THE RED BOOK

JULY 2024

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The **Westpac–Melbourne Institute Consumer Sentiment Index** continues to hold around very weak levels, barely lifting 0.3% over the three months to July, the latest read of 82.7 still indicating widespread pessimism.

The protracted sentiment slump, which has lasted for over two years now, is the second only to the early 1990s in terms of the duration and weakness of reads.

Risk aversion has eased slightly but remains very high. the **Westpac Risk Aversion Index** dropped from 55 in March to 47.7 in June, a 2½yr low. However, that still leaves it near previous historical highs and well above the historical average. Despite some small shifts, '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 point to declining per capita spend. **CSI±**, a modified sentiment indicator that has shown a further improvement over the last three months but remains at weak levels consistent with per capita spending contracting at a 3.5% annual pace. Actual per capita spending declined at a milder 1.2%yr pace over the year to March, a draw-down on savings reserves accumulated during the pandemic preventing what might have otherwise been a significantly larger shock to spending.

The most striking sentiment shift over the last three months has been around consumer expectations for interest rates. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** surged 23% between April and July, reversing all of the steep drop over the previous four months. Around 60% of consumers expect mortgage rates to rise over the next year, up from 40%. The shift in expectations has been led by those in older age groups, middle-income earners, homeowners and consumers in WA.

Despite the lift in rate rise fears, consumer expectations for inflation have continued to track gradually lower. Inflation expectations are consistent with headline inflation slowing to 2.5%.

Expectations for wages growth have been relatively steady around benign levels, above their weak 2015-19 levels but subdued by longer term historical standards.

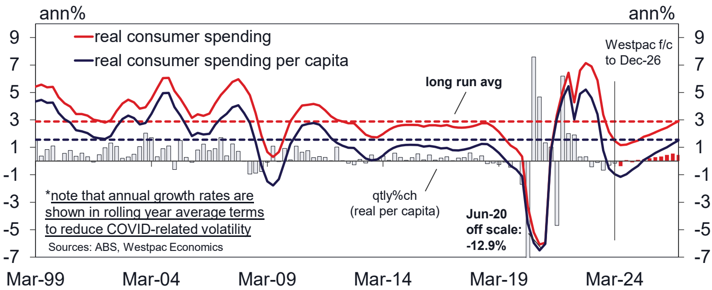
The **'time to buy a major item'** index continues to languish near historic lows, lifting off the extreme lows in April-June but still at very weak levels, in the bottom 3% of observations since 1974. Notably, the weak reads have continued despite a slowing in price growth that likely tipped over into small price declines in annual terms in the June quarter. This suggests buyer sentiment may be slow to improve.

Homebuyer sentiment remains near historical lows. The **'time to buy a dwelling'** index nudged up just 0.6% over the three months to July but at 75.7 remains deeply pessimistic. Buyer sentiment is seeing a particularly steep fall-off in WA.

Consumer house price expectations remain extremely positive. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** held at 161.2 in July, unchanged from April. Price expectations are more bullish in Qld, SA and WA but more subdued in NSW and Vic.

Despite the general gloom, consumers are still relatively untroubled about the job situation. The **Westpac–Melbourne Institute Unemployment Expectations Index** rose 3% over the three months to July but at 128.6 remains in the 125-133 range that has prevailed since mid-2023, close to the long run average of 129. The reading remains consistent with flat labour market conditions rather than a sharp weakening

Consumer spending: stagnation



The gloom that descended on Australian consumers a little over two years ago is still showing few signs of lifting. While finances are not being hit by surging prices and rapid rate rises in the same way they were in 2022-23, and fiscal policy is starting to provide some welcome relief, especially around taxes, household budgets are still badly stretched. Meanwhile inflation concerns are lingering, fuelling renewed fears that the RBA may need to take interest rates even higher.

The net effect has kept sentiment stuck around historic lows – the two year slump in confidence now second only to the disastrous run during the early 1990s recession in terms of depth and duration.

The last three months has seen mostly minor moves sentiment-wise. Component and sub-group shifts have largely cancelled out in aggregate. Labour market and housing market views are also largely unchanged – the former still showing relative comfort, and the latter continuing to show enormous tensions between buyer sentiment and price expectations.

By far the most striking shift has been a sharp rise in interest rate expectations which show more consumers are again bracing for further rises. While the fears on this front appear overdone, its likely to require better news on inflation and a different tone from the RBA to calm concerns.

Our July **Red Book** takes a closer look at recent spending patterns, drawing out some interest themes around areas of spend that are still 'catching up' or normalising from COVID and post-COVID supply chain disruptions, and others where there appear to be quite different interactions between price and demand happening. We also take a closer look at what our sentiment survey and the very early data on card transactions is suggesting about tax cut impacts. Finally, we consider wealth effects and how inflation and population effects may be muddying the picture on this front.

However, the broad picture still looks to be one of consumer that will remain weak for some time yet.

THE CONSUMER MOOD: BOGGED

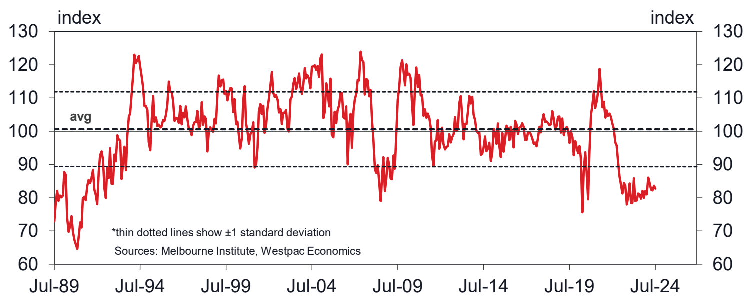
– At 82.7, the **Westpac Melbourne Institute Index of Consumer Sentiment** is essentially unchanged over the last 3mths, holding around deeply pessimistic levels nearly 20pts below the 'neutral' level of 100. The Index is up just 0.3% from its Apr level and 6% from the low in late 2022.

– Consumers remain stuck in a protracted sentiment slump, the last two years second only to the early 1990s in terms of the duration and weakness of reads. Most recently, renewed fears that persistent inflation would require further rate rises has weighed heavily, offsetting any boost from the arrival of the 'stage 3' tax cuts and other fiscal support measures.

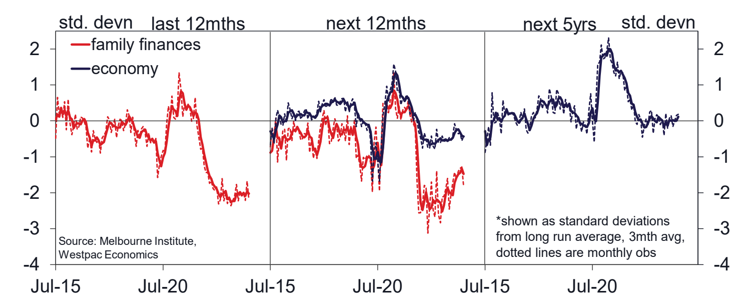
– The sub-indexes show a mixed 3mths, an initial improvement in assessments of family finances more than unwinding in July, despite the roll-out of tax cuts.

– Cost-of-living and fiscal themes shone through clearly in consumer assessments of news coverage in June. Two topics stood out: 'budget & tax' and 'inflation', with nearly half of consumers recalling news on each – the former viewed as less unfavourable, the latter more unfavourable than in March. Notably, across the 15 topics covered, none have had a 'net favourable' news assessment in 2½ years now – the longest run of blanket negative news sentiment since we began surveying in the mid-1970s.

