Household financial comfort report.

Fifteenth survey published Feb 2019.

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

The effect of house and share price falls isn't black and white – with the big gaps in financial comfort narrowing and resilience on the improve.

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 15th survey, conducted in December 2018.

Survey history

- First edition: October 2011
- Second edition: June 2012
- Third edition: December 2012
- Fourth edition: June 2013
- Fifth edition: December 2013
- Sixth edition: June 2014
- Seventh edition: December 2014
- Eighth edition: June 2015
- Ninth edition: December 2015
- 10th edition: June 2016
- 11th edition: December 2016
- 12th edition: June 2017
- 13th edition: February 2018
- 14th edition: June 2018
- 15th edition: February 2018

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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Content.

"My husband and I have both had **pay rises and slight increases in working hours,** and debt has reduced."

COUPLE WITH YOUNG CHILDREN
SOUTH AUSTRALIA

Table of figures.

Executive summary.

01.

Australia's financial comfort gap has narrowed for the first time in seven years, with most households feeling better about their finances despite significant falls in residential property and share markets.

Income gains, easing living costs, increased cash savings and reduced overspending were key drivers in households' rising financial comfort, but belt tightening could be a bellwether for slowing economic growth.

Falling house prices help reduce financial comfort gap

In the seven years ME has conducted the bi-annual survey, the financial comfort between property owners has diverged from renters, while high income earners has diverged from other income brackets. This is the first survey we have seen the comfort between these cohorts closing.

There has been a correction for wealthier, older property-owning Australians who've been riding the hot property and bull share markets for much of the past seven years, while middle and lower-income households have begun to benefit from an easing in living cost pressures and income gains.

Together the changes have helped bridge the gap in financial comfort that had been widening.

Cooling housing and share markets haven't yet dented the financial outlook of most Australian households, and many residential property owners remain positive: only 13% of home owners and 11% of investors expect the value of their properties to fall in 2019.

The financial comfort of renters, while still significantly lower than other tenures, was up 8% to 4.78 out of 10, its highest in four years, reflecting improving rent conditions, while the overall financial comfort of households who own a home mortgage-free fell 3% to 6.27 out of 10, its lowest point since the survey began.

The gap in financial comfort between high and average and lower income households also closed, with the overall financial comfort of those earning over $200,000 pa falling sharply by 6% to 6.79, while those earning $75,000-$100,000 pa reported their overall financial comfort had increased by 7% to 5.87 and to a lesser extent those under $40,000 pa (up 2% to 4.52).

Overall financial comfort up despite asset price falls

In the six months to December 2018, the Report's overall Household Financial Comfort Index increased by 2% to 5.56 out of 10 – higher than the past five surveys and above the historical average of 5.45 out of 10 since the survey began in October 2011.

A key factor driving the rise was income gains with a continued strengthening in labour market conditions increasingly flowing through to bigger pay packets. The proportion of households reporting income increases in the six months to December 2018 rose 4 points to 38%, its highest level in three years. 'Changes to my income' was also the most common reason cited for improvements to one's financial situation.

Another contributing factor to the overall increase in household financial comfort was an improvement in how households felt about their 'ability to pay regular expenses', which increased 2.8% to 6.60 out of 10 – albeit the cost of necessities remains the 'biggest worry' about their household finances.

Cautious Australians 'tightening their belts'

This Report also shows more households saving, less overspending, and comfort with short-term cash savings is on the rise.

The number of households saving each month increased 3 points to 51% in the past six months – its equal highest level since the survey began, with the estimated average amount savers are putting away increasing 7% to $862 per month. Meanwhile, the estimated average amount over-spenders draw-down on savings or credit each month decreased 28% to $453 per month.

Increased belt-tightening may be a consequence of sustained property falls as well as economic and political uncertainty.

We're still seeing some geopolitical effects, with households concerned about the world economy up two points to 29%, and combined with domestic property and share market corrections, many Australians are beginning to tighten their belts to build financial resiliency.If above average cash savings and reduced spending behaviour continues during 2019 it could significantly slow economic growth and in turn may lead to smaller job and income gains.

If above average cash savings and reduced spending behaviour continues during 2019 it could significantly slow economic growth and in turn may lead to smaller job and income gains.

Increased savings has flowed through to greater financial resilience with an improvement in households' ability to handle a financial emergency (up 1% to 4.83, the second highest level since the report began). Almost half of households with a mortgage (49%) continue to pay above the minimum in repayments.

Housing and credit stress decline

In terms of housing payment stress, less than half (47%) of households at end 2018 are contributing more than 30% of their income towards housing each month – a common indicator of financial stress – a 9 point fall from 56% six months ago, driven by a very large improvement amongst renters (from 67% to 51% in the past six months), while stable at 44% for households with home loans.

The Report also found a decline in households being unable to meet debt servicing commitments in the last year, with just 12% unable to meet a personal loan or credit card repayment. Furthermore, only 7% missed a mortgage payment due to lack of funds in this time.

With CoreLogic data showing residential property prices falling up to 20% in some suburbs and overall values down 9% in Sydney and 7% in Melbourne, but unchanged across regional Australia during 2018, ME's Report found it was having no notable negative impact on households' comfort in those major capital cities and states, up about 3% in Melbourne and more in Victoria and down only 1% in Sydney and NSW.

Across regional Australia as a whole, household comfort rose by 6% to 5.43 out of 10 – its highest level in four years, reducing the gap in financial comfort between regional and metropolitan households with only a 1% rise among metropolitan-based households.

Financial comfort in Queensland also jumped markedly to a record level of financial comfort in December 2018 – up 8% to 5.68 and surprisingly, the highest across Australia, due to broad-based improvements across all drivers of comfort.

Macroeconomic and financial context.

02.

Overall, Australian household finances, on average, remained relatively resilient during the second half of 2018. However, macroeconomic and financial vulnerabilities related to sluggish household incomes, high and rising debts, and large sustained falls in housing and equity markets remained, though risks differed markedly across households as well as regions.

Most households are well supported by both (subdued) wage gains and stronger jobs growth – albeit underemployment remains high. Household consumption growth has remained a bit below average and the saving ratio has eased further. After significant falls in dwelling and share prices and continued gearing/borrowing, household (net) wealth has fallen significantly over the past six months, following a large rise in the preceding seven years. The availability of credit has tightened and debt servicing costs have begun to rise due to continued gearing and slightly higher residential loan rates.

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

Consumer confidence measures were largely unchanged during the six months to December 2018 – with optimists slightly outnumbering pessimists in December.

Labour market conditions improved further; solid job gains continued, wage gains picked up a bit from a historical low and high underemployment eased. Both full-time and, to a lesser extent, part-time employment have increased well above working age population growth. The unemployment rate fell to 5.0% in December 2018, compared with 5.3% in June 2018 and 5.6% a year ago. More broadly, the trend underutilisation rate (for both unemployed and under-employed people) was also down to 13.4% in December 2018, compared with 13.8% in June 2018 and 14% a year ago. **Wages growth remains low** – in all states and most industries – though it picked up a little to be about 2.3% higher over the year, in part due to the 3.5% increase in minimum and award wages in the September 2018 quarter.

Household consumption growth has been fairly stable – a bit below its historical long-term pace – supported by very low interest rates, employment gains and until recently, sustained wealth gains. However, consumption growth remains constrained by subdued income gains and high levels of household debt. With still relatively low disposable income growth, as measured by the official data, the household saving rate as a percentage of current disposable income has continued to trend slowly lower. **Consumer inflation has remained low** – and a bit under 2% p.a., on average. After relatively large rises, administered/partly regulated prices (such as electricity, gas, healthcare, property rates) have slowed. Household childcare costs fell significantly following the introduction of the government's new childcare subsidy. Retail petrol prices rose during most of 2018, before falling over the past two months. Annual rent rises have been the lowest since the early 90s – with rents down significantly in Sydney and generally subdued elsewhere.

The downturn in residential dwelling values accelerated over the past six months – especially in Sydney and Melbourne – albeit conditions continued to vary a great deal across Australia. According to CoreLogic data, Sydney and Melbourne reported the weakest conditions – with prices down during 2018 by 9% and 7%, respectively, and 11% and 7% since their respective peaks in 2017. Perth also recorded another significant fall of 5% during 2018, while prices were little changed elsewhere (including regional cities). Nationally, dwelling prices were down almost 5% during 2018 and 6.5% since their peak in September 2017.

Annual growth in household debt slowed significantly during the past six months, with loans to investors easing significantly and loans to owner-occupiers easing slightly. Recent tightening in prudential and lending standards, declining house prices in some markets and slightly higher mortgage rates have been at play. Annual housing growth for loans to investors to only 1% in December 2018 from over 3% during 2017, while annual growth of owner-occupied housing credit remained steady at around 6.5% during the past six months. Other personal loans (such as credit cards and equity-backed loans) have contracted a bit further – down by almost 2% during the year to December 2018.

Household asset values, on average, have fallen significantly during the past six months – especially compared to subdued growth in income and debt, mainly reflecting significant falls in the value of dwellings and both global and Australian share prices, partly offset by continued compulsory contributions to superannuation.

As a result, the aggregate financial position of households – as measured by household net wealth (assets less debt) – deteriorated during the second half of 2018, after rising significantly over the past seven years relative to income and debt/liabilities. In aggregate, debt-to-income has risen further over the past six months to be significantly higher over the past few years, even after allowing for strong growth in mortgage offset accounts – largely driven by owner-occupiers. Debt-to-assets (or leverage) has risen – asset losses have outpaced increased debt. Debt servicing burdens have increased slightly – albeit from historically low levels (relative to income), as households continued to borrow – and loan rates have risen slightly, despite the unchanged RBA official cash rate.

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 income gains. However, job losses, underemployment and falling house/apartment prices do present current challenges to some households – especially recent dwelling buyers with newer 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 taking into account that loan rates inevitably will rise significantly from record lows.

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 financial comfort remains resilient.

03.

In ME's latest *Household Financial Comfort Report*, Australian households reported increased comfort across most aspects of their finances.

As a result, ME's overall *Household Financial Comfort Index* was up.

3.1 ***Household Financial Comfort Index*** **goes up.**

The *Household Financial Comfort Index* (see figure 1) increased slightly by 2% to 5.56 out of 10 over the six months to December 2018 – higher than the past five surveys and a bit above the historical average (5.45 out of 10) since the survey began over seven years ago.

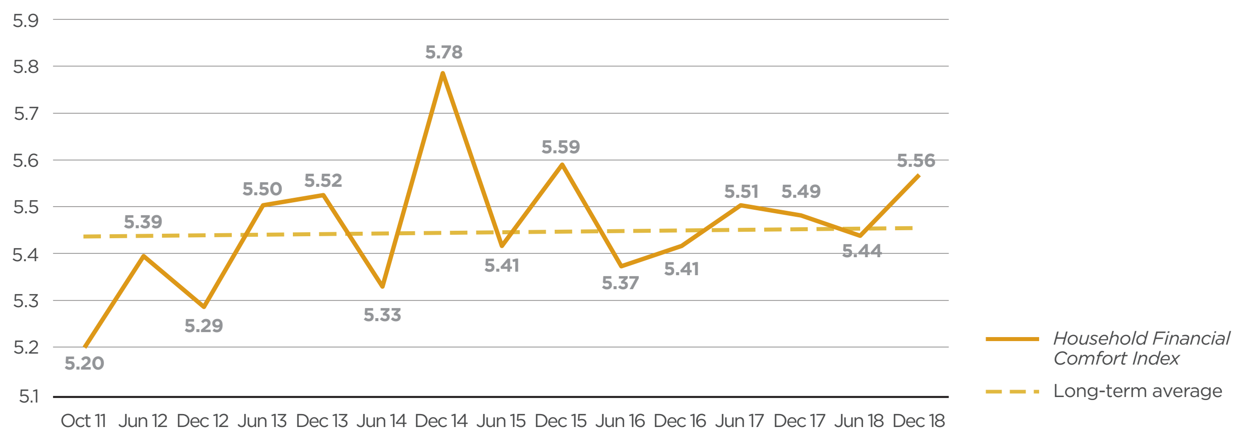

Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10

Financial comfort improves mainly for households at the lower end of the spectrum.

Of all households, those with 'low' financial comfort (between 0–4 out of 10) reported a big increase in overall comfort in this survey, with a 5% increase to 3.29 during the six months to December 2018. This put their comfort level a bit lower than their long-term average of 3.31 out of 10. In contrast, the overall comfort of households with a 'mid' level of comfort (index of 5–7) remained unchanged at 6.40 out of 10 and households with relatively 'high' comfort (index of 8–10) also remained unchanged at 8.62 out of 10, leaving both cohorts of 'mid' and 'high' comfort levels around their historical average at end 2018.

Put another way, households with 'low' levels of comfort somewhat narrowed the relative comfort gap during the six months to December 2018, but remain much lower than households with 'medium' and to a greater extent 'high' levels of comfort.

3.2 **What are the key drivers of increased financial comfort?**

In terms of the 11 components that make up the *Household Financial Comfort Index*, the majority of key drivers improved over the six months to December 2018.

Most key drivers improved significantly (by about 3%), particularly how households feel about their 'recent changes to their financial situation', 'current financial situation', 'expected changes to their financial situation in the next year'; and in the longer term their 'anticipated standard of living in retirement' as well as their household comfort with 'income', 'cash savings' and 'living expenses' (all seven drivers up 3%), while comfort with 'debt' improved by 2%.

Of the remaining three drivers, comfort with 'net wealth' was unchanged, while comfort with both 'investments' and the 'ability to cope with a financial emergency' were up only 1%.

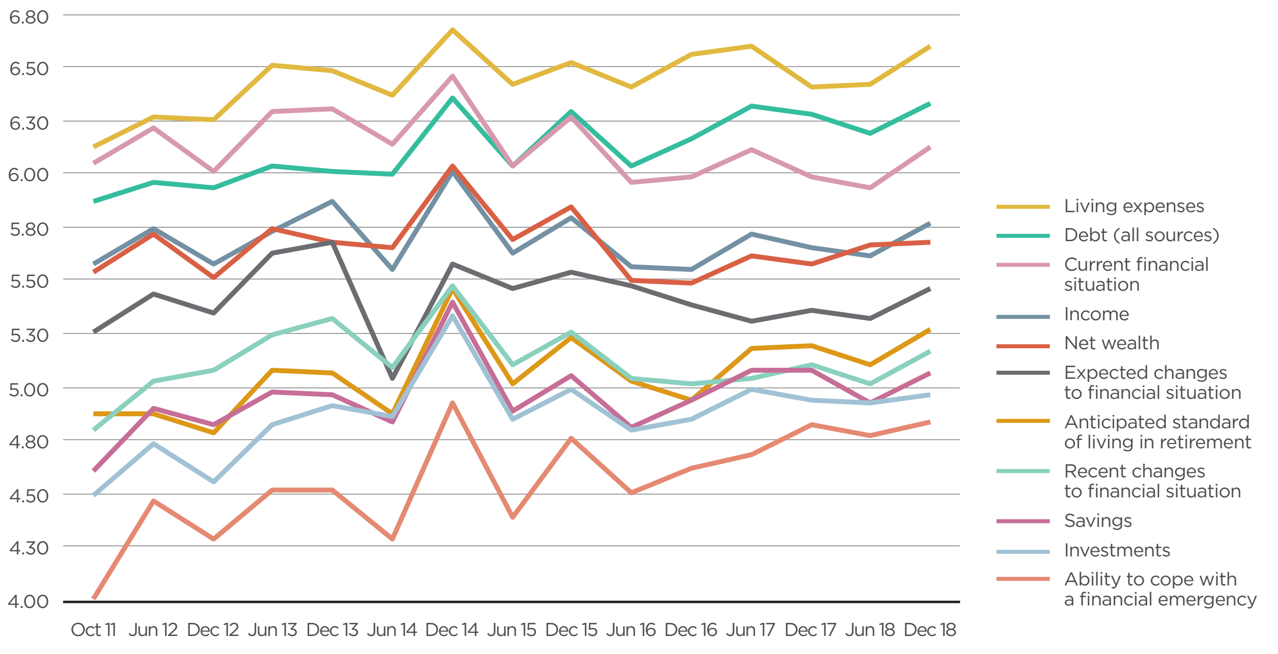

Figure 2 – The 11 components that make up the index, with levels of comfort over time. Scores out of 10

3.3 **Improved comfort with income a key factor.**

A continued strengthening in Australian labour market conditions appears to be increasingly flowing through to annual income gains, a key driver of higher financial comfort among households. The proportion of households reporting annual income increases in the six months to December 2018 increased by a further four points to 38%, the highest percentage during the past three years, while those reporting their income remained the same fell by an equivalent amount to 37% – its lowest percentage in the past five years.

