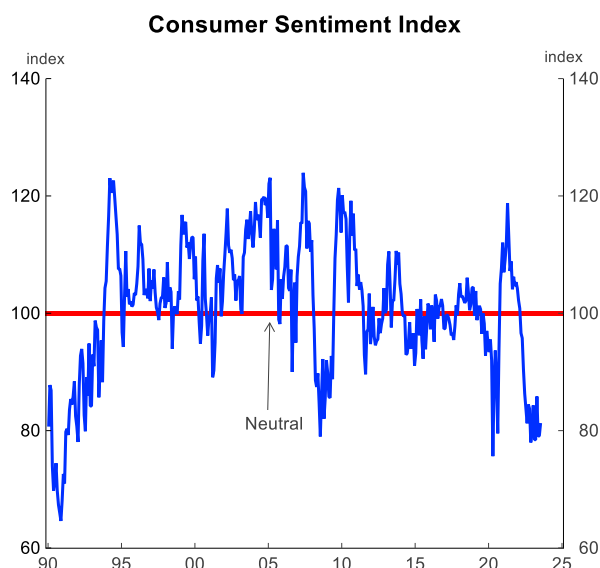
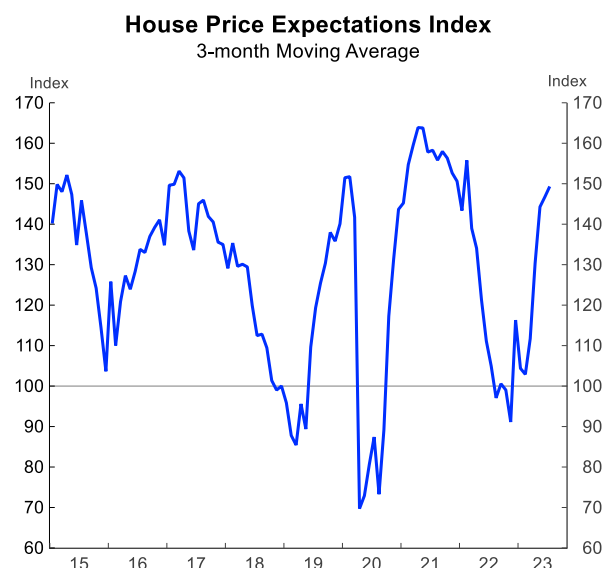


## Consumer Sentiment Inflation Optimism Hardly Lifts the Mood

- Consumers remain deeply pessimistic about the economic outlook as headwinds from inflation and interest rates persist. The consumer sentiment index rose 2.7% in July to a meagre 81.3 – trading water in its recent downbeat range.
- The bounce in confidence coincided with the softer than anticipated monthly inflation reading for May - which revealed a welcome slowing in headline inflation to 5.6% - and the Reserve Bank's (RBA) decision to pause rate hikes in July.
- Progress on inflation appears the more likely catalyst for the lift in sentiment in May. Consumers seem to have interpreted this month's RBA pause as temporary, with most respondents expecting more rates hikes on the horizon.
- Sentiment towards the housing market continued to improve, defying the headwinds imposed by higher rates. The time to buy a dwelling index rose to its highest level since January and the house price expectations index rose has increased by 45% since February.
- The ongoing stabilisation in housing sentiment has contributed to recent growth in dwelling prices. However, the depth of demand is yet to be tested and still fragile housing sentiment means risks are skewed to the downside.
- We are unlikely to see a meaningful boost in confidence until the headwinds facing consumers ease. A combination of weaker inflation and optimism of near-term rate relief are necessary to see confidence make a sustained break north. Unfortunately, these conditions are unlikely to materialise for some time.



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



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

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