

18 January 2012

Modest recovery in Consumer Sentiment

• The Westpac Melbourne Institute Index of Consumer Sentiment increased by 2.4% in January to 97.1 from 94.7 in December.

This is a somewhat disappointing result. Despite the Reserve Bank having cut the overnight cash rate by a total of 50bps with the major banks passing on the full cut to variable rate mortgage borrowers the Index is still slightly below the level which it registered before the first rate cut. In effect, at this stage, the rate cuts have been unable to raise consumer confidence.

That does not mean that the cuts have necessarily had no effect. Given ongoing financial turmoil in Europe; a flat housing market and further weakness in the labour market sentiment is likely to have been lower without the rate cuts.

This read represents the sixth out of the last seven months where the Index has indicated that pessimists outnumber optimists. The average read over those last seven months is 96.0 only 1.1% below the current level and 8.8% below the average for the previous seven months.

On a number of occasions we have highlighted our particular interest in those components of the Index which measure how respondents feel about their own finances. Economic behaviour is likely to be more heavily influenced by how individuals feel about their own financial position than the overall state of the economy. In this survey the results around those issues were disappointing. The sub-index tracking responses on “family finances compared to a year ago” fell by 2.5% while the sub-index tracking responses on “family finances over the next 12 months” rose by only 0.7%. Nevertheless a positive aspect of the recent results is that expectations on family finances are now registering their highest level since February 2011.

Consumer sentiment – January 2012

	avg*	Jan 2010	Jan 2011	Dec 2012	Jan 2012	%mth	%yr
Consumer Sentiment Index	101.8	120.1	104.6	94.7	97.1	2.4	-7.2
Family finances vs a year ago	90.2	95.8	85.8	79.9	77.9	-2.5	-9.2
Family finances next 12mths	108.9	122.2	104.7	100.3	101.0	0.7	-3.5
Economic conditions next 12mths	90.2	127.0	97.6	82.5	90.3	9.5	-7.4
Economic conditions next 5yrs	90.7	119.0	95.8	88.3	90.4	2.4	-5.6
Time to buy a major household item	127.9	136.7	139.3	122.8	125.7	2.4	-9.8
Time to buy a dwelling	122.3	127.2	114.9	123.4	131.5	6.5	14.4
Time to buy a vehicle	121.5	139.6	137.9	119.3	127.8	7.1	-7.4

Source: Westpac-Melbourne Institute

*average over full history of the survey, all figures except 'dwelling' and 'vehicle' indexes are seasonally adjusted

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 9 January to 12 January 2012. 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.

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Consumer Sentiment



Reasons for the overall rise in the Index came from the sub-indexes tracking opinions on “economic conditions over the next 12 months” – up 9.5%; “economic conditions over the next 5 years” – up 2.4%; and “time to buy a major household item” – up 2.4%.

The Board of the Reserve Bank next meets on February 7. We expect the Board to cut the overnight cash rate by a further 0.25% completing three consecutive meetings when the overnight cash rate has been reduced. Even at 4% there is ample scope for the Board to go further given the benign outlook for inflation. Indeed, we expect a follow up move in May”,

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