



February 2026

THE RED BOOK

Quarterly update on the Australian consumer

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Not so fast

Consumer tensions have ratcheted since our last report. Activity wise, households continued to spend more freely into year-end, the genuine recovery that emerged over the course of the 2025 gaining momentum and showing signs of broadening as well. Against this, the inflation lift that already looked to be restraining sentiment has become more troubling.

Consumer sentiment has swung in both directions, a brief move into positive in November followed by a sharp snap back to pessimism as consumer interest rate expectations spiked.

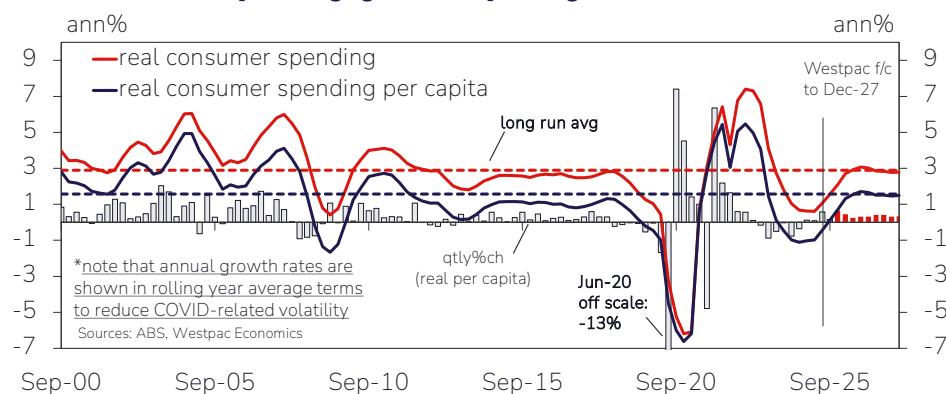
Those rate rise concerns have since been validated, the RBA delivering a 25bp hike at its February 2-3 meeting. While it was anticipated, the move will still likely reverberate through the consumer. Past hikes have typically taken 4-5pts of sentiment, reactions depending on how well telegraphed moves were, whether they were seen as the start of a sequence of hikes, and what else was going on at the time. The February update to our consumer survey, due next week, will give the first read on the size of the latest shock.

Ahead of that, our latest **Red Book** surveys the consumer scene as at early Feb. The spending lift into year-end has been fairly clear, detected first by our **Westpac-DataX Card Tracker** and confirmed by our **Westpac-DataX Consumer Panel** which suggests growth is now coming across a broader base with consumer finances also looking in good shape.

Sentiment-wise, the survey detail shows interest rate cuts provided some underlying support through 2025 with the pull-back through year-end centring on expectations. That said, buyer attitudes remain relatively downbeat and well below long run averages, suggesting cost-of-living issues are still casting a long 'shadow' over the consumer mood. The sub-group detail also shows a widening divergence across housing tenure suggesting rental costs are as much of a concern as the outlook for mortgage rates.

Our report also includes a run-down on forecast changes since November. The bottom line for the consumer is that the improved starting point for spending is setting up for a solid year even with rate hikes and some associated moderation.

1. Consumer spending: genuine upswing forms



“... tensions have ratcheted ...”



Quick run-down

The Westpac-Melbourne Institute

Consumer Sentiment Index tracked a choppy path between October and January, jumping 12.8% initially but giving almost all of the gain back through year-end, leaving the Index up just 0.9% overall. At 92.9, the Index is in firmly pessimistic territory, albeit above the extreme lows in 2022-24.

The 'whipsaw' came from initially positive signs of a recovery domestically and de-escalating trade tensions that were followed by a sudden return of inflation and rate rise concerns.

Risk aversion remains mostly unchanged at high levels. The **Westpac Risk Aversion Index** rose 4.4pts from 44.7 in September to 49.1 in December, still well above the long run average of 20.

The sentiment mix points suggests spending momentum has been less affected by recent volatility. **CSI \pm** , a modified indicator that correlates well with per capita spending, has been steadier than sentiment overall.

Consumer interest rate expectations have swung dramatically since August. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** spiked a further 50% since October with latest results the most hawkish since mid-2024.

As at January, just over 64% of consumers were expecting a rise in 2026. The shift over the last six months is the biggest hawkish swing since the question was added in 2010.

The '**time to buy a major item**' index rose 1.9% over the three months to Jan but has tracked a choppy path. At just below 100, it remains well below long run averages, pointing to a continued hangover from cost-of-living concerns.

Homebuyer sentiment has cooled materially in response to the shifting interest rate situation. The '**time to buy a dwelling**' index fell 7.1% over the three months to January. At 89.6, the index is back in firmly pessimistic territory.

Consumer expectations for house prices are still bullish. The **Westpac-Melbourne Institute Consumer House Price Expectations Index** moved 2.6% lower over the three months to January but is still miles above the long run average of 130.

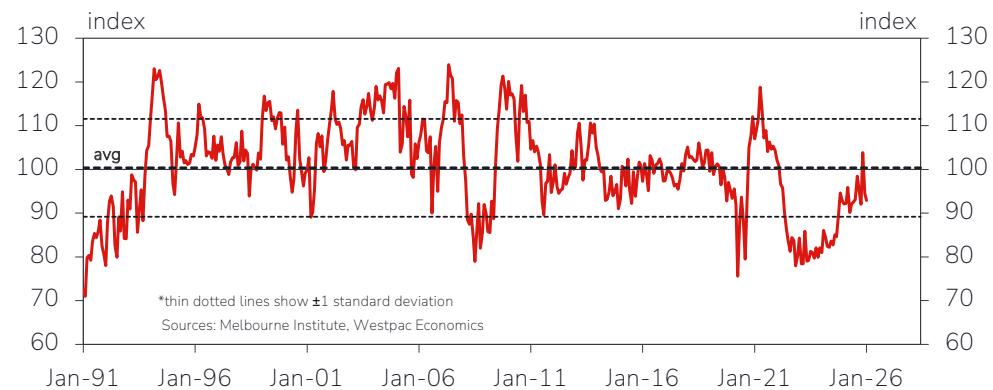
Consumers' labour market expectations have been unsettled in recent months but are largely unchanged since Oct. The **Westpac-Melbourne Institute Unemployment Expectations Index** rose 1.5% to over the 3mths to January to levels in line with historical averages.

On a knife edge

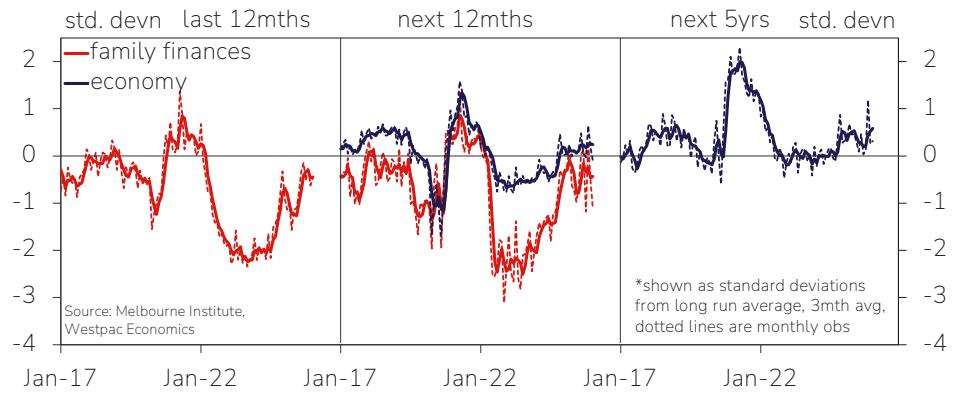
- The **Westpac Melbourne Institute Index of Consumer Sentiment** has been on something of a knife edge over the last three months, surging nearly 12pts in Nov only to retrace nearly all of that in Dec-Jan. The initial positive move keyed off clearer signs that a recovery was gaining momentum domestically and a de-escalation in trade-related concerns. The subsequent reversal came as hotter-than-expected inflation updates sparked fears that interest rates may be about to move higher rather than lower. At 92.9, the latest read is largely unchanged on Oct and the same time last year at firmly pessimistic levels, albeit well above the extreme lows seen through most of 2022-24.
- Stepping back, the course of sentiment through 2025 does point to some underlying support coming from the RBA's interest rate easing. While comparisons across easing cycles is always tricky, the trend improvement is not out of line with previous experiences but has been volatile (see Chart 4). This has been for very good reasons, including the very unsettled backdrop for global trade and the tentative nature of the interest rate easing.

- The component detail shows the volatility has centred on forward-looking sub-indexes and assessments of whether now is 'a good time to buy a major household item' (see p15) and has been less pronounced for current assessments of finances. The reverse lower in Nov-Dec coincides with a dramatic swing in expectations for mortgage interest rates with nearly two thirds of consumers in Jan expecting rates to rise in 2026, the share having doubled since Sep (see p13).
- Compared to Oct, the 'finances vs a year ago' and 'finances, next 12mths' sub-indexes were both up a touch (+0.7%), with a decent net gain for the 'time to buy a major household item' sub-index (+1.9%) but mixed moves for the 'economic outlook' sub-indexes ('12mth' view down 1.6%, '5yr' view up 2.7%). All sub-indexes are at 'net pessimistic' (sub-100) levels.
- Buyer sentiment remains 25pts below long run average levels while the sub-indexes tracking finances are still 5-10pts below their long run averages. This compares to reads that were typically another 10-20pts lower during the 2022-24 'cost-of-living' crisis.

