



ALDI household expenditure report

How economic pressures and societal trends are impacting grocery spending

November 2017

Contents

Executive summary	2
1 The Australian household	3
1.2 Household income	4
1.3 Household wealth	5
1.4 Home ownership	6
1.5 Household spending	7
2 Budgetary pressure: Australians feeling the pinch	10
3 Grocery spending on the chopping block	12
3.1 The rise of private labels	13
4 Grocery spending trends	15
4.1 Where do we get our food?	15
4.2 How much do we spend?	18
5 The modern necessities	21
5.1 Catered food	21
5.2 Subscription services	22
References	24
Appendix A : Survey	25

Executive summary

2017 is the year of the millionaire in Australia. For the first time, the average Australian household has more than \$1 million in net wealth, and this wealth is rising.

But are we the poorest millionaires? Much of the recent gain in wealth has come from rising asset prices. But our incomes have been stagnant; the average household is only slightly better off in terms of income today than they were in 2013. **Australian households are increasingly asset rich, but cash poor.**

This report discusses what this macroeconomic environment means for households. It looks at what households consider a necessity, how they are spending their stretched budgets, and their views on the future.

Our research into household spending, including **a new survey of over 1,000 Australian households**, explores the spending patterns of Australian households; how these have evolved over time, what they prefer to spend on, and how confident they are about paying for their daily needs.

Our research finds that **37% of households are now concerned about their ability to pay for their expenses**, like bills and household costs, up from 31% two years ago. This is expected to increase to 40% by 2019.

For many households, this budget pressure means that something has to give. The pressure is expected to intensify – two in five Australian households expect to be worried about their ability to pay their bills two years from now. And consumers say that groceries are on the chopping block. **One in three households would fund an increase in day to day living costs by cutting back on grocery spending, by buying less or switching to private labels.**

These findings are in accordance with broader research, showing that **7.2% of all Australian households are feeling mortgage stress and 11.5% are feeling rental stress**, according to Census 2016. And the costs of other necessities are rising. For example, despite the supermarket price wars, grocery retail prices have seen growth of 2.6% on average over the last decade¹, and most households expect grocery prices to continue rising over the next two years. In the context of slow wage growth, **Australian households are feeling the pinch now more than ever.**

The other part of the story is that spending patterns are changing. For one, entertainment subscription services are becoming the norm for many. Netflix was only introduced to Australia in 2015, yet today 39% of survey respondents subscribe to this and similar services. Spending patterns on food are also changing: in the past year alone, **online spending on takeaway food** has grown by over **30% in the past year**. For some, these new services have become so essential that they would rather cut back spending on groceries than on these services.

Deloitte Access Economics

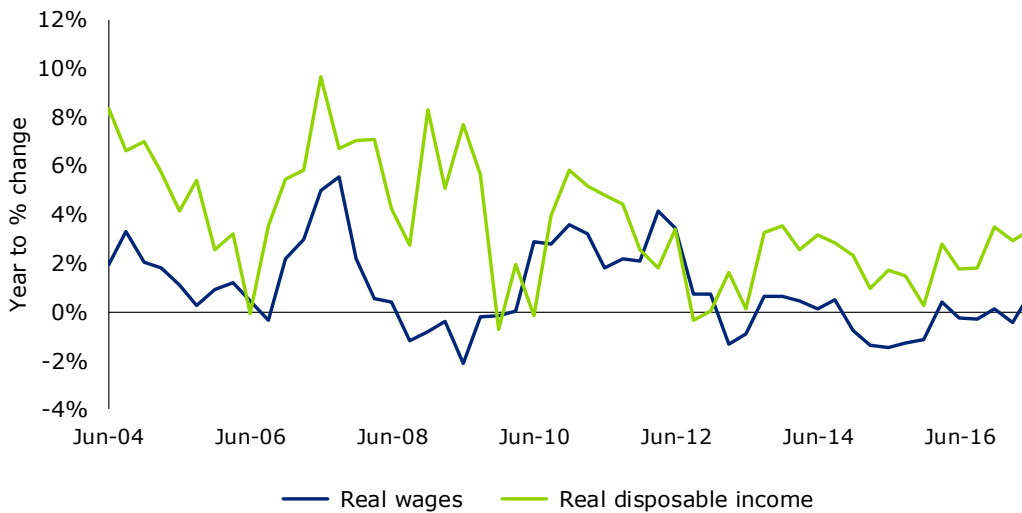
¹ (Australian Bureau of Statistics (ABS), 2017)

1 The Australian household

The Australian economy has experienced an unprecedented period of prosperity, with over 26 years of continued economic growth.

But despite this economic achievement, many Australian households have been feeling increased pressure on their weekly budgets in the last few years. With real wages declining, overall real household income growth has been very moderate in recent years (see Chart 1.1).

Chart 1.1: Real wage growth in Australia



Source: ABS 6202.0, 5206.0, Deloitte Access Economics

In a day-to-day sense Australian households are feeling budget pressures with rising prices in critical areas. Rising prices of housing costs (including rent costs and mortgage costs), energy costs and health expenses limit the ability of households to spend on retail goods.

Putting these two trends together (little real wage growth, and cost pressures in essential day-to-day living costs) suggests that many households are likely feeling significant constraints in other areas of their spending.

1.2 Household income

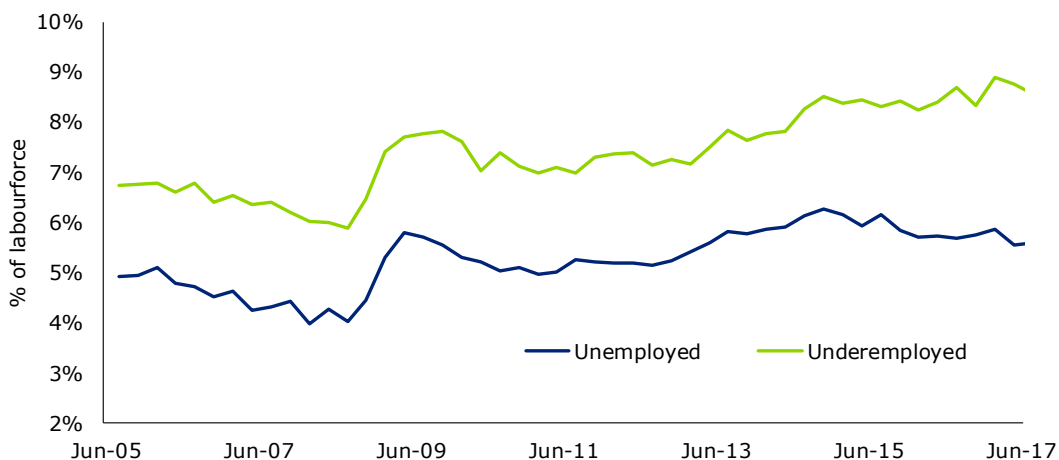
Stagnating wage growth has been driven by a number of factors, including a greater proportion of the labour force being underemployed with a large share of the workforce in part-time jobs.

Employment outcomes are a key driver of household income. Jobs growth has strengthened through 2017, primarily driven by some recovery in full-time job numbers. Indeed, the first seven months of 2017 have seen full-time jobs growth outpace part-time jobs. Between December 2016 and July 2017, the number of full-time jobs rose by 1.9%, while the number of part-time jobs grew by just 1.3%. This is a substantial turnaround when compared with 2016, during which the absolute number of full-time jobs declined.

However, the proportion of part-time jobs is still high (around a third of total employment), which is associated with significant underemployment – many part-timers would like to work more hours, but aren't able to find them.

