

choice



CHOICE CONSUMER PULSE: AUSTRALIANS' ATTITUDES TO COST OF LIVING 2014-2017

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To ensure that we understand the issues that matter most to consumers, CHOICE considers it important to take a regular pulse check of the nation through our Consumer Pulse report. With three years of research now complete, consumers are sending us some very clear messages that there are real problems in the housing market.

Record high house prices fuelled by cheap debt have seen the creation of a class of small scale landlords grappling with what it means to treat their customers - renters with respect. On the other side there are younger first home buyers who managed to enter the market at its peak and are now deeply concerned about what the future holds for interest rates on their heavily mortgaged properties.

Affordable, quality housing is a multifaceted issue with taxation, housing supply, banking regulation and the consumer law all playing a part. It is an area where consumer advocates, industry and government must do more work in to ensure consumers get a fair deal in both buying and renting.

There are also the persistent cost of living concerns in relation to electricity and health (including health insurance). In our three years of quarterly research, these two issues have regularly been at the top of consumers' lists of concerns.

That's one of the reasons that CHOICE has taken on the problems we've seen in the health insurance market, through new online tools to help consumers and calls for better product information. The research in this report provides guidance to advocates, industry groups and regulators about the other areas of the economy where consumers want to see action.

WHAT WE FOUND

THOSE LIVING IN REGIONAL AREAS ARE SIGNIFICANTLY MORE LIKELY TO BE FEELING THE PINCH COMPARED TO THEIR CITY COUSINS, WITH **MORE THAN A THIRD (36%)** SAYING THEY WERE FINDING IT DIFFICULT TO GET BY FINANCIALLY, **COMPARED TO 24% OF CITY DWELLERS.**



RENTERS ARE DOING IT TOUGH, WITH **39% FINDING IT DIFFICULT TO GET BY ON THEIR HOUSEHOLD INCOME**, SIGNIFICANTLY MORE THAN MORTGAGE HOLDERS (25%) AND HOME OWNERS (21%).



ALMOST ONE THIRD (31%) OF PEOPLE HAVE CUT BACK SPENDING ON ESSENTIALS IN THE LAST 12 MONTHS.

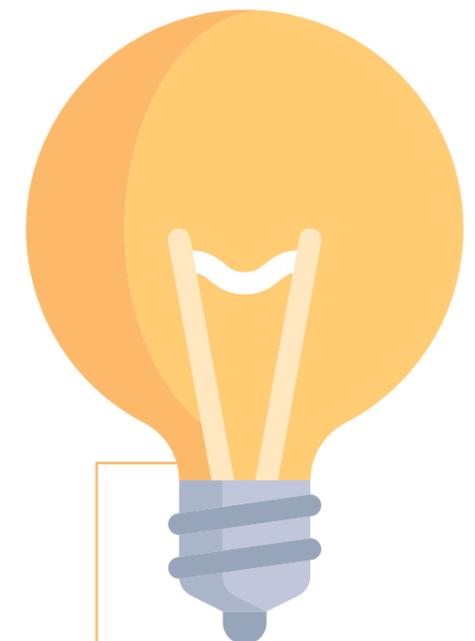
WITH PREDICTIONS OF INCREASES, MOST GEN Y'S (63%) ARE WORRIED ABOUT INTEREST RATES - MORE THAN ANY OTHER GENERATION.



WORRIED ABOUT:



Along with concern about cuts in government spending (67%), Australians are worried about their level of savings and investments (62%) and the value of their superannuation (58%).



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

SPOTLIGHT ON HOUSING

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How are renters and younger Australians coping with rising costs?

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What are the top household cost of living concerns for Australians in June 2017? And how have concerns changed over the last three years?

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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?

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How are Australians coping with financial pressure?

INTRODUCTION

The CHOICE Consumer Pulse Report picks up on the trends in Australians' cost of living concerns over the past three years.

Electricity remains prominent as the cost most consumers are worried about (82%). As many insurance premiums continue to rise, June 2017 saw high consumer concern about health costs, including insurance (79%); car insurance (68%); and home insurance (64%).

Australians' optimism about the economy has continued to trend down, with just 25% of those surveyed rating the economy as good. Consumer sentiment on the economy has mirrored market reactions to uncertainty overseas. The initial 'Trump bump' has all but eroded, now 42% of consumers are reporting the economy is neither performing good or poor.

In June 2017, 46% reported they were "getting by" on their current income, with 29% struggling and 25% living comfortably.

The biggest external financial worries continue to be government spending cuts (67%) and Australians' individual levels of savings and investments (62%). The adequacy of retirement incomes has stayed in focus with over half (58%) of Australians worried about the value of their superannuation.



Consumers feel costs are rising

More than eight out of 10 Australians are reporting that household bills and expenses have risen over the last 12 months (86%), with 38% saying they've increased a lot. Overall inflation has increased on last year by 1.9% in the twelve months to June.¹ Wage growth (1.9%) remains low, just keeping pace with inflation. Due to higher excise and government regulated price increases, some individual categories have seen higher than average rates of inflation, for example alcohol and tobacco (up 5.9%), health (up 3.8%) and transport (up 2.1%).² Households showed high levels of concern about the costs of necessities like electricity and gas, food and groceries and after

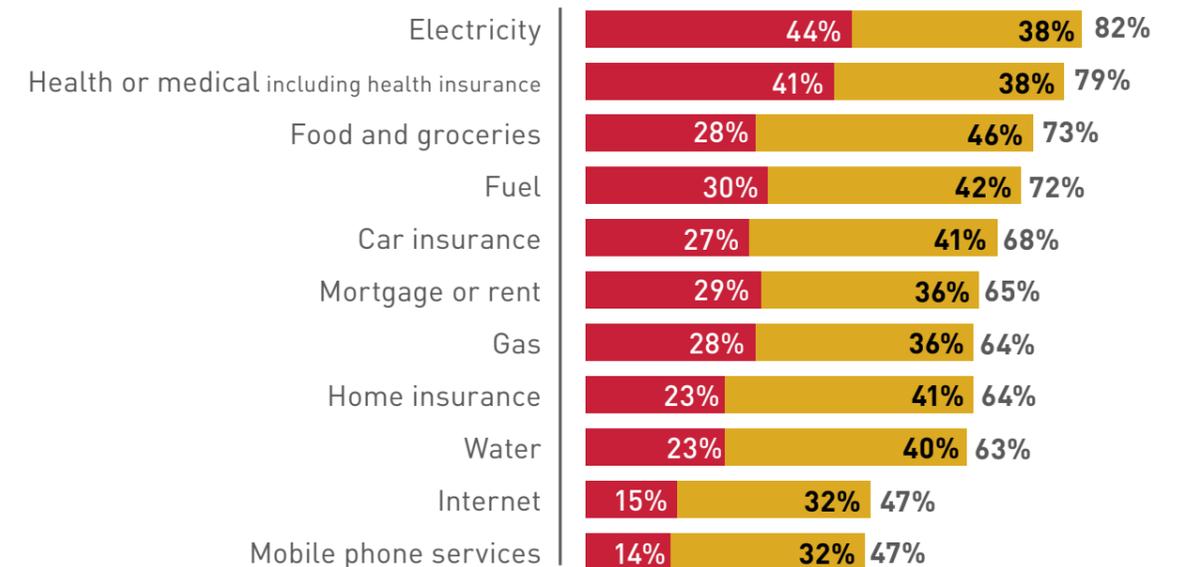
some easing last year, concern about fuel costs have shot up again. However, there was some easing of concern in car insurance costs.

