Rate cut trepidation

Consumers tighten belts as pessimism rises

MICHAEL MEHR
THE ECONOMY

THE Reserve Bank's rate cut this month appears to have sparked unease among households, denting consumer sentiment.

Consumer confidence edged lower after the RBA cut the cash rate last week, and concerns about unemployment are growing, according to research released yesterday by Westpac and the Melbourne Institute.

Their closely watched index of consumer sentiment has slipped 0.6 points this month to 100.7.

While that is still above the 100-point mark that separates optimism from pessimism, the dip has cancelled the rise registered in May.

It comes after the RBA cut the cash rate to an unprecedented low of 1.25 per cent.

"This is a disappointing result given the cut in official interest rates this month and suggests deepening concerns about the economy have outweighed the initial boost from lower rates," Westpac economist Matthew Hassan said.

The Melbourne Institute's report noted that "consumers appear cautious about the general economic outlook, especially the near-term conditions".

The survey of 1200 adults was carried out through phone interviews between June 3 and June 7.

That means it picked up responses to the Reserve Bank's cut on June 4 and the release of official figures on quarterly economic growth on June 5.

Those figures, published by the Australian Bureau of Statistics, revealed Australia's gross domestic product climbed a slender 1.8 per cent over the year to March — the weakest annual rise since the depths of the global financial crisis a decade ago.

"Responses collected before the June 4 decision had a combined index read of 106.8," Mr Hassan said.

"Those collected after had a combined read of 95.5.

"The poll recorded a 0.2 per cent dip on whether it was "time to buy a major household item" compared to the previous month to 115.5 points — well below the long-term average of 127.

"With readings on current finances also weak this suggests consumer spending is likely to remain weak near term."

A subindex index measuring respondents' views of the outlook for the economy as a whole over the next year dropped 4.7 points to a pessimistic 99.3.

But a separate subindex measuring their perception of their own family's finances during that period edged up 3.1 points to 107.

The survey's unemployment expectations index increased 5.1 per cent in June, indicating more people were worried about job losses rising in the year ahead.

Mr Hassan said the survey results indicated households would "increase savings rates further in the months ahead" despite the RBA cutting interest rates.

The poll also recorded a rise in sentiment in June among Coalition voters — up 7.5 points following the federal election last month — and a 9.9-point slump among Labor voters as well as a 3.8-point dip among non-aligned voters.

A separate consumer confidence survey by ANZ and pollster Roy Morgan at the weekend similarly noted a decline in sentiment.

AAP

Vocus split-up 'not on cards'

ENERGY


AGL chief Brett Redman sees benefits in owning a fibre optic network.

AGL Energy chief Brett Redman says the group has no plans to break up takeover target Vocus and would instead aim to grow the combined businesses.

Speaking at an energy conference in Melbourne yesterday, Mr Redman said AGL believed the telecommunications company could give it a leg-up in offering blended energy and data services.

On Tuesday, AGL announced a $3.02 billion tilt for the internet services provider, which owns brands including Dodo and iPrimus.

The revelation sparked a sharp fall in the price of AGL shares as investors questioned why Australia's biggest power retailer needed to buy a struggling company with a fibre optic network.

Mr Redman said AGL was not looking to buy Vocus with a view to selling off assets.

But in the long run, there might be parts of the Vocus business that were "not mission critical" to the objective of offering blended energy and data services, he said.

"At this point we haven't said that there's anything that we would expect to exit," Mr Redman said.

AGL yesterday unveiled an offer to pay customers to plug their rooftop solar panels and batteries into a "virtual power plant". The energy company would co-ordinate the operation to boost power supply into Australia's strained grid at peak times.

"All these new products and services that are emerging can be done without owning a fibre optic network. But our ability to do them will be enhanced if we do," Mr Redman said.

After AGL tabled its indicative offer on Tuesday, shares in the energy heavyweight tumbled 7.2 per cent, wiping almost $1 billion from its market value.

