Bulletin

14 April 2021

Consumer sentiment soars to 11 year high

- **The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 6.2% to 118.8 in April from 111.8 in March.**

This is an extraordinary result.

The Index is now at its highest level since August 2010 when Australia's post-GFC rebound and mining boom were in full swing.

From my own perspective I considered that there was a reasonable case for the Index to pull back reflecting developments since the March survey.

That pull back was not expected to be significant. However, we should always be alert to any surprising and marked direction change in the survey. Recall that the 16.4% surge in the Index in May last year was the first real sign that the economy was going to recover from the recession more quickly than anticipated.

The survey continues to signal that the consumer will be the key driver of above-trend growth in 2021.

Consider some of the issues that might have weighed on the Index this month.

The survey was conducted in the week following the unwinding of the JobKeeper program. Initial fears that this and associated job losses would undermine confidence have proven to be unfounded.

Secondly, there has been disappointing progress on the vaccine roll-out locally. Compounding this was new advice against giving those aged under 50 the AstraZeneca vaccine due to risks of rare but serious side-effects.

Yet households appear to be resilient.

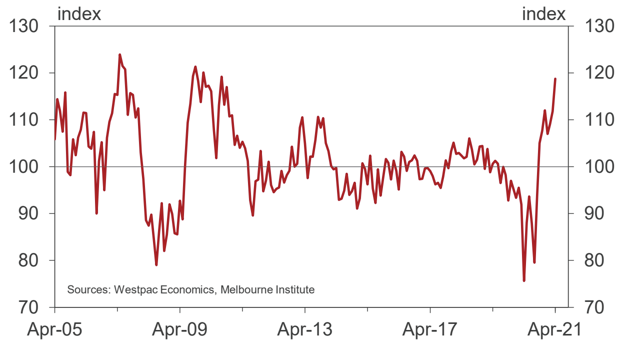
Clearly, confidence would have been buoyed by positive news around the labour market. Job vacancies were reported to be 27% above the pre-COVID level in February last year while the February labour force update showed the unemployment rate had fallen from 6.3% to 5.8% with employment increasing by a stunning 89,000.

The industry breakdown of consumer sentiment provides clues about some less obvious positives at work. Those employed in the 'recreational services' and hospitality industries showed very big sentiment gains (+23% and +14% respectively), suggesting the further easing in COVID restrictions – which has allowed many businesses in these sectors to return to near full operation – were a big positive factor.

This result is particularly pertinent given that the unwinding of JobKeeper was expected to disproportionately impact recreation and hospitality.

There were also big sentiment gains amongst those working in construction (+17.3%), including tradies (+18.5%) and labourers (+14.6%) suggesting the surge in housing construction activity is also providing a significant uplift.

Consumer Sentiment Index



The strong housing market more generally is also likely to be boosting confidence. Auction clearance rates are near 80% and dwelling prices have lifted by 5.8% nationally since the beginning of the year.

Despite the increasingly positive news around jobs, the Governor of the Reserve Bank confirmed, following the latest Board meeting, that he expects to hold the cash rate steady at the record low of 0.1% until at least 2024.

When the Index was last at these levels, in August 2010, the Reserve Bank had increased the cash rate by 150 basis points to 4.5% from its GFC low of 3% in September 2009.

That sharp increase in rates is likely to have contributed to the Index falling 25% over the following year.

No doubt the Reserve Bank will be aware of that period and continue to tread carefully with the cash rate.

Confidence improved across all the states, although the stand-out was Victoria which is still benefitting from reopening, having survived another 'mini-lockdown' scare in February. Confidence in the state surged by 11.8%.

We have outlined the big picture which is of an extremely confident consumer despite some significant headwinds, but the survey also includes important insights into the shape of the recovery.

Housing affordability appears to be weighing on home buyer sentiment; big ticket item spending intentions are not nearly as buoyant as the overall Index; and confidence in the jobs market appears to have plateaued.

Confidence increased in four of the five components of the Index. There was a modest, yet still surprising, 0.2% fall in the 'time to buy a major household item' sub-index.

The two components measuring respondents' assessment of their finances were up strongly – the 'finances compared to a year ago' sub-index up 13.4% and the 'finances next 12 months' sub-index up 5.4%. Both are now near the record levels seen in 2009 and 2010 although it should be noted that 'year ago' assessments are comparing against the depths of last year's recession during the national lockdown.

