Consumer Sentiment hits ten year high

The surge in the Index continues. It is now 48% above the low in April and has reached its highest level since October 2010 – marking a ten year high.

After only eight months the evidence seems clear that sentiment has fully recovered from the COVID recession.

The behaviour of the Index highlights the difference between this recession; the downturn during the Global Financial Crisis and the recession of the early 1990s.

These differences relate to the nature of the shocks; the resilience of the financial system; and the rapid, pro-active responses from authorities which have been critical to containing the economic damage.

While the Index reached comparable lows in all three episodes, the recovery in sentiment in the COVID recession has been much more rapid. After eight months following the low in the GFC, sentiment had only recovered by 8.4%.

It took a full year before it was clearly signalling that the crisis had passed.

In the early 1990s it took nearly three years from the lows before sentiment was into a sustained upswing.

That evidence and other aspects of the survey, particularly around jobs, provide some hope that the longer-lasting ‘scarring’ effects we usually get from recessions will be well contained.

There are still risks, notably around vaccine developments.

The survey detail specifically highlights the importance of these developments. Sentiment amongst those working in the health sector – including many frontline workers that would be at most risk of contracting COVID – surged over 25% in the month, easily the most spectacular gain across the 70 detailed sub-groups we monitor.

There was also an outsized 20% gain in sentiment amongst those in the 55–64 year age group – a segment that is more susceptible to serious virus-related health problems.

Component indexes show the latest gain in sentiment centred on a further improvement in expectations for the economy.

The ‘economy, next 12 months’ sub-index rose 9.9% to 111.9, a ten year high. The near term outlook would have been significantly boosted by the continued containment of the virus locally; the September quarter national accounts, which showed a stronger than expected initial rebound in the economy; and positive news around prospects for a vaccine.

Longer term expectations also posted a solid rise to multi-year highs. The ‘economy, next five years’ sub-index rose 5.9% to 121.1, the strongest reading since December 2009.

Views around family finances saw more mixed moves in the month. The ‘finances vs a year ago’ sub-index posted another solid 6.9% gain to 96.1 – below 100. Those experiencing a deterioration continue to slightly outnumber those seeing an improvement, but the sub-index is over 30% above April’s lows.

This gain came despite the reduced support from the Government’s JobKeeper and JobSeeker measures and the ongoing reductions in bank deposit rates.

However, the forward view dipped a little. The ‘finances, next 12 months’ sub-index fell 1.8% to 108.9.

The ‘time to buy a major household item’ sub-index lifted 0.7% to be up 5.9% on this time last year. The surge in sales of household goods we saw earlier in the pandemic is now slowing but activity remains well above pre-pandemic levels.

Every quarter we assess respondents’ most recalled news items and their qualitative assessment of this news. Responses show the highest level of recall was around news on ‘economic conditions’ (38%), ‘budget & taxation’ (24%), ‘employment’ (24%), and international conditions (16%).

Domestic news was viewed much more favourably – nearly half of consumers viewed news on the economy as favourable, compared to just 19% three months ago.

Over half (58%) assessed ‘budget & taxation’ news as positive. That compared with 26% in March before the Government responded to the challenges of the virus with a range of policies, including JobKeeper.

In that same vein we saw the qualitative assessments of politics move from 35% in December last year to the current 70% favourable – a record ‘approval rating’ since 1975.

News around jobs was still assessed as downbeat overall but much less downbeat than back in June. Two thirds saw the current news as unfavourable compared to three quarters back in June.

In contrast, international news was assessed as unfavourable by 80% of respondents, undoubtedly reflecting the deteriorating pandemic situation in the US and Europe.

Consumers’ labour market expectations improved dramatically in December. The Westpac–Melbourne Institute Unemployment Expectations Index dropped 16.2% to 106.3 implying a major

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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 30 November to 6 December 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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**Consumer Sentiment – December 2020**

<table>
<thead>
<tr>
<th>Index</th>
<th>avg*</th>
<th>Dec 2018</th>
<th>Dec 2019</th>
<th>Nov 2020</th>
<th>Dec 2020</th>
<th>%mth</th>
<th>%yr</th>
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<tbody>
<tr>
<td>Consumer Sentiment Index</td>
<td>101.3</td>
<td>104.4</td>
<td>95.1</td>
<td>107.7</td>
<td>112.0</td>
<td>4.1</td>
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<td>Family finances vs a year ago</td>
<td>89.2</td>
<td>89.9</td>
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<td>89.9</td>
<td>96.1</td>
<td>6.9</td>
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<td>Family finances next 12mths</td>
<td>107.4</td>
<td>105.4</td>
<td>98.1</td>
<td>110.9</td>
<td>108.9</td>
<td>-1.8</td>
<td>11.0</td>
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<td>Economic conditions next 12mths</td>
<td>90.7</td>
<td>104.4</td>
<td>89.6</td>
<td>101.8</td>
<td>111.9</td>
<td>9.9</td>
<td>24.9</td>
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<tr>
<td>Economic conditions next 5yrs</td>
<td>91.4</td>
<td>102.5</td>
<td>91.2</td>
<td>114.4</td>
<td>121.1</td>
<td>5.9</td>
<td>32.7</td>
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<td>Time to buy a major household item</td>
<td>126.7</td>
<td>119.9</td>
<td>115.4</td>
<td>121.3</td>
<td>122.2</td>
<td>0.7</td>
<td>5.9</td>
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<tr>
<td>Time to buy a dwelling</td>
<td>119.3</td>
<td>110.3</td>
<td>112.3</td>
<td>132.0</td>
<td>124.2</td>
<td>-5.9</td>
<td>10.6</td>
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<td>Unemployment Expectations Index</td>
<td>130.2</td>
<td>121.0</td>
<td>138.0</td>
<td>126.8</td>
<td>106.3</td>
<td>-16.2</td>
<td>-23.0</td>
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<tr>
<td>House Price Expectations Index</td>
<td>124.6</td>
<td>100.0</td>
<td>140.1</td>
<td>131.4</td>
<td>143.7</td>
<td>9.4</td>
<td>2.5</td>
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</table>

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

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Bill Evans, Chief Economist
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