# CommBank iQ

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# Cost of Living Insights Report

November 2023

# Real individuals, actual spending.

## What we look for and why.

Using Australia's largest aggregated and de-identified transactional banking data set, CommBank iQ evaluates a range of metrics that indicate changes in cost of living and the different ways Australians are responding. Most economic data is based on national averages – yet businesses serve real people who face unique pressures and make individual choices.

Understanding the variation in circumstances across your customer base can help inform strategic decision-making. Whether that's accommodating impacted customers, planning for promotional activities or better accounting for deviations in business performance. Amid ever-changing customer needs and preferences, using robust and granular intel to support the decisions you make now is more important than ever.

To produce the Cost of Living Insights Report, CommBank iQ analyses transactions from

**7 million Australians**[1]

or approximately **30%** of all spending, scaled to represent the population.

Our data and analytics team evaluate spending per capita for the following dimensions:

**Category**

Spend across 18 categories, both essential and discretionary[2]

**Channel**

In-person and online

**Demographic profile**

Age groups, life stages, and affluence

**Location**

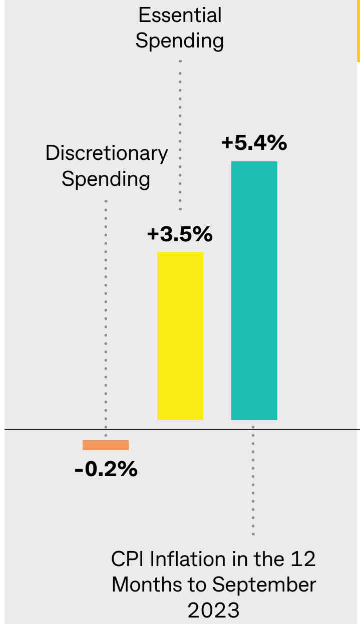
States and Territories and regional and metro areas[2]

[1]All data in this report is sourced from CommBank iQ as at 30 September 2023, and represents actual dollar spending unless otherwise stated.

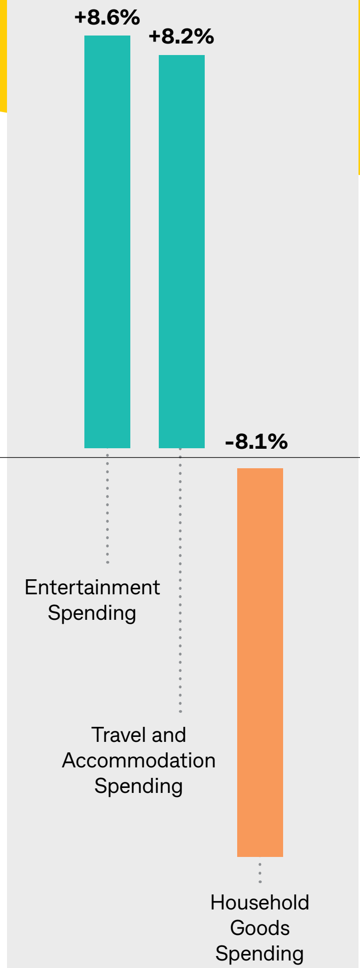
[2]Category and Location dimensions listed per this report. More granular and/or bespoke spend categorisation and location available for analysis.

# Key insights dashboard

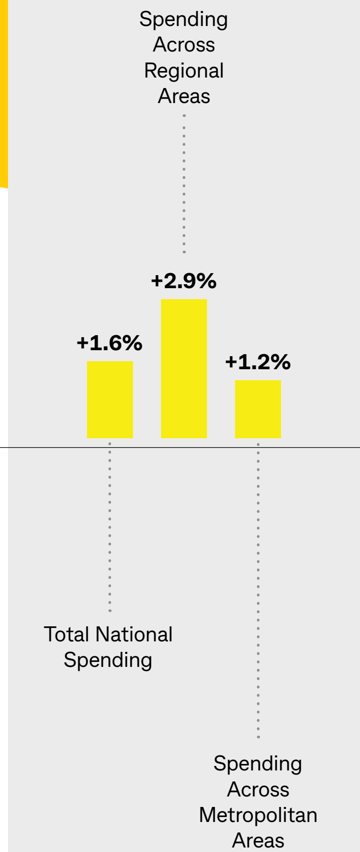
## Year-on-year spending growth per capita is running behind inflation



