

The New Aussie Consumer

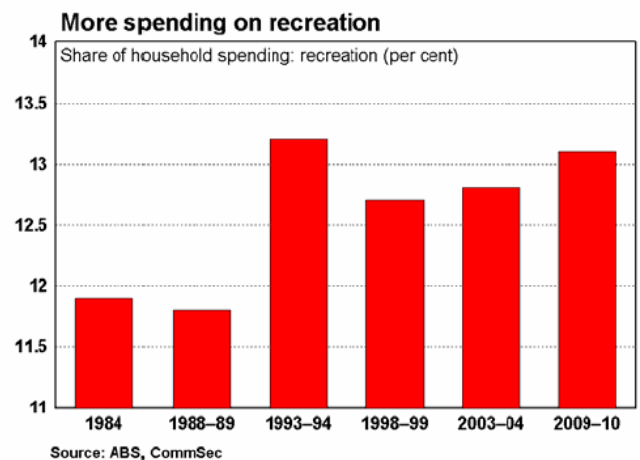
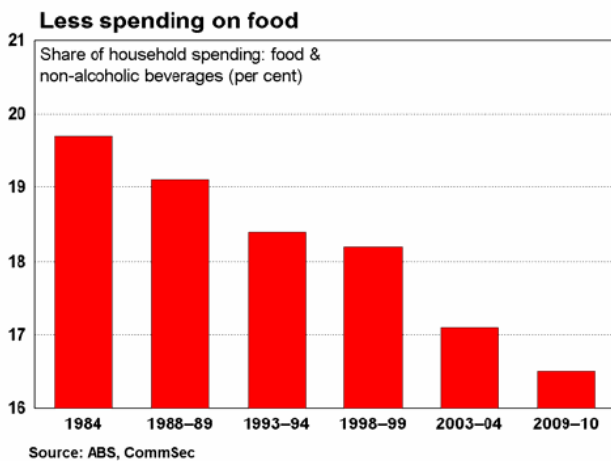
Economic trends

- The New Aussie Consumer is wealthier than previous models, but is more value-conscious and financially conservative. Purchases are more likely made with his or her own money, rather than on credit, and the new consumer is more likely to put extra savings in the bank or pay down debt rather than invest the funds in other asset classes.
- Housing costs – paying off the mortgage or rent payments – are taking a far bigger share of family budgets than six years ago. The new Aussie consumer is also more likely to travel overseas, eat out, lease – rather than purchase – their vehicle, access the internet and give money to charities or friends and families, compared with the average consumer that roamed early in the noughties decade.
- In terms of financial matters, the global financial crisis has left a significant mark on consumers. People are more likely to leave the money in the bank than chase the hot tip in the property or sharemarket.

Household Expenditure survey 2009/10 (Australian Bureau of Statistics)

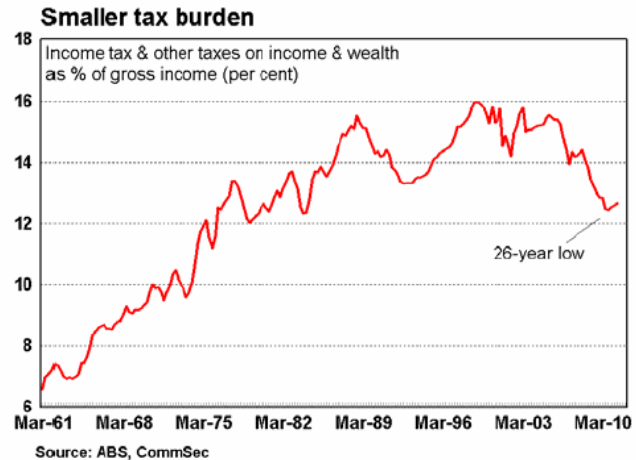
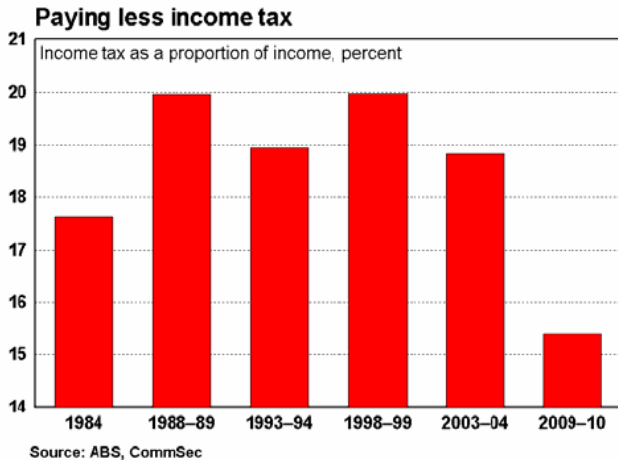
Less spent on food; more on recreation

