
Household financial comfort report.

Thirteenth survey published Feb 2018.

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



Expenses are on the rise - and Australians are feeling the heat.



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 13th survey, conducted in December 2017.

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
- Tenth edition: June 2016
- Eleventh edition: December 2016
- Twelfth edition: June 2017

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

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

About.



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

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“Our debts and living costs have increased, but our income has stayed the same.”

Couple with young children.
Tasmania.

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Despite improved job conditions and households reporting healthier financial buffers, the overall financial comfort of Australians is not advancing, according to ME's latest *Household Financial Comfort Report*.

In its latest survey, ME's *Household Financial Comfort Index* remained stuck at 5.49 out of 10, with improvements in some measures of financial comfort linked to better employment conditions – e.g. a greater 'ability to maintain a lifestyle if income was lost for three months' – offset by a fall in 'comfort with living expenses'.

Households' 'comfort with paying their monthly living expenses' fell 3% to 6.40 out of 10 during the six months to December 2017, the lowest it's been since mid-2014.

In fact, ME's latest report shows many households' financial situation is getting worse and again the culprit is living expenses, with 40% reporting this as a key reason their situation is worsening.

Around 46% of households surveyed also cited the 'cost of necessities such as fuel, utilities and groceries' as their 'biggest worry'.

Furthermore, over the past year, 16% of households were 'not always able to pay their utility bills on time', while 19% 'sought financial help from family or friends' and 13% 'pawned or sold something to buy necessities' – a clear illustration of bill stress, particularly for those on lower incomes.

If it wasn't for a decline in comfort with monthly living expenses, the report's overall *Household Financial Comfort Index* would have likely increased.

However, one household group of Australians is bucking this trend.

Households 'under 35 years old without children' – commonly dubbed the 'avocado generation' – many of whom have benefited from improved employment conditions without the burden of childcare costs or potentially a mortgage, are not as 'worried'. Their 'overall financial comfort' rose by 8%, and their 'comfort with living expenses' increased 2% during 2017.

The report's most encouraging result was households' improved 'ability to maintain a lifestyle, if income was lost for three months', which rose 3% to 4.82 out of 10 in the past six months to December 2017 – its highest outcome since 2015. This finding reflects stronger labour market conditions, although mainly among full-time workers.

Victorians' comfort plummets, while NSW's rises.

Household financial comfort in Victoria dropped significantly below New South Wales' financial comfort for the first time since the survey began in 2011.

New South Wales improved by 3% in the past six months to 5.83 out of 10 in December 2017, the highest in three years, while Victoria fell 7% to 5.30 out of 10, its lowest level in the past six years.

New South Wales' superior financial comfort can be linked to greater 'confidence in handling a financial emergency (loss of income for three months)' – a reflection of healthier employment conditions in the state.

Meanwhile, Victoria's decline can be attributed to falls across most key drivers of financial comfort, including lower 'confidence in handling a financial emergency (loss of income for three months)' and less 'comfort with investments'.

High levels of mortgage payment stress – set to worsen.

More than half of households (56%) renting or paying off a mortgage reported they are contributing over 30% of their disposable household income towards this cost – a common indicator of financial stress – with 72% of renters spending 30% or more of their disposable income on rent and 46% of those paying off a mortgage putting 30% or more of their disposable income towards this.

Furthermore, 38% of households 'worried about their level of debt in the past month'.

Seven per cent of households reported they 'could not always pay their mortgage on time' during the past year, and 7% 'could not pay their rent on time'.

Mortgage defaults may escalate if interest rates increase, particularly among vulnerable low-income households already dealing with the rising cost of necessities.

The gap between Australia's rich and poor continues to widen.

A disparity in financial comfort between some household groups remains, with 30% of households reporting their 'financial situation worsened in the past year', while 35% reported it 'remained the same' and 35% reported it 'improved'.

Around 61% of households with 'low levels of comfort' reported a significant worsening in their overall financial situation during 2017, while almost 70% of households on 'high levels of comfort' reported that their financial comfort improved during 2017. In other words, the rich are getting richer and the poor are getting poorer.

Hardest hit were households with incomes below \$40,000, 45% of which said their financial situation had worsened, as well as single parents and baby boomers, 36% of which reported their situation had worsened.

For the third consecutive report, disparity was also evident in household income improvements, with more than 50% of those earning over \$100,000 reporting income gains while only 29% of those earning between \$40,001 and \$75,000 reporting income gains.

Despite continued improvement in the labour market and general economic conditions, the benefits are not trickling down to many households. For these households it will only get worse as the cost of necessities keep going up.

Other findings.

- **SA still feeling the pinch:** Household financial comfort in South Australia fell by 4% to 5.00 out of 10 during the past six months, to remain the lowest of the mainland states.
- **WA and QLD continue to trend higher:** Comfort in both Western Australia and Queensland remained broadly unchanged at 5.49 and 5.39 out of 10 respectively. Both resource-dominated regions are recovering from the mining downturn to be more in line with the level of household financial comfort reported across Australia as a whole.

Overall Australian household finances, on average, remained relatively resilient during the second half of 2017. However, household financial comfort fell primarily due to sluggish household incomes, rising debts and disparate housing and job markets, though risks differ markedly across regions and households.

The recovery in household wealth has continued to reach a record level, relative to household incomes as well as in real terms after allowing for relatively low consumer inflation. Household balance sheets in aggregate have improved further, with solid asset gains (especially in housing, superannuation and other growth assets) partly offset by increased gearing as well as rising medium- to long-term bond yields. Most households are also well supported by stronger job gains, although wage growth remains subdued. On the other hand, both consumer sentiment and household consumption growth are about average and the saving ratio has eased further. Debt has continued to increase faster than income, but slower than assets. Debt servicing costs have begun to rise due to continued gearing and higher residential loan rates – albeit a small rise experienced mainly on borrowings by investors.

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

Consumer confidence measures improved significantly during the six months to December 2017 to around its long-term average – albeit optimists only slightly outnumbered pessimists.

