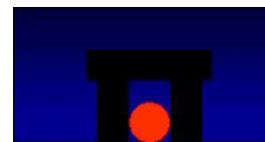


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## Consumer Pulse

October 2007

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In the October 2007 survey, more adults felt that they have discretionary spending power than at any time since this survey began in 2003. The reductions in unemployment combined with tax cuts to more than offset other factors such as rising interest rates.

Willingness to spend is still lower than in 2003. But the proportion of consumers who are both willing and able to spend has returned to 2003 levels. This is good news for retailers in the pre-Christmas period and also signals a good start for 2008.

The Active Saver segment, which is both willing and able to save, is at a record high suggesting strong inflows to savings and investments.

There has been a marked increase in the attractiveness of superannuation since the May 2006 federal budget scrapped tax on superannuation payments to over-60's. This has come mostly at the expense of term deposits.

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## Introduction and Methodology

Consumer Pulse tracks indicators of consumer intentions, perceptions, and expectations on matters financial. These indicators are designed to provide insight into behaviour in the near future.

Willingness to spend and save is measured by asking survey respondents how a (hypothetical) discretionary \$1,000 would be allocated across saving, spending, and loan repayment. The \$1,000 could be from savings or a tax return.

Ability to spend and save is measured by perceived financial wellbeing. Survey respondents are asked to self-classify into four segments:

- I never seem to have enough money these days (labeled as “Broke”);
- I manage to meet all my expenses but there’s not really anything left over (“Struggling”);
- I can afford to spend on those extras that make life worthwhile (“Comfortable”);
- I have few financial concerns, being both able to save and buy the things I want (“No Worries”).

Combining ability to spend and willingness to spend yields four spending disposition segments:

- Frugal Spenders are both unable (Broke or Struggling) and unwilling to spend on discretionary items;
- Frustrated Spenders are unable to spend but willing to if they had more money;
- Reluctant Spenders are able to spend (Comfortable or No Worries) but prefer to save or repay debt;
- Profligate Spenders are both able and willing to spend on discretionary items.

Combining ability to save and willingness to save yields four saving disposition segments:

- Irrelevant Savers are both unable (Broke or Struggling) and unwilling to save;
- Frustrated Savers are unable to save but willing to if they had more money;
- Reluctant Savers are able to save but prefer to repay debt or spend;
- Active Savers are both able and willing to save.

Both interest rates and house prices influence consumer spending and saving. When interest rates are rising, net payers of interest cut back spending, but only after a lag of between 9 to 18 months. Net receivers of interest increase their spending and adjust more quickly (see [www.foreseechange.com/perverse.pdf](http://www.foreseechange.com/perverse.pdf) for more information on this). When house prices are rising rapidly, home owners and buyers may perceive a need to save less and thus spend more. Accordingly, we track expectations of the direction which interest rates and house prices are expected to move in the next six months.

These measures are based on a nationally representative sample of 400 people aged 18 and over. They are interviewed by telephone, based on random sampling of the white pages. Earlier tracking by foreseechange, starting in 1993, was based on random “door-knock” interviews in mainland state capital cities. This earlier work proved the predictive validity of our willingness to spend measure in particular (see [www.foreseechange.com/mislead.pdf](http://www.foreseechange.com/mislead.pdf)).

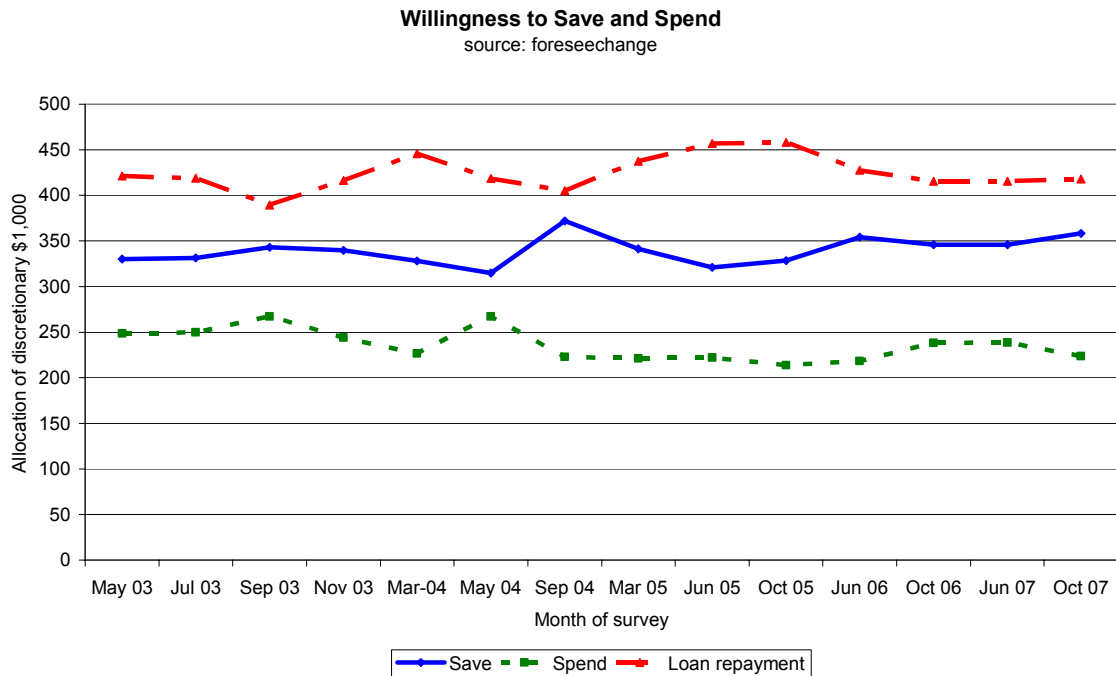
This report tracks the key measures over time, with some demographic breakdowns, and is updated every quarter.

## Willingness to Spend and Save

Loan repayment would attract the largest portion of discretionary funds - \$418 per discretionary \$1,000, close to the average of \$425 since May 2003. Saving attracts the second largest amount, \$358 compared with the average of \$340.

Willingness to spend is at \$224 compared with an average of \$236 since May 2003 and an average of 253 in 2003.

The allocation varies substantially by dwelling tenure and other demographics. This report provides analysis by dwelling tenure and selected other broad demographics, see pages 14 to 21.

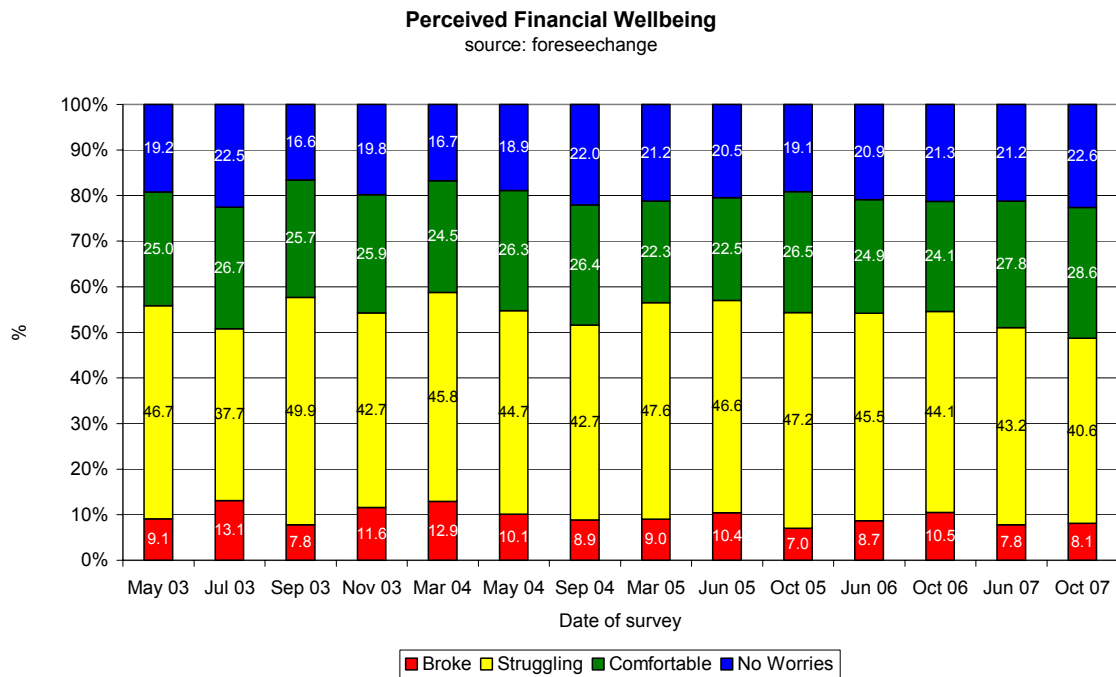


## Perceived Financial Wellbeing

Perceived Financial Wellbeing has been improving since mid-2005. A record 51.2% of adults feel that they have discretionary funds, compared with the average of 45.7 since May 2003 and 43.0% in June 2005.

