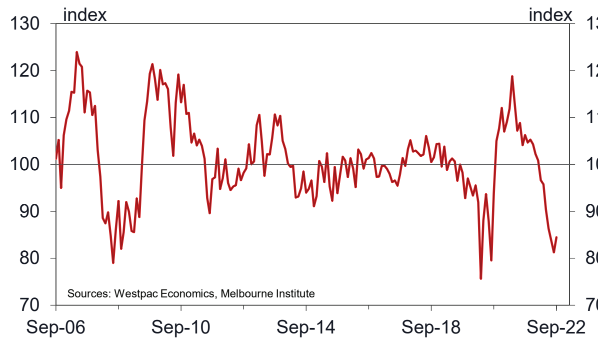
BULLETIN

13 September 2022

Consumer Sentiment off lows but still very weak

- **Consumer Sentiment up 3.9% but at 84.4 remains near historic lows.**
- **Labour market confidence preventing further falls.**
- **Even after the RBA's latest hike, 57% still expect rates to rise by 1% or more.**
- **'Time to buy a dwelling' index up 2.9% but still very weak.**
- **House Price Expectations lift 3.6%, gains centred on NSW and Victoria.**
- **Queenslanders most pessimistic on house price outlook.**
- **Safe-havens – deposits, 'pay down debt' – still heavily favoured.**

Consumer Sentiment Index



The Westpac Melbourne Institute Index of Consumer Sentiment rose by 3.9% from 81.2 in August to 84.4 in September.

This is the first increase in the Index since November 2021.

The improvement is a little surprising, especially given continued sharp rises in the cost of living and the RBA's decision during the survey week to make another 50bp increase in the official cash rate.

Consumers may be a little less fearful, but confidence remains very weak. Index reads in the 80-85 range mean pessimists still greatly outnumber optimists. As noted previously, we have only seen sentiment at these low levels in the past during recessions or major economic disturbances such as the COVID pandemic or the Global Financial Crisis (GFC).

In fact, the only sustained periods of sub-80 reads have been during the long, deep recession of the early 1990s and the short-sharp recession of the early 1980s. Even the massive dislocations of COVID and the GFC only saw the Index dip below 80 for a single month before quickly 'recovering' to less dire (but still very pessimistic) levels.

The main point of difference between current weak reads and the extreme sentiment lows seen during historical recessions looks to be around labour markets. The sustained sub-80 reads in the early 1980s and early 1990s both occurred when economic downturns were driving sharp rises in the unemployment rate, ultimately taking the rate well above 10% in both cases. That compares to the situation now where the unemployment rate is pushing 50-year lows and labour shortages are widespread.

This contrast shows through very clearly in consumer sentiment around jobs. Despite intense pessimism more generally, consumers are still remarkably upbeat about labour market prospects. Our main survey measure of this – the Westpac Melbourne Institute Unemployment Expectations Index – dipped below 100 again in September, meaning more consumers expect unemployment to fall rather than rise over the next 12 months. This compares to average reads around 160 when wider sentiment recorded extreme lows in the early 1980s and early 1990s recessions – current confidence around jobs is 60% better than during those dark days.

The current weakness in Consumer Sentiment is still deeply troubling. The September rise might be heralded as the likely start of a sustained revival. As welcome as that would be, it seems premature given ongoing challenges, especially around inflation, and prospects of further interest rate rises. History instead suggests confidence may be reaching something of a natural floor – a deeply pessimistic level but stopping short of the despair that can take hold when a deep recession causes widespread upheaval in labour markets.

Confidence is only likely to see sustained gains once there is convincing evidence that the inflation threat is easing and the relentless rise in interest rates is nearing an end.

There look to be some hints of this sensitivity in the September improvement.

The last two months have seen a significant fall in petrol prices, down from averaging over $1.90/litre in early July to $1.55/litre during the September survey, a 17.5% decline. Petrol price moves have an immediate impact on budgets and are often seen as a bellwether for wider inflation.

The RBA's September interest rate rise also looks to have been less unnerving for consumers. Indeed, sentiment was higher amongst those surveyed after the Reserve Bank's decision. That may have been because the 50bp hike was widely expected and there were some concerns the increase might have been larger. There may also be some expectation that, having raised the cash rate by 2.25ppts to a level that is more 'normal', the RBA may be more cautious with further tightening, and start to move in smaller monthly steps.

When asked specifically after the latest rate increase, 57% of consumers still expect further increases in interest rates over the next 12 months of at least 1%. This compares with 58% in August; 73% in July, 65% in June, and 52% in May.

Every three months we ask respondents about their recall of news and how favourable this news was for a range of topic areas.

The results in September were very similar to June. By far the most recalled news was around inflation (61% of respondents); followed by the economy (27.5%); the Budget (24.7%); interest rates (23.8%); and overseas economic conditions (21.5%).

One notable shift was a rise in news on 'unions and strikes' which had a recall of 4.7%, the highest since 1985, after having been basically zero for several decades.

All news was viewed as unfavourable with consumers assessing the news on inflation; the state of the economy; interest rates and overseas economic conditions as particularly negative.

