



May 2026

THE RED BOOK

Quarterly update on the Australian consumer

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Under the pump again

The landscape has shifted dramatically since our January report with consumers now facing a significant cost-of-living shock centred on sharply higher energy costs and a further round of interest rate rises.

The US-Israel conflict with Iran that began on February 28 has effectively blocked 15% of oil and gas supply. An associated oil price spike has driven a sharp jump in local fuel costs, a 33% rise in the March month worth 1ppt of total spending. A temporary halving in fuel excise tax has provided some relief since then but prices are expected to remain elevated through to year end (see [here](#) for our latest assessment).

This fuel price shock is coinciding with renewed rate rises from the RBA. The three 25bp increases in February, March and May mainly reflected concerns about a pre-crisis lift in inflation, the 'trimmed mean' CPI tracking above the Bank's 2-3%yr target band since late 2025. As the energy shock filters through, we expect this measure to see a further lift to 4%yr, holding at this pace through to the end of 2026.

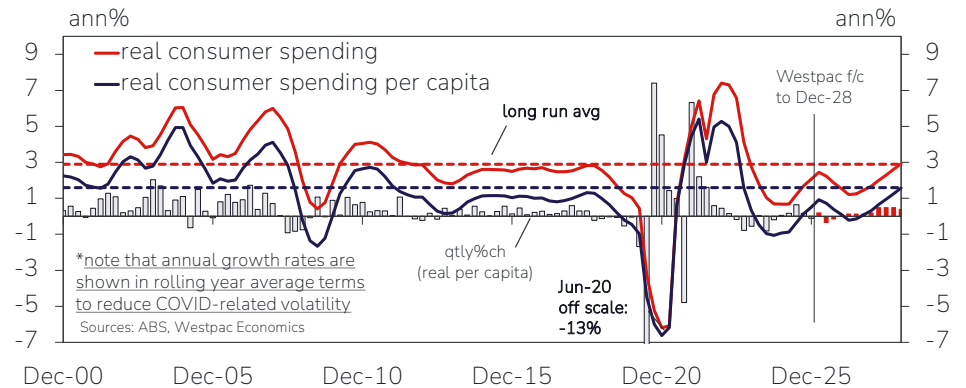
The high starting point for inflation means there is a material risk that the energy price surge feeds into a shift in expectations, affecting wage and price setting decisions and leading to persistently high inflation.

These concerns were an additional factor in the RBA's decision to raise the cash rate by another 25bps at its May meeting. More moves are likely to be required to contain inflation risks: Westpac expects two more 25bp hikes in coming months.

This is clearly a difficult and alarming situation for consumers. Sentiment has already been hit hard, April recording one of the biggest monthly falls on record. Our **Westpac Card Tracker** – the most timely read on spending trends in Australia – suggests spending moderated in the March quarter (see [here](#)). Our **Westpac Consumer Panel** shows that the initial response in March was associated with a slowdown in savings flows. Importantly, the card data suggests April has seen a move to outright weakness, non-fuel spending tracking flat or down slightly despite the temporary halving in fuel excise tax.

The bottom line is that prices, interest rates and tax increases are again outstripping incomes and that there is a limit to how much savings can be used to keep up. The 'cost of living crisis' sequel may not be a re-run of the 2022-24 horror show – when prices shot up 13% over two years and interest rates rose 4ppts – but it is clearly shaping as another very challenging time for consumers.

1. Consumer spending: renewed squeeze



“The ‘cost of living crisis’ sequel may not be a re-run of the 2022-24 horror show ... but it is clearly shaping as another very challenging time for consumers.”

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Quick run-down

The **Westpac–Melbourne Institute Consumer Sentiment Index** fell heavily in April, declining 12.5% to 80.1, having drifted slightly lower through February and March.

The April fall was the biggest monthly decline since COVID and takes the Index near historical lows, albeit above the extremes seen at the onset of the pandemic and during the recessions of the early 1990s and 1980s.

All Index components deteriorated sharply in the April month but the biggest falls were across components tracking 'current conditions'. This clearly reflects the sharp spike in average pump prices for fuel, the rise in dollar terms the biggest on record and the percentage change comparable to the spike during the 1979 oil crisis. Assessments also reflect the RBA's interest rate rises in February and March.

Risk aversion was holding at elevated levels ahead of the April shock. The **Westpac Risk Aversion Index** was 48 in March, in line with the 49.1 in December – up marginally from the 47.2 average over the previous year and half but below the 51–59 range seen during 2022–23. Aversion has likely risen further since March.

The sentiment mix suggests spending momentum has weakened materially. **CSI±**, a modified indicator that correlates well with per capita spending, points to a shift back to outright contraction in coming quarters.

Consumer interest rate expectations continue to weigh on overall expectations. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index** rose 3.9% to 177.2 in April, returning to recent cycle highs. Amongst those with a view, just over 80% of consumers expect mortgage rates to increase over the year ahead (noting that this was prior to the RBA's 25bp cash rate increase in early May).

The **'time to buy a major item'** index dropped 15% in April to 83.3. This component has been particularly sensitive to 'cost of living' pressures in recent years. The decline takes the sub-index towards, but still slightly above, the very weak 75–80 range seen in 2022–24.

Homebuyer sentiment bucked the wider softening trend in the April month but remains at very pessimistic levels. The **'time to buy a dwelling'** index rose 3.5% in the April month but was still down 4.3% vs January, coming off a new cycle low in March. At 85.8 the Index is still more than 33pts below the long-run average of 120.

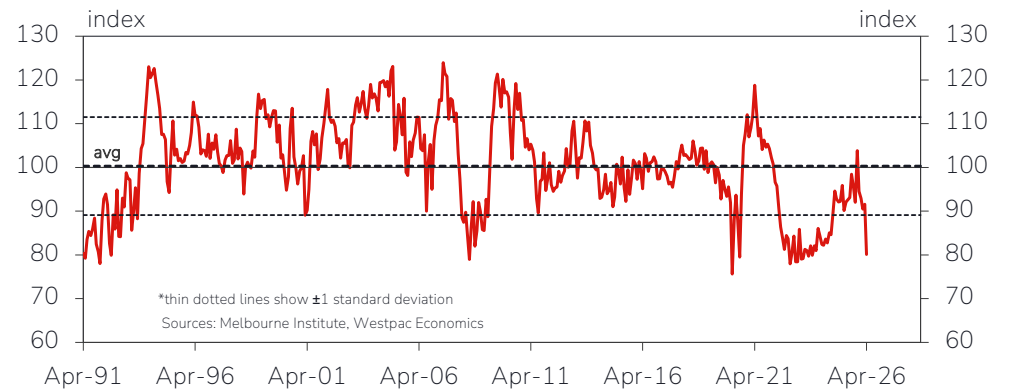
Consumers are becoming much less bullish on the outlook for house prices. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** posted a sharp 10.2% fall to 153.5. That said, price expectations are still relatively positive, the Index well above the long-run average of 130. Over two-thirds of those with a view expect prices to increase over the next year.

The April sentiment shock had a notably deeper impact on consumers' labour market expectations than the weakness seen during the 2022–24 'cost of living' crisis. The **Westpac–Melbourne Institute Unemployment Expectations Index** jumped 9.7% to 147.8 to be up 14% over the 3mths to April (recalling that higher reads are a deterioration that means more consumers expect unemployment to rise over the year ahead). Expectations are now materially above the long run average of 129.

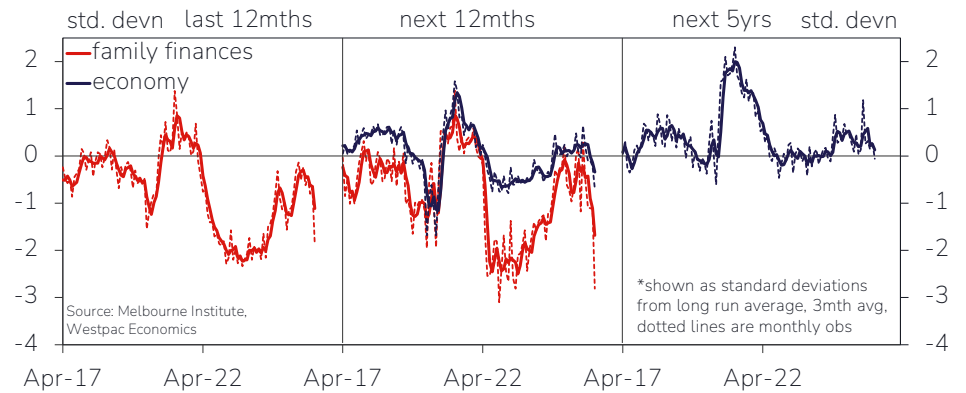
Shocked

- The inflation and interest rate concerns that had been weighing on sentiment around the turn of the year have given way to more acute and immediate shock from a sharp rise in global energy costs.
- The US-Israel conflict with Iran that began on February 28 has seen major disruptions to global energy supply. Sentiment has pulled back as the resulting spike in fuel prices has combined with a further re-tightening in interest rates and growing risks that a wider inflation threat will see additional rate hikes in the months ahead.
- The **Westpac Melbourne Institute Index of Consumer Sentiment** dropped 12.5% in the April month to be down 13.7% vs January. April marked the biggest monthly decline since COVID.
- At 80.1, the Index is back near historical lows, albeit slightly above the low recorded during the 2022-24 'cost of living' crisis (78) and the GFC (79) and some way above the extreme lows seen at the onset of the pandemic (75.6) and during the recessions of the early 1990s (64.6) and early 1980s (75.5).
- Average pump prices hit \$2.40/litre in the first week of April, up 37¢ from the time of the March survey and 77¢ compared to early February. This is easily the biggest two-month rise in the history of the survey, which goes back to 1973, with the increase in percentage terms comparable to the 50% annual rise recorded during the 1979 oil crisis (see below for a more detailed discussion of how the current episode compares to previous fuel price shocks).
- Note that the April survey was taken after the Federal government's temporary halving in fuel excise tax came into effect on April 1, the 26¢/litre reduction contributing to a 12¢/litre decline in average pump prices in the first week of the month.
- The interest rate backdrop has also been moving, the RBA raising the cash rate by 25bps on February 3, and another 25bps on March 17.
- The April survey was in the field three weeks after the second move but was conducted before the RBA's third 25bp hike on May 5. The May survey will be in the field during the week of the Federal budget, with results to be released on May 19.

