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Australian Consumers Prepare for Spending Spree

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3 December 2001

Australian Consumers have become more thrifty recently, suggesting a short-term slowdown in spending growth in some categories, while strengthening the household balance sheets in preparation for a spending spree in the second half of 2002.

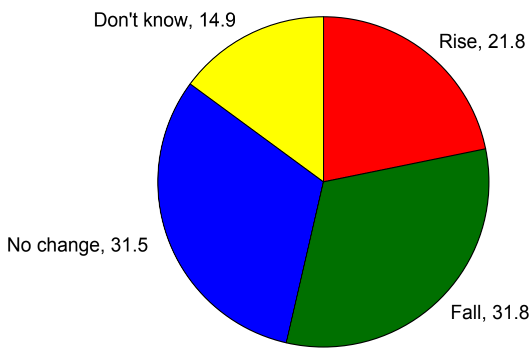
Further interest rate cuts are not needed to insulate Australia from any global slowdown – at least no so far as the household sector is concerned.

This analysis is based on a regular tracking survey of random samples of 600 adults in mainland capital cities. The most recent survey was conducted on the weekend of 17/18 November.

Interest Rate Expectations and Preferences

While most economists expect the Reserve Bank of Australia (RBA) to cut interest rates on 5 December, less than one-third of consumers expect rates to fall over the next six months. Just over one-fifth of consumers expect rates to rise over the next six months.

Expected movement in interest rates over next six months
November 2001
source: foreseechange



Nearly one-third of consumers expect no rate change.

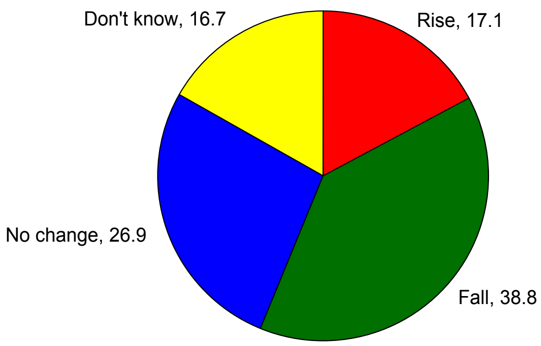
Nearly 40% of consumers would prefer rates to fall over the next six months (mostly households with a mortgage) but 17.1% would prefer rates to **rise** (mostly older people with savings). The latter group will experience a further drop in income if the RBA cuts rates again.

A recent NATSEM report showed that people aged over 65 had an average of $38,700 on deposit in 1998, up from $19,400 in 1986. With the rapid growth in population over 55, the proportion of people who prefer higher interest rates is likely to grow in the future.

