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WOULD THE L-NP HAVE BEEN RE-ELECTED IF THE GOVERNMENT HAD HONESTLY & ACCURATELY REPORTED UNEMPLOYMENT (AND UNDER-EMPLOYMENT)?

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The [Morgan Poll shows the ALP now leads the L-NP easily](#) and no doubt this will be the case for at least the next few months as the ALP enjoys the normal post election honeymoon period and the Coalition attempts to regain some political traction.

What Opposition Leader Brendan Nelson and his L-NP colleagues need to understand is the reasons why they lost the election, as well as the role the Reserve Bank of Australia (RBA) played.

Any simple analysis correlating consumer sentiment and interest rate rises is likely to be overly simplistic – if the facts being considered are wrong, it is certain to be misleading.

An RBA interest rate increase does two things. On one hand, it sends a message to the electorate that the economy is going well and employment is strong. On the other hand, it increases financial pressure on those who have mortgages or borrowings.

The ‘contradiction’ – **economy going well** yet people feeling **financial pressure** – was a central focus of [ALP campaign advertising](#) – and was used to demonstrate the **L-NP was ‘out of touch’**. The electorate, especially ALP supporters, strongly agreed.

The [Roy Morgan ‘State of the Nation’ Report](#) shows clearly that over the last 10 years the **Australian electorate had become more socially progressive, more environmentally engaged, open to new ideas and accepting of differences**. There is no doubt the ‘conservative’ L-NP Government was gradually becoming more and more out of touch with its increasingly ‘progressive’ electorate.

However, we cannot ‘overestimate’ the crucial role of the RBA interest rate increase and the devastating timing of that increase (two weeks before the Federal election) on the final downfall of the L-NP Government.

Over the last few weeks there have been articles in the financial press justifying the RBA’s actions over the last six months, particularly the RBA decision to increase interest rates during the Federal election campaign – two weeks before Election Day.

For RBA Governor Glenn Stevens to say ‘Consumer sentiment had improved in May following the Budget’ is not correct. Prior to the Budget being released, the [Roy Morgan Consumer Confidence Rating](#) was 122.5, while [the first post-Budget confidence rating](#) was 122.3. In the following months – [July](#) and [August](#) – Consumer Confidence was high (126.8 and 125.2 respectively). However, in September, after the 0.25% August interest rate rise, [Consumer](#)

[Confidence dropped a significant 6.9 points to 118.3](#). The drop was driven to a large extent by the decrease in people's sense of their own financial situation.

Gary Morgan said at the time:

'It is important to understand this latest result — the data shows Australians are already feeling financial pressure themselves, it is not just an 'academic' concern about the economy and the future.'

This was the first indication that things were 'not right' economically in the lead up to the 2007 Federal election. It was followed by [a 0.2% increase in Roy Morgan 'real' unemployment](#) in the June-September Quarter.

Also, although Roy Morgan Consumer Confidence increased to high levels in [October](#) (126.2) and [November](#) (124.9), which was probably due to the L-NP Government's political campaign largely focusing on the strength of the economy, the electorate's concern was manifest in a low 'good time to buy'¹ figure (49% in October and 50% in November considered it was 'a good time to buy major household items'). The [December](#) result is down to 47%.

On November 9, 2007 in relation to the fragile state of the international economy, particularly in America, [Gary Morgan pointed out:](#)

*'For the RBA to be raising interest rates despite these pressures, and in the face of rising unemployment, points to an institution that has lost its way due to the Howard Government's poor direction. Given everyone's concerns for the 2008 global economy, the RBA risks losing credibility with decisions that are too hasty – **there was no reason to raise interest rates this week – irrespective of whether during an election campaign or not!**'*

The Howard Government did not articulate adequately or accurately the economic issues and underlying factors to the RBA so they would understand that interest rates did not need to go up. This is at least partly due to the misleading economic measurements used, such as the Government's unemployment estimate.

Artificially low estimates of unemployment look good at first glance ([ABS unemployment](#) estimate is 4.5%², the [real unemployment](#) is higher at 5.8%), but when the RBA believes the numbers and acts on them – by raising interest rates – then the consequences are dire. In hindsight, it is clear the RBA should not have increased interest rates in November, 2007 – and any corrections now being considered are obviously too late to save the L-NP!

Would the L-NP have been re-elected if they had 'honestly' reported unemployment (and under-employment); and had undertaken the detailed micro-economic segmentation analysis required to understand which segments of the community were driving spending and borrowing – and to keep the RBA accurately appraised of these economic factors?

We will never really know – but the election would have been much closer. These are the issues that Opposition Leader Brendan Nelson and his L-NP colleagues must come to terms with and really understand. Only then will they have any chance of being elected in the near future.

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¹ This measure of intention to buy major household items was an important and sensitive indicator of the electorate's true feelings in the lead up to 2007 Federal election. Before the May Budget, 52% said it was a good time to buy major household items, which was virtually unchanged after the May Budget (54%). In July the figure was up to 58%, however, prior to the August interest rate rise it had declined to 51% and stayed at about this level until the election - dropping in December to 47% - its lowest level in 12 months.

² Based on the December 13, 2007, ABS release detailing the November 2007 unemployment estimate