

12 June 2013

## Consumer Sentiment improves

• The Westpac Melbourne Institute Index of Consumer Sentiment rose 4.7% in June from 97.6 in May to 102.2 in June.

After falling sharply through April and May, consumer sentiment recovered some lost ground in June. The 4.7% rise takes the level of the index back over the 100 level indicating that optimists now outnumber pessimists again although the margin is slim. Consumer confidence remains 8.2% lower than its peak early in the year.

It appears that some of the factors behind the sharp drop in sentiment in May were temporary. In particular, concerns stemming from the Federal Budget may have eased somewhat in June. However, a deterioration in consumer sentiment around prospects for the Australian economy, which has been a key underlying theme over the last three months, remains apparent. These fears would have been underscored by the weak Q1 national accounts data, a sharp sell-off in the sharemarket (down 7% between the May and June surveys) and a slide in the Australian dollar (down 4¢ vs the US dollar between the two surveys).

The June survey gives some additional insight into the issues affecting consumer confidence with measures of those news items which respondents most recalled and how they assessed those items. By far and away the most recalled items were around 'domestic economic conditions' with well over half of respondents reporting news on this topic. The news on this front was also seen as overwhelmingly negative with the proportion of respondents saying news was unfavourable outnumbering those saying favourable by the widest margin since March 2008.

The economy is clearly the dominant concern for consumers in mid 2013. A key associated concern how this may affect job security. News on employment had a lower level of recall but was viewed as deeply unfavourable by consumers in June. Fears of rising unemployment, as captured by the Westpac-Melbourne Institute Unemployment Expectations Index, have been at elevated levels throughout the last year and half. The June update of this Index will be released on June 13.

All components of the Consumer Sentiment Index recorded some improvement between May and June. The strongest gains were around family finances: the sub-index tracking assessments of 'family finances vs a year ago' rose 8.5%, more than reversing the 8% drop in May; the sub-index tracking expectations for 'family finances over the next 12mths' rose 5.3%. Both of these sub-indexes remain below their long run average levels. The improvement was more muted across other components with the sub-index tracking expectations for 'economic conditions over the next 12mths' up 3.8% after a heavy 13.8% fall in May; and the sub-index tracking expectations for 'economic conditions over the next 5yrs' up just 3.2%. Both remain sub-100 indicating a pessimist forward view on the economy.

The most positive aspect of the survey continues to be around views on 'time to buy'. The sub-index tracking views on "whether now is a good time to buy a major household item" posted a modest 3.7% gain in the June month but is the only sub-index at

Consumer Sentiment



high overall levels above historical averages. Separate indexes tracking views on 'time to buy a dwelling' and 'time to buy a car' are even stronger with both largely unchanged at highs 20pts and 16pts above their respective long term historical averages.

Clearly consumers see this as an opportune time to make major purchases or enter the housing market, likely reflecting the low cost of finance and comparatively good affordability. However concerns about the economic outlook are likely discouraging many buyers from going ahead with actual purchase decisions.

There are also signs that households may be becoming less risk averse with a notable shift in their views on the 'wisest place for savings'. In March, 41.3% of respondents favoured bank deposits or other fixed interest investments with a further 18% nominating 'pay down debt'. Those proportions declined to 40.7% and 15.7% in June. Indeed the proportion nominating 'pay down debt' was the lowest recorded since December 2007, a sign that households may be starting to ease up on their debt-reduction efforts. The main swing has been towards a more favourable view on real estate with 24.6% nominating this as the 'wisest place for savings' (up from 21.3% in March). The proportion nominating shares was relatively steady at 8.4%, a low level by historical standards but up from 5.3% in June last year.

The Reserve Bank Board next meets on July 2. The improvement in consumer sentiment in June will be viewed with some relief. However, the case for lower interest rates over the medium term remains clear. The soft Q1 GDP result and the weakness in domestic demand are of particular concern. The statement accompanying the RBA's June decision to leave rates on hold sounded less certain on the degree to which the inflation outlook provided scope for policy to move further if demand required more support. As such we expect the Bank to seek more clarity on inflation and await the June quarter CPI update due on July 24 before moving again. The weak Q1 demand picture means the July meeting is 'live' but on balance we expect the next rate cut to be in August with a 25bp reduction.

Matthew Hassan, Senior Economist



## Consumer sentiment – June 2013

	avg*	Jun 2011	Jun 2012	May 2013	Jun 2013	%mth	%yr
<b>Consumer Sentiment Index</b>	<b>101.7</b>	<b>101.2</b>	<b>95.6</b>	<b>97.6</b>	<b>102.2</b>	<b>4.7</b>	<b>6.9</b>
Family finances vs a year ago	89.9	75.9	79.8	76.7	83.2	8.5	4.2
Family finances next 12mths	108.5	95.5	86.3	100.5	105.9	5.3	22.7
Economic conditions next 12mths	90.4	97.9	90.5	90.8	94.3	3.8	4.2
Economic conditions next 5yrs	90.9	98.8	92.7	91.4	94.3	3.2	1.7
Time to buy a major household item	128.0	137.9	128.6	128.5	133.3	3.7	3.7
Time to buy a dwelling	123.1	115.4	128.0	142.7	143.3	0.4	12.0
Time to buy a vehicle	122.4	132.7	124.7	139.7	138.4	-0.9	11.0

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 3 June to 9 June 2013. 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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