

Household Spending Intentions

16 February 2023



Household Spending Intentions – Jan 2023

The CommBank Household Spending Intentions (HSI) index for January 2023 declined by a solid -6.9%/mth in original terms, following on from a small 0.3%/mth rise in December 2022. The fall in January was led by a seasonal decline in Retail. There were also falls in Entertainment, Household services and Transport. These were partly offset by a rise in Travel and Motor vehicles. After seasonally adjusting the data, the HSI index was up marginally in January 2023, with the Retail, Travel, Entertainment and Household Services indexes higher.

The annual rate of increase in the HSI index picked up to 5.2%/yr in January 2023, from just 2.2%/yr in December 2022. But the annual increase in January this year was affected by a slowdown in activity flowing from the surge in Covid cases in early 2022. Higher prices are also playing a key role. Given our updated view that the RBA will take the cash rate to 3.85% in coming months (see [here](#) for details) we would expect to see the HSI index weaken in coming months as consumer spending slows.

For January 2023, the main changes to the HSI index were:

- The Retail index was down a sharp 21.3%/mth in January due to the normal seasonal patterns. In seasonally adjusted terms Retail was up marginally on the month. In original terms the annual change fell.
- The Entertainment index was down by 13.2%/mth in January after being up 6.3% in December. In seasonally adjusted terms there was an increase in January, as more people took advantage of the holidays.
- The Household services index fell by 11.0% in the month of January, with the annual pace at 10.4%/yr.
- The Transport index also suffered falls, down by 7.9% due to the holiday period. It is up by 58.3% over the year.
- The Education index was down by 1.5%/mth in January and is up by 6.7%/yr.
- The Home Buying index was down by 0.7%/mth in what is a quiet month for the sector. It is down by 22.4%/yr due to the material lift in interest rates since May 2022.
- The Health & fitness index was down by 0.4%/mth, with a fall in the value of spending over January and is down by 11.8% over the year.
- The Insurance cost index was flat in January and is up just 0.7% over the past year.
- The Utilities index rose by 0.2%/mth in January and is up by 6.1%/yr. State electricity credits have subdued spending in this category, but rising prices should see spending rise in 2023.
- The Motor vehicle index rose by a large 6.8%/mth with a lift in both the value of spend and the number of loan applications. Over the past year the index is up by 10.7%/yr as supply chains disruptions ease.
- The Travel index was up by 8.2%/mth with a lift in the value of spend and Google searches. Over the past year the index is up by 5.6%/yr.

CommBank HSI Index

January 2023

110.6

-6.9% / mth



+5.2% / yr



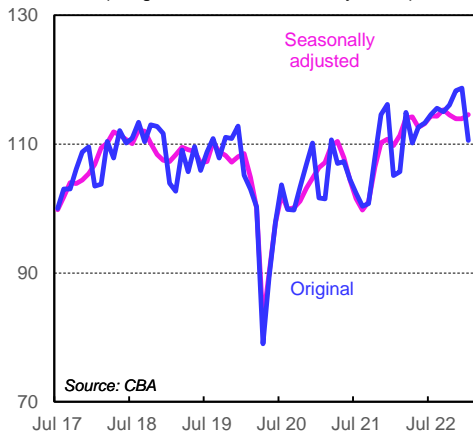
The HSI Index declined by -6.9%/mth in original terms in January, led lower by Retail, Entertainment & Household services. In seasonally adjusted terms the HSI index was up marginally in January.

Spending Category	Mthly change %	Yr change %
Retail	-21.3% ↓	+5.9% ↑
Entertainment	-13.2% ↓	+3.0% ↑
Household Services	-11.0% ↓	+10.4% ↑
Transport	-7.9% ↓	+58.3% ↑
Education	-1.5% ↓	+6.7% ↑
Home Buying	-0.7% ↓	-22.4% ↓
Health & Fitness	-0.4% ↓	-11.8% ↓
Insurance Costs	0.0% →	+0.7% ↑
Communications & Digital Streaming	+0.1% →	-0.8% ↓
Utilities	+0.2% ↑	+6.1% ↑
Motor Vehicle	+6.8% ↑	+10.7% ↑
Travel	+8.2% ↑	+5.6% ↑

