MAY 2024 | SYDNEY

Consumer Spending Report

Snapshot into the Australian Market

BCG

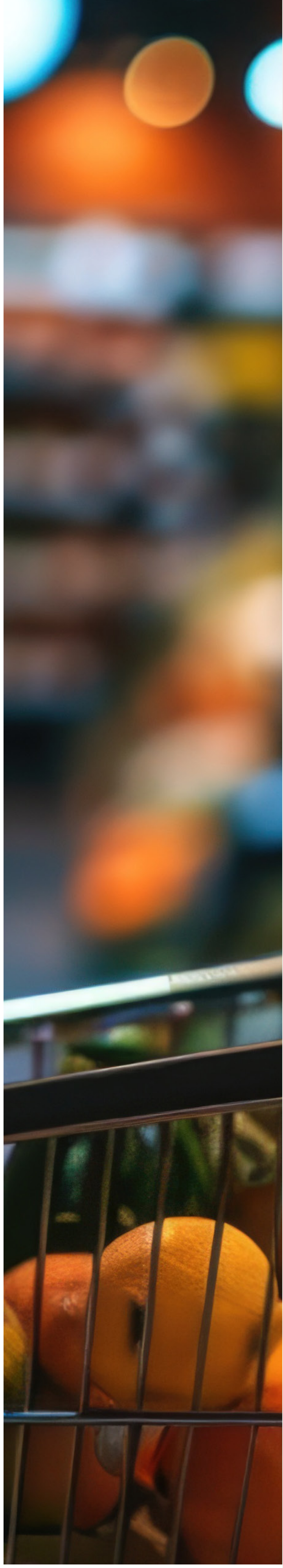
About this report

BCG's Consumer Spend Snapshot series examines the effects of housing and other cost pressures on household budgets and explores how households are responding to these challenges.

In this first part of the series, we look at the drivers of pressure on household budgets and the actions that households are taking to reduce their expenses. The second part of this series will look more closely at the impacts of housing costs (e.g., rent and mortgage payments) on budgets, explore how consumers' experiences vary by demographic, and actions that people are taking to optimise their out-of-home (takeaway and restaurant) food spend and balance their budgets.

Summary

Australian households are under financial pressure on many fronts. While household incomes have risen over the past five years, taxation payments have risen at a proportionally faster rate, which has resulted in slower growth in post-tax income. When we consider household post-tax income, housing costs and interest due to dwellings (i.e., mortgages) have increased materially, while spending on other essential goods and services has also risen. This has led to households experiencing a reduction in savings and a shift away from discretionary spending, as consumers trade down (i.e., buy cheaper options) and spend less. As a result, households are becoming more strategic in how they navigate financial pressure.



SECTION 1

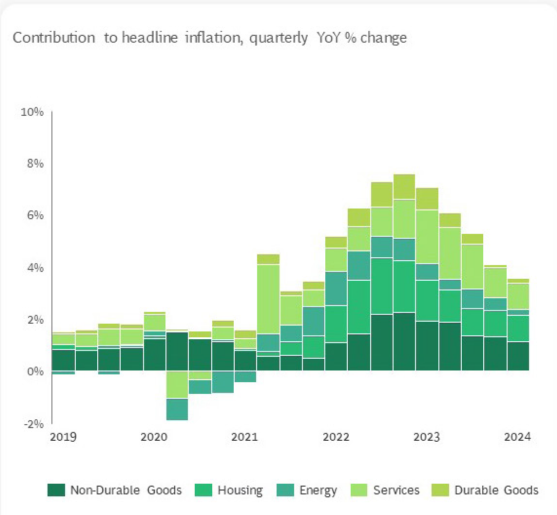
Consumer price inflation and interest rates