Labour market conditions have strengthened markedly, but there remains significant spare capacity, and wage growth is historically slow. Employment (especially full-time), hours worked and the participation rate have increased – with the last indicator rising to its highest level since 2012. The employment-to-population ratio trended higher, with more people available for work. The unemployment rate fell to 5.4% in December 2017, compared with 5.6% in June 2017 and 5.8% a year ago. Encouragingly, the quarterly trend underemployment rate also fell a further 0.2% to 8.8% during the six months to November, compared with a historical peak of 9.4% in February 2017, and returned to the low rates of the past three years. In contrast, wage gains remain steady and slow and moved at a historically low pace in all states and most industries – consistent with the trend of considerably higher unemployment.

Household consumption growth was at its historical long-term pace – supported by population growth, historically low interest rates and sustained wealth gains (mainly related to housing gains for some households), but constrained by subdued income gains and high levels of household debt. With still relatively low disposable income growth, as measured by the official data, the household saving rate from current disposable income has continued to trend slowly lower. Consumer inflation has increased across most retail goods and services, but remains low – prices of utilities (especially electricity and gas), tobacco, and fuel have been relatively high; on the other hand, annual rent rises have been the lowest since the mid-90s and prices of consumer durables (typically discretionary items and technology-related items) have fallen.

Residential house prices have generally eased, but continued to vary a great deal across Australia. After seeing strong price increases over recent years, dwellings in both Sydney and Melbourne have recorded small price falls in recent months; annual growth slowed to 3% in Sydney in 2017 and to a lesser extent in Melbourne (9%). Price outcomes in most other capitals and regions have remained subdued – including price falls in Perth (-2%) and small gains in both Brisbane (2%) and Adelaide (3%).

Household debt growth edged lower during the six months to December 2017 – with annual growth in housing credit at around 6.5% in November 2017, compared to a peak of about 7.5% in mid-2015. Recent tightening in prudential and lending standards as well as related increases in housing loan rates have weighed predominantly on investors. During the past six months, a slowdown in annual housing growth for investors from 7.4% in May 2017 to 6.5% in November 2017 was partly offset by a pickup in the annual growth of owner-occupied housing credit to 6.3% in November 2017. Other personal loans (such as credit cards and equity-backed loans) have contracted a bit further – down by 1% during the year to November 2017.

‘Real’ household assets, on average, have continued to increase relatively strongly compared to income and to a lesser extent debt, mainly reflecting further significant rises in household financial assets (mainly superannuation) and, to a lesser extent, residential property prices. Superannuation continued to rise during the second half of 2017, largely due to continued compulsory contributions boosted by a significant rise in both global and Australian share prices, rather than increased voluntary retirement contributions.

As a result, the aggregate financial position of households – as measured by household net wealth (assets less debt) – continued to improve during the second half of 2017 and reached a new record high relative to income and liabilities. In aggregate, debt-to-income has risen further over the past six months to be significantly higher than the past few years, even after allowing for strong growth in mortgage offset accounts, while debt-to-assets (or leverage) has fallen slightly with asset gains (especially housing) outpacing increased debt. Debt servicing burdens have increased slightly – albeit from historically low levels (relative to income) – as households continued to borrow, and loan rates have risen despite the unchanged RBA cash rate.

Aggregate household financial stress indicators (such as housing, other loans in arrears and property possessions) are generally low, but they continue to rise to varying extents. Households, on average, are coping well with debt servicing burdens due to sustained relatively low borrowing costs. However, job losses, underemployment and falling house/apartment prices present challenges to households in some regions. Furthermore, some households have debt levels that make sense in ‘good’ times’, not allowing for the fact that ‘bad’ times may arise unexpectedly. Other households are close to their maximum risk position, not taking into account that loan rates inevitably will rise significantly from record lows.

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 including:



Comfort level with the overall financial situation of the household.



Short-term cash savings.



Changes in household financial situation over the past year.



Long-term investments (including superannuation).



Anticipated changes in the next year.



The level of household debt.



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



Overall net wealth of the household.



Comfort levels with household income.



The household's anticipated standard of living in retirement.



Cost of living expenses.

Strong jobs gains, but the costs of necessities are weighing down comfort.

03.

In ME's latest *Household Financial Comfort Report*, Australian households reported greater confidence in handling a financial emergency like a job loss, but lower comfort with their ability to pay for living expenses – thus cancelling out any benefit in overall financial comfort.

As a result, ME's overall *Household Financial Comfort Index* remains stagnant – at least for now.

3.1 Household Financial Comfort Index remains unchanged.

The *Household Financial Comfort Index* (see figure 1) moved sideways from 5.51 to 5.49 out of 10 over the six months to December 2017.

This was a small rise of 1% from December 2016 and slightly above the historical average since the survey began (5.45 out of 10) in late 2011.

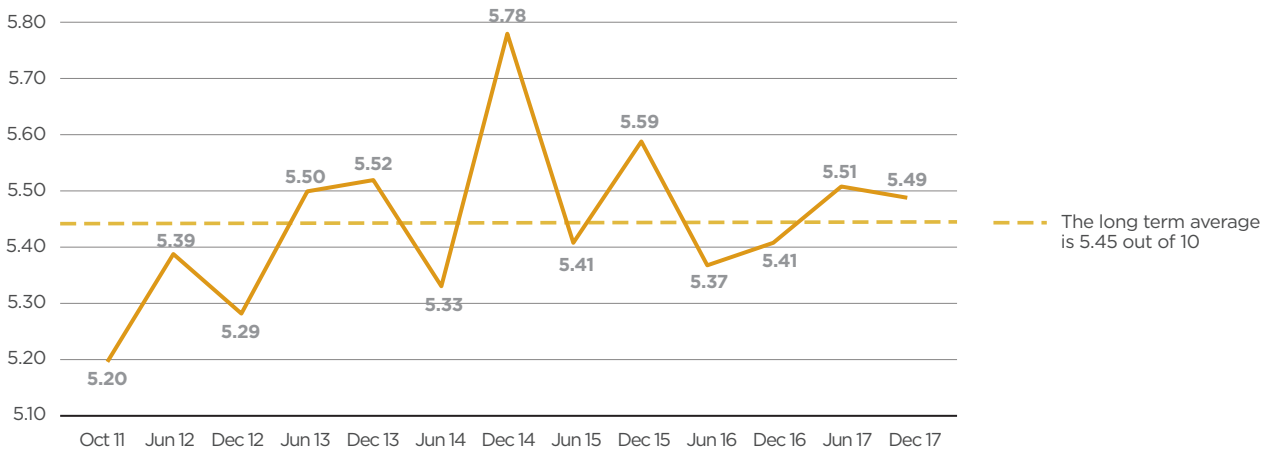


Figure 1 – Changes to the *Household Financial Comfort Index*. Scores out of 10.