The cost of kids

Almost nine of 10 families with children have reported increased household bills and expenses (87%); particular concerns are the cost of feeding and buying groceries for a hungry horde (78%) and keeping a roof over their heads (69%). Compared to couples with no children, families with kids are significantly more likely to have borrowed money from family and friends (18%) and deliberately missed a rent or mortgage payment (8%) in the last 12 months.

“ALMOST NINE OF 10 FAMILIES WITH CHILDREN HAVE REPORTED INCREASED HOUSEHOLD BILLS AND EXPENSES (87%); PARTICULAR CONCERNS ARE THE COST OF FEEDING AND BUYING GROCERIES FOR A HUNGRY HORDE (78%) AND KEEPING A ROOF OVER THEIR HEADS (69%).”

WHAT WERE AUSTRALIANS' BIGGEST COST OF LIVING CONCERNS IN JUNE 2017?



Note: Responses to 'How concerned are you about the current costs of each of the following household expenses?' was captured from all respondents n=1042. Numbers shown are the total of "Quite concerned" and "Very concerned" responses.

Very concerned
Quite concerned

Renters

The financial reality of buying a home has left many to decide to stay in the rental market long-term. The super-heated debate about housing affordability has largely focussed on first home buyers, meaning renters are often left out of the discussion.

Regulator pressure to improve housing affordability has seen investor loan rates rise out of cycle, to cover the added cost this has added pressure to raise rents on investment properties. This is reflected in the overwhelming majority of renters (74%) showing concern about current rental and mortgage costs.

Renters are significantly more likely to be finding it difficult to get by on current income (38%) compared to those who own their home outright (21%).

Renters have consistently been one of the groups feeling the most financial pressure in all thirteen Consumer Pulse surveys. They are

significantly more likely to have deliberately missed a rent or mortgage payment (9%), borrowed money from a friend or family (28%) and lived off their credit card until the next payday (19%) compared to people who own their own home.

It is not only cost of living concerns for renters, with CHOICE research earlier this year finding there are also serious issues in the quality and security of the Australian rental market. The lack of security is typified in the inability for renters to obtain the overseas-style long-term leases and assurances that they won't be kicked out for no reason. More than 8 in ten (83%) renters were without a fixed term lease or were on a lease of less than 12 months. Quality is also a serious problem with 27% of renters experiencing pest infestations (e.g. cockroaches) and 20% having to deal with mould that is difficult to remove or reappears.

Gen Y under housing stress

A lot of ink has been spilt trying to get a hold on this generation. Typically they're working fulltime (45%), in middle income households (46%) and have children at home (41%). They're more likely than any generation before them to have a university education (60%).

To avoid FOMO this generation dove headfirst into the housing market and are now paying mortgages (45%). Here the difficulty arises, as with record high growth in house prices over the last few years some may have over-extended. More than three quarters are now concerned about mortgage and rent costs (77%), significantly more than Gen X (63%) and Baby Boomers (48%). Levels of mortgage and credit card debt are of concern to more than half (56%), considerably more than Boomers (42%). With whispers of rises on the horizon the majority are worried about interest rates (63%).

Despite now being fully fledged adults, they are

still significantly more likely than Baby Boomers to have borrowed money from family or friends in the last 12 months (20%).

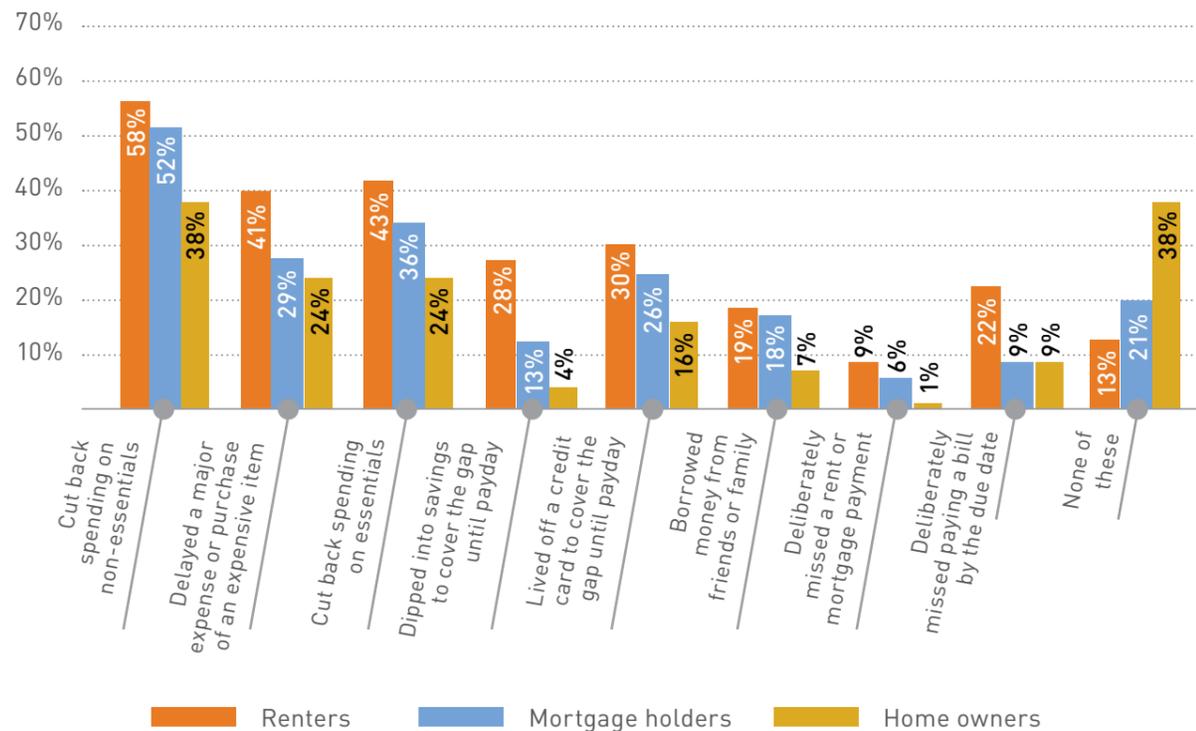
They're a group which quickly adopted new technologies, but are now more concerned than other generations about the costs for the internet (53%) and are looking to cut back (31% and 28% respectively). Despite the newest season on Game of Thrones starting up, almost half (45%) are looking to cut back on their TV subscriptions.

Gen Y have serious concerns about university fees (62%) only to be outstripped by the current crop of students in Gen Z (88%).

Despite their reputation it appears Gen Y has gone straight edge, with 63% planning to cut back on alcohol and tobacco spending, compared to just 51% of Gen X and Boomers.

