

choice



CONSUMER PULSE: AUSTRALIANS' ATTITUDES TO COST OF LIVING 2015-2016

July 2016





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CHOICE's purpose is to work for fair, just and safe markets that meet the needs of Australian consumers. Fulfilling this purpose requires listening to the concerns of Australians, and understanding their everyday experiences in the marketplace.

In 2014, we decided to put some numbers around these experiences through Consumer Pulse — a nationally representative, quarterly survey that maps the key concerns of Australian households and how they are responding to cost pressures.

Two years into this project, we can see some clear medium-term trends. Most strikingly, the number one concern consumers have highlighted across all nine quarters is electricity prices.

The first Consumer Pulse reflected the contentious carbon price debate. But since then, Australians have seen little progress in fixing our nation's dysfunctional retail energy markets.

With continuing price rises and grinding complexity, it is no surprise that the merits of energy market regulations – and deregulation – continue to be questioned.

Mirroring debates in Federal politics, retirement income has emerged as one of the top worries for consumers. Concern about superannuation is highest among people living with parents, relatives or in share houses. Some of these Australians may be giving up on the dream of home ownership and instead refocusing on other forms of investment to find security in later life.

Our survey also shows superannuation remains one of the most complex markets for Australians, and one where the consumer voice is often lacking. You should expect to see CHOICE playing a bigger part in this debate in the future.

CHOICE publishes this research to guide and inform national debates and to ensure consumers have a voice at the table. As the 45th parliament starts work in Canberra, we hope that this report ensures that consumer concerns are top of mind for all MPs and senators, old and new.

WHAT WE FOUND



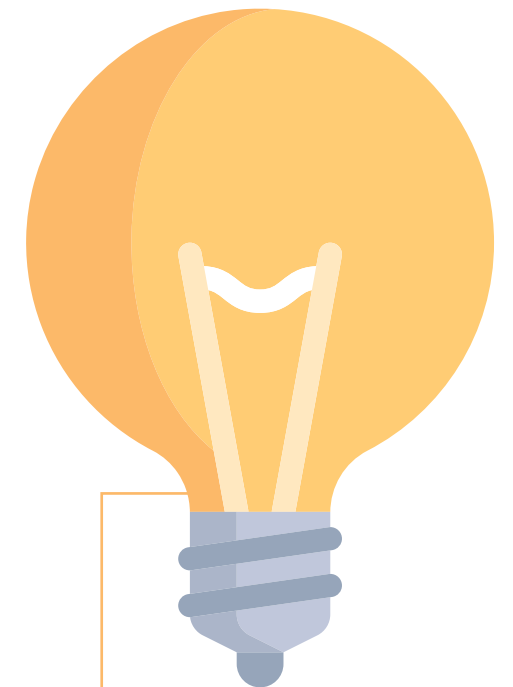
THOSE LIVING ALONE ARE DOING IT TOUGH, **WITH MORE THAN A THIRD (36%) SAYING THEY WERE FINDING IT DIFFICULT TO GET BY FINANCIALLY.**



ABOUT **THREE IN 10** AUSTRALIANS ARE FINDING IT DIFFICULT TO GET BY ON THEIR PRESENT INCOME (28%).



VICTORIA AND NSW ARE LEADING THE PACK FOR POSITIVE SENTIMENT ABOUT THE STATE OF THE AUSTRALIAN ECONOMY. HOWEVER, POSITIVITY ACROSS ALL STATES HAS DROPPED SINCE JUNE 2015.



THE **NUMBER ONE** AUSTRALIAN HOUSEHOLD COST **CONCERN** IS **ELECTRICITY**, A TREND WHICH HAS CONTINUED FOR NINE STRAIGHT QUARTERS.



ALMOST ONE IN FIVE PEOPLE HAVE LIVED OFF A CREDIT CARD IN THE LAST 12 MONTHS TO GET THROUGH TO PAYDAY.

WORRIED ABOUT:

65%
SPENDING CUTS

60%
LEVEL OF SAVINGS

53%
VALUE OF SUPER

Along with concern about cuts in government spending (65%), Australians are worried about their level of savings and investments (60%) and the value of their superannuation (53%).

**COST OF LIVING
5-9**

What are the top household cost of living concerns for Australians in July 2016? And how have concerns changed over the year?

**WHAT ARE PEOPLE
WORRIED ABOUT?
10-13**

How many people are doing it tough, what do they plan to cut back on, what are their views on the economy and what are the big issues they're worried about?

**HOW ARE PEOPLE COPING?
14-15**

How are Australians coping with financial pressure?

**WHO'S FEELING THE SQUEEZE?
16-19**

Who are Australia's haves and have-nots? Renters, people living alone, low-income households and young Australians are feeling cost pressures and showing higher signs of financial distress.

INTRODUCTION

The CHOICE *Consumer Pulse Cost of Living Report* picks up on the trends in Australians' cost of living concerns over the past two years. With low inflation and low wage growth, the overall picture is one of relative stability. However, this big picture hides some of the key pain points for consumers.

Electricity remains steady as the cost most consumers are worried about (81%). In line with the end-of-financial-year insurance premium rises, July 2016 saw a rise in consumer concern about health costs, including insurance (74%); car insurance (68%); and home insurance (57%).

Australians' optimism about the economy has been on the slide, with just 24% of those surveyed rating the economy as good. With economic concern overseas, but relative stability in Australia, consumers may be finding the economy's future prospects difficult to gauge. The overwhelming sense is one of uncertainty, with 41% believing the economy is neither performing well or poorly. In July 2016, 44% reported they were "getting by" on their current income, with 28% struggling and 26% living comfortably.

The biggest external financial worries continue to be government spending cuts (65%), which tend to peak each year after the Federal Budget, and Australians' individual levels of savings and investments (60%). The adequacy of retirement incomes has come to the fore with over half (53%) of Australians worried about the value of their superannuation.

**Consumers feel costs are rising**

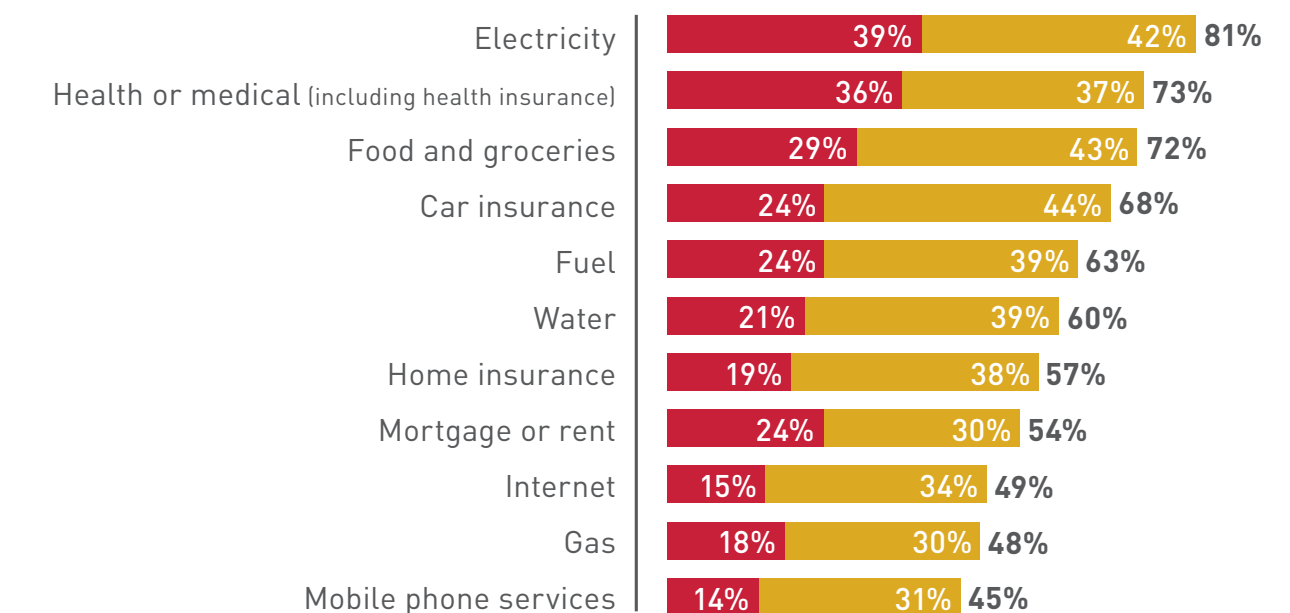
Eight out of 10 Australians are reporting that household bills and expenses have risen over the last 12 months (81%), with 36% saying they've increased a lot. Overall inflation is flat at one percent for the year. This hides some large increases in the individual categories that make up this figure, for example alcohol and tobacco (up 5.9%), health (up 4.5%) and education (up 3.3%). With real wage growth relatively static at 2.1%, consumers are likely to be feeling the increases despite the overall low rate of inflation.¹ Households show high levels of concern about the costs of necessities like electricity, food and groceries, although concern

