

13 February 2024

## Consumer sentiment lifts off lows

- **Westpac Consumer Sentiment Index up 6.2% to 86, a twenty-month high.**
- **Lift driven by sentiment towards major purchases and year-ahead expectations.**
- **Cooling inflation and improving outlook for rates look to be underlying drivers.**
- **Rally 'checked' by cautious RBA comments following its February meeting.**
- **Re-jigged Stage 3 tax cuts also a positive but a more uneven one.**
- **Consumer mood remains pessimistic despite latest gain.**

**The Westpac Melbourne Institute Consumer Sentiment Index rose 6.2% to 86 in February, from 81 in January. This is the biggest monthly gain since April last year, when the RBA paused its rapid series of interest rate rises, and takes the index to its highest level since June 2022.**

While sentiment is still firmly pessimistic there finally looks to be some light at the end of the tunnel for Australian consumers. Moderating inflation and shifting expectations for interest rates appear to be the main factors behind the lift, with some additional support coming from the prospect of broader income tax cuts later in the year. That said, responses over the course of the survey week suggest the rally is still very tentative with a sharp pull-back amongst those surveyed after the RBA's February policy decision.

All five component sub-indices recorded gains in February, led by big improvements in buyer sentiment and expectations for the economy over the year ahead.

The 'time to buy a major household item' sub-index surged 11.3% to 86.8. This sub-index has been the main one to capture the impact of intense cost-of-living pressures over the last two years, with six of the weakest monthly reads on record. While the sub-index remains a long way below its historical average of 124.7, the February gain is the most promising sign yet that these pressures are finally starting to ease.

The component detail also shows a clear improvement in the near-term outlook.

On the economy, the 'economic outlook, next 12 months' sub-index rose 8.8% to 88.9, the highest reading since May 2022. Medium to longer term expectations also improved, with the 'economic outlook, next 5 years' sub-index rising 4.4% to 93.

Expectations for family finances also rose but the picture here looks to be more nuanced. Overall, the 'finances, next 12 months' sub-index only posted a fairly muted 2.4% rise to 95.3. However, the sub-group detail suggests the mixed result was due to differing reactions to recently announced changes to the Stage 3 tax cuts. It shows solid gains amongst consumers

### Consumer Sentiment Index



in middle income bands that will now see tax relief, contrasted with declines amongst consumers in higher income bands that are set to see smaller gains than had previously been planned.

Meanwhile, current conditions still point to intense pressures bearing down on family finances. The 'finances compared to a year ago' sub-index posted a 4.9% gain but at 66.1 remains at extremely weak levels.

Responses over the survey week show a sharp turnaround mid-week, following the announcement of the RBA Board's February policy decision. Those surveyed prior to the decision recorded a sentiment index read of 94.1. Those surveyed post the decision recorded a sentiment read of just 80. The 15% swing is on a par with some of the biggest pre and post-RBA deteriorations seen when the Bank was still actively raising interest rates in mid-2023.

While the RBA Board's decision to leave the cash rate unchanged in February was widely expected, the pull-back in sentiment suggests many consumers were hoping for a more positive tone – perhaps a clearer indication that inflation was coming back under control and that interest rates may, in time, move lower. Instead, the RBA Governor's decision statement and subsequent commentary described the inflation situation as still evolving and was explicit in not ruling out the possibility of further interest rate increases.

Interestingly, despite this sharp retracement in sentiment amongst those surveyed after the RBA decision, consumers' interest rate expectations for the year ahead were relatively unchanged and significantly more benign than in January. The Westpac-Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, declined 17.3% to 121.6 – the lowest reading since August 2020, when the COVID pandemic was still in full swing. Just under 44% of consumers expect rates to be the same or lower over the year ahead, up from 33% in January, 25% in December and 17.5% in November, when the RBA last delivered an interest rate increase. Around 42% expect rates to move higher with the remaining 14% reporting "don't know".

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Consumers remain relatively calm about the outlook for jobs. The Westpac-Melbourne Institute Unemployment Expectations Index declined 2.9% in February to 126.9, a nine month low (recall that a lower index means more consumers expect unemployment to fall in the year ahead). The index continues to hold just below its long run average of 129, consistent with the softening in labour market conditions seen over the second half of 2023 but suggesting consumers have few fears of job loss.

Housing-related sentiment also improved in February but continues to show a stark gap between negative buyer attitudes and positive price expectations.

The 'time to buy a dwelling' index rose 3% to 74.2, the gain reversing a similar-sized dip last month and leaving the index in what is still a very weak 72-76 range. Buyer sentiment posted a bigger rally in Victoria (+13.9% to 78.1) and in Western Australia (+21% to 87.2) but weakened sharply across regional areas (-14% to 64). Consumers the own investment properties are the only sub-group that have an outright positive view on 'time to buy a dwelling' with a reading of 106 compared to sub-100 reads across all of the other 54 sub-groups we track.

House price expectations rose to a new cycle high in February. The Westpac Melbourne Institute Index of House Price Expectations nudged 2.1% higher to 161.4. Just under 69% of consumers expect prices to continue rising in the year ahead.

Notably, housing-related sentiment showed a bigger pull-back over the course of the survey week, with buyer sentiment dropping 12% and house price expectations declining 3.4% between pre and post-RBA samples.

The Reserve Bank Board next meets on March 18-19. We expect the Board to again leave the official cash rate unchanged, provided inflation continues to track in line with expectations.

The continued weak level of sentiment, especially around assessments of current finances, points to consumer demand remaining weak in the near term. However, the detail shows tentative signs that cost-of-living headwinds may be starting to ease. It also suggests that sentiment could bounce back quite strongly if an expected pivot to rate cuts is 'franked' by RBA messaging. All up, this is quite a positive mix for the Bank, suggesting that demand will continue to assist in bringing inflation down and that, if and when it eventually sees scope to ease policy, rate cuts will be effective in restoring sentiment and supporting demand.

**Matthew Hassan, Senior Economist, Westpac Group**

## Consumer Sentiment – February 2024

Item	avg*	Feb 2022	Feb 2023	Jan 2024	Feb 2024	%mth	%yr
<b>Consumer Sentiment Index</b>	<b>100.7</b>	<b>100.8</b>	<b>78.5</b>	<b>81.0</b>	<b>86.0</b>	<b>6.2</b>	<b>9.6</b>
Family finances vs a year ago	88.4	86.8	62.1	63.0	66.1	4.9	6.6
Family finances next 12mths	106.8	106.4	86.8	93.0	95.3	2.4	9.7
Economic conditions next 12mths	90.7	97.1	75.1	81.8	88.9	8.8	18.5
Economic conditions next 5yrs	92.0	105.2	90.3	89.1	93.0	4.4	3.0
Time to buy a major household item	124.7f	108.6	78.0	78.0	86.8	11.3	11.2
Time to buy a dwelling	120.9	84.9	73.9	72.0	74.2	3.0	0.4
Unemployment Expectations Index	129.0	102.8	119.4	130.7	126.9	-2.9	6.3
House Price Expectations Index	126.5	155.8	102.9	158.1	161.4	2.1	56.8
Interest Rate Expectations Index	153.9	177.2	187.0	147.0	121.6	-17.3	-35.0

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 February to 9 February 2024. 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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