2. Consumer sentiment: erratic moves



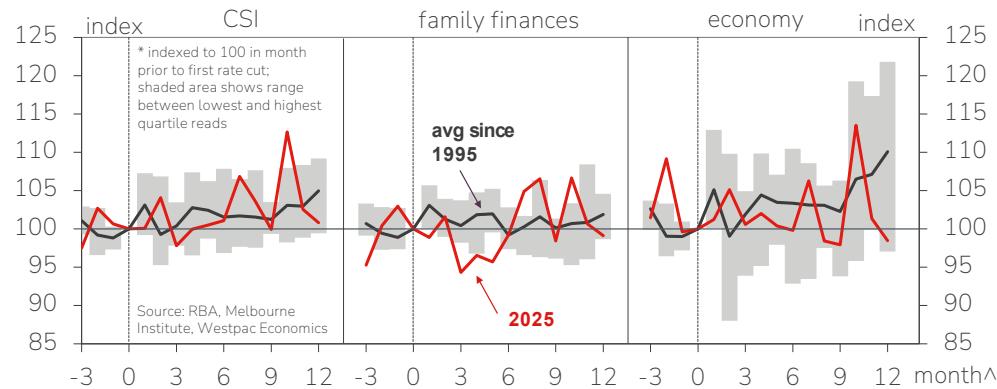
3. Consumer sentiment: finances, economic conditions



- Responses to additional questions on news recall run in Dec capture the shifting policy situation. 'Inflation' news recall was higher and, along with 'interest rate' news assessed as more clearly negative in Dec (albeit not quite on a par with the readings when the RBA was actively raising rates back in 2023).
- News on other high-recall domestic topics – 'economic conditions' and 'employment' – was also viewed more negatively in Dec compared to Sep. Notably, news on 'international conditions' continued to become less prominent in Dec, an assessment that may have changed somewhat since then.
- Not surprisingly, the sub-group detail shows very mixed moves over the last three months, mirroring the volatility seen at the headline level. Swings have been particularly large amongst middle income earners, 25-34 year olds and those aged over 65.
- Over the period as a whole, some of the most interesting differences have been across housing tenure. Sentiment is markedly higher amongst home owners without a mortgage, holding around 105.

- In contrast, sentiment remains understandably downbeat amongst homeowners with a mortgage, at 92 in Jan, having missed out completely on the Nov spike higher. Indeed, given the inflation-interest-rate themes over the last few months, it is a little surprising that this sub-group has not recorded a more material weakening.
- Instead, it is the renter cohort that has seen sentiment fall the most, down 5.3% to 87. Note that sentiment across this segment is, on average, 3-4pts higher than the national measure.
- The negative sentiment 'wedge' between renters and outright homeowners is at a historic high. There are also sentiment wedges across income and age groups but these are not showing the same stark widening. Exactly why is unclear but it may be a carry-over from the sharp rise in rents in 2022-24. Average rents jumped 17.3% over 2½ years, the sharpest run up since the GFC and for a cost that, outside of these surges, has averaged sub-2%yr growth since the mid-1990s. The episode may have had a 'scarring effect' on renters who may now also associate rising rents with rising interest rates.

4. Consumer sentiment: evolution during RBA easing cycles



5. Consumer sentiment: selected subgroups

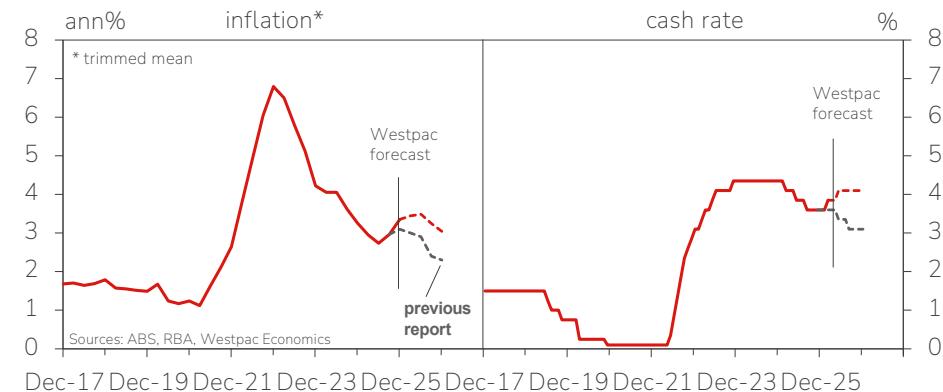


Forecast update

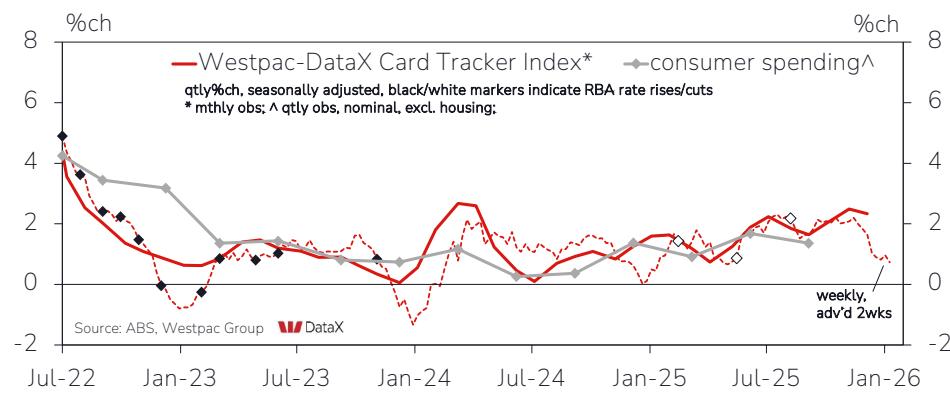
- The last three months have seen material developments on multiple fronts that have led to significant changes to our forecasts. This note summarises the main changes.
- At the time of our last report, in early Nov, the economy looked to be tracking a slow recovery led by a gradual lift in consumer spending as easing inflation, tax cuts and a modest fall in interest rates boosted incomes. Underlying inflation had moved back into the RBA's 2-3% target range and was set to hold around the top of that range near term, keeping the RBA on hold in the first half of 2026, an eventual return to target was expected to allow for a further modest easing in rates in the second half. Some of the inflation lift was due to temporary factors and a softening labour market and prospective cyclical rise in productivity suggested the medium term inflation outlook remained benign.
- Since then, there have been three main developments: 1) inflation moved above 3% and started to show signs it would persist at these levels; 2) consumer spending accelerated; and 3) labour markets stabilised with the gradual softening trend no longer evident.

- For more detailed information on each of these developments, we refer readers to our latest reports on CPI inflation (see [here](#)), the labour force (see [here](#)) and our **Westpac-DataX Card Tracker** (see [here](#)).
- The inflation updates alone meant the RBA was likely to do more than just hold at its Feb meeting. It duly delivered a 25bp cash rate increase, warning that it would take time to return inflation to target, implying that further moves would likely be needed. Our central case view is that the RBA will make one follow-up 25bp increase at its May meeting before pausing through the rest of 2026 and most of 2027 (see [here](#)).
- As discussed at length elsewhere in this report, the Feb rate hike would not have come as that much of a surprise for Australian consumers. The pull-back in sentiment over Dec-Jan was clearly linked to a sharp reversal in mortgage interest rate expectations. Sentiment-wise there is already a *de facto* interest rate tightening impacting. That said, there will likely be some additional effects from the Feb move and a likely follow up in May.

6. Australia: inflation, interest rates



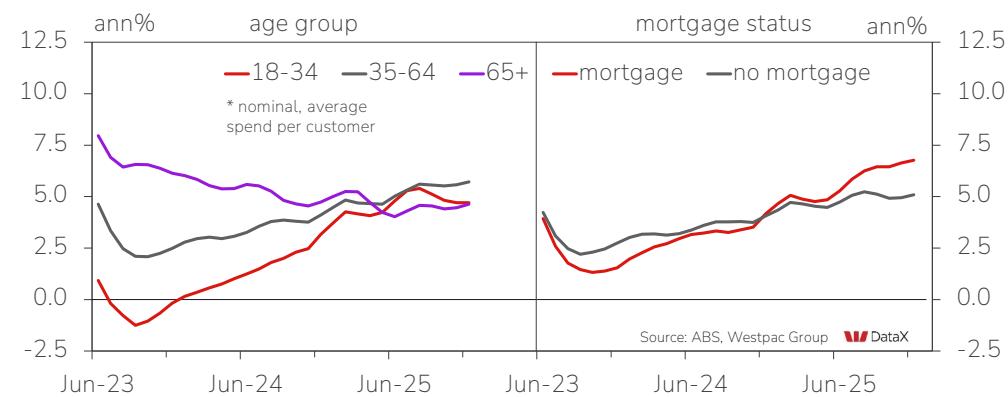
7. Westpac-DataX Card Tracker



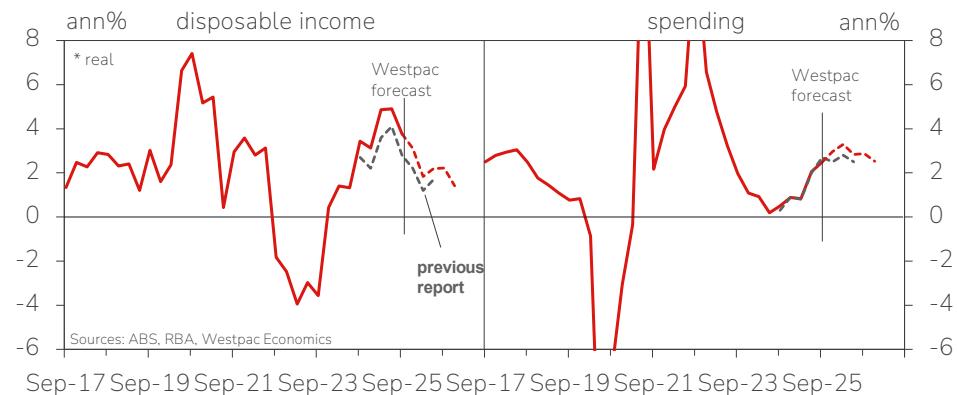
- Revisions to our 'real economy' forecasts reflect both the stronger starting point for activity and the labour market as well as the changed interest rate profile.
- On the consumer: spending is now assessed to have posted a strong 1% rise in the last quarter of 2025 lifting annual growth to 3%yr, a large upward revision on the 2% published in our last report (the difference also reflecting revisions to historical data). Some of that momentum is expected to carry into 2026. Even with rate hikes, this stronger starting point and a firmer labour market are expected to see annual growth of 2.5% for the year, unchanged from our last report. Note that spending growth is stronger but spending is still relatively subdued in level terms due to the weakness over the last three years.
- The spending upswing is a little at odds with consumer sentiment which, with the exception of a one-off in Nov, has been relatively subdued over the last year. Some of the apparent disconnect reflects significant differences across consumer sub-groups. Lingering cost-of-living issues may also be weighing more heavily on sentiment than actual purchase decisions.