2. Consumer sentiment crashes



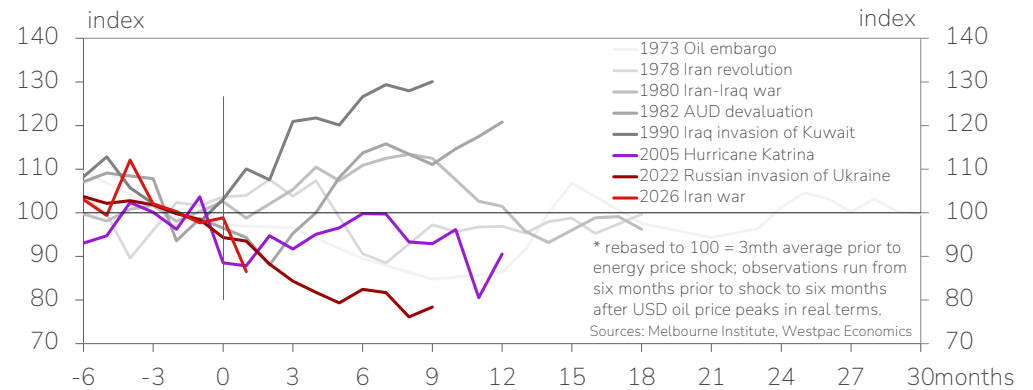
3. Consumer sentiment: finances, economic conditions



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- Component-wise, the biggest falls in the April month were across sub-indexes tracking current conditions, the 'finances vs a year ago' sub-index plunging 16.7% to 66.8 and the 'time to buy a major item' sub-index down 15% to 83.3. Both levels are extremely low but still a touch above the averages recorded between September 2022 and June 2024 (65 and 81 respectively).
- Near-term expectations also fell sharply, the 'finances, next 12mths' sub-index down 13.9% to 84 and the 'economy, next 12mths' sub-index down 12.4% to 75.3. While the falls were not quite as severe as for current conditions, these components have deteriorated by more vs 2025. The 'economy, next 5 years' sub-index recorded a more moderate 5.1% decline to 91.4.
- The April shock was broadly based with 90 of the 100-odd sub-groups we track recording declines. Falls were particularly pronounced amongst those living in regional areas (-16% to 73) and working in the recreational services, manufacturing and construction sectors – all of which have higher exposure to rising energy costs and/or cyclical swings in activity.
- Chart 4 and Table 5 provide some longer term historical perspectives on energy price shocks. Over the history of the survey there have now been eight episodes of sharply rising fuel costs, five emanating from developments in the Middle East. Durations have tended to be shorter in recent decades, particularly compared to the extended disruptions during the 1970s and early 1980s. In real, inflation-adjusted terms the magnitude of the current oil price shock is materially larger than those seen since 1980 but smaller than the 1970s shocks.
- Wider economic circumstances also vary. The early 1990s shock for example hit just as the economy was moving off recession lows, while the 2022 shock came on top of a global supply chain disruption that was generating a wider rise in prices. The interest rate context also differs, as does the response, particularly in the 1970s and 1980s when today's independent inflation-targeting central bank regime was not yet in place. Economies have also become less fuel dependent over time.
- Sentiment-wise, the current shock is, so far, comparable to 2022 and 2005, putting it at the lower end of the range.

4. Consumer sentiment: historical oil shocks



5. Historical oil shocks: selected measures

	Oil embargo	Iran revolution	Iran-Iraq war	AUD de-valuation	Iraq invasion of Kuwait	Hurricane Katrina	Russian invasion of Ukraine	Iran war
onset	1973	1978	1980	1982	1990	2005	2022	2026
duration (months)	24	12	12	6	3	9	3	> 2
maximum variation, %*								
oil (real US\$/bbl)	161	121	13	2	41	39	34	60
auto fuel (real AUD)	8	46	17	9	21	24	14	25
consumer sentiment	-15	-11	-1	-12	3	-19	-24	-13
consumption, real per capita, change in annual growth following shock*								
total	-3.3	-2.4	-0.1	-5.1	-2.5	-1.2	-0.3	n.a.
- operation vehicles	n.a.	-0.6	-6.8	-4.9	-4.9	-7.5	-0.7	n.a.
- other consumption	n.a.	-2.7	0.1	-5.6	-2.6	-0.7	1.3	n.a.
Australian recession ^	Y	N	N	Y	Y	N	N	n.a.

* peak/low in period compared to average six months prior to shock.

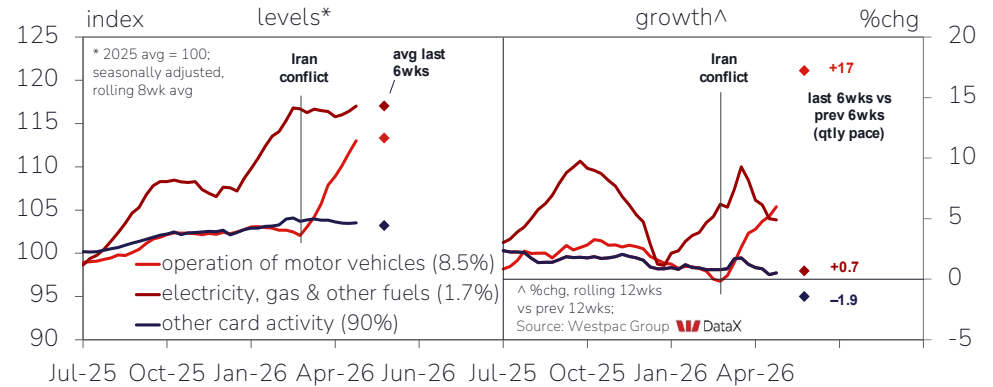
Source: ABS, Bloomberg, Melbourne Institute, Westpac Economics

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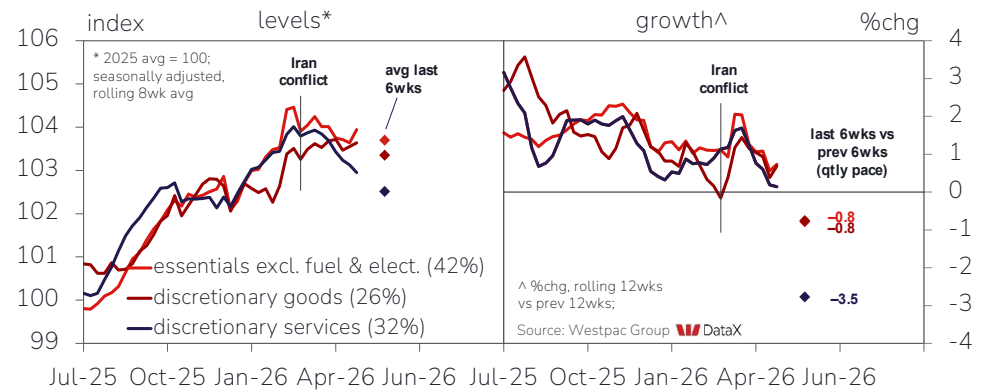
Early signals from Westpac data

- Consumers are at the forefront of the energy shock. The sentiment picture is already clear but the ‘real world’ effects on activity are only just starting to appear. The **Westpac-DataX Card Tracker** and **Westpac-DataX Consumer Panel** provide the timeliest reads on how spending, income and saving patterns look to be evolving.
- Our **Westpac-DataX Card Tracker** draws on the seven million credit and debit card transactions that pass through the Westpac system every day. This rich information source now has data covering most of April. Latest updates show a complex mix of factors at work but with clearer signs of a slowing in discretionary spend starting to emerge (see [here](#) for our latest full report).
- Quarterly growth momentum remains subdued, holding at a 1% pace as at late April, down a touch on the 1.2% gain in Q1 and materially slower than the 2% average over the previous three quarters. However, that steady headline conceals a big lift in fuel and a notable slowing in non-fuel activity, the latter tracking a much slower 0.5%qtr pace, implying an outright contraction in real per capita terms.
- Chart 6 unpacks this detail a bit more. It shows levels and growth rates across three segments: ‘operation of motor vehicles’ (dominated by fuel); electricity, gas & other; and the remaining 90% of card activity (all figures are seasonally adjusted). It highlights another factor in play, the end of electricity rebates which has seen a large rise in this component in the first three months of 2026 (up 9.3%qtr and 17%yr).
- Excluding this and the fuel, growth across ‘non energy’ segments has shown a clearer moderation. This even looks to have tipped into outright declines over the last six weeks, although this may be partly due to residual seasonal effects from the Easter period (this moving holiday is more difficult for seasonal adjustment packages to pinpoint).
- Chart 7 unpacks this broad ‘non-energy’ category into: essentials, discretionary goods and discretionary services. It shows there has been an outright stalling in discretionary services, growth now just 0.1%qtr. The segment has also seen a more dramatic weakening over the last six weeks (albeit with the same Easter caveats still applying).

