

NAB Consumer Behaviour Survey: Q1 2016

Summary Report

by NAB Behavioural & Industry Economics

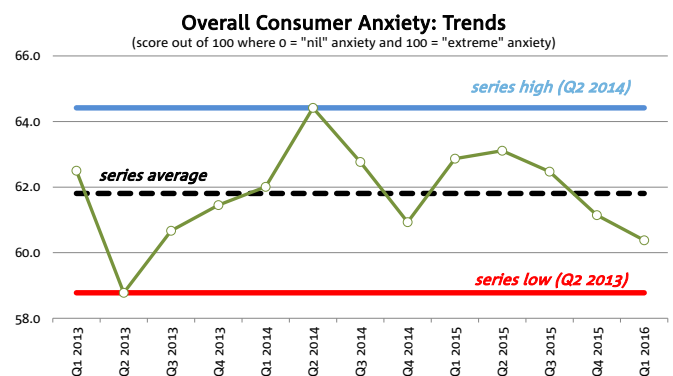
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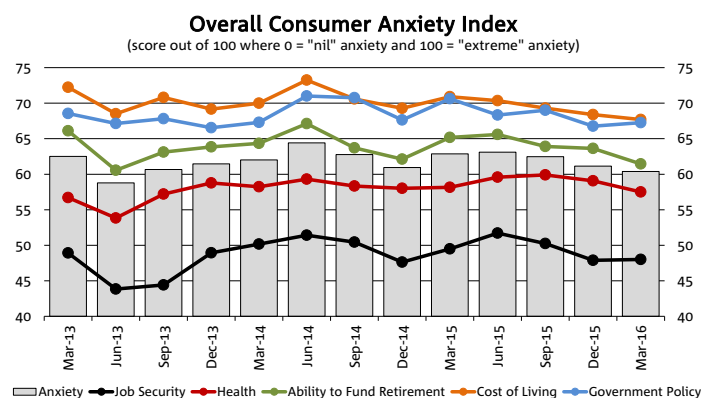
Consumer anxiety falls again despite growing concern over government policy ahead of the May federal budget. Government policy has joined the cost of living as the biggest contributor to overall consumer stress. Overall, anxiety has however now fallen for three straight quarters as the recovery in the non-mining economy remains on track and the rotation towards services activity continues to support the labour market. But, with weak national income and wages growth continuing to cap household consumption growth, spending behaviours remain conservative.

- NAB Consumer Anxiety Index fell to 60.4 points in Q1 2016 (61.1 in Q4 2015) to remain well below its long-term average (61.8).
- Lower anxiety was underpinned by diminished concerns over retirement funding, health expenditure and cost of living (albeit cost of living remains one of the biggest drivers of overall consumer stress). Job security remained stable and is still causing the least stress for consumers.
- But, with the Federal budget looming, anxiety related to government policy increased - almost 27% of Australians rated their anxiety "high".
- Overall consumer anxiety has fallen below long-term averages in most states and territories, except in WA and Tasmania.
- Consumers remain most anxious in SA/NT & WA, with much higher stress associated with government policy, cost of living and job security (especially in WA).
- While over 1 in 4 consumers still rate their anxiety over cost of living "high", anxiety levels have eased in the last 4 quarters to remain below the long-term average.
- Women continue to be much more anxious than men - particularly middle aged women (30-49) who have overtaken women 50+ as the most stressed. Men 50+ continue to rate consumer anxiety lowest.
- Low income earners remain the most anxious group in Australia. But, middle income earners (\$50,000-\$100,000) were the only income groups to rate anxiety higher, with government, health and cost of living the main drivers.
- Labourers reported the biggest increase in stress levels across all groups, with heightened concern across all anxiety questions, especially in relation to their job security.
- Spending behaviours in Q1 were more conservative in most spending categories (except children and health) and continue to be dominated by key "essentials" (utilities, transport & groceries) and paying down debt.