- The average Aussie household spent \$1,236.28 per week on goods and services in 2009/10. Weekly spending was up 38 per cent on 2003/04, with inflation up 19 per cent over the period. As a result real spending has risen on average by 3.2 per cent a year over the past six years.
- We are devoting less of our spending to food, clothing, household appliances and household services. But more of our spending is going to recreation goods, transport and alcohol. Within recreation goods, the share of spending going to internet fees has jumped from 0.11 per cent to 0.60 per cent while pay TV fees have jumped from 0.31 per cent of spending to 0.42 per cent in the past six years.



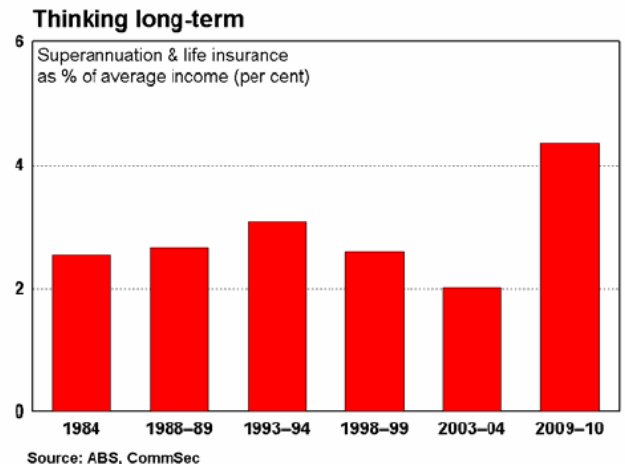
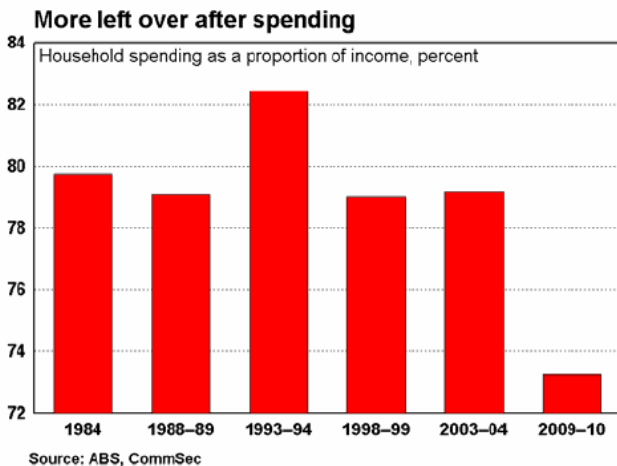
Smaller tax burden

- The Household Expenditure Survey confirms other national accounts data showing that we are paying out a smaller proportion of our income in taxes. While there are definitional differences, the trends are the same. The national accounts data show that income tax and other taxes on income & wealth represent just over 12 per cent of gross income, near 26-year lows.



