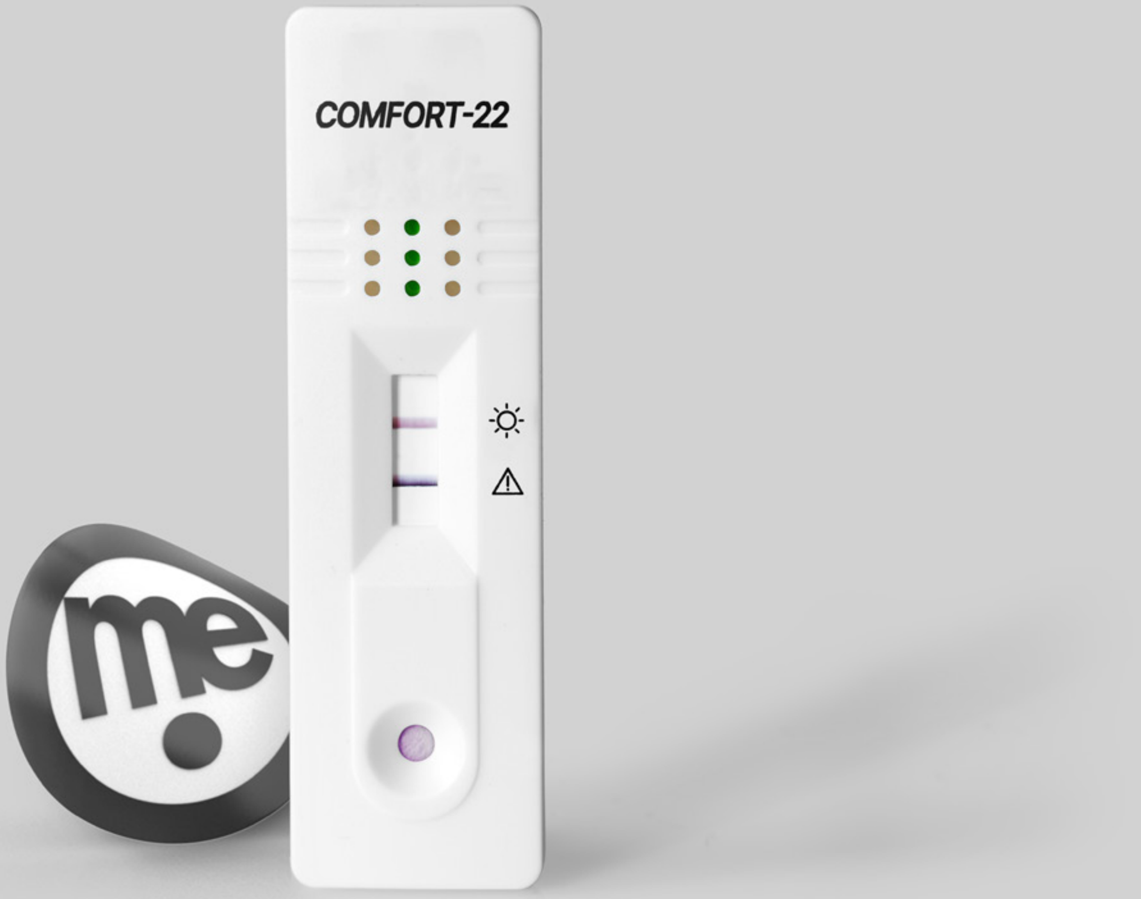
Research insights into the financial psychology of
Australian households. Bi-annual Update – February 2022.
10-year anniversary edition.

Household financial comfort report.



Australian household comfort has been at record highs even throughout the pandemic, but worry about the long-term negative impacts of COVID-19 on finances mean this comfort could be a false positive.

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 21st survey, published in February 2022.

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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

Contents.

Key findings.

Part 1.

Financial comfort remains at all-time high for the average Australian household, however there are some substantial disparities in financial comfort across life stages, regions, workforce, and housing tenure.

Almost all 11 measures underlying overall comfort are at near record levels.

Part 2.

Record financial comfort may be short lived, as 1 in 3 households expect a negative long-term impact on their finances due to COVID-19, and over a quarter (26%) of households say COVID-19 is one of the greatest worries they face.

In attempt to take cover from the financial impacts of the pandemic, there has been a marked reduction in discretionary spending by 44% of households.

Part 3.

Comfort with cash savings is at record levels, but as we emerge from tough restrictions and approach the juncture of retaining high level of savings or reverting back to old habits, some households have begun to cautiously unwind savings, and others have started to overspend again.

Despite the record comfort with savings, 1 in 5 households could only maintain their lifestyle for a month if they lost their income.

Part 4.

Cost of necessities is the top worry for Australian households, as many households have been increasingly confronted by a sustained surge in living costs (such as rent, food, fuel etc), compounded by relatively subdued income gains.

A significant cost pressure is rent, with a record 2 out of 3 renters reporting rental payment stress, as they pay more than 30% of their household disposable income to cover their rental payments.

Part 5.

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

Across life stages, retirees continued to report the highest comfort, while single parents reported very low levels of comfort. Across the workforce, white collar worker comfort rose to a record level, while blue-collared worker (who have been largely unable to work from home during the pandemic) comfort has slipped to lower than pre-COVID levels.

“The biggest contributors to record comfort reflect relatively big gains in comfort with cash savings and investments which impact the ability to handle a financial emergency.”

Snapshot of financial comfort over the past 10 years.

In celebration of the 10-year anniversary of ME's Household Financial Comfort Report, below is a snapshot of how financial comfort has changed for Australian households over the past 10 years.

Changes in the 11 key drivers of financial comfort.	
Changes to financial situation in past 12 months	Up 10% from 4.80 to 5.27
Current financial situation	Up 8% from 6.05 to 6.52
Expected changes to financial situation	Up 5% from 5.26 to 5.54
Income	Up 10% from 5.58 to 6.16
Living expenses	Up 14% from 6.13 to 6.96
Cash savings	Up 28% from 4.60 to 5.88
Investments	Up 27% from 4.49 to 5.71
Debt (all sources)	Up 17% from 5.87 to 6.89
Net wealth	Up 12% from 5.54 to 6.20
Ability to cope with a financial emergency	Up 44% from 4.00 to 5.74
Anticipated standard of living in retirement	Up 18% from 4.88 to 5.75

Overall financial comfort up 16% from 5.20 in October 2011 to record 6.04 in December 2021.

Overall comfort has improved markedly for Australian households over the past decade. The biggest contributors to record comfort reflect relatively big gains in comfort with cash savings and investments which impact the ability to handle a financial emergency. This is partly a paradox of increased savings and less spending coupled with record (but temporary) government and bank support during the COVID pandemic.

Will record comfort be sustained? Time will tell.

Part 1: Financial comfort remains at all-time high for the average Australian household.

Australian household financial comfort remained at a record level index of 6.04 out of 10 in December 2021, an increase of 3% from a year ago and 8% higher than December 2019, before the onset of the pandemic. From a long-term perspective, the financial comfort index is also 9% higher than its average for the past decade, following the record rise that begun at the onset of the COVID-19 pandemic in the first half of 2020.

