BULLETIN

15 September 2023

No let-up in cost-of-living squeeze for consumers

The two most timely gauges of the Australian consumer – the Westpac Consumer Sentiment survey and the Westpac Card Tracker – continue to show little or no let-up in the difficult conditions that have prevailed over the last year. While official spending figures are only just available up to June, the Westpac measures now have reads on the mood and spending activity of consumers up to the first week of September. There are some faint hints of improvement with both but the over-riding message is still of intense pressures on family finances and widespread belt-tightening. The end of the RBA's rate hikes may have prevented further weakness but it will likely take much more – a convincing end to the cost-of-living crisis – to spark a sustained consumer recovery.

Sentiment still consistent with 'consumer recession'

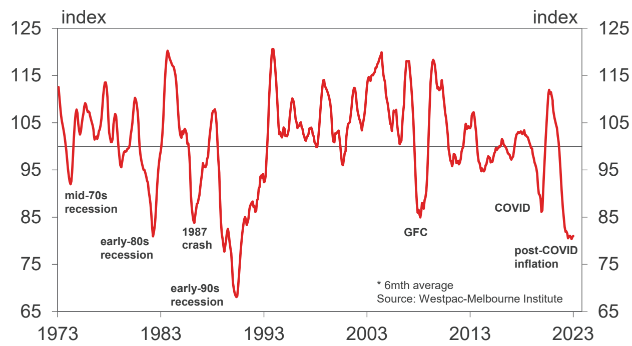
The latest Consumer Sentiment survey was another bleak update. The headline Index slipped 1.5% to 79.7 in September from 81.0 in August. Recent monthly moves have been small with sentiment continuing to languish at deeply pessimistic levels. Recall that 100 marks the 'gain line' for this measure, where optimism and pessimism is balanced. Sub-80 readings are extremely weak – in the bottom 5% of readings historically, meaning there have been less than thirty observations in this range out of the roughly six hundred surveys that have been conducted since we began running them in mid-1970s. Moreover, sentiment has been stuck at these dire levels for about a year now. The only comparable period of such sustained weakness was during the recession of the early 1990s, when even weaker levels prevailed for more than two years.

The broad picture is of sentiment consistent with a 'consumer recession'. That said, there are some important nuances to the current pessimism. The headline measure is a composite based on five component indexes tracking responses to more specific questions: two on family finances, two on the economic outlook, and one on whether now is a good time to buy a major household item. The current pessimism centres on extremely weak reads around family finances and buyer sentiment. Consumers are less worried about the economy. A collapse in expectations for the economy is what drove sentiment to the all-time lows seen in the early 1990s.

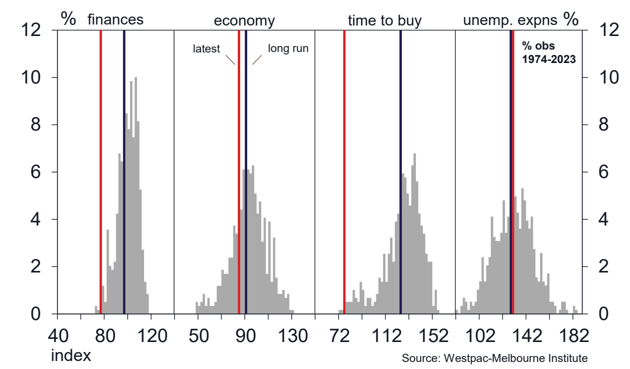
Where the economy factors most importantly for consumers is around the labour market. And on this front, both sentiment and conditions still look much more benign. The Westpac Melbourne Institute Unemployment Expectations Index has continued to hover around long run average levels rather than weak ones – consumers clearly not anticipating a sharp rise in job losses. This week's labour force update provides a further validation for these views with August showing another solid gain in employment (+65k) and an unemployment rate holding at 3.7%, very low levels by historical standards.

Broadly speaking, this picture – of extreme pressure on family finances but benign labour market conditions – tells us that while there may be a 'consumer recession' in terms of spending, the wider economy is not going through a recessionary contraction, the hallmark of which is a sharp weakening in labour markets and steep rise in unemployment.

Westpac-MI Consumer Sentiment Index



Consumer sentiment: components



The consumer survey results are also telling us very clearly that the issue is more to do with cost-of-living pressures than interest rate rises. Sentiment overall has barely risen since the RBA rate hikes stopped – up just 0.7% since June. There are some more positive responses in the detail – sentiment across the mortgage belt up a solid 7% since June – and fears of further rate rises have eased materially in September after remaining relatively high in July-August, these positives have been swamped by cost-of-living pressures elsewhere. Rapid rises in rents, electricity and fuel costs – the latter up over 15% since the middle of the year – have continued to weigh heavily with sentiment outside the mortgage belt down 2.8% since June, led by a 6.4% drop in sentiment amongst those renting.

