



CCI SURVEY: Consumer Confidence

December Quarter 2018
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SUBDUED FESTIVE CHEER

West Australian consumer confidence dropped slightly in the December quarter, breaking the five-year high hot-streak achieved throughout 2018. This is predominantly on the back of surging petrol prices, announcements of tighter lending conditions and rising mortgage interest rates, political instability and mounting household budgetary pressures.

Economic recovery is however continuing and West Australians remain markedly optimistic compared to previous quarters, with the Consumer Confidence Index continuing to trend well above its long-term average.

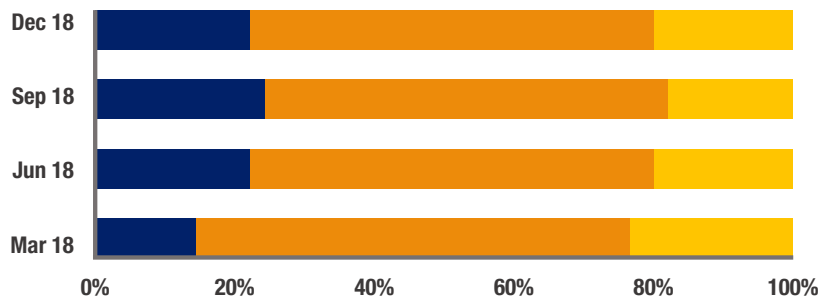
As the only survey of its kind in WA, the Chamber of Commerce and Industry WA's (CCIWA) *Consumer Confidence Survey* canvasses the views of West Australians across metropolitan Perth and regional WA to gather evidence on consumer confidence in the economy, personal finances and employment prospects for the near future. The survey also investigates consumers' spending habits and financial health to gain insight into factors that may influence confidence.

The results for the December quarter

CONSUMER CONFIDENCE

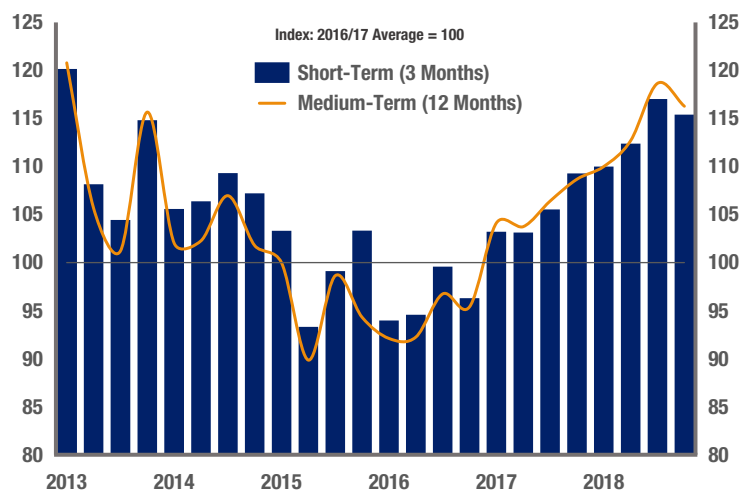
Short-Term (3 Months)

■ Stronger ■ About the same ■ Weaker



CONSUMER CONFIDENCE

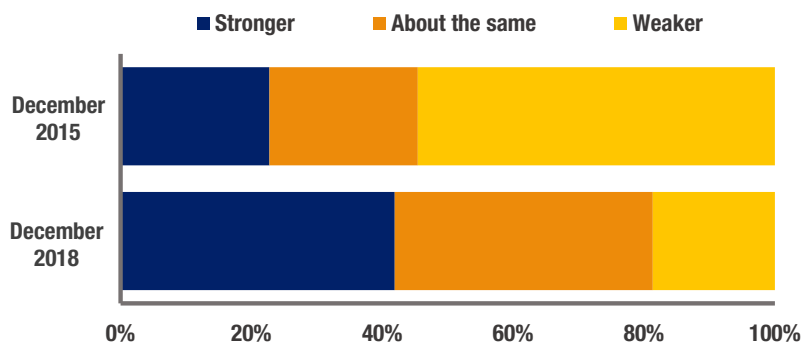
WA Economic Conditions



STRAINED HOUSEHOLD BUDGETS HAVE ALSO BEEN EXACERBATED BY SLUGGISH WAGE GROWTH AND RISING MORTGAGE INTEREST RATES

WHAT A DIFFERENCE A DAY (OR THREE YEARS) MADE

Medium-Term Consumer Confidence (12 Months Ahead)



indicate that economic recovery in WA is underway and is consistent with the notion that the WA community is less pessimistic about the economic outlook than previously:

- The Short-Term Index (3-month outlook) declined by 1.6 index points since last quarter to 114.9 but remains 6.1 index points higher than December 2017;
- Four out of five consumers (82%) are anticipating the WA economy to improve or remain unchanged over the next quarter, down 2 per cent since last quarter, including 24% that expect it to improve;
- The Medium-Term Index (12-month outlook) declined by 2.4 index points since last quarter to 116.3, but is trending 12.5 index points above its long-term average;
- Despite the modest decline in the index, there are still more West Australians that believe the economy will be stronger (42%) rather than weaker (19%) in twelve months' time – the highest proportion since February 2013.

JOB PROSPECTS AND PERSONAL FINANCES

WA consumers continue to have significant concerns about their personal finances, with a greater proportion of consumers stating that their personal financial situation has worsened (30%) rather than improved

(24%) since the previous year.

One explanation for the 3.5 index point decline in the Personal Finances Index could be the surge in petrol prices in October – average fuel prices (ULP) in the Perth metropolitan region soared to 157.4 cents per litre earlier this quarter, the highest monthly average in over ten years [FuelWatch, 2018]. Strained household budgets have also been exacerbated by sluggish wage growth and rising mortgage interest rates, with three of the four major banks lifting their standard variable mortgage rates by 14-16 basis points earlier this quarter.

Lower income households (with annual household income below \$50,000) are

feeling the pinch with 44 per cent of these consumers reporting that their financial position has worsened – almost double the proportion of higher-income earners (21%).

The Job Prospects Index also declined marginally by 1.6 index points since last quarter to 105.3. This modest decrease in the index can be attributed to a 2 per cent rise in consumers feeling their job prospects have worsened rather than remaining unchanged. However, 15 per cent of consumers reported improved perceived employment prospects – the highest proportion since September 2015.

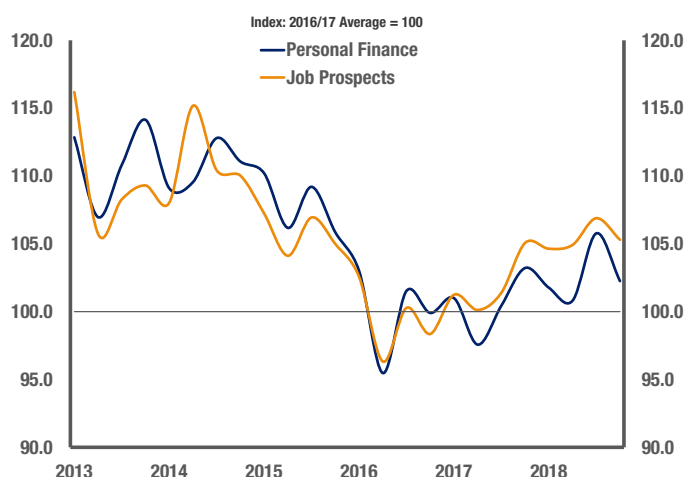
WHAT IS INFLUENCING CONSUMER CONFIDENCE?

Positive economic news, relatively subdued interest rates and minimal inflationary pressures continue to boost confidence, while WA consumers remain increasingly cautious about increased cost of living pressures, slow wages growth and high household debt.

Cost of living continues to be the biggest dampener on consumer confidence, with three out of five consumers (60%) considering living costs such as transport, groceries and utilities as having a negative influence on confidence – unchanged

PERSONAL FINANCES AND JOB PROSPECTS INDEX

Views on personal finance and job prospects compared to a year earlier



THREE OUT OF FIVE CONSUMERS (60%) BELIEVE THAT IT IS UNLIKELY THEY WILL BE MAKING ANY MAJOR HOUSEHOLD PURCHASES NEXT QUARTER

since last quarter. The majority across every demographic in WA – age, gender, location, household size and income – indicated that they considered living costs to detract from their confidence.

