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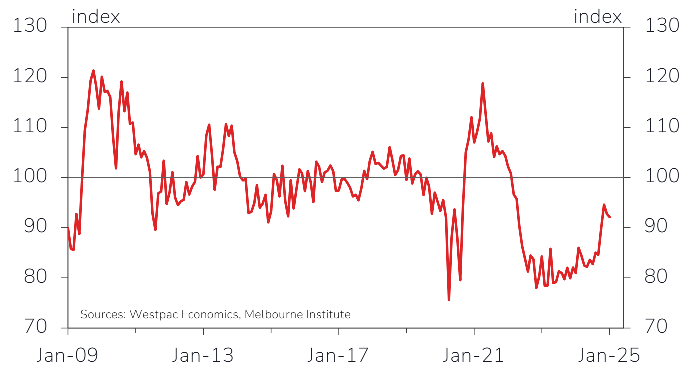
WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac Consumer Sentiment declines slightly (–0.7%) in January to 92.1.
- Consumers remain less pessimistic than a year ago.
- But assessment of family finances reversed December's gains.
- Expectations mostly stable, but unemployment expectations worsen.

Consumer Sentiment Index



The Westpac–Melbourne Institute Consumer Sentiment Index slipped a little further in January, down –0.7% to 92.1.

Consumer sentiment slips a little further in January

Luci Ellis
Chief Economist Westpac Group

The Westpac–Melbourne Institute Consumer Sentiment Index declined –0.7% to 92.1 in January, from 92.8 in December.

The consumer mood has soured for two months in a row and remains on the pessimistic side. The survey results were also weaker later in the survey period than in the first two days. However, sentiment is still less negative than a year ago and some components suggest that consumers expect things to continue to improve from here.

The headline Consumer Sentiment Index is a composite measure based on five sub-indexes: two tracking current conditions and three tracking expectations. In January, the two sub-indexes tracking current conditions declined while the forward-looking ones were flat or increasing, a reversal of the pattern in December.

The survey was in the field during 6–9 January. While the results are already adjusted for usual seasonal variation, it is noteworthy that all of the five sub-indexes were weaker in the last two days of the four-day survey window than they were over the first two days. Unlike in November, there was not an obvious geopolitical event to point to as a driver of this result. As well as the ongoing unsettled global backdrop, it is possible that consumers were reacting to news about the depreciation of the Australian dollar against the US dollar, which resulted in some negative headlines about the outlook for interest rates and the broader economy.

Consumers' assessment of their finances compared with a year ago reversed the gains in December, falling 7.8% in the month to 77.7. The declines were particularly marked for outright homeowners. Renters also recorded a small decrease in the month in this component, while homeowners with a mortgage saw a 15% increase, which took this component back to 2022 levels for this group. Mortgagors are less likely to be retired than the other two groups and thus more likely to have benefited from last year's tax cuts. Still, the result highlights that the positive impact of the tax cuts on take-home pay needs to be balanced against all the other factors that have been dragging on families' finances, including ongoing cost-of-living pressures.

Forward-looking measures were more stable, as was consumers' assessment of whether now is a good 'time to buy a major household item'. Expectations about family finances over the next 12 months reversed last month's decline, while confidence around the outlook for the economy in the coming year was unchanged following the fall in December. Views about the economy in five years' time improved a little – up 0.7% in January – but at 96.6, this component remains below November's level.

Sentiment about major household purchases continued its steady improvement since mid-2024, with the 'time to buy a major household item' component increasing 1.8% in the month to 90.8. Although perceptions of family finances have deteriorated, consumers may be responding more than usual to the discounting on offer during the major sales periods around Black Friday and post-Christmas. This sub-index improved across most income groups in January, declining only for those earning more than $160k per year."

Consumers' views on the outlook for interest rates were broadly unchanged in January. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, ticked down to 105.7 in January from 105.8 in December. This is the fourth consecutive month where the share of consumers who expect rates to increase outnumbered those who expect rates to fall by 5 percentage points or less, a much narrower margin than in recent years.