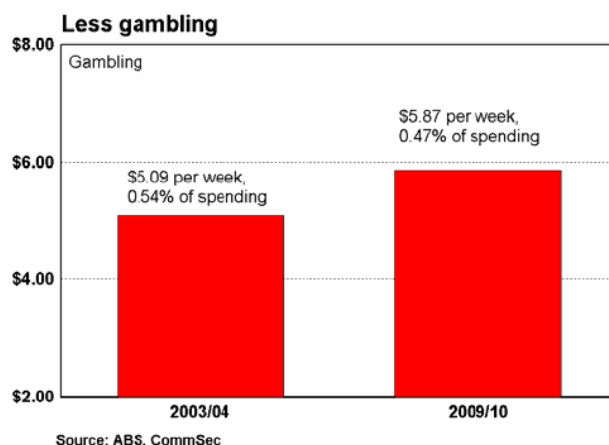
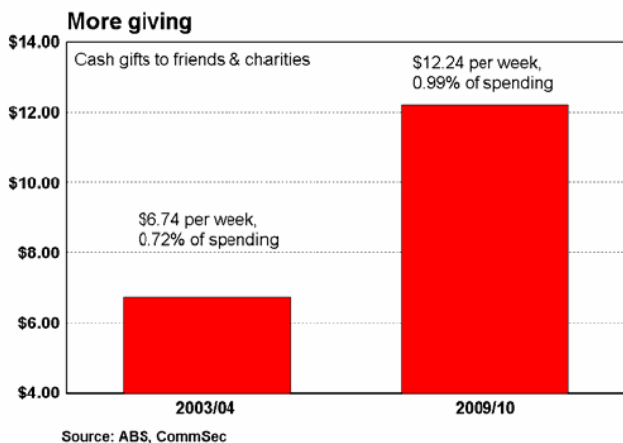
More left over; more super

- Average household expenditure on goods and services represented just 73 per cent of income in 2009/10, well down from around 80 per cent in previous years. The Bureau of Statistics warns that you can't just treat the remainder as "saving" due to methodological differences. But superannuation and life insurance represented 4.4 per cent of income in 2009/10, up from 2 per cent in 2003/04.



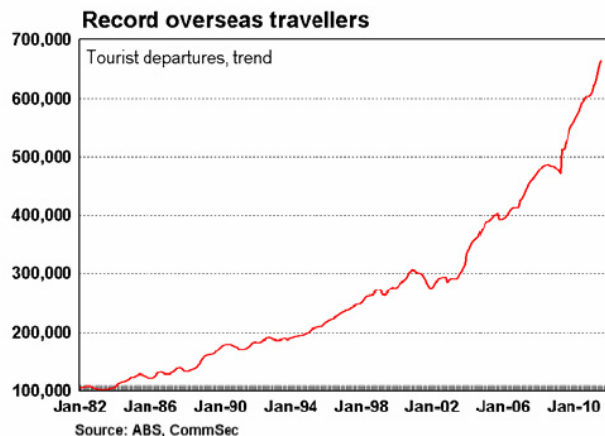
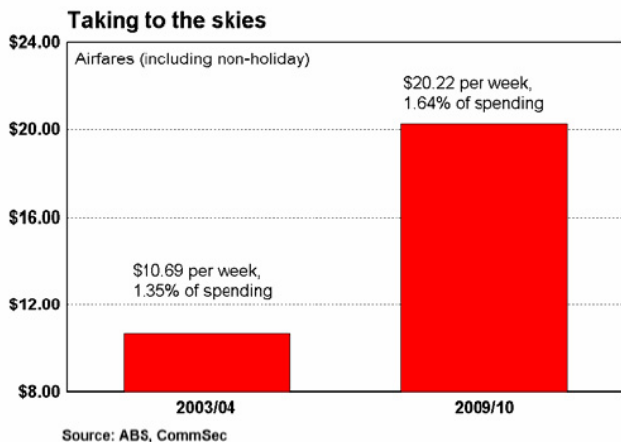
More giving; less gambling

