

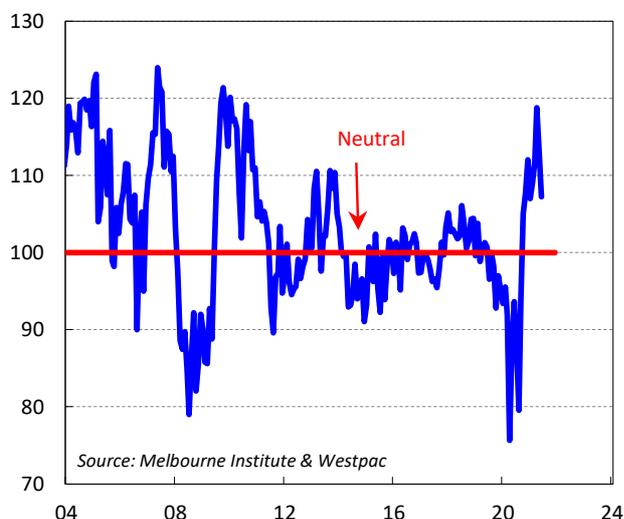
Wednesday, 9 June 2021

Consumer Sentiment

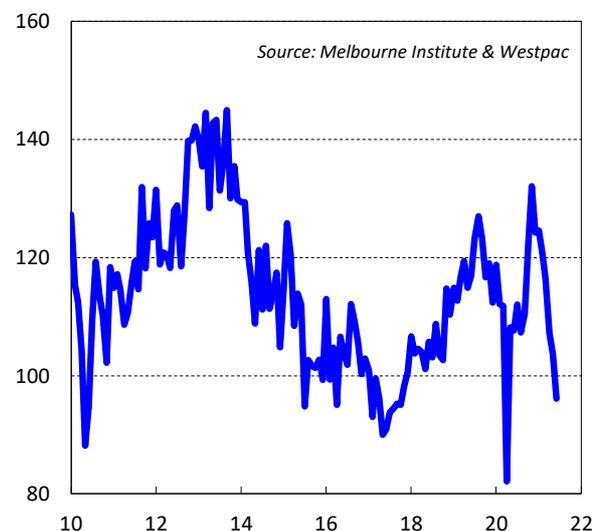
Melbourne Lockdown Dents Confidence

- Consumer sentiment declined 5.2% to 107.2 in June, as the two-week lockdown in Melbourne served as a reminder that we are still at risk of further virus outbreaks. However, this decline is coming off an 11-year high in April. Sentiment is still above its long-run average.
- Sentiment unsurprisingly fell in Victoria, decreasing 7.5% in the month. Although there were also notable declines in sentiment in other states in June: 10.9% in South Australia, 9.0% in Western Australia and 3.9% in Queensland. This might reflect their confidence (or lack thereof) in their ability to manage future outbreaks. In contrast, sentiment only declined 1.1% in New South Wales, underscoring the faith the state has in its ability to manage the virus.
- All five subcomponents of the headline index declined. The index for 'time to buy a major household item' declined 4.1% and is now materially lower than the long-run average level. This is consistent with spending growth on household goods slowing this year as consumption patterns rebalance back towards services alongside the reopening of the economy.
- The 'time to buy a dwelling' index declined for the seventh consecutive month in June and is now 27.1% lower than its peak in November 2020. Clearly affordability pressures are biting as dwelling prices continue to surge.
- Looking through the Melbourne lockdown, other factors are likely to remain supportive of consumer confidence. Dwelling prices are booming, we expect the labour market will continue to recover and the government and the Reserve Bank are still providing substantial policy support. In turn, this will support consumer spending through the year.

Consumer Sentiment Index



Time to Buy a Dwelling Index



Consumer sentiment declined 5.2% to 107.2 in June, as the two-week lockdown in Melbourne served as a reminder that we are still at risk of further virus outbreaks. However, this decline is coming off an 11-year high in April. Sentiment is still above its long-run average.

The survey was conducted in the first week of the Melbourne lockdown. Unsurprisingly, sentiment fell in Victoria by 7.5%.

Although there were also notable declines in sentiment in other states: 10.9% in South Australia, 9.0% in Western Australia and 3.9% in Queensland. This might reflect their confidence (or lack thereof) in their ability to manage future outbreaks. Reliance on Victoria for tourism may also have played a part.

In contrast, sentiment only declined 1.1% in New South Wales, underscoring the faith the state has in its ability to manage the virus. Consumer sentiment is now considerably higher in New South Wales than other parts of the country. It is 11.0% stronger than sentiment in Queensland, which has the next highest reading.

All five subcomponents of the headline index declined. The largest fall was in expectations for economic conditions over the next 12 months, which declined 10.3% to 108.7, as respondents were reminded of the risk of lockdowns. Expectations for economic conditions over the next five years declined 1.4% to 114.0. Assessments of personal finances also slipped lower.

The index for 'time to buy a major household item' declined 4.1% and is now materially lower than the long-run average level. This is consistent with the view that spending on household goods is likely to slow this year as consumption patterns rebalance back towards services alongside the reopening of the economy. Spending on household goods surged in 2020 as Australians stuck at home splurged on new TVs and decked out their home offices.

The 'time to buy a dwelling' index declined 7.1% in June, marking the seventh consecutive fall in the index which is now 27.1% lower than its peak in November 2020. Clearly affordability pressures are biting as dwelling prices continue to climb higher. This is consistent with the decline in lending to first home buyers over recent months, who tend to be more price-sensitive than other buyers.

The unemployment expectations index rose 8.2% in June as the Melbourne lockdown weighed on optimism about the labour market. A higher reading on this index means more consumers expect unemployment to increase in the coming year. Next week, May labour force data will be released. While job vacancies have continued to swell, there is still a risk of job losses tied to the end of JobKeeper, which could weigh on the data for May.

Outlook

The lockdown in Victoria is a reminder that we aren't out of the woods yet. Snap lockdowns and interstate border closures will remain a risk until we have made significantly more progress on the vaccine rollout. However, we also know that lockdowns have been effective at containing the spread of the virus and that there is still strong underlying momentum in the economic recovery.

Looking through the disruption of the Melbourne lockdown, other factors are likely to remain supportive of consumer confidence. Dwelling prices are booming, we expect the labour market will continue to recover, and the government and the Reserve Bank are still providing substantial policy support. In turn, this will support consumer spending through the year.

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