about fuel costs has decreased dramatically in the past two years. There is also some easing of concern over water costs.

The city-bush divide

Regional-based consumers have felt greater financial pressure from increases in household expenses in the last 12 months (86% compared to 82% in capital cities). In particular, regional consumers are concerned about the costs of goods and services designed to overcome geographic barriers, such as internet (51%) and fuel (65%) costs, when compared with their city cousins (48% and 62% respectively).

“HOUSEHOLDS SHOW HIGH LEVELS OF CONCERN ABOUT THE COSTS OF NECESSITIES LIKE ELECTRICITY, FOOD AND GROCERIES, WHILE CONCERN ABOUT FUEL COSTS HAS DECREASED DRAMATICALLY IN THE PAST TWO YEARS.”

**WHAT WERE THE BIGGEST COST OF
LIVING CONCERNS IN JULY 2016**

Note: Responses to 'How concerned are you about the current costs of each of the following household expenses?' Base: all people. n=1025.

Very concerned
Quite concerned

HEALTH COSTS

A big rise in concern about health costs, including insurance, saw this overtake food and groceries for the first time as Australians' second-biggest household expense concern. When you remove those that haven't had a health cost in the last 12 months the concern level rises to almost four in five consumers (79%).

REFLECTING POLITICAL UNCERTAINTY

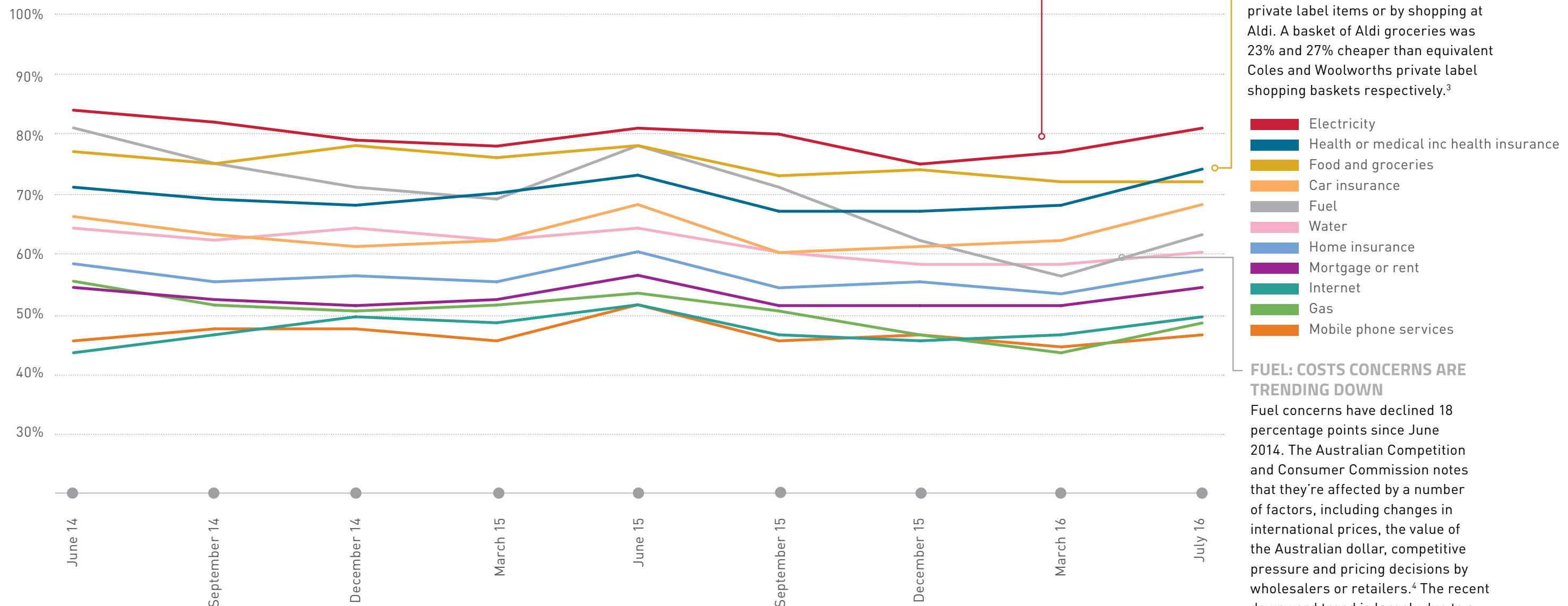
A prolonged election campaign in Australia, coupled with even more uncertainty overseas in the form of Brexit and the US election, saw consumer concerns rise across the board in the last quarter. This uncertainty also saw an uptick in the number of Australians who rated the economy as neither good nor poor.

ELECTRICITY REMAINS NUMBER ONE

Electricity has remained the cost most households are concerned about. The arrival of the winter months tends to see concern increase as heaters are cranked up. While it is a complex market, energy consumer advocates have pointed out that a major issue is state government policies aimed at maximising the sale price of electricity assets at the cost of rising energy prices for consumers.²

THE WEEKLY SHOP GOT A LITTLE BIT CHEAPER

Concern about the cost of food and groceries has remained relatively high with 72% of households concerned about this expense, although it has trended down since June 2014 (77%). According to inflation figures, the cost of an average shopping basket decreased by 0.1% over the last year. A CHOICE June 2015 investigation into grocery prices found consumers can make substantial savings on the weekly shopping bill by switching to private label items or by shopping at Aldi. A basket of Aldi groceries was 23% and 27% cheaper than equivalent Coles and Woolworths private label shopping baskets respectively.³

**CHANGE IN COST OF LIVING CONCERNS
BETWEEN JUNE 2014 AND JULY 2016**

Note: Responses to 'How concerned are you about the current costs of each of the following household expenses?' Base: nine waves September 2015 n=1087, June 2015 n=1372, March 2015 n=1049, December 2014 n=1037, September 2014 n=1012, June 2014 n=1001.

of data. July 2016 n=1024, March 2016 n=1063, December 2015 n=1019, Numbers shown are the total "very concerned" and "quite concerned".

