Research insights into the financial psychology of Australian households. 18th survey published July 2020.

Household financial comfort report.

Despite the COVID-19 pandemic, household comfort is at a near record high. But with low savings levels, high underemployment and concerns about tapering government support, households are on the brink.

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 18th survey, published in July 2020.

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

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.

Contact ME.

Matthew Read,
General Manager, Communications

T 0432 130 338

E matthew.read@mebank.com.au

Level 28, 360 Elizabeth Street
Melbourne, VIC 3000 Australia

mebank.com.au

Content.

01. Executive summary. **4**

02. Macroeconomic and financial context. **8**

03. Overall increase in financial comfort. **12**

3.1 *Household Financial Comfort Index* improves substantially. 12

3.2 Key drivers of the surprising rise to a near record level of overall financial comfort. 14

3.3 The negative impact of the pandemic on financial comfort. 20

3.4 Key reasons why households cited their recent financial situation worsened. 22

3.5 Looking ahead: The household savings cliff, the weak labour market and expectations of a much softer residential property market. 31

04. Overall financial comfort by different cohorts. **38**

4.1 Life stage: financial comfort improves but remains mixed. 38

4.2 Generations: financial comfort also remains mixed. 39

4.3 States: financial comfort – improves across majority of states. 42

4.4 Labour force segments: financial comfort converges somewhat. 45

4.5 Comfort by housing tenure: Renters improve a lot, owners with and without mortgages also improves significantly. 48

05. Other findings. **52**

5.1 Comfort with income improves significantly. 52

5.2 Comfort with monthly expenses improves. 55

5.3 Comfort with investments improves, but mixed and disparate. 56

5.4 Comfort with debt improves. 57

5.5 Net wealth improves. 60

5.6 Comfort with anticipated retirement improves. 61

06. Appendix a – household statistics. **64**

07. Appendix b – methodology. **65**

“We’re saving more as we’re not travelling or spending money on entertainment anymore.”

Couple with no children
Full-time paid employment
Queensland

Table of figures.

Figure 1 – Changes in the *Household Financial Comfort Index*. 12
Figure 2 – *Household Financial Comfort Index* by low 0-4 comfort levels 13
Figure 3 – *Household Financial Comfort Index* by mid 5-7 comfort levels 13
Figure 4 – *Household Financial Comfort Index* by high 8-10 comfort levels 13
Figure 5 – Index levels of comfort over time (income, expenses, cash savings and financial emergency). 15
Figure 6 – Index levels of comfort over time (debt, income, net wealth, retirement and investments). 16
Figure 7 – Index levels of comfort over time (financial situation for the past, current and next year). 17
Figure 8 – Comfort index across life stages, including households with and without children. 19
Figure 9 – How the pandemic has affected household financial comfort. 21
Figure 10 – Top reasons why households' financial situations has worsened or improved in the past year 23
Figure 11 – Biggest financial worries and positives nominated by households 23
Figure 12 – What households used to ease the financial burden during COVID-19. 25
Figure 13 – What households used to ease the financial burden during COVID-19 by life stage 26
Figure 14 – How much is left over at the end of the month, if any - % of households? 28
Figure 15 – How much more than your income do you save or spend each month on average? ($) 28
Figure 16 – How much in cash savings does your household currently hold? 29
Figure 17 – Small amounts of cash savings held by household life stage in June 2020 30
Figure 18 – If you lost your income, how long could you maintain your current lifestyle for? 32
Figure 19 – Preference for work hours (part-time and casual employees). 33
Figure 20 – Ease of finding a new job in the next two months if became unemployed 34
Figure 21 – What value do you think is likely to happen to the value of your property? 35
Figure 22 – Overall financial comfort across different household life stages. 38
Figure 23 – Overall financial comfort across generations. 39
Figure 24 – How did the pandemic impact your financial comfort – worse, no change or better? 40
Figure 25 – Overall financial comfort across young singles/couples and students. 41
Figure 26 – Overall financial comfort across different states and territories. 42
Figure 27 – Overall financial comfort across metro and regional areas. 43
Figure 28 – Comfort index across larger states and metropolitan areas. 44
Figure 29 – Comfort index across the workforce. 45
Figure 30 – How did the pandemic impact your financial comfort – worse, no change or better? 46
Figure 31 – Income changes over past year across labour force - % of households 47
Figures 32 – Overall financial comfort of households with and without mortgages. 48
Figure 33 – Percentage of household disposable income paid towards a home mortgage 49
Figure 34 – Percentage of household disposable income paid towards renting a home 50
Figure 35 – Household comfort with income. 52
Figure 36 – Household income changes during past year - % of households 53
Figure 37 – Income changes over past year across income levels. 54
Figure 38 – Comfort with households' ability to pay regular expenses. 55
Figure 39 – Comfort with level of investments. 56
Figure 40 – Comfort with households' current level of debt. 57
Figure 41 – How much would you say your household's level/amount of debt has changed 58
Figure 42 – Ability to manage debt over the next 6-12 months - % of households 59
Figure 43 – Comfort with households' level of wealth. 60
Figure 44 – Comfort with standard of living in retirement. 61
Figure 45 – How will your household fund retirement - % of households? 62
Figure 46 – Expectations for adequacy of income in retirement - % of households 63

01. Executive Summary.

In a surprise twist, the flood of government stimulus combined with financial actions of households in response to the COVID-19 pandemic has pushed the nation's household financial comfort to a near record high. But troubling data raises serious questions about what will happen if government support is tapered too much and too soon.

These are the key findings of ME Bank's *Household Financial Comfort Report*.

Australian household financial comfort increased 3% to 5.76 (out of 10) in the past six months to June 2020 – just shy of its historical high of 5.78 recorded in December 2014. Contrary to expectations, financial comfort has jumped the most among typically struggling cohorts such as casual workers, the unemployed, low income households and single parent households (though their comfort levels remain a great deal lower than the average household and higher-income Australians).

Almost all 11 measures that make up the *Household Financial Comfort Index* improved, notably 'comfort with the ability to cope with a financial emergency' (up 9% to 5.25, the best level on record) and 'cash savings' (up 8% to 5.48).

The high financial comfort can be attributed to a combination of prudent financial actions by households in response to the both the health and economic crisis, and unprecedented government support.

Fear of COVID-19 and a very weak labour market triggered many households to increase precautionary savings, reduce spending, draw on long-term savings, such as superannuation, and delay bills or loan repayments.

In June, 57% of households 'spent less than they earned each month' – up 8 percentage points to the highest level of households saving since the survey began nine years ago. However, paradoxically, this cautious behaviour and a lack of spending may cause a negative knock-on effect to the economy and a deeper recession.

Government stimulus has bought some time and helped boost the financial resilience of Australian households for now. But a household savings cliff remains as government support tapers. Unless the economy gains momentum, tapering government support too soon could have disastrous consequences on the financial comfort of households.

Savings cliff and high underemployment remain a concern

In June, only 32% of households indicated they could 'maintain their lifestyle for more than three months if they lost their income'. Many households were already under pressure before COVID-19, particularly with low household income growth and cost of living concerns.

Around 21% of households have less than $1,000 in savings (on average, about $300 – significantly lower 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 7% for more than three months (or when JobSeeker payments begins to taper).

A record number of workers reported that it would be 'difficult to find a new job in two months if they become unemployed' – up 10 points to a new survey record of 59%. Notably almost 30% indicated it would be 'very difficult'.

Furthermore, the proportion of part-time or casual workers seeking more hours jumped to 39%, compared to 27% six months ago. On average, these workers would like an extra 18 hours per week, compared to 17 in December 2019.

> “The high financial comfort can be attributed to a combination of prudent financial actions by households in response to the both the health and economic crisis, and unprecedented government support.”

Financial comfort levels are up for now, but many households are on the cliff’s edge. They’ve lost income, their jobs and entire livelihoods, their wafer-thin savings buffer is dwindling, and government support is the main action stopping them from falling over.

This survey shows that the financial consequences for households of this pandemic remain critical. Many eyes will be on what governments do in the final months of 2020 and into next year.

Negative impact of COVID-19 on financial comfort

In other new ‘special’ questions, household were asked what impact COVID-19 had on their financial comfort (prior to government income payments and other available assistance and their own financial actions).

Around 34% of households reported to be ‘worse off’ from the pandemic, compared to 20% ‘better off’, while 46% reported ‘the same’ comfort despite the pandemic. More Victorians reported to be ‘a lot worse off’ (11%) - the highest of any state or territory and fewer ‘a lot better off’ (5%) than other states.

Households were also asked the main reasons for a worsening or improved financial situation. Households experiencing a ‘worsening financial situation’ cited ‘changes to employment arrangements and job security’ (33%), ‘changes to income’ (24%), and for the first time, ‘the impact of COVID-19’ (24%).

However, 8% of households specified ‘support from government’ as a reason for an improved financial situation, compared to only 1% in December 2019.

Support measures provide a safety net, especially for some Gen Zs and single parents

Households were also asked what assistance and actions they adopted in response to the pandemic. Almost 40% of households have benefitted from at least one or more of these major government payments and other assistance and/or taken their own financial actions in response to the pandemic. By June:

- Around 1 in 5 households tapped into one or both Federal government payment supports – specifically, JobKeeper (12%) and JobSeeker (9%). Across generations, Gen Z was the largest recipient of JobSeeker (20%) and the second largest of beneficiary of JobKeeper (14%) behind Gen X (18%).
- 12% dipped into their existing savings – rising to 27% among Gen Z.
- 8% accessed up to $10,000 of their superannuation – rising to 30% among Gen Z (around three times more than Gen Y and Gen X).

Many Gen Z’s also dipped into their existing savings, with 27% using this to tide them over financially compared to the national average (12%). Gen Z also requested rent reductions (15%) and delayed or deferred bills (26%) and loan repayments (11%).

While the impact of the pandemic has been felt strongly by some in this generation, overall the financial comfort of Gen Z increased 4% during the past six months to June, and for young adults living at home this jumped by 13%.

Gen Z actively took up a variety of support measures to bolster their financial resilience and in turn financial comfort during the first wave of the pandemic. This is likely due to many being employed on a casual or part-time basis across COVID-19 affected industries such as retail, hospitality and tourism.

“Financial comfort levels are up for now, but many households are on the cliff’s edge. They’ve lost income, their jobs and entire livelihoods, their wafer-thin savings buffer is dwindling, and government support is the main action stopping them from falling over.”

Across life stages, single parents reported the largest gain in comfort (up 13% to 5.04) – especially those dependent on government assistance – boosted by the introduction of free childcare as well as the increased income payments from government.

Lower residential property price expectations

When surveyed in June, more owner occupiers (25%) expect the value of their dwelling to fall during 2020/21 than rise (22%) – a significant change from six-month prior when only 6% expected dwelling prices to fall and 47% expected them to rise.

The Australian residential property market finds itself in a position unforeseen at the beginning of the year. The pandemic has caused a U-turn among households, with many households now bearish on the price outlook for residential property.

Key winners and losers in ME’s 18th *Household Financial Comfort Report*:

Many vulnerable Australians have so far seen an improvement in their financial comfort amid the health and economic crisis, due to their own prudent measures as well as government and other assistance.

However, the overall level of financial comfort of single parents, the unemployed, and households with low comfort and low savings remains well below the average Australian household.

For example, despite rising 9% to a record 3.49, the financial comfort of households with ‘low comfort’ remains a great deal lower than the comfort of the ‘average’ household (5.76) and much lower than households on six-figure incomes (6.37).

Winners:

- Single parents – greatest increase in financial comfort across households (up 13% to 5.04)
- Households with ‘low comfort’ – record high comfort (up 9% to a still very low 3.49)
- Households with low savings (<$1,000) or low annual income (<$40,000) – comfort increased by 19% to 4.19 and 18% to 5.15, respectively
- Unemployed – comfort increased by 30% to 5.17
- South Australian households – comfort hit a new high and sits above the largest states (up 13% to 5.90)
- Baby Boomers, Gen Z and Gen Y – largest rises in comfort across generations.

Losers:

- Households with average ($75,000 to $100,000) and high (>$100,000) annual incomes – comfort decreased by 4% and 2% to 5.67 and 6.37, respectively
- Gen X – the lowest level of financial comfort of the generations, unchanged at 5.35
- Victorian households – comfort fell by 3% to 5.64
- Part-time employed – comfort fell by 6% to 5.56.

“I’ve been temporarily stood down due to the COVID-19 shutdown of the tourism industry. I’m receiving JobKeeper, but it’s below what I would usually earn. I’m very grateful for the support though.”

Living alone
Unemployed
New South Wales

02. Macroeconomic and financial context.

During the first half of 2020, the emergence of an unexpected COVID-19 pandemic ended a record Australian economic expansion and severely disrupted livelihoods, tragically took lives and increased the illness of many people at home and abroad. To save lives and support public health, most economic activities were temporarily shut down in March. Despite the gradual easing of the national lockdown restrictions and lifting of stay-at-home orders during April/May as well as sizeable fiscal and central bank support, the rapid deterioration and fall in aggregate production, incomes and employment has been significant during the first half of 2020.

"... great uncertainty surrounds the future path of the virus and any sustained resurgence in COVID-19 cases could lead to a slowdown in the reopening or reintroduction of partial shutdowns – as has been the case of Victoria during July."

Apart from massive health measures in response to the pandemic, governments, central banks and other institutions acted quickly and assertively to mitigate economic and financial costs. The Reserve Bank of Australia took unprecedented steps to provide monetary stimulus to underpin the smooth functioning of banking and financial markets and support the flow of credit to business and households. A range of fiscal measures were put in place to increase welfare payments and transfer cash directly to households, provide temporarily free pre-school childcare, and create a wage subsidy for firms to retain workers (mainly full-time and part-time) and assist small businesses.

There has been some bounce-back in both business and consumer confidence and increased economic activity during May and June, as household spending picked up, businesses reopened and began to rehire workers. There has been disparate trends among households and businesses as well as across regions.

Nonetheless, great uncertainty surrounds the future path of the virus and any sustained resurgence in COVID-19 cases could lead to a slowdown in the reopening or reintroduction of partial shutdowns – as has been the case of Victoria during July. On the other hand, rapid progress on treatments or 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 dramatic rise in unemployment has had negative impacts on household incomes, job insecurity and labour force participation. This has led to increased financial hardship and the scars will have long-term effects on households and the economy. The sudden and sustained loss of demand will result in an uncertain amount of corporate and smaller business bankruptcies – especially once government and bank support are progressively unwound. In contrast, financial markets – especially equity markets have largely recovered most of the falls in price during the March quarter – and prices in residential property markets have eased over the past few months – arguably supported by expectations of little if any major long-term impacts from a temporary pandemic on business earnings or household incomes and sustained ultra-low interest rates.

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

Consumer confidence measures fell sharply from a bit below average historical levels reported ahead of the pandemic outbreak and shutdowns to a record low in late March, before significantly recovering as new COVID-19 cases fell, the pandemic appeared contained and restrictions were eased in most of Australia. Nevertheless, consumer confidence remained significantly lower than prior to the outbreak of the pandemic and the start of the deep recession in March.

Labour market conditions have been very weak. From almost 13 million jobs in mid-March, employment fell by 0.9 million during April-May. A further 0.8 million people had no hours of work, while other people had their hours of work cut. Effectively, total hours worked fell by 10% over a couple of months. In June, employment improved a bit as jobs (mainly part-time) rose by 0.2 million and hours worked increased by 4% to remain almost 6% lower than a year ago. The trend underutilization rate (both unemployed and under-employed people) fell by 1% to 19.1% in June, compared with 13.7% in February and about 13.5% in both December and a year ago. Wage growth was low before the pandemic and since then, wage freezes and cuts have also been agreed in many public and private enterprises.

Household consumption after allowing for price changes declined in the March quarter and probably further in the June quarter. Consumption of discretionary items have been weak since March. Since the pandemic and policy responses, there have been wide swings in retail sales. Turnover was up sharply in March boosted by hoarding essential items ahead of the shutdown, then fell sharply in April, rose again in May and June to be broadly unchanged during the past three months. Retail sales have been more subdued in Victoria than in other states where active COVID-19 cases have remained lower.

Consumer inflation picked up in the March quarter and is expected to ease in the June quarter in part due to the impact of the pandemic. In the March quarter, there were particularly large increases in some personal care products as well as consumer staples related to stockpiling. Since then, a sharp drop in demand for some goods and services has led to lower inflation for many components of the CPI such as fuel and rents. A number of government policies has led to temporarily lower prices for some services, most notably childcare, which has been made temporarily free until early July. At the same time, supply chain disruptions, the slightly lower exchange rate and increased demand for essential goods during the containment period has put upward pressure on some prices.

Conditions in most housing markets have modestly weakened since the pandemic. Nationally, on average, the Core Logic index of dwelling prices were down only 1% in the two months to June and remained almost 8% higher than a year ago. Recently home prices in Melbourne, Perth and to a lesser extent most other capitals have fallen while regional prices have been largely unchanged. Among the major cities, only Perth prices are lower than a year ago.

Annual growth in household debt slowed further during the past six months, with loans to investors contracting further while growth in loans to owner-occupiers stabilised at a moderate rate. Loans to investors have fallen over 0.5% during the five months to May, while monthly growth of owner-occupied housing credit remained at about 0.5% during the past six months and 5.5% higher than a year ago. Other personal loans (such as credit cards and equity backed loans) have contracted significantly further – down by over 10% during the year to May. Housing loan rates have fallen to historically low levels and in response, there has been a marked increase in refinancing at lower rates – especially on fixed rates.

“... a marked rise in underemployment, falling incomes and little if any household savings will present increased financial challenges to some households.”

While APRA reports that only 1 in 14 existing borrowers have deferred home loan repayments, payments into offset accounts have remained high – consistent with households saving for precautionary reasons. ‘Broad money’ (mainly deposits with banks) growth accelerated to its highest pace, since the flight to safety during the global financial crisis – up over 9% during the year to May.

Household assets, on average, are estimated to have fallen slightly during the past six months. A small fall in both housing and equity prices as well as new dwelling construction and the early COVID-19 withdrawal of superannuation is estimated to have more than offset a rise in bond values, higher deposits and continued contributions to superannuation.

As a result, the aggregate financial position of households – as measured by **household net wealth (assets less debt) - has deteriorated slightly** during the past six months. In aggregate, **debt to income** has decreased slightly with sluggish growth in debt, but lower household incomes, while **debt to assets** (or leverage) has increased due to modest rise in debt and fall in assets. **Debt servicing burdens** (relative to incomes) have decreased significantly, mainly as loan rates have fallen significantly to historical lows.