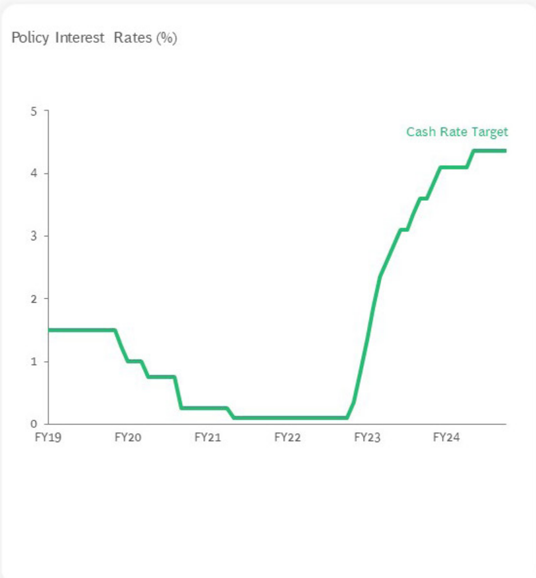
Over the past five years, consumer prices have risen rapidly across all categories of spending in Australia (non-durable goods, housing, energy, services and durable goods). Most of this increase has occurred in the last two-to-three years. Inflation in non-durable goods (which include food) represented much of this increase at first, followed by an increase in services and housing inflation. Inflation across all categories has moderated over the past 12 months.

In response to the increase in inflation, the Reserve Bank of Australia increased the cash rate target from 0.1% in May 2022 to 4.35% in November 2023, where it remains.

This experience is not unique to Australia. In New Zealand, the cash rate increased from 0.25% to 5.50% between September 2021 and May 2023. In the United Kingdom, the cash rate has increased from 0.1% to 5.25% since August 2023.

Exhibit 1: Services, housing, and non-durable goods have provided the most upward pressure on inflation, but these effects have moderated over the past 12 months[1]





Source: ABS CPI data, RBA Cash Rate Target, BCG analysis

1. Housing includes the total of rents, purchases of new dwellings by owner-occupiers, maintenance and property rates, and water and sewage services.

Changes in the use of household income

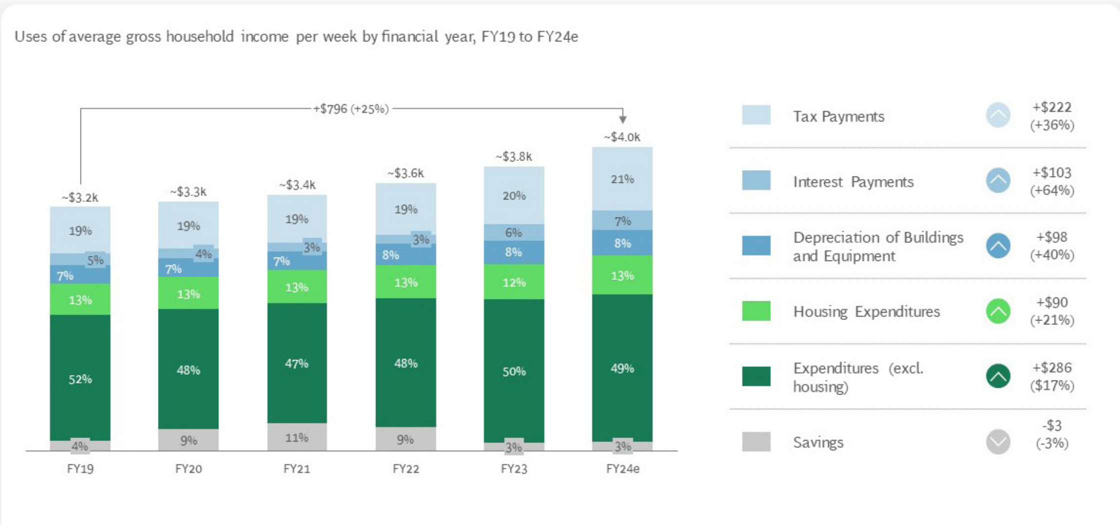
Household budgets have come under increasing financial pressure due to rising inflation following relative prosperity during the COVID-19 pandemic. Over the last five years, the average Australian household's weekly nominal gross income increased from ~$3.2k in FY19 to ~$4.0k in FY24e (+25%) per household. However, the usage of that income has changed significantly between the first half of that period (dominated by COVID-19) and more recent times.

