Household financial comfort report.

Seventeenth survey published Feb 2020.

Insights from national research into the financial psychology of Australian households.

The financial gap between city and country has never been bigger, and rural folk are finding it harder to see the sunny side up.

About this report.

The *ME Household Financial Comfort Report* provides in-depth and critical insights into the financial situation of Australians based on a survey of 1,500 households.

The survey is designed, developed and produced biannually by industry super fund-owned bank ME with assistance from DBM Consultants and Economics & Beyond.

This edition presents the findings from the 17th survey, published in February 2020.

Survey history

- 1st edition: October 2011
- 2nd edition: August 2012
- 3rd edition: February 2012
- 4th edition: August 2013
- 5th edition: February 2013
- 6th edition: August 2014
- 7th edition: February 2014
- 8th edition: August 2015
- 9th edition: February 2015
- 10th edition: August 2016
- 11th edition: February 2016
- 12th edition: August 2017
- 13th edition: February 2018
- 14th edition: August 2018
- 15th edition: February 2019
- 16th edition: August 2019
- 17th edition: February 2020

This report includes but is not limited to, the *Household Financial Comfort Index*, an overall measure of households' perceptions of their financial comfort, generated by asking respondents to estimate their financial comfort, expectations and confidence across 11 measures.

Over time, the report tracks changes in comfort and in doing so, highlights the ongoing – and potentially shifting – differences between household types, in terms of financial comfort and behaviours in managing finances.

About.

ME is 100% owned by Australia's leading industry super funds.

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“The drought is inflating prices, making it harder to get food on the table.”

RETIREE,
QUEENSLAND

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Executive summary.

01.

Household financial comfort fell markedly across regional Australia during the six months to December 2019, according to ME Bank's latest *Household Financial Comfort Report*.

While ME Bank's latest biannual survey showed the financial comfort of metropolitan households increased 3% to 5.76 out of 10 to near record highs – especially in eastern Australia – financial comfort for regional households fell 4% to 5.08, continuing a decline over the past year to approach its lowest point in the past eight years. The gap in financial comfort between regional and metropolitan households had now reached a record 13%, almost twice the historical average of 7%.

The sharp fall in financial comfort in regional areas is likely a result of ongoing drought and recent bushfire catastrophes, which have significantly lowered already low levels of financial comfort. 'Comfort with cash savings' fell 9% and the 'ability to deal with financial emergencies' fell 7%, while long-term retirement comfort deteriorated, with 'anticipated standard of living in retirement' down 7%. Regional Queensland reported the largest fall in comfort, down 14% to 4.95, dipping below regional New South Wales (5.09) and Victoria (5.20).

In contrast, the improvement in the financial comfort of metropolitan households reflected significant gains in all key drivers, with record high levels of comfort approached in Sydney (up 1% to 5.94), Melbourne (up 3% to 5.91) and Brisbane (up 10% to 5.82).

Overall national household financial comfort up only slightly.

The notable falls in financial comfort across regional Australia dampened an overall rise in national financial comfort, with ME Bank's overall *Household Financial Comfort Index* improving by 2% to 5.59 out of 10 during the six months to December 2019. Across the 11 key drivers that make up the Index, 10 of the drivers improved – with notable improvements in household 'comfort with debt' and recent 'changes to their financial situation'.

Record low mortgage rates and rising house prices improving comfort with debt in the major cities.

Across the 11 key drivers that make up ME Bank's *Household Financial Comfort Index*, the biggest improvement was with 'comfort with debt', up 5% to 6.55 out of 10, reaching record highs.

'Comfort with debt' increased 7% for households in metropolitan areas, particularly those with mortgages on their homes or on an investment property.

Significantly lower home loan rates and relatively low and stable unemployment rates helped to significantly improve 'comfort with debt' – especially in major capital cities, while a partial reversal of the fall in residential property prices in eastern capital cities and expectations of further price gains have also eased gearing concerns.

Mortgage stress eases further and expected debt management improves.

Consistent with a significant fall in home loan rates, sustained low unemployment and improved property prices in most of Australia, mortgage stress eased a bit further during the past six months. Nevertheless, there remains generally high levels of mortgage stress and significant other financial stress amongst households. The proportion of households contributing more than 30% of their disposable household income towards their mortgage fell a further 2 points to a still high 41% of households, 5 points lower than a couple of years ago.

Recent improvements to households' financial situation.

Another driver of overall comfort that improved significantly was comfort with 'recent changes to households' financial situation' – up 4% to 5.25 out of 10 – its highest level in four years – due to a large rise of 5% to 5.41 in metropolitan regions, but not regional areas (unchanged at an index of 4.76).

Over a third (36%) of households indicated their 'financial situation had improved over the past year' with the main reasons being less concern about living cost pressures, fewer households reporting falls in income, more households reporting improvement in employment status and improvements in cash savings.

‘Comfort with the ability to manage a financial emergency’ only saw a slight improvement (up 1% to 4.82) but was significantly lower than average among single parents (3.17 out of 10). It also remains the lowest of all drivers across the *Household Financial Comfort Index* – especially for regional areas.

Record low Reserve Bank official interest rates helping, but divide households.

For the first time in the latest survey, ME Bank asked households if they thought they were ‘better’ or ‘worse off’ as a result of the historically low official interest rates. Overall, slightly more households reported being better off (27%), compared to worse off (23%), while the remaining half of households reported they weren’t impacted positively or negatively. Put another way, a net positive impact from very easy monetary policy.

Those households paying off a mortgage felt they were far better off than those renting or who already own their homes. When it came to investors with debt, results show they feel they’ve benefitted the most (60% ‘better off’) from the flow on to record low mortgage rates – an indication of the high level of gearing among residential property investors in Australia.

In terms of life stage, young singles and couples with no children appeared to be the biggest winners, with over half (51%) saying they were ‘better off’, followed by couples with young children (41%).

Property price optimism revised higher.

The Report revealed household optimism regarding the outlook for residential property prices has continued, with both owner occupiers (47%) and investors (51%) revising up price expectations for 2020.

Brisbane investors and owner occupiers were the most optimistic about higher property prices (67% and 61%, respectively), followed by Melbourne owner occupiers (55%) and Sydney investors (51%). Owner occupiers in Perth (29%) remain the least optimistic in this regard.

Key winners and losers from ME Bank’s 17th *Household Financial Comfort Report*:

Winners:

- Households in capital cities - Brisbane saw a substantial 10% increase in financial comfort to 5.82, Melbourne improved 3% to 5.91 and Sydney residents up a bit higher to 5.94 – nearing record levels.
- Households paying off a home mortgage – up 4% to 5.46. Of those households that found themselves better off following the RBA interest rate cuts, 32% increased their mortgage repayments.
- Households with higher annual incomes – especially greater than $100k – continue to experience significantly more income gains than households with lower annual incomes – especially less than $40k (for the seventh consecutive report).

Losers:

- Households in regional areas - especially regional Queensland, where comfort fell significantly by 14% to 4.95.
- Casual workers – comfort fell 4% to 4.80, continuing the trend of these workers having the lowest level of comfort across workforce segments.
- Single parents - continued to record the lowest financial comfort of any household type (up 2% to 4.45), especially those dependant on government assistance (down 6% to 2.99).
- Renters continued to report low comfort at 4.67 and high rental payment stress – up 3 percentage points to 41% of all renters.

Macroeconomic and financial context.

02.

Overall, Australian household finances, on average, remained relatively resilient during the second half of 2019, with pockets of financial stress across some households and regions. Macroeconomic and financial vulnerabilities remain related to underemployment, sluggish household incomes, high and rising debts, some tightening in access to credit and significant falls in housing prices in some regions. Sustained drought and more recently catastrophic bushfires are also a source of financial stress in parts of Australia. On the other hand, record low mortgage rates and relatively low unemployment have supported debt servicing and household spending more generally. The recent improvement in housing markets – especially in the eastern capital cities – and high equity prices at home and abroad have also boosted household wealth.

Australian's household (net) wealth is estimated to have risen significantly during the six months to December, with solid financial asset gains (especially superannuation and direct equity holdings) and a pickup in dwelling values partly offset by increased liabilities/borrowings. Most households are supported by both wage gains – a bit above inflation – rising workforce participation and more recent personal income tax cuts, but there is significant underemployment and many households on fixed incomes (including welfare payments) and limited savings faced with rising living costs. Consumer sentiment has dropped below historical averages and household consumption growth has remained weak. Debt growth has slowed, but still increased slightly faster than income. Debt servicing costs have eased mainly due to significant falls in mortgage rates to historical lows.

Recent trends in the latest official estimates and other private sector reports have shown:

Consumer confidence measures deteriorated significantly over recent quarters – including notably during December (and January) as catastrophic bushfires raged in many parts of Australia.

Labour market conditions are mixed, with further solid job and participation gains, but a small rise in unemployment, relatively high underemployment and subdued wages growth. During the past six months, both full-time and, to a greater extent, part-time employment have increased well above working age population growth and the participation rate has reached its highest level on record – notably among females and older workers (65 plus years old).

The trend unemployment rate eased to 5.1% in December, from a recent peak of 5.3% in August – a bit higher than the low of about 5% in late 2018/ early 2019. More broadly, the trend underutilization rate (both unemployed and under-employed persons) was 13.5% in December 2019 – a bit lower than June (13.6%), but a bit higher (13.3%) than a year ago. Wages growth remains low – in all states and most industries - to be about 2.2% higher over the year to the September quarter. At end 2019, the unemployment rate remained significantly lower in New South Wales (at 4.5%) and Victoria (4.9%), than Western Australia (5.4%), and to a greater extent Queensland (5.7%) and South Australia (6.2%).

Household consumption growth has remained weak – indeed, fallen on a per capita basis during the past year – mainly due to continued weak disposable income growth (subdued wages and non-labour income, but solid job gains) and negative wealth effects from lower house prices on discretionary items (such as, new cars). As measured by the official data, the household saving rate from current disposable income has continued to rise from a recent low in the second half of 2018.

Consumer inflation has remained subdued and stable – at around 1.8 % p.a., on average during 2019. After relatively large rises during 2018, government regulated prices such, energy, water and property rates have slowed further (including some falls in electricity prices). On the other hand, food prices are up 2.6% during 2019 – partly boosted drought-related food prices (especially bread and meat). Annual rent rises have been the lowest since the early 90s – with rents up only 0.2%, on average, across the major capital cities.

Conditions in most housing markets have strengthened – albeit varied across major cities and regions. After falling since late 2017, dwelling prices have picked up – especially in Sydney, Melbourne and, to a lesser extent, Brisbane, troughed in Adelaide and continued to fall in Perth. According to CoreLogic data for home prices, both Sydney and Melbourne prices rose by about 5% during 2019 to be still a bit below previous record highs, while prices in both Brisbane and Adelaide as well as most parts of regional Australia were largely unchanged, but significantly lower in Perth and Darwin and parts of outback Queensland and Western Australia. Nationally, on average, dwelling prices were down 2% during 2019 to be about 3% lower since the peak in late 2017.

Annual growth in household debt slowed further during the past six months, with loans to investors falling slightly and other personal loans (such as credit cards) contracted significantly further, while growth in loans to owner-occupiers stabilised and picked up at a moderate rate. After no growth during the first six months of 2019, loans to investors have fallen about 0.3% during the six months to December, while annual growth of owner-occupied housing credit was about 5% during 2019 and other personal loans (such as credit cards and equity backed loans) fell by about 5% during the past year.

Household assets, on average, are estimated to have risen significantly during the past six months; a significant rise in both housing and equity prices, a rise in bond values and continued contributions to superannuation more than offset a further fall in new dwelling construction.

As a result, the aggregate financial position of households – as measured by **household net wealth (assets less debt) – has improved** during the past six months. In aggregate, **debt to disposable income** has decreased slightly with sluggish growth in both debt and income, while **debt to assets** (or leverage) has also decreased – as asset gains have significantly outpaced by increased debt. **Debt servicing burdens** (relative to incomes) have decreased significantly, mainly as home loan rates were reduced significantly to historical lows.

Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are **low generally**, but slowly rising and disparate. Households, on average, are coping well with debt servicing burdens due to still relatively low borrowing costs as well as subdued income gains and continued employment. Indebted households also tend to have high incomes and large mortgage repayment buffers making well above minimum repayments – albeit there are also a significant number of borrowers making minimal prepayments.

As this report highlights, underemployment and falling house/apartment prices in some regions do present current challenges to some households – especially recent dwelling buyers with larger mortgages and lower incomes. Furthermore, some households have debt levels that make sense in "good" times not allowing for the fact that "bad" times may arise unexpectedly. Other households are close to their maximum risk position not considering that loan rates inevitably will rise significantly from record lows or the emergence of much more difficult economic conditions. There are also households with low incomes – including many dependent on government assistance – significantly stressed by rental/mortgage payments and regular expenses, with a lack of savings for any financial emergency.

How is the index calculated?

The *Household Financial Comfort Index* quantifies how comfortable Australian households feel about their financial situation by asking respondents to rate their household financial comfort, expectations and confidence on a scale of 0 to 10 across 11 measures:

Comfort level with the overall financial situation of the household

Changes in household financial situation over the past year

Anticipated changes in the next year

Confidence in the household's ability to handle a financial emergency (loss of income for three months)

Comfort levels with household income

Cost of living expenses

Short-term cash savings

Long-term investments (including superannuation)

The level of household debt

Overall net wealth of the household

The household's anticipated standard of living in retirement

Overall small rise in financial comfort.

03.

3.1 ***Household Financial Comfort Index*** improves slightly.

The *Household Financial Comfort Index* (see Figure 1) increased by 2% to 5.59 out of 10 over the six months to December 2019. It remains slightly above the historical average (5.46 out of 10) since the survey began over eight years ago.

Despite the overall small rise in financial comfort across Australian households, improved comfort within metropolitan areas (up 3% to a record of 5.76) was partly offset by a deterioration in regional areas (down 4% to 5.08).

Indeed, the key finding of this Report is the record gap in financial comfort between metropolitan and regional areas, likely related to difficult financial conditions brought on by sustained drought, bushfire, slower income and jobs growth, and reduced ability to deal with an unexpected financial emergency. In contrast, comfort in metropolitan areas rose due to increased comfort with debt.