- In terms of the wider economy: GDP growth is now expected to come in at 2.4%yr for 2025, up from 2.1%yr previously, with growth holding at 2.5%yr in 2026. For the labour market, the apparent stabilisation largely continues near term, with the slight drift higher that we had expected for the unemployment rate in the first half of the year now even slighter and coming in the second half – reaching 4.5% rather than 4.6% by year-end.
- Naturally there are risks to these forecasts. Recent gains in the AUD suggest we may get a fortuitous decline in import prices that helps put domestic inflation back on track. Conversely, the RBA may feel the need to raise rates by more than another 25bps given the pace of growth and their more pessimistic view on potential output growth.
- Looking further ahead, any window for subsequent interest rate easing looks to be a long way off. Even if inflation returns to target relatively quickly, solid GDP growth and a relatively stable labour market will make the RBA reluctant to ease. We do not see scope for cuts until the back end of 2027.

8. Westpac Consumer Panel: spend by age, mortgage status



9. Consumer spending forecasts: revised vs previous

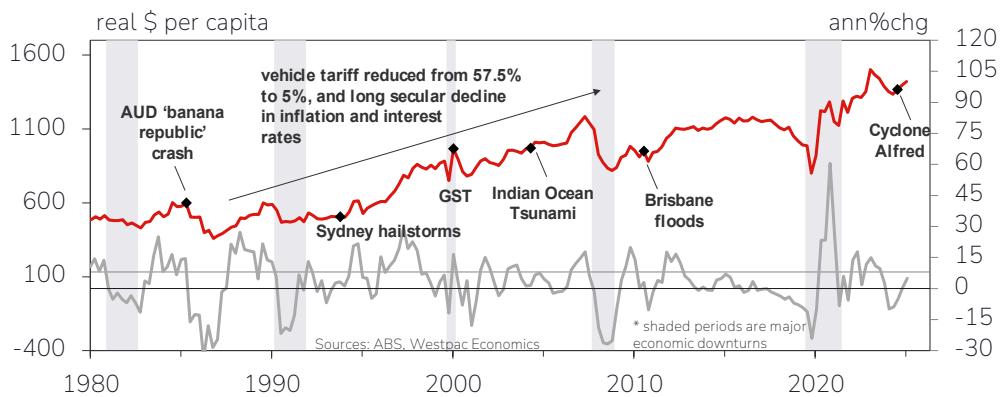


Vehicles: still a bellwether?

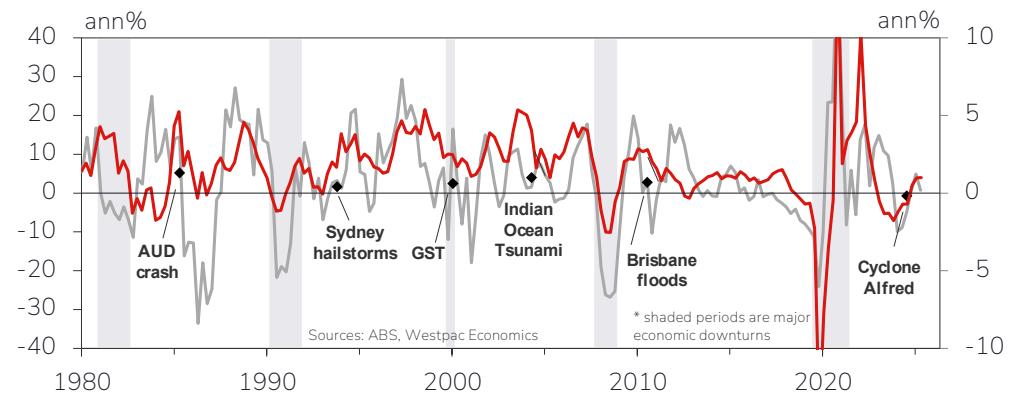
- Consumer purchases of motor vehicles has long been known to be an important bellwether for wider spending, with the segment typically experiencing large cyclical fluctuations and research showing it is particularly sensitive to 'wealth effects'. Here we look at whether this still holds and, if so, what current trends may be telling us about the wider consumer upswing and the potential presence of wealth effects.
- Vehicle purchases account for about 2.5% of total consumer spending (slightly more in 2025 at 2.7%). Growth is much more volatile though with annual variations often in the 10-20% range. These swings can drive up to a full percentage point shift in annual consumption growth from year to year.
- Vehicle spending growth is also more closely linked to variations in household wealth. RBA research has estimated that a 1% increase in housing wealth raises vehicle spend by 0.6% (see [here](#)). That is two to three times more sensitive than for other categories that demonstrate wealth effects.
- Of course, there are plenty of other factors, some non-economic, that affect vehicle purchases as well.

- Tax and tariff changes have produced significant shifts in the past. The latter also created something of a structural 'tailwind' for demand reductions when vehicle tariff rates were progressively reduced from 57.5% in the mid-1980s to 15% by the end of the 1990s, eventually dropping to the current 5% in 2010.
- Analysis also needs to allow for occasional supply disruptions. Most recently, these were in the form of the global supply chain problems coming out of COVID. However, natural disasters have also disrupted supply lines out of East Asia at times.
- Local disasters can also produce some big swings, impacting both supply (e.g. the Brisbane floods) and demand (insurance-funded replacement purchases). Indeed, the 1999 Sydney hailstorm saw over 70k vehicles claims and still stands as Australia's single biggest insurance event.
- With that all said, what can we say about vehicle purchases right now? Annual growth, which now looks to be largely clear of the catch-up from post-COVID supply chain disruptions, looks to have lifted to around 7.5%yr in 2025, above average but not overly strong.

10. Australia: motor vehicle purchases, long history



11. Australia: motor vehicle purchases vs total consumer spend



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.

- Growth-wise, the impulse is positive, vehicle spend swinging from detracting slightly (-0.2ppts) from spending growth in 2024 to adding 0.2ppts in 2025. That is a little less clear-cut than it seems with the 2024 contraction growth partly due to the 'cycling' of catch-up from post-COVID supply chain disruptions clearing and the 2025 strength flattered a little by insurance-funded replacement purchases following Cyclone Alfred.
- The picture becomes even murkier at the state level. Surging house prices have driven stronger wealth gains in Qld, WA and SA compared to NSW and Vic over the last two years. All else equal, that should mean per capita vehicle spending is tracking a stronger growth pace in these states. Instead, growth shows no clear-cut wealth effect pattern with the strongest gains coming in Vic and WA, and the weakest coming in SA.
- Using detailed estimates from the aforementioned RBA research suggests wealth effects could be adding up to 1ppt to annual consumption growth nationally at the moment, with effects closer to 1.5-2ppts in the states experiencing stronger wealth gains.

- Interestingly, there is a more clear-cut wealth effect signal coming from the broader composition of consumer spending. Chart 13 shows a 'wealth effect' indicator based on growth rates in different expenditure segments weighted by the their sensitivity to wealth effects. Stronger positives mean the growth mix is skewing more towards components that are sensitive to wealth effects and vice versa. We construct this measure both nationally and for each of the major states.
- The measures shows that, after going haywire during COVID, the indicator is starting to detect some positive wealth effects overall. The turn is most pronounced in WA and especially Qld.
- Overall, the conclusions are somewhat mixed. While trends in vehicle spend are consistent with a genuine upswing in consumer spending they are not particularly strong with the state mix providing no evidence of a vehicle-specific wealth effect in play but the wider spending data suggesting there are some effects showing through in Qld and WA. The bellwether still looks like a good one to track but may be less reliable than in the past.

