household financial comfort report.

eleventh survey published feb 2017

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

SEE HOW JOB ISSUES ARE DRAGGING ON GROWTH AS AUSTRALIA'S ECONOMIC TRANSITION CONTINUES.

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 11th survey, conducted in December 2016.

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
- Tenth Edition: June 2016

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.

“All is ok as long as I’m careful about spending.”

MIDDLE AGED COUPLE / SINGLE WITH OLDER CHILDREN
NEW SOUTH WALES

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Economic context.

01.

Overall, Australian household finances, on average, remained relatively resilient during the second half of 2016 – supported by subdued gains in both wages and jobs as well as low borrowing costs and very strong house price rises in the main Australian capital cities. On the other hand, both consumer sentiment and household consumption growth remained a bit below average and the saving ratio, on average, eased further. Debt has increased faster than income but slower than assets, and debt servicing costs have eased to remain about average levels mainly due to very low housing loan rates. The recovery in household wealth has continued, with solid asset gains (especially housing and other growth assets) partly offset by increased gearing and falling medium to long-term bond prices. That said, there are signs of increased financial stress in some regions and households.

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

Consumer confidence measures fell slightly to below their long run averages during the 6 months to December 2016 with optimists slightly outnumbered by pessimists.

Labor market conditions have been mixed, with notably weak labor demand. Job gains continued to moderate during the second half of 2016, with a strong rise in part-time employment partly offset by a fall in full-time jobs. Despite a fall in the participation rate, the employment to population ratio has also trended lower with more people available for work. The unemployment rate has trended sideways at 5.7% during the six months to December. More broadly, the underemployment rate (both unemployed and under-employed) was 14.1% in November – much the same as six months ago, but a bit lower than a year ago. Labor costs remain weak; annual wages growth has moderated to a historically low pace in all states and industries – consistent with a time of considerably higher unemployment.

Household consumption growth has remained a bit below its historical long-term pace – supported by very low interest rates and sustained wealth gains (mainly related to housing for some households), despite subdued income gains. With still relatively low disposable income growth, as measured by the official data, **the household saving rate** from current disposable income has continued to trend slowly lower, but remains relatively high, on average. Consumer inflation has remained low – across most goods and services.

Residential property prices continued to vary a great deal across Australia with very strong annual growth in Sydney (up over 15%) and Melbourne (up 14%) and much weaker results in most other capitals and regions – including lower house prices in Perth (-4%). In Perth, there has been a sharp rise in both vacancy rates and fall in rents. Elsewhere, rents have risen modestly, while vacancies rates have been generally steady and relatively low.

Reflecting some tightening in prudential and lending standards, annual growth in **household debt** has eased further during the past six months – with housing credit from 7.4% during 2015 to 6.9% during 2015/16 to 6.3% during the six months to December. During the past six months, a continued slowdown in annual growth for owner-occupied housing to 6.4% has more than offset a pickup in investor lending growth to 6.2%. Other personal loans (such as credit cards and equity back loans) have contracted a bit – down by 1.3% during the year to December.

Although still a bit below its record peak in mid-2007, 'real' household assets, on average, have continued to increase relatively strongly compared to income, mainly reflecting further significant rises in residential property prices, as noted above. Financial assets (mainly superannuation) have also continued to rise during the second half of 2016, largely due to continued compulsory contributions boosted by a significant rise in both global and Australian share prices, rather than increased voluntary savings.

As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – continued to improve during the second half of 2016. In aggregate, **debt to income** has risen a little further over the past six months, even after allowing for strong growth in mortgage offset accounts, while **debt to assets** (or leverage) has fallen slightly – asset gains (especially housing) have outpaced increased debt. **Debt servicing** burdens have eased to about average historical levels, as housing loan rates have fallen to very low levels.

Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are low generally, but rising and disparate. Households, on average, are coping reasonably well with debt servicing burdens due to ongoing low borrowing costs, despite slow income growth and relatively high underemployment. This masks a great deal of variation amongst Australians – across socio-economic and demographic factors, with some households experiencing increased financial stress – as is evident in the latest *Household Financial Comfort Report*.

Executive summary.

02.

Income cuts, record-high job insecurity and high rates of underemployment are putting stress on households' financial comfort, according to ME's latest *Household Financial Comfort Report*.

The Report shows a marked long-term deterioration in Australian households' 'comfort with income', which remains at its lowest level since the Report began in 2011, at 5.55 out of 10.

Record low income gains highlight widening gap between rich and poor

The reasons for income worries were clear. Only 32% of households reported 'income gains' over the past year – one of the lowest levels since the first survey in 2011 and down from the corresponding figure of 38% 12 months ago.

Income gains were more likely to be reported by those with higher incomes and wealthier Australians.

Almost one in two (or 46%) of households with incomes over $100,000 reported 'income gains', compared to 17% of households earning under $40,000. Conversely, 41% of households earning less than $40,000 reported income losses, compared to only 13% of those earning over $100,000.

The rich appear to be getting richer, while the rest of Australia is struggling – there's a divide across households.

Households earning an annual income above $200,000 reported very high overall financial comfort of 7.10 out of 10 in December, compared with ME's overall household financial comfort index (5.41 out of 10).

A shift in the composition of jobs is occurring as the economy moves away from mining and manufacturing with many employees leaving longer-term jobs and taking up lower-paying less-permanent jobs, which is having a negative impact on their financial comfort.

ABS data shows wage growth at historical lows over the past two years to the September quarter. ME's Report supports this, highlighting low wage growth continued in the whole of 2016 and is causing financial discomfort for many households, exacerbated by job insecurity and underemployment.

Job insecurity and underemployment

In addition to income cuts, high levels of underemployment and record high 'job insecurity' were also contributing to households' historically low comfort with income.

One in three Australian households (34%) reported 'job insecurity' – a record high and an increase of 9 points over the year to December 2016.

Furthermore, 56% of households felt that they would 'struggle to find a new job within two months if they became unemployed', an increase of 3 points over the past year, while only 37% said it would be 'easy to find a job', down 3 points in the past 12 months.

Despite Australia's relatively low official unemployment rate of 5.8% in December 2016, the Report shows 60% of part-time employees would like to 'increase the hours they work' and 70% of casual workers want to 'change from casual to permanent employment'.

Tighter purse strings

The proportion of households saving increased 3 points to 51%, with these households saving an extra $58 each month on average.

Arguably reflecting tougher labor market conditions outweighing the impact of rising (net) wealth, households tightened their purse strings over the six months to December, saving more where they could and overspending less.

It's an increased conservatism that will be contributing to a drag on growth as Australia's economic transition continues.

Meanwhile, those households 'spending more than they earn each month' (9% of households) also cut back, reducing their overspending by an average of $55 less each month. Consistent with these findings, overall household comfort with cash savings rose by 3% to 4.94 out of 10 in the latest Report.

Other findings:

- **'Single parents' doing it the toughest:** 'Single parents' reported the lowest levels of financial comfort the Report has seen (4.34 out of 10) – a 3% decrease in the six months to December 2016.
- **'Gen X' down in the dumps:** 'Gen X's' financial comfort decreased by 5% to the lowest level on record (4.92 out of 10), reflecting lower comfort across all key drivers with the biggest falls in comfort around debt (down 8% to 5.21) and incomes (down 6% to 5.19).
- **'Retirees'' financial comfort on the up:** 'Retirees'' household financial comfort rose by 8% to 6.23 out of 10. Likely due to current majority of retirees not being faced with pending superannuation and pension changes, and having ridden the continued wave of growth in the property market and renewed strength in equity markets. Retirees' 'comfort with both their investments and wealth' rose by 11% in the last six months, and their 'ability to cope with a financial emergency' is the highest of all household cohorts.

"Wages are **not increasing** nearly enough to afford a house or everyday expenses."

MIDDLE AGED SINGLE/COUPLE WITH NO CHILDREN
EMPLOYED PART-TIME
VICTORIA

Factors contributing to below average levels of overall household financial comfort.

03.

Low income growth, marked underemployment and record high job insecurity are major headwinds to higher financial comfort and more generally, a drag on Australia's economic growth as it transitions following the mining boom, with the level of overall household financial comfort broadly unchanged at 5.41 out of 10 at end 2016 – 3% below its historical average of 5.44 out of 10

3.1

SUBDUED INCOME GAINS

In the latest survey, only 32% of households reported 'income increased' during the past year – one of the lowest on record, and down from 38% reported a year ago for 2015 (see Figure 1).

Meanwhile, more households reported their 'income remained the same' (up 3 points to 41%) and over a quarter recorded their 'income decreased' (up 3 points to 27%).

By household type, 'single parents' were least likely to report 'income increased over the past year' in December 2016 (down 9 points to 20%) and the most likely to report income decreased (up 3 points to 40%), while 'young singles/couples with no children' were the most likely to report 'income increased' (up 3 points 50%) and least likely to report 'income decreased' (down 5 points to 14%).

Among the workforce, 'part-time' workers were least likely to report 'income increased' (up 3 points to 30%) and the most likely to report 'income decreased' (down 4 points to 30%) while 'full-time employees' were most likely to report 'income increased' (down 1 point to 47%) and the least likely to report 'income decreased' (down 3 points to 17%).

From an economic perspective, there are a number of reasons behind the weak income gains for households, on average. Firstly, the shift from full-time to part-time work, while the increased use of casuals provides more organisational flexibility, also means fewer hours worked.

In addition, there has been a marked change in the composition of jobs as the economy rebalances away from mining and manufacturing towards business and household services, with latter typically involving part-time/casual jobs and lower wage rates.

Finally, incomes have fallen on some investments – including the negative impact of lower interest income from historically low interest rates on term deposits and other saving accounts, dividend cuts by some major listed companies across banking and resources and falling rents on investment properties in some regions such as Perth and mining towns.

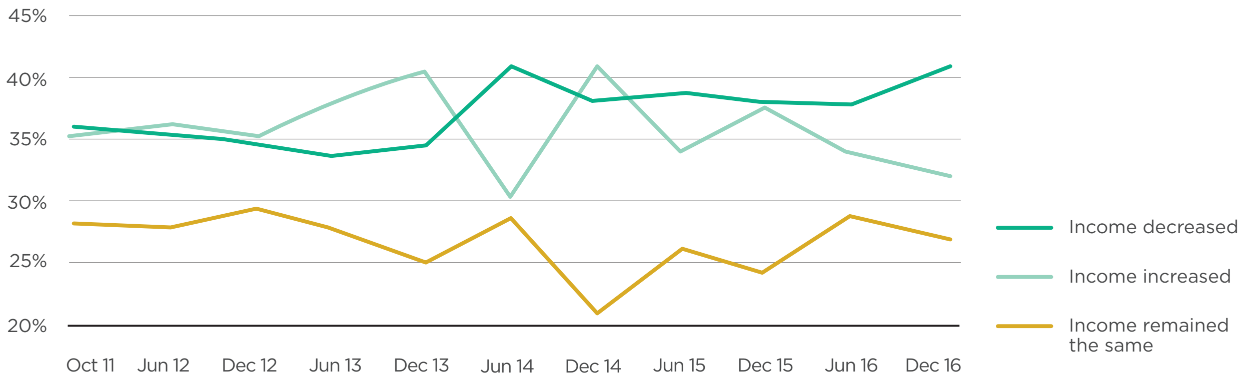

Figure 1 - % of households that reported ‘income changes’ over the past year.

The growing income divide – higher income households getting more financially comfortable

More ‘income gains’ went to households with higher financial comfort levels, exacerbating a growing divide between households with high and low levels of financial comfort – see Figure 2.

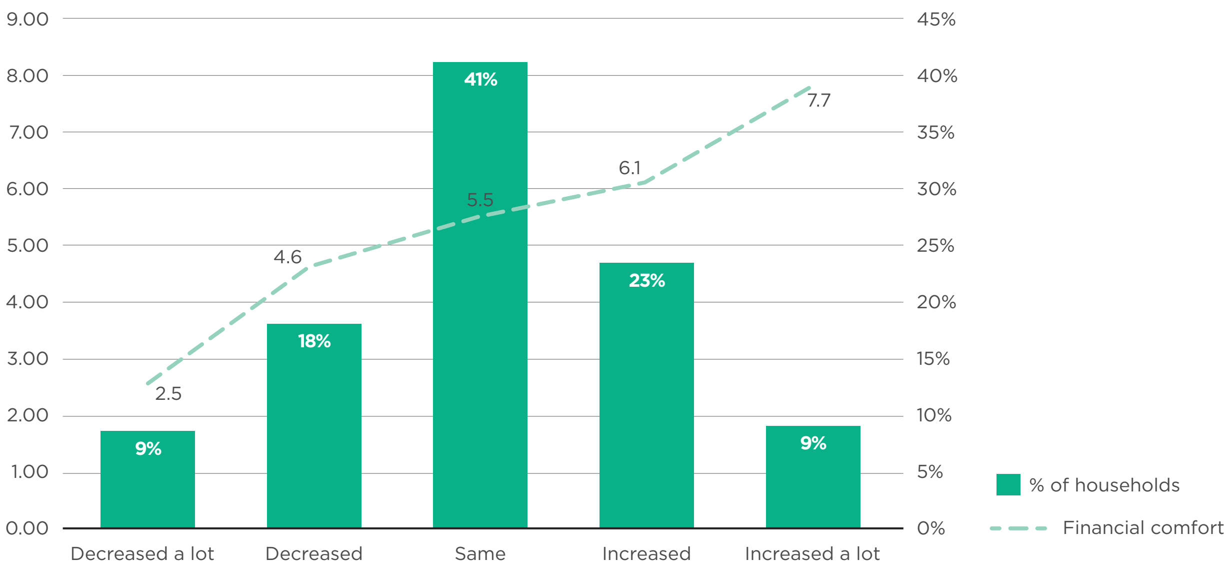

Figure 2 - financial comfort versus income change during 2016. Scores out of 10.

