Economic Insights

CommSec

Consumer confidence slumps to 30-year low

Consumer confidence; Manufacturing & services activity

- **Consumer confidence: The weekly ANZ-Roy Morgan consumer confidence rating fell by 27.8 per cent last week. The index fell from 100.7 to 72.2 – the lowest reading since the 1990 recession.**
- **'Flash' CBA purchasing manager index (PMI): The CBA composite PMI fell from 49.0 to 40.7 in March.**

The consumer confidence figures have implications for retailers, and other consumer-focussed businesses. The CBA purchasing managers index is a timely reading on the economy, especially manufacturing and services.

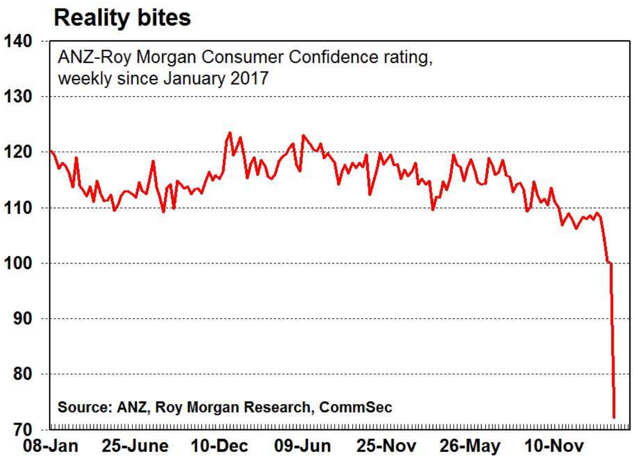
What does it all mean?

- Consumer confidence has plunged to 30-year lows. A surprise? Clearly not. When Australia was first hit by the virus crisis it was seen as a 'health crisis'. But when orders were given to close down a raft of establishments, it became a full-blown economic crisis with many people losing income, being stood down or losing jobs.
- Governments have acted swiftly, so has the Federal Parliament and the Reserve Bank in providing the necessary support and stimulus. But the reality is that people are losing jobs and businesses are losing income. And until the payments flow into people's pockets, confidence levels will be at a low ebb.
- More support packages almost certainly will be required. The Federal Government has acknowledged this. Because not one part of our lives and not one part of society has been untouched by the virus crisis.
- It will be difficult to avoid a recession – that is obvious. But there will be a massive injection of funds in the June and September quarters. And that swift action in providing stimulus should allow the economy to bounce back relatively quickly. However much damage will remain for years, not months.
- According to the Treasurer, Federal Treasury estimate that the stimulus measures are worth around 5 per cent of GDP in the June quarter and 7 per cent of GDP in the Sept quarter. In terms of growth, measures add 2.75 per cent in the June quarter and 3.25 per cent in the September quarter.

What do the figures show?

Consumer sentiment – Week ended March 22 2020

- The weekly ANZ-Roy Morgan consumer confidence rating fell by 27.8 per cent. The index fell from 100 points to 72.2 points – the lowest reading in 30 years.
- **All** of the **five** major components of the index **fell** last week:
  - The estimate of family finances compared with a year ago was **down** from +7.1 points to –18.5 points;
  - The estimate of family finances over the next year was **down** +17.2 points to –13.0 points;
  - Economic conditions over the next 12 months was **down** from –37.8 points to –60.9 points;
  - Economic conditions over the next 5 years was **down** from +4.9 points to –15.1 points;



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  - The measure of whether it was a good time to buy a major household item was **down** from +8.9 points to –31.6 points.

- The measure of inflation expectations **fell** from 4.0 per cent to 3.8 per cent.

CBA 'flash' purchasing manager index (PMI)

- The CBA composite PMI, covering manufacturing and services, fell from 49.0 to 40.7 in March. Any reading below 50 indicates a contraction of activity.
- The manufacturing PMI fell from 50.2 to 50.1. The services PMI fell from 49.0 to 39.8.
- The PMI is calculated from five indices for output, new orders, employment, suppliers' delivery times and stocks of purchases.
- **CBA noted:** "*The Australian service sector suffered a steep decline in business activity during March as the COVID-19 pandemic led to event cancellations, falling new business and fear among customers. New business from overseas declined particularly sharply over the month. Employment also decreased, but at a relatively modest pace that was broadly in line with that seen in February. Meanwhile, rates of inflation of both input costs and output prices eased.*
- *The COVID-19 outbreak contributed to a fall in manufacturing production during March, and one that was the fastest in the near four-year survey history. That said, there were some reports of manufacturers expanding output due to a lack of goods coming from China. New orders also fell at a sharper pace.*
- *Delays receiving goods from China were key to a substantial lengthening of suppliers' delivery times.*
- *A depreciation of the Australian dollar led to higher input costs, with the rate of inflation accelerating to a 17-month high. Selling prices were also raised at a faster pace at the end of the first quarter."*

What is the importance of the economic data?

- **The ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.
- **The Commonwealth Bank undertakes a survey of purchasing managers** across manufacturing and services sector. The 'flash' or 'early/preliminary 'readings provide timely information on the economy. As such, the survey is valuable for investors.

What are the implications for investors?

- The key thing that will provide a boost to confidence is money flowing into people's bank accounts. That is a first step to allow people to ride out the crisis, thus allowing people to buy the essentials. And the sooner that the number of active cases of the virus starts to plateau and then fall, the earlier that people can get back to work and back to a sense of normalcy.
- Aussies will still be worried that interest rates are effectively at zero and that the Aussie dollar is near 18-year lows, but first things first.

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