- In the 2003/04 Household Expenditure Survey cash gifts, whether to friends or charities, totalled \$6.74 a week or 0.72 per cent of total spending. In 2009/10, cash giving had jumped to \$12.24 or 0.99 per cent of weekly spending – the 15th biggest item of the approximately 580 detailed items listed by the Bureau of Statistics. Donations to charities more than doubled to \$4.26 a week while gifts to family or friends more than doubled to \$5.01 a week.
- Gambling isn't the scourge on society that it has been represented. In 2009/10 average weekly spending on gambling (including lottery tickets, TAB, poker machines etc) totalled \$5.87 or 0.47 per cent of total spending.



More people are flying; and generally taking holidays

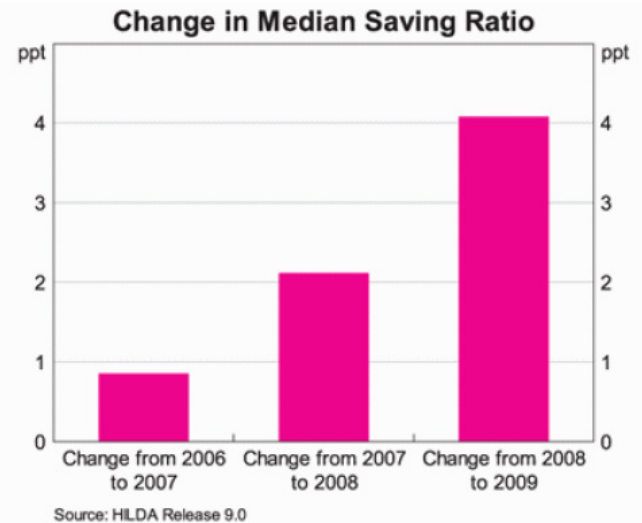
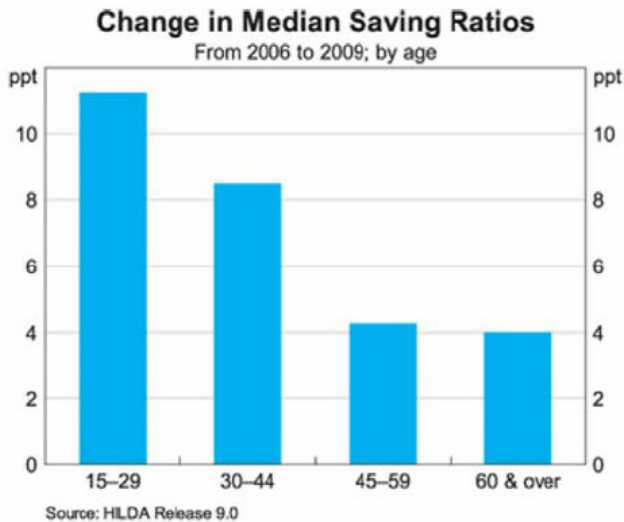
- In 2003/04, Aussies spent an average \$10.69 a week (1.35 per cent of total spending) on airfares (local, overseas and non-holiday). In 2009/10 spending on airfares had jumped to \$20.22 a week (1.64 per cent of total spending). Overseas holiday airfares alone rose from \$6.97 a week to \$10.61 a week in 2009/10.
- Total spending on all “holiday” items – including fares, accommodation, tours – amounted to \$52.48 a week in 2009/10, up from \$38.04 a week in 2003/04. If the individual items are taken as a group, the cost of holidays would represent the third largest item behind paying the mortgage or paying the rent.



