23 January 2025

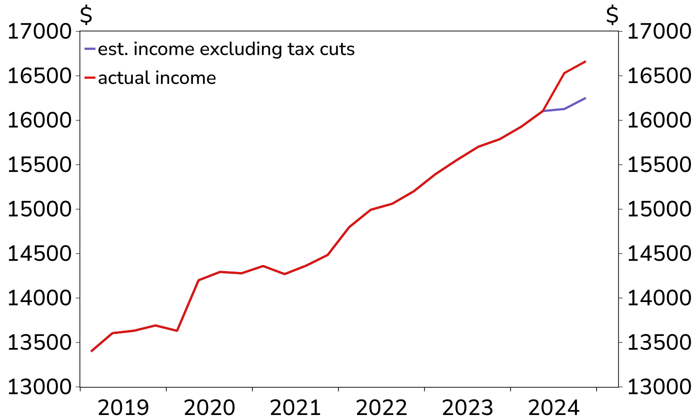
STAGE 3 TAX CUTS Q4 ANALYSIS

Powered by DataX

Households save 75c in the dollar on tax cuts

- After a significant squeeze on household incomes over the past few years, not even the allure of the festive season and aggressive discounts could persuade consumers to part ways with their hard-earned dollars.
- We estimate that the marginal propensity to consume (MPC) from the tax cuts over the September and December quarters was 0.25 – that is spending 25% of the income boost and saving the remaining 75%.
- In dollar terms, households received an average cumulative tax benefit of roughly $830, of which $205 has been spent and the remaining $625 has been saved.
- The Consumer Panel suggests some downside risks to the consumption outlook. After going backwards over the last few years, households are using the current rebound in income to rebuild their finances. The risk is that this continues for longer.

Average quarterly income per person



Source: DataX, Macrobond, 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 team, 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.

Weak link between income and spending may persist

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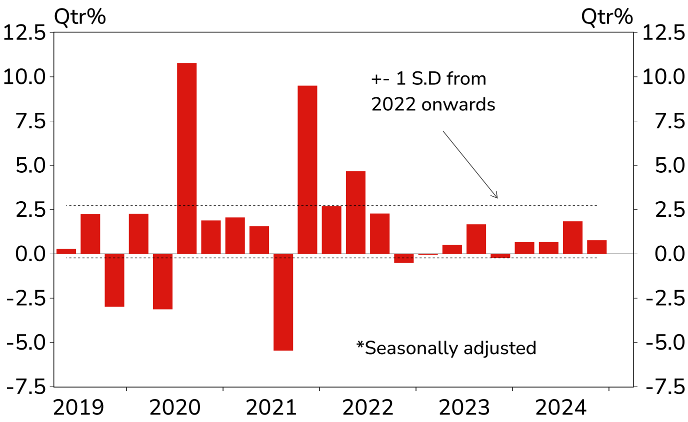
Our last update from the **Westpac-DataX Consumer Panel** indicated that households opted to save rather than spend the initial income boost from stage 3 tax cuts in the September quarter. Admittedly, this was a short sample - just three months of tax cuts. The question at the time was whether this muted response would continue or whether it was being affected by households 'stockpiling' the tax cut benefits to spend at end-of-year sales – the Black Friday, Cyber week and Boxing day events in particular.

The latest update from the Consumer Panel, incorporating data for the December quarter, firmly debunks this theory with households again opting to save rather than spend most of the income boost from Stage 3 tax cuts. After a significant squeeze on household incomes over the past few years, not even the allure of a festive season and aggressive discounts could persuade consumers to part ways with their hard-earned dollars.

The average nominal spend per person did increase in the December quarter in seasonally adjusted terms, rising 0.8% over the quarter. This was softer than the 1.8% increase in spending per person in the September quarter and below the average quarterly change over the two years preceding the tax cuts.

Average quarterly spend per person

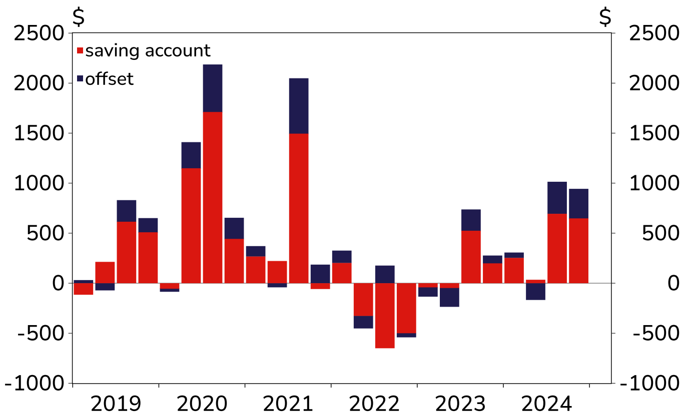


Source: DataX, Macrobond, Westpac Economics

Most importantly, the increase in spending in both the September and December quarters is modest in the context of the significant income boost from the Stage 3 tax cuts. Using the average of 10 different model specifications we estimate that the marginal propensity to consume (MPC) from the tax cuts over the September and December quarters was 0.25 – that is spending 25% of the income boost and saving the remaining 75%. In dollar terms, households have received an average cumulative tax benefit of roughly $830, of which $205 has been spent and the remaining $625 has been saved.