FUEL: COSTS CONCERNS ARE TRENDING DOWN

Fuel concerns have declined 18 percentage points since June 2014. The Australian Competition and Consumer Commission notes that they're affected by a number of factors, including changes in international prices, the value of the Australian dollar, competitive pressure and pricing decisions by wholesalers or retailers.⁴ The recent downward trend is largely due to a global oversupply of oil leading to a 12-year low in prices.

Rent and mortgage costs

There has been a nine percentage point jump since March 2016 in mortgage holder concern about the cost of repayments (69%). The level of concern about renting costs is also 69% although it has been trending down. Given the Reserve Bank of Australia cut the cash rate to a record low in May (the August cut occurred after the July survey), increased concern in the cost of mortgage repayments may reflect high housing costs or major lenders failing to pass on the full cut to customers. Outside of Sydney, housing market supply issues are beginning to be addressed. This has meant some easing of the extreme property growth in the capital cities that was seen in 2015.⁵ As a result, some mortgage holders may be worried they are not seeing the same growth relative to mortgage repayments they may have hoped for, especially if they bought during the peak.

Gas and electricity

Concerns about gas (48%, up five percentage points) and electricity costs (81%, up four percentage points) have both increased in the last quarter. The concern is being felt equally among high-income households (48% for gas and 82% for electricity) and low-income households (46% for gas and 81% for electricity). Gas cost concerns tend to be lower because fewer people have a service. After removing these people from the picture, more than six in 10 (61%) Australians are worried about gas costs.

There has been national debate about the part renewables are playing in driving up energy prices. However, given the carbon price repeal has had plenty of time to filter through, a more likely explanation is the higher wholesale gas prices globally, which is compounded by the fact that gas is used in electricity generation in some states.

Almost a third of Australians are doing it tough

Almost three in 10 people (28%) are finding it difficult or very difficult to get by on their incomes. The figure has remained relatively consistent for each quarterly measure since June 2014. More than four in 10 (44%) are getting by, almost a quarter (23%) are living comfortably and just 4% are living very comfortably, the lowest figure on record.

What are we cutting back on?

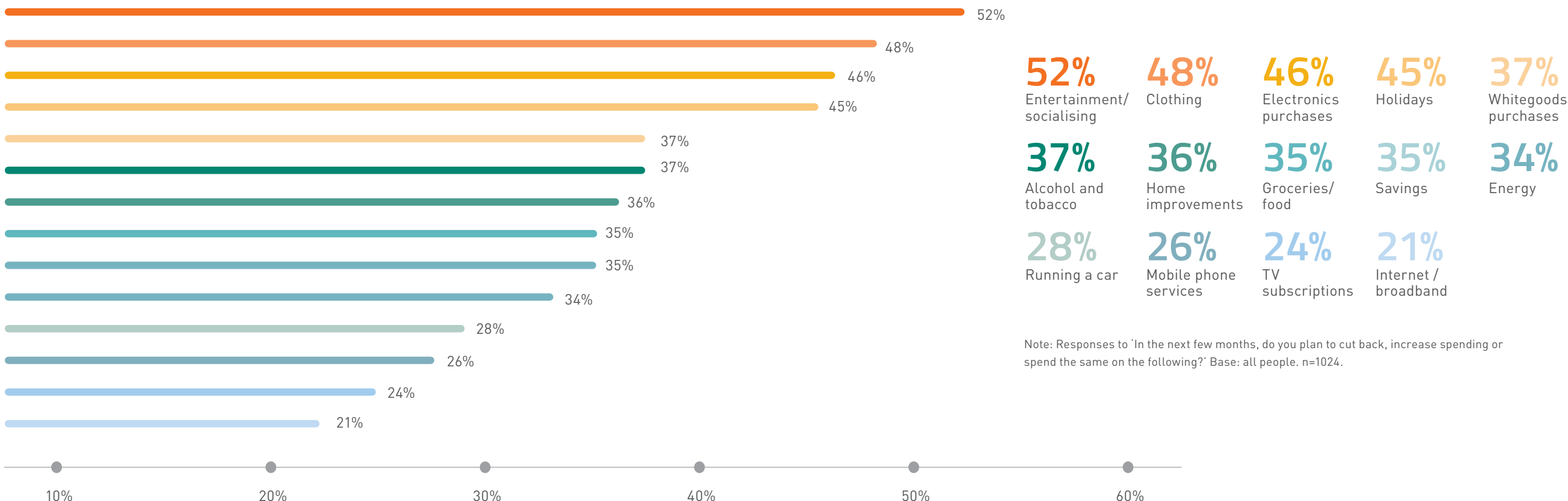
Consumers are reporting the lowest level of cutting back on expenses (58%) since the CHOICE Consumer Pulse began. Despite the general buoyancy, around half of Australians still say they are cutting back on entertainment and socialising (52%), clothing (48%) and big-ticket household purchases (46%) in the next few months. This lines up with lower than expected retail trade growth data, which shows growth in this sector is

the lowest it has been in three years.⁶

Some people are continuing to cut back on television subscriptions (24%). With cheaper streaming services having been available for more than a year now, people may be downgrading from more expensive traditional pay-TV options, although another 35% are planning on spending the same amount.

It's not all belt-tightening, though; low global oil prices mean consumers are getting charged less when they fill up at the pump. This is reflected in decreasing levels of concern about the cost of fuel.

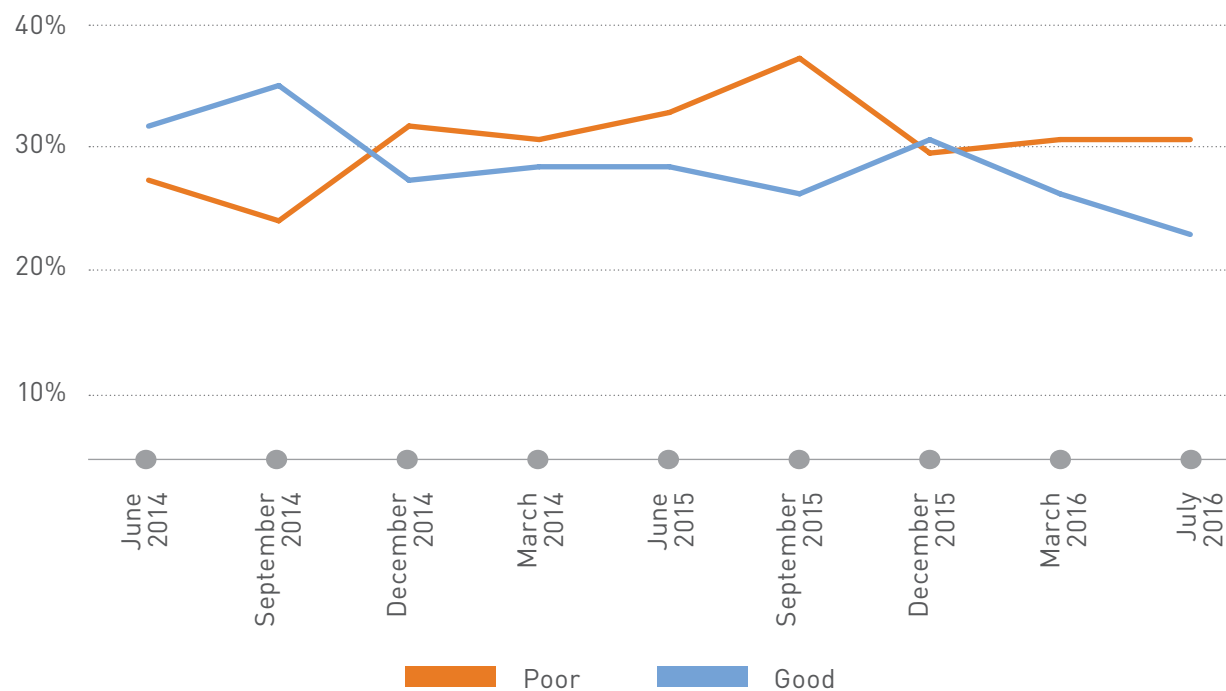
A clear pattern has emerged across the nine quarterly Consumer Pulse surveys with consumers far more likely to cut back on discretionary spending like clothing and entertainment rather than the essentials like groceries and telecommunications services.

