Economic **Vitality** Report

Viewpoint

Issue One: March 2010

In this issue

UNIVERSITY OF CANBERRA

CommonwealthBank

Welcome to Viewpoint

Commonwealth Bank's inaugural economic vitality report – a unique snapshot of the financial well-being of Australians.

As Australia's leading financial services organisation, Commonwealth Bank is uniquely placed to provide its 10 million business and personal customers with insights into the Australian economy that will help them make better decisions on their financial future. These insights will form the basis of Viewpoint, which will become an ongoing barometer of financial perceptions and behaviours, providing a more intimate understanding of the realities facing Australians today.

Ten million customers – almost half the nation's population, trust us with their personal finances. Every day we process around 45% of Australia's electronic transactions. This sheer volume of transactions provides insights into consumer behaviour.

Viewpoint has been created in conjunction with the National Centre for Social and Economic Modelling (NATSEM), a highly respected and credible independent research organisation from the University of Canberra.

We recognise the responsibility and position we hold in the economy. In addition to our customers, over 700,000 Australians are shareholders of the Bank. Millions more own shares through their superannuation funds.

Our methodology in gathering information for this report is completely anonymous to respect the privacy of our customers and is in strict compliance with privacy requirements.

In the first issue of Viewpoint, we take an in-depth look at the effect of the Global Financial Crisis (GFC) on Australians. Compared to the rest of the world, Australia fared reasonably well during the GFC, which proved to be more of a slowdown than a recession for us. Yet, all parts of our community were impacted differently and using the wealth of data we have available, we discover who prospered, who fell behind, and the adjustments households made in response to a more challenging economic environment.

In line with our promise of 'Determined to be different' our quarterly Viewpoint report is an exciting initiative, one that we believe will further enhance our longstanding tradition of understanding and supporting the financial well-being of the Australian community. It is a new way of looking at the economy and will become an indicator of economic trends – past, present and possibly even future.

"Commonwealth Bank is uniquely placed to provide its 10 million business and personal customers with insights into the Australian economy that will help them make better decisions on their financial future."

Ralph Norris
CEO, Commonwealth Bank of Australia

Key findings

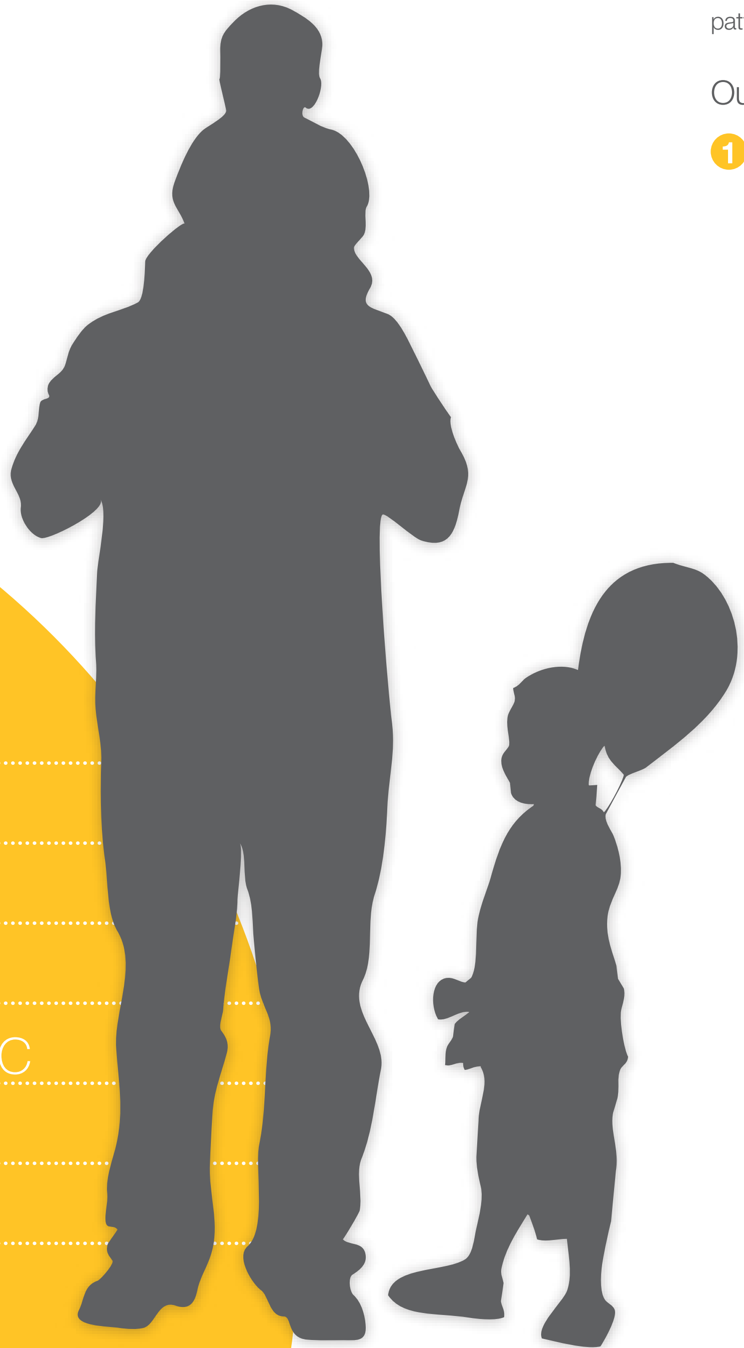
1. The Global Financial Crisis (GFC) proved to be more of a slowdown than a recession in Australia.

2. A high level of concern existed in the economy in early 2009. This was short-lived owing to effective fiscal and monetary policy measures, and by the end of 2009 economic momentum began to lift, recently confirmed by economic growth data.

3. The GFC had a divergent impact on different age groups:
   - data shows that 18-24 year olds (Gen Y) were hit the hardest with the highest levels of unemployment, increased reliance on government benefits, and salary growth just above inflation over the period December 2008 to December 2009. Despite this they remained the most optimistic and showed no evidence of slowing down their spending;
   - the most restrained group of Australians were those aged 24-35, possibly reflecting saving to take advantage of the First Home Owner Grant and in the later part of 2009, reflecting the impact of increased interest rates on existing home owners; and
   - real income growth for the highest earning groups – those aged 35-44 and 45-54 – increased by 2.8% and 3.7% respectively. Those with the highest increase were aged 55-64, where salary payments increased by 6.0%.

4. Indicative of the success of economic policy, spending across the board increased and spiked following government cash handouts and tax cuts. There was no evidence of consumers having a frugal Christmas in 2009.

5. Even though the economy improved throughout 2009, more consumers felt their personal circumstances had declined.



Putting it into perspective

Consumer perceptions of the overall state of the economy were poor in early 2009. This was short-lived and by the end of 2009 perceptions of economic performance began to lift, in line with economic growth data.

About economic vitality

Every day Australians make financial decisions – how to save, what to buy and how to pay for it all.

Taken individually these daily decisions may seem inconsequential. Viewed as a whole, they paint a broad picture of our overall economic vitality.

Viewpoint uses the extraordinary volume of data we capture each and every day to form an accurate portrait of the financial well-being of Australian households.

We handle around 45% of the nation's electronic transactions. Almost one in two Australians bank with us. Through our EFTPOS terminals at retail outlets, our credit card platform and our general banking information, we are able to see patterns in the Australian economy at any point in time.

Our methodology – combining 3 key features

1 An exceptional sample size

10 million customers, providing a representative sample of 1.3 million consumers.

From our 10 million-strong customer base, we draw a confidential, representative sample of 1.3 million consumers. This lets us observe consumer income and spending activity in detail, identifying past trends that may predict future patterns of behaviour – the economic equivalent of an early indicator or trend spotter.

2 Unmatched timeliness

A March report based on February data.

Our unparalleled sample size is matched only by its timeliness. Unlike traditional surveys, Viewpoint is based on real time data that records the actions made each and every day by real people. Moreover, we are able to report our findings in early March 2010, based on information gathered in February 2010.

3 A better understanding of consumer perception

We speak with people.

Numbers alone don't tell the whole story. We back up our data by speaking with 2,000 consumers each month to gain a better understanding of consumer perception and how personal outlooks are driving household behaviour.

Finally, our findings are compared against conventional economic indicators to confirm the validity of our findings.

By leveraging the timeliness, size and depth of detail of Commonwealth Bank data, Viewpoint is positioned to become a leading indicator of the financial pulse of Australian households.

Commentary

Treading water or forging ahead? Surviving the GFC.

Michael Blythe
Commonwealth Bank Chief Economist

About Commonwealth Bank's Chief Economist

Michael Blythe is the Chief Economist for the Commonwealth Bank of Australia. In this role he is responsible for monitoring, analysing, and forecasting trends in the Australian economy, financial markets and domestic monetary policy.

Michael joined Commonwealth Bank in 1995 as the Senior Economist in the Bank's economic research division. Prior to this he spent 13 years in various roles within the Economic Group of the Reserve Bank of Australia. Michael was the Reserve Bank's Senior Economist from 1991-95 with responsibility for the provision of economic analysis and policy advice.

The Australian economy withstood the full force of the GFC and recession remarkably well.

The Australian downturn proved to be more in the nature of a slowdown rather than recession. Forecasters had to return to the drawing board and start again. New forecasts show a significant upgrade in growth expectations for the year ahead.

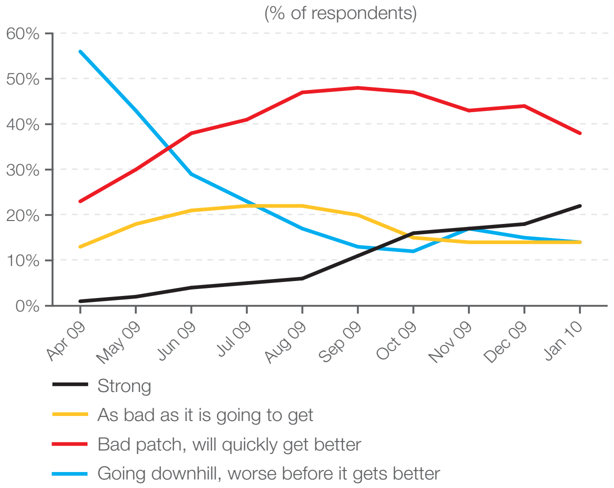
Australia dodged the recession bullet. But only just. One of the lessons from the GFC is just how important confidence is to the operation of financial systems and economies. A lack of confidence in the operation of the financial system and a lack of business and consumer confidence in the real economy deepened the downturn in many countries.

Fears of a 'death spiral' passed quickly

Australia was heading in the same direction. Last year, consumer perceptions of economic trends in Australia were collapsing, much as they were everywhere else. Commonwealth Bank's survey of consumer perceptions of the economy (Figure 1) revealed fears that some sort of 'death spiral' was developing. More than half of our respondents thought the economy was "going downhill", and things would "get worse before they got better".

This extreme pessimism thankfully proved relatively short-lived. By early 2010 the majority of households thought the economy was already "strong" or would "quickly get better".

Figure 1: Perceptions of the economy, Commonwealth Bank survey



Source: Commonwealth Bank

Aggressive policy turns the tide of sentiment

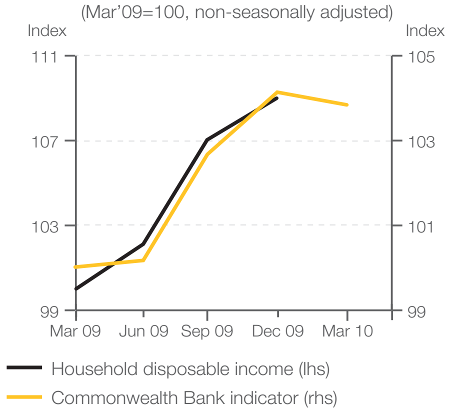
A large part of the divergence between expectations and reality reflects the fact that aggressive policy action – fiscal and monetary – worked. And it worked quickly.

The good policy response reflected earlier efforts to get inflation down and by-and-large keep it down, and to get public finances into shape. That meant that all the policy guns could be fired when the GFC hit and that our financial system was much better placed to take the strain. Targeting parts of our economy where there was some genuine demand and an immediate ability to spend was very smart.

Disposable incomes rose…

A couple of rounds of cash handouts, interest rate cuts, some special assistance to first home buyers, a tax cut and lower petrol prices helped to lift household spending ability. Disposable Income (Figure 2) rose strongly through 2009. Combined with the improvement in consumer's perceptions of economic trends, this income boost flowed through to actual consumer spending.

Figure 2: Disposable Income



Source: ABS/Commonwealth Bank

Trends in Commonwealth Bank's Consumer Spending Indicator (Figure 3) illustrate many of these points. Consumer spending spiked:

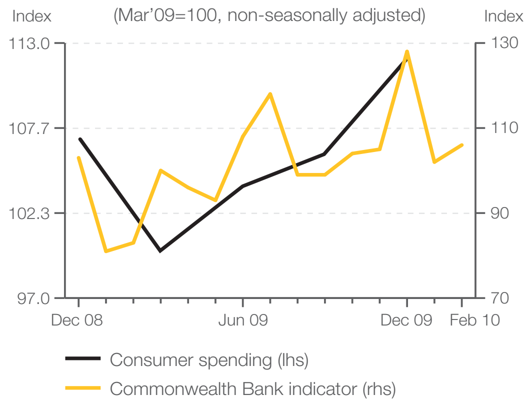
- after the second round of cash handouts in March/April 2009;
- after the July 2009 tax cut; and
- after the improvement in consumer perceptions ahead of the Christmas trading period (although seasonal factors were important as well).

…but not everyone benefited

The Australian economy didn't escape entirely unscathed. Unemployment rose and it is clear from our Viewpoint report that the GFC exerted a very different response across the economy. On a range of metrics, younger Australians the 18-24 group or Gen Y – suffered more than most. One indication is the larger rise in Newstart payments to Gen Y relative to other age groups (Figure 4 on the next page).

There are a number of stories here. The most important is the sharp lift in job security fears that accompanied the very negative perceptions Australian consumers had about the direction of the economy. Government forecasts in the May 2009 Budget had the unemployment rate more than doubling from 4.0% to 8.5%. The reality, however, is that unemployment looks to have peaked at around 5.75% in the second half of 2009. The limited rise in unemployment relative to expectations proved to be a positive "shock", driving a rapid recovery in consumer confidence and the economy more broadly.

Figure 3: Consumer Spending



Source: ABS/Commonwealth Bank

Putting it into perspective

A large part of the divergence between expectations and reality reflects the fact that aggressive policy action – fiscal and monetary – worked. And it worked quickly.

Commentary

Employers 'hoard' labour, older workers stay on

The limited damage to the labour market reflected some unusual flexibility on the part of employers and employees:

- employers were prepared to hoard labour, perhaps influenced by the skill shortages and tight labour markets evident up until mid 2008; and
- employees were prepared to accept adjustments to hours worked and incomes, perhaps influenced by the strains on household finances evident until the Reserve Bank of Australia (RBA) began cutting interest rates in the third quarter of 2008.

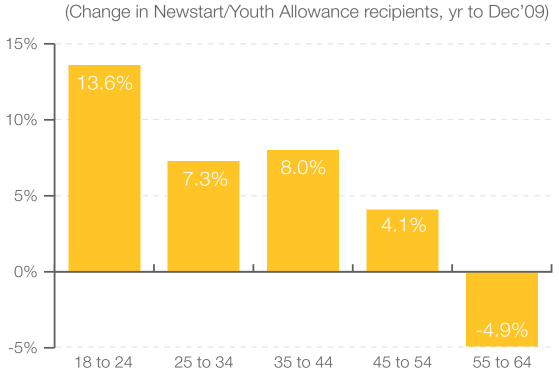
The main outcome was that businesses stopped hiring new employees. Older workers, whose retirement savings had been damaged, stopped exiting the labour force. Our measure of Newstart payments to this older group actually fell during 2009 (see Figure 4). The hiring freeze hit new entrants at the lower end of the age range disproportionately. And lower retirement rates meant that fewer jobs were freed up for new (younger) workers.

Trends in disposable incomes, proxied by after-tax salary payments, lead to similar conclusions. Disposable income growth at the lower end of the age range during 2009 fell well short of that in older groups. The 2.5% rise in Gen Y disposable incomes barely kept pace with inflation during 2009. It appears that this group benefited less than most from Government support measures and the mid-year tax cuts.

Putting it into perspective

On a range of metrics, the group at the lower end of the age range – the 18-24 group or Gen Y – suffered more than most yet remained optimistic.

Figure 4: Changes to employment



Source: Commonwealth Bank

Salaries varied across age groups

A premium for skills and experience, and a skew in the tax cuts towards higher income earners, helped protect spending ability towards the higher end of the age range. Real income growth over the past year ranged from 2.8% for 25-34 year olds up to 6.0% for 55-64 year olds.

As you would expect, spending trends over the past year closely matched income trends. There were, however, some interesting exceptions to this linkage:

- spending growth in the 25-34 years grouping was relatively modest compared with incomes received and trends in other age cohorts. This apparent belt tightening possibly reflected a desire to take advantage of the temporary First Home Owners Grant and in the later part of 2009, reflecting the impact of increased interest rates on existing home owners;
- spending growth at the top end of the age range was around average in dollar terms but the growth rate was robust – up a staggering 46% during 2009. The increase in pension payments from September 2009 would have had some impact; and
- spending growth at the bottom end of the age range, in contrast, was modest in dollar terms but represented a very high proportion of income. The length of current economic expansion – pushing 19 years now – means Gen Y is yet to experience a full blown recession. This lack of experience, and changed attitudes to job tenure, looks to have prevented the sort of belt tightening usually associated with recession fears.

Rebalancing of personal finances

Consumer spending helped support the Australian economy during the darkest days of the GFC. But it has left some concerns about the sustainability of consumer finances and the ability of consumers to keep spending at comparative levels. Information from Viewpoint provides some guide on how personal finances are evolving.

The Income and Savings Grid (Figure 6) shows some marginal deterioration in the perception of personal finances during the second half of 2009 despite the stabilising and improving economic backdrop. This trend does highlight one of the economic risks for 2010 – a desire to 'balance the books' may weigh on consumer spending in the period ahead.

The available evidence indicates that many borrowers used the period of low interest rates to accelerate home loan repayments. Households were net injectors of equity into the housing stock for much of the past two years. Some of the cash handouts designed to support consumer spending were used to repay debt. Card usage data shows a preference for consumers to spend their own money ("debit" rather than "credit"). A drop in the average value of a credit card transaction suggested a shift in spending patterns towards cheaper items.

Viewpoint – an early indicator

The depth of analysis used to construct Viewpoint allows a richer, and more meaningful insight into consumer behaviour. Already we've seen that contrary to many perceptions, the GFC had a divergent impact across different age groups in terms of sentiment as well as income and spending patterns. Looking ahead, Viewpoint will become a useful predictive tool – an early indicator of possible future trends, hopefully in a more settled economic climate.

Information is the lifeblood of the economic community, and with our new behavioural and research approaches, we can provide more detail than ever before of the state of the economic climate and its impact on the consumer.

Our findings will become increasingly a part of the economic discussion and we look forward to sharing them with you in the future.

Putting it into perspective

The 2.5% rise in Gen Y disposable incomes barely kept pace with inflation during 2009.

Putting it into perspective

Businesses stopped hiring new employees. Older workers, whose retirement savings had been damaged, stopped exiting the labour force.

Taking the nation's financial pulse

Australians express confidence in the economy, but many lose ground financially.

Commonwealth Bank's new approach to measuring economic vitality highlights the difference between the way people feel about the broader economy and the reality of their own financial situation.

We found that confidence in the economy does not necessarily translate into the perception of improved financial circumstances for all Australians. In fact many are concerned about making ends meet as expenses continue to rise.

Findings such as these offer new insights and measures of consumer perception and economic wellbeing.

It should be noted that these results are based on how people feel about the economy, and what they believe their financial position to be. As such, these are indicators of a person's perceived financial position.

2,000 consumers surveyed each month

Every month Commonwealth Bank surveys 2,000 different consumers aged 18-69 to find out how they are feeling about the economy and to determine how their personal finances are travelling. We focus on two key areas: personal income and personal savings.

Personal income coupled with our ability to build savings forms the cornerstone of a strong financial base – the key to surviving an economic downturn.

Putting it into perspective

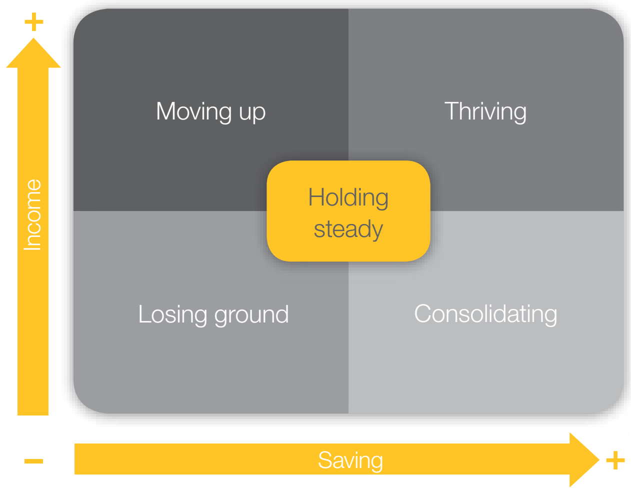
Even though the economy improved throughout 2009, more consumers felt their personal circumstances had declined.

Data from the questions below allow us to assess how consumers are faring financially:

- Has your income increased or reduced over the last 6 months?
- Have you saved more or less money over the last 6 months?

The resulting Income and Savings Grid (Figure 5) allows us to take the nation's pulse on a variety of issues and track changes over time as individual and market circumstances shift.

Figure 5: Income and Savings Grid overview



Overlaying the consumer perception data onto the Income and Savings Grid allows us to drill down deeper so that differences in consumer perceptions and household financial circumstances are revealed.

In 2009, fewer Australians progressed financially

Between April and September 2009, we noted only small fluctuations in consumer responses to our core financial questions, suggesting that Australians financial situation was reasonably stable.

However, as Figure 6 shows, in the final quarter of 2009, our respondents demonstrated a shift – primarily to the 'Losing ground' and 'Consolidating' group.

By December 2009, respondents who claimed that both their income and savings had dropped in the preceding six months rose from 25% in June 2009 to 28%.

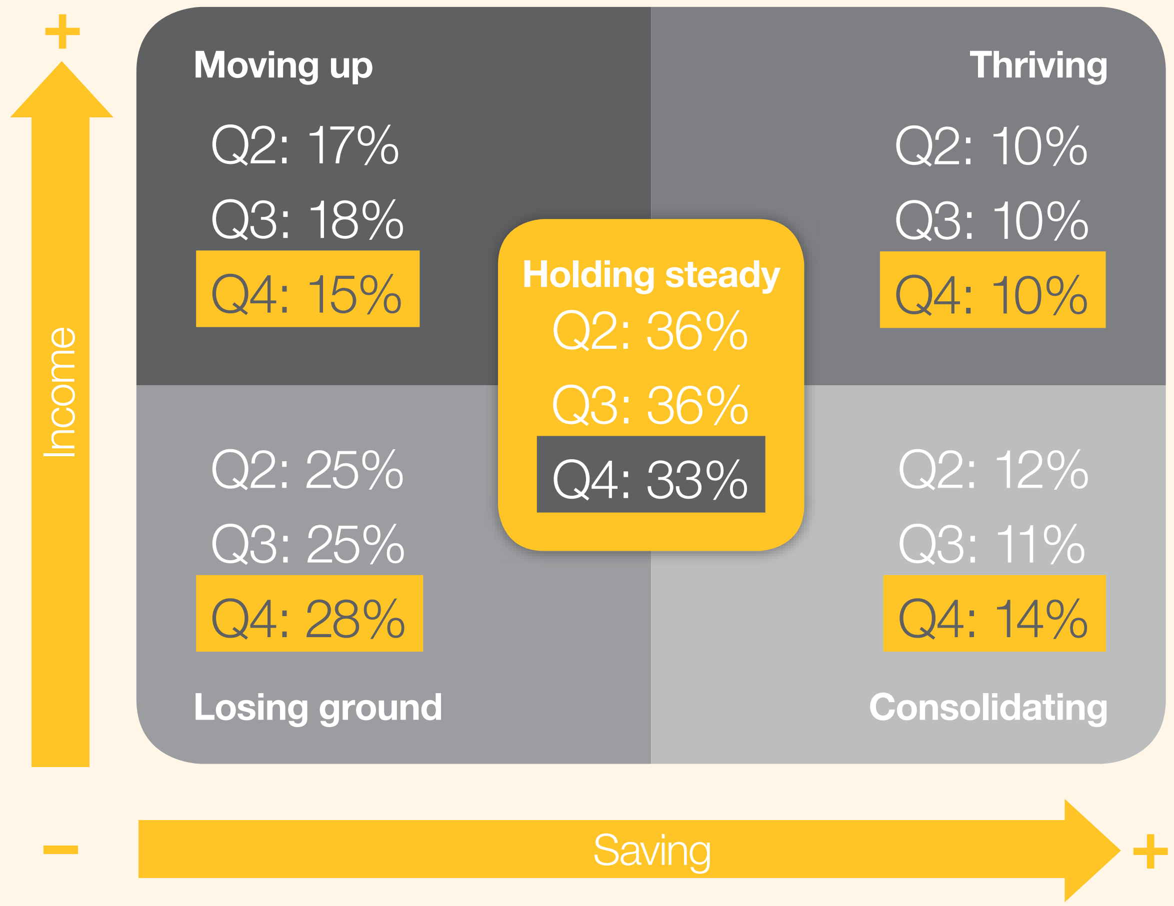
Fewer people – 33%, believed they were holding steady by year's end, down from 36% earlier in the year. More people were consolidating – earning less but coping with the situation by reducing personal spending. Throughout 2009 only 10% of respondents were thriving, enjoying an increase in both income and savings.

Interestingly, despite improving perceptions of the overall Australian economy (Figure 1), more consumers claimed their personal circumstances had declined (Figure 6).

Putting it into perspective

Throughout 2009 only 10% of respondents thought they were thriving financially.

Figure 6: Income and Savings Grid, April 2009 – December 2009



The 'Losing ground' group's perception of the economy flattened between October 2009 and January 2010, co-inciding with three consecutive rate rises by the RBA.

It is interesting to see how patterns of sentiment changed as the worst of the GFC lifted and Australians adapted to a post-GFC environment.

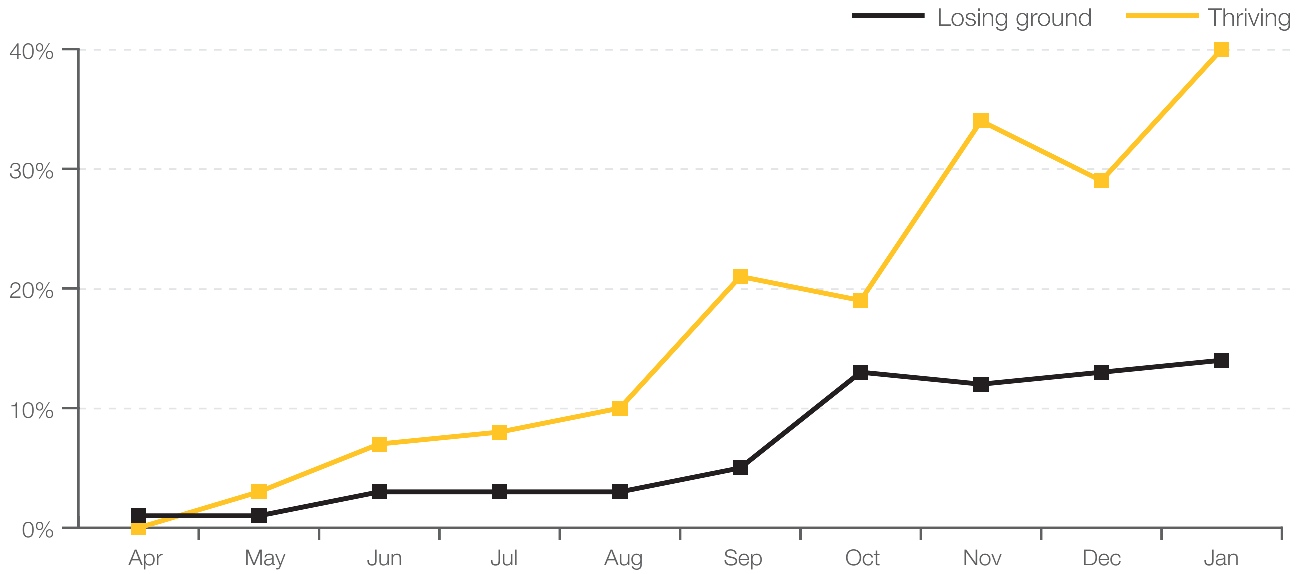
As Figure 7 demonstrates, those who saw their personal finances 'Thriving' during 2009 were quicker to regain confidence in the broader economy and remained more optimistic throughout the year.

Notably, those in the 'Losing ground' group were consistently less optimistic. Their perception of the economy flattened between October 2009 and January 2010, co-inciding with three consecutive rate rises by the RBA.

Whilst we see an overall trend into positive territory late in 2009, the more pessimistic amongst those surveyed still form a consistently high percentage.

This method of analysis highlights the benefit of using larger sample sizes and an innovative approach to identifying underlying differences between consumer perceptions of the performance of the overall economy and perceptions of their individual financial well-being.

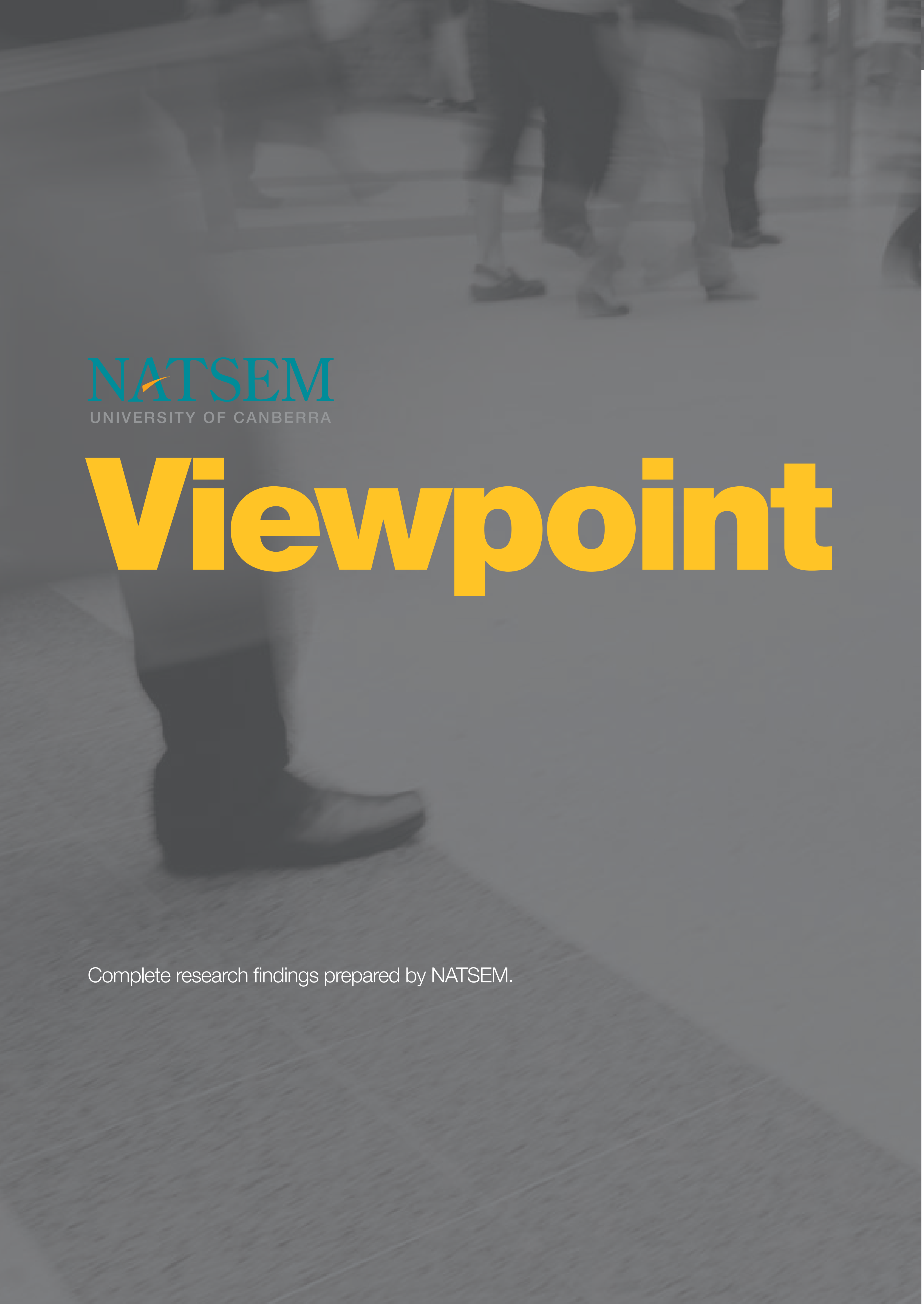
Figure 7: Consumer perception, "The economy is strong" – 'Thriving' and 'Losing ground'



Source: Commonwealth Bank

Putting it into perspective

Looking at our data, we can see that perceptions about how the greater economy was faring differed markedly – according to personal financial well-being.



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Viewpoint

Complete research findings prepared by NATSEM.

Robert Tanton
NATSEM

The impact of the GFC on Australians

The impact of the Global Financial Crisis (GFC) on financial markets first became apparent in 2007. However it was not until September 2008 that the Reserve Bank of Australia responded with the first in a series of decreases in official interest rates. By December 2008, the GFC was starting to affect individuals and households, causing changes in consumer confidence, employment, and income and expenditure patterns.

Trends in consumer confidence

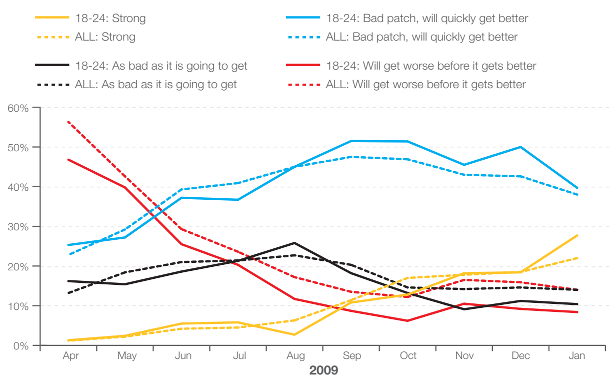
The effect of the GFC can be seen in the results of consumer research conducted by Commonwealth Bank.[1]

In April 2009, consumer confidence was very low with more than half (56%) of respondents feeling the economy was going to worsen before it improved. By September 2009, the gloom had lifted and given way to optimism, with an increasing number of people believing overall conditions had improved or would quickly improve.

An interesting point to note is that younger respondents – those aged 18 to 24 – were less pessimistic about the economy than the rest of the population. Throughout the survey period, the percentage of 18-24 year olds who thought the economy would get worse was around five percentage points lower than the total population who held that view. By December, when 16% of all respondents thought the economy would get worse, only 9% of 18-24 year olds held that view.

This youthful optimism may be due to a number of factors – it may be that under-25s are too young to remember the impacts of Australia's most recent recession in the early 1990s. Also, this age group tends to be stereotyped as 'job-hoppers' so the thought of losing a job and having to find another is less daunting than it might be for older age groups.

Figure 1: Consumer confidence in the economy



Source: Commonwealth Bank Customer Survey, 2010.

The GFC hits younger Australians hardest

The GFC affected most Australians in some way, however the youngest age group – those aged 18-24 – were particularly impacted. Data shows this group experienced relatively higher unemployment, significant losses in full time employment, and lower salary payments than other age groups over the period December 2008 to December 2009.

Higher unemployment

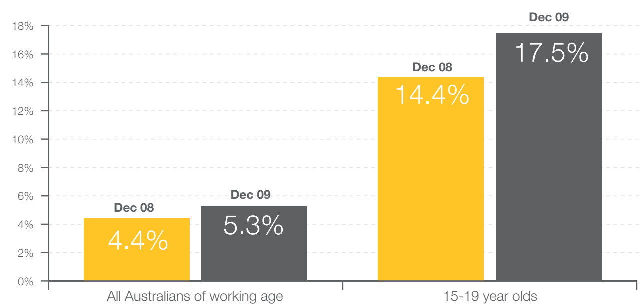
Young people are more likely to experience unstable employment, so they are more likely to be working casual or part time jobs, and more likely to become unemployed (Keegan, 2007).[2]

However, relative to all people of working age, this group of Australians were disproportionately impacted by unemployment in the past 12 months.

Among all people of working age, 4.4% were unemployed in December 2008 and 5.3% were unemployed in December 2009 (ABS, 2010).[3] For 15-19 year olds, a much higher 14.4% were unemployed in December 2008. A year later this rate had increased to 17.5%.

By December 2009, one in every 6 people in the labour force aged 15-19 was unemployed.