6. Westpac-DataX Card Tracker: fuel, electricity and other



7. Westpac-DataX Card Tracker: non energy categories

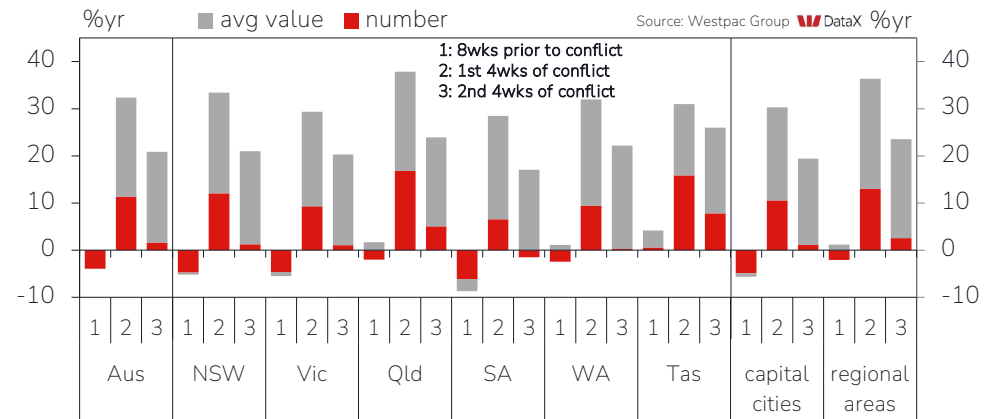


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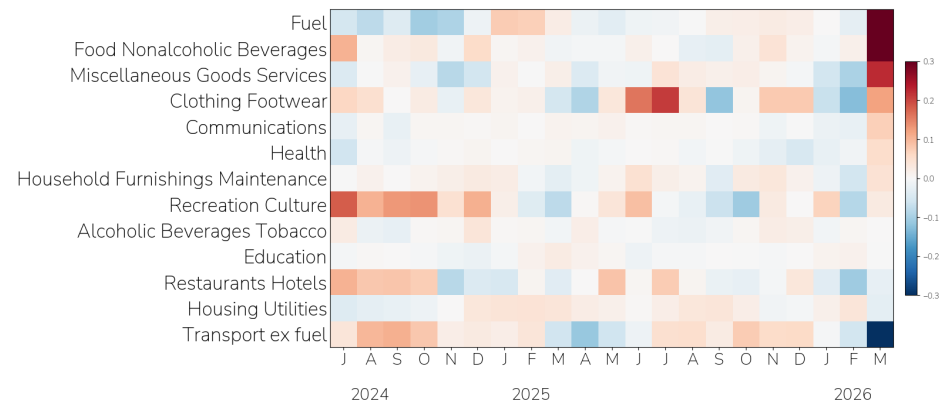
- The source card data provides more granular detail down to a narrower 'fuel' sub-category level with both the number and value of transactions available by sub-region. Chart 8 shows how the pattern of activity compares to a year ago for the 8wks prior to the shock, the first 4wks of the crisis and the second 4wks of the crisis.
- Nationally, coming into the shock, fuel transactions were down 4%yr on lower volumes. Over the first four weeks they were up 32%yr, 11ppts of which came from an increase in the number of transaction with the remaining 21ppts due to higher average transaction values, a proxy for fuel prices. Transaction volumes settled down in the second four weeks, up only 1.6%yr but with the contribution from average transaction values still very high at +19ppts.
- This volume effect is almost certainly a 'pull-forward' in buying as consumers became concerned about further sharp price rises and a lack of supply, with many stations running dry at the time. It looks to have been particularly pronounced in Qld, Tas and in regional areas.

- The **Westpac-DataX Consumer Panel** provides some additional colour around the spending, income and savings flows. The Panel draws on account information across over 1 million customers with monthly updates now available to March (see [here](#)).
- The key take-outs are similar to the card data with big shifts in the March month and softening evident in discretionary services. The 'heat map' in Chart 9 shows the contribution to spending growth by different categories, the final column showing the March month and columns showing rolling 3mth averages (all figures are seasonally adjusted). For March, fuel is up sharply, with a fall in air travel and public transport costs seeing a big decline in transport ex fuel. Basic food is also up strongly but looks to be switching from restaurants & hotels.
- The Panel detail shows spending across 'non-energy' categories has been softer amongst consumers that have higher energy costs relative to total spend. It also shows savings were not actively drawn down in Q1 but that the pace of accumulation slowed materially.

8. Westpac-DataX Card Tracker: fuel transactions



9. Westpac-DataX Consumer Panel: spending 'heat map'

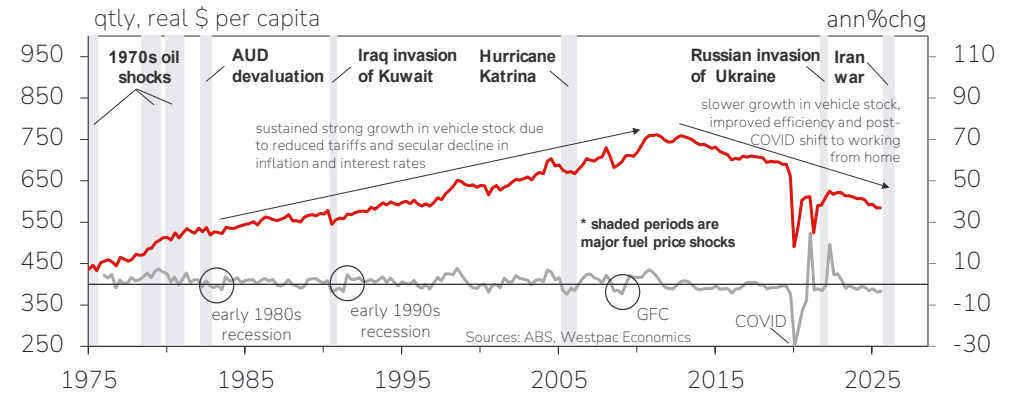


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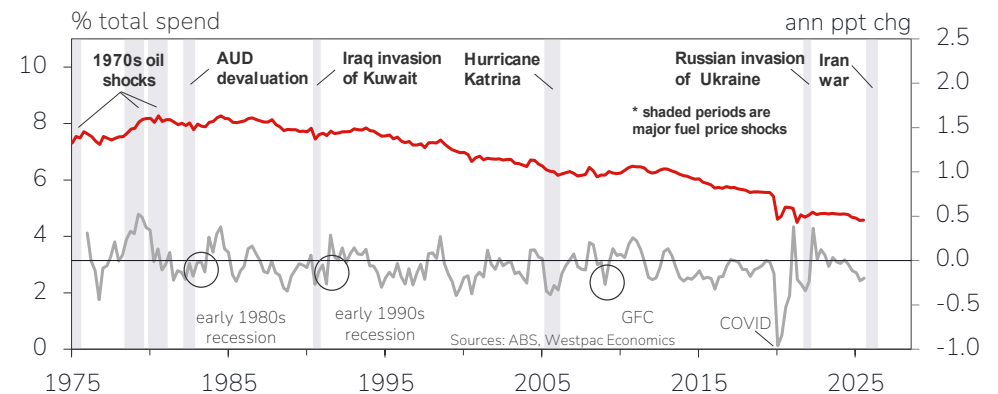
Historical fuel price surges

- While we wait for the energy shock impacts to play out, what can we tell from history? In this section we give a quick overview of longer run trends in consumer spending on fuel and the impact of previous price shocks.
- As noted on p6, there have now been eight significant fuel price shocks since the early 1970s. The largest of these have been from global energy shocks, namely: the oil embargo in 1973; the Iranian revolution in 1979; the Iran-Iraq war in the early 1980s; Iraq's invasion of Kuwait in 1990; Hurricane Katrina in 2005; Russia's invasion of Ukraine in 2022; and the current crisis in Iran.
- The different scales and economic contexts make these episodes difficult to compare. Comparisons over longer time horizons also need to allow for changes in energy intensity and the shrinking share of fuel in total consumer spend.
- Chart 10 shows ABS estimates of per capita spending on 'operation of motor vehicles' in real, inflation-adjusted terms going back to the mid-1970s. Currently, fuel accounts for just over a third of this category which also covers servicing, insurance and tolls (see Chart 12).
- Measured in today's dollars, average spend has risen from \$450 a quarter at the start of the period to a peak of around \$760 in the early 2010s to just over \$580 currently.
- As discussed in our last [Red Book](#), the long structural up-trend during the first forty years reflects strong growth in the vehicle stock as the progressive removal of tariffs and a secular decline in inflation and interest rates drove a big improvement in affordability.
- The down-trend over the decade since then reflects slower growth in the vehicle stock and a one-off change in the prevalence of 'work from home' arrangements post-COVID. The take-up of electric vehicles (EVs) has had a more marginal impact but is likely to become more prominent in the years ahead (noting that 'operation of motor vehicles' will include the electricity purchases required to power EVs).
- Chart 11 reveals that spend on vehicle operation has declined materially as a share of total. After peaking at 8% in 1980, it has declined gradually, for the most part, and currently sits 4.6%, suggesting fuel more specifically is 1.5-2% of total consumer spend.

10. Australia: operation of motor vehicles, long history



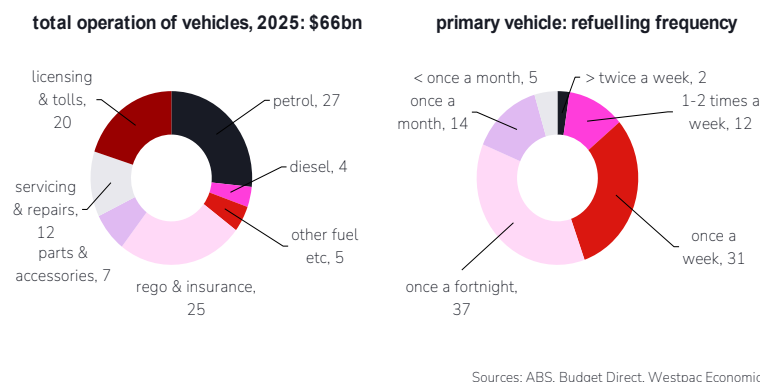
11. Australia: operation of motor vehicles, detailed spending patterns



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- The 1970s oil price shocks were the largest in real price terms and had somewhat clearer impacts. Consumer sentiment declined materially with consumption growth slowing by 2.5–3ppts, the wider economy ultimately entering recessions in the mid-1970s and early 1980s although in both periods there were several other factors at play.
- Energy shocks since then have been milder (particularly when viewed in real, inflation adjusted terms). There are again extenuating circumstances that limit their relevance to 2026: the invasion of Kuwait came just as the economy was moving into a deep recession for mostly unrelated reasons; the fuel price spike associated with Hurricane Katrina was very short-lived; and the 2022 spike was in the context of a much larger and more pervasive shock to global supply chains coming out of COVID and an associated rapid tightening in monetary policy.
- Consumption growth slowed sharply through all of these episodes but it is unclear how much of this was a direct consequence of energy price effects.
- Notably, the spending detail shows growth in fuel spend slowed by much more than non-fuel spend in real terms in 1990 and 2015 but by considerably less in 2022 (suggesting wider cost pressures and interest rate changes were the more substantive driver of the most recent slowdown).
- Consumer exposures to fuel price shocks differ significantly across different parts of Australia (see [here](#)). NSW and Vic have a higher exposure to the hit to consumer demand while Qld and WA have significant offsets from the boost to commodity exports.
- There are also differences in consumer fuel consumption intensity with 'operation of motor vehicles' making up a higher share of consumer spend in WA and Tas but a lower portion in NSW. Shares of total spend have also shown a more moderate trend decline over time in SA and WA. Within states there is also likely to be a big difference in fuel consumption intensity between city-dwellers than those living regionally who have fewer non-driving travel options and often face longer average journeys.

