

CONSUMER BEHAVIOUR SURVEY Q4'16



OVERALL CONSUMER ANXIETY EASES A LITTLE MORE, BUT OUR SPENDING BEHAVIOURS STILL YET TO RESPOND

NAB Behavioural & Industry Economics

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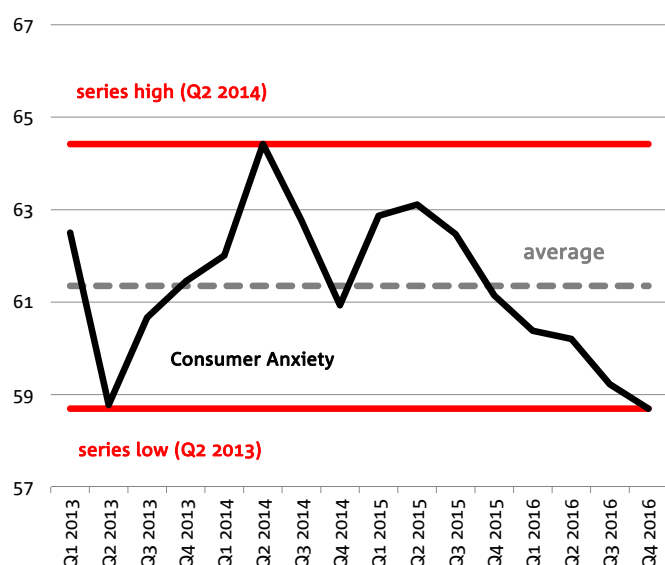
NAB's Consumer Anxiety Index moderated a little further in Q4 to a new survey low of 58.7, reflecting lower stress arising from government policy, health spending, costs of living and job security. This offset slightly higher concerns over our ability to fund our retirement. However, NAB's Consumer Spending Behaviour Indicator is still not reflecting this improved sentiment, as concerns over our current financial position continued to grow. Spending patterns remain very conservative particularly for "non-essentials" (-21) such as entertainment, eating out and major household items, and were also much more conservative than at the same time last year across all types of spending (except the use of credit). This pattern was broadly consistent across most states. Going forward, NAB expects household consumption to grow moderately on the back of a declining saving ratio and a low interest rate environment.

CONSUMER ANXIETY FALLS TO NEW SURVEY LOW.....

Australian consumers were a little less anxious heading into Christmas this year, with NAB's Consumer Anxiety Index falling to a new survey low 58.7 points in Q4 2016, down from 59.2 in Q3 2016 and 61.1 at the same time last year.

Lower anxiety in Q4 2016 was largely underpinned by lower stress arising from government policy, as well as our health spending, cost of living and job security. This offset slightly higher concerns over our ability to fund our retirement (particularly among middle aged women and low income earners) - although retirement funding concerns continue to be below long-term average levels.

Anxiety has now been falling since Q3 2015...



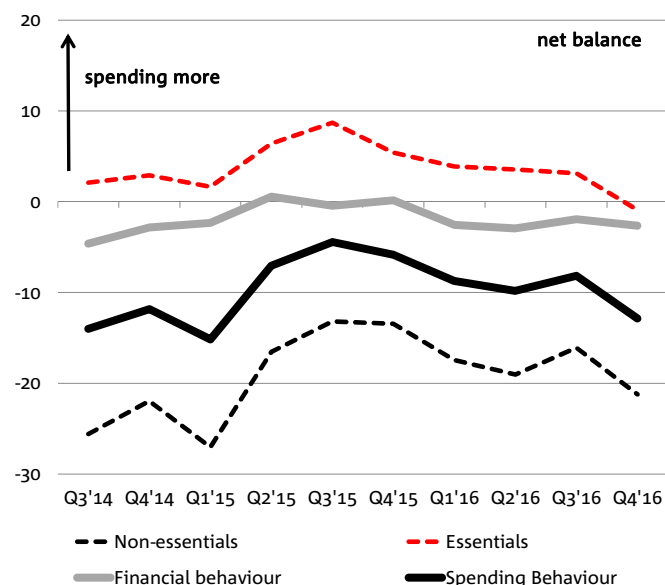
BUT SPENDING BEHAVIOURS STILL VERY CONSERVATIVE.....

