household financial comfort report.

ninth survey dec 2015.

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

EASY STREET OR HARD YARDS?
SEE HOW AUSTRALIAN HOUSEHOLDS ARE FARING AS AT DECEMBER 2015.

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 ninth survey, conducted in December 2015.

Survey history

- First Edition: October 2011
- Second Edition: June 2012
- Third Edition: December 2012
- Fourth Edition: June 2013
- Fifth Edition: December 2013
- Sixth Edition: June 2014
- Seventh Edition: December 2014
- Eighth Edition: June 2015
- Ninth Edition: December 2015

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 and 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 per cent owned by Australia's leading industry super funds.

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content.

"I worry about affording and repaying the mortgage on a property."

COUPLE WITH YOUNG CHILDREN
SYDNEY

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01.

ME's ninth biannual *Household Financial Comfort Report* shows the gap in financial comfort between younger and older generations[1] has widened significantly since the first survey in 2011.

While the comfort of 'builders' (aged 75+) and 'baby boomers' (aged 50-74) has improved by 16% to 6.38 and 14% to 5.85, respectively since October 2011, the comfort of 'Gen Y' (aged 18-34) and 'Gen X' (aged 35-49) has remained broadly unchanged over the same period, up only 2% to 5.56 and 3% to 5.16, respectively *(see pages 9-10)*.

Digging deeper, the *Report* indicates ownership of assets including property, superannuation, shares and managed funds, is largely fuelling the divergence.

Recent gains in the macroeconomic and financial environment including significant rises in property and equity values, has disproportionately lifted the financial comfort of older generations who tend to have higher levels of asset ownership or investments.

The findings add to recent policy debates around housing ownership and affordability, and the generosity of superannuation tax concessions for wealthier Australians.

They highlight the importance of housing and superannuation as important wealth generators with both contributing to higher levels of financial comfort. They suggest that wealthier Australians may be better able to manage any wind back to super tax concessions, while remaining at a relatively high level of financial comfort.

The disparity in financial comfort between generations is largely due to older generations enjoying substantial improvements in their investments and income primarily through real estate and superannuation. 'Gen X' and 'Gen Y' have smaller investments and continue to struggle with property ownership, so have benefited to a much lesser extent.

Younger generations are more likely to rent, reflecting the increased difficulty when it comes to getting on the property ladder. The issue is exacerbated for the younger generations as prices and rents have grown faster than incomes, particularly in capital cities *(see page 11)*.

Other findings

Overall ME's *Household Financial Comfort Index* rose 3% to 5.59 out of 10 in the 6 months to December 2015, equivalent to about 65% of Australian households reporting mid-to-high financial comfort. This result reverses half of the fall from the previous 6 months and is the second highest financial comfort result recorded since ME started the survey in late 2011 (about 3% above the historical average of 5.45) *(see page 5)*.

The overall rise in the *Household Financial Comfort Index* was largely driven by an 8% increase in comfort with 'ability to cope with a financial emergency (loss of income for 3 months)', arguably boosted by the strengthening of the labour market and in particular, strong job gains and a significant fall in unemployed persons over the past year or so *(see pages 18-21)*.

Those stating 'it would be easy to get a job within two months' increased 2 points to 40% of the workforce during the six months to December 2015, while those reporting 'it would be difficult' decreased 3 points to 53%. Job security increased 2 points to 73% and insecurity fell 1 point to 25% *(see pages 20-21)*.

Modest increases in income also contributed to the improvements in 'ability to cope with a financial emergency (loss of income for 3 months)'. The proportion of households reporting annual income gains, increased by 4 points in the past six months to 38%, compared to the proportion reporting lower income, fell 2 points to 24%, with a further 38% reporting unchanged household income *(see pages 22-24)*.

Improved employment and income also contributed to increases in both comfort with cash savings (up 3% to 5.06) and across a range of savings indicators including an increase in the proportion of households saving each month, up 3 points to 50% in December 2015, versus spending all of their income and no more, down 3 points to 41% *(see pages 25, 27)*.

Stand-out states: The effects of a weakening mining industry are showing in Western Australia, the only state where financial comfort deteriorated (down a further 2%) to a record low of 5.11 in December 2015 – the lowest household financial comfort by far across Australia. In contrast, South Australia/Northern Territory recorded the greatest gains in household financial comfort (up 14% to 5.57) *(see page 12)*.

A regional/metro divide remained prevalent, with households living in metropolitan areas reporting higher levels of financial comfort (up 4% to 5.72) in December 2015, compared to households living in regional areas (up 2% to 5.29) in December 2015. Melbourne is the stand-out city, with the highest level of financial comfort (up 4% to 5.92), followed by Sydney (up 3% to 5.81). On the other hand, Perth fell 8% to 5.12 – the lowest of all capital cities *(see pages 12-13)*.

Self-employed: After a very big rise of 18%, self-employed persons (typically, sole proprietors and small business owners) are the most comfortable segment of the workforce reporting financial comfort of 5.91 in December 2015. Recent policy announcements may be a contributing factor – in addition to labour market improvements and some signs of a pick up in business conditions *(see page 15)*.

Household differences: Couples with children – both older and younger in age – reported significant improvements – up 7% to 5.85 and up 6% to 5.55, respectively. In contrast, singles and couples with no children reported the biggest drop.

[1] Generation definitions are Gen Y: 18–34, Gen X: 35–49, Boomers: 50–74, Builders: 75+

economic context.

02.

Overall, Australian households have continued a relatively prudent approach to spending and finances during the second half of 2015. Consumer confidence has increased – consistent with significant job and wealth gains, lower fuel prices and low borrowing costs; albeit still weak wage growth. Household consumption growth has strengthened a little since mid-2015, but remains a bit below its historical average. The recovery in household wealth continued, but moderated somewhat. House price gains eased in most of Australia – notably in Sydney and to a lesser extent in Melbourne and declined further in Perth. While both global and Australian equity values also declined slightly, compulsory employer contributions continued to increase superannuation. Debt has increased faster than income – largely due to investors and a lesser extent owner-occupiers/upgraders in Sydney and Melbourne. Debt servicing costs remain relatively low, notwithstanding only slowly rising incomes at about the pace of consumer price inflation.

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

Consumer confidence measures increased to about their long run averages during the 6 months to end 2015, with optimists slightly more than pessimists.

Demand for labour has improved with job vacancies on an upward trend, while strong job gains have outpaced growth in those looking for work and the population during the past six months or so. As a result, the national unemployment rate fell to 5.8% in December 2015, compared with 6% in June 2015 and a recent peak of 6.4% in early 2015. Over the past six months, a fall in unemployment across all states has offset a continued rise in Western Australia. The broader measure of labour under-utilisation rate (both unemployed and under-employed) was 14.3% in May, compared with 13.7% six months ago and almost 15% in November 2014. In contrast, average hours worked per employee has remained largely unchanged. Labour costs also remain weak; annual wages growth has moderated to a historically low pace – a bit below the pace of underlying consumer inflation.

Despite still relatively low income growth, **household consumption** growth has picked up a little, but remains below its historical long term pace – supported by very low interest rates and sustained wealth gains (mainly related to housing for some households). As measured by the official data, the **household saving rate** from current disposable income remains relatively high, on average.

The housing market has eased somewhat – mainly due to moderation in investor demand following some tightening in prudential and lending standards. While new building approvals – especially for multi units – have eased from high levels, dwelling investment continued to grow, supported by low interest rates and population growth. Annual growth in Australian capital dwelling values has moderated from 10% to 8% during the past six months – reflecting smaller house price gains in Sydney (from 16% to 11%), largely steady annual growth in Melbourne (at about 11%), further price falls in Perth (-1% to -4%) and subdued growth in non-metro regions (at only 2%).

Growth in **household debt** stabilised at a moderate pace during the past six months. Housing credit growth continued at an annual rate of about 7%, with moderation in investor credit (from about 11% to 9%) offset by demand from first home buyers and repeat owner occupiers (from 5% to 6.5%). In contrast, many households continued to take advantage of low interest rates to pay down debt and other personal credit remained largely unchanged.

Although still a bit below its record peak in mid–2007, 'real' **household assets**, on average, have continued to increase relatively strongly compared to income, mainly reflecting further significant rises in residential property prices offsetting falls in both Australian and global share values (including dividends). Financial assets (mainly superannuation) have continued to rise during the second half of 2015, largely due to continued compulsory contributions, rather than increased voluntary savings and despite a small fall in both global and Australian share prices.

As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – continued to improve in the second half of 2015, albeit at a slower rate with disparate trends among households. In aggregate, debt-to-income has risen a little over the past six months, while debt-to-assets has fallen slightly.

Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are low generally – consistent with households, on average, coping reasonably well with debt servicing burdens due to ongoing low borrowing costs, despite slow income growth and higher long-term unemployment over the past year or so. This masks a great deal of variation among Australians – across socio-economic and demographic factors – as is evident in the *Household Financial Comfort Report*.

“We’re comfortable at the moment.”

COUPLE WITH OLDER CHILDREN
WESTERN AUSTRALIA

latest trends in household financial comfort.

03.

3.1
HOUSEHOLD FINANCIAL COMFORT INDEX.

Overall, the *Household Financial Comfort Index* (see Figure 1), rose 3% from 5.41 to 5.59 during the final half of 2015. This rise in comfort recovers about half of the fall in the first half of 2015, but still remains below the recent high of 5.78 reached in December 2014.

The current indice is equivalent to about 65% of Australian households reporting mid-to-high comfort. The increase in household financial comfort reflects households feeling less financially stressed in the event of an emergency, less concerned about the security of their work and being more comfortable with their income and debts.

From a medium-term perspective, this is the second highest level of household financial comfort recorded since ME commenced the survey in late 2011 – and about 3% above the historical average of 5.45 out of 10.

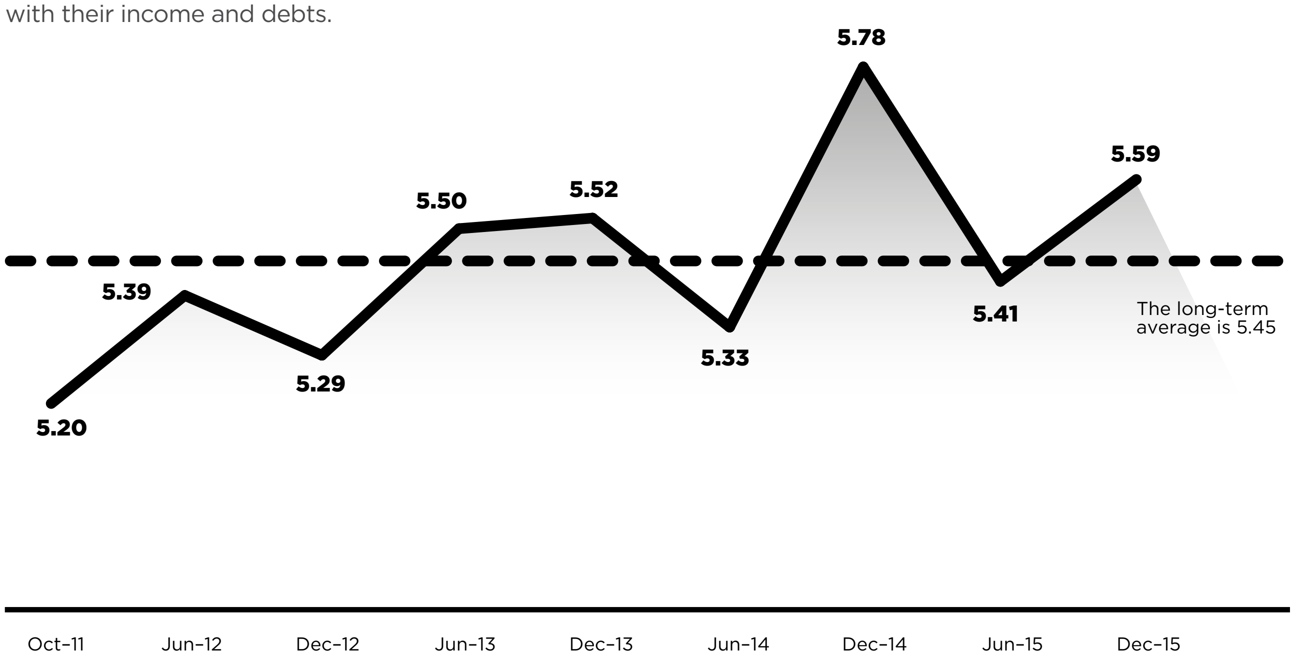

Figure 1 – Changes to the Household Financial Comfort Index. Scores out of 10.

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 from 0 to 10 across eleven measures including:

Comfort level with the overall financial situation of the household (1)

Changes in household financial situation over the past year (2) and anticipated in the next year (3)

Confidence in the household's ability to handle a financial emergency (loss of income for 3 months) (4), and

Comfort levels with (5) household income, (6) living expenses, (7) short-term cash savings and (8) long-term investments (including superannuation), (9) debt, (10) overall net wealth, and (11) the household's anticipated standard of living in retirement.

3.2

FINANCIAL COMFORT UP ACROSS
ALL 11 INDEX COMPONENTS.

All measures of the *Household Financial Comfort Index* increased over the final half of 2015 – see Figure 2.

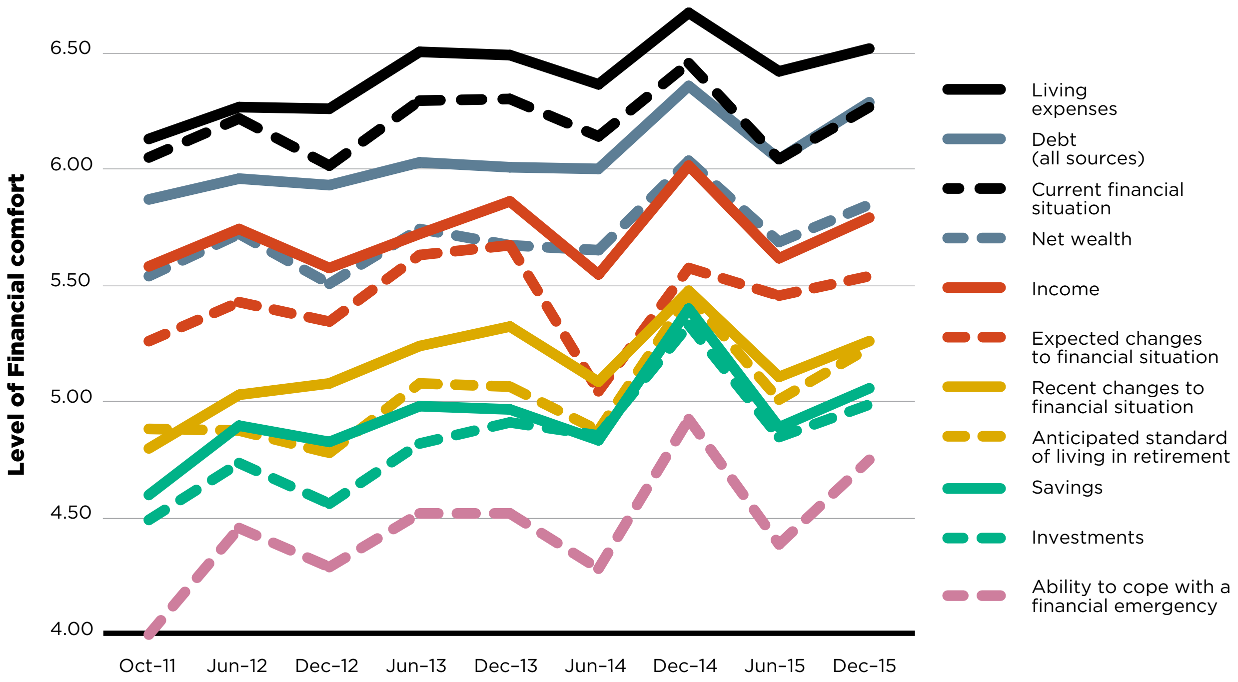

Figure 2 – The 11 components that make up the Index, showing changing levels of comfort over time. Scores are out of 10.

In terms of the Index components, in December 2015:

- Households were most comfortable with their ability to 'manage their current living expenses' (6.52 out of 10), 'level of debt' (6.29 out of 10) and 'current financial situation (6.27 out of 10).
- Households were least comfortable with their 'ability to cope with a financial emergency' (4.75 out of 10), 'investments' (4.99 out of 10) and 'cash savings' (5.06 out of 10).
- All 11 components rose in the past six months, while the biggest improvements in comfort were with the 'ability to cope with a financial emergency' (up 8% to 4.75), and to a significantly lesser extent 'anticipated standard of living in retirement' (up 4% to 5.23), 'current financial situation' (up 4% to 6.27), and 'level of debt' (up 4% to 6.29).

