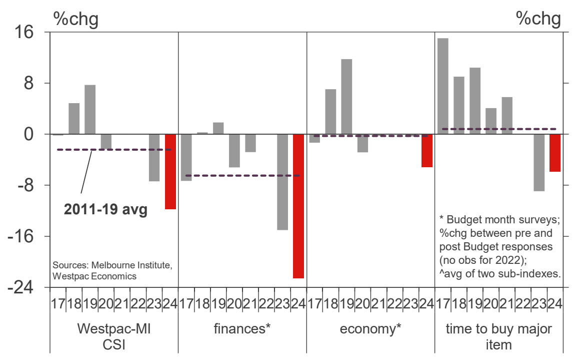
BULLETIN

27 May 2024

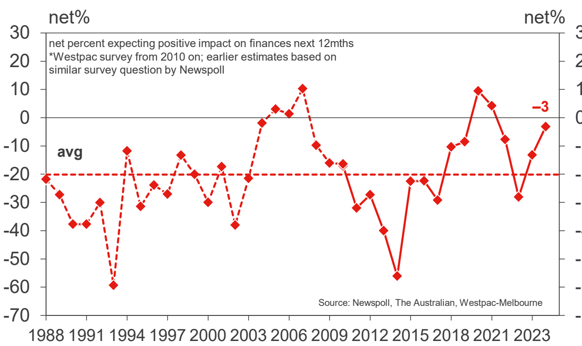
Consumer views on the Federal Budget and tax cuts – a deeper dive

- **The May Westpac–Melbourne Institute Consumer Sentiment survey was in the field during Budget week and included additional questions about the expected impact of the Budget on family finances and the 'Stage 3' tax cuts in July. This note presents the main findings, looking at how they compare historically and at some of the more granular detail.**
- **Responses show the 2024 Budget was relatively well-received in terms of specific measures. However, sentiment deteriorated over the course of the week, suggesting the Budget also highlighted the difficult inflation environment impacting consumers and constraining policy.**
- **Around tax, consumers intend to prioritise saving over spending. The responses imply an average marginal propensity to consume (MPC) of around 0.2, well below previous surveyed estimates for fiscal measures that have been in the 0.5–0.7 range and well below the 'rough rule of thumb' of 0.5. It implies consumers plan to save 80¢ of every dollar in tax relief, giving a much milder boost to demand than previous episodes of fiscal stimulus.**
- **Actual behaviour may well differ from stated intentions, which in many cases will be 'aspirational'. Awareness about who is eligible for tax relief is also surprisingly low. To the extent that this results in perceived tax 'windfall' surprises, these may be more likely to be spent.**
- **The detail shows MPCs are highest for those on low incomes in older age groups and notably lower amongst renters. By state, MPCs are highest in Qld and lower in NSW and Vic.**
- **Overall, the responses suggest tax changes will boost nominal consumer spending by 0.4–0.8ppts, with most of the effect coming in the September quarter. Note that this range is skewed below what Westpac is currently assuming in our spending and wider economic forecasts. However, this downside risk is balanced by the upside risks to intentions and somewhat larger cost of living support measures in Federal and recently-announced state budgets.**

Consumer sentiment: pre-post budget move



Consumers: budget impact on family finances



The 2024 Federal Budget was handed down on May 14, mid-way through the survey week for the May Westpac–Melbourne Institute Consumer Sentiment survey. Pre- and post-Budget responses, plus the responses to the additional questions provide some interesting perspectives on how the Budget influenced consumer views and how it could impact spending.

Pre- and post-Budget sentiment reads
Sentiment deteriorated materially over the course of the survey week. Responses from those surveyed pre-Budget showed a combined index read of 86.8, up a solid 5.3% compared to April. However, sentiment amongst those surveyed after the announcement came in at 76.6, down 7% compared to April.

Sentiment typically declines over Budget weeks but the 2024 decline is larger than usual (see Chart top right). The 11.8% deterioration compares to a 7.4% drop last year and an average decline of 2.4% since 2011 (excluding the COVID period).

The big pre- and post-Budget falls over the last two years have centred on family finances. It likely reflects some consumers having unrealistic expectations for Budget assistance – especially around the scope to deliver cost-of-living relief without adding to the task of reining in high inflation.

