# BULLETIN

15 December 2021

# Consumer optimism holds in positive territory

**The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 1.0% to 104.3 in December from 105.3 in November.**

The index remains comfortably in positive territory where optimists outnumber pessimists.

There was a clear difference in responses between the states hit hardest by recent Delta outbreaks and the rest of Australia. Both NSW and Victoria posted significant falls (down 3.6% and 3.5% respectively) while sentiment was up in Queensland (3.4%), WA (3.2%) and SA (7.1%).

While high vaccination rates have allowed the 'Delta states' to reopen, there appears to be a heightened sensitivity to virus developments in those states where there is likely more concern about the newly emerging Omicron strain and the continued circulation of COVID locally.

A positive national Index is very important for the strong growth outlook we see for 2022 which is dependent on a surge in consumer spending, as households re-emerge from restrictions and draw down on the large savings accumulated through the COVID lockdown periods.

The December survey detail suggests there are other reasons, aside from the recent developments around Omicron, making consumers somewhat more cautious.

Every quarter we ask questions about which news topics which attracted attention and whether consumers viewed the news as favourable or unfavourable. Here the news was mixed.

We found a sharp increase in awareness of inflation.

In December 2020 only 5% of respondents recalled any news on inflation. This has lifted to 21%, exceeded only by news on employment (33%) and economic conditions (32.5%). Assessment of the quality of inflation news has deteriorated sharply from 56% describing the news as good a year ago compared to 71% describing it as bad in the latest survey.

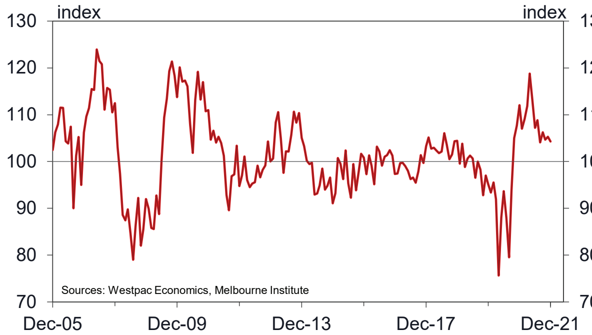
There has been a similar shift in the assessment of news around interest rates (17% respondent recall). A year ago, 58% of consumers reported good news on interest rates but now 60% are reporting negative news on this front.

On the other hand, the assessment of news around the wider economy and employment remains positive, albeit somewhat softer than earlier in 2021.

The Westpac MI Unemployment Expectations Index jumped 9.3% to 104.1, following an 11% fall in November to a 26 year low (recall that lower reads mean more consumers expect the unemployment rate to fall over the next 12 months). Over a year of positive sentiment towards the jobs market the December print is still 6.2% below the average for 2021.

The components of the headline sentiment index show the December decline was led by a sharp 5.3% fall in the 'time to buy a major item'.

### Consumer Sentiment Index




There was a milder softening in views on the economy – the 'economic outlook, next 12 months' sub-index down 1.6% and the 'economic conditions, next 5 years' sub-index down 0.5%.

We saw modest gains in indexes tracking actual views on family finances – the 'finances, next 12 months' sub-index up by 2.1% and the 'finances vs a year ago' sub-index up by 1.0%.

The sharp fall in "time to buy a major household item" probably reflects a lift in virus-related concerns, along with other factors such as supply bottlenecks; price increases and some degree of saturation as spending patterns have been strongly biased in favour of purchases of durables over services during COVID.

There was a sharp fall in the 'time to buy a dwelling' index (down by 10.2%). This followed the unexpected surge last month (up 9.4%). The December print confirms the downward trend in this index since late last year as affordability continues to be squeezed in all markets. All states recorded significant index declines in December.

We suspect the affordability issue, which appears to have been an increasingly important factor since the Index peaked last November (now down 38%), may now be starting to weigh on price expectations as well.

The Westpac Melbourne Institute Index of House Price Expectations fell by 1.3% and is now 8% off its peak in April this year, albeit still at a very bullish level at 150.6.

The stand-out state since the national peak in the Index in April has been Queensland where expectations have increased by 1.3% whereas they have fallen in the other states – NSW (-5%); Victoria (-16.8%); WA (-14.4%); and SA (-25%).

Finance data has shown a clear rebalancing of activity away from owner occupiers towards investors. The cooling of the House Price Expectations Index may be showing some early signs of a more cautious investor.

The December survey also points to a notable lift in risk aversion across the consumer sector. Every quarter we ask additional questions about where consumers see the 'wisest place for savings'.

'Safe' options such as 'deposits' and 'pay down debt' have dominated over the last two years but December saw a further lift, particularly in the proportion nominating 'pay down debt' which hit 22.1% (up from 16.3% a year ago).

Conversely, consumers have become more cautious of 'riskier' options, particularly 'real estate' with only 7.3% (25 year low) nominating this as the wisest place for savings. We expect that this question largely reflects affordability concerns rather than expectations of capital gains.

The Reserve Bank Board next meets on February 1.

This will be a very important meeting since the Board will be using economic forecasts that have been refreshed from early November. The current forecasts for underlying inflation in 2022 (2.25%) and wages growth (2.5%) appear to be overly cautious. Indeed, if the underlying inflation rate for the December quarter, which is due on January 25, prints a 0.6% similar to the one in the September quarter, actual underlying inflation will already have reached 2.3% (subject to any rounding). It would be difficult for the Bank to maintain a 2.25% forecast for 2022 in such circumstances. A lift in the forecast to, say, 2.5% will mean the Bank is forecasting a return to the middle of the target band a year earlier than currently anticipated.

In that regard it is interesting that the Governor excluded a date from his final paragraph on the policy outlook in his Statement following the December Board meeting, having previously referred to 2024 (and end 2023 in November) as the likely timing for a return to the conditions required to justify a rate increase.

We do not expect any action or commitment on rates at the meeting, but we do expect the Board to lower its bond purchase pace from $4 billion per week to $2 billion with a commitment to review regularly.

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## Consumer Sentiment – December 2021

| Item | avg* | Dec 2019 | Dec 2020 | Nov 2021 | Dec 2021 | %mth | %yr |
|---|---|---|---|---|---|---|---|
| **Consumer Sentiment Index** | **101.4** | **95.1** | **112.0** | **105.3** | **104.3** | **-1.0** | **-6.9** |
| Family finances vs a year ago | 89.3 | 81.4 | 96.1 | 88.1 | 89.0 | 1.0 | -7.4 |
| Family finances next 12mths | 107.5 | 98.1 | 108.9 | 108.9 | 111.2 | 2.1 | 2.1 |
| Economic conditions next 12mths | 91.1 | 89.6 | 111.9 | 106.6 | 104.9 | -1.6 | -6.3 |
| Economic conditions next 5yrs | 91.9 | 91.2 | 121.1 | 111.0 | 110.4 | -0.5 | -8.8 |
| Time to buy a major household item | 126.5 | 115.4 | 122.2 | 111.9 | 105.9 | -5.3 | -13.4 |
| Time to buy a dwelling | 118.6 | 112.3 | 124.2 | 91.1 | 81.9 | -10.2 | -34.1 |
| Unemployment Expectations Index | 129.8 | 138.0 | 106.3 | 95.3 | 104.1 | 9.3 | -2.1 |
| House Price Expectations Index | 124.8 | 140.1 | 143.7 | 152.7 | 150.6 | -1.3 | 4.8 |

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 6 December to 9 December 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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