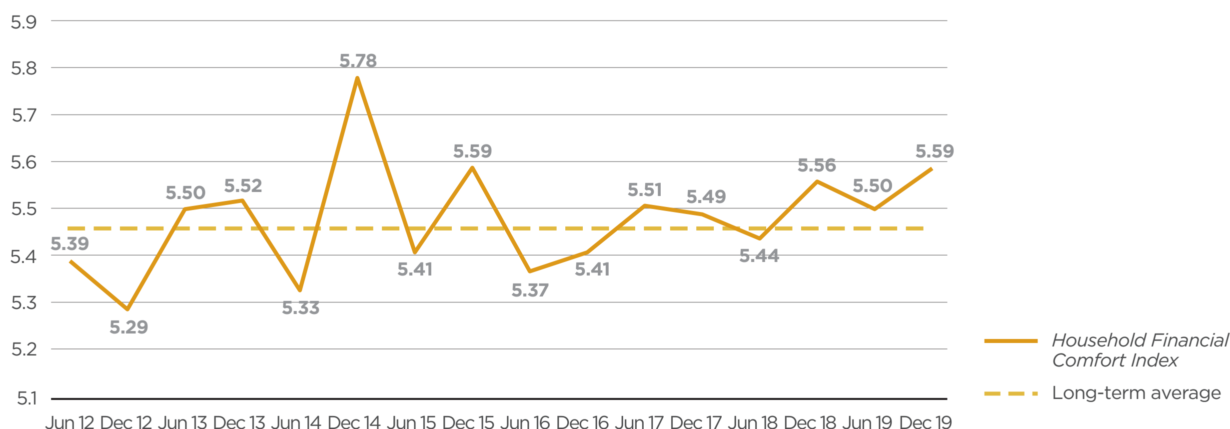

Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10

3.2 How did the key drivers of financial comfort change?

Figure 2 shows the 11 components that make up the Household Financial Comfort Index. Most components increased during the past six months to December 2019. The only driver to decrease slightly was savings (down less than 1% to 5.07).

'Comfort with debt' increased the most (up 5% to 6.55) – the highest reading since the survey began, followed by 'recent changes to financial situation' (up 4% to 5.25).

Both rises are likely a reflection of record low interest rates and to a lesser extent, lower personal income tax rates in the second half of 2019.

In summary, overall household financial comfort rose during the past six months, due to improved perceptions of household balance sheets (especially debt), positive feelings about one's financial situation over the past year and, to a lesser extent, improved comfort with cashflows (notably living expenses).

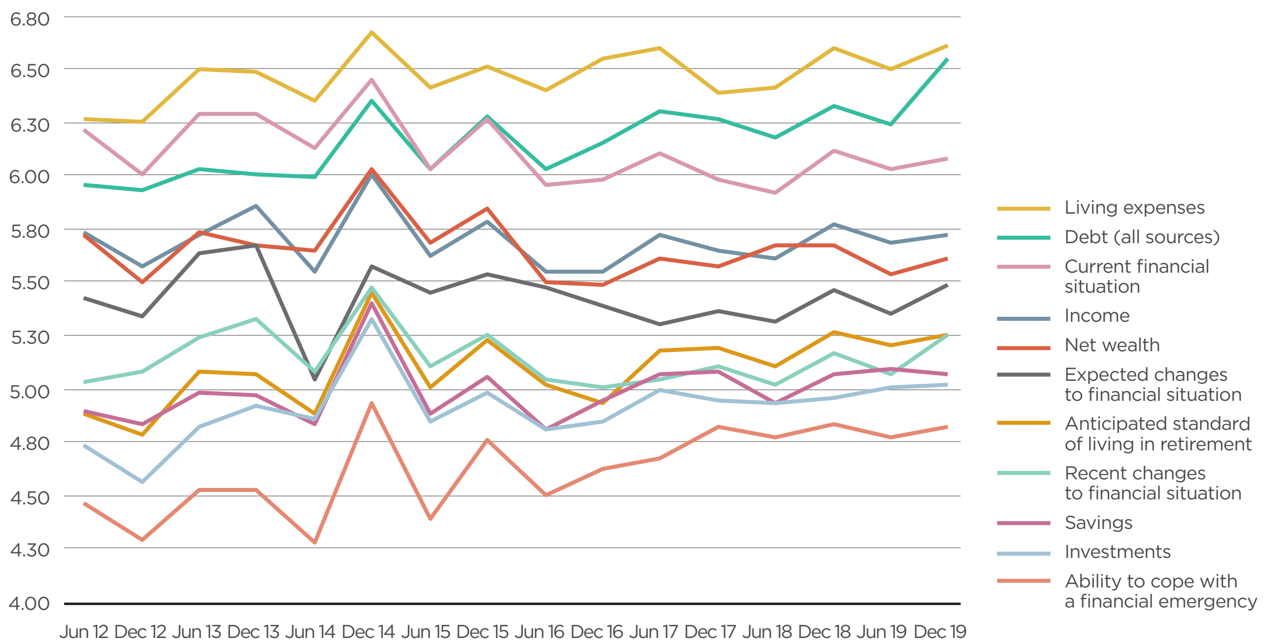

Figure 2 – The 11 components that make up the index, with levels of comfort over time. Scores out of 10

3.3 **The growing gap in overall financial comfort between metropolitan and regional areas.**

The overall rise in household financial comfort masks a growing divide in the financial comfort between metropolitan and regional areas.

While the overall financial comfort of metropolitan households, on average, increased 3% to 5.76 to approach a record level in December 2019, the overall financial comfort across regional households fell by 4% to 5.08, continuing the decline reported over the past year returning towards the lows of the past eight years.

As a result, the metropolitan versus regional gap in comfort widened significantly to a record disparity in December 2019. As measured by overall financial comfort, the gap between metropolitan areas (index of 5.76), and regional areas (5.08) has widened to 13%, compared to a historical average of 7% over the past eight years since the survey began – see Figure 3.

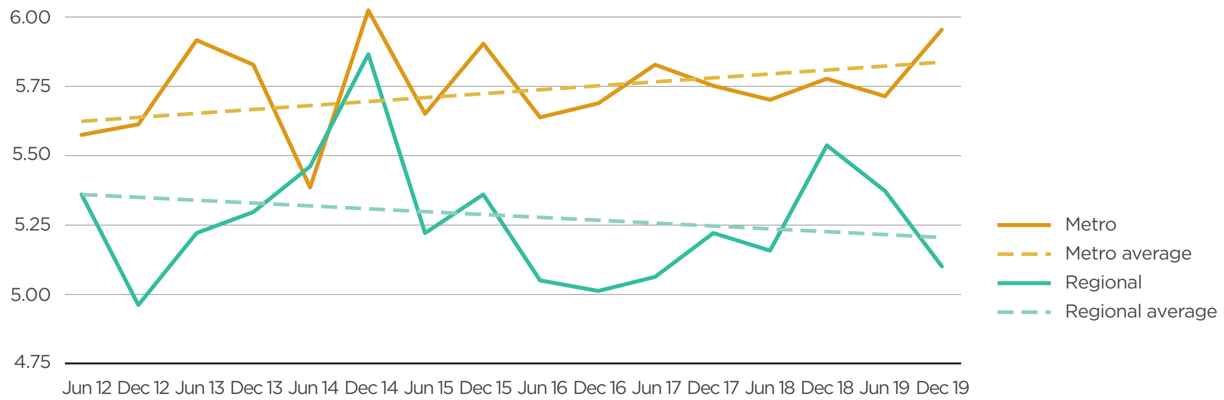

Figure 3 – Overall financial comfort across metropolitan and regional areas. Scores out of 10.

Financial comfort improved across all metropolitan areas over the past six months – with comfort approaching record levels in the eastern state capitals of Sydney (up 1% to an index of 5.94), Melbourne (up 3% to 5.91) and, to, a greater extent, Brisbane (up 10% to 5.82). Comfort also rose significantly in the capital cities of Perth (up 2% to 5.48) and Adelaide (up 6% to 5.32) – albeit remain well below the comfort levels reported by households in the capitals of eastern Australia.

Outside metropolitan areas, regional Queensland reported a sizeable fall (down 14% to a relatively low comfort level of 4.95) to be below regional New South Wales (index of 5.09) and regional Victoria (index of 5.20) – see Figure 4.

A couple of technical statistical issues should also be noted. First, sample sizes for other parts of regional Australia (especially South Australia, Western Australia, Tasmania and Northern Territory) are small and potentially unreliable. However, the unpublished data suggests comfort in the regional parts of South Australia and Western Australia is also relatively low compared to the corresponding capital cities and similar level to other regions. Secondly, the survey was conducted in early December, before bushfires generally intensified across Australia during December 2019 and early January 2020. Put another way, due to its earlier timing, the survey did not capture the full impact of these disastrous fires on the financial comfort of some regions – or the indirect effects on metropolitan households.

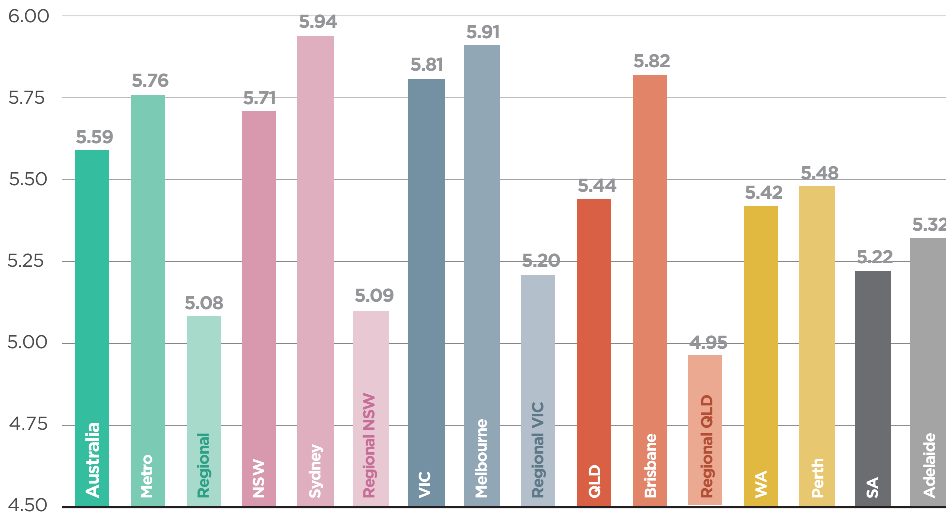

Figure 4 – Comfort index across larger states and metropolitan areas. Scores out of 10.
Note: sample sizes for regional areas of South Australia and Western Australia are small and unpublished.

Key reasons behind the regional and metro divide.

Notwithstanding the sustained drought and catastrophic fires have had an impact on the financial comfort in regions and major cities later in December and January, there are also some important insights from a closer examination of the key drivers of financial comfort disaggregated by metropolitan and regional Australia.

In terms of the 11 components of overall financial comfort during the six months to December, there were substantial falls in the majority of key drivers across regional Australia – with the larger falls in 'comfort with cash savings' (down 9% to 4.40), with the 'ability to cope with a financial emergency' (down 7% to 4.02) and the 'anticipated standard of living in retirement' (down 7% to 4.62).

In contrast, all components of household comfort in capital cities/metropolitan areas rose substantially during the six months to December – including a very large rise in 'comfort with debt'' (up 7% to 6.66).

The metropolitan versus regional divide in comfort is evident in all key drivers. Household comfort in regional Australia is significantly lower, compared with metropolitan areas, notably due to much less comfort with 'cash savings' (about 17% less with an index of 4.40 in regions versus 5.29 in capital cities) and, in turn, with the 'ability to cope with a financial emergency' (21% less with an index of 4.02 versus 5.09) as well as 'comfort with investments' (16% lower with indexes of 4.41 versus 5.22) and, in turn, their 'anticipated standard of living in retirement' (15% lower with indexes of 4.62 versus 5.46) - see Figure 5.

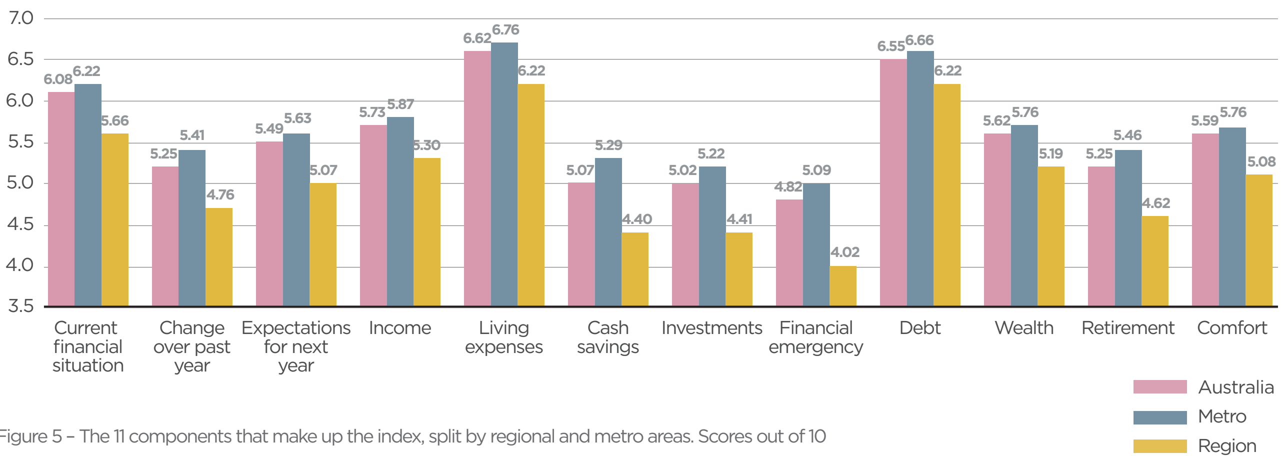

Figure 5 – The 11 components that make up the index, split by regional and metro areas. Scores out of 10

3.4 **Comfort with debt improves a lot, driving up household financial comfort, but not in regional areas.**

As noted above, a large improvement in 'comfort with debt' contributed significantly to the overall rise in ME's Household Financial Comfort Index– up 5% to 6.55 out of 10 during the six months to December – its highest level since the survey began over eight years ago. Consistent with the Index, this result masks disparate trends in metropolitan and regional areas. Over the past six months, 'comfort with debt' rose by 7% to 6.66 in the metropolitan regions, on average, and more generally all mainland States, but was partly offset by a small fall of 1% to an index of 6.22 in regional areas, on average.

Significantly lower home loan rates and relatively low and stable unemployment rates, albeit still sluggish income gains, largely account for the improved 'comfort with debt'.

A partial reversal of the fall in residential property prices in the eastern capital cities and expectations of further price gains may have also eased gearing concerns. Against that, the sustained drought and related significant fall in farm incomes, recent bushfires, relative higher unemployment, and lower property prices in some regions (especially outback Queensland and southern Western Australia) appear to have offset the positive impact of lower borrowing costs on comfort with debt in regional areas, on average.

By life stage, improvements in 'comfort with debt' were reported by most households, particularly 'couples with children' and 'empty nesters' and, unsurprisingly, 'those paying off a mortgage' (up 9% to 5.67).

