

Consumer views on current finances hit 8-month low

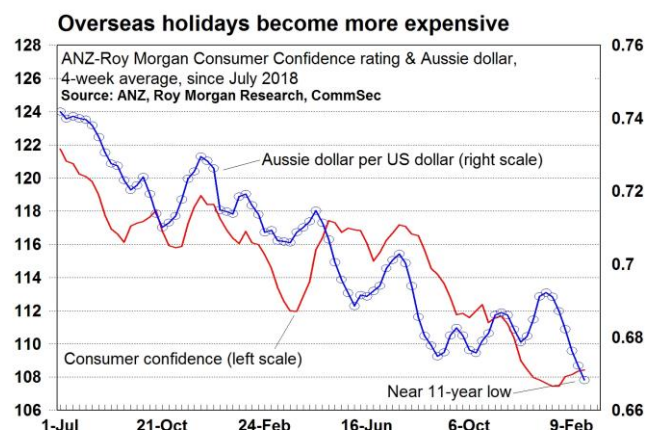
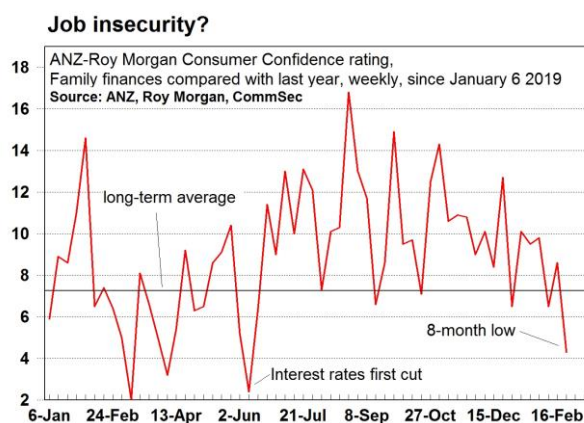
Consumer sentiment

- **Consumer confidence:** The weekly ANZ-Roy Morgan consumer confidence rating fell by 0.7 per cent to 108.3 points - the second biggest decline in 2020. Sentiment is below both the average of 114.1 points held since 2014 and the longer term average of 113.1 points since 1990.
- **Worries about current finances:** Consumer views on family finances compared with last year ('current finances') fell by 4 per cent to 4.3 points – the lowest level since June 9 2019.

The consumer confidence figures have implications for retailers, and other consumer-focussed businesses.

What does it all mean?

- We'll have to wait until next week to see whether there is any significant impact on Aussie consumer confidence from the coronavirus-induced overnight plunge in global sharemarkets. At the close of US trade, the Dow Jones index was lower by 1,031 points or 3.6 per cent; the S&P500 index was lower by 3.4 per cent; and the technology-focused Nasdaq index lost 355 points or 3.7 per cent – the biggest drop in two years.
- Major equity markets in Europe also fell overnight with the pan-European STOXX 600 index down by 3.8 per cent. The Milan sharemarket in Italy fell by 5.4 per cent. The German Dax lost 4 per cent and the UK FTSE index fell by 3.3 per cent.
- Aussie investors haven't been spared from the carnage with the benchmark S&P/ASX200 index down by around 178 points or 2.6 per cent just after the opening of trade this morning following a decline of 161 points or 2.3 per cent yesterday. But at the time of writing the ASX200 had pared some losses, down by around 1.5 per cent.
- Why the panic? Investors have become increasingly concerned about the spread and increase in novel coronavirus (COVID-19) infection rates beyond China - especially in Italy, South Korea and Iran. Worries about the human and economic toll from a potential pandemic and whether central banks and governments can protect economies from the outbreak have boosted safe haven demand for government bonds, gold and the Japanese Yen. US and Aussie government bond yields are hovering near record lows. Gold is trading near 7-year highs in US dollar terms. And the Aussie dollar sank to fresh 11-year lows against the greenback yesterday.
- Aussie consumers have been remarkably resilient to begin 2020. Last week consumer sentiment - as measured



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by Roy Morgan and ANZ - fell by 0.7 per cent. While it was the second biggest decline this year, the index has averaged 107.9 points in the 8-week period and has been relatively stable at 107-108 points for the past seven weeks. And three out of five of the major components actually lifted in the week to February 25.

