Research insights into the financial psychology of
Australian households. Survey 19 published February 2021.

Household financial comfort report.

Australian household comfort is at a record high. However as government support is tapered off and our economic recovery continues, the future looks fragile for some.

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 19th survey, published in February 2021.

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
- 17th edition: February 2020
- 18th edition: July 2020
- 19th edition: February 2021

This report includes but is not limited to, the *Household Financial Comfort Index*, an overall measure of households' perceptions of their financial comfort, generated by asking respondents to estimate their financial comfort, expectations and confidence across 11 measures.

Over time, the report tracks changes in comfort and in doing so, highlights the ongoing – and potentially shifting – differences between household types, in terms of financial comfort and behaviours in managing finances.

About.

ME is 100% owned by Australia's leading industry super funds.

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Content.

“We’re okay as we’re all still working and not spending as much due to COVID...but that will change next year because of low interest rates on savings.”

Empty nesters
New South Wales

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01. Executive Summary.

The financial comfort of Australian households has reached a record high, despite the negative impact of the COVID-19 pandemic, according to ME Bank's latest *Household Financial Comfort Report*. However, the current and future comfort of many households is in question with underlying data raising red flags.

These are the key findings of ME's *Household Financial Comfort Report*, a bi-annual survey which quantifies how comfortable Australian households feel about their financial situation.

ME's 19th survey shows Australian household financial comfort increased a further 2% to an index of 5.89 out of 10 over the past six months to December 2020 – 5% higher than before COVID-19 and the highest level since ME first commissioned the survey nine years ago – 7% above the historical average.

Almost all 11 measures underlying the *Household Financial Comfort Index* continued to improve and reach new records in December, notably comfort with 'cash savings'(up 5% to 5.76); 'the ability to cope with a financial emergency' (up 7% to 5.61) and 'investments' (up 5% to 5.49). This is despite over a quarter of households saying that they feel 'worse off about their financial situation over the past 12 months' and slightly fewer reportedly 'worse off' from the impact of the pandemic.

The peak in financial comfort is due to a combination of prudent and resilient household financial behaviours, substantial and extended government income payments, record low borrowing costs and a rebound in share and house prices.

The pandemic has triggered many households to proactively reorganise their finances, helping to bolster their financial resilience through the pandemic and the uneven economic recovery underway.

Households have increased cash savings, cut overspending, paid down debts, and withdrawn retirement savings to improve their ability to handle the emergency. This precautionary behaviour supported by the sizeable temporary government income support and very accommodative banking and financial conditions has no doubt helped drive financial comfort to a new record high in December.

However, paradoxically if Australians stay precautionary in their spending and maintain their big saving buffers, an inclusive and durable recovery may be jeopardised, which will unfortunately hurt many of those same households with low levels of comfort the most.

Record high, but some households not financially 'feeling it'.

While the majority of households reported increased financial comfort, a subset recorded declines, most notably, the unemployed (down 9% to 4.72), students (down 7% to 4.26) and casual employees (down 3% to 5.44) – most likely a result of government support being withdrawn and a weak labour market.

More than a quarter (27%) of part-time and casual workers said that they're seeking additional hours (around 18 extra per week), indicating very high levels of underemployment.

Furthermore, students – who typically work part-time or casually in sectors with greater discretionary spending such as retail, entertainment and cafes – were not only hit heavily by the pandemic restrictions but face fewer entry-level graduate opportunities in early 2021.

Single parents mainly with pre and primary school-aged children reported a substantial fall in financial comfort during the past six months to December (down 14% to 4.65), after the government removed temporary free childcare and tapered other income support.

> “The peak in financial comfort is due to a combination of prudent and resilient household financial behaviours, substantial and extended government income payments, record low borrowing costs and a rebound in share and house prices.”

Peak comfort is likely to pass and subside.

Australia’s all-time high in financial comfort is likely to be short-lived. Comfort will fall as the health crisis ends and an uneven economic recovery continues.

Despite households reporting a record high in financial comfort at the end of 2020, underlying economic and financial drivers indicate that this peak may be temporary and potentially quashed in 2021.

A decline in household financial comfort is likely to play out over the next six months as government support – especially JobKeeper and JobSeeker – is phased out.

Australia’s labour market also remains weak, with many workers reporting very high underemployment together with increased expected difficulty in finding a job and subdued wage gains, if any.

According to the Report, over half of households (53%) ‘expect it will be difficult to find a job in two months’ – 4 points higher than pre-pandemic levels. Furthermore, of those households stating their financial situation has worsened, ‘job changes’ and ‘wages’ were cited by 29% and 23%, respectively.

Unless the economy gains further momentum from a rundown of these large saving buffers and a faster pace of household spending, prematurely ending government support could have negative consequences on the financial comfort of many households. Wide gaps in financial comfort across households could re-emerge.

Low-income and low-saving households likely to be hardest hit.

After the government began to taper support during the past six months, low-income households (less than $40,000 per annum) and households with low savings (less than $1,000) reported big falls in financial comfort (down 7% and 14% to 4.79 and 3.61, respectively). Many of these households (including many single parents) have found it necessary to access their cash savings and make another withdrawal from their superannuation during the second half of the year.

Furthermore, ME’s report shows many households with little or no savings remain vulnerable to an emergency. Around 20% of households have less than $1,000 in savings (less than the current JobSeeker fortnightly payment). Of these households, only 3% reported they could maintain their current lifestyle for more than six months if they lost their incomes, and only 4% for more than three months or when JobKeeper is expected to cease at end March.

This is a telling sign of what may come as the government tapers off and ends income and job support measures during the first few months of this year.

> "Australia's all-time high in financial comfort is likely to be short-lived. Comfort will fall as the health crisis ends and an uneven economic recovery continues."

Global economy, the pandemic and living costs remain the biggest household worries.

While the impact of the pandemic remains as one of the 'biggest worries' of households in the latest survey (in total, 28% of households), the 'cost of necessities' (37%) and 'the global economy' (36%) continued to be cited most commonly by households at end December.

Higher residential property price expectations

Most households – either living in their homes and/or residential property investors – are feeling significantly more optimistic than six months ago about the 12-month outlook for dwelling prices.

Indeed, 46% of owner occupiers expect dwelling prices to rise during the next 12 months, compared to 22% in June 2020. Only 5% expect the value of their home to fall during 2021, compared to 25% in June 2020.

Investors are also a lot more optimistic: 38% now expect the value of their investment properties to rise during the next 12 months, compared with 26% six months ago, while 12% now anticipate a fall – more than half the corresponding figure of six months ago.

Key winners and losers in ME's 19th *Household Financial Comfort Report*:

Winners

- Retirees continued to report the highest comfort levels across life stage (up 1% to a record of 6.56), followed by 'young singles/couples with no children' (up 4% to a record 6.26).
- Western Australians (up 9% to a record of 6.04) and Victorians (up 7%to a record of 6.05).
- Households with typically 'mid' or 'high' comfort levels.
- Homeowners without mortgages (comfort up 3% to 6.77).

Losers

- Single parents mainly with pre and primary school-aged children (down 14% to 4.65).
- Casual workers (down 3% to 5.44) and unemployed persons (down 9% to 4.72).
- South Australians (down 11% to 5.24).
- Households with 'low' comfort (down 4% to only 3.36) – typically low incomes/little (if any) savings.
- Students (down 7% to a new record low of 4.26).

“I lost my job back in March due to COVID-19. I continue to apply for jobs, but it’s so much harder at the age of 65.”

Unemployed
Queensland

02. Macroeconomic and financial context.

During the second half of 2020, domestic economic activity rebounded from an unexpected, sharp and deep recession triggered by the COVID-19 pandemic – albeit activity remains well short of potential output and full employment at the start of 2021. To date, this macroeconomic outcome has been largely due to the successful health response, the sizeable fiscal and financial support combined with the behavioural response of most Australian households to adjust and increase their spending and increase savings and boost their financial resilience. However, many households remain heavily dependent on government assistance as support measures are being unwound and underemployment remains much higher than prior to the pandemic.

> "The significant rise in unemployment and even bigger rise in underemployment is likely to have lasting long-term effects on some household incomes, job insecurity and precautionary savings."

Public health systems, government administrations and the community have worked together to largely contain and eliminate the virus in Australia. By the end of 2020, most of the health restrictions on domestic activity had been eased, except for international borders. Most Australians were allowed to socialise and returned to work – albeit in capital cities still mainly working from home. Looking forward, a durable domestic economic recovery still depends on the containment of the virus and the successful rollout of vaccines at home and around the world during 2021.

Apart from the systemic health measures in response to the pandemic, governments, central banks and other institutions have acted quickly and assertively to mitigate the economic and financial costs. During the second half of 2020, the Reserve Bank of Australia (RBA) took further steps to increase the unprecedented financial stimulus – by cutting official rates to near zero and expanding quantitative easing by extending the duration of its bond purchases and its low-cost funding for banks. The RBA is signalling that interest rates are likely to be at historical lows for the next few years to support the economy, as it recovers from the pandemic. On the other hand of policy, the Commonwealth Government extended the supplements put in place to temporarily increase welfare payments and transfer cash directly to households – including the unemployed, viz, JobSeeker and, a wage subsidy for firms to retain workers (mainly full-time and part-time) to assist small businesses – viz, JobKeeper, but announced their expected withdrawal during the first part of 2021.

The Government also began to reduce some COVID-19-related support payments – notably the childhood education and care support during the September quarter. The opportunity of the early superannuation withdrawal of two lots of up to $10,000 each by mid and end year on the grounds of financial hardship concluded at the end of December. While personal tax cuts were brought forward to 1 July, in October the government also announced further public spending on infrastructure and a new JobMaker program – a new 12-month wage subsidy for hiring younger job seekers during the next year.

Nonetheless, there remains great uncertainties surrounding the future path of the virus and any sustained resurgence in COVID-19 cases could lead to reintroduction of shutdowns – as has been the case at various times in some locations during the past six months. On the other hand, progress on treatments or the successful rollout of vaccines would have important positive effects on health and the economic recovery. The economic propagation of the COVID-19 shock is similarly highly uncertain. The significant rise in unemployment and even bigger rise in underemployment is likely to have lasting long-term effects on some household incomes, job insecurity and precautionary savings. There are likely to be business bankruptcies and job losses – especially once wage subsidies are unwound in the first half of 2021. In contrast, financial markets – especially listed equity markets have more than recovered the big falls in price during the March quarter – and prices in residential property markets have picked up over the past few months – arguably supported by expectations of little (if any) major long-term impacts from a temporary pandemic on big business earnings or households together with sustained ultra-low interest rates.

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

Labour market conditions improved, but unemployment and underemployment rates remain elevated above pre-pandemic levels and wages growth was extremely weak – the slowest pace in 20 years.

Full-time employment is still below pre-pandemic levels, with 125,000 fewer full-time workers in December 2000, compared with February. Part-time employment has returned to its pre-pandemic level. Over 900,000 people were unemployed in December, around 220,000 more than in February. Furthermore, total hours worked in December remained a bit below their pre-pandemic level. Some industries are notable exceptions e.g. accommodation, cafes, travel and household services are yet to recover. The unemployment rate was 6.6% in December – down from its recent peak of 7.5% in July, but significantly higher than 5.1% in both February and a year ago. The expanded underemployment rate (including employed people working less than their usual hours for economic reasons) was over 14% in December 2020 – down from a peak of 22.6% in April – similar to both February and a year ago.

Wages growth was weak: many employers in both the private and public sectors delayed wage reviews and implemented wage freezes, while smaller annual award wage increases were announced, but delayed by the Fair Work Commission. In contrast, household disposable incomes was boosted by the temporary but moderating income and social support and to a much lesser extent, tax cuts announced in October.

Household consumption also rebounded – driven by job gains, the government income support measures and net wealth and, more generally, a rise in confidence related to the lessening health and economic concerns about the pandemic. Consumer confidence measures returned to around long-run averages – with slightly more optimists than pessimists. Household consumption increased further in the December quarter – as sales of some categories also benefitted from the easing of social restrictions and others (such as, international travel) remain constrained. After jumping sharply early in the pandemic to over 22% during the June quarter, the household saving rate (as measured by net saving relative to disposable income) eased slightly to a very high 19% in the September quarter. Households have built a sizeable savings buffer faced by the adverse impacts of the pandemic and ongoing uncertainty.

Consumer inflation was mixed and heavily influenced by the pandemic during the second half of 2020. Underlying inflation remained subdued. The unwinding of government support – especially free childcare – boosted preschool and primary education prices. Utilities prices fell due to rebates in some states. Medical prices rose as annual insurance premium rises were delayed until October. On the other hand, prices of some retail items (e.g., furniture and household appliances, clothing and foot) fell as global supply issues eased and a resumption of discounting by some retailers. In contrast, car prices rose significantly, and grocery prices increased a little. Both rents and fuel prices were broadly steady, following a significant fall in the first half of 2020.

"A marked rise in underemployment, a withdrawal of government income support and little if any household savings will present increased financial challenges to some households..."

Conditions in most housing markets have strengthened after recording some small declines following the onset of the pandemic. Nationally, on average, the Core Logic index of dwelling prices was up over 2% during the December quarter to be 3% higher than a year ago. Home prices increased in all major cities – albeit Perth prices remain well below their previous peak. Dwelling price increases in regional Australia outpaced the major capital cities – to be up about 7% during 2020. House prices rose more than unit prices, especially in CBDs.

Annual growth in household debt remained subdued – albeit credit picked up a bit during the last few months of 2020. Growth in loans to owner-occupiers was up at a moderate annual pace of over 5% during 2020. Historically low borrowing costs, some government support for first home buyers and a new home builder program has supported loans to owner-occupiers. Loans to investors rose slightly during the second half of the year to offset a small fall in the previous half year. Other personal loans (such as credit cards and equity-backed loans) have contracted significantly further – down by over 12% during the year. Housing loan rates have fallen a bit further during the second half of 2020. With new fixed rate loans significantly lower than variable rates, there has been a marked increase in refinancing at lower rates. APRA reported that the share of mortgage holders that deferred home loan repayments fell to only 2% at the end of December, from a peak of 8% in June and most borrowers resumed full payments. Payments into housing loan offset and redraw accounts have remained high – consistent with households saving for precautionary reasons. Annual growth in 'broad money' (mainly deposits with banks) accelerated a bit further to over 12% during 2020, compared with 10% in June and only about 4% in both February and December 2019 – prior to the pandemic.

Household assets, on average, are estimated to have risen slightly during the past six months. A small rise in both housing and equity prices as well as new dwelling construction, higher bank deposits and continued contributions to superannuation more than offset a fall in bond values and early withdrawals from superannuation on financial hardship grounds.

As a result, the aggregate financial position of households – as measured by **household net wealth (assets less debt) – has improved** during the past six months, after a small fall during the first half of 2020. **Debt servicing burdens, on average**, (relative to incomes) have decreased further, mainly as loan rates have fallen significantly to historical lows and income has been temporarily boosted by government support.

Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are **low generally**, but slowly rising and disparate. Households, on average, are coping well with debt servicing burdens due the temporary but increased government income support as well as relatively low borrowing costs and some limited deferment of loan payments and other bills, despite a significant rise in unemployment during 2020. Indebted households also tend to have high incomes and large repayment buffers – albeit there are also a significant number of borrowers making minimal prepayments.

As this report highlights below, a marked rise in underemployment, a withdrawal of government income support and little if any household savings will present increased financial challenges to some households, as the uneven economic recovery continues provided the virus is contained and vaccines are successfully rolled out. Furthermore, some households have debt levels that made sense in 'good' times – economic expansion, low unemployment, job and income gains, rising asset values and low borrowing costs – not allowing for the fact that 'bad' times (unexpectedly) arise. There are also households with low incomes – heavily dependent on government assistance – significantly stressed by rental/mortgage payments and regular expenses, with a lack of savings for an unexpected financial emergency in the future.

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

03. Overall increase in financial comfort.

3.1 Household Financial Comfort Index improves substantially.

The *Household Financial Comfort Index* improved further – by 2% to 5.89 out of 10 during the six months to December 2020 – to be 5% higher than December 2019 or prior to the COVID-19 pandemic. As a result, the overall comfort index reached its highest level since the survey began in October 2011 about nine years ago – to be 7% higher than the historical average (5.50) (see Figure 1).

Indeed, the key finding of this Report is that government and to a lesser extent other sources of economic and financial support together with significant financial actions by households have temporarily offset the negative impacts of the COVID-19 pandemic and boosted the financial resilience of most households – albeit this varies across and within different life stages, the workforce and regions. Moreover, notwithstanding the easing of domestic COVID-19 restrictions and the continued rebound in economic activity over the past six months, the comfort of some households – especially those with low comfort – has begun to fall as financial support was withdrawn from some households.

When broken down by financial comfort levels, households with 'low 0-4 comfort levels' reported a substantial decrease in comfort (down 4% to 3.36) in the past six months to December 2020 – albeit still 2% higher than its historical average prior to the pandemic (see Figure 2).

In contrast, on average, households with 'mid 5-7 comfort levels' reported comfort at a record level, following another small increase of 1% to an index of 6.47 in December 2020, while the comfort of households with 'high 8-10 comfort levels' rose a bit – by 1% to an index of 8.61 (see Figures 3 and 4, respectively).

Put another way, small gains in households with high and medium levels of comfort were partly offset by a significant easing in the comfort of households with low comfort levels over the six months to December.

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

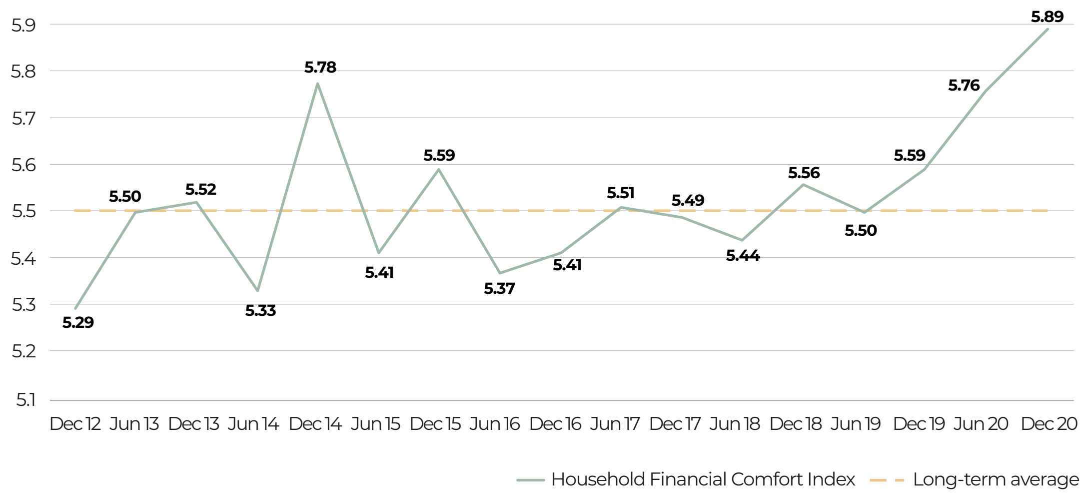


Figure 2 – *Household Financial Comfort Index* by low (0-4) comfort levels. Scores out of 10.

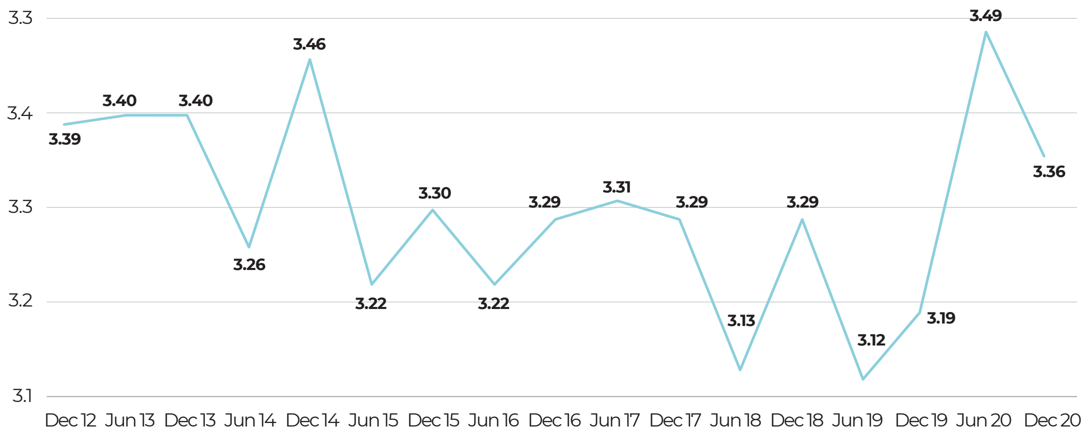


Figure 3 – *Household Financial Comfort Index* by medium (5-7) comfort levels. Scores out of 10.