12. Australia: operation of motor vehicles, detailed spending patterns



13. Operation of motor vehicles: state

	Aus	NSW	Vic	Qld	SA	WA	Tas
\$ (annual)*	2,356	2,217	2,401	2,229	2,373	2,739	2,439
% total spend	4.6	4.2	4.8	4.5	4.9	5.3	5.2
<i>20yr avg</i>	<i>5.7</i>	<i>5.3</i>	<i>5.8</i>	<i>5.6</i>	<i>5.6</i>	<i>5.9</i>	<i>6.4</i>
ann %chg	-3.1	-2.2	-2.9	-3.8	-3.6	-4.7	-1.7
<i>20yr avg</i>	<i>-0.7</i>	<i>-0.7</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.2</i>	<i>0.0</i>	<i>-1.0</i>
number of vehicles^	584	549	608	584	641	603	626
\$ per vehicle (annual)	4,033	4,041	3,947	3,818	3,700	4,542	3,895
emission intensity#	190.8	189.4	189.0	190.6	194.1	197.3	197.0

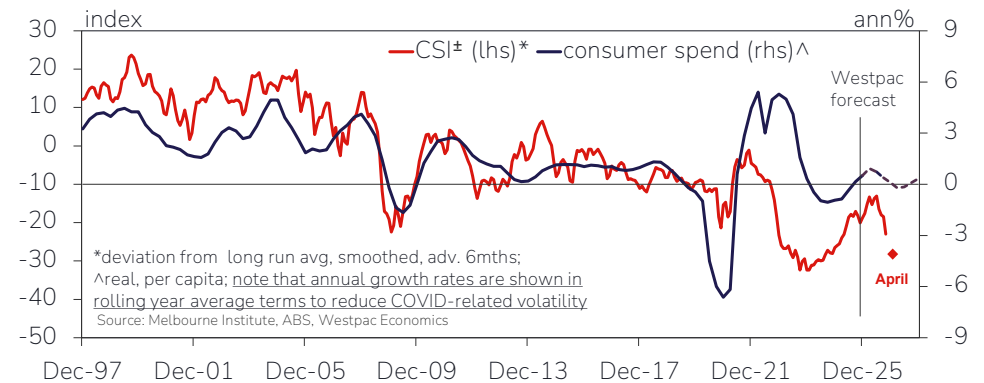
* per capita; ^ per 1000 people, number is as at March 2025; # avg grams of CO₂ per km. Source: ABS, BITRE, FCAI, EV Council, NTC, Westpac Economics

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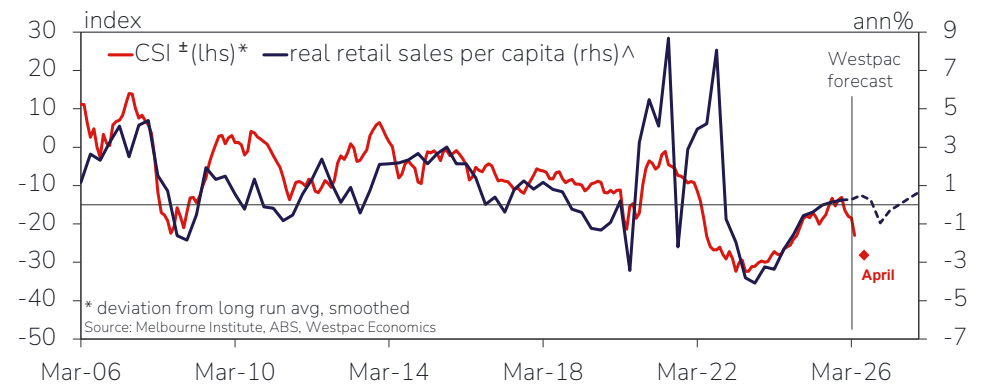
Spending: sharp reversal

- 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 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.
- The **CSI[±]** indicator has been more stable than wider sentiment in recent months, mainly due to the risk aversion component holding steady. Nevertheless, at 71.5, it is still down sharply from its January read of 82.9, a fall of 13.7% that takes the indicator well below its long run average of 100. Chart 14 shows that this points to a renewed contraction in real per capita consumer spending, even allowing for the positive wedge that has opened up with **CSI[±]** and observed spending growth over the last year.
- As discussed, the ‘hard’ data on actual spending is only just starting to capture the effects of the energy shock. Most official figures instead speak more to the consumer’s relatively robust momentum coming into 2026.
- The Q4 national accounts were something of a mixed bag, a 0.3%qtr rise in consumption undershooting expectations with growth slowing slightly to 2.4%yr.
- That said, the detail suggested the quarter saw a steadying rather than a slowing in momentum, particularly once a bigger-than-expected effect from increased state electricity rebates is excluded (an effect that will more than reverse as rebates resume rolling off in coming quarters). Vehicle purchases also surprised significantly to the downside, recording a 4.6%qtr drop, reportedly due to a pull-forward in registrations in Q3 to beat cost rises.
- Around incomes, the picture was relatively solid. Nominal disposable income rose 1.8%qtr, annual growth moderating slightly to 6.9%yr but still well above the pre-COVID 10yr avg of 4.3%yr.

14. CSI[±] vs total consumer spending



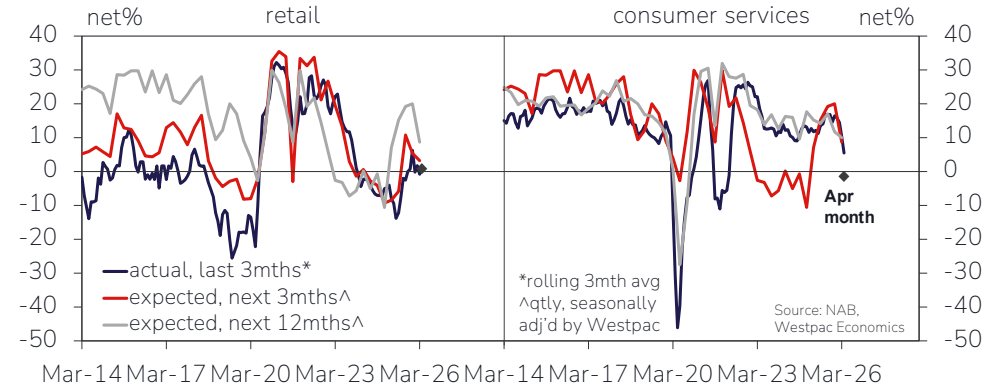
15. CSI[±] vs retail sales



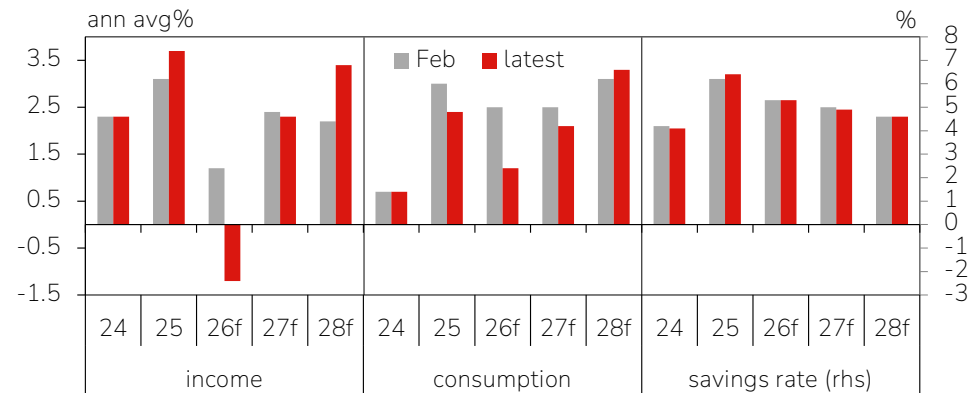
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- The savings ratio lifted to 6.9%, from 6.1% in Q3 and 5.8% in Q2. This is the highest ratio since mid-2022. Overall, the mix suggests households were in relatively good shape financially with scope for lower savings to cushion against future shocks.
- Of course, two shocks are now in play: rate rises and a spike in fuel costs. As discussed, our Westpac measures are pointing to a moderation in nominal spending growth. The 1.4%qtr rise in the [March CPI](#) implies that both measures of spend are likely flat or down slightly in real, inflation-adjusted terms.
- That was not quite the signal from the March ABS household spending indicator. While it confirmed the nominal signal from our Westpac data, the real spending came in surprisingly strong with a 0.7%qtr gain, down only slightly from Q4's 1%qtr rise. The ABS has indicated that some of this is due to differences in scope and the timing of price changes for airfares captured in the CPI vs the spending indicator measures. It should also be noted that Q4's spending indicator gain was much stronger than the spending rise reported in the Q4 national accounts.
- Private sector business surveys broadly are capturing some moderation but are also likely to be more of a nominal rather than real measure. Consumer sector responses to the NAB business survey remained soft in the first few months of 2026.
- The ABS will publish full spending estimates with the Q1 national accounts update on June 3. We continue to expect a 0.6%qtr gain largely due to the change in electricity rebates, which will see a sharp increase in out-of-pocket costs for consumers. Spend ex fuel and electricity is likely to be soft.
- Chart 17 summarises the main changes to our forecasts since our February report. Real household disposable incomes are now expected to contract 1.2% this calendar year, rather than increase 1.2% – the difference reflecting higher prices and higher interest rates. This in turn sees spending growth slow abruptly to 1.2%yr compared to a relatively robust 2.5% gain expected back in February. The path for savings rates is largely unchanged, but the modest decline cushioning an income shock rather than sustaining solid spending growth.