While the average Australian household is more financially comfortable than ever, there are some significant disparities in financial comfort across life stages, regions, workforce and housing tenure (see Part 5 – Comfort Winners and Losers, for details), as well as stark behavioural differences in response to their current and expected financial comfort.

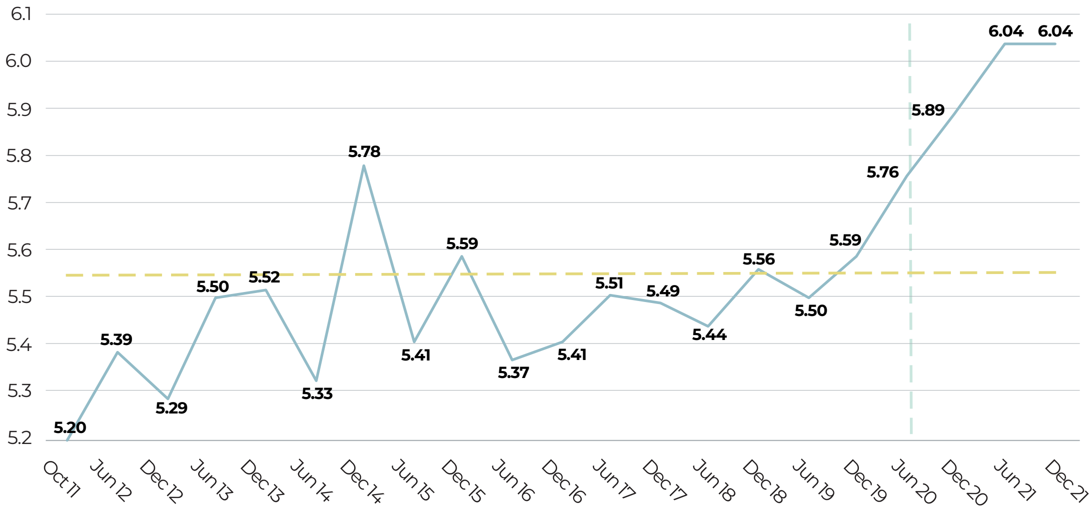

Figure 1 – *The Household Financial Comfort Index*, bi-annual for since October 2011. Scores out of 10.

Almost all 11 measures underlying the Household Financial Comfort Index remained at record levels.

Over the past six months to December 2021, there has been little movement in the 11 key drivers of overall household financial comfort. The main reasons cited by households for an improvement in their financial situation during the past year are due to rises in comfort with cash savings (18% of households), jobs (17%), spending (13%) and income (12%), reflecting improvements in the labour market, rising house values and investments as well as government support.

On the other hand, the main cited reasons for household comfort worsening are jobs (33%), income (17%), the cost of living (20%) and the negative impact of COVID-19 (15%).

Since the onset of the pandemic, there have been very substantial improvements in comfort with cash savings (up 16% since December 2019 to an index of 5.88) and investments (up 14% to 5.71) and in turn, household confidence to cope with a financial emergency (up 19% to 5.74).

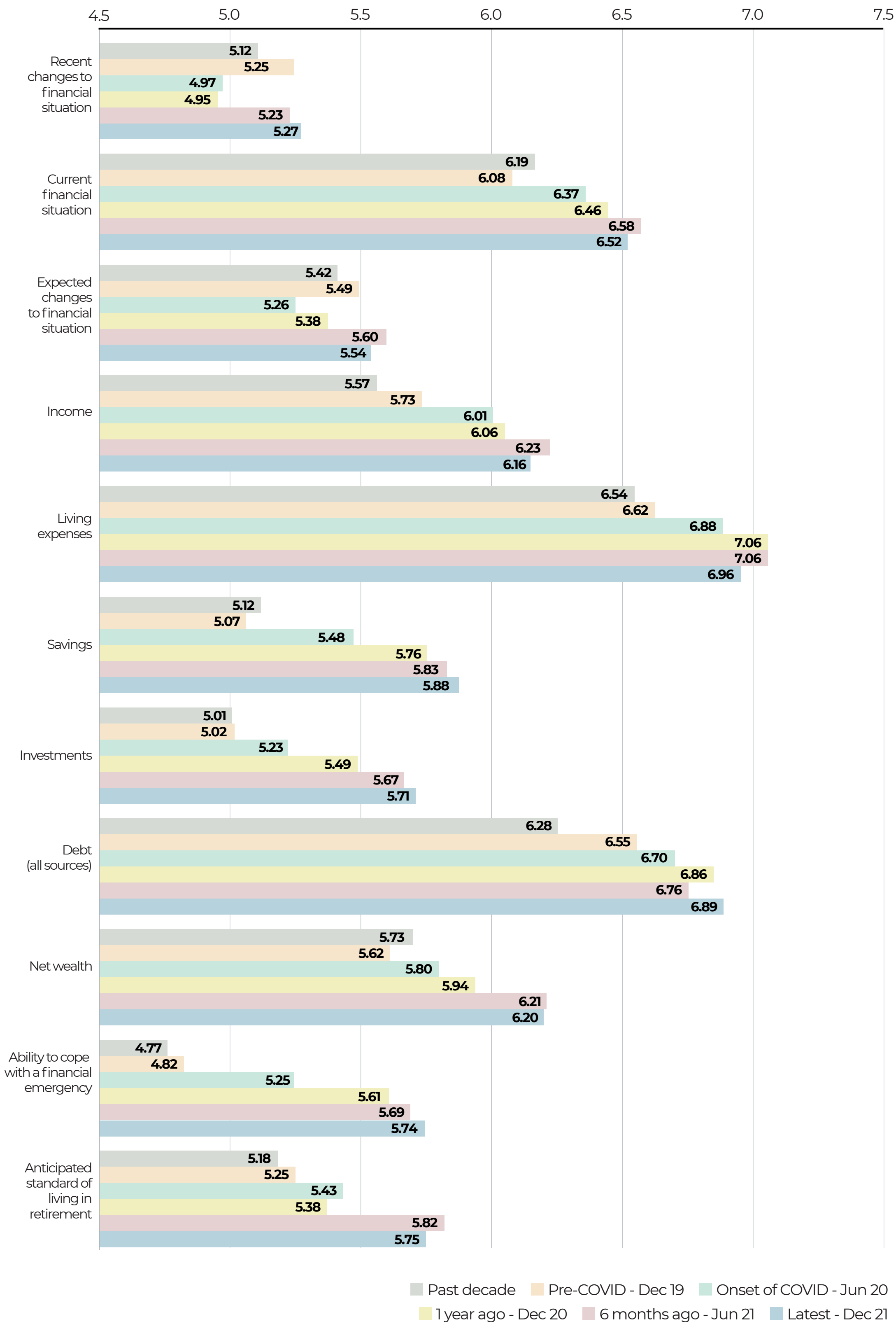

Figure 2 – Key components of *Household Financial Comfort Index*, Average of past decade, pre-COVID in December 2019 to latest in December 2021. Scores out of 10.

Part 2: Record comfort may be short lived; many households remain worried about long-term impacts of COVID.

As the COVID-19 pandemic nears the end of its second year, the ongoing impacts of COVID-19 are one of the greatest worries faced by households (26%).

In the latest survey, 25% of households reported COVID-19 worsened their financial comfort, slightly less than those who reported the pandemic's impact had been positive (27%).

