

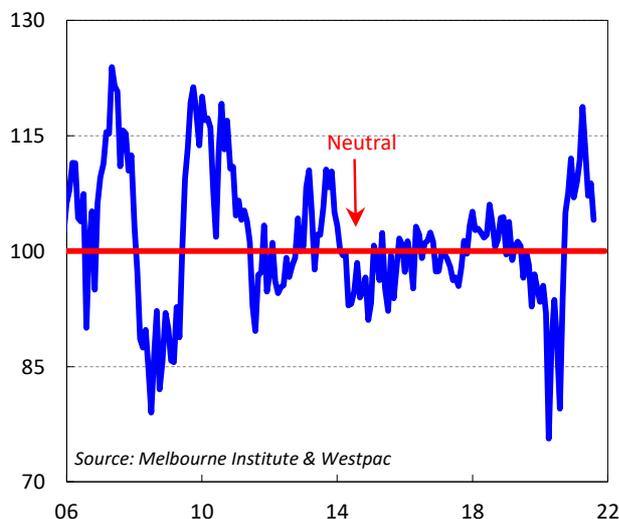
Wednesday, 11 August 2021

Consumer Sentiment

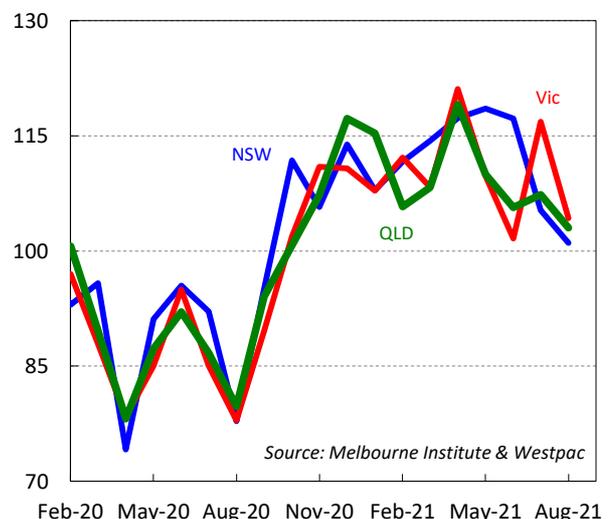
Lockdowns drive down confidence

- Consumer sentiment took a hit in August as large parts of the country were in lockdown during the survey period. The monthly consumer sentiment index fell 4.4% to 104.1 in August, its lowest level since September 2020.
- The survey was undertaken from 2 to 7 August. Large parts of the country were in lockdown for all or part of the period, including NSW, Victoria and Queensland.
- While the fall in confidence was significant, the result of above 100 index points indicates that optimists still outweigh pessimists. Sentiment also remains robust compared to lows in 2020.
- By state, sentiment fell most in Victoria (-10.8%), followed by NSW (-4.1%), Queensland (-4.0%), and Tasmania (-0.4%). Confidence is weakest in NSW. Conversely, confidence increased across SA (9.1%) and WA (4.1%).
- All five subcomponents of the headline index declined. The largest fall was in expected economic conditions over the next 12 months, followed by 'time to buy major household items.'
- Affordability pressures continued to bite amid the surge in dwelling prices. The 'time to buy a dwelling' index fell by 8.3% in August to 88.9.
- Lockdowns are likely to continue to weigh on confidence. A contraction in economic activity in the September quarter is effectively locked in. However, as we have seen during previous lockdowns, the economy tends to recovery very quickly once lockdowns are lifted. This data supports that view, as consumers appear to remain resilient.

Consumer Sentiment Index



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Consumer sentiment took a hit in August as large parts of the country were in lockdown during the survey period. The monthly consumer sentiment index fell 4.4% to 104.1 in August, its lowest level since September 2020. The survey was undertaken from 2 to 7 August. Large parts of the country were in lockdown for all or part of the period, including New South Wales, Victoria and Queensland.

While the fall in confidence was significant, the result of above 100 index points indicates that optimists still outweigh pessimists. Sentiment also remains robust compared to the low levels in 2020 when the pandemic began of 75.6 in April 2020, and during Victoria's drawn out second lockdown of 79.5 in August 2020. This is a positive development and suggests that consumers remain optimistic about future economic prospects despite current lockdowns. This resilience of consumers supports our view that the economy is likely to rebound strongly once lockdowns lift.

At a state level, consumer sentiment fell most in Victoria (-10.8%), followed by NSW (-4.1%) and Queensland (-4.0%). Tasmania also saw a small fall of 0.4%. Victoria moving into yet another lockdown (its sixth) led to an unwind of the 15% boost to sentiment that was seen in July when it emerged from its fifth lockdown. NSW saw a continued fall in sentiment due to the extended lockdown there. Sentiment in NSW has now fallen for three straight months and is down 14.8% from its 11 year high in May of 118.5.

Conversely, confidence increased in August across South Australia (9.1%) and Western Australia (4.1%). SA lifted its lockdown in the week before the survey was undertaken, on 28 July. This likely contributed to the state's positive reading.

Encouragingly, sentiment in every state remains above the pre-pandemic levels in January 2020 and sentiment is also above the long-run average in all states, except for NSW.

All five subcomponents of the headline index declined. The largest fall was in expected economic conditions over the next 12 months. This fell by 8.3% to 100.4 as lockdowns dented expectations for economic activity. The 'time to buy major household items' index also fell 7.2% to 112.0. Encouragingly, most subcomponents remain above 100 index points. The exception is family finances over the last 12 months, which is below 100 but remains above its long-run average.

Affordability pressures continued to bite amid the surge in dwelling prices. The 'time to buy a dwelling' index fell by 8.3% in August to 88.9. The index has now fallen for seven of the last nine months since hitting a seven year high in November 2020, down 32.7% over that period. We expect house price growth to continue to remain robust throughout 2021 before slowing over 2022. This will place further pressure on affordability.

Outlook

The current lockdowns across Greater Sydney and parts of NSW, and the spread to other parts of the country are likely to continue to weigh on consumer sentiment. So far, there are no convincing signs that case numbers have peaked in NSW. Plus, earlier today Victoria announced an extension to its sixth lockdown.

A key factor which will determine when lockdowns are lifted is progress in the vaccine rollout. Supply is expected to ramp up significantly over the coming weeks and months. Australia will also have another vaccine to support the rollout, with the Moderna vaccine being given provisional approval by the Therapeutic Goods Administration this week.

A contraction in the economy in the September quarter is effectively locked in.

However, as we have seen during previous lockdowns, the economy tends to recovery very quickly once lockdowns are lifted. Assuming the lockdown in NSW does not last beyond September, we

anticipate the economy to rebound strongly over the December quarter. Today's consumer sentiment reading supports this view, with consumers remaining relatively optimistic despite the headwinds that are facing the economy.

However, it is an evolving situation. The relaxation of restrictions and hence the economic rebound hinges on the containment of the outbreak and progress in the vaccine rollout.

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