Preferred movement in interest rates over next six months

November, 2001

source, foreseechange



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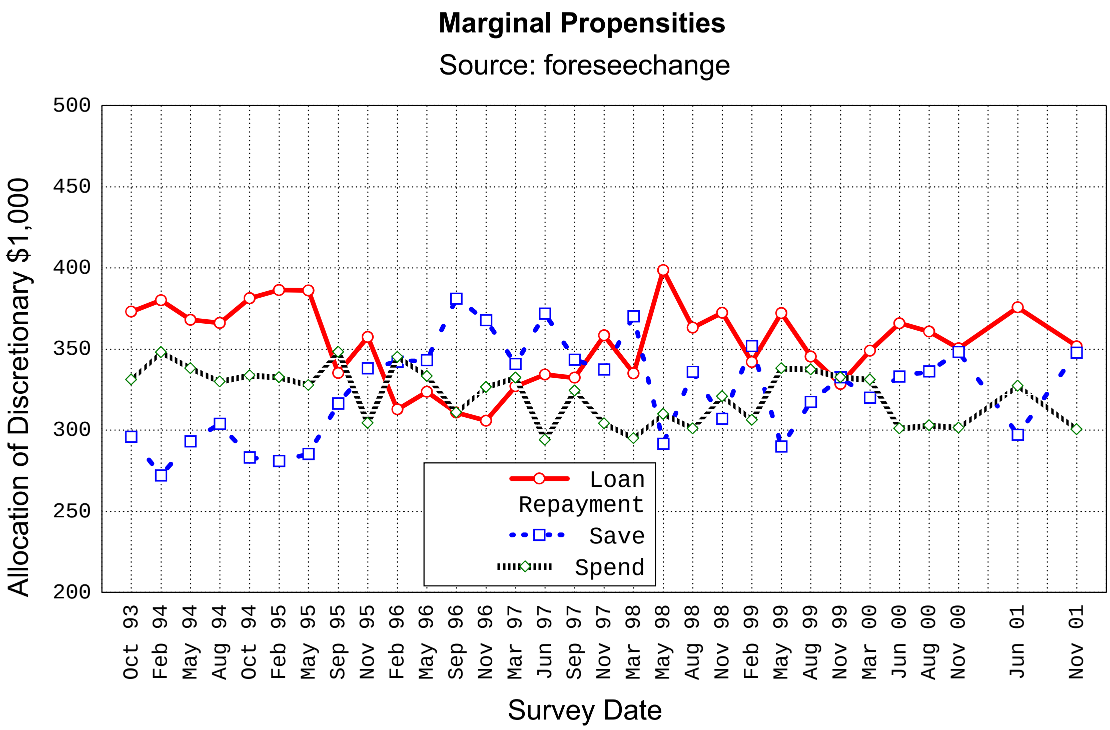
Propensity to Spend, Save, and Repay Debt

With a gradually accumulated $1,000 or a windfall of that amount, consumers would spend an average of $300. This is quite a low amount relative to the past eight years and mid-2001 in particular. The average allocation to loan repayment and saving are both at relatively high levels of $350 each. Note that propensity to spend dropped markedly to a similar level in the second half of 2000 – a period when real spending growth fell and the household saving ratio jumped.



Financial Wellbeing

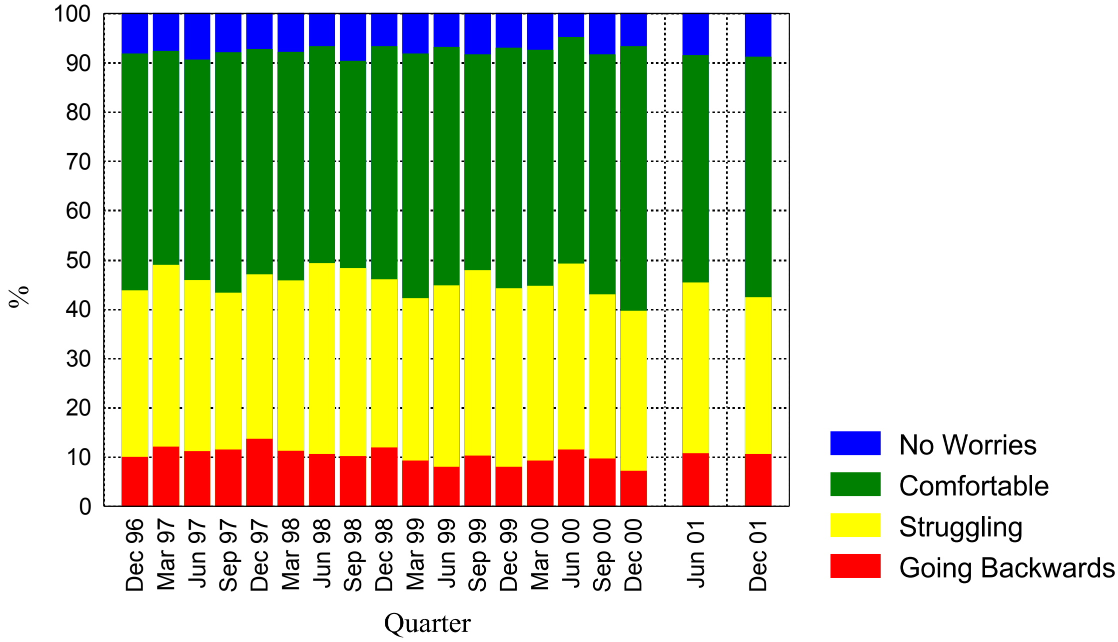
While the willingness to spend was quite low in November 2001, the ability to spend was relatively high. The proportion of respondents who indicated that they had some money left over after meeting their commitments (Comfortable plus No Worries) was 58%, compared with 55% six months earlier. The record was 60% in late 2000, after six months of saving at a high rate.

