

Australia's next normal: The cautious consumer

COVID-19 has elicited a clear worry among many Australians about their household 'wallets,' and this concern is having an impact on overall sentiment and behaviour.

by Eleanor Bensley, Jenny Child, Thomas Rüdiger Smith, and Joseph Tesvic



Given everything that 2020 has thrown at Australia so far, no one could blame its consumers for being a touch nervous. If you look below the surface however, they appear to be more than a touch worried.

Since the beginning of the COVID-19 crisis, Australian consumers have consistently been more concerned and cautious than consumers in countries that were far less effective at handling the health crisis. Our previous research¹ showed the stark gap between the optimism of Australian consumers compared with those of the United States and China in particular—countries that are and were experiencing substantially worse health scenarios from COVID-19 (Exhibit 1).

In the months since the start of COVID-19, Australian fears about immediate health risks moderated, although the resurgence of the coronavirus in Victoria has caused a sharp increase in health worries again. Still, economic fears—individual and national—have stayed consistently higher than health worries. In this piece, we will explore that consistency of economic concern and how it will likely continue to show up in consumer behaviour in the coming months.

Consumer spending: A time of volatility

Australia saw a bit of cheer with the positive upticks in consumption and sentiment in May and June, perhaps because it was a much-needed sign of hope. A closer look suggests this rise was a sigh of relief that worse health outcomes had been avoided to date as well as a stimulus-boosted sugar-hit of pent-up demand in some spending segments. As this demand is released—and as Australians sink into the reality that battling COVID-19 is a marathon, not a sprint—the intent to make spending cutbacks and frugal, recession-like behaviour are showing up in our data across all segments and categories (with the exception of groceries, which have trended positively since more home-centric behaviour started).

First, it's important not to be too distracted by the recent consumption upticks as we remember that our consumption and many of our businesses' livelihoods are still on government life support. In fact, for some people, this life support has actually surpassed their pre-COVID-19 income. For example, Curtin University's analysis reported that around four in five part-time workers in industries affected by COVID-19 are better off under the government's JobKeeper Payment.² Millions more Australians have also received one-off payments, targeted at lower-income households precisely because these households are more likely to spend the money and stimulate consumption.

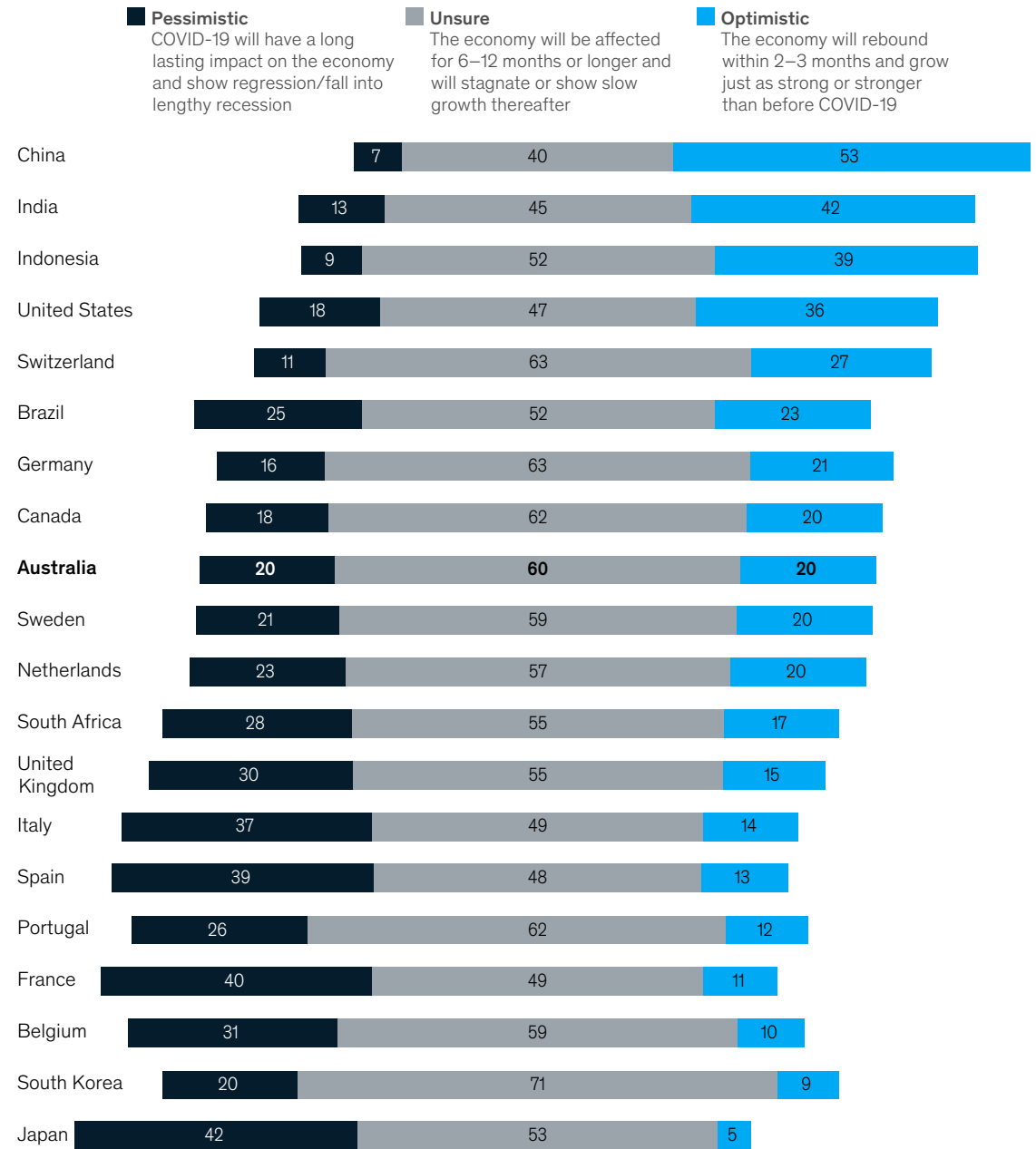
¹ Jenny Child, Thomas Rüdiger Smith, and Joseph Tesvic, "The curse of 'The Lucky Country': In search of economic antidotes to COVID-19," mckinsey.com, May 4, 2020.

