Household financial comfort report.

Fourteenth survey published Aug 2018.

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

As the cost of living increases, the average Australian is starting to eat into their savings just to make ends meet.

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 14th survey, conducted in June 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
- Tenth edition: June 2016
- Eleventh edition: December 2016
- Twelfth edition: June 2017
- Thirteenth 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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01.

With subdued and stagnant incomes, more Australians are feeling strapped for cash, and are being forced to dip into their savings to cover the rising cost of living expenses, ME's latest *Household Financial Comfort Report* (HFCR) has revealed.

More households are overspending to cover necessary living expenses and are drawing down on savings, with mortgage and rental stress remaining high.

Comfort with short-term cash savings was the most notable component of the *Household Financial Comfort Index* to decline, seeing a 3% decrease to 4.93 out of 10 during the first half of 2018 – its lowest level in a couple of years.

The report showed that households' confidence to raise money for an emergency dropped three points below the average since the survey began, and fewer households reported they are saving. The estimated amount that Australians are saving each month decreased by just over 10% during the first half of 2018.

More Australians are also overspending – households who 'typically spend all of their income and more' increased 3 points to 11% during the six months to June.

Clearly, this is a potential tipping point. At the moment, Australians generally can dip into their savings to get by. However, some households may get to a point where there's no more savings to draw from. Currently, around a quarter of Australian households have less than $1000 in cash savings.

The latest report found that the cost of necessities continues to be the major financial concern for households, with more than half of households reporting it as their 'biggest financial worry', up seven points to 53% in June 2018. Similarly, when asked why their financial situation worsened during 2017– 18, 44% of households said it was due to the cost of everyday items, an increase of four points since the previous report.

Consistent with ABS wage data, the latest HFCR data found nearly half of households (42%) still had the same income as a year ago, while a quarter (24%) reported income cuts and 34% received a raise. Unsurprisingly, 'comfort with income' declined in the past year by 2% to 5.61.

Similar to strengthening in the ABS jobs data, the report revealed increased confidence in people's ability to find a job; however, high levels of job insecurity and underemployment remain. Around 23% of casual and part-time workers said they would prefer to undertake full-time work if they could.

In the six months to June 2018, the report's overall *Household Financial Comfort Index* went sideways from 5.49 to 5.44, once again indicating that the financial comfort of Australian households is not advancing.

Mortgage and rental stress still high, despite the housing market cooling.

The report revealed housing stress is still prevalent among Australian households. For those with home loans, a broadly unchanged 45% of households reported to be contributing more than 30% of their disposable income towards mortgages during the past six months – a common indicator of financial stress.

The good news for renters is that financial stress has lessened somewhat during the past six months, thanks to the housing market cooling and rents falling. While almost three-quarters (72%) of renters were previously contributing over 30% of their disposable income towards rent, this number dropped significantly to two-thirds (67%) in the most recent survey.

Of households with debt, there was an increase in the number expecting 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' in the next 6 –12 months – 43% combined compared to 38% in December 2017.

Biggest winners and losers of the latest HFCR:

Winners:

- **Self-employed workers:** The self-employed sector, ranging from tradies to professional freelancers, reported the highest level of comfort and the largest increase of any workforce segment (up 17% to 6.22). This is 11% higher than this group's average of 5.58 since the survey began in 2011. The cohort experienced rises across all components that make up the Household Financial Comfort Index, notably 'changes in household financial situation over the past year', 'comfort with cash savings' and 'confidence in the handling a financial emergency'.
- **South Australia:** Financial comfort in South Australia increased the most of any other state or territory (up 16% to 5.78). This can be linked to rises across all components that make up the *Household Financial Comfort Index,* in particular increased 'confidence in the handling a financial emergency', 'comfort with long-term investments including superannuation', and 'comfort with income' South Australia was followed by Victoria (up 1% to 5.37), Western Australia (unchanged at 5.5) and Queensland and New South Wales (both down 3% to 5.24 and 5.67 respectively).

Losers:

- **Young singles and couples under 30 years of age with no kids:** Overall comfort of this cohort decreased by 11% to a record low of 5.30 out of 10. The decrease can be linked to falls across all components that make up the *Household Financial Comfort Index,* particularly low scores around 'comfort with savings' and 'confidence in the handling a financial emergency'.
- **Empty nesters (50 years old and over):** A record low in financial comfort was reported by 'empty nesters' (down 3% to 5.22) – 7% below the average of 5.60 since the survey began. You may think that empty nesters would have fewer financial worries – most have paid off their mortgage, their kids have flown the coop, the majority are still working and some have voluntarily retired. However, many are still concerned about current finances as well as worried about their life after work, expressing an 8% drop in comfort with their expected standard of living for retirement, as well as a 7% fall in their 'comfort with savings'. Recent changes to superannuation in the past year appear to be significantly impacting this life stage.
- **Students:** Students reported a substantial decline in financial comfort of 15% to 4.18 since the last report. Students are always among those with the lowest financial comfort in each HFCR due to a lack of comfort with cash savings, investments, net wealth and their reduced ability to manage a financial emergency. However, this recording is a major negative spike and can be attributed to falls across most components that make up the Household Financial Comfort Index, in particular 'level of debt', 'comfort with living expenses' and 'confidence in the handling a financial emergency'.

Macroeconomic and financial context.

02.

Overall Australian household finances, on average, remained relatively resilient during the first half of 2018. However, macroeconomic and financial vulnerabilities remain related to sluggish household incomes, high and rising debts and disparate housing markets, though risks differ markedly across households as well as regions.

Despite a small fall in housing prices, household (net) wealth has continued to rise, with solid financial asset gains (especially superannuation and other growth assets) partly offset by increased gearing and a small rise in medium-to-long-term bond yields. Most households are also well supported by wage gains (albeit subdued) and stronger jobs growth. On the other hand, both consumer sentiment and household consumption growth have remained a bit below average and the saving ratio has eased further. Debt has continued to increase faster than income but slower than assets. Debt servicing costs have begun to rise due to continued gearing and higher residential loan rates, although the higher rates have mostly affected investors. There is also still significant underemployment.

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 June 2018 – with optimists slightly outnumbering pessimists in June 2018.

Job gains have remained strong, but there remains significant underemployment and historically slow wage growth. Both full-time and part-time employment have increased, while the participation rate has eased from a recent high. As a result, the unemployment rate has eased to 5.4% in June 2018, compared with 5.5% in December 2017 and 5.7% a year ago. In contrast, the rate of youth (aged 15– 24 years) unemployment is much higher than the overall unemployment rate, despite a continued fall to 11.3% in June 2018 from 12.2 % in December 2017 and 13.1% a year ago. The student unemployment rate also remains relatively high at almost 11% in June 2018, with only the student unemployment rate in NSW in single figures at 8.7%. More broadly, the quarterly trend underutilisation rate (for both unemployed and under-employed persons) edged up to 13.9% in May 2018, compared with 13.8% in November 2017. Put another way, a significant portion of the labour force is looking for both jobs and more hours of work. Consistent with this, wage gains remain at a historically low pace in all states and most industries.

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), but 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 from current disposable income has slowly continued to trend lower. Consumer inflation has increased but remains low across most retail goods and services. Prices of utilities (especially electricity and gas), tobacco, and fuel prices have been relatively high, but annual rent rises have been the lowest since the mid '90s, and the prices of consumer durables (typically discretionary items and technology related) have fallen.

Residential house prices have eased further, but continued to vary a great deal across Australia. After strong increases over recent years, prices across major cities, on average, are down 2% during 2017–18. During the past year, prices have been lower in Sydney (down 5%), Darwin (down 8%) and Perth (down 2%) and broadly unchanged everywhere else, except for Hobart (up 13%).

Annual growth in household debt has edged lower during the past six months – with annual growth in housing credit at around 5.8% in May 2018, compared to 6.3% in December 2017. Recent tightening in prudential and lending standards as well as related increases in housing loan rates have weighed predominantly on investors. During the past six months, annual housing growth for investors slowed to 2% in May 2018 from over 5% a year ago, and annual growth of owner-occupied housing credit remained steady at around 8%. Other personal debt (such as credit cards and equity-backed loans) have contracted a bit further – down by 1% during the year to May 2018.

'Real' household assets, on average, have continued to increase relatively strongly, compared to income and, to a lesser extent, debt – reflecting further significant rises in household financial assets (mainly superannuation). Superannuation assets continued to rise during the first half of 2018 largely due to continued compulsory contributions boosted by a significant rise in both global and Australian share prices, rather than increased voluntary retirement savings. Houses prices across Australia, on average, recorded small falls during the past six months, while new residential investment has fallen slightly during the past year.

As a result, the aggregate financial position of households – as measured by household net wealth (assets less debt) – continued to improve during the first half of 2018 – and reached a new record high 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, while debt-to-assets (or leverage) has fallen slightly because asset gains 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, despite the unchanged RBA cash rate.

Aggregate household financial stress indicators (such as housing and other loans in arrears and property possessions) are generally low, but slowly rising and disparate. Households, on average, are coping well with debt servicing burdens due to still relatively low borrowing costs. However, job losses, underemployment and falling house/apartment prices are currently presenting challenges to households in some regions. 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 the fact that loan rates will inevitably 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 including:

- 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 saving
- 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

Limited income gains and rising living expenses weighing down comfort.

03.

In ME's latest *Household Financial Comfort Report,* Australian households reported limited income gains and rising living expenses, which in turn caused households to overspend and run down their savings.

As a result, ME's overall *Household Financial Comfort Index* remains stagnant – at least for now.

3.1 Household Financial Comfort Index remains broadly unchanged.

The *Household Financial Comfort Index* (see figure 1) declined slightly by 1% to 5.44 out of 10 over the six months to June 2018 – largely the same as the past four surveys as well as the historical average since the survey began (5.45 out of 10).

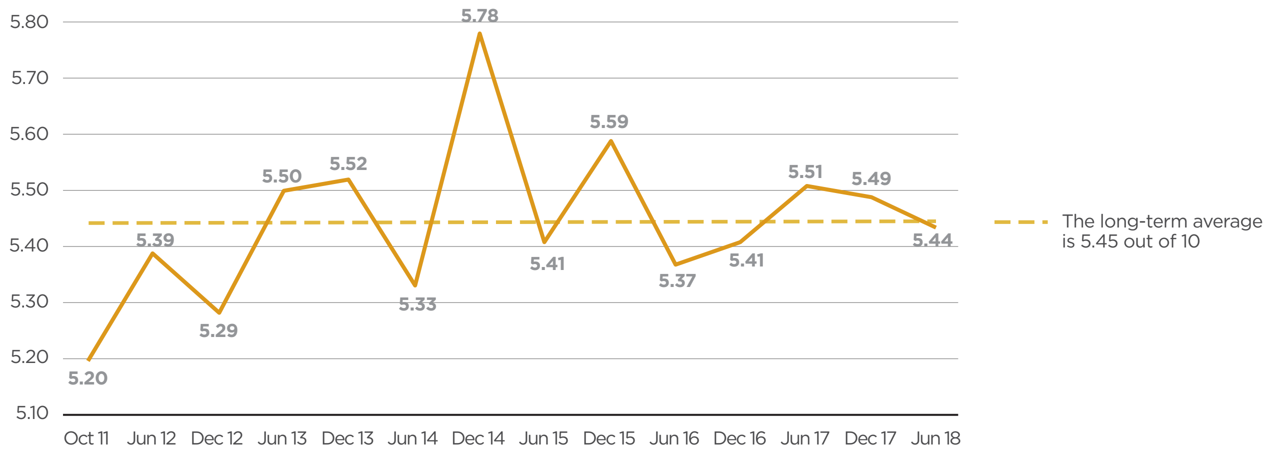


Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10

Comfort worsening for households with low comfort.

Households with a 'low' comfort index between 0–4 out of 10 reported a 5% decline in overall comfort to 3.13 in June 2018. This is the lowest ever score for this cohort and 6% lower than the average of 3.32 out of 10 since the survey began.

In contrast, the overall comfort of households with a 'mid' comfort index of 5–7 remained unchanged at 6.38 out of 10 and households with a 'high' comfort index of 8–10 increased by 1% to 8.61 out of 10, with both cohorts' comfort levels around their historical average.

Put another way, overall comfort is getting worse for households with low levels of comfort, but is largely unchanged for households with medium and high levels of comfort.

3.2 **Key changes to the *Household Financial Comfort Index.***

In terms of the 11 components that make up the *Household Financial Comfort Index,* all but one component either declined or remained unchanged.

'Net wealth' was the only component that improved (up 2% to 5.67), although this gain was concentrated among households with a high comfort index of 8–10 – see more in section 5.7.

Meanwhile, 'short-term cash savings' was the component with the most notable decline by 3% to 4.93, consistent with subdued income gains, rising expenses and increased spending.

Regardless of recent changes, 'cost of living expenses' remained the most comfortable component (unchanged at 6.42), despite the significant fall of 3% from its recent peak in June 2017.

Meanwhile, the 'ability to cope with a financial emergency' remained the least comfortable (down 1% to 4.77) – despite significant consecutive gains since June 2016 – see more in section 5.2.

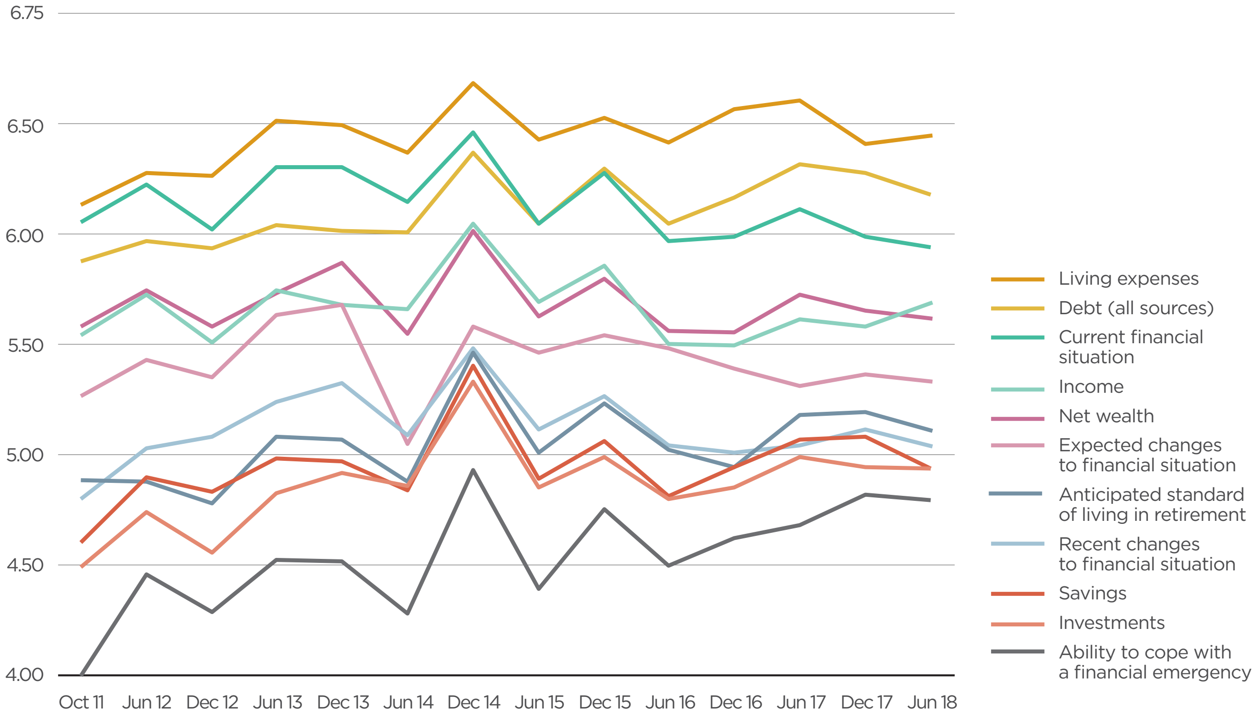


Figure 2 – The 11 components that make up the index, showing changing levels of comfort over time. Scores out of 10

3.3 **Subdued income gains.**

Despite strong job gains and an increased confidence in finding another job if unemployed (see section 4.4), Australian households are feeling that subdued income gains are not balancing out concerns with rising living expenses.

In the latest survey, around 42% of households reported their 'income remained the same' – up 2% in the past six months to June 2018, and four points above the average since the survey began.

Meanwhile, around a third (34%) of households reported their 'income increased' (unchanged in the past six months) and around a quarter (24%) said their 'income decreased' (down 4% in June 2018), with the latter three points below its historical average of 27%.

Similarly, 'comfort with income' (one of the 11 components that make up the *Household Financial Comfort Index*), fell by 2% to 5.61 over the past year to June 2018 (see more detail in section 5.1).

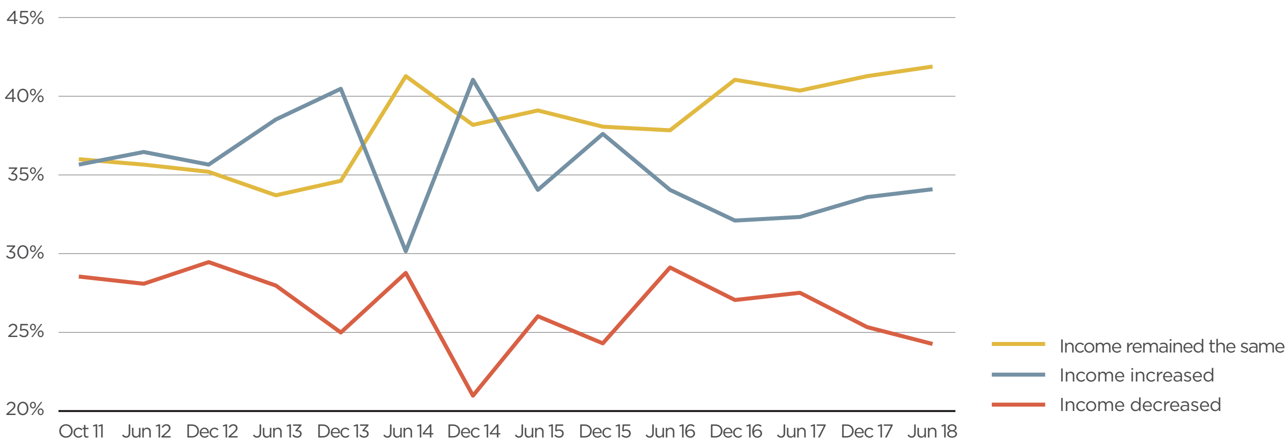


Figure 3 – Household income changes during the past year

Subdued income gains and underemployment among casual and part-time workers.

Across the workforce, 'casual' and 'part-time' workers were the most likely to report that household income was unchanged or fell during the past six months at 78% and 67%, respectively. In contrast, only 61% of self-employed workers and 53% of full-time workers reported their income stayed the same or fell. Put another way, only a third of part-time workers and less than a quarter of casual workers reported increased incomes during the past year, while almost half of full-time and almost 40% of self-employed workers reported higher incomes during 2017/18.

In addition, high levels of underemployment remain a significant barrier to increased incomes. In the latest survey, 23% of 'part-time' and 'casual' employees said that they would prefer full-time work – see more in section 4.4.

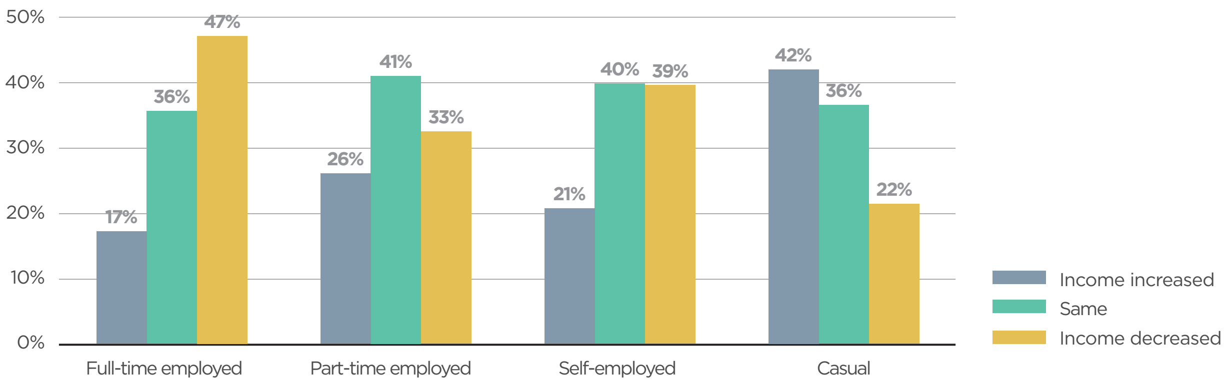


Figure 4 – Income changes over the past year across the labour force

Household income gains realised by those with higher incomes.

For the fourth consecutive report, households with higher annual incomes have continued to realise income gains more than households with lower annual incomes – see figure 5.

Among households with annual incomes over $100,000, 51% recorded 'income increases', while only 12% reported 'income falls'.

In contrast, only 26% of households with annual incomes of less than $40,000 reported 'income gains', while 33% reported 'income falls'.

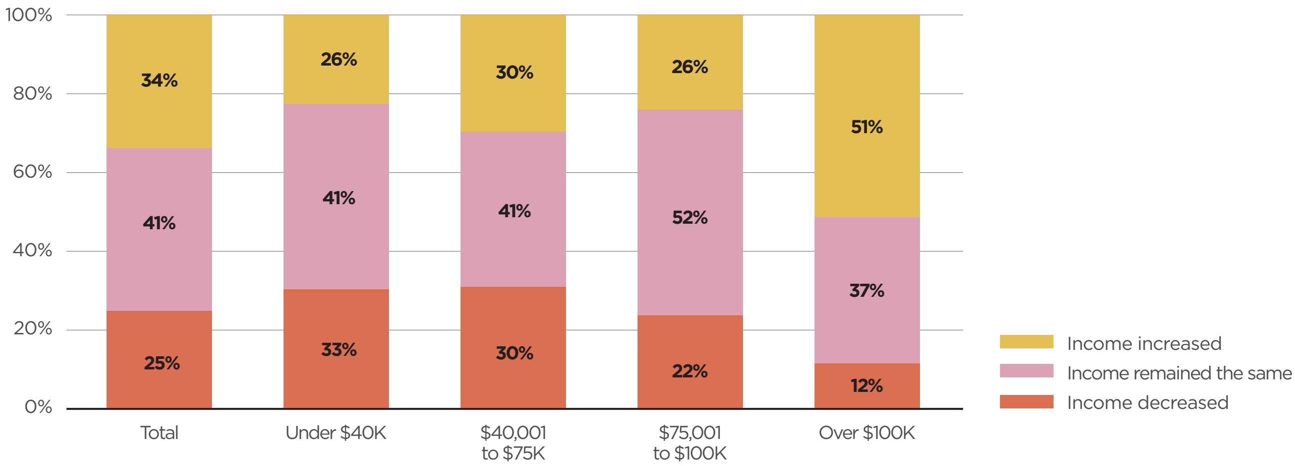


Figure 5 – Income changes over the past year across various income bands

3.4 **Households' overall current financial situation lowest on record due to increases in living costs.**

In addition to subdued income gains, the rising cost of living was cited by respondents as the main reason for households currently feeling worse off.

One of the 11 measures of the *Household Financial Comfort Index* – 'comfort with the overall current financial situation of the household' – fell by 1% to a record low of 5.93 out of 10 during the six months to June 2018 to be 3% below the average of 6.12 since the survey began.

Households were asked if their 'financial situation improved, worsened or remained unchanged over the last year' and 'why'. Of the 32% of households that reported their financial situation had 'worsened', 44% said 'living expenses/costs of necessities' was the key reason, and to a lesser extent 'job security' (20%), 'income' (17%) , 'debt levels' (16%) and 'changes to government support' (14%) – see figure 6.

On the other hand, 34% of respondents said that their financial situation had 'improved during 2017–18'. Of those, 30% cited changes to 'income', followed by changes to 'employment/job security' (12%) and 'debt levels' (11%) as the key reasons why.

Similarly, 'expected changed to households' future financial situation' also fell by 1% to 5.32 during the six months to June. This is 2% below the average since the survey began. When households were asked about the impact of the recent 2018 Commonwealth Budget, 23% reported they would be 'worse off' – rising to 29% of 'retirees' and 31% of 'empty nesters' and – versus 15% of households reporting they would be 'better off'. Around 63% reported 'no impact' i.e. their financial situation would remain the same.

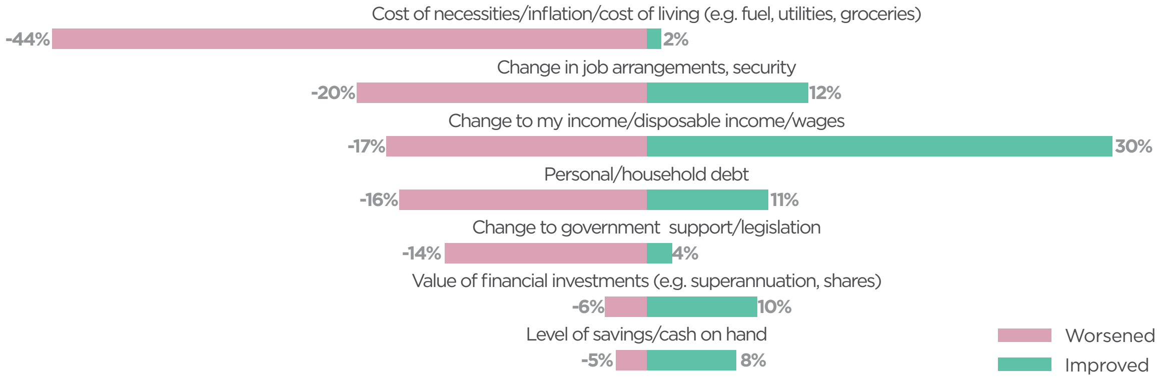


Figure 6 – The reasons households say their financial situation has worsened or improved over the past year. About 30% of respondents indicated that their situation had either worsened, remained unchanged or improved over the past year. A small proportion of respondents provided multiple reasons.

Biggest financial worry is also the cost of necessities.

In a similar question, all households were asked to select their 'biggest negatives' and 'biggest positives' about their household finances – see figure 7.

Consistent with the above findings about their financial situation, the 'cost of necessities' (e.g. fuel, utilities and groceries) continued to be the 'biggest negative' of households – up 7 points to 53% in June 2018. In contrast, only 9% of households reported the cost of necessities as their biggest positive – much the same as six months ago.

This measure also coincides with a 3% drop in the 'comfort of living expenses' over the past year to June 2018 – one of the 11 measures of the *Household Financial Comfort Index*.

For some households with low incomes, the rising cost of necessities has significantly lowered their overall financial comfort and financial stress remains at high levels. Over the past year, 17% of households 'could not always pay their utilities bills on time', while 19% 'sought financial help from family or friends' and 15% 'pawned/sold something to buy necessities'.

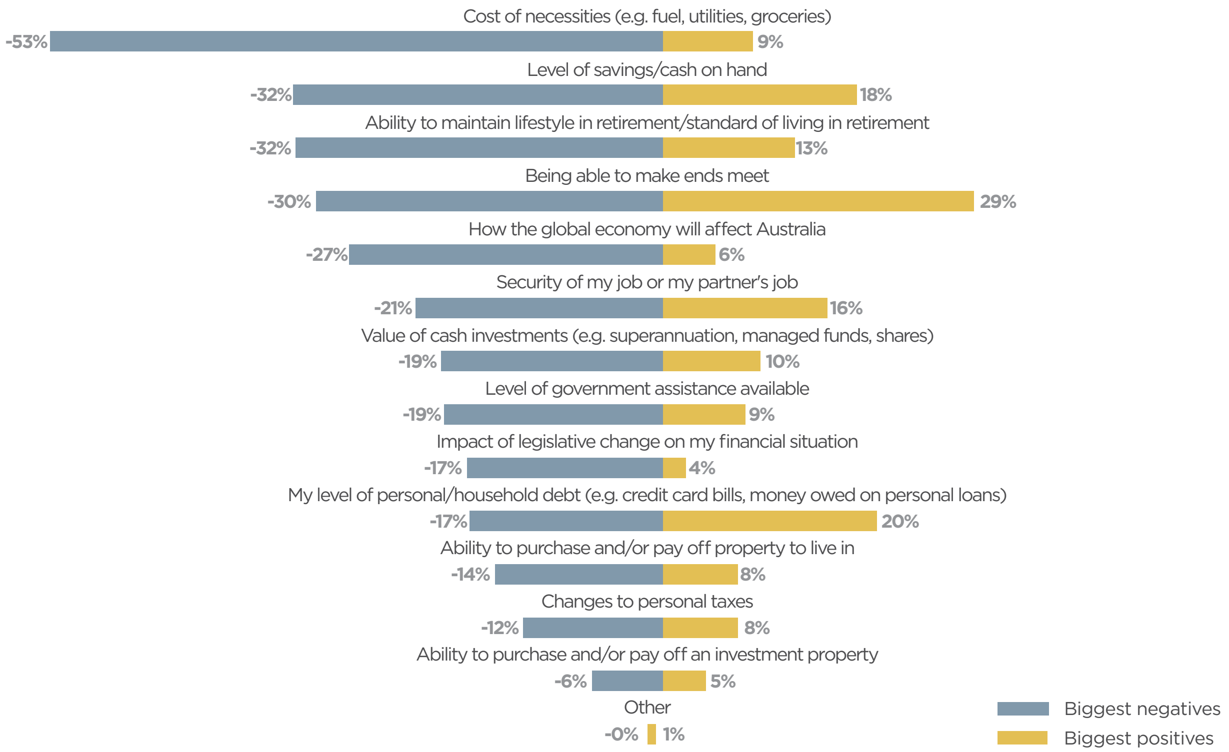


Figure 7 – Biggest negatives and positives nominated by households. June 2018

3.5 **Comfort with cash savings declines.**

Consistent with rising expenses, subdued income gains and continued spending, 'short-term cash savings' was the component in the comfort index with the most notable decline (down 3% to 4.93 during the past six months) – to the lowest level recorded in the past two years.

By life stage, significant falls across most households was partly offset by a rise among 'middle aged singles/couples with no children' – up 11% to 5.05.

The highest 'comfort with cash savings' was reported by 'retirees' (down 8% to 5.36). Meanwhile, 'single parents' continued to record the lowest 'comfort with cash savings' (4.05) – mainly reflecting the low comfort of those single parents dependent on government support (score of only 2.04), compared with single parents with a job/working (5.41).

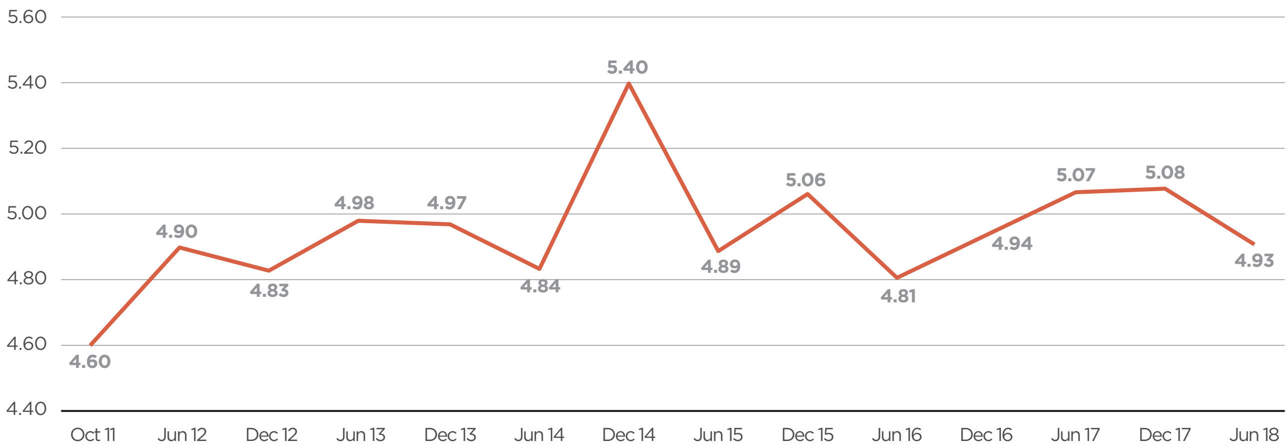


Figure 8 – Comfort with cash savings. Scores out of 10

Fewer savers saving and more dissavers spending more.

A closer examination of current savings from income also finds fewer households saving over the six months to June 2018, with fewer savers and more dissavers. Furthermore, savers are saving less and non-savers are spending more each month. Put another way, households are running down their savings to counter rising living costs.

The proportion of households who 'typically spend all of their income and more' (i.e. dissavers) increased from 8% to 11% of households, while the proportion of households who 'typically spend less than they earn each month' (i.e. savers) eased further from 49% to 48% to be lower than the recent high of 51% in December 2016. The proportion of households that 'typically spend all of their income and no more' fell from 43% to 41% – a bit below its historical outcome.

As a result, 'net savers' – i.e. the proportion of those 'spending less than they earn each month' (48%) minus those 'spending all of their income and more' (11%) – declined significantly from 41% to 37% of households, its lowest outcome in three years.

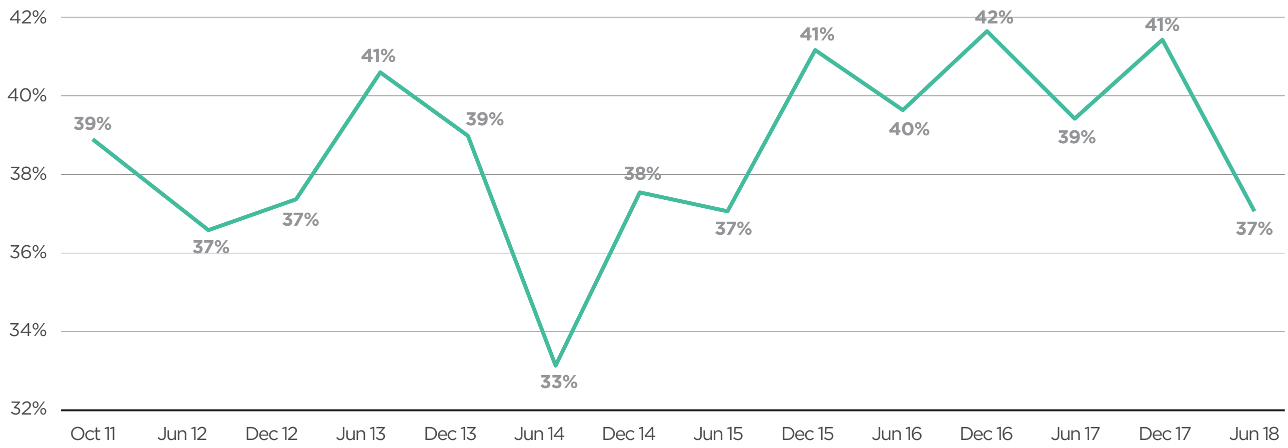


Figure 9 – 'Net savers' (the proportion 'spending less than they earn each month' minus those 'spending all of their income and more')

In addition to fewer net savers, the estimated average amount saved declined by 11% to $804 per month in June 2018 – the lowest in the last couple of years.

In contrast, the estimated average amount spenders overspent each month increased further by 2% from $613 to $625 per month, its highest level in over five years.

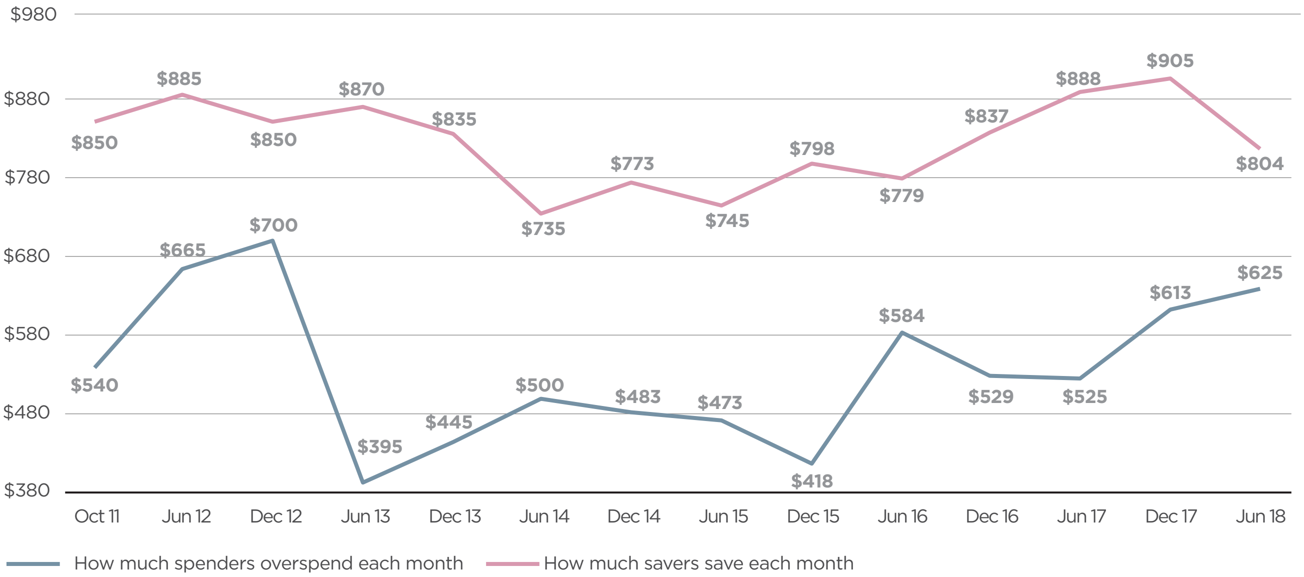


Figure 10 – Estimated average amount saved or overspent each month

Disparate savings amounts across households.

While savings continued to also vary a great deal across households, the majority of households lacked a significant cash buffer such as a savings account, term deposit or mortgage offset account – and remain vulnerable to a financial emergency.

After a rise of 3% during the past six months, over half (54%) reported cash savings less than $10,000 – including about a quarter (26%) with less than $1,000 in cash savings. In contrast, 20% of households reported cash savings of $10,001–$50,000, 10% reported cash savings of between $50,001 and $100,000, and around 16% reported cash savings above $100,001. See figure 11.

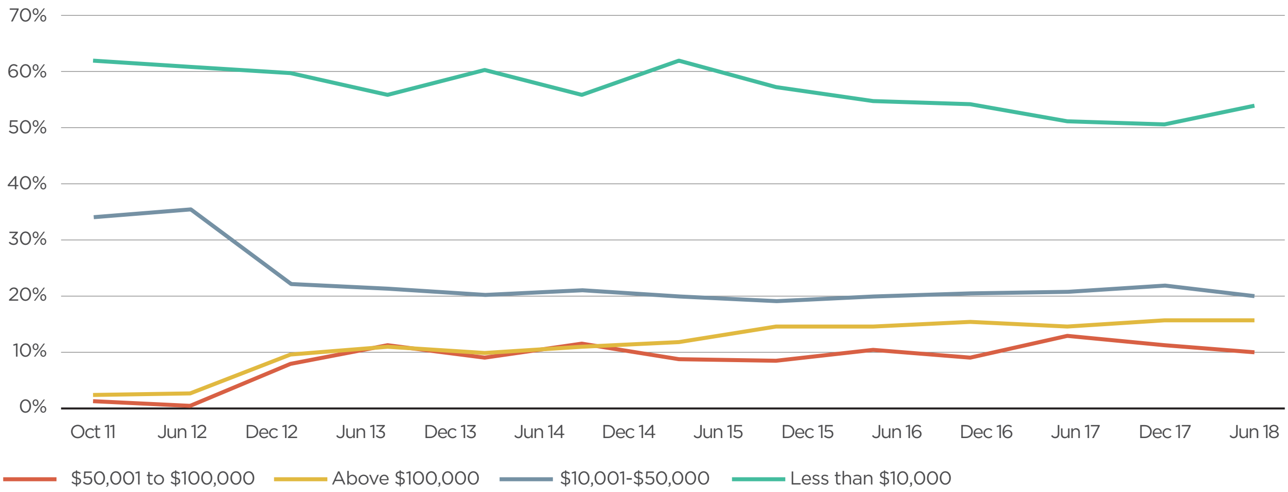


Figure 11 – How much cash savings do households currently hold?

As noted above, 'confidence in the household's ability to handle a financial emergency' fell slightly by 1% to 4.77 in the past six months to June 2018, after steadily rising during the past three consecutive surveys.

Furthermore, 'confidence in raising $3,000 for an emergency' also eased to be three points lower than the average recorded since the survey began – see more in section 5.2.

3.6 **High levels of housing payment stress.**

More than half of households (unchanged at 56%) renting or paying off a mortgage reported they are contributing over 30% of their disposable household income towards their cost of living – a common indicator of financial stress. However, this masks significant differences among households with a mortgage and renters.

For households with home loans, the proportion paying more than 30% of their household income towards a mortgage was relatively unchanged at 45% – much the same as previous reports. Somewhat encouragingly, the number of people arguably in extreme stress who contribute more than 60% of their income towards their mortgage has halved from 8% to just 4%. This is perhaps a sign of recent banking regulations to encourage responsible lending that are having a positive impact.

For renters, there has been a significant fall in rent stress, with those contributing more than 30% of their income falling from 72% to 67% – including falls among households spending greater than 60% of their income on rent as well as 30–40% of incomes on rent. Cooling housing markets and, in turn, falling rents in some major cities is easing the high levels of rental stress.

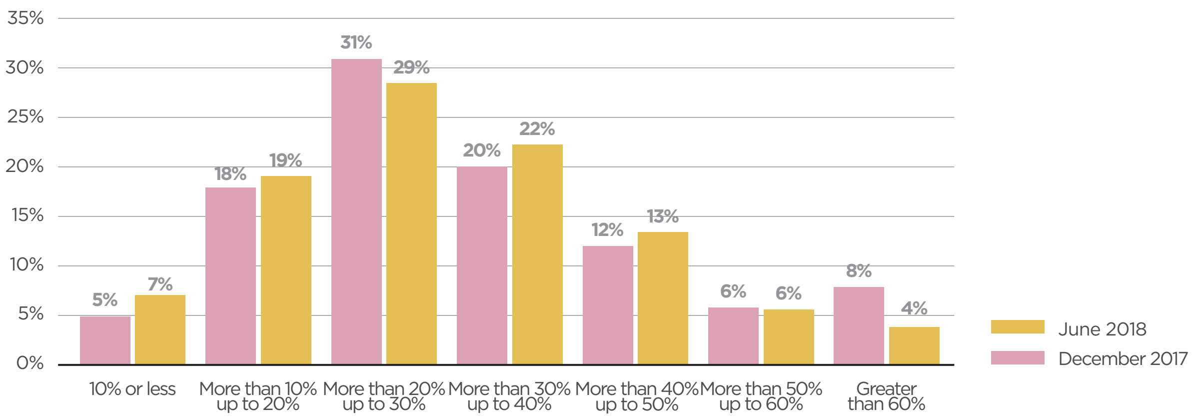


Figure 12 – Percentage of household disposable income paid towards housing (mortgage)

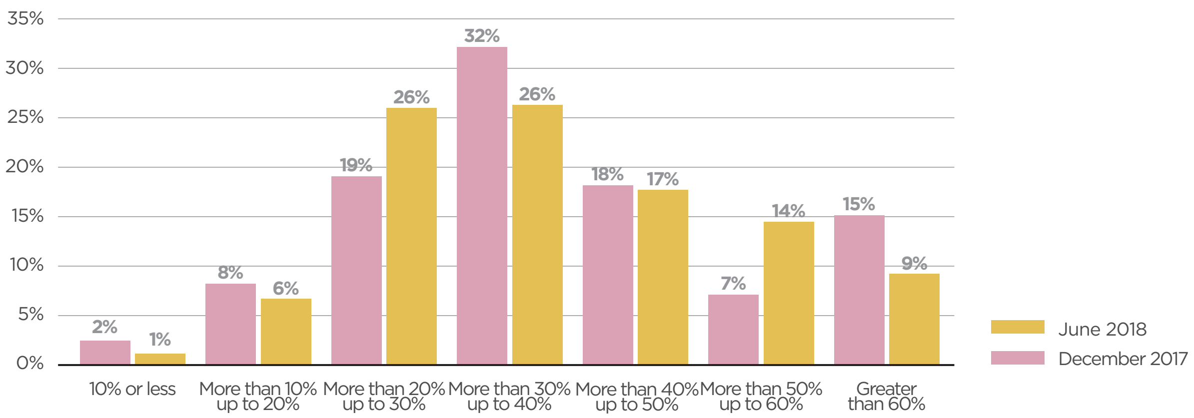


Figure 13 – Percentage of household disposable income paid towards housing (rent)

Concerns over level of debt.

Furthermore, the proportion of households who 'worried about their household's level of debt over the last month' remained unchanged at 38% – rising to 50% among mortgage holders, compared to 45% of renters and only 19% who own their own home outright (see figure 14).

By household type, 'couples with young children' reported the highest level of 'worry with debt' (50%), followed by 'young singles or couples with no children' (41%). On the other hand, less than a fifth (19%) of 'retirees' reported high levels of 'worry with debt'.

Households based in metropolitan Sydney (46%) reported a significantly higher level of 'worry about their household's level of debt over the last month', arguably a reflection of relatively high house prices in Sydney, that have started to ease after strong gains over the previous few years.

That said, as noted in section 3.4, the biggest worry among all households is the cost of necessities, which supersedes their worries about their ability to pay off a mortgage or other personal debt.

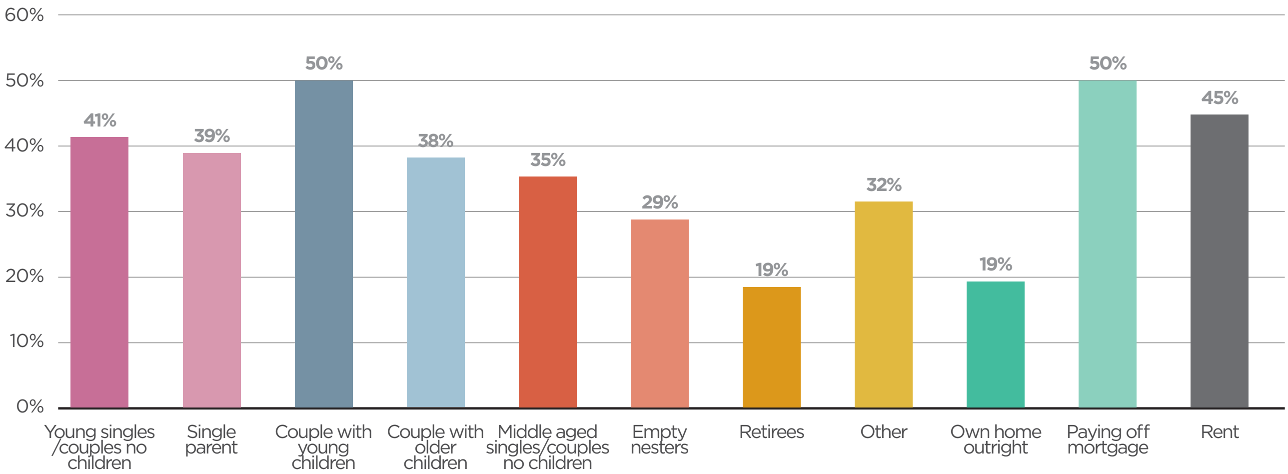


Figure 14 – How much have you worried about your household's level of debt over the last month?

Ability to manage debt high, but expected to worsen.

In June 2018, only 7% of households were unable to pay their mortgage on time during the past year due to a shortage of money. In comparison, 9% could not pay rent on time and 14% were unable to always pay off their personal loan or credit card on time.

Looking ahead to the next 6–12 months, 9% of households do not expect to be able to meet minimum payments on debt – 1 point higher than six months ago and a few per cent worse than historical expectations.

In total, more households (43% in June 2018 compared to 38% in December 2017) reported 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' in the next 6–12 months. In contrast, fewer households (57% in June 2018 compared to 62% six months prior) indicated they're 'able to pay a little bit more than the minimum payments on their debt' and 'can pay a lot more than the minimum payments on my debt' in the next 6–12 months.

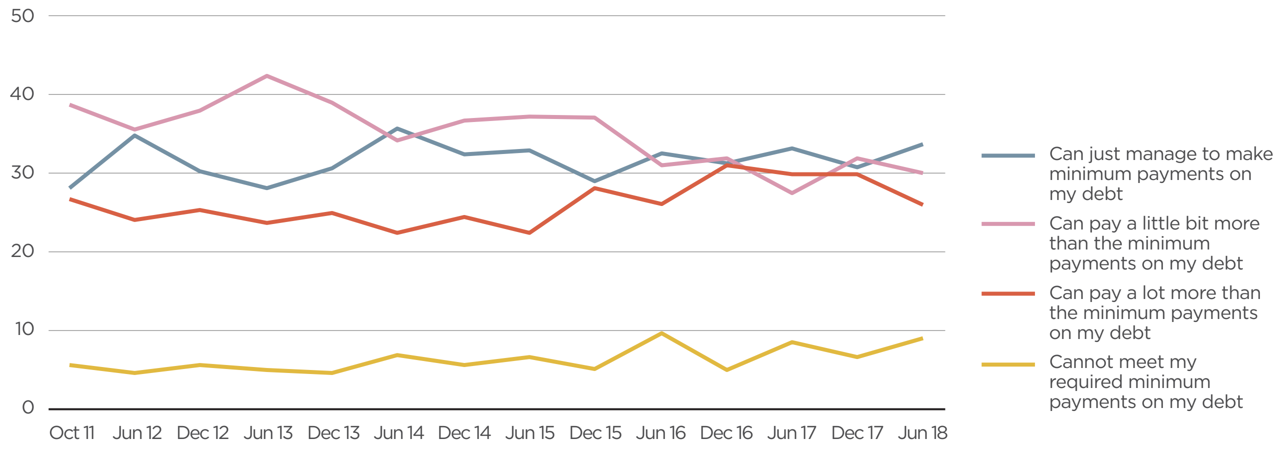


Figure 15 – Ability to manage debt over the next 6-12 months

More worse off if interest rates rise significantly.

More households reported to be 'worse off' than 'better off ' (33% versus 27%) 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. See figure 16.

Not surprisingly, more households with a mortgage (48%) reported to be 'worse off' compared to homeowners who owned their homes outright (14%).

By life stage, 40% of 'couples with young children', followed closely by 39% of 'young singles or couples with no children', reported they would be 'worse off'. In contrast, 31% of both 'retirees' and 'single parents' recorded they would be 'better off'. For more details regarding comfort with debt, refer to section 5.4.

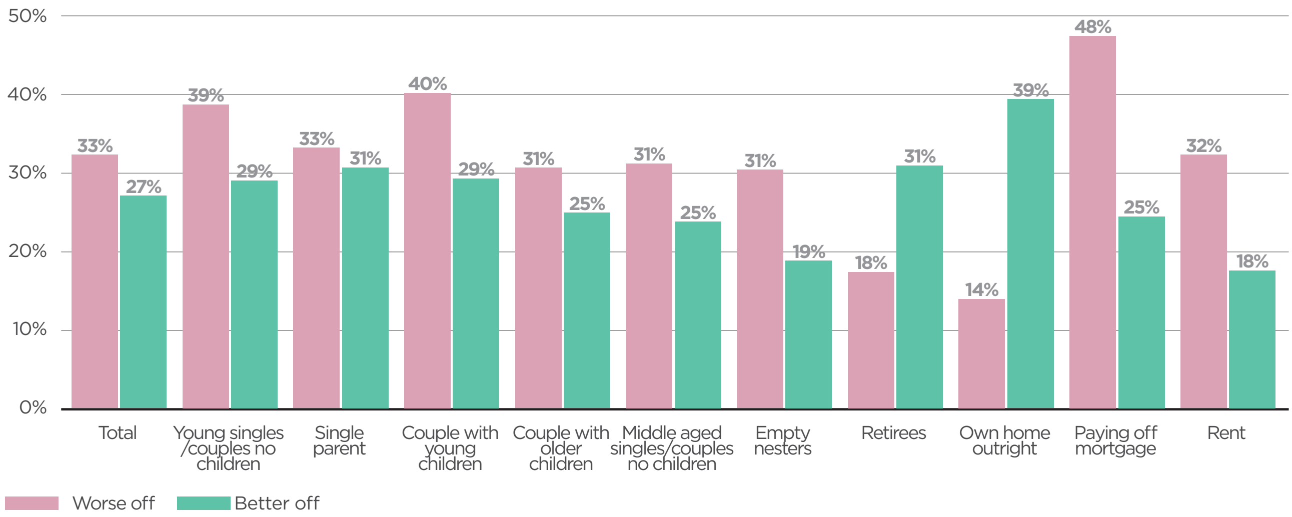


Figure 16 – How a 1% rise in the RBA cash rate would impact households

“We’re doing better with our business than when we worked full-time.”

Full-time, self-employed workers.
New South Wales.

Latest trends in household financial comfort.

04.

4.1 Financial comfort mixed across households.

Financial comfort fell across most life stages over the six months to June 2018, apart from notable rises among 'middle aged singles/couples with no children' (up 11% to 5.53) and, to a lesser extent, 'single parents' (up 5% to 4.69).

The greatest fall in the past six months was reported by 'young singles or couples with no children' (down 11% to a record low of 5.30), more than reversing a significant rise of 8% during the previous six months. This life stage reported broad-based falls across all components of comfort, with relatively low scores around 'comfort with savings' and 'confidence in handling a financial emergency'.

The improvement in comfort among 'middle aged singles or couples with no children' was also broad-based, with relatively high ratings for comfort with both 'living expenses' and 'level of debt'.

A record low level of comfort was also recorded by 'empty nesters' (after a fall of 3% to 5.22) to be 7% below its average of 5.60 since the survey began. This life stage reported an 8% drop in 'comfort with their standard of living for retirement' as well as a 7% fall in 'comfort with savings'. Recent changes to superannuation in the past year appear to be negatively impacting this life stage.

Despite a small fall of 2% in financial comfort during the past six months, households with the highest financial comfort continued to be 'retirees' at 5.89 out of 10 in June 2018.

In contrast, households with the lowest financial comfort by life stage in the past six months continued to be 'single parents' in June 2018 (4.69).

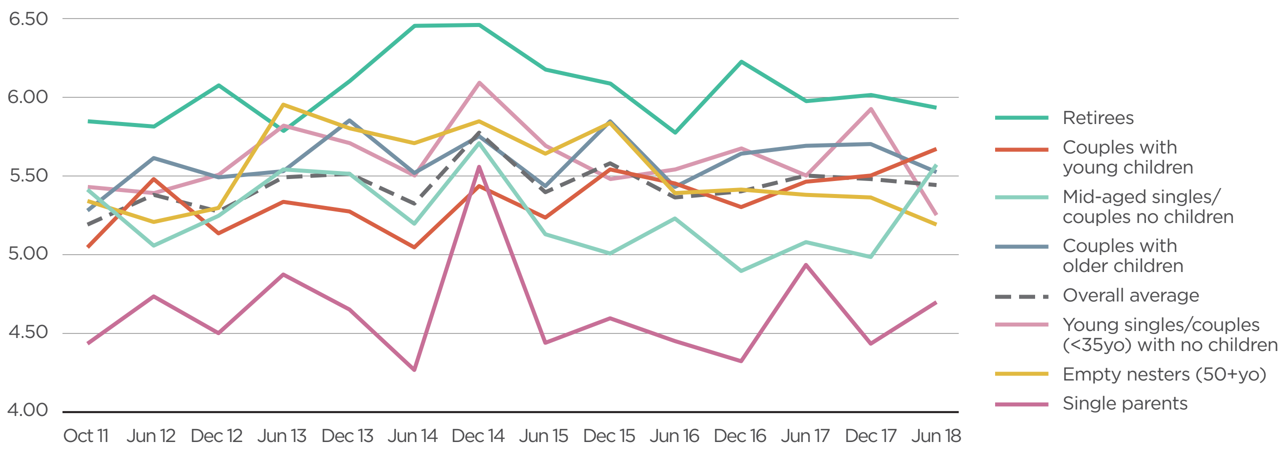


Figure 17 – Financial comfort across different households. Scores out of 10

4.2 **Financial comfort varied across generations.**

Financial comfort continued to vary across generations[1] in the six months to June 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 (down 1% to 5.11), with small falls across most drivers of the index, in particular ‘comfort with cash savings’ and ‘confidence in the handling a financial emergency’. ‘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 the highest financial comfort of all generations (unchanged at 5.67), closely followed by ‘Gen Y’ (down 1% to 5.64). However, ‘baby boomers’ tend to be more comfortable about their net wealth (especially debt) and less comfortable about their future comfort, compared with ‘Gen Y’.

‘Gen Z’ households reported the greatest decline (down 4% to 5.60), with large falls across most components, most notably ‘comfort with debt’ (down 18%). Gen Z recorded relatively less comfort with income, living expenses and debt than Gen Y.

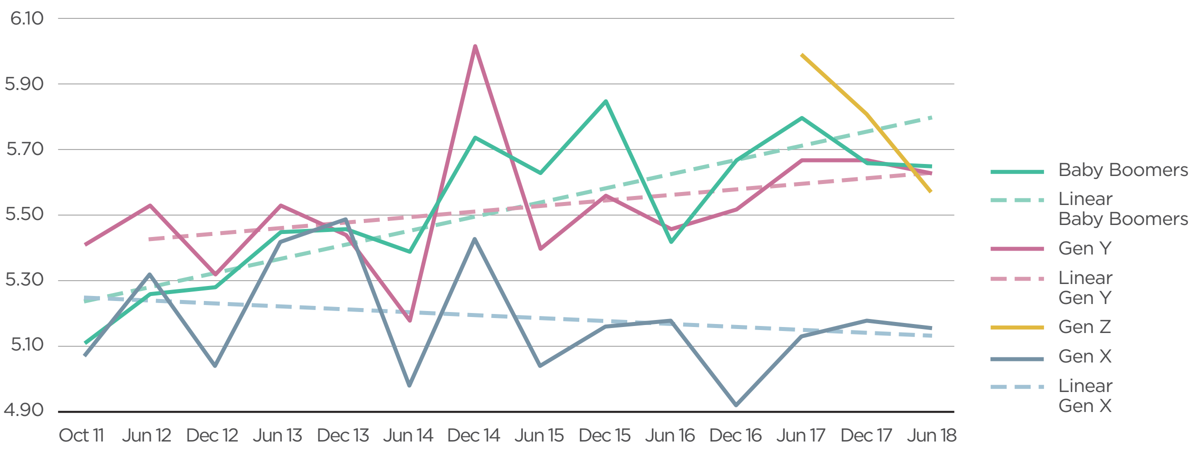


Figure 18 – Financial comfort across generations. Scores out of 10

[1] Generational definition are Gen Z: 18–24, Gen Y: 25–34, Gen X: 35–54, Baby Boomers: 55–74.

Students feeling the pinch.

'Students'[2] continued to report markedly lower levels of financial comfort (down 15% to 4.18 out of 10) in June 2018, compared to both '18–29 year olds' (down 3% to 5.63) and 'young singles/couples with no children' (down 11% to 5.30). See figure 19.

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

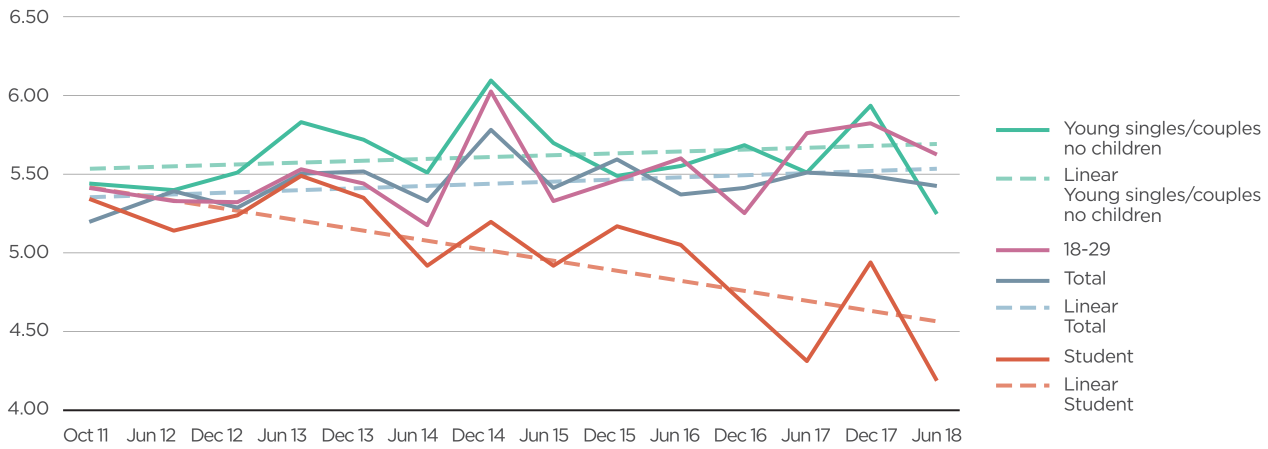


Figure 19 – Financial comfort across young singles/couples and students. Scores out of 10

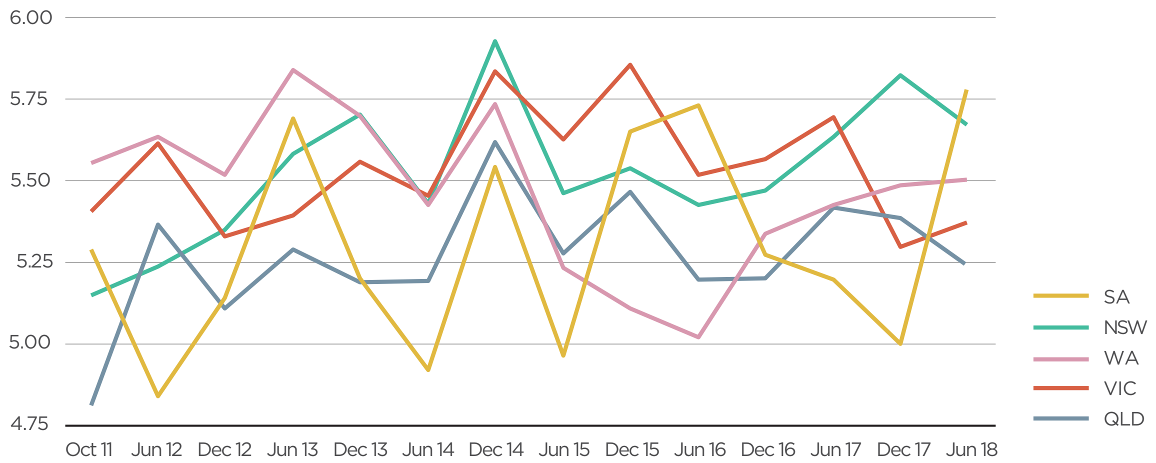
[2] Please note, about 30% of students are mainly in the 'young singles/couples with no children' life stage, and over 40% of them are 19–29 years old.

4.3 **Financial comfort mixed across states.**

Falls in both New South Wales and Queensland (both down 3%) were partly offset by a notable rise in South Australia (up 16%) and, to a much lesser extent, Victoria (up 1%) – see figure 20.

In terms of the states:

- South Australia jumped markedly to a record level of financial comfort in June 2018 – up 16% to 5.78 – and surprisingly, the highest across Australia as a whole. This reflected a broad-based improvement in all drivers and, in particular, increased 'confidence in handling a financial emergency' as well as higher comfort with 'investments', 'cash savings' and 'income'. As noted above, while comfort has tended to be volatile in South Australia, the latest outcome may reflect the sustained and significant fall in unemployment during the past year or so, with households feeling more positive about their jobs, incomes and financial position generally.
- New South Wales continued to report relatively favourable comfort overall, despite a fall of 3% to 5.67, with most drivers lower – including larger falls in comfort with 'cash savings' and 'investments'.
- Victoria stabilised at about 5.37, after a significant fall in the previous report, with somewhat mixed results across drivers – including higher comfort with 'investments' and 'income' partly offset by lower comfort with 'debt'.
- Western Australia was also largely unchanged at 5.50 after improvements in the previous few surveys, with higher comfort among most drivers offset by lower comfort with 'investments' and decreased 'confidence in handling a financial emergency'.
- Queensland recorded the lowest comfort level across all states (down 3% to 5.24), with falls across most key drivers, particularly 'anticipated standing of living in retirement', 'confidence in handing a financial emergency', and 'comfort with cash savings'.



Metropolitan versus regional comfort – a great divide.

In June 2018, metropolitan cities continued to record significantly higher financial comfort (down 1% to 5.56) than regional areas (down 1% to 5.13). See figure 21.

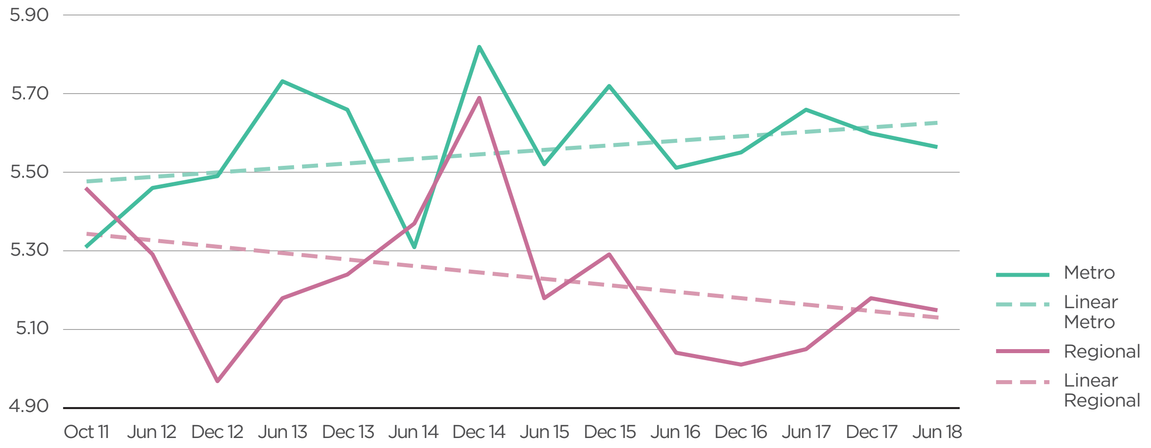


Figure 21 – Comfort index across metropolitan and regional Australia. Scores out of 10

As shown in figure 22, the trend of slightly higher household financial comfort in metropolitan households is evident across the larger capital cities, with the exception of Brisbane.

Sydney continued to be the most financially comfortable metropolis across Australia (5.88 out to 10).

Comfort in Adelaide jumped markedly to the same level as Sydney during the past six months to June 2018. On the other hand, Brisbane remained the least comfortable mainland state capital (5.16 out of 10).

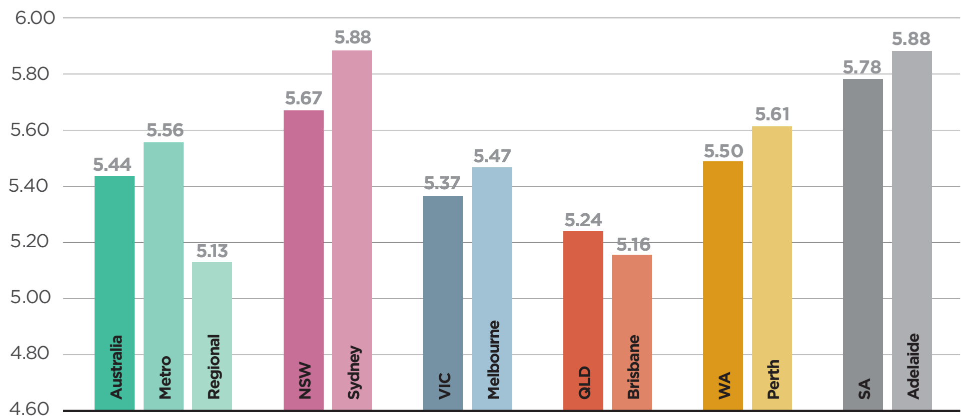


Figure 22 – Comfort index across larger states and metropolitan areas. Scores out of 10

4.4 **Financial comfort mixed across workforce segments.**

Self-employed' workers were the only workforce segment to report significantly improved comfort during the six months to June 2018, offset by falls among both 'unemployed' and 'full-time employed' workers, while comfort remained unchanged among 'part-time' workers and 'casual' workers.

'Self-employed' Australians reported the highest and largest increase in financial comfort of any workforce segment (up by 17% to 6.22) – 11% higher than the average of 5.58 out of 10 since the survey began in late 2011 (see figure 23). The latest increase can be attributed to rises across all components of comfort, in particular 'changes in household financial situation over the past year', 'comfort with cash savings' and 'investments' as well as increased 'confidence in handling a financial emergency'.

Meanwhile, the lowest financial comfort across the workforce continued to be reported by 'casual' workers (unchanged at 4.87) and, to a lesser extent, 'part-time' workers (also unchanged at 5.22). Both these worker segments reported falls in comfort with 'cost of living expenses', 'comfort with cash savings' and 'confidence in handling a financial emergency'.

The largest fall of any workforce segment was recorded by 'unemployed' people (down 14% to 3.69) – 10% below the average of 4.10 out of 10 since the survey began – due to falls in most drivers and, in particular, comfort 'during the past year 'as well as markedly lower 'confidence in handling a financial emergency'.

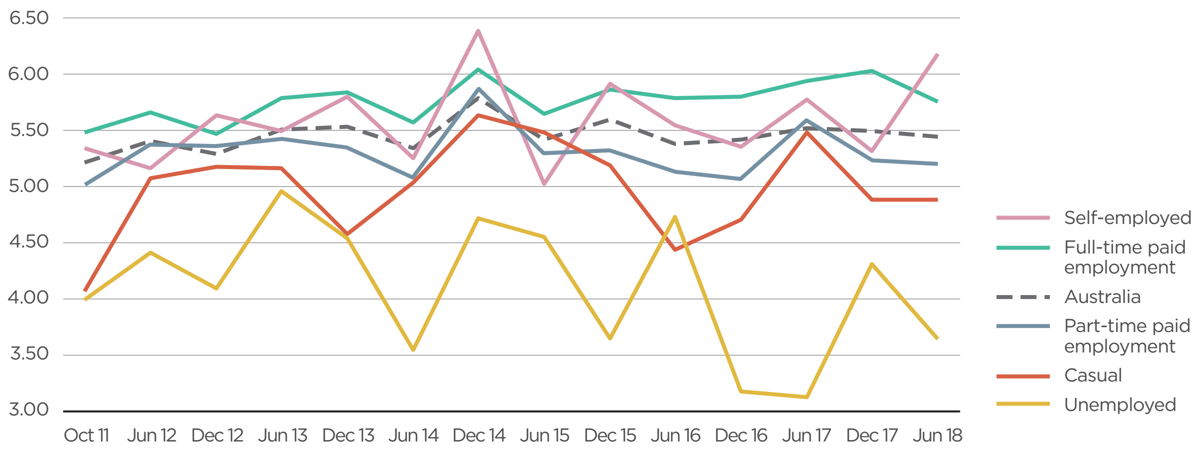


Figure 23 – Financial comfort across the workforce. Scores out of 10

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

Households indicated it was 'easier to find a job in two months' (up two points to 44%) if they became unemployed in June 2018. After the fourth consecutive improvement, job availability is the highest it's been in over three years. Conversely, households who reported it would be 'difficult to find another job in two months' declined by two points to 45%. These results arguably reflect strong job gains over the past year and improvements in job vacancies.

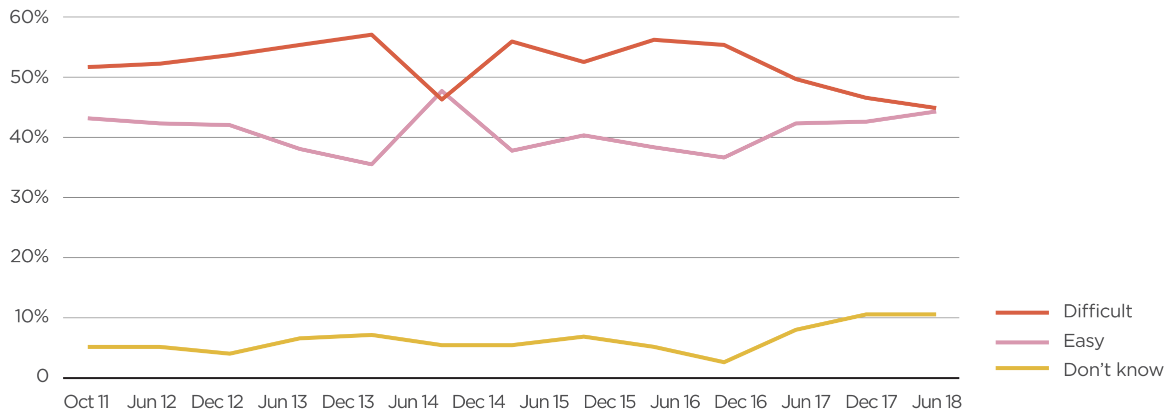


Figure 24 – If you were to become unemployed, how easy do you think it would be to find another job within two months?

Despite this, a significant part of the workforce also continued to lack job security, with 28% of workers feeling 'insecure' in June 2018 – albeit significantly down from the peak of 34% in December 2016.

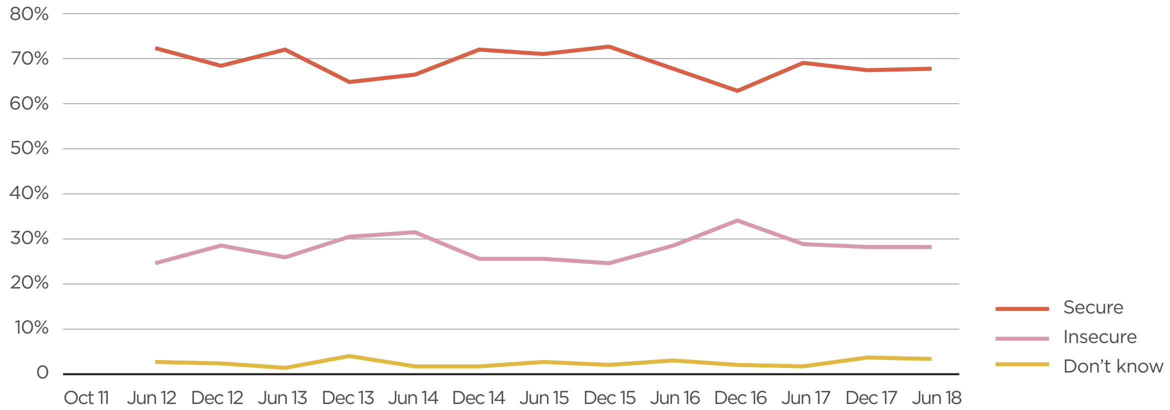


Figure 25 – Thinking specifically about your job, how secure have you felt about your job in the last month?

In addition, a significant number of 'part-time' and 'casual' workers continued to seek more hours and full-time work. In June 2018, 23% of 'part-time' and 'casual' workers indicated a preference to work full-time, while the majority (66%) preferred to remain in part-time work. Only 11% said that they preferred to work casual hours.

Of 'part-time' and 'casual' employees seeking more hours (33%), most reported they would prefer to work an extra 22 hours per week, on average.

4.5 **Financial comfort disparate across housing tenures.**

Renters worse off than borrowers or homeowners.

The household financial comfort of renters remained significantly lower (down 1% to 4.43) than households paying off their mortgage (down 1% to 5.32) and, to a greater extent, homeowners who own their home outright (up 1% to 6.49) – see figure 26.

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 reported similar comfort levels with debt – both significantly below the comfort with debt of homeowners who own their home outright.

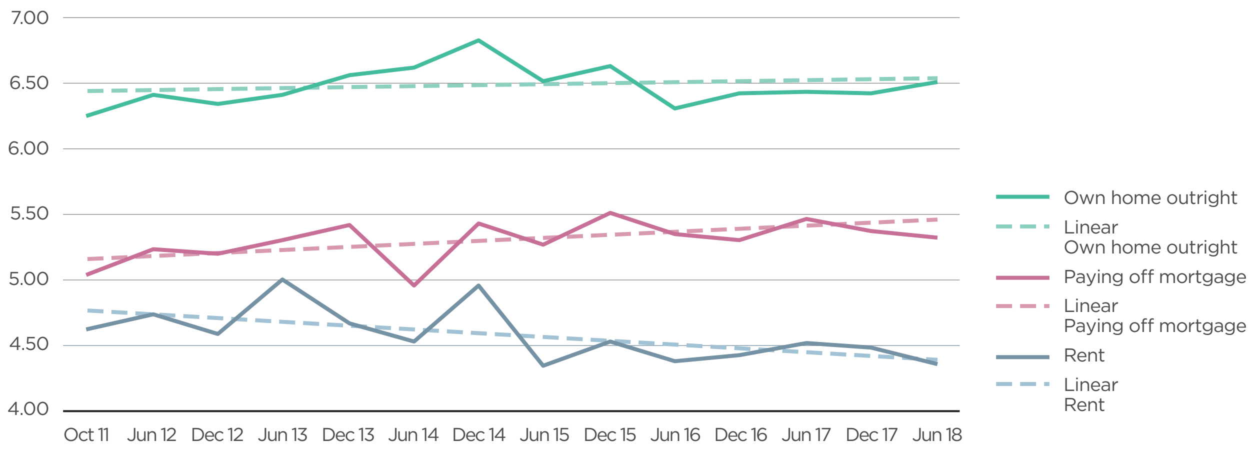


Figure 26 – Overall financial comfort based on housing tenure. Scores out of 10

Leveraged investors better off than owner-occupiers with mortgages.

Financial comfort continued to vary a great deal across households paying off mortgages.

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.

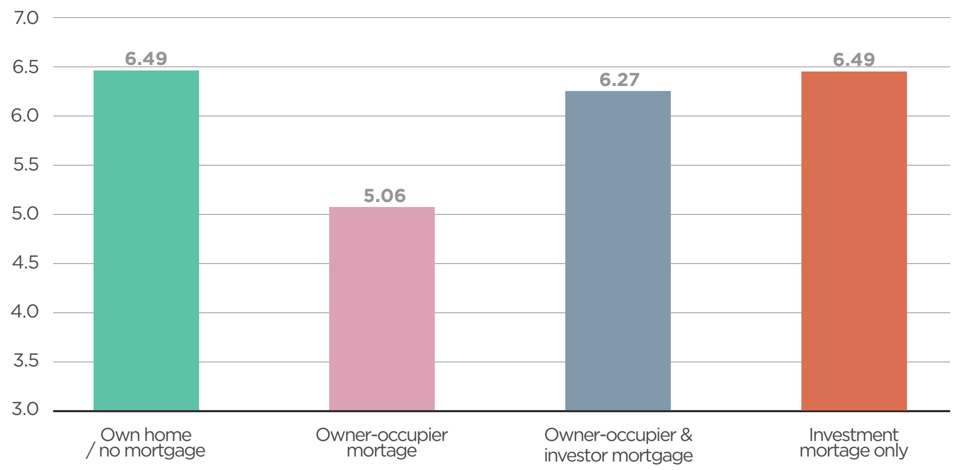


Figure 27 – Overall financial comfort for households with and without mortgages in June 2018. Scores out of 10

“Our income has stayed the same but our ability to cover essentials has worsened.”

Couple with older children.
Western Australia.

Other findings.

05.

5.1 Decreased comfort with income.

The report's 'income comfort' index fell slightly by 1% to 5.61 out of 10 during the six months to June 2018 (see figure 28).

By household, the highest 'comfort with income' was reported by 'retirees' (down 4% to 5.96). Meanwhile, 'single parents' continued to record the lowest 'comfort with income' (up 12% to 4.82) – mainly reflecting the low income comfort (index of only 3) of those single parents dependent on government support.

By state, South Australia recorded the highest 'comfort with income', up the most of any state by 20% to 5.96. Meanwhile, Queensland reported the lowest comfort with income (down 3% to 5.44) – see more in section 4.3.

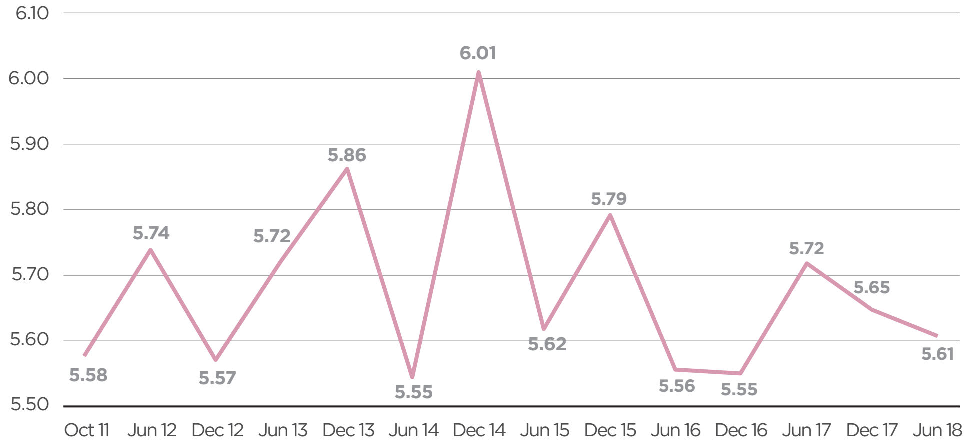


Figure 28 – Comfort with income. Scores out of 10

5.2 **Slightly lower confidence in managing a financial emergency.**

After a significant improvement over the past three surveys, ‘confidence in the ability to maintain your lifestyle, if you lost your income for three months’ declined slightly – down 1% to 4.77 in the six months to June 2018.

In the latest survey, ‘retirees’ continued to record the highest confidence (down 3% to 5.27) while ‘single parents’ reported the lowest confidence (up 1% to 3.87). Across the workforce, unemployed people and casual workers continued to have relatively low confidence in their ability to maintain lifestyle (2.96 and 3.82 respectively), while both full-time and part-time ‘self-employed’ workers have the highest confidence (both around an index of 6).

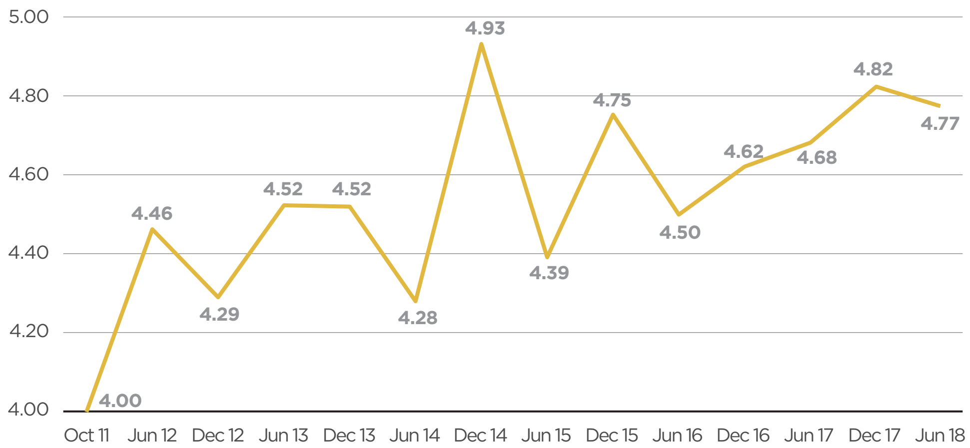


Figure 29 – Confidence in ability to handle an emergency, if you lost your income for three months. Scores out of 10

Low confidence in the ability to raise $3,000 for an emergency.

Similarly, confidence in 'raising money for an emergency' eased ever so slightly, following improvements over the past three surveys (see figure 30).

In June 2018, a significant majority of households (62%) continued to report that they 'could not easily raise $3,000 for an emergency' – a percentage point lower than six months ago and three points lower than the average recorded since the survey began.

In contrast, 38% indicated that it would be 'easy to raise $3,000 in an emergency' – three points higher than the average recorded since the survey began.

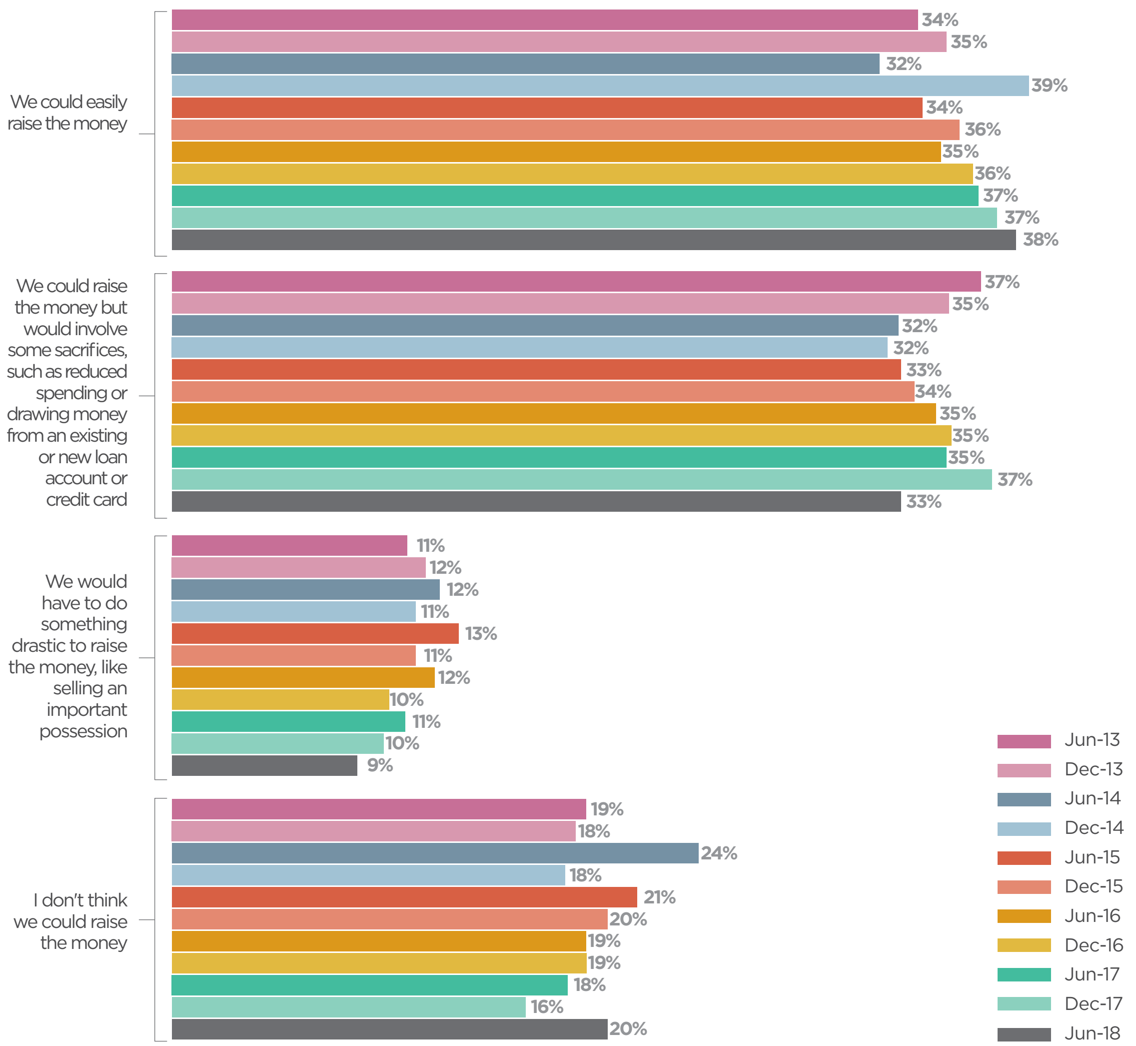


Figure 30 – Ability to raise $3,000 in a week for an emergency

5.3 **Comfort in paying monthly expenses remains around the lowest levels of past three years.**

Comfort with the ‘ability to pay regular expenses’ remained unchanged at 6.42 during the six months to June 2018, and remains around its lowest levels recorded in the past three years.

As noted in section 3.4, 53% of households cited the ‘cost of necessities’ as one of their biggest worries, while 44% of households cited it as a key reason for the deterioration in their ‘financial situation over the past year’.

By household, ‘retirees’ continued to be most comfortable paying regular expenses (unchanged at 7.11). Meanwhile, ‘single parents’ continued to be the least comfortable – down 3% to 5.46.

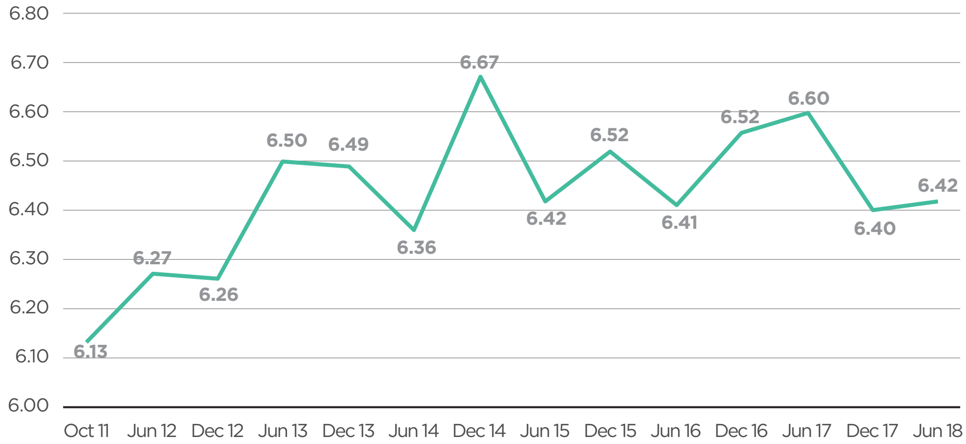


Figure 31 – Comfort with ability to pay regular expenses. Scores out of 10

5.4 **Overall comfort with debt declines slightly further.**

Figure 32 shows 'overall comfort with debt' deteriorated slightly further by 1% to 6.19 during the six months to June 2018 – albeit still above the medium-term average of 6.10 since the survey began.

Across life stages, 'retirees' continued to be the most comfortable with debt (up 3% to 7.85), while 'young singles or couples with no children' reported to be the least comfortable, also recording the largest decline (down 12% to 5.34). This is the lowest comfort with debt for this life stage since the survey began.

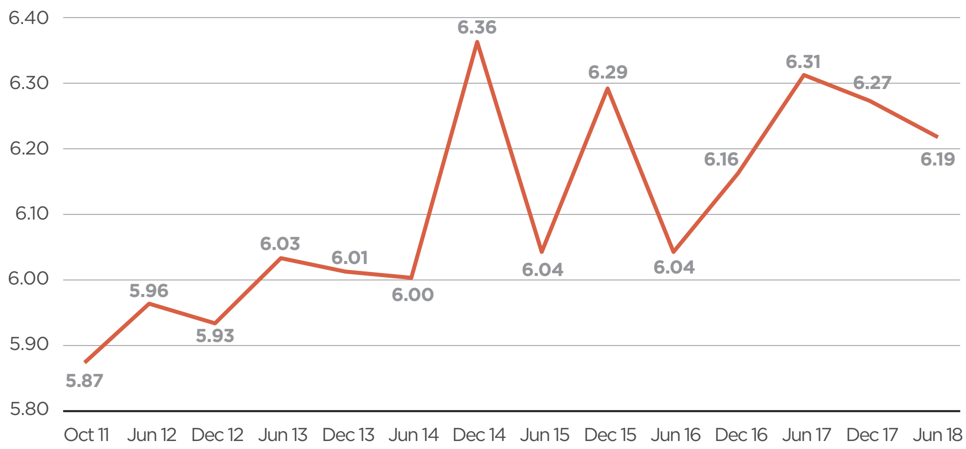


Figure 32 – Comfort with household's level of debt. Scores out of 10

Demand for debt eases

Household demand for debt slowed over the past six months to June 2018.

Around 29% of households reportedly increased their level of debt, while 24% of households decreased it. As a result, (net) demand for debt decreased by 2 points to 5% of households – the second lowest result since June 2014.

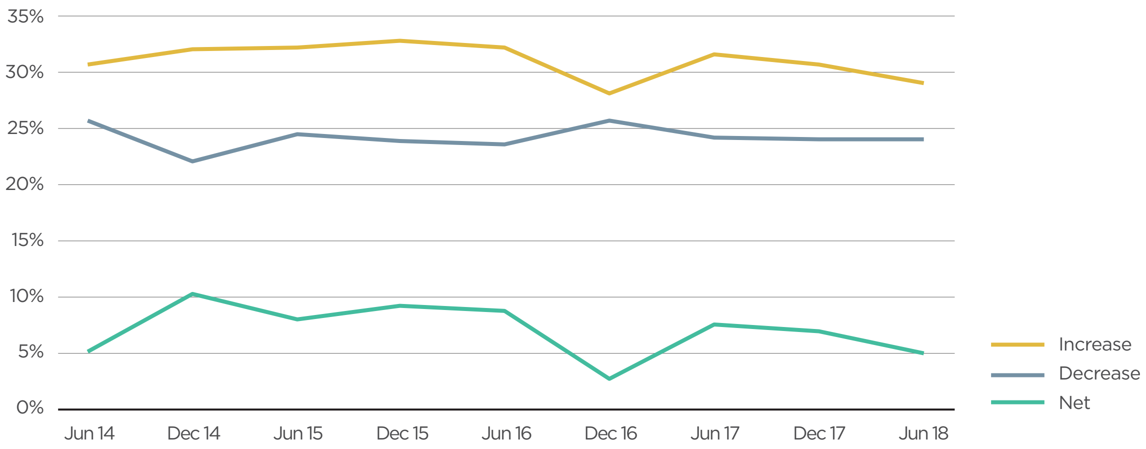


Figure 33 – Change in household debt over the past year. Net equals increase less decrease

5.5 **Investments.**

Comfort with investments unchanged.

Figure 34 shows overall 'comfort with investments' was unchanged at 4.93 out of 10 in June 2018 and remains slightly higher than the medium-term average outcome of 4.86 since the survey began.

By household, 'couples with older children (down 1% to 5.31) and 'retirees' recorded the highest level of 'comfort with investments' (down 3% to 5.24), while 'single parents' reported the lowest level, but largest increase in the past six months to June 2018 (up by 12% to 3.90).

By housing tenure, households 'owning their home outright' continued to have significantly higher comfort with investments than those 'paying off a mortgage' (6.20 vs 4.81) and, to a much greater extent, 'renters' (3.51).

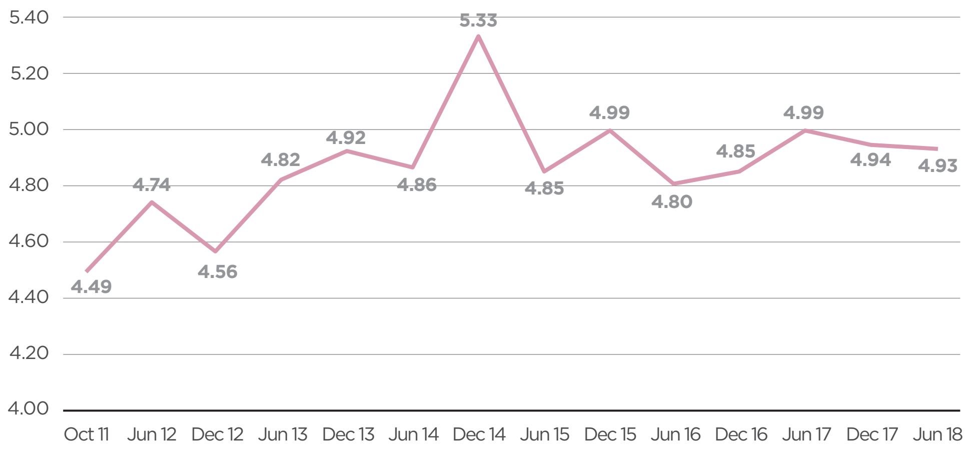


Figure 34 – Comfort with level of investments. Scores out of 10.

Investment risk appetite improves moderately.

Figure 35 shows the report's (net) risk index with 'risk avoiders' (38%) outnumbering 'risk takers' (22%) by 17% in the latest survey.

The latest outcome suggests that households are taking on a bit more risk than the average (net) risk at -19% since the report began in late 2011.

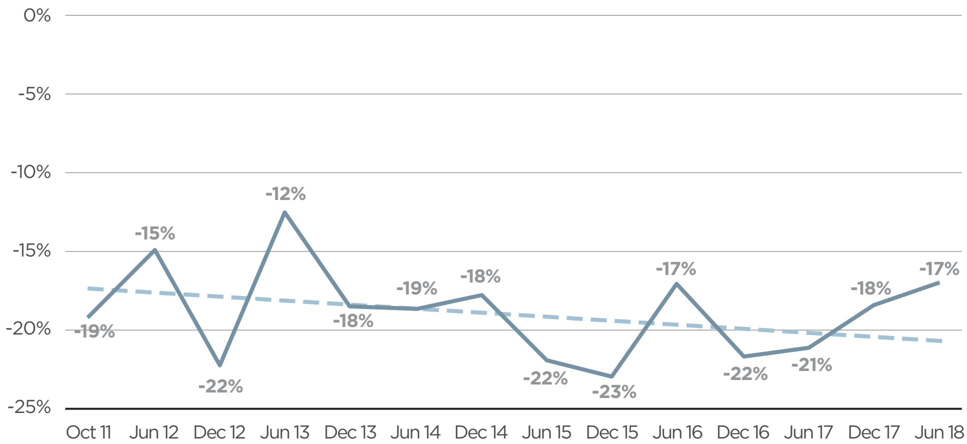


Figure 35 – What financial risk would you be willing to take with your investments? Risk takers less risk avoiders

5.6 **Superannuation.**

Comfort with anticipated standard of living in retirement decreases.