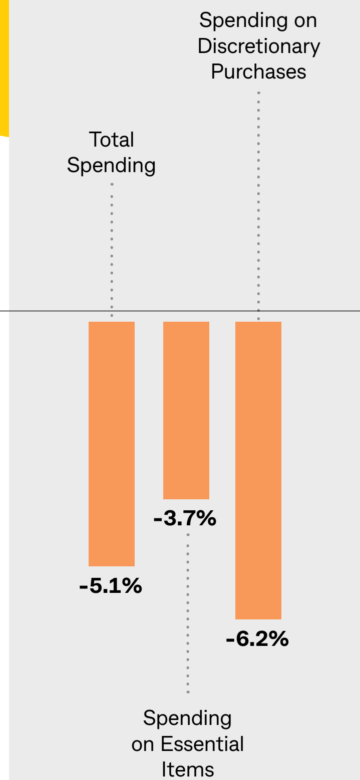

## Consumers cut back discretionary spend but leave room for experiences




## Regional spending growth outpaces metro across the country

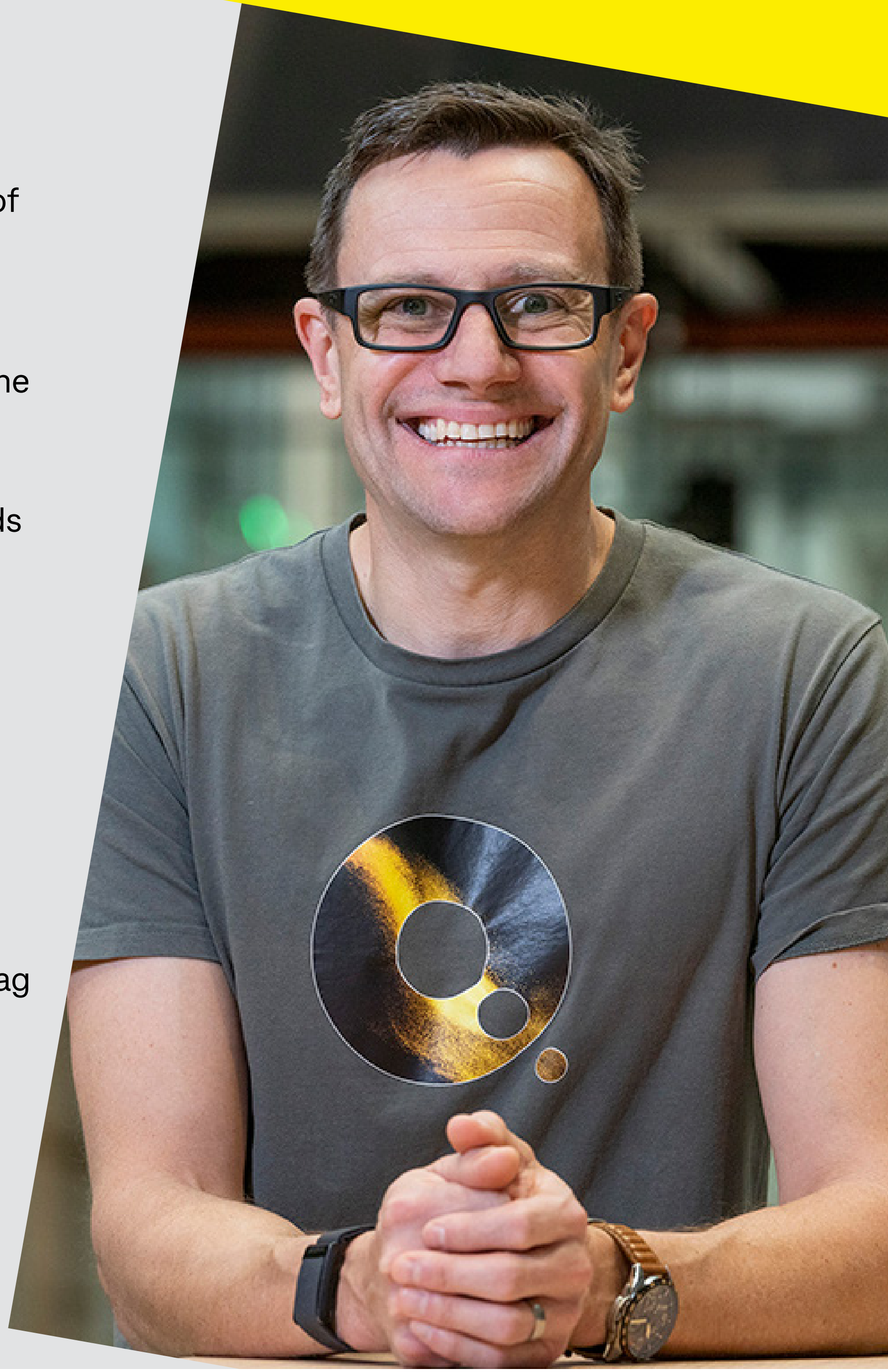



## 25-29-year-olds the hardest hit, with even essential spending going backwards




**Note**: All figures compare the period from July to September 2023 to the corresponding period in 2022, unless otherwise stated. All figures based on spend per capita, rather than total consumption.

# Consumers pull harder on discretionary spending lever amid cost of living crunch



Equipped with Australia's largest banking data set, the CommBank iQ team have unique insight into the spending behaviours of Australians. This reveals the impact of cost of living changes on individuals across the population with powerful precision.

Our latest Cost of Living Report primarily focuses on spending in the September quarter of 2023 compared to the same quarter in 2022. It confirms that despite interest rates remaining on hold over the quarter, many Australians are still feeling the squeeze of rising living costs.

While total spending growth across the population edged up, it was outstripped by inflation. It means any spending increases were absorbed by the higher cost of goods and services, signalling a drop in consumption.

Many consumers are now pulling levers that will help them adjust spending habits where they can. For example, younger Australians and those grappling with higher housing costs in metropolitan New South Wales and Victoria saw lower or negative spending growth.

We saw quarterly spending on essential goods and services rise, while discretionary spending was a zero-sum game. While Australians spent less on household goods and apparel, it was countered by rises in travel and entertainment, albeit at a slower pace than earlier in 2023.

We know that persistent inflation, the prospect of more interest rate rises, and the lag effect of previous hikes will weigh on future spending. As a result, consumers will be navigating even more pressure.

For businesses, the impact will be closely watched. These insights and the work that CommBank iQ does to track how individuals respond can inform your business strategy and help you adjust in step with your customers.

**Wade Tubman**
Head of Innovation and Analytics at CommBank iQ

# Spending grows modestly, marching to inflation drumbeat

Australians continue to navigate cost of living pressures brought on by significant economic and geopolitical events in the past two years. They are adapting their spending and savings patterns to inflation-induced price increases, higher rent and energy costs and elevated interest rates, among other factors.

Even once the interest rate hiking cycle was paused from June, consumers were cautious. This is reflected by the narrowing gap between essential and discretionary spending growth compared to 2022, seen in Figure 1.

It's well established that consumers turned to online during the pandemic, but that continued growing.

Online is up 5% in the past year, while in-person spend was unchanged. We know many consumers are bargain-hunting in light of cost of living pressures and using discounts, promotions, and rewards[3]. It's possible these are easier to find online. Still, consumers might be just opting for convenience in a behavioural shift that's here to stay.

