

Media release

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Consumer sentiment bounces back

The Westpac–Melbourne Institute Index of Consumer Sentiment increased by 4.2% in February from 97.1 in January to 101.1 in February.

Westpac's Chief Economist, Bill Evans commented, "On the face of it this is a strong result and provides some lagged recognition from consumers of the two rate cuts which the Reserve Bank and the commercial banks delivered to mortgage and business borrowers in November and December. Recall that, until now, the overall Index was actually slightly below its pre-rate cut level in October. The Index is now 4% above that benchmark.

"However the Index is still 5.2% below the level of a year ago and 13.6% below its level of two years ago.

"Events last week made it difficult to interpret this result. The survey period was February 6 to February 10. Media coverage for February 6 and most of February 7 gave households strong reason to believe that the Reserve Bank was about to cut interest rates for a third time. While there was some speculation that the commercial banks would not pass the cut on in full respondents were likely buoyed by the prospect of even lower mortgage rates. Of course, the last three days of the survey were marked by "disappointment" that the Reserve Bank had not cut rates; speculation in the media that the Bank was likely to be on

hold for the foreseeable future; and other speculation that the commercial banks were now likely to actually raise rates.

“The banks did in fact raise rates by 6–10 basis points but these actions occurred too late to have any impact on the survey. From the perspective of a mortgage borrower their position over the week changed from expecting mortgage relief of up to 25 basis points to actually incurring an increase of 6–10 basis points.

“That impact on Sentiment has not been captured in the survey due to its closing before respondents were able to react to the actions of the commercial banks. However we note that the Index was 4.2% lower for responses received in the last three days of the survey, following the disappointment in the decision by the Reserve Bank, compared to those received in the first two days when households were confidently led to believe that a third rate cut could be expected.

“Other factors would have clearly supported an increase in confidence. News on the international scene had clearly improved since the survey in January. The average level of the Australian dollar jumped from USD1.03 during the survey in January to USD1.08 during the survey in February. The average level of the Australian All Ordinaries share index also improved marginally by 3.1%.

“All components of the Index increased in February. How people assess their family finances improved – the sub-indexes tracking views on ‘family finances compared to a year ago’ up 7% and ‘family finances over the next 12 months’ up 2.6%. Economic expectations were also improved – the sub-indexes tracking views on ‘economic conditions over the next 12 months’ up 0.9% and ‘economic conditions over the next 5

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years' up 9.9%. Spending intentions also firmed with the sub-index tracking views on 'whether now is a good time to buy a major household item' up 1.8%.

"The 'time to buy' indexes are not seasonally adjusted so movements in the December/February period can be misleading. However it is pertinent to note that the seasonally unadjusted indexes for both 'time to buy a dwelling" and 'time to buy a car' are broadly unchanged (up 0.5% and 1.2% respectively) from the prints in October before the Reserve Bank's recent rate cuts indicating a disappointingly low degree of sensitivity to lower rates.

"The Reserve Bank Board next meets on March 6. We were disappointed to read the Governor's Statement following the decision not to cut rates at its meeting in February that demand conditions would need to "weaken materially" before rates would be cut. In July last year we assessed that rates would need to be cut by around 100bps in the upcoming easing cycle. At this stage only 50bps have been delivered so we expect that a further 50bps, in two tranches, will be required over the course of this year. Today's survey, while somewhat difficult to read, does not add to the case for "weaken materially" so there has to be some doubt that our forecast for a cut in March will be delivered.

However we continue to believe that lower rates are required and the best policy response is to move earlier rather than delay. Accordingly we retain our view that a move in March is likely while emphasising that developments in the domestic economy, particularly around the labour market, will eventually force the Bank's hand even if they choose to defer in March", 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 February to 10 February 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.