Roy Morgan Research

Roy Morgan Research Pty. Ltd.
A.B.N. 91 007 092 944 – Quality System Certified to AS/NZS ISO 9001

Paper No. 20080102
Available on Website: www.roymorgan.com
On January 25, 2008

SHARE-MARKET FALLS & THE EFFECT ON CONSUMER CONFIDENCE

by Gary Morgan, Michele Levine, Luke Griffiths & Julian McCrann

Consumer Confidence is expected to fall even further following Tuesday's Australian share market slump – the worst in nearly two decades – as the full effects of the US sub-prime market collapse reverberate around international markets, according to Roy Morgan analysis of historical data.

It has long been recognised that Consumer Confidence, or how people respond to events such as share-market crashes, petrol price increases, interest rate increases and other economic threats, is more important than the events themselves.

In the US, respected American pollster and ABC America analyst Gary Langer claims drops in the US share-market don't have a direct impact on consumer confidence. Langer says:

> *"Steep drops in the stock market historically have not had much short-term, direct influence on Consumer Confidence, for a simple reason: most people simply haven't seen market gyrations as having a lasting impact on their day-to-day personal finances.*
>
> *"This doesn't mean market falls are painless. Plenty of people are hurt by drops in the price of shares, especially those who rely on the markets for income. For many others, though, these are paper losses offset by previous paper gains. Most seem to recognise that markets go up as well as down, and in the long run beat the heck out of passbook savings. And most are much more sensitive to more direct factors, such as incomes, inflation (eg. the price of gasoline) and the job market."*

The Australian historical data tells a different story. Historical Roy Morgan Consumer Confidence data (continuously measured since 1973) shows dramatic events, such as the 1987 share market crash and September 11, have had a significant effect on Australian Consumer Confidence: confidence dropped 16% following the 1987 crash and 12% on September 12.

Moreover, today when more Australians than ever before have some involvement with the share market either directly (26% of Australians aged 14+ hold shares personally) or indirectly through superannuation (61% of Australians aged 14+ have some form of superannuation) the drop in the share-market is likely to impact heavily on Australians' Consumer Confidence.

Also likely to exacerbate the negative response to the drop in the share-market is the threat of a further interest rate increase. Almost 50% of Australians say they are "worried about interest rates at the moment – this is up from around 20% five years ago.

It is noteworthy that in the US where interest rates are substantially lower than in Australia, the Federal Reserve has cut interest rates by 0.75%

The January Roy Morgan Consumer Confidence Rating was down 8.2 points to 118.6. Since then the All Ordinaries index fell 408.9 points to close at 5222.0, wiping the substantial gains accrued throughout 2007 and more than $100 billion in the process.

A similar pattern has occurred in almost all developed Western economies recently.

Australians should expect Consumer Confidence to fall at a rapid rate – in February anyway.

Gary Morgan says:

> "*The RBA, in deciding whether to increase interest rates in order to curb inflation, must consider the danger that such an action could have – a serious and compounding effect on the delicately poised and inter-related factors of Consumer Confidence, the share market, consumer spending and unemployment.*
>
> *"Those who follow these crucial measures will know that the Roy Morgan unemployment estimate showed an increase in unemployment in the December Quarter (up 0.3% to 6.1%) while the ABS reported a decrease in unemployment between October and December (down 0.1% to 4.3%).*
>
> *"The January figures are eagerly awaited as an accurate read on real unemployment is critical in this tumultuous economic environment.*
>
> *"As we have said before, the current international financial environment demands caution and any hasty move by the RBA will accelerate the hardship of a large number of mortgagees who have already endured 10 consecutive rate hikes since May 2002.*
>
> *"The RBA should hold off on any interest rate increase until two crucial figures – the February measure of Consumer Confidence and the January unemployment figures."*

For further information:

Gary Morgan: **Office + 61 3 9224 5213 Mobile + 61 411 129 094**

Michele Levine: **Office + 61 3 9224 5215 Mobile + 61 411 129 093**