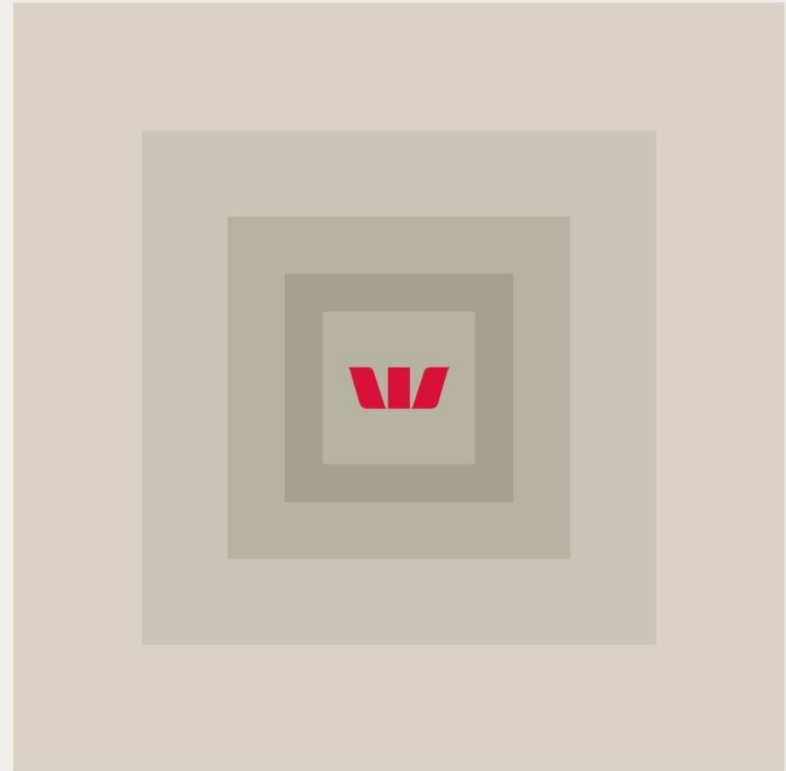


Westpac Melbourne Institute Consumer Sentiment

Unemployment expectations
chart pack.

December 2014



Westpac – Melbourne Institute

Consumer unemployment expectations

- The Westpac-Melbourne Institute Unemployment Expectations Index surged 4½% in Dec following on from a 2.7% rise in Nov, and a –3.9% fall in Oct. Recall that a lower (higher) reading from the index indicates reduced (increased) concern around the labour market.
- In trend terms, the index rose 1.6% in Dec following a 1.1% rise in Nov (revised from a decline of –0.9%) and a modest 0.3% gain in Oct. The worm has turned and we are now observing a trend deterioration in expectations.
- In the year to Dec, unemployment expectations are 5.3% higher than a year earlier. We had been cautiously observing the trend improvement, the through the year pace hit a low of –0.9%yr in Aug, and it appears that caution was warranted. The most recent trend deterioration in expectations suggests household are become more nervous again about the employment outlook.

Westpac-Melbourne Institute

Consumer unemployment expectations (cont)

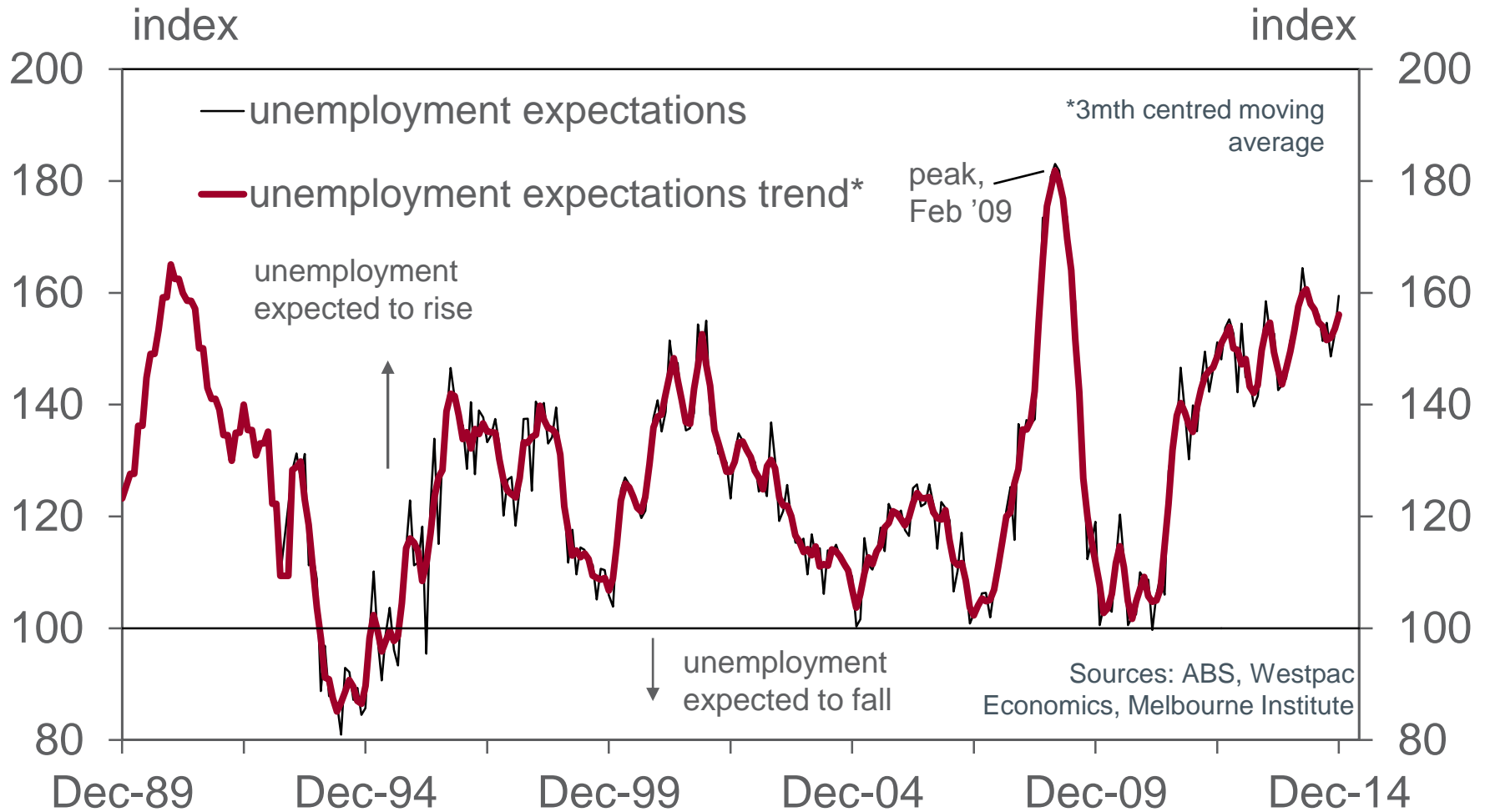
- Critically, unemployment expectations are consistent with the recent deterioration in labour demand revealed in the various business surveys. Westpac's Jobs Index peaked just above its long-run average in Sep and has since decline 5% to Nov. Those early signs of an improvement in the labour market have faded and in fact, we now have early signs of a step down in labour demand.
- This month we take a closer look at unemployment expectations relative to the employment to population ratio. The deterioration in expectations suggests that employment growth will continue to lag population growth driving the employment to population ratio even lower.
- Since mid-2013 growth in hours worked in the Labour Force Survey has been running well ahead of expectations. Given that expectations are deteriorating we are now watching for a correction in hours worked, particularly in WA & NSW.

Westpac-Melbourne Institute

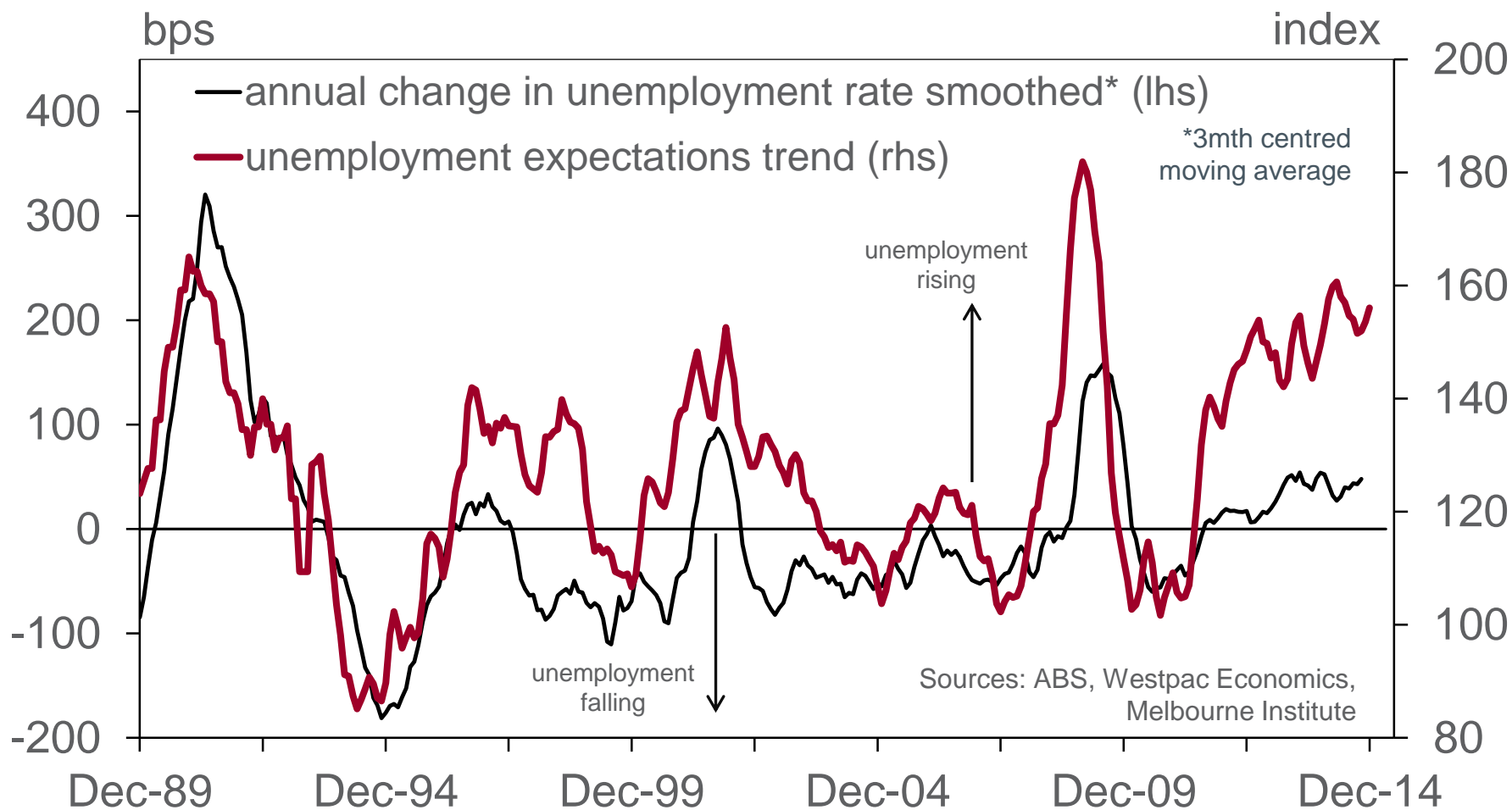
Consumer unemployment expectations (cont)

- Unemployment expectations do diverge by city & state, WA is the most unsure while Sydneysiders are the most optimistic, but a trend rise is observable in all states.
- It is worth noting the recent deterioration has been largely driven by those employed as labourers/operators and in sales/clerical roles. There was also a large bump in expectation of mortgagors. We also observe that the deterioration has been in urban households while rural household have been steadier.
- The level of unemployment expectations are high and rising which presents a disinflationary force on the economy. But what we have found is that it is the change in expectations, rather than the level, that is the more important guide to any possible change to the stance of monetary policy. The recent trend deterioration in expectations suggests that the chances of a rate cut are not as long as some may think. Westpac is forecasting a 25bps cut in Feb 2015.