12. Motor vehicles by state

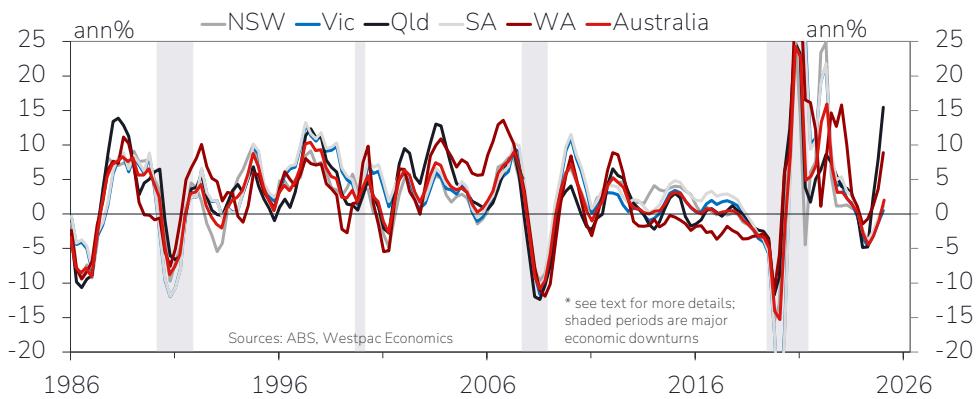
	Aus	NSW	Vic	Qld	SA	WA
\$ nominal (annual) *	355	355	383	354	293	341
% total spend	2.7	2.6	3.0	2.8	2.4	2.6
20yr avg	2.3	2.3	2.5	2.5	2.0	2.2
ann %chg	4.9	3.6	6.6	4.5	-1.6	5.5
20yr avg	1.7	1.8	1.9	1.1	2.3	1.8
number of vehicles^	584	549	608	584	641	603
%chg last last 20yrs	7.9	10.3	3.2	10.5	9.9	4.5
new sales^	43.9	42.9	46.0	46.0	41.5	43.6

* per capita

^ per 1000 people, number is as at March 2025, new sales is total vehicle sales in 2025

Source: ABS, BITRE, FCAI, EV Council, Westpac Economics

13. Consumption: 'wealth effect' indicator

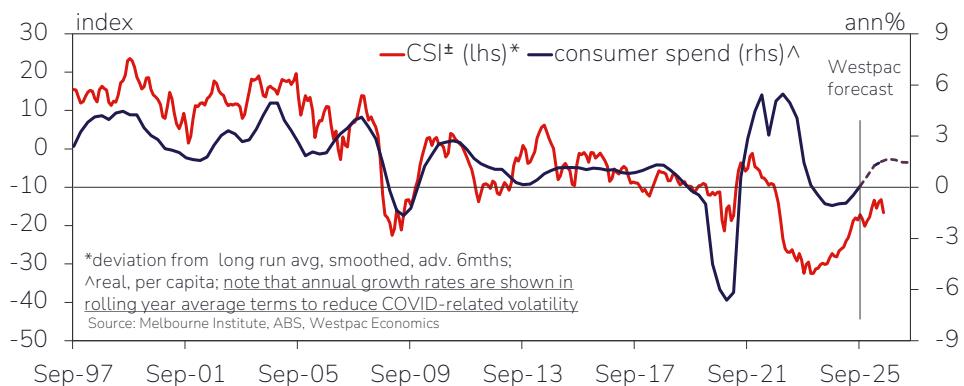


Spending: genuine upswing forms

- 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 in recent years due to both the volatile spending around COVID lock-downs and post-COVID reopening and the nature of the post-COVID cost-of-living shock to sentiment. As such, the **CSI[±]** indicator should be viewed as a directional guide to where per capita spending growth momentum is heading.
- Since Oct, the **CSI[±]** indicator has been more stable than wider sentiment month to month but has tracked a broadly similar path point to point. At 82.9, it is up marginally, about 0.6pts, from Oct but still well below the long run average of 100.
- Chart 14 shows that while the level of **CSI[±]** has been underdone vis a vis growth in per capita consumer spend, the direction of travel has been broadly consistent over the last year.

- The Q3 national accounts showed a solid, if unspectacular 0.5%qtr rise for consumer spending as expected. This marked a fourth consecutive quarterly gain in per capita terms, albeit a muted one at +0.1%qtr, +0.8%yr. Note that some of the moderation from Q2's +0.9%qtr gain was due to one-off factors relating to the timing of public holidays and disruptions from Cyclone Alfred (see [here](#) for more details).
- Outside of the quarter-to-quarter noise, the gradual recovery in spending is broadly tracking an improvement in incomes. That recovery continued in Q3 with wage income alone up 1.8%qtr, 7.2%yr. Other sources of income also posted solid rises and with the RBA's interest rate cuts helping the bottom line for disposable incomes as well. Against this, there continues to be a notable drag from tax payments, up 2.9%qtr, 9%yr.
- With disposable incomes outpacing nominal consumption the household savings ratio rose to 6.4% from 6.0% in Q2, bringing it in line with the average for the decade prior to COVID. Note that historical income and savings rate estimates were revised up.

14. **CSI[±] vs total consumer spending**



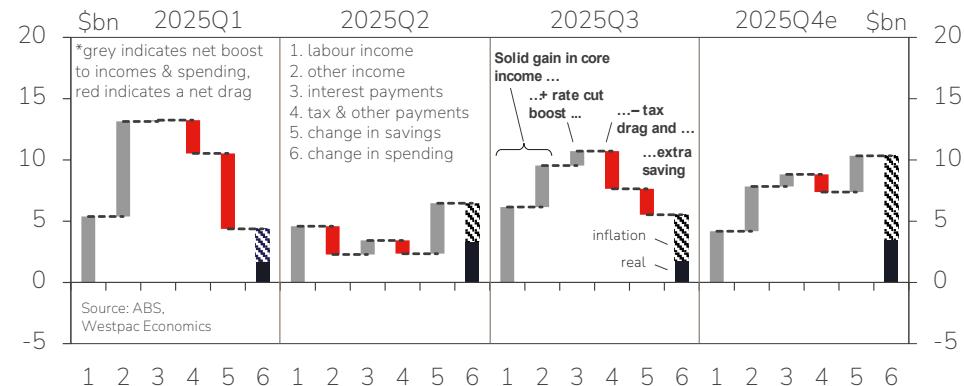
15. **CSI[±] vs retail sales**



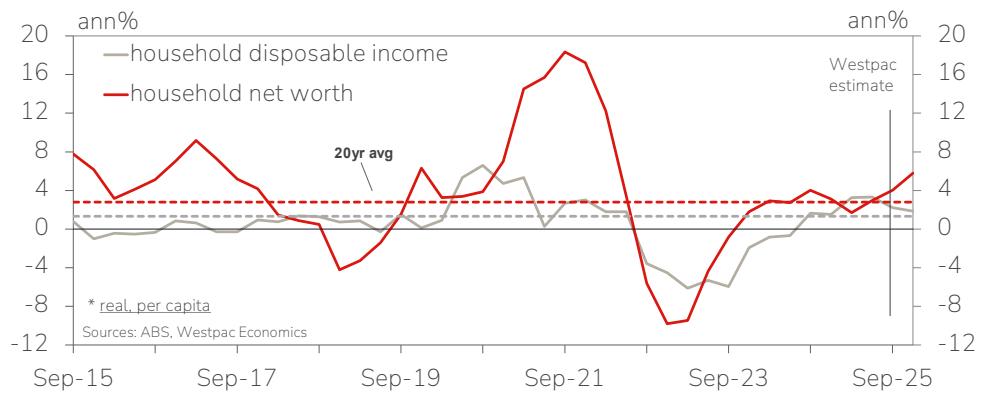
- As noted, more recent data suggest spending strengthened again in Q4. Our [Westpac-DataX Card Tracker](#) point to a strong quarter for nominal spend, with our [Westpac-DataX Consumer Panel](#) pointing to something similar.
- So far, official spending estimates are only available up to Nov, but these are pointing to something similar as well. The ABS household spending indicator – which has taken over the ABS retail survey – rose 1% in Nov after a 1.4% rise in Oct (see [here](#)). Even a flat Dec would see nominal activity up 2.4%qtr for Q4 as a whole.
- Private sector business surveys broadly concur. Consumer sector responses to the NAB business survey showed a clear improvement in conditions into year-end, touching a 2½yr high for retailers and a near-3yr high for the consumer services sector. Expectations, surveyed quarterly, also rose to solid positive reads.
- The ABS is set to publish Dec estimates on Feb 9, which will also include real, inflation adjusted measures for Q4. The full spending estimates for Q4 will be released with the national accounts on Mar 4.

- Based on the information to date, we expect consumer spending to have posted a strong 1%qtr gain for Q4, lifting annual growth to 3%yr (a nominal gain of 2.2%qtr, 6.4%yr).
- The final panel on Chart 16 shows indicative estimates for income, spending and savings flows in Q4. Core income gains were likely a little slower, with a small residual boost from the Aug rate cut and a milder drag from tax. The mix points to a lower savings rate in the final quarter. Note that inflation also accounts for a bigger part of the quarterly rise in nominal spend.
- With employment growth having already moderated, a rate rise rather than further rate cuts near term, and only a small income tax cut (~\$3bn) slated for mid-year, disposable income growth is set to slow in 2026. Our estimates point to a cooling from around 3.1%yr in 2025 back towards 2.2%yr.
- While this is expected to see spending growth moderate as well, the shift will likely be cushioned by ‘wealth effects’. Average real household wealth has seen robust gains (Chart 17) and, as discussed on p9-10, there are already some signs of a positive effect.

