

13 April 2022

## Inflation and interest rate concerns continue to weigh on sentiment

**The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 0.9% to 95.8 in April from 96.6 in March.**

This modest decline follows the sharp 4.2% fall in March. At that time concerns around interest rates and inflation were starting to weigh on confidence. These were compounded by Russia's invasion of Ukraine, an associated spike in petrol prices, and severe weather events.

Positive factors over the month that may have moderated the overall weakness included the Federal budget; further strength in the labour market; and a significant fall in petrol prices.

The April Index read is the lowest since September 2020, when COVID pandemic fears were dominating. Recall that prior to the pandemic the Australian economy was lacklustre, weighed down by persistently low wages growth and a cautious consumer. In fact, the average print for the Index in the six months before the pandemic was 95.3 – in line with the current level.

Last month's detail pointed to geopolitics, floods, inflation, and interest rates as the key explanations for the sharp fall in the Index. There is further evidence that interest rates; inflation and weather continued to unnerve consumers in the current survey.

Confidence amongst respondents with a mortgage fell by 9.2% in April amid concerns that the Reserve Bank will be raising the cash rate earlier than previously expected and at a faster pace. Responses to a separate question on mortgage rate expectations show that 70% of consumers expect rates to rise in the next 12 months, up from 67% last month. However, there has been a notable lift in the proportion of consumers expecting rates to increase by more than 1ppt, from 30% in March to 36% in April.

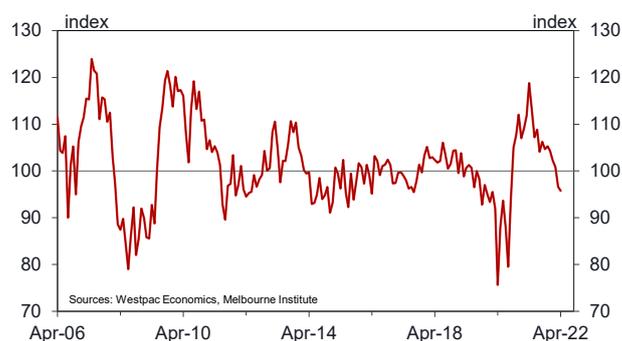
Notably, the prospect of interest rate rises may have buoyed sentiment across some sub-groups that stand to benefit. Confidence posted significant gains amongst those aged over 65 (+7%) and amongst freehold homeowners (+5.5%). These are segments without large mortgage debts that are also more likely to depend on interest incomes.

Further evidence of the impact of inflation on confidence came from the 5.3% fall in the 'time to buy a major household item' sub index. This index is now 22% below its long-term average and has fallen by 10.7% in the last six months. The weakening has been broadly based, across nearly all of the thirty-odd sub-groups we monitor (including age; income; and vocation). This is a strong indication that the decline is being driven by a broad-based factor such as rising prices.

The geographic detail also showed more pronounced declines in areas affected by recent flooding with wet weather continuing through March and early April. Confidence indexes covering regional NSW and regional Queensland both recorded double-digit declines in the latest month.

The Federal Budget was announced by Treasurer Frydenberg in the week prior to the April survey. Since 2010 we have asked consumers about the expected impact of the Budget on their finances over the next 12 months. Apart from the two

### Consumer Sentiment Index



Budgets handed down during the pandemic – both of which provided generous policy support measures – the proportion of respondents reporting 'worsen' has always outnumbered those reporting 'improve'.

The latest Budget has seen a return to that pattern with the proportion expecting to be worse off again larger than the proportion expecting an improvement with a 'net balance' of -7.2%. That should be seen by the Government as a relatively satisfactory result given that it is in line with the response to the Budget in 2019 (-7.4%), better than the net balance of responses in 2018 (-9.1%) and 2016 (-9.8%), and far less negative than the response to the other Budgets in 2010 to 2017 which ranged between -17% (2010) and -56% (2014).

The sub-group detail suggests some of the 'cost of living' measures in the Budget were relatively well-received. Those in lower income groups reported better Budget assessments than in 2021 and most 18-24 year olds (a segment known to be particularly sensitive to high fuel costs) viewed the Budget as a positive.

The temporary halving in excise duty announced on Budget night has seen average pump prices fall 23c to \$1.54/litre in early April, from \$1.78/litre during the last survey.

The overall sentiment Index posted a strong gain amongst those on low incomes (+7.6%). The Budget likely played an important role in this response with one-off tax relief and cost of living payments for pensioners and beneficiaries providing targeted support for low and middle income households.

Budget reactions also had a clear impact on wider sentiment across different voter groups. Confidence amongst Coalition voters lifted by 7.6% while ALP supporters showed a fall of 5.5%.