² *JobKeepers and JobSeekers: How many workers will lose and how many will gain?*, Bankwest Curtin Economics Centre, March 2020, bcec.edu.au.

Exhibit 1

Australia is relatively less optimistic than the US and China, but more optimistic than most European countries.

Confidence in own country's economic recovery COVID-19 economy,¹ percent of respondents



¹Q: How is your overall confidence level on economic conditions after the COVID-19 situation? Rated from 1 very optimistic to 6 very pessimistic. Source: McKinsey & Company COVID-19 Consumer Pulse Surveys; McKinsey & Company COVID-19 Australia Consumer Pulse Survey 7/17–7/19/2020, n=798, sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

While such support makes spending possible now, there is a looming understanding that it is not sustainable. As it steps down, the full economic impact of COVID-19 will be more evident (Exhibit 2). When considered along with other temporary support, such as loan relief from banks, dips into superannuation funds, and childcare relief, the masking of true consumption patterns is significant. Recent announcements to extend more targeted, lower-value JobKeeper payments until March 2021 will smooth the withdrawal of stimulus, but it won't cushion the full impact of COVID-19 on household incomes.

Looking at other economic metrics gives a better sense of what's happening. For example, while consumption and confidence rose in May and June, hours worked did not (Exhibit 3). Australians may have seen people back at shops, but in the businesses they worked for, or those of their

friends, hours worked were falling steadily—often negotiated with employees as a compromise tactic for businesses that might otherwise have had to take more drastic action. As a result, the headline unemployment rate masks a reduction of hours (and often pay) among workers still counted as employed. In addition, more than 350,000 Australians had left the labour force from February through June, which doesn't show up in headline unemployment numbers either.³

