

13 June 2023

Consumer sentiment steadies near recession lows

- **Westpac-Melbourne Institute Consumer Sentiment rises 0.2% to 79.2.**
- **The Index has now been near recession lows for the last year.**
- **Within the sample, the Index tumbled following the RBA's rate hike.**
- **Inflation remains the dominant drag on confidence, well ahead of rates.**
- **House Price Expectations were resilient to the rate hike – a concern for the RBA.**
- **Confidence in the labour market, the one consistent positive, has now turned.**
- **Risk aversion continues to surge.**

The Melbourne Institute of Consumer Sentiment index rose 0.2%, from 79.0 in May to 79.2 in June.

For the last year the Index has held around levels we have not seen on a sustained basis since the deep recession of the late 1980s/early 1990s.

The survey was taken over the period 5-9 June. That period covered the announcement of the decision by the Reserve Bank to lift the cash rate by 0.25% from 3.85% to 4.1%. While the full survey showed little net change in sentiment, responses within the survey week show a big rate rise impact. Prior to the announcement of the rate hike decision confidence had lifted sharply from 79.0 in May to 89.0. But following the announcement it tumbled to an extremely low 72.6.

However, overall, interest rates are not the most troubling issue for all households. Recall that that only about a third of households carry a mortgage.

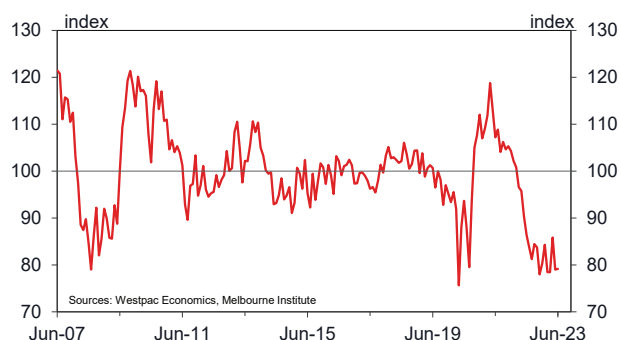
When asked about the news items that resonated the most in June, the topics with the highest recall amongst consumers more generally were: inflation (62%), budget and taxation (43%); economic conditions (40%); employment (32%); and interest rates (27.6%).

As discussed, the Index has now held at 'recession lows' for the last year – a period in which inflation has consistently been the dominant news story.

News on these topics continues to be assessed as more negative than positive. News on inflation is assessed as by far the most negative issue; followed by interest rates; while assessments of economic conditions; employment and the Budget show significant improvements relative to the last read on consumer news recall back in March.

Most consumers continue to expect further rate rises. Amongst those surveyed after the RBA decision, 78% expect rates to rise over the next year with 48% expecting a rise of 1ppt or more – up slightly from 74% and 45% respectively in May.

Consumer Sentiment Index



The component sub-indexes showed mixed results in June.

The 'family finances vs a year ago' sub-index rose 3.7% but remained in deeply negative territory at 65.4. The detail shows better gains for consumers on lower incomes, those who rent and younger age-groups. The Fair Work Commission's decision to increase the Federal minimum wage and awards by 5.75%, which was announced on the Friday before the survey, looks to have provided some support. Assessments remain understandably weaker amongst consumers with a mortgage, the index read across this sub-group printed 58.5.

The 'economic outlook, next five years' sub-index posted the biggest monthly gain, a solid 6.3% rise to 92.7, but followed a sharp 9.2% fall in May. Stepping back from the recent swings, this component has held up much better than others through the current weakness. The latest monthly read is a touch above the long run average of 92 and comfortably above the six-month average prior to the onset of the COVID pandemic.

Consumers are bracing for a further deterioration in conditions near term. The 'family finances, next 12 months' sub-index declined 2.1% to 84.0, while the 'economic outlook, next 12 months' sub-index was essentially unchanged at a very weak 77.2. These sub-indexes had already fallen by 9-10% in May. Expectations are particularly weak amongst older age-groups and across the mortgage belt.

Attitudes towards major purchases soured again in June, falling back to near the extreme lows seen in February and March. The 'time to buy a major household item' sub-index fell 6.5% to just 76.4. Buyer sentiment is extremely weak across the mortgage belt (72), amongst women (65.9) and those aged over 45 (69.4).