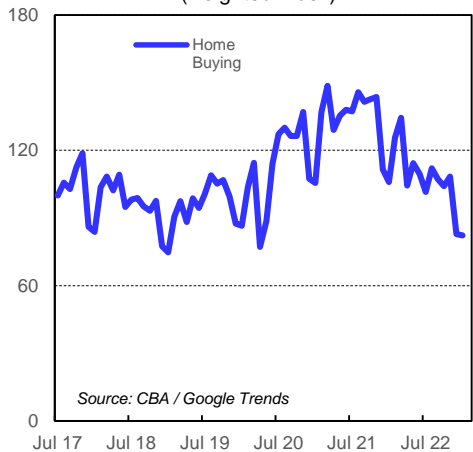


HSI Dashboard

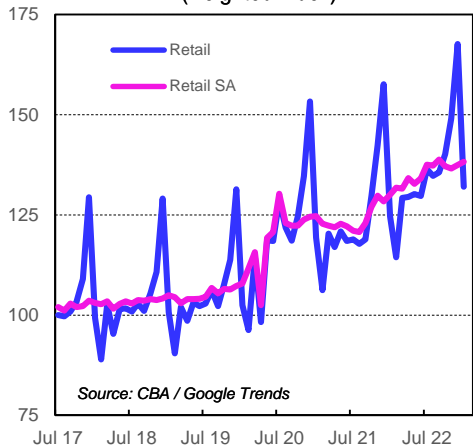
CBA HSI: INDEX
(weighted index = 100 July 2017)



CBA HSI: HOME BUYING
(weighted index)



CBA HSI: RETAIL
(weighted index)



HSI Index

- The CommBank Household Spending Intentions (HSI) index fell by 6.9%/mth in January 2023, in what is a normally seasonally weak month for consumer spending. The pace of annual growth did rise, running at 5.2%/yr, although the gains was helped by a weak January 2022 as the Omicron variant spread quickly in Australia.
- The falls in January in original terms were led by a seasonal decline in Retail. There were also falls in Entertainment, Household services and Transport. These were partly offset by a rise in Travel and Motor vehicles
- To improve the signal on the economy from the HSI we have seasonally adjusted the time series as the facing chart shows. On a seasonally adjusted basis the HSI rose slightly for the month of January, after falling the previous three months.
- The RBA has now increased the cash rate by a total of 325bp since May 2022 and further rate hikes are expected in March and April to a peak of 3.85%. Together with the roll off of fixed rate home loans household budgets are becoming increasingly constrained. We expect a slowdown in consumer spending in 2023 and downside risks are building for the Australian economy.

Home buying intentions index

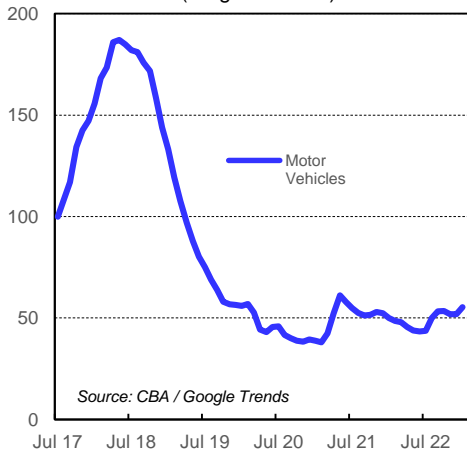
- The Home buying index fell by 0.7%/mth in January and is down by 22.4%/yr.
- There was a lift in home loan applications in the month, but the index was weighed down by property inspections and listings.
- As the facing chart shows the Home Buying Index has been trending lower since early 2022, around the time home prices peaked and when the RBA began to lift the official cash rate.
- Home prices are down by 8.9% from the April 2022 peak. We continue to expect a peak to trough fall of 15%. Although there is downside risk to this forecast given the revised RBA profile of two more rate hikes.

Retail spending intentions index

- The Retail spending index fell by a large 21.3% in original terms in January. A large fall in January is no surprise after strength in November and December, +6.4% and +12.5% respectively.
- In the year to January retail trade was up by 5.9% in original terms. Given the pace of inflation was 7.9% over the 12 months to December, volumes are lower and suggests rising weakness in the retail space.
- After seasonally adjusting the Retail index, there was a slight increase in both December and January, but it remains below the peak in September 2022.
- Over the past year there has been a shift in spending to services from goods. In the Retail category the largest lifts have been in specialty retail stores, alcohol goods, family clothing stores and discount stores.
- There has been a fall in spending at department stores, home supply warehouses, household appliance stores and furniture stores.