Reasons for this improvement include rising employment and tax cuts.

See pages 14 to 21 for some breakdowns of these figures by demographics.



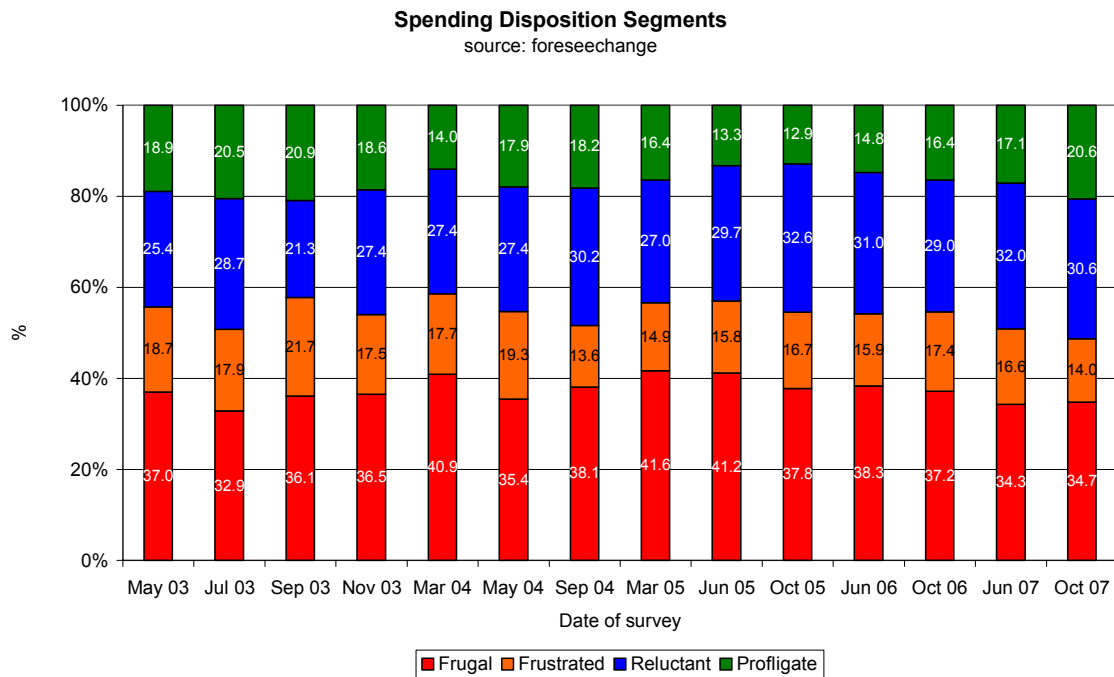
## Spending Disposition

The Profligate Spender segment has averaged 17.2% of consumers and moved above that in October after more than two years below the average. Data on spending disposition has been measured in the five mainland capital cities since late 1996 and variations in the size of the Profligate Spender segment are quite strongly correlated with variations in retail spending growth in the following quarter.

The size of the Profligate Spender segment has not yet recovered to the 2003 level, based on annual data, but the Frugal Spender segment is at a record low.

Segment	2003	2004	2005	2006	2007
<b>Profligate</b>	19.7%	16.7%	14.2%	15.6	18.9
<b>Frugal</b>	35.6%	38.1%	40.2%	37.8	34.5

This data indicates continued robust growth in discretionary consumer spending over coming months.

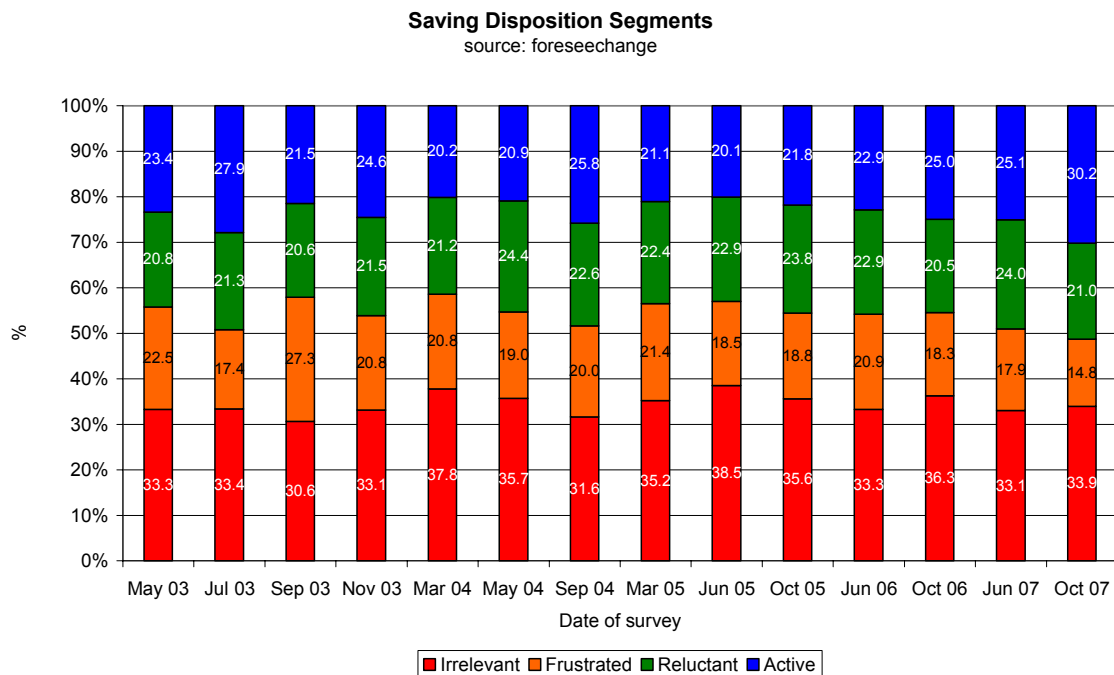


## Saving Disposition

Over the past five years, an average of 23.6% of adults have been classified as Active Savers. These are the people most likely to be actively putting money into savings accounts, managed funds, or investing directly in shares or other assets. Other segments may be saving more passively, such as by repaying a mortgage or through superannuation contributions.

The Active Saver segment is at a record high due to increased willingness and ability to save.

Segment	2003	2004	2005	2006	2007
Active	24.4%	22.3%	21.0%	24.0	27.7
Irrelevant	32.6%	35.0%	36.4%	34.8	33.5



## Expected Movement in Interest Rates

Interest rate expectations resemble a roller coaster ride, but for much of the decade so far, most consumers have been making their financial decisions while expecting interest rates to rise – and their expectations have mostly been correct.

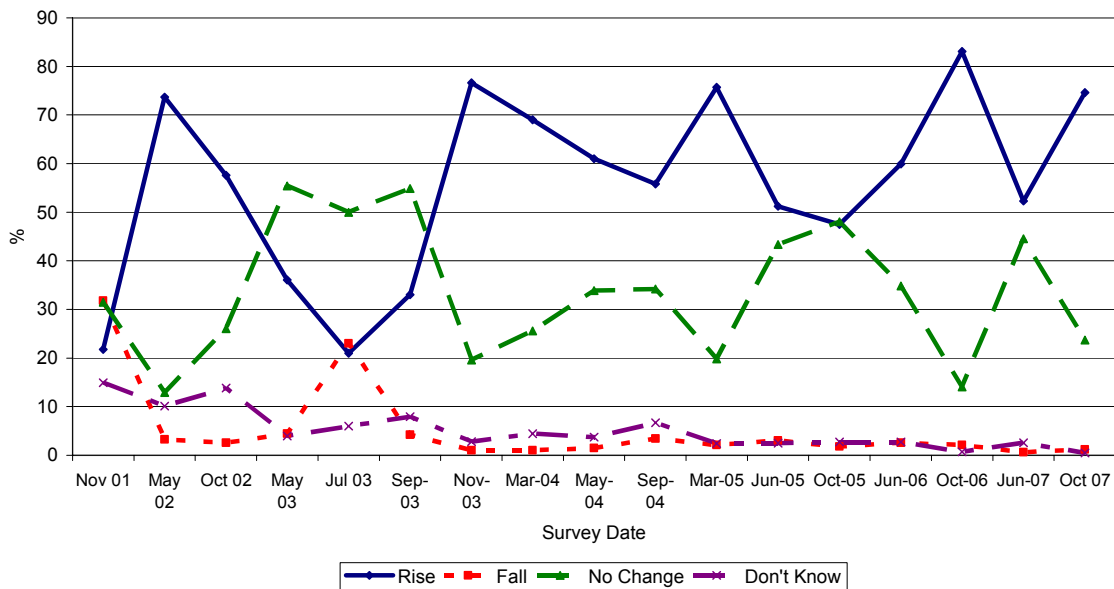
Changes in interest rates have a pronounced impact on expectations. Increases interest rates fuel expectations of further rises while periods without an increase lift expectations that there will be no change.