There is a degree of polarization, with a relatively high 11% saying that their financial situation is going backwards.

The high proportion of consumers who feel that they have discretionary income is an opportunity for retailers.

Financial Wellbeing Segments by Quarter

Source: foreseechange



Spending Disposition

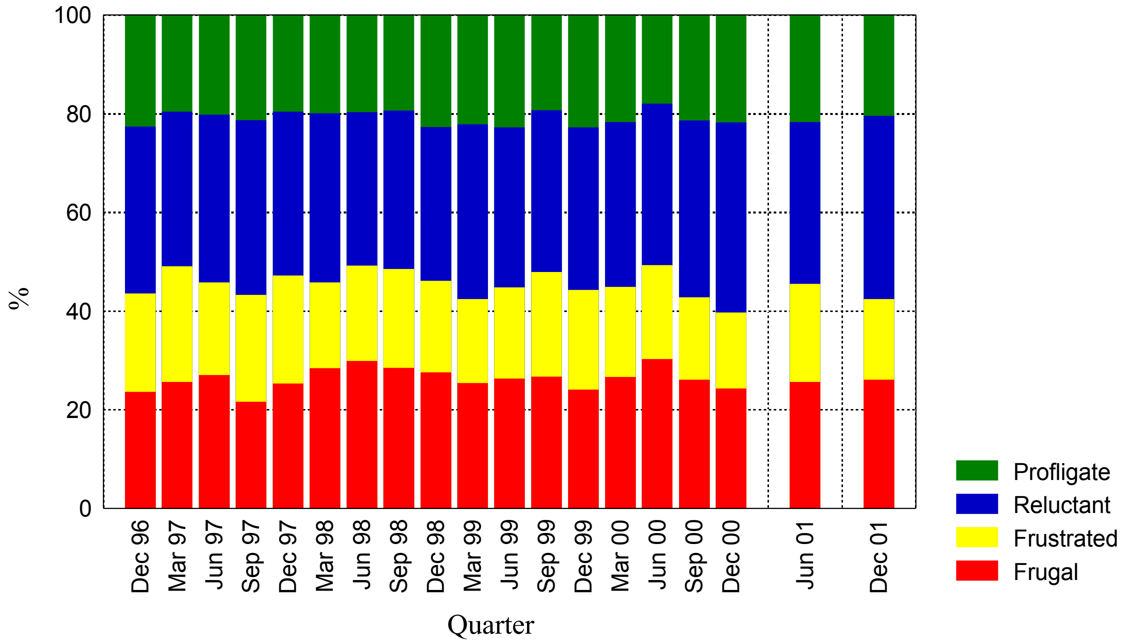
Combining willingness to spend with ability to spend yields our spending disposition segments. Profligate Spenders (who have both the willingness and ability to spend) have declined slightly in size from 22% to 21% over the past six months, suggesting only a mild spending growth slowdown.

The proportion of frugal spenders (who have neither the ability or willingness for discretionary spending) has increased from 24% to 26% over the past 12 months.

The proportion of reluctant spenders (with the ability to spend but not the willingness) has increased in the past six months – these are the consumers who are currently saving or repaying debt.

