CONSUMER BEHAVIOUR SURVEY Q1'17

CONSUMER ANXIETY EASES AGAIN. SPENDING STILL SOFT BUT FEWER ARE CUTTING BACK ON NON-ESSENTIALS. 1 IN 4 OF US ARE NOT PREPARED TO SPEND LESS ON "LIFESTYLE" PURCHASES AND YOUNG PEOPLE ARE NO MORE WILLING TO CUT THEIR SPENDING THAN MIDDLE AGED AUSTRALIANS.

NAB Behavioural & Industry Economics

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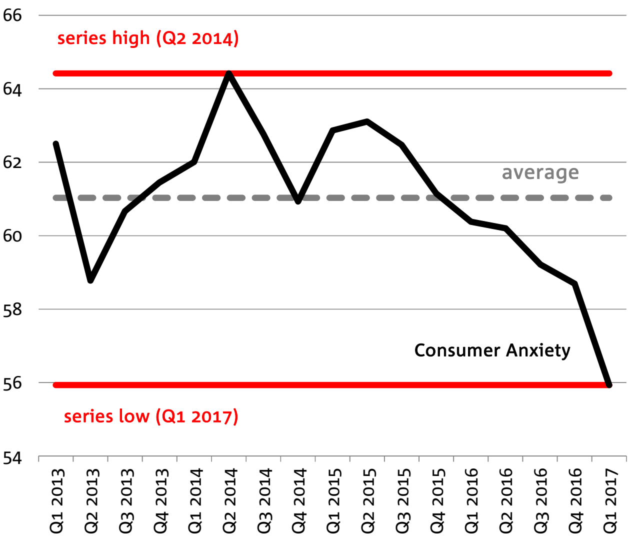
NAB's Consumer Anxiety Index fell to a survey low 55.9 points in Q1 2017 (58.7 in Q4), led by fewer concerns over job security, retirement and health. Lower anxiety is filtering through to spending behaviours - although they are still negative overall. While overall spending patterns remain conservative, as more consumers lift spending on "essentials", the number that cut spending on many "non-essentials" fell, especially on home improvements, entertainment, travel and major household items. Most consumers are prepared to cut back "lifestyle spending" to improve their finances, but almost 4 in 10 are not. Surprisingly, young people are no more willing to cut back lifestyle spending than middle aged consumers. The areas where we would be most prepared to spend "much less" were: transport (taxis, Uber etc.); take-away food; fitness; and alcohol. We are least prepared to curb our spending on internet and mobile phones.

CONSUMER "ANXIETY" FALLS AGAIN....

NAB's Consumer Anxiety Index - which measures concerns about future spending and savings arising from job security, health, retirement, cost of living and government polices - fell to a survey low 55.9 points in Q1 2017 (58.7 in Q4).

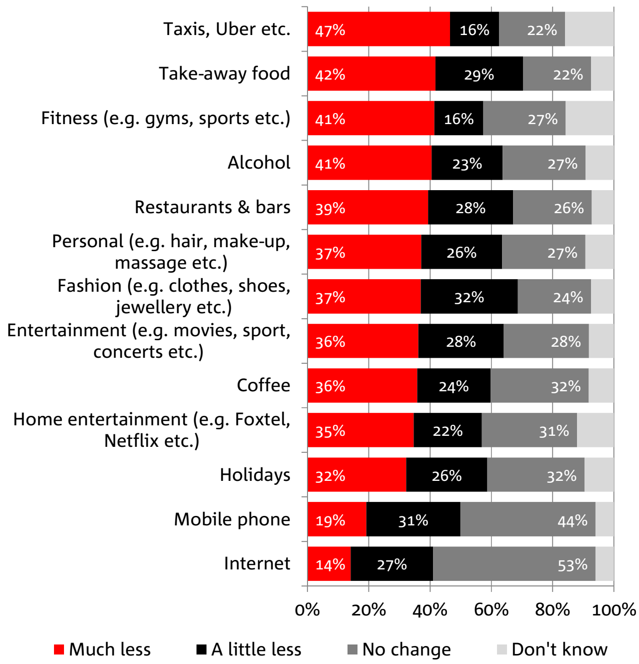


SPENDING BEHAVIOURS STILL SOFT, BUT SHOWING SOME IMPROVEMENT....

