



Chamber of Commerce
and Industry WA

Confidence dives as inflation and interest rate hikes continue to bite

CCIWA Consumer Confidence Survey *December 2022*



WA consumer sentiment has slumped over the three months to December as cost-of-living pressures, interest rate rises, and global economic and political risks escalate.

Western Australians remain particularly concerned about inflationary pressures, with living costs remaining the single

biggest drag on consumer confidence this quarter – hurting 4 in 5 (79%) WA households. This continues to reflect higher consumer prices - both here and abroad - driven by persistent global supply chain disruptions, strong demand for goods, and higher input costs.

Further cash rate hikes by the RBA have also weighed on the minds of

Western Australians this quarter, with 69 per cent of respondents identifying interest rates as reducing confidence – up 6 percentage points since the September quarter. Other factors weighing on sentiment remain surging global price levels (making imports more expensive), the ongoing Russo-Ukrainian conflict and continuing geopolitical tensions. Many of these factors are likely to continue to weigh on sentiment in future editions of the CCIWA Consumer Confidence Survey.

The primary factor buoying WA consumer sentiment remains the state's strong jobs market, as WA's unemployment rate continues to sit near historic lows and a record number of Western Australians are in full time employment.

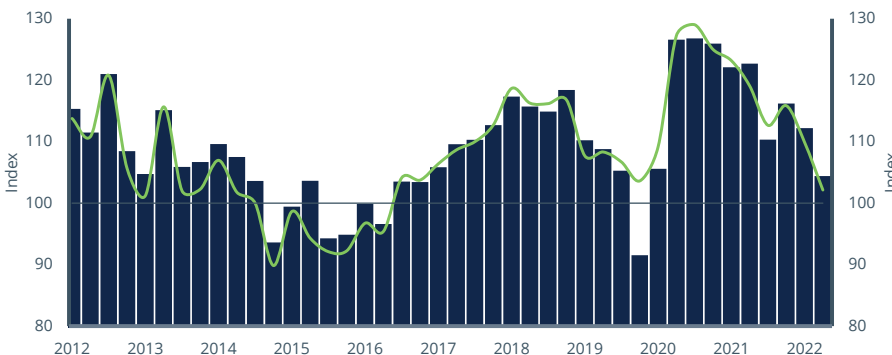
In this edition of the CCIWA Consumer Confidence Survey, we ask Western Australians where they are looking to cut back due to interest rate rises, whether they have needed to dip into their savings to cover higher living costs and their spending intentions for the upcoming Christmas period.

Consumer confidence

WA economic conditions

Index: 2016/17 Average = 100

■ Short-Term (3 months) — Longer-Term (12 months)



Confidence drops in the short-term

Just over one in seven (16%) Western Australians anticipate conditions will improve over the next three months, down 7 percentage points since last quarter. Nearly two in five (37%) expect conditions to soften – up 11 percentage points – while just under half (46%) anticipate no change.

Short-Term Index
down 7.8
Index Points
 over the quarter
 to 103.6

Longer-term outlook declines

Looking to the year ahead, one quarter (26%) of Western Australians anticipate conditions will improve over the next 12 months – down 10 percentage points since last quarter – while 39 per cent expect conditions to worsen, up 10 percentage points. The remainder (35%) anticipate no change. The longer-term index figure of 102.1 is the lowest reading since December 2016.

Longer-Term Index
down 7.8
Index Points
 over the quarter
 to 102.1

In the following sections we unpack the key factors influencing Western Australians' confidence in the WA economy.

What's influencing consumer confidence?

Living costs (-)

Despite evidence that global supply chain disruptions are easing, strong global demand for goods and higher input costs have continued to push up headline inflation over the quarter – with the national Consumer Price Index rising 7.3 per cent over the 12 months to September 2022. As a result, 4 in 5 (79%) Western Australians indicated **living costs** have reduced their confidence this quarter – up 6 percentage points since last quarter.

Interest rates (-)

The Reserve Bank of Australia has continued to hike the official cash rate, which now sits at 2.85 per cent, and has signalled it expects further increases in the months ahead. This has intensified concerns about rising debt repayments for households, with 7 in 10 (69%) Western Australians considering **interest rates** to have reduced their confidence this quarter – up 6 percentage points since last quarter and a significant 33 percentage points since the start of the RBA's hiking cycle (see chart).