Those households reporting income decreased rose slightly – up one point to 25% – to about the same percentage as the past few surveys.

Increased income gains were reported across the labour force, but especially by full-time workers, and especially for those with 'average' household incomes – consistent with the recent increase of 3.5% in award and minimum wages from 1 July 2018. Those households on lower incomes (including those largely dependent on government assistance) reported fewer income rises than those on average incomes and higher incomes.

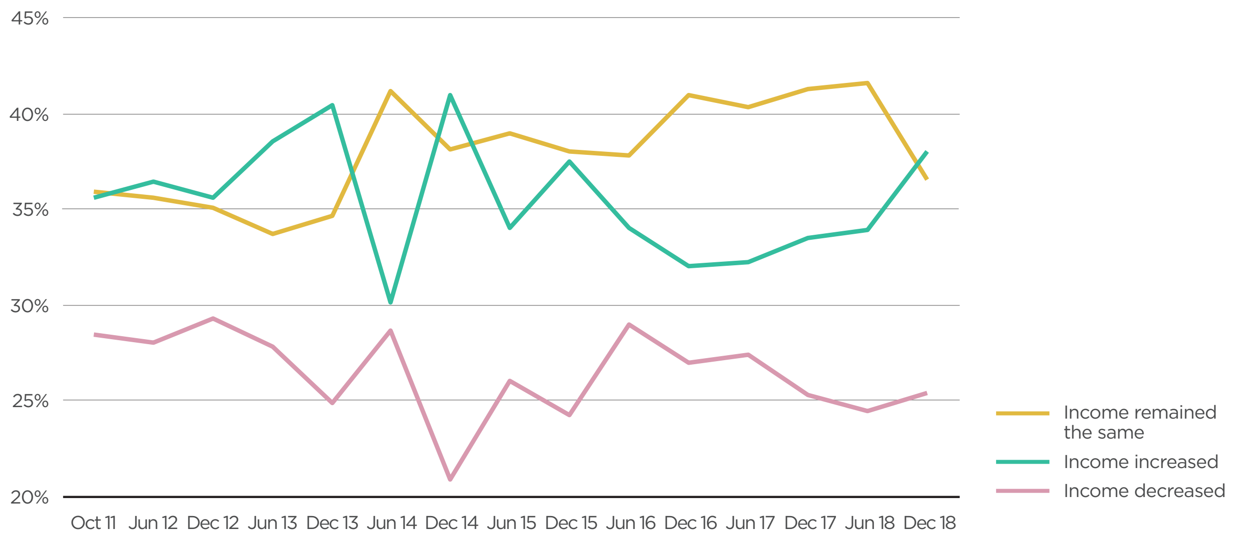

Figure 3 – Household income changes during past year

‘Changes to my income’ was the most common reason respondents cited for improvements to their financial situation over the past six months (26%), followed to a lesser extent by ‘change to employment arrangements’ (15%) and ‘level of cash savings’ (13%).

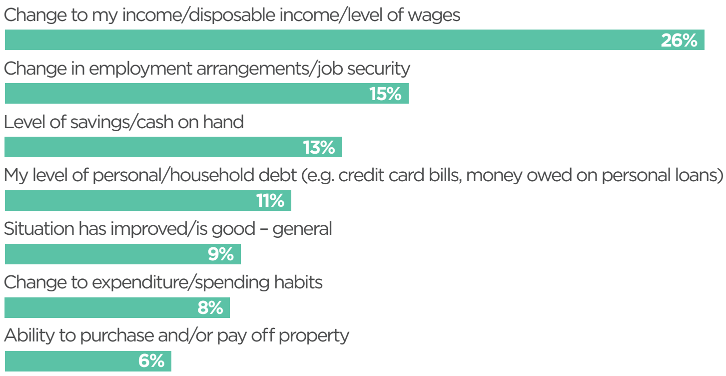

Figure 4 – Top reasons why households' financial situations improved in the past six months

Most income gains reported by full-time workers; underemployment remains a major issue.

Across the workforce, full-time workers were the most likely to report their household income had increased, with 56% of full-time workers reporting a wage increase in the period, up nine points from the previous survey. In comparison, income gains were reported by a bit over 40% of part-time employees – up significantly after the increased minimum and award wages from 1 July.

That said, high levels of underemployment remain a potential barrier to further increases in incomes. In the latest survey, 18% of part-time and casual employees said that they would prefer full-time work, although five points lower than six months ago – see more in section 5.4.

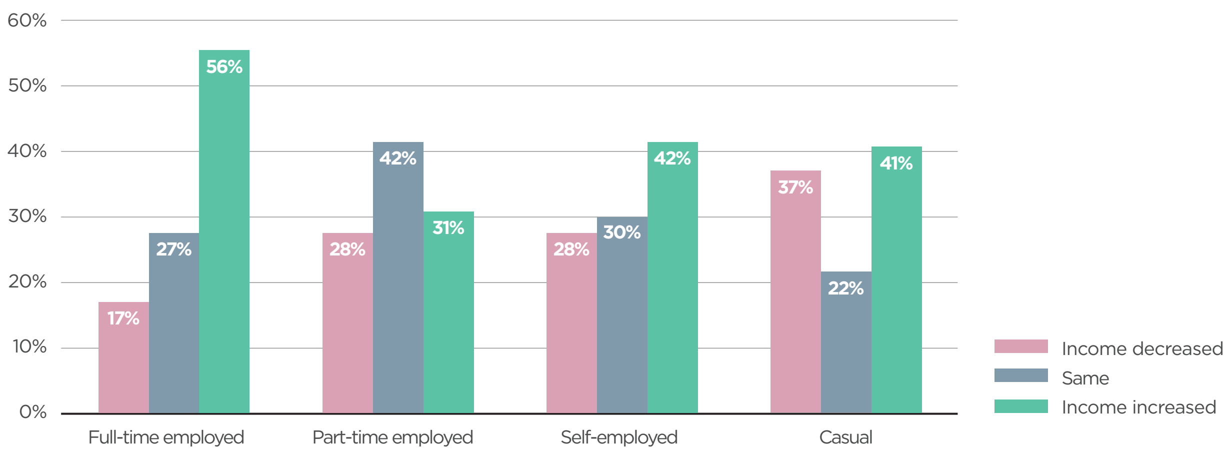

Figure 5 – Income changes over past year across the labour force

Households with higher incomes experience a higher propensity for income gains.

For the fifth consecutive report, households with higher annual incomes have continued to experience more income gains than households with lower annual incomes – see figure 6. Among households with annual incomes over $100,000 p.a., 56% recorded 'income increased' during 2018 (up five points since June 2018), while 48% of households with incomes $75,000–$100,000 p.a. reported 'income increased' (up 22 points) while 32% of households with incomes $40,000–$75,000 p.a. reported 'income increased' (up 2 points). In contrast, only 24% of households with annual incomes of less than $40,000 p.a. reported 'income gains' (down two points) and 36% reported cuts to income (up three points and significantly more than any other cohort) and

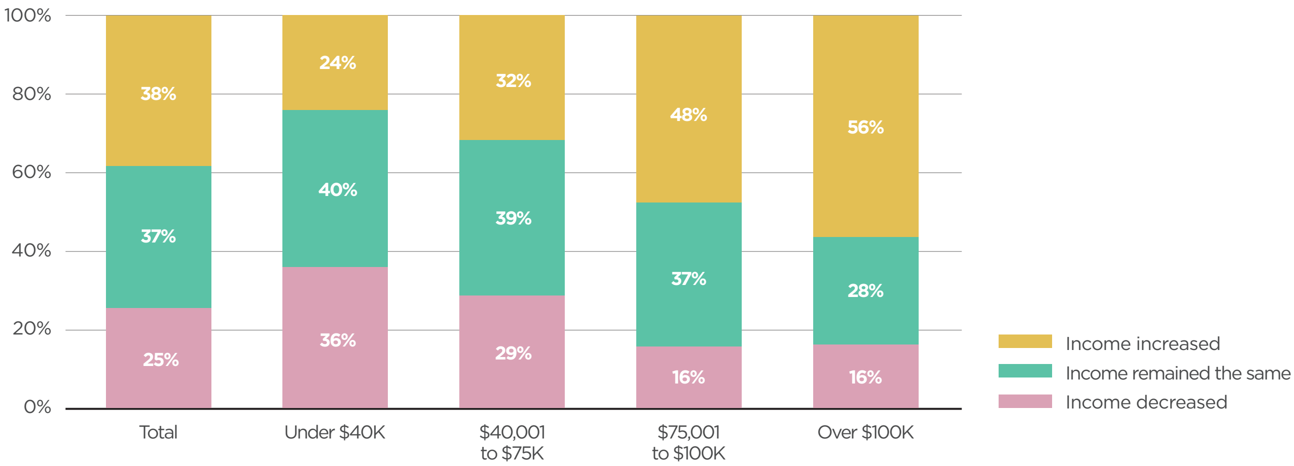

Figure 6 – Income changes over the past year across various income bands

The pickup in wage rises was ultimately reflected in an increase in households' overall feelings about their incomes, with a 3% increase in comfort with income to 5.77, the highest level of comfort with income in three years. In terms of households, the highest comfort with income was reported by 'retirees' (up 2% to 6.08). Meanwhile, 'single parents' continued to record the lowest 'comfort with income' (down 3% to 4.68) – mainly reflecting the low income comfort (index of only 2.7) of those single parents dependent on government support. All mainland states, except South Australia with a lower index of 5.48, recorded a similar level of comfort with income, at around 5.80 out of 10 in December 2018.

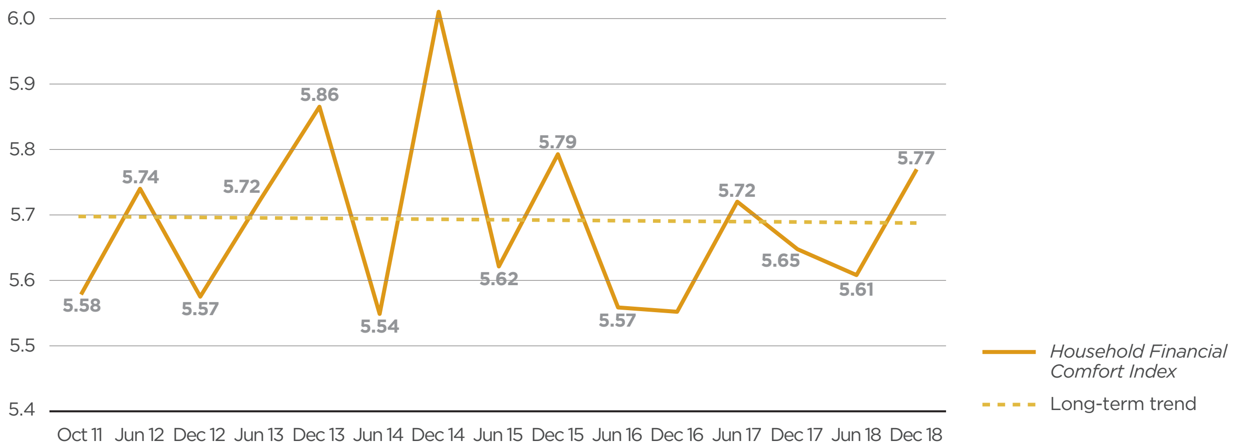

Figure 7 – Comfort with current household income. Scores out of 10

3.4 **Comfort with paying monthly expenses also rises.**

Another factor contributing to an improvement in the overall financial comfort of households was a rise in comfort with the 'ability to pay regular expenses', which increased 3% to 6.60 during the six months to December 2018. Consistent with this, of the 30% of households that indicated that their financial situation had worsened over the past year, there was a marked fall in the number citing the cost of living as the reason – down by eight points to 36% during the six months to December 2018 – albeit this was still much higher than the next most cited reasons: change in job arrangements (16%) and change in income (13%).

In terms of households, 'retirees' continued to be most comfortable paying regular expenses (stable at 7.10). Meanwhile, 'single parents' continued to be the least comfortable with expenses – up 1% to 5.5.

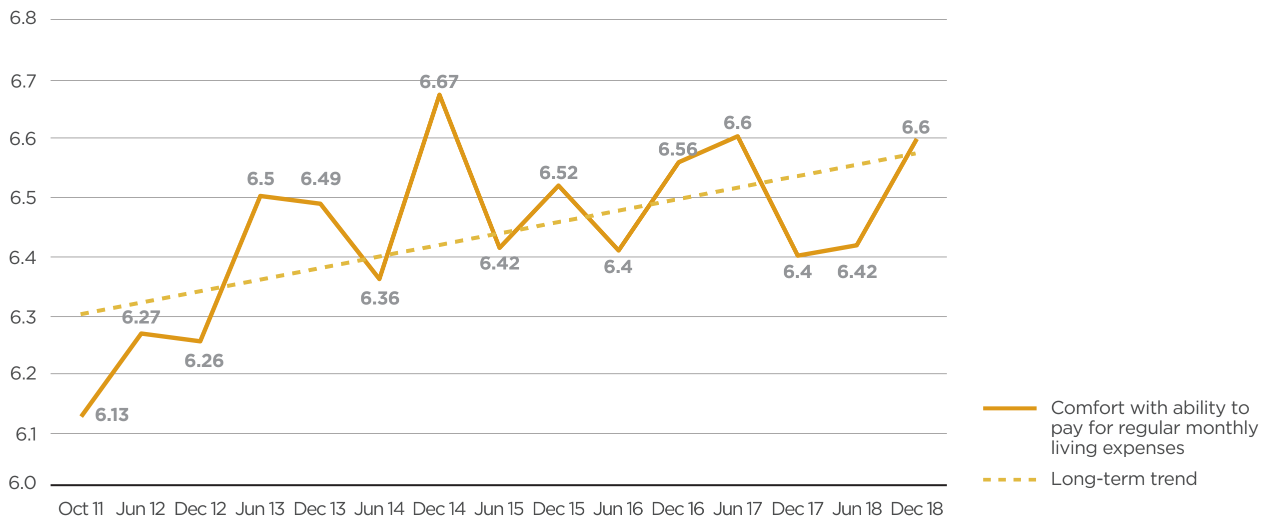

Figure 8 – Comfort with households' ability to pay regular expenses. Scores out of 10

3.5 **Comfort with cash savings rises.**

Consistent with income gains and rising comfort with paying living expenses was a rise in households' overall comfort with 'short-term cash savings', which increased by 3% to 5.07 during the period to be a bit above the historical average. This improvement in comfort with cash savings was broad-based across households – by life stage, age/generations and incomes.

