THE RED BOOK

APRIL 2023

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The **Westpac–Melbourne Institute Consumer Sentiment Index** lifted 1.8% over the three months to April but, at 85.8, remains at deeply pessimistic levels.

That said, a solid lift in the April month, following a pause in the RBA tightening cycle, and a prospective improvement in the wider inflation and interest rate situation in coming months suggests some of the consumer gloom may be starting to lift.

Consumers remain extremely risk averse. The **Westpac Risk Aversion Index** lifted from 52.6 in December to 56.1 in March, a new record high on surveys going back to 1974. 'Bank deposits' and 'pay down debt' continue to be heavily favoured over 'shares' and 'real estate' as the 'wisest place for savings'.

The sentiment mix continues to point to a abrupt slowing in consumer spending. **CSI±**, a modified sentiment indicator that we favour as a guide to actual spending, remains near historic lows consistent with a contraction in per capita spending of around 3%. While substantial consumer 'buffers' are dampening and slowing the impact of the sentiment shock on spending, official figures show per capita spending declined in Q4 of 2022 with indicators (including our **Westpac Card Tracker Index**) pointing to a further contraction in Q1 2023.

Consumers remain hawkish on the outlook for mortgage interest rates, albeit less so than at the start of the year. Notably, the proportion expecting rates to rise by over 1ppt in the next 12mths declined from 50.2% to 40.8% – still a high share but the first time since April last year that we have not seen a majority expecting a rise over 1ppt. That said, only 7.6% of consumers expect rates to move lower from here.

Consumer expectations for inflation and wages growth continue to show tentative signs of moderating, the latter from a still benign starting point. Both measures will comfort the RBA – the consumer view on inflation broadly in line with its own forecast (4.8%yr by Dec) and wage expectations benign.

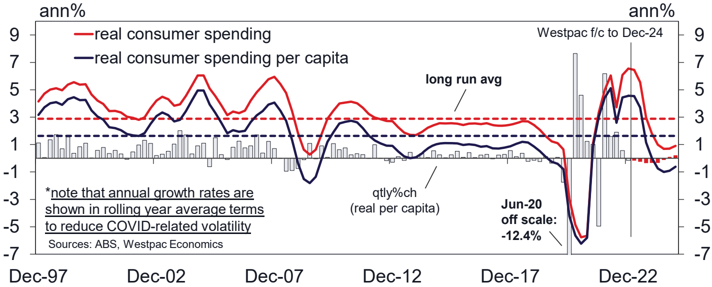
The **'time to buy a major item'** declined a further 5.4% to 82.1 over the 3mths to April. The sub-index continues to highlight the impact of both interest rate rises and high inflation, the latter being particularly notable in the current cycle. Durables spend is now showing clear signs of a broad based contraction in per capita terms.

Homebuyer sentiment remains extremely weak. The **'time to buy a dwelling'** index fell 9.1% over the 3mths to April more than unwinding the 'dead cat bounce' through the turn of the year and hitting an all-time low of 65.7 in March. History shows housing upturns can still form when buyer sentiment is weak but that these tend to be heavily reliant on investor activity.

House price expectations have shown a decisive lift, the **Westpac–Melbourne Institute Consumer House Price Expectations Index** surging 24.8% over the 3mth to April. At 130.3, the Index is above the long run avg but not overly bullish. The lift in prices in early 2023 is a clear driver.

Buoyant labour markets have been a key support for consumers over the last year but this is starting to wane, the **Westpac–Melbourne Institute Unemployment Expectations Index** rising a further 10% over the 3mths to April (recall that higher reads mean more consumers expect unemployment to rise). That said, there are still few signs of job-loss fears.

Consumer spending: sharp slowdown underway



Australian consumers remain in a dark place but are starting to see some faint signs of light at the end of the tunnel. Our April **Red Book** finds sentiment continuing to hold around 'recessionary' lows. However, a decent lift in the April month – in response to a pause in the RBA tightening cycle – offers some hope of a sustained easing in pessimism in the months ahead.

The two factors that have weighed most heavily on consumer sentiment over the last year are starting to ease. Inflation has now clearly passed its peak and is set to continue improving from here. Meanwhile, the associated rapid interest rate tightening cycle from the RBA also looks to be at or very near its peak.

While a full turn of the cycle – i.e. a return to low inflation and easing in interest rates – still looks to be a long way off, the relentless phase of worsening inflation and rising interest rates seems to be over. Sentiment-wise, that should pave the way for a further improvement in coming months.

But for now the picture remains bleak.

Consumers remain under intense pressure financially, deeply concerned about the near term outlook, and extremely negative about the impact of inflation and higher interest rates on their purchasing decisions.

The reads remain consistent with an abrupt weakening in spending that now looks to be coming through, with official figures and indicators pointing to a contraction in per capita consumption in both Q4 of 2022 and Q1 of 2023.

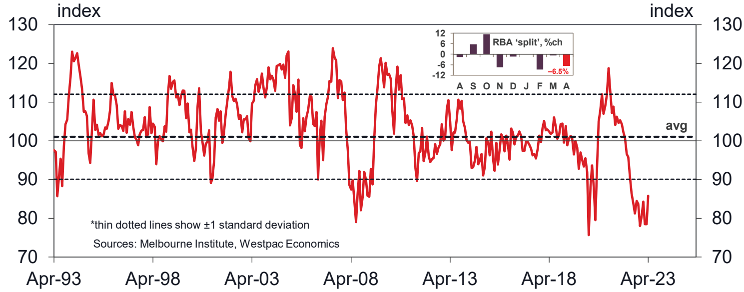
Around housing, views are more mixed but still not that encouraging. Price expectations have lifted, suggesting the market's correction phase is over, but buyer sentiment remains dismal. That points to slow going ahead with some risk of an investor-led upturn complicating the situation as it did in the middle of last decade.

Labour markets continue to provide welcome support, preventing what would probably be a full-blown consumer disaster. This is easing somewhat but not yet to a degree that would be of great concern. Consumers expect a softening but are not bracing for job losses just yet.

