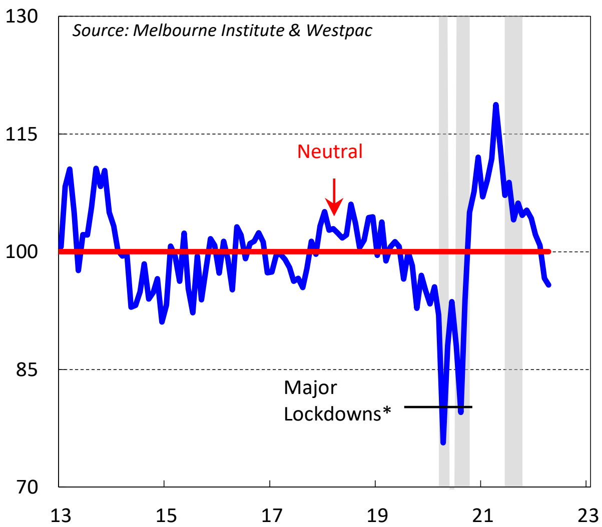
Consumer Sentiment
Confidence Drops on Price Pressures

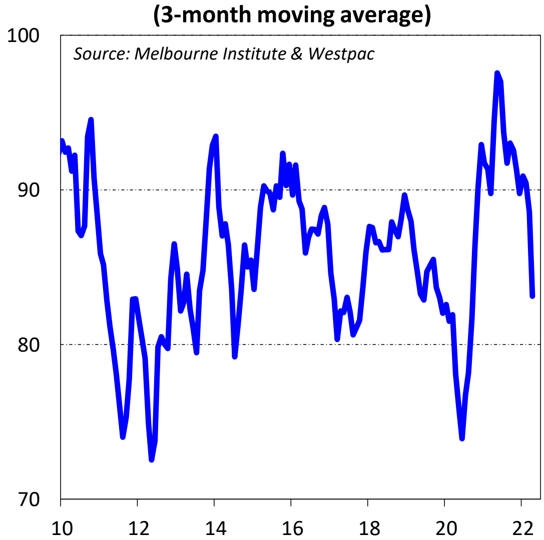
- **Consumer sentiment declined for a fifth consecutive month in April. The consumer sentiment index fell by 0.9% to 95.8 points, its lowest level since September 2020, when Melbourne was in an extended lockdown. An outcome below 100 indicates that pessimists outweigh optimists.**
- **Cost-of-living pressures and the prospect of higher interest rates are weighing on confidence. Flooding across parts of Queensland and NSW, and the war in Ukraine – including the associated spike in petrol prices – have also dampened sentiment.**
- **Confidence continued to decline even while economic activity is picking up, the labour market continues to strengthen and measures to relieve cost-of-living pressures were unveiled in the Federal Budget.**
- **Consistent with a landscape of near-term pressures contrasted against longer-term strength, the current conditions index declined by 5.1%, to 88.8, while the expectations index increased by 1.8%, to 100.4.**
- **Confidence in rural areas fell by 8.6%, while it rose by 2.3% in metropolitan regions. This likely reflects the impact of the floods.**
- **Despite headwinds, the economic picture remains bright. We forecast strong growth over 2022, led by consumer spending as households return to their usual activities and reduce their savings rate from high levels. Jobs and wages growth will be supported by a strong labour market and a continued fall in the unemployment rate, to levels not seen since the 1970s.**

Consumer Sentiment Index



National Lockdown 2020, VIC's 2nd lockdown & Delta Lockdowns

Family finances last 12 months
(3-month moving average)



Consumer sentiment, as measured by Westpac and the Melbourne Institute, declined for a fifth consecutive month in April. The consumer sentiment index fell by 0.9%, to 95.8 points, and moved further into pessimistic territory. This follows a large 4.2% drop in March.

The decline in sentiment over the past five months has resulted in confidence falling to its lowest level since September 2020, when Melbourne was in an extended lockdown. The index also remained below 100 for the second consecutive month. An outcome below 100 indicates that pessimists outweigh optimists.

A range of concerns continue to weigh on consumers. Cost-of-living pressures and the prospect of higher interest rates are impacting households. Supply-chain disruptions and the impacts of the war in Ukraine are adding to inflationary pressures. Households across parts of Queensland and NSW are also grappling with the aftermath of recent flooding, which continued in some parts of NSW.

However, other factors are partially offsetting these negative impacts. Economic activity is robust and the labour market continues to strengthen. The unemployment rate hit a 13½ year low of 4.0% in February and we expect it to fall below 3.5% over 2022. Reflecting this strength, the unemployment expectations index fell further in April, to 99.2. A lower reading indicates that more consumers expect the unemployment rate to decline. The index is now 16.2% lower than a year ago.

The survey was undertaken from 4 to 7 April. This was the week following the release of the 2022-23 Federal Budget. The centrepiece of the Budget was a cost-of-living package, which aimed to provide support to households to assist with inflationary pressures. This included a cut to fuel excise rates, a cost-of-living tax offset, and a one-off payment to people on various government benefit payments. The package may have helped lift confidence among the target population, with sentiment improving across low-income groups.

The halving of the fuel excise rate contributed to the average price of unleaded fuel falling to 174.3 cents per litre over the week ending 10 April. This is a 32.4 cent (or around 16%) reduction from the average price over the week immediately preceding the Budget of 206.7 cents per litre.

Consistent with a landscape of near-term pressures contrasted against longer-term strength, the current conditions index declined by 5.1%, to 88.8, while the expectations index increased by 1.8%, to 100.4.

Most sub-indices recorded a decline. The time to buy a major household item index led the falls, down 5.3% in the month. Family finances over the last 12 months and next 12 months dropped by 4.8% and 0.9%, respectively. These declines reflect the higher cost-of-living pressures faced by households and all three measures were below their respective long-run averages.

However, confidence surrounding future economic conditions improved. The measures for economic conditions over the next 12 months and five years rose by 5.8% and 1.0%, respectively. Both measures were above their long-run averages.

Confidence in rural areas fell by 8.6% in the month, while confidence rose by 2.3% in metropolitan regions. This likely reflects the impact of the floods.

Sentiment fell across most states. Sentiment plunged by 9.9% in WA, to fall below 100 for the first time in 10 months. Declines were also recorded across Queensland (-5.4%), Tasmania (-2.3%), Victoria (-2.2%) and SA (-1.1%). NSW bucked the trend, as sentiment in the state rose by 5.4%. Sentiment is now below 100 across all states.

The time to buy a dwelling index rose slightly in April, up 0.5% to 78.7. However, this index remains around 40% below its recent peak in November 2020. Housing affordability has continued to deteriorate as dwelling prices have increased across the country and this has impacted sentiment around the housing market. House price expectations declined by 3.5% in April. Despite the falls, more consumers expect prices to increase than decrease. Across the states and territories, house price expectations declined the most in Victoria and NSW, where affordability is most stretched.

Outlook

The prospect of higher rates and inflationary pressures are likely to remain headwinds to confidence in the near future. We expect the RBA to increase the cash rate from June, with several interest rate hikes expected over 2022, taking the cash rate to 1.25% by the end of this year. Higher rates are likely to weigh on confidence, particularly for indebted households.

However, despite these headwinds, the overall economic picture remains bright. We forecast strong growth over 2022, led by consumer spending as households return to their usual activities and reduce their savings rate from high levels. Jobs and wages growth will be supported by a strong labour market and a continued fall in the unemployment rate, to levels not seen since the 1970s.

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