Overall, NAB's measure of Consumer Spending Behaviour in Q4 was more conservative, with the overall indicator slipping to -13, from -8 in the previous quarter, indicating that more consumers are cutting back their spending.

This decline was driven mostly by cutbacks in "non-essential" spending (-21 and its lowest level since Q1'15), but spending on "essentials" also fell (-1).

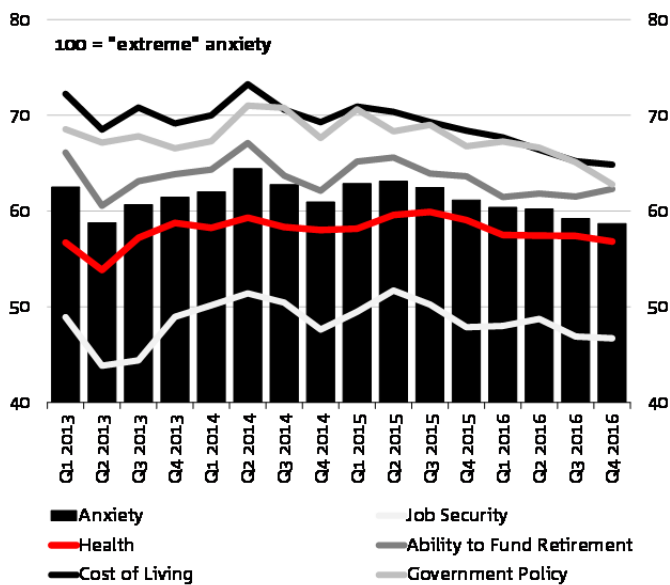
Our Financial Spending indicator (consisting of things like credit usage, savings, super, investments and debt repayments) was broadly unchanged, but still negative (-3).

And weaker across the board...



NAB CONSUMER ANXIETY INDEX

We are feeling less stressed about our jobs, government policy and the cost of living...



Lower anxiety in Q4 2016 was largely underpinned by lower stress arising from government policy, as well as our health spending, cost of living and job security. This offset slightly higher concerns over our ability to fund our retirement (particularly among middle aged women and low income earners) - although retirement funding concerns continue to be below long-term average levels.

Our living costs are still considered to be the biggest driver of consumer anxiety, but we are continuing to see encouraging improvements. Consumer anxiety relating to cost of living has now been falling steadily since mid-2015 in an economic environment of subdued inflation and now sits at survey low levels.

Job security continues to cause the least stress, despite signs of a slowing labour market. Just 16% of consumers reported "high" anxiety over their jobs in Q4 2016, and 43% reported "very low" levels of stress.

Consumer anxiety continues to vary widely across demographic groups. By state, anxiety was highest in VIC (59.9) and NSW/ACT (59.1) - also the only states to report higher anxiety in Q4, and higher anxiety in relation to all key drivers except government policy.