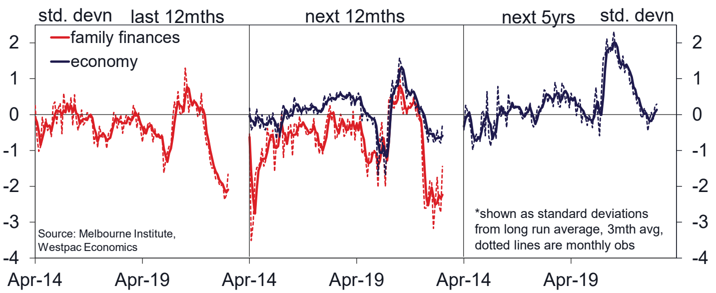
THE CONSUMER MOOD: GLOOM LIFTING?

- The **Westpac Melbourne Institute Index of Consumer Sentiment** remained at a very weak level over the three months to Apr, but with monthly moves and the policy backdrop suggesting confidence may be starting to move off its cycle lows. While the Index has only ticked up 1.8% since Jan, and, at 85.8 remains in deeply pessimistic territory, the Apr month showed a 9.4% bounce in response to a pause in the RBA tightening cycle.
- Surging inflation and the associated rapid series of interest rate rises from the RBA have been the over-riding negatives for sentiment over the last year and remain so. But the pressure from both may be starting to let up.
- The RBA held rates steady at its Apr meeting following ten consecutive hike decisions. The pause was widely anticipated. Interestingly, the decision on the day looks to have disappointed a little with a significant 'negative RBA split' – sentiment amongst those surveyed post decision 7.5pts lower than sentiment amongst those surveyed prior. The Governor's comment that some further tightening "may well be needed" looks to have poured a bit of cold water on rate expectations.
- However, looking forward this reaction can be seen as a positive, suggesting sentiment will post another solid gain if/when the RBA goes more firmly on hold.

1. Consumer sentiment: inflation, rate pressure starting to let up?



2. Consumer sentiment: finances, economic conditions



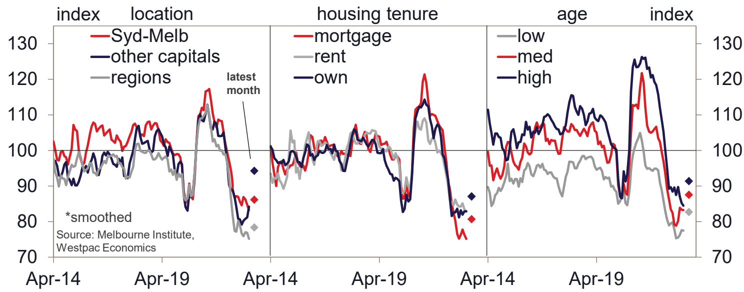
– In fact, there looks to be even more upside to the sentiment response to a more sustained RBA pause given consumers are still very hawkish on the interest rate outlook (see p11). Westpac expects the RBA to shift to a firmly 'on hold' stance from mid-year, marking the end of the tightening cycle.

– Consumer sentiment should also get a decent boost from improving inflation reads. Q1 CPI figures – released after the Apr survey – confirmed that annual inflation has passed its peak in Australia. The evidence from countries that are further along in the inflation fight suggests consumer sentiment rallies 10-15% once inflation starts to track lower.

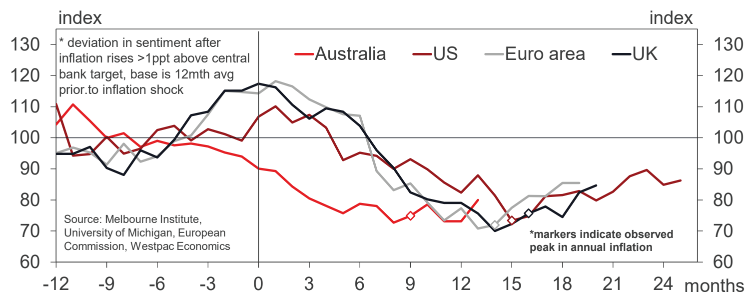
– Despite an improved tone and prospects, sentiment remains very weak overall. The Index has been sub-90 for 11 months in a row now, the second longest run of pessimistic reads since the survey began in 1974, outlasting the weakness seen during the early-1980s recession, the mid-1980s slowdown and the GFC. The early-1990s recession is the only period that has seen both materially weaker sentiment and pessimism last longer.

– The sub-group detail shows cost of living and interest rate pressures continue to weigh more heavily on the mortgage belt and low income households. These will be the bellwether segments to keep an eye on in coming months.

3. Consumer sentiment: selected sub-groups



4. Consumer sentiment: inflation shocks, selected countries



SENTIMENT INDICATORS: SPENDING

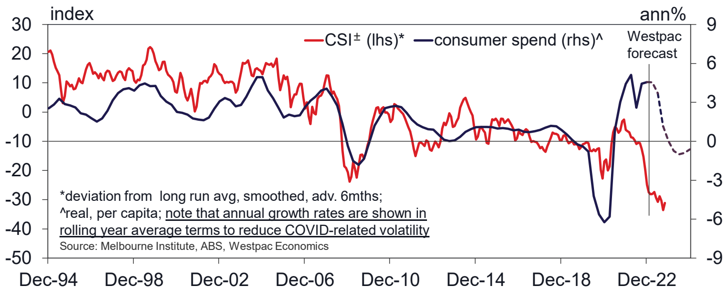
– Our **CSI±** composite combines sub-indexes tracking views on 'family finances' and 'time to buy a major item' with the **Westpac Consumer Risk Aversion Index** and usually provides a good guide to trends in spending over the next 3–6mths.

– As noted in previous reports, that 3–6mth lag currently looks to be longer due to two significant buffers delaying the impact of rate rises, namely: 1) a large pool of excess savings accumulated during the pandemic; and 2) a delayed cash-flow impact due to a higher share of fixed rate mortgages. The extent of these lags remains a key uncertainty for the outlook.

