

NAB AUSTRALIAN CONSUMER ANXIETY SURVEY Q1 2020

INSIGHTS INTO CONSUMER ANXIETIES & SPENDING BEHAVIOURS



NAB Behavioural & Industry Economics

April 2020

Consumer anxiety and spending behaviours are changing quickly in response to coronavirus fears and self-isolation. Consumer anxiety climbed steeply in Q1 2020 to be at above average levels for the first time since Q4 2018. NAB's Consumer Anxiety Index rose 2.4 points over the quarter to 60.1 points in Q1 2020, to be 4.3 points higher than at the same time last year. Anxiety rose for all index components, with the sharpest increase around job security (up 5.8 to a survey high 52.3). The cost of living (65.6) remains the highest concern, but consumers acknowledged that cost pressures had eased over the past 3 months, particularly transport and travel/holidays. Conversely, groceries added most, while utilities were also key contributors.

Around 1 in 4 consumers said they had spent more than they earned over the last 3 months, with the number significantly higher among lower income groups. Overall, household spending behaviours were more conservative as significantly more consumers cut back their spending on non-essentials. On balance, Australians reported a decrease in their income and a particularly strong decline in their level of savings over the past 3 months. Expectations for the next 12 months regarding incomes, savings and debt are also much less positive.

The survey is based on responses from over 2,000 Australians and weighted to be representative of the Australian adult population by state, gender, age and other key demographics. Anxiety rose noticeably between the first wave of 1,000 respondents (March 12-16 - 59.1) and the second (March 17-20 - 61.1). Anxiety during this period increased most around government policy and health. Despite this increase, the survey predates some of the more recent restrictive measures to contain the virus.

While the full implications of the virus remain uncertain, there is a broad understanding among Australians that life is going to be very different for quite a while yet. Most people spend a great deal of effort trying to avoid change, but typically find they are a lot more adaptable than they first believed. What might seem like radical change can quickly become normalised.

This raises three key questions which will shape consumer behaviours going forward. Firstly, to what extent will consumers simply revert to their previous actions once they're able to return to more normal routines? Secondly, will consumers embrace a more frugal lifestyle or will spending rebound strongly once concerns around the virus dissipate? And finally, what new, and potential lasting innovative solutions will businesses and entrepreneurs discover to help consumers adapt and potentially thrive in this new world?

While some (but not many) businesses have found themselves on the right side of history and benefitted from the virus, most others have seen a significant decline in their short-term operating income and have been struggling to maintain sufficient cash flow. Although purchases of certain products and services have been increasing, in some cases dramatically so, demand for discretionary items has generally fallen. Not surprisingly, NAB's survey shows a big rise in the number of consumers cutting back on entertainment, eating out and travel and holidays.

The most obvious change has been the bulk buying of household supplies, creating significant shortages in supermarkets. There has been strong growth in demand for anything that revolves around being at home, including work, entertainment and health, driving demand for everything from toilet paper, fitness equipment, gardening supplies to home improvement. And, as products become scarce they're perceived value climbs so we consumers have wanted more of them. Spikes in sales of essentials is typically short-term, as shoppers buy less of these products in the future, drawing down their growing stockpiles. That said, staples should continue to sell well. Inevitably, sales will migrate away from premium brand stores and towards more discount retailers.

NAB CONSUMER ANXIETY INDEX (100 = extremely concerned)

	Q1 2019	Q4 2019	Q1 2020	Mar 12-16	Mar 17-20
Overall Index	55.8	57.7	60.1	59.1	61.1
- Job security	42.3	46.5	52.3	51.2	53.4
- Health	54.6	55.7	56.8	55.6	58.0
- Ability to fund retirement	57.1	58.5	60.8	59.7	61.9
- Cost of living	64.3	64.7	65.6	65.0	66.3
- Government policy	60.8	63.0	64.9	63.7	66.1

As people spend more time at home and practise “social distancing”, they are of course making a lot more online purchases. Demand for delivery services is strong, with growth extending well beyond retail, including food and on-demand products such as streaming services, gaming, and a range of other goods and services perceived as helping us better adapt to these unprecedented times. At the same time, as employees switch to remote work, reliance upon teleconferencing and other support tools have boomed.

Safety has become paramount with “contactless” delivery options increasingly becoming the norm to minimise health risks. Concerns have also shifted towards bottlenecks caused by limitations in logistics and distribution capabilities (even for more well-established online businesses), along with interruptions to supply chains and maintaining a healthy workforce. We may also see growth in the use of alternative delivery methods such as drones as well as automated warehouse processes.

Consumer rights are also important, with those businesses continuing to charge consumers for services not provided, or refusing to pay refunds, under increased scrutiny. More generally, the virus has triggered a raft of consumer queries about entitlement to refunds. Rather than profiteering out of the current situation, many online retailers have been removing listings offering in-demand items at such as hand sanitiser and face masks at highly inflated prices.

Consumers are also facing an avalanche of emails from businesses, with many keen to reassure their customers that they are open for business and share how they are responding to the virus. Consumers understand that businesses are hurting and many are happy to continue their support through a store credit or a voucher for example, as an alternative to a full refund. Some businesses (in travel for example), are offering incentives to “buy now use later”, to keep cashflow going. Businesses are having to strike a difficult tone, balancing their commercial needs against the anxiety of their customers. Communication must be empathetic, concise and as accurate as possible. Some businesses are doing this much more successfully than others, discovering there is a fine line between information and noise. The key question is simply this - is this correspondence helping the customer or not?

The question top of mind for most pure play “bricks-and-mortar” businesses (particularly retailers) is whether changes to consumer habits are becoming entrenched and hence much harder to break as the crisis deepens? Will consumers embrace the new norm of avoiding crowds and visit fewer physical stores? Although e-commerce was widely used before, it was far from universal - NAB's Online Retail Sales Index shows as of February 2020 online still only accounted for less than 10% of all retail sales in Australia. But, going forward it is likely to become the default way to shop for a growing range of product categories. Feelings of boredom and isolation are also serving to drive people towards their tablets and smart phones. Once consumers get into the habit of doing something, it can quite quickly become routine. We may also see the market penetration of online deepen as people historically more reluctant to use ecommerce, such as the elderly, change their habits. Retailers are also driving this change. For example, due to the huge demand for online grocery, some supermarket chains have been giving priority access to online delivery slots to older Australians. More generally, the shortage of some items has prompted shoppers to search online for types of products they would have normally never sought to purchase this way. Cashless payment adoption and usage can also only continue to grow.

It is also likely that distributing content direct-to-consumer, along with virtual experiences, will become even more prevalent in sectors such as entertainment and sport, as will diagnosis and treatment of patients in the health sector via telehealth as more people are steered toward virtual care and their comfort levels rise.

