

The story of the Australian consumer

The curse of ‘The Lucky Country’: In search of economic antidotes to COVID-19

Australia’s experience with a global pandemic, like in most countries around the world, is unprecedented.

by Jenny Child, Thomas Rüdiger Smith, and Joseph Tesvic



Australian consumers and businesses are faced with a triple whammy:

- a significant and evolving public-health threat
- severe, regulated restrictions on movement and everyday freedoms
- rapid and deep financial pressures

The human tragedy and the knock-on economic effects of the COVID-19 crisis have sparked intense emotions. The past few months have triggered fear and uncertainty in even the most rational Australians. In McKinsey’s weekly sentiment polling, the majority of respondents say they are very or extremely concerned with all strands of the COVID-19 situation—from the economy to their

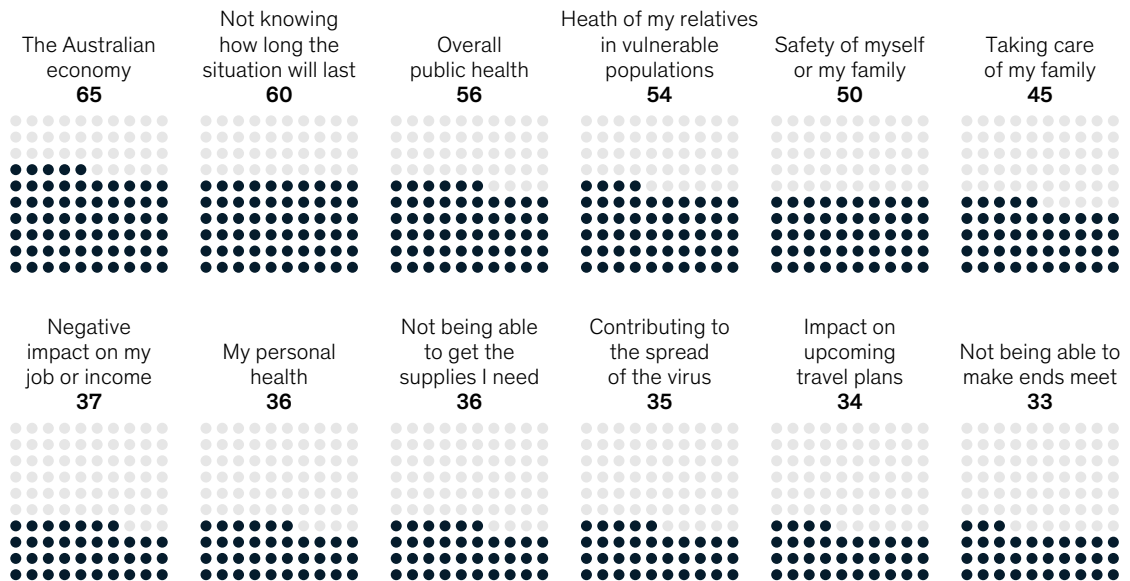
health to the length of the shutdown (and these figures are increasing each week) (Exhibit 1). This has coalesced into an arresting statistic: almost 80 percent of Australians say they are unsure or pessimistic about the country’s economic recovery.

On the one hand, this sentiment is expected and understandable, particularly for those who have suddenly become unemployed, or fear that they will. Forty percent of Australian households report a reduction in their household income, driven by household members’ loss of full-time or part-time work. At the time of this writing, modeling from Australia’s Department of the Treasury projects a 10 percent unemployment rate, or 1.4 million unemployed Australians by the end of the second quarter.

Exhibit 1

The state of the Australian economy and not knowing how long the pandemic will last rank as top concerns.

