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Media release

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Upbeat consumers look forward to a 'normal' Christmas

The Westpac-Melbourne Institute Index of Consumer Sentiment lifted by 2.5% to 107.7 in November from 105.0 in October.

Westpac Chief Economist, Bill Evans, commented, "This is another strong result. It follows the 11.9% increase in October with the Index now 35.3% above its level in August.
The Index is also now 13% above the average over the six months prior to the economy wide shut-down in March and has reached its highest level since November 2013 – a seven year high!

"The most important developments since last month have been the significant unwinding of restrictions across Victoria and the reopening of the Victoria-NSW border.

"The survey was conducted over the period of November 2–8 before the second round of easing restrictions had been announced for Melbourne although with Victoria's stunning recent success in containing the virus, expectations for this second round were buoyant.

"It also preceded the recent encouraging developments around Pfizer's Coronavirus vaccine.

"During the survey week the Reserve Bank announced further interest rate cuts. While relatively modest, the cuts came with a commitment to keep rates on hold for at least three years. Subsequently, banks have further reduced the rates on fixed rate mortgages – some going below the psychologically uplifting rate of 2%.

“Amongst the major states the stand-out was Victoria where confidence surged 9%, although in NSW it fell by 5.5% following the spectacular17.5% jump last month.

“Every November since 2009 we have asked an additional question about consumers’ Christmas spending intentions. Specifically, we ask them whether they plan to spend less, the same or more on Christmas gifts than the previous year.

“The results over the last five years have been remarkably stable. The proportion expecting to spend more has ranged from 9.8% to 16.9% while the proportion expecting to spend less has ranged from 29.6% to 32.5%. For 2020, 11.5% expected to spend more and 32.3% expected to spend less.

“Over the full history the average net balance (proportion planning to spend more minus proportion planning to spend less) has been -20.9% with a high of -12.7% recorded in 2015 and a low of -26.1% in 2014.

“For 2020 the net balance is -20.8% – around the long run average since 2009.

“Given the high degree of uncertainty this Christmas, and the headwinds from the high unemployment rate it is a very encouraging sign, that Australians are planning for a ‘normal’ Christmas

“The components of the Index showed mixed results.

“There was a flat response amongst the own finance components with the ‘family finances, last 12 months’ sub-index down 3.2% and the ‘family finances, next 12 months’ sub-index up 0.2%. This may be reflecting the scaling back of JobKeeper and JobSeeker since October, while the back dated tax cuts will not impact incomes until mid-November.

“The ‘economy, next 12 months’ sub-index surged 8.4% although the ‘economy, next 5 years’ sub-index only rose 0.5%. The improvement in Victoria was notable – the 12 month view up 18.1% and 5 year view up 10.8%.

“Prospects for further strength in sales of household goods received a boost with a 6.7% increase in the ‘time to buy a major item’ sub-index to its highest level since August last year. This will be a particularly welcome sign for Australia’s retailers heading into the critical Christmas high season.

“The labour market remains the key to the sustainability of this recovery. The Westpac Melbourne Institute Index of Unemployment Expectations has been a reliable indicator in this regard.

“There was a 6.2% increase in the Index indicating a deterioration in labour market conditions (a higher read means more respondents expect the unemployment rate to rise). The Index is still 19.7% below its April peak and 7.3% below the six- month average prior to March.

“Recent editions of the survey have highlighted the significant recovery in confidence around the housing market. The November result accelerates that trend.

“The ‘time to buy a dwelling’ index surged 8% from 122.2 to 132.0. That is the highest reading since November 2013. It is 11% above its level from a year ago.

“Results were very strong in NSW (up 9.4% to 131.6) and Queensland (up 11.7% to 132.4) while even Victoria is seeing a solid recovery (up 5.2% to 124.2).

“The ‘time to buy a dwelling’ and the Westpac Melbourne Institute House Price Expectations Indexes do not always move in the same direction. We view the ‘time to buy’ index as measuring the market sentiment of owner occupiers who are sensitive to shifts in affordability. The House Price Expectations Index in turn captures a key driver of sentiment amongst investors who are focussed more on the potential for capital gains.

“In the early stages of a strong market upturn both indexes will tend to be aligned. That is the case in the November survey where the House Price Expectations Index lifted by an impressive 12% to be only 7.3% below its level in March and 5.5% above its long-term average.

“Signs are particularly encouraging for the two major markets – NSW (up 8.9% to 128.9) and Victoria (up 19.5% to 120.20)

“Without doubt this survey is signalling a strong resurgence in the housing market.
For now, the boost from record low interest rates is clearly over-riding negatives around high unemployment; the overhang of deferred loans; the prospect of withdrawal of significant fiscal support; slow population growth; and rising vacancy rates.

“The main message from this survey is the encouraging optimism which is building around the outlook for the housing market. In some circumstances there may be a concern that this prospect will disturb the monetary authorities. But in a recent speech the Governor noted that financial stability “remains an important issue today, but the considerations have changed somewhat to the extent that an easing in monetary policy helps people get jobs it will help private sector balance sheets and lessen the number of problem loans. In so doing it can reduce financial stability risks”.

“In short, the monetary authorities, who are usually unnerved by booming confidence in the housing market, are supporters of these developments due to the boost that a strong housing market will give to jobs and growth.

“The key issue for the sustainability of this recovery in the housing market will be whether the headwinds discussed above will represent a sufficient drag on the progress which can be expected by the absence of the usual constraint – rising interest rate”, 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 2 November to 8 November 2020. 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.