**Figure 1: Essential and discretionary spending (March 2019 to September 2023)**

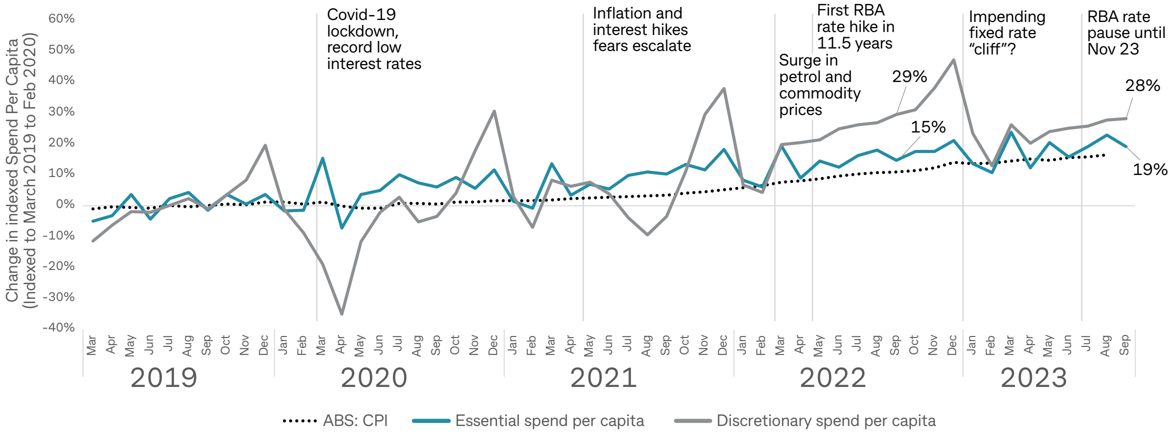
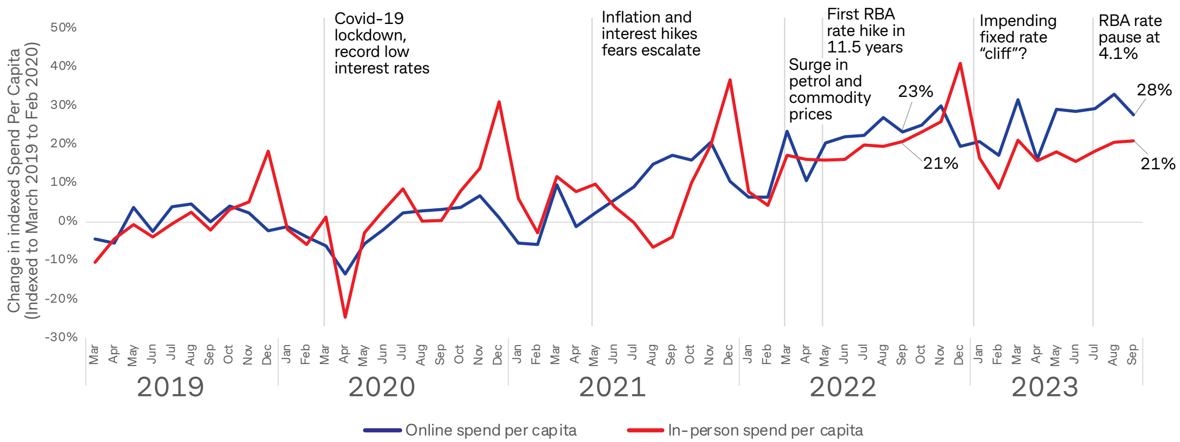



**Figure 2: Online and in-store spending (March 2019 to September 2023)**




[3]CommBank Consumer Insights Report | September 2023 |

# Most categories under pressure, but experiences hold up

By category, where Australians are spending has remained relatively consistent over 2023, with a few notable differences this quarter.

Figure 4 shows that consumers' essential purchases are now running at an average of $1,473 per month. Elevated insurance premiums and medical and pharmacy expenses led the 3.5% total increase. We also saw rising energy costs flow through to people's utility bills.

Discretionary spending was largely flat at a monthly average of $1,447. Consumers continue to question clothing and footwear purchases. We're also likely seeing people buying fewer household goods after stocking up during COVID.

The bright spot continues to be experiences. Travel and entertainment spending were the only discretionary categories to record above-inflation growth. But even there, the strong growth seen earlier this year has tapered, and people are cutting back on eating out and food delivery.

**Figure 3: Largest year-on-year spending increases and decreases by category**

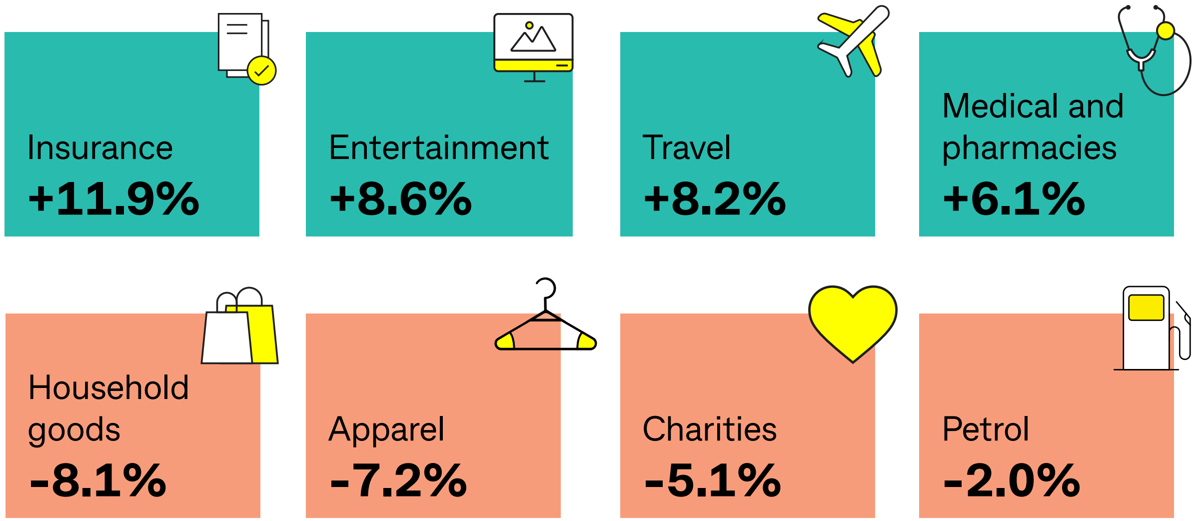
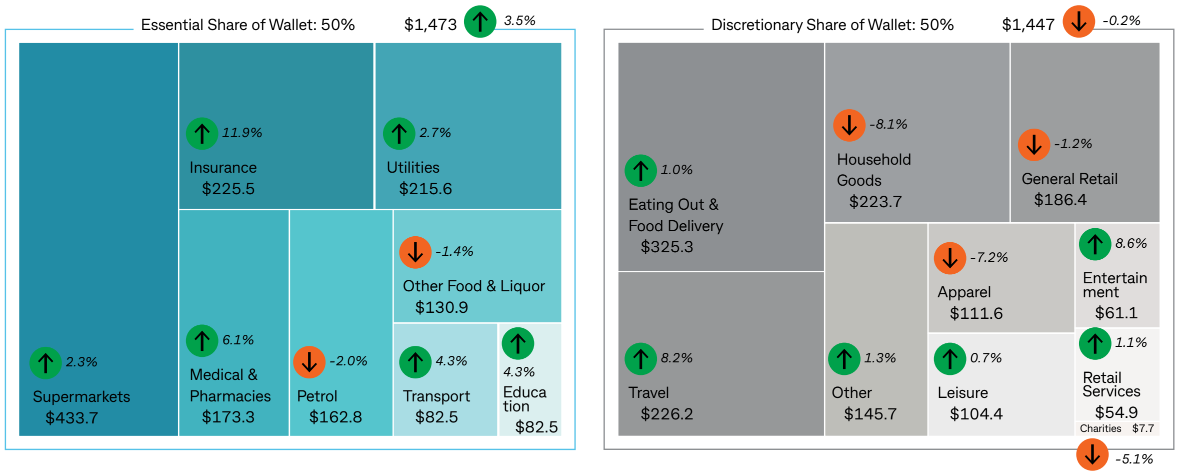