The pandemic has also had a major impact on the expected long-term financial comfort of households.

Australian households are extremely pessimistic about the expected long-term impact of COVID-19 on their future financial situation. The Report found 1 in 3 households (32%) expect a negative long-term impact of COVID, compared to only 1 in 8 households (11%) predicting they'll be better off. In other words, there are almost three times the number of households who have negative expectations over the long run.

There are considerable differences in long-term expectations across households. Single parents are the most pessimistic, with 37% expecting to be worse off, compared with only 4% expecting to be better off (net -33%). In contrast, middle aged singles/couples with no children are the least pessimistic with 26% expected to be worse off, and 20% expecting to be better off (net -6%).

Pessimism outweighs optimism for renters (net -28%), casual workers (-38%), low-income households of below $40k (-34%) and households with savings less than $1k (-44%), while there are fewer pessimists amongst 18–29 year-olds (-5%), households with higher income greater than $100k (-4%) and households with savings from $10k to less than $100k (-8%).

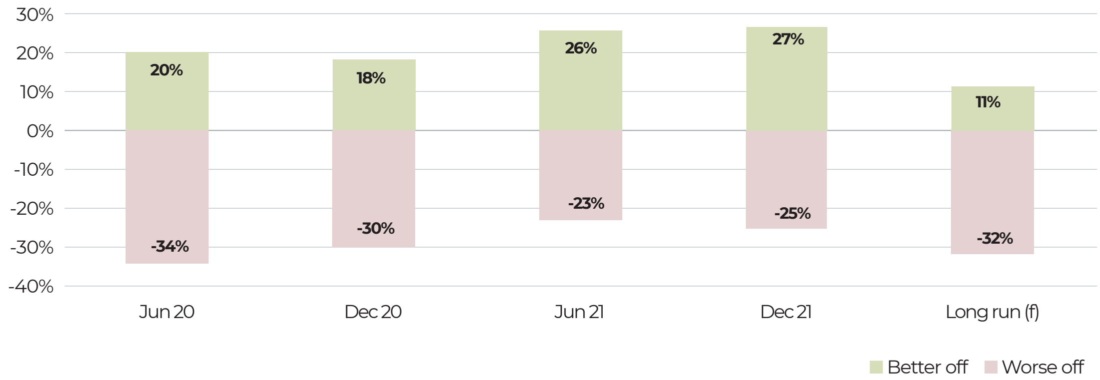

Figure 3 – Impact of COVID: Overall, how has the pandemic affected your household comfort - % of households, bi-annually since June 2020? What do you expect the long-term effect of COVID-19 will be on your household's finances - % of households – December 2021?

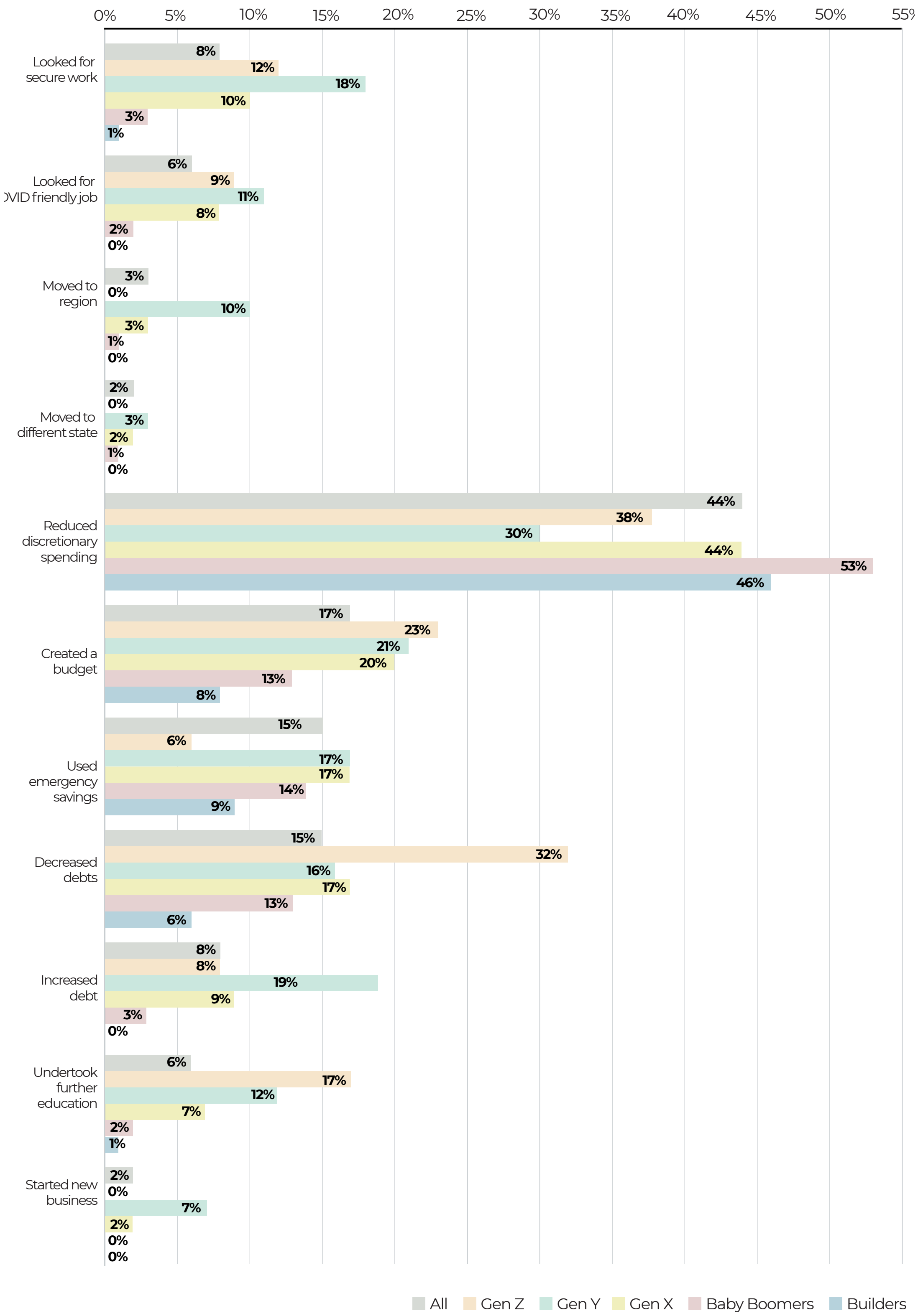

Figure 4 – What major changes has your household made in response to effects from the COVID-19 pandemic - % of households by generations.

Households significantly changed their behaviour in response to COVID-19; nearly half reduced discretionary spending.

Australian households have tried to take cover from the financial impacts of the pandemic by significantly changing their behaviours. By far the biggest financial response to COVID-19 has been a reduction in discretionary spending by 44% of households, followed by about 15% of households that used emergency savings, decreased debts and 17% created a budget.

While reduced spending - and to a lesser extent other financial changes - were the most frequent response, very different responses were reported across life stages and generations.

28% of young singles/couples with no children looked for more permanent or secure work; more than a quarter of middle aged couples with no children created a budget; 25% of single parents dipped into their emergency savings; and 21% of couples with young children reduced debts (including paying off a mortgage faster).

