

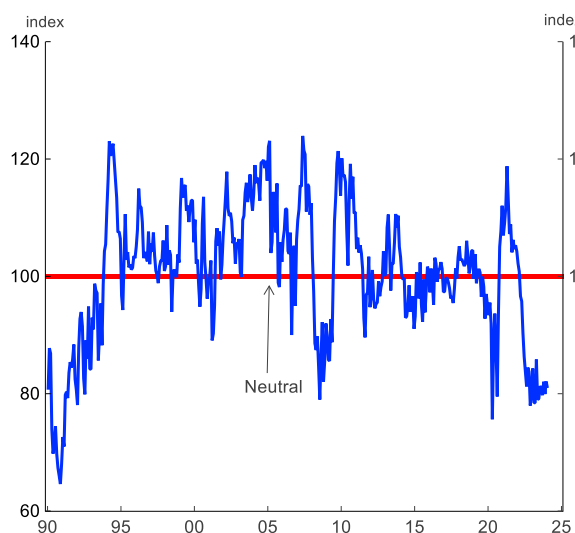
Tuesday, 16 January 2024

Consumer Sentiment

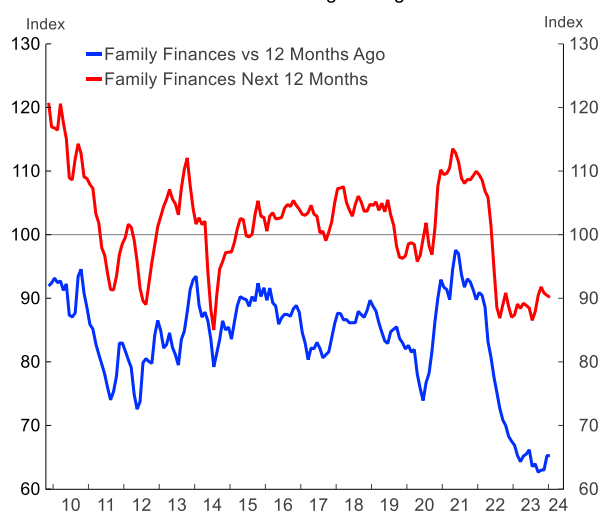
Christmas Not Enough To Buoy Spirits

- The Westpac-Melbourne Institute consumer confidence index fell 1.3% in January to 81.0. Any Christmas cheer was short lived as consumers remain deeply pessimistic.
- The index has been below the neutral level of 100 for almost two full years – 23 consecutive months. This is the longest run of below neutral readings since the 1990s recession – when confidence was below 100 for almost five years – 57 consecutive months.
- Three of the five sub-indices declined and all remain below the 100 level that separates optimists from pessimists. Views on family finances over the past 12 months plunged 7.6% in the month to an extremely weak 63.0. Many families likely got a rude shock as they sat down and formed their New Year's resolutions. Household finances have been under pressure from inflation, higher taxes from bracket creep, and elevated interest payments.
- But some households are starting to see the light at the end of the tunnel. Views on family finances and the economy over the next 12 months rose by 2.9% and 3.9%, respectively.
- 52% of consumers expect the Reserve Bank (RBA) to continue hiking, down from 60% in December. The chance of further hikes has reduced as inflation and other recent data have surprised to the downside. This share is likely to fall in future if the RBA extends its pause.
- Sentiment is likely to remain under pressure in the near term, but a gradual improvement should take hold later in 2024. Inflation remains elevated but is falling and this is expected to continue. Stage 3 tax cuts will provide some relief from bracket creep. The Government has flagged targeted cost-of-living support in the 2024-25 Budget, and we expect the RBA to remain on hold from here and to be able to begin cutting rates later in 2024.

Consumer Sentiment Index



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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