From a medium-term perspective, all components of overall comfort have improved to be above their average outcome reported since late 2011. In broad terms, households financial position has improved overall over the past four years. The main positive macroeconomic and financial influences have been the recovery in household wealth (both in housing and equity investments), a fall in borrowing costs and debt servicing burdens, continued income gains (albeit subdued) and relatively low consumer inflation. On the other hand, the labour market has weakened for most of the past four years. Since late 2014, however, a pick up in both vacancies and job gains has outpaced population growth and unemployed persons has fallen significantly.

By end 2015, household comfort in 'coping with a financial emergency' (4.75 out of 10) was 7% higher than its historical average (4.46) – the biggest rise among the components – arguably boosted by the strengthening of the labour market and in particular, strong job gains and a significant fall in unemployed persons over the past year or so. For more details see Section 4.

3.3
FINANCIAL COMFORT UP ACROSS MOST HOUSEHOLDS.

The overall increase in financial comfort was reflected across most households in the six months to December 2015 with the exception of 'retirees', 'young singles/couples (<35 years old) with no children' and 'mid-aged singles/couples with no children' – see Figure 3.

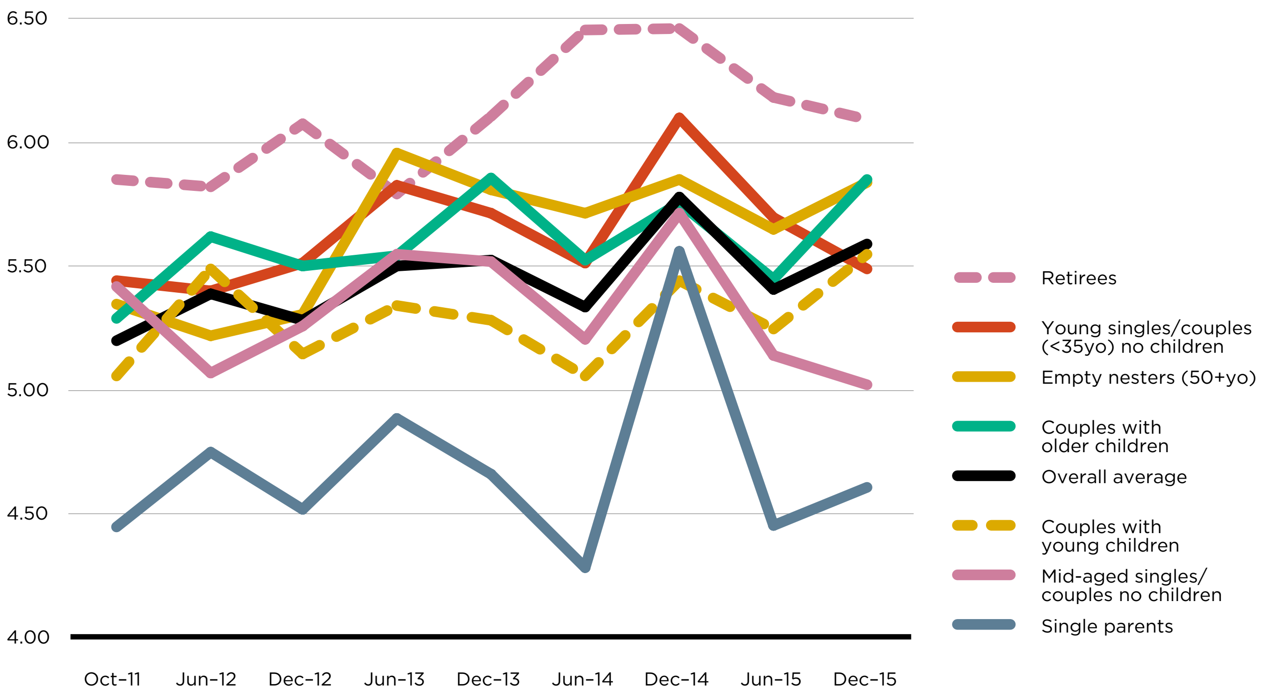

Figure 3 – Financial comfort across different households. Scores out of 10.

In terms of households, in December 2015:

- Households with the highest financial comfort were 'retirees' (6.09 out of 10) – especially 'retirees dependant on super' (7.11 out of 10) – and to a lesser extent 'couples with older children' (5.85 out of 10) and 'empty nesters' (5.84 out of 10).
- On the other hand, households with the lowest financial comfort were 'single parents' (4.61 out of 10), especially those single parents dependent on government assistance[2] (down 17% to 3.11), and 'mid-aged singles/couples with no children' (5.02 out of 10).
- The biggest rises in household financial comfort were 'couples with older children' (up 7% to 5.85), and to a lesser extent 'couples with young children' (up 6% to 5.55). These particular households experienced 13% and 16% respective increases in their 'ability to cope with a financial emergency'.
- The largest falls in household comfort were 'young singles/couples (<35 years old) with no children' (down 4% to 5.49), and 'mid-aged singles/couples with no children' (down 2% to 5.02). These households experienced large falls of 8% and 6%, respectively in household financial comfort with 'savings' as well as smaller falls with most other drivers of overall comfort.

[2] Small base size, interpret with caution.

3.4

GAP IN FINANCIAL COMFORT OPENS UP BETWEEN GENERATIONS.

The overall increase in financial comfort was reflected across all generations[3] in the six months to December 2015 – see Figure 4. However, the gap in comfort between generations has continued to widen since the first survey began in October 2011.

The comfort of older generations – both 'builders' and 'baby boomers' – has increased significantly, while the comfort of younger generations – both 'Gen X' and 'Gen Y' – has remained relatively unchanged over the past four years.

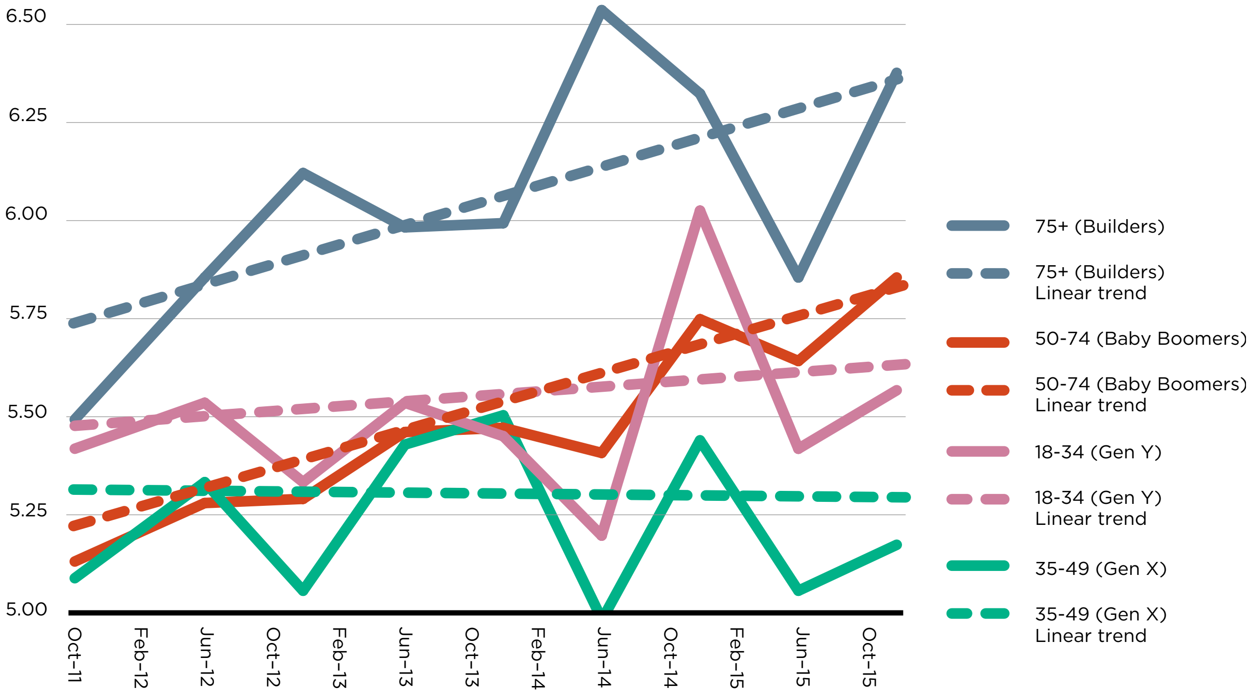

Figure 4 – Financial comfort across generations. Scores out of 10.

In terms of generations, in December 2015:

- 'Builders' and to a lesser extent 'baby boomers' continued to report the highest household financial comfort of any generation at 6.38 and 5.85 out of 10, respectively. These older age groups also increased their household financial comfort the most of any generation, rising 9% and 4%, respectively, in the past six months.
- 'Retirees' (a subset of a subset of 'builders' and 'baby boomers') reported even higher household financial comfort (up 4% to 6.18) during final half of 2015. Those relying on superannuation in retirement (7.11 out of 10) reported higher household financial comfort than those dependent on the aged pension (5.59 out of 10).
- Conversely, 'Gen X' (5.16 out of 10) and to a lesser extent 'Gen Y' (5.56 out of 10) reported the lowest household financial comfort of any generation. 'Students' (a subset of 'Gen Y' and 'Gen X') also reported the lowest financial comfort of any sub-generation at 5.17 out of 10.

[3] Generation definitions are Gen Y: 18–34, Gen X: 35–49, Boomers: 50–74, Builders: 75+

the widening generational divide.

Figure 4 on the previous page highlights that over the past four years or so, the overall comfort of 'builders' and 'baby boomers' has improved by 16% and 14%, respectively, while the overall comfort of 'Gen Y' and 'Gen X' has increased by only 2% and 3%, respectively.

Detailed analysis finds this divergence has been across all eleven key drivers of overall comfort, with relatively bigger increases in comfort with 'investments', 'debt' and to a lesser extent 'cash savings', and in turn 'net wealth' and 'anticipated standard of living in retirement'. As a result, this generational gap has significantly widened since the first survey in October 2011.

Put another way, the gains in the macroeconomic and financial environment over the past four years have largely lifted the comfort of older generations. The significant rise in both property and equity values has disproportionately benefited the comfort of older generations (both 'builders' and 'baby boomers') reflecting their significantly higher levels of investments (including cash savings) and related non-labour income and small debts. In turn, there has been a positive flow-on to comfort with their 'anticipated standard of living in retirement' for older generations. With smaller (net) investments, younger 'Gen X' and 'Gen Y' have benefited to a much lesser extent from rising asset values. In contrast, 'Gen X' and 'Gen Y' increased comfort with their 'ability to cope with a financial emergency' reflecting the improvement in the job vacancies and significant job gains over the past year – albeit continued subdued wage gains has continued to weigh on the comfort with 'income' of 'Gen X' and 'Gen Y'.

3.5

RENTERS FEELING THE PINCH.

Overall financial comfort rose across all housing tenures during the six months to December 2015. However, financial comfort of home owners (up 2% to 6.64) remained significantly higher than households paying off mortgages (up 5% to 5.52) and to a much greater extent renters (up 4% to 4.54).

The lower comfort among renters may be a reflection of the difficulty first home buyers are experiencing getting into the residential property market. Both house prices and rents are growing faster than incomes, particularly in some of the major capital cities, and recent changes to bank's lending standards have restricted borrowing capacity.

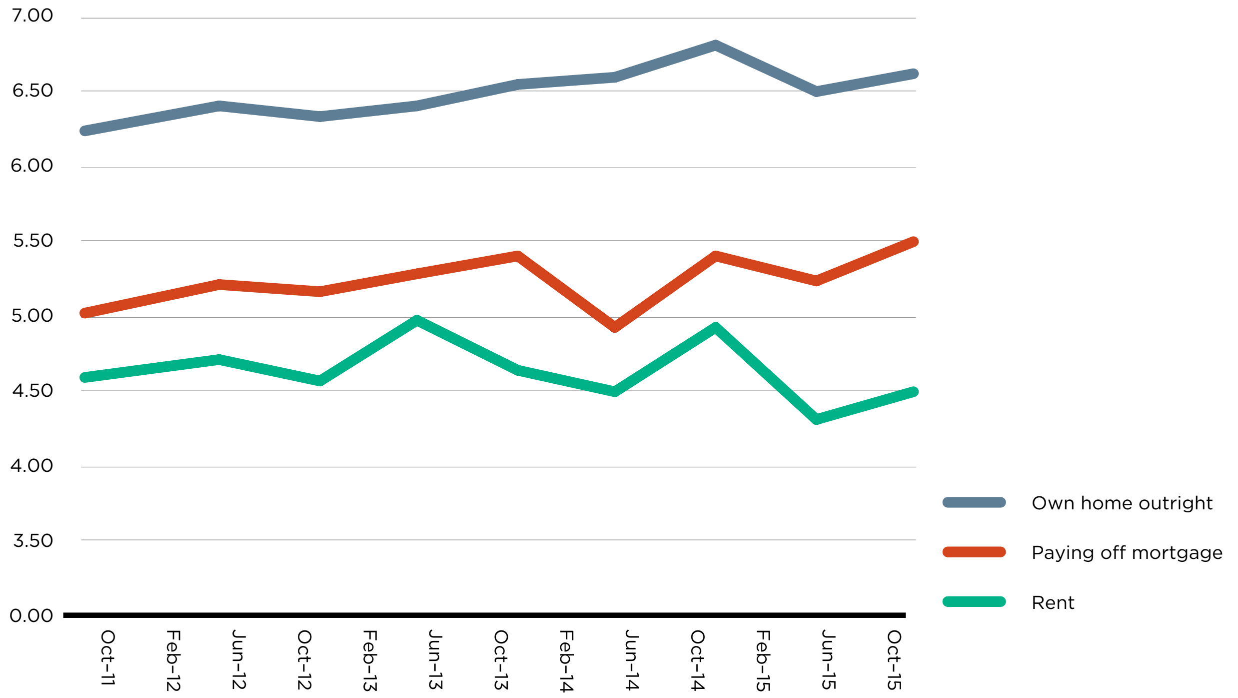

Figure 5 – Overall financial confidence based on home ownership. Scores out of 10.

3.6

FINANCIAL COMFORT UP ACROSS MOST STATES AND TERRITORIES.

In December 2015, financial comfort increased across most mainland states/territories, except Western Australia, where the downturn of the mining boom continues to negatively impact comfort – see Figure 6.

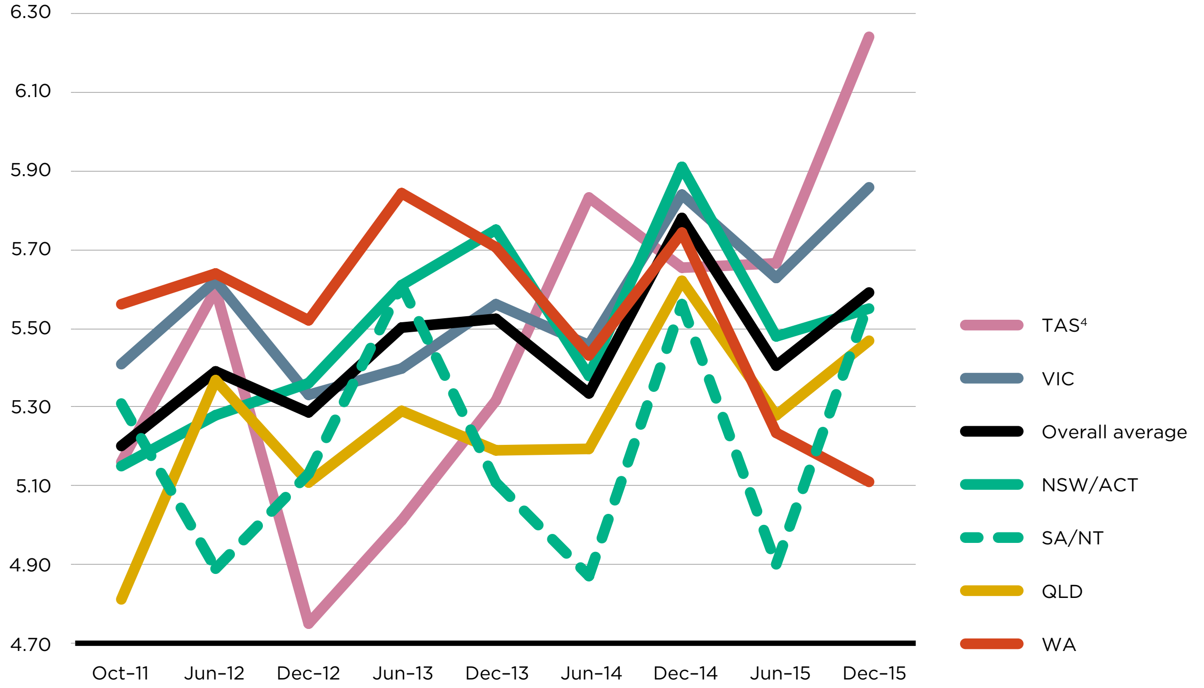

Figure 6 – Changes in financial comfort across states and territories. Scores out of 10.

