

17 February 2012

Australian consumers unsure which way mortgage rates heading next

38% say 'up'; 33% say 'down'; 23% say 'nowhere' and 6% have no idea

- Australian consumers are highly uncertain about which way mortgage rates are heading over the next year. The strong consensus that rates were moving higher that was apparent in August last year has been replaced with a more tentative mix of those expecting rises and falls, with a significant proportion expecting no change at all and a notable rise in those saying they simply don't know.
- The Feb **Westpac-Melbourne Institute Consumer Sentiment** survey repeated an extra question about expectations for mortgage rates over the next 12 months. The survey found that, of those with an opinion, 41% expect rates to move higher, 35% expect them to move lower and 24% expect no change. Just over 6% of all consumers surveyed said they had no opinion at all. That compares to the same survey in Aug which showed a resounding majority (73%) expecting more rate rises and is the first survey to show no clear consensus on rates since we began running the question in Feb 2010.
- There are two parts to this more mixed range of views: uncertainty about which way the RBA will take official rates, and uncertainty about the potential for mortgage rate increases independent of official rate moves. That said, the latter remains only a marginal influence on mortgage rate changes year to year with official cash rates still the overwhelming driver.
- Forward views on official rates were significantly impacted by the RBA's surprise decision to leave rates unchanged at its Feb meeting which came despite widespread expectations of a further 25bp rate cut. Over 41% of consumers surveyed prior to the decision expected rate cuts with just 31% expecting rises. Post-decision that flipped around to 30% calling cuts and 48% calling rises, just short of an outright majority.
- The survey detail showed particularly sharp mark-downs in rate views for consumers in NSW, Vic and SA with the latter the most dovish on rates. Those with mortgages and those in the 35-49 year old age groups were also more dovish. The most hawkish rate interest views were amongst Qld'ers, where one in five expect rates to rise by more than 1%, over the next year and amongst women and renters.
- The slight hawkish tilt to consumers' interest rate expectations is in contrast with futures markets which are currently pricing 45bps in easing by July. Westpac expects a 50bp rate reduction by July.
- The shift in rate views pre- and post-RBA decision mirrors a similar downshift in overall consumer sentiment which was 4.2% lower amongst those surveyed after the decision than those surveyed before. The tail-end of the survey indicates a somewhat more hawkish/downbeat mood going forward.

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Consumer mortgage rate expectations – Feb 2012*

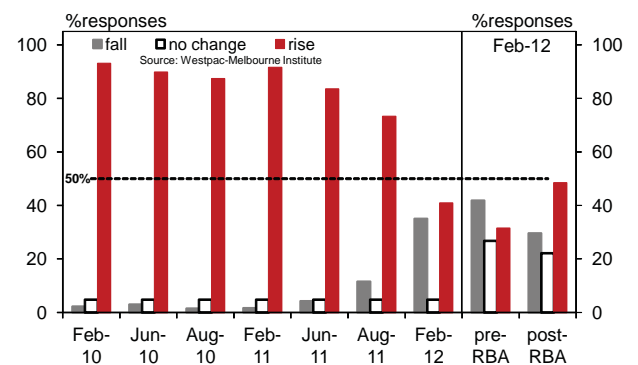
	% responses expecting:					net%	
	Rise		no change		Fall	exp rise [^]	
	>1%	0-1%	change	0-1%	>1%	Aug-11	Feb-12
Aus	17.5	23.3	24.2	29.0	6.0	61.7	5.8
NSW	16.3	22.4	22.3	33.8	5.1	62.9	-0.1
Vic	19.9	22.2	23.6	27.3	7.1	59.9	7.7
Qld	20.4	23.8	29.7	21.4	4.6	62.0	18.3
SA	9.8	21.0	27.2	40.3	1.7	66.3	-11.2
WA	18.0	31.1	14.4	23.7	12.8	51.0	12.6

*Figures exclude those reporting "no opinion".

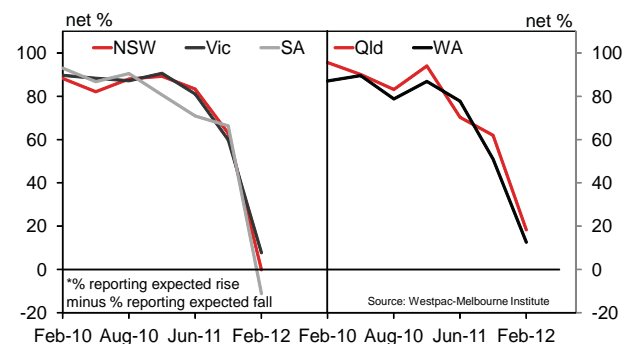
[^]% expecting a rise minus % expecting a fall.