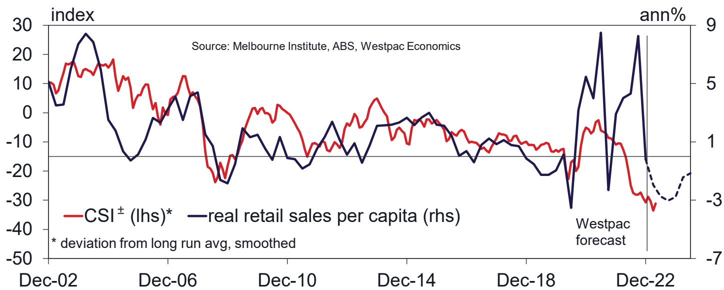
– Bearing this in mind, our **CSI±** indicator should be viewed as a guide to where per capita spending growth momentum is likely to settle if and when these buffer effects drop out of the picture. As such, the latest readings remain exceptionally weak, consistent with per capita spending contracting at close to 3%yr (note that the growth rates shown in chart 5 are in 'rolling annual' terms to smooth out some of the extreme swings seen during COVID lock-downs).

– Updates over the last 3mths show two notable developments: 1) a weaker than expected consumer picture in late 2022 and early 2023; and 2) a significantly strong profile for population growth.

5. CSI± vs total consumer spending



6. CSI± vs retail sales



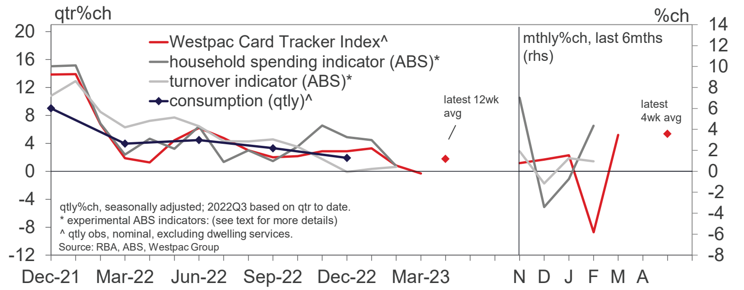
– The Q4 national accounts painted a fairly bleak picture of Australian households. Around spending, a 0.3%qtr rise was well below expectations with an expected lift in services failing to materialise.

– On incomes, the extent of pressure from rate and cost of living rises was alarming, real disposable incomes (after interest and tax) contracting 2.2% in the quarter. A fall in 'new' savings cushioned the flow+through to spending, but with the savings rate now at 4.5% there is now limited scope for continued buffering in the quarters ahead. In effect, this depends entirely on the willingness of households to significantly run down their pandemic reserves.

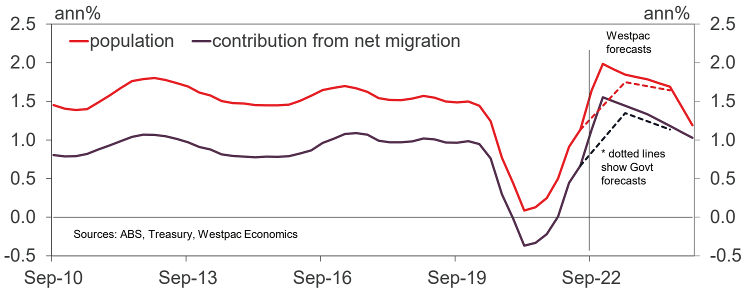
– More recent data suggests spending remained weak in Q1 and may even have contracted. Retail sales are tracking a flat nominal result for Q1, which would imply a 1% contraction in volumes. Our **Westpac Card Tracker** and ABS indicators of wider spending are also pointing to a stalling in nominal gains.

– As noted, this shift is despite a much stronger profile for population growth. We revised up our forecasts in late Feb, with net migration now expected to hit 400k in 2022 (see here for more). Recent comments from Treasurer Chalmers point to similar upgrades to the government's forecasts in the May Budget. The bottom line, population growth will be 1.75-2%yr.

7. Consumer spending: selected indicators



8. Population growth



SPECIAL TOPIC: REVISED HOUSING VIEW

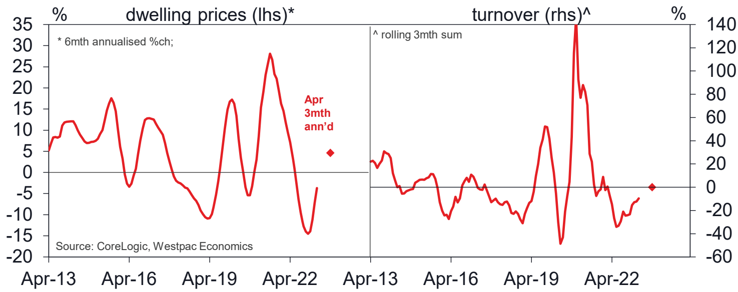
– While the near term outlook for consumer spending remains weak, one expected headwind – negative wealth effects stemming from house price declines – now looks set to be much milder. Recent indicators are showing convincing signs of stabilisation in Australia's housing markets. Indeed, the material correction seen now looks to be largely over. Westpac expects prices to remain broadly flat this year, with a sustained, broad-based recovery gaining traction in 2024 (see here for more).

– Three factors look to be driving the shift: 1) a resurgence in net migration inflows; 2) the sharp rise in construction costs; and 3) low levels of 'on market' supply.

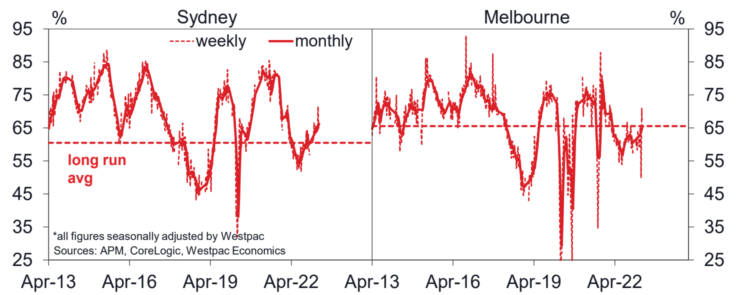
– Notably, the stabilisation has come despite further official rate rises in February and March, and continued hawkish expectations for mortgage rates amongst consumers (see p11). Housing recoveries typically only emerge once the RBA is actively cutting rates or is very clearly poised to do so. Price gains also tend to follow a sustained lift in turnover, not vice-versa

– The positives in play – migration, construction costs and limited supply – tend to be marginal and gradual drivers of price gains. With interest rate negatives still in the mix, this suggests the market is stabilising rather than setting up for sustained gains near term.