In terms of the states and territories, in December 2015:

- Victoria continued to report the highest level of household financial comfort of all mainland states (up 4% to 5.86 out of 10), reflecting relatively higher comfort across all key drivers and in particular with 'savings', 'investments', 'income' and 'ability to cope with a financial emergency'.
- Conversely, Western Australia reported the lowest level of household financial comfort (5.11 out of 10) and the lowest since the survey commenced in late 2011. This reflected relatively low comfort across all key drivers compared to other mainland states – especially with 'ability to cope with a financial emergency', 'investments', 'anticipated standard of living in retirement' and 'savings'.
- In terms of fluctuations, South Australia/Northern Territory recorded the greatest gains in household financial comfort (14% to 5.57) during the past six months. Western Australia was the only state to experience a fall (2% to 5.11) in the final half of 2015 –13% lower than its recent peak of 5.84 in June 2013.

Consistent with other broad economic indicators of Australian activity, the marked decline in household comfort in Western Australia over the past couple of years is being more than offset by gains in the eastern Australian states – especially Victoria.

Metro verses regional – the great divide.

Households living in metropolitan areas continued to report higher levels of financial comfort (5.72 out of 10) than households living in regional areas (5.29 out of 10) in December 2015 – see Figure 7.

As shown in Figure 8, this trend was evident across all larger states (New South Wales, Victoria, Queensland and Western Australia), with household financial comfort highest in the capital cities of Melbourne (5.92 out of 10) and Sydney (5.81 out of 10).

In terms of fluctuations, comfort rose in all capital cities except Perth during the six months to December – similar to the state-wide comparison noted above (see Figure 6).

[4] Small base size, interpret with caution.

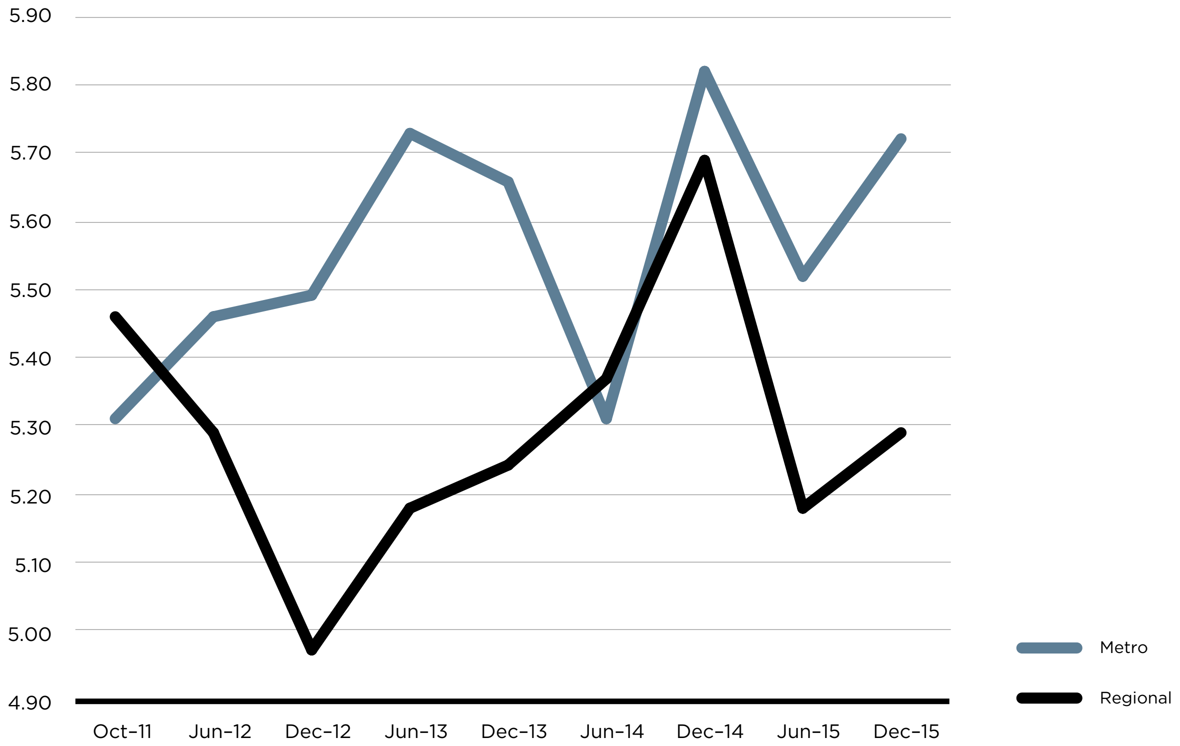

Figure 7 - Comfort index across metropolitan and regional Australia.

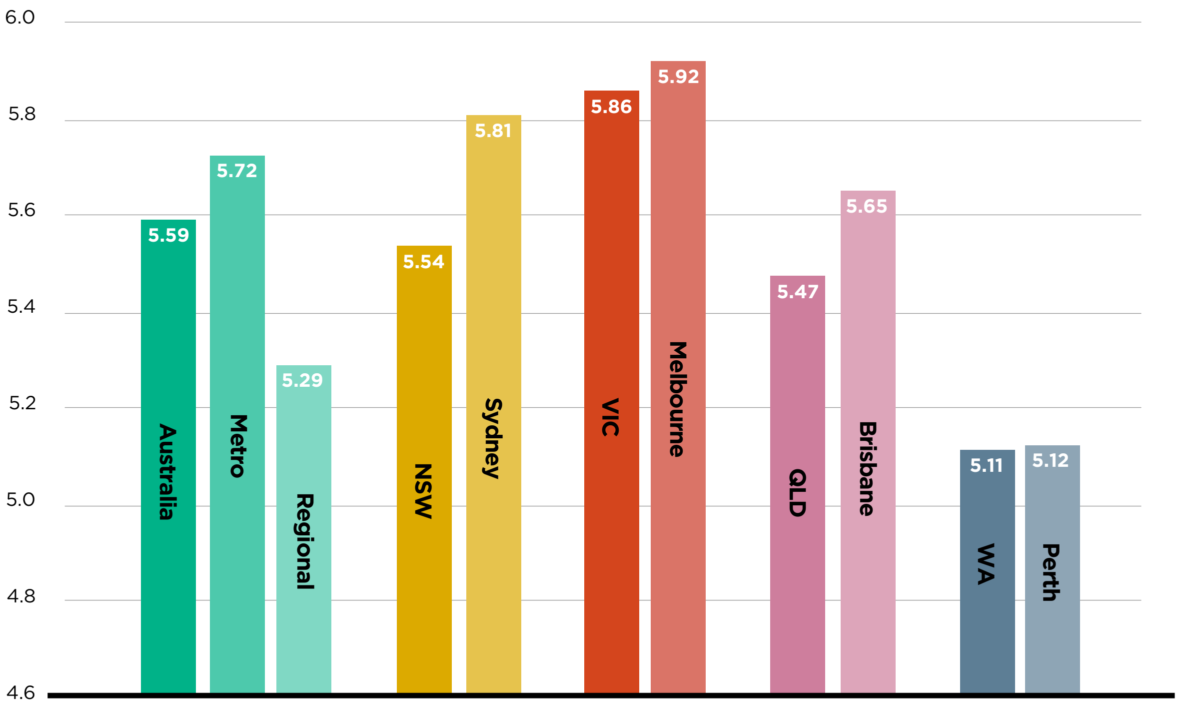

Figure 8 - Financial comfort across larger states and metropolitan areas. Scores out of 10.

“I’ve got enough super to live to 100 without government assistance.”

RETIRED
QUEENSLAND

3.7

FINANCIAL COMFORT UP ACROSS MOST WORKFORCE SEGMENTS.

In December 2015, financial comfort increased across most areas of the employed labour force – see Figure 9. This is consistent with improved job availability, job security and income security over the past six months, noting that income gains remain subdued.

Following a large rise of 12%, 'self-employed workers' recorded the highest level of financial comfort (5.91 out of 10) – 7% higher than the average since the survey began in late 2011. All key drivers rose with bigger gains with their 'income', 'savings', 'investments' and 'ability to cope with a financial emergency'. This is typically consistent with a pick up underway with small businesses across Australia.

To a lesser extent, comfort of 'full-time paid employees' increased by 4% to 5.86 – to be a bit below 'self-employed' comfort levels in December 2015, reflecting relatively higher comfort across all key drivers especially 'ability to cope with a financial emergency', 'net wealth' and 'income'.

In contrast, the comfort of 'casual workers' fell a further 5% to 5.18 in December 2015, while 'part-time workers' reported unchanged comfort (5.32 out of 10). Most key drivers of comfort fell significantly for 'casual workers', while for 'part-time workers' an increase in comfort with the 'ability to cope with a financial emergency' was offset by small falls in most other drivers.

After falls in most key drivers, the lowest financial comfort continued to be reported by 'unemployed' people down by 20% to 3.64 in December 2015 – which is a similar level as reported in June 2014 – and reflecting relatively very low comfort with all key drivers in particular the 'ability to cope with a financial emergency' (only 2.35 out of 10).

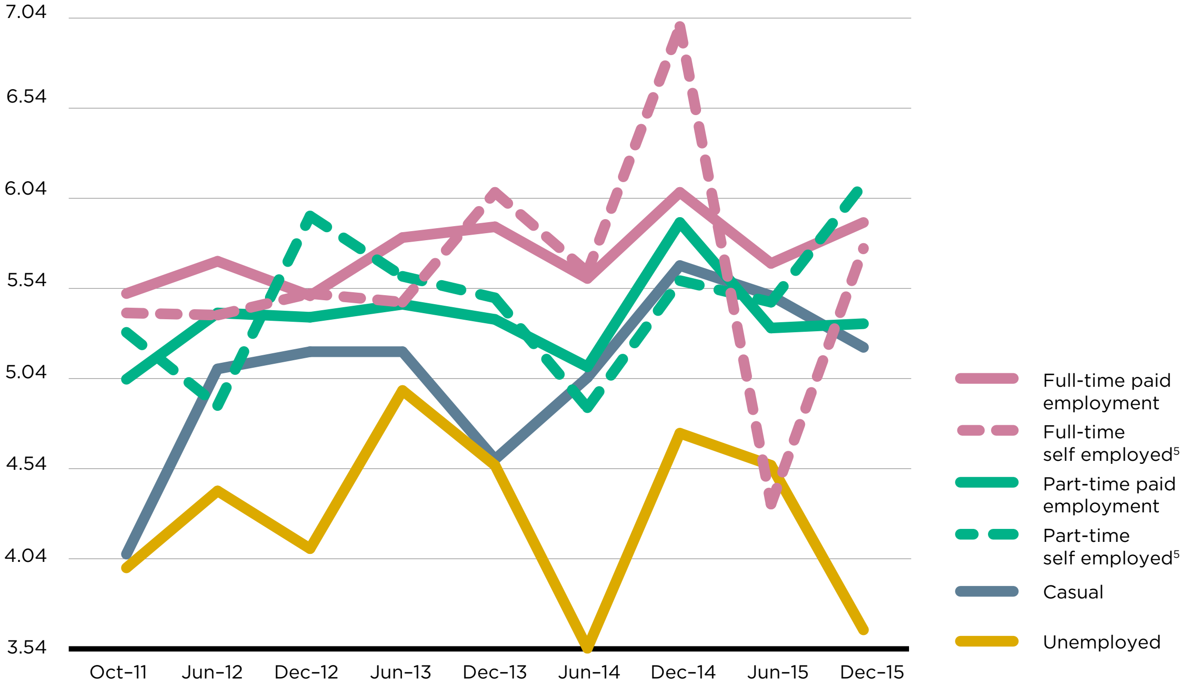

Figure 9 – Changes in financial comfort across labour segments. Scores out of 10.

[5] Small base size, interpret with caution.

3.8

LESS CONCERNS ABOUT TOP WORRIES.

The top four worries nominated by households have eased slightly during the past six months to December, with the most significant fall being 'able to make ends meet', which decreased by 3 points to 31%.

Only a couple of worries have increased over the past six months, namely 'how the global economy will affect Australia', (up 4 points to 29%) and 'changes to personal taxes' (up 3 points to 13%) – both reversing the falls reported in the previous six months.

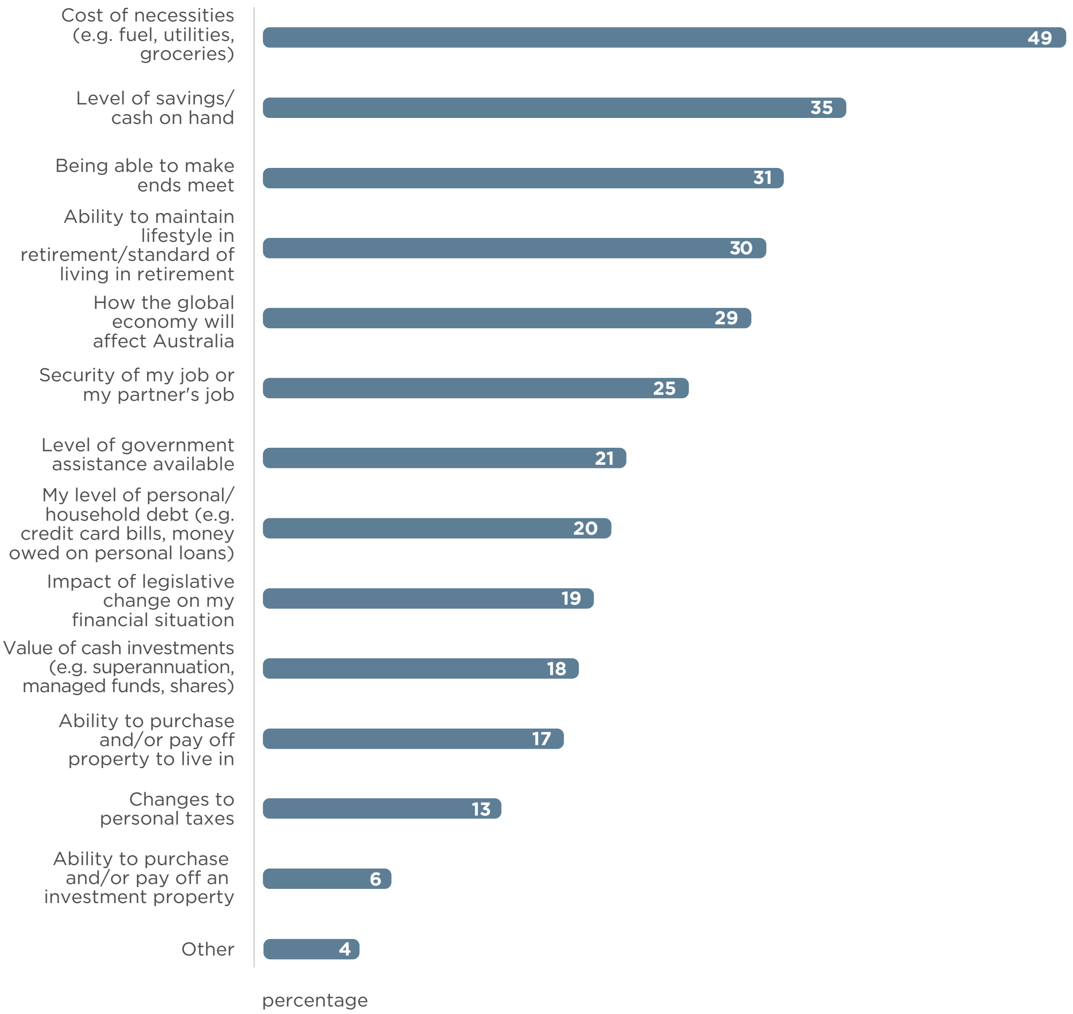

Figure 10 – Biggest worries nominated by households. December 2015

“My biggest worry is the current state of world events. In particular threats of terror attacks and general economic malaise...”

EMPTY NESTERS
QUEENSLAND

factors contributing to the overall rise in household financial comfort

04.