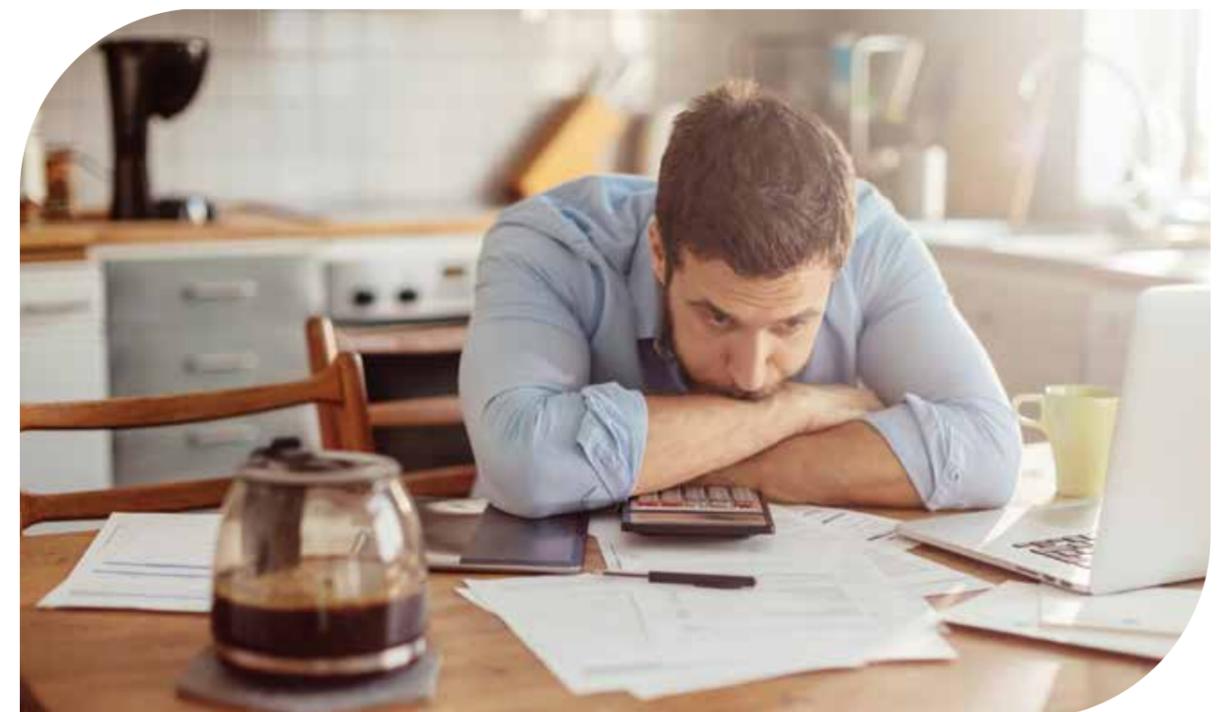
This is a generation worth watching closely over the coming years; how it manages the financial pressures it now faces will be a test of policy settings successive governments have put in place.

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=329), had a mortgage (n=359) or owned a home outright (n=282).

“MORE THAN THREE QUARTERS OF GEN Y - 77% - ARE NOW CONCERNED ABOUT MORTGAGE AND RENT COSTS.”



YEAR 3 RETROSPECTIVE

After three years of reporting some interesting trends have started to develop. Grudge, essential purchases like electricity and health spending have consistently been among the biggest cost concerns. Meanwhile Australians appear relatively okay with their current levels of spending on internet and mobile phone services, with other CHOICE research indicating that quality is a larger stand-alone concern for these services.³

ELECTRICITY REMAINS NUMBER ONE

Electricity has remained the most concerning cost for households across 13 waves of surveys. With electricity prices set to increase by up to 20% from July 1, 2017 this chronic problem is set to get worse. However, some Australian households are taking action into their own hands, with a reported 130,000 solar power systems installed in 2016.⁴

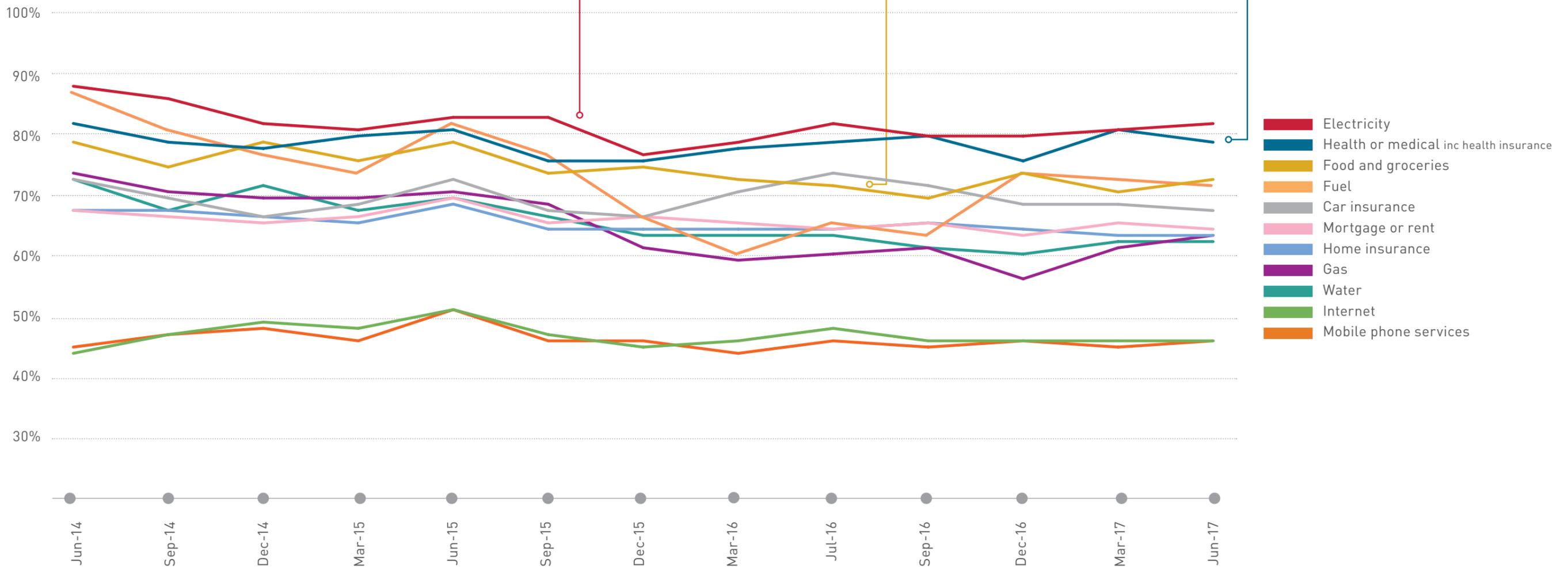
THE WEEKLY SHOP GOT A LITTLE MORE EXPENSIVE

Concern about the cost of food and groceries came in third highest (73%). This reflects the 1.8% increase in the average cost of food and non-alcoholic beverages across the year. Although savings are out there, with the CHOICE 2017 supermarket price survey finding you can cut grocery bills by 50% if you are prepared to forgo leading brands and shop at Aldi.⁵

POOR VALUE HEALTH INSURANCE EXTRAS

High levels of consumer concern about medical costs, including health insurance, have continued. This comes on the back of a CHOICE investigation into extras cover which found 72% of benefits have stagnated over the last three years, while Australians are paying 19% more.⁶ When it comes to health insurance, consumers are struggling with high cost and decreasing quality.

CHANGE IN COST OF LIVING CONCERNS BETWEEN JUNE 2014 AND JUNE 2017



Note: Responses to 'How concerned are you about the current costs of each of the following household expenses?' All respondents from thirteen waves of data, n= between 1000-1375 for all waves. Numbers shown are the total of "very concerned" and "quite concerned".

