more than money

NAB Consumer Sentiment Survey

Q1 2025 - Summary

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The NAB Consumer Stress Index rose in the March quarter. Despite slowing, inflation continued adding to already high living costs. Fears over funding retirement also grew. High living costs are still driving a range of consumers spending behaviours, with shoppers looking for ways to save money. The survey pre-dates recent rapid shifts in US government policies. Clearly this will add further to the concerns of an already stressed consumer. That said, there were clear green shoots in this survey. The 'vibe' was shifting. The first rate cut in four years lifted sentiment among some consumers, although further cuts will clearly be needed. On balance fewer consumers also expected inflation, taxes and unemployment to rise in the next 12 months, with the number who viewed the likelihood of recession also falling. There was also a sharp turnaround in expectations for interest rates with many more Australians expecting them to fall. NAB now sees the RBA easing more quickly through mid-2025 taking the cash rate to 2.6% by February. Fewer consumers however saw their wages rising and the share market increasing. Sentiment is already fragile with 1 in 2 consumers perceiving more bad news than good over recent months, with cost of living and geopolitics dominating media. Consumers are facing extraordinary levels of uncertainty. They should be supported by lower interest rates, but any meaningful rise in concerns over job security is a key risk.

NAB Behavioural and Industry Economics

April 2025

Consumer Stress

With growing downside risks to economic activity amidst elevated global uncertainty, pressure on consumers rose for the second straight quarter, with the **NAB Consumer Stress Index** rising to an 18-month high 59.6 pts (from 58.5 pts in Q4 2024). The number of consumers reporting feeling 'very highly' stressed (90+ pts) also crept up further (to 20.4% from 19.7%). Higher consumer stress reflected increased concern over the ability to fund retirement, which climbed to its highest level in over 7 years. Cost of living stress also rose and remains well above average.

Despite slowing, inflation continues to add to already high living costs. Around 3 in 10 Australians reported 'very high' cost of living stress (i.e. 90+ pts), rising to over 4 in 10 among those in the lowest income group. On balance, +71% of consumers reported their overall living costs increased (from +78 at the same time last year). Consumers tend to use a few key anchor prices or reference prices to determine their overall cost of living. The share of consumers still reporting higher prices during the quarter continue to be greatest for groceries (unchanged at +74%) and utilities (+63% down from +66%). By state, a considerably higher number of consumers in QLD said their overall cost of living had increased (+77%) than in other states.

Growing uncertainty surrounding the upcoming federal election saw stress arising from Government policy spike last quarter but was basically unchanged in Q1. Election results rarely have a materially effect on consumer spending. Consumers react much more strongly to changes in their personal situation than they do to big-picture issues like elections. Consumers also reported higher stress associated with health. With the labour market still resilient however, stress arising from job security moderated, but it remains well above the survey average.

Though consumer stress increased in the March quarter, outcomes varied considerably across demographic groups. Consumers felt more pressured in 36 of 49 monitored groups. By state, consumer stress remains highest (and increased further) in VIC, followed by NSW/ACT. WA and QLD were the only states to report lower stress. Stress again printed highest and increased for 30-49 year olds and was lowest in the 65+ age group (but increased sharply). Stress remains higher for women in all age groups except for over 65s. By income, stress was highest and rose most among consumers in the $75-100,000 group. Following February's interest rate cut, consumers with mortgages reported an easing in stress, but are still much more concerned than those who own their home outright.

Most consumers continue to cut back on eating out at restaurants (54% reported doing this in Q1 vs. 52% in Q4), treats (50% vs. 48%), entertainment (48% vs. 45%), car journeys to save petrol (42% vs. 41%), travel plans (42% vs. 39%), food delivery services (40% vs. 38%), major household purchases (38% vs. 37%) and charitable giving (38% vs. 37%. Consumers remain least inclined to cut spending on private school fees & tutors (unchanged at 10%), children's activities (unchanged at 12%) and on their pets (16% vs. 17%). A much higher numbers of consumers in 18-29 and 30-49 age groups cut back on food delivery services, streaming services, other subscriptions, gym, sports & club memberships, home services, spending on pets and children's activities when compared to consumers aged 50 and over.

In the March quarter, consumers reported saving most by cancelling or delaying a major household purchase such as TV or washing machine ($538 vs. $432 in the previous quarter), cancelling, delaying or making more modest holiday plans ($485 vs. $559) and cancelling or cutting back on private school fees & private tutors ($324 vs. $175). Savings were also made in areas where most consumers cut or stopped spending - eating out at restaurants ($127 vs. $131), buying micro treats such as coffee and snacks (unchanged at $63), entertainment such as cinema and theatre ($59 vs. $72) and on car journeys to save petrol ($71 vs. $61). Combined, on these categories alone, consumers made monthly savings of $249, leaving a potential savings buffer of almost $3,000 a year if these behaviours continued. Even cutting spending in areas where savings were smallest - other subscriptions such as newspapers, magazines, audio books and apps ($25 vs. $28) and subscription streaming services like Foxtel, Netflix and Stan ($31 vs. $33) - could potentially save consumers $672 annually.

Spend management and savings continue to be the main priority for consumers who saved money. Almost 6 in 10 used these savings for daily living expenses, and almost 1 in 2 put them into savings or offset accounts. A somewhat higher 1 in 5 paid down other debt, while slightly more paid down their mortgage. More 18-29 year olds (2 in 3) put their savings into savings or offset accounts, while most consumers in all other age groups used it to pay for daily living expenses. Noticeably more 30-49 year olds also paid down a mortgage (around 1 in 4). A lot more consumers in higher income groups added to savings or offset accounts and paid down mortgages, while but a lot more in the lower income group used it for day to day living expenses and to pay down other debt.