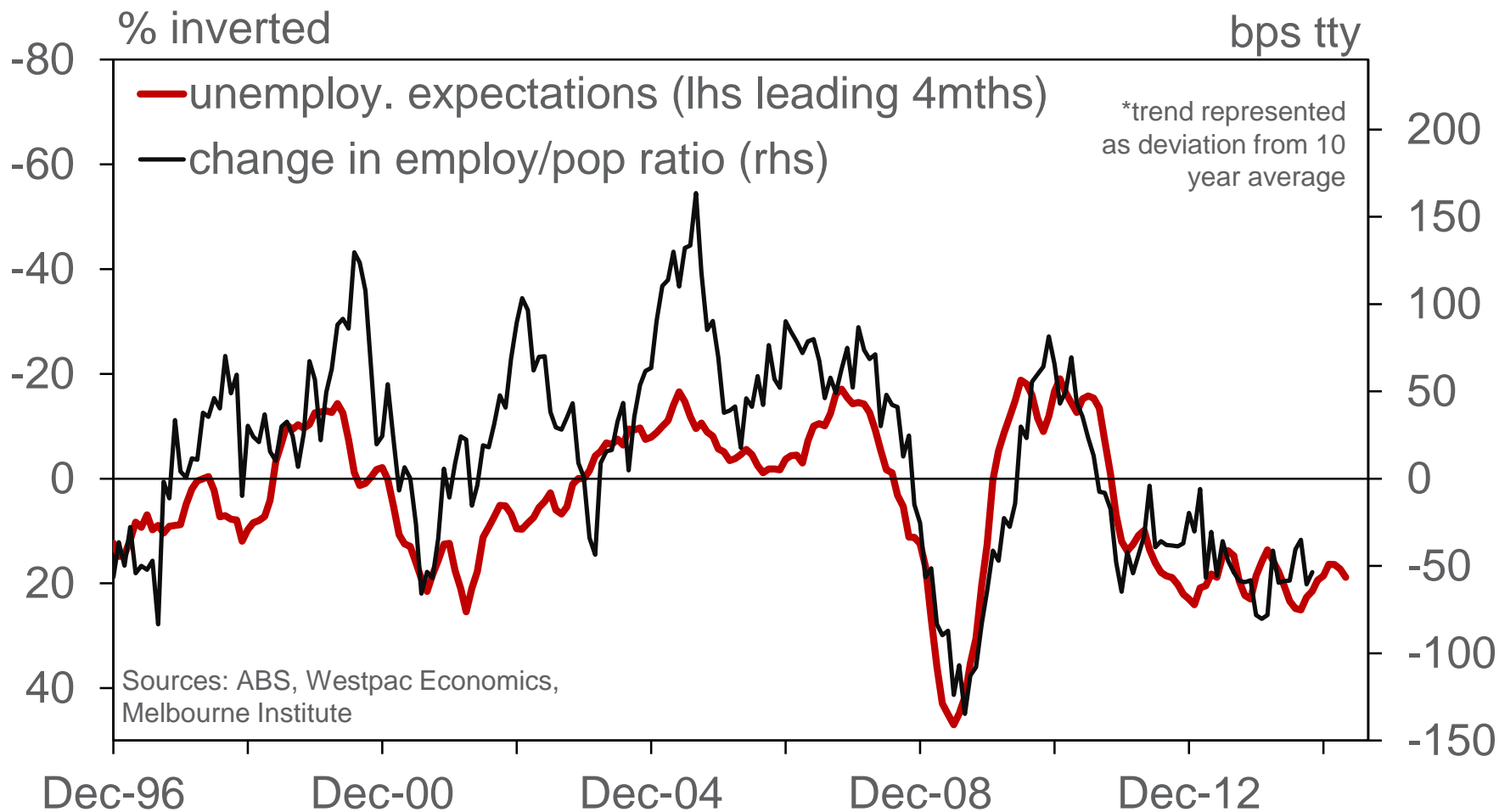
Expectations bounce...



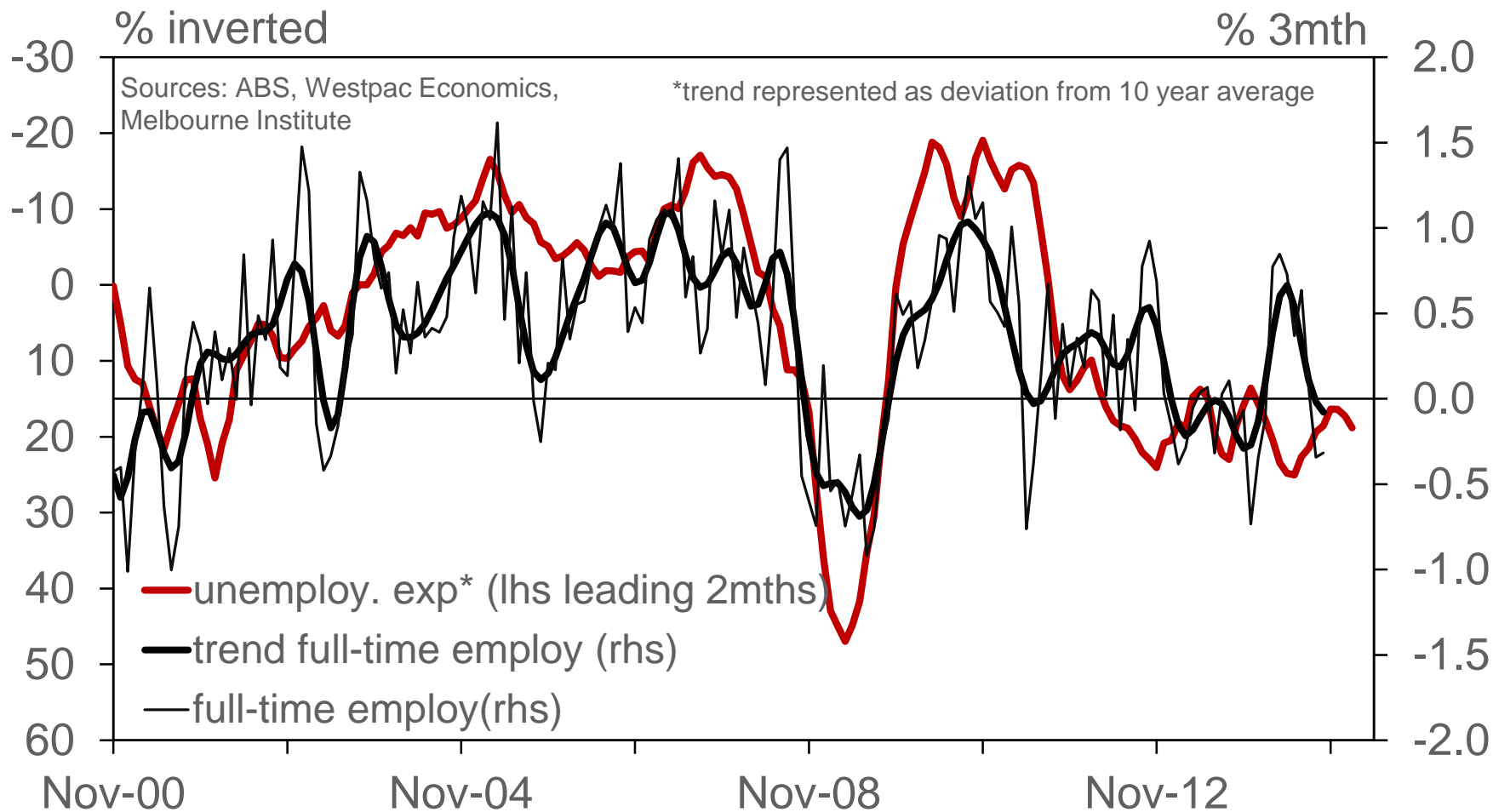
...suggesting unemployment is set to rise further.



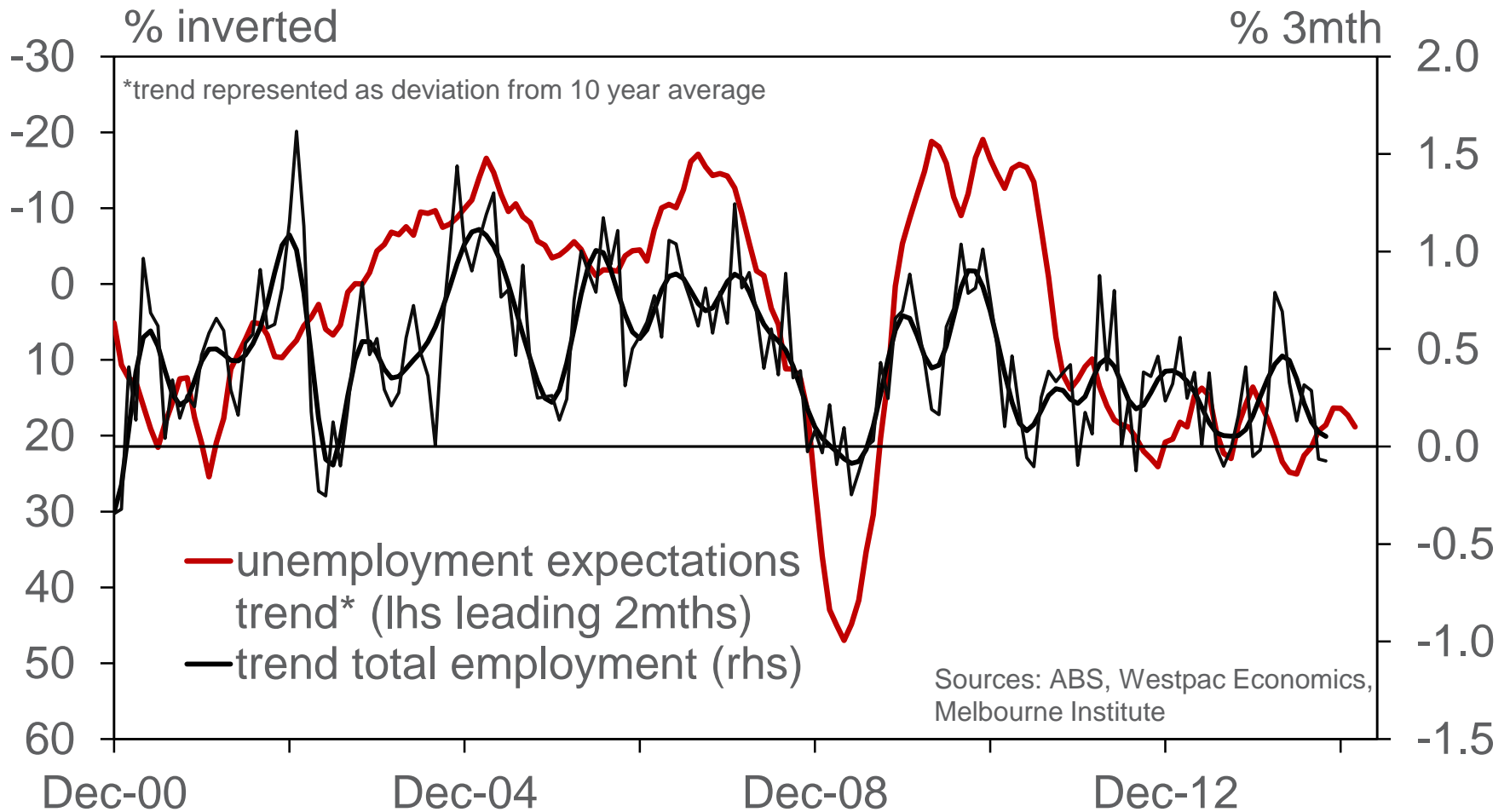
Employment lagging population growth ...



