



July 2025

THE RED BOOK

Quarterly update on the Australian consumer

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Plodding along

It continues to be slow going for Australia's consumer recovery. The upturn that began a year ago has lost its way a little in 2025 with momentum still weak at best.

Our July **Red Book** finds the consumer mood stuck at 'cautiously pessimistic' levels with clear headwinds coming from tariff-related uncertainty abroad and a hesitant interest rate easing cycle. Indeed, there have been several instances now where promising signs of a lift early on in a survey week have been undone by adverse tariff or interest rate developments.

Some of this was to be expected. The RBA easing was always likely to be a gradual one. Our prior coming into 2025 was that rates would be lowered by 25bps a quarter. That implied pauses every second meeting, running the risk of giving the easing a 'stop-start' feel. Certainly, the path has been more ambiguous than the rapid-fire successive cuts we have often seen in the past. That said, consumers do now seem to be clear on the direction of rates.

The vagaries of US tariff policy, potential retaliatory measures, financial market reactions and the ultimate impacts on trade and growth are harder to anticipate. For consumers, these issues just put a blanket of uncertainty on the economic outlook.

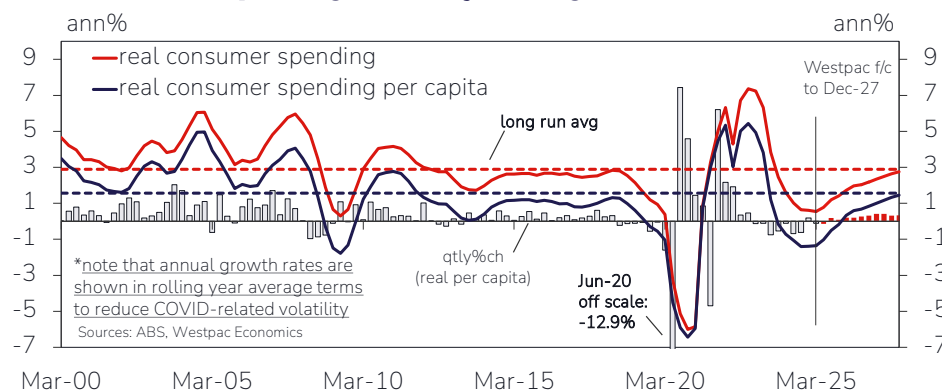
There are two other factors that are also contributing to the lacklustre performance.

The first is a continued effort by consumers to rebuild depleted financial buffers. The spending recovery is lagging well behind the recovery in disposable incomes. Again, this was expected to some extent but the gap has been a little wider than anticipated. It has also come despite a more sustained period of improving household net worth, something we explore more closely in this month's report. The risk here is that households may be doing more than just repairing – they may be aiming for buffers materially above their pre-run-down level.

The second factor is what may be a longer shadow from the 'cost of living' crisis. Inflation has slowed but prices remain high. The slow rebound in sentiment towards major purchases suggests this is still exerting some restraint. Again, some drag was to be expected but it may be bigger issue than previously thought.

Despite all of this – a lacklustre first half and some added downside risks – there is still enough to suggest the consumer recovery can and will regain traction in the months ahead. That's likely to come with an end to the 'false starts' and a more decisive improvement in sentiment.

1. Consumer spending: recovery stalling?



“The upturn that began a year ago has lost its way a little in 2025 ...”

Quick run-down

The **Westpac–Melbourne Institute Consumer Sentiment Index** rose 3.1% between April and July but at 93.1 remains below the recent high in March and in pessimistic territory overall.

Sentiment has clawed back about half of the shock from the ‘liberation day’ tariff announcements in April. Detail suggests the RBA’s surprise move to leave rates on hold at its last meeting ‘checked’ what would probably have been a more substantive rise in July.

Risk aversion remains very high. The **Westpac Risk Aversion Index** ticked down up from 45.4 in March, just prior to the ‘liberation day’ tariff announcements, to 49.0 in June. This compares to a long run average of 18.

The sentiment mix suggests demand is likely to remain relatively weak near term. **CSI±**, a modified indicator that correlates well with per capita spending, posted a solid rebound from a tariff-related fall in April but at 82.3 is still essentially unchanged since late last year and well below the long run average of 100. The latest reading is broadly consistent with a continuation of the modest declines in per capita spend seen over the past year.

Despite an ‘on again, off again’ rate cut prospect in July, consumers are becoming even more confident that interest rates are heading lower. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index** dropped 15% over last 3mths to a 13yr low of 83.1.

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.

Attitudes towards major purchases are recovering but still have a long way to go. The **‘time to buy a major item’** index rose 8.4% over the three months to July, briefly nudging into positive territory in June. The index is up nearly 20% on a year ago but still around the lows seen during COVID and 20% below its long run average.

Homebuyer sentiment is thawing slowly. The **‘time to buy a dwelling’** index rose 3.3% over the three months to July but at 88.5 is still firmly pessimistic. There is a slightly better tone amongst consumers in NSW and Vic where homebuyer sentiment is close to ‘neutral’.

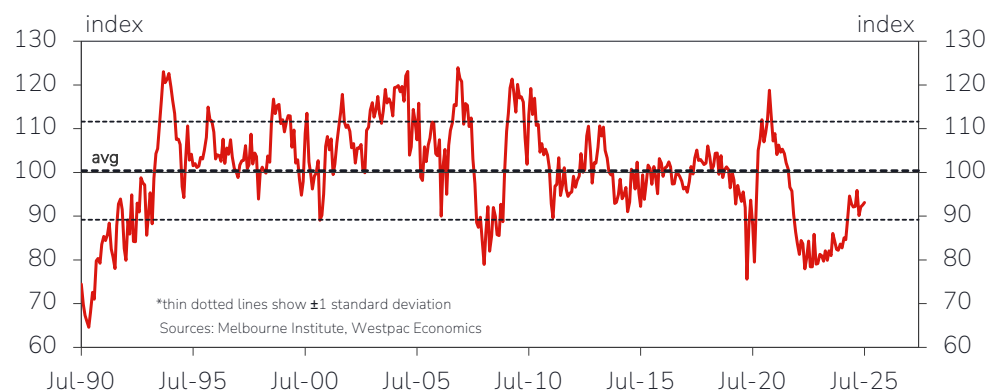
Consumer house price expectations remain strongly positive. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** rose another 6.1% over the three months to July, briefly touching a 12yr high in June. At 162.8, the index is unambiguously upbeat.

General uncertainty about the economic outlook is eating away at confidence around jobs. The **Westpac–Melbourne Institute Unemployment Expectations Index** deteriorated slightly between April and July, moving back in line with long run averages. Readings are consistent with ‘flat’ labour market conditions rather than more active fears of job loss.

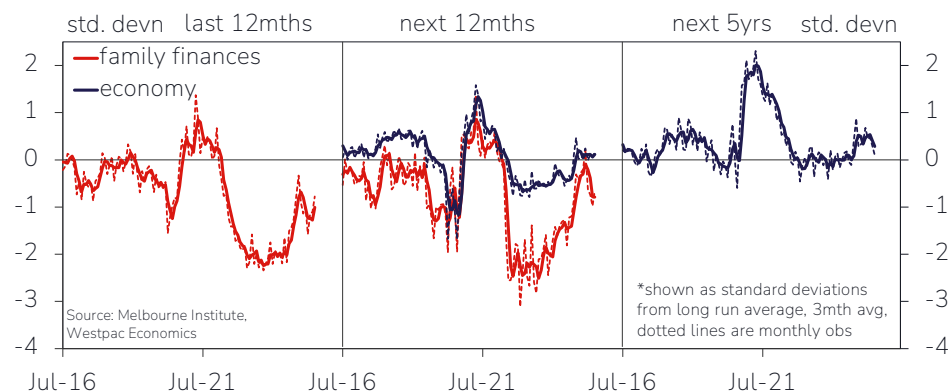
Seeking clarity

- The **Westpac Melbourne Institute Index of Consumer Sentiment** rose 3.1% between Apr and Jul but at 93.1 remains below the recent high in Mar and in pessimistic territory overall.
- Sentiment has clawed back about half of the shock from the 'liberation day' tariff announcements in Apr.
- Survey responses over the survey week show the RBA's surprise move to leave rates on hold at its Jul meeting 'checked' what would probably have been a more substantive rise. Those surveyed before the decision was announced reported an index read of 95.6 while those surveyed after reported an index read of 92.0.
- This is the third 'false start' to a sentiment survey since late 2024. Daily responses showed similar patterns in Apr 2025 (following the 'Liberation Day' tariff announcements) and back in Nov 2024 (when a milder RBA disappointment combined with a surprise US Presidential election result). The latest check to sentiment is less dramatic but still leaves the consumer mood stuck in a 'cautiously pessimistic' 90-95 range that has prevailed since the start of the year.
- Component-wise, the last three months have been something of a mixed bag.
- The 'finances vs a year ago' sub-index posted a solid rebound over the 3mths to Jul, surging 12.9% to 79.2. This is the second best reading since Mar 2022. Notably, this component also showed the sharpest pull-back over the course of the survey week – the RBA decision preventing what would likely have been a three and a half year high.
- Assessments of 'time to buy a major item' also posted a solid lift, this sub-index rising 8.4% to 97.6 in Jul (see p15).
- Forward views on finances have been steadier but still noticeably firmer. At 101.4, the 'finances, next 12mths' sub-index is unchanged on Apr and in slight positive territory (albeit below its avg of 106.6). Some of this likely reflects the RBA's messaging around its Jul decision which shored up rather than weakened rate cut expectations (see p13).
- On the economy, year-ahead views firmed slightly but the sub-index tracking five-year expectations weakened, down 5% since Apr, tariff-related concerns perhaps being seen as more of a medium-term issue.