Among households with incomes over $100,000, 46% recorded 'income increases' while only 13% reported 'income falls' during 2016. In contrast, 17% of households with annual incomes of less than $40,000 reported 'income gains', while 41% reported 'income falls' during the same time period. See Figure 3.

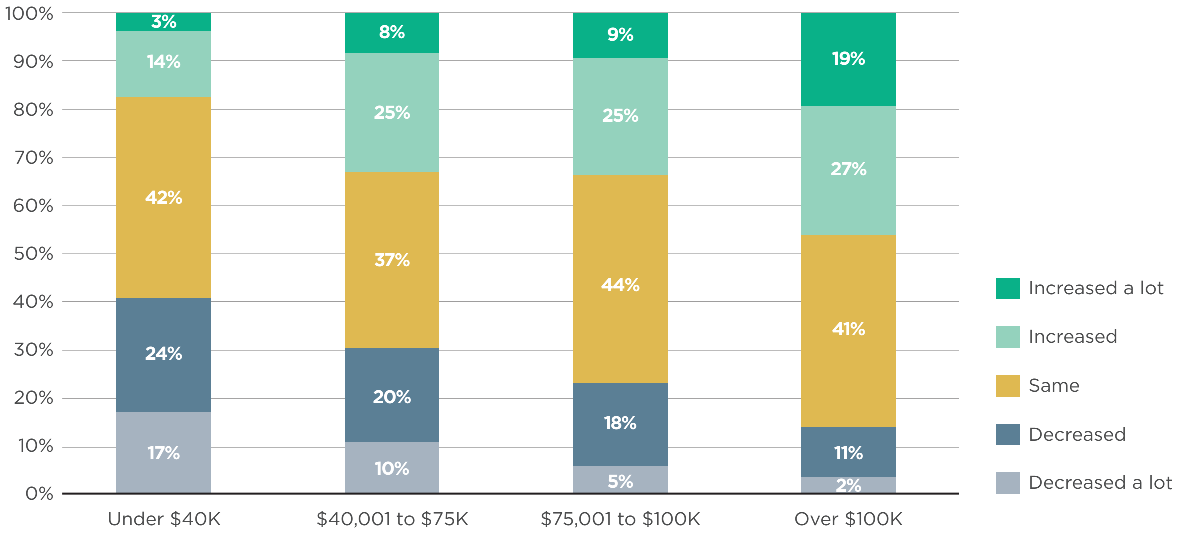

Figure 3 – Income changes across various income bands during 2016.

3.2

LOWER CONFIDENCE IN BOTH JOB SECURITY AND AVAILABILITY

Households reported the highest level of 'job insecurity' since the survey began in 2011, combined with a slight decline in 'job availability'.

'Job insecurity' increased by 9 points to 34% of households over the year to December 2016, while 'job security' decreased by 10 points to 63% of households (see Figure 4).

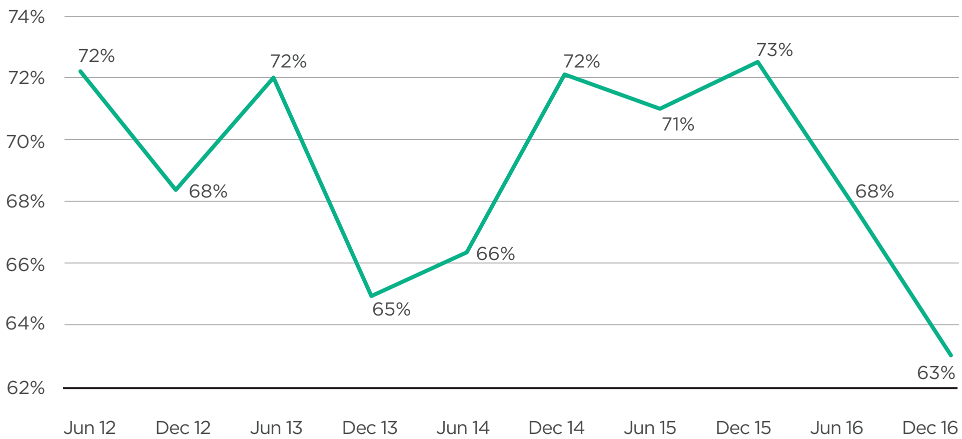

Figure 4 – % of households feeling 'secure about their job in the last month'.

Furthermore, expectations that it would be 'easy' to find a new job within two months if unemployed fell 3 points over the year to December 2016 to 37% of households. Meanwhile households reporting it would be 'difficult' declined by 3 point over the year to 56%.

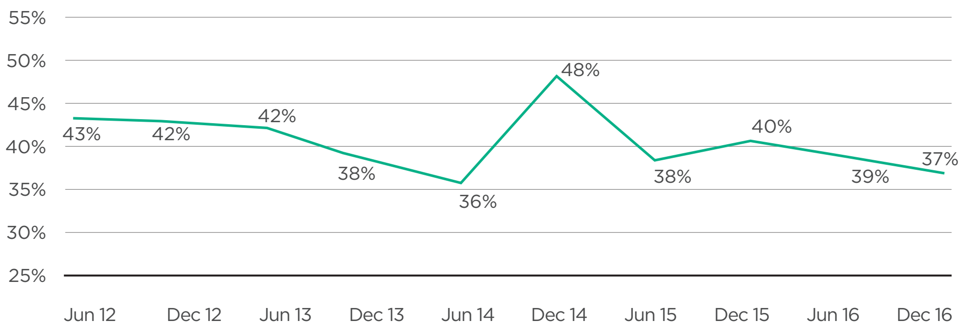

Figure 5 – % of households reporting it would be 'easy' to get a job in 2 months if unemployed.

3.3

UNDEREMPLOYMENT INHIBITING INCOME GROWTH

The latest Report also found high levels of underemployment among the 31% of the labor force identifying themselves as ‘part-time’ or ‘casual’, further contributing to slow income growth.

Despite Australia’s relatively low unemployment rate, 62% of ‘part-time’ (both paid employees and self-employed) and ‘casual’ workers reported underemployment in December 2016; with ‘part-time’ workers indicating they would prefer to ‘increase the hours they worked’ and ‘casual’ workers indicating that they would prefer to ‘change from casual to permanent employment’.

Underemployment was reported higher among ‘blue collar’ workers (73%), compared with ‘white collar’ workers (56%) as well as ‘Gen Y’ (72%) and ‘Gen X’ (65%), compared to ‘baby boomers’ (58%).

As outlined in Section 4.7, the lowest household financial comfort across the workforce continued to be reported by ‘casual’ employees (4.70 out of 10), followed by ‘part-time’ workers (5.05 out of 10). Furthermore, ‘casual’ workers also recorded the lowest ‘comfort with income’ (4.79 out of 10) – see Section 3.4.

From an economic perspective, the high underemployment highlights a weakness in labor demand and the significant productive labor still to be fully utilised across Australia, exacerbated by the shift towards part-time and casual jobs from full-time jobs over the past year or so. At an individual and household level, underemployment represents lost opportunities to fully engage in work, earn income and achieve desired financial comfort.

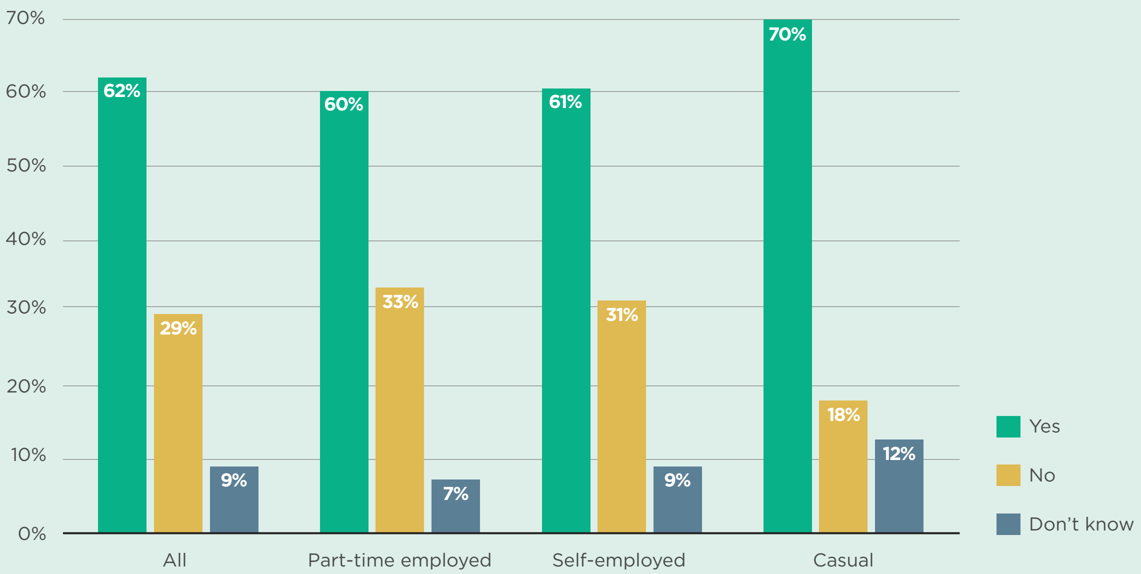

Figure 6 – ‘Part-time’ and ‘casual’ workers’ preference for increased hours worked/change from casual to permanent employment.

3.4

RECORD LOW COMFORT WITH INCOME

Subdued wage gains, lower job security and underemployment have contributed to the Report's 'income comfort' index, which remains at its lowest level since the first survey in 2011, at 5.5 out of 10 (see Figure 7).

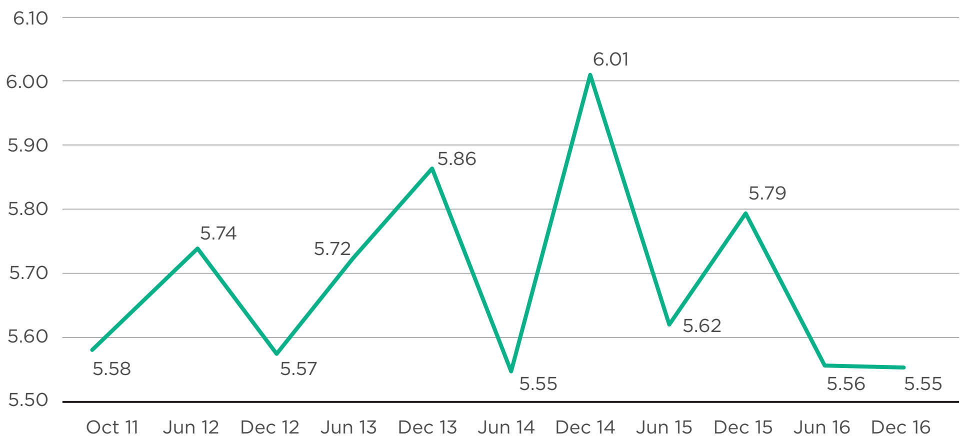

Figure 7 – Comfort with income. Scores out of 10.

By household, the lowest 'comfort with income' was reported by 'single parents' (down 7% to 4.17) while the highest level continued to be recorded by 'retirees' (up 9% to 6.43) – even more so for 'retirees with their main income from a superannuation annuity' (7.00 out of 10), compared to 'retirees with their main income from the age pension' (5.50 out of 10).

In terms of household fluctuations, 'middle-aged singles/couples with no children' reported the largest decline in 'comfort with income' (down 10% to 5.14) while 'retirees' recorded the greatest increase in 'comfort with income' (up 10% to 6.43).

By workforce, despite the rise of 9% during the six months to December, the lowest 'comfort with income' was recorded by 'casual workers' (4.79 out of 10), while 'full-time employed' persons continued to report the highest comfort with income (up 1% to 6.18).

3.5

HOUSEHOLDS TIGHTEN THEIR PURSE STRINGS

The pattern of more saving and less overspending – and hence lower household spending – remains a drag on Australia's economic growth.

Consistent with low levels of 'job security' and 'comfort with income' as well as a lack of ability to handle a financial emergency, this wave the proportion of households saving increased 3 points to 51% with these households saving an extra $58 or 7% more each month. Those households spending more than they earn each month (9% of households) were also found to be overspending less by $55 or 9% each month.

Correspondingly, in the latest Report, the 'comfort with savings' index rose 3% to 4.94 out of 10 (see Section 4.1).

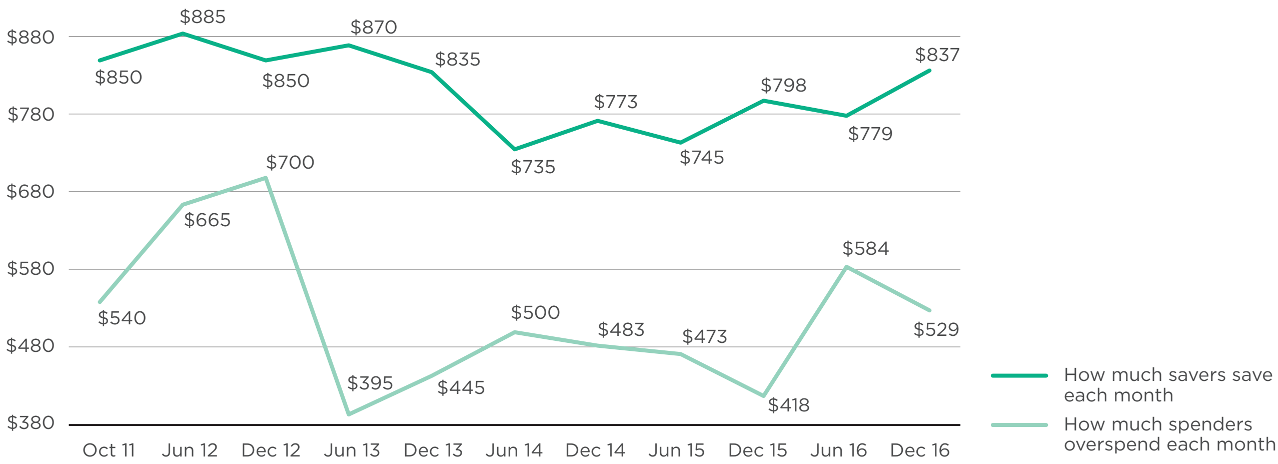

Figure 8 – Proportion who are saving, overspending and breaking even each month.

