

# Consumer Sentiment surges

- **The Westpac–Melbourne Institute Consumer Sentiment Index rose by 11.1% in July from 101.9 in June to 113.1 in July.**

We expected to see a bounce-back in the Index after it had tumbled by 12.3% since April. Another substantial fall would have put it in dangerous territory with a slide comparable to that seen entering the early 1990s recession and in 2007/08 prior to the global financial crisis. There is no way this current period should be compared with those disasters.

However we were surprised at the vigour of the bounce back. We saw a comparable surge in confidence in 2009 when households realised that Australia had avoided recession but at that time the Index was recovering from a much lower level. This is the strongest monthly increase in the Index from a base above the 100 level since records began in the mid-1970s.

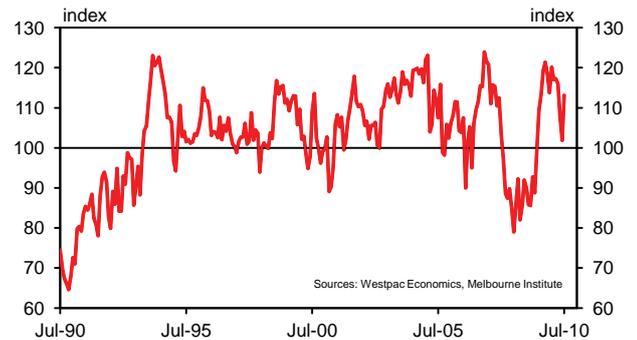
This read restores the Index to its highest level since April. Subsequently sentiment became increasingly undermined by disruptions in global financial markets, continuing rate hikes from the RBA and confusion about the Governments proposed new mining tax.

Since the last survey the RBA has held rates steady for a second consecutive month and the dispute over the mining tax has been largely settled. Global financial markets have also recovered somewhat. In the last week the local equity market has rebounded by 3.8% and the AUD has rallied by 4¢ US. News on the labour market has also buoyed households with the unemployment rate falling to 5.1% and 46,000 new jobs created in June."

Interest rates do not appear to have been the most significant driver of the July result. The confidence of those folks with a mortgage actually rose a little less than tenants or others. As we noted last month the 5.7% fall in the Index in June seemed to be partly driven by concerns about the Budget and tax policy. Surprisingly the Index fell despite the RBA holding rates steady for the first time in four months.

All components of the index increased in July. The assessment of family finances today relative to a year ago rebounded 17.2% after a 17.7% slump in June. Expectations for family finances over the next 12 months rose by a more subdued 7.3% but had seen a milder fall in June. In a positive sign for retailers, consumers' opinions on "whether now is a good time to buy major household items" rose 7.3%, more than reversing the 5.6% fall over the previous two months.

## Consumer Sentiment



The solid base for consumer sentiment is coming from an upbeat view on the economy. The component of the Index assessing the economic outlook for the next 12 months rose 10% while the five year outlook surged 16.2% – consumers remain upbeat on the economy with both components still well above their long run averages.

The RBA's decision to leave interest rates unchanged continued to buoy consumer sentiment towards housing. The 'Time to Buy a Dwelling' Index surged 15.6% in July after a 7.3% rise in June. Despite this, the Index has only retraced about half of its slump since January and remains well below its historical average."

The Reserve Bank Board next meets on August 3. Last week we released our forecast for the next print of inflation which will be published on July 28. We expect it to be sufficiently high to trigger a rate hike at the August meeting. The return of confidence levels to 11.4% above its long term average only adds to the case for a rate hike

**Matthew Hassan**, Senior Economist