August 2026

# THE RED BOOK

Quarterly update on the Australian consumer

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The **Westpac Red Book** report is produced by Westpac Economics.

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# Another winter of discontent

The Australian consumer remains out of sorts. Sentiment is stuck near historical lows, with finances under pressure and inflation and interest rate rise fears still dominating the outlook. While some of the situation has improved slightly since May, it looks like a long road back to 'normal'.

As discussed on p7, sentiment reads have been much weaker than actual spending in recent years. The apparent disconnect is likely due to a mix of legacy effects from COVID and the specific challenges posed by high inflation.

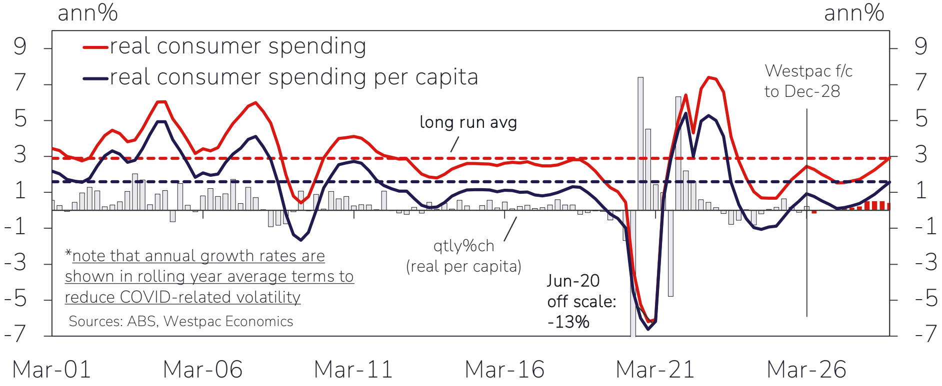
However, it may also simply be a case of fatigue. Consumers have had to contend with a series of major shocks since the turn of the decade, including: COVID; the post-COVID inflation; Russia's invasion of Ukraine, last year's 'liberation day' tariff turmoil and this year's conflict in the Middle East. The most recent shocks have come with the added stress of daily twists and turns and conflicting signals from the US President at their epicentre. Throw in an AI revolution, a possible bubble in tech stocks, and now a housing downturn locally and it has been... 'a lot'.

Our August **Red Book** surveys the consumer psychological scene more closely. Of particular note is the widening divergence in sentiment across sub-groups and how this appears to be factoring in shifting political support between the major and minor parties.

The main takeaway however is that we need to be very careful with mapping sentiment levels and changes to spending at the moment. This is something we have been well aware of for some time and have allowed for in our forecasts.

Our working hypothesis is that much of the current disconnect relates to high inflation. As such, it should become less of an issue as we see a sustained moderation in inflation over the next 12-18 months. That said, the narrowing in the gap is likely to come through sentiment recovering significantly before we see much of a lift in spending growth. This reinforces our general view that a sluggish rather than outright weak demand environment now will be followed by an equally sluggish recovery. The sense of fatigue may fade but the going is likely to remain slow.

### 1. Consumer spending: renewed squeeze




## "... a long road back to 'normal'"

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.

# Quick run-down

The **Westpac–Melbourne Institute Consumer Sentiment Index** lifted 4.7% over the 3mths to July but remained at very weak levels overall, the July monthly read of 83.9 is in the lowest 10% of reads in the 50yr history of the survey.

Survey responses over the course of the survey week highlight the ongoing influence of developments in the Middle East with sentiment deteriorating markedly after renewed conflict was reported.

The component detail shows choppy moves over the last three months with a bigger improvement in the outlook for finances but a weakening in 5yr expectations for the economy and only milder gains for other components. The sub-group detail shows a widening dispersion of sentiment with extremely weak reads a factor in recent shifts in political support.

Risk aversion has spiked back to near historical highs. The **Westpac Risk Aversion Index** was 60 in June, up from 47 in March and the second highest level since the survey began in the mid 1970s. 'Safe options' remain heavily favoured with the share of consumers nominating 'real estate' as the wisest place for savings dropping to just 4.5%, an all time low.

The sentiment mix suggests spending momentum has continued to weaken. **CSI±,** a modified indicator that shows a better correlation with per capita spending, points to a shift back to outright contraction.

Sentiment-based indicators have shown a disconnect with actual spending in recent years. This likely relates to high inflation and suggests: 1) that spending is likely to be sluggish rather than weak near term; and 2) easing inflation may see a recovery in sentiment but a slower improvement in spending.

Consumers are a little less fearful of further interest rate rises. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** declined 8.3% over the 3mths to July but, at 162.6, remained well above historical averages.

The **'time to buy a major item'** index posted a muted 4.2% rally over the 3mths to July but at 86.8 remains a long way below the historical average of 123.5. Actual spending on durables and major items has slowed but been relatively resilient compared to buyer sentiment.

Homebuyer sentiment has been unsettled. The **'time to buy a dwelling'** index was choppy through May-July, declining 0.5% overall to still very weak levels. The state detail shows buyers are less downbeat in NSW and Vic while the sub-group detail shows sentiment has been improving amongst renters and consumers that do not own investment properties.

The rapidly cooling in housing markets is seeing an equally rapid shift in consumer house price expectations. The **Westpac–Melbourne Institute Consumer House Price Expectations Index** posted a steep 23% drop over the 3mths to July to just 118. While the Index is still above 100, implying more consumers expect prices to rise than fall, this is the first below average read since March 2023.

A moderate lift in job-loss fears following the spike in energy costs has unwound. The **Westpac–Melbourne Institute Unemployment Expectations Index** fell 12.1% over the three months to July, reversing most of the 14% lift over the previous three months (recalling that lower reads are an improvement meaning more consumers expect unemployment to fall over the year ahead). At 129.9 the Index is now in line with long run averages.

# Fatigued

- Consumers remain deeply pessimistic, weighed down by continued uncertainty about the path for inflation and interest rates and disruptions emanating from conflict in the Middle East. The **Westpac Melbourne Institute Index of Consumer Sentiment** lifted 4.7% over the 3mths to July but remained at very weak levels overall, the July monthly read of 83.9 is in the lowest 10% of reads in the 50yr history of the survey.

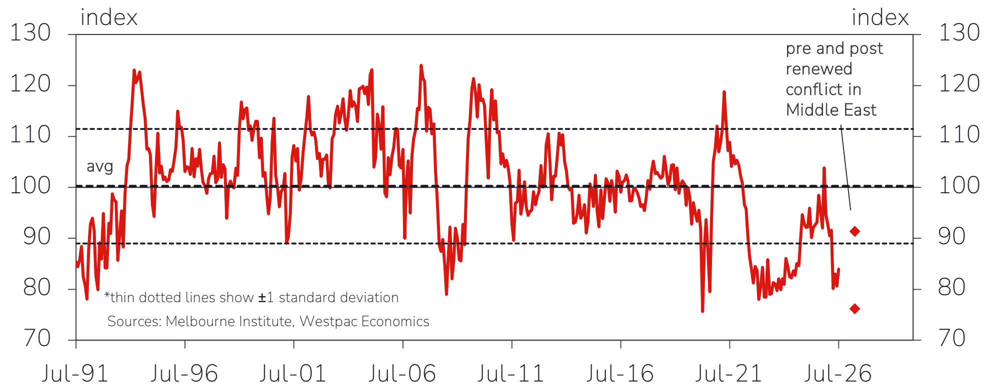
- Survey responses over the course of the survey week highlight the ongoing influence of developments in the Middle East. The US-Iran ceasefire established in April was solidified with a formal Memorandum of Understanding in mid-June that allowed for a brief reopening of the Strait of Hormuz. The agreement collapsed with renewed conflict emerging during the July survey week. Daily responses show sentiment swinging from 91 amongst those surveyed prior (a strong rally vs June) to just 76 amongst those surveyed after the collapse. While daily responses are not weighted to be statistically representative and other factors may have been at play, the pattern suggests the renewed conflict had a significant hand in the weak July result.

- Local pump prices tracked back from an initial peak of around $2.40/litre in the first week of April to average just over $1.80 in May and $1.65 in June as a temporary halving in fuel excise tax combined with some easing in oil prices. A renewed rise in oil and unwinding tax cuts saw prices start to lift again, particularly through late July/ early August, with average pump prices currently sitting at $2.05/litre. That said, sentiment-wise, survey-to-survey moves were positive in May, June and July.

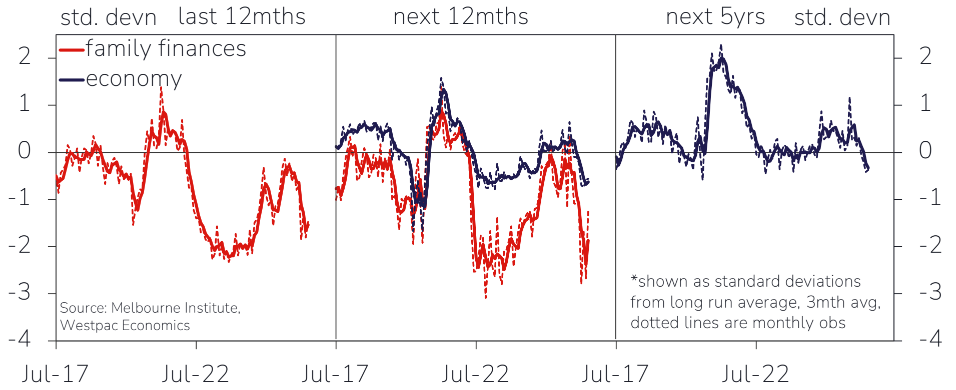
- The interest rate backdrop has also been slightly less negative since April with the RBA leaving the cash rate unchanged at its mid-June meeting but noting that this was a pause to assess the situation and warning that it was prepared to hike again if needed.