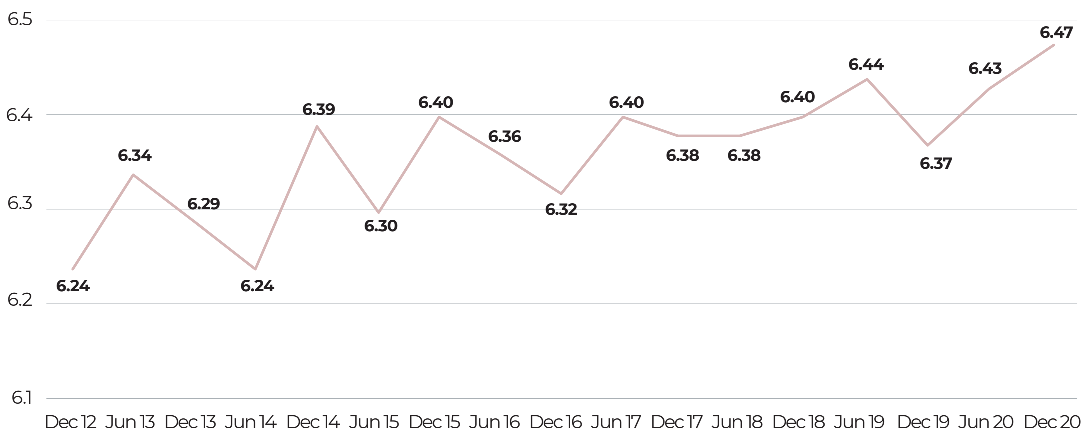
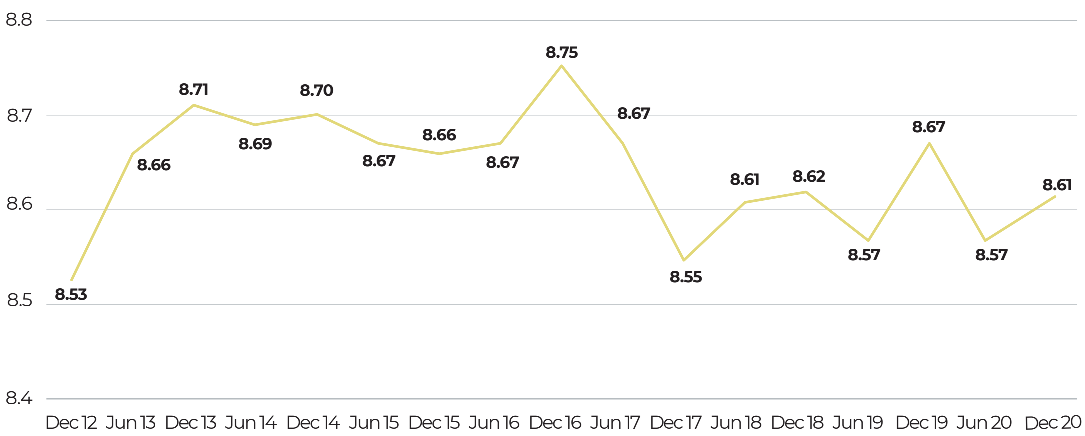


Figure 4 – *Household Financial Comfort Index* by high (9-10) comfort levels. Scores out of 10.



3.2 Key drivers of the rise to a record level of overall financial comfort.

Figures 5, 6 and 7 show the 11 components that make up the *Household Financial Comfort Index* since the survey began about nine years ago.

Most components increased to record levels during the past six months to December 2020. There were further substantial improvements in comfort with household cashflows, balance sheets and risk management – especially in cash savings and their ability to cope with a financial emergency.

On the other hand, there was little change in comfort with their 'current 'and 'expected' financial situation for the next year or their 'anticipated standard of living in retirement'. Households reported a substantial increase in 'comfort with cash savings' − up 5% to 5.76 in December and 14% during 2020 and, to a lesser extent, 'comfort with incomes' (up 1% to 6.06 in December and 6% during 2020) − both to record high outcomes in December.

Government welfare assistance and wage subsidies have significantly supported incomes and, in some cases, significantly temporarily increased incomes. This includes some employed (JobKeeper) and unemployed (JobSeeker) and supplements for a wide range of households receiving income support (such as aged pensioners, youth, sick, students, carers and parents). Personal income tax cuts announced in October and back dated to 1 July 2020 would have also supported households.

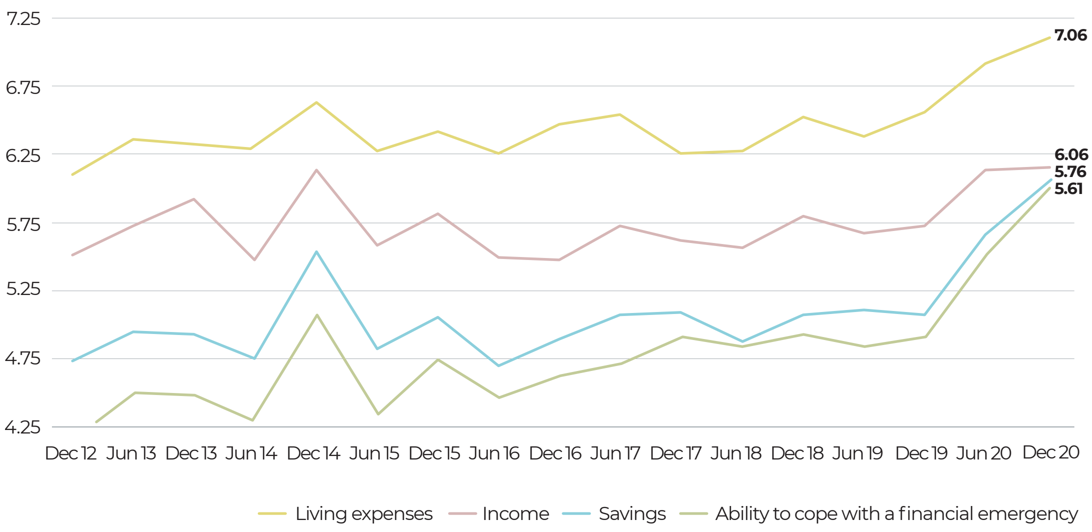
Nevertheless, there are a significant number of households with lower incomes than prior to the pandemic due to job losses and reduced hours of work. A significant number of households have also taken various financial actions. For instance, some have increased or dipped into cash savings, reduced overspending and drawn on long-term savings (in particular, superannuation) as well as delayed bill payments and, to a much lesser extent, deferred loan payments.

It's therefore not surprising to see, 'comfort with the ability to cope with a financial emergency' (that is, enough household savings on hand, if your household lost your income for three months) – jump a further 7% to a historical high of 5.61 in December. This is 16% higher compared to December 2019 or prior to the pandemic (see Figure 5).

Despite these further gains in comfort, one in five households (20%) have little confidence they could maintain their lifestyle if they lost their income for three months, while about a fifth of households have no savings and of those with cash savings, about 20% have less than $1,000 in savings in December (less than the current government fortnightly payments for either JobSeeker or JobKeeper).

Put another way, a significant proportion of households are vulnerable to a potential savings cliff and a reversal in the recent rise in financial comfort – triggered by any significant reduction in government support (such as, the reintroduction of childcare fees at the end of July 2020, the removal of the supplement for Job Seekers from 1 January 2021, and the reduction of JobKeeper from September 2020 and its expected removal at the end of March 2021) and a sustained loss of income from a still weak labour market (see Section 3.5 for more details).

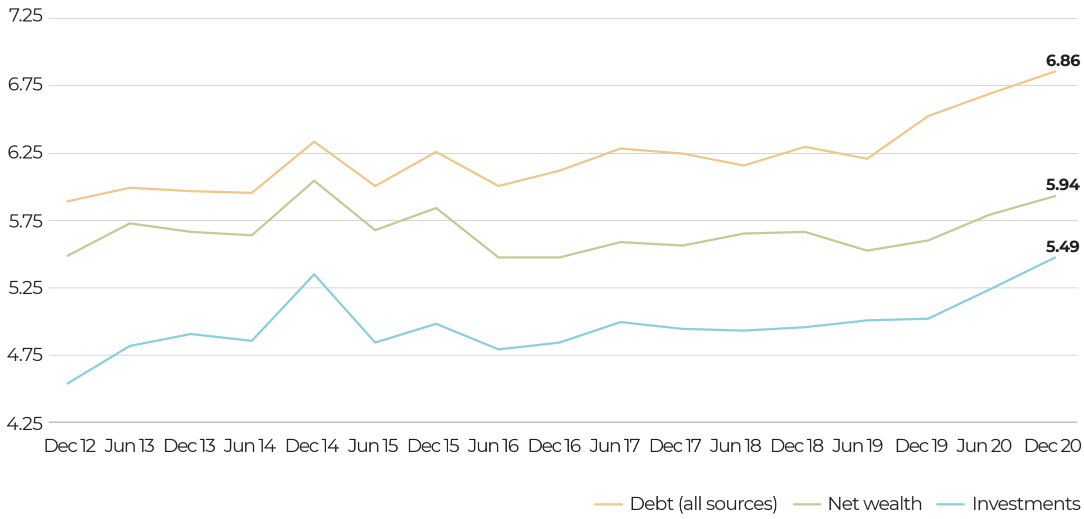
Figure 5 – Key components of the *Household Financial Comfort Index*, with levels of comfort over time (income, expenses, cash savings and the ability to cope with a financial emergency). Scores out of 10.



Households also reported stronger balance sheets. Comfort with 'investments' (up 5%), and to a lesser extent, 'debt' (up 2%) and '(net) wealth' (up 2%) all increased over the past six months to December (see Figure 6).

Highly accommodative financial conditions including ultra-low borrowing rates, the option to defer loan repayments, a continued rebound in equity prices and a pickup in residential property prices during the latter half of 2020 appear to have boosted comfort with balance sheets – notwithstanding, significant financial distress among some households.

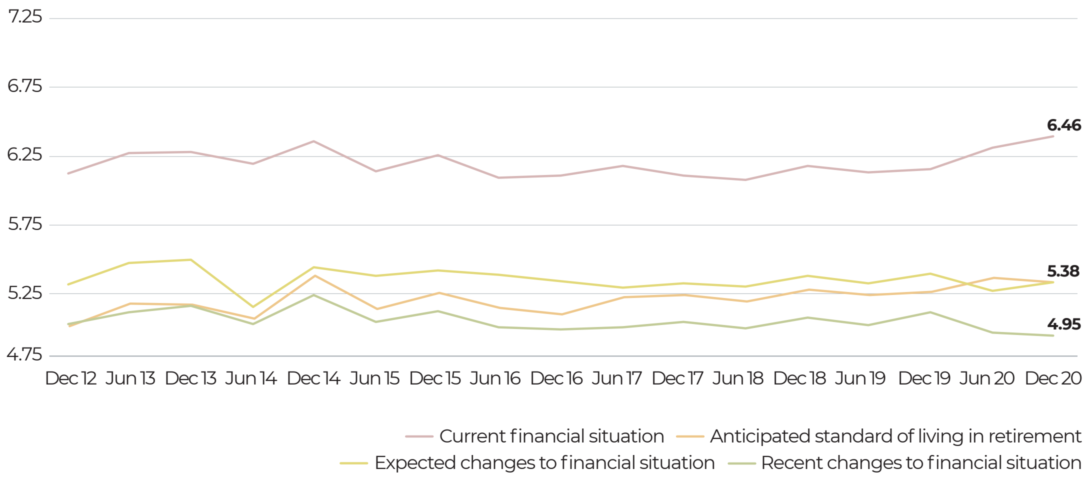
Figure 6 – Key components of the *Household Financial Comfort Index*, with levels of comfort over time (debt, income, net wealth, retirement and investments). Scores out of 10.



Interestingly, household comfort with their 'anticipated standard of living in retirement' eased by 1% during the past six months to be 2% higher during 2020 – arguably, consistent with household expectations of no major long-term impacts from a (temporary) pandemic on economic activity, financial markets and/or government assistance. While comfort with 'recent changes to' and 'expectations for the next year' in their financial situation were broadly unchanged in the past six months, but notably lower than a year ago and prior to the pandemic.

Comfort with 'recent changes to financial situation' eased marginally to 4.95 to be 6% lower than a year ago, while 'expected changes to financial situation' increased (up 2% to 5.38 to be still 2% lower than a year ago) – arguably reflecting the negative impact of the pandemic over the past 12 months as well as increased concerns about the pandemic for lifestyle, continued high underemployment (both jobs and hours worked),welfare assistance and incomes in the near term (see more details below in Section 3.5). Indeed, a significant proportion of households have little, if any, personal savings to mitigate the financial impact of the pandemic for more than a few months, particularly if government income and other support is reduced and structural long-term scarring remains in the labour market – effectively, a personal savings cliff (see Figure 18 in Section 3.5 for details).

Figure 7 – Key components of *Household Financial Comfort Index*, with levels of comfort over time (financial situation for the past, current and next year). Scores out of 10.



Comfort by life stages rose to near records, except for single parents.

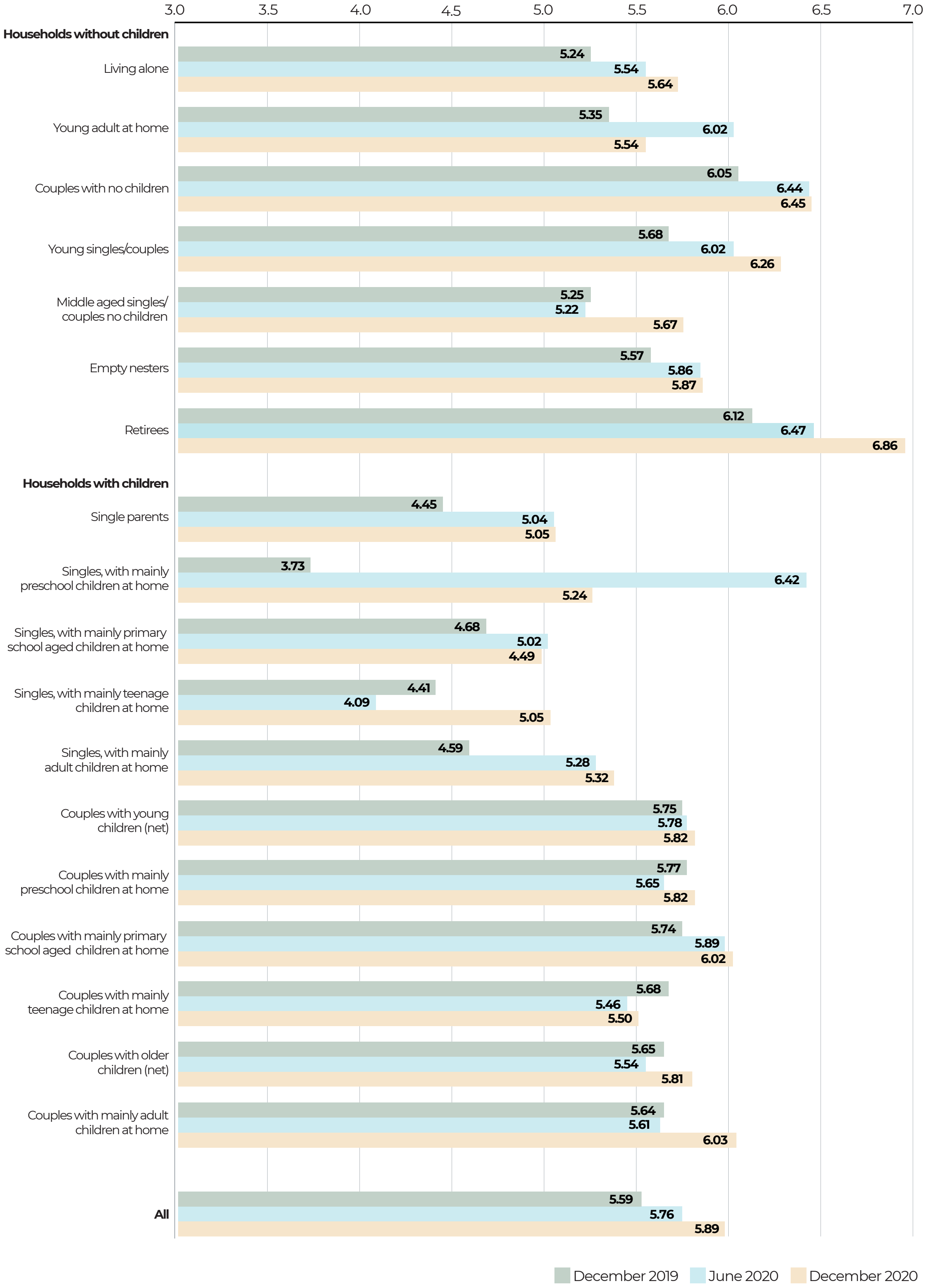
During the past six months, financial comfort improved across most life stages to near record levels, except single parents – including those dependent on government assistance and/or with young school children.

Continued government support further boosted the comfort of most households – with no or older children. On the other hand, following the reintroduction of childcare fees during the September quarter, comfort of single parents, especially with young preschool and primary children began to reverse the significant gains from temporary childcare support in the first half of the year.

Comfort of single parents deteriorated significantly – notably, those dependent on government assistance (down 4% to 3.51) and/or with children at preschool (down 18% to 5.24) and primary school children (down 11% to 4.49). In contrast, the largest gains in financial comfort across life stages were reported by 'middle aged singles/couples with no children' (up 9% to 5.67), 'couples with mainly older children at home' (up 7% to 6.03) and 'retirees' (up 1% to 6.56).

As a result, 'single parents dependent on government assistance' continued to report the lowest financial comfort (3.51) and, to a lesser extent, 'single parents with mainly primary school children (down 11% to 4.49), while the highest comfort across life stages continued to be reported by 'retirees' (up 1% to 6.56) and 'couples with no children' (unchanged at a record of 6.45). For more details, refer to Figure 8.

Figure 8 – Comfort index across life stages, including households with and without children in December 2020, compared with December 2019. Scores out of 10.



3.3 The negative impact of the pandemic on financial comfort.

In addition to the survey's regular questions asking households the reasons behind the deterioration or improvement in their financial situation over the past year, households were again asked about the current impact of the pandemic on their financial comfort (effectively, before any government assistance and/or financial actions).

As illustrated in Figure 9, the pandemic has had a major (net) negative impact across households as a whole – albeit there are notable differences reported across various life stages as well as by the level of household income and cash savings. Furthermore, households reported there has been little (net) negative improvement during the past six months.