The growth of so called “ghost kitchens” (rented spaces for restaurants to prepare food for deliveries only), is also likely to rise. This can allow restaurants to cut their operating costs by having fewer employees and less square footage and of course manage social distancing with home delivery spared from coronavirus measures. The trend of ghost kitchens is not expected to be welcomed by all. Some small businesses may worry their proliferation could steal customers who would otherwise dine in. The ghost kitchen concept could also be expanded into other industries. Instead of having physical storefronts, businesses can operate out of a large shared central warehouse/showroom location.

HOUSEHOLD SPENDING BEHAVIOURS (net balance - spending more/spending less)

	Q1 2019	Q4 2019	Q1 2020	Mar 12-16	Mar 17-20
Non-essential spending	-21	-16	-25	-22	-28
Essential spending	7	13	13	13	13
Financial spending	-3	1	-1	-1	-1
Overall Spending Behaviours	-21	-4	-9	-7	-11

Not surprisingly many commentators are predicting an acceleration in the demise of the physical store, as businesses seek to find more sustainable business models. While it is inevitable some will close, it is also worth remembering that prior to the outbreak of the virus a growing number of online retailers were embracing physical stores, a trend dubbed “clicks to bricks”. There are numerous advantages for online stores to also have a physical location. For example, it allows for a better and more cost-effective way to manage their much higher rate of returns (particularly given the large number of online retailers that offer free freight).

There is also evidence that online customers who enter a physical store, spend more time and more money and value their experience outside of the range and convenience offered online. Previous NAB research has shown that consumers generally rated their retail ‘experience’ more positively at physical rather than online retail stores, with discount department stores, major supermarket chains, discount chemists and discount supermarket chains rating among the those providing the best experience. It is also likely that some stores will see a strong rebound in activity simply through the pent-up desire of consumers to leave their homes and the virtual world for more human interactions. The outbreak of the virus has accelerated many of the trends that were already fast developing, changing the way consumers interact with a range of businesses, particularly online. The physical store is far from dead, but the need for a “multi-channel” presence has never been greater.

The economic shock occurring is clearly very large both globally and locally. We now expect a deep recession. While the situation is very fluid, the type of falls we are seeing offshore of around 5% in GDP in Q2 may well occur in Australia. It could quite easily be larger depending on the extent of containment actions. Alongside this, unemployment is expected to rise very sharply and could well be around 12% by mid-year. The nature of this shock is very different to traditional recessions - in particular, there is hardly any lag between falling output and employment and traditional hoarding of labour is very unlikely given forced shutdowns. Australian Bureau of Statistics data will no doubt show a surge in spending on food and other supermarket items in March. However, other parts of retail, particularly associated with tourism or hospitality, are likely to plummet.

Looking forward, it is difficult to see how consumer anxiety will not continue to climb from here and spending will fail to rebound strongly once concerns around the virus dissipate. Indeed, when asked in the survey about their expectations in making a major purchase over the next 12 months, on balance consumers were deeply negative and particularly pessimistic major household items, travel/holidays and investment properties.

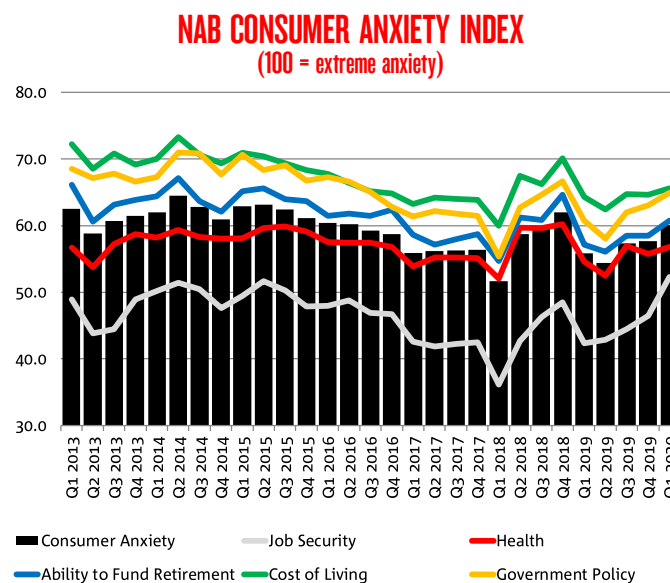
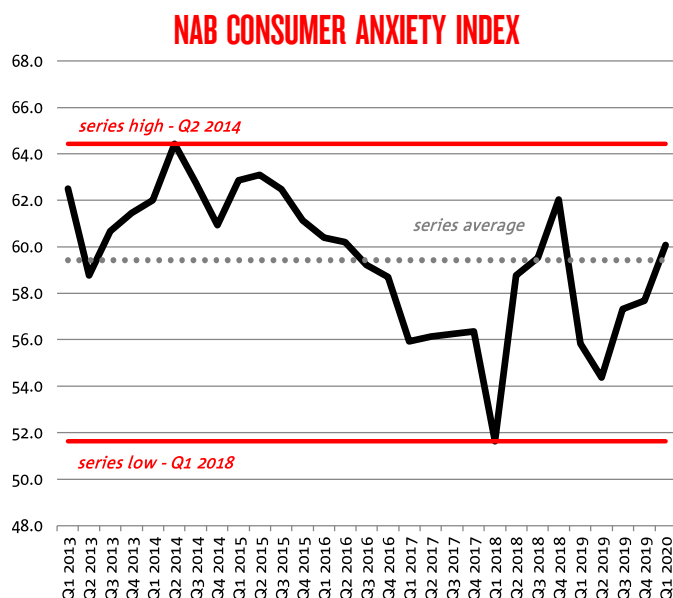
Finally, with “necessity the mother of invention”, many businesses have embraced innovative solutions to the shutdowns caused by the virus, including gyms turning to online classes and home workouts, education providers expanding the scale and scope of their digital learning platforms to meet rising student demand, as well as skill development (both work and life e.g. cooking), agile manufacturers shifting production in favour of in-demand goods such as surgical masks and hand sanitisers, restaurants that have been forced to close now offering takeaway and delivery services and expanding their range to effectively become “mini supermarkets”, and online alternatives helping to limit the fallout from cancelled conferences.

How many of these new behaviours will endure once social distancing ends remains uncertain, but the ability of consumers to adapt to new ways of purchasing, working and living has never been clearer.

