

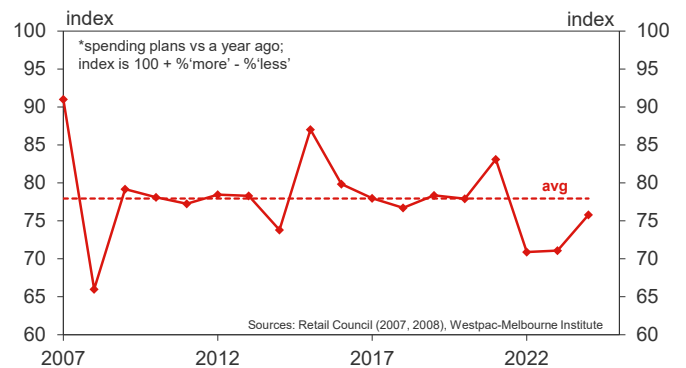
25 November 2024

CHRISTMAS SPENDING INTENTIONS BULLETIN

Retailers to face a less challenging environment

- Consumers' Christmas spending intentions improved for a second consecutive year in 2024, up +6.6% from a year ago, signalling a slightly less negative outlook for retail conditions over the festive season.
- Compared to a year ago, 35% planned to spend less, 51% the same and 12% planned to spend more, highlighting an ongoing negative bias towards spending intentions.
- Consumers appear to remain price sensitive with a majority intending to purchase gifts during Black Friday sales and shop at larger retailers.

Westpac-MI CSI: Christmas spending plans



Retailers face a less downbeat Christmas season...



Neha Sharma
Economist

Retailers have faced challenging conditions over the past few years as intense cost-of-living pressures have led consumers to rein in spending. With the Christmas period looming, results from the Westpac Consumer Sentiment survey's annual question on Christmas spending hint at a less challenging environment ahead.

November and December are a pivotal two months for retailers. The period accounts for around 20% of annual non-food retail sales on average, and in some years, this share has climbed as high as 25%. The trading is also very lucrative: profit-wise, the December quarter as a whole usually accounts for over 35% of the year's earnings for the broader retail industry.

To gauge retail conditions for the festive season, every November the Westpac-MI Consumer Sentiment survey asks consumers if they expect to spend less, about the same, or more on Christmas gifts than last year.

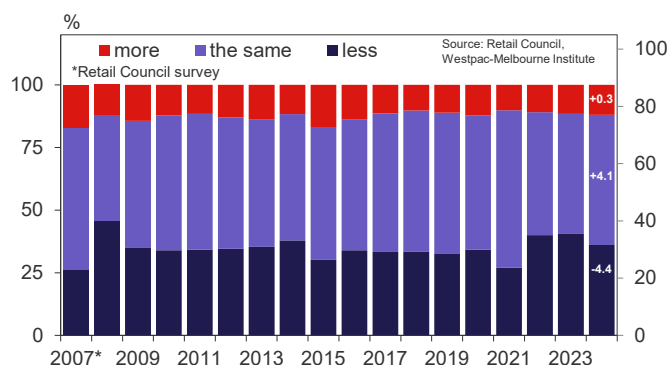
Christmas spending intentions marked a second consecutive increase in 2024. The index based on the net balance of responses – calculated as 100 + %more – %less – reached 75.8 in 2024, up +6.6%yr from 71.1 last year. While this signals an improved retail outlook relative to Christmas 2023, this read remains below most pre-pandemic observations, with exception to the read during the GFC and the 'income recession' of 2014.

There are two main caveats to the improvement. Firstly, Australians still have a negative bias toward spending, with those intending to spend less than last year still outnumbering those intending to spend more. Secondly, the 2024 up-tick is being driven more by a decline in consumers planning to spend less (-10.9%yr) than by an increase in those intending to spend more (+2.7%yr) – a pattern also seen in the post-GFC recovery.

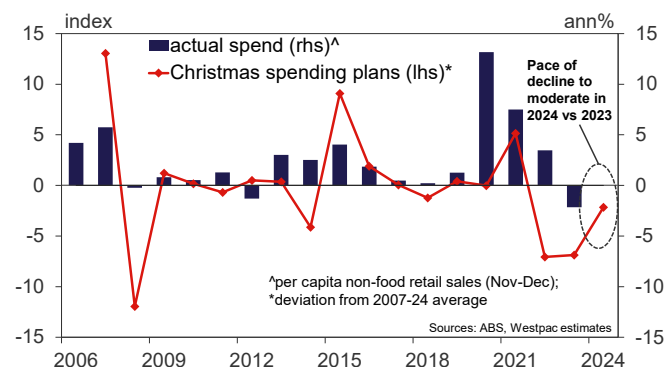
Non-food retail sales were \$1,708 per person in November-December 2023 (including non-gift spending). This was down -2.2%yr from 2022 and marked the first decline since 2012. The results of this year's survey point to a flat spend vs 2023.

Details show that spending intentions improved across all states, with two notable callouts. NSW recorded a +12.2%yr lift in intentions in 2024. This was the first rise since 2021 and was mostly due to fewer consumers planning to cut back. In contrast, WA's standout +31.4%yr surge was driven by a record-high share of respondents planning to spend more – the state is headed for its most generous Christmas spend since we began running the question in 2009.