3.2 Key changes to the *Household Financial Comfort Index*.

In terms of the 11 components that make up the *Household Financial Comfort Index*, households reported greater 'confidence in the ability to maintain a lifestyle, if income was lost for three months' in December 2017 (up 3% to 4.82), offset by a similar decline in 'comfort in paying regular expenses' (down 3% to 6.40) – the lowest outcome since 2014 (see section 5.3 and 5.4 for more details).

There was also a 2% deterioration in households' perceptions of their current financial situation. Otherwise all other components were relatively stable – see figure 2.

For more details on the key components of the *Household Financial Comfort Index*, refer to section 4.1.

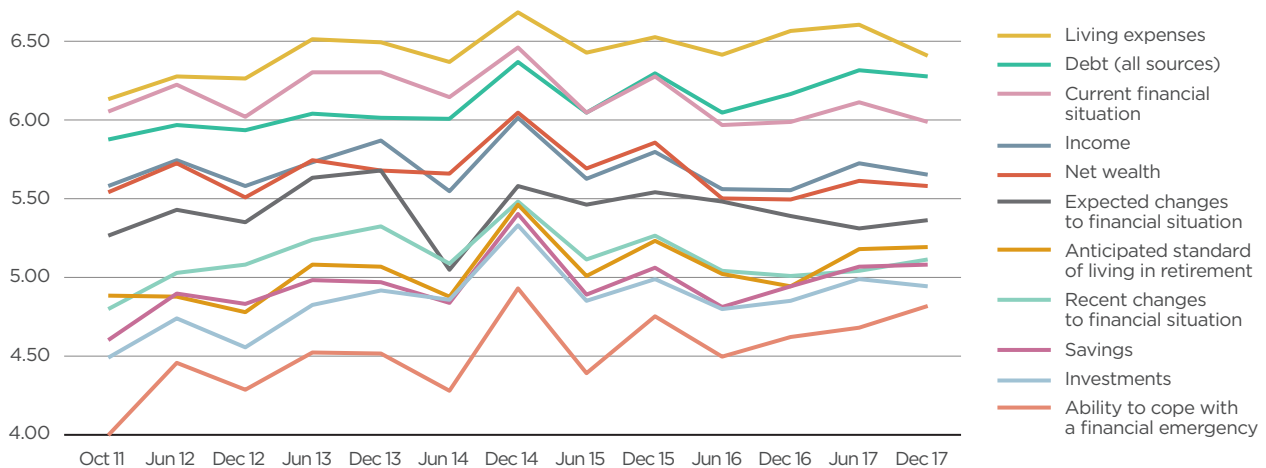


Figure 2 - The 11 components that make up the index, showing changing levels of comfort over time. Scores out of 10.

Key reasons behind index changes.

The improved 'confidence in the ability to maintain a lifestyle, if income was lost for three months' is a reflection of a sustained and marked strengthening in the job market (refer to Chapter 2 for more detail).

The decline in 'comfort in paying expenses' is a reflection of subdued income gains and the rising cost of necessities such as energy.

For some households earning low incomes, the rising cost of necessities has lowered their overall financial comfort notably. In fact, over the past year, 16% of households 'could not always pay their utilities bills on time', while 19% 'sought financial help from family or friends' and 13% 'pawned/sold something to buy necessities'.

Households' financial situation worsening, primarily due to living costs.

The concern around the cost of necessities was also referenced when respondents were asked if their 'financial situation improved or worsened over the last year' and 'why'.

Around 30% reported their financial situation had 'worsened', and of those, 40% said the key reason was because of 'living expenses/costs of necessities' – see figure 3.

On the other hand, 35% of respondents said that their financial situation had 'improved during 2017'. Of those, 30% cited changes to 'income', 13% cited changes to 'debt' and 12% cited changes to 'job arrangements/security' as key reasons for their improved financial situation – yet another signal of a stronger job market.

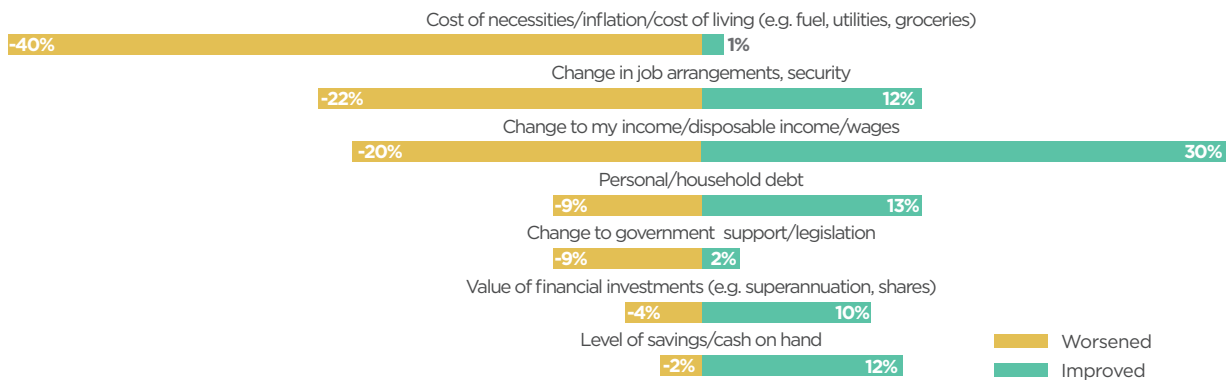


Figure 3 – The reasons households say their financial situation has worsened or improved over the past year. About 30% of respondents indicated that their situation had either worsened, remained unchanged or improved over the past year. A small proportion of respondents provided multiple reasons.

3.3 Biggest financial worry is also the cost of necessities.

In an additional question, all households were asked to select their 'biggest worries' and 'positives' about their household finances – see figure 4.

The 'cost of necessities' (e.g. fuel, utilities, groceries) was reported as one of the 'biggest worries' among 46% of households, while 10% indicated that the 'cost of necessities' was one of their 'biggest positives' – that is, a net -36% of respondents.

More generally, many of the 'biggest worries' got a bit better during the past six months, except for the 'cost of necessities'. On the other hand, most of the 'biggest positives' also worsened – especially 'being able to meet ends meet', with this falling 5 points to be the 'biggest positive' of only 27% of respondents. However, it still remained the most prevalent 'biggest positive' reported by households.