- The next survey update (due August 18) will again see a complex mix of developments: the situation in the Middle East still fluid; local pump prices up sharply but the RBA leaving rates unchanged and sounding slightly less threatening on hikes. How the mix plays out for sentiment will give a better sense of how significant each of these factors has been.

## 2. Consumer sentiment: deeply pessimistic

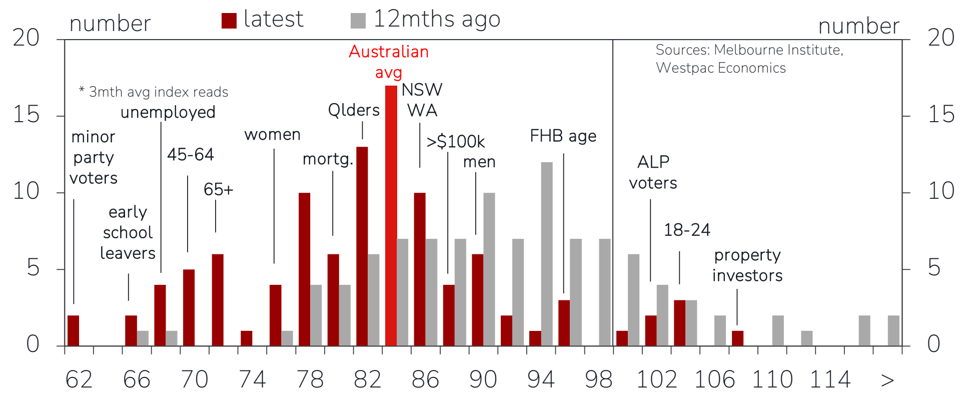



## 3. Consumer sentiment: finances, economic conditions

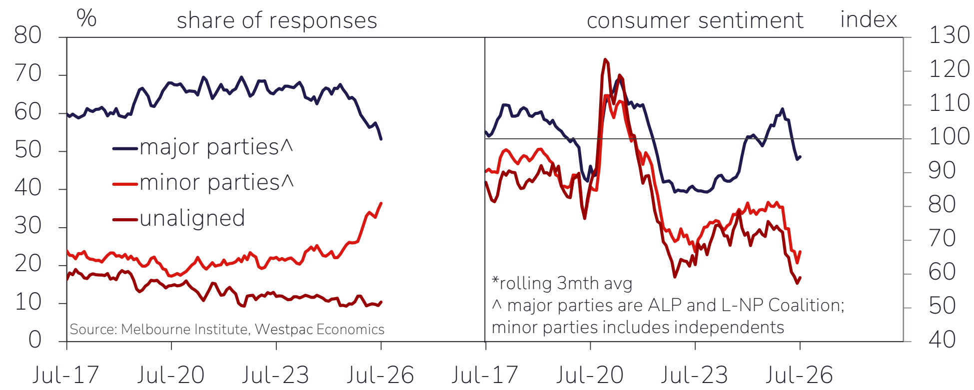


- The component detail shows choppy moves over the last 3mths. The ‘finances next 12mths’ sub-index posted a particularly strong 14.8% gain and at 96.5 in July its level is now consistent with marginal rather than widespread pessimism. The ‘finances vs a year ago’ sub-index posted a milder 6% gain and at 71.1 remains extremely weak. It is a similar story for the ‘economy next 12mths’ and ‘time to buy a major item’ sub-indexes (both posting net gains of around 4% but remaining in firmly pessimistic territory) The ‘economy, next 5 years’ sub-index has bucked the trend, deteriorating 4.7% over the last 3mths to a firmly pessimistic 87.1.
- The sub-group detail shows sentiment improved across over 70 of the 100-odd sub-groups we track. As Chart 4 shows, pessimism is widespread, with only five sub-groups reporting net optimistic reads (>100) and over a third reporting very pessimistic sub-80 reads. More generally, the dispersion of sentiment reads has been widening steadily since 2024 with the average spread over the last year the largest since most sub-group measures began in 1996 (nearly 50% wider than 30yr average).
- This widening divergence appears to be a factor in recent shifts in political support. The survey asks respondents which party they would vote for if a Federal election was held today.
- Chart 5 shows how the share of responses and sentiment reads have evolved for three groups: those supporting the major parties; those supporting minor parties or independents; and the ‘unaligned’. The ‘major party’ share has fallen from what had been a consistent 60-65% up to a year ago to just 53% now, easily a record low on history back to 1995. That has seen a corresponding lift in ‘minor party’ support to 36% from consistent prints in the 20-25% range. The right panel shows the sentiment gap across these groups is stark with pessimism relatively mild across ‘major party’ voters (95) but extreme amongst both ‘minor party’ voters (67) and the unaligned (59). The typical negative spread of 10-15pts has blown out to 30-35pts. While the root causes may be debatable the shift in support towards minor parties appears to relate to a starkly different sentiment view, a gap that is even wider for those that still see themselves as unaligned, or ‘swing’ voters.

## 4. Consumer sentiment: distribution across sub-groups




## 5. Consumers: broad voter groups and sentiment



# Spending-sentiment disconnect?

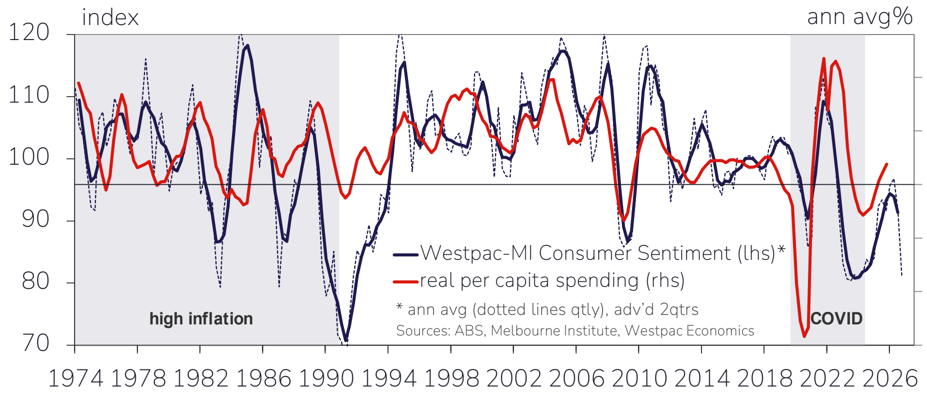
- Consumer sentiment has fallen back towards historical lows in 2026, latest Index reads in the bottom 10% of responses over the 50yr history of the survey. Despite this, spending appears to be holding up reasonably well, at least for now. Annual growth is still tracking positively in per capita terms, well above the 1-1.5% contraction when sentiment plumbed these levels back in 2023-24. Indeed, even that earlier period seemed to see somewhat milder declines than the extremely weak sentiment reads appeared to be pointing to at the time. What should we make of this apparent spending-sentiment disconnect? And how should we interpret reads going forward?

- For such a simple measure, consumer sentiment has been a surprisingly good predictor of spending trends historically. Chart 6 shows sentiment reads – in annual average and quarterly terms – going back to 1974 alongside annual average growth in real per capita consumer spending. While far from perfect, 'low frequency' sentiment shifts (i.e. ones sustained over multiple months) have more often than not foreshadowed turning points in actual spending growth.

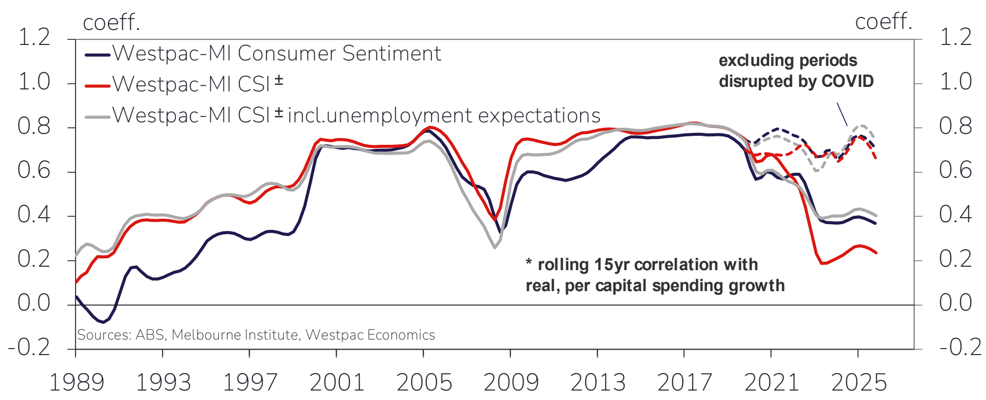
- That said, there are some notable exceptions. Sentiment is typically more volatile than spending, often reacting to developments that end up having little or no consequence. This is not a criticism but more a reflection of how difficult it can be to assess the real world impacts of events, e.g. last year's 'liberation day' tariff turmoil dented confidence but ultimately had only a minimal impact on consumers. Even shocks or cycles that have longer-lasting effects can be over-estimated.

