THE RED BOOK

MAY 2024

WESTPAC INSTITUTIONAL BANK

CONTENTS

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The next issue of the **Red Book** will be released on 19 July 2024.

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EXECUTIVE SUMMARY

The **Westpac–Melbourne Institute Consumer Sentiment Index** continues to hold around very weak levels, lifting 1.8% over the three months to April but at 82.4 still consistent with widespread pessimism.

Sentiment has been around these levels for two years now, marking the second most protracted period of deep consumer pessimism since the survey began in 1974. The absence of a recovery to date reflects the nature and duration of Australia's inflation challenge, the associated tightening in interest rates and the drag from a big lift in tax payments.

Risk aversion remains very high: the **Westpac Risk Aversion Index** retraced slightly to 55.8 in March but was coming from the second highest read since the start of the survey in the mid-1970s. 'Safe-haven' options such as bank deposits and debt repayment continue to dominate preferences for the 'wisest place for savings'.

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, has improved slightly but remains at extreme lows consistent with per capita spending contracting at a 3.5-4% annual pace. Actual per capita spending declined 2.5%yr in 2023, a very weak outcome, albeit milder than the 5%+ contraction in per capita disposable incomes since Q3 2022, the difference due to draw-downs on savings buffers.

Consumer fears of interest rate increases have eased materially. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** posted a sharp 19% fall to 122.8 over the three months to April. While the index is still above 100, implying more consumers expect rates to rise than fall, it is on a par with the levels seen when the RBA was easing rates in 2015-16.

Consumer expectations for inflation and wages growth both ticked up a touch over the three months to April but are off their recent peaks. Inflation expectations are consistent with inflation returning to 3%. Wage growth expectations remain above their weak 2015-19 levels but relatively subdued by longer term historical standards.

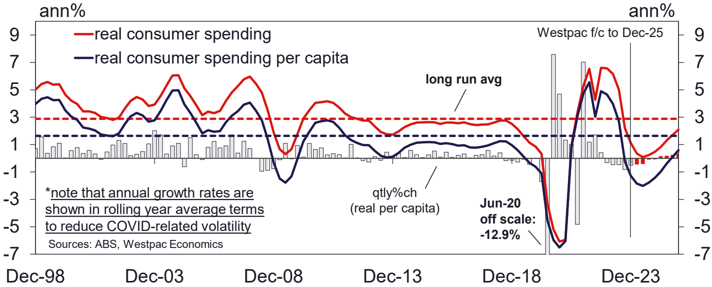
The **'time to buy a major item'** index continues to languish near historic lows, barely up 1% over the three months to April. This component should be the first to detect any improvement in how consumers are seeing cost-of-living pressures. That said, the slowdown in inflation now evident across most durables – some even recording outright price declines – has done little to lift buyer attitudes to date.

Homebuyer sentiment is also struggling to lift off historical lows. The **'time to buy a dwelling'** index posted a 4.5% rise over the three months to April, but was only partially unwinding a 5.3% decline over the previous three months. Notably, buyer sentiment has seen more of a firming in Victoria, where dwelling prices have recorded modest declines in recent months.

Consumer house price expectations remain extremely positive. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** pushed a further 2% higher to 161.2 in April. Expectations remain bullish across the board despite a diverging price performance across capital city markets.

Incomes may be under pressure but consumers are relatively secure about their job prospects. The **Westpac–Melbourne Institute Unemployment Expectations Index** improved 4.6% over the three months to April and is now consistent with a slightly firmer labour market outlook compared to the flat expectations that prevailed through 2023.

Consumer spending: stalled flat



The long consumer-led stagnation that began two years ago is showing few signs of letting up. Our April **Red Book** finds Australian consumers remain deeply pessimistic as they continue to struggle with cost-of-living pressures with no convincing end in sight.

There are some glimmers of hope. The prospect of tax cuts in July is seeing some of the pessimism around family finances ease and the news around inflation is getting less oppressive. However, these are being clouded by a loss of confidence around the economic outlook and an unsettling fall in buyer sentiment.

Moreover, what little recovery momentum is showing through will likely be checked in the months ahead. The stronger-than-expected inflation update released after the April survey closed looks set to delay any prospective easing in interest rates, markets even speculating that the next move could be up rather than down.

The RBA's response in its May meeting will shape the consumer sentiment reaction (as will the Federal budget due next month), but a boost looks unlikely.

While fiscal influences are becoming more positive, it still looks like we will need to see a more material improvement around inflation and interest rates to shift the dial on consumer sentiment.

Meanwhile, the wider consumer sentiment landscape remains broadly the same – housing-related sentiment caught between deeply pessimistic assessments of 'time to buy' and very bullish expectations for prices; risk aversion extremely high; but consumers still relatively secure about jobs.

Our April report also surveys the consumer scene globally – Australia standing out compared to peers in terms of both the extended duration of weak sentiment and a rapid and more pronounced fall in per capita spending. The speed of pass-through from official rates to average mortgage rates and the influence of fiscal policy are two clear points of difference.

We also take a closer look at sentiment across generations. While 'youthful optimism' remains a feature of age differences in sentiment, adjusting for this suggests successive generations are less confident at the same point in their life cycles.

THE CONSUMER MOOD: FATIGUED

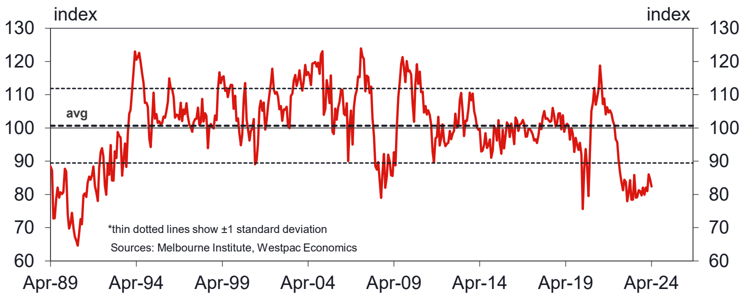
– Consumers remain in the grips of an extended period of deep pessimism. At 82.4, the **Westpac Melbourne Institute Index of Consumer Sentiment** remains nearly 20pts below the 'neutral' level of 100, pessimists continuing to outnumber optimists by a wide margin. The Index has ticked up slightly by 1.8% over the 3mths to Apr but gains have proven hard to sustain.

– Sentiment has been around these levels for two years now, easily the second most protracted period of deep consumer pessimism since we began surveying in the mid-1970s (the longest being during the early-90s recession with all other slumps lasting 9mths or less).