WHERE ARE PEOPLE CUTTING BACK?

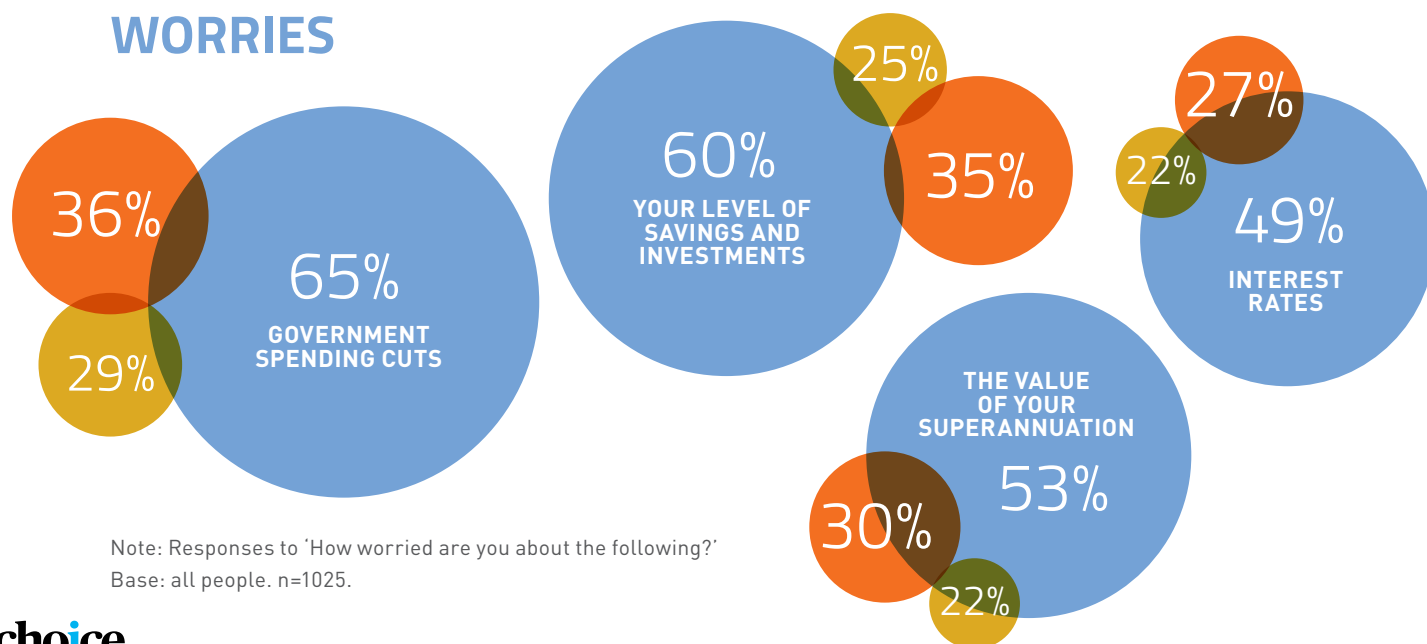
Uncertainty about the economy

There's been a slide in the number of people who think the economy is performing well (24%). These people have gravitated towards viewing the economy as neither

good nor poor (41%) rather than viewing it as poor (31%). With low inflation and a lack of real wage growth largely cancelling each other out, the prevailing mood is one of uncertainty.

VIEW OF THE ECONOMY OVER THE PAST 2 YEARS

Note: Responses to 'How would you rate the Australian economy at the moment?' Base: nine waves of data. July 2016 n=1024, March 2016 n=1063, December 2015 n=1019, September 2015 n=1087, June 2015 n=1372, March 2015 n=1049, December 2014 n=1037, September 2014 n=1012, June 2014 n=1001. Numbers shown are the total "Fairly good" and "Very good" responses.

WORRIES

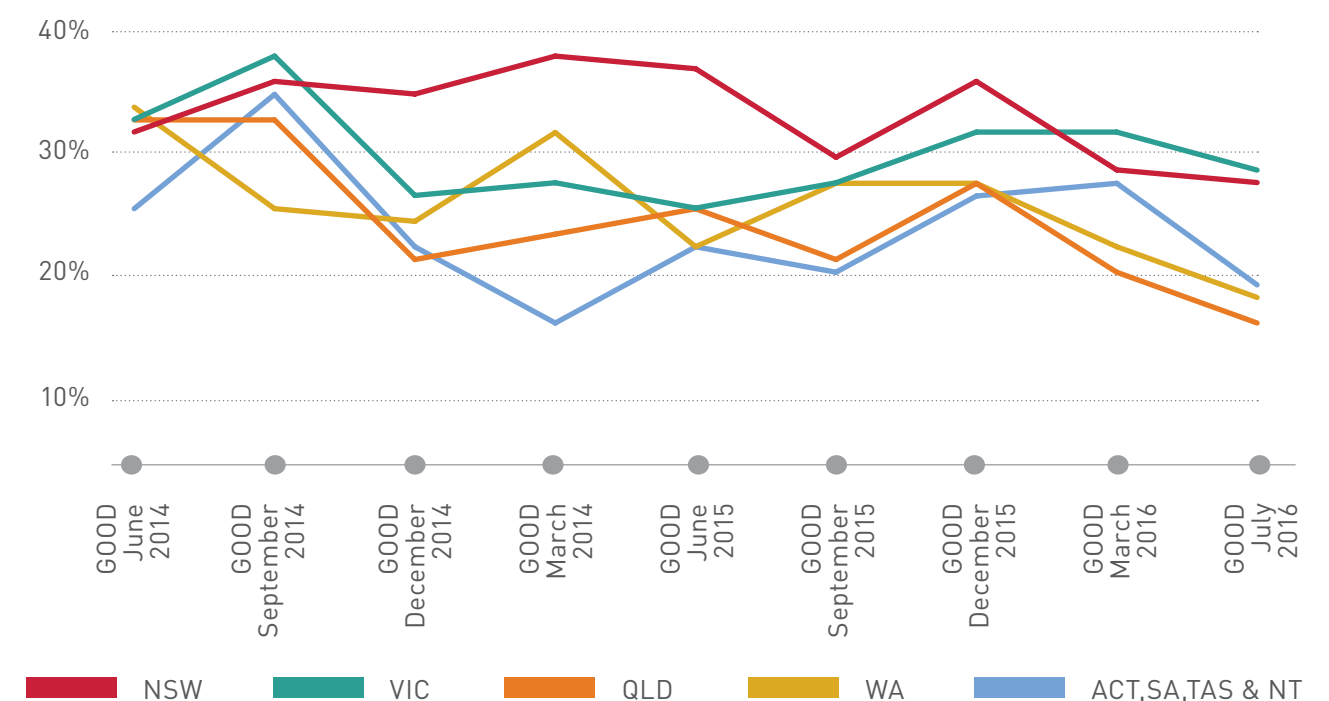
Note: Responses to 'How worried are you about the following?' Base: all people. n=1025.

