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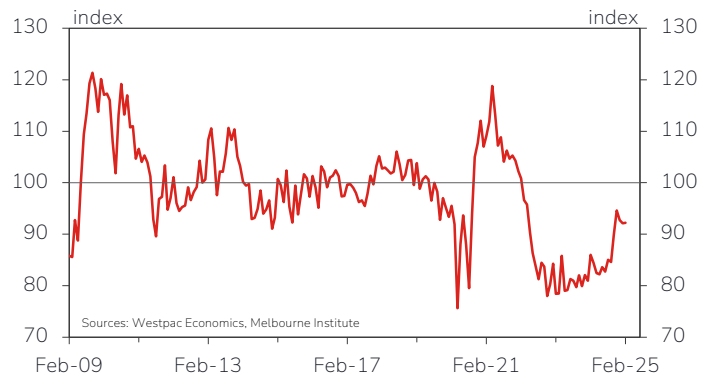
WESTPAC–MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac Consumer Sentiment Index basically unchanged in February.
- Firming rate cut expectations supporting a positive outlook for finances.
- Weaker current finances point to post-Christmas ‘hangover’.
- Unsettled global backdrop restraining expectations for the economy.
- Affordability challenges still holding back sentiment towards home-buying.

Consumer Sentiment Index



The Westpac–Melbourne Institute Consumer Sentiment Index was basically unchanged in February, ending up 0.1% to 92.2 from 92.1 in January.

Consumer sentiment holds at ‘cautiously pessimistic’ levels



Matthew Hassan
Head of Australian Macro-Forecasting

The Westpac–Melbourne Institute Consumer Sentiment Index was basically unchanged in February, edging up 0.1% to 92.2 from 92.1 in January.

The consumer mood improved materially over the second half of 2024 but the recovery has stalled in the last three months as continued pressures on family finances and a more unsettled global backdrop have weighed against firming expectations of rate cuts domestically.

Latest reads show a ‘cautiously pessimistic’ consumer mood. Much of that caution still centres around stretched household finances, which look to have come under renewed pressure since the start of the year. Consumers are less concerned about the forward view, with some wariness about the economic outlook but rising optimism about prospects for family finances. Overall, the mix suggests there may have been a larger than normal financial ‘hangover’ from the Christmas period and that many are still struggling with cost-of-living problems.

The component detail showed relatively small changes in the main sub–indexes. Recall that the headline Consumer Sentiment Index is a composite based on five sub–indexes: two tracking views on family finances, two on the economic outlook and one on whether now is a good time to buy a major household item.

The essentially flat February result reflected a marginally weaker assessment of current family finances that was largely offset by small gains in other components.

The ‘family finances vs a year ago’ sub–index slipped 3.4% lower in February to 75.1, down 10.6% from its December peak but still up 18.9% on the low in May last year. As noted, some of this may be a bigger than normal ‘hangover’ from the Christmas–New Year period. It may also be a sign that the boost from tax cuts and fiscal support measures is starting to wane. The pull–back has been most pronounced for low–income earners, females and those aged 18–24.

Most consumers still expect their finances to improve over 2025. At 105, the ‘finances, next 12 months’ sub–index remains in outright positive territory, meaning optimists outnumber pessimists. The sub–index edged up 0.6% in the February month and is holding around three–year highs. Not surprisingly, the biggest improvement since last year has been amongst consumers with a mortgage – better–than–expected inflation updates and improving prospects for interest rate cuts giving a clear lift.

Consumers have become much more confident about the prospect of interest rate cuts. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, fell 14.2% in February to 90.7. This is the second lowest index read since we began running this question fifteen years ago and only the second sub–100 read over that period – 36% of consumers expect mortgage rates to decline over the next year; 21% expect no change and 28% expect rates to move higher. Amongst consumers with a mortgage half now expect rates to move lower compared with just a third two months ago.

The prospect of interest rate cuts looks to be supporting expectations for the economy although consumers are less sure on this front. The sub–indexes tracking expectations for the economy over the next 12 months and over the next five years both ticked higher in February (+1.6% and +0.9% respectively) but remain below the 100–level, meaning pessimists still outnumber optimists. That likely reflects a more unsettled global backdrop: expectations nudged into positive in November, just prior to the US election result, but have been tracking 5–10pts lower since then.

