

# Cost of living pressures cool consumer confidence

Western Australian consumer confidence slipped over the three months to September, as cost of living pressures and global uncertainty continue to weigh on confidence. This is in line with the rest of the country, as the Westpac-Melbourne Institute Consumer Sentiment index also trended downwards over the three months to September.

Although inflation is declining, it remains well above target – exerting relentless pressure on household budgets. As such, the high cost of living is once again the primary factor

denting consumer sentiment, with 76% of Western Australians indicating high-cost pressures have diminished their confidence. Additionally, more than three in five (64%) Western Australians considered interest rates to have negatively impacted their confidence, as the cash rate was held at decade highs.

WA's strong jobs market continues to prop up confidence. Job vacancies continue to remain near record levels, as two in five (40%) Western Australians report that their employment prospects have had a

positive effect on their sentiment. At the same time, the Western Australian State Government recently achieved a AAA credit rating, following four consecutive budget surpluses. As such, it comes as no surprise that one in every three (34%) Western Australians considers the State Government as a pillar of confidence.

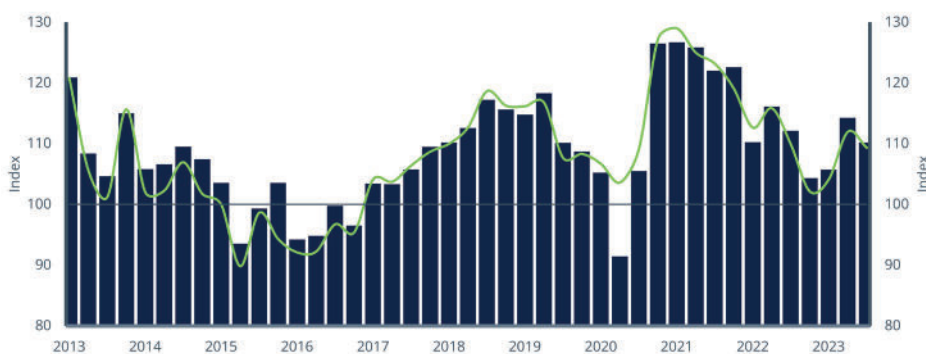
In this edition of the *CCIWA Consumer Confidence Survey*, we ask Western Australians about their views on the burden payroll tax imposes on WA businesses, the current structure and length of their mortgage, how much spare cash they have in their mortgage offset and savings account and how much of this they've dipped into to cover the higher cost of living.

## Consumer confidence

WA economic conditions

Index: 2016/17 Average=100

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



## Confidence falls in the short-term

Looking ahead, almost one in five (19%) Western Australians believe conditions will improve over the next three months – down six percentage points since last quarter. Over half (56%) expect conditions to remain the same, up six percentage points, while around a quarter (26%) expect conditions to soften.



### Longer-term outlook also drops

Looking to the year ahead, just over one in three (34%) Western Australians expect economic conditions to improve over the next 12 months – down five percentage points since last quarter. Almost three

in 10 (29%) anticipate conditions to worsen, up two percentage points since last quarter while the remainder (37%) anticipate no change.

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

**Short-Term Index down 4.1 Index Points** over the quarter to 109.4

**Longer-Term Index falls 2.6 Index Points** over the quarter to 109.3

### What's influencing consumer confidence?

#### Living costs (-)

High **costs of living** continued to drag on confidence this quarter. Despite peaking in December, the national rate of inflation is sticking at historical high levels, reading 6.0% in June 2023. As a result, three in four (76%) Western Australians indicated that living costs subdued their confidence this quarter.

#### Interest rates (-)

Steep **interest rates** continue to burden households in WA, with data showing total housing mortgage interest payable has increased by 107% over the year to June 2023 while housing servicing costs have crept up to 9.4% of disposable income. As a result, over three in five (64%) Western Australians identified that interest rates have dampened their confidence this quarter.