Four of the five sub-indexes recorded gains in September.

The sub-index tracking assessments of 'family finances vs a year ago' was the only one to record a fall, down 4.8% to a very weak 68.6 (a ten-year low). That was offset by a better outlook for the 'family finances, next 12 months' sub-index, up 4.7% to 92.3. The message seems to be that inflation and interest rate rises are weighing even more heavily on family budgets than last month but that there is reason for a little optimism.

Consumer attitudes towards spending also improved slightly, the 'time to buy a major household item' was up 2.8% but still at a very weak level of 83.7, well below the long run average of 126 and a clear sign that rising prices are a major deterrent for prospective buyers.

Consumer views on the economic outlook also improved. The 'economy, next 12 months' sub-index posted a particularly strong 12.5% surge, albeit coming from a very weak starting point in August, and the 'economy, next 5 years' sub-index was up 4.2% to 94.5.

Of all the sub- indexes these two outlook components best capture the 'lower bound' theme we see in the recovery of the main Index.

As noted, consumers have retained a high degree of confidence in the labour market. The Westpac-Melbourne Institute Unemployment Expectations Index declined 3.7% to 99.6 in September (recall, that a decline means more respondents expect the unemployment rate to fall – an improved outlook). Remarkably, the Index is still 23% below its long run average of 130. September is amongst only a handful of sub-100 reads recorded since the mid-1990s.

Housing-related sentiment improved slightly in September but remained downbeat overall, especially buyer sentiment which continues to sit near historic lows.

The 'time to buy a dwelling' index lifted by 2.9% to 80.5. The Index is still down 39% from its peak in November 2020 and has been steady in a narrow range at very pessimistic levels for the last six months. The read compares to a long run average of 117.5.

More surprising was a modest firming in house price expectations. The Westpac Melbourne Institute Index of House Price Expectations lifted by 3.6% to 100.6, nudging back into slight positive territory (readings above 100 mean those expecting prices to rise over the next 12 months outnumber those expecting them to fall). This follows consecutive falls that had taken the index 38% lower over the previous six months.

There were some notable differences across states.

Price expectations were remarkably buoyant in the states that have seen the largest corrections over the year to date – up 6.2% in NSW and 33.0% in Victoria but pared back sharply in Queensland (–13.9%) and Western Australia (–13.1%) where price corrections have been modest to date. In level terms, Queenslanders now stand out as much more pessimistic on the price outlook with a state index read of 89.2 compared to 101 in NSW, 108 in Victoria and 106 in Western Australia.

Consumer risk aversion remains intense. Our September survey included updates on our 'wisest place for savings' questions, run every three months. Safe or defensive options remain heavily favoured, 31% nominating 'bank deposits', and 23% nominating 'pay down debt'. Meanwhile very few consumers favour riskier options, only 8% nominating 'real estate' and 10% nominating shares.

The Reserve Bank Board next meets on October 4. After increasing the cash rate by 225bps in just five meetings – the final four moving in 50bp steps – we expect the Board to slow the pace but still deliver another rate rise with a 25bp increase.

"In the Governor's last Statement he appeared to indicate, indirectly, that the policy setting had now been 'normalised'. As such it is reasonable for the Board to slow the pace of increases while emphasising that further increases will still be necessary.

The 'treacherous lags' that have built up in the system following such a rapid move in rates need to be assessed while maintaining the clear message that the tightening cycle has some way to run.

Westpac expects the cash rate to peak in February next year at 3.35% after consecutive 25bp increases at each meeting through to February.

It will be interesting to see how Consumer Sentiment responds if the pace of tightening slows. As highlighted, sentiment was unlikely to fall below the 80 level while labour markets were operating near full employment, notwithstanding the headlong collapse since November last year. We expect Sentiment to hold in the current range as consumers realise that the tightening cycle has further to run, although a smaller rate increase in October will be encouraging for some

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Consumer Sentiment – September 2022

Item	avg*	Sep 2020	Sep 2021	Aug 2022	Sep 2022	%mth	%yr
Consumer Sentiment Index	**101.3**	**93.8**	**106.2**	**81.2**	**84.4**	**3.9**	**-20.5**
Family finances vs a year ago	89.1	87.5	93.5	72.1	68.6	-4.8	-26.7
Family finances next 12mths	107.3	101.2	109.2	88.2	92.3	4.7	-15.4
Economic conditions next 12mths	91.0	75.6	105.0	73.9	83.2	12.5	-20.8
Economic conditions next 5yrs	92.0	99.8	114.5	90.7	94.5	4.2	-17.5
Time to buy a major household item	126.0	105.1	109.0	81.4	83.7	2.8	-23.2
Time to buy a dwelling	117.5	110.5	96.7	78.2	80.5	2.9	-16.8
Unemployment Expectations Index	129.4	139.2	120.5	103.4	99.6	-3.7	-17.3
House Price Expectations Index	126.8	89.2	158.0	97.1	100.6	3.6	-36.3
Interest Rate Expectations Index	147.6	n.a.	n.a.	185.0	186.2	0.6	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 September to 8 September 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.

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