An unchanged at 1 in 3 consumers also reported drawing down their savings more rapidly, and an unchanged 1 in 5 sold possessions. Around 1 in 6 borrowed or were given money from family or friends us quarter) and 1 in 8 got a second job or worked longer hours.

Expectations for major purchases over the next 12 months were mixed in the first quarter of 2025, but on balance, consumers are planning on spending less in all categories, particularly in areas such as major household items, followed by holidays (-16 vs. -14), home renovations (-14 vs. -13), investment property (-13 vs. -16), other investments (-12 vs. -13), cars (-11 vs. -13), school fees (-11 vs. -13), residential property (-10 vs. -11) and private health insurance (-7 vs. -6).

The Consumer Vibe

In a broad sense, a “vibe” is something akin to a mood, atmosphere or energy. While consumers may feel disconnected from the economy, everyone still has a view on it - they all ‘feel’ the economy. And consumers will use these emotions as information to form beliefs in much the same way they use facts. As a result, consumer behaviour is influenced by many factors including economic, social, political, cultural, personal and psychological. These can affect how much consumers can afford to spend, what they prioritise, and how they perceive value and help frame the mindset of consumers when thinking about their spending and saving patterns.

On balance, consumers expect economic growth to decrease over the next 12 months (-7%). Encouragingly, fewer expect inflation and prices in general to rise (+48% vs. +62% in Q4), taxes & other Government charges such as rates, land taxes and registration fees to increase (+44% vs. +53%), unemployment to rise (+32% vs. +42%), and the likelihood of recession (+26% vs. +41%).

Following the first interest rate cut in four years in February, there has also been a sharp turnaround in expectations for interest rates with more Australians on balance now expecting rates to decrease (-4%) over the next 12 months, compared the previous quarter when significantly more thought they would continue to rise (+36%). 1 in 4 Australians believe the impact of the rate cut was positive for themselves or their household, rising to 1 in 2 among consumers with a mortgage. By age, considerably more in 30-49 (34%) and 18-29 (31%) age groups saw a positive impact, compared to just 1 in 10 (11%) among over 65s, where 6 in 10 (57%) said it was negative, likely reflecting the impact of lower rates on retirement savings.

Far fewer consumers on balance see their wages rising (+6% vs. +18%) and the share market (+3% vs. +12%) increasing over the next 12 months. There was also a very sharp turnaround in the number of consumers who see the quality of life in Australia decreasing in the next 12 months. Though 1 in 2 expect quality of life to increase, almost 4 in 10 think it will be worse, and only 1 in 10 believe it will increase.

The single rate cut to date has started to bolster sentiment among some consumers. Consumers who said the impact of the recent rate cut was positive were also asked to rate the extent it eased their concerns over their cost of living. Overall, they scored the impact only moderately at 4.1 pts (10 is considerably). Around 14% said the recent rate cut offered considerable cost of living stress relief (i.e. score 8+ pts). Significantly more 18-29 (18%) and 30-49 (17%) said the rate resulted in a considerable decline in cost of living stress. A much higher number in the lowest income group (over 1 in 5) felt considerable relief compared to other income groups. It ranged from 10% for consumers who owned their home outright to 14% for those who own their home with a mortgage.

In terms of stress relating to their home loan, overall, they scored a moderate 4.6 pts (10 is considerably), based on the rate cut, suggesting mortgage holders are hoping for more. Only 15% of consumers said the rate cut offered considerable home loan stress relief. Consumers were also asked the extent the rate cut had eased their concern over other debts such as credit cards and personal loans. Overall, they scored the impact very low at just 3.3 pts out of a possible 10 pts. Around 1 in 10 Australians said the rate cut offered considerable stress relief for other debts (i.e. score 8+ pts).

When consumers think about the economy, and their lives in general, they pick up on what they read, watch or see. Consumers also have a “negativity bias” and pay a lot more attention to negative than positive information. Research from the Federal Reserve Bank of San Francisco suggests that news media affects consumers’ perceptions of the economy via three channels. First, it conveys the latest economic data and opinions of professionals to consumers. Second, consumers receive a signal about the economy through the tone and volume of economic reporting. Lastly, the greater the volume of news about the economy, the greater the likelihood consumers will update their expectations about the economy. Their research also found periods when reporting on the economy has not been consistent with actual economic events. As a result, there are times when consumer sentiment is driven away from what economic fundamentals would suggest. They also found evidence that consumers update their expectations about the economy much more frequently during periods of high news coverage than in periods of low news coverage.

For the first time we explored how the media is impacting the perception of Australian consumers. We start by asking them to think about what they have been reading, hearing or seeing in the media (TV, radio, newspapers, social media, podcasts etc.) about the economy, politics or other social issues, and tell us if there was more ‘good’ or ‘bad’ news now compared to the same time last year. Overall, 1 in 2 consumers said they were hearing more bad news now, while 1 in 3 believe it is about the same as last year. Only 1 in 10 said there is more good news now. Around 1 in 14 were not sure. Income did not unduly influence perceptions, with most consumers in all income groups (around 1 in 2) indicating there was more bad news. When asked how they feel the Australian economy will change over the next 3 months based on what they had read, seen and heard, on balance almost 4 in 10 believe it will be worse compared to around 1 in 4 who thought it would get better.