Card activity a touch firmer but still pointing to real per capita declines

Of course, it's not unheard of for consumers to say one thing in sentiment surveys and to do another with their spending decisions. That does not appear to be the case right now though with both official data and our more timely card-based measures pointing to cut-backs in spending, especially when viewed in per capita terms that adjust for currently strong population growth.

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Our Westpac Card Tracker Index has proved its worth over the last year, giving a clear early signal that spending had turned down sharply – the index ended up contracting nearly 1% in the March quarter, coming off a 1.1% rise in the December quarter last year, with that weakening continuing with another 0.5% fall in the June quarter. That's broadly consistent with the picture from the national accounts measures of spending, bearing in mind that there are some meaningful differences between the way spending is measured in the accounts and how it is captured in card activity.

We released a new Index update this week based on data up to the first week of September, the same week our September Consumer Sentiment survey was in the field. Interestingly, it shows a slight improvement, with momentum now tracking a small positive gain of +1% on a quarterly basis (i.e. the last 12 weeks compared to the previous 12 weeks).

The story gets a little less positive the closer we look. Firstly, some of the recent lift reflects the aforementioned rise in fuel prices, accounting for all of the rise in card activity across petrol stations, which is about 5% of total consumer-related card transactions. Some of the latest improvement also looks to be due to temporary factors – a 'Matilda effect' relating to the FIFA Women's World Cup in July-August, and some spending associated with a few high profile movie releases ('Barbieheimer') and concert events (Taylor Swift). Some of these supports already look to be fading.

However, there are some positive details in the most recent weeks. In particular, there looks to be some improvement coming through in 'discretionary goods', which has been the main driver of weakness over the last year. In particular, housing-related spending looks to finally be stabilising.

One important factor to bear in mind, particularly when trying to reconcile trends in spending with sentiment measures, is the influence of population growth. Consumer sentiment is a 'per person' indicator that is unaffected by variations in population. However, these variations will have a direct impact on spending and card activity.

As foreshadowed by labour force measures and confirmed by official ABS estimates released this week, Australia is currently in the midst of an extraordinary population surge, growth having jumped from 0.5%yr in 2021 to 2.2%yr as at March and likely to have pushed above 2.4%yr in coming quarters. That means population alone should be driving gains in spending of around 0.5-0.6% a quarter.

The bottom line is that even with the slight improvement in card activity, momentum is still pointing to per capita declines in real, inflation-adjusted terms.

Conclusion

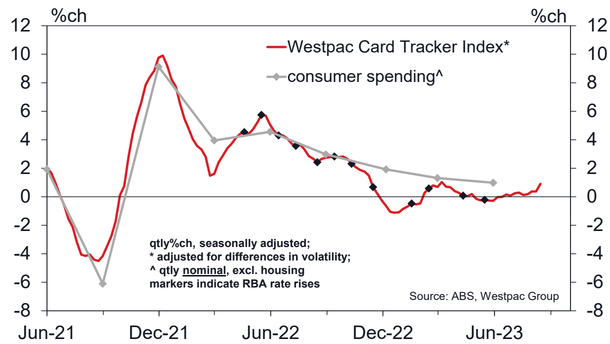
Clearly it's still heavy going for Australian consumers. Morale is low and many are cutting back in order to make ends meet. While we expect consumer spending in aggregate to improve a bit over the second half of 2023 – posting gains of 0.3%qtr compared to the 0.1%qtr result for the June quarter – this still marks declines in per capita terms. And there is unlikely to be much let-up in early 2024 either, particularly as labour market conditions start to weaken.

The circuit-breaker for consumers is likely to come later in the year, when inflation is firmly back under control and policy stimulus is expected to come through, both in the form of interest rate cuts from August next year, and the 'Stage 3' tax cuts scheduled to come into effect from July 2024. Additional fiscal support is also likely, particularly for households that will have weathered such a long and intense period of cost-of-living pressures.

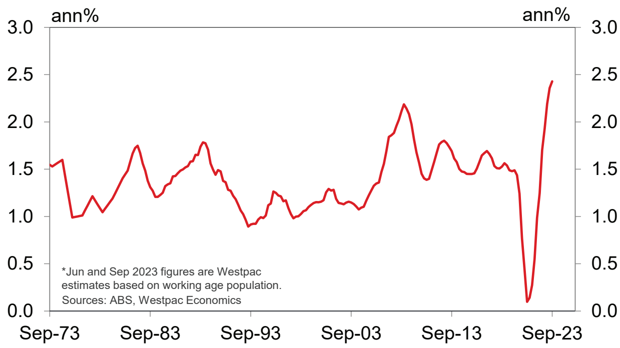
Indeed, while the 2022-2024 period may not qualify as recession for the wider economy it already stands out as one of the most difficult periods Australian consumers have had to deal with, and one of the weakest for spending, that we have seen in decades.

Matthew Hassan, Senior Economist

Westpac Card Tracker Index



Population growth



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