over a third of consumers favoured either real estate or shares as the ‘wisest place for savings’. That compared to 44% favouring either bank deposits or ‘pay down debt’. The same figures from this month’s survey are 23% and 50% respectively – a clear increase in risk aversion.

“The Reserve Bank Board next meets on February 7. We expect the Board will decide to keep rates on hold. While the 0.5% contraction in the Australian economy in the September quarter would have come as a surprise and that result has undoubtedly impacted Consumer Sentiment I expect the Board will be more confident about the economic outlook for 2017.

“A boost to the terms of trade from higher commodity prices; sustained strong conditions in the major housing markets; still positive forward indicators for jobs; a stronger global outlook; a boost to resources exports; and a significantly reduced drag from mining investment point to the Australian economy’s growth rate lifting from the current 1.8% to 3.0% in 2017, precluding any need for further rate cuts.

“Furthermore, the benefits of a limited boost to spending from a lower cash rate are likely to be more than offset by ongoing risks to financial stability from lower rates”, Mr Evans said.

Westpac Institutional Bank

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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 December to 10 December 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.