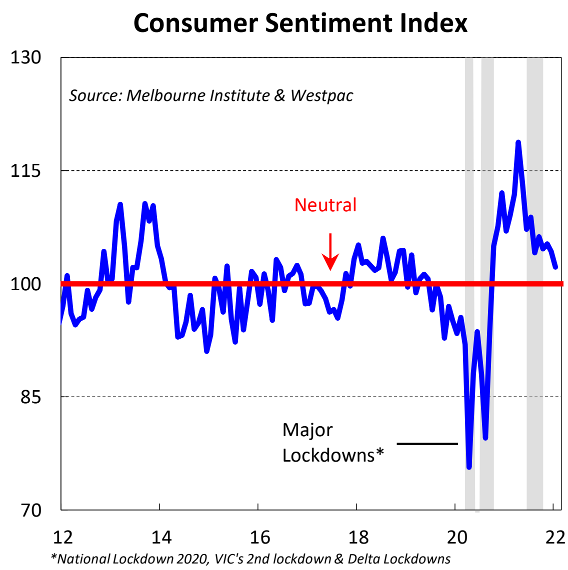
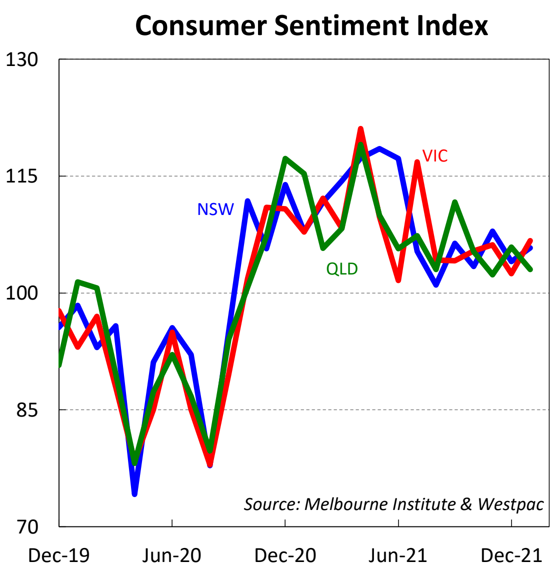
Wednesday, 19 January 2022

Consumer Sentiment

NSW & VIC Shrug Off COVID-19 Surge

- **Consumer sentiment, as measured by the Westpac and Melbourne Institute, fell 2.0% to 102.2 in January. It's the second consecutive monthly decline, after a 1.0% fall in December. The index is now at its lowest level since September 2020.**
- **Sentiment under this measure was surprisingly resilient considering the widespread disruption caused by the spread of Omicron. The decline in sentiment in January is small compared to the 5.2% fall in June 2021, the first month of the Delta outbreak, and the 17.7% drop in April 2020, after social-distancing measures first swept the country.**
- **The drop in sentiment under this measure was smaller than the weekly measure of consumer sentiment published by Roy Morgan. The Roy Morgan measure showed sentiment plunged 7.6% in the latest week ending 16 January. It was the biggest weekly fall since March 2020.**
- **Both these measures reveal that the Omicron wave is hurting sentiment, which is likely to lead to a pull back in retail spending and activity this month.**
- **The Westpac-Melbourne Institute index unusually revealed that surging COVID-19 cases might have weighed more heavily in states which experienced lower infections. Notably, sentiment in NSW and Victoria improved in January, whereas sentiment fell in Queensland, SA and WA.**
- **There is still a lot of uncertainty over the magnitude of the hit to the economy from the Omicron variant. Much will hinge on the path of the virus. But the resilience of consumer sentiment is an encouraging sign for spending. Beyond the temporary shock from Omicron, consumer spending will be supported by pent-up demand, large household saving buffers and the housing boom.**





Consumer sentiment dropped for a second consecutive month, as Omicron cases surged to record highs. However, the result was surprisingly strong considering the widespread disruption caused by the spread of Omicron.

