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

Embargoed until: 11.30 am Wednesday 24 May 2017

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...

Lower anxiety seems to be filtering through to spending behaviours - although 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 many “non-essentials” (-21 to -19).

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

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.

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 can as it makes a big difference to their finances.

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.

**CONTACT THE AUTHORS**

Alan Oster  
Group Chief Economist  
Alan.Oster@nab.com.au  
+613 8634 2927

Dean Pearson  
Head of Behavioural & Industry Economics  
Dean.Pearson@nab.com.au  
+613 8634 2331

Robert De Iure  
Senior Economist - Behavioural & Industry Economics  
Robert.De.Iure@nab.com.au  
+613 8634 4611

Brien McDonald  
Senior Economist - Behavioural & Industry Economics  
Brien.McDonald@nab.com.au  
+613 8634 3837

**FOR INFORMATION ON THE MACROECONOMY**

Riki Polygenis  
Head of Australian Economics  
Riki.Polygenis@nab.com.au  
+613 8697 9534

Phin Ziebell  
Economist - Australia  
Phin.Ziebell@nab.com.au  
+61 (0) 475 940 662
Important Notice
This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.
NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.
Please click here to view our disclaimer and terms of use.