4.1

INCREASED CONFIDENCE IN COPING WITH FINANCIAL EMERGENCIES.

The biggest contributor to the overall increase in financial comfort was a rise in confidence with the 'ability to cope with a financial emergency' (loss of income for 3 months), up 8% to 4.75 in the six months to December 2015.

The rise in confidence in the 'ability to cope with a financial emergency' was arguably boosted by strengthening of the labour market and in particular, strong job gains and a significant fall in unemployed over the past year or so. For more details see Section 4.2 and 4.3.

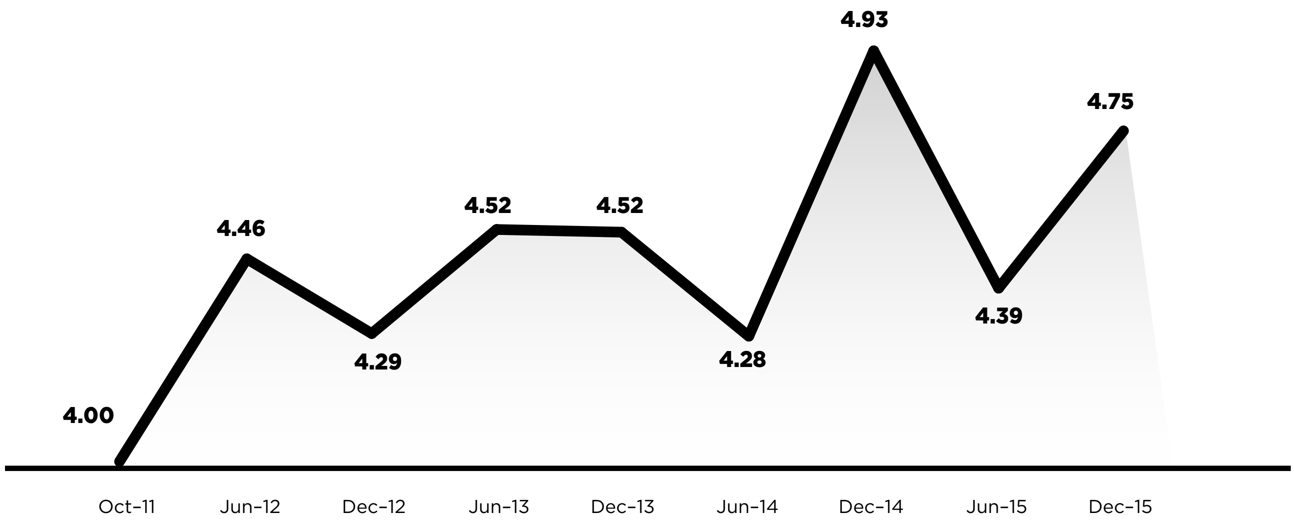

Figure 11 – Confidence in ability to handle an emergency. Scores out of 10.

As noted in Section 3.7, all parts of the permanently employed workforce reported a significant increase in the 'ability to cope with a financial emergency' during the past six months.

In terms of households, most segments reported more confidence in their 'ability to cope with a financial emergency', with the main exception being 'young singles/couples (<35yo) no children' (down 7% to 4.30).

The greatest gains were reported by 'couples with young children' (up 16% to 4.72) and 'couples with older children' (up 13% to 5.07).

Similar to previous surveys, 'single parents' were the least confident (3.69 out of 10), while 'empty nesters' (5.25 out of 10) and 'retirees' (5.24 out of 10) were the most confident.

Raising $3,000 in an emergency became easier.

The increase in the 'ability to cope with a financial emergency' is supported by a similar rise in the number of households indicating it would be easy to raise $3,000 in an emergency (up 2 points to 36% over the six months to December 2015).

Regardless, almost two-thirds (64%) of households could not easily raise $3,000 for an emergency in December 2015.

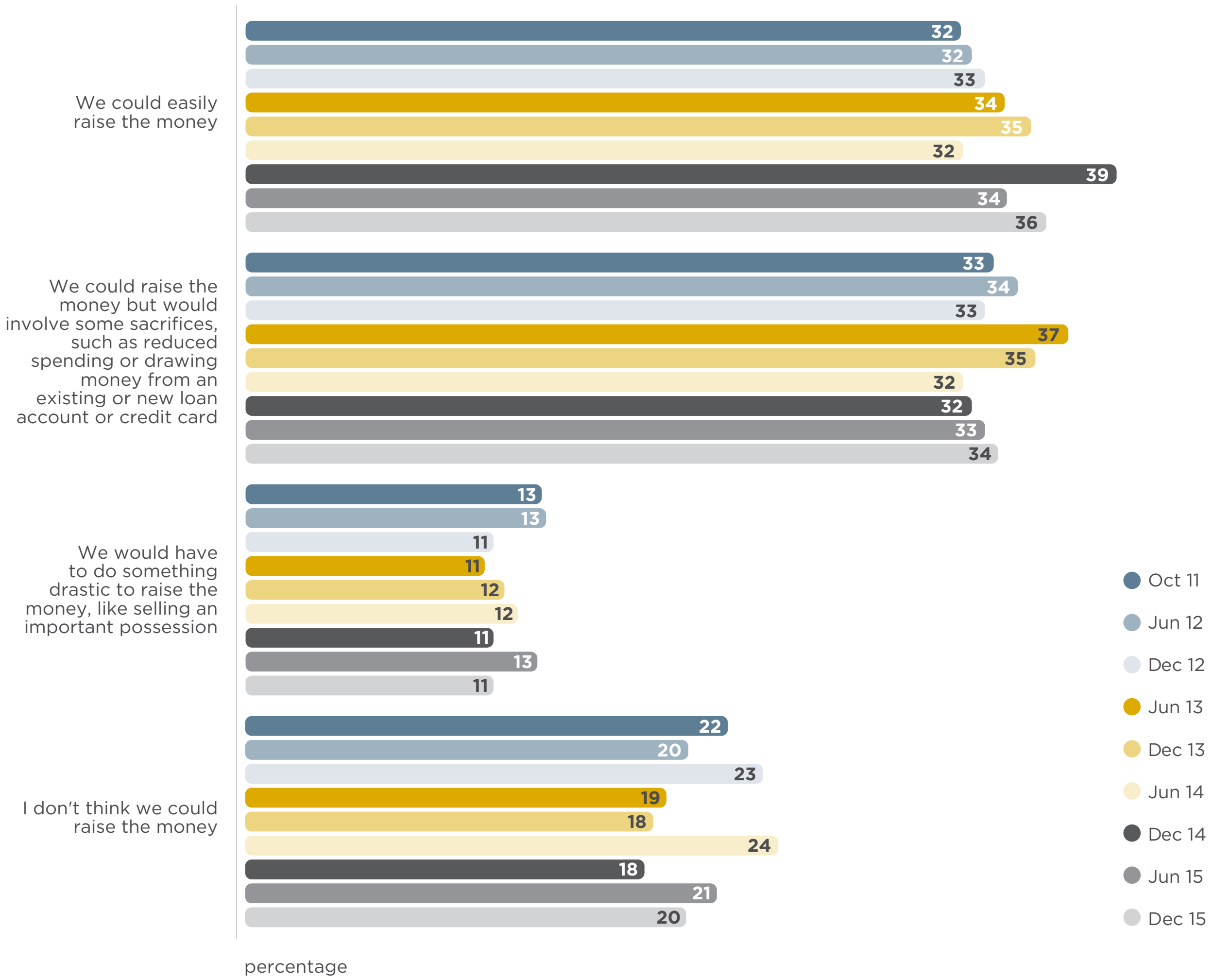

Figure 12 – Ability to raise $3,000 in a week for an emergency.

4.2

CONFIDENCE OVER JOB AVAILABILITY UP SLIGHTLY.

Subdued income gains.

Rising confidence with the 'ability to cope with a financial emergency' (see Figure 11) was largely a result of improvements in the job market and also evident in an increase in confidence with both job availability and job security.

Those stating 'it would be easy to get a job within two months' increased 2 points to 40% during the six months to December 2015, while those reporting it would be 'difficult' decreased 3 points to 53%. See Figure 13.

Consistent with its large fall in overall household comfort, the exception across Australia was Western Australia. Confidence around job availability in this state fell substantially in the past six months (down 9 points to 39% stating 'it would be easy to get a job within 2 months'). South Australia/Northern Territory's confidence around job availability increased the most across all states (up 9 points to 35% stating 'it would be easy to get a job within 2 months'), while the corresponding outcomes were above the Australian average in both New South Wales (42%) and Victoria (41%).

There were also increased confidence in job availability across the employed workforce – especially 'casual' (up 12 points to a still relatively low 25%) and 'self-employed' (up 11 points to 41%) to close the gap with 'full-time employed workers' (unchanged at 45%).

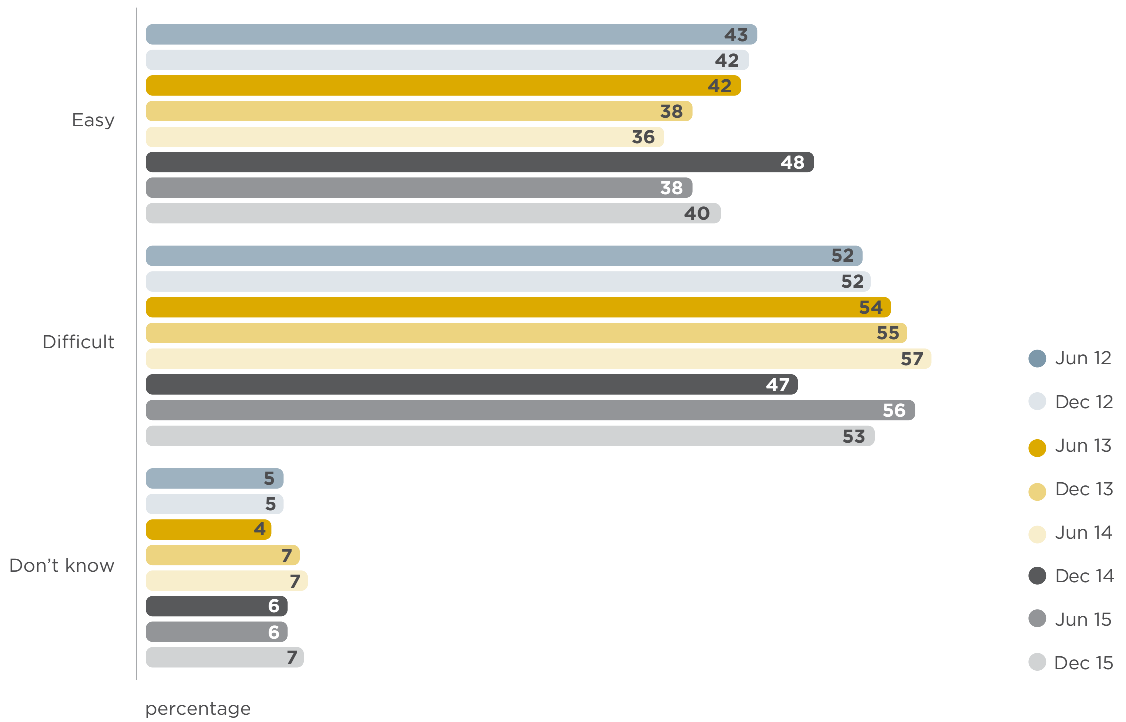

Figure 13 – Would it be easy/difficult to get a job in 2 months if unemployed?

4.3
CONFIDENCE OVER JOB SECURITY ALSO UP SLIGHTLY.

Similar to job availability, job security increased 2 points to 73% and insecurity fell 1 point to 25% during the past six months to December 2015.

There was also increased confidence in job security across the employed workforce – especially 'casual' (up 10 points to a still relatively low 52%) and 'self-employed' (up 5 points to 64%), compared to 'full-time employed' workers (unchanged at 75%) and 'part-time workers' (up 2 points to 70%).

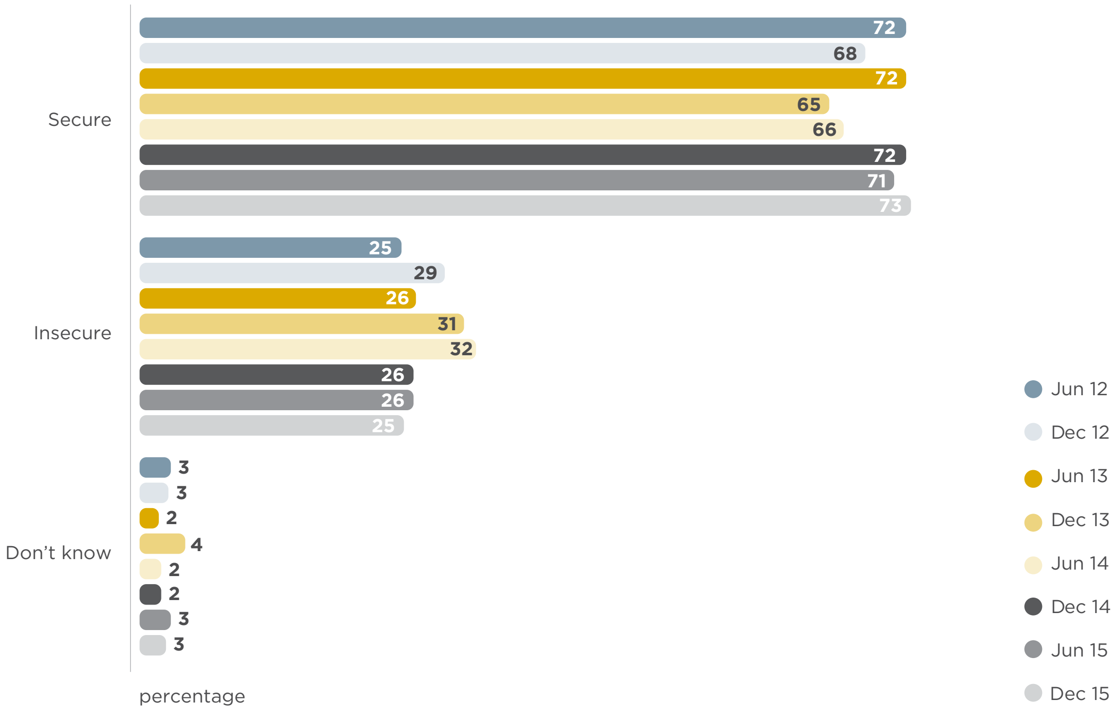

Figure 14 – Thinking specifically about your job, how secure have you felt about your job in the last month?

4.4
INCREASED COMFORT
WITH HOUSEHOLD INCOME.

Continued subdued income gains.

Modest increases in income also contributed to the improvements in 'ability to cope with a financial emergency'. This was evident with increases to household income over the past year (see Figure 15), adequacy of income (see Figure 16), and comfort with income (see Figure 17).

In terms of changes to income, the proportion of households reporting income gains increased by 4 points in the past six months to 38%, compared to the proportion who reported income falls (down 2 points to 24%).

By life stage, the proportion of households reporting income gains over the past year varied markedly, with the biggest gains in households with 'single parents' (up 14 points to 41%) and 'couples with older children' (up 11 points to 40%). There was little change with 'young singles/couples (<35yo) with no children' (52%), followed by 'couples with young children' (44%) and 'mid-aged singles/couples with no children' (32%), 'empty nesters' (27%) and a significant fall among 'retirees' (down 8 points to 20%).

Consistent with other improvements discussed above, 'self-employed' workers reported the largest rise in the proportion of workers that reported increases with income – up 20 points to 43% over the past six months.