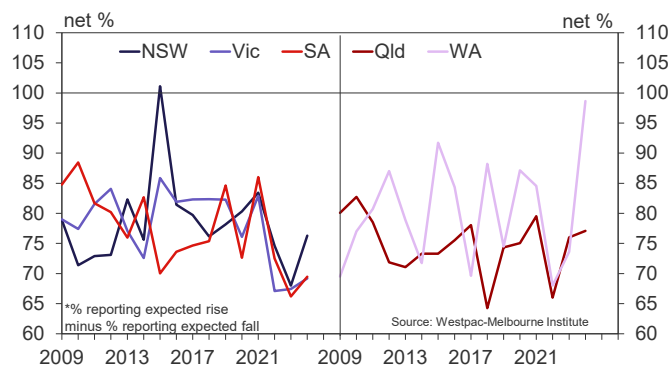
Christmas spending plans vs a year ago



Christmas spending: expected vs actual



Christmas spending plans by state



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...but shoppers remain price sensitive

Spending intentions across sub-categories such as age, gender, home ownership and income largely mirrored the headline trend. However, notable exceptions include outright homeowners, the 55+ age group and those earning under \$100k, all of whom recorded a decline in spending intentions.

A separate survey commissioned by Westpac and undertaken by Lonergan offers further insights and paints a slightly more positive picture. Responses suggest shoppers expect to spend \$499 on average on Christmas gifts this year, up +5.1%yr from \$475 in 2023. Unfortunately we do not have comparable estimates from previous years to benchmark against but on the face of it this is a more positive result than the plans reported in the sentiment survey. What is unclear is how much of this reflects a rise in costs that is not front-of-mind when consumers think of spending plans compared to a year ago.

Certainly cost-of-living pressures still look to be driving consumers towards sales events. The same survey finds 56% of respondents plan to make Christmas purchases during sales events like Black Friday, down only slightly from 58% in 2023. Notably, the 45-64 and 65+ age groups were the only sub-groups – across gender, age and state – with fewer than 50% of respondents reporting an intent to shop during sales events.

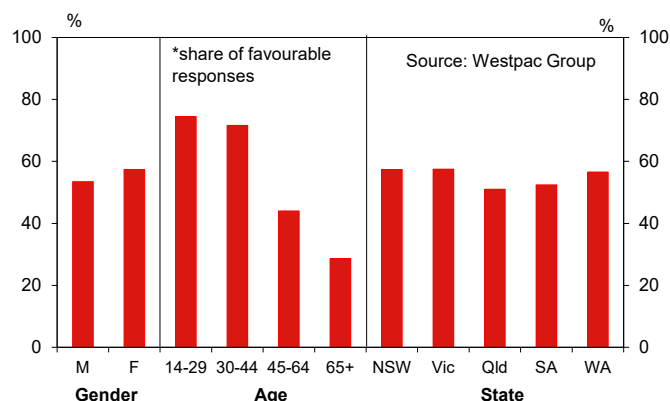
Over half of respondents plan to dip into savings to fund purchases. However, most of these savings appear to be specifically earmarked for Christmas shopping rather than from a wider savings pool. Nearly half reported a dedicated Christmas savings goal and around one in five shoppers started their holiday savings at the beginning of the year.

Consumers also plan to shop through several channels this year, with 65% intending to buy from physical stores, and 63% from online stores. A clearer divide emerges between preferences for large retailers and small/local businesses: a majority plan to shop with large retailers, compared to around one-third to two-fifths with small/local businesses. This may reflect consumers' price sensitivity, as larger retailers are typically better positioned to offer more generous discounts. Large retailers and chain stores usually account for just over half of non-food retail sales.

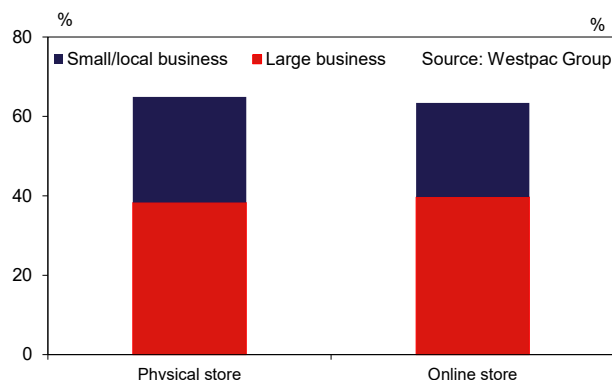
These findings may explain why the stage 3 tax cuts have yet to make a discernible impact on spending – there have been no major sales events since the introduction of tax cuts. As such, the upcoming Black Friday sales will be a crucial test of the extent to which the boost from tax cuts is filtering through to spending and the wider economy.

Overall, these results suggest that the 2024 Christmas season is looking a little more promising but will likely still be quite challenging. With many retailers already kicking off their Black Friday deals, spending trends should start to be reflected in card activity data in the coming weeks. However for a more complete picture, including how activity fares outside of sales windows, we will have to wait until 2025.

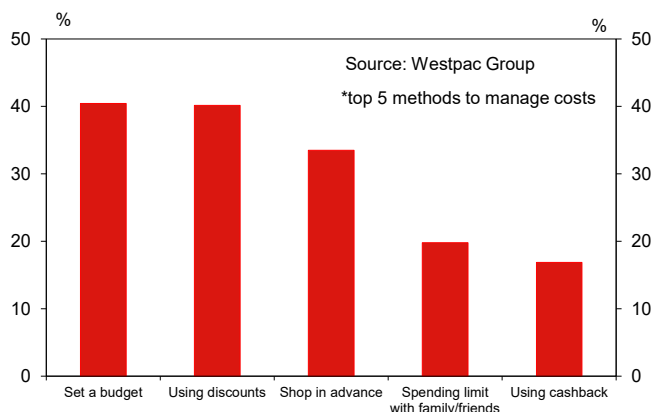
Intent to purchase during sales



Gift shopping by store-type



Managing costs





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