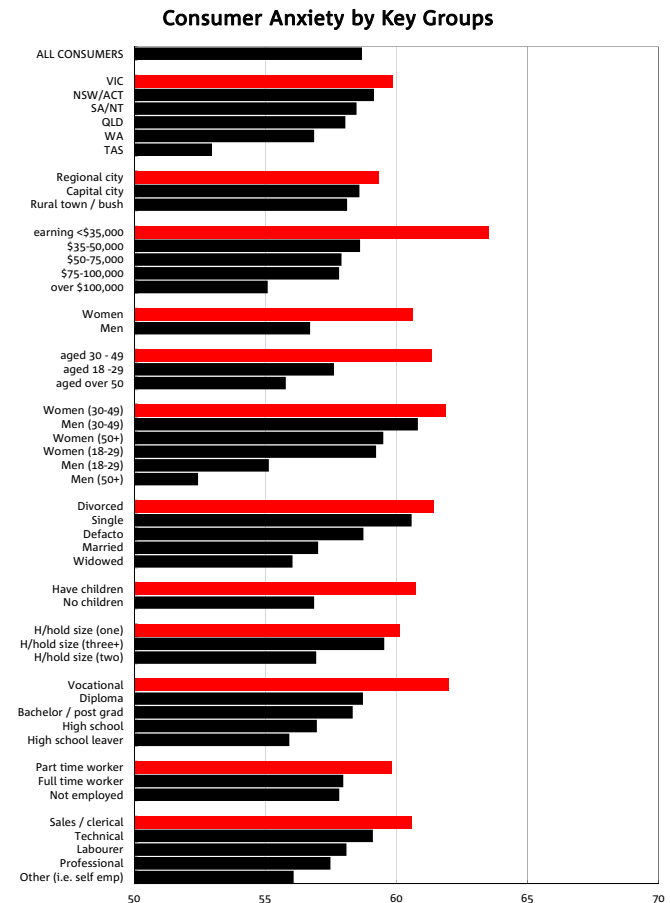
By gender, anxiety remains higher for women and particularly women aged 30-49, who despite an improvement in their overall anxiety levels, continue reporting much higher levels of anxiety relating to their ability to fund retirement and cost of living.

By other key demographic groups, anxiety was highest in regional cities (58.6), for those earning less than \$35,000 (63.5), divorced Australians (61.4), those with children (60.7), single person households (60.1),

those whose highest educational attainment is vocational (62.0), part time workers (59.8) and sales/clerical workers (60.6).

CONSUMER ANXIETY BY GROUP

Anxiety varies widely across all demographic groups; overall highest for lowest income earners and highest for men over 50...



Overall consumer anxiety was lowest for men over 50 (52.4), mainly due to significantly lower levels of anxiety related to their job security. Anxiety was also noticeably lower in TAS (53.0) but from a much smaller sample size.

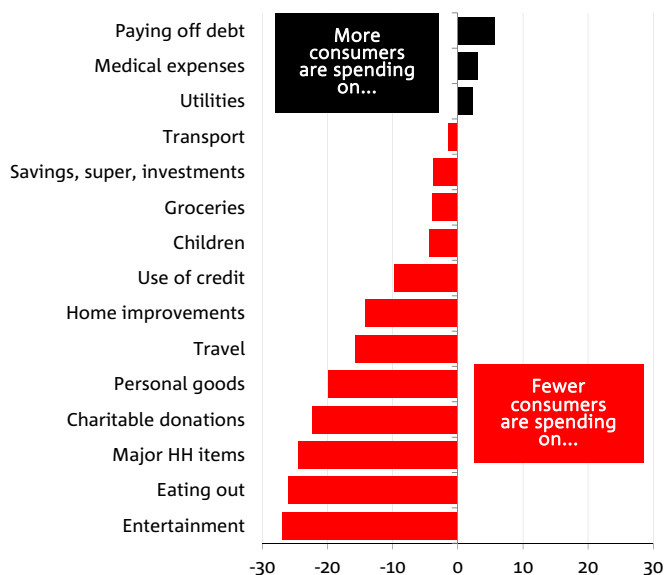
In other groups, anxiety was lowest for Australians living in rural towns and the bush (58.1), the highest income earners (55.1), men (56.7), widows (56.0), for those without children (56.9), live in a 2 person household (56.9), left high school (55.9) and are not employed (57.8) or are self-employed (56.1).

