

20 January 2021

Consumer Sentiment slips in response to Covid disruptions

• **The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 4.5% to 107 in January from 112.0 in December.**

A pull back in the Index was to be expected.

Since the last survey in the second week of December we have seen domestic border closures; the emergence of Covid clusters in some states; and the sharp upswing in Covid cases overseas, notably the US and the UK.

This result compares to the 15% fall that was registered over July and August last year as the nation was shocked by Victoria's severe second wave and associated hard lockdown.

It still points to healthy Consumer Sentiment.

At 107.0 optimists clearly outnumber pessimists while the Index is 14.6% above the level a year ago and 41.5% above the low in April.

There may also be an element of statistical correction given that the Index had surged by 40% between August and December with the December print reaching its 10 year high.

All components of the Index fell in January.

There were significant falls in the components associated with the economic outlook with the '12 month outlook' falling by 8.3% and the '5 year outlook' down by 4.5%.

Respondents were also less positive about their finances. The component 'family finances relative to a year ago' fell by 7% while the '12 month outlook for family finances' was steady, falling by only 0.3%.

Spending intentions were also down with the component 'time to buy major household items' slipping by 2.8%.

Since January last year, before Covid was impacting Sentiment the 'economic outlook' components have lifted by around 26%; the 'finances' components by around 9%; while the 'time to buy' is up by 4.8%.

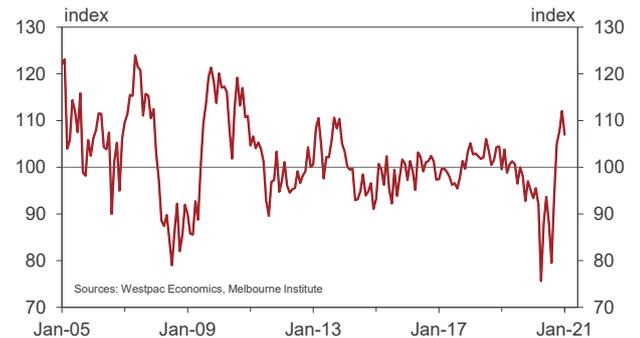
The survey provides helpful insights into how respondents are assessing their job prospects.

The Westpac Melbourne Institute Unemployment Expectations Index increased by 11.9%. (Recall that the Index measures respondents' outlook for the unemployment rate so a rise in the Index points to weaker sentiment around the labour market).

However, the Index is still 6% below its level in November; 11% below its level a year ago; and, excluding last month, is at its lowest level for nearly 10 years.

This month's survey continues to point to solid employment conditions.

Consumer Sentiment Index



The Index "Time to Buy a Dwelling" was flat (up 0.2%) although there was a marked contrast between the major states with NSW up 3.9% and Victoria down 6.2%.

The Index is still 4.8% above its level from a year ago although 5.7% below November. That print in November was its highest read for 7 years.

November may well have been the peak in this cycle. This Index seems to respond more to affordability than price expectations. With solid prospects for further increases in house prices we may have already seen its highs in this cycle.

In that regard we are still seeing increases in the Westpac Melbourne Institute Index of House Price Expectations, albeit a modest 1.1% in January.

At 145.23, the Index is now more than double its April low of 69.72. But it is still 4.3% below its level in January last year pointing to further potential upside for this Index.

The Reserve Bank Board next meets on February 2. This meeting will be the first since December 1 last year. However, the Board seems almost certain to maintain its current policy stance.

Markets will be most interested in whether there is any guidance with respect to the Quantitative Easing policy.

On November 3, the Governor announced the intention to purchase \$100 billion in Australian Government (\$80 billion) and semi - government bonds (\$20 billion).

That purchase program is set to be completed by around the end of April and the issue is whether the Board intends to extend the program.

Westpac expects there will be a second purchase program of \$100 billion although the Board may wait until as late as the April Board meeting to make the final decision.

Bill Evans, Chief Economist



Consumer Sentiment - January 2021

	avg*	Jan 2019	Jan 2020	Dec 2021	Jan 2021	%mth	%yr
Consumer Sentiment Index	101.3	99.6	93.4	112.0	107.0	-4.5	14.6
Family finances vs a year ago	89.2	84.6	82.0	96.1	89.3	-7.0	9.0
Family finances next 12mths	107.4	102.2	99.0	108.9	108.6	-0.3	9.7
Economic conditions next 12mths	90.7	96.2	84.8	111.9	102.7	-8.3	21.1
Economic conditions next 5yrs	91.5	96.5	87.9	121.1	115.6	-4.5	31.6
Time to buy a major household item	126.7	118.3	113.4	122.2	118.8	-2.8	4.8
Time to buy a dwelling	119.4	114.8	118.8	124.2	124.5	0.2	4.9
Unemployment Expectations Index	130.1	123.6	134.0	106.3	119.0	11.9	-11.2
House Price Expectations Index	124.6	95.9	151.5	143.7	145.2	1.1	-4.1

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 11 January to 16 January 2021. 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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