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Media release

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Consumer sentiment sinks back to lows

- **Westpac–Melbourne Institute Consumer Sentiment Index drops 5.2% to 84.4.**
- **Finances coming back under pressure from higher fuel and rate rise fears.**
- **Housing downturn starting to weigh on sentiment amongst homeowners.**
- **Nearly two thirds of consumers now expect mortgage rates to rise.**
- **Homebuyer sentiment pulls back sharply but price expectations steady.**
- **Consumers uneasier about jobs, especially construction and hospitality workers.**

Westpac's Head of Australian Macro-Forecasting, Matthew Hassan, commented, "The Westpac–Melbourne Institute Consumer Sentiment Index declined 5.2% to 84.4 in September from 88.9 in August."

"The fall takes sentiment back towards the deeply pessimistic levels seen earlier in the year. Both fuel prices and interest rates again look to be driving the move. Local pump prices have lifted back above $2/litre for the first time since April, reflecting higher global energy prices and the end of the temporary halving in fuel excise tax. Meanwhile, a stronger than expected monthly CPI read in July has stoked fears that the RBA will raise interest rates further in coming months. This has weighed on consumer expectations for finances and the economy. It has likely also added to unease about the continued weakening in housing markets." Mr Hassan commented.

"The component detail shows a broad-based decline in September led by a pullback in current assessments of family finances. Recall that the Westpac–Melbourne Institute Consumer Sentiment Index is a composite measure based on five sub-indexes: one tracking assessments of family finances compared to a year ago; two tracking expectations for family finances and the economy over the next year; one tracking expectations for the economy over the next five years; and one tracking responses to whether now is a good time to buy a major household item.

"Cost of living pressures have ratcheted up again. The sub-index tracking consumer assessments of 'family finances vs a year ago' dropped 9.2% back to 72.6, giving back almost all of last month's solid gain. As noted, higher fuel prices have likely contributed to the decline, average pump prices up another 6.7% since the August survey, having risen by nearly a third over July–August, most of the move reflecting the roll-off of a temporary excise tax cut. The sub-group detail suggests the housing market downturn may also be a factor, with assessments amongst home-owners – both with and without a mortgage – down 13% in the month compared to a 0.6% rise amongst renters.

"Other component indexes recorded somewhat milder falls, ranging from a 3.9% decline for 'family finances, next 12 months' sub-index; to a 4% decline for 'economy, next 12 months'; a 4.5% fall for 'economy, next 5 years' and a 4.8% fall for 'time to buy a major item'. All sub-indexes are in pessimistic territory and well below long-run averages.

“Interest rate concerns had a clear negative impact on consumers with a mortgage. Sentiment dropped 14% across this sub-group overall with a particularly large 18% drop in assessments of ‘time to buy a major item’ suggesting the mortgage belt is tightening up on spending plans.

“The Westpac–Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer interest rate expectations more explicitly, rose 7.3% to 170.4 in September. The move takes the index back near the levels seen in June but below May’s cycle peak of 181. Some 64% of consumers, nearly two out of every three, expect mortgage rates to increase further over the next 12 months. This is up from 59% last month. Across the mortgage belt, the share is closer to 73%, with nearly a quarter of this sub-group expecting rates to rise by more than percentage point over the next twelve months.

“Consumers are a little uneasier about the outlook for jobs as well. The Westpac–Melbourne Institute Unemployment Expectations Index rose 2.8% to 139.4 in September, marking a further marginal deterioration (recall that higher reads on this index mean more consumers expect unemployment to rise over the year ahead). The Index is now clearly above the long-run average of 129 although it is still a long way below previous peaks which typically push well above 145. There were significantly larger rises in job loss fears amongst consumers working in the construction and hospitality sectors.

“Responses to additional questions on news recall highlight the main consumer themes. These questions are run once a quarter and ask consumers if they recall news items on a range of topics and whether that news was favourable or unfavourable. News on ‘inflation’ and ‘budget and taxation’ again dominated with over half of consumers recalling news on each of these topics. ‘Economic conditions’, ‘employment’, ‘politics’ and ‘interest rate’ and ‘international’ news also had relatively high recall rates. On every topic the news was assessed as unfavourable, albeit with not much change on assessments in June.

“Housing-related sentiment remains unsettled with interest rate rise concerns and the housing market downturn clearly weighing on assessments of ‘time to buy a dwelling’ but house price expectations largely unchanged and still notably firmer than during the last housing market downturn in 2022.

“The ‘time to buy a dwelling’ index dropped 10.7% to 85.5 in September, giving back all of last month’s rally. While buyer sentiment is still up from the extreme low in May, rate rise concerns look to have nobbled the tentative recovery that was forming in recent months. The pull-back was particularly sharp amongst existing homeowners, buyer sentiment across this sub-group swinging from a slightly positive read of 104 in August to 86.4 in September, a 17% reversal. By state, buyer sentiment is still a little less downbeat in New South Wales (92) and Victoria (87), where dwelling prices have seen bigger moves lower, but more pessimistic in South Australia (80), Queensland (79) and Western Australia (71).

“The Westpac–Melbourne Institute Index of House Price Expectations dipped 0.4% to 110.3 in September, a relatively small move following the 36% slide over the previous six months. Responses point to uncertainty rather than a strong view on the direction of prices. Just over 32% expect prices to decline over the next 12 months, with 20% expecting no change and 42% expecting a rise (6% reporting “don’t know”). The state breakdown showed some pullback in expectations in Victoria (–8.6%) but small improvements in NSW (+3.9%) and Western Australia (+3%).

"Consumers remain intensely risk averse. September responses to our quarterly question on the 'wisest place for savings' show 'safe options' remain very heavily favoured: 33% of consumers nominating 'bank deposits'; 24% nominating 'pay down debt' and 7% nominating 'superannuation'. The share nominating 'real estate' remained near historic lows at just 4.7%."

"The Reserve Bank Monetary Policy Board next meets on September 28–29. The renewed weakening in sentiment suggests consumer demand is likely to remain subdued near term. However, the Board's focus is squarely on bringing inflation back to its 2–3% target over a reasonable time frame. While the strong July CPI increases the chances of a future rate hike, we think the Board is unlikely to move on the basis of one monthly inflation read in what is still a noisy series, especially with the next CPI update due a day after the meeting," Mr Hassan commented.

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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 31 August to 3 September 2026. 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.*