**Figure 4: Year-on-year changes in essential and discretionary spending by category**

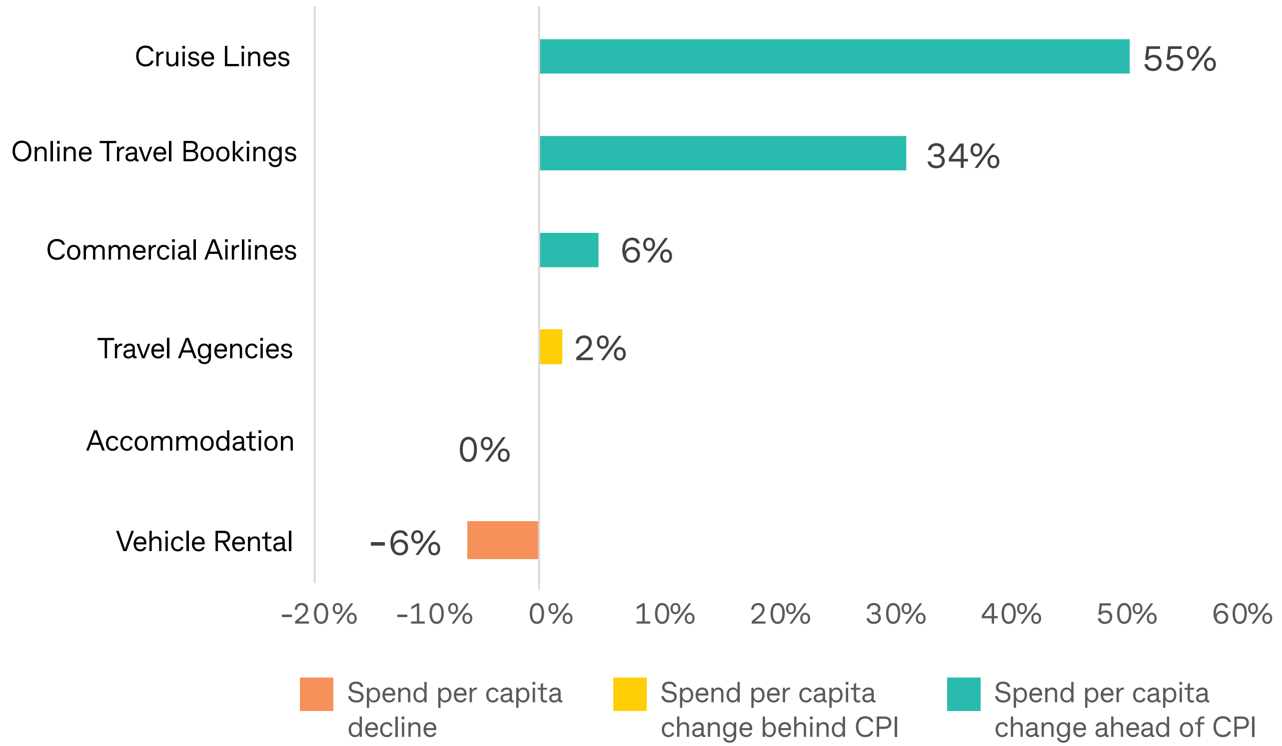


# Categories in focus

## Travel

Australians have grown their expenditure with cruises and online trave bookings, with Australians over 65 helping overall travel purchases run ahead of inflation. Meanwhile, direct purchases with hotels and accommodation venues declined, particularly among younger Australians.

**Figure 5: Year-on-year changes in spending on travel sub-categories**



# Categories in focus

## Entertainment

Major global and local sporting events and the 'Barbenheimer' effect played a role in the September quarter of 2023. Cinema purchases were up 31%, led by Australians under 30, while spending on ticketing services climbed 18%.