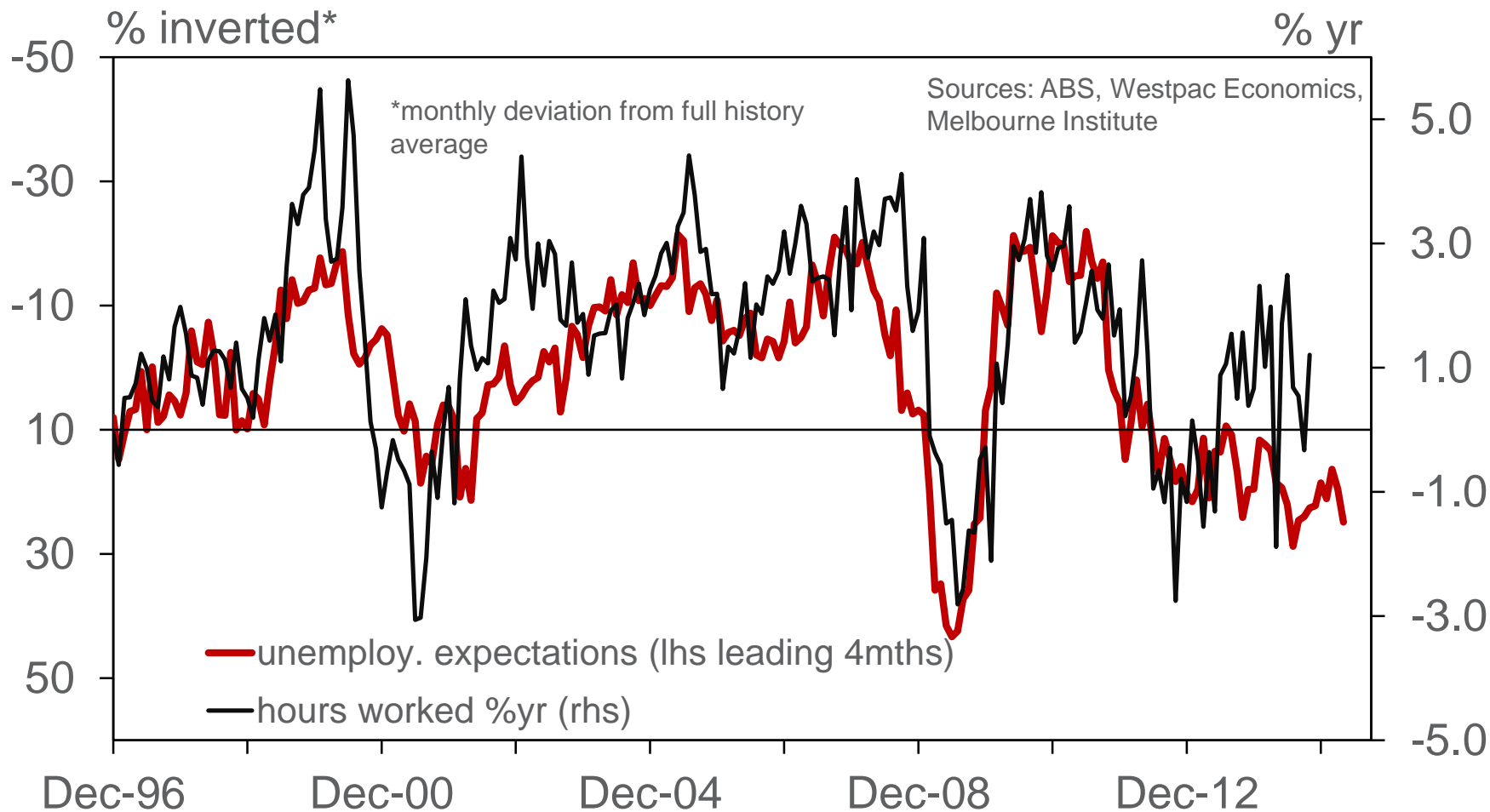
... as full-time employment eased back ...



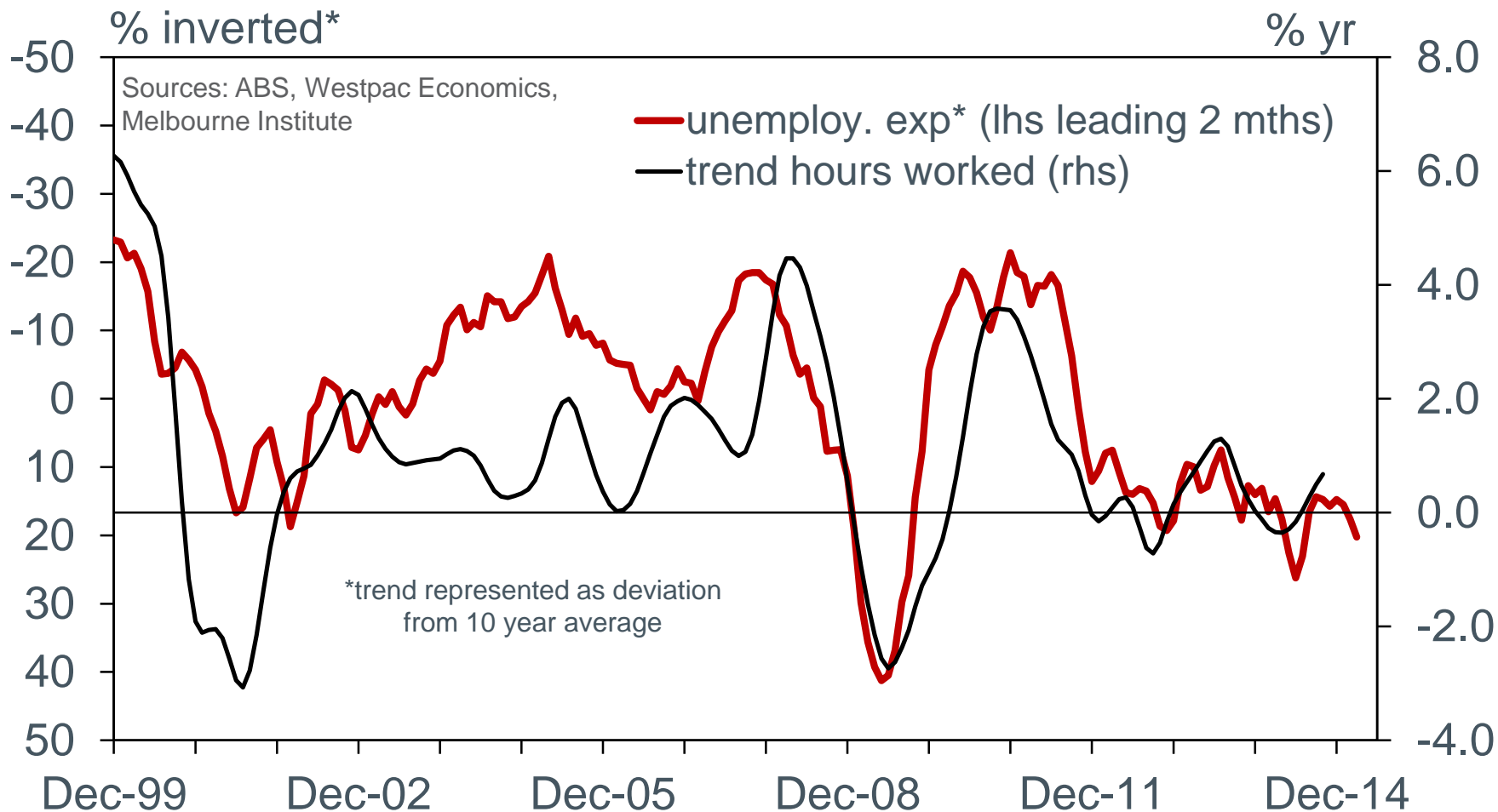
...and expectations turn over.



