

Research insights into the financial psychology of
Australian households. Survey 20 published August 2021.



Household financial comfort report.



Despite COVID zero continuing to elude Australia,
household financial comfort has risen to another record high.
But not for all. Some groups are feeling the bite.

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 ME with assistance from DBM Consultants and Economics & Beyond.

This edition presents the findings from the 20th survey conducted in June 2021 and published in August 2021.



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How is the index calculated?

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



Comfort level with the overall financial situation of the household



Changes in household financial situation over the past year



Anticipated changes in the next year



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



Comfort levels with household income



Cost of living expenses



Short-term cash savings



Long-term investments (including superannuation)



The level of household debt



Overall net wealth of the household



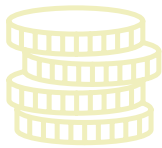
The household's anticipated standard of living in retirement

Key findings.



Part 1.

As the nation weathers COVID lockdowns, the financial comfort of the average Australian household has improved to record levels. Albeit there are many Australian households that continue to report relatively low financial comfort levels.



Part 2.

Comfort with cash saving reached an all-time high, but nearly a quarter of households can only maintain their lifestyle for up to a month if they lost their income.



Part 3.

Labour market conditions have improved but remain difficult for a lot of employees.



Part 4.

Finally, several 'winners and losers' were identified by life stage as well as across the workforce, locations and generations.

Part 1: Financial comfort continues to climb to an all-time high.

Australian household financial comfort increased a further 3% to an index of 6.04 out of 10 over the past six months to June 2021 – 8% higher than before COVID-19 and 5% higher than a year ago.

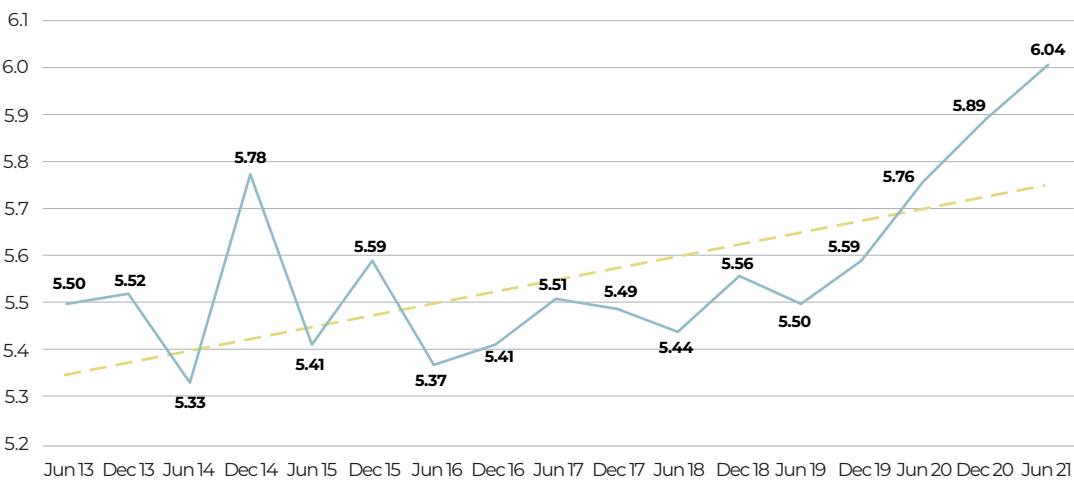


Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10.

Almost all 11 measures underlying the *Household Financial Comfort Index* improved to record levels. Notably comfort with (net) wealth (up 5% to 6.21), cash savings (up 1% to 5.83), investments (up 3% to 5.67 to about 14% above its historical average) and comfort with expected retirement (up 8% to 5.82).

Expenditure and/or spending habits was cited as the main reason for improved financial situations - up 7 percentage points to 21% of households in June.

In contrast, the direct impact of COVID was cited by 20% of households as a negative impact on their situation (7% reported a positive impact).