That said, responses over the survey week do suggest that concerns about the potential for further interest rate rise eased. The **Westpac-Melbourne Institute Mortgage Rate Expectations Index** tracks consumer expectations for variable mortgage rates over the next 12 months. For the May survey as a whole, the index jumped 8.3% to 133 from 122.8 in April. But most of that occurred prior to the Budget, with those surveyed before showing a combined index read of 136.5, while those surveyed after had a combined index read of 128.5.

Expected Budget impact on family finances
Responses to more specific questions on the Budget impact also suggest it was viewed as relatively positive for family finances. Since 2010, our budget month surveys have asked consumers whether they expect their finances to improve or worsen as a result of the Budget. A similar question run by Newspoll provides a back-history for comparison going all the way back to the late 1980s (see chart above).

We usually find a heavy negative bias to this question – those expecting to be worse off outnumbering those expecting to benefit by 20% on average with positives only recorded during the big stimulus budgets during COVID and the run of tax cuts in the early 2000s.

This year the gap was just 3% (18% of consumers expecting to be better off, 21% expecting to be worse off). This is the least negative response in the last fourteen years. The sub-group detail shows a positive correlation between the expected budget impact on finances and the consumer sentiment change over the course of the survey week (see chart right) although the mix is quite varied. Consumers on very low incomes for example (typically retirees) were outright positive on both measures while consumers with low incomes in the $20–40k range, which will capture many low-income workers, were negative across both Budget impact and sentiment over the week. Those on incomes in the $80–100k range viewed measures positively but showed the biggest fall in sentiment; this sub-group likely more sensitive to inflation and rate rise concerns.

By state, both measures were negative for NSW, but sentiment showed a positive shift over the week in Qld, likely relating in part to the state government's generous electricity bill support measures announced over the week as well (overall sentiment in Qld was up 11% in the month).

Stage 3 tax cuts earmarked for saving

This year's survey also included additional questions on the Stage 3 tax cuts, asking firstly if consumers expected to pay less tax as a result of the cuts and, if so, what proportion of the extra income they planned to spend.

Just over 37% of consumers expect to pay less tax from July 1, 27% expect to see no impact, a relatively high 20% are unsure, with the remaining 15% reporting 'not applicable'.

Of the respondents who expect to receive a tax cut, 30% plan to save all of it, while a further 50% expect to save at least half.

Overall, using responses across income groups and Treasury figures on the distribution of tax relief we estimate that households plan to save around 80% of the Stage 3 tax cuts. In economic jargon, this is a marginal propensity to consume of 0.2 (MPC).

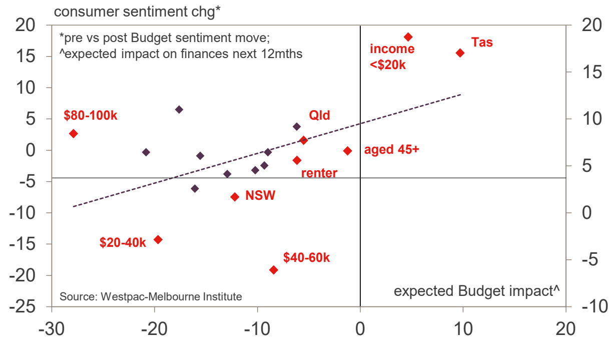
The chart right compares these responses with similar questions run when fiscal support was provided during COVID, when LMITO payments were introduced in 2019 and when one-off fiscal payments were provided during the GFC. Note that these previous episodes typically saw substantial lump sum payments rather than the 'drip-feed' support that comes from reduced regular tax payments. The 2009 episode was also a retrospective question about what proportion of fiscal support provided about a year earlier had been spent.

Those prior episodes found materially higher inclinations to spend. Consumers had saved or planned to save about half of the fiscal measures in 2019 and 2020, while the question run during in 2009 found consumers had only saved about 30% of fiscal payments at the time – i.e. MPCs of 0.5 and 0.7 (a rough rule of thumb with policy given uncertainty around MPCs is to assume 0.5).