HILDA survey (Melbourne Institute)

More saving by all groups

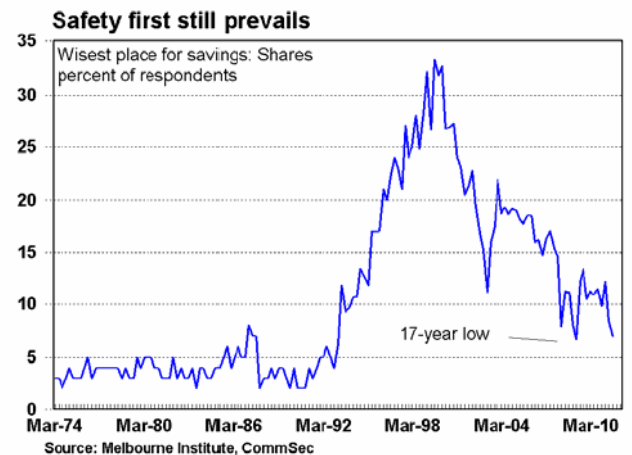
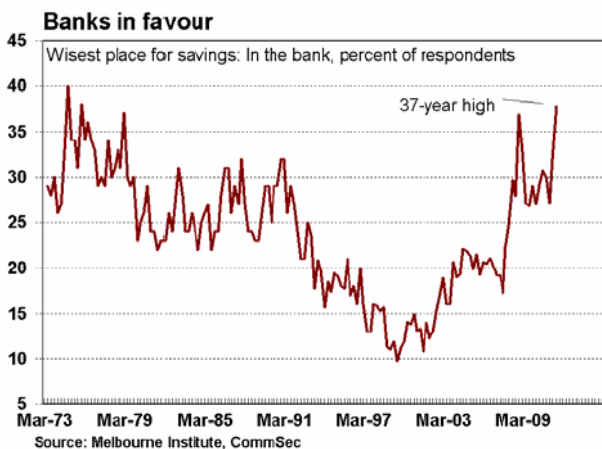
- Generation Y has recorded the biggest lift in saving in recent years, with the savings ratio for those between 15-29 years lifting by around 11 percentage points over the three years to 2009. By comparison, the savings ratios of those between 45-59 years and those 65 years and over, rose by only around 4 percentage points.
- Savings ratios have risen over recent years but the increase was particularly notable over the period of the GFC from 2008 to 2009. Savings have increased across the income distribution (but especially for upper middle income earners) and across different housing tenures (but especially renters and home buyers).



Consumer sentiment survey (Westpac-Melbourne Institute)

Wisest place for new savings

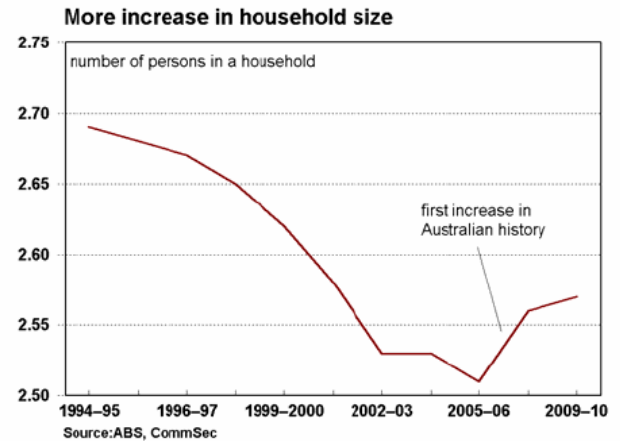
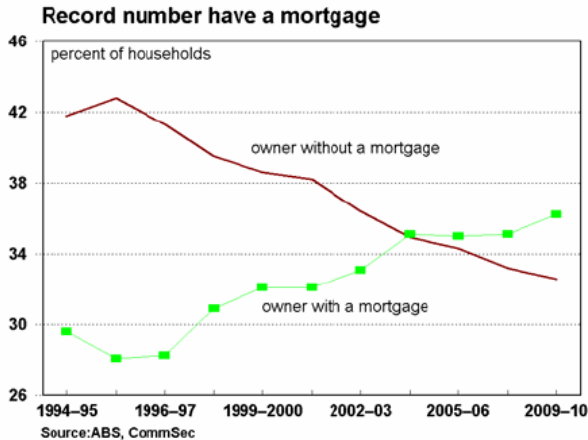
- According to the latest Westpac-Melbourne Institute consumer sentiment survey, Aussie consumers believe that bank deposits are the wisest place for savings (37.8 per cent of respondents), followed by paying debt (18.7 per cent), real estate (16.8 per cent), and shares (7 per cent). The result for bank deposits is the highest reading in 37 years (since December 1974).



