

15 July 2020

Consumer sentiment drops again as COVID second wave hits

• **The Westpac-Melbourne Institute Index of Consumer Sentiment fell 6.1% to 87.9 in July from 93.7 in June.**

The drop in confidence reverses all of last month's impressive gain, taking the Index back to the weak levels seen in May but still leaving it 16% above April's extreme low of 75.

The timing of the survey is relevant. It covered the week in which the lock down was announced for Melbourne but the survey closed before the news of a significant cluster was reported for Sydney.

Sentiment has been rocked by the resurgence in Coronavirus cases over the last month. After averaging about ten a day through late May and early June, new cases have lifted significantly, running at close to 200 a day in the July survey week. These increases have been almost exclusively in Melbourne prompting the state government to reinstate lockdowns for the city and several regional areas, and the closure of Victoria's state borders – measures that were announced in the first half of the survey week. Daily responses suggest these announcements were followed by a slight firming in sentiment in the second half of the week.

It is of some concern that the survey pre-dates the news of a significant cluster of cases in Sydney which emerged last weekend – a day after the end of the survey.

State readings underscore the importance of virus-related developments: Victoria's sentiment index plunged 10.4% in July but sentiment across the rest of the nation showed much milder declines (down 4.5% on a combined basis). While milder, the weakness in other states is also likely to be linked to the outbreak in Victoria, reflecting concerns about the virus spreading interstate and spill-over effects on the wider economy.

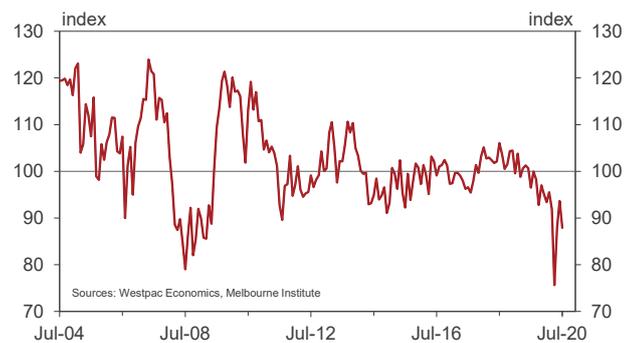
The component detail shows the renewed COVID threat hit consumer expectations for the year ahead hard but also significantly undermined medium-term expectations for the economy.

The 'economy, next 12mths' sub-index recorded the biggest decline, slumping 14% in July to be 25% below pre-COVID levels – that compares to the 40% drop during the 'first wave' of the virus in March-April.

The 'economy, next 5yrs' sub-index recorded a sharp 10.3% fall. This is disconcerting as medium-term expectations for the economy held up reasonably well during the initial COVID shock – only falling 5.1% in March-April – and were slightly above pre-COVID levels in June.

Our read is that whereas previously respondents were confident that the damage from the virus would be short-lived, the set-back over the last month raises significant questions. The looks to have been a substantial loss of confidence around the ability to contain the virus permanently, limiting the extent to which the economy can return to business as usual.

Consumer Sentiment Index



Certainly, the renewed outbreak points to a slower and more difficult path ahead for the foreign education, hospitality and tourism sectors all of which may see longer lasting restrictions even if the latest outbreak is successfully contained.

Employees of businesses that are indirectly affected by these likely extensions to the disruptions will also be unnerved.

The hit to sentiment around family finances was much milder. The 'finances, next 12mths' sub-index fell 6.7%, consistent with the more difficult path ahead.

However, the 'finances vs a year ago' sub-index ticked up slightly, rising 2.5%. This reflects significant 'reopening boosts' in other states and government income support packages that more than offset the negative impact of Melbourne's renewed lockdown. This point is clearly borne out by the 6.5% fall in this component in Victoria in contrast with the increase in the national index.

The pull back in buyer sentiment was also mild, the 'time to buy a major item' sub-index dipped just 2.1% to 104.1. That said, the index reads are significantly softer in Victoria (99.6) compared to other states (averaging 105.6). In both cases, the sub-index is still well below the long run average of 127, reflecting a mix of ongoing social restrictions, health concerns about entering potentially crowded shopping spaces, pressure on family finances and a reluctance to make big ticket spending commitments while there is a heightened threat of job loss.

Job loss concerns escalated sharply in July. The Westpac-Melbourne Institute Unemployment Expectations Index surged 12.1%, reversing much of the surprisingly strong 19.5% improvement in May-June (recall that higher readings indicate that more consumers expect unemployment to rise in the year ahead). At 142.6, the index is now well above its long run average of 130, consistent with consumers expecting a further rise in the unemployment rate over the next year.