The component detail showed that interest rate and inflation concerns weighed on assessments of finances although there was some improvement in expectations for the economy.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

The 'finances compared to a year ago' sub-index showed the most significant weakening, down 4.8% in the month to 79.3, well below the long run average of 89 and the weakest read since the pandemic. Near term expectations for finances are more positive and more resilient. The 'finances, next 12 months' sub-index dipped only 0.9% and remained in 'net positive' territory at 105.1.

Consumer views on the economy improved, particularly for the near-term outlook. The 'economy, next 12 months' sub-index posted a solid 5.8% recovery to 95.9, albeit still down on its level in February. The 'economy, next 5 years' sub-index rose 1% to 100.3 but was also below its level two months ago.

The labour market remains a strong cornerstone for confidence. The Westpac-Melbourne Institute Unemployment Expectations Index improved 2.5% in April. The index read of 99.2 is the second lowest level since the mid-1990s (lower reads mean more consumers expect unemployment to fall rather than rise).

With the unemployment rate already at 4% and job vacancies holding near record levels, Australia's labour market is clearly tight. Westpac recently lowered its forecast for the unemployment rate by year's end to 3.2% – almost uncharted territory for Australia which has not seen unemployment rates materially below 4% in the best part of 50 years.

Conditions in the housing market were mixed in April. Buyer sentiment held steady at weak levels. Price expectations showed a further softening while remaining in positive territory overall.

The 'time to buy a dwelling' index nudged 0.5% higher but was coming off a 14-year low in the previous month and around 40% below its most recent peak in November 2020. High prices, rising fixed mortgage rates and the expectation of rises in variable mortgage rates continue to weigh on affordability and confidence in the housing sector.

The Westpac-Melbourne Institute House Price Expectations Index fell by 3.5% to 134.1. Most consumers still expect prices to rise over the next 12 months but the view is becoming less widespread. At the index peak of 163.9 a year ago, 70% of consumers expected prices to rise. Today that proportion has declined to a little over half (54.5%).

Notably, the balance has tipped a lot further in NSW and Victoria with state index reads in the low 120s and less than half of consumers in these states expecting prices to rise in the year ahead. Both state indexes recorded sizeable falls in April: NSW is down 9.5% and Victoria by 12.3%. That follows recent updates showing prices in Sydney and Melbourne have flat-lined since late last year.

The Reserve Bank Board next meets on May 3. Last week Westpac brought forward its forecast for the first rate increase in the cycle from August to June following the Governor's Statement after the April Board meeting. The Board is no longer emphasising 'patience'. In fact, the Governor emphasised that the Board will be reviewing the data releases "over coming months" – phrasing that points to a June lift off.

This guidance seems to rule out the prospect of a rate increase as early as the May Board meeting although markets are certainly discussing that prospect.

Once the tightening cycle begins, we expect a series of rate hikes in most months in 2022 with a pause in September by which time the emergency cuts from 2020 will have been reversed. Further increases can be expected in the first half of 2023 as wage pressures threaten the outlook for inflation. We expect the cash rate to peak around 2% in the cycle by June next year.

**Bill Evans**, Chief Economist, ph (61-2) 8254 8531

## Consumer Sentiment – April 2022

Item	avg*	Apr 2020	Apr 2021	Mar 2022	Apr 2022	%mth	%yr
<b>Consumer Sentiment Index</b>	<b>101.4</b>	<b>75.6</b>	<b>118.8</b>	<b>96.6</b>	<b>95.8</b>	<b>-0.9</b>	<b>-19.4</b>
Family finances vs a year ago	89.3	70.4	103.5	83.3	79.3	-4.8	-23.3
Family finances next 12mths	107.5	90.9	117.6	106.0	105.1	-0.9	-10.7
Economic conditions next 12mths	91.1	53.7	125.5	90.6	95.9	5.8	-23.6
Economic conditions next 5yrs	92.0	87.0	123.8	99.3	100.3	1.0	-19.0
Time to buy a major household item	126.4	76.2	123.4	103.7	98.2	-5.3	-20.4
Time to buy a dwelling	118.1	82.1	107.2	78.3	78.7	0.5	-26.5
Unemployment Expectations Index	129.6	158.1	118.4	101.8	99.2	-2.5	-16.2
House Price Expectations Index	126.8	69.7	163.9	139.0	134.1	-3.5	-18.2

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 April to 7 April 2022. 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.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

© Copyright 2022 Westpac Banking Corporation

## Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

### Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing [customer@xylo.com.au](mailto:customer@xylo.com.au).

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

### Disclaimer continued overleaf

## Disclaimer continued

Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

## Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- I. Chinese Wall/Cell arrangements;
- II. physical separation of various Business/Support Units;
- III. Strict and well defined wall/cell crossing procedures;
- IV. a “need to know” policy;
- V. documented and well defined procedures for dealing with conflicts of interest;
- VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.