



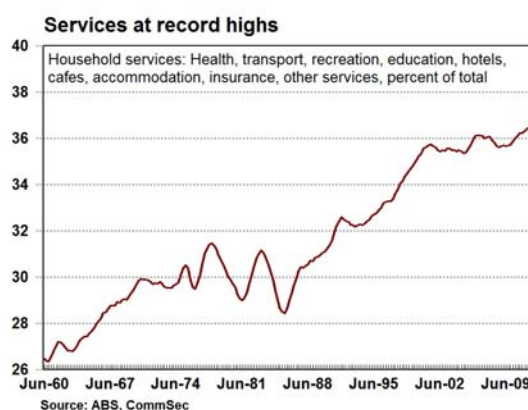
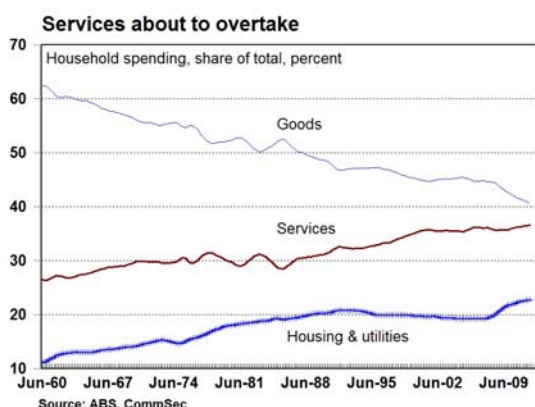
The New Age Aussie Consumer

Economic trends

- **Services hit record highs:** Australian consumers are almost spending as much on services like fitness classes, insurance premiums, airfares and visits to health practitioners as they are spending on physical goods like clothing, cars and furniture.
- **Winners & losers:** The change in consumer behaviour is producing an array of winners and losers. For instance Australians are spending more of their budgets on public transport and airfares than buying a car. Less is being spent at cafes and restaurants and on household goods and cars. And more is being spent on education services and health services.
- **Rich Australia:** The rise and rise of services is a by-product of Australia's rising standard of living. Australians don't like to admit it, but our standard of living is one of the highest in the world.

Winners & losers

- Consumers have had to make choices in recent times. Housing purchase, rent and utilities have become more expensive; some goods and services like cars, mobile phones & internet, furniture and TVs have become cheaper or more affordable, especially via a stronger currency; and real incomes have risen, giving consumers more choice.
- Aussies have cut back (volume share down) on housing (share accommodation) and utilities but because of higher costs these items are still taking bigger shares of budgets. Consumers are saving more on car purchase, household goods and furnishings, but they aren't buying more, preferring to channel the savings to services. Education services, health services, insurance & financial services and sporting services like fitness classes are the big winners.
- The biggest losers – that is, the categories taking a smaller share of household budgets – are gambling, clothing, purchase of cars, household goods and even spending at cafes and restaurants.