By life stage, there were significant rises in comfort with cash savings across most households, partly offset by falls among two household groups: 'young singles/couples with no kids' (down 10% to 3.65) and 'middle aged singles/couples with no children' (down 13% to 4.40).

The highest 'comfort with cash savings' continued to be among 'retirees', up 3% to 5.52. Meanwhile, 'single parents' continued to record the lowest 'comfort with cash savings' (3.65) – mainly reflecting the low comfort of those single parents dependent on government support (index of only 2.55).

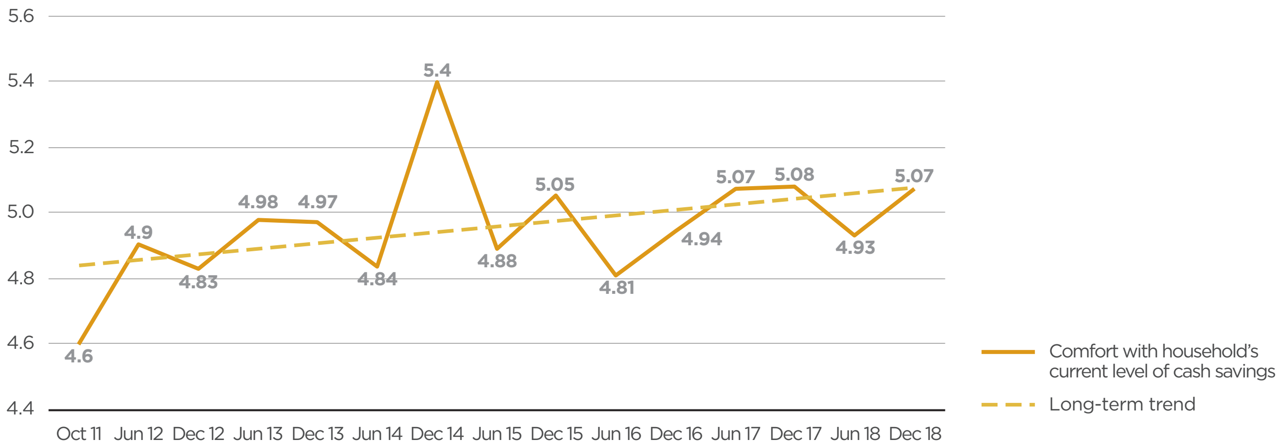

Figure 9 – Comfort with households' current level of cash savings. Scores out of 10

3.6 More people saving more and fewer people over-spending and by less.

During the past six months, increased saving and reduced over-spending behaviour indicate some belt tightening by households – consistent with some increased financial resilience. However, should this trend continue and be amplified by a large correction in housing and share prices, it could flow through to sustained slower growth in household spending and in turn may lead to smaller job and income gains.

In the six months to December 2018, households reporting that they saved each month increased three points to 51% of households – equalling historic highs. Those breaking even each month fell two points to 39% – equalling historic lows – and those spending more than they earn each month (that is, over spending by running down savings or borrowing more) also fell two points to 9%.

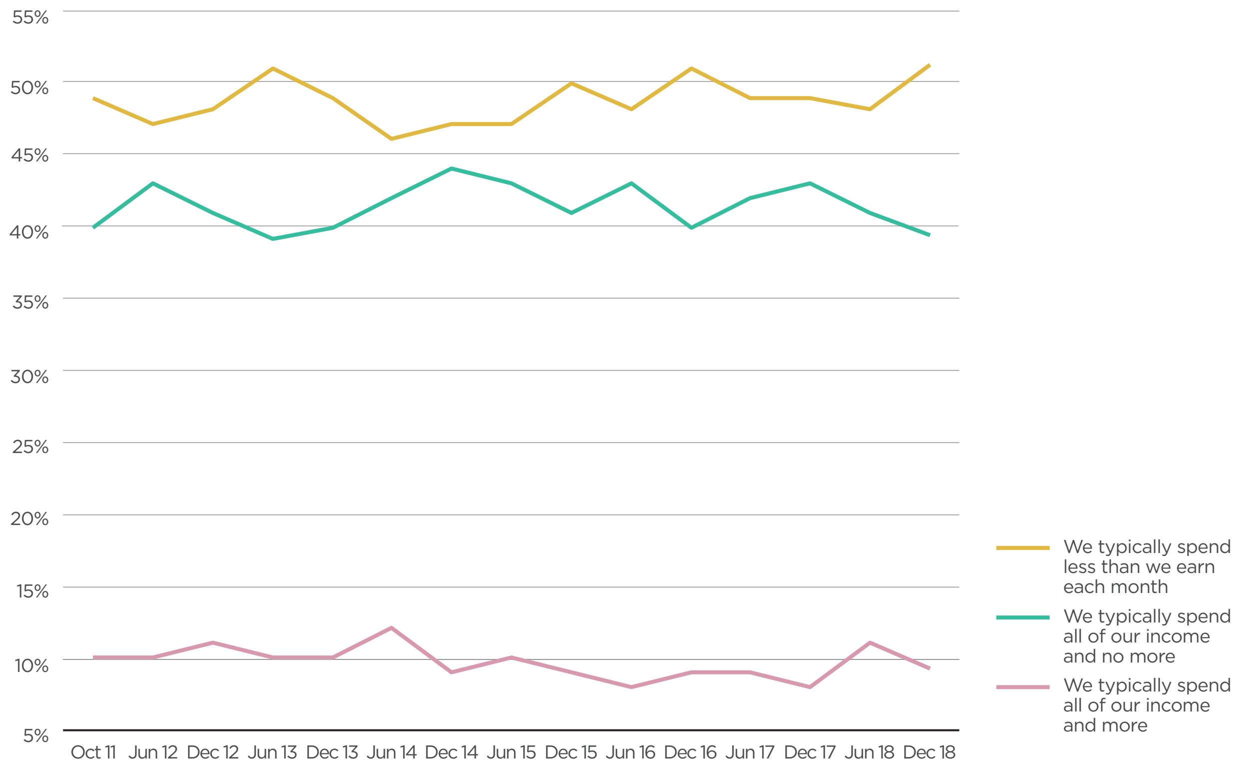

Figure 10 – The proportion of households that save, break even or overspend each month

As a result, 'net savers' – i.e. the proportion of those 'spending less than they earn each month' (51%) minus those 'spending all of their income and more' (9%) – increased significantly from 37% to 42% of households, its highest level since the survey began.

In addition, the estimated average amount savers were saving increased by about 7% to $862 per month, while the estimated average amount over-spenders overspent each month decreased by 28% to $453 per month.

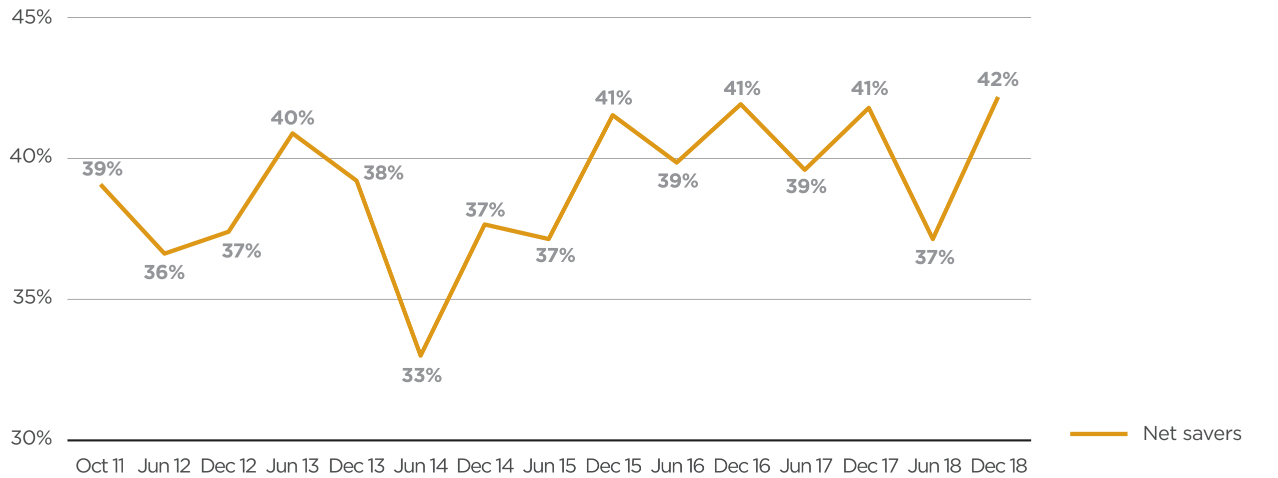

Figure 11 – 'Net savers' (proportion saving monthly minus those spending their income or more monthly)

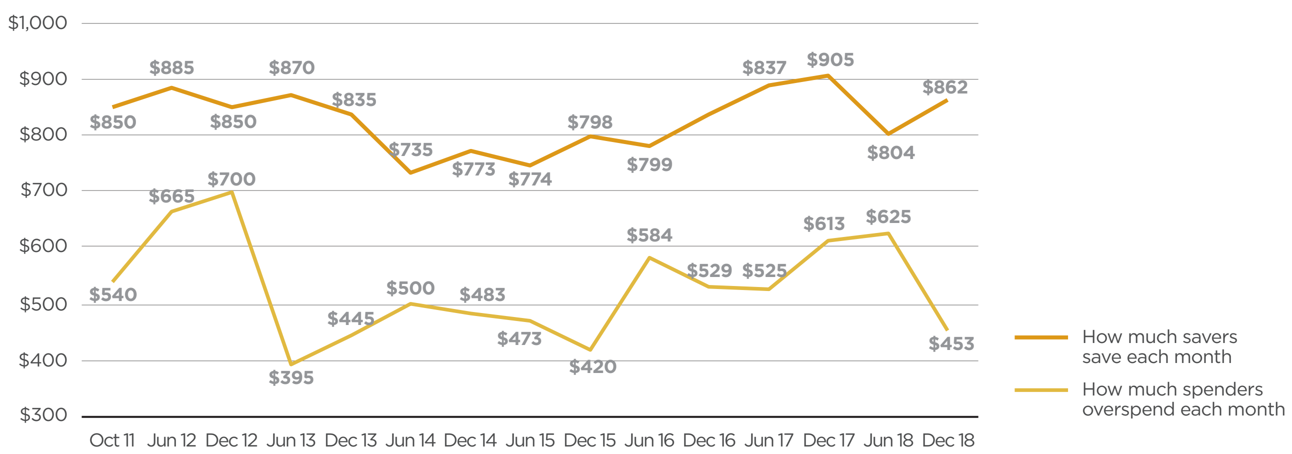

Figure 12 – Estimated amount savers saved and over-spenders overspent each month

The rise in the amount of savings was broadly felt by different life stages, including across households living in their home paying off a mortgage and, to a greater extent, households renting, as well as households with average and high incomes and cash savings. Similarly, the fall in over-spending was across most households (especially single parents, couples with young children and households living in their home paying off their mortgage), and to a lesser extent, renters and households with average and high cash savings.

Savings levels improve.

Consistent with households' increased comfort with cash savings is an overall slight increase in levels of household savings (savings account, term deposit and mortgage offset account). The proportion of households holding between $10,000 and $50,000 in savings increased four points to 24% and those holding more than $100,000 increased one point to 17%, while those holding less than $10,000 fell by five points to 49% – notwithstanding about a quarter of households have less than $1,000 in cash savings.

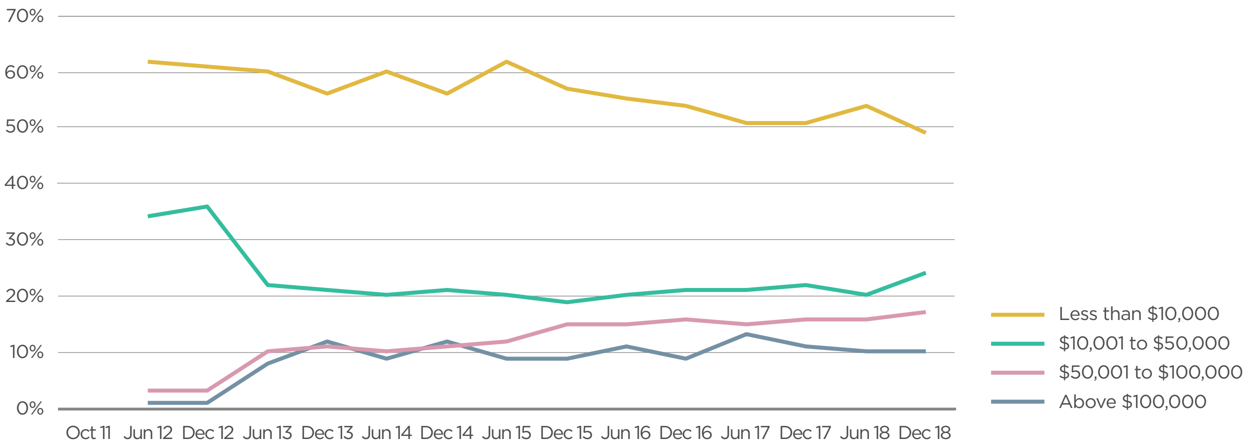

Figure 13 – Cash savings currently held

Similarly, 'confidence in the household's ability to handle a financial emergency' increased slightly – up 1% to 4.83, its second highest level since records began.

In the latest survey, the 'ability to handle a financial emergency if you lost your income for three months' improved across most employed people, especially casual workers; only self-employed people reported a notable fall over the past six months.