Household Income & Distribution 2009/10 (Australian Bureau of Statistics)

More with mortgages; more people in homes

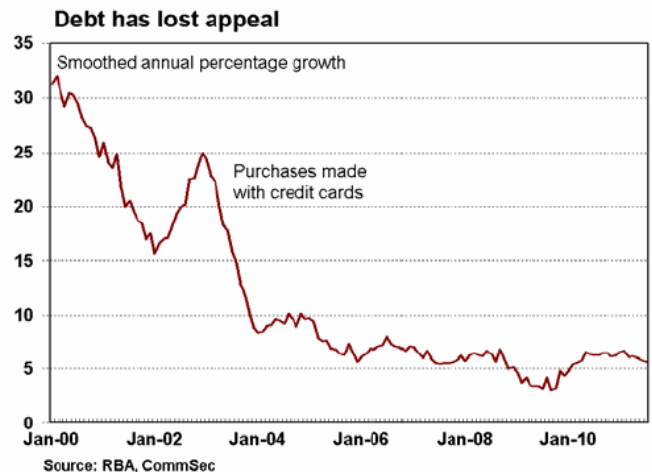
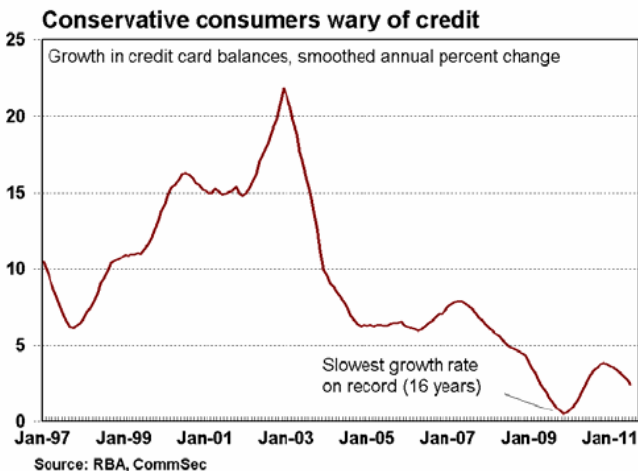
- The proportion of people who have a mortgage has risen to record highs. A total of 36.2 per cent of households are paying of a mortgage compared with 32.6 per cent of households who own their home outright while the remainder are renting.
- For the first time since white settlement, the number of people in the average home is rising. The number of people in a household rose from 2.56 persons to 2.57 persons in the two years to 2009/10 after lifting from 2.51 persons in 2005/06.



Credit card & debit card lending statistics (Reserve Bank of Australia)

