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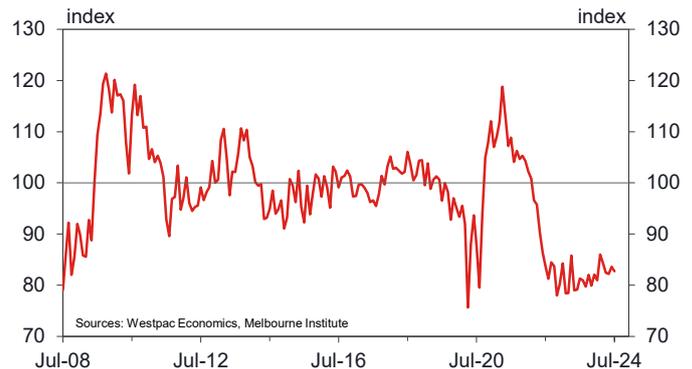
WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- The Westpac-Melbourne Institute Consumer Sentiment Index dipped 1.1% to 82.7 in July from 83.6 in June.
- Family finances again under pressure.
- Muted lift from 'stage 3' tax cuts and other fiscal measures, although many yet to see cash-flow boost.
- Biggest declines amongst middle income earners, Victorians, hospitality and construction workers.
- Rate rise expectations post big jump - 60% now expect higher rates.
- Steady outlook for labour market still the main source of support.
- Same story around housing: weak buyer sentiment and positive price expectations.

Consumer Sentiment Index



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Consumer sentiment dips as rate rise fears ratchet higher



Matthew Hassan
Head of Australian Macro-Forecasting

Sentiment remains stuck in the same deeply pessimistic range that has dominated for two years now.

The July update shows that fears of persistent inflation and further interest rate rises are again weighing more heavily on the consumer mood, offsetting any boost from the arrival of the 'stage 3' tax cuts and other fiscal support measures. While these measures came into effect from July 1, many consumers would not have seen any cash flow impacts so far given that payment cycles – for both incomes and for the electricity and rent expenses set to receive more cost of living support – are often fortnightly or monthly.

The component indexes show the latest sentiment dip centred around family finances.

The sharpest fall was in the 'family finances vs a year ago' sub-index, which dropped 8.4%, giving back almost all last month's promising 9.7% lift. At 63.5, the sub-index remains at extremely weak levels. Consumer expectations for their finances also deteriorated. The 'family finances, next 12 months' sub-index declined 4.5% to 92.1, the weakest read since the end of last year. On a combined basis, the two sub-indexes tracking finances declined to their weakest level since November.

Other components improved slightly, with consumers a little less pessimistic about the economic outlook and around attitudes towards spending.

The sub-index tracking assessments of the 'economic outlook, next 12 months' rose 3.6% to 81.4, while the 'economic outlook, next 5 years' sub-index nudged up 0.5% to 94.5. The 'time to buy a major item' sub-index lifted 3.1% to 82.1 but remains well below its long-run average of 124.

The most striking move in the month was again around consumer views on the interest rate outlook.

The Westpac-Melbourne Institute Mortgage Rate Expectations Index tracks consumer expectations for variable mortgage rates over the next 12 months. It jumped 12.8% in July, marking the steepest monthly rise since we began running this question in every survey at the start of 2022. The Index has surged 30% in just three months, from a below-average read of 122.8 in April to 159.2 in July (the average historically is 143.8). That sudden hawkish turn is the sharpest we have seen in the last seven years. The detailed responses show about just under 60% of consumers expect mortgage rates to rise over the next year.

Sub-group responses provide an interesting perspective on how the shifting interest rate view impacted sentiment in the latest month. The July sentiment decline was most pronounced amongst middle income earners, Victorians and those employed in the hospitality and construction sectors. Sentiment amongst consumers with a mortgage actually posted a solid 6.5% rise in July but was coming off a bigger 7.6% decline over the previous three months.

The message here seems to be that the main concern in July was around how high inflation and rising interest rates may impact parts of the economy that are already struggling.