16. Business conditions: retail and consumer services



17. Income, consumption and savings forecasts

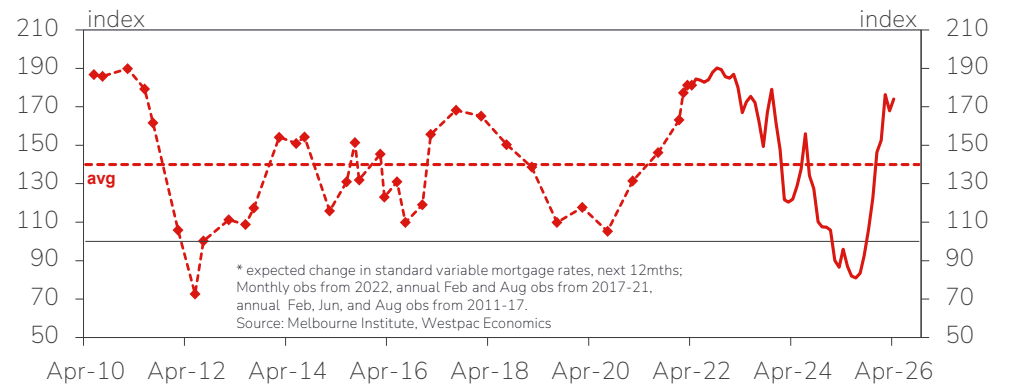


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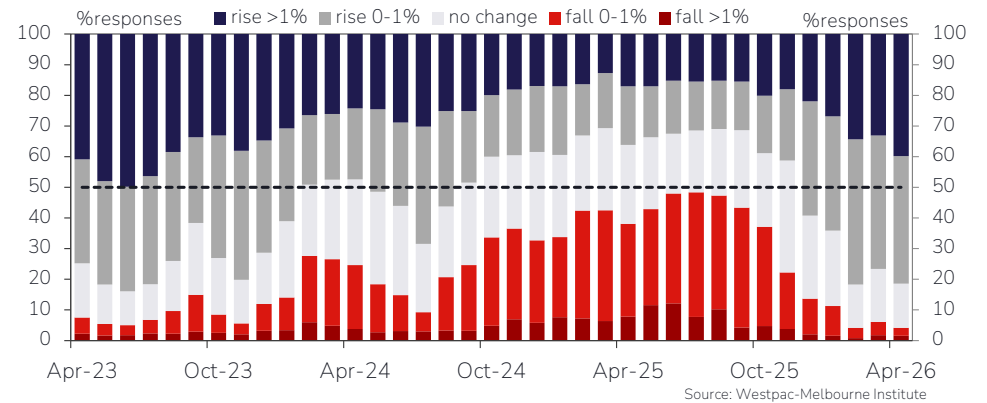
Interest rates: fears realised

- While the April sentiment drop was mainly about the fuel price shock, the broader weakening since late last year has also been keying off heightened rate rise fears – fears that have been realised since February. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, surged another 16% over the 3mths to April. At 177.2, the Index is at new cycle highs, albeit below the extremely hawkish reads in late 2022/early 2023.
- The survey detail shows just over 81% of consumers expect mortgage rates to rise over the next 12 months. That compares to 64% at the start of the year. About 40% of those with a view expect rates to rise by over 1ppt. An interpolated median, based on the distribution of responses, sits at +76bps.
- The RBA raised rates by 25bps at its both its February and March meetings with a third back-to-back 25bp increase also put through at its May meeting (four weeks after the April sentiment survey). Taken at face value, the April responses suggest consumers expect another two 25bp hikes.
- That said, the history of this survey question shows a definite ‘tightening bias’ to interest rate expectations. Chart 18 shows sub-100 readings – consistent with more consumers expecting rates to fall rather than rise – are rare over the 16 years that the question has been run. Mapping index reads to actual mortgage rate changes suggests the latest reading is more in line with one further 25bp rate hike.
- Our May survey, currently in the field, will provide an important update on interest rate expectations following both the RBA’s May decision and the Federal budget, which is due to be released shortly after we go to press.
- The RBA’s post decision commentary suggested they were hoping to have some room to pause the tightening cycle, given the rapid series of hikes. Indeed, on balance, we now expect the RBA to leave rates on hold at its June meeting. However, we still expect rising inflation and the threat of a lift in inflation expectations feeding into medium-term wage and price setting behaviour to draw two further 25bp hikes in August and September (see [here](#) for our latest views).

18. Mortgage interest rate expectations



19. Consumer expectations for mortgage rates

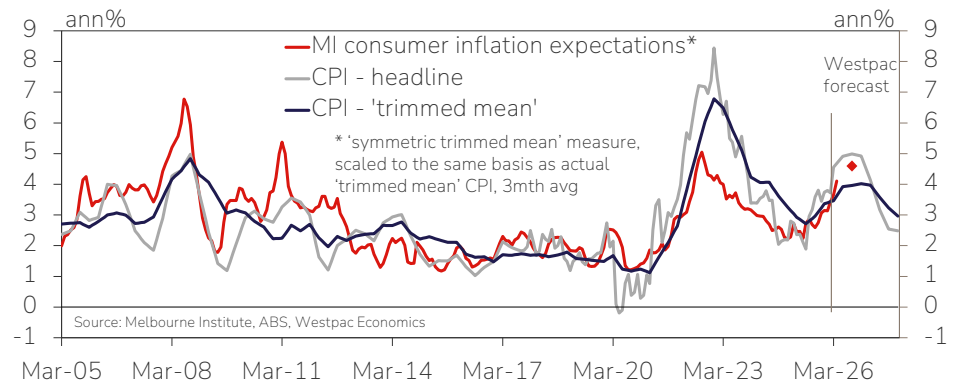


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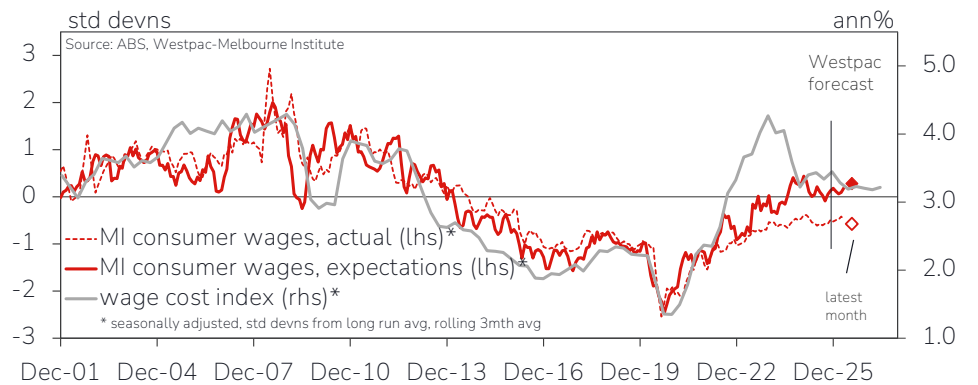
Inflation: here we go again

- The latest fuel price surge is already feeding into both inflation and consumer inflation expectations.
- The March CPI showed a 1.4% lift in headline inflation, taking it to 4.1%yr (see [here](#)). The 'trimmed mean' measure, which excludes the largest price variations each period (such as fuel in the latest quarter) posted a milder 0.8%qtr lift to be up 3.5%yr.
- Consumer inflation expectations are heavily influenced by fuel price moves as these are one of the most visible prices in the CPI basket, from the perspective of both day to day lived experience and media coverage.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations jumped to 5.9% in April, up from 4.6% in January and broadly comparable to the levels seen in 2022-23 albeit below the peak monthly read of 6.7% during that period (shown in Chart 20).
- Scaling according to historical inflation outcomes suggests expectations are consistent with actual inflation outcomes in the 4.5-5% range.
- Consumer expectations for wages provide a interesting contrast. Wage expectations have held about steady, tracking in the same range seen since mid-2024 (Chart 21). While that is a touch above the long run average, the readings on both actual and expected wages are still broadly consistent with a slight moderation in wages growth.
- The Q4 update showed wage price growth running at 3.4% over 2025 according to the ABS wage price index (see [here](#)).
- The Q1 update is due on May 13, shortly after we go to press. Also of note, the annual award and minimum wage decision is likely to be announced by early June.
- The Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead wage growth expectations held at 1.3% in April, essentially unchanged from January (albeit slightly firmer in seasonally adjusted terms). The survey measure of actual changes has drifted slowly back to 1.2% from 1.5% at the start of the year, having drifted slightly higher into year-end. Both remain above pre-COVID averages.