1. Consumer sentiment: stuck in a protracted slump

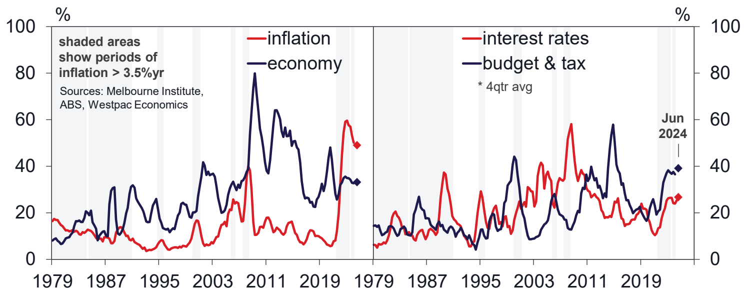


2. Consumer sentiment: finances, economic conditions

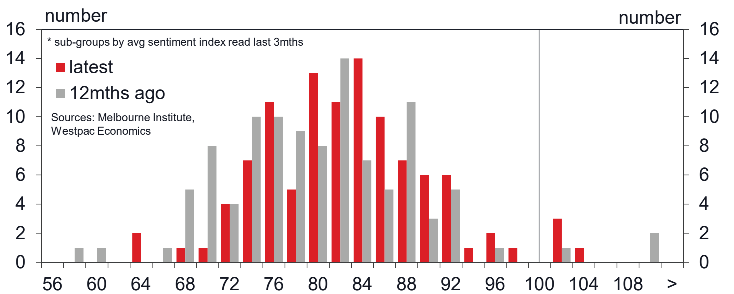


- Looking across the sub-group detail, shifts have also been mixed over the last 3mths.
- By state, Vic has seen a sharper weakening (see p22) and Qld a stronger rally – the latter likely reflecting the substantial cost of living measures rolled out by the state government.
- The other detail points to more of a firming amongst those on very low incomes (under $40kpa) and employed in the public sector. This was more than offset by a deterioration in sentiment amongst the unemployed, those aged over 65, and those working in the recreational services sector.
- Stepping back from the quarterly ebbs and flows, the spread of sentiment reads across sub-groups has narrowed over the last year.
- Chart 4 shows the full distribution across the 106 sub-groups we track. The 'mood' has become more tightly clustered around the 80-86 range with nearly half of sub-groups landing in this area compared to about a third this time last year.
- On the positive side, the number of sub-groups recording dire sub-76 reads has more than halved. Less positively, the number recording something at or above neutral has also halved.

3. Consumer news recall: selected topics



4. Consumer sentiment: distribution across all sub-groups



SPECIAL TOPIC: SPENDING DEEP-DIVE

– In this edition of the **Red Book** we take a closer look at Australian consumer spending, with a view to teasing out some of the state and sub-category themes.

– The table below shows a heatmap of spending across the major states, split across 25 expenditure sub-categories. The first group of columns presents real per capita spending in index terms, where 100 is the 2019 average. The second group shows how this has changed over the course of the RBA tightening cycle. The third group of columns shows how much average prices have risen since the onset of the inflation surge. The red/blue shading indicates relative strength/weakness.

– Sub-categories have been split by essentials/discretionary and goods/services and are ordered from strong to weak within these groupings. Note that there can be grey areas here, e.g. 'transport' is classified to 'discretionary' as it includes air travel but also includes 'essential' spending on public transport.

– Needless to say, there is a lot to take in. The trick with heatmaps is to explore them slowly, looking not just for hot and cold patches but also how these vary across jurisdictions – are they consistent or do they show systematic differences and/or clear anomalies? In this case we are also interested in how these patterns may or may not relate to price changes.

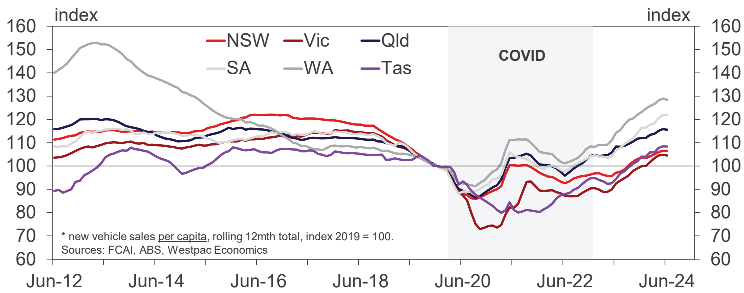
5. Consumer spending: state and category detail

	real per capita (index)*						%ch since Jun 2022						price %ch since 2021					
	NSW	Vic	Qld	SA	WA	Tas	NSW	Vic	Qld	SA	WA	Tas	NSW	Vic	Qld	SA	WA	Tas
essential goods & housing																		
– housing	102	101	101	102	102	101	-1	-2	-2	-1	-1	-2	16	12	21	18	24	10
– food	106	99	101	94	96	103	3	-3	-3	-3	-1	3	12	16	13	13	17	15
– fuel	79	83	89	99	94	93	-5	-2	-2	2	1	3	18	19	15	15	14	15
essential services																		
– communication	116	116	113	117	113	117	2	2	3	3	2	4	3	3	3	3	3	3
– medicine	115	104	104	96	115	85	-6	-4	-8	3	-3	-9	6	3	5	6	8	3
– health services	112	111	110	112	105	118	6	4	8	12	5	14	11	14	18	8	13	17
– education	109	106	99	108	105	108	3	0	-3	4	4	6	12	14	15	13	13	16
– water	101	101	104	101	101	100	1	1	4	1	1	1	14	6	6	8	6	8
– finance & insurance	97	97	97	97	97	97	-2	-2	-2	-2	-2	-2	13	13	13	13	13	13
– electricity	97	94	89	87	97	91	-2	-9	-7	-13	-8	-11	41	26	41	32	9	21
discretionary goods																		
– vehicles	129	129	140	137	168	126	14	16	17	14	22	9	6	5	5	8	7	8
– clothing	120	121	122	132	118	109	-3	-4	-4	-2	-4	-4	6	10	5	8	4	6
– tools	113	91	107	123	116	118	-10	-9	-6	5	-9	-1	11	9	10	8	6	6
– household appliances	111	111	102	120	114	93	-3	-8	-5	5	-4	-1	4	2	5	6	5	4
– recreational goods	100	114	106	107	109	94	-16	-15	-11	-8	-15	-4	8	7	9	9	9	8
– other goods	108	99	105	108	114	81	-9	-11	-9	-5	1	-21	12	10	12	10	10	9
– household goods	104	91	98	110	99	106	-12	-13	-16	-12	-9	-6	8	10	9	9	10	10
– alcohol & tobacco	83	71	71	79	73	75	-14	-18	-17	-11	-15	-12	12	13	13	13	14	13
– newspapers, books	62	93	87	89	67	50	-18	-13	-15	-8	-25	-33	13	13	12	11	11	11
discretionary services																		
– recreational services	123	121	125	122	113	136	-2	2	0	14	16	-3	6	6	15	5	9	16
– hospitality	99	103	124	113	114	118	1	8	3	6	3	9	15	16	14	13	13	11
– accommodation	109	111	104	121	95	122	16	32	16	17	30	21	18	21	28	19	20	25
– gambling	99	100	115	125	96	123	-10	-5	-1	13	-15	-11	13	17	13	20	15	17
– transport	87	84	100	110	112	121	15	27	39	42	39	52	10	9	17	32	21	13
– other services	85	80	92	101	104	110	0	-6	-5	0	-2	4	11	10	14	12	12	12
total essentials	*100*	*98*	*98*	*98*	*99*	*99*	*-1*	*-3*	*-2*	*-1*	*-1*	*0*	*12*	*10*	*12*	*11*	*11*	*9*
total discretionary	*102*	*103*	*110*	*114*	*111*	*109*	*-3*	*-2*	*-1*	*3*	*3*	*4*	*10*	*9*	*11*	*10*	*10*	*9*
total goods	*101*	*99*	*100*	*102*	*101*	*95*	*-5*	*-7*	*-6*	*-4*	*-4*	*-4*	*9*	*9*	*10*	*9*	*10*	*9*
total services	*101*	*100*	*106*	*107*	*105*	*110*	*1*	*2*	*2*	*5*	*5*	*6*	*11*	*11*	*11*	*11*	*10*	*10*
total	**101**	**100**	**102**	**104**	**103**	**102**	**-2**	**-2**	**-2**	**1**	**0**	**2**	**10**	**9**	**11**	**10**	**10**	**8**