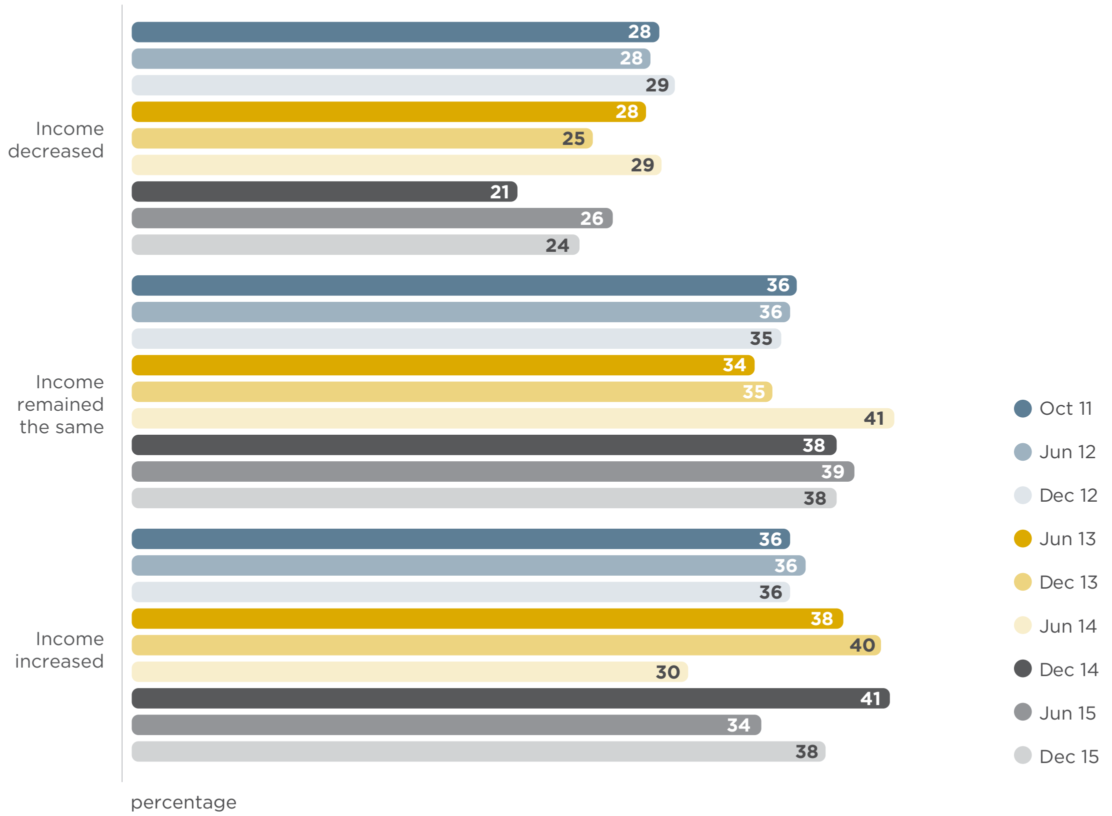

Figure 15 – Has your household income increased or decreased over the past year?

Adequacy of income improves slightly.

Modest income improvements were also evident in increases in perceived income adequacy during the six months to December 2015.

Figure 16 shows a small increase in the adequacy of incomes – consistent with the improved comfort with household income in Figure 15.

Around 20% of households reported they 'can only afford the essentials and don't have money left over' in December 2015, down 6 points over the past six months, while those households that 'can't afford to pay for essential items' remained unchanged at 5%.

Put another way, there was an increase of 5 points to 75% of households that felt they could afford discretionary spending; 42% of households 'can afford the essentials and have money left over for eating out occasionally, entertaining at home or occasional extra' (up 1 point since six months ago). Furthermore, 22% can 'afford extras like travel and holidays' (up 2 points since six months ago), and 10% reported they can 'afford extras as well as save and make extra loan repayments' (up 1 point since six months ago).

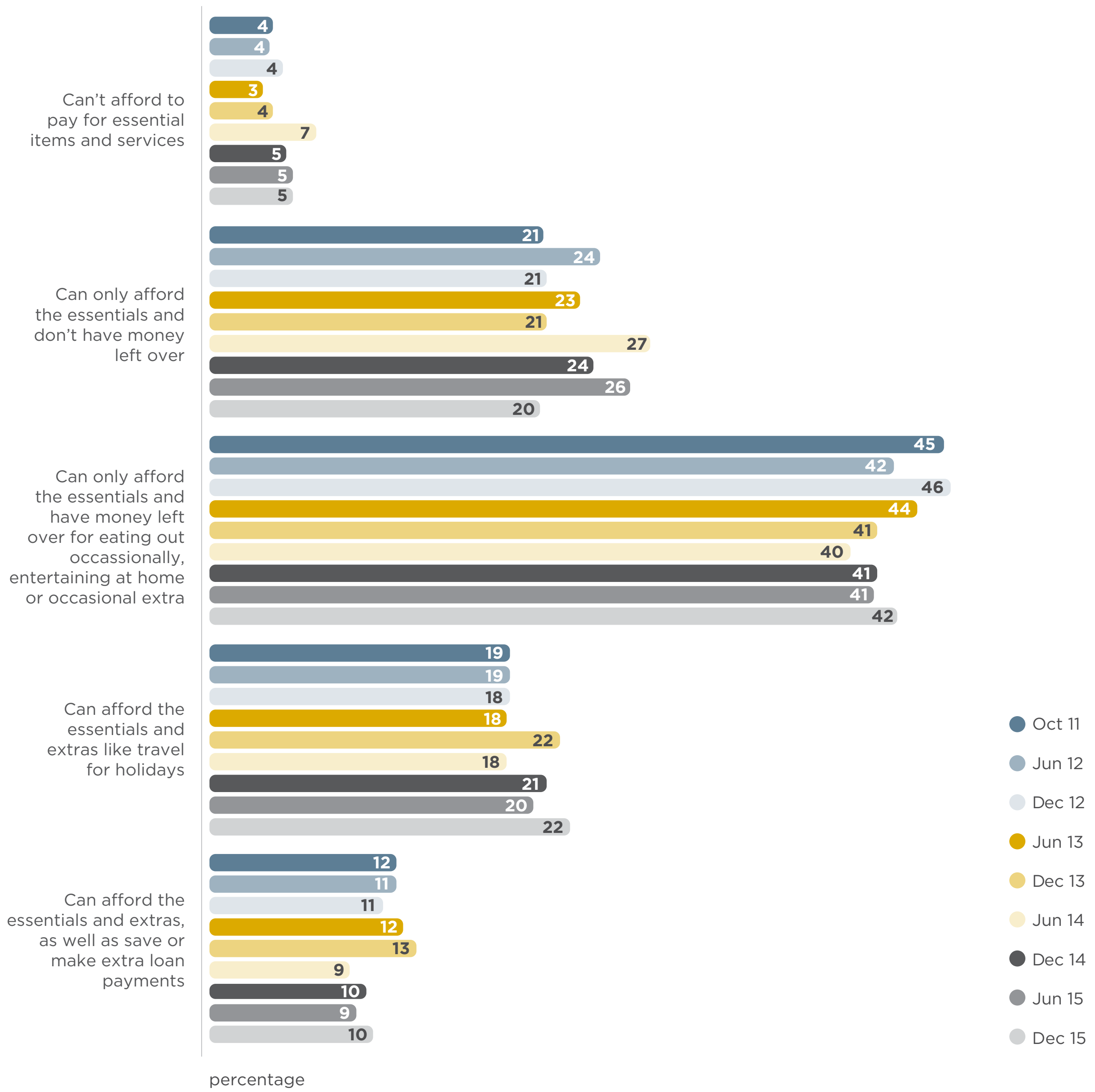

Figure 16 – How adequate is your income?

Comfort with household income increased.

Overall comfort with household income increased 3% to 5.79 during the six months to December 2015 – reversing about half the fall from the peak of 6.01 reported a year ago (see Figure 17).

'Retirees' continued to report the highest levels of comfort with income (unchanged at 6.39 out of 10), while at the other end of the spectrum, 'single parents' had the lowest levels of comfort with income (4.64 out of 10), followed by 'mid-aged singles/couples no children' (5.13 out of 10).

The biggest rises in comfort with income were 'couples with young children' (up 7% to 5.81) and 'couples with older children' (up 6% to 6.07).

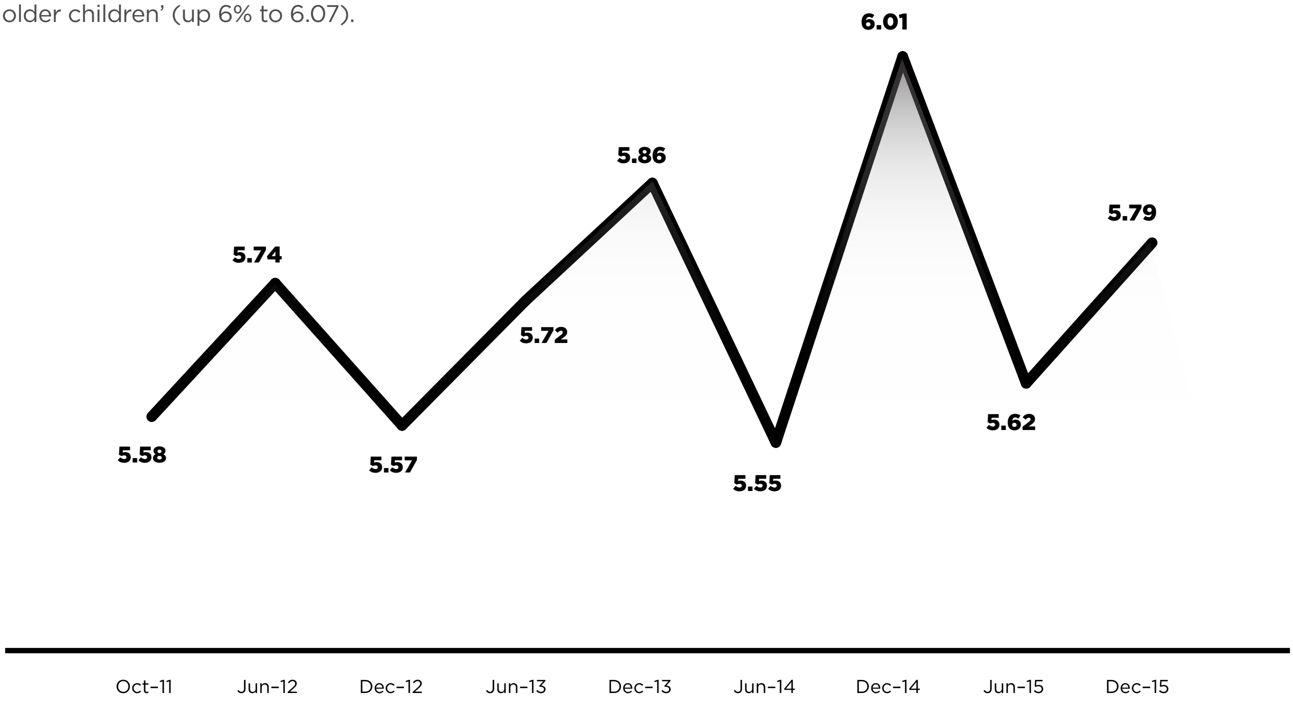

Figure 17 – Comfort with income. Scores out of 10.

4.5

COMFORT WITH SAVINGS INCREASES.

Employment and income improvements are in turn reflected in improved savings measures over the six months to December 2015. See Figure 18.

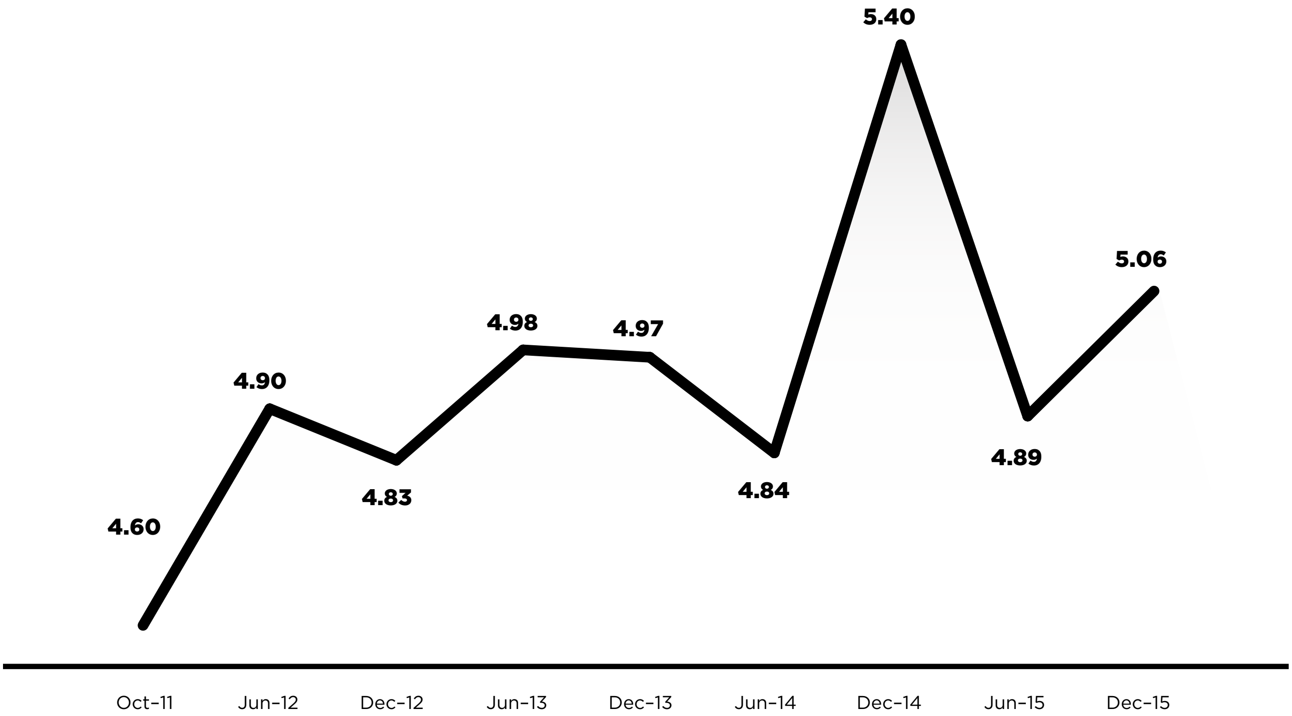

Figure 18 – Changes to comfort with cash savings. Scores out of 10.

Households most comfortable with their level of ‘cash savings’ were ‘retirees’ (5.72 out of 10) and ‘empty nesters’ (5.53 out of 10).

Conversely, households least comfortable with their level of ‘cash savings’ were ‘single parents’ (3.99 out of 10) and ‘young singles/couples no children’ (4.87 out of 10).

The biggest rises in confidence with the level of ‘cash savings’ included ‘couples with older children’ (up 10% to 5.43) and ‘empty nesters’ (up 8% to 5.53), while the biggest declines were ‘young singles/couples with no children’ (down 8% to 4.87) and ‘mid-aged singles/couples with no children’ (down 6% to 4.40).

Improved savings levels.

Australian households have marginally improved their level of 'cash savings' during the past six months – albeit the majority of Australians continued to report low cash savings – that is, a cash buffer to assist with an emergency.

Figure 19 shows 14% of households in December 2015 reported $10,001 to $30,000 in cash savings – an increase of 3 points over the first half of 2015, while the same increase was reported for households with balances between $100,001 and $500,000 (up 3 points to 15%)

Put another way, fewer Australian households have smaller amounts of savings in December compared with six months ago – both those with less than $1,000 in cash savings (down 3 points to 31% in December 2015), and those with $1,000 to $10,000 cash balances (down 2 points to 26%).