**Figure 6: Year-on-year changes in spending on entertainment sub-categories**

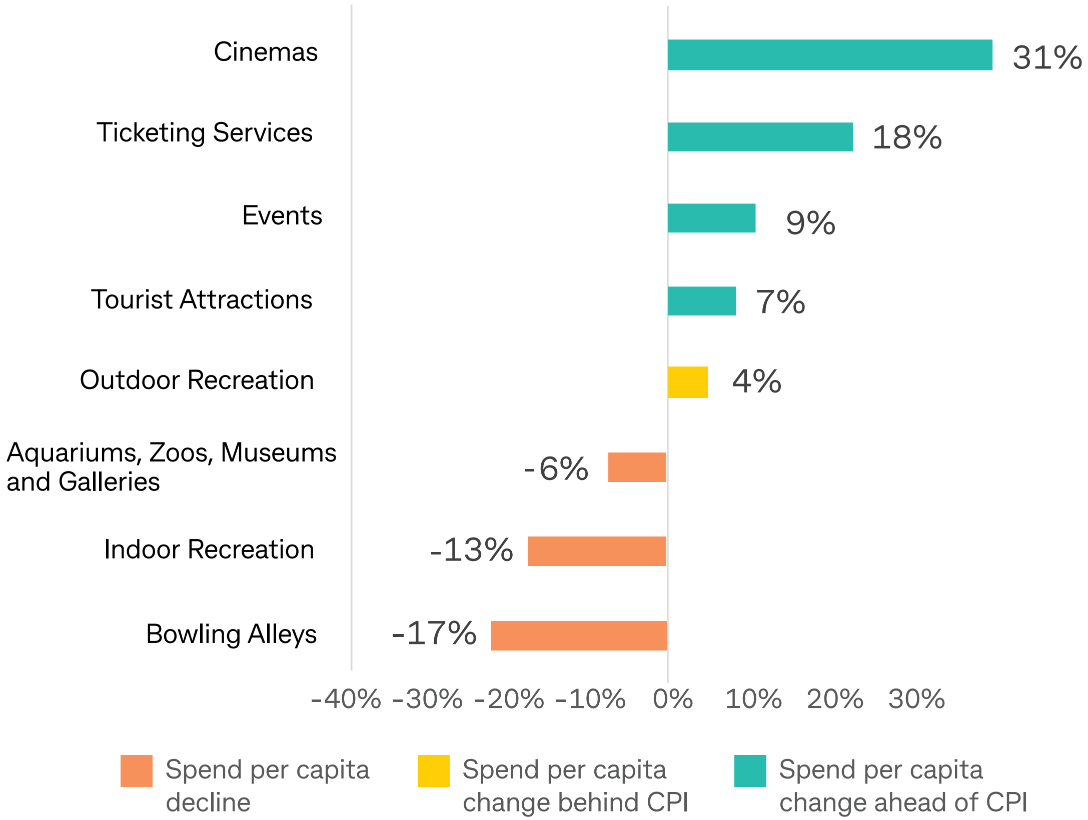
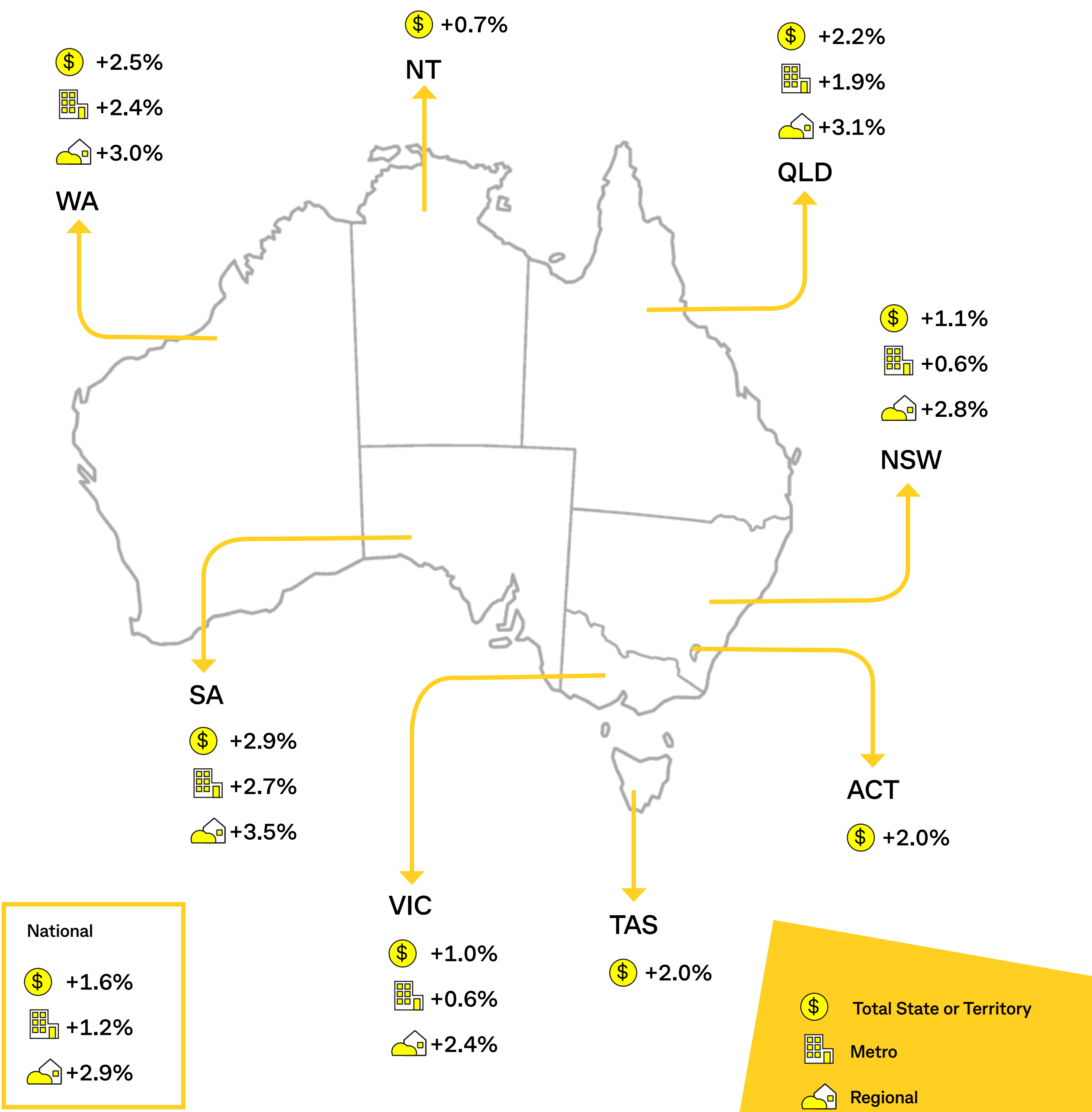


Figure 7: Year-on-year changes in spending across locations




# Country overtakes city as costs bite harder in metro areas

Total spending among Australia's states and territories was up year-on-year but still at a rate that's below inflation.

Residents of South Australia and Western Australia recorded the strongest spending growth, between two to three times higher than the country's two biggest states.

Consumers in metro Australia felt the pinch more as they grappled with higher housing costs than regional peers. As such, spending growth across regional Australia (+2.9%) outpaced metropolitan areas (+1.2%).

# Discretionary spending pullback in metro NSW and VIC highlights the divide

Consumers in metropolitan New South Wales and Victoria were the most likely to pull in discretionary spending to navigate rising living costs.
They were the only two states to record a year-on-year decrease. Meanwhile, spending on essentials grew in all locations, but again below inflation.

Figure 8 examines essential and discretionary spending differences across metro and regional areas. It reveals the disparity across locations and that discretionary expenditure levels were the key driver of change for those with the highest and lowest total spending.

That gap is widest for metropolitan New South Wales and Victoria compared to regional counterparts. For these two States, given that rents and mortgage costs are highest in metro areas, it suggests that people are redirecting discretionary spend to cover higher fixed costs.