2. Consumer sentiment: mild pessimism persists

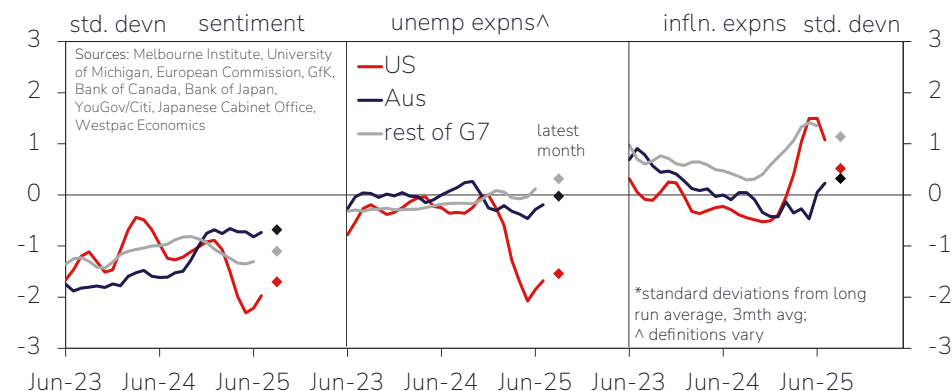


3. Consumer sentiment: finances, economic conditions

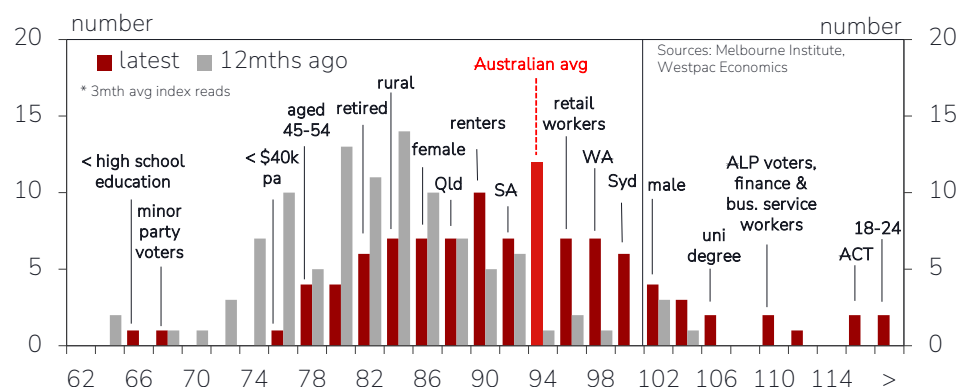


- Certainly the 'noise' around global trade policy remains significant. Responses to additional questions on news recall run in Jun shows news on 'international conditions' is becoming more prominent and more negative. News recall on this topic hit a 3yr high with 77% of consumers assessing the news as unfavourable – easily the most negative of the major news topics.
- Chart 4 shows how consumer sentiment globally has evolved following Apr's 'liberation day' announcements. The initial shock has clearly dissipated. For US consumers, about three quarters of what was a much larger hit to sentiment overall has been retraced with inflation expectations also cooling but unemployment expectations still showing elevated job-loss fears.
- As noted, the much milder shock to Aus sentiment has mostly reversed, although the detail suggests tariff concerns are holding back what would otherwise be a further improvement. Its a similar story for other major developed economies although inflation expectations have remained noticeably higher, in some cases reflecting domestic factors rather than tariff-related concerns.
- The sub-group detail locally continues to show a much wider spread than a year ago, when cost-of-living issues were dominating. Chart 5 shows the distribution reads across the sub-groups we track. Whereas optimists were a rare breed a year ago, about one in seven sub-groups were outright optimists over May-Jul. This includes some that are inherently more optimistic (sentiment is typically 10pts higher amongst 18-24 year old's) and others where there is a clear political dimension (ALP voters).
- Compared to each sub-group's average read historically, 'unusually optimistic' segments at the moment are perhaps a little more surprising and include: arts & recreation workers; teachers; professional, scientific and technical workers; and government employees. By location, consumers in Canberra and Hobart are perkier than usual.
- At the other end of the mood spectrum are those working in the agricultural sector; those without school or post-school qualifications; retirees and low income earners. Sentiment is also markedly weaker across Qld, partly reflecting a hangover from the state's recent weather events.

4. Consumer sentiment: Aus vs major economies



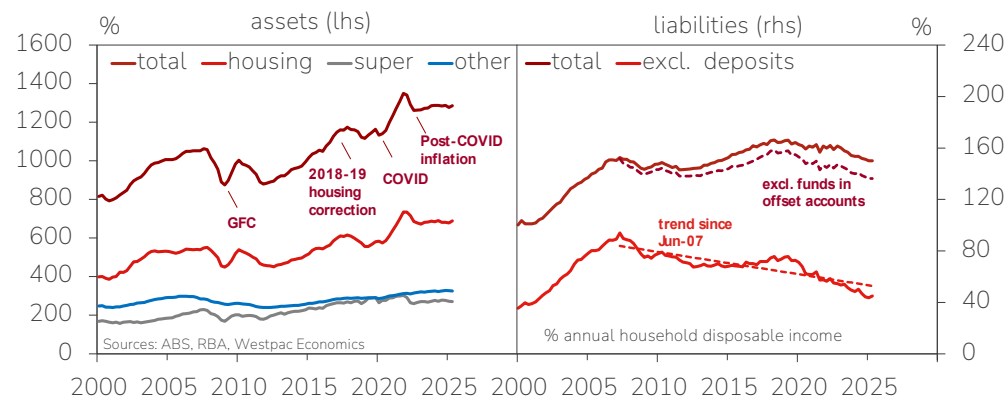
5. Consumer sentiment: subgroups



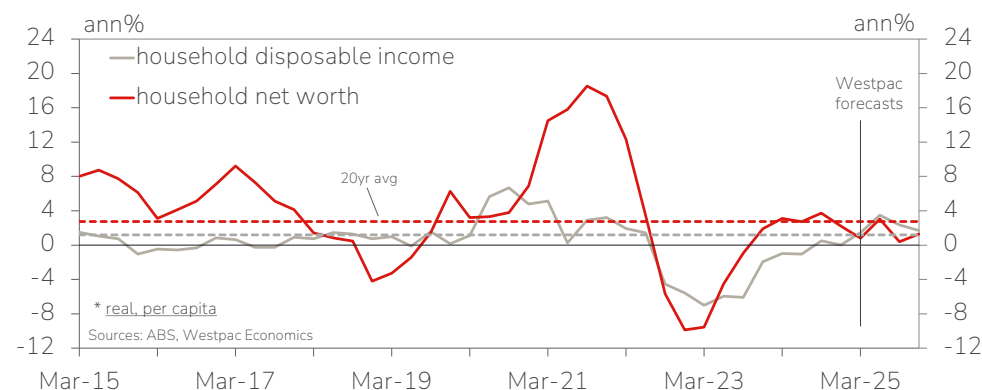
Household balance sheets: not too hot, not too cold

- When it comes to household finances and the economy, the focus tends to be on income and expenditure flows. Our **Red Book** for example typically considers consumer sentiment as partly a gauge of how real disposable income (after interest and tax) is shifting and how this is, in turn, is shaping spending decisions. However, there is another important dimension to household finances that, for a variety of reasons, often goes overlooked: household balance sheets. In this extended special topic we take a closer at the aggregate household balance sheet situation in Australia and how trends may be both reflecting and influencing sentiment and behaviour.
- Firstly though, it should be noted that assessing household balance sheets is a little more complicated than assessing income and spending. Balance sheets show 'stocks' rather than 'flows' – asset and liability positions at a point in time rather than income/expenditure over a set period. As such, levels reflect the accumulation over time. They also reflect changes in valuation and the net effect of transactions that may have little to do with income or spending decisions.
- On top of this, there are some parts of the balance sheet that are either not accessible (super during preservation stage) or are 'paper' gains that are difficult to realise in a form that can be readily spent (e.g. house values).
- Lastly, older households are much more prominent in balance sheet terms. This reflects the 'snowballing' effect of contributions and compounding returns over longer periods. We will return to this later as it means balance sheets are likely to relate more closely to sentiment and spending in particular sub-groups.
- Chart 6 shows a high level overview of household assets and liabilities. An immediate observation is the sheer scale of holdings – assets are well over 12 times annual disposable income meaning an 8% variation is equivalent to a full year's income. Liabilities are much smaller but still large at around 1.5 times annual disposable income.
- On the debt side, there has been a steady decline relative to income since 2018. A 'net debt' measure that excludes all cash and deposit holdings has essentially halved since it pre-GFC peak. The broad picture is of a gradual 'passive' deleveraging.