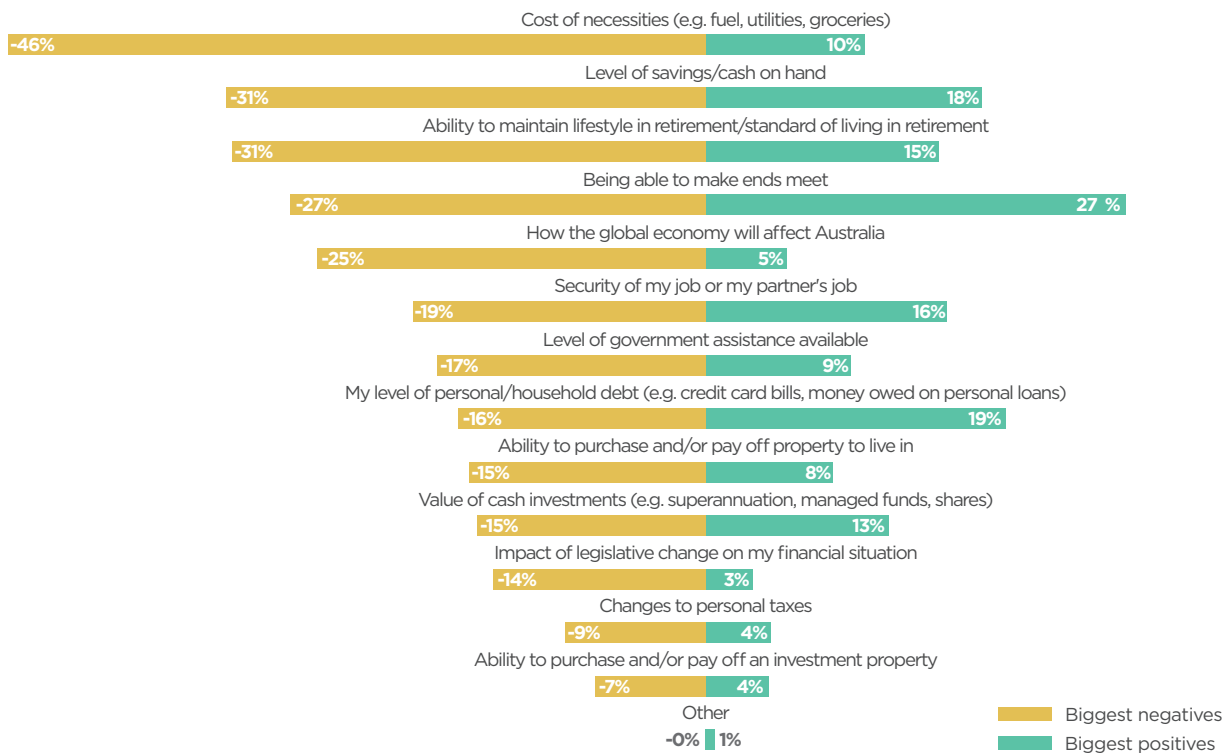


Figure 4 – Biggest worries and positives nominated by households. December 2017.

Young households without children more concerned by housing affordability than living costs.

The only life stage among households bucking the concern about expenses and rising living costs was ‘young singles/couples under 35 years without children’, many of who indicated that they were benefiting from improved employment conditions and may not be burdened by childcare costs or potentially a mortgage.

Indeed, a much lower 25% of ‘young singles/ couples under 35 years without children’ nominated the ‘cost of necessities’ as their ‘biggest worry’ - significantly below all other household stages.

Furthermore, the financial comfort of ‘young singles/ couples under 35 years without children’ rose by 8%, while their comfort with living expenses increased 2% in the past 12 months to December 2017.

In contrast, it is also worth noting that a lack of affordable housing is the ‘biggest worry’ among ‘young singles/couples under 35 years without children’- double the level reported across Australian households overall. Almost a third among this life stage said that their ‘biggest worry’ was the ‘ability to purchase and/or pay off property to live in’ (29%), compared with 15% for all households on average - well above the corresponding figure of 22% all households ‘paying off their home’.

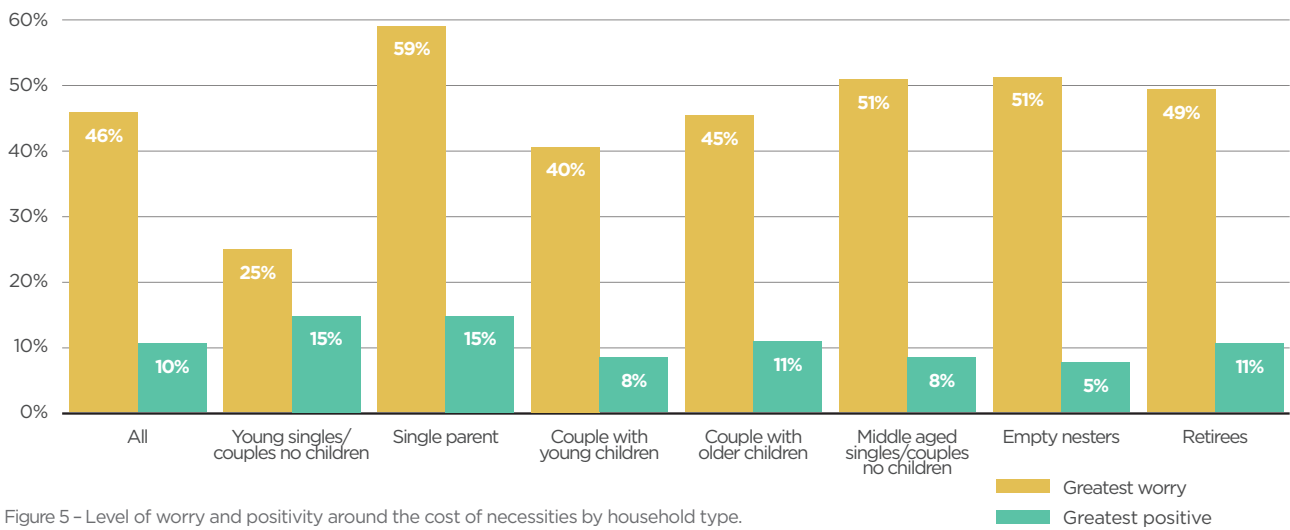


Figure 5 - Level of worry and positivity around the cost of necessities by household type.

3.4 The inequality divide continues.

As highlighted in recent reports, a widening divide in household financial comfort levels is clearly evident across incomes, generations, housing tenures and regions – despite a sustained improvement in property values, a return to lower unemployment and the record levels of household net wealth across Australian households as a whole. In other words, while some households are doing well from improving economic and financial conditions, others are doing a lot less so. In fact, the financial comfort of many households has stagnated and even gone backwards since the survey began over six years ago.

Disparity by overall financial situation during 2017.

Disparity is particularly evident in terms of households who indicated their ‘overall financial situation had worsened or improved during 2017’. Around 61% of households with ‘low levels of comfort’ reported ‘worsening in their overall financial situation during 2017’. In contrast, almost 70% of households on high levels of comfort reported that their ‘financial comfort improved during 2017’.

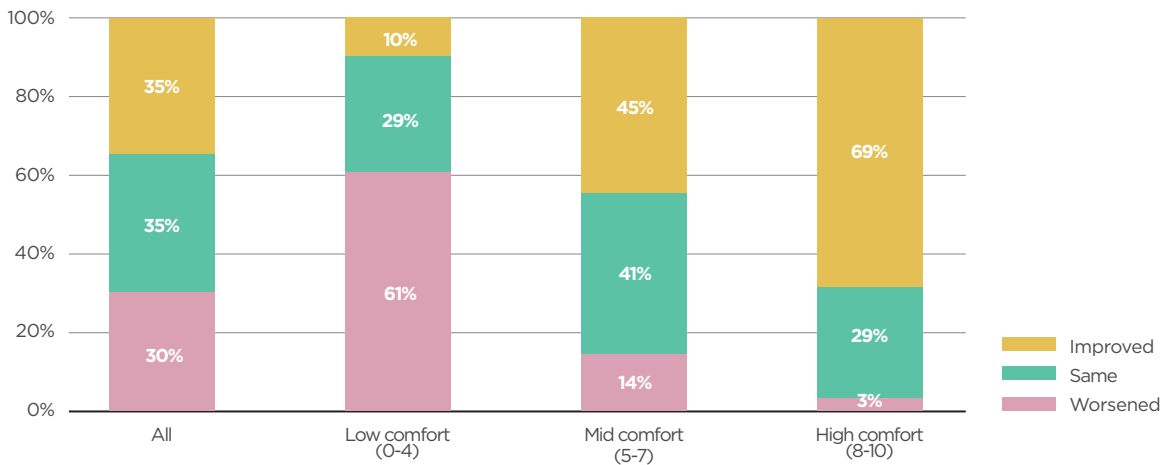


Figure 6 – Household financial situation during 2017 – improved or unchanged or worsened?

Digging deeper across socio-economic groups, a ‘worsening financial situation’ was reported by more ‘households with low incomes below \$40,000 per annum’ (45%), ‘empty nesters’ (40%), ‘retirees’ (37%) as well as ‘single parents’ and ‘baby boomers’ (both 36%).

In contrast, an improvement in financial situation was recorded by over 50% of both ‘households with incomes of \$100,000 per annum’ or ‘cash savings over \$100,000’, but only 18% of ‘retirees’ and 29% of ‘single parents’.

Disparity by annual household income.

A growing comfort divide is also readily apparent when comfort is compared across levels of annual household income – see figure 7.

Overall financial comfort of households with annual incomes over \$200,000 was 7.35 out of 10 – much higher than householders with lower annual incomes, especially households with well below average incomes.

In stark contrast, comfort of households with annual incomes of less than \$40,000 remained unchanged at around 4.50 out of 10 in December 2017 – much the same outcome recorded since the survey commenced over six years ago in late 2011.

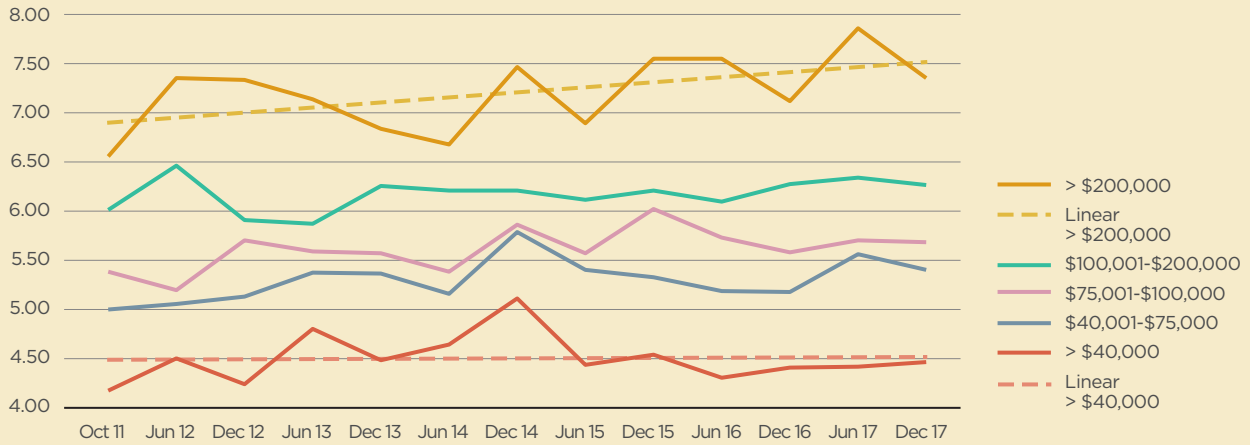


Figure 7 – Financial comfort by household income per annum.

Income gains went to those on higher incomes.

For the third consecutive report, households with higher incomes have continued to realise income gains more than households with lower annual incomes. See figure 8.

Among households with incomes over \$100,000, 51% – up 5 points over the previous survey – recorded ‘income increases’. Meanwhile, only 12% of households in this same category – down 5 points from the previous survey – reported ‘income falls’.

In contrast, only 19% – down 3 points from the previous survey – of households with annual incomes of less than \$40,000 reported ‘income gains’, while 38% – down 7 points from the previous survey – reported ‘income falls’. This is compared with a 9 point rise to 43% among household on less than \$40,000 who reported unchanged incomes.