“Our biggest worry is having enough money to live a comfortable lifestyle.”

RETIRED COUPLE WITH NO CHILDREN
VICTORIA

Latest trends in household financial comfort

04.

4.1

HOUSEHOLD FINANCIAL COMFORT INDEX

The *Household Financial Comfort Index* (see Figure 9) remained relatively stable over the six months to December 2016, increasing by only 1% to 5.41 out of 10. Despite the minor rise, the index score is still below the historical average of 5.44 out of 10.

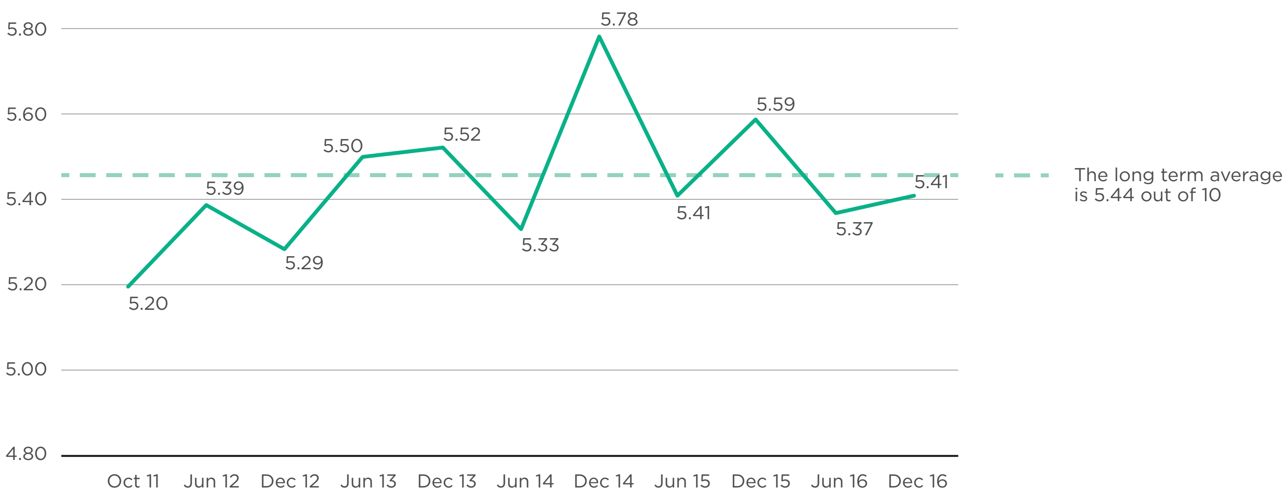

Figure 9 – Changes to the *Household Financial Comfort Index* Scores out of 10.

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 including:

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

4.2

FINANCIAL COMFORT MIXED ACROSS ALL 11 INDEX COMPONENTS

Changes to the key components of the *Household Financial Comfort Index* were mixed during the final half of 2016, albeit most components are lower than a year ago (see Figure 10).

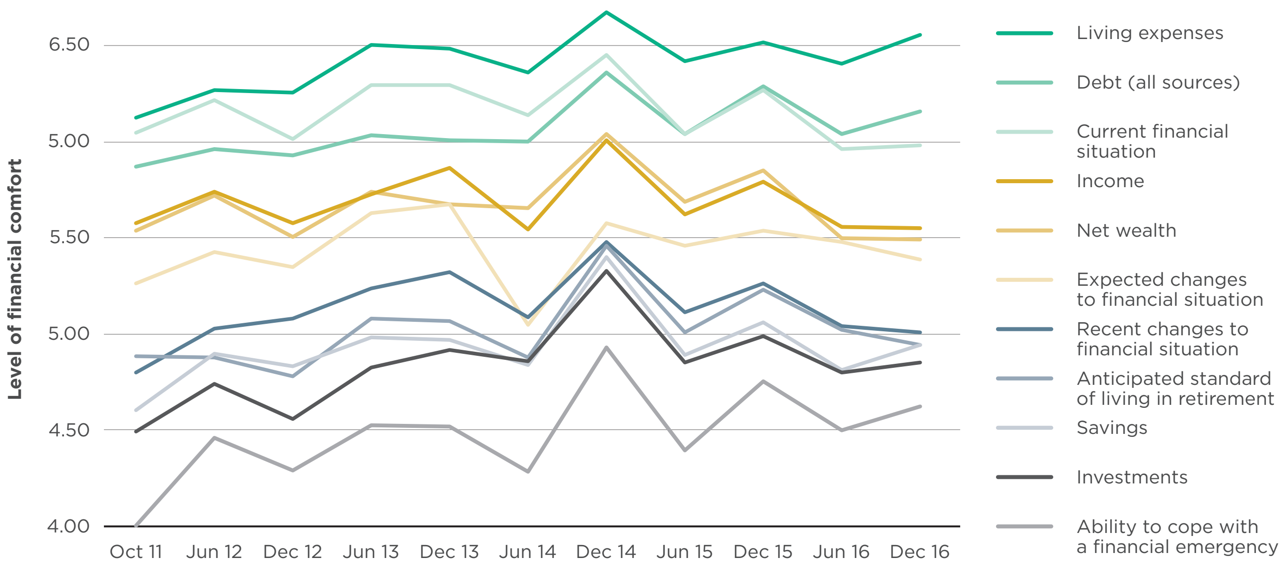

Figure 10 – The 11 components that make up the Index, showing changing levels of comfort over time. Scores out of 10.

In terms of the Index components, in December 2016:

- Households were least comfortable with their 'ability to cope with a financial emergency' (4.62 out of 10), 'investments' (4.85 out of 10) and 'cash savings' and 'anticipated standard of living in retirement' (both 4.93 out of 10).
- Households were most comfortable with their ability to 'manage their current living expenses' (6.56 out of 10), 'level of debt' (6.16 out of 10) and 'current financial situation' (5.98 out of 10).
- Households reported modest declines in comfort with 'anticipated standard of living in retirement' (down 2% to 4.93), 'expected changes to financial situation' (down 2% to 5.39) and 'recent changes to financial situation' (down 1% to 5.01).
- But were largely balanced by modest increases in household comfort with 'cash savings' (up 3% to 4.94), 'ability to cope with a financial emergency (up 3% to 4.62), living expenses (up 2% to 6.56), and 'level of debt' (up 2% to 6.16) were offset by small falls in their comfort with both 'current' and 'expected financial situation' as well as their 'anticipated standard of living in retirement'.

The majority of components of overall comfort were lower in December 2016 than their historical average since late 2011, with the most significant including 'current financial situation' (3% below its average of 6.16) and 'net wealth' (3% below its average of 5.67).

In contrast, only three components were marginally higher in December 2016 than their historical average over the past 11 surveys: the 'ability to cope with a financial emergency' (3% above its average of 4.48), 'managing living expenses' (2% above its average of 6.56) and 'comfort with debt' (2% above its average of 6.16).

Despite the relative stability of household ratings of financial comfort over the past six months, the aggregate financial position of household finances has improved, boosted by the recovery in wealth (including strong house price gains mainly in Sydney and Melbourne) and continued, albeit subdued income gains partly offset by increased gearing. That said, there are disparate trends across households, states and regions (see Section 4.6).

4.3

FINANCIAL COMFORT MIXED ACROSS MOST HOUSEHOLDS

Overall financial comfort varied across different households in the six months to December 2016 (see Figure 11).

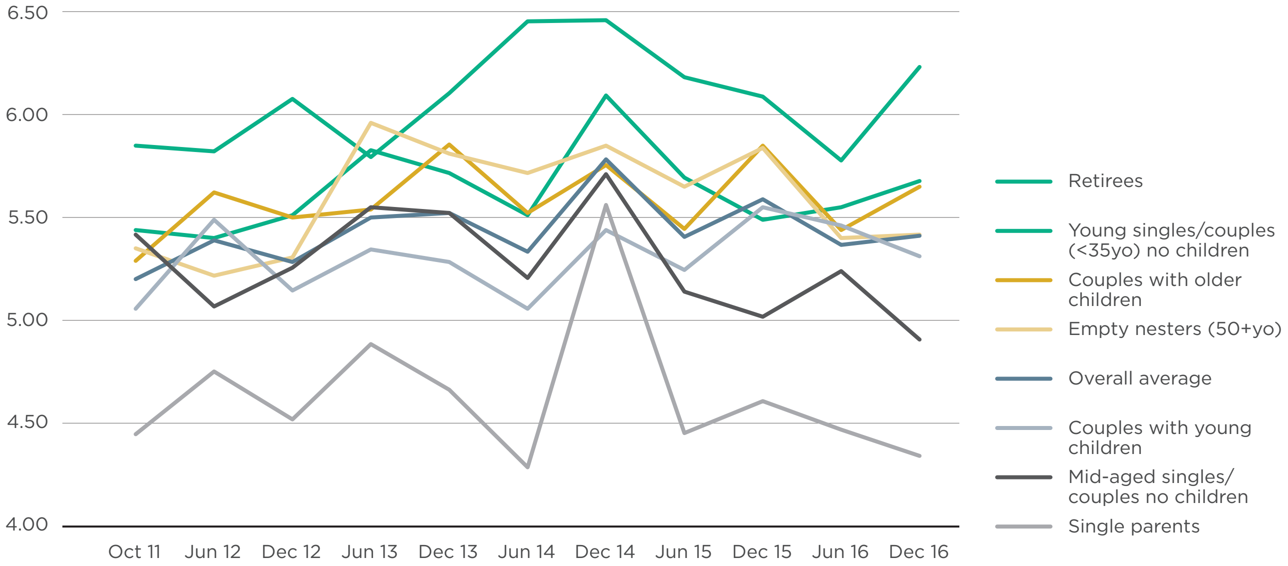

Figure 11 – Financial comfort across different households. Scores out of 10.

In terms of households, in December 2016:

- Households with the lowest financial comfort continued to be 'single parents' (down 3% to the second lowest outcome on record at 4.34), especially those single parents dependent on government assistance[1] (down to a record low of 2.80), compared with single parents with full-time work (4.80 out of 10).
- Conversely, households with the highest financial comfort remains 'retirees' (6.23 out of 10), more than reversing a fall six months prior. 'Retirees' with their main income from a superannuation annuity (down 2% to 6.70) reported higher levels of financial comfort compared to 'retirees' with their main income from the age pension (down 12% to 3.80).
- The largest falls in household financial comfort was reported by 'middle-aged singles/couples with no children' (down 6% to a record low of 4.91). This life stage reported double-digit declines with their 'overall financial situation over the past year' (down 13% to 4.70), 'investments' (down 11% to 3.98), 'income' (down 10% to 5.14) and 'confidence in the inability to handle a financial emergency (loss of income for three months)' (down 10% to 4.07).
- Meanwhile, the largest gain in household financial comfort was reported by 'retirees' (up 8% to 6.23). This life stage reported double-digit gains in 'savings' (up 15% to 5.99), 'confidence in the ability to handle a financial emergency (loss of income for three months)' (up 12% to 5.57) and 'investments' (up 11% to 5.65).

[1] Caution: small sample size.

4.4

GAP IN FINANCIAL COMFORT WIDENS BETWEEN GENERATIONS

Across generations[2] in the six months to December 2016, the generational gap in trend terms, widened further (see Figure 12).

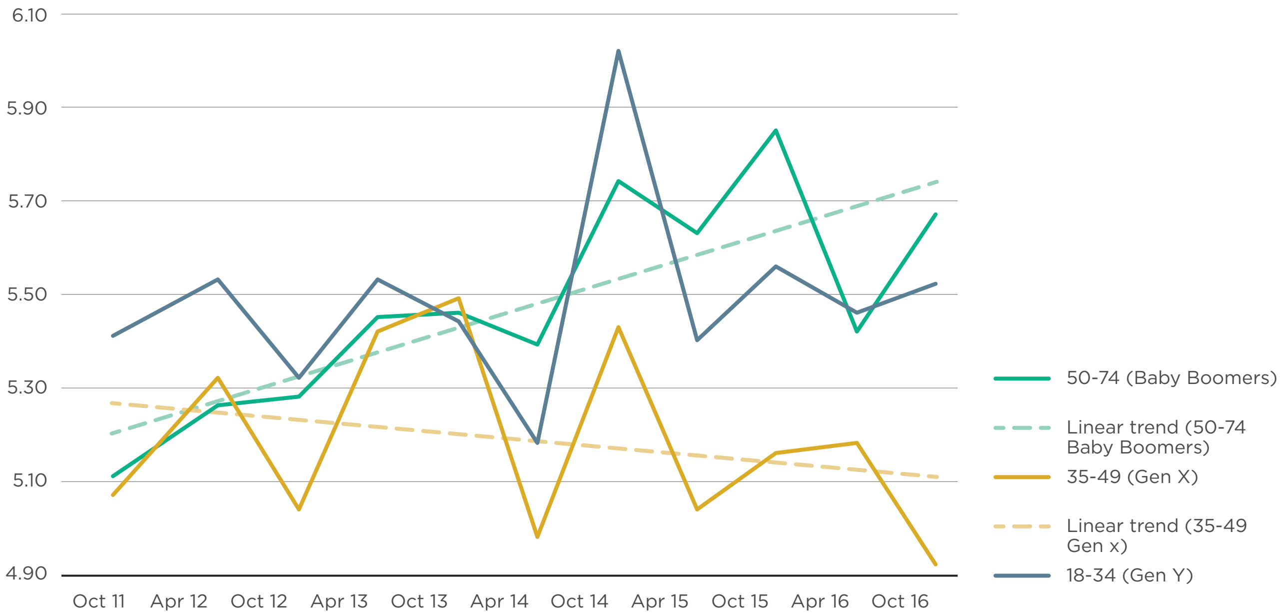

Figure 12 – Financial comfort across generations. Scores out of 10.

