April 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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Headwinds stiffen

The gradual consumer recovery that began in the second half of last year has carried into 2025 but is continuing to proceed at a slow pace with signs that headwinds, external ones especially, have intensified.

Our April **Red Book** shows it has been a shaky few months with a clear 'jolt' to sentiment coming from the surprisingly aggressive US tariff announcements on April 2 and ensuing financial market turbulence. While this pales compared to the sentiment collapse in the US – where consumers are at the 'front line' of the tariff war – the dent locally already looks set to delay an expected pick-up in Australia's consumer spending recovery. Accordingly, we have trimmed our spending growth forecasts for 2025, from 1.8%yr to 1.5%yr.

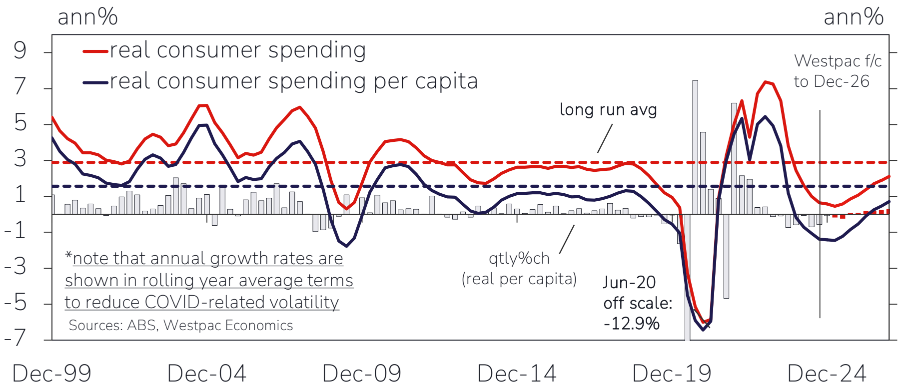
That said, the recovery is being delayed rather than cancelled. Australia's exposure to external tariff-related shocks still looks small and manageable. Local spillovers via financial markets and sentiment are also likely to be marginal. While the situation remains uncertain, markets have calmed down markedly in recent weeks, regaining much of the lost ground with an implied assessment that tariff measures will largely end up being walked back (as many have already).

Even so, external conditions look likely to remain uncertain and prone to renewed bouts of instability. Exactly where the US attempt to reconfigure global trade and political relationships ultimately lands is unclear but there is almost certain to be more 'noise' along the way.

For Australian consumers, this mostly represents just another reason to remain cautious. A feature of the consumer recovery to date has been the strong inclination toward putting income improvements towards rebuilding financial buffers rather than spending. Indeed, our latest **Westpac Consumer Panel** suggests close to 80% of the income gains from last year's tax cuts have been saved so far.

While consumer sentiment has come out of the dark 'cost of living' hole it was in through most of 2023 and 2024 it is still firmly pessimistic. With risk aversion also elevated, the mood points to consumers remaining very conservative even as their financial situation improves. That may change as fears of a bigger tariff hit locally subside and further interest rate easing from the RBA comes through. But in the meantime, stiffening external headwinds suggest it will continue to be very slow going for the recovery near term.

1. Consumer spending: still sluggish



"... sentiment has come out of the dark 'cost of living' hole it was in through most of 2023 and 2024 [but] is still firmly pessimistic ..."

Quick run-down

The **Westpac–Melbourne Institute Consumer Sentiment Index** declined 2.2% over the three months to April, to 90.1 from 92.1 in January and a more recent peak of 95.9 in March.

Monthly moves and the detailed responses in April point to a material hit to sentiment from recent US tariff announcements.

Sentiment has moved from 'cautiously' to 'firmly' pessimistic but has not returned to the 'deeply' pessimistic reads seen between mid-2022 and late 2024.

Risk aversion remains elevated. The **Westpac Risk Aversion Index** ticked down slightly from 48.2 in December to 45.4 in March but remained well above the long run average of 18 just prior to the tariff announcements. History suggests the market volatility in Apr alone will drive a renewed rise in risk aversion when the next update comes in June.

The sentiment mix already suggests there is some stalling in the gradual improvement in spending since mid-2024. **CSI±,** a modified indicator that correlates well with per capita spending, declined 2.8% over the three months to April and remains consistent with contracting per capita spend.

Consumer expectations for interest rates remain consistent with further rate cuts although the degree of conviction has softened slightly in the latest month. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** declined 7.2% between January and April albeit with a lift in the April month that unwound about half of what was a more marked decline over the previous two months. At 98.1, the index remains near previous cycle lows.

Consumer expectations for inflation and wages growth continue to hold around benign levels, below longer run averages but slightly above the averages seen in the years prior to COVID.

Consumer attitudes towards major purchases have also seen a stalling in what had been a promising recovery since the middle of last year. The **'time to buy a major item'** index dipped 0.8% over the three months to April. At 90, the index has improved on the sub-80 lows seen through much of 2023 and 2024 but is still well below the long run average of 123. The 'cost of living' pressures evident in this measure are subsiding but only very slowly. Meanwhile per capita spending on major items continued to soften in 2024, with longer term comparisons very weak.

Homebuyer sentiment has also 'lost its way' in early 2025 with a solid recovery fading and sentiment still at pessimistic levels. The **'time to buy a dwelling'** index declined 4.7% over the three months to April, to 85.7. Cyclone Alfred looks to have dented buyer sentiment in Qld. Assessments also fell heavily in WA where sentiment more generally appears to be more sensitive to global developments.

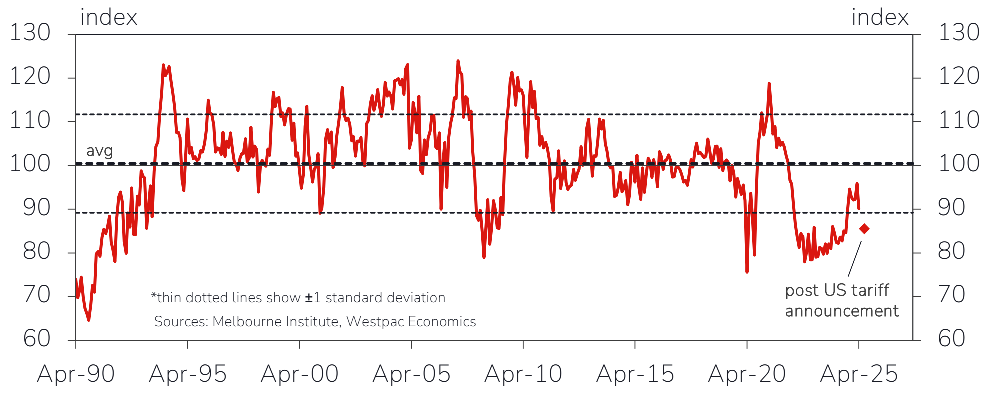
In contrast, consumer house price expectations have continue to bounce back. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** rose 14.8% over the three months to April. At 153.4, the latest reading is back near the levels at the tail end of the last price surge. Expectations are somewhat softer in Vic and WA.

Consumers remain comfortable about the risk of job loss. The **Westpac–Melbourne Institute Unemployment Expectations Index** improved slightly between January and April, despite a deterioration in the latest month. Readings remain consistent with a low risk of labour shedding although recent labour market updates suggest the pace of new hiring is starting to slow.

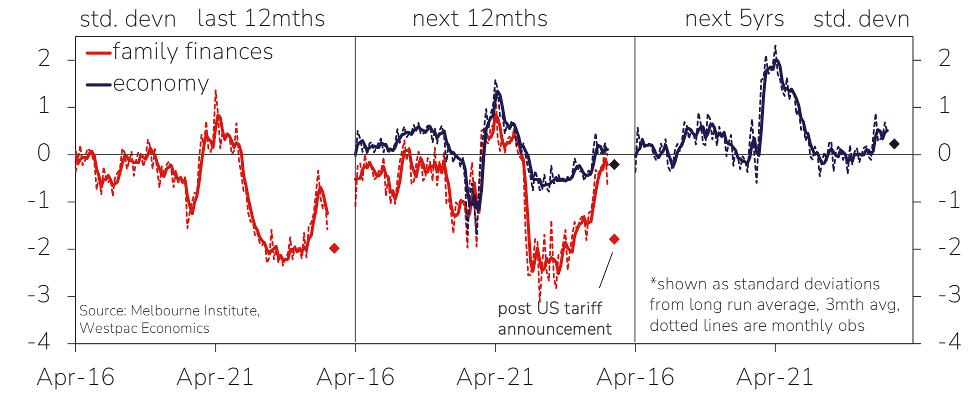
Tariff alarm

- The **Westpac Melbourne Institute Index of Consumer Sentiment** declined 2.2% between Jan and Apr but monthly moves and the detailed responses in the Apr survey point to a more material hit to sentiment from recent US tariff announcements. At 90.1 the latest monthly Index level is consistent with a shift from 'cautiously' to 'firmly' pessimistic but not a return to the 'deeply' pessimistic reads seen through between mid-2022 and late 2024.
- The shift is coming from a deepening unease about developments abroad. Sentiment weakened sharply over the course of the Apr survey week, with steep falls following the 'reciprocal tariffs' announced by US President Trump on Apr 2. Those surveyed before the announcement reported an index read of 93.9, down only slightly on the previous month's 95.9. Those surveyed after the announcement reported an index read of just 86.6, down nearly 10% vs Mar.
- The scale and breadth of tariff increases, which included a 10% tariff on Australian goods, came as a major surprise, triggering a sell-off in global financial markets.
- The tariff situation remains uncertain. Markets have calmed down after the US paused tariff measures above 10% on most countries to allow for a 90-day negotiation period, and provided exemptions on some goods, although a sharp escalation in rates on most Chinese goods and retaliatory measures from China mean the average effective tariff rate is still sharply higher. The VIX, a measure of equity market volatility, spiked to the highest levels since COVID pandemic but has settled back to be only moderately above average.
- These developments mean its unclear whether we will see a further weakening in sentiment in the months ahead, particularly given the potential for more sharp changes in US policy. At the same time, the economic effects will start to become more visible.
- Westpac views the war as primarily an act of self-harm by the US. Global growth will be weaker but non-US economies will have some scope to buffer the shock, with China expected to deliver a forceful response that maintains its growth. The shock to Australia looks likely to be small and manageable (see here for more).