VIC and NSW: Leading the pack for positivity

People in all states are less positive about the economy than they were in December 2015, but some states have dropped further than others. Victoria (29%) and NSW (28%) remain relatively strong, but less than one in five Queenslanders (17%) and Western

Australians (19%) are feeling positive, reflecting the economic troubles in those states.

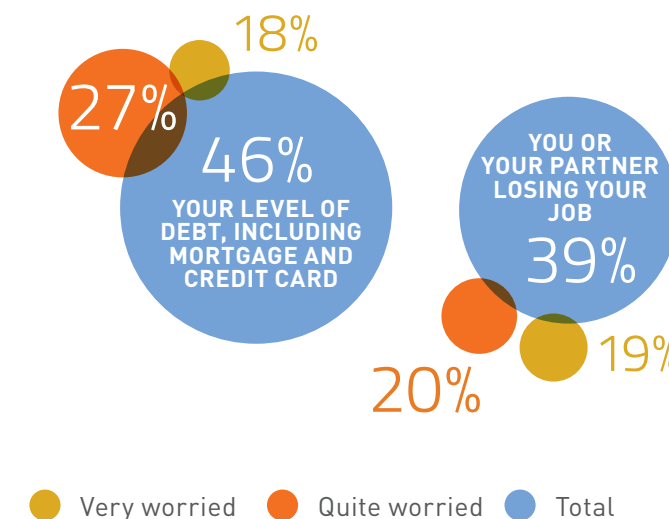
There is light at the end of the tunnel for Queensland, at least, with the lower Australian dollar expected to help agriculture exports and tourism in the coming months.⁷

VIEWS ON THE ECONOMY BY STATE

Note: Responses to 'How would you rate the Australian economy at the moment?' Base: nine waves of data. July 2016 n=1024, March 2016 n=1063, December 2015 n=1019, September 2015 n=1087, June 2015 n=1372, March 2015 n=1049, December 2014 n=1037, September 2014 n=1012, June 2014 n=1001. Numbers shown are total "Good" responses.

More Australians are worried about their finances

Concerns about government spending cuts (65%) tend to peak in post-Federal Budget surveys like this one. Worries about levels of savings and investments (60%) and the value of superannuation (53%) are the other big-ticket concerns. Interestingly, worries about the value of superannuation are high among those living with parents/relatives (61%) or in share houses (64%). With some people giving up on the dream of home ownership, their focus may be shifting to other forms of investment to ensure security in retirement.



BIG PICTURE WORRIES WHAT ARE PEOPLE WORRIED ABOUT?

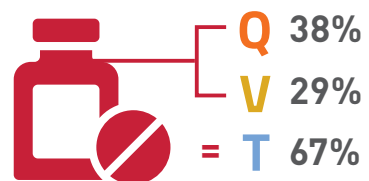
Generations of worry about the cost of essential services

July 2016 saw increases in people's concern over the cost of medicine (67%) and seeing a doctor (59%). Understandably, what people worry about depends on their life stage. Two-thirds (66%) of iGen (under 30s) are worried about the cost of university and almost seven in 10 (69%) are worried about the cost of public

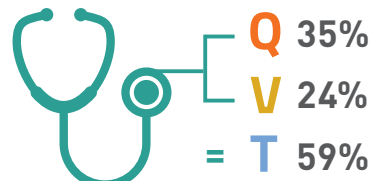
transport. Generations X and Y are more likely to be concerned over childcare fees (43%) as well as public transport costs (48%). By contrast, Pre and Baby Boomers are most concerned by the quality of aged care (54%) and the cost of medicine (65%).

“PRE AND BABY BOOMERS ARE THE MOST CONCERNED BY THE QUALITY OF AGED CARE (54%) AND THE COST OF MEDICINE (65%)”

WHAT COSTS ARE PEOPLE MOST WORRIED ABOUT?



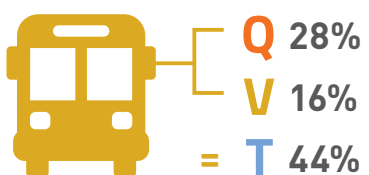
**COST OF MEDICINE/
PHARMACEUTICALS**



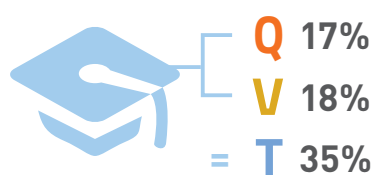
GP COSTS



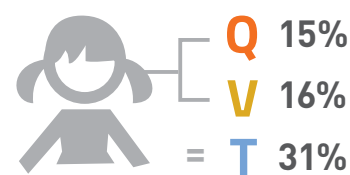
**QUALITY OF
AGED CARE***



**COST OF PUBLIC
TRANSPORT**



**UNIVERSITY
FEES**



CHILDCARE FEES

Q Quite worried V Very worried T Total

Note: Responses to 'How concerned are you about the following?', Base: all people. n=1025.

* i.e retirement villages / nursing homes.

BIG PICTURE WORRIES: WHAT ARE PEOPLE WORRIED ABOUT?