The Report found the pandemic brought out an entrepreneurial side to households, with almost 1 in 5 Gen Zs (17%) and 12% of Gen Ys starting a new business in response to COVID-19, compared with 6% across all households. Gen Y were three times more likely to experience a tree change, moving from metro to regional towns, compared to 3% for Gen Zs.

The Report acknowledges that some of these behavioural changes are likely to be temporary, such as reduced discretionary spending, however this may be contingent on the overall COVID outlook.

"Despite record levels of comfort with cash savings, some households have also begun to unwind high precautionary savings... Overspending has increased to levels higher than 2012."

Part 3: Comfort with savings at record high; but some households begin to cautiously unwind savings, and others start overspending.

On average, comfort with cash savings is at a record level of 5.88 – around 15% higher than both pre-COVID levels in December 2019 and the average reported during the past decade. The Report found cash savings were boosted by increased precautionary savings, reduced discretionary spending associated with the pandemic, and the income support provided by Governments.

Not all households have responded to the pandemic by saving more. Despite record levels of comfort with cash savings, some households have also begun to unwind high precautionary savings, additionally the number of households that typically spend more than their income has risen a bit over the past six months, and the amount of overspending has increased to levels higher than we've seen since 2012.

Over the past 6 months, the proportion of household savings fell from a record 58% to 53% - still well above the historical average of 50% as well as the 49% reported immediately prior to the onset of COVID. However, the amount saved per month rose further to a record of $973 – up 14% compared to a historical average of $856.

In contrast, more people are spending much more than their income. 'Dissavers' (those who spend more than their income) rose by 1 percentage point to 9% in December 2021, with the amount overspent rising about a third to $646 per month. The remaining households that typically spend all their income and no more, rose from a record low of 34% to 38% of households, compared with a historical average of 35%.

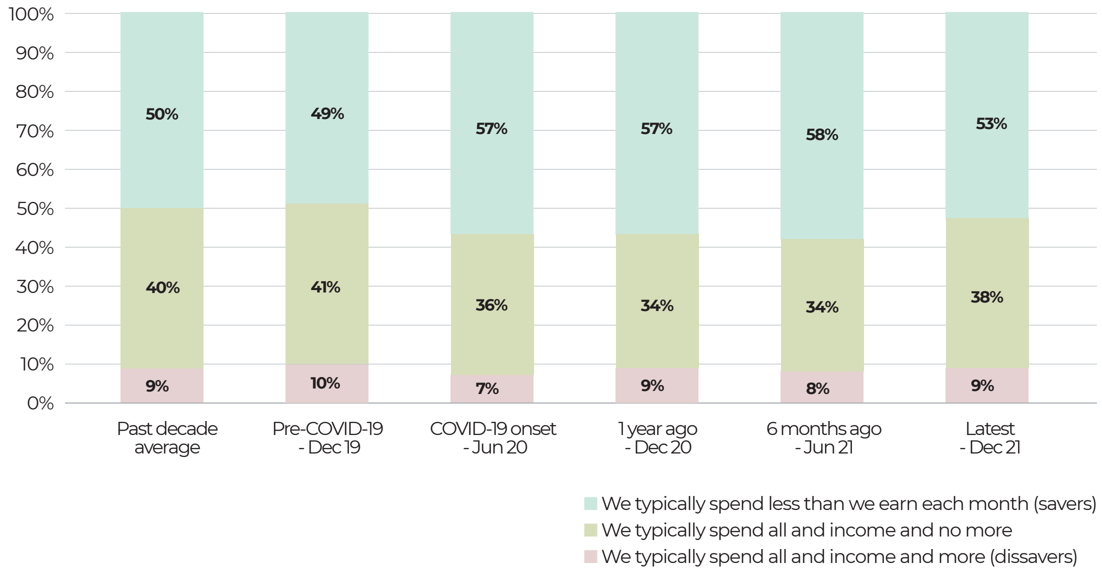

Figure 5 – Thinking about how much of your household's monthly income you typically spend, which of the following best describes how much is left over at the end of the month, if any - % of households?.

Consistent with the significant savings still stashed away, confidence in the ability to cope with a financial emergency edged up 1% during the past six months to a record high of 5.74 - an increase of 2% from a year ago, 19% higher than before the pandemic and 20% higher than the past decade average.

Despite the overall record level of comfort with cash savings, there are still many households with little if any savings to manage an emergency.

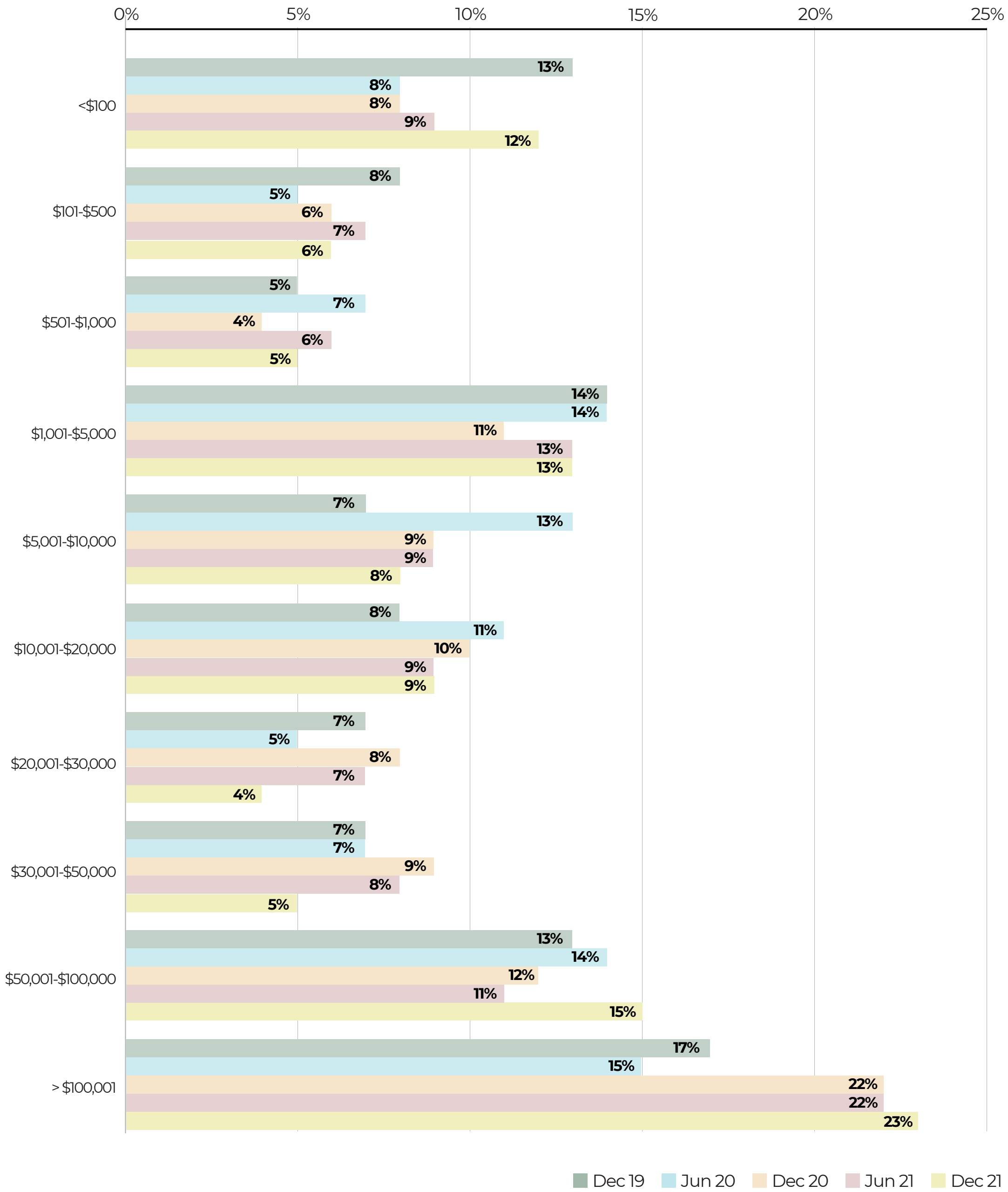

Figure 6 – How much in cash savings ($) does your household currently hold - inc. savings accounts, term deposits and offset accounts?

