THE RED BOOK

OCTOBER 2023

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The **Westpac–Melbourne Institute Consumer Sentiment Index** continues to hold around very weak levels, edging up only slightly, by 0.9%, over the three months to October. At 82, the Index remains in deeply pessimistic territory.

The detail show some faint glimmers of hope around family finances, buyer sentiment and the outlook for jobs but tentative improvements are still being overshadowed by ongoing cost-of-living pressures and rate rise concerns.

Risk aversion remains very high: the **Westpac Risk Aversion Index** declined 6.7pts but at 54.1 remains extremely high by historical standards. Consumers are marginally less in favour of 'paying down debt' and slightly more inclined towards 'real estate' but maintaining very conservative attitudes overall.

The sentiment mix continues to be consistent with large cuts in per capita spending. **CSI±**, a modified sentiment indicator that has been a useful guide to actual spending in the past, is hovering around historic lows broadly consistent with per capita spending declines of well over 4%.

Actual per capita spending has dipped but to date been much more resilient than this indicator suggests. This likely reflects the large financial 'buffers' consumers have built up in recent years – a factor that will continue to cushion the hit to spending going forward but to a reduced degree as buffers start to get run down.

Consumers remain wary of the potential for more rate rises in the months ahead. Among those surveyed after the October RBA decision, 63% expect mortgage rates to rise over the next year, up sharply from 48% in September but below the 70-80% reads seen when the RBA was actively hiking. Only 7% expect rates to be cut.

Consumer expectations for inflation eased slightly over the three months to October but expectations for wages growth ticked up a touch. Neither will be posing great concerns for the RBA with inflation expectations heading in the right direction and wage expectations still looking relatively benign.

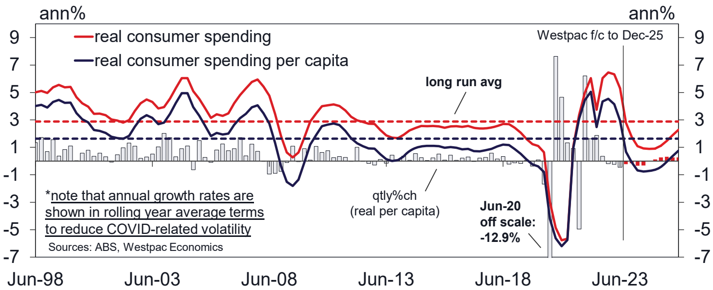
The **'time to buy a major item'** rose 4.7% over the three months to October, one of the more promising shifts in recent months, albeit with the index still at extreme lows. If sustained, the latest lift may be signalling that the inflation situation for consumers is starting to settle down.

Homebuyer sentiment remains extremely weak, the **'time to buy a dwelling'** index dipped 0.6% over the three months to October and remained near extreme cycle lows. The negative consensus is very broad based with only one of the 55 sub-groups recording an outright positive read since April last year.

Consumer house price expectations remains strongly positive. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** lifted a further 7.4% over the three months to October to 160.4, a new cycle high. A strong outright majority of consumers (73%) expect prices to continue rising although the detail shows a relatively small portion expect gains of over 10% – 14% compared with nearly a quarter back in 2021.

Labour markets are still the main bright spot, and perhaps the last line of defence, sentiment-wise. The **Westpac–Melbourne Institute Unemployment Expectations Index** dipped 3% to 127.3 over the three months to October, hovering around its long run average (recall that a lower index reads means more consumers expect unemployment to fall in the year ahead). To date, readings remain consistent with flat rather than weak conditions.

Consumer spending: weak



Our October **Red Book** shows Australian consumers continuing to come under intense financial stress from the combined impact of a surge in the cost-of-living and rapid interest rate rises. While pressures are starting to abate on both fronts, sentiment remains deeply pessimistic, consumers still struggling with markedly higher prices and seeming unconvinced by both the moderation in inflation to date and the pause in official interest rate rises.

The depth and duration of the slump in sentiment highlights the critical role 'excess savings' carried over from the pandemic have played in cushioning the hit to the wider economy. Based on historical relationships, current reads in sentiment could have delivered a very large contraction in per capita spending, in the order of 5ppts. Instead, while spending has been weak, it has been trimmed rather than slashed, declining by closer to 0.5ppts in per person terms over the cycle to date.

How much this reserve can and does continue to buffer spending against acute pressures on income remains a key uncertainty heading into 2024.

Labour markets are also set to have a huge bearing next year. Australia's resilient jobs market has been a key support for consumers in 2023 – and likely the only factor preventing a complete capitulation in confidence to all-time lows. Consumer unemployment expectations remain consistent with flattening labour market conditions rather than a sharp weakening. That may change as the cycle – which already looks to have turned for jobs – enters a more pronounced period of weakness in the first half of 2024.

Consumers look to be facing two different scenarios: one in which inflation subsides without a need for further rate rises and labour market conditions remain benign enough to allow for a sentiment recovery; and a second one in which inflation persists, further policy tightening is required and a material weakening in labour markets undermines any prospective improvements.

No doubt there will be other factors and risks in play but the broad contours of the outlook for the Australian consumer already look fairly well established.

THE CONSUMER MOOD: SOMBRE

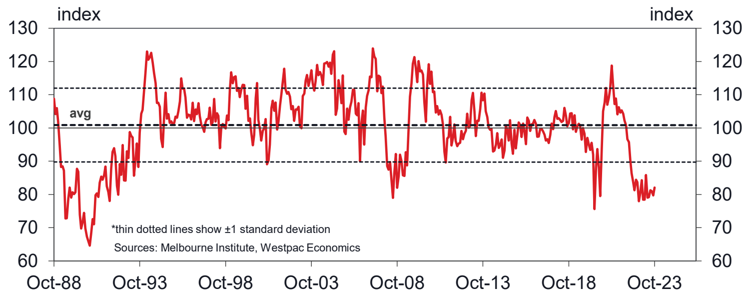
– The **Westpac Melbourne Institute Index of Consumer Sentiment** has continued to hold around very weak levels, edging up only slightly, by 0.9%, over the three months to October. At 82, the Index remains in deeply pessimistic territory, the best part of 20pts below 'neutral'.

