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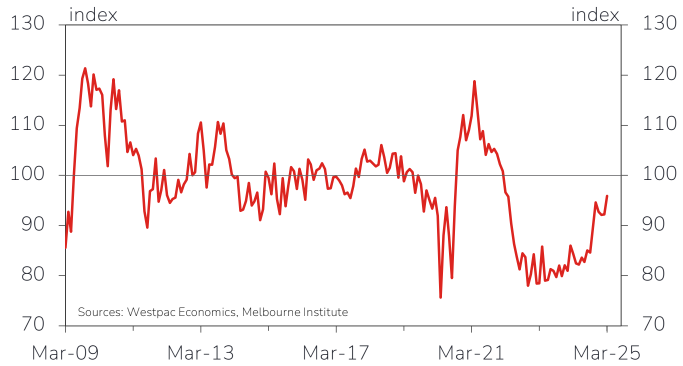
WESTPAC–MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac Consumer Sentiment Index up 4% to 95.9 in March.
- Slowing inflation and rate cut lift confidence to three-year high.
- Unsettling overseas news looks to be weighing on the outlook for the economy.
- Sentiment towards major purchases showing a promising improvement.
- Consumers' own finances stabilising and further improvement expected.
- Positive view on jobs suggests 'soft landing' has been achieved.

Consumer Sentiment Index



The Westpac–Melbourne Institute Consumer Sentiment Index posted a solid 4% rise in March, lifting to 95.9 from 92.2 in February.

Consumer sentiment recovery resumes

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The Westpac–Melbourne Institute Consumer Sentiment Index posted a solid 4% rise in March, lifting to 95.9 from 92.2 in February.

The recovery in consumer sentiment, which began in the second half of last year but lost its way a little over the Christmas–New Year period, regained momentum in March. The RBA's decision to cut interest rates in February and a further easing in cost-of-living pressures have provided a clear lift. The survey detail shows a broad-based improvement with a notable rise in confidence around the labour market outlook. At 95.9, the Consumer Sentiment Index is now at a three-year high and just 4% off the 'neutral' level of 100, where there are the same number of optimists as pessimists.

Despite the improvement, there are still some signs of unease, particularly around developments abroad. Our March, June, September and December surveys include additional questions on news recall. Responses in March show that while consumers detected a marked improvement in the domestic news-flow, the news from abroad has become more troubling.

Topic-wise, news on 'inflation' again had the highest recall, followed by 'budget and taxation', 'employment', 'economic conditions' and 'interest rates'. In all cases, most consumers still viewed the news as unfavourable but much less so than in December. Around inflation for example, across the 40% of consumers that recalled news on this topic, 65% said it was bad compared to 75% back in December. In contrast, the news from abroad was becoming more prominent and more negative. Across the 15.4% of consumers that recalled news on 'international conditions', 82% assessed this as unfavourable compared to 68% back in mid-2024. While it is not the most pressing concern, the US 'tariff war' and deteriorating relations with some of its allies is clearly unsettling.

The component detail of the Index suggests this unease is holding back consumer expectations for the economy. Recall that the Consumer Sentiment Index is a composite measure based on five sub-indexes: two tracking assessments of family finances, two tracking expectations for the economy and one on whether now is "a good time to buy a major household item".

All components improved in March but the sub-indexes tracking expectations for the economy remain below the levels seen in November last year, when the US Presidential election was being held. The 'economic outlook, next 12 months' sub-index rose 3.6% to 96, while the 'economic outlook, next 5 years' sub-index rose 4% to 101.5. The November peaks for the '12 month' and '5 year' economic outlook sub-indexes were 100.9 and 104.2 respectively. Assessments would have gained some moderate support from the December quarter national accounts update, released mid-way through the survey week. This showed the economy continues to track a gradual recovery, GDP rising 0.6%qtr – the first 'per capita' gain since 2022 – and annual growth lifting to 1.3%yr.

Around family finances, the picture continues to be of a slow improvement but with rising optimism about the year ahead. The 'family finances vs a year ago' sub-index rose 2.1% to 76.7, still well below the long run average of 88 and weak overall but now up a robust 17.6% on a year ago. Meanwhile the 'family finances, next 12 months' sub-index rose a further 3.2% to 108.3, the outright positive read the strongest since January 2018, excluding the COVID period. Expectations have shown a particularly strong rally amongst consumers with a mortgage, the sub-index for this sub-group jumping 11.4% of 117.6.

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Perhaps the most promising improvement has been around buyer sentiment. This has been exceptionally weak over the last two years, registering both the longest and deepest period of pessimism since the survey began in the mid-1970s – the component capturing the bulk of the shock from surging prices and associated loss of purchasing power. This shock is showing clearer signs of dissipating, with the 'time to buy a major household item' sub-index rising a further 6.9% in March to 97.1.