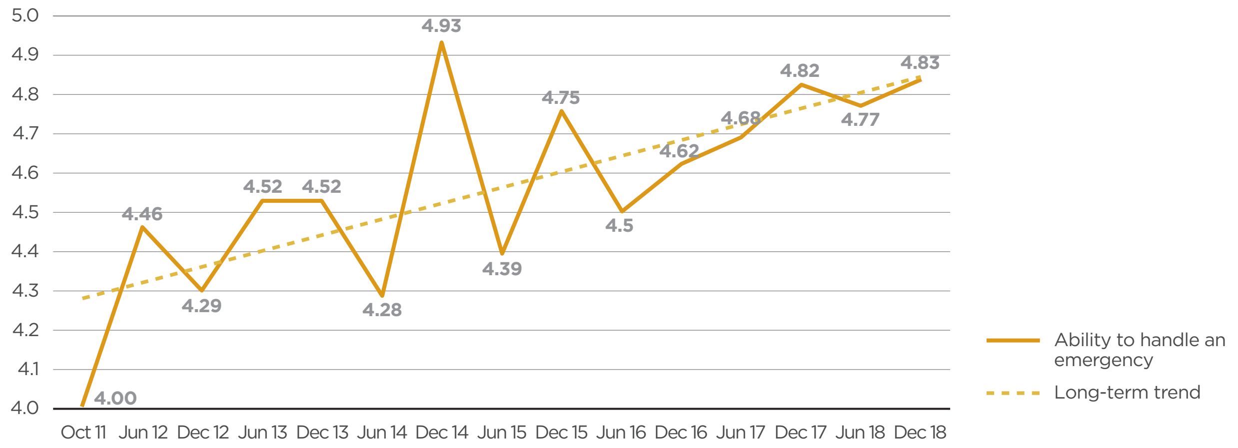

Figure 14 – Comfort with ability to handle an emergency. Scores out of 10

3.7 **Rent stress falls for the second time in 12 months.**

The proportion of households contributing over 30% of their disposable household income towards renting or paying off a mortgage – a common indicator of financial stress – fell significantly from 56% to 47% during the six months to December 2018. This was mainly due to a significant fall in stress among renters. Cooling housing markets and stagnant rents have significantly lowered high levels of rental stress, albeit they remain higher than levels of home mortgage stress.

For renters, those contributing more than 30% of their income toward rent fell from 67% to 51% over the past six months to December 2018 and from 72% in December 2017.

For households with home loans, the proportion paying more than 30% of their household income towards a mortgage was relatively unchanged at 44% – much the same as previous reports.

That said, very high levels of household payment stress continue to be reported by households with incomes less than $40,000 p.a. (about 75% are experiencing mortgage stress). There are also relatively higher levels of mortgage stress in Sydney (58%) and Melbourne (52%) as well as households living in homes valued at more than $1m (56%).

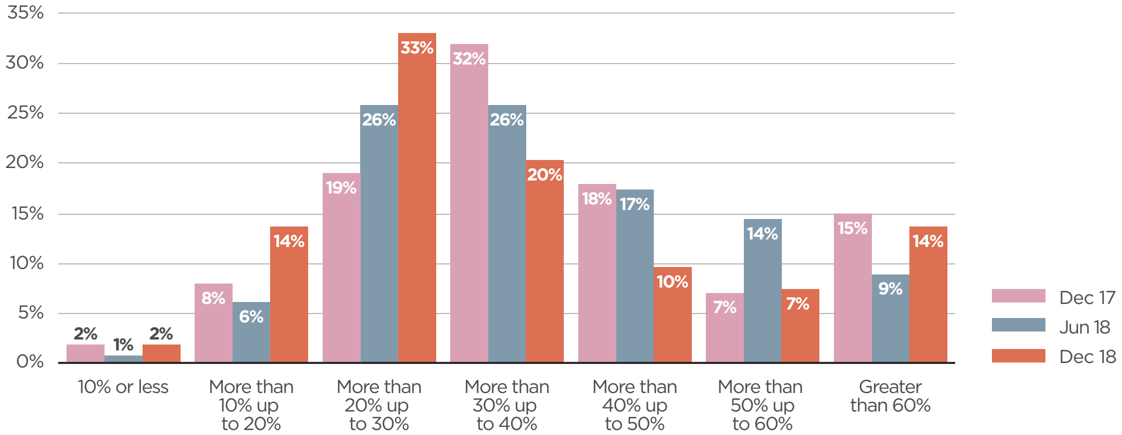

Figure 15 – Percentage of household disposable income paid towards rent

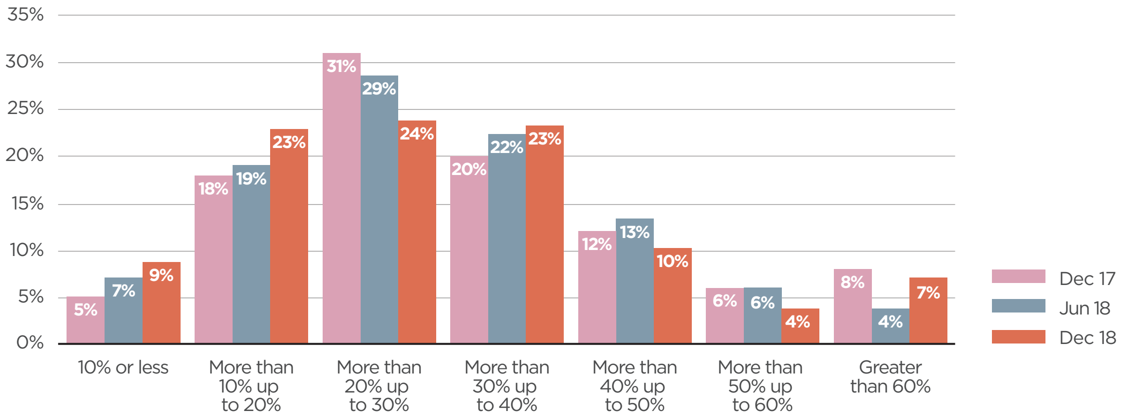

Figure 16 – Percentage of household disposable income paid towards a mortgage

3.8 **Ability to manage debt improves slightly.**

In the latest survey, only 7% of households reported that they were unable to pay their mortgage on time during the past year due to a shortage of money (no change from previous survey), 8% reported they could not pay rent on time (down one point), and 12% were unable to always pay off their personal loan or credit card on time due to a shortage of money (down two points).

Looking ahead, when it comes to managing debt over the next 6–12 months, only 8% of households do not expect to be able to meet minimum payments on debt – one point less than expectations reported six months ago. Roughly the same number of households (42% in December 2018 compared to 43% in June 2018) expected that they 'will not be able to meet their required minimum payments on their debt' and 'can just manage to make minimum payments on their debt'. Alternatively, there remained almost 60% of households that expect to be able to pay either a bit more (30%) or a lot more (28%) than minimum repayments in the next 6–12 months.

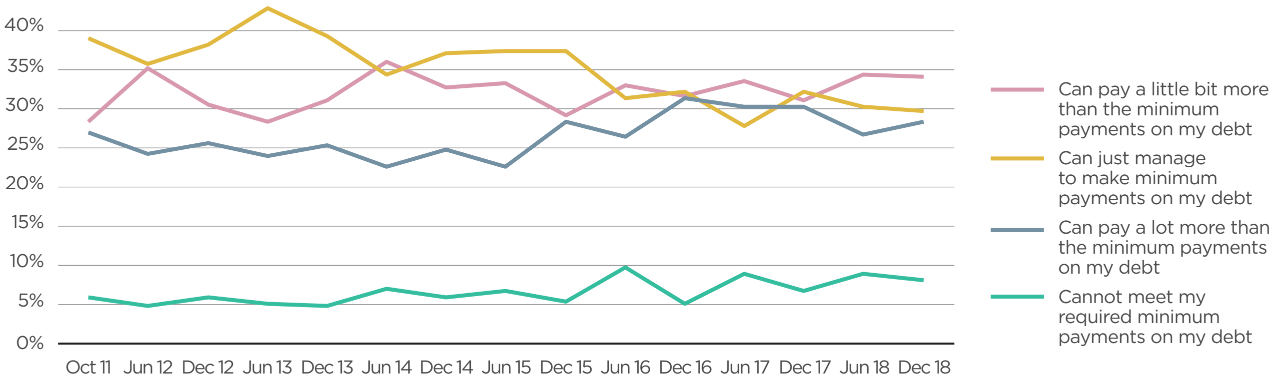

Figure 17 – Ability to manage debt over the next 6–12 months

Comfort with debt improves

Figure 18 shows 'overall comfort with debt' increased by 2% to 6.33 during the six months to December 2018 – its highest level in four years and second highest since the survey started. Across life stages, 'retirees' continued to be the most comfortable with debt (down 1% to 7.76), while 'single parents' reported the lowest comfort with debt (only 4.98).

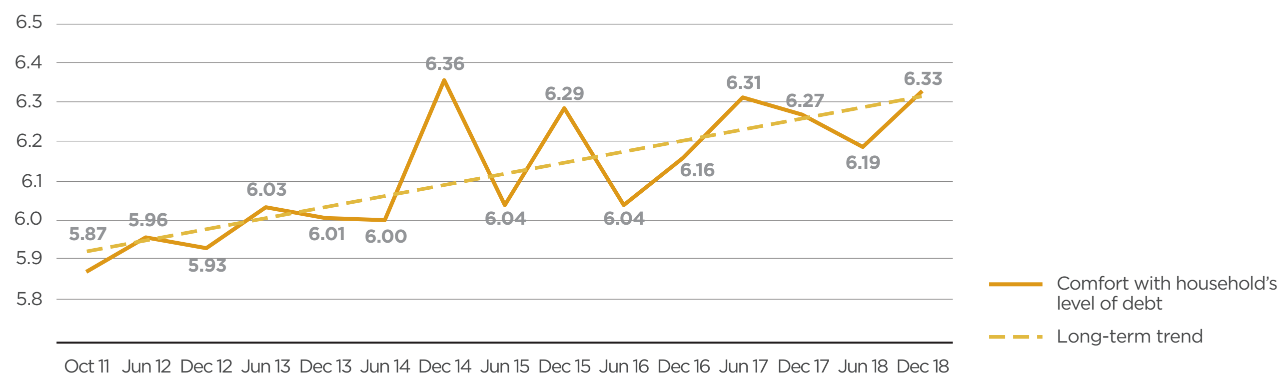

Figure 18 – Comfort with households' current level of debt. Scores out of 10

3.9 **House price expectations remain positive.**

In somewhat stark contrast to the actual fall in dwelling prices during 2018, the majority of households living in their homes and investors are positive about the 12-month outlook for dwelling prices. This is another potential driver of higher financial comfort in this survey.

Indeed, over 38% of households living in their homes expect their dwelling prices to rise during 2019, while 13% expect the value of their home to fall (including only 3% who expect dwelling prices to fall by a lot).

Investors are relatively more optimistic about prices; 53% of investors with a mortgage expect the value of their investment properties to rise during the next 12 months, while only 11% anticipate a fall (including 3% who anticipate a big fall).

Together with current low levels of repayment difficulties, this suggests that the vast majority of households may continue to hold their properties during the next 12 months – unless economic conditions were to deteriorate unexpectedly, triggered by a substantial rise in unemployment causing many households needing to sell at once.

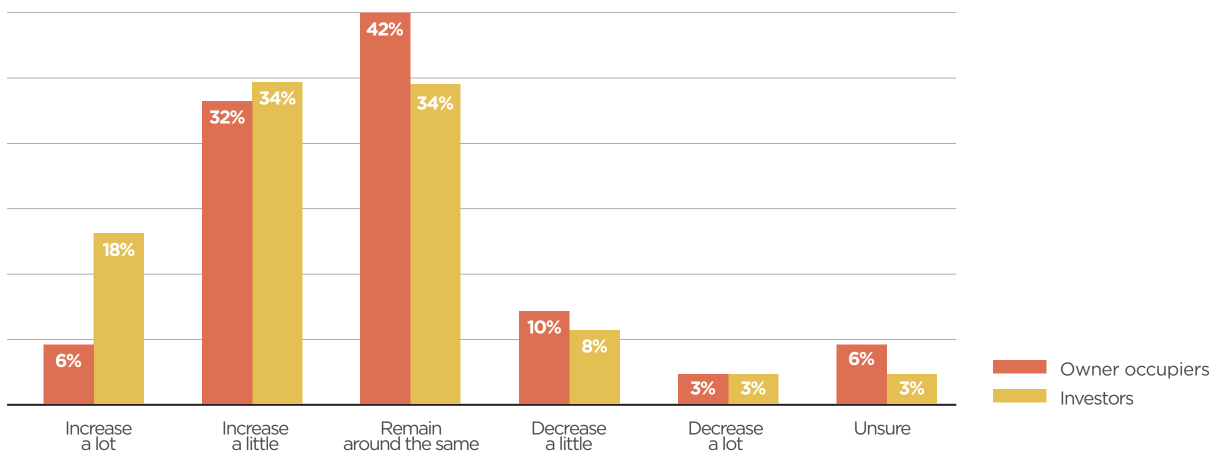

Figure 19 – What do you think is likely to happen to the value of your property in the next 12 months?

3.10 **Despite improvements, underlying concerns remain.**

There remain areas generating high levels of anxiety for households, even though some of these areas have seen levels of anxiety fall somewhat during the past six months. These include living cost pressures, savings/cash on hand, jobs, world economy, share market investments and superannuation, as well as retirement lifestyle.

All households were again asked which aspects of their finances cause the 'biggest worries' and that 'they feel most positive about'. The 'cost of necessities' (e.g. fuel, utilities and groceries) continues to be the 'biggest negative' of households, although the proportion nominating this as their biggest worry has fallen seven points to 46% during the six months to December 2018. In contrast, only 9% of respondents reported the 'cost of necessities' as their 'biggest positive' – unchanged over the past six months.

Those most concerned about savings levels increased by two points to 34%, while those concerned about the global economy increased two points to 29%.

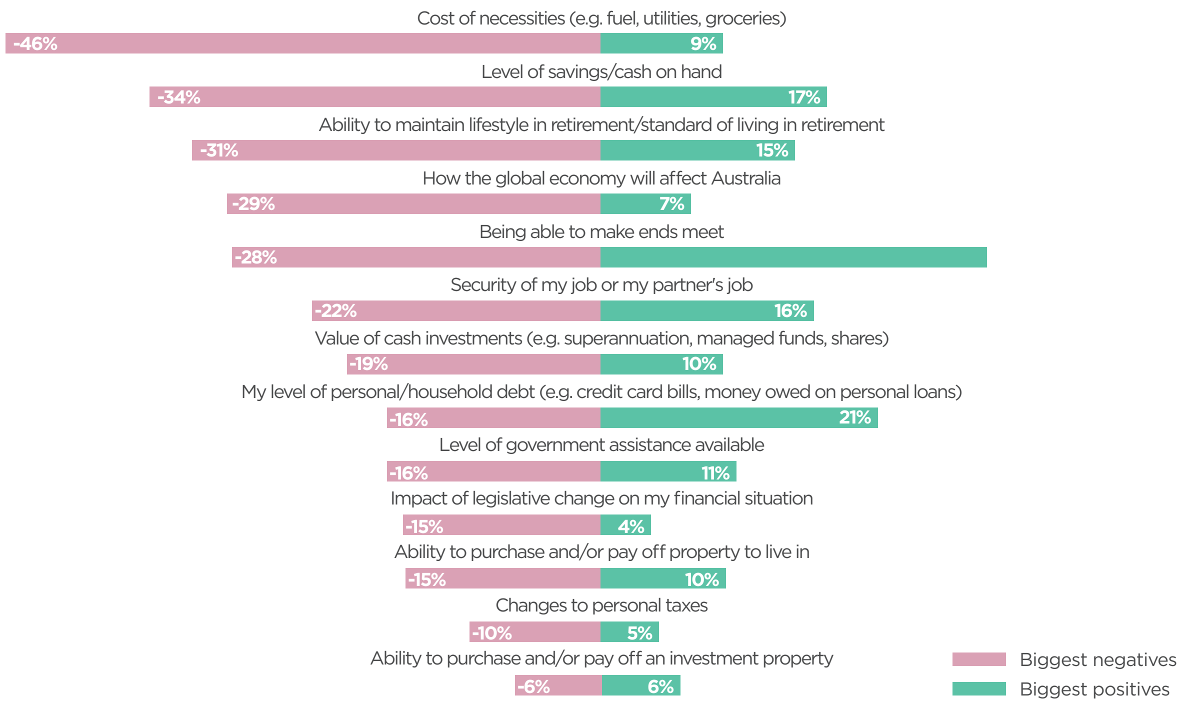

Figure 20 – Biggest financial worries and positives

“I got a pay rise and am now **managing my finances better,** moved into a smaller cheaper apartment.”