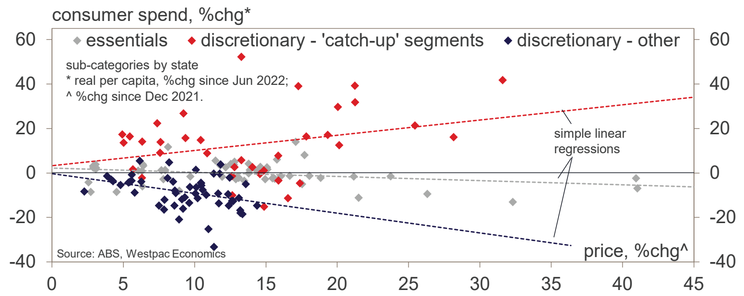
* 2019 avg = 100

- At a high level, per capita spend is still slightly more elevated for discretionary spend than for essentials, and for services compared to goods, the latter also showing more of a pull-back over the rate cycle. For per capita discretionary spend and services spend, there is a notable wedge between declines in NSW, Vic and Qld and rises in SA, WA and Tas over this period. Interestingly, prices do not have the same state-level wedge, suggesting price movements were not being driven by shifts in demand.
- The hottest 'hot-spot' has been vehicles where strong recent sales are clearly a 'catch-up' from COVID and post-COVID supply problems.
- Discretionary services strength centres on recreation and hospitality where a post-COVID catch-up is also at play (evident in the surge in accommodation and transport over the last year as well). The 'cold spots' have been: fuel, finance, household goods and electricity. Notably WA spend on electricity is similar to that in other states despite a smaller price rise.
- Chart 7 shows a scatter plot of spend and price growth grouped into: essentials; and discretionary components with and without a 'catch-up' element. The patterns suggest discretionary spend is driving and/or not reacting to price increases in 'catch-up' segments but is reacting to price changes elsewhere.

6. New vehicle sales: by state

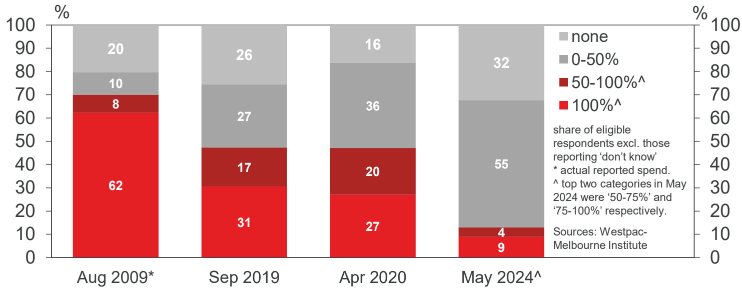


7. Consumer spend vs prices: state by sub-category

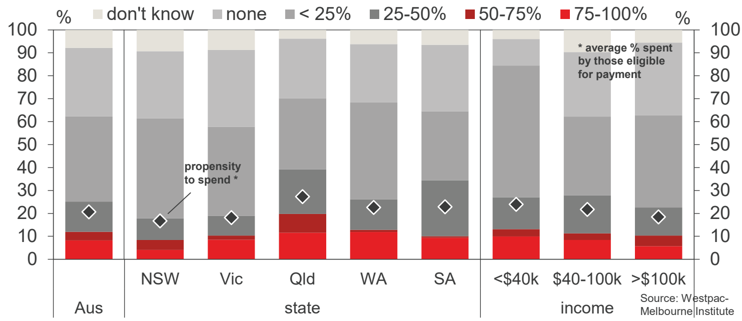


- Our May Consumer Sentiment survey included additional questions about the 'Stage 3' tax cuts that rolled out in July. Here we recap the results and look at some of the early reads on spending from our **Westpac Card Tracker Index**, which now covers the first half of July.
- The main take-outs from our May survey were that consumers planned to save most of the tax cut boost to income but that there also appeared to be a relatively low level of awareness about the measures. The survey asked two specific questions: 1) whether consumers expected to pay less tax as a result of the tax cuts, and 2) what proportion of any extra income they planned to spend.
- Just over 37% expected to pay less tax from July 1, 27% expected no impact, a relatively high 20% were unsure, with the remaining 15% reporting 'not applicable'. Note that the re-jigged 'Stage 3' cuts mean all income tax payers see a reduction in tax. The results suggests many consumers saw a 'surprise cut' in July.
- Amongst those expecting a tax cut, 30% plan to save all of it, while a further 50% expect to save at least half. Overall, using income group responses and Treasury figures on the distribution of tax relief, we estimate that households plan to save around 80% of the total tax cut boost. In economic jargon, this is a marginal propensity to consume of 0.2 (MPC).

8. Consumers: response to fiscal measures



9. Consumer tax cut spending intentions: selected sub-groups



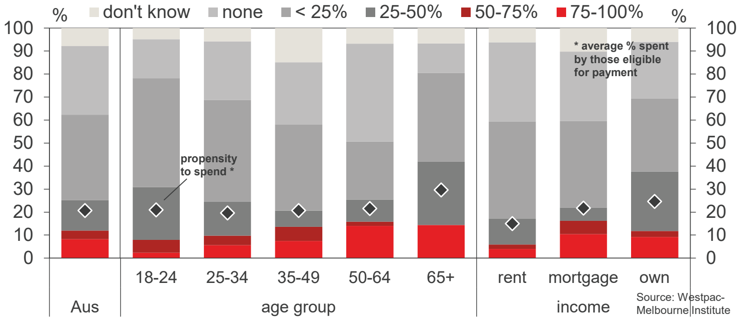
– Chart 8 compares this to similar questions run when fiscal support was provided during COVID, when LMITO payments were introduced in 2019 and when one-off payments were provided during the GFC. These showed much higher MPCs, ranging from 0.5 to 0.7. Even making generous adjustments for 'surprise cuts' the MPC in 2024 is likely to be below 0.45.

– Charts 9 and 10 show the sub-group detail to the 2024 survey. The highest MPCs were amongst those aged over 65 (0.30); Qlders (0.27); and outright home-owners (0.25). The lowest were amongst renters (0.15); those aged 35–49 (0.17); on incomes over $100k (0.18) and consumers in NSW (0.17) and Vic (0.18).

