Household financial comfort report.

Sixteenth survey published August 2019.

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

Property price falls and a weakening labour market have Australians unsure of their next move.

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 16th survey, published in August 2019.

Survey history

- 1st edition: October 2011
- 2nd edition: August 2012
- 3rd edition: February 2012
- 4th edition: August 2013
- 5th edition: February 2013
- 6th edition: August 2014
- 7th edition: February 2014
- 8th edition: August 2015
- 9th edition: February 2015
- 10th edition: August 2016
- 11th edition: February 2016
- 12th edition: August 2017
- 13th edition: February 2018
- 14th edition: August 2018
- 15th edition: February 2019
- 16th edition: August 2019

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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“Our financial situation has worsened because property prices have dropped, jobs are very insecure, and **wages have remained the same while living costs have increased.**”

MIDDLE–AGED COUPLE, NO CHILDREN,
NSW

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Executive summary.

01.

Household financial comfort dragged down by residential property price falls and weakening labour market.

Australian households are feeling overall worse about their net wealth, jobs, income and living expenses with further significant residential property price falls over the past six months and a weakening labour market, ME's latest *Household Financial Comfort Report* has revealed.

Consulting Economist for ME, Jeff Oughton, said that despite remaining a little above the report's seven-year average, financial comfort across most of the 11 drivers that make up the *Household Financial Comfort Index* fell, with net wealth in particular seeing the largest drop, falling 3% to 5.54 out of 10 during the six months to June 2019.

"The financial comfort of Australian households eased over the past six months, with a significant fall seen in comfort with wealth. Despite lower mortgage loan rates, expected cuts in personal income tax and higher local and global equity prices, this is largely a consequence of continued decreases in the value of residential property in many parts of Australia," said Oughton.

"Comfort with wealth would have fallen much more if it wasn't for record bond prices, rebounding share markets as well as the government's retention of negative gearing on investment properties and cash refunds for franking credits, which saw household comfort with investments increase."

Financial comfort with investments (in financial assets, such as shares, super and property) was the only driver across the index to improve (up only 1%), but was largly accrued by households with higher incomes. Households with incomes $200k+ and large superannuation balances (above $1 million) saw increases to overall financial comfort, 10% to 7.45 and 11% to 8.3 respectively during the six months to June 2019.

A weakening labour market and subdued income growth weigh on comfort

Financial comfort among households also eased as a consequence of a weakening job market, which resulted in subdued wage growth, falling comfort with income and high levels of both underemployment and job insecurity.

In particular, financial comfort among working Australians significantly deteriorated, with full-time workers recording a 3% decrease to 5.86, part-time workers decreasing 4% to 5.1, casual workers decreasing 1% to 5.02 and self-employed workers down 3% to 5.57.

Oughton said: "It's clear from the latest report that there are increased concerns around job availability and underemployment. The number of workers who felt it would be difficult to find a new job increased by 16% to over one in two employees, which is the highest recorded since late 2016."

In June 2019, 35% of part-time and casual workers said they would prefer to work more hours – seeking an additional 23 hours per week. Meanwhile, 26% of all workers said they felt insecure in their current job.

Households' comfort with their incomes also fell by 1% to 5.69 in the latest survey. Only 36% of Australian households reported an increase in their annual income during 2018/19, falling two points from December 2018, and there were fewer income gains recorded across households in general. Those reporting falls in income remained about 25% of households.

Living costs and a lack of savings are household's biggest financial 'worries'

In net terms of the greatest financial worries and positives, cost of necessities was the most commonly cited worry in ME's latest report, nominated by 44% of households. This was followed by worries about level of cash savings on hand (34%), ability to maintain lifestyle in retirement (31%) and impact of legislative change (19%).

Looking more closely at savings, Oughton said that overall, comfort with cash savings remained steady at 5.09 during the six months to June 2019.

"Since the latest Federal Budget was announced, households, on average, have slightly increased their precautionary savings. However, this saving behaviour was predominantly among those with a smaller amount of cash savings, and in contrast, those 10% of households reportedly spending more than their monthly income are overspending by more each month (up 18% in dollar terms)."

Oughton also noted that about 40% of households continued to spend all their monthly income.

When asked about retirement, the anticipated standard of living in retirement has eased, falling 1% to 5.2, notwithstanding a rise in the comfort of households expecting to self-fund their retirements (up 7% to 7.31).

Furthermore, of all 11 components that make up the *Household Financial Comfort Index,* Australians still felt the least comfortable with their ability to cope with a financial emergency, which fell slightly by 1% to only 4.77 out of 10. Indeed, 20% of households said they didn't think they could raise $3,000 in an emergency.

Residential property price correction a drag, but most households increasingly optimistic for 2019/20

While the residential property price correction has negatively impacted wealth, comfort by housing tenure has been mixed over the past six months. The report reveals that comfort has lessened among both home owners with a mortgage and renters, which could be attributed to tightening in the availability of credit, continued housing unaffordability, and high housing debt and rental payment stress. In contrast, comfort has risen among those who own their home outright and geared property investors post-Federal Election, with negative gearing retained on investment properties.

Oughton said: "It's evident that despite the latest monetary policy changes, there remains high levels of housing debt worry and actual payment stress among Australians.

"The number of households contributing more than 30% of their disposable income towards paying off a mortgage has remained steady at about 43%, while the corresponding figure for renters has risen to 62% – partly reversing the improvement reported in the previous two surveys."

In contrast to the actual fall in dwelling prices during the past 12 months, the majority of households living in their homes and investment property investors were feeling even more positive than six months ago about the 12–month outlook for dwelling prices.

In fact, over 41% of households living in their homes expected their dwelling prices to rise during 2019/20, while only 11% expected the value of their home to fall (including only 3% who are expecting a large fall).

However, the expectations of increasing property values amongst owner occupiers varied significantly across major capital cities, with a significant rise in Brisbane (46%), Sydney (45%) and Melbourne (42%) – in comparison to Perth (25%).

Investors were relatively more optimistic than owner occupiers, albeit less so than six months ago; 46% of investors expected the value of their investment properties to rise during the next 12 months, while only 9% anticipated a fall (including 2% who anticipated a large fall). Investors in Sydney were the most optimistic about property values (with 54% of investors expecting rises and only 6% expecting a fall), followed by investors in Brisbane (50%) and in Melbourne (44%).

Oughton summarised the key winners and losers from ME's 16th *Household Financial Comfort Report*:

Winners:

- Households not reliant on the government aged pension in their retirement
- Households with super balances greater than $1 million – financial comfort up 11% to 8.3
- Young and middle-aged singles/couples with no children
- Geared investors in residential property markets – financial comfort up 8% to 6.9
- NSW/ACT and VIC – the highest levels of financial comfort were found in NSW/ACT (5.63), followed by Victoria (5.55)

Losers:

- QLD, TAS and SA/NT – overall comfort fell in these states
- Brisbane, Perth and Adelaide residents – comfort in these cities dropped to match the low levels of comfort reported in regional Australia
- Working Australians – comfort significantly deteriorated among workers, with full-time workers recording a 3% decrease to 5.86, part-time workers decreasing 4% to 5.1, casual workers decreasing 1% to 5.02 and self-employed workers down 3% to 5.57
- WA workers – this state was reported as being the most difficult job market, with 61% expecting it would be difficult to get a new job in WA
- Renters – rental payment stress was reported by 62% of renters, up 11 points to June 2019.

Macroeconomic and financial context.

02.

Australian household finances, on average, remained relatively resilient during the first half of 2019, though there were pockets of financial stress across some households and regions. Macroeconomic and financial vulnerabilities remain related to underemployment, sluggish household incomes, high and rising debts, some tightening in access to credit and significant sustained falls in housing prices. On the other hand, record low mortgage rates and relatively low unemployment have supported debt servicing.

After a significant fall in the second half of 2018, Australian's household (net) wealth is estimated to have risen slightly during the six months to June, with solid financial asset gains (especially in superannuation and direct equity holdings) partly offset by increased gearing and a further fall in dwelling values. Households were also supported by both (subdued) wage gains and rising workforce participation. On the other hand, both consumer sentiment and household consumption growth have remained a bit below average and the saving ratio has risen further. Debt growth has slowed recently, but still increased slightly faster than income and assets. Debt servicing costs have continued to rise due to increased gearing – notwithstanding low mortgage rates. There was 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 2019 – with optimists slightly outnumbering pessimists. (That said, since then, consumer sentiment has fallen sharply due to concerns about the economic outlook and their financial situation.)
- **Labour market conditions** were mixed, with further solid job and participation gains, but a small rise in unemployment, relatively high underemployment and subdued wages growth. Both full-time and, to a lesser extent, part-time employment have increased well above working age population growth and the participation rate has reached its highest level on record. The **unemployment** rate rose to 5.2% in June 2019, compared with 5.0% in December 2018, but still lower than 5.4% estimated a year ago. More broadly, the trend underutilisation rate (both unemployed and under-employed persons) was 13.5% in June 2019, compared with 13.3% in December 2018 and about 13.8% year ago. Wages growth remained low in all states and most industries, though it picked up a little to be about 2.3% higher over the year.
- **Household consumption growth** has been weak, broadly unchanged on a per capita basis during the past year mainly due to moderate labour income growth (subdued wages but solid job gains) and negative wealth effects from falling house prices on discretionary items (such as new cars). As measured by the official data, the household saving rate from current disposable income has risen from a recent low in the second half of 2018. **Consumer inflation** has remained subdued, up 1.6% during 2018/19. After relatively large rises during 2018, administered/partly regulated prices (such as electricity, gas, health, property rates) have slowed. Annual rent rises have been the lowest since the early 90s with rents down significantly in Perth and generally subdued elsewhere. On the other hand, grocery food inflation has picked up due to the drought and fuel prices have increased significantly during the June quarter.
- **Conditions in most housing markets** remained soft. However, there were signs that prices have stabilised in Sydney and Melbourne over recent months, as clearance rates have increased, albeit on low sales volumes. On the other hand, house prices have continued to significantly fall in Perth and Darwin. According to CoreLogic data, Sydney and Melbourne home prices fell by about 4% during the six months to June 2019 to be down by 15% and 11%, respectively, since their peaks in 2017. Across the capitals, Darwin and Perth recorded falls of 4% and 2% in the six months to June 2019 to be down 30% and 20%, respectively, since their peaks. Most regions (except in WA) reported small falls in prices, down only 3% during 2018/19 and since their peaks. Nationally, dwelling prices were down almost 7% during 2018/19 and about 8.5% since the peak in September 2017.
- Annual growth in **household debt** slowed further during the six months to June 2019, with loans to investors very subdued as well as some easing in loans to owner occupiers. Recent tightening in prudential and bank lending standards and declining house prices have been the main factors at play. After no growth for the past six months, annual growth of investor loans slowed to less than 1% in June 2019, while annual growth of owner-occupied loans slowed to around 5% in June, compared to about 7% in late 2018. Other personal loans (such as credit cards and equity-backed loans) contracted a bit further – down by over 3% during the year to June 2019.

Household assets, on average, are estimated to have risen slightly during the six months to June 2019 – a significant rebound in equity prices, a rise in bond values and continued contributions to superannuation more than offset a further fall in both dwelling values and new construction. As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – was slightly higher during the past six months. In aggregate, **debt to income** has increased slightly with sluggish growth in both debt and income, while **debt to assets** (or leverage) has also risen slightly as asset gains have been slightly outpaced by increased debt. **Debt servicing burdens** (relative to incomes) have increased slightly.

- Aggregate household **financial stress indicators** (such as housing and other loans in arrears and property possessions) were low generally, but slowly rising and disparate. Households, on average, were coping well with debt servicing burdens due to still relatively low borrowing costs as well as subdued income gains and continued employment.

As this report highlights, underemployment and falling house/apartment prices do present current challenges to some households – especially recent dwelling buyers with newer larger mortgages and lower incomes. Furthermore, some households have debt levels that make sense in 'good' times not allowing for the fact that 'bad' times may arise unexpectedly. Other households are close to their maximum risk position, not taking into account that loan rates inevitably will rise significantly from record lows. There are also households with low incomes – dependent on government assistance – significantly stressed by rental payments and regular expenses, with a lack of savings for a financial emergency.

How is the index calculated?

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

- Comfort level with the overall financial situation of the household
- Changes in household financial situation over the past year
- Anticipated changes in the next year
- Confidence in the household's ability to handle a financial emergency (loss of income for three months)
- Comfort levels with household income
- Cost of living expenses
- Short-term cash savings
- Long-term investments (including superannuation)
- The level of household debt
- Overall net wealth of the household
- The household's anticipated standard of living in retirement

Overall fall in financial comfort.

03.

3.1 ***Household Financial Comfort Index*** goes down a bit.

The *Household Financial Comfort Index* (see Figure 1) decreased by 1% to 5.50 out of 10 over the six months to June 2019. It remains slightly above the historical average (5.46 out of 10) since the survey began over seven years ago.

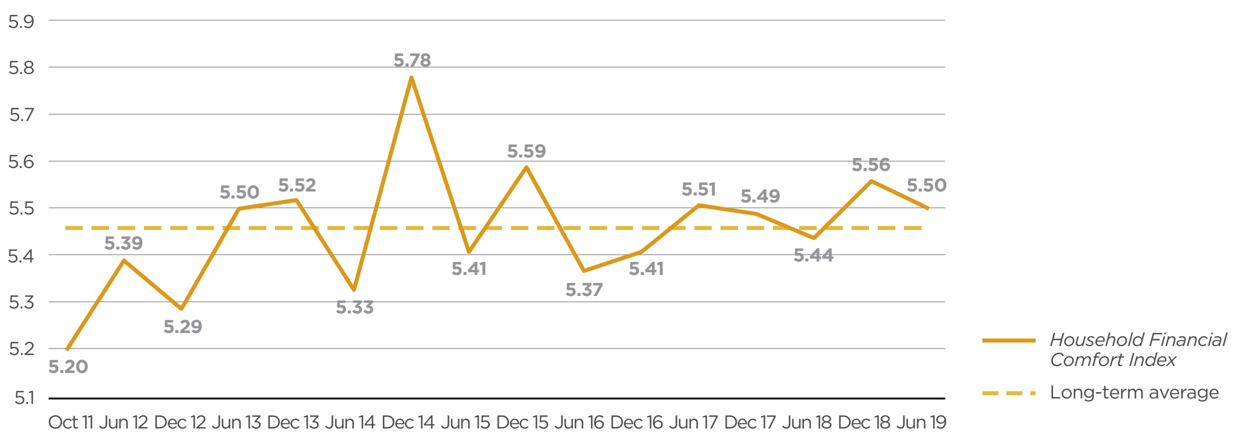

Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10

3.2 How did financial comfort change across groups with low, medium and high financial comfort?

Figure 2 shows that households with ‘low’ levels of comfort largely accounted for the fall in comfort over the past six months to June 2019.

Of all households, those with ‘low’ financial comfort (between 0–4 out of 10) reported a significant fall in overall comfort – down 5% to 3.12 during the six months to June 2019, a bit below the low recorded a year ago and significantly below the long-term average of 3.30 out of 10. In contrast, the overall comfort of households with a ‘mid’ level of comfort (index of 5–7 out of 10) rose a bit from 6.40 to 6.44 out of 10, while households with relatively ‘high’ comfort (index of 8–10 out of 10) fell a bit from 8.62 to 8.57 out of 10, leaving both cohorts of ‘mid’ and ‘high’ comfort levels around their historical averages in mid-2019.