- The chart highlights two periods when sentiment and spending were particularly out of whack: 1) the high inflation of the 1970s and 1980s; and 2) during and immediately after COVID. For the latter, spending swings were much larger than sentiment moves due to the over-riding effect of health restrictions. The disconnect during the high inflation period is perhaps more interesting as it may account for some of the patterns we are seeing now. Back when high inflation was systemic, consumers likely had a harder time assessing prospects as inflation was often volatile and incomes heavily influenced by tax realignments and other measures that were difficult to accurately anticipate.

### 6. Consumer sentiment and spending: full history

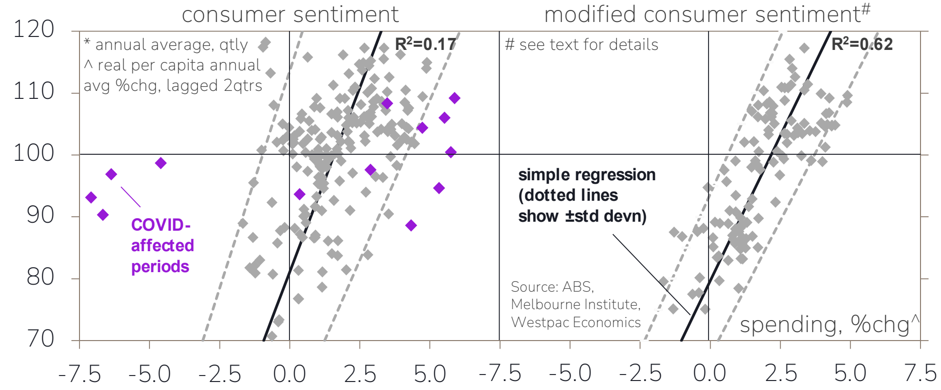



### 7. Consumer sentiment and spending: rolling correlations

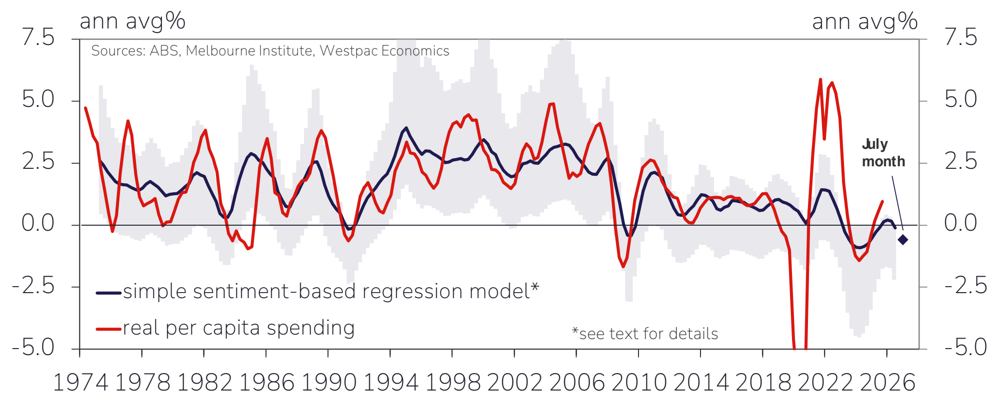


- The current period of high inflation is (hopefully) not systemic in nature. As such, the sentiment-spend disconnect may relate more to: the shock of experiencing high inflation in 2022 (after 30yrs of much more benign outcomes); the difficult monetary policy decisions this has forced; and, more recently, some over-reaction to the much milder lift in inflation since mid-2025.
- The limitations of headline sentiment as a predictor have long been known. Responses to more specific questions on family finances and 'time to buy a major item' appear to provide more information (as discussed in this [RBA bulletin]). Our preferred gauge, the **CSI±** measure used in this report (see p11), combines these sub-indexes with the **Westpac Consumer Risk Aversion Index**. Chart 7 shows this has a higher correlation with per capita spend historically but has underperformed markedly, due mainly to much weaker reads on 'time to buy'. Expanding this measure to also include the **Westpac-Melbourne Institute Index of Unemployment Expectations** significantly improves both the most recent correlation and slightly improves historical performance as well.
- Chart 8 illustrates the improved fit once COVID and high inflation periods are excluded and the more refined consumer sentiment measure is used. The left panel shows a scatter plot of headline index reads vs real per capita spending growth over the full history - a simple regression is upwardly sloped but has a poor fit with a standard error in the 2.5-3ppt range. The right panel, which excludes high inflation and COVID periods and uses the refined measure has a much higher fit and a smaller standard error in the 1.3-1.7ppt range. Chart 9 shows how this simple model looks compared to historical spending growth.
- What does this mean going forward? Current readings suggest annual average growth in per capita spending should stall about flat as we head into the second half of the year. Whether that emerges will go some way towards resolving whether there is an 'inflation disconnect' at play. If so, any gap is likely to close as inflation subsides, most likely through a rally in sentiment associated with a relatively muted lift in spending. So either spending slows near term or lags behind a presumed sentiment recovery in 2027.

## 8. Consumer sentiment and spending: simple regressions



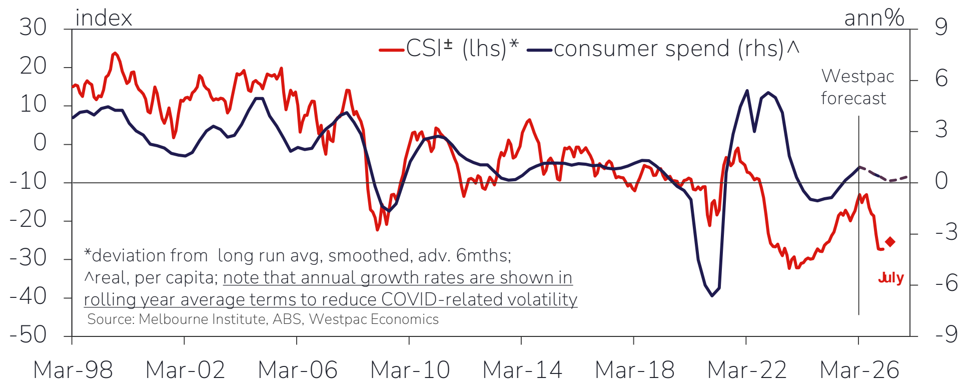

## 9. Modified consumer sentiment vs spending



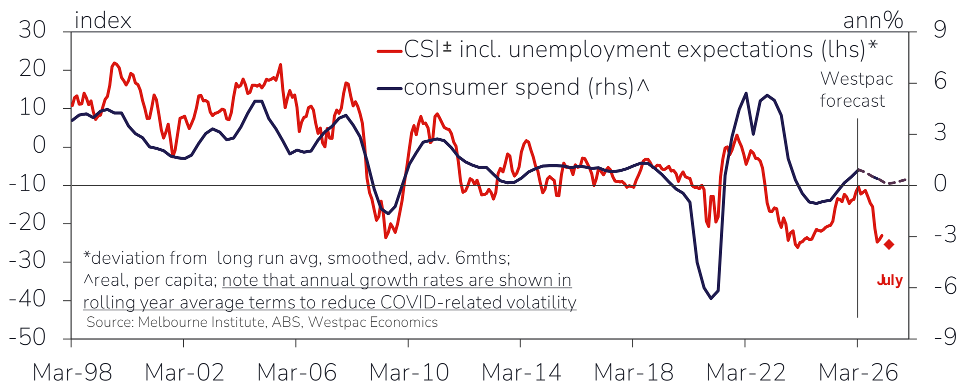
# Spending: drowning or just waving?

- As discussed, 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 rather than a point estimate.
- The **CSI±** indicator weakened dramatically in April, dropping from 81.7 to 70.6, improving slightly to 74.2 in July. The weakening since March has centred on current assessments of finances, 'time to buy' and a sharp rise in risk aversion.
- Chart 10 shows the current read is consistent with a large contraction in real per capita consumer spending, even allowing for the wedge that has opened up between observed spending growth and the **CSI±** indicator over the last few years.
- Following the analysis on p7-8 we are now also including a slightly modified version of the indicator that includes the **Westpac-Melbourne Institute Index of Unemployment Expectations** (chart 11). This has also fallen dramatically since March and is pointing to a contraction in per capita spend albeit with a marginally narrower gap vs actual spending growth over the last few years.
- The Q1 national accounts, which largely pre-dated the impact from interest rate rises and global energy disruptions, showed spending up 0.5%qtr, 2.5%yr. While the quarter was a slight step-up on the 0.4% gain in Q4, this was entirely due to changes in electricity rebates with spend excluding electricity up just 0.3% in Q1 vs 0.6% in Q4.
- The detail showed spending gains concentrated in essentials (up 0.4%qtr excl. electricity) with discretionary barely up 0.1%qtr. The biggest positive contributions came from the large 'basic food' category (+0.8%qtr) with a notable rise in fuel despite the price spike in the March month (+0.6%qtr) that likely captured some 'stockpiling' purchases.