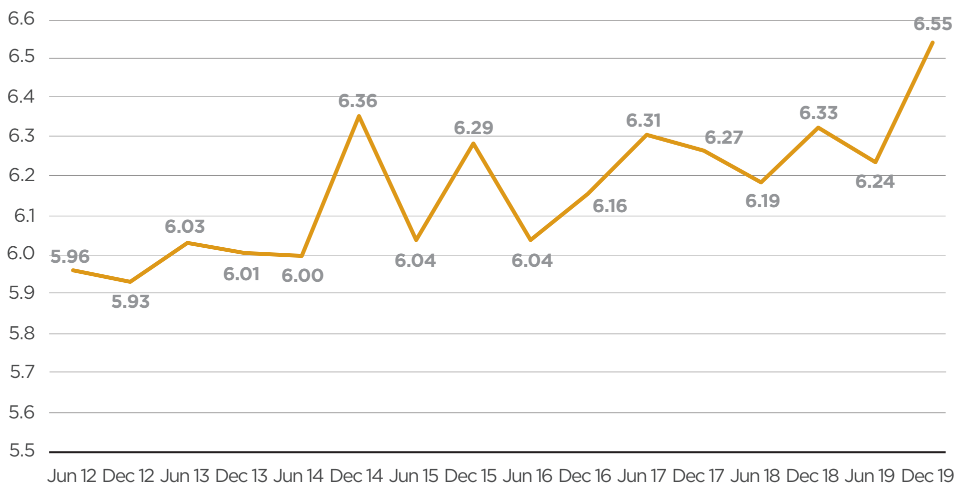

Figure 6 – Comfort with households' current level of debt. Scores out of 10

Impact of historically low official interest rates.

For the first time, the Report asked if households were 'better off' or 'worse off' as a result of the historical 'all time low in the RBA's official interest rates and their impact on interest paid and received'. Overall, slightly more households reported to be 'better off '(27%) versus 'worse off' (23%), while the remaining half were not impacted positively or negatively. Put another way, a net positive impact from very easy monetary policy, with various winners and losers across various cohorts of households.

By life stage, 'young singles / couples with no children' reported to be the biggest winners (51% said they were 'better off'), followed by 'couples with young children' (41%). In terms of housing tenure, households paying off a mortgage, 44% said they were 'better off' – a lot more than compared to those renting (18%) and outright homeowners (16%).

Almost 60% of property investors with debt reportedly to benefit the most from record low official interest rates – arguably reflecting the relatively high gearing of residential property investors, especially those with both home and investment mortgages.

Among those households 'better off', almost a third (32%) opted to increase mortgage repayments, with almost half paying more than the minimum mortgage repayment.

For households who are reportedly 'worse off' from the record low official rate, 33% own their home, 13% are paying off a mortgage on their home and 22% are renting. By life stage, about 40% of 'empty nesters' and 'retirees' are reportedly 'worse off'. Over 30% of households with lower income (less than $40,000 per annum) are reportedly 'worse off'. In contrast, only 13% with a mortgage on their home and/or investment property were reportedly 'worse off', with about the same proportion (14%) of households with high incomes (over $100,000 per annum). Of those 'worse off', the most frequent response to low rates was to 'reduce spending on non-essentials' (43%), followed by a 'reduction of spending on essentials' (27%).

Interest rates had no impact on half of households – mainly those with no direct exposure to rates, with none or little debt and/or cash savings, as well as indirectly limited wealth.

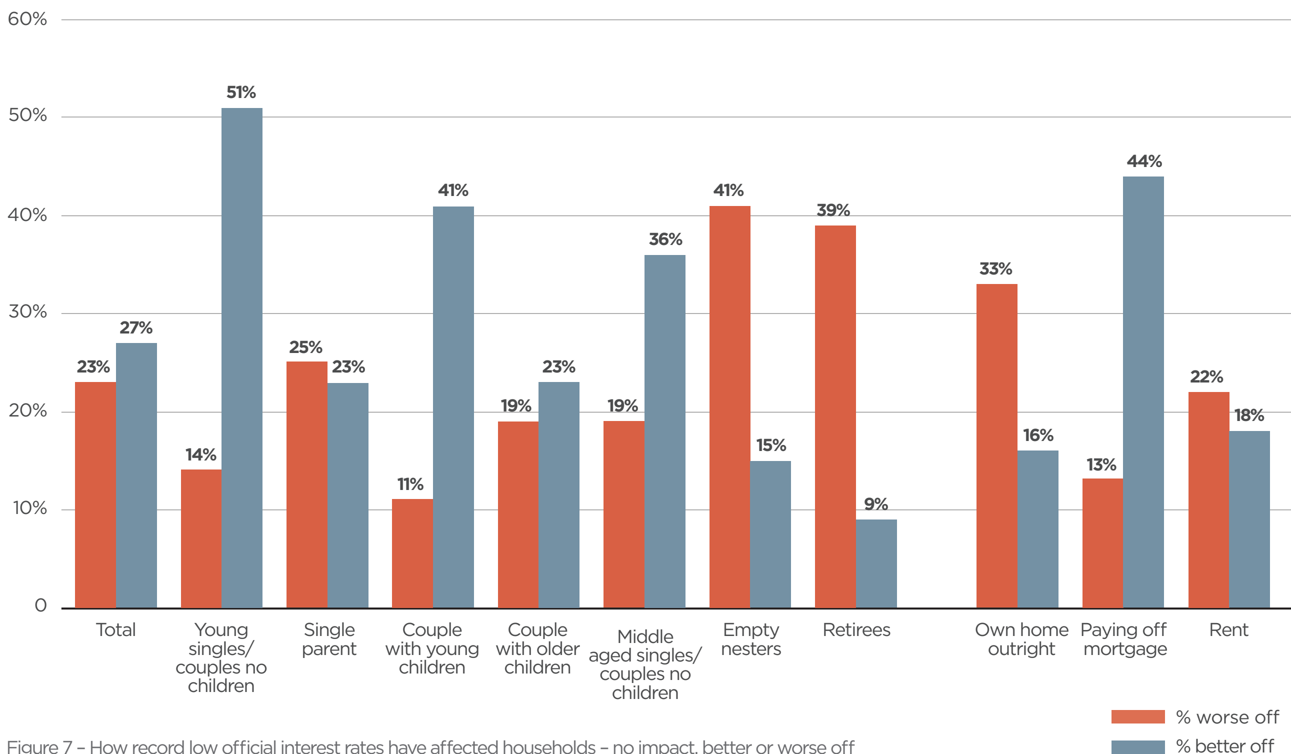

Figure 7 – How record low official interest rates have affected households – no impact, better or worse off

Demand for debt moderates.

Despite significantly lower borrowing costs and increased comfort with debt, demand for debt moderated during the past six months. For the first time since June 2014, increased household demand for debt was the same as decreased demand, with around a quarter (27%) both increasing and decreasing debt across all life stages.

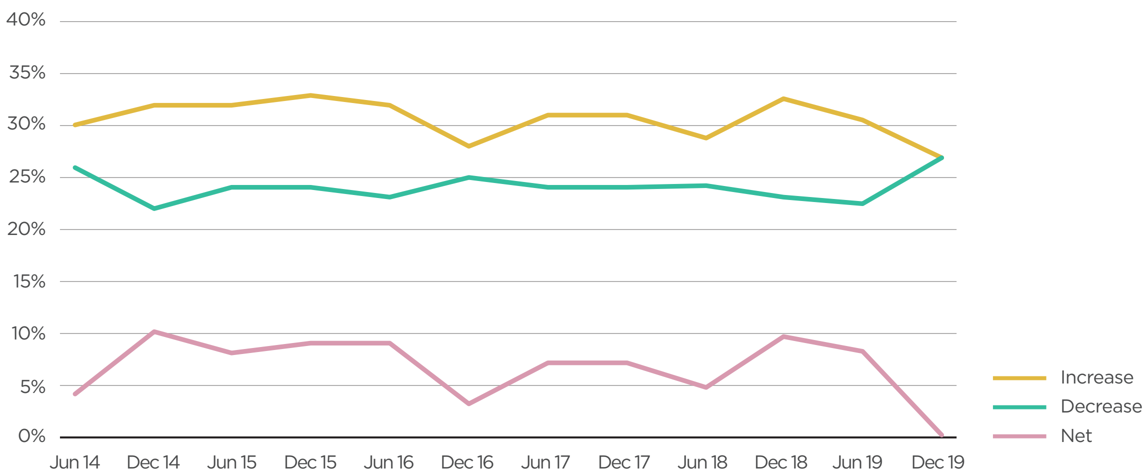

Figure 8 – How much did your household's level/amount of debt increase or decrease over the last year?

Mortgage stress eases further and more generally debt defaults expected to stay low.

Consistent with a significant fall in home loan rates as well as sustained low unemployment and a continued recovery in property prices in most of Australia, quantitative measures of mortgage stress eased a bit further during the past six months. Nevertheless, there remained relatively high mortgage stress and other financial stress among households.

The proportion of households 'contributing more than 30% of their disposable household income towards their mortgage' – a common reliable indicator of mortgage stress – fell by a further two points to a high 41% of households in December 2019. This was significantly lower by five points compared to a couple of years ago when the survey began to collect the underlying data

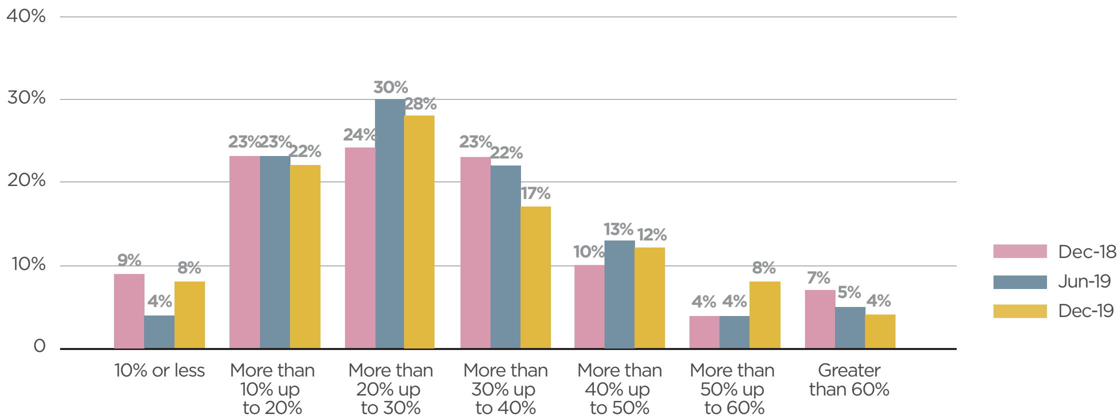

Figure 9 – Percentage of household disposable income paid towards a home mortgage

In December, 7% of households were unable to pay their mortgage on time during the past year due to a shortage of money. In comparison, 9% could not pay their rent on time and 12% were unable to pay off their loan or credit card including 4% that were at their maximum credit card limit for the past six months. More generally, other qualitative indicators of stress were somewhat higher, with 17% not paying household bills on time, 13% went without meals and 18% asked for financial help from friends or family.

Looking ahead, household expectations of their ability to manage debt over the next 6-12 months also improved in the latest survey. About 57% of households expect to be able to pay either a bit more (28%) or a lot more (29%) than minimum repayments in the next 6–12 months, 3 points more than six months ago. Only 8% of households do not expect to be able to meet minimum payments on debt – 2 points more than expectations reported six months ago.

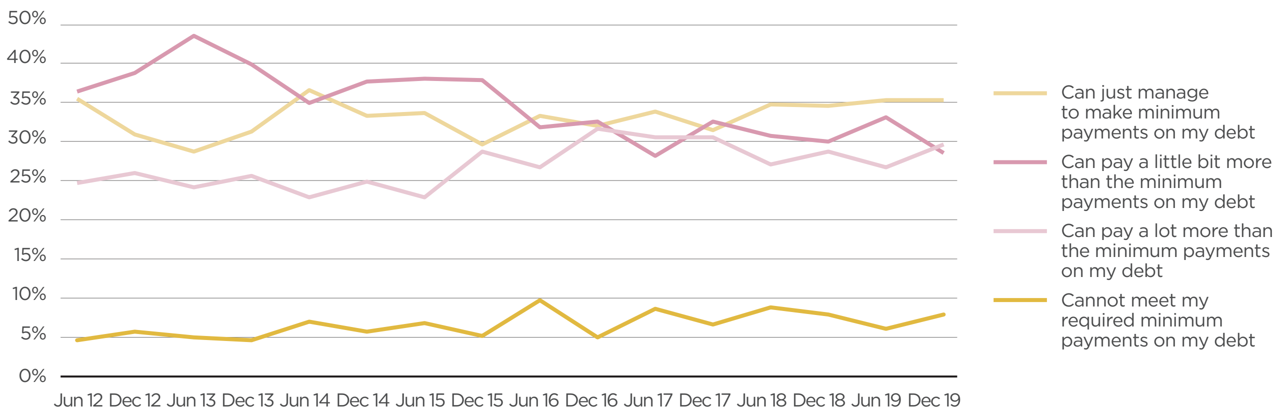

Figure 10 – Ability to manage debt over the next 6–12 months

3.5 **Comfort with 'recent changes to financial situation' significantly improved.**

As noted above, apart from the improved 'comfort with debt', 'comfort with recent changes to households' financial situation' also made a significant contribution to ME's Household Financial Comfort Index – up 4% to 5.25 out of 10 – its highest level in four years – due to a substantial rise of 5% to 5.41 in the metropolitan regions, on average, but not in regional areas (unchanged at an index of 4.76, on average).

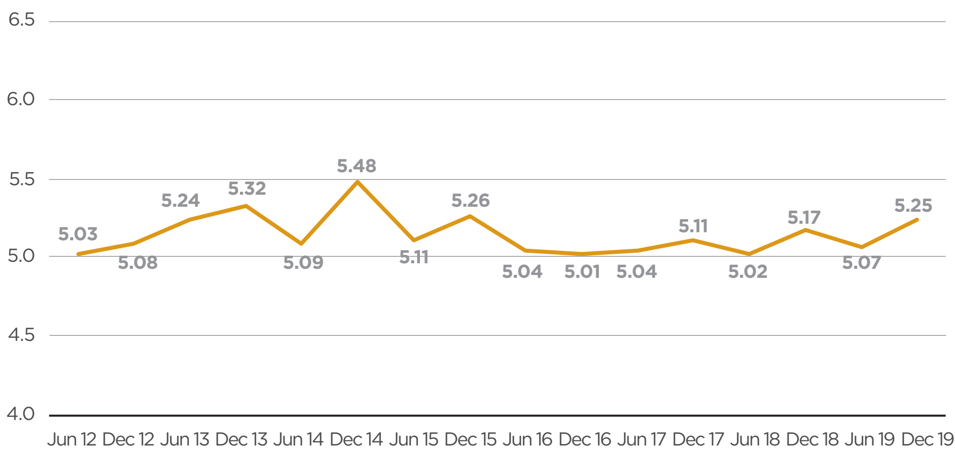

Figure 11 – Comfort with recent changes to financial situation. Scores out of 10.