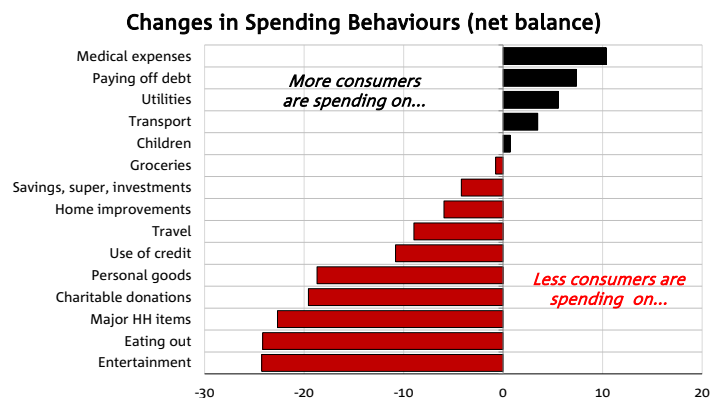
Consumer anxiety fell for the third straight quarter to remain well below its long-term average



But, with the Federal budget looming, anxiety related to government policy increased.



And, spending behaviours remain conservative.



CONTACTS:
Alan Oster - Chief Economist
(03) 8634-2927 0414 444 652

Dean Pearson
Head of Industry & Behavioural Economics
(03) 8634 3221 0457 517 342

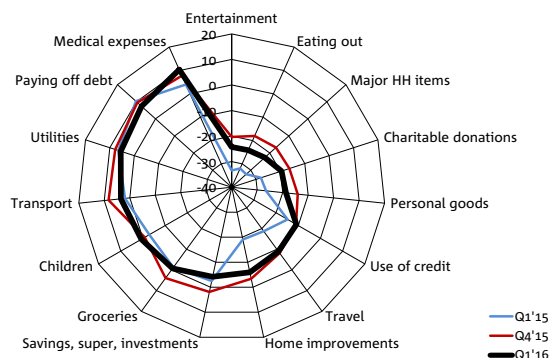
Robert De Iure - Senior Economist
Industry & Behavioural Economics
(03) 8634-4611 0477 723 769

Brien McDonald - Senior Economist
Industry & Behavioural Economics
(03) 8634-3837 0455 052 520

- While spending on “non-essentials” was somewhat weaker over the quarter, it remains notably stronger than at the same time last year across most spending categories (and in all states bar Tasmania).
- In particular, notably fewer Australians cut back their spending on home improvements, travel, major household items, entertainment and eating out over the past year.
- Financing retirement, providing for the family’s future and health expenses are still the main drivers of household financial stress.
- That said these drivers are creating less financial stress now compared with the same time last year - across nearly all categories, except education.

Spending on many “non-essentials” is stronger than at the same time last year.

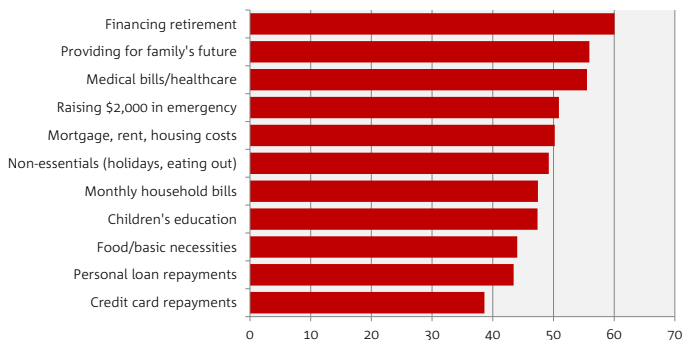
Changes in Spending Behaviours (net balance)



Financing retirement still the main driver of household financial stress.