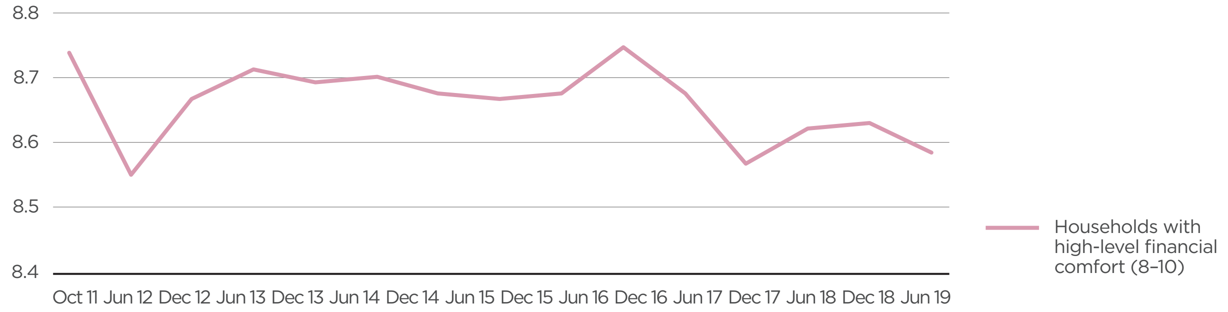

Figure 2a – *Household Financial Comfort Index*, by levels of comfort. Scores out of 10

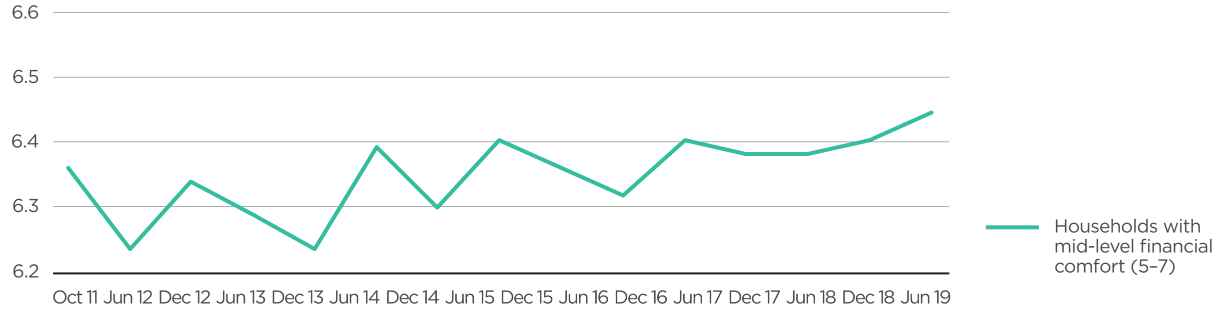

Figure 2b – *Household Financial Comfort Index*, by levels of comfort. Scores out of 10

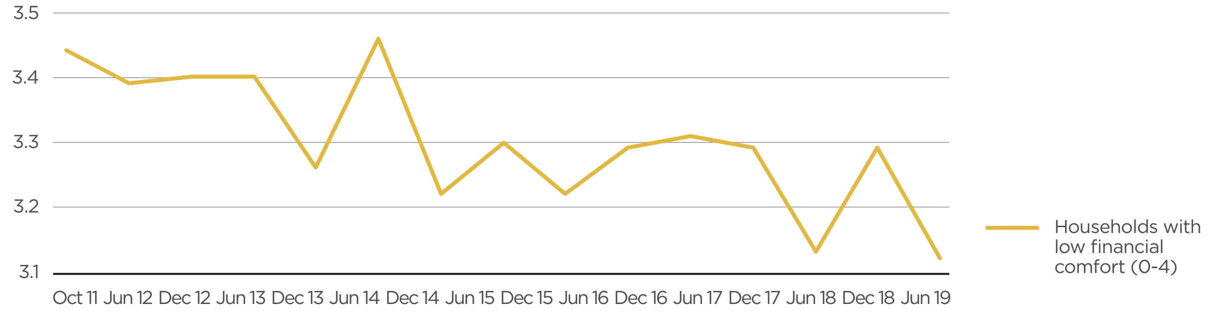

Figure 2c – *Household Financial Comfort Index*, by levels of comfort. Scores out of 10

3.3 **How did the key drivers of financial comfort change?**

Figure 3 shows the 11 components that make up the *Household Financial Comfort Index*, and all except two drivers fell slightly during the six months to June 2019, contributing to the overall decline.

The biggest fall in comfort was with 'net wealth' – down by 3% to 5.54 out of 10, to return to around its low of December 2016. The fall in net wealth is mainly equated with falls in house prices across most capital cities, but particularly in Sydney and Melbourne.

Most other components fell by 1–2% during the past six months, including recent changes to financial situation (–2%); current financial situation (–2%); expected changes to financial situation (–2%); living expenses (–2%); debt (–1%); income (–1%); anticipated standard of living in retirement (–1%) and the ability to cope with a financial emergency (–1%). The only components of the comfort index that improved slightly were comfort with cash saving (0.4%) and investments (1%).

In summary, household overall comfort fell mainly due to deterioration in terms of households' financial balance sheet as measured by their net wealth (home and investment properties, shares and other financial assets less all debts) and to a lesser extent their cash flows (incomes, living expenses and cash savings) and feelings about their financial situation (past year, current and next year as well as anticipated in retirement).

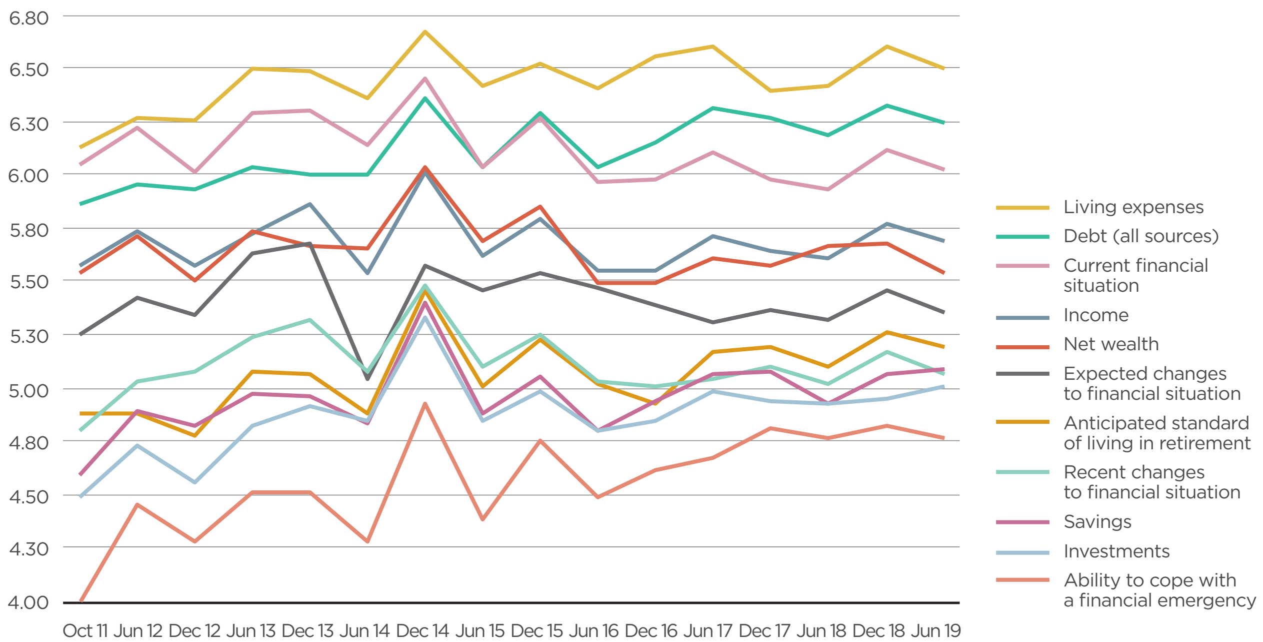

Figure 3 – The 11 components that make up the index, with levels of comfort over time. Scores out of 10

3.4 **Comfort with net wealth mainly drives the fall.**

Figure 4 shows 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 – fell the most significantly, down by 3% to 5.54 out of 10, well below the long-term average of 5.66 and closer to the lows of the past seven years.

Comfort with net wealth fell across most household incomes (except low incomes less than $40,000 p.a.) as well as in all states and territories in both metro and regional areas.

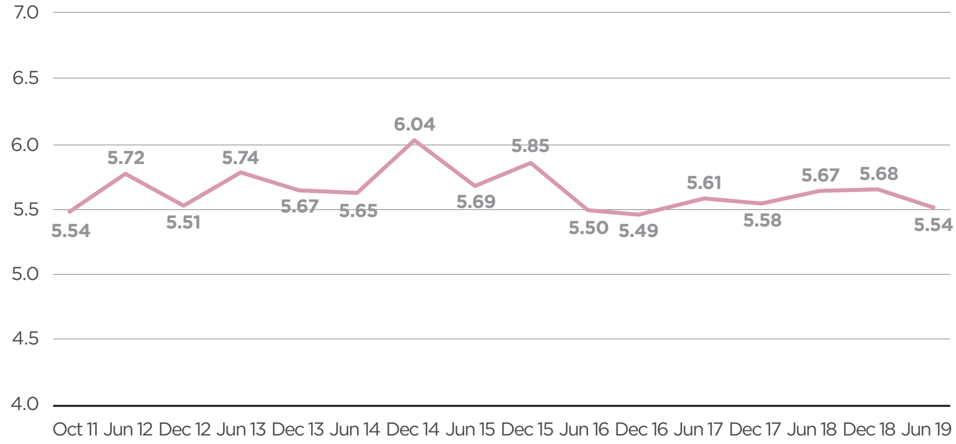

Figure 4 – Comfort with households' level of wealth. Scores out of 10

Furthermore, in terms of mortgage status, the falls in residential property prices significantly impacted the comfort of net wealth of households with mortgages on their homes and/or investment properties. For example, comfort for households with only a mortgage on their home fell by 7% to 5.06 during the six months to June 2019 and those with a mortgage on their home and investment property fell, to a lesser extent, by 3% to 6.59. In contrast, comfort with net wealth of households with gearing or a mortgage on only their investment property rose significantly – up 8% to 6.91 in June – to almost as high as owner occupiers without a mortgage. Put another way, the continued benefits of (negatively) gearing property investments buoyed property investors' comfort with net wealth post the recent Federal Election. Coincidentally, over the six months to June 2019, property investors lowered their expectations for price gains in investment property during the next year (see Figure 40 on page 44).

For those without any mortgages, comfort with net wealth was unchanged at about 5.53 or similar to the average across all households, including comfort with net wealth among home owners (up 3% to 7). Renters' comfort with their net wealth remained relatively low – broadly unchanged at 4.16.

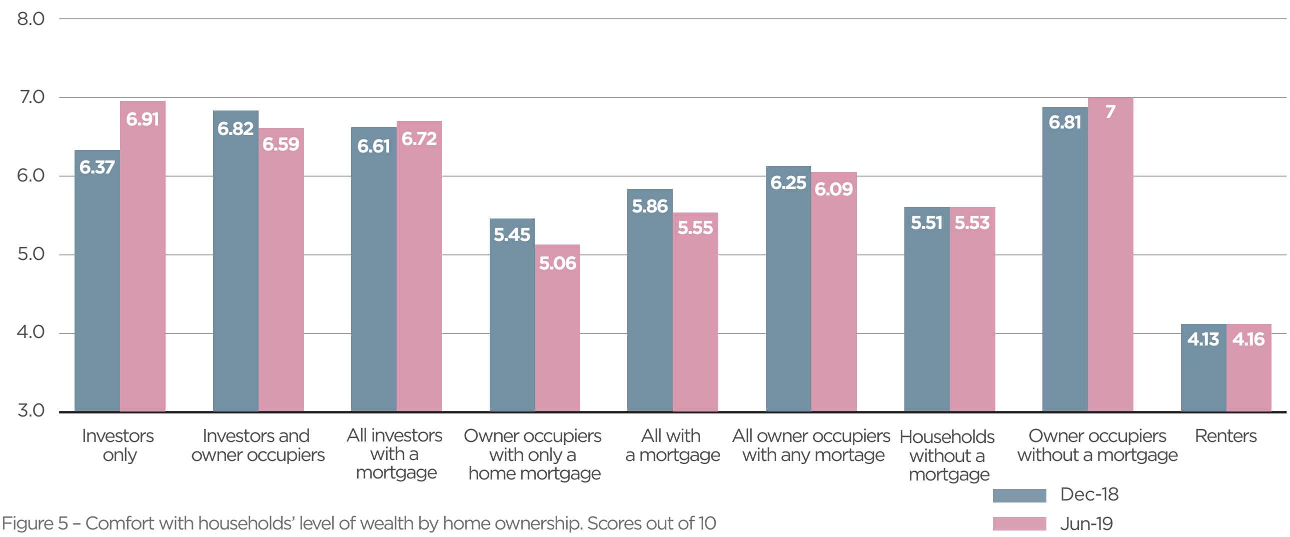

Figure 5 – Comfort with households' level of wealth by home ownership. Scores out of 10

3.5 **A bigger fall in comfort prevented by slight increases in investments and savings.**

A slight rise in comfort with both cash investments and cash savings prevented the overall financial comfort of households falling further during the six months to June 2019.

Figure 6 shows overall ‘comfort with investments’ increased by 1% to 5.01 out of 10 in June 2019 and remains slightly higher than the medium-term average outcome of 4.88 since the survey began. Investments include investment properties, shares, bonds, managed funds and superannuation and bank deposits.

The increase in comfort with investments is connected with strong rises in local and global equity prices, which appear to have offset any concerns with falls in the values of residential property investments and low returns on bank deposits. Comfort with investments was up for most households, but particularly those who own their own home outright (7% to 6.21), as well as retirees (6% to 5.41) and, to a greater extent, geared investors in only residential property (up 14% to 7.04).

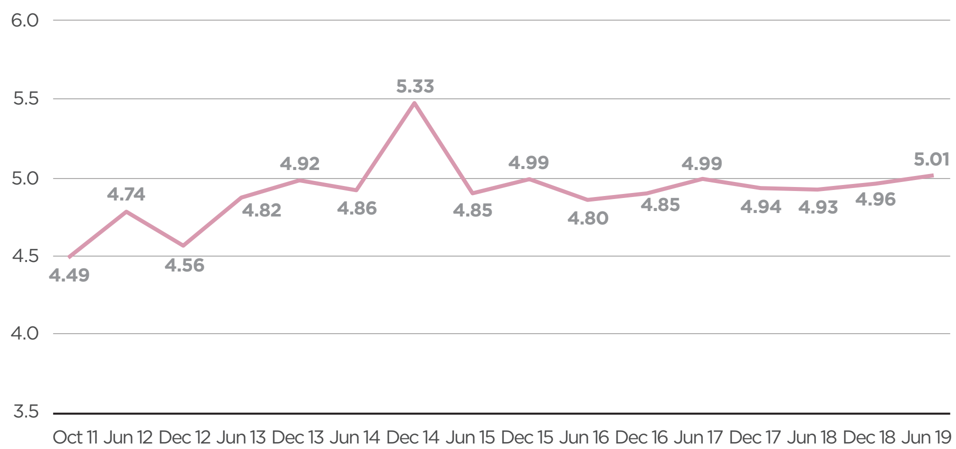

Figure 6 – Comfort with level of investments. Scores out of 10

As illustrated in figure 7, of the three in four households with private superannuation (in accumulation or pension mode), overall comfort of households was steady over the past 6 months and 2018/19 as a whole. Only comfort of households with large superannuation balances (more than $1 million) rebounded strongly – up 11% to 8.3 in June 2019, with the turnaround in equity values and rise in bond prices. Household comfort across most other levels of super balances fell over the past 6 months on average, down 3% to 5.6. Those without any super was up slightly to 4.9 in June 2019.

