



23 August 2024

STAGE 3 TAX CUTS PRELIMINARY ANALYSIS

Powered by DataX

Stage 3 tax cuts mostly saved so-far

- Preliminary evidence suggests the boost to income from stage 3 tax cuts has had very little flow on impact to consumer spending.
- Westpac data covering the month of July shows higher after-tax income has instead been directed towards savings, in the form of both deposits and mortgage offset accounts.
- On a per person basis, tax cuts gave an estimated \$220 boost in July. Other income drivers added a further \$860. Our estimates suggest 70% of the total increase in income flowed to savings.
- The detail showed no clear evidence of an income-related increase in spending across any age, income or mortgage sub-groups.
- Westpac will continue to monitor data flows closely, providing more updates as information becomes available.

Estimated tax cut boost – July 2024

	\$	% income*	% spend*
total	219	4.1	7.3
age group:			
18-24	119	3.6	5.1
25-34	244	4.6	8.0
35-44	304	4.6	8.4
45-54	310	4.4	8.2
55-64	261	4.3	8.2
65+	77	2.5	3.8
mortgage	368	4.4	9.2
no mortgage	182	4.0	6.6

*based on avg. monthly income and spending over the first six months of 2024
Source: DataX, Westpac Economics

Westpac-DataX Consumer Panel

The Westpac-DataX Consumer Panel is a large dataset that gives a timely and detailed picture of Australian consumer finances and behaviour. Developed by DataX, Westpac's data analytics service, the dataset links transaction activity with balance sheet information to give a complete view of income, spending, saving and borrowing flows.

All data is de-identified and aggregated to ensure privacy. The resulting sample of over 1 million customers gives an accurate representation of trends across the wider Australian consumer and is perfectly suited to quickly tracing the impact and responses to events like the stage 3 tax cuts.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Stage 3 tax cuts boost income but not spending



Jameson Coombs
Economist, Westpac Group
P: +61 401 102 789
E: jameson.coombs@westpac.com.au

Household consumption currently poses one of the biggest uncertainties for Australia’s economic outlook, with the path of spending likely to have a major bearing on the trajectory of monetary policy. A key part of this is the impact of fiscal stimulus provided through the stage 3 tax cuts that came into effect on July 1 and provide every taxpayer with a boost to after-tax (take home) pay.

If a larger than expected share of these tax cuts is spent, this would add significantly to demand at a time when the RBA is trying to bring it more in to line with supply in an effort to bring inflation back under control. On the other hand, if the tax cuts are predominantly saved, the boost to aggregate demand will be modest and will have little bearing on the RBA’s objective of constraining economic activity.

This uncertainty has been amplified by other cross-currents influencing household consumption decisions. The tax cuts are helping to boost real household disposable income but the wider context here is important. Real household disposable income is only just starting to recover from its biggest slide since the 1980s. Cost-of-living pressures are rising more slowly but remain high. Likewise, interest rates have been stable but are still relatively high. Reflecting this, consumer sentiment continues to languish around historic lows.

Pushing in the other direction, household wealth has had a significant boost from rising dwelling prices which most empirical analysis suggests should support consumption through a ‘wealth effect’.

Finally, a defining feature of the stage 3 tax cuts is that they are distributed in pay-packets in a regular amortised fashion, rather than as a lump sum as was the case with the low-middle income tax offset and previous fiscal stimulus measures during COVID and the GFC. A regular, and modest, boost to income is likely to be treated very differently to a large one-off lump-sum payment.

Stage 3 income boost

The **Westpac-DataX Consumer Panel** provides a way to trace how tax cuts are affecting household incomes, spending, saving and borrowing flows (see p5 for more details on the Panel). This dataset has now been refreshed for July, incorporating the first month where households received stage 3 tax cuts allowing us to assess the size of the income boost and how households are using it.

Our estimate show the average boost to post-tax income from stage 3 tax cuts was approximately \$220 per person in July. That represents around a 4.1% boost to income relative to the average after-tax income over the first six months of 2024 (\$5,303 per month). Relative to the average monthly spend over the start of 2024, the tax cut boost is 7.3% - a substantial increase in potential spending power. Note that tax cut impacts are estimated at the individual-level based on observed monthly post-tax salary and wage income flows.

