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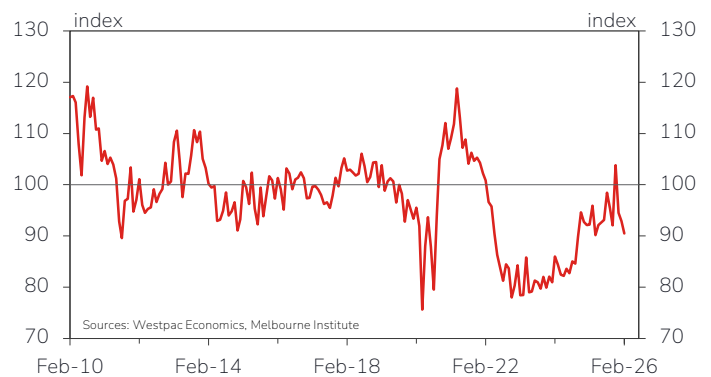
WESTPAC-MI CONSUMER SENTIMENT BULLETIN

Latest insights on the Australian consumer

Key points

- Westpac–Melbourne Institute Consumer Sentiment slips 2.6% to 90.5 in February.
- Muted response compared to previous rate hikes.
- Current conditions and medium-term outlook weaken; year-ahead views stable.
- Over 80% expect interest rates to rise further in the next 12 months.
- Homebuyer sentiment sinks as price expectations hit new 15yr high.

Consumer Sentiment Index



“The Westpac–Melbourne Institute Consumer Sentiment Index declined 2.6% to 90.5 in February from 92.9 in January.”

Consumer sentiment slips as interest rates rise



Matthew Hassan
Head of Australian Macro-Forecasting

The Westpac–Melbourne Institute Consumer Sentiment Index declined 2.6% to 90.5 in February from 92.9 in January.

Previous surveys showed a significant weakening in sentiment as a lift in inflation stoked fears that the RBA was about to raise interest rates. Those fears were realised in February. The RBA's 25bp hike – the first in over two years – has put renewed pressure on finances, dented attitudes towards major purchases and raised concerns about medium-term prospects for the economy. That said, the impact on sentiment overall has been relatively mild. The 2.6% decline this month compares to an average 3.8% fall following cash rate rises historically. At 90.5, the Index level is also still well above the extreme lows sustained through most of 2022–2024.

Some of the muted sentiment response to the RBA rate hike likely reflects the fact that it was widely anticipated. The February survey detail also suggests the messaging around the decision was not quite as bad as some had feared. Responses over the course of the survey week show a slight improvement amongst those surveyed after the decision was announced.

Component-wise, the February sentiment decline centred on current assessments. Recall that the Index is a composite measure based on five sub-indexes: one tracking assessments of family finances compared to a year ago; two tracking expectations for family finances and the economy over the next year; one tracking expectations for the economy over the next five years; and one tracking responses to whether now is a good time to buy a major household item.

Weaker reads on buyer sentiment and backward-looking assessments of finances accounted for over 2pts of the 2.6% decline this month. The 'time to buy a major item' sub-index, which has been particularly sensitive to 'cost-of-living' issues, dropped 5.6% to 93.5. The 'family finances vs a year ago' sub-index fell 4.7% to 78.8. Both sub-indexes are now back around the levels seen in mid-2025. Both higher interest rates and the direct effects of higher inflation on the cost-of-living also to be impacting.

Consumers' near-term expectations were largely unchanged. The 'family finances, next 12 months' sub-index ticked down very slightly to 97.7 and the 'economy, next 12 months' sub-indexes ticked up very slightly to 88.5. Near-term expectations for the labour market also held relatively steady, with the Westpac–Melbourne Institute Unemployment Expectations Index up just 0.3% to 129.8 (recall that higher reads on this index mean more consumers expect unemployment to rise over the year ahead). This is a relatively firm read in line with historical averages.