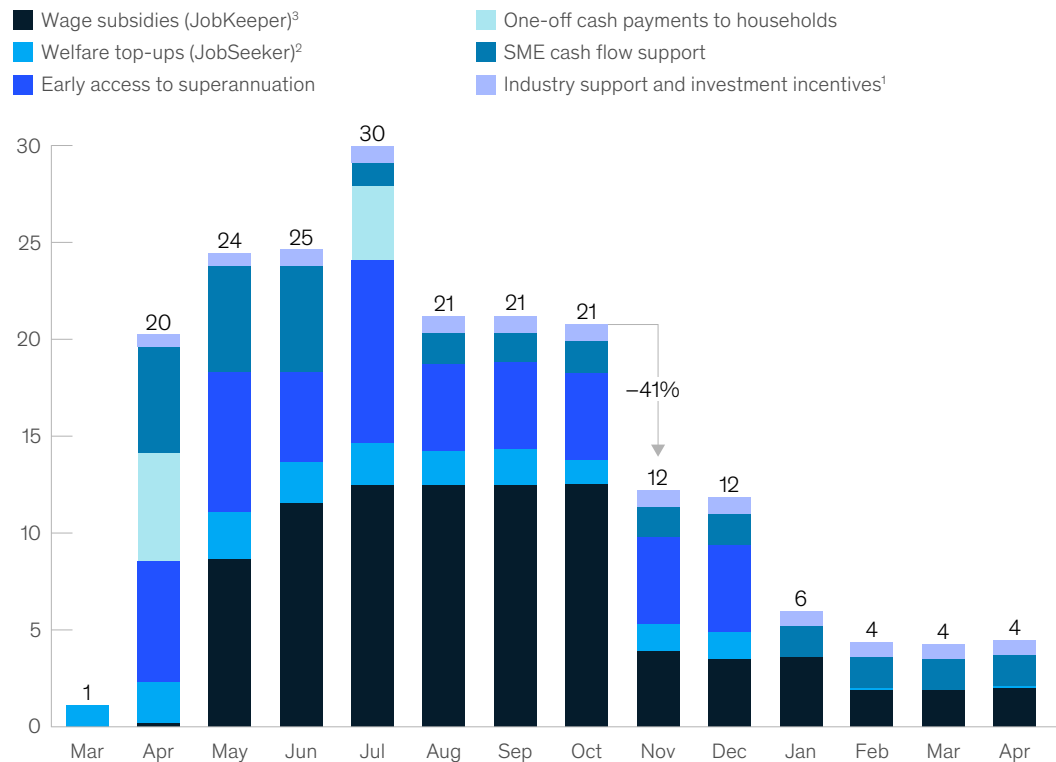
What does that mean for consumer optimism? It suggests the consistent worry about the economy seen in our consumer data is well placed and may track down as stimulus dissipates. From early April, roughly 60 percent of Australians in our survey report they are very or extremely concerned about the economy, which has since remained the top concern (Exhibit 4).

Exhibit 2

Even with extensions to JobKeeper and JobSeeker in place, ~40% of direct cash support measures will be removed by Q4 2020.

Monthly expenditure on COVID relief, AU \$, billions

Major federal announcements only



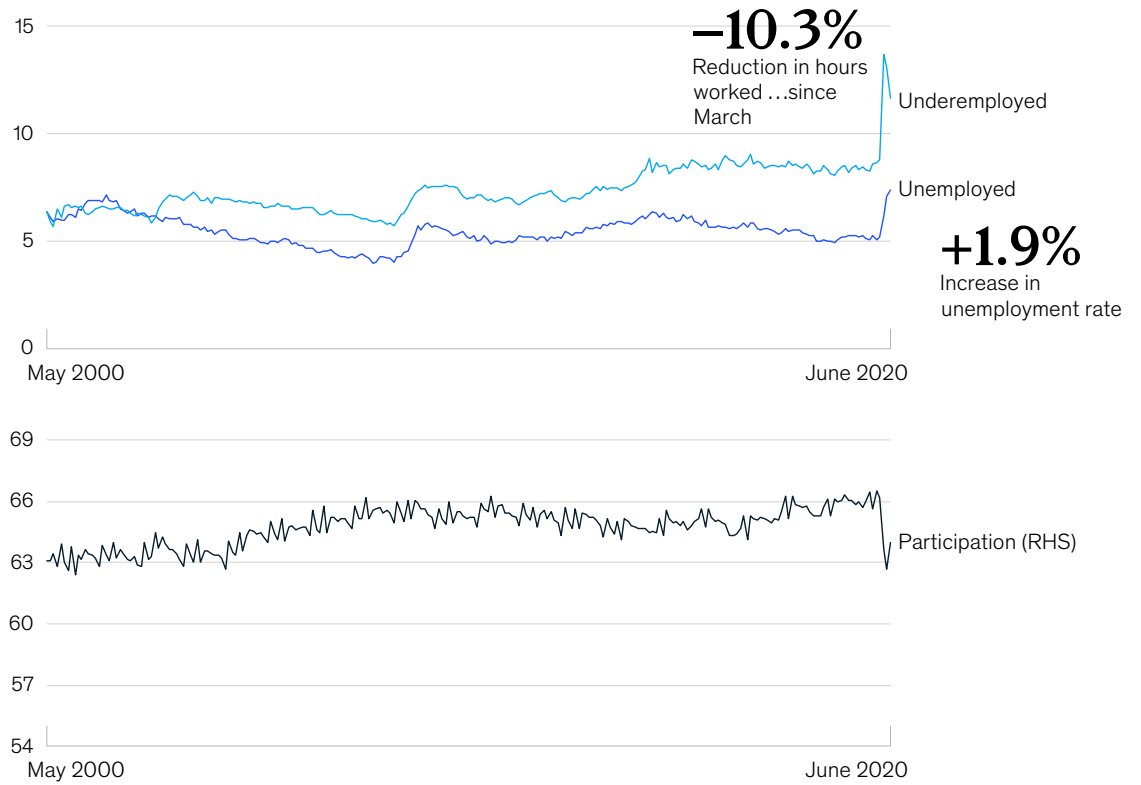
¹Major federal announcements, as of July 24, 2020.
²Includes business investment incentive of ~AU \$4 billion and direct industry support of ~AU \$7 billion, and increase in instant asset write-off.
³Includes JobKeeper initial package and extension and apprentice/trainee wage subsidies.
Source: Government announcements; Australian Prudential Regulation Authority (APRA) COVID-19 Early Release Scheme - Issue 12

³Labour Force, Australia, Jun 2020 (6202.0), Australian Bureau of Statistics.

Exhibit 3

Headline unemployment hides a big reduction in work ...

Monthly figures,¹ seasonally adjusted

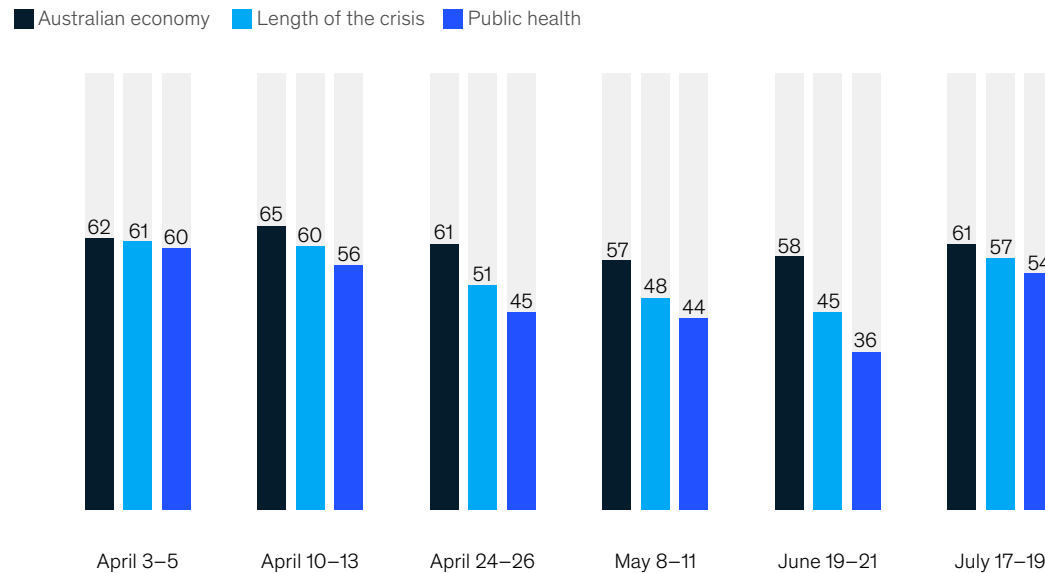


¹Includes new June data.
Source: Labour Force, Australia, Jun 2020, Australia Bureau of Statistics (ABS); Level 3 restriction implications

Exhibit 4

...and it is driven by the economy.

Largest concerns of the Australian population related to COVID-19,¹ % of respondents who are very concerned or extremely concerned



¹Q: What concerns you most about the COVID-19 situation? Possible answers: "not a concern"; "minimally concerned"; "somewhat concerned"; "very concerned"; "extremely concerned."

