

Consumers display caution

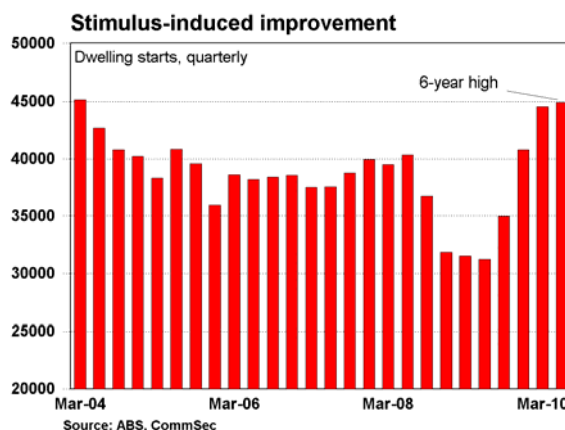
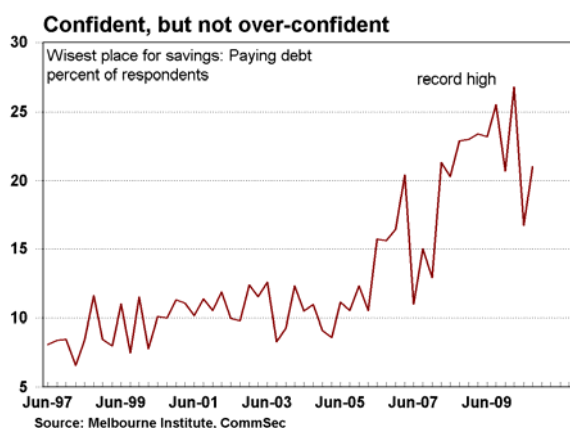
Dwelling starts at six-year highs

Consumer sentiment; New car sales; Dwelling starts

- The Westpac/Melbourne Institute index of consumer confidence eased in the latest month. The index fell by 5.0 per cent to a three-month low of 113.2 in September. Aussie consumers believe that bank deposits are the wisest place for savings (30.7 per cent of respondents), followed by paying debt (21.0 per cent).
- Australian new car sales rose for the first time in four months, up by 0.3 per cent in August after a 2.6 per cent fall in July. Passenger car sales fell for the fourth straight month, down by 0.2 per cent in August.
- Sales of SUV's eased by 2.1 per cent in August. However over the past year more than 225,000 SUV have been sold – the best result in records going back 16 years.
- Australian dwelling starts have risen for the fourth straight quarter, lifting by 0.8 per cent in the June quarter. The lift in dwelling starts was dominated by the public sector, rising by 3.9 per cent, while private sector starts rose by only 0.4 per cent. In the June quarter, starts rose in only three of the eight states and territories.
- In seasonally adjusted terms work started on 44,899 dwellings in the quarter – the biggest quarterly result in six years

What does it all mean?

- The latest fall in consumer confidence highlights the cautious attitude displayed by Aussie consumers. The uncertainty about a longer term stable government has clearly had an effect on consumer outlook. Despite the recent fall, consumers are still relatively optimistic however a more prudent attitude is being portrayed.
- Interestingly the latest survey includes respondent's views on the safest place to park additional funds. And over the past three months consumer's views have certainly shifted. The safest place for savings still remains the bank, however paying down debt was clearly the major gainer in the latest survey – rising into second place and surpassing real estate. No doubt the surge in house prices and talk of a housing bubble have been a major driver behind the change in consumer views.



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- The talk of further rate hikes has no doubt altered consumer perceptions. Consumers are more likely to use saving, to cut their debt levels or put it in the bank rather than use it for any other purpose. If the conservatism continues, retailers will have to continue discounting in coming months to generate interest. No doubt the recent strength of the Australian dollar will help alleviate the margin pressure being felt by retailers.
- The car industry is no doubt in a period of consolidation. The expiry of government stimulus and the resulting “hangover effect” needs time to be worked through the economy. Overall vehicle sales rose by 0.3 per cent in August – the first rise in four months. However in annual terms vehicle sales is still up over 10 per cent on a year ago
- Despite the recent weakness, there are certainly some encouraging signs for policymakers. In fact sales of SUV’s have hit record highs with over 225,000 vehicles sold in the 12 months to August. In annual terms SUV sales are up 31 per cent on a year ago. The slide in petrol prices and improving economic conditions has seen motorists resume their love affair with 4WD’s. No doubt the improvement in job security and car affordability are playing an integral part in supporting the car industry.
- Its good news that more homes are being built to address the national shortage, the bad news is that the private sector isn’t participating to any significant degree. Most of the growth in the latest quarter came from the public sector. For the fourth straight quarter, growth in dwelling starts was driven by the apartment sector. Free-standing houses are certainly becoming less commonplace. Governments clearly need to do more to reduce the barriers confronting investors and developers.
- The increased supply of homes coming onto the market, together with the softening of demand in response to higher interest rates should lead to more balanced conditions and more sustainable growth of home prices. CommSec expects Australian home prices to grow by 5-8 per cent over 2010.