- That said, the unexpected uptick in the national jobless rate to 5.3 per cent in January, glacial wage growth and Aussie dollar weakness probably raised some concerns about consumers' finances. In fact, views on 'current finances' fell by 4 per cent to 4.3 points – the lowest level since June 9 2019.

What do the figures show?

Consumer sentiment

- The **weekly ANZ-Roy Morgan consumer confidence rating** fell by 0.7 per cent to 108.3 points – the second biggest decline in 2020. Sentiment remains below both the average of 114.1 points held since 2014 and the longer term average of 113.1 points since 1990.
- **Three of the five** major components of the index **rose** last week:
 - The estimate of family finances compared with a year ago was **down** from +8.6 points to +4.3 points;
 - The estimate of family finances over the next year was **down** from +27.7 points to +21.1 points;
 - Economic conditions over the next 12 months was **up** from -12.6 points to -10.5 points;
 - Economic conditions over the next 5 years was **up** from +1.3 points to +4.0 points;
 - The measure of whether it was a good time to buy a major household item was **up** from +20.3 points to +22.4 points.
- The measure of inflation expectations was **up** from 3.9 per cent to 4.1 per cent.

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.

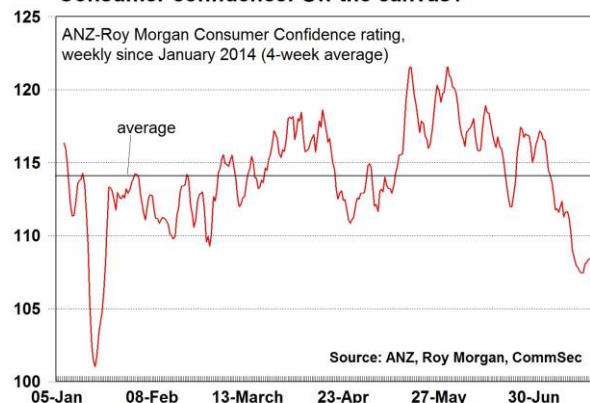
What are the implications for interest rates and investors?

- Aussie consumers continue to lack confidence about their economic futures. Consumer sentiment towards the economy remains subdued. A summer of natural disasters has tested our resolve. And now Aussie businesses and workers face the prospect of a global economic slowdown with our largest trading partner - China - at the epicentre of the COVID-19 epidemic.
- Bloomberg estimates just 50-60 per cent of Chinese factories and businesses have reopened after the enforced extension to the Lunar New Year holiday break. While the actual cost to the Aussie economy is still unknown, reduced Chinese demand for iron ore, coal, natural gas and agricultural produce will hurt Aussie exporters and producers. And a China travel ban threatens Australia's education and tourism sectors.
- Central banks stand ready to provide policy support to the global economy as virus fears threaten the fragile recovery after a ceasefire in the 2-year long US-China trade war. But with monetary policy 'ammo' diminishing, governments need to step up to the plate and provide fiscal stimulus.
- The Reserve Bank will be relieved that Aussie dollar weakness – at 11-year lows against the greenback – is acting as a 'shock absorber' for the economy. But consumers often take a different view as overseas holidays and imported goods become more expensive. And the COVID-19 epidemic raises the spectre of casual and part-time job losses in the retail, tourism and education sectors.
- Commonwealth Bank Group economists expect policy makers to cut interest rates in the coming months to support the economy. Pressure is also building on the Federal government to announce significant fiscal initiatives in the May Budget.

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Consumer confidence: Off the canvas?



Weak spending intentions