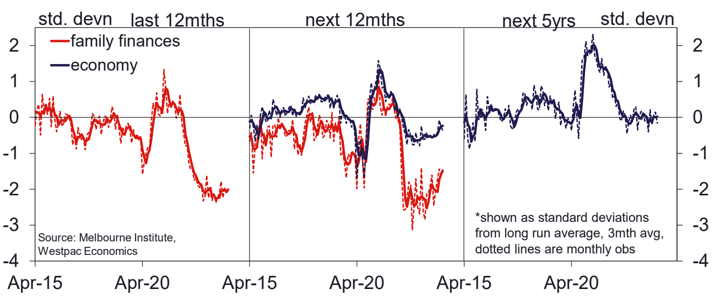
– The absence of a sentiment recovery to date reflects the nature and duration of Australia's inflation challenge. Consumer price rises have outstripped wage growth by 6ppts over the last three years. That has combined with a sharp increase in interest rates and a big lift in tax payments putting household incomes under intense, sustained pressure.

– The whole episode has also been relatively drawn-out as well – inflation still running above the RBA's 2-3% target band three years on and giving little to no scope for either monetary or fiscal policy to provide material support. The April sentiment update suggests consumers continue to expect slow progress on inflation.

1. Consumer sentiment: extended period of deep pessimism

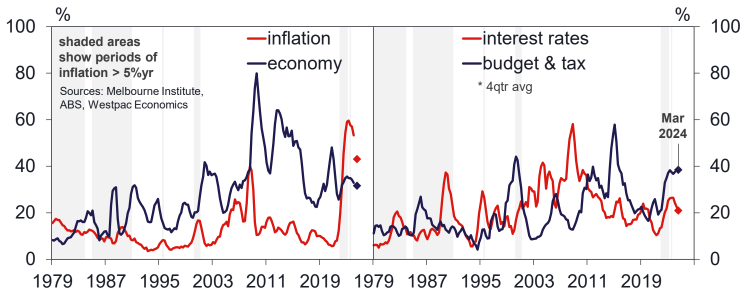


2. Consumer sentiment: finances, economic conditions

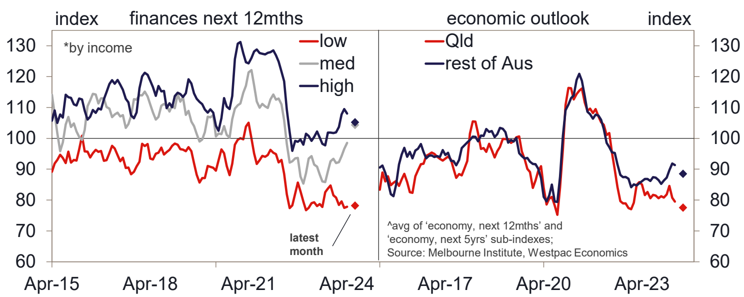


- There are some glimmers of hope in the detail. The sub-indexes continue to show a slight improvement in assessments of family finances, particularly for the year ahead, buoyed by the prospect of tax cuts in July (medium and high income sub-groups leading gains).
- Responses to extra questions on news recall also suggest cost-of-living issues are becoming less oppressive. Inflation is still dominating the news cycle but recall levels eased back to 43% from the 60%+ highs seen last year when the issue was effectively drowning out everything else. The negativity is also less intense, a net 51% assessing inflation news as unfavourable vs 74% a year ago.
- However, these gains have been largely offset by a loss of confidence in the economic outlook and an unsettling fall in buyer sentiment (see p11). Around the economy, the state detail shows a particularly big pull-back in Qld, where the state government's recent decision to scale back some of the development plans associated with the 2032 Brisbane Olympics looks to have impacted.
- The deterioration elsewhere likely reflects broader concerns that inflation is taking longer to come back under control. As such, the next survey in May is likely to see more softening following the upside surprise in the Q1 CPI update released last week (see [here] and [here] for more).

3. Consumer news recall: selected topics



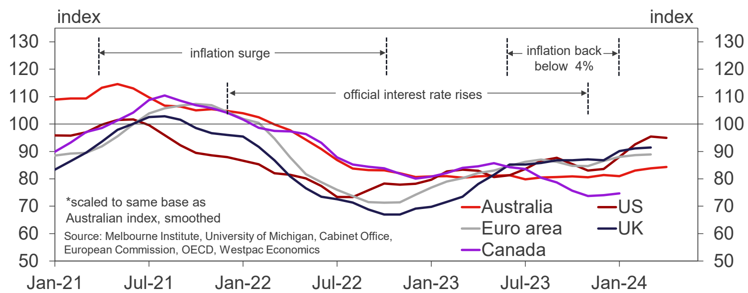
4. Consumer sentiment: selected sub-group detail



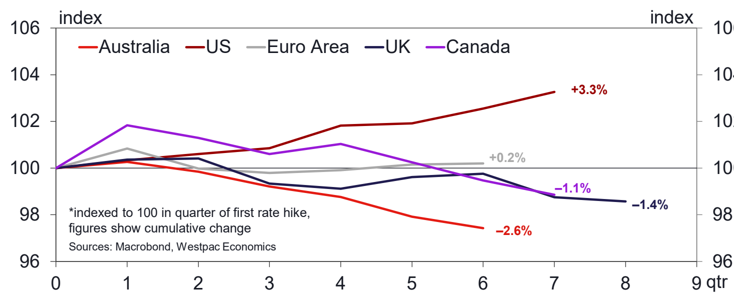
SPECIAL TOPIC: CONSUMERS VS PEERS

- Australian consumers have had a more difficult time than most over the last two years. Compared to peers, both sentiment and per capita spending have been notably weaker. This special topic looks at the divergence and the inflation and policy aspects that have contributed to it.
- Chart 5 shows the Australian consumer sentiment alongside comparable measures for the main peers we tend to benchmark to: the US, Europe, the UK and Canada (all converted to be comparable to Westpac's measure). The consumer mood was slower to sour in Australia and never reached the extreme lows seen abroad but has persisted at weaker levels for longer.
- Most recently, the 80-85 Index reads we continue to see in Australia compare to equivalent reads in the 85-90 range for the Euro area and in the 90-95 range for the UK and the US. Canada is the only jurisdiction recording materially weaker sentiment than Australia, with a drop since mid-2023 taking its measure to 75.
- Chart 6 shows how spending has tracked since rate rises began in each jurisdiction. Note that spending is in per capita terms rather than aggregate as sentiment is notionally a 'per person' gauge. Ordinarily the distinction does not matter but swings in population growth have had a more pronounced effect on total spending in recent years for some countries.