9. Dwellings: prices and turnover



10. Auction clearance rates



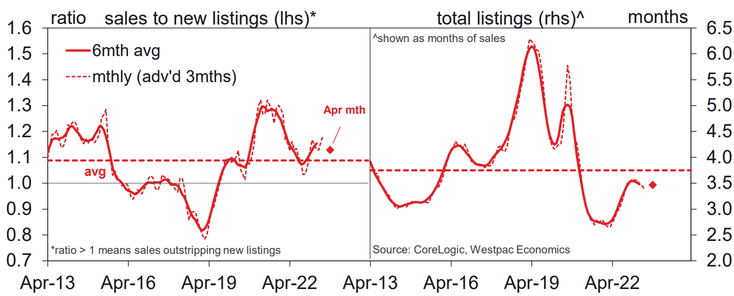
– Consumer expectations are adding to this picture of stabilisation. While buyer sentiment is still very weak (see p14), house price expectations have shown a clear lift (see p15). This will further 'anchor' prices, reinforcing the stability. It would take quite a substantial shock to trigger another run of material price declines from here.

– Westpac expects conditions to remain a little mixed near term with prices holding flat over 2023. That compares to our previous forecasts, which implied a further 7% decline. The recovery is expected to move onto a firmer footing in 2024, rate cuts driving a lift in price growth to 5% (vs 2% previously).

– Our revised forecasts mean the correction now sees a peak-to-trough decline nationally of 10% rather than 16%.

– What does this mean for the wider consumer outlook? The stabilisation removes what would have been a potentially significant additional headwind around household wealth. According to RBA estimates of the 'wealth effect' on spending, the shift could be worth a little over 1ppt. That said, the size of any actual effect is unclear – given the prior run-up in prices did not appear to give a significant boost, that prices are still above 2020 levels and that some of these effects can be slow to impact spending.

11. Major capital cities: listings



12. Dwelling prices: history and forecasts

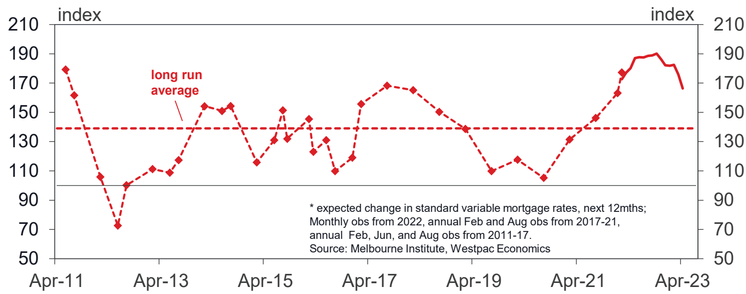
	avg*	2020	2021	2022	2023	2024	comments
Sydney	5.8	2.7	25.3	-12.1	1	5	Rebounding slightly from bigger falls but gains lopsided. Affordability still a big issue.
Melbourne	4.5	-1.3	15.1	-8.1	-1	5	Stabilising. More exposed to migration lift but carrying more of an overhang of stock.
Brisbane	4.3	3.6	27.4	-1.1	-1	6	Strong fundamentals, very tight market, should be more resilient than others.
Perth	0.8	7.3	13.1	3.6	0	8	Very mild correction after mild run-up. Very tight market. Expected to outperform.
Adelaide	5.4	5.9	23.2	10.1	-1	4	Barely affected by correction. Very tight supply but affordability issues emerging.
Hobart	5.9	6.1	28.1	-6.9	-3	0	Taking longer to stabilise. Extremely affordability constraints limit upside.
Australia	**4.6**	**1.8**	**20.9**	**-7.1**	**0**	**5**	Stabilisation in 2023 giving way to firmer gains as rates are cut in 2024.

All dwellings, Australia is five major capital cities combined measure; *10yr avg. Source: CoreLogic, Westpac Economics

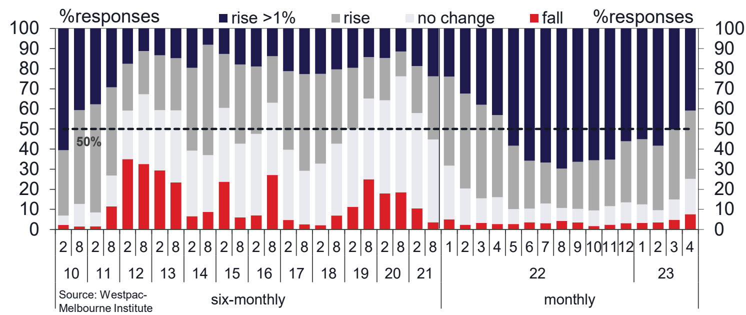
SENTIMENT INDICATORS: INTEREST RATES

- Consumers remain very hawkish on the outlook for mortgage interest rates, albeit less so than at the start of the year. The **mortgage interest expectations** index, which tracks consumer views on the outlook for variable mortgage rates over the next 12mths, declined 9.2% over the 3mths to Apr. At 167.2, the index is off its highs but still well above the long run average of around 140. Note that index reads are only available from Feb 2010 and on a monthly basis from Jan 2022.
- Notably, a rise of over 1ppt is no longer the majority view, the proportion of consumers holding this view dropping below 50% for the first time since Apr last year.
- However, at 40.8%, this proportion is still very high. At the other end of the spectrum, only 7.6% of consumers expect rates to move lower, and just 17.6% expect no change. Interestingly, the proportion of 'don't knows' (excluded from the shares discussed above) lifted to 16.5%, the highest since just prior to the RBA's tightening cycle a year ago.
- Interest rate expectations should ease further from here, potentially sharply in coming months. Westpac expects the RBA to extend its Apr pause into May, marking a peak in the tightening cycle, with cuts to come from Feb next year – an extreme, minority view amongst consumers at the moment.

13. Mortgage interest rate expectations



14. Consumer expectations for mortgage rates



SENTIMENT INDICATORS: INFLATION

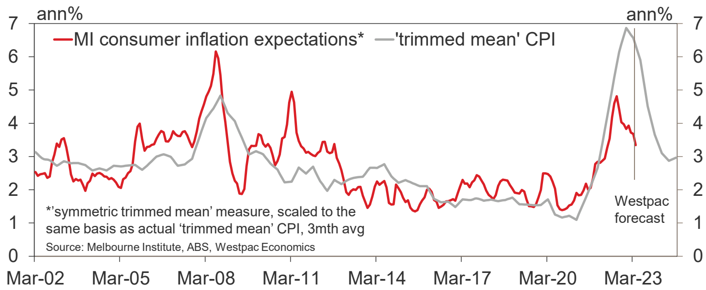
– Consumer expectations for inflation and wages growth continue to show tentative signs of moderating. The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead inflation expectations declined from 5.6% in Jan to 4.7% in Apr, the lowest read since Feb last year. Meanwhile the Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations came in at 1.1% in Apr, in line with the Jan read but still down a touch from the 1.3% high in mid–2022.