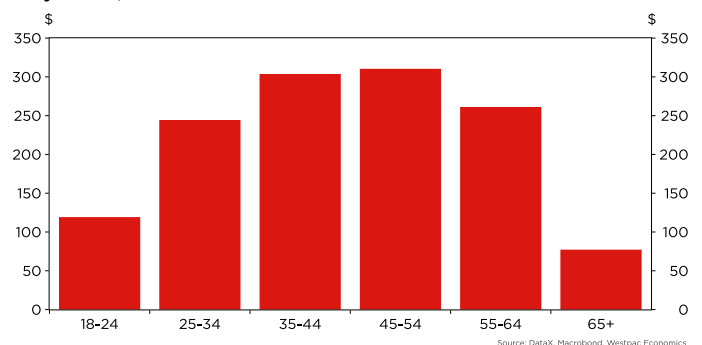
As expected, the income boost from tax cuts varies across different cohorts. Amongst different age groups, the largest benefit was received by prime working-age individuals who are also likely to be higher income earners. For those between the ages of 35 and 54 the average monthly benefit from stage 3 tax cuts was over \$300. However, the income boost represents around 8% of average monthly spending for every age cohort apart from the very youngest and the oldest (where the incidence of income tax payments, and therefore tax relief, is much lower).

The Stage 3 tax cuts were always skewed towards higher income earners, even after they were adjusted to benefit all taxpayers. It’s therefore unsurprising that the measured monthly income boost is the highest in the largest tax bracket where it averaged \$610.

However, it was the second highest tax bracket where the income boost was largest as a percentage share of post-tax income over the first half of 2024. While earners in the bottom tax bracket (i.e. below the tax-free threshold) technically should not receive any tax benefit, there was a very small average benefit for this group, reflecting people whose monthly income in July would have tipped them into the second tax bracket. Note that the **Westpac-DataX Consumer Panel** assesses the relevant income tax bracket based on a rolling six-month window of income flows.

Average tax cut by age

July 2024, value



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

The tax benefit was also heavily skewed towards mortgage holders, who also tend to be higher income earners. The measured boost to income from stage 3 was almost twice as large for mortgage holders (\$368) relative to non-mortgage holders (\$182).

This is partly because many older individuals who are retired and own their properties outright do not benefit from income tax cuts as they are receiving a pension (either government or from super) and are not paying income tax.

Reflecting the income disparity between the mortgage and no mortgage cohorts, the measured tax benefit represents around 4% of observed average monthly income for both groups despite the large difference in the nominal benefit.

Other income boosts

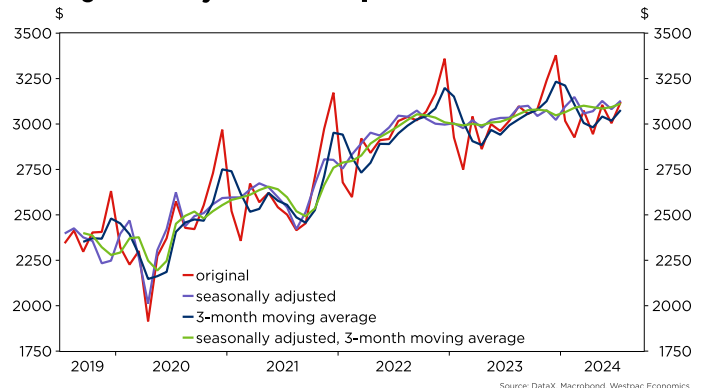
Note that the first flows of the stage 3 tax cuts coincided with other increases in household income, for example from an increase in hours of work, higher wages (i.e. pay rises) or from bonus payments.

The increase in rental assistance payments from July 1 also added to income flows, but these do not have a bearing on the calculation of the stage 3 tax cut benefit.

The confluence of these factors meant that in both original and seasonally adjusted terms, the monthly flow of income in July was the strongest over the sample period dating back to late 2019. Importantly, there was a clear increase in income flows across all income brackets, age cohorts and for both individuals with and without a mortgage. Additionally, the boost to income flows from other sources (i.e. not from tax cuts) dominated the overall increase in income flows across every cohort.

This highlights that while the stimulus from stage 3 tax cuts is significant over a full tax year, on a monthly basis the value of the tax cuts are not particularly large relative to the normal fluctuations in income from other sources.

Average monthly consumer spend



Where is it going?

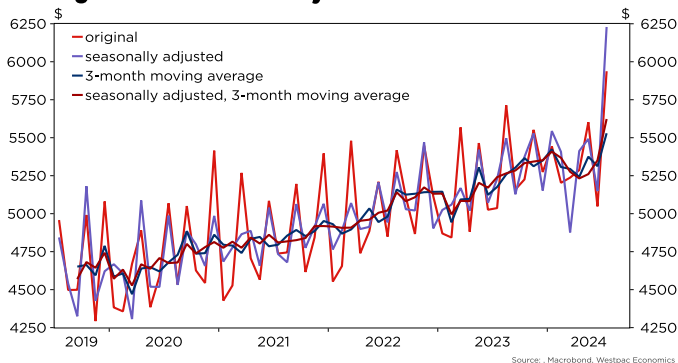
The fact that the benefit of stage 3 tax cuts coincided with a significant income boost from other sources, some of which is likely to be due to monthly volatility, makes it difficult to disentangle their specific impact on consumption activity.