2. Consumer sentiment: recovery dented

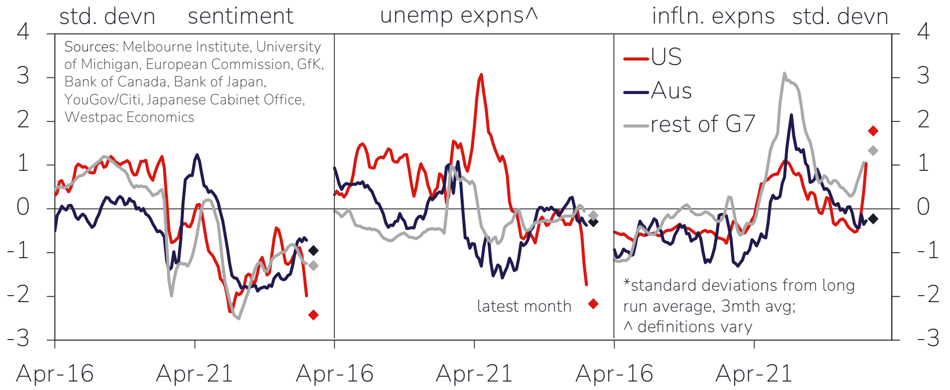


3. Consumer sentiment: finances, economic conditions

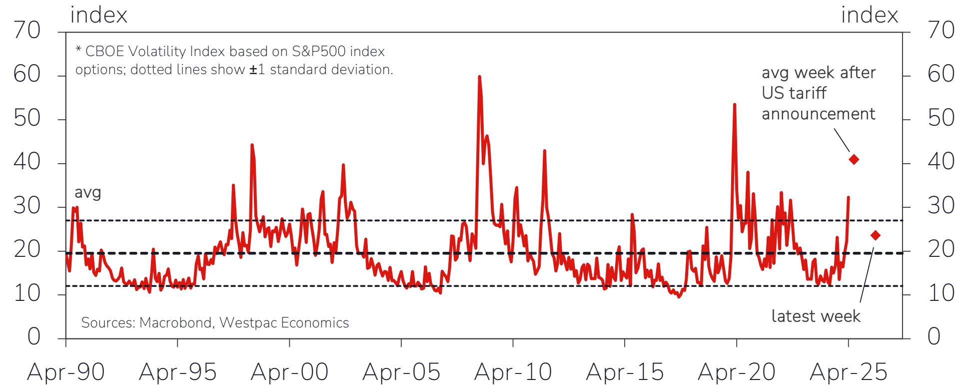


- Notably, much of the shock from tariffs will come via sentiment. For businesses, the uncertain environment will have a paralysing effect on investment decisions in sectors facing potentially large tariff changes. For consumers, the general uncertainty is being amplified by financial market turmoil and the prospect of some combination of higher prices and weaker economic activity.
- Chart 4 shows US consumer sentiment has already fallen heavily, with headline measures back near 2022 lows when the post-COVID supply chain disruptions were generating a big price surge.
- The mix looks more threatening this time though: US consumer unemployment expectations have fallen to the weakest levels since the GFC and US consumer inflation expectations have spiked well above 2022 peaks. Notably, consumer inflation expectations over a longer 5yr horizon (not shown), which held steady through 2022-23, have also spiked to the highest levels since the early 1990s. These inflation dynamics are set to be a major limiting factor for the US FOMC who will need to be confident of inflation returning to target before it provides rate cut support.
- Across Australia and other major developed economies, the sentiment impacts have been much smaller.
- Locally, the biggest sentiment declines in Apr were around assessments of finances, suggesting a large part of the weakening relates to share market falls that have now partially reversed. The 'family finances vs a year ago' sub-index dropped 8.5% to 70.2, the weakest level since the 'stage 3' tax cuts came into effect last Jul. The sub-group detail shows bigger declines across older age-groups that would have more exposure to the market decline, particularly through superannuation holdings. The 'finances, next 12 months' sub-index also fell 6.2% but held in slight positive territory overall. Here the detail suggests tariff concerns have been compounded by a slightly more uncertain outlook for interest rates (see p13).
- Responses to additional questions on news recall run in Mar showed consumers were already becoming more unsettled about negative news from abroad. That said, they were also detecting a marked improvement in the domestic news flow.

4. Consumer sentiment: Aus vs major economies



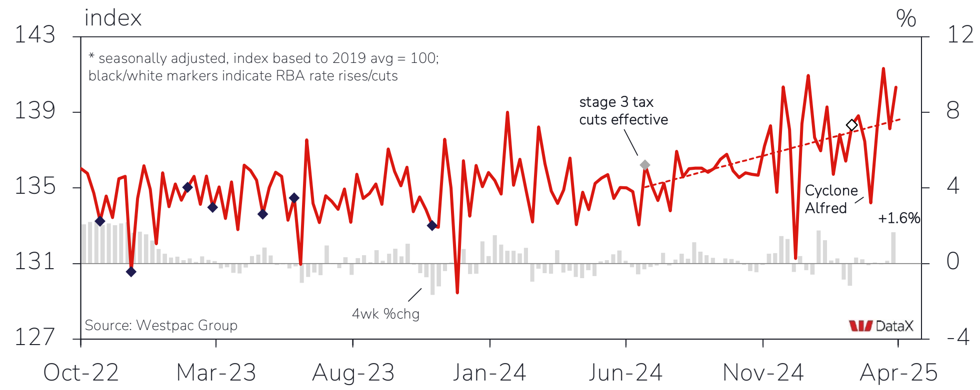
5. Financial market volatility



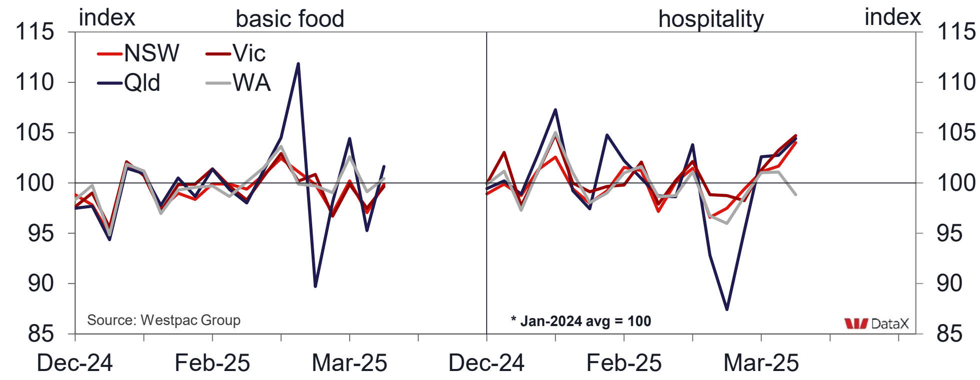
Cyclone Alfred disruptions

- While hardly the 'main game' for the consumer, the spending and price data will need to be watched closely for weather-related 'wrinkles' through March and early April.
- Tropical Cyclone Alfred formed off the coast of Qld in late Feb, eventually making landfall in early Mar, albeit as a downgraded tropical low (hence the weather event is often referred to as ex-Tropical Cyclone Alfred). The slow progress of the system meant there was substantial opportunity for households to evacuate or, if not, to stock up on emergency items and basic necessities. While the damage was ultimately not as bad as feared, the weather system still caused significant disruptions to much of southeast Qld (including widespread power outages in the Brisbane and the Gold and Sunshine Coast areas) and to parts of northern NSW.
- The combination of stockpiling and power disruptions amplified the spending impacts of Cyclone Alfred week to week – as captured by our **Westpac Card Tracker** (see here for more). Total card activity nationally fell 3.3% over the two weeks to Mar 15.
- The detail shows a more complex impact. Most of the weakness was in Qld, which recorded a much larger 13.5% drop over the two weeks. Within this, basic food recorded an 8% surge in the week leading in to landfall followed by a 21% drop the week after, fuel following a similar pattern. However, other categories declined heavily throughout, Qld's hospitality segment dropping 9% in both weeks. Swings were much bigger in areas that were directly affected - in the order of a doubling and halving.
- Notably, this was followed by a large 18% rebound in Qld, reflecting both a normalisation and some additional spending associated with repairs and the replacement of damaged goods including insurance-funded purchases
- The Insurance Council reported over 95k claims lodged with an estimated $1bn in insured losses. This included over 3.2k motor vehicle claims, just over 4% of monthly vehicle sales nationally. As such, replacement purchases may see a noticeable 'wrinkle' in car sales in coming months although car insurance claims are no way near the 70k recorded during the Sydney hailstorms in 1999, Australia's costliest weather disaster.

