

19 May 2021

Consumer sentiment pulls back from an eleven year high

• The Westpac-Melbourne Institute Index of Consumer Sentiment fell 4.8% to 113.1 in May from 118.8 in April.

While a 4.8% fall is always going to attract attention we should put this result in perspective. It is still the second highest print for the Index since April 2010 and does follow an 11% rise in the Index over the previous three months.

The fall may also represent some disappointment in the Federal Budget as a very generous Budget was still unable to exceed the exuberant expectations of the community.

The Budget was announced on May 11 – the half-way point of the survey period.

Responses to our annual Budget question show one in five consumers expect this year's Federal Budget to improve their finances over the next 12 months. There has only been one more positive response in the eleven years we have run this question – the 2020 survey which showed just over one in four consumers expected to be better off.

The 2020 and 2021 surveys are the first times since we first started surveying Budget responses in 2010 that those expecting the Budget to deliver improvements outnumbered those expecting to be worse off.

This undoubtedly reflects the different aims of these recent Budgets which have been focussed on addressing the economic challenges of the pandemic. Previous Budgets since 2010 have been framed around ensuring a path back to Budget surplus.

The cost of new initiatives in this year's Budget – 4.1% of GDP – and in 2020 – 5.5% of GDP is in stark contrast to, say, the 0.5% of GDP in 2019 when the government was balancing the competing demands of an imminent election and the need to reach Budget balance.

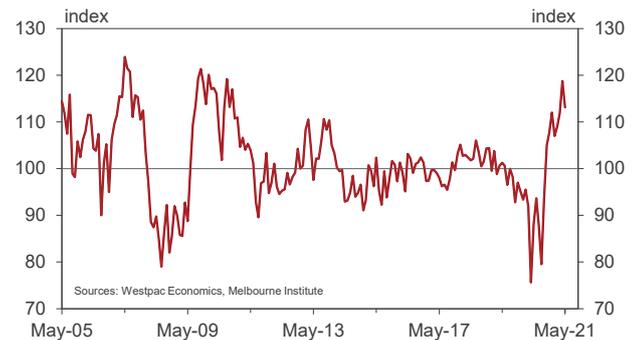
With that scale of stimulus measures the government might have expected a lift in sentiment following the announcement of the Budget.

Instead there was no evidence of a reaction either way – sentiment amongst those surveyed pre-Budget was almost identical to that amongst those surveyed after the announcement.

That may partly reflect the absence of major surprises. Apart from the decision to extend the asset write down by a further year there were few significant unexpected measures on Budget night. Perhaps the Budget would have been even better received if the government had announced some surprise positive initiatives on the night that were targeted at households.

No doubt the Budget achieved a positive political objective with a 1% dip in confidence amongst Coalition voters contrasting to an 8.1% fall in confidence amongst ALP supporters.

Consumer Sentiment Index



Amongst the individual industries the most distressing result was a 33% fall in confidence amongst employees in the Arts. This may represent concerns in that industry around the ending of JobKeeper along with some disappointment in the support for the industry in the Budget.

All five components of the Index recorded declines in the latest month.

Around finances, the sub-index tracking assessments on 'finances compared to a year ago' retraced 5.4% but was still 7.3% above its March level. Last month this read was flattered by base effects with the 'year ago' assessment being compared to the depths of the lockdown in April last year.

The sub-index tracking expectations for 'finances next 12 months' showed a more meaningful 6.9% decline over the month to be down 1.9% vs March. This particular response supports the hypothesis that there is likely to be an element of the Budget disappointing against the exuberant expectations in the lead up.

Both 'family finance' sub-indexes are coming off levels near eleven year highs.

Expectations for the economy also cooled.

The 'economy next 12 months' sub-index retraced 3.5% but is still up 6.4% compared to March. The 'economy next 5 years' sub-index fell 6.7% and is down 2.8% on its March read. That said, both sub-indexes are at very optimistic levels by historical standards – 30pts and 24pts above their respective long run averages.

