

Australian consumers bracing for further rate rises

61% expect mortgage rates to rise by more than 1% over the next 12 months

- The February *Westpac-Melbourne Institute Consumer Sentiment* survey included an extra question asking consumers about their expectations for mortgage interest rates over the next 12 months. It shows a broad-based consensus that rates will continue to increase with most expecting a cumulative rise of over 1%.
- An overwhelming majority of respondents, 93%, expect mortgage rates to continue rising over the next year with 61% – also an outright majority – expecting a cumulative rise of over 1%. Such an increase would lift the standard variable mortgage rate from 6.65% currently to over 7.65% by February next year, putting them above the 15 year historical average of 7.5%.
- Notably, consumers are more hawkish on mortgage rates than current market pricing. Futures pricing for the official cash rate implies a cumulative increase of just under 1% by February 2011. Westpac Economics is forecasting a rise of 0.75% over the same period.
- All consumer sub-groups held this hawkish view on interest rates with in every case a majority expecting rates to rise by over 1%. There were some variations though. By state, those in the 'resource states' were more convinced of rate hikes with over 95% of consumers in Qld and WA expecting rates to rise. Consumers in Vic and SA were marginally less hawkish. NSW had the highest proportion expecting rates to rise by over 1%.
- Those in older age groups tended to be more hawkish on rate rises than those in younger groups. Other demographic breakdowns by gender and by tenure showed a fairly uniform picture with 90%+ of each group tipping further rate increases over the next year.
- These interest rate expectations cast some light on the overall pattern of consumer sentiment in February. In particular, the headline sentiment index showed a 2.6% fall (from 120.1 to 117) despite the RBA's surprise decision to leave rates on hold at its February meeting – markets and almost all commentators had expected a further increase. It seems that consumers may not be reading too much into the decision and are perhaps instead paying more attention to commentary, both from the RBA and elsewhere, warning of the likelihood of more rate rises to come. That said, given just how hawkish consumers are on rates, the fact that sentiment is still at relatively high levels suggests that they feel well placed to cope with the expected increases.

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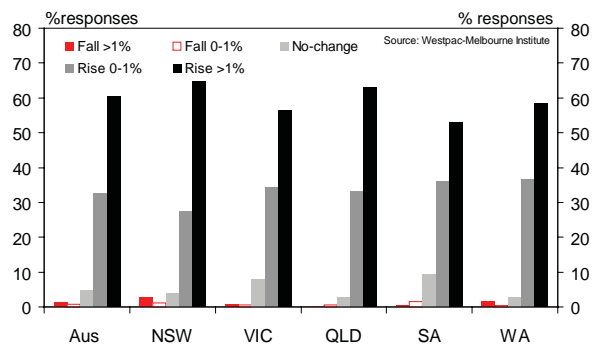
Consumer mortgage rate expectations – February 2010*

	% responses expecting:					net % exp rise
	Rise >1%	Rise 0-1%	no change	Fall 0-1%	Fall >1%	
Aus	60.6	32.4	4.8	0.8	1.4	90.8
NSW	64.7	27.5	3.8	1.2	2.8	88.2
Vic	56.6	34.4	7.8	0.6	0.7	89.6
Qld	63.1	33.3	2.7	0.6	0.2	95.6
SA	52.9	35.9	9.4	1.5	0.3	87.1
WA	58.4	36.7	2.7	0.4	1.7	93.0

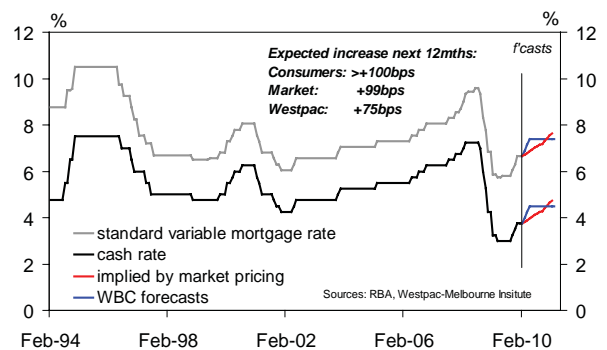
*Figures exclude those reporting "no opinion".

Source: Westpac-Melbourne Institute

Consumer expectations for mortgage rates

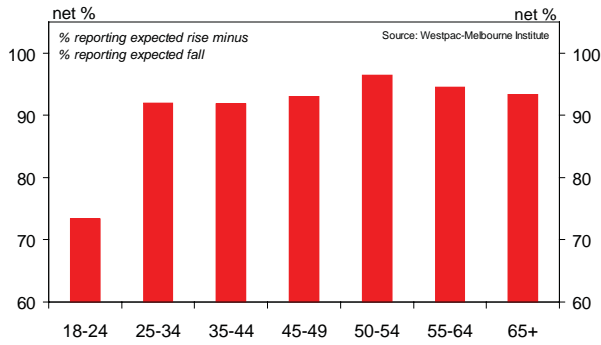


Interest rate expectations

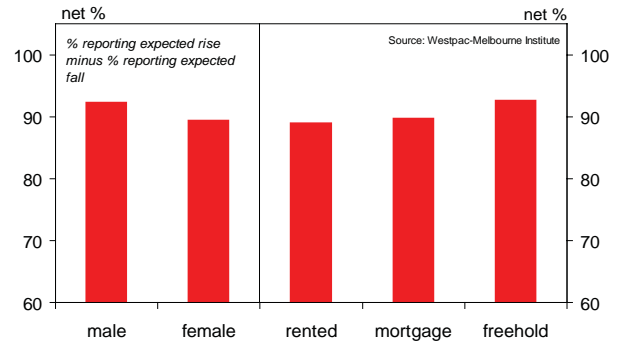


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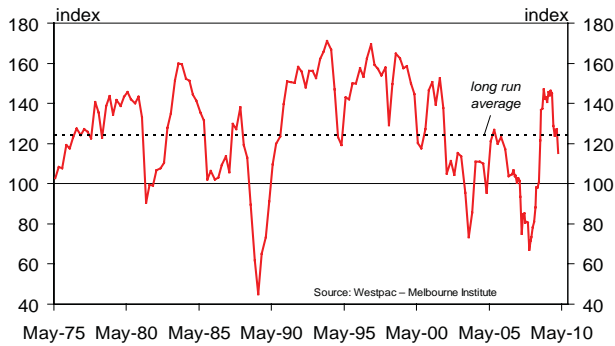
Mortgage rate expectations by age group



Mortgage rate expectations: selected groups



Westpac-MI CSI: 'time to buy a dwelling'



Annual change, mortgage interest rates