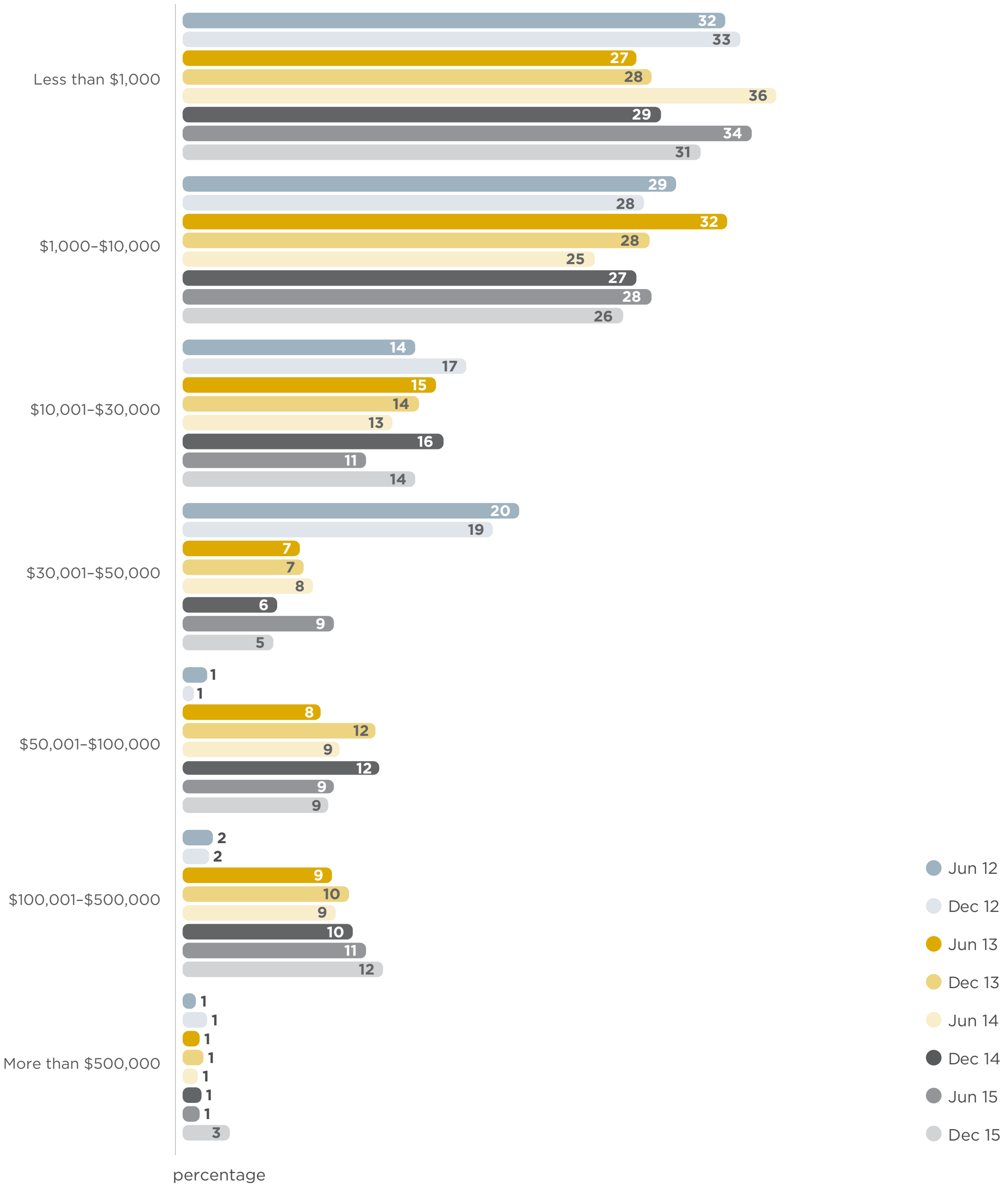

Figure 19 – How much cash savings do households currently hold?

Slightly more savers.

There was a slight increase in the number of households reporting to be 'spending less than they earn each month', that is, savers (up 3 points to 50%) versus 'spending all of their income and no more' (down 3 points to 41%), or 'spending all of their income and more' down 1 point to 9%).

Typically across all households, 'single parents' (43%) and 'couples with young children' (48%) tend to have a relatively smaller proportion of households 'spending less than they earn each month' (that is, saving).

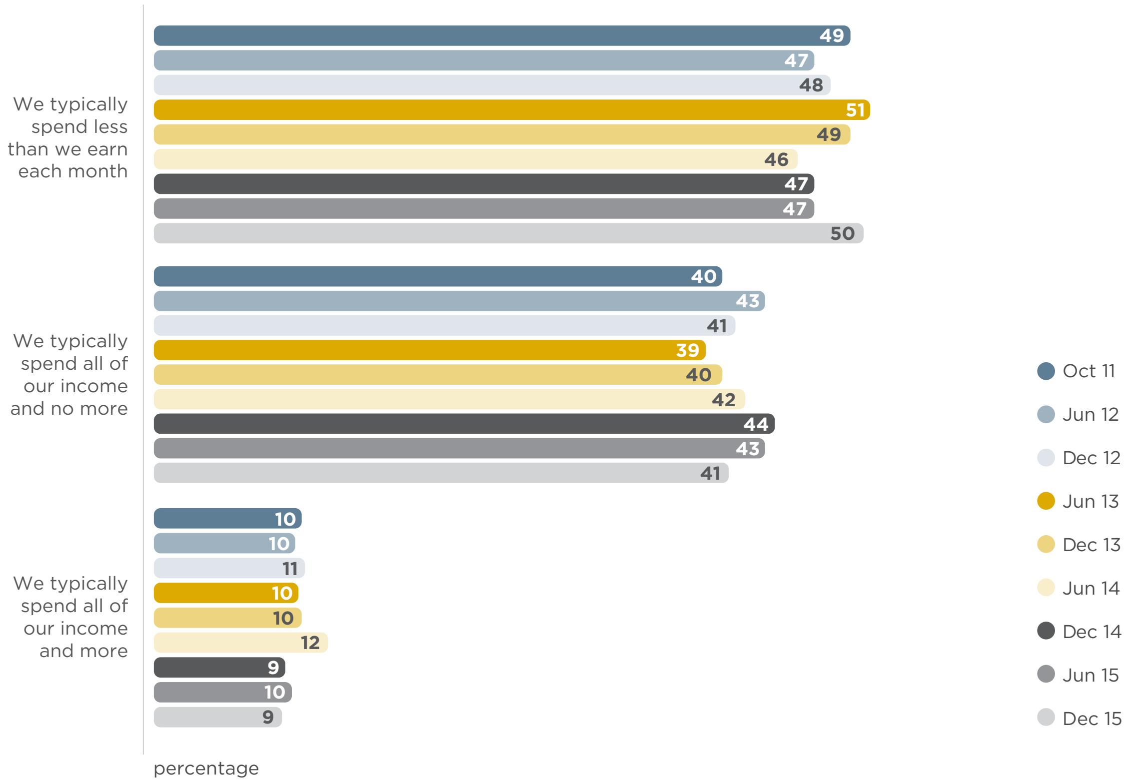

Figure 20 – Proportion who are savings, over-spending and breaking even each month.

Improved saving amounts.

Contributing to the rise in comfort with savings were increases in the amount households are saving. On average, households currently saving reported saving $798 each month (up 7% in the past six months to December 2015).

On the other hand, over-spenders reported less overspending at $418 each month (down 12% less in the past six months to December 2015).

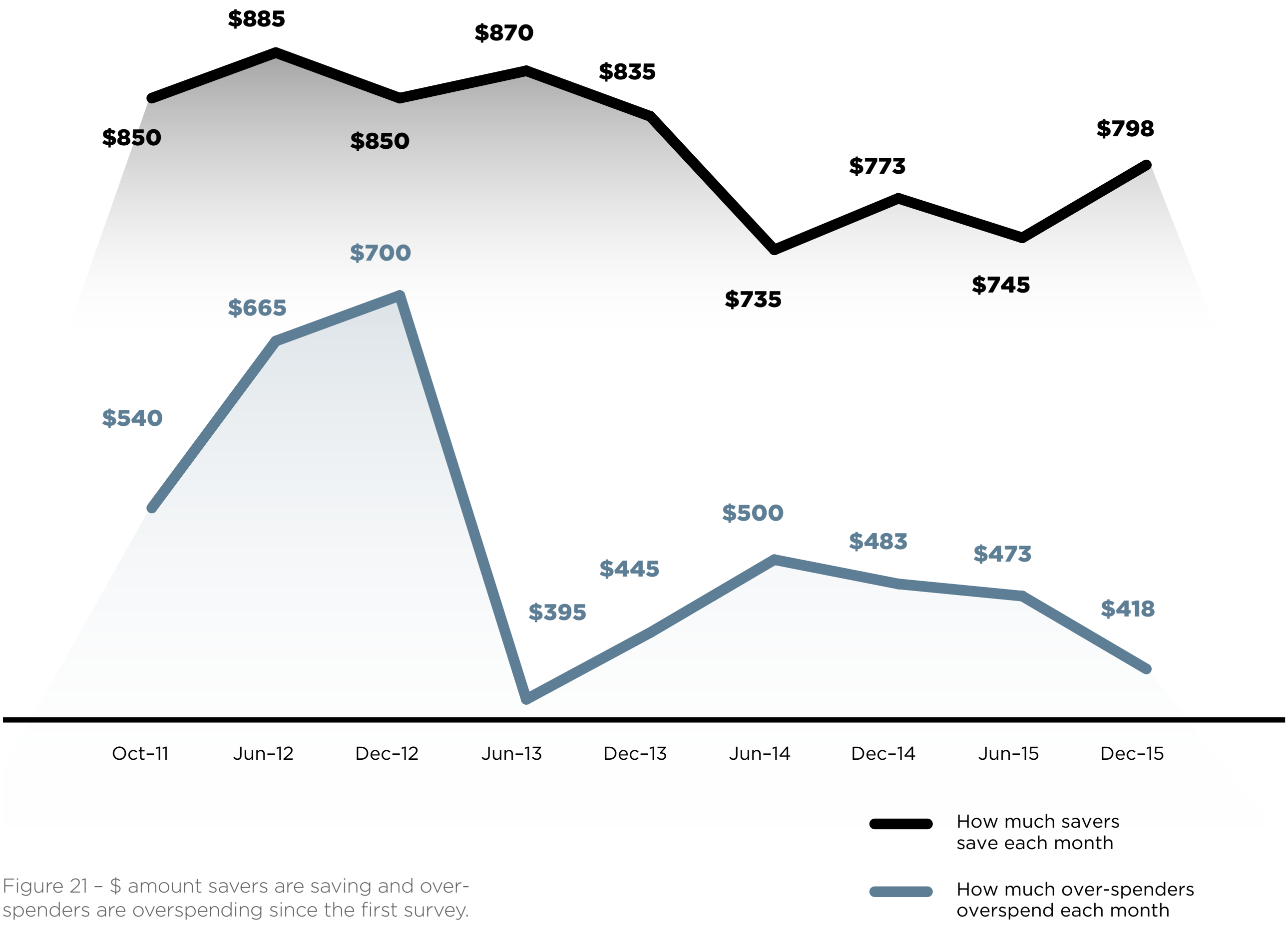

Figure 21 – $ amount savers are saving and over-spenders are overspending since the first survey.

“My biggest worry is credit card debt that my partner doesn’t know about.”

MID-AGED SINGLE/COUPLE WITH NO CHILDREN
VICTORIA

selected
other findings.

05.

5.1
INVESTMENTS.

Comfort with investments.

Figure 22 shows overall comfort with investments increased by 3% to 4.99 out of 10 during the six months to December 2015, partly reversing declines during the first half of 2015.

By life stage, comfort with investments was mixed during the past six months to December 2015. Rises in comfort of 'couples with older children' (up 8% to 5.35), 'single parents' (up 6% to 3.89) and 'couples with younger children' (up 5% to 5.08) was more than offset by falls in the comfort of both 'retirees' (down 6% to 5.29) and 'mid-aged singles/couples' (down 3% to 4.28) and 'young singles/couples' (down 1% to 4.86). 'Empty nesters' (5.09) reported unchanged comfort with investments.

Among the major household investments, a continued rise in housing prices – especially in Sydney and Melbourne, but not Perth – more than offset a small fall in shares listed in Australian markets and abroad.

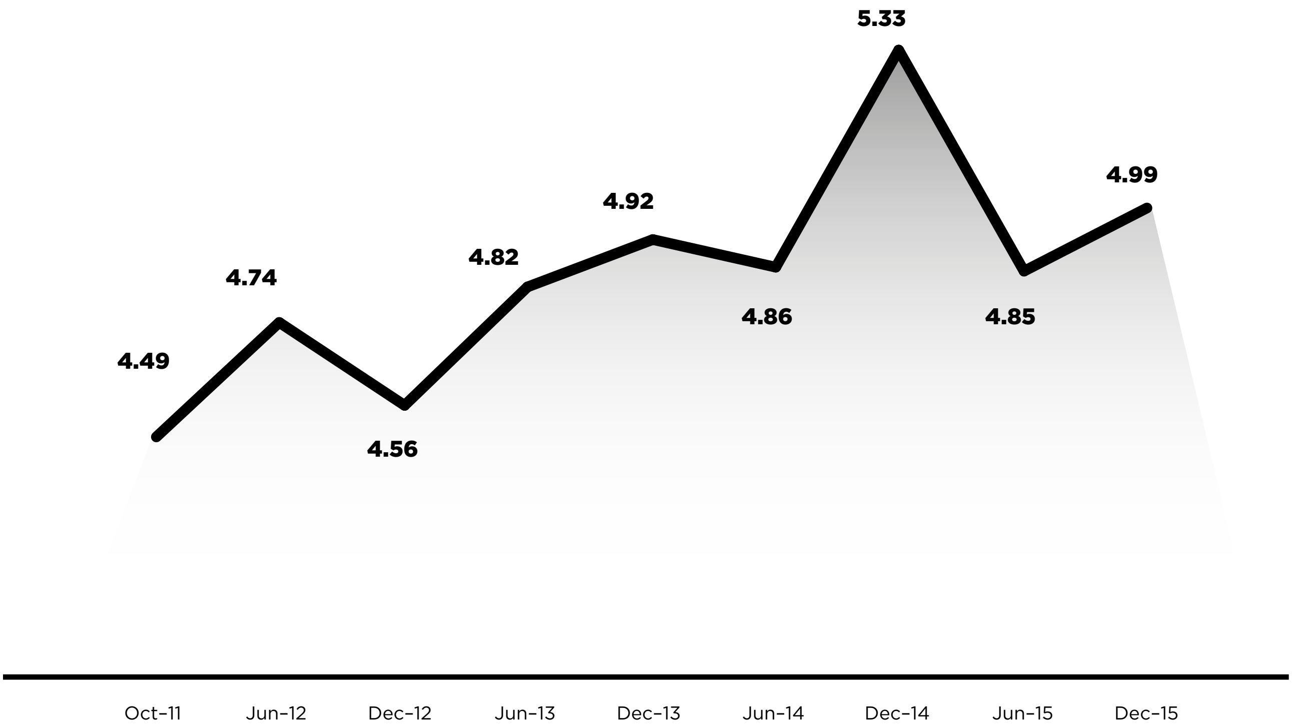

Figure 22 – Comfort with level of investments. Scores out of 10.

Investment risk appetite declines a bit further.

There was a further small deterioration in risk appetite across Australian households during the past six months to December 2015.

Figure 23 shows a small increase in 'risk avoiders' (those people who would take few and no risks with their money) – up 1 point to 40% of people over the past six months and 5 points over the past year, compared to a fall in those willing to take an average risk for an average return – down 1 point over the past six months and 5 points over the past year, while 'risk takers' willing to take above average and substantial risk has remained unchanged over the past year.

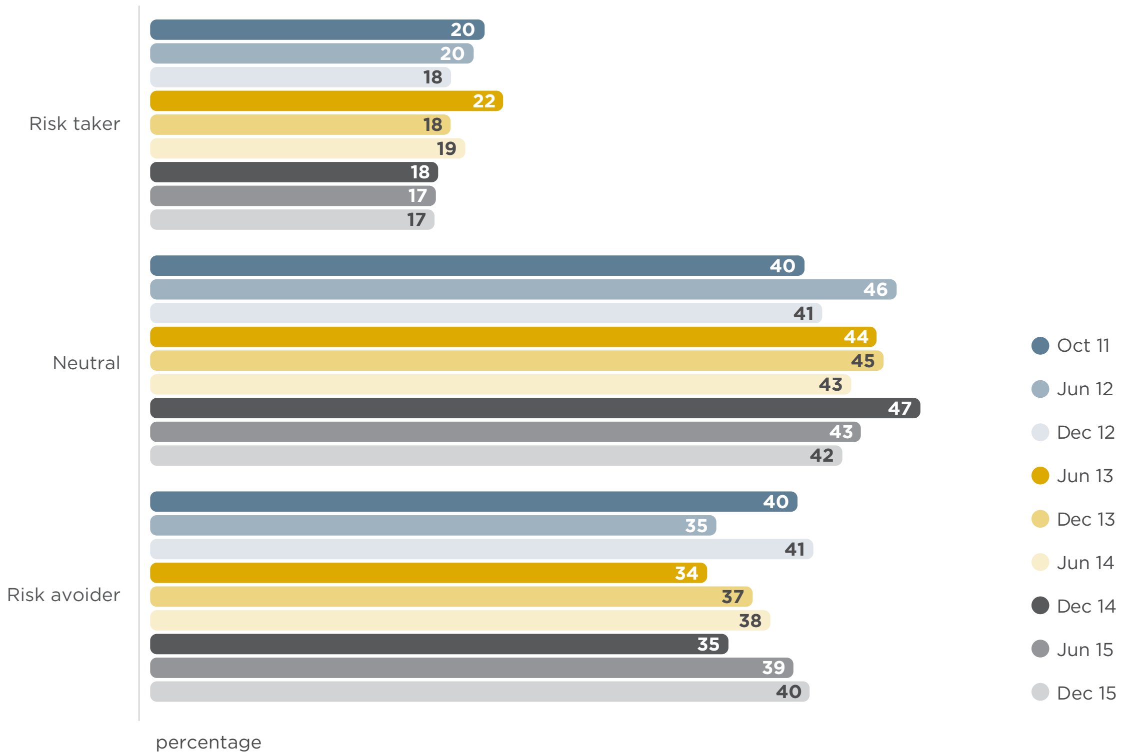

Figure 23 – Risk avoiders, average risk takers and risk takers: what financial risk would you take with any spare cash?

