BULLETIN

25 June 2024

Consumer pessimism lifts slightly

- **Westpac Consumer Sentiment Index up 1.7% to 83.6.**
- **Assessments of finances and buyer sentiment less negative.**
- **But inflation, interest rate, and growth fears weighing more heavily.**
- **Half of consumers expect mortgage rates to rise over the next 12mths.**
- **Unsettled outlook eroding confidence around jobs.**

The Westpac–Melbourne Institute Consumer Sentiment Index rose 1.7% to 83.6 in June from 82.2.

Despite the improvement, consumer sentiment remains below its March level and still firmly in deeply pessimistic territory. At 83.6, the Index remains well below the 'neutral' level of 100, meaning pessimists outnumber optimists by nearly 20ppts. The survey detail suggests positives from fiscal support measures are being negated by increased concerns about inflation and the outlook for interest rates", Mr Hassan commented.

This shows through clearly in consumer assessments of recent news coverage. Our March, June, September and December surveys include additional questions about which news topics consumers recall and how favourable this was.

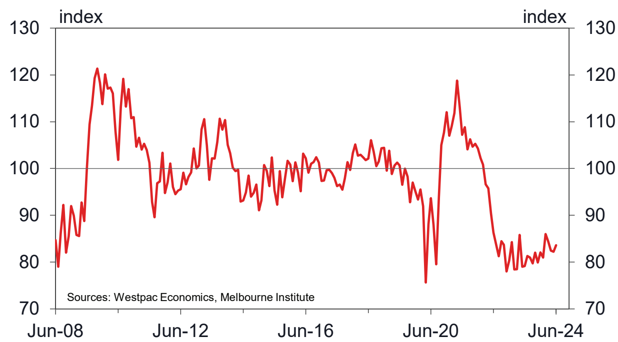
Two topics stood out in June: 'budget & tax' and 'inflation', with nearly half of consumers recalling news on each of these. On the former, the news was viewed as less unfavourable than in March, reflecting the well-received Commonwealth budget, the cost-of-living measures delivered by both Federal and state governments, and the stage 3 tax cuts set to commence on July 1. However, the news on inflation was viewed as less favourable than in March, with assessments retracing most of the way back to the levels seen in December, when the RBA had just raised the cash rate in response to persistently high inflation.

Notably, the wider news backdrop is still viewed as broadly unfavourable. Across the fifteen detailed news topics covered, there has not been one 'net favourable' assessment in two and a half years now – the longest run of broadly negative news sentiment since we began running the survey in the mid-1970s.

The headline Consumer Sentiment Index is a composite that combines five sub-indexes that are in turn based on responses to five specific questions. These sub-indexes point to a mix of pressures impacting consumers, improved assessments of family finances and buyer sentiment offset by renewed concerns about the economic outlook.

The 'family finances vs a year ago' sub-index recorded a particularly strong 9.7% lift in June. However, at 69.3 it remains at a very weak, deeply negative level. This sub-index would need to rise by another 20% just to reach its long-run average level, and by over 40% to get back to the 'neutral' level of 100.

Consumer Sentiment Index



Similarly, the 'time to buy a major item' sub-index also recorded a solid 4.2% rise but remained at a very weak level of 79.7, well below its long-run average of 124.

The main takeaway here is that while pressures on family finances and purchasing power may be starting to ease, it would require much bigger, double-digit gains in these sub-indexes, before we could start to say that these issues have convincingly subsided.

At the same time, consumers are becoming more uneasy about the economy, especially over the next year. The sub-index tracking assessments of the 'economic outlook, next 12 months' fell 5.7% to 78.5, the lowest level since October last year. Consumers were less rattled about the longer-term view, the 'economic outlook, next 5 years' sub-index nudging up 2.1% to 94.1.

Responses over the course of the survey week show sentiment deteriorated materially following the June RBA decision. Sentiment amongst those surveyed prior to the decision came in at a much stronger 90 compared to 80.1 amongst those surveyed post-decision. The implication is that some consumer hopes of a more positive message on inflation and the interest rate outlook were again dashed.

That also flowed through to consumer expectations for interest rates. The Westpac-Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, surged 6.2% to 141.2, the highest reading since the start of the year. Responses show about half of consumers expect mortgage rates to rise over the next year.

The more unsettled picture around the economy also eroded consumer confidence around jobs. The Westpac-Melbourne Institute Unemployment Expectations Index rose 2.5% to 133.1 in June, pushing further above its long run average of 129 to be slightly above the levels seen mid-way through 2023, marking the highest reading since September 2020 (recall that higher index reads mean more consumers expect unemployment to rise over the year ahead). Overall, sentiment around jobs is more neutral than weak – consistent with a softening in labour market conditions rather than a sharp weakening. However, the shift bears monitoring closely in the months ahead.