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



¹Question: What concerns you most about the COVID-19 situation? Possible answers: "not a concern"; "minimally concerned"; "somewhat concerned"; "very concerned"; "extremely concerned."
Source: McKinsey COVID-19 Australia Consumer Pulse Survey, April 10–13, 2020; n = 640, sampled to match Australia’s general population; 18+ years

The fears and emotions stirred by the virus outbreak translate into real economic impact when they change how Australian consumers spend their money (Exhibit 2). For example, across all categories (outside groceries, household supplies, and in-home entertainment), net intent on spending over the next two weeks is down by big double digits.

It's no surprise that Gen Z and millennials—who have been disproportionately affected by income loss to date—are the most worried about the economy and are tightening their belts accordingly. Our figures show that 63 percent of Gen Z reports “cutting back on spending,” compared with 30 percent of baby boomers, or 45 percent of Australians in total.

No matter what demographic you sit in, it is important to keep a close eye on the younger generation. Millennials and Gen Z already comprise 40 percent of the Australian population. So how these generations are feeling and behaving matters materially for the country's economy and society.

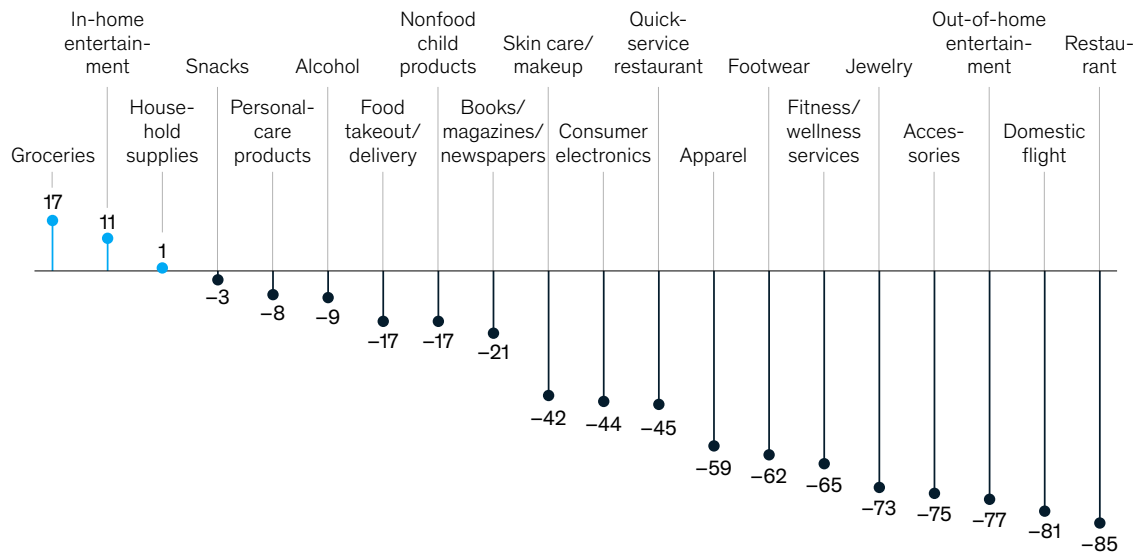
But before accepting that Australian consumer sentiment matches the current “very or extremely concerned” scenario, a few other facts offer a striking contrast.

First, there is the nation's success in dealing with the health crisis. Australia has so far been able to control the spread of the coronavirus and ranks among the group of nations with the lowest infection and fatality rates worldwide (Exhibit 3).

Exhibit 2

Consumers are ramping up spending on groceries, household supplies, and at-home entertainment.

Expected spend per category over the next 2 weeks compared with usual,¹ net intent²



¹Question: Over the next 2 weeks, do you expect that you will spend more, about the same, or less money on these categories than usual?