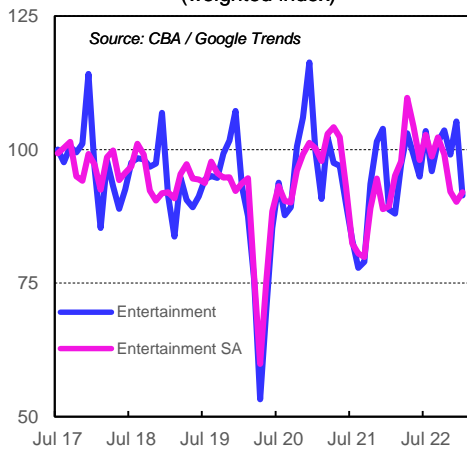
CBA HSI: MOTOR VEHICLES
(weighted index)



Motor vehicle spending intentions index

- The Motor vehicles spending intentions index rose by 6.8%/mth in January and is up by 10.7%/yr.
- In January there was a lift in both the dollar value of spend as well as loan applications.
- This category has been volatile on a month to month basis in recent years as supply chain disruptions have impacted the sector.
- There has been an unblocking of supply chains in recent months, and a fall in shipping costs.
- However given constrained household budgets and falling home prices this segment could be impacted in 2023.

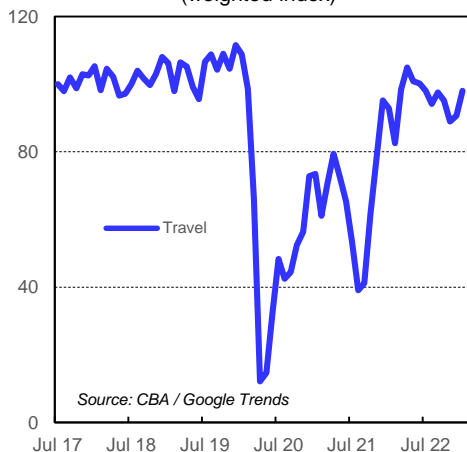
CBA HSI: ENTERTAINMENT
(weighted index)



Entertainment spending intentions index

- The Entertainment spending intentions index fell by 13.2%/mth in January in original terms. There is usually a seasonal fall in January after stronger spending on eating & drinking out in December.
- Once we seasonally adjust the data, there was a small gain this January. We expect this reflects pent up demand for a summer holiday and subsequent recreation spend after being impacted by Covid the prior two years.
- Looking over the past year though entertainment spending intentions are up just 3%.
- Over the past year, the strongest lift in spending has been on theatrical productions and other musical entertainment after significant disruptions to the industry during Covid.
- There has also been solid rises in spending on eating & drinking out, caterers and movie theatres. There have been falls in book stores and boat rentals.

CBA HSI: TRAVEL
(weighted index)

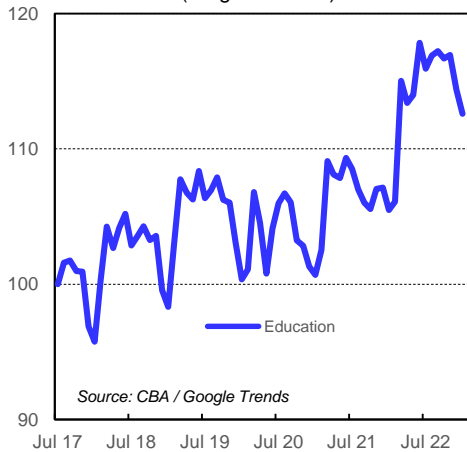


Travel spending intentions index

- The Travel spending intentions index rose by 8.2%/mth in January and is 5.6% higher over the past year. This was a relatively positive result after several months of falls. However price rises in the sector could be eating into spending growth.
- Between the lifts in Travel spending intentions and Entertainment spending intentions it does appear Australians took advantage of the first 'normal' summer holiday break since the outbreak of Covid to take a holiday. There was a lift in travel both domestically and internationally over the period.
- In the month of January there was a large lift in spending on airlines and more modest gains in cruise lines, trailer parks & campgrounds and travel agents. There was a fall in spending on accommodation over the month.