From FY19 to FY21, sharp growth in household income was accompanied by a proportional increase in taxes. Interest and total expenditures shrank as a proportion of gross household income in relative terms, with interest moving from 5% to 3% and expenditure from 65% to 60%. Savings per household reached a peak in FY21 at 11% of gross household income.

From FY21 to FY24e, while gross household income grew by +19%, a higher proportion has gone to tax payments as households on average moved up to higher tax brackets. Interest costs have also more than doubled. As a result, while household expenditures grew roughly in proportion to gross incomes between FY21 and FY24e (from 60% to 62% of gross incomes), saving rates dropped to ~3% of total gross income in FY24e.

Depreciation is the value of fixed assets (e.g., buildings and equipment) that is 'used up' over time and is distinct from expenditure. While we recognise that household budgets likely do not feature a depreciation line, we have captured this as it is an item necessary to get to net household disposable income.

Exhibit 2: The average gross household income has grown by 25% since FY19, but as a result of increased interest payments, expenditure, depreciation, and tax paid the savings rate has reached a low of 3% in FY24[2]



Source: ABS National Accounts, ABS Monthly Spending Indicator, ABS CPI data, ABS Average Loan Sizes (Owner-Occupier Dwellings), ABS Housing Lending Rates, BCG analysis

2. In line with the ABS' National Accounts definition of housing, includes actual and imputed rents and excludes other elements that may be typically considered relevant to housing like interest on mortgage repayments.

SECTION 3

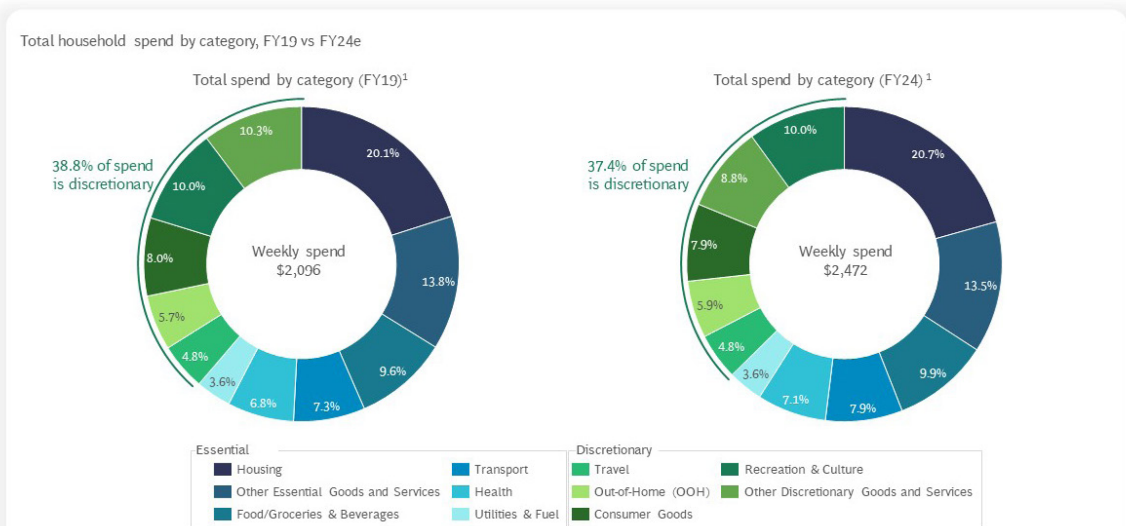
Changes in household expenditure

Average weekly household expenditure (which excludes interest and depreciation payments on housing) has increased by ~$376 (+18%) in the past five years.

Household expenditure can be broken down into essential spending and discretionary spending categories. Essential spending includes items that are necessary for basic living and cannot be easily deferred or avoided (such as housing costs, food and non-alcoholic beverages, health, transport, education, communication, and insurance and financial services). On the other hand, discretionary spending includes items that are considered non-essential or luxury and can by deferred with less impact on consumers' daily lives (such as alcohol and tobacco, clothing, household furniture, recreation and culture, restaurants, hotels, and travel for leisure).

Taxes, interest payments and depreciation are not considered elements of household expenditure, and as such have not been included in the breakdown of household expenditure above. However, they remain relevant in understanding consumer behaviour as they result in lower relative growth in net disposable income.

