

16 January 2024

Consumer gloom carries into new year

- **Westpac Consumer Sentiment declines 1.3% to 81.**
- **Last year's extreme pessimism has continued into 2024.**
- **Weakest January read outside of the early-90s recession.**
- **Rate hike fears ease but most Australians still expect mortgage rates to rise.**
- **Views around jobs, housing largely unchanged.**

The Westpac Melbourne Institute Consumer Sentiment Index declined 1.3% to 81 in January from 82.1 in December.

The Westpac Melbourne Institute Consumer Sentiment Index declined 1.3% to 81 in January from 82.1 in December. For consumers, the new year looks to have picked up where the old one left off: cost of living and high interest rates continuing to dominate and sentiment bumping around deeply pessimistic levels.

The latest January read is in the bottom 7% of all observations since the survey was first run in the mid-1970s. More pessimistic starts to the year have only been seen during the deep recession of the early 1990s.

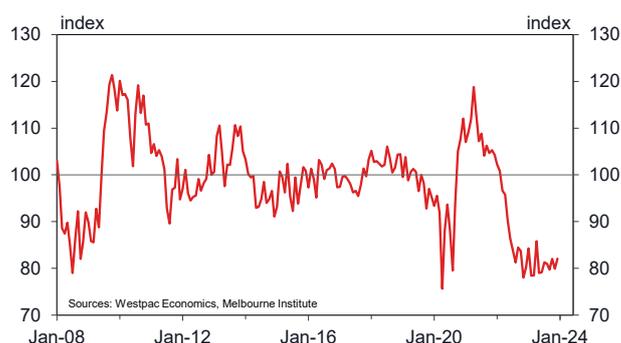
The continued weakness is despite a notable easing in rate rise fears in the latest survey. In December, 60% of consumers surveyed after the RBA decision expected the standard variable mortgage rate to increase over the following 12 months. That proportion came down to 52% in January, the lowest share since the RBA first paused its rate tightening cycle in April last year. With no RBA meeting in January, the shift likely reflects other developments including: the lower-than-expected November monthly CPI indicator, which showed inflation slowing to 4.3%yr; and a big shift in interest rate expectations abroad, with the US FOMC now widely expected to begin lowering rates in the first half of 2024.

Despite easing rate rise fears, consumers are much more 'hawkish' on the interest rate outlook in Australia than both financial markets and economists. While just over half of consumers expect mortgage rates to rise, futures markets are currently pricing in 50bps in cuts by year-end, with three out of four economists also expecting the cash rate to move lower. Moreover, those with most 'on the line' – consumers with a mortgage – are warier still, with 60% of this sub-group bracing for rate rises.

The sub-index detail suggests a modest boost from the less threatening interest rate outlook was more than offset by a further deterioration in family finances and rising concerns about the economy's medium to longer term prospects.

Family finances look to be coming under renewed pressure. The 'finances compared to a year ago' sub-index dropped 7.6% to 63.0, unwinding most of the 11% improvement seen over the three months to December. Those in low- and middle-income

Consumer Sentiment Index



brackets reported the biggest deterioration in the month. Many consumers may be facing a bigger than usual post-Christmas financial 'hangover' as the full impact of the higher cost-of-living on festive season spending becomes apparent.

The 'economic outlook, next 5 years' sub-index also took a hit, falling 6.1% to 89.1. Here, the sub-group detail shows the biggest moves were amongst those in younger age groups and living in rental accommodation.

The less threatening interest rate outlook looks to have provided some lift to expectations for the year ahead. Both the 'economic outlook, next 12 months' and the 'finances, next 12 months' sub-indexes posted modest lifts, up 3.9% to 81.8 and 2.9% to 93 respectively. Both remain materially below long run average levels. The sub-group detail also showed a solid 5.3% lift in overall sentiment across the mortgage belt.

The 'time to buy a major household item' sub-index was largely unchanged at very weak levels, dipping slightly to 78.0.

The Westpac Melbourne Institute Unemployment Expectations Index nudged 1.4% higher in January to 130.7 (recall that lower index reads mean more consumers expect unemployment to fall in the year ahead). Consumers in NSW appear somewhat more comfortable about the outlook with an unemployment index read of 126.4 compared to readings in the 131-138 range across the other major states.

Housing-related sentiment continued to show a stark gap between buyer sentiment and price expectations. The 'time to buy a dwelling' index fell 3.1% to 72.0, continuing to hold in the very weak 72-76 range.

The Westpac Melbourne Institute Index of House Price Expectations rose slightly, lifting 0.5% to 158.1. Over two thirds of consumers expect prices to continue rising in the year ahead, essentially unchanged on December. Expectations are markedly higher on a year ago, up 51.5%.

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The Reserve Bank Board next meets on February 5 – 6. The continued weak reads on sentiment show Australian consumers remain under intense pressure as the surging cost of living, materially higher interest rates and rising tax take weigh heavily on incomes. However, high inflation is still the RBA's primary concern. As such the quarterly CPI release in late January will be critical to its policy decision in February. On balance, we expect the RBA to leave rates unchanged in February, and to be unlikely to raise rates further from here. However, a material upside surprise on inflation would make for a more finely balanced decision.

Matthew Hassan, Senior Economist, Westpac Group

Consumer Sentiment – January 2024

Item	avg*	Jan 2022	Jan 2023	Dec 2024	Jan 2024	%mth	%yr
Consumer Sentiment Index	100.8	102.2	84.3	82.1	81.0	-1.3	-3.9
Family finances vs a year ago	88.3	95.6	67.4	68.2	63.0	-7.6	-6.5
Family finances next 12mths	106.8	108.1	93.1	90.4	93.0	2.9	-0.1
Economic conditions next 12mths	90.7	94.8	81.4	78.7	81.8	3.9	0.5
Economic conditions next 5yrs	92.0	103.6	92.8	94.9	89.1	-6.1	-4.0
Time to buy a major household item	124.8	108.9	86.8	78.2	78.0	-0.3	-10.1
Time to buy a dwelling	121.0	87.0	78.2	74.3	72.0	-3.1	-7.9
Unemployment Expectations Index	129.0	112.7	108.0	128.9	130.7	1.4	21.0
House Price Expectations Index	125.8	143.4	104.4	157.3	158.1	0.5	51.5
Interest Rate Expectations Index	154.4	163.1	184.2	159.3	147.0	-7.8	-20.2

Source: Westpac-Melbourne Institute.

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

The survey is conducted by OZINFO & DYNATA. Respondents are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 8 January to 12 January 2024. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.

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