In terms of generation in December 2016:

- 'Gen X' reported the lowest level of household financial comfort on record (down 5% to 4.92). Comfort of 'Gen X' fell across all key drivers, with the biggest falls in comfort with their debt (down 8% to 5.21) and to a lesser extent incomes (down 6% to 5.19). Generally, Gen Xers have larger financial responsibilities (such as their home with a large mortgage, higher living expenses with children) and are often less able to manage a financial emergency (with low cash savings).
- Students – a subset of mainly Gen Y reported even lower levels of financial comfort (down 7% to 4.68 out of 10).
- Meanwhile the household financial comfort of 'baby boomers' increased by 5% to 5.67 – partially reversing a fall six months prior. This was due to relatively large rises in their comfort with their 'investments' (up 10% to 5.26), 'cash savings' (up 9% to 5.31) and 'ability to manage a financial emergency' (up 10% to 5.07).

[2] Generation definitions are Gen Y: 18-34, Gen X: 35-49, Boomers: 50-74.

4.5

RENTERS FEELING THE PINCH

The household financial comfort of 'renters' remains significantly lower (up by 1% to 4.43) at the end of 2016 than the comfort of both households 'paying off their mortgage' (down 1% to 5.31), and to a greater extent, 'homeowners' that own their home outright (up 2% to 6.43).

What's more, the divergence in linear terms is widening, despite some rental costs going down due to an oversupply of apartments in some cities.

While 'renters' tend to have lower comfort across all key drivers, the lower comfort among renters may also be a reflection of the difficulty first home buyers are experiencing getting into the residential property market. House prices are growing faster than incomes, particularly in some of the major capital cities, and both changes to prudential arrangements and a tightening of bank lending standards have lowered borrowing capacity, despite relatively low interest rates on residential mortgages. Lenders have also begun to pass on to borrowers the higher costs of wholesale funding as medium to long term yields rose during the past six months.

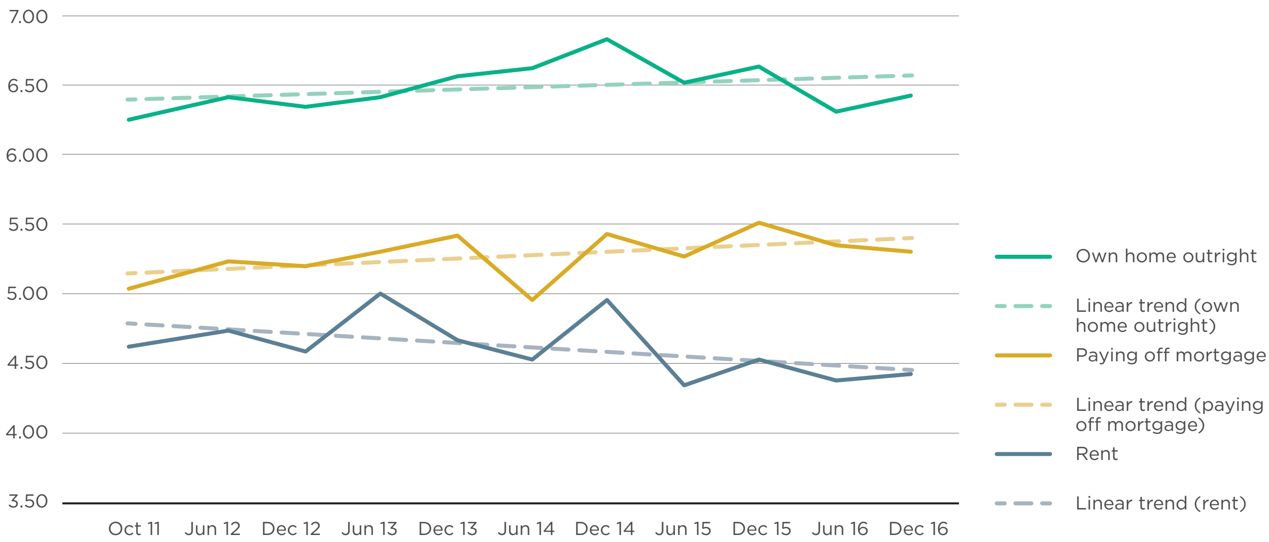

Figure 13 – Overall financial confidence based on home ownership. Scores out of 10.

“Our biggest worry is getting out of the rental rut.”

MIDDLE-AGED SINGLE LIVING IN A SHARED HOUSE
TASMANIA

4.6

BIGGER STATES FEELING BETTER

Over the six months to December 2016, household financial comfort improved in the larger states such as New South Wales and Victoria while the other states reported little change (see Figure 14).

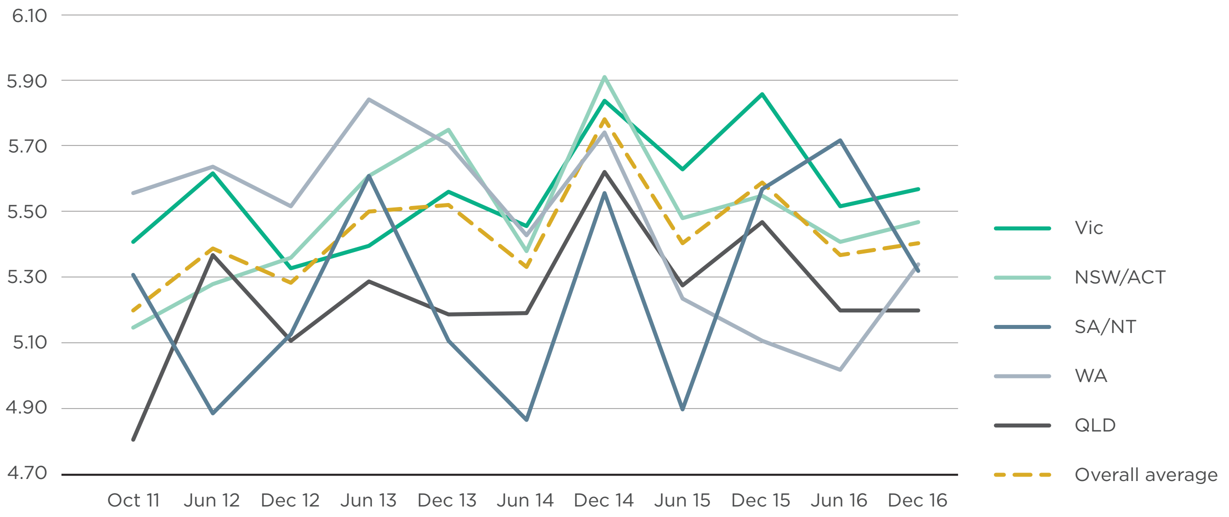

Figure 14 – Changes in financial comfort across states and territories. Scores out of 10.

In terms of the states and territories, in December 2016:

- Queensland reported the lowest household financial comfort of all eastern states, unchanged at 5.20 compared to the rest of Australia at 5.41 out of 10. Meanwhile, Tasmania continued to report the lowest level of comfort (down 1% 5.07). Both states reported relatively lower comfort levels across all key drivers.
- Conversely Victoria and New South Wales reported the highest comfort levels across Australia, with household financial comfort in both up 1% to 5.57 and 5.47, respectively, compared to the rest of Australia to 5.41, reflecting relatively higher comfort across all key drivers.
- In terms of fluctuations, South Australia recorded the greatest decline in household financial comfort over final half of 2016 (down 8% to 5.27), reflecting double-digit declines in 'income' (down 11% to 5.43), 'savings' (down 16% to 4.49), 'ability to cope with a financial emergency' (down 19% to 4.02), and 'anticipated incomes in retirement' (down 12% to 4.81). The labor market remains weak in South Australia and shutdowns in the car industry are expected to be only partly offset by new defense projects. With sluggish population and income growth, housing markets have recorded modest gains and household spending has also been relatively subdued.
- Meanwhile, Western Australia reported the greatest gains in household financial comfort over the past six months to December 2016 (up 6% to 5.34), reflecting significant increases with most drivers, notably 'savings' (up 11% to 5.05), 'investments' (up 11% to 4.96), and 'income' (up 9% to 5.50). A pick-up in mining exports as well as the recent improvement in resource prices may have lifted sentiment and incomes in Western Australia, albeit the both labor and residential housing markets remain weak, with unemployment up significantly and house prices down over the past half year.

Metro versus regional – the great divide widens.

Household comfort continued to decline in regional areas, down 1% to 5.01 during the six months to December – to be 10% lower than comfort across metropolitan cities (up 1% to 5.55). See Figure 15.

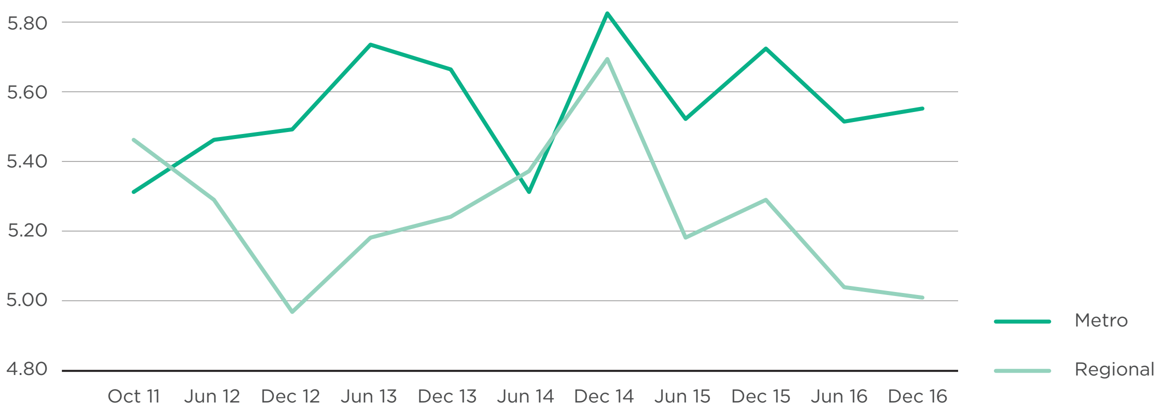

Figure 15 – Comfort index across metropolitan and regional Australia. Scores out of 10.

As shown in Figure 16, the trend of higher household financial comfort in metropolitan households was evident across larger states, particularly Perth reporting a 6% increase in household financial comfort in the final half of 2016. In comparison, other Australian cities reported only modest fluctuations.

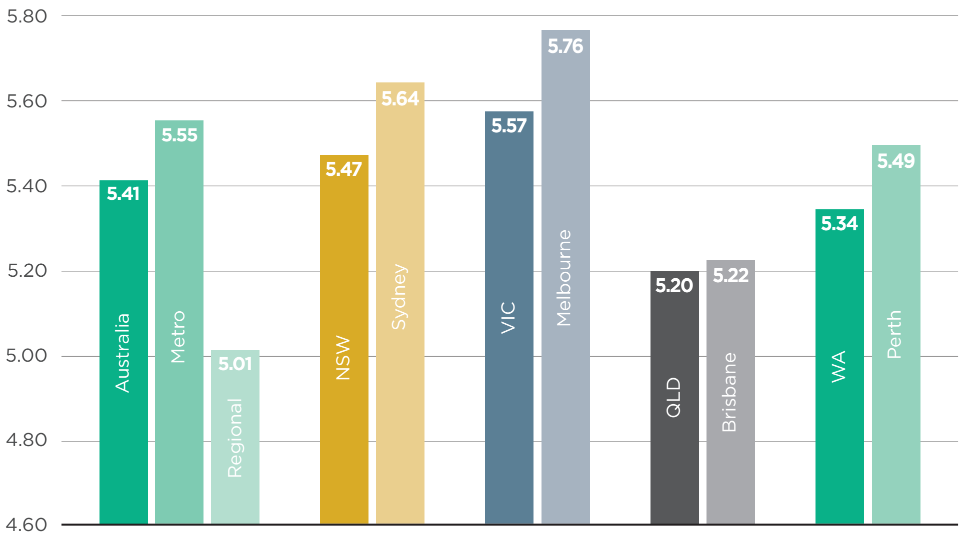

Figure 16 – Financial comfort across larger states and metropolitan areas. Scores out of 10.

4.7

FINANCIAL COMFORT MIXED ACROSS WORKFORCE SEGMENTS

Consistent with lower 'job security' and 'job availability' (see Section 3.2), workers reported mixed levels of financial comfort in December 2016 among segments of the labor force (see Figure 17).

Across the workforce, the lowest financial comfort continued to be reported by 'casual' workers, despite a partial rebound by 6% to 4.70 in the six months to December 2016, followed by 'part-time' workers (down 1% to 5.05).

Conversely, the highest household financial comfort among the labor force continued to be reported by 'full-time paid employees' (unchanged at 5.78) and to a lesser extent 'full-time self-employed' (albeit down 7% to 5.54).

A significant fall was also recorded by 'unemployed' people, down 33% to the lowest level ever recorded (3.17 out of 10).