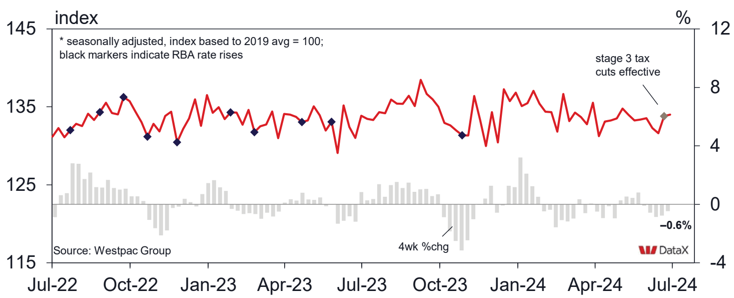
– Overall, if consumers follow through on these stated plans they are likely to only spend $4.7b of the $23.3bn in tax relief, giving a spending boost of 0.4ppts. See here for more details.

– It is too soon for conclusive evidence but the early signs from the **Westpac Card Tracker** also point to a very muted boost. Chart 11 shows weekly reads to 13 July – by which time about half of employees would have received cash boosts from tax cuts. Activity saw a small 1-2% up-tick in July, well within the range of 'noise'. It shows a 2% gain when compared to a year ago – running well behind inflation and population growth, with mixed moves across segments (see here for more).

10. Consumer tax cut spending intentions: selected sub-groups

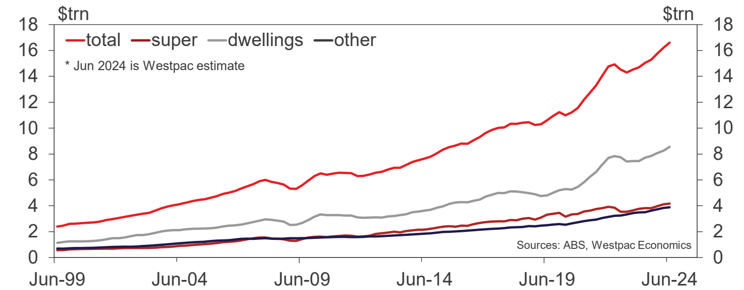


11. Westpac Card Tracker Index

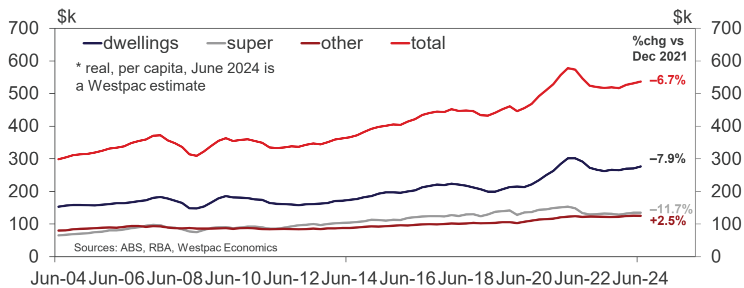


- One of the critical uncertainties around the Australian consumer at the moment is the nature of the observed sharp decline in household saving rates over the last two years – made all the sharper by recent revisions to official estimates made in the March quarter (see here for more). The RBA Board made particular note of this issue in the commentary accompanying its June policy decision (e.g. here).
- The key question is whether the decline reflects a consumer that is becoming less cautious, and hence more prepared to save less and spend more, or a consumer that is rapidly running down accumulated buffers as cost of living pressures run ahead of incomes.
- The 'positive' take would be one associated with the emergence of a more supportive 'wealth effect' on consumer behaviour. Put simply, this is where rising net worth induces a lift in spending – an effect that operates independently of shifts in income and results in a decline in the savings rate (the proportion of current income that remains unspent). This section takes a closer look at trends in net worth with a view to assessing whether a wealth effect may be in play.
- Australia household net worth now sits at an impressive $16.6trn, more than ten times current annual income. Recent gains reflect rising asset values, houses in particular, and slow growth in debt.

12. Household net worth



13. Household net worth: real, per capita



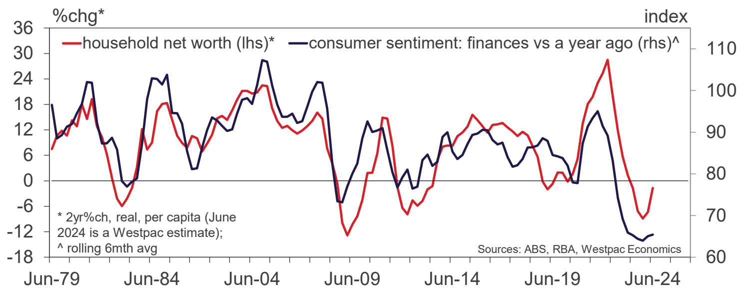
– However, the implications for wealth effects are a little more nuanced. The seminal Australian research in this space – an RBA paper published in 2019 – identified a stable wealth effect on consumption but, importantly, this was in real, per capita terms.

– Chart 13 shows that, impressive as they are, recent wealth gains are much smaller in real, per capita terms. The surge since 2022 has been against a 10% cumulative rise in consumer prices and a 6% rise in Australia's population. Wealth has only risen 3-4% over and above these effects and is still 7% below its 2021 peak in real per capita terms (albeit with some notable differences by state).

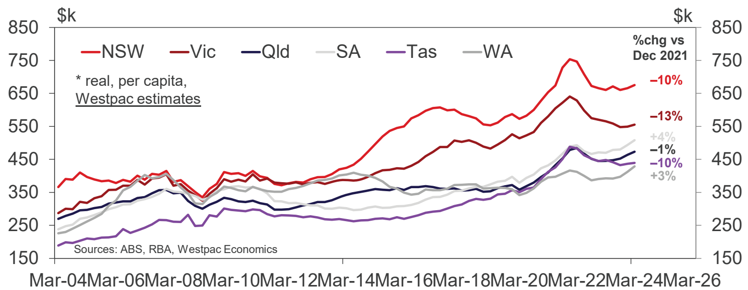
– To be fair, its a little unclear how inflation adjustments should be applied currently. These are usually made to correct for the high inflation of the 1970s to early 1990s period when all prices (including wages) were rising at a fast pace. That is not quite the case now. Inflation perceptions are also much lower now, which may influence how wealth effects are perceived by consumers.

– That said, the sentiment detail suggests this 'muted real wealth effect' may be a reasonable representation. Chart 14 shows 2yr growth in real per capita wealth is surprisingly closely linked with assessments of family finances. The picture here is of a negative wealth effect drag that is only just starting to dissipate.

14. Household net worth vs consumer sentiment



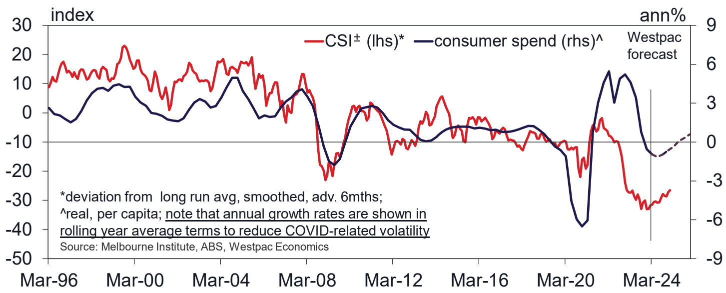
15. Household net worth: real, per capita by state



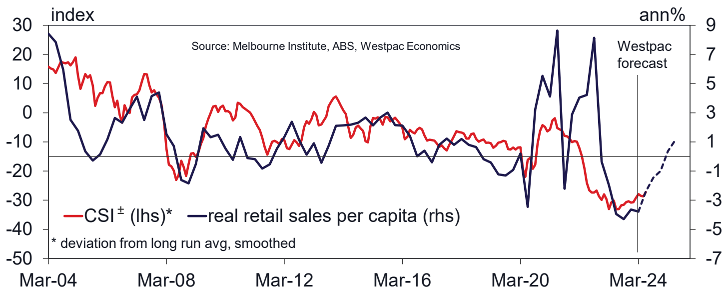
SENTIMENT INDICATORS: SPENDING

- 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.
- The composite is of more limited use at the moment due to pandemic-related factors that are cushioning the extent to which the shock to sentiment is flowing through so spending. In particular, the large pool of extra savings accumulated during the pandemic period has allowed many consumers to maintain spending despite a deep shock to real disposable income.
- 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 updates suggest this 'underlying' momentum remains extremely weak but is continuing to show a noticeable improvement. The index rose 1.4% to 72.8 over the 3mths to July. That marks a 9.3% cumulative improvement from the low seen just over a year ago. However, the index is still consistent with per capita spending contracting at a 3.5% annual pace, or a 1% decline allowing for population growth running at 2.5%yr.