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 to still relatively low borrowing costs and deferment of loan payments and other bills, despite a significant rise in unemployment. Indebted households also tend to have high incomes and large repayment buffers – albeit there are also a significant number of borrowers making minimal repayments.

As this report highlights below, a marked rise in underemployment, falling incomes and little if any household savings will present increased financial challenges to some households – especially if the current sizeable government income support and other assistance is wound back as the pandemic passes, but economic and financial scars take longer to heal for many households. Furthermore, some households have debt levels that made sense in ’good’ times – economic expansion, low unemployment, 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 – dependent on government assistance – significantly stressed by rental/mortgage payments and regular expenses, with a lack of savings for a financial emergency.

How is the index calculated?

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

Comfort level with the overall financial situation of the household

Changes in household financial situation over the past year

Anticipated changes in the next year

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

Comfort levels with household income

Cost of living expenses

Short-term cash savings

Long-term investments (including superannuation)

The level of household debt

Overall net wealth of the household

The household's anticipated standard of living in retirement

03. Overall increase in financial comfort.

3.1 *Household Financial Comfort Index* improves substantially.

The *Household Financial Comfort Index* improved substantially – by 3% to 5.76 out of 10 during the six months to June 2020 – to be near its historical high (5.78) and 5% higher than the historical average (5.48) since the survey began in October 2011 (see Figure 1).

Indeed, the key finding of this Report is that government and to a lesser extent other sources of financial support as well as significant financial actions by households have at least temporarily more than offset the negative impacts of the COVID-19 pandemic and boosted the financial resilience of households – albeit this varies across and within different life stages, the workforce and regions.

When broken down by financial comfort levels, households with 'low 0-4 comfort levels' reported the largest increase in comfort (up 9% to 3.49) in the past six months to June 2020. As Figure 2 illustrates, this is also the highest recording since the survey began – 5% above its historical average (3.31 out of 10) – largely a result of increased government welfare assistance in response to the COVID-19 pandemic and some key household behaviours and/or actions.

In contrast, on average, households with 'mid 5-7 comfort levels' reported a small increase in comfort to an index of 6.43 in June 2020, while households with 'high 8-10 comfort levels' recorded a small fall to an index of 8.57 (see Figures 3 and 4, respectively).

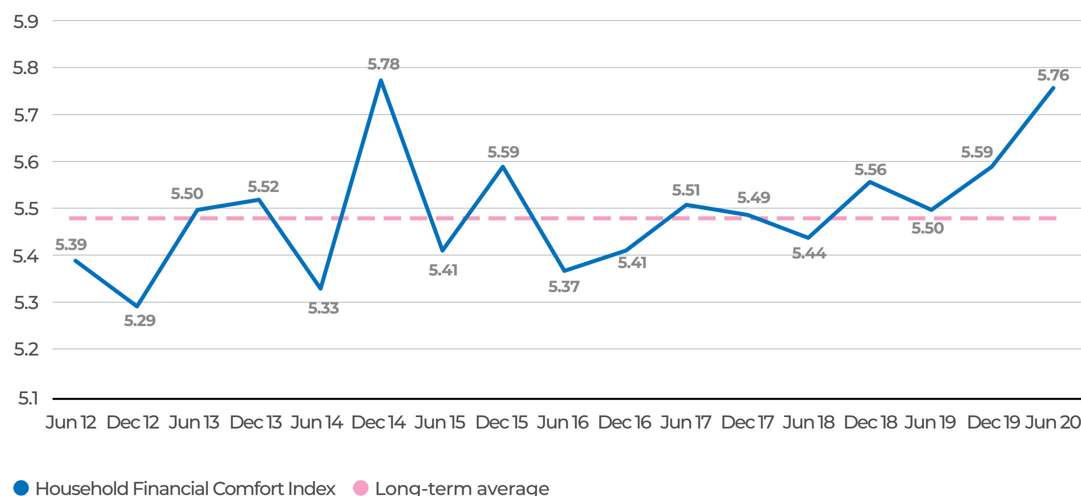


Figure 1 – Changes in the *Household Financial Comfort Index*. Scores out of 10.

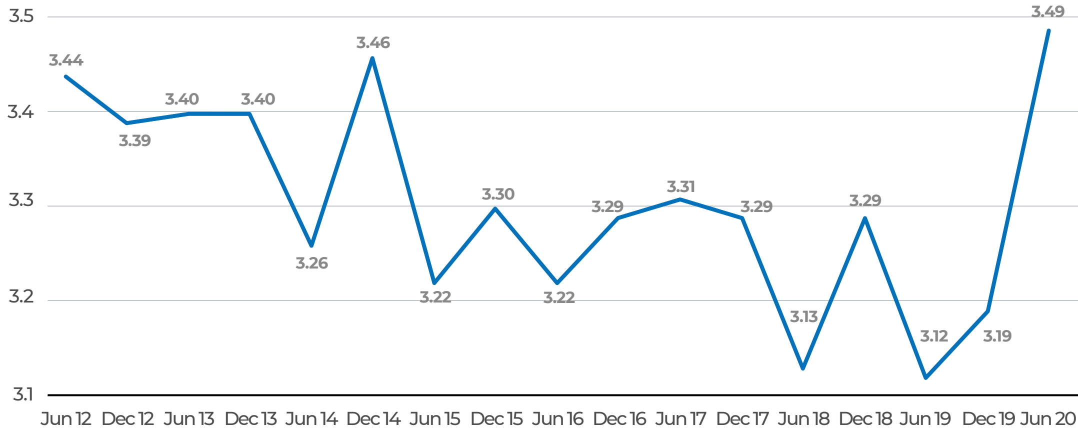


Figure 2 – *Household Financial Comfort Index* by low 0-4 comfort levels

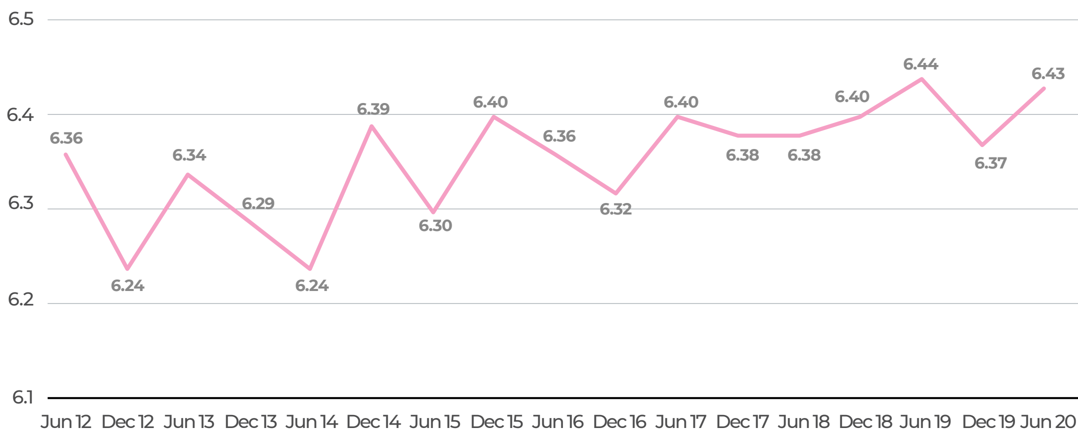


Figure 3 – *Household Financial Comfort Index* by mid 5-7 comfort levels

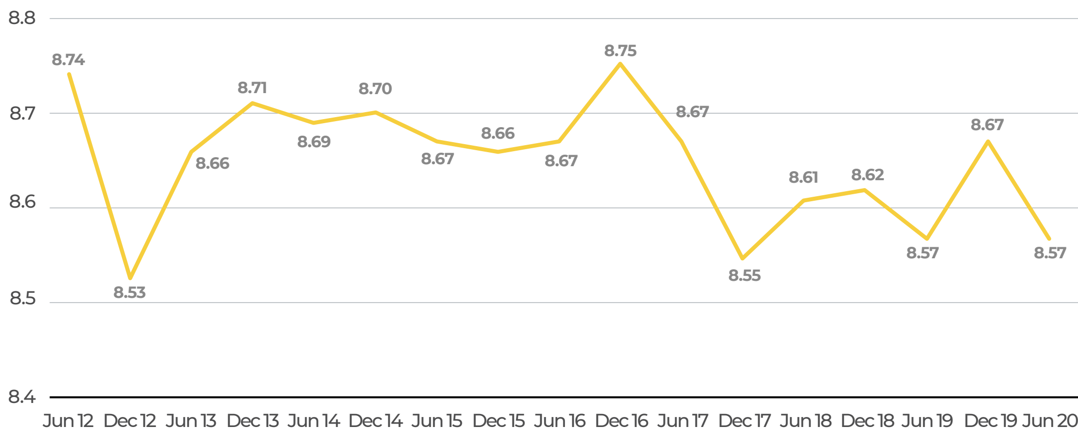


Figure 4 – *Household Financial Comfort Index* by high 8-10 comfort levels

3.2 Key drivers of the surprising rise to a near 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 over eight years ago.

Most components increased during the past six months to June 2020, except for two key drivers.

Households reported significant increases in 'comfort with cash savings' (up 8% to 5.48) and 'comfort with incomes' (up 5% to 6.01) – both to record high outcomes in June. Government welfare assistance has significantly supported incomes and, in some cases, significantly 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) as well as temporarily pausing childcare fees.

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) – jumped 9% to a historical high of 5.25 in June (see Figure 5).

Despite these gains in comfort, almost one in four households (23%) have little confidence that they can maintain their lifestyle if they lost their income for three months, while about a fifth of households (21%) held less than $1,000 in savings in June (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 faced with the negative effects of any sustained pandemic and a reversal in the recent rise in financial comfort – triggered by significant reduction in government support, a further loss of income from a weak labour market and/or a fall in household wealth from a significant fall in residential property prices (see Section 3.5 for more details).

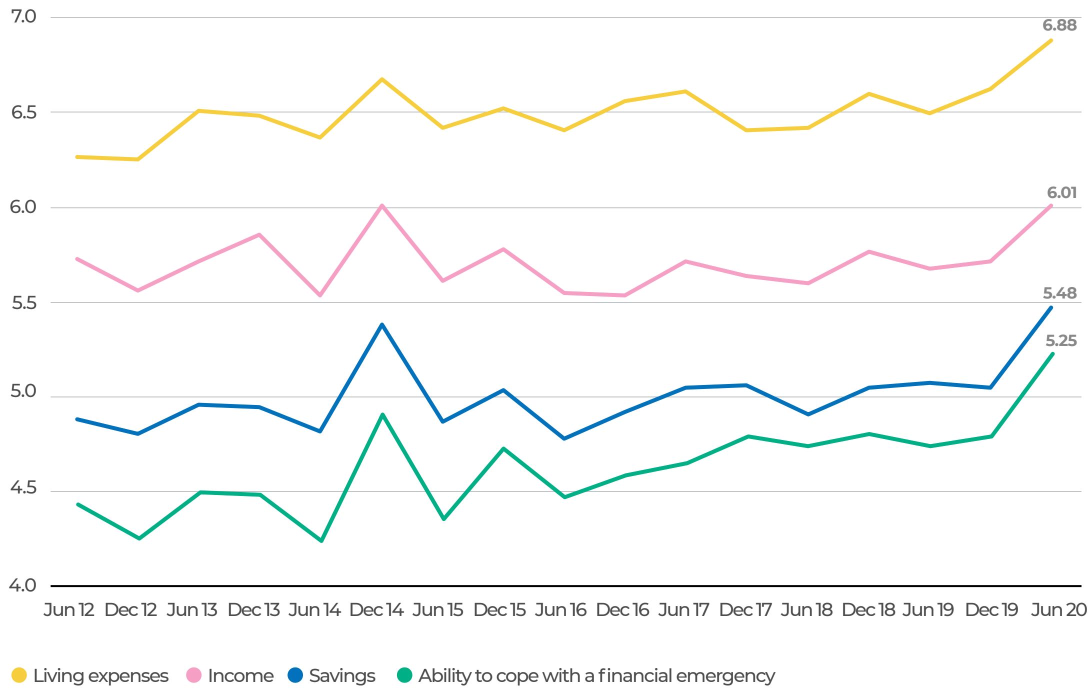


Figure 5 – Key components of the *Household Financial Comfort Index*, with levels of comfort over time (income, expenses, cash savings and the ability to cope with a financial emergency). Scores out of 10.

Households also reported stronger balance sheets. Comfort with 'investments', 'debt' and '(net) wealth' all increased over the past six months to June (see Figure 6). Highly accommodative financial conditions including ultra-low borrowing rates and the offer to defer loan repayments as well as a partial rebound in equity prices and a small fall in residential property prices during the past few months appear to have boosted comfort with balance sheets – notwithstanding, some significant financial distress among some households.

Interestingly, household comfort with their 'anticipated standard of living in retirement' also improved – arguably, consistent with household expectations of no major long-term impacts from a (temporary) pandemic on economic activity, financial markets and/or government assistance.

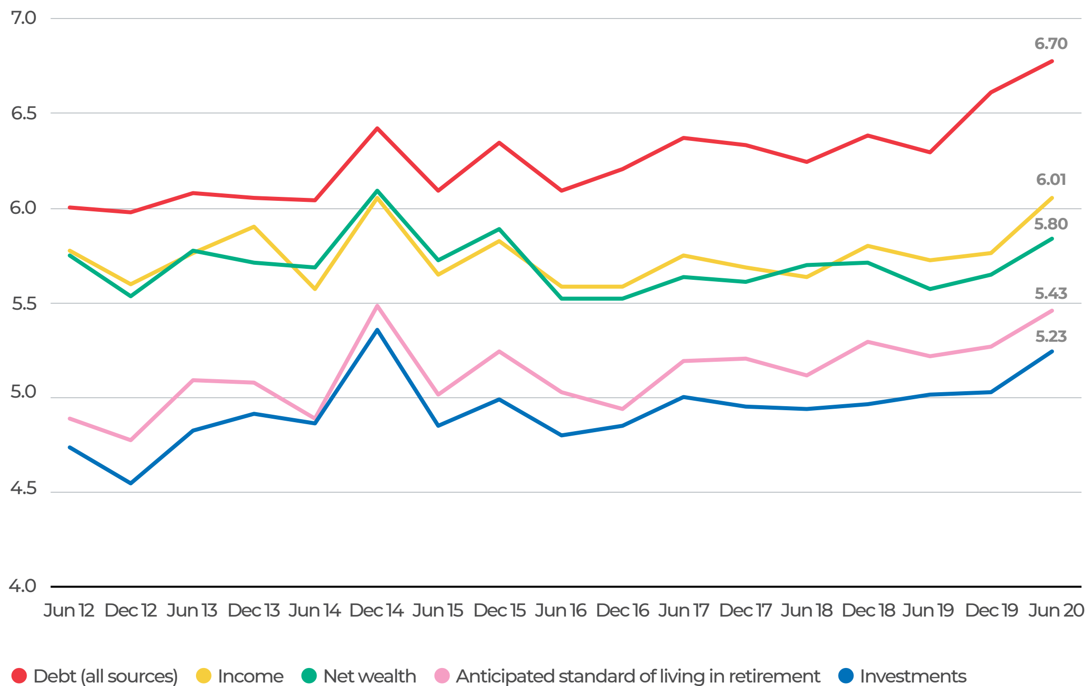


Figure 6 – Key components of the *Household Financial Comfort Index*, with levels of comfort over time (debt, income, net wealth, retirement and investments). Scores out of 10.

As noted above, in contrast, two drivers substantially deteriorated during the six months to June – comfort with both 'recent changes to financial situation' (down 5% to 4.97) and 'expected changes to financial situation' (down 4% to 5.26) – reflecting the negative impact of the pandemic over the past six months as well as increased concerns about the pandemic for lifestyle, underemployment (both jobs and hours worked) and the potential loss of income into the future (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 was reduced significantly – effectively, a personal savings cliff (see Figure 18 in Section 3.5 for details).

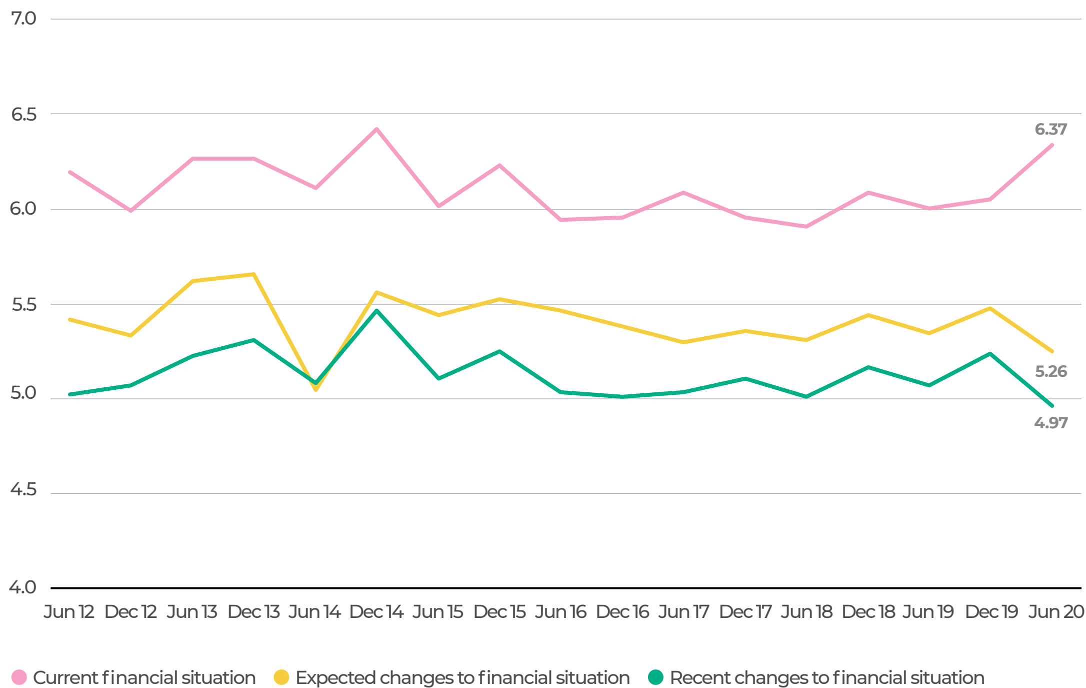


Figure 7 – Key components of *Household Financial Comfort Index*, with levels of comfort over time (financial situation for the past, current and next year). Scores out of 10.

Disparate comfort by life stages, with big boosts for singles with preschool children and young adults living at home.

During the past six months – from pre-pandemic in December 2019 to the lifting of restrictions in June – the largest gains in financial comfort across life stages were reported by 'single parents dependent on government assistance' (up 22% to 3.65) and, to a much lesser extent, 'young singles/couples with no children' (up 6% to 6.02).

In contrast, comfort of all 'couples with children of all ages at home' deteriorated – including 'couples with teenage children' (down 4% to 5.46) and 'singles with mainly teenage children at home' (down 7% to 4.09).

Nevertheless, 'single parents dependent on government assistance' continued to report the lowest financial comfort (only 3.65 out of 10), while the highest comfort across life stages continued to be reported by 'retirees' (6.47) and 'couples with no children' (6.44). For more details, refer to Figure 8 on next page.

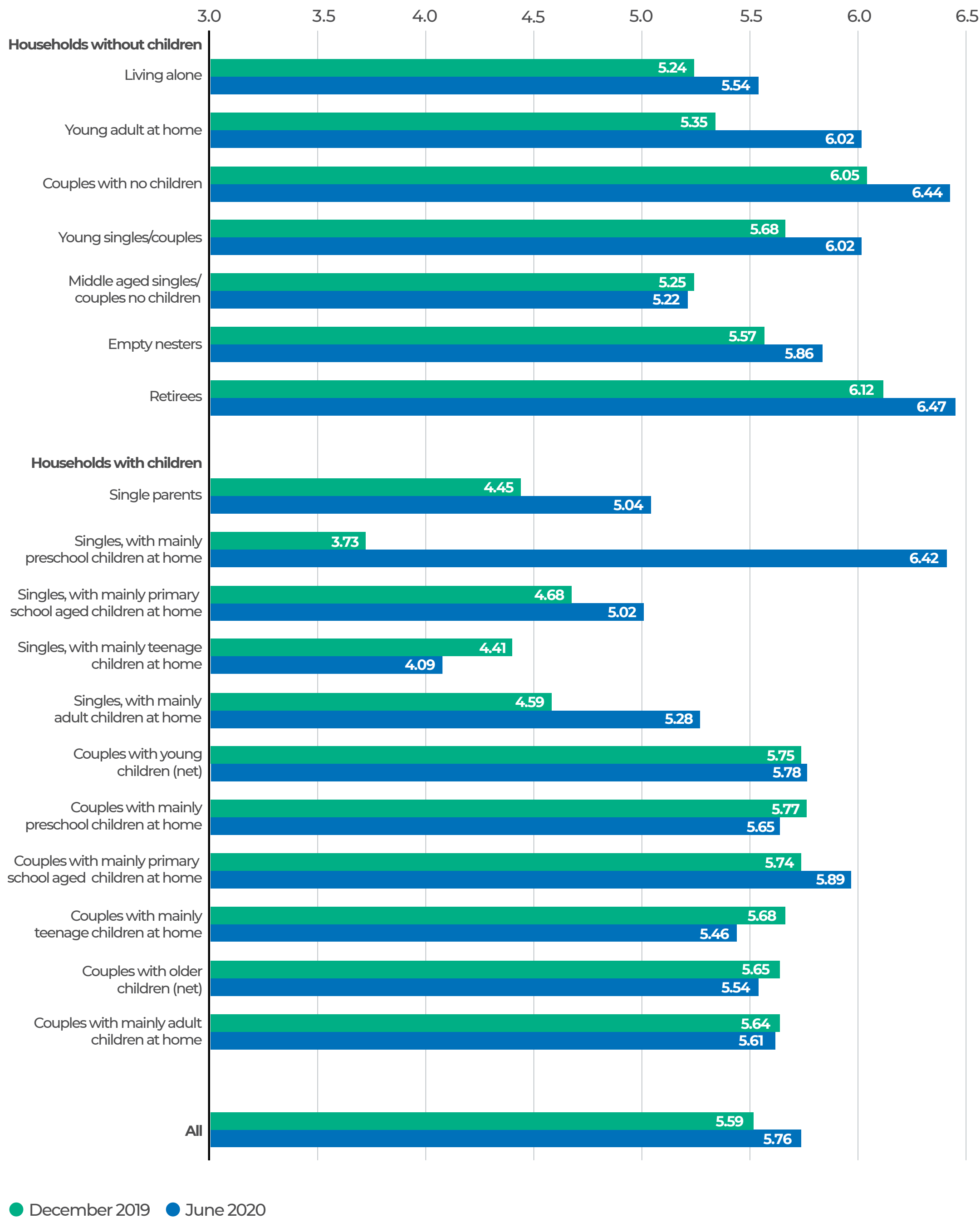


Figure 8 – Comfort index across life stages, including households with and without children in June 2020, compared with December 2019. Scores out of 10.

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 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 significant differences reported across and within households at various life stages as well as by the level of household income and cash savings.

For all households, 34% cited they were 'worse off' (including 8% a 'lot worse off') from the pandemic in June, compared with 20% reportedly 'better off' (including 8% a 'lot better off'). In net terms, 14% of households reported to be 'worse off'.

More Victorians said they were 'a lot worse off' (11%) - the highest of any state or territory. Victorians also had the lowest percentage of 'a lot better off' responses (5%) in the nation.

Across life stages, more couples and singles with and without children at home reported that their financial comfort was 'worse off' from the pandemic.

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, -27% and -19%, respectively, than those with relatively high amounts of savings (+2%).

Across incomes, households with high incomes (>$100,000 per annum) reported to be the least impacted by the pandemic, with more citing to be 'worse off' (-31%) than better off (29%). Meanwhile, over a third of lower than average income households ($40,001 to $75,000) reported to be a bit worse off.

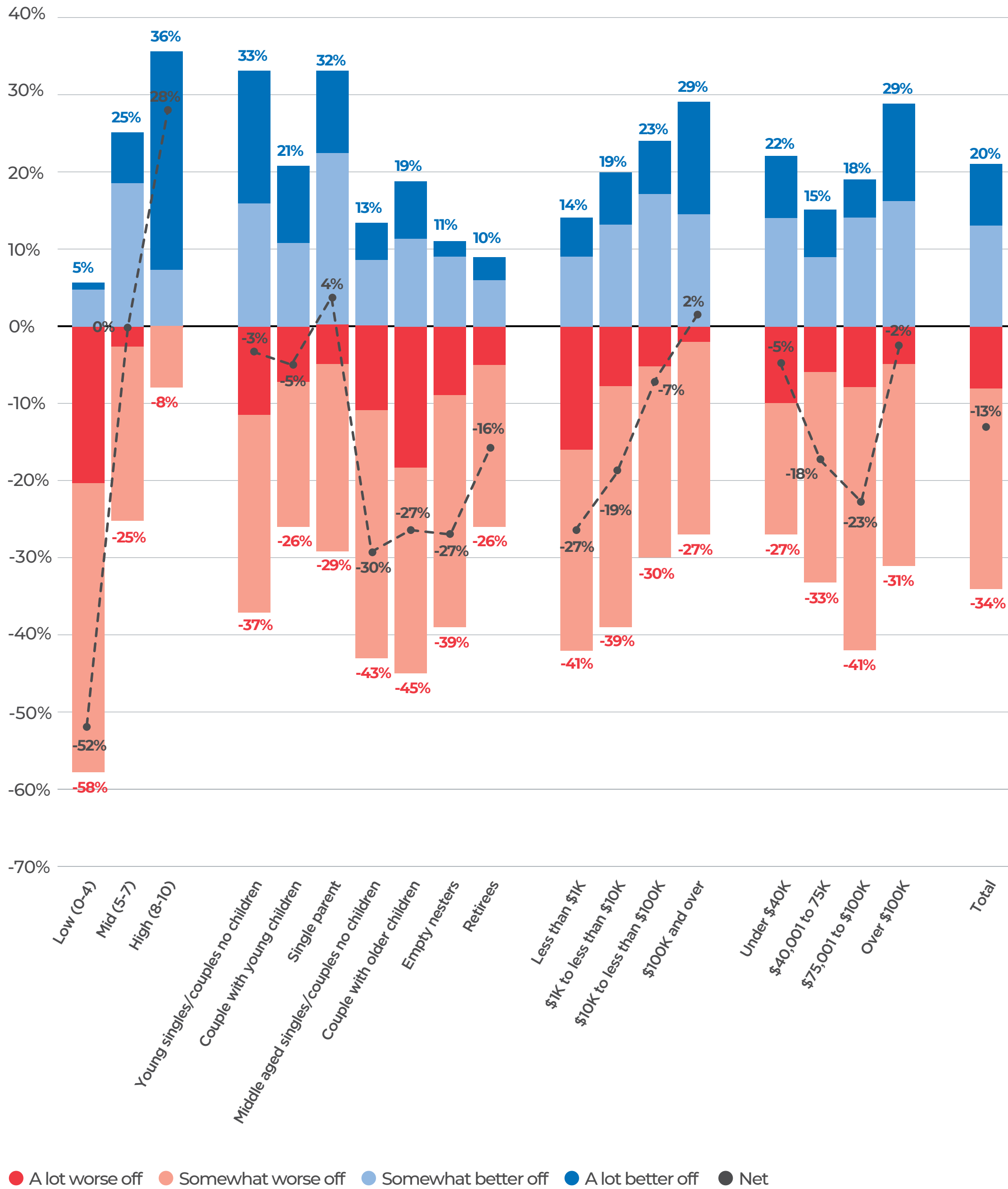


Figure 9 – How the pandemic has affected household financial comfort (worse off or better off) - % of households.

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

As noted previously, comfort with 'recent changes to financial situation over the past year' deteriorated significantly – down 5% to 4.97 (see Figure 7). About a third of households said that their financial situation has worsened – up 5 points during the past six months. On the other hand, in June, 28% of households cited that their situation improved over the same period – 8 points lower than in December 2019.

In net terms (financial situation worsened or improved), the main reasons cited were changes in both 'job arrangements/security' and 'income/wages' and, for the first time, 'the pandemic'. There was also a significant increase in the 'support from government'.

For the first time, almost a quarter of households (24%) 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 (34%), as noted in Section 3.3. On the other hand, only 4% cited the pandemic as a driver improving their financial situation – significantly less than those households that reported an improvement in current comfort as a result of the pandemic (20%), as noted in Section 3.3.

The other main reasons households cited for worsening their financial situation was a marked increase in 'employment arrangements/job security' – up 14 points to about a third of households (33%), followed by 'change in incomes' up 15 points to about a quarter (24%). In contrast, there was a small improvement in 'employment/job security' for some households whose financial situations have improved (up 3 points to 21%), followed by 'change in income' (down 4 points to 18%). 'Support from government' was cited by 8% of households as a reason for an improved situation, compared with only 1% in the previous survey.

The greatest worries are 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 has emerged as one of the 'biggest worries' of households in the latest survey (in total, 35% of households) – almost the same as households that reported the pandemic had 'worsened' their household comfort. In contrast, only 6% of households cited the pandemic as one of the 'biggest positives'.

A lot more households cited how the global economy will impact Australia as a 'biggest worry' – up 13 points to 39%, while only 6% cited this as a 'big positive' in June.

The next 'biggest worry' cited was the cost of necessities (e.g. fuel, utilities, groceries) – down 10 points to still a relatively high 34% of households – arguably due to some significant falls in petrol prices, some government assistance and deferment of utilities bills.

The level of government assistance among households generated significantly less worry (down 5 points to 13%) and more positives (up 5 points to 14%).

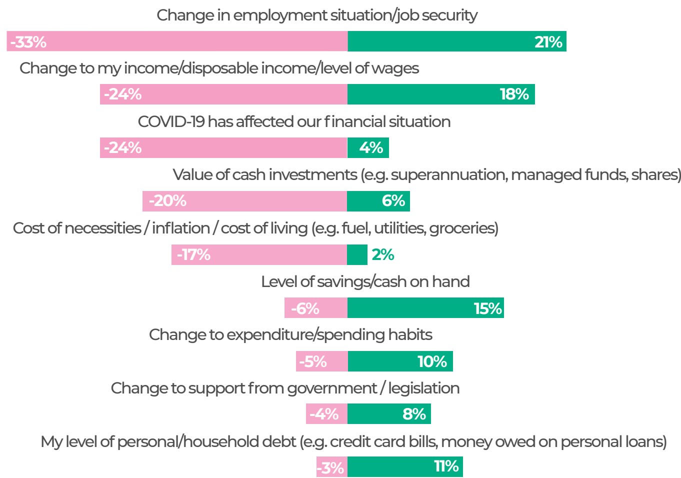


Figure 10 – Top reasons why households' financial situations improved or worsened in the past year.

Worsened Improved

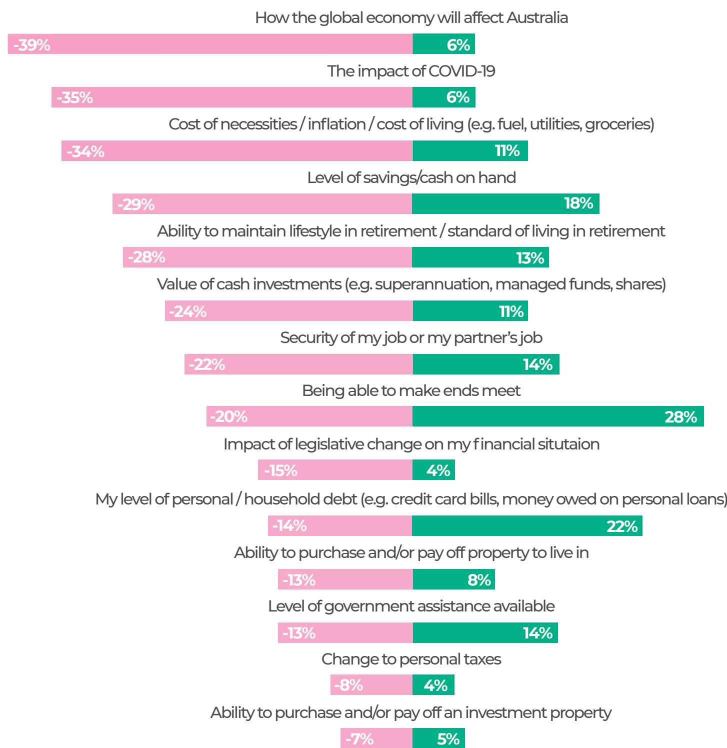


Figure 11 – Biggest financial worries and positives.

Negative Positive

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 government and, to a lesser extent, banks, financial institutions and other sources. In addition, households have markedly changed their financial behaviours in response to the pandemic and the related support.

In a new question, households were asked to indicate what assistance and actions they adopted in response to the pandemic.

By June, nearly 1 in 5 households (19%) utilised the main government payment support - specifically, JobKeeper (12% of households at a fortnightly payment of about $1,500) and JobSeeker (9% of households at the increased rate for a single person up by $550 to about $1170 per fortnight before any additional supplements). All those recipients currently on government income support were eligible for the coronavirus supplement of $550 per fortnight from 27 April. There were also separate payments of $750 to aged pensioners and other concession card holders, while co-payments on childcare was suspended from 6 April until 12 July.

Banks also offered temporary repayment deferrals on loans, which only a relatively small 4% of (total) households reportedly took up. 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.

A very small proportion of households took out a personal loan (2%) or a new loan for a business (1%).

In contrast, 12% of households dipped into their savings and 8% 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 before and after 1 July due to financial hardship.

While about a quarter of households rent residential properties, only about 3% of total households reportedly requested a reduction in rent – although higher among Gen Zs (15%) – noting currently that there is a government moratorium on forced evictions.

In total, almost 40% of households benefitted from some of this assistance and/or took their own financial actions in response to the pandemic, with many adopting one or more of these measures to support their incomes and spending, increase (net) cash savings and more generally, improve their financial comfort.

The most frequent households to access available support and/or take financial actions were 'middle-aged singles/couples with no children' (52%), 'couples with young children' (49%) and 'single parents' (47%).

By June, JobKeeper was reportedly accessed the most by 'middle aged singles and couples '(25%), followed by 'couples with young children' (17%). JobSeeker was also used the most by 'middle aged singles/ couples with no children' (14%) – albeit not much higher than most younger life stages.

The withdrawal of long-term savings from superannuation was used the most by 'middle aged singles/couples no children' (15%) and, to a greater extent, 'single parents dependent on government assistance' (28%).

Across generations, 'Gen Zs' (18-24 years) accessed super withdrawals the most at 30%, compared to only 4% of 'empty nesters' and 3% of 'retirees'. While the other main action taken by households included dipping into savings (on average, 12%), this action was most common among 'middle aged singles/ couples with no children' (19%) (see Figure 13).

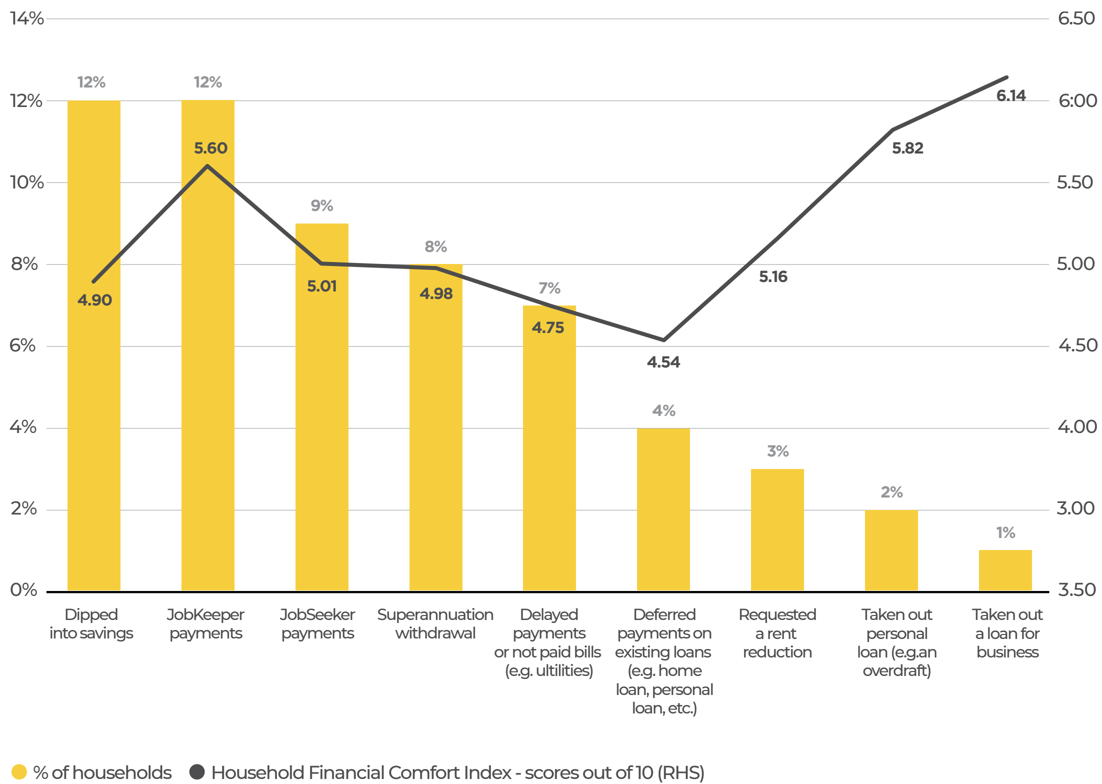


Figure 12 – What households used to ease the financial burden during COVID-19, compared with current financial comfort - % of households.