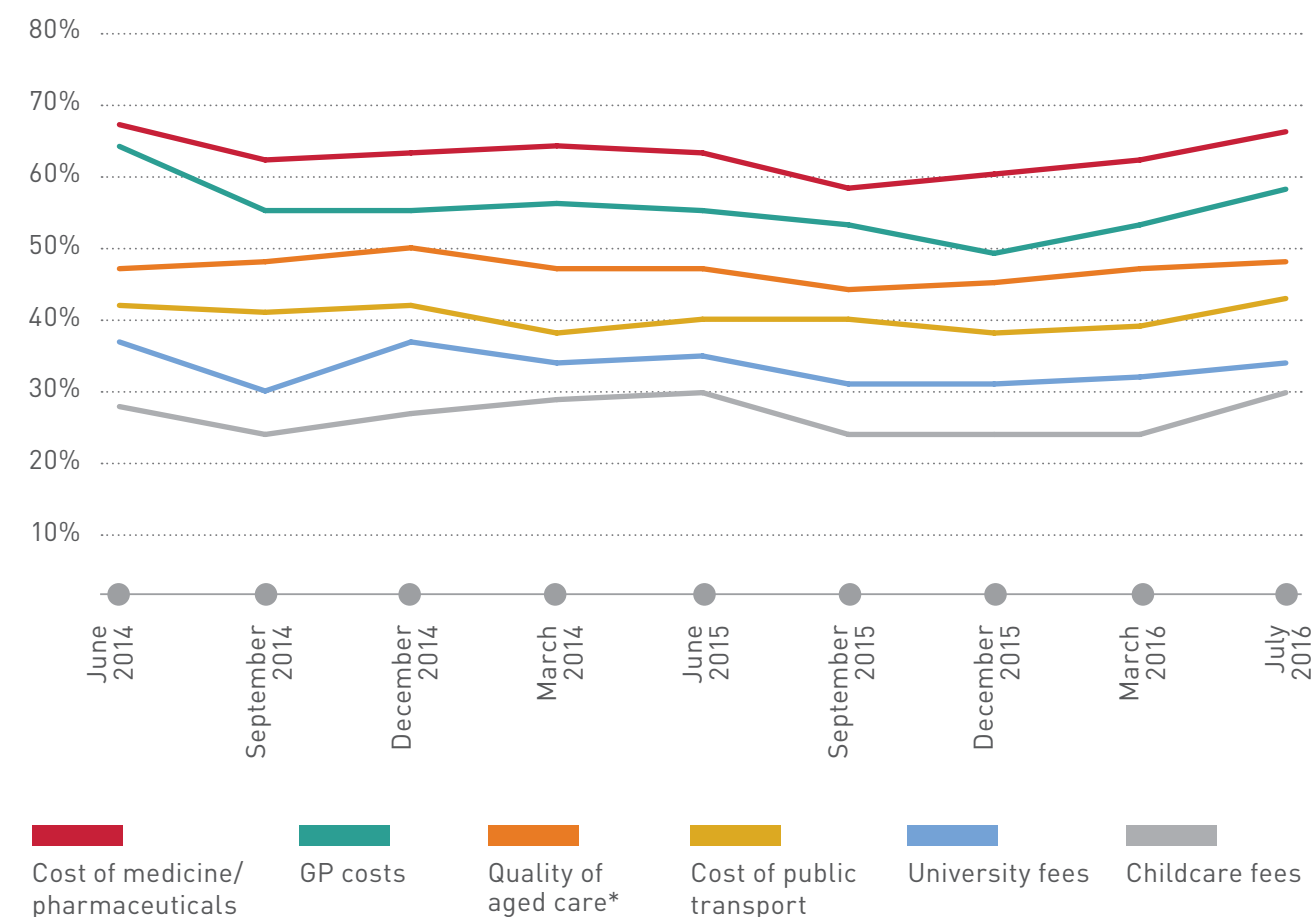
Federal election issues rally the base

The federal election loomed large over the last reporting period. Labor's campaigning on Medicare appeared to resonate strongly with its supporters, who are far more concerned about the cost of medicine (76%) and the cost of seeing a doctor (66%) compared with 59% and 51% for Liberal/National voters respectively.

Concern about childcare fees peaked, with

some families reportedly hitting the caps on government rebates during the quarter and therefore having greater out-of-pocket expenses. Both the federal government and opposition made big policy promises during the election to overhaul the sector. However, the government pushed back the introduction of increased funding package until 2018, perhaps heightening consumer concerns.

COSTS PEOPLE WERE WORRIED ABOUT OVER 2014–2016



Note: Responses to 'How concerned are you about the following?' Base: nine waves of data. July 2016 n=1024, March 2016 n=1063, December 2015 n=1019, September 2015 n=1087, June 2015 n=1372, March 2015 n=1049, December 2014 n=1037, September 2014 n=1012, June 2014 n=1001.

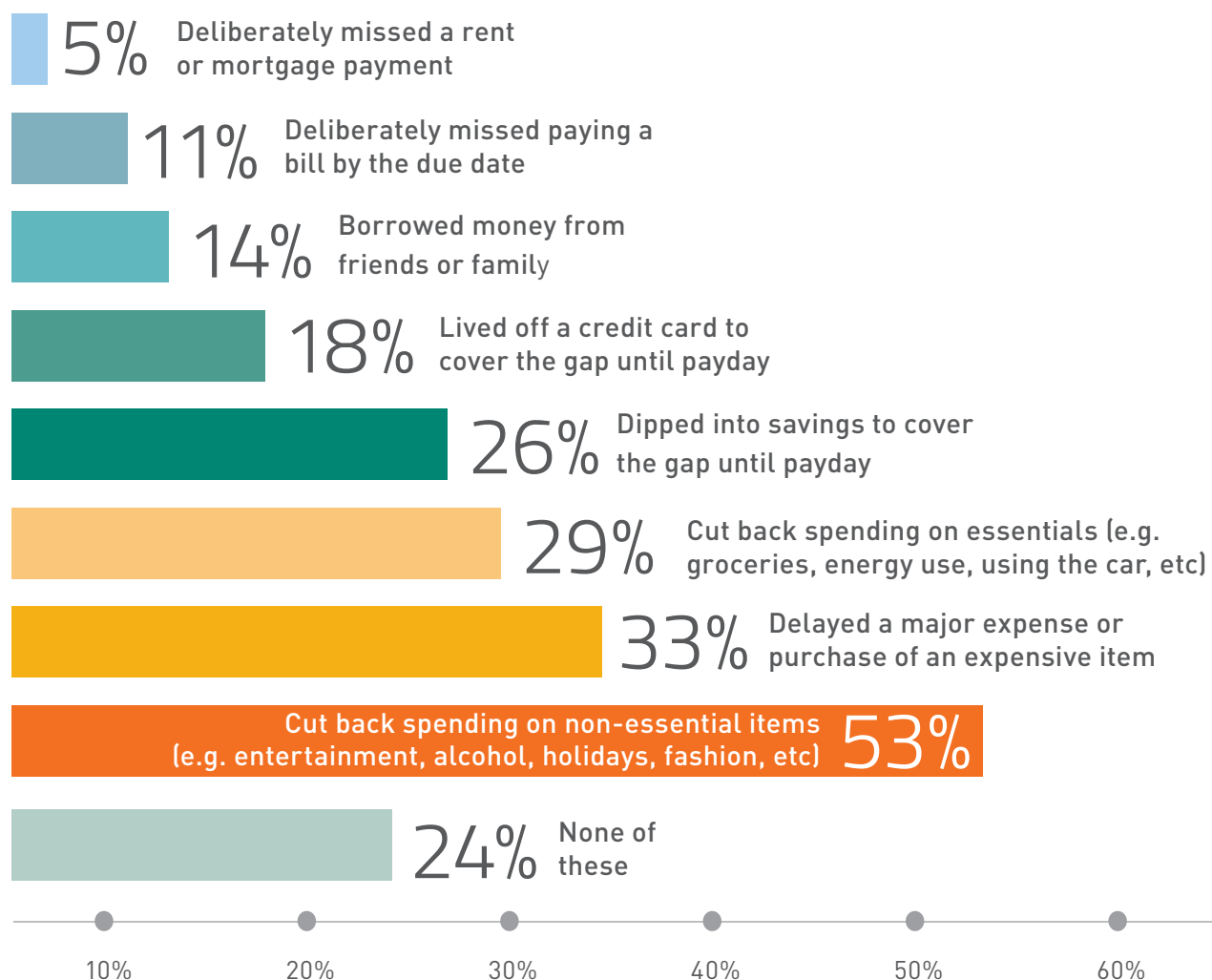
More than one in six people have lived off credit cards to get through until payday

Almost three in 10 Australians (29%) say they've had to cut back on spending on essentials like groceries and energy in the last year. Fortunately, these cutbacks on essentials have been trending down since June 2014 (46%).

A number of key markers of financial stress have remained steady or decreased slightly.

More than one in six people (18%) have lived off credit cards to get through to the next payday. Almost one in seven (14%) have borrowed money from friends or family. More than one in 10 (11%) have deliberately missed paying a bill by the due date, with those living in regional areas (14%) most likely to miss a payment.

HOW ARE PEOPLE COPING WITH FINANCIAL PRESSURES?



Note: Responses to 'Which of the following have you experienced in the last 12 months?'
Base: all people. n=1025.