6. Household assets and liabilities



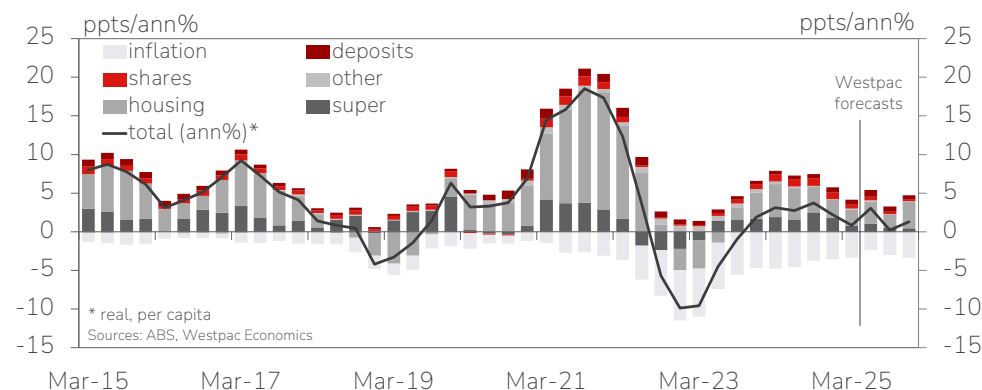
7. Household net worth and disposable income: growth



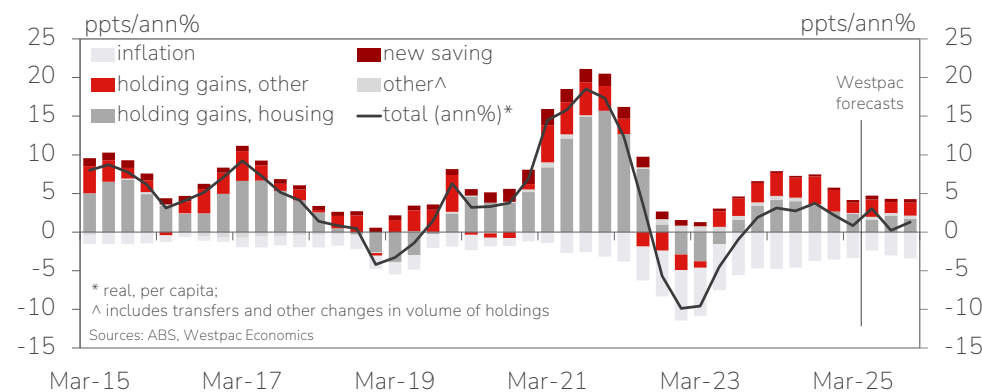
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

- Chart 7 shows how household net worth – the net of assets and liabilities – has grown over the last decade. Note that net worth here is shown in real (i.e. inflation-adjusted), per capita terms, allowing for some comparison with the real income and spending per capita measures that we typically use in the sentiment-based analysis in this report. Forecasts out to end 2025 are indicative projections based Westpac forecasts for house prices, dwelling completions, credit and deposit growth, and an assumed reversion to long run average growth for other financial assets.
- Over the last 20yrs, growth in real household net worth per capita has averaged 2.7%pa, slightly stronger than the 1.2%pa growth in real household income per capita. The performance gap has widened materially over the 10yrs with average growth of 3.3%pa for net worth vs just 0.3%pa for income.
- Most recently, the inflation burst saw similar-sized declines in real net worth and income in 2022 but incomes have been much slower to recover. Growth in real per capita net worth peaked at 4%yr in 2024, annual growth slowing to 1.2%yr in 2025Q1.
- That slowdown looks set to reverse in the very near term as a quickening in house prices combines with a rebound in financial markets. However, momentum is expected to remain fairly subdued through to year-end. Indeed, growth in incomes and net worth are expected to be roughly the same.
- Chart 8 breaks annual growth down by broad asset type (housing is shown net of household debt). With housing accounting for half of net worth, it tends to dominate growth cycles. While financial markets often see bigger swings in valuation, the effect on total net worth is muted as direct holdings of shares and other financial assets are relatively small and indirect holdings, via super, are cushioned by other, more stable assets.
- Note that changes here include both changes in the ‘volume’ of holdings and their valuation. In practise, the latter dominates. Chart 9 shows the contribution from ‘holding gains’ alongside that from ‘new saving’ (i.e. unspent income) and other transactions affecting the ‘volume’ of holdings. About 95% of the variation in net worth comes from holding gains/losses.

8. Household net worth growth: by broad asset



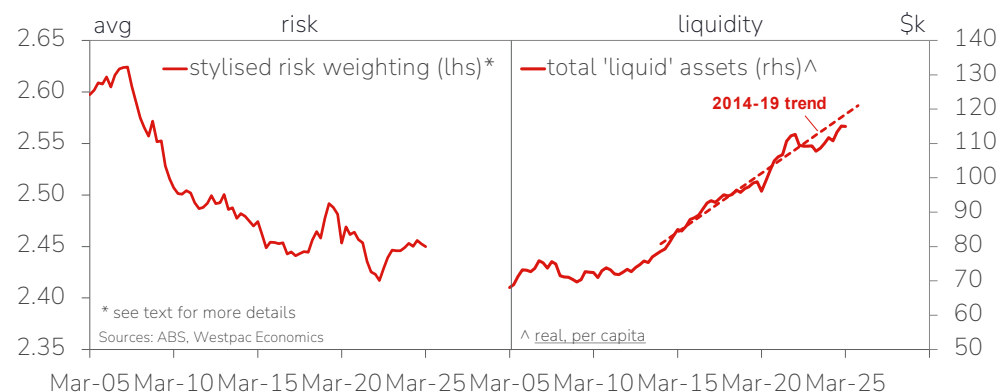
9. Household net worth growth: flows & valuation changes



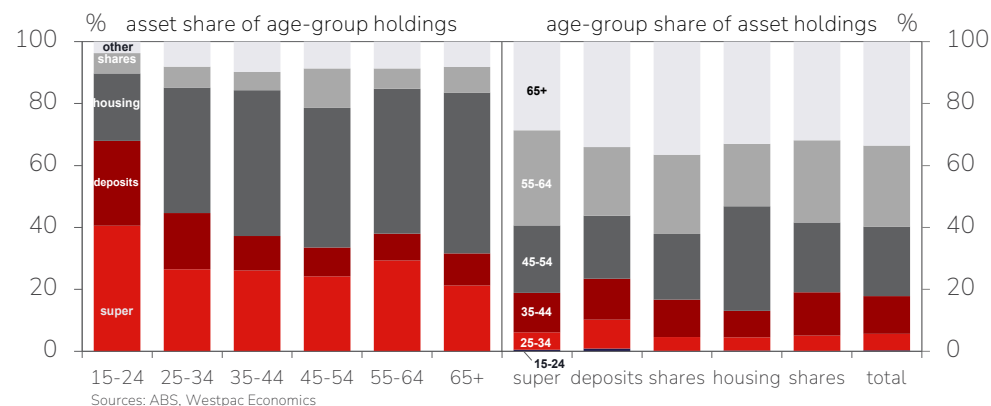
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- Having set the broader scene, what else can we say about the interaction between household balance sheets, consumer sentiment and spending? A first observation is that the causality of linkages can run in many different ways.
- Asset-price driven cycles and shocks can clearly influence consumer sentiment and spending via 'wealth effects' – changes that make consumers feel collectively wealthier (or poorer) and more inclined to spend and/or increase borrowing (or save and/or pay down debt). Likewise, cycles and shocks to household income and spending can also influence balance sheets insofar as they affect the capacity to save, borrow and service existing debt. Lastly, sentiment swings on their own can also drive shifts that affect both spending and balance sheets – sharp changes in risk aversion for example can directly affect decisions about savings contributions, leverage and consumers' preferred portfolio mix.
- All of which is to say that we need to be careful when assessing balance sheet changes, especially when they can be both an influence on and expression of wider consumer sentiment.
- Chart 10 looks at aggregate household balance sheets from two specific dimensions: risk and liquidity.
- Generally speaking, the asset mix should, at some level, reflect the collective risk appetite of households. As highlighted in our survey responses (see p18) Australians have expressed a strong preference towards 'safe' investment options in recent years. The left panel of Chart 10 shows a simple measure of risk across the household balance sheet. Assigning risk ratings of 1, 2, 3, 4 and 5 for deposits, housing, super, shares and other financial assets respectively we can calculate an average rating across the portfolio. This declined markedly between 2005 and 2015 but has been relatively steady since (noting that short term moves are often valuation- rather than decision-driven).
- Liquidity has been a particular concern through the 'cost-of-living' crisis with an effort to rebuild depleted reserves still shaping spending/ saving decisions. In real, per capita terms, liquid asset holdings (deposits and shares) are now above previous peaks. That said, they are still below where they would have been if previous trends had continued.