Source: Westpac-Melbourne Institute

Consumer expectations for mortgage rates

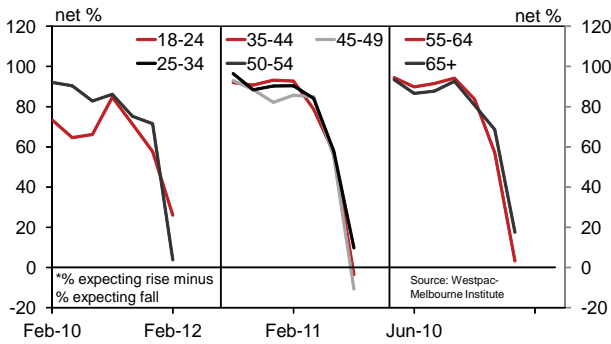


Interest rate expectations by state

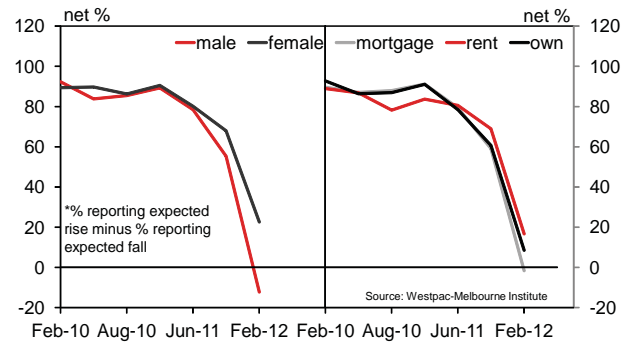


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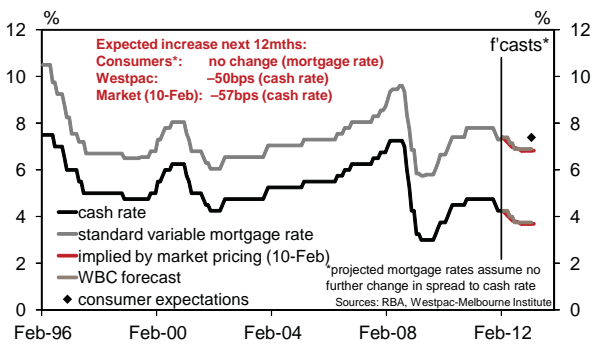
Interest rate expectations by age group



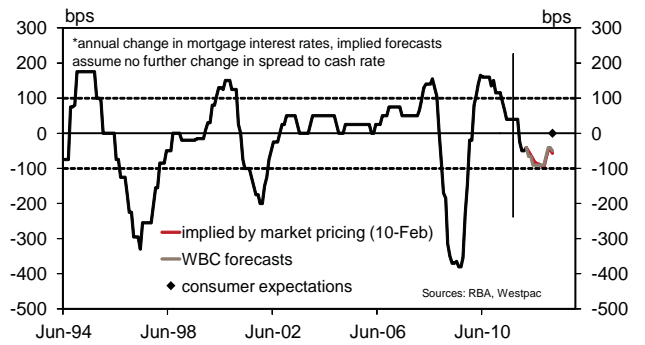
Interest rate expectations: selected groups



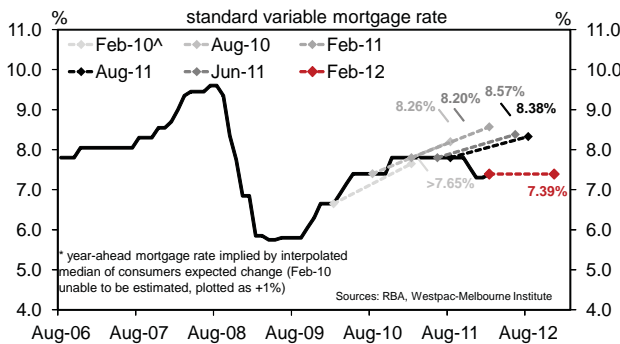
Interest rate expectations



Annual change, mortgage interest rates



Interest rate expectations: history



Interest rate vs inflation expectations