International headlines (-)

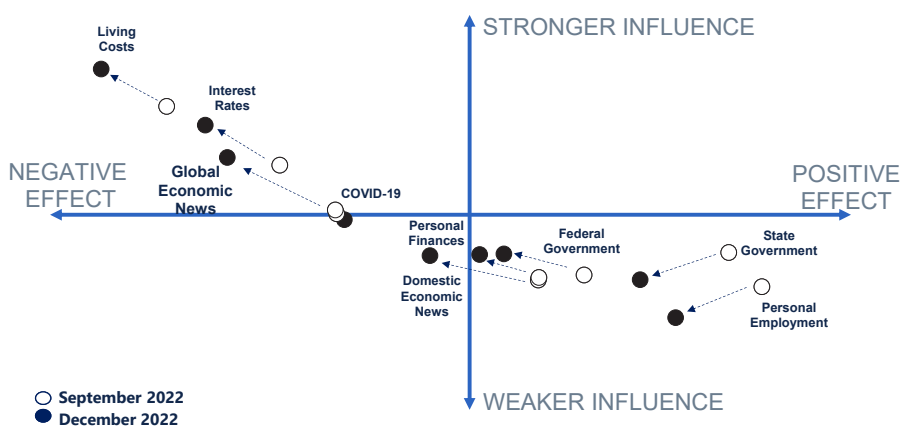
As inflation and interest rates continue to march higher in most global economies, combined with ongoing geopolitical tensions and an escalating Russo-Ukraine war, **global economic news** continues to weigh on the minds of WA households. Almost two thirds (65%) of Western Australians consider global economic news to have reduced their confidence this quarter – up 8 percentage point since last quarter.

Covid-19 (-)

Despite the recent uptick in COVID-19 cases, Western Australians have learnt to live with the virus. As a result, **COVID-19's** drag on consumer confidence has

What influences consumers?

December 2022



remained relatively unchanged over the quarter, with just over half (52%) of respondents considering it to have reduced their confidence this quarter, down 1 percentage point since last quarter.

Employment Prospects (+)

WA's jobs market remains tight. We have more job vacancies than unemployed people and the unemployment rate is sitting near its record low at 3.5 per cent in October. As such, three in ten (28%) Western Australians considered **employment prospects** to have increased their confidence this quarter. While still a positive contributor, this is down 8 percentage points since last quarter.

State Government (+)

The State Government is the only other factor buoying WA consumer sentiment. Just over one third (36%) of Western Australians consider the **State Government** to have positively influenced their confidence this quarter, down 7 percentage points since last quarter.

Insights into CCIWA's Consumer Database

Increased mortgage repayments reducing spending

Since May, the Reserve Bank has increased the cash rate at its fastest pace since 1994. This has piled on the pressure for many mortgage holders, with variable mortgage repayments increasing significantly over this time. In this edition of the *Consumer Confidence Survey*, we asked Western Australians if they had reduced their spending due to rising interest rates and the areas they're seeking to pull back.

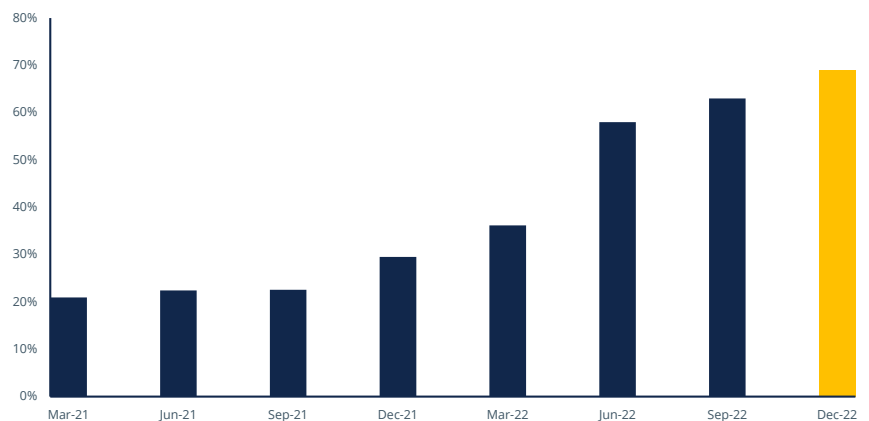
Two in five respondents (43%) indicated they have a mortgage, with 81 per cent of mortgage holders having at least part of their mortgage on a variable rate – this means around a third of respondents have started to feel the effects of an increase in interest rates on their finances.



“Since May, the Reserve Bank has increased the cash rate at its fastest pace since 1994.”