Figure 2: Unemployment rate by age group, December 2008 and December 2009



Source: ABS, 2010.

[1] Refer to Appendices for details.
[2] Keegan (2007), *Modelling the workers of tomorrow: the APPSIM dynamic microsimulation model,* Paper presented at the HILDA Survey Research Conference, 19-20 July, Melbourne.
[3] ABS (2010), *Labour Force Australia, January 2010,* Cat. No. 6202.0, Canberra.

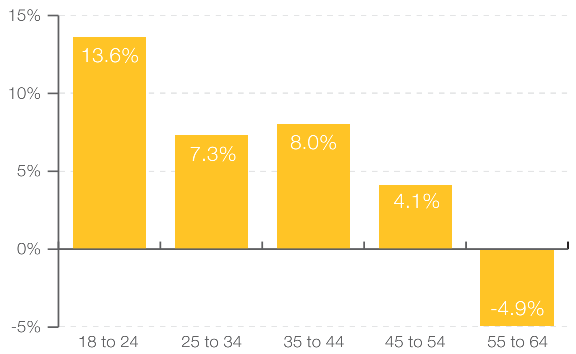
Younger working Australians also bore the brunt of the GFC in terms of changes in full time employment.

The decrease in full time employment from December 2008 to December 2009 was 0.5% for all Australians. However, for 15-19 year olds, the drop in full time employment was 8.9% – a staggering 18 times greater than recorded for the overall working population (ABS, 2010).

Increasing youth unemployment is further evidenced by growth in the number of people in Commonwealth Bank sample receiving Newstart and Youth Allowance.[4]

Figure 3 below shows that for young customers aged 18-24, the increase in the number of recipients from December 2008 to December 2009 was just short of 14% – almost twice the increase seen in any other age group.

Figure 3: Percentage change in the number of Newstart/Youth Allowance recipients by age group, December 2008 to December 2009



Source: Commonwealth Bank Administrative Data, 2010.

Most of this increase in Newstart/Youth Allowance payments is likely to be due to higher unemployment among young people, however it may be due in part to young people becoming less confident about their employment prospects and undertaking further study rather than seeking employment.

Lower salaries and salary increases

This same group also bore the brunt of wage pressures during the GFC.

Table 1 shows that not surprisingly, younger workers receive the smallest monthly salary payments[5] into their accounts – just half that of the highest earning group aged 35-44. This may be due in part to the prevalence of casual and part time work for this age group and lower starting salaries.

Table 1: Relative salary payments by age group

Age Group	Index Dec 09
18 – 24	50
25 – 34	83
35 – 44	100
45 – 54	99
55 – 64	87

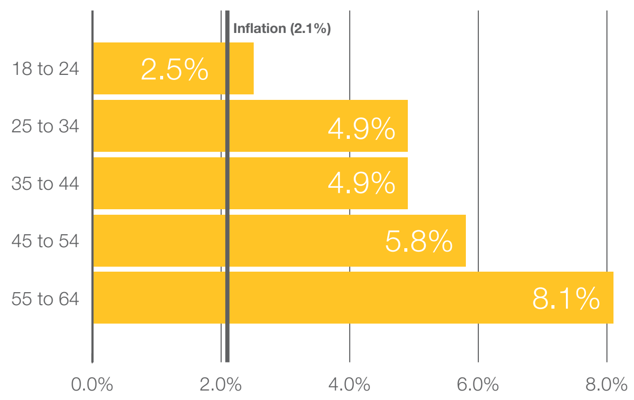
Source: Commonwealth Bank Administrative Data, 2010.

They also received the lowest overall increase in salary payments, as shown in Figure 4 – 2.5% – just ahead of the 2.1% inflation rate recorded for the same period. Changes to tax thresholds in July 2009 should have increased some after tax salaries. However, the benefits of lower taxes appear not to have flowed through to the salary payments of 18-24 year olds. After taking into account tax changes and inflation, this group appears to be in a worse position for the period.

Salary payments for the highest earning groups – those aged 35-44 and 45-54 – increased by 4.9% and 5.8% respectively. Those with the highest increase were aged 55-64, for whom salary payments increased by 8.1%.

The fact that older age groups showed greater increases in salary receipts than younger age groups suggests younger workers, with lower levels of skills and experience, may not be able to negotiate pay increases during a period of economic downturn; or that younger workers are more likely than older workers to have their hours reduced.

Figure 4: Increase in monthly salary payments by age group, December 2008 to December 2009



Source: Commonwealth Bank Administrative Data, 2010.

[4] Refer to Appendices for details.
[5] Refer to Appendices for details.

Shifts in customer spend and behaviours

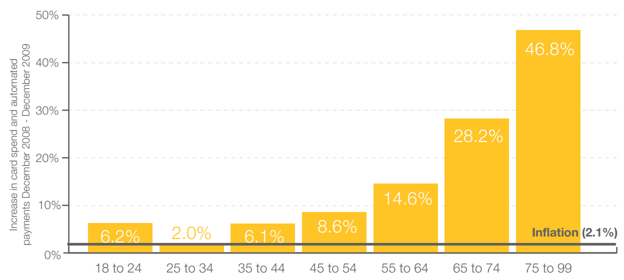
NOTE: "Spend" and "expenditure" are terms used throughout this section to denote transactions using debit and credit cards, BPAY and other automated payment channels.[6] The terms are used interchangeably.

Figure 5 shows the increases in expenditure by people in the Commonwealth Bank sample from December 2008 and December 2009.

This shows that people aged 25-34 had the lowest increase in spend over this period. Their 2% increase in average spend is below the inflation rate for the same period, indicating a decrease in the value of goods and services purchased after accounting for inflation.

People aged 35-44 and 45-54 have the highest monthly salary payments (refer Table 1), and the highest monthly expenditure, likely to be partially due to larger households including children. The higher expenditure might also be due to people in this group making greater use of cards and other automated payment channels (rather than cash) over this period.

Figure 5: Increase in monthly spend by age group, December 2008 to December 2009



Source: Commonwealth Bank Administrative Data, 2010.

Higher spends by older Australians

One interesting point from Figure 5 is that older people in the Commonwealth Bank sample (aged 65-74 and 75-99) experienced the biggest increases in spend – by 28.2% and 46.8% respectively. Despite this large increase, their payments are relatively small, as there are usually only one or two adults in a household.

One of the possible reasons for the increase in expenditure for this age group could be the increase in the age pension, in September 2009 (see below). The second is that the increase could be the result of greater usage of cards versus cash by this age group over the year.

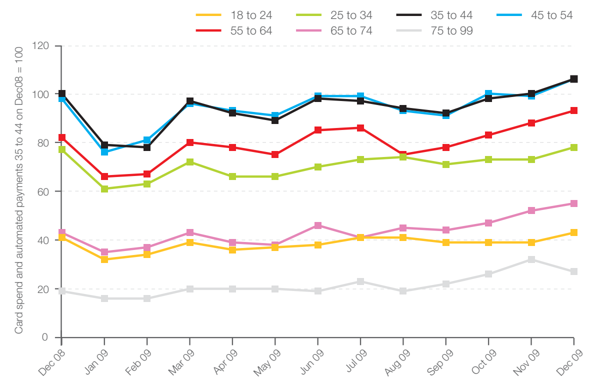
Overall trends in consumer spending

Figure 6 shows that while there are cyclical variations across the year, there has not been a general reduction in spend and automated payments in 2009 due to the GFC.

The expected December peak (the Christmas period) occurs for all age groups. The chart also reveals noticeable increases in spend in March and in the months August through December. The March increase may be due to the second round of the Household Stimulus Package, when all individuals paying tax and earning below $100,000 received a cash bonus from the Government, and single income families and students received additional payments.