Drivers of Household Financial Stress: Q1'16

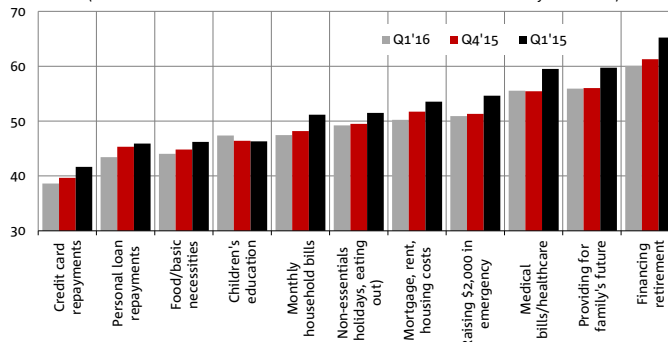
(score out of 100 where 0 = "not at all concerned" and 100 = "extremely concerned")



All drivers of household financial stress of less concern over the past year, except education.

Drivers of Household Financial Stress

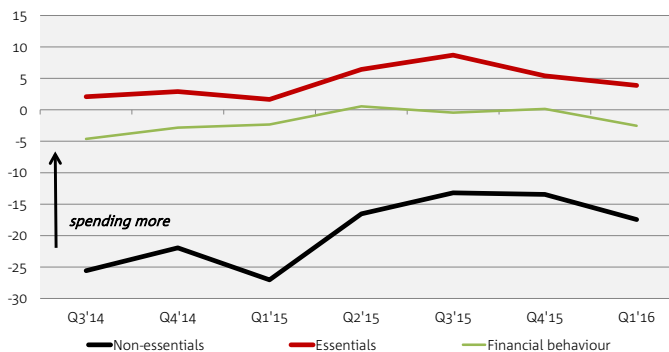
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- Another way to show consumer spending behaviour is by grouping all non-essentials (entertainment, eating out, major household items, home improvements, personal goods and travel) essentials (medical, utilities, transport, groceries and children) and financial spending (paying off debt, savings/super/investments and use of credit).
- Clearly, notwithstanding some moderation in the latest quarter (and across all broad spending groupings), it is encouraging that non-essential spending sentiment (as a broad proxy for consumer “confidence”) has steadily improved from its low point in Q1 2015.

Consumers more “confident” over past year – non-essential spending behaviours less negative

Consumer Behaviour by Spending Type (net balance)



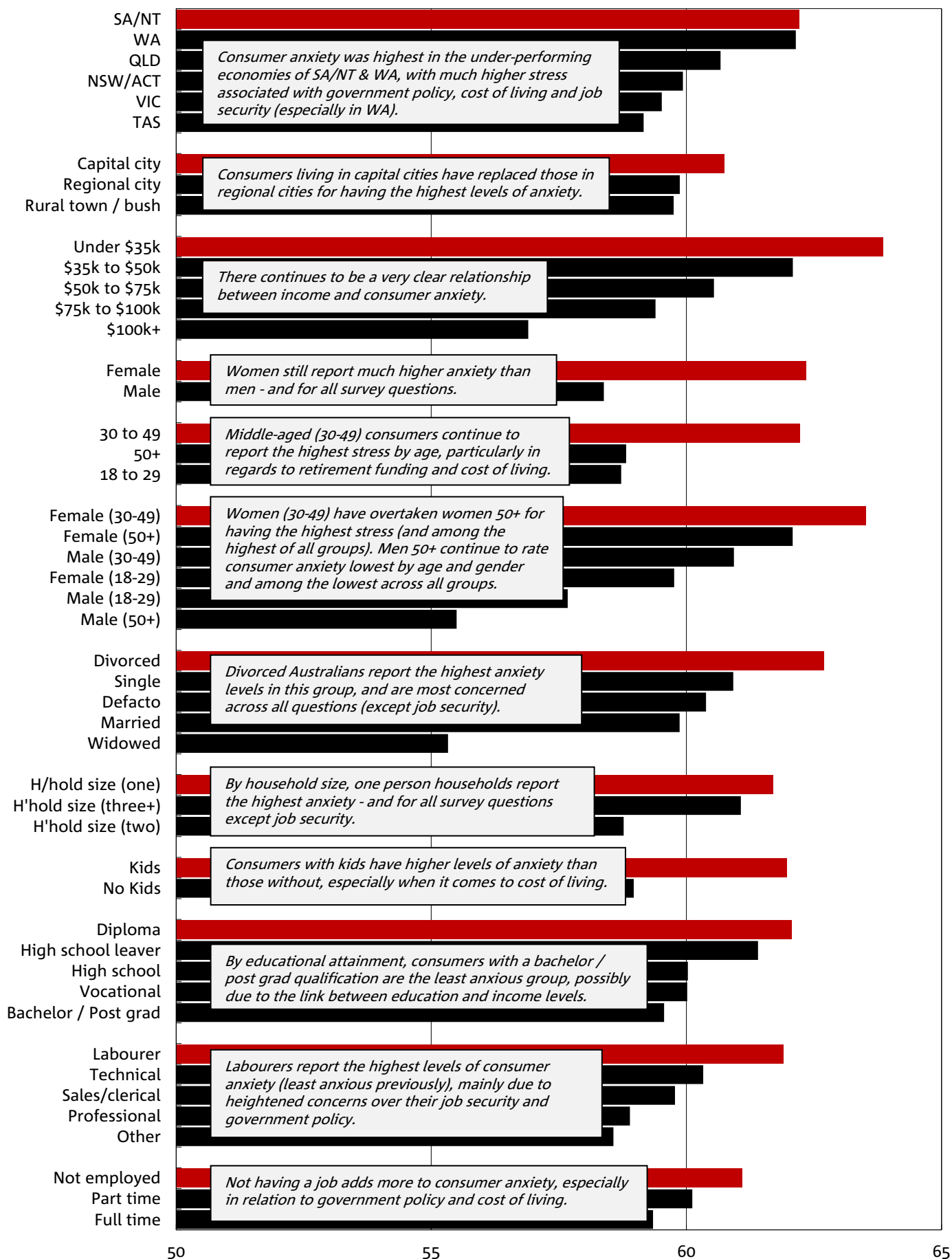
The view from NAB Economics...

