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WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac Consumer Sentiment Index up 5.7% to 98.5 in August.
- RBA's third rate cut for the year provides a clear boost.
- Long period of pessimism finally coming to an end.
- Consumers less anxious about finances, cautiously positive on economy.
- Sentiment lift broad-based, not just confined to those with a mortgage.
- Home-buyer sentiment up 10.5% with consumers still bullish on prices.

Consumer Sentiment Index



The Westpac-Melbourne Institute Consumer Sentiment Index posted a solid gain in August, rising 5.7% to 98.5, from 93.1 in June.

Consumer sentiment surges to 3½ year high



Matthew Hassan
Head of Australian Macro-Forecasting

The Westpac–Melbourne Institute Consumer Sentiment Index posted a solid gain in August, rising 5.7% to 98.5, from 93.1 in June.

It has been 42 months since Australian consumers last registered a Sentiment Index read above 100 – the second longest period of continuous pessimism since our survey began in 1974, second only to the deep recession of the early 1990s. This long run of consumer pessimism may finally be coming to an end. August's 5.7% rise means the Index is now just 1.6% away from being back in net positive territory.

The latest improvement follows a further easing in interest rates and more positive tone from the RBA. The RBA's Monetary Policy Board lowered the cash rate target by a further 25bps to 3.6% at its August meeting, meaning rates have now declined 75bps since the start of the year. The RBA's forecasts also imply that rates will likely need to be a little lower to keep the economy on track, a point the RBA Governor highlighted in the post-decision press conference. That looks to have reinforced consumer expectations that mortgage interest rates are headed lower, giving a broad-based boost to sentiment.

All components posted gains in August. Recall that the Consumer Sentiment Index is a composite measure based on five sub-indexes: two tracking assessments of family finances, two tracking expectations for the economy and one on whether consumers see now as a good time to buy a major household item.

Consumers appear much less anxious about their finances. The 'family finances vs a year ago' sub-index surged 6.2% in August to 84.2, still a pessimistic read but only marginally below the long-run average of 88. Meanwhile, expectations are becoming outright positive, the 'family finances, next 12 months' sub-index rising a further 5.4% to 106.8, slightly above the long-run average of 106.6. Interestingly, the gains are not confined to or even being led by the mortgage belt, the section of consumers that stand to benefit most directly from lower interest rates. Some of the strongest improvements in the August month were amongst renters, suggesting that easing cost-of-living pressures, including slower growth in rents, has also been a positive. That said, the mortgage belt has seen a bigger improvement in sentiment around finances since the middle of last year.

Consumer attitudes towards major purchases are starting to turn positive. The 'time to buy a major item' sub-index rose 4.2% in August to 101.7. As noted previously, this measure has been particularly sensitive to the decline in purchasing

power since 2022, falling into a deep hole through 2023 and most of 2024. Despite a 23% rise over the last 12 months, the sub-index is well below its long-run average read of 124. The latest update suggests moderating inflation and steady wage gains are continuing to drive a gradual improvement.

There is also some tentative optimism about the Australian economy. The 'economic outlook, next 12 months' sub-index surged 7.6% to 101.2 while the 'economic outlook, next 5 years' sub-index rose 5.4% to 98.4. Both sub-indexes are comfortably above historical averages. While the latest interest rate cut was a clear positive, some of the latest lift may also reflect easing tariff-related uncertainty, the US opting to leave the 10% tariff on Australian goods imports unchanged following the end of the 90-day negotiating period that began in April. This is the lowest, 'baseline' rate being applied and well below the 20%+ tariffs the US has imposed on imports from many of its major trading partners.

The RBA's August rate cut has reinforced expectations for further interest rate declines. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, was largely unchanged in August, ticking up slightly to 83.6 but coming off what was a thirteen-year low. Amongst those surveyed after the RBA decision, just over half of consumers with a view expect mortgage rates to be lower in a year's time. The figure is closer to 60% amongst consumers with a mortgage.

“... long run of consumer pessimism may finally be coming to an end.”

Consumers remain relatively secure about the outlook for jobs. The Westpac–Melbourne Institute Unemployment Expectations Index declined 2.4% to 125.6 in August (recall that lower index reads mean more consumers expect unemployment to fall over the year ahead). Reading since the start of the year have been around or marginally below long run average levels, consistent with a stable labour market.

The RBA rate cut gave a substantial boost to housing-related sentiment.

The 'time to buy a dwelling' index jumped 10.5% to 97.8, a new four-year high and up 37% on a year ago, albeit still well below

the long-run average of 120. Buyer sentiment ticked over to slight positive in Victoria (101) and Western Australia (102), the latter rebounding sharply from a very weak July read.

Consumers remain very bullish on dwelling prices. The Westpac–Melbourne Institute Index of House Price Expectations edged up 0.9% to 164.2. This is the second highest result since December 2013, not far off the highest, a 166.5 registered in June. The detail shows three quarters of consumers expect prices to rise over the next 12 months. Price expectations are stronger still in New South Wales (169), Queensland (169) and Western Australia (168) but a little less exuberant in South Australia (159) and Victoria (157).

The Reserve Bank Monetary Policy Board next meets on September 29–30. This month's survey shows policy easing is starting to give more support to the tentative consumer recovery that began in mid-2024. Further easing will likely be needed to sustain gains. However, the RBA does not need to rush to cut rates further. Inflation is inside the RBA's target range and likely to stay there but the unemployment rate is still low by historical standards. We expect the Board to take things meeting by meeting and respond to the flow of data as it comes in. On balance, we expect this to see the RBA Monetary Policy Board keep the cash rate steady at its September meeting ahead of a further 25bp rate cut in November.

Consumer Sentiment – August 2025

| | avg* | Aug 2023 | Aug 2024 | Jul 2025 | Aug 2025 | %mth | %yr |
|------------------------------------|--------------|-------------|-------------|-------------|-------------|------------|-------------|
| Consumer Sentiment Index | 100.4 | 81.0 | 85.0 | 93.1 | 98.5 | 5.7 | 15.8 |
| Family finances vs a year ago | 88.0 | 64.3 | 70.9 | 79.2 | 84.2 | 6.2 | 18.6 |
| Family finances next 12mths | 106.6 | 89.9 | 96.8 | 101.4 | 106.8 | 5.4 | 10.3 |
| Economic conditions next 12mths | 90.7 | 78.2 | 83.3 | 94.1 | 101.2 | 7.6 | 21.5 |
| Economic conditions next 5yrs | 92.1 | 93.5 | 91.5 | 93.4 | 98.4 | 5.4 | 7.6 |
| Time to buy a major household item | 123.7 | 79.0 | 82.6 | 97.6 | 101.7 | 4.2 | 23.1 |
| Time to buy a dwelling | 119.8 | 72.1 | 71.4 | 88.5 | 97.8 | 10.5 | 37.0 |
| Unemployment Expectations Index | 128.9 | 127.2 | 133.5 | 128.7 | 125.6 | -2.4 | -5.9 |
| House Price Expectations Index | 128.9 | 151.2 | 157.8 | 162.8 | 164.2 | 0.9 | 4.1 |
| Interest Rate Expectations Index | 140.7 | 164.3 | 135.5 | 83.1 | 83.6 | 0.6 | -38.3 |

Source: Westpac–Melbourne Institute.

*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

The survey is conducted by OZINFO & DYNATA. Respondents are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 11 August to 15 August 2025. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.



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