5.2
DEBT.

Overall comfort with debt.

Figure 24 shows overall comfort with debt increased by 4% to 6.29 out of 10 during the six months to December 2015 – almost reversing the fall recorded during the previous six months.

'Retirees' continued to report the highest level of comfort with debt (unchanged at 7.68 out of 10).

'Single parents' remained the least comfortable with debt – notwithstanding the biggest comfort increase – up 9% to 5.23 in December, followed by 'young singles/couples (<35yo) with no children' who reported the biggest and only decline (down 6% to 5.69) across life stages during the six months to December 2015.

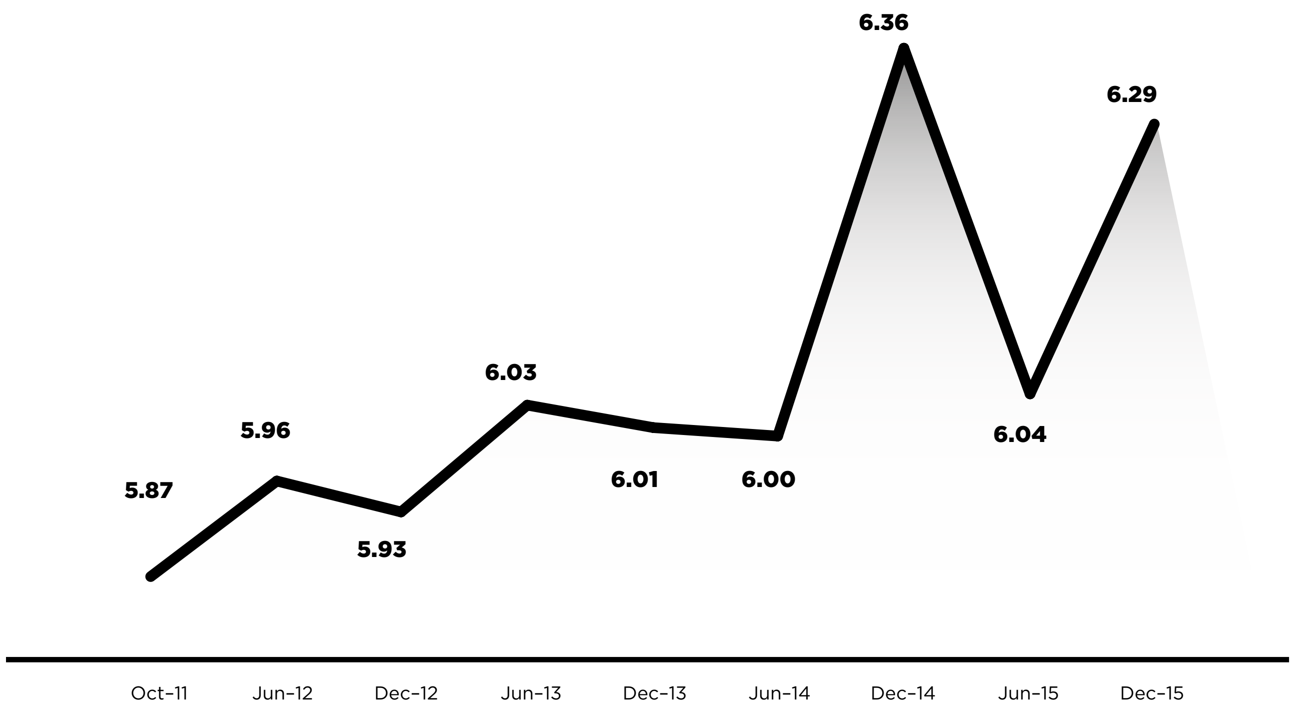

Figure 24 – Comfort with household's level of debt. Scores out of 10.

Changes to total debt over the past year.

An above average (net) demand for household debt continued during the six months to December – for the third consecutive survey.

Figure 25 shows the percentage of those who increased debt minus those who decreased debt at each survey – a proxy for the net demand. In December 2015, households that increased debt over the past year increased by 1 point to 33% over the past six months to December 2015, while households that decreased debt stayed the same at 24%.

Compared with the recent low in net demand in June 2014, there has been an increase of 3 points to 33% of those households that increased debt and a fall of 2 points to 24% of those households that decreased debt.

From a macroeconomic perspective, lower interest rates, rising house prices and more recently strong job gains and continued subdued income have supported increased gearing – mainly for residential property.

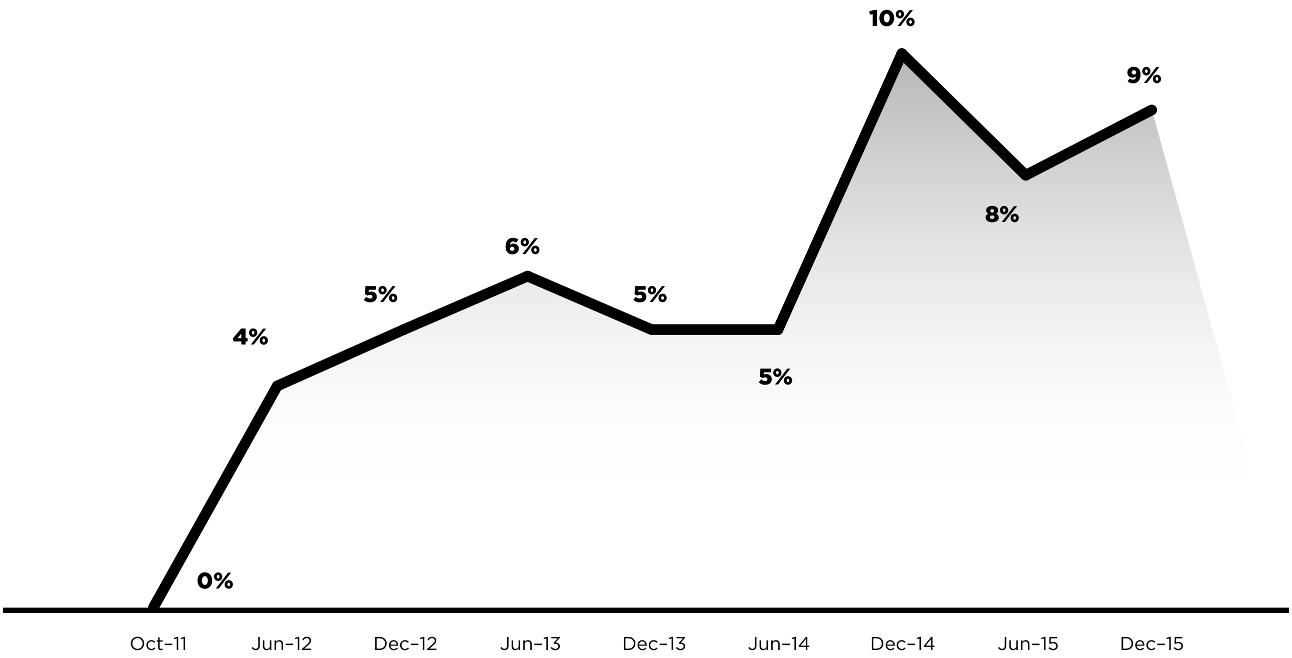

Figure 25 – Net % of households who increased debt over the past year.

5.3

MONTHLY EXPENSES.

Figure 26 shows a small rise in overall comfort with the 'ability to pay regular expenses' (up by 2% to 6.52) in the past six months to December 2015.

Households most comfortable paying regular expenses were 'retirees' (7.08 out of 10), and 'empty nesters' (6.99 out of 10), while households least comfortable were 'single parents' (5.34 out of 10) and 'young singles/couples with no children', the latter also reporting the biggest decline (down 11% to 6.22) in the final half of 2015.

Meanwhile, the biggest increase in comfort with paying regular expenses was reported by 'couples with older children' (up 7% to 6.82) over the past six months.

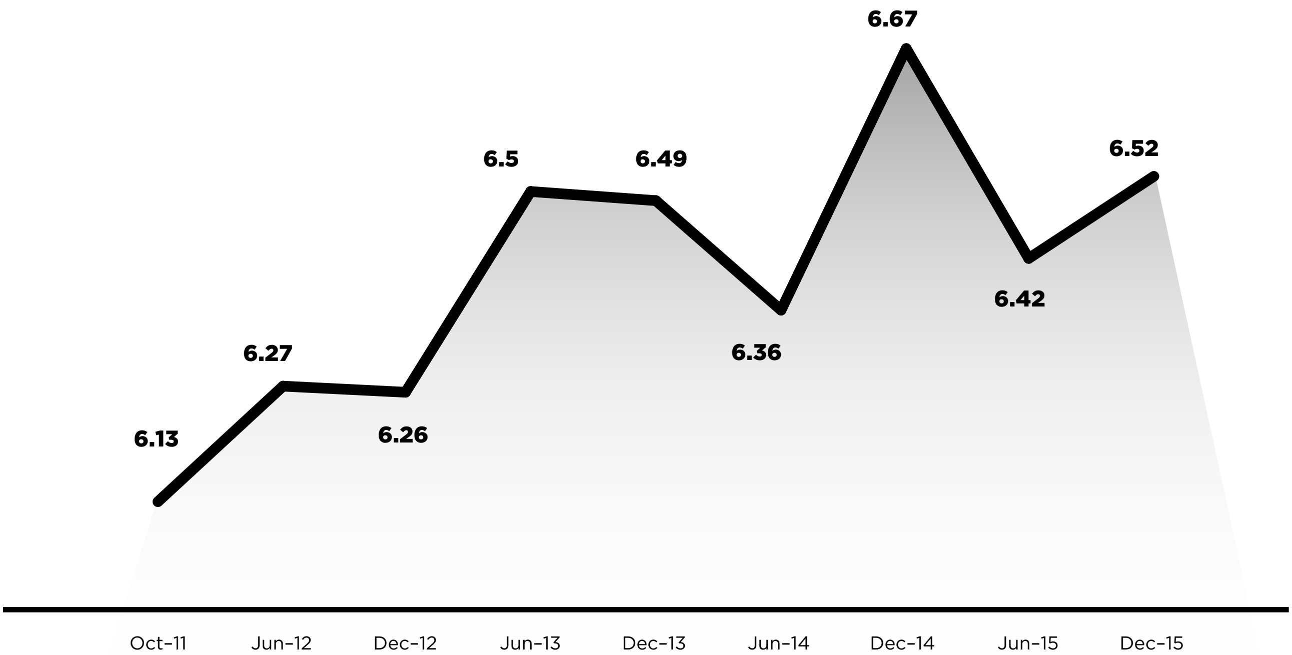

Figure 26 – Comfort with ability to pay regular expenses. Scores out of 10.

5.4

OVERALL LEVEL OF (NET) WEALTH.

In the six months to December 2015, comfort with overall net wealth (as measured by what would be left in cash if you sold all your assets and paid off all debts today) increased by 3% to 5.85 – reversing half the decline of the previous six months.

'Retirees' recorded the highest level of household comfort with net wealth (6.73 out of 10), followed by 'empty nesters' (6.32 out of 10).

Despite increasing by 6%, 'single parents' reported the lowest level of comfort with net wealth, and also the biggest rise in the past six months (up 6% to 4.51), followed by 'mid-aged singles/couples with no children' (down 3% to 5.05).

'Young singles/couples with no children' reported the biggest decline in comfort with net wealth in the past six months (down 5% to 5.40).

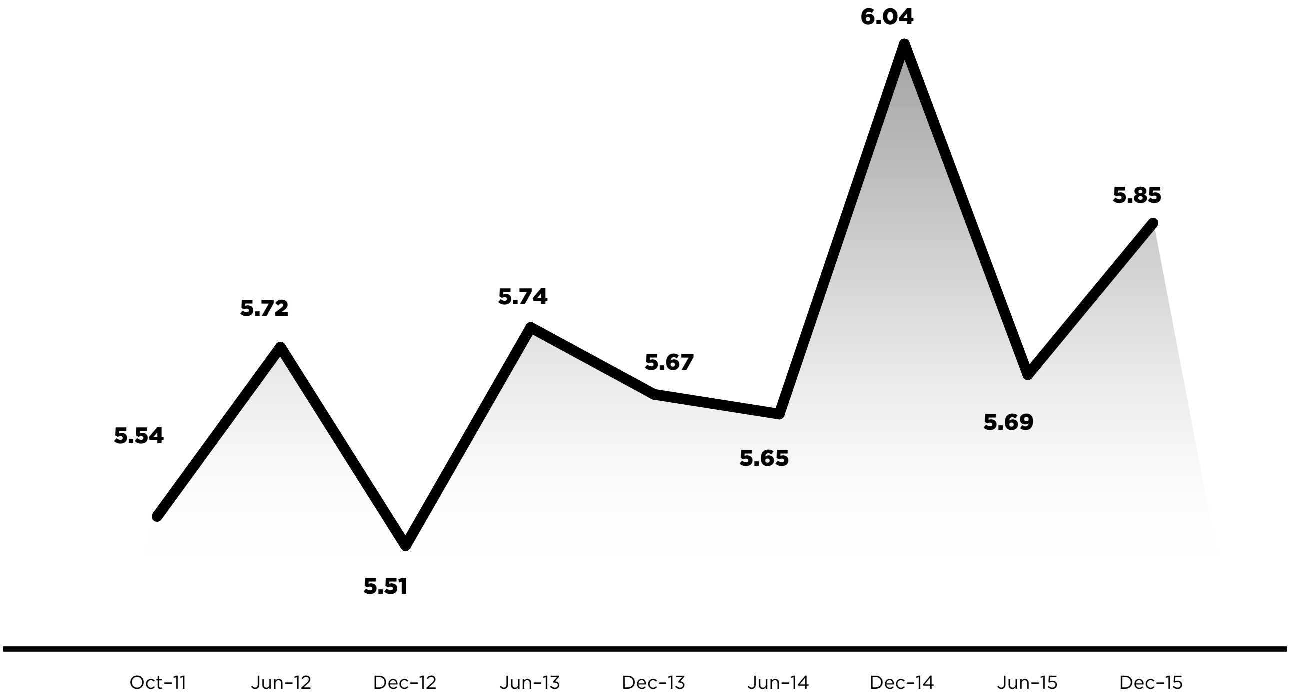

Figure 27 – Comfort with overall level of wealth. Scores out of 10.

5.5

SUPERANNUATION.

Comfort with standard of living in retirement.

In the six months to December 2015, confidence with the household's 'anticipated standard of living in retirement' increased, up 4% to 5.23 – partly reversing the fall from the previous six months.

'Retirees' reported the greatest level of financial comfort with their 'anticipated standard of living in retirement' (6.14 out of 10), followed by 'couples with older children' (21%) and 'empty nesters' (5.37 out of 10). At the other end of the scale, 'single parents' reported the lowest (3.95 out of 10), despite increasing by 4% during the past six months, and to a lesser degree 'mid-aged singles/couples with no children' (down 3% to 4.21).

'Couples with older children' reported the greatest gains with financial comfort with their 'anticipated standard of living in retirement' (up 9% to 5.44), while both 'young singles/couples with no children' and 'mid-aged singles/couples with no children' reported the biggest declines in the final half of 2015, dropping 3% to 5.31 and 4.21 out of 10, respectively.