YOUNG SINGLE WITH NO CHILDREN
ACT

Falling house prices help to reduce financial comfort gap.

04.

In the seven years ME has conducted this survey, it has seen the financial comfort between property owners both with and without a mortgage diverge from renters, reflecting rising property prices that have added significant wealth to those households with properties. This is the first survey we have seen the comfort gap between these cohorts closing.

The household financial comfort of renters, while significantly lower than other tenures, was up 8% to 4.78, its highest in four years. This movement compared favourably to households paying off their mortgage whose overall financial comfort was only up 4% to 5.51, albeit a new high, and homeowners who own their home outright and whose overall financial comfort fell 3% to 6.27, to one of the lowest points recorded.

All key drivers of comfort rose for renters, with larger positive contributions from improvements in cash savings and living expenses – arguably due to stagnant rent payments and slight income gains, which improved their net cash flows.

All key drivers of comfort fell for outright home owners, with larger falls in net wealth, investments and their anticipated standard of living in retirement – suggesting significant falls in house and share prices have had a major negative wealth impact on their comfort. In contrast, all key drivers for households paying off their home rose to a similar degree.

Compared with both owner-occupiers paying off a mortgage and, to a greater extent, homeowners who own their home outright, renters typically had lower levels of comfort across most components of the comfort index – in particular 'cash savings', 'investments' and lower confidence in their 'ability to manage a financial emergency'. That said, renters and owner-occupiers paying off a mortgage continued to report similar comfort levels with debt – both significantly below the debt comfort of homeowners who own their home outright.

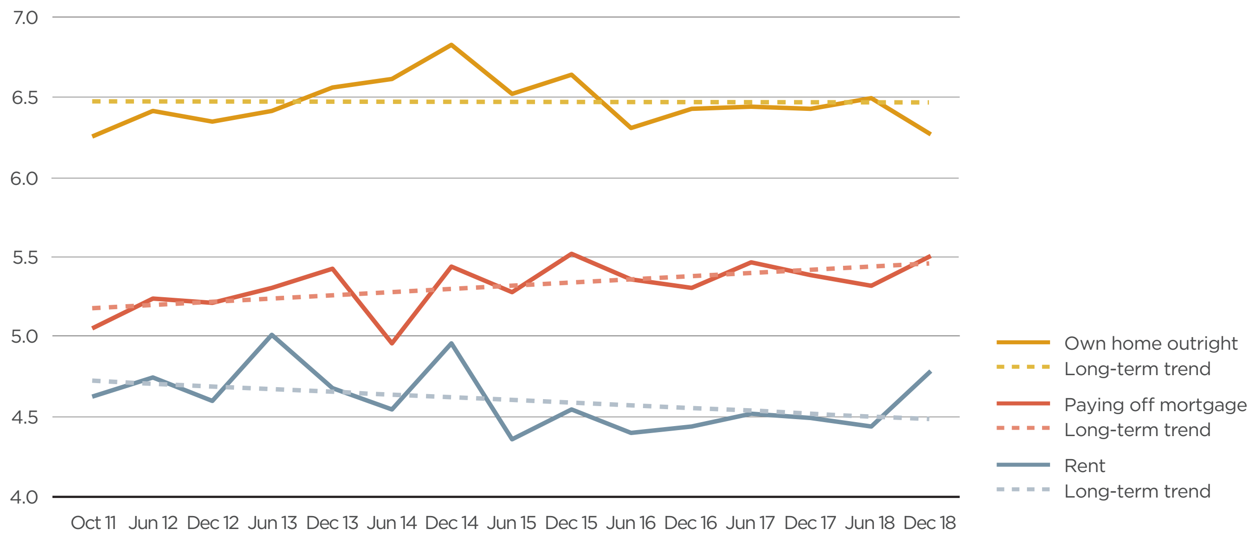

Figure 21 – Overall financial comfort based on housing tenure. Scores out of 10

Leveraged investors better off than owner-occupiers with mortgages.

Financial comfort continued to vary a great deal across households paying off mortgages on their home and investment properties. Households with 'mortgages on investment properties only' or who 'own their own home outright' reported higher household financial comfort than households with mortgages on their home and an investment property and, to a greater extent, households with only a home mortgage. This arguably reflects that households with investment loans tend to have both higher incomes (before and after tax) as well as higher (net) wealth.

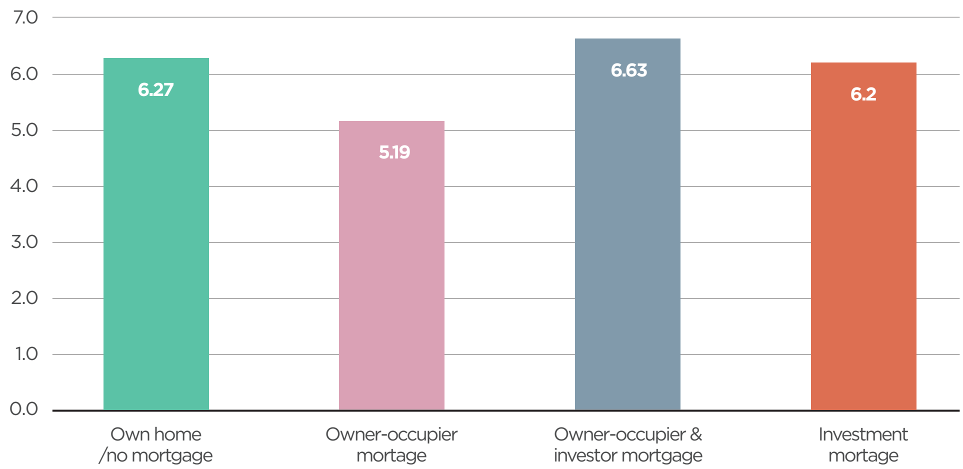

Figure 22 – Overall financial comfort for households with and without mortgages. Scores out of 10

There are also some trends in comfort by income levels that point to a narrowing gap between incomes. In the latest survey, comfort among households with very high levels of income (above $200,000 p.a.) has fallen further by 6% to 6.69, well below its upward trend of the past six years. Comfort across all other income bands rose over the past six months to December 2018, with significant rises in the bands of $100,000 p.a. to $200,000 p.a. (up 3% to 6.43) and $75,000 p.a. to $100,000 p.a. (up almost 7% to 5.87), and small rises in the lower income bands of $40,000 p.a. to $75,000 p.a. (up less than 1% to 5.52) and incomes under $40,000 p.a. (up 2% to 4.52). That said, comfort among the lowest income households continue to lag behind comfort in average/middle income households and, to a greater extent, high-income households.

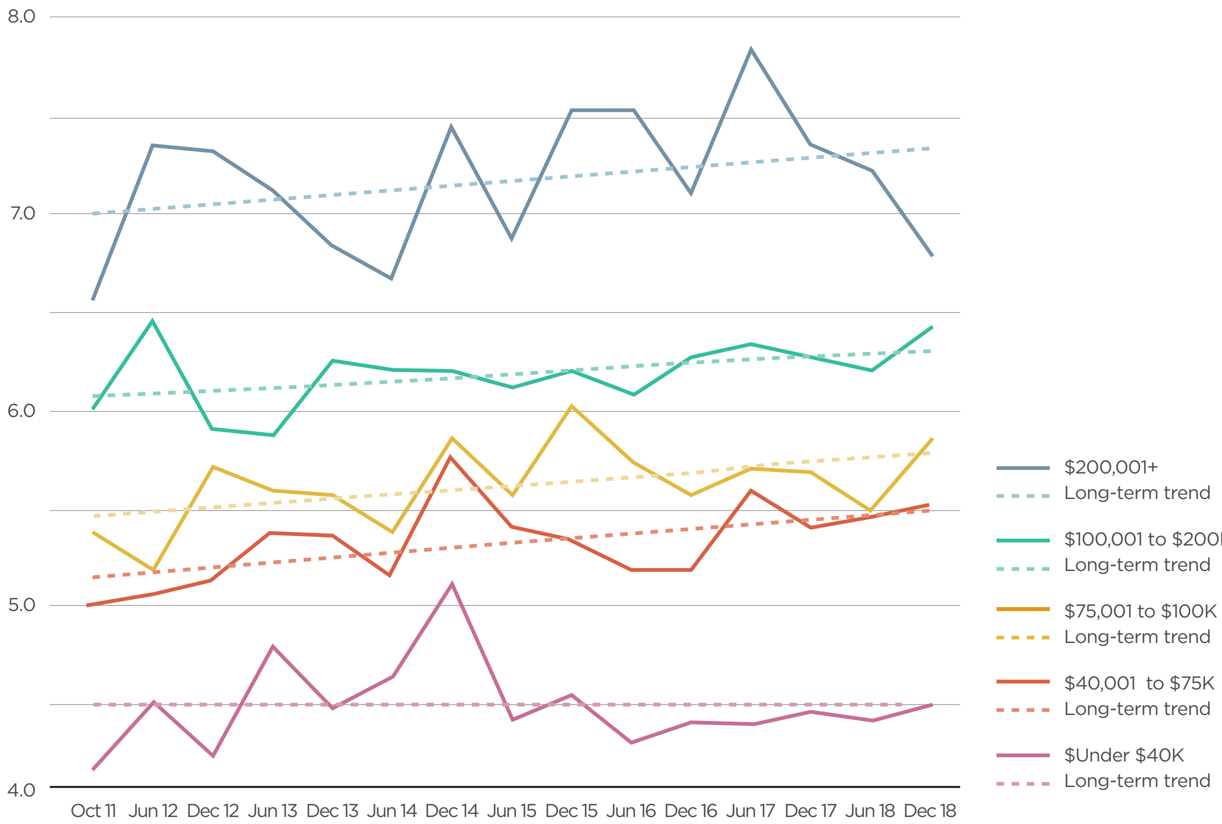

Figure 23 – Overall financial comfort of households in different annual income bands

"We've been making **extra repayments on our mortgage** fortnightly for the last two years."

MIDDLE-AGED COUPLE WITH NO CHILDREN
NORTHERN TERRITORY

Financial comfort by different cohorts.

05.

This section provides views of overall financial comfort by different cohorts.

5.1 **Households: financial comfort remains mixed.**

During the past six months to December 2018, there remained wide variations in financial comfort between households at various life stages – some households saw improved comfort while others' comfort fell. Retirees continue to have the highest financial comfort of any household type at 5.88, while single parents continue to have the lowest comfort at 4.57. Young singles/couples with no children reported the biggest increase in financial comfort, rising 8% from 5.30 to 5.73, while 'middle-aged singles/couples with no children' reported the biggest fall in financial comfort, dropping 10% from 5.53 to 4.97.

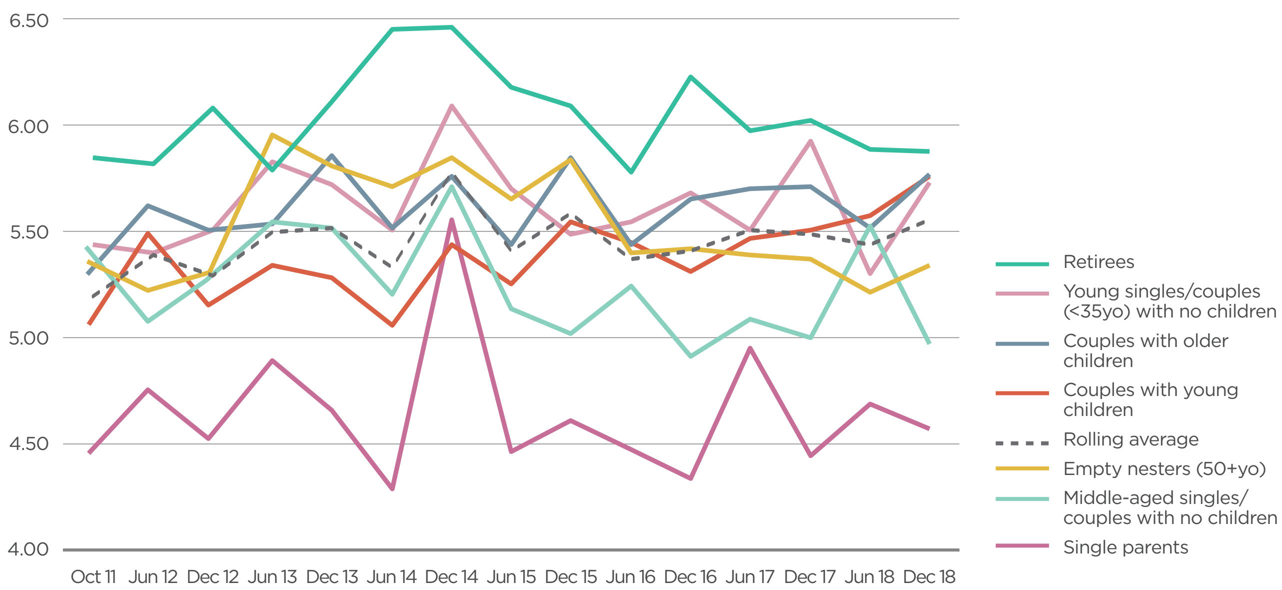

Figure 24 – Overall financial comfort across different household types. Scores out of 10

5.2 **Generations: financial comfort remains mixed.**

Financial comfort continued to vary across generations in the six months to December 2018, with relatively low comfort levels among 'Gen X' compared with all other generations. 'Gen X' continued to record the lowest financial comfort of all generations (up 1% to 5.18), with small rises across most drivers of the index. 'Gen X' tended to report much lower comfort levels due to relatively lower comfort with debt, cash savings and their ability to handle a financial emergency. Meanwhile, 'baby boomers' continued to report high financial comfort compared to other generations (up 3% to 5.84), closely followed by 'Gen Y' (also up 3% to 5.79). However, 'baby boomers' tended to be more comfortable about their net wealth (especially debt) and less comfortable about their future comfort, compared with 'Gen Y'. After their comfort level fell during the past couple of surveys, 'Gen Z' households reported a small rise in comfort, up 1% to 5.63 in December 2018. 'Gen Z' recorded relatively less comfort with their net wealth and their ability to handle a financial emergency.