On the back of sustained improvement in the labour market, consumer spending has gained momentum since late 2015, evident by the strong print for household spending growth in Q4 2015 National Accounts (0.8% q/q and 2.9% y/y in real terms). That said, growth in household income has remained very weak of late, suggesting a compositional shift in the labour market towards lower-paid jobs. As such, the strength in household consumption was supported by a notable decline in the household savings rate, which fell to 7.6% from 8.7% in Q3, to be below 8% for the first time since before the GFC.

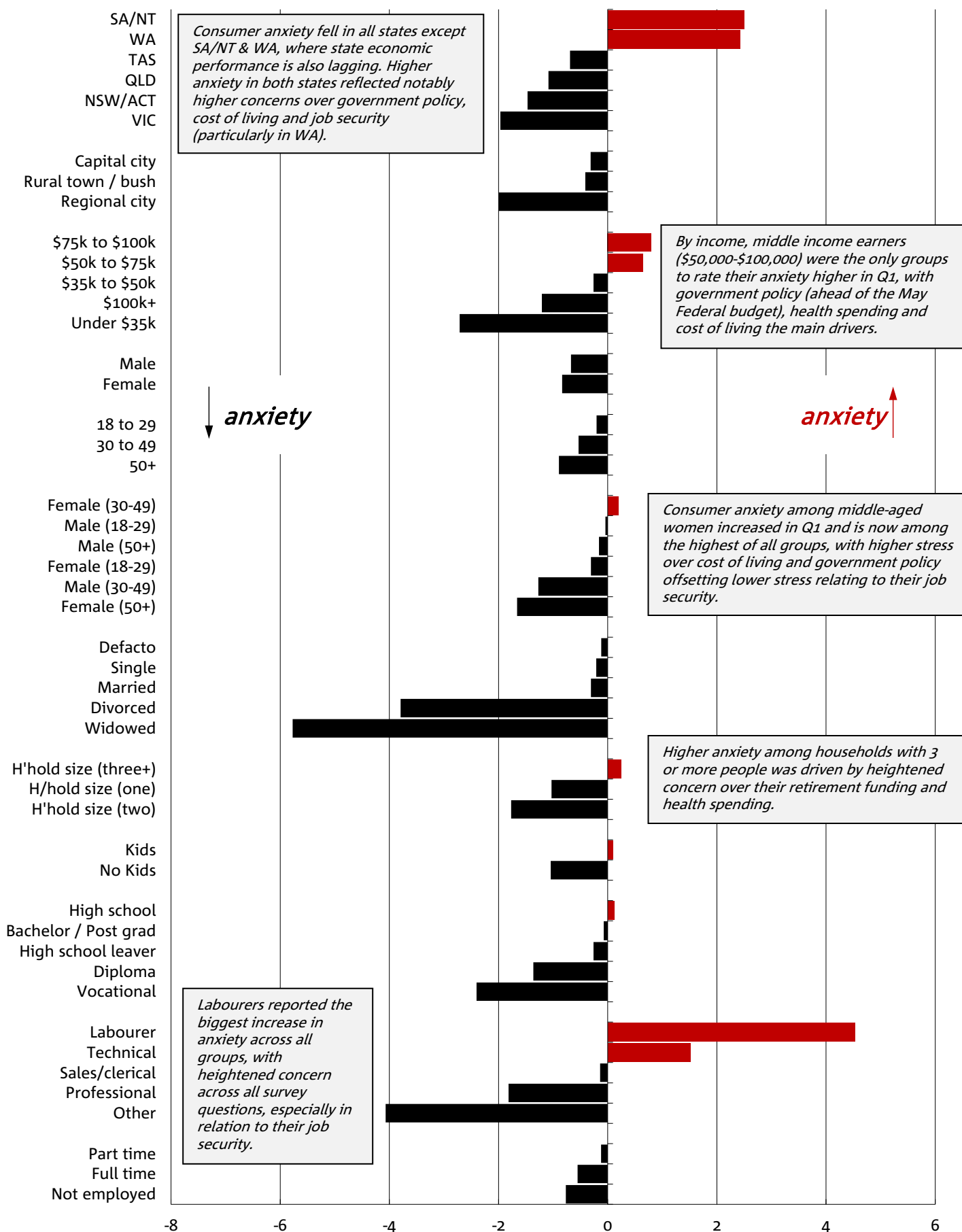
Consumers’ willingness to spend has gained traction in recent months and we continue to expect moderate growth in consumer spending through 2016. However there are risks with this trend contingent on a further pick-up in labour market conditions and some further decline in the household savings rate amidst subdued wages growth. Consumer confidence has also remained somewhat volatile of late amidst heightened concerns about global growth. Meanwhile, slower house price growth projected for most capital cities this year will also offer less impetus to consumer spending through the wealth creation channel.

Contact: Riki Polygenis, (Head of Australian Economics) +(61 3) 8679 9534

Consumer Anxiety by Key Categories



Consumer Anxiety by Key Categories (change)

