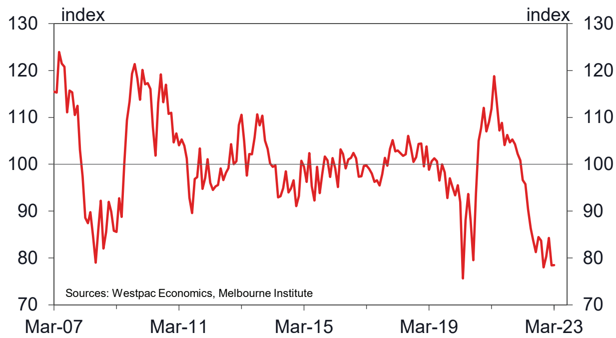
BULLETIN

14 March 2023

Consumer sentiment holds near 30-year lows

- **Westpac-Melbourne Institute Consumer Sentiment unchanged at 78.5 in March.**
- **Prospects for sales of major household items particularly bleak.**
- **Sentiment amongst renters takes a tumble.**
- **Confidence in the labour market starting to wane.**
- **Areas of most concern remain: inflation; interest rates; and the economy.**
- **Homebuyer sentiment drops sharply, to its weakest level since 1989.**
- **Surprisingly there has been an 8.6% lift in house price expectations.**

Consumer Sentiment Index



The Westpac Melbourne Institute Consumer Sentiment Index was unchanged at 78.5 in March, holding near historical lows.

This marks the second consecutive month of extremely weak consumer sentiment. Index reads below 80 are rare, back-to-back reads even rarer. Indeed, both the COVID shock and the Global Financial Crisis saw only one month of sentiment at these levels. Runs of sub-80 reads have only been seen during the late 1980s/ early 1990s recession and in the 'banana republic' period of concern in 1986, when the Australian dollar was in free-fall after the Federal government lost its triple-A rating", Mr Evans commented.

An emerging area of particular concern is the outlook for sales of major household items. The 'time to buy a major household item' sub-index fell 4% to 74.9 in March, following a 10% fall last month. Apart from two brief tumbles during the Global Financial Crisis, both monthly falls that were quickly reversed, this is the lowest read on this component in the history of the survey going back to 1974 – weaker than the poorest reads during the recessions of the mid 1970s, the early 1980s and the early 1990s.

In this survey we ask households about the news items that most caught their attention. The key topics are largely unchanged since we last asked in December, with 'inflation'; 'economic conditions'; 'budget and taxation'; 'interest rates' and 'employment' again dominating.

We continue to see particularly high reads on 'inflation' news with 58% of respondents recalling news on this topic compared to 37% for 'economic conditions', 35% for 'budget and taxation'; 30% for 'interest rates' and 20% for 'employment'.

In almost all cases, respondents assessed the news as more negative than in December. Around 85% of respondents – an overwhelming majority – viewed the news on inflation, interest rates and the economy as unfavourable. That compares to around 80% in December for inflation and the economy, with a sharper deterioration from 72% for interest rates.

Interest rates were also a clear factor continuing to weigh on confidence in the month. The RBA raised the official cash rate by a further 0.25ppts at its March meeting, the announcement coming mid-way through the survey week. Interestingly, the March move appears to have been more widely anticipated by consumers with little difference in sentiment amongst those surveyed before the decision and those surveyed after.

Most consumers continue to expect further rate rises. Amongst those surveyed after the RBA decision, 74% expect rates to move higher over the next year with 45% expecting a rise of 1ppt or more – down only slightly from 80% and 53% respectively in the February survey. This 45% proportion seems excessive given that the Governor has discussed the prospect of a pause. Westpac and markets are not looking for further increases of more than 0.5ppt. Consumers may become less negative as current fears of a more threatening interest rate outlook ease.

The index components showed a deterioration in expectations for family finances and the economy over the year ahead, and in assessments of whether now is a good time to buy a major household item. Assessments of finances versus a year ago improved a touch, but from a very weak starting point, and expectations for the economy over the next five years lifted significantly. The net effect left sentiment unchanged overall.

The 'family finances vs a year ago' sub-index rose 2.2% in March but was coming off a big 8% drop in February, which was the weakest reading since the depths of the early 1990s recession. At 63.4, the sub-index is only marginally higher than last month's 62.1. Notably, whereas last month's very weak read centred on households with a mortgage, the March update was particularly weak for consumers that rent, with a dire sub-index read of just 56.9, down 14.7% since February.

The 'family finances, next 12 months' sub-index recorded a 1.8% fall to 85.3. Renters again stood out, with expectations for family finances in this sub-group dropping nearly 10% in the month.

