

Consumer gloom confirmed

Consumer Confidence

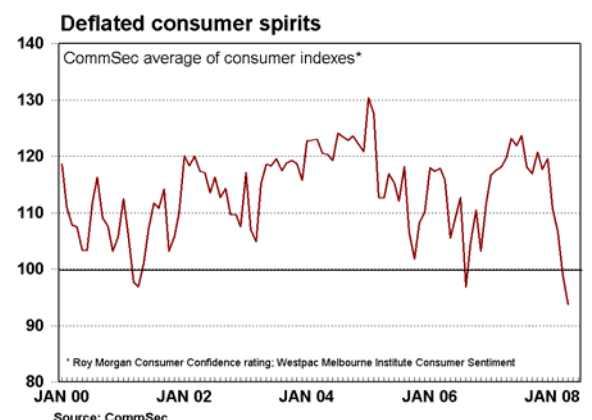
- The inflation reading at the end of the month will have to be well above market expectations to prompt the Reserve Bank to lift rates again. This is the conclusion after a new survey confirmed a dramatic drop in consumer confidence.
- The Roy Morgan Consumer Confidence Rating fell by 8.6 per cent in April to a 14-year low of 100.1.
- Both Roy Morgan and Westpac/Melbourne Institute compile similar monthly indexes of consumer sentiment. Using the Reserve Bank approach to average the series, the CommSec Consumer Average was also at a 14-year low in April.

What does it all mean?

- Another survey has confirmed that consumers are down in the dumps. The Roy Morgan Consumer Confidence Rating is at 14-year lows. The Westpac/Melbourne Institute survey of consumer sentiment stands at a 15-year low.
- Both surveys of consumer spirits date back to 1973 and both ask similar questions. Roy Morgan conduct face-to-face interviews with 1,121 people each month while the Melbourne Institute conducts telephone interviews with 1,200 people each month.
- The Reserve Bank is understood to average the two surveys to get an accurate impression on how people are feeling. Using that approach, the CommSec Consumer Average stood at a 14-year low of 93.8 in April.
- The bottom line is that there has been a dramatic plunge in consumer spirits in a short space of time. Three years ago consumer spirits were at their highest point in 30 years. And just a year ago, Aussie consumers were feeling decidedly chipper with confidence just short of record highs.
- The plunge in consumer spirits shows that all the bad news that has piled up in recent months is taking its toll. Consumers are feeling fragile so another rate hike could send people over the edge. Rate hikes, falling share prices, rising housing costs and soaring petrol and food prices have got many people saying, 'enough is enough'.
- The Reserve Bank would be very wary about lifting interest rates again. Simply, many factors are now reinforcing Reserve Bank tightening efforts, rather than moving the opposite way. Consumer spirits can certainly heal from here – especially given the health of the job market – providing there are no new shocks.
- The last time consumer confidence readings plunged 30 points in a year was in 2005 when petrol prices were soaring. After lifting rates in March 2005, the Reserve Bank stood at the sidelines for 14 months.

What do the figures show?

- The Roy Morgan survey of consumer confidence fell 9.4 points or 8.6 per cent in April to a 14-year low of 100.1 (lowest since September 1993). It was the biggest fall in the index for 20 months. The index is now 19.5 per cent below the levels it was at a year ago. The Westpac/Melbourne Institute survey stood at a 15-year low of 87.4 in April.



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- The CommSec Consumer Average, an average of the two consumer spirit gauges, also stood at a 14-year low of 93.8 in April.
- All five components of the Roy Morgan Consumer Confidence Rating index eased in April. The most negative reading was on purchase intentions. The estimate of whether it was a good time to buy major household items fell to a 14-year low, dropping from +10 to -2. It was the lowest reading since April 1994.
- The reading of family finances compared with a year ago fell from zero to -5. And the estimate of family finances over the next year fell from -22 to -15.
- On the economy, the reading of economic conditions over the next year fell from +2 to -12. The estimate of Australian economic conditions over the next five years fell from +13 to +5.

What is the importance of the economic data?

- Westpac and the Melbourne Institute release the *Index of Consumer Sentiment* and Roy Morgan issues its Consumer Confidence rating each month. 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?

- It is the size of the drop in consumer confidence that matters – 30 points in less than a year. Consumer spirits are fragile and they will continue to hesitate about making major purchases as well as smaller discretionary purchases. Consumers will still buy technology products, but at the expense of clothing, outings like visits to cafes and restaurants and purchases of jewellery.

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