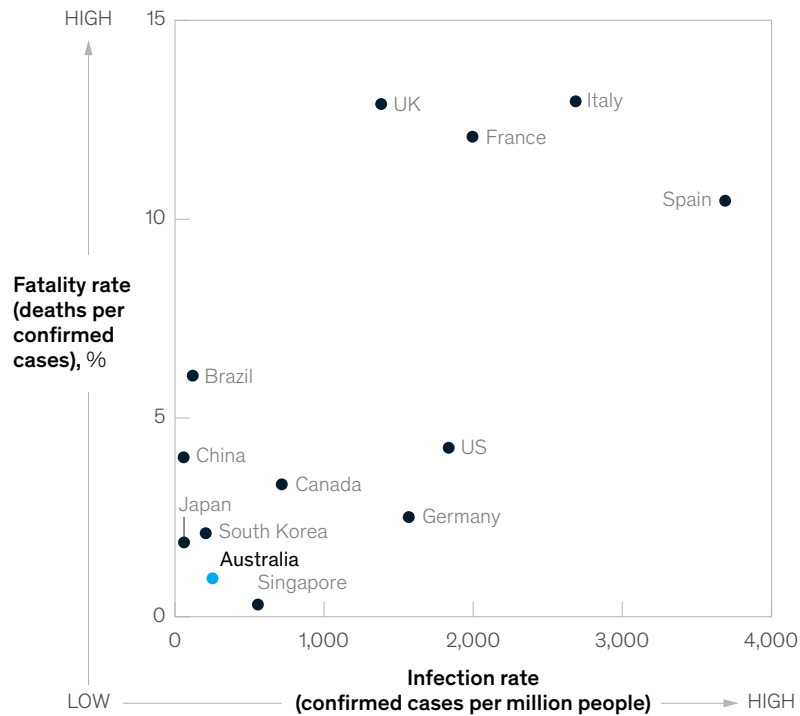
²Net intent is calculated by subtracting the % of respondents stating they expect to decrease spend from the % of respondents stating they expect to increase spend.

Source: McKinsey COVID-19 Australia Consumer Pulse Survey, April 10–13, 2020; n = 640, sampled to match Australia's general population; 18+ years

Exhibit 3

Australia is doing well within the global COVID-19 context.

Infection rate and fatality rate,¹ as of April 15, 2020



¹Methodology (amount and quality of testing, reporting of cases and deaths) varies among countries. Source: Johns Hopkins University Center for Systems Science and Engineering; Worldometer

Second, at a striking 17.7 percent of GDP, the amount of economic aid from the Australian government has outpaced every other comparable country in the world except the United Kingdom and Germany (Exhibit 4).

Australia is not out of the woods, of course. But the response of the Australian people (with a little initial prodding), combined with the action of the government, has moved the country closer and closer to a manageable “R nought figure” (the reproductive ratio of the virus), which is a significant accomplishment any way you look at it.

With these facts in mind, let’s revisit consumer sentiment. Australians, compared with the citizens of 14 other nations, lean to pessimism about the economy. Despite being a leader in battling COVID-19 itself, Australia ranks in the middle of the pack in optimism about recovery from it (Exhibit 5).

Perhaps most shockingly, Australians are half as optimistic as citizens of the United States, where more than 68,000 people have died from COVID-19 (as of May 4, 2020), and less than half as optimistic as Chinese citizens.

