200 Bulletin

14 November 2018

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.**

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.

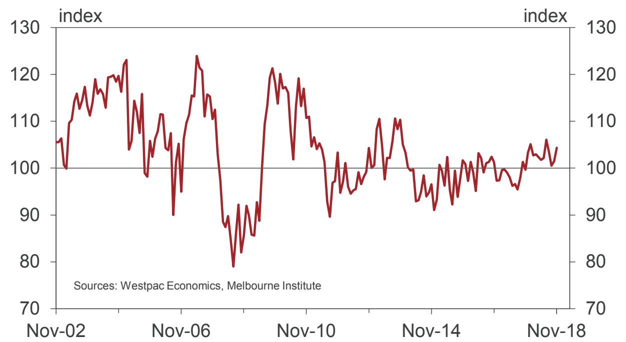
Assessments of family finances showed a promising rise, the 'finances vs a year ago' sub-index was up 4.9% to its highest level since early 2016. The 'finances, next 12 months' sub-index rose by 3.2%. Consumers in NSW showed particularly strong gains, a somewhat surprising result given the continued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

Consumer Sentiment Index



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 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.

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 be 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.

Bill Evans, Chief Economist

Consumer Sentiment – November 2018

	avg*	Nov 2016	Nov 2017	Oct 2018	Nov 2018	%mth	%yr
Consumer Sentiment Index	101.5	101.3	99.7	101.5	104.3	2.8	4.7
Family finances vs a year ago	89.3	88.0	84.8	87.4	91.7	4.9	8.2
Family finances next 12mths	107.5	104.3	105.4	102.8	106.1	3.2	0.7
Economic conditions next 12mths	90.7	96.6	96.2	102.5	104.3	1.7	8.4
Economic conditions next 5yrs	91.0	94.0	93.2	94.9	104.1	9.7	11.7
Time to buy a major household item	127.2	123.4	118.8	119.8	115.6	–3.5	–2.7
Time to buy a dwelling	119.7	100.3	98.3	102.6	114.8	11.8	16.7
Unemployment Expectations Index	130.1	140.2	130.8	122.8	120.4	–1.9	–7.9
House Price Expectations Index	127.4	141.1	135.6	101.4	99.0	–2.3	–27.0

Source: Westpac–Melbourne Institute

*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

Survey interviews are conducted by OZINFO Research on the telephone using trained interviewers. Telephone numbers and the house-hold respondent are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was coducted in the week from 5 November to 9 November 2018. The data have been weighted to reflect Australia's population distribution.

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Disclaimer continued

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

i. Chinese Wall/Cell arrangements;
ii. physical separation of various Business/Support Units;
iii. Strict and well defined wall/cell crossing procedures;
iv. a “need to know” policy;
v. documented and well defined procedures for dealing with conflicts of interest;
vi. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (‘WCM’), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.