6. Westpac Card Tracker Index

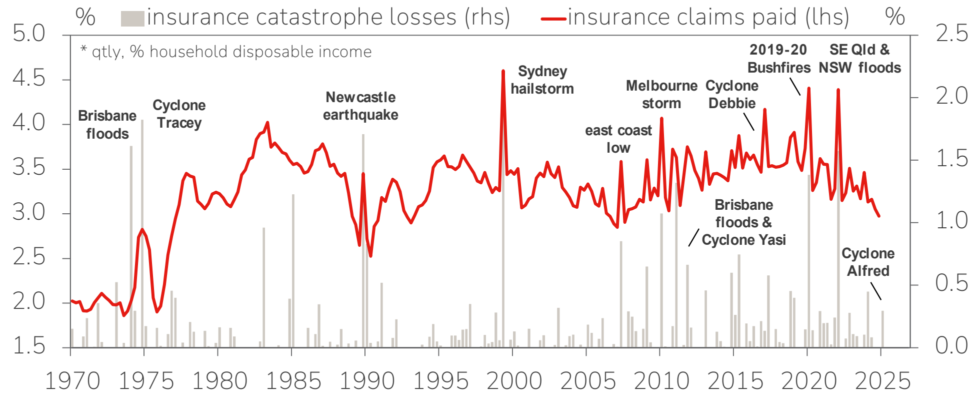


7. Card activity: selected segments by state



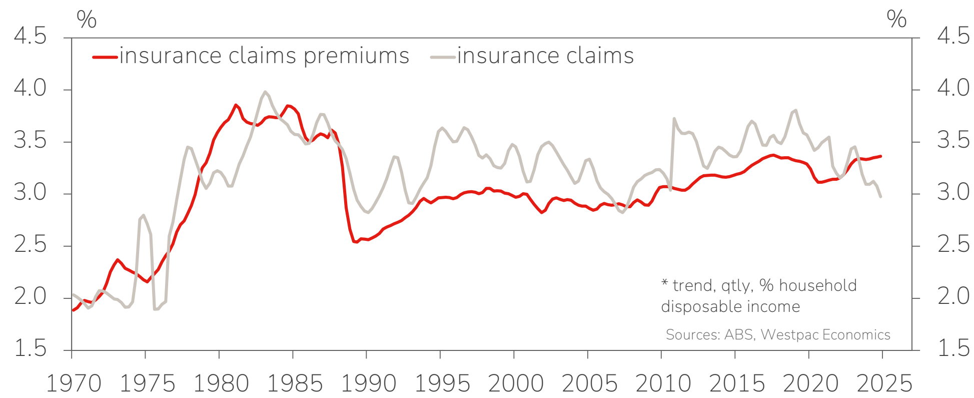
- Note that even large scale insurance-funded purchases can sometimes be hard to pick out in the aggregate economic data. The vehicle purchases associated with the 1999 hailstorm for example may have been held back to take advantage of lower prices following tax changes in 2000 (the move from wholesale taxes to the new GST lowered the cost of vehicles).
- The insurance pay-out from the 1999 event was more clearly evident, effectively adding 1.3ppts to quarterly disposable income at the time (Chart 12). Payments associated with Cyclone Alfred are likely to be much smaller, in the range of 0.1-0.2ppts. That could still result some aggregate 'wrinkles', particularly for the household savings rate if there is again a timing mismatch between claim payouts and replacement purchases.
- Previous weather events have also led to some temporary price shifts. Most famously, Cyclone Yasi in 2011 wiped out most of Qld's banana crop at the time, leading to a doubling in banana prices, the temporary spike in food prices of causing a 1.6%qtr jump in the CPI at the time (see here for more)
- Design changes mean the CPI is less susceptible to these types of temporary price shocks nowadays. That is almost certain not to occur given the less damaging impact of Cyclone Alfred.
- That early 2011 period also saw significant disruptions emanating from the Brisbane floods at the time. One issue data-wise was the ability to conduct surveys in affected areas, with people often evacuated or uncontactable. Again, this has been a smaller issue during Cyclone Alfred, the ABS noting some impact on its Mar labour force survey that means some of the detailed estimates should be treated with caution (see here for more).
- The bottom line is that Cyclone Alfred effects will likely be small, possibly not discernible at all. A more enduring take-out perhaps is how this latest event follows what looks to be a pattern of more frequent weather disasters in recent decades. That is consistent with climate change modelling and may also be partly behind some shifts in insurance that may become more sustained, namely: reduced access to insurance (lowering payouts) and rising premiums.

8. Historical catastrophes and insurance claims



Sources: Insurance Council of Australia, ABS, Westpac Economics

9. Households: non-life insurance premiums and claims

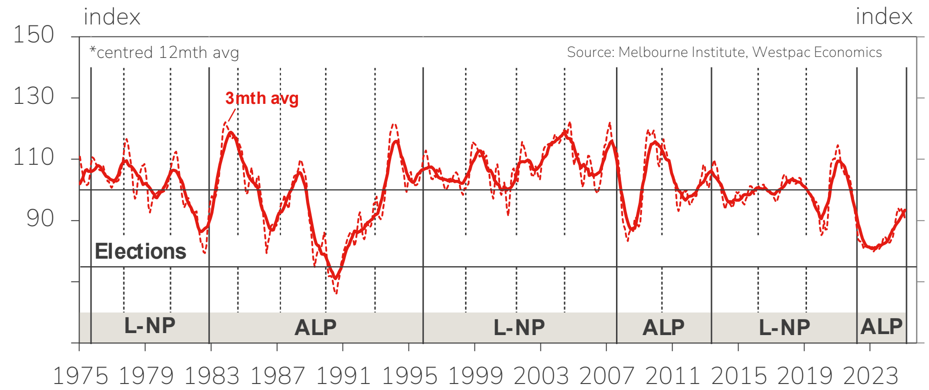


Sources: ABS, Westpac Economics

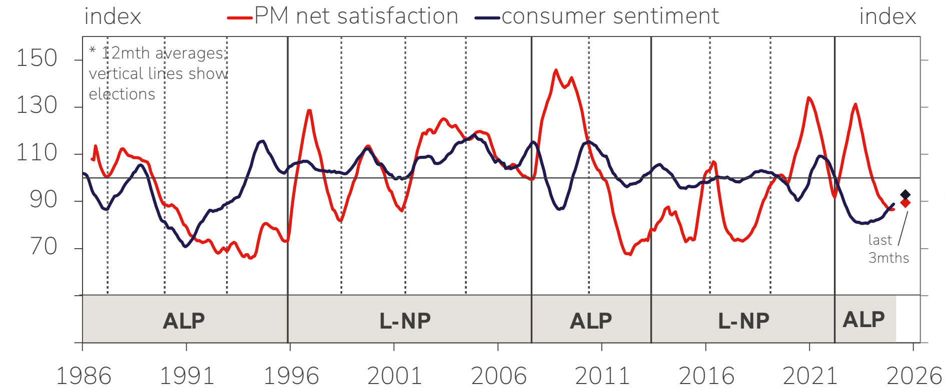
Elections and sentiment

- Our April Red Book goes to press just days before the 2025 Federal election, scheduled for May 3. Intuitively, there should be some affinity between election and consumer sentiment survey results, both being polls of the consumer. And there is to a degree, although the linkages are often quite nuanced and more complicated than they might seem. This topic takes a closer look.
- Firstly, it should be noted that the causality runs both ways: election outcomes can influence sentiment and sentiment can influence election outcomes. And none of this happens in a vacuum either – there are almost always other factors at play affecting both sentiment and election outcomes.
- Secondly, elections reflect relative assessments – of parties, leaders and electoral candidates – rather than the more 'normative' information collected in consumer sentiment surveys ("is now a good or bad time to buy?", or "is the economy expected to improve or deteriorate?"). An election may be won because of stark perceived differences in voting options even when the wider sentiment environment is clearly positive or negative.
- Chart 10 illustrates this last point well. It shows the full 50yr history of the **Westpac-MI Consumer Sentiment Index** with elections and changes of government marked. It contains instances of all four combinations of sentiment and election outcomes: 1) weak sentiment and a change of government (1983, 2022); 2) weak sentiment and no change of government (1987, 1990, 1993); 3) strong sentiment and a change of government (1975, 1996, 2007, 2013); and 4) strong sentiment and no change of government (1977, 1980, 1984, 1998, 2001, 2004 and 2010). Elections in 2016 and 2019 saw neutral sentiment and no change of government, albeit with both being close-run things.
- The history shows its hard to generalise about how sentiment relates to election outcomes. Changes of government have occurred more frequently when sentiment has been high (four out of seven) than when it has been low (two out of five). More regular polling shows voter opinions and sentiment sometimes move in tandem, but not always, even with respect to more specific questions about 'net satisfaction' with the Prime Minister's performance (Chart 11).

10. Consumer sentiment: Federal elections



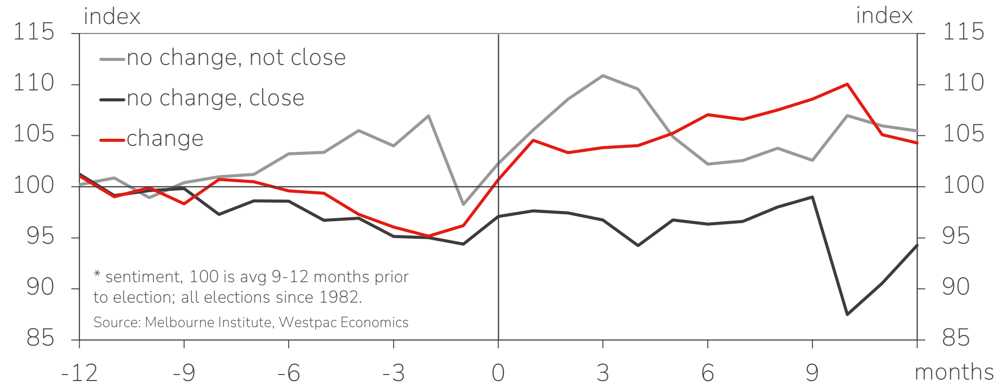
11. Consumer sentiment vs PM net satisfaction



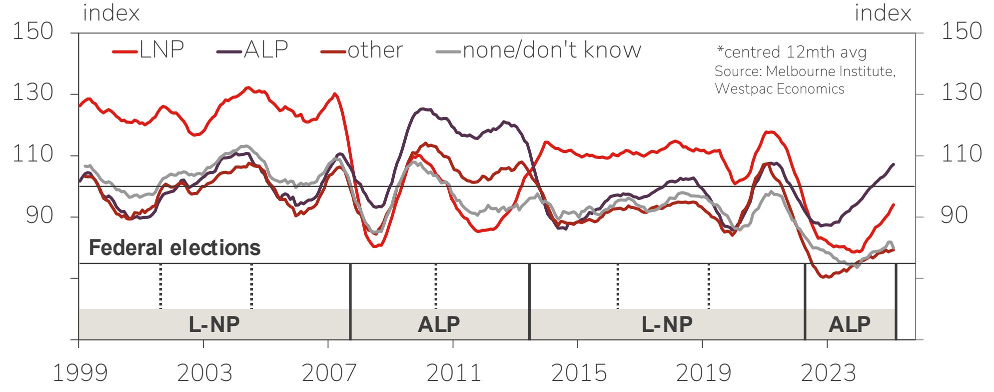
Sources: Newspoll, Melbourne Institute, Westpac Economics