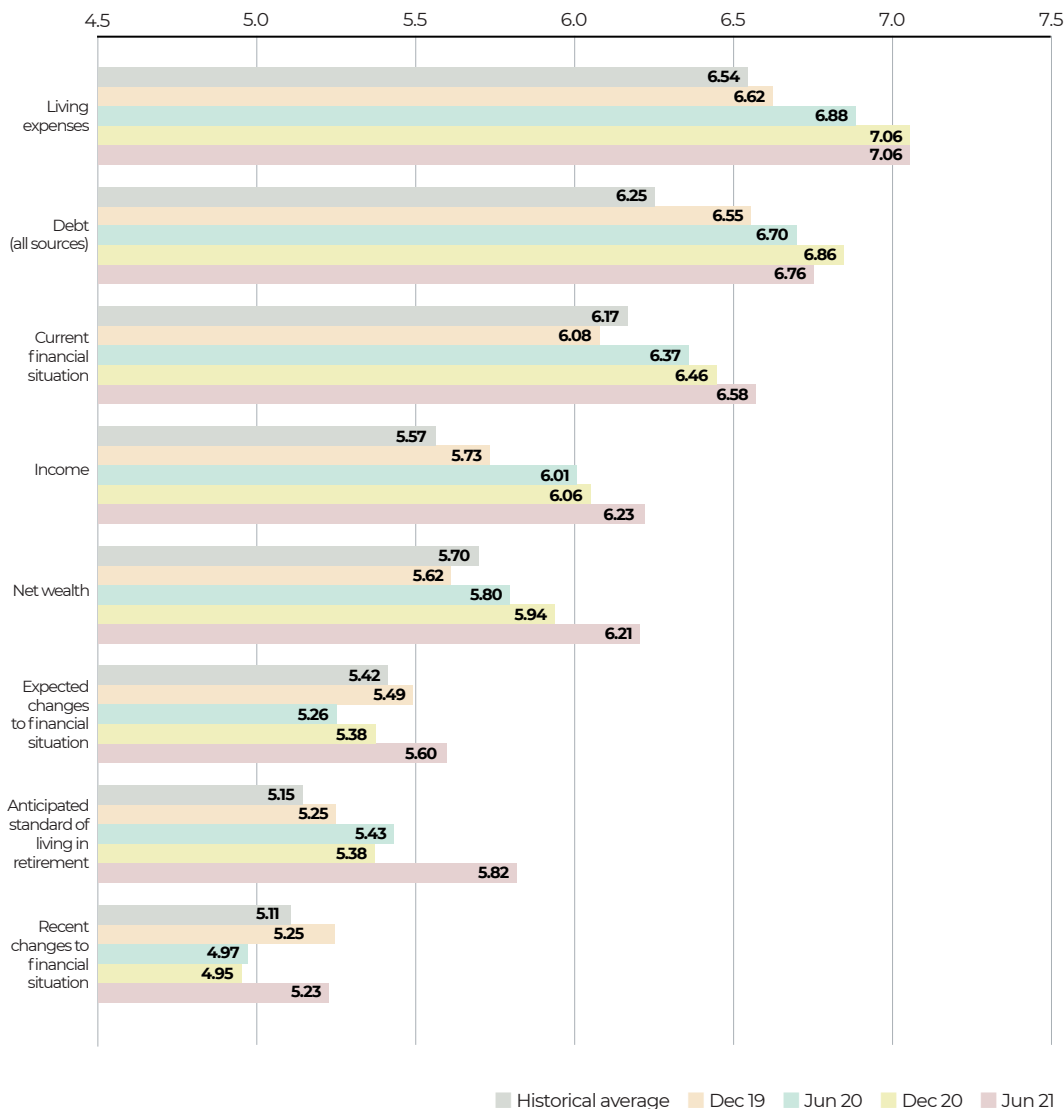


Figure 2 – Key components of the *Household Financial Comfort Index*, with pre-COVID in December 2019 to latest as at June 2021. Scores out of 10.

Part 2: Overall cash savings comfort up, but 24% of households can only last a month if income is lost.

Households maintained high precautionary savings (savers saving more and over-spenders spending less than prior to the onset of COVID). As a result, savings remain at very high levels; albeit a large proportion of households have little if any savings to manage an emergency (such as COVID or the loss of income or job).

The proportion of households saving improved 1 percentage point to a record high of 58% of households – 9 percentage points higher than pre-COVID in December 2019 (see Figure 3).

In contrast, changes to expenditure / spending habits was the main reason provided for improved financial situations.

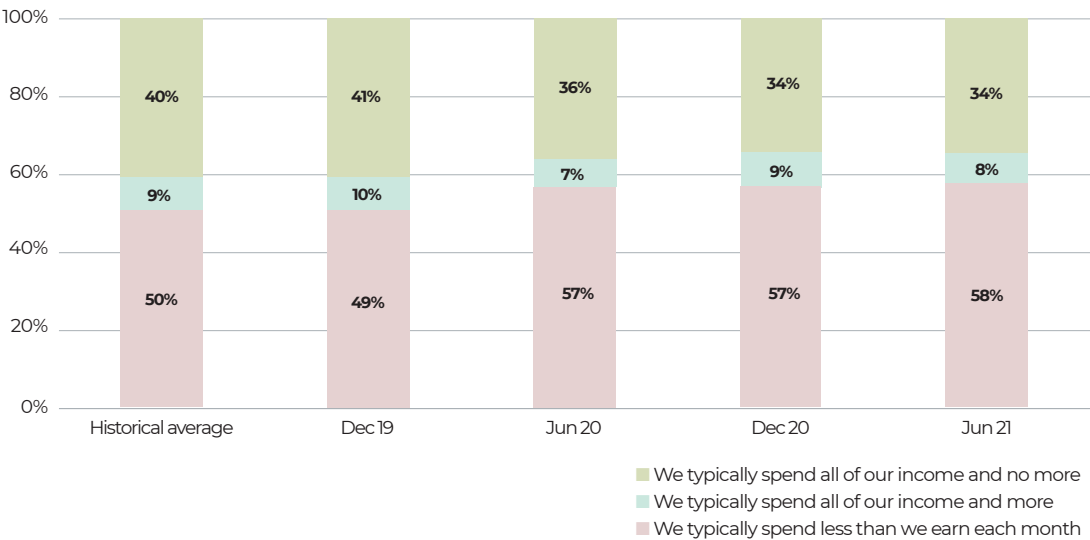


Figure 3 – Thinking about how much of your household’s monthly income you typically spend, which of the following best describes how much is left over at the end of the month, if any - % of households?

Saving levels continued to increase, along with the average amount saved to a record \$960 in June 2021. Meanwhile, the average amount overspent each month dropped dramatically to \$483 in June 2021 – the lowest amount since December 2018.

Comfort with the ability to cope with a financial emergency also improved 1% to 5.69 – a record high and 18% more than pre-COVID levels.

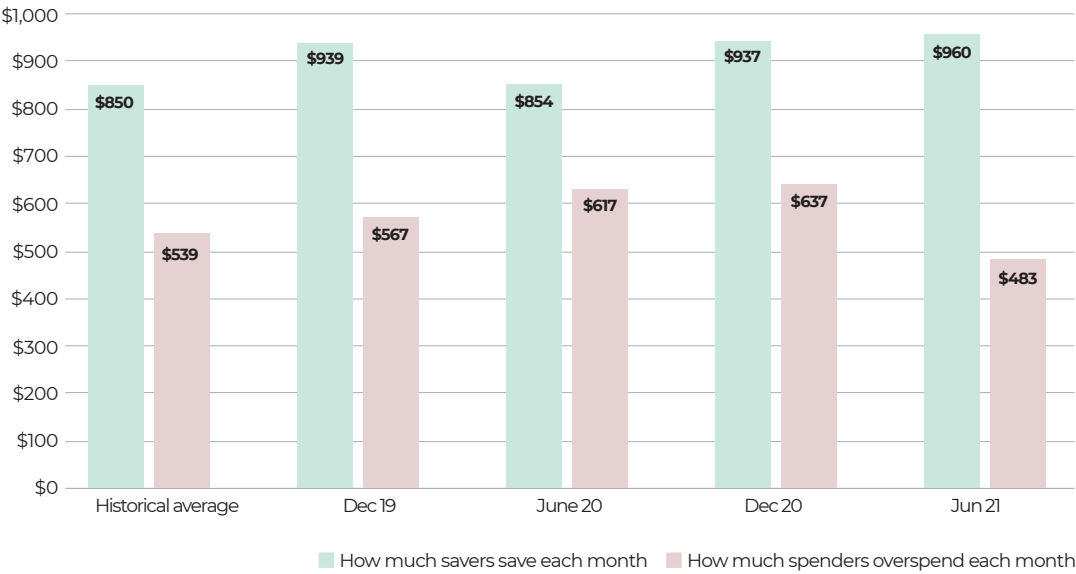


Figure 4 – How much more than your income do you save or spend each month on average (\$)?