Lower anxiety seems to be filtering through to spending behaviours - but they are still negative overall. While NAB's measure of Consumer Spending Behaviour remains conservative, it is less so than in Q4 2016. The indicator improved from -13 to -10, suggesting fewer consumers cut back their spending during Q1. This was led by an increase in the number of consumers spending more on "essentials" (-1 to +3) and a reduction in the number of consumers cutting back on "non-essentials" (-21 to -19).

AND WE VALUE SOME "LIFESTYLE SPENDING" MORE THAN OTHERS

When asked about cutting back on "lifestyle spending", over 50% of consumers said they were already doing so whenever they could or simply didn't have anything left after paying for essentials. But another 40% said they didn't want to cut their spending (regardless of age). The areas where consumers were most prepared to cut back were taxis/Uber, takeaway food, fitness and alcohol. They were least likely to cut internet and mobile phones.

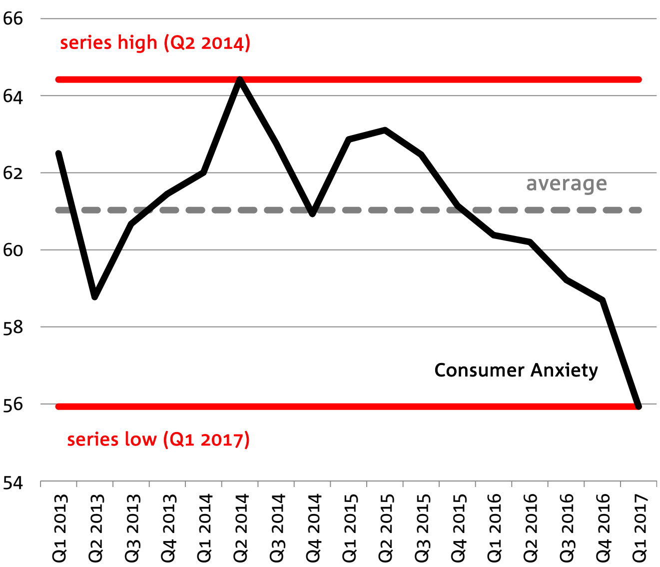


CONSUMER "ANXIETY" FALLS AGAIN…

Anxiety levels among Australian consumers fell again in Q1 2017. NAB's Consumer Anxiety Index - which measures concerns about future spending and savings plans arising from job security, health spending, financial security for retirement, cost of living and government polices - fell to a survey low 55.9 points in Q1 2017 (58.7 in Q4).

Lower anxiety in Q1 2017 was reported across all drivers - led by job security, ability to fund retirement and health. Cost of living is still the biggest driver of anxiety, marginally ahead of government policy. Job security continues to cause the least stress, despite softer labour markets.