Spending Disposition Segments

Source: foreseechange

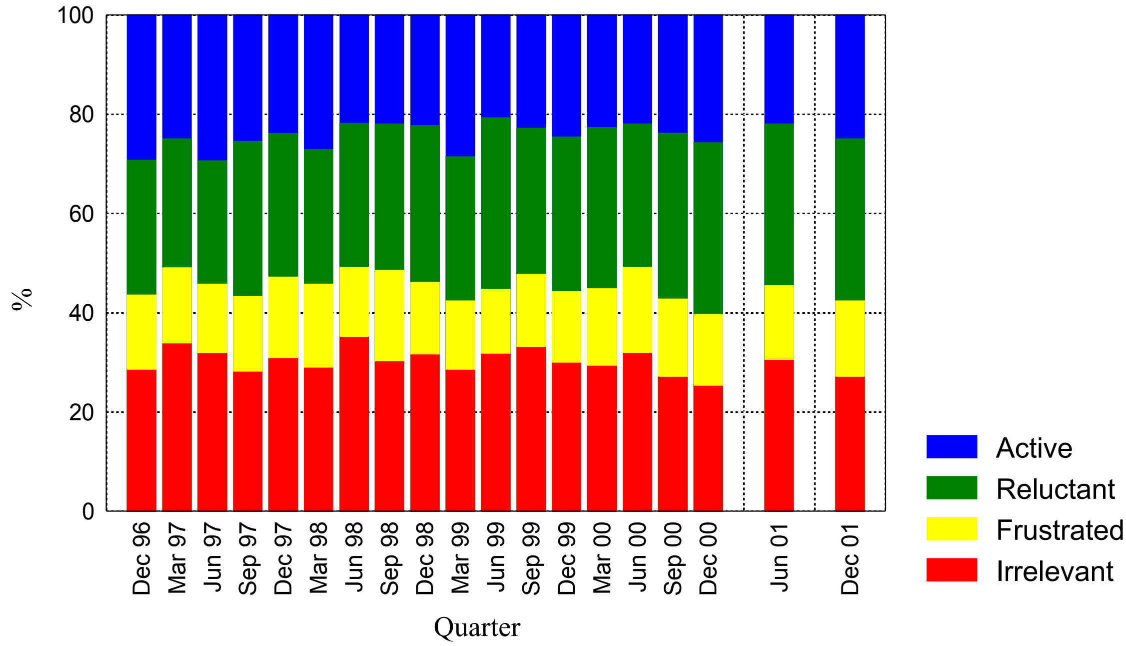


Saving Disposition

The proportion of active savers (who have both the ability and willingness) to save has increased from 22% to 25% over the past six months. This figure was 26% a year earlier. This, combined with the high propensity to repay debt suggests that a rise in the household saving ratio is likely.