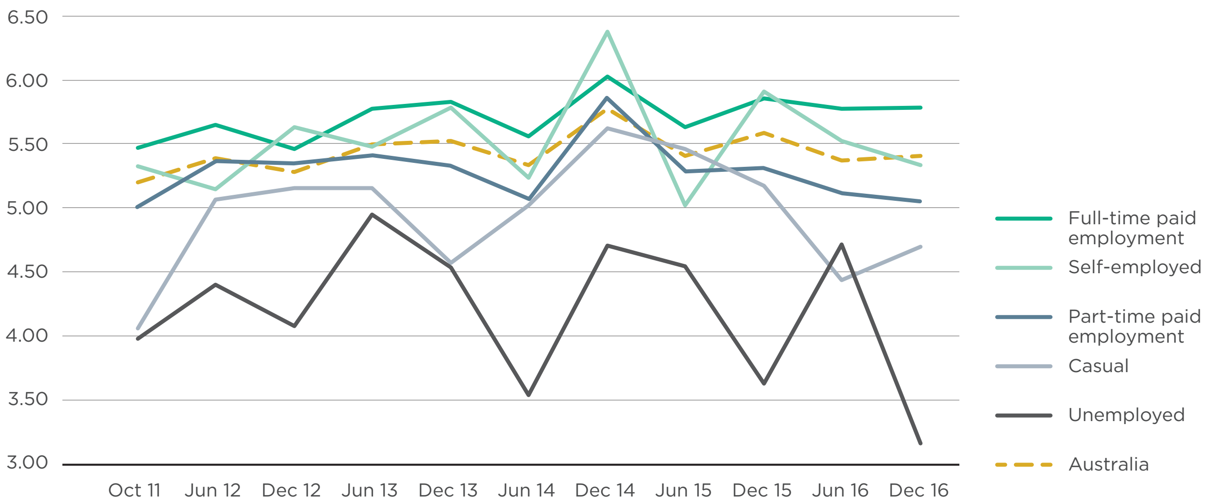

Figure 17 – Changes in financial comfort across labor segments. Scores out of 10.

4.8

LESS WORRIED

Households reported fewer 'net worries'; in other words, less 'worries' and more 'positives' in December 2016 (see Figure 18).

The biggest net worries remained the 'cost of necessities' improving 4 points to -33% over the past six months, followed by 'how the global economy will impact Australia' deteriorating 1 point to -23% and 'the ability to maintain lifestyle in retirement' improving 1 point to 18%.

That said, only in the cases of 'my level of personal debt' and 'being able to make ends meet' did 'positives' slightly outweigh 'worries', by 2 and 1 points, respectively.

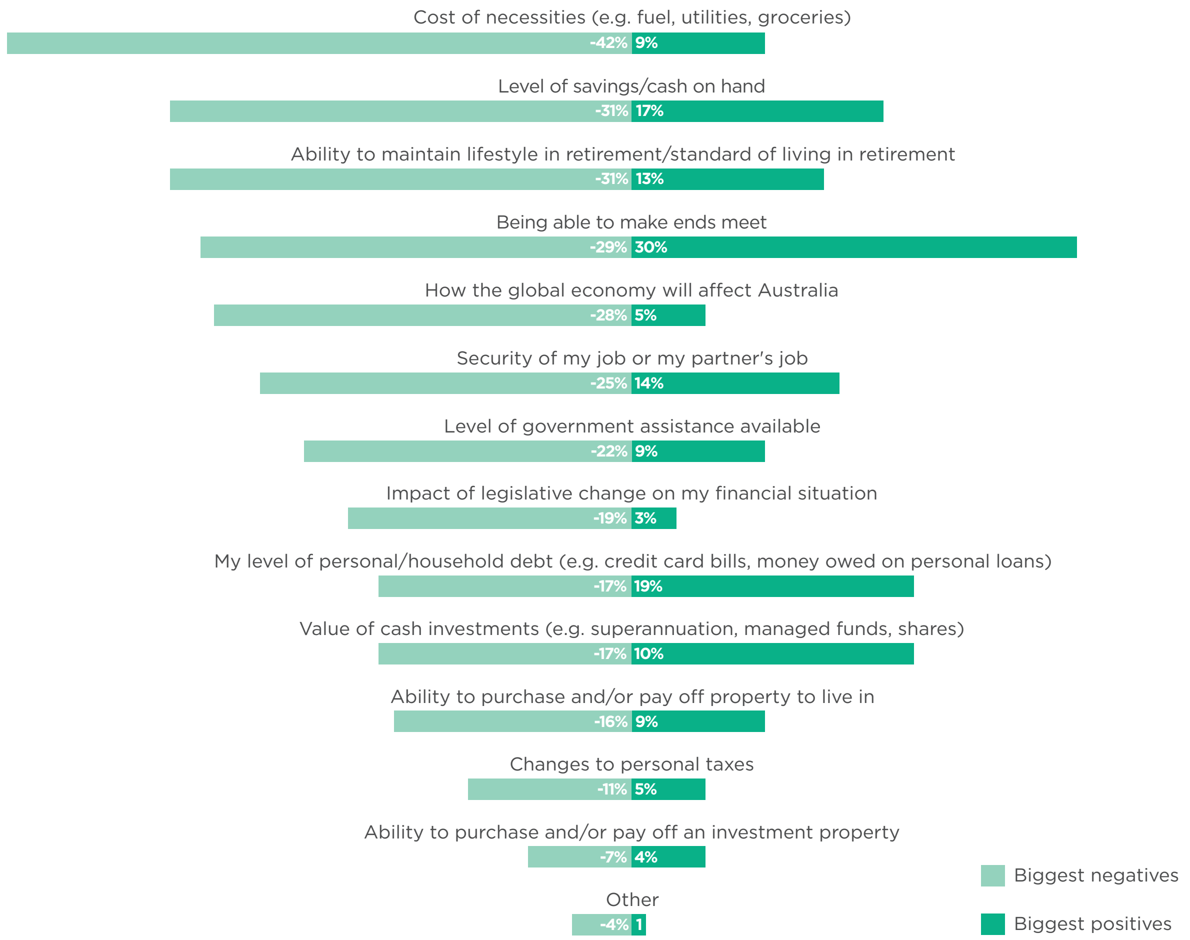

Figure 18 – Biggest worries and positives nominated by households. December 2016.

"Our super and savings are sufficient for a comfortable lifestyle in retirement."

RETIRED COUPLE WITH NO CHILDREN
VICTORIA

Other findings.

05.

5.1

COMFORT WITH CASH SAVINGS INCREASES

Comfort with 'cash savings' improved (up 3% to 4.94) during the six months to December 2016 – (see Figure 19). Despite the small improvement, this driver of financial comfort remains one of least comfortable among households.

By household type, the least comfortable with 'cash savings' remained 'single parents' (up 2% to 3.75 out of 10), and to a lesser extent 'middle-aged singles/ couples with no children' who also recorded the greatest decline (down 9% to 4.15).

Meanwhile, 'retirees' remained the most comfortable and recorded the greatest increase (up 15% to 5.99).

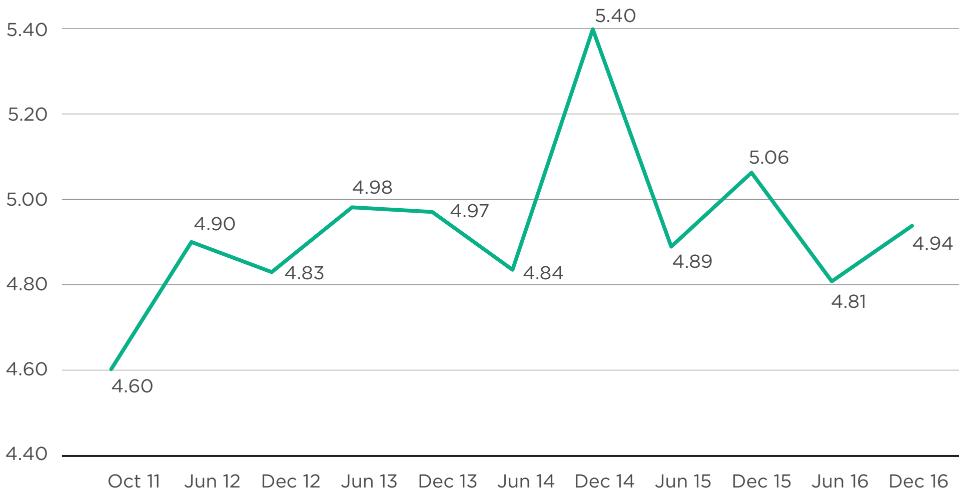

Figure 19 – Comfort with income. Scores out of 10.

Disparate savings amounts across households

While savings vary a great deal across households, a majority of households lack a cash buffer; 27% report cash savings of less than $1,000 and a further 27% report cash savings of between $1,000 and $10,000. In contrast, 16% of households report cash savings of more than $100,000. See Figure 20.

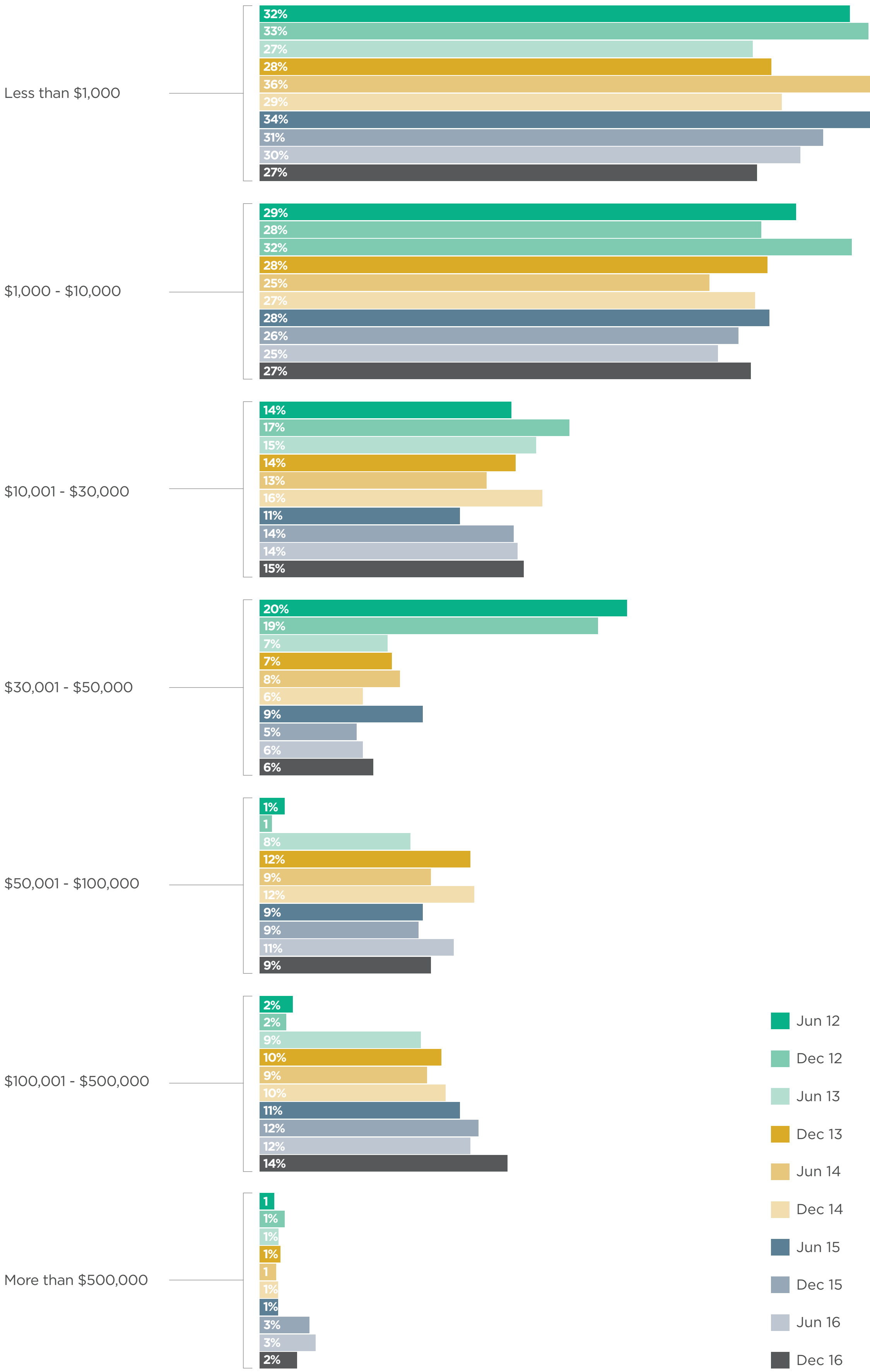

Figure 20 – How much cash savings do households currently hold?

Slightly more savers

There was a small improvement in the proportion of households saving over the six months to December 2016. The number of households reporting to be 'net savers' (i.e. the proportion 'spending less than they earn each month' minus those 'spending all of their income and more' increased by 2 points to 42%. This is the highest proportion of 'net savers' on record since the survey commenced.

Across households, 'single parents' (32%) were least likely to be saving, while 'young singles/couples' were most likely to be saving (64%).