5. Consumer sentiment: Australia, US, EU, UK & Canada



6. Consumer spending: Australia, US, EU, UK & Canada



- Spending has been markedly weaker in Australia, recording a cumulative 2.6% decline in per capita terms since the RBA tightening cycle began. That compares to 1-1.5% declines in the UK and Canada, a slight 0.2% rise in Europe and a solid 3.3% rise in the US. The starkly weaker performance is despite a smaller total rise in official rates: the RBA's 4.25ppts in tightening comparing to increases of 4.5-5.25ppts across peers.
- Some of the variation across countries reflects different inflation outcomes – with the cumulative price rise larger in the US, Europe and especially the UK (where energy-driven increases following Russia's invasion of Ukraine were larger).
- Two other factors that have been more important for Australia: 1) the rapid pass-through from official rates to average mortgage rates due to the high share of variable loans; and 2) more restrictive fiscal settings – the general government primary fiscal balance moving into slight positive in 2022-23 compared to a large move into deep deficit in the US.
- For consumers, a key fiscal policy difference is around the way income tax thresholds are set: fixed in Australia (making for a significant fiscal drag) but indexed to inflation in the US. This point of difference will shift somewhat with the 'Stage 3' tax cuts in July, the measures worth 0.8% of Australian GDP.

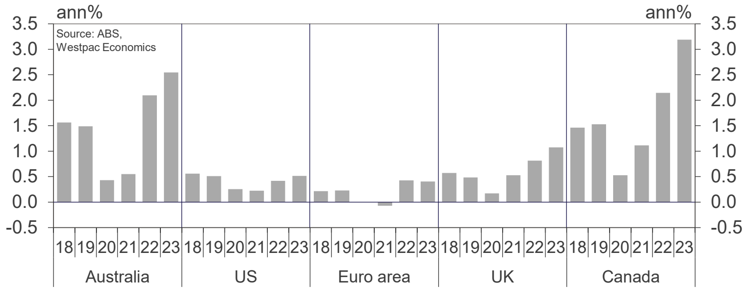
7. Policy influences: Australia, US, Euro area, UK & Canada

	Australia	US	Euro Area	UK	Canada
Inflation:					
– price rise, cumulative %*	15.9	18.7	18.4	21.0	15.9
Monetary tightening:					
– official interest rate, ppts	4.25	5.25	4.50	5.15	4.75
– avg mortgage rate, ppts^	3.30	0.49	n.a.	1.37	2.14
Fiscal policy:					
– balance %GDP 2023#	+0.2	–5.8	–2.0	–3.6	–0.1
– ppt chg, 2022-23	+1.6	–4.5	+0.2	–2.6	+0.2

* over period when annual inflation > 4%; ^ average rate on outstanding loans (figure for US is up to Dec 2023)
# general government primary balance, including all levels of govt, excluding net interest payments.

Source: Macrobond, IMF, Westpac Economics

8. Population growth: selected countries



SPECIAL TOPIC: GENERATIONAL TENSION

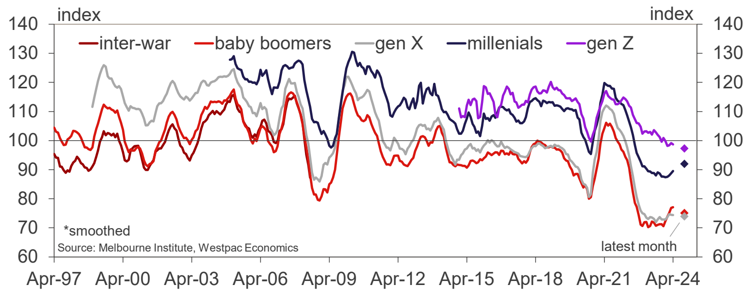
– The inflation surge over the last two years has seen a broad-based slump in sentiment. By many accounts it has also widened the 'generation gap' between the 'baby-boomers' and others, especially millennials and Gen Z. To what extent does this wedge reflected in sentiment reads?

– Chart 9 below shows sentiment measures for each of the generations based on age-group responses, specifically: 'baby boomers' (b. 1946-65, now aged 59-78, accounting for 24% of the population aged 18+); 'gen X' (b. 1966-1985, aged 39-58, 32%); 'millenials' (b. 1986-1996, aged 30-39, 19%); and 'gen Z' (b. 1996-2010, aged 14-28, 19%).

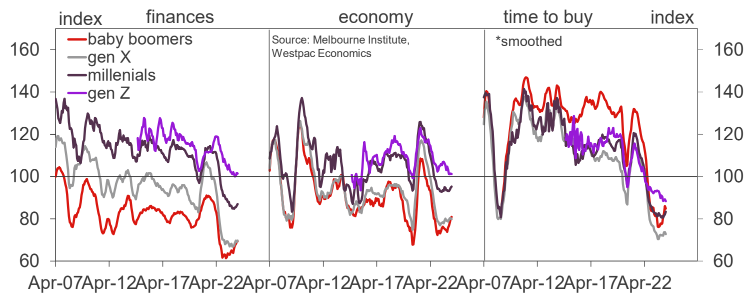
– The first thing to note is that, generational issues notwithstanding, there is a strong positive sentiment effect associated with being younger. Historically this alone has been worth about 1ppt on sentiment for every two years of age.

– Chart 10 shows most of this is due to different assessments of finances and the economy. Younger cohorts are typically moving through periods of more rapid income rises (as they enter the workforce and move through the early stages of a career or trade). On the economy, they may also have a narrower frame of reference, having not experienced major recessions (although the GFC and COVID period may balance they somewhat).