Medium-term expectations for the economy saw more of a deterioration, the 'economy, next 5 years' sub-index tracking 2.5% lower to 93.5. One of the key messages from the RBA decision was that it believed it would take a long time to bring inflation back under control. The Reserve Bank does not expect inflation to be back in the 2–3% target range until 2027 and still slightly above the mid-point of that range by mid-2028.

The state and sub-group detail provides some additional colour.

Sentiment recorded a particularly big fall in Queensland (down 17% to 80.5). While some of this may be due to sample volatility, which tends to be higher for state measures, it is notable that Brisbane's headline CPI inflation is tracking a faster 5.2%yr pace, nearly 1.5ppts above the rate nationally, the gap largely due to the roll-off of state energy subsidies.

Across sub-groups, sentiment showed bigger pull-backs amongst women (down 8.8% to 82.2), those on low incomes (–6.6% to 77.6) and those employed in the government and health sectors. The interest rate increase was more clearly behind weaker sentiment reads amongst those employed in cyclical sectors like recreation, accommodation and construction.

“Consumers are bracing for more rate rises to come.”

Consumers are bracing for more rate rises to come. Indeed, interest rate expectations have risen further and now sit near previous highs. The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, surged 16.1% in February. At 177.5, the index is now at its highest level since June 2023 – near the tail-end of the previous tightening cycle when underlying inflation was running at 6.5%yr. Remarkably, over 80% of consumers now expect mortgage rates to rise over the next 12 months with just over a third expecting them to go up by a full percentage point or more.

Around housing, interest rate developments weighed on assessments of 'time to buy' but did not prevent a rise in already very optimistic price expectations. Indeed, the gap between these two measures is now at its second widest level since we began surveying house price expectations regularly in 2009.

The 'time to buy a dwelling' index fell 6.3% in February, to be 14% below its most recent peak. At 84, the latest read is at its lowest level since December 2024 and more than 35pts below the long-run average of 120. Notably the boost to Homebuyer sentiment amongst 18–34 year olds in previous months, linked to the expanded First Homebuyer Guarantee scheme, appears to be fading. Sentiment amongst this group has faded from a high of 125 in November to 108 in February.

In contrast, consumers' house price expectations posted a solid rise. The Westpac–Melbourne Institute Index of House Price Expectations rose 3.9% to 173.9, a new fifteen-year high. State-wise, the standout was Western Australia, the state index jumping 10.5% to an all-time high of 181, matching the already very bullish 182 read in Queensland. Consumers remain less upbeat in Victoria (160).

The Reserve Bank Monetary Policy Board next meets on March 16–17. While a follow-up rate hike cannot be ruled out, we think a more likely outcome is that the Board waits for more data, quarterly inflation updates in particular, before making its next move. The RBA has already signalled that the volatility of the new monthly CPI means it will continue to focus more closely on the quarterly price data, particularly for trimmed mean inflation. With the next quarterly update due in late April likely to show inflation still uncomfortably high, this points to the next 25bp rate hike coming in May.

Consumer Sentiment – February 2026

	avg*	Feb 2024	Feb 2025	Jan 2026	Feb 2026	%mth	%yr
Consumer Sentiment Index	100.4	86.0	92.2	92.9	90.5	-2.6	-1.9
Family finances vs a year ago	87.9	66.1	75.1	82.7	78.8	-4.7	4.9
Family finances next 12mths	106.6	95.3	105.0	97.8	97.7	-0.1	-7.0
Economic conditions next 12mths	90.7	88.9	92.6	88.4	88.5	0.1	-4.5
Economic conditions next 5yrs	92.1	93.0	97.5	96.5	94.1	-2.5	-3.5
Time to buy a major household item	123.4	86.8	90.9	99.1	93.5	-5.6	2.9
Time to buy a dwelling	119.5	74.2	87.8	89.6	84.0	-6.3	-4.4
Unemployment Expectations Index	129.2	126.9	125.8	129.4	129.8	0.3	3.2
House Price Expectations Index	129.4	161.4	142.3	167.5	173.9	3.9	22.2
Interest Rate Expectations Index	140.4	121.6	90.7	152.8	177.5	16.1	95.7

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 2 February to 6 February. 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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