

Media release

8 April 2009

Strict Embargo 10:30am

Consumer Sentiment surges in April

The Westpac–Melbourne Institute Index of Consumer Sentiment increased by 8.3% in April from 85.6 in March to 92.7 in April.

Westpac Chief Economist, Bill Evans, commented, "This is a surprisingly strong result. It follows last month's display of resilience. Although last month the Index fell by 0.2% it was in the face of a barrage of disturbing domestic and international news including the Australian economy being widely reported to be in recession following the 0.5% contraction of GDP in the fourth quarter and the US sharemarket falling by 20% over the month. At the time we speculated that the surprisingly resilient result could have been a lagged positive response to the announcement of the Government's \$42bn fiscal stimulus package and the 1% cut in mortgage rates as the banks fully passed on the Reserve Bank's cut of 1% in the overnight cash rate.

"This month there has been more positive economic information. Concerns about the global economy have eased as sharemarkets boomed. Both the US and Australian markets have risen by around 20%. The Australian dollar, which is seen as a proxy for global risk was up by 11.6%. We have found that generally Australians respond positively

to a rising Australian dollar. Finally, despite recent increases in the oil price, petrol prices were down slightly on the month by 1.3%.

“Despite this encouraging news we do not think that it alone can explain such a solid rise in the Index, particularly given that news on the jobs front continued to deteriorate with the unemployment rate rising from 4.8% to 5.2% – the highest since September 2004. A further positive response to the fiscal stimulus package is likely to be buoying consumers. Media coverage of the imminent cash payments is likely to be having the desired impact on consumers' expectations.

“Superficially, we should be encouraged that the average level of the Index over the last 6 months is higher than the average of the previous 6 months by 4.4%. However it would be premature to argue that the Index has passed its lows in this cycle. We note that in the early stages of the last recession the Index also appeared to have recovered from its lows. The average for the 6 month period November 1989 – April 1990 was 4.3% above the average for the previous 6 month period. However, the average for the following 6 month period (May 1990 – October 1990) plunged to 15.1% below that level. That period coincided with the first half of the 12 month period when we saw the most rapid increase in the unemployment rate during the last recession when it increased from 5.9% (March 1990) to 9.4% (April 1991). Given the disturbing signals from all the leading employment indicators which are pointing to a rapid increase in the unemployment rate over the next 18 months, we are likely to see the Index reaching new lows over that period.

“Anticipation of the cash payments is likely to be a key factor behind the surge in consumers' assessments of their financial position. Their assessment relative to a year ago increased by 10.8% while expectations for the next year were up by 11.8%. Expectations for economic conditions over the next 12 months also increased by 16.9%

although the level of that component is still 17.2% below its level a year ago and almost 50% below its level of 2 years ago. The outlook for economic conditions over the next 5 years improved by 4% while opinions on whether now is a good time to buy a major household item increased by 3.1%.

“Yesterday we saw the Reserve Bank Board cut rates by a further 0.25%. We were surprised by that move, expecting that the Bank would retain its limited flexibility for a time when the undeniable positive impact which rate cuts can have on confidence could be better used (note our observation on the likely profile for the Index when the unemployment rate starts to accelerate). The Bank is now likely to remain on hold until around August, when rate cuts will be needed to deal with a more concerning global and domestic economic environment”.

Issued by: Westpac Banking Corporation

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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 30 March to 5 April. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Institute of Applied Economic and Social Research.