



Media release

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Consumer Sentiment continues to signal strong confidence

The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 1.9% in February from 107.0 in January to 109.1 in February.

Westpac Chief Economist, Bill Evans, commented, “This increase in the Index has recouped around half the loss we saw in January when the Index fell from 112.0 in December to 107.0.

“Recall that the December print was a ten year high so the bounce-back in February signals that the consumer remains extraordinarily confident.

“High confidence amongst consumers is critically important for the economy at this juncture. The Federal government is scheduled to phase out the JobKeeper program at the end of March. It is vital that households, which have built up a very large financial buffer through the pandemic (recently estimated by the Reserve Bank at \$200 billion or 15% of pre-pandemic annual income), are prepared to now use that buffer to partially offset the impact on the economy of the withdrawal of support programs.

“No doubt the management of the pandemic locally has had a constructive effect on confidence. The success of contact tracing and ‘light-handed’ lockdowns has been important in containing a worrying cluster of cases since the last survey in January.



“The Reserve Bank’s surprise extension of its Quantitative Easing program signals ongoing commitment from the monetary authorities to supporting the Australian economy. Consistent positive news on the recovery of the job market would also have boosted confidence.

“At the time of the survey, Victoria had made important progress in successfully managing the pandemic which resulted in improved confidence in the state (up 4% in February). It has now registered the highest print amongst the states (slightly higher than NSW, which was up 3.5% in February) and the second highest for the state in the last 10 years.

“In contrast, sentiment declined in Queensland (–8.3%) and Western Australia (–7.8%), both states having implemented brief lockdowns to contain cases in recent months after a long run of virus-free results.

“Nationally, confidence has clearly lifted substantially above pre-pandemic levels.

“The overall Index is now 14.2% above its pre-pandemic level in February 2020.

“Not all age groups have rallied since last February. Sentiment amongst respondents in the 18–24 age group has fallen by 2.3% whereas in the 25–44 age group, confidence has lifted 20.8%; and in the over 45’s it has increased by 13.7%.

“Part of this under-performance from the younger age group may reflect a less enthusiastic response to vaccine developments. Note that since August, when early signs of successful progress with vaccines first emerged, confidence in the 18–24 age group has lifted by 8.3% compared to 34.3% for the 25–44 group and 49.2% for the over 45’s.

“The health risks associated with COVID-19 are much greater for those in older age groups.



“The survey detail also suggests this younger age group has had a more difficult time financially. The ‘finances compared to a year ago’ sub-index for 18–24 age group is down 11% on a year ago (in three month average terms). That compares to an 11.7% rise for the full sample over the same period. Limited employment opportunities, weak wages growth, and concerns about the affordability impacts of a renewed rise in house prices may have weighed disproportionately on younger Australians over the last year.

“Nationally, four of the five Index components rose. The out-performer was the ‘economic conditions, next 12 months’ sub-index which lifted by 6.9% while the ‘economic conditions, next five years’ sub-index was up by 0.5%.

“Assessments of finances were more mixed: the ‘finances, next 12 months’ sub-index lifting by 2.6% while the ‘finances compared to a year ago’ sub index was down by 0.6%.

“The sub-index tracking attitudes towards purchasing ‘a major household item’ improved by 0.4%.

“There was encouraging news from the Westpac Melbourne Institute Index of Unemployment Expectations which fell by 3.8% reversing some of the 11.2% increase we saw in January (note that a lower number indicates fewer respondents expect an increase in the unemployment rate). This print in February is the second lowest since May 2011.

“The survey also provides us with valuable insights into the housing market.

“The ‘time to buy a dwelling’ index fell 3.1% and is now 8.6% below its peak in November. This measure tends to reflect shifts in housing affordability. As such, the decline in recent months suggests recent increases in house prices may already be starting to weigh on the purchasing sentiment. This ‘affordability’ factor is apparent in the age group breakdown, with buyer sentiment much weaker amongst the 18–24 age group than in other age groups.



“Consistent with this evidence of a perceived ‘squeeze’ on affordability is the 6.5% lift in the Westpac Melbourne Institute Index of House Price Expectations. The index is now at a seven year high and 2% above its pre-pandemic level.

“The latest lift has been led by the major markets in Victoria (+13.7%) and NSW (+7.7%). Notably, this is the first month since the advent of the pandemic in March last year that the Victorian index has been above the NSW index.

“It represents further evidence that the Victorian economy, which has been hardest hit in the pandemic, is rapidly turning the corner.

“The Reserve Bank Board next meets on March 3.

“Contrary to market expectations Westpac expected the Board to extend the Quantitative Easing Program by a further \$100 billion. However, we thought the March meeting would be preferred over February.

“Leaving the decision until March would have allowed more time to assess economic developments both domestically and globally. But the decision to move in February emphasises the Board’s commitment to providing as much support as necessary to assist the economy in closing the output gap that has opened up during the pandemic.

“We believe we can expect further extensions of Quantitative Easing when the next program is completed in October”, Mr Evans commented.



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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 1 February to 5 February 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.