Source: McKinsey & Company COVID-19 Australia Consumer Pulse Survey 7/17–7/19/2020, n=798; 6/19–6/21/2020, n = 799 5/8–5/11/2020, n = 704; 4/24–4/26/2020; 4/24–4/26/2020, n = 585; 4/10–4/13/2020, n = 640; 4/3–4/5/2020, n = 669; sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

Using consumer insights to increase preparedness

Because of these artificial cushions to the economic blow of COVID-19, it could be that we are, as a nation, like a patient still in shock from an injury. We are only just now gradually feeling the adrenaline wearing away, with the dull reality of recovery and a long road ahead settling in. The upside is we have good data all around us that can help us build the right preparedness—if we move quickly and study and mine it properly.

We know from history that Australian consumer sentiment does, in fact, tend to harden. When consumer sentiment declined in the early 1990s, it remained negative for many years, lagging well behind macro indicators as the economy technically recovered. We also know that the cautious mindset of Australians shows up in spending pullbacks that, in aggregate, are disproportionate to the actual drop in household income. We have seen this trend since the start of COVID-19 in our data—with every pulse check, more Australians are reporting reductions in spending than those whose household income has declined (Exhibit 5).

We are also moving beyond looking at consumer data in aggregate. In our most recent analysis, four distinct segments have emerged:

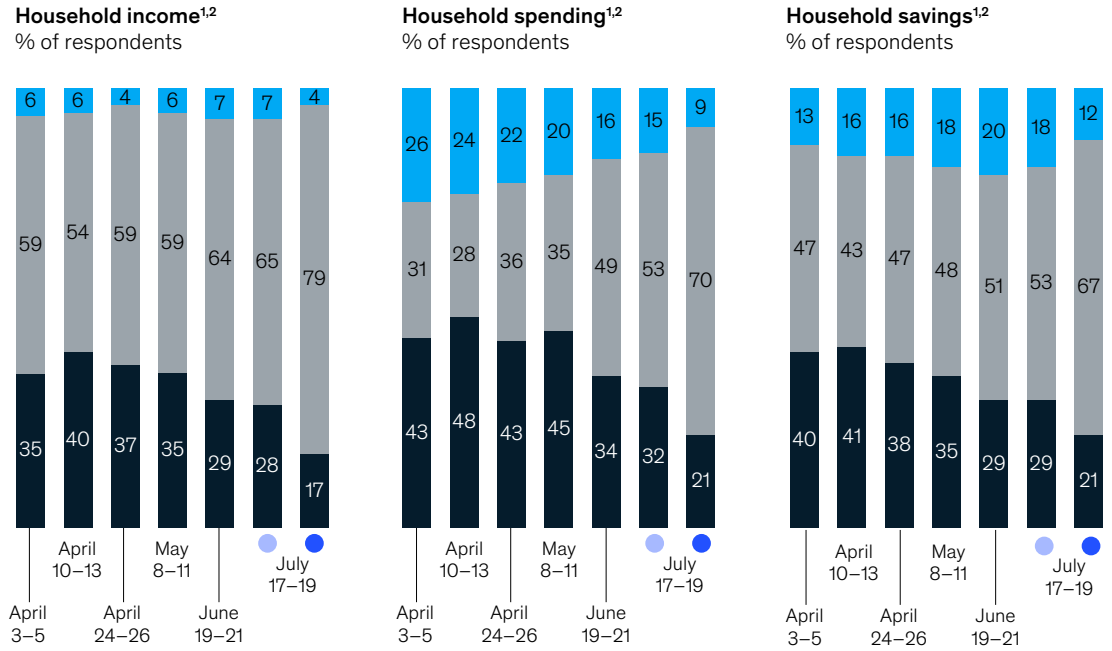
1. **Making ends meet:** those who were struggling financially pre-COVID-19 and continue to struggle.
2. **Optimistic but cautious:** those who worry about health and the economy but are more secure financially.
3. **Stable and consistent:** the highest-income segment, which has experienced a small amount of financial impact but remained relatively stable in mindset and behaviour.
4. **Income in jeopardy:** those who have had a significant change in household income as a result of COVID-19, with a fear of it worsening.

These segments help us get to more granular insights and implications of how to respond (Exhibit 6).

Exhibit 5

Income situation in Australia has stabilised, translating into more stable spending and an improved savings pattern.