Media speculation about rate changes also influences expectations. In June and July 2003, the Reserve Bank of Australia encouraged speculation that rates may be cut and this had a statistically significant, but misleading, impact on expectations.

The October 2007 survey preceded the release of the September quarter consumer price inflation report. After that report was released there was been much speculation that the Reserve Bank would decide on Melbourne Cup day to lift interest rates again. They did so despite being in the election campaign period.

**Expected Movement in Interest Rates in Next Six Months**

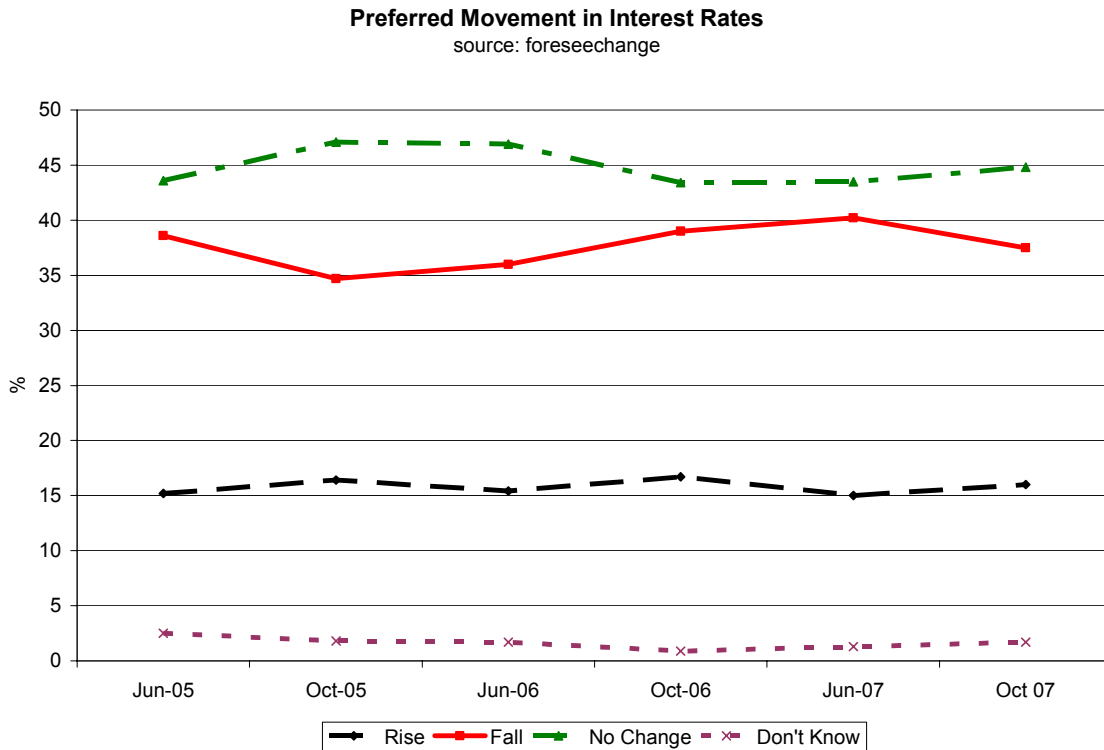
source: foreseexchange



## Preferred Movement in Interest Rates

Not everybody wants interest rates to fall – in fact, less than 40% of adults prefer lower rates while over 15% want higher rates. The net balance is strongly in favour of lower rates for people aged 18 to 49 but marginally in favour of higher rates for people aged 50 and over. The older demographic is the only growth demographic so we can expect an increase in the proportion of people who favour higher interest rates. Indeed, if we want to raise retirement incomes and minimize the number of people on the age pension, then higher interest rates would achieve that.

Most people over the age of 55 own their home outright and many of these are net recipients of interest.



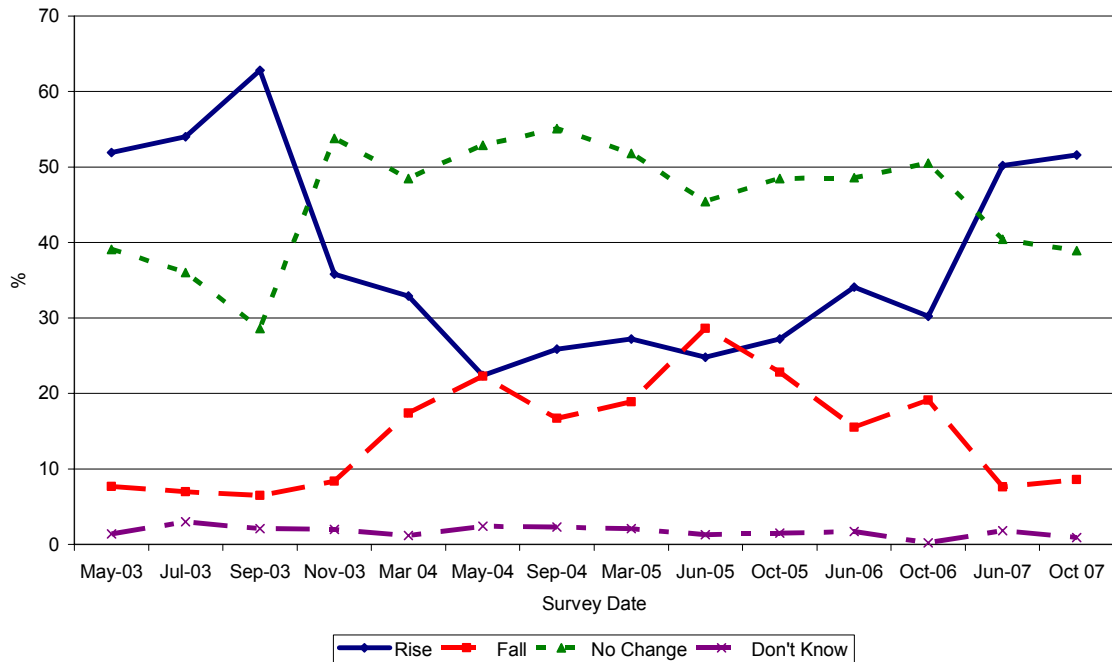
## Expected Movement in House Prices

House prices are primarily driven by shifts in the balance between demand and supply. However, if consumers are confident about further rises in house prices they may expect to pay more when buying and demand more when selling. Thus, expectations could be an influence on actual prices.

The proportion of consumers expecting house prices to rise over the next six months fell dramatically after the November 2003 rate rise and further small declines were recorded in March and May 2004. At the same time, there was an increase in the proportion expecting a fall in prices. In the last two surveys the gap has opened again to boom time proportions. This will also tend to boost consumer spending growth.

Of course there will be areas where prices are rising and other areas where prices are falling.

**Expected Change in House Prices in Next Six Months**  
source: foreseechange



## Analysis by Dwelling Tenure

Households with different interest rate exposures will react differently when interest rates change - although there will be lags. This section tracks the willingness to spend and save versus loan repayment, and perceived financial wellbeing for:

- Households who own their dwelling outright;
- Households who are paying off their dwelling; and
- Households who rent their dwelling.

Clearly, outright home ownership is a good state to be in. Well over 50% have discretionary funds after meeting their commitments (Comfortable plus No Worries) and this figure peaked in the most recent survey at over 63%. The No Worries segment has been expanding and hit a record high in the most recent survey. Saving is a higher priority than spending and loan repayment. Dwelling owners have a higher marginal propensity both to save and to spend than people buying their dwelling or renting it.