10. Household balance sheets: risk and liquidity

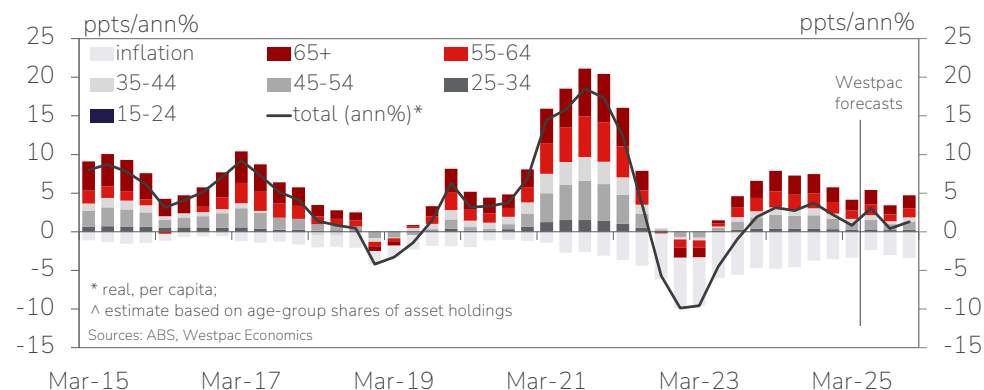


11. Household net worth: holdings by age-group

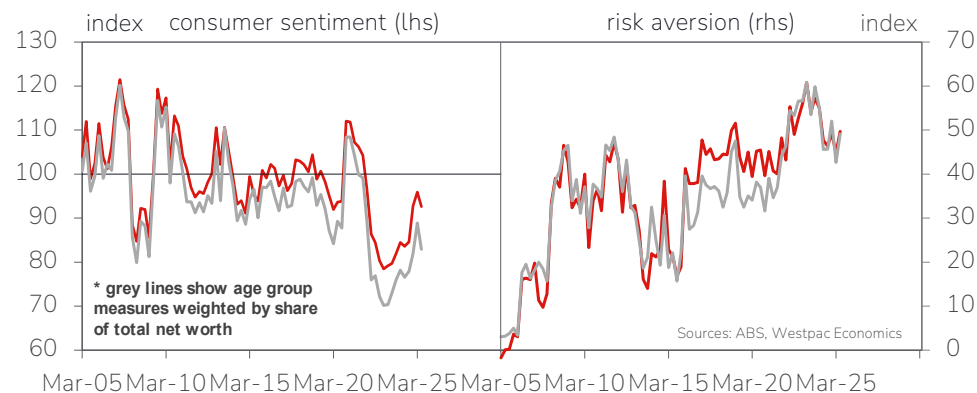


- While these general measures seem to align with the signals coming from our consumer sentiment survey and from spending and saving behaviour, they may be more important for particular sub-groups.
- Chart 11 shows, in the left panel, the asset share of holdings for each age group, while the right panel shows the age group share of holdings for each asset type and in total. Younger age groups skew heavily towards super and deposits and have a very low share of assets overall. Those aged 15-34 account for less than 6% of all holdings, primarily because they have, on average, had less than a decade at working age while those in other age cohorts have had, on average, around 30yrs more of their working lives to accumulate holdings. The converse of this is that household balance sheet holdings are dominated by those aged over 45, these groups accounting for 80% of holdings.
- As noted earlier, total asset holdings are over 12 times annual disposable income. The ratio is less than half of that for those aged under 45 and closer to 15 for those aged 55-64 and around 20 for those aged over 65.
- Note that here is a similar a skew towards high income households as well but this is less pronounced, in part because of retirees, who typically have relatively low incomes but relatively high asset holdings.
- Chart 12 provides an estimate of the contribution to growth in household net worth by age-group based on estimates of each group's share of each asset class. The dominance of the 45+ age groups is clear.
- Intuitively, sentiment and spending across these older age groups should have a higher correlation with net worth. Despite some structural differences, sentiment shows relatively little systematic variation across age-groups, even when incomes and net worth are performing very differently (e.g. in 2022 and 2015-18). However, there are some clearer divergences around risk aversion. These suggest aversion was materially lower amongst older cohorts with higher net worth during the 2016-21 period. Going forward, we will look to explore this avenue more closely through our **Westpac Consumer Panel** which provides more detailed data on income, spending and saving patterns by age group.

12. Household net worth growth: by age-group



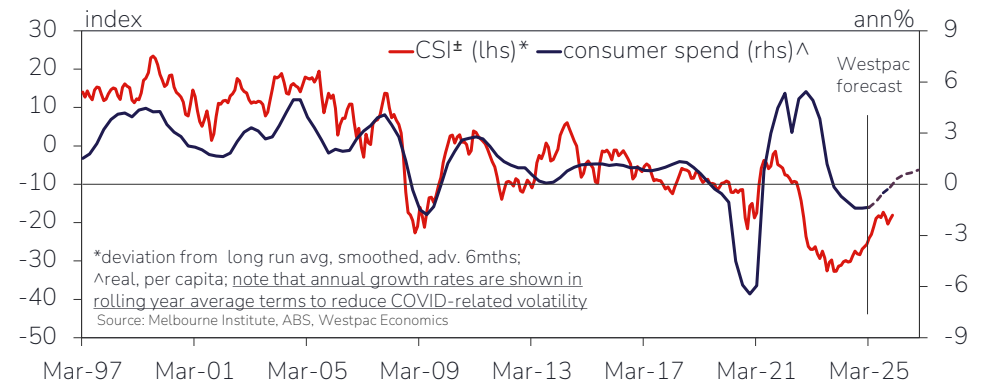
13. Westpac Consumer Sentiment: selected measures



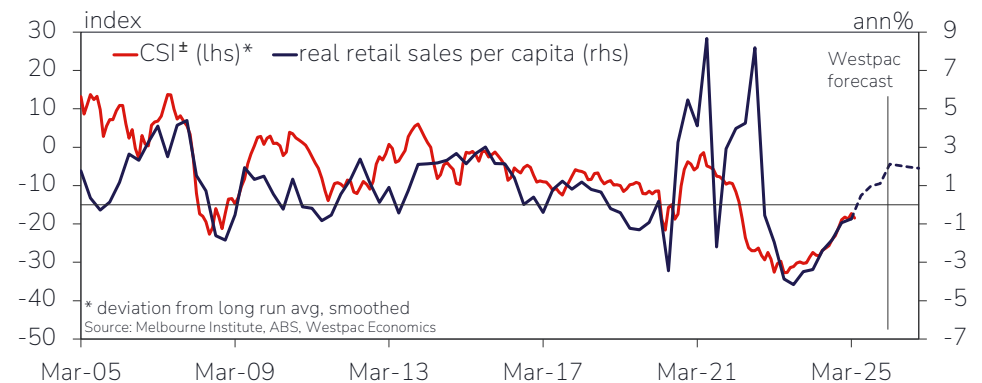
Spending: recovery stalling?

- 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 continue to show a loss of momentum in 2025. The indicator has rebounded from the tariff-related drop in Apr, rising 4.5% over the 3mths to Jul. But at 82.3 it is essentially unchanged since late last year and still well below the long run average of 100. As Chart 14 shows, the signal is broadly consistent with a continuation of the modest 1–1.5%yr declines in per capita spend seen over the last year. With population growth around 1.5%, this is consistent with insipid growth in total spend of around 0–0.5%yr.
- That was very much the picture from the Q1 national accounts (see [here](#) for a full discussion). Consumption rose 0.4%qtr but with about half of that reflecting a 'switching effect' from lower electricity rebates (consumers picking up more of the tab). At 0.8%yr, annual growth was largely unchanged and still negative in per capita terms. The annualised pace over Q4 and Q1 was a little better at 2.1% but closer to 1.1% once utilities is excluded.
- The update on household incomes was more positive although some of this reflected one-off factors and households opted to save most of the gains. Nominal disposable income posted a strong 2.4%qtr gain to be up 6.9%yr, although much of this reflected a surge in non-life insurance payouts after Cyclone Alfred. Excluding this, growth was closer to +1.7%qtr, in line with Q4 (and about 1%qtr in real, inflation-adjusted terms).
- Much of the income boost was saved, the aggregate household savings ratio rose from 3.9% in Q4 to 5.2% in Q1. That compares to an average of 2.6% over the previous eight quarters. Caution remains the order of the day.

14. CSI⁺ vs total consumer spending

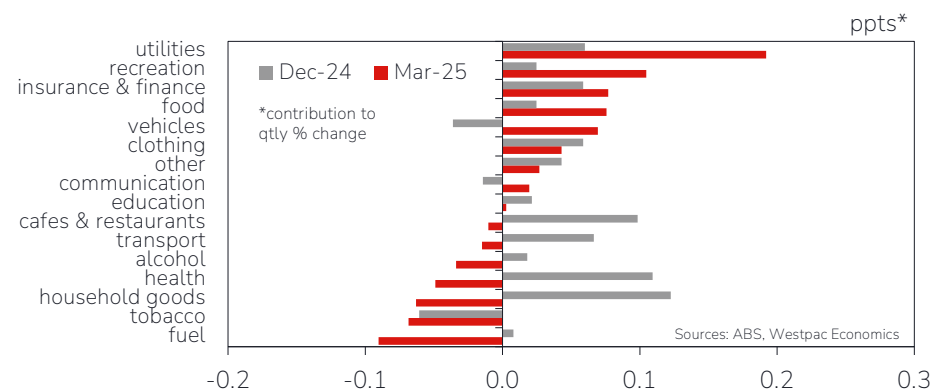


15. CSI⁺ vs retail sales

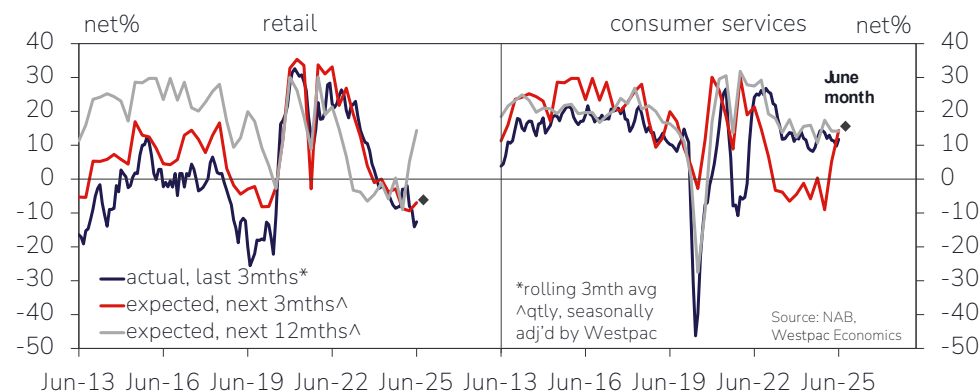


- This sluggishness has carried through to mid-2025. Our **Westpac Card Tracker** shows momentum lifting only very slightly over the June quarter and early July (see [here](#) for more) with significant noise associated with post-Cyclone rebounds, the 'liberation day' tariff announcement and the timing of Easter public holidays.
- ABS monthly indicators to May have shown a similarly soft performance, the monthly household spending indicator tracking a 0.6%qtr gain and the monthly business turnover indicator slightly firmer at 1.1%qtr. All of these broad measures are in nominal terms. With prices up 0.7%qtr according to the Q2 CPI, underlying momentum to real spending looks flat at best.
- The ABS retail survey has also been soft. Nominal sales are expected to show a 0.6%qtr gain for Q2, down a touch from 0.7%qtr in Q1. Again, real, inflation-adjusted retail sales are set to be basically flat for a second quarter in a row. Note that the Jun update will be the final one from this survey but that retail estimates will be produced as part of the household spending indicator going forward.
- Private sector business surveys round out the lacklustre read. Updates for Q2 showed weakening conditions for retailers but steadier, more positive conditions for 'consumer services' sectors. Some of this may relate to the aforementioned disruptions which had a more pronounced impact on the first two months of the quarter, June month readings showing some recovery (see [here](#) for more).
- On balance, we still expect the Q2 national accounts to show a small positive for real consumer spending, noting that the electricity rebate 'switching' effect evident last quarter is likely to feature again this quarter. However, the bottom line 0.3%qtr gain forecast is a touch below the 0.4%qtr gain in Q1.
- Looking ahead, the consumer recovery is expected to regain some traction in the second half of the year. Buoyed by interest rate cuts in Aug and Nov, growth is forecast to average 0.6%qtr. However, as at mid-2025 the path is looking decidedly shaky. Any delays to policy easing for example could easily see consumer spending remain stalled for longer at its current weak pace.