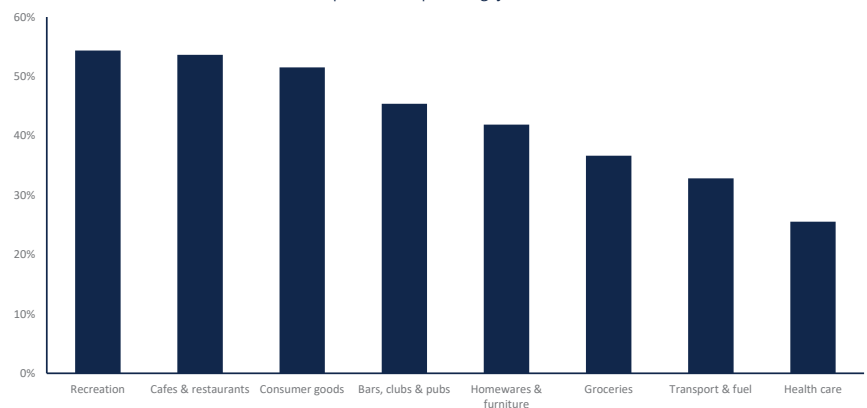
Interest rates – Negative influence on confidence

Proportion Net Agree



Spending areas reduced due to higher mortgage repayments

Proportion responding 'yes'



So, where are Western Australians cutting back their spending? More than half (54%) have reduced their spending on **recreation** (such as holidays and entertainment) and going to **cafés and restaurants**. This was closely followed by **consumer goods** (such as electronics, cosmetics, clothing etc), with 52 per cent saying they had reduced spending in this area. Other areas where mortgage holders indicated they had reduced their spending include:

- Bars, clubs and pubs (45%)
- Homewares, furniture and renovations (42%)
- Groceries (37%)
- Transport and fuel (33%)
- Health care (26%)

More than 4 out of 5 (84%) mortgage holders indicated they had reduced their spending in at least one of the above categories as a result of increased interest rates.

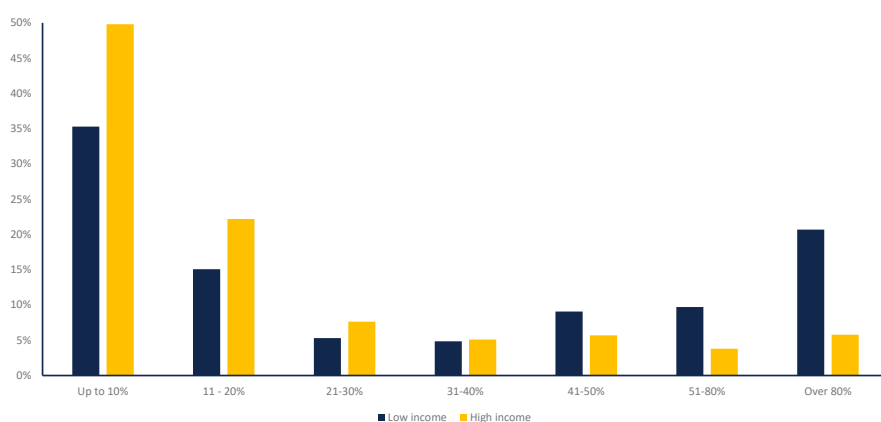
For those that have reduced their spending, we then asked by how much they have cut back in each of these areas. Noticeably, consumers have reduced their spending more on discretionary items (such as recreation and eating out) than they have on essential items (such as groceries and transport).

Of those that have reduced their spending on recreation, around half (51%) have cut back by more than 40 per cent since interest rate rises began. This is a similar story for homewares and furniture, with just under half (46%) having reduced their spending by more than 40 per cent.

On the flipside, only one in ten (11%) respondents have reduced their spending on transport and fuel by more than 40 per cent – with the majority (60%) having decreased their spending by less than 20 per cent. Similarly, only 13 per cent of those who have reduced their spending on groceries have done so by more than 40 per cent, while a majority (65%) have pulled back by less than 20 per cent.



Proportion of savings drawn down to fund higher living costs



Rising cost of living eating away at savings

With the cost of living rising over the past year, we asked Western Australians how much they have in savings and whether they have needed to dip into this to cover higher living costs.

On average, Western Australians identified that they have just under \$50,000 in savings and offset accounts. The median value saved, however, sits much lower at \$6,000 – in other words, half of respondents have less than \$6000 saved. In addition, older Western Australians have around \$67,000 saved on average, double the proportion of younger Western Australians (\$33,000 saved). Unsurprisingly, those on lower incomes (up to \$40,000 in annual income) have significantly less in savings than their higher income counterparts – those on lower incomes have on average \$27,000 saved, compared with \$150,000 for those on

higher incomes. More strikingly, just over half (53%) of lower income earners have less than \$1,000 in savings, compared with only 6 per cent of higher income earners.

When asked whether they had drawn down on savings or offset accounts, just under half (46%) of respondents indicated they had. Younger people were more likely to have drawn down on funds, with three in five (59%) saying they had done so, compared with two in five (39%) in the older cohort.