– The latest monthly detail show some faint glimmers of hope, particularly around family finances, buyer sentiment and the outlook for jobs. But in the case of family finances and buyer sentiment, gains are small and coming off extreme lows. And any tentative improvements are clearly still being overshadowed by ongoing cost-of-living pressures and rate rise concerns.

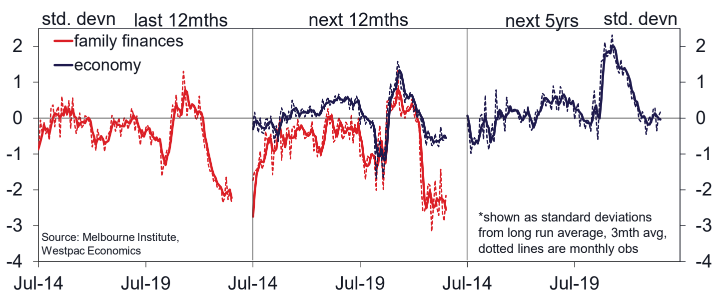
– Notably, the pause in the RBA's interest rate tightening cycle has done little to ease pessimism, sentiment overall only up 3.7% since June, and only up 5.9% across the rate-sensitive mortgage belt. The constant cash-flow hits from interest rate rises may have stopped for many but consumers remain on high alert for further rate rises (see p11).

– And to the extent that other cost-of-living pressures are moderating, and expected to continue doing so, this also appears to have provided little comfort. Annual inflation has fallen from the 8.2%yr peak last year to 5.2%yr currently and is expected to slow to 3.5%yr by mid-2024 (still relatively high pace overall).

1. Consumer sentiment: no let-up from deep pessimism



2. Consumer sentiment: finances, economic conditions



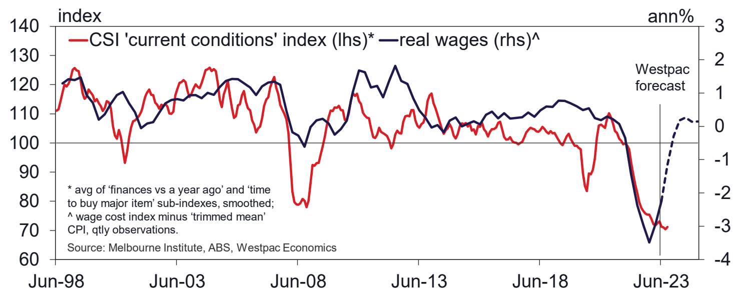
– There may be some ‘asymmetry’ in the way inflation impacts sentiment, with bursts of inflation doing more to damage confidence than moderations do to support it, especially when inflation is still running at a relatively fast pace. This would tend to happen if consumers are more aware of the level of prices than their rate of increase – a slowdown in the latter may be beneficial but not appreciated if prices are still very high.

– Consumers may also be doubting the extent to which we see a further drop in inflation, particularly given the recent surge in fuel prices (+15% through August-September), a highly visible price that often shapes expectations.

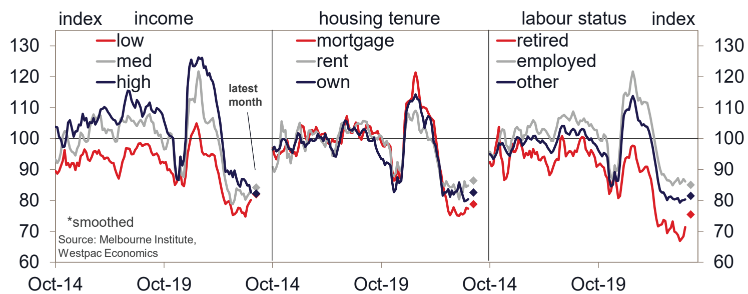
– While cost-of-living issues continue to dominate sentiment overall, the sub-group detail points to some important nuances. A lift in sentiment amongst those on low incomes likely relates to recent increases in minimum wage and Award rates and to inflation indexation adjustments to welfare rates. A solid rise in sentiment amongst retirees also likely reflects improved interest returns.

– Consumers remain more comfortable on the economy, the ‘economy, next 5yrs’ sub-index even holding near its long-run average. This suggests they remain confident that current cost of living problems will eventually be brought under control.