Anxiety fell to a new survey low in Q1 2017…



SPENDING BEHAVIOURS RESPONDING BUT STILL NEGATIVE OVERALL…

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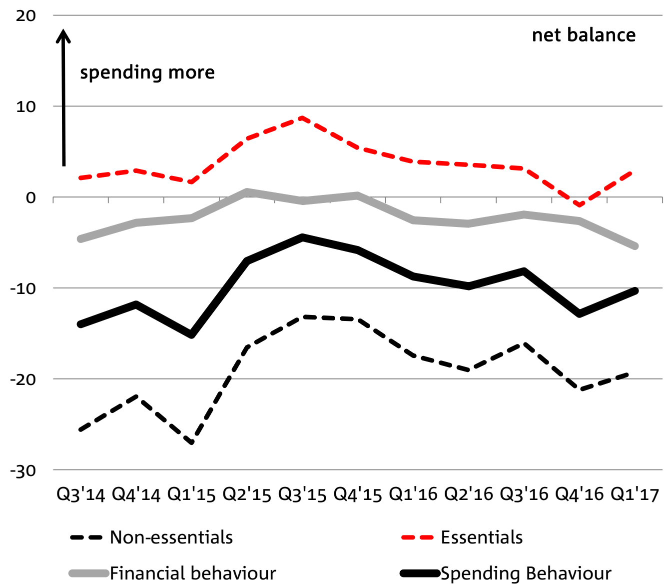
Our Financial Spending indicator (consisting of credit usage, savings, super, investments and debt repayments, etc.) fell to -5 from -3 in the previous quarter.

Spending behaviours weak but improving…



THE VIEW FROM NAB ECONOMICS

Recent official ABS data on consumer behaviour continues to present a fairly downbeat picture, pointing to very soft consumer spending growth during Q1 2017. While some of this weakness has been driven by temporary factors, we continue to see signs of a more fundamental slowdown in spending. Recent data underlining this trend includes:

- Retail conditions in the NAB Business Survey (April 2017) showing the weakest trend of any industry. While the latest survey showed some improvement for the sector, it continues to lag well behind most other industries. Personal services remain very strong however.
- ABS retail trade data (March 2017) showing month-on-month turnover at current prices flat in trend terms, with only food retailing and other retailing showing growth.
- National accounts data for Q4 2016 showing household consumption growth improving (up 0.9% q/q), but largely due to a notable drop in the household savings rate (to 5.2% from 6.3%). Meanwhile, record low wage growth was reflected in a drop in the average compensation of employees.

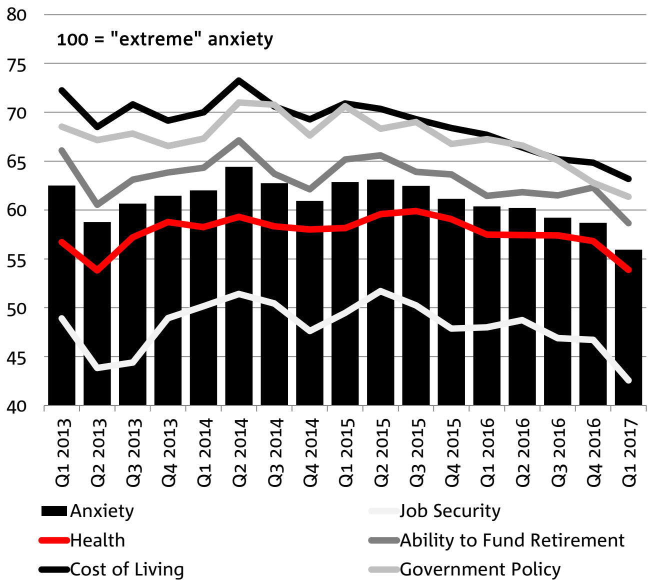
On the other hand, employment growth so far this year has been stronger than H2 2016, with the lift in full-time employment particularly encouraging for household income. Current weakness in consumer spending is consistent with a lagged response to weaker labour market outcomes in H2 2016, so stronger labour market outcomes (though still moderate) are consistent with some strengthening in consumer spending through the remainder of 2017. Nonetheless, we expect only gradual improvement in the unemployment rate, and weakness in wages growth is likely to persist and remain a constraint on consumer spending.

We see last week's Federal Budget as not fundamentally changing consumers' (cautious) behaviour and confidence levels. However, measures such as the increase in the Medicare levy (affecting the out years) and changes to family tax benefits and higher education fees could further dampen sentiment.

We expect consumption growth of around 2% in 2016-17 and 2017-18, before seeing only a modest improvement to 2.2% in 2018-19. This is notably softer than Treasury's forecast used in the latest Commonwealth Budget, mostly due to NAB's weaker wages growth outlook, but also reflecting our expectation for higher levels of consumer caution - prompted by very elevated levels of household debt. Treasury's consumption forecasts rely on further declines in the household savings rate to 3¼% in 2018-19 - its lowest level since the GFC.