Mortgage costs

While the Reserve Bank of Australia keeping rates stable at historical lows since August 2016, concern about mortgage costs remains relatively high. Two thirds (66%) of households with a mortgage are concerned about the cost of mortgage repayments. House prices, particularly in Melbourne and Sydney, are the main culprit here, with double digit rises over the last year forcing those with new mortgages to take on high levels of debt.⁷ A rate rise, change to the unemployment rate or rapid growth in other essential costs may see many people quickly enter mortgage stress. A CHOICE report has found mortgage broker incentives are also helping to fuel this debt binge, with broker commissions geared towards selling bigger loans rather than the best interests of consumers.⁸

Cost concerns have seen mortgage holders looking to cut back in key areas of spending, including big ticket household purchases (64%), renovations (56%) and holidays (56%).

Gas and electricity

Electricity cost concerns are the number one issue in every state and territory, except Western Australia where electricity price regulation still exists.

There are similar rates of concern about electricity costs being felt by high-income households (81%) as low income households (83%). There is high concern about gas costs, especially when taking into account that many consumers don't rely on gas. People in capital cities (66%) are more concerned than people in regional areas (58%). There is a degree of seasonality, with gas cost concerns peaking in the winter months when heaters are in high use.

Almost three in ten of Australians are doing it tough

Almost three in ten people (29%) are finding it difficult or very difficult to get by on their current incomes. The figure has remained relatively consistent each quarter since June 2014. Almost half (46%) are getting by, more than 1 in five (21%) are living comfortably and just 4% are living very comfortably.

What are we cutting back on?

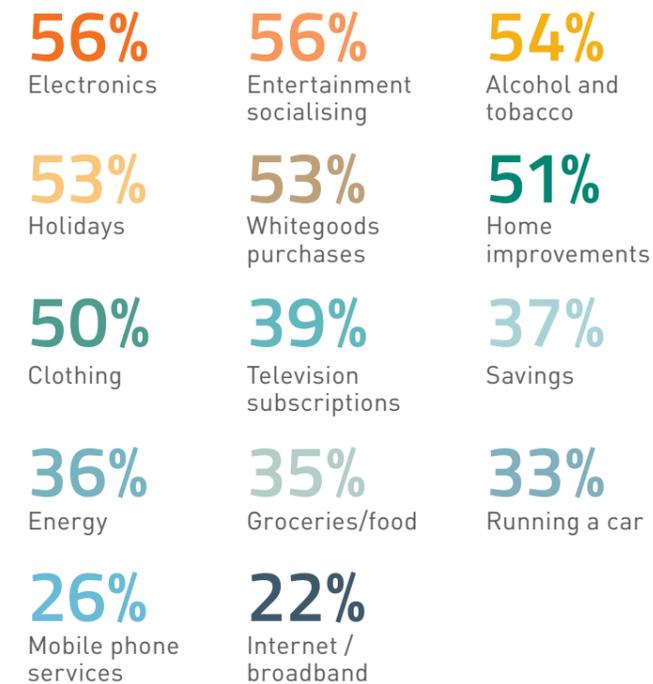
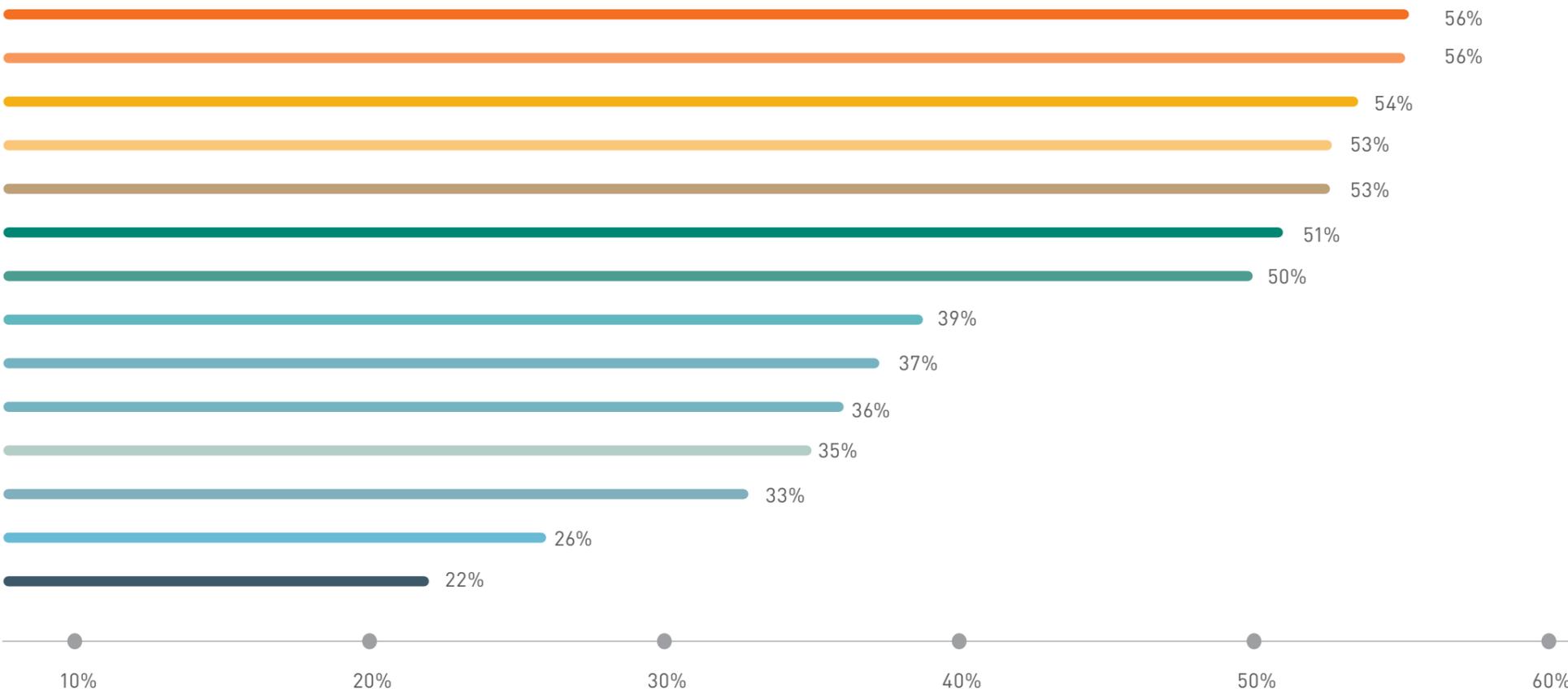
Australians are reporting the lowest levels of cutting back on record (56%). Retail trade figures back the finding with the month of May 2017 posting strong growth compared to last year.⁹

There are plenty of good intentions in what we plan to cut back on, with entertainment and socialising (56%) as well as big ticket items like televisions (56%) topping the list. Some of us may even be planning fewer big nights out with the intention to cut back on alcohol and tobacco (54%) featuring prominently.

More women are planning a cut back on clothing (56%) compared to their fashion conscious male colleagues (44%).

The biggest gendered gap in spending is in food and groceries with 42% of women compared to just 28% of men planning to make cuts.

WHERE ARE PEOPLE CUTTING BACK?