3. Consumer sentiment: ‘current conditions’ vs real wages

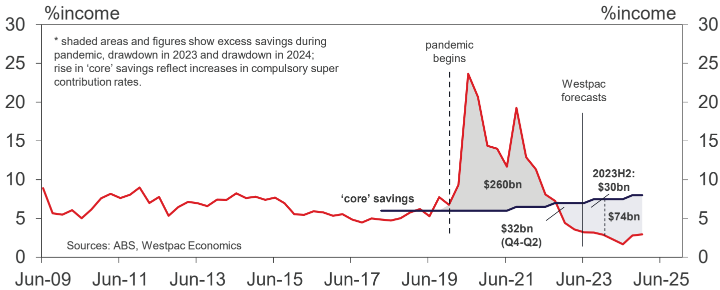


4. Consumer sentiment: selected sub-groups

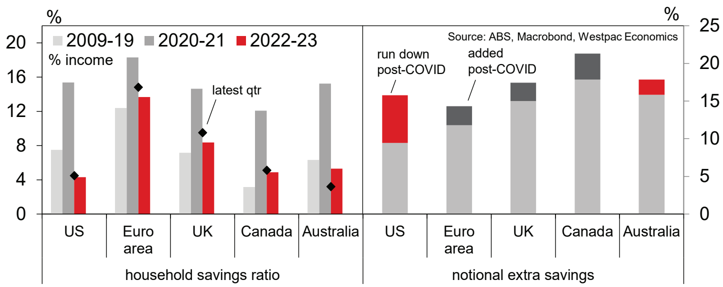


- Ordinarily, the extremely weak sentiment reads seen over the last year could be expected to result in a large outright fall in spending (see p9). Instead, consumption has been about flat, dipping, but only slightly, in per capita terms. A key reason for the resilience is the presence of a large buffer of additional savings accumulated during the COVID period. How consumers use this buffer remains a key uncertainty.
- The combination of income supports and lockdowns saw a sharp rise in household saving rates (the portion of incomes left unspent) in 2020-21 – averaging 15% in Australia compared to a pre-COVID 'par' of around 6%.
- These extra savings added up to around $260bn over the period, about 18% of annual household disposable income. Savings rates have dropped sharply since then, to well below 'par' (which is slightly higher due to gradual increases in compulsory super contributions in recent years). The difference implies a run down of this reserve of about $32bn (12%).
- Westpac expects a further $30bn to be run down in the second half of 2023 and $74bn to be run down over the course of 2024 – the bulk of which will likely be in the form of reduced holdings in mortgage offset accounts. However, the path is of course highly uncertain.

5. Household saving ratio: Australia

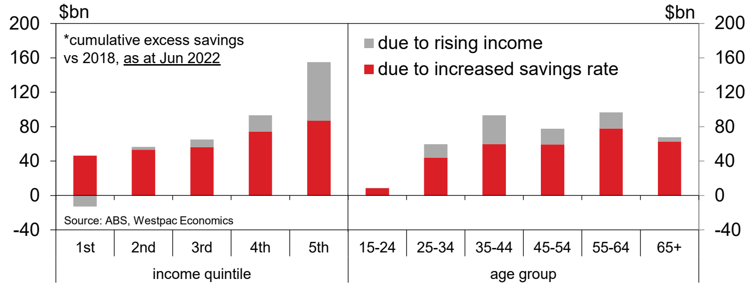


6. Household savings: selected countries

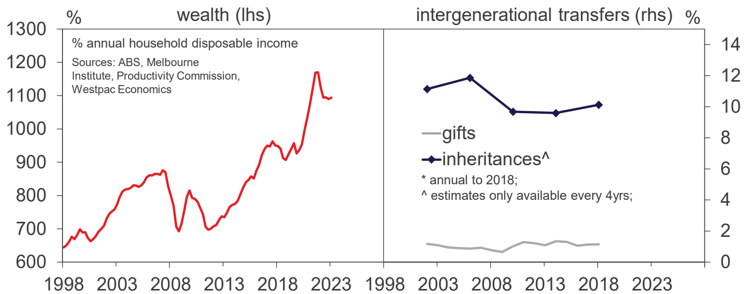


- Precedents from abroad offer mixed guidance. In the US, 40% of a similar-sized savings buffer appears to have been run down. However, households in Europe, the UK and Canada have maintained savings above pre-COVID rates, implying they have continued to add to reserves rather than draw them down. The reason for the differences is unclear, but may relate to the scale and form of policy supports during COVID.
- Measurement can also be a significant issue. As the net of two large numbers, income and spending, saving is prone to revision. Latest estimates from the US for example significantly revised the extent of the implied run-down in savings.
- The distribution of this reserve could also have a bearing on the extent to which is gets drawn. Figures to June 2022 show savings were skewed towards high income and older households – a skew that has likely become bigger since and could result in milder buffer effects going forward as these groups tend to have a lower 'propensity to consume'.
- Against this is the potential for other factors to accentuate the fall in savings. In particular, rising asset prices (housing especially) could see wealth effects emerge, a phenomenon that would be associated with lower saving. A lift in intergenerational transfers could also affect how buffers and wealth impact.

7. Extra savings by income quintile, age group



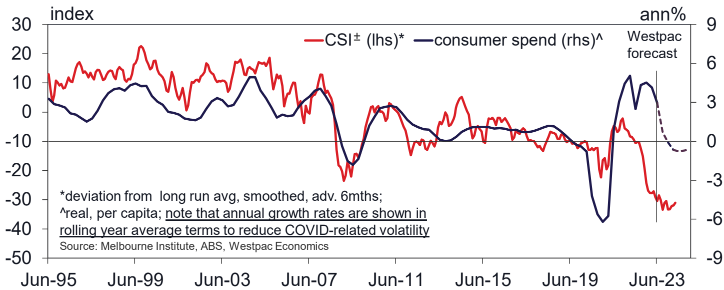
8. Wealth effects, intergenerational transfers: potential factors



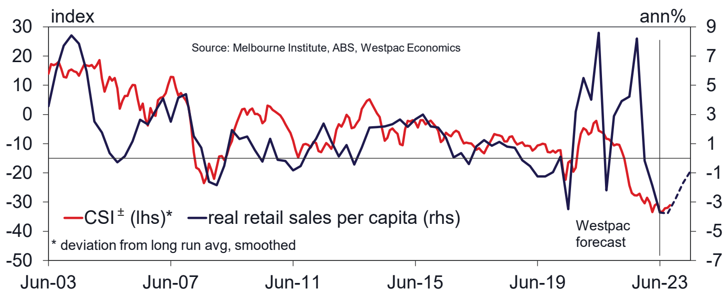
SENTIMENT INDICATORS: SPENDING

- 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 previously, that 3–6mth lag currently looks to be considerably 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. Both of these buffer effects are now starting to dissipate.
- Bearing this in mind, our **CSI±** indicator should be viewed as a guide to where per capita spending growth momentum is likely to land once buffer effects are out of the picture. As such, the latest reads continue to warn of a sharp weakening. The October update remains consistent with per capita spending potentially contracting at a 5% annual pace.
- To be clear, Westpac does not expect a contraction in spending of this order. While disposable income is coming under intense pressure, the aforementioned buffers will continue to soften the knock on effect on spending. Meanwhile, the sentiment pulse should start to improve, especially once inflation comes down.