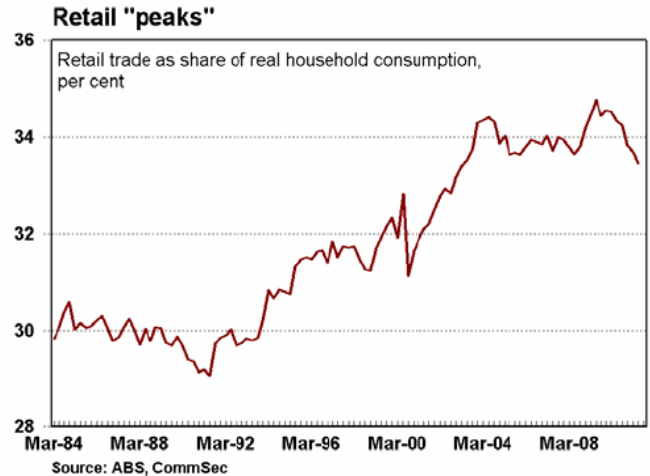
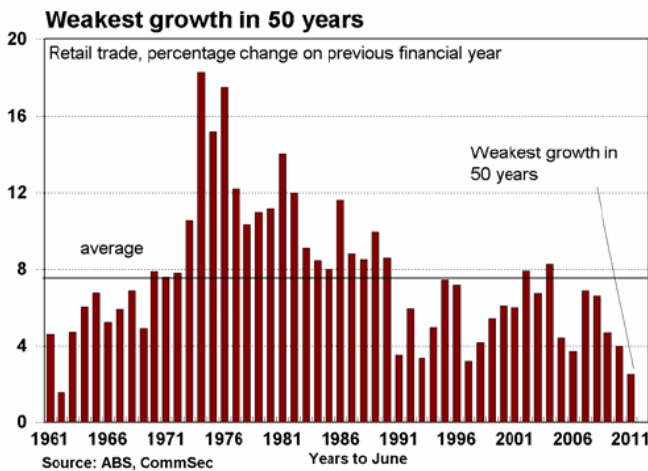
We are using our own money; less purchases on credit

- The average credit card balance fell by \$28.50 to \$3,311.80 in July. The drop in the average credit card balance in July was the biggest fall in a July month since records began 17 years ago. The average credit card balance was up 1.5 per cent on a year earlier – the slowest growth on record outside the GFC period.
- The number of purchases made on credit cards in July was up by 1.9 per cent on a year ago. In contrast total debit card transactions were up by 18.9 per cent on a year ago. EFTPOS only transactions were up a record 17.9 per cent on a year ago.



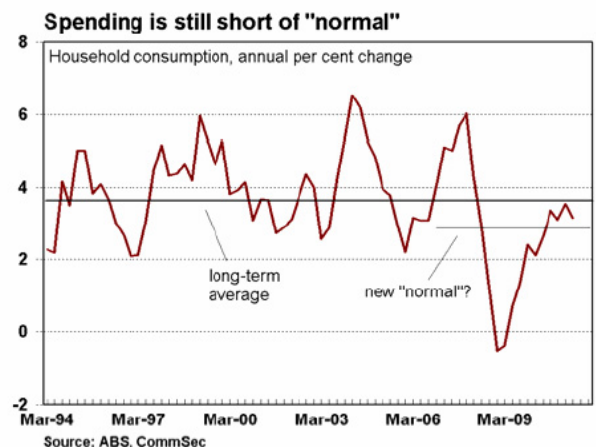
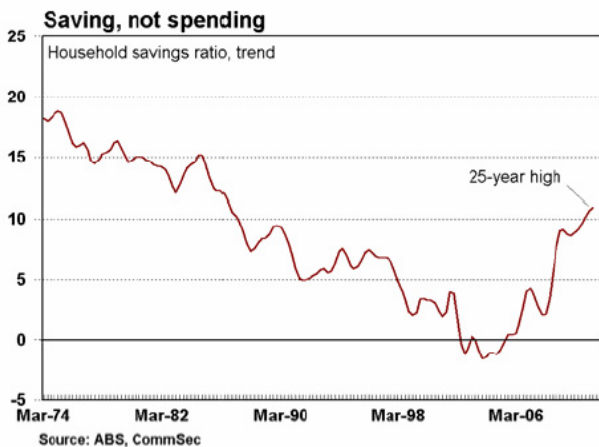
Retail trade series (Australian Bureau of Statistics)
Glory days over for retailers

- In the entire 2010/11 year, retail trade rose by just 2.6 per cent – marking the weakest annual growth in 50 years (since 1961/62 when growth was just 1.6 per cent). In July, retail trade was up just 1.4 per cent on a year ago – below the rate of inflation.
- In the June quarter, real retail trade represented 33.5 per cent of overall real household consumption, the lowest share in eight years and below the record high of 34.6 per cent in December quarter 2009.