Key reasons cited by households for the improved financial situation during the past six months.

Consistent with this, over a third (36%) of households indicated that their 'financial situation improved over the past year' – up by two points during the six months to December 2019.

The main reasons cited by households was some easing in living cost pressures and, to a lesser extent, fewer falls in income, job gains/ improvements in employment arrangements/job security and improved cash savings.

Fewer households cited the cost of living as a key reason their household's financial situation worsened – significantly down 11 points from 43% to 32% of respondents − although it remains the most frequently cited reason for a worsening situation as well as the leading financial worry, mentioned by 44% of households (see figure 12 and 13).

Furthermore, 9% of households whose financial situation worsened over the past 12 months cited changes to income, down from 12%. Conversely, of households whose financial situation improved over the past 12 months, more respondents cited improvements to employment status (up 3 points from 15% to 18% of respondents), improved cash savings (up 2 points to 19%) and changes to income, up 1 point from 21% to 22% of respondents – see figure 7.

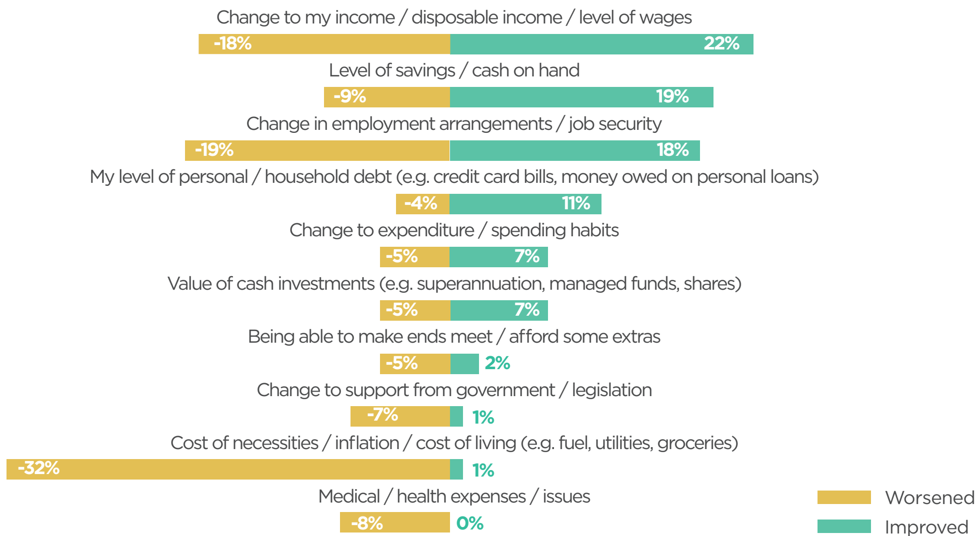

Figure 12 – Reasons household financial situation has worsened/improved in the past six months

Greatest worries and most positives.

All households were again asked which aspects of their finances cause the 'biggest worries' and that 'they feel most positive about' in the past six months.

Consistent with the improved comfort with debt, fewer households reported the level of their personal / household debt as their 'biggest worry' (down 3 points to 15%) and slightly more were 'most positive' toward personal / household debt (up one point to 22%).

Similarly, fewer households reported the 'impact of government legislation' as their 'biggest worry' (down 5 points to 14%) partly offset by fewer citing it as their 'most positive' factor (down two points to 3%). In contrast, there were also fewer households that reportedly were 'most positive' about 'their ability to maintain a lifestyle in retirement' (down four points to 12%).

As a result, the 'cost of necessities' remained the 'biggest worry' of households in December - unchanged at 44% during the past six months, followed by the level of cash savings (cited by a third of households).

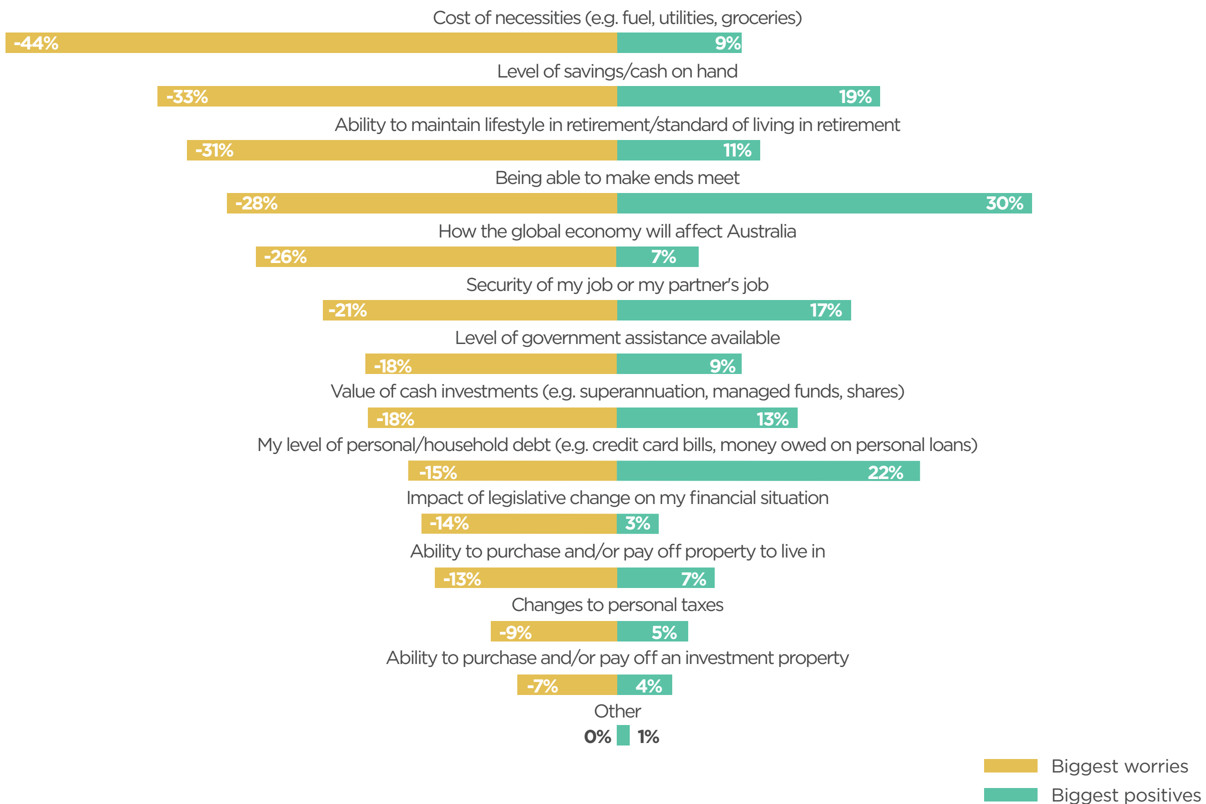

Figure 13– Biggest financial worries and positives nominated by households

3.6 **Property price expectations revised higher.**

After forecasting a pickup during 2019/20, most households – either living in their homes and/or property investors – are feeling more positive than six months ago about the 12-month outlook for dwelling prices.

Indeed, 47% of households living in their homes expect their dwelling prices to rise during 2020, compared to the corresponding forecast price rise by 41% of households for 2019/20. Only 6% expect the value of their home to fall during 2020, compared with the previous corresponding forecast for 2019/20 by 11% of households. Only 2% of households continue to forecast dwelling prices to fall by a lot. Expectations of owner occupiers also vary significantly across major capital cities, with occupiers in Brisbane and to a less extent Melbourne a lot more optimistic than Perth residents. Among Perth residents, about 29% expect higher prices and almost 15% expect further falls during 2019/20. In Brisbane, only 2% expect lower home prices and over 60% expect home values to begin to rise.

Investors are relatively more optimistic about dwelling prices than six months ago: 51% of investors expect the value of their investment properties to rise during the next 12 months (up five points), while only 10% anticipate a fall (including 2% who anticipate a big fall). Currently, investors in Sydney are the most optimistic about property values (with expectations for rises of 51% versus falls of only 14%), followed by Melbourne (45% v 7%).

Figure 14 – What do you think is likely to happen to the value of your property in the next 12 months?

"My financial situation has improved because I've claimed more tax back and received more child support from government."

COUPLE WITH YOUNG CHILDREN
NEW SOUTH WALES

Overall financial comfort by different cohorts.

04.

This section provides more details on the overall financial comfort index, providing views of overall financial comfort by different cohorts – life stage, age/generation, location, across the labour force, household incomes, housing tenure and mortgage status. In terms of overall comfort, there is a great deal of disparity and/or variation across these various socio-economic, demographic and spatial cohorts of Australians.

4.1 Life stage: financial comfort remains mixed.

During the six months to December 2019, there remained wide variations in financial comfort between households at various life stages – some households saw improved comfort, while others' comfort fell.

Retirees reported the highest comfort (up 3% to 6.12), while single parents continued to record the lowest comfort of any household (up 2% to 4.45), especially those dependent on government assistance (down 2% to 2.99).

Young singles/couples with no children reported the largest decrease, dropping almost 8% to 5.68, while empty nesters recorded the biggest increase (up 6% to 5.57) – the highest point since December 2015.

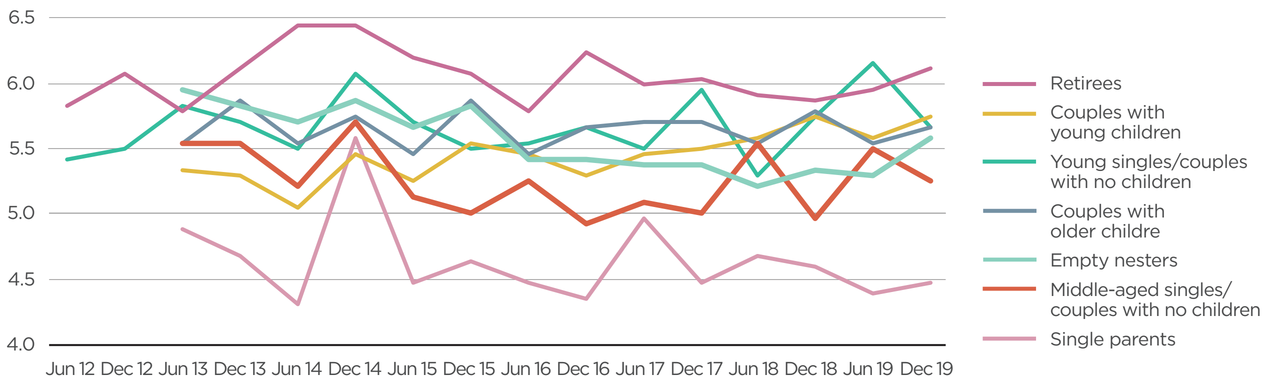

Figure 15 – Overall financial comfort across different household types. Scores out of 10

4.2 **Generations: financial comfort also remains mixed.**

The oldest generation - known as 'Builders' - reported the highest level of comfort at 6.06 out of 10, while Gen X continued to report the lowest comfort 5.33 out of 10.

Furthermore, in terms of changes in the past six months, Baby Boomers and Gen X increased their comfort levels by 5% to 5.76 and 5.33, respectively; while Gen Z reported the greatest drop at 11% to 5.56.

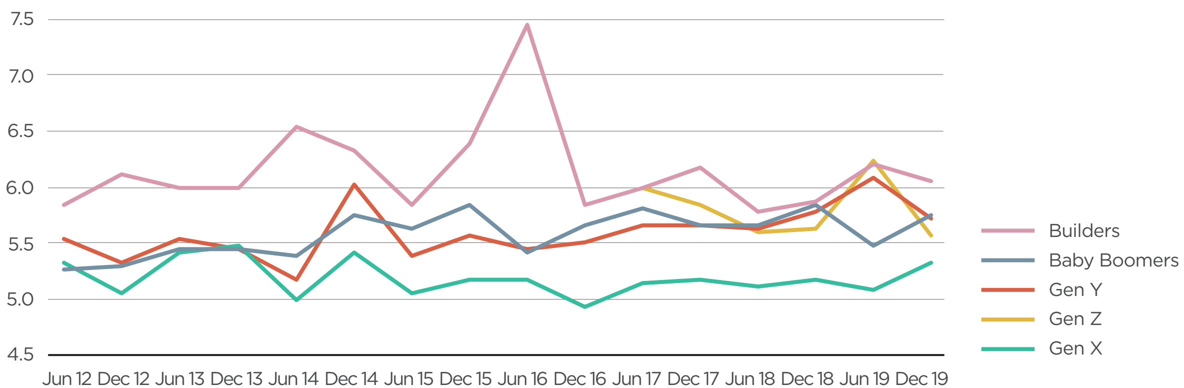

Figure 16 – Overall financial comfort across generations. Scores out of 10

Generational definitions: Gen Z = 18-24, Gen Y = 25-34, Gen X = 35-54, Baby Boomers = 55-74, Builders = 75+.

Students feeling the pinch, compared with other young cohorts.

Notwithstanding some sampling volatility, ‘students’ continued to report markedly lower levels of financial comfort (an index of 4.63), compared to both ‘18–29 year olds’ (down 6% to 5.91) and ‘young singles/couples with no children’ (down 8% to 5.68).

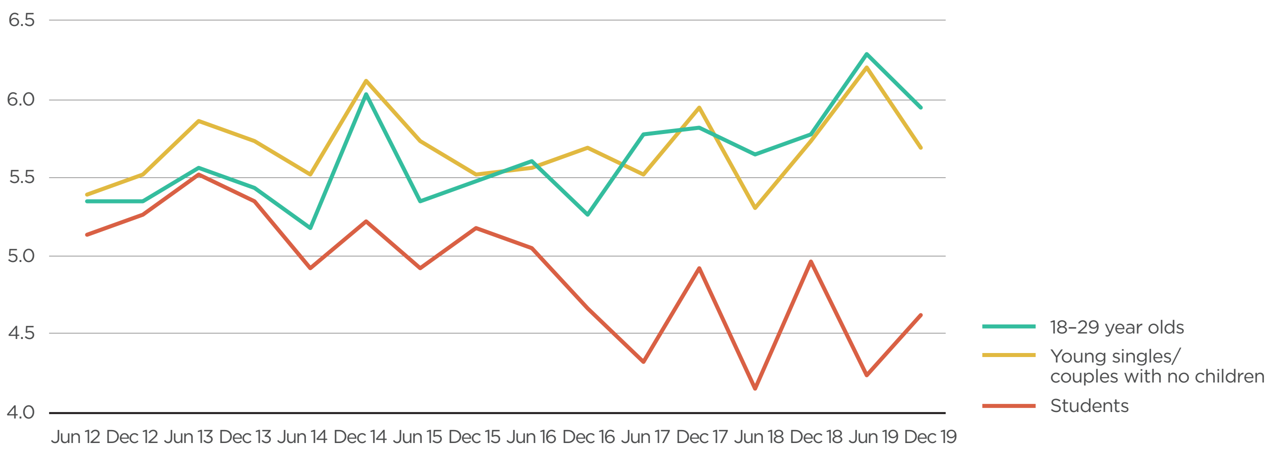

Figure 17 – Overall financial comfort across young singles/couples and students. Scores out of 10

4.3 **States: financial comfort improves slightly across majority of states.**

Most states and territories reported modest rises in financial comfort. Improvements were recorded in Victoria (up 5% to 5.81), New South Wales/Australian Capital Territory (up 2% to 5.72), South Australia (up 2% to 5.22) and Western Australia (up 1% to 5.42) and remained relatively unchanged in Queensland (5.44 out of 10).