Expectations for the economy are also up strongly and back near those 2009-10 record levels. The 'economy next 12 months' sub-index is up 10.3% and the 'economy next 5 years' sub-index is up 4.1%.

The exception is the 'time to buy a major household item' sub-index which dipped 0.2% in the month and is only on a par with its 2018 levels. This component is around 15% below the highs of that 2009-10 period.

Perhaps the relative underperformance of this component reflects expenditure switching with purchases of household goods relatively strong during the pandemic but possibly waning now that reopening is allowing consumers to spend more freely. Last year saw spending on durables rise 11.5% but spending on discretionary services slumped 27%.

It is reasonable that the boost to spending from the elevated confidence levels will favour the services sector.

The Westpac-Melbourne Institute Index of Unemployment Expectations increased by 5.6% (recall that an increase in the Index points to more respondents expecting the unemployment rate to rise). The Index appears to have bottomed out, for now, being 11.4% above its low in December last year. And, unlike the overall Index, it is still 10.4% above the average seen over the first half of 2010.

Consumers are confident about the jobs outlook but a little less buoyant than a few months ago and certainly less upbeat than back in 2009–10 when the wider confidence measures were comparable with current levels.

That comparison with confidence overall is consistent with the notion that the unemployment rate is still well above 'full employment' levels – arguably close to 2 percentage points above.

The survey is sending a clear message around the housing market. There are signs that rising prices are driving a widening divergence between owner occupiers and investors.

Owner occupiers are likely to be more sensitive to affordability rather than prospects for capital gains which usually drive investors.

The 'time to buy a dwelling' index fell by 7.9% from 116.4 to 107.2. It is now 18.8% below its recent peak in November. Buyers appear to be discouraged by the recent surge in prices and implications for affordability.

In contrast, the Westpac Melbourne Institute Index of House Price Expectations continues to rise. The Index increased by 2.7% in April to be 8% above its pre-pandemic level.

The standout states were Victoria (up 10.2%) and South Australia (up 8.9%) with price expectations in other states steady in the month. Nationally, the Index is now at its highest level since December 2013 and only 1.6% below that previous peak.

The Reserve Bank Board next meets on May 4 – one week before the Federal Budget.

We expect the Board to maintain current policy settings.

It is also likely to confirm that there is no immediate intention to intervene in the housing market using the macro-prudential-style measures seen in 2015 and 2017. Westpac expects that approach to change by the middle of 2022 as the authorities respond to further increases in prices and a likely lift in investor activity – in line with the signals emerging from this month's survey.

There will be considerable interest in the Bank's revised detailed economic forecasts in the May Statement on Monetary Policy, which will be released on May 7.

Markets will focus on the revised forecast for the path of the unemployment rate following the sharp improvement in the recent data. There is likely to be a downward recalibration in the RBA's forecast path for the unemployment rate but the Bank also appears to have lowered its estimates of the full employment rate.

The net effect will be consistent policy guidance that it will still be some time – 2024 at the earliest – before the Bank expects to achieve its full employment and inflation targets. The faster likely improvement in the labour market will be offset by the more challenging target for the full employment rate.

Bill Evans, Chief Economist

Consumer Sentiment – April 2021

	avg*	Apr 2019	Apr 2020	Mar 2021	Apr 2021	%mth	%yr
Consumer Sentiment Index	101.4	100.7	75.6	111.8	118.8	6.2	57.0
Family finances vs a year ago	89.2	80.2	70.4	91.3	103.5	13.4	46.9
Family finances next 12mths	107.5	105.6	90.9	111.6	117.6	5.4	29.4
Economic conditions next 12mths	90.9	101.8	53.7	113.8	125.5	10.3	133.8
Economic conditions next 5yrs	91.6	100.2	87.0	118.9	123.8	4.1	42.4
Time to buy a major household item	126.7	115.5	76.2	123.7	123.4	-0.2	61.9
Time to buy a dwelling	119.3	119.4	82.1	116.4	107.2	-7.9	30.6
Unemployment Expectations Index	130.1	127.4	158.1	112.0	118.4	5.6	-25.1
House Price Expectations Index	124.8	95.6	69.7	159.5	163.9	2.7	135.0

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 5 April to 10 April 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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