The Westpac-Melbourne Institute's monthly consumer sentiment index fell 2.0% to 102.2 in January. This follows a 1.0% fall in December. The index is now at its lowest level since September 2020. However, sentiment remains above the long-run average of 101.3 and critically, above 100, which indicates that optimists continue to outweigh pessimists.

The monthly survey was conducted from January 10 to 14. During this period, surging COVID-19 cases underpinned a 'shadow lockdown', with millions forced to isolate after contracting the virus, or being identified as close contacts. The surge in case numbers also contributed to heightened reluctance to leave home to avoid infection. Hospitalisations have reached three times the levels seen during the Delta outbreak in 2021.

Labour shortages have become prevalent, as large portions of the workforce are in isolation, placing pressure on businesses and supply chains. Many businesses have reported stock and labour shortages and have been forced to close or operate at reduced hours.

At the same time, consumers have also faced challenges accessing COVID-19 tests. In December and early January, there were long delays in polymerase chain reaction (PCR) testing. And while changes in PCR testing requirements have helped alleviate some of these pressures, consumers are now grappling with a widespread shortage of rapid antigen tests (RATs).

Sentiment was surprisingly resilient, despite these surging case numbers, widespread labour shortages and COVID-19 testing challenges. The decline in sentiment in January is small compared to the 5.2% fall in June 2021, the first month of the Delta outbreak, and the 17.7% drop in April 2020, after social-distancing measures first swept the country.

In contrast, the Roy Morgan weekly survey of consumer sentiment suggests Australians are more pessimistic. This index fell 7.6% in the week ending 16 January to 97.9 – its biggest weekly decline since March 2020 and weakest January result in 30 years. It followed a fall of 2.2% in the previous week, with the fortnightly fall also the largest since March 2020. The index is at its weakest since October 2020, but remains well above the lows reached after the pandemic first hit in 2020.

Unusually, the Westpac-Melbourne Institute index showed surging Omicron cases appear to have weighed more heavily in states which are experiencing a higher number of infections. Notably, sentiment in NSW and Victoria increased 1.7% and 4.1%, respectively in January. In contrast, sentiment dropped considerably in Western Australia (-5.1%), South Australia (-3.9%), and Queensland (-2.7%).

The fall in sentiment in January was driven predominantly by a sharp fall in expectations of future economic conditions. Expectations for future economic conditions over the next 12 months and 5 years fell 9.6% and 6.1%, respectively. Akin to the headline figure, future expectations of economic conditions over the next 12 months deteriorated most in WA (-25%), Queensland (-12%) and SA (-18%).

Expectations of personal finances over the next 12 months also deteriorated. The 'family finances next 12 months' sub-index eased 2.8% to 108.1 in January. However, personal finances compared to the last 12 months continued to improve, rising 7.5% to 95.6. This is likely the result of saving buffers accrued through the pandemic, rising property values and an increase in incomes as employees return to the workforce following lockdowns.

The time to buy a dwelling index increased 6.3% to 87.0. However, house price expectations dropped 4.8% in January, from elevated levels. The fall possibly reflects growing expectations of interest rate rises. Indeed, 55% of respondents expect mortgage rates to rise over the next 12 months, compared to 41% in August 2021 and 36% in February 2021. Regardless, confidence among mortgagors remained strong, increasing 2.3% in January.

The unemployment index jumped to 112.7 from 104.1 in January. This indicates that more respondents expect the unemployment rate to rise rather than fall and marks a significant deterioration. However, the index remains well below the long-run average of 130, reflecting that consumers are still more upbeat than usual on the labour market.

Outlook

There is still considerable uncertainty over the magnitude of the hit to the economy from the Omicron variant. Much will hinge on the path of the virus. However, the resilience of consumer sentiment in January is an encouraging sign for spending. Beyond the temporary shock from Omicron, consumer spending will be supported by pent-up demand, large household saving buffers and the housing boom.

Jameson Coombs, Associate Economist
Ph: 0401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
Matthew.bunny@bankofmelbourne.com.au
(02) 8254 1316

Senior Economist
Jarek Kowcza
Jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Associate Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789

The Detail