#### International headlines (-)

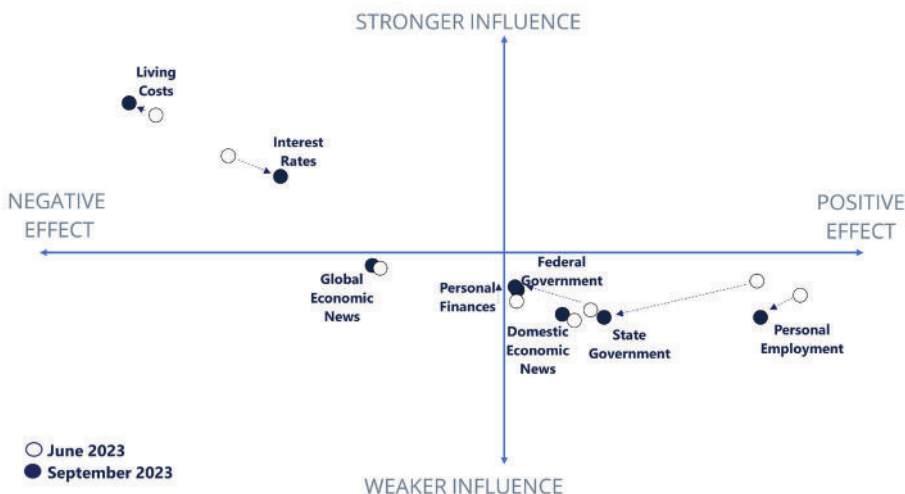
**Global economic news** remains a worry for WA households, with a similar proportion of households reporting this as a drag on confidence compared with last quarter (53%). The continued pessimism about the global outlook may reflect the ongoing Russo-Ukraine conflict and China's slower than expected reopening – along with the anticipated slowdown in activity across the globe.

#### Personal finances (-)

Higher interest rates and inflation continue to exert significant pressure on WA households' cash flows. As such, two in five (40%) Western Australians indicated that their **personal finances** have diminished their confidence this quarter. The proportion of households reporting this has remained around this level over the past 12 months, likely reflecting the persistently high cost of living.

### What influences consumers?

September 2023



## Employment Prospects (+)

WA's sustained tightness in the labour market – with a low unemployment rate of 3.5% as of July – has resulted in two in five (40%) Western Australians reporting that **employment prospects** bolstered their confidence this quarter. However, this is down five percentage points since last quarter, which may indicate a slight loosening in labour market conditions – particularly as the economy slows and migration remains strong.

## State Government (+)

The WA State Government continues to remain a source of confidence among WA households, with one third (34%) indicating this supported their outlook on the economy over the quarter. Despite regaining its AAA credit rating, this is down a significant 10 percentage points since June.

## Insights into CCIWA's Consumer Database

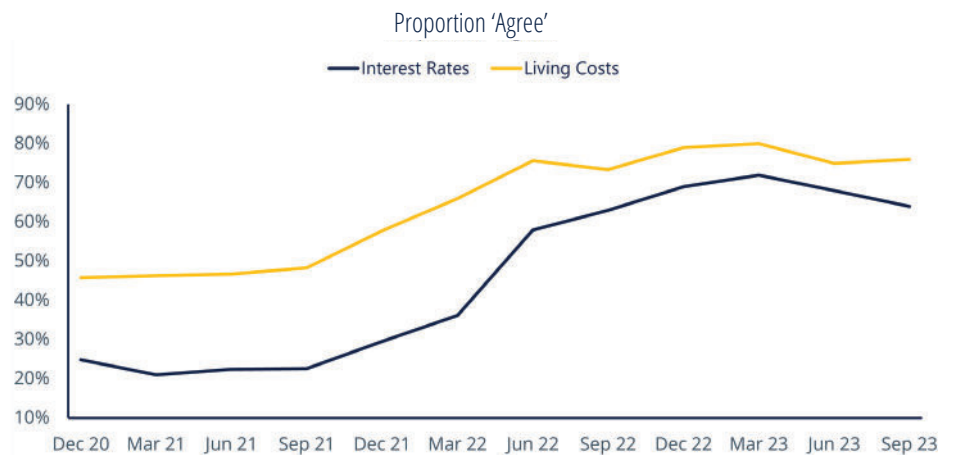
### Payroll tax viewed as a burden on the State's economy

Western Australian businesses face the nation's most substantial payroll tax burden, contributing to the overall cost of operating a business. In this edition of the *CCIWA Consumer Confidence Survey*, we asked Western Australians for their views on the existing rate of payroll tax imposed on WA businesses.

Looking to the responses, the majority of Western Australians hold the view that the current payroll tax system is inequitable and hinders the growth of the State's economy. Almost three in four (74%) respondents agree that the State Government should take more measures to create a level playing field for businesses in Western Australia, while only 5% disagree with this statement. Similarly, seven in 10 (69%) households expressed that it's not fair WA businesses pay a higher payroll tax than their counterparts in other states - only one in 10 (9%) disagree.