Over 1 in 5 households (22%) reported less than $1,000 in cash savings, including 11% with less than $100.

Additionally, 24% of households reported that if they lost their income, they'd only be able to maintain their current lifestyle for one month, and 11% for only two weeks – or the equivalent of a short COVID-19 lockdown. In the case of the latter, roughly 1 in 4 households with low incomes (less than $40k), single parents and households making rental payments could not maintain their lifestyle for less than 2 weeks.

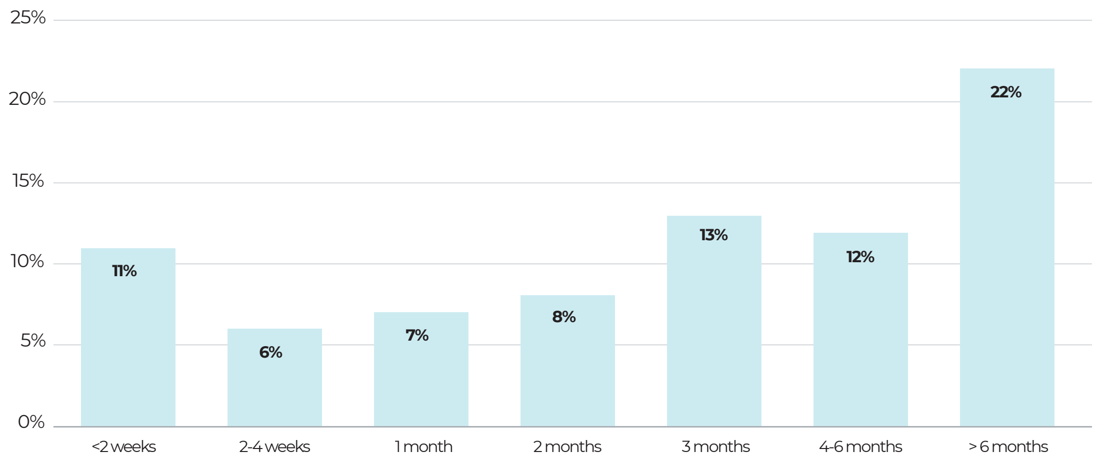

Figure 7 – If you were to lose your income, how long would your household be able to maintain its current lifestyle for? - % of households v weeks/months.

"The cost of necessities has surged to be the biggest worry by far for Australian households - rising 9 percentage points to 43% of households."

Part 4: Cost of necessities is the top worry for Australian households, as costs rise and incomes stall.

The large proportion of households financially positioned with little to no personal savings and relatively low incomes, have been increasingly confronted by a sustained surge in living costs (such as rent, food, fuel etc), compounded by relatively subdued income gains.

Among households whose financial situation worsened in the past 6 months, 20% claimed the cost of necessities as a primary reason.

More generally, the cost of necessities has surged to be by far the biggest worry for Australian households – rising 9 percentage points to 43% of households. Heightened worry is widespread among single parents (53%) and empty nesters (51%), households with below average incomes ($40k to less than $75k), (50%) and households with less than $1,000 in cash savings (59%).

Meanwhile, almost half (44%) of households' incomes have remained unchanged during the past year.; while 1 in 3 reported increased incomes and almost a quarter (23%) of households reported reduced incomes. Across income bands, incomes increased for only 16% of households with low incomes of less than $40,000 per annum – about a thirdthe proportion of below average incomes (31%) and average incomes (34%), and about half of the proportion of households with larger incomes of greater than $100,000 per annum (49%).

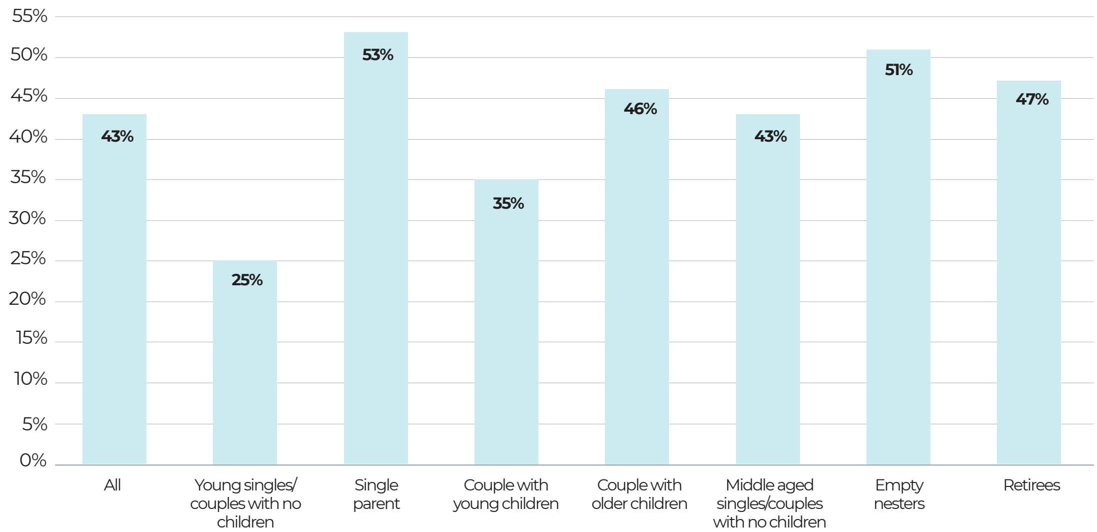

Figure 8 – Cost of necessities (such as food, rent, energy etc) as the current greatest worry cited by household type - % of households.

Rental payment stress at record level

Two out of three renters (67%) reported rental payment stress, as they paid out more than 30% of their household disposable income to cover rental payments. Almost 1 in 5 renters (19%) reported extreme rental stress with more than 60% of their household income going towards paying rent, compared to 12% a year ago.

Rents continued to rise faster than disposable incomes, with the average proportion of disposable income spent on rent increasing by a further 2% to about 42% over the past 6 months. Single parents, young singles/couples with no children and retirees report the greatest levels of rental stress.

Rental markets have tightened markedly across the majority of Australia and rents have risen significantly due to falling vacancies. While there have been strong job gains, wages remain relatively subdued, emergency Government support has largely unwound, and rental moratoriums have ended.