Consumers are still relatively untroubled about job security. The Westpac-Melbourne Institute Unemployment Expectations Index improved marginally, declining 3.3% to 128.6 in July (recall that lower index reads mean fewer consumers expect unemployment to rise over the year ahead).

Overall, sentiment around jobs is close to its long run average levels – consistent with subdued but stable labour market conditions rather than a sharp weakening.

“... sudden hawkish turn is the sharpest we have seen in the last seven years.”

The shift in interest rate expectations has had little impact on how consumers are assessing the housing market, with buyer sentiment still bumping around weak levels and price expectations still relatively upbeat.

The 'time to buy a dwelling' index rose 4% to 75.7, reversing most of the decline seen in June. The index continues to bump around extreme cycle lows.

By state, buyer sentiment is a little less downbeat in NSW (averaging 78.6 over the last three months) but much weaker in Western Australia (averaging 67.2) and South Australia (averaging 62.7).

The Westpac Melbourne Institute Index of House Price Expectations declined 1.6% to 161.2, unwinding June's small gain but remaining at a high level overall. At 161.2, the index remains close to the peaks in early 2021.

Interestingly, despite much weaker homebuyer sentiment, consumers in Western Australia and South Australia are still more bullish on the price outlook, with state index reads tracking above 170.

The Reserve Bank Board next meets on August 5-6. While we still expect the Board to remain on hold at this meeting and the next, this view is contingent on inflation continuing to decline broadly in line with our (and the RBA's) expectations. The June quarter CPI release and labour market data will be important inputs into the Board's near-term decisions

Consumer Sentiment – July 2024

Item	avg*	Jul 2022	Jul 2023	Jun 2024	Jul 2024	%mth	%yr
Consumer Sentiment Index	100.6	83.8	81.3	83.6	82.7	-1.1	1.8
Family finances vs a year ago	88.2	72.0	62.2	69.3	63.5	-8.4	2.1
Family finances next 12mths	106.7	86.2	89.7	96.5	92.1	-4.5	2.7
Economic conditions next 12mths	90.6	80.3	81.4	78.5	81.4	3.6	0.0
Economic conditions next 5yrs	92.0	91.6	94.3	94.1	94.5	0.5	0.2
Time to buy a major household item	124.4	88.8	78.8	79.7	82.1	3.1	4.2
Time to buy a dwelling	120.5	80.1	76.4	72.8	75.7	4.0	-0.9
Unemployment Expectations Index	129.2	109.8	131.2	133.1	128.6	-3.3	-2.0
House Price Expectations Index	126.5	104.9	149.3	163.8	161.2	-1.6	7.9
Interest Rate Expectations Index	143.8	183.9	174.8	141.2	159.2	12.8	-8.9

Source: Westpac-Melbourne Institute.

*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

The survey is conducted by OZINFO & DYNATA. Respondents are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 1 July to 5 July 2024. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.



Authors

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

M: +61 421 835 252
E: luci.ellis@westpac.com.au

Besa Deda

M: +61 404 844 817
E: besa.deda@westpac.com.au

Matthew Hassan

M: +61 409 227 159
E: mhssan@westpac.com.au

Elliot Clarke

M: +61 459 848 856
E: eclake@westpac.com.au

Justin Smirk

M: +61 459 844 788
E: jsmirk@westpac.com.au

Pat Bustamante

M: +61 434 856 909
E: pat.bustamante@westpac.com.au

Ryan Wells

M: +61 401 423 628
E: ryan.wells@westpac.com.au

Illiana Jain

M: +61 403 908 032
E: illiana.jain@westpac.com.au

Jameson Coombs

M: +61 401 102 789
E: jameson.coombs@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ

Michael Gordon

Senior Economist

Darren Gibbs

Senior Economist

Satish Ranchhod

Senior Economist

Paul Clark

Industry Economist

Westpac Economics / Global

London

Camomile Court,
23 Camomile St,
London EC3A 7LL
United Kingdom

Singapore

12 Marina View
#27-00,
Asia Square Tower 2
Singapore, 018961

New York

39th Floor
575 Fifth Avenue
New York, 10017 USA



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