NAB CONSUMER ANXIETY INDEX

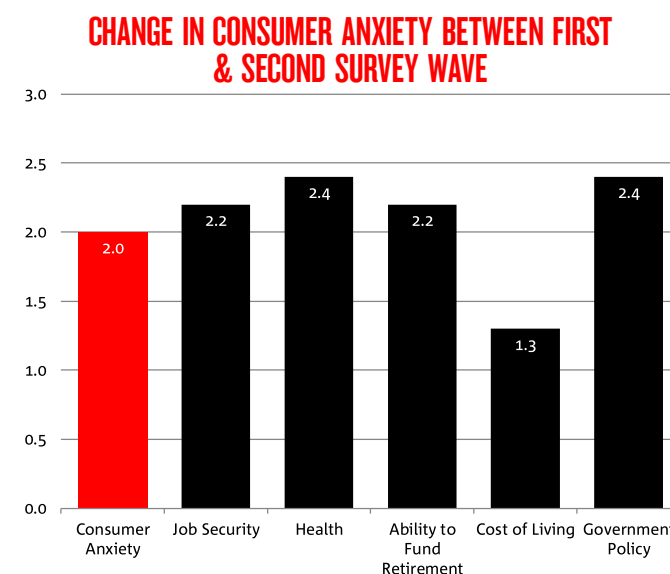
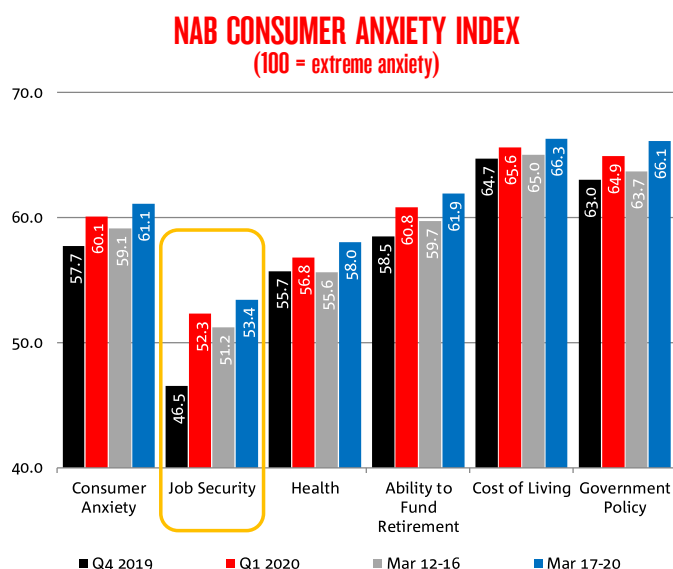
Consumer anxiety climbed steeply in Q1 2020 to above average levels for the first time since Q4 2018...

Anxiety rose for all index components, with concerns over the cost of living and government policy still leading the way ...



But biggest increase in anxiety noted around job security which climbed to survey high levels (prior to forced shutdowns)...

Early impact of the Coronavirus very noticeable, with an uplift in anxiety between the first and second survey wave...

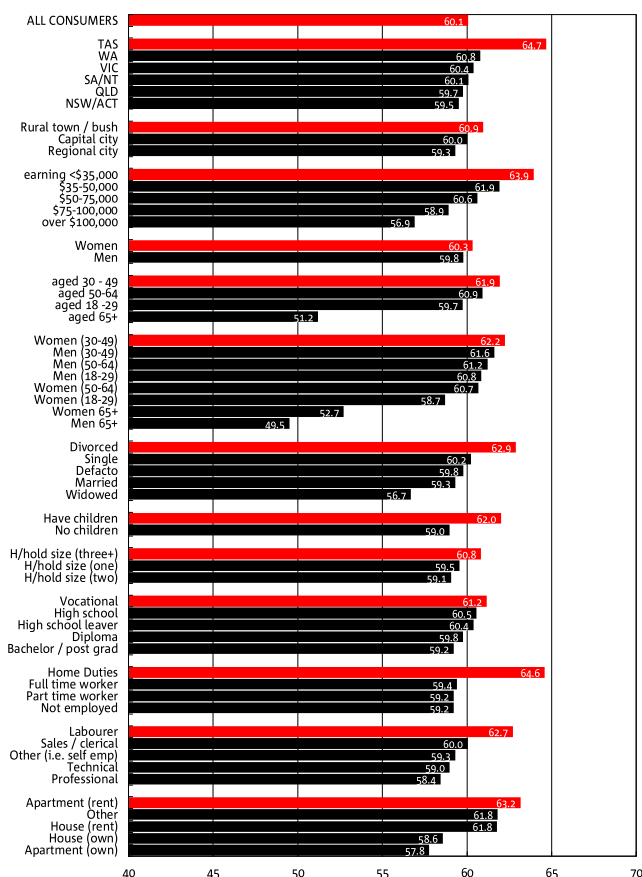


- The NAB Consumer Anxiety Index increased 2.4 points over the quarter to 60.1 points in Q1 2020. The Index was also 4.3 points higher than at the same time last year (55.8 points) and above average (59.4 points).
- Consumer anxiety rose for all index components, with the sharpest increase noted around job security (up 5.8 points to a survey high 52.3 points). Anxiety is still however highest for cost of living (up 0.9 to 65.6 points).
- The Coronavirus has clearly impacted consumer anxiety. We noted much higher anxiety between the first and second survey wave, with the index climbing from 59.1 points in the first wave (March 12-16) to 61.1 points in the second (March 17-20). The survey predates the more recent restrictive measures to contain the virus.
- Anxiety during this period increased most around government policy and health.

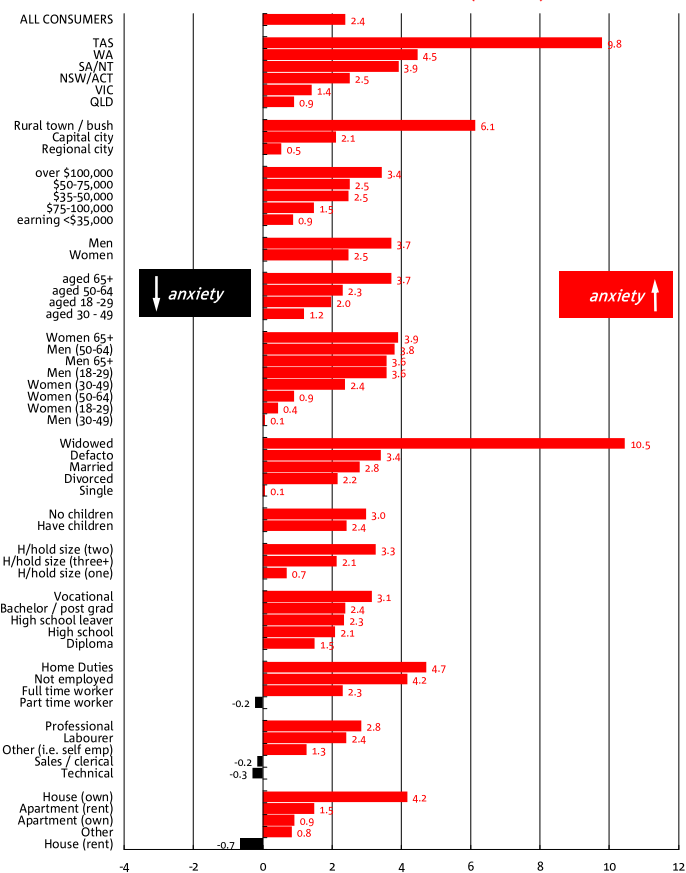
Anxiety was highest in TAS, for consumers engaged in home duties, in the lowest income earning group, who live in a rented apartment, are divorced, or were employed as labourers...