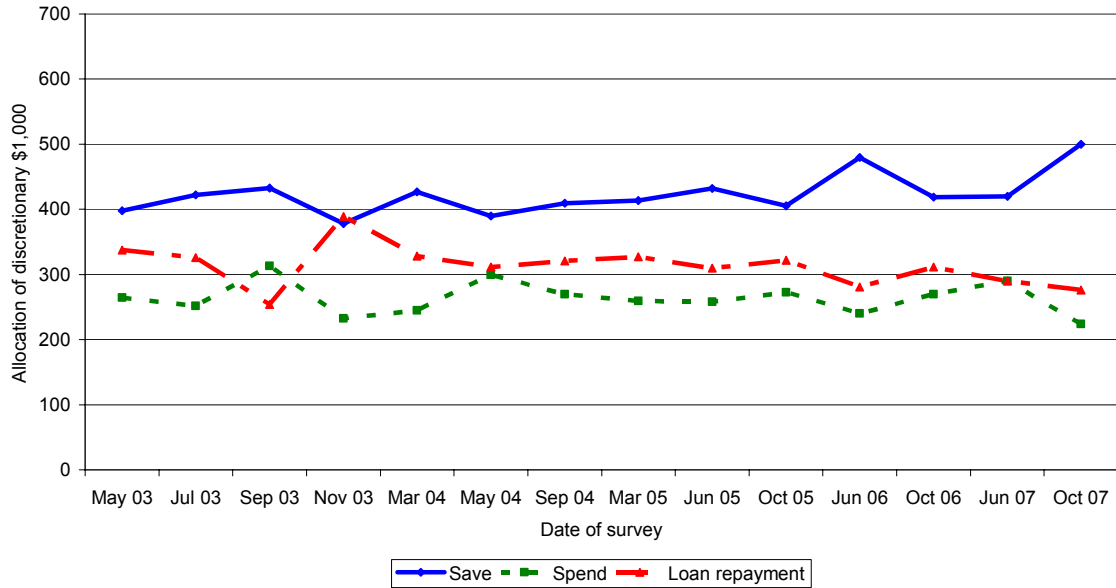
On average 35.5% of those buying their dwelling perceive that they have discretionary funds after meeting their commitments. Loan repayment is by far the highest priority for discretionary funds. Willingness to spend remains below 2003 levels.

On average 34.5% of those renting their dwelling perceive that they have discretionary funds after meeting their commitments. Loan repayment is, on average, the highest priority and willingness to spend is usually higher than for people paying off their dwelling but lower than for those who own their dwelling outright.

# Dwelling Owners

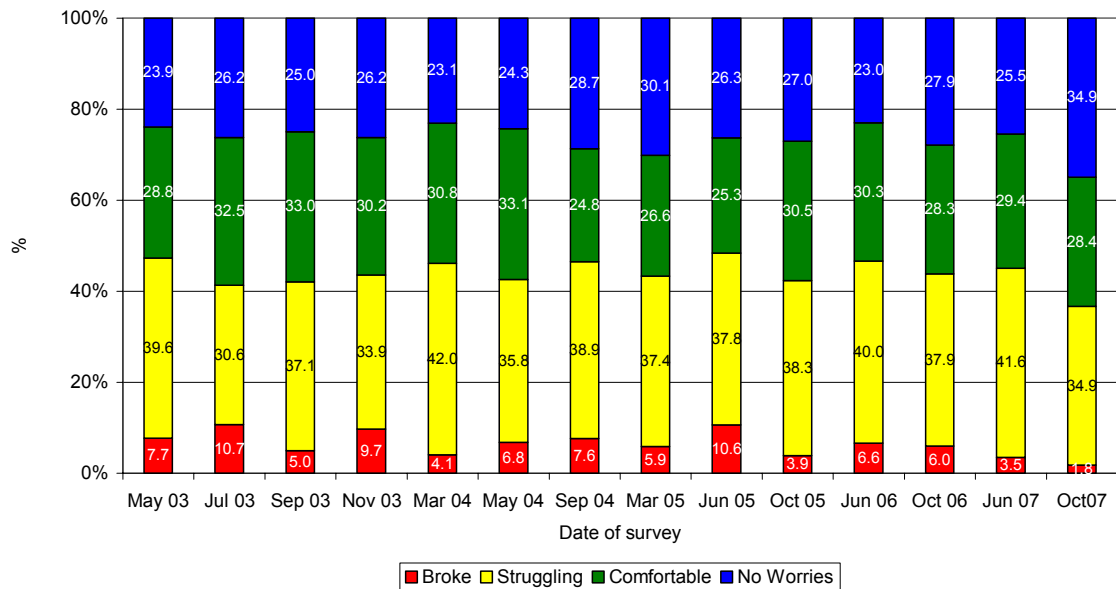
Willingness to Spend and Save - Own Dwelling Outright

source: foreseechange



Perceived Financial Wellbeing - Own Dwelling Outright

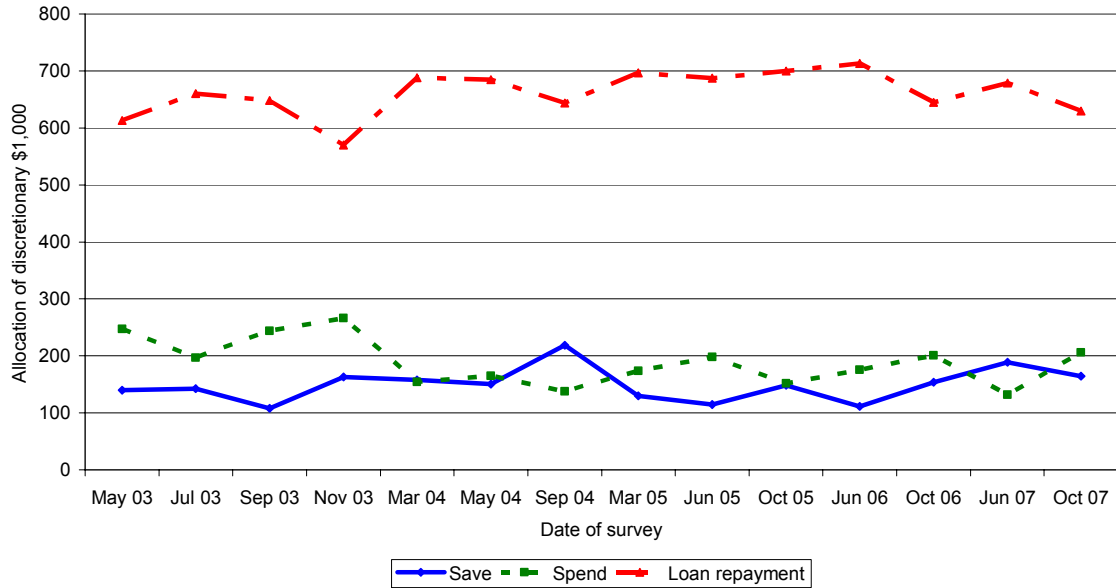
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# Dwelling Buyers

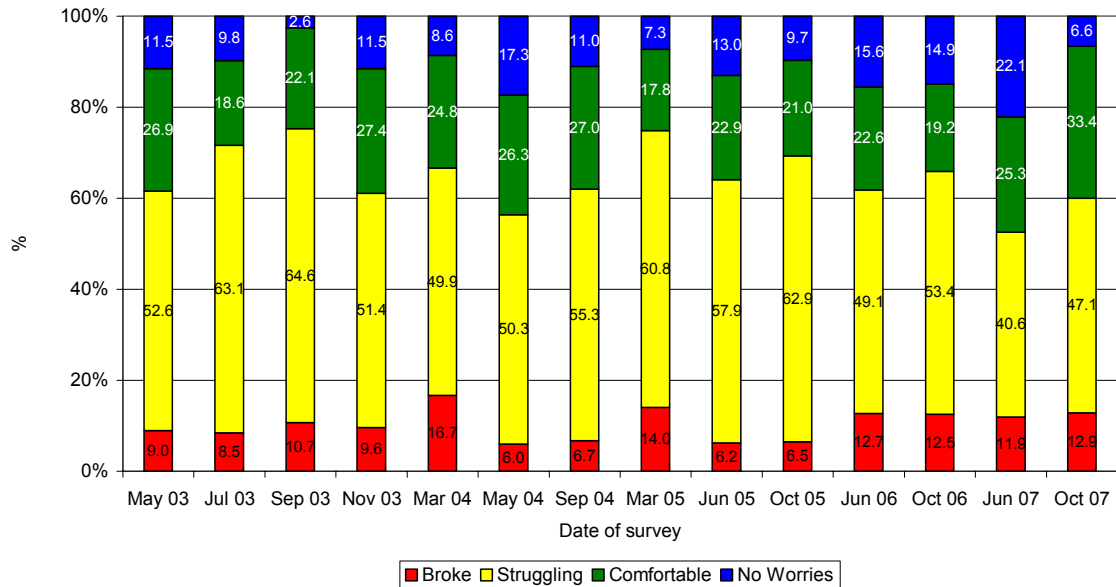
Willingness to Spend and Save - Household Buying Dwelling