OUR SPENDING BEHAVIOURS

Despite falling levels of consumer anxiety, consumer spending patterns remain very conservative. In Q4, more Australians increased spending in relation to paying off debt, medical expenses and utilities. In

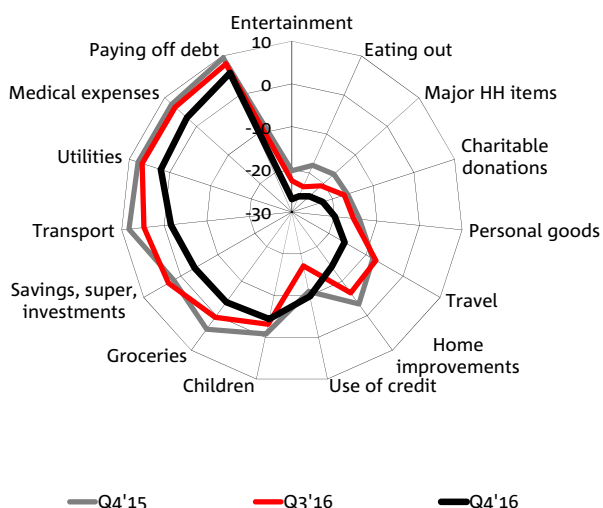
contrast, more consumers cut back their spending on “non-essentials”, particularly entertainment, eating out, major household items, charitable donations and personal goods. Slightly more consumers also cut back their spending on some key “essentials” such as transport and groceries. More of us also added less to our savings, super and investments and spent less on our children.

Consumers spending patterns in Q4 (net) even more conservative ...



But not only were consumer spending behaviours very conservative in Q4, they were significantly more conservative than in the last quarter and at the same time last year across all types of expenditure, except when it came to their use of credit. This pattern was broadly consistent across most states (see State Spending Behaviours below).

And weaker compared to Q4'15....

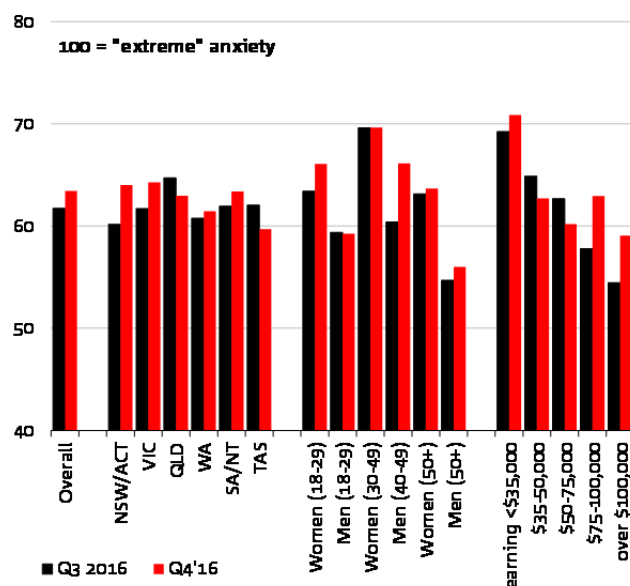


ANXIETY OVER OUR FINANCIAL POSITION

We were also more anxious overall about our current financial position in Q4 (63.4 points) - this may help to explain why spending behaviours remain conservative.

But this varied according to where we lived, our age and gender. VIC (64.3) and NSW/ACT (64.0) reported the highest anxiety in relation to their overall financial positions, while consumers living in TAS (59.7) and WA (61.4) were least concerned.

We worried more about our overall financial position in Q4...



Men over 50 (56.0) reported the lowest financial anxiety. Middle aged women (69.6 points) were most stressed, but anxiety increased most for middle aged men (up 5.7 to 66.1) and 18-29 year old women (up 2.7 to 66.1). There was also a very clear relationship between financial stress and income, with stress levels considerably lower (despite rising in Q4) in the highest income group (59.1) compared to the lowest income group (70.9).