In contrast, mortgage stress is substantially lower than rental stress with 35% of mortgagees reportedly paying more than 30% of their household disposable incomes on repayments, compared to 42% in June 2021 and 37% a year ago.

A fall in the unemployment rate, historically low borrowing costs for home loans rates and the deferral of loan repayments by some households have helped contain mortgage stress. Furthermore, many households are well ahead of their minimum repayments and have significant net equity or savings in their home.

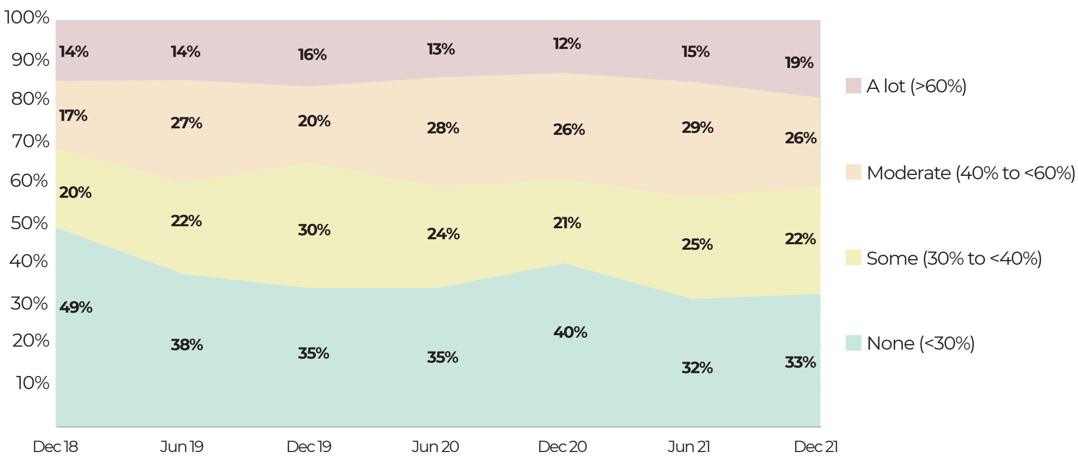

Figure 9 – Rental payments as a proportion of disposable income - % of renters.

Part 5: Several 'winners and losers' were identified by life stage as well as across the workforce, locations, generations and housing tenure.

Life stage winners.

Retirees continue to report the highest comfort across life stages (down 2% to an index of 6.70) – up 9% on its historical average of the past decade as well as prior to the onset of COVID.

Couples with young children have reported 4% increase in comfort, taking them to a new record index of 6.30 – the biggest gain since the onset of COVID-19 (+10%) and compared with its historical average (up 13%).

Life stage loser.

Single parent comfort is down 8% to only 4.64 to be slightly above pre-COVID levels. Further, comfort among single parents' dependent on Government assistance is down 8% to only 2.82 – 6% lower than pre-COVID levels.

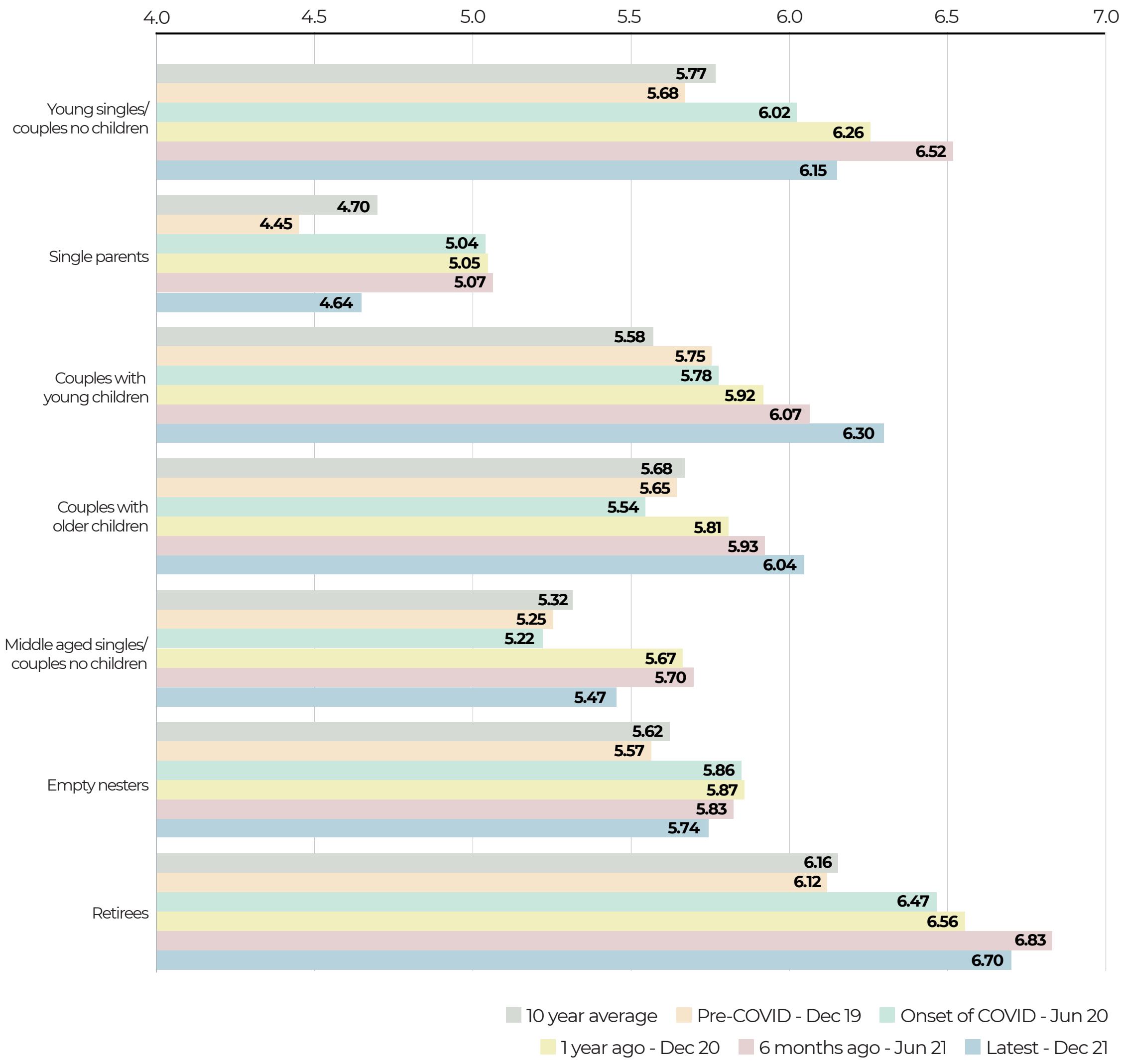

Figure 10 – Household financial comfort index by life stage – index out of 10.

Workforce winner.

White collar worker comfort is up 2% to a record index of 6.47 – substantially above pre-COVID levels (12%) and compared to its historical average (10%).

Workforce losers.

Blue collared workers who were largely unable to work from home during the pandemic – slipped 5% to 5.57.

This is significantly lower than pre-COVID levels (5%) and similar to the past decade average.

Comfort among the unemployed fell 10% to 4.8 during the last six months – by far, the lowest across the labour force, with very big falls in their comfort with savings and their ability to cope with an emergency - albeit comfort is still notablyhigher than both pre-COVID (3.99) and historical average (4.38).