**Figure 8: Year-on-year changes in essential and discretionary spending by location**

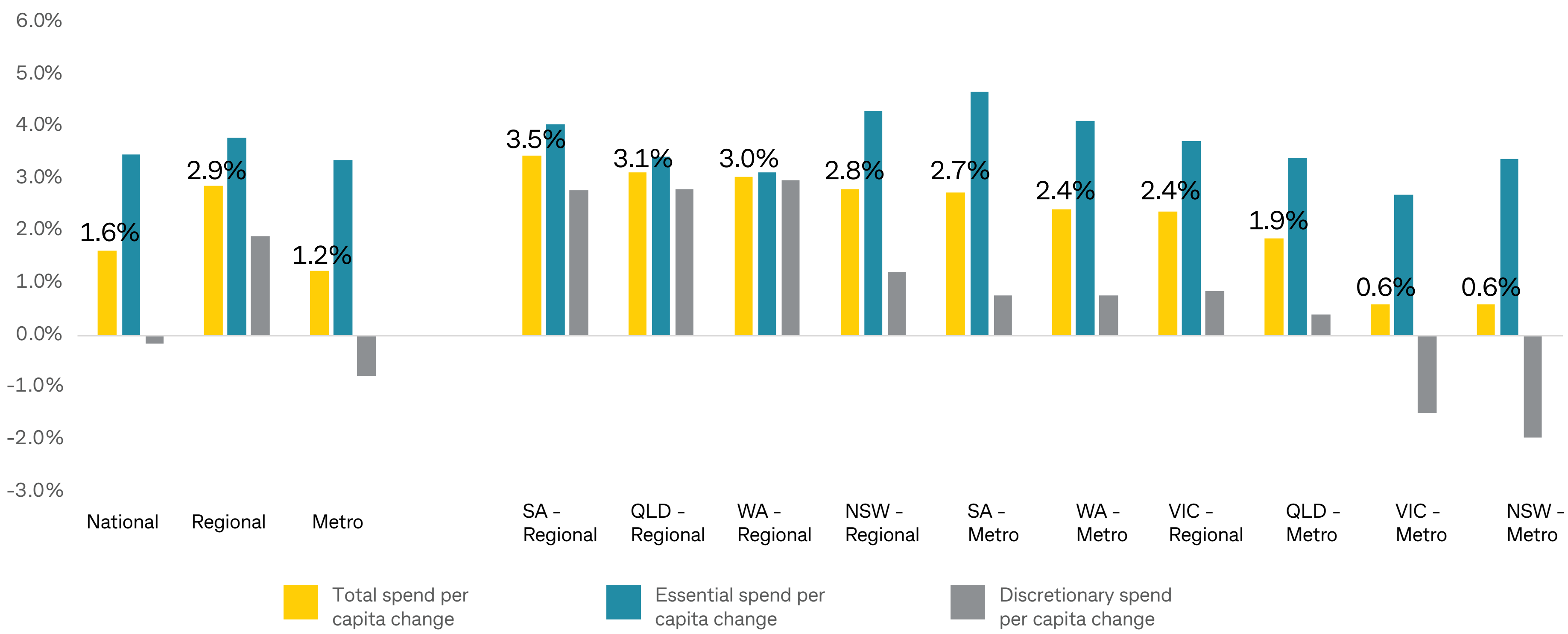


Figure 9: Year-on-year changes in essential and discretionary spending by age

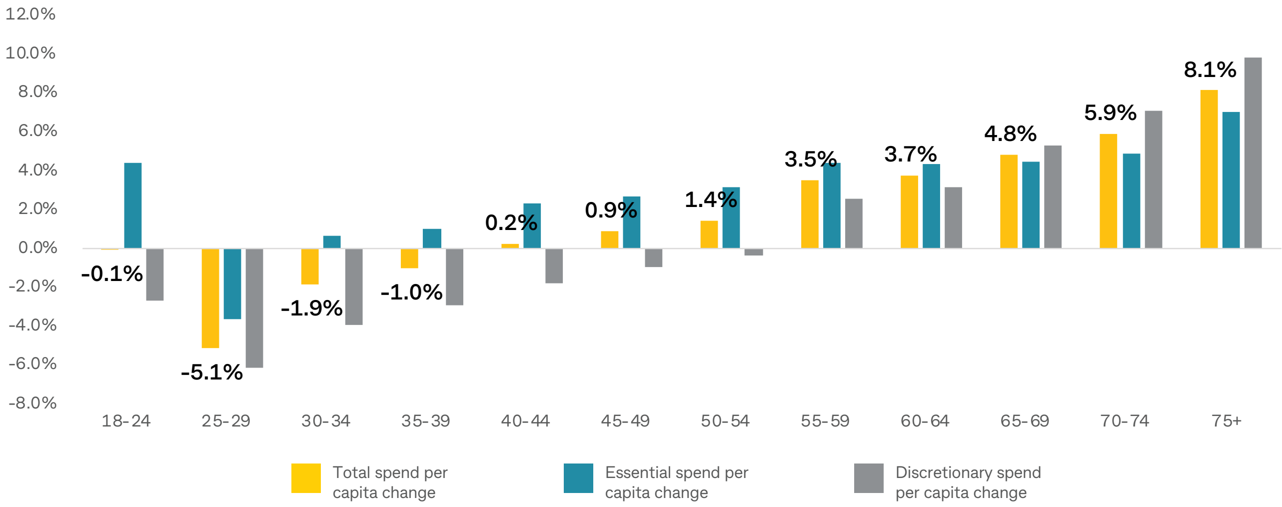
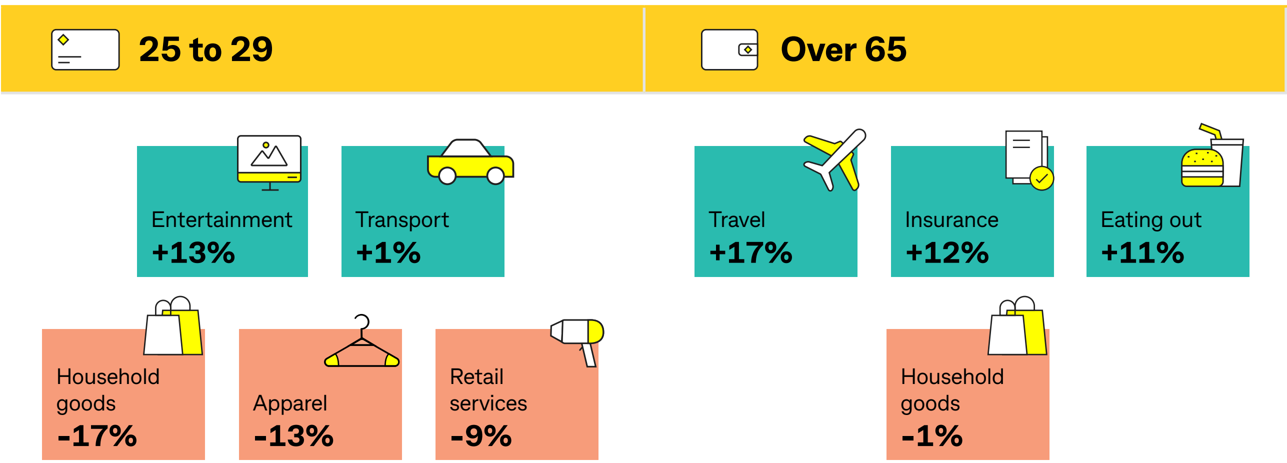



Figure 10: Top increases and decreases in category spending by age




# Spending drops for younger Australians, as real growth limited to over-70s

The picture of spending across the Australian population varies significantly with age. Consumers under 40 are more impacted, while older Australians are more comfortable. Although, the only above-inflation growth rate was seen for those over 70.

