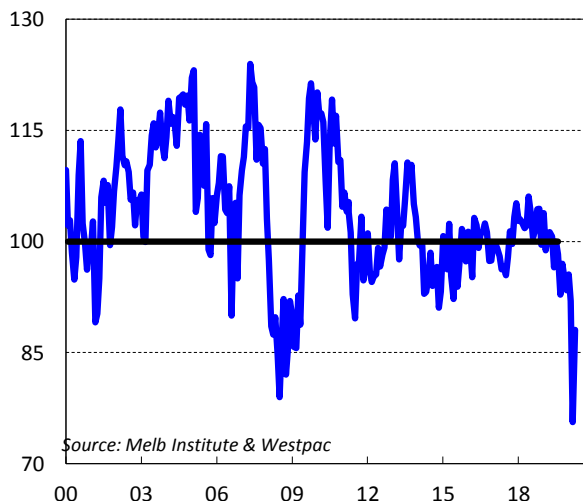


Wednesday, 13 May 2020

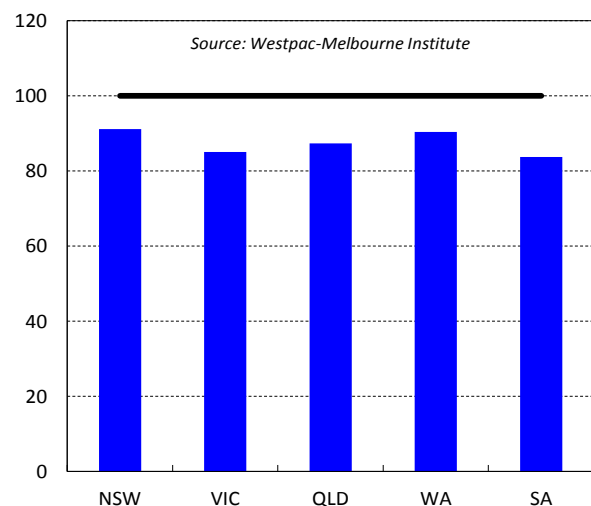
## Consumer Confidence Corona Relief?

- After a historic decline in April, the Westpac-Melbourne Institute consumer sentiment index rebounded sharply in May, lifting from a 29-year low of 75.6 to 88.1. It was the largest monthly gain in the 47-year history of the survey, and followed the biggest decline on record.
- The sharp rebound suggests there is optimism over how Australia has dealt with the coronavirus outbreak, given new cases have stabilised at a low level. Moreover, talk of easing social distancing restrictions occurred during the survey period, which likely gave confidence a lift.
- Despite the rebound, the level of the index remains at low levels, and below 100, suggesting consumers remain pessimistic. It was also the second lowest reading since 2009. Caution among consumers is understandable given the risks of a renewed wave of infections with re-opening the economy and given the fragile economic backdrop.
- Victoria recorded the smallest improvement, up 8.4% to 85.0. Victoria has recorded some recent new clusters of infections. The strongest gain in sentiment was in Western Australia, up 28.5% to 90.3, which relaxed restrictions ahead of other States. Among other States, sentiment rose 22.9% to 91.1 in NSW, lifted 11.8% to 87.3 in Queensland and rose 13.7% to 83.7 in South Australia.
- Sentiment around the housing market also improved in May. The 'time to buy a dwelling' index recovered 31.8% to 108.2. Dwelling prices across most capital cities rose modestly over April. However, the index measuring house price expectations gained only 4.6% in May following a 50% drop in April.

Consumer Sentiment Index



Consumer Sentiment by State  
(May 2020)



After a historic decline in April, the Westpac-Melbourne Institute consumer sentiment index rebounded sharply in May, lifting from a 29-year low of 75.6 to 88.1 in the month. It was the largest monthly gain in the 47-year history of the survey, and followed the biggest decline on record.

The sharp rebound suggests consumer optimism over how Australia has dealt with the coronavirus given new cases have stabilised at a low level. Moreover, talk of easing social-distancing restrictions occurred during the survey period, between 4-8 May.

Despite the rebound, the level of the index remains at low levels, and below 100, suggesting consumers remain pessimistic. It was also the second lowest reading since 2009. Caution among consumers is understandable given the risks of a renewed wave of infections with re-opening the economy.

There were notable increases across major sub-indices. Consumers were decidedly more upbeat about economic conditions over the next 12 months and over the next 5 years, with these indices rising 32.6% and 10.7%, respectively.

The time-to-buy a major household item also jumped, lifting 26.7%, which points to possibly better news for retailers. The stimulus and support packages from policymakers are helping to cushion the impact from the lost incomes as a result of business shutdowns.

The improvement in sentiment was nation-wide, but to varying degrees depending on the prospect of their economies opening up. Victoria had the smallest improvement, up 8.4% to 85.0, where there have been recent reports of new clusters. The strongest gain in sentiment was in Western Australia, which relaxed restrictions ahead of other States. The Western Australian index rose 28.5% to 90.3. Among other States, sentiment rose 22.9% to 91.1 in NSW, lifted 11.8% to 87.3 in Queensland and rose 13.7% to 83.7 in South Australia.

Sentiment around the housing market also improved in May. The 'time to buy a dwelling' index recovered 31.8% to 108.2. Dwelling prices across most capital cities rose modestly over April, and suggest some resilience in the housing market early on in this crisis. The lifting of the ban on onsite auctions may have helped boost the mood as well as range of support measures limiting the impact of lost wage incomes on households. However, the index measuring house price expectations only gained 4.6% in May following a 50% drop in April. It was notable that house price expectations deteriorated in Victoria in April, which has seen a demand for housing increase significantly due to migration inflows. Dwelling prices in Melbourne fell in April in contrast to the capital-city average.

Another area potential weakness is housing demand for investors. In response to an additional question in the survey, one in five tenants said that they have negotiated a temporary reduction in rental payments, although most were a reduction of 25% or less.

## **Outlook**

The significant rebound in consumer sentiment over May highlights suggests some hope that an economic recovery could come sooner than previously thought. However, a recovery is also likely to be slow, as some form of social distancing is likely to remain in place for some time. Sentiment remains at low levels, suggesting justifiable caution among consumers. As social distancing restrictions ease, economic activity can recover, but the risk of infections rising again remains.

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