Data snapshot

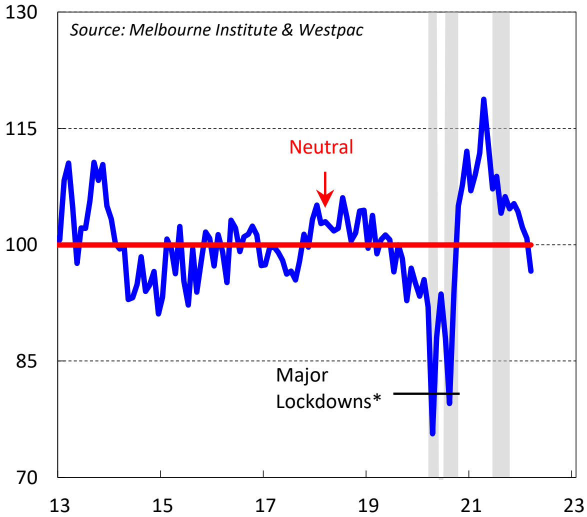
Wednesday, 9 March 2022

Consumer Sentiment

Pessimistic Tilt on Floods and War

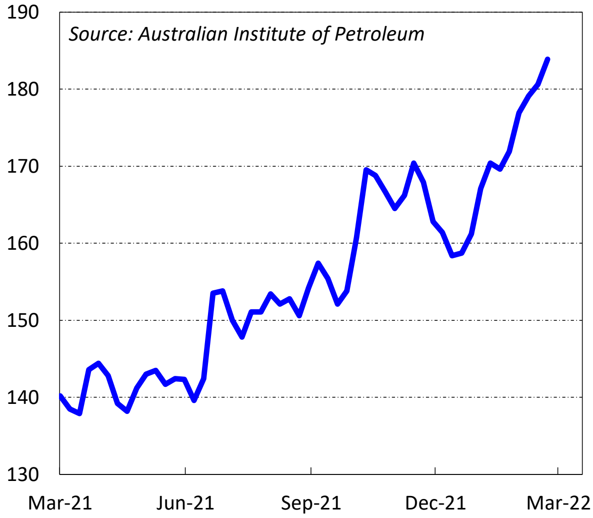
- **Consumer sentiment, as measured by Westpac and the Melbourne Institute, fell 4.2% to 96.6 in March. This is the lowest reading since September 2020. Notably, it is the first time since then that the survey has fallen below 100 – indicating that the pessimists outweigh the optimists.**
- **Devastating flooding in Queensland and NSW and the Ukraine war hit confidence in March. Inflationary pressures and the prospect of higher interest rates also remain ongoing concerns.**
- **The deterioration in confidence was broad-based across the sub-indices, led by expectations for economic conditions for the next 12 months which fell 6.7% in the month.**
- **Sentiment was mixed across the country in March. Confidence fell sharply in the capital cities while sentiment in rural areas improved, perhaps alongside the increase in agricultural commodity prices, in particular wheat.**
- **Confidence fell in flood-effected Queensland and NSW, as well as Victoria and SA. Meanwhile, sentiment improved in WA and Tasmania.**
- **The time to buy a dwelling index fell 7.7% in March and reached its lowest level since 2008. The index is closely linked to housing affordability, which has become increasingly stretched alongside the sharp run-up in dwelling prices.**
- **We continue to expect solid growth in spending this year. However, cost-of-living pressures and higher interest rates will be headwinds for consumption. The recent floods and developments in Ukraine cast additional uncertainty over the outlook.**

Consumer Sentiment Index



*National Lockdown 2020, VIC's 2nd lockdown & Delta Lockdowns

National Average Petrol Price*
(weekly, cents per litre)



*Retail price of unleaded petrol

Consumer sentiment, as measured by Westpac and the Melbourne Institute, fell 4.2% to 96.6 in March. This is the lowest reading since September 2020. Notably, it is the first time since then that the survey has fallen below 100 – indicating that the pessimists outweigh the optimists.

While concerns over the Omicron outbreak are easing as case numbers decline, a new set of issues are worrying consumers. Devastating flooding in Queensland and NSW and the Ukraine war hit confidence in March, while inflationary pressures and the prospect of higher interest rates remain ongoing concerns. The survey was conducted between February 28 and March 4.

While the floods are ongoing, preliminary estimates from the Queensland Government suggest the disaster could shave $1 billion off economic activity in the state in 2021-22, equivalent to around ¼ per cent of annual gross state product. The Queensland Treasurer stated that these estimates were preliminary and likely to rise as more damage assessments are conducted.

These figures do not include the damage in Northern NSW, and more recently, Greater Sydney. Flooding is still affecting Greater Sydney and NSW, and this will add to the total impact on the Australian economy. As a point of comparison, the flooding and Cyclone Yasi in 2010-2011 in Queensland was estimated to reduce Australian real GDP by $9 billion, equivalent to ½ per cent of GDP in 2010-11.

The deterioration in confidence was broad-based across the sub-indices, led by expectations for economic conditions for the next 12 months, which fell 6.7% in the month. Expectations for economic conditions over the next 5 years declined by 5.6% in March.

Assessments of personal finances also took a hit, likely reflecting concerns about cost-of-living pressures alongside rising inflation and the prospect of rate hikes. Prices at the petrol pump have been rising steadily since the middle of last year – in recent weeks the national average retail price for unleaded petrol climbed over 180 cents per litre.

The time to buy a major household item index declined 4.4% in March, perhaps reflecting ongoing price pressures on imported goods as supply disruptions persist.

Sentiment was mixed across the country in March. There was a notable divergence between metro and regional areas – confidence fell in sharply in the capital cities – likely reflecting a combination of the concerns outlined above. Meanwhile, confidence in rural areas improved, perhaps alongside the increase in agricultural commodity prices, in particular wheat. Together, Russia and Ukraine produce more than 25% of global wheat exports. In turn, the conflict has pushed up wheat prices sharply.

Confidence plummeted in SA, falling 17.3% in the month to 83.0 – the lowest index reading of any state since August 2020. Confidence also fell in NSW (-5.7%), Queensland (-2.6%) and Victoria (-2.0). Encouragingly, confidence remains above 100 in Queensland, despite the recent devastation from the floods. WA and Tasmania bucked the trend; confidence increased by 1.9% to 103.4 in WA, and jumped 2.3% in Tasmania, to 98.5.

The unemployment expectations index declined a further 1.1% in the month. Recall that a lower result indicates more consumers expect the unemployment rate to decline. The data suggests that despite recent developments, consumers remain confident in the strength of the jobs market.

The time to buy a dwelling index fell 7.7% in March and reached its lowest level since April 2008. The index is closely linked to housing affordability, which has become increasingly stretched alongside the sharp run-up in dwelling prices. The house price expectations index fell 10.8% in the month, although remains well above 100, indicating that more consumers still expect prices to rise further.

Outlook

We continue to expect solid growth in consumer spending, supported by elevated household savings, a recovering economy, and a strong labour market. However, cost-of-living pressures and higher interest rates will be headwinds for confidence, and in turn, spending. Plus, the recent floods and war in Ukraine cast additional uncertainty over the outlook. Concerns over Ukraine may engender caution amongst some consumers. This is due to the developments potentially could flow through into stronger global inflationary pressures, especially via energy prices, and may hinder the global economic recovery. However, despite these downside risks, our baseline expectation is that the economic recovery will continue.

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