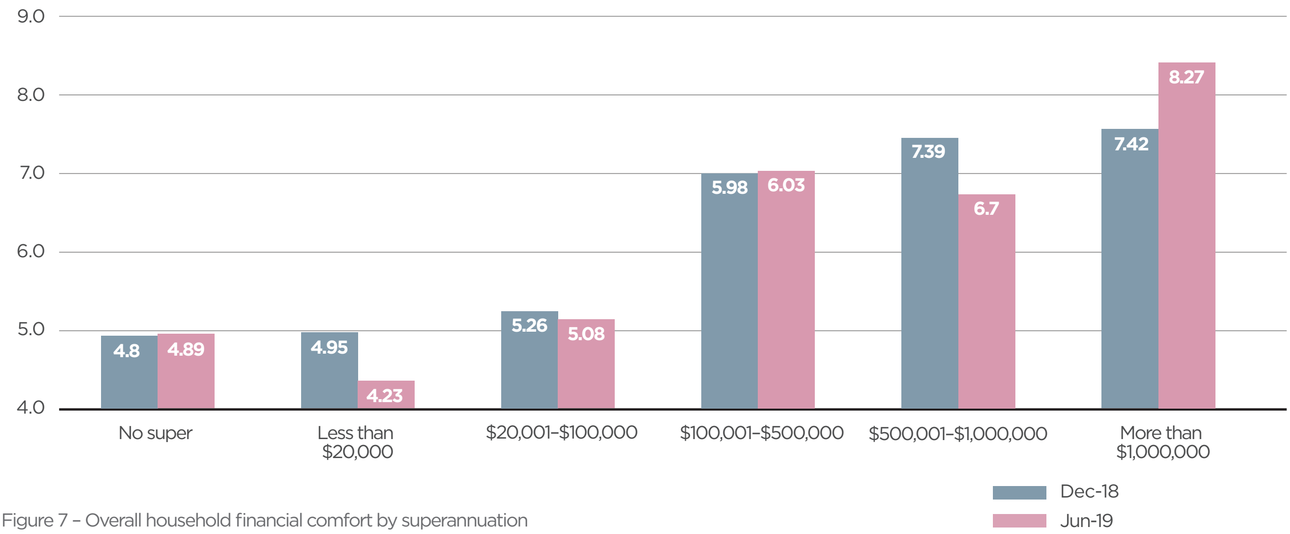

Figure 7 – Overall household financial comfort by superannuation

Figure 8 shows overall comfort with 'short-term cash savings' remained stable (0.4%) to 5.09 during the past six months to be a bit above the historical average. Highest 'comfort with cash savings' continued to be among 'young singles/couples no children', up 8% to 5.82. Meanwhile, 'single parents' continued to record the lowest 'comfort with cash savings' (3.61) – mainly reflecting the low comfort of those single parents dependent on government assistance (index of only 1.62).

Figure 8 – Comfort with households' current level of cash savings. Scores out of 10

3.6 **Weakening job market also driving lower financial comfort.**

Financial comfort among Australian households also eased as a result of the weakening job market – illustrated by high levels of underemployment, with significant levels of casual and part-time workers looking for more work, and significant job insecurity as well as increased difficulty expected in finding a new job.

Workers who expected that it would be difficult to find a new job increased by seven percentage points to over 1 in 2 employees – the highest recorded since late 2016. Similarly, the number of workers who reported it would be 'easy to find another job in two months' fell by four points to 40% (see Figure 9 below).

Across households, over 70% of single parents – both working and/or on government assistance – expected it would be difficult to find another job, compared with 65% of empty nesters and 62% of couples with older children. On the other hand, over half of young singles/couples without children expect that it would be easy to find another job, but only 25% of older generations (aged 50 and over) had similar expectations.

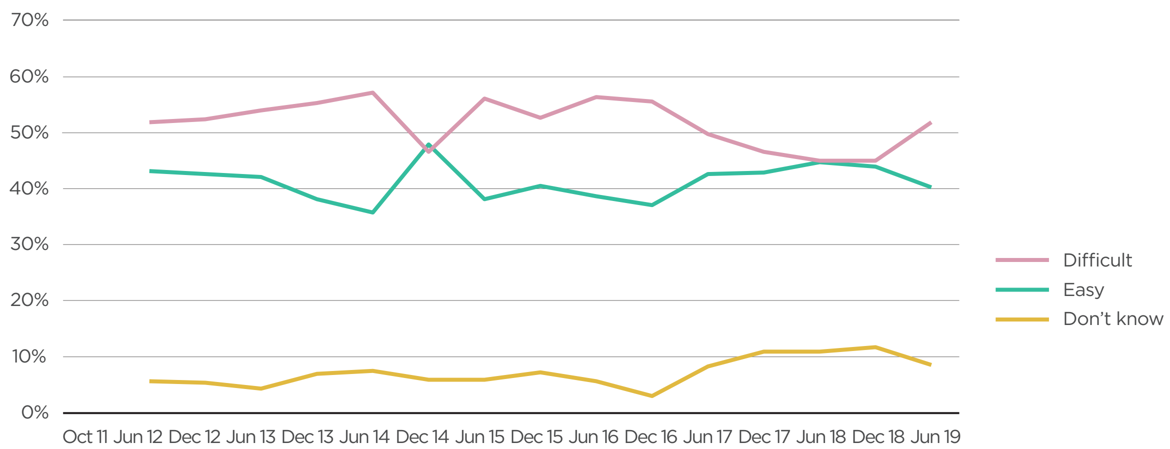

Figure 9 – Ease of finding a new job in next two months if became unemployed

Across the workforce, 70% of casual workers and, to a lesser extent, about 60% of both self-employed and part-time workers reported it would be difficult to find another job if unemployed. In contrast, almost 50% of full-time workers felt it would be easy to get a new job. Over the six months to June 2019, workers expected it to be more difficult to get a new job across all parts of Australia. WA was reportedly the most difficult job market, with over 60% expecting it would be difficult, while the easiest labour market was reported by NSW workers (at 46%). About two-thirds of workers aged over 50 years expected it would be difficult to find another job (see Figure 10a, b and c below).

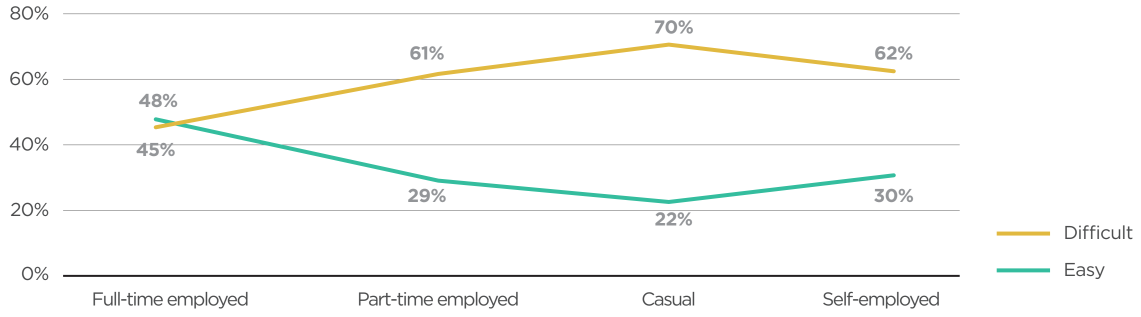

Figure 10a – Ease of finding a new job in next two months by labour force

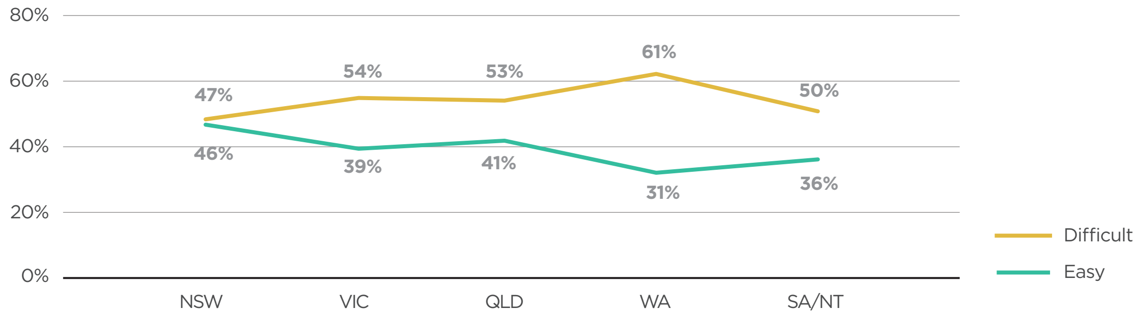

Figure 10b – Ease of finding a new job in next two months by state

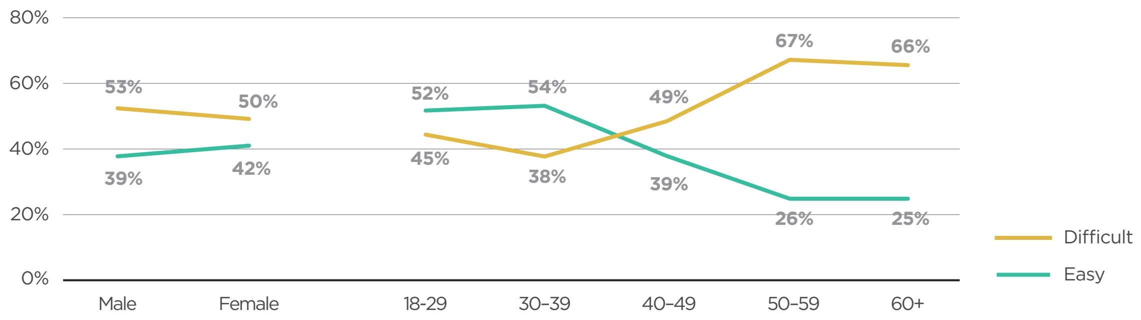

Figure 10c - Ease of finding a new job in next two months by gender and age

Figure 11 also shows a significant part of the workforce continued to lack job security, with 26% of workers feeling 'insecure' in June 2019 (down one point), albeit significantly down from the peak of 34% in December 2016.

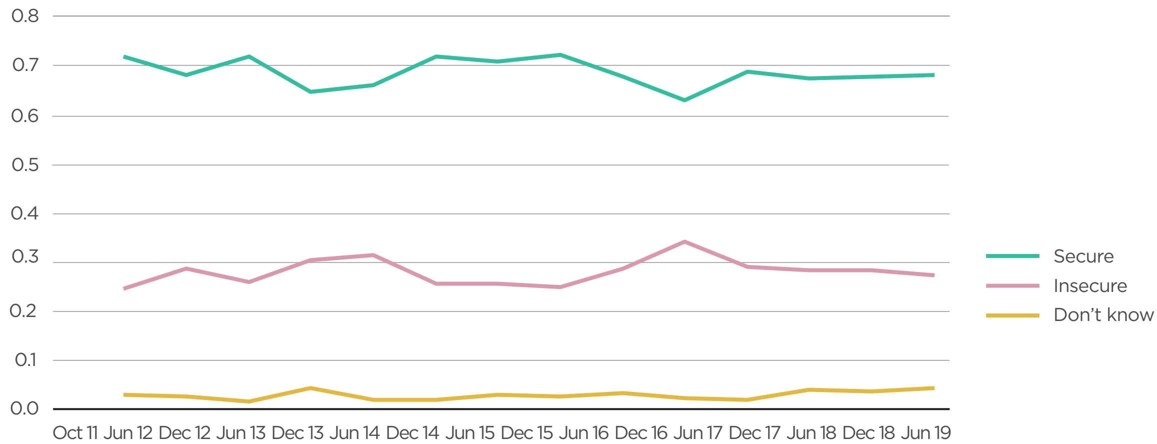

Figure 11 – Feeling of security in job in past month

As noted below in Figure 12, a significant number of 'part-time' and 'casual' workers continued to seek more hours and full-time work. While 60% are happy with their number of work hours in June 2019, 35% would prefer to work more hours – on average, over 22 hours per week for both casual and part-time employees.

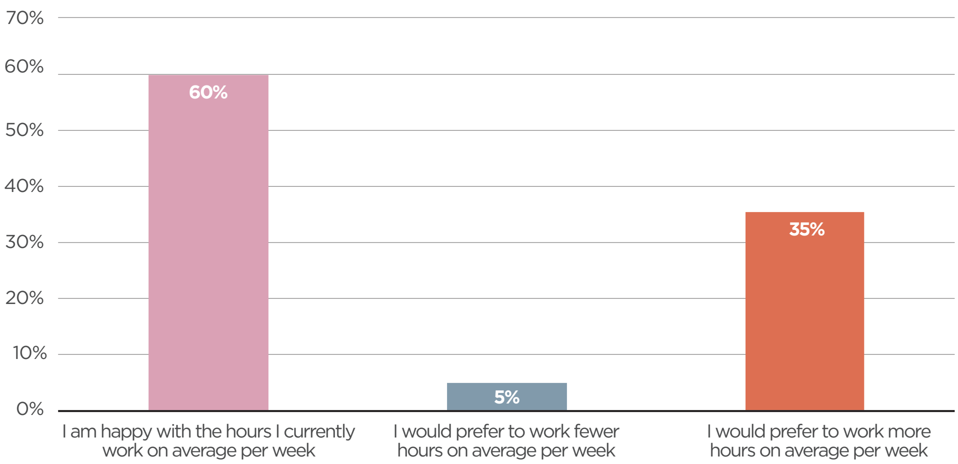

Figure 12 – Preference for work hours (part-time and casual employees)

3.7 **Comfort with income eases.**

The weakening in Australian labour market conditions also flowed through to a weakening in income gains, a key driver of financial comfort among households, as it can create issues with living expenses and debt servicing. Wage growth continued to be historically slow and resulted in a small fall in households' overall feelings about their incomes. Low interest rates on bank deposits and fixed interest investments also weighed on non-wage incomes for some households.

Figure 13 shows a 1% decrease in comfort with income to 5.69 in June 2019. Falls were across most states, except NSW which remained stable, and across the workforce and all ages, except those aged 18–29 who reported an 11% increase in comfort with income.