NAB CONSUMER ANXIETY INDEX - DETAIL

All anxiety drivers are causing less concern for Australian consumers...



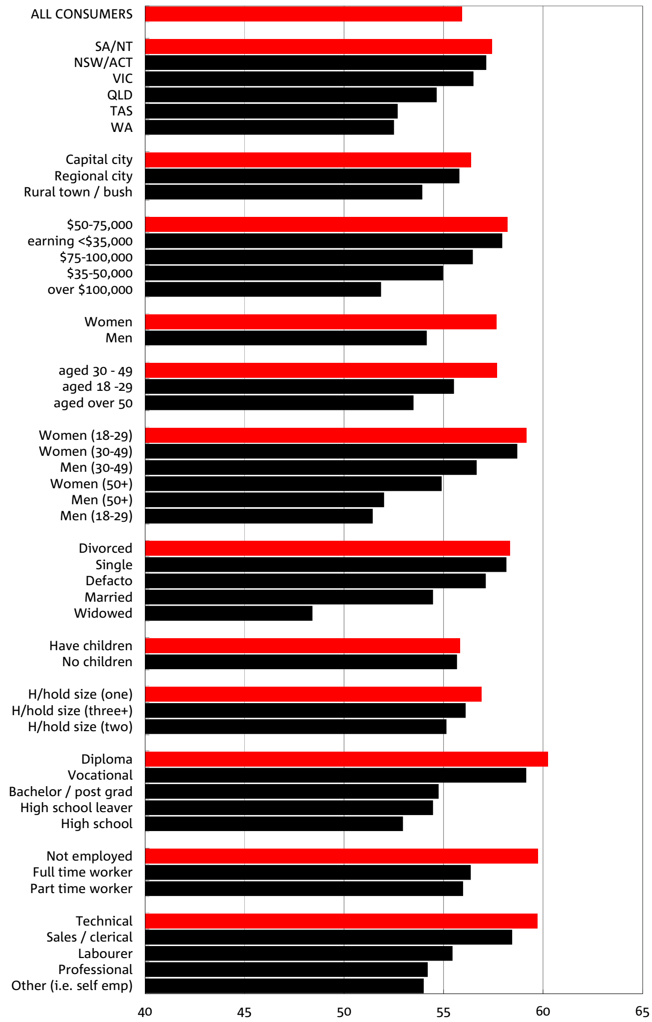
Lower anxiety was reported across all survey measures in Q1 2017. Anxiety improved most in relation to job security where, despite softening labour market conditions, consumers in all demographic groups reported below average levels of stress, except in TAS, and among the most highly educated and those not employed. Overall, around 2 in 3 (68%) consumers reported "low" or "very low" stress over their job security.

Concern arising from retirement funding was also noticeably lower, with just over 1 in 2 (53%) consumers reporting "low" or "very low" levels of anxiety. When it came to health, around 6 in 10 also reported "low" or "very low" anxiety.

While stress levels arising from the cost of living and government policy also fell, it remains of some concern that around 1 in 4 consumers are reporting "very high" anxiety in relation to both these issues.

CONSUMER ANXIETY BY GROUP

Anxiety levels differ across groups - overall it was highest for those with a diploma and lowest for widows...



Consumer anxiety levels differ across demographic groups. By state, anxiety was highest in SA/NT (57.4), where consumers' concern about retirement funding, cost of living and government policy were also the highest of any state. It was lowest in WA (52.5), driven mainly by much lower stress relating to job security.

Anxiety was higher for women (57.6) than for men (54.2). Anxiety was particularly elevated among young women (59.2) led by very high levels of anxiety over their cost of living. By income, consumers earning $50-75,000 (58.2) were the most anxious, while those living in capital cities were the most anxious by region (56.4), particularly in regards to their job security.