Despite these new records, 21% of Australian households reported less than \$1,000 in cash savings in June 2021 – down 6 percentage points than prior to the pandemic.

Of these, 9% of households have less than \$100, 7% (\$100 to less than \$500) and a further 6% (\$500 to less than \$1,000) (see Figure 5).

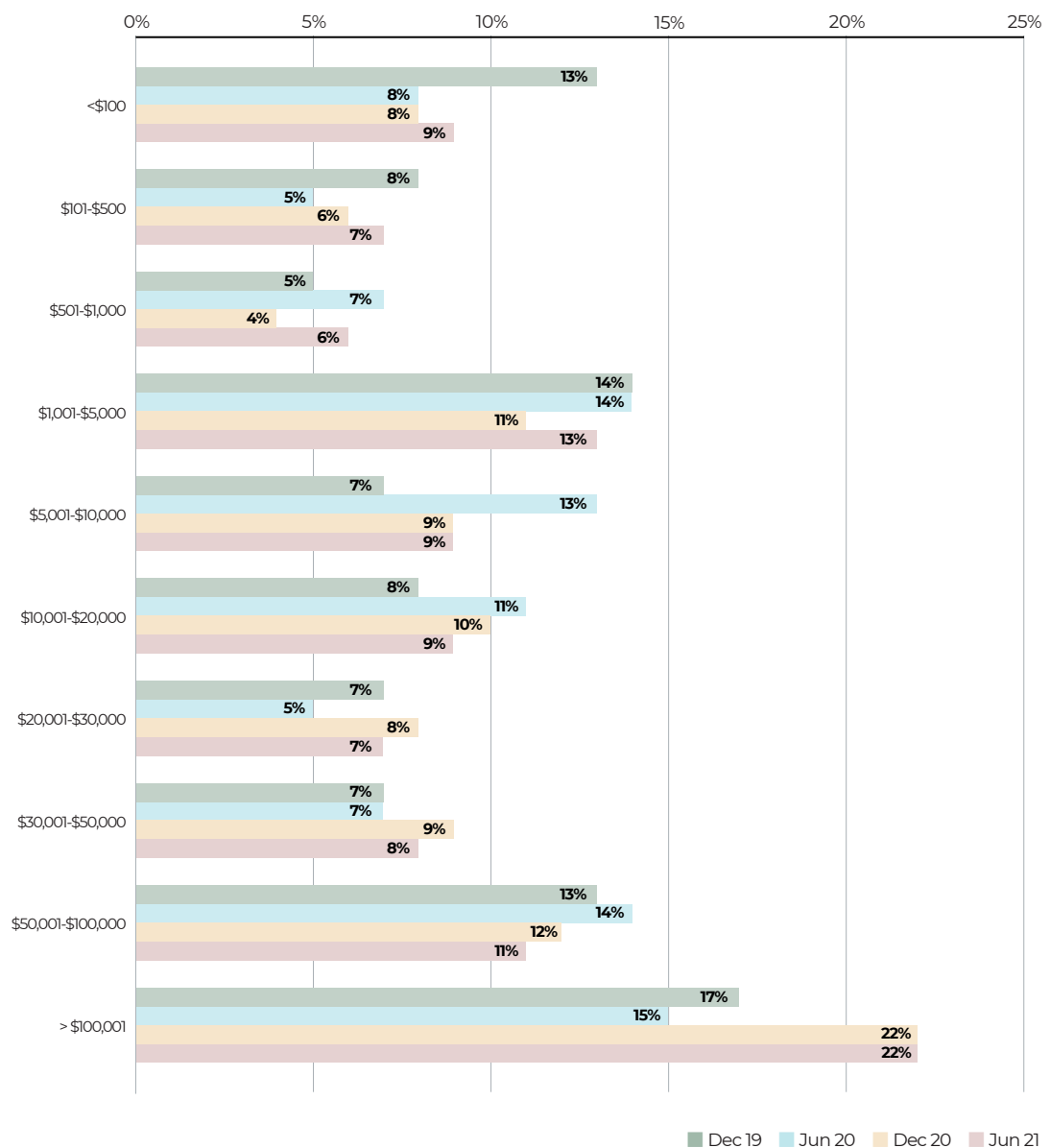


Figure 5 – How much in cash savings does your household currently hold - including savings accounts, term deposits and offset accounts?

Currently, 24% of Australian households report that if they lost their incomes, they would be able to maintain their current lifestyle for only 1 month, with 11% only able to maintain their current lifestyle for two weeks – or the equivalent of a short COVID lockdown (see Figure 6).