National accounts series (Australian Bureau of Statistics)
Spending growth has slowed as savings rise

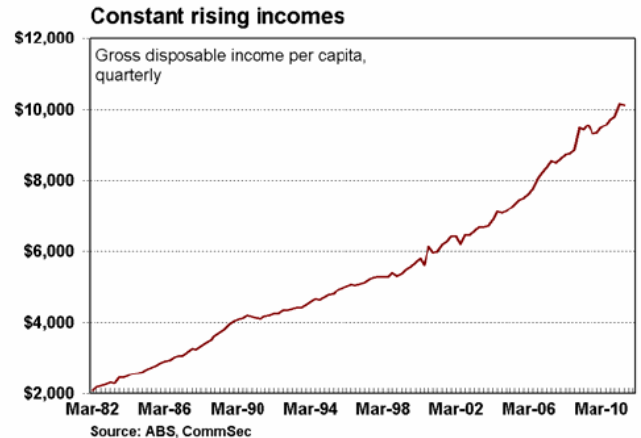
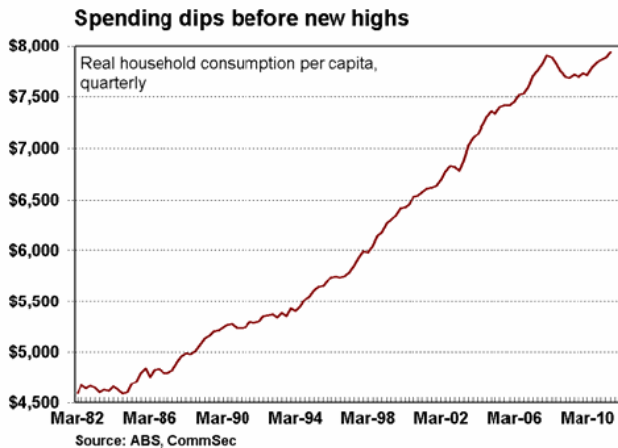
- In the June quarter, household spending was up 3.2 per cent on a year ago, below the long-term average growth rate of 3.6 per cent. The growth rate hasn't exceeded the long-term average for three years. The "new" long-term average growth rate of household spending appears closer to 3.0 per cent.
- In trend terms the household saving ratio stood at 10.9 per cent in the June quarter – the highest ratio in 25 years (since September 1986).



Income up; spending down

Real household consumption per capita recorded an unprecedented decline of 2.8 per cent from December 2007 to March 2009 – a key pointer of the increased level of conservatism by consumers and lift in the savings ratio. Over the past year, real household income per capita has risen by a modest 1.9 per cent.

- Gross household disposable income per capita rose by 6.1 per cent over the year to the June quarter, slightly ahead of the very long term average growth rate of 5.6 per cent.



What are the implications for interest rates and investors?

- What stands out is the importance of housing costs in the household budget. Simply, small changes in interest rates have a huge impact on spending. First, a record proportion of people are paying off a home. And second, the average home has increased markedly in value over the past five years, boosting the interest cost on the average new mortgage.
- The changes in household spending reflect changes in prices and changes in volumes – or the amount purchased. It is clear that Australians have continued to get richer over time and thus are spending a greater proportion of their incomes on non-essential goods and services like pay TV connections and the internet. Average household wealth in 2009/10 is estimated at \$729,442 – or around \$285,000 per person – no doubt dominated by the family home and superannuation. Perhaps that accounts for increased giving. But despite higher incomes and greater affluence, less is being spent on gambling.
- The higher Australian dollar, ageing population, rising real incomes and lower airfares all mean that people are spending more on holidays. And this trend is likely to continue despite some check being applied by the on-going turmoil on global financial markets.
- The latest data also confirms that consumers are saving a far greater proportion of their incomes, meaning that households are well placed to deal with tougher economic conditions.

Important Information

The summary and attached report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker.