

12 August 2020

Consumer sentiment collapses again as Victoria's lockdown stokes fears across the nation

• **The Westpac-Melbourne Institute Index of Consumer Sentiment fell 9.5% to 79.5 in August from 87.9 in July.**

The scale of the fall comes as a major surprise. At 79.5, the Index is back near the extreme low of 75.6 seen back in April when Australia entered a national lockdown.

Since the July survey we have seen Victoria enter Stage 4 restrictions and evidence of some 'hot spots' in New South Wales. Under those circumstances it is certainly reasonable to have expected a sizeable fall in Consumer Sentiment.

However, collapsing to only 5.1% above the lows we saw in April when consumers were first confronted with a national lockdown may well prove to be a significant overreaction.

The biggest surprise was in NSW where sentiment collapsed by 15.5% – well in excess of the 8.3% fall in Victoria. Remarkably, the index in NSW has reached 77.8, below Victoria's read of 78.

Even in Queensland, where cases have been largely eliminated, there was a fall of 8.1% putting the index in Queensland at 79.7, only slightly above NSW and Victoria.

The index in South Australia fell by 5.8% to 81.8 while only Western Australia was stable, falling by 1.5% to 85.9.

While some of the weakness in NSW and Queensland will reflect the direct economic drag from Victoria's lockdown and the closure of interstate borders, the overall response seems disproportionate to the evidence on developments around the virus.

This emphasises the fear of the unknown.

Consumers across the nation appear to have been rattled by the developments in Victoria and fear that other states may also succumb to the 'second wave' outbreak.

NSW has seen several clusters although, after more than a month, there has been no evidence that these cases will develop into a Victorian-style disaster.

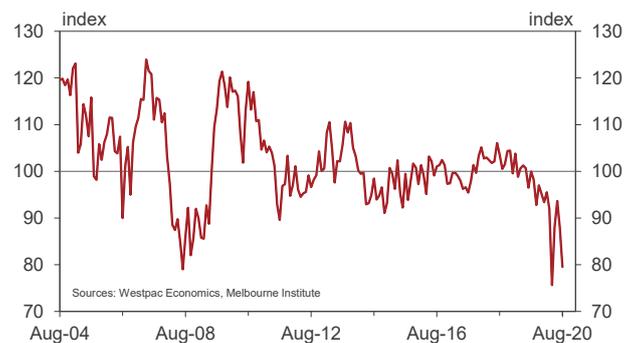
Queensland has seen even fewer cases and faces even more secure prospects.

Our view is that these fears are likely to have become overblown. While consumers are right to be concerned, virus risks still look low outside Victoria. Even in NSW new case counts remain well below the levels seen when Victoria's outbreak started to ramp higher in the second half of June. Certainly, the prospect of Victorian-style outbreaks taking hold across all of Australia seems remote. Fears across the nation will be lowered further as and when lockdown measures start to improve the situation in Victoria.

Victoria's progress in containing the virus with its current heavy lockdown policies will be much clearer by the first week in September when we conduct the next survey.

For now, we feel the August sentiment read should be treated with more caution than usual. Consumers are clearly fearful of the COVID threat and uncertain about how it will play out. And that will have some bearing on their decisions near term. But

Consumer Sentiment Index



there also looks to be an air of panic in the latest survey that is out of proportion with what still look to be manageable virus-related risks outside Victoria.

That could disappear quickly if feared outbreaks in other states do not materialise and the situation in Victoria eases. Consumer sentiment will be hostage to virus outcomes for some time yet

Consistent with the recent retracement of sentiment, Westpac has seen some evidence from its Card Tracker data that activity has slowed in recent weeks from the highs of June and early July. The moderation is also evident outside of Victoria, although card activity overall is holding up much better than the weakening implied by the latest collapse in sentiment.

All five component indexes recorded declines in August although the largest falls were around expectations for the economy and assessments of 'time to buy a major item'.

The 'economy, next 12mths' sub-index recorded the biggest decline, slumping 19% to be down over 30% since June.

Remarkably, at just 53.6 the sub-index is even below April's 53.7.

The 'economy, next 5yrs' sub-index also recorded a substantial 8.7% fall, following a 10.3% drop last month. The second wave outbreak has put a much heavier dent in medium term expectations for the economy.

That 18% decline over July-August compares to the much milder 5.1% decline seen when COVID-19 first impacted in March-April.

What looked likely to be a brief disruption back then is now feared to be much more prolonged.

Medium term expectations are most likely capturing concerns that the new outbreak in Victoria may be a sign that the virus will be more difficult to control. That raises the risk of periodic flare-ups and tighter ongoing restrictions on some forms of activity such as travel, tourism and recreation which consumers may now fear extending even beyond 2021.

The hit to sentiment on family finances centred around expectations. The 'finances, next 12mths' sub-index fell 7.3%, consistent with the more difficult path ahead.



