

Record car affordability; Consumer caution

Consumer sentiment; Car affordability

- **CommSec Car Affordability index:** Currently someone on the average wage needs to work for 23.2 weeks to afford a Ford Falcon – the best (lowest) result on record. Four years ago the same worker would have needed to work almost three weeks longer to afford the same purchase.
- **Consumer sentiment:** The weekly ANZ/Roy Morgan consumer confidence rating fell for the first time in seven weeks, dropping 3.2 per cent to 117.7. Confidence is still up by 4.3 per cent over the year and above the average of 113.8 since 2014.

Consumer confidence figures have implications for retailers, and other consumer-focussed businesses. Car affordability data is helpful in analysing spending trends.

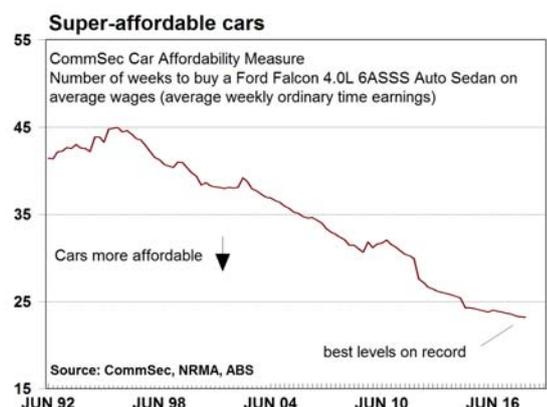
What does it all mean?

- Seven was a bridge too far. Consumer confidence rose for six straight weeks, but a weaker sharemarket, global uncertainties (such as US-North Korea talks) and a spike in petrol prices have served to dull consumer optimism.
- Too often, investors and analysts focus on the slower growth of wages rather than comparing wages with the prices of key goods and services. One reason that Aussie consumers are devoting extra dollars to buying homes is because the affordability of a raft of other items has improved – such as cars, whitegoods, phones, TVs, food and clothing. It's also important to note that the quality or features of goods like cars and electrical goods is vastly better than similar purchases made five or 10+ years ago.
- And it's not just the 'run of the mill' goods. Over the past 20 years the number of weeks a person on the average wage has had to work to buy a luxury car like the BMW 318i has halved.

What do the figures show?

Car affordability

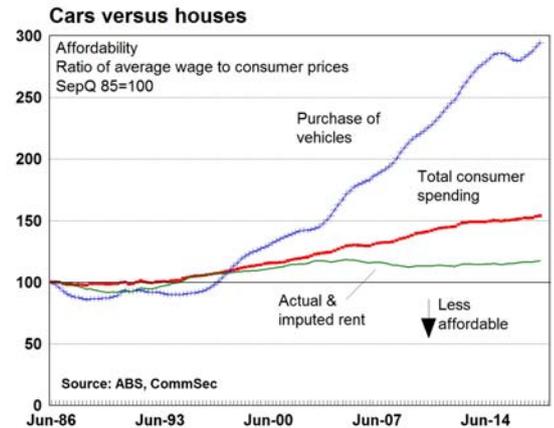
- The National Roads and Motorists Association (NRMA) in NSW has published data on car prices in its *Open Road* magazine for over 25 years. The data is sourced from the Glass's Guide. When measured against wages we are able to derive measures of car affordability.
- Currently someone on the average wage needs to work for 23.2 weeks to afford a Ford Falcon – the best (lowest) result on record. Four years ago the same worker would have needed to work almost three weeks longer to afford the purchase.
- It's not just Ford Falcons; consistent price data exists for the Toyota Corolla, Holden Commodore and the BMW 318i. In fact affordability of a BMW 318i has improved over the past four years from 41.5 weeks of wages (for someone on the average wage) to 36.5 weeks currently.
- Since 1999 the average wage has more than doubled, up 111 per cent. Over the same period, a BMW 318i (and similar models and variants) have increased in price by just 2 per cent.