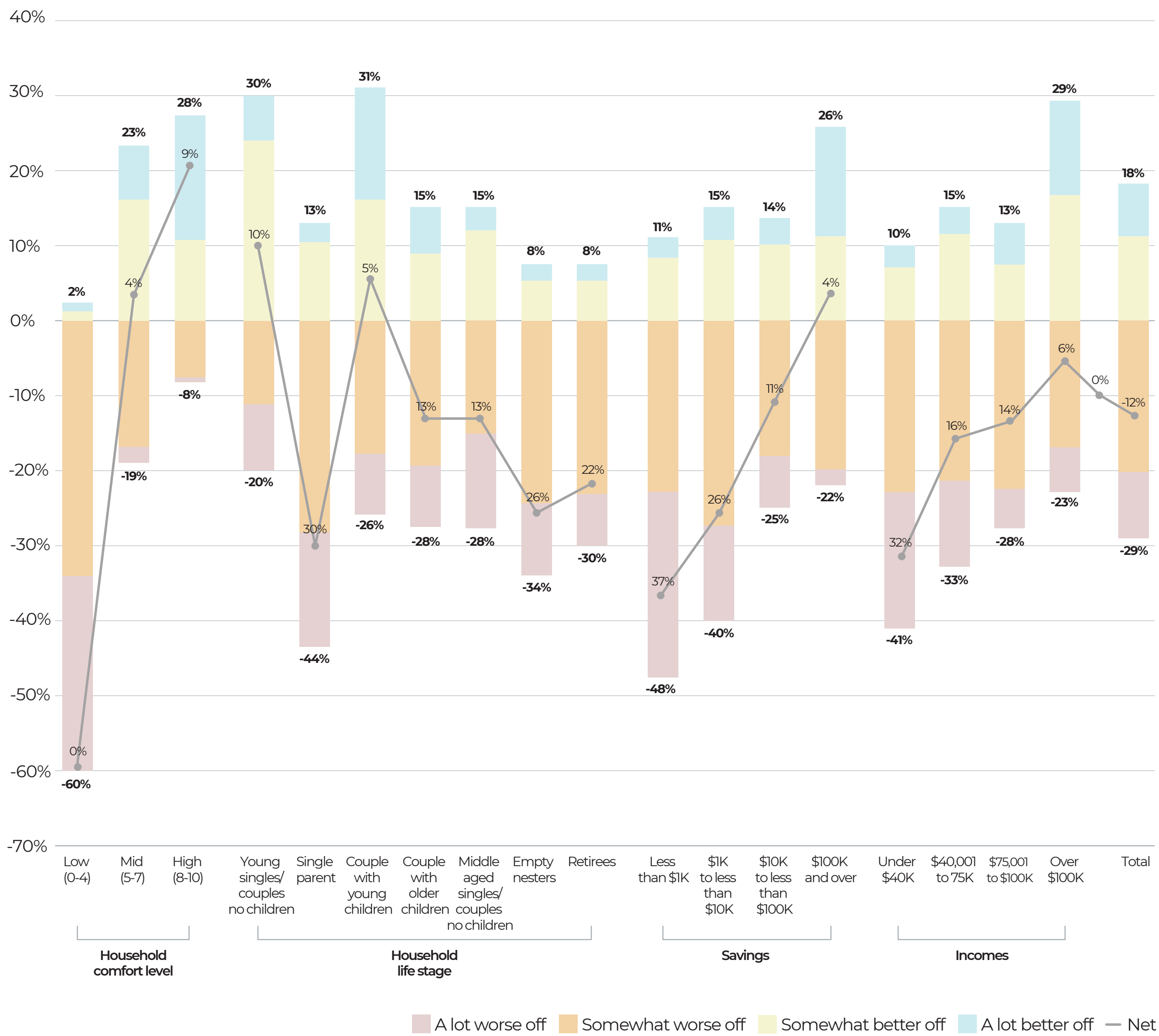
For all households, 30% cited they were 'worse off' (including 9% a 'lot worse off') from the pandemic in December, compared to 18% reportedly 'better off' (including 7% a 'lot better off'). In net terms, 12% of households reported to be 'worse off' in December – only a couple of percentage points lower (or better) than in the June survey.

Across life stages, all households, except for both young singles/couples and couples without children at home reported their financial comfort was 'worse off' from the pandemic, with single parents and empty nesters reportedly the 'worse off' – in net terms, -30% and -26%, respectively, in December.

Across amounts of savings, the comfort of households with very low savings (less than $1,000) and low level of savings ($1,001 to $10,000) were reportedly much more 'worse off' by the pandemic – in net terms, -37% and -26%, respectively, than those with relatively high amounts of savings (+4%). About a quarter of households with low savings (<$1,000) reported to be a 'lot worse off' from the pandemic.

Across incomes, households with high incomes (>$100,000 per annum) reported to be the least impacted by the pandemic, with slightly more citing to be 'better off' (29%) than 'worse off' (23%) or a net 6%. In marked contrast, a net -31% of low-income households (<$40,000 per annum.) reported to be negatively impacted by the pandemic – including 18% a 'lot worse off'.

Figure 9 – How the pandemic has affected household financial comfort (worse off or better off) – % of households.



3.4 Key reasons why households cited their recent financial situation worsened.

As noted previously, since the pandemic comfort with 'recent changes to financial situation over the past year' has deteriorated – down a bit further to 4.95 during the past six months to be 6% lower than a year ago. In contrast, most other drivers of overall comfort have approached record levels (see Figure 7).

About 30% of households indicated that their financial situation has worsened – down 3 points during the past six months, but up 1 point during 2020 (or since the pandemic). On the other hand, in December, 26% of households cited that their situation improved over the same period – down a further 2 points during the past six months and 10 points during 2020. In net terms (financial situation worsened less improved), the main reasons cited in December were changes in both 'job arrangements/security' and 'income/wages', 'cost of living', 'investments' and 'the pandemic'.

In December, 22% of households cited 'the pandemic/COVID-19' as worsening their financial situation over the past year – somewhat less than those households that reported a deterioration in current comfort as a result of the pandemic (29%), as noted in Section 3.3.

On the other hand, only 10% cited the pandemic as a driver improving their financial situation – substantially less than those households that reported an improvement in current comfort as a result of the pandemic (18%), as noted in Section 3.3. The other main reasons households cited a worsening financial situation over the past year was 'employment arrangements/job security' – up 10 points during 2020 to 29% of households in December, followed by 'change in incomes' – up 14 points during 2020 to almost a quarter (23%). There have also been significant falls among households that cited an improvement in 'employment/job security' as a reason for their financial situation improving – down a further 2 points in the past six months to 19% of households as well as 'change in income and wages' down a further 6 points to 12% in December (see Figure 10).

The greatest worries remain the global economy, the pandemic and living costs.

All households were again asked to nominate which aspects of their finances caused the 'biggest worries' and 'biggest positives' in the past six months. Consistent with the above, the impact of the pandemic remains as one of the 'biggest worries' of households in the latest survey (in total, 28% of households) – almost the same as households that reported the pandemic had 'worsened' their household comfort over the past year, as noted above. In contrast, only 10% of households cited the pandemic as one of their 'biggest positives'.

Nevertheless, the 'biggest worries' cited most commonly by households in December were the 'cost of necessities' (37% of households), 'the global economy' (36%) and, to a lesser extent, their 'standard of living in retirement' (29%) followed by the COVID pandemic (28%). In contrast, the 'biggest positives' among households remained being 'able to make ends meet' (30% of households), followed by 'cash savings' (22%) and 'personal debt' (18%).

Figure 10 – Top reasons why households' financial situations improved or worsened in the past year.

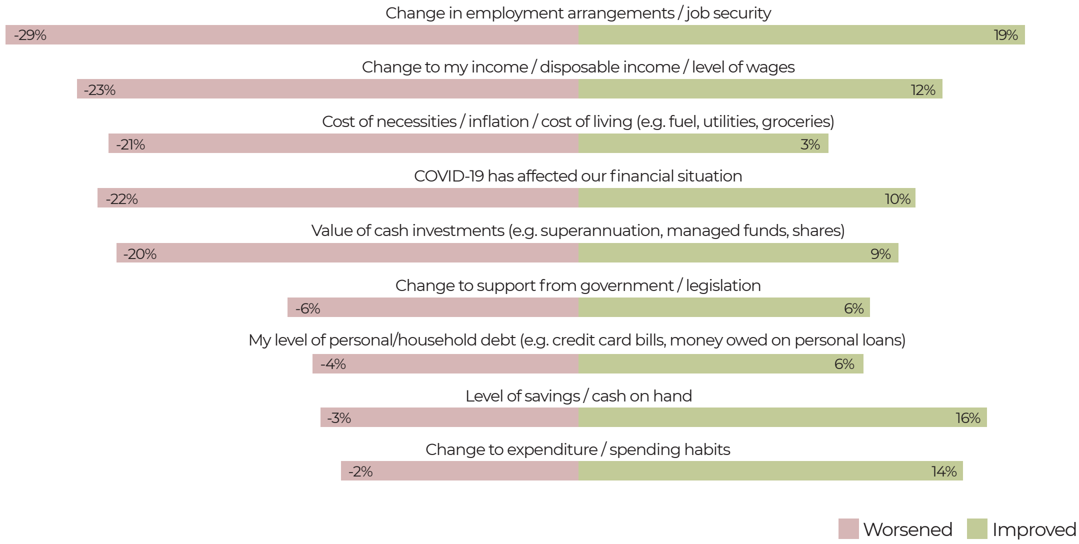
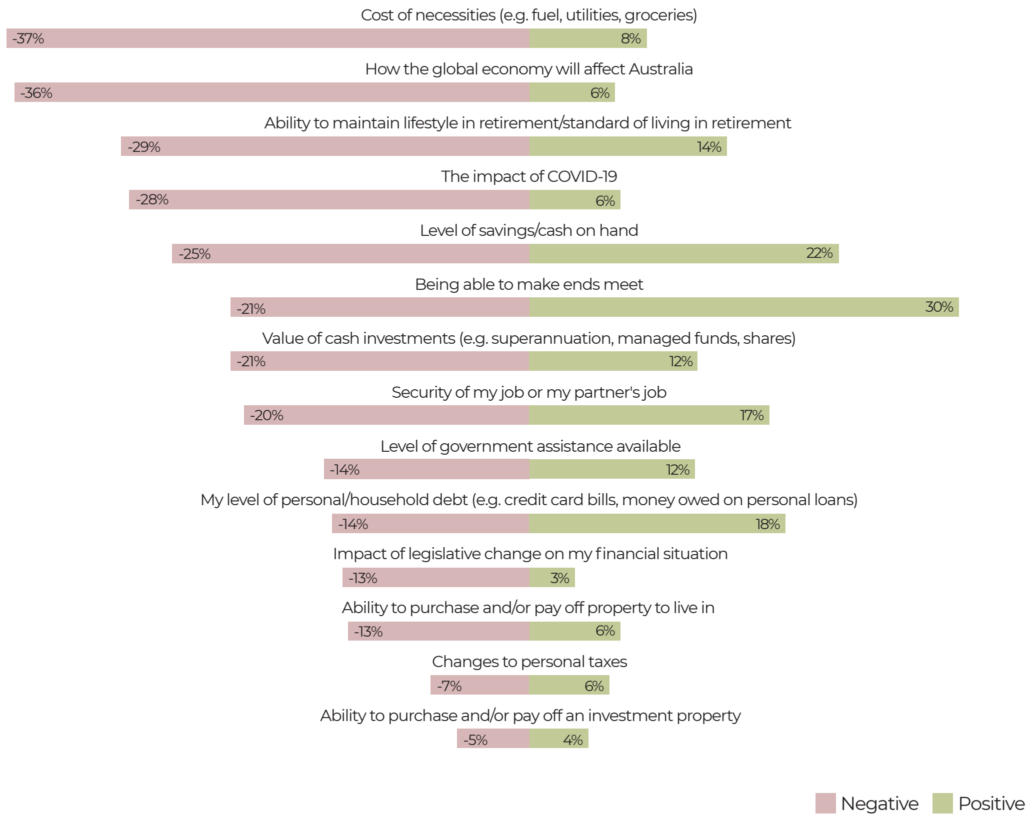


Figure 11 – Biggest financial worries and positives.



Pandemic Responses – Government, bank and other support and household actions.

As noted throughout this report, there has been a great deal of financial support available from the Commonwealth and to a lesser extent state governments, banks, financial institutions and other sources in response to the pandemic.

This financial support has also started to be withdrawn during the past six months and the Commonwealth government has announced plans to continue to wind back fiscal support over the first half of 2021. Health-related restrictions have generally been eased on domestic activity as local infections have been largely eliminated. In addition, households have markedly changed their financial behaviours in response to the pandemic, related support and subsequent pickup in economic activity. That said, there remains a great deal of economic and financial uncertainty related to the virus at home and abroad.

For the second consecutive survey, households were asked to indicate what assistance and actions they adopted in response to the pandemic. Households reported they have continued significant use of the available support during the past six months – albeit there have been some substantial changes across life stages. In the latest survey, about 37% of households reported some use of assistance and other actions, with the vast majority of assistance accessed and/or own actions taken by households with significantly lower comfort than 5.89 – the average level of overall comfort (see Figure 12).

Across levels of comfort, about 60% of households with low comfort (index of 0-4) have accessed support and taken their own actions to ease the financial burden of the pandemic during the past six months to December, compared with 30% of households with middle levels of comfort (5-7) and about 20% of households with high comfort (8-10).

Of those households that reported a worsening in their financial situation over the past six months, almost all (95%) used some of these supports and/or took their own financial actions, compared with a third of households that reported no change in their financial situation and almost half of households that reported an improved financial situation.

By December, 17% of households reportedly utilised two main government income payment supports – JobKeeper and JobSeeker – almost 4 percentage points lower than in June. Specifically, support from JobKeeper eased (from 12% to 11% of households as the new fortnightly payment of about $1,500 in March was reduced in late September to $1,200 for eligible employees who were working at least 20 hours per week and $750 for employees who were working less 20 hours, before its expected withdrawal at end March 2021).

Government support from JobSeeker also fell from 9% to 6% of households in June to December, respectively, as the fortnightly amount for a single person was effectively doubled to about $1,100 per fortnight with the introduction of a coronavirus supplement of $550 in April, before it was reduced to $250 from late September and $150 from the start of 2021. All those recipients on government income support were eligible for a coronavirus supplement. There have also been separate payments for aged pensioners and other concession cardholders, while co-payments on childcare were suspended from 6 April until 12 July and childcare fees reintroduced thereafter.

Banks also offered temporary repayment deferrals on loans, which only a relatively small 3% of (total) households reportedly continued to take up in December, compared 4% in June. To contextualise, about 40% of households are paying off a mortgage on their home, with most well ahead on mortgage repayments and almost all with current dwelling values in excess of any debt, while about 15% of households have a mortgage on an investment property, typically with high leverage/gearing.

A very small proportion of households reported taking out a personal loan (2%) or a new loan for a business (1%) in December – unchanged from June. In contrast, to the reduced income support from the main government policies of JobKeeper and JobSeeker, as noted above, households indicated they used more of their current savings and superannuation – especially by low income households with annual incomes less than $40,000 per annum.

After a rise of 2 percentage points, 14% of households reportedly dipped into their current savings during the past six months to ease the financial burden of the pandemic. After a rise of a percentage point in the past six months, 9% of households (and a much larger proportion of superannuation members) took advantage of the change in government policy to access up to $10,000 of their superannuation – once by end June and again by end December – due to financial hardship.

While about a quarter of households rent residential properties, only about 2% of total households reportedly requested a reduction in rent.

Compared with 39% during the first half of 2020, 37% of households in December benefitted from some of this assistance and/or took their own financial actions in response to the pandemic. Many adopted one or more of these measures to support their incomes and spending, increase (net) cash savings and more generally, improve their financial comfort.

'Single parents (58%) accessed the available support and/or took financial actions the most frequently, followed by 'couples with young children' (44%) and 'middle-aged singles/couples with no children' (42%). During the six months to December, JobKeeper was reportedly accessed the most by 'middle aged singles and couples' (19%), followed by 'young singles/couples with no children' (17%). JobSeeker was also used the most by 'single parents' (18%) and 'young singles/couples with no children' (13%).

Following the end of childcare support, there was a very large increase in the use of existing savings by 'single parents' (up 15 points to 25%) and, to a lesser extent, 'young singles/couples' (up 6 points to 17%) – much higher than other life stages.

The withdrawal of long-term savings from superannuation was used the most by 'single parents' (14%) – especially those dependent on government assistance' (18%) (see Figure 13).

Figure 12 – What households used to ease the financial burden during COVID-19, compared with current financial comfort – % of households.

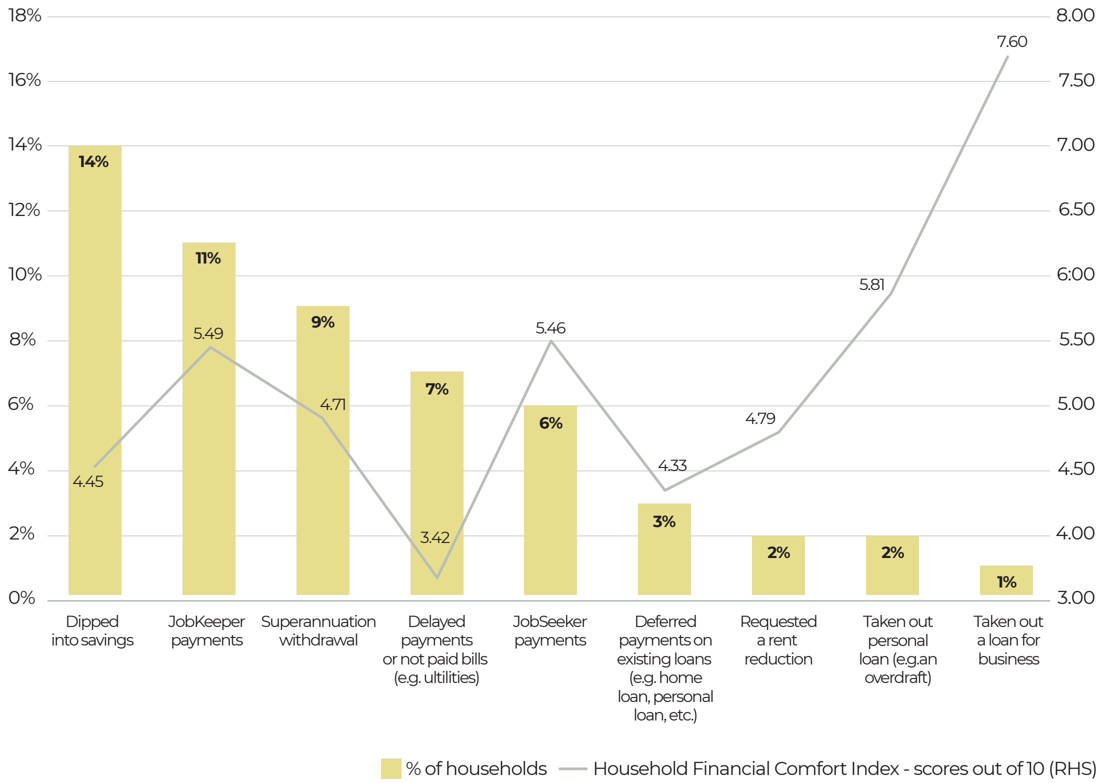
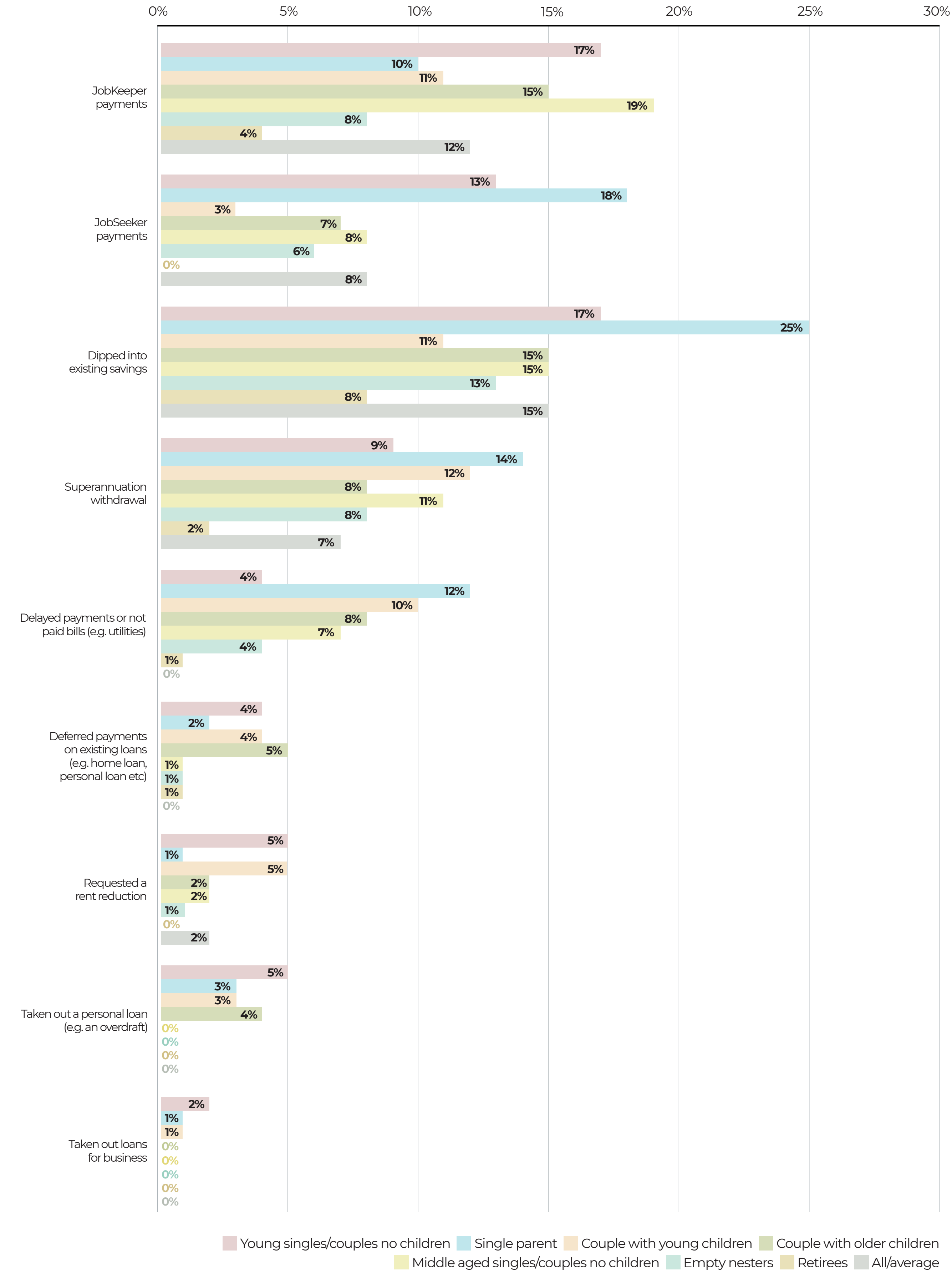


Figure 13 – What households used to ease the financial burden during COVID-19 by life stage. % of households.