This estimate is corroborated by other dimensions of the Consumer Panel, which again revealed large inflows into savings and offset accounts and sizeable contributions to mortgage repayments in the December quarter.

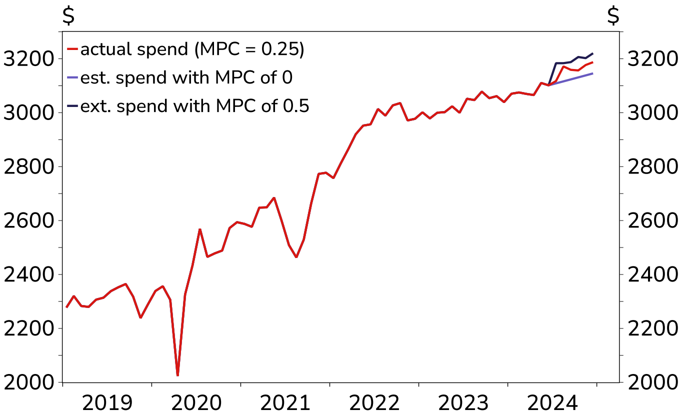
Average quarterly saving flow per customer



Source: DataX, Macrobond, Westpac Economics

Many forecasters, likely including the Federal Treasury and the RBA, would have reasonably assumed an MPC in the vicinity of 0.5 for a fiscal stimulus such as the Stage 3 tax cuts. Our own assumption was for an MPC of around 0.4. Clearly, these are well above what has been observed so far in the Consumer Panel. In fact, the average spend per person over the second half of 2024 was around $215 lower than under a scenario where households spent 50% of the tax cuts. That's a significant difference when scaled to a population of around 12.4 million taxpayers. In total, nominal spending would have been $2.7bn higher over the second half of 2024 under a 0.5 MPC scenario.

Average monthly spend per person



Source: DataX, Macrobond, Westpac Economics

Implications

The low passthrough of Stage 3 tax cuts to spending should have a bearing on the near-term decision-making of the RBA and more broadly to the outlook for consumption and growth.

Relatively modest growth in consumption in the September quarter National Accounts (stalling flat in real terms) soothed some of the RBA's concerns that tax cuts could trigger a consumer splurge that would add significantly to demand and potentially delay the return to the inflation target. However, the minutes from the December policy meeting suggest that these concerns were not completely allayed.

In particular, the minutes to the December RBA Board meeting show members were unsure whether the solid spending signal from card transaction data through October and November "reflected a persistent pick-up or temporary pre-Christmas spending activity". The **Westpac Consumer Panel** and our **Westpac Card Tracker** both suggest it was the latter. That should in turn bolster the RBA's confidence that disinflation progress is continuing and is sustainable. On its own , this would support an earlier rather than later rate cut from the RBA. However, whether that eventuates clearly depends heavily on forthcoming inflation updates and how the RBA assesses recent labour market data.

In terms of the outlook, the Consumer Panel suggests some significant downside risks to consumption. The consensus view among economists, which we broadly share, is for consumption growth to recover modestly through 2025 as the pressures on income – from high inflation, a rising tax take and elevated interest rates – gradually subside. These pressures have already started to ease, with the Stage 3 tax cuts a significant contributor to this process, the impact on household incomes roughly equivalent to three interest rate cuts. With the tax cut pass-through to consumption very muted, we may see a similar behaviour as incomes more generally start to improve, especially in response to an eventual easing in interest rates.

The aftermath of the large shock to incomes in 2022 and 2023 could be longer lasting. After going backwards over the last few years, households are using the current rebound in income to rebuild their finances. The risk is that they continue to do this until real income levels are back around pre-shock levels. Our current forecasts do not see this happening until 2026. Hence, to the extent that this behaviour continues, there is a risk of prolonged period of stagnant consumption growth as consumers put most of their marginal income gains towards saving rather than spending.