The 'economic outlook, next 12 months' sub-index declined 2.3% to 73.3, the weakest read since August 2020, when Victoria entered its 'second wave' COVID lock-down.

Interestingly, the ‘economic outlook, next five years’ sub-index posted a solid 5.6% lift to 95.3. The sub-index continues to hold at more resilient levels than other components, the March rise putting it a touch above its long run average.

As noted, attitudes towards major household purchases continued to slump. The ‘time to buy a major household item’ sub-index fell a further 4% in March, following on from a 10% plunge last month to just 74.9, a dire read by historical standards.

Confidence around jobs has been a lone positive feature in an otherwise bleak consumer landscape over the last year but continues to show signs of weakening in 2023. The Westpac-Melbourne Institute Unemployment Expectations Index rose a further 2.9% in March, having jumped 10.6% in February (recall that higher index reads mean more consumers expect unemployment to rise in the year ahead). At 122.9, the index is still below the long run average of 129 but there does look to be a shift afoot.

For housing, interest rate rises have again taken their toll. The ‘time to buy a dwelling’ index fell 11.1% to an extreme low of just 65.7, making a decisive break out of the 75–80 range that has largely prevailed since March last year. Incredibly, this is the weakest read on buyer sentiment since September 1989, when standard variable mortgage rates were 17%.

Some of the fall in buyer sentiment may also reflect concerns that prospects of a price-led improvement in affordability are fading. Consumer expectations for house prices continue to lift. Despite the latest rise in interest rates and expectations of more to come, the Westpac Melbourne Institute House Price Expectations Index posted a robust 8.6% rise in March, reaching an eleven-month high. At 111.7, the index is now firmly in ‘net positive’ territory (index reads above 100 mean more respondents expect prices to increase than decline over the next 12 months), although still below the long run average of 127.

The state detail shows the mix of falling buyer sentiment and rising price expectations was particularly pronounced in NSW and Victoria.

Consumer risk aversion has intensified in early 2023. Updates on our ‘wisest place for savings’ questions, run every three months, show consumers continue to gravitate strongly towards safe or defensive options. Over a third nominate ‘bank deposits’, and nearly a quarter nominate ‘pay down debt’ as the best options (accounting for 55% of consumers on a combined basis). Meanwhile very few consumers favour riskier options. Remarkably, just 5% nominate ‘real estate’ – an all-time low on readings back to 1974 – and 9% nominate shares. A sizeable proportion of consumers are just at a loss as to the wisest place, over 8% simply stating ‘don’t know’.

The Reserve Bank Board next meets on April 4. Following the Board meeting in February the Governor gave a clear signal that he expected to raise rates at least twice more in the near term. Most analysts, including Westpac, adjusted their forecasts to accommodate increases in both March and April (Westpac had previously expected a pause in April).

But following the weaker-than-expected prints for wages growth and economic activity in the December quarter, and a soft inflation report for January, the Governor has now opened the door to a potential pause in April.

Whether that pause eventuates will be determined by upcoming data on employment; inflation; spending and confidence. Westpac will assess this data before deciding whether to change our current call for a 0.25ppt increase in April.

Regardless, we will maintain our forecast of a 0.25ppt increase in May, when the Bank will have reviewed its forecasts particularly in the light of the March quarter inflation report. That report is expected to show that the Bank’s task of returning inflation to the 2–3% band remains formidable

Bill Evans, Chief Economist, Westpac Group

Consumer Sentiment – March 2023

Item	avg*	Mar 2021	Mar 2022	Feb 2023	Mar 2023	%mth	%yr
Consumer Sentiment Index	**101.1**	**111.8**	**96.6**	**78.5**	**78.5**	**0.0**	**–18.8**
Family finances vs a year ago	88.9	91.3	83.3	62.1	63.4	2.2	–23.9
Family finances next 12mths	107.1	111.6	106.0	86.8	85.3	–1.8	–19.6
Economic conditions next 12mths	90.9	113.8	90.6	75.1	73.3	–2.3	–19.1
Economic conditions next 5yrs	92.0	118.9	99.3	90.3	95.3	5.6	–4.0
Time to buy a major household item	125.6	123.7	103.7	78.0	74.9	–4.0	–27.8
Time to buy a dwelling	116.7	116.4	78.3	73.9	65.7	–11.1	–16.2
Unemployment Expectations Index	129.2	112.0	101.8	119.4	122.9	2.9	20.8
House Price Expectations Index	126.8	159.5	139.0	102.9	111.7	8.6	–19.6
Interest Rate Expectations Index	152.2	n.a.	181.2	187.0	180.3	–3.6	–0.5

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 6 March to 10 March 2023. The data have been weighted to reflect Australia’s population distribution.

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