- The wider context is clearly important. Sentiment may reflect factors that are largely beyond the government's control (e.g. COVID). Polls in this situation may instead reflect views on how well the government of the day has managed the situation. Elections are also clearly influenced (as they should be) by policy issues and the relative merits of proposed changes and leaders.
- Despite some improvement, the current 2025 election is occurring against what is still a relatively weak sentiment backdrop. But the influence of sentiment on election outcomes is not straightforward. How about the influence of elections on consumer sentiment?
- Again, the picture is not clear-cut. While there is some evidence of a dampening effect – particularly leading into elections that are close or that result in a change of government – it appears to be relatively small, in the order of 3-5pts. This typically unwinds post-election suggesting that it is mostly an 'uncertainty effect'. Post election recoveries are clearest when there is a change of government.
- The main reason for the small election effect on sentiment is that reactions differ across voter groups. Fears of an election loss will tend to see sentiment fall amongst supporters of an incumbent government. Conversely, hopes of an election victory will lift sentiment amongst opposition supporters. Indeed, if elections are a fair reflection of the voter mix, the net sentiment effect overall should be small by definition.
- Differences in sentiment across voter groups highlight a more general feature: a strong positive gap between sentiment amongst those that support the current government and those that support the current opposition. Chart 13 shows this gap has averaged 20pts historically but been noticeably smaller at 10.7pts over the last three years. This likely reflects the common challenge of the 'cost of living' issues that have weighed heavily on sentiment through much of this period, rather than some narrowing in the partisan divide. Interestingly, the same gap is much wider in the US, averaging closer to 30pts since 2008 and with a stark widening to closer to 40pts under the current Trump administration.

12. Consumer sentiment: election periods



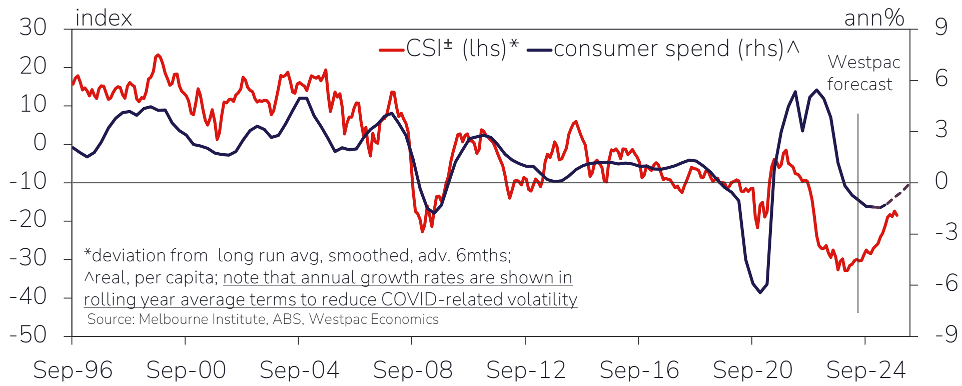
13. Consumer sentiment: voter groups



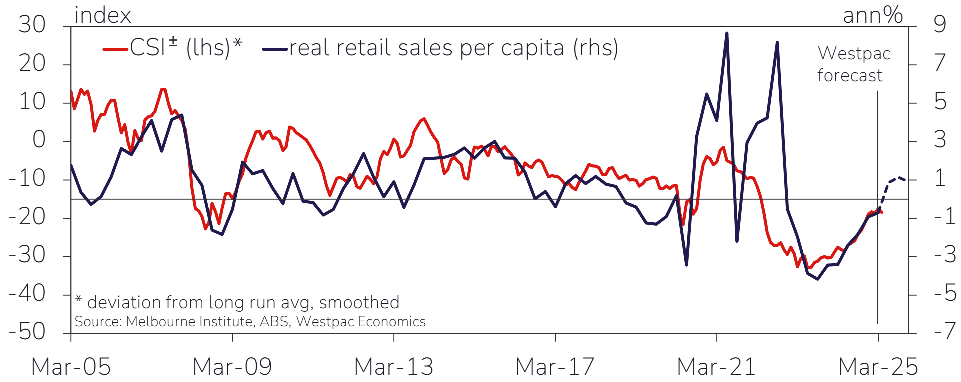
Spending: an even slower recovery

- 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 the improvement in 'underlying' momentum over the second half of 2024 has stalled out, the index declined 2.8% over the three months to Apr including a 6% jolt lower in the Apr month. At 79.1, the latest read is still very weak, well below the long run average of 100, albeit up 10% on a year ago and the sub-70 lows seen through much of 2023. As Chart 14 shows, the signal is consistent with per capita spend declining at a 2% annual pace, implying slight gains in total spend.
- The Q4 national accounts showed consumption up 0.4%qtr, taking annual growth to a very sluggish 0.7%yr. Some of the quarterly gain reflected a 'technical' effect as tapering government subsidies saw more 'out of pocket' consumer spending on electricity, reversing a fall in Q3.
- The wider picture continues to be one of improving incomes but with households putting much of this towards saving and rebuilding financial buffers rather than spending.
- Nominal disposable income rose 1.4%qtr and 5.5%yr. Real inflation-adjusted disposable income posted a milder 0.7%qtr gain to be up 1.9%yr. That compares to growth of just 0.9%yr prior to tax cuts and a large 6.5% decline over the two years to Q3 2023 (real disposable income is still 3.5% below its 2021 peak).
- The aggregate household savings ratio rose slightly from 3.6% in Q3 to 3.8% in Q4. This compares to an average 2.5% over the first half of 2024, implying that consumers have held back some of the improvement in after tax income to replenish reserves.

14. CSI± vs total consumer spending



15. CSI± vs retail sales

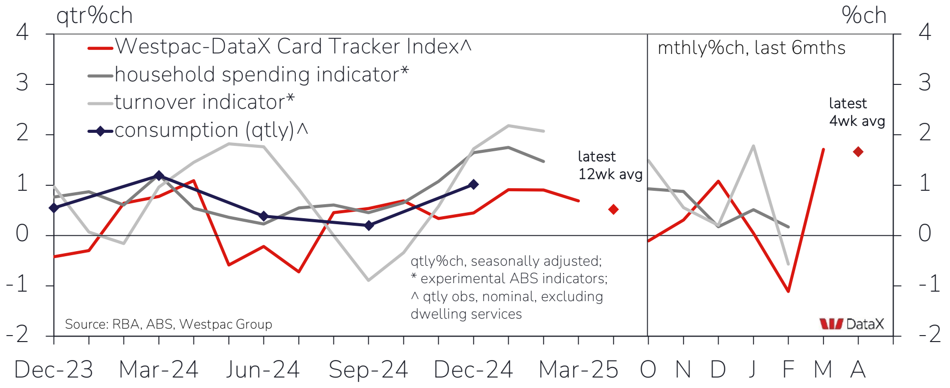


Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

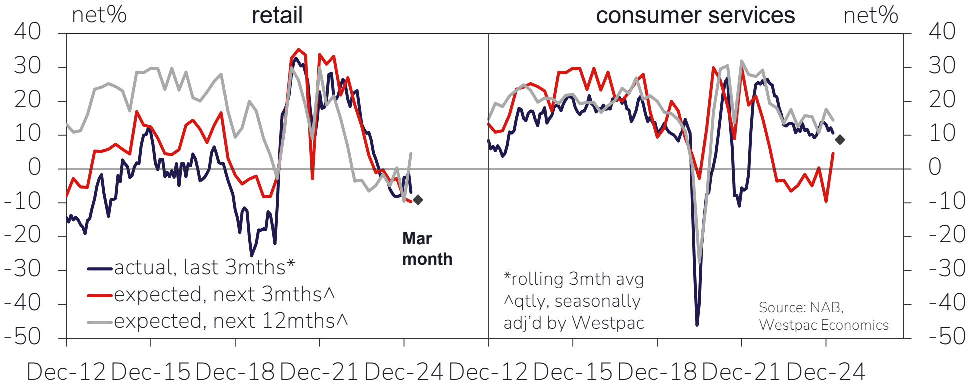
- More timely indicators suggest this sluggish, saving-focused behaviour has carried into 2025. The Q1 update to our **Westpac Consumer Panel** showed a muted 0.9%qtr gain average nominal spend, suggesting a flat result in inflation-adjusted terms (broadly consistent with real spend tracking population growth in Q1).
- The detail shows a clear reluctance to spend with updated estimates suggesting consumers were spending even less of their stage 3 tax cut boosts – just 20¢ in the dollar (see here for more).
- Our **Westpac Card Tracker** suggests spending momentum has been softer than this, with consumer-related card activity up an estimated 0.7%qtr, a figure that is also nominal and includes some element of population-driven growth (see here for more).
- As discussed on p7, the March month included significant weather disruptions that may have had a more exaggerated effect on card activity due to widespread power outages (cash transactions may have been more prominent).

- Other indicators have also been mixed. ABS monthly indicators to Feb suggest spending has been somewhat firmer although there may be some seasonality issues clouding these measures. The monthly household spending indicator and monthly business turnover indicator are both up 1.6-1.7% on a rolling three month growth basis to Feb.
- Against this, the ABS retail survey was decidedly soft, nominal sales growth moderating to just x%qtr in Q1 and real, inflation adjusted retail sales stalling flat, down from an upwardly revised 0.8%qtr in Q4, annual growth stalling at 1.2%yr.
- Private sector business surveys continue to show weak conditions for retailers in Q1 but net positive conditions across 'consumer services' sectors, albeit moderating a touch and with near-term expectations on the soft side. (see here for more).
- Overall, Westpac has made a small downward revision to the outlook for consumer spending with tariff uncertainty seeing a slower recovery near term, lowering 2025 growth to 1.5%yr from a previously forecast 1.8%yr.

