

13 December 2022

Consumer sentiment bounces off near record lows

- **Consumer Sentiment lifts by 3.0% but still near recession lows.**
- **Inflation and the state of the economy remain households' key concerns.**
- **Pessimism eases as the bulk of the tightening cycle now behind us.**
- **Confidence across 'mortgage belt' up 11%, coming off all-time lows.**
- **Consumer House Price Expectations jump 27%.**
- **Job confidence stabilises after 17% deterioration through Oct-Nov.**
- **Households still deeply risk averse: bank deposits and debt reduction heavily favoured over shares and real estate.**

The Westpac Melbourne Institute Consumer Sentiment Index increased by 3%, from 78.0 in November to 80.3 in December.

Despite this welcome lift the level of the Index remains comparable with the lows seen during the COVID pandemic and the Global Financial Crisis. December's 3% rise follows a disastrous 6.9% drop in November that saw the Index collapse to just 78 – one of the weakest reads recorded outside of a recession.

In this survey we ask households about the news items that most caught their attention. The key topics have not changed since we last asked in September, namely: 'inflation'; 'budget and taxation'; 'economic conditions' and 'interest rates.'

In particular, the dominance of 'inflation' remains very clear with 58% of respondents recalling news on this topic compared to 37% for 'budget and taxation'; 35% for 'economic conditions' and 23% for 'interest rates.'

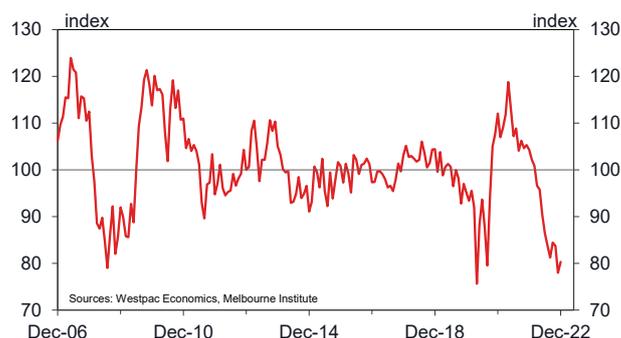
Respondents assessed the news across these categories as negative, with inflation and the state of the economy drawing the most concern.

At least there has been no further deterioration since the September survey and, in the case of interest rates, there are even some signs that the news is becoming viewed as slightly less negative – consistent with the notion that the bulk of the interest rate tightening cycle is now behind us.

This idea may also be behind a notable recovery in confidence more generally amongst those respondents who hold a mortgage – up 11.3% in the month compared to a 3.8% rise for tenants and a 2.7% fall amongst those who wholly own their property.

When we asked respondents about the outlook for interest rates 50% of those surveyed after the RBA's December decision expected the cash rate to increase by a further 1ppt or more over 2023. That is down from 60% in November and a peak of 73% in July.

Consumer Sentiment Index



This shifting view on interest rates most likely contributed to a surprising lift in the outlook for house prices. The Westpac Melbourne Institute House Price Expectations Index surged by 27.6% from 91.1 to 117.3. The jump was prominent across all the major state housing markets.

The index components also showed a notable lift in confidence around the outlook for finances. The 'family finances, next 12 months' sub-index lifted by an impressive 6.9%, while the 'family finances vs a year ago' sub-index fell by 0.9%.

Consumers' medium-term outlook for the economy also lifted. The 'economy, next 5 years' sub-index increased by 5.2%. That compares to a 0.4% dip in the 'economy, next 12 months' sub-index.

There was also a 3% lift in the 'time to buy a major household item' sub-index.

The sub-group detail also showed some 'secondary' themes. Big sentiment rises in regional Queensland and amongst those working in the 'recreational services' sector suggest external border reopening is starting to see the tourism sector flourish again. Likewise, a jump in sentiment amongst those in the education sector may also be a sign that the return of international students is working its way through. However, sentiment fell amongst those on very low incomes and in older age groups. Rising cost of living pressures are still clearly a pressing concern for vulnerable consumers.

Consumers remain relatively confident about labour market prospects. The Westpac Melbourne Unemployment Expectations Index had shown an unsettling rise over the previous two surveys with a sharp 17.8% increase, albeit to what was still a relatively confident level of 8.8% below the long run average (recall that the index measures expectations for the unemployment rate so an increase implies fading confidence in the labour market). The index stabilised in December, allaying fears that the October-November move might be the beginning of a sustained deterioration in labour market conditions.

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.

Consumers continued to view this as a poor time to buy a dwelling, despite the sharp mark up in house price expectations. The 'time to buy a dwelling' index fell 2.9% to 74.9, holding near cycle lows. The index has been stuck in the deeply pessimistic 75 to 80 range for the last six months and remains 43% below its most recent peak in November 2020. Affordability is a key driver of this index. The prospect of high prices is not always positive, particularly when interest rates are expected to move higher as well. The combination looks to be keeping homebuyer sentiment firmly in the doldrums.

Consumer risk aversion also remains intense more generally. Updates on our 'wisest place for savings' questions, run every three months, show safe or defensive options remain heavily favoured, 34% of consumers nominating 'bank deposits', and 21% nominating 'pay down debt'. Meanwhile very few consumers favour riskier options, only 8% nominating 'real estate' and 7% nominating shares.

The Reserve Bank Board next meets on February 7. The December survey results show inflation concerns remain high amongst consumers and are not abating despite higher interest rates and a deteriorating economic outlook.

We have also seen a sharp improvement in the outlook for house prices; a lift in confidence amongst respondents with a mortgage; and a significant improvement in consumers' outlook for their finances.

These would be noticed by a central bank whose priority is to contain inflation pressures and inflationary expectations by constraining demand. But they are very early signals and would not be seen as definitive for policy.

Over the next two months, before the February 7 Board meeting, the Board will get further information on the economy's progress, including with respect to inflation and the labour and housing markets.

We expect that the Board will continue to deliver on its strong tightening bias; raise the cash rate by 0.25ppts at the February Board meeting and signal that there is still more work to be done.

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

Consumer Sentiment – December 2022

Item	avg*	Dec 2020	Dec 2021	Nov 2022	Dec 2022	%mth	%yr
Consumer Sentiment Index	101.2	112.0	104.3	78.0	80.3	3.0	-23.0
Family finances vs a year ago	89.0	96.1	89.0	66.9	66.3	-0.9	-25.5
Family finances next 12mths	107.2	108.9	111.2	81.7	87.3	6.9	-21.5
Economic conditions next 12mths	91.0	111.9	104.9	74.2	73.9	-0.4	-29.6
Economic conditions next 5yrs	92.0	121.1	110.4	85.8	90.2	5.2	-18.3
Time to buy a major household item	125.8	122.2	105.9	81.4	83.8	3.0	-20.9
Time to buy a dwelling	117.1	124.2	81.9	77.1	74.9	-2.9	-8.5
Unemployment Expectations Index	129.3	106.3	104.1	117.3	117.9	0.5	13.3
House Price Expectations Index	126.8	143.7	150.6	91.1	116.3	27.6	-22.8
Interest Rate Expectations Index	150.1	n.a.	n.a.	186.0	183.3	-1.4	n.a.

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 5 December to 8 December 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.

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. 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.

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.