January 2025

THE RED BOOK

Quarterly update on the Australian consumer

CONTENTS

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The **Westpac Red Book** report is produced by Westpac Economics.

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Slow road to recovery

The Australian consumer is starting the new year in better shape than the last two with an upturn underway and an RBA that looks poised to provide additional rate cut support. Despite this, there is still plenty of caution about, suggesting it will be a slow road to recovery. With an unsettled geopolitical backdrop abroad and a Federal election due locally, there may be a fair few bumps along the way as well.

Our first **Red Book** for 2025 surveys the scene. After a shaky start, consumer spending is now clearly firming, helped along by tax cuts and slower inflation. Sentiment has also shown a decisive shift, lifting out of the deep ‘cost of living’ hole it has been stuck in since mid-2022. Overall, consumers are still not positive but the mood has shifted from ‘overwhelmingly’ to ‘cautiously’ pessimistic.

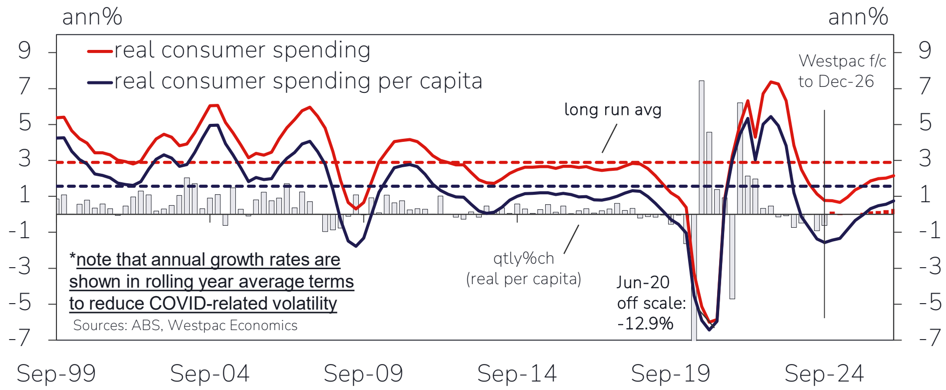
That mostly reflects a material easing in the pressure on family finances. Shifting interest rate expectations have been another important support. Six months ago consumers were bracing for more rate hikes. Expectations in early January are consistent with a material easing over 2025. More recent developments around inflation suggest that easing will begin in a matter of weeks.

This is consistent with the view set out in our last report back in October, that inflation and interest rate developments would drive a further recovery in sentiment. However, we also warned that the monetary easing would be “gradual and modest”. Indeed, a closer look at easing cycles shows the sentiment impact of rate cuts can be quite ambiguous, depending crucially on what was already ‘priced in’ to consumer expectations (see p9).

We also warned that there were risks of turbulence around the US election. These risks have fully materialised, the second Trump Presidency already proving to be a very unsettled one for the global economy. While their direct exposure is low, the backdrop will contribute to a more general sense of unease amongst Australian consumers.

So where does that leave us? A return to the deep pessimism that prevailed through 2022–24 is unlikely. The severe, broad-based cost-of-living problems that were behind this, and the global supply chain disruptions that set the episode off, are unlikely to repeat under reasonable scenarios. But equally, even if we see a return to outright optimism, it is likely to be hard to sustain.

1. Consumer spending: starting to lift again



“A return to the deep pessimism that prevailed through 2022-24 is unlikely ... [but] a return to outright optimism ... looks like it will be hard to sustain.”

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Quick run-down

The **Westpac–Melbourne Institute Consumer Sentiment Index** rose 2.6% over the three months to January, to 92.1 from 89.8 in October and 82.7 in July.

Sentiment remains cautiously pessimistic overall but has improved markedly on a year ago. The main gains have come from reduced pressure on family finances, and more positive expectations as slowing inflation has made consumers more confident about the prospect of interest rate cuts.

Risk aversion remains very high, largely unchanged since mid 2024 but off the extremes seen in 2023 and early 2024. The **Westpac Risk Aversion Index** nudged up slightly to 49 in December from 47 in September, holding well above the long run average of 18. Consumers continue to heavily favour 'safe' options such – bank deposits and debt repayment – as the 'wisest place for savings'.

The sentiment mix continues to point to a gradual improvement in consumer spending. **CSI±,** a modified indicator that correlates well with per capita spending, has risen a further 4.3% since October but remains consistent with contracting per capita spend overall. Actual spend has been somewhat firmer.

Consumer expectations for interest rates swung sharply lower through the middle of 2024 and have held on to that move over the last three months. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** dipped slightly, by a further 0.7% between October and January. At 105.7, it remains near previous cycle lows seen when the RBA was actively easing policy. The reading pre-dates the Q4 CPI result which has bolstered market expectations for a rate cut in February.

Consumer expectations for inflation have held steady in recent months, down sharply on recent peaks but at the top end of the range seen in the years prior to COVID. Wage growth expectations have crept a little higher.

Consumer attitudes towards major purchases continue to improve, consistent with some slight improvements in purchasing power. The **'time to buy a major item'** index posted a strong 6.7% rise over the three months to January. At 90.8, the index compares favourably to the sub-80 lows in 2023-24 but is still well below the long run average of 123. The 'cost of living' backdrop is becoming less toxic for consumer attitudes but is clearly still a factor.

Homebuyer sentiment continues to show a strong recovery from historical lows. The **'time to buy a dwelling'** index surged 15.3% over the three months to January but remains in pessimistic territory overall, at 89.9. Buyer sentiment is firmer in Vic and SA but markedly weaker in Qld and WA.

Consumer house price expectations are cooling off quickly. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** dropped a further 12.8% over the three months to January, to 133.7, only marginally above the long run average of 128. Expectations look to be mainly responding to the observed slowing in actual house price growth. The latest pull-back has been more pronounced in Qld and SA.

Consumers remain comfortable about the risk of job loss. The **Westpac–Melbourne Institute Unemployment Expectations Index** improved slightly between October and January to be slightly better than long run averages. Readings are comparable to this time last year, and are consistent with consumers expecting the stable labour market conditions over the 2024 continuing through 2025.

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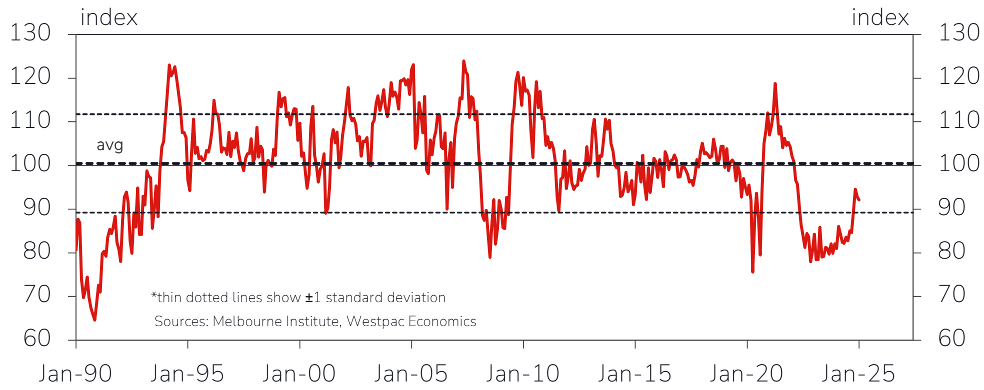
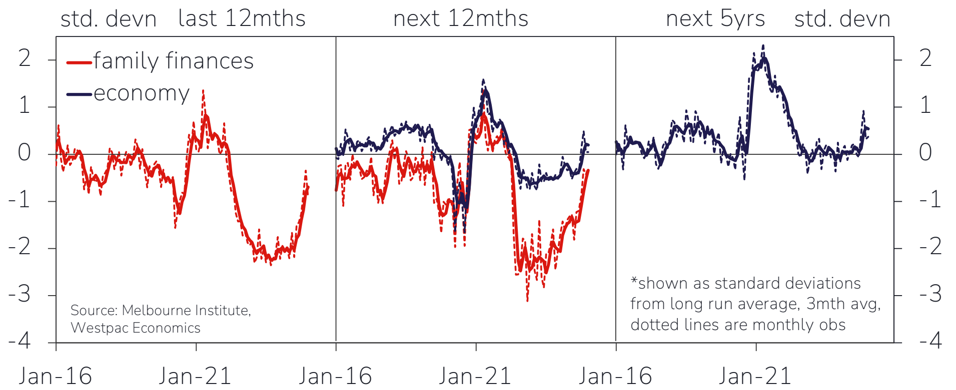
Relief rally continues, mostly

- The improved consumer mood has carried into late 2024 and early 2025, albeit with a bit of a wobble and confidence still downbeat overall. The **Westpac Melbourne Institute Index of Consumer Sentiment** dipped 2.6% over Dec–Jan but is still up 2.6% since Oct and 13.8% vs a year ago.
- At 92.1 the Index level shows pessimists outnumber optimists but with sentiment much less pessimistic than it was over the two and a bit years to Oct.
- The 'wobble' in Dec–Jan mainly centred around expectations for the economy, where the outright optimism registered briefly in Nov has turned more doubtful. Even so, expectations have shown a marked improvement on a year ago with both the year-ahead and five-year-ahead view on the economy holding above long-run averages.
- As noted previously, the gains since mid-2024 reflect two main developments: 1) fiscal boosts, the 'stage 3' tax cuts in particular; and 2) an improving inflation situation that has led to an associated easing in rate rise fears.
- These drivers were apparent through year-end. Component-wise, the sub-indexes tracking assessments of family finances continued to lift over the three months to Jan. The 'finances vs a year ago' sub-index gained another 5.3% to be up 23% since May. The 'finances, next 12mths' sub-index also pushed higher, up 4.7% but with a milder 8.6% rise since May (noting that the prospect of tax cuts was already lifting this component in the first half of 2024).
- The lift also reflects interest rate effects. The improvement in current assessments of finances from very weak levels is partly due to the end of the rapid policy tightening in 2022–23 (the official cash rate having remained unchanged since Nov 2023). The forward view on finances partly reflects the shifting outlook for interest rates since mid-2024, a shift that remained intact through year-end (see p13).
- This aspect of the sentiment rally is well-placed to sustain with recent inflation updates, in our view, clearing the way for an RBA easing cycle to begin in Feb (see here for more). Secondary influences (fuel prices; dwelling prices, jobs) have been mixed.