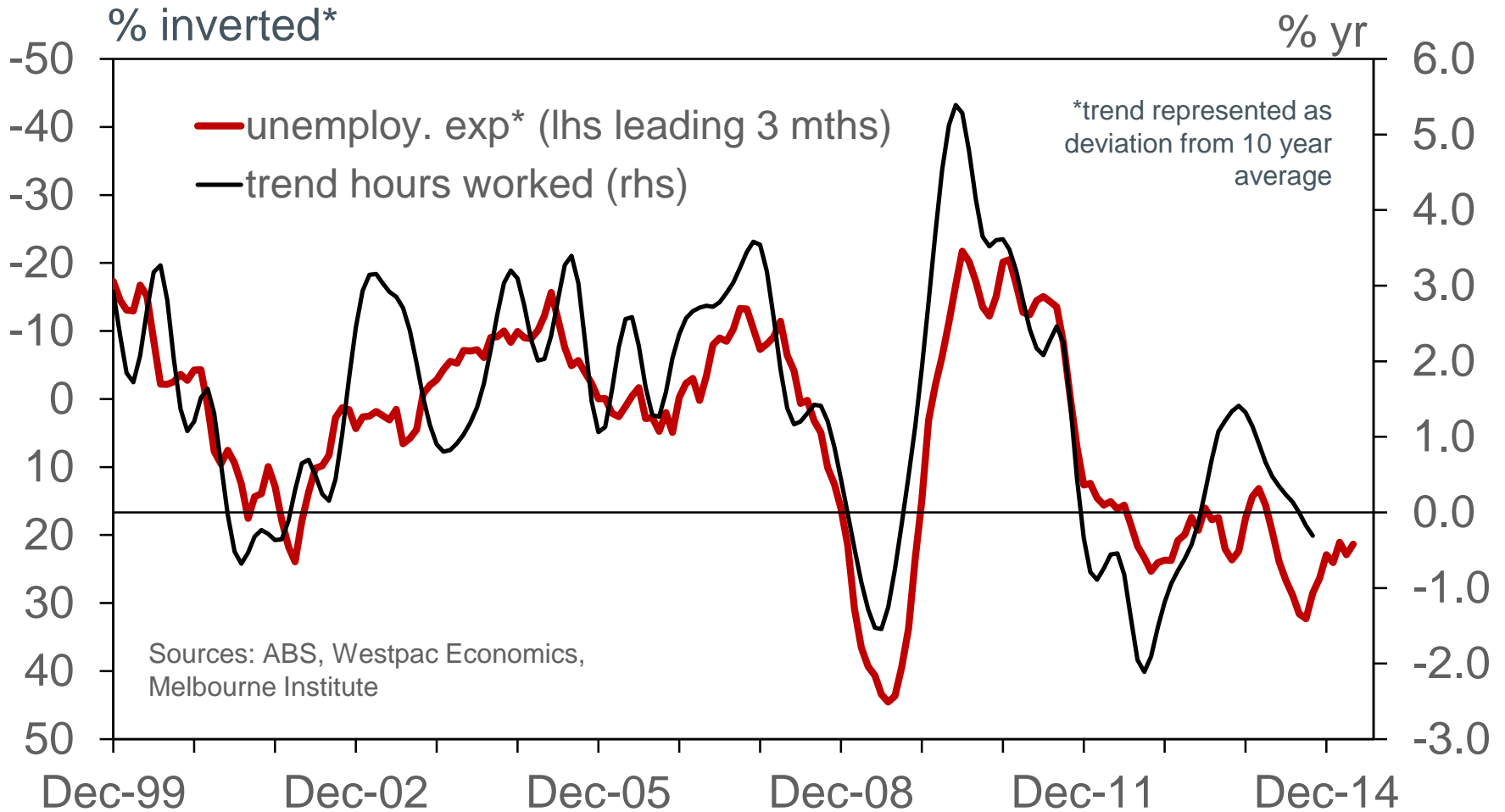
Hours worked running ahead of expectations



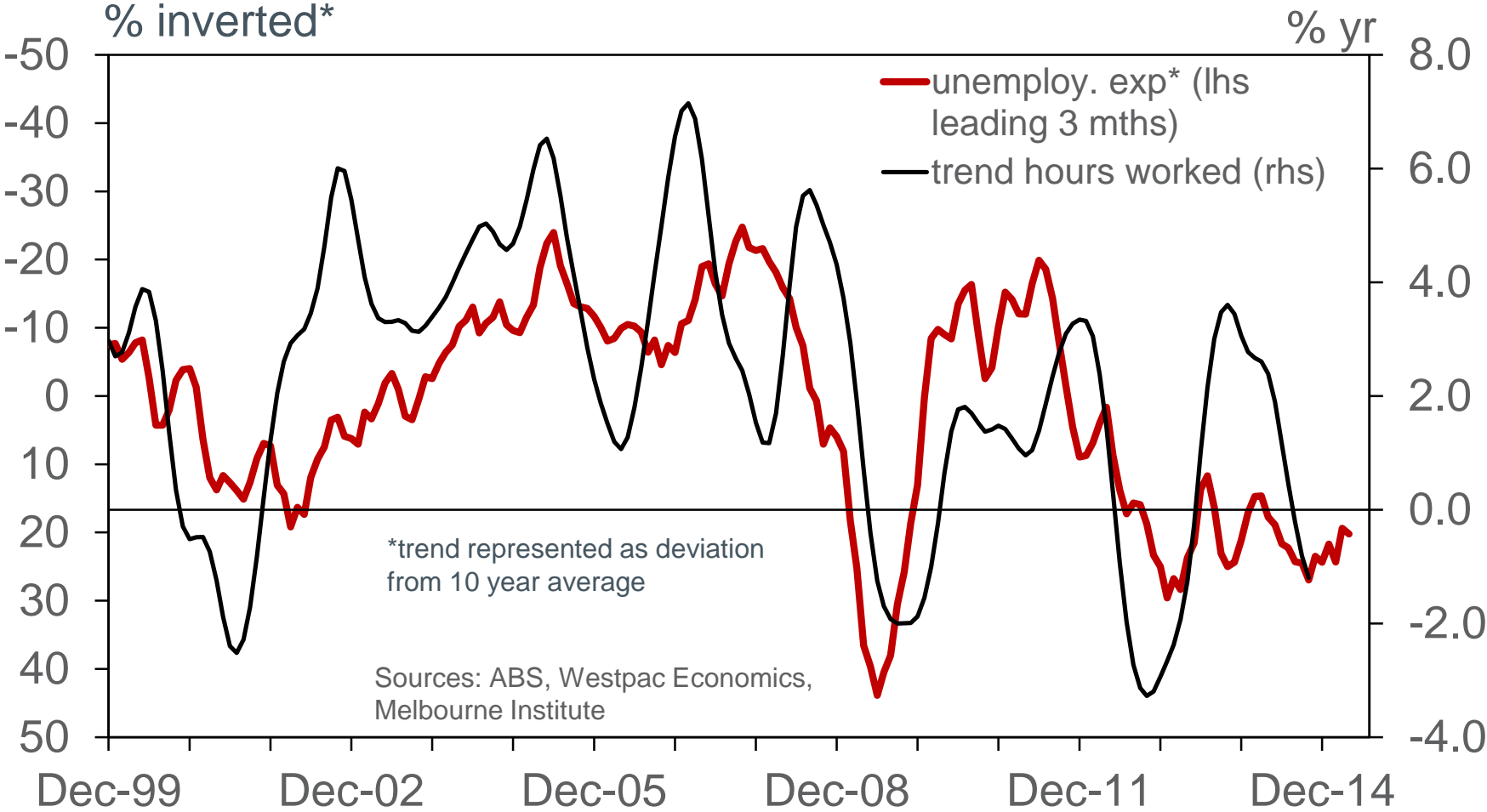
NSW hours worked set to moderate



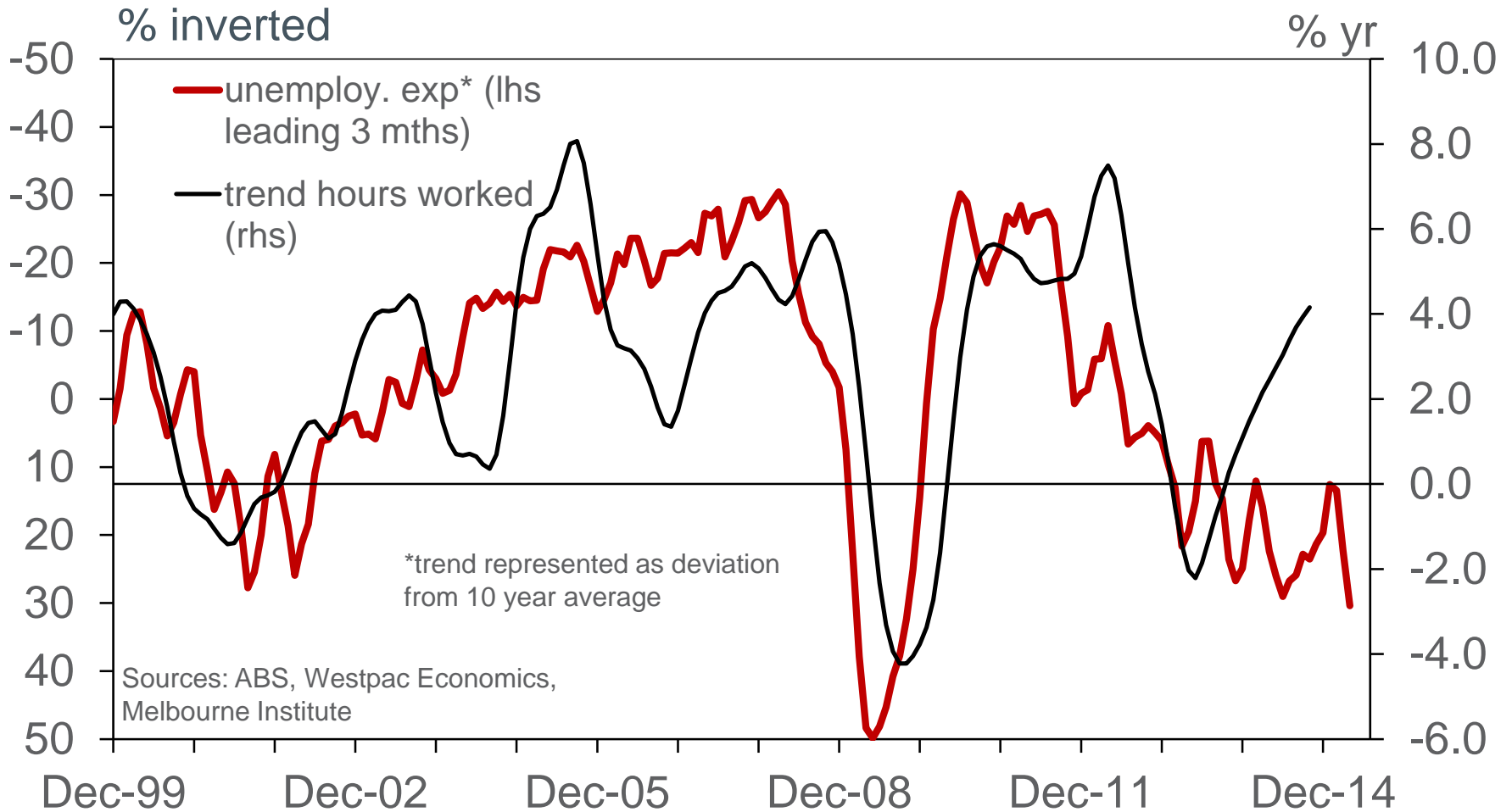
Vic hours corrected to weak expectations