16. Household disposable income changes decomposed



17. Household incomes and wealth: annual growth

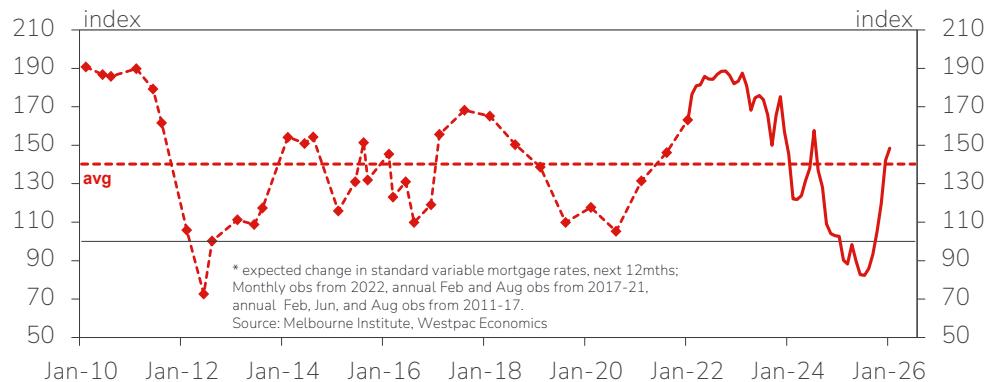


Interest rates: expectations spike

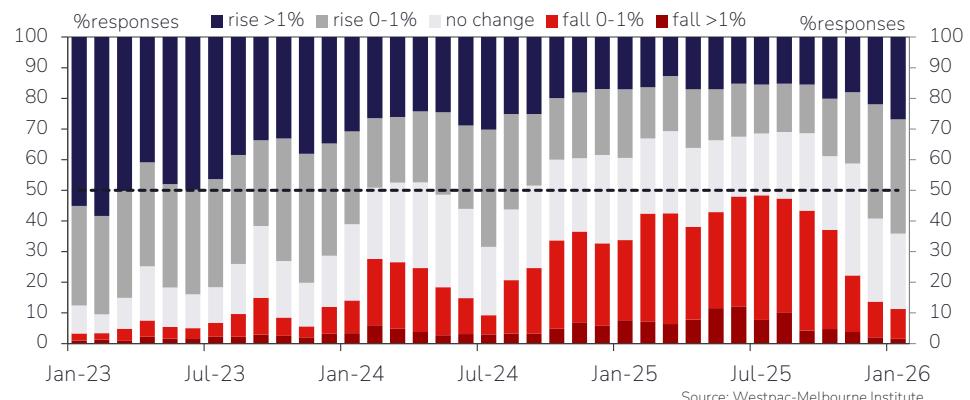
- Consumer interest rate expectations have swung dramatically since Aug. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, spiked a further 50% over the 3mths to Jan bringing the cumulative rise since Aug to 83%. At 152.8, the Jan read is the most hawkish since Jul 2024, when underlying inflation was still a touch above 4%yr and the RBA was voicing concerns that it might not return to the 2-3% target range.
- The survey detail shows just over 64% of consumers expect mortgage rates to rise over the course of 2026. That compares to around 68% back in mid-2024. Interestingly, the conviction is lower across the mortgage belt with just 56% of this sub-group expecting rates to rise. That compares to 66% of outright homeowners and 74% of renters.
- The shift over the last six months is the biggest swing in rate expectations since we began running this question sixteen years ago. It eclipses the sudden shift in the other direction way back in 2011 when the RBA tightening of 2009-10 was being unwound.

- The latest move is even starker compared to previous 'hawkish' turns. The 70pt rise in the index compares to a 46pt rise in 2017 and a 37pt rise in 2013-14 and 2017. Interestingly, while both of those earlier moves took expectations to peaks above current levels, neither ended up seeing official rate hikes. Prudential policy changes may have been a complicating factor with a move to 'tiered' pricing raising mortgage rates on investor loans in 2015 and 'interest only' loans in 2017.
- Taken literally, responses imply an interpolated median expectation of 38bps in tightening, i.e. one 25bp hike and a 50-50 chance of a follow on move. Ahead of the RBA decision, markets had just over 50bps of hikes priced in. Immediately post meeting, that sits at 41bps on top of the 25bps already delivered (i.e. 66bps in total).
- Our Feb survey update, due Feb 10, will include refreshed readings on interest rate expectations both before and after the RBA's decision was announced. The extent to which it shows a further hawkish tilt will be an important gauge of how the RBA's messaging around its decision has been interpreted.

18. Mortgage interest rate expectations



19. Consumer expectations for mortgage rates

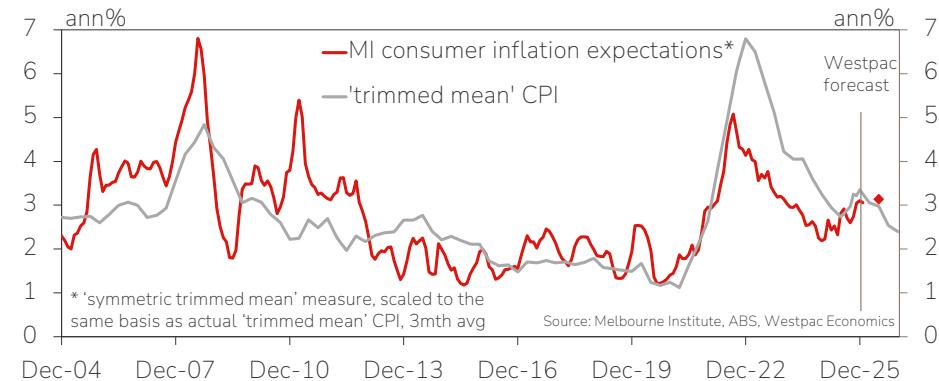


Inflation: a little more angst?

- Another surprisingly strong quarterly CPI update (see [here](#)) has validated the lift in consumer inflation expectations since mid-2025. That said, the situation is still much less threatening than the 2022 outbreak. This looks to be the read from surveyed consumer inflation expectations as well with reads that are only 0.3-0.5pts above the average recorded in the first half of 2025 and more than 1ppt below those seen in 2022.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations edged down 4.8% in Oct to 4.7% in Jan (shown in Chart 20). The latest reads are still about 0.5ppt higher than a year ago and compare to an average read of 3.7% over the five years prior to COVID. Note that this earlier period was characterised by persistently low inflation outcomes, underlying inflation averaging 1.7%yr. To the extent that this was embedded in consumer views, 'par' for inflation expectations – i.e. that are consistent with inflation in the RBA's 2-3% target range – is likely somewhat higher. If we approximate on the basis of the scaling used in Chart 20, 'par' is in the 3.9-4.6% range.

- Consumer expectations for wages provide some interesting points of contrast. Wage expectations have been nudging slightly lower over the last year, broadly consistent moderating wage growth. The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead wage growth expectations ticked down slightly from to 1.3% in Jan from 1.4% in Oct and 2024 highs around 1.5%. The survey measure of actual changes has drifted a little higher from 1.4% to 1.5%. Both remain above their averages over the five years prior to COVID but expectations are in line with longer term average reads.
- Notably, consumers significantly underestimated the lift in wage growth in 2023 – both in terms of expectations and assessed actuals. That strongly suggests that views are being guided by 'market' conditions rather than the inflation indexation and minimum wage decisions that often shape outcomes. The Q3 wage cost index was a benign affair (see [here](#)). The Q4 update is due Feb 18. Meanwhile the 2026 minimum wage decision is likely to be announced in early Jun (last year's was released on Jun 3).

