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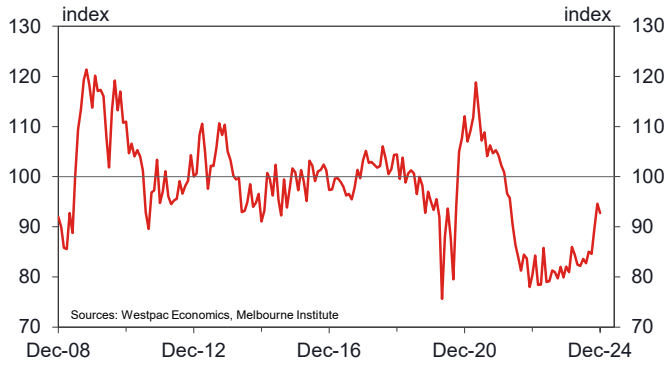
WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac Consumer Sentiment dips 2% to 92.8.
- Assessments of current conditions continue to post solid improvements.
- But consumers turn pessimistic again on economic outlook.
- Softening also weighing on labour market and housing-related sentiment.

Consumer Sentiment Index



The Westpac–Melbourne Institute Consumer Sentiment Index dipped 2% to 92.8 in December from 94.6 in November.

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Sentiment stalls as confidence on economy fades

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The Westpac–Melbourne Institute Consumer Sentiment Index dipped 2% to 92.8 in December from 94.6 in November. The consumer mood has improved materially over the course of 2024 but remains pessimistic overall, the year ending with renewed concerns about the economic outlook.

Consumers continue to report solid improvements in 'current conditions' – reflecting assessments of finances compared to a year ago and whether now is a good 'time to buy a major household item' – but the latest month has seen this more than offset by a loss of confidence around the outlook, particularly for the economy. That likely reflects several factors including: a disappointing September quarter national accounts update; ongoing uncertainty around inflation and the potential for interest rate easing; and a more unsettled global backdrop.

Responses to additional questions on news recall capture the broader improvement over the last three months. These questions, run in March, June, September and December, ask consumers which news topics they recall and how favourably this news was. All news topics were viewed less unfavourably in December than in September. News on 'inflation' again dominated, with just under half of consumers recalling news on this topic. Assessments here improved only slightly but assessments of news on other major topics – including 'budget & taxation', 'employment', 'the economy' and 'interest rates' – posted more material improvements. Back in September, an average of 72% of consumers assessed news on these topics as unfavourable. That declined to 60% in December.

The headline Consumer Sentiment Index is a composite measure based on five sub-indexes: two tracking current conditions and three tracking expectations. All of the weakening in December was in forward-looking components.

The biggest pull-back was around expectations for the economy. The 'economic outlook, next 12 months' sub-index dropped 9.6% to 91.2, while the 'economic outlook, next 5 years' sub-index fell 7.9% to 95.9. Both sub-indexes unwound about half of the rally seen over the previous two months. The September quarter national accounts update, released on December 4, showed a disappointing performance with annual GDP growth slowing to just 0.8%yr and private demand stalling flat over the last six months.

The sub-group detail suggests some of the shift in expectations may also be due to some paring back in rate cut expectations. Year-ahead expectations recorded particularly sharp falls amongst consumers with a mortgage, expectations for the economy down 13.8% and expectations for family finances down 10% amongst this sub-group.

The more unsettled global backdrop may also have weighted on the outlook. Notably, expectations for the economy over both the year ahead and next five years declined across all of the detailed sub-groups tracked in the survey.

That contrasts with a continued improvement in assessments of family finances. In particular, the 'family finances vs a year ago' sub-index rose a further 6.9% to 84.2, up by over a third since the start of the year. While pessimists still outnumber optimists, the gap is at its narrowest since the start of 2022. Tax cuts, fiscal support measures, stable interest rates and rising household wealth are providing a clear lift. The forward view is also still positive, albeit a little less so than in November. At 103.2, the 'family finances, next 12 months' sub-index is above the 100-line, indicating that optimists outnumber pessimists, but down slightly by 0.9% on a month ago.

There are also more promising signs for retailers that buyer sentiment is starting to recovery. The 'time to buy a major household item' sub-index registered a significant improvement in December, rising 4.8% to 89.2, a two and a half year high. Buyer sentiment is still downbeat and well below long run average levels, but the shift suggests the shock from surging prices and the associated loss of purchasing power is finally starting to fade. Notably, the sub-group detail on 'family finances vs a year ago' and assessments of 'time to buy a major item' showed particularly big improvements amongst those earning between $60k and $100k a year – both up 20-25% in the latest month.