Buyer sentiment is also holding in ‘cautiously pessimistic’ territory. The ‘time to buy a major household item’ sub–index was essentially unchanged in February, ticking up 0.1% to 90.9. Attitudes have yet to return to outright positive, the last three years marking the deepest and longest–lasting slump since we began running the survey fifty years ago.

Australian consumers remain relatively unconcerned about labour market conditions. The Westpac–Melbourne Institute Unemployment Expectations Index dipped 1.1% to 125.8 in February, meaning slightly more consumers expect unemployment to fall over the year ahead rather than rise. While less upbeat than it was in 2022 and the first half of 2023, the measure is still holding at better–than–average levels – the slight positive tone consistent with consumers expecting a benign jobs market.

“The consumer mood improved materially over the second half of 2024 but the recovery has stalled in the last three months.”

Around housing, the recovery in buyer sentiment lost a little momentum as price expectations saw a renewed lift.

The 'time to buy a dwelling' index declined 2.3% in February to 87.8. Homebuyer sentiment has recovered strongly over the last six months, the index surging 23% with a clear boost from the shifting interest rate outlook. However, buyer sentiment remains firmly pessimistic overall, reflecting the still-formidable affordability challenge of high prices. The February softening was led by a sharp pull-back in Western Australia which is coming off a more dramatic price surge over the last few years compared to other states.

Some of the softer read on 'time to buy' may reflect expectations of a renewed lift in prices. The Westpac-Melbourne Institute Index of House Price Expectations rose 6.5% to 142.3 in February, a solid lift, and the first rise since October. The state detail suggests there were a mix of drivers in the month. The biggest gain came in Victoria where expectations surged 11% but were coming from a much weaker starting point. This suggests the shift is an expectation that recent price slippage will come to an end. In contrast, the second biggest gain was in Western Australia where a 10% jump back towards recent highs suggests consumers are becoming wary that the state's red-hot market may be about to reignite.

The Reserve Bank Board next meets on February 17-18. Recent data on underlying inflation, wages growth and consumption will have given it confidence that inflation is returning to target faster than it previously expected. The latest consumer sentiment release shows households are still cautious with spending likely to remain restrained. While the global outlook has become more uncertain and the labour

market has remained surprisingly resilient, in our view these do not outweigh the better news on inflation and its near-term outlook. Consistent with its inflation mandate, we expect the Board to begin reducing the restrictiveness of monetary policy with a 25bp cut at its upcoming meeting. Beyond that, we expect the cash rate to decline at a moderate pace through 2025. The incoming Monetary Policy Board first meets on March-April 1. Given the considerable overlap of membership, we expect it to follow a broadly unchanged strategy. Like its predecessor, the new Monetary Policy Board will not rush to unwind tight policy and will remain data-dependent

Consumer Sentiment – February 2025

	avg*	Feb 2023	Feb 2024	Jan 2025	Feb 2025	%mth	%yr
Consumer Sentiment Index	100.5	78.5	86.0	92.1	92.2	0.1	7.2
Family finances vs a year ago	88.1	62.1	66.1	77.7	75.1	-3.4	13.5
Family finances next 12mths	106.7	86.8	95.3	104.4	105.0	0.6	10.2
Economic conditions next 12mths	90.6	75.1	88.9	91.2	92.6	1.6	4.1
Economic conditions next 5yrs	92.0	90.3	93.0	96.6	97.5	0.9	4.8
Time to buy a major household item	123.9	78.0	86.8	90.8	90.9	0.1	4.7
Time to buy a dwelling	120.1	73.9	74.2	89.9	87.8	-2.3	18.4
Unemployment Expectations Index	129.2	119.4	126.9	127.2	125.8	-1.1	-0.9
House Price Expectations Index	129.6	102.9	161.4	133.7	142.3	6.5	-11.8
Interest Rate Expectations Index	142.4	187.0	121.6	105.7	90.7	-14.2	-25.4

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 3 February to 6 February 2025. 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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Authors

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro–Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Jameson Coombs
Economist
E: jameson.coombs@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@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
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au



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