2. Consumer sentiment: getting back on track



3. Consumer sentiment: finances, economic conditions



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- Component-wise, the last 3mths has also seen more solid gains in the 'time to buy a major item' sub-index, rising a further 6.7% to a 2½ year high. While buyer attitudes have not swung back to positive, the shift in this component, which has been the main one to capture the hit to purchasing power from sharply higher prices, is another sign that moderating inflation is taking the sting out of 'cost-of-living' pressures (see p15 for more).

- Where the rally in sentiment looks shakier is around expectations for the economy. The 'economy, next 12mths' and 'economy, next 5yrs' sub-indexes were at the centre of the Dec–Jan 'wobble', retracing 9.6% and 7.2% respectively from what was a rare set of outright positive reads in Nov.

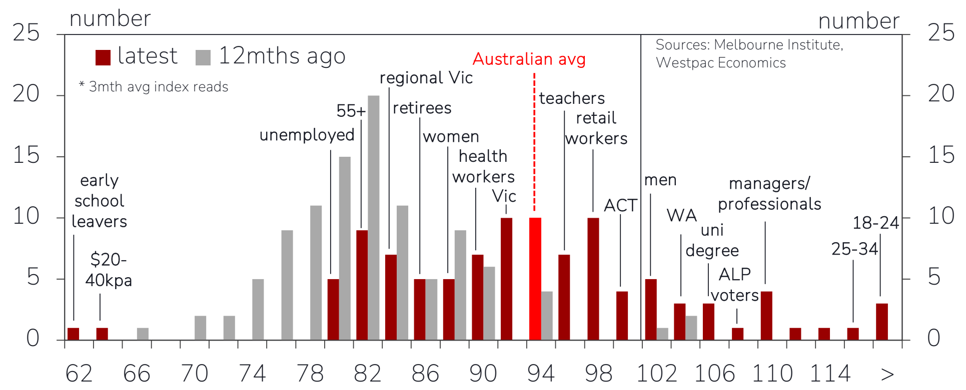
- The weakening likely reflects a mix of factors. Domestically, a disappointing Q3 national accounts and renewed doubts about the pace of disinflation and the scope for RBA rate cuts likely contributed in Dec. A more unsettled global backdrop also likely played a part, although the US election result would have been known when the Nov survey was in the field.

- Responses to additional questions on news recall run in Dec showed consumers did not view 'international conditions' as overly negative. In contrast, news-based measures point to a sharp rise in uncertainty into year-end, particularly around US trade policy (Chart 5).

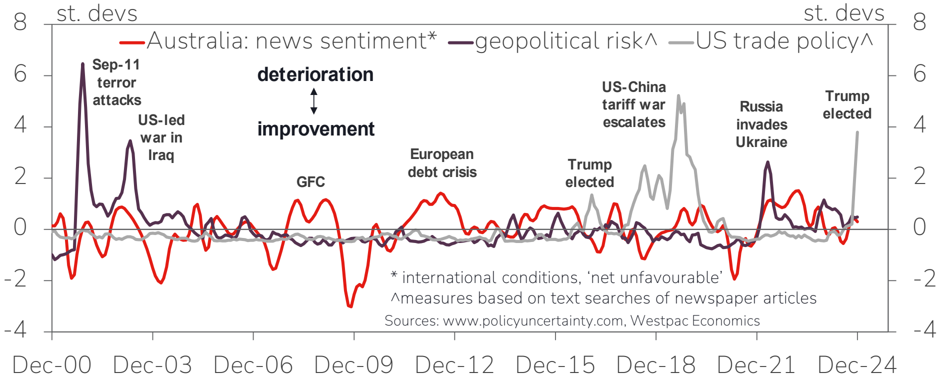
- The Feb survey should provide a better gauge of the influence of these developments. It will be the first reading since President Trump was inaugurated. It will also be relatively clear of interest rate influences as the survey will be completed before the RBA's policy decision is announced on Feb 18 (although sentiment may be influenced by expectations of a cut).

- Returning to the survey detail, the sub-group breakdown provides more compelling evidence of a sustained shift in sentiment. Most notably, sentiment reads are much more diverse than the closely-clustered negativity that prevailed a year ago. Chart 4 shows the distribution of index reads across the various sub-groups covered. Whereas optimists were rare a year ago, nearly one in five sub-groups were outright optimists over Nov–Jan.

4. Consumer sentiment: distribution across sub-groups



5. Uncertainty: news-based measures



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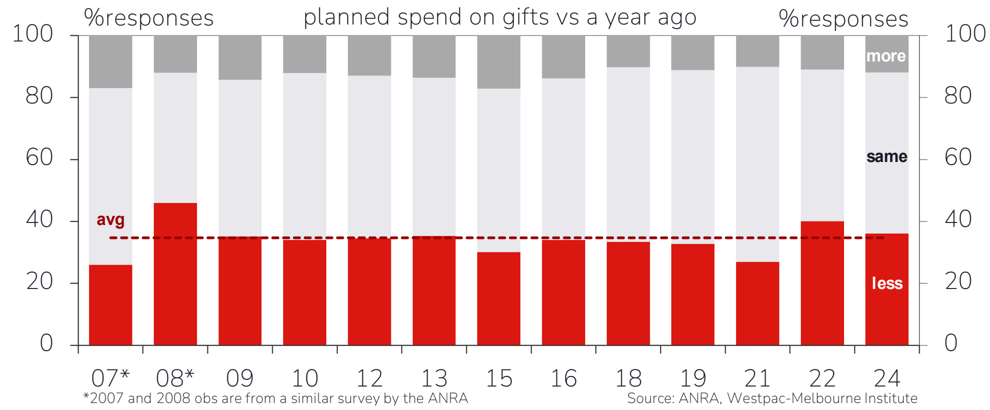
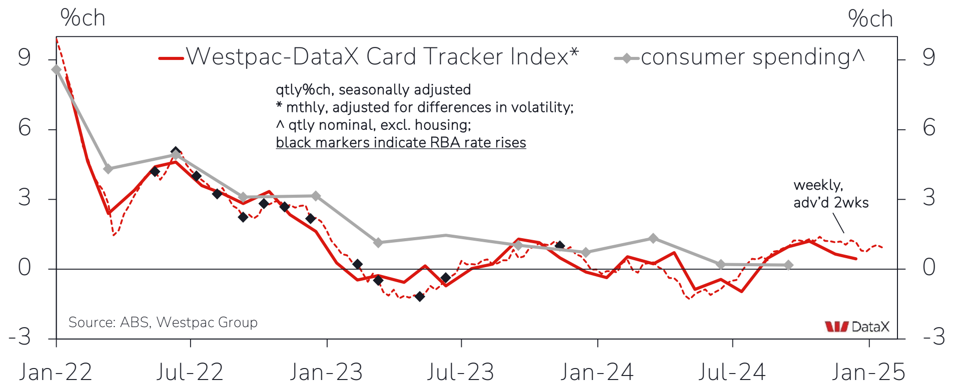
Christmas wash-up

- The Christmas–New Year period shaped as something of a 'litmus test' for the Australian consumer, particularly around the extent to which they would opt to spend some of the recent fiscal boosts to income. Early reads point to a muted response and the continuation of subdued, albeit slightly improved, consumer demand.
- Responses to additional questions run in May last year indicated that consumers were likely to save the bulk of the income boost from the Stage 3 tax cuts. Responses suggested that as much as 80¢ in the dollar would remain unspent (see here for more).
- That looked to have been the case when the Q3 data started to roll in, our **Westpac–DataX Card Tracker** detecting only a modest, and erratic, lift in the spending pulse, confirmed by preliminary reads from our newly-launched **Westpac–DataX Consumer Panel** which went on to suggest Australians had saved closer to 84¢ in the dollar in the first three months of the tax cut boost (see here). The Q3 national accounts concurred, total consumer spending stalling flat in the quarter and the household savings rate rising materially.
- The main question at this point was whether consumers were being savvy with their finances, holding off on spending their tax cash so that they could take full advantage of the bargains that would be on offer during the major sales events later in the year – the Black Friday, cyber-week and Boxing Day sales in particular.
- Updates to our annual question on 'Christmas spending intentions', run in Nov, also suggested consumers were planning to be a little less frugal this festive season (see Chart 6). While 36% still planned to spend less on gifts than a year ago, that compares to just over 40% last year, the result in line with the avg observed going back to 2007.
- So what does the more recent data show? The **Westpac–DataX Card Tracker** found a strong showing during the big discount sales periods, particularly for durable goods, but more mixed conditions in other periods and for services spend. Looking through this, quarterly measures show growth in total activity tracking around 0.9%qtr, an improved pace compared to previous years but not overly strong (see here for the latest update).