source: foreseechange



Perceived Financial Wellbeing - Buying Dwelling

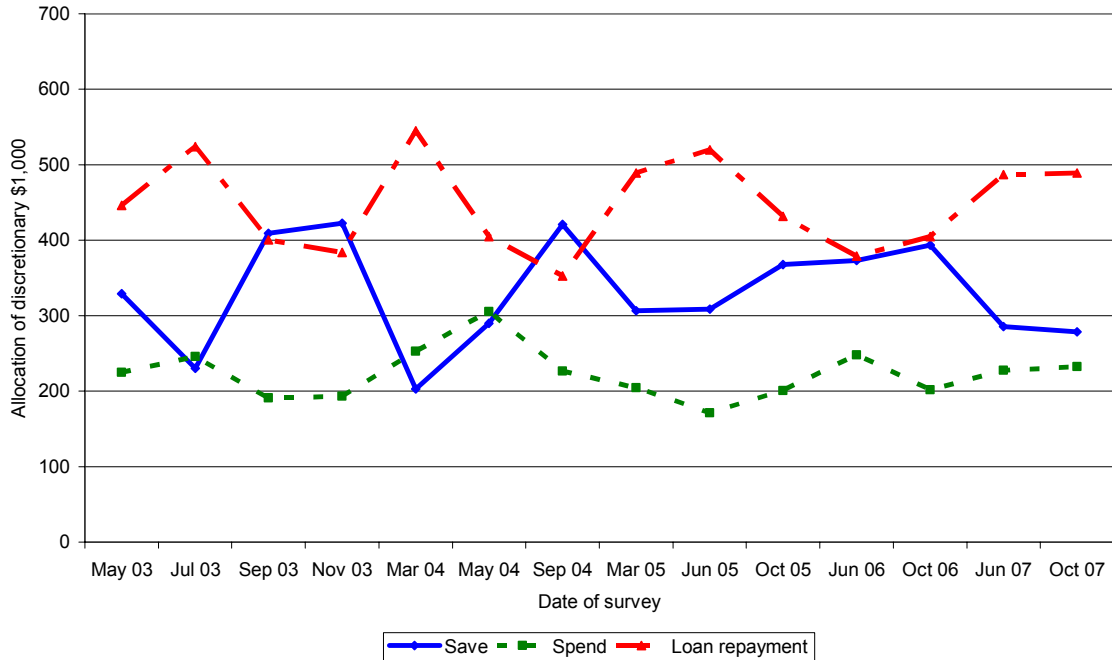
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# Dwelling Renters

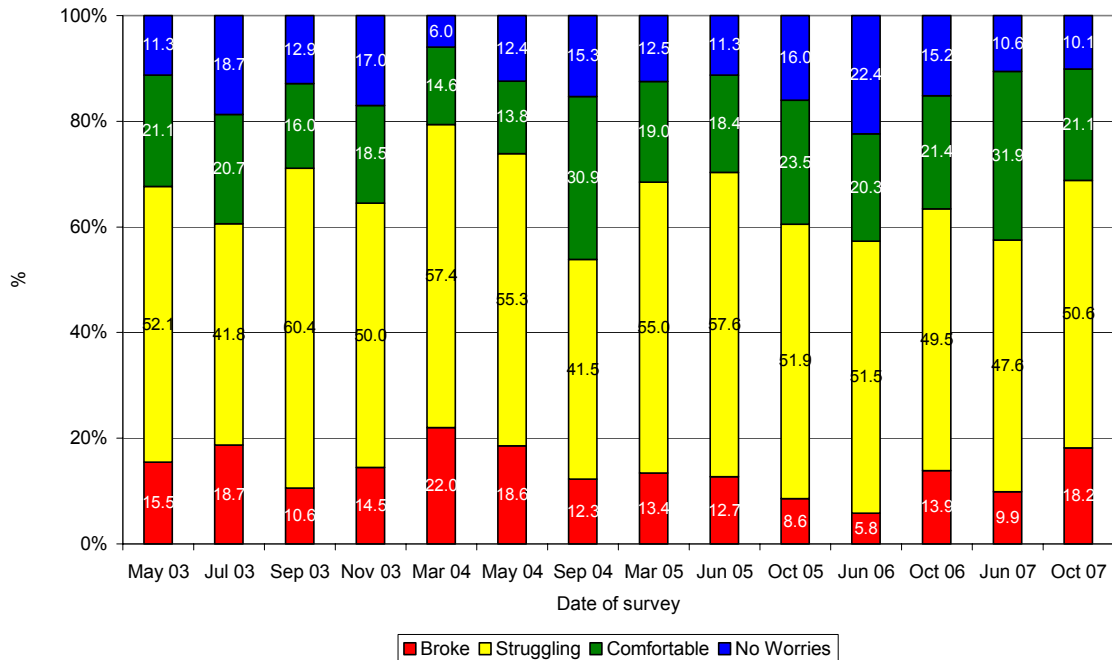
**Willingness to Spend and Save - Renting Dwelling**

source: foreseechange



**Perceived Financial Wellbeing - Renting Dwelling**

source: foreseechange



## Analysis by Gender and Broad Age Group

A higher proportion of females than males feel that they have **no** money left after meeting their commitments (Broke plus Struggling). The averages over the 2003 to 2007 period are 51% for males and 58% for females. A higher proportion of males feel that they have few financial concerns (an average of 28%) than for females (18%).

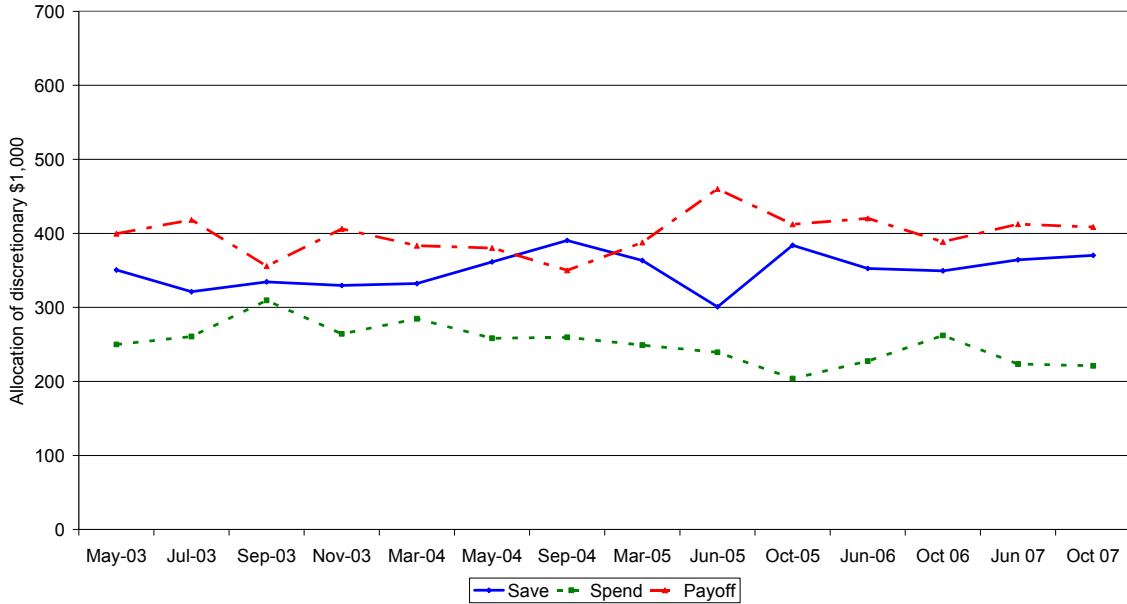
Males tend to be more willing to spend than females, although this has been reversed in 2007.

Over the period 2003 to 2007, the 50 and over age group has a higher level of perceived financial wellbeing than the 18 to 49 age group. Amongst the older age group, only 49% feel that they have **no** money left over after meeting commitments compared with 58% for the younger age group. Amongst the older age group, 25% feel that they have few financial concerns, compared with 18% amongst the younger age group.

