

17 January 2023

Consumer sentiment rises for a second consecutive month

- **Consumer Sentiment lifts 5.0% to 84.3 – largest monthly gain since April 2021.**
- **Index has lifted by 8.1% in the last two months.**
- **Break from rate hikes gives temporary boost but mood still deeply pessimistic.**
- **Expectations Index up 6.3% compared to 2.8% for current conditions.**
- **Unemployment expectations improve 8.4%; views around jobs remain upbeat.**
- **House purchase sentiment weak but price expectations 7.7% above recent lows.**

The Westpac Melbourne Institute Consumer Sentiment Index increased by 5%, from 80.3 in December to 84.3 in January.

This is the largest increase in the Index since April 2021, and prior to that, since October 2020 when consumers were responding to positive news around the pandemic.

One likely explanation for the lift in confidence is that January was the first month since April last year that did not see an increase in the RBA cash rate. While that was because there was no RBA Board meeting in the month rather than an explicit decision by the Bank to leave rates unchanged, the break in the tightening cycle looks to have provided some relief.

If so, we should be cautious about reading the January sentiment rise as part of a continuing trend. Westpac expects the Reserve Bank Board to continue with its interest rate policy tightening at its next meeting on February 7.

The Index has lifted by a cumulative 8.1% over the last two months, from a 78 read in November that may prove to be the low point for Consumer Sentiment in this cycle.

Sentiment is still depressingly low. The January read is in the bottom 10% of observations since the mid-1970s. We have to go all the way back to the depths of the deep recession in the early 1990s to find a period where Index reads were consistently below those seen over the last six months, including the improved print in January.

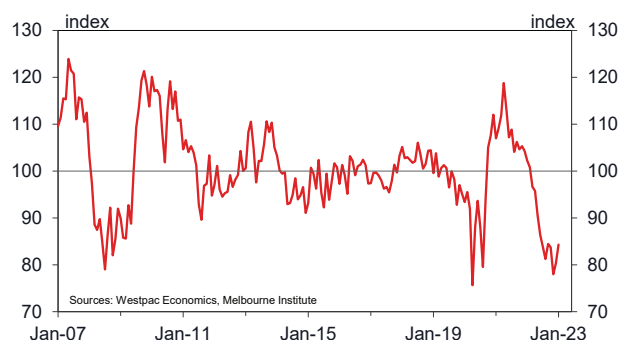
The interest rate theme shows through clearly in the confidence of those with a mortgage, which lifted by 10.7%, and in surveyed expectations for mortgage rates.

In November, 60% of respondents surveyed after the RBA decision expected the standard variable mortgage rate to increase by a further 1% or more over the following 12 months. That proportion came down to 48% in the January survey.

That proportion of consumers expecting at least a further 1% in interest rate increases is likely to fall further in future surveys.

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Consumer Sentiment Index



Westpac is expecting the cash rate to rise by a cumulative 0.75% in the remainder of this cycle and other analysts are even more optimistic.

Presumably, the improving interest rate outlook has been tempered by the latest monthly inflation report which showed a significant increase in annual inflation to November of 7.3%, up from the 6.9% in October.

As we move through 2023, we expect inflation pressures to ease, slowly boosting confidence although it is likely to remain well below par during the year.

Multiple legacies from the pandemic that boosted spending in 2022 despite weak confidence – including the reopening surge, a large, accumulated pool of excess household savings and the extremely tight labour market – will also fade in 2023.

Consumer spending is expected to fall back into line with the below-par confidence reads, which we expect to persist through the year.

The survey's sub-indexes show a much sharper lift in confidence around the future than assessments of current conditions. The Expectations sub-index lifted by 6.3% compared to 2.8% for the Current Conditions Index.

The detail shows the largest lift in confidence was around the economic outlook. The 'economic outlook, next 12 months' sub-index lifted by 10.2%. The 'economic outlook, next 5 years' sub-index posted a milder 2.9% gain.

Expectations for household finances were also buoyant. The 'finances, next 12 months' sub-index lifted by 6.6% while the 'finances compared to a year ago' sub-index improved by 1.7%.

The 'time to buy a major household item' sub-index lifted by 3.6% but remains at a very pessimistic level by historical standards (86.8 vs a long run average of 125.7). Surging prices and associated declines in purchasing power are still heavily affecting purchase attitudes.

Consumers showed improved optimism around the labour market. The Westpac Melbourne Institute Unemployment Expectations Index fell 8.4% from 117.9 to 108 (recall that the index measures expectations for the unemployment rate so a decline indicates improved confidence in the labour market). The Index is now 16.5% below its long run average, consistent with the ongoing evidence from official statistics pointing to very tight labour markets.

There was a 4.4% lift in the 'time to buy a dwelling' index to 78.2. It has held in the 75-80 range since March 2022, down around 40-45% since the peak in October 2020.

The Westpac Melbourne Institute Index of House Price Expectations fell by 10.3% in the January month, but this followed an outsized 27.6% surge in December. At 104.4 the index is still 7.7% above its August-November average and showing a surprising resilience around the outlook (recall that an index level above 100 indicates more respondents expect prices to increase than decline over the next 12 months).

The Reserve Bank Board next meets on February 7. We expect the Board will decide to lift the overnight cash rate by a further 0.25ppts and signal that it is prepared to continue raising the cash rate.

Recent evidence of strong retail sales growth; a lift in annual inflation and an ongoing tight labour market will strengthen the case for a further rate increase. That should be complemented by a clear tightening bias to discourage speculation that the February increase will be the last in the cycle.

Bill Evans, Chief Economist (ph: 61 2 9178 226)

Consumer Sentiment - January 2023

Item	avg*	Jan 2021	Jan 2022	Dec 2023	Jan 2023	%mth	%yr
Consumer Sentiment Index	101.2	107.0	102.2	80.3	84.3	5.0	-17.5
Family finances vs a year ago	89.0	89.3	95.6	66.3	67.4	1.7	-29.5
Family finances next 12mths	107.2	108.6	108.1	87.3	93.1	6.6	-13.9
Economic conditions next 12mths	91.0	102.7	94.8	73.9	81.4	10.2	-14.2
Economic conditions next 5yrs	92.0	115.6	103.6	90.2	92.8	2.9	-10.4
Time to buy a major household item	125.7	118.8	108.9	83.8	86.8	3.6	-20.3
Time to buy a dwelling	117.0	124.5	87.0	74.9	78.2	4.4	-10.2
Unemployment Expectations Index	129.3	119.0	112.7	117.9	108.0	-8.4	-4.2
House Price Expectations Index	126.8	145.2	143.4	116.3	104.4	-10.3	-27.2
Interest Rate Expectations Index	150.9	n.a.	163.1	183.3	184.2	0.5	12.9

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 9 January to 13 January 2023. 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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