20. CPI Inflation: actual vs expected



21. Wages growth: actual vs expected

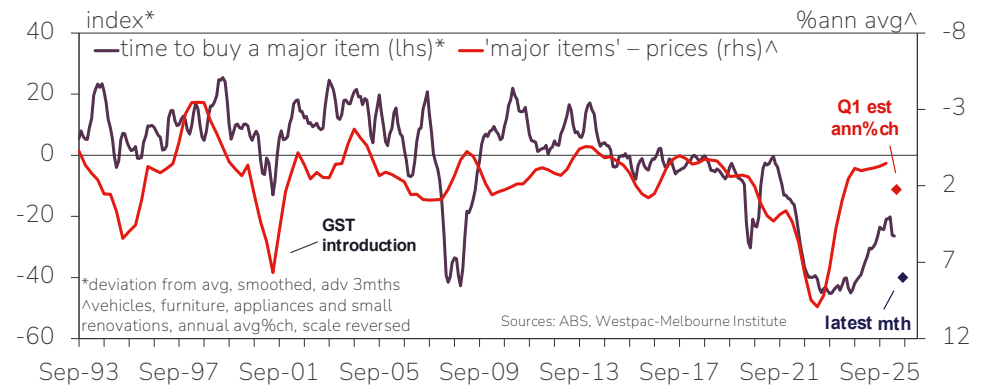


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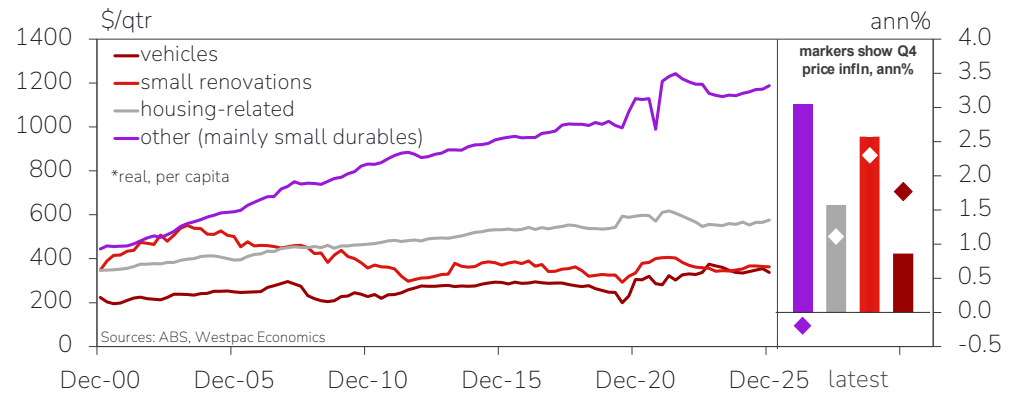
Durables: aborted upturn

- The recovery in buyer sentiment that was gaining momentum through much of 2025 has been knocked back on its heels by the re-emergence of inflation and interest rate rises, with an added dash of concern around jobs as well.
- The 'time to buy a major item' sub-index dropped 15.9% over the three months to April. At 83.3, the sub-index is back near, albeit slightly above, the very weak 75–80 range seen in 2022–24. With a long run average of 123.5, the latest sub-index read is still in the bottom 5% of observations since the survey began in the mid-1970s.
- Chart 22 suggests price moves are again a direct consideration for purchase sentiment. While the focus was on fuel, the March CPI report showed a notable lift in some durables prices, household textiles, audio-visual equipment, vehicles and renovation-related cost inflation all relatively firm over the last year. On a combined basis, annual inflation across the 'major item' segments we track looks to have lifted from the 0-0.5%yr range to a little above 2%yr. That is a long way from the 10% blow-out in 2022-23 but may be adding to consumer concerns about the price outlook.
- 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 Q4 for example, combined per capita spend across the segments we track has risen 1.5%yr despite buyer sentiment reads that have been consistent with contractions in the past.
- Chart 23 shows annual growth in real per capita spending has been firmer for small durables (which have seen price declines over 2025) and for small renovations. Housing-related and motor vehicle purchases have seen slower but still positive growth. Price-wise, renovations and vehicles have seen slightly firmer gains over 2025.
- Partial data suggests Q1 has seen softer volume growth. Vehicle sales look to have fallen by about 2%qtr, despite a significant lift in EV sales that gained a lot more traction in the April month. The ABS household spending indicator detail also showed a decline for furnishings and household equipment (-0.7%qtr), which was coming off a relatively strong 3.3%qtr rise in Q4.

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



23. Consumer spending: 'big ticket' items

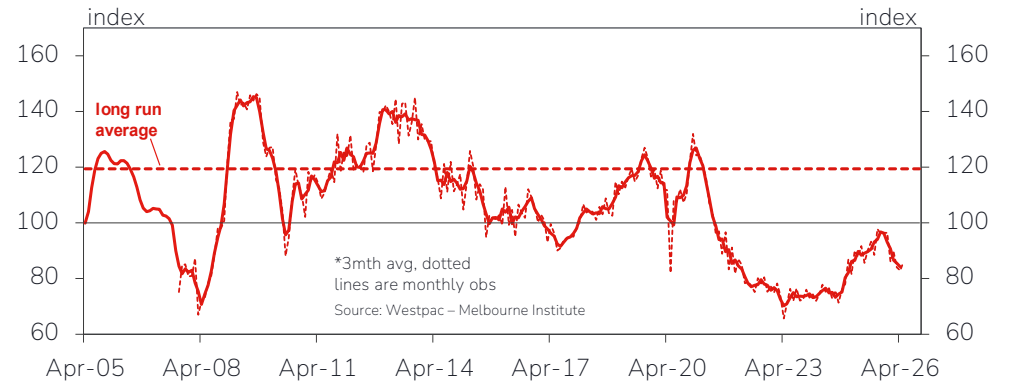


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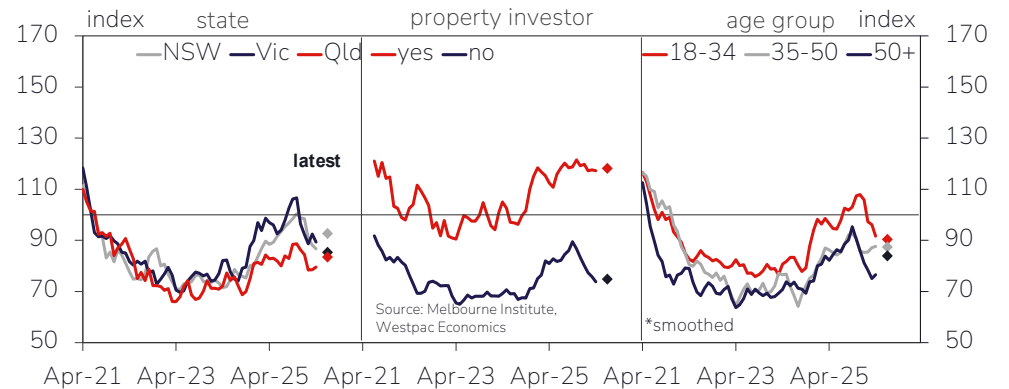
Dwellings: watch this space

- The changed interest rate situation has seen homebuyer sentiment cool materially since late last year, moving back into firmly pessimistic territory but without any additional negative fall-out from the recent fuel price shock.
- The **'time to buy a dwelling'** index declined a further 4.3% over the three months to April, but with a larger 7.5% decline in the first two months partially reversing with a 3.5% gain in April. At 85.8, the index is a massive 33pts below its long run average of 120.
- Buyer sentiment is notably firmer in NSW and SA (both state indexes at 93), around the national read in Vic (85) and Qld (83) and extremely low in WA (66).
- The new year has seen a significant pull-back in buyer sentiment amongst younger age groups who were outright positive on 'time to buy' late last year. That almost certainly related to the significant expansion of the Federal first homebuyer guarantee scheme which allows eligible buyers to purchase with a low deposit without having to pay for loan mortgage insurance. Income caps on eligibility were removed with price caps also raised significantly.
- Interestingly, the sub-group detail continues to show outright positive assessments amongst consumers with an investment property (118) and those working in manager/professional roles (112). Buyer sentiment is also less downbeat amongst freehold home-owners (95), males (97) and Sydney-siders (97). Conversely, it is very low in amongst tenants (76), tradies (70) and females (75) and low income earners (72).
- That may all change significantly in the May update with the Federal government poised to overhaul Australia's capital gains and negative gearing tax regime. While the changes are expected to be 'grandfathered' and phased in over a one year grace-period, they will likely make housing less attractive as an investment option and, indirectly, less challenging for owner occupiers seeking to purchase.
- The May update will also capture reactions to the latest RBA rate hike, ordinarily a material negative for buyer sentiment. Fortunately, the survey will have pre and post budget responses so we will have some gauge of how it has impacted compared to other factors.

24. 'Time to buy a dwelling'



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

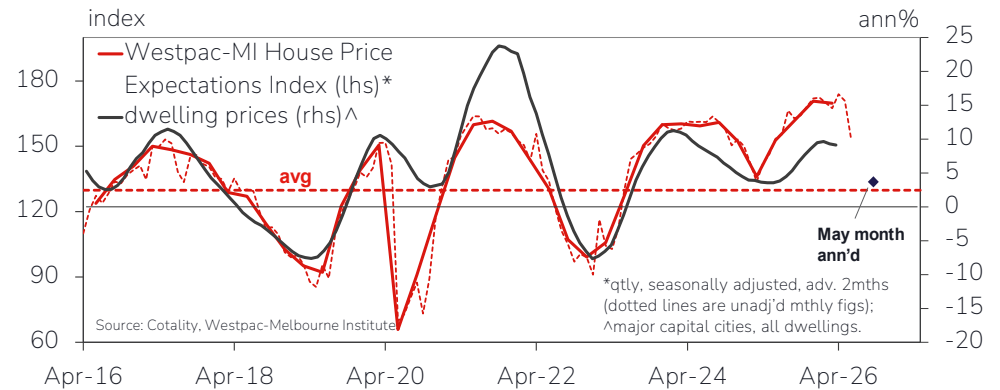


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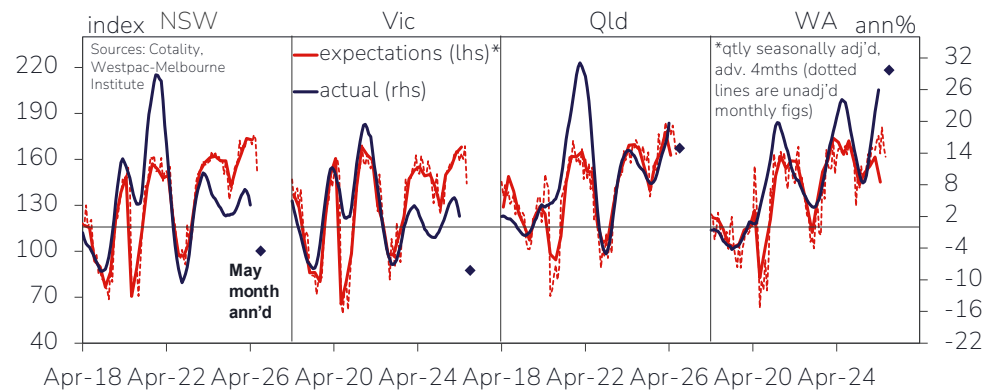
House prices: expectations still hot