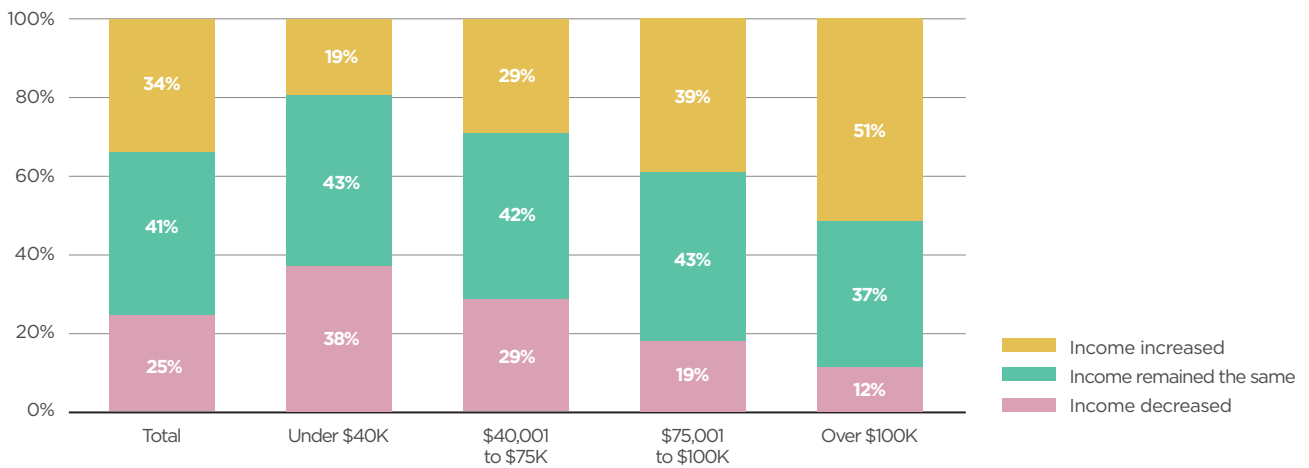


Figure 8 – Income changes over the past year across various income bands.

For more details on disparity divides across households, refer to section 4.

3.5 High levels of housing payment stress; expected to worsen.

More than half of households (56%) renting or paying off a mortgage reported they are contributing over 30% of their disposable household income towards this cost – a common indicator of financial stress – with 72% of renters spending 30% or more of their disposable income on rent and 46% of those paying off a mortgage putting 30% or more of their disposable income towards this.

Furthermore, the proportion of households who ‘worried about their household’s level of debt over the last month’ increased by 1 point to 38%. This proportion increased to 51% among mortgage holders, compared to 27% with no mortgage and 23% who own their own home outright.

Similarly, 32% of households expect to be ‘worse off’ financially if the RBA raises the official cash rate by 1% from its record low of 1.5%, including 47% of those with a mortgage for the house they live in.

For more details regarding comfort with debt, refer to section 5.5.

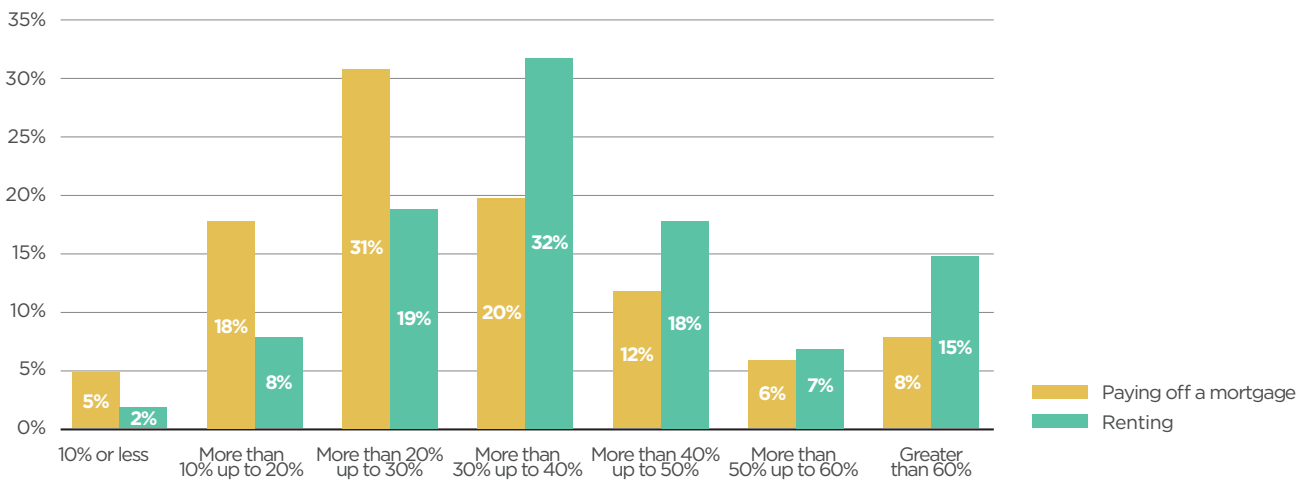


Figure 9 - % of household income paid towards a mortgage.

“Better career prospects have improved our financial situation over the past year.”

Couple with no children working full-time.
New South Wales.

4.1 Financial comfort mixed across households.

Overall financial comfort continued to vary a great deal across different households in the six months to December 2017 – see figure 10.

Households with the highest financial comfort continued to be ‘retirees’ (6.02 out of 10) – reflecting very high comfort among ‘self-funded retirees’ (6.77) and lower comfort among ‘pensioners funded by the government’ (4.14). Households with the lowest financial comfort continued to be ‘single parents’ (4.45 out of 10), declining the most of any household life stage (down 10% to 4.45). This markedly lower comfort level was reported across single parents with children in all age groups and most financial drivers.

In contrast, ‘young singles/couples under 35 years with no children’ reported the greatest gains in comfort (up 8% to 5.93) in the six months to December 2017 – their level of comfort is now 5% higher than the average of 5.64 since the survey began. Most drivers of comfort of this life stage recorded big gains – especially their ‘confidence in the ability to handle a financial emergency (loss of income for three months)’ and ‘comfort with cash savings’.