Stability in the domestic economy is continuing to have an encouraging effect, with more than half of surveyed consumers (57%) rating domestic economic news as having a positive or neutral effect on confidence. Improvements in WA's labour market is a likely contributor to this boost in confidence as full-time employment in WA has grown to its highest level in three years and the unemployment rate dropped to a year-long low earlier this quarter [ABS, 2018]. Job vacancies in WA have also risen 9.4 per cent over the year to 16,100 advertised vacancies [Department of Jobs and Small Business, 2018].

The shocks following the Federal leadership spill continue to be felt within the community, with two out of five consumers (43%) feeling that the Federal Government detracted from their confidence in the economy, compared to 29 per cent who reported perceiving the economy positively thanks to the Government's activities.

The net positive effect of low interest rates on confidence has continued to decline

over the last three editions of the *Consumer Confidence Survey*, with a greater proportion considering interest rates to have a negative influence on confidence (33%) rather than a positive one (26%). Greater speculation on the timing, direction and magnitude of the next interest rate change is increasing uncertainty among consumers and thus detracting from confidence.

CONFIDENCE AND DOLLAR SPEND

Stabilised consumer confidence is unlikely to result in a spending spree just yet. Three out of five consumers (60%) believe that it is unlikely they will be making any major household purchases next quarter. However, this is down 3 per cent since last quarter and 8 per cent since the beginning of the year. This indicates that there is some reduction in aversion to significant purchases, but this has yet to be fully translated into an increase in spending intent. Consumers are becoming slightly less averse to the notion of high cost household goods, which will be positive news for WA's struggling retail trade sector.

WHAT ABOUT OUR FINANCIAL HEALTH?

Monitoring financial stress acts as a barometer on the financial stability of an economy.

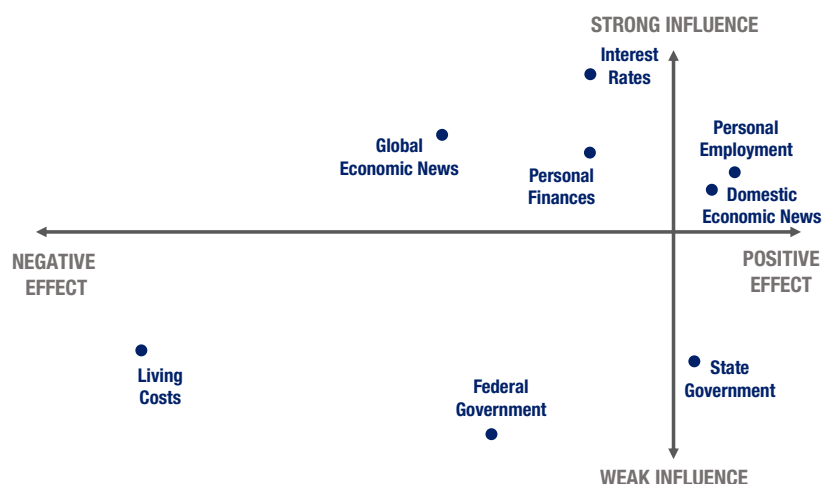
To identify financial stress within the community, consumers were asked if they had experienced hardship that may hinder their confidence. For instance, if they were unable to pay their bills on time or if their expenses regularly outnumbered their income. While these indicators cannot identify whether financial stress has been impacted by personal spending choices, it can highlight trends in consumer behaviour and macroeconomic stability.

Since the last quarter, there has been a significant increase in the proportion of consumers unable to pay their bills on time, up 5 per cent, which has been somewhat counteracted by a decrease in those unable to pay off their credit or debit card in full, down 6 per cent.