We also asked consumers to tell us in their opinion what was the key theme or issue the media was focussing on (either positive or negative). According to 1 in 4 (23%), cost of living dominated media. Around 1 in 7 (14%) said the main theme was Trump and US politics, while around 1 in 10 highlighted interest rates (11%), crime & violence (10%) and war or international conflict (8%). Consumers also identified housing, the housing crisis and homelessness (7%), federal or state elections (7%), Australian politics (4%), the economy (4%), inflation (4%), global politics (3%), racism and anti-Semitism (3%), climate change & environmental issues (2%), immigration (2%), natural disasters (2%) and health & healthcare (1%) as the key media themes.

With the labour market still resilient, on balance consumers still expect higher job security in the next 3 months (+9%). An equal number of men and women were optimistic about their short-term job security (+9%), with positive responses also recorded in all income groups, but ranging from +6% in the $35-50,000 group to +15% in the $50-75,000 income group. Looking 12 months ahead, a basically unchanged share of consumers also expect job security to be higher (+11% vs. 12%).

High living costs continue to drive a range of consumers spending behaviours, with shoppers in all demographic groups looking for ways to save money. In the March quarter, the most common behavioural change consumers report doing more of were being mindful where they spent money (on balance +40% of consumer report doing this vs. +42% in Q4 +45% at the same time last year), switching to less expensive products to save (+33%), researching brands & product choices before buying (+20%) and making purchases because of great deals (+15%). Slightly fewer consumers were conscious of buying Australian made (+5%) and an unchanged share supported local businesses (+4%). In terms of doing less, on balance a greater number reported dining less at restaurants (-34%), holidaying in Australia (-17%), visiting a major shopping centre (-14%), purchasing based on climate or sustainability issues (-13%), shopping at a new website (-11%) or trying a new retailer (-8%) or brand (-6%). An unchanged number in net terms holidayed less overseas (-28%).

The Economic Outlook

This survey pre-dates the rapid shifts in US government policies of recent weeks with risks to both global and domestic growth clearly shifting to the downside. Though we expect the direct impact of the US tariffs on Australia to be small (with the US a relatively small goods trading partner), we are not immune from the indirect impacts. For Australia we see the key impact on activity being driven by three channels: first, potential national income and wealth impacts from weaker commodity prices; second, volatility in financial markets and third, consumer (and business) sentiment.

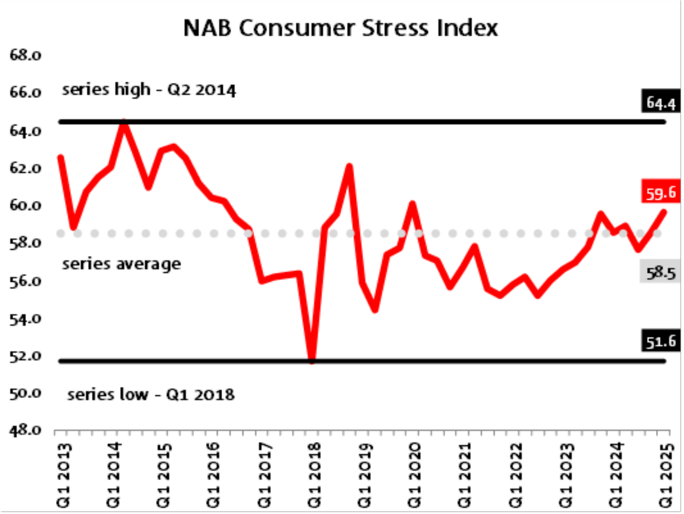
In our view the challenges posed by US trade policy, will require a more pre-emptive policy response by the RBA. NAB now expects the RBA to cut the cash rate by 50 bps at the May meeting with follow up cuts of 25 bps at each of the July and August meetings. In our view that shifts the cash rate back to a neutral stance more quickly than we had previously expected and leaves the RBA with a more appropriate policy stance. Once the cash rate reaches a level more consistent with a neutral policy setting, we then expect the RBA to pause for a few months before taking the cash rate into modestly accommodative territory. We expect a further 25 bps easing at the November and February meetings, taking the cash rate to a new cyclical low of 2.6%.

As a result, NAB now sees GDP growth of 2.0% over 2025 (was ~2¼%) and the unemployment rate peaking slightly higher at around 4.4% before edging back down to around 4¼% at end 2026. Importantly the economy will be supported by meaningfully lower interest rates, mitigating a larger impact on both growth and inflation.

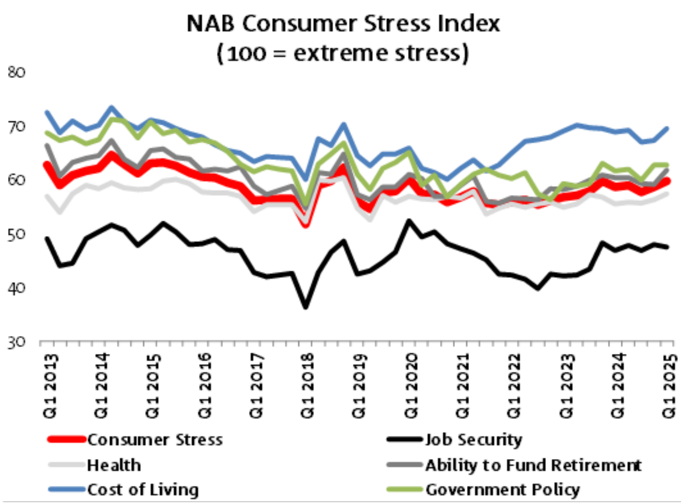
Clearly US trade policy will add to the concerns of an already stressed consumer. The path of consumer sentiment (and more importantly how they respond) from here remains highly uncertain. There is little doubt that unease over developments in the US and the secondary effects on the stock market could erode some of the green shoots in consumer expectations over the longer term economic outlook seen in this latest survey. While further interest rate cuts will no doubt provide some key support, should concerns over job security (a key offset to cost of living stress to date) spike as uncertainty around unemployment builds, consumer stress could come under more pressure.