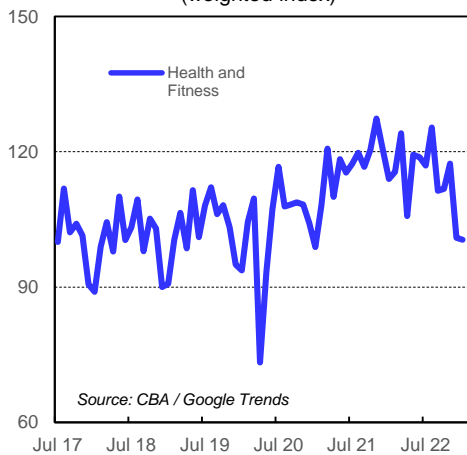
CBA HSI: EDUCATION
(weighted index)



Education spending intentions index

- The Education spending intentions index was down by 1.5% in January 2023, following on from a 2.5% fall in December.
- There is a normal seasonal fall in January before a lift in February and March as the university semester and school year start.
- Over the past year the Education spending intentions index is up by 6.7%. The gain has been driven by spending on both schools and universities.
- The education sector will receive a boost from the rapid return of foreign students. The earlier reopening of the Chinese economy and change in edict on learning in person will also boost education exports.

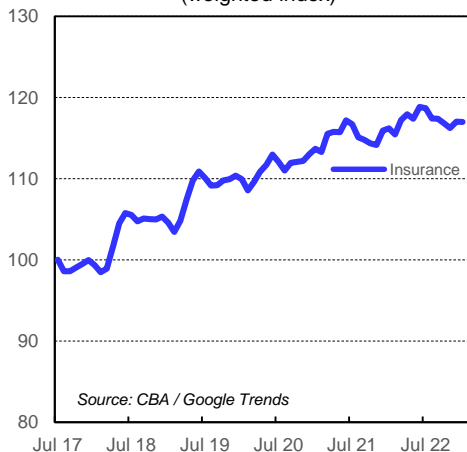
CBA HSI: HEALTH & FITNESS
(weighted index)



Health & fitness spending intentions index

- The Health & fitness index was down by 0.4% in January and is 11.8% lower over the past year driven by lower Google searches. An easing in the pandemic could see less searches relating to health news.
- In terms of spending there have been strong gains over the past year on doctors, hospitals, membership clubs and other allied health services.
- There has been reduced spending on drug stores (as RAT spend normalises after the initial surge a year ago) as well as at bike shops, opticians and dentists.

CBA HSI: INSURANCE
(weighted index)

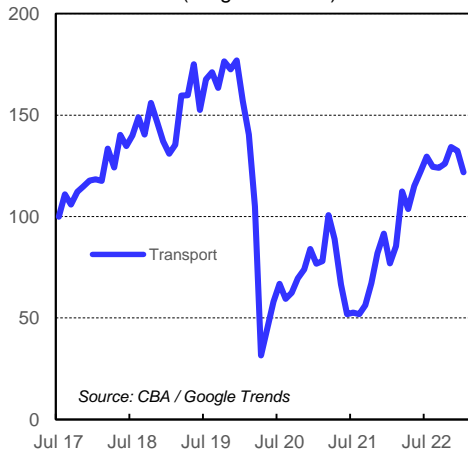


Insurance spending intentions index

- Our measure of insurance costs was flat in January and was up by 0.7% over the past year.
- There was a lift in transactions over the month and given recent weather events and media headlines around premium lifts we could see spend lift over 2023.
- Working the other way though is budget constraints which could see households reduce coverage.



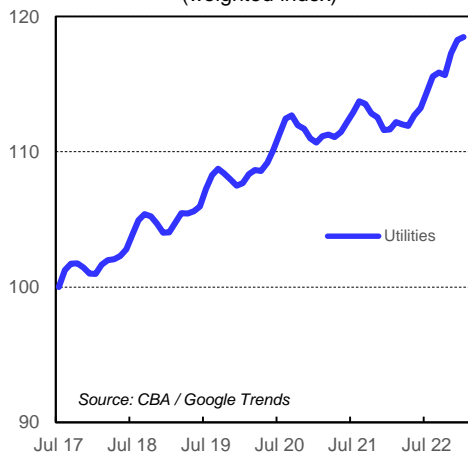
CBA HSI: TRANSPORT
(weighted index)



Transport spending intentions index

- The Transport spending intentions index fell by 7.9% in January 2023 and is up by 58.3% over the year. There was a fall in both the value and volume of transactions in January.
- There were falls in spending on petrol and taxis in January, the two largest categories. There was a lift in public transport spending and parking garages.
- Over the past year the largest spending increases have been on public transport as more people are back in the office working and taxis as mobility and travel rebounds.
- Spending on tolls remains lower than a year earlier.