The underemployment rate is now at 8.6% of the total labour force, which, when combined with the 5.6% unemployment rate, means over 14% of the Australian labour force would prefer to work (and earn) more than they currently do. Chart 1.2 shows national unemployment and underemployment rates over time.

Chart 1.2: Unemployment and underemployment rates, Australia



Source: ABS 6202.0, Deloitte Access Economics

Underemployment means that there is spare capacity in the workforce, even when the unemployment rate is low. This spare capacity has been a major cause of low wage growth. The deceleration of wage growth in recent years is highlighted in Chart 1.1.

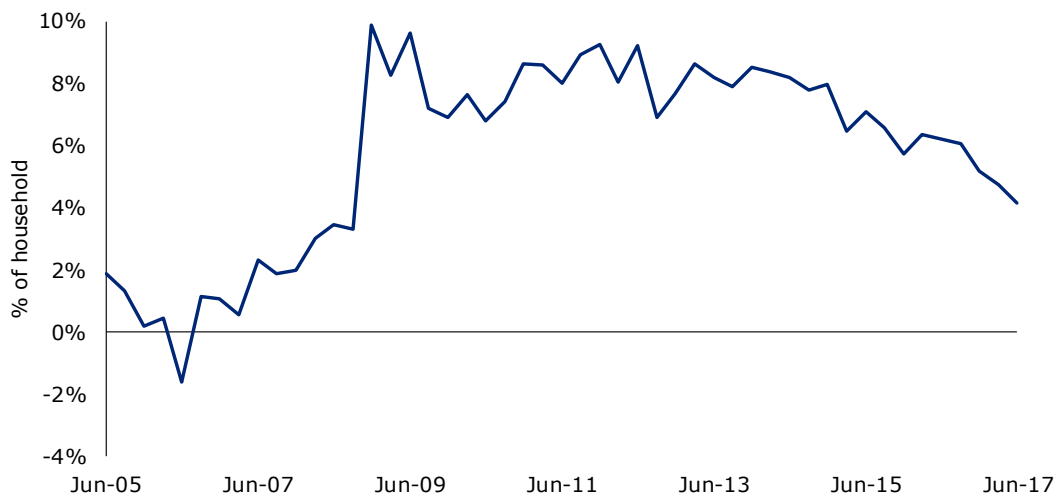
1.3 Household wealth

2017 is the year of the millionaire. For the first time, the average Australian household has **over \$1 million in net wealth**. This means that for every household in the country, there is an average of more than \$1 million in cash and financial assets (including shares and properties).

Booming property markets in Sydney, Melbourne and Hobart propelled national housing price growth to 10.2% across Australia’s eight capital cities over the year to June 2017. House price growth has been the single biggest driver of the wealth of Australian households.

The wealth gains over recent years have encouraged consumers to borrow more and run down their savings, allowing overall spending to grow at a faster rate than income. However, soaring house prices are putting a strain on prospective homeowners, since housing deposits are increasing as well. An increase in the savings ratio related to low consumer confidence (if sustained) could add another challenge for those retailers competing for the discretionary spending of consumers. Chart 1.3 shows household savings declining as a proportion of household disposable income since the end of the GFC.

Chart 1.3: Household savings ratio, Australia



Source: ABS 5206.0, Deloitte Access Economics

1.4 Home ownership

From home ownership to renting

Renting is as popular as home ownership now: the 2016 Census reveals that there are almost as many people living in a rental property (32.2% of the population) as there are people who own their property outright (32.1%).

This has not always been the case though. In 25 years since the 1991 Census, those who own a home has fallen by around 10%, while rental population has increased by around 4%. This transition reflects the housing booming and the low savings rate, which has resulted in a greater share of the population renting or paying off mortgages than owning homes.

The downside of the housing boom

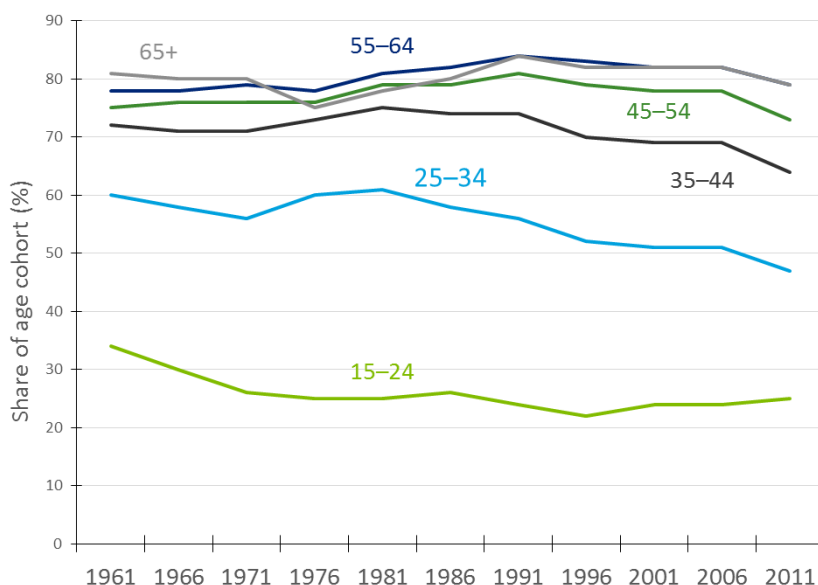
As of 2016, there were still many households where the cost of rent was placing more strain on household budgets than mortgage repayments. Spending 30% or more of total household income on rent payments or mortgage repayments can be used as indicators of rental stress and mortgage stress respectively.

According to data from the 2016 Census, 11.5% of all Australian households were in rental stress, while 7.2% were in mortgage stress; both of which represent increases since 2011. On top of rent, prospective homebuyer incomes are squeezed by the growing deposits required for new homes. Because house prices have grown so rapidly in recent years, renters who are looking to move into ownership also have to save more of their income for a deposit than has been required in the past.

Young Australians are losing out on housing

Millennials, in particular, have been behind this shift. Few millennials own property, as many either are living at home or renting. A recent report by the Reserve Bank of Australia (2015) finds that there has been a decline in home ownership among younger households in the past two decades, particularly in the 25–34 and 35–44 year age brackets (Chart 1.4). In contrast, ownership among older age groups has been relatively stable.

Chart 1.4: Home ownership shares by age cohort



Source: Yates (2015), Deloitte Access Economics

1.5 Household spending

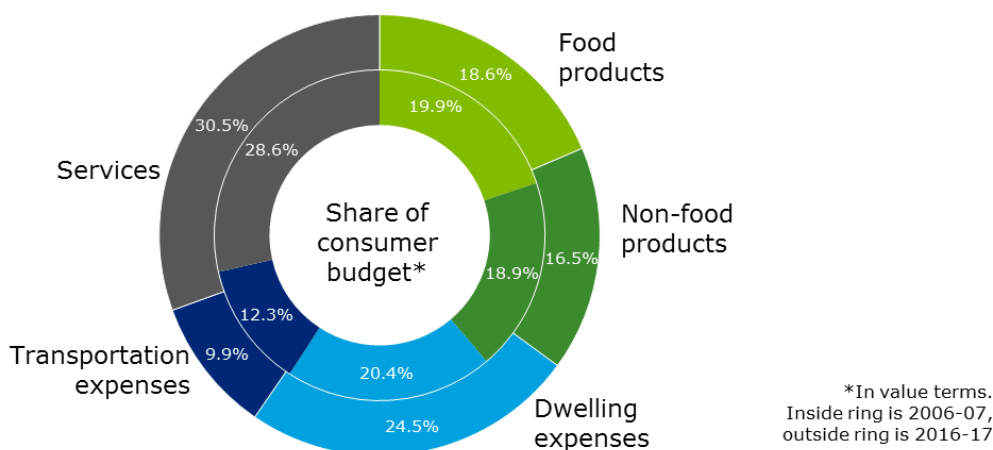
The typical consumer's spending can be categorised into four major groups: food products, non-food products (such as retail), dwelling expenses (such as rent and electricity), transportation expenses (such as fuel and public transport fares) and other services (such as education, food services and personal services). We look at how this has changed between 2006-07 and 2016-17, in terms of both volume and value, to take into account changes in price over time.