Exhibit 3: Discretionary spend has decreased from ~39% to ~37% of total spend, while housing has driven the biggest increase in essential spending



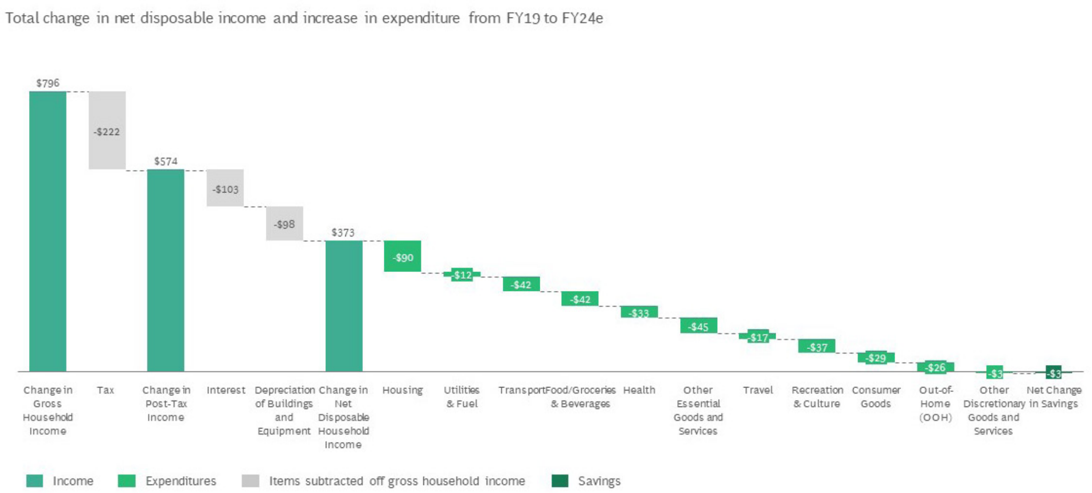
Source: ABS National Accounts, ABS Monthly Spending Indicator, ABS CPI data, ABS Average Loan Sizes (Owner-Occupier Dwellings), ABS Housing Lending Rates, BCG analysis

When breaking down the increase in the average Australian household's gross income between FY19 and FY24e, taxes, interest payments and depreciation represent the largest three individual reductions in gross household income. This means that although gross household income has increased by, on average, $796 during this period, average net disposable household income has only increased by $373, and savings have been reduced by -$3. Increased tax expenses as households on average moved up the tax ladder, and increased interest payments as the cash rate target moved to levels not seen since 2011 have had a noticeable impact on lower relative growth in household budgets. Of the expenditure items, housing spend is the largest individual contributor to declining savings, increasing by $90 over the five years.

Essential categories of spend account for just under two-thirds of total expenditures in FY24e, rising in value by 30% since FY19. While all essential spend categories have increased in absolute terms, housing costs have driven the greatest growth (+$90 per week), while transport and health have increased the most in relative terms (+27% and +23% respectively) compared to FY19.

Discretionary categories of spend account for just over one-third of total expenditures in FY24e, rising in value by 23% since FY19, at a slower growth rate than essential spend. While all discretionary spend categories have increased, out-of-home (+22%) and recreation & culture (+18%) have driven more than half of the increase in absolute dollar terms.

Exhibit 4: Despite a $796 increase in gross household income, the average household is spending $799 more per week in FY24e vs FY19, resulting in a $3 reduction in savings



Source: ABS National Accounts, ABS Monthly Spending Indicator, ABS CPI data, ABS Average Loan Sizes (Owner-Occupier Dwellings), ABS Housing Lending Rates, BCG analysis

SECTION 4

Changes in household consumption habits

Households have adjusted their spending across categories to find savings in response to price inflation.

Cost-of-living analyses often focus on the price inflation observed in each category, assuming no change in household consumption patterns. So, if overall Australian household consumption patterns were the same today as a year ago, we estimate that households would be spending ~$80 (4%) more per week on average in FY24e compared to the previous financial year on their expenditure (excluding housing and utilities/fuel).