Saving Disposition Segments

Source: foreseechange



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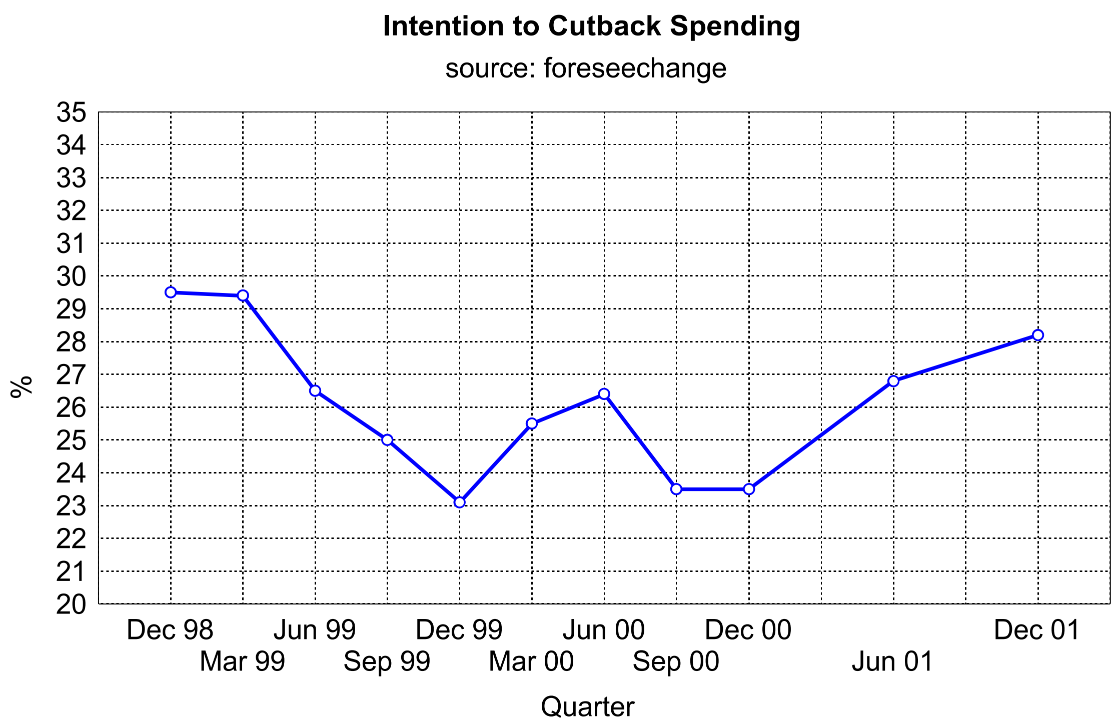
Intentions to Cut Back on Spending

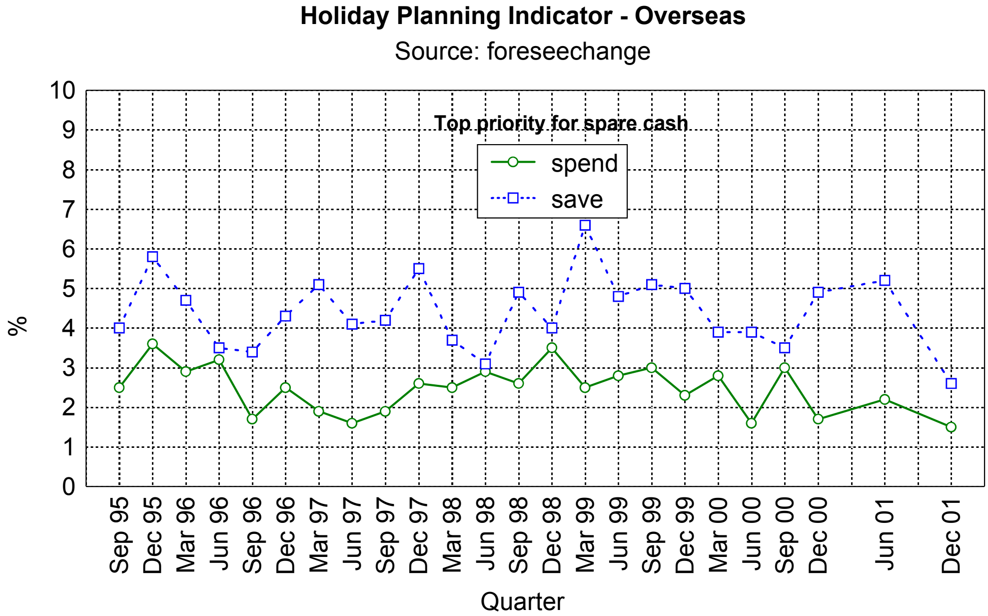
The proportion intending to cut back on spending has increased over the past year, from 24% to 28%. This also suggests an increase in thrift.

The increase in intentions to cut back is widespread, not attributable to any consumer segment. Given that cutback intentions rose in June 2001, this is unlikely to reflect recent corporate setbacks or terrorism in the USA. It is perhaps a reaction to the global slowdown.

