

Australian consumers are ‘under pressure’

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“Pressure pushing down on me.

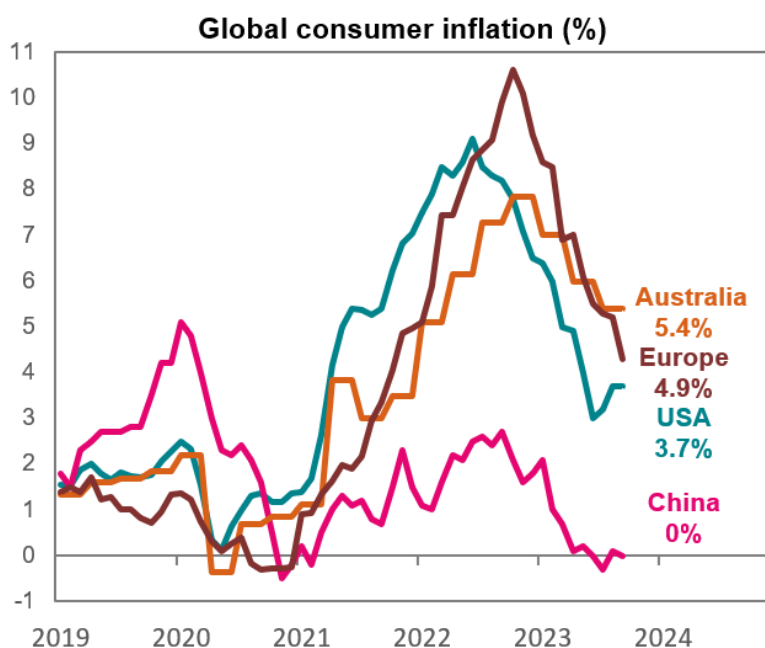
Pressing down on you...”

“Under Pressure” lyrics, David Bowie, John Deacon, Brian May, Freddie Mercury, Roger Taylor as songwriters.

Global consumer inflation has moderated but remains “too high”

Consumers across the globe have struggled with rising prices over the past two years. Everything on the shopping list from alfalfa to zucchinis has become more expensive. This has caused a painful squeeze for many consumers. Fortunately, there has been some more encouraging signs on inflation this year. After peaking in late 2022 at extraordinary levels (Australia 7.8%, Europe 11% and US at 9%), inflation has fallen significantly. For the year to September 2023, annual inflation is running at 5.4% in Australia, 4.9% in Europe and 3.7% in the US.

Yet central bankers still sing the chorus that inflation is “*too high*”¹. The notable exception to this chorus of discontents is China where there is no inflation. Essentially China’s problem is the absence of price pressures given subdued economic activity and a weak property sector.

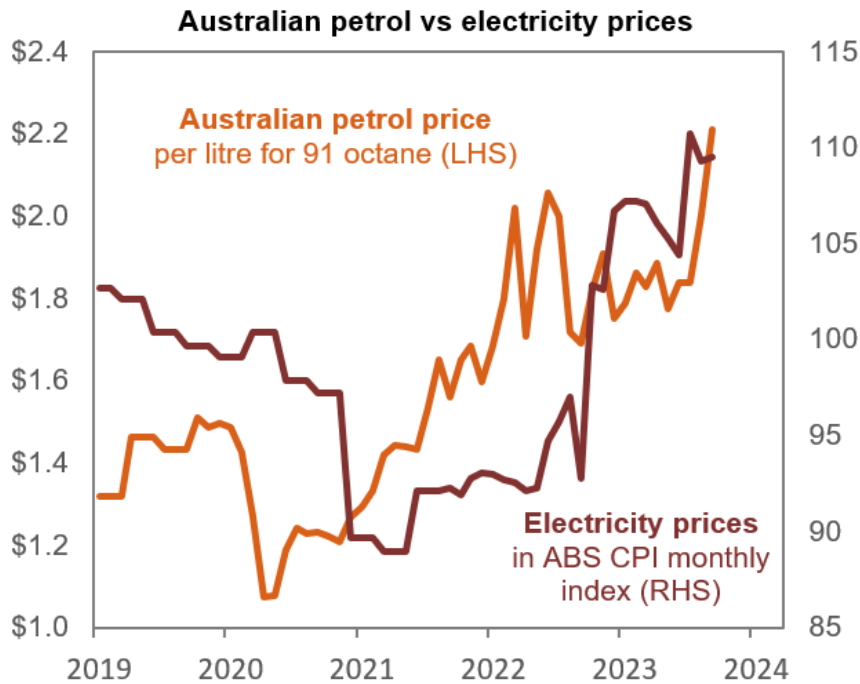


Sources: Refinitiv and Reserve Bank of Australia.

