11 September 2019

Consumer Sentiment slips

- **The Westpac-Melbourne Institute Index of Consumer Sentiment declined by 1.7% to 98.2 in September from 100 in August.**

The consumer mood has lapsed back into slight negative territory again with continued pressure on family finances and concerns about the near term outlook weighing on sentiment.

The September survey included additional questions on the tax offset payments the Federal government began making with tax refunds from July 1. Just over 16% of consumers reported receiving a payment. We estimate that around 30% of households are likely to receive a meaningful rebate so this survey indicates that about half of eligible consumers have already received a payment.

Amongst those that had received a payment, 29% planned to spend it all, and a further 16% planned to spend over half. The remainder (53%) planned to spend less than half including around 25% who planned to save the full payment.

Responses to additional questions on news recall show rising concerns about the economy and the global backdrop. The highest recall for the month was news on 'economic conditions' (33%) and 'international conditions' (19.8%) – the latter hitting a four year high. These proportions are up significantly from a year ago (20.5% and 8.3% respectively). News on both was widely assessed as more unfavourable, with the proportion reporting 'unfavourable' doubling over the year. There was a comparable lift in the proportion reporting employment news as 'unfavourable' as well.

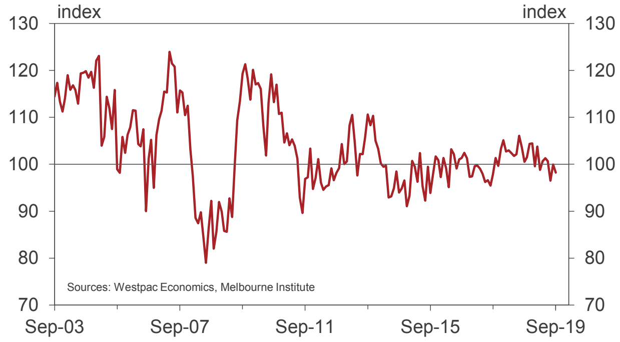
These concerns about the state of the economy; the international backdrop; and employment are seeing consumers become more cautious about their finances.

The sub-index tracking expectations for 'finances, next 12 months' declined 2.2% to be down 9.4% since June and at a four year low. The sub-group detail suggests a range of factors may be contributing including concerns around jobs, persistent weak wages growth and low returns on financial assets weighing on sentiment amongst those at or nearing retirement age.

Consumer assessments of current finances also deteriorated slightly. The 'finances vs a year ago' sub-index declined 2.5% to 84.3. While that is above the low of 80.2 registered back in April, it is still a weak read, below long run averages. It is particularly disappointing given the support that should be coming from the combined effect of policy – interest rate cuts and tax relief – and from stabilising housing markets.

A weaker near term outlook for the economy has also weighed on sentiment. The 'economy, next 12 months' sub-index is down 3.1% The disappointing June quarter national accounts update – released in the middle of the survey week – undoubtedly had an effect. The report showed annual growth slowing to just 1.4%yr, the weakest pace since the GFC. Despite this, expectations for the economy are still comfortably above their July low, when the RBA's back to back rate cuts appear to have badly rattled consumers.

Consumer Sentiment Index



Interestingly, consumers' longer term expectations for the economy have been both steadier and more positive. The 'economy, next 5 years' sub-index was the only component to post a rise this month, up 2.1% and up 6.7% since July to a level still comfortably above its long run average. That may be an indication that some of the difficulties currently facing the economy are expected to dissipate over time.

Consumer attitudes towards spending dipped in September. The 'time to buy a major household item' sub-index declined 2.8%, unwinding all of last month's modest gain and taking the sub-index well below its long run average again. Spending on discretionary and big ticket durable items has been particularly weak over the last year.

Consumers' job loss fears remained slightly elevated. The Westpac-Melbourne Institute Unemployment Expectations Index was essentially unchanged, holding at 133.5 in September, a touch above the long run average of 130 (recall that higher readings indicate that more consumers expect unemployment to rise in the year ahead). The Index remains about 10% above the levels prevailing late last year, a clear sign of cooling conditions in the labour market.

Housing-related sentiment recorded a more mixed month after the clear positive response to interest rate cuts seen in June-July-August.

The 'time to buy a dwelling' index declined 2.9%, reversing most of last month's gain. At 123.3, the index is still above its long run average of 120 and near a five year high. That said, the sizeable 7-8% declines in Sydney and Melbourne suggest the nascent recovery in prices in these markets may already be starting to dampen buyer enthusiasm.

In contrast, consumers' house price expectations have continued to firm. The Westpac-Melbourne Institute Index of House Price Expectations Index posted a further 3.9% in September to be up a spectacular 45.8% since May. All major states recorded a lift in price expectations this month. Expectations posted a particularly strong 6.7% gain in NSW.

Responses to additional questions on the 'wisest place for savings' show a slight easing in risk aversion although it remains very high by historical standards. Consumers still heavily favour 'safe options', 61% nominating deposits, superannuation or paying down debt as the best place for savings, compared to 64% in June. The proportion favouring real estate nudged up, but only slightly from 10% to 12% and the proportion favouring shares dipped slightly from 10% to 9%. Perhaps most tellingly, some 9% of consumers simply nominated 'don't know' – the highest reading on records going back to 1974.

The Reserve Bank Board next meets on October 1. Westpac expects the Board will decide to cut the cash rate by a further 0.25% from 1% to 0.75%.

In August the Reserve Bank released a revised set of forecasts which showed a downgraded outlook for the unemployment rate; a further extension to the time when the inflation rate is expected to move into the 2-3% band; and a downward revision to the outlook for wages growth. All of these forecasts were based on 'market pricing' for the interest rate path at the time which included one more rate cut in 2019 and a second move in early 2020.

Month to month timing of RBA moves is imprecise but with the case for lower rates quite clear and both US Federal Reserve and European Central Bank likely to be easing policy in the next week or so the next meeting in October seems a sensible time for the Reserve Bank to deliver the next rate cut.

Westpac expects a second cut in February 2020, which we believe will follow further cuts from the Federal Reserve by year's end.

Bill Evans, Chief Economist

Consumer Sentiment – September 2019

	avg*	Sep 2017	Sep 2018	Aug 2019	Sep 2019	%mth	%yr
Consumer Sentiment Index	101.5	97.9	100.5	100.0	98.2	-1.7	-2.3
Family finances vs a year ago	89.4	82.9	85.2	86.5	84.3	-2.5	-1.0
Family finances next 12mths	107.6	98.3	102.2	99.1	96.9	-2.2	-5.2
Economic conditions next 12mths	91.0	95.8	100.2	95.5	92.6	-3.1	-7.6
Economic conditions next 5yrs	91.3	93.9	95.2	95.7	97.8	2.1	2.7
Time to buy a major household item	127.3	118.5	119.7	123.0	119.6	-2.8	-0.1
Time to buy a dwelling	119.7	95.2	103.5	126.9	123.3	-2.9	19.1
Unemployment Expectations Index	130.0	133.6	120.7	133.3	133.6	0.2	10.6
House Price Expectations Index	125.5	141.9	109.4	125.4	130.3	3.9	19.1

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 conducted in the week from 2 September to 6 September 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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