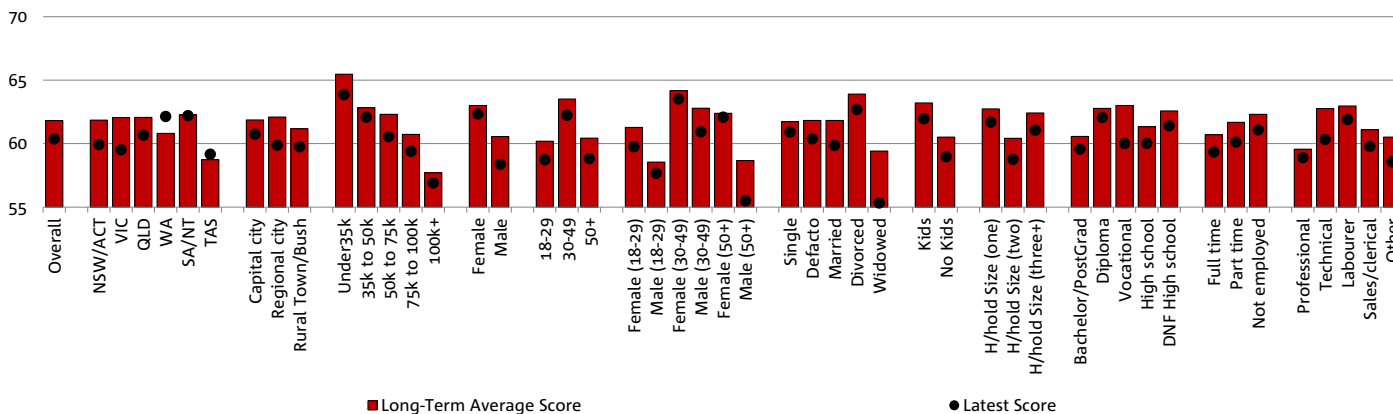


Consumer anxiety trends - focus on key areas of concern

Overall consumer anxiety is currently sitting below long-term average levels - and in most demographic groups with the exceptions of WA and Tasmania. In contrast, consumer anxiety has fallen notably below average for widows and men over 50.

Consumer Anxiety

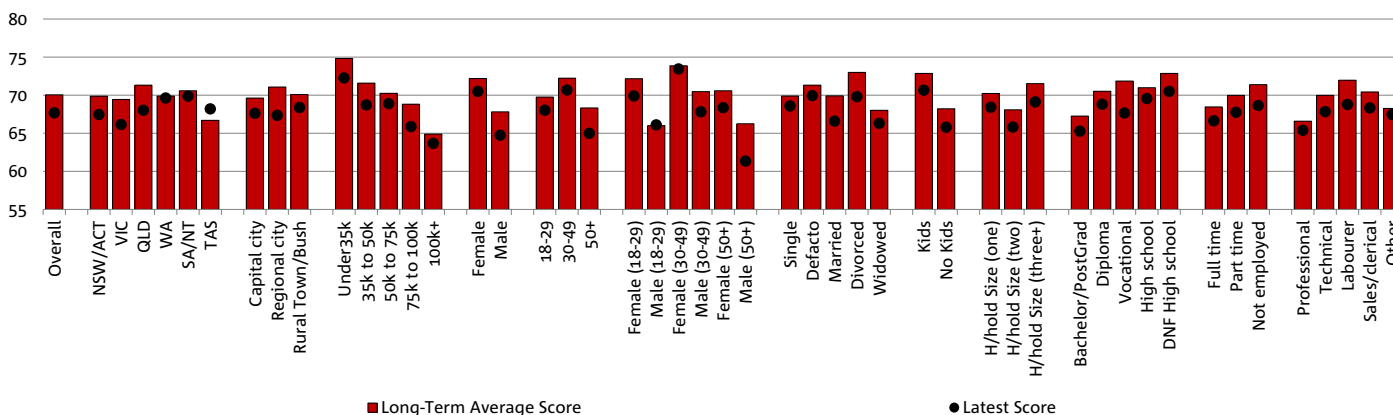
(score out of 100 where 0 = 'nil' anxiety and 100 = 'extreme' anxiety)



Despite an improvement in Q1, cost of living remains a key driver of consumer stress for most groups - over 1 in 4 Australian consumers overall still rate their concerns “high”. Encouragingly, cost of living pressures fell below long-term average levels in most demographic groups in Q1 2016. It was however apparent that cost of living pressures were still above average for consumers in Tasmania and for young men (18-29).