Record precautionary savings eased only a bit.

It is noteworthy that much of the government assistance has been used to boost cash savings, while other households have also reduced overspending and delayed payments of bills since the emergence of the pandemic. In turn, these significant changes in precautionary behaviour have led to a marked increase in comfort with cash savings, as households significantly adjusted their financial position in response to the unexpected negative impacts of the pandemic. As such, comfort with 'cash savings 'jumped to a second consecutive historical high – up 5% to 5.76 during the six months to December – 14% higher than both its historical average and pre-pandemic level.

Most life stages reported increases to record levels in December, except for 'single parents' (especially those dependent on government assistance) and some 'retirees dependent on the aged pension'. 'Single parents' continued to report the lowest comfort with cash savings (up 7% to 4.73) – mainly reflecting the very low comfort of 'single parents dependent on government assistance' (index of only 3.03). In contrast, 'retirees' reported the highest comfort with cash savings (up 2% to 6.42).

During the six months to December, the proportion of households reporting that they saved each month (that is, 'savers') remained at a record high of 57%, compared to 49% a year ago and a historical average of 50%. In contrast, households spending more than they earn each month (that is, overspending by running down savings or borrowing more), increased by 2 points to 9% during the past six months, compared with 10% both a year ago and historically. The remaining households that typically spend all their income and no more also fell – by a further 2 points to a record low of 34% of households, compared to 41% a year ago and historically. As a result, the proportion of 'net savers' (savers less over spenders/dissavers) eased by 2 points to 49% of households in December from a record high of 51% in June, compared with a historical average of 40% (see Figure 14).

Following a large rise in response to the outbreak of the pandemic and government support, net savers eased across all households, except for 'young singles/couples with no children' (up 21 points to a very high net of 77%) and 'retirees' (up 8 points to net 62%) – the highest proportion of net savers across life stages. 'Single parents dependent on government assistance' were the only households that reported more dissavers (32%) than savers (16%) or a net -16% in December.

Across household incomes, net savers fell markedly for households constrained by low incomes ; down 13 points to a relatively low 17% for households with low annual incomes (<$40,000 p.a.) compared to down 3 points to 48% for households with below average annual incomes ($40,000 to $75,000), down a point to 49% for average incomes in the range of $75,001 to $100,000 and down a point for higher incomes of more than $100,001 to 66%.

Figure 14 – 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?

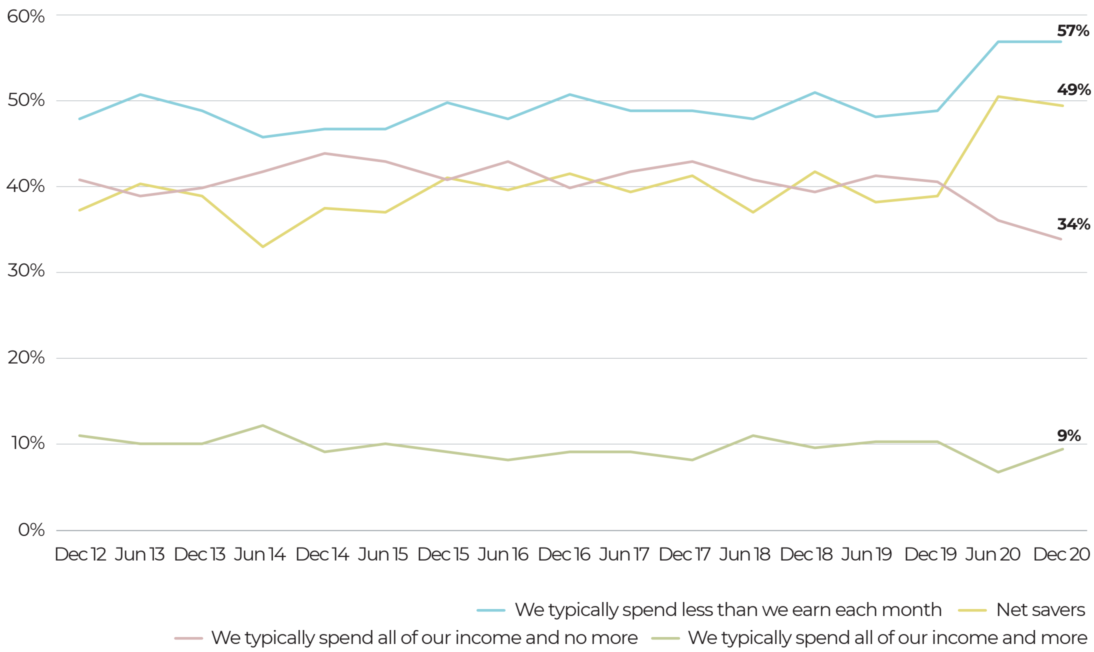
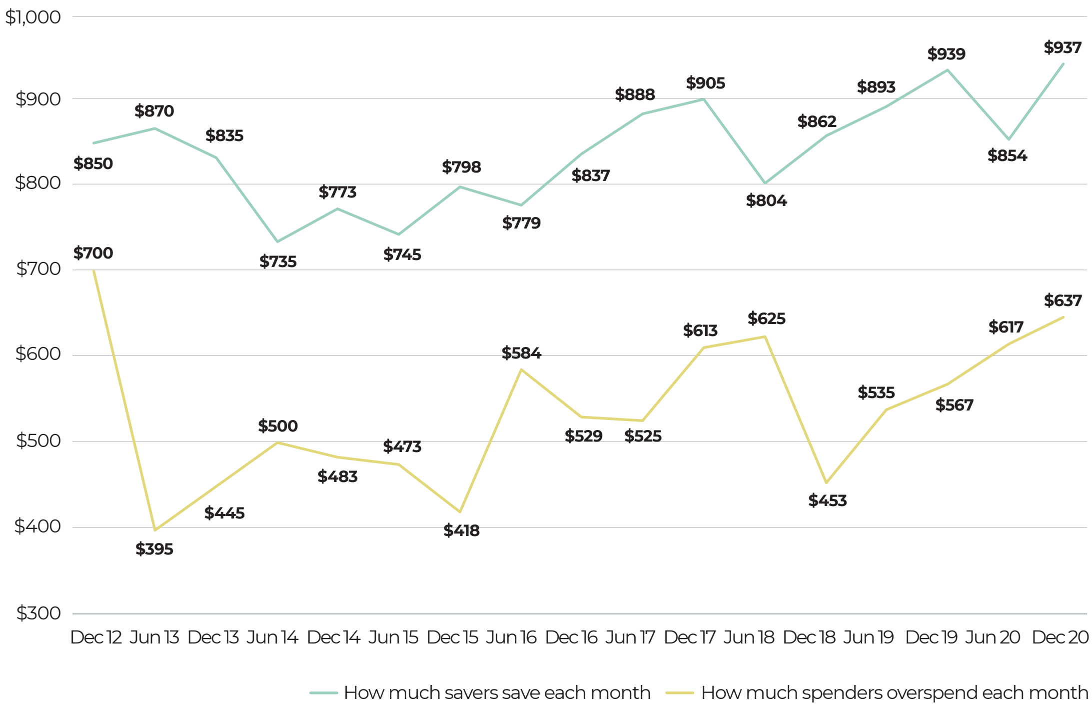


Figure 15 – How much more than your income do you save or spend each month on average ($)?



However, in terms of amounts, on average, savings increased by about 10% to $937 per month during the past six months to December, while non-savers overspending increased further by 3% to $637 per month. Put another way, there has been a marked increase in savings due to more savers saving a larger amount partly offset by more dissavers overspending a larger amount and fewer households spending no more than their income during the past six months (see Figure 15).

Nevertheless, a large proportion of households continue to have no savings or very low amounts of cash savings – and hence, are highly vulnerable to a loss of income – related to fewer hours worked and job loss – especially as the government plans to continue to withdraw the temporary wage subsidy – JobKeeper – and reduce the unemployed income supplement to JobSeeker and other welfare assistance.

In December, about one in five households reported no savings and almost 80% of households had some savings, albeit a significant proportion of these households reported small amounts of savings – a small cash buffer to help manage a financial emergency.

Following a fall of 5 points during the first half of 2020, there remains around 8% of households holding less than $100 in savings in December; 6% between $101 to $500; and a further 4% between $501 to $1,000. Put another way, about a fifth of households with savings (19%) hold less than $1,000 in savings in December, compared to 21% six months ago and 26% pre the pandemic a year ago.

There are a further 11% of households with savings of between $1,001 to $5,000 and a similar proportion (9%) with a significantly higher $5,001 to $10,000. Meanwhile, about one in three households hold relatively large amounts of savings above $50,000 – 5 points higher than six months ago (see Figure 16).

Figure 16 – How much in cash savings does your household currently hold – including savings accounts, term deposits and offset accounts?

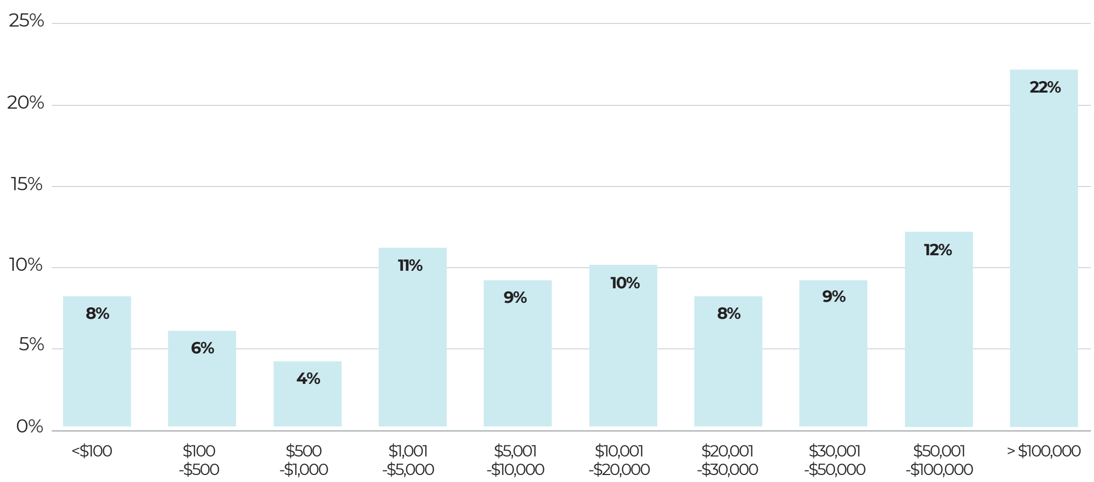
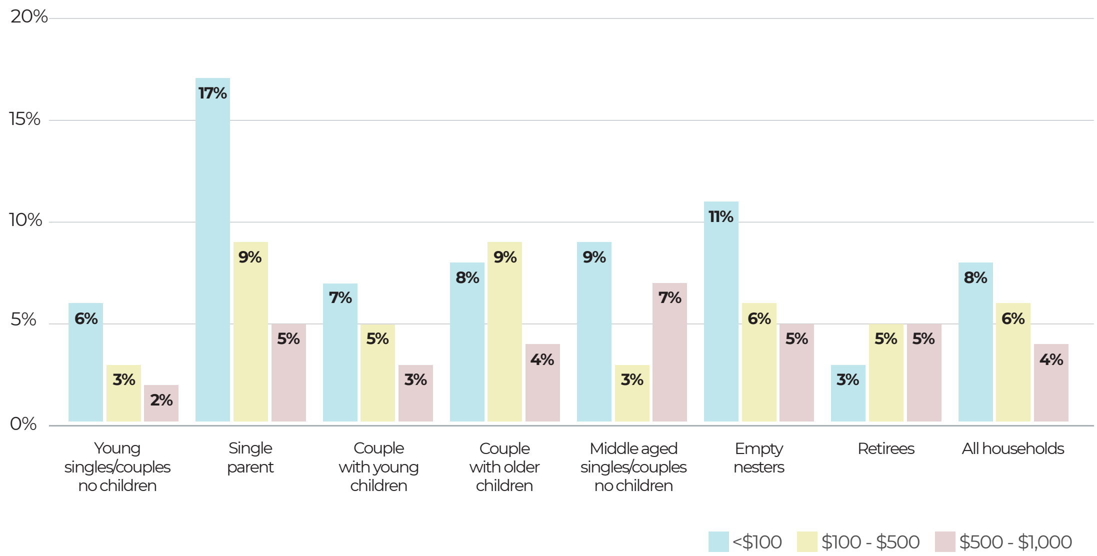


Figure 17 – Small amounts of cash savings held by household life stage in December 2020 – % of households.



By life stage, almost a third (31%) of 'single parents' have less than $1,000 in cash savings (including 17% with less than $100).

By workforce, about one in five of part-time employees (24%), unemployed (22%) and casual employees (21%) have less than $1,000 in cash savings, followed by full-time employees (13%), compared with a much lower 4% of full-time self-employed (or business owners).

In terms of the annual incomes of households, the corresponding figures for small amounts of savings (less than $1,000) are 46% for very low incomes of <$40,000; and to a much lesser extent,16% for $40,001 to $75,000; 9% for $75,001 to $100,000; and 9% for over $100,001.

3.5 Looking ahead: As government support is withdrawn further many households will confront a savings cliff and weak labour market. In contrast, sentiment in the property market rebounds.

Many households remain on the edge of the personal savings cliff and may need to change their lifestyle.

A large proportion of households are vulnerable to the forthcoming withdrawal or significant reduction in government support, a further loss of income from a weak labour, sustained unemployment for the foreseeable future and, more generally, another unexpected emergency.

In December 2020, about 23% of households reported they could maintain their current lifestyle for more than six months if they lost their income, while only 37% said they could maintain their lifestyle for more than three months. Put another way, 43% of households would need to change their lifestyle within three months (see Figure 18 below).

Across life stages, 56% of 'single parents' reported they would need to change their lifestyle within the next three months, if they lost their income, followed by about 55% for 'couples with young children' and 52% for 'middle aged/singles/couples with no children'. In contrast, the corresponding figure for both 'empty nesters' and 'retirees' was 38% and 22%, respectively.

For those with little savings, only 3% of households with savings of <$1,000 reported they could maintain their current lifestyle for more than six months if they lost their income and only 4% for more than three months (or effectively, the March quarter). Furthermore, while comfort with the ability to manage a three-month loss of income has risen to a record level across lifestage – on average, up 7% during the past six months to an index of 5.61, many households continue to have very low levels of comfort – especially those on low incomes (less than $40,000 per annum) at an index of only 3.94 or with low savings (less than $1,000) at 2.19.

While the comfort with the ability to manage a loss of income continued to rise for most parts of the workforce during the past six months. The comfort of both part-time and casual workers fell significantly (down 6% and 3% to indexes of 4.95 and 5.22, respectively) to remain much lower than other workers – albeit higher than the unemployed with an index of only 4.50 in December.

Labour market conditions improve but remain weak – with high underemployment and expected difficulty in finding a job.

Since the advent of the unexpected pandemic in February, there has been a significant rise in underemployment (both in unemployed persons and reduction in hours worked by part-time and casual workers).
While economic activity has picked up and there have been significant job gains during the past six months of 2020, the economic recovery remains uneven with significant spare capacity. There is likely to be medium to long term scarring in the labour market from the pandemic. Some households are likely to be faced with high long-term unemployment, underemployment and difficulties finding a job. Wage gains are likely to remain subdued for some time until a durable and inclusive recovery emerges, spare capacity is utilised, and economic activity returns to its new potential path.

During the pandemic, there has been a fall in the proportion of workers happy with their current working hours, with a very large fall among casual workers partly offset by a rise among part-time employees, compared to this time last year. While 64% of part-time and casual workers were happy with their number of work hours in December 2020, 27% continued to prefer more hours (see Figure 19). About 22% of part-time workers preferred an additional 17.2 hours per week in December, compared to 17% and 14, respectively, in December 2019. About 42% of casual workers preferred an extra 18.4 hours in December, compared with 48% and 18, respectively, a year ago. Put another way, about 1 in four part-time or casual workers would now prefer an additional 17.7 hours – equivalent to a very high rate of underemployment, despite the recovery in economic activity underway.

Figure 18 – If you were to lose your income, how many weeks or months would your household be able to maintain its current lifestyle for – % of households?

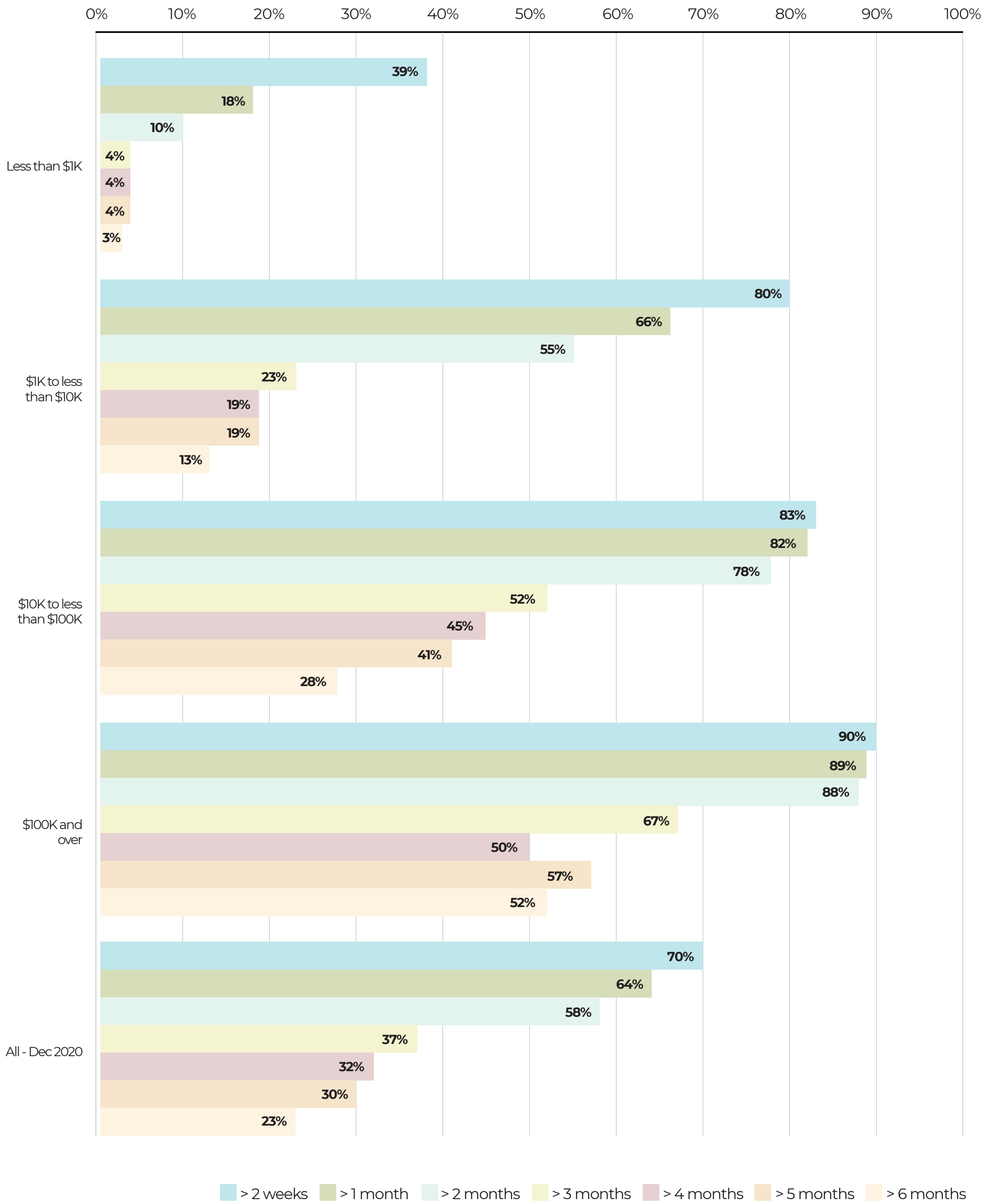
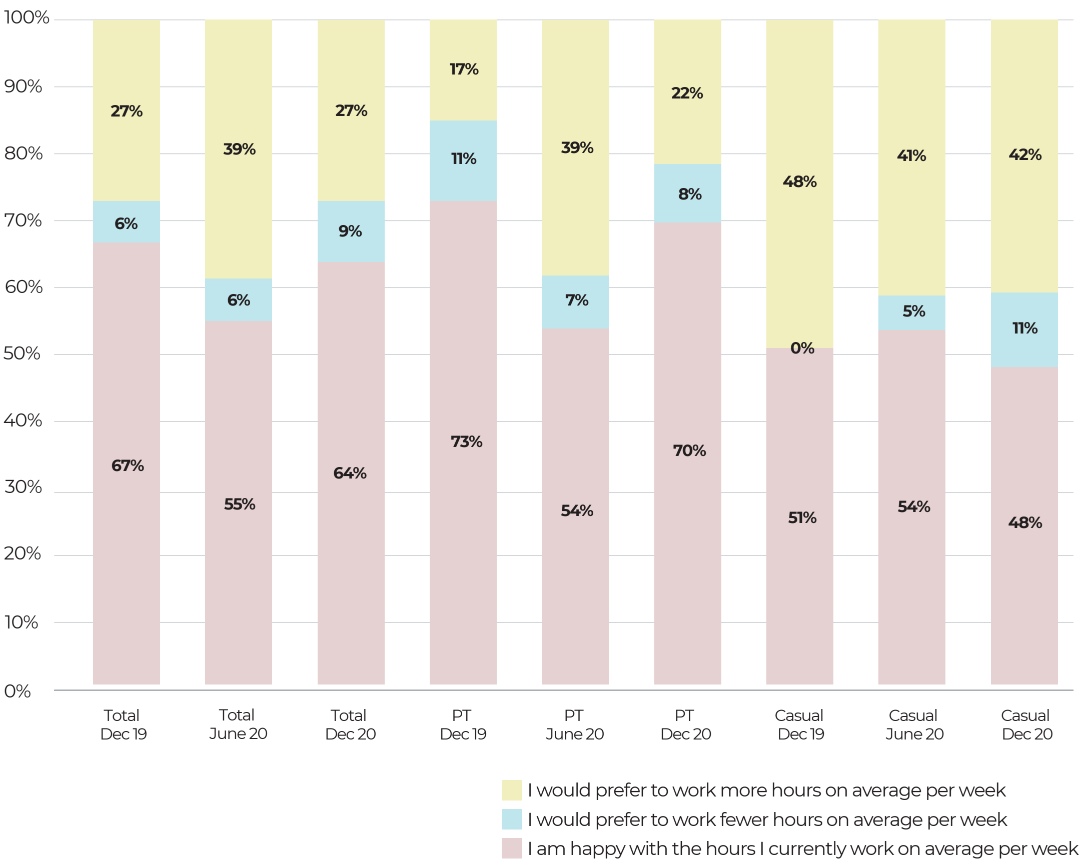


Figure 19 – Preference for work hours (part-time and casual employees) in December 2020, compared with December 2019 – % of the total part-time and casual workforce.

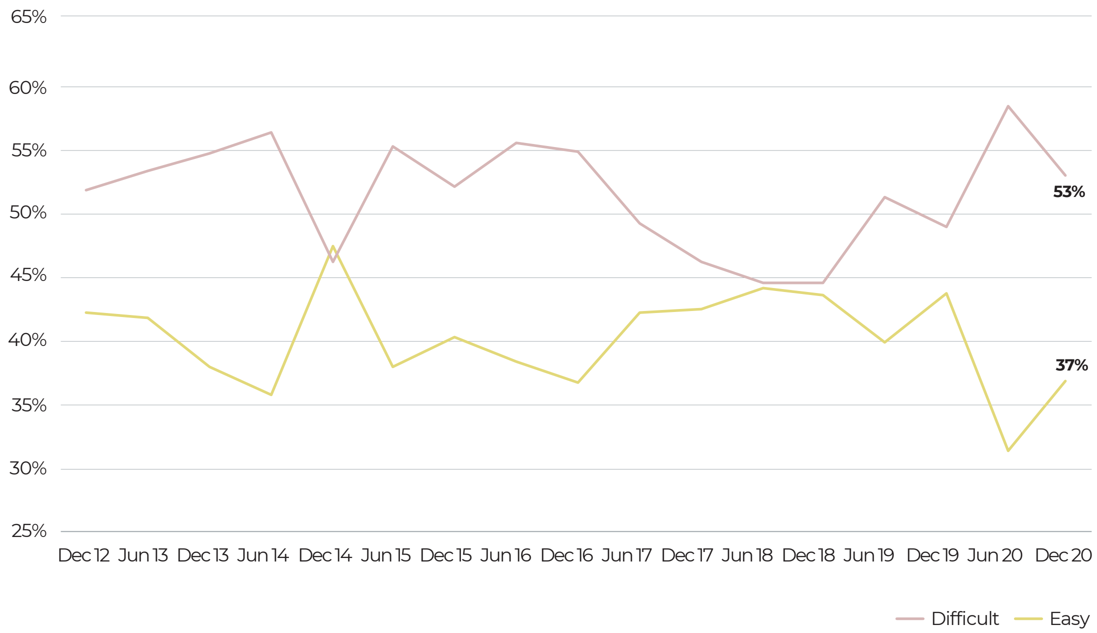


Employees also continue to report feeling insecure about their job and a majority expect it would be difficult to find a new job in two months if they became unemployed.
In December, a small majority of workers (53%) expected it would be 'difficult to find a new job in two months', an improvement of 6 percentage points from the record high of 59% reported in mid-year, but above the 49% of workers reported prior to the pandemic in December 2019.

Put another way, a much smaller 37% of workers expect it to be 'easy to find another job' in the latest survey, 7 percentage points lower than pre pandemic in December 2019 – 3 points below the historical average of 40% since June 2012 (see Figure 20).

Furthermore, there remains high levels of job insecurity among workers, with about one in four workers reported to be 'feeling insecure about their job' in December and one in five households citing job insecurity as one of their 'biggest worries'.

Figure 20 – Ease of finding a new job in the next two months if became unemployed – % of employed workforce.



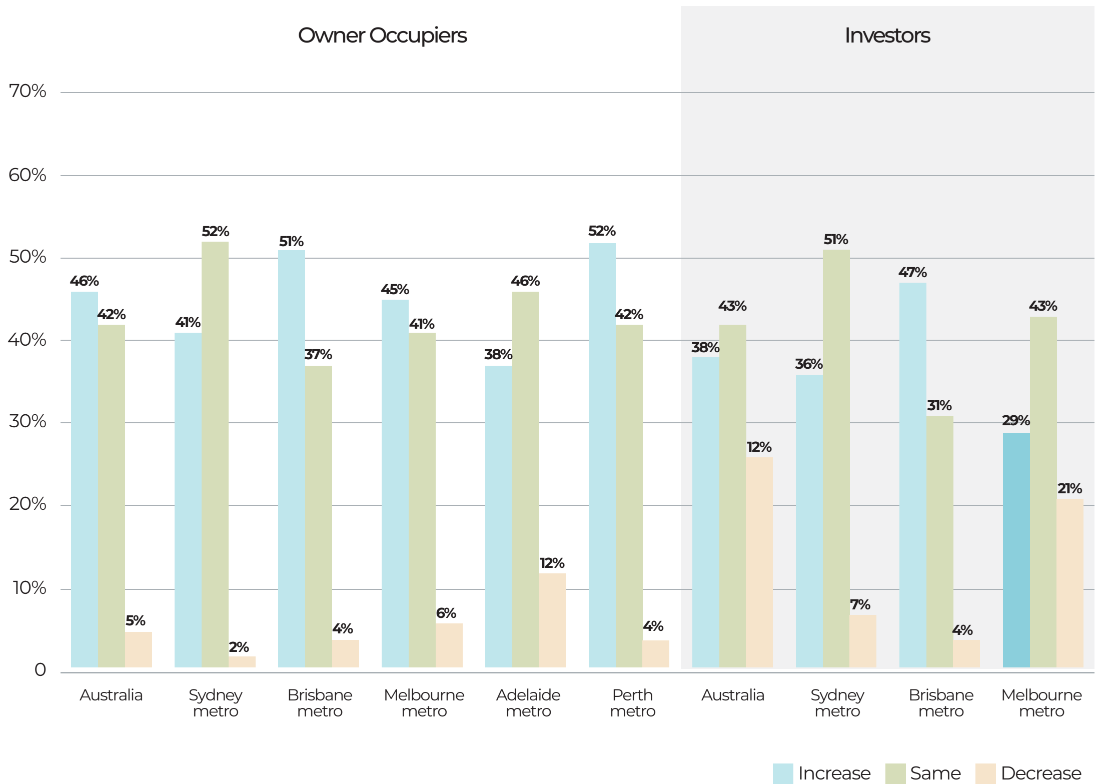
Residential property price outlook revised significantly higher by owner occupiers and investors.

After forecasting a slowdown in property prices in the previous survey, most households – either living in their homes and/or residential property investors – are feeling significantly more optimistic than six months ago about the 12-month outlook for dwelling prices.

Indeed, 46% of owner occupiers expect their dwelling prices to rise during the next 12 months, compared to 22% in June 2020. A lot more households now expect price rises than falls, with only 5% expecting the value of their home to fall during 2021, compared to 25% in June 2020. Expectations of owner occupiers also vary significantly across major capital cities, with occupiers in Perth and Brisbane more optimistic than Sydney and Melbourne, while Adelaide residents a lot more pessimistic. Over half of Perth and Brisbane residents expect higher prices and only 4% expect falls during 2021.

Investors are also a lot more optimistic about dwelling prices than six months ago: about two in five investors (38%) now expect the value of their investment properties to rise during the next 12 months, compared with 26% six months ago, while about 1 in eight (12%) now anticipate a fall – more than half the corresponding figure of six months ago. Currently, investors in Brisbane and Sydney are relatively optimistic about property values (with expectations for rises by 47% and 36% of investors, respectively and expectations for falls by only 4% and 7%, respectively). Melbourne is a lot less optimistic with 29% optimists expecting price rises and 21% pessimists expecting lower prices.

Figure 21 – What value do you think is likely to happen to the value of your property in the next 12 months?



Summary

In summary, overall financial comfort substantially improved to a record level during the six months to December – albeit this increased comfort varies a great deal across and within life stages, the workforce and regions. Government support and to a lesser extent other support, as well as significant financial actions by households, have at least temporarily more than offset the negative impacts of the pandemic and boosted the financial resilience of most households as health restrictions on domestic activity ease. However, the comfort of many households – especially those with a low level of comfort – deteriorated markedly, as government support started its withdrawal and the labour market remained weak.

Most components of overall household comfort increased to record levels during the past six months to December 2020. There were further significant improvements in comfort with household cashflows, balance sheets and risk management – especially in cash savings and the ability to cope with a financial emergency. On the other hand, there was little change in comfort with households' 'current 'and 'expected' financial situation for the next year or their 'anticipated standard of living in retirement'.

Looking ahead however, many households face a personal savings cliff, with no or little cash savings – vulnerable to a loss of income from a lack of paid work hours, job loss, a reduction in government assistance, and more generally, an uncertain road back from the potential negative medium to long-term impacts of the pandemic and an uneven recovery in activity.

Consistent with this, there has been some marked changes in financial behaviours across households and within life stages – including a notable increase in (precautionary) cash savings, with markedly more (net) households saving.

On the other hand, there has also been a significant amount of dipping into current cash savings by some households and a significant drawing down of long-term savings (in particular superannuation), as well as delayed bill payments and, to much a lesser extent, the deferral of existing loan repayments and demand for additional loans.

“I lost my job due to COVID-19 and am unable to pay my mortgage. I did face the bank foreclosing and will face that situation again, especially as the government is cutting assistance. I’m ill from worry.”

Single parent
Northern Territory

0.4 Overall financial comfort by different cohorts.

This section has more details on the overall financial comfort index, providing views on 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.

4.1 Life stage: financial comfort up to about records, except single parents.

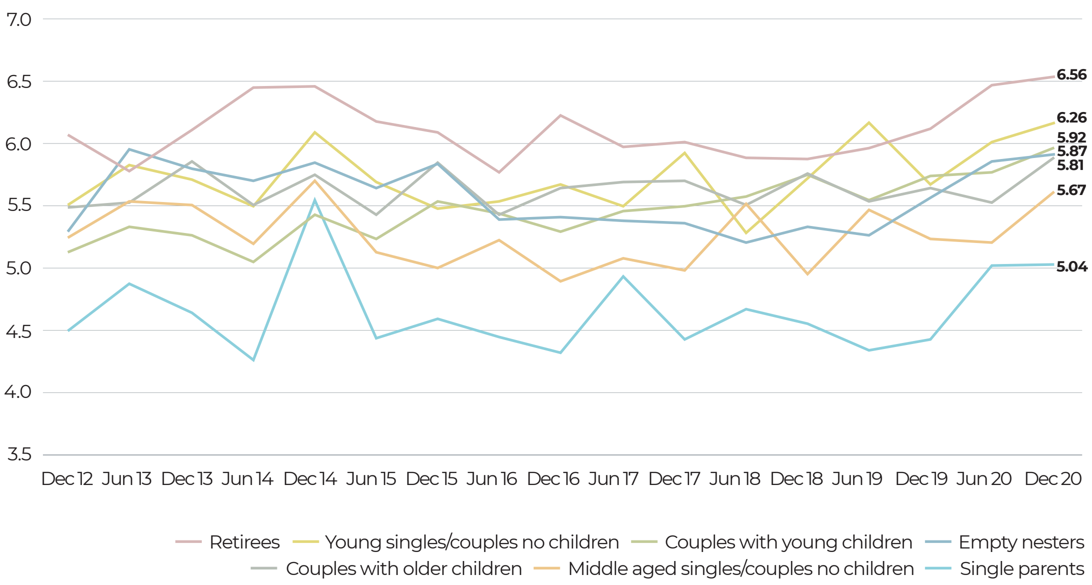
As highlighted in Section 3, during the past six months, financial comfort improved across most life stages to around record levels, except single parents – notably those dependent on government assistance.

Continued government support further boosted the comfort of most households with no or older children. On the other hand, following the reintroduction of childcare fees at end July, comfort of single parents with young preschool and primary children began to reverse the gains from temporary childcare support during the first half of the year.

While comfort of single parents, on average, was unchanged at an index of 5.05, comfort deteriorated for those dependent on government assistance (down 4% to 3.51) and/or with younger children. In contrast, the largest gains in financial comfort across life stages were reported by 'middle aged singles/ couples with no children' (up 9% to 5.67), 'couples with mainly older children at home' (up 5% to 5.81) and 'young singles/couples with no children' (up 4% to a record of 6.26). As a result, 'single parents dependent on government assistance' continued to report the lowest financial comfort (3.51).

The highest comfort across life stages continued to be reported by 'retirees' (up 1% to a record of 6.56), followed by 'young singles/couples with no children' (6.26) (see Figure 22).

Figure 22 – Overall financial comfort across different household types. Scores out of 10.



4.2 Generations: financial comfort remains mixed.

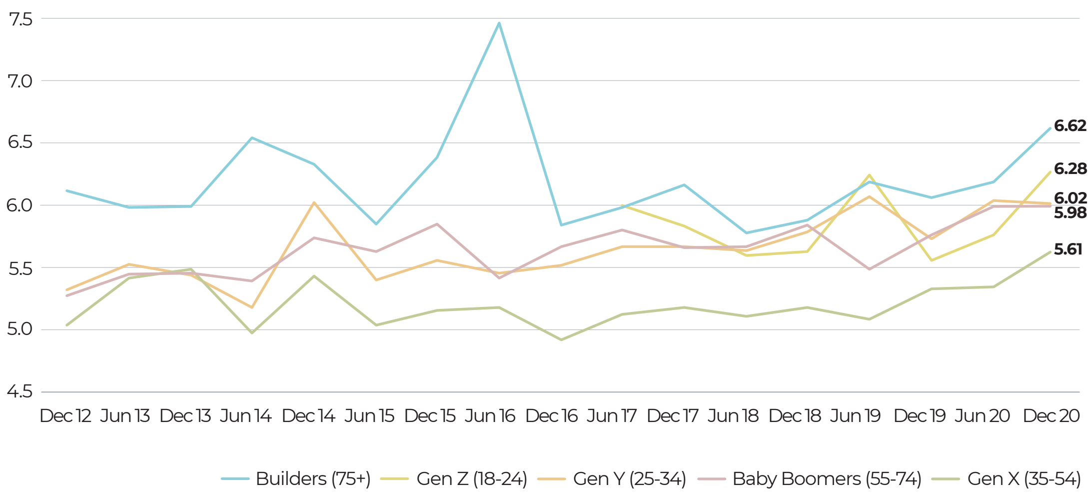
Overall, generations continued to report mixed comfort levels in December 2020, despite substantial improvements since the onset of the pandemic. Compared to December 2019, the oldest generation surveyed, 70-plus years – referred to as 'Builders' – continued to report the highest level of comfort (up 9% to 6.62), followed by Gen Z (up 13% to a record 6.28), while Gen X continued to report the lowest comfort (up 5% to 5.61). During the past six months, the comfort of Gen Y and Baby Boomers remained largely unchanged at 6.02 and 5.98, respectively.

Varied responses to the impacts of the pandemic across generations.

Generations also continued to report mixed impacts from the pandemic. A substantially higher proportion of Baby Boomers (-23%) said they had been negatively impacted by the pandemic, followed by Builders (-16%) and Gen Xers (-12%). In contrast, Gen Zs reported to be significantly net positively impacted from the pandemic (38%) – including 7% 'a lot better off' and 31% 'somewhat better off'.

Among Gen Ys with a net positive of 6%, there appears to be two cohorts: 15% 'a lot better off', compared with 9% 'a lot worse off'.

Figure 23 – Overall financial comfort across generations.



During the past six months, Gen Z were most likely to report being recipients of JobSeeker (21%) and JobKeeper (12%) – significantly more than Gen Y and to a greater extent than Gen X.