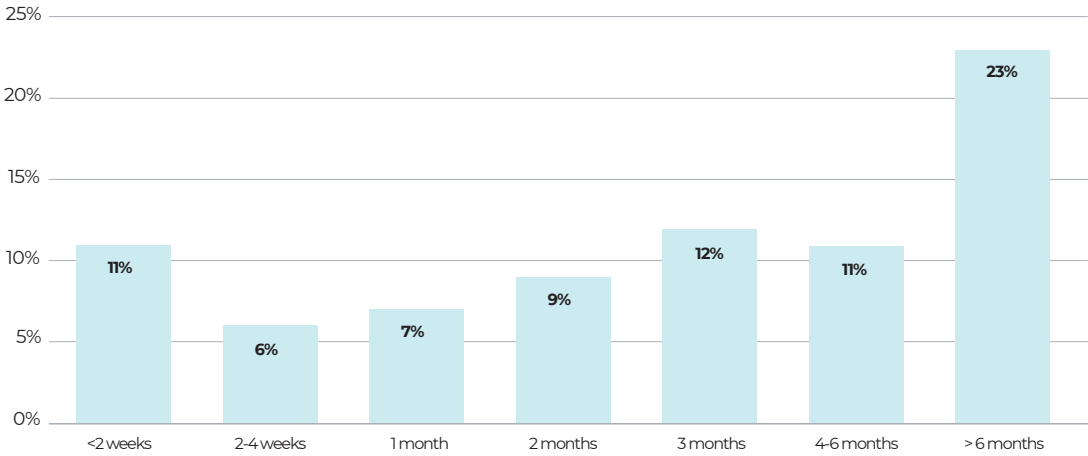


Fig 6 – If you were to lose your income, how long would your household be able to maintain its current lifestyle for?

Part 3: Labour market conditions continued to improve, but are still difficult for a lot of employees.

Those working who cited ‘it would be easy to find another job within 2 months’ increased for the second consecutive report, up 4 percentage points to 41% (a return to the historical average). Conversely, those who think ‘it would be difficult to find a job’ fell 8 percentage points to 45% (a historical low). See Figure 7.

Similarly, households reported a substantial improvement in job security – up 3 percentage points to a record high of 74% (almost 3 in 4 workers) since December 2020. See Figure 8.

Underemployment eased substantially during the past six months.

However, 40% of casual workers (a cohort highly impacted by COVID lockdowns), indicated they’d prefer to work an additional 13 hours per week on average (see Figure 9).

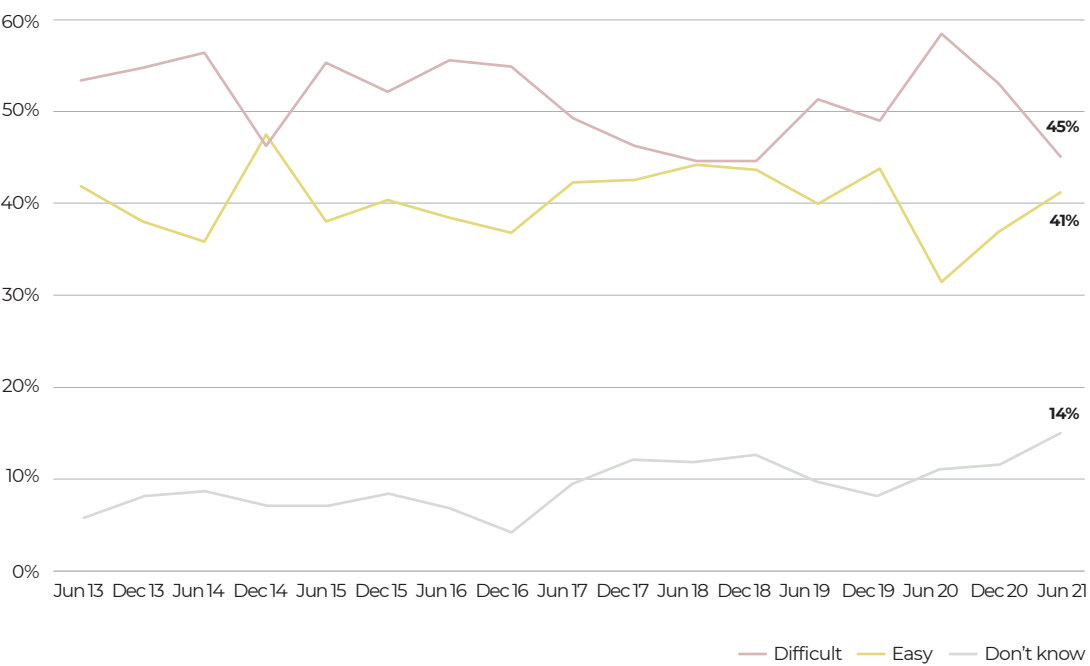


Figure 7 – Ease of finding a new job in the next two months if became unemployed – % of employed workforce.

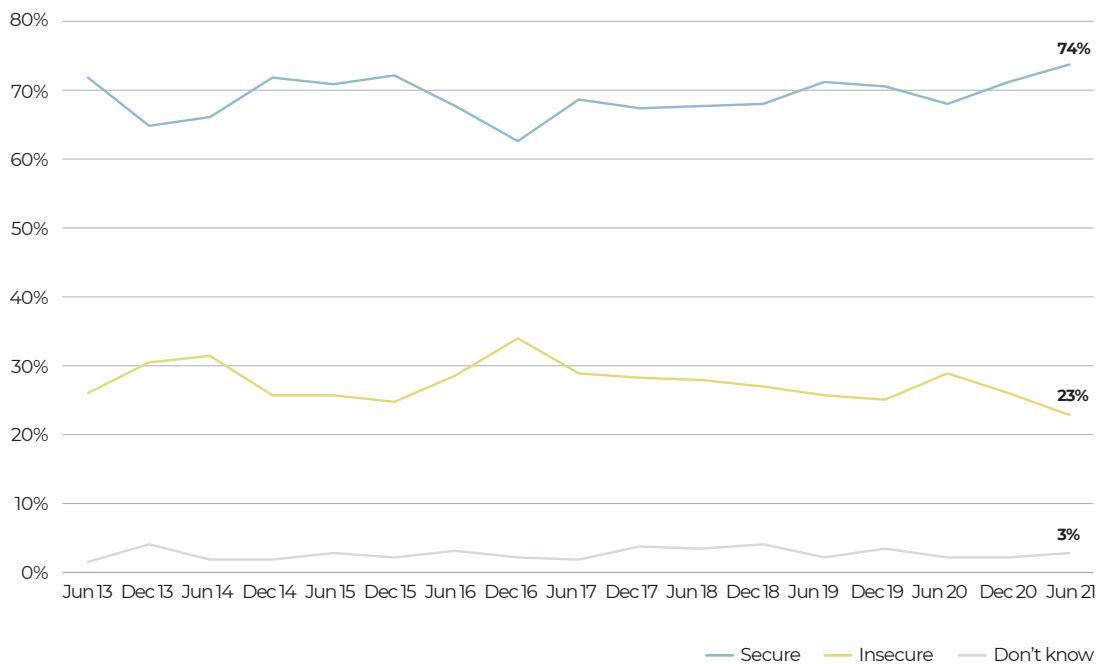


Figure 8 – Thinking specifically about your job, how secure have you felt about your job in the last month?