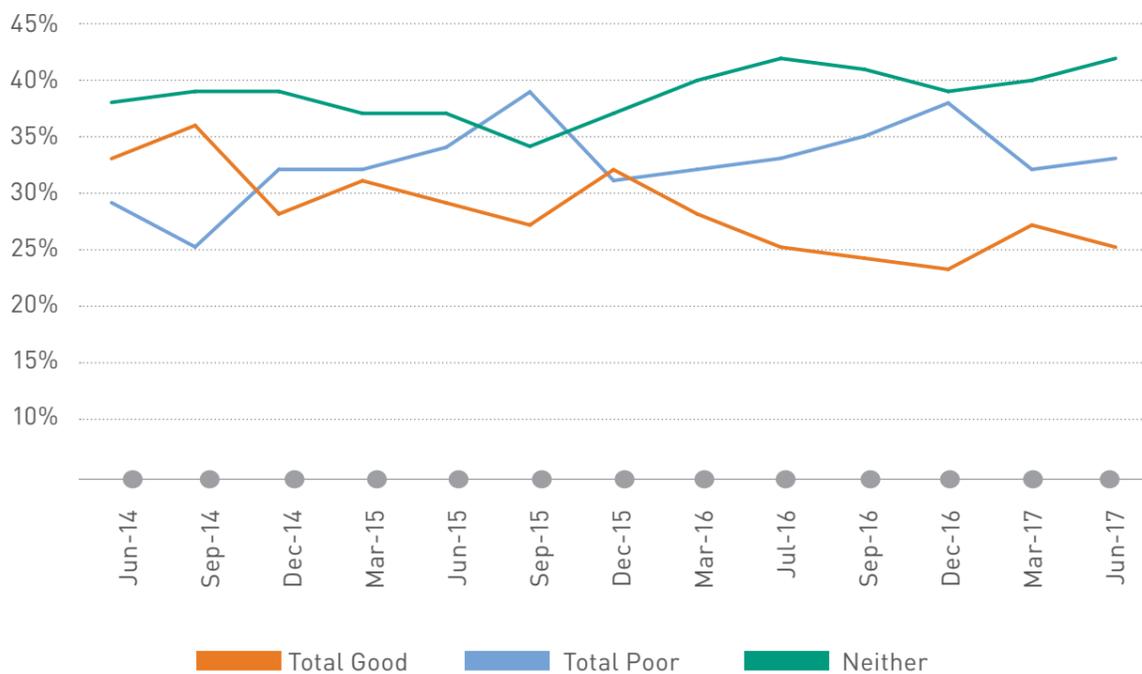
Note: Responses to 'In the next few months, do you plan to cut back, increase spending or spend the same on the following?' Asked of all respondents n=1042. Note: High-income households are those with an income over \$100,000 per year. Low-income households are those with an income under \$50,000 per year.

Uncertainty about the economy

After a rally in positive sentiment about the economy early this year, negativity has returned. Just one quarter (25%) of people think the economy is performing well, with a third (33%)

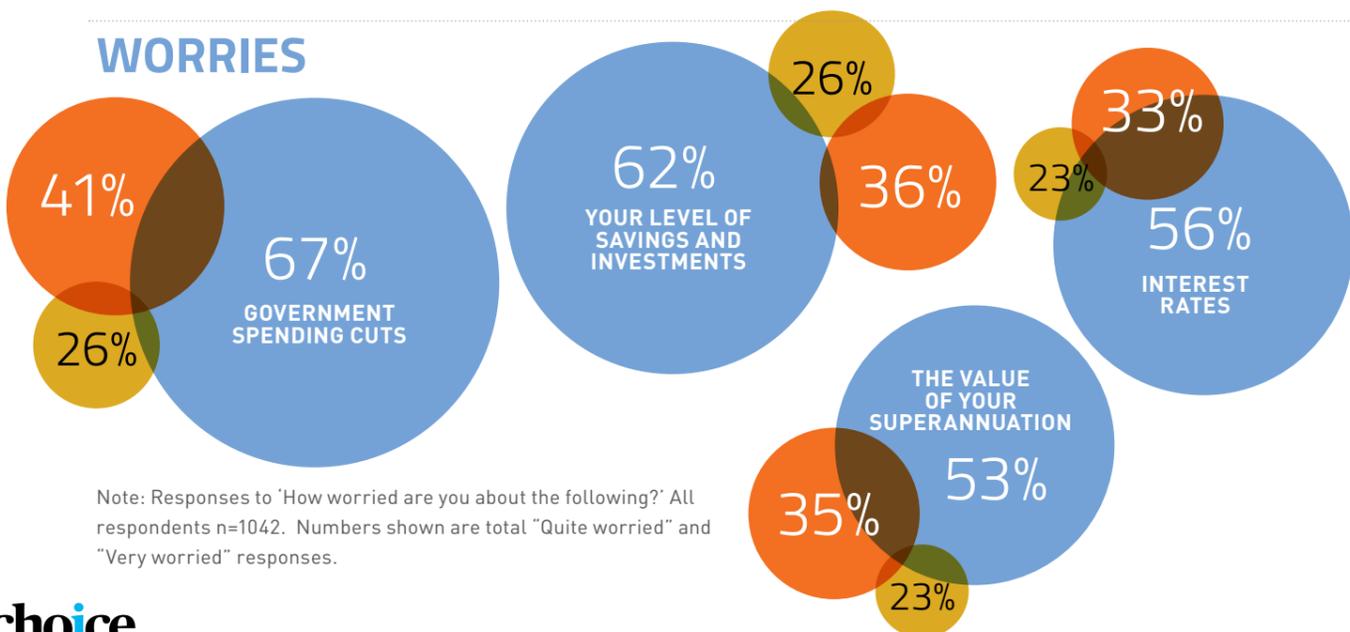
believing things are going in reverse. There are ongoing small increases in levels of uncertainty with most people (42%) rating the economy as neither good nor poor.

VIEW OF THE ECONOMY OVER THE PAST 3 YEARS



Note: Responses to 'How would you rate the Australian economy at the moment?' Base: All respondents from thirteen waves of data, n= between 1000-1375 for all waves Numbers shown for "Total good" are the total of "Fairly good" and "Very good" responses. Numbers shown for "Total poor" are the total of "Fairly poor" and "Very poor" responses.

WORRIES



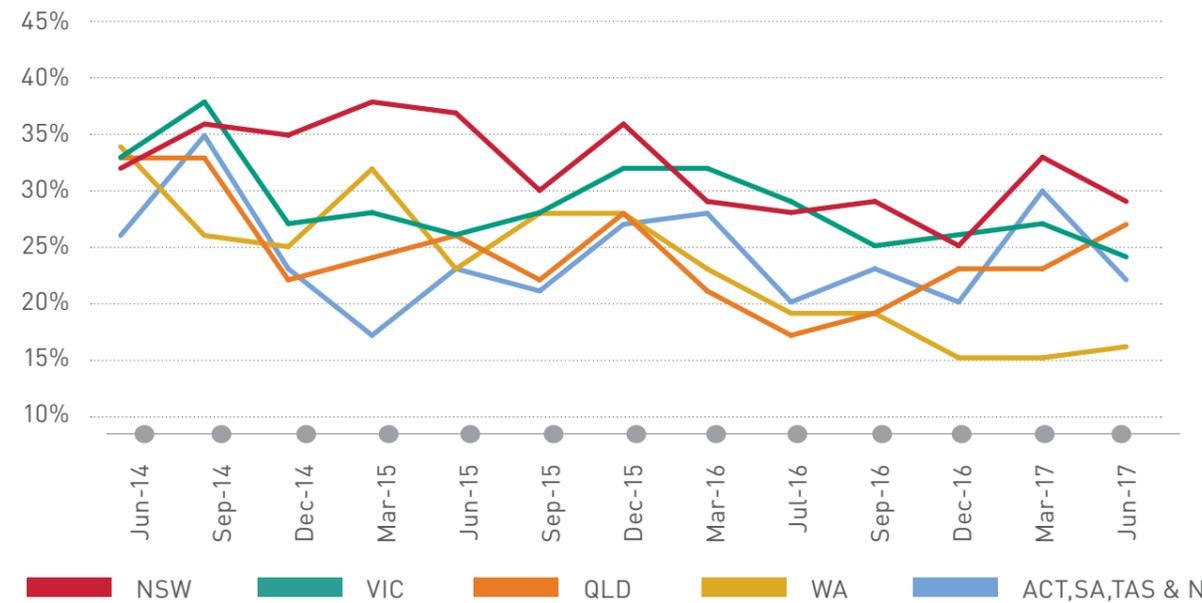
Note: Responses to 'How worried are you about the following?' All respondents n=1042. Numbers shown are total "Quite worried" and "Very worried" responses.

