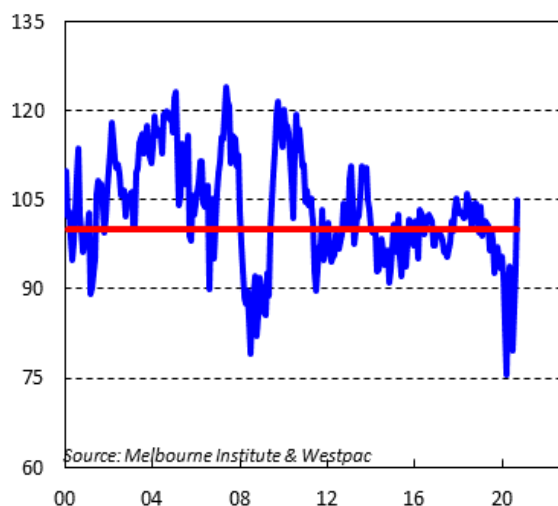


Wednesday, 14 October 2020

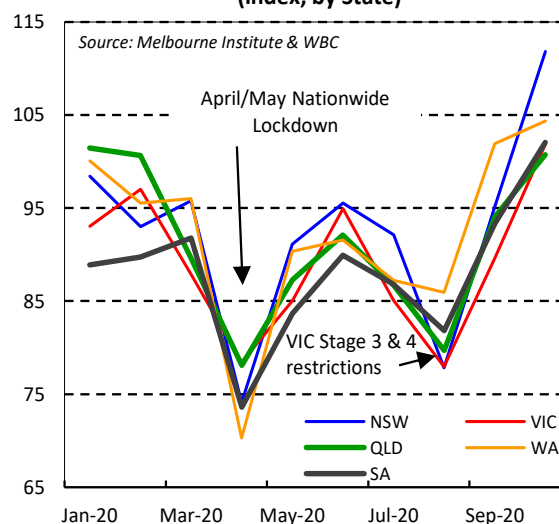
Consumer Sentiment Budget Bounce-Back

- The Westpac/Melbourne Institute Index of Consumer Sentiment staged a remarkable comeback following the October Federal Budget. The index rose a very solid 11.9% in October to 105.0. This is the highest level since July 2018.
- It appears the Budget went down well. The survey contains a question relating to the Budget and asks respondents if the Budget will improve their finances. For the first time since the question was introduced, in 2010, the response was a net positive.
- An encouraging outcome was that all states saw a lift in consumer confidence. Indeed, all states now have a reading at or above 100 - the first time since February 2019. Not surprisingly, Western Australia was the first state to crawl back above 100, and that was only in September.
- The 'time to buy a house' index rose 10.6% to its highest level since September 2019. There were increases in all states in this sub-index. In Western Australia, this index sits at 138.0, in South Australia at 131.1 and in NSW at 120.4. Queensland (118.6) and Victoria (118.0) are also in positive territory. These are solid results for the housing market and reflect a similar trend in other nations.
- Further, responsible, opening of the economy will lift confidence, as will the actual receipt of the income tax cut. It remains to be seen if the extra cash will be spent or saved but judging by the lift in consumer sentiment, it appears some lift in consumer spending is on the way.

Consumer Sentiment Index



Consumer Sentiment
(index, by State)



The Westpac/Melbourne Institute Index of Consumer Sentiment staged a remarkable comeback following the 6 October Federal Budget. The index rose a very solid 11.9% in October to 105. This is the highest level since July 2018.

The survey contains a question relating to the Budget and asks respondents if the Budget will improve their finances. For the first time since the question was introduced, in 2010, the response was a net positive. It appears the budget went down well.

There were other factors, likely impacting the very positive result. The broad success in containing COVID-19, the expectation of still lower interest rates and easing of some mobility restrictions all lifted the mood of the nation.

An encouraging outcome was that all states saw a lift in consumer confidence. Indeed, all states now have a reading at or above 100 - the first time since February 2019. Not surprisingly, Western Australia was the first state to crawl back above 100, and that was only in September.

Of the states the most positive outcome was seen in NSW with a reading of 111.8. This was followed by Western Australia at 104.0 and South Australia at 102.1.

While Victoria has been, and continues to go through some difficult times, it saw its index rise to 101.9. It appears that respondents were looking forward to some easing in restrictions and possibly benefits for the range of business support measures introduced by the Victorian government in its response to COVID-19.

Consumer sentiment in Victoria, at 101.9, exceeded that of Queensland at 100.7. While the population of Queensland has a higher level of mobility, its businesses and their employees are held back by their border restrictions.

Other improvements in the survey included a lift in measures of job security and a rise in confidence in the housing market. The job security index moved back up to the levels of early 2019 despite media reports of a looming 'fiscal cliff' as changes to JobKeeper occurred.

The 'time to buy a house' index rose 10.6% to its highest level since September 2019. There were increases in all states in this index. In Western Australia, this sub-index sits at 138.0, in South Australia at 131.1 and in NSW at 120.4. Queensland (118.6) and Victoria (118.0) are also in positive territory. These are solid results for the housing market and reflect similar trend in other nations. The mix of low interest rates and fiscal stimulus is feeding through to higher asset prices.

Outlook

The discovery of a viable vaccine would undoubtedly lift consumer sentiment, but that is yet to come. As we wait, the easing of restrictions, adjustment to borders, tax cuts and support for businesses have lifted sentiment.

Further, responsible, opening of the economy will lift confidence, as will the actual receipt of the income tax cut cash. It remains to be seen if the extra cash will be spent or saved but judging by the lift in consumer sentiment, it appears some lift in consumer spending is on the way.

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