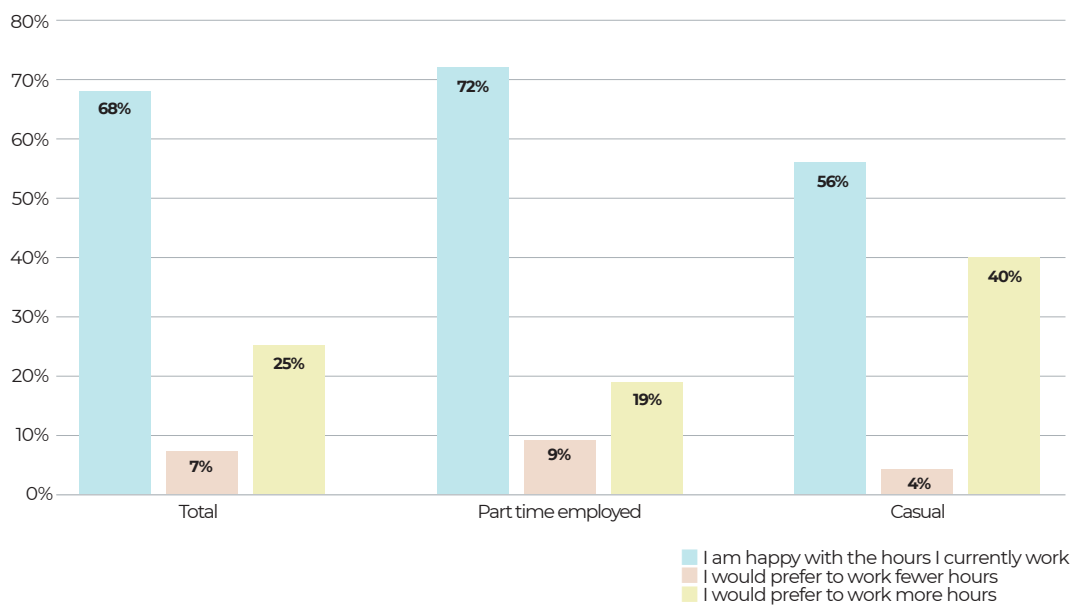


Figure 9 – Preference for work hours (part time and casual employees).

After deteriorating substantially during the onset of COVID, more generally, household incomes have begun to improve, but wage gains have yet to return to the pace reported prior to COVID.

Income gains increased 8 percentage points to a third of households over the past six months, compared to 38% in December 2019 (pre-COVID).

On the other hand, income decreases fell by 7 percentage points to almost 25 % of households. This is still 2 percentage points higher than pre-COVID but improved from the low of almost a third of households at the onset of COVID (see Figure 10).

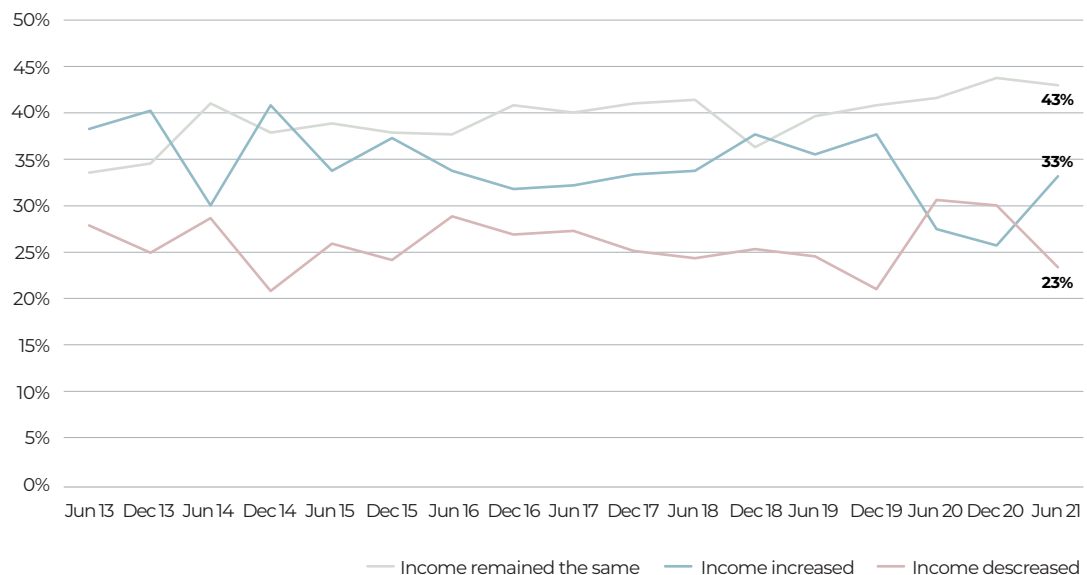


Figure 10 – How much would you say your household's level of income has increased or decreased over the last year?

Across the workforce, over 1 in 2 casuals (54%) in June continued to report income cuts over the past year – 8 percentage points higher than six months ago.

Across the rest of households, on average, there were almost 1 in 4 households (23%) reporting income cuts - 7 percentage points fewer than six months ago.