However Australian consumers are still under acute pressure. September’s consumer price index² (CPI) displayed an array of troubling price rises. In the year to September, petrol prices have risen by 20%. A motorist now needs to check their bank account before filling up the petrol tank at \$2.20 per litre. This also applies whether you can afford to turn on the lights on returning home. Electricity prices have risen by +18% in the year to September.

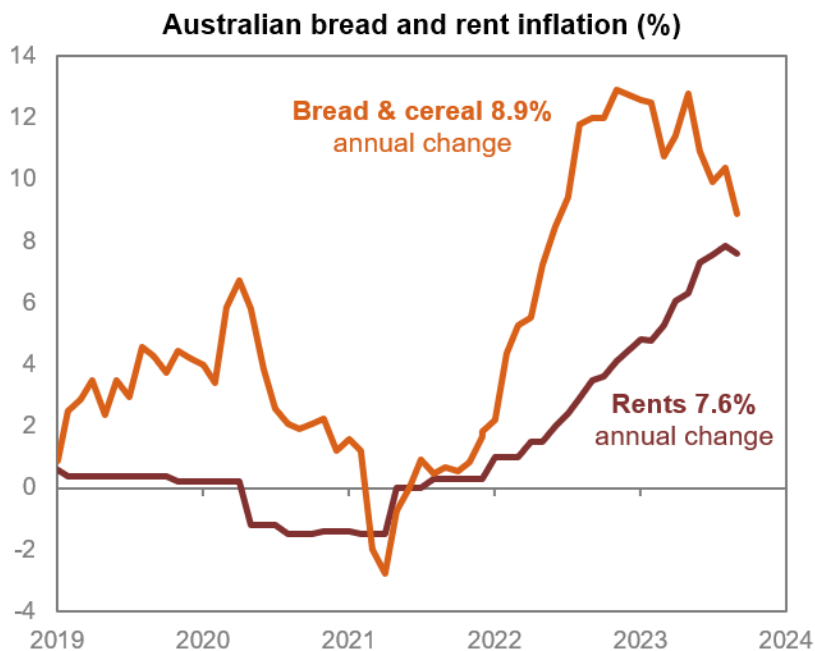
¹ Board of Governors of the Federal Reserve System, [Federal Reserve Chairman Jerome Powell, 19 October, 2023](#).

² Monthly Consumer Price Index Indicator, September 2023 | Australian Bureau of Statistics ([abs.gov.au](#)).



Source: Reserve Bank of Australia.

Your daily bread, cornflakes and Weet-Bix are also more expensive with prices up nearly 9% in the past year. For renters, these pressures are even more magnified beyond their food bills. Rents have increased by nearly 8% also in the past year.



Source: Reserve Bank of Australia.

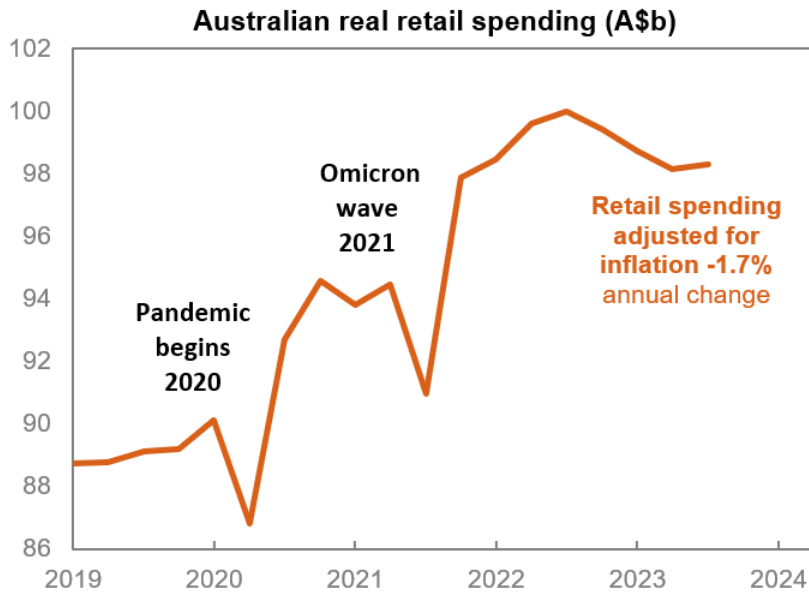
Australia's central bank, the Reserve Bank of Australia (RBA), is aware that consumers are struggling with rising living costs. A recent RBA report highlighted that charities and community services organisations have seen an increase in calls for:

*"...housing assistance, financial counselling services, mental health services, domestic violence services and food support. They attribute this largely to increases in basic living costs – for example, on housing, energy and food – which constitute a larger share of spending for people on lower incomes."*³

³ Reserve Bank of Australia, Statement of Monetary Policy, August 2023, Insights from Liaison, page 34.

Australian consumers are 'just looking' rather than buying

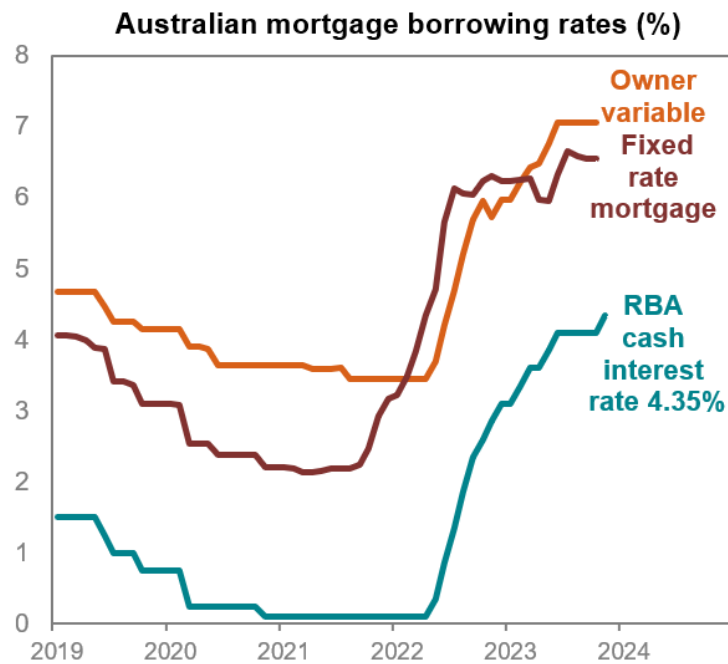
The clearest evidence that Australian consumers are struggling with higher prices is that spending is weak. Spending at retail stores such as supermarkets, department and hardware stores has declined by -1.7% over the year to September. This is a measure that takes account of price rises and shows the actual volumes that retail shoppers are buying. Hence the shopping baskets are less full than they were a year ago. Consumers are 'just looking' rather than buying.



Source: Reserve Bank of Australia.

Australia's central bank continues to turn the vice by squeezing interest rates higher

The RBA has raised the cash interest rate from 0.1% in May 2022 to 4.35% in November 2023. For consumer borrowers, interest rate commitments have dramatically increased. For those with a variable rate owner-occupier mortgage, they now face a mortgage rate of 7% plus. For those borrowers who have a maturing fixed rate housing loan, they confront a 3 year fixed rate around 6.5% compared to the 2% borrowing rate back in 2021.



Sources: Refiniv and Reserve Bank of Australia.

The RBA recognises that higher interest rates are a burden. Australia's economy is experiencing slow growth and that households are struggling with "high inflation".

"The Australian economy is experiencing a period of below-trend growth, and this is expected to continue for a while. High inflation is weighing on people's real incomes and household consumption growth is weak, as is dwelling investment."

However, the RBA is adamant that higher interest rates are needed to further lower inflation back to their target range of 2% to 3%. Australia's inflation rate has proven sticky and stubborn. Yet there are specific drivers generating Australia's inflation that higher interest rates do not directly address. Surging housing rents reflect Australia's lack of housing construction over the past decade and the current surge in population growth with higher immigration. Rising petrol prices reflects the sharp supply cutback from major oil producers such as Saudi Arabia and Russia over the past year to keep the oil price high.

Arguably, the RBA is using a very blunt tool in higher interest rates to hammer down inflation. Regrettably the Australian consumer will remain under pressure until inflation is finally nailed down.

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