16. CSI± vs total consumer spending



17. CSI± vs retail sales



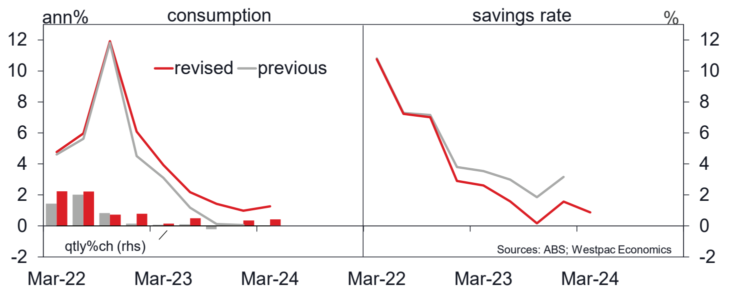
– The current pace of spending is subdued, but considerably firmer than the signal from the **CSI±**. Consumption rose 1.3% over the year March, a 1.2% contraction in per capita terms.

– This is also firmer than previous figures had indicated with the Q1 national accounts update including major revisions to the ABS historical estimates, consumption growth effectively marked 1ppt higher and the household saving rate market 1.6ppts lower. The changes relate to estimates of tourism-related spending by Australians abroad, which were increased by a cumulative $22bn to nominal spending over the last five quarters (see here for more details).

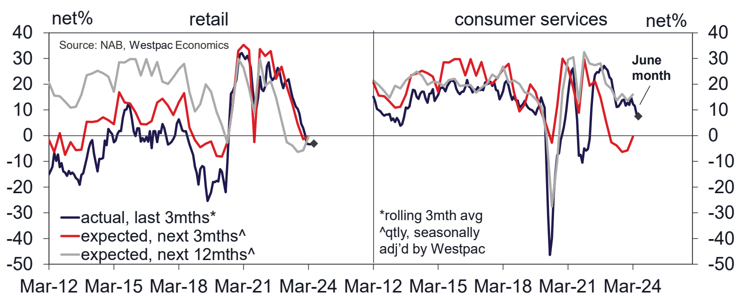
– One important point to note here is that the revised profile implies that there has been a much bigger run-down of buffer accumulated during the pandemic. Indeed, we estimate that about 40-45% of the estimated $250bn reserve has now been deployed. Previous estimates had suggested only 23% had been used.

– Timely indicators suggest spending has remained weak in Q2. The ABS retail survey showed nominal sales up 0.1% in Apr and 0.6% in May suggesting volumes are about flat. Our **Westpac Card Tracker** and other monthly ABS indicators point to a softening in wider nominal spend. Consumer sector responses to business surveys also ticked down in Q2.

18. Consumer spending and saving: revisions



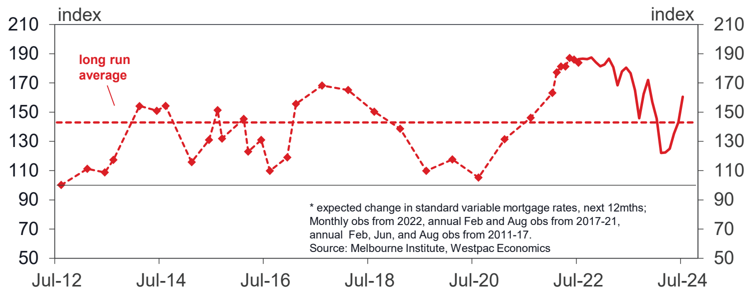
19. Business conditions: retail and consumer services



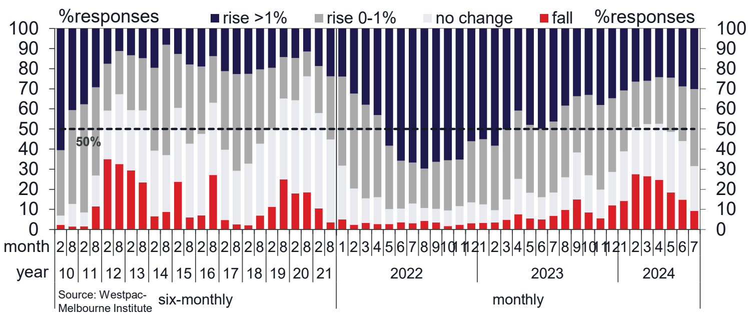
SENTIMENT INDICATORS: INTEREST RATES

- The most striking sentiment shift over the last 3mths has been around consumer expectations for interest rates. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, surged 23% over the 3mths to July, reversing all of the steep drop over the previous four months.
- At 159.2, the index is both well above the 'neutral' level of 100 and the long run avg of 143. Consumers clearly see the prospect of RBA rate cuts as well and truly off the table and most appear to be bracing for another round of interest rates rises.
- The detailed responses show 60% of consumers expect mortgage rates to rise over the next year. Just under 20% expect no change with only 8% expecting declines, less than the 13% saying 'don't know'. This compares to a 40%:24%:21% rise:same:fall mix of responses back in Apr.
- The shift in expectations has been across-the-board but sharper amongst those in older age groups, middle-income earners, homeowners and consumers in WA. There has no doubt been a restraining factor for wider sentiment, likely preventing what might otherwise have been a firming in consumer sentiment in recent months.

20. Mortgage interest rate expectations



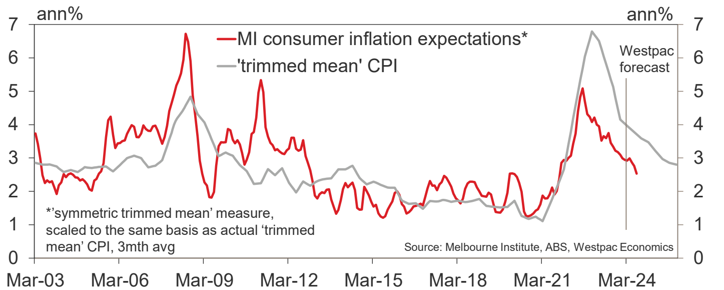
21. Consumer expectations for mortgage rates