Anxiety increased in all but 4 of 58 monitored demographic groups. It increased significantly for those in TAS, living in rural areas, widowed people, or who live in their own house...

NAB CONSUMER ANXIETY INDEX: ALL GROUPS



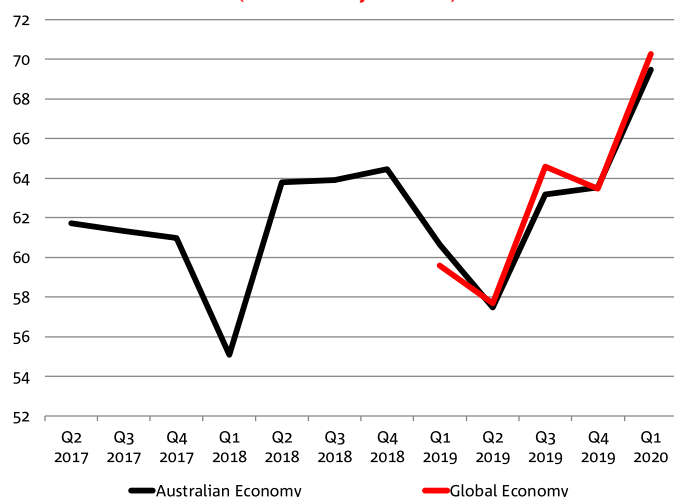
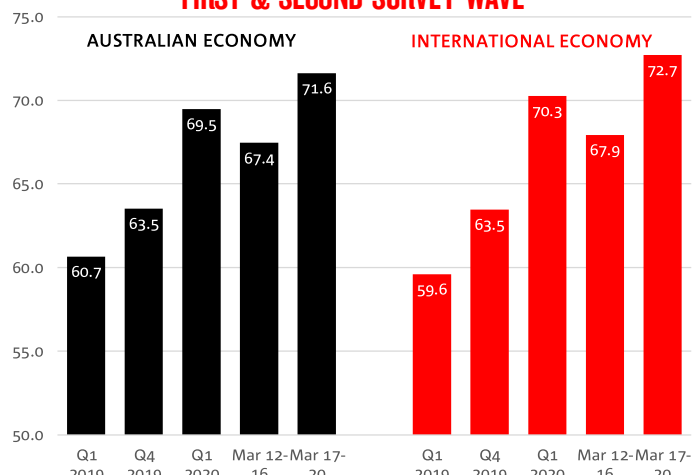
NAB CONSUMER ANXIETY: ALL GROUPS (CHANGE)



GENERAL LEVEL OF CONCERN OVER THE ECONOMY

The coronavirus has also had a significant negative impact on consumer concern over the domestic and international economic situation...

Early impacts coronavirus very noticeable, with uplift in anxiety between the first (Mar 12-16) and second survey wave (Mar 17-20)...

LEVEL OF CONCERN ABOUT ECONOMIC SITUATION
(100 = extremely concerned)LEVEL OF CONCERN ABOUT ECONOMIC SITUATION:
FIRST & SECOND SURVEY WAVE

GENERAL LEVEL OF CONCERN OVER THE ECONOMY: GENDER, AGE & STATE

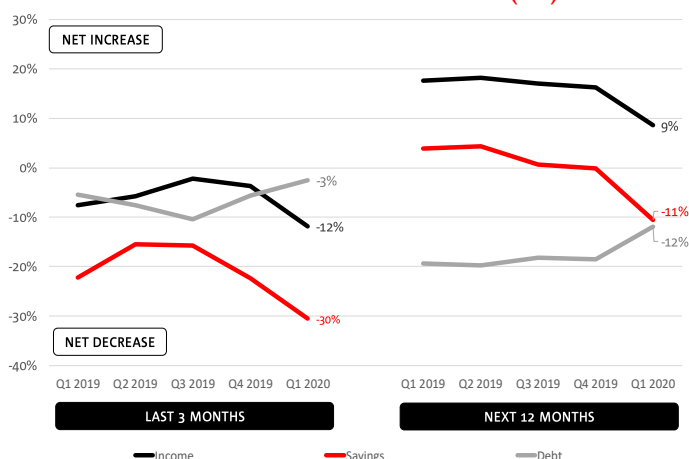
	Australian Economy			International Economy		
	Q1 2019	Q4 2019	Q1 2020	Q1 2019	Q3 2019	Q1 2020
Overall	60.7	63.5	69.5	59.6	63.5	70.3
Women	60.6	63.8	70.1	59.2	63.8	70.9
Men	60.8	63.3	68.9	60.0	63.2	69.6
18-29	55.2	59.4	64.7	53.6	58.0	65.1
30-49	59.0	62.3	69.5	56.7	61.1	70.0
50-64	64.9 (50+)	66.4	72.2	65.1 (50+)	67.4	72.6
65+		67.0	71.4		69.1	73.5
NSW/ACT	59.7	62.7	69.3	58.4	62.4	70.5
VIC	60.2	63.7	71.1	58.8	63.3	71.6
QLD	61.9	63.8	67.0	60.7	64.4	67.1
WA	60.4	63.3	69.9	60.6	64.2	71.3
SA/NT	64.4	65.5	70.4	63.5	64.7	70.7
TAS	56.9	65.5	71.2	57.0	64.9	72.8

- Women and men share a broadly similar level of concern over the domestic and international economy, but the level of concern does increase notably with age.
- By state, consumers in QLD somewhat less concerned about the state of the domestic and global economies.

HOUSEHOLD INCOME, SAVINGS & DEBT

On balance, consumers were less positive about the outlook for their incomes and savings, and fewer expect to pay down their debts...

WHAT HAPPENED/WILL HAPPEN TO YOUR LEVEL OF INCOME, HOUSEHOLD SAVINGS & HOUSEHOLD DEBT (NET)



- More Australian consumers on balance reported a decrease in their income and level of savings in the last 3 months. Fewer also said their level of debt had decreased.
- Expectations for the next 12 months regarding incomes, savings and debt were also less positive than in the previous quarter.
- The table below shows expectations by gender and age. Men are more optimistic than women, and consumers under 50 than those over 50.
- Women are on balance more positive about their income and savings in the next 12 months.
- Noticeably more young people (18-29) on balance expect their incomes to rise in the next 12 months.