Consumer expectations for unemployment have tracked closely in line with their medium-term expectations for



the economy in recent months – the latest deterioration reflecting a reassessment of ongoing COVID disruptions and a slower reopening. For jobs, this may also be combining with concerns about the imminent wind-down of the Federal government’s JobKeeper Payments scheme, which is due to expire at the end of September. In effect, employees that might previously have expected a reopening of the domestic economy to ensure they retained their jobs beyond September may be getting much more concerned about their work prospects.

Housing-related sentiment bucked the wider trend in sentiment in July, posting a moderate improvement, albeit with an uneven pattern across states and while price expectations remain deeply negative.

There were significant differences across the states in the ‘time to buy a dwelling’ index. Nationally it rose by 4.1% to 112.1, a six- month high but still well below the long run average of 120. State index moves varied materially: up 3.8% in Victoria; steady in NSW; but surging in Queensland (16.6%); South Australia (14.6%) and Western Australia (7.2%). Index levels tell a similar story with Victoria (103.8) and NSW (106.9) lagging well behind Western Australia (124), Queensland (122) and South Australia (120). Clearly, affordability is a key driver of this discrepancy but developments this month also point to a significant COVID effect emerging for housing across the nation.

Consumer expectations for house prices also posted a solid gain, the Westpac-Melbourne Institute House Price Expectations Index rising 8.5%. However, at 87.4, the index remains in deeply pessimistic territory, 42% below the optimistic readings immediately prior to the COVID shock in March-April. Expectations lifted across all states including Victoria which rose by 6% although the state index is still 50% below its pre COVID high.

The Reserve Bank Board next meets on August 4. The Board will maintain its current highly stimulatory stance and continue to commit to steady policy for the foreseeable future.

The interest around the RBA will be the release of its latest economic forecasts on

August 7. The most significant revision is likely to be the forecast that the economy will grow by 6% in 2021. That is twice the pace expected by Westpac, which is more in line with the messages around today’s survey.

More immediately, the government is scheduled to announce a fiscal update on July 23. While the government is likely to release some revised economic forecasts most attention will be on its policy intentions for the December quarter and beyond. Before the news of the Melbourne closures, Westpac had revised its budget deficit estimate for 2020/21 to \$240b from the \$170b which we released in May. That revised estimate incorporated around \$50b including extensions to JobKeeper (\$24b); JobSeeker (\$11b) and further stimulus in the October Budget (\$15b).

With this sharp relapse in Consumer Confidence stemming from the latest news on the closures in Melbourne the policy response is likely to be even greater.

Bill Evans, Chief Economist

Consumer Sentiment – July 2020

	avg*	Jul 2018	Jul 2019	Jun 2020	Jul 2020	%mth	%yr
Consumer Sentiment Index	101.3	106.1	96.5	93.7	87.9	-6.1	-8.9
Family finances vs a year ago	89.2	88.8	85.7	77.0	78.9	2.5	-7.9
Family finances next 12mths	107.5	107.2	98.4	105.3	98.3	-6.7	-0.1
Economic conditions next 12mths	90.7	105.5	87.1	77.2	66.4	-14.0	-23.8
Economic conditions next 5yrs	91.3	104.3	91.6	102.4	91.9	-10.3	0.3
Time to buy a major household item	126.9	124.5	119.7	106.3	104.1	-2.1	-13.0
Time to buy a dwelling	119.3	103.1	123.2	107.6	112.1	4.1	-9.0
Unemployment Expectations Index	130.2	125.8	134.4	127.2	142.6	12.1	6.1
House Price Expectations Index	125.5	112.5	119.4	80.6	87.4	8.5	-26.8

Source: Westpac-Melbourne Institute

*avg over full history of the survey, all indexes except ‘time to buy a dwelling’, ‘unemployment expectations’ and ‘house price expectations’ are seasonally adjusted

Survey interviews are conducted by OZINFO Research on the telephone using trained interviewers. Telephone numbers and the household respondent are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 6 July to 10 July 2020. The data have been weighted to reflect Australia’s population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



© Copyright 2020 Westpac Banking Corporation

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).



Disclaimer continued

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- i. Chinese Wall/Cell arrangements;
- ii. physical separation of various Business/Support Units;
- iii. Strict and well defined wall/cell crossing procedures;
- iv. a "need to know" policy;
- v. documented and well defined procedures for dealing with conflicts of interest;
- vi. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.