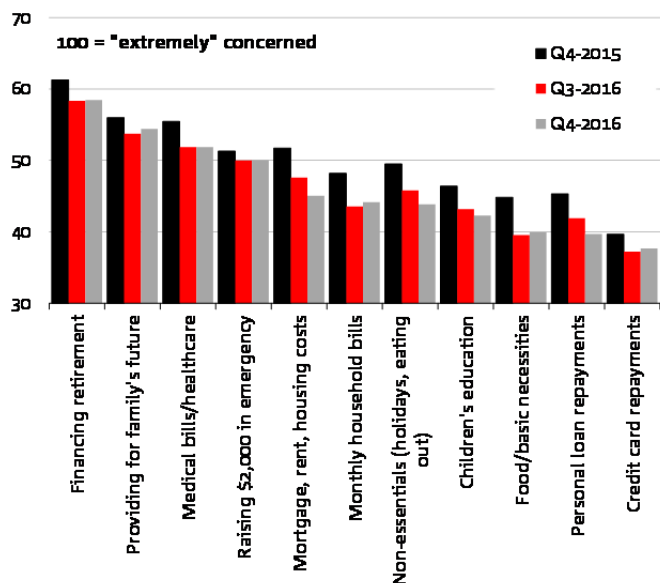
DRIVERS OF HOUSEHOLD FINANCIAL STRESS HAVE CHANGED SLIGHTLY

In terms of our household’s financial position, we were slightly more anxious in Q4 when it came to providing for our family’s future and our monthly household bills. But, we were less concerned about our mortgages, rent and housing costs, personal loan repayments and “non-essentials”.

Overall, we still identify financing retirement, providing for our family’s future, health expenditure and our ability to raise emergency funds as the

biggest drivers of financial stress and at broadly unchanged levels than in the last quarter.

We still worry most about financing our retirement & providing for the future...



THE VIEW FROM NAB ECONOMICS

According to the Q3 National Accounts, household consumption growth was lacklustre to be at 0.4% q/q (2.5% y/y), largely reflecting the weakness in real retail activity (which fell by 0.1% in the quarter).

The subdued household consumption reading was despite a lower household saving ratio (at 6.3%) and notable pick-up in household income growth in the quarter, the latter reflecting more hours worked at the aggregate level.

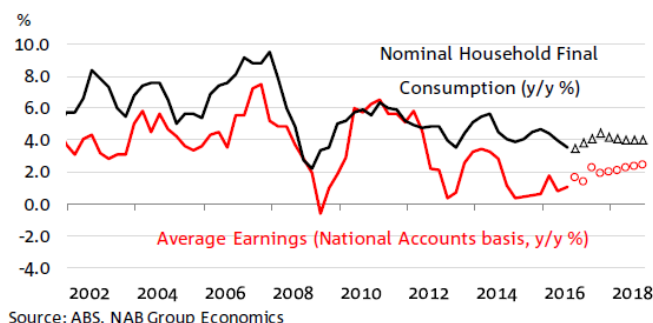
Services consumption continued to dominate goods consumption in the quarter, with hotels, cafes and restaurants; insurance and other financial services; as well as rent and other dwelling services being the largest positive contributors to overall consumption growth, while food and purchase of vehicles were the biggest detractors.

In more recent months, the partial indicators were mixed. The latest ABS retail trade data shows that retail turnover trend growth maintained its momentum in October at 0.4% (similar to September), which signals stronger growth overall for Q4.

Meanwhile NAB's monthly Online Retail Sales Index for October suggests that trend growth for online spending has eased further to 0.5% m/m, down from 0.7% last month.

HOUSEHOLD SPENDING TO EASE

Nominal HFCE growth & average earnings growth (y/y%)

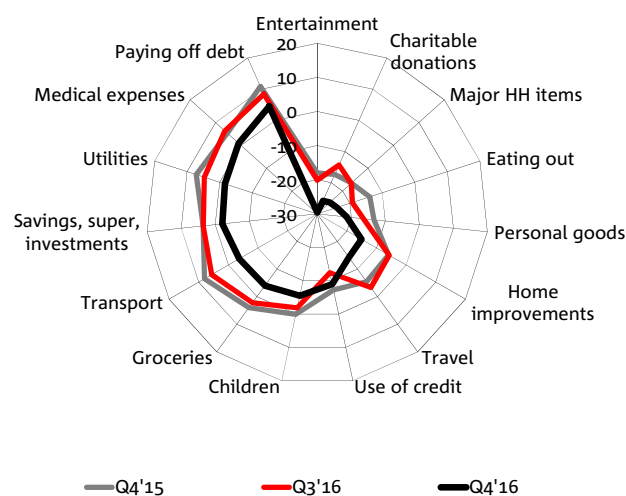


In trend terms, retail conditions according to the NAB business survey eased to -5 index points in November, the lowest level since late-2014.

