



Media release

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Consumer Sentiment hits ten year high

The Westpac-Melbourne Institute Index of Consumer Sentiment lifted by 4.1% to 112 in December from 107.7 in November.

Westpac Chief Economist, Bill Evans, commented, “The surge in the Index continues. It is now 48% above the low in April and has reached its highest level since October 2010 – marking a ten year high.

“After only eight months the evidence seems clear that sentiment has fully recovered from the COVID recession.

“The behaviour of the Index highlights the difference between this recession; the downturn during the Global Financial Crisis and the recession of the early 1990s.

“These differences relate to the nature of the shocks; the resilience of the financial system; and the rapid, pro-active responses from authorities which have been critical to containing the economic damage.

“While the Index reached comparable lows in all three episodes, the recovery in sentiment in the COVID recession has been much more rapid. After eight months following the low in the GFC, sentiment had only recovered by 8.4%.

“It took a full year before it was clearly signalling that the crisis had passed.



“In the early 1990s it took nearly three years from the lows before sentiment was into a sustained upswing.

“That evidence and other aspects of the survey, particularly around jobs, provide some hope that the longer-lasting ‘scarring’ effects we usually get from recessions will be well contained.

“There are still risks, notably around vaccine developments.

“The survey detail specifically highlights the importance of these developments. Sentiment amongst those working in the health sector – including many frontline workers that would be at most risk of contracting COVID – surged over 25% in the month, easily the most spectacular gain across the 70 detailed sub-groups we monitor.

“There was also an outsized 20% gain in sentiment amongst those in the 55–64 year age group – a segment that is more susceptible to serious virus-related health problems.

“Component indexes show the latest gain in sentiment centred on a further improvement in expectations for the economy.

“The ‘economy, next 12 months’ sub-index rose 9.9% to 111.9, a ten year high. The near term outlook would have been significantly boosted by the continued containment of the virus locally; the September quarter national accounts, which showed a stronger than expected initial rebound in the economy; and positive news around prospects for a vaccine.

“Longer term expectations also posted a solid rise to multi-year highs. The ‘economy, next five years’ sub-index rose 5.9% to 121.1, the strongest reading since December 2009.



“Views around family finances saw more mixed moves in the month. The ‘finances vs a year ago’ sub-index posted another solid 6.9% gain to 96.1 – below 100. Those experiencing a deterioration continue to slightly outnumber those seeing an improvement, but the sub-index is over 30% above April’s lows.

“This gain came despite the reduced support from the Government’s JobKeeper and JobSeeker measures and the ongoing reductions in bank deposit rates.

“However, the forward view dipped a little. The ‘finances, next 12 months’ sub-index fell 1.8% to 108.9.

“The ‘time to buy a major household item’ sub-index lifted 0.7% to be up 5.9% on this time last year. The surge in sales of household goods we saw earlier in the pandemic is now slowing but activity remains well above pre pandemic levels.

“Every quarter we assess respondents’ most recalled news items and their qualitative assessment of this news. Responses show the highest level of recall was around news on ‘economic conditions’ (38%), ‘budget & taxation’ (24%), ‘employment’ (24%), and international conditions (16%).

“Domestic news was viewed much more favourably – nearly half of consumers viewed news on the economy as favourable, compared to just 19% three months ago.

“Over half (58%) assessed ‘budget & taxation’ news as positive. That compared with 26% in March before the Government responded to the challenges of the virus with a range of policies, including JobKeeper.

“In that same vein we saw the qualitative assessments of politics move from 35% in December last year to the current 70% favourable – a record ‘approval rating’ since 1975.



“News around jobs was still assessed as downbeat overall but much less downbeat than back in June. Two thirds saw the current news as unfavourable compared to three quarters back in June.

“In contrast, international news was assessed as unfavourable by 80% of respondents, undoubtedly reflecting the deteriorating pandemic situation in the US and Europe.