9. CSI± vs total consumer spending

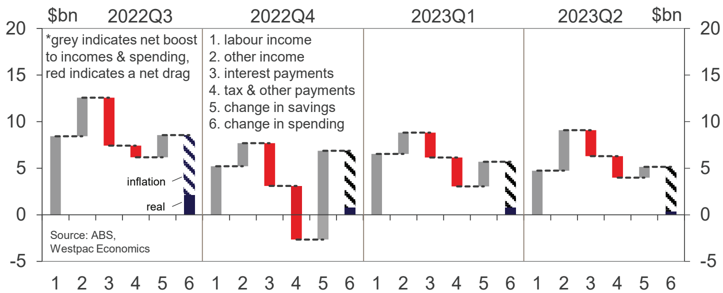


10. CSI± vs retail sales

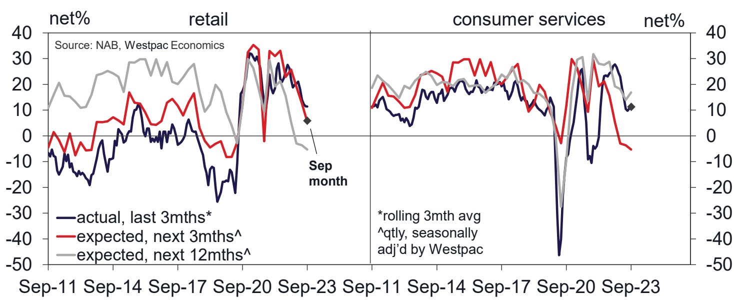


- Consumer demand is weak nonetheless. Spending rose just 0.1% in Q2, marking a third successive quarterly decline in per capita terms, the weakest run since the GFC. Gains have tracked a sub-1% annual pace since Q3 2022.
- Chart 11 highlights the income, saving, spending and inflation dynamics. Both labour and non-labour incomes have posted consistent gains over the last four quarters but this has been offset by sharp rises in interest and tax payments. Reduced savings (including draw-downs on pandemic reserves) have been a key funding support for spending increases. But what increases have occurred have been largely eaten up by higher prices.
- Indicators suggest weakness has carried into Q3, albeit with some hints of slightly firmer spending. Our **Westpac Card Tracker** and monthly ABS indicators have shown a better tone, albeit partly due to higher prices. Vehicle sales have surged, but reportedly as delayed orders have been delivered. Against this, higher prices look to have driven a dip in fuel consumption.
- Consumer sector responses to business surveys showed a notable weakening in conditions in Q3. Both retailers and consumer services businesses reported a 5-6pt cooling in current conditions and downgrades to expectations (see Chart 12).

11. Household disposable income changes decomposed



12. Business conditions: retail and consumer services



SENTIMENT INDICATORS: INTEREST RATES

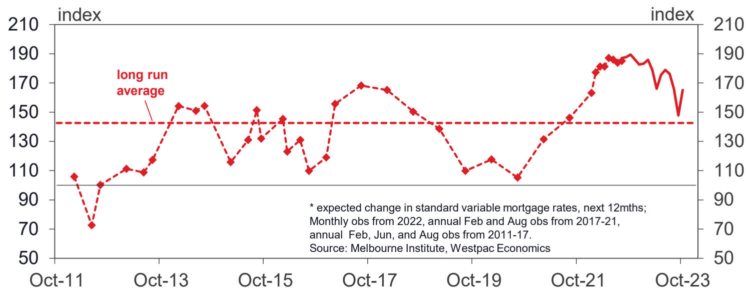
– Consumers remain wary of the potential for more rate rises in the months ahead. The **mortgage interest rate expectations** index, which tracks consumer views on the outlook for variable mortgage rates over the next 12mths, declined 5.9% over the three months to October but has tracked a choppy path with a jump in the latest month. At 164.6, the Index remains well above its long run average of 140.

– Among those surveyed after the October RBA decision, 63% expect mortgage rates to rise over the next year, up sharply from 48% in September (but below the 70-80% reads seen when the RBA was actively hiking). Only 7% expect rates to be cut, down from 15% in September.

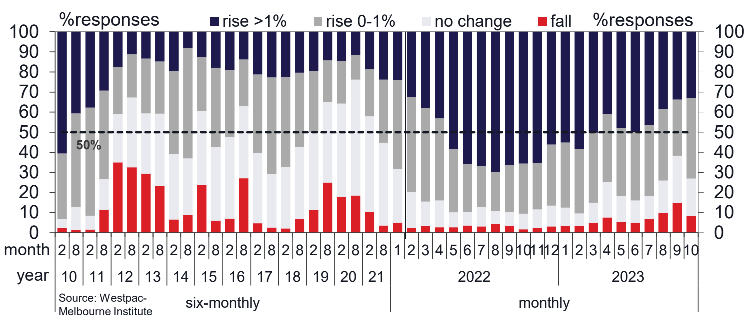
– Some of the increase likely relates to the surprise jump in the monthly CPI indicator, which showed annual inflation moving back above 5% in August.

– The detailed survey responses point to a slightly more nuanced picture. Across sub-groups, the October increase in interest rate expectations was driven by freehold homeowners and older households rather than households with a mortgage. As such, it may be more about hopes of improved returns for the ‘deposit belt’ than fears of further rate hikes for the ‘mortgage belt’. Either way, consumers are still taking a somewhat more hawkish view on the rate outlook than both markets and economists.