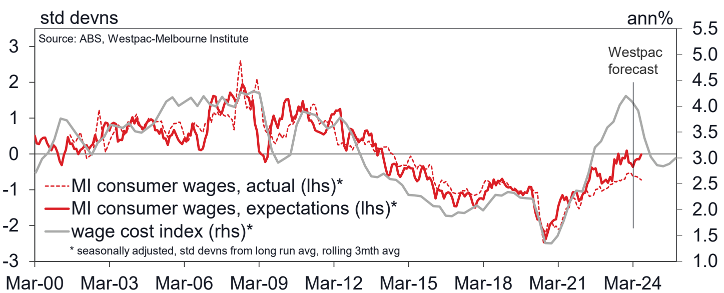
SENTIMENT INDICATORS: INFLATION

- Interestingly, despite their 'spooked' views on the interest rate outlook, consumers have continued to mark down inflation expectations and made only minor changes to what are still benign expectations for wages growth.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations ticked down from 4.58% in Apr to 4.33% in Jul to be in line with the long run avg of 4.37%. 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 headline inflation running at 2.5%yr.
- Some of this latest decline may reflect Federal budget measures around electricity and rental assistance which are expected to lower observed inflation as the CPI tracks the 'out of pocket' cost to consumers. The government's budget forecasts explicitly noted that headline inflation cold drop below 3% by year-end.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations lifted from 0.99% in Apr to 1.4% in Jul but remains below the 1.56% peak seen in mid-2023. Wage expectations also look to have a seasonal element that peaks around mid-year, likely reflecting the timing of minimum and award wage decisions.

22. CPI inflation: actual vs expected



23. Wages growth: actual vs expected



SENTIMENT INDICATORS: DURABLES

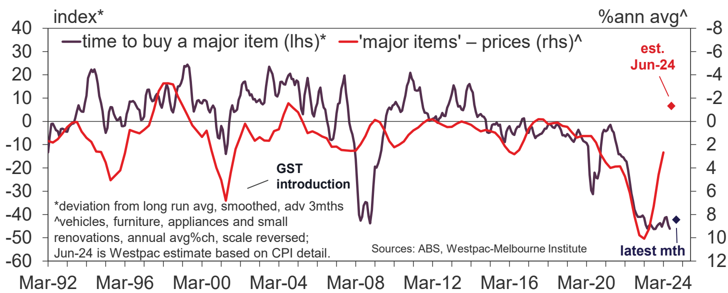
– The **‘time to buy a major item’** sub-index continues to languish near historical lows. At 82.1, the sub-index has lifted slightly from the very weak, sub-80 reads in Apr-Jun but is still in the bottom 3% of observations historically.

– This is somewhat alarming given the clear improvement starting to show through around prices. This sub-index was the main one to capture the impact of sharply rising prices on consumer purchasing power in 2022-23. The Q2 CPI detail is expected to confirm that – for major items such as vehicles, furniture and small renovations – prices are now declining slightly on an annual basis (see Chart 24).

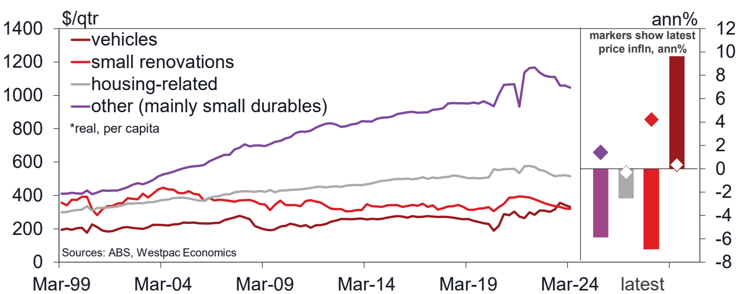
– This shift in prices may be hard for consumers to perceive, particularly with wider price measures showing inflation persisting at a higher pace. Alternatively, and as we have flagged previously, buyer sentiment may respond asymmetrically to prices, deteriorating sharply when prices rise sharply but only improving slowly when they are falling, particularly when the price level is still well above its original starting point.

– Demand-wise, per capita durables spend has started to stabilise in 2024, having slumped 7.3% over the last 3yrs. Vehicles spend has been notably firmer but likely reflects clearing supply problems, vehicle sales holding about flat in Q2.

24. ‘Time to buy a major item’ vs prices



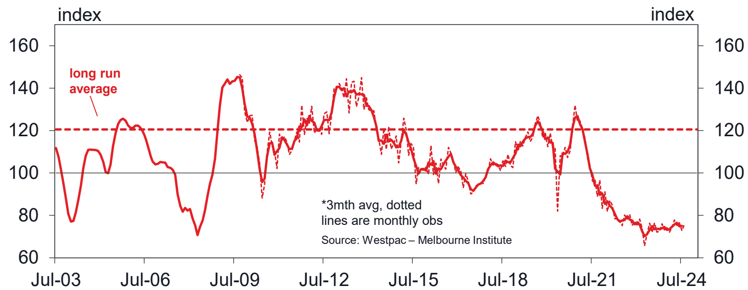
25. Consumer spending: ‘big ticket’ items



SENTIMENT INDICATORS: DWELLINGS

- Homebuyer sentiment continues to bump around historical lows. The **'time to buy a dwelling'** index has barely moved over the last 3mths, nudging up 0.6% to 75.7.
- The current downturn in buyer sentiment is easily the worst on record. While there have been weaker moments for sentiment – a record low of 44.8 in 1989 in particular – the protracted weak reads over the last 3yrs are unprecedented. Buyer sentiment has been pessimistic for over 3yrs. The previous longest stretch of negativity, during the eye-watering high interest rates of the late 1980s and onset of the early 1990s recession, only lasted a year and a half.
- As noted previously, the index is closely linked to affordability. As such, there may well be a structural dimension to the weakness. While we expect easing inflation to eventually see an RBA easing cycle, this is unlikely to return interest rates to previous lows. Meanwhile dwelling prices are continuing to rise with not meaningful correction in sight. That suggests we are in for an extended period of diminished affordability.
- The latest detail shows mixed moves by state, NSW improving from extremely weak reads earlier in the year, Qld steady but Vic deteriorating. Buyer sentiment is seeing a particularly steep fall-off in WA where prices are rising very strongly.

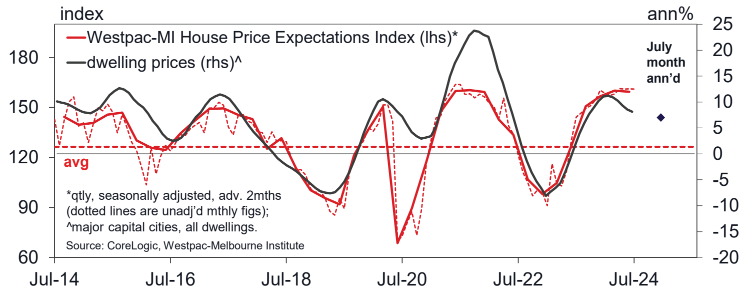
26. 'Time to buy a dwelling'



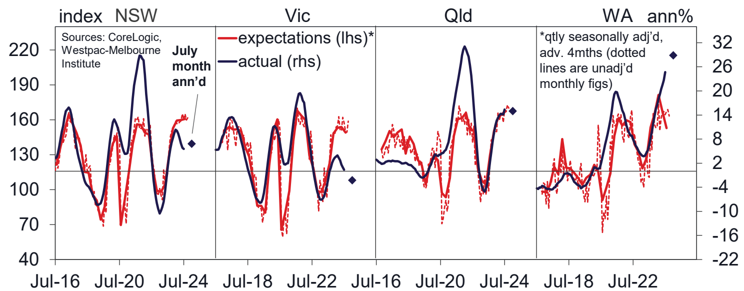
27. 'Time to buy a dwelling': selected sub-groups

- Consumer house price expectations remain extremely positive. The **Westpac Melbourne Institute House Price Expectations Index** held at 161.2 in Jul, unchanged from Apr and around previous cycle highs.
- Around 70% of consumers expect prices to continue rising over the next 12mths, with about one in seven expecting double-digit growth. Just over 8% expect prices to decline with 18% anticipating no change. The mix is largely unchanged compared to Apr. Actual price growth has moderated a little nationally, from around 10%yr to 8%yr with the July month tracking closer to a 7% annualised pace.
- By state, price expectations are more bullish in Qld (167.8), SA (173.2) and WA (170.2) with about one in five consumers in the west expecting double-digit annual price growth. These states are all seeing markedly stronger price growth, with a particularly strong surge in WA.
- Price expectations are more subdued in NSW (159.5) and Vic (153.1) but still relatively positive given the slower price growth in these states. Annual growth in dwelling prices has slowed to 5.5%yr in Sydney and stalled flat in the Melbourne market which has seen prices slip lower in recent months. Patterns suggest local market conditions are having a relatively small bearing on price expectations.