16. Consumer spending: selected indicators



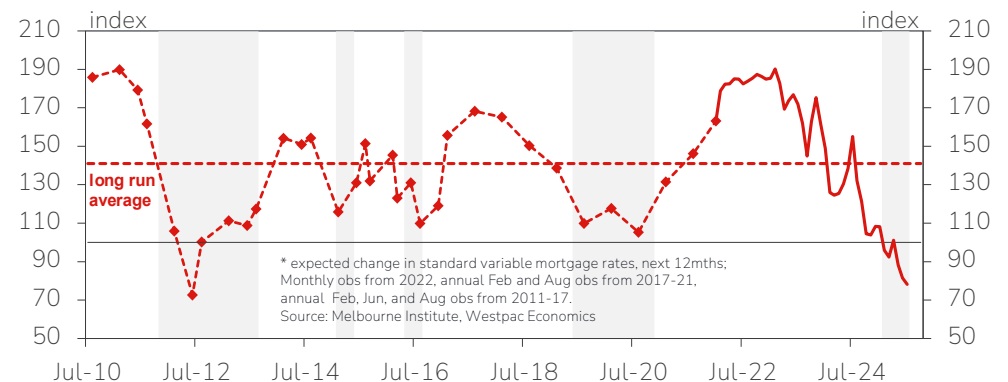
17. Business conditions: retail and consumer services



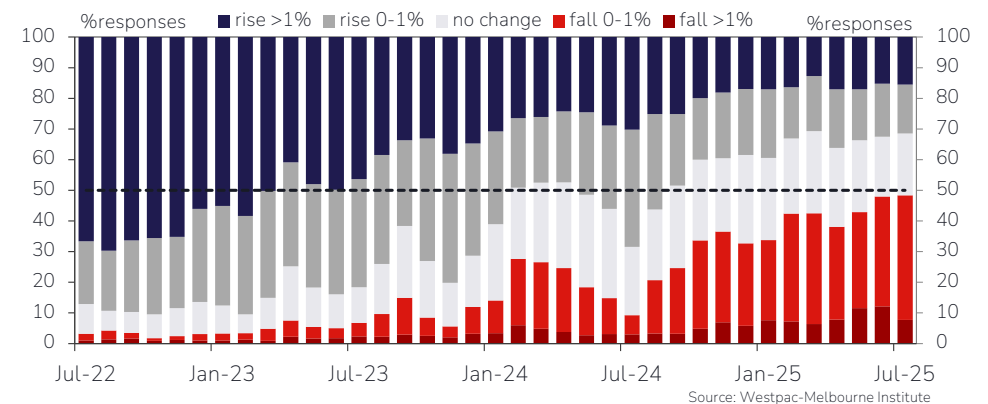
Interest rates: more confident on cuts

- Despite an 'on again, off again' rate cut prospect in Jul, the last three months have seen consumers become even more confident that interest rates are heading lower. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, has dropped a further 15% to be down by nearly a half since this time last year. At 83.1, the latest monthly index read is a 13yr low.
- The latest shift reflects both the RBA's second rate cut in May and a distinct shift in rhetoric from the central bank. Feb's initial move was accompanied with quite tentative language and then quite hawkish comments following the RBA's Apr meeting. May's decision statement sounded more confident about inflation risks being back under control.
- Importantly, that tone was evident in Jul as well, even though the decision to leave rates on hold at that meeting came as a surprise for markets, which had expected a follow-on rate cut. This RBA stressed that the 'on hold' decision as finely-balanced and mainly about timing rather than the direction of rates.
- The detailed responses in Jul showed 27% of consumers expect mortgage rates to rise over the next year, 17% expect no change and 31% expect declines, 16% reporting 'don't know'. This compares to a 31%/22%/32% mix in Apr and a 34%/23%/29% mix in Jan.
- Notably, amongst those with a view, 48% expect mortgage rates to be lower in a year's time. The same figure amongst those surveyed after the RBA decision is 52%. The figure is closer to 60% amongst consumers with a mortgage.
- Westpac Economics is similarly confident about further policy easing. The benign Q2 CPI should allay the RBA's lingering concerns, allowing for another 25bp cut at the Board's Aug meeting. Beyond that, the most likely path is for a further gradual easing cycle with another 25bp cut in Nov followed by two more 25bp moves in the first half of 2026 (see [here](#) for more). Financial markets are currently giving a 90% chance of a 25bp move in Aug. However, the end-2026 pricing implies only three 25bp cuts and a one-in-two chance of a fourth between now and the end of next year.

18. Mortgage interest rate expectations



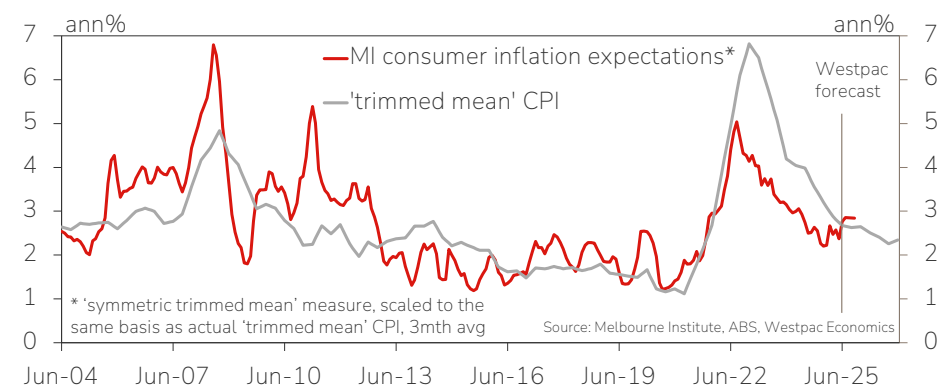
19. Consumer expectations for mortgage rates



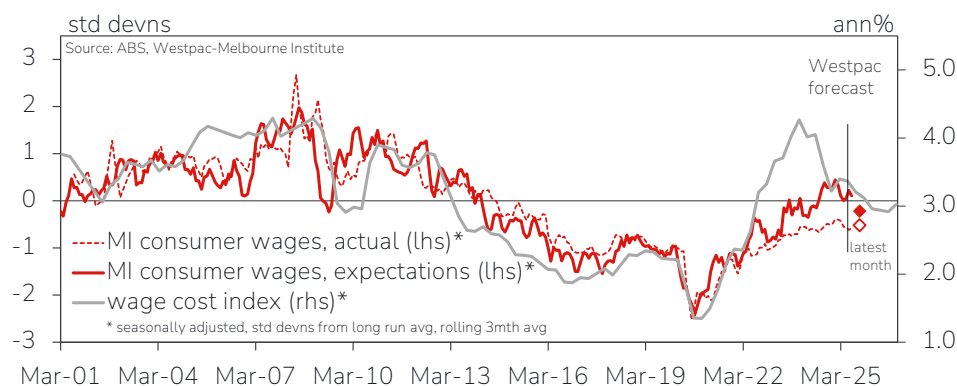
Inflation: diminished importance

- With inflation subsiding and monetary policy settings normalising, measures of consumer inflation and wage expectations are becoming less important to the wider economic view. Both continue to hold around benign levels – slightly below long run averages and slightly above average levels observed in the decade prior to COVID but broadly consistent with a sustained return to low inflation.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations rose from 4.2% in Apr to 4.7% in Jul. That compares to 4.3% this time last year. The average read over the five years prior to COVID was 3.7%. However, allowing for historic biases, the latest read is still broadly consistent with actual inflation at the mid-point of the 2-3% range (see Chart 20). Some of the recent lift in expectations may be misplaced concerns about the prospective impact of tariff increases.
- The Q2 CPI update showed a headline rise of 0.7%qtr, 2.1%yr with a trimmed mean rise of 0.6%qtr, 2.7%yr. All measures are firmly within the RBA's 2-3% target range (see [here](#) for more).
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead wage growth expectations was unchanged at 1.2% between Apr and Jul, both relatively soft results albeit a touch firmer than the 0.8% average over the five years prior to COVID. The survey measure of actual changes nudged up from 1.2% to 1.3% (pre-COVID five year average 1.1%).
- While it's hard to excited about any of these results, the monthly profile does suggest there has been some slight softening in wage expectations since the start of the year. 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 Q2 wage cost index due Aug 13 is expected to show 0.8%qtr rise holding annual growth at 3.4%yr.

