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Media release

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Consumer sentiment sinks back towards lows

- **Westpac Consumer Sentiment Index down 2.4% to 82.4.**
- **Sentiment slump hits two-year mark, showing few signs of lifting.**
- **‘Time to buy major item’ index falls back to extreme lows.**
- **Slightly firmer read on finances but expectations for economy slipping.**
- **Improving unemployment expectations a notable bright spot.**

Westpac Senior Economist, Matthew Hassan, commented, “The Westpac Melbourne Institute Consumer Sentiment Index declined 2.4% to 82.4 in April, from 84.4 in March.

“The pessimism that has dominated the consumer mood for nearly two years now is still showing few signs of lifting. The latest Index read is well below the ‘neutral’ level of 100, meaning pessimists outnumber optimists by over 15ppts. It is also in line with the average recorded over the last 24 months, marking an extended period of bleak sentiment reads by historical standards. Indeed, outside of the deep recession of the early 1990s, this is easily the second most protracted period of deep consumer pessimism since we began surveying in the mid-1970s, with all other sentiment slumps lasting nine months or less”, Mr Hassan commented.

“The absence of a sentiment recovery to date reflects the nature and duration of Australia’s inflation challenge. Consumer price rises have outstripped wage growth by 6ppts over the last three years. That has combined with a sharp increase in interest rates and a big lift in tax payments putting household incomes under intense, sustained pressure. The whole episode has also been relatively drawn-out as well – inflation still running above the RBA’s 2-3% target band three years on and giving little to no scope for either monetary or fiscal policy to provide material support.

“In contrast, previous sentiment slumps have typically come from shocks to growth that did not have this inflation dimension. They ended more quickly as policy-makers were able to respond more quickly – either because inflation was less of a concern (during COVID, the GFC and the early-2000s slowdown) or a lower policy priority at the time (in the 1970s and 1980s).

“The April sentiment update suggests consumers continue to expect progress on inflation and associated cost-of-living pressures to be slow.

“Consumers remain unconvinced about prospective interest rate cuts. The Westpac-Melbourne Institute Mortgage Rate Expectations Index, which tracks consumer expectations for variable mortgage rates over the next 12 months, showed a marginal rise in April, up 1.5% to 122.8, a slightly more hawkish rate outlook. Just over 40% of consumers are still bracing for rate increases, while 24% expect no change, 21% expect declines and 15% reported “don’t know”.

“The component indexes show a slight improvement in assessments of family finances but a loss of confidence in the economic outlook and an unsettling fall in buyer sentiment.

“The most promising developments continue to be around expectations for family finances, the ‘finances, next 12mths’ sub-index up 1.8% to 95.5, having now rallied 13.6% from the lows seen in the middle of last year. The tax cuts coming in July are a clear anchor here. The bleak assessments of current finances – the ‘finances vs a year ago’ sub-index at just 65.5, up only 0.5% in the month – suggest they can’t come fast enough for consumers.

“Confidence in the economic outlook slipped in April, led by a further drop in medium to longer term expectations. The ‘economy, next 5yrs’ sub-index fell 4.4% to 89.8, tilting back towards the low seen when the RBA raised rates back in November. The ‘economy next 12mths’ sub-index declined 2.7% to 82.7 – having fallen 7.1% in two months.

“The most unsettling detail in April was a sharp deterioration in buyer sentiment. The ‘time to buy a major item’ sub-index dropped 6.6% to 78.7. This component has captured the full impact of sharply rising prices on consumers’ purchasing power. The average read of 82.1 over the last two years is extremely weak for a sub-index with an average historical read of 125. The April deterioration may be a sign of a renewed lift in price pressures.

“The state breakdowns show a minor divergence over the last two months with sentiment lifting slightly by 2.9% in NSW but declining more substantially across the other major states. Sentiment has seen a particularly sharp 8.1% fall in Queensland to an index read of just 75.2, likely reflecting the state government’s recent decision to scale back some of the development plans associated with the 2032 Brisbane Olympics.

“Australia’s labour market remains a notable bright spot for Australian consumers. The Westpac-Melbourne Institute Unemployment Expectations Index declined 2.7% to 124.6, below the long run average of 129 and the marking the best result since May last year (recall that lower index reads mean more consumers expect unemployment to fall over the year ahead). Incomes may be under pressure but consumers are relatively secure about their job prospects.

“Housing-related sentiment was broadly unchanged, buyer sentiment slipping back and price expectations holding around optimistic levels.

“The ‘time to buy a dwelling’ index declined 3.2% to 75.3 in April, retreating from a fifteen-month high, albeit one that was still in deeply pessimistic territory. Buyer sentiment softened across the major states but showed sharper pull-backs in South Australia (–14%) and Queensland (–10%). Buyers remain notably more upbeat in Melbourne, where the latest index read is 86.4.

“The Westpac Melbourne Institute Index of House Price Expectations was again essentially unchanged, nudging up 0.1% to 161.2. Just under 70% of consumers expect housing prices to continue rising in the year ahead.

“The Reserve Bank Board next meets on May 6–7. We expect it to again leave the official cash rate unchanged, provided inflation continues to make steady progress towards returning to the RBA’s 2-3% target over a reasonable time frame.

The Bank's latest commentary shows it is becoming a little more comfortable that further rate rises will not be required but it is not yet confident enough about the inflation outlook to consider the case for rate cuts. The March quarter CPI update, due April 24, will be key to shaping the RBA's views. We expect the update to show a clear drop in inflation into the 3-4% range. That should give the Bank more confidence that it will achieve its target in 2025, allowing for a more positive message at its May Board meeting – something that would provide some comfort for Australia's embattled consumers", 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 1 April to 6 April 2024. The data have been weighted to reflect Australia's population distribution.