Distribution

So far, we have discussed the average MPC across the more than one million individuals covered by the Consumer Panel. However, averages can sometimes be misleading, so we have derived more granular estimates of MPCs across different demographic groups including: age, income, gender, state, cash savings and mortgage status. Table 1 contains the average, minimum and maximum MPC estimate for each of these groups, derived again from the 10 different model specifications mentioned above.

Table 1: Estimated Cumulative MPC

		Average	Max	min
total		0.32	0.47	0.16
age group:	18-24	0.32	0.47	0.16
	25-34	0.25	0.29	0.16
	35-44	0.22	0.29	0.13
	45-54	0.22	0.29	0.13
	55-64	0.23	0.29	0.15
	65+	0.33	0.49	0.16
gender:	male	0.23	0.29	0.15
	female	0.27	0.34	0.16
state:	NSW	0.25	0.30	0.16
	VIC	0.25	0.29	0.16
	QLD	0.25	0.30	0.16
	SA	0.26	0.33	0.16
	WA	0.24	0.29	0.16
	TAS	0.28	0.36	0.16
	ACT	0.23	0.29	0.15
	NT	0.25	0.30	0.16
income band:	lowest	0.57	1.05	0.16
	second	0.38	0.61	0.16
	third	0.25	0.31	0.16
	fourth	0.20	0.29	0.10
	top	0.17	0.29	0.06
savings band:	lowest	0.29	0.38	0.16
	second	0.25	0.29	0.16
	third	0.24	0.29	0.16
	fourth	0.24	0.29	0.15
	fifth	0.22	0.29	0.13
	top	0.18	0.29	0.08
mortgage:	yes	0.27	0.34	0.16
	no	0.20	0.29	0.11

Source: Westpac DataX

While there is clearly some divergence across and within different segments, the results are surprisingly similar. The prior that younger, lower income, less wealthy (proxied by cash savings) and non-indebted individuals are likely to consume a larger portion of the income boost from the Stage 3 tax cuts is clearly observed in the panel. That said, the discrepancies are not particularly large in terms of absolute levels, with MPC estimates across each of these still lower than many economists would have ordinarily assumed.

Income detail

Since being implemented on 1 July, we estimate that the aggregate boost to household income from Stage 3 tax cuts is around $9.1bn as at the end of 2024 (this includes re-weighting the panel to match the latest ABS taxpayer data). This is a little inside but largely consistent with the Parliamentary Budget Office's costings which estimated the cost of Stage 3 tax cuts at $23.3bn in 2024-25, or roughly $11.6bn for the second half of 2024.

On average, this has equated to around $830 per person in the panel sample. Naturally, this benefit varies across different demographic groups with higher income earners receiving the lion's share of the boost, as the policy was designed.

Conclusion

The Westpac-DataX Consumer Panel suggests that households are still reluctant to materially increase spending even as incomes start to recover. This has important implications for the outlook of the economy and the setting of monetary policy.

What's more important, however, is how consumer behaviour evolves over the period ahead. Fortunately, the Westpac DataX Consumer Panel is perfect to monitor these changes.

About 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.

Table 2: Tax benefit, change in income & spending

			Average % change post tax cut		
		Tax benefit	Income	Spending	Saving
total		829	3.7	2.8	6.4
age group:	18-24	469	3.1	3.8	7.5
	25-34	912	4.3	2.1	7.5
	35-44	1101	4.0	3.3	7.1
	45-54	1122	3.8	3.3	6.4
	55-64	963	4.1	2.6	6.6
	65+	405	0.8	2.5	5.1
gender:	male	957	4.0	2.9	6.1
	female	713	5.0	2.2	6.6
state:	NSW	815	1.8	2.8	6.6
	VIC	836	4.5	3.2	6.2
	QLD	838	1.5	3.7	11.3
	SA	746	4.5	3.6	6.9
	WA	910	4.9	3.4	7.8
	TAS	658	3.6	2.5	8.3
	ACT	970	5.1	2.0	5.7
	NT	838	2.6	3.9	7.1
income band:	lowest	108	-0.5	0.9	9.4
	second	275	0.7	1.0	6.4
	third	873	1.4	1.5	4.5
	fourth	1689	1.2	1.7	1.7
	top	2065	1.4	2.8	1.8
savings band:	lowest	615	-0.7	1.6	-0.9
	second	871	3.1	1.1	0.3
	third	868	5.0	3.7	-0.1
	fourth	902	2.3	2.6	0.1
	fifth	1049	2.4	1.3	0.3
	top	1399	2.0	2.2	0.9
mortgage:	yes	713	4.8	3.0	9.4
	no	1322	4.5	3.0	5.5

Source: Westpac DataX
*cumulative tax benefit, income and spending data are seasonally adjusted. Saving refers to the change in the stock of cash and offset accounts balance.

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