

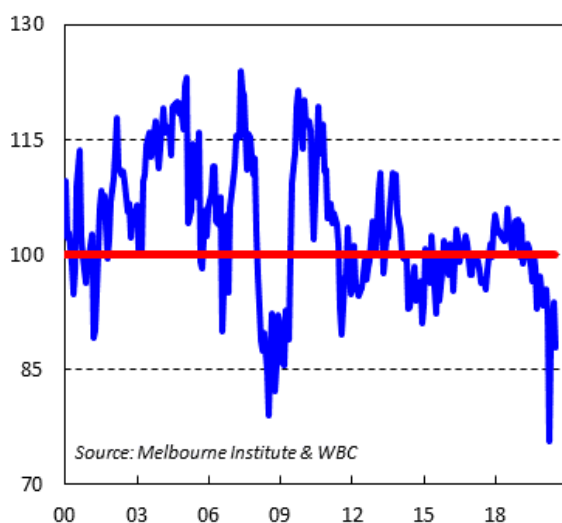
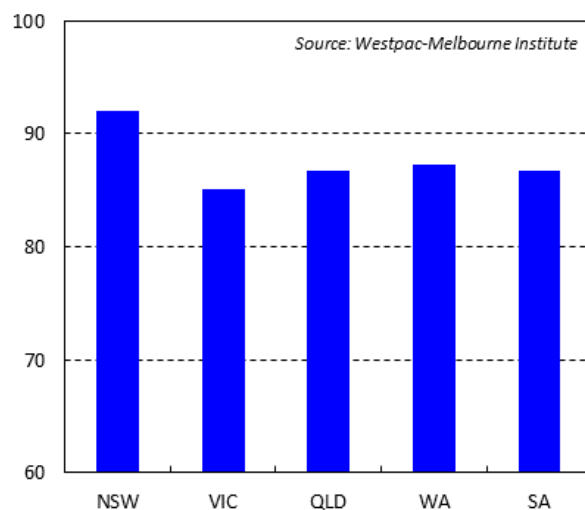
Wednesday, 15 July 2020

Consumer Sentiment

Second Wave Hits Confidence

- The Westpac-Melbourne Institute Consumer Sentiment Index fell 6.1% to a reading of 87.9 in July, the first decline after rising for two straight months. Concerns over rising cases of COVID-19 in Victoria was largely behind the deterioration in sentiment, where new cases today stood at 238.
- The index is still 16.2% higher than the low struck in April, when a nationwide lockdown was in full force, but it is still pointing to pessimism among consumers. The index is now 8.0% below its pre-pandemic level in February.
- With the survey conducted from July 6 to July 10, responses would have reflected the impact of the lockdown measures being imposed in Metropolitan Melbourne and Mitchell Shire, and also the closure of State borders with Victoria. Confidence in Victoria fell 10.4%, the largest fall in confidence across States.
- This survey precedes the latest developments in Sydney this week, where a growing cluster of cases in Sydney's south west could lead to a larger outbreak. This would suggest a risk that confidence will erode further. Confidence could also take a bigger hit if cases continue to rise, and if tighter movement restrictions are imposed.

Aust. Consumer Sentiment Index

Consumer Sentiment by State
(July 2020)

The Westpac-Melbourne Institute Consumer Sentiment Index fell 6.1% to a reading of 87.9 in July, the first decline after rising for two straight months. The index is still 16.2% higher than the low struck in April, when a nationwide lockdown was in full force, but it is still pointing to pessimism among consumers. The index is now 8.0% below its pre-pandemic level in February. Concerns over rising cases of COVID-19 in Victoria was largely behind the deterioration in sentiment, where new cases today stood at 238.

With the survey conducted from July 6 to July 10, responses would have reflected the impact of the lockdown measures being imposed in Metropolitan Melbourne and Mitchell Shire, and also the closure of State borders with Victoria.

There is a risk that confidence will erode further given there has been a concerning increase in cases in Sydney's south west this week, and several States have imposed further restrictions on travel from these hotspots.

The bounce in confidence over May and June was clearly short-lived. Consumers appear to have reassessed the likelihood of economic activity returning to normal following the second wave of COVID-19 infections in Victoria.

The State breakdown further highlights the impact of COVID-19 on confidence. The sharpest fall in sentiment was in Victoria, which fell 10.4% to 85.1 in July, and is the lowest of all States. All other States also reported declines, including a 3.5% fall in South Australia, 3.6% drop in NSW, a 4.7% fall in Western Australia and a 5.8% drop in Queensland. These falls, albeit smaller than the drop in Victoria, suggests there are concerns with regards to spillover impacts from the renewed restrictions in Victoria and concerns of the virus spreading to other States.

Concern among consumers about the outlook for the economy deepened in July. The index measuring expectations for the economy in 12 months' time fell 14.0% to 66.4 and is 25.6% below its pre-pandemic level in February. Medium-term expectations on the economy also deteriorated – the sub-index on expectations for the economy in 5 years-time declined 10.3% in July.

Consistent with the rising concern about the economic outlook, expectations on the labour market deteriorated. The 'unemployment expectations' index jumped 12.1% in July, mostly reversing a 19.5% gain over May and June. The higher the index, the greater the pessimism among consumers with regards to the labour market. The index is sitting at 142.6 and is above the long-run average of 130, suggesting consumers are expecting a rise in the unemployment rate over the next year.

Not all components of the index fell. There was greater optimism in relation to family finances, with the 'finances versus a year ago' sub-index edging up 2.5% in July. The improvement might reflect the positive impact from the income support packages from Federal and State governments. Moreover, re-opening in States outside of Victoria may have allowed many Australians to return to work.

Sentiment relating to the housing market also improved. The 'time to buy a dwelling' index rose 4.1% to 112.1, the highest in six months. The State breakdown revealed a stronger improvement in Queensland, South Australia and Western Australia which could reflect the relatively low number of COVID-19 cases in these States, but may also reflect a growing preference to live away from population centres such as Sydney and Melbourne. The Westpac-Melbourne Institute house price expectations index similarly lifted, rising 8.5% in July. The index, at 87.4, is still at a low level and suggests consumers are still expecting weakness in house prices.

Outlook

The survey released today highlights increased concern among consumers with regards to COVID-19. Moreover, this survey precedes the latest developments in Sydney this week, where a growing cluster of cases could lead to a larger outbreak. Confidence could take a bigger hit if cases continue to rise, and if tighter movement restrictions are imposed.

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