Going forward, household consumption is expected to grow moderately on the back of a declining saving ratio and a low interest rate environment. We are forecasting real household consumption to grow by 2.7% in 2016, before moderating to 2.3% in 2017 and 2.1% in 2018.

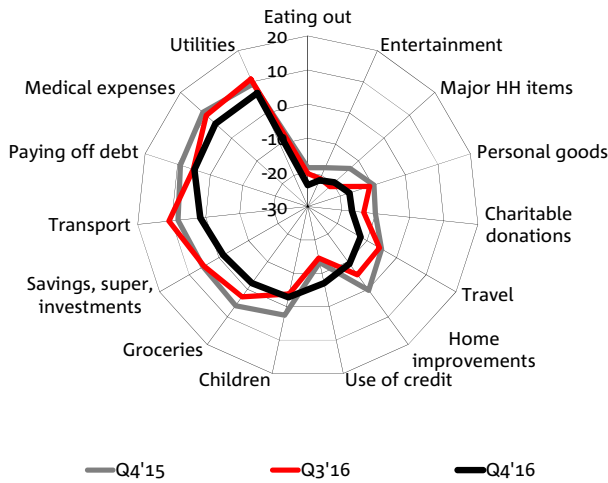
**SPENDING BEHAVIOURS BY STATE
NEW SOUTH WALES/ACT**

Spending behaviours in NSW/ACT were more conservative across the board in Q4, except when it came to the use of credit. The biggest cutbacks were in charitable donations, travel, entertainment, home improvements and transport spending.



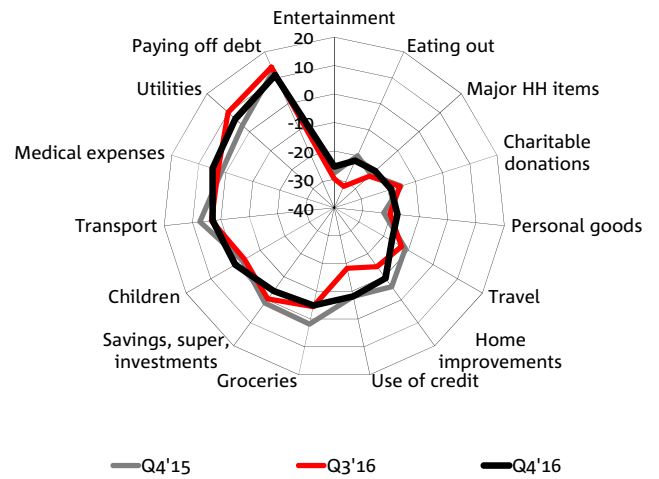
VICTORIA

More Victorian consumers cut back their spending across most items, except when it came to credit use, major household items, their children and paying down debt (unchanged). Cutbacks were most apparent in transport spending, savings, super and investments, travel, personal goods and groceries.



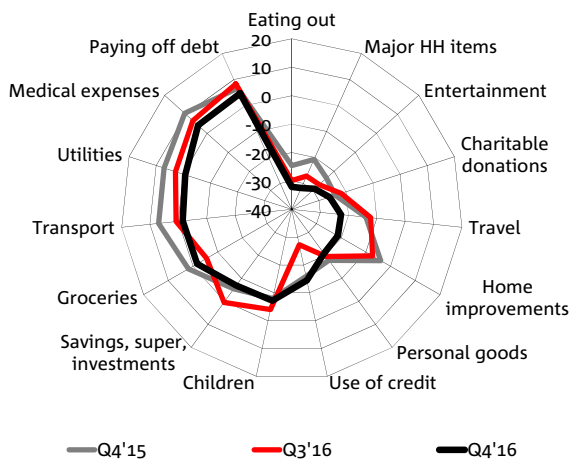
WESTERN AUSTRALIA

Spending behaviours were more positive across a range of categories in WA. In particular, there were some big increases in the number of local consumers using more credit and spending on eating out, and more modest gains in spending on home improvements, entertainment and their children.