AGL shares recouped some of those losses yesterday, climbing 0.8 per cent, or 15c, to $19.55 and outperforming the broader market.

Shares in Vocus, which rallied on Tuesday, climbed again yesterday, ending 3.1 per cent, or 13c, higher at $4.30.7

COURT PUSH FOR FINE

LEGAL

AUSTRALIA'S corporate watchdog has alleged collapsed company Dover Financial Advisers and its director misled clients and wants them fined.

The Australian Securities and Investments Commission has taken civil action against Dover and its sole director Terry McMaster, who collapsed in the witness box at the banking royal commission last year.

It wants the Federal Court to declare Dover and Mr McMaster broke financial services law and to impose fines for misleading and deceptive conduct.

ASIC barrister Bernie Quinn QC said the conduct resulted from the contents of what Dover called its client protection policy, which purported to provide the maximum protections under the law. The court heard Dover had admitted it was inaccurate to say the policy provided the maximum protections under the law.

Australia at mercy of worldwide economic slowdown

THE SHORT CUT

ANDREW MACKEN

LAST month there was probably no one more surprised than Australian Prime Minister Scott Morrison — or "ScoMo" — to which he is commonly referred.

ScoMo had just won a decisive victory in Australia's general election against an opponent who was the short-odds favourite in the betting markets.

The upset victory for the conservative party has since sparked numerous press articles about a resurgence in business confidence and a return of the property booms in major cities.

Even the domestic stock market experienced a bounce.

And yet, within weeks, Australia's central bank cut its cash rate to 1.25 per cent per annum, its lowest level on record.

According to its governor, Philip Lowe, inflation pressures are subdued and are likely to remain so.

Furthermore, Lowe sees significant spare capacity in the Australian labour market. The reasons?

Slow growth in wages, the increased competition in retailing, as well as the property price downturn.

These sound like largely Australian-specific reasons for the change in monetary policy settings.

And yet it is worth noting that, at the same time, the yield on the US 10-year government bond has fallen by more than one third in just six months and is now at levels not seen for three years.

Japan's 10-year is also at its lowest in three years.

In Germany, the 10-year government bond yield is at its lowest level on record — and by the way, it's a negative interest rate, meaning you need to pay the German government for the privilege of lending to it.

You see, most of the world is experiencing a wave of disinflation.

It's not just Australia. And remember that Australia's economy accounts for less than 2 per cent of global annual economic output.

Through this lens, in our interconnected world of today it would be difficult to see how Australia could avoid the disinflation being experienced abroad.

From the perspective of global economic growth, the risks are surely skewed to the downside with the recent breakdown in the relationship between the US and Chinese governments.

As readers will know, President Trump recently increased tariffs (yet again) on imports from China; and signed an executive order that effectively targets Chinese telecommunications equipment provider Huawei.

Irrespective of how China retaliates, it seems fair to conclude that any residual trust in the relationship has largely run out.

And this spells downside risk for future global growth, given the US and China are by far the two largest economies.

Back to Australia.

There are surely some domestic-specific drivers of the situation currently being faced.

Take the property downturn, for example.

There is no question this is being driven, in part, by a significant build-up in household financial leverage — often subsidised by the taxpayer and sometimes by unworthy borrowers.

But some of these disinflationary forces are being imported.

Take the increased competition in retail, for example. This sounds like code for the "Amazon effect".

As we know, the internet has created a virtual teleport machine for consumers to shop anywhere in the world, any time of the day or night.

No wonder domestic bricks-and-mortar retailers are finding this new world tough.

ScoMo has not been a newly-elected Prime Minister of Australia for more than a few weeks and already he is being called upon to enact all sorts of policies to boost economic growth.

And, for sure, he should do all he can to unlock the nation's growth potential.

But while the rest of the world slows, it would require a special kind of optimism to believe that Australia will somehow be immune.

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