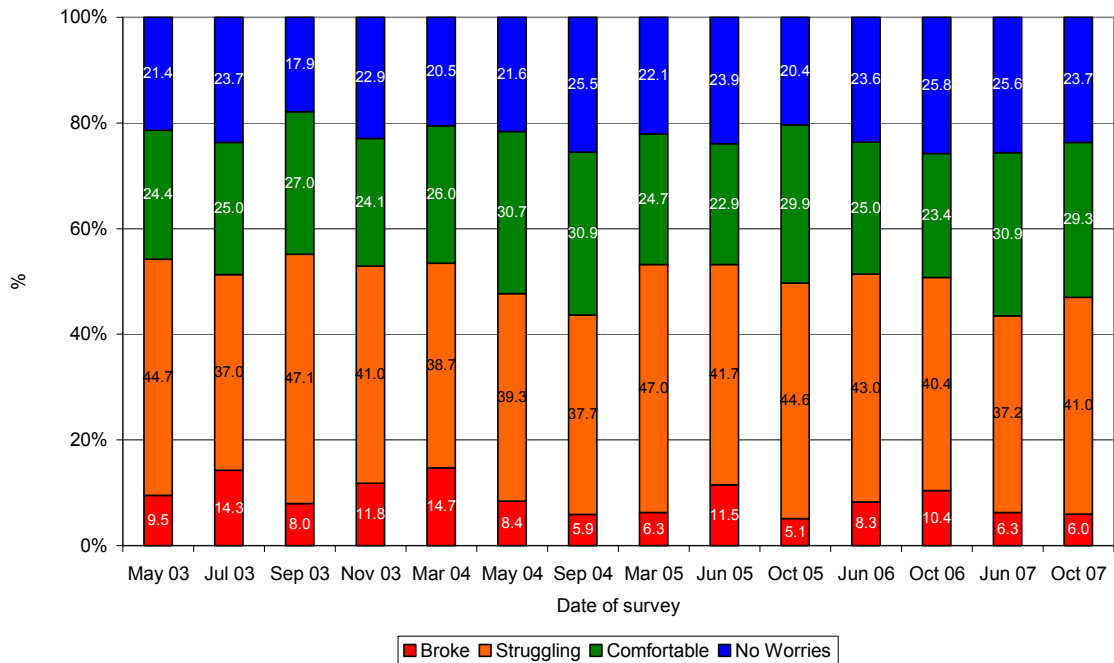
People aged 50 and over have a higher willingness to spend, and especially to save, than the younger age group because the latter are more concerned to repay debt.

Males

Willingness to Spend & Save - Males  
source: foreseechange



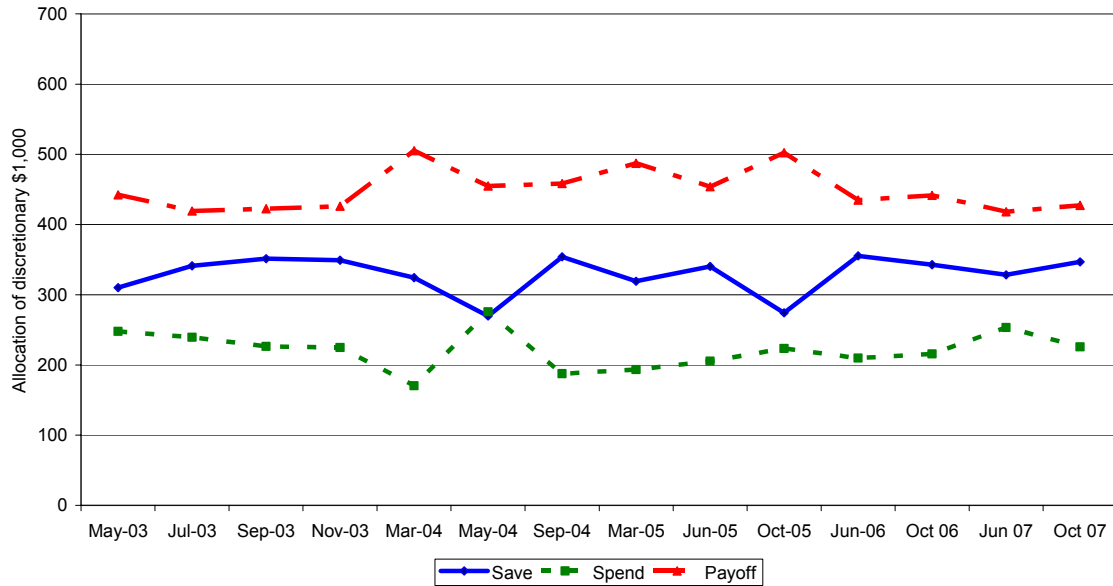
Perceived Financial Wellbeing - Males  
source: foreseechange



