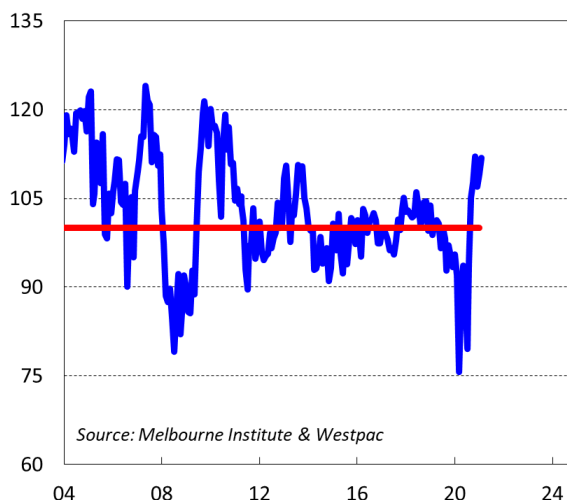


Wednesday, 10 March 2021

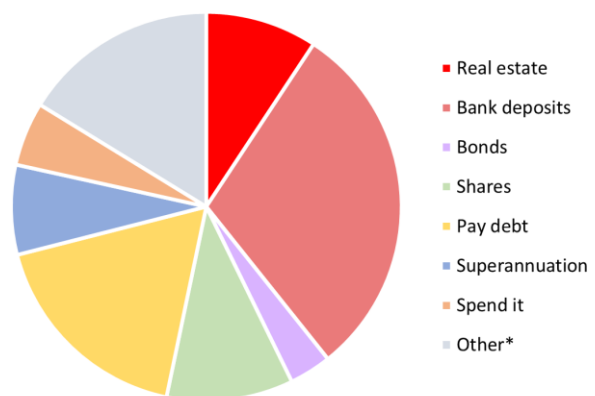
Consumer Sentiment Back Near Decade High

- The Westpac/Melbourne Institute Index of Consumer Sentiment rose 2.6% to 111.8. This follows business confidence hitting its highest level in 11-years. Confidence has been buoyed by improving economic conditions and the commencement of the vaccine rollout.
- The increase in sentiment was broad-based across sub-indices. It was led by an increase in expectations for economic conditions over the next 12 months, which rose 3.7% to 113.8, and now sits 46.1% above its level a year ago.
- The uptick in sentiment was consistent across all states except Victoria which eased 3.4% following a strong reading in February.
- A theme to emerge over recent months is growing concern over housing affordability. House price expectations are at a 7-year high while the 'time to buy a dwelling' index has been declining since November. Relatedly, only 9.3% of respondents believe real estate is the 'wisest place for savings'. This is the third lowest reading in the 47 years the question has been running.
- Relatedly, comments today from RBA Governor Lowe reiterated that policymakers will not respond to concerns about overheating in the house market with an increase in interest rates but instead changes could be made to macroprudential regulation.
- The sustained high level of consumer confidence is an encouraging sign for the next leg of the recovery. Optimism will help fuel spending which in turn will generate more economic activity. Looking forward, consumer sentiment will be supported by progress in the vaccine rollout, further improvement in economic conditions and record low interest rates.

Consumer Sentiment Index



Wisest Place for Savings (March 2020)



Consumer sentiment is back near its decade highs. The Westpac/Melbourne Institute Index of Consumer Sentiment rose 2.6% to 111.8. This follows business confidence hitting its highest level in 11-years.

Confidence in the recovery has been buoyed by improving economic conditions and the commencement of the vaccine rollout. The immunisation of vulnerable populations will allow social distancing measures to be relaxed further and reduce the likelihood of additional lockdowns.

The tapering in fiscal support over the past few months and the upcoming expiry of key support measures, like JobKeeper and loan repayment deferrals, has not been enough to dampen buoyant spirits.

The increase in sentiment was broad-based across sub-indices. It was led by an increase in expectations for economic conditions over the next 12 months, which rose 3.7% to 113.8, and now sits 46.1% above its level a year ago. Expectations for economic conditions over the next five years increased 2.3% to 118.9. Assessments of personal finances also improved. The sub-indices for finances compared to a year ago and finances over the next 12 months both increased.

Consumers are also becoming more confident in the labour market. The index of unemployment expectations fell by 2.2% to 112.0. A lower reading means fewer people expect unemployment to increase in the next year. This measure was also around its best print in nearly a decade.

The uptick in sentiment was consistent across all states except Victoria, which eased 3.4% after a strong reading in February. Confidence in WA surged 16.8%, after it dipped in February alongside a 5-day lockdown in Perth. Sentiment was up 2.4% in both NSW and Queensland, and rose 5.8% in South Australia.

Housing

A theme to emerge from the survey over recent months is growing concern over housing affordability. House price expectations increased 3.1% in March to a new 7-year high. At the same time, the 'time to buy a dwelling' index slid another 3.6% and is now 11.9% below its November peak. In tandem, these indicators suggest the surge in house prices is starting to weigh on purchasing sentiment.

Separately, consumers are asked where they believe is the 'wisest place for savings'. In March, only 9.3% of consumers selected real estate. This is the third lowest reading in the 47 years the question has been running. Optimism around house prices is not translating to attitudes towards real estate as an investment.

Earlier today, RBA Governor Lowe delivered a speech noting the Bank is paying close attention to lending standards, doubling down on recent comments. Governor Lowe reiterated that monetary policy should not be used to address concerns over rising house prices and flagged that the Council of Financial Regulators is considering possible responses. In other words, policymakers will not respond to concerns about overheating in the house market with an increase in interest rates but instead changes could be made to macroprudential regulation.

Outlook

The sustained high level of consumer confidence is an encouraging sign for the next leg of the recovery. Optimism will help fuel spending which in turn will generate economic activity. This is particularly important at this critical juncture in the recovery as some relief measures are unwound. Reassuringly, the tapering of JobKeeper payments and other temporary income support payments over recent months has done little to dent positive sentiment.

Looking forward, consumer sentiment will be supported by progress in the vaccine rollout, further improvement in economic conditions and record low interest rates. However, there are still downside

risks. Virus outbreaks and snap lockdowns remain a threat while we are in the early stages of the vaccine rollout. In addition, the conclusion of JobKeeper at the end of March may temporarily slow the recovery in the labour market, although we still expect the unemployment rate to continue to trend down over 2021.

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