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Consumer Sentiment: another soft result

The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 2.6% in June from 103.9 in May to 101.2 in June.

Westpac's Chief Economist, Bill Evans, commented, "This is a soft result. It is the lowest print for the Index since June 2009 (100.1). At that time households were relieved that Australia appeared to have escaped the recessions which had affected most of the developed world but were still fearful of the near term outlook.

“As an indication of that we note that the component of the Index in June 2009 measuring how respondents feel about economic conditions over the next 12 months registered 85.2 in June 2009 compared to 97.9 in June 2011. However in today's survey we see that more confidence about the near term outlook for the economy is offset by respondents' concerns about their own financial position. The measure of how respondents feel about their financial position compared to a year ago printed 82.4 in June 2009 compared to 75.9 in today's survey. Equally, the outlook for finances over the next 12 months printed 113.8 in June 2009 compared to 95.5 in today's survey.

“The explanation for why the Index continues to print such soft results must lie in those factors which are so depressing respondents’ assessments of their own financial position. Interest rates remained on hold for a seventh successive month and the Reserve Bank toned down its strongly hawkish language. However, the commentary from the media and our own research indicates that households still expect rates to be rising over the next 12 months.

“News on petrol prices has been much more encouraging with prices down by 5.1% since the last survey.

“The three items respondents nominated as the most recalled were economic conditions, interest rates and tax. While economic conditions and interest rates are usually the most recalled items it is unusual for tax to register such interest. There have really only been three periods over the last 10 years when tax has been a significant issue for respondents – during the period of the GST introduction; last year's focus on the mining tax and the current period. The degree of negativity from respondents about taxation issues is large and broadly similar in the three periods. It appears that despite steady interest rates and falling petrol prices concerns about the introduction of a price on carbon are rattling households.

“The concerns are also having a disproportionate effect on low income earners. The confidence of wage earners below $40,000 per year is down by 7–8% whereas in the upper income groups confidence measures are, on average, reasonably steady.

“Four of the five components of the Index fell in June. "Family finances compared to a year ago" fell by 2%; "Family finances over the next 12 months " increased by 1.1%; "economic conditions over the next 12 months " fell by 6.2%; "economic conditions over the next 5 years" fell by 3.7% ; while "whether now is a good time to buy more household items" fell by 2.1%.

“The attitudes of respondents to the wisest place for savings are consistent with the concerns about their finances which are apparent in the main survey. Consumer caution dominates savings decisions in this survey.

“There has been another significant shift in preferences towards low risk investments. The proportion of respondents who nominated bank deposits as the wisest form of savings increased from 27.1% in March to 32% in June. Since 1979 this proportion has only been exceeded in December 2008 and March 2009. The proportion of respondents nominating "pay down debt" as the wisest place for savings rose from 22.6 to 23.9 – exceeded only in September 2009 and March 2010 since 1997.

“In contrast, the proportion of respondents nominating equities as the wisest place fell from 12.2% in March to 8.4% in June – the lowest proportion since the early 1990’s recession (excluding the GFC period in 2008–09), while "real estate" did not fare much better falling from 16.3% in March to 14.6% in June, down from 21.7% a year ago and the lowest proportion in the history of the series back to 1974 (excluding the GFC).

“The Reserve Bank board next meets on July 5. Given that the Governor lowered the level of urgency to raise rates in his statement explaining the decision to hold rates steady in June it seems extremely unlikely that the Board would decide to tighten at the meeting in July. We expect that the Board is still inclined to raise rates but economic reports like the employment report last week and the evidence from this survey as to how concerned and cautious households currently have become are making it very difficult for the board to make the case. We do not anticipate that the Inflation Report which will be released on

July 27 will provide a case. The issue is whether the current soft patch in the labour market and the wave of caution now enveloping the household sector will pass as we move through 2011. Our view is that is the most likely scenario although we do not see any window for the Reserve Bank to deliver on its stated intention to raise rates until November at the earliest", Mr Evans said.

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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 6 June to 12 June 2011. 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.