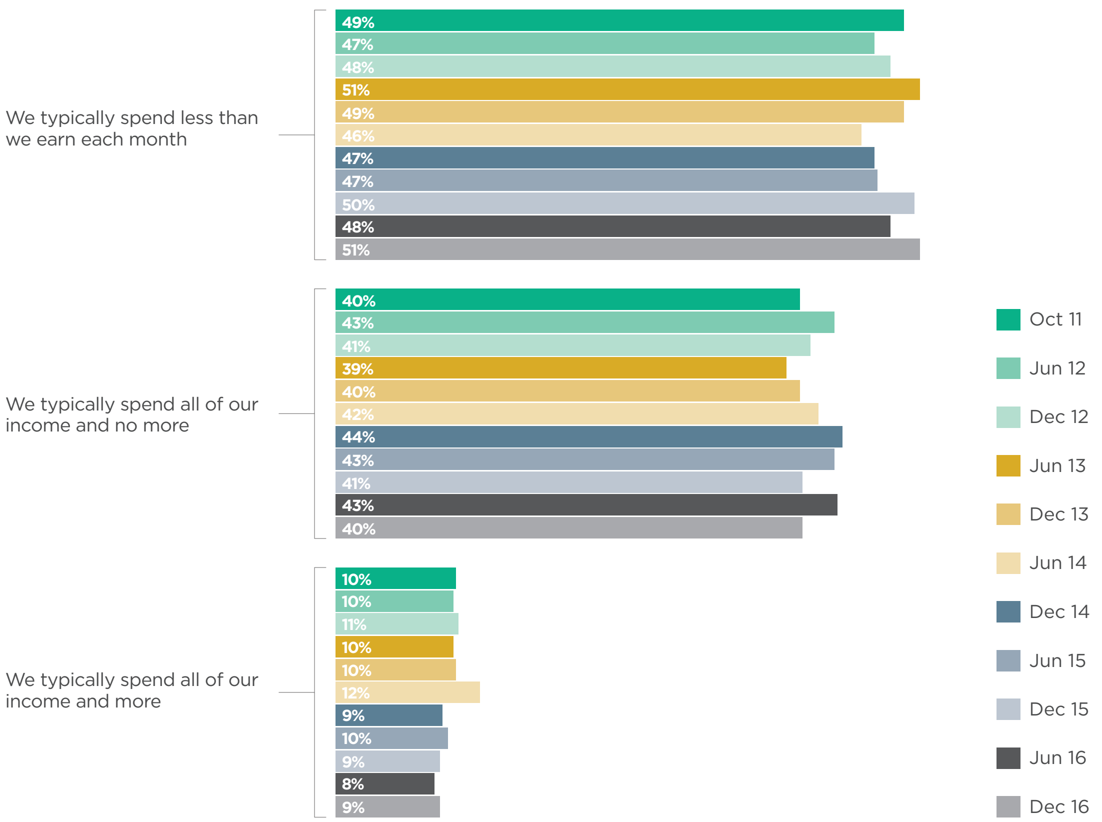

Figure 21 – $ amount savers are saving and over-spenders are overspending since the first survey.

5.2

IMPROVED CONFIDENCE IN COPING WITH A SHORT-TERM INCOME LOSS

Consistent with a small increase in the proportion of households saving, households' 'ability to cope with a short-term income loss' improved (up 3% to 4.62) in the six months to December 2016.

Less than half (43%) of households are confident that they could cope with a short-term income loss.

Least confidence in the 'ability to cope with a short-term income loss' was reported by 'single parents' (3.42 out of 10), while the highest confidence continued to be recorded by 'retirees' (5.57 out of 10).

In terms of fluctuations 'retirees' reported the largest rise (up 12% to 5.57), while 'middle-aged singles/ couples with no children' recoded the biggest fall (down 10% to 4.07).

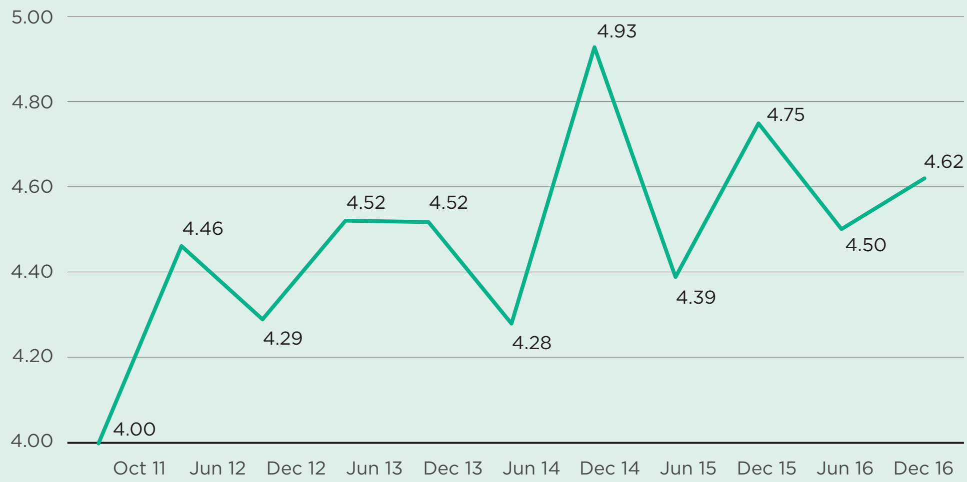

Figure 22 – Confidence in ability to handle an emergency, if you lost your income for three months. Scores out of 10.

Improved ability in raising $3,000 in an emergency

The 'ability to cope with a short-term income loss' is supported by a minor improvement in the proportion of households indicating it would be 'easy to raise $3,000 in an emergency' – up 1 point to 36% over the six months to December 2016. On the other hand, almost two-thirds (64%) of households still could 'not easily raise $3,000 for an emergency'.

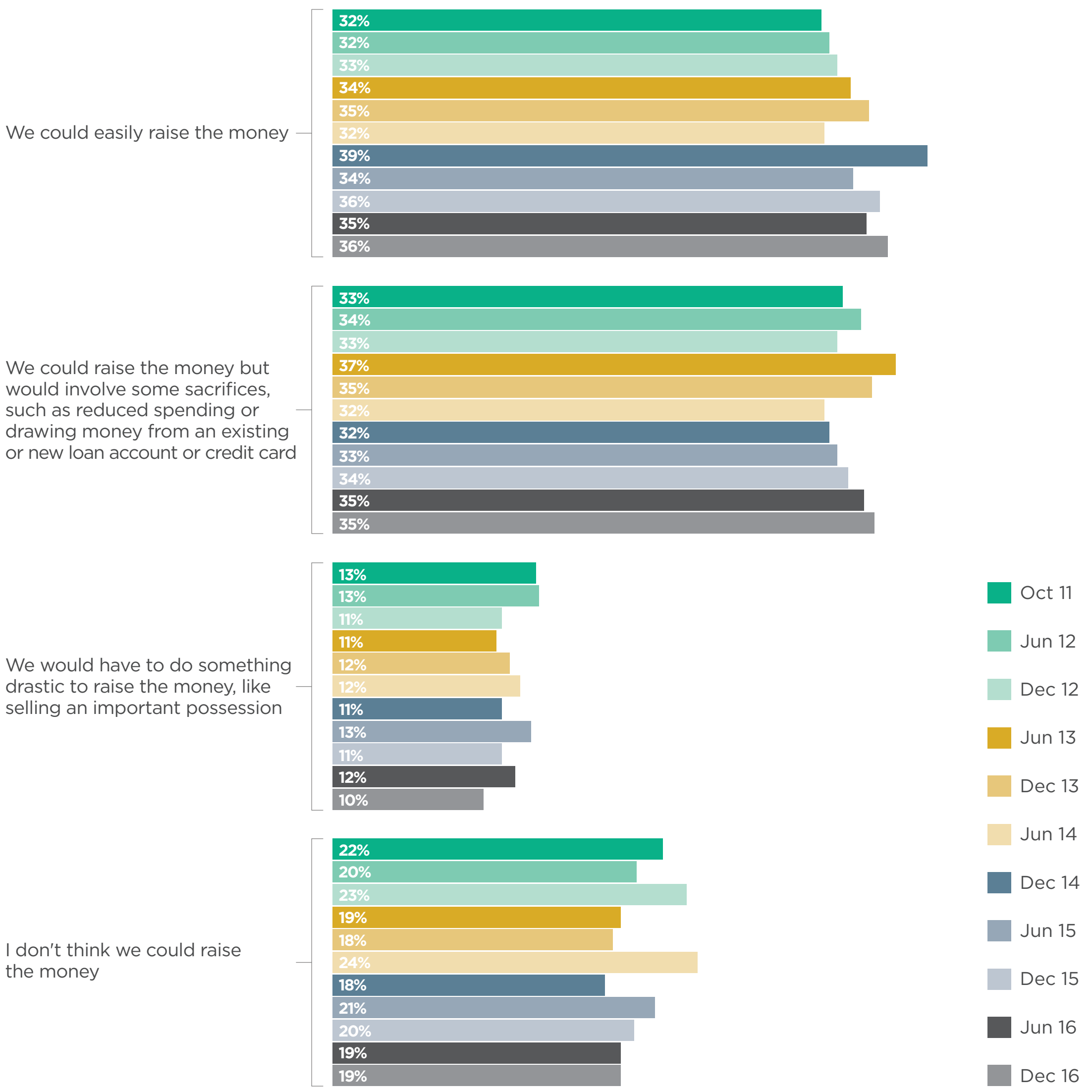

Figure 23 – Ability to raise $3,000 in a week for an emergency.

5.3

MONTHLY EXPENSES

Comfort with the 'ability to pay regular expenses' improved slightly during the six months to December 2016 (up 2% to 6.56).

By household, 'single parents' reported to be least comfortable paying regular expenses (down 4% to 5.46), while 'retirees' continued to be most comfortable (up 5% to 7.35).

In terms of fluctuations, 'couples with older children' reported the greatest increase with the 'ability to pay regular expenses' (improving 7% to 6.75), while 'single parents' (down 4% to 5.46) and 'empty nesters' reported the only declines (down 1% to 6.71).

As noted in Section 4.8, the cost of necessities was cited as one of the biggest worries by 42% of households and to a lesser extent 'being able to make ends meet' by 29% of households.

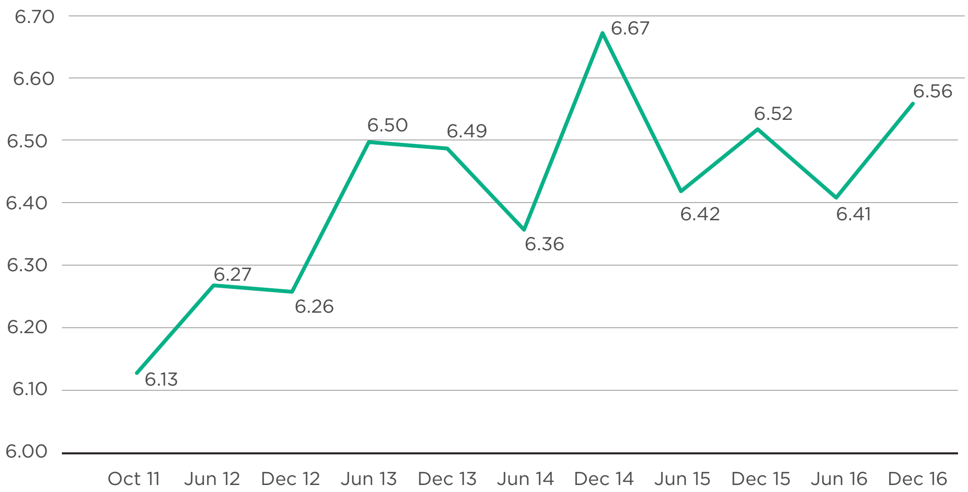

Figure 24 – Comfort with ability to pay regular expenses. Scores out of 10.

"Cost of basic living expenses are becoming increasingly more difficult to bear."

COUPLE WITH OLDER CHILDREN
WORKING FULL-TIME
QUEENSLAND

5.4

DEBT

Overall comfort with debt improves a bit

Figure 25 shows overall comfort with debt improved marginally by 2% to 6.16 during the six months to December 2016, partially reversing the decline recorded six months earlier.

Across life stages, 'single parents' remained the least comfortable with debt, despite rising 1% to 5.57. Meanwhile, 'retirees' continued to be the most comfortable with debt (up 3% to 7.63).

'Couples with older children' reported the greatest rise in comfort with debt of any household (up 5% to 6.21). The greatest decline was reported by 'mid-aged singles / couples with no children (down 2% to 5.61).

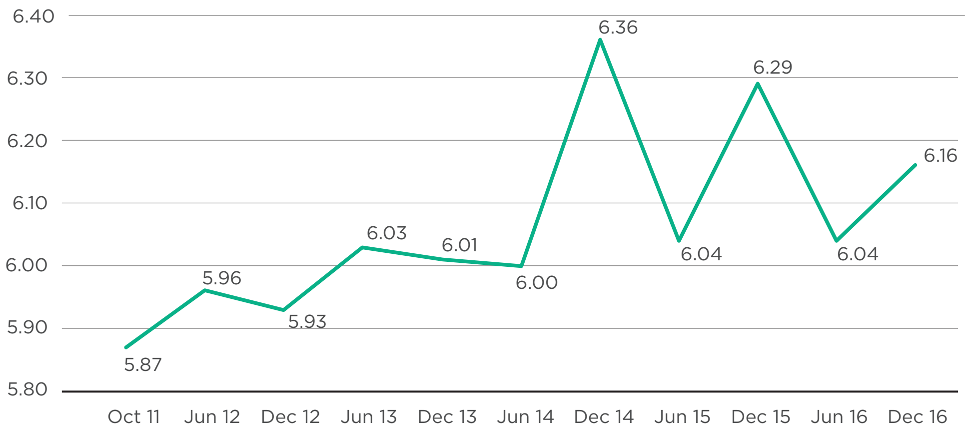

Figure 25 – Comfort with households' level of debt. Scores out of 10.

Demand for debt moderates a bit

Household demand for debt has moderated over the past year. Twenty-eight per cent of households reportedly increased debt during 2016, significantly lower than the corresponding figure of 32% during 2015/16. On the other hand, there was a small increase in debt repayments, with 25% of households reportedly decreasing debt during 2016, a couple of percentage points higher than during 2015/16.