9. Consumer sentiment by generation

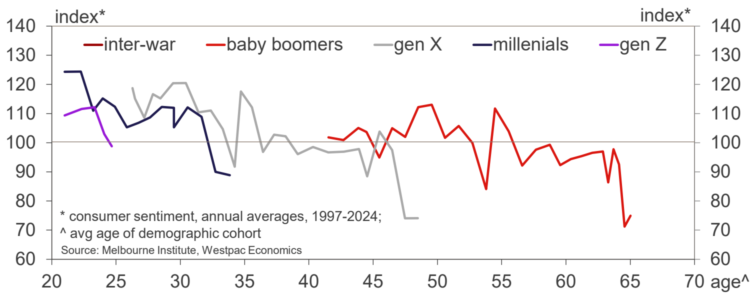


10. Consumer sentiment components by generation

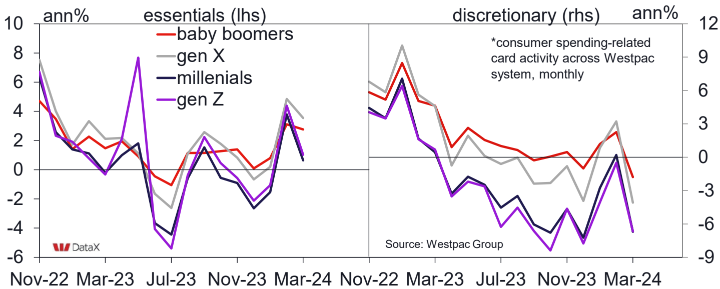


- We can control for these 'life-cycle' effects by looking at the evolution of sentiment as each cohort ages, as shown in Chart 11. This provides a more balanced picture, the main takeaway being that each successive generation since the baby boomers has reported poorer sentiment.
- In fact, where we have overlapping periods, the declines appear substantive, averaging about 10pts from generation to generation, about half of which is due to weakness over the last two years. Some of this may be spurious, reflecting the timing of major events like the GFC and COVID. However, to the extent that its not, it may result in a sustained shift lower in sentiment overall in coming years.
- While it remains to be seen if this apparent generational shift in sentiment is sustained, there are clear signs of a wedge in actual spending activity. Chart 12 draws on detailed data from the Westpac credit and debit card activity. It shows annual growth in 'essentials' and 'discretionary' categories split into different generational cohorts. Activity has shown a much bigger decline amongst 'millenials' and 'gen Z' especially in 'discretionary' segments.
- The more difficult path to home ownership is often cited as a major source of generational discontent. Our May **Housing Pulse** report (due May 31) will explore the generational picture on housing-related sentiment.

11. Consumer sentiment by age: generations compared



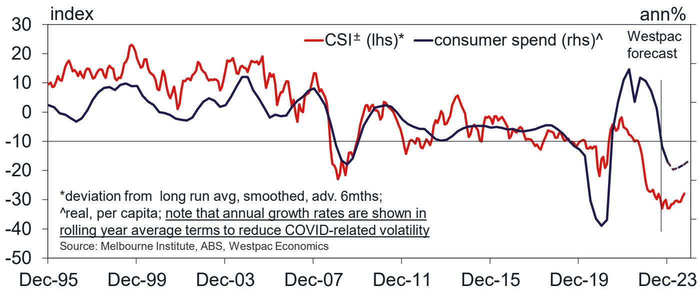
12. Card activity by generation



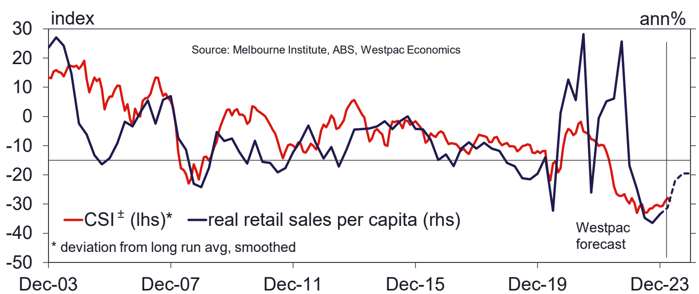
SENTIMENT INDICATORS: SPENDING

- 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 may land once these buffer effects drop out of the picture. The latest update suggests per capita spending would likely be contracting at a 3.5-4% annual pace.
- To be clear, our forecasts do not envisage spending contracting at this extreme pace with the 2.5% decline in per capita spending over the 2023 calendar year expected to mark the low point for growth. That said, to sustain a recovery from here with aforementioned buffer effects dissipating is likely to require a significant lift in the consumer mood.

13. CSI± vs total consumer spending



14. CSI± vs retail sales



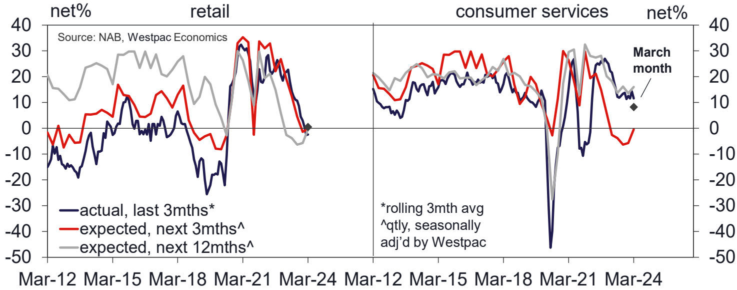
– The Q4 national accounts showed Australian consumers continuing to struggle. Spending was essentially flat, having now barely grown for five successive quarters. The mix showed further declines in discretionary spending categories with gains confined to basics like food, health and fuel.

– The picture on household incomes was a little brighter, wage gains and some easing in tax payments from recent highs driving a 1.5%qtr rise in real household disposable incomes (i.e. after interest and tax). However, most of the improvement flowed to saving rather than spending, the household saving rate lifting from 1.9% to 3.2% (see here for more).

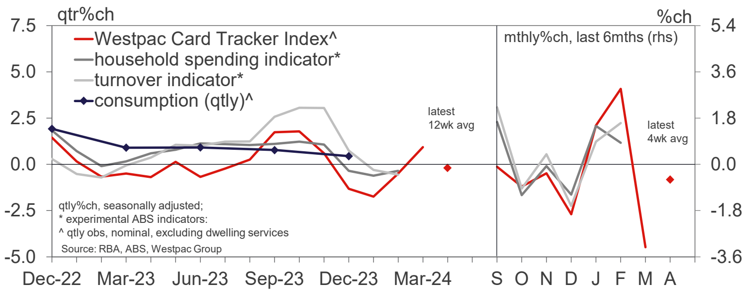
– Timely indicators suggest spending has been flat in early 2024. The ABS retail survey showed sales down 0.4% in Mar after a slight 0.2% rise in Feb and a volatile Nov-Jan period. Q1 volumes are yet to be released but are likely to show another soft 0-0.3% gain in the quarter.

– Our **Westpac Card Tracker** and other monthly ABS indicators suggest some of the momentum evident earlier in the year has faded through March and April. Consumer sector responses to business surveys also show flat conditions across the retail space but with a steadier performance for consumer services sectors (although some of this may be price-driven rather than volumes).

15. Business conditions: retail and consumer services



16. Consumer spending vs selected indicators



SENTIMENT INDICATORS: INTEREST RATES

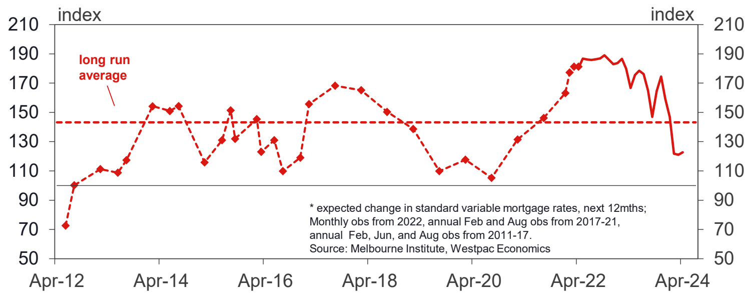
– Consumers are not entirely convinced about prospective interest rate cuts but are much less fearful of rate hikes. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, posted a sharp 19% drop over the 3mths to Apr, albeit with a slight up-tick in the latest month.