Of all age groups, it was 25–29-year-olds that adjusted their spending the most. For these Australians, often facing rental costs for the first time after leaving home, spending went down 5.1%. That's more than 10% when considering in inflation.

This includes a 3.7% fall in spending on essential items, the only age group where growth declined, as seen in Figure 9.
But even amid a heavier 6.2% pullback in discretionary purchases, they still found room in the budget for entertainment experiences.

The spending growth patterns for older Australians stood in contrast as shown in Figure 11. Combining age groups over 65 shows a 6% uplift. Expenditure increased across all categories except household goods, as travel purchases, entertainment, and eating out moved highest.

# Lower affluence groups with little wiggle room trim the non-essentials

Looking at people's spending habits based on affluence[4] reveals the sensitivity to discretionary purchases.

While even the higher affluence groups saw almost no growth in discretionary spending, it was most muted or negative for the lower affluence groups one to three.

A notable difference across affluence groups is the size and distribution of their wallet. That ranged from $1,712 per month for lower affluence individuals to $6,151 at the highest end of the spectrum.

The lower the affluence groups, the less room consumers have to flex their discretionary spending when under pressure. Groups one and two had a 41% discretionary share of wallet, rising to almost 60% for group five. If living costs keep going up, lower affluence groups face a shrinking pool of options to cut spending and more difficult choices ahead.

**Figure 11: Size and share of wallet by affluence**

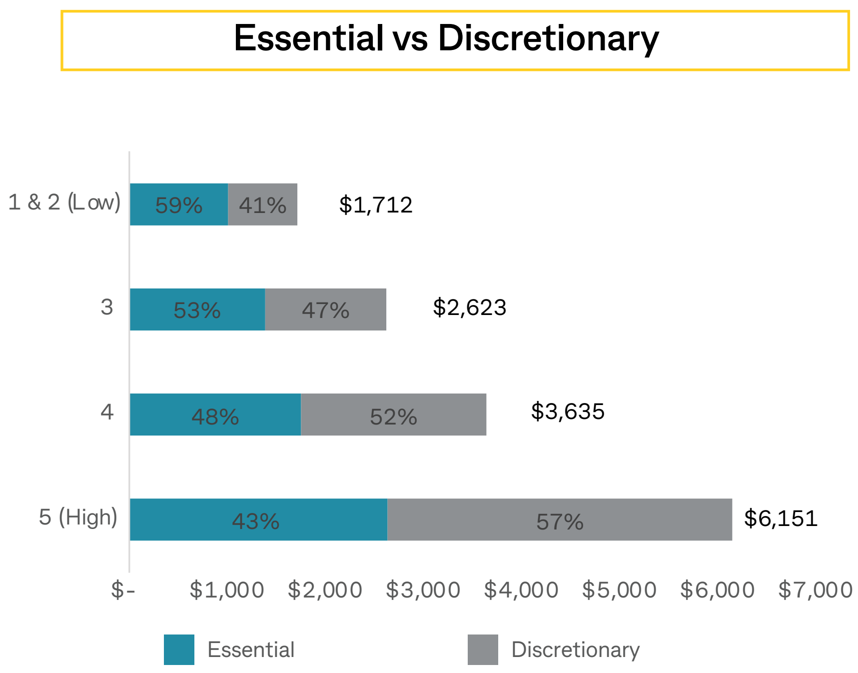
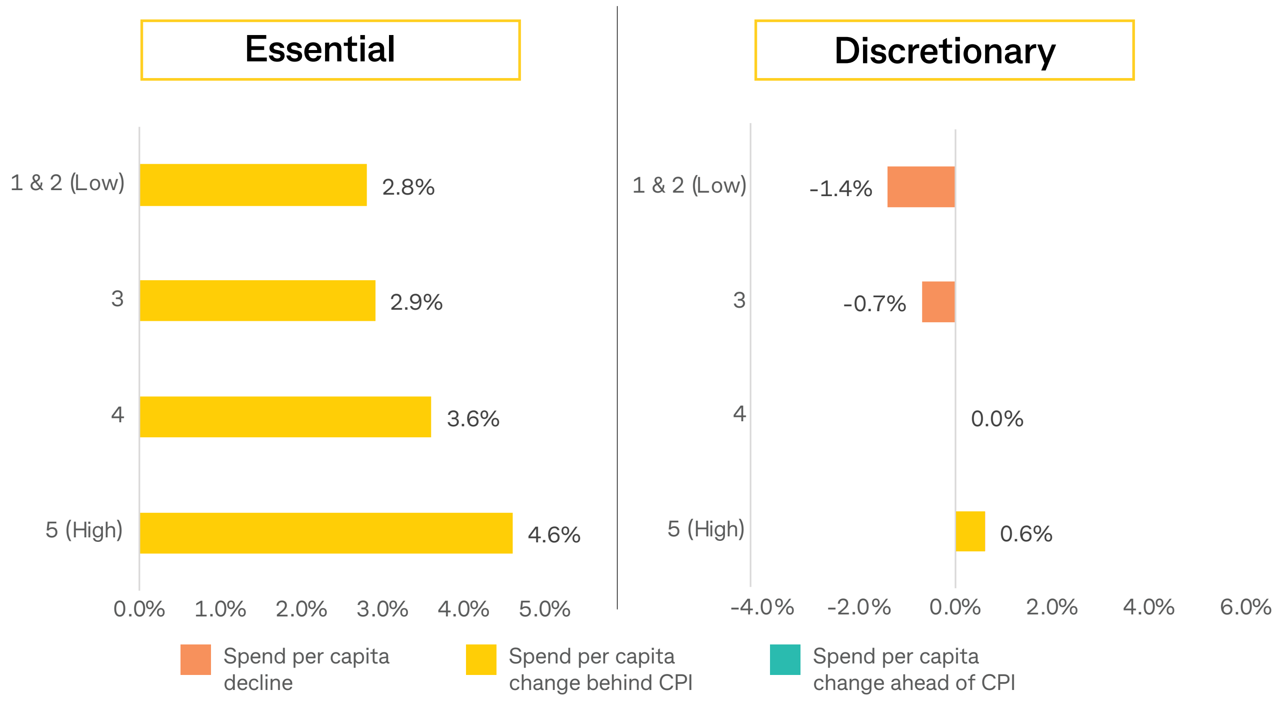



**Figure 12: Year-on-year changes in essential and discretionary spending by affluence**




[4] The way we measure affluence is to tier the total spend of individuals and their preference for budget through to premium brands on a sliding scale. Here, one is the lowest affluence proxy, and five is the highest.