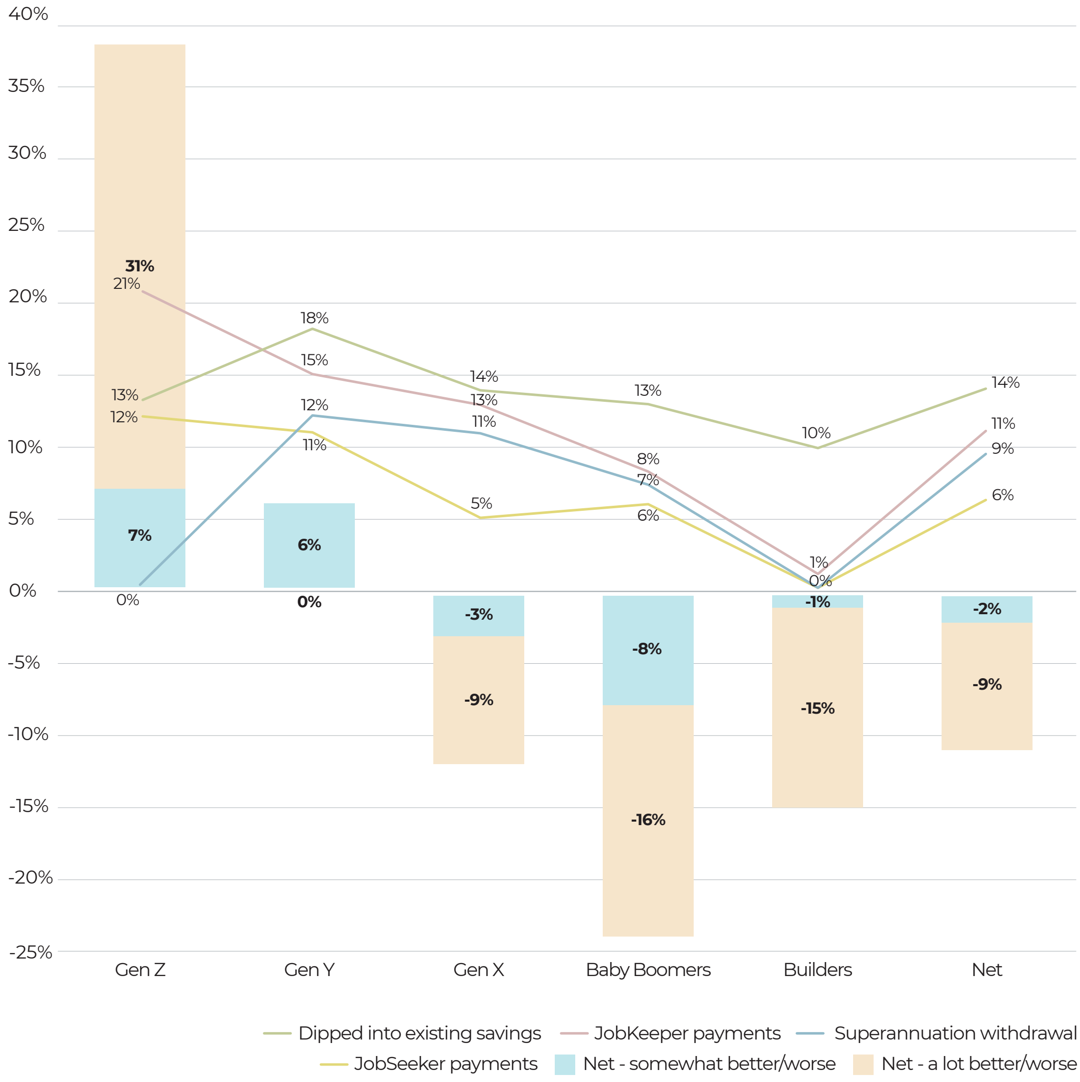
Fewer older generations reported to be recipients of government support – notably, JobKeeker (8% for Baby Boomers and only 1% for Builders) and JobSeeker (6% for Baby Boomers).

After 30% of Gen Zs accessed superannuation to withdraw long-term savings during the first half of 2020 – none reported accessing super in the second half – presumably since there was little remaining in their balances. In contrast, 12% of Gen Y, 11% of Gen X and 7% of Baby Boomers had accessed their superannuation by December.

In the past six months, most generations made increased use of their existing savings at 18% of Gen Ys, followed by about 13% of Gen Z's, Gen X's and Baby Boomers and 10% of Builders.

There also continued to be substantial use of delayed payments across generations, but little use of deferred loan repayments. Put another way, Baby Boomers and Builders have used less of the government and other support available to mitigate the negative impacts of the pandemic on their financial situation.

Figure 24 – How did the pandemic impact your financial comfort – worse, no change or better? Have you used JobKeeper, JobSeeker and/or withdrawn superannuation to ease the impact of the pandemic?

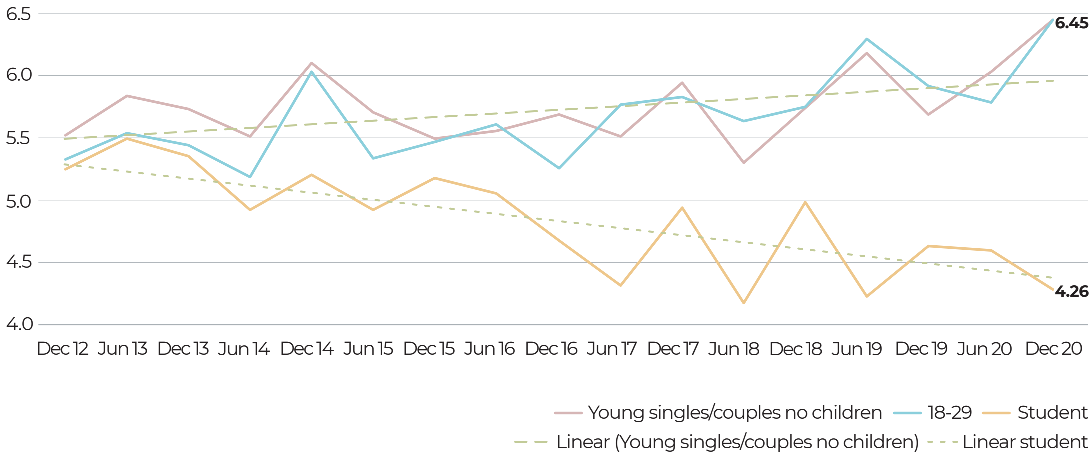


Students feeling the pinch, compared with other young cohorts.

Students continued to report markedly lower levels of financial comfort (down 6% to near historical lows of 4.26), compared to '18–29-year olds' overall (up 12% to a record of 6.45) and 'couples with no children' (up 7% to also to a record of 6.45).

Among young cohorts, students continued to report the biggest negative impact on their financial situation from the pandemic with 40% worse off and a higher use of the available government and other support.

Figure 25 – Overall financial comfort across young singles/couples and students. Scores out of 10.



4.3 States: financial comfort – improves to records across most states.

Most states and territories reported rises to record levels of household financial comfort during the six months to December, except for South Australia (down 11% to 5.24).

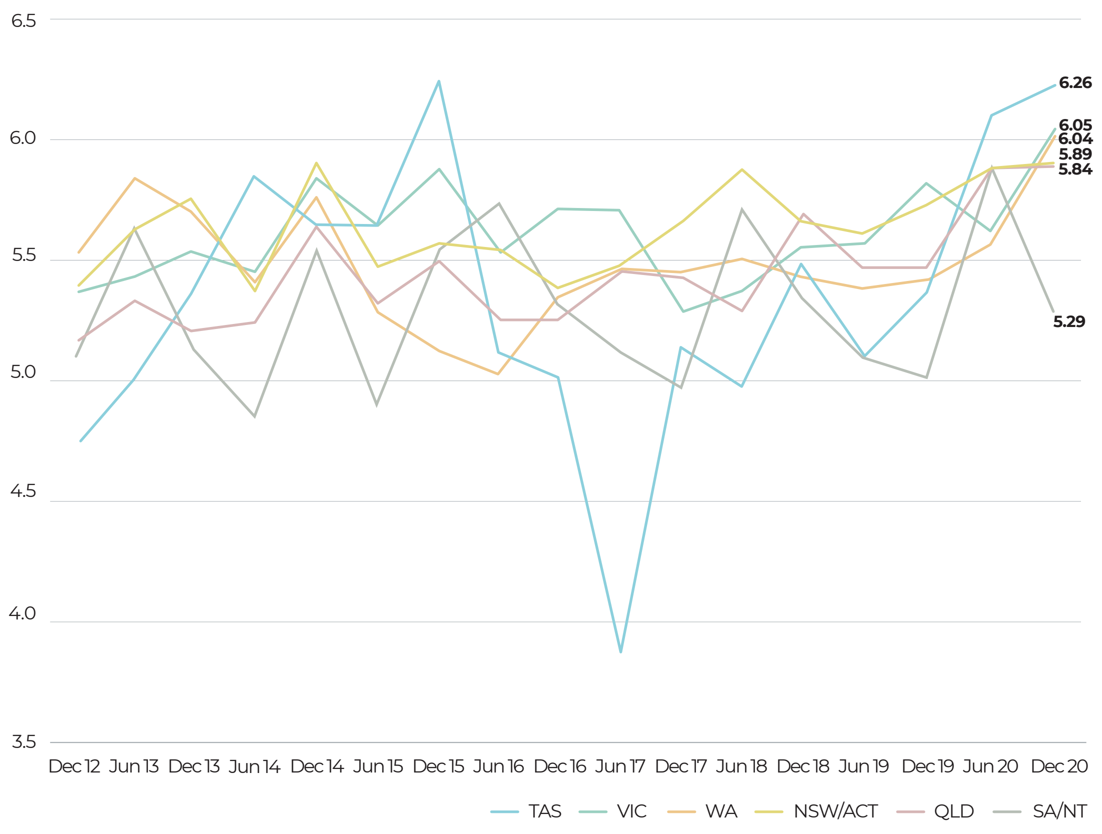
The largest rises were reported in Western Australia (up 9% to a record of 6.04) and Victoria (up 7% to a record of 6.05). Meanwhile, comfort in both New South Wales and Tasmania increased 2% to 5.89 and 6.26, respectively and Queensland remained unchanged at 5.84.

Households in all states reported a significant negative impact on their financial situation from the pandemic – albeit a larger impact was reported in South Australia – perhaps in part due to the unexpected lockdown in Adelaide in late November.

Otherwise, COVID-19 restrictions generally eased during the second half of the year, except for within Sydney from mid-December – after the latest survey was conducted (late November to first week in December). Recall also that the outbreak of a significant second wave of the pandemic and subsequent lockdown had adversely impacted financial comfort in Victoria reported in the previous survey in June.

Compared to other states and territories, South Australia reported a greater proportion of households significantly 'a lot worse off' (16%) from the pandemic and a relatively fewer 'a lot better off' (4%). In South Australia, there were notable falls across all drivers of comfort during the six months to December. All other states reported improvement in most other drivers of financial comfort with larger gains in Western Australia and Victoria.

Figure 26 – Overall financial comfort across different states and territories. Scores out of 10.



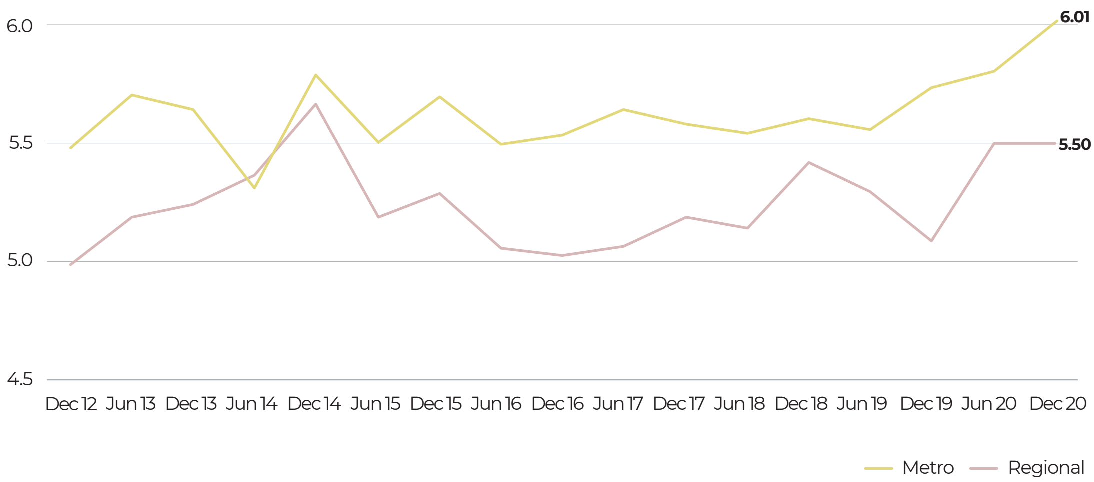
Regional versus metropolitan cities; some reversal in the financial comfort gap.

After a substantial increase during the previous six months to June, regional areas reported unchanged comfort at 5.50 during the past six months to December 2020, compared to comfort across all metropolitan capital cities (up 3% to 6.01).

Regions reported a relatively larger negative impact on their financial situation from the pandemic during the past six months.
In contrast, metropolitan cities reported that the negative impact of the pandemic eased during the past six months.

In December, a net -20% of households in the regions indicated that their financial situation had deteriorated (only 10% better off less 30% worse off) – or about twice the proportion of metropolitan households of net-10% (with substantially more better off at 20% less the same at 30% worse off).

Figure 27 – Overall financial comfort across metro and regional areas. Scores out of 10.



Nevertheless, financial comfort varied a great deal across the major metropolitan cities, with substantially higher comfort in Melbourne (up 9% to 6.17), Sydney (up 4% to 6.15) and Perth (up 11% to 6.07), compared to Brisbane (down 3% to 5.68) and to a greater extent, Adelaide (down 10% to 5.38) during the six months to December.

Consistent with the state comfort levels noted previously, comfort in Adelaide is significantly lower than other capital cities, with a much higher proportion of households reportedly worse off from the pandemic (-37%) than better off (only 10%) or a net -27% in December, compared -25% in June.

All the other major capital cities also reported less negative impacts of the pandemic over the past six months – especially Melbourne rising to a net -9% in December, compared to a net -21% in June – arguably in part due to the progressive easing of restrictions during the latter half of October/early November.

Figure 28 – Comfort index across larger states and metropolitan areas. Scores out of 10.

4.4 Labour force segments: financial comfort mixed.

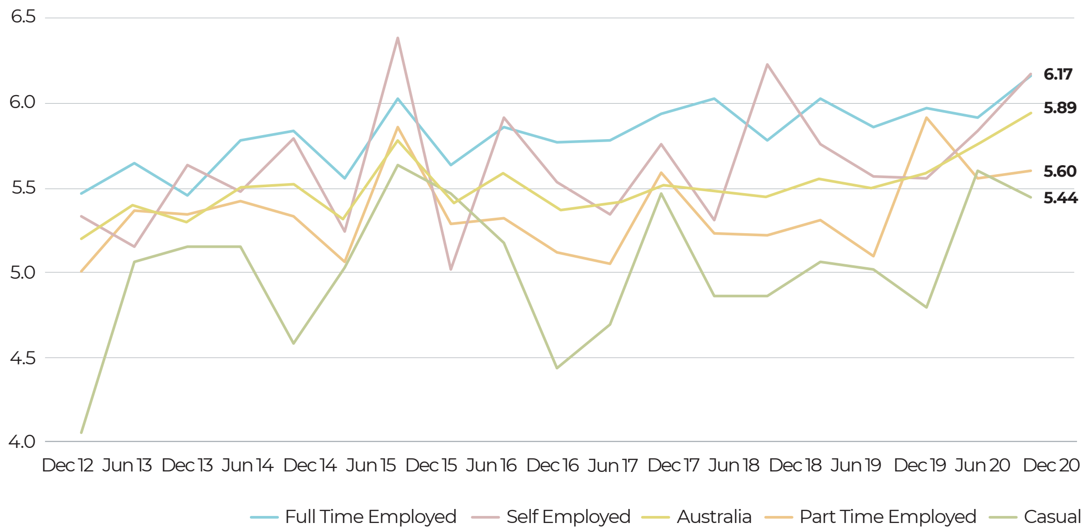
Comfort across labour force segments remained mixed during the six months to December 2020 with notable falls in the comfort of the unemployed (down 9% to 4.72) and casuals (down 3% to 5.44), compared with notable consecutive rises in both full-time employed (up 4% to a record of 6.16) and self-employed (up 6% to 6.17). Comfort of part-time workers remained broadly unchanged (up 1% to 5.60). Se Figure 29 below.

As a result, self-employed and full-time workers reported the highest financial comfort across the workforce, while the comfort of casual workers and, to a greater extent, the unemployed remained significantly lower in December.

Arguably, the reductions and the announcements of the withdrawal of JobSeeker and JobKeeper weighed on the comfort of unemployed and casual workers during the past six months. As noted above, about one in four casual and part-time workers were looking for significantly more hours of work – on average, 18 hours per week in December. Moreover, one in four households reported that their incomes had decreased over the past year.

By occupations, there were substantial gains in comfort of government admin and defence (up 6% to 6.81), salespersons (up 10% to 6.22) and skilled trades (up 9% to 6.19). The former were directly involved in the containment of the pandemic, while the latter clearly benefitted from the easing of health restriction.

Figure 29 – Comfort index across the workforce. Scores out of 10.

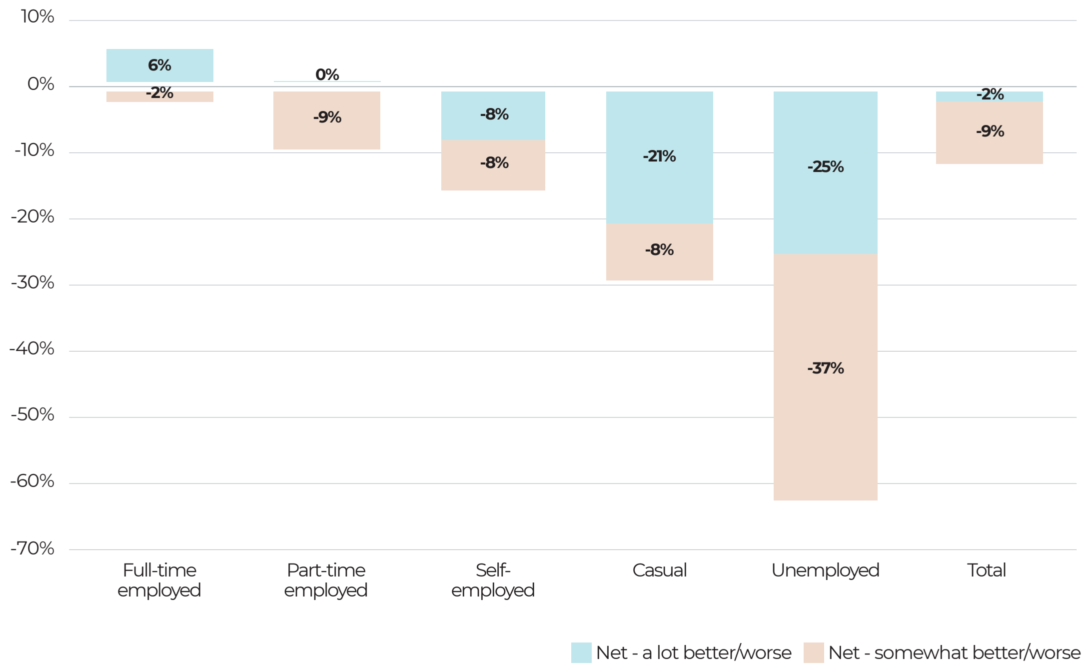


Unemployed and casuals hit hardest by the pandemic.

All parts of the workforce, except full-time employees reported that the pandemic had a substantial negative impact on their financial situation in December. Unemployed (-62%) to a much greater extent than casual workers (-29%), followed by self-employed (-10%) and part-time workers (-15%) reported a net negative impact with more significantly 'worse off' than 'better off' from the pandemic.

Only in the case of full-time employees, workers reported to more 'better off' (28%) than worse off (24%) from the pandemic in December. See Figure 30.

Figure 30 – How did the pandemic impact your financial comfort – worse, no change or better?