QLD and NSW: Leading the pack for positivity

Despite losing the Origin to Queensland, NSW remains the most positive about the state of the economy (29%), with Queensland coming in second place. As predicted last year, positivity has been on the rise (currently 27%) in the sunshine state on the back of rate cuts which have kept the Australian dollar relatively low. With pessimism in the US the Australian dollar is now trending upwards¹⁰, which may send QLD back to the doldrums as its exports

and tourism become more expensive. Since the end of the mining boom Western Australia has been gloomy about the economy, with just 16% of people currently rating the economy as good. There are some signs of life in the WA economy with higher mining and metal prices and record export volumes, although it will have to overcome historically high unemployment rates before everyone feels the benefits.¹¹

VIEWS ON THE ECONOMY BY STATE



Note: Responses to 'How would you rate the Australian economy at the moment?' Base: All respondents from thirteen waves of data, n= between 1000-1375 for all waves. Numbers shown are total of "Very good" and "Good" responses.

More Australians are worried about their finances

There is broad concern about interest rates. 60% of Victorians are worried about interest rates with some of the highest levels of home lending and Melbourne unit prices easing, there will be some investors keenly watching what rates will do next.¹² Similarly, 57% of people in NSW and WA, 51% in Queensland and 54% of people across other states are worried about interest rates.



Very worried Quite worried Total

BIG PICTURE WORRIES WHAT ARE PEOPLE WORRIED ABOUT?

Dignity in retirement

In June 2017 the quality of aged care (63%), university fees (63%) and cost of medicine/ pharmaceuticals (63%) topped our list of concerns.

There is an interesting gender divide in what people are concerned about, with more women holding concerns than men across three

essential categories in our survey. Women were more concerned about the quality of aged care (68%) and public transport costs (53%) compared to men, 58% and 44% respectively.

Age plays a big factor, with Baby Boomers significantly more concerned about the quality of aged care (74%) compared with Gen X (61%) and Gen Y (56%).

WHAT ARE PEOPLE MOST WORRIED ABOUT?



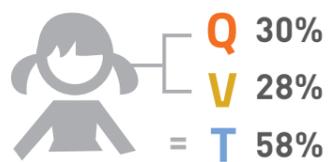
QUALITY OF AGED CARE*



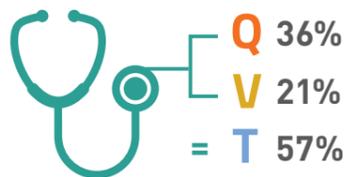
UNIVERSITY FEES



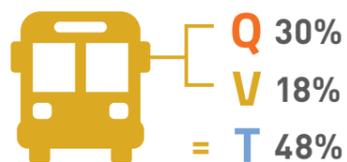
COST OF MEDICINE/ PHARMACEUTICALS



CHILDCARE FEES



GP COSTS



COST OF PUBLIC TRANSPORT

Q Quite worried V Very worried T Total

Note: Responses to 'How worried are you about the following?', Base: all respondents. n=1042.

BIG PICTURE WORRIES: WHAT ARE PEOPLE WORRIED ABOUT?

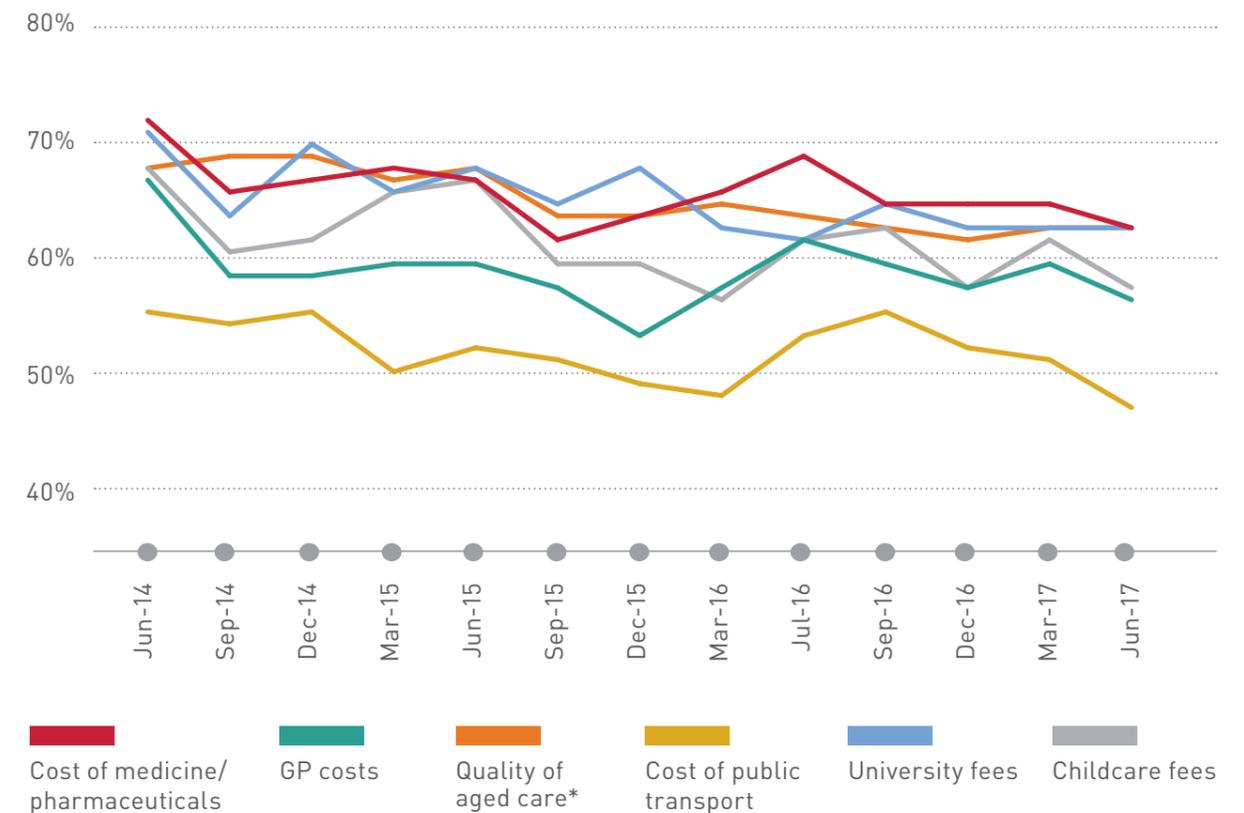
University costs rise

Consumer concerns about university fees remained high (63%) amid announcements in the federal budget that costs for new students would be increasing and those with loans would have to pay them off sooner and at higher levels. Unsurprisingly younger generations are more concerned, and Gen Z most so with 88% worrying about university fees the majority of Gen Y and X are also concerned (62% and 66% respectively).

