BULLETIN

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Slight lift in sentiment as consumers limp towards year-end

- **Westpac Consumer Sentiment up 2.7% but to a still very weak 82.1.**
- **Easing rate hike fears provide little comfort at the end of a difficult year.**
- **Inflation and interest rate expectations continue to dominate.**
- **Some signs that pressure on family finances may finally be starting to ease.**

The Westpac-Melbourne Institute Index of Consumer Sentiment rose 2.7% to 82.1 in December, up from 79.9 in November.

The gloom that deepened last month has lifted slightly heading into year-end, but consumers remain far from upbeat. The RBA's decision to leave rates on hold at its final meeting of the year has eased concerns that further hikes are imminent. Other economic updates may also have allayed fears that a resilient economy would see domestically-driven price pressures continue – the weak September quarter national accounts report in particular. However, this is small comfort for Australian consumers that have seen incomes come under extraordinary pressure from a surge in the cost of living, sharply higher interest rates and a rising tax take. While ending on a slightly improved note, 2023 still marks the second worst calendar year for sentiment on records going back to 1974.

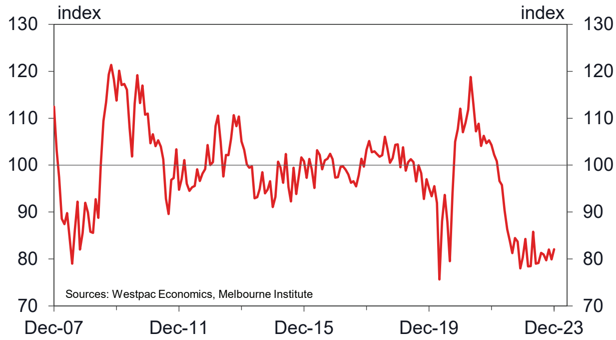
The December survey detail again shows a clear impact from the RBA's latest decision. This time, responses showed a material lift following the Reserve Bank Board's decision to pause – with an average index read of 79.1 amongst those surveyed prior, lifting 5.4% to an average index read of 83.4 amongst those surveyed after.

Despite the reprieve, consumers are still wary of the potential for more rate rises. Amongst those surveyed after the RBA decision, 60% still expect mortgage interest rates to move higher over 2024. That is down on the 73% read last month but still materially above the 48% seen back in September, when policy appeared to be more firmly on hold.

Our March, June, September and December surveys include additional questions about news recall that show which issues are getting the most attention. Not surprisingly, the topic with the highest recall continues to be inflation, with over 55% of consumers noting news on this issue. For consumers, inflation has dominated the news cycle over the last two years, and by a wide margin. Comparisons with the high inflation era of the 1970s and 1980s are interesting – while inflation news also rated highly back then it was not often the highest-ranking issue with 'employment' news tending to be more dominant.

The other news items with high recall in December were: budget and taxation (35%); economic conditions (32%); employment

Consumer Sentiment Index



(29%); and interest rates (23%). Consumers assessed all major news topics as being more negative than positive, but with nearly all assessments improving slightly since September. The exception was news on 'interest rates' which was viewed more negatively than three months ago, the RBA's November rate rise and warning that more increases may be required clearly impacting.

The component sub-indexes were a mixed bag in December. Views on family finances improved and the expectations for the economy over the medium to longer term rebounded strongly. But against this, near-term expectations for the economy softened again and buyer sentiment dropped back towards recent lows.

There are signs that some of the pressure on family finances may finally be starting to ease. The sub-index tracking assessments of 'finances vs a year ago' posted a solid 5.9% gain in December to be up 11% on its September low. That said, at 68.2, the sub-index remains in extremely weak territory, more than 30pts below the 'neutral' level of 100.

Forward views on family finances show the clearest impact from the RBA's latest decision to pause. The sub-index tracking expectations for 'finances next 12 months' lifted 3.9% to 90.4, but rose nearly 10% for consumers with a mortgage, having plunged by over 15% in November. These readings again suggest the renewed rate rise fears that drove sentiment lower last month have only partially unwound.

Declining purchasing power rather than interest rate moves still looks to be the dominant driver of buyer sentiment. The 'time to buy a major household item' sub-index fell 3.8% to just 78.2, marking another exceptionally weak read. We now have nearly 600 monthly reads on this sub-index, going back to 1974. Calendar 2023 has seen five of the eight weakest reads in this history.