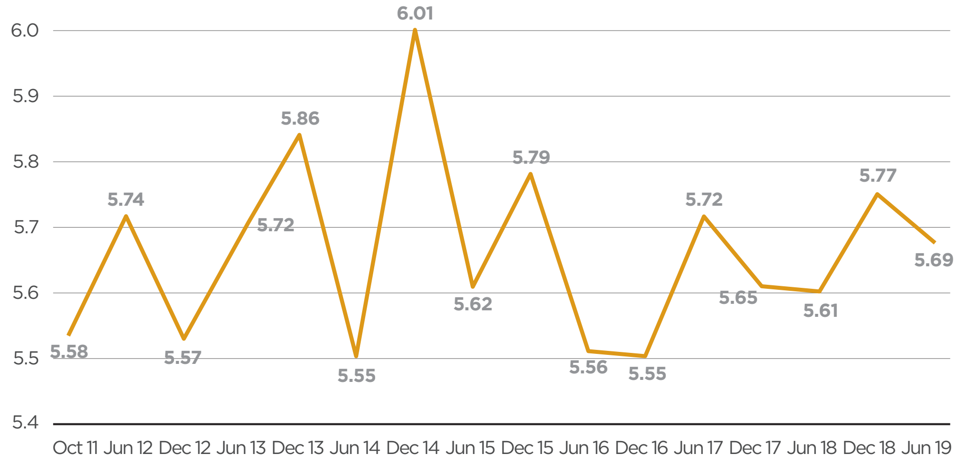

Figure 13 – Comfort with current household income. Scores out of 10

As outlined in Figure 14, the fall in comfort with income was also reflected in a falling proportion of households reporting annual income increases in the six months to June 2019 (down two points to 36% of workers), while those reporting falls in income remained about the same at 25% and those experiencing income remaining the same increased by three points to 40%, above the long-term average.

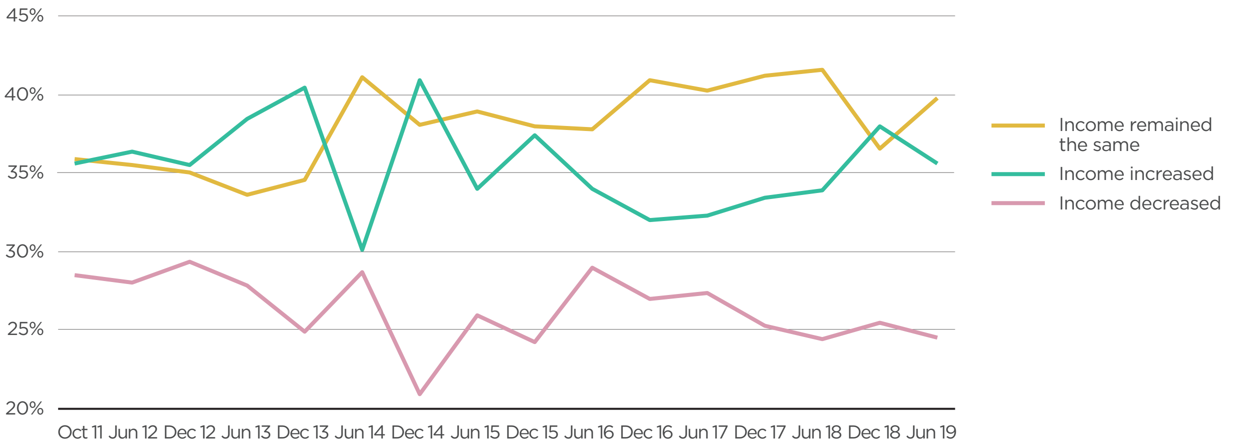

Figure 14 – Household income changes during past year

Most income gains reported by full-time workers.

Figure 15 shows which areas of the labour force were more likely to experience income gains, with gains most commonly reported by full-time workers (50%), compared to only 25% of casual workers and 35% of part-time workers (see more below).

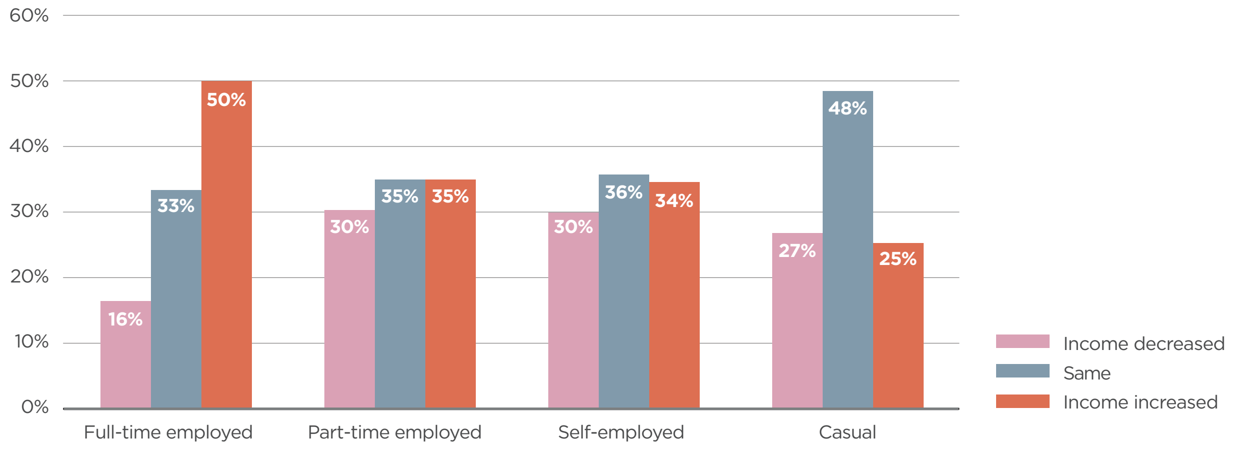

Figure 15 – Income changes over past year across the labour force

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

Figure 16 shows which income brackets received the most income gains over the past year. For the sixth consecutive report, households with higher annual incomes have continued to experience more income gains than households with lower annual incomes. Among households with annual incomes over $100,000 p.a., 55% recorded 'income increased' during the past 12 months (down one point since December 2018), while 38% of households with incomes $75,000–$100,000 p.a. reported 'income increased' (down 10 points) and 28% of households with incomes $40,000–$75,000 p.a. reported 'income increased' (down four points). In contrast, only 22% of households with annual incomes of less than $40,000 p.a. reported 'income gains' (down two points) while 40% reported cuts to income (up four points and significantly more than any other cohort).

Put another way, there were fewer income gains during the past year across households, while households with the highest incomes continued to be much more likely to report income increased.

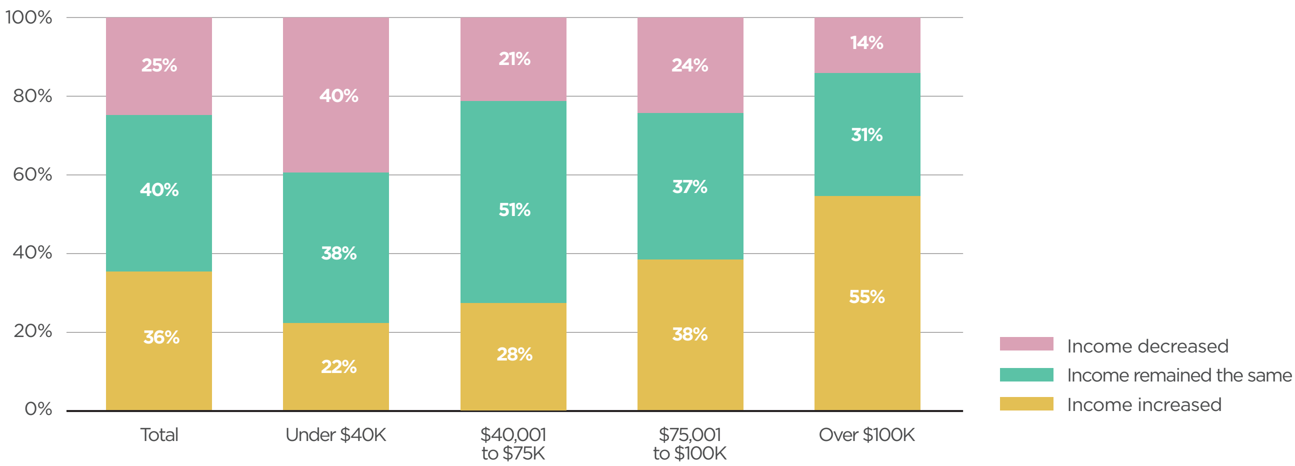

Figure 16 – Income changes over the past year across various income bands

3.8 **Comfort with monthly expenses falls, while living costs remain a key concern.**

Connected with the weakening labour market and falling comfort with incomes was the small fall in comfort with living expenses. This also contributed to the fall in the overall financial comfort of households. As illustrated in Figure 17, comfort with the ‘ability to pay regular expenses’ decreased by 2% to 6.50 during the six months to June 2019.

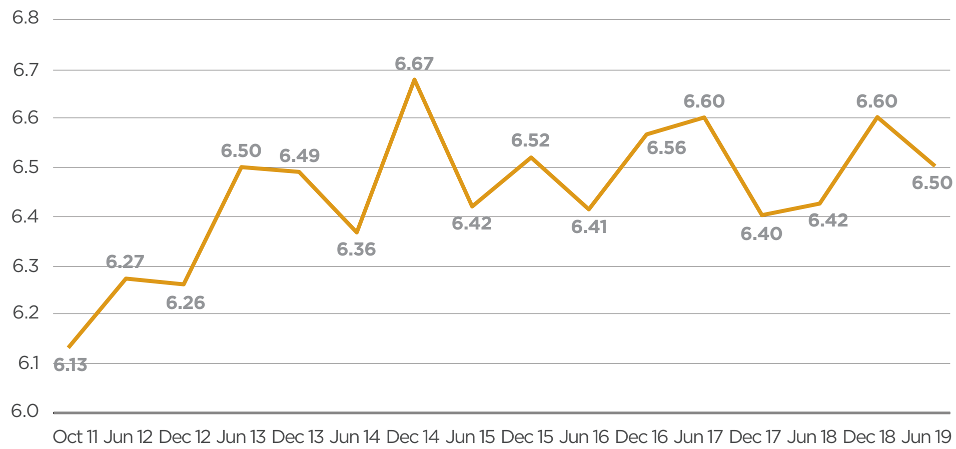

Figure 17 – Comfort with households’ ability to pay regular expenses. Scores out of 10

Consistent with this, of the 31% of households that indicated that their financial situation had worsened over the past year, there was a marked increase in the number citing the cost of living as the reason – up by 7 points to 43% during the six months to June 2019, and much higher than the next most cited reasons: change in job arrangements/job security (13%), change in income (12%) and no/low wage growth (11%). See Figure 18.

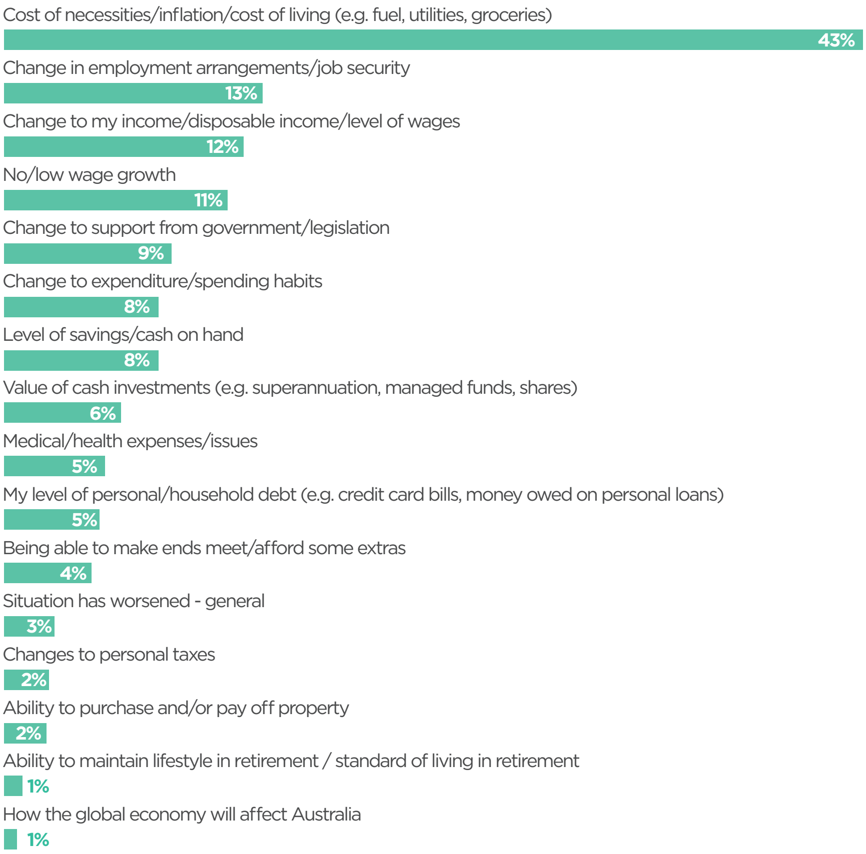

Figure 18 – Top reasons why households' financial situations worsened in the past six months

All households were again asked which aspects of their finances cause the 'biggest worries' and that 'they feel most positive about' (see Figure 19).

- The 'cost of necessities' (e.g. fuel, utilities and groceries) continued to be the 'biggest worry' of households, although the proportion nominating this as their biggest worry fell by two points to 44% during the six months to June 2019. In contrast, only 10% of respondents reported the 'cost of necessities' as their 'biggest positive' – slightly higher over the past six months.
- The next three top worries level of savings/cash on hand (remained stable at 34%), being able to make ends meet (increased by three points to 31%), and ability to maintain lifestyle in retirement/standard of living in retirement (remained steady at 31%).
- Concern about the global economy fell by four points to 25%, while concern about the impact of legislative change to financial situation increased four points to 19%.