However, the 'finances vs a year ago' sub-index dipped just 0.4%. Understandably, the lockdown drove a sharp 8.5% decline in Victoria which was largely offset by gains elsewhere (+2.2% on a combined basis). In more stable times we took close notice of 'finances vs a year ago' as it provided a reliable insight into spending.

The 'time to buy a major item' sub-index dropped 13.2% to 90.4. Notably, weakness here also went well beyond the direct lockdown effects in Victoria, which recorded a slightly milder 7.6% decline. This may be a sign that consumers outside of Victoria may also be voluntarily locking down on some forms of activity as they become more concerned about the health risks associated with potentially crowded shopping spaces.

There was a large spike in job loss concerns. The Westpac-Melbourne Institute Unemployment Expectations Index jumped 14.6% in August, hitting a new cycle high of 163.4 (recall that higher readings indicate that more consumers expect unemployment to rise in the year ahead).

Again, the state detail suggests some of these concerns may be overdone. Despite being directly exposed to the latest lockdown, Victoria's index posted a milder 5.3% gain, and at 164.7, is only marginally above the national index.

Meanwhile, other states recorded a much bigger rise (+18% on a combined basis) with labour market pessimism seemingly out of step with local prospects for many smaller states where economies remain on track for further reopening.

Sentiment around jobs may also be affected by the planned wind down of the Federal government's JobKeeper and JobSeeker payment schemes. That said, last month has seen the government commit to extending some of this support beyond the end of September, with notable modifications ensuring Victorians impacted by the latest lockdown will also qualify for support.

Westpac expects that the government has under-estimated the number of workers whose employers will qualify for an extension to JobKeeper in the December quarter (helping to keep affected workers employed). With a likely strong lift in activity as Victoria reopens from October we would be surprised if the unnerving official forecast of a 10% unemployment rate by year's end is achieved.

Housing-related sentiment was mixed in August.

The 'time to buy a dwelling' index declined 4.3%, reversing all of the 4.1% gain seen in July. At 107.3, the index is well below

its long run average of 119 but, unlike the Consumer Sentiment Index, still comfortably above April's 82.1.

However, the August decline was entirely due to a steep 26.6% drop in Queensland with all other major states recording gains (up 2.2% on a combined basis). The fall in Queensland seems extreme although may partly reflect concerns about weaker interstate demand and tourism flows.

Consumer expectations for house prices deteriorated sharply in August. The Westpac-Melbourne Institute House Price Expectations Index dropped 16.2%, wiping out all the gains seen in June and July.

At 76.3, the index is back in deeply pessimistic territory, only marginally above the 69.7 low in April and down 42% on a year ago.

Unlike the 'time to buy a dwelling' index, the state distribution of this weakness seems predictable. The index for NSW fell by 20% (to 71) complemented by an 22% fall in Victoria (to 62). Westpac expects the correction in house prices over the next year or so to be centred on Sydney and Melbourne.

The Reserve Bank Board next meets on September 1 and we can expect the Board to maintain current policies.

Consumers are of the same view that the RBA will be on hold for an extended period. In response to our regular question about the outlook for mortgage rates, a record 76% expect these to be unchanged or lower over the next 12 months.

From a policy perspective the next major event will be the Commonwealth Budget which will be announced on October 6. The government's forecasts for economic growth will be key inputs to Budget decisions, including decisions around the need for further stimulus.

Today's Consumer Sentiment survey highlights the uncertainties around the current outlook. Westpac expects the government will be committed to providing generous ongoing support to the economy. The extent of that support will be significantly impacted by the issues highlighted in today's report.

Our expectation is that the fear that seems to be gripping the consumer will ease over future weeks.

The government will be watching closely to see whether that is indeed the case

Bill Evans, Chief Economist

Consumer Sentiment - August 2020

	avg*	Aug 2018	Aug 2019	Jul 2020	Aug 2020	%mth	%yr
Consumer Sentiment Index	101.3	103.6	100.0	87.9	79.5	-9.5	-20.4
Family finances vs a year ago	89.2	88.3	86.5	78.9	78.6	-0.4	-9.1
Family finances next 12mths	107.4	106.0	99.1	98.3	91.1	-7.3	-8.1
Economic conditions next 12mths	90.7	100.3	95.5	66.4	53.6	-19.2	-43.8
Economic conditions next 5yrs	91.3	101.1	95.7	91.9	83.9	-8.7	-12.3
Time to buy a major household item	126.8	122.4	123.0	104.1	90.4	-13.2	-26.5
Time to buy a dwelling	119.3	108.8	126.9	112.1	107.3	-4.3	-15.5
Unemployment Expectations Index	130.2	129.3	133.3	142.6	163.4	14.6	22.6
House Price Expectations Index	125.5	112.8	125.4	87.4	73.3	-16.2	-41.6

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 3 August to 8 August 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.

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