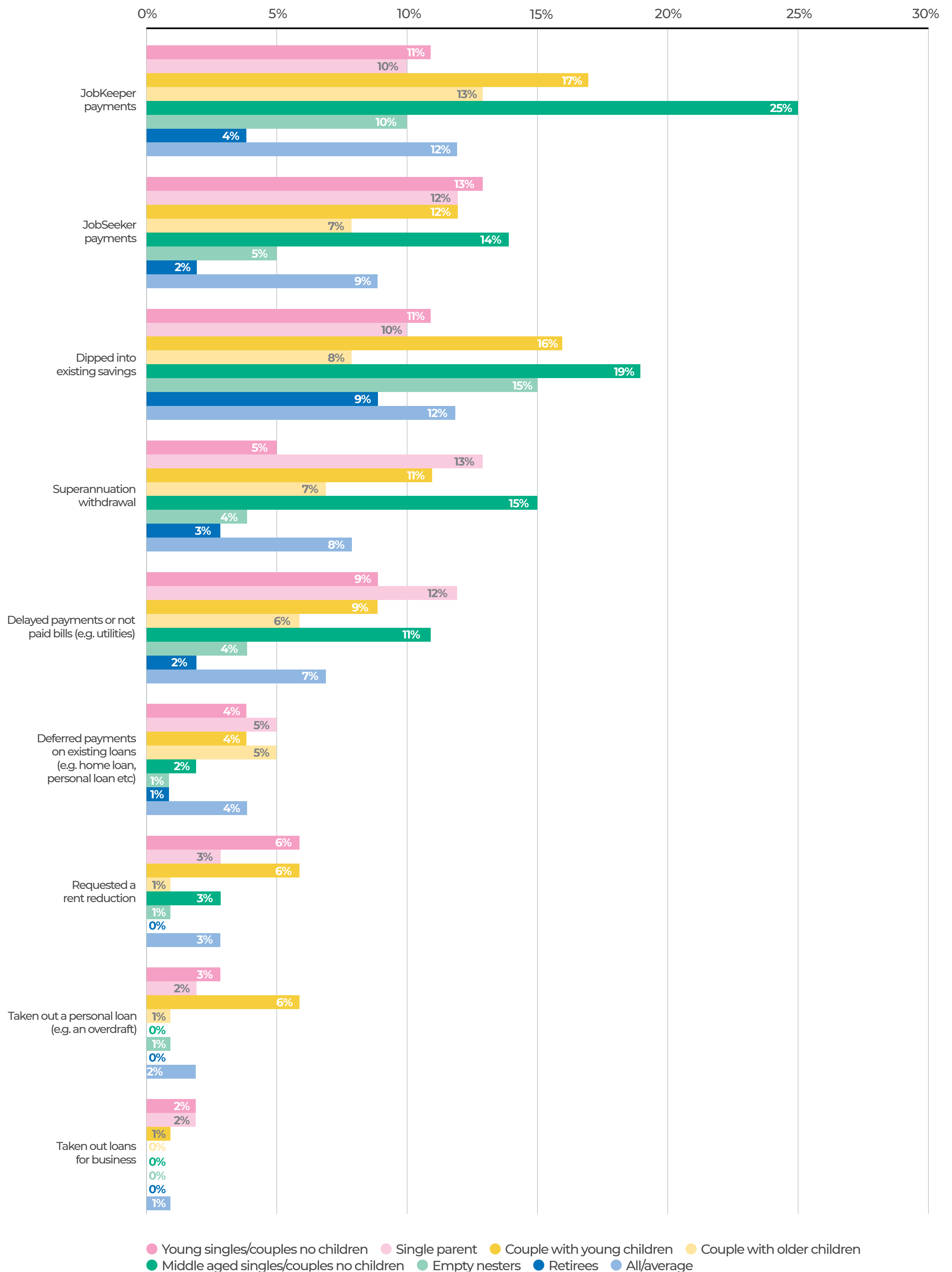


Figure 13 – What households used to ease the financial burden during COVID-19 by life stage - % of households

Of those households that reported a worsening in their financial situation over the past six months, over half (52%) used some of these supports and/or took their own financial actions, compared with a quarter of households that reported no change in their financial situation and over 40% of households that reported an improved financial situation.

Households saving more and spending less.

It is noteworthy that much of the government assistance has been used to boost cash savings, while households have also reduced overspending and delayed payments of bills. 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 noted above, comfort with 'cash savings' jumped to a record high. Most life stages reported increases, 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 14% to 4.41) – mainly reflecting the very low comfort of 'single parents dependent on government assistance' (index of only 2.05). In contrast, 'retirees' have the highest comfort with cash savings (up 10% to 6.28).

During the six months to June, the proportion of households reporting that they saved each month (that is, 'savers') jumped by 8 points to a record 57%. In contrast, households spending more than they earn each month (that is, overspending by running down savings or borrowing more) decreased by 3 points to a record low of 7%. The remaining households that typically spend all their income and no more also fell – by 5 points to a record low of 36% of households. As a result, the proportion of 'net savers' (savers less over spenders/dissavers) rose by a record 12 points from an historical average of 39% of households to a record high of 51% (see Figure 15).

Net savings rose across all households, except 'young singles/couples with no children' (down a point to a net 56%). By household, the highest net savers were also 'couples with young children' (up 20 points to 56%) – boosted temporarily with free childcare and, to a lesser extent, other income supplements, while the lowest net savers remained 'single parents dependent on government assistance' (9%).

Consistent with increased precautionary saving, net savers rose across lower annual income levels – up 17 points to a still relatively low 30% for households with annual incomes (<$40,000) and up 20 points to 51% for households with below average annual incomes ($40,000 to $75,000); and unchanged at 50% for average incomes in the range of $75,001 to $100,000 and higher incomes of more than $100,001 (up only 2 points to 65%).

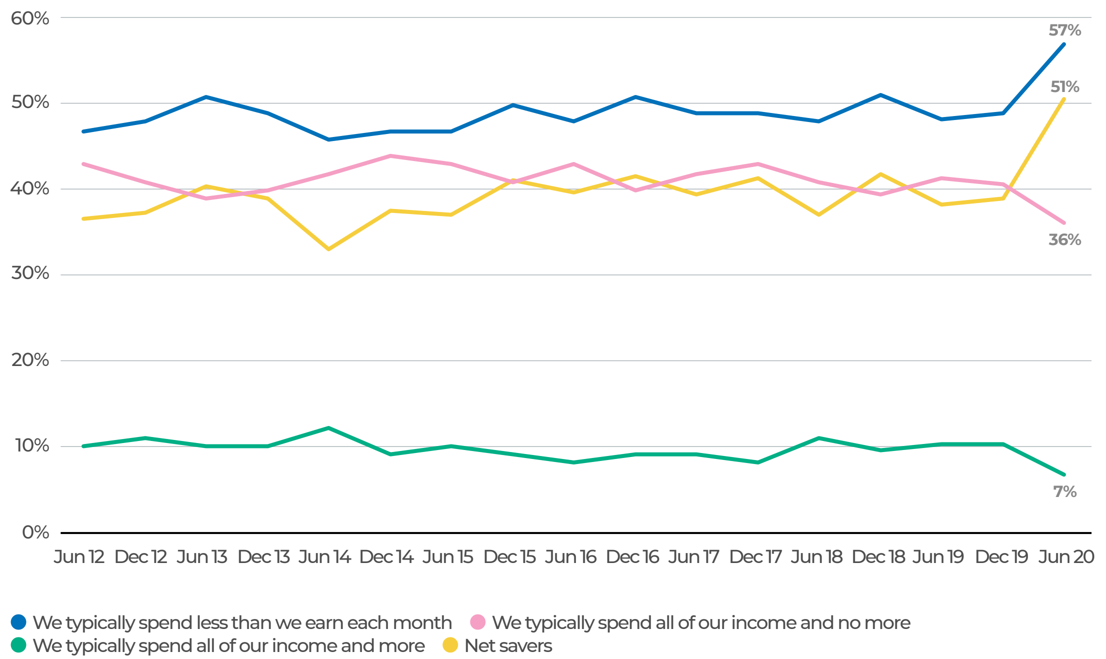


Figure 14 – Thinking about how much of your household's monthly income you typically spend, which of the following best describes how much is left over at the end of the month, if any - % of households?

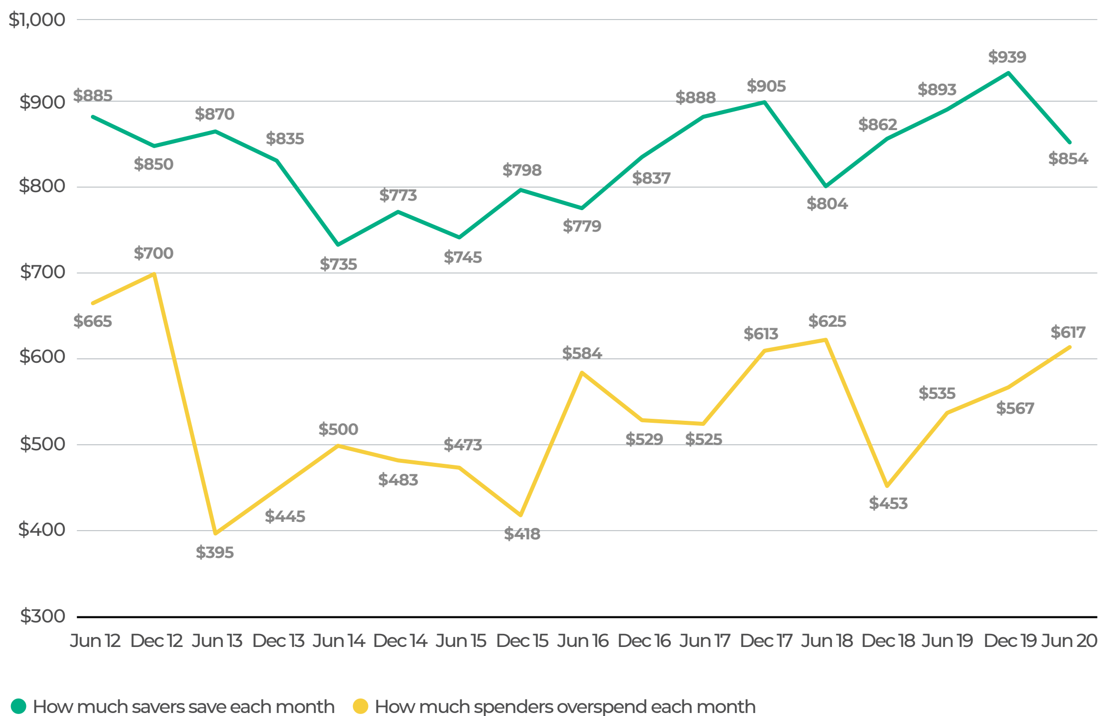


Figure 15 – How much more than your income do you save or spend each month on average? ($)

However, in terms of amounts, on average, savings decreased by about 9% to $854 per month during the past six months to June, while non-savers overspent $617 per month, up by 9%. Put another way, there has been a marked increase in savings due to more savers saving a lesser amount and fewer non-savers overspending a larger amount – reflecting a big increase in precautionary savings among mainly lower income households (see Figure 16).

Nevertheless, a large proportion of households continue to have very low amounts of cash savings – and hence, are highly vulnerable to a loss of income – related to lower hours worked and job loss or any reduction in government or other assistance.

Around 8% of households hold less than $100 in savings; 5% between $101 to $500; and a further 7% between $501 to $1,000. Put another way, about a fifth of households (21%) hold less than $1,000 in savings in June (less than the current government payment of JobSeeker).

There are a further 14% with savings of between $1,001 to $5,000 and a similar proportion with a significantly higher $5,001 to $10,000. Meanwhile, over 30% of households hold relatively large amounts of savings above $50,000 – relatively unchanged over the past six months (see Figure 16).

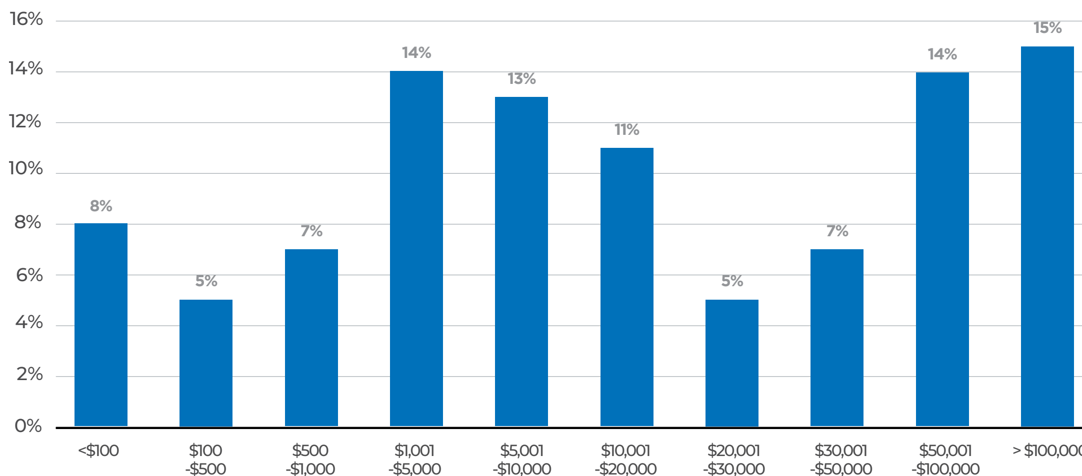


Figure 16 – How much in cash savings does your household currently hold - including savings accounts, term deposits and offset accounts?

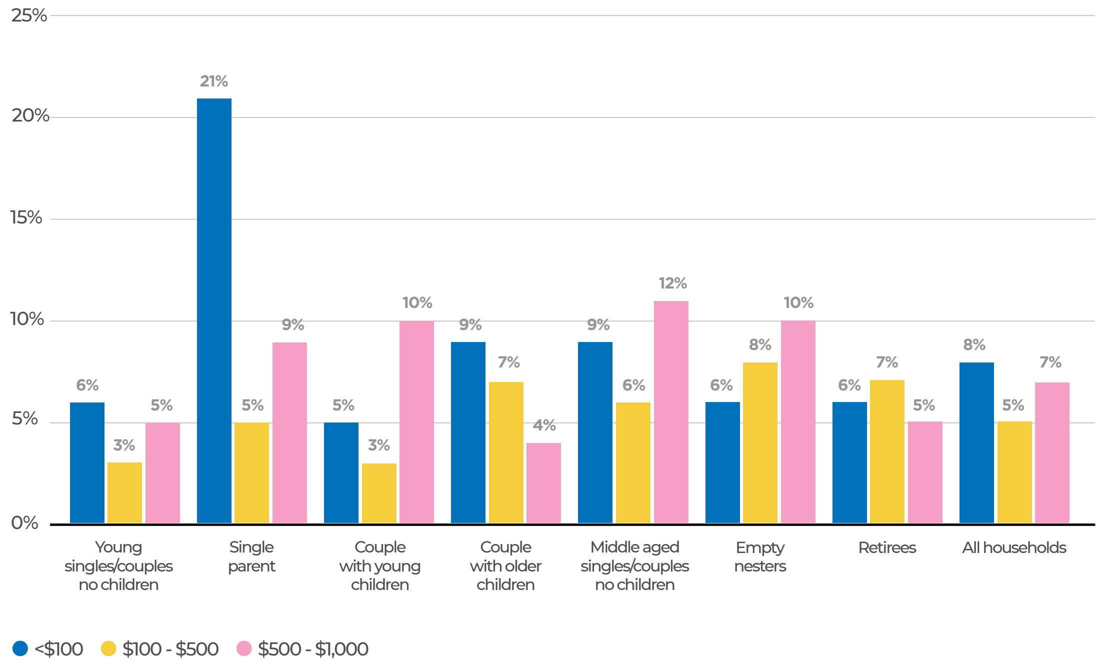


Figure 17 – Small amounts of cash savings held by household life stage in June 2020 - % of households

By life stage, about a third (35%) of 'single parents' have less than $1,000 in cash savings – including a much higher two-thirds (65%) of 'single parents dependent on government assistance' and, to a lesser extent, almost 30% of 'working single parents', followed by 'middle aged singles/couples with no children' (27%) and 'empty nesters' (24%).

By the workforce, almost half of the unemployed (48%) have less than $1,000 in cash savings, followed by the part-time self-employed (28%) and about 16% for most other employees (full-time, part-time or casuals), compared with a much lower 5% of full-time self-employed (or business owners).

While in terms of the annual incomes of households, the corresponding figures for small amounts of savings are 42% for <$40,000; 24% for $40,001 to $75,000; 17% for $75,001 to $100,000; and 8% for over $100,001.

3.5 Looking ahead: The household savings cliff, the weak labour market and expectations of a much softer residential property market.

Many households remain on the edge of the personal savings cliff.

A large proportion of households are vulnerable to a withdrawal or significant reduction in government support, a further loss of income from a weak labour and/or a fall in household wealth from a significant fall in residential property prices.

In June 2020, only 18% of households reported they could maintain their current lifestyle for more than six months if they lost their income, while only 32% said they could maintain their lifestyle for more than three months. Put another way, about two-thirds of households (68%) would need to change their lifestyle, if they lost their income for less than three months (or during the September quarter 2020).

