

# Consumers downbeat, but happier than the US Consumer Confidence

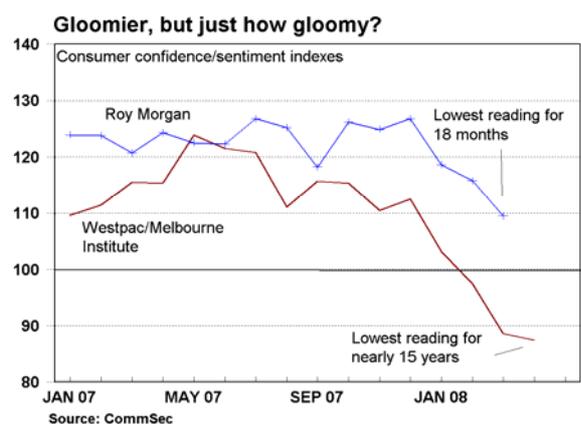
- **Two monthly surveys of consumer confidence are conducted in Australia. The Melbourne Institute/Westpac survey was released today, showing consumer sentiment had fallen by 1.3 per cent to a near 15-year low in April.**
- **The Roy Morgan survey of consumer confidence is released on Friday. While this index has also softened in recent months, the confidence index is at 18-month lows, not 15-year lows.**
- **Australians are markedly happier than their US cousins. Roy Morgan has compared consumer confidence in Australia and the US using the same methodology.**
- **In Australia, 65 per cent of people say that the economy is in good or excellent shape while only 17 per cent of Americans can say the same about their economy.**

## What does it all mean?

- In Australia two monthly surveys attempt to gauge how we are feeling. Both sentiment or confidence gauges have been going since 1973 and both ask similar questions. And while both surveys show that consumers have become more downbeat, the extent of gloom is markedly different. The Melbourne Institute gauge is at the lowest levels in almost 15 years, while the Roy Morgan survey shows consumer confidence at 18-month lows.
- Roy Morgan conduct face-to-face interviews with 1,176 people each month while the Melbourne Institute conducts telephone interviews with 1,200 people each month.
- Aussie consumers have clearly become more downbeat but the extent of pessimism is an open question. Given the strength of the job market and broader economy as well as the high level of the dollar (seen as a positive by most people), its hard to believe that consumers are the gloomiest they have been in 15 years.
- Face-to-face interviews may be providing a more accurate gauge about how people are feeling. Certainly there has been a lot of negative news in a short space of time, such as rate hikes, the slide in shares and higher petrol prices. So the flurry of bad news would certainly have taken their toll on consumer spirits.
- Aussie consumers may have become more downbeat in recent months, but they are a darn sight happier than their US cousins. While interest rates have been going up in Australia, unlike the US there is no certainly housing crisis and no signs of recession.

## What do the figures show?

- The **index of consumer sentiment** fell by 1.2 points or 1.3 per cent in April to a near 15-year low of 87.4 points (lowest since June 1993). The index is now 24.2 per cent below the levels it was at a year ago.
- The current conditions index fell by 5.3 per cent in April, while the expectations index rose by 1.1 per cent.
- Three of the five components of the index eased in April. The estimate of family finances compared with a year ago rose by 2.7 per cent compared with a month earlier. And



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the estimate of family finances over the next year rose by 8.1 per cent.

- However the estimate of economic conditions over the next year fell by 6.4 per cent, while expectations of economic conditions over the next five years fell by 0.3 per cent. And the estimate of whether it was a good time to buy major household items fell by 12.7 per cent in April.
- The Roy Morgan survey of consumer confidence for April will be released on Friday. The March reading fell by 6.3 points (5.4 per cent) to an 18-month low of 109.5.
- Roy Morgan has compared Australian consumer confidence with that in the US, using the same methodology employed by the US ABC News Consumer Comfort index. Between late January and April, the Australian consumer index fell from +27 to +12. Over the same period, US consumer confidence fell from -27 to -34.
- In Australia, 63 per cent of people say that its not a good time to buy things while US consumers are more negative with 75 per cent saying that now is not an excellent of good time to buy things.
- In Australia, 65 per cent of people say that the economy is in good or excellent shape while only 17 per cent of Americans can say the same about their economy.

### What is the importance of the economic data?

- Westpac and the Melbourne Institute release the Index of **Consumer Sentiment** each month. Roy Morgan conducts a survey of consumer confidence. Both surveys are aggregated from responses to questions on the current and likely future state of family finances, current and likely future state of the economy and whether it is a good time to buy a major household item. Confident consumers may be more inclined to spend, especially on major items.

### What are the implications for interest rates and investors?

- The trends in consumer confidence probably matter more than the absolute readings. There's no doubt that consumers are less upbeat but we are certainly not at the 'slash your wrists' stage. The job market remains in great shape, cars and electrical goods are more affordable and the high Aussie dollar is making overseas travel cheaper.
- Its much too early to be talking about rate cuts. In fact the Reserve Bank may be forced to lift rates again in May if the next inflation figures are dreadful. Still, if interest rates haven't peaked, they aren't far off. And clearly once interest rates prove more stable, consumer spirits will lift markedly.

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