Cost of Living

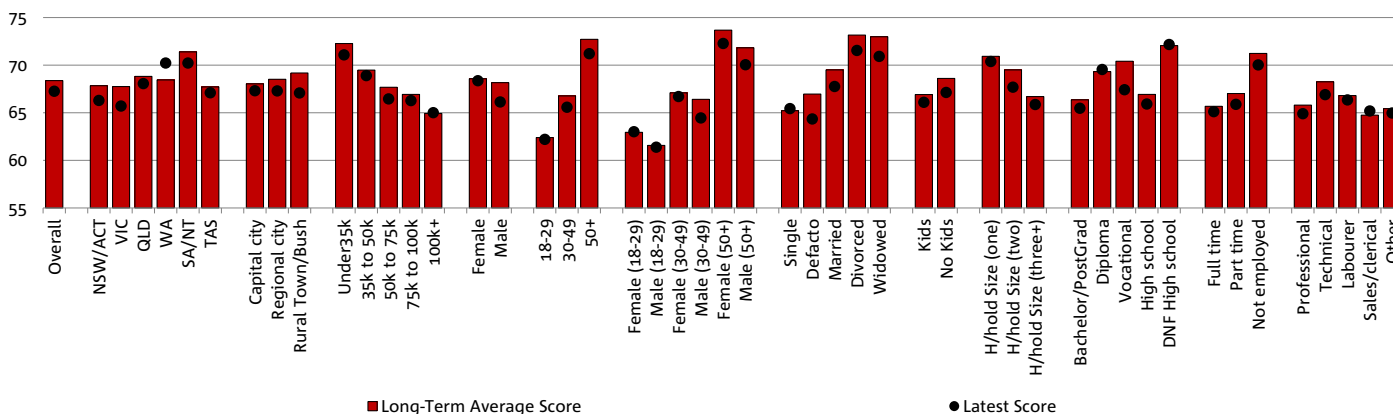
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With the Federal budget approaching in May, anxiety related to government policy increased in Q1 - almost 27% of Australians rated their level of stress “high”, with only 1 in 7 rating their anxiety “low”. However overall stress related to government policy is still below average in most groups. The notable exceptions are for consumers living in WA, high income earners (over \$100,000), young women (18-29), singles, high school leavers and those with a diploma and sales/clerical workers.

Government Policy

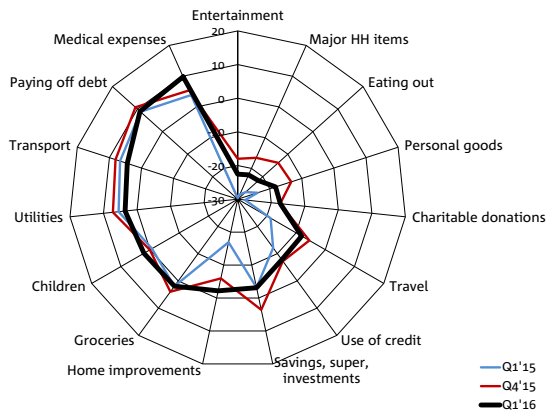
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Changes in consumer spending behaviours by state

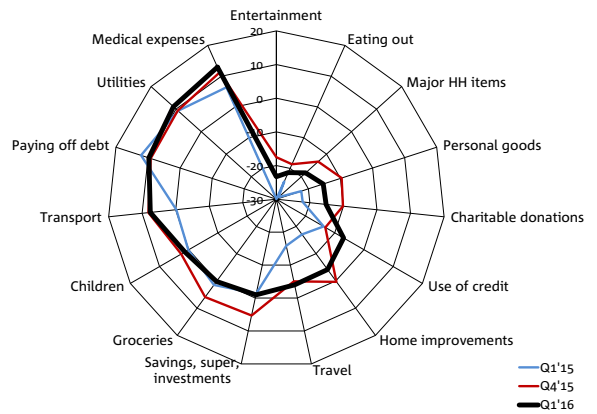
More consumers in NSW/ACT are spending on medical expenses, children and home improvements. But more are also cutting back on savings/super and many “non-essentials”.

NSW/ACT: Changes in Spending Behaviour (net balance)



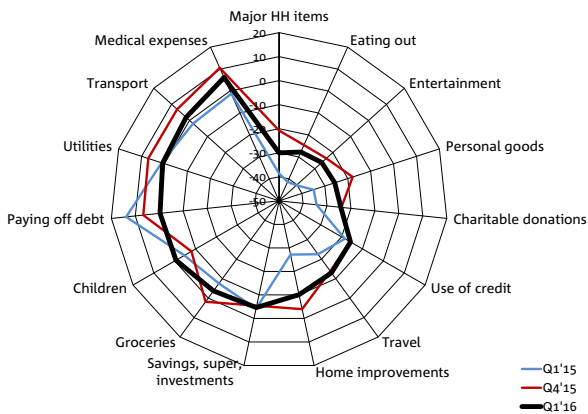
VIC consumers spending more on medical expenses and utilities and using more credit. Notably fewer are spending on groceries, savings/investments and other “non-essentials”.