Housing-related sentiment showed a further widening in the already stark disconnect between weak buyer sentiment and upbeat price expectations.

The 'time to buy a dwelling' index fell 4.8% to 72.8, returning to recent lows and in the bottom 5% of readings recorded since the mid-1970s. The biggest declines in buyer sentiment were in Western Australia (–20.5%), Queensland (–15.5%) and South Australia (–14.5%), where capital city markets have recorded strong price gains over the last year. The associated deterioration in affordability has taken buyer sentiment to extreme lows with 'time to buy a dwelling' index reads in the 60-70 range. In contrast, the NSW index rose 12.7% to 81, a somewhat surprising gain but still leaving buyer sentiment well below its long run average of 117.4.

Despite the weakening in buyer sentiment, price expectations rose to a new cycle high. The Westpac Melbourne Institute Index of House Price Expectations rose 1.7% to 163.8, on par with the peak recorded in early 2021. Interestingly, the biggest gain was in Victoria (+6.4%) where prices have been slipping lower since mid-2023, the declines clearly doing little to deter expectations, possibly even adding to them.

Consumer risk aversion eased between March and June but was coming off extreme highs over the last two years. Updates on our 'wisest place for savings' questions, run every three months, show 'safe-haven' options are still heavily favoured with 30% of consumers nominating 'bank deposits' and a further 26% nominating 'pay down debt' –suggesting many will opt to save any additional income from next month's tax cuts. Consumers were a little more favourable towards 'riskier' options, with 10% nominating 'real estate' and 10% nominating 'shares', but both of these are still a distant third in terms of preferred options.

The Reserve Bank Board next meets on August 5–6. We expect it to again leave the official cash rate unchanged. In the decision statement and press conference following the June meeting, the RBA Governor described the outlook as highly uncertain, saying the Board was alert to potential upside risks and needed to remain 'vigilant'. Much of this uncertainty relates to the consumer – both the extent to which current weakness in demand is guiding inflation back to the RBA's 2–3% target; and the extent to which consumers may lift spending as real disposable incomes improve in coming quarters.

On current conditions, the June quarter CPI update due on July 31 will be key. While recent revisions mean consumer spending has not been as weak as previously indicated, it has still been demonstrably weak, broadly consistent with the dismal consumer sentiment reads since mid-2022. Moreover, the extent of that weakness is already embedded in the inflation data to date. While it is uncertain and there are, as always, upside risks, we expect the June quarter inflation update to confirm that weak demand is still exerting disinflationary pressure. That in turn should provide the RBA with enough comfort that potential upside risks are not materialising, meaning a rate rise is not needed.

The consumer response to improving disposable incomes will be harder to judge. The evidence from our consumer sentiment survey, including responses to an additional question run last month on the stage 3 tax cuts, suggests consumers will be more inclined to save than spend any additional income. Revised estimates of spending also imply that household savings buffers have been more substantially run down over the last two years – again suggesting many consumers will look to use additional income to rebuild their reserves.

How this is actually playing out will only become clear as the September quarter spending information gets released through October–November. Until then, the Westpac-Melbourne Institute Consumer Sentiment survey will continue to provide early clues to any shifts in consumer psychology and behaviour.

Matthew Hassan, Senior Economist, Westpac Group

Consumer Sentiment – June 2024

Item	avg*	Jun 2022	Jun 2023	May 2024	Jun 2024	%mth	%yr
Consumer Sentiment Index	**100.6**	**86.4**	**79.2**	**82.2**	**83.6**	**1.7**	**5.6**
Family finances vs a year ago	88.3	74.0	65.4	63.2	69.3	9.7	6.0
Family finances next 12mths	106.7	86.2	84.0	96.1	96.5	0.4	14.8
Economic conditions next 12mths	90.7	83.8	77.2	83.2	78.5	–5.7	1.7
Economic conditions next 5yrs	92.0	98.1	92.7	92.2	94.1	2.1	1.5
Time to buy a major household item	124.4	89.5	76.4	76.5	79.7	4.2	4.2
Time to buy a dwelling	120.6	75.1	72.0	76.5	72.8	–4.8	1.1
Unemployment Expectations Index	129.2	108.5	131.3	129.8	133.1	2.5	1.3
House Price Expectations Index	126.5	111.1	146.7	161.1	163.8	1.7	11.6
Interest Rate Expectations Index	152.4	186.1	178.9	133.0	141.2	6.2	–21.1

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 17 June to 21 June 2024. The data have been weighted to reflect Australia's population distribution.

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