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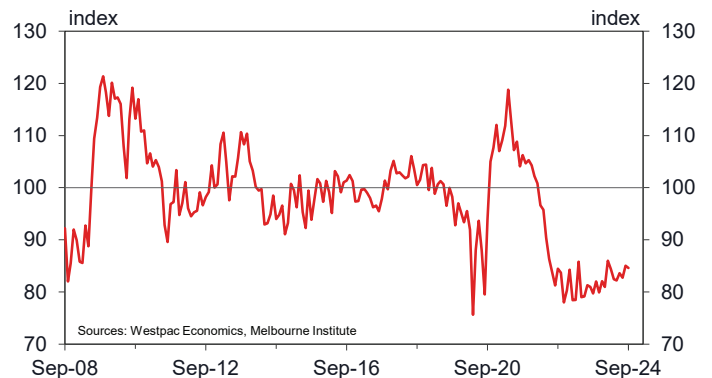
WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Renewed concerns the economy may be heading for a harder landing.
- Consumers less fearful of interest rate rises but more unsettled about jobs.
- More signs intense cost-of-living pressures are easing, but only gradually
- Home-buyer sentiment improves slightly but diverging across states.
- House price expectations cooling in Victoria and New South Wales.

Consumer Sentiment Index



The Westpac–Melbourne Institute Consumer Sentiment Index dipped 0.5% to 84.6 in September from 85.0 in August.

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Consumer pessimism deepens slightly



Matthew Hassan
Head of Australian Macro-Forecasting

The Westpac-Melbourne Institute Consumer Sentiment Index dipped 0.5% to 84.6 in September from 85.0 in August. The pessimism that has dominated for over two years now is still showing no real signs of lifting. However, the focus does look to be shifting. While cost-of-living pressures are becoming a little less intense and fears of further interest rate rises have eased, consumers are becoming more concerned about where the economy may be headed and what this could mean for jobs.

Responses to additional questions on news recall give a clear sense of the factors influencing the consumer mood. These questions, run in March, June, September and December, ask about which news topics consumers recall and how favourable these were viewed.

While all news is still assessed as being more bad than good, the last three months has seen some shifts amongst the dominant themes. ‘Inflation’ news is still overwhelmingly negative but has become a little less threatening. News on ‘interest rates’ is viewed as slightly more unfavourable than in June. However, consumers are picking up a much weaker tone to news around ‘the economy’, ‘budget & taxation’ and ‘employment’: 70-80% now assessing news on these topics as unfavourable compared to 60-70% in June.

The same themes also show through in the sentiment detail. The headline Consumer Sentiment Index is a composite measure based on five sub-indexes that capture responses to more specific questions: two on family finances, two on the economic outlook and one on whether now is a good time to buy a major household item. These sub-indexes show a mix of pressures in September, albeit with mostly small moves either way.

On the positive side, we continue to see a sustained improvement in responses on family finances, as inflation moderates and tax cuts and fiscal support measures come into effect. The ‘family finances vs a year ago’ sub-index rose a further 1.2% in September to be up 13.1% since July.

That said, the extremely weak starting point means that even with this lift the sub-index is still in deeply pessimistic territory – the latest reading of 71.8 may be a two-year high but it’s still lower than anything seen in the decade prior (except for the very first COVID lockdown).

Consumers are also becoming a little more confident that pressures on family finances will subside. The ‘family finances, next 12 months’ sub-index ticked up 0.2% in the month to be up 5.3% since July. At 97.0, the sub-index is now close to neutral, suggesting that most consumers expect the cost-of-living crisis to be largely resolved by this time next year.

However, pressures right now still look to be intense – the ‘time to buy a major household item’ sub-index, the component most impacted by the decline in purchasing power over the last two years, was unchanged at 82.6 in September, well below its long run average of 124.2.

The small improvements around family finances were more than offset by a loss of confidence around the economy. The ‘economic outlook, next 12 months’ sub-index fell 2.6% to 81.2 and the ‘economic outlook, next 5 years’ sub-index declined 1% to 90.6.