# Cost of living pressure settles at elevated level

The CommBank iQ National Cost of Living Pressure Indicator (The Indicator) tracks the measurable response to each Australian's rising cost of living. It moves beyond demographics to consider a broader range of situational factors, as seen in Figure 14. It evaluates the outcome of changing spending behaviours, like trading down by switching brands or reducing discretionary spending.

After stepping up over the first half of 2021 amid a series of interest rate hikes, The Indicator plateaued in the September quarter as the Reserve Bank of Australia (RBA) has kept rates on hold. A period of relief and for mortgage holders and the prospect that inflation was under control helped keep The Indicator stable.

However, over the September quarter, inflation grew more than expected, prompting another rate rise in November. As a result, we expect The Indicator to continue its upward march as even more cost of living pressure flows through to people's wallets.

**Figure 13: National Cost of Living Pressure Indicator**

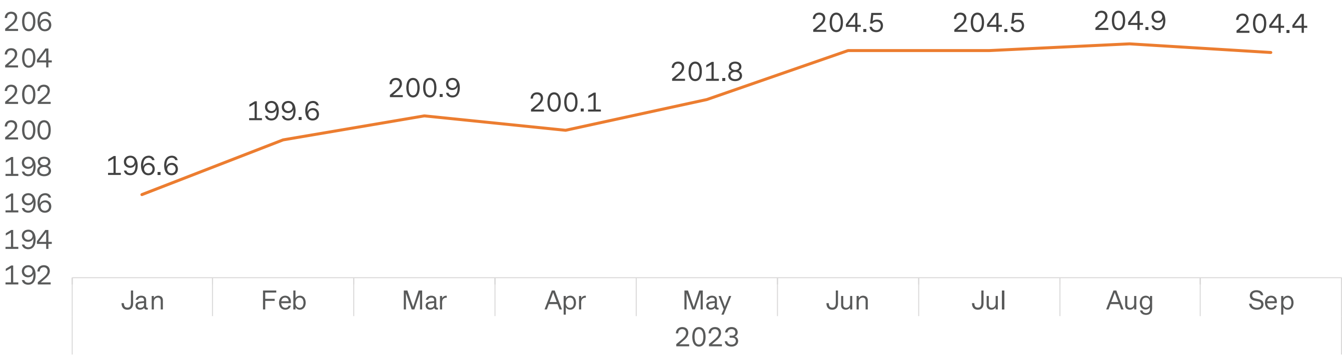
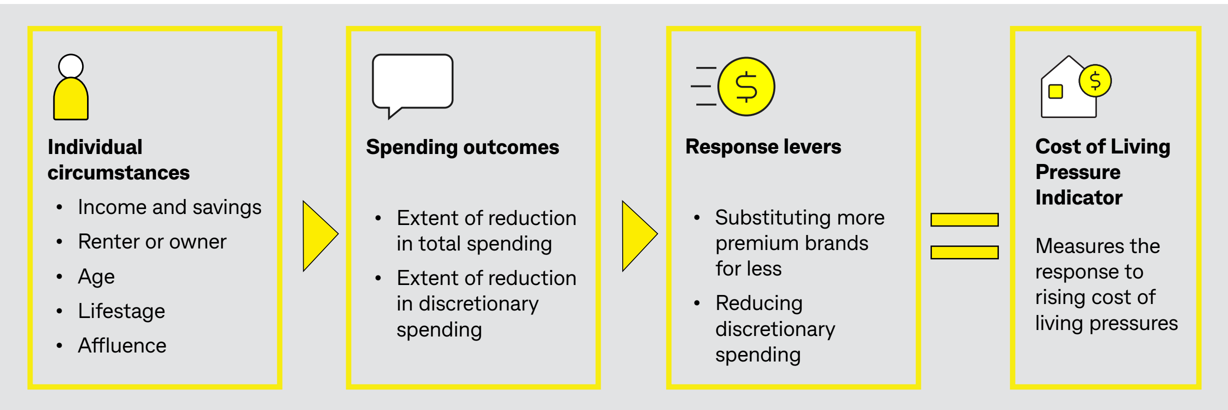



**Figure 14: How we calculate the National Cost of Living Pressure Indicator**



# Bring CommBank iQ intelligence to your decisions.

**Contact CommBank iQ** to learn more about how your business can unlock value from up-to-date customer behaviour analysis and market movements.

### Customer intelligence

Understand why customers buy from you, where you fit in their broader lives, and predict their future needs.

### Market intelligence

Benchmark against curated competitor cohorts and identify product, category, and location-based growth opportunities.

### Geospatial intelligence

Interrogate current consumer insights on a national, state or local catchment level by mapping where customers live, work and spend.

### Decision intelligence

Step-change your decision insight, accuracy and efficiency through advanced analytics and predictive data.

# Our Capabilities

**360° customer view**

Make smarter decisions with comprehensive up-to-date analysis of customer behaviour and market movements.

- ✓ 7 million customers
- ✓ 365+ spend categories
- ✓ 200k+ brands

**Real behaviour**

Leverage the dataset of Australia's largest bank, weighted to reflect the actual behaviour of the Australian population.

- ✓ Real data, not surveyed
- ✓ 2021 Census weighted
- ✓ Reviewed, cross-referenced and triangulated

**Deep, multi-sector intelligence**

Access customised industry solutions founded on 20+ years' experience unlocking transformational value from banking data.

- ✓ Industry experts
- ✓ Leading analytical capability
- ✓ Focused on delivering ROI

**Powerful products**

Accelerate your decision-making based on automated insights with products and tools designed to solve your challenges.

- ✓ Self-serve insights
- ✓ Enable direct data ingestion
- ✓ Access to the latest insights

# CommBank iQ

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