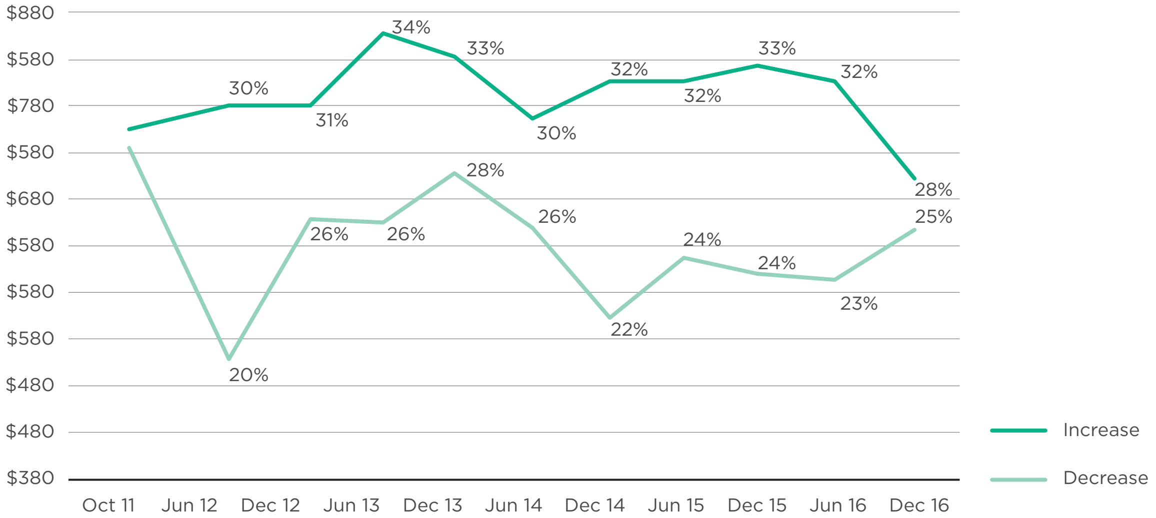

Figure 26 - % of households that increased and decreased debt over the past year.

Ability to manage debt expected to improve

In December, the vast majority of households (63%) 'expect to be able to pay a little/lot more than the minimum payments on their debts over the next 6-12 months' – a significant improvement on the corresponding figure of 57% in June – largely reflecting a fall in those that expected not to be able to meet the minimum payments (down 5 points to return to 5% in December).

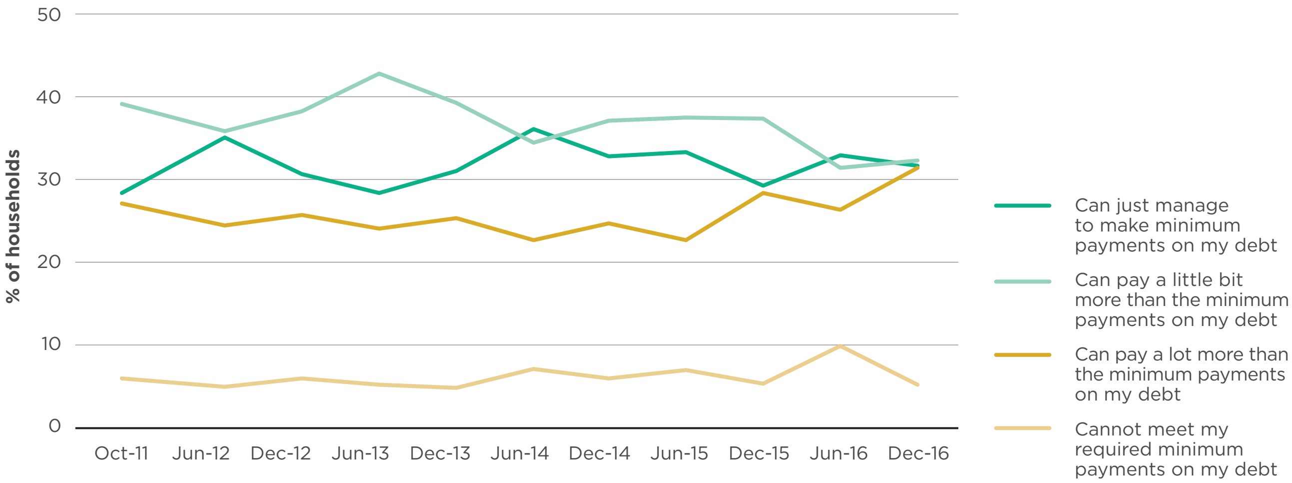

Figure 27 - Ability to manage debt over the next 6-12 months.

5.5

INVESTMENTS

Comfort with investments mixed

Figure 28 shows overall comfort with investments remained unchanged in the six months to December 2016, only increasing by 1% to 4.85 – but still slightly above the medium-term average outcome (4.84 out of 10) since the survey began.

By household, 'single parents' reported the lowest level of comfort with investments (although up 4% to 3.88), followed by 'middle aged singles/couples with no children' (down the most of any household by 11% to 3.98).

Conversely, 'retirees' recorded the highest level of comfort with investments (up the most of any household by 11% to 5.65) and to a lesser extent 'empty nesters' (up 3% to 4.85).

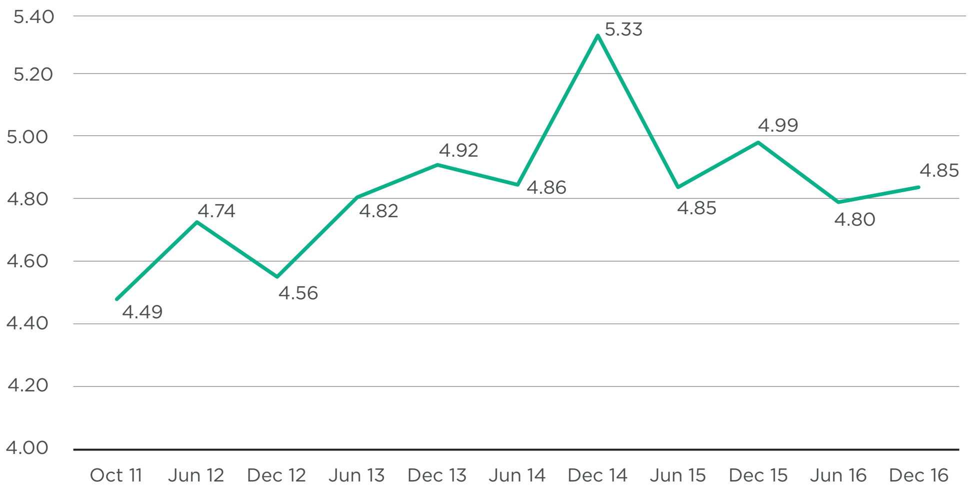

Figure 28 – Comfort with level of investments. Scores out of 10.

The continued relatively low comfort with investments compared to other drivers of financial comfort contrasts with the actual rise in the value of the main household investments – residential properties and to a lesser extent superannuation and direct equity holdings. As noted above, residential property prices have continued to rise with the notable exception of Perth, some parts of regional Australia and apartments in some CBDs, while returns on superannuation have performed relatively strongly during 2016 and the past few years or so.

Investment risk appetite declines

Figure 29 shows a decline in the Report's risk index ('risk takers' less 'risk avoiders') down 5 points to net -22%. This is less than the average risk at net -19% since the survey began.

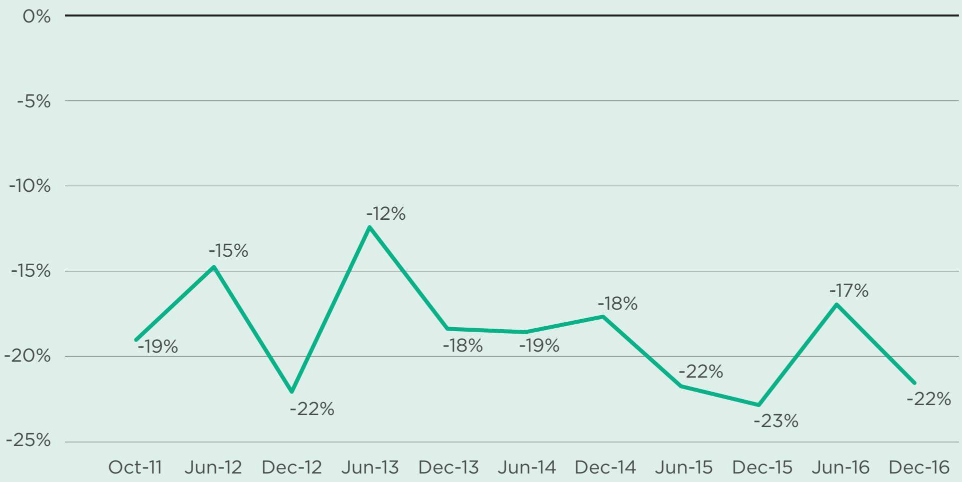

Figure 29– What financial risk would you take with any spare cash? Risk takers less risk avoiders.

5.6

SUPERANNUATION

Comfort with anticipated standard of living in retirement eases

As per Figure 30, confidence with households' 'anticipated standard of living in retirement' decreased 2% to 4.94 – slightly below the historical average (5.02 out of 10).

'Single parents' reported the lowest score and largest drop for 'anticipated standard of living in retirement' (down 7% to 3.46), while 'retirees' recorded the highest score and largest increase (up 5% to 6.15).

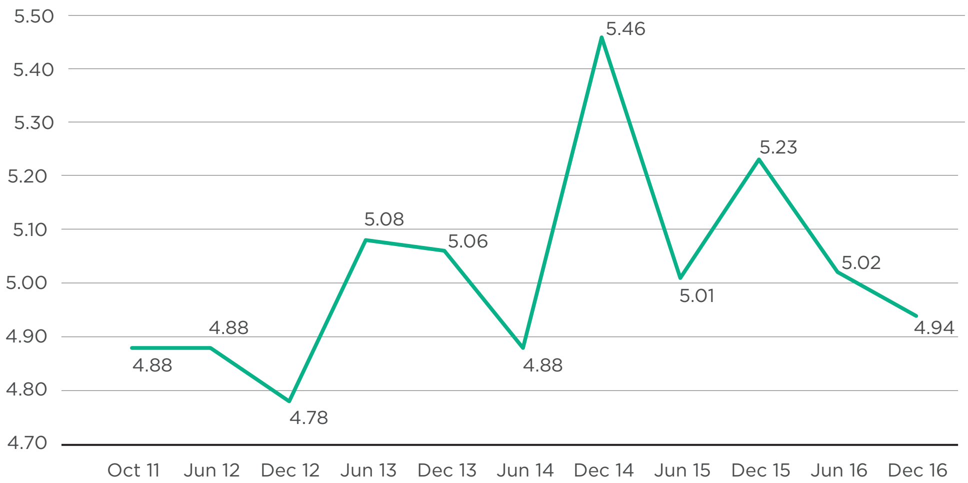

Figure 30 – Expectations for comfort in household's standard of living in retirement. Scores out of 10.

Slight decline in superannuation contributions

In December 2016, the proportion of households that reported to 'never' or 'sometimes' contribute extra to super (above their employer contributions) increased by 3 points to 84% in December 2016, while the share that reported to 'often' or 'always' declined by 3 points to 16% (see Figure 31).

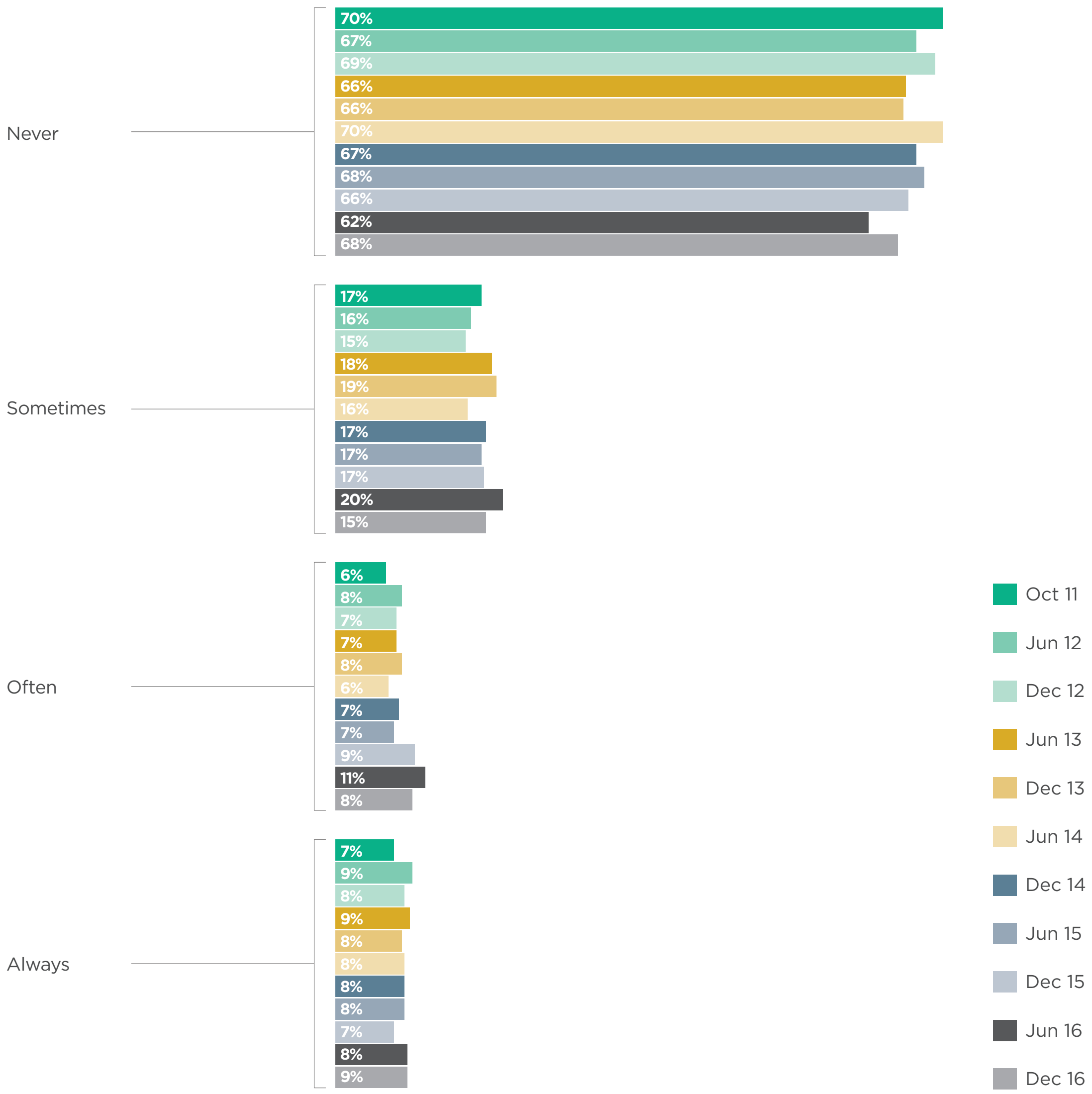

Figure 31 – Additional payments into superannuation in the last six months.