Old hours worked fell back to expectations



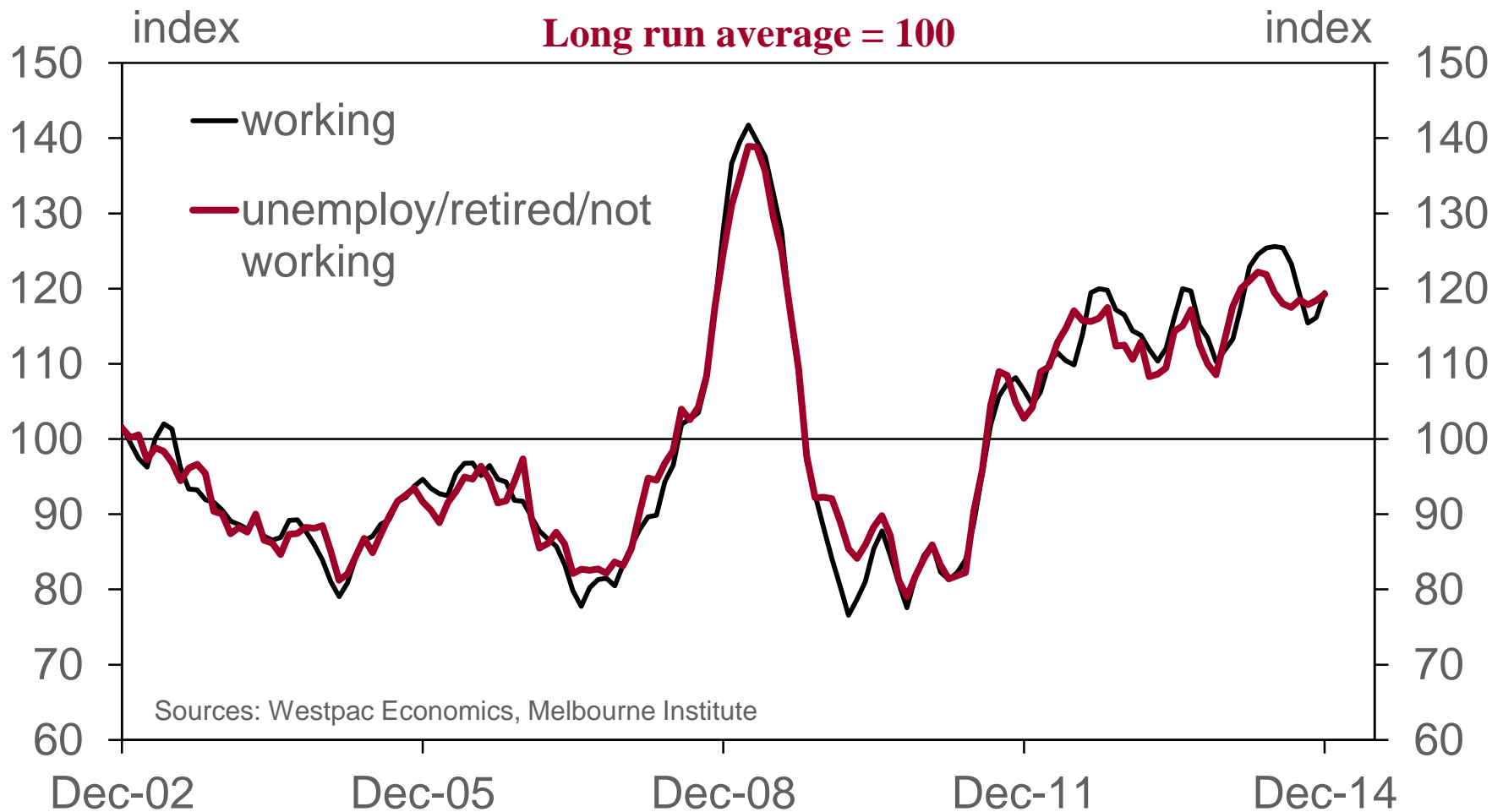
WA hours worked running ahead of expectations