6. Consumer sentiment: Christmas spending intentions



7. Westpac-DataX Card Tracker Index



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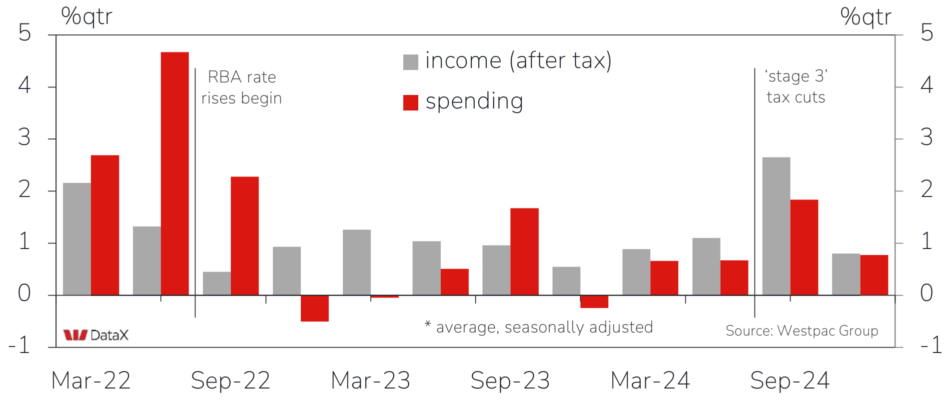
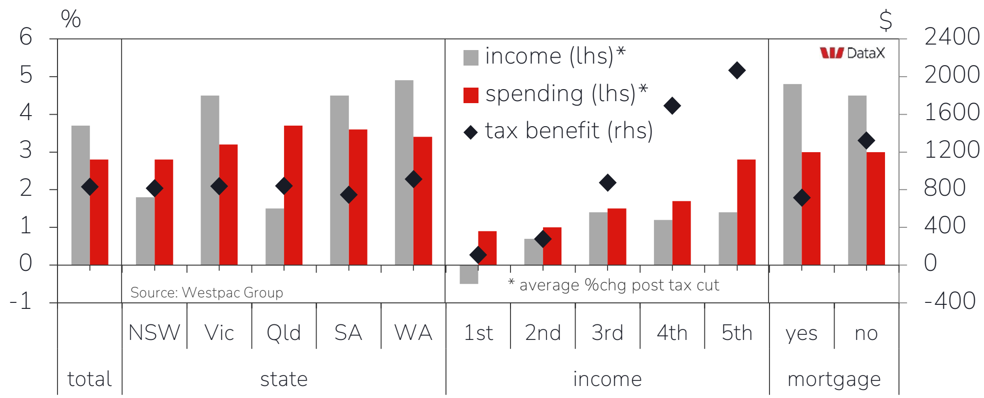
- It's a similar picture from the **Westpac–DataX Consumer Panel**. Recall, that the Panel is a new dataset that links transaction activity with balance sheet information to give a more complete view of income, spending, saving and borrowing flows. All information is de-identified and aggregated to ensure the privacy of customers. With the sample covering over 1 million customers, it provides a clear, detailed picture of consumer behaviour.
- Chart 8 shows estimated quarterly growth in average income (after tax) and spending across the Panel, adjusted for seasonal patterns. The tax cut boost is clear, average income rising 2.7%qtr and average spending up 1.8%qtr in Q3. Both have tracked a more sedate pace in Q4, rising 0.8%qtr.
- In dollar terms, households received an average cumulative tax benefit of roughly $830 over the second half of 2024. Our estimates suggest around $205 of this was spent and the remaining $625 saved. That equates to average saving of around 75¢ in the dollar. Flows into savings and offset accounts rose by an average 6.4% over the same period, a clear step-up.
- The more granular detail shows this restrained response has been fairly similar across different sub-groups. Chart 9 shows the average post-tax cut increase in income and spending and the estimated average tax benefit across states, income quintiles and for those with and without a mortgage.
- Spending-wise, growth has been a little slower in NSW and Vic and a little stronger elsewhere. It has also been a little stronger for those with high incomes. Interestingly, the increase in savings flows has been most pronounced across the mortgage belt, amongst low income earners (many of whom will be in retirement), and in Qld (where there have been more substantive state government fiscal supports). See here for more details.
- All up, the Christmas 'wash-up' to date gives a consistent message: consumers appear to have largely followed through on their plans, saving a relatively high proportion of the tax relief to date. While spending has lifted, growth remains subdued. Indeed, the response suggests there are downside risks to the 2025 outlook, especially we see a similarly restrained response to rate cuts.

8. Westpac Consumer Panel: income, spending growth



9. Westpac Consumer Panel: income, spending, selected sub-groups



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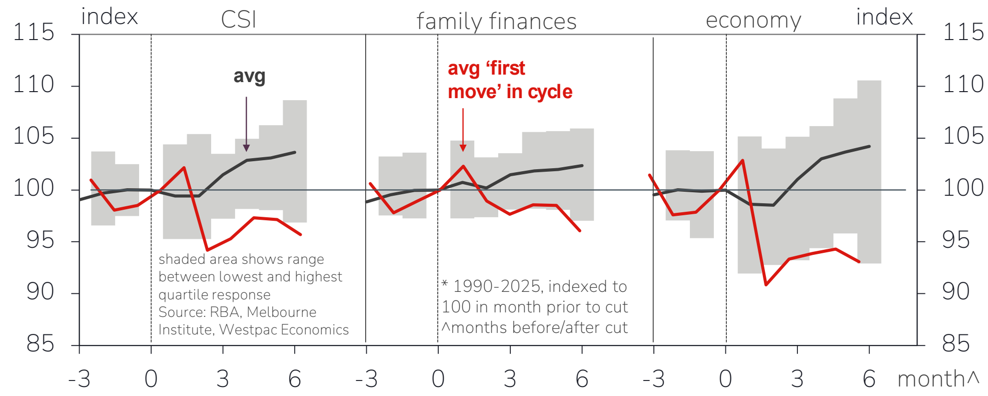
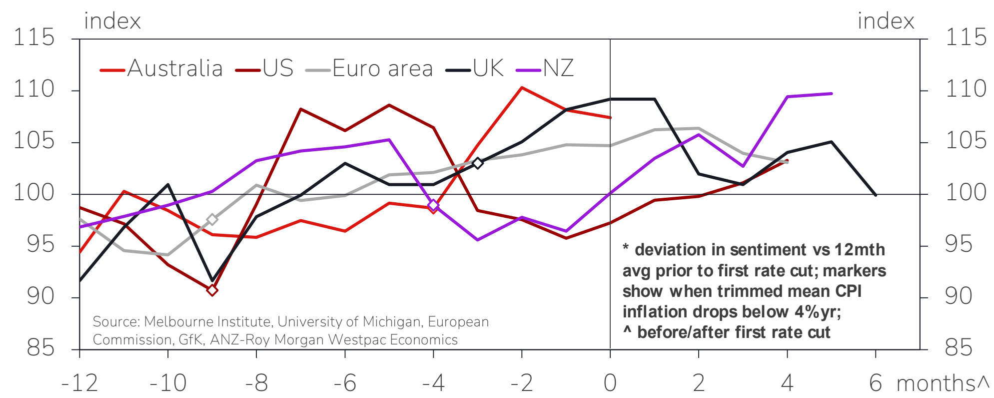
Interest rates and confidence

- Interest rate cuts are typically a positive for consumer sentiment but they are by no means a guarantee of a rally. Historically, sentiment responses have depended on the wider context of central bank actions and the extent to which moves were anticipated. In the context of the current policy cycle, where easing is linked more closely to inflation outcomes than growth concerns, the expectations effect may be more pronounced – the main boost to sentiment coming in response to improved inflation results rather than the subsequent easing in policy.
- Chart 10 shows how variable the sentiment response has been to interest rate reductions in the past. On average, sentiment lifts 2–3ppts over the three months following a rate cut, but the ranges around this are wide. Notably, the response to the first cut in a new easing cycle appears to be more positive to begin with – consistent with the idea that this comes as more of a surprise and a bigger associated shift in expectations – but often reverses sharply a few months later, likely reflecting the impact of the real-world shocks the policy move is responding to, i.e. recessions, GFCs and pandemics.
- This fleeting support is ('touch wood') unlikely to be the pattern of responses this time around. The main real world driver of the current monetary policy cycle is inflation, with the easing reflecting a moderation in inflation rather than a sudden deterioration in growth prospects. However, the exact timing of the sentiment boost may also be coming a little earlier.
- Chart 11 shows how the consumer mood in Australia and across our main peers abroad has tracked leading into the first interest rate cut in the current cycle (assuming the RBA chooses to cut as expected at its Feb meeting).
- All jurisdictions have seen some improvement, albeit with paths often quite erratic. Notably, some, but not all, sentiment rallies appear to have begun well before official interest rates start to move lower. This seems to start at the point at which it become clearer that inflation is coming back under control (markers show when trimmed CPI inflation measures drop below 4%). Prior to this, there is also a likely boost to sentiment when rate hikes end, although the point at which this becomes apparent is a little unclear.

10. Consumer sentiment: impact of interest rate cuts



11. Consumer sentiment: selected countries and regions



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- Clearly consumers' interest rate expectations play an important role in how policy changes impact sentiment more generally. Fortunately we have some measures that track this directly. Our survey has been running specific questions on mortgage interest rate expectations for fifteen years now (monthly since 2022 and less frequently prior to that). The University of Michigan and Bank of England also run similar questions in surveys of US and UK consumers. The results are shown in Chart 12.

- Not surprisingly, US and UK consumers have seen a slightly earlier and much more decisive shift in interest rate expectations than their Australian counterparts. The swing towards lower rates accelerated sharply in the first half of 2024, in stark contrast to Australia, where consumers started to think rates might rise further.

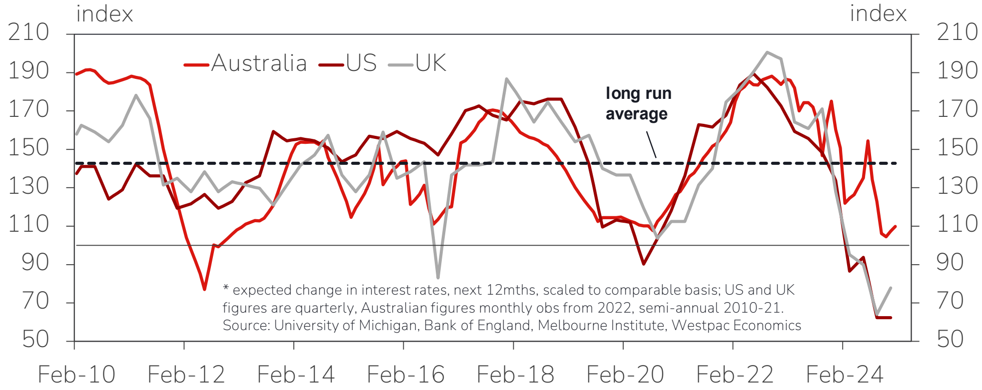
- While that expectation reversed again in the second half of 2024, interest rate expectations in the US and the UK took a further sharp step lower as official easing cycles commenced. That suggests Australian expectations will also move lower once the RBA starts easing.