Key Charts

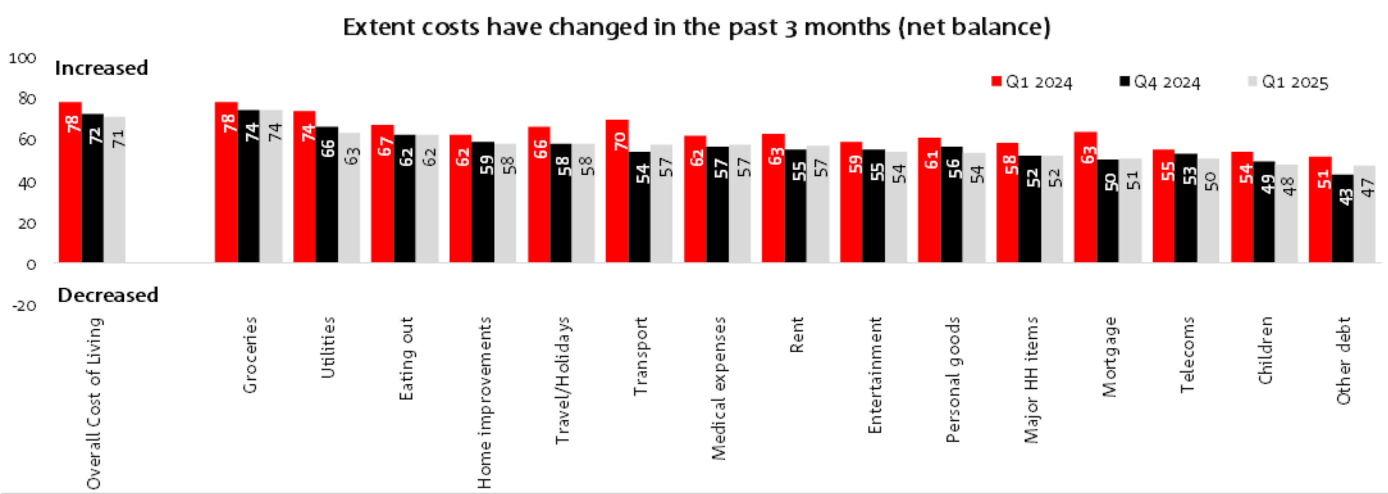
Consumer stress rises for the second straight quarter and at an 18 month high



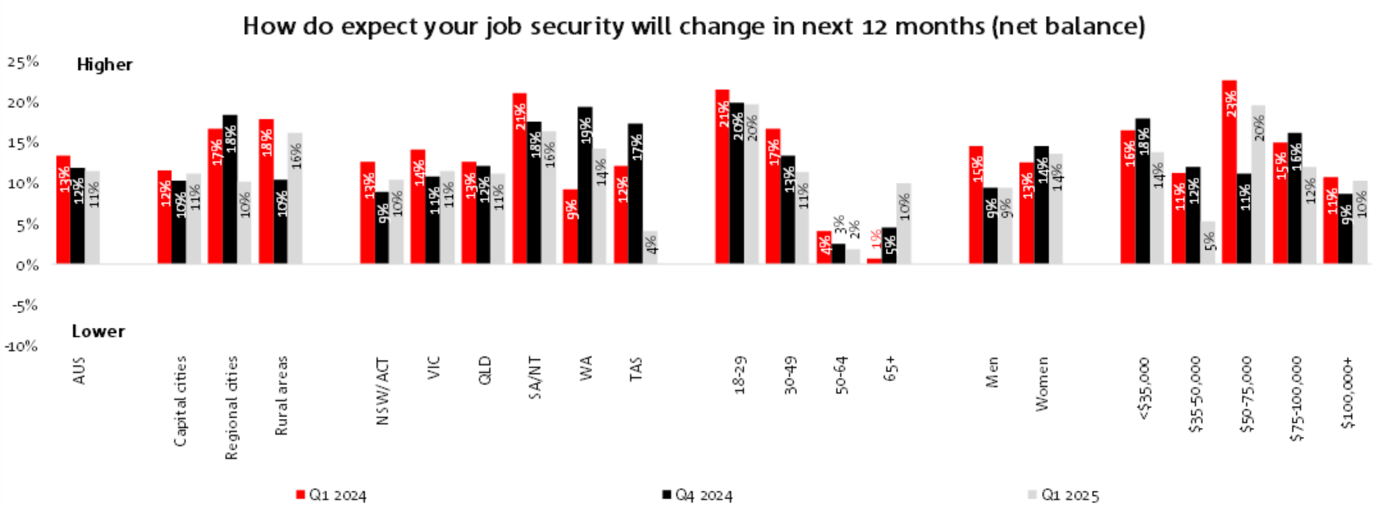
Concerns over the ability to fund retirement has climbed to its highest level in over 7 years