13. Mortgage interest rate expectations



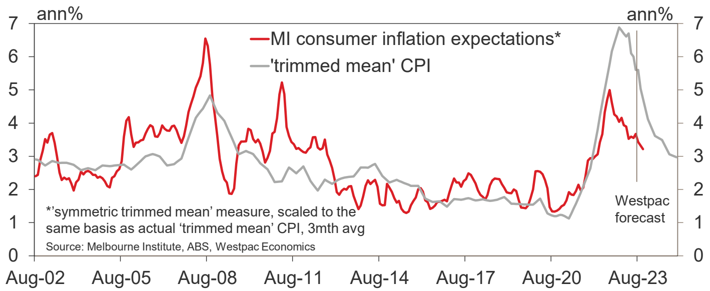
14. Consumer expectations for mortgage rates



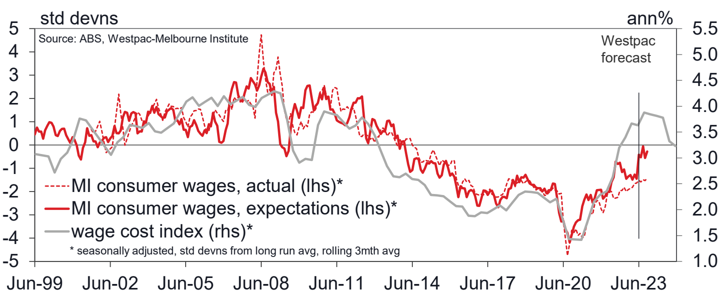
SENTIMENT INDICATORS: INFLATION

- Consumer expectations for inflation eased slightly over the three months to October but expectations for wages growth ticked up a touch.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead inflation expectations declined from 5.2% in July to 4.8% in October, closing back in on the recent low of 4.6% in April. The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations lifted to 1.3% in October from 1.2% in July but remained well below the 1.6% read in June, when the Fair Pay Commission's minimum and award wage decision was announced.
- Both series are shown in three month average terms in the charts below, alongside 'actual' measures of 'trimmed mean' inflation and wages growth. Neither will be posing great concerns for the RBA with inflation expectations heading in the right direction and wage expectations still looking relatively benign by historical standards.
- If they continue to follow their current trajectory, inflation expectations will be back around pre-inflation-surge levels by early 2024. That would be viewed very positively by the RBA but may be hard to achieve given what is still expected to be a gradual return to the 2-3% target band for inflation.

15. CPI inflation: actual vs expected



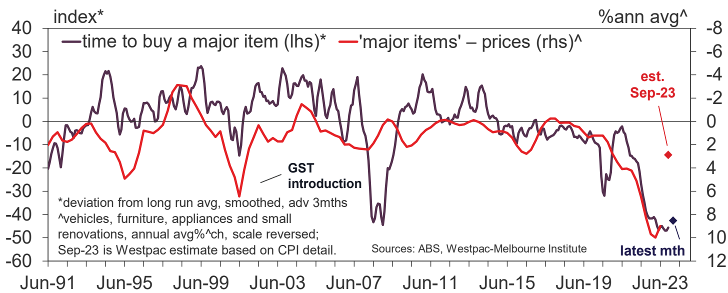
16. Wages growth: actual vs expected



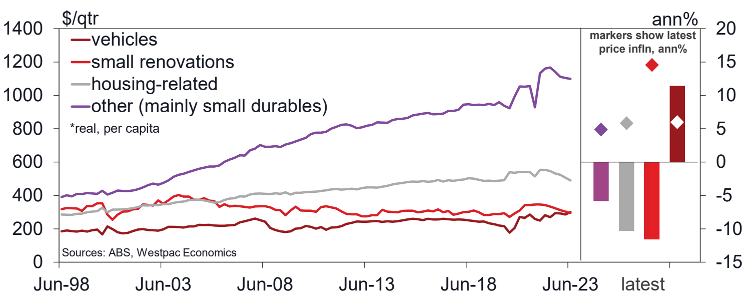
SENTIMENT INDICATORS: DURABLES

- One of the more promising shifts in the most recent few months has been around buyer sentiment. The **'time to buy a major item'** sub–index rose 4.7% over the three months to October.
- While its coming from an extremely weak starting point and, at 82.4, remains in the bottom 2.5% of all readings historically, the Index warrants close attention in coming months. That's because – as Chart 17 demonstrates – the measure is very clearly a barometer of shifts in purchasing power and because the durables prices it is most closely linked to are expected to show a substantive improvement in H2 2023, as supply chain related disruptions drop out of the picture.
- If sustained, the latest lift may be signalling that the inflation situation for consumers is starting to settle down. But that's a very big 'if'. We have also seen a few false starts, most notably the 9.5% rise in April that unwound quickly.
- Our **Westpac Card Tracker** suggests durables spend has started to stabilise in Q3. Separate measures of monthly vehicle sales also showed a strong lift (up an estimated 13.7%qtr in seasonally adjusted terms), although much of this is reportedly delayed deliveries of purchases that were made many months ago. Price-wise, the big improvements are expected to be around household appliances, furniture and renovation costs.

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



18. 'Time to buy a major item' vs spend



SENTIMENT INDICATORS: DWELLINGS

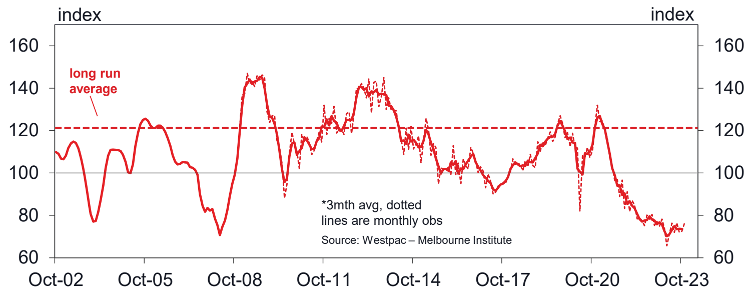
– Homebuyer sentiment continues to bump around the bottom of an extended slump. The **'time to buy a dwelling'** index dipped 0.6% over the three months to October. At 76, it remains at extreme lows, nearly 40% below long run average levels.

– This measure of buyer sentiment is closely linked to affordability, which in turn is affected by both price and interest rate moves. The RBA's rapid re-tightening of policy effectively nullified any affordability improvement that may have come from falling prices last year. With prices now rising again and interest rates still high, potentially rising further, buyer sentiment is understandably bleak.