## 10. CSI± vs consumer spending

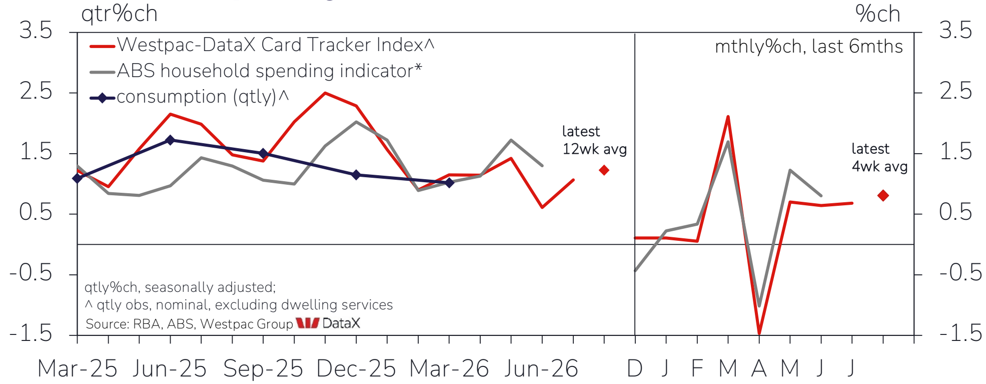



## 11. CSI± incl. unemployment expectations vs consumer spending

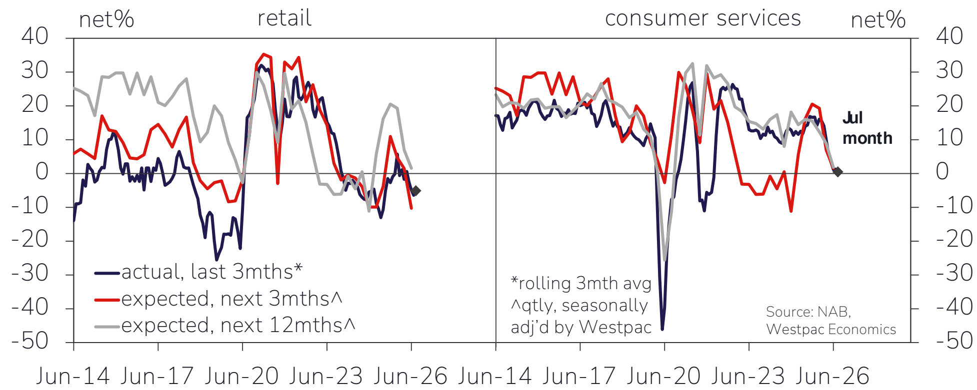


- The Q1 detail on incomes was on the soft side, real (inflation-adjusted) disposable incomes up just 0.2%qtr, annual growth slowing from 3.8%yr to 1.9%yr, partly reflecting higher interest and tax payments. The gap between incomes and spending was 'funded' by a decline in the share of income being put towards saving, the household savings ratio dropping back from 7% in Q4 to 6.2% in Q1, in line with the rates seen through Q2 and Q3 last year. Overall, the mix suggests households absorbed most of the initial income squeeze through reduced savings.
- Partial data for Q2 has been somewhat mixed but better than expected. Our **Westpac-DataX Card Tracker Index** shows nominal activity moving along a subdued trend through much of the June quarter but firming again through July, quarterly growth back around 1%qtr. The ABS household spending indicator has been firmer, nominal spend rising 1.3%qtr in Q2 and real spend up 0.7%qtr. The stronger signal partly relates to coverage – the ABS indicator includes vehicle sales, which rose strongly in Q2 (see p13) and excludes Australian spending abroad which likely declined due to travel disruptions.
- Our estimates suggest the scope differences vs our card tracker index are worth about +0.4ppts for vehicles and +0.3ppts for spending abroad. Industry figures suggest vehicle sales surged 6.5%qtr in Q2 led by a 30% rise in EV and hybrid vehicles.
- Private sector business surveys suggest conditions have softened across both the retail and consumer services sectors. Near term expectations are weak for retailers and about flat for service sectors with year-ahead expectations flat across both.
- The ABS will publish full spending estimates with the Q2 national accounts update on September 2. Based on the available partials, we have marked up our forecast from flat to +0.2%qtr, noting that the national accounts estimates will include likely weak reads on spending abroad. There may also be some softness around electricity consumption due to the mild winter and increased supply from rooftop solar and batteries.
- With the RBA set to leave interest rates on hold, consumer spending is now expected to be slightly firmer through the H2 2026 with annual growth of 1.5%yr vs 1.1%yr previously.

## 12. Consumer spending: selected indicators




## 13. Business conditions: retail and consumer services

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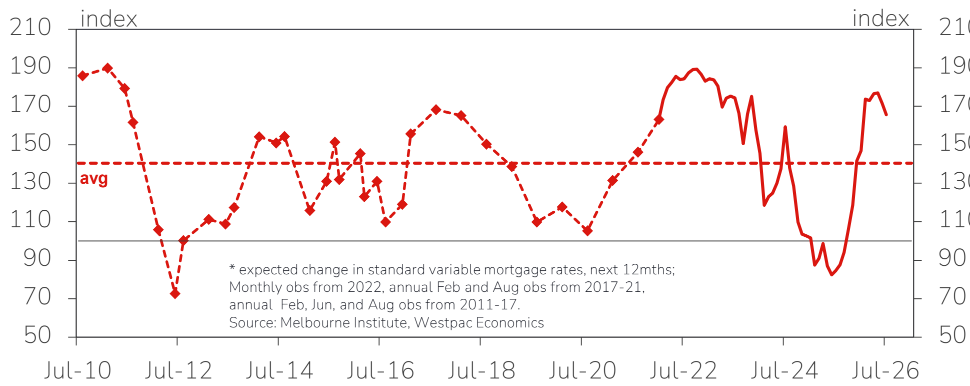
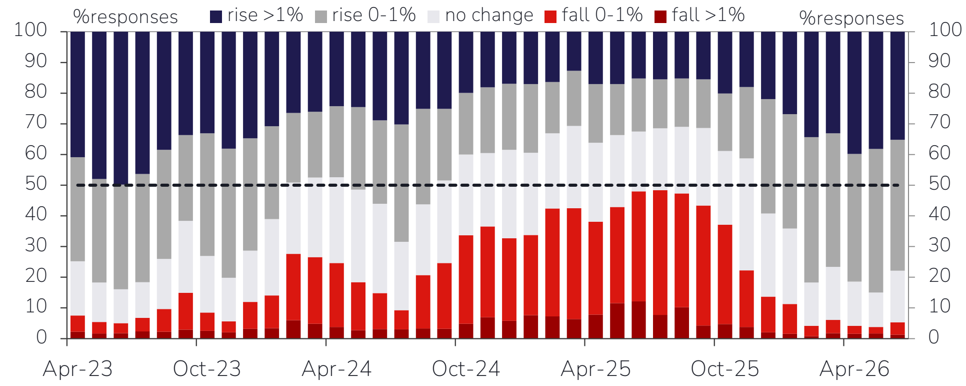
# Interest rates: a little less troubling

- Back-to-back rate rises rattled consumers in the first half of the year but the outlook has become a little less troubling since May. The **Westpac–Melbourne Institute Mortgage Rate Expectations Index**, which tracks consumer expectations for variable mortgage rates over the next 12mths, declined 8.3% over the 3mths to July. That said, at 162.6, the Index is still at a high level well above historical averages.
- The detailed responses in July show 60% of those surveyed expect mortgage rates to increase further over the next 12 months. This compares to 66% in June and 74% in May. Notably, most of the easing has come from a decline in the proportion expecting rates to rise by more than 1ppt, from a third in May to a quarter in July.
- The RBA's decision to leave the cash rate on hold at its June meeting may have calmed fears that there would be a continued rapid sequence of hikes. That said, the conviction on the interest rate outlook is not high with 17% of consumers in the July survey simply reporting that they "don't know" where rates are going, the highest share since March 2022.
- Overall, July responses suggest consumers were broadly expecting another two 25bp rate hikes from the RBA. That expectation has very likely evolved since then with subsequent inflation updates proving to be less threatening than feared and more recently with the RBA choosing to leave the cash rate unchanged again at its August meeting, albeit continuing to warn that it was prepared to hike again if upside risks to inflation materialise (see here).
- Westpac now expects RBA to leave rates on hold through the remainder of 2026, with an eventual relaxation in tight policy settings coming through from mid-2027. That shift is likely to evolve gradually however with the RBA maintaining a vigilant stance towards inflation risks through the second half of this year in particular.
- Our August survey, currently in the field, will provide an important update on interest rate expectations following both the latest inflation data and RBA decision. Notably, as at July, the mortgage belt was a little more anxious about rates with 65% of this sub-group still expecting a rise.