Reduce slightly/reduce a lot
 About the same
 Increase slightly/increase a lot
 Past 2 weeks
 Next 2 weeks



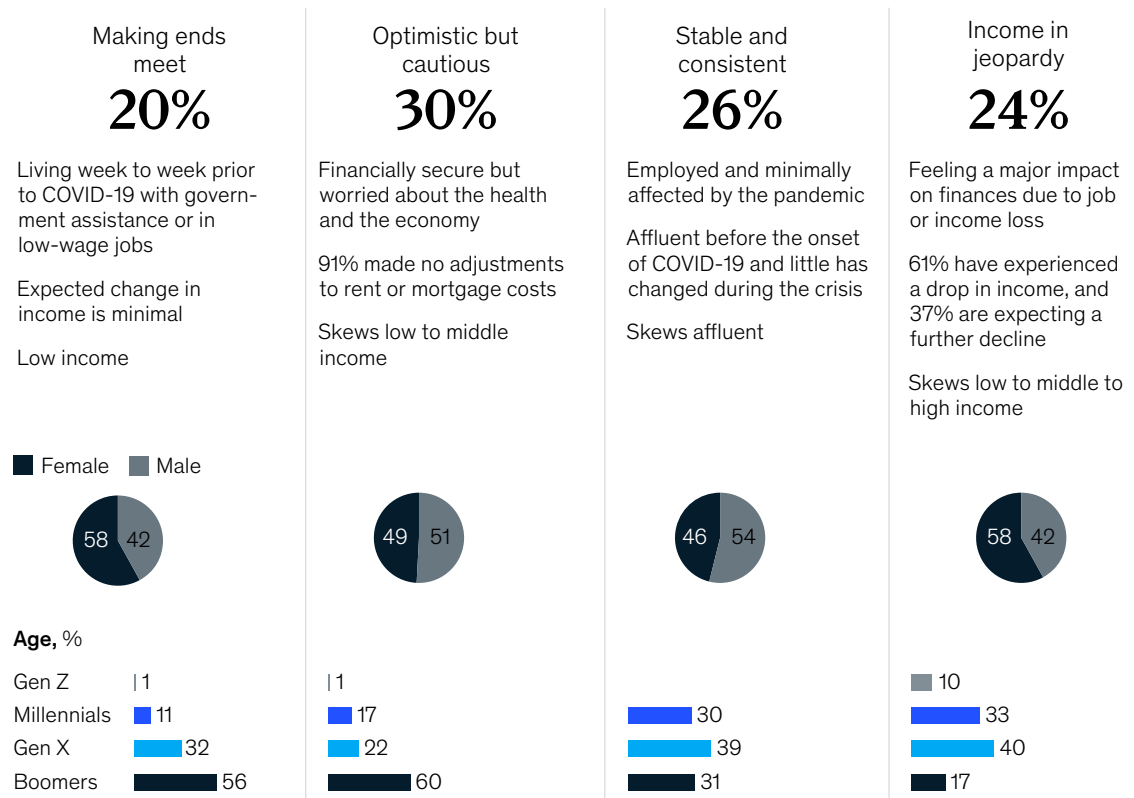
¹Q: How has the COVID-19 situation affected your (family's) overall available income, spending, and savings in the past two weeks? Figures may not sum to 100% because of rounding.

²Q: How do you think your overall available income, spending, and savings may change in the next two weeks? Figures may not sum to 100% because of rounding.

Source: McKinsey & Company COVID-19 Australia Consumer Pulse Survey 7/17-7/19/2020, n=798; 6/19-6/21/2020, n = 799 5/8-5/11/2020, n = 704; 4/24-4/26/2020; 4/24-4/26/2020, n = 585; 4/10-4/13/2020, n = 640; 4/3-4/5/2020, n = 669; sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

The impact is not the same for everyone.

Consumer segment profiles, % share of population



Source: McKinsey & Company COVID-19 Australia Consumer Pulse Survey 6/19–6/21/2020, n = 799; sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

