

11 November 2015

Political change further boosts consumer sentiment; Christmas spending outlook at a seven year high

• **The Westpac Melbourne Institute Index of Consumer Sentiment rose by 3.9% in November from 97.8 in October to 101.7 in November.**

This is a cracking result. Apart from the brief surge we saw following last May's Budget this is the highest print for the Index since January 2014. The Index is now 8.3% higher than in September, immediately preceding the change of leadership in the government.

It marks only the third month out of the last twenty one that optimists have outnumbered pessimists.

The increase also comes despite the banks' decisions to raise mortgage rates for both owner occupiers and investors. It is surprising that such events did not have a negative impact on confidence. It appears that such is the boost to confidence from the recent political events that the impact of the interest rate increases was comfortably contained. Most remarkably, the confidence of respondents who hold a mortgage increased by 4.1% – a slightly larger increase than the rise in the overall Index.

There is evidence to support this observation that the result is the net effect of two strong opposing forces. The components of the index that measure respondents' assessments of their own finances were down, on average, by 5.7% whereas the components of the index that measure respondents' expectations for the overall economy increased by an average of 15.0%.

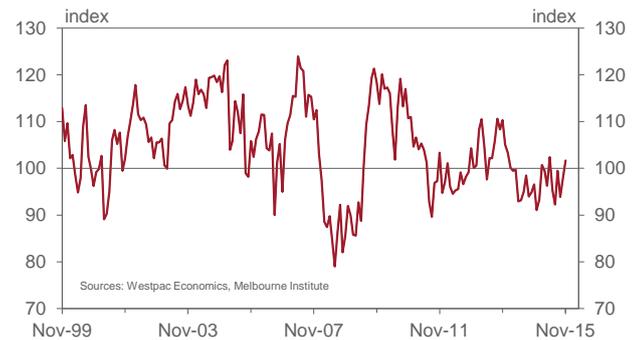
The assessments of personal finances were presumably linked to the interest rate increases whereas the outlook for the economy was most likely boosted by confidence in the new leadership.

Following a spectacular 13.7% fall in October the Westpac Melbourne Institute Index of Unemployment Expectations rose by 3.3% in November. Recall that lower readings indicate fewer consumers expect unemployment to rise in the year ahead. The Index remains 10.9% below its September level and continues to signal a much less pessimistic attitude towards the labour market than we have seen for a number of years.

As discussed there were some significant conflicting movements amongst the components of the Index. The sub-index tracking assessments of 'family finances compared to a year ago' fell 2.2% and the sub-index tracking expectations for 'family finances over the next 12 months' slumped 9.1%. Those falls were probably in direct response to the increase in mortgage rates.

On the other hand the sub-index tracking expectations for 'economic conditions over the next 12 months' increased 5.8% while that tracking expectations for 'economic conditions over the next five years' soared 24.2% to its highest level since September

Consumer Sentiment Index



2013. It is likely that a boost in confidence towards the economic credentials of the new leadership team played an important hand here.

In an encouraging sign for retailers, the sub-index tracking views on 'time to buy a major household item' lifted 4.8% although it is still 2.2% below its level this time last year.

Another encouraging sign for the Christmas spending outlook comes with our special question: "Do you expect to spend more; less; or about the same on Christmas gifts compared to last year". Since we started this question, seven years ago, the average proportion proclaiming 'more' has been 12.5%. Today's survey scored 16.9% whereas 'less' registered 29.6% compared to the average of 34.7%. Consumers in NSW were particularly upbeat with more planning to increase than cut Christmas spending compared to a year ago.

In fact, this survey shows the most positive mix of Christmas spending plans since we began running this special question in 2009 – a very encouraging signal in the lead in to the holiday period.

Prospects for the housing market remained soft in this survey. The 'time to buy a dwelling' index rose slightly in November but the 1.4% gain still leaves the index down 12.5% over the last year and 29% below its most recent peak in 2013. Weakness persists in NSW; Queensland softened markedly; while Victoria held up well. Possibly in response to recent price falls there was a marked boost in confidence in Western Australia.

There was another sharp fall in house price expectations. The Westpac-Melbourne Institute House Price Expectations Index fell 7.9% to be down 18.7% over the year. The biggest falls this month were in NSW and Queensland with price expectations in Victoria remaining remarkably robust.



The Reserve Bank board next meets on December 1. Following its November meeting the Bank has adopted a 'medium' easing bias with the low inflation environment affording scope to ease if that is deemed necessary.

However, the Bank currently expects growth in 2016 of 3.0% (above trend) building to 3.5% in 2017. The positive results from this survey will only bolster these confident growth expectations. There is little chance of a rate cut in December.

The real issue is whether the Bank will eventually act to cut rates next year – as confidently expected by the market. It is our current view that the growth dynamics of the Australian economy will remain sufficiently supportive through 2016 to ensure steady rates. The lift in spending expectations and confidence around the employment outlook from the survey point in that direction

Bill Evans, Chief Economist

Consumer Sentiment – November 2015

	avg*	Nov 2013	Nov 2014	Oct 2015	Nov 2015	%mth	%yr
Consumer Sentiment Index	101.6	110.3	96.6	97.8	101.7	3.9	5.3
Family finances vs a year ago	89.7	99.4	83.8	91.3	89.3	-2.2	6.6
Family finances next 12mths	108.0	99.9	99.5	107.4	97.6	-9.1	-2.0
Economic conditions next 12mths	90.4	107.3	90.9	91.8	97.1	5.8	6.9
Economic conditions next 5yrs	90.9	102.4	84.5	82.7	102.8	24.2	21.6
Time to buy a major household item	127.9	142.8	124.2	115.9	121.5	4.8	-2.2
Time to buy a dwelling	122.4	135.5	117.4	101.3	102.7	1.4	-12.5
Unemployment Expectations Index	129.8	144.7	152.7	134.9	139.3	3.3	-8.7
House Price Expectations Index	126.0	164.2	140.8	124.2	114.4	-7.9	-18.7

Source: Westpac-Melbourne Institute

*avg over full history of the survey, all figures except 'dwelling', 'vehicle', 'unemployment' and 'house price expectations' 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 2 November to 8 November 2015. 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.



Terms and conditions.

1. WIBIQ is a service provided by Westpac Institutional Bank (Westpac Banking Corporation ABN 33 007 457 141 AFSL and ACL 233714) here referred to as “Westpac”. **2.** Your access to this service is subject to these terms and conditions, the Westpac Privacy Statement, notices, disclaimers and any other statements contained on this website. **3.** You agree that any view or opinions expressed in the articles or podcasts contained in WIB IQ are the author’s own and may not necessarily reflect the view or opinions of Westpac. **4.** You agree that any commentary contained in WIBIQ is not intended as personal advice and should not be relied upon as such by you. **5.** WIB IQ may contain information in relation to certain financial products. Westpac makes no recommendation to buy, hold or sell these financial products, nor does it make any representations or warranties regarding the financial products. You should make your own decision in relation to the financial products based on your own enquiries, the information contained in the relevant disclosure documents, and the suitability of the relevant financial products to your own investment objectives, financial situation and particular needs.

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 (‘Westpac’). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute personal advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website 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.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac banking Corporation London (“WBC”) and Westpac Europe Limited. WBC (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.



Disclaimer continued

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and ACL 233714. Information is current as at date shown on the publication. 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. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customer-care@XYLO.com.au.

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. 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.