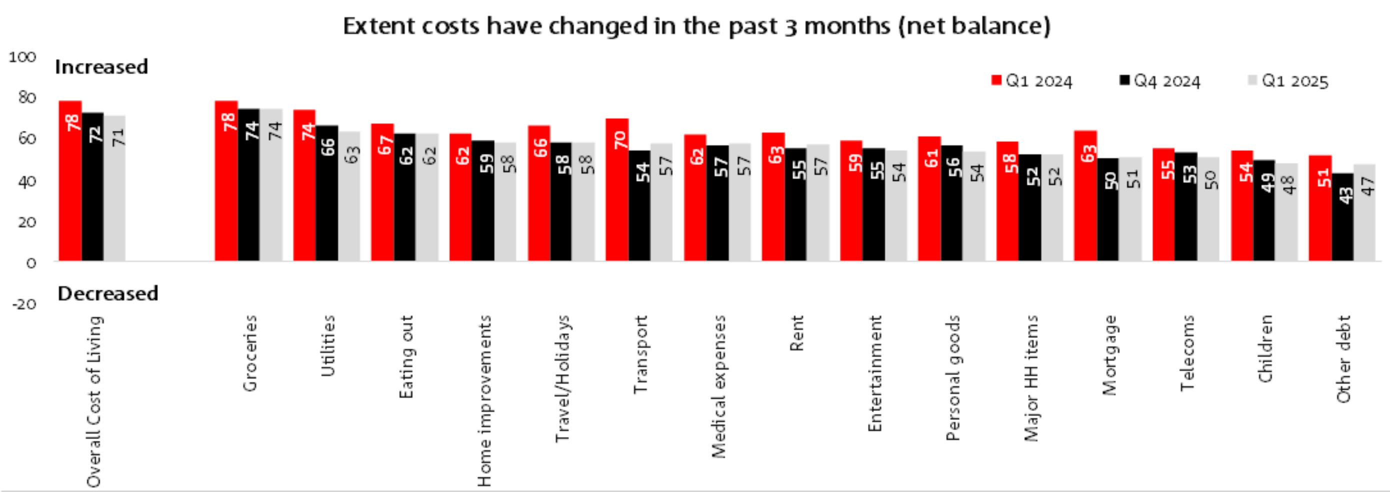
Highest number of consumers reporting prce increasses for groceries, (+74%) & utilities (+63%), but fewer than the same time last year.



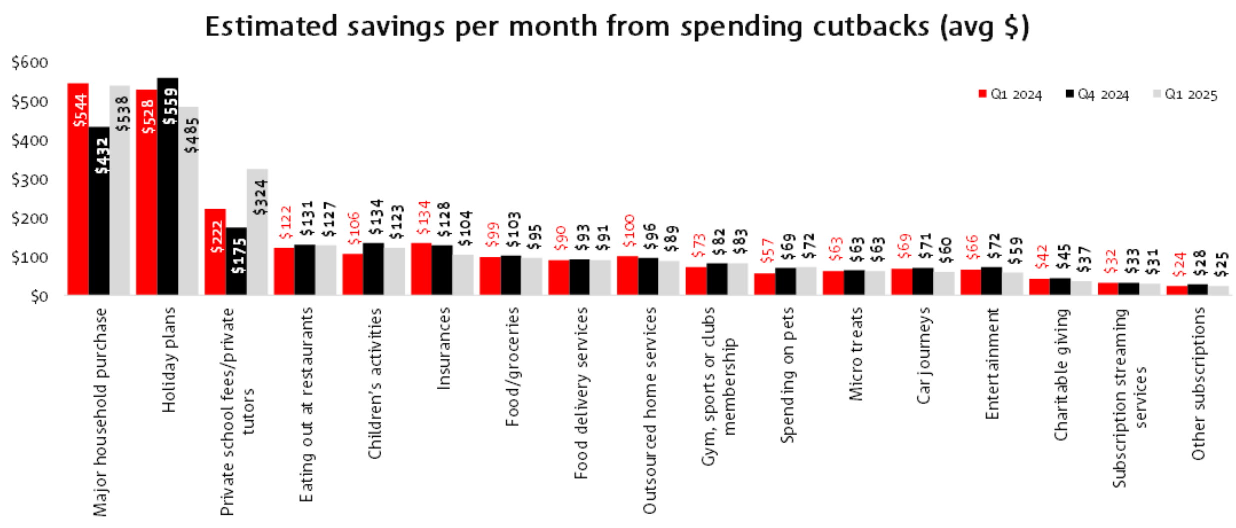
With the labour market still resilient, consumers on balance still expect greater job security in the next 12 months



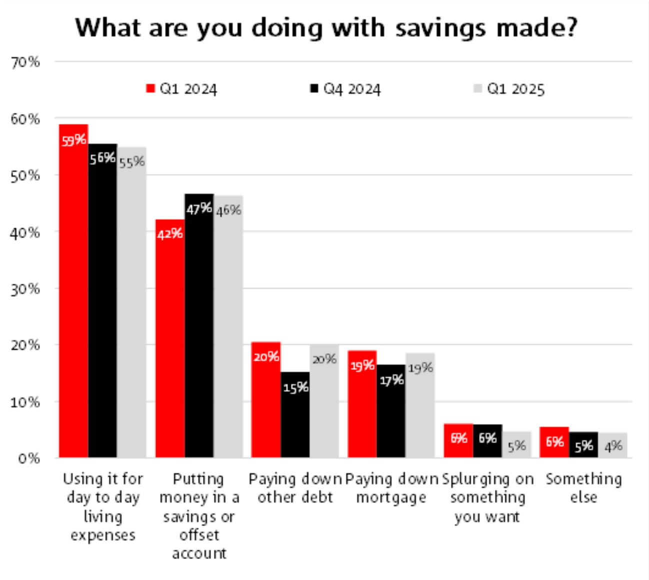
Consumers continued to cut back on non-discretionary, particulalrly eating out, micro treats, entertainment, petrol, travel, food delivery, major household purchases and charitable giving