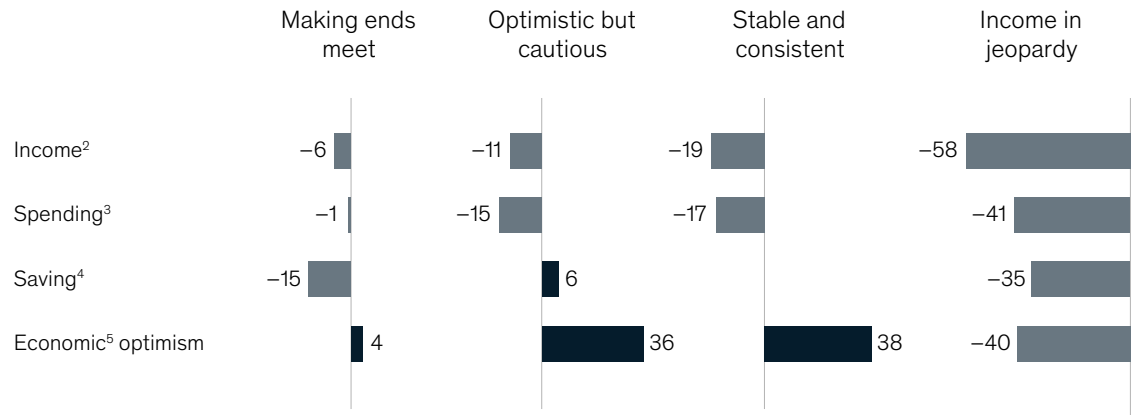
Across all of the segments, the data show a net intent among consumers to pull back on spending. This tightening isn't a lower-income issue; it's a non-discriminating socioeconomic trend. However, there are significant differences in magnitude of tightening, with the quarter of Australians whose income is in jeopardy showing the biggest planned cutbacks and, understandably, the lowest levels of optimism (Exhibit 7). With the recent spike in cases and a lockdown returning in Victoria, these planned cutbacks are expected to be even more significant across the board (again with grocery being the only category to move in the opposite direction).

Taking a closer look at behaviours across these four segments, we see important but well-known recession trends. The first is a spike in "planfulness"

when it comes to shopping, which we see in our quantitative survey data and ethnographic research. While we have been referring to COVID-19 as the "great acceleration" of consumer change, there are some exceptions, and this is one of them. Pre-COVID-19, we saw a multiyear rise in just-in-time, convenience-driven behaviours and preferences that seemed correlated to an increasing use of all things digital—a channel synonymous with immediacy. What we are seeing now is a spike in more planned buying and purchases, which is a reversal in direction. This pattern appears to be caused by a handful of factors, ranging from wanting to avoid crowded shopping spaces to needing to think through budgets and spending more deliberately. Whatever the reason, we expect to see the re-emergence of rituals such as the weekly shop for the foreseeable future.

Optimism is linked to changes in income.

Net impact by category¹



¹Net impact is calculated by subtracting the percentage of respondents who expected a decrease in the metric, from those who expected an increase.

²Q: How has the coronavirus (COVID-19) situation affected your household income over the past two weeks?

³Q: How has the coronavirus (COVID-19) situation affected your household spending over the past two weeks?

⁴Q: How has the coronavirus (COVID-19) situation affected the amount you can save over the past two weeks?

⁵Q: I am optimistic about Australia's economy?

Source: McKinsey & Company COVID-19 Australia Consumer Pulse Survey 6/19–6/21/2020, n = 799; sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

We also see more traditional, frugal behaviour emerging across segments (Exhibit 8).

Unsurprisingly, the income in jeopardy segment is signalling a strong shift to price and value. For example, more than 50 percent of this segment plans to buy more products on promotion, and more than 40 percent intend to look for cheaper products going forward. Other consumer segments show a similar trend, with about one-third of respondents saying they will look to buy more products on promotion compared with pre-COVID-19. The other well-known marker of recessionary behaviour to watch with consumers is the shift to shopping in discount channels; more than 20 percent of Australians are already reporting this shift.

As consumers wean off the stimulus and support mechanisms, these frugal patterns will only increase. When aggregate consumption tracks downward, and consumers become more price conscious, many B2C companies will find it difficult to navigate this landscape. It becomes impossible to navigate without the right focus on consumers and proper forward-looking scenarios. The big headline from these insights is about building the approach to move nimbly and get ahead of the needs of consumers, so they become part of retailers' growth plans versus a deficit to budget.

Meeting Australian consumers where they are

As we look ahead, three factors will shape the spending patterns of Australian consumers:

- Spending capacity will continue to be radically and unpredictably affected as government support is progressively wound back.
- Rise in 'planfulness' in what, how often and how much households will buy.
- Price consciousness is on the rise.