- Exactly how this plays through to wider sentiment is still not straightforward. International comparisons may offer limited guidance, particularly for the US where fixed rates dominate mortgage borrowing (and where actual borrowing rates are not as closely linked to monetary policy rates, although that may not be the consumer perception).

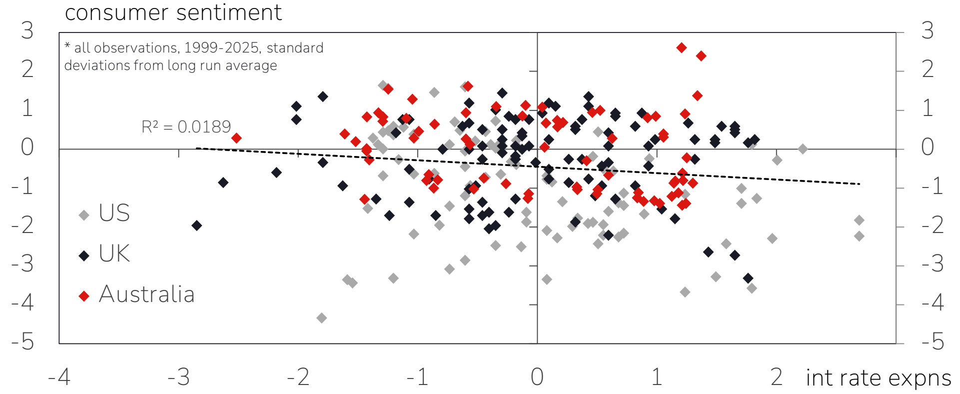
- At a high level, there does appear to be at least some weak residual links between consumer interest expectations and the consumer mood. Chart 13 plots all observations for the US, the UK and Australia. A simple regression shows a slight downtrend, with higher rate expectations associated with lower sentiment (and vice versa). However, the significance is low. Clearly there are many other substantial overriding factors that mean this effect, to the extent that it is present, is not often dominating.

- Overall, there's enough to suggest that sentiment in Australia should see some support from rate cuts but that this could easily be offset by other factors. With an unsettled global backdrop and a Federal election due, the consumer mood may track an uneven path in 2025.

12. Consumer interest rate expectations: Australia, US, UK



13. Consumer sentiment vs interest rate expectations



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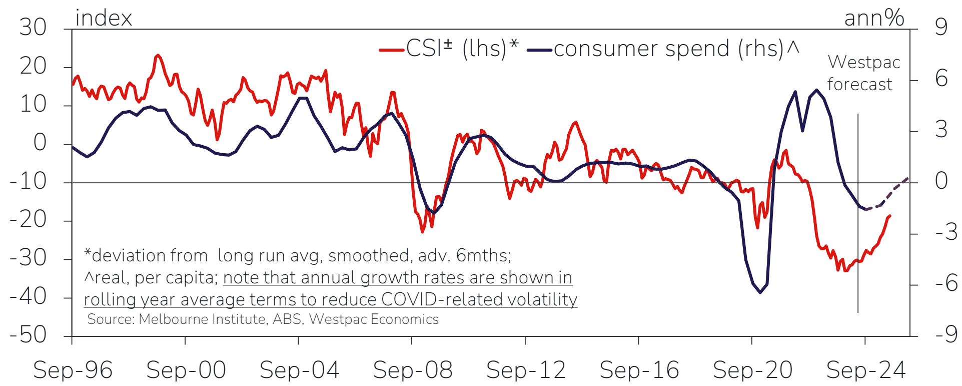
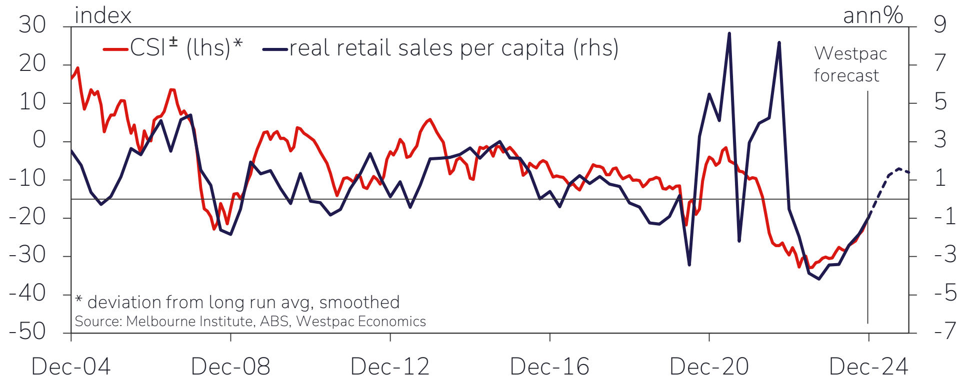
Spending: slow recovery forms

- 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 has been of more limited use recently due to pandemic-related factors that are cushioning the extent to which the shock to sentiment is flowing through to spending. As such, the **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 show 'underlying' momentum has continued to improve, the index rising a further 4.3% over the three months to Jan. At 81.1, the measure is still very weak, well below the long run average of 100, but it has now risen by over 20% from the low in mid-2023. As Chart 14 shows, the signal is still consistent with declining per capita spend, but with contractions running at a 2% annual pace, implying flat a 0–0.5% rise in total spend given population growth of just over 2%yr.
- The Q3 national accounts showed another subdued quarter for consumers, spending holding flat in real terms despite a material boost from the Stage 3 tax cuts. Historical revisions also impacted, lowering annual growth to just 0.4%yr (interestingly, bringing it more in to line with the latest signal from our sentiment-based measure).
- Some of the flat Q3 result was due to lower out-of-pocket costs for households following increased government subsidies for electricity (and, to a lesser extent, transport and rent). The decline in consumer spending on electricity alone took 0.4ppts off total spending in the quarter (with a corresponding rise in government consumption offsetting the impact on total domestic demand).
- The quarter also saw small drags from lower spending on vehicles (–0.9%qtr, –7.8%yr); alcohol & tobacco (–1.1%qtr, –9.6%yr); and transport (–0.4%qtr, +0.4%yr – some of which will reflect increased public transport subsidies in Qld. Spending on food, household goods and cafes & restaurants also dipped slightly (–0.1%qtr, –0.2%yr on a combined basis).

14. CSI± vs total consumer spending



15. CSI± vs retail sales



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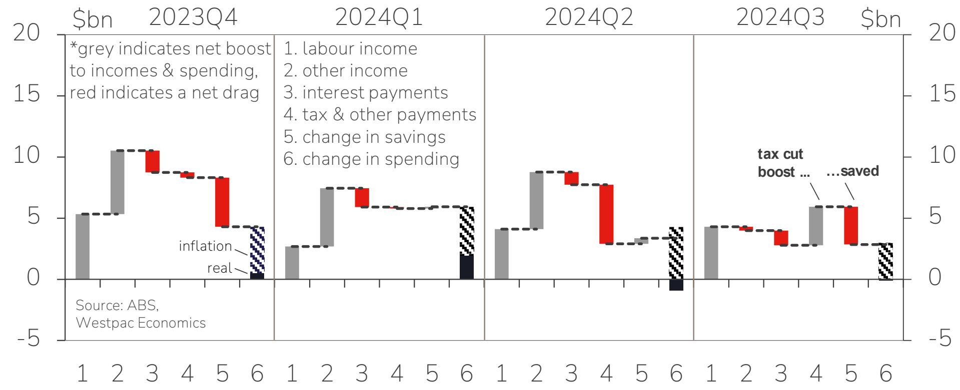
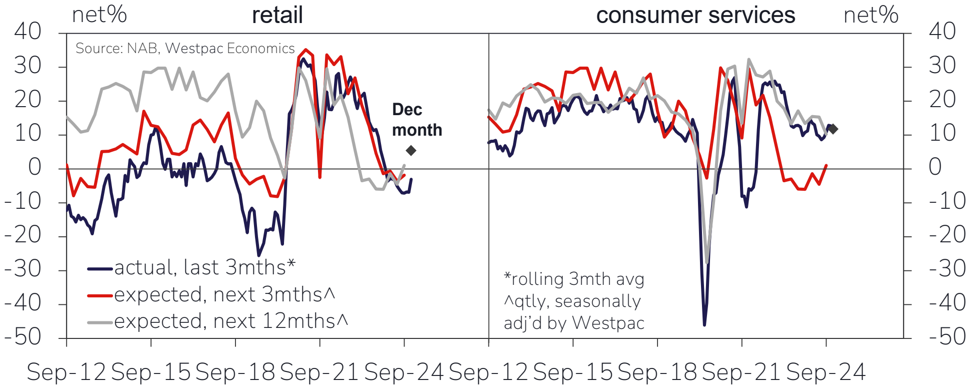
- The Q3 update on incomes was also a little disappointing. Labour incomes posted a decent 1.3%qtr gain but other income sources dipped slightly. Tax cuts provided a welcome boost, but were partially offset by a rise in interest payments (suggesting fixed rate roll-offs and other factors may be seeing average mortgage rates push higher).
- The net effect saw a 1.5%qtr gain for disposable income in nominal terms, with real, inflation-adjusted disposable income up just 0.8%qtr, 2.3%yr. This still marks a clear improvement, annual growth lifting to a 2½ year high and a touch above the average recorded over the five years prior to COVID. However, it was disappointing in the context of tax cuts and stable interest rates.
- The quarterly data implies nearly all of the income boost from tax cuts was saved. The aggregate household savings ratio (the proportion of income unspent) rose to 3.2% in Q3 from 2.5% in Q2, the picture broadly consistent with the message coming the **Westpac Consumer Panel**, which, as discussed on p7–8, also suggests this pattern of restraint carried into Q4.
- Monthly ABS indicators show spending firmed in Q4. The monthly household spending indicator has seen the quarterly pace of growth quicken from 0.5%qtr in Sep to 1.7%qtr in Dec. The monthly business turnover indicator (MBTI) has also improved, albeit from a weaker –1.1%qtr to a still soft –0.1%qtr as at Nov.
- The ABS retail survey also showed nominal sales growth lifting from 1.1%qtr in Q3 to 1.4%qtr in Q4. Growth in real retail sales, adjusted for inflation, rose from 0.5%qtr in Q3 to 1.0%qtr in Q4 (see [here]). Note that this is a narrower subset of consumer spending that includes components that have tracked a little more strongly than total spend.
- Consumer sector responses to private sector business surveys also suggest conditions have lifted a little, again with the improvement concentrated in retail rather than consumer services. Retail respondents to the NAB survey showed conditions lifting into modest positive in the Dec month with consumer service sector firms holding steady, but coming from a firmer starting point (see [here] for more).