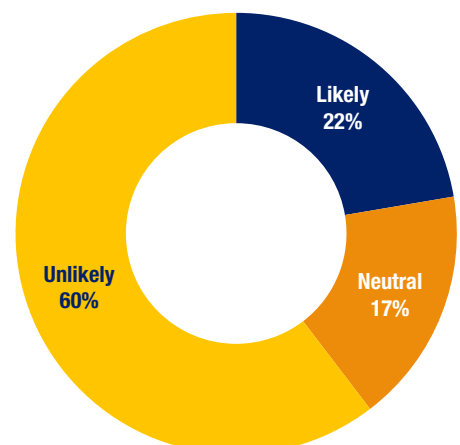
One in three consumers (35%) exceeded their monthly incomes and 16 per cent had to borrow money from friends or family. Indicators of financial stress are apparent in young people – over 32 per cent of consumers aged 18-39 years reported having to borrow money from friends or family, compared to 5 per cent of consumers aged over 40 years.

Given minimal inflationary pressures and the 28-month streak of record low interest rates, these trends in financial stress are concerning but somewhat explain the disconnect in confidence and low spending growth.

WHAT INFLUENCES CONSUMERS?



LIKELIHOOD OF MAKING MAJOR HOUSEHOLD PURCHASES



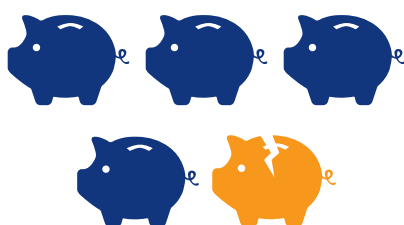


INDICATORS OF FINANCIAL STRESS Over the last three months



35% SPENT MORE
THAN THEY EARNED

15% COULD NOT PAY
OFF THEIR CREDIT CARD BILL



1 OUT OF 5 COULDN'T PAY THEIR
BILLS ON TIME



1 OUT OF 3
YOUNG PEOPLE
(AGED 18-39) HAD TO
BORROW MONEY FROM
FRIENDS OR FAMILY

ENCOURAGINGLY,



43% OF
CONSUMERS
REPORTED
EXPERIENCING
NONE OF THESE

WHAT DOES THIS MEAN FOR WA?

Despite uncertainty surrounding personal finances and job prospects, WA consumers remain upbeat about the economy's prospects compared to last year. Confidence has somewhat declined since the five-year high recorded last quarter but remains well-above the long-term average. Consumers remain cautious about opening their wallets and increasing their spending patterns, while concerns around financial health remain elevated. Steady wages growth and some relief in costs of living should see consumer confidence bounce back.

CONSUMER
CONFIDENCE INDEX
**TRENDING
ABOVE**
ITS
5-YEAR
AVERAGE



MORE WEST
AUSTRALIANS
BELIEVE
THE
ECONOMY
IS
STRONGER
THAN WEAKER



60% CONSIDER
LIVING COSTS TO HAVE A
NEGATIVE INFLUENCE ON CONFIDENCE



PERSONAL FINANCES INDEX
DOWN 3.5 POINTS
SINCE LAST QUARTER



BUY **BUY** **BUY** **BUY** **BUY**
3 OUT OF 5 CONSUMERS
ARE UNLIKELY TO MAKE
MAJOR HOUSEHOLD
PURCHASES IN THE
NEXT QUARTER

15% CONSUMERS
REPORTED **IMPROVED**
JOB PROSPECTS
HIGHEST SINCE SEPTEMBER 2015



CONSUMER CONFIDENCE	CURRENT QUARTER	PREVIOUS QUARTER	HIGHEST SINCE
Short-term	114.9	116.5	September 2018
Medium-term	116.3	118.7	September 2018

Note: Index figures may have changed from previous editions of Consumer Confidence due to changes in index calculation methodology. Percentage figures may not always add to 100% due to rounding errors.

The index is rebased to the average score of respondents to the 2016-17 financial year. The value of the index can be interpreted as the percentage change in average consumer confidence in a period compared with the average consumer confidence in 2016-17. For instance, the Consumer Confidence Index in December 2018 is 114.9, which suggests that the average score of survey respondents for consumer confidence in December 2018 is 14.9 per cent higher than the average rating in 2016-17.