20. CPI Inflation: actual vs expected



21. Wages growth: actual vs expected

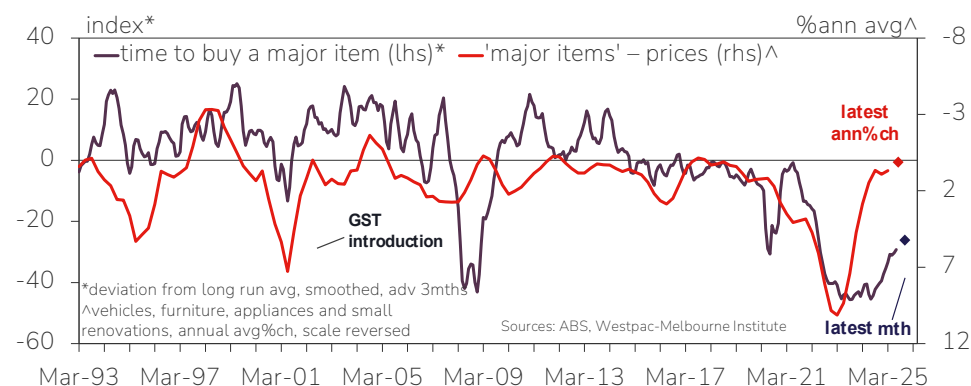


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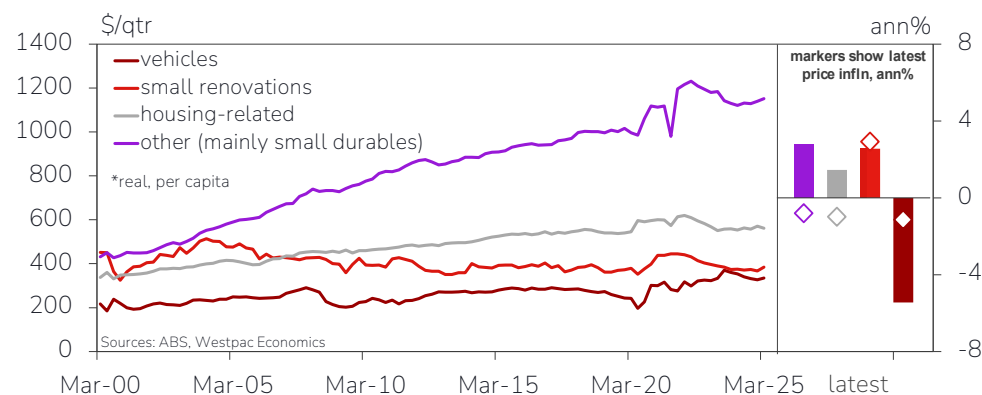
Durables: watch this space

- Buyer sentiment towards major purchases has been particularly sensitive to cost-of-living pressures in recent years. That source of negativity is now clearly lifting with the **'time to buy a major item'** sub-index rising a further 8.4% over the 3mths to Jul even briefly nudging into positive territory in Jun.
- At 97.6, the latest index read is up nearly 20% on a year ago although it still has a long way to go to reach the long run avg of just over 120. Even with the improvement over the last year, the index is still around the lows seen during COVID.
- The improvement over the last year is clearly linked to the broad stabilisation in durables prices. Across the vehicles, furniture, household appliances and small renovations categories that we track as 'major consumer spending items' combined inflation is now basically flat in annual terms. That said, average prices are still 15% above where they were in 2021, prior to the surge. A key question is: "how significant will this 'cost of living hangover' be as a restraining factor for buyer sentiment and demand?"
- Chart 22 shows buyer sentiment has been relatively slow to stabilise given the path of durables inflation. It also shows that prices were typically relatively stable or declining slightly over the decades prior to the surge (noting that this is on an 'average' basis with some items recording trend price gains and some declines). The point here is that even with flat inflation, current price levels will still seem high to where they would have been on the basis of earlier trends.
- Exactly how this frames buyer sentiment is unclear. And to be sure, some of the apparent slow recovery in buyer sentiment to date will reflect the path of interest rates, which increased 425bps during the tightening phase but have only declined 50bps so far and are not expected to fully reverse.
- However, either way the picture suggests further rate cuts are needed to reanimate demand. Price-wise, the Q2 CPI detail shows prices across our 'major items' categories about flat on a year ago overall with declines for vehicles, textiles, and household appliances offset by small rises across other categories.

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



23. Consumer spending: 'big ticket' items



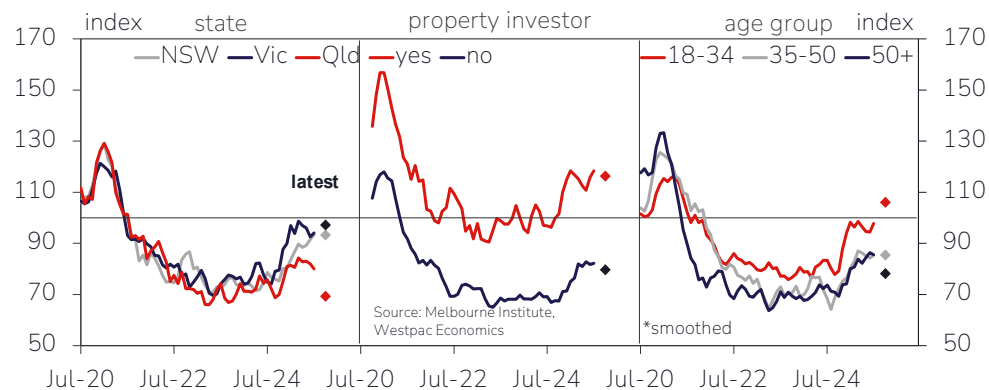
Dwellings: buyer sentiment thaw slows

- Homebuyer sentiment has lifted out of the deep pessimism that dominated over the two years to mid-2024 but the pace of recovery has slowed materially since the start of the year with sentiment still at relatively weak levels.
- The **'time to buy a dwelling'** index rose 3.3% over the 3mths to Jul but with a continuation of the choppy monthly profile seen earlier in the year. At 88.5, the index is up 17% on a year ago but still firmly pessimistic and 30pts below the long run average of 120.
- History shows homebuyer sentiment is closely linked to affordability. This is likely to be some combination of both actual and expected affordability. The former has shown some improvement, although our preferred measures suggest the combination rate cuts and slower price growth have only seen affordability nationally return to last 2023 levels. Moreover, the net of consumers' bullish house price and dovish interest rate expectations actually skews towards slightly poorer affordability – the arithmetic showing a 10% rise in prices outweighs a 1ppt decline in interest rates in terms of purchasing power.
- Of course, that may not be exactly how consumers are perceiving the price and interest rate trade-off. However, this tension between higher prices and lower interest rates is behind our wider assessment that the easing cycle is likely to see a 'constrained' upturn in housing markets.
- Other timely indicators are starting to show some firming in housing market. Auction clearance rates have lifted into the 70-75% range in Sydney and Melbourne. Dwelling price growth has firmed and home loan enquiries are starting to lift as well. That said, the strength of the upturn is still unclear.
- The detail shows a firmer tone to buyer sentiment in NSW and Vic with a surprisingly weak Qld read in the Jul month. Consumers with investment properties and 18-34 year olds are now outright positive on 'time to buy'. Conversely, renters, the middle-aged and low-to-middle income earners are still deeply pessimistic. The mix suggests investor activity could become more prominent, especially as currently optimistic prospective first home buyers starting running into some of the market realities around affordability.

24. 'Time to buy a dwelling'



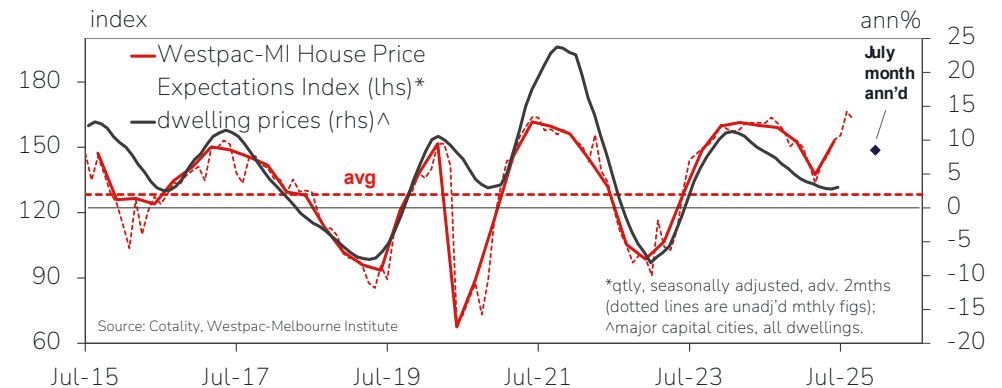
25. 'Time to buy a dwelling': selected sub-groups



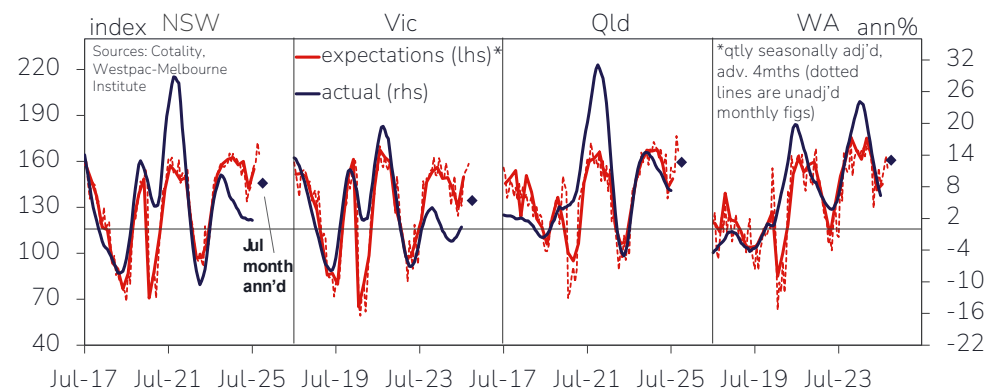
House prices: lift gains traction

- While homebuyer sentiment may still be looking shaky, consumer house prices are more strongly positive. The **Westpac Melbourne Institute House Price Expectations Index** rose another 6.1% over the 3mths to Jul, briefly touching a 12yr high in Jun. At 162.8, the index is unambiguously upbeat, well above its long run average of 129.
- The detailed responses show 70% of consumers expect prices to rise over the next year, 17% expect no change and 7% expect prices to decline (6% reporting 'don't know'). That compares to a 53%/22%/20% mix at the start of the year.
- The RBA's hesitant approach on interest rates may have taken some of the gloss off expectations in Jul. That said, those surveyed after the decision were actually slightly more bullish on the outlook with an index read of 164.6.
- Some of that may reflect growing evidence of a lift in price momentum on the ground. The Cotality home value index has shown firmer monthly gains in the 0.6-0.7% range since Jan, following slight declines around the turn of the year (see [here](#) for more).
- Notably the improvement now looks to be more broadly based across states. Earlier on, the rate cut response was centred on the Sydney and Melbourne markets, which were coming off a softer run price-wise. Other markets were seeing gains but at a milder pace than in 2024. All capital city markets are now showing a discernible lift in price momentum (see Chart 27).
- As at Jul, consumer house price expectations are strongest in NSW (165), SA (170) and Qld (167). Using history as a guide, these index readings are broadly consistent with double-digit annual price growth. Consumer expectations are a touch softer in Vic (158) and WA (156). Using the same approach, these readings are consistent with annual price growth of around 10%yr. The extent to which expectations predict local price performances or national results remains something of an open question.
- For the record, Westpac is less bullish on the price outlook than these implied consumer forecasts indicate. Aforementioned affordability issues in particular are expected to be more of a constraint for price growth.