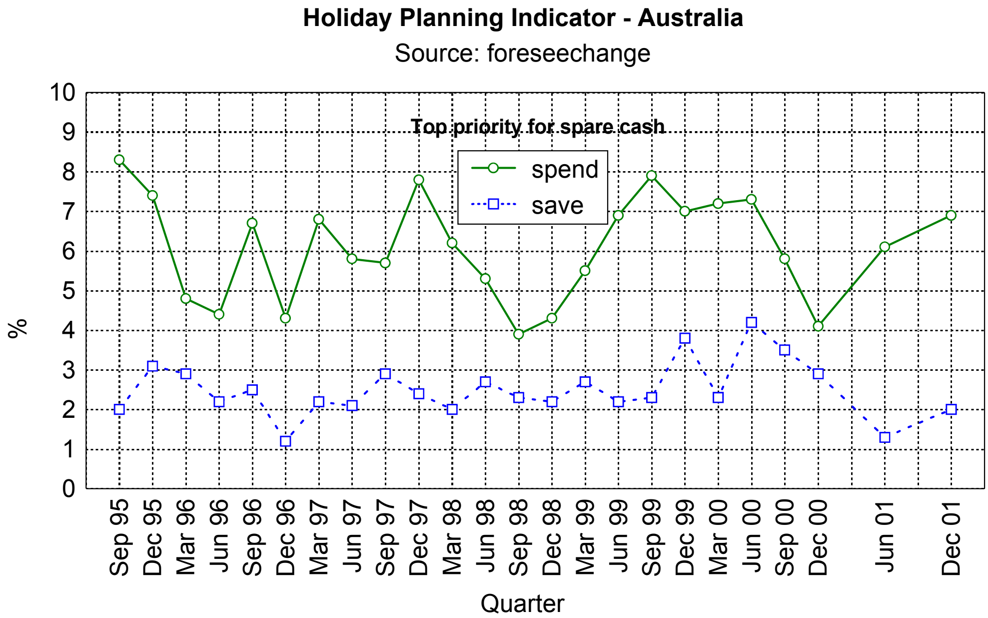


Holidays

The proportion saying that they would use discretionary funds for saving for an overseas trip has dropped from 5.2% to 2.6% over the past six months, to the lowest level recorded, most likely an outcome of the September 11 terrorism in USA. Intentions to spend discretionary funds on an overseas trip has also dropped.

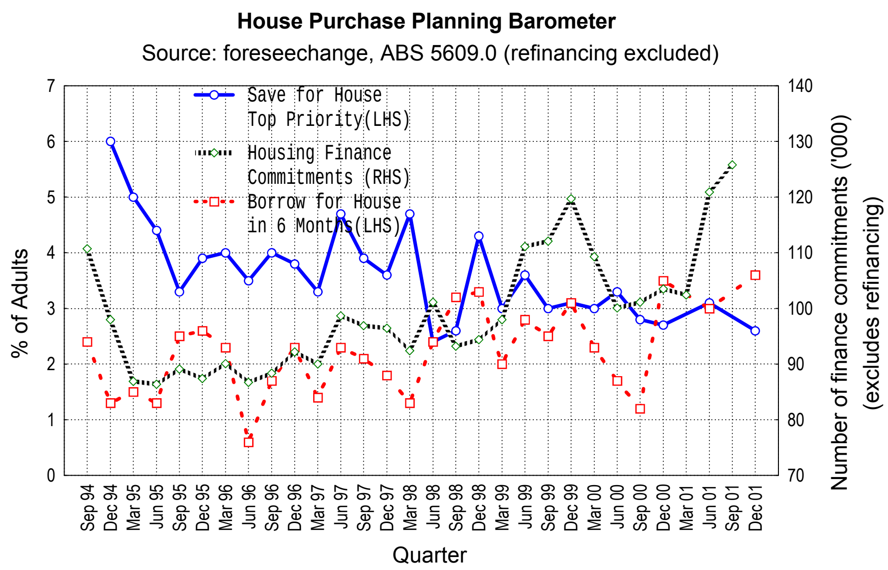


On the other hand, prospects for domestic tourism look quite healthy.