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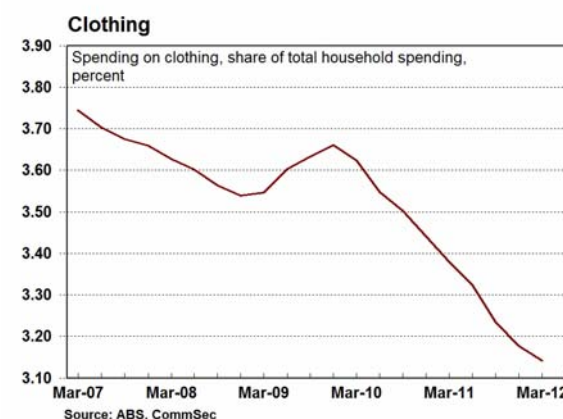
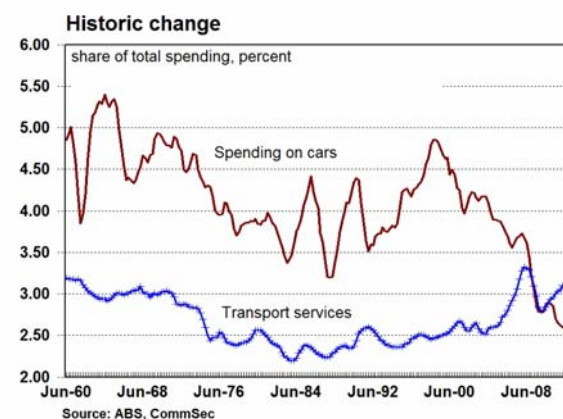
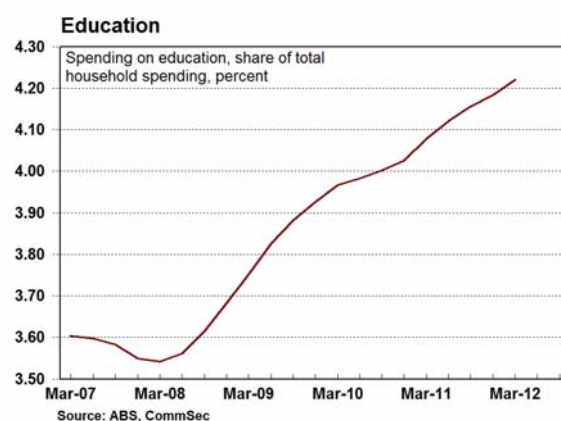
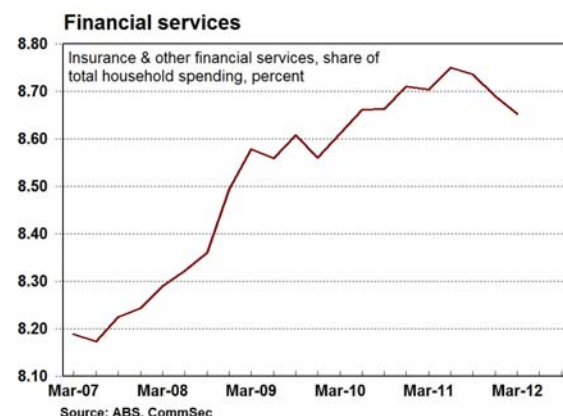
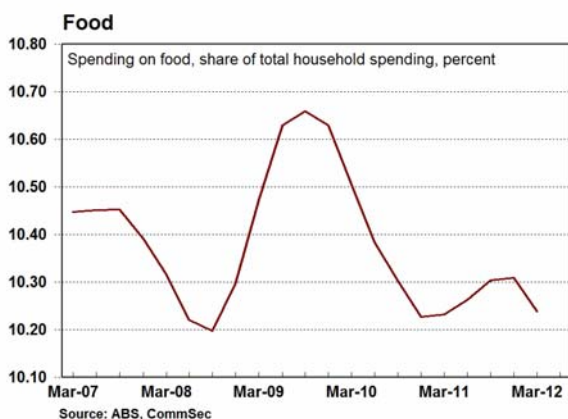
Services to the fore

- If there was one standout element from the latest economic growth figures it was the realisation that Australians are spending much more on services than physical goods. Economists thought household spending had grown around 1 per cent in the March quarter. The result was actually 1.6 per cent – the fastest growth in five years. And that miscalculation was the key factor causing economists to under-estimate just how fast the economy was growing in the first three months of the year.
- In their defence, economists didn't have a lot to go on. That is there is a paucity of data available to calculate how much we are spending on services like hairdressers, child car and fitness classes. Most statistics are still focussed on our spending of physical goods like clothing, cars, furniture and televisions.
- But we are close to the point where spending on services will overtake the spending on goods. In fact we may have already gone past that point; such is the poor availability of statistics on broader household spending. Clearly this deficiency of data needs to be corrected.
- Apart from the data deficiency, there is also the problem of how to define "services". Should going to a café or restaurant be measured as a good or service? You receive a good but also a service, but generally you are consuming the item largely straight away, as opposed to bringing it home like supermarket goods, an article of clothing or buying a TV.
- However CommSec estimates that consumer spending on services now accounts for a record 36.6 per cent of spending. Spending on goods has fallen to a record low of 40.7 per cent of total spending. And a further 22.8 per cent of spending is devoted to housing and utilities.
- Services are defined to include health services, transport services, recreation and cultural services, education, hotels, cafes, accommodation, insurance and "other services". There is also a service element in the Communications category such as internet use and the Bureau of Statistics also defines a "Miscellaneous" goods and services category. But unfortunately there is no detailed break-up of these categories that enables a more accurate estimate of what constitutes services.