Victoria and New south Wales recorded the highest levels of financial comfort among all Australian states and territories, while South Australia / Northern Territory reported the lowest.

For more detail on financial comfort in the regions and cities, refer to Section 3.3.

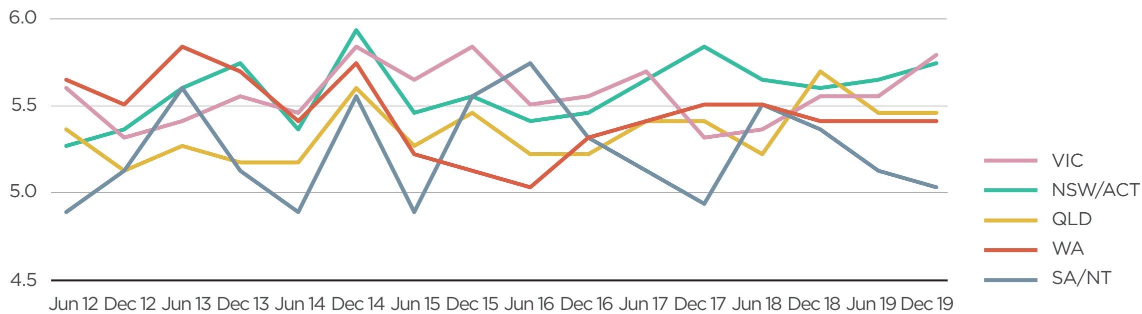

Figure 18 – Overall financial comfort across different states and territories. Scores out of 10

4.4 **Workforce segments: financial comfort also mixed.**

Most workforce segments reported higher financial comfort during the six months to December 2019 - apart from casual workers (down 4% to 4.80) and self-employed workers (unchanged at 5.56).

Full-time workers continued to report the highest financial comfort across the workforce (up 2% to 5.97), while the comfort of causal workers remained the lowest.

In fluctuations, part-time employed workers reported the greatest improvement (up 16% to 5.91) in the past six months.

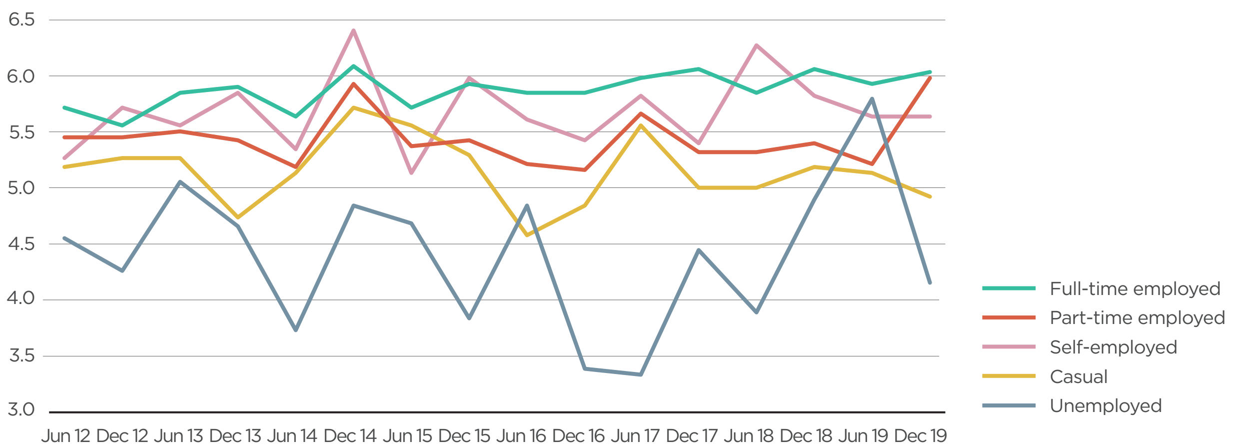

Figure 19 – Comfort index across the workforce. Scores out of 10

There were also some mixed signals from labour market indicators in the latest survey: job insecurity eased but remained high; underemployment continued at a high rate; and workers reported it easier to find another job.

Despite still high levels, job insecurity eased by 4% to a quarter of workers over the past six months to December – albeit substantially lower than the recent peak of 34% reported three years ago.

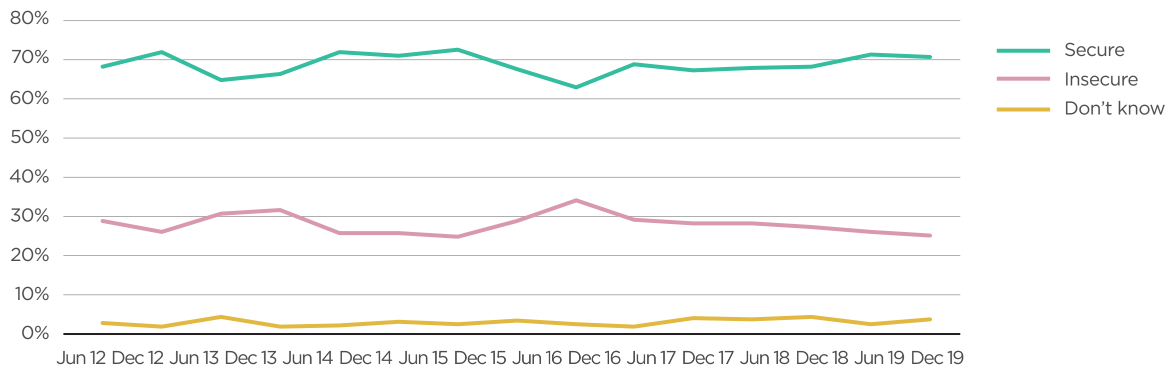

Figure 20 – Feeling of security in job in past month

A substantial number of 'part-time' and 'casual' workers continued to seek more hours and full-time work. While 67% are happy with their number of work hours in December 2019, 27% would prefer to work more hours – on average, over 17 hours per week for both casual and part-time employees.

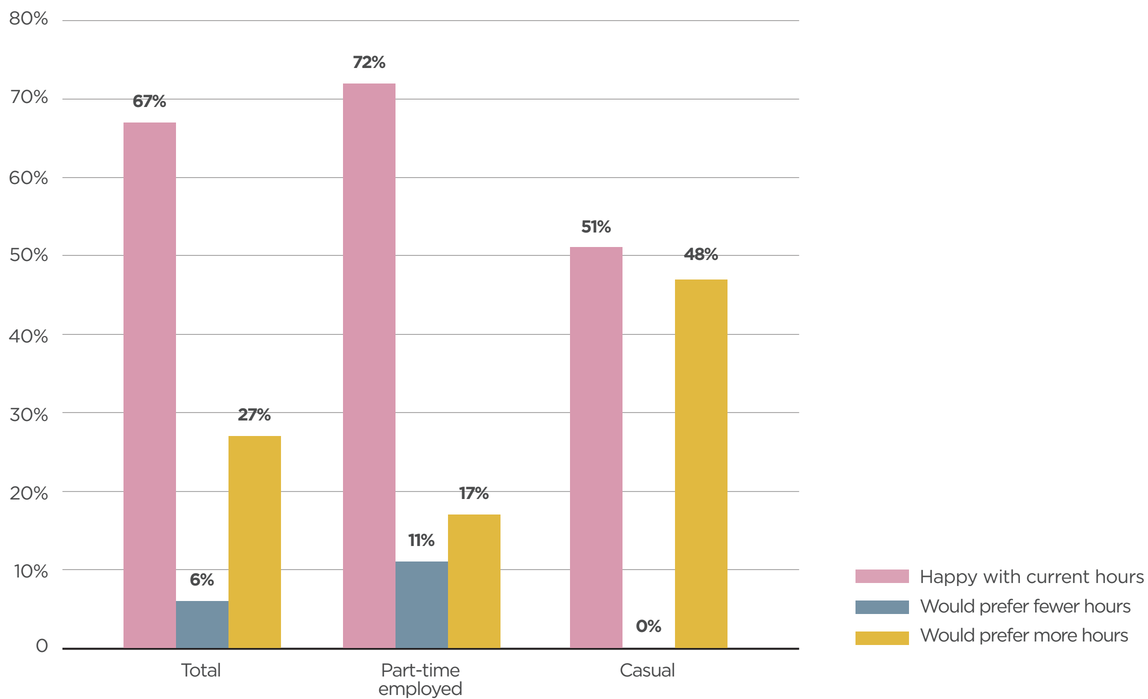

Figure 21 – Preference for work hours (part-time and casual employees)

Workers who expected that it would be ‘easy to find a new job in two months’ increased by four percentage points to 44% of employees. Similarly, the number of workers who reported it would be ‘difficult to find another job’ fell by three points to 49% – slightly below the average of 52% since the survey began.

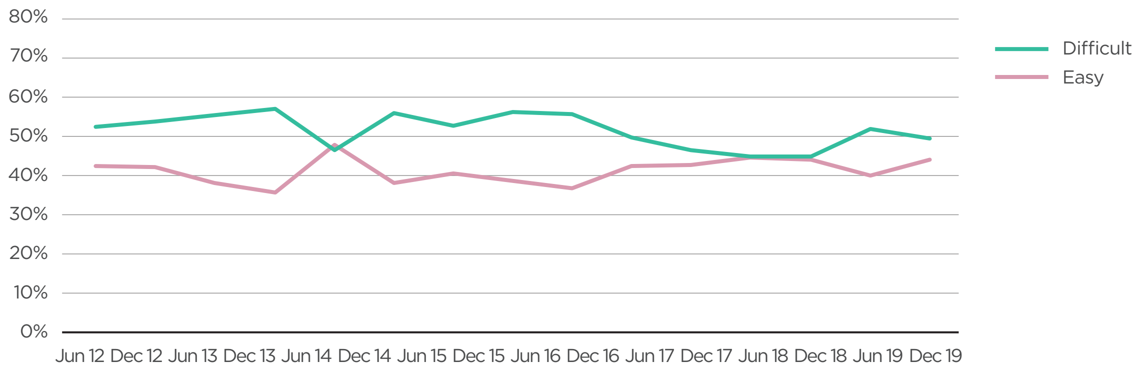

Figure 22 – Ease of finding a new job in the next two months if became unemployed

4.4 Both housing tenure and mortgage status – comfort also varies a lot.

Figure 23 shows households who 'own their own home outright' or with 'mortgages on investment properties only' continued to report higher financial comfort than households with 'mortgages on their home and an investment property', and, to a greater extent, 'households with only a home mortgage'.

Arguably, this reflects that households with property investment loans tend to have both higher incomes (before and after tax) as well as higher (net) wealth.

In terms of fluctuations, households with only a home mortgage recorded a significant improvement in financial comfort (up 6% to 5.25), while others declined slightly.

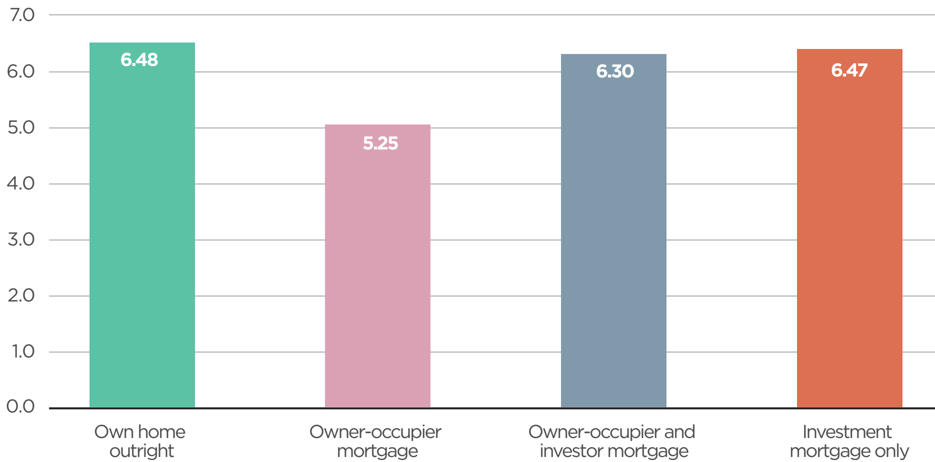

Figure 23 – Overall financial comfort of households with and without mortgages. Scores out of 10

Figure 24 shows the gap in financial comfort between those who own their home outright, those with a home mortgage and renters, with financial comfort between these cohorts diverging again over the six months to December 2019. The financial comfort of renters remained significantly lower than other tenures (unchanged at 4.67), while households paying off their mortgage increased by 4% to 5.46 to return to a similar level of a year ago and around its highest record since the Survey began over 8 years ago.

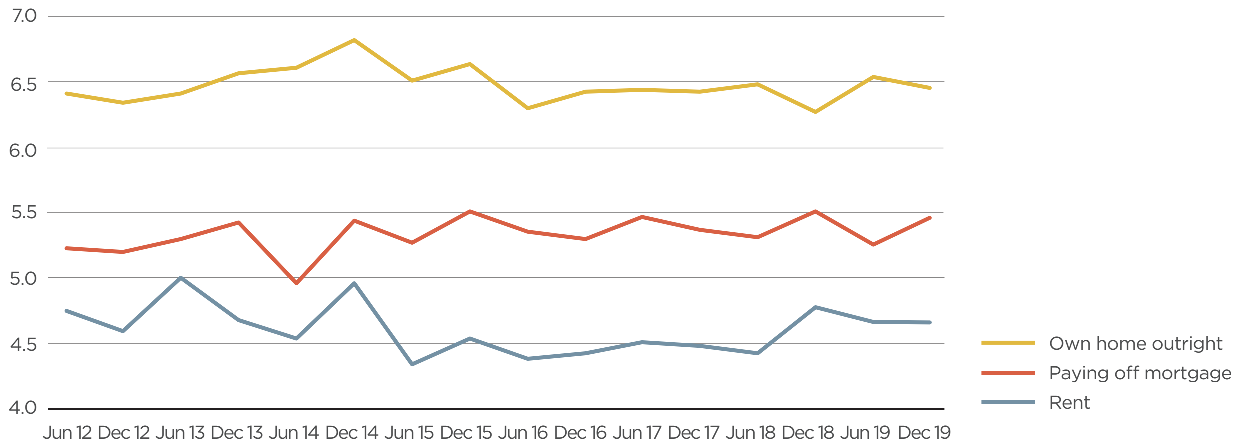

Figure 24 – Overall financial comfort based on housing tenure. Scores out of 10

Consistent with this and as noted above, quantitative indicators of mortgage stress faced by those households paying off their home – as measured by those households paying mortgage payments of more than 30% of their disposable income – eased by 2 percentage points to 41% during the past six months – see Figure 12 above.