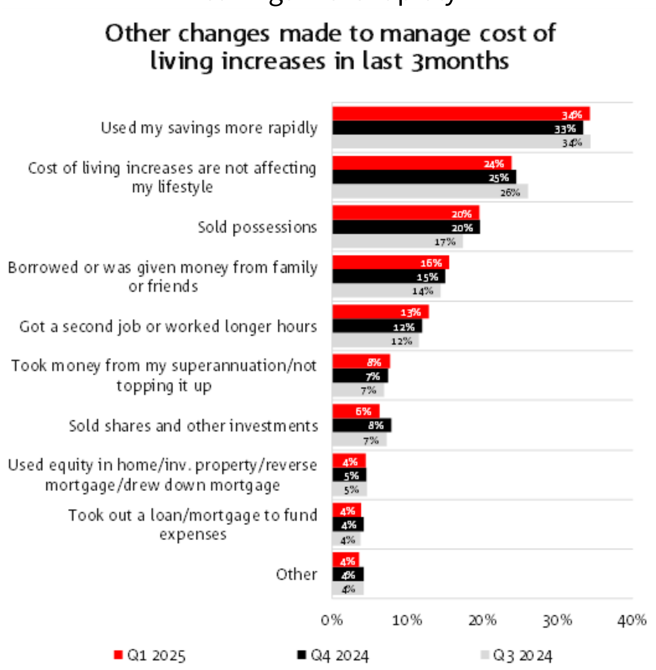
Consumers saved most in Q1 by cancelling or delaying a major household items ($538), cancelling, delaying or making more modest holiday plans ($485) and on private school fees & private tutors ($324).



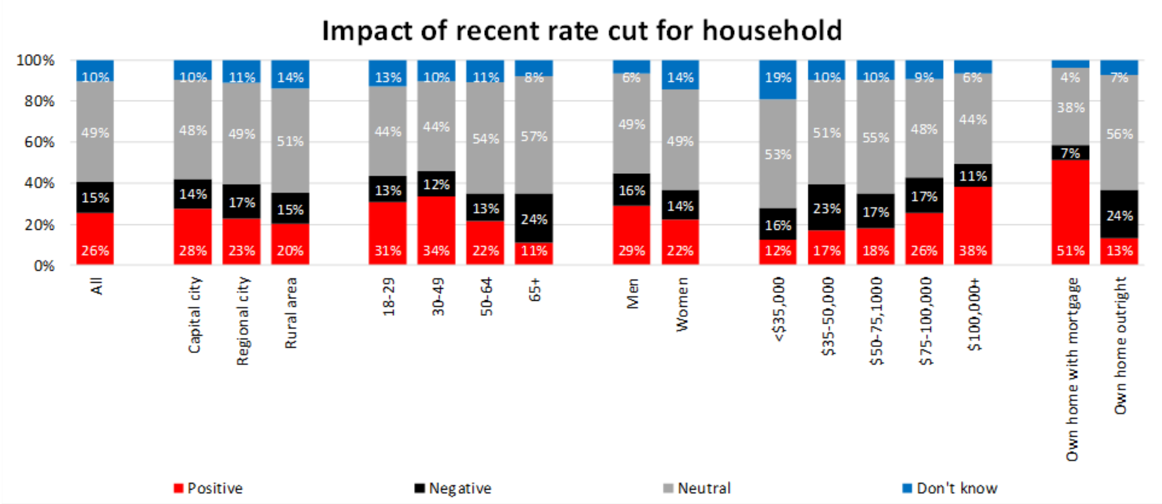
Almost 6 in 10 used savings for daily living expenses and almost 1 in 2 to support savings or offset accounts



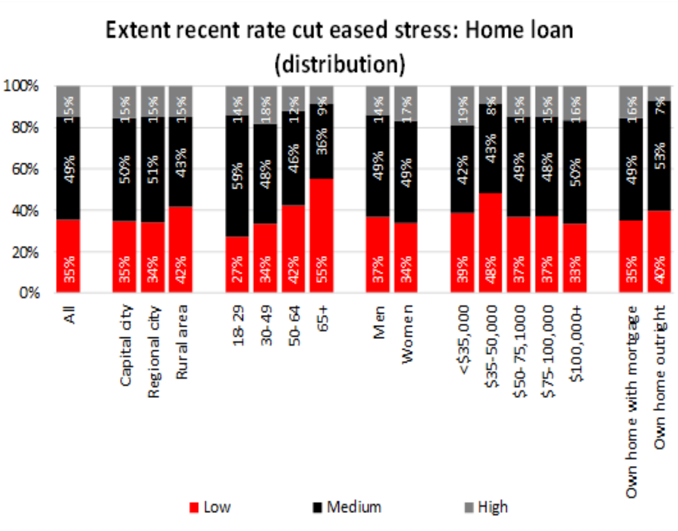
But 1 in 3 also drew down their savings more rapidly