Comparing this implied 'status quo' rise to the actual rise in household spending this financial year, we observe household spending in FY24e to be only ~$40 more on non-housing expenditure per household. In other words, the average household has avoided ~$40 of weekly price inflation cost by changing consumption habits. This is primarily achieved by deferring purchases and trading down in categories consumers can influence, particularly discretionary categories.

Exhibit 5: By adjusting spending habits, households avoided ~$40 of inflation per week in FY24e

CPI-adjusted FY23 weekly spend basket vs actual FY24e weekly spend by avg. household[1]

1. Excludes Housing and Utilities & Fuel costs
Source: ABS National Accounts, ABS Monthly Spending Indicator, ABS CPI data, BCG analysis

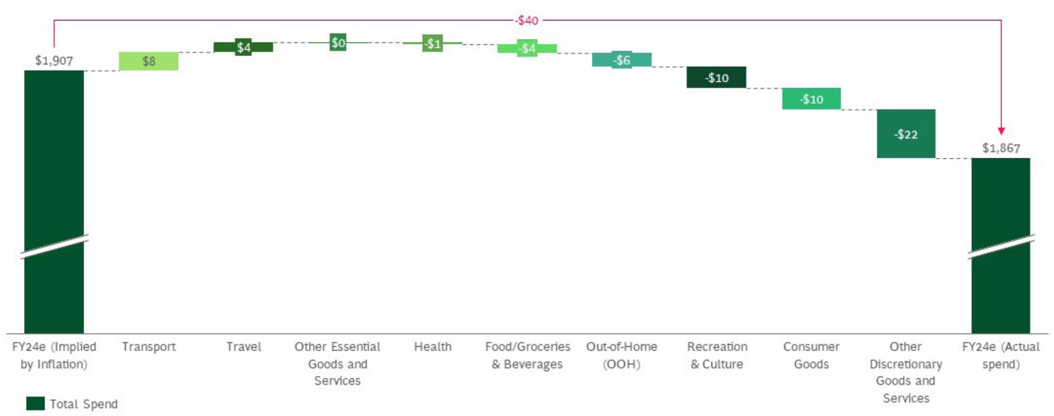
Households have primarily 'avoided' inflation in FY24e by managing total spend across food, consumer goods, and recreation & culture. On average, households avoided:

- Food: ~$4 of inflation per week across grocery & beverages and ~$6 in out-of-home spend
- Consumer goods: ~$10 of inflation per week by trading down and buying fewer consumer goods. This was mostly observed across clothing & accessories, home & appliances and electronics
- Recreation & culture: ~$10 of inflation per week by reducing spend on recreation & culture

Transport and travel costs are the only categories of non-housing expenditure where consumers have been either unwilling or unable in aggregate to change or reduce consumption to avoid the costs of inflation. In fact, the average household is spending ~$8 more on transport and ~$4 more on travel than the inflation-implied price increases. In other words, households in aggregate are either trading up or buying more transport and travel-related services in FY24e compared to FY23.

Exhibit 6: Households have avoided ~$40 of weekly price inflation by changing consumption habits, trading down and buying less across food/groceries & beverages, OOH, recreation & culture, and consumer goods

Inflation-implied vs actual FY24e weekly spend by avg. household in key categories[1]



1. Excludes Housing and Utilities & Fuel costs
Source: ABS National Accounts, ABS Monthly Spending Indicator, ABS CPI data, ABS Average Loan Sizes (Owner-Occupier Dwellings), ABS Housing Lending Rates, BCG analysis

Conclusion

Australian household income growth has been eclipsed by escalating outgoings and costs across a range of sectors. Increased tax payments as households move up the tax ladder, and increased housing outgoings (which show up as depreciation and interest payments driven by an increasing cash rate), are putting pressure on net household disposable income. All categories of expenditure have also seen a rapid rise, resulting in an erosion of savings. Accordingly, consumers have shifted their consumption habits, trading down or consuming less to avoid price inflation.

As consumer behaviours shift towards prioritising value and efficiency, retailers must consider several strategic questions to stay competitive.