– Both measures will comfort the RBA – the consumer view on inflation broadly in line with its own forecast (4.8%yr by Dec) and wage expectations benign.

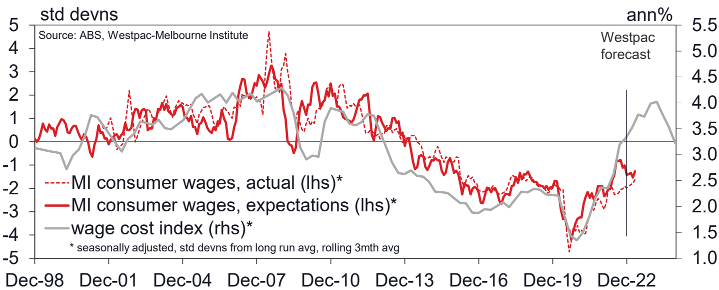
– Moreover, inflation expectations now have some downside prospects in the months ahead. The Q1 CPI confirmed a clear peak in Australia's inflation surge, headline inflation dropping from 7.8%yr to 7%yr and 'trimmed mean' inflation slowing from 6.9%yr to 6.6%yr. If consumer expectations follow suit they may soon be back in a range consistent with a return to the RBA's 2-3% target.

– Wage expectations may be slower to retrace with official figures – due May 17 – expected to show a further lift in wages growth in Q1. That said, consumer expectations are coming from a relatively subdued starting point, below their long run average.

15. CPI inflation: actual vs expected



16. Wages growth: actual vs expected



SENTIMENT INDICATORS: DURABLES

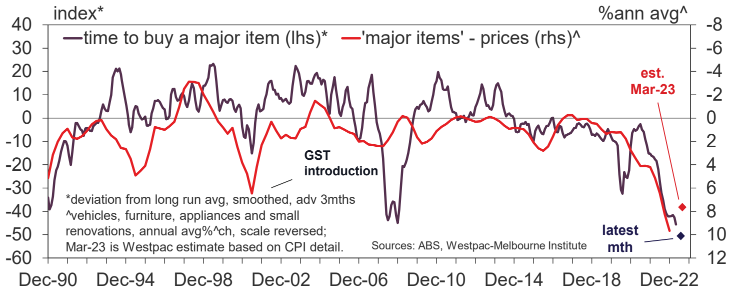
– The **'time to buy a major item'** sub-index continues to highlight the impact of both interest rate rises and high inflation, the latter being particularly notable in the current cycle. The sub-index declined a further 5.4% over the 3mths to Apr, albeit with a very choppy profile month to month, a 13.6% collapse through Feb-Mar followed by a 9.5% bounce in Apr.

– At 82.1, the Apr reading remains close to the low seen during the first COVID lock-down in 2020, but with the sub-index having been sustained for nine months now (note that the series in Chart 17 shows a rolling 3mth avg). Prior to this, only the GFC and early-1990s recession have seen anything comparable.

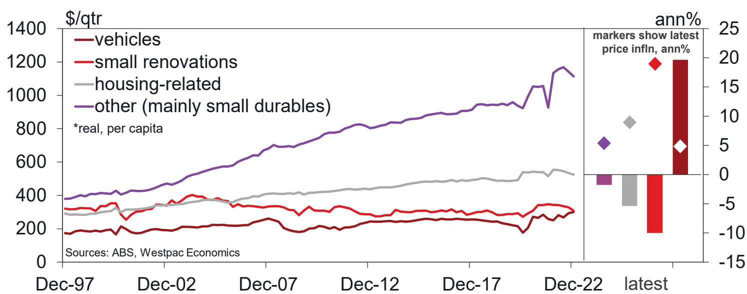
– The comparison is starkest when we look at interest rate tightening cycles during much milder (or clearly temporary) periods of inflation. The sub-index lows during the 2009-10, 1999-2000 and 1994-95 tightening cycles were 125, 108 and 115, the sub-index never dropping below 100 between Feb 1991 and Jan 2007.

– The shock appears to be having more of an impact on demand. Per capita durables spend (including 'small renovations') contracted 1.3%qtr in Q4, annual growth slowing to 0.6%yr. All major components except vehicles contracted in 2022. Q1 sales also suggest vehicle purchases – which have been held up by supply delays and insurance-funded replacement spend – is starting to roll over.