As per figure 36, confidence with households' 'anticipated standard of living in retirement' dropped 2% to 5.11 in June 2018. This is marginally above the historical average of 5.05 out of 10 since the survey began.

The fall was broadly based across all incomes and generations. By households, single parents and, to a lesser extent, empty nesters anticipated the lowest standard of living in retirement with indexes of 4.04 and 4.66 respectively. By gender, women anticipated a much lower standard than men, with corresponding indexes of 4.69 and 5.54 in the latest survey.

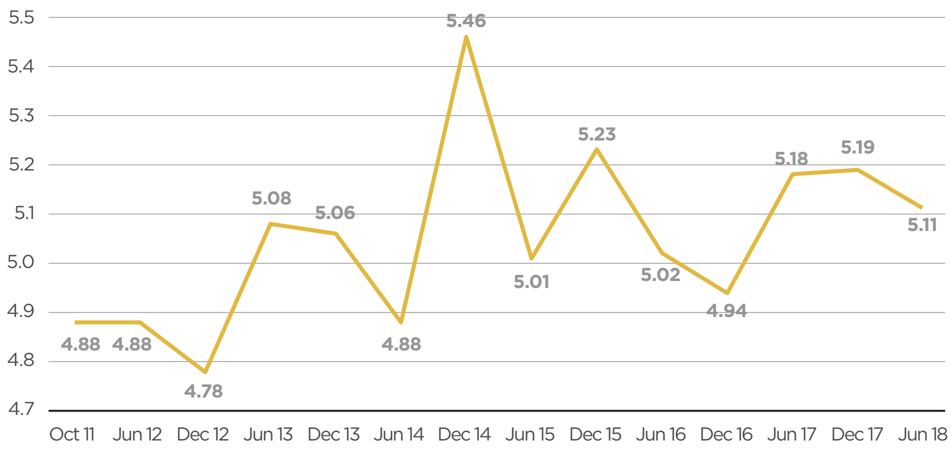


Figure 36 – Expectations for comfort in household's standard of living in retirement. Scores out of 10

Fewer households expect to fund retirement themselves.

Around 18% of households expect to 'fund retirement with their own superannuation' (down four points in the past six months). This is slightly less than an average of 19% since the survey began.

In contrast, the number of households expecting to 'rely on the government pension' during retirement increased three points to 23%.

Regardless, a combination of the government aged pension and private pension remains the expected main sources of retirement income. The proportion of households expecting to 'use both private savings and the government pension' increased two points to 42%.

Across households, 'single parents' (8%) reported the lowest expectations in solely funding retirement with their superannuation, while 'couples with older children' (26%) recorded the greatest confidence.

By gender, 22% of men compared to 15% of women expected their household to be able to 'fund retirement with their own superannuation'.

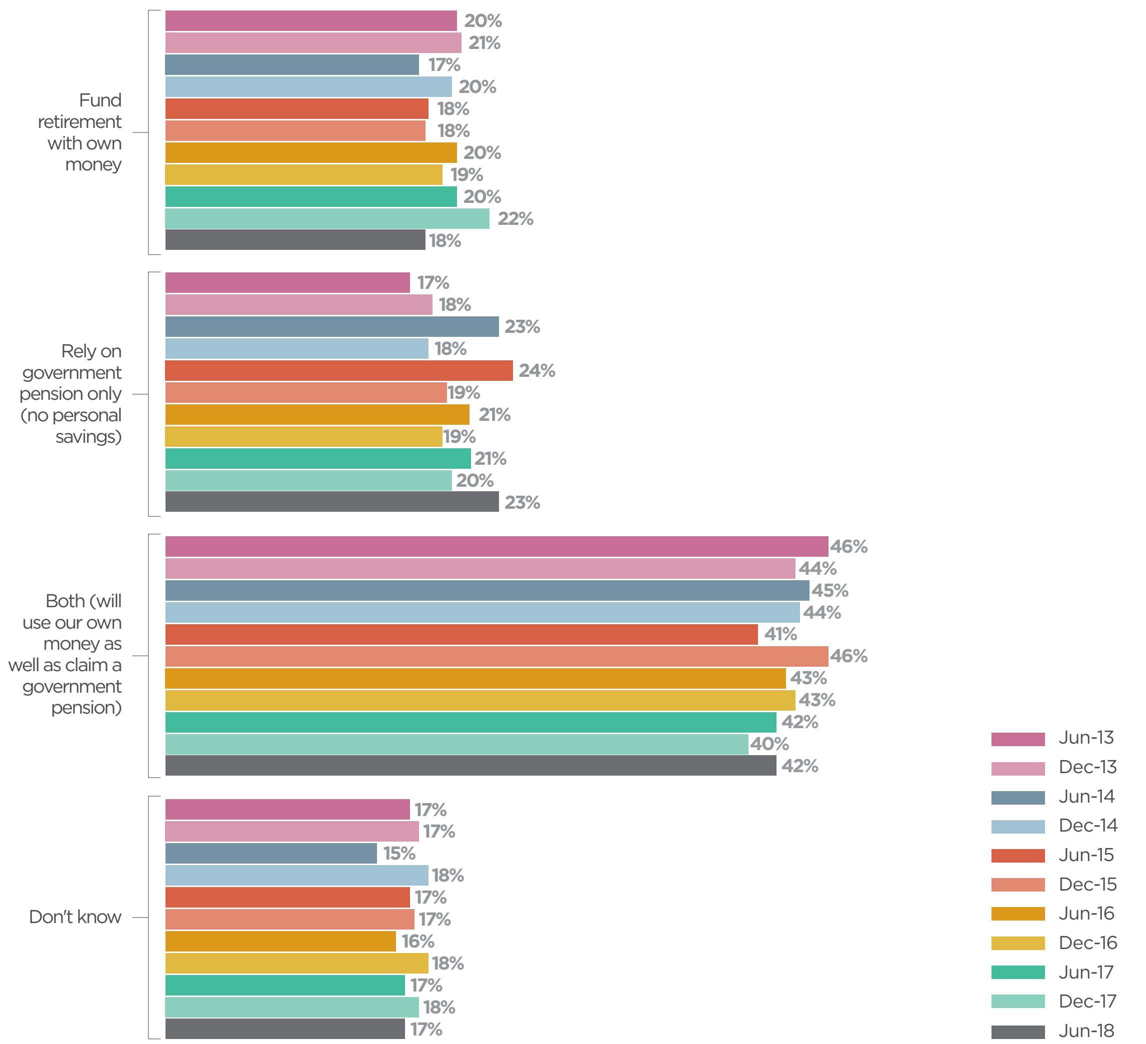


Figure 37 – How will your household fund retirement?

Expected adequacy of income in retirement.

In June 2018, households' expectations of the adequacy of their income in retirement remained largely unchanged.

Around 62% of households expected to be able to 'afford essentials and extras', while 38% 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 17% of Australians reported 'building wealth for retirement' as a financial goal they're actively working towards.

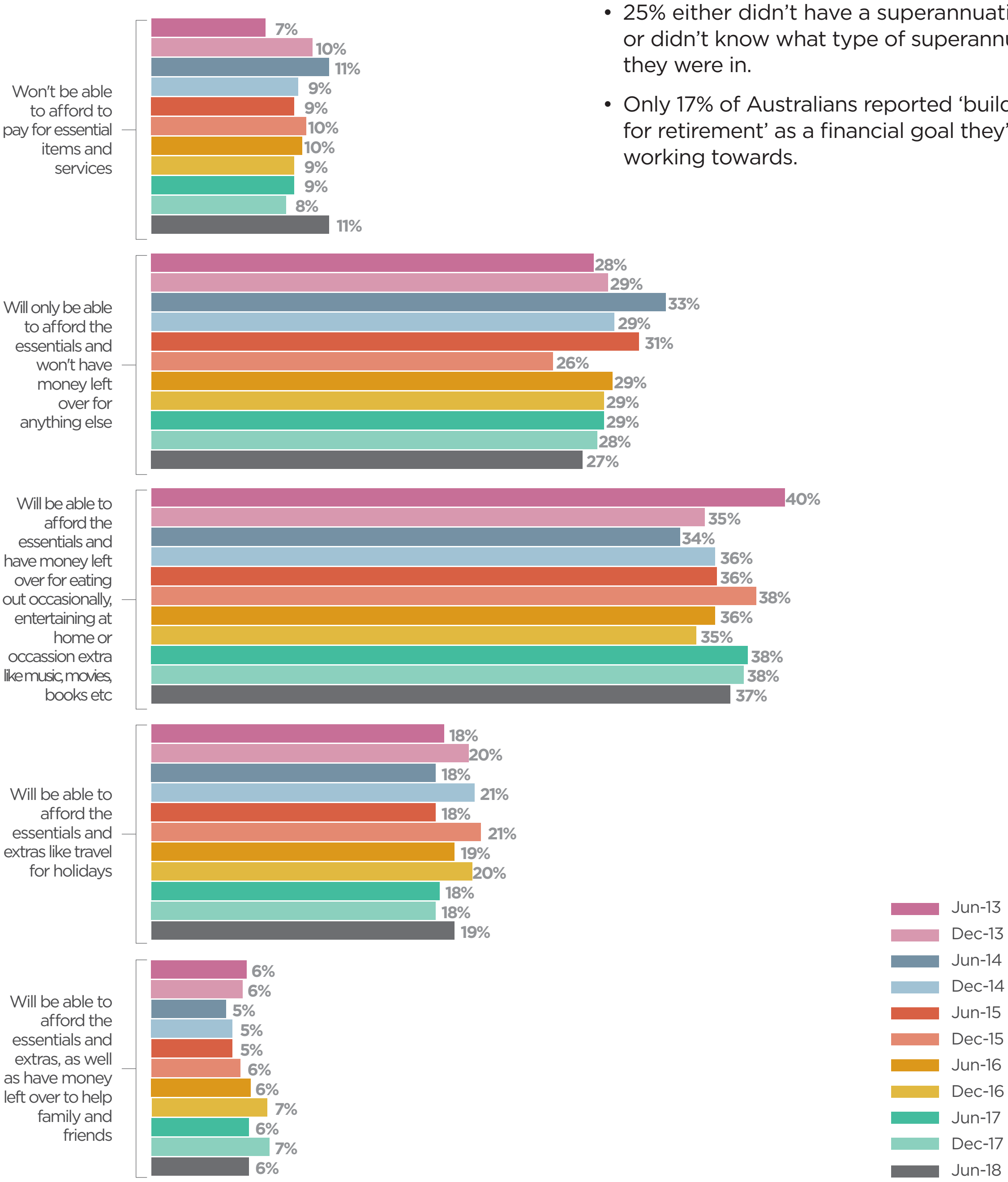


Figure 38 – Expectations for adequacy of income in retirement

5.7 **Higher level of net wealth.**

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 – increased by 2% to 5.67 out of 10, which is slightly above the historical average of 5.66 since the report commenced.

Most households reported higher comfort with net wealth, with the exception of 'young singles and couples with no children' and 'single parents dependent on government assistance' and 'retirees funded by government assistance'.

By households, 'retirees' continued to report the highest comfort with wealth (unchanged at 6.44) and, to a lesser extent, 'couples with older children' (up 1% to 6.01).

Meanwhile, 'single parents' reported the lowest level of comfort with wealth (albeit up 8% to 4.71), followed by 'young singles or couples with no children' (down the most of any life stage by 13% to 4.99). The largest increase by life stage was reported by 'middle aged singles or couples with no children (up 18% to 5.51).

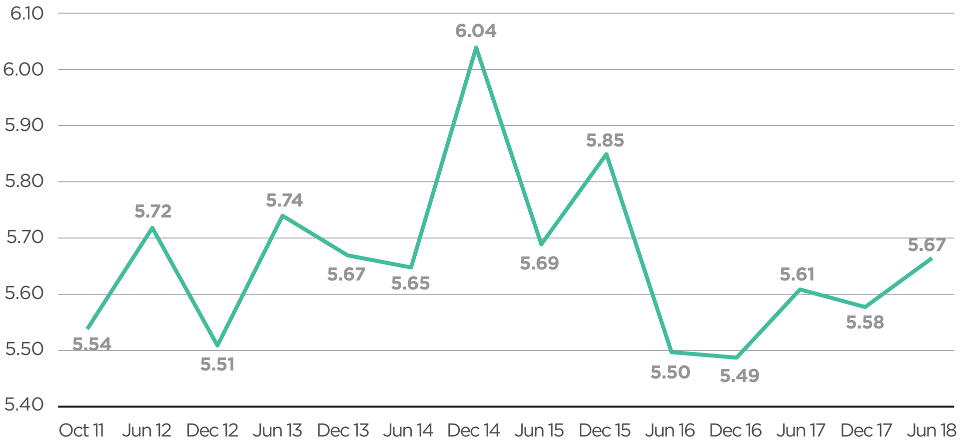


Figure 39 – Comfort with net wealth. Scores out of 10

Appendix a – household statistics.

06.

	Household Financial Comfort Index	**Net Wealth** Average Net Wealth	**Household Income** Average Household Yearly Income
Young singles/ couples (<35yo) with no children	5.30	$182,000	$64,000
Single parents	4.69	$395,000	$65,000
Couples with young children	5.58	$481,000	$100,000
Couples with older children	5.52	$887,000	$97,000
Middle-aged singles/ couples with no children	5.53	$426,000	$80,000
Empty nesters (50+yo)	5.22	$748,000	$65,000
Retirees	5.89	$726,000	$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.

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 June 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 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
- 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).

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