In terms of wider consumer sentiment, the sub-group detail suggests there were some other factors at play in the month. In particular, Cyclone Alfred dampened the mood in Brisbane, sentiment in the city dipping 1.7% in the month, bucking the wider rising trend.

The RBA's February decision has bolstered confidence that interest rates will continue to move lower. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, declined 2.2% to 88.2 in March, reaching a new cycle low. The detail shows 36% of consumers expect mortgage rates to decline over the next year; 22% expect no change and 26% expect rates to move higher.

Consumers are becoming more positive on the labour market, expectations suggesting a 'soft landing' has already been achieved. The Westpac–Melbourne Institute Unemployment Expectations Index dropped 6.3% to 117.9 in March (recall that lower index reads mean more consumers expect unemployment to fall over the year ahead). The Index is at its lowest level since the start of 2023 and comfortably below the long run average index read of 129. The unemployment rate has held steady around 4% since mid-2024.

Consumer views on housing also improved in March.

The RBA's February rate cut drove a solid lift homebuyer sentiment. The 'time to buy a dwelling' index rose 4.3% to 91.6. While that still means pessimists outnumber optimists, this is the lowest incidence of pessimism since September 2021. The interest rate cuts generated particularly positive responses in Victoria – where buyer sentiment surged 15.3% to outright optimism (106) – and Western Australia where buyer sentiment bounced strongly off last month's extreme lows (+24.6% to 89.4). While outright optimism remains scarce, there are now half a dozen sub-groups that are positive on 'time to buy' including 18–24-year-olds and consumers that own their home without a mortgage.

Consumers are more firmly positive on the house price outlook. The Westpac–Melbourne Institute Index of House Price Expectations rose 2.9% to 146.5 in March, the Index now having bounced nearly 10% from its January low. That said, consumers are not as bullish as they were last year – just over 59% expect prices to rise in the year ahead, compared to 53% two months ago but a peak of over 70% back in June. CoreLogic price data released at the start of the survey week reported a lift in prices over the month of February with notable turnarounds in Sydney and Melbourne, which had been seeing small price declines.

Responses to a separate question on the 'wisest place for savings' suggests consumers are also becoming slightly more interested in real estate as a specific investment option and slightly less risk averse overall.

Consumers still heavily favour 'safe options' with just over half (52%) nominating either 'bank deposits' or 'pay down debt' as the wisest place of savings, down only slightly from the 54% in December. Some 10.5% of consumers nominated 'real estate' – the second highest reading since March 2020, albeit still a shadow of the long run historical average of 23%.

The reconstituted Reserve Bank Monetary Policy Board meets on March 31–April 1. Westpac expects the Board to leave the cash rate unchanged. The RBA has been clear that the decision to cut rates 25bps at its February meeting did not mean further reductions could be expected at subsequent meetings. Any cuts from here will instead depend on the flow of data, especially for inflation, the labour market and domestic demand. The Board will be mindful that inflation has recently declined by more than the RBA had expected and it will be wary of negative economic and financial developments overseas. Westpac expects a further slowing in inflation will give the RBA sufficient confidence to deliver more rate cuts this year with the next move coming at the May meeting. That in turn suggests the gradual consumer recovery, which this latest consumer sentiment update shows rests on an expectation of further interest rate easing, should remain on track.

Consumer Sentiment – March 2025

	avg*	Mar 2023	Mar 2024	Feb 2025	Mar 2025	%mth	%yr
Consumer Sentiment Index	**100.5**	**78.5**	**84.4**	**92.2**	**95.9**	**4.0**	**13.6**
Family finances vs a year ago	88.1	63.4	65.2	75.1	76.7	2.1	17.6
Family finances next 12mths	106.7	85.3	93.8	105.0	108.3	3.2	15.4
Economic conditions next 12mths	90.6	73.3	84.9	92.6	96.0	3.6	13.0
Economic conditions next 5yrs	92.1	95.3	94.0	97.5	101.5	4.0	7.9
Time to buy a major household item	123.9	74.9	84.2	90.9	97.1	6.9	15.3
Time to buy a dwelling	120.0	65.7	77.8	87.8	91.6	4.3	17.8
Unemployment Expectations Index	129.2	122.9	128.1	125.8	117.9	–6.3	–8.0
House Price Expectations Index	128.3	111.7	161.1	142.3	146.5	2.9	–9.1
Interest Rate Expectations Index	142.2	180.3	120.9	90.7	88.2	–2.8	–27.1

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 3 March to 7 March 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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