17. 'Time to buy a major item' vs prices



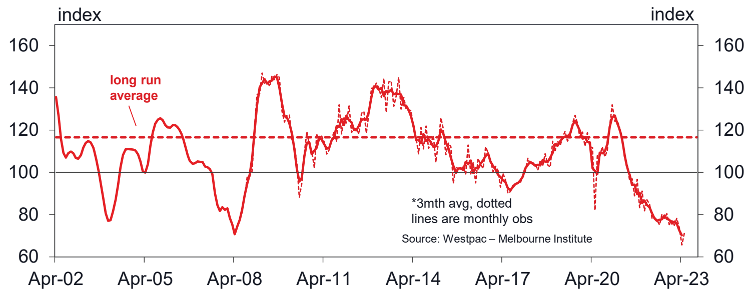
18. Consumer spending: major items



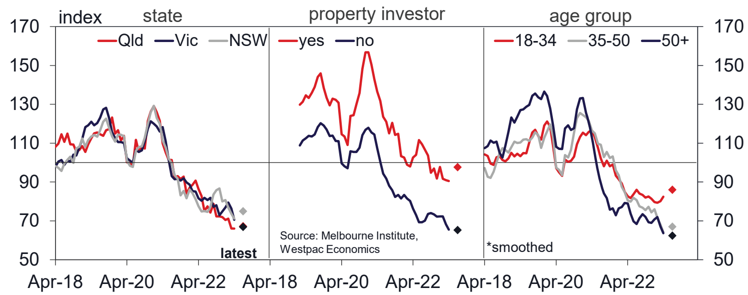
SENTIMENT INDICATORS: DWELLINGS

- Consumer house purchase attitudes remain extremely weak. The **'time to buy a dwelling'** index fell 9.1% over the 3mths to Apr, more than unwinding the 'dead cat bounce' through the turn of the year and hitting an all-time low of 65.7 in Mar.
- The combination of interest rate and dwelling prices rises – both current and expected – is clearly weighing heavily on buyer sentiment. That in turn suggests we should be cautious about housing market prospects. While the evidence of stabilisation is convincing, some of the pre-conditions for a sustained rise – namely improving buyer sentiment and a prospective lift in turnover – still look to be a long way off.
- That said, we have had housing upturns in the past that have proceeded with relatively weak buyer sentiment and low volumes. The most recent example is in 2015 when strong investor-led gains in Sydney and Melbourne were the main driving force (a development that led to macro-prudential tightening measures from APRA and the RBA).
- This suggests investor activity will be a key area to keep an eye on in 2023. Notably, the sub-group detail shows buyer sentiment is much firmer amongst consumers that already own an investment property. Whether this is a precursor to a lift in investor activity remains to be seen.

19. 'Time to buy a dwelling'



20. 'Time to buy a dwelling': selected sub-groups



SENTIMENT INDICATORS: HOUSE PRICES

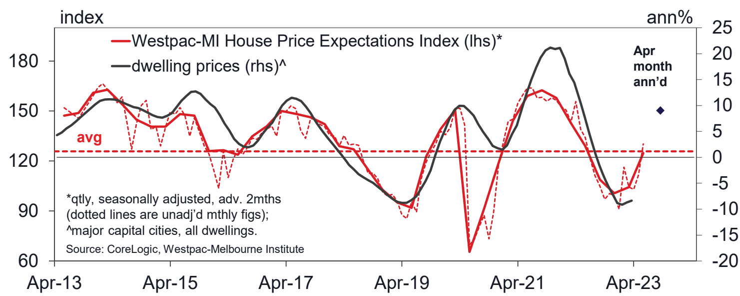
– Consumer house price expectations have shown a decisive lift. The **Westpac Melbourne Institute House Price Expectations Index** has surged 24.8% over the 3mths to Apr. At 130.3, it is now above the long run avg read of 125.8 for the first time since Apr last year.

– As noted, the shift coincides with a clear stabilisation in housing markets that includes modest price gains in the last few months. A slight majority (50.5%) of consumers now expect prices to continue rising over the next 12mths. Nearly 21% expect prices to hold flat while 20% expect prices to decline and 9% responded 'don't know'. Just 2% expect a fall of 10% of more while 10% expect double-digit price gains.

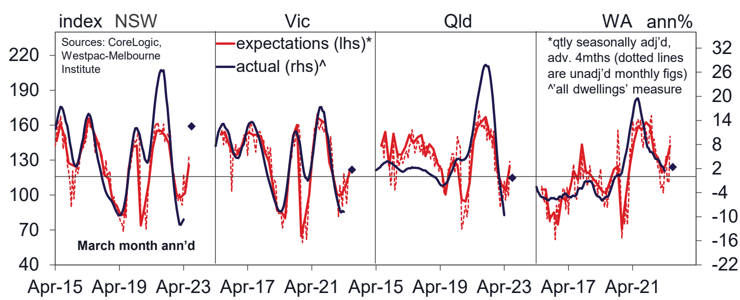
– The shift in sentiment is broadly in line with gains over the last four months, which have been running at an annualised pace of about 1%. However, its still well below levels consistent with the 6% annual pace seen over the last three months and the 10% annualised pace of gains in March and April.

– The state breakdown is also broadly consistent with the varied price performance in recent months. The biggest lift in expectations has been in NSW – Sydney prices having shown the strongest gains in 2023. Other states have lifted more towards levels consistent with a stabilisation in prices. WA a notable exception, expectations in the west coming from a firmer starting point.

21. Westpac–MI House Price Expectations Index



22. Dwelling prices: actual vs expected by state



SENTIMENT INDICATORS: RISK AVERSION

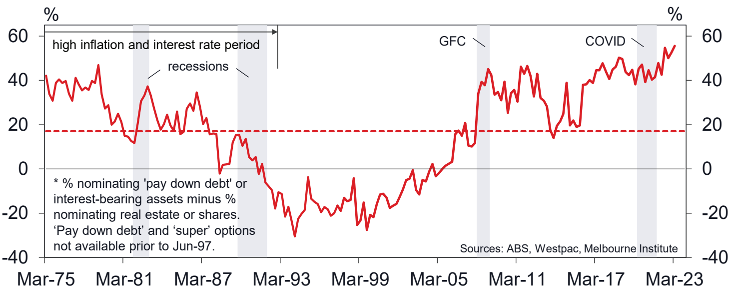
– Consumer risk aversion remains intense. The Mar survey included an update of the 'wisest place for savings' questions used to construct our **Westpac Consumer Risk Aversion Index**. Responses show little change from recent record highs.

– 'Safe' options remain heavily favoured, 34% of consumers nominating 'bank deposits', and 23% nominating 'pay down debt' as the wisest option, up a touch on Dec. Meanwhile very few consumers favour riskier options, a dismal 5% nominating 'real estate' (an all-time record low) and 9% nominating shares – a view that has likely taken a hit since Mar as banking system problems in the US triggered sharp falls in global equities.

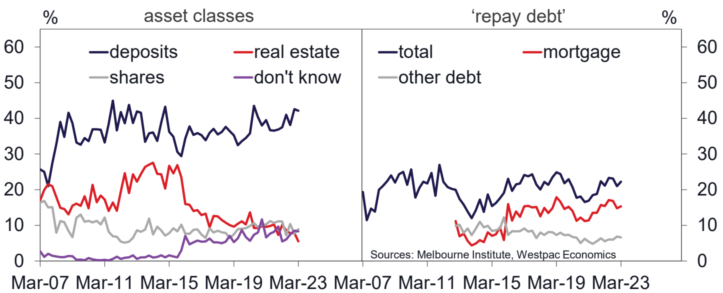
– Overall, the **Westpac Risk Aversion Index** lifted from 52.6 in Dec to 56.1 in Mar, a new all-time on records back to 1974, eclipsing the second highest read of 55.3 in Jun last year.