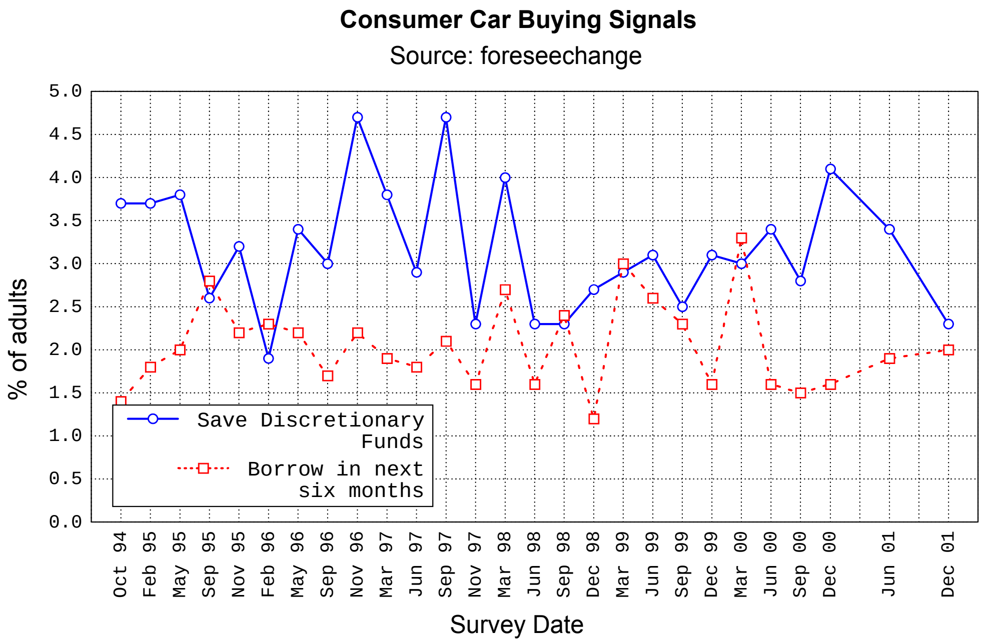
Housing

The demand for housing finance is set to remain strong over the next six months. The proportion saying that they intend to borrow to buy a house over the next six months is at a record high. The prospects in the longer term are less sanguine as the proportion saying that their top priority for discretionary funds is saving for a house has been falling steadily over the past seven years.



Motor Vehicles

The proportion saying that their top priority for discretionary funds is saving for a car has dropped – possibly suggesting that many people are about to buy. The proportion intending to borrow to buy a car soon has increased over the past 12 months.



Outlook for 2002

This survey data, along with our econometric modelling of the impact of falling interest rates, petrol prices, and employment growth, suggests that consumer spending growth will slow in the short term, but accelerate in the second half of 2002. This pattern will vary by category of spending with strong demand in the short-term for: housing finance and furniture. New vehicle sales should also be strong throughout 2002. Consumption categories such as clothing and eating out will slow initially and then accelerate in late 2002.

Any interest rate cuts will further polarize consumers:

- Households with debt, already feeling good about their financial situation but who react to rate cuts after 15 months, will cause overheating in consumer spending in late 2002 and 2003;
- Households with deposits, mostly self-funded retirees, will quickly cut spending as their income is slashed. This group is reluctant to use capital for consumption.

In addition, the housing sector is already highly stimulated by the first home owners grant and low interest rates. This sector will collapse when all demand has been brought forward. Cutting interest rates now will only bring forward more demand and amplify the inevitable slump.

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