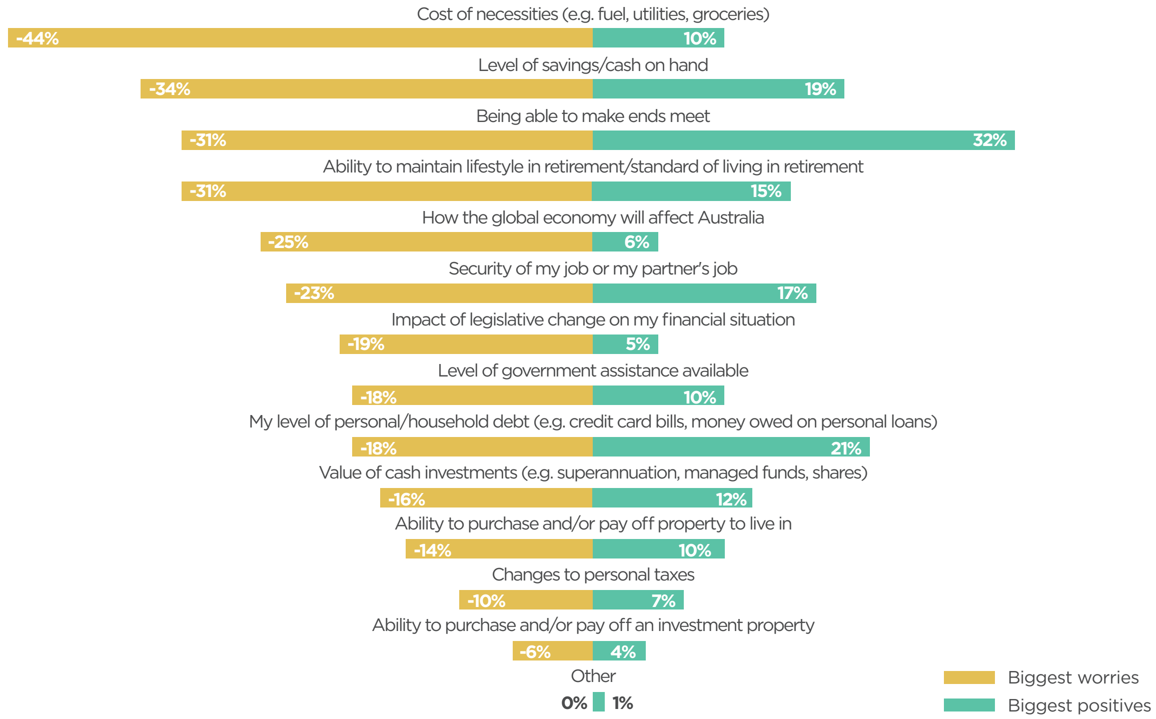

Figure 19 – Biggest financial worries and positives

3.9 **Despite falling loan rates, comfort with debt eased.**

Despite lower loan rates and expectations of further cuts in the RBA's official cash rate, comfort with debt eased over the past six months to June 2019. Significant falls in comfort with debt among owner occupiers with a mortgage more than offset gains in comfort with debt by investors in residential property and, to a lesser extent, home owners.

Overall comfort with debt fell slightly by 1% to 6.24 out of 10 during the six months to June 2019, but still above the long-term average of 6.13, as outlined in Figure 20.

Comfort with debt fell the most across households stressed about housing payments (down 8% to 4.8), households paying off a mortgage on their home (down 6% to 5.2), households with annual incomes over $100k (down 7% to 6.4), and households with higher property exposures (including over $1m, down 6% to 6.9). Comfort with debt for non-mortgage holders (mainly personal loans and credit cards) was unchanged at 6.9 while overall financial comfort of home owners (occupiers with no mortgage) rose by 4% to 6.54. In contrast, comfort with debt among geared investors actually improved markedly by 11% to 6.9 – arguably boosted by the government's commitment to maintain negative gearing on investment properties. Put another way, comfort with debt among most households with mortgage debt (except geared investors in residential property) actually fell during the six months to June 2019.

On the other hand, many households continued to take advantage of the low loan rate environment to pay down debt, with 59% stating they expect to pay more than the minimum repayment on their debt, up one point from the previous survey. This lower comfort with mortgage debt arguably reflects the negative impact of falling property prices on the net wealth of these households.

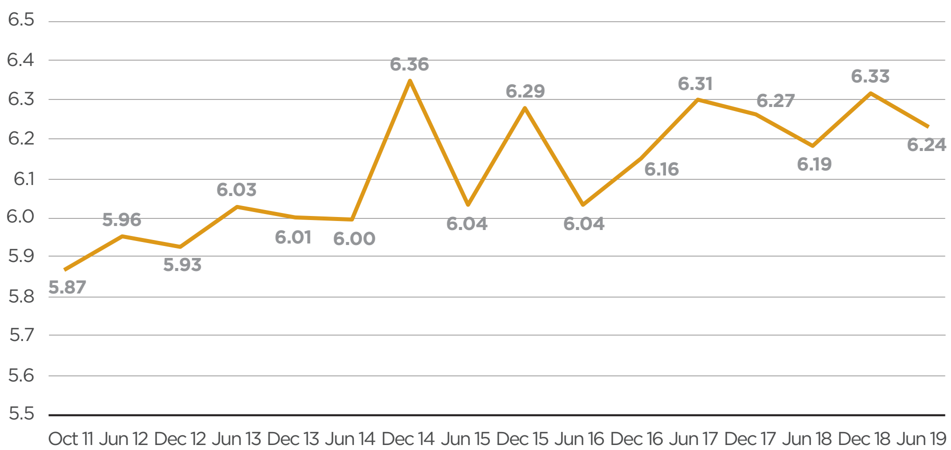

Figure 20 – Comfort with households' current level of debt. Scores out of 10

Figure 21 shows that when it comes to managing debt over the next 6–12 months, only 6% of households did not expect to be able to meet minimum payments on debt – two points less than expectations reported six months ago. There remained about 60% of households that expected to be able to pay either a bit more (33%) or a lot more (26%) than minimum repayments in the next 6–12 months, the same as six months ago.

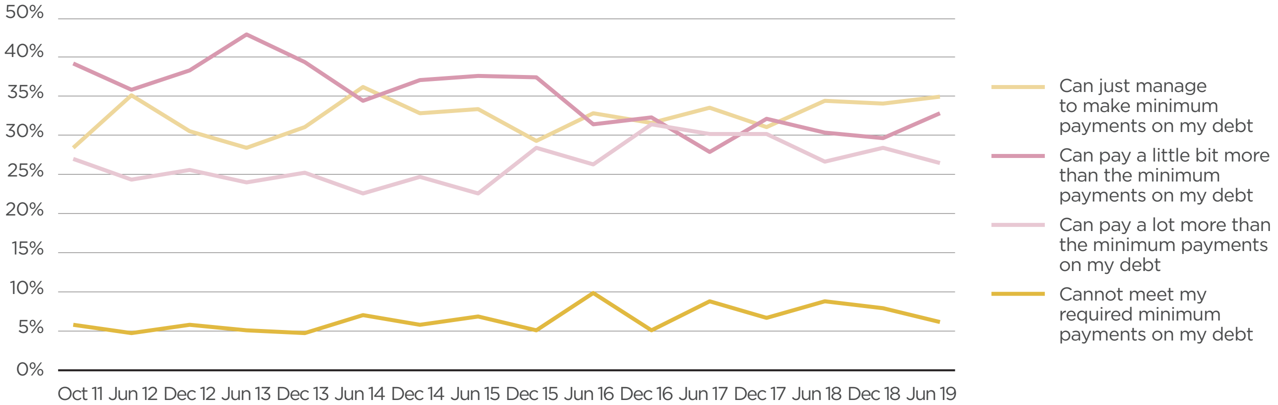

Figure 21 – Ability to manage debt over the next 6–12 months

3.10 **More people saving more and fewer people overspending and by less.**

Consistent with issues with income and expenses, the proportion of households saving, overspending and breaking even deteriorated slightly. Figure 22 shows that in the six months to June 2019, the proportion of households reporting that they saved each month fell slightly by three points to 48%.

Households breaking even each month increased by an equivalent amount – up two points to 41% – and those spending more than they earn each month (that is, overspending by running down savings or borrowing more) increased by one point to 10%.

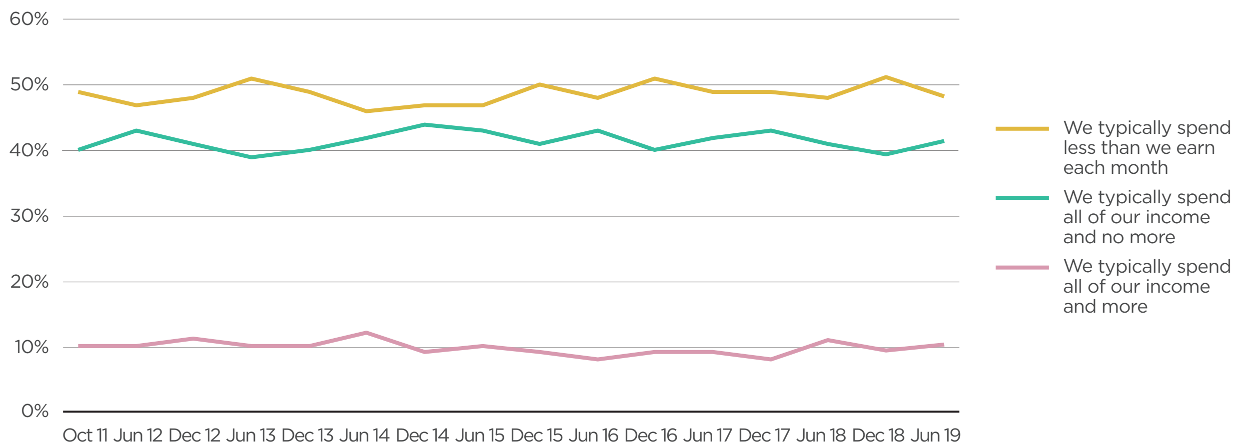

Figure 22 – The proportion of households that save, break even or overspend each month

As a result, 'net savers' – i.e. the proportion of those 'spending less than they earn each month' (48%) minus those 'spending all of their income and more' (10%) – fell from 42% to 38% of households, below the long-term average of 39% (see Figure 23).

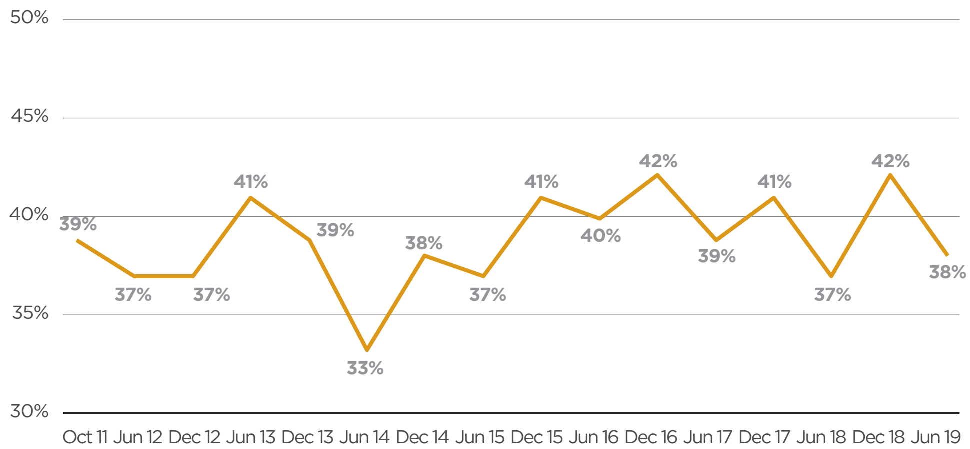

Figure 23 – 'Net savers' (proportion saving monthly minus those spending their income or more monthly)

Figure 24 shows a tale of two groups, with the estimated average amount savers were saving increasing by about 4% to $893 per month, while at the same time, the estimated average amount over-spenders/dis-savers overspent each month increased by 18% to $535 per month. In essence, those able to save (higher income households) saved more, while those faced with income constraints to save, overspent more.

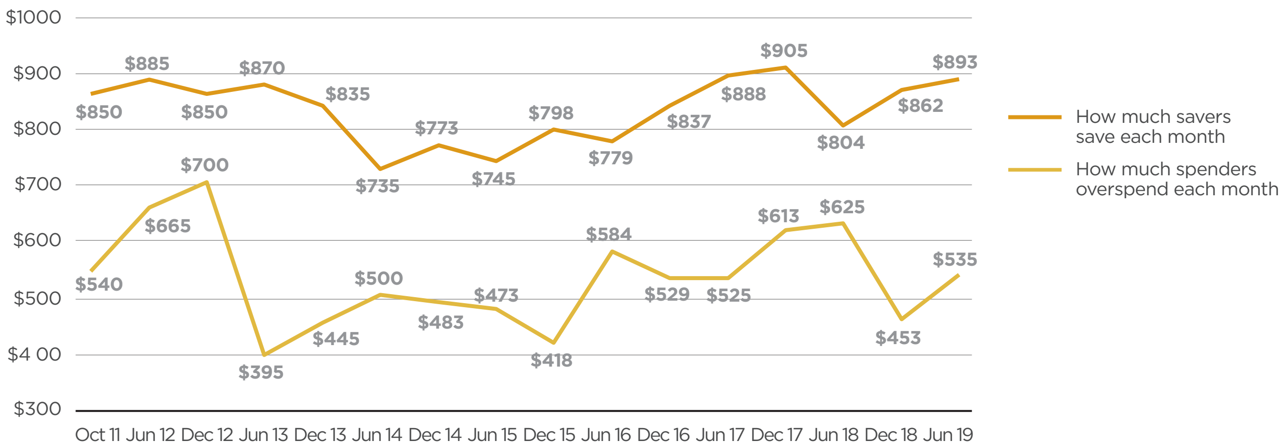

Figure 24 – Estimated amount savers saved and over-spenders overspent each month

Savings levels improve among households with small balances.

Those able to save contributed to a slight increase by 3 points to 52% in the proportion of households holding small amounts of savings (savings account, term deposit and mortgage offset account) between $0 and $10,000 while other savings levels remained fairly stable from six months ago (see Figure 25).

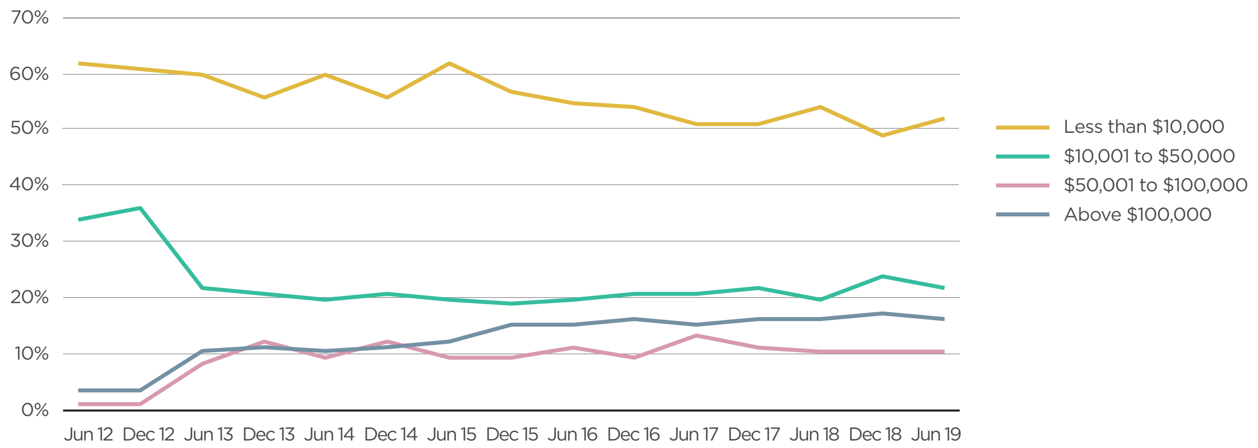

Figure 25 – Cash savings currently held – proportion of households

Figure 26 shows that in line with a small fall in net savers, 'confidence in the household's ability to handle a financial emergency' fell slightly – down 1% to 4.77, but still well above the long-term average of 4.57.