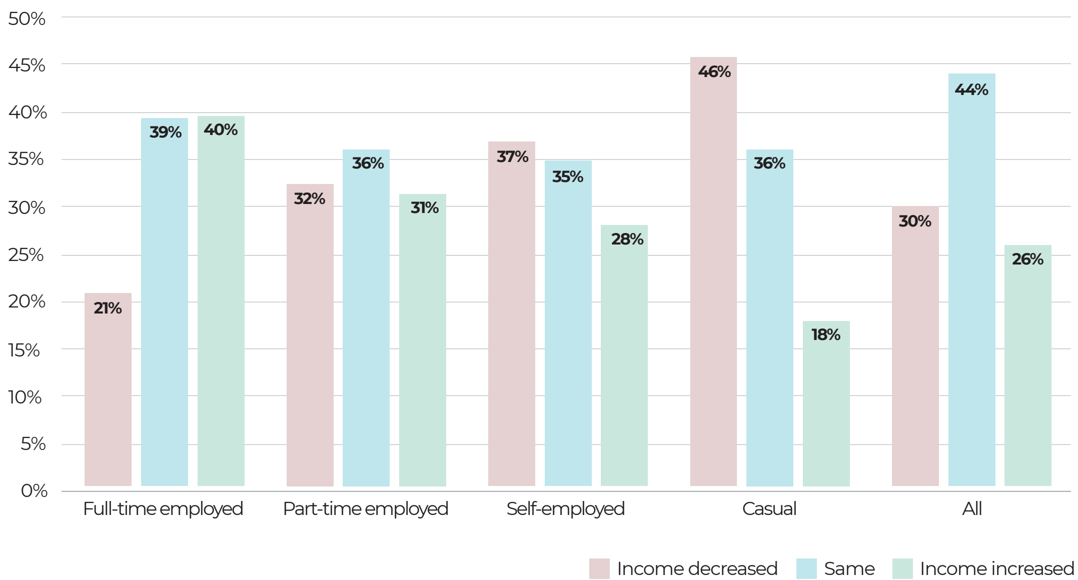
Downward pressures on workers incomes - especially casual employees.

In the past two surveys, there was a marked increase in annual income decreases across all parts of the employed workforce. Income decreases over the past year increased from 21% of households in December 2019 to 30% in the latest survey. Around 38% reported higher incomes over the past year in December 2019 and 30% reported lower incomes.

Across the workforce, income decreases over the past year were most commonly reported by casuals (up 4 points to 46%), followed by part-time employed (down 6 points to 32%).

On the other hand, there was a marked decrease in income increases, albeit income increases continued to be higher among full-time employed (increased 3 points to 40%) and to a lesser extent,

Figure 31 – Income changes over past year across labour force – % of households



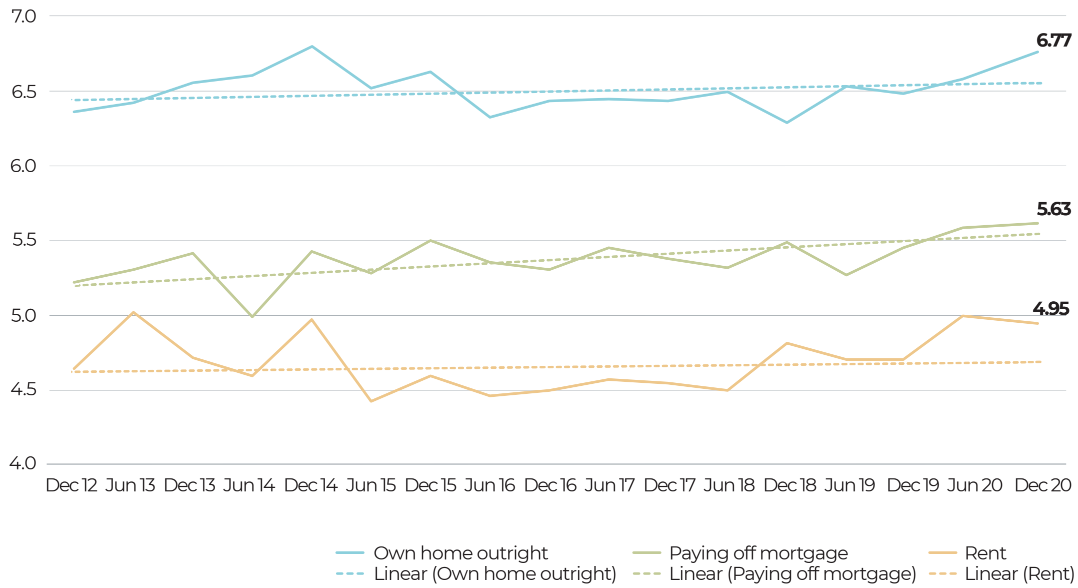
4.5 Comfort by housing tenure: owners without loans improves.

The comfort of owners without mortgages increased by 3% to 6.77 during the six months to December, while the comfort of owners with loans and renters remained broadly unchanged at 5.63 and 4.95, respectively. All drivers of comfort for owners without mortgages on their homes improved substantially, except for their anticipated standard of living in retirement during the past six months.

Meanwhile, comfort among households paying off their mortgage remained at a record level of 5.63 – with a small proportion assisted by banks deferring home loan repayments and to a greater extent, refinancing at record low borrowing rates. A rise in the comfort of their ability to manage a financial emergency and, to a lesser extent, cash savings was offset by lower comfort with most other drivers.

Finally, the comfort of renters remained steady, as rises in their comfort with cash savings, the ability to manage a financial emergency was offset by falls in most other drivers.

Figure 32 – Overall financial comfort of households with and without mortgages. Scores out of 10.

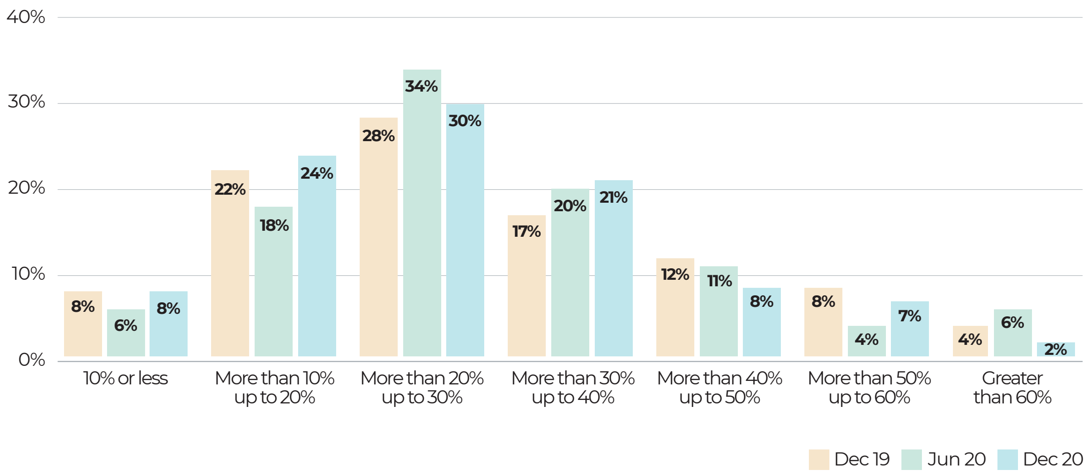


Mortgage and rent stress reduced significantly.

Quantitative indicators of mortgage stress – as measured by those households paying mortgage payments of more than 30% of their disposable income – decreased by 5 percentage points to 37% during the past six months to December – the lowest in three years since the survey began to collect this serviceability data.

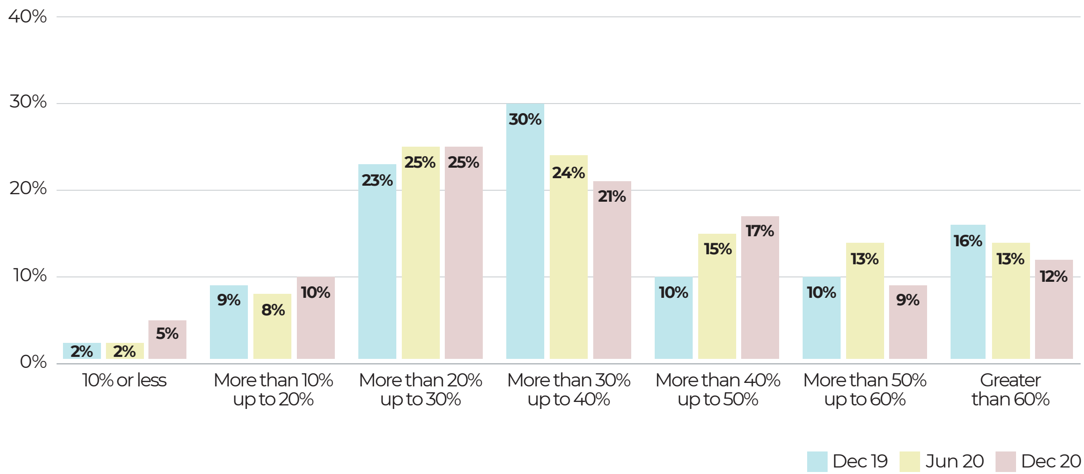
Historically low interest rates, government income support and to a lesser extent, the deferral of loan repayments by some households have helped to contain mortgage stress, while most households also continue to meet minimum commitments, are well ahead of the minimum repayments required on home loans and have significant net equity (or savings) in their homes.

Figure 33 – Percentage of household disposable income paid towards a home mortgage. - % of households with a mortgage.



There remains much higher rent stress than mortgage stress among households – albeit this stress has also eased significantly over the past year. Across Australia, there are about one in four households paying rent to landlords, with rental payment stress – as measured by the proportion of renters paying more than 30% of their disposable income towards accommodation – down 5 percentage points to 60% during the six months to December – also the lowest level seen in the past two years. Rents have fallen significantly across Australia during the pandemic – due to higher vacancy rates (as households prefer to buy rather than rent) combined with temporary rent deferrals agreed with some landlords.

Figure 34 – Percentage of household disposable income paid towards renting a home.



“I feel worse off because no extra shifts are available; I’m dependent on that extra money.”

Part-time paid employment
Queensland

05. Other findings.

5.1 Comfort with income improves slightly further.

Returning to the key components of the overall *Household Financial Comfort Index*, 'comfort with income' increased by 1% to a record 6.06 out of 10 – 6% above the historical average of 5.73.

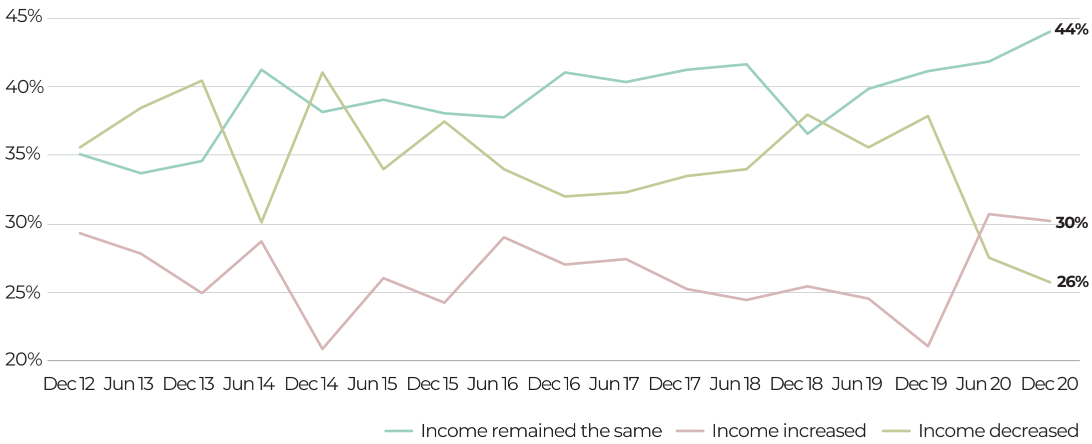
This may be largely attributed to increased government income support and other supplements together with the financial actions of households since the onset of the pandemic.

'Comfort with income' increased across most households, except single parents, empty nesters, those with 'low or mid-ranged comfort', and those on low incomes (less than $40,000 per annum) (down 10% to 4.77), compared with average incomes ($75,001 to $100,000) (up 6% to 6.31).

Figure 35 – Household comfort with income. Scores out of 10.

In contrast to increased comfort with income, for the second consecutive survey a greater proportion of households reported 'income decreases over the past year', rather than 'income increases'. While most households reported that their 'income remained the same' during the past year (up 2 points to a record 44% of households), households that reported 'income decreases' eased by one point from a record high to 30% – 4 points above the historical average.

Figure 36 – Household income changes during past year - % of households.

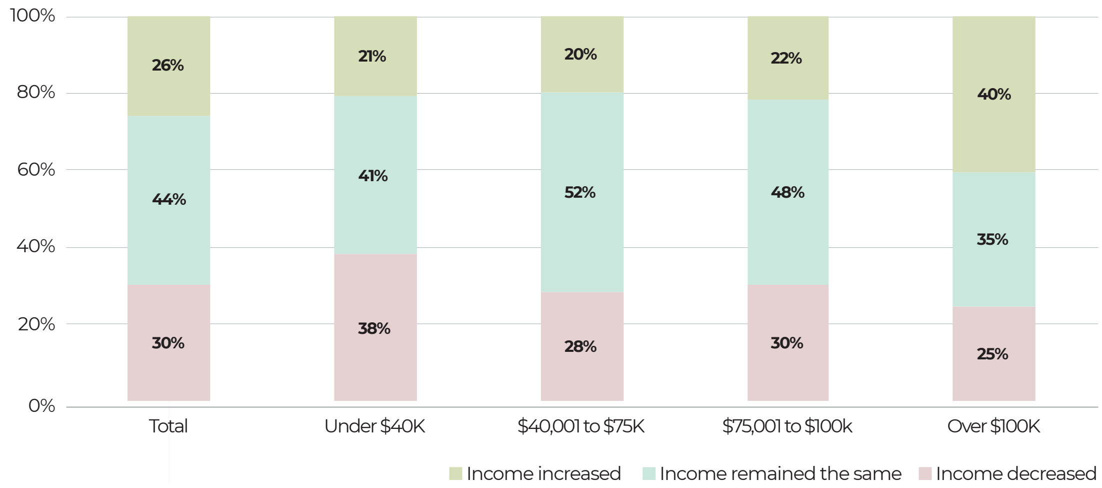


Meanwhile, those that reported 'income increases' decreased 1 point to 26% – 9 points below the historical average.

Across income bands, annual income gains decreased for households with low incomes under $40,000 (with the proportion reporting increases down 2 points to 21%), while income losses for lower incomes increased by 4 points to 38%. Only households with high annual incomes (>$100,000 per annum) reported a rise in income increases by 4 points to 40%.

Put another way, high income households were twice as likely to have reported higher incomes over the past year, as other lower levels of incomes.

Figure 37 – Amount of cash savings held by life stage.



5.2 Comfort with monthly expenses improves further.

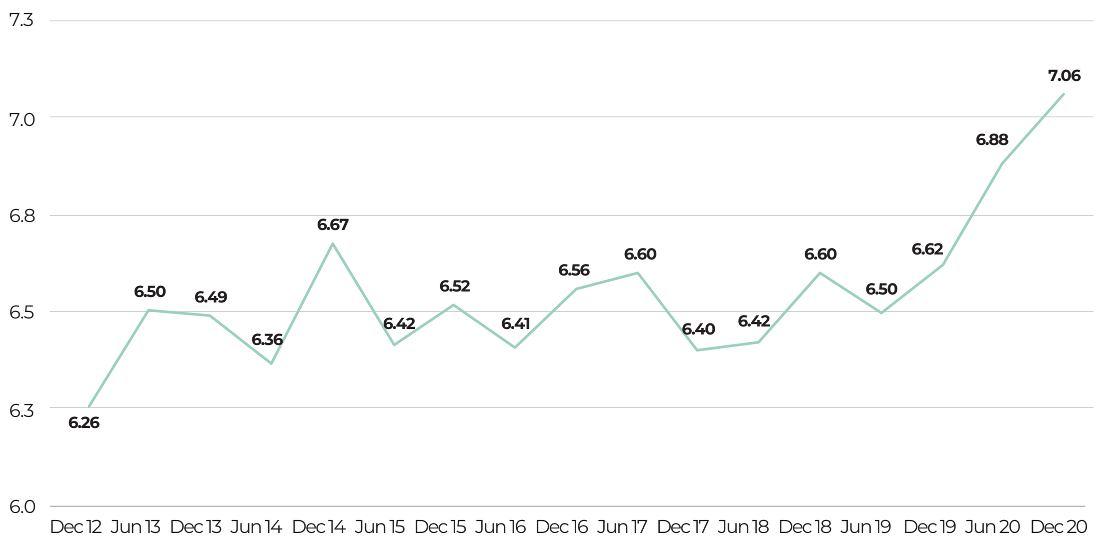
Comfort with the 'ability to pay regular expenses' also increased by a further 3% to 7.06 – the highest recording since the survey began, 8% above the historical average of 6.51.

Comfort with the 'ability to pay regular expenses' increased across most households to record levels, especially 'middle aged singles/couples with no children'.

Across annual incomes, only households with low incomes (<$40,000 per annum) reported lower comfort with expenses (down 7% to 5.92).

In terms of overall comfort, rises in both households with 'mid and high comfort' was partly offset by a fall reported by households with 'low comfort'.

Figure 38 - Comfort with your household's ability to pay regular monthly living expenses?

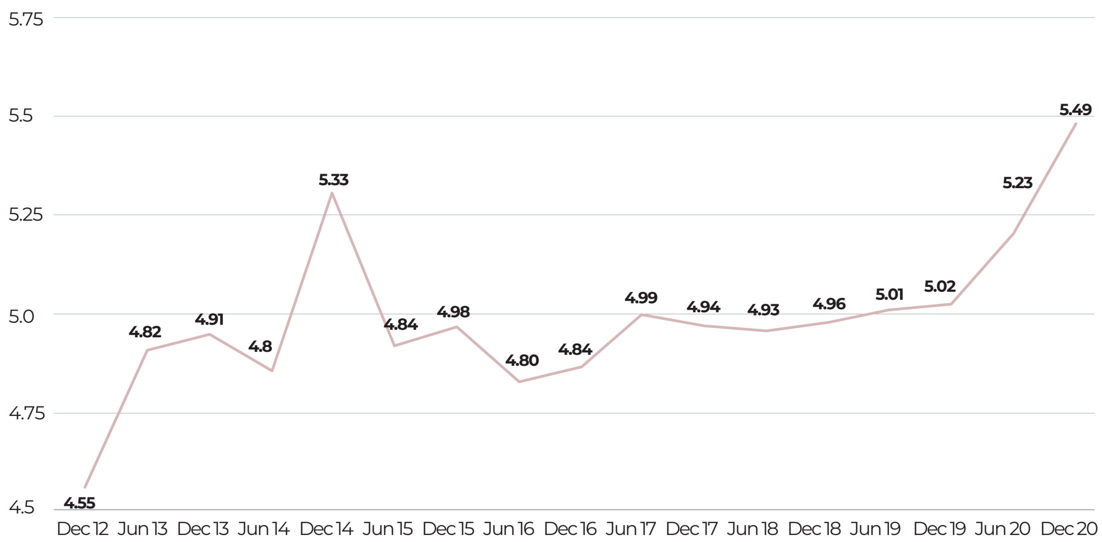


5.3 Comfort with investments improves, but mixed and disparate.

'Comfort with investments' increased by 5% to 5.49 in December 2020 – 11% higher than the historical average of 4.94 – arguably consistent with the rebound in financial assets and more generally, household expectations of a temporary negative impact from the pandemic on financial assets over the longer term. Investments include investment properties, shares, bonds, managed funds and superannuation.

Comfort with investments increased across most households to reach record highs, except for single parents (down 7% to only 4.26) and retirees (up 6% to 5.99). Young and middles aged singles/couples with no children reported substantial rises – up 17% and 16% to historical highs of 6.11 and 5.22, respectively.

Figure 39 - Comfort with level of investments. Scores out of 10.



5.4 Comfort with debt improves.

'Comfort with debt' increased 2% to 6.86 during the six months to December – its highest level since the survey began over eight years ago, 8% above the historical average of 6.18.

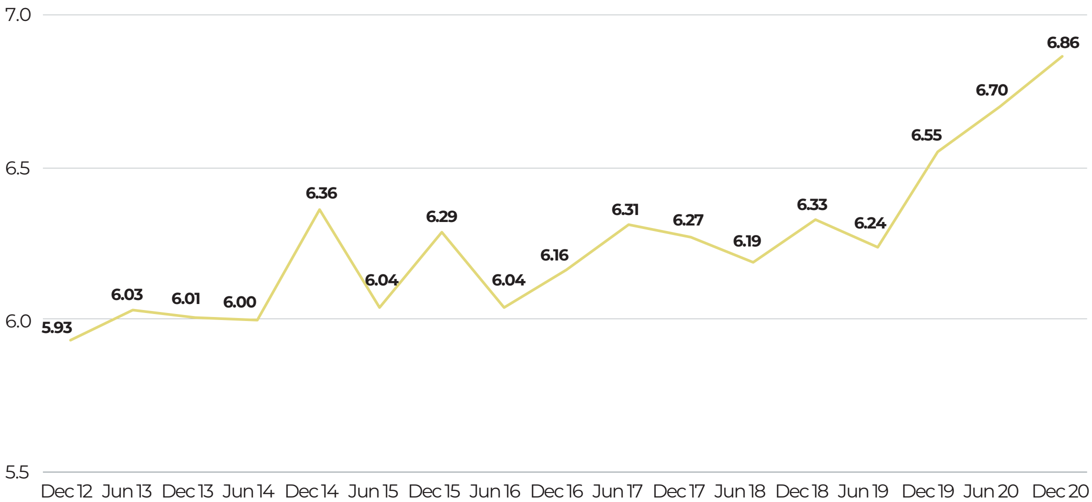
The increased comfort with debt arguably reflects historically low home loan rates and banks currently offering temporary loan deferrals.