16. Consumer spending: selected indicators



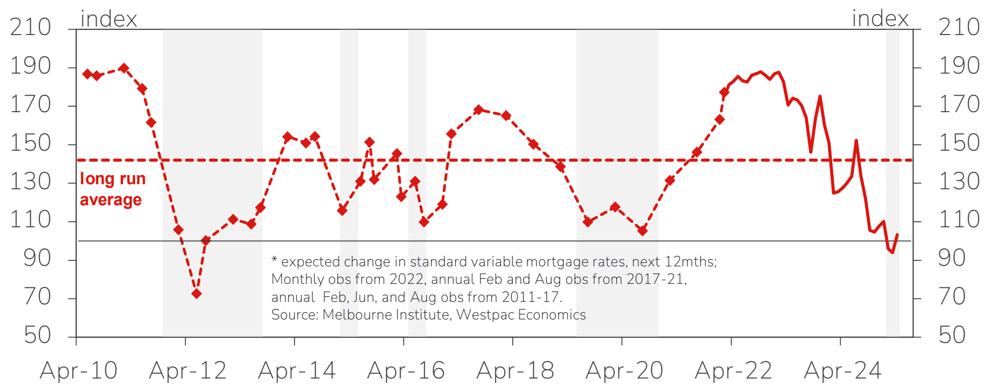
17. Business conditions: retail and consumer services



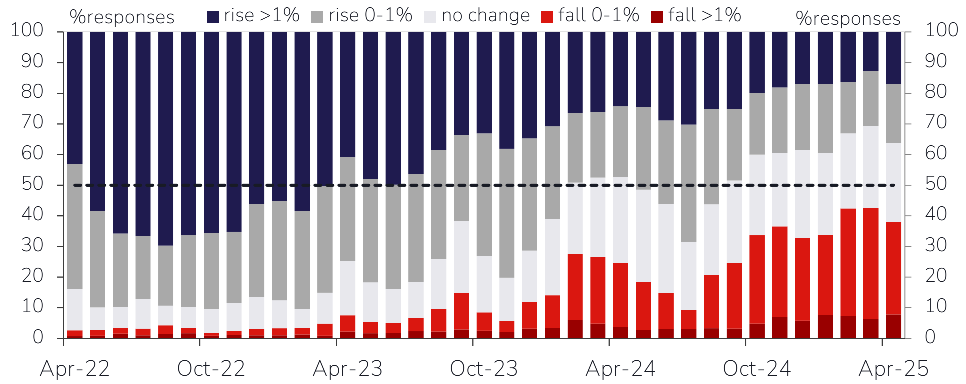
Interest rates: more cuts expected

- The last three months have seen consumers become slightly more confident that interest rates will head lower, particularly following the RBA's Feb rate cut, but the degree of conviction has weakened slightly in the latest month. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, fell 7.2% over the three months to Apr, albeit with about half of the more dramatic 16.6% decline over the first two months reversing in Apr.
- At 98.1, the Index remains near the cycle lows seen when the RBA was actively lowering interest rates. Chart 18 shows the full history back to 2010 with easing cycles marked. Index lows through previous cycles have ranged from 72.6 to 115.8 with the average low just over 100.
- The detailed responses show 31% of consumers expect mortgage rates to rise over the next year, 22% expect no change and 32% expect declines, 15% reporting 'don't know'. This is only slightly changed from the 34%/23%/29% mix in Jan.
- The most recent monthly move suggests the RBA Board's decision to leave rates on hold at its March 31–April 1 meeting and still relatively hawkish messaging has cast some doubt over whether we will see follow-up cuts to the 25bp move in Feb. Notably, amongst those surveyed after the decision (most of whom were also surveyed after the US tariff announcements) 28% expected rates to move lower, 22% expected no change, and 34% expected rates to rise with 16% reporting 'don't know'.
- We are more confident of further easing. Indeed, we see the tariff shock and associated downside risks as sufficient to draw another 25bp rate cut from the RBA in May (see here). Meanwhile there was nothing in the Q1 inflation figures that would reasonably deter the Bank from moving with the trimmed mean CPI tracking a comfortingly benign 2.5% annual pace over the last two quarters (see here for more details). Financial markets are giving a 106% chance of a 25bp move in May (implying a small chance of a larger cut). Note that our May consumer sentiment survey will be in the field the week prior to the May RBA meeting.

18. Mortgage interest rate expectations



19. Consumer expectations for mortgage rates

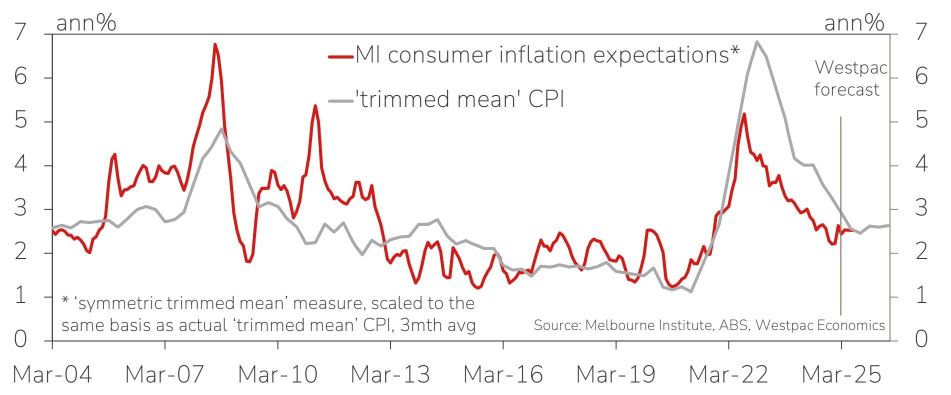


Source: Westpac-Melbourne Institute

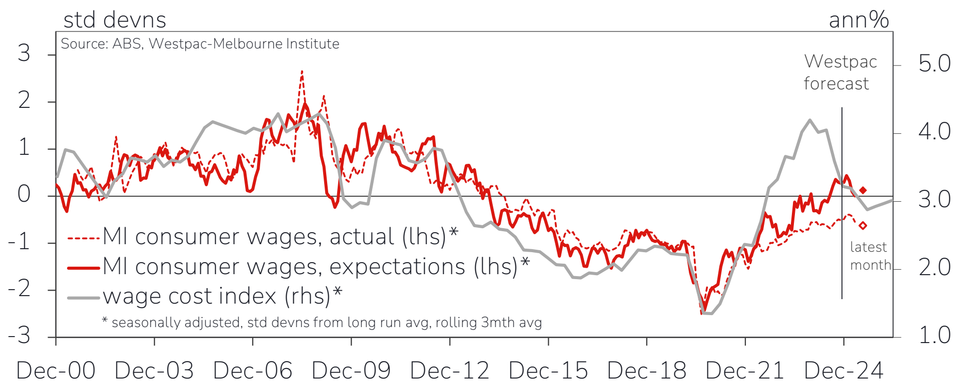
Inflation: in the rear-view mirror

- Consumer inflation and wage expectations continue to hold around benign levels, slightly below long run averages but slightly above average levels observed in the decade prior to COVID. Both speak to a subsiding inflation threat that now looks to be firmly in the rear-view mirror.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations rose marginally from 3.95% in Jan to 4.17% in Apr, a small variation in the scheme of things. That compares to 4.58% this time last year. The average read over the five years prior to COVID was 3.69%.
- The Q1 CPI update showed a headline rise of 0.9%qtr, 2.4%yr with a trimmed mean rise of 0.7%qtr, 2.9%yr (see here for more details). While both were a touch firmer than Westpac expected, the differences are in 'margin of error' territory with nothing particularly threatening in the price detail.
- Tariffs and rising inflation abroad may see some lift in consumer inflation expectations locally in coming months. However, we expect local prices to be unaffected, which should contain any unwarranted rise in expectations.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year–ahead wage growth expectations declined from 1.52% in Jan to 1.20% in Apr, a relatively soft result over the full history but firmer than the 0.8% average over the five years prior to COVID. The survey measure of actual changes also rose from 1.57% to 1.20% (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 outstripped the signal from consumer perceptions and expectations over the last year but is expected to re-converge over the course of 2025.
- The Q1 wage cost index due May 14 is expected to show a further slight slowing with a 0.8%qtr rise taking annual growth to 3.2%yr. Beyond this, the next annual wage review for awards and minimum wage rates is likely to be released by the Fair Work Commission in early Jun.