Across life stages, over 80% of 'single parents' reported they would need to change their lifestyle within the next three months, if they lost their income, followed by about 75% for both 'couples with young children' and 'middle aged/singles/couples with no children'. In contrast, the corresponding figure for both 'empty nesters' and 'retirees' was 55%.

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 7% for more than three months (or effectively, the September quarter).

Labour market deteriorates a lot – with rising high underemployment and increased difficulty in finding a job.

With the advent of the unexpected pandemic since February, there has been a significant rise in underemployment (both a significant rise in unemployed and reduction in hours worked). Employees also reported feeling more insecure about their job and expect it will be more difficult to find a new job if they lost their current job.

During the past six months, there was a marked increase in the proportion of part-time workers preferring more hours and full-time work. While a small majority (55%) continued to be happy with their number of work hours in June, 39% preferred to work more hours, compared with 27% reported six months ago (see Figure 19). On average, part-time workers preferred an additional 18 hours per week in June, compared with 14 hours per week in December 2019. Casual workers experienced a small decrease, previously wanting 18 hours in December 19 and now wanting 16 additional hours.

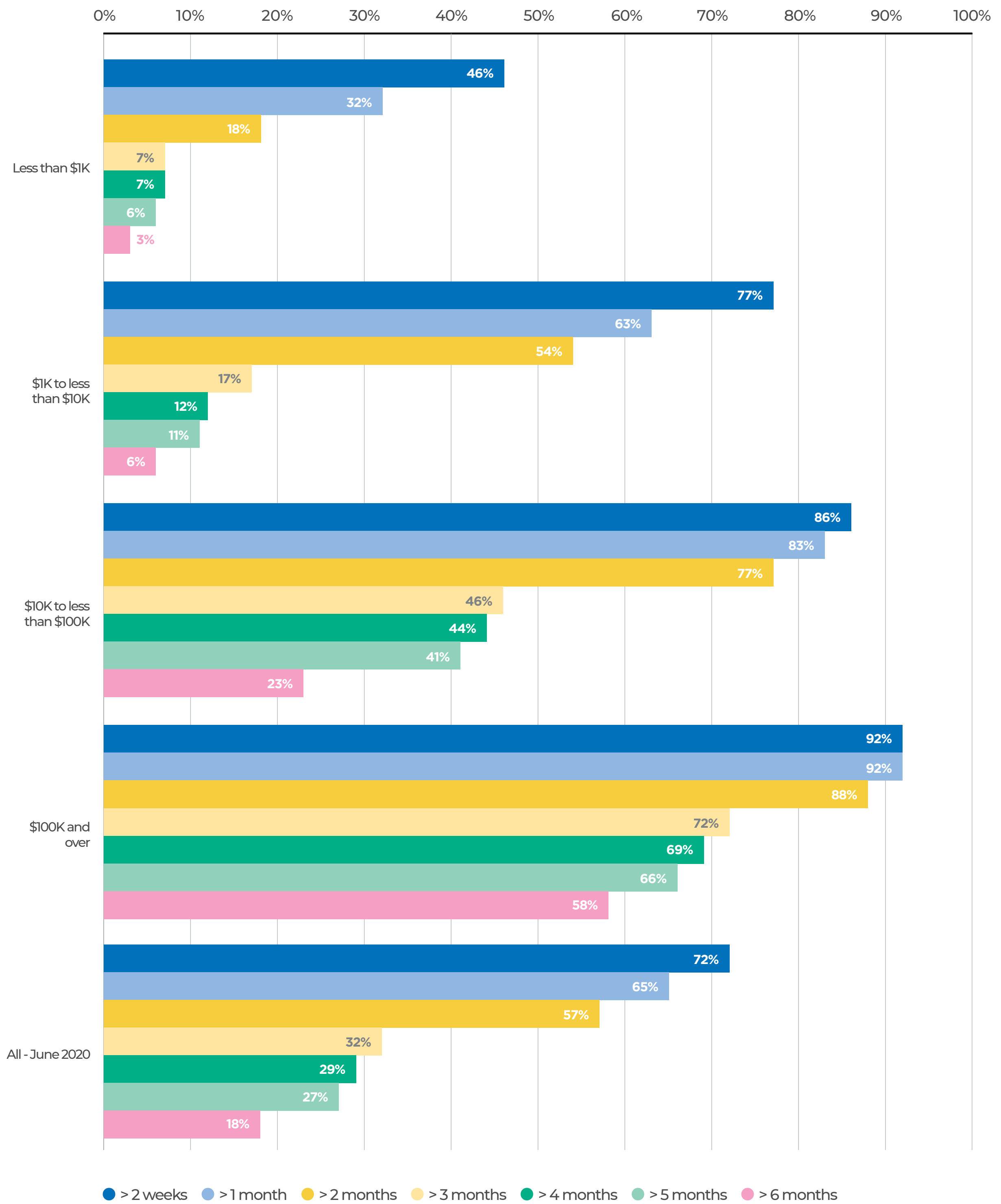


Figure 18 – If you were to lose your income, how many weeks or months would your household be able to maintain its current lifestyle for - % of households?

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

Workers expecting it would be 'easy to find a new job in two months' decreased by a record 13 percentage points to 31% of employees in June 2020. Similarly, the number of workers who reported it would be 'difficult to find another job' increased by 10 points to a record 59% – 7 points above the average of 52% of the past eight years (see Figure 20).

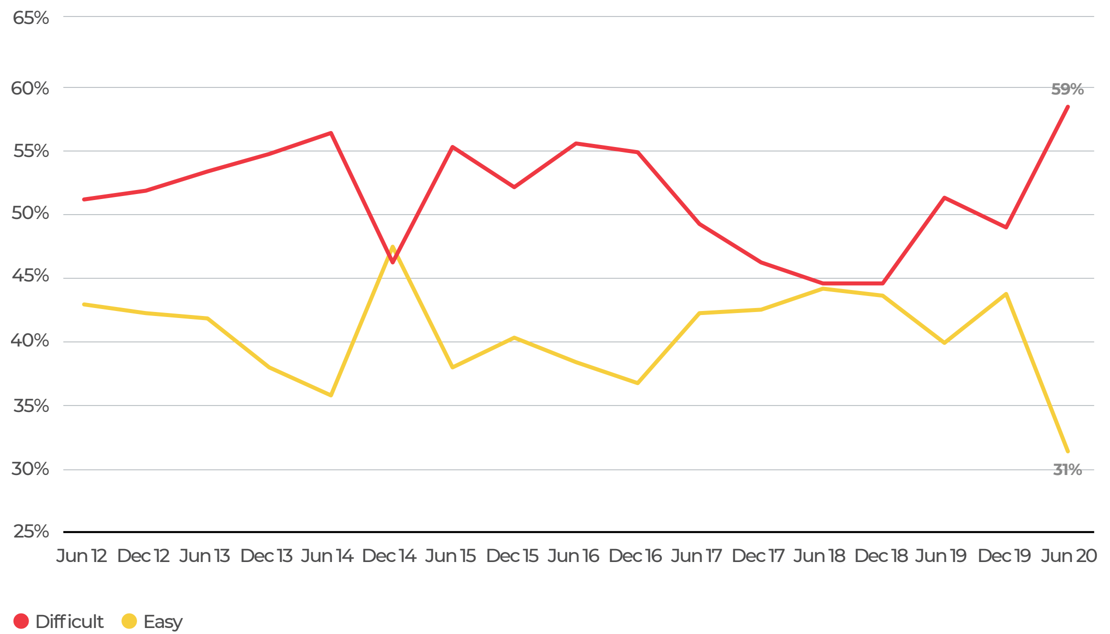


Figure 20 – Ease of finding a new job in the next two months if became unemployed - % of employed workforce

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

After forecasting a pickup in property prices during 2020 in the previous survey, most households – either living in their homes and/or residential property investors – are feeling significantly less optimistic than six months ago about the 12-month outlook for dwelling prices.

Indeed, 22% of households of owner occupiers expect their dwelling prices to rise during 2020/21, compared to 47% of households in December 2019. A few more households now expect price falls than rises, with 25% expecting the value of their home to fall during 2020/21, compared to 6% of households in December 2019.

Expectations of owner occupiers also vary significantly across major capital cities, with occupiers in Sydney less pessimistic than Adelaide, Brisbane and Melbourne, while Perth residents are a lot more pessimistic.

Among Perth residents, about 40% expect lower prices and only 12% expect rises during 2020/21. Across the eastern capital cities of Sydney, Melbourne and Brisbane falls are expected by 22%, 29% and 27% of owner-occupiers.

Investors remain a bit more optimistic about dwelling prices than six months ago: about one in four investors (26%) now expect the value of their investment properties to rise during the next 12 months, about half the corresponding figure of six months ago (51%), while the same proportion (26%) now anticipate a fall (including 5% who anticipate a big fall). Currently, investors in Sydney remain relatively optimistic about property values (with expectations for rises of 38% versus falls of 20%) and to a lesser extent Brisbane (34% versus 19%) while in Melbourne optimists (up 26%) are slightly less than pessimists (down 28%) among investors.

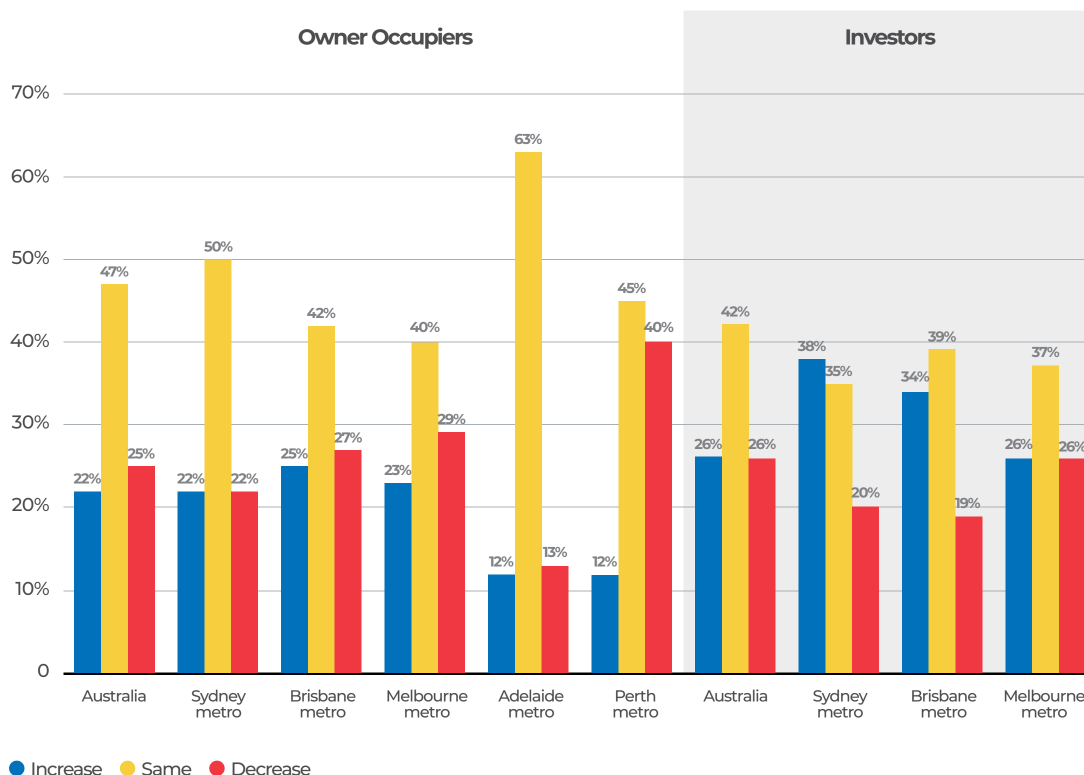


Figure 21 – What value do you think is likely to happen to the value of your property in the next 12 months?

Summary

In summary, overall financial comfort improved substantially during the six months to June - 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 households.

During the first half of 2020 when the pandemic hit Australia, most key drivers of financial comfort improved, except for the 'recent financial situation over the past year' and the 'expected outlook for the next year'. Households reported big improvements in 'comfort with cash savings' and the 'ability to cope with a financial emergency' and, to a lesser extent, 'comfort with income' despite decreased incomes from reduced higher income jobs and increased underemployment over the past year somewhat offset by a marked increase in government assistance for many households.

Looking ahead, however, many households face a personal savings cliff – vulnerable to a loss of income from a lack of paid work hours, job loss, a reduction in government assistance, deterioration in property markets and more generally, an uncertain road back from the significant negative impacts of the pandemic.

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 more households saving, albeit saving a lesser amount, on average, and reduced overspending. 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.

“We’re being more prudent with our money since COVID-19, saving more and spending less. Not paying childcare really helps.”

Couple with mainly preschool children
Full-time paid employment
Victoria

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 improves but remains mixed.

As highlighted in Section 3, during the six months to June 2020, the financial comfort for households across most life stages, on average, improved largely due to unprecedented government support and marked changes in the financial actions of households. Together, at least temporarily, this has more than offset the negative impact of the pandemic and boosted the financial resilience of households.

Nevertheless, households reported wide variations in financial comfort across life stages along with significant gains.

For instance, 'retirees' reported the highest comfort (up 6% to a new record of 6.47), followed by 'young singles/couples with no children' (up 6% to 6.02).

Meanwhile, 'single parents' continued to record the lowest comfort of any household, but also the greatest increase (up 13% to 5.04), especially those 'dependent on government assistance' (up 22% to 3.65) – arguably boosted both income payments and temporary free childcare.

The only households to report lower comfort included 'couples with older children' (down 2% to 5.54) and 'middle-aged singles/couples with no children' (down 1% to 5.22).

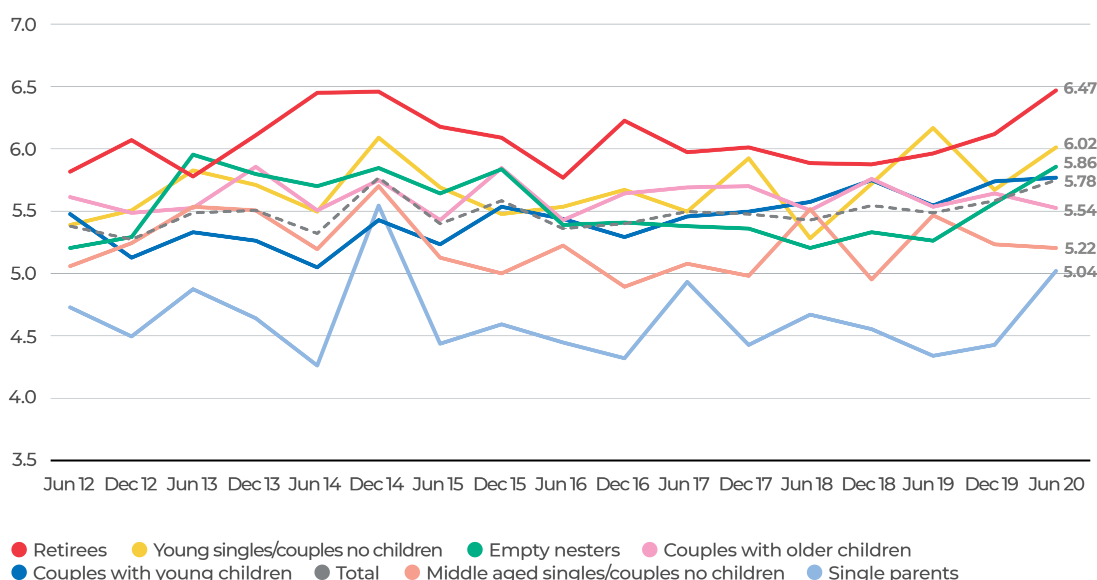


Figure 22 – Overall financial comfort across different household life stages. Scores out of 10.

4.2 Generations: financial comfort also remains mixed.

Overall, generations reported mixed comfort levels. The oldest generation surveyed, 70-plus years –referred to as 'Builders' – continued to report the highest level of comfort (up 2% to 6.19), while Gen X continued to report the lowest comfort unchanged at 5.35 out of 10.

During the past six months, comfort of Gen Y (up 5% to a new high of 6.04) increased slightly more than Gen Z and Baby Boomers - both up 4% to 5.76 and 5.99, respectively.

Varied responses to the impacts of the pandemic.

Generations also reported mixed impacts from the pandemic. A substantially higher proportion of Baby Boomers (25%) said they had been negatively impacted by the pandemic – including a net 21% being 'worse off' and a further 4% 'a lot worse off' – followed by Builders (18%). In contrast, Gen Ys reported to be more positively impacted from the pandemic – including 'a bit better off' from the impact from the pandemic, with about 9% 'a lot better off' partly offset by 1% 'somewhat worse off'. Among Gen Zs, there appears to be two cohorts: 19% 'a lot better off', compared with 18% 'somewhat worse off'.

During the past few months, Gen Z reported the biggest share of recipients of JobSeeker (20%) and the second biggest user of JobKeeper (14%) – a bit less than Gen X, with 18% recipients of JobKeeper. Fewer older generations were recipients of JobSeeker (only 1% for Builders) and JobKeeper (5% for Builders).

Gen Z at 30% also accessed superannuation to withdraw long-term savings – over three times more than Gen Y and Gen X (8% and 11%, respectively). The latter generations with young children were also significant beneficiaries from temporary free childcare.

A substantially higher proportion of Gen Zs also took advantage of rent reductions (about 15%), delayed payments/unpaid bills (26%) and bank loan deferrals (11%).

Compared with older generations, more Gen Ys dipped into existing savings (18%) and delayed payment of bills (11%).

In summary, only 14% of Builders and 31% of Baby Boomers have used any of the major government support and/or taken these various financial actions to ease the burden of the pandemic, compared to substantially more Gen Zs (59%), and to a lesser extent Gen Ys (47%) or Gen Xs (44%).