16. Household disposable income changes decomposed



17. Business conditions: retail and consumer services



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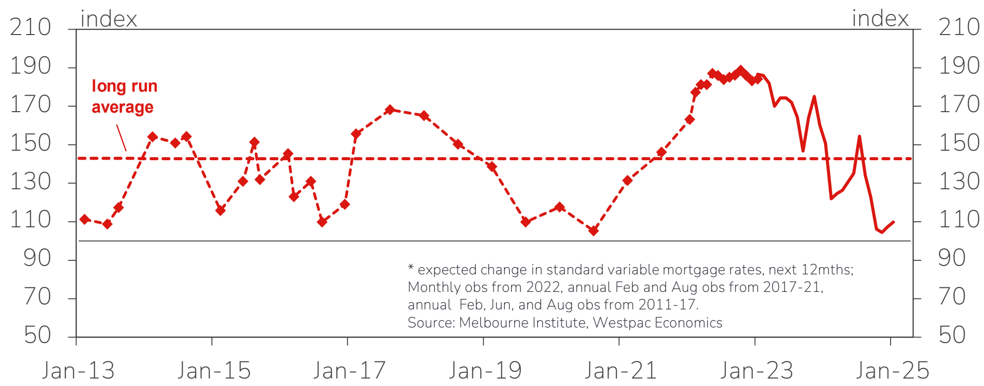
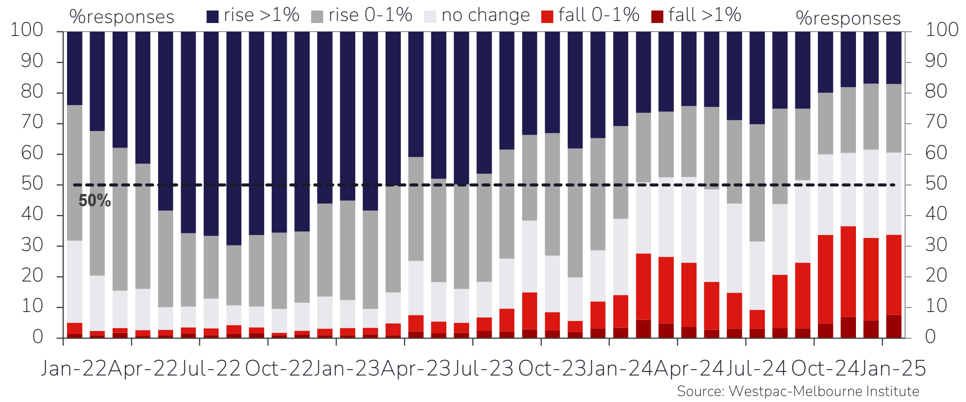
Interest rates: ready for cuts

- Consumer expectations for interest rates have been relatively stable over the three months to Jan, having seen a dramatic move lower over the previous three months. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, dipped slightly by 0.7% between Oct and Jan, having fallen by a third between Jul and Oct.
- At 105.7, the Index continues to hold around the cycle lows seen when the RBA was actively lowering interest rates. Note that Chart 18 presents the measure in seasonally adjusted terms, which is up a touch over the last few months.
- The detailed responses show 34% of consumers expect mortgage rates to rise over the next year. Just over 23% expect no change and just over 29% expect declines, 15% reporting 'don't know'. This is barely changed from a 34%/24%/28% mix back in Oct. Notably, the proportion expecting a sharp rise of over 1ppt has fallen from 17% to 15%, while the proportion expecting falls of over 1ppt rose from 4% to 7%.
- As discussed on p9, there appears to be scope for a further move lower in interest rate expectations judging by similar survey measures in the US and UK, where consumer interest rate expectations have swung to a point where an outright majority expect rates to fall. The current mix in Australia still shows more consumers expect rates to rise rather than fall.
- The Q4 CPI, released after the Jan consumer survey was completed, has bolstered expectations for RBA rate cuts. As noted, Westpac now expects the RBA to commence easing at its February 17–18 meeting. Financial markets are giving a 96% chance of a move with 1ppt of rate cuts priced-in by Feb 2026. The February consumer sentiment survey will be in the field over the first week of the month and provide a gauge of whether consumer expectations have also shifted.
- The sub-group detail may also be a pointer to further moves as well. The last three months have seen notably larger declines in rate expectations across the mortgage belt, i.e. those with most on the line. The index for this sub-group is down 8.9% to just 85.

18. Mortgage interest rate expectations



19. Consumer expectations for mortgage rates



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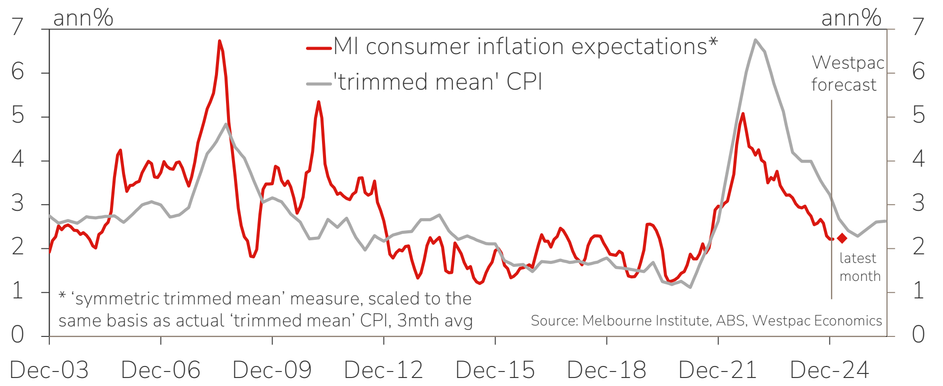
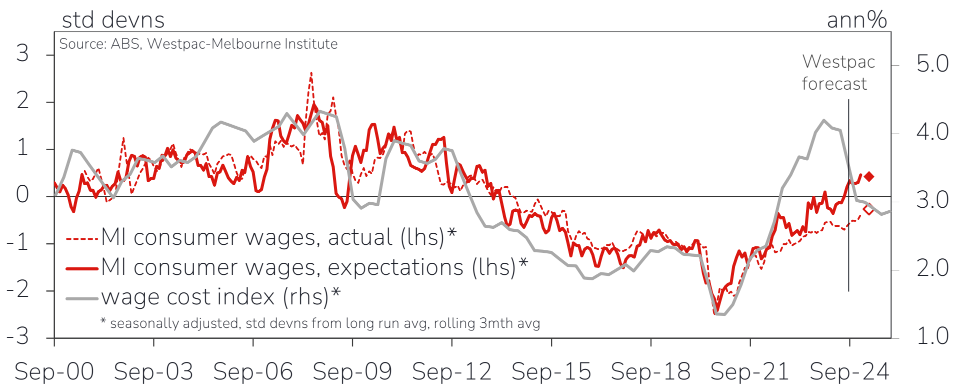
Inflation: expectations re-anchored

- Consumer inflation expectations have held steady at benign levels over the last three months, well down on recent peaks but slightly above average pre-COVID levels. In contrast, consumer wage expectations have continued to creep higher and are yet to peak. Wage views may 'roll over' in coming months with the Q4 wage cost index expected to show a sharp deceleration in growth.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations dropped ever-so-slightly from 3.97% in Oct to 3.95% in Jan, marking a new cycle low. That compares to 4.48% this time last year and 5.58% at the start of 2023. The average read over the five years prior to COVID was 3.69%.
- The Q4 CPI update provided welcome confirmation of continued progress on disinflation, the 0.2%qtr, 3.4%yr headline result and the 0.5%qtr, 3.2%yr trimmed mean result both undershooting expectations slightly (see here for more).
- Consumer inflation expectations abroad have been a little unsettled in recent months, in the US especially where incoming President Trump has committed to tariff increases that will likely affect a range of domestic goods prices. While worth keeping an eye on, these moves should have little bearing on inflation expectations in Australia.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations lifted from 1.26% in Oct to 1.52% in Jan, a relatively strong read by historical standards (the average over the five years prior to COVID was just 0.8%). The survey measure of actual changes also rose from 1.40% to 1.57% (pre-COVID five year average 1.1%).
- It should be noted that the 'actual' measure here asks about 'total pay' whereas the 'expectations' measure is with respect to hourly rates. Depending on how this is interpreted, the 'actual' measure may capture some variation in total hours worked.
- As Chart 21 shows, actual wage growth has significantly outstripped the signal from consumer perceptions and expectations over the last year. That is expected to reverse in 2025 with wages growth expected to slow, quite abruptly to begin with and to below 3%yr by year-end.