Costly snake oil

Equal top on our list of concerns was the cost of medicine and pharmaceuticals (63%). With some pharmacy shelves overflowing with remedies, it can at times be difficult to tell the difference between what's scientifically proven and what's costly snake oil. This comes on the back of a CHOICE shadow shop of 240 pharmacies which found almost one in three pharmacists recommended products that have no evidence to demonstrate they work to treat the symptoms of stress.¹³

WORRIES OVER 2014-2017



Note: Responses to 'How concerned are you about the following?', Base: All respondents from thirteen waves of data, n= between 1000-1375 for all waves. Numbers shown are a total of "Quite concerned" and "Very concerned" responses.

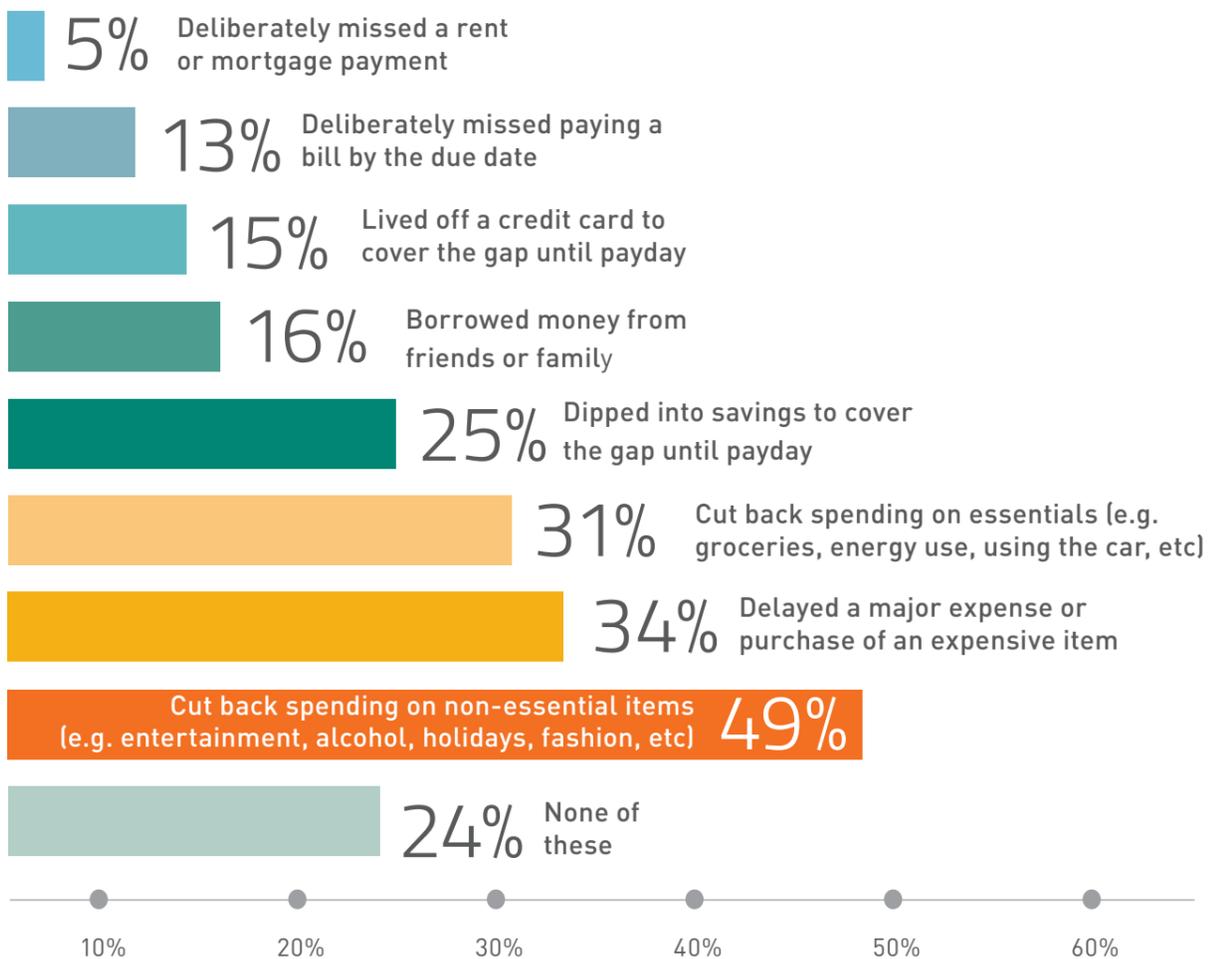
Friends and family providing a safety-net

16% of people have had to borrow money from friends or family in the last year.

Approximately three in 10 Australians (31%) say they've had to cut back spending on essentials like groceries and energy in the last year. However, those making cutbacks on essentials have been trending down since our first survey in June 2014 (46%).

A number of key markers of financial stress have remained steady or decreased slightly. More than one in seven people (15%) have lived off credit cards to get through to the next payday. More than one in eight (13%) have deliberately missed paying a bill by the due date, with women significantly more likely to be in this situation (17%) compared to men (9%).

HOW ARE PEOPLE COPING WITH FINANCIAL PRESSURES?



Note: Responses to 'Which of the following have you experienced in the last 12 months?'
Base: respondents. n=1042.

IN THE PAST YEAR:

5.3 MILLION CUT BACK SPENDING ON ESSENTIALS

2.8 MILLION BORROWED MONEY FROM FAMILY OR FRIENDS

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



0.9 MILLION DELIBERATELY MISSED A RENT OR MORTGAGE PAYMENT

4.3 MILLION DIPPED INTO THEIR SAVINGS TO COVER THEIR MONTHLY EXPENSES

2.2 MILLION DELIBERATELY MISSED PAYING A BILL BY THE DUE DATE



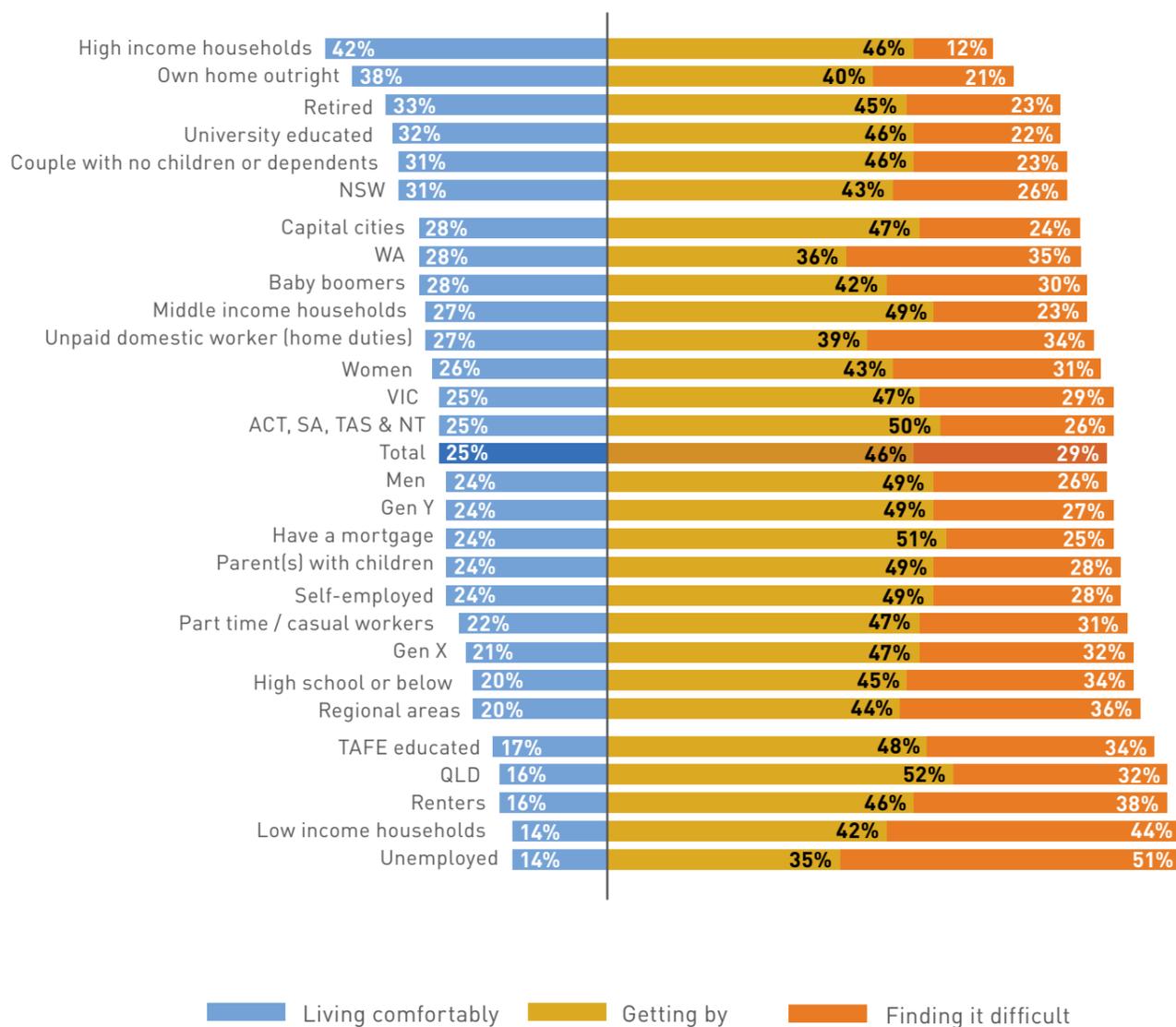
Note: Approximate number of people calculated using number of Australians aged 18-75 years as per ABS Australian Demographic Statistics Tables June 2016

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

Almost three in ten (29%) Australians are finding it difficult to get by on their present income, while a quarter (25%) says they are living comfortably. But there are some groups finding it tougher than most, like renters, regional Australians and low-income households.

More than three in 10 (31%) women are now finding it difficult to get by on their present income compared with 26% of men. Levels of comfort with household income have remained relatively stable across the last year, perhaps reflecting the low inflation and low wage growth across the same period.

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 respondents. n=1042. Numbers shown for "Living comfortably" are a total of "Living comfortably" and "Living very comfortably" responses. Numbers shown for "Finding it difficult" are a total of "Finding it difficult" and "Finding it very difficult".

Regional Australians are considerably more likely to be finding it difficult on their current household income (36%) compared to those living in the capital cities (24%). This has led to considerably higher rates of planned cut backs on living expenses, including essentials and non-essentials, (63%), compared to those living in capital cities (53%).

Although living outside of the capitals has its distinct benefits, with lower housing costs meaning lower levels of concern over mortgage and rent payments (62% in regional areas compared with 67% in the capitals). It also

provides some respite from worrying about what the Reserve Bank Governor has got to say on the first Tuesday of every month about interest rates (51% in regional areas compared with 59% in the capitals).

Those living in regional areas are getting stuck into some clean living, with 60% planning to cut back on alcohol and tobacco compared with just 51% in the capitals. Clean country air is also the best medicine with regional consumers less concerned about medicine and pharmaceutical costs (58%) compared to those living in the capitals (65%)



21% OF FULL TIME WORKERS ARE FINDING IT DIFFICULT



31% OF PART TIME OR CASUAL WORKERS ARE FINDING IT DIFFICULT



51% OF UNEMPLOYED PEOPLE ARE FINDING IT DIFFICULT



31% OF WOMEN ARE FINDING IT DIFFICULT



44% OF LOW INCOME HOUSEHOLDS ARE FINDING IT DIFFICULT



26% OF MEN ARE FINDING IT DIFFICULT



12% OF HIGH INCOME HOUSEHOLDS ARE FINDING IT DIFFICULT

CHOICE Consumer Pulse June 2017 is based on a survey of 1,042 Australian households. Quotas were applied for representations in each age group as well as genders and location to ensure coverage in each state and territory across metropolitan and regional areas. Fieldwork was conducted from the 8th to 20th of June, 2017. The data has been weighted to ensure it is representative of the Australian population based on the 2011 ABS Census data.

When referring to generations we use the terms pre-boomers (born before 1945), baby-boomers (1946-64), Gen X (1965-79), Gen Y (1980-94) and Gen Z (1995 onwards).

The survey was designed and analysed by CHOICE with fieldwork for Wave 13 was provided by The ORU. The ORU are ISO 20252 and 26362 accredited and are full AMSRO members.

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 is based on the total population. Also, unlike previous Consumer Pulse reports, respondents who answered 'don't know' or 'N/A' were excluded from the results. We have done this to better represent the views of Australians.



NOTES:

1 ABS 2017, 'Consumer Price Index, Australia, Jun 2017', available at:

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

2 ABS, 2017, 'Wage Price Index, Australia, March 2017', available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6345.0Main%20Features2Mar%202017?opendocument&tabname=Summary&prodno=6345.0&issue=Mar%202017&num=&view=> ;

3 <https://www.choice.com.au/electronics-and-technology/internet/connecting-to-the-internet/articles/internet-service-provider-satisfaction-survey-2017#satisfaction>

4 <http://www.sunwiz.com.au/index.php/2012-06-26-00-47-40/73-newsletter/419-battery-installations-in-2016-exceeded-6750-sunwiz-research-finds.html>

5 <https://www.choice.com.au/shopping/everyday-shopping/supermarkets/articles/cheapest-groceries-australia>

6 <https://www.choice.com.au/money/insurance/health/articles/australians-are-being-shortchanged-on-health-insurance-extras-130717>

7 <https://www.corelogic.com.au/research/monthly-indices.html>

8 <https://www.choice.com.au/about-us/media-releases/2017/march/mortgage-broker-mayhem>

9 See ABS, Retail Trade, Australia, May 2017, Table: Quarterly Turnover, in volume terms -

Trend estimate: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0>

10 <http://www.afr.com/markets/equity-markets/more-headaches-for-rba-as-aussie-dollar-can-head-higher-20170724-gxhb1b>

11 CommSec, 2017, 'State of the States, April 2017 State & territory economic performance report'.

12 CommSec, 2017, 'State of the States, April 2017 State & territory economic performance report';

<https://www.corelogic.com.au/research/monthly-indices.html>

13 <https://www.choice.com.au/pharmacyshadowshop>