### 14. Mortgage interest rate expectations




### 15. Consumer expectations for mortgage rates

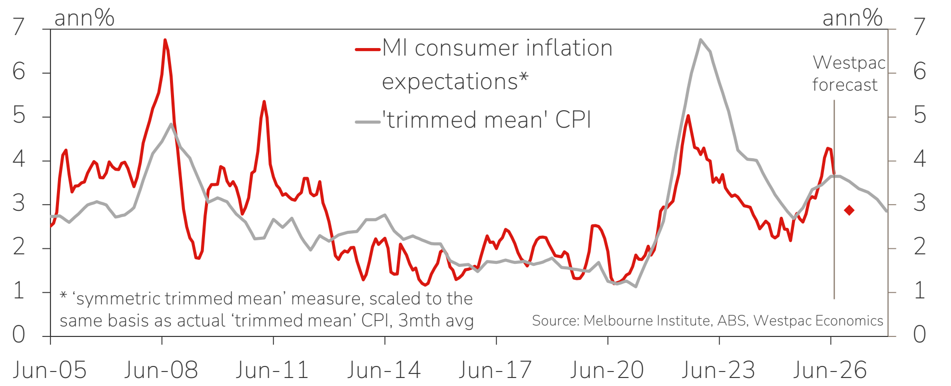


Source: Westpac-Melbourne Institute

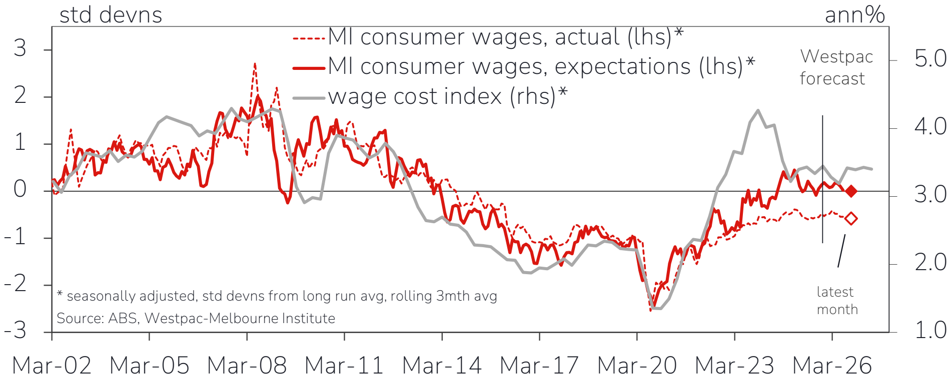
# Inflation: better than feared

- The last three months have seen some positive, or at least, less negative than expected, developments around inflation. Oil prices have tracked back from their March-April highs with global inflation also remaining well-contained. Domestically, local inflation updates have also been slightly less threatening while near term consumer inflation expectations have tracked back nicely from their recent peaks.
- The June CPI showed a 0.6%qtr gain for headline inflation, the annual pace easing slightly to 3.9%yr (see here). The 'trimmed mean' measure, which excludes the largest price variations each period (such as fuel in the latest quarter) posted a 0.8%qtr, annual growth coming in at 3.6%yr but the last two quarters tracking a more moderate 3.2% annualised pace.
- Adding to this more benign picture, consumer inflation expectations have moved sharply lower as well. After peaking at 5.9% in April, the Melbourne Institute's 'symmetric mean' measure of consumers' year-ahead inflation expectations dropped back to 4.7% in July, on a par with the levels seen around the turn of the year.
- Scaling according to historical inflation outcomes suggests current expectations are consistent with actual inflation back in the 2.5-3% range. It should be noted that expectations are heavily influenced by fuel price moves. As such, the fall may be a delayed reaction to the temporary halving in fuel excise tax (and the state governments waiving GST on fuel). With those measures rolling off through July-August, we may see some renewed lift in expectations. More broadly, from the RBA's perspective, it will be important for inflation expectations to track right back towards historical levels and hold there for it to be comfortable that expectations more generally remain firmly anchored at low inflation rates.
- Consumer wage expectations have been broadly unchanged, tracking in the same range seen since mid-2024. While that is a touch above average, the readings on both actual and expected wages are still broadly consistent with a slight moderation in wages growth into the 3-3.5% range. The Q1 update showed wage price growth running at 3.3%yr (see here). The Q2 update is due August 19.

## 16. CPI Inflation: actual vs expected




## 17. Wages growth: actual vs expected



# Durables: holding the line

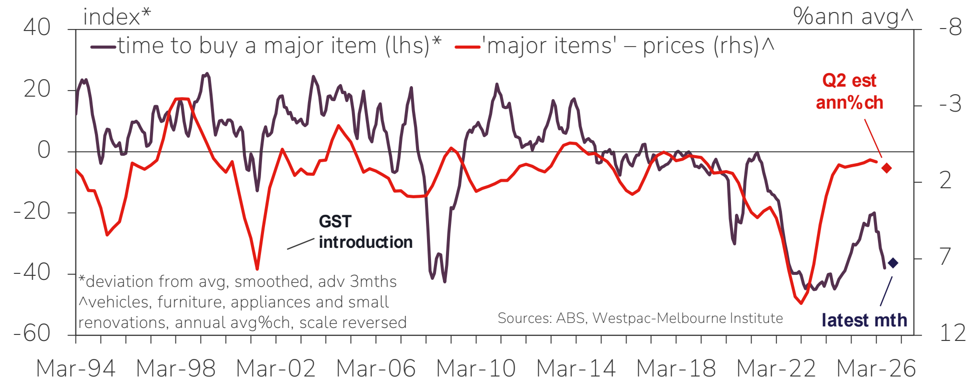
- Durables spend has continued to tick over, growth slowing but remaining positive despite continued weak reads on 'time to buy a major item' and a material deterioration in buyer sentiment since the start of the year. The 'time to buy a major item' sub-index posted a muted 4.2% rally over the three months to July but at 86.8 remains a long way below the historical average of 123.5, the latest sub-index read still in the bottom 7% of observations since the survey began in the mid-1970s.

- As discussed regularly over the last four years, the extreme weakness appears to relate to the significant deterioration in purchasing power that has occurred since the post-COVID inflation surge in 2022. The more recent turn however may be more related to the high level of prices rather than actual inflation. As Chart 18 shows, durable goods prices have been much more stable since 2024, inflation averaging about 1%yr since then, broadly in line with pre-COVID trends. As discussed elsewhere in this report, the sentiment reads may also speak to fears and some misperceptions about the future path of inflation as well.

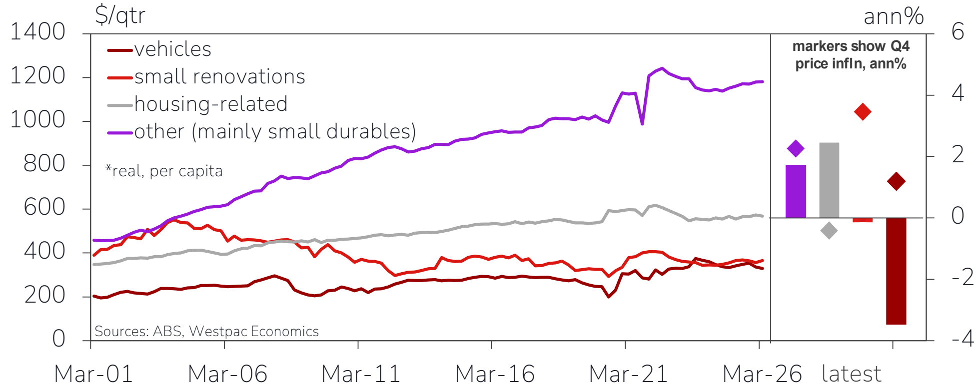
- Certainly, actual spend as been relatively resilient. Growth in real per capita spend on the 'major item' segments we track has slowed, from a relatively firm 3.2%yr in Q3 last year to a more subdued 0.9%yr in Q1 2026. However, this is much improved on the 3% pace of contraction seen through 2023 and 2024.

- Moreover, some of this softening looks to have reversed in Q2. Chart 23 shows a mixed performance across segments, with continued growth in spend on small durables and housing-related items, a flattening in small renovation activity and weakness in vehicle spend. The latter appears to have reversed significantly with a rebound in new vehicle sales (including a 30%qtr surge in purchases of EVs and hybrid vehicles). This points to a solid rise in Q2 that is likely to see annual growth in real per capita spend lift back to slight positive. The ABS household spending indicator detail also showed a solid gain in furnishings and household equipment, real spend up 1.7%qtr in Q2 to be up 5.7%yr (–0.7%qtr), pointing to a further lift in spend on housing-related items in per capita terms. Price falls also look to be assisting here.

### 18. 'Time to buy a major item' vs prices



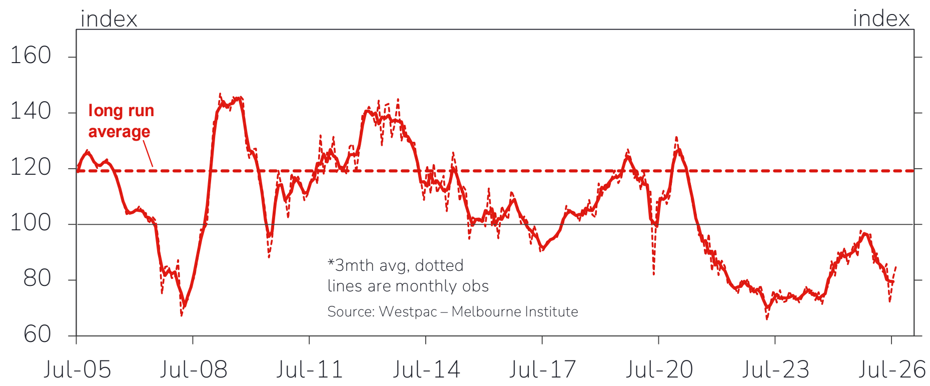

### 19. Consumer spending: 'big ticket' items



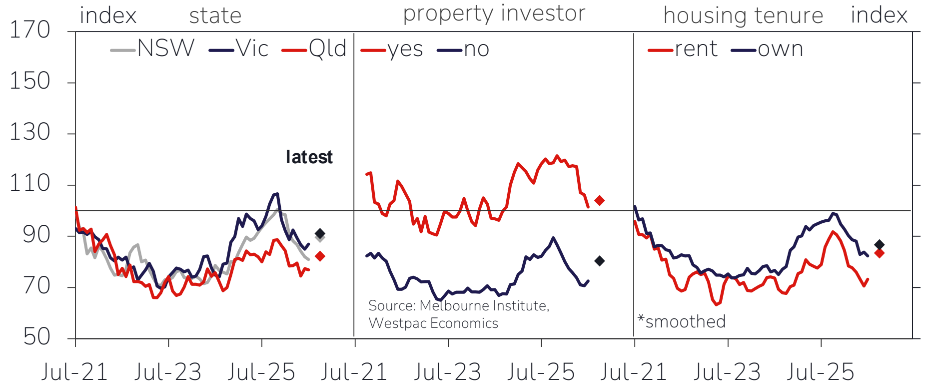
# Dwellings: at a crossroads?