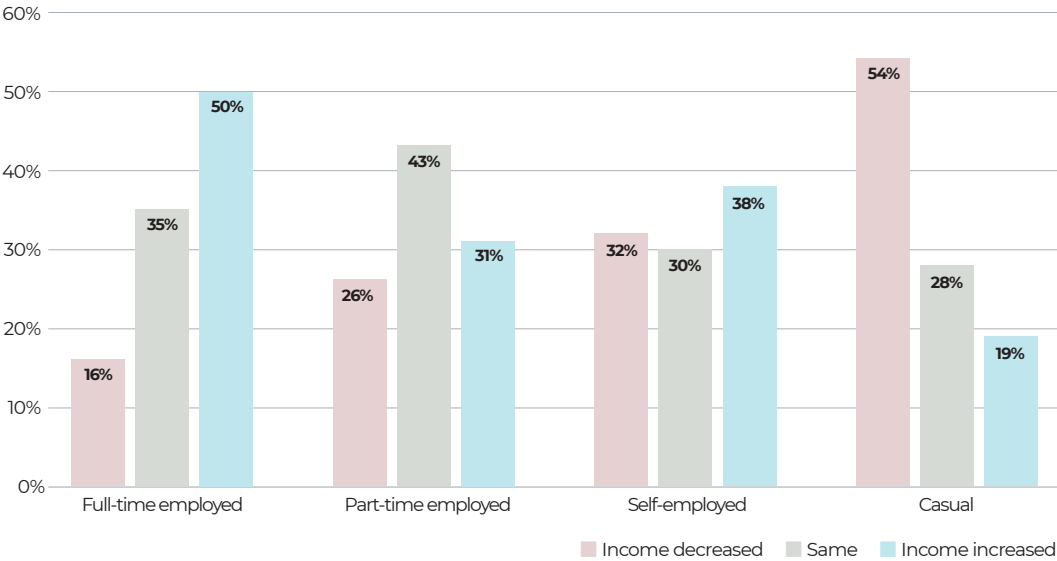


Figure 11 – How much would you say your household's level of income has increased or decreased over the last year?

Part 4: Several 'winners and losers' were identified by life stage as well as across the workforce, locations and generations.

Life stage winners.

Young singles/couples with no children and retirees reported the highest levels of comfort – up 15% and 12% since the onset of COVID – to be 6.52 and 6.83, respectively.

Life stage loser.

Single parents' dependent on government assistance (down 13% over the past six months to 3.06). After the big rise associated with the temporary introduction of 'free' childcare during 2020, the comfort of single parents dependent on government assistance and couples with children returned to around pre-COVID levels.

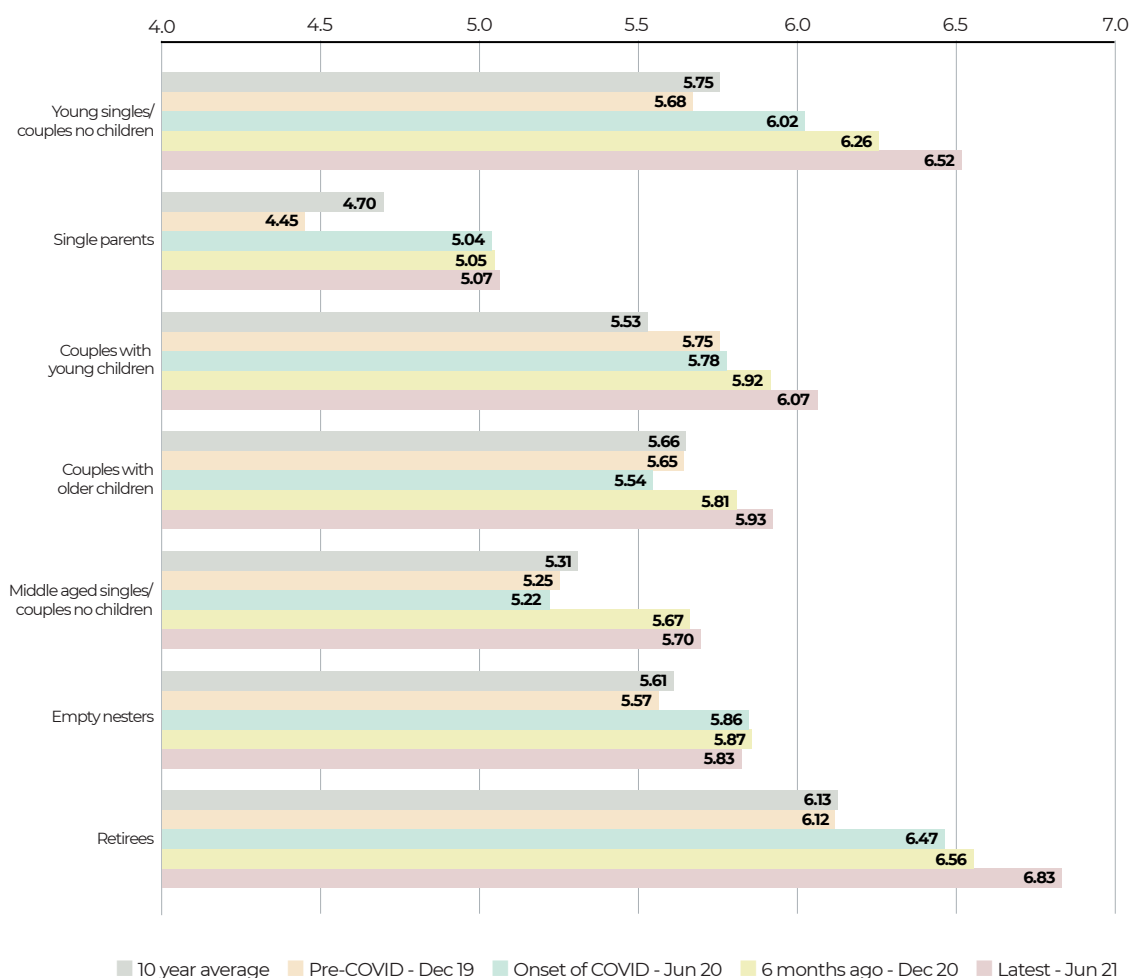


Figure 12 – Household financial comfort by life stage.

Workforce winners.

Comfort of most workers is substantially higher in June compared with the onset of COVID. Comfort of 'white collar' workers rose 4% during the past six months to 6.35 – the highest of any occupational groups. Comfort of the unemployed jumped 13% during the past six months to 5.32 – arguably reflecting the significant increase in government payments.

Workforce losers.