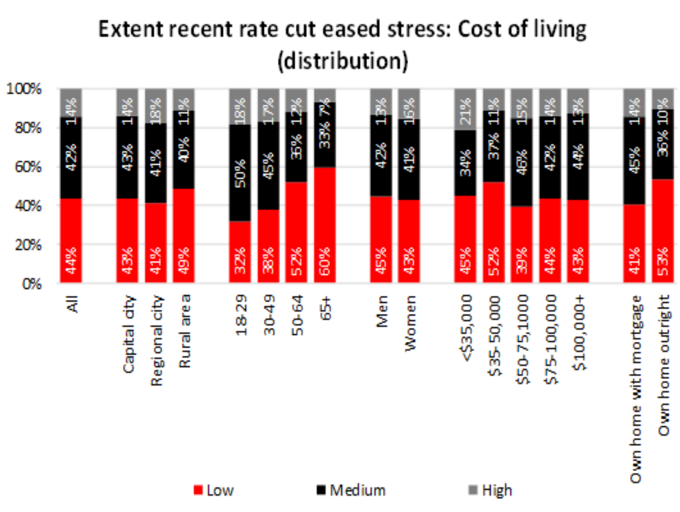
1 in 4 consumers view the Feb rate cut as positive for themselves and their household



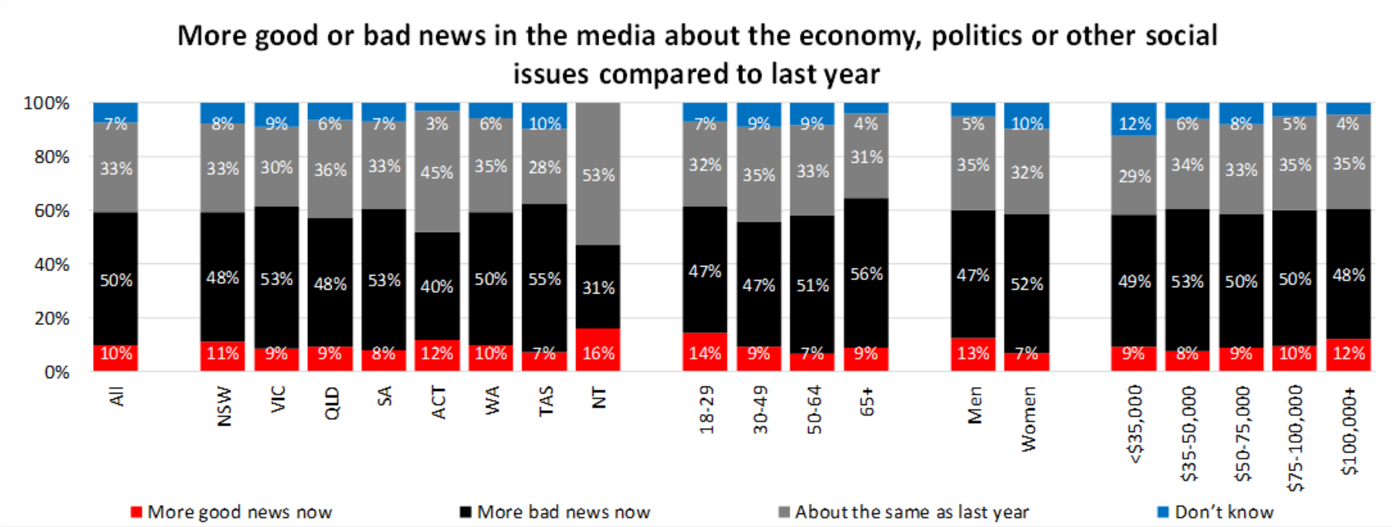
15% of consumers who viewed the rate cut as positive said it provided significant home loan stress relief



A similar number said it offered significant cost of living stress relief

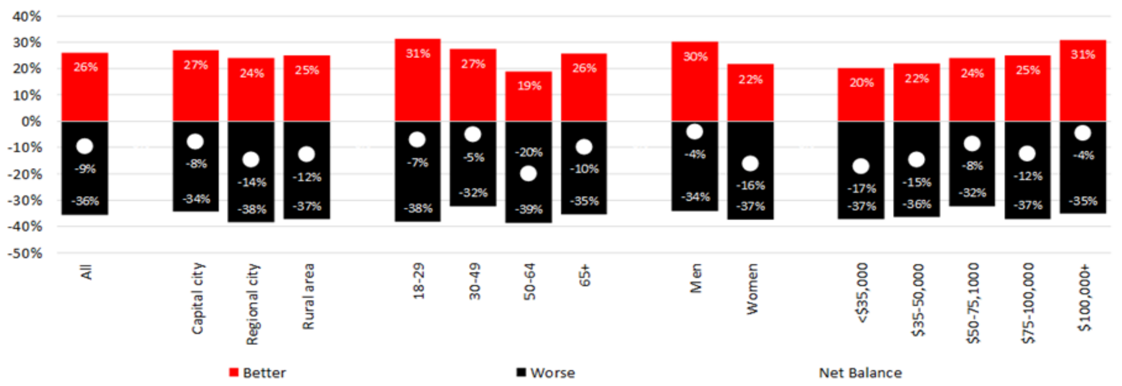


Hows the vibe? – 1 in 2 consumers believe there's been more bad news than good compared to the same time last year



Hows the vibe? - highest number of consumers reporting price increases for groceries, (+74%) & utilities (+63%), but fewer than the same time last year.