What do the figures show?

Spending growth

- Household spending grew by 1.6 per cent in the March quarter



to stand 4.2 per cent higher over the year. Quarterly growth was the fastest in five years and it was also above the decade average pace of 0.9 per cent. Annual growth of 4.2 per cent was the fastest pace in four years and above the decade average pace of 3.5 per cent.

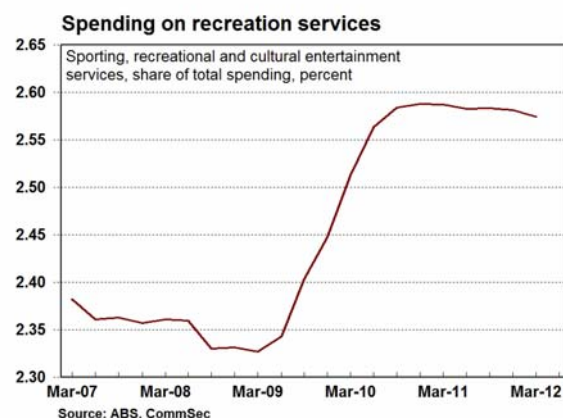
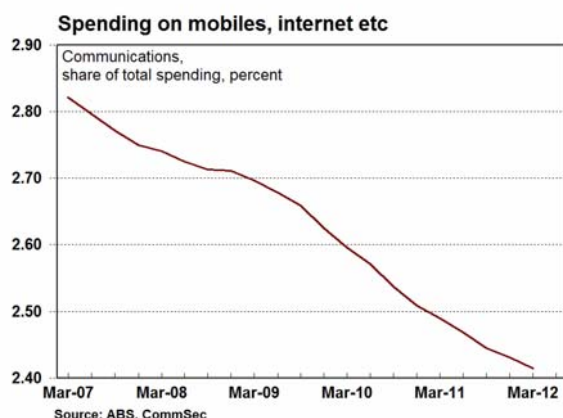
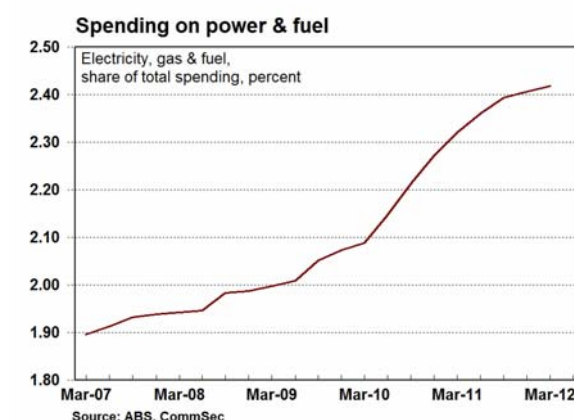
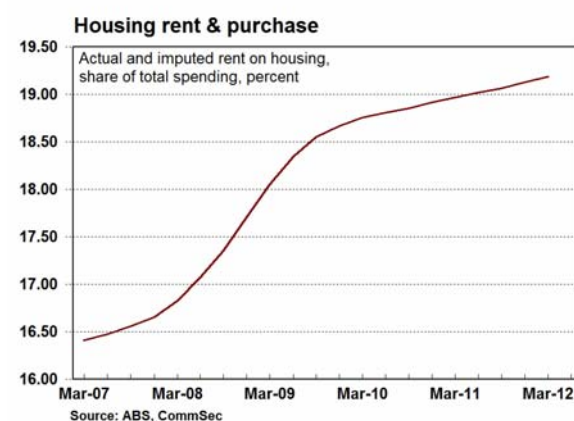
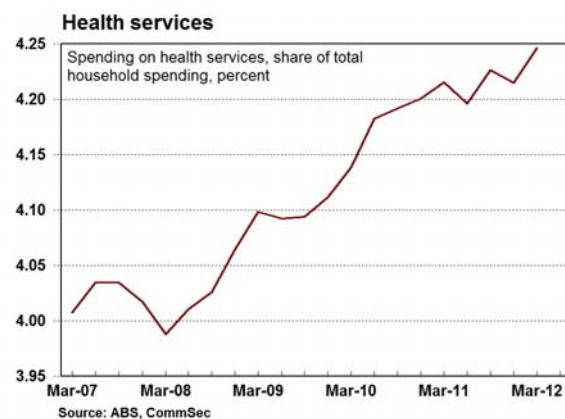
- The biggest lift in spending was by “transport services”, such as train, bus, taxi and ferry fares and airfares, up by 5.5 per cent in the quarter and 12.6 per cent over the year. Health rose 2.6 per cent, education rose 2.0 per cent together with spending at hotels, cafes and restaurants while insurance and other financial services rose by 1.9 per cent.
- There was also a solid lift in spending on food, up 3.7 per cent in the quarter and up by 6.6 per cent over the year.
- At the other end of the scale, purchase of cars fell by 0.4 per cent in the quarter while there was no change in spending on cigarettes and tobacco, while alcoholic beverages rose 0.5 per cent, operation of vehicles rose 0.6 per cent and rent rose 0.7 per cent.