VIC: Changes in Spending Behaviour (net balance)



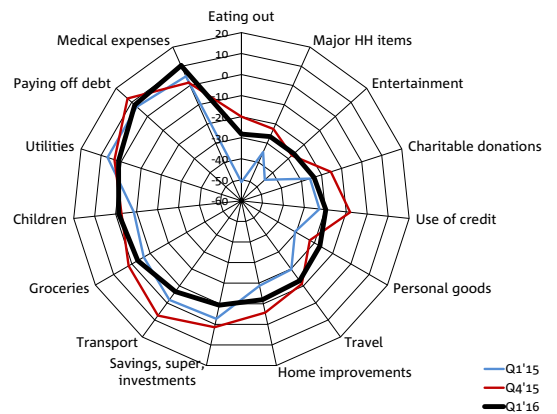
Spending behaviours in QLD are being cut across most items, except children & travel. Biggest cutbacks in spending on major household items, personal goods and paying off debt.

QLD: Changes in Spending Behaviour (net balance)



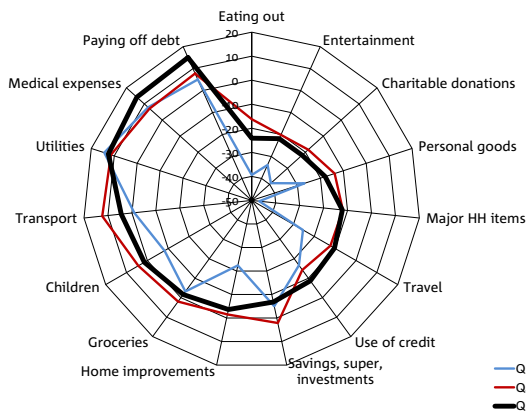
More consumers in WA cut back spending across most areas, particularly transport, use of credit and savings/investments. Medical expenses the notable exception.

WA: Changes in Spending Behaviour (net balance)



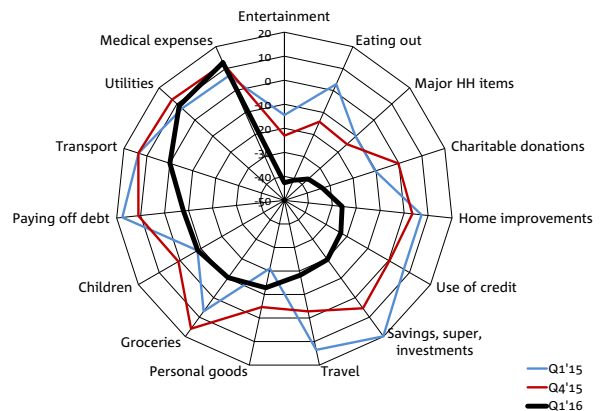
SA/NT consumer behaviour reflecting increased emphasis on paying off debt and medical expenses. More consumers also using credit and cutting back on most “non-essentials”.

SA/NT: Changes in Spending Behaviour (net balance)



TAS volatile. Aside from medical expenses, consumer spending behaviours were notably less aggressive in nearly all other spending categories relative to Q3.

TAS: Changes in Spending Behaviour (net balance)



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Behavioural & Industry Economics

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist - Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist - Behavioural & Industry Economics
+(61 3) 8634 3837

Australian Economics

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist - Australia
+(61 3) 9208 8129

Vyanne Lai
Economist - Australia
+(61 3) 8634 0198

Amy Li
Economist - Australia
+(61 3) 8634 1563

Phin Ziebell
Economist - Agribusiness
+(61 4) 75 940 662

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist - International
+(61 3) 9208 5049

Gerard Burg
Senior Economist - Asia
+(61 3) 8634 2788

John Sharma
Economist - Sovereign Risk
+(61 3) 8634 4514

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