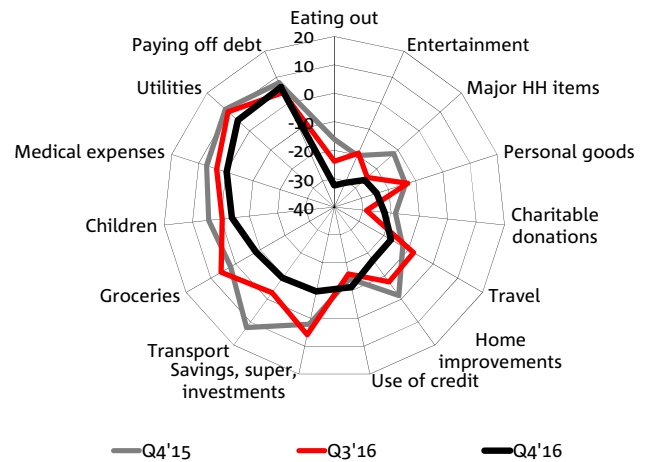
QUEENSLAND

In Queensland, more consumers cut back their spending across all categories, except credit use and groceries. Cutbacks were most apparent in regards to home improvements and travel, with the number of consumers cutting back on their savings, super and investments also noticeably lower.



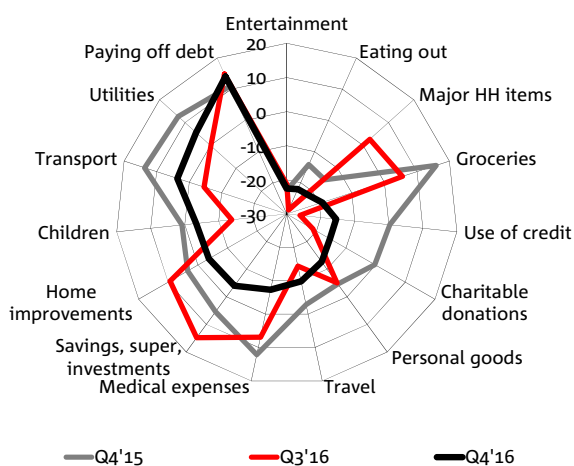
SOUTH AUSTRALIA

Spending behaviours in SA were much more conservative, except for charitable donations, credit use and paying off debt. In particular there were notable increases in the number cutting back their savings, super and investments and spending on groceries, personal goods and entertainment.



TASMANIA

Spending behaviours in Tasmania remain volatile. In Q4, they were dominated by very large increases in the number of consumers cutting their spending on groceries, major household items, medical expenses and home improvements. In contrast, noticeably more consumers increased their use of credit and spent more on their children, transport and eating out.



gender to ensure that the survey reasonably reflects the Australian population.

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ABOUT THE SURVEY

The NAB Australian Consumer Anxiety Index was launched in April 2013 in conjunction with the NAB Australian Wellbeing Index with the aim of assessing perceptions of consumer stress and wellbeing.

The NAB Australian Consumer Anxiety Index was developed by NAB Behavioural & Industry Economics and is based on survey participants' responses to 5 questions related to their own concerns about their future spending/savings plans arising from: your job security; your health; your financial security for retirement; your cost of living; and government policies.

All questions were answered on a scale of 0-10 where 0 is "not at all concerned" and 10 is "extremely concerned".

NAB's Consumer Spending Behaviour indicator is derived by grouping various categories of spending - "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).

Over 2,200 respondents participated in the Q4 2016 survey, with weights applied to age, location and

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