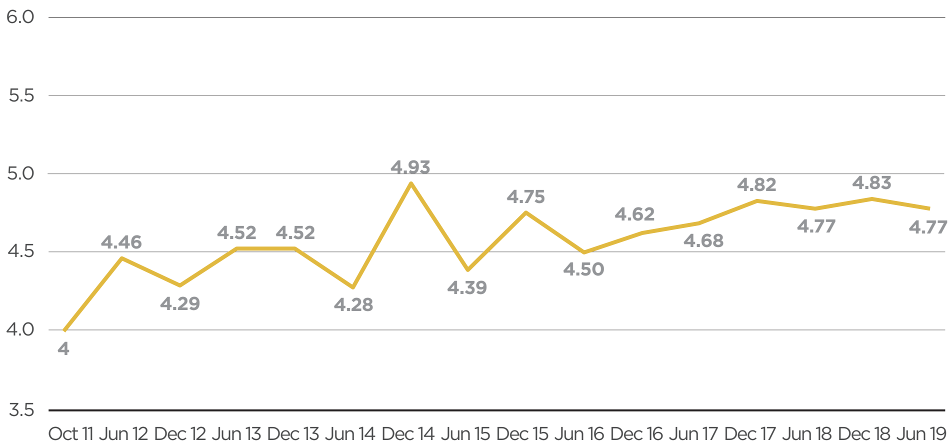

Figure 26 – Comfort with ability to handle an emergency. Scores out of 10

In the latest survey, confidence in households' ability to handle a financial emergency ranged from a very score of 1.6 for households with less than $1,000 in cash savings to over 8.0 for households with over $100,000 in cash savings, and from 3.3 for low-income households (less than $40,000 p.a.) to 5.8 for high-income households (over $100,000 p.a.). Single parents had, by a significant degree, the lowest comfort in their ability to handle a financial emergency (3.35) – especially those dependent on government assistance (1.4)

"Our financial situation has improved because I am getting more hours at work and our property has gone up in value due to home renovations."

MIDDLE-AGED COUPLE, NO CHILDREN, NSW

Overall financial comfort by different cohorts.

04.

This section has more details on the overall financial comfort index, providing views of overall financial comfort by different cohorts – life stage, age/generation, location, employment, annual incomes, housing tenure and mortgage status. In terms of overall comfort, there is a great deal of disparity and/or variation across these various cohorts of Australians.

4.1 Life stage: financial comfort remains mixed.

During the six months to June 2019, there remained wide variations in financial comfort between households at various life stages – some households saw improved comfort, while others' comfort fell.

Young singles/couples reported the highest comfort at 6.17, followed by retirees at 5.97, while single parents continued to have the lowest comfort of any household.

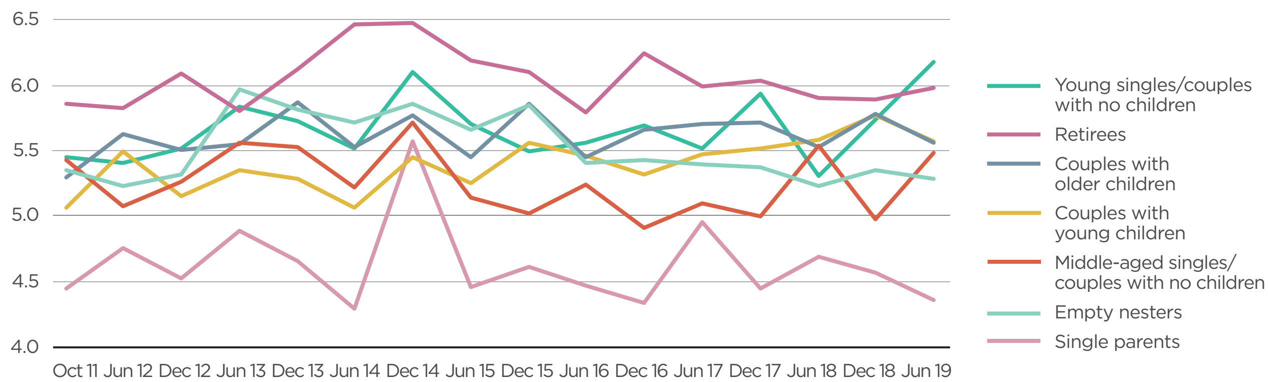

Figure 27 – Overall financial comfort across different household types. Scores out of 10

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

The oldest and youngest generations reported the highest comfort of all generations, with Gen Z reporting 6.24 and Builders reporting 6.19 out of 10. Baby Boomers reported the biggest fall in comfort (down 6% to 5.49), while Gen X reported the lowest comfort of any generation at 5.09 out of 10. See Figure 28.

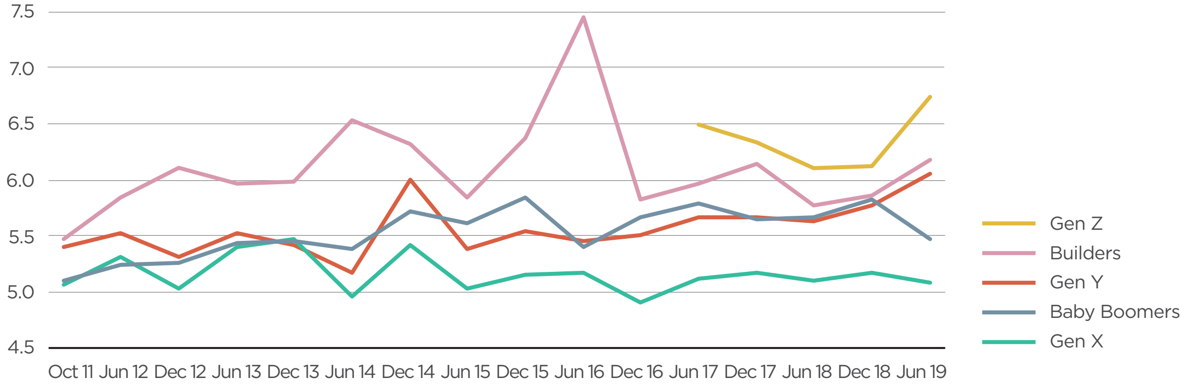

Figure 28 – Overall financial comfort across generations. Scores out of 10

Students feeling the pinch.

'Students' continued to report markedly lower levels of financial comfort (4.23 out of 10) in June 2019, compared to both '18–29 year olds' (up 9% to 6.28) and 'young singles/couples with no children' (up 8% to 6.17). See Figure 29.

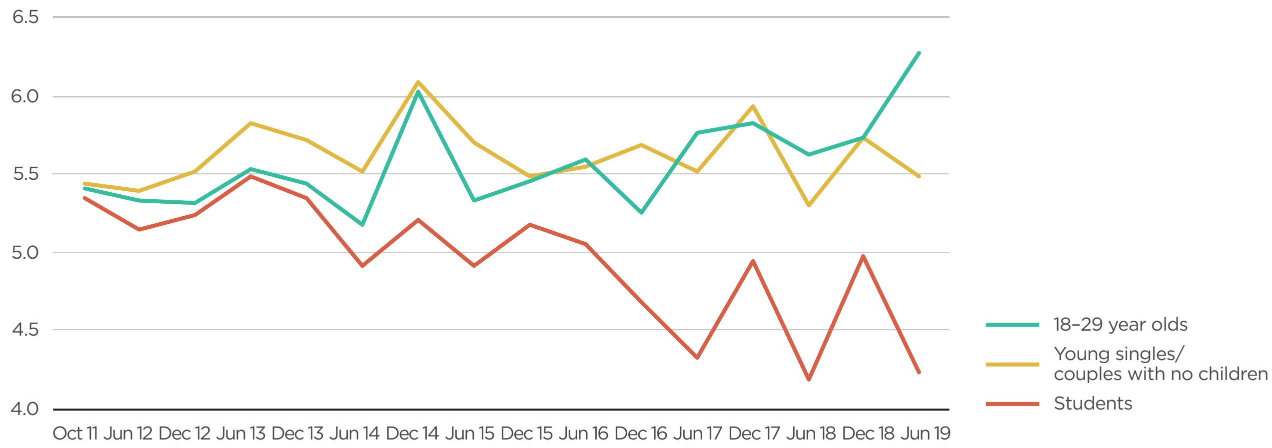

Figure 29 – Overall financial comfort across young singles/couples and students. Scores out of 10

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

Overall financial comfort fell in Queensland, Tasmania and South Australia/Northern Territory, and remained relatively unchanged in all other states and territories. Highest financial comfort was found in NSW/ACT, followed by Victoria (5.55) and Queensland (5.44). South Australia/Northern Territory had the lowest financial comfort at 5.11 (see Figure 30).

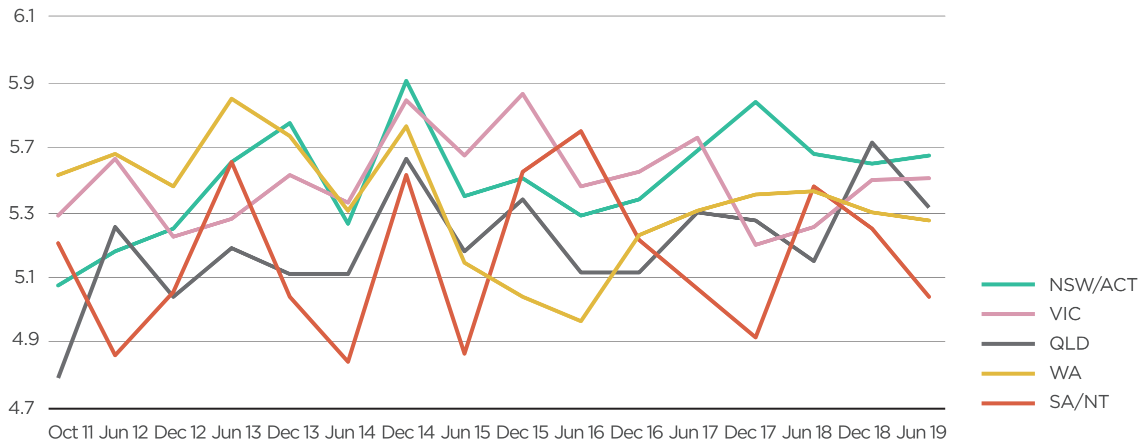

Figure 30 – Overall financial comfort across different states and territories. Scores out of 10

Metropolitan versus regional comfort divide narrows as house prices correct.

In June 2019, metropolitan cities continued to record significantly higher financial comfort (down about 1% to 5.57) than regional areas (down 2% to 5.30) (see Figure 31).

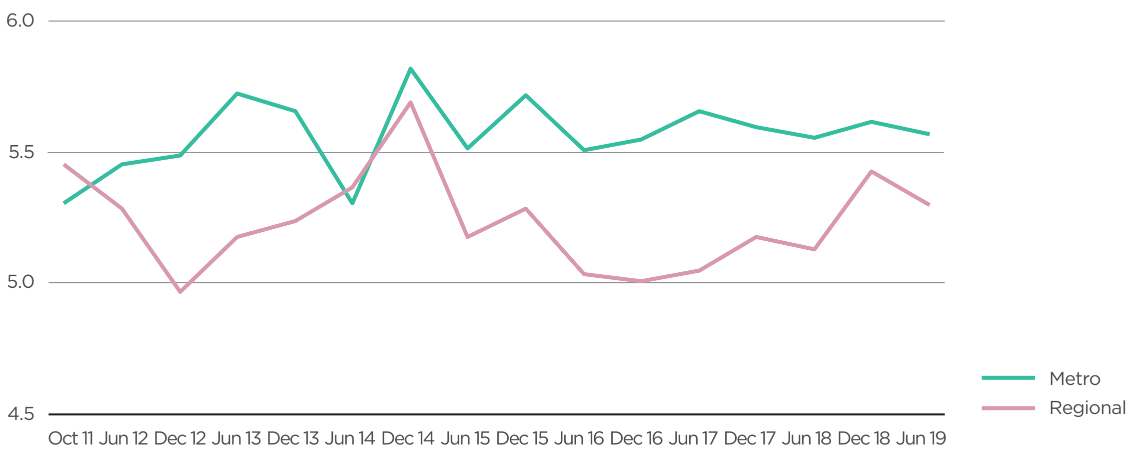

Figure 31 – Comfort index across metropolitan and regional Australia. Scores out of 10

The trend of slightly higher household financial comfort in metropolitan households in Sydney and Melbourne is only evident across Victoria and NSW. The gap has narrowed as property prices have fallen to a greater extent in metropolitan Sydney and Melbourne. Nevertheless, Sydney continued to be the most financially comfortable metropolis across Australia (5.88 out to 10), followed by Melbourne (5.73 out of 10). See Figure 32.

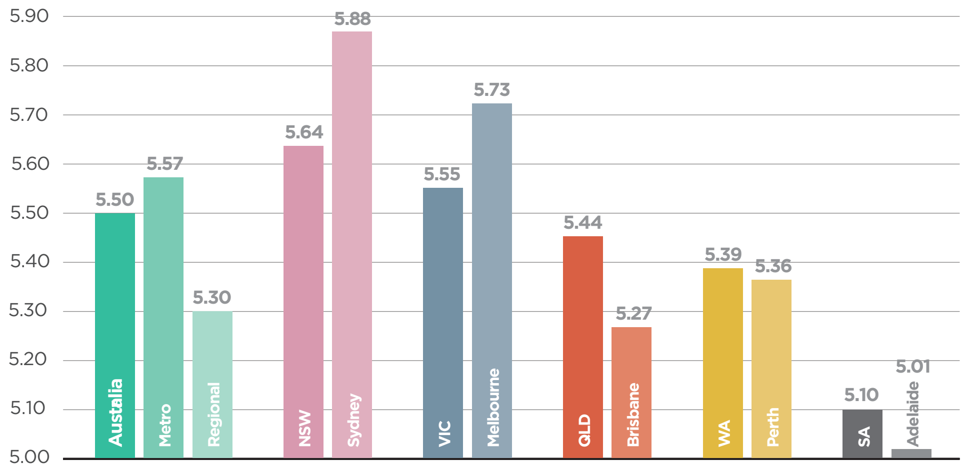

Figure 32 – Comfort index across larger states and metropolitan areas. Scores out of 10

4.4 **Workforce segments: financial comfort deteriorates a lot.**

Most workforce segments reported significantly lower financial comfort during the six months to June 2019. Part-time workers reported the biggest fall (–4% to 5.10), followed by self-employed (–3% to 5.57), full-time workers (–3% to 5.86) and, to a lesser extent, casual workers (–1% to 5.02).

Full-time workers continued to report the highest financial comfort across the workforce, while the comfort of causal workers remained a lot lower (see Figure 33).

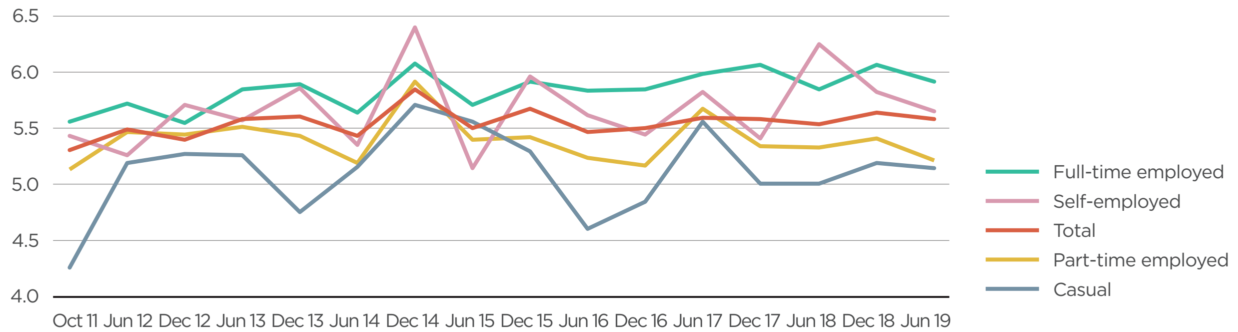

Figure 33 – Comfort index across the workforce. Scores out of 10

4.5 **Household incomes: financial comfort varies a lot.**

Comfort among low-income households continued to lag well behind the comfort of average/middle-income households and, to a greater extent, high-income households.