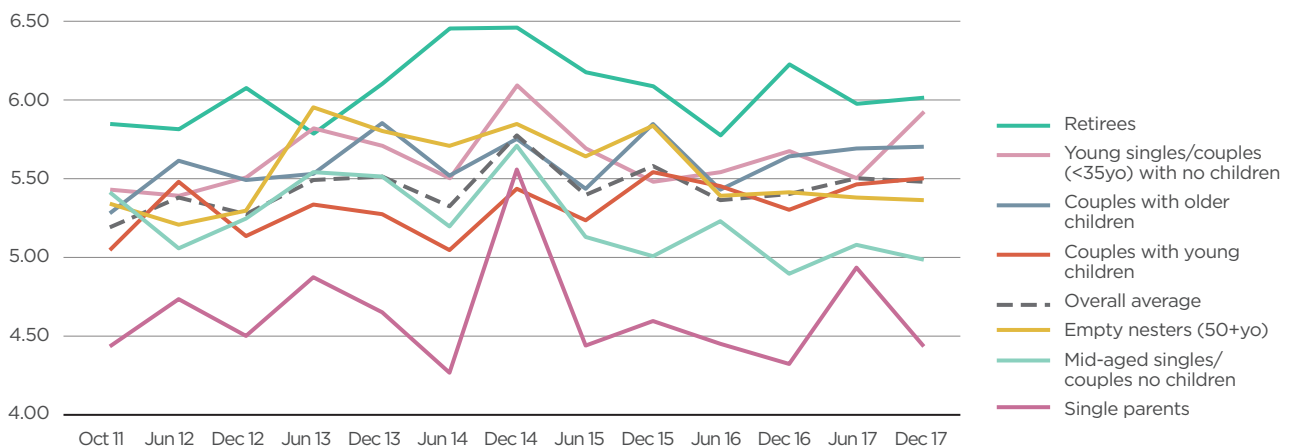


Figure 10 – Financial comfort across different households. Scores out of 10.

4.2 Gap in financial comfort across generations.

A gap in financial comfort across generations¹ remains evident in December 2017 (see figure 11).

'Gen X' continued to report much lower levels of financial comfort (up 1% to 5.18), compared to both 'baby boomers' (down 2% to 5.66) and 'Gen Y' (unchanged at 5.67).

'Gen X' experienced relatively lower overall comfort levels largely due to lower comfort with both debt and cash savings and less ability to manage a financial emergency.

'Baby boomers' and 'Gen Y' recorded similarly high comfort levels – albeit baby boomers tended to be slightly more comfortable about their net wealth but less comfortable with their income and expected standard of living in retirement when compared to 'Gen Y'.

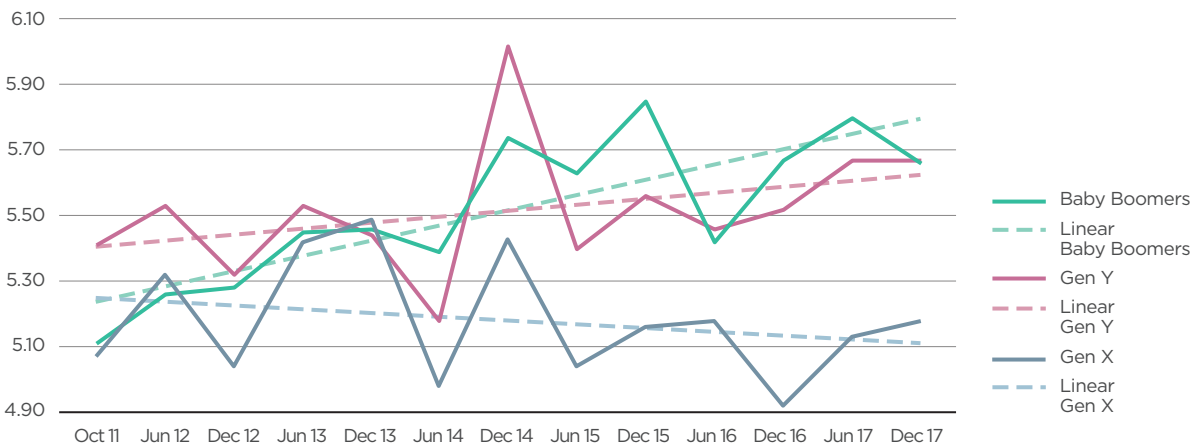


Figure 11 – Financial comfort across generations. Scores out of 10.

¹ Generational definitions are Gen Y: 25-34, Gen X: 35-54, Baby Boomers: 55-74.

Students feeling the pinch.

Another gap in overall comfort is evident with 'students', especially compared to 'young singles/couples with no children' and '18-29 year olds (with and without younger children²)'.

Notwithstanding a notable rise from the lows in the previous couple of surveys, 'students' continued to report markedly lower levels of financial comfort (4.94 out of 10) in December 2017, compared to both '18-29 year olds' (5.82 out of 10) and 'young singles/couples with no children' (up 8% to 5.93 out of 10). See figure 12.

'Students' had much lower financial comfort relative to other households across most financial drivers - especially in comparison with 'young singles and couples with and without children' - largely due their reduced ability to manage a financial emergency and lower comfort with both cash savings and income.

The only household group by life stage that revealed their financial comfort had improved were younger households without children, typically reporting higher 'comfort with income, savings and expenses' as well as higher 'confidence in their ability to manage a financial emergency (loss of income for three months).'

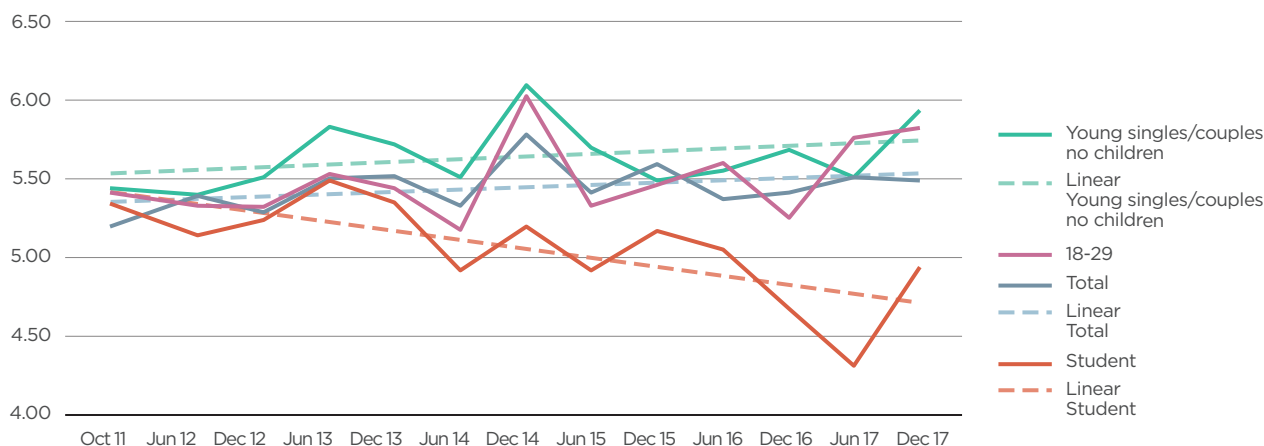


Figure 12 - Financial comfort across young singles/couples and students. Scores out of 10.