The lacklustre June quarter national accounts clearly impacted here. Indeed, responses over the course of the survey week suggest all of the sentiment decline in the month related to a sharp drop-off amongst those surveyed after the national accounts release.

“... small improvements around family finances were more than offset by a loss of confidence around the economy.”

The less confident outlook for the economy is also sparking fears about potential job loss. The Westpac-Melbourne Institute Unemployment Expectations Index rose 3.7% to 138.4 in September, up 11% since April and now materially above its long run average of 129 (recall that higher index reads mean more consumers expect unemployment to rise over the year ahead).

Notably, the deterioration has been a little sharper amongst consumers with a job – unemployment expectations across this sub-group jumping 8.3% in the month to its highest level since 2016 (excluding the COVID period).

Against this, consumers' interest rate rise fears showed a clear easing. The Westpac-Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, declined 8.6% to 123.8, marking the lowest read since April. Responses show just under half of consumers expect mortgage rates to rise over the year ahead, down from over two thirds back in July.

Housing-related sentiment continues to show a mix of weak buyer sentiment and upbeat price expectations but with widening variations across states.

The 'time to buy a dwelling' index rose 6.6% overall to 76.1. However, state moves varied widely with gains in New South Wales (+19.4%) and Victoria (+9.9%) contrasting with marked declines in Queensland (-17.9%) and Western Australia (-6.4%). That largely reflects diverging price performances and associated shifts in affordability. Surging prices have seen 'time to buy a dwelling' index reads drop into the 60-70 range for Queensland and Western Australia. That compares to index reads of 79 in Victoria and 84 in New South Wales, although even in these states the overall level of buyer sentiment is still deeply pessimistic (the long run average nationally is 117).

It's a similar story around price expectations. The Westpac Melbourne Institute Index of House Price Expectations fell 4.6% to 150.5, a fifteen-month low. However, that weakening again centred on Victoria (-8.5%) and New South Wales (-5.6%) with price

expectations lifting in Queensland (+3.7%) and Western Australia (+0.5%). In all cases, there is still a comfortable majority of consumers expecting prices to rise.

Updates on our 'wisest place for savings' questions, run every three months, show consumers remain very risk averse. Safe options are still heavily favoured with 54% of consumers nominating either 'bank deposits' or 'pay down debt' (compared to 56% in June). Around 10% of consumers favour 'real estate' and 10% favour 'shares'.

The Reserve Bank Board next meets on September 23-24. We expect it to again leave the official cash rate unchanged and maintain its 'vigilant' stance on inflation.

The latest consumer sentiment survey adds to evidence that the Australian consumer remains weak. While that may ease some of the Reserve Bank's concerns around consumer demand, its main focus is on the extent to which the balance of demand and supply across the wider economy will see high inflation persist. As the RBA Governor has flagged in recent commentary, the picture here is likely to evolve more slowly with the September quarter CPI (due October 30) and the September quarter national accounts (due December 4) set to be key updates in the months ahead.

Consumer Sentiment – September 2024

Item	avg*	Sep 2022	Sep 2023	Aug 2024	Sep 2024	%mth	%yr
Consumer Sentiment Index	100.5	84.4	79.7	85.0	84.6	-0.5	6.1
Family finances vs a year ago	88.2	68.6	61.5	70.9	71.8	1.2	16.8
Family finances next 12mths	106.7	92.3	91.6	96.8	97.0	0.2	6.0
Economic conditions next 12mths	90.6	83.2	78.5	83.3	81.2	-2.6	3.4
Economic conditions next 5yrs	92.0	94.5	90.5	91.5	90.6	-1.0	0.0
Time to buy a major household item	124.2	83.7	76.6	82.6	82.6	0.0	7.8
Time to buy a dwelling	120.4	80.5	72.5	71.4	76.1	6.6	4.9
Unemployment Expectations Index	129.2	99.6	130.8	133.5	138.4	3.7	5.9
House Price Expectations Index	126.5	100.6	154.6	157.8	150.5	-4.6	-2.7
Interest Rate Expectations Index	143.6	186.2	146.7	135.5	123.8	-8.6	-15.6

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 2 September to 5 September 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.

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