In contrast, rental payment stress – as measured by the proportion of renters paying more than 30% of their disposable income towards accommodation rose slightly – up 3 percentage points to 65% - with a substantial rise of 8 percentage points to 30% of renters paying 30% to 40% of disposable income partly largely offset by falls in both lower and higher rental to income bands. These results suggest that despite continued subdued rental growth and recent income tax cuts, rental stress remains very significant for the vast majority of renters.

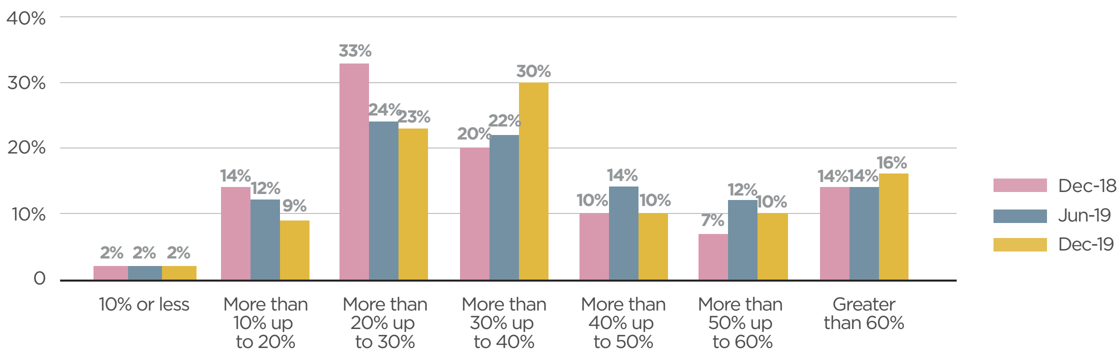

Figure 25 – Proportion of renting households contributing their income to rent

"The cost of living and insecurity of my job are my biggest financial worries."

COUPLE WITH NO CHILDREN,
VICTORIA

Other findings.

05.

5.1 Comfort with income improves slightly, especially households on high incomes.

Returning to the key components of the Index, comfort with income increased a bit (up 1% to 5.73) to a bit lower than a year ago and around the historical average (5.69 out of 10) since the survey began.

Consistent with other drivers of comfort, income comfort rose in metropolitan areas/major cities (up 2% to 5.87), while income comfort in regional areas fell by 4% to an index of 5.30.

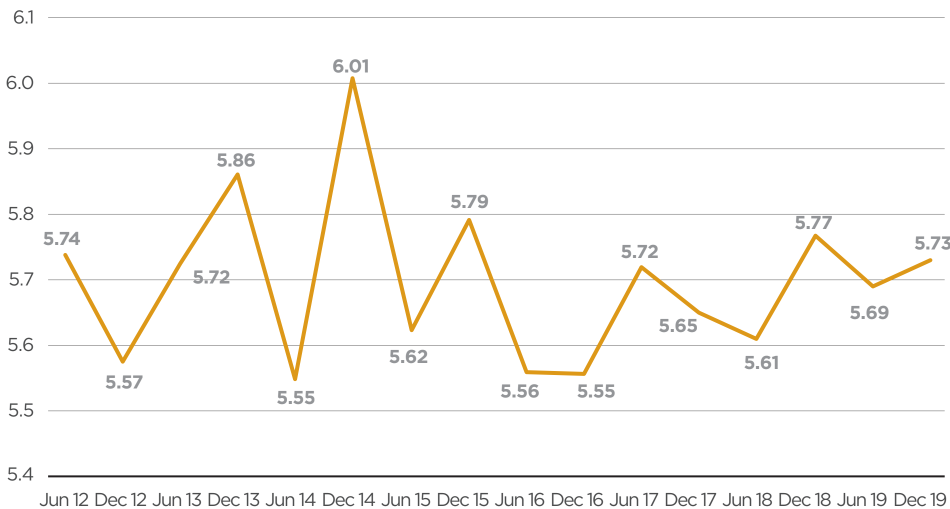

Figure 26 – Comfort with current household income. Scores out of 10

Most households reported that incomes were broadly unchanged during the past year – albeit there was some easing in households that reported lower incomes during the past year. Around 41% of households said their 'income remained the same' (up 1 point), while 38% of households reported 'increased household income' (up 2 points), and 21% reported 'decreased household income' (down 4 points).

In aggregate, continued job gains, sluggish wage rises and personal income tax from 1 July increased disposable household incomes over the past year.

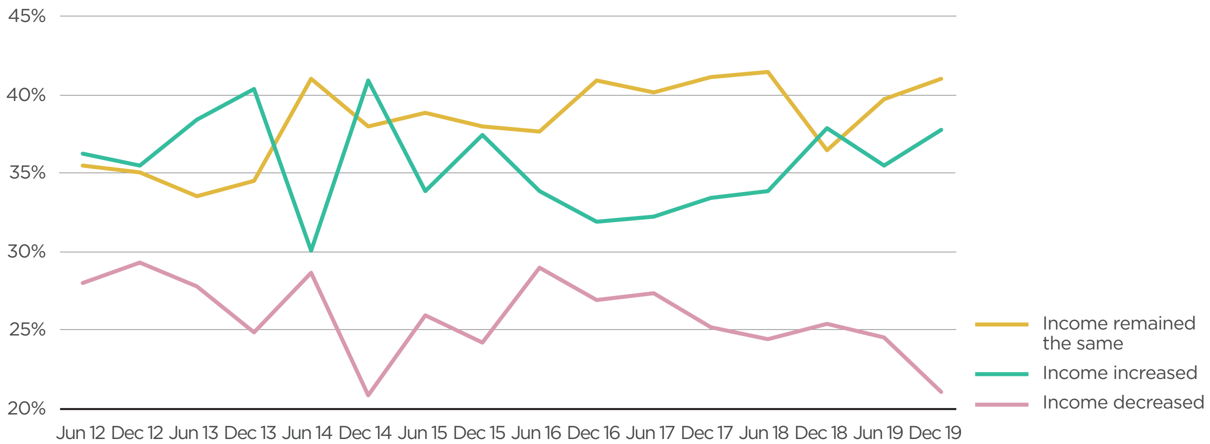

Figure 27 – Household income changes during past year

Households with higher incomes continued to experience a lot higher propensity for income gains.

For the seventh consecutive report, households with higher annual incomes have continued to experience significantly more income gains than households with lower annual incomes – especially less than $40k. Put another way, there were slightly fewer income falls during the past year across all households by income levels, while the highest income households continued to be much more likely to report increased income – including about 56% of households with annual incomes over $100k, compared to a much lower propensity of 24% for households with annual income of less than $40k. Moreover, higher income earners (over $100,000) reported the biggest jump in comfort (up 3% to 6.76), while the lowest income earners (under $40,000) dropped (down 6% to 4.30).

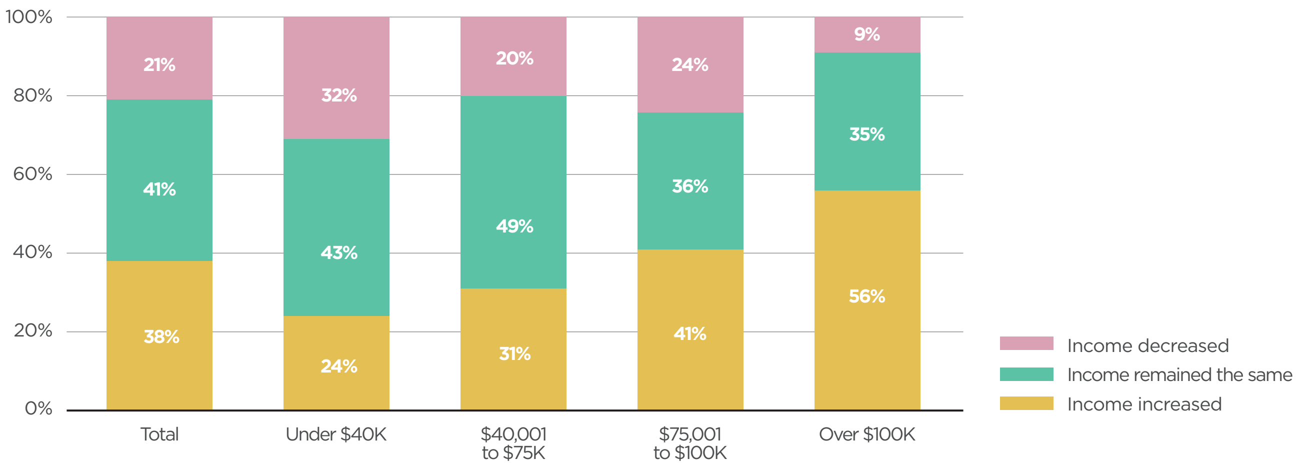

Figure 28 – Income changes over the past year across various income bands

Consistent with this, most income gains were reported by full-time workers in the lasted Survey - Figure 29 below. Across the labour force, income gains, continued to be most commonly reported by full-time workers (up a point to 51%), compared with 46% of part-time workers and, to a much lesser extent, 26% of casual workers, while income falls were higher amongst casual workers (39%), compared with both full and part-time employees and, to a lesser extent, self-employed. Across the labour force, there was reportedly similar propensity for unchanged income during the past year – at around 35% of workers – full and part-time, casual and self-employed.

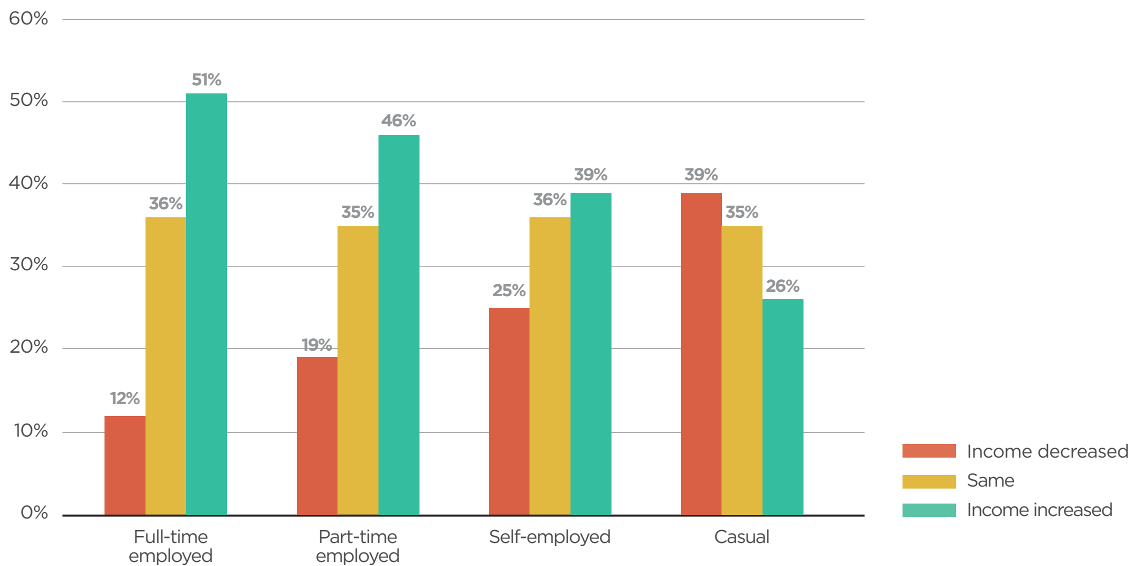

Figure 29 - Income changes over past year across the labour force

5.2 **Comfort with monthly expenses improves, but not evenly.**

Consistent with the slightly improved income comfort as well as improvement in living costs (cited for a significant improvement in the household financial situation over the past year), comfort with the 'ability to pay regular expenses' also increased by 2% to 6.62 – to be a few per cent above the historical average of 6.45.

Comfort with monthly expenses varied significantly between metro and regional areas (indexes of 6.72 versus 6.22, respectively) as well as both across life stages and levels of annual incomes.

For instance, single parents reported much greater difficulty in paying for regular expenses (5.17 out of 10), compared to retirees (7.43). Unsurprisingly, those on lower annual incomes (under $40,000) reported a lot greater difficulty (an index of 5.22), compared to those earning over $100,000 (7.54). As noted above, the costs of necessities are also cited by far as the biggest worry of households – see Figure 8.

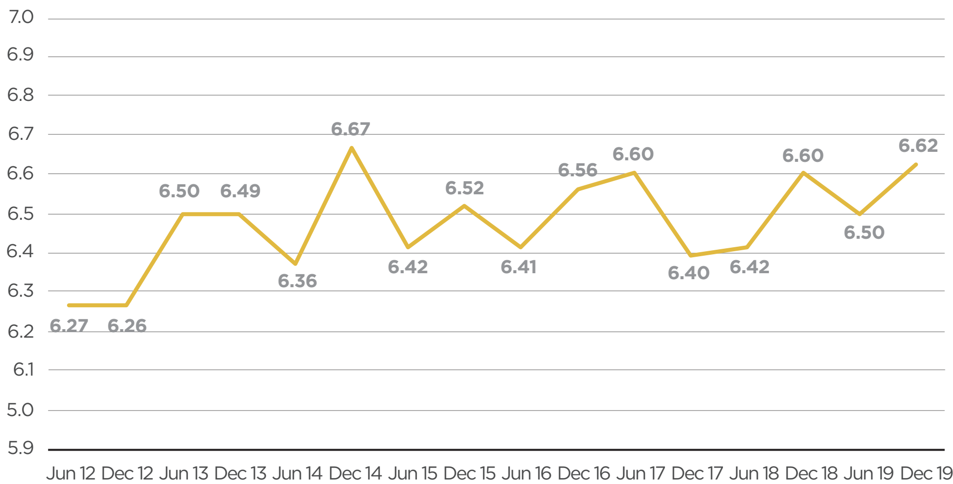

Figure 30 – Comfort with households' ability to pay regular expenses. Scores out of 10

5.3 **Comfort with cash savings continued to move sideways.**

Figure 31 shows overall comfort with short-term cash savings remained stable at 5.07 during the past six months to remain slightly above its historical average of 4.97.