– At 122.8, the Index is still above 100 – implying more consumers expect rates to rise than fall, but convincingly below the long run avg of 143. Notably, the latest read is slightly above the lows in 2019-20 but comparable to the reads seen when the RBA was easing rates in 2015-16.

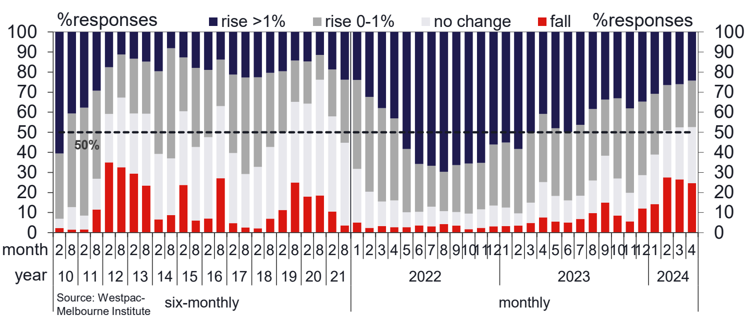
– As at Apr, just over 40% of consumers are still bracing for rate increases, while 24% expect no change, 21% expect declines. This compares to a 52%:21%:12% in Jan.

– The upside surprise on inflation since our last survey may have triggered a sharp reassessment of the rate outlook. Certainly financial markets have moved back towards pricing in a chance of renewed rises near term. However, the sentiment response will also be shaped by the RBA's decision and commentary following its next Board meeting on May 6-7. The Budget could also have a bearing with the next survey in the field during Budget week (May 13-18).

17. Mortgage interest rate expectations



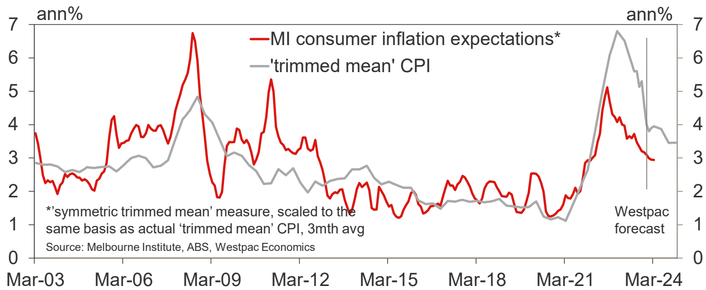
18. Consumer expectations for mortgage rates



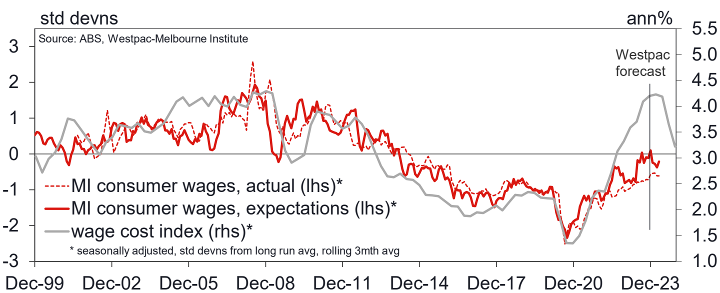
SENTIMENT INDICATORS: INFLATION

- Consumer expectations for inflation and wages growth both ticked up a touch over the 3mths to Apr but were steady on a 3mth avg basis. Both are off recent peaks but still above their 2015-19 levels.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead inflation expectations ticked up to 4.58% in Apr from 4.48% in Jan but remains well below the 5-6% reads seen between Apr 2022 and Jul 2023. Consumer inflation expectations are typically higher than observed inflation – Chart 19 gives a sense of how expectations look adjusted for this bias. On this basis, current expectations are broadly consistent with a return to 3% inflation by early 2025.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations ticked up to 0.99% in Apr from 0.92% in Jan, well down on the 1.56% peak in mid-2023 but a touch above the 0.81% avg over the five years prior to COVID.
- In contrast to inflation, this measure of consumer wage expectations is typically lower than observed wage growth, due in part to a high proportion of respondents reporting expectations for wage freezes or cuts (this RBA Bulletin article provides some detail). Allowing for this bias, current reads are broadly consistent with wages growth of just under 3%yr (see Chart 20).

19. CPI inflation: actual vs expected



20. Wages growth: actual vs expected



SENTIMENT INDICATORS: DURABLES

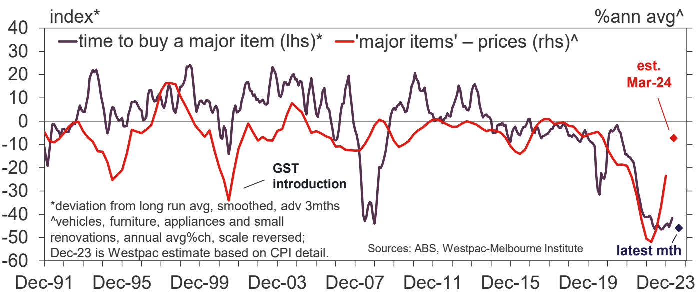
– The **'time to buy a major item'** sub-index continues to languish near historical lows, posting a promising lift in Feb-March only to fall back again in Apr to be up just 0.9% over the 3mths. At 78.7, the sub-index remains at extreme lows in the bottom 1.5% of observations historically.

– This component has captured the impact of sharply rising prices on consumer purchasing power. The avg read of 82.1 over the last two years is extremely weak for a sub-index with an avg historical read of 125. While the Apr deterioration is unsettling, the latest price detail in the Q1 CPI continues to show a clear disinflationary pulse for major durables.

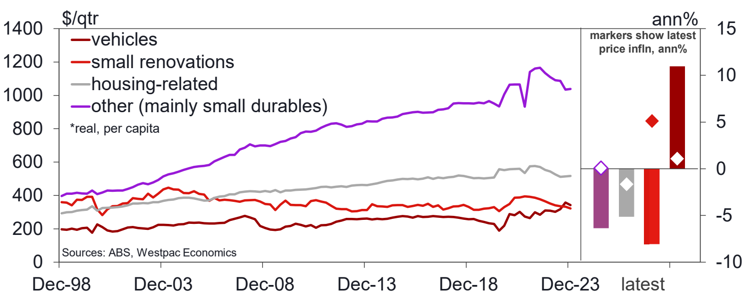
– Across the CPI components we track closely, furniture and household appliances recorded outright price declines over the year to Mar, while prices have been about steady for textiles and AV & computing equipment (that said, the latter a relatively firm result for a segment that has shown consistent declines historically and falls abroad). Building cost inflation continues to run at robust 5%yr but has moderated on a year ago.