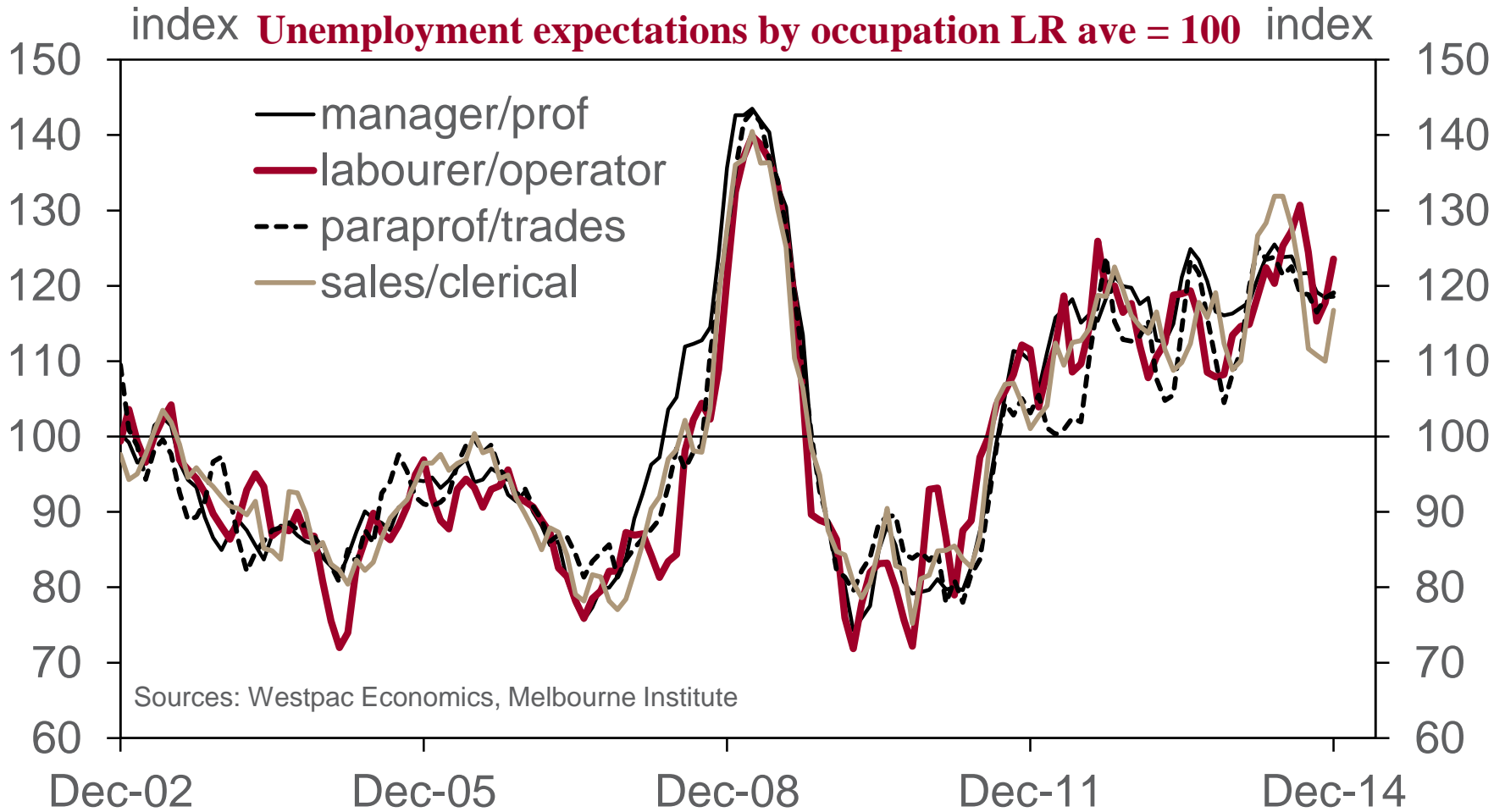
SA expectations weak but hours solid



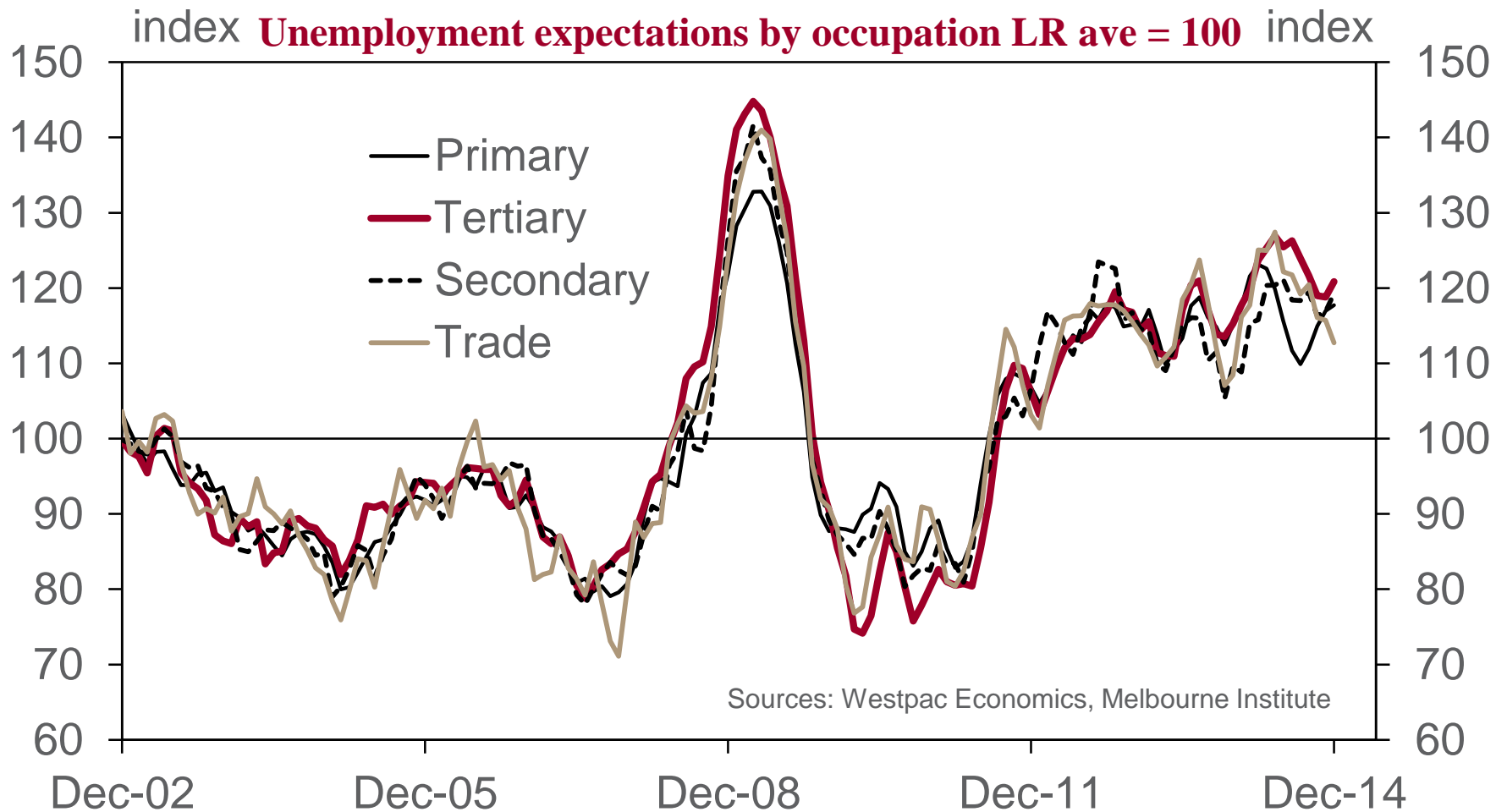
Expectations of workers more solid



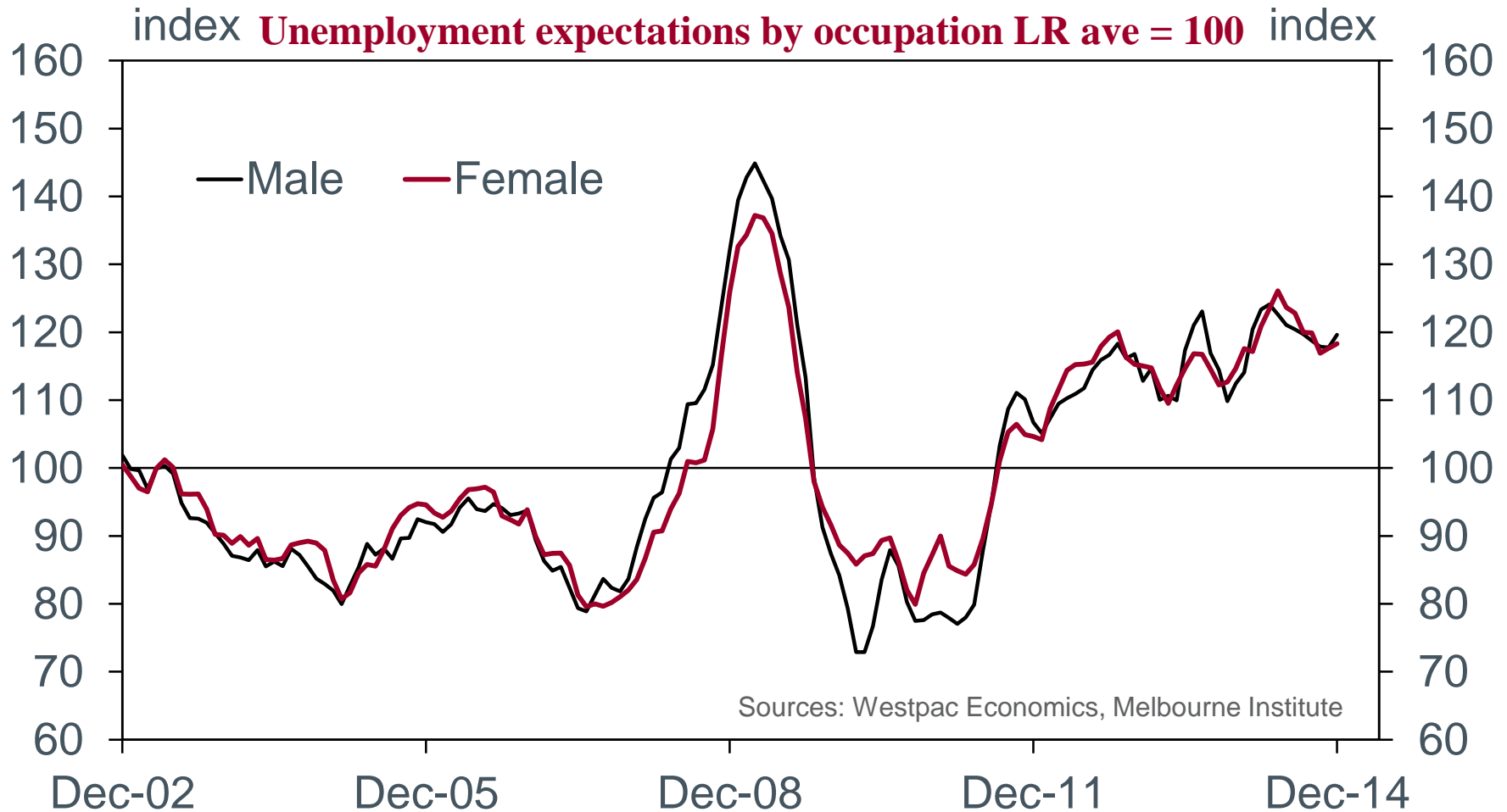
Sales/clerical most improved, rest not far behind



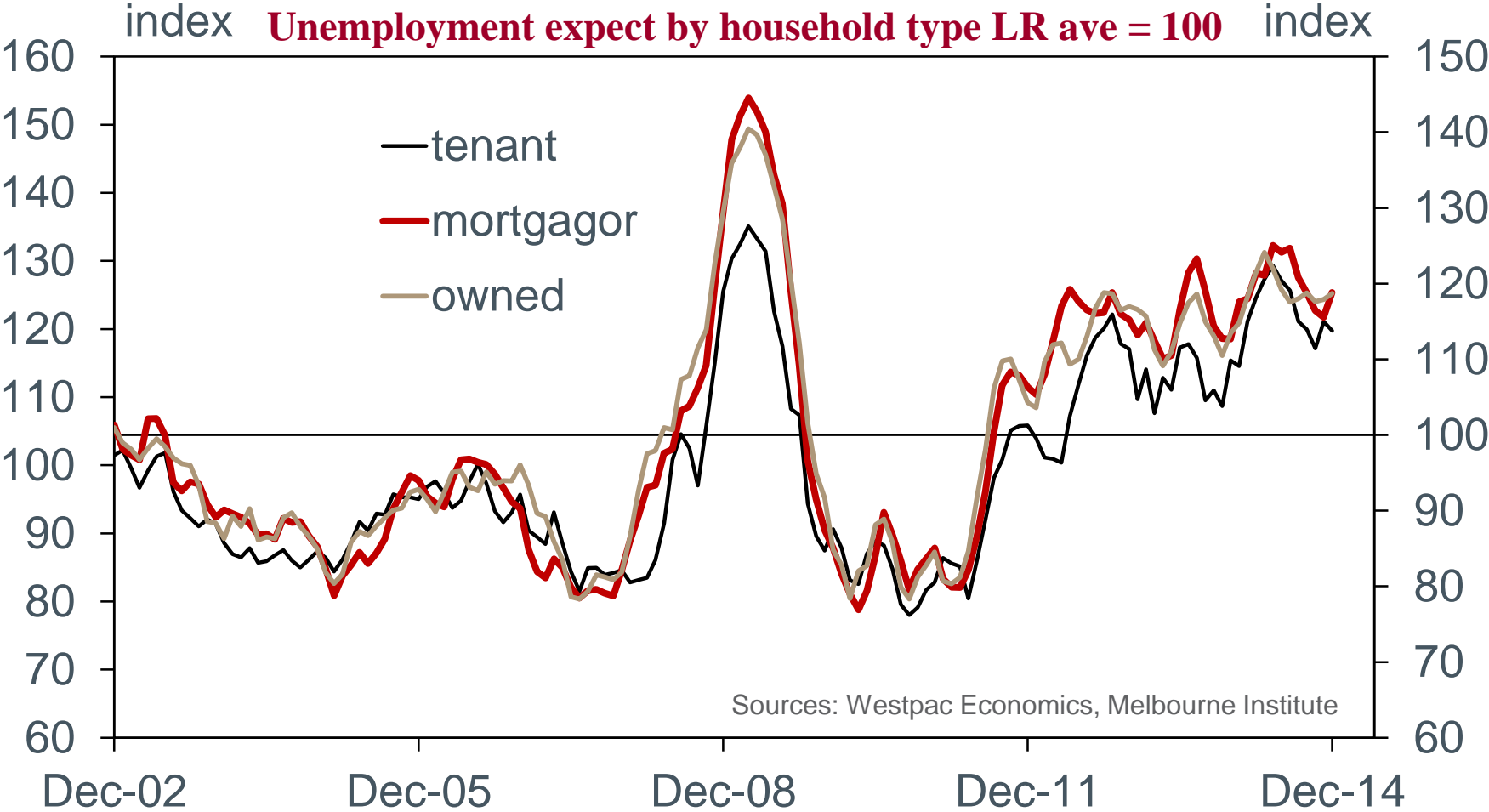
Those with primary education getting worried