– The negative consensus is also very strong. Across the 55 sub-groups we monitor, only one has recorded an outright positive reading since April last year: consumers with an investment property. The only comparable period of near blanket negativity, during the GFC, still saw more pockets of optimism.

– The latest sub-group detail does show some notable shifts. Buyer sentiment is becoming less negative in cities but remains weaker regionally. Affordability pressures also look to be seeing more 'stratification' emerge. Across occupation for example, tradies and paraprofessionals are despairing but managers and professionals are becoming less negative.

19. 'Time to buy a dwelling'



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

SENTIMENT INDICATORS: HOUSE PRICES

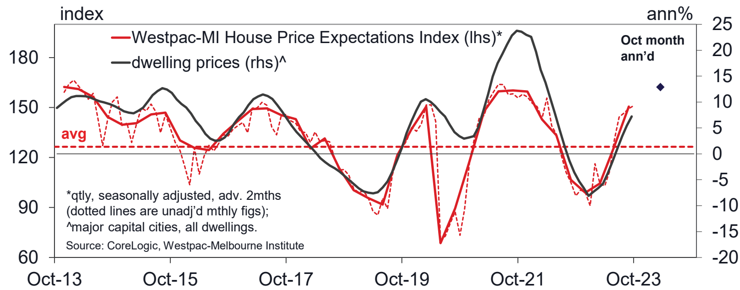
– Consumer house price expectations remain strongly positive, suggesting the price upturn since the start of the year is very well established. The **Westpac Melbourne Institute House Price Expectations Index** lifted a further 7.4% over the three months to October, reaching 160.4, a new cycle high.

– A strong outright majority of consumers (73%) expect prices to continue rising over the next 12mths, just shy of the 2021 peak of 76%. However, the detail shows a notable difference. In 2021, nearly a quarter expected to see very strong gains of above 10%yr. In 2023, a more subdued 14% expect double-digit growth. This almost certainly reflects the very different interest rate and affordability backdrop.

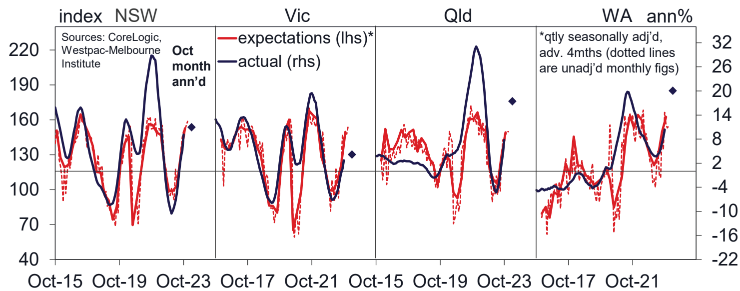
– The latest price data continues to show a robust broad-based upturn. Across the major capital cities, prices have risen 8.6% since the start of the year and have been tracking higher at a 10-13% annualised pace since mid-2023.

– The state breakdowns suggest price expectations are currently being based more on developments nationally than in each specific geography. Chart 22 shows fairly uniform expectations despite variations in price growth. This has not always been the case, 2015-20 a notable period of expectations divergence. The sub-group detail shows the biggest lift in expectations over the last three months has been amongst 55-64 year olds, mortgagors, investors and in Qld and WA.

21. Westpac–MI House Price Expectations Index



22. Dwelling prices: actual vs expected by state



SENTIMENT INDICATORS: RISK AVERSION

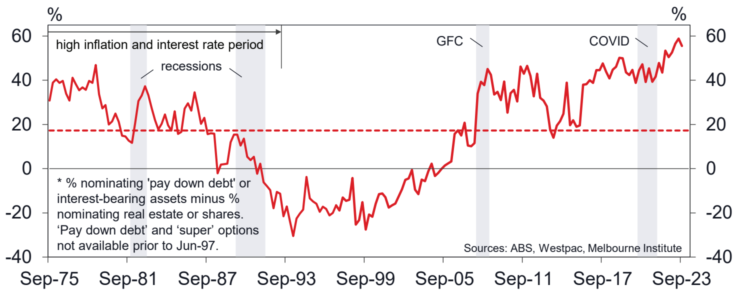
– Consumer risk aversion hit new record highs in June and has only eased slightly since then. The **Westpac Consumer Risk Aversion Index** declined to 54.1 in September, down from 60.8 in June but still the fourth highest reading since the mid-1970s – all of these highs recorded in the last 18 months.

– The index is based on responses to the 'wisest place for savings' questions. These showed mostly minor shifts in September, the proportion favouring 'pay down debt' dipping from 27% to 23%, and the proportion favouring 'real estate' nudging up from 5.3% to 7.4% (still near record lows by historical standards).

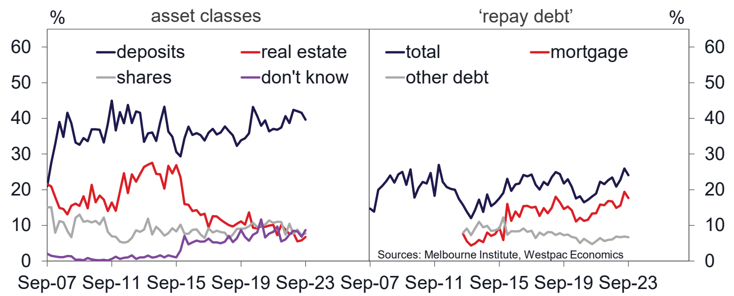
– The survey detail shows risk aversion continues to be more elevated across amongst middle-income, middle-aged and mortgage-belt consumers (with a clear degree of overlap for these groups). Conversely, aversion is less intense across younger age groups, those of retirement age and freehold homeowners, although in all cases the comparable index measures are still north of 40 - an elevated read by historical standards.