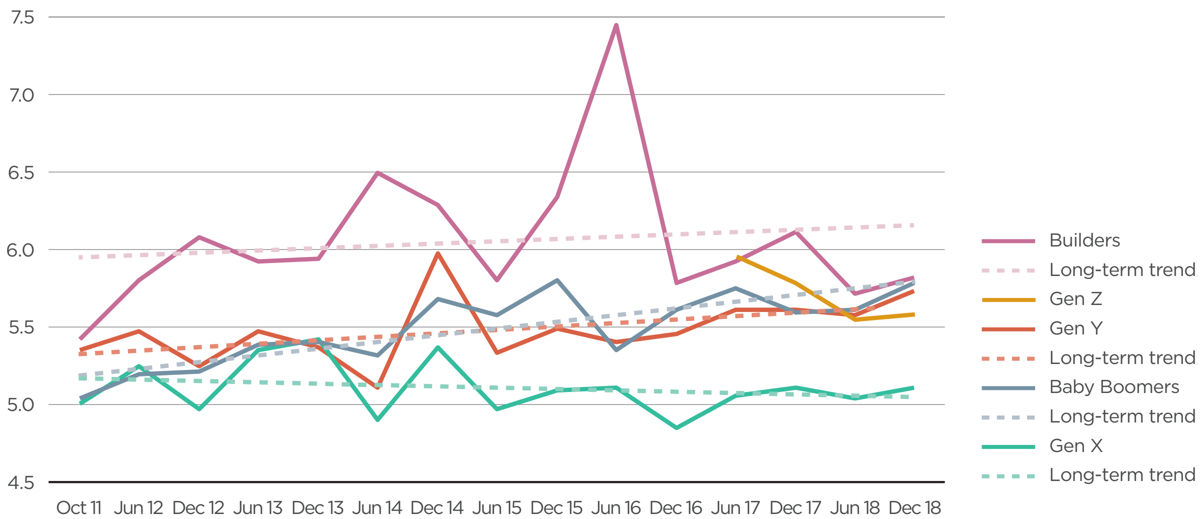

Figure 25 – Overall financial comfort across generations. Scores out of 10

[1] Generational definitions are: GenZ: 18–24; GenY 25–34; GenX 35–54; Baby boomers 55–74, Builders 75+.

Students feeling the pinch.

'Students' continued to report markedly lower levels of financial comfort (4.98 out of 10) in December 2018, compared to both '18–29 year olds' (up 2% to 5.74) and 'young singles/couples with no children' (up 8% to 5.73). See figure 26.

'Students' had much lower financial comfort relative to other employment categories across most financial drivers – especially in comparison to 'young singles and couples with and without children', largely due to their lack of ability to manage a financial emergency and lower comfort with most other drivers of comfort.

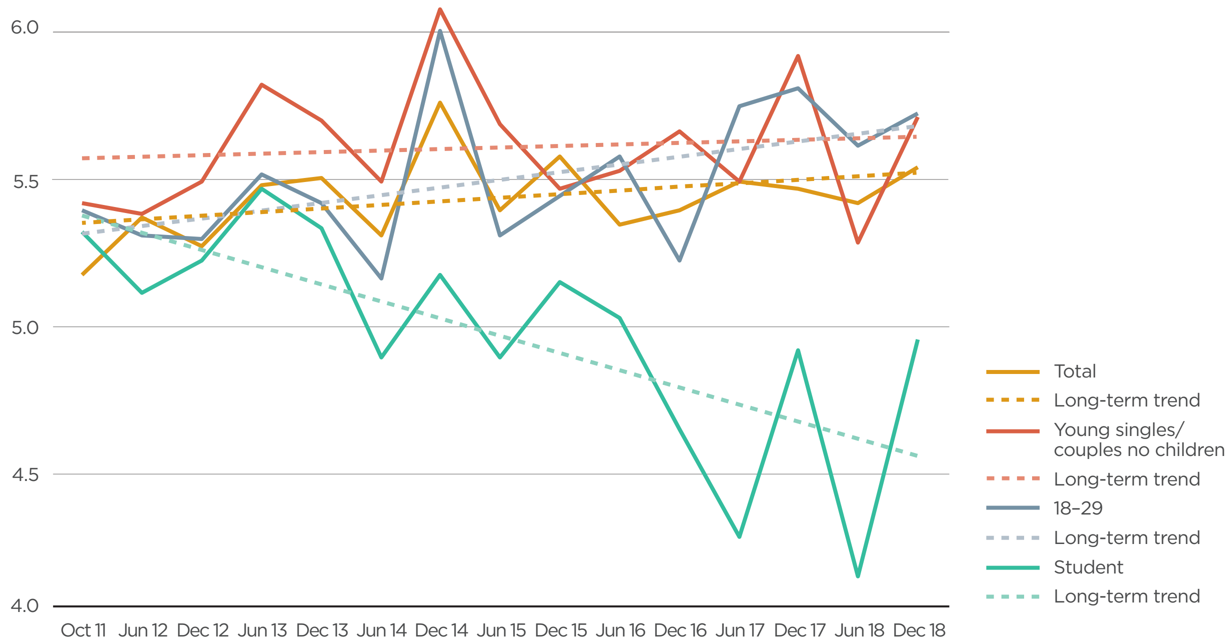

Figure 26 – Overall financial comfort across young singles/couples and students. Scores out of 10

5.3 **States: financial comfort remains mixed.**

During the past six months to December 2018, rises in both Queensland and to a lesser extent Victoria (up 8% to 5.68 and 3% to 5.54, respectively) were partly offset by falls in South Australia (down 7% to 5.39) and to a much lesser extent Western Australia (down 2% to 5.42). New South Wales was down very slightly (1% to 5.64) to be slightly lower than Queensland.

In terms of the states:

- Queensland jumped markedly to a record level of financial comfort in December 2018 – up 8% to 5.68 – and the highest across Australia as a whole. This reflected broad-based improvements in all drivers and, in particular, increased comfort with 'investments' and 'anticipated standard of living in retirement'.
- New South Wales continued to report relatively favourable comfort overall, down 1% to 5.64, with most drivers lower – including large falls in comfort with 'net wealth' and 'ability to manage a financial emergency'.
- Victoria's comfort rose to about 5.54, with small gains across most drivers, except 'investments'.
- Western Australia's comfort eased by 2% to 5.42 after improvements since a record low in June 2016, with lower comfort among most drivers offset by higher comfort with 'investments' and 'living expenses'.

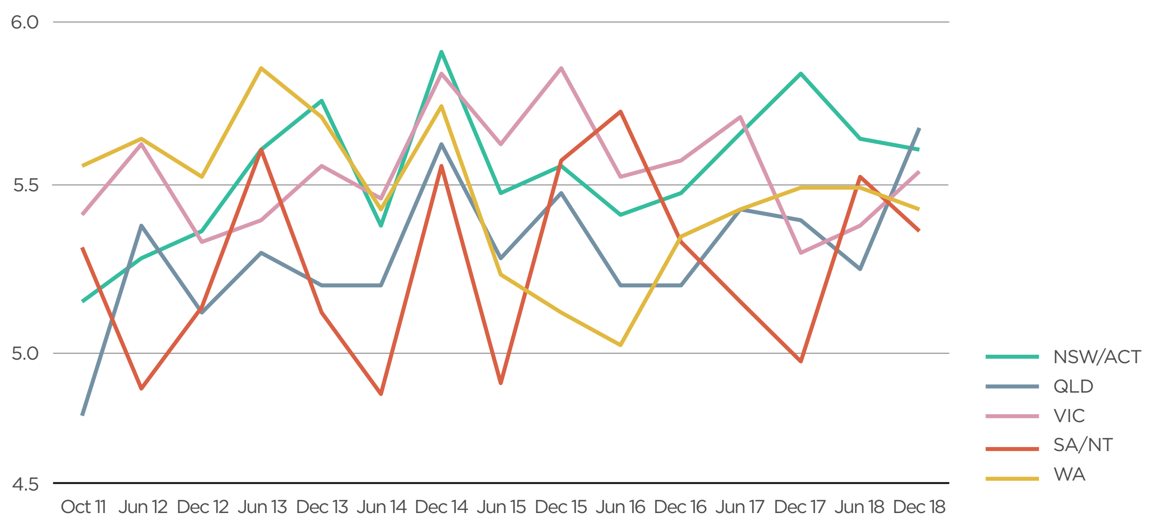

Figure 27 – Overall financial comfort across different states and territories. Scores out of 10

Metropolitan versus regional comfort – divide narrows.

In December 2018, metropolitan cities continued to record significantly higher financial comfort (up 1% to 5.62) than regional areas (up 6% to 5.43), although the gap significantly narrowed over the past six months.

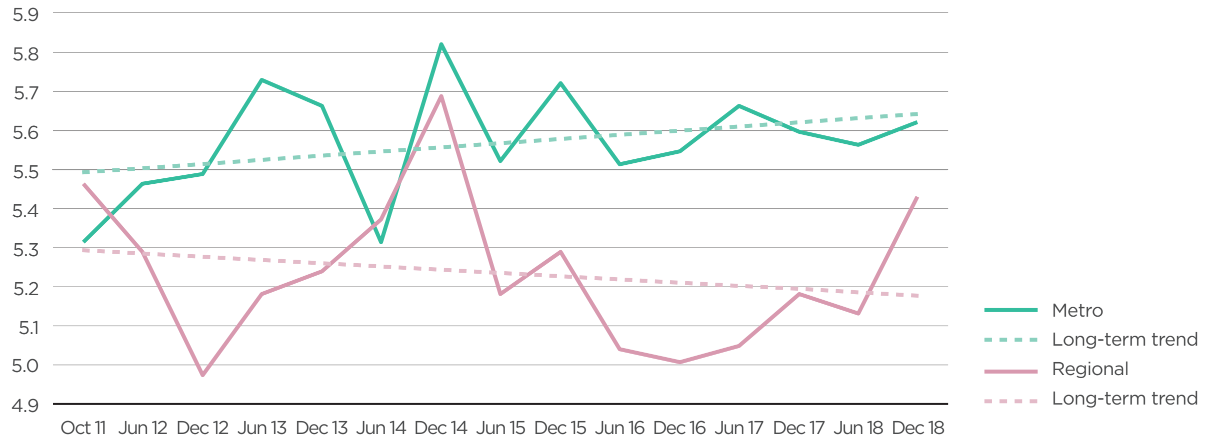

Figure 28 – Comfort index across metropolitan and regional Australia. Scores out of 10

The trend of slightly higher household financial comfort in metropolitan households is evident across the larger capital cities, with the exception of Brisbane (5.46 v 5.68 for Queensland as a whole). Sydney continued to be the most financially comfortable metropolis across Australia (5.81 out to 10), followed by Melbourne (5.67 out of 10). Comfort in both Adelaide and Perth declined markedly to 5.42 and 5.48 respectively – a similar level as Brisbane during the past six months to December 2018.

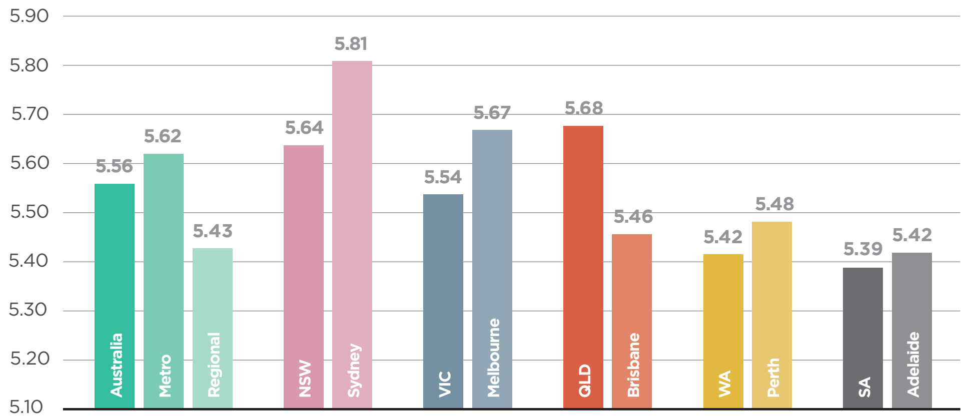

Figure 29 – Comfort index across larger states and metropolitan areas. Scores out of 10

5.4 **Workforce segments: financial comfort improves.**

Self-employed workers was the only workforce segment to report significantly lower comfort during the six months to December 2018, down 7% to 5.76, but still 8% higher than six months ago.

After a rise in comfort of 4%, full-time employees reported the highest comfort at 6.02, driven to a new high by a rise in all key drivers. Meanwhile, the lowest financial comfort across employed people continued to be reported by casual workers (up 4% to 5.07) and, to a lesser extent, part-time workers (up 2% to 5.31).

The largest rise in comfort of any workforce segment was recorded by unemployed people (up almost 30% to 4.77) – 15% above the average of 4.14 out of 10 since the survey began – due to rises in most drivers.

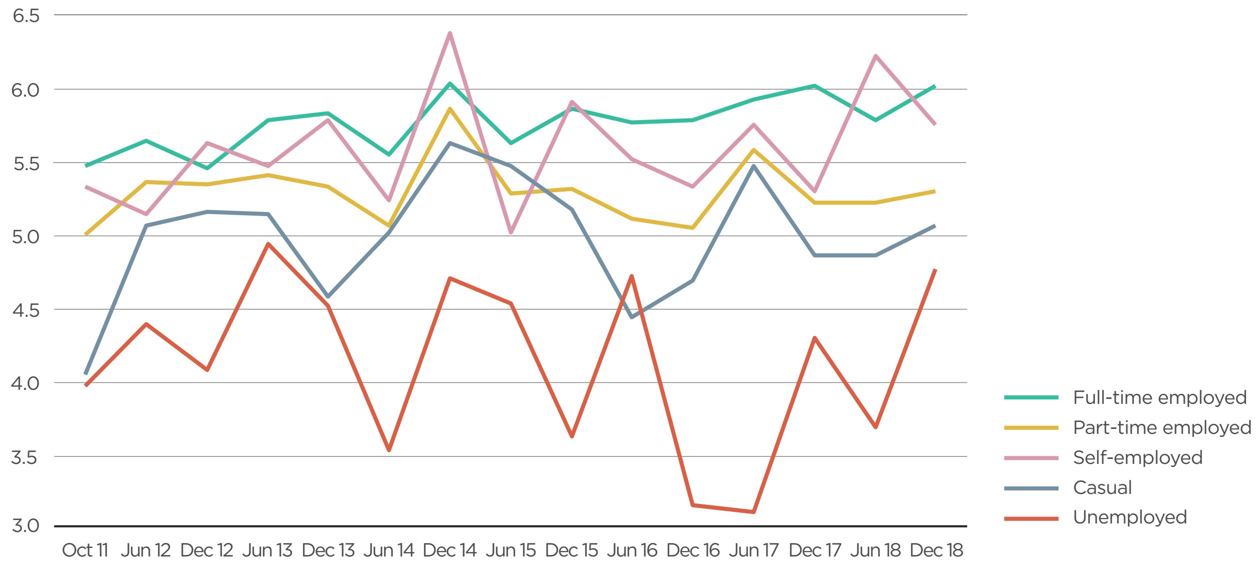

Figure 30 – Comfort index across the workforce. Scores out of 10

5.5 Easier to get a job, but insecurity and desire to work more hours remain significant.

Job availability remained at its highest level in over three years in December 2018; 44% of households indicated it would be 'easy to find a job in two months' (unchanged over the past six months), if they became unemployed. Similarly, the number of households who reported it would be 'difficult to find another job in two months' also remained stable at 45%. These results arguably reflect both strong job gains over the past year and improvements in job vacancies.

