

WESTPAC CARD TRACKER

9 JUNE 2022.

WESTPAC INSTITUTIONAL BANK

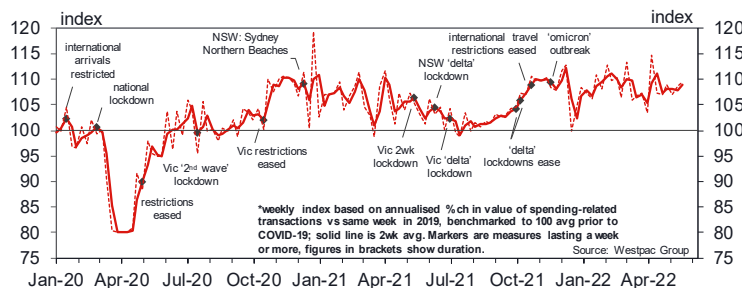


Card activity robust but some gains due to rising prices



- The **Westpac Card Tracker Index** has started the month stronger after a minor dip in late May, rising +0.7pts in the week ending in June 4. At 109.4 the national index means annual growth in card activity is continuing to run over 9pts above its pre-COVID pace (see p7 for more details on how the index is constructed).
- State indexes are up across the board, with the strongest weekly gain seen in WA (+1.8pts to 109.4pts) with NSW not far behind (+0.5pts to 110pts). Tasmania was a notable exception, its state index down -0.7pts to a relatively subdued 104.9pts. On a 2wk average basis, the major state indexes remain closely clustered in the 107.3 to 109.7 range. By major category, 'discretionary' goods and services continue to strengthen, outpacing 'essentials' on a 2wk average, although discretionary goods took a small -0.3pt dip compared to last week.
- At a more granular level, 'fuel' continues to post particularly strong growth, tracking well above the base period in all major states with indexes ranging between 117 and 121pt. On a 2wk average basis, travel appears to have moderated a touch, as has food.
- In this edition we take a closer look at trends in Average Transaction Values (ATVs) with a particular view to whether these contain additional information on inflation. ATVs have moved broadly in line with inflation with weakness in 2020-21 followed by strong gains in 2022. Closer analysis points to several other, non-inflation-related factors that are also affecting ATVs including COVID-related swings and shifting shopping and payment behaviour, and a pre-existing structural down-trend. While it's difficult to draw hard and fast conclusions, this aspect of the card data will clearly be worth monitoring closely through 2022 and 2023.

1. Westpac Card Tracker Index



“... annual growth in card activity is continuing to run over 9pts above its pre-COVID pace.”

The **Westpac Card Tracker** presents indicators based on the millions of credit and debit card transactions processed by Westpac every day. The measures are an extremely timely guide to shifts in spending and a critical gauge of the COVID-19 shock. See p8 for a full explanation.

This report is produced by Westpac Economics

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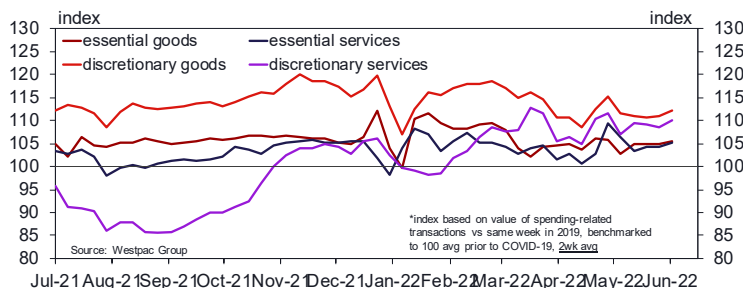
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Detail shows steady, broad-based gains

