

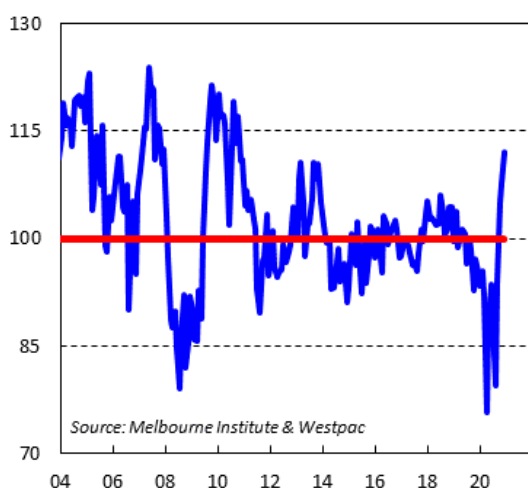
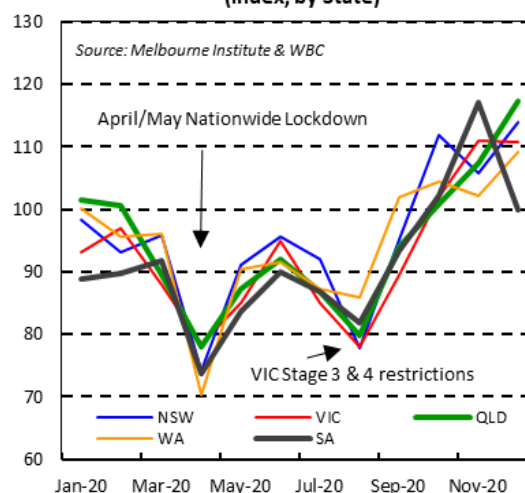
Wednesday, 9 December 2020

Consumer Sentiment

Strongest Consumer Confidence in 10 years

- The Westpac/Melbourne Institute consumer sentiment index rose 4.1% in December to 112.0, completing a streak of four consecutive monthly increases. The index rose to a 10-year high, suggesting consumers are feeling highly optimistic despite the pandemic.
- Among the States, results were mixed. NSW recorded a 7.7% increase in consumer confidence, taking its index to 113.9, the highest level in 11 years. Queenslanders are the most confident with an index of 117.3, the highest level in over 10½ years.
- In Victoria, sentiment edged down 0.2% to 110.8, despite the further easing of lockdown restrictions and the release of the Victorian State Budget in mid-November. Consumers in South Australia turned slightly pessimistic in December, probably because of the brief lockdown endured in mid-November and the reappearance of local virus transmissions in the State.
- The “time to buy a major household item” sub-index rose a timid 0.7% in December to 122.2, suggesting the strong appetite for purchasing major items is over, as workers progressively return to work in the office.
- The “time to buy a dwelling” index declined 5.9% to 124.2 in December, from the seven-year high of 132 recorded in November. Despite sentiment remaining high in December, the index may have declined because of concerns surrounding housing affordability among owner-occupiers.
- Despite the headwinds, we believe consumers will remain optimistic in the coming months. The extent of this optimism remains uncertain.

Consumer Sentiment Index

Consumer Sentiment
(index, by State)

The Westpac/Melbourne Institute consumer sentiment index rose 4.1% in December to 112.0, completing a streak of four consecutive monthly increases. The index rose to a 10-year high, suggesting consumers are feeling highly optimistic despite the pandemic. Several reasons underly the positive results in the last few months, including encouraging vaccine news, robust fiscal stimulus measures and the easing of restrictions across the country.

Among the States, results were mixed. NSW recorded a 7.7% increase in consumer confidence, taking its index to 113.9, the highest level in 11 years. Western Australians are also more optimistic, with the index reaching 109.3 in December, after a decline recorded in November. Queenslanders are the most confident consumers in Australia with an index of 117.3. The Queensland index rose 9.3% in December and reached its highest level in over 10½ years.

Surprisingly, consumer sentiment declined 0.2% to 110.8 in Victoria, despite the further easing of lockdown restrictions and the release of the Victorian State Budget in mid-November. Perhaps, most of the enthusiasm resulting from the easing of restrictions was captured in the November index of 111.0, the highest level in 7 years.

Consumers in South Australia turned slightly pessimistic in December. The index declined 14.6% to 99.9, from the 10-year high of 117.0 recorded in November. Recall that a reading below 100 suggests more consumers are pessimistic than optimistic. This sharp decline is likely due to the brief lockdown South Australians endured in mid-November and the reappearance of local transmissions in the State.

In terms of sub-indices, consumers are more confident about the state of the economy one year from now. The “economy, 1 year ahead” sub-index rose 9.9% in December to a 10-year high of 111.9, likely driven by the encouraging numbers for gross domestic product, positive vaccine news and efficient management of new infections. The release of State Budgets may have also helped improve the sentiment around the economy.

The “time to buy a major household item” sub-index rose a timid 0.7% in December to 122.2, suggesting the strong momentum for purchasing major items is over, as workers progressively return to work in the office. However, the index remains high and should support retail trade numbers in December.

Consumers upgraded their view of their finances compared to one year ago. The sub-index climbed 6.9% in December but remained below 100 at 96.1, suggesting most households surveyed still perceive their financial situation to be worse than last year’s. The forward-looking measure of financial health, the “family finances, year ahead” sub-index, declined 1.8% to 108.9. Despite the fall, the index suggests consumers remain hopeful next year will be better for their finances.

The survey also provided some information on consumer sentiment for the housing market. The “time to buy a dwelling” index declined 5.9% to 124.2 in December, from a seven-year high of 132 recorded in November. Despite sentiment remaining high in December, the index may have declined because of concerns surrounding housing affordability among owner-occupiers.

Outlook

The results of the December survey show that consumer sentiment continues to improve. This is a positive sign that the Australian economy is on track to recovery. But it also reminds us that this recovery is uneven and fragile, as the pandemic continues to pose risks to the outlook.

On the upside, the strong fiscal and monetary measures should continue to provide further support to the Australian economy. Encouraging vaccine news, further relaxation of social-

distancing restrictions and the effective control of new infections should also play a part in the recovery.

On the downside, some of the important income support measures announced as a response to the pandemic will be wound back this month. The fortnightly JobKeeper payment will be scaled back by \$200 for individuals working more than 20 hours a week, and \$100 for other individuals. This adjustment will be in effect from January 4 until March 28. The JobSeeker will also see a reduction in payments, as the coronavirus supplement will be lowered from \$250 to \$150 per fortnight. On top of those factors, the threat of a surge in infections as a result of gatherings during the festive season might result in new lockdowns, leading to a deterioration of confidence levels.

Despite the headwinds, we believe consumers will remain optimistic in the coming months. The extent of this optimism remains uncertain.

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