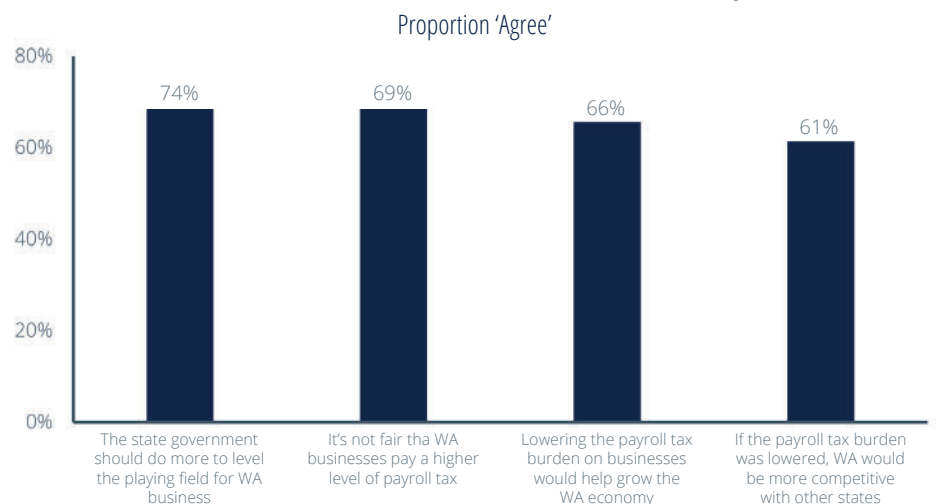
## Living Costs & Interest Rates – Positive influence on confidence



Additionally, two in three (66%) respondents believe lowering the payroll tax burden on WA businesses would help to grow the State's economy. A similar proportion (61%)

think WA businesses would be more competitive if the current payroll tax were lowered. Again, only one in 10 respondents disagree with these statements.

## WA households call for a fair reduction in Payroll Tax



Clearly, the consensus from WA households is that the current payroll tax system places an unfair burden on WA businesses and unnecessarily holds back the State's economic progress.

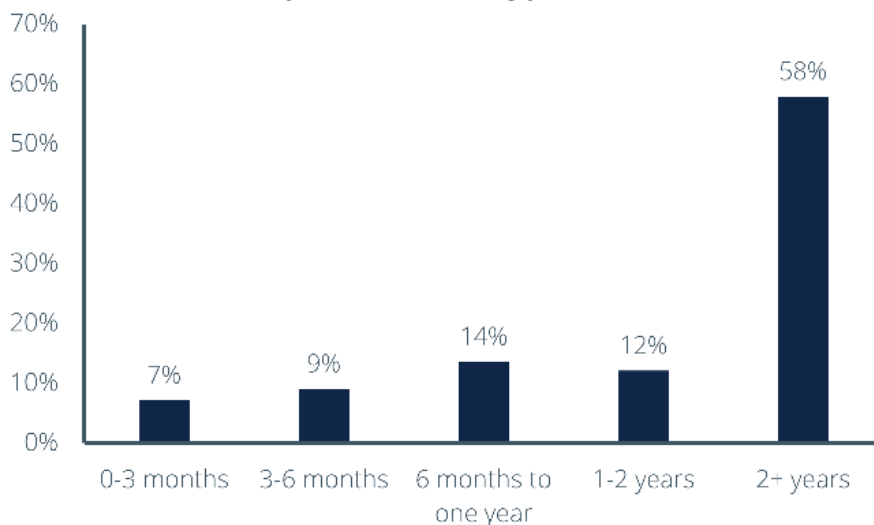
### Variable rates to shape the future household economy

The RBA cash rate is now firmly in restrictive territory at 4.10% and is forecast to remain there while inflationary pressures continue to persist. As such, mortgage debt is one of the primary drivers of reduced household spending. Looking ahead, the latest increases to the cash rate are yet to pass through to households rolling off low, fixed rate mortgages. Consequently, some households are expected to feel a further pinch as debt servicing pressures escalate. To uncover the effect that the changes in the cash rate will have on WA households, in this edition of CCIWA's *Consumer Confidence Survey* we asked Western Australians when they will be refinancing their current home loans and whether they will next choose a fixed rate or a variable rate mortgage. Unpacking the responses, around one third (36%) of Western Australians indicated that they have a home loan, the majority (70%) of which indicated they will see their mortgages expire or need refinancing in one year or more.