20. CPI Inflation: actual vs expected



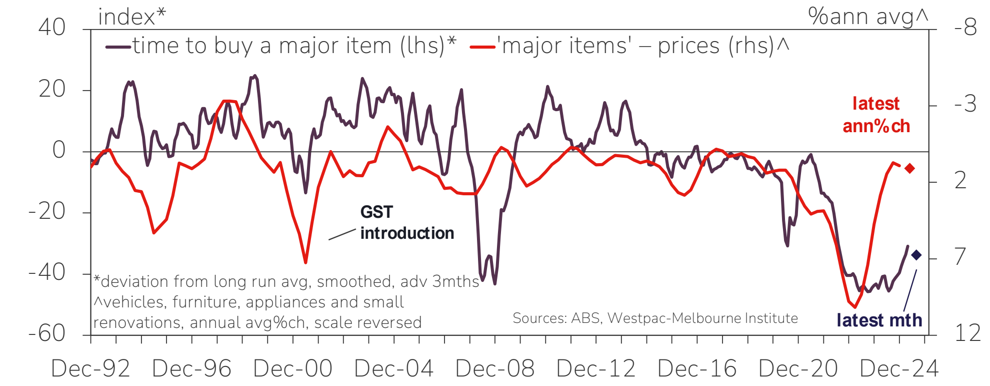
21. Wages growth: actual vs expected



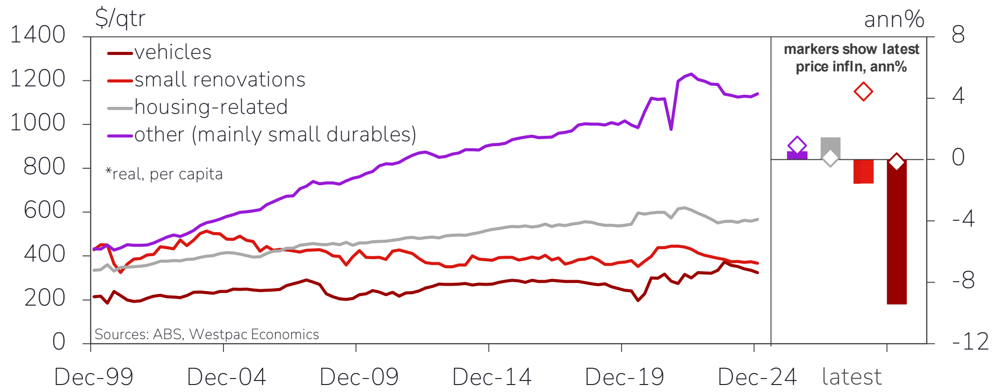
Durables: weakness continues

- Spending on major items has been relatively weak over the past two years, buyer sentiment proving to be particularly sensitive to the cost-of-living pressures that have been weighing heavily on consumer demand. While that source of negativity is slowly starting to lift, a stalling in the **'time to buy a major item'** sub-index in recent months suggests new sources of unease are holding prospective buyers back.
- The sub-index moved 0.8% lower over the three months to Apr, following a big 16.4% rally over the previous twelve months. At 90, the sub-index is comfortably above the dire sub-80 lows sustained through most of 2023 and 2024 but is a mile below the long run average of 123.
- The improvement follows a broad stabilisation in most prices. Across the vehicles, furniture, household appliances and small renovations categories that we track as 'major consumer spending items' combined inflation has tapered to around 1%yr. That said, average prices are still 14% higher than when they were when inflation started to surge in late 2021.
- Small renovations are the main area still showing lingering price inflation. For vehicles, prices are declining outright (the latest CPI showing prices down 1.1%yr), likely reflecting intensifying competition from new Chinese entrants, particularly in the EV space. Appliances are also seeing slight annual price declines (down 1.4%yr in the Q1 CPI) while furniture price inflation is tracking the wider durables pace of 1%yr.
- Real per capita spend declined 2.3% over 2024 and has fallen by a cumulative 7.7% from the peak in mid-2021. Remarkably, this puts average annual growth since the high-water mark in late 2007 at just 0.4%yr.
- Vehicle sales provide an equally sobering point of comparison. These have ebbed and flowed over the last year but at 924k, sales of passenger vehicles and SUVs over the last twelve months are 1.7% below where they were a decade ago. This is despite Australia's population having grown by over 16% over the same period. Clearly there are structural factors at play here as well but by most measures this is a very subdued demand environment for 'big ticket' items.

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



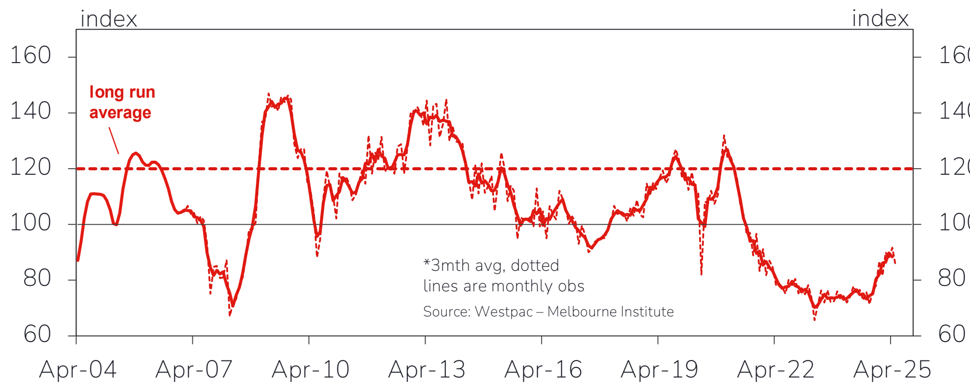
23. Consumer spending: 'big ticket' items



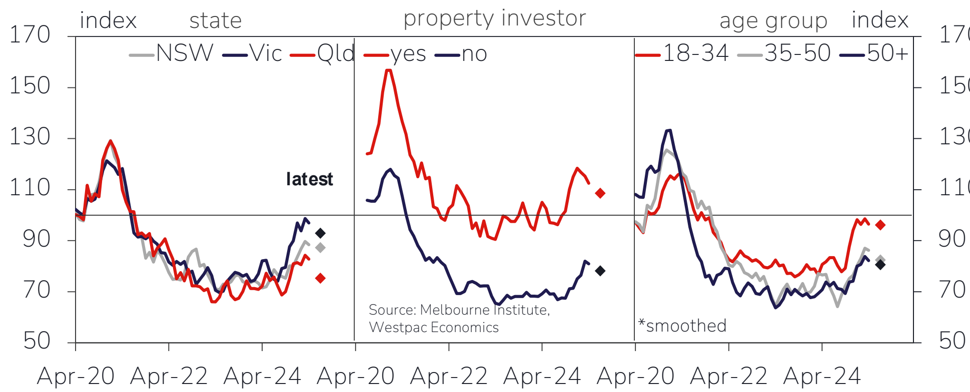
Dwellings: upturn loses its way

- The recovery in homebuyer sentiment since mid-2024 has lost its way a bit in early 2025. The **'time to buy a dwelling'** index declined 4.7% over the three months to Apr with a notable 6.5% drop in the Apr month that, unlike other aspects of sentiment, had little to do with the 'liberation day' tariff announcements. At 85.7, buyer sentiment is well above the very weak sub-80 reads in 2022-2024 but still firmly pessimistic, 34pts below the long run average of 120.
- History shows homebuyer sentiment is closely linked to affordability. As such, the stalling recovery may reflect some loss of conviction around the prospect for further interest rate declines.
- Similarly, the pessimistic overall level for buyer sentiment reflects what is still an extremely challenging mix of prices, interest rates and incomes for prospective buyers. As noted previously, this is likely to still be the case with moderate rate cuts, suggesting there will be a limit on how high a recovery in buyer sentiment can run. Indeed, our view is that any housing recovery will be heavily dampened by affordability constraints.
- There do look to have been some minor transitory effects in the latest readings. State-wise, Qld showed a particularly sharp 15% drop in buyer sentiment in Apr to a weaker 75.2 level. Cyclone Alfred may have been a factor here. Buyer sentiment also fell heavily in WA, where there looks to be heightened sensitivity to the unsettled global backdrop (see p20x).
- More generally, the stalling/slight deterioration and net pessimism was a common theme across nearly all sub-groups. The notable segments bucking the trend were SA and those either in retirement or nearing retirement age (55-64 year olds). Consumers that owned investment properties continue to be the only sub-group with net positive assessments of 'time to buy a dwelling'.
- The mix continues to suggest that consumers in sub-groups more likely to purchase investment properties are showing more of a warming towards the housing market.

24. 'Time to buy a dwelling'



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

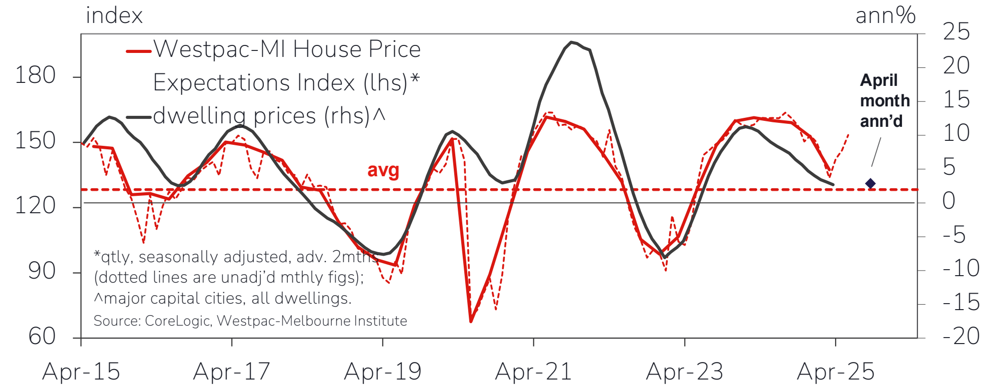


Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

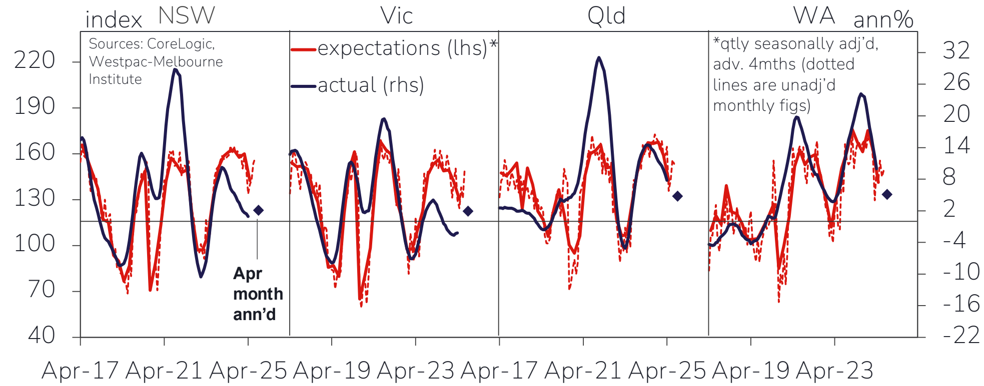
House prices: expectations bounce

- In contrast to the fading recovery in still-pessimistic homebuyer sentiment, consumer expectations for house prices have posted a solid bounce back to firmly positive levels. The **Westpac Melbourne Institute House Price Expectations Index** rose 14.8% over the three months to Apr. At 153.4, the index is back to the levels seen in Oct last year and comfortably above the long run average of 129.
- The detailed responses show 64% of consumers expect prices to rise over the next year, 21% expect no change and 10% expect prices to decline (5% reporting 'don't know'). That compares to a 53%/22%/20% mix at the start of the year.
- Interestingly, house price expectations firmed slightly over the course of the Apr survey week, with no evidence of a drag from the RBA decision to leave rates unchanged or the US tariff announcements.
- Some of the lift in expectations was likely keying off news that actual prices were showing some renewed momentum with small monthly gains in Feb and Mar following four months of slight declines.
- That improvement in monthly price momentum has carried into Apr (see here for more). However, price growth is still slowing in annual terms and on the current pacing looks set to level out around 2-3%yr, down from a peak of over 11%yr at the start of 2024.
- Note that price trajectories differs across states. The pattern nationally mainly reflects developments in Sydney and Melbourne where positive price traction is following a period of modest declines (a period that has run for the best part of a year in the case of Melbourne). Brisbane, Perth and Adelaide have been on a different path with price growth slowing from a strong performance over the last two years. Monthly prices gains are more closely clustered around the national result but coming from different directions.
- As at Apr, consumer house price expectations are strongest in NSW (157), SA (155.8) and Qld (153.4), and a touch softer in Vic (149.4) and WA (148.9). Middle income earners and those in older age groups also tend to be more bullish on prices. However, expectations are reasonably closely clustered across sub-groups.