“Consumers’ labour market expectations improved dramatically in December. The Westpac-Melbourne Institute Unemployment Expectations Index dropped 16.2% to 106.3 implying a major easing in job loss concerns (recall that lower readings on the Index mean fewer consumers expect unemployment to rise in the year ahead).

“This is the best reading of this Index for nearly ten years – in line with the status of the overall index. Contributing to this improvement is likely to have been the government’s winding back its forecast for a 10% unemployment rate by December and the widely reported October employment release which printed a remarkable 178,800 new jobs. Consumers may also be detecting a shift in labour markets through their own direct experiences.

“The ‘time to buy a dwelling’ index moved off last month’s seven year high, declining 5.9% to 124.2. That still leaves the index 4.4% above its long run average but suggests the turnaround in Australia’s housing markets – which are all now seeing price gains – may be starting to shift views on affordability and prospects for bargain buys. The index is usually a good gauge of buyer sentiment amongst owner occupiers, a group that is more sensitive to fluctuations in affordability.

“New lending data indicates that owner occupiers, including first home buyers, have been much more prominent in this recovery to date than investors, who typically respond to price expectations rather than affordability.



“The large states where prices have been slower to recover were much more resilient.

Falls in the Index in NSW (-4.6%); Victoria (-1.9%) and Queensland (-3.5%) were swamped by big falls in WA (-12.5%); SA (-19.5%) and Tasmania (-16.4%).

Those declines in the smaller states are coming off higher starting points in November and are now see the index prints in the smaller states comparable to those across the big three.

“Consistent with this, consumer expectations for house prices continued to lift strongly.

The Westpac Consumer House Price Expectations Index surged a further 9.4% to 143.7 – double the lows seen during lockdowns and up 2.5%yr.

“This Index is now only 5.3% below its pre COVID highs.

“Despite this clear optimism around house prices, consumers continue to show a strongly risk-averse attitude to their financial decisions.

“Every quarter we ask additional questions about where consumers see the ‘wisest place for savings’ which capture attitudes towards financial risk. Results show consumers continue to favour ‘safe’ options, 30% nominating ‘bank deposits’ and 16% nominating ‘pay down debt’ – down, but only marginally, from 33% and 17% respectively three months ago.

“Only 10% favour ‘real estate’ and 9.5% favour shares.

“This ‘real estate’ category is likely capturing the preferences of investors rather than owner occupiers, consistent with the lending data which continues to show a moderate take-up by investors in the recovery cycle so far.

“Notably, 12% of consumers simply responded ‘don’t know’ – easily the highest proportion in the history of this question, which spans 46 years.



“The Reserve Bank Board next meets on February 2. While policy is almost certain to remain unchanged at the meeting, the Board will be presented with a revised set of economic forecasts. These forecasts will be released to the market on February 5.

“Earlier this week Westpac lifted its growth forecasts for 2020 and 2021 and lowered its forecasts for the unemployment rate. We now expect growth of -2% in 2020 and 4% in 2021.

“The unemployment rate is expected to be 6% by end 2021 and 5.2% by end 2022. That compares with the RBA’s current unemployment forecasts of 6.5% and 6% respectively.

“We expect RBA will also be lowering its unemployment forecasts and raising its growth forecasts, probably bringing both reasonably in line with our own forecasts.

“Westpac’s revised unemployment forecasts indicate that the unemployment rate will return to close to its pre-COVID level in less than three years.

“That result would compare extremely favourably with both the 1990s recession and the GFC, providing clear evidence that the government and RBA’s policy response, along with the different nature of this recession, have significantly limited the damage to the economy, particularly the labour market, compared to those previous episodes.

“Markets will be watching the RBA’s approach to its yield curve control policy. By 2022, if the near term forecast is for the unemployment rate to be returning to near pre COVID levels, it will be difficult to justify forward guidance that the cash rate will remain on hold for a further three years”, Mr Evans commented.



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Further information:

Bill Evans	Viet Nguyen
Chief Economist	Melbourne Institute
Westpac Banking Corporation	
Ph: (61-2) 8254 8531	Ph: (61-3) 90353621

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 30 November to 6 December 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.