28. Westpac–MI House Price Expectations Index



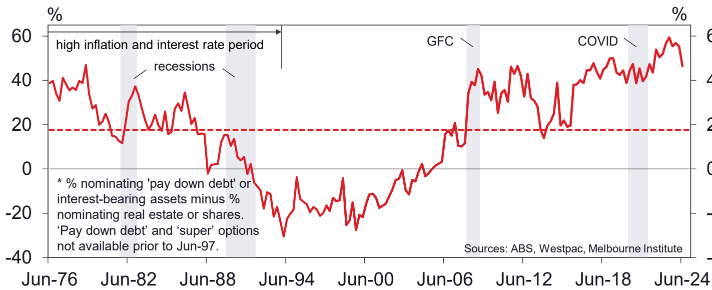
29. Dwelling prices: actual vs expected by state



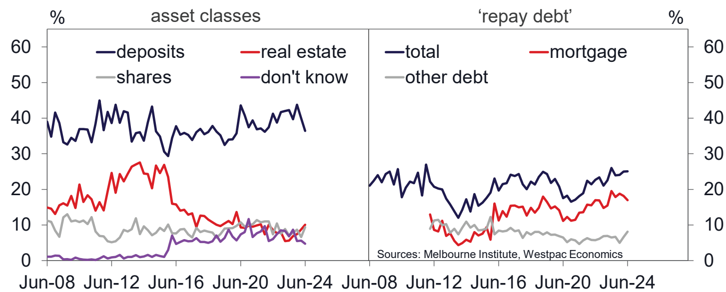
SENTIMENT INDICATORS: RISK AVERSION

- Consumer risk aversion has eased off its extremes but remains at very high levels. The **Westpac Consumer Risk Aversion Index** dropped from 55 in Mar to 47.7 in Jun, a 2½yr low. However, that still leaves it near previous historical highs and well above the historical avg of just below 20.
- The index is based on responses to the 'wisest place for savings' questions. The main move in Jun was a drop in the proportion favouring 'deposits' down 4.3pts to 30%, bringing it into line with the avg over the last 15yrs. Given there has been little or no change in deposit rates in recent months the shift looks to be more to do with shifts in perceived relative risks than relative returns.
- The flip-side of this move suggests there was less conviction amongst consumers as to which options were now more favourable. Consumers were a little more favourable towards 'riskier' options, 10% nominating 'real estate' (vs 8.4% in Mar) and 10% nominating 'shares' (vs 7% in Mar) but both of these are still a distant third in terms of preferred options.
- There was also a slight lift in the share nominating 'pay down debt', to 26.2% from 25%. All the move came from consumers with a mortgage, the proportion in this sub-group lifting to 45% from 41% in Mar – another sign that tax cuts may be put towards building savings buffers rather than spending.

30. Westpac Consumer Risk Aversion Index vs savings rate



31. Consumer: 'wisest place for savings'

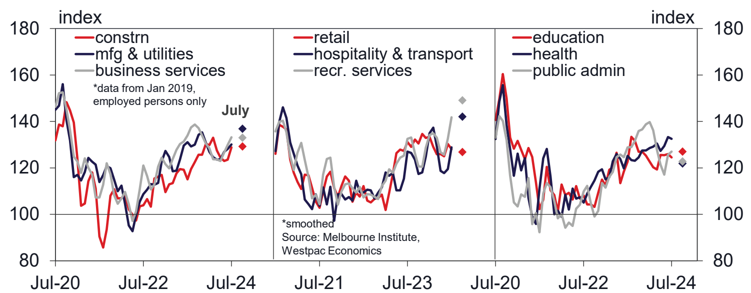


SENTIMENT INDICATORS: JOB SECURITY

- Despite the general gloom, consumers are still relatively untroubled about the job situation. The **Westpac-Melbourne Institute Index of Unemployment Expectations** rose 3% to 128.6 in Jul from 124.6 in Apr (recall that higher reads mean fewer consumers expect unemployment to rise over the next 12mths). The Index is in the 125-133 range that has prevailed since mid-2023, close to the long run avg of 129 and consistent with flat conditions rather than a sharp weakening.
- That aligns with official ABS measures showing the unemployment rate has been largely unchanged at around 4% over the first half of 2024, having drifted ½ppt higher over the second half of 2023.
- As noted, closer inspection suggests the labour market is seeing a little more slack than at the start of the year, particularly given observed declines in vacancies. The labour force detail is also showing some modest lift in the proportion of workers expecting to be retrenched over the next 12mths, to around 0.34% compared to 0.29% late last year. That said, the levels here are still very low.
- Job-loss fears have risen more materially (by 10-15%) amongst those employed in the recreational services; finance property & business services; and hospitality sectors. They have been lower and more stable amongst those employed in govt, health and education sectors.

32. Unemployment expectations

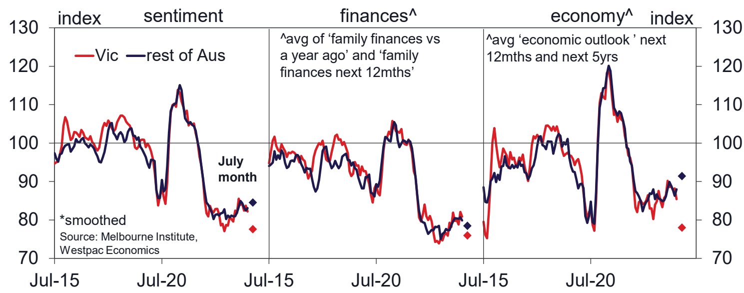
33. Unemployment expectations: selected sub-groups



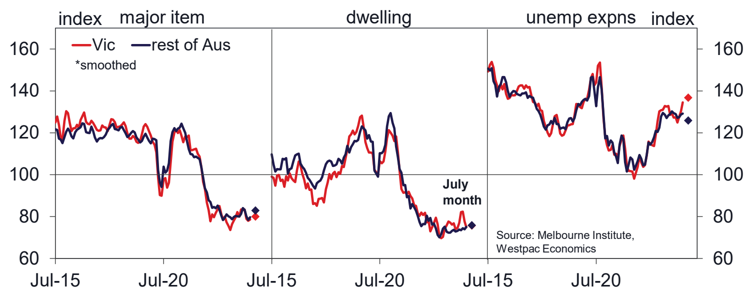
STATE SNAPSHOT: VICTORIA

- Something looks to have rattled Vic consumers in the month of July. Sentiment recorded a much sharper 10% drop compared to the 1.1% dip recorded nationally. While some of this may be noise, it may also reflect ongoing concerns about state government finances and somewhat softer housing and labour markets.
- Sentiment was also softer than the rest of the nation the last time we profiled Vic, in July last year. At the time, cost of living and interest rates rises looked to be hitting the state harder, the state budget also factoring as well as the decision to withdraw from hosting the 2026 Commonwealth Games in regional Vic.
- The detail shows the latest bout of weakness centres on the economic outlook where expectations in Vic have dropped to COVID lows. Assessments of family finances and the unemployment outlook are also marginally weaker in Vic than in other states. Victorians are just as downbeat on home purchases as their interstate peers but a little more hawkish on the interest rate outlook and less bullish on house price growth.
- All up, this suggests part of the July weakness may be about concerns that the state is more exposed to a potential further tightening in interest rates. If so, and if the assessment is correct, Vic has more riding on the next inflation update.