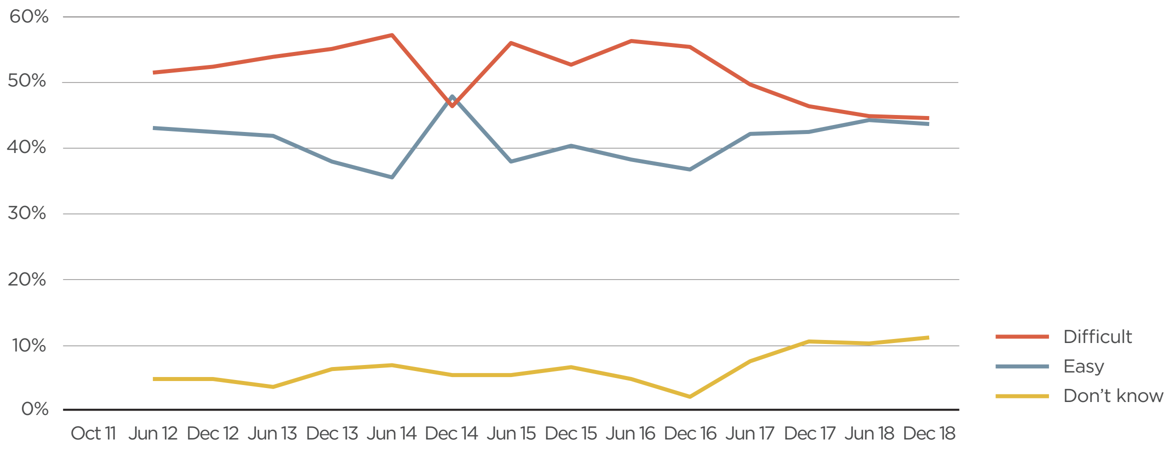

Figure 31 – Ease of finding a new job in next two months if became unemployed

Despite this, a significant part of the workforce continued to lack job security, with 27% of workers feeling 'insecure' in December 2018 (down 1 point), albeit significantly down from the peak of 34% in December 2016.

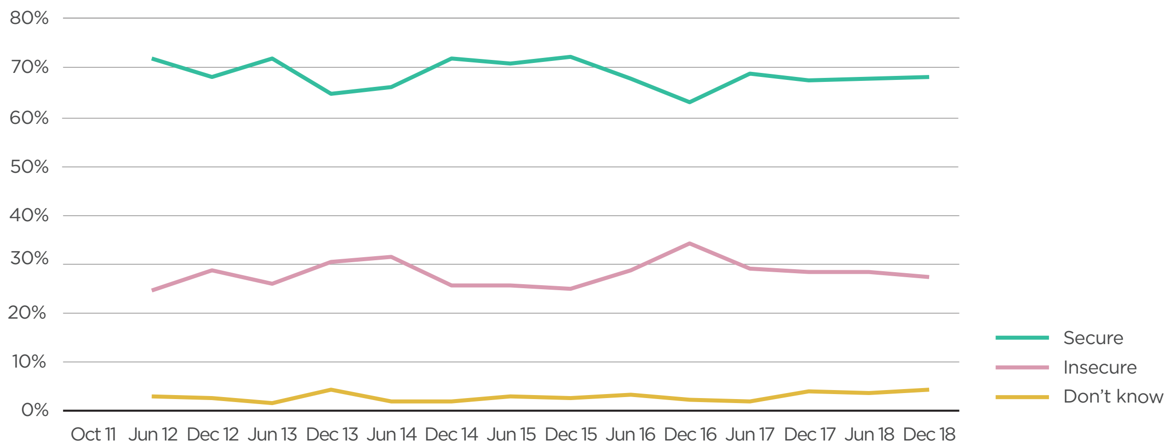

Figure 32 – Feeling of security in job in past month

In addition, a significant number of 'part-time' and 'casual' workers continued to seek more hours and full-time work. In December 2018, 30% of 'part-time' and 'casual' workers indicated a preference to work more hours on average each week, while the majority (64%) preferred to continue with the hours they currently work. 'Part-time' and 'casual' employees were seeking 24 more hours per week, on average.

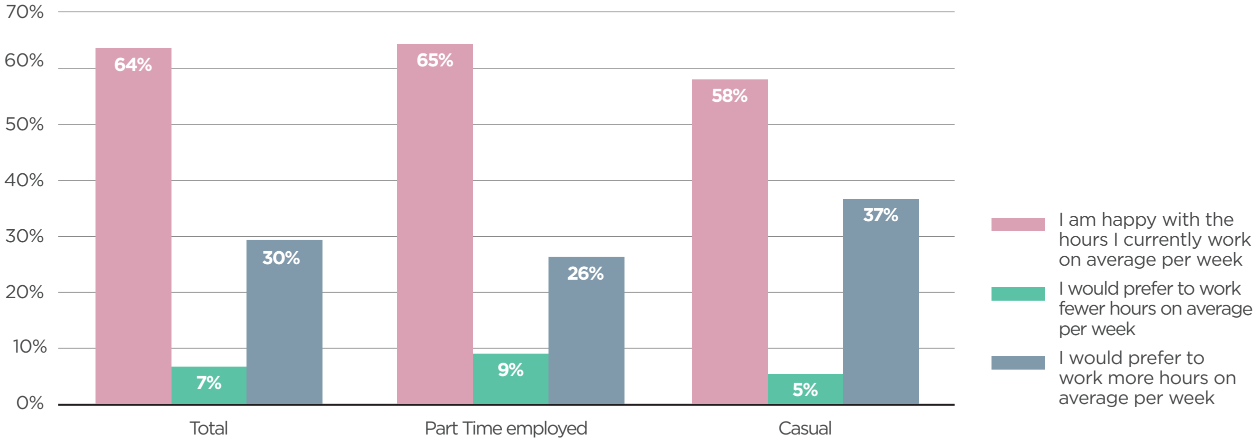

Figure 33 – Preference for work hours (part-time and casual employees)

“I returned back to work after having a baby so **our household income increased.”**

COUPLE WITH YOUNG CHILDREN
WESTERN AUSTRALIA

Other findings.

06.

6.1 If official interest rates increased, similar levels of households expect to be worse off and better off.

Over 30% of households predicted they would be 'worse off' if changes in the economy were to lead the RBA to increase official interest rates by a total of 1.0% in the near future from its record low of 1.5% – much the same to outcomes recorded in the previous survey, while a similar share of households expected to be better off (32%).

Not surprisingly, significantly more households with a mortgage (47%) reported that they would be 'worse off' compared to homeowners who owned their homes outright (16%).

By life stage, 36% of 'single parents' and 'middle-aged singles/couples with no children' reported they would be 'worse off'. In contrast, 44% of 'young singles/couples with no children' reported they would be 'better off'.

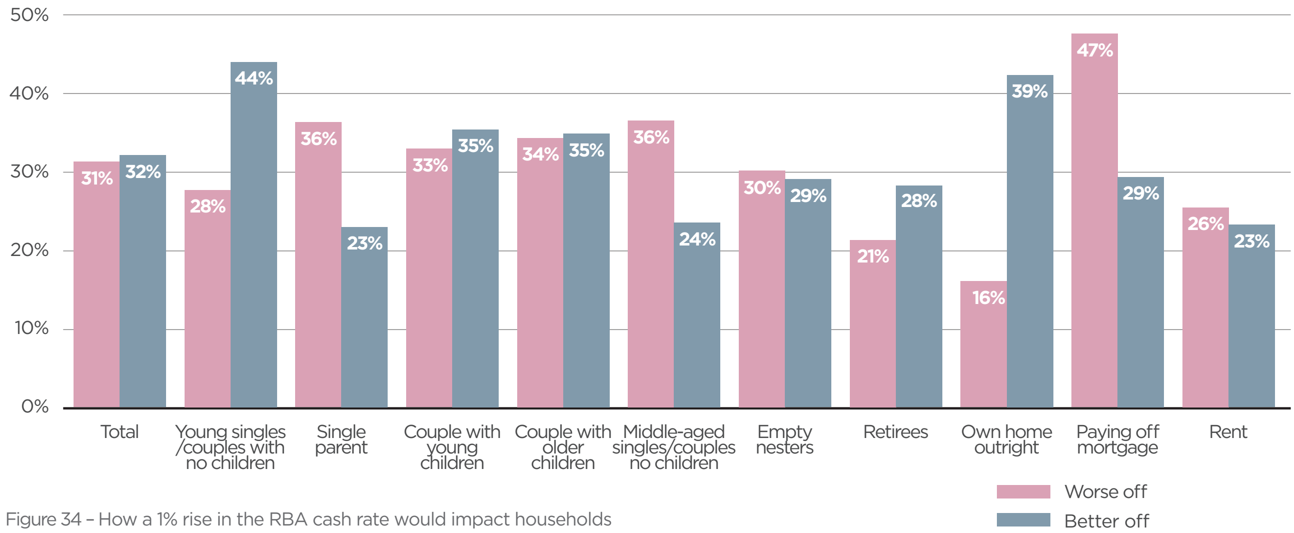

Figure 34 – How a 1% rise in the RBA cash rate would impact households

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

Confidence in 'raising money for an emergency' deteriorated slightly in the period, after improvements over the previous four surveys – notwithstanding fewer households do not expect to be able to raise $3,000 for an emergency.

In December 2018, 36% reported they could easily raise $3,000 in a week for an emergency, compared to 38% six months ago.

That said, 15% of households reported that they do not think they could raise the money – the lowest since the survey began.

As noted in figure 14 on page 17, comfort with 'ability to handle an emergency', rose slightly – up 1% to 4.83 in the six months to December 2018 – and as a result continued to trend slowly higher.

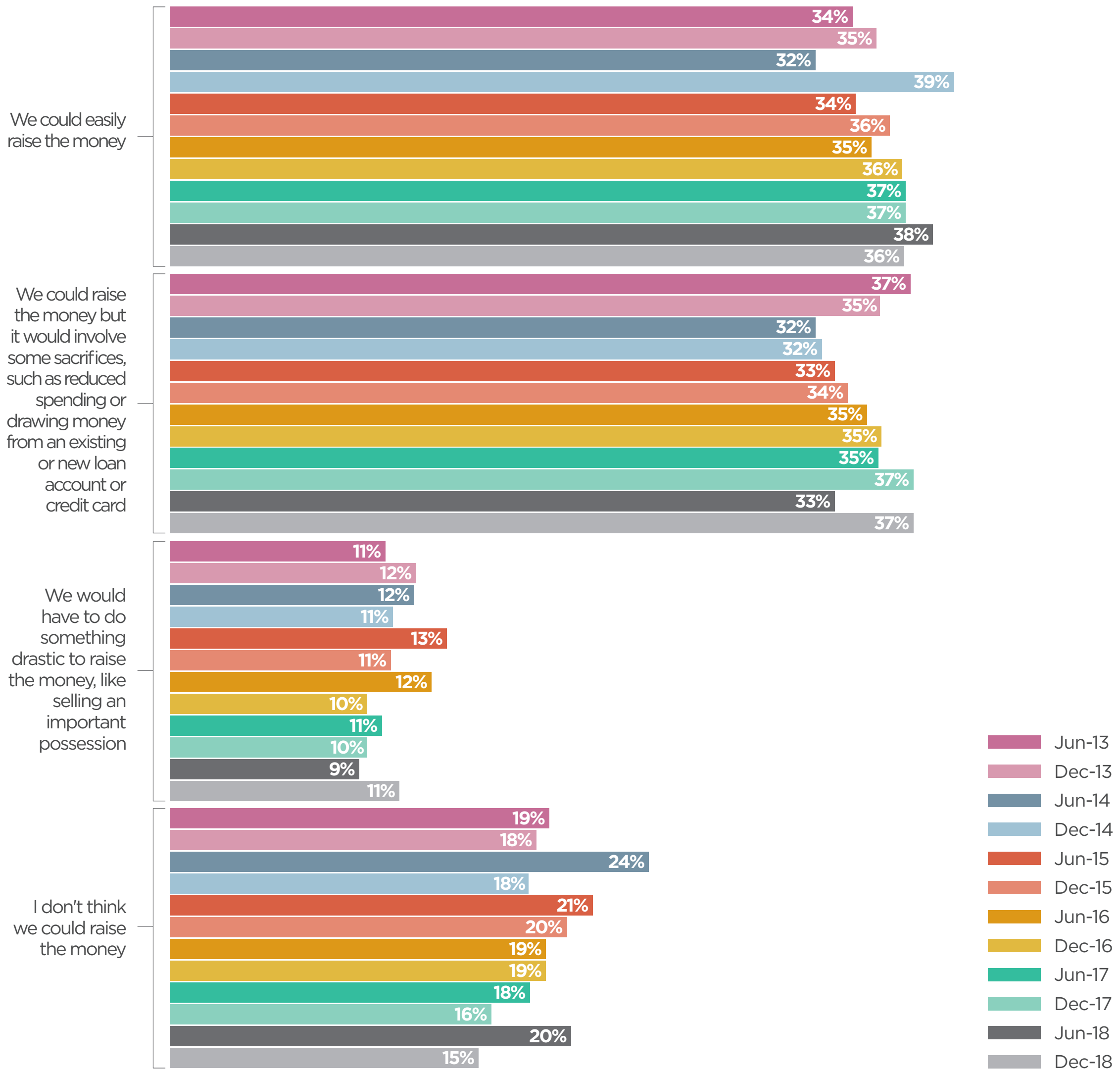

Figure 35 – Ability to raise $3,000 in a week for an emergency

6.3 **Investments.**

Comfort with investments broadly unchanged.

Overall 'comfort with investments' was broadly unchanged at 4.96 out of 10 in December 2018 and remains slightly higher than the medium-term average outcome of 4.87 since the survey began.

By household, 'couples with older children' (down 1% to 5.25); couples with younger children (up to 4.6% to 5.20); and 'retirees' (down 3% to 5.11) recorded the highest level of comfort with 'investments', while 'single parents' (up by 5% to 4.11) continued to report the lowest level in the past six months to December 2018.

By housing tenure, a significant rise in both households paying off their mortgage and renters offset a fall amongst householders without a home mortgage. Nevertheless, households 'owning their home outright' continued to have significantly higher comfort with investments than those 'paying off a mortgage' (5.79 vs 5.04) and, to a much greater extent, 'renters' (3.77).

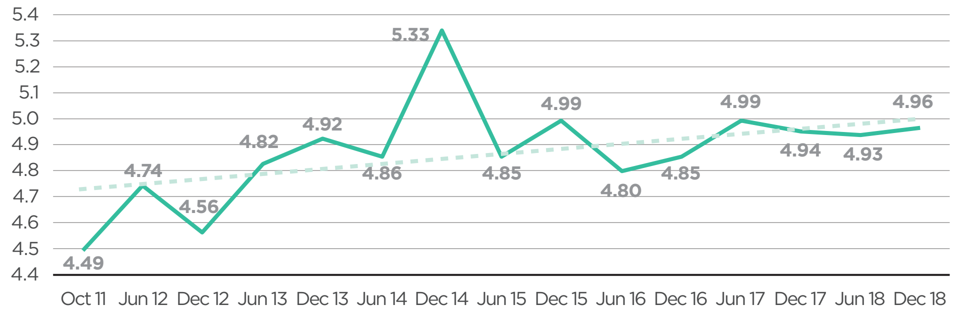

Figure 36 – Comfort with level of investments. Scores out of 10

Investment risk appetite improves moderately.