IN THE PAST YEAR:

4.8 MILLION
CUT BACK SPENDING
ON ESSENTIALS

2.3 MILLION
BORROWED
MONEY FROM
FAMILY OR
FRIENDS

3 MILLION
LIVED OFF A CREDIT
CARD TO GET
THROUGH TO PAYDAY



0.8 MILLION
DELIBERATELY
MISSED A RENT OR
MORTGAGE PAYMENT

4.3 MILLION
DIPPED INTO THEIR SAVINGS TO
COVER THEIR MONTHLY EXPENSES

1.8 MILLION
DELIBERATELY
MISSED PAYING A BILL
BY THE DUE DATE



Note: Approximate number of people calculated using number of Australians aged 18-75 years as per ABS Australian Demographic Statistics Tables June 2014

Who's on struggle street and who's living comfortably?

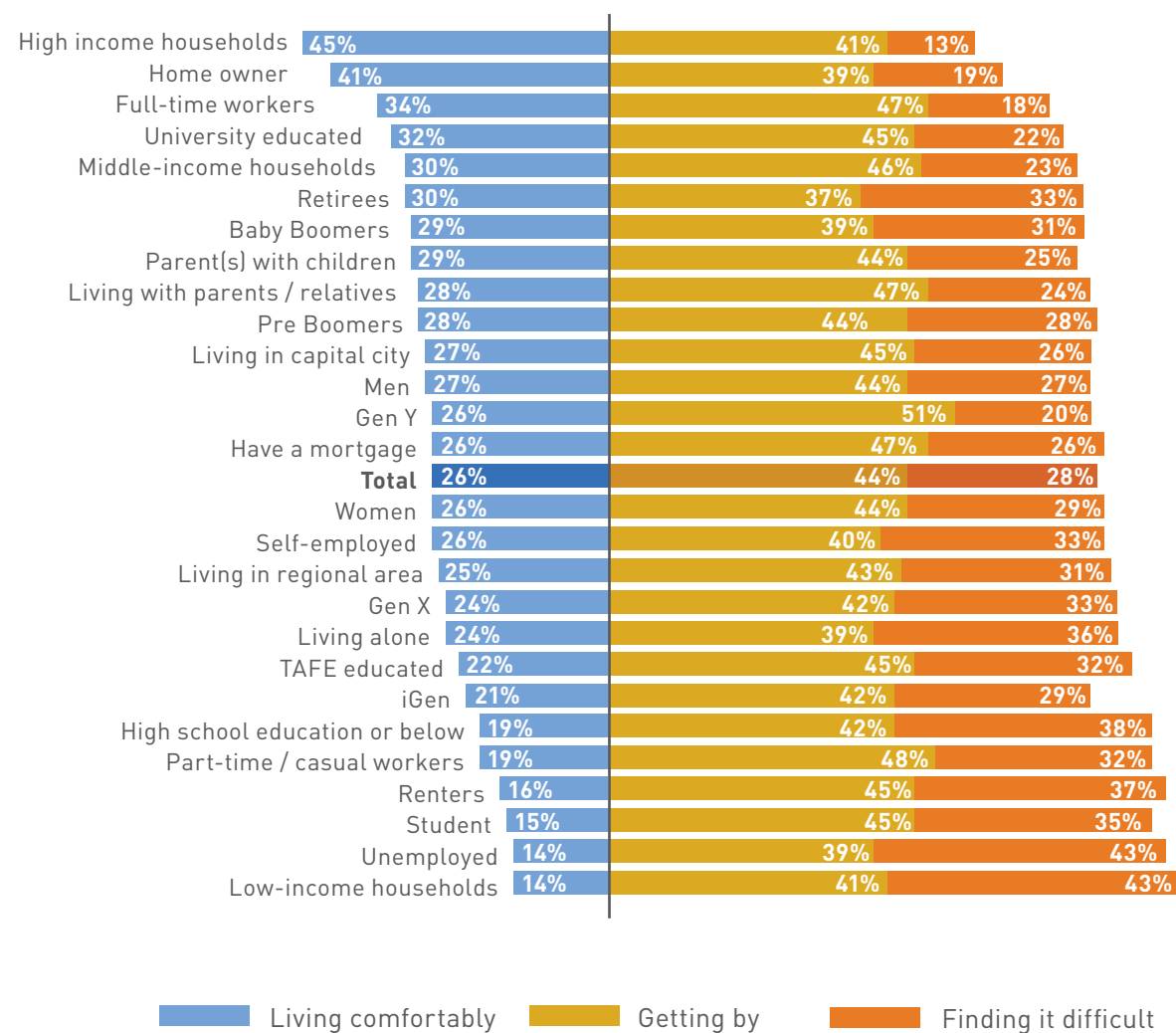
Almost three in 10 (28%) Australians are finding it difficult to get by on their present income, while more than a quarter (26%) say they are living comfortably. But there are some groups finding it tougher than most, like renters, people living alone and low-income households.

Less than three in 10 (29%) women are finding it hard to get by on their present income compared

with 27% of men. Although men in 2015/16 were significantly more likely to be living comfortably (30%) when compared to women (27%), this gender gap was much wider in June 2014, with women (34%) finding it more difficult to get by than men (28%).

More people in regional areas are doing it tough (31%) compared with those in capital cities (26%).

THE HAVES AND HAVE-NOTS. WHO IS COMFORTABLE AND WHO IS FINDING IT DIFFICULT?



Note: Responses to 'Thinking about your household income, which of the following best applies?' Base: all people. n=1025.

The forgotten single households

Come Federal Budget and election time, the focus tends to be on 'working families', leaving those living alone excluded from the national conversation. More than a third of those living alone (36%) said they were finding it difficult to get by financially. By contrast, a quarter (25%) of singles and couples with children said they were struggling on their current income.

For those living alone, the biggest cost

concerns are electricity (79%), food and groceries (70%) and health costs, including health insurance (67%).

People living alone were more likely to be making cutbacks on essential items (33%) and non-essential items (56%) in the past 12 months compared to other household groups. Meanwhile, 24% have had to dip in to their savings to cover the gap until payday.

“PEOPLE LIVING ALONE WERE MORE LIKELY TO BE MAKING CUTBACKS ON ESSENTIAL ITEMS (33%) AND NON-ESSENTIAL ITEMS (56%) IN THE PAST 12 MONTHS COMPARED TO OTHER HOUSEHOLD GROUPS.”