Chart 1.5 illustrates the composition of household spending across both years.

Major necessities, such as housing, utilities and transport represent around **one third of total consumption**; a share that has scarcely budged over the last 10 years.

But inside that category, budget has been allocated **more heavily to dwelling expenses** and services over the last ten years, while a **falling share** of the household budget has been allocated to **retail**.

Chart 1.5: Share of consumer spending budget (values) over time



Source: ABS 8501.0, ABS Household Final Consumption Expenditure, Deloitte Access Economics

Note: the 'services' category includes insurance and financial services, education, health services and recreation.

But most of the increasing spend on dwellings is associated with prices, rather than volumes. The cost of rent, dwelling services, electricity and gas has risen dramatically compared to other consumer categories over the last decade. When consumers have to pay more for the same basic housing services, this squeezes their ability to grow spending on other categories.

This report

Trends in the Australian macroeconomic environment – like employment outcomes, wages, household income and wealth – are well documented and analysed. Many have considered how these factors might influence consumer spending.

But largely, these are historical analyses, which are often reported at a three- or six-month lag. And while these trends are useful indicators of the broader economic environment, they don't have much to say about how individual households are operating.

For example, published statistics tell us about trends in volumes and values of trade in supermarkets. But they don't examine how consumer preferences – for example for brand names or for ethically sourced produce – are changing. Nor can they describe the trade-offs that households make in considering what food to buy, and from where.

To understand these consumption trends, Deloitte Access Economics was engaged by Aldi to conduct a survey of Australian consumers. The survey was fielded by Research Now in September 2017 and collected responses from over 1,000 Australian households across age brackets, states, regions, genders and household compositions.

It contained 23 questions that were designed to allow us to understand consumers':

- **Current spending patterns** – household income, spending and whether and how this has changed;
- **Future implications for spending** – people's weekly household spend in the future, what this spending is composed of and whether this has changed, and how they perceive their future spending to change; and
- **Grocery spending** – where people shop, whether this has changed, and if so, why and how this has changed.

By pairing analysis of this survey with broader macroeconomic trends and retail market analysis, we present fresh insights on Australian consumer spending.

Households are feeling the pinch, but still favouring little luxuries



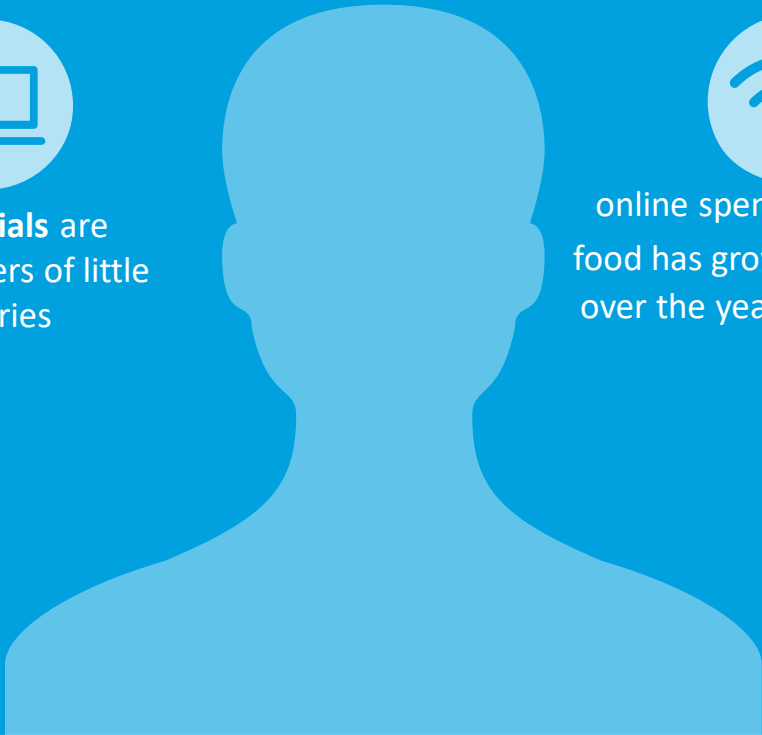
39% purchase entertainment
subscriptions, like Netflix



Millennials are
biggest users of little
luxuries



online spending on takeaway
food has grown by almost **30%**
over the year to February 2017



Average net
wealth for
Australians is
more than
\$1million



Yet **7.2%** of
houses are
feeling
mortgage stress



37% are
concerned about
their ability to
pay expenses
today



In the next 2 years,
more than 50% of
Australians expect
to spend more on
**energy and
housing costs**

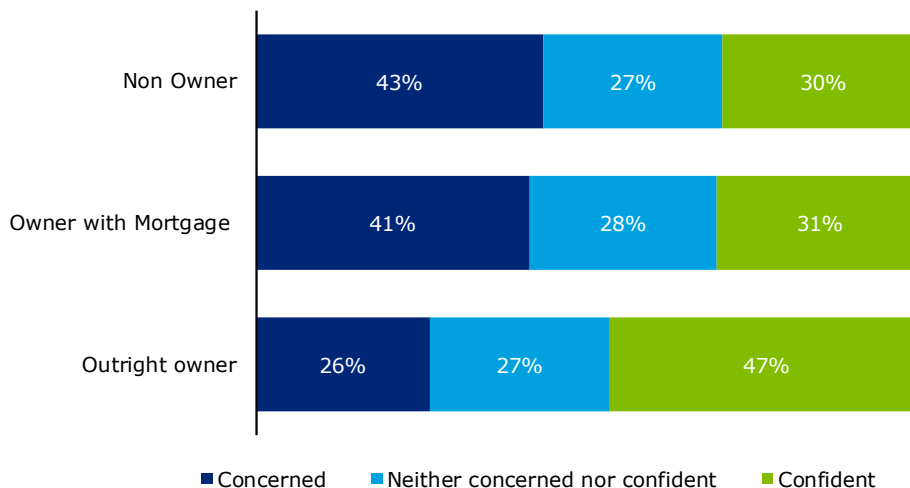
2 Budgetary pressure: Australians feeling the pinch

High level economic data gives every indication that Australian households are likely feeling budgetary pressure, with prices rising for necessities – like housing (including rent costs and mortgage costs), energy and health.

Our household survey backs up these trends and shows that, with real income growth very constrained, some Australian households may be forced to reconsider their spending. Currently, **37% of Australian households are concerned about their ability to pay for their expenses.**

This level of concern is higher for those who pay significant housing expenses, like those with a mortgage or people who pay rent, as shown in Chart 2.1, which suggests that households in less secure housing situations are more concerned about their ability to meet their expenses.