The (net) risk index shows 'risk avoiders' (40%) outnumbered 'risk takers' (21%) by 19% in the latest survey. The latest outcome suggests that households are taking on a bit less risk over the last six months, about equal to the average (net) risk at -19% since the report began in late 2011.

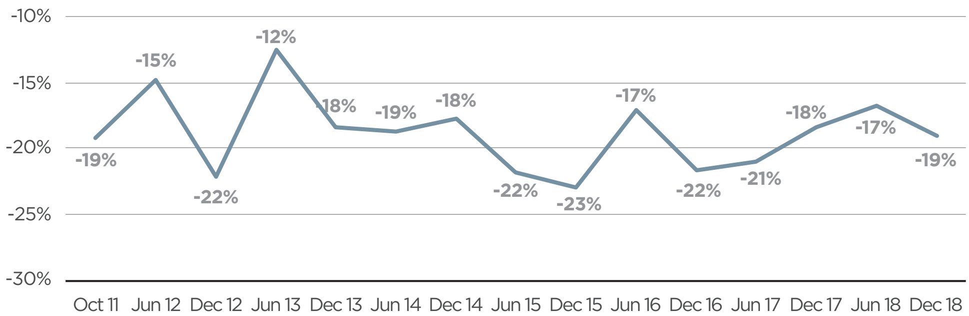

Figure 37 – What financial risk would you take with your investments? (risk takers less risk avoiders)

6.4 **Superannuation.**

Comfort with anticipated standard of living in retirement increases.

Confidence with households' 'anticipated standard of living in retirement' increased 3% to 5.27 in December 2018. This is marginally above the historical average of 5.07 out of 10 since the survey began.

The rise was broadly based across all generations, except 'Gen Z'.

By households, single parents anticipated the lowest standard of living in retirement with an index of 4.13.

By gender, women anticipated a much lower standard than men, with respective indexes of 5.08 and 5.51 in the latest survey.

Minority of households continue to expect to fund retirement themselves.

Currently, about one out of five households (21%) expect to 'fund retirement with their own superannuation' (up three points in the past six months). This is slightly more than an average of 19% since the survey began.

The number of households expecting to 'rely on the government pension' during retirement remained steady at 23%.

A further 40% expect to partly fund retirement with a government pension. Finally, a significant proportion of households simply do not know (16%).

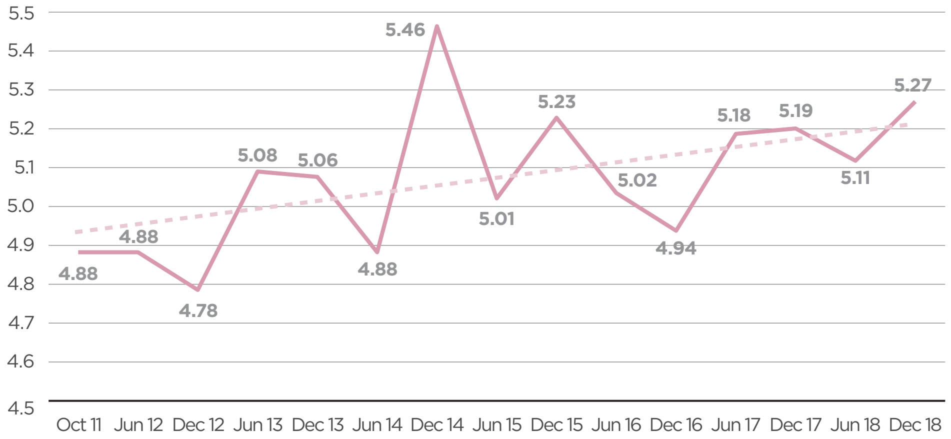

Figure 38 – Comfort with standard of living in retirement. Scores out of 10

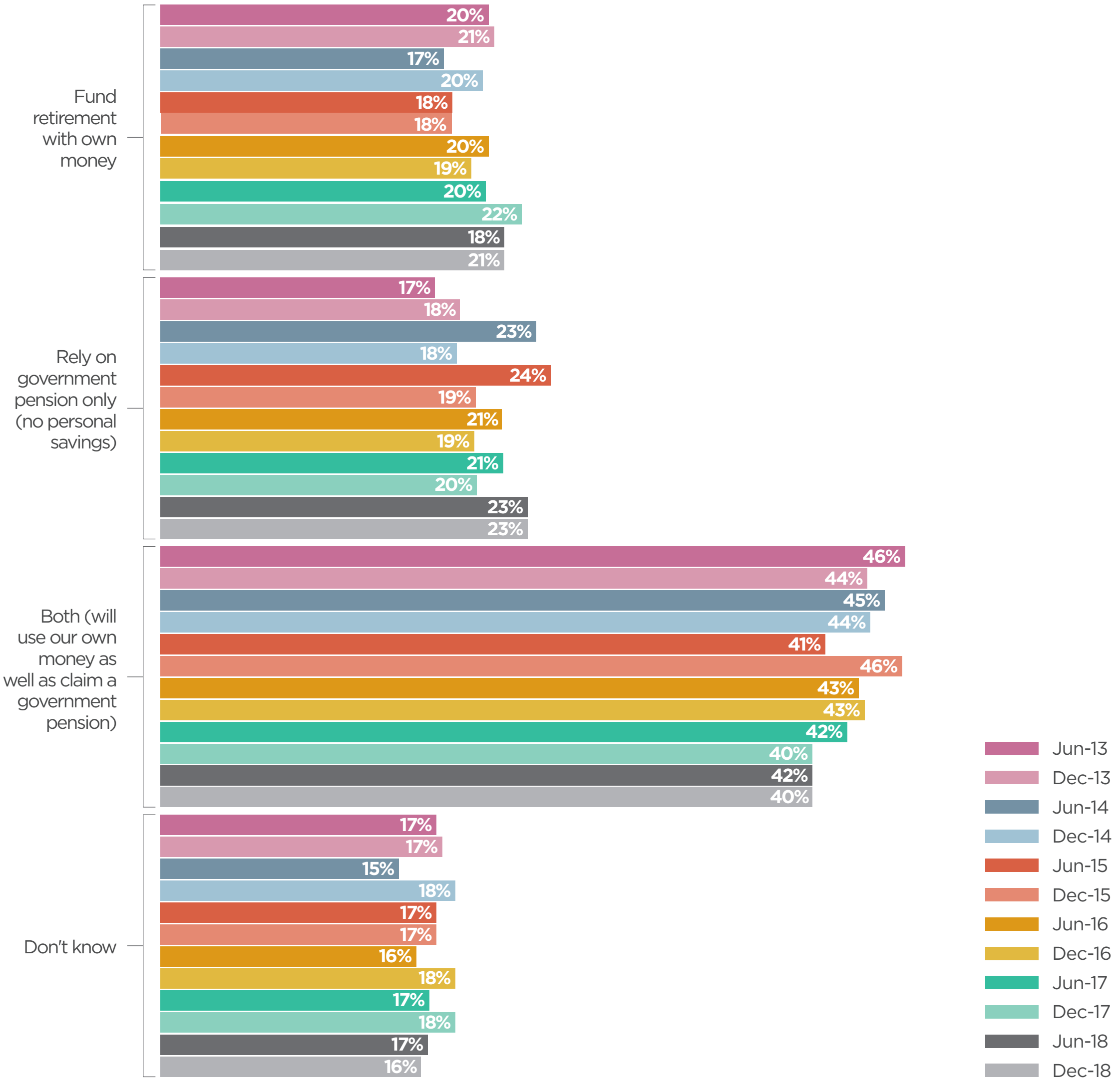

Figure 39 – How will your household fund retirement?

Expected adequacy of income in retirement.

In December 2018, households' expectations of the adequacy of their income in retirement remained largely unchanged. Around 63% of households expected to be able to 'afford essentials and extras', while 37% of households reported to be 'unable to afford essentials' or have 'no money left over afterwards'.

There remains a lack of awareness and passivity towards superannuation. In the latest survey:

- 25% either didn't have a superannuation fund or didn't know what type of superannuation fund they were in.
- Only 18% of Australians reported 'building wealth for retirement' as a financial goal they're actively working towards.

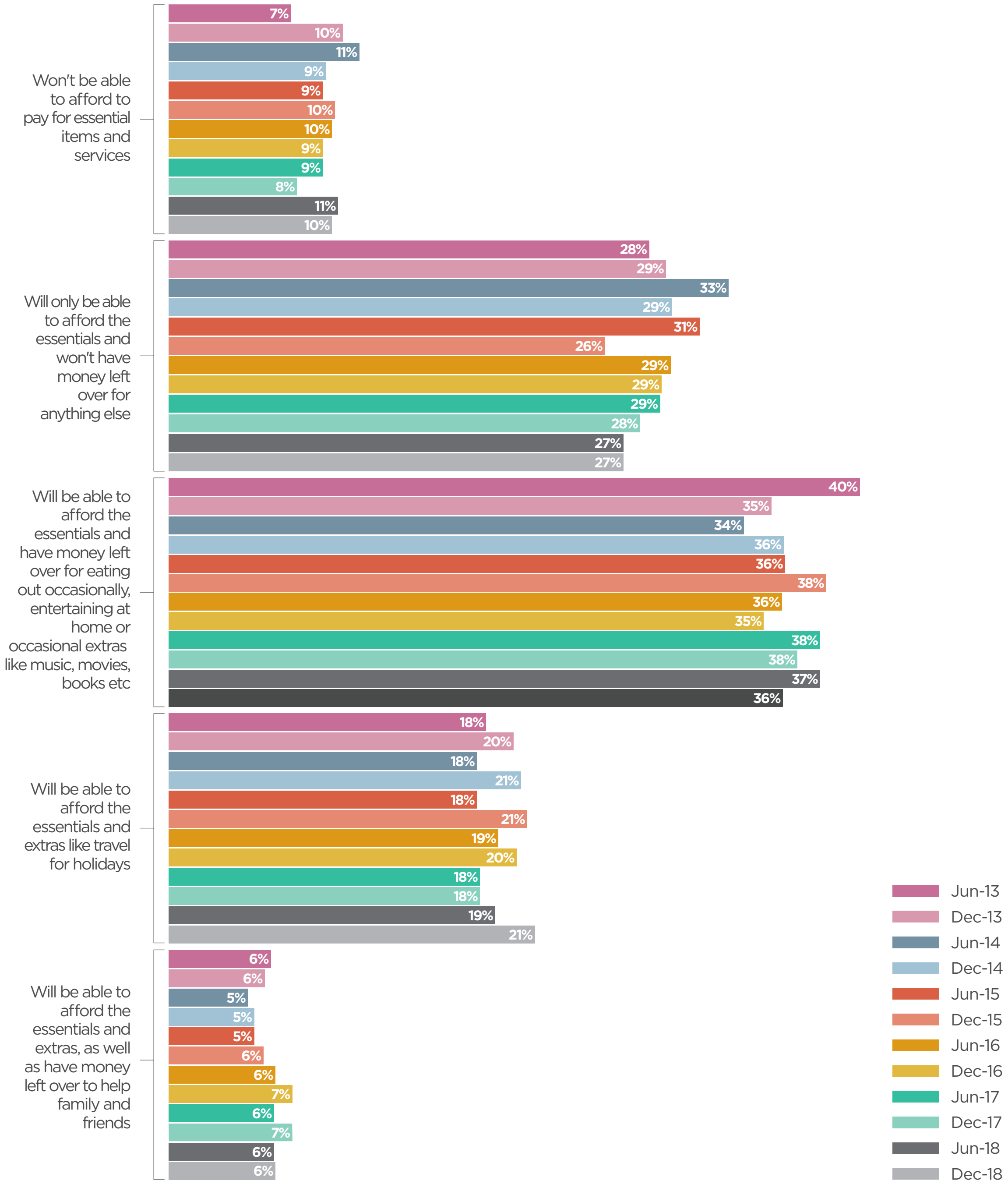

Figure 40 – Expectations for adequacy of income in retirement

6.5 **Net wealth.**

Comfort with net wealth unchanged.

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 – remained around 5.68 out of 10, which is slightly above the historical average of 5.66 since the report commenced. This is in stark contrast to actual significant falls in dwelling values and, to a greater extent, equity prices over the past six months. That said, there was no significant rise in comfort with net wealth over the prior seven years – notwithstanding large gains in actual net wealth, on average, across households as a whole.

By households, 'retirees' continued to report the highest comfort with net wealth (6.41) and, to a lesser extent, 'couples with older children' (6.04). Meanwhile, 'single parents' reported the lowest level of comfort with wealth (down 8% to 4.35), followed by 'middle-aged singles or couples with no children (down 14% to 4.73).

By housing tenure, a rise in comfort with net wealth among both households paying off a mortgage (up 2% to 5.76) and renters (up 5% to 4.13) more than offset a significant fall among households who own their home outright (down 6% to 6.81).

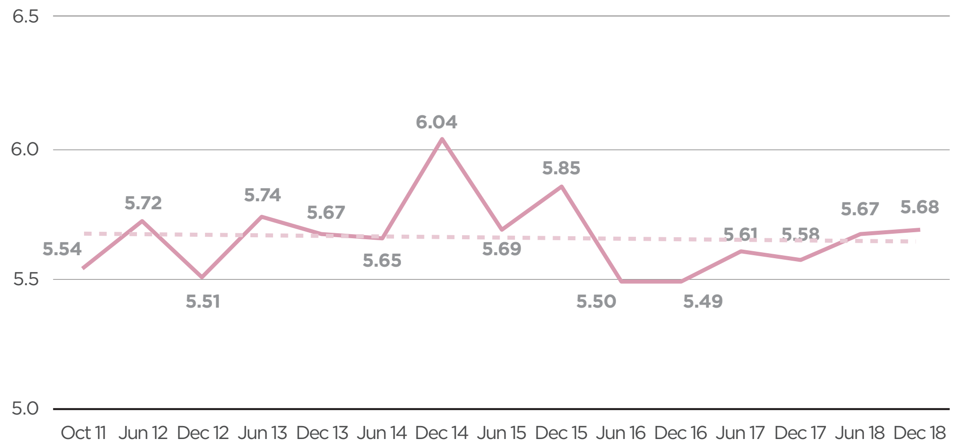

Figure 41 – Comfort with households' level of wealth. Scores out of 10

Appendix a – household statistics.

07.

	Household Financial Comfort Index	**Net wealth** Average net wealth	**Household Income** Average household yearly income
Young singles/ couples (<35yo) with no children	5.73	$333,000	$94,000
Single parents	4.57	$312,000	$57,000
Couples with young children	5.76	$429,000	$102,000
Couples with older children	5.77	$757,000	$95,000
Middle-aged singles/ couples with no children	4.97	$414,000	$81,000
Empty nesters (50+yo)	5.34	$736,000	$60,000
Retirees	5.88	$801,000	$58,000

Appendix b – methodology.

08.

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. Fourteen 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 2018. 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.

Notes.

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