26. Westpac-MI House Price Expectations Index



27. Dwelling prices: actual vs expected by state

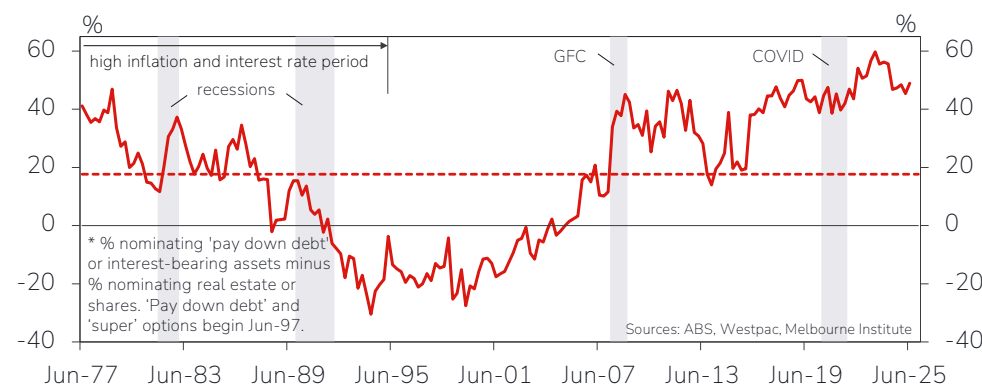


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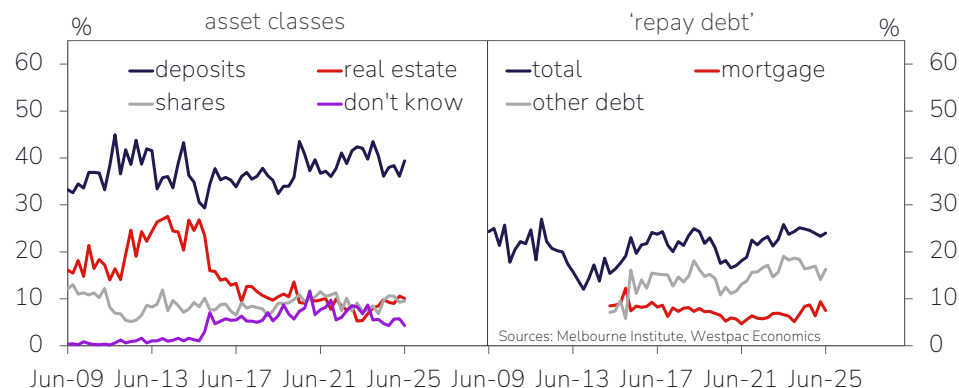
Risk aversion: unchanged and high

- Consumer risk aversion rose slightly in the latest quarter, likely reflecting some of the financial market turmoil following US tariff announcements. That said, the move was relatively small with the bigger picture still of a continuation of the what were already very high levels of risk version, albeit off the record highs seen in 2023-24. The **Westpac Consumer Risk Aversion Index** ticked down up from 45.4 in Mar, just prior to the 'liberation day' tariff announcements, to 49.0 in Jun. This compares to a long run avg 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 rises in the share nominating 'deposits' and 'pay down debt'. The proportion nominating 'real estate' or 'shares' was unchanged though with the main shift coming out of other categories ('super', 'spend it' and 'don't know').
- To be fair, most of the 'liberation day' sell-off in financial markets had reversed by the time of the Jun survey. Indeed, both the S&P/ASX200 and the S&P500 were well above their Mar survey levels by the time of the Jun survey (+7.3% and +3% respectively). While tariff-related uncertainty remains very high, markets are seeing it as a less immediate threat.
- The sub-group detail shows a bigger rise in risk aversion in the latest quarter amongst those aged 55-64 – market volatility clearly more unsettling for those nearing retirement. Also notable though was a decline amongst consumers with a mortgage, the proportion of this sub-group nominating 'pay down debt' actually declining, having hit a 2yr high in Mar. That very clearly relates to a more confident outlook for lower interest rates locally.
- Two other sub-groups we monitor more closely – high income earners and those with investment properties – have tracked broader moves in recent quarter but with a significant decline in risk aversion since 2023 amongst those with investment properties.

28. Westpac Consumer Risk Aversion Index vs saving rate



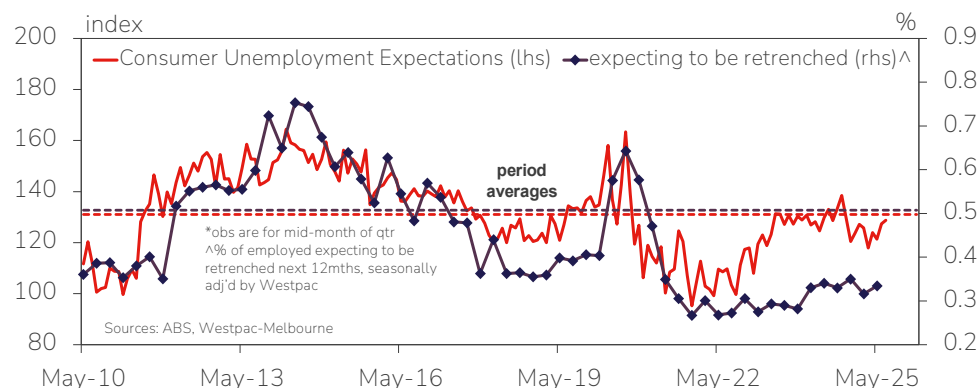
29. Consumer: 'wisest place for savings'



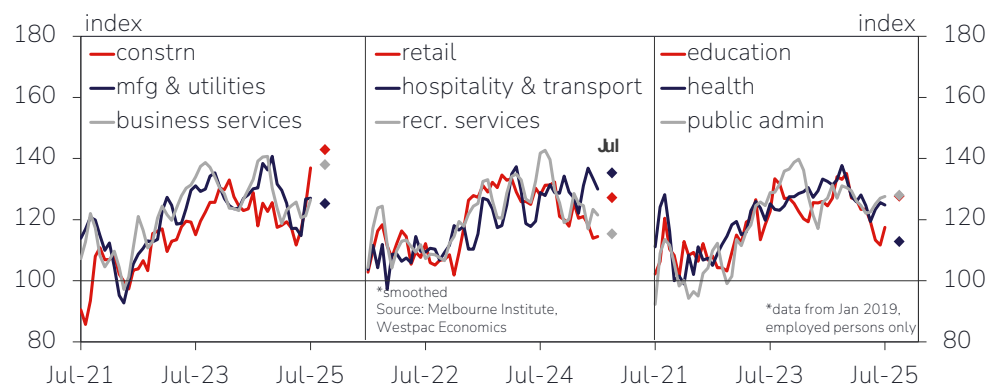
Job security: middling

- General uncertainty about the economic outlook is eating away at confidence around jobs. The **Westpac-Melbourne Institute Index of Unemployment Expectations** rose 3.9% over the 3mth to Jul to 128.7 (recall that higher reads mean more consumers expect unemployment to rise over the year ahead).
- The move puts the latest index read almost directly in line with the long-run average of 129. This is broadly consistent with unemployment holding flat through the rest of 2025 and the first half of 2026.
- The latest ABS figures continue to suggest labour markets are softening again. Employment growth hit a bit of a soft patch through May-Jun, barely rising over the two months with the unemployment rate lifting from 4.1% to 4.3% (see [here](#) for more). Monthly volatility and strong gains over the previous six months mean the data is a little open to interpretation. We see it more as a resumption of the gradual softening that was evident in 2023-24 rather than anything more untoward. The next few monthly updates will be important for confirming this view.
- Consumer unemployment expectations should be viewed more as a gauge of the risk of labour shedding rather than the prospective pace of new hiring. Latest measures suggest the incidence of job loss show remains low. Just under 0.9% of employees reported being retrenched in the Jun quarter, essentially unchanged over the last 2yrs and still comfortably below the 1.1% average historically. Just 0.3% of employed persons expect to be retrenched over the next 12mths, also essentially over the last 2yrs and comfortably below the 0.9% average historically.
- Indeed, separate annual survey measures from the ABS suggest job mobility more generally is holding around multi-decade lows (see [here](#)).
- That said, the consumer survey detail does show some shifts in unemployment expectations across sub-groups. Job-loss concerns have risen noticeably amongst those employed in the construction and business service sectors. In contrast, they remain low amongst those employed in the 'government-dominated' sectors that have driven job gains over the last year, with a notable decline in the health sector.