Attitudes towards major purchases remain much more subdued than the optimism around finances and the economy. The 'time to buy a major household item' sub-index declined 1.5% in May after a 0.2% dip in April. At 121.5, the index is 5.2pts below its long run average.

This relative underperformance reflects the clear prospect of expenditure switching. Purchases of household goods have seen strong gains during the pandemic but are likely to be waning now that reopening is allowing consumers to



spend more freely on discretionary services including travel, accommodation, entertainment and dining.

The most positive aspect of this month's sentiment update is around jobs. The Westpac-Melbourne Institute Index of Unemployment Expectations recorded a sharp 15.3% decline (recall that a fall in the Index means more respondents expect the unemployment rate to decline in the year ahead).

At 100.2, the May Index is at a ten year low. Importantly, it suggests lingering concerns around the end of JobKeeper have eased.

While other aspects of the survey are implying an air of disappointment relative to exuberant expectations the Budget seems to have achieved its prime objective of boosting confidence in the labour market.

The focus on driving the unemployment rate down below 5% has resonated with households.

An Index read of 94.3 amongst those surveyed post-Budget compares to 102.6 amongst those surveyed before the announcement. If the whole May survey had registered at 94.3 this would have been a remarkable 25 year low for unemployment expectations.

The survey continues to give a clear message around the housing market with deteriorating affordability weighing on assessments of time to buy while price expectations remain extremely bullish.

The 'time to buy a dwelling' index fell a further 3.4% from 107.2 to 103.5. It is now 21.6% below its recent peak in November and a substantial 15.7pts below its long run average.

Victorians recorded a disturbing 20% fall this month.

All jurisdictions including non-metro areas have seen substantive declines in the 15-40% range since November.

Price expectations remained elevated.

The Westpac Melbourne Institute Index of House Price Expectations dipped 0.1% in the month but at 163.8 the Index remains very high, nearly 40pts above the long run average of 124.8.

The state detail showed reversals in Victoria (-6.7%), SA (-5.1%) and WA (-3.8%) contrasting with a slight firming in NSW (+1.4%) and a further strong rise in Queensland (+8.8%).

The Reserve Bank Board next meets on June 1. The minutes of the May Board meeting have confirmed that the Board will decide on the next stage of its Yield Curve Control (YCC) and Quantitative Easing (QE) policies at its July meeting.

The next meeting in June will be one of 'marking time' and discussing the recent run of data.

The May minutes noted that recent data and financial conditions will be factors influencing the decisions in July.

Westpac expects the Board to extend the QE policy to a further \$100 billion beginning in September and to switch the target bond in the YCC policy from April 2024 to November 2024.

This view is based on the expectation that the Board will be committed to monetary stimulus (reducing QE or restricting YCC to the April bond are akin to tightening policy) for the remainder of 2021.

That policy approach would be consistent with the objectives of the Budget and as we have seen in this survey, policy is making great progress in boosting confidence in the labour market where there is still much more work to be done for the Bank to achieve its objectives of full employment and its inflation target.

Bill Evans, Chief Economist

Consumer Sentiment - May 2021

	avg*	May 2019	May 2020	Apr 2021	May 2021	%mth	%yr
Consumer Sentiment Index	101.4	101.3	88.1	118.8	113.1	-4.8	28.5
Family finances vs a year ago	89.3	85.3	74.3	103.5	97.9	-5.4	31.8
Family finances next 12mths	107.5	103.8	102.0	117.6	109.5	-6.9	7.3
Economic conditions next 12mths	90.9	104.2	71.2	125.5	121.1	-3.5	70.2
Economic conditions next 5yrs	91.7	97.3	96.3	123.8	115.6	-6.7	20.1
Time to buy a major household item	126.7	115.8	96.6	123.4	121.5	-1.5	25.8
Time to buy a dwelling	119.3	114.9	108.2	107.2	103.5	-3.4	-4.3
Unemployment Expectations Index	129.9	120.9	136.9	118.4	100.2	-15.3	-26.8
House Price Expectations Index	124.8	89.4	72.9	163.9	163.8	-0.1	124.6

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 10 May to 14 May 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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