20. CPI Inflation: actual vs expected



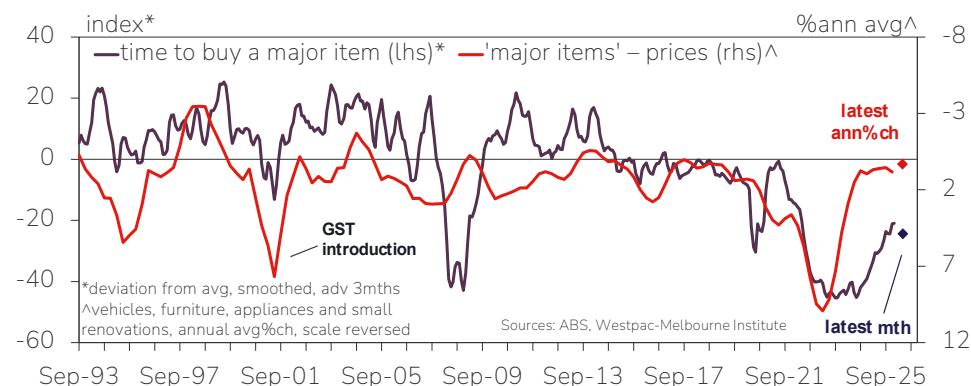
21. Wages growth: actual vs expected



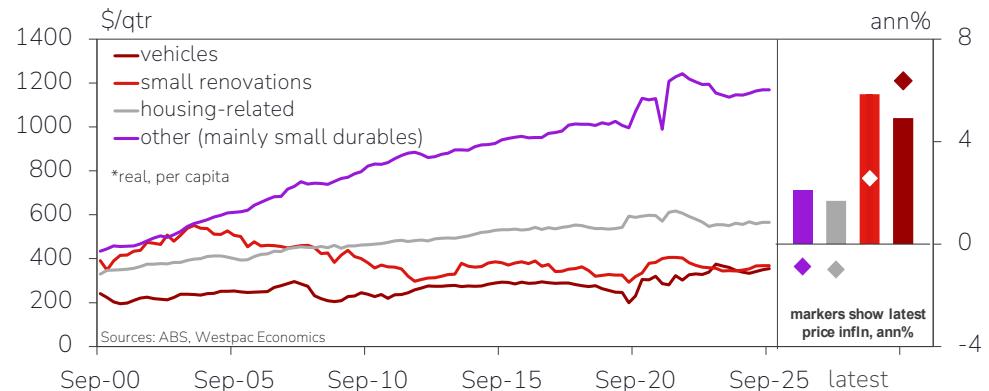
Durables: cost-of-living hangover

- Sentiment towards major purchases has been the main bellwether for consumer cost-of-living issues since 2022. Updates over the last 3mths have again been mixed, with sentiment showing a net gain but tracking a choppy path. For now, the recovery from extreme lows that started to form in late 2024 still looks to be coming through but the up-trend is a little less convincing.
- The 'time to buy a major item' sub-index rose 1.9% over the 3mths to Jan, a brief spike to 111.6 in Nov followed by a relapse back to just below 100. The net gain follows a flat 3mths to Oct and average rises of 4.4% over the preceding five quarters. With a long run average of 123.5, the latest index read is still in the bottom 12% of observations since the mid-1970s.
- Note that, as with consumer spending and sentiment more generally, there has been a disconnect between sentiment towards major purchases and actual spend on 'big ticket' items. Over the year to Q3 for example, combined per capita spend on the items we track has risen 3.8%yr despite buyers sentiment reads that have been consistent with contractions in the past.
- As highlighted in our last report, there continue to be marked variations in buyer sentiment across consumer sub-groups. Housing tenure is a particular point of difference. Whereas buyer sentiment is still 20-25% below long run average reads for renters and consumers with a mortgage, it is only 5.6% below average for outright homeowners.
- Chart 23 shows real per capita spending across the four main segments we track, the right panel showing the latest annual growth rate in volumes (bars) and prices (markers). Growth is notably stronger for 'small renovations' and vehicle spend. Note that the price measures shown here are the national accounts 'deflators' that are affected by the mix of spend. The mix appears to be producing a significant skew for vehicles, the CPI price measure for this category (which is unaffected by these issues) up just 0.5%yr vs the 6.4%yr rise in the deflator.
- Volume growth is more subdued for housing-related and other (mainly small) durables where prices are also declining on an annual basis.

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



23. Consumer spending: 'big ticket' items

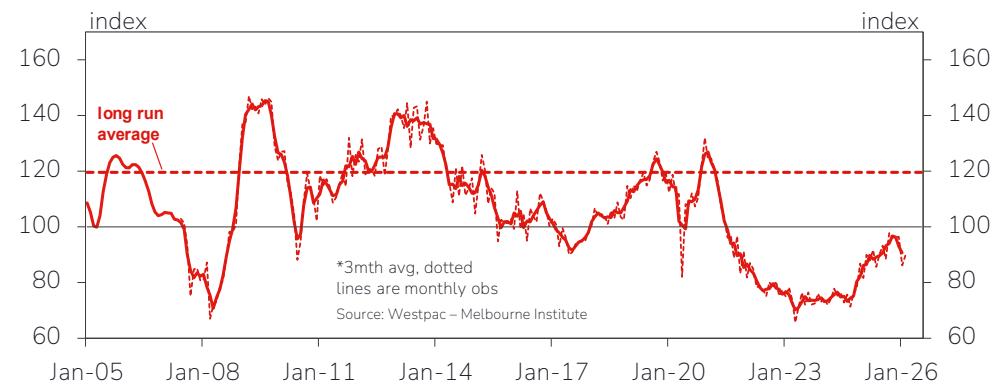


Dwellings: pessimism returns

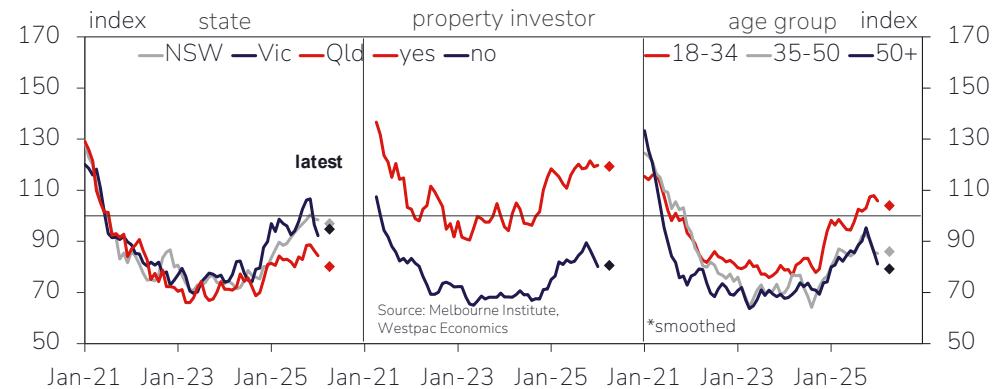
- Homebuyer sentiment has cooled materially, responding to the changed interest rate outlook.
- The **'time to buy a dwelling'** index fell 7.1% over the 3mths to Jan, unwinding all of the positive response to the RBA's Aug interest rate cut. At 89.6, the index is back in firmly pessimistic territory and 30pts below the long run average of 120.
- Some of the earlier lift looked to have been driven by the Federal government's First Homebuyer Guarantee scheme, which was significantly expanded in Oct. Indeed, that positive effect seems to still be in the mix with homebuyer sentiment still slightly positive amongst 18-34 year olds.
- Also of note in the sub-group detail is the sustained solid positive reads amongst consumers that own investment properties. Indeed, at 127.4, the latest index read for this sub-group is well above the 116 average historically (noting that this sub-group measure only goes back to late 2018). Credit data show investors became much more active in the second half of 2025 (see [here](#)).

- Looking ahead, the RBA rate hike will likely hit homebuyer sentiment in Feb, with results due Feb 10. History shows an average index decline of 4-5% following interest rate rises although that can depend on the circumstance – how much of a surprise the move was, whether it was perceived as being the first in a sequence of moves and how high or low interest rates were in level terms. While the Feb move qualifies as the first move, it was not overly surprising and is widely expected to be part of a short sequence of hikes. It is also coming with interest rates starting out somewhere near 'neutral'. All up, that suggests we may see a fairly 'average' sentiment response.
- A 4-5% drop from here would take the index to the mid-80s, roughly back where it was in late 2024 and early 2025. Note that while this would be above the sub-80 lows sustained through 2022-24 it is still a very weak read compared to longer term history. That reflects the more general affordability picture which remains extremely stretched due to price gains in recent years. As noted previously, homebuyer sentiment mainly reflects this affordability calculus.

24. 'Time to buy a dwelling'



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

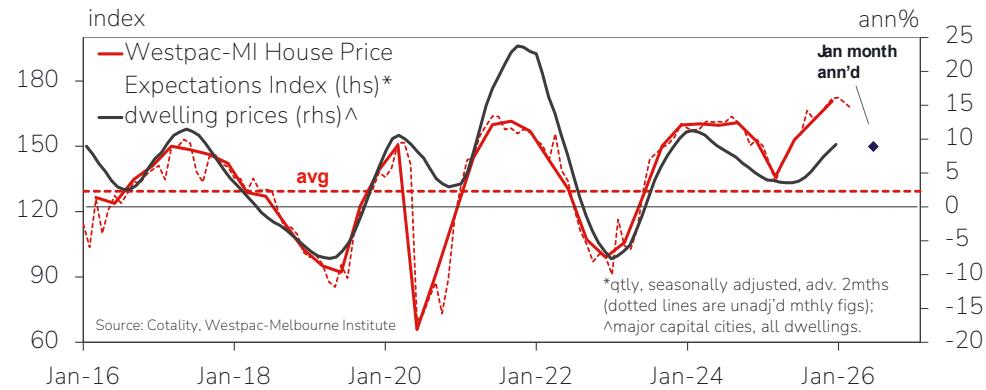


House prices: expectations still hot

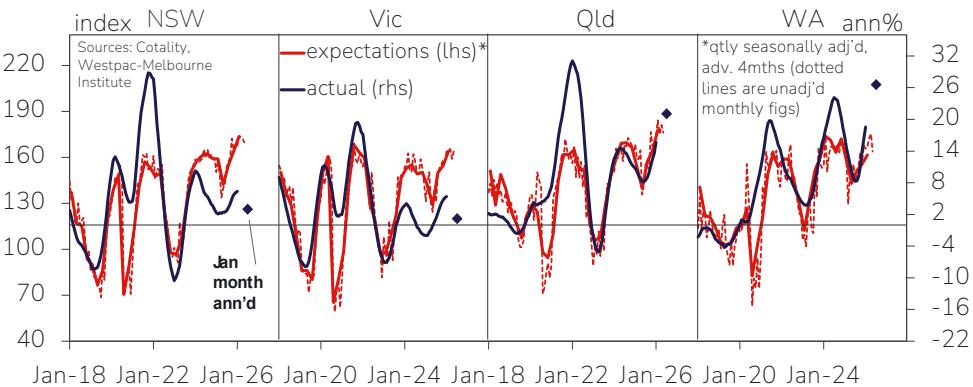
- Even with the shifting interest rate outlook, consumers remain bullish on the outlook for house prices. The **Westpac Melbourne Institute House Price Expectations Index** moved 2.6% lower over the 3mths to Jan but remained at an elevated level, coming off a 15yr high. At 167.5, the index is still miles above its long run average of 130.
- The detailed responses show 77% of consumers, a resounding majority, expect prices to rise in 2026 compared to 6% calling a decline (the remaining 17% expecting a flat result with these figures excluding the 5% reporting 'don't know').
- Across geographies, price expectations are more bullish in Qld (176) and more downbeat in SA (155) and Vic (164). The biggest cooling in expectations over the last few months has been in WA (164).
- Compared to recent price outcomes, expectations have overestimated price gains in NSW and Vic but been close to the mark for Qld and WA (see Chart 27). Some of this may reflect consumers responding with national rather than local prices in mind.