- Housing-related sentiment has been understandably unsettled in recent months, reflecting the heightened uncertainty around interest rate and tax policy changes amid evidence of a broadening downturn in established markets. Assessments of 'time to buy' – generally seen as being from the perspective of owner occupiers rather than investors – have been choppy month to month but still in a very weak range.
- The **'time to buy a dwelling'** index dropped sharply in May (–16%) but regained almost all of that through June-July to be down just 0.5% over the three months. At 85.4, the latest index read is still far from positive, over 33pts below its long run average of 119.
- By state, buyer sentiment is notably less downbeat in NSW (90) and Vic (91), where dwelling prices have seen material declines for several months, but more pessimistic in SA (83), Qld (82) and WA (70) where price growth has been strong in recent years. The mix shows a clear 'affordability divide'. The question is whether improving affordability will be sufficient to offset unease about the pace of price declines.
- The sub-group detail shines a little more light on this question. As Chart 21 highlights, buyer sentiment has rallied more strongly amongst the third of consumers that rent (+10% vs April vs –5% for home-owners). There is a similar wedge between the 75% of consumers that do not own investment properties and the 25% that do (+7.4% vs –12%). The picture is not quite as simple as this 'insiders vs outsiders' split suggests – homeowners in particular will include some that have mixed views on the affordability vs price decline picture and are more sensitive to interest rate developments. However, these wedges likely capture key differences in how the impacts of tax policy changes are being assessed.
- The sub-group detail also shows buyer sentiment has improved for those in younger age groups, on lower incomes, tradies and those in some regional areas but has deteriorated amongst high income earners, managers/ professionals and 45-64 year olds. Note that some of this may reflect the complexion of price declines which have been more pronounced in Sydney and Melbourne and 'top tier' price segments.

## 20. 'Time to buy a dwelling'




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

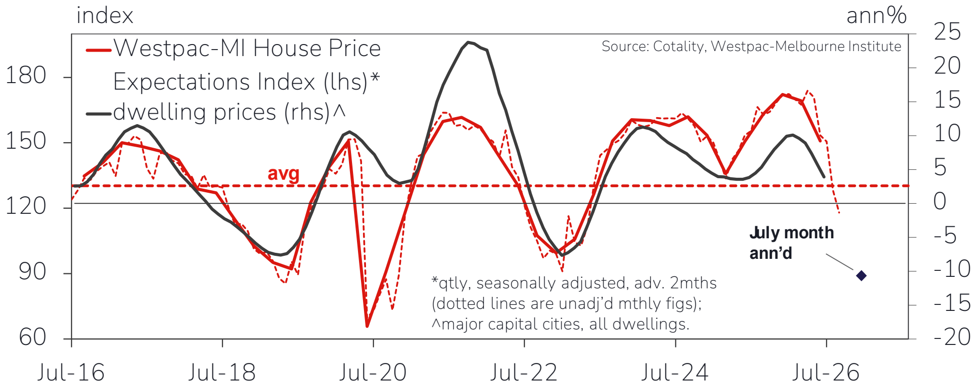



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

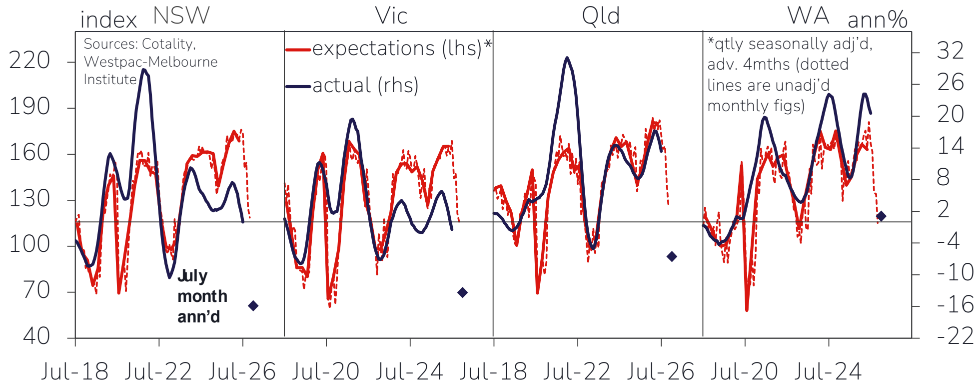
# House prices: turning down fast

- The rapidly cooling in housing markets is seeing an equally rapid shift in consumer house price expectations. The **Westpac Melbourne Institute House Price Expectations Index** posted a steep 23% drop over the three months to July moving from what was a 15yr high of 174 at the start of the year to just 118. While the Index is still above 100, implying more consumers expect prices to rise than fall, this is the first below average read since March 2023.
- The detailed responses point to heightened uncertainty, 47% of those surveyed expecting prices to rise over the next 12 months, 19% expecting no change, 29% expecting prices to decline and 6% reporting "don't know". This compares to April when a clear majority (65%) expected prices to continue rising.
- The latest pull-back has been much more broadly based with all states recording double digit falls (NSW –21% to 119; Vic –20% to 116; Qld –23% to 126; SA –32% to 112; and WA –29% to 115). Note that the question specifically asks consumers about expectations for house prices in their state rather than a national view.
- The shift coincided with a clear change in conditions 'on the ground'. The Cotality home value index fell 0.7% in July, following downwardly-revised 0.7% and 0.5% declines in June and May respectively and a 0.1% dip in April. Annual growth slowed to 5.3%yr. The 1.5%qtr quarterly decline is the most significant since the 2022 price correction. Price declines are also becoming more widespread with five of the eight capital cities recording falls in July and a pronounced slowing in Brisbane and Perth (see here for more).
- Compared to consumer price expectations, actual price growth has been materially undershooting expectations for some time now in NSW and Vic, has been broadly in line in Qld and outperformed slightly in WA.
- The survey detail shows a particularly big 33% decline in price expectations across older age groups, where those expecting price declines now outnumber those expecting gains. If that becomes the more general consensus in coming months, this will tend to reinforce the current negative momentum in prices.

## 22. Westpac-MI House Price Expectations Index



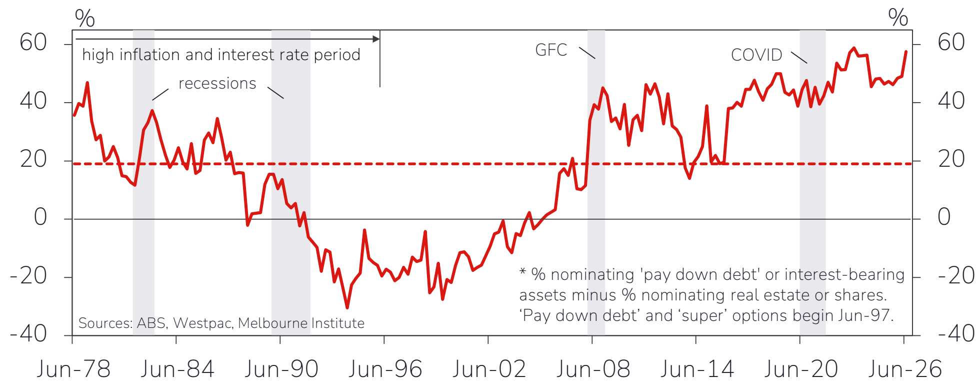

## 23. Dwelling prices: actual vs expected by state



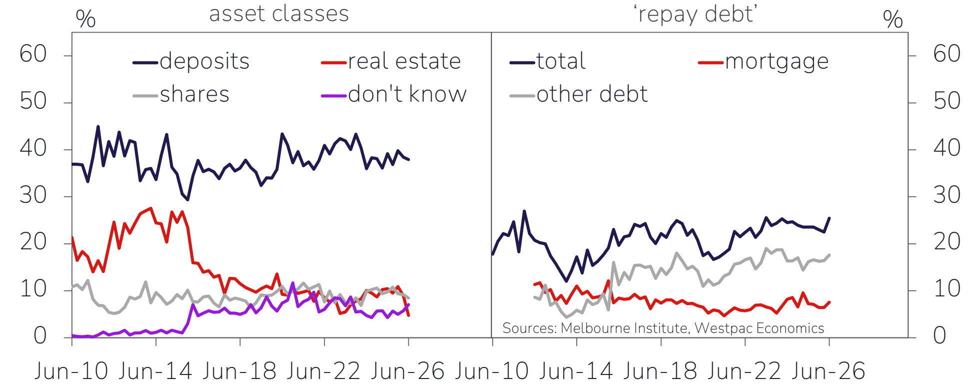
# Risk aversion: rattled again

- After two years of marginally less troubled reads, consumer risk aversion spiked back to historical highs in June. The **Westpac Consumer Risk Aversion Index** jumped 12.7pts from 47.4 in March to 60.1 in June, just a touch behind the 52 year high of 60.8 in June 2023.
- 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' were all the rage in June, 27% of consumers nominating 'pay down debt' (up 5ppts), 31% nominating 'bank deposits' (up 3ppts), and 8% nominating 'super' (up 2ppts). Amongst the 'riskier' options, just 4.5% of consumers opted for 'real estate' (down 5ppts to an all-time record low), while 8.6% nominated 'shares' (down 1ppt). Other options were favoured by 14% (down 7ppts) while 7% simply shrugged and pencilled in 'don't know' (up 1ppt).
- Interest rate rises, tax policy changes, a housing downturn, and numerous other factors – including conflict in the Middle East, tariffs, and a range of disruptions from AI – are clearly creating an extremely uncertain environment for consumers when it comes to financial decisions.
- This 'safety first' mode is typically associated with more elevated savings rates, increased voluntary debt repayments and an aversion to new borrowing that drives debt to income ratios lower over time. However, this can often materialise as a slow burn rather than sudden shift. Certainly the last decade has seen elevated risk aversion act more as a dampening force rather than a driver of sudden shifts like it did during the global financial crisis in 2008.
- Speaking to specific housing-related influences, the survey detail showed a particularly sharp 25pt rise in risk aversion amongst consumers with investment properties. There was also a notably bigger rise amongst Qlders but more muted increases in NSW and Vic. In level terms, the mortgage belt remains significantly more averse with an index rad of 66.7