30. Unemployment expectations



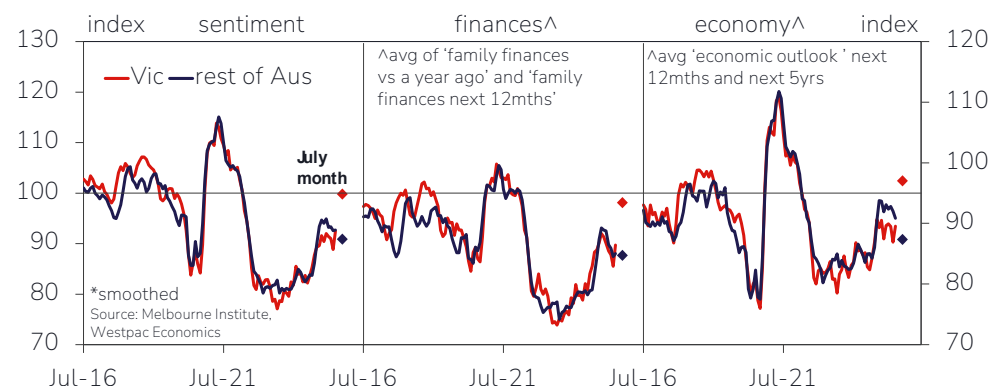
31. Unemployment expectations: selected industries



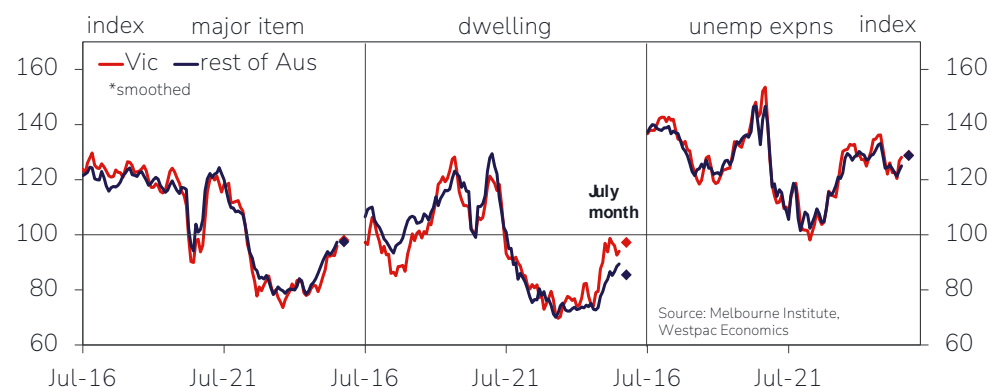
Victoria

- Last time we covered Vic in our snapshot, something had unnerved consumers in the state, most likely related to concerns about the state government's finances and lacklustre housing and labour market conditions. A year on, we are getting the opposite signal with Vic consumers surprisingly buoyant in the very latest month. This may again be partly a case of noise although some aspects of the local economy are looking better, housing markets especially.
- Smoothing out monthly volatility, sentiment in the state has at the very least closed the gap with the rest of Australia. Chart 32 shows the narrowing has mainly been around views on family finances which are not a touch firmer amongst Vic consumers, offsetting a more persistent negative gap around expectations for the economy.
- They buoyant Jul monthly read has Vic sentiment back at 100 with sentiment amongst consumers in Melbourne more specifically at 101.6 – a rare net positive read that has not been seen in 3½ years. Both finance and economic views were both markedly better.
- For now, it is wiser to wait on future reads to confirm such a stark lift rather than buying in too much on a Vic consumer outperformance. Buyer sentiment is not far different in the state, even in the Jul survey, and labour market assessments are very similar as well.
- Where there is a little more 'daylight' though is around housing. Vic consumer assessments of 'time to buy a dwelling' are much closer to tipping into net positive territory than across the rest of Aus (the gap is ranging around 5-10pts).
- Some of this, and the gap on sentiment more generally in Jul, may relate to a more confident expectation for rate cuts amongst Vic consumers. The consumer mortgage interest rate expectations index dropped to just 67.6 in the state in Jul compared to 83.1 nationally. Daily responses suggest more of the Vic responses may have been sampled prior to the Jul RBA decision. If so, the Vic 'anomaly' in Jul may be a guide to where sentiment more generally may head in response to what now looks likely to be an Aug interest rate cut. See our latest [Coast to Coast](#) report for more details on state performances and prospects.

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



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



Economic and financial forecasts

Interest rate forecasts

Australia	Latest (25 Jul)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Cash	3.85	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.7197	3.55	3.30	3.05	2.95	2.95	2.95	2.95	2.95
3 Year Bond	3.39	3.35	3.45	3.60	3.75	3.80	3.85	3.90	3.95
3 Year Swap	3.483	3.40	3.50	3.65	3.80	3.85	3.90	3.95	3.95
10 Year Bond	4.339	4.35	4.40	4.40	4.45	4.50	4.55	4.60	4.65
10 Year Spread to US (bps)	-5	-15	-15	-20	-20	-20	-20	-20	-20
US									
Fed Funds	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
US 10 Year Bond	4.39	4.50	4.55	4.60	4.65	4.70	4.75	4.80	4.85

Exchange rate forecasts

	Latest (25 Jul)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.6573	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.6033	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	147.16	143	141	139	137	136	135	134	133
EUR/USD	1.1738	1.18	1.19	1.19	1.20	1.21	1.21	1.21	1.21
GBP/USD	1.3491	1.37	1.37	1.37	1.37	1.37	1.37	1.38	1.38
USD/CNY	7.1637	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
AUD/NZD	1.0917	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14

Sources: Bloomberg, Westpac Economics.

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Economic and financial forecasts

Australian economic growth forecasts

	2025				2026			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GDP %qtr	0.2	0.6	0.4	0.5	0.5	0.5	0.6	0.6
%yr end	1.3	1.7	1.8	1.7	2.0	2.0	2.1	2.2
Unemployment Rate %	4.1	4.2	4.3	4.4	4.4	4.5	4.5	4.5
Wages (WPI) %qtr	0.9	0.8	0.7	0.6	0.8	0.8	0.7	0.7
%yr end	3.4	3.4	3.2	3.1	3.0	2.9	2.9	3.0
CPI Headline %qtr	0.9	0.9	0.9	0.6	0.6	0.8	0.7	0.5
%yr end	2.4	2.3	3.0	3.4	3.1	2.9	2.7	2.6
CPI Trimmed Mean %qtr	0.7	0.7	0.7	0.6	0.5	0.6	0.6	0.6
%yr end	2.9	2.7	2.6	2.6	2.5	2.4	2.3	2.3

Calendar years				
	2024	2025f	2026f	2027f
GDP % yr end	–	–	–	–
%yr end	–0.6	1.3	2.9	2.8
Wages (WPI) annual chg	5.1	5.2	4.4	4.1
CPI Headline annual chg	–	–	–	–
Trimmed mean annual chg	2.2	3.0	2.1	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.

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Consumer demand

	2024		2025				2026		
% change	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	
Total private consumption*	-0.1	0.4	0.3	0.2	0.5	0.5	0.6	0.6	
annual chg	0.3	0.7	0.5	0.9	1.4	1.5	1.8	2.1	
Real labour income, ann chg	1.8	2.4	3.1	4.2	2.9	1.5	1.4	1.3	
Real disposable income, ann chg**	2.6	2.0	3.5	5.3	4.1	3.3	2.8	2.8	
Household savings ratio	3.7	3.9	5.2	6.2	5.7	4.9	6.0	6.9	
Real retail sales, ann chg	0.2	1.1	1.2	1.4	2.2	2.7	3.5	4.3	
Motor vehicle sales ('000s)***	866	888	868	868	885	902	920	938	
annual chg	-9.4	-4.9	-6.6	-4.4	2.1	1.5	6.0	8.1	

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	2.9	1.6
Real disposable income, ann chg**	-3.0	1.7	4.1	3.2
Household savings ratio, %	2.1	3.2	5.5	6.5
Real retail sales, ann chg	-1.0	0.2	1.9	3.7
Motor vehicle sales ('000s)	890	898	880	947
annual chg	14.0	0.9	-1.9	7.5

Notes to pages 23 and 24:

* National accounts definition.

** Labour and non-labour income after tax and interest payments.

*** Passenger vehicles and SUVs, annualised (includes EVs).

^ 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^	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Westpac-MI Consumer Sentiment Index	100.4	89.8	94.6	92.8	92.1	92.2	95.9	90.1	92.1	92.6	93.1
family finances vs a year ago	88.0	73.8	78.8	84.2	77.7	75.1	76.7	70.2	75.1	75.4	79.2
family finances next 12 months	106.6	99.7	104.1	103.2	104.4	105.0	108.3	101.6	100.7	98.8	101.4
economic conditions next 12 months	90.7	92.8	100.9	91.2	91.2	92.6	96.0	90.5	93.0	92.4	94.1
economic conditions next 5 years	92.1	97.8	104.2	95.9	96.6	97.5	101.5	98.4	98.6	96.2	93.4
time to buy major household item	123.7	85.1	85.2	89.2	90.8	90.9	97.1	90.0	93.2	100.2	97.6
time to buy a dwelling	119.8	78.0	86.8	81.6	89.9	87.8	91.6	85.7	90.0	93.3	88.5
Westpac-MI Consumer Risk Aversion Index^^	18.6	–	–	48.4	–	–	45.4	–	–	49.0	–
CSI±	99.9	77.7	80.0	82.1	81.4	81.1	84.2	78.8	80.3	81.4	82.3
Westpac-MI House Price Expectations Index#	128.9	153.2	150.1	142.0	133.7	142.3	146.5	153.4	155.5	166.5	162.8
consumer mortgage rate expectations#	40.5	6.4	3.0	5.8	5.7	–9.3	–11.8	–1.9	–9.2	–15.4	–16.9
Westpac-MI Unemployment Expectations	129.0	129.8	120.5	123.7	127.2	125.8	117.9	123.9	121.3	127.4	128.7
MI inflation expectations (trimmed mean)	4.4	4.0	3.8	4.2	4.0	4.6	3.6	4.2	4.1	5.0	4.7
MI wage expectations (trimmed mean)	1.3	1.3	1.5	1.4	1.5	1.3	1.2	1.2	1.3	1.4	1.2

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