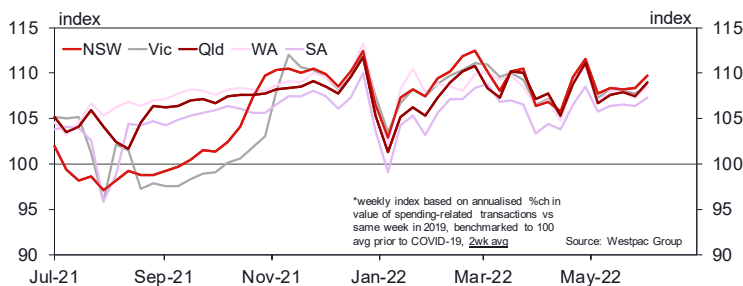


2. Card activity by major category



- Charts 2 and 3 show 2wk avg index reads by major category and state respectively. Both continue to show relatively steady, broad-based gains.
- As noted, all states recorded an up-tick on a 2wk avg basis. Card activity continues to run slightly stronger in NSW and slightly weaker in SA.
- Any hint of a softening in essential and discretionary services from prior weeks has disappeared with both seeing stronger reads in the latest week. Indeed, the state by detailed category breakdown shows very little change across most areas suggesting card activity is in something of a 'holding pattern', particularly compared to the big swings seen in recent years.

3. Card activity by state



	Mar	Apr	May	4/6
Westpac Card Tracker	109.0	107.9	108.0	109.4
By category*				
– discretionary	112.2	109.7	110.0	111.4
– essential	103.9	104.6	104.5	105.7
By state				
– NSW	109.3	108.2	108.4	110.0
– Vic	109.4	107.9	108.0	108.7
– Qld	108.7	108.1	107.6	109.4
– WA	108.9	107.7	107.7	109.4
– SA	106.8	105.6	106.4	107.6

All indexes are based on value of spending-related transactions vs same week in 2019, benchmarked to 100 avg prior to COVID-19, see p8 for more details.

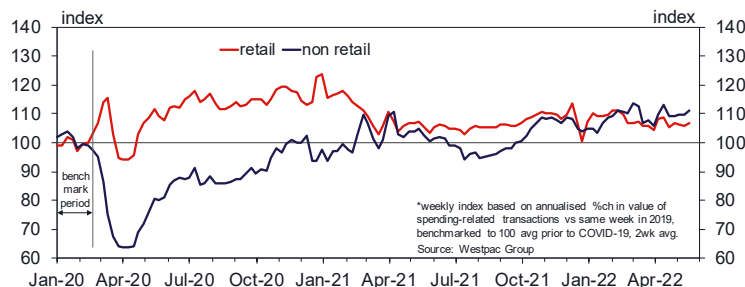
*see p8 for 'discretionary' and 'essentials' classification details.

Sources: ABS, Westpac Group

Retail ticks up but underperforming

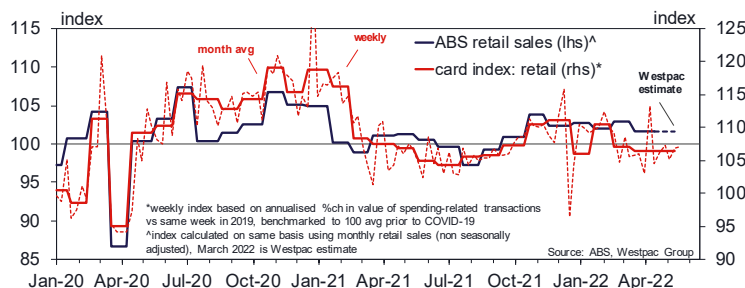


4. Card transactions: retail vs non retail



- Our retail card index has strengthened a touch over the last 2wks, up +0.9pts on a 2wk avg basis and +0.1 points in the latest week. At 106.9, the index is still comfortably in positive territory.
- Our non-retail card index continues to show a consistent out-performance, rising 1.4pts on a 2wk avg basis and up 1.4pts to 110.4 in the latest week. Note that this measure includes effects from high fuel prices and a return to travel and tourism spend.
- ABS preliminary estimates for May retail sales will be released at the end of the month. Sales undershot the card tracker guidance in Apr but held in better than expected in previous months (see [here](#) for more). The May card data suggests the official retail estimates may record a decline.

5. Card transactions: retail vs ABS retail sales



	Mar	Apr	May	4/6
By retail/non retail				
Retail card index	107.0	106.5	106.4	107.0
- vs baseline	7.0	6.5	6.4	7.0
- pts change	-3.5	-0.5	-0.1	n.a.
Non-retail card index	111.3	109.1	109.5	111.9
ABS retail sales*				
- %ch	1.6	0.9	n.a.	n.a.
- ann %ch	9.4	9.6	n.a.	n.a.