– Total spending on consumer durables bottomed-out in early 2023 after a 5.1% slump over the previous four quarters but has only posted a modest 2.4% bound since then (+0.6% in per capita terms). Vehicle sales dipped 0.6% in Q1.

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



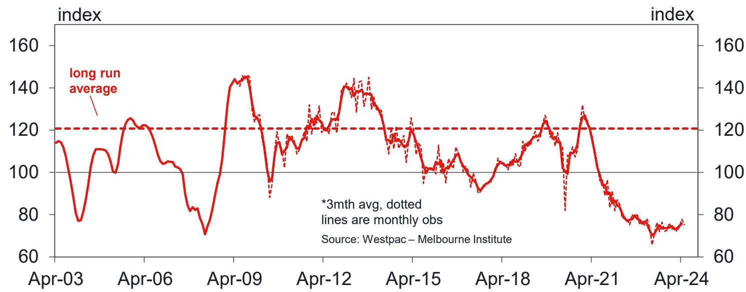
22. Consumer spending: 'big ticket' items



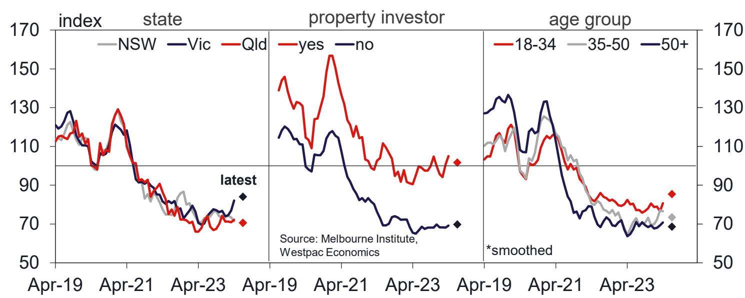
SENTIMENT INDICATORS: DWELLINGS

- Homebuyer sentiment has also struggled to lift off historical lows. The **'time to buy a dwelling'** index posted a 4.5% rise over the 3mths to Apr but only partially retraced the decline over previous 3mths. At 75.3, the index remains in deeply pessimistic territory.
- As noted previously, the index is closely linked to affordability, current weak reads reflecting the combination of rate rises and dwelling prices rising to new highs. Notably, buyer sentiment has seen more of a firming in Vic (to 84.3 in Apr) where Melbourne dwelling prices have seen some slight slippage over the last four months. In contrast, the NSW index is at just 73.3.
- Buyer sentiment is also much better amongst owners of investment properties, even nudging back into slight positive in recent months. Affordability is likely a less dominant consideration for this group. The lift is notable given the results in our recently released **Home Ownership survey** (see here) which suggests there is significant investor demand 'waiting the wings' currently, poised to buy once the interest rate cycle starts to turn.
- The sub-group detail also shows a lift in expectations amongst younger age groups with recent reports suggesting prospective first home buyers are looking to enter the market as investors.

23. 'Time to buy a dwelling'



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



SENTIMENT INDICATORS: HOUSE PRICES

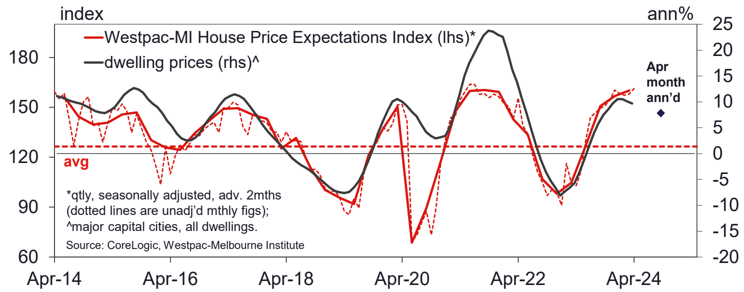
– Consumer house price expectations remain extremely positive. The **Westpac Melbourne Institute House Price Expectations Index** pushed a further 2% higher to 161.2 in Apr. The Index remains around cycle highs.

– Nearly 70% of consumers expect prices to continue rising over the next 12mths, with one in seven expecting double-digit growth. Just over 8% expect prices to decline with 17% anticipating no change. Actual price growth continues to hold at just over 10%yr nationally, an outcome only 10% of consumers predicted correctly a year ago. That said, monthly momentum has slowed to around a 5% annualised pace.

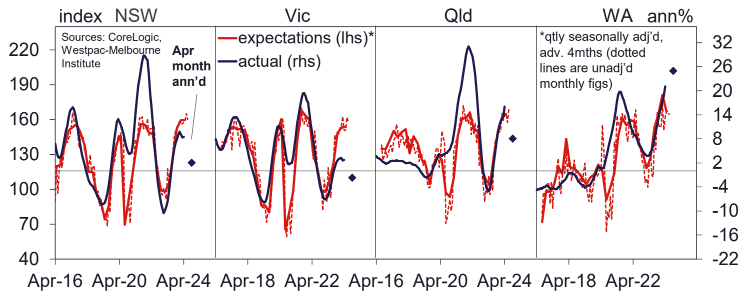
– Price expectations remain bullish across the board despite an widening divergence in price performances across the major capital cities. Whereas growth has slowed materially in Sydney and dipped into slight negative in Melbourne, it remains strong in Brisbane, Adelaide and especially Perth where it has accelerated strongly in recent months. The shifting momentum may see more localised shifts in price expectations in coming month.

– Going forward, slowing in population growth and delays to the anticipated interest rate easing cycle may test the extent to which these factors have been driving price gains, both actual and expected.

25. Westpac–MI House Price Expectations Index



26. Dwelling prices: actual vs expected by state



SENTIMENT INDICATORS: RISK AVERSION

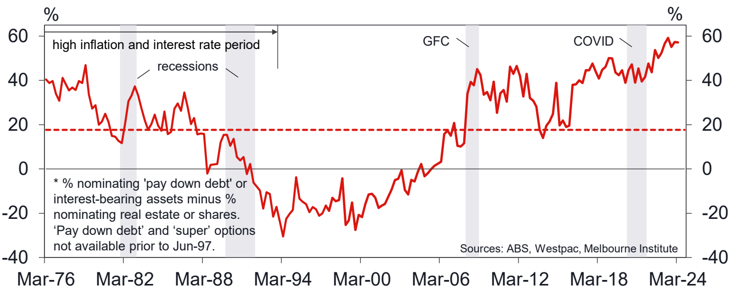
– Consumer risk aversion remains very high. The **Westpac Consumer Risk Aversion Index** dipped from 57.2 in Dec to 55.8 in Mar, a very slight easing from what was the second highest reading since the mid-1970s.

– The index is based on responses to the 'wisest place for savings' questions. 'Safe-haven' options continue to dominate with three out of five consumers nominating either 'pay down debt' or 'bank deposits'. The mix showed a small shift away from bank deposits and towards 'real estate' although the 8.4% favouring the latter remains very low compared to the long run average of 24%.