Females

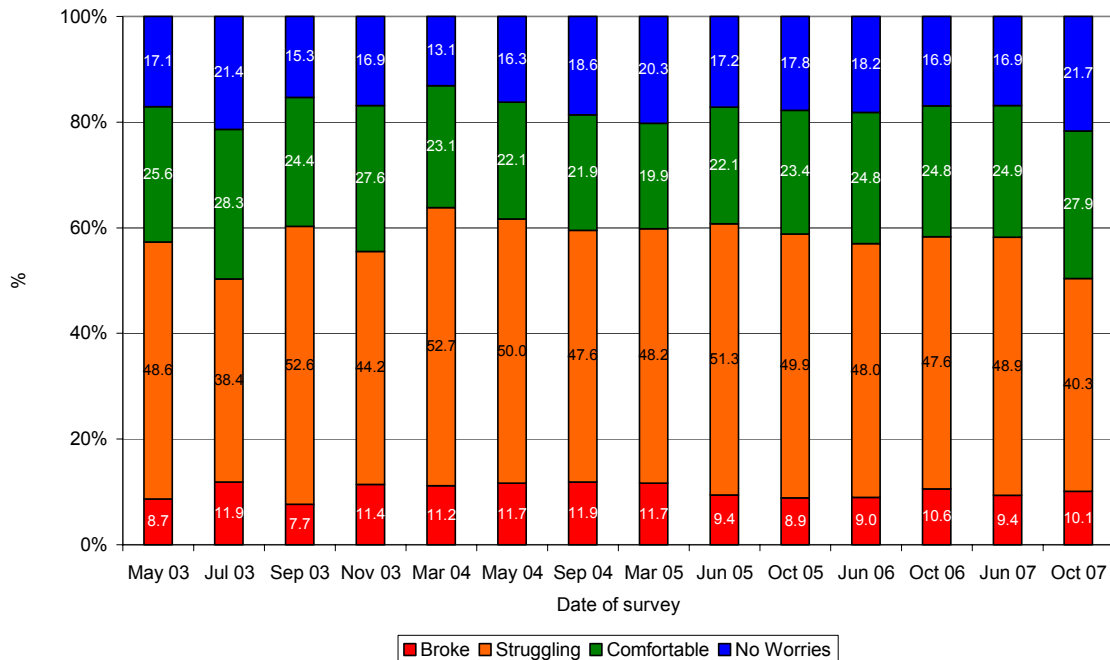
Willingness to Spend & Save - Females

source: foreseechange



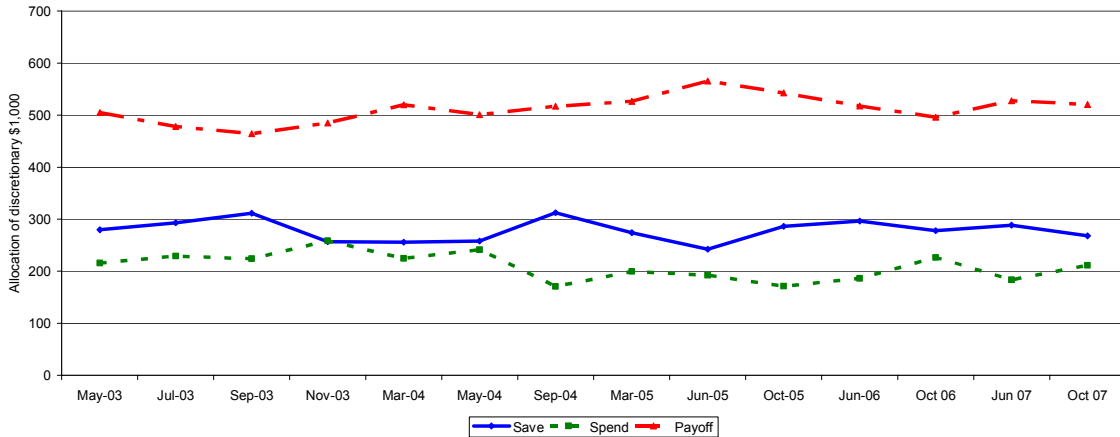
Perceived Financial Wellbeing - Females

source: foreseechange

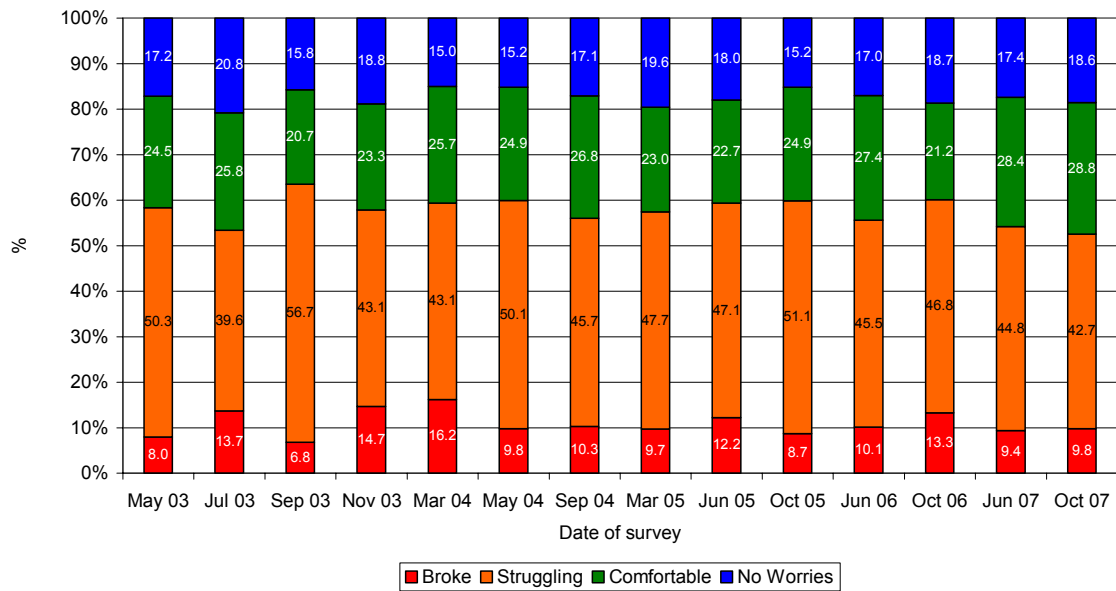


# Age 18 to 49

Willingness to Spend & Save - Age 18 to 49  
source: foreseechange

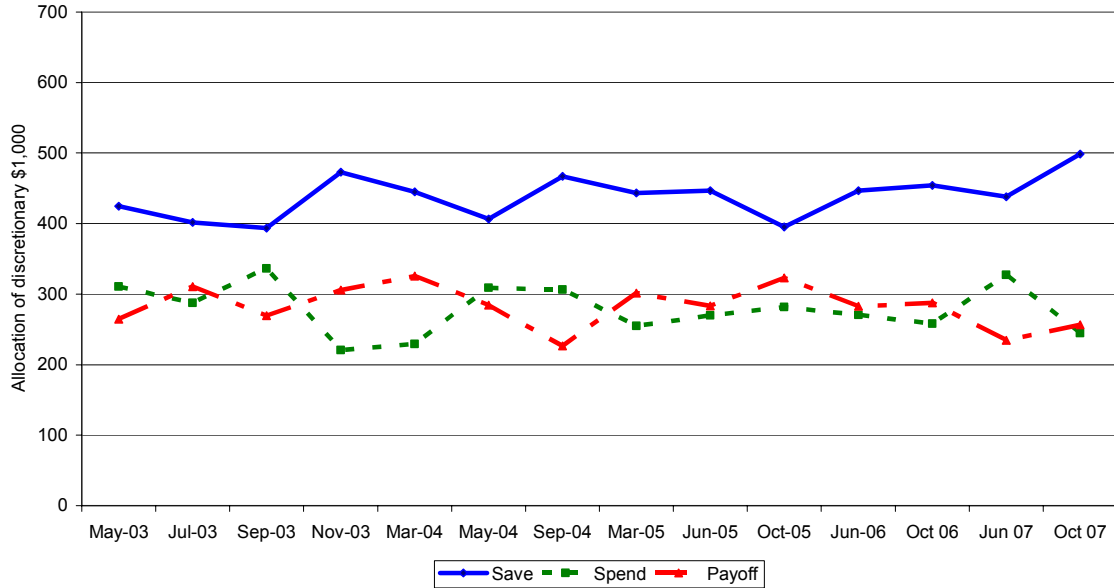


Perceived Financial Wellbeing - Age 18 to 49  
source: foreseechange

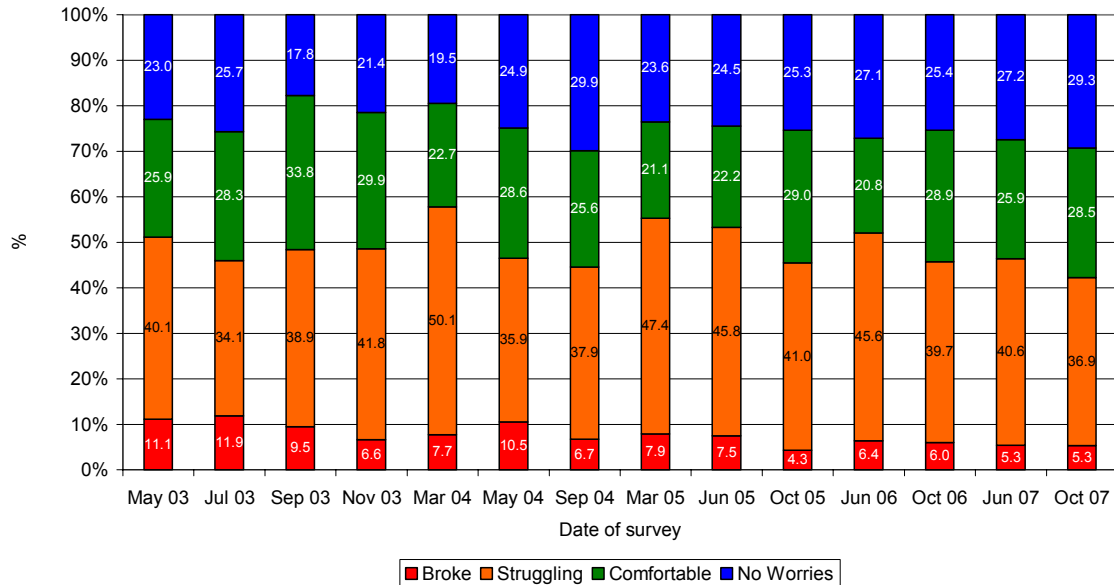


Age 50 and over

Willingness to Spend & Save - Age 50+  
source: foreseechange



Perceived Financial Wellbeing - Age 50 and over  
source: foreseechange



## Analysis by Capital City and Regional Australia

We have grouped the five state capitals together to provide a capital city analysis with respondents from all other areas being grouped together to provide a regional Australia analysis.

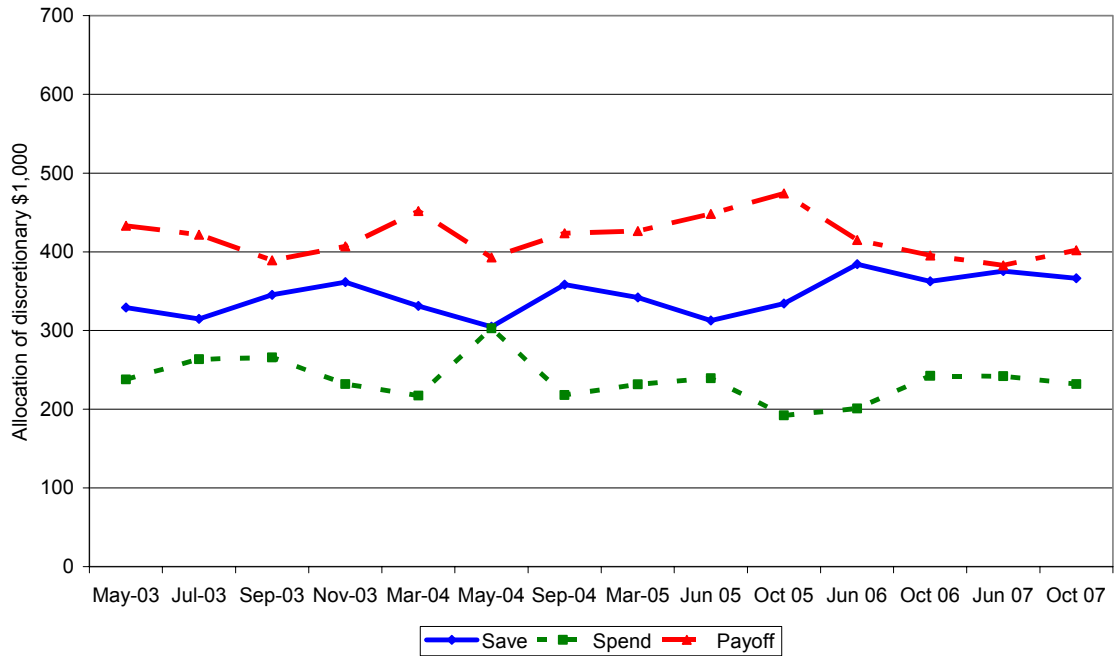
On average, 52.0% of capital city residents feel that they have **no** money left after meeting commitments compared with 58% in regional Australia. However, these figures have been converging over recent years. In Regional Australia, there is a steady upward trend in perceived financial wellbeing.