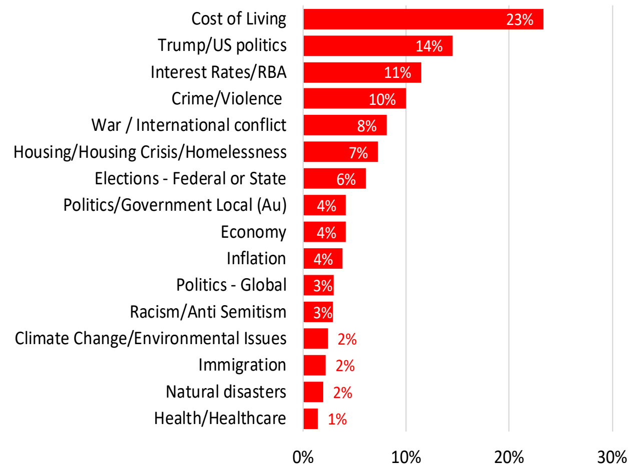
How do you feel the Australian economy will change over the next 3 months based on what you have read, seen and heard?



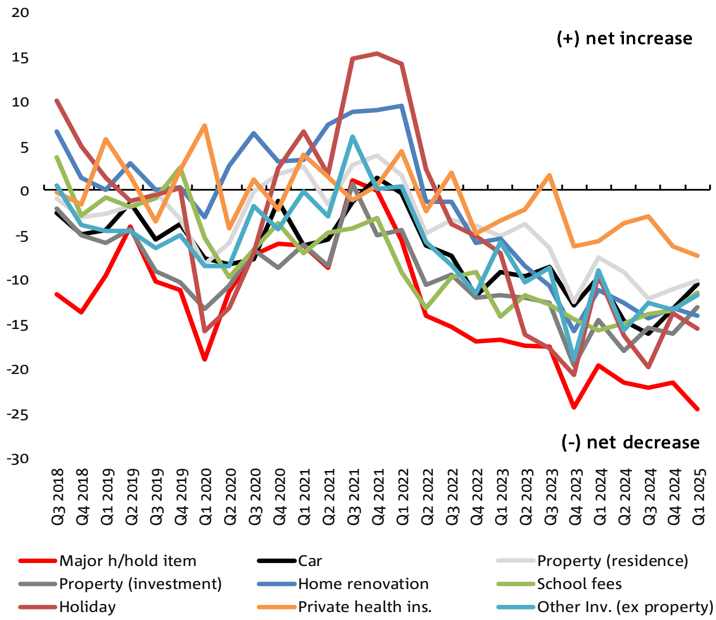
15% of consumers who viewed the rate cut as positive said it provided significant home loan relief

A similar number said it offered high cost of living stress relief

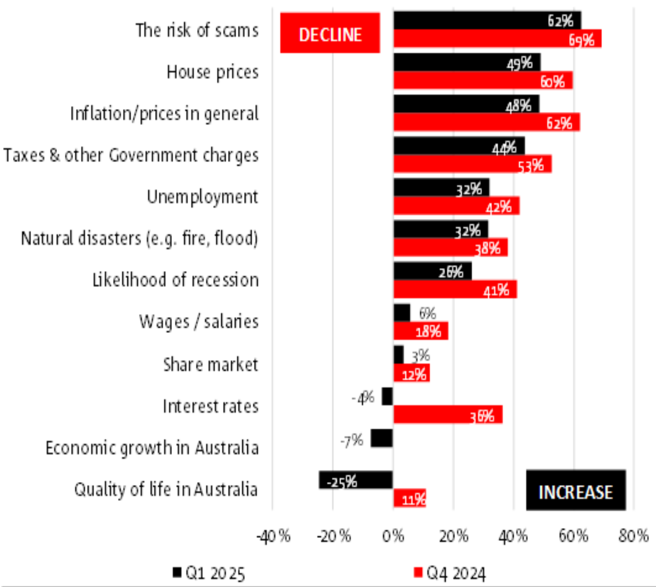
Key issues the media has been focussing on



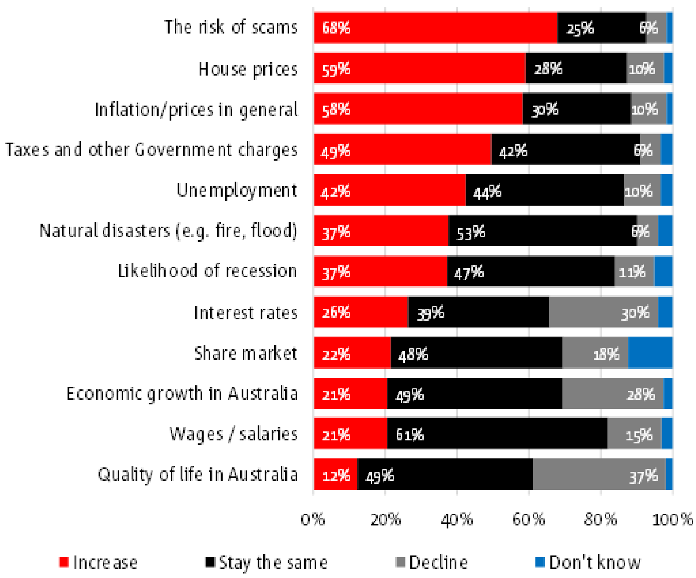
Expectations in regards to making major purchases in next 12 months (net balance)



How will following change in next 12m?



How will following change in next 12m: Q1 2025



Important Notice

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