18% OF FULL TIME WORKERS ARE FINDING IT DIFFICULT



32% OF PART TIME OR CASUAL WORKERS ARE FINDING IT DIFFICULT



43% OF UNEMPLOYED PEOPLE ARE FINDING IT DIFFICULT



27% OF MEN ARE FINDING IT DIFFICULT



29% OF WOMEN ARE FINDING IT DIFFICULT



43% OF LOW INCOME HOUSEHOLDS ARE FINDING IT DIFFICULT



13% OF HIGH INCOME HOUSEHOLDS ARE FINDING IT DIFFICULT

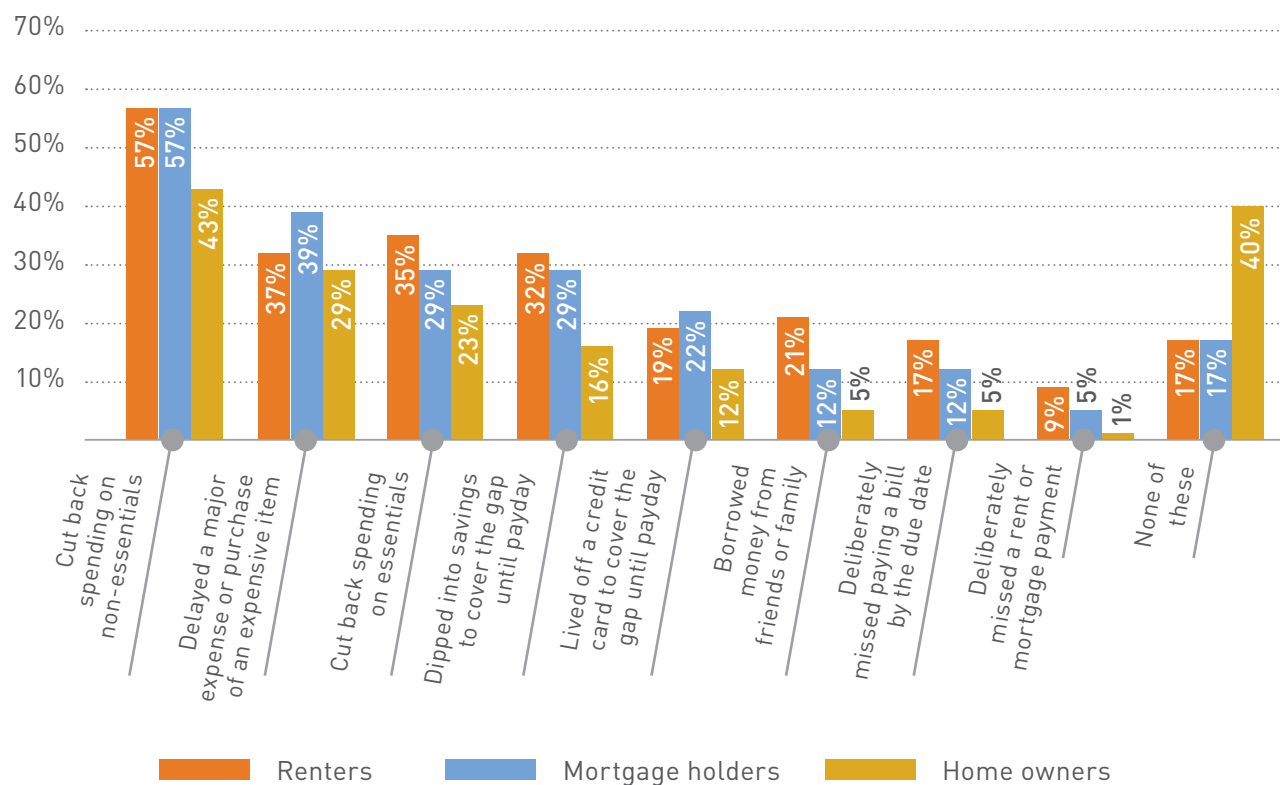
Renters

Renters have consistently been one of the groups feeling the most financial pressure in all nine Consumer Pulse surveys. Almost four in 10 (37%) renters say they're finding it difficult to get by on their present income, compared to one in four (26%) mortgage holders and two in 10 (19%) people who own a home outright.

The typical renter is from Generation Y (45%), working full time (37%) and is living in a shared household.

Renters are significantly more likely than mortgage holders and home owners to have cut back on spending on essentials and to have borrowed money from family or friends. Both renters and mortgage holders are more likely to display signs of financial distress, including living off a credit card until payday and deliberately missing a rent or mortgage payment. Around seven in 10 (69%) renters are worried about their level of savings and investments.

RENTERS, MORTGAGE HOLDERS AND HOMEOWNERS



Note: Response to 'Which of the following have you experienced in the last 12 months?' Base: only respondents who indicated they were renters (n=328), had a mortgage (n=351) or owned a home outright (n=272).

Low-income households

Unsurprisingly, households earning less than \$50,000 per year are the most likely to be finding it difficult to get by on their income (43%). The level of financial distress is concerning, with 14% having to deliberately miss paying a bill by the due date and 18% needing to borrow money from

family or a friend in the last 12 months.

Forty-two percent of low-income households are looking to cut back on groceries and food. For some it's difficult to see change on the horizon, with 37% believing the Australian economy is performing poorly at the moment.

Gen Y concerned but not complaining

Generation Y have 'grown up' and had kids (29%) but the cost pressures of that transition are really kicking in, particularly housing costs. Many are renting (46%), although 38% now have a mortgage, and they are significantly more concerned about mortgage and rent costs (71%) when compared to other generations.

Despite being cast as a generation of entitled complainers, Gen Y were the least likely (20%) to say they are doing it tough. That honour belonged to Gen X (33%) and the Baby Boomers (31%). This is despite Gen Y being the most likely to have deliberately missed paying a bill by the due date (13%) in the last 12 months.

Gen Y is significantly more concerned than other cohorts about their level of debt (62%) and the most likely to be cutting back spending on television subscriptions (44%), presumably because they are taking advantage of cheaper

options online. They are also more seriously looking to increase or maintain their level of savings (70%) and are more worried about interest rates (56%), possibly as the reality of saving for a home deposit or servicing a mortgage sets in.

Gen Y are seriously concerned about university fees (48%) now that they are starting to pay them back, especially when compared to their Boomer parents who were mostly the beneficiaries of a free education (14%). Childcare fees are also starting to hit home for this generation, with 56% worried about cost.

Gen Y is not compromising on threads though, and is significantly more likely to be increasing spending on clothes than other generations. Despite the many savings and cutbacks they have to make as they grow up, there is still a little of the positive YOLO attitude that once defined this generation.

“DESPITE THE MANY SAVINGS AND CUTBACKS THEY HAVE TO MAKE AS THEY GROW UP, THERE IS STILL A LITTLE OF THE POSITIVE YOLO ATTITUDE THAT ONCE DEFINED THIS GENERATION.”





Consumer Pulse research is a study conducted by CHOICE among a sample of 1025 people. The sample is a nationally representative of the Australian population, based on the 2011 ABS Census data.

The study was conducted via an online self-complete survey in partnership with The ORU. The ORU is an ISO 20252 / ISO 26362 accredited panel provider and full AMSRO member.

Fieldwork was undertaken from 21 to 29 July 2016.

The survey is aligned where possible with CHOICE's sister organisation, Which? UK.

Notes on reporting of figures:

Unless otherwise noted, cost of living questions about people's concerns with expenses are based on the total population, including people who do not have a given expense. We have done this to represent the overall views of Australians. Due to rounding, reported figures are correct to within one percent.

NOTES:

1 ABS, 2016, 'Wage Price Index, Australia, Jun 2016', available at: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0> ; ABS 2016, 'Consumer Price Index, Australia, Jun 2016', available at: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

2 PIAC, 2015, 'Senate Inquiry highlights need to examine "stranded assets" in NSW electricity networks', available at: <http://www.piac.asn.au/news/2015/04/senate-inquiry-highlights-need-examine-%E2%80%98stranded-assets%E2%80%99-nsw-electricity-networks>

3 CHOICE, 2015, '2015 Supermarket Price Survey', available at: <https://www.choice.com.au/about-us/media-releases/2015/june/2015-supermarket-price-survey>

4 ACCC, 2016, 'About fuel prices', available at: <https://www.accc.gov.au/consumers/petrol-diesel-lpg/about-fuel-prices>

5 Business Insider, 2016, 'CHARTS: Australia's 'significant' housing shortage', available at: <http://www.businessinsider.com.au/charts-australias-significant-housing-shortage-2016-3>

6 See ABS, Retail Trade, Australia, Jun 2016, Table: Quarterly Turnover, in volume terms - Trend estimate: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/8501.0Main%20Features1Jun%202016?opendocument&tabname=Summary&prodno=8501.0&issue=Jun%202016&num=&view=>

7 CommSec, 2016, 'State of the States, July 2016 State & territory economic performance report'.