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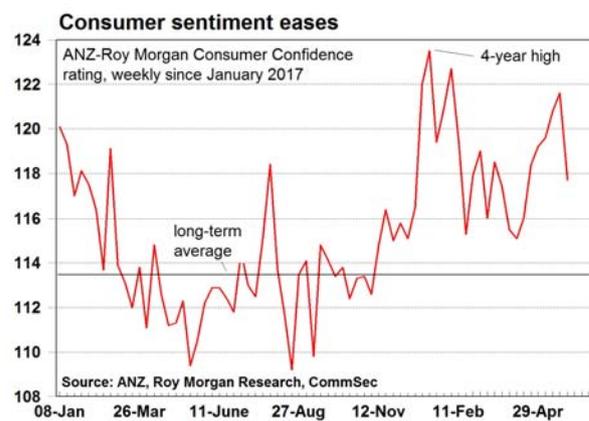
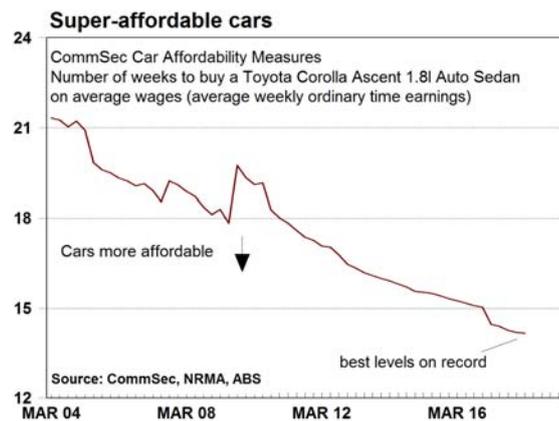
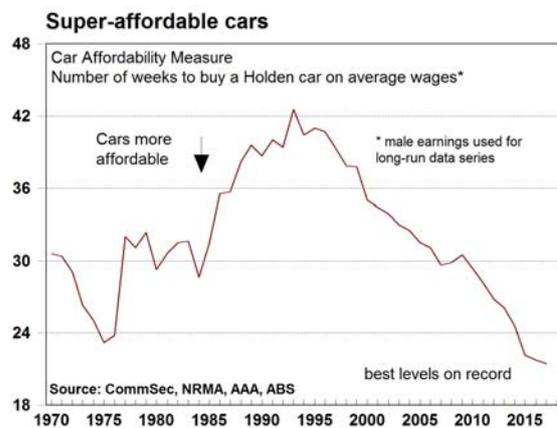
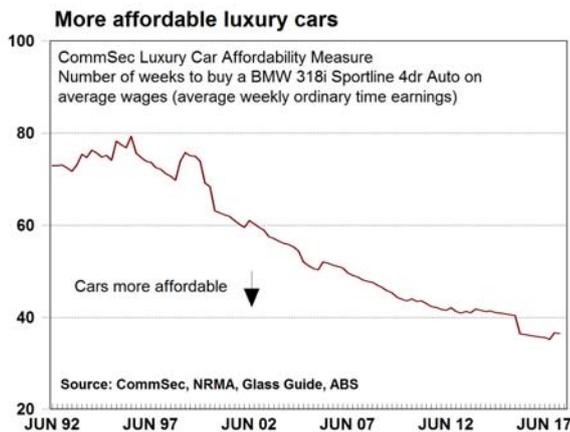
Affordability more generally

- Over the past five years the average wage has lifted by 12.4 per cent – an increase of \$176 a week or \$9,152 a year. Interestingly over the same time, clothing has become cheaper – down by 5.6 per cent.
- Amongst other goods to have become cheaper are cars (down 1.2 per cent), household appliances (down 6.1 per cent), communication equipment (down 33.1 per cent), toys & games (down 5.9 per cent).
- Overall the cost of consumer goods lifted by 8.2 per cent, meaning consumers are in front.
- Less affordable over the past five years has been education (cost up 25 per cent), tobacco (up 74.8 per cent), electricity & gas (up 23.4 per cent) and transport services (up 16.6 per cent).



Consumer Sentiment

- The weekly ANZ/Roy Morgan consumer confidence rating fell for the first time in seven weeks, dropping 3.2 per cent to 117.7. Confidence is still up by 4.3 per cent over the year and above the average of 113.8 since 2014.
- **All of the five components** of the index fell in the latest week:
 - The estimate of family finances compared with a year ago was **down** from +10.1 to +7.1;
 - The estimate of family finances over the next year was **down** from +27.8 to +22.5;
 - Economic conditions over the next 12 months was **down** from +13.2 to +10.5;
 - Economic conditions over the next 5 years was **down** from +15.3 to +12.4;
 - The measure of whether it was a good time to buy a major household item was **down** from +41.7 to +36.2.
 - The measure of inflation expectations 2 years ahead rose from 4.2 per cent to 4.7 per cent.

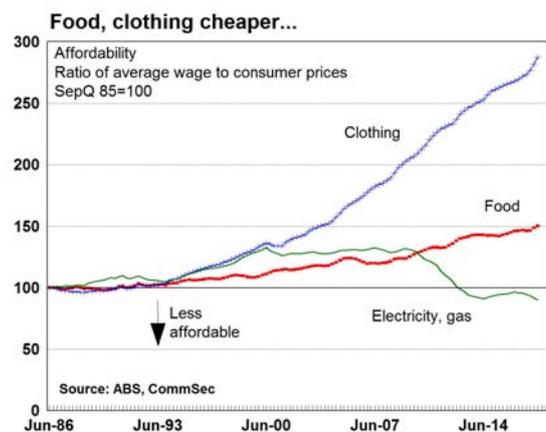


What is the importance of the economic data?

- The **ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.
- **CommSec maintains a database of car prices** in order to measure affordability over time. If cars are more affordable, more vehicles are likely to be purchased. And more affordable cars free up more spending power to purchase other goods and services.

What are the implications for interest rates and investors?

- Saudi Arabia and Russia are taking about increasing crude output. As a result, crude prices are easing and this could lead to lower prices for products like petrol and jet fuel. Consumer-focussed stocks and transport companies like airlines have potential to benefit if fuel prices fall.
- The prices of some imported vehicles have lifted in recent months in response to a lower Aussie dollar. So the affordability of some makes has weakened modestly. But in a longer-term framework cars remain super-affordable. Auto-dependent companies continue to face favourable operating conditions.
- Consumers are saving by buying clothes, cars, household goods and phones. But 'nasties' like electricity bills, education fees, train & bus fares and insurance premiums have been getting dearer. And because many of these are 'everyday' items, they tend to influence sentiment to a greater extent than less frequent purchases.
- Overall the average Aussie remains in front, but they may not feel it to the extent that they should.



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