### 24. Westpac Consumer Risk Aversion Index



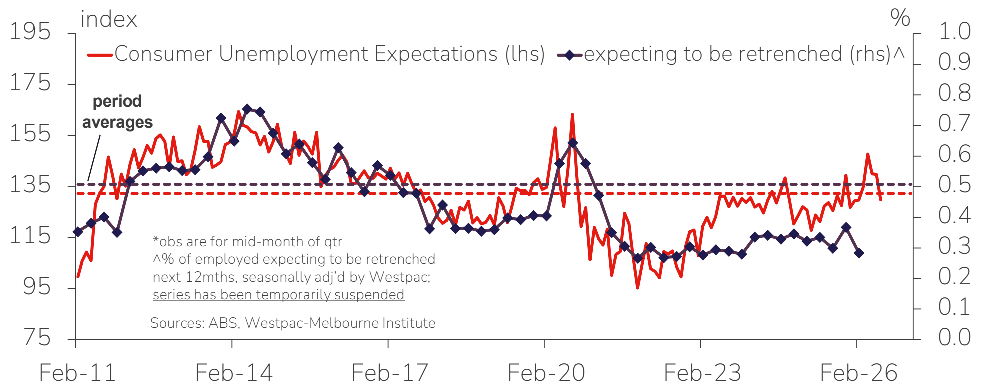

### 25. Consumer: 'wisest place for savings'



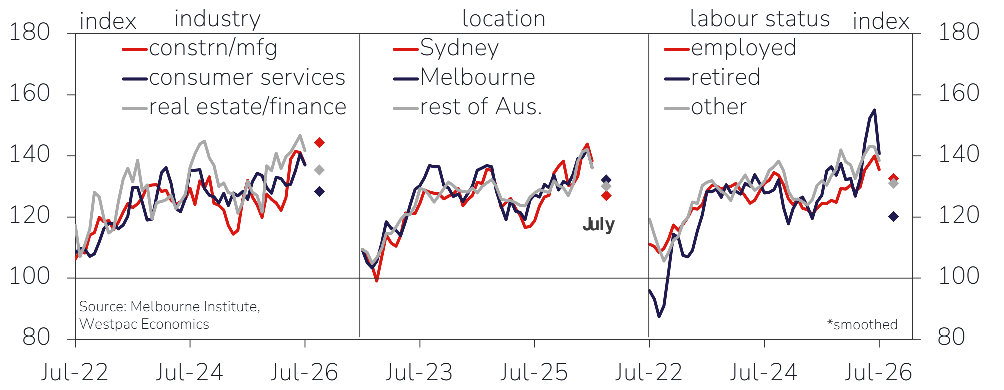
# Job security: steadier

- A moderate lift in job-loss fears following the spike in energy costs has unwound over the last three months with consumer expectations for the labour market settling back around long run averages.
- The **Westpac-Melbourne Institute Index of Unemployment Expectations** fell 12.1% over the three months to July, reversing most of the 14% lift over the previous three months (recall that lower reads mean more consumers expect unemployment to fall over the year ahead). At 129.9, the July index a touch above the long run average of 129.
- The latest ABS labour force figures show employment gains remained steady at +27k/mth in Q2 in line with the pace seen in Q1. This was despite significant month-to-month noise, an apparent stalling in April-May followed by a solid bounce in June. That said, the unemployment rate has drifted higher, averaging 4.4% in Q2 vs 4.2% in Q1. The underemployment rate – measuring those working but seeking and available to work additional hours – has also risen, from 6.2% in Q1 to 6.3% in Q2 but clocking in at 6.8% in the June month (see here for more).
- While there is evidence of a little more slack emerging in labour markets this appears to be mainly coming from a combination of increased supply and more moderate growth in hiring rather than retrenchments. Unfortunately changes to the ABS survey mean official estimates of both retrenchments and expected retrenchment (as shown in Chart 26). These are expected to resume towards the end of 2026.
- The timing of the suspension is a little unfortunate as there may be some increase in retrenchments in some specific sectors – the sharp slowdown in turnover across Australia's housing markets in particular is likely to see reduced demand for related real estate and financial services.
- That said, the sub-group detail shows few signs of this specific sectoral pattern emerging. Job loss concerns have been a little higher amongst those employed in the real estate and financial services sectors but this may have more to do with interest rate rises rather than housing market developments with a notable drop in unemployment expectations in these sub-groups in July.

## 26. Unemployment expectations



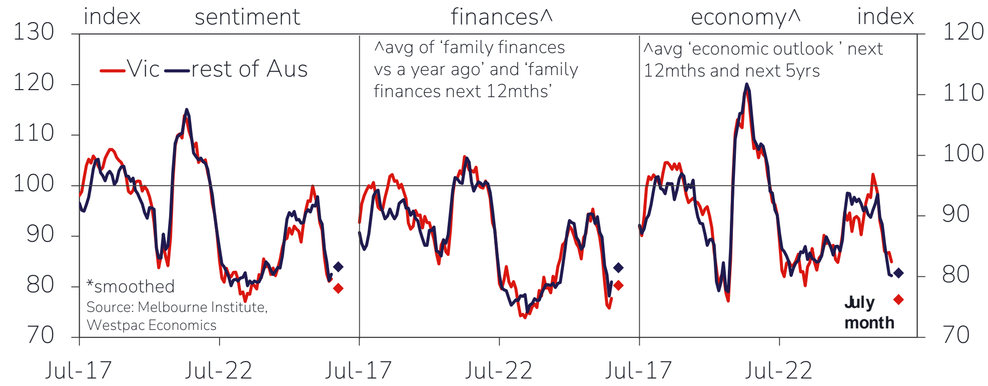

## 27. Unemployment expectations: selected sub-groups



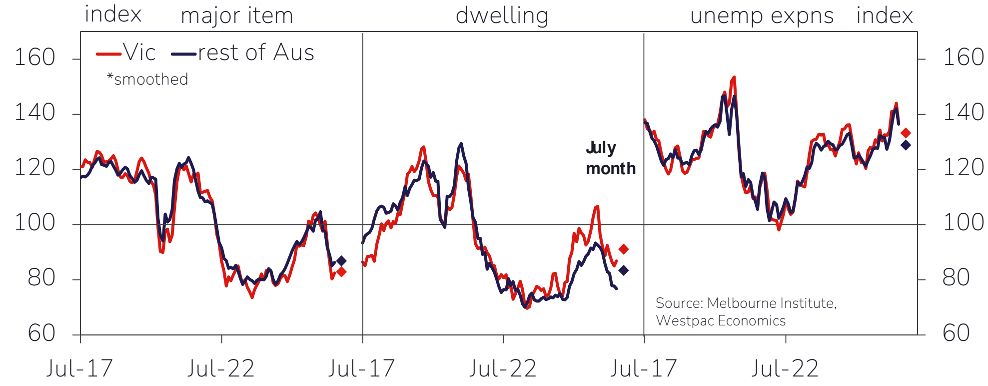
# Victoria

- Last time we covered Vic in our snapshot – this time last year – the state's consumers were sounding surprisingly buoyant after having recovered from a more lacklustre run in 2024. A year on, the mood has tracked sharply lower and is now more deeply negative than in other states. The relative weakness likely reflects the state's mix of more subdued growth, higher unemployment (currently at 5% compared to the 4.4% nationally) and a housing markets that has been persistently weaker than others over the last few years.
- There may be an element of noise as play as well. While the sub-80 read on Vic sentiment in July is significantly weaker than the 84 read across the rest of Aus, the gap is minimal, around 1ppt, when we compare based on the rolling three months average basis as shown in Chart 28.
- That said, the component detail shows a clear negative wedge on assessments of family finances and 'time to buy a major item' but a slightly less pessimistic view on the economic outlook (albeit one that inverted sharply in the July month).
- We will need more reads to confirm whether Vic consumer sentiment is significantly weaker. However, even the three months average measures suggest the components that have been more closely linked to actual spending in the past – assessments of family finances, 'time to buy a major item', risk aversion and unemployment expectations – are all in a marginally weaker state in Vic than across the rest of Aus.
- Where story remains a little brighter is around housing. Vic consumer assessments of 'time to buy a dwelling' remain noticeably less downbeat than across the rest of Aus. The gap is continues to sustain at around 5-10pts. While that is not enough to mark the difference between positive and negative it could mean owner occupier demand recovers more readily in Vic if and when the cycle turns up.
- On other topics, Vic consumers remain understandably more downbeat on the outlook for house prices (although the gap vs the rest of Aus has narrowed here) and a little less hawkish on the outlook for mortgage interest rates, no doubt reflecting their more subdued world view.