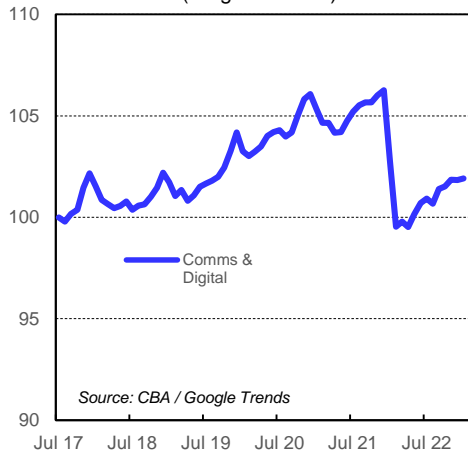
CBA HSI: UTILITIES
(weighted index)



Utilities spending intentions index

- The Utilities index rose by 0.2% in January and is up by 6.1% over the past year.
- There was a lift in the number and value of utility spend in January.
- Rising prices for electricity and gas should see spending lift this year. However this could also see more customers shopping for better deals or reducing usage.
- State electricity rebates have also impacted actual spending over the second half of 2022 and further assistance is expected by the Federal Government this year.

CBA HSI: COMMS & DIGITAL
(weighted index)

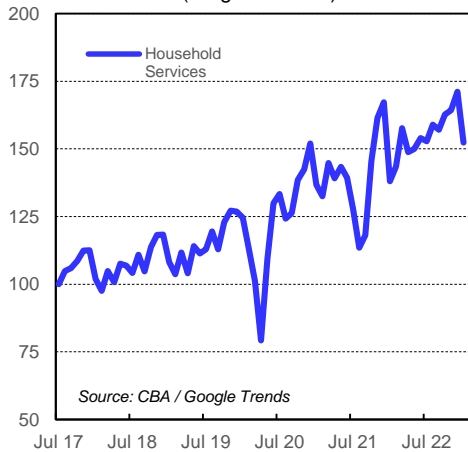


Communications & digital spending intentions index

- The Communications & digital spending intentions index rose by 0.1% in January and is up just 0.8% over the past year.
- This category includes both telecommunication services, but also phone and computer hardware and digital spend.
- Over the past year there has been a large increase in spend on digital goods and telecommunication services. There has been a fall in spending on telecommunications equipment.



CBA HSI: HOUSEHOLD SERV (weighted index)



Household services spending intentions index

- The Household services index fell by 11.0% in January. This component does have a seasonal pattern with falls in January due to the holiday period.
- The index is up by 10.4% over the past year, with January 2022 worse than normal due to the omicron outbreak.
- Over the past year there have been large increases in spending on child care, beauty & barber shops, charities and vets.
- While there have been falls in spending on landscaping and other home building contractors.

Household Spending Intentions (HSI):

When we launched the Household Spending Intentions (HSI) series in July 2019 the idea was not only to focus on what Australians were spending money on, but what they also intended to spend money on. To do this, the Commonwealth Bank has an advantage. With over 16 million customers and using an ongoing sample of more than 2.5 million households, the CBA generates a significant amount of close to “real time” data on how the economy is travelling.

This information relates particularly to the household sector – the dominant sector of the economy, including spending, income, savings and lending. All these internally generated data points are coincident indicators of economic activity, although they are leading indicators in a publication sense – as we receive and publish insights using this data well ahead of the official data releases from the Australian Bureau of Statistics.

Of course, as noted above, what we are really interested in is not just what people are spending money on, but what they intend to spend money on. One approach is to ask people about their confidence levels and whether they think now is a good time (or not) to buy. But we think there is a better, more modern way, and that is to use internet searches as an indicator of what people intend to spend money on. To do this we use publically available Google Trends search data.

By combining the internally generated CBA spending and lending data with publically available Google trends search data, the Household Spending Intentions (HSI) provides key insights into both current spending patterns and spending intentions.

When we launched the HSI in July 2019, we covered seven different categories of household spending: Home Buying, Retail, Travel, Health & Fitness, Entertainment, Education and Motor Vehicles. Together these spending categories covered about 55% of total consumer spending in the economy.