Highest ‘comfort with cash savings’ was reported by retirees down 1% to 5.69. Meanwhile, single parents continued to record the lowest ‘comfort with cash savings’ (up 7% 3.87) – mainly reflecting the low comfort of single parents dependent on government assistance (index of only 2.49).

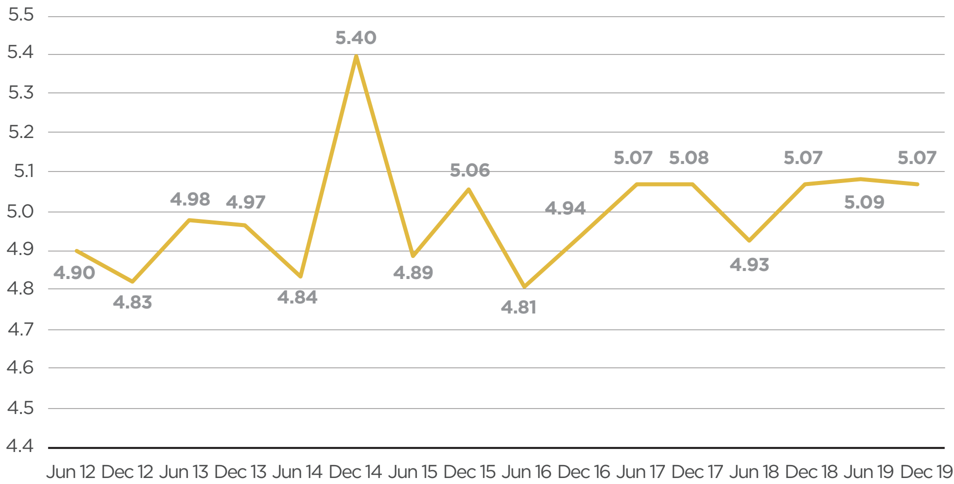

Figure 31 – Comfort with households’ current level of cash savings. Scores out of 10

Households saving a lot more partly offset by rebound in overspending.

Consistent with comfort with cash savings, the proportion of households saving, overspending and breaking even were largely steady or unchanged over the past six months. Figure 32 shows that in the six months to December 2019, the proportion of households reporting that they saved each month rose slightly by one point to 49%.

Households breaking even each month remained stable at 41% – and those spending more than they earn each month (that is, overspending by running down savings or borrowing more) remained stable at 10%.

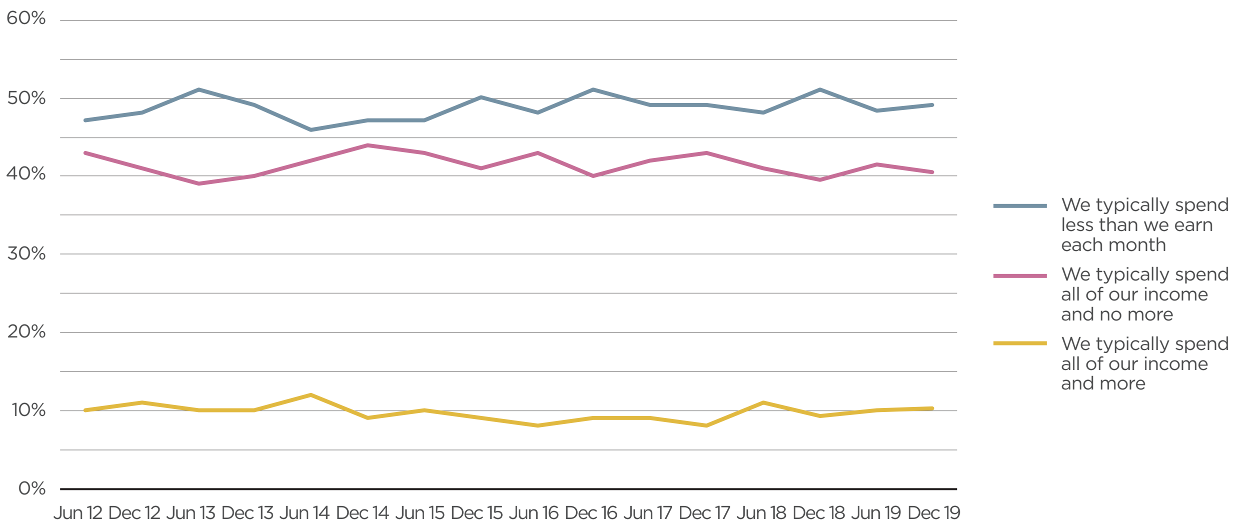

Figure 32 – The proportion of households that save, break even or overspend each month

As a result, ‘net savers’ – i.e. the proportion of those ‘spending less than they earn each month’ (49%) minus those ‘spending all of their income and more’ (10%) – rose slightly from 38% to 39% of households – to about the long-term average of 39% (see Figure 33).

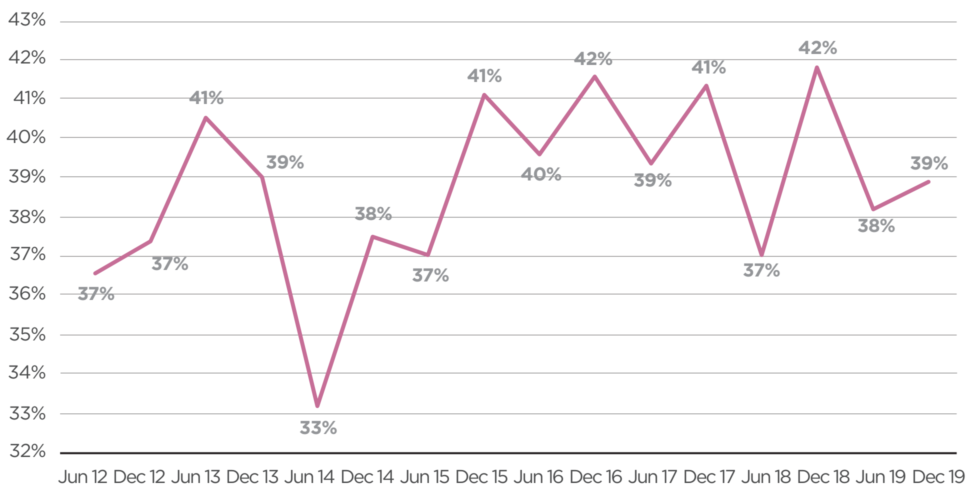

Figure 33 – ‘Net savers’ (proportion saving monthly minus those spending their income or more monthly)

Figure 34 shows a tale of two groups, with the estimated average amount savers were saving increasing by about 5% to $939 per month – the highest amount since the Survey began - probably due to personal income tax cuts introduced from 1 July. Meanwhile, the estimated average amount over-spenders/dis-savers overspent each month increased by 6% to $567 per month – 7% above its historical average ($532).

In summary, those able to save (higher income households) appear to have saved more of the income tax cuts, while those faced with income constraints, overspent more. This is also consistent with a rise in savings amongst those with larger cash balances during the past six months – since the tax cuts.

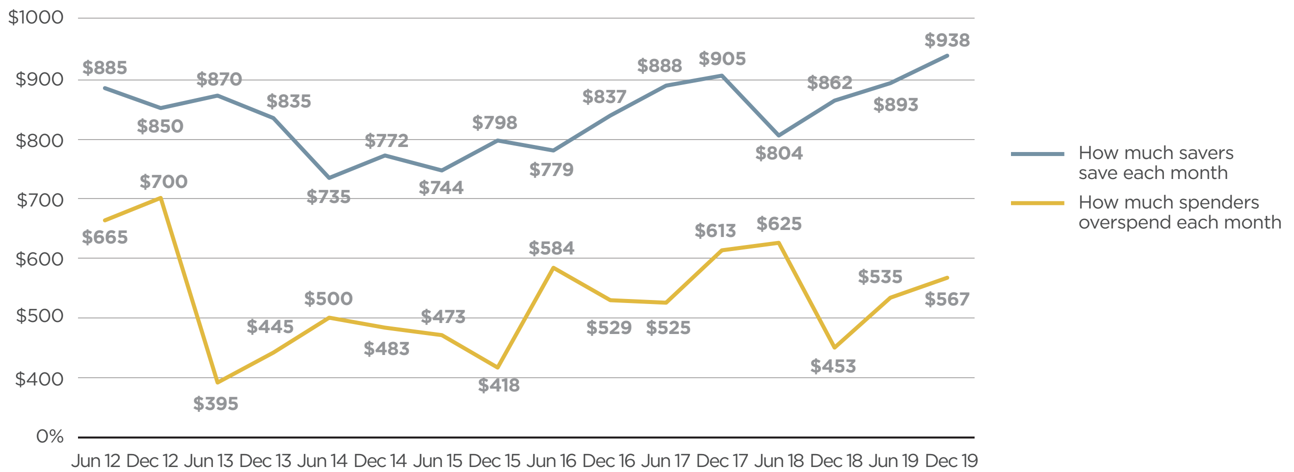

Figure 34 – Estimated amount savers saved and over-spenders overspent each month

Savings levels improve among households with large balances.

The proportion of households holding large amounts of savings (savings, term deposit and mortgage offset accounts) between $50,001 to 100,000 and above $100,000 increased by 3 points to 13% and 1 point to 17%, respectively during the past six months for both to be about historical highs.

Meanwhile, the proportion of households holding small amounts of savings between $0 and $10,000 reduced by 4 points to 48% to be 8 points below its historical level of 56%. And savings between $10,001 to $50,000 remained broadly stable at 22% from six months ago (see Figure 25).

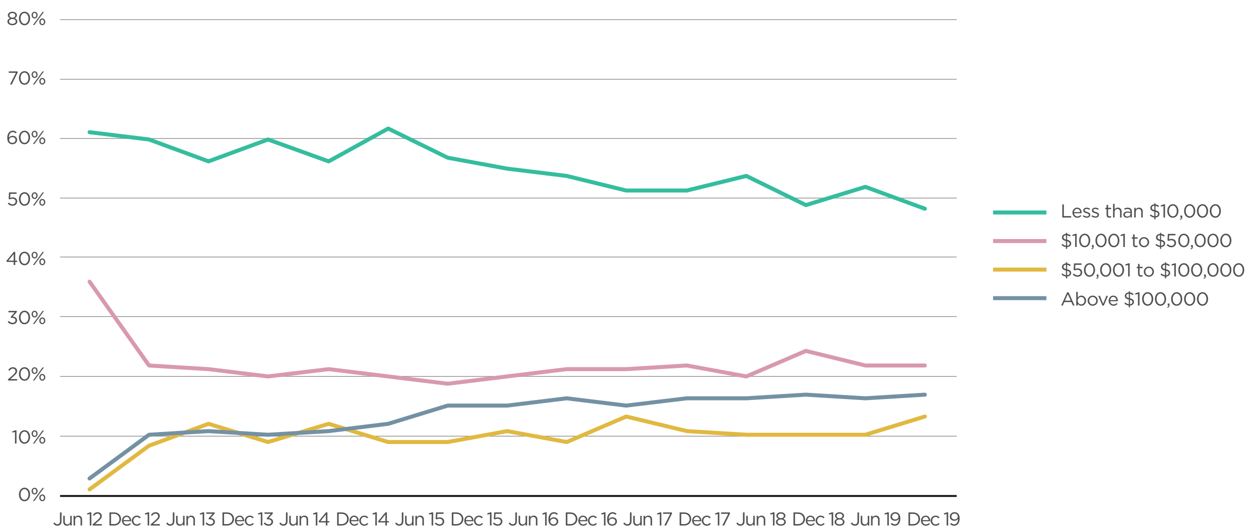

Figure 35 – Cash savings currently held – proportion of households

5.4 **Ability to handle a financial emergency.**

Figure 36 shows 'confidence in the household's ability to handle a financial emergency' improved slightly – up 1% to 4.82. Nevertheless, the household ability to manage an unexpected financial emergency remains the lowest of all drivers that make up the Household Financial Comfort Index.

Across households, single parents (3.17 out of 10) and to a lesser extent middle aged singles/couples with no kids (4.25 out of 10) reported the lowest comfort with their ability to cope with a financial emergency, while households in regional areas have a very low level of comfort with their ability to cope with a financial emergency (an index of 4.02).

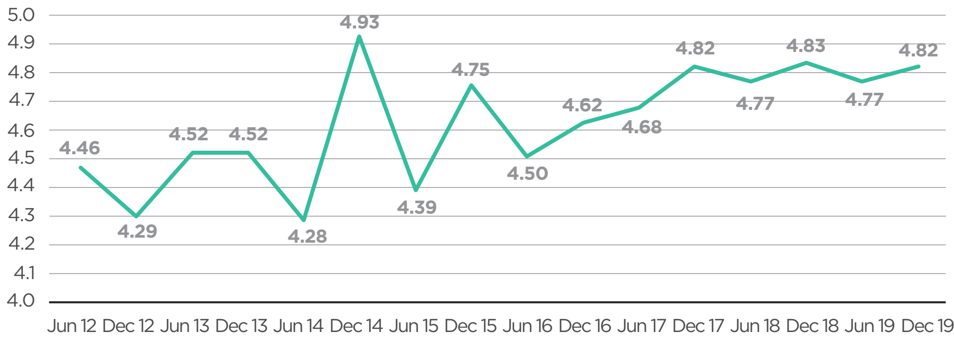

Figure 36 – Comfort with ability to cope with a financial emergency. Scores out of 10

5.5 **Confidence in the ability to raise $3,000 for an emergency.**

Around 37% of households reported they could raise $3,000 in a week for an emergency, much the same as historically compared with almost 20% of households that think they could not readily raise this significant amount of money.