WHAT HAPPENED/WILL HAPPEN TO YOUR LEVEL OF INCOME, HOUSEHOLD SAVINGS & DEBT: GENDER & AGE

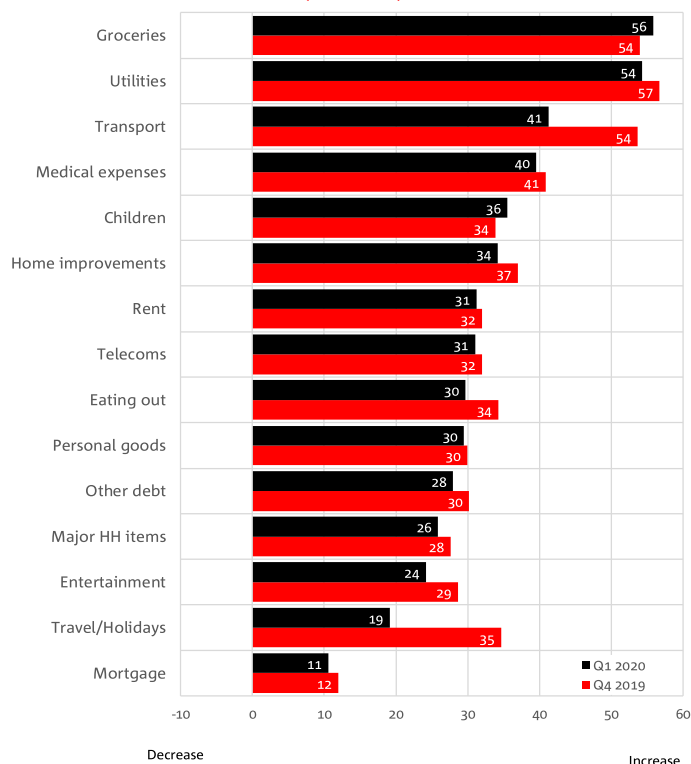
	Income		Household Savings		Household Debt	
	Last 3m	Next 12m	Last 3m	Next 12m	Last 3m	Next 12m
Women	-16	+5	-38	+12	-2	-13
Men	-8	+12	-23	-9	-4	-11
18-29 years old	-8	+30	-8	+25	+2	-7
30-49 years old	-9	+14	-31	-4	0	-14
50-64 years old	-19	-7	-44	-29	-8	-16
Over 65	-13	-8	-38	-39	-6	-9

COST OF LIVING PERCEPTIONS INDEX

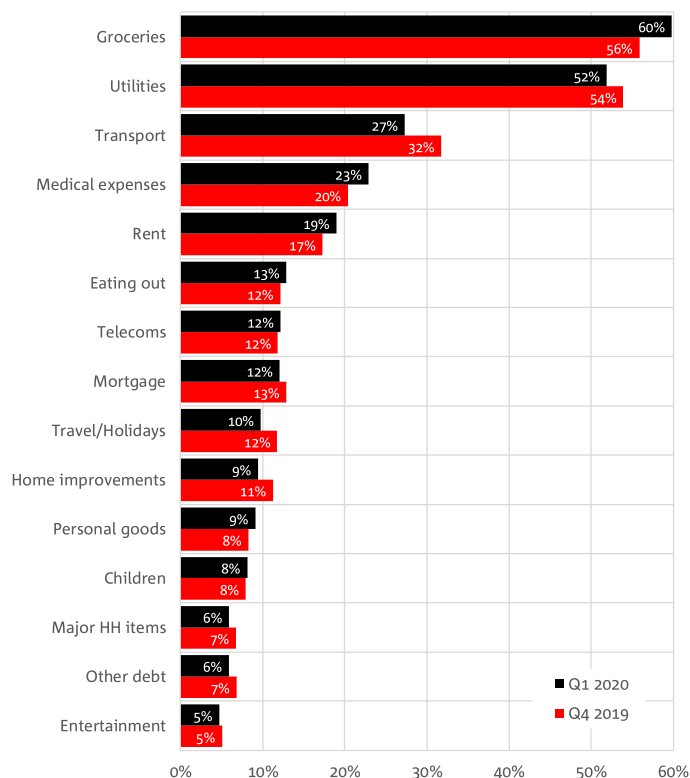
In net terms, consumers identified cost increases for groceries and caring for their children, but saw big falls in transport costs and travel/holidays...

Groceries added the most to cost of living pressures for around 6 in 10 consumers, while over 5 in 10 said utilities was a key contributor. Pressure from transport costs however eased...

EXTENT COSTS HAVE CHANGED IN PAST 3M
(net balance)



FACTORS THAT HAVE ADDED THE MOST TO COST OF LIVING PRESSURES IN PAST 3 MONTHS



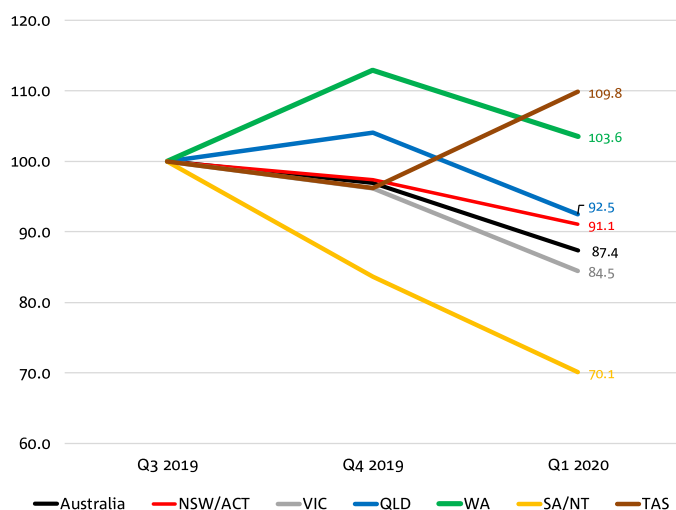
But not all consumers are impacted the same, and the table below highlights the key drivers of higher living expenses in each state...

FACTORS THAT ADDED MOST TO COST OF LIVING OVER THE LAST 3 MONTHS: STATE

	AUST	NSW/ACT	VIC	QLD	WA	SA/NT	TAS
Groceries	60%	57%	61%	61%	64%	56%	79%
Utilities	52%	51%	53%	47%	67%	50%	42%
Transport	27%	27%	28%	29%	28%	23%	21%
Medical expenses	23%	23%	22%	21%	26%	21%	34%
Rent	19%	19%	18%	24%	14%	15%	21%
Eating out	13%	13%	13%	13%	14%	11%	15%
Telecoms	12%	11%	14%	13%	11%	10%	9%
Mortgage	12%	11%	12%	14%	14%	8%	11%
Travel/Holidays	10%	11%	11%	8%	8%	9%	8%
Home improvements	9%	9%	9%	9%	10%	9%	17%
Personal goods	9%	9%	9%	10%	7%	9%	14%
Children	8%	8%	10%	8%	6%	6%	8%
Major HH items	6%	6%	6%	6%	5%	5%	2%
Other debt	6%	5%	6%	6%	3%	9%	11%
Entertainment	5%	6%	5%	3%	5%	4%	2%

Overall costs of living pressures in the last 3 months eased in all states except TAS...