- Are they providing credible 'trade-down' value options to avoid losing customers to competitors who are?
- Are they effectively communicating the value of their offerings to consumers looking for more cost-effectiveness and durability?
- Are they evolving their offerings to meet the rising demand for services in key categories such as events, travel, or health & fitness?
- Are they proposing innovative loyalty or pricing strategies that could better accommodate consumers' tightening budgets?
- Is their digital strategy and omnichannel presence robust enough to capture and retain customer interest?

By addressing these areas, retailers can not only navigate the present challenges but also capitalise on them, ensuring they remain at the forefront of a dynamic retail landscape.

The second part of this series will look more closely at the impacts of housing costs (e.g., rent and mortgage payments) on budgets, explore how consumers' experiences vary by demographic, and actions that people are taking to optimise their out-of-home (takeaway and restaurant) food spend and balance their budgets.

Report methodology, sources and glossary

A. Data Sources

Our analysis utilises data from two key sources:

- Australian Bureau of Statistics (ABS) – Exhibits 1-6
- Reserve Bank of Australia (RBA) – Exhibit 1

ABS data provides a holistic view of the Australian economy and its trends, while the RBA's Cash Rate Target provides an overview of cash rates.

B. Analytical Approach

The breakdown from Gross Income to Savings per household is computed by distributing quarterly aggregated spending data from the ABS across the total number of Australian households. This approach helps us understand changes in household income and expenditure. This is consistent with the ABS's approach when reviewing distributional information of household income, consumption, and wealth.

It is important to note that the change in the estimated income or expenditure by household is impacted by (a) changes in the household's income (consumption and wealth) and spend; and (b) changes due to more households in the distributional group. To assist the reader to understand these demographic changes, exhibit 8 shows the evolution in the number of Australian households over time.

Exhibit 7: Australia's household characteristics have shifted over the last two decades, with the total number of households increasing and the average number of people per household decreasing

Total number of households and average number of people per household, 2003-2023[1]

Year	2003-04	2005-06	2007-08	2009-10	2011-12	2013-14	2015-16	2017-18	2019-20	2020-21	2021-22	2022-23
Number of households (Millions)	8.0	8.2	8.3	8.7	8.9	9.0	9.2	9.6	10.0	10.1	10.2	10.4
Average number of people per household		2.7			2.6		2.6			2.5		2.5

1. Reporting frequency changed to annual after 2020 for number of households; Average number of households derived from census data and a 2023 ABS release; ABS data from multiple sources used
Source: ABS Census data, ABS National Accounts, BCG analysis

C. Reporting Period and approach to estimating FY24e

The data and findings in this report are presented based on the Australian financial year, from July to June. Unless otherwise stated, we have used data from ABS up until Dec 2023. ABS data is reported based on financial years (July-June) where FY24e has been estimated as follows:

- For the ABS income account, based on extrapolating FY24H1 with the ABS WPI for the Dec Quarter
- For the ABS Final Consumption Expenditure, based on extrapolating the ABS Monthly Spending Indicator ended Feb 2024 to June 2024, assuming the same YoY growth as seen Jul 2023-Feb 2024

The RBA's Cash Rate Target has not been extrapolated and is based on the RBA's monthly monetary policy reporting.

D. Glossary

Primary income payable (referred to as interest) is comprised of dwellings Interest Payable, consumer Debt Interest Payable and unincorporated Enterprises Payable.

Secondary income payable (referred to as tax) is comprised of income tax payable, other current taxes on income, wealth, etc., workers' compensation premium, net non-life insurance premium payments, other current transfers payable.

Consumption of fixed capital (referred to as depreciation) is comprised of the value of reproducible fixed assets (e.g., buildings and equipment) 'used up' during a period.

Expenditure (also referred to as spend) is comprised of household purchases of goods and services after tax, interest expenses, and depreciation, and is categorised across essential and discretionary spending (see below).

Essential spending is comprised of mandatory expenditure which fulfils basic needs and functions, spanning housing, utilities & fuel, transport, food/groceries & beverages, health, and other essential goods and services.

Discretionary spending is comprised of voluntary expenditure which can be reasonably foregone spanning travel, recreation & culture, consumer goods, out-of-home, and other discretionary goods and services.

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