There is little difference between capital cities and regional Australia as regards willingness to spend or save.

Capital Cities

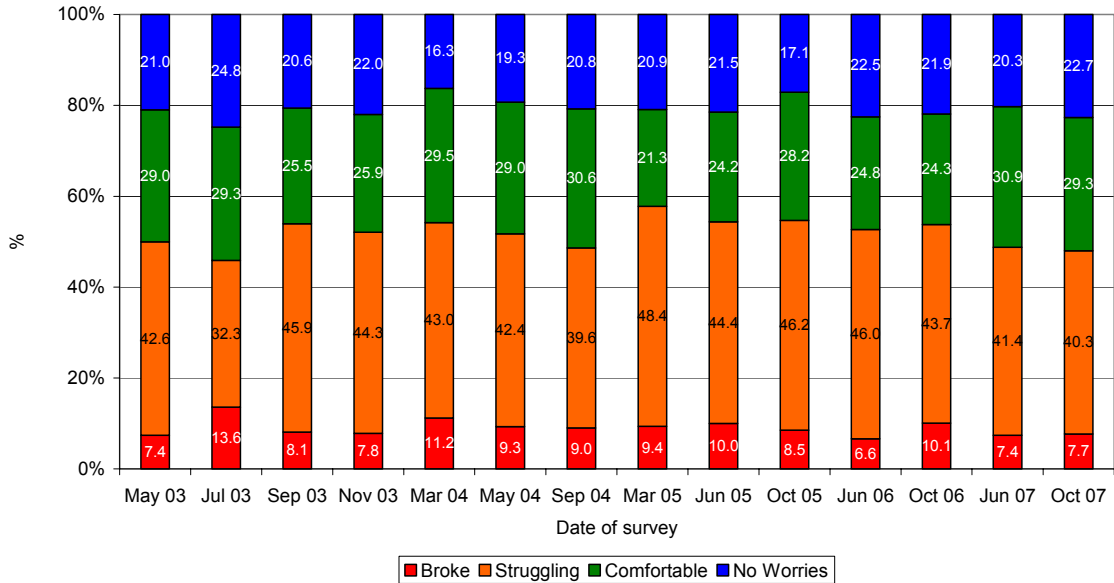
Willingness to Spend & Save - 5 Capital Cities

source: foreseechange



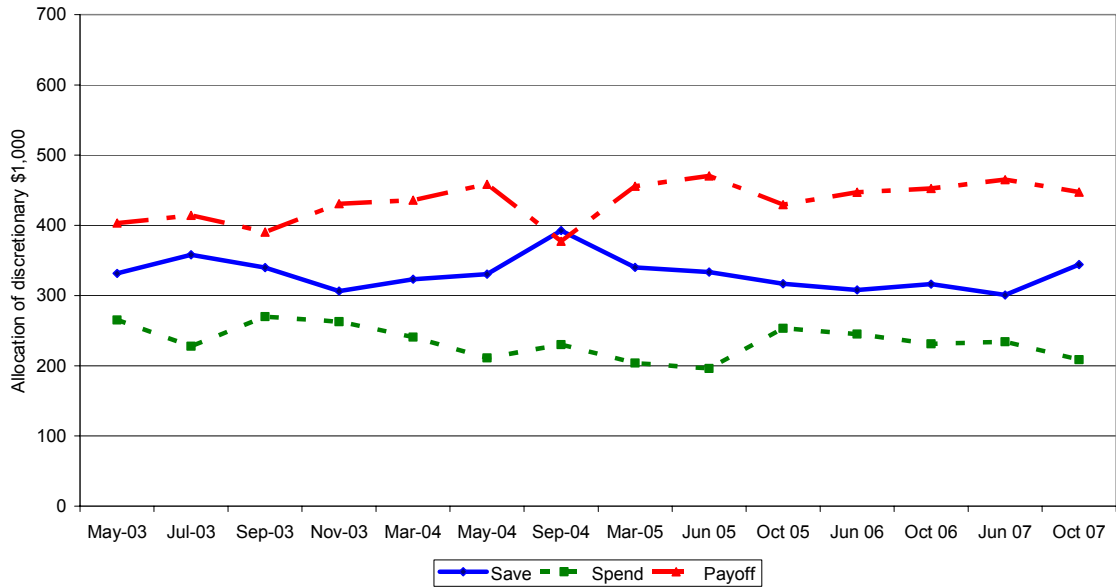
Perceived Financial Wellbeing - 5 Capital Cities

source: foreseechange

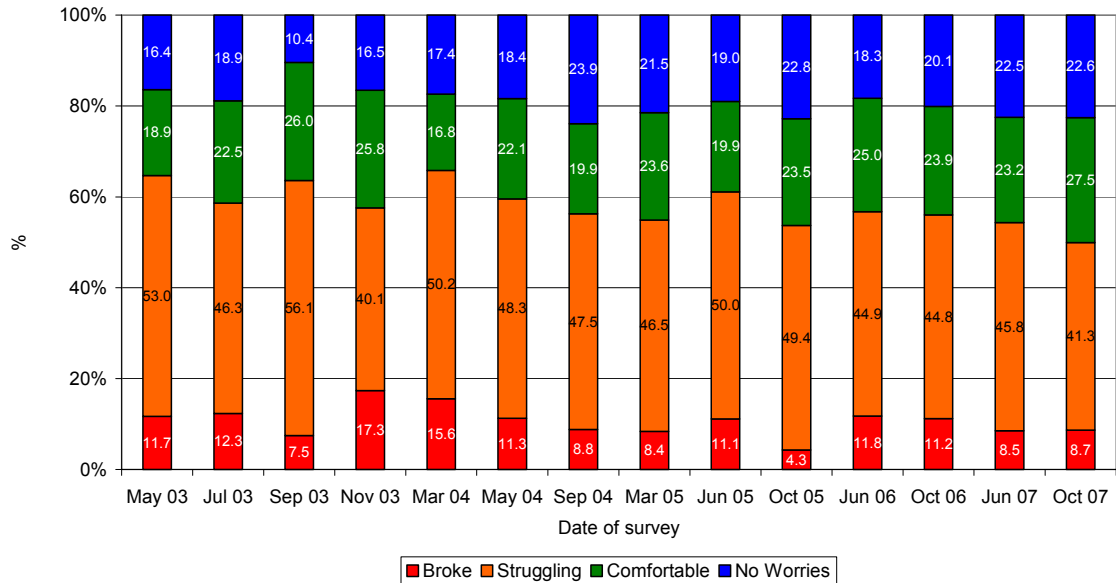


## Regional Australia

**Willingness to Spend & Save - Regional Australia**  
source: foreseechange



**Perceived Financial Wellbeing - Regional Areas**  
source: foreseechange



## Most Likely Type of Investment

Survey respondents have been asked to indicate their most likely and second most likely investment type, assuming that they had funds to invest. Most likely and second most likely responses have been weighted at 0.7 and 0.3 respectively to provide an estimate of the shares of funds invested by asset class.

Property is consistently the asset most likely to be invested in, followed by shares and term deposits. However, the 2006 federal budget increased the likelihood of putting money into superannuation and this increased again in 2007 to a record high. This seems to be mostly at the expense of term deposits.

**Most Likely Investment Type - Weighted Average of Most and Second Most Likely**  
 source: foreseechange