Within the overall view on interest rates in January, homeowners with a mortgage were more likely to expect a rate cut than either renters or outright owners. While the share of mortgagors expecting a cut has exceeded that of renters for more than a year, the increase this month has put them ahead of outright owners as well. This shift in expectations may help explain why sentiment more broadly has improved for this group relative to both renters and outright owners. That said, most consumers expecting rate cuts expect mortgage rates to fall by no more than 1% over the next 12 months."

Consumer confidence around jobs continues to deteriorate even though recent official data on unemployment has remained low and job vacancies have increased. The Westpac–Melbourne Institute Unemployment Expectations Index rose a

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further 2.8% to 127.2 in January (recall that higher index reads mean more consumers expect unemployment to rise over the year ahead). At this level, expectations are only a little below the long-run average index read of 129. The index increased most for lower-income groups and those with non-managerial occupations. With employment growth outside the so-called ‘care economy’ of health, education and public administration having slowed considerably, consumers may be seeing the current state of the labour market as fragile.

Consumer sentiment towards housing improved in January. While price expectations continued to soften, the ‘time to buy a dwelling’ index rebounded by just over 10% in the month to 89.9, more than reversing the fall recorded in December. The increase could reflect a combination of the growing view that mortgage rate decreases are coming, and a recognition that housing prices have slowed or even fallen in most population centres. At this level, though, sentiment towards housing is still clearly below historical averages.

The ‘time to buy a dwelling’ index improved across all state and regional breakdowns. In New South Wales, Western Australia and South Australia, the index is back above its November levels, while elsewhere the increase only partly reversed December’s decline. Likewise, the index increased across all age groups and for renters and homeowners with a mortgage. Sentiment among outright owners declined slightly in January but remains noticeably above the levels seen for most of the past couple of years.

Consumers continue to scale back their views about the outlook for house prices. Nationally, the Westpac–Melbourne Institute Index of House Price Expectations fell 5.9% to 134 in January, more than 15% below the year-ago level and a touch below the longer-run average. Falls were recorded in every state and territory except New South Wales, with sharp declines in Queensland, South Australia and Tasmania. Only in Western Australia does the state index remain above the 140 mark. This is consistent with the geographic differences in recent housing price developments, with prices falling in Sydney and Melbourne, softening in Brisbane, Adelaide and most other centres, but remaining resilient in Perth.

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 from the consumer. In addition, the labour market appeared to stop easing in the second half of 2024. There is still a chance the Board moves in February or April, if inflation comes in below expectations for the December quarter. On balance, though, Westpac expects the Board to leave interest rates unchanged at its February meeting, with an easing expected to commence in May.

Consumer Sentiment – January 2025

	avg*	Jan 2023	Jan 2024	Dec 2024	Jan 2025	%mth	%yr
Consumer Sentiment Index	**100.5**	**84.3**	**81.0**	**92.8**	**92.1**	**–0.7**	**13.8**
Family finances vs a year ago	88.1	67.4	63.0	84.2	77.7	–7.8	23.3
Family finances next 12mths	106.7	93.1	93.0	103.2	104.4	1.1	12.2
Economic conditions next 12mths	90.1	81.4	81.8	91.2	91.2	0.0	11.5
Economic conditions next 5yrs	91.5	92.8	89.1	95.9	96.6	0.7	8.4
Time to buy a major household item	124.0	86.8	78.0	89.2	90.8	1.8	16.4
Time to buy a dwelling	120.1	78.2	72.0	81.6	89.9	10.2	24.9
Unemployment Expectations Index	131.0	108.0	130.7	123.7	127.2	2.8	–2.7
House Price Expectations Index	126.5	104.4	158.1	142.0	133.7	–5.9	–15.5
Interest Rate Expectations Index	142.9	184.2	147.0	105.8	105.7	–0.1	–28.1

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 6 January to 9 January 2025. The data have been weighted to reflect Australia’s population distribution.

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