All indexes are based on value of spending-related transactions vs same week in 2019, benchmarked to 100 avg prior to COVID-19, see p8 for more details.

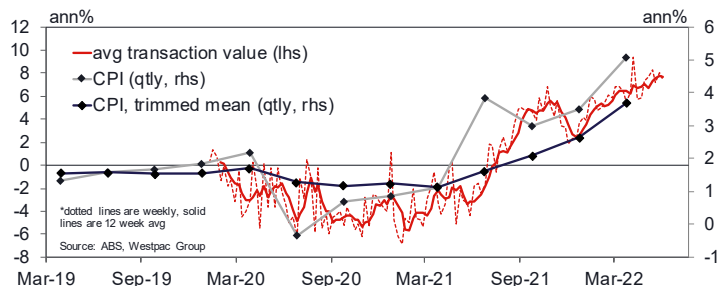
*seasonally adjusted, March 2022 figures are Westpac estimates; ^ avg month to date.

Sources: ABS, Westpac Group

Does card activity give some clues to inflation?



6. Average transaction values vs CPI inflation



7. Average transaction values, selected categories

	avg transaction value (\$)				CPI ^a		avg transaction value, Q1 2022 (\$)			
	2019 year	lockdowns Q2 2020	latest Q3 2021	latest Q1 2022	%chg vs 2019	%chg vs 2019	NSW	Vic	Qld	WA
strongly correlated										
– fuel	40	33	39	44	10.4	28.1	47	46	44	47
– vehicle-related	281	257	302	292	3.9	11.7	299	333	286	322
weakly correlated										
– food	39	43	46	45	14.1	8.2	44	41	44	46
– hospitality	23	22	24	26	9.8	5.9	26	27	25	26
– airlines	443	-99	197	345	-22.2	8.0	488	475	374	576
– pharmacies	39	39	41	42	7.5	4.5	41	41	40	42
channel*										
– online	99	91	89	85	-13.7	n.a.	86	89	81	85
– in-store	45	46	46	48	7.1	n.a.	47	48	47	49

* excluding travel-related spending; ^a related CPI sub-group.

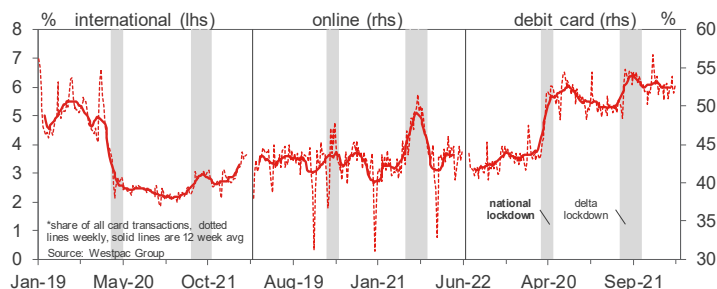
Source: Westpac Group

- Inflation is absolutely the hot topic of the day, with a surge in global price pressures sending central banks scrambling to raise rates in order to ensure inflation returns to targets over the medium term. Some aspects of the card data – average transaction values (ATVs) in particular – may provide more timely gauges of inflation pressure although our close analysis suggests we need to be extremely careful when interpreting this data.
- Chart 6 shows annual growth in ATVs alongside annual CPI inflation, both headline and core. While there are significant differences in rates and quarter to quarter moves, the broad pattern of weakness in 2020-21 followed by strength in 2022 is apparent across both.
- Table 7 shows more detail with ATVs for selected detailed categories and across online and in-store channels. As discussed previously, some of these line up nicely with specific CPI expenditure classes, most notably fuel. A closer look at correlations between these detailed card measures and the CPI detail points to what look to be good links for vehicles as well, but were much less convincing for basic food, hospitality, airlines and pharmacies.
- In the case of airlines, the large wedge (ATV down 22% vs 2019 but CPI component up 8%) is almost certainly due to the big swings in international air travel which heavily skew ATVs. With activity taking off since March, the June quarter ATV already looks set to be up about 3% vs the 2019 average. The strong ATV gains vs 2019 for food (14.1%) and hospitality (+9.8%) are more likely to reflect inflation gains and are broadly in line with the cumulative changes in related detailed CPI indexes.