- Buyer sentiment has tended to move inversely with price expectations in recent years – falls associated with high price expectations and vice versa. As such, a cooling in consumer house price expectations has likely cushioned the shock to buyer sentiment in the first few months of 2026.
- The **Westpac Melbourne Institute House Price Expectations Index** declined 8.4% over the three months to April, making a more decisive move off what was a 15yr high. At 153.4, the index is well below that 174 peak but still above its long run average of 130.
- The detailed responses still show a clear majority of consumers expecting prices to rise: over two-thirds of those with a view expect an increase over the next year. That is high but less emphatic than the 81% back in February. Just 12% expect prices to fall (compared to 6% in January).
- Notably, the cooling centred on NSW (-11% to 151) and Vic (-12% to 144), where capital city markets, Sydney and Melbourne, have shown a clearer slowing and modest price slippage in recent months (Chart 27).
- Consumer price expectations posted much milder declines and remained significantly higher in Qld, SA and WA with state indexes still in the 162–164 range.
- The Cotality home value index has continued to moderate, monthly price growth slowing to 0.2% nationally in April, annual growth dipping slightly to 9.1%yr. As noted, the slowdown has been more pronounced in Sydney and Melbourne which have recorded outright declines while other major capital cities have continue to see gains (see [here](#) for more).
- Aside from geographic differences, the consumer sentiment survey detail also shows price expectations have fallen more heavily amongst consumers with a mortgage (-15%) and those aged over 50 (-15%).
- As with homebuyer sentiment, price expectations will be watched closely when the post budget reaction is released in May. Of course, price rises and falls have very different implications for different sub-groups so how this plays out across the sub-group detail will be of equal interest.

26. Westpac-MI House Price Expectations Index



27. Dwelling prices: actual vs expected by state

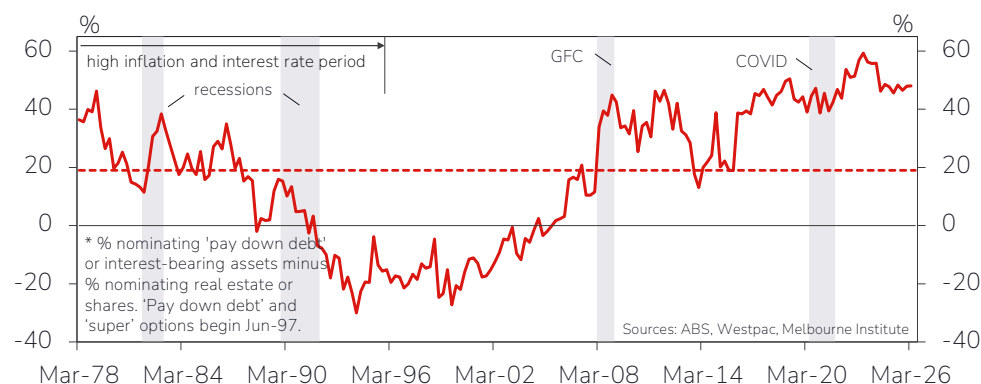


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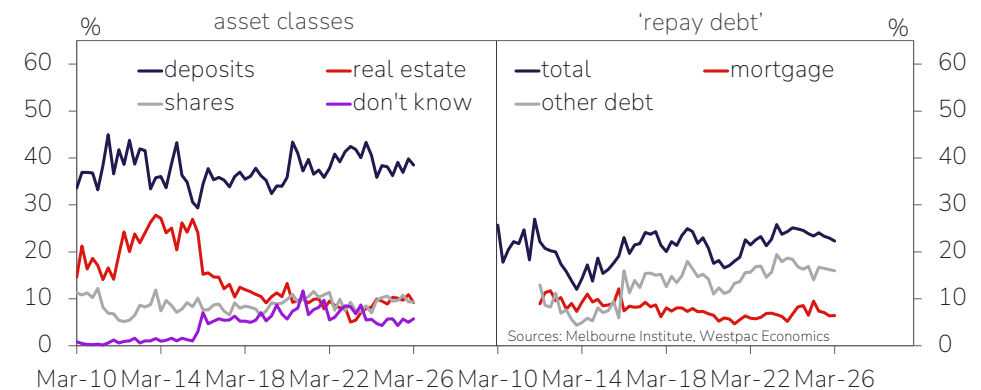
Risk aversion: impact still to come

- Consumer risk aversion was largely unchanged between December and March, holding at a relatively high level. The **Westpac Consumer Risk Aversion Index** rose 0.1pts from 47.9 in December to 48 in March.
- 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’.
- ‘Safe options’ continue to be heavily favoured, with 22% nominating ‘pay down debt’ and 28% nominating ‘bank deposits’ in March.
- Amongst the ‘riskier’ options, consumers were less inclined towards ‘real estate’ (9.2% down from 10.7% in December), still relatively uninterested in ‘shares’ (9.2%) but may be starting to seek out other options. Some 6.4% nominated ‘other’ – the highest read since December 2015. This catch-all category captures a wide range of items including the likes of Bitcoin and gold.
- Of course, this pre-dates some significant events. The March survey pre-dates the RBA’s rate hikes in both March and May. It also largely pre-dates the global energy shock which really started to land sentiment-wise in April. It also pre-dates what are set to be some material tax changes in the Federal budget.
- As such, the June update to this question will be of intense interest as it captures what are likely to be some significant shifts. Interest rate changes are likely to spur some consumers – the mortgage belt especially – towards more heavily favouring repaying debt. The improved deposit returns may see other move in favour of these ‘safe’ assets. The heightened risk environment and changed tax arrangements are also likely to further dampen sentiment towards both ‘shares’ and ‘real estate’.
- The size of the impact from these developments remains to be seen but we may well see risk aversion re-test the extreme highs seen in mid-2023. History suggests rate hikes alone could be enough to drive a 5-6pt rise in our measure of consumer risk aversion.

28. Westpac Consumer Risk Aversion Index vs saving rate



29. Consumer: ‘wisest place for savings’



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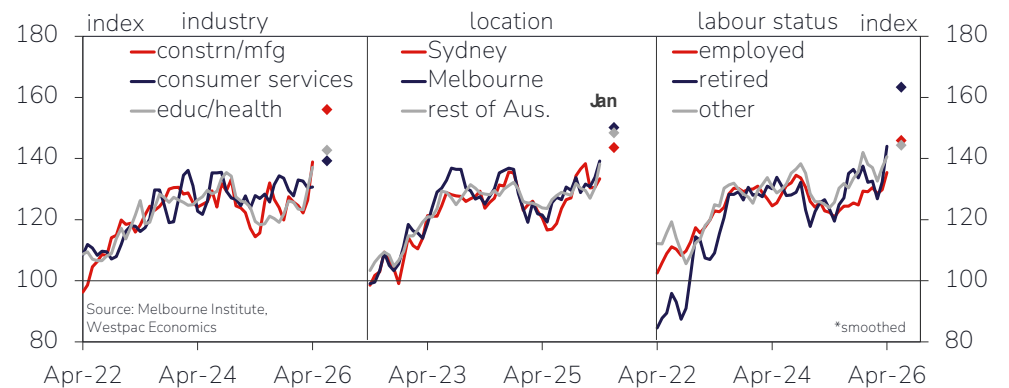
Job security: sectoral concerns

- Notably, the current energy and interest rate shock is having a deeper impact on consumers' labour market expectations than the 2022–24 'cost of living' crisis. The **Westpac-Melbourne Institute Index of Unemployment Expectations** jumped 14% over the three months to April, the sharpest rise since late 2022 but, more tellingly, taking the index to a 5½ year high (recall that lower reads mean more consumers expect unemployment to fall over the year ahead). At 147.9, the April read is well above the long run average of 129.
- Framed against historical variations in unemployment, the April read is consistent with a 0.7-0.8ppt rise in the unemployment rate which, if accurate, would take the unemployment rate to around 5% by mid-2027.
- Any such move has clearly not occurred just yet. ABS figures are only available up to March. These show a relatively calm start to 2026, employment lifting 18k in the March month, annual growth lifting to 1.5%yr, having troughed at 1%yr in January. The unemployment rate held at 4.3%, a dip to 4.1% in December-January now looking more like an anomaly (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 on this also shows little cause for alarm. Labour force survey estimates to February show there were 116k retrenchments, down slightly from 123k in November, the seasonally adjusted retrenchment rate still basically bumping around historic lows (Chart 30). The share of employed persons expecting to be retrenched over the next 12mths is much the same, dipping to 0.3% in the latest survey, well below the 0.5% average historically.
- The sub-group detail shows a significant sectoral theme to the April jump in job-loss concerns. The biggest rise in job loss fears has been amongst those employed in sectors that are most exposed to the energy and interest rate shocks, especially construction (+22% to 152), manufacturing (+22% to 165.4), hospitality (+33% to 144), and arts & recreation (+18% to 135.1). By state, the fear factor is more acute in Tas, Vic and NSW than in SA, Qld and WA.

