Bulletin

13 March 2019

Consumer sentiment falls on weak growth figures

- **The Westpac-Melbourne Institute Index of Consumer Sentiment fell 4.8% to 98.8 in March from 103.8 in February**

The consumer mood deteriorated in March, sentiment falling to its lowest level since September 2017. With the index moving back below 100, pessimists again outnumber optimists. That contrasts with the 'cautiously optimistic' reads that prevailed throughout 2018 although at 98.8 the index is only 'cautiously pessimistic' and still above the average level recorded in 2017."

The main development over the last month was the December quarter national accounts update that showed Australia's economic growth slowing to a 1% annual pace over the second half of 2018, widely described as a 'per capita recession' in media coverage.

The survey detail indicates that this had a significant negative impact on confidence.

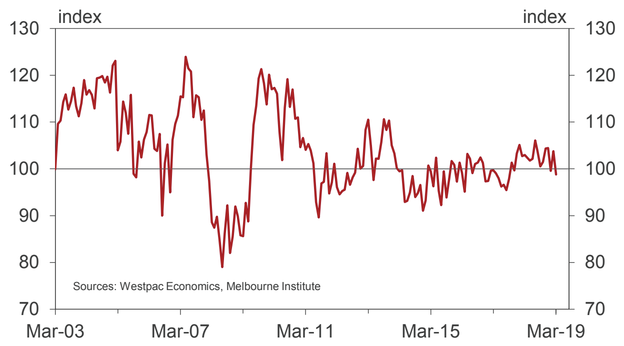
Responses over the survey week show a marked drop-off after the national accounts update. Those collected before the March 6 release had a combined index read of 100.7. Those collected after the release had a combined read of 92.7, an 8% fall.

Responses to additional questions on news recall also suggest the economic news had a major bearing on consumers. Over a third of respondents recalled news on 'economic conditions', the highest recall rate since March 2016, with the news assessed as very unfavourable. The next highest recall was for news around 'interest rates' (22%); 'Budget and tax' (22%); and 'international conditions' (14%), all of which was viewed as more unfavourable than in December. The less favourable assessment of interest rate news is despite a clear shift from the RBA, from a position that the next move on rates was more likely to be up than down to an 'evenly balanced' view.

Australia's housing market downturn – a key factor in the disappointing December quarter growth figures – also looks to have had a more direct impact on sentiment. Consumers in Sydney, which has seen the largest house price declines over the last 18 months, recorded a sharp 10% fall in sentiment. Those working as labourers or operators also recorded a particularly sharp 14% decline, likely reflecting the significant weakening in dwelling construction.

All index components recorded falls in March but the biggest shift was in consumers' near term expectations for the economy. The 'economic outlook, next 12 months' sub-index fell 6.9%, following a 7% gain in February and a 7.8% drop in January. The 'economic outlook, next 5 years' sub-index also fell 5.5%, with a similar choppy profile over the previous two months. With the December quarter national accounts likely clarifying what were previously somewhat mixed signals about the extent of Australia's growth slowdown, the March weakening in consumer expectations for the economy looks likely to be sustained.

Consumer Sentiment Index



Consumer views on family finances also weakened, the 'finances next 12 months' sub-index down 5.9% and the 'finances vs a year ago' sub-index down 5.6% in March. Both sub-indexes are well below their long run averages. We continue to monitor this sub-index closely for signs of 'wealth effect' drags weighing on readings in NSW and Victoria. So far the evidence is still not clear cut although the March month did show bigger declines in expectations for 'finances, next 12 months' across these states (NSW –11%; Victoria –9%) consistent with more pessimistic expectations for house prices.

Consumer attitudes towards major purchases have been steadier in recent months, the 'time to buy a major household item' sub-index down just 0.6% in March following small moves in January and February. That said, the sub-index remains well below average, consistent with a continuation of the weak consumer spending growth seen through the second half of 2018.

Job loss concerns rose sharply in March. The Westpac-Melbourne Institute Unemployment Expectations Index recorded an 8.9% jump, indicating more consumers expect unemployment to rise in the year ahead. At 130.6 the index is at an 18 month high after touching a seven year low in February. While the move takes the index back near its long run average of 130 rather than to outright weak levels, the jump points to a material deterioration from the strong labour market conditions that prevailed throughout 2018."

On housing, sentiment towards house purchase decisions continues to improve but price expectations were again marked down.

The 'time to buy a dwelling' index rose a further 3.5% to 116.6 in March, a four year high. The index has now risen 30% from its mid 2017 low remains below its long run average of 120. Improving affordability continues to see a lift in buyer sentiment in NSW and Victoria although there still looks to be some way to go on affordability before buyer sentiment returns to 'normal' levels.

The Westpac-Melbourne Institute Index of House Price Expectations declined a further 2.7% to 85.4 in March, marking a new record low since we began compiling this index in 2009 and a 44% cumulative decline from the peak in early 2017. Weakness remains more pronounced in NSW and Vic, with around half of consumers in these states expecting prices to be lower in a year's time.

Responses to additional questions on the 'wisest place for savings' suggest risk aversion has risen further. Over two thirds of consumers now favour safe options – bank deposits, superannuation or paying down debt. Only 9% favour real estate, a new record low going back to 1974, while only 8% nominate shares. The mix is more risk averse than at the height of the global financial crisis in 2008 and highlights the risk that a move by households to increase savings rates could further undermine consumer demand.

The Reserve Bank Board next meets on April 2. While Westpac expects the RBA to cut the cash rate by 50bps by the end of 2019 we do not expect the Bank to move rates at its April meeting. The weak December quarter national accounts will prompt a further downward revision to the RBA's growth forecasts. However, this is unlikely to shift its views on the labour market – an area of strength that the Bank has highlighted as key to its policy considerations – by enough to warrant a policy easing. As such, we expect the first 25bp rate cut from the RBA to come in August once the extent of spillovers from the housing downturn, on the labour market in particular, become more apparent, with a follow-up 25bp cut in November

Matthew Hassan, Senior Economist

Consumer Sentiment – March 2019

	avg*	Mar 2017	Mar 2018	Feb 2019	Mar 2019	%mth	%yr
Consumer Sentiment Index	101.3	99.7	103.0	103.8	98.8	-4.8	-4.0
Family finances vs a year ago	89.3	78.5	86.6	89.4	84.4	-5.6	-2.6
Family finances next 12mths	107.5	103.7	107.9	107.8	101.4	-5.9	-6.0
Economic conditions next 12mths	90.7	98.1	100.4	103.0	95.9	-6.9	-4.5
Economic conditions next 5yrs	91.1	95.3	96.7	100.2	94.6	-5.5	-2.1
Time to buy a major household item	127.1	122.9	123.2	118.6	117.9	-0.6	-4.3
Time to buy a dwelling	119.6	99.6	104.5	112.7	116.6	3.5	11.5
Unemployment Expectations Index	130.0	137.9	121.8	120.0	130.6	8.9	7.2
House Price Expectations Index	127.4	153.1	129.6	87.8	85.4	-2.7	-34.1

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 household 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 4 March to 8 March 2019. 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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