Many factors at play but inflation is in the mix

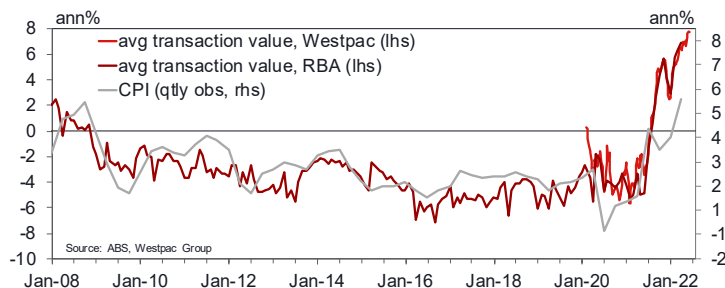


6. Card activity: selected transaction types



- The online vs in-store measures provide another interesting wrinkle to this story. For these we have excluded travel-related categories (airlines, hotels and travel agents) as the large swings in these transactions (which are typically large value and online) skew the ATV measures during the COVID period.
- Interestingly ATVs for online transactions have seen a sizeable 13.7% decline compared to 2019. This likely reflects the increased use of this channel for low value purchases – a likely by-product of the wider availability of online purchase options such as click-and-collect which means there are not additional shipping charges for low cost items.
- Overall, our closer analysis points to several other, non-inflation-related factors that are also affecting ATVs including COVID-related swings and shifting shopping and payment behaviour.

7. Average transaction values: long history vs CPI inflation



- There also appear to be some significant pre-existing structural factors at work. Chart 7 shows ATVs from both the Westpac data and from the RBA's system-wide data, which has a longer history back to 2002. Aside from the latest rise, the most striking feature is the consistent decline in ATVs over the 14yr period prior to the pandemic. This relates to the widening prevalence of contactless payments, particularly for debit cards, which has seen much higher use for incidental (rather than big ticket) purchases. Indeed, if we allow for this pre-existing structural decline, the latest surge in ATVs is even more concerning. While its difficult to draw hard and fast conclusions, this aspect of the card data will clearly be worth monitoring closely through 2022 and 2023.

Westpac card indicators



	2020			2021			2022			last four weeks, ending:					
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Feb	Mar	Apr	May	14/5	21/5	28/5	4/6
Westpac Card Tracker Index	90.4	101.0	107.3	107.0	104.9	101.3	106.5	110.4	109.0	107.9	108.0	109.0	107.1	108.7	109.4
vs baseline	-9.6	1.0	7.3	7.0	4.9	1.3	6.5	10.4	9.0	7.9	8.0	9.0	7.1	8.7	9.4
ppt change	-9.6	1.0	6.2	-0.2	-2.1	-3.6	5.2	3.6	-1.3	-1.2	0.1	1.9	-1.9	1.6	0.7
By category															
services															
- discretionary	59.2	75.6	89.6	95.3	100.1	87.4	98.2	105.9	109.7	107.9	109.0	110.8	107.8	109.4	110.9
- essential	87.8	101.4	107.6	102.6	104.1	100.8	102.9	106.3	103.7	104.3	103.8	104.7	103.6	104.7	105.5
- total	66.4	82.3	93.9	97.2	101.1	91.2	99.5	106.1	108.1	106.9	107.6	109.2	106.7	108.2	109.5
goods															
- discretionary	114.6	125.2	125.9	124.2	112.7	112.5	115.7	118.2	114.7	111.7	110.9	111.6	109.9	112.2	111.9
- essential	105.0	106.9	105.8	104.0	101.7	105.1	105.6	108.8	104.0	104.7	104.8	105.4	104.6	105.1	105.7
- total	110.2	116.8	117.0	114.7	107.7	109.1	111.2	113.8	109.7	108.5	108.2	108.8	107.4	108.9	109.1
retail*	104.8	114.2	116.3	114.4	106.0	105.3	108.7	110.5	107.0	106.5	106.4	107.2	105.2	106.9	107.0
ppt change	4.8	14.2	2.1	-1.9	-8.4	-0.7	3.4	2.1	-3.5	-0.5	-0.1	1.0	-2.1	1.7	0.1
By state															
- NSW	97.7	104.2	107.9	107.0	103.0	101.8	108.8	111.4	109.3	108.2	108.4	109.2	107.4	109.5	110.0
- Vic	93.2	88.9	109.9	105.4	102.3	99.8	109.0	110.4	109.4	107.9	108.0	109.1	107.1	108.3	108.7
- Qld	101.2	107.3	109.8	107.7	105.6	106.1	107.2	109.9	108.7	108.1	107.6	109.3	106.5	108.5	109.4
- WA	99.8	107.6	109.5	105.7	105.8	107.6	108.7	109.2	108.9	107.7	107.7	108.6	107.1	107.6	109.4
- SA	101.0	107.3	107.9	105.5	103.0	105.2	105.7	107.8	106.8	105.6	106.4	107.2	105.8	107.1	107.6
- rest of Aus	94.4	99.2	105.3	104.2	103.8	101.3	107.9	110.6	109.5	108.0	108.7	109.4	108.1	109.1	110.0