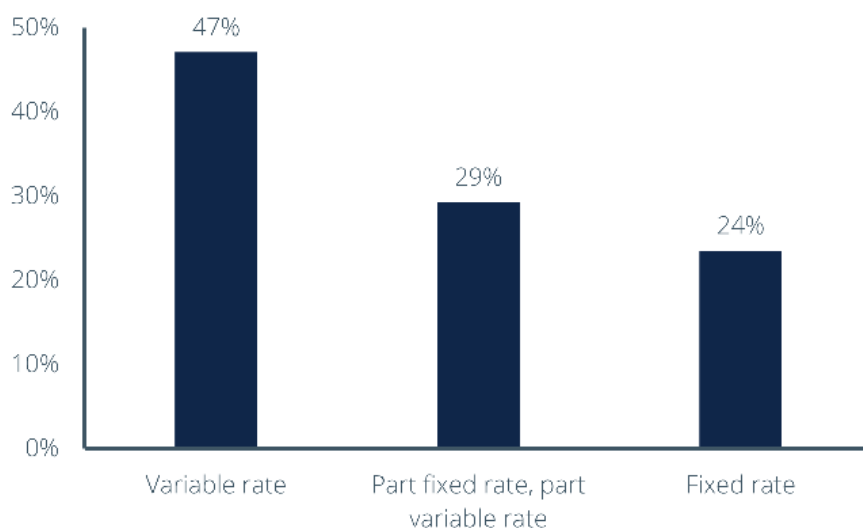
The remaining 30% will see their mortgages expire or need refinancing sooner – 7% indicated this will occur within the next 3 months, 9% in 3-6 months and 14% in 6-12 months.

When asked whether they would next choose a variable rate or fixed rate mortgage, of those who will need refinancing, the majority (76%) will choose a mortgage with at least a part variable component in their rate structure. Breaking this down further, just under half (47%) indicated they will choose a variable rate mortgage, while three in 10 (29%) reported they will choose a part fixed-rate, part variable-rate mortgage. The remaining quarter (24%) responded that they will choose a fixed rate mortgage.

### When does your current home loan expire or when will you be refinancing your current loan?



### When you refinance your current mortgage, will you next choose a fixed rate or a variable rate mortgage?



As a result, we can expect the impact of interest rate increases to continue to flow through to a greater number of households this year.

### Household savings buffers shrink further

Western Australia's inflation rate is showing a gradual decline, yet it continues to stand well above target at 4.9% as of June 2023. At the same time, the cash rate remains at its highest in a decade – reading 4.1% as of September 2023. As such, households in Western Australia, particularly those renting or with mortgages, are still under considerable financial pressure.

To gain insight into the savings buffers available to WA households, we asked Western Australians how much they have tucked away in mortgage offset and savings accounts and whether they have needed to dip into these to cover the higher cost of living.

Looking to the responses, Western Australians with a mortgage indicated they have an average of \$45,800 sitting in offset accounts. The median value is \$10,000, indicating the majority of those with mortgages have little left in offsets.

Overall, Western Australians indicated they have an average of just over



\$65,800 in savings accounts, including term deposits. Average savings have increased by \$10,800 since last quarter. However, the median savings value has continued its downward trajectory, currently sitting at \$4,000 – i.e., half of respondents have less than \$4,000 saved. This has dropped by \$1,000 since June and by \$2,000 since December. These results suggest that the wealth gap has broadened, as the median value of savings decreased while the average savings increased.

When asked whether they had needed to draw down on their savings or offset accounts to absorb the higher costs of living, almost half (49%) of respondents indicated they had – down two percentage points since last quarter. Western Australians identified they have drawn down an average of 16% of their savings and offset accounts to cover the higher cost of living – 3% less than in June.

Unsurprisingly, those who used the greatest proportion of their savings

to cover escalating costs of living are those who are younger, renting or own a home with a mortgage. On average, those aged between 18 years and 39 years reported they drained 19.5% of their savings. On the flipside, people 40 years of age or older have only drawn down 13.5% of their savings.

Homeowners with a mortgage dipped into 20.1% of their savings and those renting dipped into 19.0% of their savings. In comparison, those who own their home outright only drew down on 8.9% of their savings – around half of the proportion their counterparts drew down on.



# Consumer Confidence – September 2023



Both **shorter** and **longer-term confidence** fell this quarter but remain **higher** than **six months ago**

The **majority** (76%) of **Western Australians** with a mortgage indicated they will choose **at least a part variable** rate structure when they **refinance**



**Half** of Western Australians have **less than \$4,000** in savings - **down \$1,000** from the median savings value last quarter

**Almost half** (49%) of respondents indicated they have drawn **down** on their **savings** and **offset** accounts to cover the **higher cost** of living, doing so **by an average of 16%**



Consumer Confidence	Current Quarter (September 2023)	Previous Quarter (June 2023)	Highest Since
Short-Term	109.4	113.5	June 2023
Longer-Term	109.3	112.0	June 2023
Personal Finances	101.2	101.5	June 2023
Job Prospects	110.5	111.4	June 2023

**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.

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 September 2023 is 109.4, which suggests that the average score of survey respondents for consumer confidence in September 2023 is 9.4 per cent higher than the average rating in 2016-17.

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