– All else being equal, these high levels of aversion could be expected to see consumers act more conservatively with their finances, favouring saving over spending and aiming to keep debt levels low rather than increase leverage.

23. Westpac Consumer Risk Aversion Index vs savings rate



24. Consumer: 'wisest place for savings'



SENTIMENT INDICATORS: JOB SECURITY

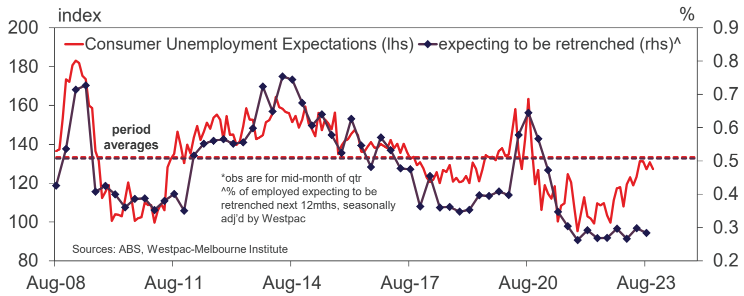
– Labour markets remain the main bright spot and perhaps the last line of defence sentiment-wise. Despite the bleak picture on family finances and pessimistic near term outlook, consumer confidence around jobs continues to show remarkable resilience. The **Westpac Melbourne Institute Index of Unemployment Expectations** dipped 3% to 127.3 over the three months to October, improving slightly but basically hovering around the long run average (recall that a lower index reads means more consumers expect unemployment to fall in the year ahead).

– To date, readings remain consistent with flat labour market conditions rather than a sharp spike in unemployment.

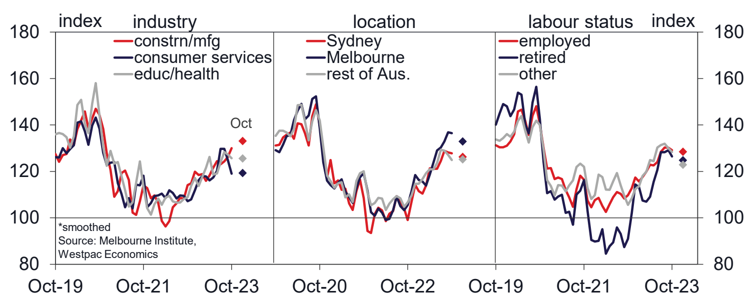
– That continues to be the broad picture coming from labour market data as well. Job gains are gradually moderating, tracking back to an average 3mth pace of +23k in September, half that at the start of the year. Growth in hours worked has also slowed. The unemployment rate remains relatively low at 3.6%, lifting only slightly so far, although other indicators such as job vacancies suggest there has more of a turn (see here for more).

– There are some mixed results in the sentiment detail – rising expectations amongst construction workers but falling for those in the consumer services sector, poorer reads in Melbourne, but more of an improvement amongst the unemployed.

25. Unemployment expectations



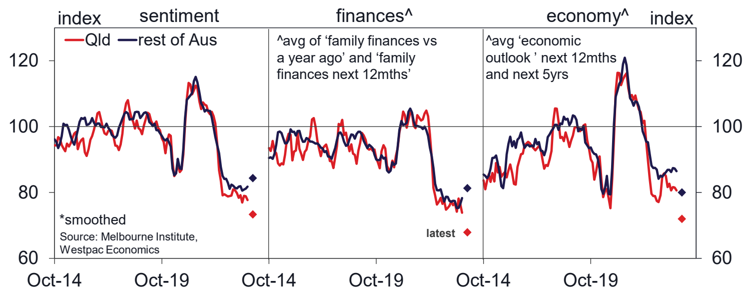
26. Unemployment expectations: selected sub-groups



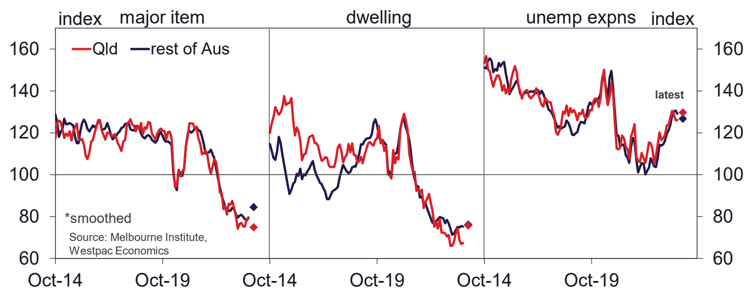
STATE SNAPSHOT: QUEENSLAND

- The last time we profiled consumer sentiment in Qld, a year ago, pandemic concerns had eased but been replaced by new ones around the surging cost of living. A year on, the unease has deepened a little, but partly due to what we presume (and hope) are temporary 'tangential' factors behind a markedly weaker read in the October month.
- On a three month average basis, Qld sentiment has been tracking 2-4pts weaker than the rest of Australia, but widened sharply to 11pts in the October month. We suspect this has more to do with disappointing sports results – grand final losses in both AFL and NRL for local teams – than ongoing 'fundamentals'.
- Setting the October read to one side, Qld consumers do appear to be more materially downbeat on the economic outlook with reads 5-6pts below their inter-state peers. As noted previously, this may reflect some of the structural challenges facing the state's mining and tourism sectors. However, a gap that had previously pointed to a slightly warier view on the jobs outlook in Qld has closed right up.
- Around housing, the picture is more mixed, Qlders having been more pessimistic on 'time to buy' but the gap closing right up in the October month, a move that may have been less influenced by sports results?