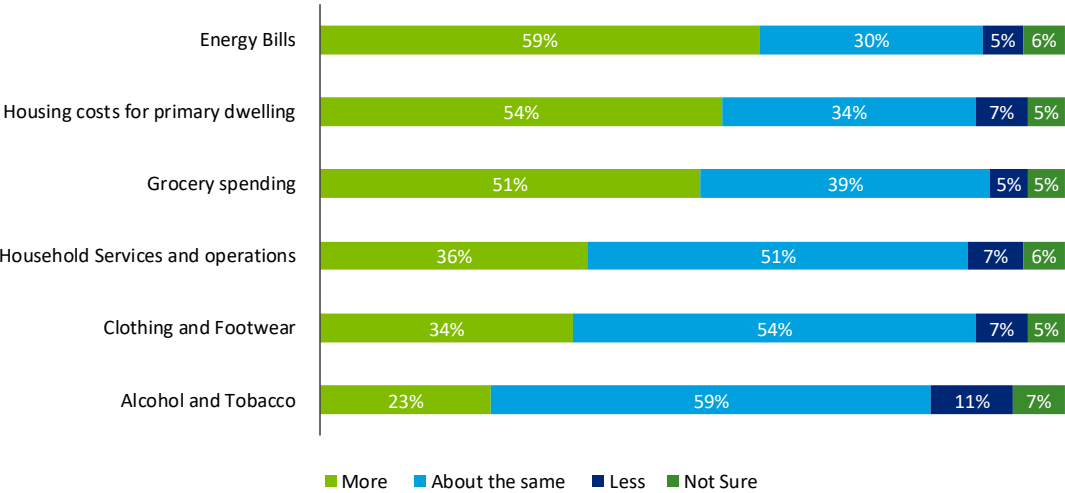
Chart 2.1: How would you describe your confidence about your ability to pay for your expenses today?



Source: Deloitte Access Economics, calculated for home owners (n= 1007)

Over the next two years, Chart 2.2 shows that **over half of Australian households expect to spend more on necessities** (like energy and housing) than current levels. Yet less than one in ten expect that their spending on even more discretionary categories – like alcohol and tobacco – will fall.

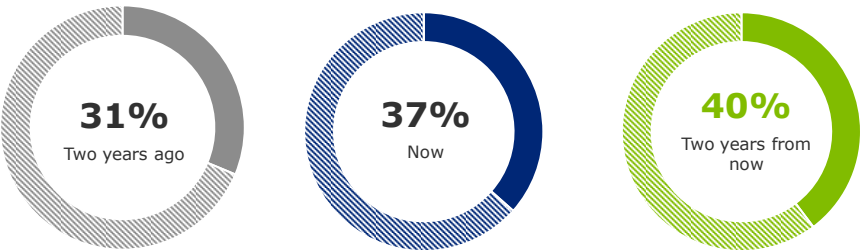
Chart 2.2: Future expenses - about 2 years in the future from now, approximately how much would you spend on the following on a monthly basis?



Source: Deloitte Access Economics, calculated for all respondents (n= 1,007)

And the result of this is that the proportion of households feeling financial stress would rise again. The Australians surveyed are more concerned about their ability to pay their bills today than they were two years ago. And by 2019, an estimated **two in five households** will be concerned with their ability to pay for their expenses, as shown in Chart 2.3.

Chart 2.3: Concerned about ability to pay for expenses over time



Source: Deloitte Access Economics, calculated for all respondents (n= 1,007)

3 Grocery spending on the chopping block

What is happening in the macroeconomic environment, and in particular employment and wealth trends, does have an effect on supermarket spending. Competitive influences also have a significant effect on the prices and volumes of grocery products. The key drivers of grocery expenditure are:

- **Employment outcomes:** The recent supermarket spending malaise is no doubt related to the falling labour participation rate (as older Australians retire) as well as widespread underemployment, as labour demand is only modest at present.
- **Wage growth:** While everybody needs to buy groceries, the amount and quality of groceries purchased can change significantly as capacity to pay and consumer confidence changes. Record low wage growth is keeping a lid on the average Australian household's grocery budget, as consumers tighten their purse-strings at the supermarket.
- **Competitive influences:** Supermarket spending on food faces competitive pressure from substitutes – like dining out and subscription services. In addition, strong competition between supermarkets can affect prices.

With weak employment outcomes and wage growth, Australian households are under increasing budgetary pressure. And our survey shows that, in these circumstances, grocery spending is one of the first categories to suffer.

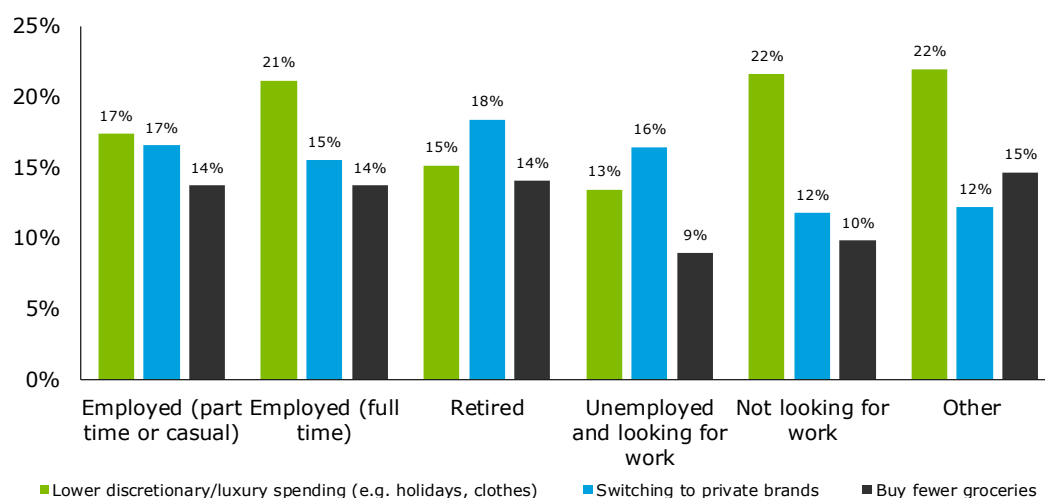
If day-to-day living expenses increase, **one in three Australian households would fund this by cutting back spending on groceries**, either by switching to private labels or buying fewer groceries. This means that people have high levels of discretion over the brand type and quantity of groceries that they need to buy.

In fact, **after luxury or discretionary spending on holidays and clothes, survey respondents were more likely to cut back on groceries than any other category of spend.**

3.1 The rise of private labels

Chart 3.1 suggests that those who are employed or not looking for work (who may have alternative sources of income) prefer to lower discretionary spending over switching to private labels, whereas those who are retired or unemployed prefer to switch to private labels than to spend less on luxury items. This is likely because those who are employed or not looking for work already have higher base income than those who are unemployed, and so have more leeway to save on clothes, entertainment and other little luxuries.

Chart 3.1: If your day-to-day living expenses do increase, from where do you think you will obtain the additional money needed for spending?