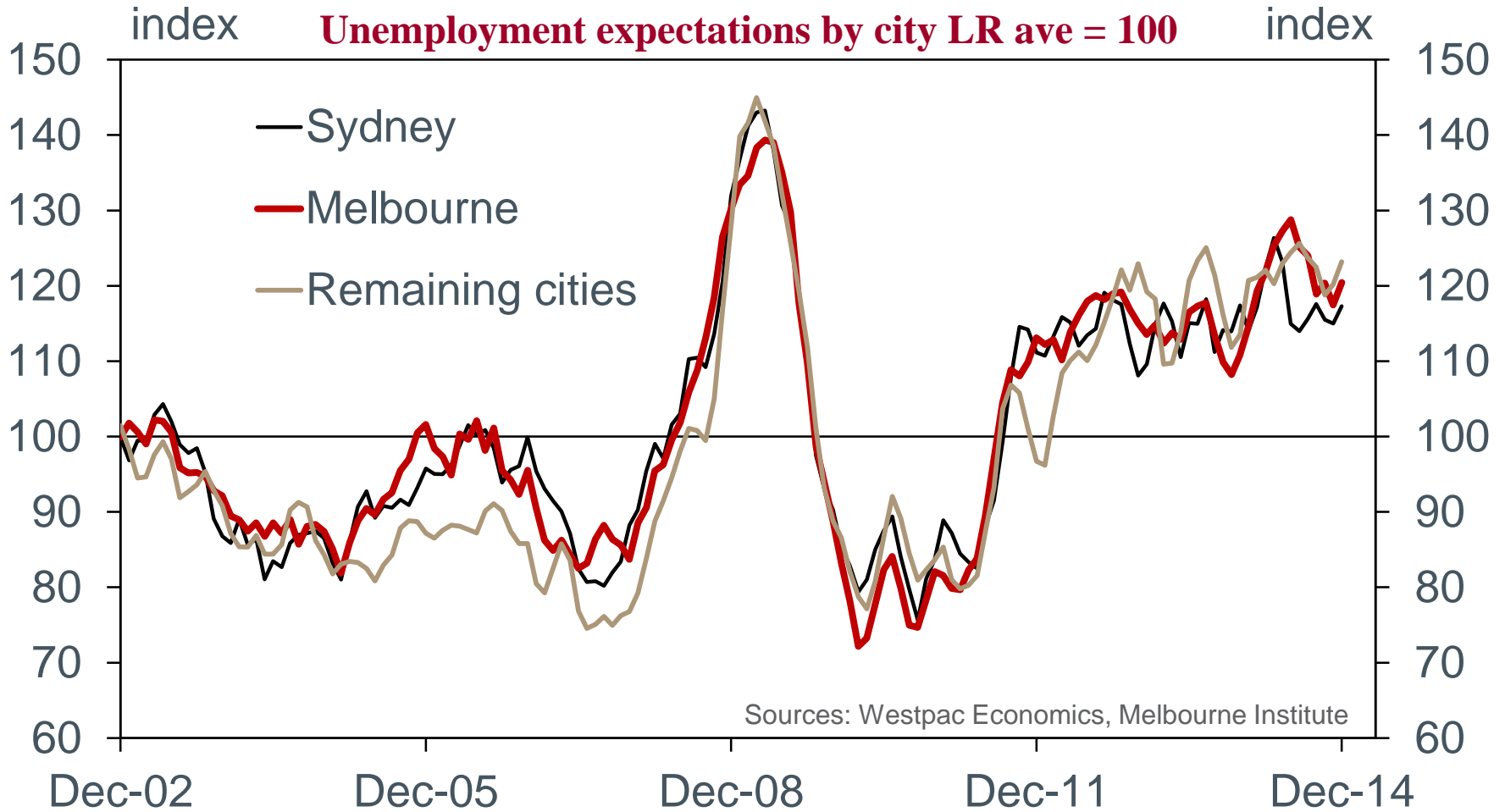
'Gender gap' on expectations has closed



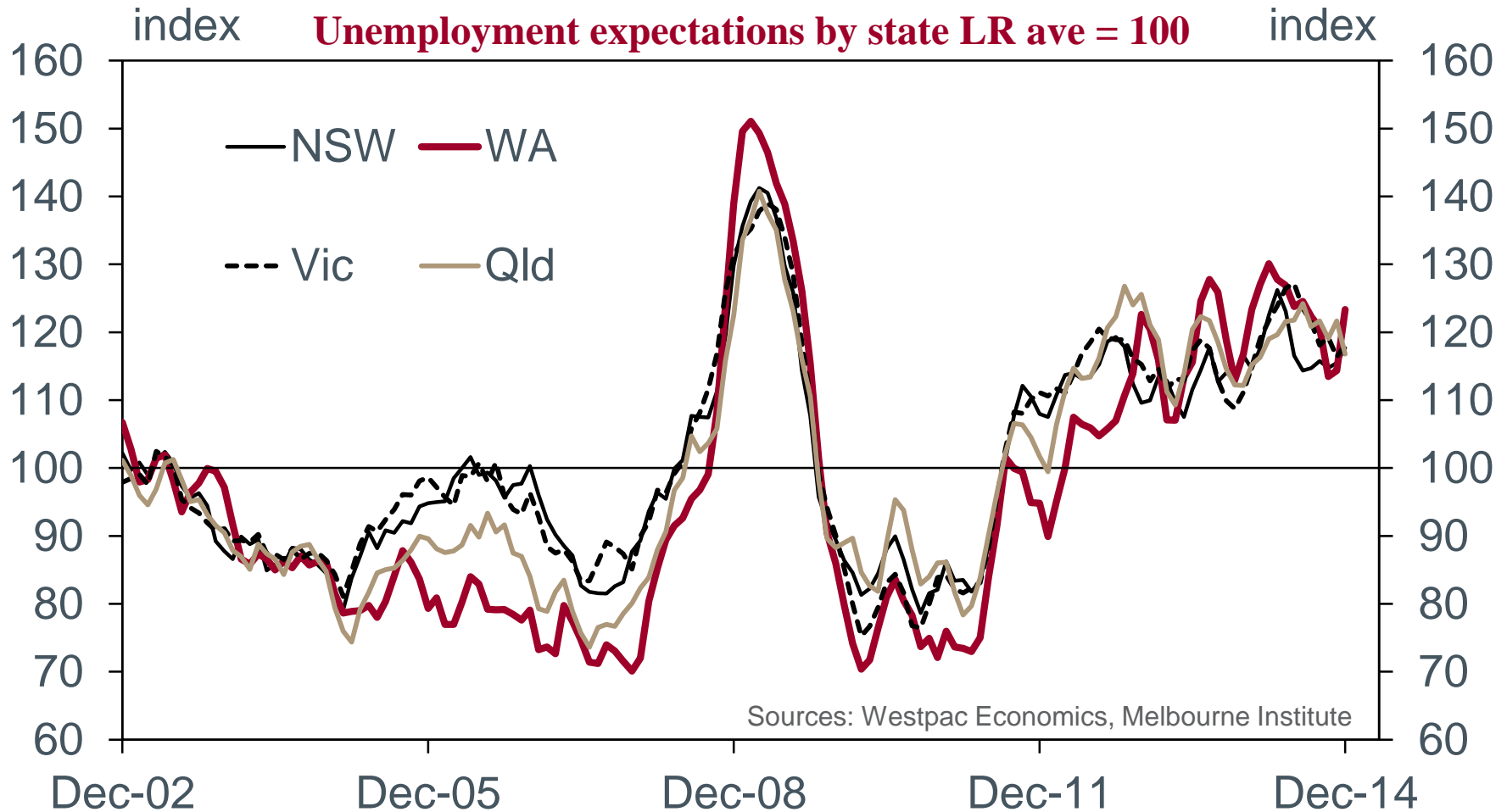
Outright home owners most worried



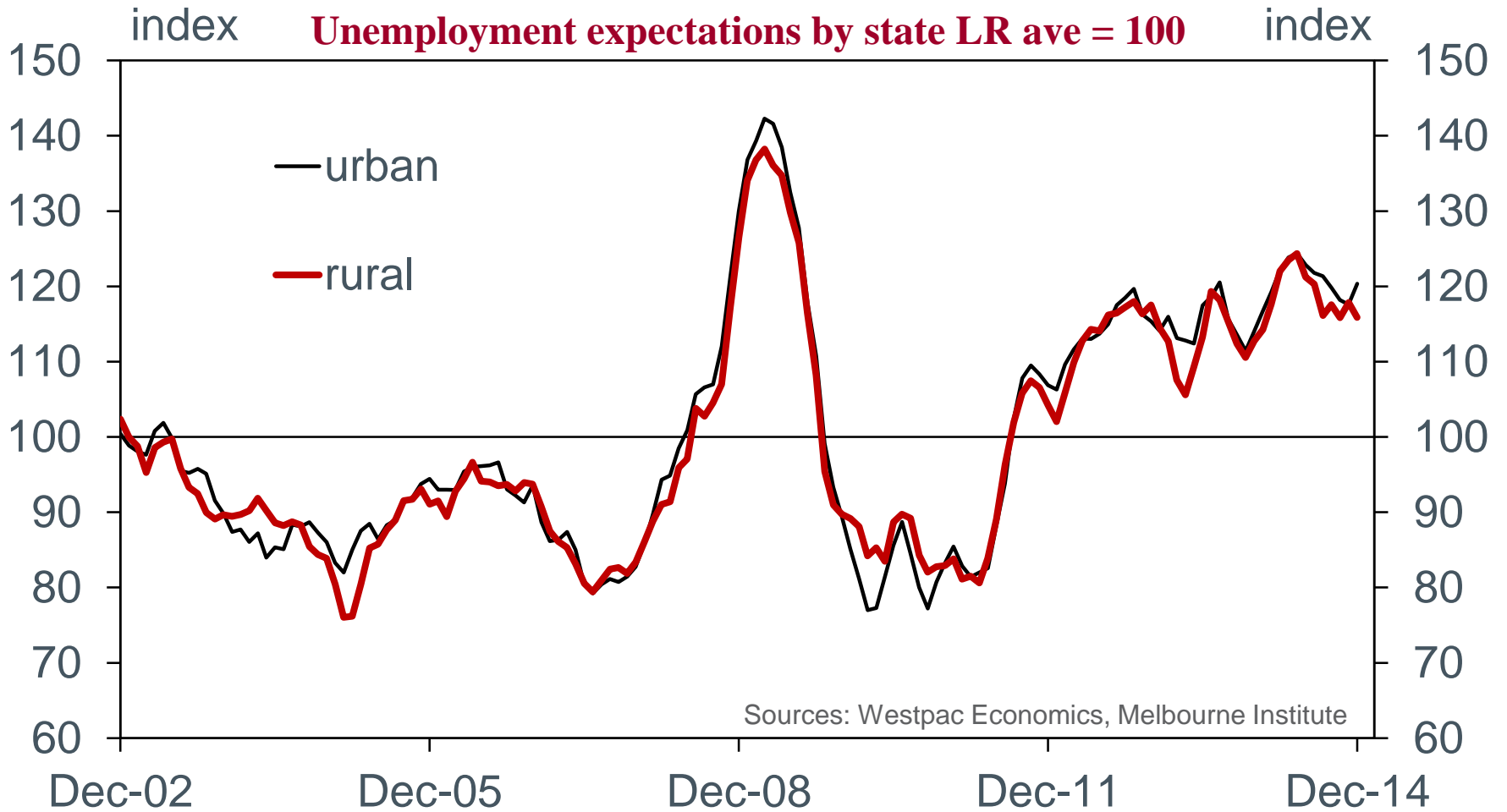
Sydneysiders are slightly more optimistic



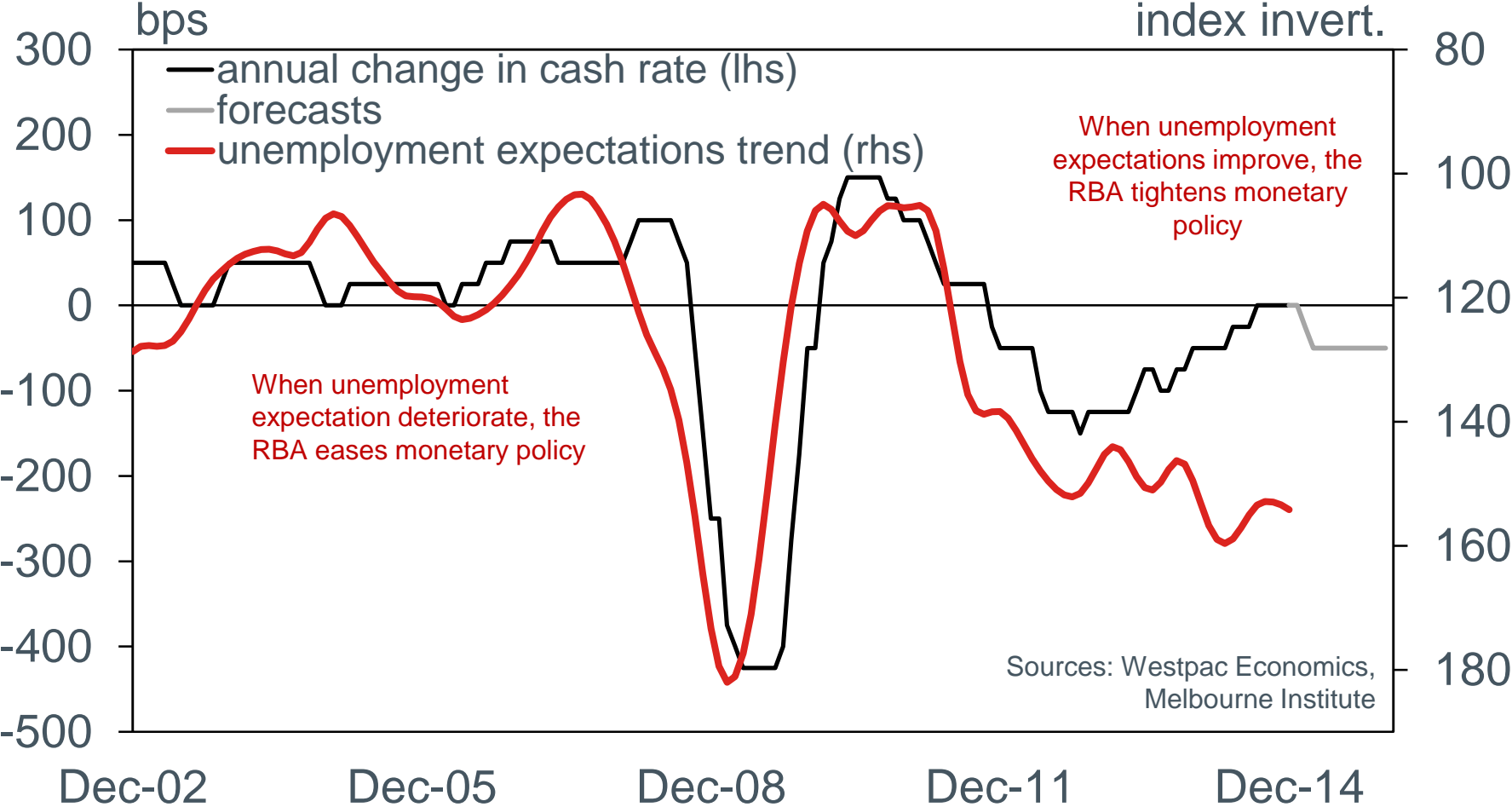
...& Queenslanders are the most worried.



