

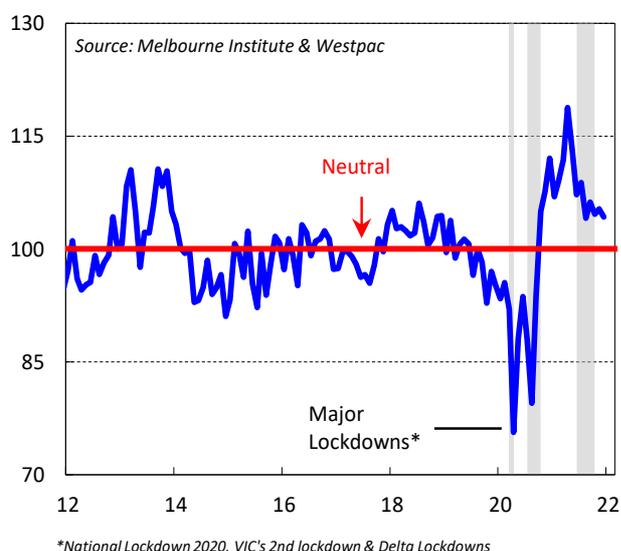
Wednesday, 15 December 2021

Consumer Sentiment

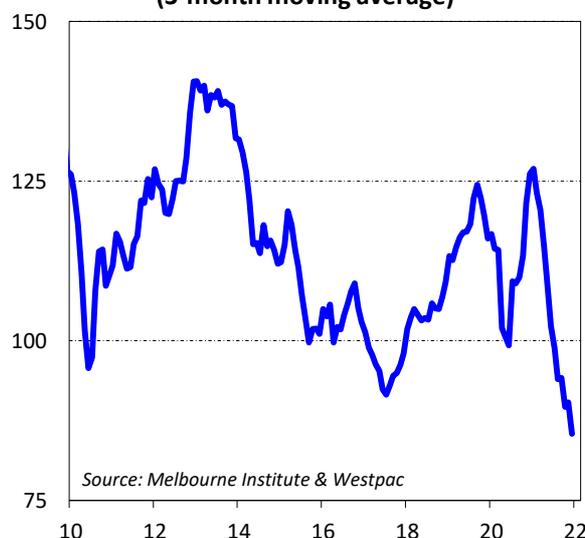
Upbeat Despite Omicron Fears

- Consumer sentiment pulled back slightly in December, following the emergence of the Omicron variant. The Melbourne Institute's consumer sentiment index fell 1.0% to 104.3 in the month. However, consumers remain optimistic as sentiment held above the long run average.
- Concerns over Omicron appeared to weigh most heavily on states hit hard by lockdowns, including NSW and Victoria where confidence fell. Sentiment improved in Queensland, WA and SA.
- The fall in the headline measure was driven primarily by a drop in the "time to buy a major household item" sub-index. This likely reflects virus concerns, as well as other factors like supply disruptions and a rebalancing of spending towards services as lockdowns have lifted.
- Confidence in the economic outlook declined slightly, reflecting rising Omicron uncertainty. However, expectations of future economic conditions remain well above long-run averages.
- Concerns about the possibility of a sharp rise in inflation, and relatedly higher interest rates, have also weighed on confidence in recent months. Sentiment among mortgagees declined for a second consecutive month, to be down 6.3% on a year earlier.
- Elevated confidence is good news for consumer spending. Indeed, a solid rebound in consumption is already underway. And we expect pent-up demand, large household savings buffers and the strong housing market will see bumper growth in spending in the period ahead.

Consumer Sentiment Index



Time to Buy a Dwelling Index (3-month moving average)



Consumer sentiment pulled back slightly in December, alongside uncertainty surrounding the Omicron variant.

The Melbourne Institute's monthly consumer sentiment index fell 1.0% to 104.3 in December. This follows an increase of 0.6% in November. However, sentiment held comfortably above the long run average of 101.3, reflecting that consumers remain optimistic despite the new strain of the virus.

The result follows the emergence of the Omicron variant at the end of November, which was declared a 'variant of concern' by the World Health Organisation.

A result above 100 indicates that optimists outweigh pessimists. The index has now been above 100 for 15 consecutive months, despite the challenges posed by the pandemic. The index is 9.2% above pre-pandemic levels, as of February 2020.

Concerns over Omicron appeared to weigh most heavily in states hit hard by lockdowns, including NSW and Victoria, where sentiment fell 3.6% and 3.5%, respectively. In contrast, Queensland (3.4%), WA (3.3%) and SA (7.2%) all reported a rise in confidence in December.

Concerns about the possibility of a sharp rise in inflation, and relatedly higher interest rates, have also weighed on confidence in recent months. Sentiment among mortgagees declined for a second consecutive month, to be down 6.3% on a year earlier.

The decline in sentiment in December was led by a sharp fall in the time to buy a major household item sub-index, which dropped 5.3% over the month. This likely reflects virus concerns, as well as other factors like supply disruptions and a rebalancing of spending towards services as lockdowns have lifted.

Confidence in the economic outlook also fell, reflecting rising Omicron uncertainty. Expectations for the economic conditions over the next 12 months and 5 years slipped 1.6% and 0.5% respectively. Encouragingly, expectations of future economic conditions remain well above long-term averages.

Although there is some uncertainty surrounding the economic outlook, personal finance measures improved. Personal finances compared to the previous 12 months rose 1.0%, while personal finance expectations over the next 12 months jumped 2.1%.

The time to buy a dwelling index fell sharply, dropping 10.2% in December to 81.9. This is well below the long-term average of 116.1. The fall reflects mounting affordability pressures alongside skyrocketing housing prices.

The unemployment expectations index jumped 9.3% in December, from a 26-year low in November. A lower reading indicates more consumers expected unemployment to fall than increase. Despite the increase, the index remains well down on the average level, consistent with our expectation for strong jobs growth in the coming period.

Outlook

Consumers remain buoyant despite fresh uncertainties over the virus, which is good news for consumer spending. There is some risk that Omicron might cause some consumers to be more cautious until more information emerges about the variant. It is early days, and official sources are yet to confirm the transmissibility or severity of the variant.

The effectiveness of current vaccines and the incidence of serious illness will be critical in determining whether restrictions are reintroduced. Encouragingly, preliminary studies show a third dose of the Pfizer vaccine provides effective protection against Omicron.

Consumer spending will be a crucial driver in the economic recovery. Indeed, a solid rebound in

consumption is already underway. And we expect elevated confidence, large household savings buffers and the strong housing market will see bumper growth in spending in the period ahead.

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