Share of total spending

- The ABS provides more detailed spending classifications for the “original” estimates – as opposed to “trend” and “seasonally adjusted” estimates.
- There are two ways to look at spending. The first is “real” spending or the volumes of goods. The second is “nominal” spending or how the share of spending is changing through volume and price effects. We look at the latter – how household budgets are changing.
- Using rolling annual averages of the current price original estimates, the categories that have recorded the biggest increase in the share of total spending in the short term (recent quarters) include transport services, education services, health services, electricity, gas and other fuels, and actual and imputed rent for housing.
- However over the past four years, the sectors taking a bigger share of spending include “actual and imputed housing rent”, expenditure overseas (travel), education services, utilities and insurance & other financial services.
- Over the past four years, consumers have cut back spending most on car purchase, clothing, furnishings & household equipment, and cafes & restaurants.

What are the implications for interest rates and investors?

- If retailers like Myer, David Jones, Harvey Norman and JB Hi-Fi



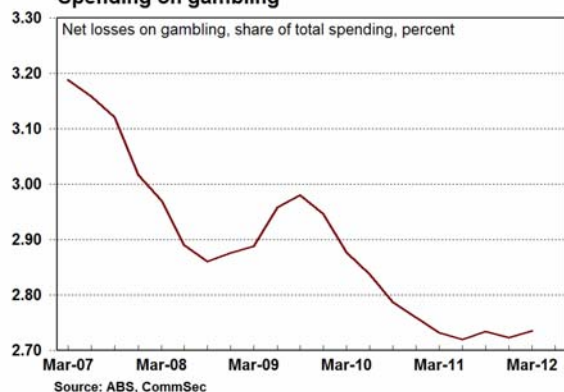
want to stay relevant then they need to follow the Apple experience. Apple stores are busy because they don't just sell goods, but also services. Training courses, demonstrations, live acts, "geek" days, problem solving sessions, fashion shows and new gadget demonstrations are all possible events or "experiences" to drive people back into bricks and mortar stores.

- Australian real incomes continue to rise, while physical good penetration is at saturation point. As a result consumers will continue to consume more services over time rather than goods. Fitness classes, air travel, household cleaning services, personal grooming, health, education and financial services will continue to lift as a share of total spending.
- Both the Bureau of Statistics and the Reserve Bank need to get a better handle on services spending so that monetary policy can be set with greater precision.
- The difficult part for investors is that there appear few listed companies that are poised to benefit from the changes in consumer spending. Companies like Webjet, Flight Centre, Wotif.com, and financial services firms appear best placed.

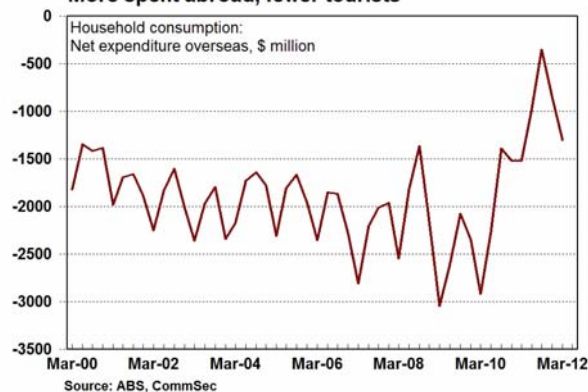
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Spending on gambling



More spent abroad, fewer tourists



Rising real wages



Spending at cafes & restaurants

