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Rate rises fail to dampen consumer sentiment

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Reporter: Michael Troy

Economists are surprised and debt collectors are concerned by news consumer confidence remained strong this month despite the Reserve Bank's fifth interest rate rise in seven months.

Transcript

WHITNEY FITZSIMMONS, PRESENTER: The last two interest rate rises have done little to dampen consumer sentiment.

Economists are surprised by the resilience of consumers, while debt collectors are concerned that many people are spending well beyond their means.

Michael Troy reports.

MICHAEL TROY, REPORTER: For 17 years, social analyst David Chalke has been monitoring the changing moods of Australian consumers.

What he's found in his latest survey of 2,000 people is that many appear, well, too relaxed.

DAVID CHALKE, AUSTRALIASCAN: There is an overriding sense that we have dodged the bullet.

MICHAEL TROY: He says consumers have become more wary, but are still spending.

His findings seem to be backed up by the latest consumer sentiment survey, which shows only a slight fall in April.

BILL EVANS, CHIEF ECONOMIST, WESTPAC: Given that it was largely unchanged in March, what we've seen is that two consecutive rate hikes have had virtually no impact at all on consumer sentiment.

MICHAEL TROY: Which is surprising, given in the past two rate rises have generated huge negative swings in sentiment.

BILL EVANS: So I think what it's saying is that whilst they recognise that interest rates are gonna hurt them,

they see the economy as being strong enough to offset that.

MICHAEL TROY: But the survey also shows savings are no longer being funnelled into the sharemarket or real estate.

BILL EVANS: We were surprised that the proportion that said pay down debt was the highest proportion we'd seen since we've been conducting the survey.

MICHAEL TROY: Rising house prices have offset traditional concerns about rising interest rates.

BILL EVANS: Well our view has been that there's enough evidence around now that interest rates are starting to bite.

We're seeing a downward trend in building approvals, in housing finance, in retail spending, and of course, we're even starting to see a slowdown in the pace of job creation.

MICHAEL TROY: One indicator the Reserve Bank probably doesn't usually take into account is the booming debt collection industry.

ROGER MENDELSON, CEO, PRUSHKA: These are the conditions where - that are almost the ideal ones for us.

But I am concerned that consumer debt is far too high and consumers are spending far too much and one day this will all have to be paid back.

MICHAEL TROY: Roger Mendelson heads up a debt recovery firm and says many consumers are spending as if the GFC did not happen.

ROGER MENDELSON: Our business clients have a real concern about cash flow, whereas consumers seem to be much less concerned about interest rates going up.

They're certainly less concerned about their job prospects and the future of their job.

MICHAEL TROY: The Reserve Bank board may send another reminder to rein in spending when it next meets in May.