30. Unemployment expectations



31. Unemployment expectations: selected sub-groups

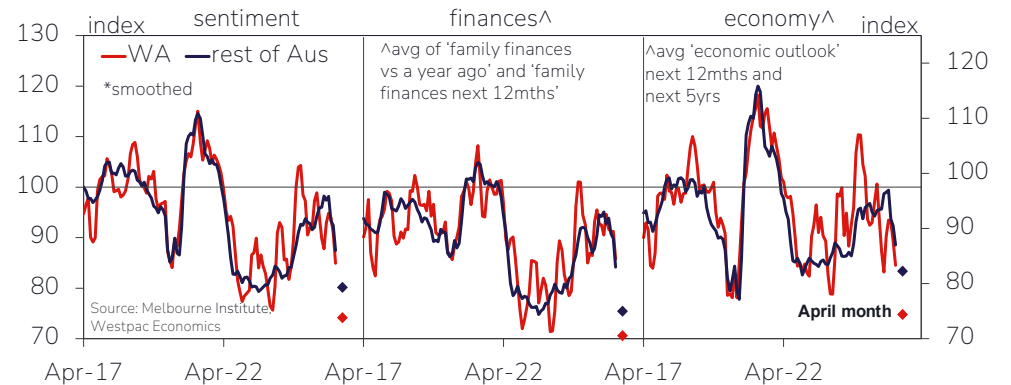


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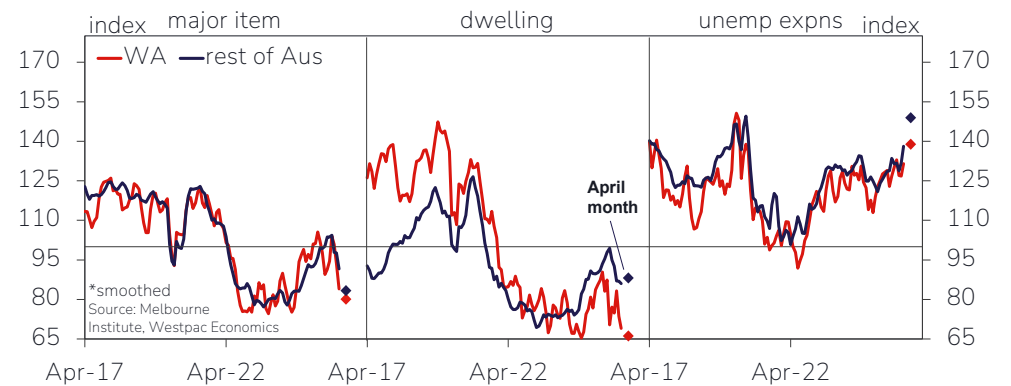
Western Australia

- Consumer sentiment has continued to track a more erratic path in WA, pulling back more sharply in the last three months than the move seen nationally. The last time we profiled the state, a year ago, the 'liberation day' tariffs and associated concerns about a trade shock to global growth were the main source of sentiment volatility. WA is by far Australia's most export dependent state with exports accounting for over 60% of GSP (gross state product being the state analogue of GDP nationally). At the time, the threat to Australia's trade with China, by far the dominant source of demand for WA's lucrative commodity exports, was the central concern.
- Those fears proved to be misplaced and there may be an element of over-reaction to the latest shock to global energy markets as well. As we highlight in the recent update to our state forecasts, while there will be a shock to real incomes, WA and Australia's other mining-dominated states will benefit from elevated commodity prices and are set to outperform the big southeastern states this year and next (see [here](#) for details).
- Be that as it may, WA consumers are more pessimistic than peers across nearly every element of the survey. As Chart 32 highlights, the negative sentiment gap is 6pts overall, with a slightly lower 4.8pt gap on assessments of family finances and a slightly wider 8.6pt gap on the economic outlook. The difference narrows up on assessments of 'time to buy a major item', suggesting purchasing power issues are not particularly different in the west.
- The biggest negative wedge is around housing, where WA's runaway price growth is weighing much more heavily. 'Time to buy a dwelling' assessments are at despairing levels around 66 in WA compared to 88 everywhere else. Unfortunately consumers' house price expectations remain more elevated in WA, suggesting there's no let up expected any time soon (p17).
- Where WA consumers are more positive though is around job security. Even with a shock in April, unemployment expectations are a good 10pts lower, i.e. better, in WA than across the rest of Australia.

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



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



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Economic and financial forecasts

Interest rate forecasts

	Latest (8 May)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Australia										
Cash	4.35	4.35	4.85	4.85	4.85	4.85	4.85	4.85	4.60	4.35
90 Day BBSW	4.44	4.55	4.90	4.90	4.95	4.95	4.95	4.80	4.55	4.30
3 Year Bond	4.64	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
3 Year Swap	4.63	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
10 Year Bond	4.96	5.00	5.05	5.05	5.05	5.05	5.00	4.95	4.90	4.90
10 Year Spread to US (bps)	57	65	65	60	55	50	40	30	20	15
US										
Fed Funds	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
US 10 Year Bond	4.39	4.35	4.40	4.45	4.50	4.55	4.60	4.65	4.70	4.75

Exchange rate forecasts

	Latest (8 May)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	0.7203	0.72	0.72	0.73	0.73	0.74	0.74	0.74	0.73	0.73
NZD/USD	0.5934	0.59	0.59	0.62	0.64	0.66	0.67	0.67	0.67	0.67
USD/JPY	156.89	157	156	154	152	150	148	146	144	142
EUR/USD	1.1730	1.18	1.18	1.19	1.20	1.21	1.22	1.22	1.22	1.22
GBP/USD	1.3552	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.41
USD/CNY	6.8023	6.80	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35
AUD/NZD	1.2139	1.22	1.22	1.18	1.14	1.12	1.11	1.10	1.10	1.10

Sources: Bloomberg, Westpac Economics.

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Economic and financial forecasts

Australian economic growth forecasts

	2025		2026		2027			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
GDP %qtr	0.5	0.8	0.5	0.2	0.1	0.2	0.3	0.4
%yr end	2.1	2.6	2.6	1.9	1.6	1.0	0.9	1.1
Unemployment rate % *	4.3	4.3	4.2	4.4	4.6	4.9	5.0	4.9
Wages (WPI) (sa) %qtr	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8
%yr end	3.3	3.4	3.3	3.2	3.2	3.2	3.2	3.2
Headline CPI %qtr	1.3	0.6	1.4	1.5	1.4	0.5	0.6	0.6
%yr end	3.2	3.6	4.1	4.9	5.0	4.9	4.1	3.2
Trimmed Mean CPI %qtr	1.0	0.9	0.8	1.1	1.1	1.0	0.8	0.7
%yr end	3.0	3.4	3.5	3.9	4.0	4.0	4.0	3.6

Calendar years

	2025	2026f	2027f	2028f
GDP %qtr	-	-	-	-
%yr end	2.6	1.0	1.6	2.8
Unemployment rate % *	4.3	4.9	4.9	4.5
Wages (WPI) (sa) %qtr	-	-	-	-
%yr end	3.4	3.2	3.0	3.4
Headline CPI %qtr	-	-	-	-
%yr end	3.6	4.9	2.5	2.2
Trimmed Mean CPI %qtr	-	-	-	-
%yr end	3.4	4.0	3.0	2.4

* Quarter-average.

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Consumer demand

	2025				2026				
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	
% change									
Total private consumption*	0.6	1.0	0.5	0.3	0.6	0.0	0.2	0.4	
annual chg	0.9	2.3	2.6	2.4	2.5	1.4	1.1	1.2	
Real labour income, ann chg	3.0	3.7	3.9	3.3	2.5	0.7	0.4	0.4	
Real disposable income, ann chg**	4.7	4.8	3.8	3.7	1.6	0.1	1.2	-1.2	
Household savings ratio	6.8	5.8	6.1	6.9	6.1	4.7	6.3	4.0	
Real retail sales, ann chg	1.2	1.5	1.7	1.8	1.8	2.0	1.7	0.5	
Motor vehicle sales ('000s)***	879	855	877	861	870	879	887	896	
annual chg	-6.5	-4.2	2.4	1.1	-1.0	2.7	1.1	4.0	

	Calendar years			
	2024	2025	2026f	2027f
Total private consumption, ann chg*	0.7	2.1	1.5	1.7
Real labour income, ann chg	2.1	3.5	1.0	2.3
Real disposable income, ann chg**	2.3	4.3	0.4	1.3
Household savings ratio, %	4.1	6.4	5.3	4.9
Real retail sales, ann chg	0.2	1.7	1.6	1.6
Motor vehicle sales ('000s)	885	868	883	918
annual chg	-2.4	-1.9	1.7	4.0

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.

Consumer sentiment

% change	2025						2026					
	avg^	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Westpac-MI Consumer Sentiment Index	100.3	93.1	98.5	95.4	92.1	103.8	94.5	92.9	90.5	91.6	80.1	
family finances vs a year ago	87.9	79.2	84.2	86.3	82.1	85.2	80.9	82.7	78.8	80.2	66.8	
family finances next 12 months	106.5	101.4	106.8	107.7	97.1	109.1	102.4	97.8	97.7	97.6	84.0	
economic conditions next 12 months	90.7	94.1	101.2	92.2	89.9	104.8	94.6	88.4	88.5	85.9	75.3	
economic conditions next 5 years	92.2	93.4	98.4	92.7	94.0	108.4	95.7	96.5	94.1	96.3	91.4	
time to buy major household item	123.3	97.6	101.7	98.2	97.2	111.6	98.9	99.1	93.5	98.0	83.3	
time to buy a dwelling	119.4	88.5	97.8	96.1	96.5	96.4	86.2	89.6	84.0	82.9	85.8	
Westpac-MI Consumer Risk Aversion Index^^	18.9	-	-	46.5	-	-	47.9	-	-	48.0	-	
CSI±	99.7	82.6	86.4	86.4	82.4	89.6	83.6	82.9	80.5	81.9	71.5	
Westpac-MI House Price Expectations Index#	129.8	162.8	164.2	168.4	171.9	172.4	169.9	167.5	173.9	171.0	153.5	
consumer mortgage rate expectations#	40.5	-16.9	-16.4	-12.0	1.7	19.1	45.5	52.8	77.5	70.5	77.2	
Westpac-MI Unemployment Expectations	129.2	128.7	125.6	131.4	127.6	139.5	126.8	129.4	129.8	134.7	147.8	
MI inflation expectations (trimmed mean)	4.4	4.7	3.9	4.7	4.8	4.5	4.7	4.6	5.0	5.2	5.9	
MI wage expectations (trimmed mean)	1.3	1.2	1.3	1.2	1.4	1.5	1.3	1.3	1.3	1.3	1.3	

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