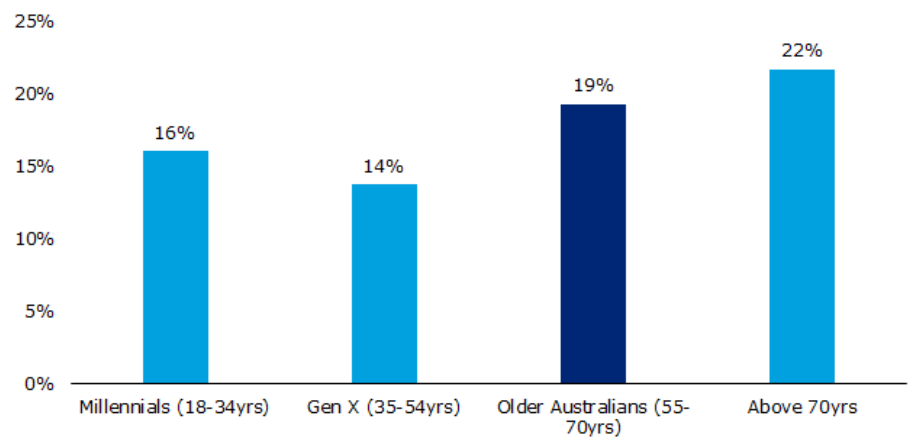
Source: Deloitte Access Economics (n=1,007)

A consumer survey in December 2015 by Canstar Blue found that 65% of Australians already tend to use private label groceries, and this willingness to switch over is on the rise, having increased by one-fifth in only six months.² As well, 76% of respondents believe that private labels are 'good quality'.

² (Downes, 2016)

Our survey reinforces that when facing budgetary pressure, 15% of Australians would switch to private labels. In particular, older Australians (aged 55 years and over) are more likely to switch to private labels than any other age group as seen in Chart 3.2.

Chart 3.2: Demographic distribution of people who would switch to private labels if day-to-day living expenses increased



Source: Deloitte Access Economics (n=1,007)

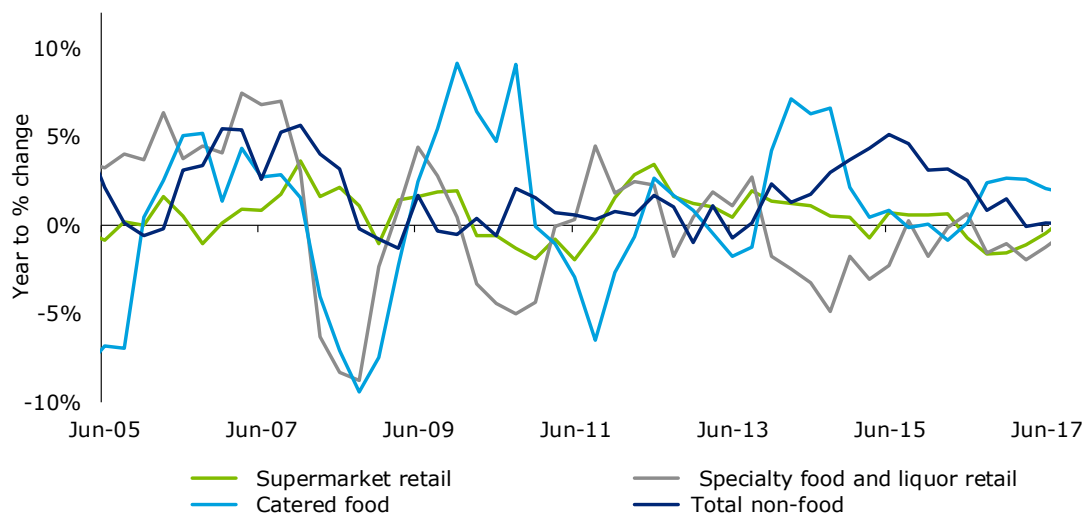
4 Grocery spending trends

More than ever, Australians have access to a range of food options – from eating out and take-away to subscription services and buying groceries to cooking at home. All of these services are competing for consumer spending.

4.1 Where do we get our food?

According to our survey, grocery spending represents **67 cents of every dollar spent on food**. This is reflected in a relatively stable growth of supermarket retail, in comparison to other sectors of retail, as pictured in Chart 4.1. In particular, in the last three years, wealth from housing has pushed up non-food retailing growth to outpace supermarket and other food retailing growth.

Chart 4.1: Volume growth of selected retail categories over time

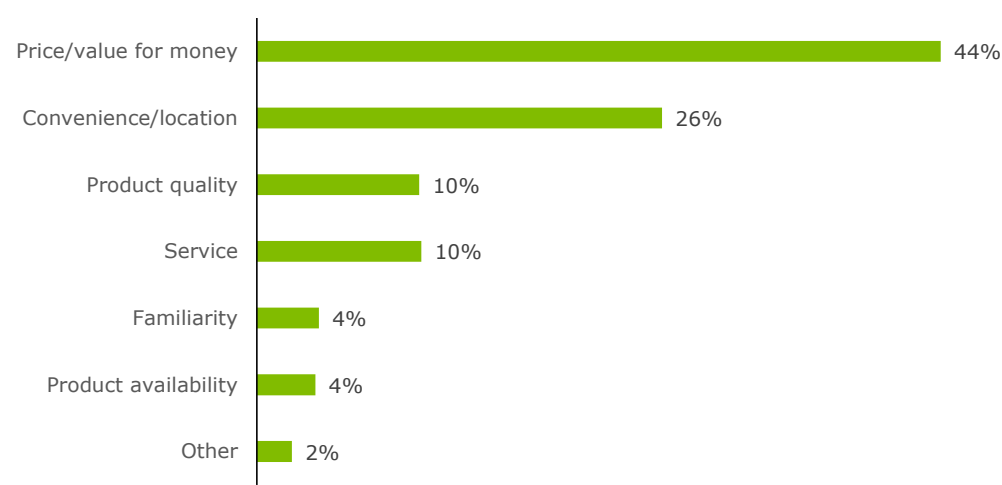


Source: ABS 8501.0, Deloitte Access Economics

This divergence is not as strong in value terms (i.e. measures that use today's dollars rather than adjusting for inflation). This is because non-food retailing prices have been stagnant over recent years, whereas food product prices have increased.

Many Australians are also reconsidering where they shop. Price and value for money is the primary driver of switching, cited by two in five of those who had switched. Location and convenience were also important factors for many consumers, as depicted in Chart 4.2.

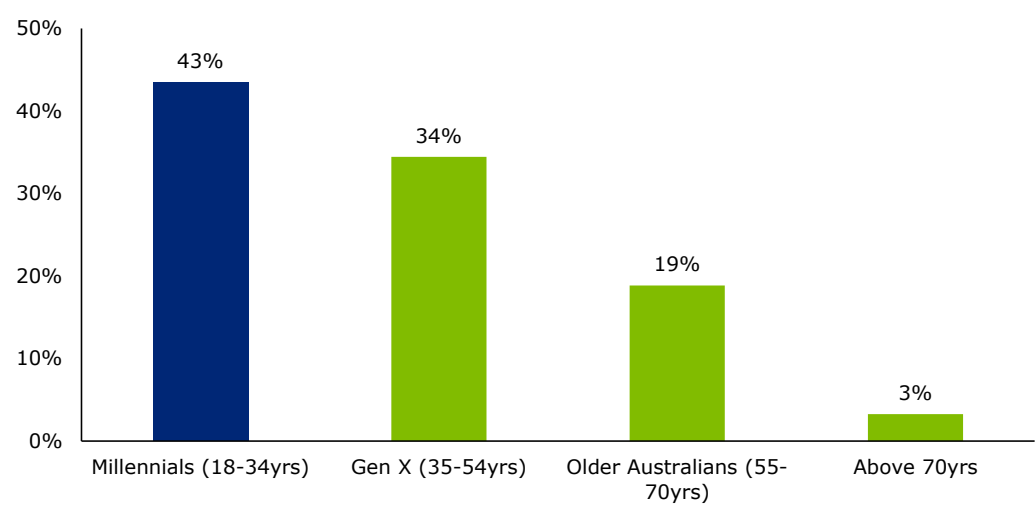
Chart 4.2: (Top ranked response) Why did you switch where you shop for groceries?