"Happy in our retirement and can do what we wish."

RETIRED
QUEENSLAND

Self-reliance in retirement

Figure 32 shows there has been a slight fall in the number of households expecting to 'rely on the government pension' during retirement in December 2016, down 2 points to 19%, while the number of households expecting to 'use both private savings and the government pension' remained consistent at 43%.

Around 19% expect to 'fund retirement with their superannuation' (down 1 point in the past six months).

In terms of households, 'single parents' and 'middle aged singles / couples with no children' reported the lowest expectations in funding retirement with their superannuation (both 14%) while 'couples with older children' recorded the greatest confidence (23%).

By gender, 24% of men compared to 14% of women expect their household to be able to 'fund retirement with their own superannuation'.

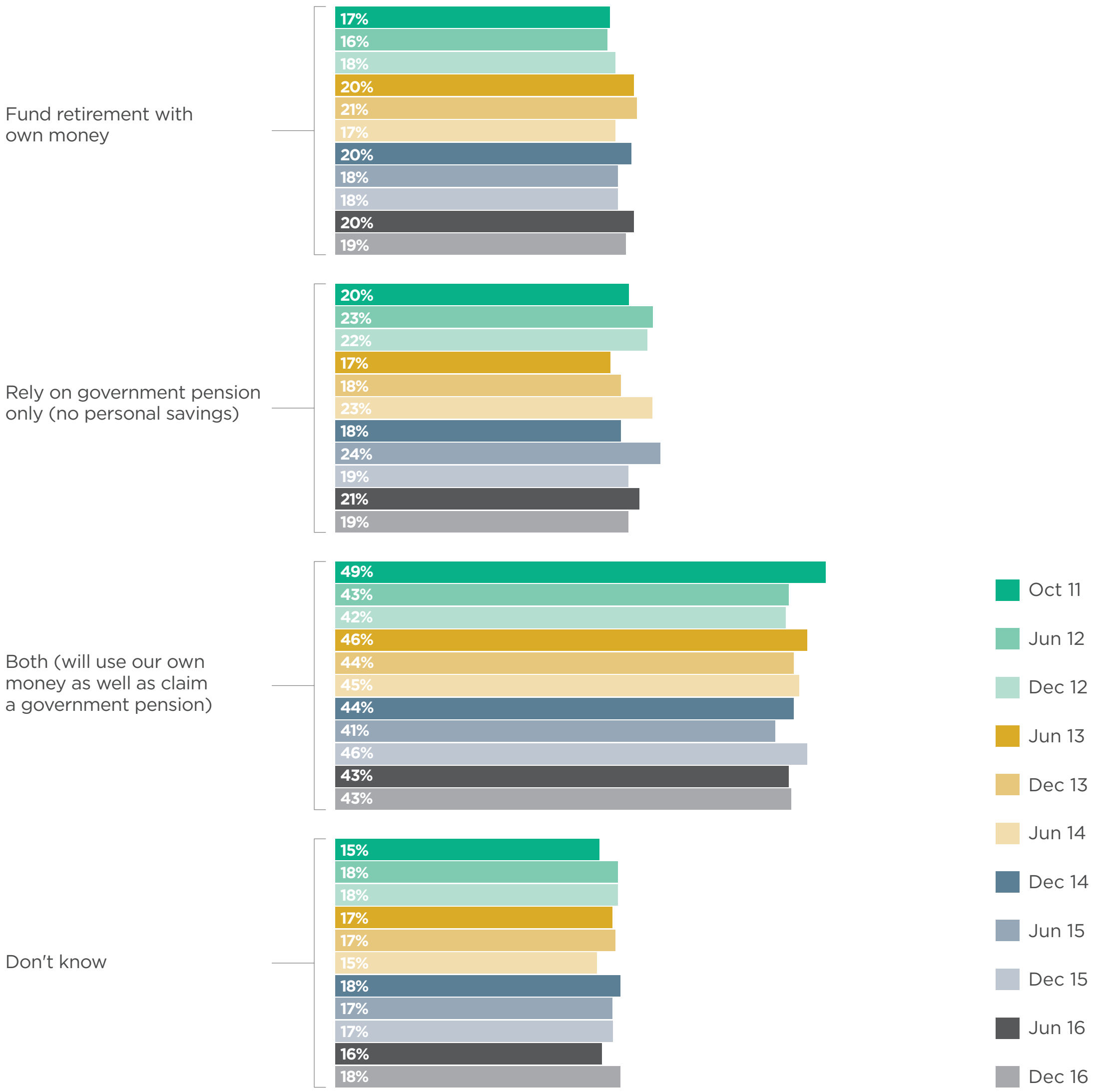

Figure 32 – How will your household fund retirement?

Expected adequacy of income in retirement

In December 2016, households' expectations of income in retirement slightly improved.

Households expecting to 'afford essentials and extras' increased by 1 point to 62%, while households 'unable to afford essentials' or 'no money left over afterwards' increased by 1 point to 38%.

Superannuation quick facts:

- 15% either don't have a superannuation fund or don't know what type they have.
- 18% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards.

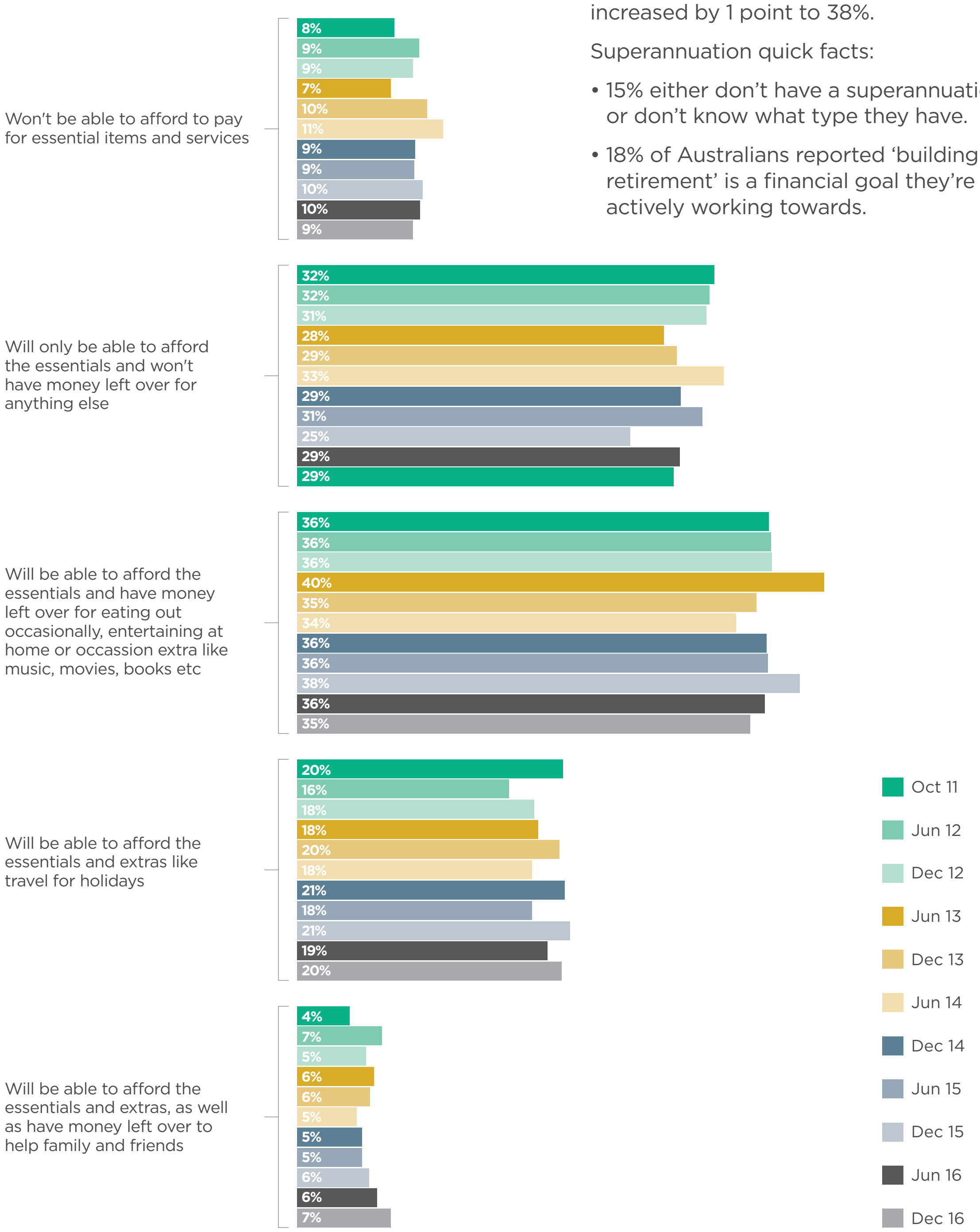

Figure 33 – Expectations for adequacy of income in retirement.

5.7

OVERALL LEVEL OF WEALTH (NET)

Comfort with 'overall level of net wealth" remained around the lowest levels since the survey commenced in October 2011. Comfort with wealth – as measured by what would be left in cash if you sold all your assets and paid off all your debts – was 5.49 out of 10, almost the same outcome as December 2012 and June 2016.

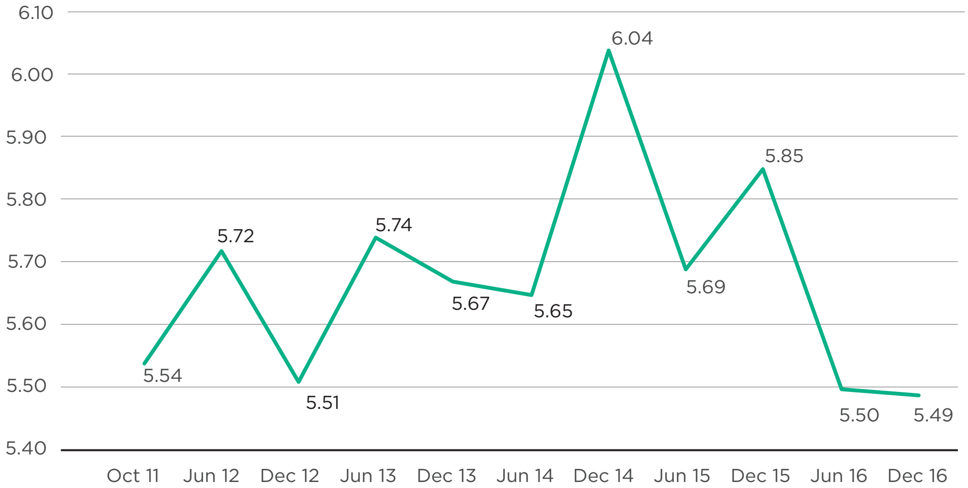

Figure 34 – Comfort with wealth.

By households, 'single parents' reported the lowest level of comfort with wealth (down 5% to 4.14), followed by 'middle-aged singles/couples with no children' (down 4% to 4.88). After a rise of 8%, 'retirees' continued to report the highest comfort with wealth at 6.79 and to a lesser extent 'couples with older children' (up 1% to 5.88) and 'empty nesters' also up 1% to 5.66.

In contrast to these findings and as noted above with respect to investments, macro-financial indicators of wealth have continued to improve, with strong rises in property markets, superannuation and direct share holdings. Put another way, household ratings of their wealth appear to be highly conservative – notwithstanding there remains a great deal of uncertainty about the financial outlook and the distribution of wealth has become increasingly uneven across households by age and income levels.

Appendix a
household statistics.

06.

	Household Financial Comfort Index	Average Net Wealth	Average Household Yearly Income
Young singles/couples (<35yo) no children	5.68	$269,000	$92,000
Single parents	4.34	$266,000	$58,000
Couples with young children	5.31	$418,000	$93,000
Couples with older children	5.65	$814,000	$94,000
Middle-aged singles/ couples no children	4.91	$386,000	$72,000
Empty nesters (50+yo)	5.42	$620,000	$60,000
Retirees	6.23	$813,000	$53,000

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.

Eleven 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 2016. 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 include:

- 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
- (4) Confidence in the household's ability to handle a financial emergency, and
- Comfort levels with (5) household income, (6) living expenses, (7) short-term 'cash' savings and (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 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 mid-point 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).

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