After just over two years of the original HSI, the time was right in November 2021 to expand the series. To do so we added five new spending categories: Insurance costs, Transport, Utilities, Communications & Digital and Household Services. Adding these new spending categories also given us the opportunity to upgrade and re-order the detailed spending sectors included in each category. Full details of what spending is in each category are provided in the tables below.

Introducing the HSI Index:

The most significant enhancement in the updated version of the Household Spending Intentions series was the addition of the HSI Index. Each month we publish the HSI Index, using the changes in the 12 spending categories, weighted according to their share of household consumption. The index is based at 100 as at July 2017. An index number above 100 indicates that Household Spending Intentions are higher than they were as at July 2017, while a number below 100 indicates weaker spending.

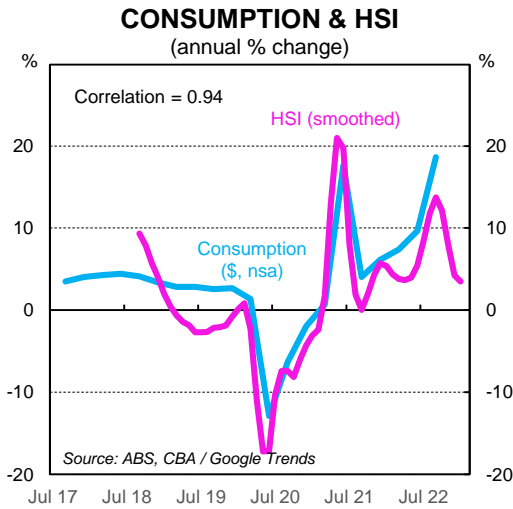
Each month we publish the HSI Index, as well as the monthly % change and the annual % change. But perhaps more importantly, each of the individual 12 spending categories also has its own index (based at 100 in July 2017) and we are able to attribute changes in the HSI Index to each spending category.

We see the HSI Index as a major step-forward in the data available to our clients and the Australian community more generally to help provide insights into the current and future state of household spending. Significantly, this data is now available on Bloomberg and will appear each month in the Bloomberg calendar of economic events.



HSI Index correlation to National Accounts consumer spending:

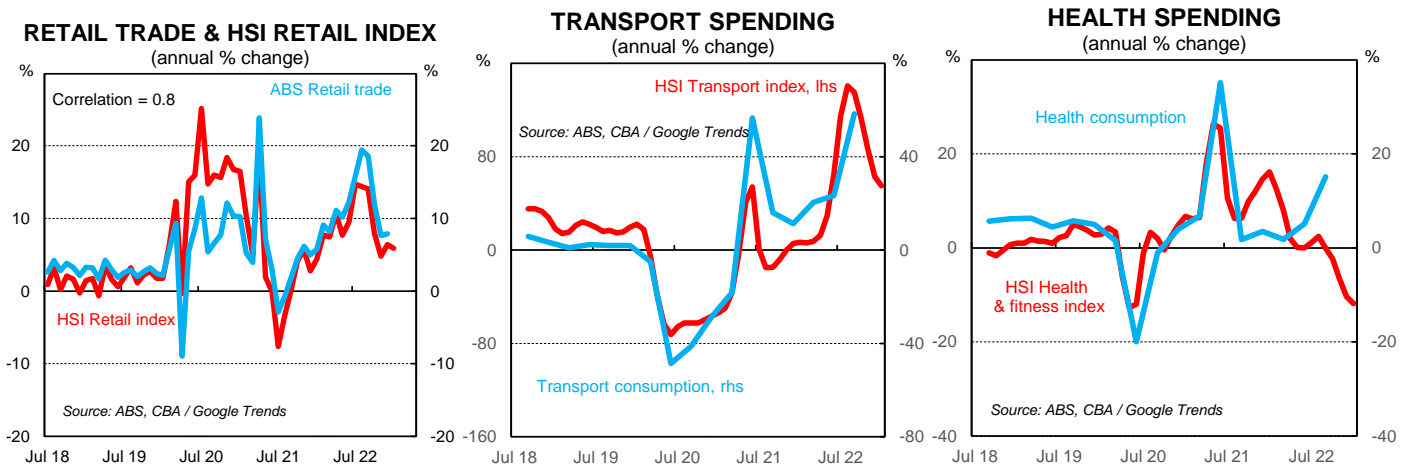
The good news is that the HSI index is very well-correlated with the non-seasonally adjusted National Accounts measure of nominal household final consumption¹. The correlation coefficient of the two series on an annual change basis is 0.94 for the period from Q3 2018 to Q3 2022. Over that same period, the correlations for other consumption indicators were lower. The following chart shows the strong correlation in the HSI Index with the Q3 22 National Accounts data.