Source: Deloitte Access Economics, calculated for all respondents (n=1,007)

Younger Australians also show relatively less loyalty to any one grocery store than older generations, as shown in Chart 4.3. However, this might be due to a number of factors, such as how frequently people move, or underlying differences between generations.

Chart 4.3: Over the last twelve months, have you changed the grocery store at which you shop most frequently?

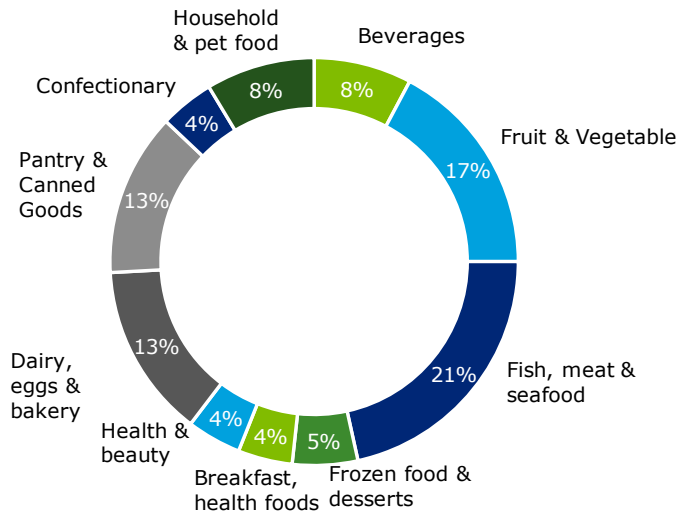


Source: Deloitte Access Economics, calculated for all respondents (n=1,007)

What do we buy?

The typical consumer buys a range of groceries at the supermarket, as shown in Chart 4.4. The biggest categories of spend are **fish, meat, seafood and produce** – which together represent **\$2 in every \$5 spent** in supermarkets, according to our research.

Chart 4.4: Grocery spending

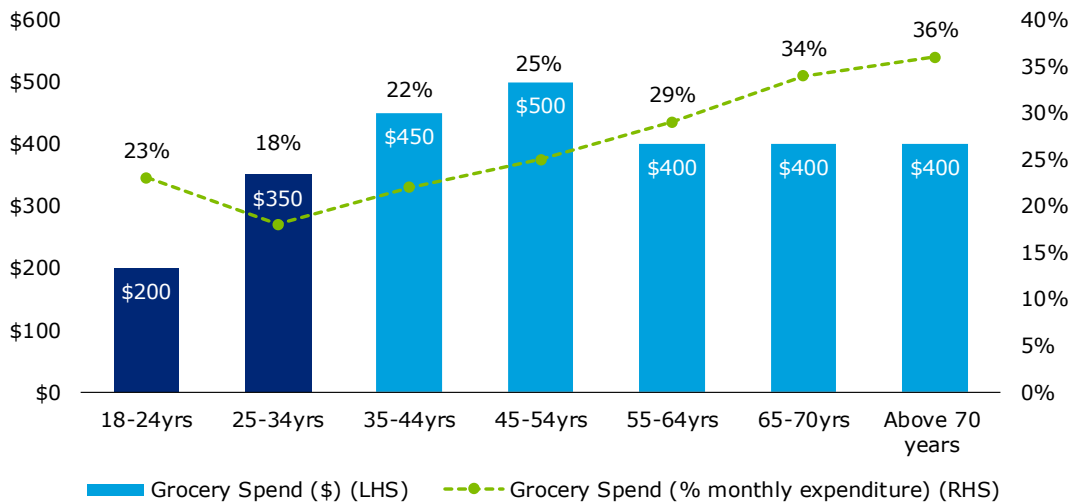


Source: Deloitte Access Economics, calculated for all respondents (n=1,007)

But the composition of this spend depends on a number of factors – like household size, age, income and broader expenses.

Millennials spend less on groceries in both absolute terms and as a proportion of their monthly expenditure than all other age groups, as shown in Chart 4.5. This might be, in part, because they have lower incomes, or fewer household members to shop for.

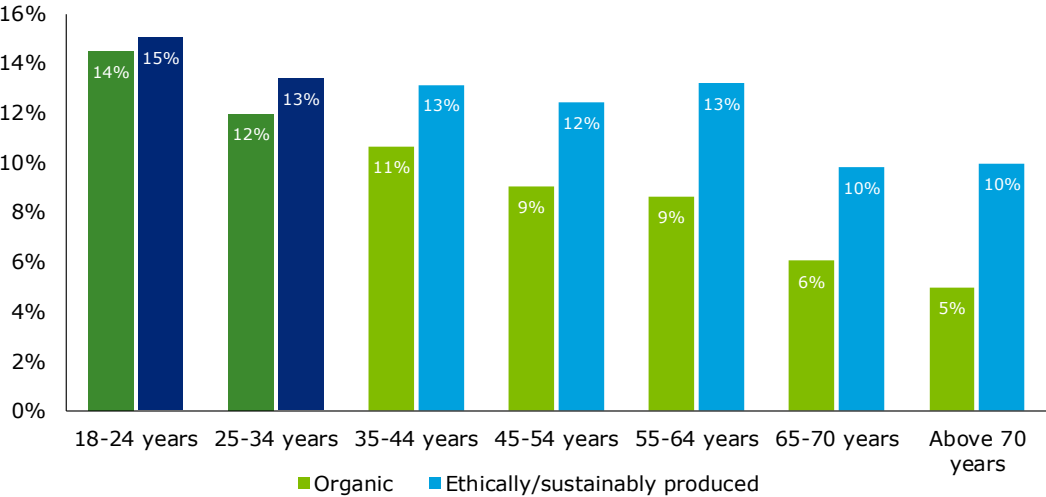
Chart 4.5: Age comparison of grocery spend



Source: Deloitte Access Economics, calculated for all respondents (n=1,007)

Since millennials spend a smaller share of their income on groceries, they can afford to be choosier about the types of groceries they do buy. Indeed, **younger people have stronger preferences for organic and ethically or sustainably produced groceries** than any other age group, as Chart 4.6 indicates. A confluence of factors appear to be driving this trend including the local sustainability food movement, the rise of health-conscious lifestyles, and decline of customer loyalty to big brands.

Chart 4.6: Are you willing to pay a price premium for any of the following product characteristics?



Source: Deloitte Access Economics (n=2,798 as respondents were allowed to give multiple responses)

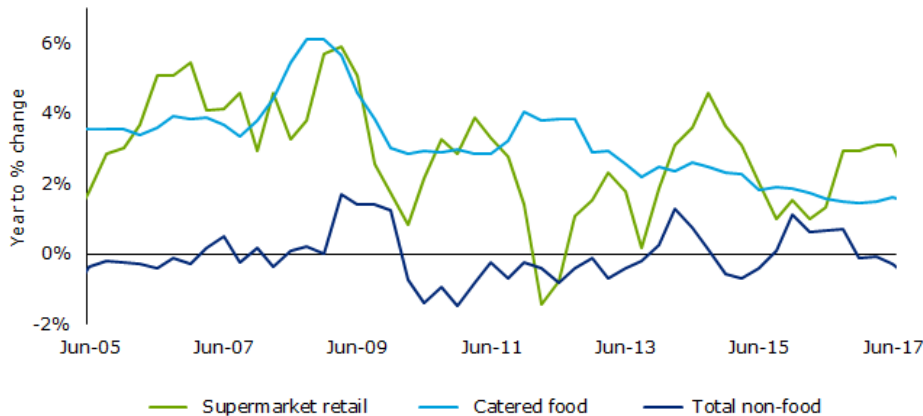
4.2 How much do we spend?