34. Consumer sentiment, finances, economy: Vic vs rest of Aus



35. Consumer 'time to buy', unemp expns: Vic vs rest of Aus



ECONOMIC AND FINANCIAL FORECASTS

Interest rate forecasts

Australia	Latest	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Cash	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10
90 Day BBSW	4.47	4.42	4.19	3.96	3.75	3.55	3.30	3.30
3 Year Swap	4.07	4.10	4.00	3.85	3.70	3.60	3.50	3.50
3 Year Bond	4.01	3.90	3.80	3.65	3.50	3.40	3.30	3.30
10 Year Bond	4.29	4.30	4.25	4.20	4.10	4.00	4.00	4.00
10 Year Spread to US (bps)	8	-10	-5	0	0	0	0	0
US								
Fed Funds	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625
US 10 Year Bond	4.21	4.40	4.30	4.20	4.10	4.00	4.00	4.00

Exchange rate forecasts

	Latest	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
AUD/USD	0.6701	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.6028	0.60	0.61	0.62	0.63	0.64	0.65	0.65
USD/JPY	157.83	159	158	156	153	150	147	144
EUR/USD	1.0888	1.09	1.10	1.11	1.12	1.13	1.14	1.14
GBP/USD	1.2938	1.27	1.28	1.29	1.30	1.31	1.31	1.31
USD/CNY	7.2675	7.20	7.10	7.05	7.00	6.90	6.80	6.70
AUD/NZD	1.1116	1.10	1.10	1.10	1.10	1.10	1.10	1.11

Sources: Bloomberg, Westpac Economics

Australian economic growth forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GDP % qtr	0.1	0.3	0.6	0.5	0.5	0.6	0.6	0.7
%yr end	1.1	10	1.4	1.6	2.0	2.2	2.2	2.3
Unemployment rate %	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.6
Wages (WPI)	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8
annual chg	4.1	3.9	3.4	3	2.9	2.8	2.9	3
CPI Headline	1.0	1.0	0.1	0.8	0.7	0.8	0.9	0.6
annual chg	3.6	3.8	2.7	2.9	2.7	2.4	3.2	3.1
Trimmed mean	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.6
annual chg	4.0	4.0	3.6	3.5	3.2	3.0	2.8	2.8

	Calendar years			
	2023	2024f	2025f	2026f
GDP %yr end	1.6	1.6	2.3	3.5
Unemployment rate %	3.9	4.3	4.6	4.5
Wages (WPI) anu chg	4.2	3.0	3.0	3.3
CPI Headline anu chg	4.1	2.9	3.1	2.8
Trimmed mean anu chg	4.2	3.5	2.8	2.6

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				2025
% change	**Q2**	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**
Total private consumption*	0.5	0.0	0.3	0.4	0.2	0.6	0.4	0.6
annual chg	2.2	1.4	1.0	1.3	1.0	1.6	1.6	1.8
Real labour income, ann chg	2.2	2.3	3.3	2.0	2.5	1.5	1.7	2.0
Real disposable income, ann chg**	–2.8	–4.3	0.5	0.4	1.8	4.6	3.8	3.9
Household savings ratio	1.6	0.2	1.6	0.9	1.6	2.6	2.4	2.2
Real retail sales, ann chg	–1.5	–1.7	–1.0	–1.4	0.1	0.8	1.0	2.2
Motor vehicle sales ('000s)***	862	970	927	904	886	916	946	925
annual chg	14.7	21.9	15.6	11.8	2.8	–5.5	2.0	2.3

	Calendar years			
	2022	**2023**	**2024f**	**2025f**
Total private consumption, ann chg*	7.1	2.1	1.4	2.1
Real labour income, ann chg	3.5	2.6	1.9	1.7
Real disposable income, ann chg**	–0.4	–2.7	2.6	3.6
Household savings ratio, %	7.0	1.5	1.9	2.5
Real retail sales, ann chg	5.1	–1.0	0.1	2.7
Motor vehicle sales ('000s)	781	892	913	937
annual chg	3.3	14.3	2.4	2.6

Notes to pages 24 and 25:
* 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			2024	
% change	avg^	Oct	Nov	Dec	Jan	Feb
Westpac–MI Consumer Sentiment Index	100.6	82.0	79.9	82.1	81.0	86.0
family finances vs a year ago	88.2	63.1	64.4	68.2	63.0	66.1
family finances next 12 months	106.7	93.9	87.0	90.4	93.0	95.3
economic conditions next 12 months	90.6	78.3	80.5	78.7	81.8	88.9
economic conditions next 5 years	92.0	92.4	86.5	94.9	89.1	93.0
time to buy major household item	124.4	82.4	81.3	78.2	78.0	86.8
time to buy a dwelling	120.5	76.0	73.2	74.3	72.0	74.2
Westpac–MI Consumer Risk Aversion Index^^	17.7	–	–	56.9	–	–
CSI±	100.3	70.9	69.1	70.0	69.4	73.1
Westpac–MI House Price Expectations Index#	126.5	160.4	158.4	157.3	158.1	161.4
consumer mortgage rate expectations#	40.5	64.6	74.6	59.3	47.0	21.6
Westpac–MI Unemployment Expectations	129.2	127.3	130.4	128.9	130.7	126.9
MI inflation expectations (trimmed mean)	4.4	4.8	4.9	4.5	4.5	4.5
MI wage expectations (trimmed mean)	1.3	1.3	1.2	1.3	0.9	1.2

	2024				
continued	Mar	Apr	May	Jun	Jul
Westpac–MI Consumer Sentiment Index	84.4	82.4	82.2	83.6	82.7
family finances vs a year ago	65.2	65.5	63.2	69.3	63.5
family finances next 12 months	93.8	95.5	96.1	96.5	92.1
economic conditions next 12 months	84.9	82.7	83.2	78.5	81.4
economic conditions next 5 years	94.0	89.8	92.2	94.1	94.5
time to buy major household item	84.2	78.7	76.5	79.7	82.1
time to buy a dwelling	77.8	75.3	76.5	72.8	75.7
Westpac–MI Consumer Risk Aversion Index^^	55.3	–	–	46.4	–
CSI±	72.0	71.8	71.6	74.8	72.8
Westpac–MI House Price Expectations Index#	161.1	161.2	161.1	163.8	161.2
consumer mortgage rate expectations#	20.9	22.8	33.0	41.2	59.2
Westpac–MI Unemployment Expectations	128.1	124.6	129.8	133.1	128.6
MI inflation expectations (trimmed mean)	4.3	4.6	4.1	4.4	4.3
MI wage expectations (trimmed mean)	1.4	1.0	1.2	1.3	1.4

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