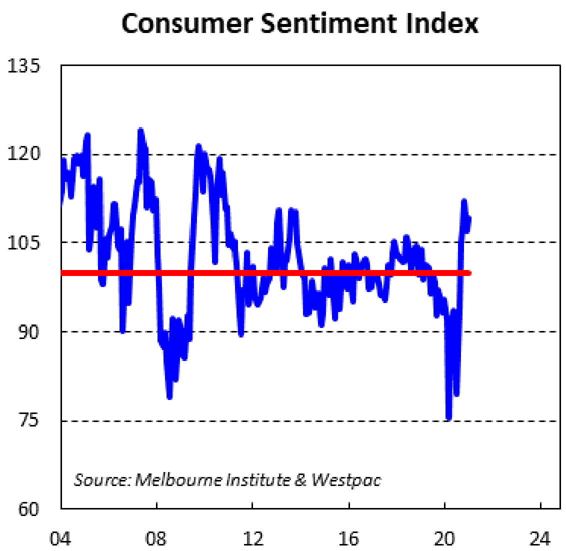
Data Snapshot

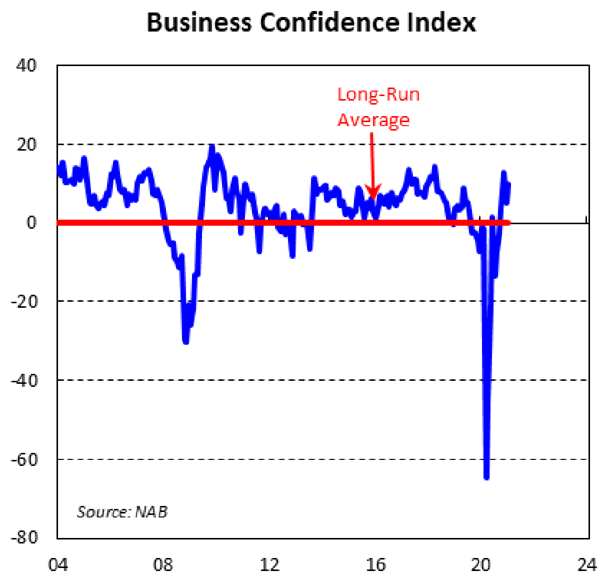
Wednesday, 10 February 2021

Consumer Sentiment

Sentiment Signals Confidence in Recovery

- **The Westpac/Melbourne Institute Index Consumer Sentiment rose 1.9% in February to 109.1. The index continues to hover around the ten year high from December, suggesting consumers remain optimistic about the economic recovery.**
- **The results were mixed across states. NSW increased 3.5% and Victoria rose 4% as they made progress in containing the virus. Victoria is now registering the strongest print amongst the states, reflecting the progress it has made in managing the pandemic after its extended lockdown in 2020.**
- **In contrast, sentiment declined by 8.3% in Queensland and 7.8% in Western Australia after both states implemented brief lockdowns following a long-run without local virus transmission.**
- **Nationally, four of the five index subcomponents rose. The 'economic conditions in the next 12 months' sub-index outperformed, lifting by 6.9%.**
- **The 'time to buy a dwelling' index declined 3.1% to 120.7 in February and is now 8.6% below its November peak. This measure tends to reflect shifts in housing affordability. The decline over the last few months suggests that the recent increase in house prices may already be starting to weigh on purchasing sentiment.**
- **Several months of strong prints for consumer sentiment, alongside solid business confidence, suggest the recovery is gaining traction.**





The Westpac/Melbourne Institute consumer sentiment index rose 1.9% in February to 109.1. The index continues to hover around the ten year high from December, suggesting consumers remain optimistic about the economic recovery. The ongoing strength in sentiment reflects a stream of positive news over recent months, including easing restrictions around the country, positive vaccine developments and robust support from fiscal and monetary authorities.

The results were mixed across states. NSW increased 3.5% and Victoria rose 4% as they made progress in containing the virus. Victoria is now registering the strongest print amongst the states, evidence that the Victorian economy is rapidly turning the corner after its extended lockdown in 2020.

In contrast, sentiment declined by 8.3% in Queensland and 7.8% in Western Australia after both states implemented brief lockdowns following a long-run without local virus transmission.

Nationally, four of the five index subcomponents rose. The ‘economic conditions in the next 12 months’ sub-index outperformed, lifting by 6.9% to 109.8 while the ‘economic conditions in the next five years’ sub-index was up to 116.2, increasing by 0.5%. Assessments of finances were mixed: the ‘finances in the next 12 months’ sub-index lifted by 2.6% to 111.4. This suggests consumers have growing confidence in their personal finances over the next year, which is key for supporting spending through this important juncture for the economy.

The ‘time to buy a dwelling’ index declined 3.1% to 120.7 in February and is now 8.6% below its November peak. This measure tends to reflect shifts in housing affordability. The decline over the last few months suggests that the recent increase in house prices may already be starting to weigh on purchasing sentiment. This is reinforced by the age breakdown which shows buyer sentiment is much weaker in the 18-24 age group, a bracket which tends to be bellwether for housing affordability. Consistent with the perceived squeeze on affordability, the index of house price expectations is now at a seven-year high and 2% above its pre-pandemic level.

Outlook

The results of the February survey indicate that consumer sentiment remains well above its pre-COVID level and long-run average. Several months of strong prints, alongside solid business confidence, suggest the recovery is gaining traction. However, the impact of the downturn has been uneven and there are still considerable risks to outlook.

On the upside, the reopening of interstate borders, sound management of COVID-19 outbreaks and the vaccine rollout will support confidence and conditions. The Reserve Bank of Australia is holding interest rates at record lows and will continue to do so until at least 2024. Fiscal support will also continue for several for years, especially relating to infrastructure. Households have also built very large financial buffers through the pandemic (estimated by the RBA at $200 billion or 15% of pre-pandemic income) which will help support consumption over the coming period.

On the downside, JobKeeper and the coronavirus supplement (a booster to JobSeeker payments) end in March. These payments have been central to supporting the economy through the pandemic and it is unclear how businesses and consumers will respond once they conclude. Encouragingly, consumer and business sentiment have been resilient despite these payments beginning to taper several months ago. Other factors weighing on the economy are that international borders remain will likely remain closed until at least the end of 2021 and some sectors are facing trade tensions with China.

Matthew Bunny, Economist
Ph: 02-8254-0023

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023