20. CPI Inflation: actual vs expected



21. Wages growth: actual vs expected



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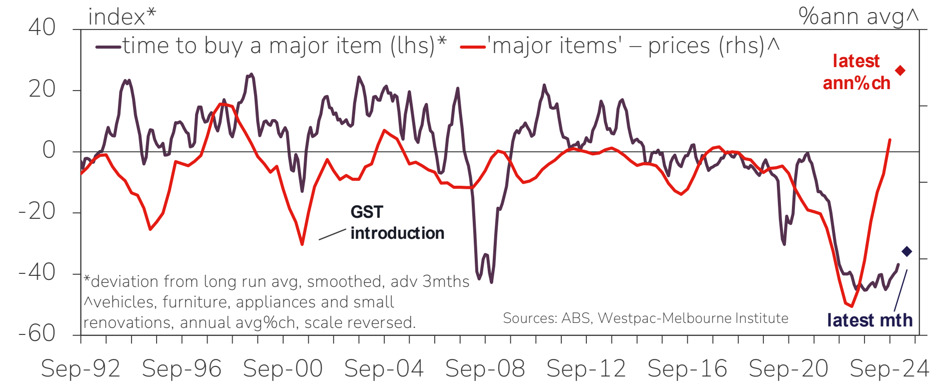
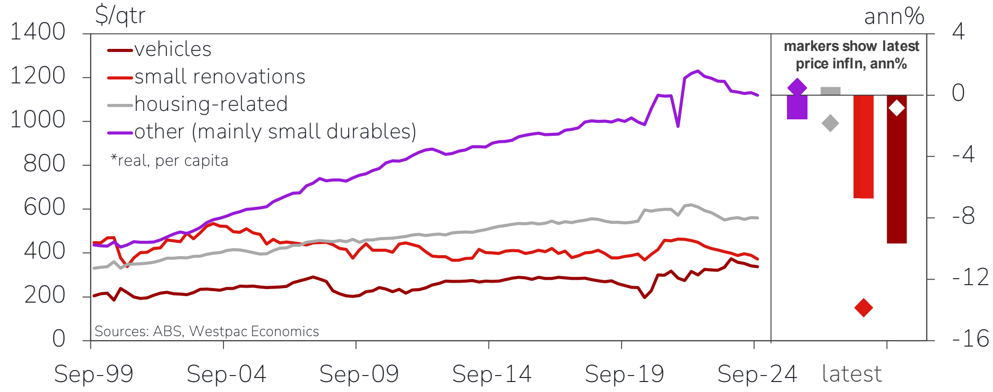
Durables: price pressures ease

- As noted previously, the **'time to buy a major item'** sub-index has captured the full extent of the inflation hit to purchasing power over the last two years, with a prolonged period of very negative reads. That negativity is now clearly lifting, albeit with a long way to go before attitudes get anywhere near historic norms.
- The sub-index has risen a further 6.7% over the last three months, climbing to 90.8. That compares favourably to the sub-80 lows registered in 2023 and 2024 but is still well below the long run average of 123, the latest reading still firmly in the bottom 10% of observations historically.
- The continued weakness is despite a clearer improvement in prices over the year to Q3 2024. The Q4 CPI detail suggests prices for durables were more mixed into year-end, furniture and furnishings prices rising 1.9%qtr, 1.1%yr; major household appliance prices also flat in the quarter, lifting annual growth to 1.3%yr. Against this, vehicle prices have continued to move lower, down 0.3%yr while renovation-related price inflation has slowed into the 2.5–3%yr range.
- For some time now, we have flagged that buyer sentiment may respond asymmetrically to prices, deteriorating sharply when they spike but only improving slowly when they stabilise or fall, particularly when the price level is still well above its original starting point. So far this looks to be the way the recovery is playing out.
- Latest figures suggest per capita demand for durables is still soft, declining 1.4% in Q3 after signs earlier in the year that it might be stabilising. The weakness has been most pronounced for vehicles and 'small renovations' with other sub-categories a little firmer.
- The demand picture may have improved in Q4, with signs that tax cut boosts have generated a little more traction despite the mixed moves in prices and softness in sentiment. The detail from the ABS retail survey shows a notable firming in household good retailing, with the ABS household spending indicator and Westpac Card Tracker showing similar gains across durables segments. Motor vehicle sales also posted a solid 0.9%qtr rise in Q4, but they are still down about 4.5%yr.

22. 'Time to buy a major item' vs prices



23. Consumer spending: 'big ticket' items



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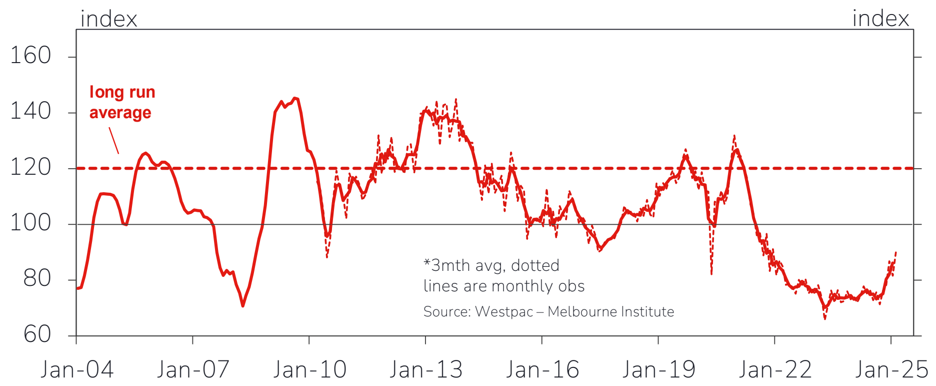
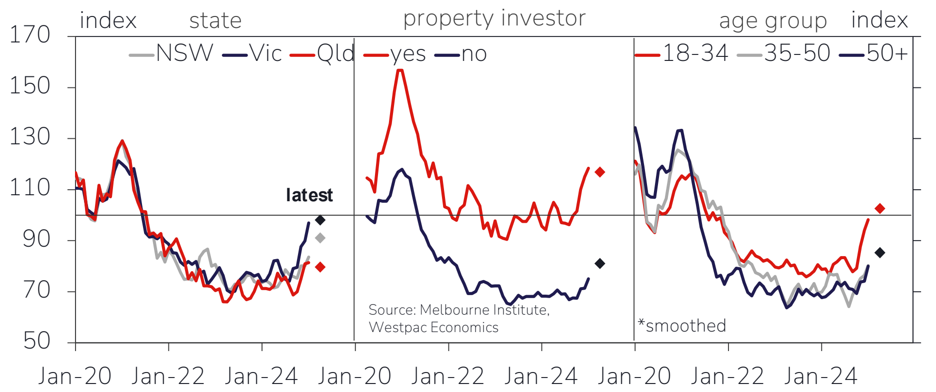
Dwellings: cycle lifts

- The gradual thawing in homebuyer sentiment has continued over the last three months although optimism, let alone the relatively widespread buyer confidence that more often prevails, is still a long way off. The **'time to buy a dwelling'** index surged another 15.3% over the three months to Jan but at 89.9, remains well below the 'neutral' level of 100 and over 30pts below the long run average of 120.
- The easing in rate rise fears has clearly sparked a revival. Dwelling prices also look to have played a part with price growth slowing materially over the course of 2024 and buyer sentiment rising more materially in Vic and NSW where prices have been slipping lower.
- History shows homebuyer sentiment is linked to affordability. Interest rate moves are typically a dominant driver of shifts but price growth and levels are also factors. That suggests there may be something of a limit to the current revival, especially if an eventual easing in interest rates leads to a further lift in prices from what are still relatively high levels to start with. The rally in sentiment has further to run, but may be 'capped' by affordability constraints.
- The sub-group detail shows the latest move higher has been particularly strong amongst those in regional Vic and WA; tradies and paraprofessionals; those aged 50–64; and high income earners.
- Those last two categories may be a sign that prospective investors are starting to warm to the market. Notably, those consumers that already hold an investment property are outright optimistic and the most optimistic sub-group covered in the survey with an index read of 116.8. Only four other sub-groups are recording outright optimism. That includes those in the 18–34 age group, which typically captures sentiment amongst prospective first home buyers.
- By state, buyer sentiment is just above the neutral level in Tas (100.6), a touch below neutral in Vic (98.0), more downbeat in SA (94.5) and NSW (91.1) and still extremely weak in WA (81.6) and Qld (79.6) where price growth remains strong and market supply very tight. The relatively firm homebuyer sentiment in SA may partly relate to increased state government assistance since mid-2024.

24. 'Time to buy a dwelling'



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



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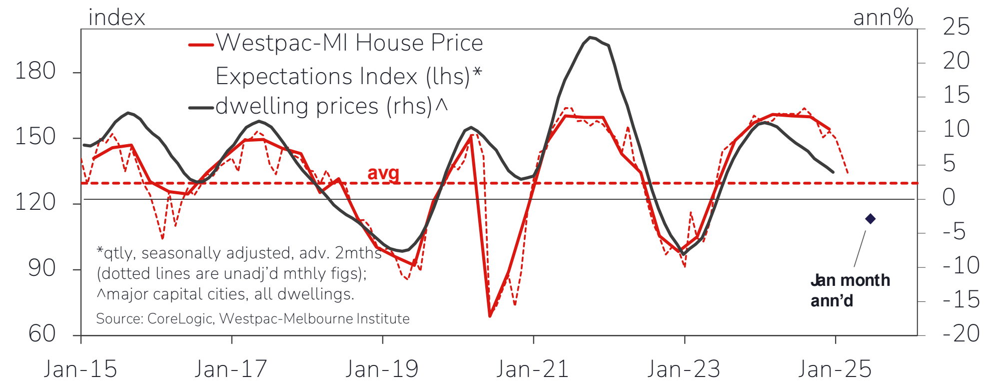
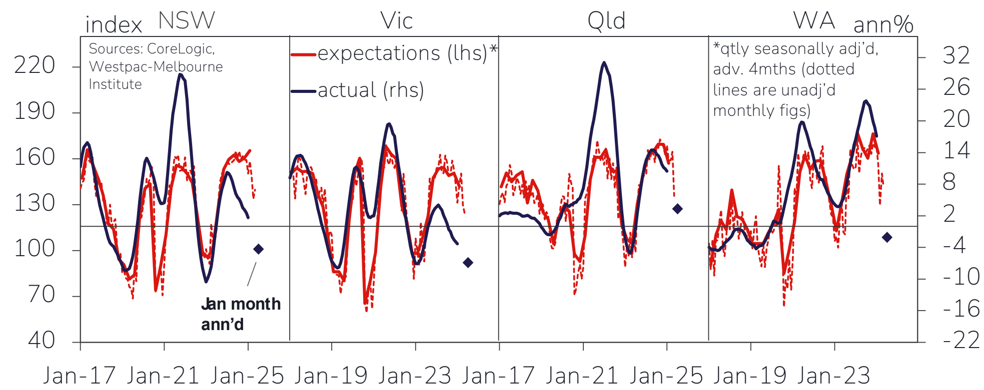
House prices: cooling off