As Figure 6 shows, consumers spent more for Christmas 2009 compared to Christmas 2008, reflecting either greater electronic spending in Christmas 2009, or greater spending overall.

Figure 6: Monthly average pattern of expenditure, by age group, December 2008 to December 2009



Source: Commonwealth Bank Administrative Data, 2010.

Expenditure trends by age group

Figure 6 also shows greater monthly variations for those aged 35-64, possibly reflecting a more cyclical nature of family expenditure related to payment of items such as school fees, school holidays, etc.

Figure 6 shows a large increase in spend by 65-74 and 75-99 year olds starting in September 2009. This may be associated with the increase in the Age Pension in September 2009 which was an additional $65.00 per fortnight ($130 per month) for single pensioners; and an extra $20.30 per fortnight combined ($40 per month) for pensioner couples (Treasury 2009).[7]

One of the interesting conclusions from this analysis is that while employment data from the ABS suggested that unemployment was increasing, and Commonwealth Bank data suggested that the number of Newstart recipients was going up, Commonwealth Bank salary and expenditure data suggests that the situation was not as bad as the other data suggests.

Monthly salary payments and card spend were both still increasing over the period of the GFC, although at a fairly low rate for the younger age groups. Their average salary payments barely covered the average increase in prices over the period while their average card spends increased at a much higher rate. This may have been affected by their more optimistic view about the economy. Nevertheless, despite low levels of consumer confidence and increasing unemployment, salaries and expenditure continued to grow over the year.

[6] Refer to Appendices for a more detailed explanation.
[7] Treasury (2009), Budget Paper No. 1: Budget Strategy and Outlook 2009-10, *Budget 2009-10,* Canberra, http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst1-10.htm (Access date: 11 February 2010).

Viewpoint

Commonwealth Bank data as an early indicator of ABS economic figures

Data from Commonwealth Bank can provide some useful insights into some of the Australian Bureau of Statistics (ABS) economic figures. The ABS produces a quarterly earnings figure, the Average Weekly Earnings (AWE), and the trend in this is regarded by financial markets as an important indicator of the growth in wages. The ABS also produces a quarterly expenditure figure, the Household Final Consumption Expenditure (HFCE), and this is used as a measure of activity in addition to affecting possible directions in official interest rates.

Both the AWE and the HFCE are produced quarterly by the ABS. These quarterly estimates can obscure monthly underlying changes in these indicators. For economists, we think there are three potential uses for Commonwealth Bank data:

- It can be used to provide an indication of changes in the AWE and HFCE on a monthly basis;
- It can be used as an early indicator of the change in trend in AWE and HFCE before the ABS releases the official figures, as it is more timely than ABS business surveys; and
- It can provide greater detail on AWE and HFCE by providing different cross-tabulations, in particular by state and age.

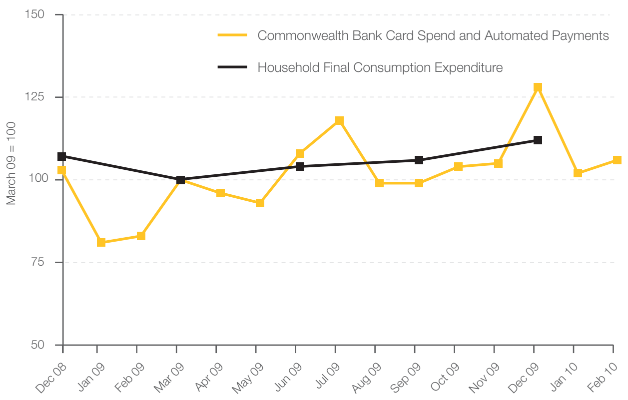
While we know that Commonwealth Bank's data set will not match the ABS data perfectly, since they are from different sources and the levels are different, if there is a stable relationship between the two, then Commonwealth Bank data could be used as an indicator of the ABS data, but available monthly rather than quarterly. Furthermore, these indicators could be released in a timelier manner than those published by the ABS where the current delay in the release of official statistics is around three months.

To look at trends, the ABS and Commonwealth Bank data are converted to an index in which February 2009 figures are set to 100. These indexes are then plotted – AWE against salary payments, and HFCE against card spend and automated payments.

Figure 7 shows this analysis for HFCE. It can be seen that the monthly estimates are very close to the quarterly ABS estimates.[8] There was a jump in Commonwealth Bank data in June and July 2009, which was not matched by the ABS data, but this may have been due to monthly variations being smoothed out over the quarter in the ABS statistics. Alternatively, this may reflect particular characteristics of Commonwealth Bank customers.

The ABS quarterly estimates do not show the December expenditure peak or the downtrend in expenditure to February, as can be seen in Figure 7.

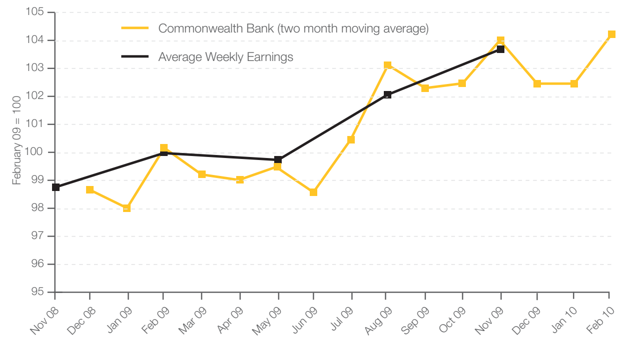
Figure 7: Index of Household Final Consumption Expenditure and Commonwealth Bank card spend and automated payments, December 2008 – February 2010



Source: Commonwealth Bank Administrative Data, 2010; ABS, 2010a.

Figure 8 shows movements in the original, unadjusted AWE[9] data against Commonwealth Bank salary payments. These have been adjusted to take out different payday effects in each month using regression analysis; and have then been smoothed further using a two-month moving average, to remove more of the variability in the data. It can be seen that Commonwealth Bank data matches the quarterly ABS data well, but that the monthly Commonwealth Bank data shows the monthly variability around the quarterly data.

Figure 8: Index of Average Weekly Earnings and electronic salary payments into Commonwealth Bank accounts (two month moving average), November 2008 and February 2010.



Source: Commonwealth Bank Administrative Data, 2010; ABS, 2010b.

Overall, this analysis using five data points from the ABS and fifteen data points from the Commonwealth Bank customer database suggests that the monthly data from Commonwealth Bank could be used to provide greater detail and fill in some of the gaps in the ABS economic data. A longer time series would be required to confirm the relationships observed over 2009, but this initial analysis shows promise – there does appear to be a relationship between the Commonwealth Bank data and some of the ABS economic data.

Commonwealth Bank data could then be used to provide a monthly estimate of the AWE and HFCE, which would provide more current information on the state of the economy than a quarterly estimate. With some additional data in the time series, and an understanding of how Commonwealth Bank data varies in a year not affected by the GFC, we believe that in the future the Commonwealth Bank data could also be used as an early indicator for the official estimates from the ABS.

[8] ABS (2010a), *Australian National Accounts: National Income, Expenditure and Product, December 2009,* Cat. No. 5206.0, Canberra.

[9] ABS (2010b), *Average Weekly Earnings, Australia, November 2009,* Cat. No. 6302.0, Canberra.

Appendices

About the National Centre for Social and Economic Modelling (NATSEM)

NATSEM, the National Centre for Social and Economic Modelling, was established in 1993 and is a leading provider of social and economic research.

Recognised as the top Australian micro-simulation modelling centre and a world leader in its field, NATSEM aims to be a key provider of social and economic analyses, undertaking independent and impartial research using models of the highest quality.