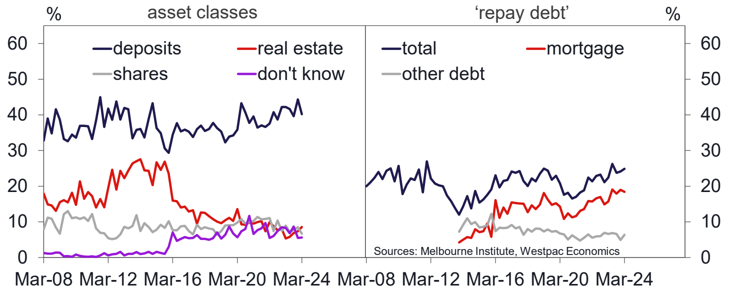
– Other components were largely unchanged, the proportion nominating 'shares' dipping from 8.3% to 7% and the proportion nominating 'super' unchanged at 5%. The share reporting 'don't know' remained relatively high at 5.6%.

– As noted, the household savings rate lifted to 3.2% in Q4 of 2023 from 1.9% in Q3. Even with that lift, 'new' saving is relatively low, implying that consumers are still drawing on the additional saving reserves accumulated during the pandemic to support spending. To date, elevated risk aversion appears to be more of a restraint on other financial decisions rather than a driver of increased precautionary saving.

27. Westpac Consumer Risk Aversion Index vs savings rate



28. Consumer: 'wisest place for savings'



SENTIMENT INDICATORS: JOB SECURITY

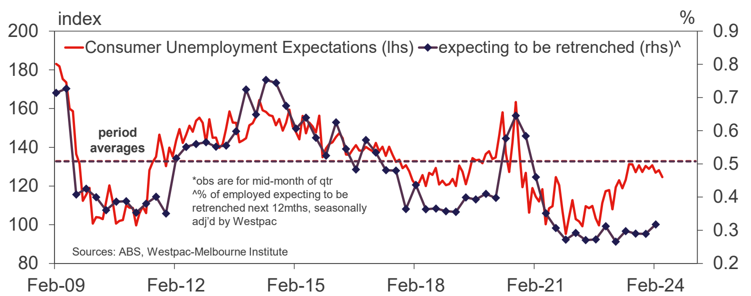
– Incomes may be under pressure but consumers are relatively secure about their job prospects. The **Westpac Melbourne Institute Index of Unemployment Expectations** improved over the 3mths to Apr, declining 4.6% to 124.6, a 12mth low (recall that lower index reads means more consumers expect unemployment to decline in the year ahead). The index is now marginally below the long run avg of 129 – consistent with a slightly firmer flat labour market outlook.

– The ABS labour force detail shows few workers expect to be retrenched over the next 12mths, with just 0.3% expecting to be let go, up a tick but near historic lows.

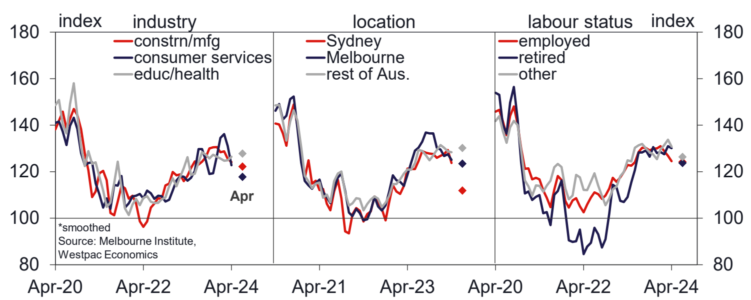
– The wider picture from the labour force survey has also been firmer, employment rising 122k in Q1, a step-up on the previous three quarters (see here). Much of this looks to be the clearing of backlogged vacancies (see here). Notably, the employment-to-population ratio has declined about ½ppt over the past year, indicating that labour supply is catching up with hiring. The unemployment rate has also been about steady at 3.9% on a quarterly avg basis.

– The slight improvement in unemployment expectations is more pronounced in Sydney and amongst those employed in the consumer services, construction and manufacturing sectors.

29. Unemployment expectations



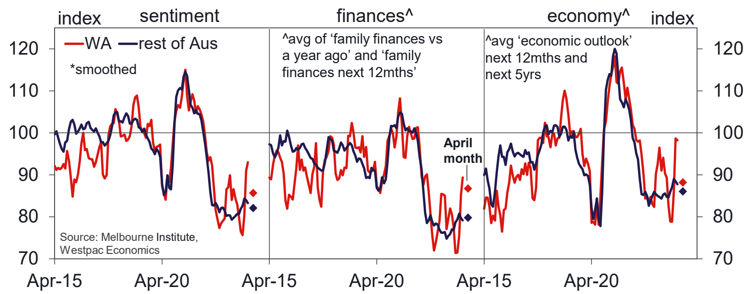
30. Unemployment expectations: selected sub-groups



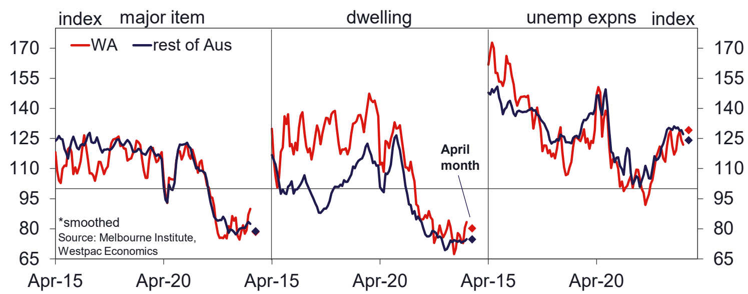
STATE SNAPSHOT: WESTERN AUSTRALIA

- While consumer sentiment nationally has been stuck at weak levels over the last two years, it has shown several big swings in WA. This time last year, the state was again seeing a striking lift in sentiment, even briefly touching outright positive in the Apr 2023 month (the charts below show sentiment in 3mth avg terms). It's been a similar story in early 2024 with WA consumers experiencing another brief moment of very slight positivity in March.
- While the swings may be a by-product of small sample sizes, we suspect it reflects a real world effect with the state's consumers seeing more of a tension between buoyant local conditions and the challenging economy-wide picture.
- The latest sentiment rally has been led by improved assessments of family finances and expectations for the economy. Assessments of 'time to buy a major item' have seen a more muted gain, reflecting the diminished purchasing power impacting all Australian consumers. The mix again suggests a tension between local and national conditions (see our latest **Coast to Coast** report for more details on the performance of the wider state economy).
- Notably, the positive wedge on sentiment is also being reflected in an outperformance on spending, WA recording a 1.7%yr rise in 2023 compared to the feeble 0.1%yr gain nationally.