The HSI index is a coincident indicator of household consumption. But the HSI index is a leading indicators in a publication sense. The National Accounts measure of consumption is released just over two months after the end of each quarter. By contrast, CBA’s HSI index will be released on the second Tuesday of each month with data for the preceding month.

Given the high correlation, it is no surprise that a simple linear regression model using the HSI index as the independent variable performs well in fitting to the historical National Accounts consumption data. It explains a far larger share of historical spending than other indicators like consumer sentiment do on their own. The HSI index explains around 80% of the variation in household consumption in the National Accounts. In addition to CBA’s internal card spending data, the use of Google Trends data helps to augment the HSI index. In general, adding in the Google search categories improved model performance by around 15%, though this did vary by spending category.

Many of the subcomponents of the HSI index also correlate well with their official statistical counterparts. The HSI Retail index is very well-correlated with the official Retail Trade figures, with a correlation of 0.8. Other spending categories, for instance the HSI Health and Transport indexes also track their respective consumption categories in the National Accounts fairly closely.

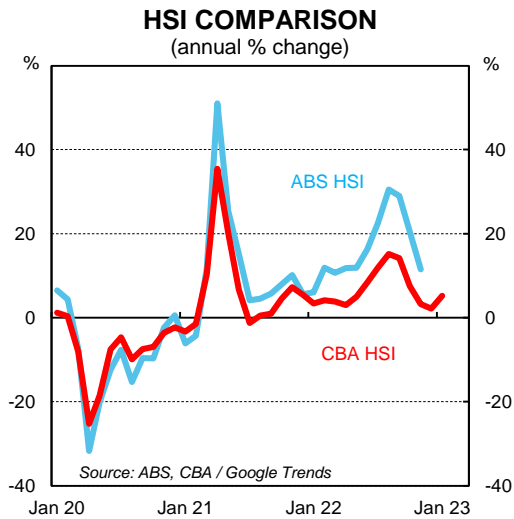


In addition, the ABS has recently released a new experimental monthly household spending indicator. New higher-frequency data from the ABS is welcome because it allows for timelier insights into how the Australian economy is performing. The ABS indicator is constructed using bank transactions data, so it is no surprise that the ABS’ indicators is well-correlated with our own CommBank Household Spending Intentions (HSI) index (see chart below).

¹ With thanks to Stephen Wu for his correlation work.



The advantage of the CommBank HSI index remains, however, our broader coverage and the fact that the CommBank HSI index is published well ahead of the official ABS data.



A few caveats...

One point to keep in mind is that the history of the HSI is fairly short. So the estimated correlations and relationship with consumption are based on relatively small sample sizes. And the sample would be smaller still if we were to exclude the unusual pandemic period and only consider the HSI's ability to track consumer spending in 'normal' times. It may be the case that the HSI's relationship with consumption is stronger during major turning points, as has been shown to be the case for consumer sentiment. For instance, see this RBA [article](#).

There is another caveat to be aware of. The HSI index and its individual spending category indices are well-correlated to *non-seasonally adjusted* and *nominal* values of consumption. That should not be surprising as the CBA's internal card spending data are a key input into the HSI and so the index reflects actual spending that occurs. But the more relevant economic variables – and importantly, the ones that markets pay most attention to – strip out any seasonal patterns and pricing changes (i.e. they are seasonally and inflation adjusted). However, the history of the HSI is not yet long enough to perform seasonal adjustments. And it is difficult to construct the implicit price deflators that are used to calculate real volumes – for some of these categories of consumption the values and volumes measures can differ substantially.

The seasonal adjustment factor is applied each month and is provisional and subject to revision.

The 12 HSI 2.0 spending categories in detail:

The full list of 12 spending categories are below and now account for close to 100% of consumer spending.

- 1) Home Buying.
- 2) Retail.
- 3) Motor Vehicle.
- 4) Entertainment.
- 5) Travel.
- 6) Education.
- 7) Health & Fitness.
- 8) Insurance costs.
- 9) Transport.
- 10) Utilities.
- 11) Communications and Digital Streaming
- 12) Household Services.