NATSEM does not have views on policy, but specialises in analysing data and producing models so that decision makers have the best possible quantitative information.

The team working on this project at NATSEM was Robert Tanton, Marcia Keegan, Yogi Vidyattama and Linc Thurecht.

References – Viewpoint Indicators

Indicator	Definition	Considerations that need to be understood
Pre-Sample Criteria	• Account has had at least one transaction in the last 3 months (active) • Customer has an account type associated with an income payment, be that salary, pension or benefit	• This ensures that the customer has at least one active account on which consumer transactions can be made if the customer chooses to do so
Sampling Method	• Comparison to ABS population projections (2008) • Weighted by the following criteria: – Age – Sex – LGA (Local Government Area) • Sample volume determined to provide valid findings within any LGA • Randomised within the sampling criteria to ensure representation and to avoid bias to specific customer groups	• ABS projections will always be slightly out of date • Weighting the sample for representation sub 18 allows for dormant/minimal activity accounts • Several LGAs do not produce a sample large enough for valid results
Electronic Salary Payments	Transactions into Commonwealth Bank accounts that either: • Have a designated 'salary' transaction code, OR • Have the word 'Salary', 'Wage' or 'Payroll' in the transaction description	• Any salary deduction that happens before the salary is paid into the account cannot be identified (Lease, Superannuation, split payments at salary receiver's request) • Cash payments cannot be identified • Consumers who receive salary from multiple payers are rolled up to a total salary amount • Salary payments into the same account where multiple consumers own the account (e.g. husband and wife) are treated as individual payment recipients i.e. average salaries will be calculated based on the number of payments into the account, not the total salary into the account • Salary payments that are not identified using the criteria listed in the definition are lost, as only track payments that satisfy these criteria can be identified • Bonuses or special payments/adjustments are considered as salary if they are identified as such • The top 0.2% and the bottom 5% of salary transactions are trimmed from the measure to avoid extreme outliers that will otherwise affect the accuracy of the analysis
Electronic Pension Payments	Transactions into Commonwealth Bank accounts that either: • Have the word 'Pension' or 'Annuity' in the transaction description – Self Funded Pension – 'Pension' or 'Annuity' that is not linked to Centrelink standard payment descriptors, OR • Have a 'pension' transaction code – Centrelink or Veterans' Affairs transaction descriptor	• Any pension deduction that happens prior to the pension being paid into the account cannot be identified • Special payments/adjustments will be considered as pension if they are identified as such in the descriptors passed to Commonwealth Bank • If Centrelink make specific payments via a different payment descriptor (e.g. Disability payments are labelled Aged Pension) we cannot account for this
Card Spend and Automated Payments	Spend transactions to classified merchants/payment recipients using either: • Commonwealth Bank Credit Card • Commonwealth Bank Debit Card • BPAY • Direct Entry payment system	• Payments are only to identified merchants/payment recipient – not all payments by consumers via these channels will be identified in the measure
Card Spend and Automated Payments in Category	• Spend transactions to classified merchants/payment recipients using the above payment systems where the merchant/payment recipient has been classified into a business category based on internal research into the market that their brand operates in. All merchants/payment recipients who have been identified and placed into a category can then be rolled up to represent spend within that category.	• Spend categories are based on Commonwealth Bank's analysis of merchants by industry sector, and the subsequent identification of these payments as originating at specific merchant terminals • This necessarily means that industries with fewer competitors are more comprehensively covered in the analysis, and those with more competitors less so – for instance, Grocery is a sector with strong coverage in the data, Restaurants will be less effectively covered.

Consumer confidence in the economy: Commonwealth Bank conducts a regular survey on consumer perception. Each week, 500 web-based surveys[10] are completed by consumers who respond to a number of questions on brand recognition, advertising effectiveness and consumer perception. The consumer perception questions ask respondents what they think of the current and future state of the economy and how it will affect their financial decisions and behaviours.

Commonwealth Bank customer database: This is a database of over ten million Australian bank accounts, which is used as a basis for analysis in this report. To ensure that analysis is performed on a sample that is reasonably representative of the Australian population, a small subset of this database has been chosen (1.3 million customers) to reflect the age and sex distribution of the Australian population taken from the Australian Bureau of Statistics population projections for 2009.[11]

The most common source of data on the income and expenditure patterns of Australians, has to date, been surveys conducted by the Australian Bureau of Statistics (ABS). However, one of the key advantages of using Commonwealth Bank data to investigate these issues is the significantly larger database available to be examined. In contrast to the numbers cited above, a typical ABS survey may only contain responses from around 12,000 households. The database that is drawn upon for the analysis in this report provides coverage of a far greater cross-section of Australian society and from across the country, including remote areas, which ABS surveys do not typically cover.

Salaries: Wage and salary payments into Australian bank accounts are flagged as such for tax purposes. Commonwealth Bank can thus identify how much of the incomings into a bank account are for wages and salaries. It should be noted that data on salaries paid into Commonwealth Bank accounts will, in almost all circumstances, not reflect total earnings: employers almost always deduct taxes, private health insurance, salary packaging items and so forth from an employee's salary before placing the remainder into their bank account. A different sample is used to estimate average salaries for each month – any account that does not receive at least one salary payment that month is excluded from the sample.

As payments after tax were taken out, we would expect some slight increase in salaries over this period because of the tax rate changes that took effect from 1 July 2009. These changes mainly affected people with higher incomes, as the main change was a reduction in the marginal tax rate for those earning between $80,000 and $180,000 from 40 cents in the dollar to 38 cents in the dollar. A smaller change was the adjustment of the threshold of the 30% marginal tax rate from $34,000 to $35,000.

Newstart/Youth Allowance: As with salaries, pensions and allowances from Centrelink, including Newstart, are flagged as such when they are paid into bank accounts, allowing Commonwealth Bank to identify the number of people receiving Newstart Allowance. Newstart Allowance is an income support payment for people aged 21-64 who are seeking work. Potential recipients are subject to an income test, an assets test and a liquid assets test on their own and their partner's income and assets, which means that many people who are unemployed are not entitled to Newstart. Also, Commonwealth Bank's Newstart figures include Youth Allowance – a payment to youth jobseekers (aged under 21) and youth students (aged under 25). These payments may be subject to a parental means/asset test as well as a personal and spousal means test. Some 18-24 year olds who are receiving Newstart/Youth Allowance will be full-time students rather than unemployed. However, Centrelink data (FaHCSIA, 2007)[12] suggests that after full time students are excluded, recipients of Youth Allowance/Newstart who are jobseekers substantially outnumber recipients in older age groups.

Card Spend and Automated Payments: This refers to debit or credit card, BPAY transactions and payments made using other electronic payment channels that are processed through Commonwealth Bank accounts. This data does not include cash withdrawals, cheques, transfers between accounts and transfers to other financial institutions. Card spend and automated payments have been used for analysis in this report as their purpose is readily identifiable. When a person makes a transaction using a debit or credit card (including EFTPOS) or executes some transactions using BPAY and other electronic payment channels, the name of the merchant is recorded with the spender's bank. This means that these transactions can be clearly identified as consumer spending, as opposed to cheque payments, cash withdrawals or transfers, which may be gifts, savings or debt repayments for example. It also avoids double counting from funds transfers.

[10] In December 2009, 1,500 surveys were conducted; in January 2010, 1,000 surveys were conducted owing to the Christmas break.

[11] ABS (2008), *Population Projections*, Cat. No. 3222.0, Canberra.

[12] FaHCSIA (2007), *Income Support Customers: a statistical overview,* Statistical Paper No. 4, Canberra.

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