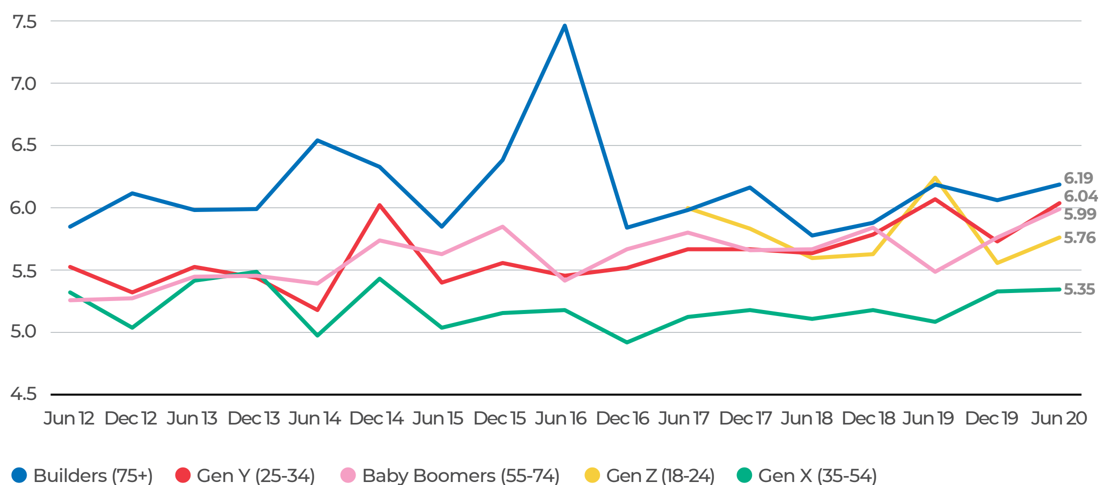


Figure 23 – Overall financial comfort across generations.

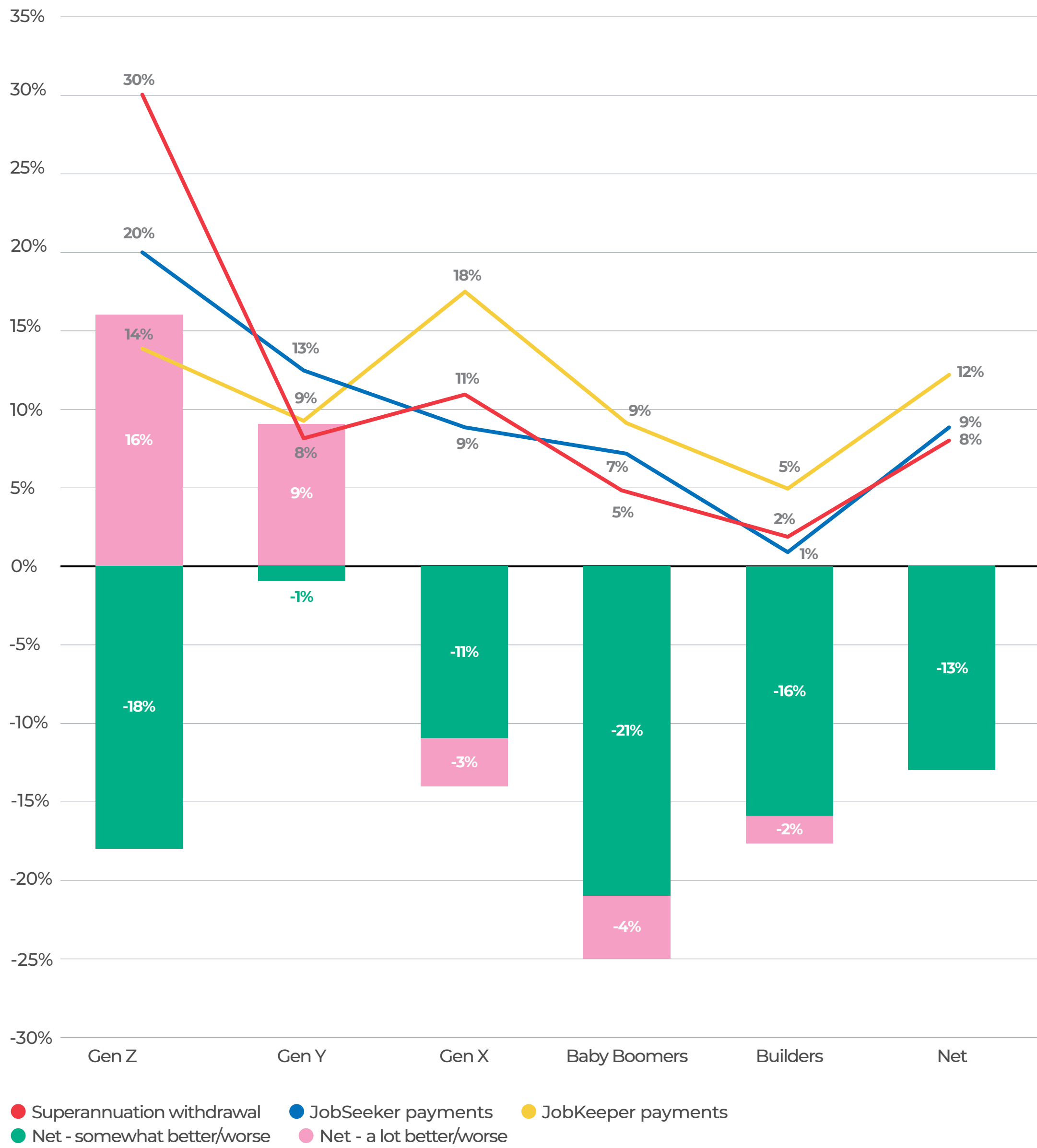


Figure 24 – How did the pandemic impact your financial comfort – worse, no change or better? Have you used JobKeeper, JobSeeker and/or withdrawn superannuation to ease the impact of the pandemic?

Students feeling the pinch, compared with other young cohorts.

Students continued to report markedly lower levels of financial comfort (down 1% to 4.60), compared to both 18–29 year olds (down 2% to 5.78) and 'young singles/couples with no children' (up 6% to 6.02).

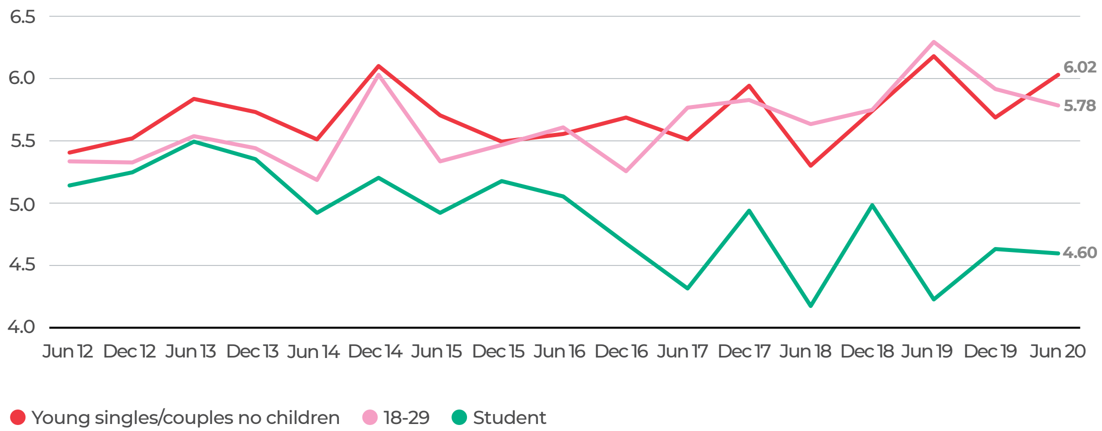


Figure 25 – Overall financial comfort across young singles/couples and students. Scores out of 10

4.3 States: financial comfort – improves across majority of states.

Most states and territories reported rises in household financial comfort, except for Victoria (down 3% to 5.64).

South Australia / Northern Territory reported the highest household financial comfort amoung the larger states (up 17% to 5.85) due to higher comfort with income, cash savings and in turn, the ability to deal with a financial emergency.

In contrast, Western Australia reported the lowest comfort (up 2% to 5.53) due to lower comfort with income, investments, cash savings, debt and (net) wealth.

Victoria's household financial comfort fell due to lower comfort in the ability to handle a financial emergency, no improvement in cash savings, a deterioration in their financial situation over the past year combined with lower expectations for the next year.

Compared to other states and territories, Victoria also reported a greater proportion of households significantly 'worse off' (11%) from the pandemic and a relatively fewer 'a lot better off' (5%).

On the other hand, South Australia / Northern Territory was the only region where a greater proportion of households reported to be 'a lot better off' (14%), compared with 'worse off' (6%).

Most states/territories had a similar proportion of beneficiaries of JobKeeper and/ or JobSeeker (at about 21% of households, lower in South Australia / Northern Territory at 18%). Most states had a significant and similar proportion dipping into cash savings (at about 12% of households, higher in South Australia / Northern Territory at 16%) and, to a lesser extent, withdrawing superannuation (at about 8%) to ease the financial burden from the pandemic.

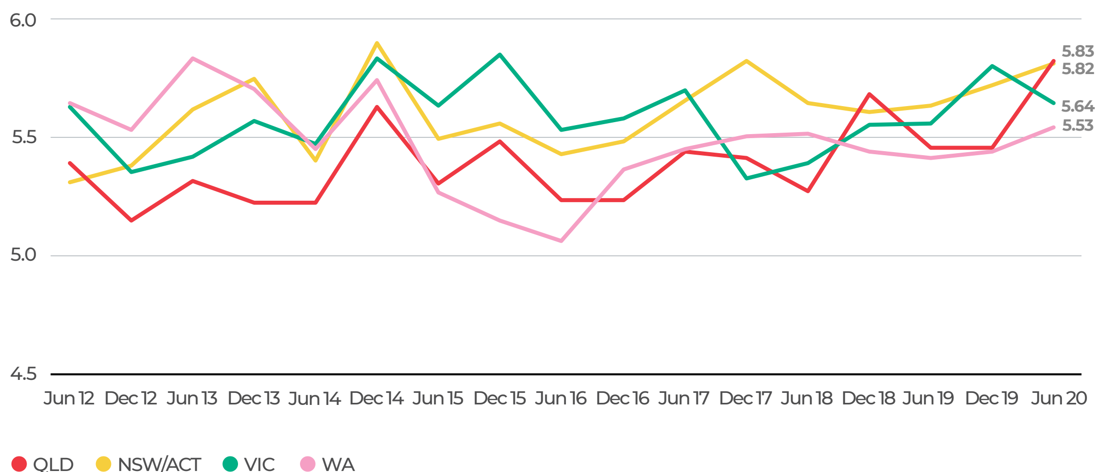


Figure 26 – Overall financial comfort across different states and territories. Scores out of 10.

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

Regional areas reported significant increases in comfort during the past six months to June 2020 (up 8% to 5.50), albeit still lagging compared to metropolitan capital cities (up 1% to 5.83).

Part of the bigger rebound in the comfort of regional areas appears to be due to the partial recovery from the devasting bushfires in late 2019/early 2020 and improved seasonal conditions from increased rainfalls after one of the worst droughts in 100 years. Households in both regions and capital cities reported the pandemic has had a similar negative impact on comfort during the past six months.

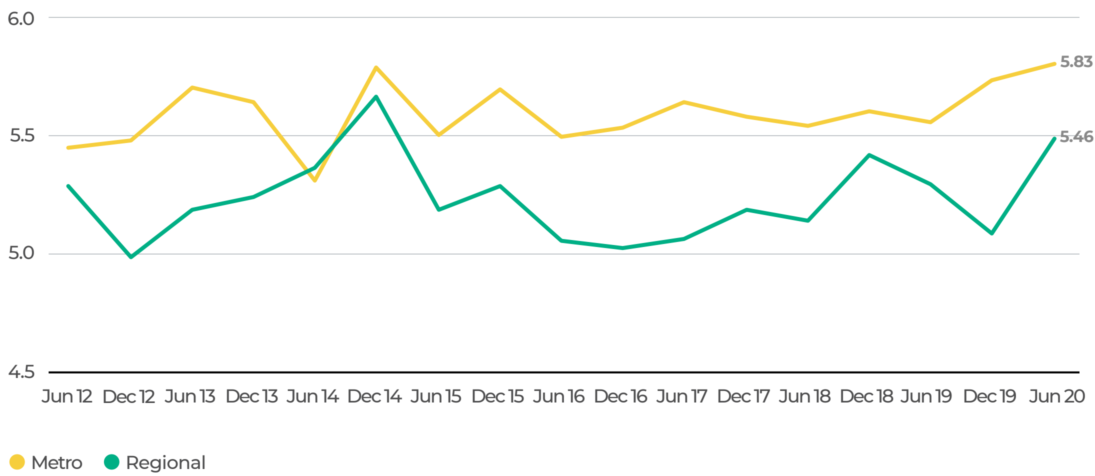


Figure 27 – Overall financial comfort across metro and regional areas. Scores out of 10

Financial comfort improved across most metropolitan areas, except for Melbourne (down 4% to 5.68). Consistent with Victoria as a whole, more Melbournians said they were significantly 'worse off '(12%) from the pandemic and a relatively fewer 'a lot better off' (4%), than other capital cities.

Comfort rose significantly in Adelaide (up 12% to 5.97) – with similar comfort levels reported by households in the capitals of eastern Australia. Households across the whole of South Australia and by inference Adelaide had a substantial rise in comfort with income, cash savings and their ability to manage a financial emergency.

On balance, households in both the metropolitan and regional areas were adversely impacted by the pandemic. In net terms (worse off less better off): -13% of metropolitan households, compared to -14% of households across the regions. Consistent with this, there has been similar use of government and other assistance and/or financial actions to ease the financial burden of the pandemic across both regions and cities as a whole.

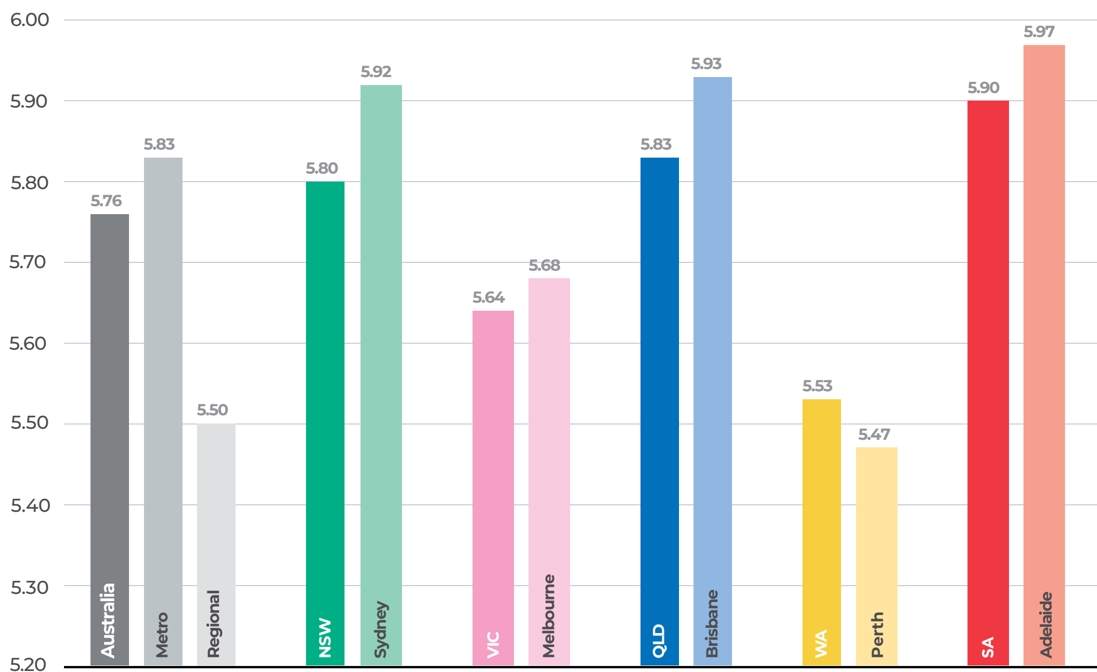


Figure 28 – Comfort index across larger states and metropolitan areas. Scores out of 10.

4.4 Labour force segments: financial comfort converges somewhat.

Comfort across labour force segments converged somewhat during the six months to June 2020 with large rises in the comfort of the unemployed (up 30% to 5.17) and casuals (up 17% to 5.60), compared with notable falls in part-time employed (down 6% to 5.56) and a minor fall among full-time employed (down 1% to 5.91).

Comfort of the unemployed increased substantially as all key drivers improved, especially 'comfort with cash savings' and the 'ability to handle an emergency'. Similarly, casuals reported increased comfort with all key drivers, particularly 'comfort with income' and the 'ability to handle a financial emergency'.

Full-time workers continued to report the highest financial comfort across the workforce, while the comfort of causal workers remained the lowest.

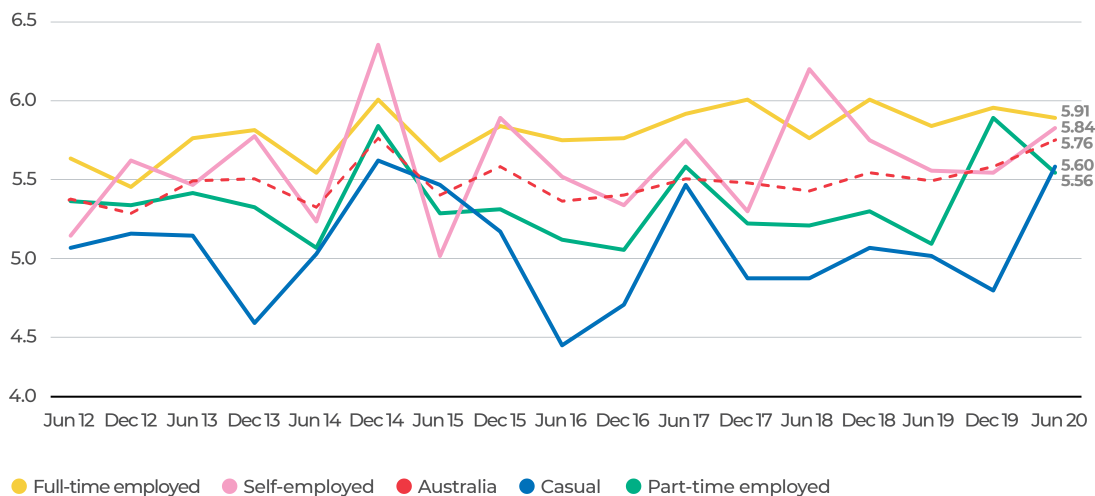


Figure 29 – Comfort index across the workforce. Scores out of 10.

Workforce segments also reported mixed financial comfort as a result of the pandemic. Casual, self-employed (both part and full time) and part-time employed reported to be substantially 'worse off' as a result of the pandemic than unemployed, and to a much greater extent full-time employees.

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

In the past two surveys, there was a marked increase in annual income decreases across all parts of the employed workforce – with income decreases over the past year most commonly reported by casuals (up 3 points to 42%), followed by part-time employed (up 19 points to 38%). On the other hand, there was a marked decrease in income increases, albeit income increases continued to be higher among full-time employed (down 14 points to 37%) and to a lesser extent self-employed (down 10 points to 29%).