**Home buying:**

- CBA Home loan applications for owner occupiers and investors

Retail:

- Alcoholic beverages from package stores.
- Clothing and footwear, including; men, women, children, uniforms, footwear, repairs/alterations and cleaning/laundry services.
- Food and non-alcoholic beverages, including; supermarkets/grocery stores, dairy product stores.
- General retail, including; department stores, duty free and second hand stores.
- Household furnishings and equipment, including; electrical equipment & appliances, furniture, floor coverings, glass, paint/wallpaper, hardware & tools, lumber & building supplies, nurseries, plumbing/heating equipment.
- Jewellery, watch, clock, and silverware stores.
- Luggage and leather goods stores.
- School, stationery and office supply stores.
- Personal care stores.
- Cosmetic stores.
- Electric razor stores.
- Recreation.
- Antique shops.
- Books and newspapers.
- Camera and photographic supply stores.
- Electronic stores.
- Florist supplies, nursery stock, and flowers.
- Pet shops, pet foods, and supplies.
- Tobacco products.

Motor Vehicle:

- Car and truck dealers (new and used) - sales, service, repairs, parts and leasing.
- Car and truck dealers (used only) -sales, service, repairs, parts and leasing.
- Motorcycle shops and dealers.

Entertainment:

- Amusement Parks, circuses & carnivals.
- Aquariums.
- Art dealers and galleries.
- Boat dealers, rentals and leasing.
- Book stores.
- Bowling alleys.
- Caterers.
- Commercial photography, art and graphics.
- Dance halls, studios and schools.
- Drinking places – bars, nightclubs, cocktail lounges etc.
- Eating places and restaurants.
- Fast food restaurants.
- Hobby, toy and game stores.
- Marinas, marine service and supplies.
- Motion picture theatres.
- Music and record stores.
- Theatrical producers (except motion pictures) and ticket agencies.
- Video game arcades and establishments.

Travel:

- Airlines and air carriers.
- Airports and airport terminals.
- Bus lines
- Camper, recreational and utility trailer dealers.
- Hotels, motels and resorts.
- Motor home and RV rentals.
- Trailer park and camp grounds.



- Package tour operators.
- Travel agencies and tour operators.
- Sport and Recreation camps.
- Cruise lines.
- Tourist attractions and exhibits.

Education:

- Business and secretarial schools.
- Colleges, universities and professional schools.
- Correspondence schools.
- Elementary and secondary schools.
- Schools and educational services.
- Trade and vocational Schools.

Health & fitness, including**Health:**

- Ambulance services.
- Osteopaths, podiatrists and chiropractors.
- Dentists and orthodontists.
- Doctors and Physicians.
- Pharmacies.
- Health and beauty spas.
- Hospitals.
- Medical labs.
- Nursing and personal care facilities.
- Opticians and eyeglasses.

Fitness

- Bicycle shops – sales and service.
- Commercial and professional sports clubs.
- Sport, recreation and athletic club membership.
- Public & private golf courses.
- Sporting goods stores.

Insurance:

- Direct marketing – insurance services.
- Insurance sales, underwriting and premiums.

Transport:

- Automotive fuels and service stations.
- Automotive associations.
- Automobile rental agencies.
- Automotive body repair, parts and paint shops.
- Automotive service and tyre shops.
- Car washes.
- Motor freight carriers and trucking - local and long distance, moving and storage companies and local delivery.
- Parking lots and garages.
- Passenger railways.
- Taxicabs and limousines.
- Toll and bridge fees.
- Towing services.

Utilities:

- Electric, gas, water and sanitary utilities.



Communications and Digital:

- Cable and other pay television services.
- Computer network/information services.
- Computers, computer equipment and software.
- Digital goods: Applications – books, movies, music & games.
- Telecommunication services, including local and long distance calls.
- Telecommunications equipment and telephone sales.
- Video amusement game supplies.

Household Services:

- Architectural, engineering, carpentry and surveying services.
- Beauty and barber shops.
- Cleaning services.
- Charitable and social service organisations.
- Child care services.
- Concrete work contractors.
- Electrical contractors.
- Funeral services and crematories.
- Heating, plumbing, and air conditioning contractors.
- Landscaping and horticultural services.
- Masonry, stonework, tile setting, plastering and insulation contractors.
- Roofing contractors.
- Swimming pools--sales, supplies and service.
- Veterinary services.



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