COST OF LIVING PERCEPTIONS INDEX



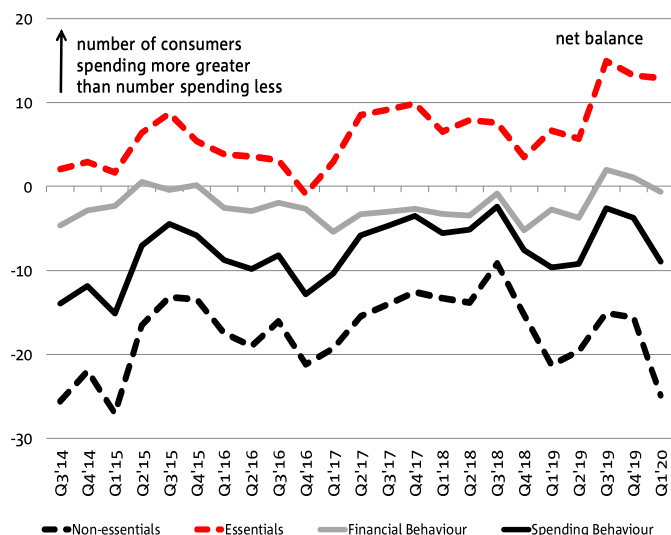
- In Q1 2020, NAB's overall Cost of Living Perceptions Index eased to 87.4 points (96.9 in the previous quarter).
- It fell in all states except TAS, where the state index climbed to 109.8 points.
- Groceries added most to overall cost of living (12.3 points), up from 11.2 points in Q4).
- The contribution from utilities to the overall index however fell to 10.4 points (11.2 points in Q4).

HOUSEHOLD SPENDING BEHAVIOURS

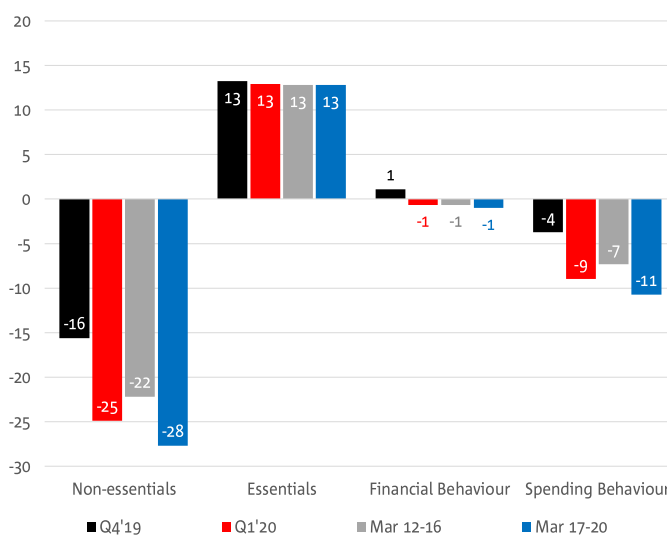
Overall household spending behaviours were more conservative as significantly more consumers cut back their spending on non-essentials...

Coronavirus impact also evident in second survey wave, with the number of consumers cutting essential spending falling to a survey high...

HOUSEHOLD SPENDING BEHAVIOURS



HOUSEHOLD SPENDING BEHAVIOURS



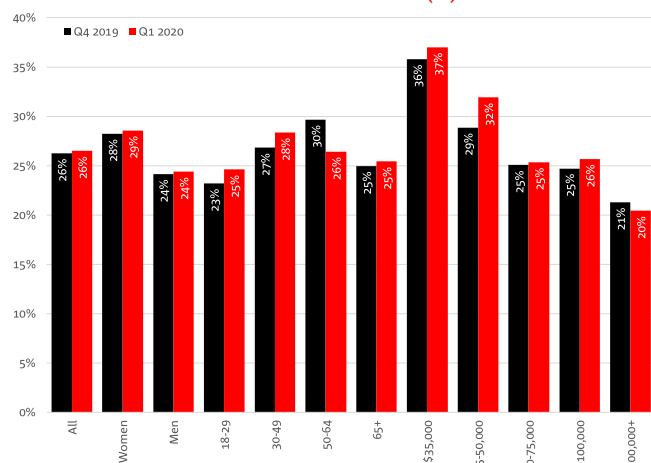
HOUSEHOLD SPENDING BEHAVIOURS - SPENDING CATEGORY (net balance - spending more/spending less)

	Q1 2019	Q4 2019	Q1 2020	Mar 12-16	Mar 17-20
Travel/holidays	-14	-10	-27	-22	-32
Eating out (coffee, take-away, restaurants, etc.)	-27	-22	-31	-28	-35
Entertainment (movies, sports, concerts, etc.)	-28	-24	-36	-30	-41
Groceries (food, alcohol etc.)	3	11	16	13	18
Home improvements and maintenance	-14	-7	-14	-14	-15
Major household items (appliances, furniture etc.)	-24	-17	-25	-23	-26
Utilities (electricity, gas, phone, etc.)	13	21	20	20	19
Personal goods (clothes, toiletries, sports, pets, etc.)	-19	-12	-17	-16	-17
Medical expenses (doctors, pharmacy, optical etc.)	9	12	14	15	13
Transport (car running costs and public transport)	11	20	13	15	10
Children (school fees, childcare, activities etc.)	-3	2	3	2	4
Paying off debt	8	10	10	9	10
Use of credit	-16	-8	-10	-11	-9
Savings, investments and super contributions	0	2	-2	0	-4
Charitable donations	-21	-17	-23	-19	-27

- The table above highlights big rises in the number of consumers cutting back on entertainment, eating out and travel/holidays - and increasing sharply during second survey wave as containment measures started being flagged.
- Noticeably more consumers also spent more on groceries.
- Essential spending was however broadly unchanged, with more consumers still increasing their spending on utilities, transport and medical expenses.