Retail prices have been subdued for some time, particularly in non-food retail. But the next five years is expected to see a magnified version of this trend, as online retailing (and in particular Amazon), the further influx of international retailers and continued strong competition among existing retailers continues going forward.

However, food retailing prices have generally continued to rise over time. As consumers prioritise health and show a preference for higher quality food products, this has supported average price growth, along with a rising cost of goods sold.

At present, supermarket retailing price growth is growing at a slower pace than price growth for total food retailing.

Chart 4.7: Price growth of selected retail categories over time (in annual growth terms)



Source: ABS 8501.0, Deloitte Access Economics

However, even though food retailing prices grow faster than non-food on average, the category is also the most volatile in terms of price. This is because, when it comes to groceries, it's not the amount that people buy which changes, but the quality (and price point).

As household income increases, consumers buy higher priced food. Equally, when income is squeezed consumers are not as able to buy fewer groceries in the way that they are able to delay non-food purchases, so they tend to **switch from higher priced food items to more affordable items.**

Other key reasons for higher volatility in prices within food retailing categories include changes in weather and farming conditions, which affect food more than they affect non-food. Food is not only affected by weather, but is also perishable. While non-food items can be stored in large quantities over a long period of time, food items do not have this advantage. This gives sellers of food a bigger incentive than sellers of non-food to adjust prices in order to clear their stock.



67% of food expenditure is spent on groceries



2 in 5 households are concerned about their ability to pay expenses in 2019



Is grocery spending on the chop?



37% of Australians are concerned about their ability to pay expenses today



1 in 3 households would fund an increase in day-to-day living costs by cutting back on grocery spending or switching to private labels

5 The modern necessities

Even though households are feeling the pinch in term of the day-to-day budgets and thinking about cutting back expenditure on traditional necessities like groceries, there are also new things that the modern consumer now prioritises and values, including digital technology, internet and fast connectivity.

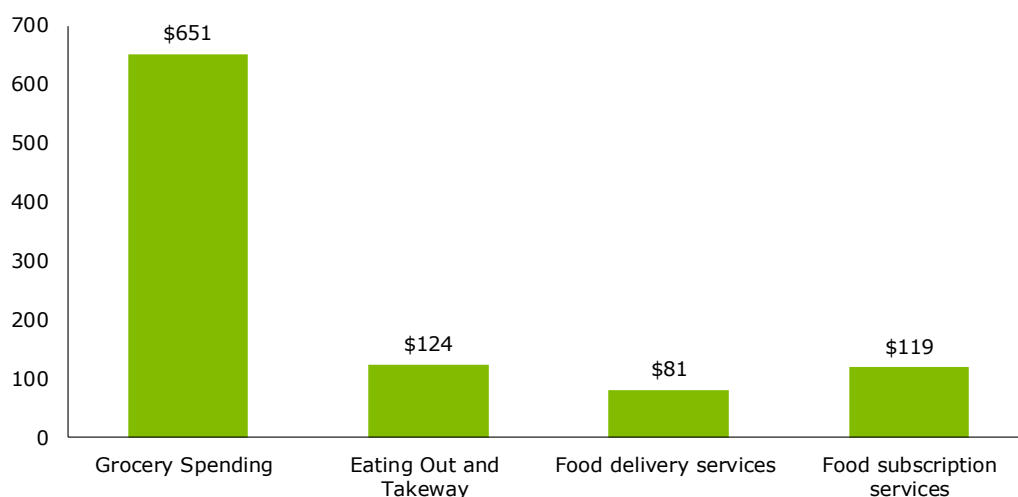
Consider smartphones; they were introduced only a decade ago, yet today few Australians could go without one, with 84% owning a smartphone today.³ In contrast, in the 1990s, nobody would be without a phone at home; but by the end of 2014, nearly one third (29%) of the adult population were mobile only.⁴ As our consumption patterns have shifted, so too have our budgets.

5.1 Catered food

An average consumer is eating more meals out and preparing less meals at home over time, as the trade-off between saving money and saving time leans towards catered foods. Our analysis finds that **catered food is outperforming supermarkets** as seen in Chart 4.1, growing by 3.3% in the year to June 2017.⁵

Chart 5.1 shows that our survey respondents spend **over \$300 a month on average** on food other than groceries. New categories and ways of buying food – in particular, food subscription services like MarleySpoon and Hello Fresh – now represent a significant spend for those who subscribe.

Chart 5.1: Monthly spending on food sources



Source: Deloitte Access Economics, calculated for all respondents (n=1,007)

³ (Deloitte, Mobile Consumer Survey 2016, 2016)

⁴ (Australian Communications and Media Authority (ACMA), 2016)

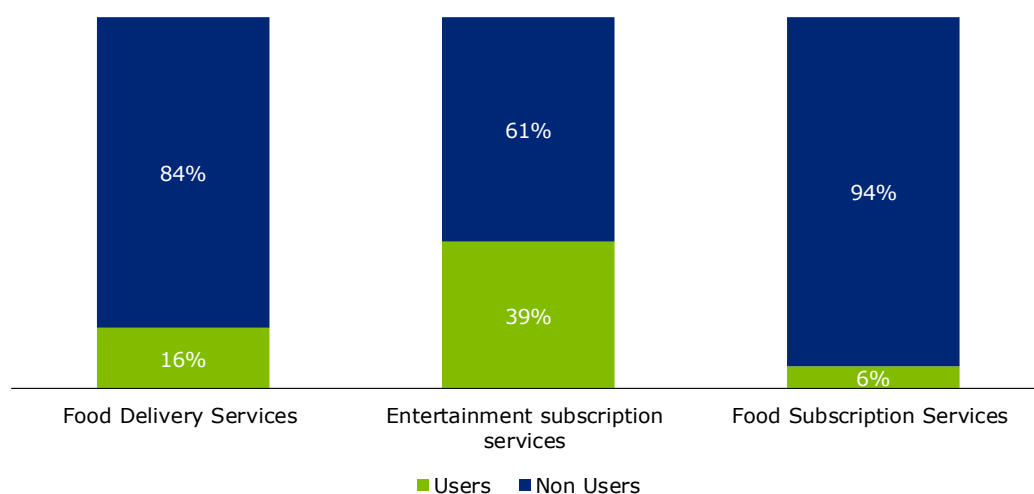
⁵ (Deloitte, Retail Forecasts - August 2017, 2017).

Over the year to February 2017, online spending on takeaway food had grown by a little over 30%⁶.

5.2 Subscription services

Other examples of changing necessities are emerging. For example, subscription services to entertainment and music are becoming necessities for many. Netflix was first introduced in Australia in 2015 – and today, we estimate that **39% of Australians subscribe to such services**, as shown in Chart 5.2. The majority of demand is concentrated in high density metropolitan cities, like Sydney and Melbourne and comes from Millennials.

Chart 5.2: Approximately how much do you spend on a monthly basis?