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



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



ECONOMIC AND FINANCIAL FORECASTS

Interest rate forecasts

Australia	Latest	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	4.41	4.37	4.12	3.92	3.67	3.47	3.30	3.30
3 Year Swap	4.33	3.95	3.85	3.75	3.65	3.60	3.55	3.50
3 Year Bond	4.14	3.75	3.65	3.55	3.45	3.40	3.35	3.30
10 Year Bond	4.52	4.05	3.95	3.85	3.90	3.90	3.95	4.00
10 Year Spread to US (bps)	-17	5	5	5	5	0	0	0
US								
Fed Funds	5.375	5.125	4.625	4.375	4.125	3.875	3.625	3.375
US 10 Year Bond	4.69	4.00	3.90	3.80	3.85	3.90	3.95	4.00

Exchange rate forecasts

	Latest	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD/USD	0.6525	0.68	0.69	0.70	0.71	0.72	0.72	0.73
NZD/USD	0.5935	0.63	0.64	0.64	0.64	0.65	0.65	0.65
USD/JPY	156.04	148	145	141	137	133	130	127
EUR/USD	1.0725	1.11	1.13	1.14	1.15	1.16	1.17	1.17
GBP/USD	1.2504	1.27	1.28	1.29	1.30	1.30	1.31	1.31
USD/CNY	7.2463	7.10	7.00	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0946	1.07	1.09	1.09	1.11	1.11	1.11	1.12

Sources: Bloomberg, Westpac Economics

Australian economic growth forecasts

	2023			2024			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f
GDP % qtr	0.5	0.3	0.2	0.3	0.3	0.4	0.5
%yr end	2.1	2.1	1.5	1.3	1.1	1.3	1.6
Unemployment rate %	3.6	3.7	3.9	3.9	4.2	4.4	4.5
Wages (WPI)	1.0	1.3	0.9	0.9	0.9	0.8	0.5
annual chg	3.7	4.1	4.2	4.2	4.2	3.7	3.2
CPI Headline	0.8	1.2	0.6	1.0	0.6	0.9	0.8
annual chg	6.0	5.4	4.1	3.6	3.1	2.8	3.0
Trimmed mean	0.9	1.2	0.8	1.0	0.6	0.9	0.7
annual chg	5.8	5.1	4.2	4.0	3.5	3.2	3.1

	Calendar years			
	2022	2023e	2024f	2025f
GDP %yr end	2.3	1.4	1.6	2.5
Unemployment rate %	3.4	3.8	4.5	4.6
Wages (WPI) anu chg	3.3	4.1	3.2	3.0
CPI Headline anu chg	7.8	4.1	3.2	2.8
Trimmed mean anu chg	6.8	4.2	3.2	2.8

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**	**Q4e**	**Q1f**	**Q2f**	**Q3f**	**Q4f**
Total private consumption*	0.1	0.1	-0.2	0.1	0.1	0.1	0.4	0.4
annual chg	3.1	1.2	0.1	0.1	0.1	0.1	0.7	1.0
Real labour income, ann chg	2.9	2.6	2.4	3.3	2.6	2.5	1.2	1.3
Real disposable income, ann chg**	-3.8	-2.4	-4.1	0.3	0.8	1.3	3.4	2.6
Household savings ratio	3.5	3.0	1.9	3.2	3.3	3.3	3.9	3.3
Real retail sales, ann chg	0.3	-1.5	-1.7	-1.0	-0.7	0.7	1.1	1.0
Motor vehicle sales ('000s)***	815	860	964	931	907	889	919	949
annual chg	4.8	14.4	22.0	15.7	11.3	3.4	-4.6	2.0

	Calendar years			
	2021	**2022**	**2023e**	**2024f**
Total private consumption, ann chg*	5.3	6.6	1.1	0.5
Real labour income, ann chg	4.4	3.2	2.8	1.9
Real disposable income, ann chg**	2.2	-0.6	-2.5	2.0
Household savings ratio, %	14.3	7.3	2.9	3.5
Real retail sales, ann chg	3.5	5.1	-1.0	0.5
Motor vehicle sales ('000s)	756	781	892	916
annual chg	12.1	3.3	14.3	2.7

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

	2023					
% change	**avg^**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
Westpac–MI Consumer Sentiment Index	100.7	81.3	81.0	79.7	82.0	79.9
family finances vs a year ago	88.4	62.2	64.3	61.5	63.1	64.4
family finances next 12 months	106.8	89.7	89.9	91.6	93.9	87.0
economic conditions next 12 months	90.7	81.4	78.2	78.5	78.3	80.5
economic conditions next 5 years	92.0	94.3	93.5	90.5	92.4	86.5
time to buy major household item	124.6	78.8	79.0	76.6	82.4	81.3
time to buy a dwelling	120.8	76.4	72.1	72.5	76.0	73.2
Westpac–MI Consumer Risk Aversion Index^^	17.7	–	–	55.1	–	–
CSI±	100.3	68.2	69.2	68.6	70.9	69.1
Westpac–MI House Price Expectations Index#	126.5	149.3	151.2	154.6	160.4	158.4
consumer mortgage rate expectations#	40.5	74.8	64.3	46.7	64.6	74.6
Westpac–MI Unemployment Expectations	129.0	131.2	127.2	130.8	127.3	130.4
MI inflation expectations (trimmed mean)	4.4	5.2	4.9	4.6	4.8	4.9
MI wage expectations (trimmed mean)	1.3	1.2	1.2	1.0	1.3	1.2

		2024			
continued	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Westpac–MI Consumer Sentiment Index	82.1	81.0	86.0	84.4	82.4
family finances vs a year ago	68.2	63.0	66.1	65.2	65.5
family finances next 12 months	90.4	93.0	95.3	93.8	95.5
economic conditions next 12 months	78.7	81.8	88.9	84.9	82.7
economic conditions next 5 years	94.9	89.1	93.0	94.0	89.8
time to buy major household item	78.2	78.0	86.8	84.2	78.7
time to buy a dwelling	74.3	72.0	74.2	77.8	75.3
Westpac–MI Consumer Risk Aversion Index^^	57.1	–	–	55.8	–
CSI±	69.9	69.3	73.0	71.9	71.0
Westpac–MI House Price Expectations Index#	157.3	158.1	161.4	161.1	161.2
consumer mortgage rate expectations#	59.3	47.0	21.6	20.9	22.8
Westpac–MI Unemployment Expectations	128.9	130.7	126.9	128.1	124.6
MI inflation expectations (trimmed mean)	4.5	4.5	4.5	4.3	4.6
MI wage expectations (trimmed mean)	1.3	0.9	1.2	1.4	1.0

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