All indexes are based on value of spending-related transactions vs same week in 2019, benchmarked to 100 avg prior to COVID-19, see p8 for more details. Figures are period averages.

*composite based on transactions in retail categories.

Source: Westpac Group

About the Westpac card data indicators



The indicators presented in this report are based on the millions of credit and debit card transactions processed by Westpac every day. Transactions covering over ten million merchants are classified into over 700 categories. These are in turn grouped into higher level aggregates that provide a timely guide to wider economic trends.

The main focus of these indicators is consumer spending. Where possible, we have sought to exclude 'non spending' transactions such as: money transfers; tax payments; loan repayments; charitable donations; and superannuation contributions.

It should also be noted that these indicators will also be affected by shifts between card and non card transactions. This may be a significant factor during the COVID-19 pandemic – health concerns about the use of physical cash are likely seeing higher use of cards, particularly where contact-less transactions are available. Transaction flows also include reversals/refunds which have been a significant phenomenon in areas such as travel.

All transaction data is compiled at a highly aggregated level so that individual customer or merchant data is never revealed.

Index construction

The key metric used in this report are indexes based on spending compared to the same period in 2019, relative to the baseline eleven week period immediately prior to the introduction of social restrictions. This approach avoids problems with seasonal spending patterns and normalises for pre-existing trends in growth. Note that an additional adjustment is made to allow for the timing of Easter.

As an example, if transaction flows prior to COVID-19 were up 5% on the same period last year and transactions in the observation week are 5% below the same week last year, the index read would be 90, i.e. $100 \times (0.95/1.05)$. In words: annual growth in the total value of transactions is running 10ppts below its pre-COVID-19 pace.

As a guide to the significance of variations in aggregate index

measures, if we apply the same technique to the last ten years of monthly retail sales we get index readings ranging from 97.5 to 102.9. Hence the readings outside this range observed in recent months are indicative of extreme variations.

Classifications

Note that the measures and classifications used for card data and this report do not align completely with those used in official ABS statistics on retail sales and consumer spending. There are a range of differences including around both coverage and classification. As such, the card data should be treated as broadly indicative.

The transaction data is grouped into 29 categories that are then combined into four main as follows:

Discretionary goods: durable goods, clothing and vehicle-related.

Discretionary services: recreation, gambling, professional services, hotels, restaurants and cafes, airlines, car rental, travel agencies and transport.

Essential goods: food, fuel and pharmacies.

Essential services: utilities, education and healthcare.

The report also uses two additional classifications:

Retail/non retail: based on the extent to which categories cover sales that are in scope for the [ABS retail survey](#).

COVID group: based on a classification Westpac developed to assess the impact of the Coronavirus (see [here](#) for more). 'Most exposed' is travel, tourism, hospitality and recreational services; 'big ticket' is vehicles and major household items; 'stock-piling' is food, pharmaceuticals and healthcare; 'residual' is all other categories combined.

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