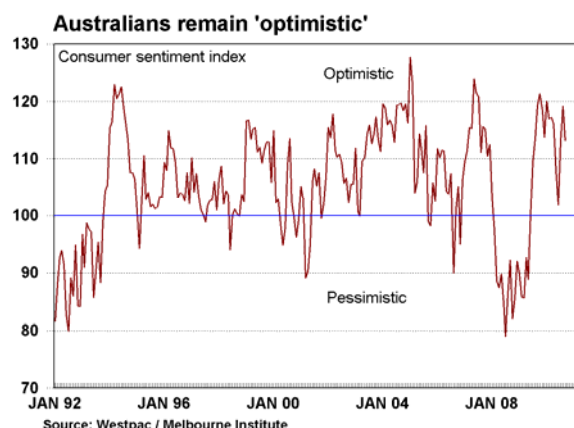
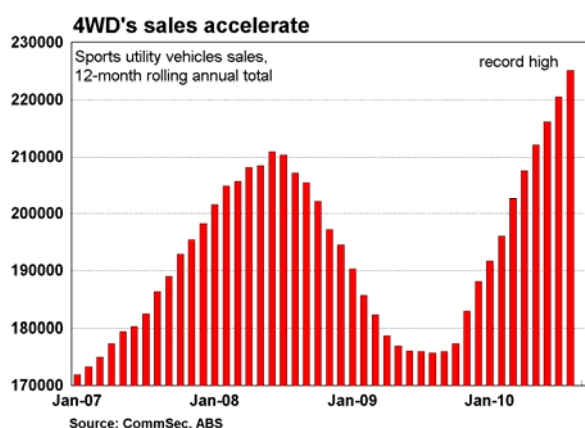
What do the figures show?

Consumer sentiment

- The **Westpac/Melbourne Institute index of consumer sentiment** fell by 5.0 per cent in September to 113.2 after lifting 5.4 per cent in August. The index is now down 5.1 per cent on a year ago.
- The current conditions index rose by 4.4 per cent, while the expectations index rose by 6.0 per cent.
- All of the five components of the index rose in August:
 - The estimate of family finances compared with a year ago fell by 1.1 per cent;
 - The estimate of family finances over the next year fell by 6.1 per cent;
 - Economic conditions over the next 12 months was lower by 7.2 per cent;
 - The measure of economic conditions over the next five years fell by 6.1 per cent;
 - The measure on whether it was a good time to buy a major household item fell by 3.8 per cent.
- There was a sharp rise in the gauge of whether it was a good time to buy a home (up 19.8 per cent to 113.4). There was a more modest rise in the gauge of whether it was a good time to buy a car (up 9.1 per cent to 139.3).
- Aussie consumers believe that bank deposits are the wisest place for savings (30.7 per cent of respondents), followed by paying debt (21.0 per cent), real estate (16.7 per cent), and shares (11.5 per cent).

New car sales

- New car sales rose for the first time in four months, up by 0.3 per cent in August after falling by 2.6 per cent in July.
- Passenger car sales fell by 0.2 per cent in the month, sports utility vehicles fell by 2.1 per cent while “other”



vehicles (trucks, utes etc) were up 4.5 per cent.

- In rolling annual terms, a record 225,052 SUV's have been sold in the 12 months to August. SUV sales are up 31.1 per cent on a year ago.

Dwelling commencements

- The number of **dwelling commencements** rose by 4.3 per cent in the March quarter after rising by 16.8 per cent in the December quarter and 10.9 per cent in the September quarter. Activity was dominated by the public sector. Private sector commencements were modestly higher by 0.4 per cent in the quarter with house starts down 3.9 per cent and apartment starts up 11.5 per cent.
- In the June quarter, starts rose in only three of the eight states and territories. Leading the gains was the ACT (up 66.6 per cent), followed by Queensland (up 9.8 per cent) and South Australia (5.6 per cent). Starts fell most in Tasmania (down 11.9 per cent), followed by Western Australia (down 5.2 per cent), Victoria (down 1.6 per cent) and NSW (down 1.0 per cent). Starts in the Northern Territory were unchanged.
- In the year to June 2010, 164,783 dwellings were started across Australia – the best annual result in 3 years. Annual starts hit an 8-year low of 129,868 in the year to September last year.

What is the importance of the economic data?

- Westpac and the Melbourne Institute release the **Index of Consumer Sentiment** each month. According to Melbourne Institute: *"The survey of consumer sentiment was first undertaken in 1973 and was conducted on a quarterly basis until 1976, a six-weekly basis from 1976 to 1986, and has been conducted monthly ever since."* Confident consumers may be more inclined to spend, especially on major items.
- The Australian Bureau of Statistics (ABS) provides monthly estimates of **car sales** in seasonally adjusted and trend terms after receiving the actual sales data from the car industry. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.

What are the implications for interest rates and investors?

- Looking forward, it is likely that car sales will continue to taper off in coming months. However CommSec expects business vehicle sales to strengthen once investment plans gain traction in line with the economic recovery. It is looking more likely that sales of passenger car sales will support the car industry over the coming year.
- The Reserve Bank may want to remain on the interest rate sidelines until the inflation data is released in late October. Confidence is clearly paramount to the recovery cementing itself and given that the economic data has been patchy in recent times unless inflation prints well above expectations, the Central bank will have no need to raise rates.

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