By life stage, improvements in 'comfort with debt' were reported by most households, particularly those on low annual incomes (under $40,000).

Nevertheless 36% of households continued to worry about debt in June – including 15% of households that 'worry a lot'.

Across households, those most worried about debt included 51% of those paying off a mortgage compared to 21% of households that own their home (but may have borrowed for investments or property) and 32% of renters.

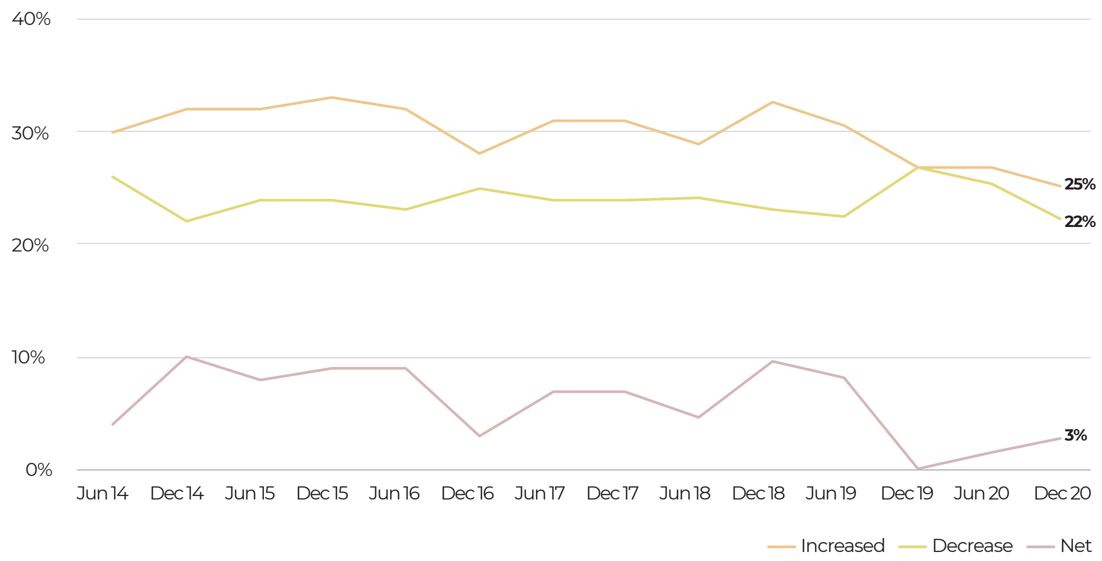
Figure 40 - Comfort with households' current level of debt. Scores out of 10.



Demand for debt remains modest.

Despite significantly lower borrowing costs and increased comfort with debt, demand for debt remained modest during the past six months.

Figure 41 - How much would you say your household's level/amount of debt has increased or decreased over the last year? - % of households



Significant levels of debt and other financial stress.

Consistent with many households still worried about debt, significant levels of debt and other sources of financial stress remain among households.

In December, 5% of households were 'unable to pay their mortgage on time during the past year due to a shortage of money'. In comparison, 6% 'could not pay their rent on time' and 10% were 'unable to pay off their loan or credit card' including 26% that maxed out the limit on one or more credit cards.

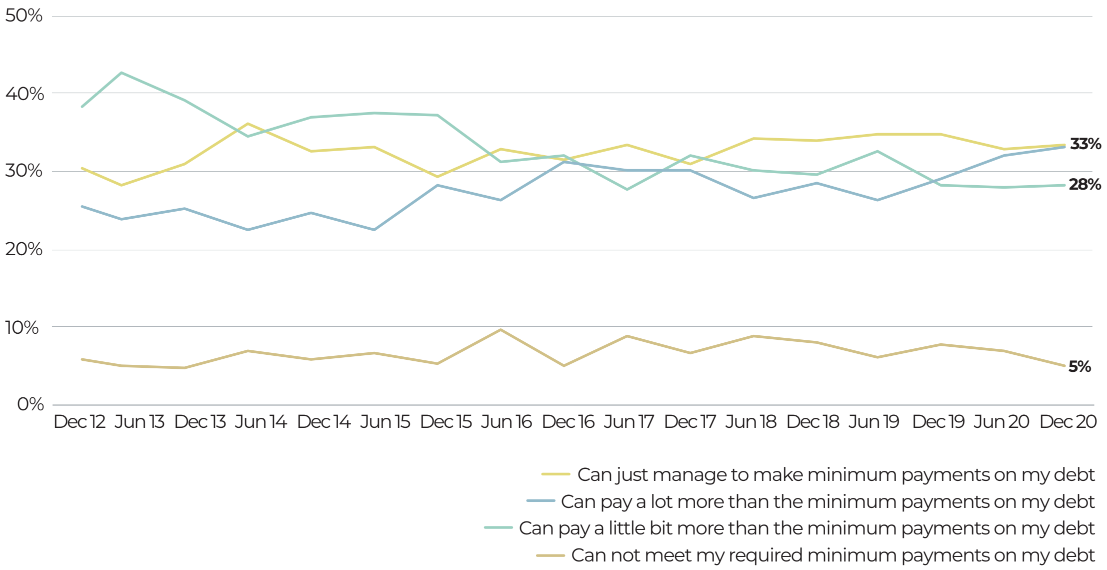
More generally, other qualitative indicators of stress were somewhat higher, with 11% 'not paying household bills on time', 9% 'going without meals' and 12% 'asking for financial help from friends or family'.

Ability to manage debt expected to improve over next 6-12 months.

Looking ahead, household expectations of their ability to manage debt over the next 6-12 months also improved – albeit there are a substantial proportion of indebted households that 'do not to expect to make required minimum payments' and, to a greater degree, 'expect to just meet debt repayments'.

Of the 73% of households with debt across Australia, about 61% expect to be able to pay either a bit more or a lot more than their minimum repayments in the next 6–12 months (up 1 point from six months ago). Only 5% of households 'do not expect to be able to meet minimum payments' on debt – 2 points lower than six months ago – and a further 34% 'expect to just meet minimum payments' (up one point than six months ago).

Figure 42 - Ability to manage debt over the next 6-12 months - % of households.



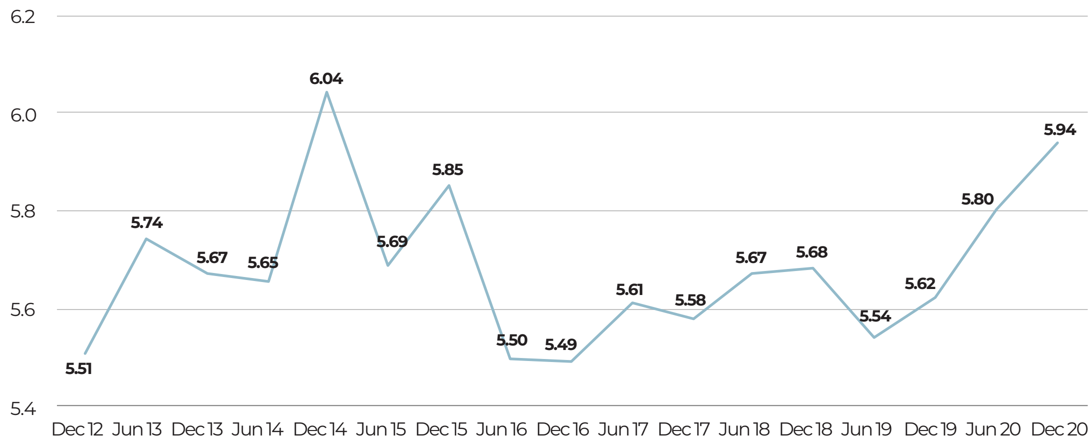
5.5 Net wealth improves but disparate.

Consistent with investments and debt, 'comfort with net wealth' – as measured by what would be left in cash if you sold all your assets and paid off all your debts – increased 2% to 5.94 out of 10, This is 5% above the long-term average of 5.68 out of 10.

'Comfort with net wealth' increased across most households, except for 'young singles/ couples no children' and 'retirees'.

Across various cohorts, comfort with net wealth remains disparate – ranging from 'single parents dependent on government assistance' (2.99) to 'retirees' (6.95); households with low annual incomes (<$40,000 per annum) (4.91) to high incomes earning more than $100,001 per annum (6.61); and home owners (7.27), owner occupiers paying off their home mortgage (5.52) and renters (4.53).

Figure 43 - Comfort with households' level of wealth. Scores out of 10.



5.6 Comfort with anticipated retirement eased.

Comfort with households' 'anticipated standard of living in retirement' decreased by 1% to 5.38 during the six months to December 2020 to be 5% above the historical average of 5.12 since the survey began.

Comfort with the anticipated standard of living in retirement was relatively lower for:

- females (4.93) versus males (5.89)
- lower annual income households (<$40,000 pe annum) (4.22) versus higher income households earning more than $100,001 per annum (6.24)
- those dependent on government pensions (3.52) versus self-funded retirees (7.26)
- renters (4.02) versus homeowners (6.46).

Figure 44 – Comfort with standard of living in retirement. Scores out of 10.

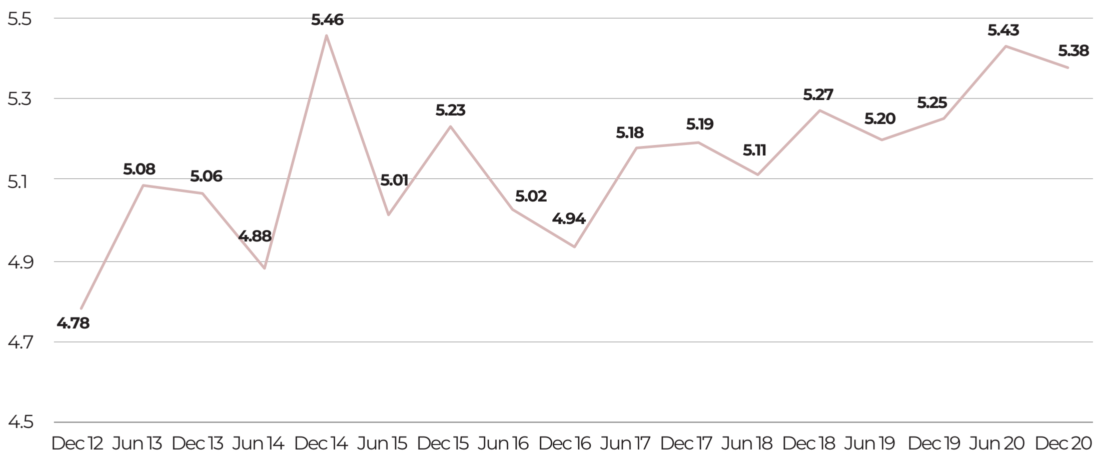
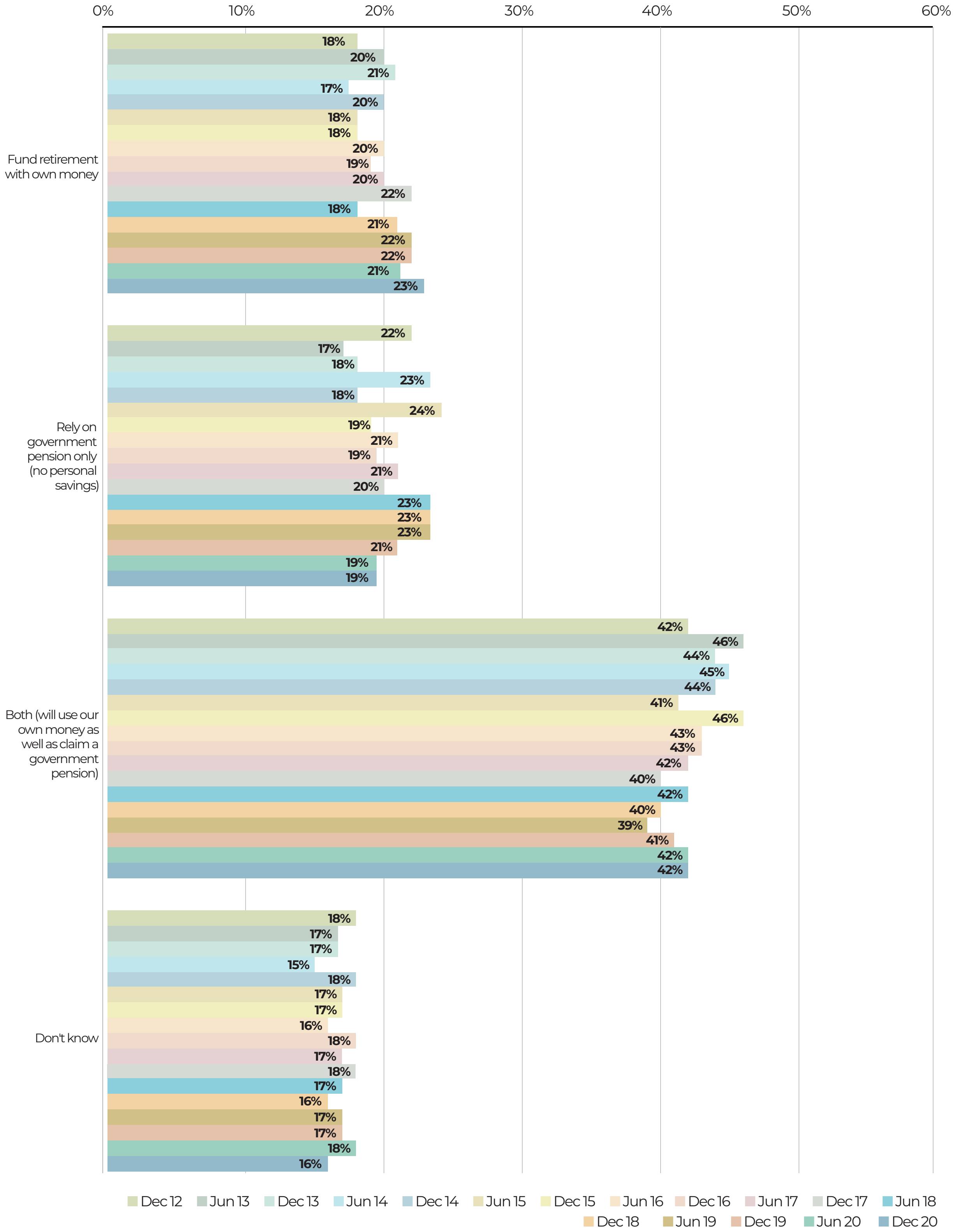


Figure 45 – How will your household fund retirement - % of households?



Plans on funding retirement largely unimpacted by pandemic to date.

Currently, 23% expect to fund retirement with their own superannuation, increasing two points in the past six months.

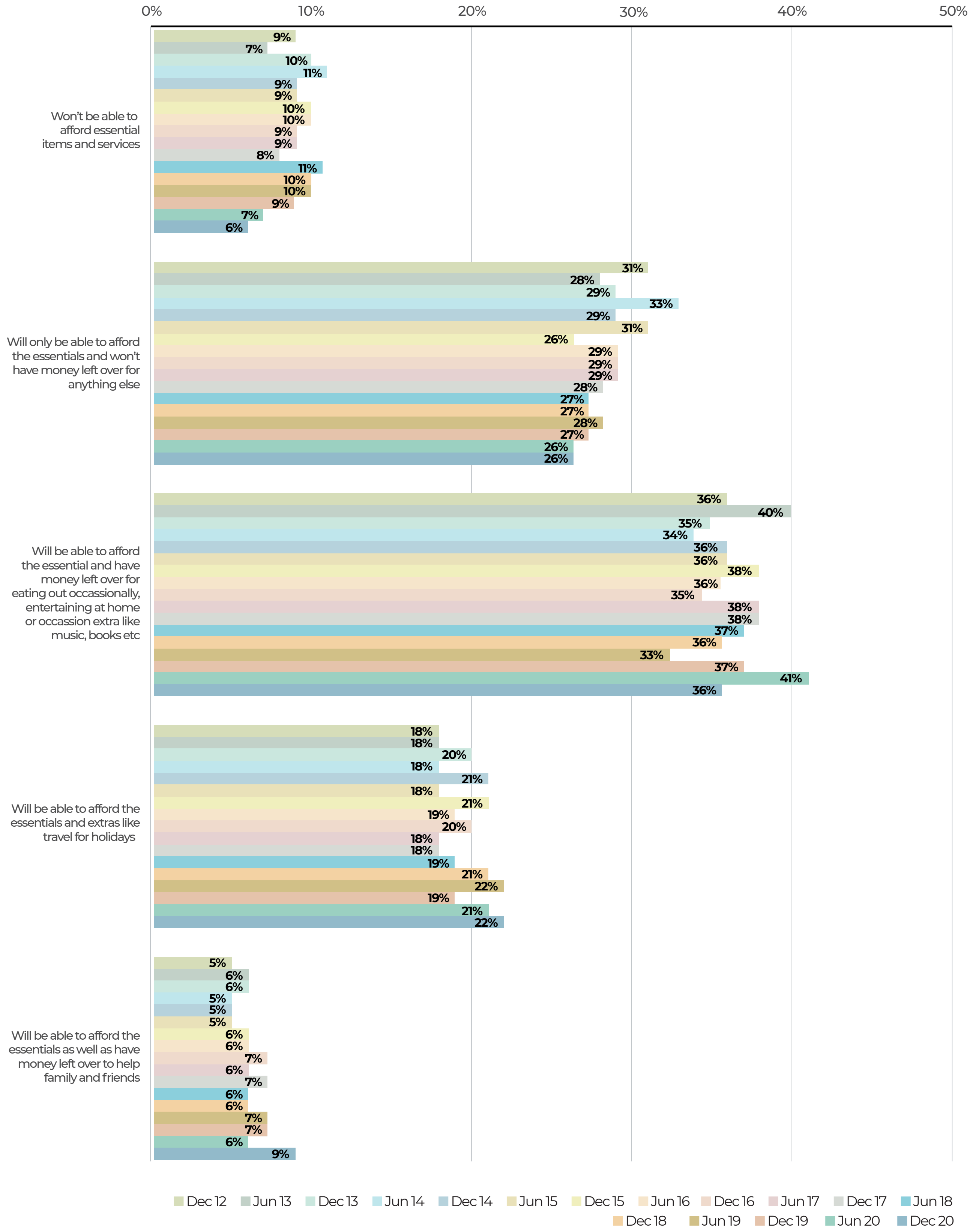
The number of households expecting to rely on the government pension during retirement remained unchanged at 19%, while those expecting to partly fund retirement with a government pension also stayed the same at 42%.

Finally, a significant proportion of households simply did not know (down 2 points to 16%).

Expected adequacy of income in retirement also largely unchanged.

In December 2020, households' expectations of the adequacy of their income in retirement improved slightly. Around 68% of households expected to be able to 'afford essentials and extras', while 32% of households reported they 'cannot afford essentials' or have 'no money leftover afterwards'.

Figure 46 – Expectations for adequacy of income in retirement - % of households.



“There is less money in my bank account, more living expenses and the same amount of pay going in.”

Middle aged single
South Australia

06. Appendix a – household statistics.

		Net Wealth	Household Income
	Household Financial Comfort Index	Average Net Wealth	Average Household Yearly Income
Young singles /couples (<35yo) with no children	6.26	$289,000	$101,000
Single parents	5.05	$399,000	$64,000
Couples with young children	5.92	$554,000	$119,000
Couples with older children	5.81	$948,000	$101,000
Middle-aged singles/couples with no children	5.67	$454,000	$110,000
Empty nesters (50+yo)	5.87	$876,000	$77,000
Retirees	6.56	$900,000	$54,000

07. Appendix b – methodology.

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. Seventeen 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 late November to mid-December. 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).

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