Even if there was an observed increase in spending there is no way to distinguish whether this was due to the tax cuts or other sources of higher income.

However, the preliminary evidence from the **Westpac-DataX Consumer Panel** suggests that the boost to income from stage 3 tax cuts (and from other sources) had very little impact on consumer spending in July and instead was directed towards household savings in the form of both deposits and mortgage offset accounts. The muted spending result broadly aligns with the signal from the **Westpac Card Tracker** index since the start of July.

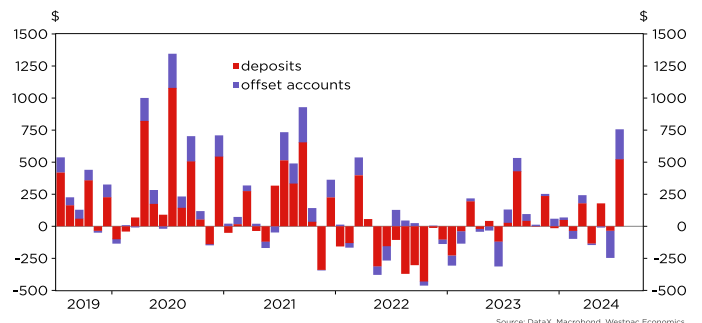
While there was a very noticeable boost to income in July, there was no significant spike in spending over and above the normal month-to-month volatility. However, there was a significant spike in savings inflows in July. In fact, in both seasonally adjusted and original terms, savings inflows in July were the largest since mid-to-late 2021.

Average after-tax monthly income



Monthly Savings Flows

Original, value



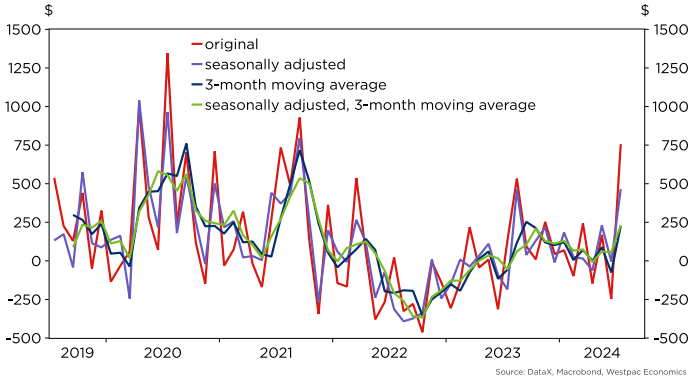
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Importantly, there was no clear evidence of an income-related increase in spending in any age cohort, across income brackets or among those with or without a mortgage. In contrast, the increase in savings flow was persistent across most sub-groups with the rise in saving flows most pronounced amongst the prime working age population and individuals in higher tax brackets.

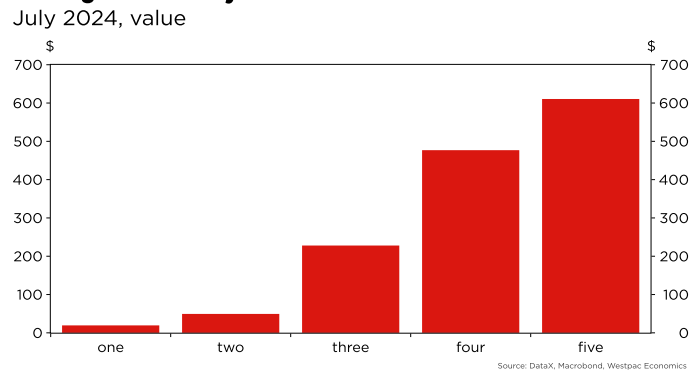
The structure of the tax cuts as a gradual stimulus rather than a lump-sum payment will remain a significant challenge for determining the extent to which they are boosting demand. However, based on a preliminary round of data from the **Westpac-DataX Consumer Panel**, it appears that the stage 3 tax cuts had very little impact on spending in July. The absence of a clear increase in spending is also notable given strong income gains coming from other factors such as additional hours worked, wage increases or bonuses and the increase to Commonwealth rental assistance.

As tax cut benefits accumulate over time, households may choose to adjust spending. But for the time being, there is no evidence that stage 3 tax cuts have had a meaningful impact on spending behaviour. Instead, the preference among households appears to be to use the tax cuts, and other income windfalls, to accumulate additional savings.