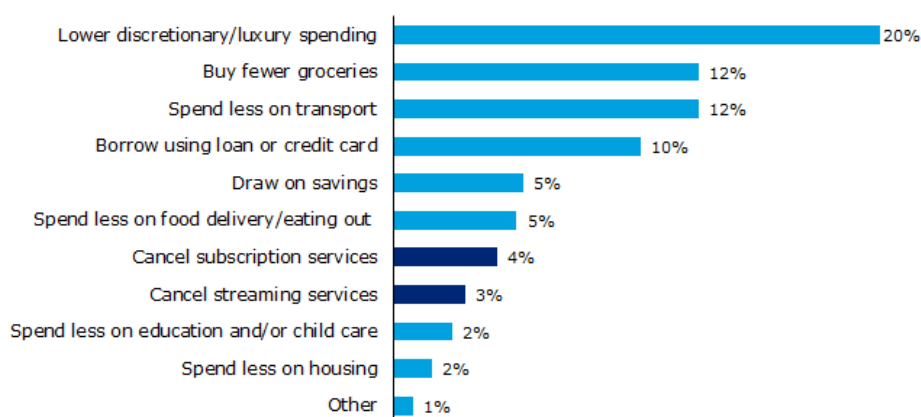


Source: Deloitte Access Economics (n=1,007)

But are these services a necessity, or a luxury? Of the people who subscribe to services like Spotify and Netflix, if faced with budgetary pressure, most would first to cut back on car, clothing and holiday purchases (20%) as well as buy fewer groceries (12%), rather than sacrifice their subscriptions (4%) (Chart 5.3). These consumers are even less flexible on winding back consumption of these services than on use of debt and savings. For these people, these services have actually become more necessity than luxury.

⁶ (NAB, 2017)

Chart 5.3: If your day-to-day living expenses do increase, from where do you think you will obtain the additional money?

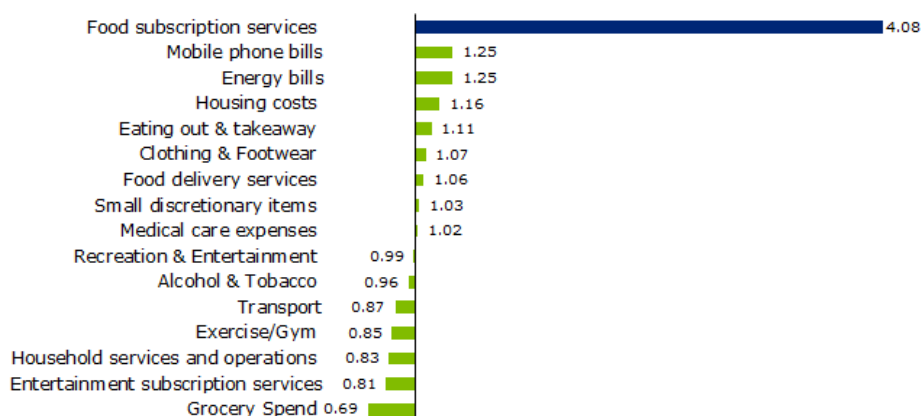


Source: Deloitte Access Economics, calculated for the people who do purchase entertainment subscription services (e.g. Netflix, Spotify) (n=402)

Clearly, relatively new services, like smartphones and little luxuries, are representing an increasing proportion of our spending, though this varies by age.

For example, Chart 5.4 shows that **asset-poor Millennials (aged 18 to 34) spend a greater proportion of their budget on luxuries, such as food and delivery subscription services, and mobile phone bills**, than average Gen X Australians (aged 35 to 54) do. Mobile bills, in particular, comes as no surprise as 94% of mobile consumers aged 18- 24 years have a smartphone.⁷

Chart 5.4: Relative expenditure between Millennials and average Gen X Australians as a share of their budget



Source: Deloitte Access Economics (Millennials, n=360, average Gen X Australians, n=332)

⁷ (Deloitte, Mobile Consumer Survey 2016, 2016)

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Appendix A: Survey

Deloitte Access Economics was engaged by ALDI to conduct a survey of Australian consumers. The survey was fielded by Research Now in September 2017 and collected responses from over 1,000 people across Australia, and more details on the survey are available on request.

The characteristics of the survey respondents are presented across a range of variables below.

Table A.1: Geographic and regional distribution

State	Region	
ACT	Regional	0%
	Canberra	0%
New South Wales	Regional	13%
	Sydney	21%
Northern Territory	Regional	0%
	Darwin	1%
Queensland	Regional	10%
	Brisbane	8%
South Australia	Regional	1%
	Adelaide	6%
Tasmania	Regional	1%
	Hobart	2%
Victoria	Regional	6%
	Melbourne	19%
Western Australia	Regional	3%
	Perth	9%

Source: Deloitte Access Economics

Table A.2: Income range distribution

Income range	Proportion
Below \$52,000	35%
\$52,000-\$103,999	36%
\$104,000-\$155,999	15%
\$156,000 - \$207,999	6%
\$208,000 - \$259,999	2%
\$206,000 and above	1%

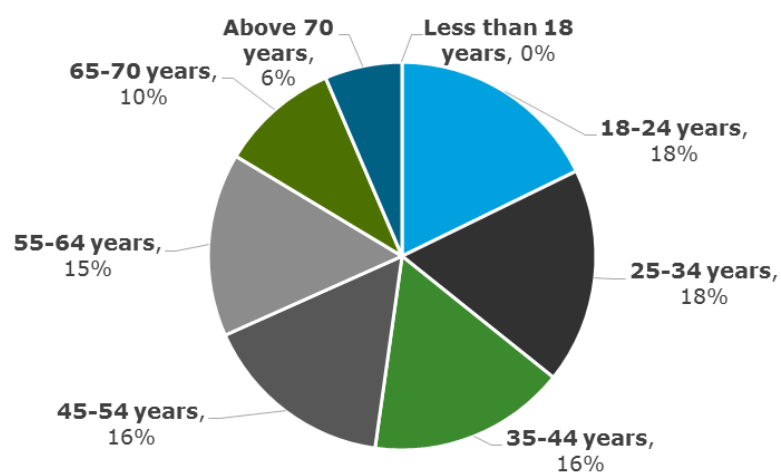
Source: Deloitte Access Economics. The survey presented a total of 20 income ranges as response categories, which have been aggregated in this table.

Table A.3: Household size

Household	Proportion
Spouse/Partner	42%
Dependent children	73%
Independent children (i.e. they solely rely on their own income for maintenance)	93%
Other family members (i.e. parents, grandparents, siblings, other relatives)	86%
Other	94%
I do not live with other people	82%

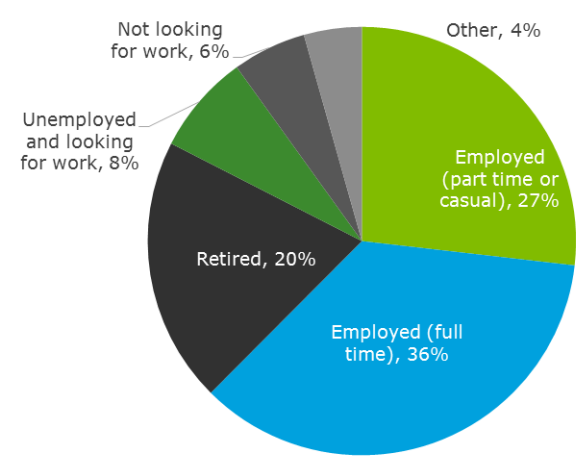
Source: Deloitte Access Economics

Chart A.1: Age distribution



Source: Deloitte Access Economics

Chart A.2: Employment status distribution



Source: Deloitte Access Economics

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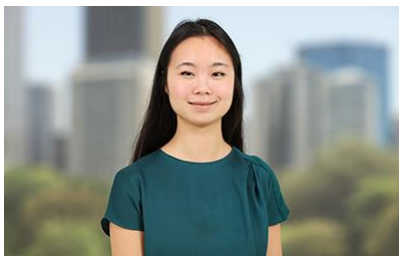
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