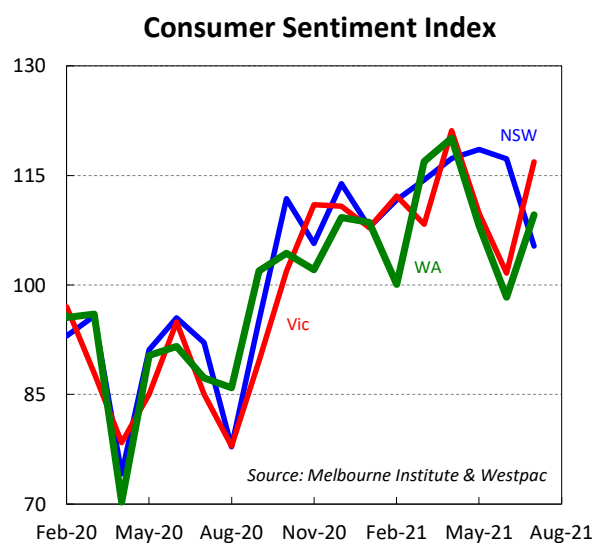
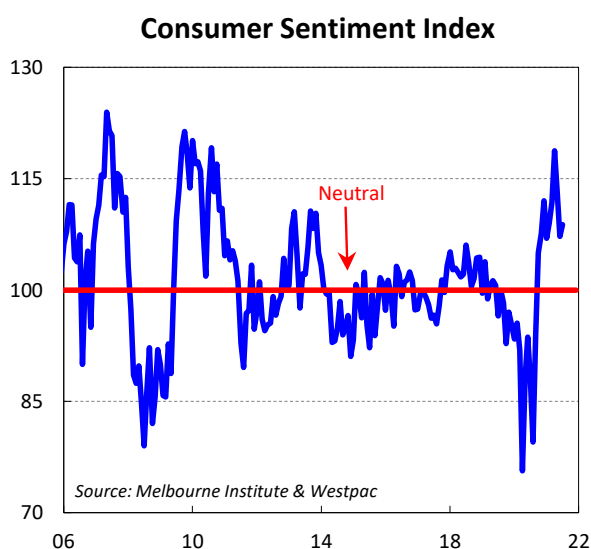


Wednesday, 14 July 2021

Consumer Sentiment

Confidence holds up despite NSW setback

- Consumer sentiment held up in July, despite the lockdowns across NSW. The monthly consumer sentiment index rose 1.5% in July to 108.8. The survey was conducted over the week of July 5-9, during the lockdown in NSW, but before tighter restrictions were announced on July 9.
- Sentiment dropped sharply in NSW, down 10.2%. However, this was more than offset by strong recoveries in Victoria, up 15.0%, and WA, up 11.5%, as both states emerged from lockdowns.
- So far, confidence has held up around the country, despite the setbacks in NSW. However, it is possible that respondents were expecting a shorter lockdown in NSW than is now unfolding. Earlier this morning, the NSW lockdown was extended by “at least” two weeks to 30 July.
- Most of the subcomponents of the headline national index rose in July.
- The index of unemployment expectations increased slightly to 109.6 but remains well below the long-run average level, reflecting the optimism about ongoing jobs growth.
- The ‘time to buy a dwelling’ index crept 0.8% higher in July, however, it is still 26.6% lower than its 2020 peak in November alongside mounting affordability pressures.
- While there may be some disruptions in the near term, there is still strong underlying momentum in the economy which will remain supportive of consumer confidence. Looking through the NSW lockdown, we expect jobs growth to continue and dwelling prices to keep marching higher. Plus, there is still significant ongoing policy support and vaccines will, eventually, be rolled out more broadly.



Consumer sentiment held up in July, despite the lockdowns across NSW. The monthly consumer sentiment index rose 1.5% in July to 108.8. The survey was conducted over the week of July 5-9, during the lockdown in NSW, but before tighter restrictions were announced on July 9.

The main theme this month was a clear divergence in sentiment across the states. Sentiment dropped sharply in NSW, down 10.2%. However, this was more than offset by strong recoveries in Victoria, up 15.0%, and Western Australia, up 11.5%, as both states emerged from lockdowns. Other states were mixed, with Tasmania and Queensland up, while South Australia was down slightly.

So far, confidence has held up around the country, despite the setbacks in NSW. This contrasts the extended second lockdown in Victoria last year which broadly dented confidence across the states.

On the upside, consumer confidence is still around or above long-run average levels across all states. Plus, the consumer sentiment indices are still higher than they were before the pandemic in every state.

However, it is possible that respondents were expecting a shorter lockdown in NSW than is now unfolding. Earlier this morning, the NSW lockdown was extended by “at least” two weeks to 30 July.

Most of the subcomponents of the headline national index rose in July as falls in NSW were outweighed by gains in other states. Assessments of personal finances improved, as did buyer sentiment with the ‘time to buy a major household item’ index also increasing. Expectations for economic conditions over the next 12 months edged up 0.8%. However, expectations for economic conditions over the next 5 years declined 3.1%, dragged lower by NSW.

The index of unemployment expectations increased slightly to 109.6. A higher reading means more respondents expect the unemployment rate to increase in the coming year. Despite the marginal deterioration, the index remains well below the average level of 129.9, reflecting optimism about ongoing jobs growth.

The ‘time to buy a dwelling’ index crept 0.8% higher in July, however, remains 26.6% lower than its 2020 peak in November. Mounting affordability pressures for price-sensitive buyers have weighed on this index as dwelling prices continue to march higher.

Outlook

The short-term outlook for consumer confidence has been clouded by the rapid spread of the delta variant across NSW. While in the past consumer confidence has been quick to snap back from short lockdowns, prolonged restrictions will have a more significant impact on sentiment. Additional government support announced yesterday will provide some relief.

Looking through the NSW lockdown, there is still strong underlying momentum in the economy which will remain supportive of consumer confidence. While there may be some disruptions in the near term, we expect jobs growth to continue and dwelling prices to keep marching higher. Plus, state and federal governments, and the Reserve Bank are continuing to provide significant ongoing support. And while Australia has fallen behind much of the developed world on the vaccine rollout, progress in the coming period will help to reduce the risk of further virus outbreaks and lockdowns.

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