– The fear factor is clearly extreme. How this translates into behaviour remains unclear. Surges in risk aversion have been associated with sharp rises in household savings rates and moves to 'deleverage' in the past, most notably following the GFC. However, these moves came from starting points of very low saving and strong borrowing growth. This is not the case in 2023. The latest spike in aversion will act to inhibit decisions and borrowing rather than trigger a sharp rethink.

23. Westpac Consumer Risk Aversion Index vs savings rate



24. Consumer: 'wisest place for savings'

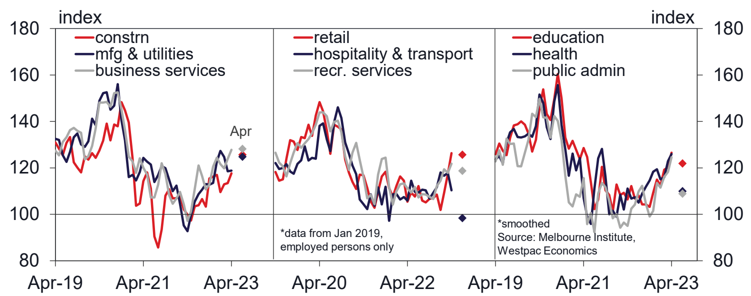


SENTIMENT INDICATORS: JOB SECURITY

- Buoyant labour markets have been a key support for consumers over the last year. Sentiment-wise, this has not been enough to prevent very weak reads on sentiment overall but has likely prevented falls to the extreme lows seen at the depths of recessions. While conditions remain relatively solid, consumer expectations suggest the support to wider confidence is starting to fade.
- The **Westpac Melbourne Institute Index of Unemployment Expectations** rose 10% over the 3mths to Apr, hitting 118.9, the highest level since Apr 2021 but still below the long run avg of 129 (recall that a higher index means more consumers expect unemployment to rise in the year ahead).
- The shift is coming from an assessment of the wider labour market rather than specific concerns about losing their own job. Whereas the sentiment question asks about expectations for the unemployment rate in a year's time, the ABS labour force survey includes a question on whether respondents expect to be retrenched over the next year. As at Mar, retrenchment fears have shown little change.
- The sentiment survey detail shows expectations have deteriorated more markedly for those employed in business services, finance and construction, but has improved amongst hospitality, transport, health and public sector workers.

25. Unemployment expectations

26. Unemployment expectations by industry



STATE SNAPSHOT: WESTERN AUSTRALIA

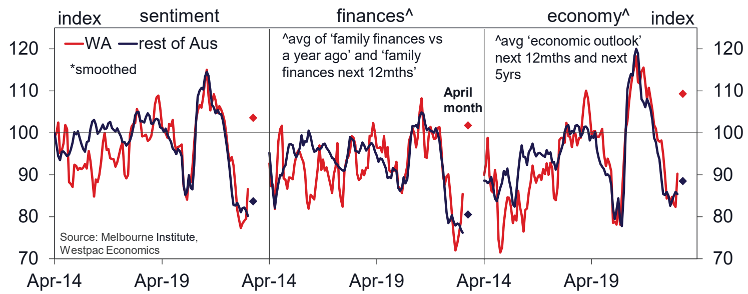
– Something very interesting looks to be happening out west. The last time we profiled WA in our snapshot, back in Apr 2022, the state's consumers were more fearful than others despite what looked to be less exposure to rate rises and clear support around mining. Some of the weakness looked to be due to a rise in COVID cases at the time.

– A year on, its a starkly different story, compared both to a year ago and other states. The Apr month in particular showed a striking lift in WA consumer sentiment, to outright positive levels. While that may be exaggerated by survey volatility associated with small sample sizes, this is the only positive read any state has recorded in over a year.

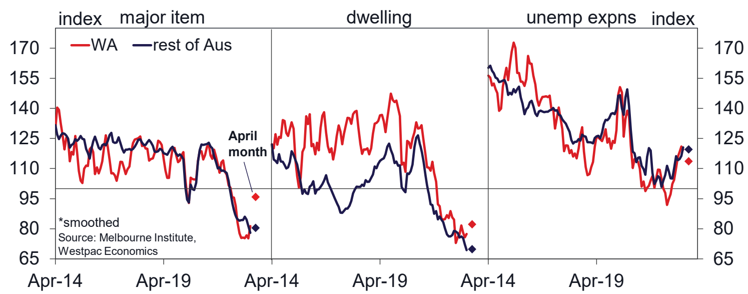
– Scratching beneath the surface, WA consumers are less pessimistic on their current finances, and outright optimistic about prospects for their finances over the next year and the economic outlook. Buyer sentiment is also much less pessimistic. Interestingly, there is less divergence around views on 'time to buy a dwelling' and unemployment expectations.

– It is always wise to wait for confirmation with monthly reads at the state level. However, it seems unlikely that all of this optimism will reverse out. The lift may reflect relief at the stable performance of the state's housing market less exposure to household debt risks and belated recognition of mining-related positives.

27. Consumer sentiment, finances, economy: WA vs rest of Aus



28. Consumer 'time to buy', unemp expns: WA vs rest of Aus



ECONOMIC AND FINANCIAL FORECASTS

Interest rate forecasts

Australia	Latest (28 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-24
Cash	3.60	3.60	3.60	3.60	3.35	3.10	2.85	2.60	
90 Day BBSW	3.68	3.70	3.70	3.72	3.47	3.22	2.97	2.72	
3 Year Swap	3.45	3.50	3.50	3.40	3.30	3.10	2.90	2.80	
3 Year Bond	3.04	3.15	3.15	3.05	3.00	2.85	2.70	2.60	
10 Year Bond	3.39	3.40	3.30	3.20	3.00	2.80	2.70	2.50	
10 Year Spread to US (bps)	–12	–10	–10	–10	–10	–10	–10	–10	
US									
Fed Funds	4.875	5.125	5.125	4.875	4.375	3.875	3.375	2.875	
US 10 Year Bond	3.51	3.50	3.40	3.30	3.10	2.90	2.80	2.60	

Exchange rate forecasts

	Latest (28 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6617	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6144	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	134.72	130	129	128	127	126	125	124
EUR/USD	1.1011	1.10	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2482	1.23	1.24	1.25	1.26	1.27	1.28	1.29
USD/CNY	6.9174	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0768	1.08	1.09	1.10	1.11	1.13	1.13	1.13

Sources: Bloomberg, Westpac Economics.