- Consumer house price expectations continue to weaken materially. The **Westpac Melbourne Institute House Price Expectations Index** dropped a further 12.8% over the three months to Jan. At 133.7, the index is now only marginally above the long run average of 129.
- The detailed responses show just 53% of consumers expect prices to rise over 2025, 22% expect no change and 20% expect prices to decline. That compares to a 64%/22%/20% mix in Oct and a 70%/18%/8% mix in Jul.
- Actual price growth has continued to slow materially, annual growth tracking at 3.8%yr as at the start of 2025, down from a peak of over 11%yr at the start of 2024. See here for the full run-down as at Jan.
- Prices nationally have recorded small declines over the last four months. The weakness has been longer and more pronounced in Melbourne which has seen declines in 12 of the last 14 months, price down –3.3%yr. Sydney has seen slight declines and momentum has also come off sharply in Perth where prices had risen 24.6% over the year to Jun. Seasonal variations may have amplified the recent softness.
- The current slowdown provides an opportunity to assess some of the questions we often have about how consumers form their house price expectations. Specifically: to what extent are they backward-looking; and to what extent to they represent local rather than national conditions.
- Chart 26 shows the current weakening in expectations is largely backward-looking. The profile is similar to that seen in during previous slowdowns in 2015–16, 2018–19, 2020 and 2022 but with more of a lag this time around suggesting consumers have been a little caught off-guard by the current softening. That in turn may reflect the surprising strength of the previous price surge, the magnitude of which also caught consumers by surprise.
- State responses suggest expectations reflect a mix of national and local conditions. While average index reads have been higher in states that have seen stronger price growth (i.e. Qld, WA and SA) they have held up better than might be expected where prices have been seeing outright declines (Vic and NSW). Notably, the latest decline has been somewhat sharper in Qld and SA.

26. Westpac-MI House Price Expectations Index



27. Dwelling prices: actual vs expected by state



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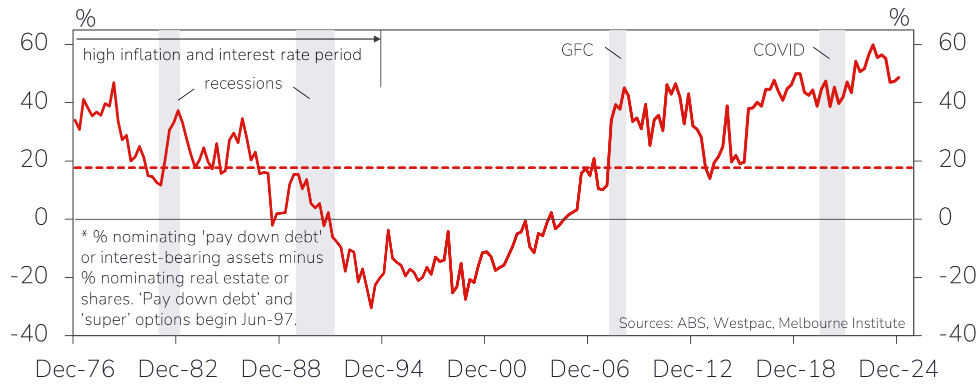
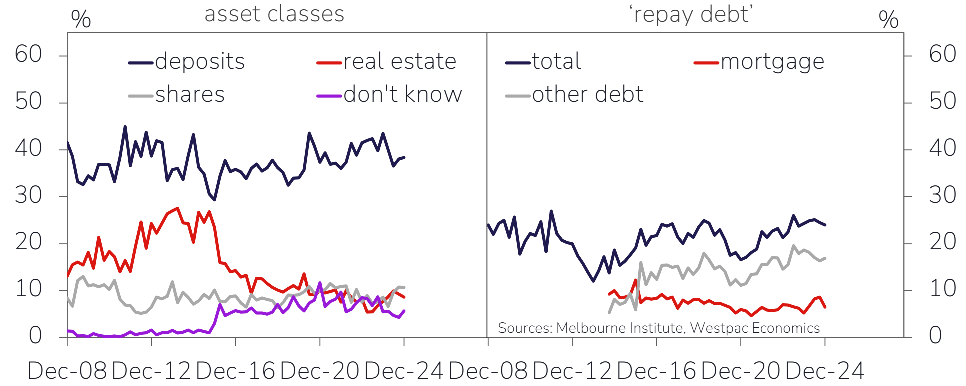
Risk aversion: intense

- Consumer risk aversion remains intense, consistent with households prioritising saving over spending. The **Westpac Consumer Risk Aversion Index** nudged up slightly from 47.4 in September to 48.6 in December. That remains several points below the extremes in 2022–2023 but very high by any other measure, the long run historical average being 18.
- Recall that the index is based on responses to questions on the 'wisest place for savings'. These ask consumers to nominate from a range of options, the risk index being the difference between the share nominating 'safe' options such as 'deposits' and 'repay debt' and the share nominating 'risky' options such as 'shares' and 'real estate'.
- The component mix was largely unchanged over the final quarter of 2024. Safe options remain heavily favoured, 54% nominating either 'bank deposits' or 'pay down debt', in line with responses in September. Just 8% of consumers nominate 'real estate', which has been out of favour for a decade now. Just 10% nominate 'shares', which have been out of favour since 2007, just before the GFC.
- The sub-group detail shows risk aversion is markedly higher across the mortgage belt, amongst those aged 50–64 and amongst middle-income earners. Index reads in these segments are still well over 60, although some of this is structural rather than cyclical (mortgage-holders and those nearing retirement are always more risk averse than peers).
- At the other end of the spectrum, risk aversion is lower amongst lower income earners, renters and those aged over 65 with index reads in the 20–35 range. Some of this may reflect consumers in retirement seeking enhanced income flows as interest rates start to move lower (deposit rates have already started to edge lower).
- The pattern by state shows risk aversion is marginally higher in NSW and Vic with index reads around 52 and 50, and noticeably lower in WA (index read of 40.5). The more granular detail shows WA consumers are, currently at least, more disposed towards investing in shares than their interstate peers. 'Real estate' is out of favour across the board, although this may shift a little as interest rates start to come down.

28. Westpac Consumer Risk Aversion Index vs saving rate



29. Consumer: 'wisest place for savings'



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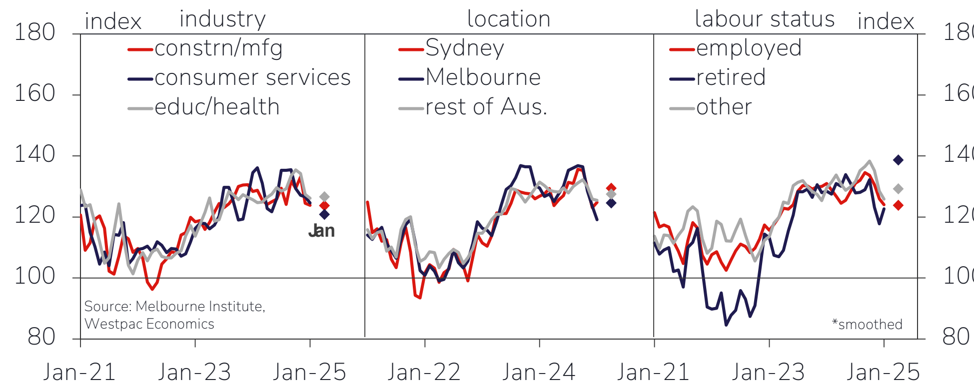
Job security: sitting comfortably

- Job-loss fears remain low amongst consumers but the last few months have seen some of the relative confidence that was emerging last year unwind.
- The **Westpac-Melbourne Institute Index of Unemployment Expectations** improved slightly over the three months to January, declining 2% to 127.2 (recall that lower reads mean more consumers expect unemployment to decline over the year ahead). The latest index read is slightly below the long-run average of 129 and within the 125–133 range that has prevailed since mid-2023.
- The latest readings are consistent with a continuation of the steady labour market conditions seen over the last six months. ABS figures show a robust 97k rise in employment over the last quarter of 2024 with participation rates pushing back up to historic highs and the unemployment rate holding around 4% (see here for more).
- The latter is basically unchanged on a year ago, essentially in line with surveyed consumer expectations at the end of 2023, the index read of 128.9 at the time almost directly in line with the long-run historical average read.
- More specific measures of the incidence of job loss show both actual and expected retrenchments remain low.
- Just under 0.9% of employees reported being retrenched in December quarter, up very slightly from the 0.8% average in 2022 and 2023 but below the 1.2% average historically. Just under 0.4% of employees expect to be retrenched over the next year, again up slightly on recent lows but still comfortably below the long-run average of 0.5% (Chart 30).
- The consumer survey detail shows some variation in unemployment expectations across sub-groups. Confidence is markedly higher amongst professionals and consumers in WA (index reads in the 109–110 range). Expectations are shakier amongst labourers and unskilled workers, and retirees (index reads in the 138–142 range).
- Industry variations have been relatively minor in recent months, the most notable move being an improvement in labour market confidence amongst finance and hospitality workers – clearly linked to expectations of lower interest rates and an improving consumer.

