Reserve Bank patient; Fickle consumers

Consumer sentiment; Car Sales; Reserve Bank Board minutes

- **Consumer confidence:** The weekly ANZ/Roy Morgan consumer confidence rating decreased by 1.2 per cent to 112.4 after increasing 0.4 per cent in the prior week. Confidence is down 4.6 per cent over the year and below the average of 113.2 since 2014. Four out of five sub-components declined.

- **Vehicle sales:** According to the Federal Chamber of Automotive Industries (FCAI), new motor vehicle sales totalled 100,200 in September, down 2.4 per cent on a year ago.

- **Reserve Bank Board minutes:** The minutes from the October 3 Board meeting show policymakers continue to expect stronger economic growth on the back of robust jobs growth. A pick-up in wages growth is needed to exert upward pressure on inflation before the Board likely lift interest rates.

*Consumer confidence data is important for retailers. The vehicle sales data provides guidance on consumer spending as well as conditions for the Autos and Components sector of the sharemarket. The Reserve Bank Board minutes provides guidance on interest rate settings.*

What does it all mean?

- Ongoing strength in the labour market and rising business profitability are yet to convert into material wages growth for many Aussie households. While real wages are still rising and household wealth are at record levels - courtesy of rising equity and property markets - Aussie consumers still feel pressured. Record low interest rates and jobs growth are supportive of household balance sheets, but elevated mortgage debt levels together with recent increases in power, insurance and education-related bills are restraining consumer sentiment.

- Four out of the five sub-components decreased over the week pushing the index below its long-term average. Survey respondents were only positive about their family’s financial situation next year, with the index climbing 2.5% to 126.5, the highest since April 2017. Consumers may be taking comfort that increases in interest rates are some way off.

- Motor vehicle sales eased in September after reaching record highs in August, but remain on track for a record year in 2017. In the nine months to September, new vehicle sales are up 0.1 per cent on a year ago.

- The Reserve Bank’s minutes from its October 3 meeting re-affirmed the Board’s “neutral stance” towards interest rate policy settings. The cash rate remains at a record low of 1.50 per cent and the Board appears patient and largely data-dependent before its next move.

- The minutes implied that a rate rise is some way off with the Board seemingly comfortable with current developments in the Australian economy. The economy is forecast to gradually strengthen on the back of the tightening labour market, improving non-mining business investment and increased infrastructure-related public spending. Wages and inflation are expected to eventually lift in response. We expect the cash rate to be on hold until late 2018.

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Economic Insights: Reserve Bank patient; Consumers fickle

What do the figures show?

Consumer sentiment

- The weekly ANZ/Roy Morgan consumer confidence rating fell by 1.2 per cent to 112.4 after rising 0.4 per cent in the prior week. Confidence is down 4.6 per cent over the year, below the average of 113.2 since 2014.
- Four of the five components of the index declined in the latest week:
  - The estimate of family finances compared with a year ago was down from +7 to +5;
  - The estimate of family finances over the next year was up from +23 to +27;
  - Economic conditions over the next 12 months was down from +1 to -1;
  - Economic conditions over the next 5 years was down from +5 to +2;
  - The measure of whether it was a good time to buy a major household item was down from +33 to +29.

New vehicle sales

- According to the Federal Chamber of Automotive Industries (FCAI), new motor vehicle sales totalled 100,200 units in September, down 2.4 per cent on a year.
- Passenger vehicles in September were down 9.3 per cent on a year earlier, sales of sports utility vehicles (SUVs) decreased by 1.3 per cent, while other vehicles were up by 9.1 per cent.
- In the year to September, SUVs represented a record 49.8 per cent of combined passenger car and SUV sales. SUVs also accounted for a record 38.7 per cent of all vehicle sales.
- FCAI notes (media release dated October 4: “All passenger car segments were affected by the downturn although sales of sports cars (+4.1 per cent) and people movers (+5.0 per cent) remain ahead of 2016 year to date.
- “All the states and territories experienced a decline in sales although New South Wales (-0.7 per cent), Victoria (-2.3 per cent) and Queensland (-2.7 per cent) were the least affected. On a year to date basis, Victoria’s 3.3 per cent growth significantly outstrips that of all the other states and territories.
- “Private sales of light commercial vehicles provided stimulus during September, increasing by 9.6 per cent over the same month last year. Business sales of light commercials, too, were up by 7.9 per cent, with 4X4 utilities and cab-chassis models as the segment’s strongest sellers. Diesel remains the overwhelming engine type preference in the light commercial market, up by 10.5 per cent in September to both private and non-private buyers.
- “In a month where SUV sales were down 1.3 per cent overall, business (+1.7 per cent) and government (+6.7 per cent) sales both absorbed some of the shortfall from an 8.5 per cent decline in private sales.
- “Pick-up and cab-chassis 4X4 light commercial vehicles, together with small and medium Sport Utility Vehicles (SUVs) were the three growth segments during September. The 4X4 light commercials were up 11 per cent, small SUVs rose 7.9 per cent and medium SUVs increased 3.3 per cent compared with September 2016.
- “SUV and light commercials remain the two robust areas of the market, accounting for a 58.8 per cent share of total sales year to date, up from 56 per cent in 2016.

Reserve Bank Board minutes:

- Last paragraph: “Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.”
- “In considering the stance of monetary policy, members noted that economic conditions internationally and domestically had been more positive since 2016.”
- “Members observed that moves towards higher interest rates in other economies were a welcome development, but did not have mechanical implications for the setting of policy in Australia, where the timing of any changes in interest rates would be dependent, as always, on developments in domestic economic conditions.”
- “The current and prospective strength in employment growth in Australia was expected to support household spending in the period ahead, although slow growth in real wages and high levels of household debt were likely to be constraining influences.”
“Wage growth was expected to increase gradually as spare capacity in the labour market diminished, which was in turn expected to contribute to a gradual rise in inflation over time.”

“Members noted that the national accounts indicated that private non-mining business investment had increased in the June quarter to be almost 10 per cent higher than at the start of 2016.”

“Public consumption had increased solidly and new public investment had risen very strongly across most states.”

“Residential construction appeared to have plateaued, with dwelling investment largely unchanged in the June quarter. The pipeline of work already approved or under way was expected to continue supporting dwelling investment around current levels over the subsequent year or so.”

“The most recent information about conditions in the established housing market suggested that growth in housing prices had eased from the previously brisk pace in some cities, most notably Sydney, and had remained soft in some others.”

“The appreciation of the Australian dollar since mid-2017, partly reflecting a lower US dollar, was expected to contribute to ongoing subdued price pressures. A material further appreciation of the exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast.”

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 Federal Chamber of Automotive Industries releases estimates of car sales on the third business day of the month. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.

- 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?

- An extended period of stable interest rates is likely. Growth is picking up but spare capacity still exists in the job market, keeping wage and price growth constrained.

- Overall, while business surveys remain near decade highs, consumers still feel restrained by rising cost of living pressures.

- CommSec expects the next move in interest rates to be up, but not until later in 2018.

- Investors need to take an active approach to their investments to ensure they are making adequate returns above the rate of inflation.

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