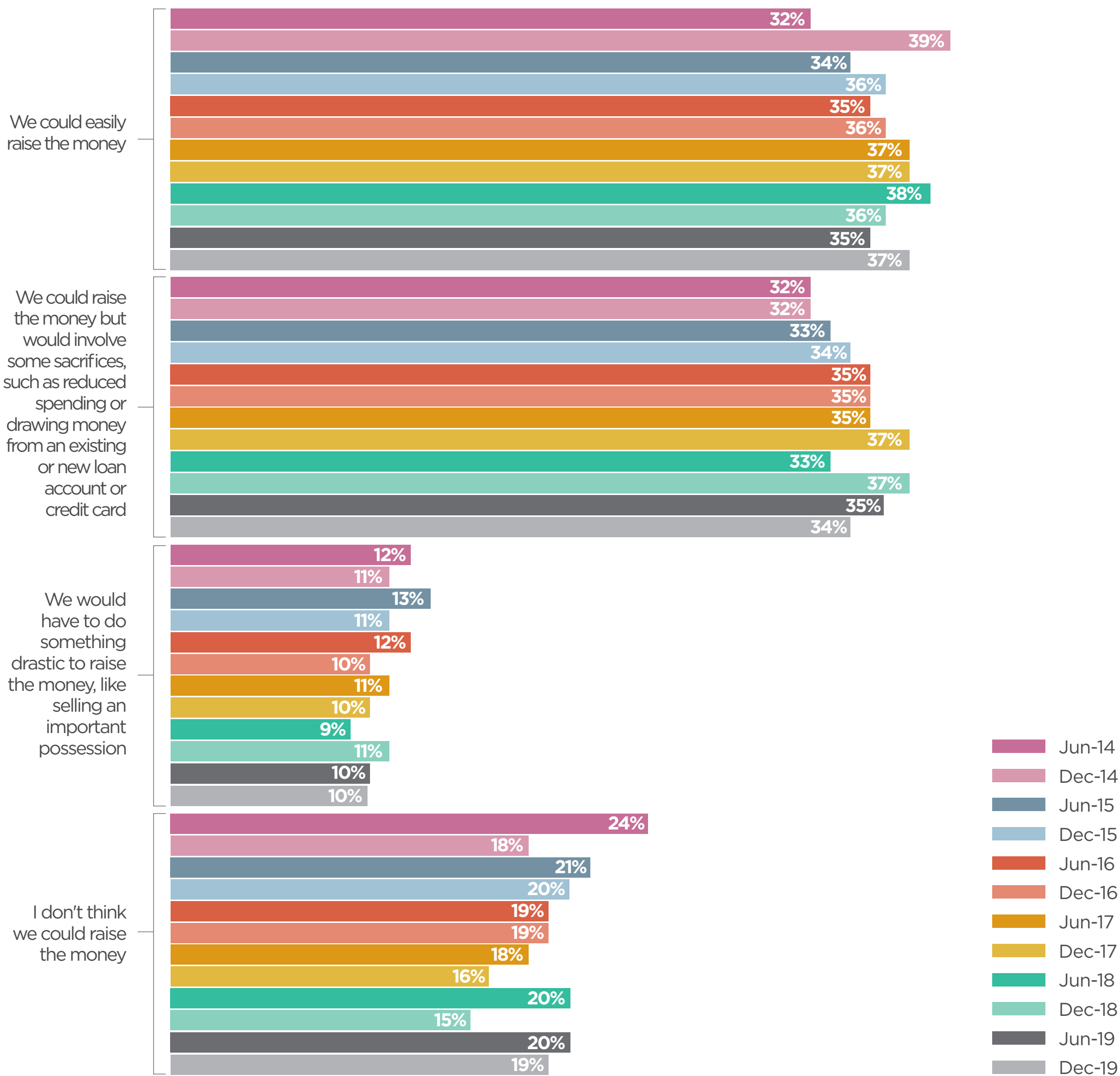

Figure 37 – Ability to raise $3,000 in a week for an emergency

5.6 **Comfort with investments.**

Figure 38 shows overall 'comfort with investments' remained stable at 5.02 out of 10, slightly higher than the medium-term average outcome of 4.89 since the survey began. Investments include investment properties, shares, bonds, managed funds and superannuation.

Somewhat surprisingly, there has been little change in comfort with investments over the past year or so – given the significant fall in the value of some investments (such as shares and property) during the second half of 2018, followed by the strong rise in both equity and bond prices during 2019. On the other hand, as noted in the report above, almost a quarter of households feel worse off from the fall in official interest rates to record low level over the past few years.

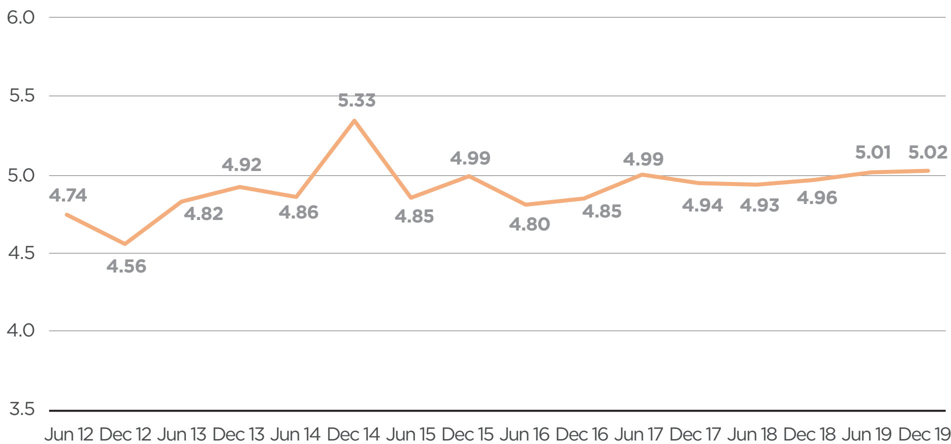

Figure 38 – Comfort with level of investments. Scores out of 10

5.7 **Comfort with net wealth.**

Figure 39 shows comfort with net wealth – as measured by what would be left in cash if you sold all your assets and paid off all your debts – rose slightly, up 1% to 5.62 out of 10, slightly below the long-term average of 5.65.

Comfort with net wealth rose across most household incomes (except those with low annual incomes less than $40,000 as well as in most states (except Queensland and South Australia/Northern Territory) and major cities (up 3% to 5.76) but deteriorated significantly in regional areas (down 4% to 5.19).

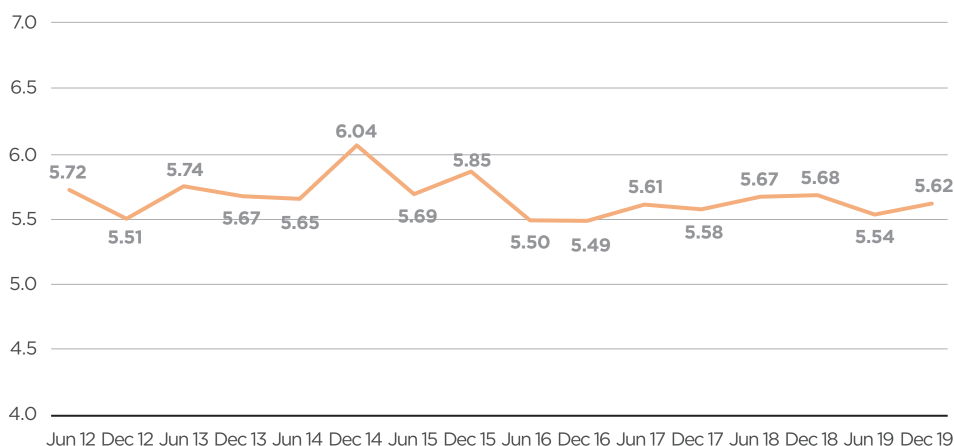

Figure 39 – Comfort with households' level of wealth. Scores out of 10

5.8 **Anticipated Retirement.**

Comfort with anticipated standard of living in retirement improves slightly

Comfort with households' 'anticipated standard of living in retirement' improved by 1% to 5.25 during the six months to December 2019. This is marginally above the historical average of 5.08 out of 10 since the survey began.

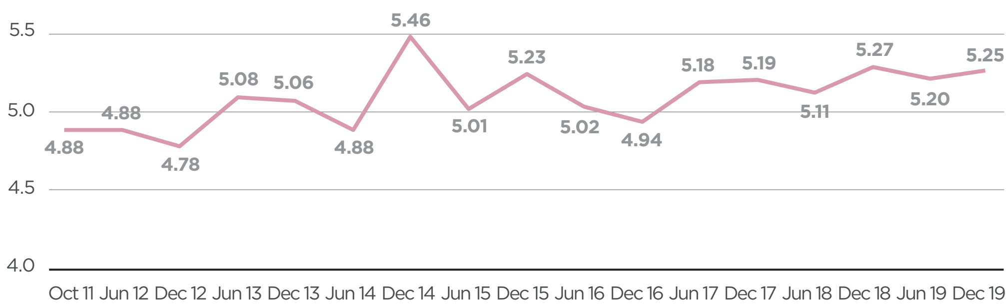

Figure 40 – Comfort with standard of living in retirement. Scores out of 10

Plans on funding retirement.

Currently, about one out of five households (unchanged at 22% during the past six months) expect to 'fund retirement with their own superannuation'. The number of households expecting to 'rely on the government pension' during retirement dropped 2 points to 21%, while those expecting to partly fund retirement with a government pension decreased by 2 points to 41%. Finally, a significant proportion of households simply did not know (unchanged at 17%).

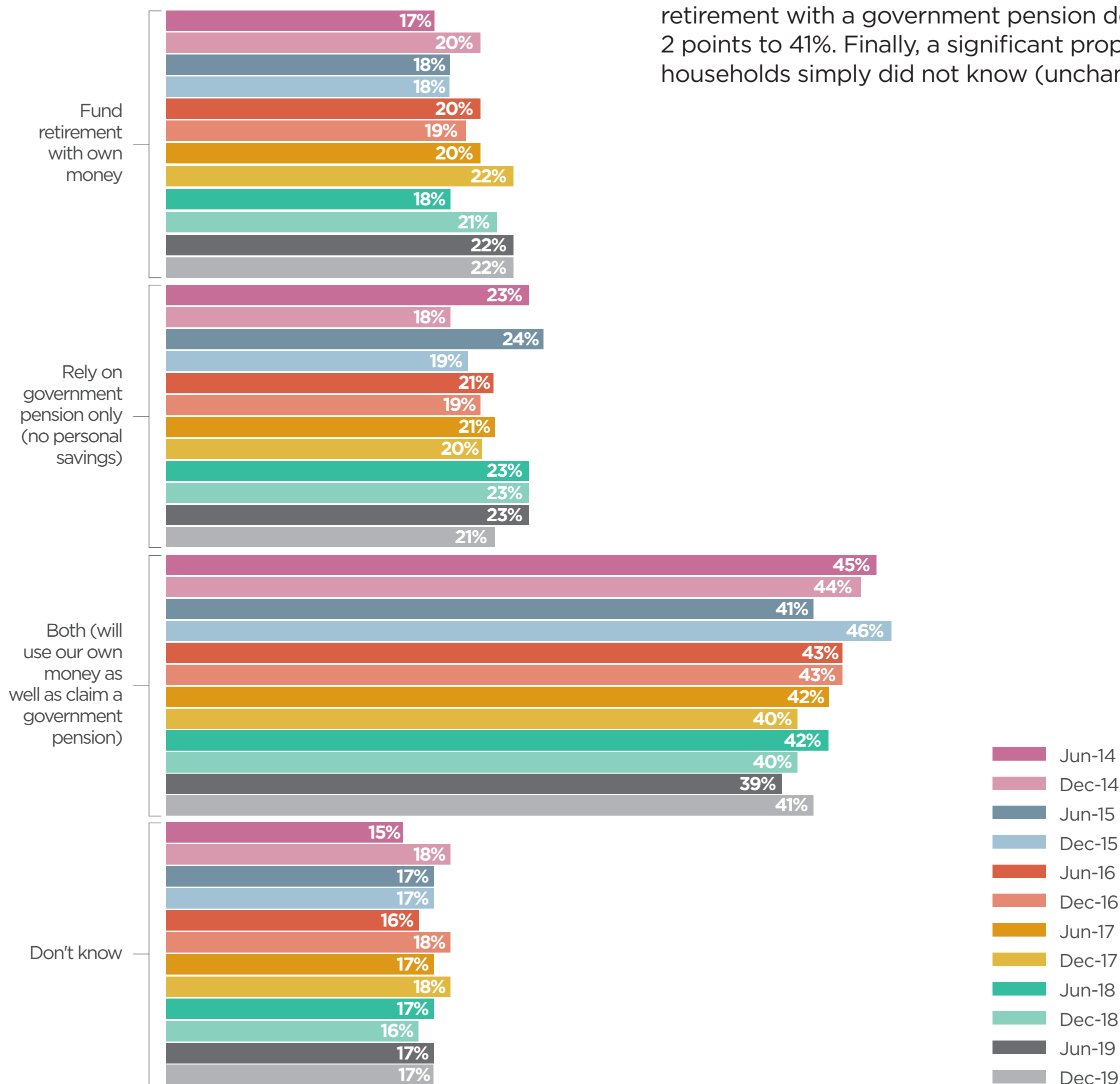

Figure 41 – How will your household fund retirement?

Expected adequacy of income in retirement.

In December 2019, households' expectations of the adequacy of their income in retirement edged higher. Around 64% of households expected to be able to 'afford essentials and extras', while 36% of households reported that they expected not to be 'unable to afford essentials' or have 'no money left over afterwards'.

Figure 42 – Expectations for adequacy of income in retirement

Appendix a – household statistics.

06.

	Household Financial Comfort Index	**Net Wealth** Average Net Wealth	**Household Income** Average Household Yearly Income
Young singles/couples (<35yo) with no children	5.68	$242,000	$92,000
Single parents	4.45	$358,000	$65,000
Couples with young children	5.75	$459,000	$100,000
Couples with older children	5.65	$787,000	$100,000
Middle-aged singles/couples with no children	5.25	$364,000	$90,000
Empty nesters (50+yo)	5.57	$856,000	$70,000
Retirees	6.12	$857,000	$55,000

Appendix b – methodology.

07.

ME commissioned DBM Consultants to develop the *Household Financial Comfort Index* with Economics & Beyond. The research includes an online survey of approximately 1,500 Australians aged 18 years and older who do not work in the market research or public relations industries. Seventeen waves of research have been conducted every six months starting in October 2011, but usually in the months of December and June, with the latest conducted in December 2019. For analysis, the population sample was weighted according to ABS statistics on household composition, age, state and employment status to ensure that the results reflected Australian households.

An extensive review of other financial health/comfort indices and academic literature suggested that a number of factors contribute to self-assessment of financial wellbeing and comfort. As such the ME *Household Financial Comfort Index* incorporates 11 measures of how households feel about their financial situation – these are:

- Comfort level with (1) the overall financial situation of the household
- Changes in household financial situation (2) over the past year and (3) anticipated in the next year
- Confidence in the (4) household's ability to handle a financial emergency
- Comfort levels with (5) household income, (6) living expenses, (7) short-term cash savings, (8) long-term investments, (9) debt, (10) overall net wealth, and (11) the household's anticipated standard of living in retirement.

To provide contextual insight for the *Household Financial Comfort Index*, respondents were asked to rate how comfortable they would be with their current overall household situation if they were feeling 'occasional stress or worry', and also if they were experiencing 'financial problems which require significant lifestyle change'.

To collect data on how households felt about their financial situation via household financial comfort, confidence with finances and anticipated change in finances, we used 0–10 scales anchored by descriptive terms 'not at all comfortable' to 'extremely comfortable' (comfort), 'not at all confident' to 'extremely confident' (confidence) and 'worsen a lot' to 'improve a lot', with a midpoint of 'stayed the same' (anticipated change).

Questions to collect household actual financial data included those that asked for dollar amounts or dollar ranges as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

Notes.

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