In the latest survey, comfort among households with very high levels of annual income (above $200,000 p.a.) reapproached a record high, after a rise of 10% to 7.45 in June 2019. In contrast, comfort across all other income bands fell over the six months to June 2019. See Figure 34.

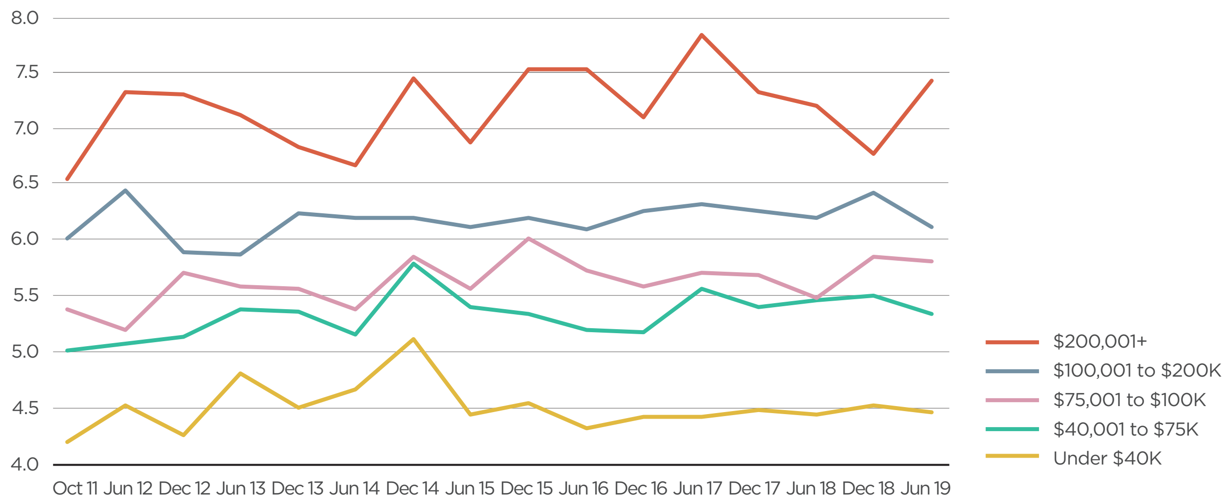

Figure 34 – Overall financial comfort of households in different annual income bands

4.6 **Housing tenure: financial comfort deteriorates a lot.**

Figure 35 shows the gap in financial comfort between those who own their home outright, those with a mortgage, and renters with financial comfort between these cohorts diverging again over the six months to June 2019. The financial comfort of renters remained significantly lower than other tenures and fell by 2% to 4.67 in June 2019, while households paying off their mortgage fell by 5% to 5.26. Only the comfort of home owners who own their home outright increased, this time by 4% to 6.54 during the six months to June 2019.

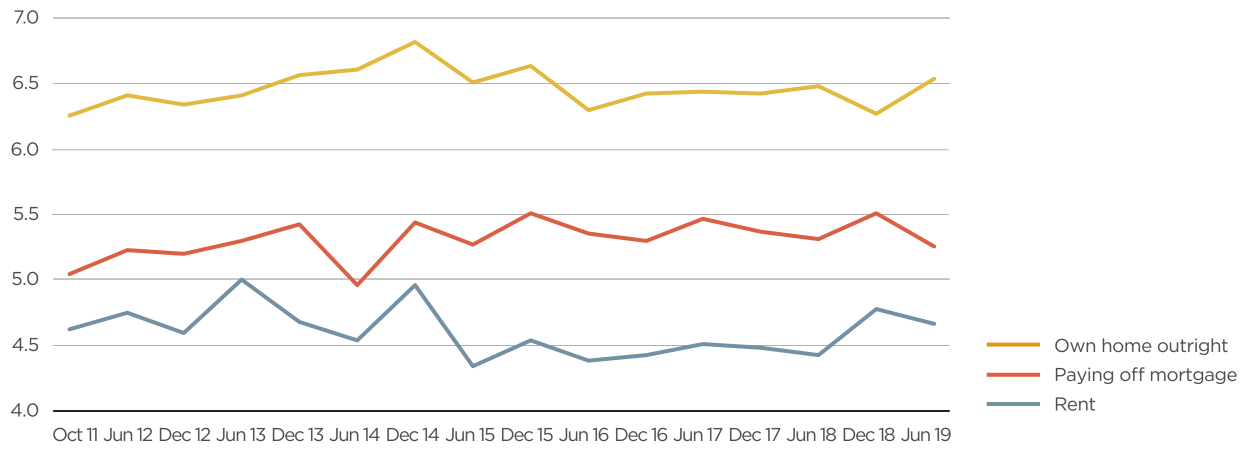

Figure 35 – Overall financial comfort based on housing tenure. Scores out of 10

4.7 **Mortgage status: financial comfort deteriorates a lot.**

Financial comfort continued to vary a great deal across households depending on the status of mortgage and ownership.

Figure 36 shows households with 'mortgages on investment properties only' or who 'own their own home outright' continued to report higher 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.

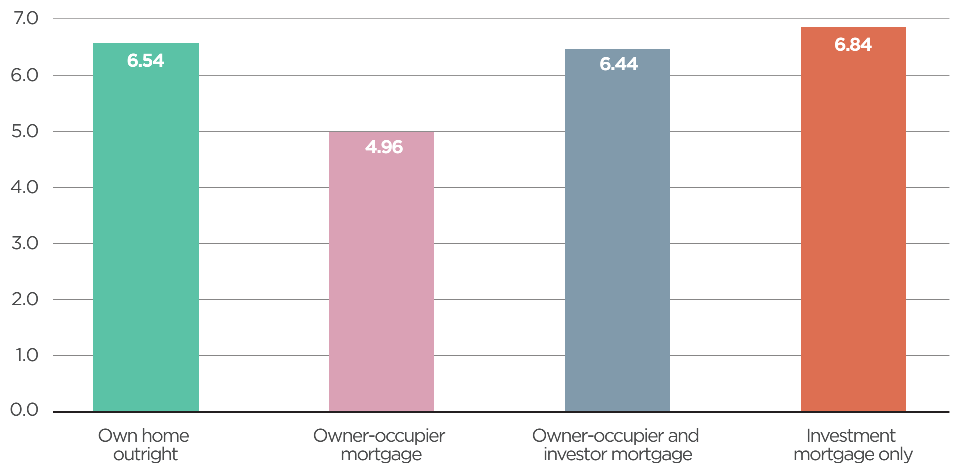

Figure 36 – Overall financial comfort of households with and without mortgages. Scores out of 10

“Everything is going up except our incomes.”

SINGLE PARENT,
SOUTH AUSTRALIA

Other findings.

05.

5.1 Rent payment stress rebounds slightly in past six months.

The proportion of households contributing over 30% of their disposable household income towards rent or paying off a mortgage – a common indicator of financial stress – rose from 47% to 52% during the six months to June 2019, partly reversing the easing in housing payments stress reported in the previous couple of surveys. This was mainly due to a rise in housing stress among renters. That said, very high levels of household payment stress continued to be reported by households with incomes less than $40,000 p.a. (with about 80% experiencing stress) and $40,000 to $75,000 p.a. (70%). There were also relatively higher levels of housing payment stress in Victoria (56%) and New South Wales (55%) than in other parts of Australia.

Figure 37 shows that for renters, those contributing more than 30% of their income towards rent rose to 62% from 51% over the past six months to June 2019, compared with 72% in December 2017 and 67% a year ago.

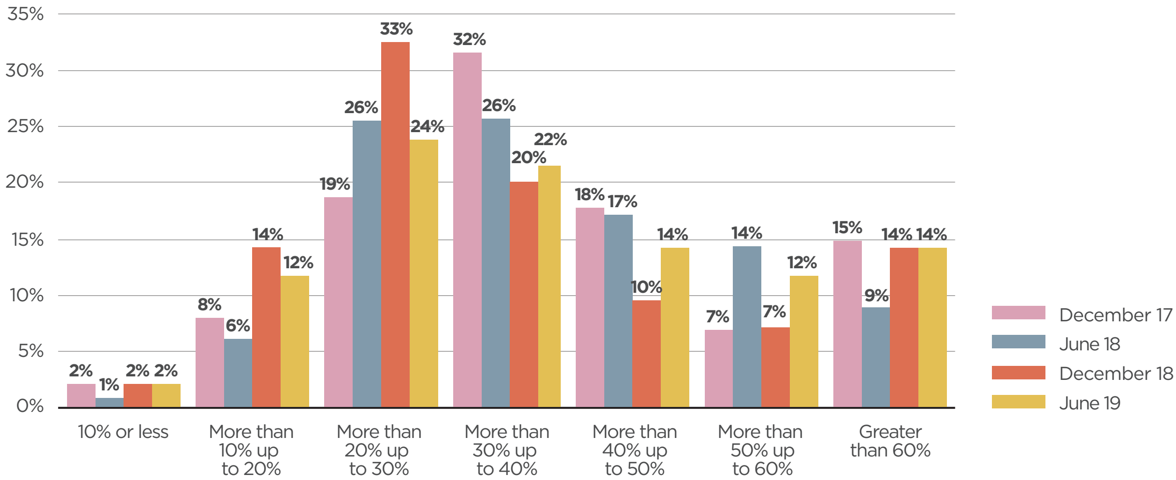

Figure 37 – Percentage of household disposable income paid towards rent

Figure 38 shows that for households with home loans, the proportion paying more than 30% of their household income towards a mortgage was relatively unchanged at 43% – much the same as previous reports.

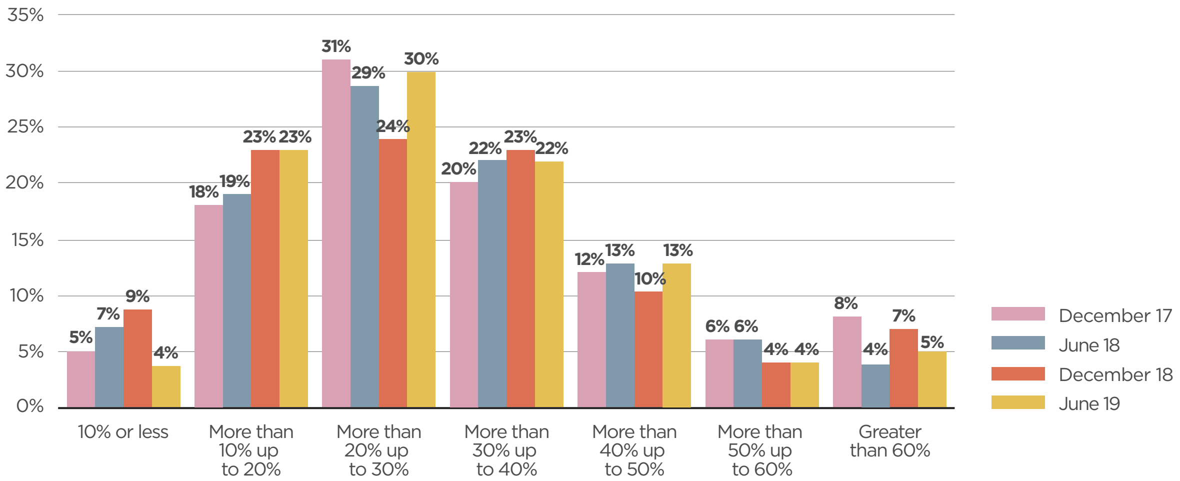

Figure 38 – Percentage of household disposable income paid towards a mortgage

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

Confidence in ‘the ability to raise money for an emergency’ deteriorated slightly in the period. Figure 39 shows that in June 2019, 35% reported they could easily raise $3,000 in a week for an emergency, compared to 38% 12 months ago. Also, 20% of households – just above the long-term average – reported that they do not think they could raise the money.

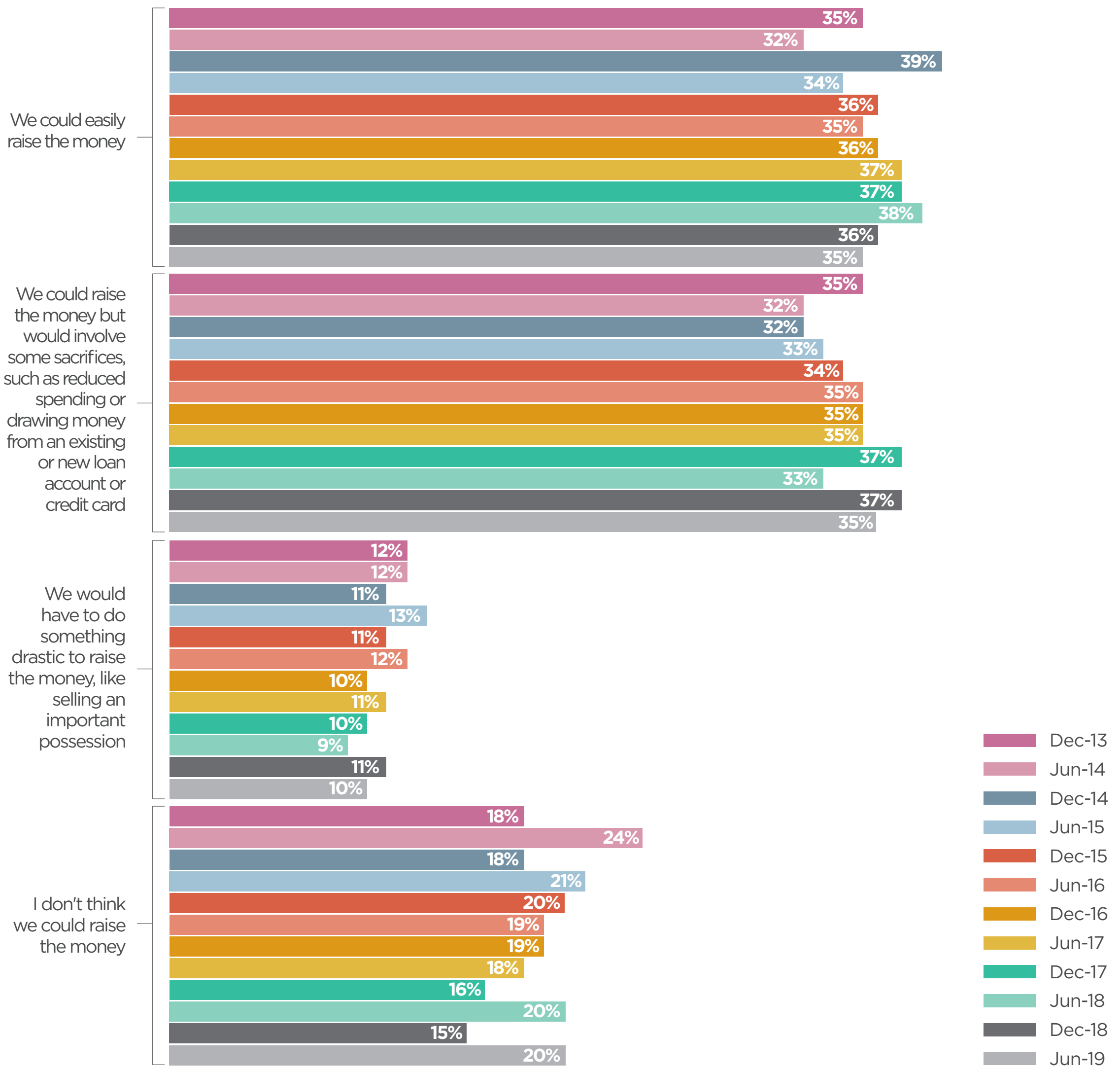

Figure 39 – Ability to raise $3,000 in a week for an emergency

5.3 **House price expectations remain positive.**

In somewhat stark contrast to the actual fall in dwelling prices during the past 12 months, the majority of households living in their homes and investors were even more positive than six months ago about the 12–month outlook for dwelling prices.