- The Cotality home value index has shown some moderation in price growth although the extent is uncertain. Prices rose 0.7% in Jan, lifting annual growth to 9.2%yr. Monthly gains have stepped down from the 0.9-1.2% pace seen in Aug-Nov but some of this looks to be a seasonal effect. Jan data more generally is much less reliable due to low activity through the Summer 'off-season'. Either way, the slowdown has been more pronounced in Sydney and Melbourne compared to the other major capital cities (see [here](#) for more).
- Aside from geographic differences, the consumer sentiment survey detail also shows price expectations are more positive amongst high income earners (174) and have fallen away more materially across low income earners (160, down 6.4% since Oct).
- The RBA rate hike is likely to dent house price expectations in the Feb survey. The history on this question is only available on a monthly or quarterly basis back to 2009, meaning we have fewer precedents to draw on. These also show very mixed reactions, with several big rises following hikes in 2022-23 but an average 2% decline outside of these.

26. Westpac-MI House Price Expectations Index



27. Dwelling prices: actual vs expected by state



Risk aversion: no let-up

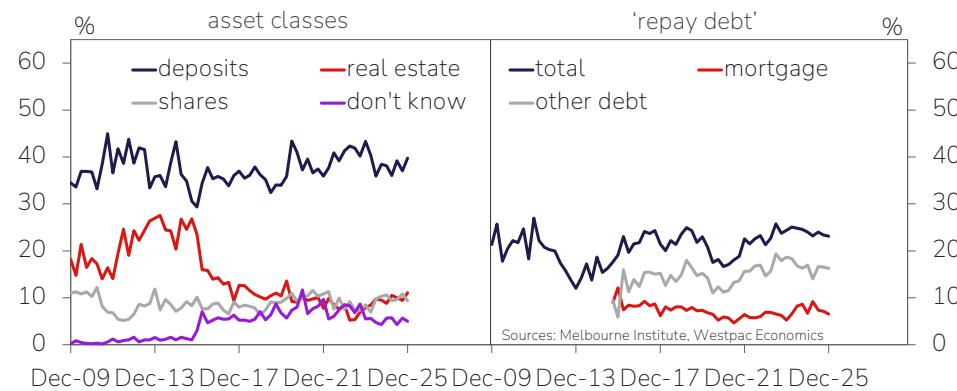
- Consumer risk aversion was largely unchanged between Sep and Dec, holding at a relatively high level. The **Westpac Consumer Risk Aversion Index** ticked rose 4.4pts from 44.7 in Sep to 49.1 in Dec.
- Recall that the index is based on responses to questions on the 'wisest place for savings'. These 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'.
- Across the component mix, the main shifts have been a small shift back in favour of safe 'interest bearing' assets, centred on bank deposits, and away from shares and 'other' which can both be considered as 'risky' options. The last year has seen a slight firming in those favouring 'real estate' as the wisest option but while the 10.7% share in Dec is an 18-month high it is still a long way below the average 20% reads recorded through most of the 20 years prior to COVID. The read is somewhat at odds with the observed lift in investor housing activity.

- For the record, returns on the main 'risk' asset classes were mixed in 2025 compared to 2024. House prices rose 8% compared to a 5% gain in 2024. The S&P/ASX200 gained about 5% compared to a 15% surge in 2024. International shares posted a bigger 12.8% gain, but was down on 2024's 15% rise (even more so in AUD terms). Note that these gains are augmented by yields (worth 3-4pts for housing and Australian shares, and ~1.25pts for the S&P500). As a base for comparison, the average 12mth term deposit would have returned 4.2% in 2025 vs 4.55% in 2024.
- Rough estimates suggest a portfolio that is based on preference mixes over the year underperformed in 2025 compared to 2024. It is not entirely clear exactly how actual returns factor in consumer responses to this question. Risk tolerance and personal financial circumstances (e.g. debt levels) are likely to be at least as important.
- The RBA's Feb rate hike is almost certain to drive a rise in risk aversion. Historically, risk aversion has risen 3pts on average after a hike, and about double that for the first hike in a series.

28. Westpac Consumer Risk Aversion Index vs saving rate



29. Consumer: 'wisest place for savings'

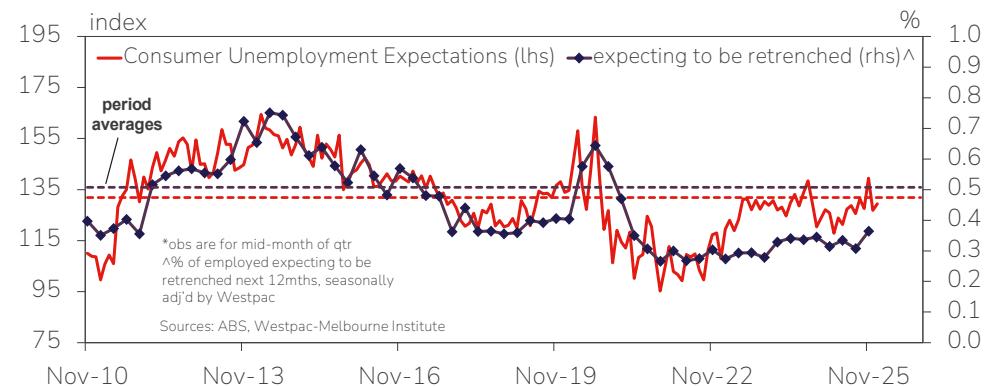


Job security: hints of unease?

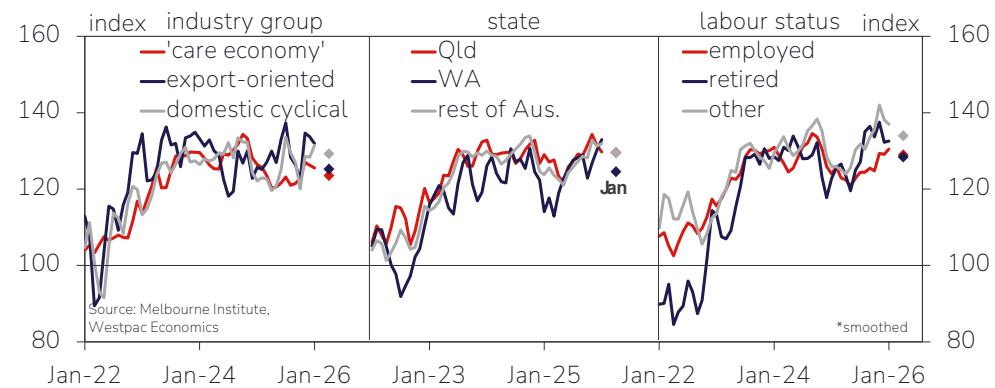
- Consumer sentiment around jobs has been mixed over the last 3mths. The **Westpac-Melbourne Institute Index of Unemployment Expectations** rose 1.5% over the 3mths to Jan, tracking a choppy path (recall that lower reads mean more consumers expect unemployment to fall over the year ahead). At 129.4, the Jan index read is almost directly in line with the long run historical avg.
- Notwithstanding the hints of unease in recent months, the aggregate picture remains broadly consistent with unemployment holding flat in 2026.
- The latest ABS figures show firm finish for 2025, employment lifting 65k in the Dec month, annual growth stabilising around 1.2%yr, down from the 2.2%yr pace a year ago and below the historical average of 1.9%yr. The unemployment rate dipped from 4.3% to 4.1%, up only slightly from 4% in Dec 2024 (see [here](#) for more).
- As noted in the past, 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 ABS data show there continues to be a relatively low proportion of workers expecting imminent job loss, albeit with a slight drift higher over the course of 2025. Labour force survey estimates show there were 123k retrenchments in Q4, down slightly on Q3 and still bumping around historic lows at just 0.8% of total employees (the decade average ex-COVID is around 1%). The share of employed persons expecting to be retrenched over the next 12mths nudged up to 0.4% in the latest quarter, also comfortably below the 0.9% average historically.
- The sub-group detail shows job-loss concerns are a little higher amongst those employed in cyclically-sensitive domestic industries (such as hospitality) and export-oriented sectors (albeit with a notable improvement in Jan). In contrast, unemployment fears remained lower amongst those employed in 'care economy' sectors. Expectations show only minor differences across state. However, by labour status, there has been a steady trend deterioration over the last year amongst consumers with a job while other sub-groups rose more sharply and have subsided a little in recent months.

