

11 December 2019

Consumer Sentiment still falling

• **The Westpac-Melbourne Institute Index of Consumer Sentiment declined 1.9% to 95.1 in December from 97.0 in November.**

The Index has fallen 6.1% since the RBA started cutting the cash rate in June and has been below the 100 level, indicating pessimists outnumber optimists, throughout the second half of the year.

This poor performance of the Index is broadly consistent with the sharp deterioration we saw in consumer spending in the September quarter as reported in the national accounts and the early evidence of weak retail conditions for the start of the December quarter.

Responses to additional questions on news recall showed that the highest recall for the month was news on 'interest rates' (21.5%). Here the results were surprising. The RBA cut the cash on ten occasions between November 2011 and August 2016. During these periods consumers' assessments of 'interest rate' news showed a favourable/ unfavourable mix of around 50/50. The results are not always outright positive partly because depositors are likely to see rate cuts in a negative light. For this latest cycle of three cuts since June the favourable/ unfavourable balance has been around 30/70. This is further evidence that the rate cuts in this cycle have had a much less positive impact on consumers than in past cycles.

There was also high recall of news on 'economic conditions' (18.9%). News in this area was assessed as the most unfavourable in four years. Other topics with high recall included 'budget and taxation' (14.5%) and employment (13.8%), the news in both of these areas also assessed as relatively unfavourable.

All components of the Index recorded declines in December.

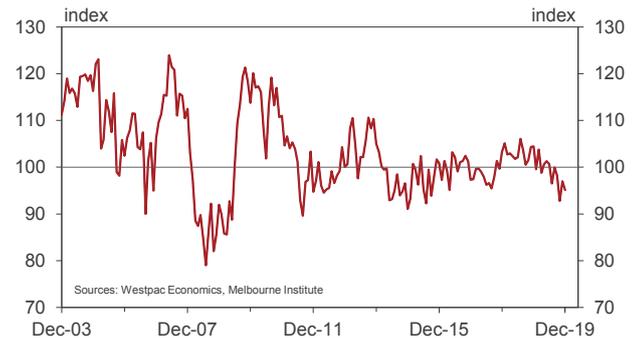
The 'economy, next 5 years' sub-index fell 2.4% in December and the 'economy, next 12 months' sub-index fell 1.1%. Both are down sharply on a year ago (-11% and -14.2% respectively).

The 'finances vs a year ago' sub-index fell 3.6% in December and the 'finances, next 12 months' sub-index slipped 0.5%. These components are down by 9.5% and 7.0% respectively on a year ago. Readings continue to disappoint given interest rate cuts, the \$7.7bn in personal income tax relief rolled out since July and the turnaround in house prices in most markets.

The 'time to buy a major household item' sub-index fell 2.1% in December. At 115.4, the sub-index is well below its long run average of 127 and 3.7% down on last year, suggesting consumers will continue to keep a tight rein on discretionary spending.

The Westpac-Melbourne Institute Unemployment Expectations Index rose 1.1% to 138 in December, up 14.1% on this time last year and a two and a half year high (recall

Consumer Sentiment Index



that higher readings indicate that more consumers expect unemployment to rise in the year ahead). The readings are consistent with a slowdown in jobs growth and steady increases in the unemployment and underemployment rates over the year ahead. Note that Westpac is expecting the unemployment rate to lift to 5.6% from 5.3% over the course of the first half of 2020.

Housing-related sentiment was mixed in December, views on time to buy weakening sharply but price expectations continuing to rise.

The 'time to buy a dwelling' index fell 5.6% in December to 112.3, materially below the long run average of 120. This index is now down by 11.5% from its peak in August, shortly after the turning point for prices which occurred in June. Note that the index bottomed out at 90.0 in May 2017 - the timing of the peak in prices in the previous cycle.

On that basis (current level of 112.3 compared to low point of 90.0 in the previous cycle) it certainly appears that price gains have further to run but we will be watching this index closely over the next year. Sydney's low point in the previous cycle was 74 in May 2017. Melbourne's low point was 83 a little later in August 2017. Currently the Sydney index sits at 111.2 and Melbourne's is at 112, off recent peaks of 124 and 132 respectively.

The Westpac-Melbourne Institute Index of House Price Expectations Index rose 3.2% in December.

Responses to additional questions on the 'wisest place for savings' show a shift back towards very high risk aversion. Consumers heavily favour 'safe options', 64% nominating deposits, superannuation or paying down debt as the best place for savings, compared to 62% in September. The proportion favouring real estate slipped from 12% back to 10% and the proportion favouring shares remained low at 9%.

The Reserve Bank Board next meets on February 4. Westpac expects that the Board will decide to cut the cash rate by 0.25% to 0.5%. While this survey highlights the risk of a negative impact on confidence of very low rates, the



Board will still be impressed by the other channels through which monetary policy has been working – boosting asset prices and maintaining downward pressure on the exchange rate.

The Governor has also noted that while consumers may not be spending the benefits of lower rates directly they are repairing their balance sheets with a view to spending at a later date.

In his recent statement following the Board meeting in November the Governor also linked the boost in asset prices to spending through a potential wealth effect and the lift in housing turnover and associated spending on household goods.

The decision to cut the cash rate in February is also expected to be supported by a downgrade in the growth forecasts for 2020.

Bill Evans, Chief Economist

Consumer Sentiment – December 2019

	avg*	Dec 2017	Dec 2018	Nov 2019	Dec 2019	%mth	%yr
Consumer Sentiment Index	101.5	103.3	104.4	97.0	95.1	-1.9	-8.9
Family finances vs a year ago	89.4	89.6	89.9	84.4	81.4	-3.6	-9.5
Family finances next 12mths	107.6	107.3	105.4	98.6	98.1	-0.5	-7.0
Economic conditions next 12mths	91.0	101.1	104.4	90.6	89.6	-1.1	-14.2
Economic conditions next 5yrs	91.3	96.4	102.5	93.5	91.2	-2.4	-11.0
Time to buy a major household item	127.2	122.1	119.9	117.9	115.4	-2.1	-3.7
Time to buy a dwelling	119.6	100.6	110.3	119.0	112.3	-5.6	1.8
Unemployment Expectations Index	130.0	127.6	121.0	136.5	138.0	1.1	14.1
House Price Expectations Index	125.6	135.0	100.0	135.8	140.1	3.2	40.1

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 December to 6 December 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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