Indeed, 41% of households living in their homes expected their dwelling prices to rise during 2019/20, while 11% expected the value of their home to fall (including only 3% who expected dwelling prices to fall by a lot). Expectations of owner occupiers also varied significantly across major capital cities – with occupiers in Brisbane and, to a lesser extent, Sydney and Melbourne a lot more optimistic than Perth residents.

Among Perth residents, only a quarter expected higher prices and almost 20% expected further falls during 2019/20. In Brisbane, only 7% expected lower home prices and over 40% expected home values to begin to rise.

Investors were relatively more optimistic about prices, albeit less so than six months ago: 46% of investors expected the value of their investment properties to rise during the next 12 months (down seven points), while only 9% anticipated a fall (including 2% who anticipated a big fall). Investors in Sydney were the most optimistic about property values (with expectations for rises of 54% v expectations of falls of only 6%), followed by Melbourne (44% v 19%) and Brisbane (50% v 11%).

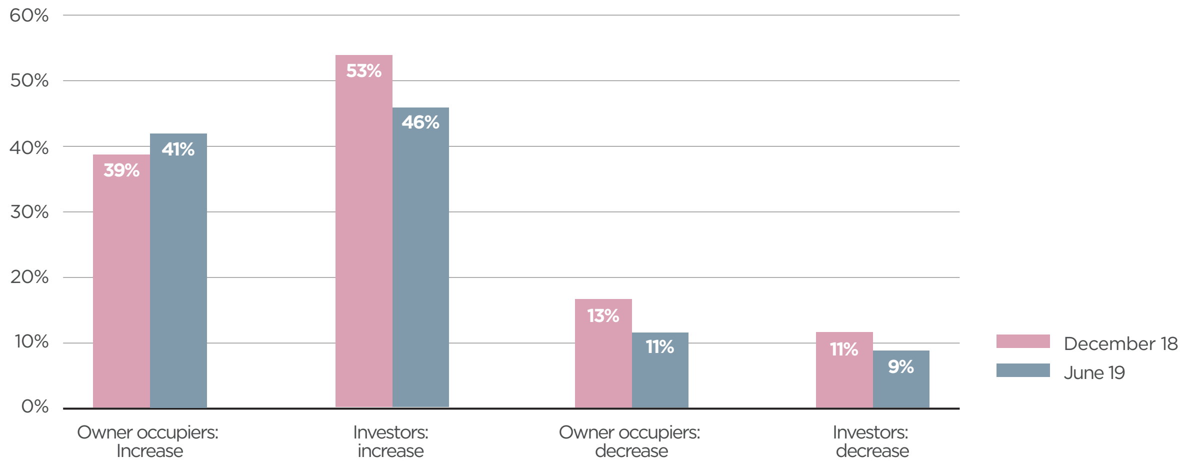

Figure 40 – What do you think is likely to happen to the value of your property in the next 12 months?

5.4 **Retirement.**

Comfort with anticipated standard of living in retirement also eases.

Comfort with households' 'anticipated standard of living in retirement' fell by 1% to 5.20 during the six months to June 2019. This is marginally above the historical average of 5.07 out of 10 since the survey began. See Figure 41.

The rise was broadly based across younger generations (Gen Z and Gen Y), while older generations (Gen X and Baby Boomers) saw their comfort with anticipated retirement fall. By households, single parents anticipated the lowest standard of living in retirement with an index of 3.88. By gender, women anticipated a much lower standard than men, with respective scores of 4.79 and 5.64 in the latest survey.

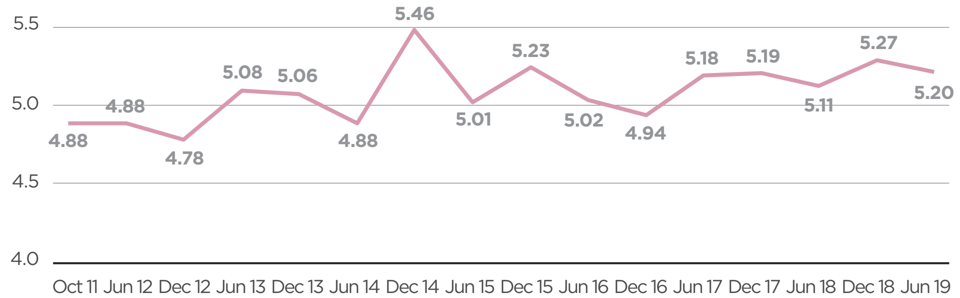

Figure 41 – Comfort with standard of living in retirement. Scores out of 10

Minority of households continue to expect to fund retirement themselves.

Currently, about one out of five households (22%) expect to 'fund retirement with their own superannuation' (up one point in the past six months). This is slightly more than an average of 19% since the survey began. The number of households expecting to 'rely on the government pension' during retirement remained steady at 23%. A further 39% expected to partly fund retirement with a government pension. Finally, a significant proportion of households simply did not know (17%).

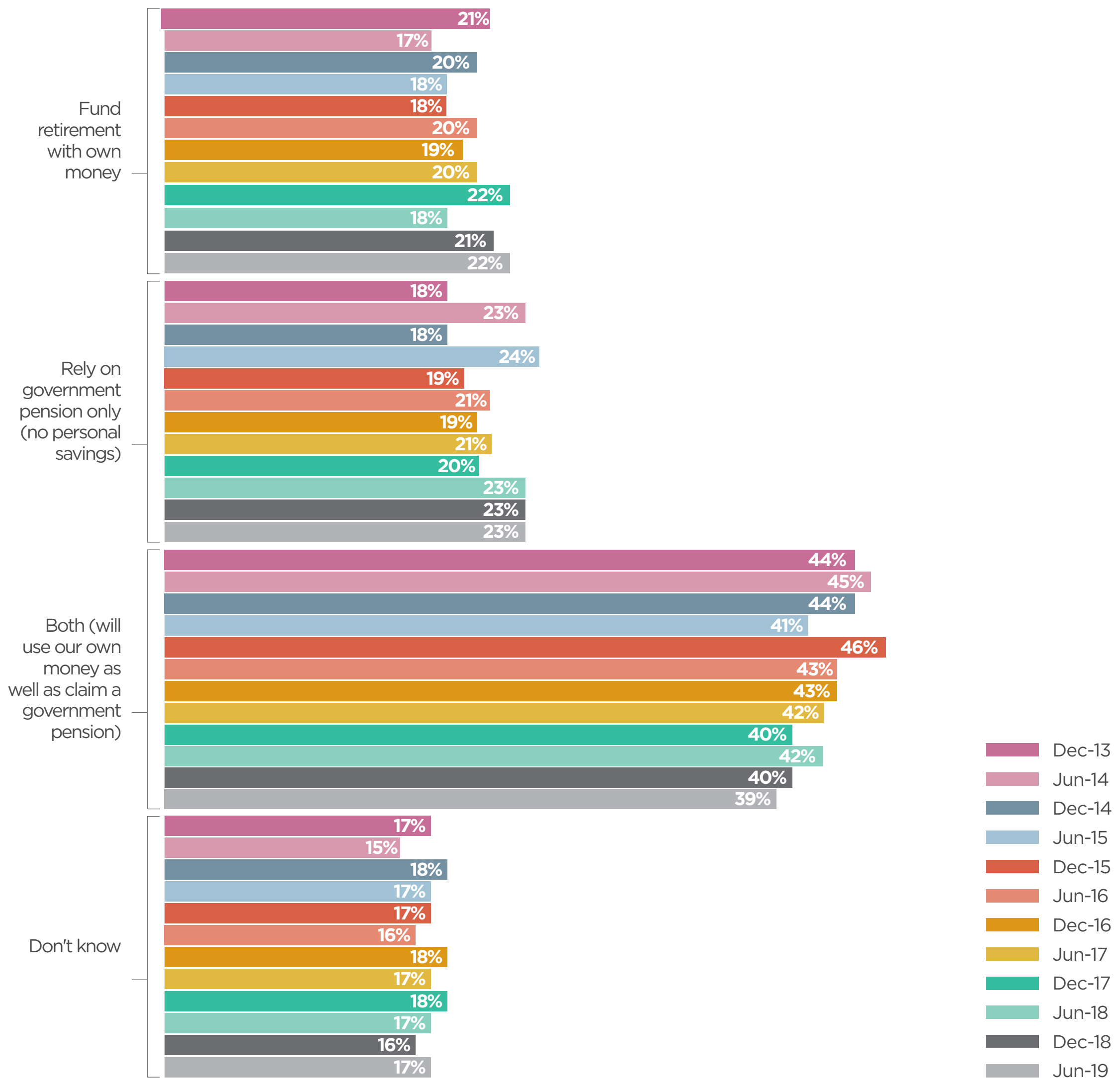

Figure 42 – How will your household fund retirement?

Expected adequacy of income in retirement.

In June 2019, 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.

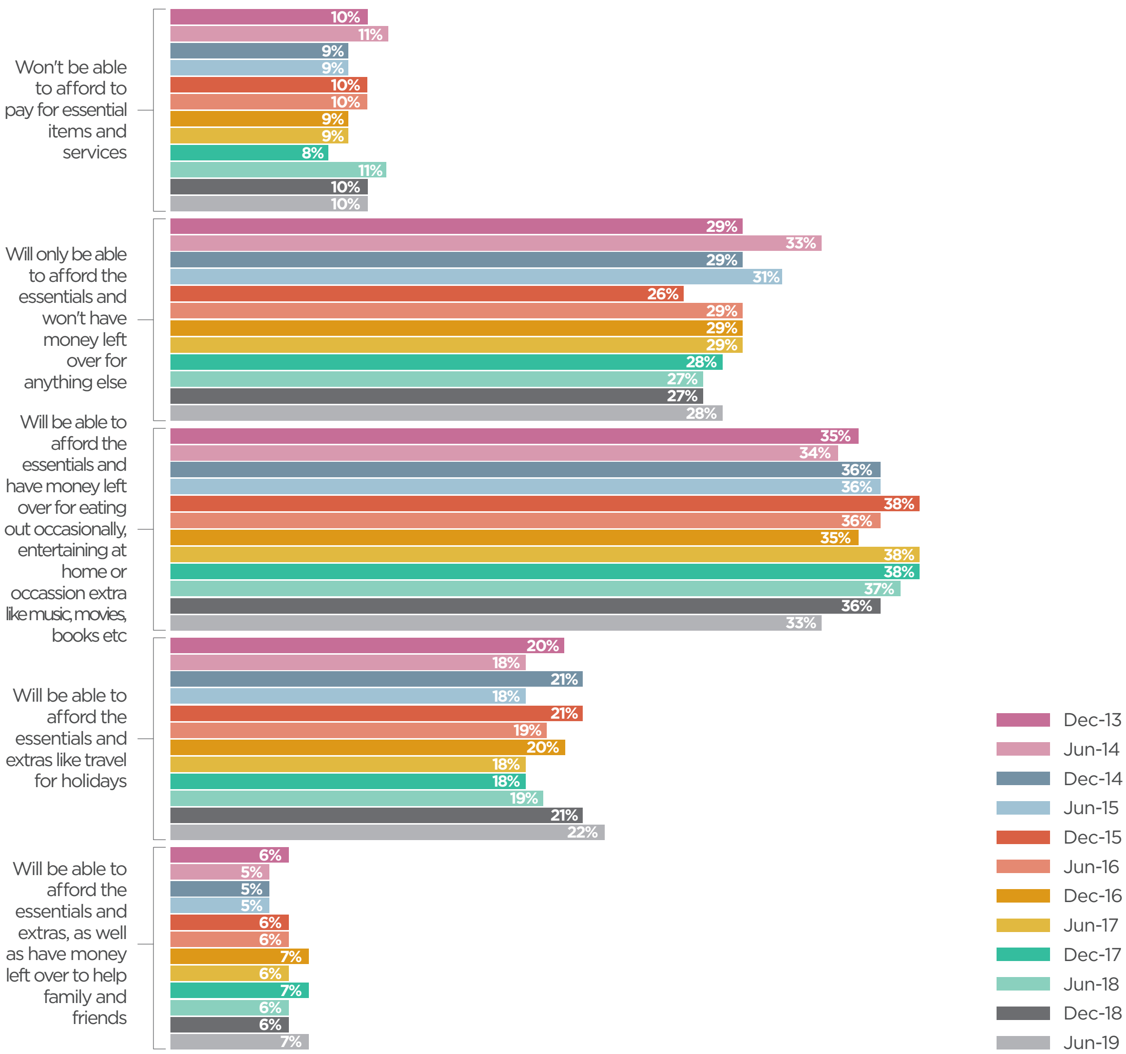

Figure 43 – Expectations for adequacy of income in retirement

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	6.17	$395,000	$100,000
Single parents	4.36	$380,000	$59,000
Couples with young children	5.56	$502,000	$106,000
Couples with older children	5.55	$762,000	$98,000
Middle-aged singles/couples with no children	5.48	$420,000	$89,000
Empty nesters (50+yo)	5.28	$609,000	$63,000
Retirees	5.97	$774,000	$54,000

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 2019. For analysis, the population sample was weighted according to ABS statistics on household composition, age, state and employment status to ensure that the results reflected Australian households.

An extensive review of other financial health/comfort indices and academic literature suggested that a number of factors contribute to self-assessment of financial wellbeing and comfort. As such the ME *Household Financial Comfort Index* incorporates 11 measures of how households feel about their financial situation – these are:

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

To provide contextual insight for the *Household Financial Comfort Index*, respondents were asked to rate how comfortable they would be with their current overall household situation if they were feeling 'occasional stress or worry', and also if they were experiencing 'financial problems which require significant lifestyle change'.

To collect data on how households felt about their financial situation via household financial comfort, confidence with finances and anticipated change in finances, we used 0–10 scales anchored by descriptive terms 'not at all comfortable' to 'extremely comfortable' (comfort), 'not at all confident' to 'extremely confident' (confidence) and 'worsen a lot' to 'improve a lot', with a midpoint of 'stayed the same' (anticipated change).

Questions to collect household actual financial data included those that asked for dollar amounts or dollar ranges as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

Notes.

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