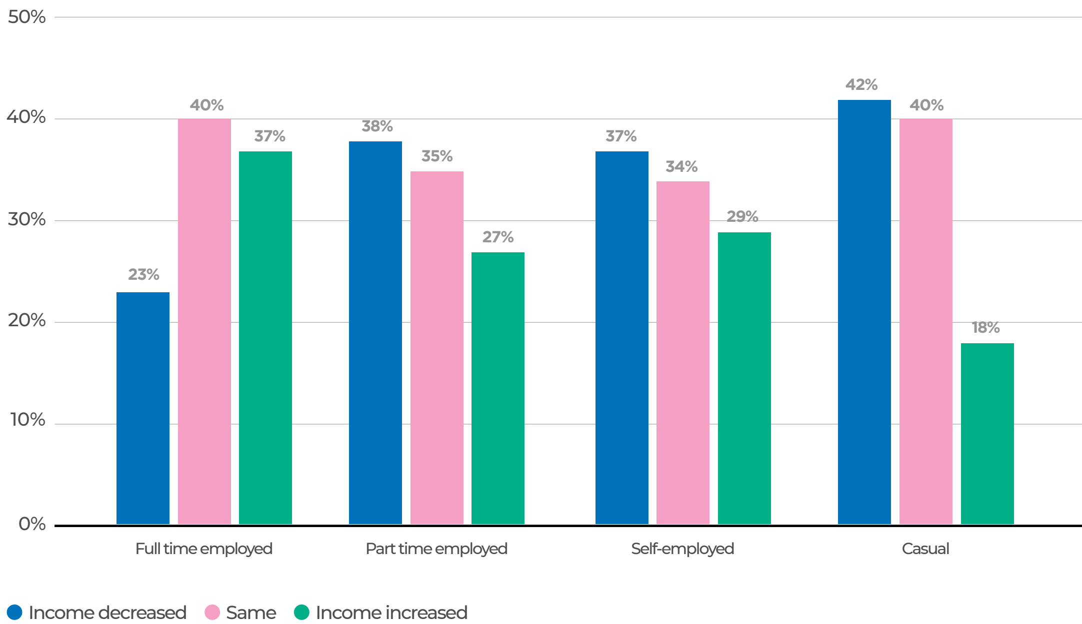


Figure 31 – Income changes over past year across labour force - % of households

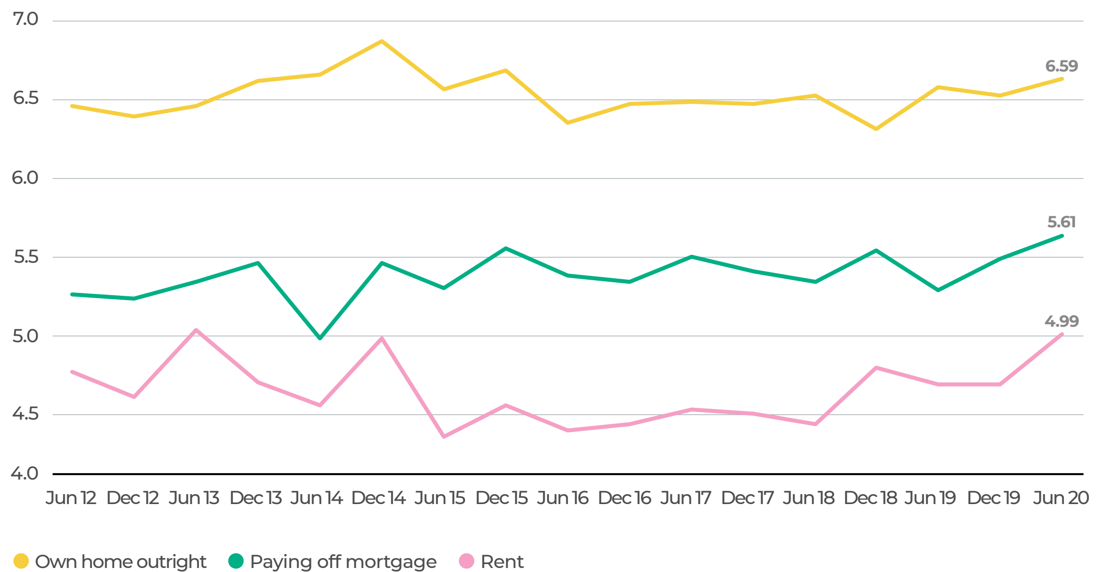
4.5 Comfort by housing tenure: Renters improve a lot, owners with and without mortgages also improves significantly.

Although significantly lower than other tenures, the comfort of renters increased by 7% to 4.99 in June 2020 arguably due to the rent protection and reduction measures combined with other government assistance.

All drivers of comfort for renters improved – especially with 'cash savings', 'debt' and the 'ability to handle a financial emergency'.

Meanwhile, comfort among households paying off their mortgage increased by 3% to 5.61 – somewhat assisted by banks deferring home loan repayments and increased loan refinancing at lower borrowing rates.

And households who own their home outright increased by 2% to 6.59.



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

Mortgage and rent stress – significant for some, but unchanged for now.

Quantitative indicators of mortgage stress – as measured by those households paying mortgage payments of more than 30% of their disposable income – increased by 1 percentage point to 42% during the past six months. This remains significantly lower by four points compared to when ME first began this survey series.

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

There remains much higher rent stress than mortgage stress among households. 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 – unchanged at 65% during the six months to June – albeit still higher than a year ago (62%) – despite a significant fall in rents across Australia as a whole.

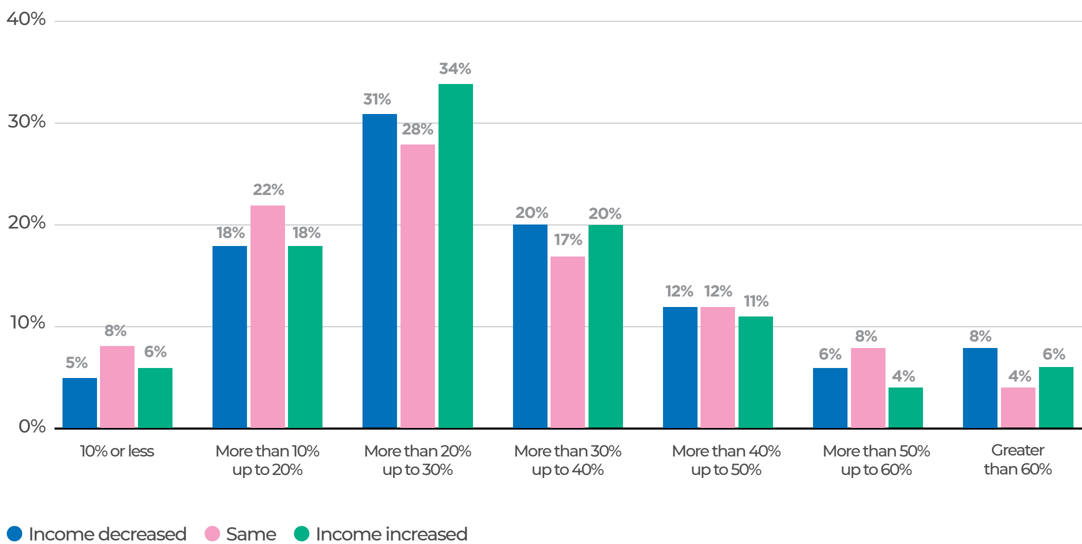


Figure 33 – Percentage of household disposable income paid towards a home mortgage

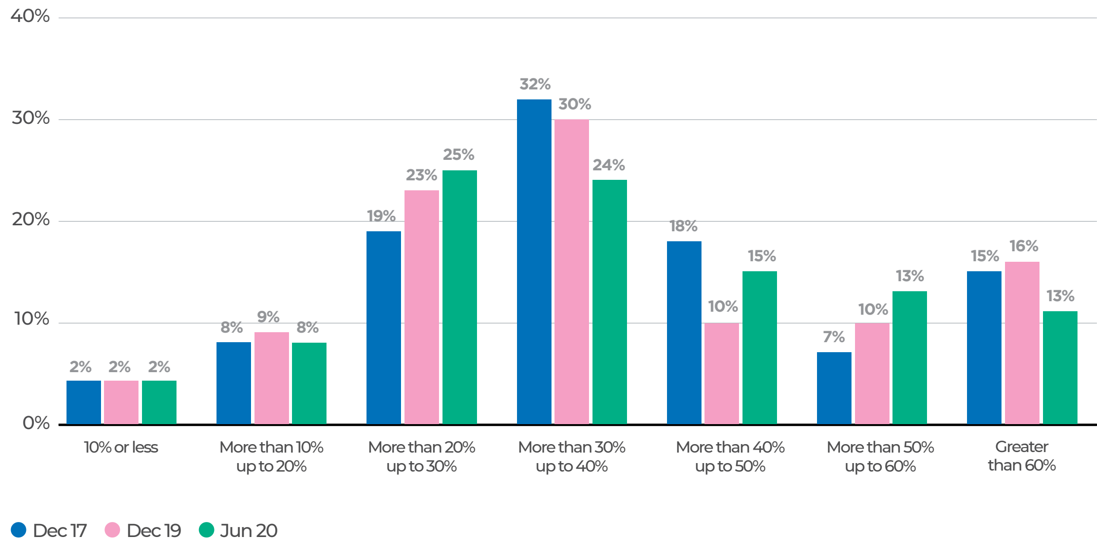


Figure 34 – Percentage of household disposable income paid towards renting a home

“I have used all my super funds to boost our finances and now have only my partner’s super funds left until we get the aged pension.”

Retired
New South Wales

05. Other findings.

5.1 Comfort with income improves significantly.

Returning to the key components of the overall *Household Financial Comfort Index*, 'comfort with income' increased by 5% to 6.01 – the equal highest recorded and 5% above the historical average of 5.71. This is largely attributed to increased government income support and other supplements together with the financial actions of households since the onset of the pandemic.

Consistent with the overall Index, comfort with income increased markedly for low annual incomes (less than $40,000) (up 24% to 5.32), and to a much lesser extent for below average incomes ($40,000 to $75,000) (up 4% 5.93) compared with average incomes ($75,001 to $100,000) (down 2% to 5.94) and unchanged for high incomes (>$100,001) at 6.74 out of 10.

'Comfort with income' also increased across most households (especially single parents) and those with 'low comfort' as well as all states and regions.

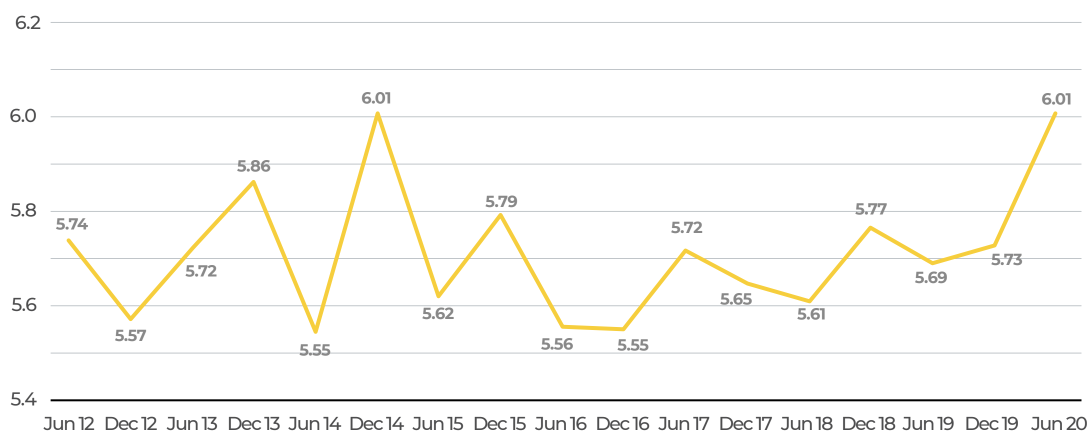


Figure 35 – Household comfort with income. Scores out of 10.

In contrast to increased comfort with income, for the first time in the 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 1 point to 42%), households that reported 'income decreases' substantially increased (up 10 points to 31%) – the highest increase since the survey began – 5% above the historical average. Meanwhile, those that reported 'income increases' substantially decreased (down 11 points to 27%) – 8 points below the historical average.

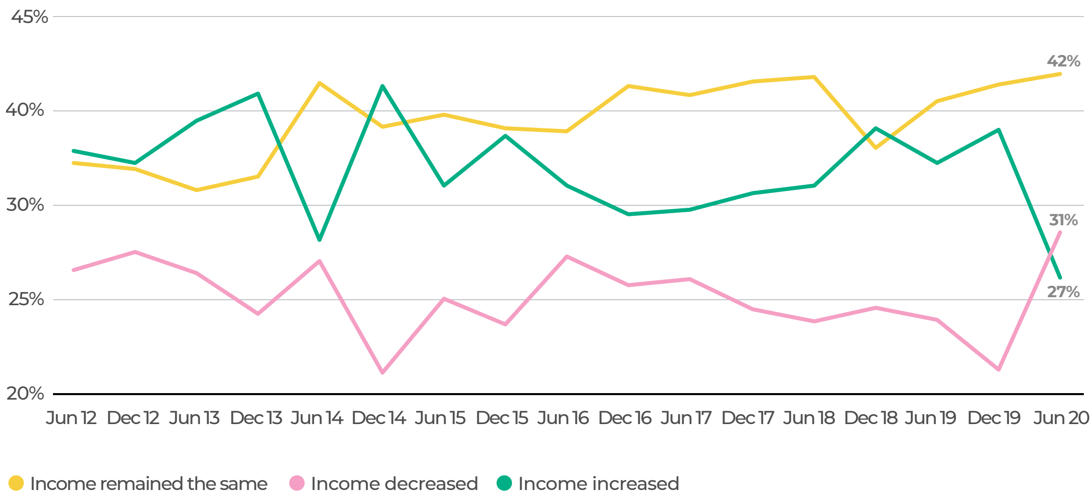


Figure 36 – Household income changes during past year - % of households

Across income bands, annual income gains remained steady for households with low incomes (down only a point to 23%), while income losses for lower incomes increased by only 2 points to 34%.

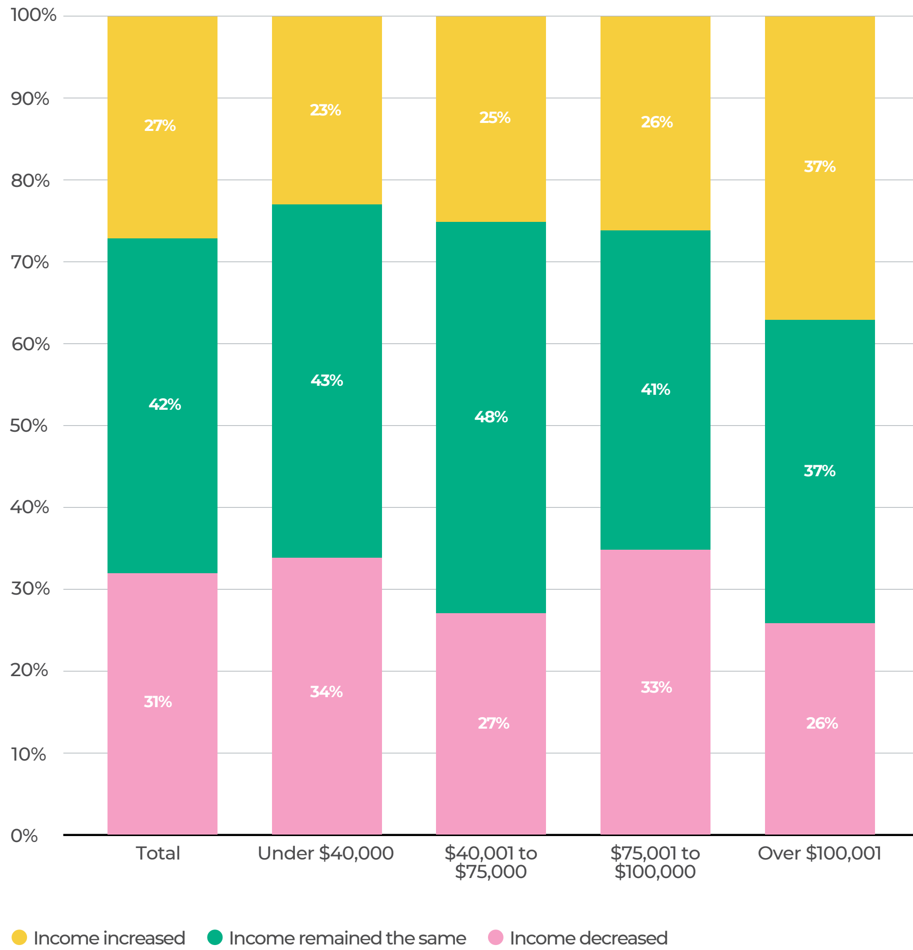


Figure 37 – Income changes over past year across income levels

5.2 Comfort with monthly expenses improves.

Comfort with the 'ability to pay regular expenses' also increased by 4% to 6.88 – the highest recording since the survey began, 6% above the historical average of 6.48.

Comfort with the 'ability to pay regular expenses' increased across most regions and households, especially 'single parents'. In addition, increases were reported by households on lower incomes (less than $40,000) and to a lesser extent, households earning between $40,001 and $75,000.

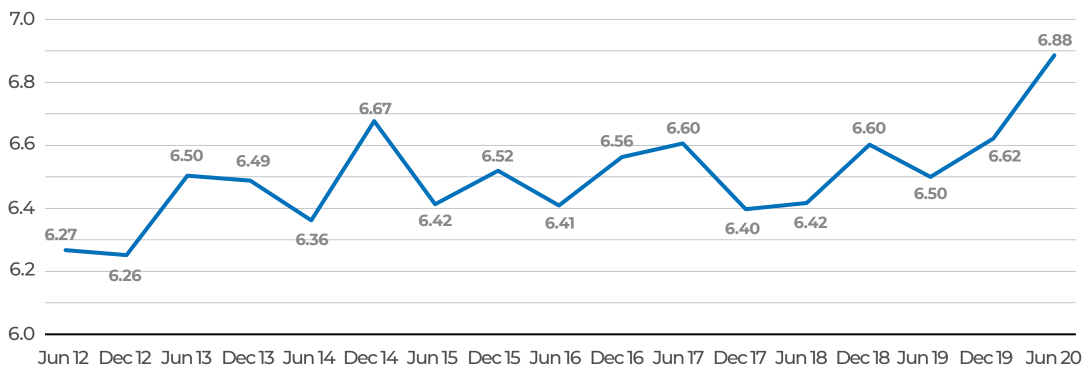


Figure 38 – Comfort with households' ability to pay regular expenses. Scores out of 10.

