

10 March 2021

Consumer Sentiment back near ten year high

• **The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 2.6% to 111.8 in March from 109.1 in February.**

The Index is now just 0.2 points below the December level which was a ten-year high. The main factors driving the Index are improving economic conditions and prospects, both domestically and abroad, particularly as they relate to our labour market.

Australia's success in containing COVID-19, the promise of vaccine rollouts bringing an end to the pandemic, and support from stimulatory government policies have all contributed to the sustained lift.

However, the survey shows evidence of tensions emerging in the housing market.

Every quarter, the survey includes additional questions around news recall that give a clearer indication of the topics influencing sentiment. Responses this quarter indicate that positive news around the economy, jobs and budget/tax policy have been most influential.

Some 57% of respondents assessed news on 'economic conditions' as favourable (up from 47% in December); while 51% assessed news on 'employment conditions' as favourable (up from 33% in December). There was a marginal deterioration in assessments of news around 'budget/tax policy' – 48% seeing this as favourable down from 57% in December, although the previous read was an eleven-year high.

Overall, these proportions of favourable assessments are very strong by historical standards with the assessment of economic conditions near a ten-year high.

All components of the Index were higher in March. Confidence around the economic outlook led the gains with the 'economy, next 12 months' sub-index up 3.7% and the 'economy, next 5 years' sub-index up 2.3%.

Assessments of family finances also improved. The 'finances compared to a year ago' sub-index lifted by 2.8% and the 'finances, next 12 months' sub-index was up by 0.2%.

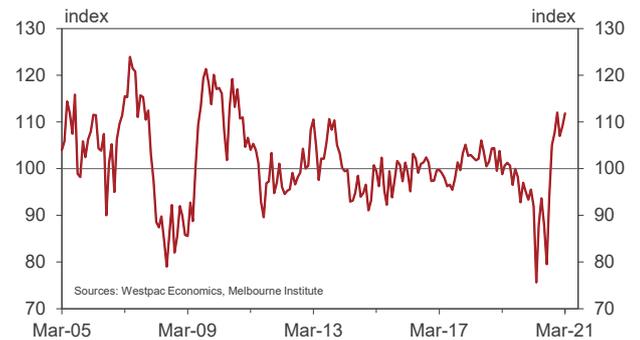
The 'time to buy a major household item' sub-index rose by 3.7%.

Confidence in the labour market improved. The Westpac Melbourne Institute Index of Unemployment Expectations fell by 2.2% (recall that lower readings on the Index mean fewer consumers expect unemployment to rise in the year ahead). The Index is also seeing the best readings in nearly a decade, emphasising the level of confidence around the outlook for jobs.

The tensions in the housing market are likely to be evidence of an emerging squeeze on affordability from rising prices.

While optimism around house prices is surging, respondents are becoming more hesitant around the attractiveness of buying and remain wary about real estate as an investment option.

Consumer Sentiment Index



The 'time to buy a dwelling' index slipped a further 3.6% – a fourth consecutive fall to be down 11.9% from the peak in November. We have found this Index to be closely linked to affordability in the past. The decline suggests resurgent prices are already starting to curb buyer interest and that we may see some easing in the recent surge in demand from owner occupiers, particularly from first home buyers who are the most sensitive to affordability.

On the other hand, the Westpac-Melbourne Institute House Price Expectations Index increased a further 3.1% in March to a new seven-year high. The Index is 12.5% above its pre-pandemic level. The Index is a better lead indicator of the confidence of investors, whose presence in the early stages of the current housing boom has been overshadowed by owner occupiers.

House price expectations are particularly buoyant in NSW (up 6.4% to 161.6); Queensland (up 5.7% to 162.4) and WA (up 4.6% to 161.8). Surprisingly, expectations eased in Victoria, the state index easing back 2.1% to 154.2 – still 4% below its pre-pandemic level.

In contrast, expectations across all the other major states are comfortably above their pre-pandemic levels (NSW 4.5%; QLD 12.3%; and WA 19.3%). That said, price expectations in Victoria may still be playing catch-up as the state economy continues to reopen.

To date, the optimism around house prices contrasts to reported attitudes towards 'real estate' as an investment option.

Every quarter we ask additional questions about where consumers see the 'wisest place for savings'. In March, just 9.3% of consumers nominated 'real estate', the third lowest result in the 47 years we have been running the question. More consumers (10.5%) favour shares than real estate.

'Safe' options continue to dominate with 30% of consumers nominating 'bank deposits' and 18% nominating 'pay down debt' – compared to the post GFC averages of 30.3% and 20.3% respectively.

The fall in the 'pay down debt' category shows some increased comfort with leverage particularly compared to recent years where the range in 2016–2019 was 20–25%.



The Reserve Bank Board next meets on April 6. The Board will continue to be well pleased with Australia's economic progress.

It is unlikely to make any changes to its current policy settings or signal any likelihood of changes in the near future.

Our survey signals sustained high confidence levels in the community. Enthusiasm for spending and comfort with job prospects and security will be reassuring to the Board.

But markets and some commentators have been warning against damaging housing bubbles. The survey points to rising house prices although investors still appear cautious. Owner occupiers, including first home buyers, may already be becoming deterred by the associated deterioration in affordability.

Indeed it seems very likely that investors will soon become a much bigger factor in the market.

However, as the RBA Governor has noted in his Statement following the March Board meeting, "Investor and business credit growth remain weak".

Market overheating, which is usually associated with investor activity, still appears to be some way off but it will be useful to monitor this survey for any signs of excessive exuberance around real estate.

We can be confident that if the Bank does become concerned about over-heating the likely policy response will be to impose regulations on bank lending rather than to increase interest rates

Bill Evans, Chief Economist

Consumer Sentiment - March 2021

	avg*	Mar 2019	Mar 2020	Feb 2021	Mar 2021	%mth	%yr
Consumer Sentiment Index	101.3	98.8	91.9	109.1	111.8	2.6	21.6
Family finances vs a year ago	89.2	84.4	82.7	88.8	91.3	2.8	10.4
Family finances next 12mths	107.5	101.4	97.3	111.4	111.6	0.2	14.6
Economic conditions next 12mths	90.8	95.9	77.9	109.8	113.8	3.7	46.1
Economic conditions next 5yrs	91.6	94.6	90.4	116.2	118.9	2.3	31.5
Time to buy a major household item	126.7	117.9	111.4	119.2	123.7	3.7	11.0
Time to buy a dwelling	119.3	116.6	111.8	120.7	116.4	-3.6	4.1
Unemployment Expectations Index	130.1	130.6	146.1	114.5	112.0	-2.1	-23.3
House Price Expectations Index	124.8	85.4	141.7	154.7	159.5	3.1	12.5

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 1 March to 4 March 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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