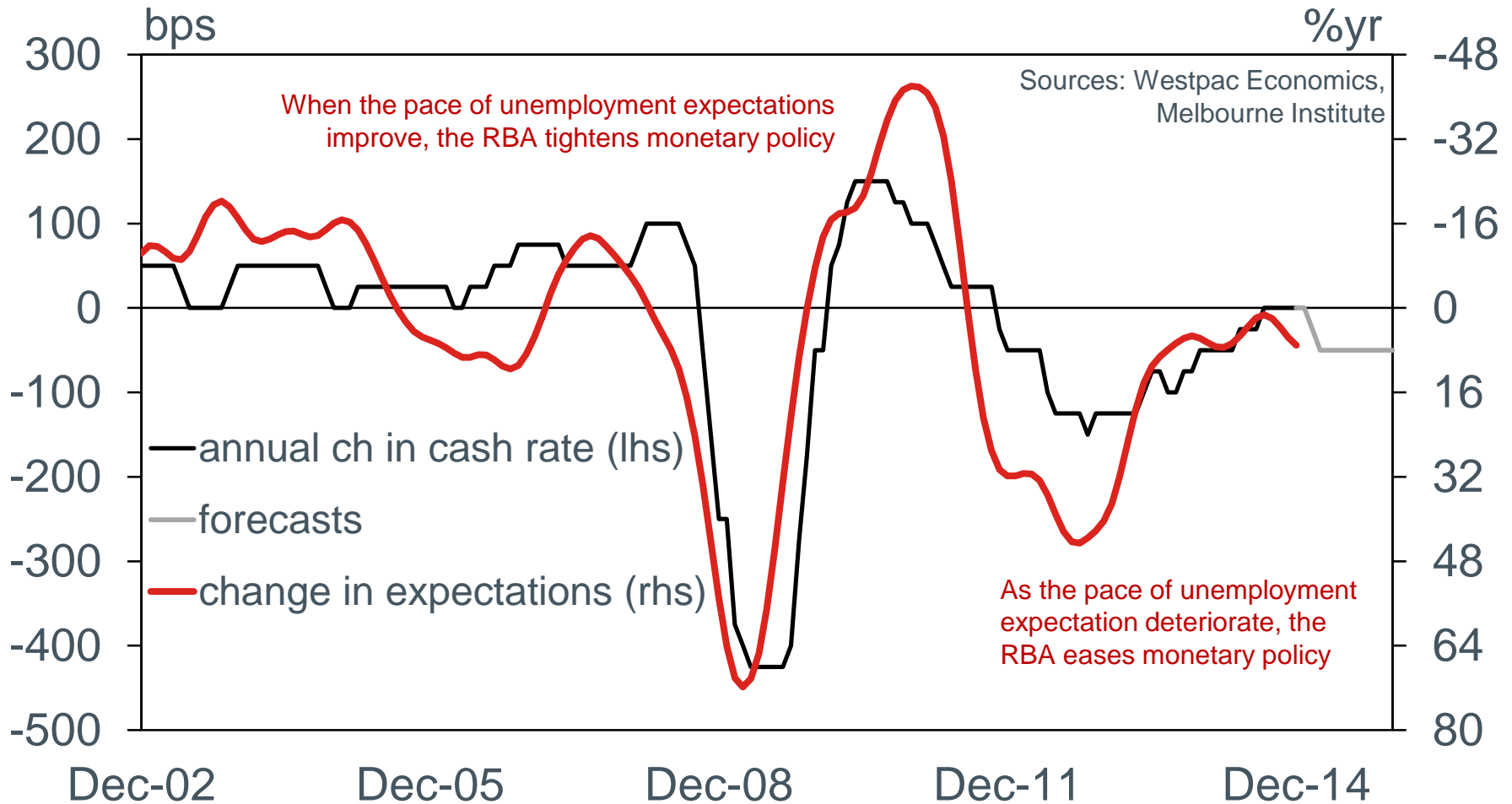
Urban areas have improved



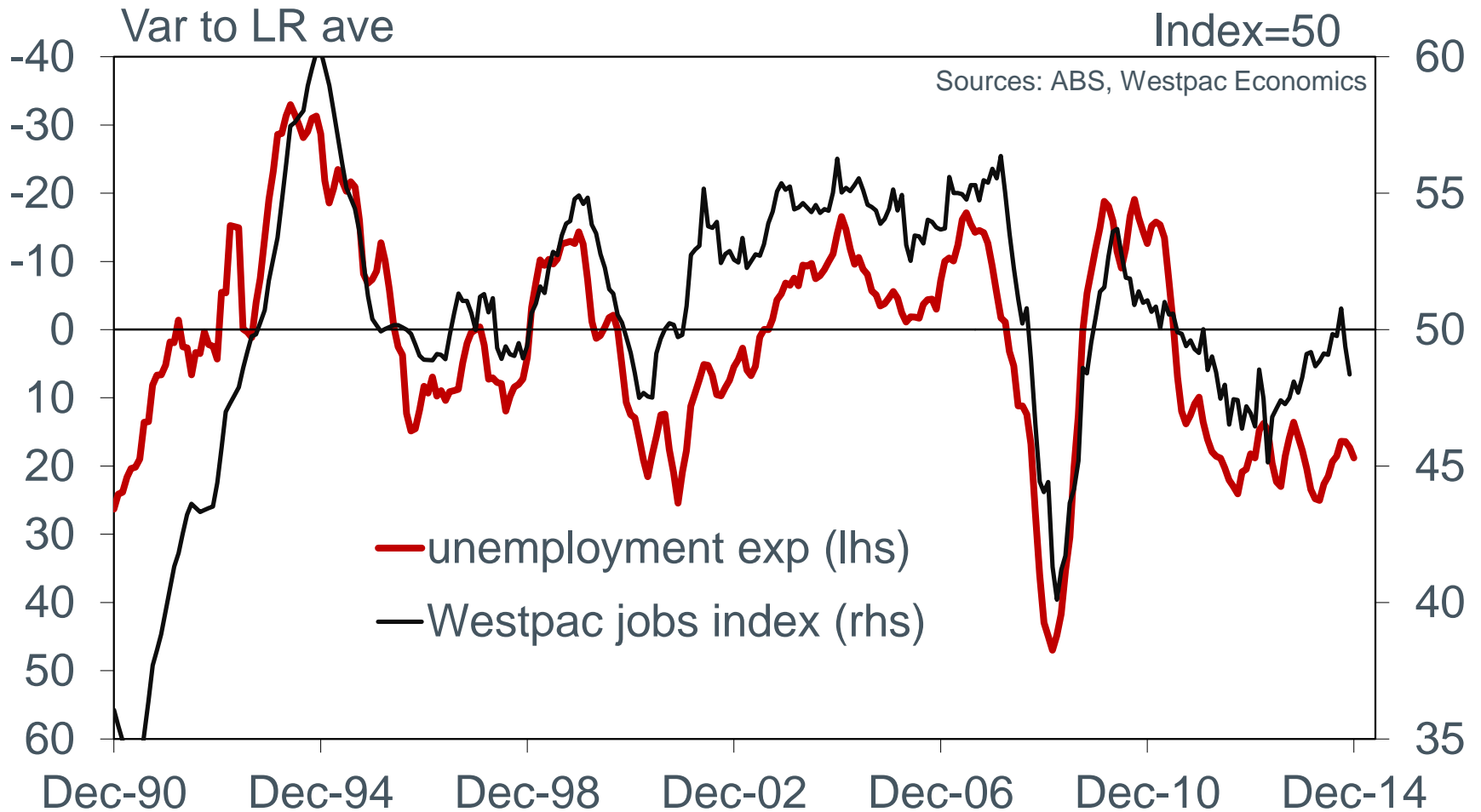
Job worries continue to point to low rates...



...and the pace of change is getting worse.



Jobs index stalls, expectations deteriorate



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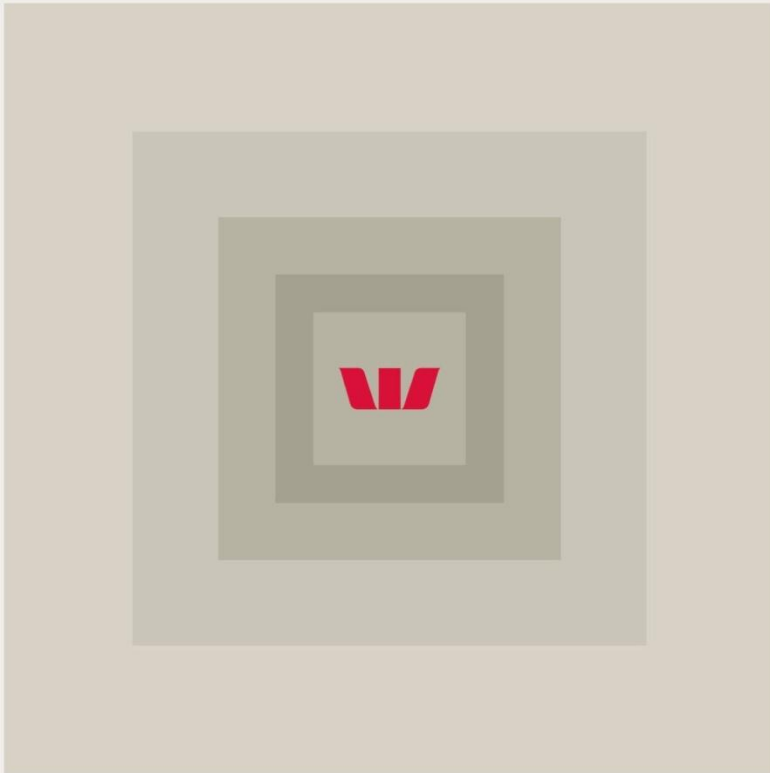
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