On average, Western Australians have drawn down approximately 30% of their financial stockpile to cover higher living costs over the past 6 months.

Mortgage holders with a fixed rate mortgage are more likely to have drawn down a lower proportion of savings than those with a variable mortgage – just under half (48%) of those with a fixed mortgage had only drawn down less than 10 per cent of their savings,

compared with just over a third (37%) of those with a variable mortgage.

Those that are younger, on lower incomes and casual workers are also more likely to have drawn down a greater proportion of their savings, given their lower starting balances, and shows the regressive effect of higher living costs on different cohorts.

Christmas Spending

With the Christmas period fast approaching, in this edition of the *Consumer Confidence Survey* we asked Western Australians how much they think they would be spending on Christmas and how that compares to last year.

Looking to the results, nearly two in five (38%) West Aussies expect to be spending less than they did last Christmas, including 15 per cent that plan to spend 'much less'.

At the same time, nearly one in five (17%) said they will be spending more than last year, with 4 per cent expecting their Christmas spend to be 'much higher'. The remainder (43%) said they would spend about the same.

Lower income workers are more likely to be spending less than those with higher incomes. Nearly half (48%) of low-income workers said they would reduce their Christmas spending this year, compared with three in ten (29%) high income earners.

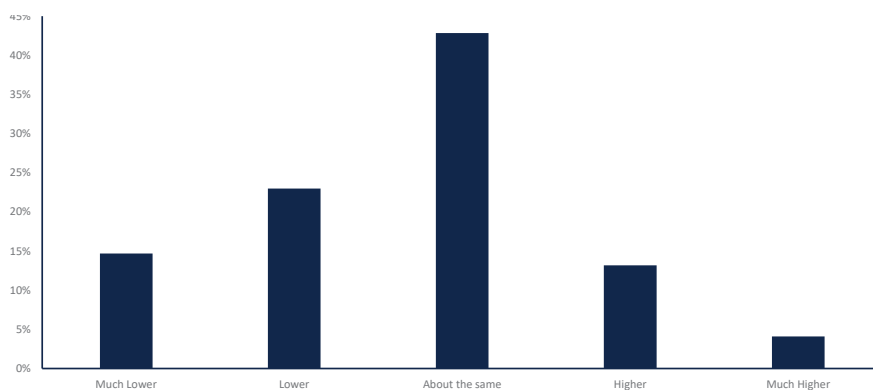
On average, Western Australian households are planning to spend just over \$1,000 on Christmas related purchases. While this is higher than the last time this question was asked in December 2020 - which saw an average spend of just over \$900 - we are now in a significantly higher cost environment.

Only one in five (21%) people expect to spend more than \$1,000, while more than half (56%) expect their spending to be under \$500. In total, Western Australian households are expected to spend just over \$1 billion on Christmas-related purchases this holiday period.



“Nearly two in five (38%) West Aussies expect to be spending less than they did last Christmas.”

What are your spending expectations for this Christmas compared with last year?



CCIWA Christmas Spend Consumer Profile	Average expected spend per person (\$)	Spend compared with last year?	
		Higher (%)	Lower (%)
Male	1150	22	31
Female	948	14	44
Younger (18-39 years)	1083	26	38
Older (40+ years)	997	11	38
Metro	1028	17	38
Regional	1067	21	41
Total	1036	17	38

Consumer Confidence – December 2022



Both **shorter** and **longer term confidence** has **fallen** this quarter, weighed down by **inflationary** pressures and rising **interest rates**

Interest **rate rises** are starting to **take effect**, as just over half (54%) of Western Australian mortgage holders have **reduced** their spending on **recreation** and **eating out**.



Just under half (**46%**) of Western Australians have **dipped** into their **savings** or **offset accounts** to cover the **higher** cost of living.

Almost two in five (**38%**) Western Australians are **planning to spend less** this Christmas period **than last year**.



Consumer Confidence	Current Quarter (December)	Previous Quarter (September)	Lowest Since
Short-Term	103.6	111.3	June 2020
Longer-Term	102.1	109.9	December 2016
Personal Finances	100.2	105.5	September 2020
Job Prospects	111.7	114.8	September 2021

Note: Index figures may have changed from previous editions of Consumer Confidence due to changes in index calculation methodology. Percentage figures may not always add to 100% due to rounding errors.

The index is rebased to the average score of respondents to the 2016-17 financial year. The value of the index can be interpreted as the percentage change in average consumer confidence in a period compared with the average consumer confidence in 2016-17. For instance, the Consumer Confidence Index in December 2022 is 103.6, which suggests that the average score of survey respondents for consumer confidence in December 2022 is 3.6 per cent higher than the average rating in 2016-17.

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