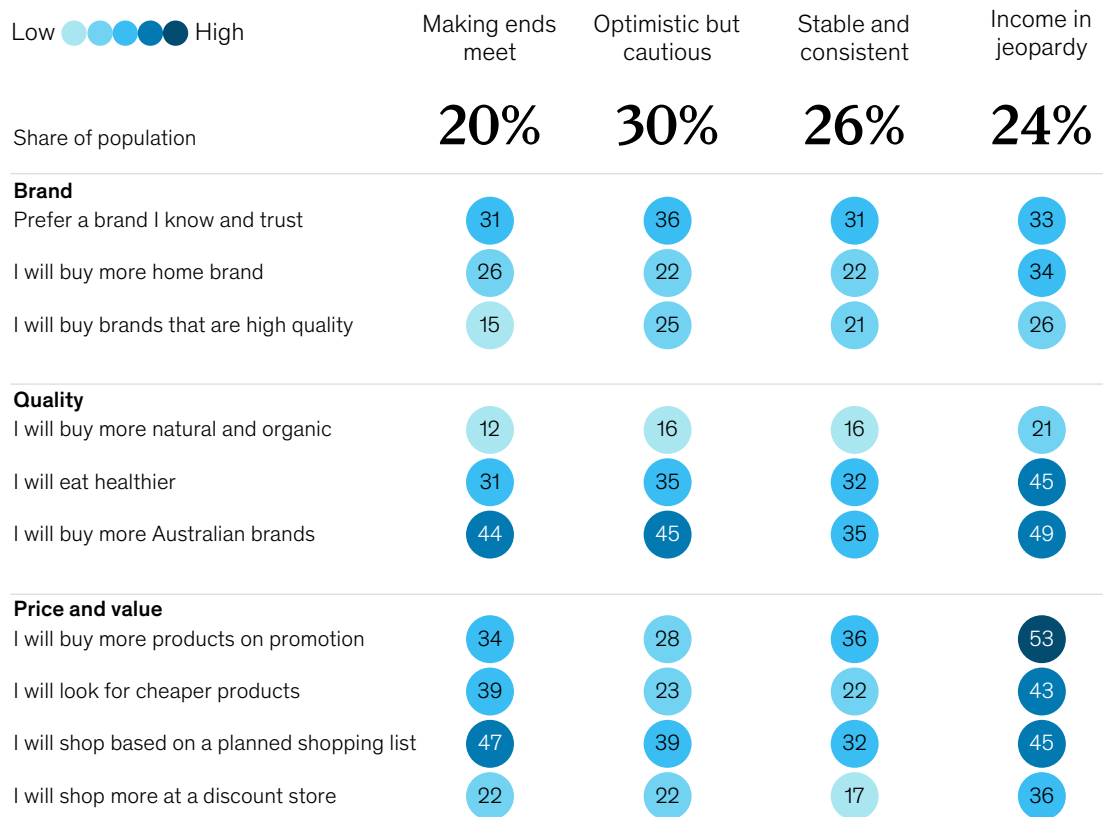
Several recommendations can help companies triage. To start, get to know your consumers anew and understand them in light of COVID-19. Their needs and spending patterns have changed. Many businesses will need to fundamentally relearn what to expect from consumers in 2020, as insights from 2019 will no longer be relevant.

Generate insights in real time and more frequently. Rather than the annual or biannual segmentation study, a more frequent and nimble approach to understanding consumers is needed as our context continues to rapidly evolve—and so will consumer segments.

Exhibit 8

Price, value, and supporting Australian brands are gaining importance post COVID-19.

Percentage of respondents that agree or strongly agree with spending sentiment, by segment



Source: McKinsey & Company COVID-19 Australia Consumer Pulse Survey 6/19–6/21/2020, n = 799; sampled and weighted to match Australia's general population 18+ years; Level 3 restriction implications

Analyse demand curves at the segment level, not at the average level. Then innovate and tailor your messaging and value propositions to appeal to those changed segments.

- Are you more concentrated in consumer segments that are more stable or more affected by changing household income?
- How does this play out in potential demand curves over the next few months?
- How do you quickly realign your product, brand, and pricing architecture to meet the needs of more frugal times?

- How do you rapidly share and communicate with your consumers to connect with what they are going through?
- Are you in the right online and offline channels based on where your consumer base will flow?

We also prescribe a need for businesses to split attention and resources between short-term reactivity and a longer-term view of brand and loyalty.

The coronavirus, still menacing Australian communities, is now fully infecting the Australian economy and consumption. Retailers and B2C companies must adapt now to this new reality. As we've seen, waiting for the impact to show in the mainstream news means you have already waited too long.

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