Australian economic growth forecasts

	2021	2022				2023	
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f
GDP % qtr	0.9	0.7	0.5	0.4	0.2	0.1	0.2
%yr end	3.1	5.9	2.7	2.5	1.8	1.2	1.0
Unemployment rate %	3.8	3.5	3.5	3.6	3.5	3.9	4.5
Wages (WPI)	0.8	1.1	0.8	0.8	1.0	1.0	1.0
annual chg	2.6	3.2	3.3	3.5	3.8	3.7	4.0
CPI Headline	1.8	1.8	1.9	1.4	1.1	0.7	0.7
annual chg	6.1	7.3	7.8	7.0	6.3	5.2	4.0
Trimmed mean	1.6	1.9	1.7	1.4	1.0	0.6	0.7
annual chg	5.0	6.1	6.9	6.7	6.1	4.7	3.7

	Calendar years			
	2021	2021f	2022f	2023f
GDP % qtr	–	–	–	–
%yr end	4.6	2.7	1.0	1.5
Unemployment rate %	4.7	3.5	4.5	5.0
Wages (WPI)	–	–	–	–
annual chg	2.4	3.3	4.0	3.2
CPI Headline	–	–	–	–
annual chg	3.5	7.8	4.0	3.1
Trimmed mean	–	–	–	–
annual chg	2.6	6.9	3.7	3.1

Calendar year changes are (1) period average for GDP, employment and unemployment, terms of trade (2) through the year for inflation and wages.

* GDP & component forecasts are reviewed following the release of quarterly national accounts.

** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

CONSUMER DATA AND FORECASTS

Consumer demand

	2022				2023			
% change	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Total private consumption*	1.8	2.2	1.0	0.3	0.3	0.2	0.1	0.1
annual chg	4.1	5.2	11.7	5.4	3.8	1.8	0.9	0.7
Real labour income, ann chg	2.2	2.3	3.2	2.8	2.9	2.9	1.3	0.5
Real disposable income, ann chg**	1.6	1.9	-2.3	-3.3	-3.7	-2.6	-2.6	-0.7
Household savings ratio	11.2	8.3	7.1	4.5	3.6	3.5	3.1	2.5
Real retail sales, ann chg	4.9	5.5	9.9	1.8	-0.1	-0.9	-1.2	-1.0
Motor vehicle sales ('000s)***	770	740	809	809	757	742	735	735
annual chg	-3.7	-10.2	10.8	20.8	-1.6	0.4	-9.2	-9.2

	Calendar years			
	2020	2021	2022f	2023f
Total private consumption, ann chg*	-5.8	5.0	6.5	1.8
Real labour income, ann chg	2.3	3.5	2.6	1.9
Real disposable income, ann chg**	5.8	2.3	-0.5	-2.4
Household savings ratio, %	17.1	14.5	7.8	3.2
Real retail sales, ann chg	2.7	3.5	5.2	-0.8
Motor vehicle sales ('000s)	675	756	782	742
annual chg	-15.7	12.1	3.4	-5.1

Notes to pages 25 and 26:
* National accounts definition.
** Labour and non-labour income after tax and interest payments.
*** Passenger vehicles and SUVs, annualised
^ Average over entire history of survey.
^^Seasonally adjusted.
Net % expected rise next 12 months minus % expecting fall (wage expectations is net of % expecting wages to rise and % expecting flat/decline).
Note that questions on mortgage rate and house price expectations have only been surveyed since May 2009.

CONSUMER DATA AND FORECASTS

Consumer sentiment

	2022					
% change	**avg^**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
Westpac–MI Consumer Sentiment Index	101.1	83.8	81.2	84.4	83.7	78.0
family finances vs a year ago	88.9	72.0	72.1	68.6	69.3	66.9
family finances next 12 months	107.1	86.2	88.2	92.3	92.0	81.7
economic conditions next 12 months	90.9	80.3	73.9	83.2	79.7	74.2
economic conditions next 5 years	92.0	91.6	90.7	94.5	92.5	85.8
time to buy major household item	125.5	88.8	81.4	83.7	85.1	81.4
time to buy a dwelling	116.6	80.1	78.2	80.5	75.3	77.1
Westpac–MI Consumer Risk Aversion Index^^	17.0	–	–	50.1	–	–
CSI±	101.1	73.4	72.5	73.6	73.9	69.6
Westpac–MI House Price Expectations Index#	125.8	104.9	97.1	100.6	99.0	91.1
consumer mortgage rate expectations#	40.5	83.9	85.0	86.2	88.7	86.0
Westpac–MI Unemployment Expectations	129.2	109.8	103.4	99.6	111.3	117.3
MI inflation expectations (trimmed mean)	4.3	6.3	5.9	5.4	5.4	6.0
MI wage expectations (trimmed mean)	1.3	1.3	0.8	1.1	0.9	1.0

	2022	2023			
continued	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Westpac–MI Consumer Sentiment Index	80.3	84.3	78.5	78.5	85.8
family finances vs a year ago	66.3	67.4	62.1	63.4	70.1
family finances next 12 months	87.3	93.1	86.8	85.3	95.5
economic conditions next 12 months	73.9	81.4	75.1	73.3	85.4
economic conditions next 5 years	90.2	92.8	90.3	95.3	96.0
time to buy major household item	83.8	86.8	78.0	74.9	82.1
time to buy a dwelling	74.9	78.2	73.9	65.7	71.1
Westpac–MI Consumer Risk Aversion Index^^	52.5	–	–	55.6	–
CSI±	71.2	73.4	68.1	67.0	73.0
Westpac–MI House Price Expectations Index#	116.3	104.4	102.9	111.7	130.3
consumer mortgage rate expectations#	83.3	84.2	87.0	80.3	67.2
Westpac–MI Unemployment Expectations	117.9	108.0	119.4	122.9	118.9
MI inflation expectations (trimmed mean)	5.2	5.6	5.1	5.0	4.6
MI wage expectations (trimmed mean)	0.7	1.1	1.0	0.7	1.1

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