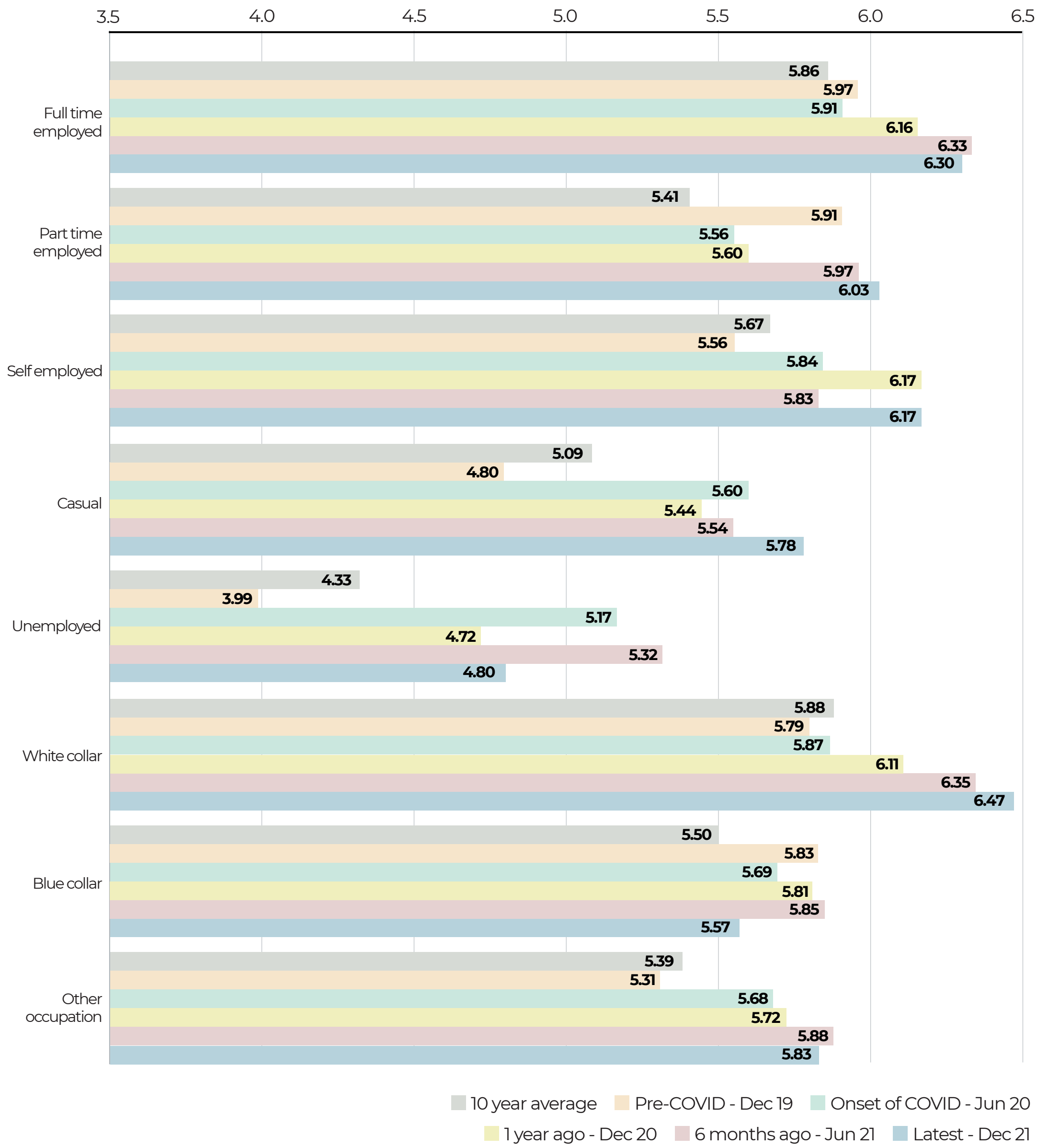

Figure 11 – Household financial comfort index across the labour force – index out of 10.

Location winners.

Comfort in most states remained around record levels in December 2021, with the highest comfort in Victoria (up 2% over the past six months to an index of 6.20), NSW (unchanged at 6.15) and WA (unchanged at 6.02) – with the latter reporting the biggest rise of mainland states since the onset of COVID (11%) and 9% above its historical average of the past decade.

Melbournians continued to report the highest comfort amongst major capitals (up 3% to 6.45) – slightly ahead of Sydney (6.3) and Perth (6.16).

Location losers.

Over the past six months, South Australia and Adelaide are the only mainland state and major capital city to report significantly lower comfort (both down 6% to 5.68 and 5.7, respectively), due to lower comfort across all key drivers (except for debt).