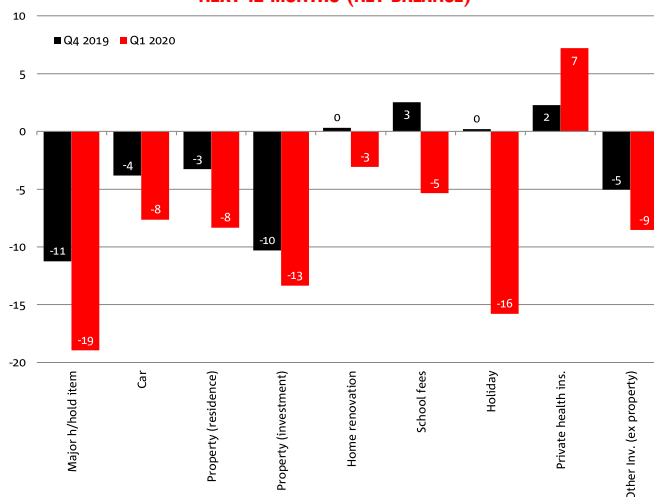
Around 1 in 4 Australian consumers spent more than they earned over the last 3 months, but that number was significantly higher in low income groups and also higher than in the previous 3 months...

NUMBER OF CONSUMERS THAT SPENT MORE THAN THEY EARNED OVER THE PAST 3 MONTHS (%)



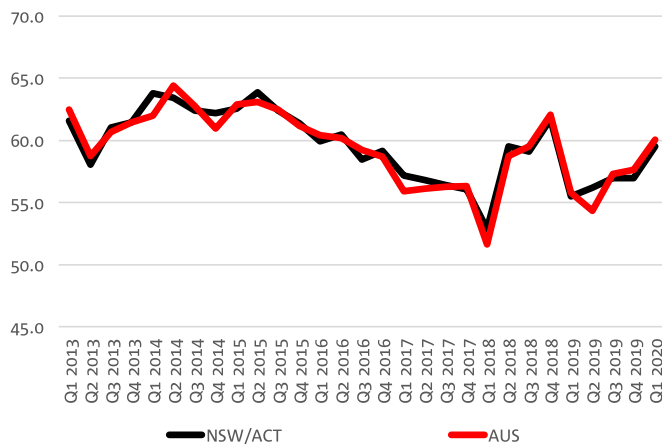
More consumers on balance intend to spend less on major items in the next 12 months (except private health insurance), and particularly on major household items and travel/holidays...

EXPECTATIONS IN REGARDS TO MAKING MAJOR PURCHASES IN NEXT 12 MONTHS (NET BALANCE)