Following falls in most drivers of their comfort (notably with their net wealth and debt), self-employed workers reported the only fall in overall comfort within the workforce – down 6% over the past six months to 5.83 – to be at a similar level than pre the onset of COVID.

Comfort of casual workers and to a greater extent the unemployed remain at relatively low levels – index of 5.54 and 5.32, respectively in June 2021. Over 50% of casual workers (up 8 percentage points in the past six months) reported cuts in household incomes over the past year.

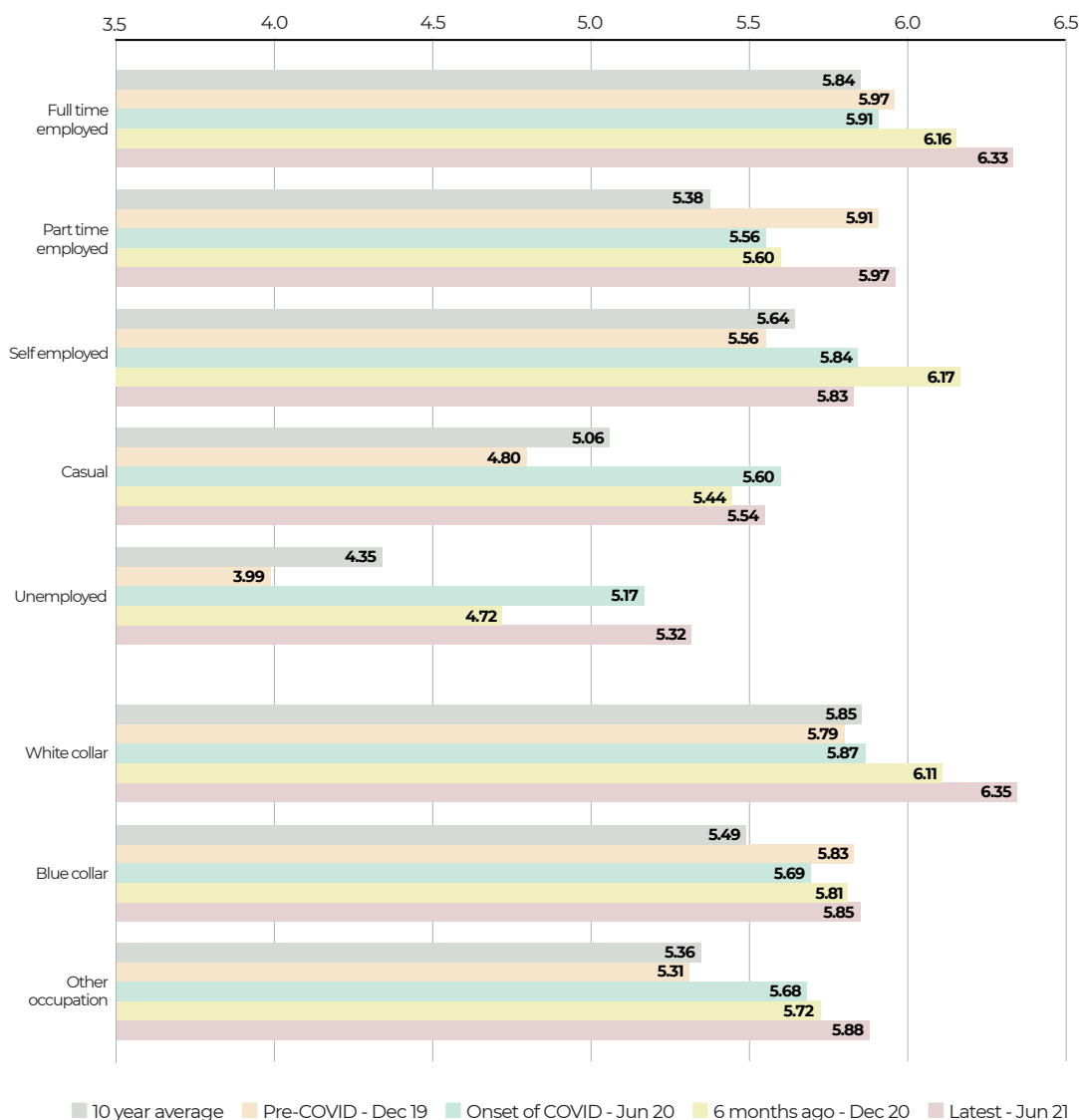


Figure 13 – Household financial comfort by labour force.

Location winners.

Across Australia, household financial comfort rose across most states and territories, with the highest reported by New South Wales (6.13 out of 10) and Victoria (6.10 out of 10) – largely due to higher levels of comfort with their net wealth and cash savings.

Across the major cities, comfort is substantially higher in Sydney (6.34 out of 10) and Melbourne (6.28 out of 10).

Location losers.

Lower scores were reported in Adelaide (6.09 out of 10), Perth (6.07 out of 10) and Brisbane (5.91 out of 10) – albeit the smaller capitals have recorded bigger gains since the onset of COVID.