26. Westpac-MI House Price Expectations Index



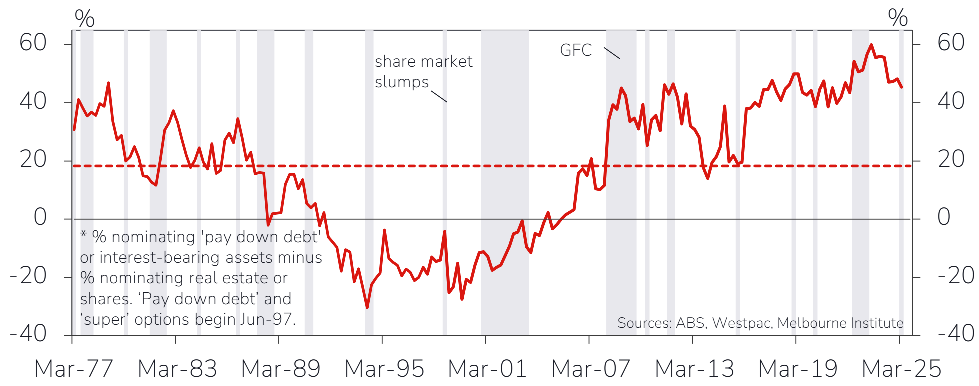
27. Dwelling prices: actual vs expected by state



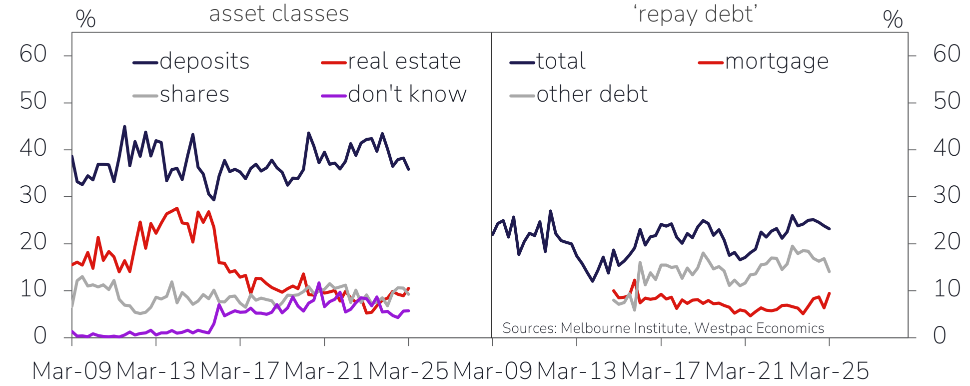
Risk aversion: more unease

- Consumer risk aversion eased slightly but remains elevated. The latest read comes from our Mar survey, so pre-date US tariff announcements which have no doubt triggered a re-ratcheting in caution. The Jun update will provide a refreshed gauge. Between Dec and Mar, the Westpac Consumer Risk Aversion Index ticked down from 48.2 to 45.4, more comfortably below the extreme highs seen in 2022–2023 but still well above the long run average of 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 saw small changes over the first quarter of 2025. Safe options remain heavily favoured, just over half nominating either 'bank deposits' or 'pay down debt'. A slightly firmer 10.5% of consumers nominate 'real estate' with 9.5% nominating 'shares', the latter likely to have been shaken by the Apr market volatility.
- As Chart 28 shows, risk aversion typically rises during global share market corrections, bearing in mind that the two are often reacting to other developments, such as the onset of the COVID pandemic.
- Notably, as we go to press, markets have calmed down considerably, recovering most of the losses immediately following the US tariff announcements. The S&P500 dropped 13.7% initially but pared that decline back to 3% by the start of May. The S&P/ASX200 has performed even better to be nearly 2% above its pre-tariff announcement level.
- The sub-group detail shows the slight easing in risk aversion ahead of the Apr turmoil was led by freehold homeowners, where debt repayment was seen as less of a priority. For the mortgage belt though there was a slight shift towards repay debt as the wisest option. Both sub-groups gravitated slightly towards 'real estate' as an option, in contrast to renters. The patterns hint at some calming in housing-related concerns amongst those with the wherewithal to transact in the market.

28. Westpac Consumer Risk Aversion Index vs saving rate



29. Consumer: 'wisest place for savings'



Job security: a key bright spot

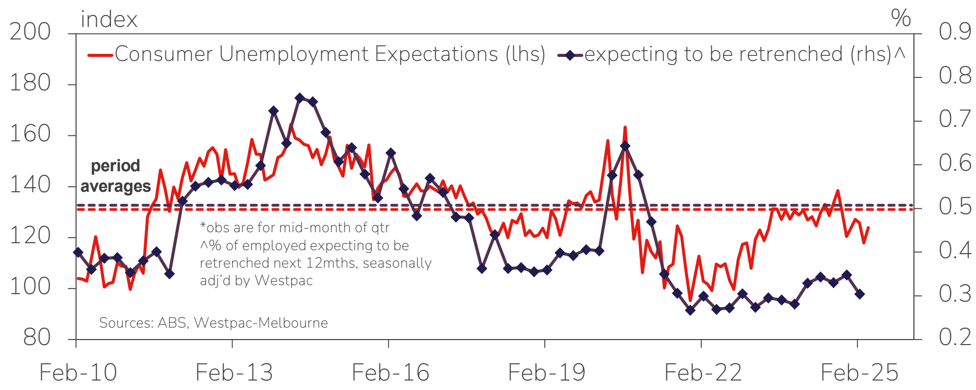
- Despite an up-tick in the latest month, consumer job-loss fears remain low. The **Westpac-Melbourne Institute Index of Unemployment Expectations** declined 2.5% over the three months to Apr to 123.9 (recall that lower reads mean more consumers expect unemployment to decline over the year ahead). The latest index read is comfortably below the long-run average of 129 but slightly better than the 125–133 reads that have prevailed through much of 2023 and 2024. Those surveyed post the tariff announcements showed a softer index read of 127.

- The latest readings are consistent with a benign labour market backdrop through 2025. That said, they should be viewed more as a gauge of the risk of labour shedding rather than the prospective pace of new hiring. The latest ABS figures suggest the latter may be starting to slow. While monthly reads have been choppy, employment barely rose in the first quarter of 2025 (see here for more). Despite this, the unemployment rate has held broadly steady at 4.1%, with the pull-back in participation driving a decline in labour supply, similar to the apparent slowing in labour demand.

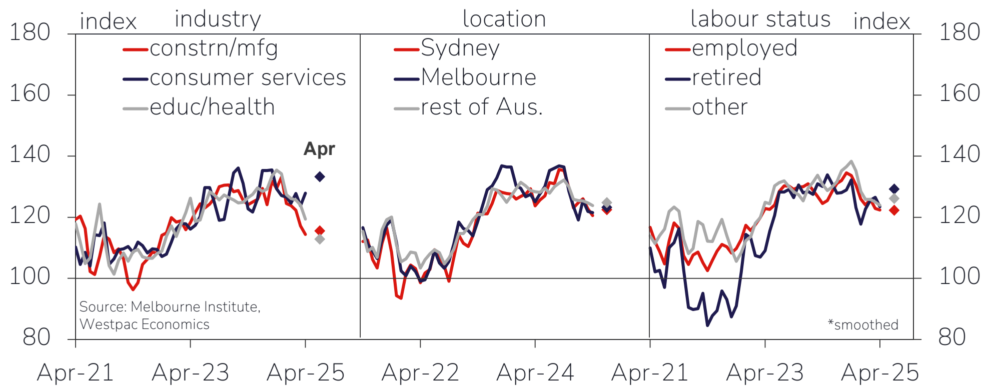
- More specific measures of the incidence of job loss show both actual and expected retrenchments remain low. Just under 0.9% of employees reported being retrenched in March quarter, in line with the previous six quarters and still comfortably below the 1.2% average historically. Just 0.3% of employed persons. Structurally, the move to casualisation looks to have reduced the incidence of outright retrenchments with adjustments tending to happen more through hours worked than head count.

- The consumer survey detail shows some variation in unemployment expectations across sub-groups. Most notable, those employed in consumer services sectors bucked the wider improving trend, likely reflected concerns that tariff turmoil would spark a pull back in discretionary services spend. Across states, consumer unemployment expectations posted bigger deteriorations in the Apr month in Vic (to 125.1) and WA (to 127.6) but were steadier at better levels in NSW (121.7) and Qld (121.8). Across sub-groups, tradies also showed a more pronounced deterioration in Apr while expectations improved materially amongst those aged 18-24.