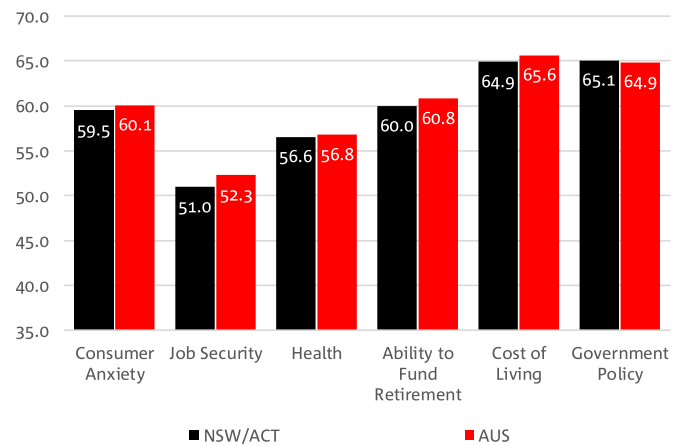


APPENDIX 1: CONSUMER ANXIETY - STATES

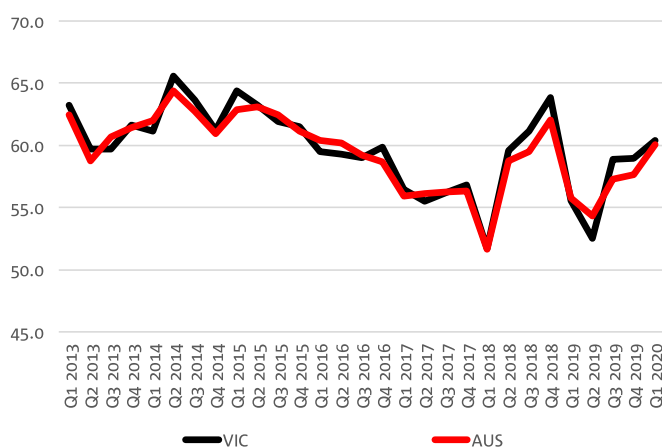
CONSUMER ANXIETY: NSW/ACT



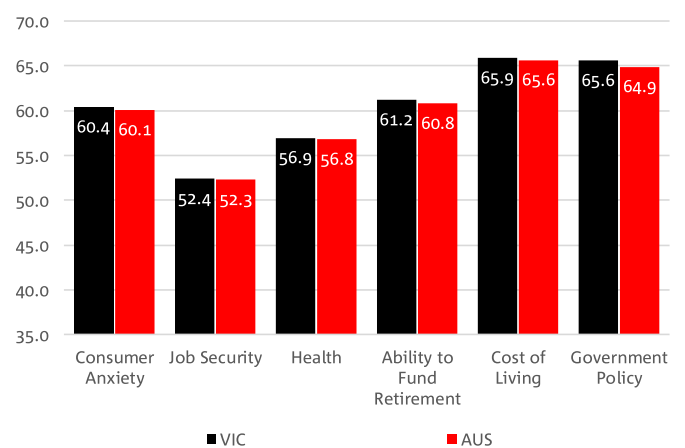
CONSUMER ANXIETY: NSW/ACT Q1 2020



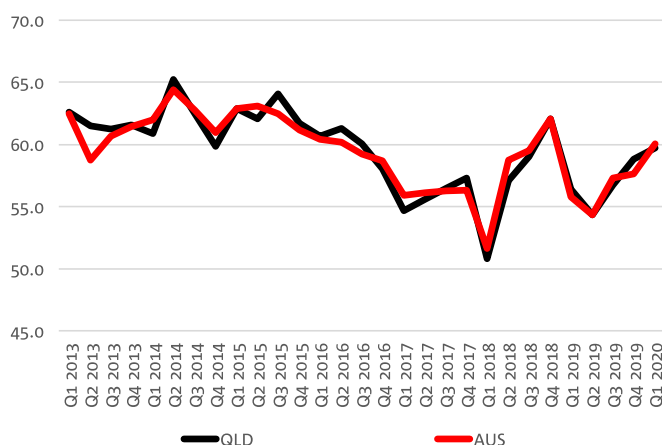
CONSUMER ANXIETY: VIC



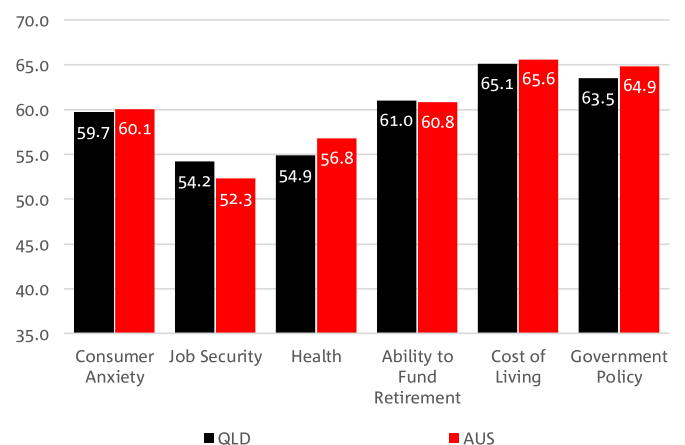
CONSUMER ANXIETY: VIC Q1 2020

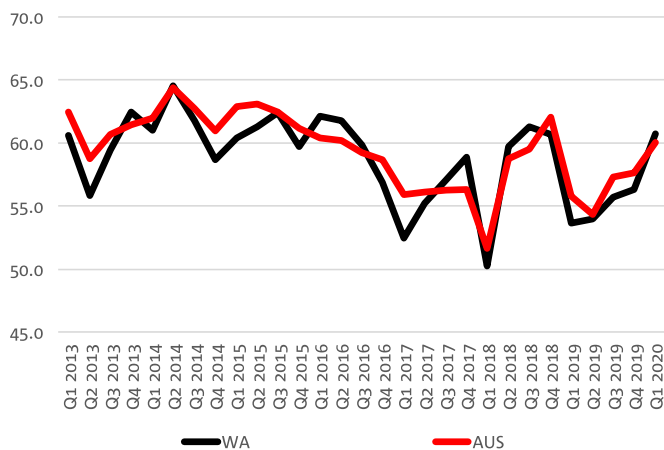
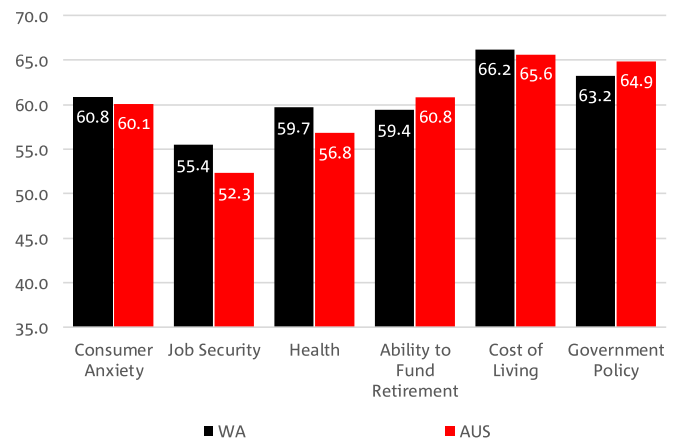
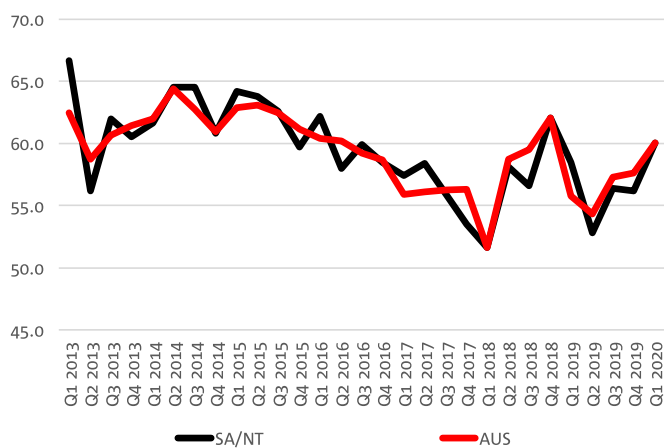
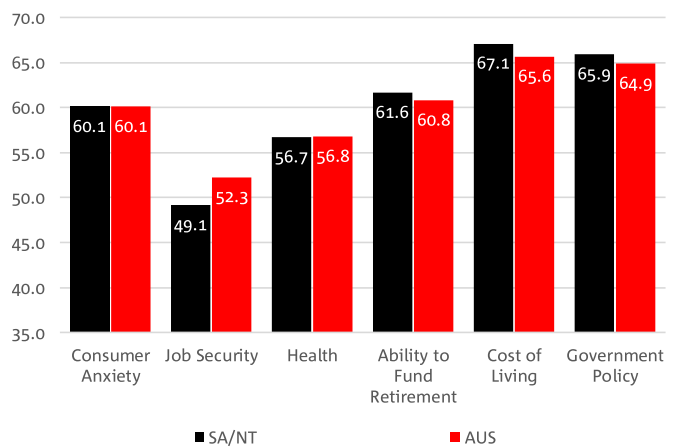
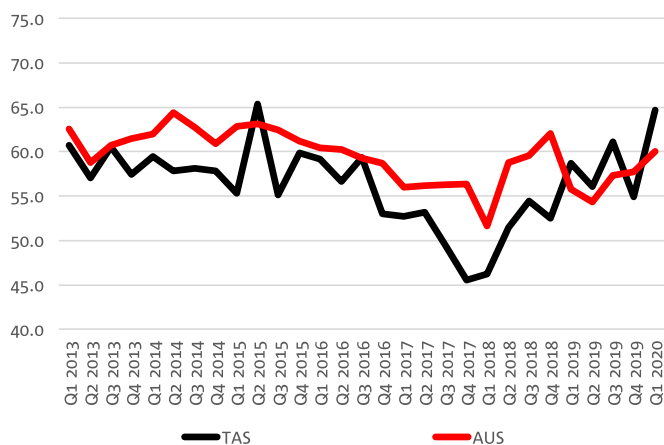
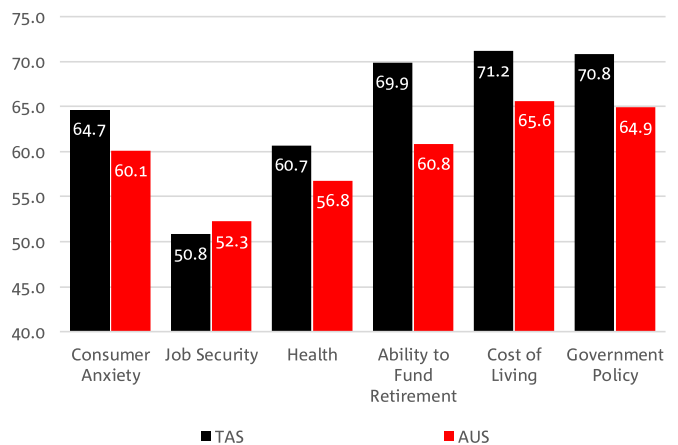


CONSUMER ANXIETY: QLD



CONSUMER ANXIETY: QLD Q1 2020



CONSUMER ANXIETY: WA**CONSUMER ANXIETY: WA Q1 2020****CONSUMER ANXIETY: SA/NT****CONSUMER ANXIETY: SA/NT Q1 2020****CONSUMER ANXIETY: TAS****CONSUMER ANXIETY: TAS Q1 2020**

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