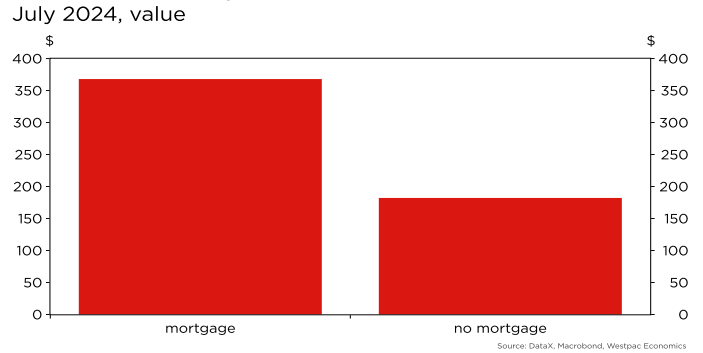
Average monthly saving flow



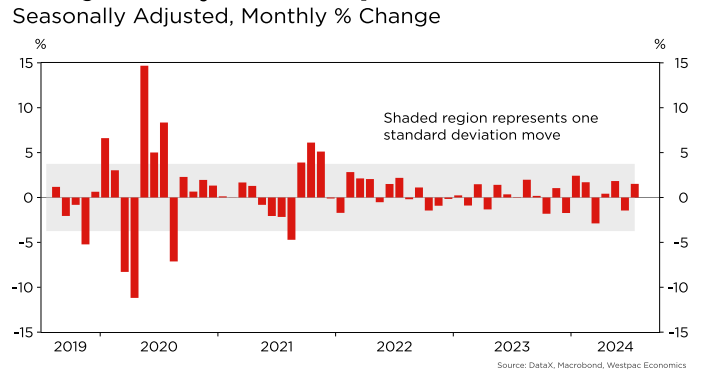
Average tax cut by income tax bracket



Average tax cut by mortgage status



Average Monthly Consumer Spend



Estimated tax cut boost – July 2024

	\$	% income*	% spend*
total	219	4.1	7.3
age group:			
18-24	119	3.6	5.1
25-34	244	4.6	8.0
35-44	304	4.6	8.4
45-54	310	4.4	8.2
55-64	261	4.3	8.2
65+	77	2.5	3.8
inc. quintile:			
first	19	1.4	1.0
second	49	2.0	2.4
third	228	4.4	7.3
fourth	474	5.4	11.5
top	611	4.0	11.2
mortgage	368	4.4	9.2
no mortgage	182	4.0	6.6

*based on avg. monthly income and spending over the first six months of 2024
Source: DataX, Westpac Economics



The Westpac-DataX Consumer Panel

The Westpac-DataX Consumer Panel is a large dataset that gives a timely and detailed picture of Australian consumer finances and behaviour.

Developed by DataX, Westpac's data analytics service for institutional and business banking customers, the dataset links transaction activity with balance sheet information to give a complete view of income, spending, saving and borrowing flows.

The data is de-identified and aggregated to ensure the privacy of our customers.

To gain the most accurate picture of consumer activity, the panel is restricted to only include connection observations where we have the most visibility of income, spending, saving and borrowing activity.

The resulting sample of over 1 million customers provides an accurate representation of trends across the wider Australian consumer. Monthly observations are available back to July 2019 with timely updates provided a few weeks after the end of each month.

As such, it is perfectly suited to quickly tracing the impact and responses to events like the stage 3 tax cuts.



Authors

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group

E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting

E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics

E: eclarke@westpac.com.au

Justin Smirk

Senior Economist

E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist

E: pat.bustamante@westpac.com.au

Ryan Wells

Economist

E: ryan.wells@westpac.com.au

Illiana Jain

Economist

E: illiana.jain@westpac.com.au

Jameson Coombs

Economist

E: jameson.coombs@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ

Michael Gordon

Senior Economist

Darren Gibbs

Senior Economist

Satish Ranchhod

Senior Economist

Paul Clark

Industry Economist

Westpac DataX team

Level 5, 275 Kent Street
Sydney 2000 NSW

Lila Conomos

Cristina Carter

Dounan Shao

Sam Ganguly

E: DataX@westpac.com.au



©2024 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, "Westpac"). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Things you should know

We respect your privacy: [You can view our privacy statement at Westpac.com.au](#). Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior written permission of the Westpac Group.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation

agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access [Westpac's Financial Services Guide here](#) or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

New Zealand: In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking

Disclaimer continues overleaf ▶

licence and is subject to supervision by the Monetary Authority of Singapore.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac’s London branch by the PRA are available from us on request.

Westpac Europe GmbH (“WEG”) is authorised in Germany by the Federal Financial Supervision Authority (‘BaFin’) and subject to its regulation. WEG’s supervisory authorities are BaFin and the German Federal Bank (‘Deutsche Bundesbank’). WEG is registered with the commercial register (‘Handelsregister’) of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA’s Prudential Standard 222 ‘Association with Related Entities’, Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order; (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an ‘investment recommendation’ and/or ‘information recommending or suggesting an investment’, both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) (“MAR”). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found [here](#). Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.