Renewed concerns about the outlook have taken some of the gloss off consumer confidence around jobs. The Westpac–Melbourne Institute Unemployment Expectations Index rose 2.7% to 123.7 in December (recall that higher index reads mean more consumers expect unemployment to rise over the year ahead). That said, job loss fears remain relatively low with expectations still below the long run average index read of 129, having fallen by over 10% since September. The picture remains consistent with a benign outlook for the labour market. The unemployment rate has held steady around 4% over the last six months.

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Consumer sentiment towards housing deteriorated in December, with homebuyer sentiment falling back to very pessimistic levels and price expectations continuing to soften.

The 'time to buy a dwelling' index fell 6% in December to 81.6. State measures continue to see a wide range of moves and levels. Victoria unwound about half of the very strong rise recorded in November, the state index falling 9.8%. Even with that, Victoria index remains notably firmer at 91.4. Buyer sentiment has been more settled in NSW, the state index holding around 80. Assessments remain more downbeat in the 'middle-sized' states with index reads in the 70–78 range but have seen volatile swings in the latest month with a sharp rebound in Western Australia and sharp falls in Queensland and South Australia. The unsettled picture suggests there is a higher-than-normal degree of uncertainty about the outlook for housing, particularly in markets that are still seeing strong price growth.

Consumers are becoming less positive on the outlook for house prices. Nationally, the Westpac–Melbourne Institute Index of House Price Expectations fell 5.3% to 142 in December, the lowest reading since April 2023. The latest monthly fall centred on Victoria (–13.5%) and New South Wales (–10%) where state indexes are back around 130–134, slightly below long run averages. Prices across both state capitals, Sydney and Melbourne, have been slipping lower in recent months. In contrast, house price expectations remain much more buoyant in Queensland, Western Australia and South Australia, with state indexes still in the 150–165 range. Price growth continues to track double-digit annual rates in the state capitals of Brisbane, Perth and Adelaide.

Consumers were slightly less dovish on the outlook for interest rates in December. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, rose 2.7% to 105.8. However, the index is still down by a third since July and tracking around historical lows.

Updates on our 'wisest place for savings' questions, run every three months, show consumers remain very risk averse about financial decisions. Safe options are still heavily favoured with 54% of consumers nominating either 'bank deposits' or 'pay down debt', exactly in line with responses back in September. Just 8% of consumers favour 'real estate' and 10% favour 'shares'.

The Reserve Bank Board next meets on February 17–18. Recent communications indicate that the Board is becoming more confident about returning inflation to the 2–3% target band. However, the latest sentiment survey highlights some of the 'mixed signals' still coming out of the consumer. With the degree of slack in labour markets also uncertain, and ongoing questions about productivity growth, the Board is likely to require further evidence of the desired slowing in inflation before it is prepared to relax policy. That suggests – absent a material downside surprise on inflation – it will be some months yet before the Board is sufficiently confident to begin easing rates. On balance, Westpac expects the Board to leave interest rates unchanged at its February meeting, with an easing expected to commence in May.

Consumer Sentiment – December 2024

	avg*	Dec 2022	Dec 2023	Nov 2024	Dec 2024	%mth	%yr
Consumer Sentiment Index	**100.5**	**80.3**	**82.1**	**94.6**	**92.8**	**–2.0**	**13.0**
Family finances vs a year ago	88.1	66.3	68.2	78.8	84.2	6.9	23.5
Family finances next 12mths	106.7	87.3	90.4	104.1	103.2	–0.9	14.2
Economic conditions next 12mths	90.1	73.9	78.7	100.9	91.2	–9.6	15.9
Economic conditions next 5yrs	91.5	90.2	94.9	104.2	95.9	–7.9	1.1
Time to buy a major household item	124.0	83.8	78.2	85.2	89.2	4.8	14.1
Time to buy a dwelling	120.2	74.9	74.3	86.8	81.6	–6.0	9.8
Unemployment Expectations Index	129.2	117.9	128.9	120.5	123.7	2.7	–4.0
House Price Expectations Index	126.5	116.3	157.3	150.1	142.0	–5.3	–9.7
Interest Rate Expectations Index	142.9	183.3	159.3	103.0	105.8	2.7	–33.6

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 9 December to 13 December 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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