30. Unemployment expectations



31. Unemployment expectations: selected sub-groups

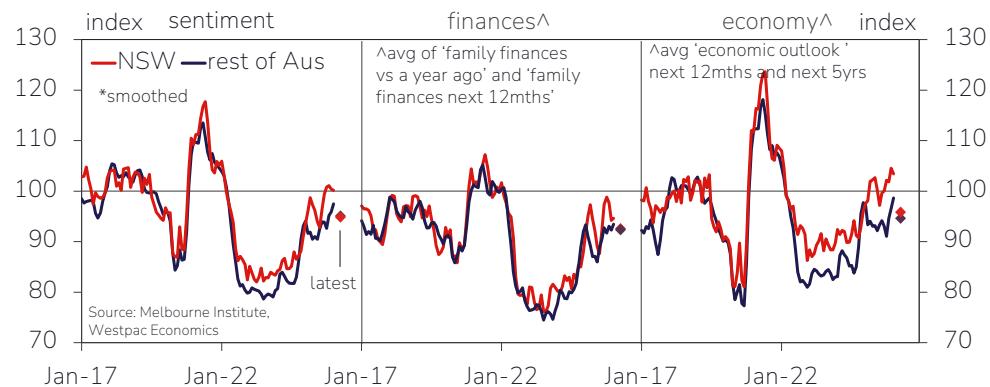


New South Wales

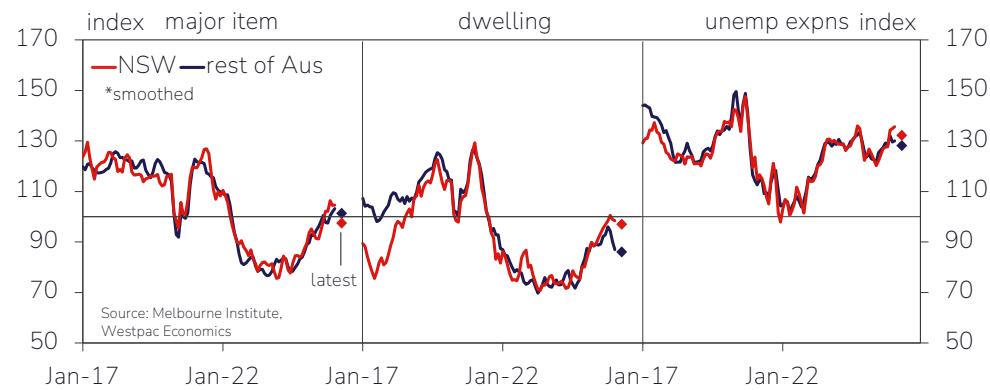
- The last time our snapshot checked in on NSW, at the start of 2025, consumers in the state were seeing a more substantive improvement in sentiment than their inter-state peers.
- That gap narrowed around the middle of the year then re-emerged again, the NSW Consumer Sentiment Index showing a more convincing shift back to neutral. The Jan update has checked that story with sentiment dropping back to pessimism in line with the read nationally (latest NSW read is 94.8). The path is consistent with the idea that consumers in the state are more sensitive than others to interest rate changes. That points to more weak reads ahead as the RBA's Feb rate hike and a likely follow on hike (most probably in May) to impact.
- Components show, as at early Jan, NSW consumers had a similar view on finances to their interstate peers, were slightly less pessimistic on prospects for the economy and slightly more negative on assessments of time to buy a major item. Compared to last year, the biggest narrowing has been on the economy where NSW consumers had previously been moderately optimistic.

- Around housing, homebuyer sentiment has been more resilient in NSW, holding around neutral rather than retracing to weak levels. Price expectations are exhibiting the same bullishness being seen nationally. Labour market expectations are a little softer in NSW than the rest of Australia.
- It should be noted with all of this that there is a sizeable gap between sentiment in the capital city, Sydney, and the rest of the state. Some of this is a structural feature, but as at Jan, the overall sentiment read in Sydney was only a touch below neutral at 98, compared to a clearly weak read of 88 across the rest of the state, the wedge slightly bigger than average.
- This gap is also evident around homebuyer and labour market sentiment. Sydney-siders are slightly positive on assessments of 'time to buy' but have seen a more marked trend deterioration in expectations for the labour market. Some of the latter may reflect structural changes as much as cyclical factors with professional service sector roles likely to be more impacted by AI-related changes.

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



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



Economic and financial forecasts

Interest rate forecasts

Australia	Latest (6 Feb)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Cash	3.85	3.85	4.10	4.10	4.10	4.10	4.10	4.10	3.85	3.60	3.60
90 Day BBSW	3.93	4.05	4.15	4.15	4.15	4.20	4.20	4.05	3.80	3.70	3.70
3 Year Bond	4.30	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
3 Year Swap	4.30	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
10 Year Bond	4.83	4.80	4.80	4.80	4.80	4.75	4.70	4.65	4.60	4.60	4.60
10 Year Spread to US (bps)	64	55	50	45	40	30	20	10	0	-5	-10
US											
Fed Funds	3.63	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38
US 10 Year Bond	4.18	4.25	4.30	4.35	4.40	4.45	4.50	4.55	4.60	4.65	4.70

Exchange rate forecasts

	Latest (6 Feb)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	0.694	0.70	0.71	0.72	0.72	0.73	0.73	0.74	0.74	0.73	0.73
NZD/USD	0.5968	0.60	0.61	0.63	0.63	0.64	0.65	0.66	0.66	0.66	0.66
USD/JPY	156.69	151	149	147	145	144	143	142	141	140	139
EUR/USD	1.179	1.19	1.20	1.20	1.21	1.21	1.22	1.22	1.21	1.21	1.21
GBP/USD	1.3552	1.37	1.38	1.38	1.39	1.39	1.40	1.41	1.41	1.40	1.40
USD/CNY	6.9398	6.90	6.85	6.80	6.70	6.60	6.50	6.45	6.40	6.35	6.35
AUD/NZD	1.1629	1.16	1.16	1.14	1.14	1.14	1.12	1.12	1.12	1.11	1.11

Sources: Bloomberg, Westpac Economics.

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.

Economic and financial forecasts

Australian economic growth forecasts

	2025		2026				2027	
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
GDP %qtr	0.4	0.9	0.7	0.5	0.6	0.6	0.6	0.6
%yr end	2.1	2.4	2.8	2.6	2.7	2.5	2.3	2.3
Unemployment Rate %	4.3	4.2	4.3	4.3	4.4	4.5	4.5	4.5
Wages (WPI) %qtr	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.8
%yr end	3.4	3.4	3.2	3.1	3	3	3.1	3.1
CPI Headline %qtr	1.3	0.6	1.1	0.7	1	0.4	0.5	0.5
%yr end	3.2	3.6	3.8	3.7	3.4	3.2	2.6	2.4
CPI Trimmed Mean %qtr	1	0.9	0.8	0.7	0.8	0.6	0.7	0.6
%yr end	3	3.4	3.4	3.5	3.2	3	2.8	2.7
Calendar years								
	2024	2025f	2026f	2027f				
GDP %yr	1.3	2.4	2.5	2.3				
Unemployment Rate %	4.0	4.2	4.5	4.5				
Wages (WPI) annual chg	3.2	3.4	3.0	3.1				
CPI Headline annual chg	2.4	3.6	3.2	2.5				
Trimmed mean annual chg	3.3	3.4	3.0	2.6				

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

	2025			2026				
% change	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Total private consumption*	0.5	0.9	0.5	1.0	0.8	0.6	0.7	0.7
annual chg	0.8	2.1	2.5	3.0	3.3	2.9	3.1	2.7
Real labour income, ann chg	3.1	3.8	4.0	2.7	2.5	2.5	2.2	2.6
Real disposable income, ann chg**	4.9	4.9	3.8	3.1	1.8	2.2	2.2	1.4
Household savings ratio	7.1	6.0	6.4	5.4	5.7	5.4	5.8	4.3
Real retail sales, ann chg	1.2	1.5	1.6	1.8	3.4	3.8	4.2	3.0
Motor vehicle sales ('000s)***	868	869	890	888	906	923	941	959
annual chg	-6.5	-4.4	3.0	1.5	4.4	6.2	5.8	8.0
	Calendar years							
	2024	2025	2026f	2027f				
Total private consumption, ann chg*	0.6	2.1	3.0	2.8				
Real labour income, ann chg	2.1	3.4	2.5	2.7				
Real disposable income, ann chg**	2.3	4.1	1.9	2.1				
Household savings ratio, %	4.2	6.2	5.3	5.0				
Real retail sales, ann chg	0.2	1.8	3.6	3.2				
Motor vehicle sales ('000s)	897	879	932	971				
annual chg	0.8	-2.1	6.1	4.1				

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

	2025										2026
% change	avg^	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Westpac-MI Consumer Sentiment Index	100.4	90.1	92.1	92.6	93.1	98.5	95.4	92.1	103.8	94.5	92.9
family finances vs a year ago	88.0	70.2	75.1	75.4	79.2	84.2	86.3	82.1	85.2	80.9	82.7
family finances next 12 months	106.6	101.6	100.7	98.8	101.4	106.8	107.7	97.1	109.1	102.4	97.8
economic conditions next 12 months	90.7	90.5	93.0	92.4	94.1	101.2	92.2	89.9	104.8	94.6	88.4
economic conditions next 5 years	92.1	98.4	98.6	96.2	93.4	98.4	92.7	94.0	108.4	95.7	96.5
time to buy major household item	123.5	90.0	93.2	100.2	97.6	101.7	98.2	97.2	111.6	98.9	99.1
time to buy a dwelling	119.6	85.7	90.0	93.3	88.5	97.8	96.1	96.5	96.4	86.2	89.6
Westpac-MI Consumer Risk Aversion Index^^	18.6	—	—	48.4	—	—	46.6	—	—	48.0	—
CSI±	99.8	78.8	80.4	81.5	82.6	86.4	86.4	82.3	89.6	83.6	82.9
Westpac-MI House Price Expectations Index#	129.8	153.4	155.5	166.5	162.8	164.2	168.4	171.9	172.4	169.9	167.5
consumer mortgage rate expectations#	40.5	-1.9	-9.2	-15.4	-16.9	-16.4	-12.0	1.7	19.1	45.5	52.8
Westpac-MI Unemployment Expectations	129.2	123.9	121.3	127.4	128.7	125.6	131.4	127.6	139.5	126.8	129.4
MI inflation expectations (trimmed mean)	4.4	4.2	4.1	5.0	4.7	3.9	4.7	4.8	4.5	4.7	4.6
MI wage expectations (trimmed mean)	1.3	1.2	1.3	1.4	1.2	1.3	1.2	1.4	1.5	1.3	1.3

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