Consumers positive on the economy
Reserve Bank mulls rate cut scenario
Consumer sentiment; Minutes of Reserve Bank Board meeting

- **Consumer confidence: The weekly ANZ-Roy Morgan consumer confidence rating rose by 1.9 per cent after falling by 1.3 per cent in the previous week. Sentiment has yo-yo'ed for the last 11 weeks.**
- **Reserve Bank Board Minutes: Board members discussed a scenario where rates could be cut. But the Board left rates unchanged in April as further progress was expected in meeting the Bank's goals.**
- **China house prices: In March, prices were up 10.6 per cent on a year ago (forecast +10.3 per cent).**

The consumer confidence figures have implications for retailers, and other consumer-focussed businesses. The Reserve Bank Board minutes provides guidance on interest rate settings.

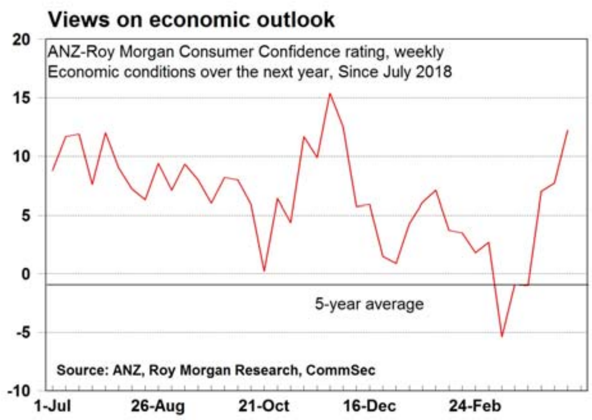
What does it all mean?

- Aussie consumers think that the economy is in good shape. But when it comes to their own finances, consumers aren't feeling the love. No doubt people are still miffed that wages are growing at a slower rate than in the past. But consumers are starting to warm to the fact that wages are still out-pacing prices.
- The index of consumer views of the economy in a year's time is +12.2 points, well above the longer-term average of -0.6 points. And the index of views on the economy in 5-years' time is 13.3, above the long-term average of +8.0 points. The results on the current and future state of consumer finances are softer than the longer-term averages, although only modestly lower. Bottom-line: consumer conservatism is set to continue.
- The Reserve Bank is open to cutting rates. But there is no rush. Board members expect that there will be further progress in reducing unemployment, lifting wage and prices, and therefore lifting consumer spending.

What do the figures show?

Consumer Sentiment

- The weekly ANZ-Roy Morgan consumer confidence rating rose by 1.9 per cent after falling by 1.3 per cent in the previous week. Sentiment has yo-yo'ed up and down for the last 11 weeks. Consumer sentiment is still above the longer term average of 113.1 points since 1990.
- **All of the five major components** of the index **rose** last week:
  - The estimate of family finances compared with a year ago was **up** from +3.2 points to +5.4 points;
  - The estimate of family finances over the next year was **up** from +22.8 points to +22.9 points;
  - Economic conditions over the next 12 months was **up** from +7.7 points to +12.2 points;
  - Economic conditions over the next 5 years was **up** from



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+11.6 points to +13.3 points;

- The measure of whether it was a good time to buy a major household item was **up** from +20.6 points to +22.6 points.

- The measure of inflation expectations **fell** from a 4.3 per cent to 3.9 per cent.

Reserve Bank Board meeting minutes

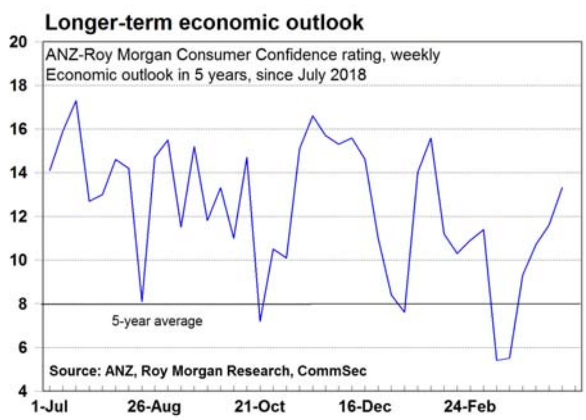
- **Consumer spending:** *"Retail sales data and contacts in the Bank's liaison program suggested that growth in housing-related consumption had remained soft in recent months."*
- **Rate cut scenario:** "*Members also discussed the scenario where inflation did not move any higher and unemployment trended up, noting that a decrease in the cash rate would likely be appropriate in these circumstances. They recognised that the effect on the economy of lower interest rates could be expected to be smaller than in the past, given the high level of household debt and the adjustment that was occurring in housing markets. Nevertheless, a lower level of interest rates could still be expected to support the economy through a depreciation of the exchange rate and by reducing required interest payments on borrowing, freeing up cash for other expenditure...year."*
- **No rate hike:** "...*members agreed that the likelihood of a scenario where the cash rate would need to be increased in the near term was low."*
- **Rate outlook**: *"Given this outlook for further progress towards the Bank's goals, members agreed that there was not a strong case for a near-term adjustment in monetary policy. Members recognised that it was not possible to fine-tune outcomes and that holding monetary policy steady would enable the Bank to be a source of stability and confidence."*
- **Last paragraph:** *"Taking account of the further progress expected towards the Bank's goals, members assessed that it was appropriate to hold the cash rate steady. Looking forward, the Board will continue to monitor developments, including how the current tensions between the domestic GDP and labour market data evolve, and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time."*

What is the importance of the economic data?

- The **ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.
- The **Reserve Bank** releases minutes of its monthly Board meeting a fortnight after the event. The minutes give a guide to Reserve Bank thinking on interest rate settings.

What are the implications for interest rates and investors?

- In the current environment, retailers have to convince shoppers that there are deals to be had. Consumer confidence is OK without being super-positive.
- If rates were to move in any direction in 2019, it would be down. Much will depend on the job market. And much will depend on the global environment, especially the China-US trade discussions. The Reserve Bank (RBA) is in no rush to change rates, saying *"it was not possible to fine-tune outcomes."* In the RBA view, leaving rates low and stable was the best contribution it could make in the current environment.
- Inflation was expected to stay low, but one reason for this was that *"governments had been working to ease cost of living pressures, including through their influence on administered prices."*
- The RBA said that *"weakness in demand"* had largely driven the slowdown in home lending but *"There had also been some tightening in lending practices."* In terms of businesses, the RBA notes that business lending had been robust but loan growth was strongest for big business. Credit conditions had tightened for some small businesses. Clearly this is an area to watch in surveys of business spending and investment.
- CommSec expects interest rates to be unchanged for the foreseeable future. But the loss of momentum across global economies means central banks are skewed to more accommodative monetary policies.



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