

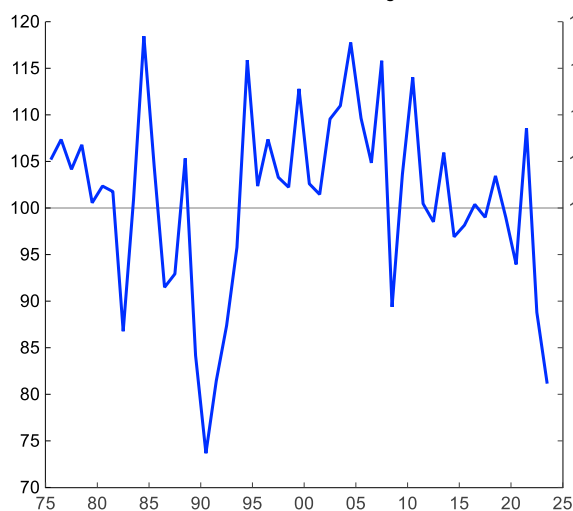
Tuesday, 12 December 2023

Consumer Sentiment

Weakest Year Since the 90s Recession

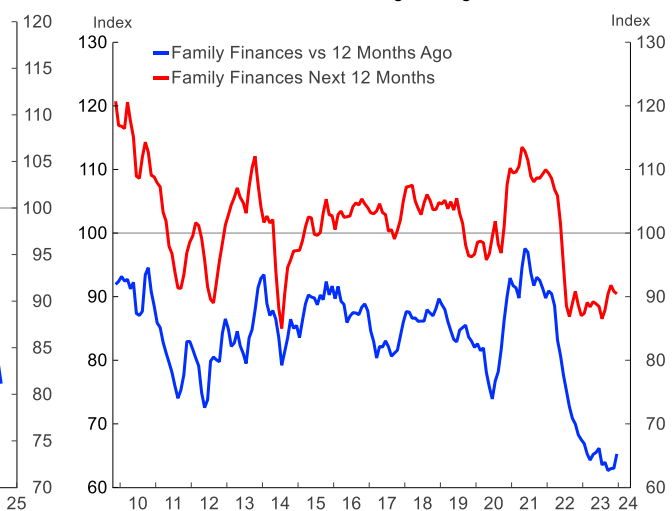
- The Westpac-Melbourne Institute consumer confidence index rose 2.7% in December to a still very weak 82.1, continuing to oscillate around deeply negative levels. Sentiment has averaged 80.9 over the 2023 calendar year, the weakest result since the 1990s recession.
- It's not hard to see why. Households are getting hit from all sides; high inflation, a rising tax take and higher interest rates are all squeezing household incomes. Last week's National Accounts revealed the full extent of this squeeze. Real household disposable income suffered the largest annual fall since the 1980s, dropping a whopping 4.3%.
- Sentiment data is more contemporaneous than the National Accounts which were updated for the September quarter. The sentiment measure tracking expectations for household finances over the next 12 months ticked up in December, potentially pointing to some near-term reprieve as inflation slows and interest rates remain on hold.
- Consumers are still vigilant to the risk of further rate hikes. Amongst those surveyed after the RBA's December pause, 60% still expect mortgage interest rates to move higher over 2024. That is down on the 73% who expected further hikes last month but still well above expectations back in September when the cash rate appeared more comfortably on hold.
- Consumers are unlikely to be as gloomy in 2024. Inflation will continue to subside, taking substantial pressure off real incomes. Optimism is also likely to build in anticipation of the Stage 3 tax cuts and as expectations for rate cuts build. However, this improvement is likely to come later in the year meaning 2024 will likely be a tale of two halves.

Consumer Sentiment Index
Calendar Year Average



Sources: Melbourne Institute of Applied Economic & Social Research, Macrobond

Views on Family Finances
3-month Moving Average



Sources: Melbourne Institute of Applied Economic & Social Research; Macrobond

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