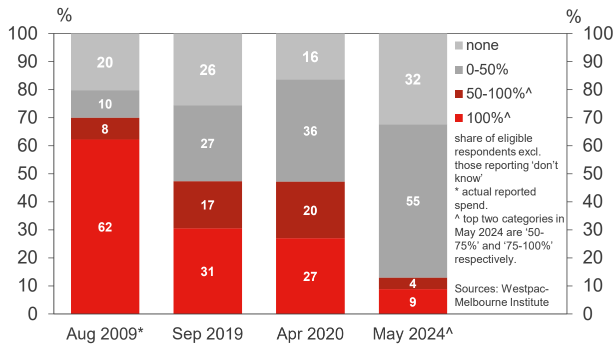
The table overleaf provides some more granular detail on responses across different sub-groups including the estimated MPCs.

The 'don't know' responses are particularly high for those on low incomes, and to a less extent amongst renters, and those aged either 18–24 or 35–64.

Consumer budget responses: selected groups



Consumers: response to fiscal measures



Note that the re-jigged Stage 3 cuts mean all income tax payers will see some reduction in tax. Some of the uncertainty may be because people are unsure about their employment status but it seems like a large part of it is due to being unaware or poorly informed. As such, a sizeable portion of this group may see a 'surprise' tax cut on July 1 – an unexpected windfall that is more likely to be spent.

The table tries to give a sense of this upside risk to MPCs by showing an 'adjusted MPC' that assumes all of this 'don't know' group receive a tax cut and end up spending 75–100% of the windfall. This can be viewed as a rough estimate of the upper bound to the MPC. In aggregate it comes out at 0.45.

Across sub-groups, the highest MPCs are amongst those aged over 65 (0.30); Qlders (0.27); and outright home-owners (0.25). The lowest propensities are amongst renters (0.15); those aged 35–49 (0.17); on incomes over $100k (0.18) and consumers in NSW (0.17) and Vic (0.18). Allowing for potential surprise tax cut effects, the 'upper bound' adjusted MPCs are highest for those on low and middle incomes (0.52 and 0.53) but markedly lower for those aged 25–34 (0.37).

Estimated spending impact

The bottom line is that the survey results suggest consumers will use tax relief as an opportunity to repair their finances and rebuild saving buffers rather than spend. If they follow through on this plan, only $4.7b of the $23.3bn in tax relief will be spent, giving a spending boost of 0.4ppts. If they instead opted to save 55% (an MPC of 0.45), the boost would be closer to $10.5bn, or 0.8ppts.

Naturally, there is some uncertainty here. Plans change, and intentions to save may fall by the wayside once the boost to incomes appears.

Westpac's current forecasts implicitly assume an MPC of about 0.4. To the extent that the surveyed range is skewed lower, this is balanced by some of the upside risks to actual versus intended spend and the somewhat larger cost-of-living support measures in Federal and recently-announced state budgets.

Overall, the main takeaways from the May Consumer Sentiment survey are that there has been no let-up in the weak consumer environment; and that, given the weak starting point and a very cautious mindset, consumers are more likely to use funds from fiscal measures to repair their finances than go on a spending spree that could undermine the RBA's efforts to bring inflation back to target.

Matthew Hassan, Senior Economist, Westpac Group

Tax cuts: responses by selected sub-groups

		% 'don't know'	MPC	adjusted MPC*	tax benefit ($bn)^
Australia		20	0.21	0.45	23.3
gender:	male	17	0.23	0.42	–
	female	23	0.18	0.49	–
state:	NSW	23	0.17	0.47	–
	Vic	19	0.18	0.43	–
	Qld	22	0.27	0.49	–
	WA	18	0.23	0.45	–
	SA	14	0.23	0.43	–
income:	< $40k	35	0.24	0.52	1.4
	$40-100k	18	0.22	0.53	9.0
	> $100k	19	0.18	0.36	12.9
age group:	18-24	26	0.21	0.47	–
	25-34	17	0.20	0.37	–
	35-49	26	0.17	0.48	–
	50-64	26	0.22	0.48	–
	65+	6	0.30	0.48	–
housing:	rent	27	0.15	0.48	–
	mortgage	19	0.22	0.42	–
	own	15	0.25	0.46	–

* higher estimate assuming all reporting 'don't' know' are eligible for tax relief and spend 75-100%;
^ 2024-25 financial year, based on PBO figures. Dashes indicate no estimate available.

Source: Treasury, Melbourne Institute, Westpac Economics

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