In other groups, anxiety was highest for 30-49 year olds (57.7), singles (58.2), divorced people (58.3), single households (56.9), who had a diploma (60.2), technical workers (59.7) or were not employed (59.7).

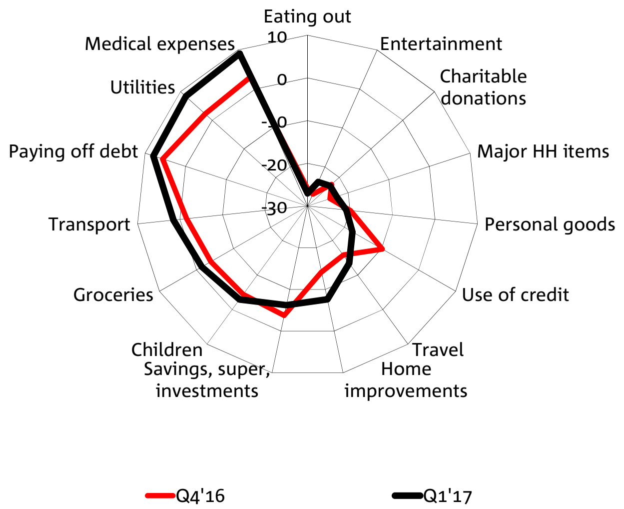
Overall, widows (48.4), young men (51.4) or earning over $100,000 (51.9) were the least anxious. In other groups, anxiety was lowest in regional towns or the bush (53.9), over 50s (53.5), two person households (55.1), those who finished high school (53.0), part time workers (56.0) and the self-employed (54.0).

Interestingly, consumers earning between $50-75,000, technical workers, those who had a diploma or were not employed, were the only groups to report higher levels of anxiety in Q1 2017.

OUR SPENDING BEHAVIOURS - DETAIL

In Q1 2017, the number of Australian consumers who spent more on "essentials" out-weighed those who cut back, especially when it came to medical expenses, utilities and transport.

Overall spending patterns in Q1 2017 still conservative, but less so than in Q4 2016...



But the number of consumers who cut back on "non-essentials" still out-weighed those who spent more. Encouragingly - and perhaps reflecting lower levels of overall anxiety - the number that cut their spending on "non-essentials" fell across most spending categories, especially home improvements, entertainment, travel and major household items.

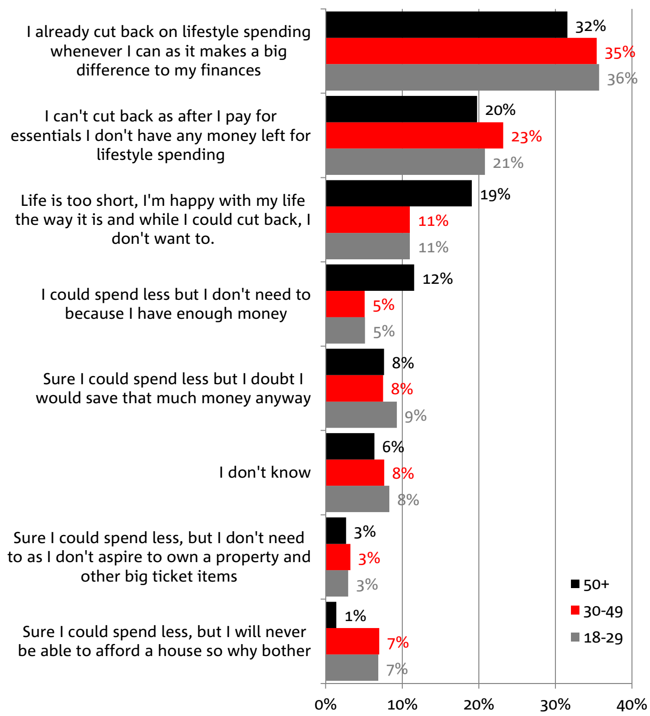
When it came to "financial" spending, more Australians on balance paid off debt, while fewer elected to use credit or add to their savings, investments and superannuation.