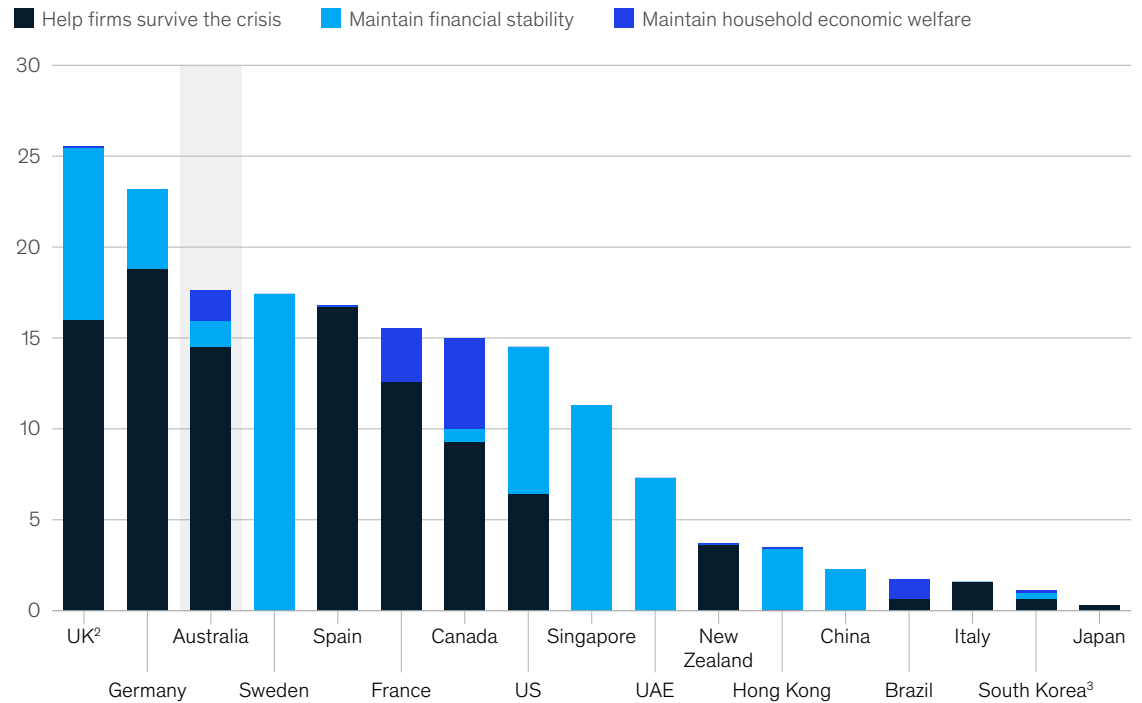
This negative outlook is reflected locally in the Westpac Consumer Confidence Index, which stands at 75.6 points, a mere 0.1 point from early-1980s recession levels—levels which, it should be noted, were hit in the depths of those recessions, not at the outset of them.

We are struck by this juxtaposition. And, it has prompted us to start a deeper exploration of Australians’ beliefs, attitudes, and behaviors, which ultimately underpin the economy. We think that this exploration is important to ensure that the population’s concerns do not unduly weigh down the country’s capacity not only to recover but also to innovate and prosper after the crisis.

Exhibit 4

As a proportion of GDP, Australia has shown great support for the economy.

Economic support response to COVID-19, by country and objective, as of April 1, 2020, % of GDP¹



¹2019 GDP. ²GDP number for UK includes increase in holdings by purchase of government and corporate bonds by Bank of England (amounting to \$228 billion). ³This total includes both fiscal and monetary stimulus.
Source: IHS Markit; official government sources and press coverage of official announcements

After all, we are the economy. Former UK Prime Minister Margaret Thatcher famously noted, when pondering the concept of society, that governments can only do things through people, and we all have roles and responsibilities to play. The responsibility on all of us in a time of fear is to strive to remain reasonable and objective. When you consider that, on a global scale, Australia's burden seems light, and the fundamentals that have driven our prosperity remain.

With that in mind, over the coming weeks, we will explore and attempt to answer the following questions:

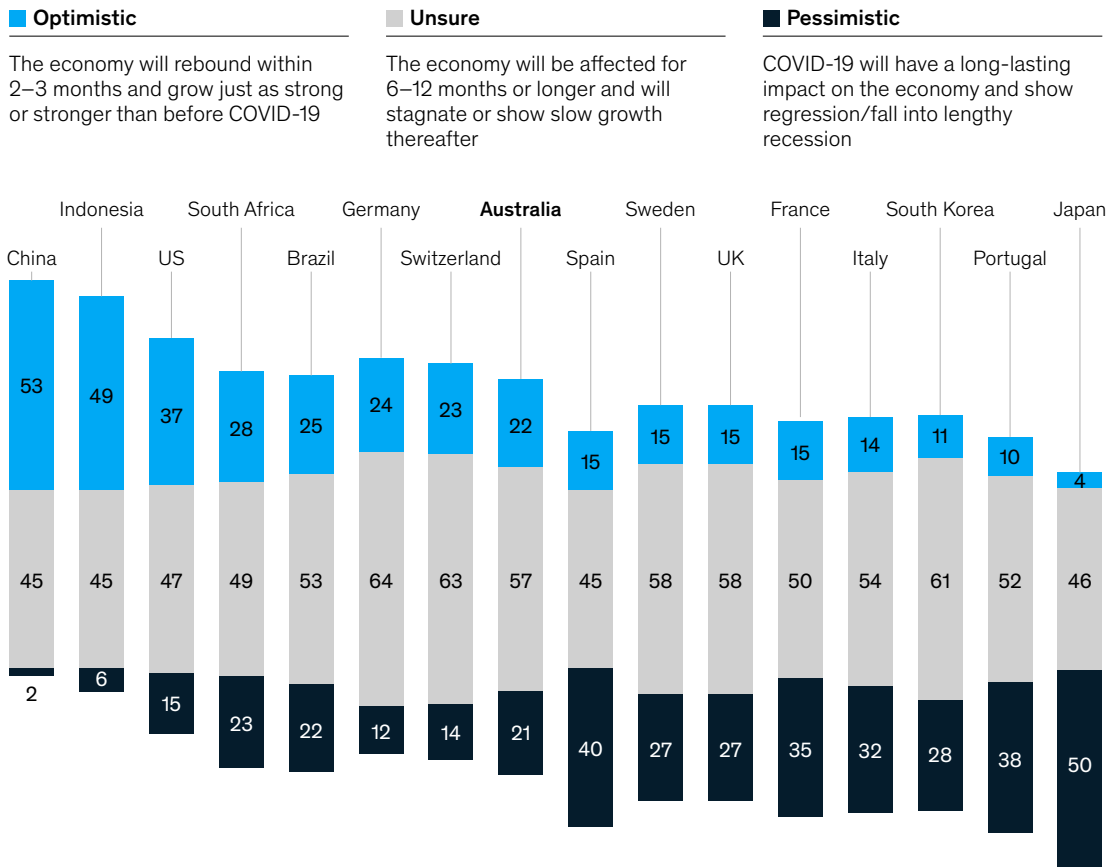
- How is COVID-19 changing us as people and as consumers?
- Has COVID-19 exposed a lack of resilience in "The Lucky Country"?

- How will a changed hierarchy of needs and priorities shift what matters to us and therefore what we buy, how we buy it, and what we are willing to pay for it?
- Are Gen Z and millennials right to believe they will be the most significantly affected by COVID-19's economic aftershocks, and what can be done to ease their fears?
- How can B2C businesses adapt and innovate to meet the post-COVID-19 consumer where they are?

The seriousness of Australia's COVID-19 challenge notwithstanding, we believe there is not only a light in our economic tunnel, there are many.

Consumer confidence likely tracks the stage of COVID-19 progression, government measures, and news events.

Confidence in own country's economic recovery after COVID-19,¹% of respondents



Note: Figures may not sum to 100%, because of rounding.

¹Question: 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 COVID-19 Consumer Pulse Surveys, 2020; Australia, April 10–13 (n = 640); Brazil April 3–6 (n = 1,012); China April 1–6 (n = 1,216); France April 2–5 (n = 1,011); Germany April 2–5 (n = 1,010); Indonesia April 3–6 (n = 722); Italy April 2–5 (n = 1,009); Japan April 3–5 (n = 600); Portugal April 2–5 (n = 604); South Africa March 24–26 (n = 535); South Korea April 2–6 (n = 596); Spain April 2–5 (n = 1,006); Sweden April 2–5 (n = 201); Switzerland April 2–5 (n = 745); UK April 2–5 (n = 1,005); US March 30–April 5 (n = 1,063)

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