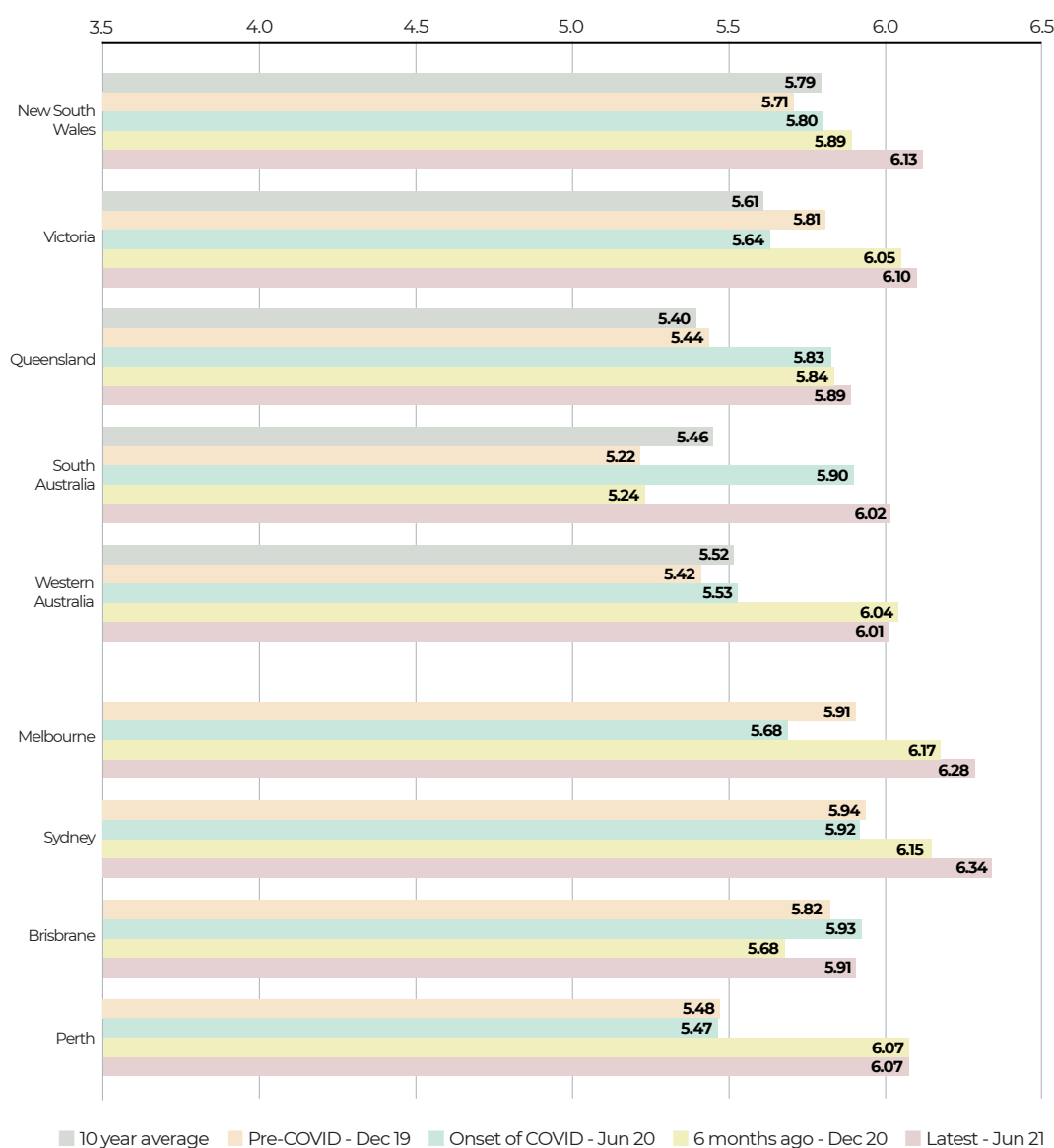


Figure 14 – Household financial comfort by location.

Age/generation winners.

Younger adults (18-29) and older adults (over 60) reported the highest comfort levels – 6.38 and 6.59 out of 10, respectively.

Age/generation losers.

Gen X (41-56) recorded lower than average levels of comfort and the smallest improvement across all generations since the onset of COVID (down 1% to 5.55 out of 10 during the past six months to June 2021). This is attributed to relatively lower levels of comfort with their net wealth, debt levels and cash savings.

GEN Z (18-24) reported slightly lower comfort (down 1% to a relatively high index of 6.20 out of 10. This generation recorded a big gain since the onset of COVID and have relatively higher levels of comfort with their investments, ability to handle a financial emergency as well as optimism about their financial situation.

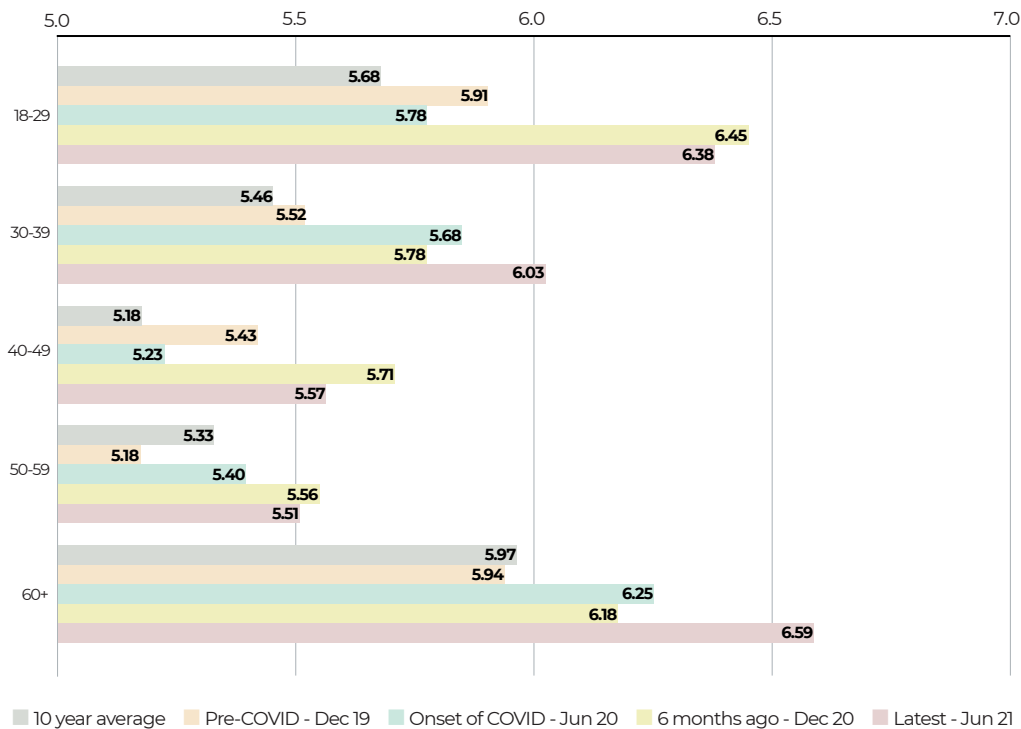


Figure 15 – Household financial comfort by age.

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