ATTITUDES TO "LIFESTYLE SPENDING"

Typically much of our spending on "non-essentials" is considered to be "lifestyle" purchases rather than essential to everyday life. But which types of lifestyle spending are most highly valued by consumers and which of these would we be prepared to sacrifice in order to improve our financial position?

In this survey, we asked Australian consumers to best describe their attitude to their lifestyle spending (e.g. holidays, coffee, eating out, entertainment etc.).

Most consumers are prepared to cut back their "lifestyle spending" to improve their finances but almost 4 in 10 aren't...



Over 1 in 2 consumers said they already cut back their lifestyle spending whenever they could (34%) or didn't have anything left for lifestyle spending after paying for the essentials (21%).

Surprisingly, age was not a factor for these consumers - ranging from 32% of over-50s to 36% of 18-29 year olds already cutting back, and from 20% of over 50s to 23% of 30-49 year olds for those who don't have enough to spend on essentials.

But around 4 in 10 Australian's also said they didn't want to cut their lifestyle spending because "life was too short" (14%), they "didn't think it would help them save" (8%), because they "had enough money"

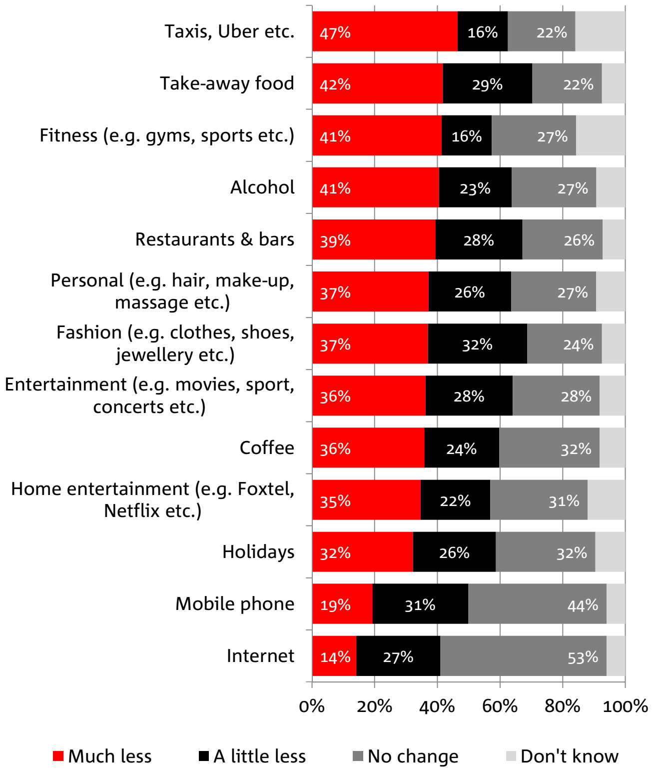
(8%), "couldn't see the point as they'd never be able to afford a home" (5%) or "didn't aspire to save" (3%).

It was very interesting that these attitudes were quite consistent across all age groups - and that young people in particular shared very similar attitudes to lifestyle spending to middle aged consumers.

WHAT ASPECTS OF LIFESTYLE SPENDING WOULD WE CUT BACK TO SAVE MORE?

Australians consumers were also asked to rate the extent to which they would cut back their "lifestyle" spending across a broad range of goods and services in order to have more money left for their savings, retirement, housing etc.

Consumers are most prepared to cut back on taxis/Uber, takeaway food, fitness & alcohol and least likely to cut internet & mobile phones...



When asked whether they were prepared to spend "much" less they were most likely to cut back on taxis and Uber (47%), takeaway food (42%), fitness (41%) and alcohol (41%).

They were least inclined to cut back on internet (14%) and mobile phones (19%).

Again, the spending behaviours of young Australians typically mirrored those of middle-aged consumers.

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