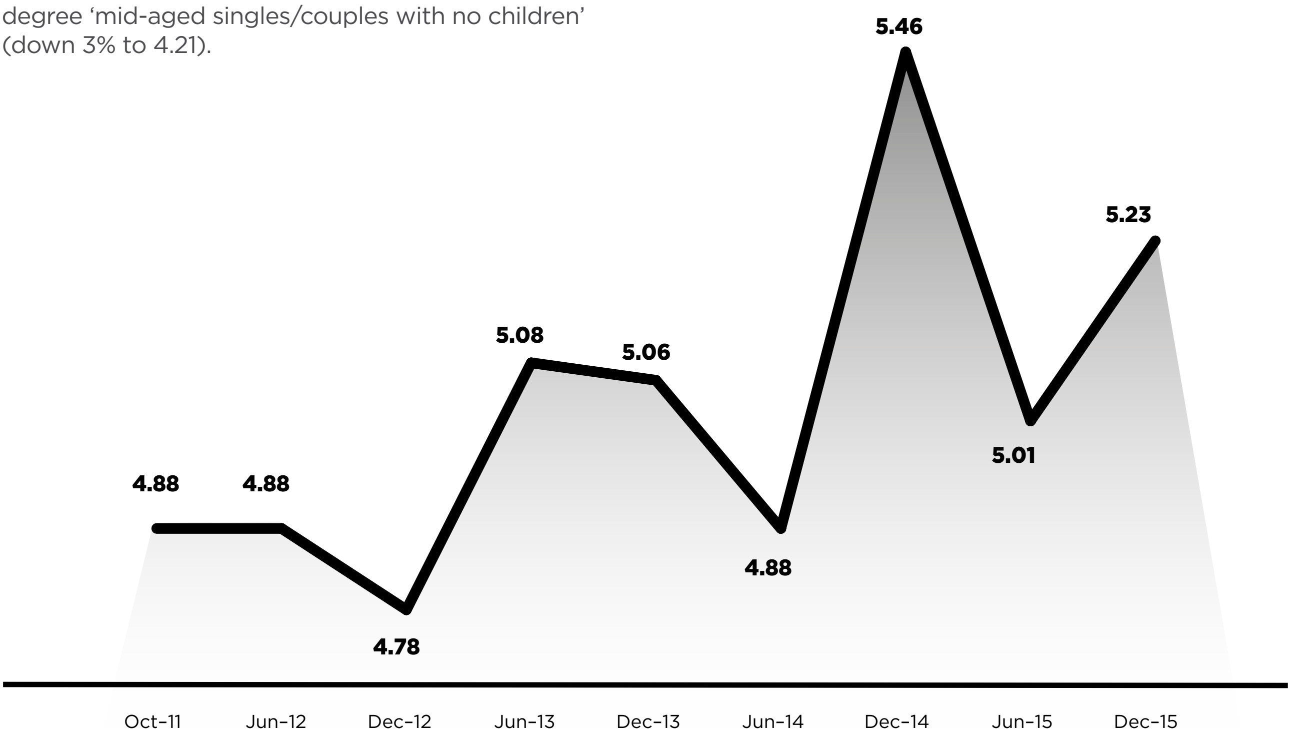

Figure 28 – Expectations for comfort in household's standard of living. Scores out of 10.

Additional payments to superannuation in the past six months.

Households continue to rely largely on employer contributions for superannuation. There has not been much shift in the proportion of households contributing more into superannuation over the past three and a half years, with those 'never' or 'sometimes contributing extra' around 85% remaining consistent, while those 'always' or 'often contributing extra into superannuation' at around 15%, was split almost equally.

In terms of households, 'couples with older children' (21%) and 'empty nesters' (20%) are the biggest contributors of extra money into their superannuation. In terms of gender, more men (19%) than women (14%) contribute extra amounts into superannuation. A greater number of higher household income earners (29% of those earning $100,000+) than lower income earners (15% of those with household incomes between $40,000 and $75,000 and only 7% of those with less than $40,000) are putting extra money into their superannuation.

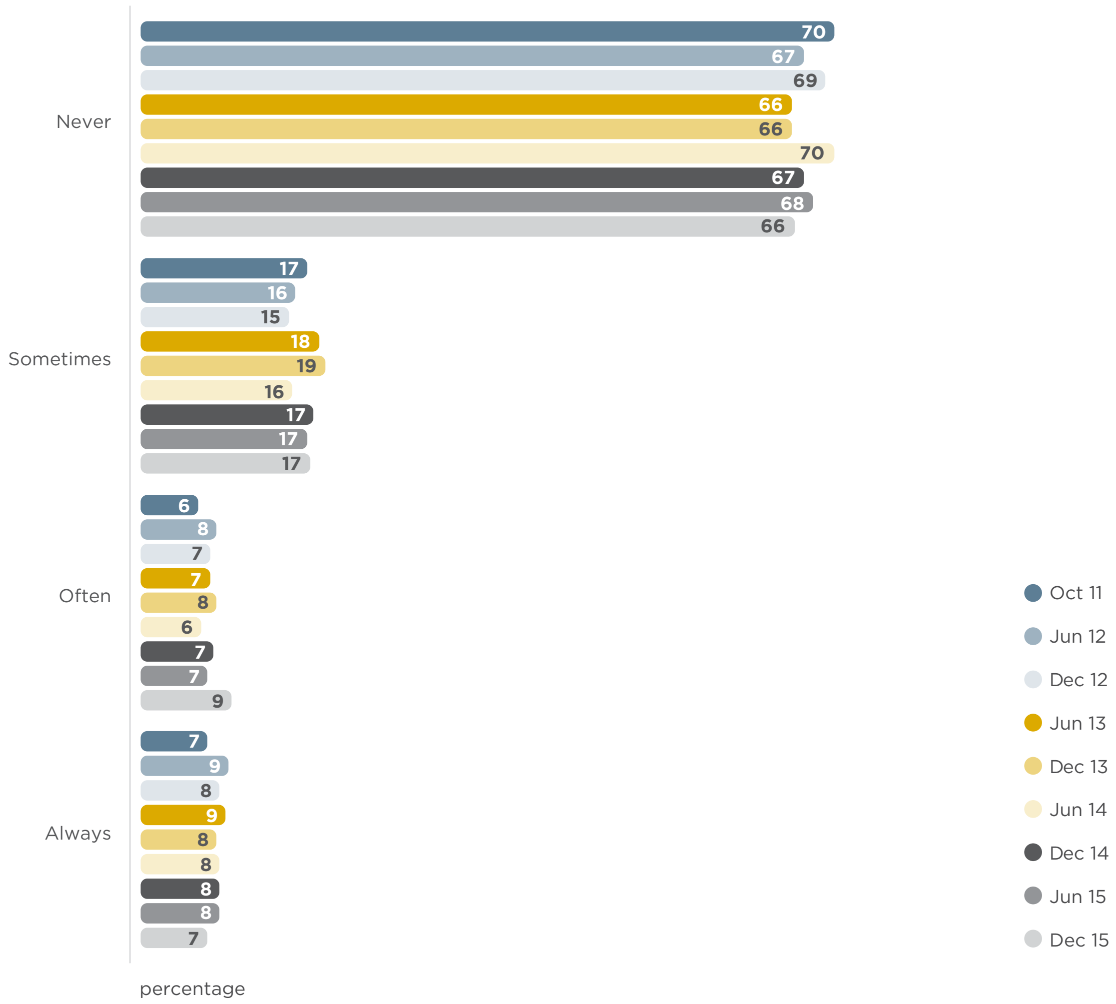

Figure 29 – Additional payments into superannuation in the last six months?

Self-reliance in retirement.

Figure 30 shows there has been a slight reversal in the number of households expecting to 'rely on the government pension' during retirement over the past six months to December 2015, down 5 points to 19%, while the number of households expecting to 'use both private savings and the government pension' increased by 5 points to 46%. Around 18% expect to 'fund retirement with their superannuation'.

In terms of households, 'couples with older children' are the most confident with 23% indicating they will be able to 'fund their own retirement', while 'mid-aged singles/couples with no children' were the least confident with only 11% indicating they will be able to 'fund their own retirement'.

In terms of gender, 22% of men compared to 14% of women expect to 'fund retirement with their own money'.

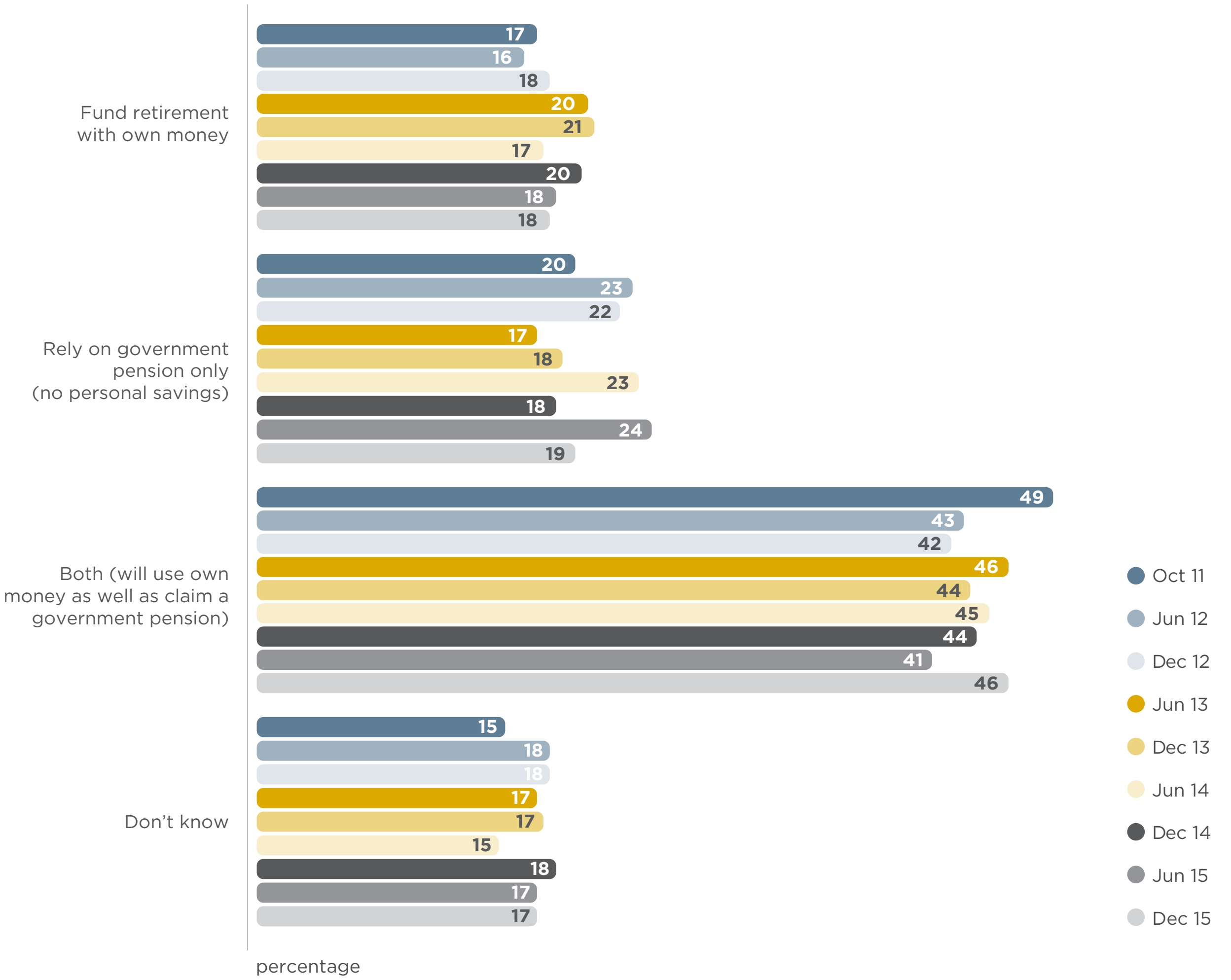

Figure 30 – How will your household fund retirement?

Expected adequacy of income in retirement.

Currently, about 6% of households expect to have a very comfortable retirement 'able to afford essentials, extras and help the family', while a further 21% of households expect to 'afford essentials and extras' – the latter increasing by 3 points in the past six months to December 2015.

Conversely, 10% of households 'won't be able to pay for essentials', and a further 26% will 'only be able to afford essentials with no money left over', increasing by 6 points in the final half of 2015.

Superannuation quick facts:

- 24% either don't have a superannuation fund or don't know what type they have.
- 17% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards.

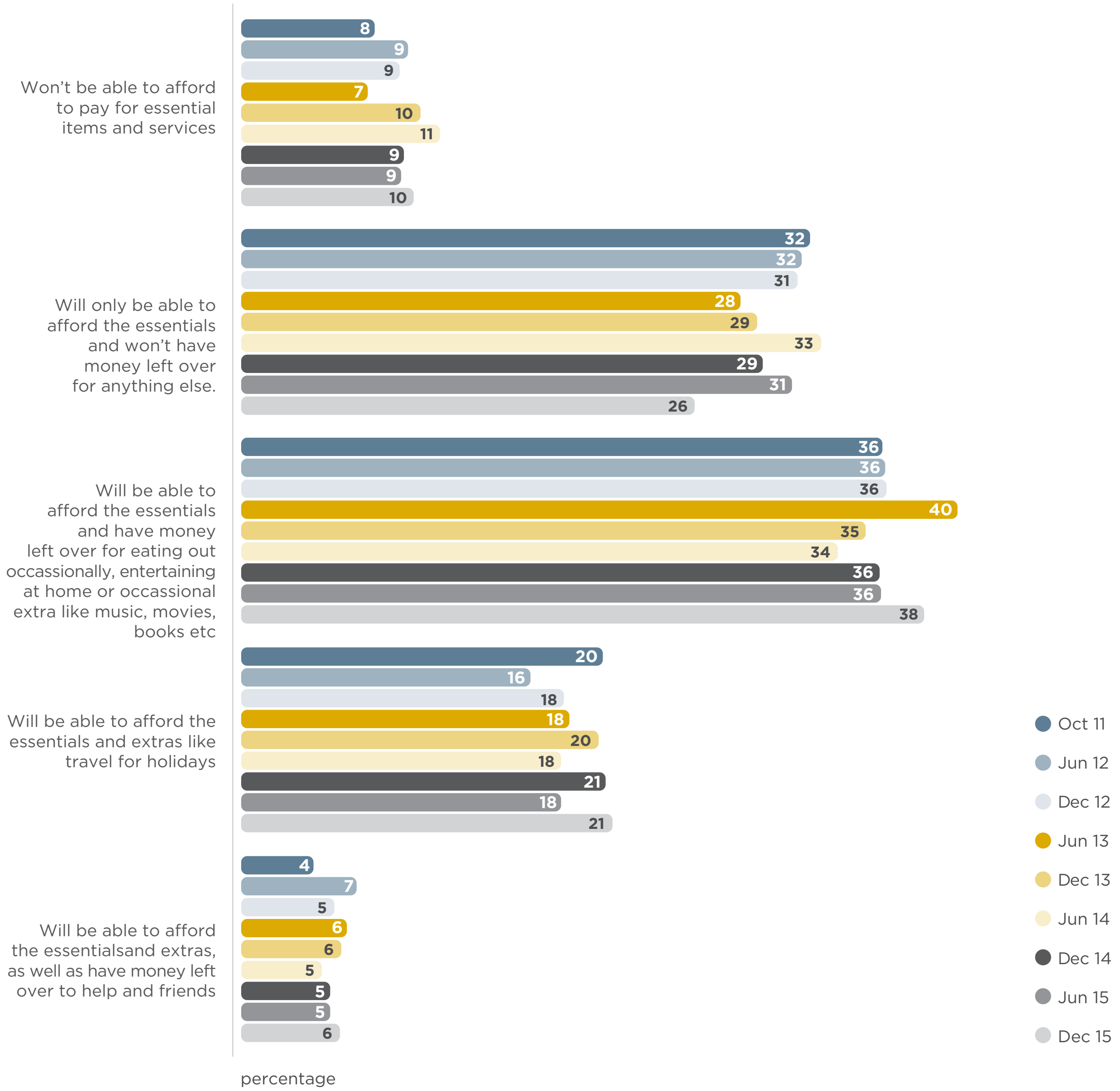

Figure 31 – Expectations for adequacy of income in retirement.

appendix a household statistics.

06.

measure	Household Financial Comfort Index	Net Wealth Average Net Wealth	Household Income Average Household Yearly Income
Young singles/couples (<35yo) no children	5.49	$201,000	$75,000
Single parents	4.61	$228,000	$51,000
Couples with young children	5.55	$366,000	$99,000
Couples with older children	5.85	$643,000	$94,000
Mid-aged singles/couples no children	5.02	$316,000	$81,000
Empty nesters (50+yo)	5.84	$663,000	$69,000
Retirees	6.09	$577,000	$46,000

appendix b methodology.

07.

ME commissioned DBM Consultants to develop the *Household Financial Comfort Index* with Economics & Beyond. The research includes an online survey of approximately 1,500 Australians aged 18 years and older who do not work in the market research or public relations industries.

Nine 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 December 2015.

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 the 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 eleven measures of how households feel about their financial situation – these include:

- Comfort level with (1) the overall financial situation of the household
- Changes in household financial situation (2) over the past year and (3) anticipated in the next year
- (4) Confidence in the household's ability to handle a financial emergency, and
- Comfort levels with (5) household income, (6) living expenses, (7) short-term 'cash' savings and (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 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 mid-point of 'stayed the same' (anticipated change). Questions to collect household actual financial data included those that asked for dollar amounts or dollar range as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

notes.

notes.

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