5.3 Comfort with investments improves, but mixed and disparate.

'Comfort with investments' increased by 4% to 5.23 in June 2020 – 7% higher than the historical average of 4.90 – 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' was mixed and disparate across households. For instance, 'single parents' reported an increase (up 20% to 4.56) versus 'middle aged couples' who recorded a decrease (down 6% to 4.52).

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

5.4 Comfort with debt improves.

'Comfort with debt' increased 2% to 6.70 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.

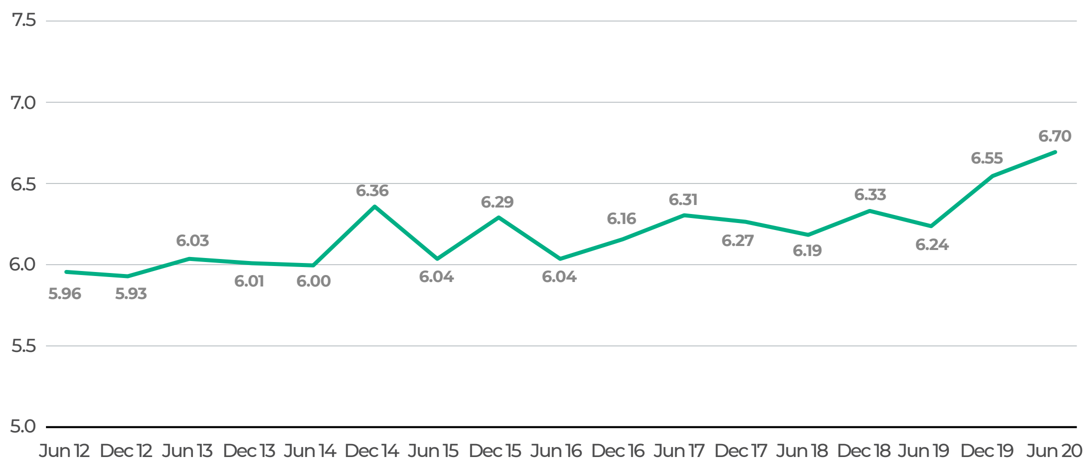


Figure 40 – Comfort with households' current level of debt. Scores out of 10.

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.

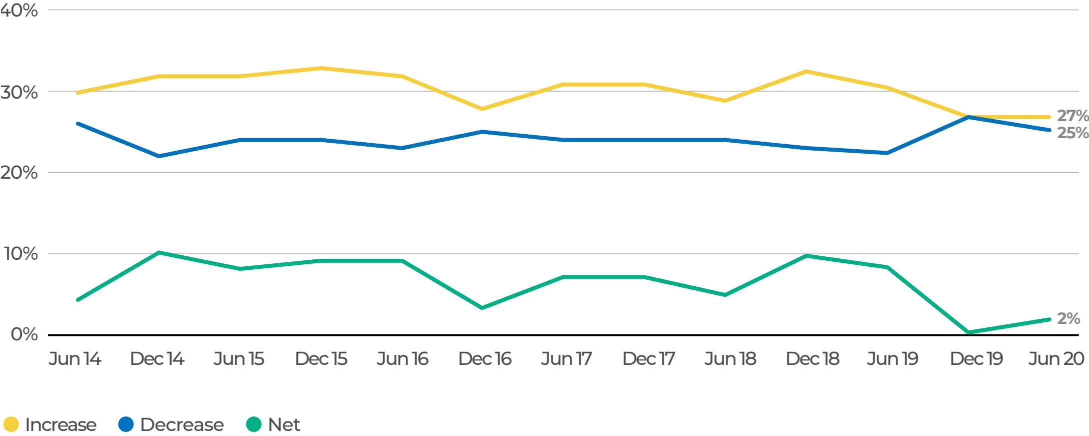


Figure 41 – How much would you say your household's level/amount of debt has increased or decreased over the last year? - % of households

Significant levels of debt and other financial stress.

Significant levels of debt and other sources of financial stress remain. In June, 9% of households were 'unable to pay their mortgage on time during the past year due to a shortage of money'. In comparison, 9% 'could not pay their rent on time' and 11% were 'unable to pay off their loan or credit card' including 4% that were 'at their maximum credit card limit for the past six months'. More generally, other qualitative indicators of stress were somewhat higher, with 17% 'not paying household bills on time', 10% 'going without meals' and 15% '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 60% of households with debt across Australia, about 60% 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 3 points from six months ago). Only 7% of households 'do not expect to be able to meet minimum payments' on debt – a point lower than six months ago – and a further 33% 'expect to just meet minimum payments'.

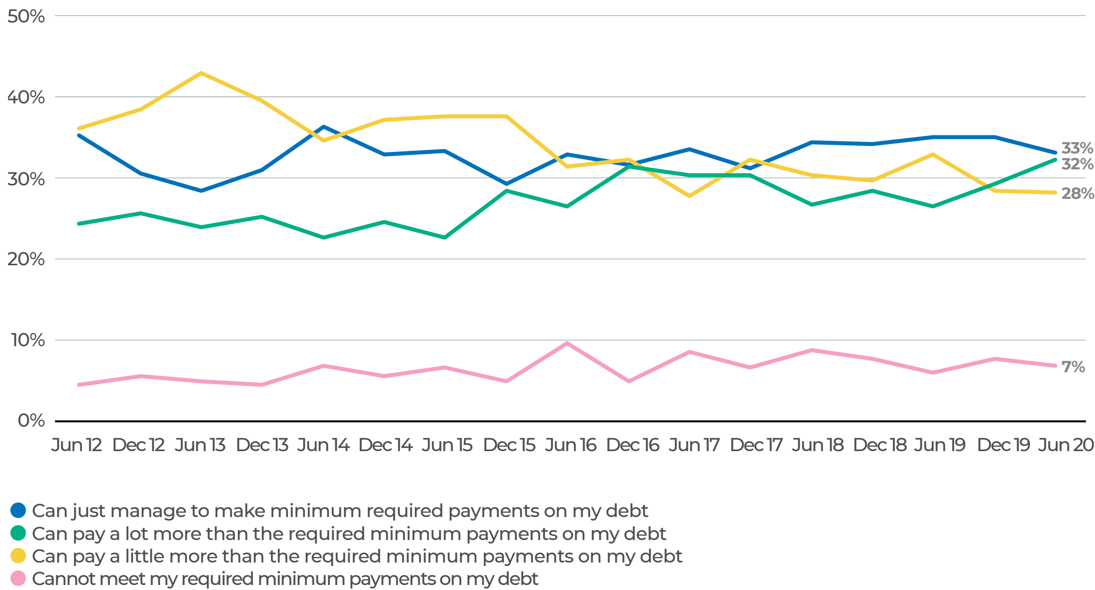


Figure 42 – Ability to manage debt over the next 6-12 months - % of households

5.5 Net wealth improves.

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 3% to 5.80 out of 10, slightly above the long-term average of 5.66.

'Comfort with net wealth' increased across most households, except for 'couples with older children' and 'middle-aged singles/ couples with no children', but remains disparate ranging from 'single parents dependent on government assistance' (2.66 out of 10) to 'retirees' (7.08 out of 10); and households with low incomes (5.16 out of 10) to high incomes (6.48 out of 10).

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

5.6 Comfort with anticipated retirement improves.

Comfort with households' 'anticipated standard of living in retirement' improved by 3% to 5.43 during the six months to June 2020 to be 6% above the historical average of 5.10 since the survey began.

Despite an overall rise, comfort was notably lower for:

- females (5.09) versus males (5.74)
- lower income households (4.73) versus higher income households (6.20)
- pensioners (3.75) versus self-funded retirees (7.28)
- renters (4.32) versus homeowners (6.56).

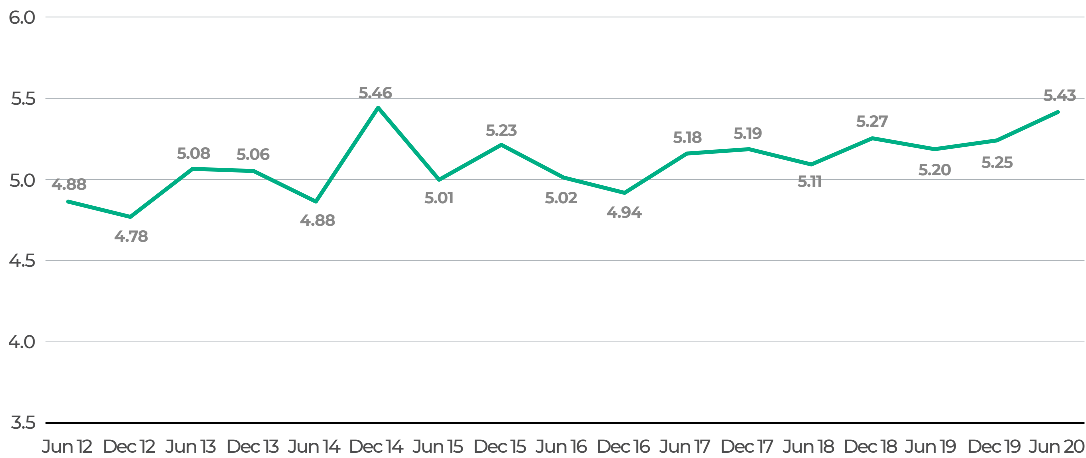


Figure 44 – Comfort with standard of living in retirement. Scores out of 10.

Plans on funding retirement largely unimpacted by pandemic to date.

Currently, 21% expect to fund retirement with their own superannuation, falling one point in the past six months. The number of households expecting to rely on the government pension during retirement dropped a further 2 points to 19%, while those expecting to partly fund retirement with a government pension increased by a point to 42%. Finally, a significant proportion of households simply did not know (up 1 point to 18%).

Expected adequacy of income in retirement also largely unchanged.

In June 2020, households' expectations of the adequacy of their income in retirement improved slightly.Around 67% of households expected to be able to 'afford essentials and extras', while 33% of households reported that they expected not to be 'unable to afford essentials' or have 'no money left over afterwards'.

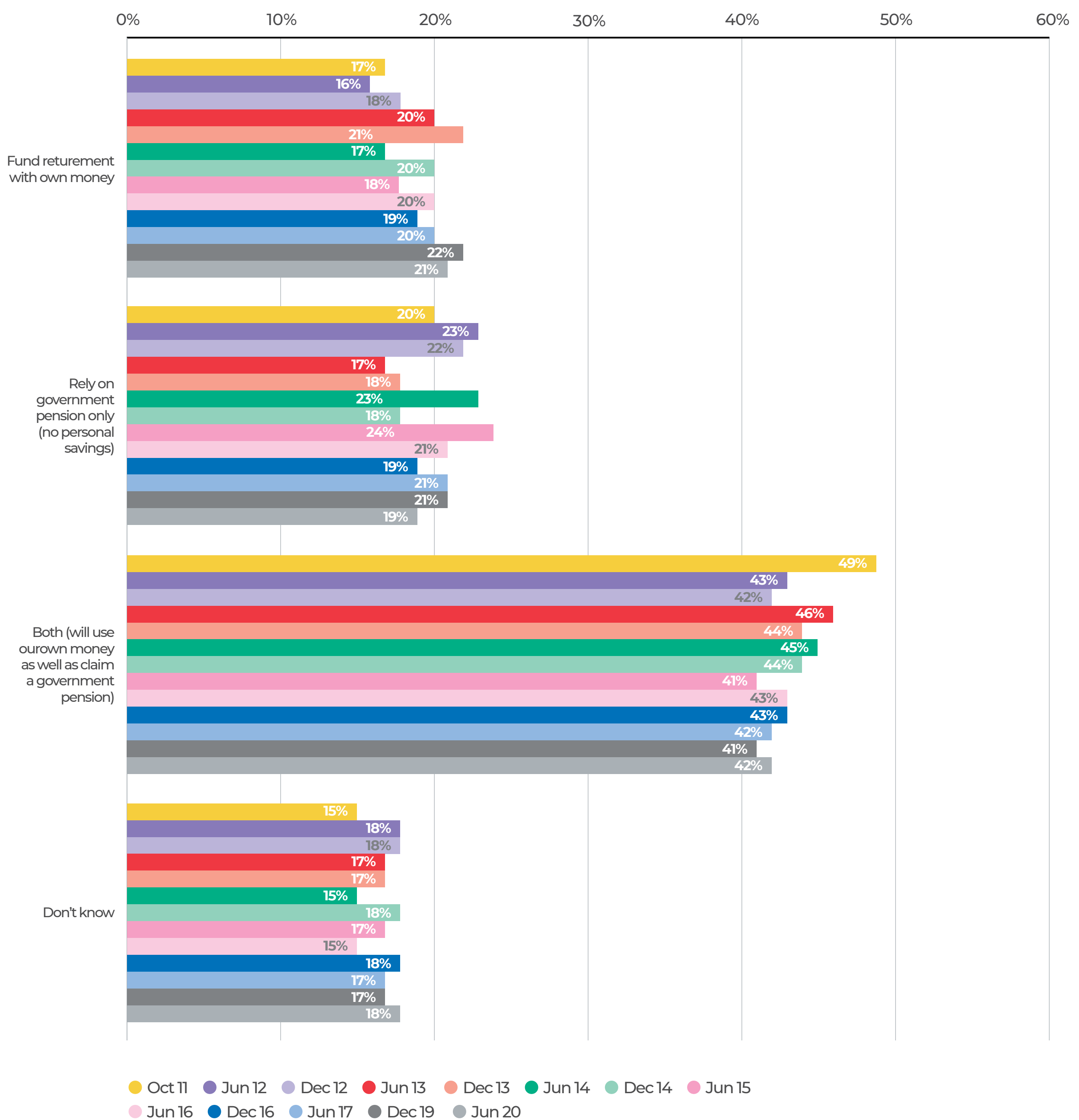


Figure 45 – How will your household fund retirement - % of households?

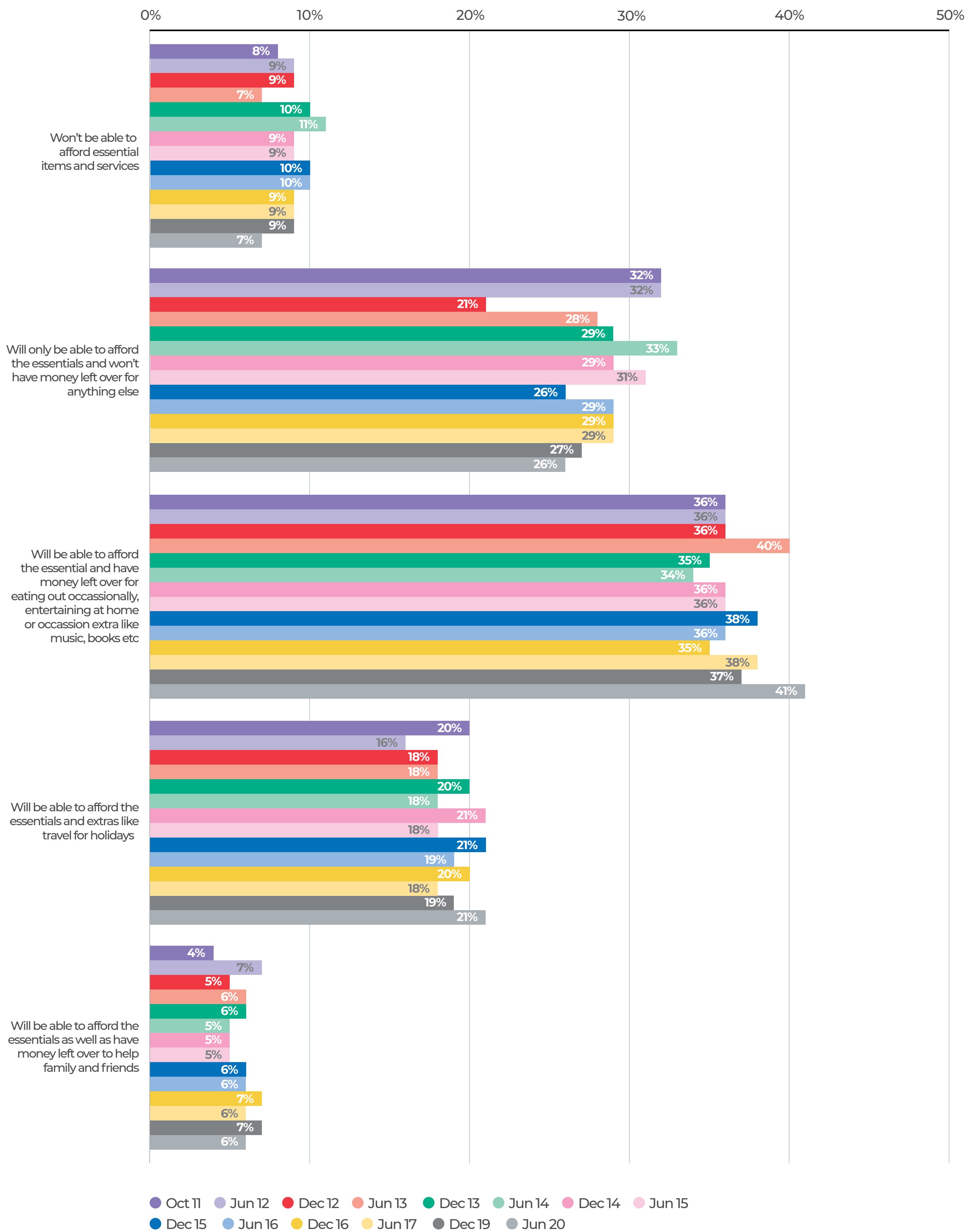


Figure 46 – Expectations for adequacy of income in retirement - % of households

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	6.02	$329,000	$92,000
Single parents	5.04	$468,000	$74,000
Couples with young children	5.78	$482,000	$109,000
Couples with older children	5.54	$835,000	$101,000
Middle-aged singles/ couples with no children	5.22	$361,000	$87,000
Empty nesters (50+yo)	5.86	$834,000	$72,000
Retirees	6.47	$786,000	$55,000

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 June 2020. 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).

Brought to you by...

217013/0720