

Tuesday, 14 February 2023

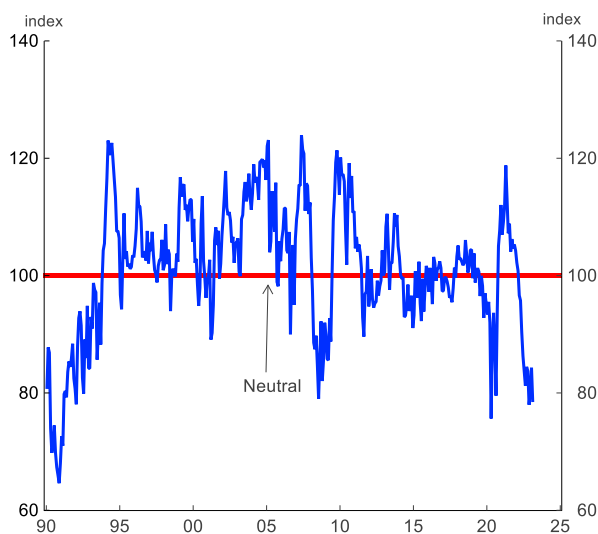


Consumer Sentiment

Aggressive RBA Spooks Households

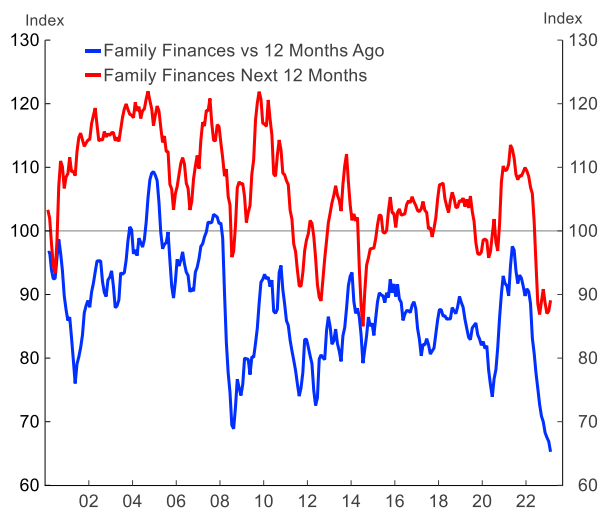
- Consumer sentiment tumbled 6.9% in February to 78.5. This was only marginally above the cyclical low of 78.0 struck in November. To find a lower reading, you would need to go back to the depths of the pandemic or all the way back to the 1990's recession.
- A rebound in optimism through the summer break has come to an abrupt end. The December quarter inflation report, which showed prices rising at their fastest pace in almost 33 years, and the Reserve Bank's (RBA) renewed resolve to tackle inflation likely prompted the sour mood as hopes of a potential pause in interest rate hikes were dashed.
- The detail reflects this. Views on household finances relative to a year ago deteriorated sharply as pressure on household budgets builds. Adding to the sombre spirit, households do not expect a reprieve anytime soon. Future expectations for family finances also declined materially, while 53% of respondents expect a further 1% increase in the cash rate.
- The 'time to buy a major household item' sub-index, a proxy for spending intentions, deteriorated considerably to 78.0, the fourth lowest on record. Similarly, housing market sentiment tumbled to its lowest level since 2008 – back when the cash rate reached 7.25%.
- The weakness in household finances serves as a clear sign that budgets are being stretched under the weight of rising rates and the elevated cost-of-living. As a result, spending is likely to taper off sharply this year. Sizeable savings buffers will provide some resilience. However, not all will benefit as savings are more concentrated among older and wealthier households.

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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