On the economy, the weak round of data updates looks to have weighed on near term expectations but consumers are less concerned about prospects beyond 2024. The 'economic outlook, next 12 months' sub-index declined 2.2% to 78.7, to be in line with the average read this year. However, the 'economic outlook, next five years' sub-index posted a solid 9.7% rebound to 94.9, bouncing back strongly from a 12-month low in November. That mix is consistent with the idea that the cost-of-living crisis and measures to bring inflation back under control will continue to weigh on the economy near term but are not expected to have a lasting negative impact over the medium to longer term.

Importantly, consumers remain relatively comfortable about the outlook for jobs. The Westpac-Melbourne Institute Unemployment Expectations Index dipped 1.2% to 128.9 in December, continuing to hover around the long-run average of 129 (recall that lower index reads mean more consumers expect unemployment to fall in the year ahead). The index remains consistent with a softening in labour market conditions rather than a sharp deterioration.

Housing-related sentiment measures saw small shifts in the month with the main picture still one of extreme tensions between stretched affordability and positive price expectations.

The 'time to buy a dwelling' index rose 1.6% in December to 74.3, still a very weak level by historical standards. That said, responses showed a sharp turnaround over the survey week – from an average index read of just 65.3 pre-RBA, to an average read of 78.2 post-RBA, up nearly 20%. For the month as a whole, the major states showed big lifts in buyer sentiment posted in Queensland (+16.5%) and NSW (+11.6%) but a more subdued gain in Victoria (+0.7%).

Consumers remain positive on the outlook for house prices. The Westpac Melbourne Institute House Price Expectations Index dipped only slightly, by 0.7% to 157.3. Two thirds of consumers still expect prices to rise further over the next 12 months. State indexes show choppier moves. Price expectations lifted strongly in Western Australia and firmed in South Australia. Consumers in these states are now the most upbeat on the price outlook. In contrast, expectations slipped notably in Victoria, where price growth looks to have stalled in recent months.

Consumer risk aversion remains very high, rising slightly between September and December. Updates on our 'wisest place for savings' questions, run every three months, show 'safe-haven' options and paying down debt continue to be heavily favoured. Over half of all consumers nominate either 'bank deposits' (38%) or 'pay down debt' (24%) as the wisest place for savings, both up slightly on September. For 'bank deposits' some of this will also reflect the improved interest returns on these assets as well as shifting assessments of risk appetite. Few consumers favour riskier options with just 7% nominating 'real estate' and 8% nominating shares.

The Reserve Bank Board next meets on February 5–6. Last week's National Accounts release showed decisively that the combined effect of monetary and fiscal policies is weighing on domestic demand and bringing it back in to balance with supply. The subdued growth profile and a particularly weak household sector – highlighted again in this month's consumer sentiment results – suggest there is now a higher bar to further macroeconomic policy tightening. That said, high inflation remains the RBA's primary concern, with the Board indicating it has a very low tolerance for any upside surprises on this front. As such, the next two months of inflation data and the detailed quarterly release out in late January will be critical to its policy decision in February.

Matthew Hassan, Senior Economist, Westpac Group

Consumer Sentiment – December 2023

Item	avg*	Dec 2021	Dec 2022	Nov 2023	Dec 2023	%mth	%yr
Consumer Sentiment Index	**100.8**	**104.3**	**80.3**	**79.9**	**82.1**	**2.7**	**2.2**
Family finances vs a year ago	88.5	89.0	66.3	64.4	68.2	5.9	2.9
Family finances next 12mths	106.9	111.2	87.3	87.0	90.4	3.9	3.5
Economic conditions next 12mths	90.7	104.9	73.9	80.5	78.7	-2.2	6.5
Economic conditions next 5yrs	92.0	110.4	90.2	86.5	94.9	9.7	5.2
Time to buy a major household item	124.9	105.9	83.8	81.3	78.2	-3.8	-6.7
Time to buy a dwelling	121.1	81.9	74.9	73.2	74.3	1.6	-0.8
Unemployment Expectations Index	129.0	104.1	117.9	130.4	128.9	-1.2	9.3
House Price Expectations Index	126.5	150.6	116.3	158.4	157.3	-0.7	35.3
Interest Rate Expectations Index	154.6	n.a.	183.3	174.6	159.3	-8.7	-13.1

Source: Westpac–Melbourne Institute.
*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

The survey is conducted by OZINFO & DYNATA. Respondents 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 4 December to 7 December 2023. 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.

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