30. Unemployment expectations

31. Unemployment expectations: selected sub-groups



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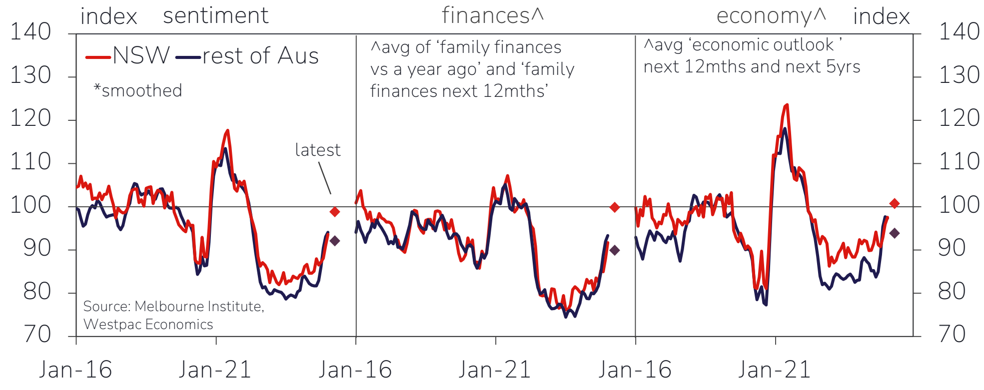
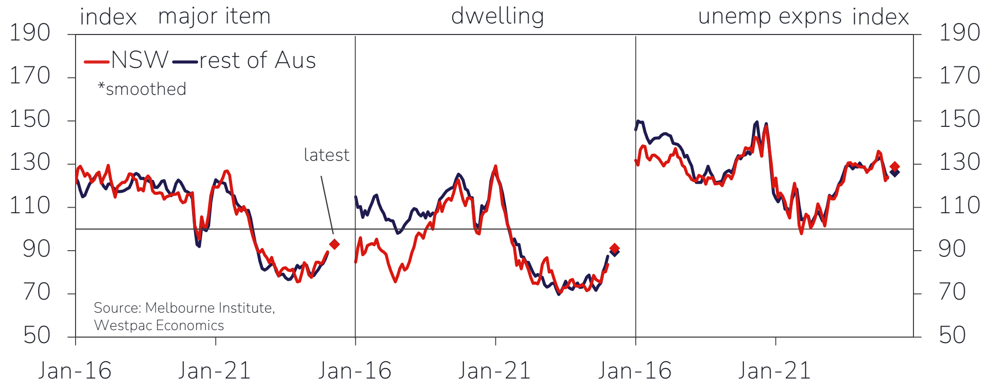
New South Wales

- The last time our snapshot checked in on NSW, at the start of 2024, the state's consumers were deeply pessimistic but less so than their inter-state peers – a pattern that had already been evident for well over a year.
- The wedge closed up in the second half of last year but returned in the first month of 2025 with sentiment in the state lifting to 98.8, just shy of 'neutral'.
- One-month reads should always be treated with some caution, particularly given the smaller sample sizes involved with state estimates. The January month also sees a seasonal lift that we can adjust for at a national level but not across states and sub-groups.
- Caveats noted, the January read still looks to have some veracity to it. Components show, as at early January, NSW consumers are less anxious about both family finances and the economic outlook but broadly comparable in terms of attitudes towards major purchases, house purchases and labour market risks. The mix may in part reflect the higher debt levels NSW consumers tend to have compared to inter-state peers.
- Certainly, the sub-index detail shows a markedly wider wedge around assessments of 'finances vs a year ago' which is 14.5pts higher in NSW than in the rest of Australia. It's possible that the Stage 3 tax cuts made a bigger splash in the state as well, although our estimates suggest the average boost to incomes has been comparable to that nationally (see here).
- Notably, the survey detail shows sentiment is even stronger amongst Sydneysiders, at 102.6 in January as compared to 90.5 for consumers in regional NSW.
- There is also an interesting wedge around homebuyer sentiment which is much less negative for Sydneysiders (96.6) compared to the rest of the state (80.6) and the nation as a whole (89.9). However, unemployment expectations are very similar across all three groups. The state's labour market is slightly tighter than the rest of Australia, with the unemployment rate at 3.8%.
- See our most recent Coast to Coast report for a more detailed discussion of the broader state economy performances.

32. Consumer sentiment, finances, economy: NSW vs rest of Aus



33. Consumer 'time to buy' unemp expns: NSW vs rest of Aus



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Economic and financial forecasts

Interest rate forecasts

Australia	Latest (31 Jan)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Dec-26
Cash	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.25	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55	3.55
3 Year Bond	3.79	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00	3.60
3 Year Swap	3.82	3.70	3.70	3.70	3.70	3.75	3.75	3.80	3.80	3.40
10 Year Bond	4.42	4.35	4.35	4.45	4.55	4.65	4.75	4.85	4.85	4.15
10 Year Spread to US (bps)	–12	5	5	5	5	5	5	5	5	5
US										
Fed Funds	4.375	4.125	3.875	3.625	3.375	3.375	3.375	3.625	3.875	3.375
US 10 Year Bond	4.54	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80	4.10

Exchange rate forecasts

	Latest (31 Jan)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Dec-26
AUD/USD	0.6222	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70	0.74
NZD/USD	0.5643	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60	0.64
USD/JPY	154.24	151	150	149	148	146	144	142	141	134
EUR/USD	1.0389	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11	1.15
GBP/USD	1.2422	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33	1.35
USD/CNY	7.2446	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85	6.50
AUD/NZD	1.1027	1.12	1.12	1.15	1.16	1.16	1.17	1.17	1.16	1.16

Sources: Bloomberg, Westpac Economics.

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Economic and financial forecasts

Australian economic growth forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GDP %qtr	0.2	0.2	0.6	0.5	0.5	0.5	0.6	0.6
%yr end	1.3	1.0	1.2	1.5	1.9	2.2	2.2	2.4
Unemployment Rate %	3.9	4.1	4.2	4.3	4.4	4.5	4.5	4.6
Wages (WPI) %qtr	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7
%yr end	4.1	4.1	3.5	3.2	3.0	2.9	2.8	2.9
CPI Headline %qtr	1.0	1.0	0.3	0.4	0.6	0.9	1.2	0.8
%yr end	3.6	3.8	2.9	2.6	2.3	2.2	3.2	3.6
CPI Trimmed Mean %qtr	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.8
%yr end	4.0	3.9	3.5	3.3	3.0	2.9	2.8	2.9

	Calendar years			
	2023	2024f	2025f	2026f
GDP % yr end	–	–	–	–
%yr end	1.8	–0.5	0.8	2.8
Wages (WPI) annual chg	4.0	5.1	5.4	4.6
CPI Headline annual chg	–	–	–	–
Trimmed mean annual chg	4.7	2.2	2.1	2.1

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.

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Consumer demand

	2023			2024				2025
% change	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f
Total private consumption*	0.5	–0.1	0.2	0.6	0.2	0.6	0.4	0.6
annual chg	2.2	1.3	0.8	1.2	0.9	1.6	1.8	1.8
Real labour income, ann chg	1.9	2.2	3.2	2.1	1.8	1.7	2.1	2.3
Real disposable income, ann chg**	–3.6	–3.7	0.2	1.3	1.0	2.3	2.3	2.0
Household savings ratio	1.8	1.5	2.6	2.5	2.4	3.2	3.1	3.4
Real retail sales, ann chg	–1.4	–1.5	–0.8	–1.1	–0.4	0.2	0.8	2.0
Motor vehicle sales ('000s)***	859	972	927	904	886	916	946	925
annual chg	14.6	21.9	15.6	11.7	3.1	–5.8	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	3.4	2.4	1.9	1.7
Real disposable income, ann chg**	–0.2	–3.0	1.7	2.6
Household savings ratio, %	7.8	2.0	2.8	3.8
Real retail sales, ann chg	5.1	–1.0	–0.1	2.8
Motor vehicle sales ('000s)	781	892	913	937
annual chg	3.3	14.3	2.3	2.6

Notes to pages 23 and 24:
* 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.

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Consumer sentiment

		2024									2025
% change	avg^	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Westpac–MI Consumer Sentiment Index	100.5	82.4	82.2	83.6	82.7	85.0	84.6	89.8	94.6	92.8	92.1
family finances vs a year ago	87.7	65.5	63.2	69.3	63.5	70.9	71.8	73.8	78.8	84.2	77.7
family finances next 12 months	106.2	95.5	96.1	96.5	92.1	96.8	97.0	99.7	104.1	103.2	104.4
economic conditions next 12 months	90.2	82.7	83.2	78.5	81.4	83.3	81.2	92.8	100.9	91.2	91.2
economic conditions next 5 years	91.6	89.8	92.2	94.1	94.5	91.5	90.6	97.8	104.2	95.9	96.6
time to buy major household item	123.3	78.7	76.5	79.7	82.1	82.6	82.6	85.1	85.2	89.2	90.8
time to buy a dwelling	120.1	75.3	76.5	72.8	75.7	71.4	76.1	78.0	86.8	81.6	89.9
Westpac–MI Consumer Risk Aversion Index^^	17.7	–	–	47.0	–	–	47.4	–	–	48.6	–
CSI±	100.1	71.8	71.5	74.6	72.7	75.8	76.0	77.7	80.0	82.0	81.1
Westpac–MI House Price Expectations Index#	128.1	161.2	161.1	163.8	161.2	157.8	150.5	153.2	150.1	142.0	133.7
consumer mortgage rate expectations#	40.5	22.8	33.0	41.2	59.2	35.5	23.8	6.4	3.0	5.8	5.7
Westpac–MI Unemployment Expectations	129.2	124.6	129.8	133.1	128.6	133.5	138.4	129.8	120.5	123.7	127.2
MI inflation expectations (trimmed mean)	4.4	4.6	4.1	4.4	4.3	4.5	4.4	4.0	3.8	4.2	4.0
MI wage expectations (trimmed mean)	1.3	1.0	1.2	1.3	1.4	1.5	1.4	1.3	1.5	1.4	1.5

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