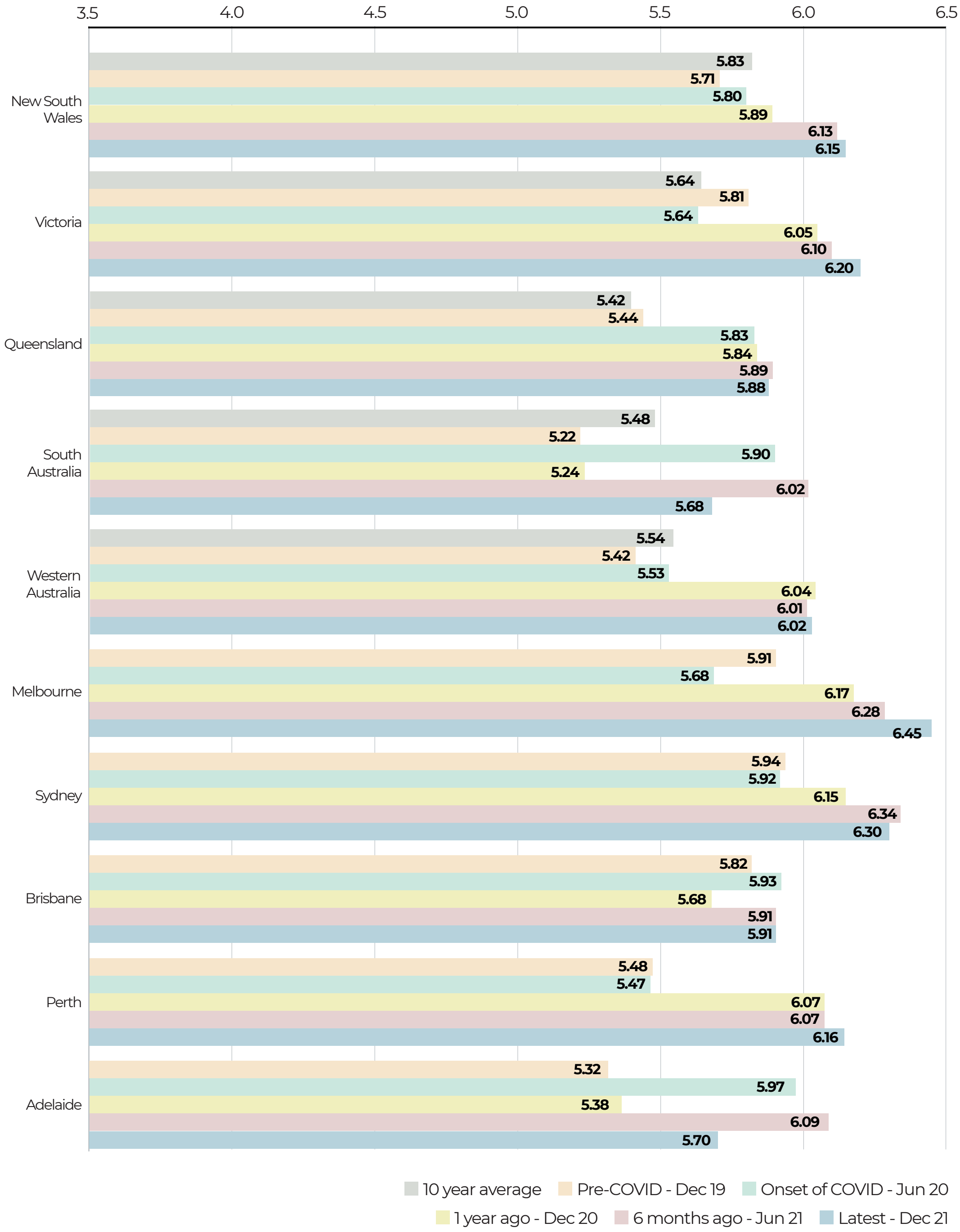

Figure 12 – Household financial comfort index across locations – index out of 10.

Generation winners.

Builders (aged 75+) continued to report the highest comfort across generations (up 3% to 7.07) and Gens Z (18-24) and Y (25-34) as well as Baby Boomers (55-74) remaining unchanged at about an index of 6.2

Generation loser.

Gen X (35-54) continued to have the lowest comfort across the generations (index of 5.62) and the smallest gain since the onset of COVID (up 7%) in December 2019.

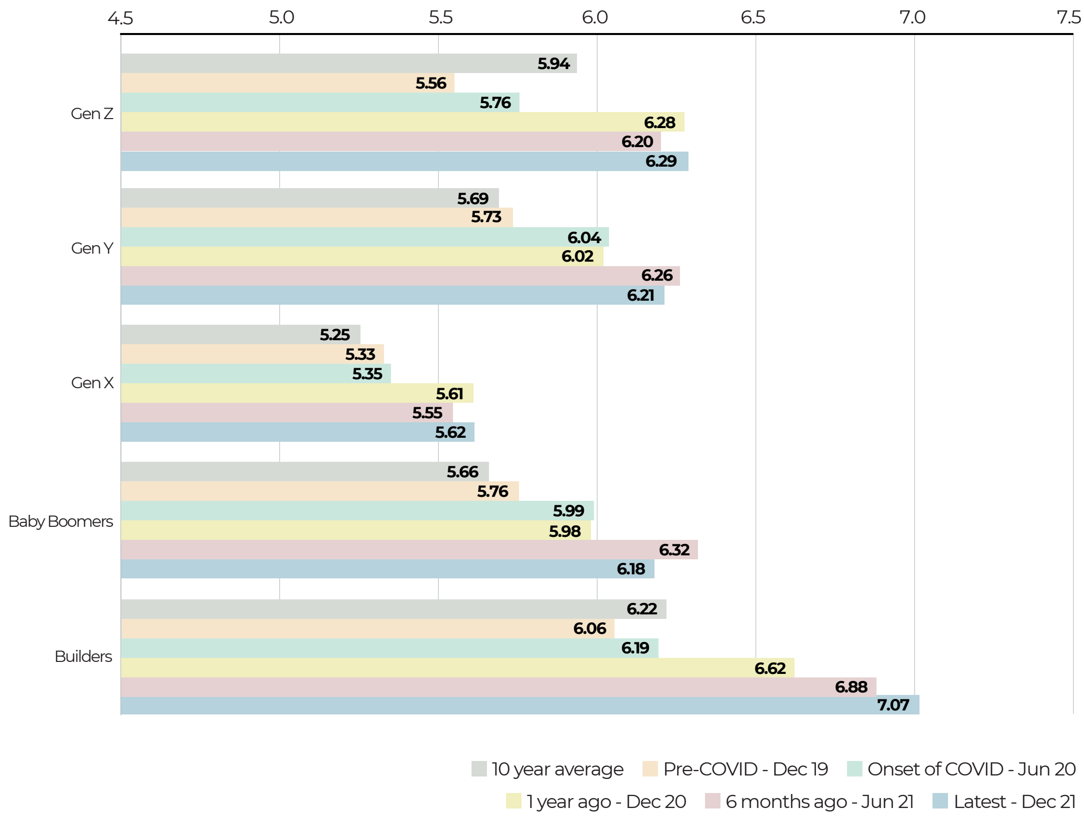

Figure 13 – Household financial comfort index across locations – index out of 10.

Housing winners.

Households that either have a mortgage or own their house outright are both at almost record comfort levels of 6.91 and 5.96 respectively, with gains of 9% compared to pre-COVID in December 2019 for mortgagees, up 7% for those who own their home outright.

Housing loser.

Renters have been hit hardest by rising rents and other living costs, resulting in a 9% drop to 4.78 in December 2021– similar to pre-COVID and its historical average for the past decade.

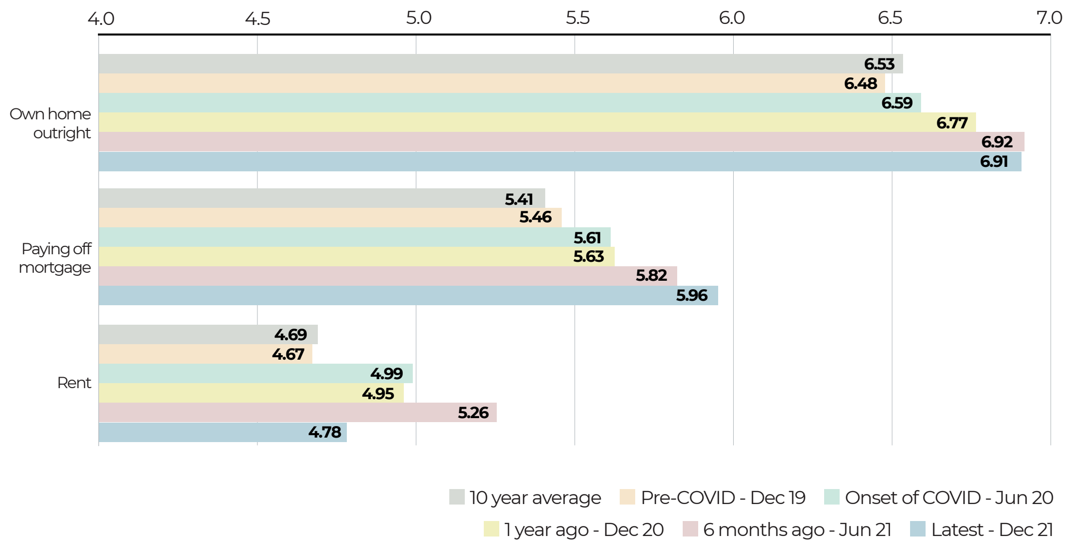

Figure 14 – Household financial comfort index by housing tenure – index out of 10.

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