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




## 29. Consumer sentiment: 'time to buy', unemp expns: Vic vs rest of Aus



# Economic and financial forecasts

## Interest rate forecasts

| Australia | Latest (7 Aug) | Sep–26 | Dec–26 | Mar–27 | Jun–27 | Sep–27 | Dec–27 | Mar–28 | Jun–28 | Sep–28 | Dec–28 | Dec–28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.10 | 3.85 | 3.60 | 3.60 | 3.60 | 3.60 | 4.35 |
| 90 Day BBSW | 4.51 | 4.45 | 4.45 | 4.45 | 4.25 | 4.00 | 3.75 | 3.60 | 3.70 | 3.70 | 3.70 | 4.30 |
| 3 Year Bond | 4.54 | 4.50 | 4.45 | 4.40 | 4.30 | 4.20 | 4.10 | 4.05 | 4.00 | 3.95 | 3.90 | 4.20 |
| 3 Year Swap | 4.54 | 4.50 | 4.45 | 4.40 | 4.30 | 4.20 | 4.10 | 4.05 | 4.00 | 3.95 | 3.90 | 4.20 |
| 10 Year Bond | 5.02 | 4.95 | 4.85 | 4.75 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.90 |
| 10 Year Spread to US (bps) | 34 | 30 | 25 | 20 | 10 | 5 | 0 | –5 | –10 | –15 | –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 | 3.625 | 3.625 |
| US 10 Year Bond | 4.68 | 4.65 | 4.60 | 4.55 | 4.55 | 4.60 | 4.65 | 4.70 | 4.75 | 4.80 | 4.85 | 4.75 |

## Exchange rate forecasts

| | Latest (7 Aug) | Sep–26 | Dec–26 | Mar–27 | Jun–27 | Sep–27 | Dec–27 | Mar–28 | Jun–28 | Sep–28 | Dec–28 | Dec–28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AUD/USD | 0.7026 | 0.71 | 0.72 | 0.72 | 0.73 | 0.73 | 0.73 | 0.73 | 0.72 | 0.72 | 0.72 | 0.73 |
| NZD/USD | 0.5864 | 0.59 | 0.60 | 0.62 | 0.64 | 0.65 | 0.66 | 0.66 | 0.66 | 0.66 | 0.66 | 0.67 |
| USD/JPY | 158.38 | 162 | 160 | 159 | 158 | 156 | 154 | 152 | 150 | 148 | 146 | 142 |
| EUR/USD | 1.1524 | 1.16 | 1.17 | 1.18 | 1.19 | 1.20 | 1.21 | 1.22 | 1.22 | 1.21 | 1.21 | 1.22 |
| GBP/USD | 1.3454 | 1.35 | 1.35 | 1.36 | 1.37 | 1.38 | 1.39 | 1.40 | 1.41 | 1.41 | 1.40 | 1.41 |
| USD/CNY | 6.7471 | 6.75 | 6.70 | 6.60 | 6.50 | 6.45 | 6.40 | 6.35 | 6.35 | 6.30 | 6.30 | 6.35 |
| AUD/NZD | 1.1982 | 1.20 | 1.19 | 1.16 | 1.14 | 1.12 | 1.11 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |

Sources: Bloomberg, Westpac Economics.

# Economic and financial forecasts

## Australian economic growth forecasts

| | 2026 | | | | 2027 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2f | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f |
| GDP %qtr | 0.3 | 0.0 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| %yr end | 2.5 | 1.6 | 1.3 | 0.7 | 0.9 | 1.2 | 1.4 | 1.5 |
| Unemployment rate % * | 4.2 | 4.4 | 4.6 | 4.9 | 5.0 | 4.9 | 4.9 | 4.9 |
| Wages (WPI) (sa) %qtr | 0.8 | 0.8 | 1.0 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| %yr end | 3.3 | 3.2 | 3.4 | 3.4 | 3.4 | 3.4 | 3.2 | 3.2 |
| Headline CPI %qtr | 1.4 | 0.6 | 1.3 | 1.0 | 0.7 | 0.6 | 0.9 | 0.5 |
| %yr end | 4.1 | 3.9 | 3.9 | 4.3 | 3.7 | 3.7 | 3.3 | 2.8 |
| Trimmed Mean CPI %qtr | 0.8 | 0.8 | 1.0 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| %yr end | 3.5 | 3.6 | 3.6 | 3.5 | 3.4 | 3.3 | 3.0 | 2.8 |

| | Calendar years | | | |
|---|---|---|---|---|
| | 2025 | 2026f | 2027f | 2028f |
| GDP %qtr | – | – | – | – |
| %yr end | 2.5 | 0.7 | 1.5 | 2.6 |
| Unemployment rate % * | 4.3 | 4.9 | 4.9 | 4.5 |
| Wages (WPI) (sa) %qtr | – | – | – | – |
| %yr end | 3.4 | 3.4 | 3.2 | 3.4 |
| Headline CPI %qtr | – | – | – | – |
| %yr end | 3.6 | 4.3 | 2.8 | 2.6 |
| Trimmed Mean CPI %qtr | – | – | – | – |
| %yr end | 3.4 | 3.5 | 2.8 | 2.4 |

* Quarter–average.

# Consumer demand

| | 2026 | | | | 2027 | | | |
|---|---|---|---|---|---|---|---|---|
| % change | Q1 | Q2f | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f |
| Total private consumption* | 0.6 | 0.2 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 |
| annual chg | 2.5 | 1.6 | 1.5 | 1.6 | 1.4 | 1.7 | 1.8 | 2.0 |
| Real labour income, ann chg | 2.9 | 2.6 | 2.4 | 1.7 | 1.9 | 2.0 | 2.1 | 2.9 |
| Real disposable income, ann chg** | 1.9 | 1.7 | 2.8 | 0.0 | 0.8 | 1.6 | 1.2 | 2.8 |
| Household savings ratio, % | 6.2 | 7.2 | 8.6 | 6.2 | 7.0 | 7.1 | 8.1 | 7.1 |
| Motor vehicle sales ('000s)*** | 852 | 907 | 898 | 888 | 897 | 906 | 915 | 924 |
| annual chg | –1.8 | 7.7 | 5.6 | 6.0 | 5.4 | –0.1 | 1.9 | 4.0 |

| | Calendar years | | | |
|---|---|---|---|---|
| | 2025 | 2026f | 2027f | 2028f |
| Total private consumption, ann chg* | 2.1 | 1.8 | 1.7 | 2.9 |
| Real labour income, ann chg | 3.4 | 2.4 | 2.2 | 3.2 |
| Real disposable income, ann chg** | 4.3 | 1.6 | 1.6 | 2.8 |
| Household savings ratio, % | 6.4 | 7.1 | 7.3 | 7.3 |
| Motor vehicle sales ('000s) | 849 | 886 | 910 | 958 |
| annual chg | –3.9 | 4.3 | 2.7 | 5.3 |

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

| | | 2025 | | | 2026 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| % change | avg^ | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul |
| Westpac–MI Consumer Sentiment Index | 100.2 | 92.1 | 103.8 | 94.5 | 92.9 | 90.5 | 91.6 | 80.1 | 83.0 | 80.6 | 83.9 |
| family finances vs a year ago | 87.8 | 82.1 | 85.2 | 80.9 | 82.7 | 78.8 | 80.2 | 66.8 | 72.8 | 67.3 | 71.1 |
| family finances next 12 months | 106.5 | 97.1 | 109.1 | 102.4 | 97.8 | 97.7 | 97.6 | 84.0 | 93.0 | 85.1 | 96.5 |
| economic conditions next 12 months | 90.6 | 89.9 | 104.8 | 94.6 | 88.4 | 88.5 | 85.9 | 75.3 | 74.2 | 77.8 | 78.3 |
| economic conditions next 5 years | 92.1 | 94.0 | 108.4 | 95.7 | 96.5 | 94.1 | 96.3 | 91.4 | 89.3 | 86.5 | 87.1 |
| time to buy major household item | 123.1 | 97.2 | 111.6 | 98.9 | 99.1 | 93.5 | 98.0 | 83.3 | 85.6 | 86.4 | 86.8 |
| time to buy a dwelling | 119.2 | 96.5 | 96.4 | 86.2 | 89.6 | 84.0 | 82.9 | 85.8 | 72.0 | 81.1 | 85.4 |
| Westpac–MI Consumer Risk Aversion Index^^ | 19.1 | – | – | 48.4 | – | – | 49.0 | – | – | 57.6 | – |
| CSI± | 99.6 | 82.4 | 89.5 | 83.4 | 82.7 | 80.3 | 81.7 | 70.6 | 74.2 | 70.3 | 74.2 |
| Westpac–MI House Price Expectations Index# | 126.5 | 171.9 | 172.4 | 169.9 | 167.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| consumer mortgage rate expectations# | 40.5 | 1.7 | 19.1 | 45.5 | 52.8 | 77.5 | 70.5 | 77.2 | 81.2 | 72.6 | 62.6 |
| Westpac–MI Unemployment Expectations | 129.2 | 127.6 | 139.5 | 126.8 | 129.4 | 129.8 | 134.7 | 147.8 | 140.0 | 139.8 | 129.9 |
| MI inflation expectations (trimmed mean) | 4.4 | 4.8 | 4.5 | 4.7 | 4.6 | 5.0 | 5.2 | 5.9 | 5.6 | 5.5 | 4.7 |
| MI wage expectations (trimmed mean) | 1.3 | 1.4 | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |

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