Of most concern is confidence around jobs – which has been the single bright spot in otherwise bleak consumer surveys over the last year. This now looks to be fading fast.

The Westpac-Melbourne Institute Unemployment Expectations Index rose 6.6% in June to 131.3 (recall that higher index reads mean more consumers expect unemployment to rise in the

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

year ahead). The index has now surged 32% since the interest rate tightening cycle began in May last year with June marking the first weaker-than-average read in the cycle to date. The latest monthly deterioration was led by those working in the education and hospitality sectors.

The combination of higher interest rates and dwelling prices is driving a sharp fall in homebuyer sentiment. The 'time to buy a dwelling' index fell 5.7% to 72, unwinding most of last month's 7.4% rise and continuing to hold near historical lows. While these are not the weakest index reads on record, the sixteen-month run since March is easily the most prolonged period of very weak buyer sentiment we have seen since the survey began in 1974.

However, despite the unexpected increase in the cash rate, expectations for house prices remained firmly positive. Indeed, there was no significant change in the Index in the samples before and after the rate increase decision was announced (146.2 and 147.1 respectively).

Over the whole survey, the Westpac Melbourne Institute House Price Expectations Index was up 1.7% on May. At 146.7 the index is still well above the long run average of 125.8. Over 60% of consumers expect prices to rise over the next 12 months. Price expectations posted a particularly strong gain in WA (+24%) and was somewhat firmer in NSW (+3.6%)

Consumer risk aversion hit new record highs in June. Updates on our 'wisest place for savings' questions, run every three months, show safe-havens and paying down debt are very heavily favoured. Well over half of all consumers nominate either 'bank deposits' (32%) or 'pay down debt' (27%) as the wisest place for savings. The proportion nominating 'pay down debt' was the highest since this option was included in 1997. Conversely, very few consumers favour riskier options. Just 5% nominate 'real estate' (near all-time record lows) and 8% nominate shares.

The Reserve Bank Board next meets on July 4. We expect the Board will decide to raise the cash rate by 0.25% to 4.35%.

In his Statement following the surprise move to raise the cash rate in June the Governor noted concerns about a potential lift in inflation expectations contributing to a wage-price spiral amid already sharp increases in unit labour costs. He emphasised that upside risks to the inflation outlook have increased.

The tone of the Statement indicated a marked concern around upside inflation risks and a clear preference for a tighter policy stance.

Given that little further information will be available on expectations and unit labour costs in the near term it seems logical that delaying the tightening for another month, to assess more data, seems unnecessary and may just exacerbate the expectations risks. For these reasons we expect that the Board will choose to move next month.

Bill Evans, Chief Economist, Westpac Group

Consumer Sentiment – June 2023

Item	avg*	Jun 2021	Jun 2022	May 2023	Jun 2023	%mth	%yr
Consumer Sentiment Index	101.0	107.2	86.4	79.0	79.2	0.2	-8.3
Family finances vs a year ago	88.8	89.6	74.0	63.0	65.4	3.7	-11.7
Family finances next 12mths	107.0	107.3	86.2	85.8	84.0	-2.1	-2.5
Economic conditions next 12mths	90.8	108.7	83.8	77.3	77.2	-0.1	-7.9
Economic conditions next 5yrs	92.0	114.0	98.1	87.2	92.7	6.3	-5.5
Time to buy a major household item	125.3	116.5	89.5	81.7	76.4	-6.5	-14.7
Time to buy a dwelling	121.6	96.1	75.1	76.3	72.0	-5.7	-4.1
Unemployment Expectations Index	129.2	108.4	108.5	123.2	131.3	6.6	21.0
House Price Expectations Index	125.8	157.8	111.1	144.3	146.7	1.7	32.0
Interest Rate Expectations Index	153.5	n.a.	186.1	176.2	178.9	1.5	-3.9

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 5 June to 9 June 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.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

© Copyright 2023 Westpac Banking Corporation

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customer@xylo.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Disclaimer continued overleaf

Disclaimer continued

Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- I. Chinese Wall/Cell arrangements;
- II. physical separation of various Business/Support Units;
- III. Strict and well defined wall/cell crossing procedures;
- IV. a “need to know” policy;
- V. documented and well defined procedures for dealing with conflicts of interest;
- VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.