

13 June 2012

Consumer Sentiment posts small gain

• The Westpac Melbourne Institute Index of Consumer Sentiment increased by 0.3% in June from 95.3 in May to 95.6 in June.

This is another disappointing result. It follows a second consecutive cut in the official cash rate by the Reserve Bank. Sentiment has risen only 1.1% from its April level and remains 1.7% below the level recorded in October last year despite a 125bp reduction in the cash rate that has brought the average standard variable mortgage rate down by nearly 1%.

Clearly other factors are dominating rates in the minds of consumers – those factors are concerns about the domestic economy and international conditions.

The June survey included additional questions on ‘news’ categories recalled and whether news was assessed to be favourable or unfavourable. The results show negative news around the economy and international conditions dominated.

By far the highest recall was on news about ‘economic conditions’ (67.1% of respondents) and ‘international conditions’ (40.4%). The recall level on economic news was the highest since 2009 and roughly double that of news items on ‘interest rates’ (31.8%) and ‘Budget and taxation’ (34.7%). The recall on ‘international conditions’ was second only to the record high registered in December last year. Consumers continued to view news on both ‘economic’ and ‘international’ conditions as very unfavourable with the latter seen deteriorating sharply since March.

Across the five sub-indexes of consumer sentiment, two improved and three deteriorated. Lower interest rates saw a solid rise in the sub-index tracking responses on ‘family finances vs a year ago’ (up 4.6% after a 17% rebound in May), and ‘time to buy a major household item’ (up 7.5%). However, June saw a significant deterioration in the sub-index tracking consumers’ forward views on their family finances (down 7.7%) and the sub-index tracking views on the economic outlook over the next 5 years (down 3.8%). Notably though, responses on family finances continue to track at very weak levels 7.6% below their pre rate cut levels in October last year.

Responses to questions on ‘time to buy a dwelling’ and ‘time to buy a car’ both showed an improvement in June, with these indexes rising 8.2% and 7.5% respectively. Lower interest rates and lower prices are clearly improving affordability and buyer sentiment on both fronts although buyers will tend to be reluctant to follow through on purchases while there are concerns about the economic outlook and job security.

Consumer Sentiment



The Reserve Bank Board next meets on July 3. On May 31 Westpac revised down its forecast for the low point of the official cash rate in this cycle from 3.25% to 2.75%. That was in response to a further deterioration in the global economic outlook and our assessment that confidence in the domestic outlook had continued to soften despite further rate cuts. Evidence from today’s survey confirms the fragility of confidence and the critical role played by the global economic situation in impacting confidence.

Our interest rate view includes a likely further cut at the meeting in July. However, with the surprisingly strong GDP print for the March quarter the Board may choose to delay the next move until after the next inflation report due out on July 25. That decision will be heavily dependent on global developments over the next three weeks. At this stage we are comfortable in maintaining the July call while emphasising that the case for an eventual cash rate of 2.75% remains robust.

Bill Evans, Chief Economist +61 (2) 8254 8531

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141. Information current as at date above. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Westpac’s financial services guide can be obtained by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. Westpac operates in the United States of America as a federally chartered branch, regulated by the Office of the Controller of the Currency and is not affiliated with either: (i) a broker dealer registered with the US Securities Exchange Commission; or (ii) a Futures Commission Merchant registered with the US Commodity Futures Trading Commission. If you wish to be removed from our e-mail, fax or mailing list please send an e-mail to economics@westpac.com.au or fax us on +61 2 8254 6934 or write to Westpac Economics at Level 2, 275 Kent Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2012 Westpac Banking Corporation. Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. 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.



Consumer sentiment – Jun 2012

	avg*	Jun 2010	Jun 2011	May 2012	Jun 2012	%mth	%yr
Consumer Sentiment Index	101.7	101.9	101.2	95.3	95.6	0.3	-5.6
Family finances vs a year ago	90.1	77.1	75.9	76.3	79.8	4.6	5.1
Family finances next 12mths	108.7	104.6	95.5	93.5	86.3	-7.7	-9.6
Economic conditions next 12mths	90.2	106.4	97.9	90.7	90.5	-0.2	-7.6
Economic conditions next 5yrs	90.8	96.3	98.8	96.4	92.7	-3.8	-6.2
Time to buy a major household item	127.9	125.0	137.9	119.6	128.6	7.5	-6.8
Time to buy a dwelling	122.3	94.6	115.4	118.2	128.0	8.2	10.9
Time to buy a vehicle	121.5	127.7	132.7	116.0	124.7	7.5	-6.0

Source: Westpac-Melbourne Institute

*average over full history of the survey, all figures except 'dwelling' and 'vehicle' indexes 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 4 June to 10 June 2012. 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.