30. Unemployment expectations



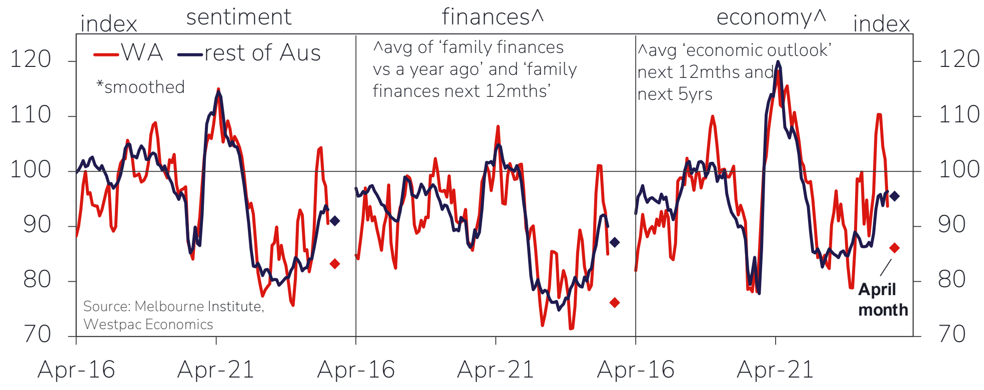
31. Unemployment expectations: selected sub-groups



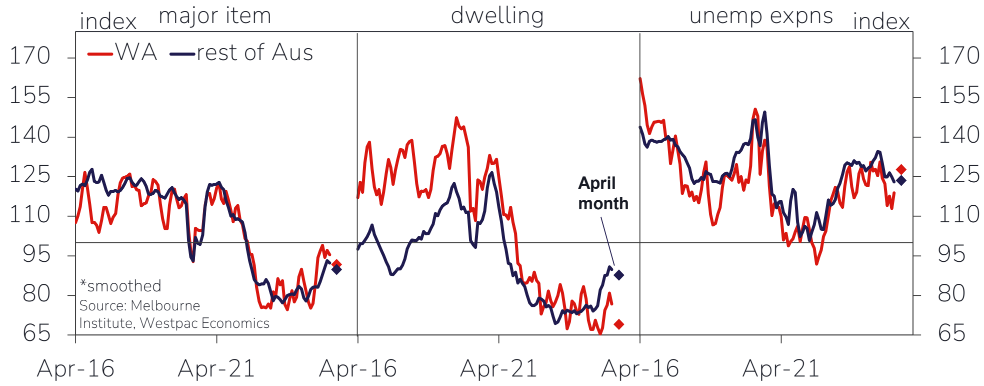
Western Australia

- While consumer sentiment nationally has tracked a gradual recovery over the last year, it has continued to track more erratic swings in WA. The last two years has seen the mood peak in mid-2023, troughing in early 2024 before surging to a new peak a few months later, falling back heavily a again the following quarter before surging strongly into outright positivity at the start of 2025 only to lapse back heavily again during the latest loss of confidence.
- The latest leg of the rollercoaster ride likely reflects the state's heightened sensitivity to the global growth environment. WA is by far Australia's most export dependent state with exports accounting for over 60% of GSP (gross state product, the state analogue of GDP nationally).
- With tariffs set to global growth and particular risks around prospects for China, by far the dominant source of demand for WA's lucrative commodity exports, consumers are right to be worried.
- While on balance we expect the fallout to ultimately be reasonably small for Australia, this will take time to be confirmed and uncertainty is likely to continue weighing until then.
- The latest sentiment decline has been fairly broad based with assessments of family finances and expectations for the economy both posting steep deteriorations, taking sub-indexes back towards their 2022-24 lows in Apr.
- Interestingly, assessments of 'time to buy a major item' have been much more stable, tracking more closely in line with the patterns seen nationally.
- Despite the erratic swings in sentiment, consumer spending has outperformed other states in terms of spending. While per capital consumption has still declined, the 0.9%yr fall in WA compares to larger 1.3-2.3% declines across the other major states. See our latest [Coast to Coast] report for more details on the performance of the wider state economy.

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



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



Economic and financial forecasts

Interest rate forecasts

Australia	Latest (24 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	3.92	3.90	3.70	3.45	3.50	3.50	3.55	3.55	3.55	3.55
3 Year Bond	3.29	3.35	3.40	3.50	3.65	3.80	3.85	3.90	3.95	4.00
3 Year Swap	3.34	3.40	3.45	3.55	3.70	3.85	3.90	3.95	3.95	4.00
10 Year Bond	4.24	4.35	4.40	4.45	4.50	4.55	4.60	4.70	4.80	4.80
10 Year Spread to US (bps)	–11	5	5	5	5	5	0	0	0	0
US										
Fed Funds	4.375	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
US 10 Year Bond	4.35	4.30	4.35	4.40	4.45	4.50	4.60	4.70	4.80	4.80

Exchange rate forecasts

	Latest (24 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD/USD	0.6361	0.62	0.63	0.65	0.66	0.67	0.68	0.69	0.70	0.71
NZD/USD	0.5954	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.61	0.62
USD/JPY	142.83	145	143	141	139	137	136	135	134	133
EUR/USD	1.1339	1.10	1.10	1.11	1.12	1.13	1.14	1.15	1.15	1.15
GBP/USD	1.3272	1.28	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.35
USD/CNY	7.2994	7.35	7.30	7.25	7.20	7.15	7.10	7.00	6.90	6.80
AUD/NZD	1.0685	1.12	1.12	1.15	1.15	1.15	1.15	1.15	1.15	1.15

Sources: Bloomberg, Westpac Economics.

Economic and financial forecasts

Australian economic growth forecasts

	2024		2025					
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
GDP %qtr	0.3	0.6	0.4	0.4	0.6	0.5	0.5	0.5
%yr end	0.8	1.3	1.5	1.7	2.0	1.9	2.1	2.2
Unemployment Rate %	4.1	4.0	4.1	4.2	4.4	4.5	4.5	4.5
Wages (WPI) %qtr	0.9	0.7	0.8	0.7	0.7	0.7	0.8	0.8
%yr end	3.6	3.2	3.2	3.0	2.9	2.9	3.0	3.0
CPI Headline %qtr	0.2	0.2	0.7	0.6	0.8	0.8	0.8	0.8
%yr end	2.8	2.4	2.2	1.7	2.3	2.9	3.0	3.3
CPI Trimmed Mean %qtr	0.8	0.5	0.6	0.6	0.7	0.7	0.6	0.6
%yr end	3.6	3.2	2.8	2.6	2.5	2.6	2.6	2.7

	Calendar years			
	2023	2024	2025f	2026f
GDP % yr end	–	–	–	–
%yr end	1.8	–0.5	1.0	3.2
Wages (WPI) annual chg	4.0	5.1	5.3	4.6
CPI Headline annual chg	–	–	–	–
Trimmed mean annual chg	4.7	2.2	2.8	2.0

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.

Consumer demand

% change	2024 Q1	Q2	Q3	Q4f	2025 Q1f	Q2f	Q3f	Q4f
Total private consumption*	0.5	–0.2	–0.1	0.4	0.3	0.2	0.5	0.5
annual chg	1.0	0.3	0.3	0.7	0.5	0.9	1.4	1.5
Real labour income, ann chg	2.1	1.8	1.8	2.5	3.2	2.8	2.1	1.0
Real disposable income, ann chg**	1.3	0.9	2.5	1.9	2.3	3.0	2.4	2.1
Household savings ratio	2.7	2.4	3.6	3.8	4.3	4.5	4.4	3.8
Real retail sales, ann chg	–1.1	–0.3	0.2	1.1	1.8	2.7	2.8	2.5
Motor vehicle sales ('000s)***	981	949	908	931	918	914	901	950
annual chg	21.0	10.5	-9.4	-4.9	-6.5	-3.6	-0.8	2.0

	Calendar years			
	2023	2024	2025f	2026f
Total private consumption, ann chg*	2.5	0.6	1.1	2.1
Real labour income, ann chg	2.4	2.1	2.3	1.3
Real disposable income, ann chg**	–3.0	1.7	2.4	2.1
Household savings ratio, %	2.1	3.1	4.2	4.2
Real retail sales, ann chg	–1.0	0.2	2.4	2.5
Motor vehicle sales ('000s)	913	942	921	951
annual chg	16.9	3.3	-2.3	3.3

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.

Consumer sentiment

		2024						2025			
% change	avg^	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Westpac–MI Consumer Sentiment Index	100.5	82.7	85.0	84.6	89.8	94.6	92.8	92.1	92.2	95.9	90.1
family finances vs a year ago	87.7	63.5	70.9	71.8	73.8	78.8	84.2	77.7	75.1	76.7	70.2
family finances next 12 months	106.2	92.1	96.8	97.0	99.7	104.1	103.2	104.4	105.0	108.3	101.6
economic conditions next 12 months	90.2	81.4	83.3	81.2	92.8	100.9	91.2	91.2	92.6	96.0	90.5
economic conditions next 5 years	91.6	94.5	91.5	90.6	97.8	104.2	95.9	96.6	97.5	101.5	98.4
time to buy major household item	123.3	82.1	82.6	82.6	85.1	85.2	89.2	90.8	90.9	97.1	90.0
time to buy a dwelling	120.1	75.7	71.4	76.1	78.0	86.8	81.6	89.9	87.8	91.6	85.7
Westpac–MI Consumer Risk Aversion Index^^	17.7	–	–	47.3	–	–	48.2	–	–	45.4	–
CSI±	100.1	72.6	75.8	76.0	77.7	80.0	82.1	81.4	81.1	84.2	79.1
Westpac–MI House Price Expectations Index#	128.1	161.2	157.8	150.5	153.2	150.1	142.0	133.7	142.3	146.5	153.4
consumer mortgage rate expectations#	40.5	59.2	35.5	23.8	6.4	3.0	5.8	5.7	-9.3	-11.8	-1.9
Westpac–MI Unemployment Expectations	129.2	128.6	133.5	138.4	129.8	120.5	123.7	127.2	125.8	117.9	123.9
MI inflation expectations (trimmed mean)	4.4	4.3	4.5	4.4	4.0	3.8	4.2	4.0	4.6	3.6	4.2
MI wage expectations (trimmed mean)	1.3	1.4	1.5	1.4	1.3	1.5	1.4	1.5	1.3	1.2	1.2

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