BULLETIN

9 March 2022

Consumers rattled by inflation, floods, war and housing concerns

The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 4.2% to 96.6 in March from 100.8 in February.

This is the weakest print since September 2020, which is also the last time the index was below the 100-level indicating that pessimists outnumber optimists. That previous low marked the end of a fifteen-month run of pessimism that began when the economy hit a flat patch in the second half of 2019 and worsened dramatically with the onset of the global pandemic just over two years ago.

The survey was conducted in the week of February 28 to March 4. It would have captured most of the response to the south-east Queensland and Northern NSW floods but preceded most of the current disasters in greater Sydney. Confidence in rural areas generally was quite resilient in the survey, probably reflecting the encouraging developments in agricultural commodity prices and growing conditions across wider rural Australia.

On the other hand, confidence in Brisbane plummeted by 11.2%, contrasting with Melbourne which has been unaffected by the floods where confidence was down by only 3.4%.

The latest monthly fall comes as no surprise. The war in Ukraine; the floods in south- east Queensland and Northern NSW; ongoing concerns about inflation and higher interest rates were all likely to impact confidence, although the size of the decline is still notable.

Our special questions in this survey highlight the main areas of concern.

Every quarter we ask consumers about their recall and views on recent news coverage across a range of topics. Typically, we find that the state of the economy is the most recalled topic. In today's survey 40.6% of respondents had an opinion on economic news. That proportion is up from 28.5% a year ago.

But it is inflation news that has really exploded. A year ago, just 8.6% of respondents recalled news on inflation. That proportion jumped to 38.7% in March, a fourteen year high.

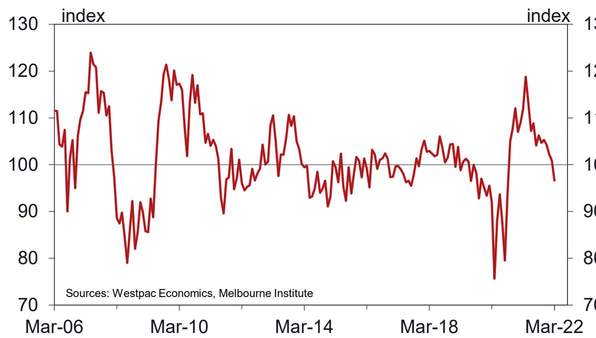
Not surprisingly there was also a significant lift in the proportion of respondents recalling international news – lifting from 6.9% a year ago to 18.6% in today's survey.

Awareness of interest rate developments has also risen with the proportion recalling news on this topic lifting from 6.9% to 18.1%.

Meanwhile assessments of all news have deteriorated sharply. A year ago, 43% of respondents saw news on the economy as unfavourable – that has lifted to 77%. The proportion viewing inflation news as negative is a very high 83%; while 87% assessed news on international conditions as negative.

We also ask a specific question on the outlook for interest rates. Just over two thirds of Australians expect interest rates to increase over the next year – the highest proportion since August 2011.

Consumer Sentiment Index



Some of these themes were also evident across the Index components.

All five sentiment sub-indexes recorded declines in March.

Views on the economic outlook recorded the sharpest pull-back. The 'economy, next 12 months' sub-index fell by 6.7% while the 'economy, next 5 years' sub-index was down by 5.8%.

Inflation issues already look to be weighing on both finances and spending intentions. The component 'finances vs a year ago' sub-index fell by 3.9%, no doubt partly reflecting the recent weakness in the share market and the 25% lift in petrol prices since the beginning of the year, compounded by the fear that there is a lot more to come. The 'time to buy a major household item' sub-index also fell by 4.4% as prices of many imported goods have risen in response to the disrupted supply chains and a sharp surge in freight costs.

Consumers' labour market views remained consistently strong in March. The Westpac Melbourne Institute Index of Unemployment Expectations fell 1.1% to 101.8 in March from 102.8 in February. The Index captures expectations for unemployment, a lower read indicating more consumers expect unemployment to fall and thus greater confidence in the market. The March print is the third lowest since February 2011 and about as it good as it gets. Despite their many other concerns, consumers are still clearly very positive about the labour market.

Consumer risk aversion remains firmly entrenched. The March survey included an update on our additional question about where consumers see the 'wisest place for savings'. Safe options remain heavily favoured – over half of consumers nominating either bank deposits (31%) or 'pay down debt' (22%) – while very few are inclined towards 'riskier' options, only 10% nominating 'real estate' and 11% favouring shares. This continues a pattern that has dominated for over two years now.

Confidence around the housing market is deteriorating sharply.

The 'time to buy a dwelling' index fell by 7.7% to 78.3, down 40.6% from its recent peak in November 2020. The latest fall was most pronounced in NSW where the state index dropped 13.4% to be 10-15% below the other major states. The national index is now at its lowest level since February 2008, during the Global Financial Crisis and well below the 90-95 levels seen in 2017–18, when housing markets were particularly weak.

We have found housing affordability to be a key driver of this index. The combination of a 27% surge in dwelling prices nationally over the last year and a half; rising fixed mortgage rates; and the prospect of higher standard variable rates is clearly weighing heavily on homebuyer sentiment.

Arguably the most eye-catching aspect of today's survey is the 10.8% fall in the Westpac Melbourne Institute House Price Expectations Index. At 139.0 the Index is still well above 100, meaning that most consumers still expect prices to rise. However, that confidence is now starting to erode quite quickly. The weakness was across all major states, with NSW (–12.9%) and Western Australia (–14.5%) recording the largest declines.

Westpac expects national measures of dwelling prices to begin falling in the December quarter following rate increases from the Reserve Bank in August and October. From our perspective, it is surprising that we have not seen a sharper fall in the House Price Expectations Index to date – we saw sustained periods of sub-100 reads during the

2018-19 and 2020 correction periods. That said, official rate hikes – which we expect to be the key catalyst this time around – are yet to be fully factored into consumers' house price views.

The Reserve Bank Board next meets on April 5. The Board is currently in a holding pattern, awaiting more data, particularly on inflation; wages growth; and the unemployment rate. By that meeting it will have seen the US Federal Reserve's first increase of the federal funds rate (widely expected to be delivered on March 17).

We retain our view that the first move in this cycle will be on August 2, following two more inflation reports on April 27 and July 27. We expect that the April 27 inflation report and the May 18 wages report will motivate the Board and Bank executives to gradually moderate their current 'patient' policy stance during June and July in preparation for the August move

Bill Evans, Chief Economist, ph (61–2) 8254 8531

Consumer Sentiment – March 2022

Item	avg*	Mar 2020	Mar 2021	Feb 2022	Mar 2022	%mth	%yr
Consumer Sentiment Index	**101.4**	**91.9**	**111.8**	**100.8**	**96.6**	**–4.2**	**–13.6**
Family finances vs a year ago	89.3	82.7	91.3	86.8	83.3	–3.9	–8.7
Family finances next 12mths	107.5	97.3	111.6	106.4	106.0	–0.4	–4.9
Economic conditions next 12mths	91.1	77.9	113.8	97.1	90.6	–6.7	–20.4
Economic conditions next 5yrs	92.0	90.4	118.9	105.2	99.3	–5.6	–16.5
Time to buy a major household item	126.4	111.4	123.7	108.6	103.7	–4.4	–16.1
Time to buy a dwelling	118.3	111.8	116.4	84.9	78.3	–7.7	–32.7
Unemployment Expectations Index	129.6	146.1	112.0	102.8	101.8	–1.1	–9.2
House Price Expectations Index	124.8	141.7	159.5	155.8	139.0	–10.8	–12.9

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 28 February to 4 March 2022. 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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