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



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



ECONOMIC AND FINANCIAL FORECASTS

Interest rate forecasts

Australia	Latest (20 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.10	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	4.22	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	4.40	4.10	4.00	3.90	3.80	3.70	3.50	3.40
3 Year Bond	4.20	3.85	3.75	3.70	3.60	3.50	3.30	3.20
10 Year Bond	4.74	4.45	4.50	4.40	4.30	4.20	4.00	3.90
10 Year Spread to US (bps)	-20	-15	-15	-20	-20	-20	-20	-20
US								
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
US 10 Year Bond	4.94	4.60	4.65	4.60	4.50	4.40	4.20	4.10

Exchange rate forecasts

	Latest(20 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.6313	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.5829	0.61	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	149.87	147	145	143	141	138	135	132
EUR/USD	1.0575	1.08	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2134	1.23	1.24	1.25	1.26	1.27	1.28	1.30
USD/CNY	7.3174	7.20	7.10	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0830	1.08	1.09	1.10	1.11	1.12	1.13	1.14

Sources: Bloomberg, Westpac Economics.

Australian economic growth forecasts

	2022	2023				2024	
	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f
GDP % qtr	0.7	0.4	0.4	0.3	0.2	0.2	0.3
%yr end	2.7	2.4	2.1	1.7	1.2	1.1	1.0
Unemployment rate %	3.5	3.6	3.6	3.7	3.8	4.1	4.5
Wages (WPI)	0.8	0.8	0.8	1.3	0.8	0.8	0.8
annual chg	3.4	3.7	3.6	3.9	3.8	3.8	3.8
CPI Headline	1.9	1.4	0.8	1.1	0.9	0.8	0.7
annual chg	7.8	7.0	6.0	5.3	4.3	3.7	3.6
Trimmed mean	1.7	1.3	0.9	1.1	0.8	0.8	0.8
annual chg	6.9	6.6	5.9	5.0	4.1	3.6	3.5

	Calendar years			
	2021	2022	2023f	2024f
GDP % qtr	–	–	–	–
%yr end	4.6	2.7	1.2	1.6
Unemployment rate %	4.7	3.5	3.8	4.7
Wages (WPI)	–	–	–	–
annual chg	2.3	3.4	3.8	3.2
CPI Headline	–	–	–	–
annual chg	3.5	7.8	4.3	3.2
Trimmed mean	–	–	–	–
annual chg	2.6	6.9	4.1	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

	2023				2024			
% change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**
Total private consumption*	0.3	0.1	0.3	0.3	0.1	0.1	0.4	0.5
annual chg	3.6	1.5	1.0	1.0	0.8	0.8	0.9	1.1
Real labour income, ann chg	3.2	2.9	2.7	3.1	2.1	1.5	0.5	0.6
Real disposable income, ann chg**	–4.1	–3.0	–2.4	0.1	0.2	0.0	1.1	1.7
Household savings ratio	3.6	3.2	3.3	3.1	2.5	1.9	3.0	3.1
Real retail sales, ann chg	0.3	–1.4	–1.7	–1.0	0.0	0.8	1.0	1.0
Motor vehicle sales (‘000s)***	807	857	974	857	807	830	852	874
annual chg	4.6	14.5	22.0	6.4	0.0	–3.2	–12.5	2.0

	Calendar years			
	2021	**2022**	**2023f**	**2024f**
Total private consumption, ann chg*	5.0	6.5	1.8	0.9
Real labour income, ann chg	3.5	2.6	3.0	1.1
Real disposable income, ann chg**	2.2	–0.6	–2.4	0.8
Household savings ratio, %	14.5	7.8	3.3	2.6
Real retail sales, ann chg	3.5	5.2	–0.9	0.7
Motor vehicle sales (‘000s)	756	781	874	841
annual chg	12.1	3.4	11.9	–3.8

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 % expect-ing 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

	2023					
% change	**avg^**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Westpac–MI Consumer Sentiment Index	100.9	84.3	78.5	78.5	85.8	79.0
family finances vs a year ago	88.6	67.4	62.1	63.4	70.1	63.0
family finances next 12 months	106.9	93.1	86.8	85.3	95.5	85.8
economic conditions next 12 months	90.8	81.4	75.1	73.3	85.4	77.3
economic conditions next 5 years	92.0	92.8	90.3	95.3	96.0	87.2
time to buy major household item	125.0	86.8	78.0	74.9	82.1	81.7
time to buy a dwelling	121.2	78.2	73.9	65.7	71.1	76.3
Westpac–MI Consumer Risk Aversion Index^^	–5.7	–	–	56.5	–	–
CSI±	100.8	73.3	67.9	66.8	72.6	68.1
Westpac–MI House Price Expectations Index#	126.5	104.4	102.9	111.7	130.3	144.3
consumer mortgage rate expectations#	40.5	84.2	87.0	80.3	67.2	76.2
Westpac–MI Unemployment Expectations	129.0	108.0	119.4	122.9	118.9	123.2
MI inflation expectations (trimmed mean)	4.3	5.6	5.1	5.0	4.6	5.2
MI wage expectations (trimmed mean)	1.3	1.1	1.0	0.7	1.1	0.8

continued	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Westpac–MI Consumer Sentiment Index	79.2	81.3	81.0	79.7	82.0
family finances vs a year ago	65.4	62.2	64.3	61.5	63.1
family finances next 12 months	84.0	89.7	89.9	91.6	93.9
economic conditions next 12 months	77.2	81.4	78.2	78.5	78.3
economic conditions next 5 years	92.7	94.3	93.5	90.5	92.4
time to buy major household item	76.4	78.8	79.0	76.6	82.4
time to buy a dwelling	72.0	76.4	72.1	72.5	76.0
Westpac–MI Consumer Risk Aversion Index^^	58.9	–	–	55.5	–
CSI±	66.7	68.2	69.1	68.5	71.0
Westpac–MI House Price Expectations Index#	146.7	149.3	151.2	154.6	160.4
consumer mortgage rate expectations#	78.9	74.8	64.3	46.7	64.6
Westpac–MI Unemployment Expectations	131.3	131.2	127.2	130.8	127.3
MI inflation expectations (trimmed mean)	5.2	5.2	4.9	4.6	4.8
MI wage expectations (trimmed mean)	1.6	1.2	1.2	1.0	1.3

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