² Please note, 29% of students are in the 'young singles/couples with no children' life stage, and 49% of them are 19-29 years old.

4.3 Financial comfort mixed across states – with a tale of two bigger cities and eastern states.

Over the six months to December 2017, comfort remained mixed across Australia.

Significant improvement in New South Wales was offset by a large deterioration in Victoria and, to a lesser extent, South Australia – see figure 13.

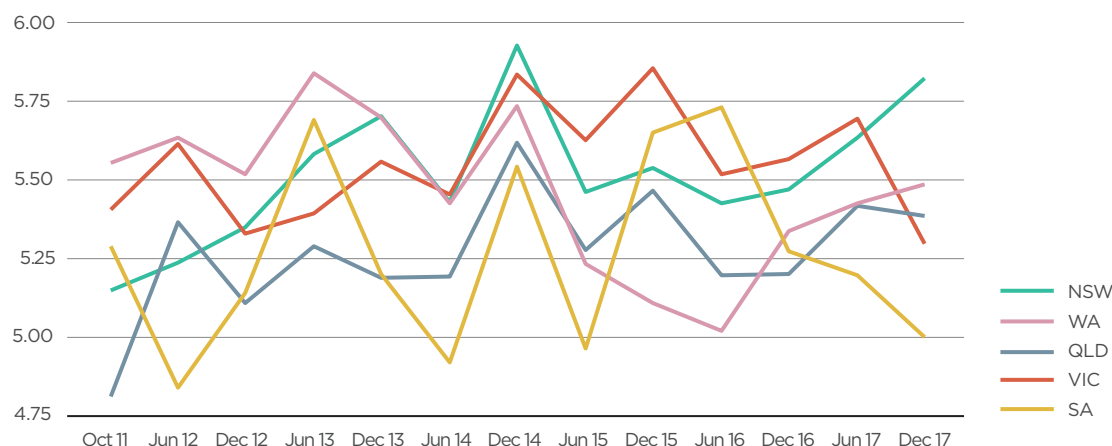


Figure 13 – Changes in financial comfort across states and territories. Scores out of 10.

In terms of the states, in December 2017:

- New South Wales reported the greatest improvement in comfort across Australia – up 3% to 5.83 to its highest level in three years. The gains reflected relatively higher comfort across most key drivers, especially handling a ‘job loss’ and ‘comfort with investments’. This increase in comfort was arguably due to significantly lower unemployment and higher household wealth (related to much higher property values).
- Victoria reported the greatest decline in household financial comfort over the past six months to December 2017 – down 7% to 5.30 to its lowest level in the past six years. This was due to deterioration across most drivers.
- South Australia continued to report the lowest comfort level across all states – down a further 4% to 5.00 out of 10. This is 9% lower than Australia as a whole, with falls across most key drivers.
- Western Australia and Queensland reported broadly unchanged comfort levels at 5.49 and 5.39, respectively – albeit higher than a year or so. Both these resource-dominated regions are recovering from the mining downturn and are now moving more in line with the level of household comfort across Australia as a whole (unchanged at 5.49).

Metropolitan versus regional comfort - a great divide.

In December 2017, metropolitan cities continued to record significantly higher financial comfort (down 1% to 5.60 out of 10) than regional areas (up 3% to 5.18 out of 10). See figure 14.

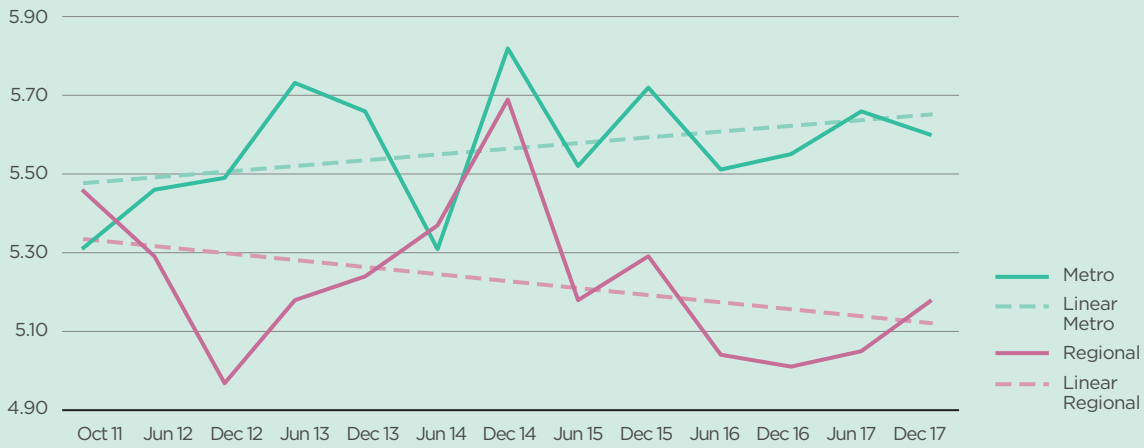


Figure 14 - Comfort index across metropolitan and regional Australia. Scores out of 10.

As shown in figure 15, the trend of slightly higher household financial comfort in metropolitan households is evident across the larger capital cities, with the exception of Brisbane.

Sydney continued to be the most financially comfortable metropolis across Australia, increasing 2% to 6.02, while Adelaide was the least comfortable state capital (down 4% to 5.13).

The greatest gain in household financial comfort was reported in Perth, which rose by 3% to 5.61, while consistent with its state outcome, Melbourne recorded the greatest decline (down 7% to 5.39).

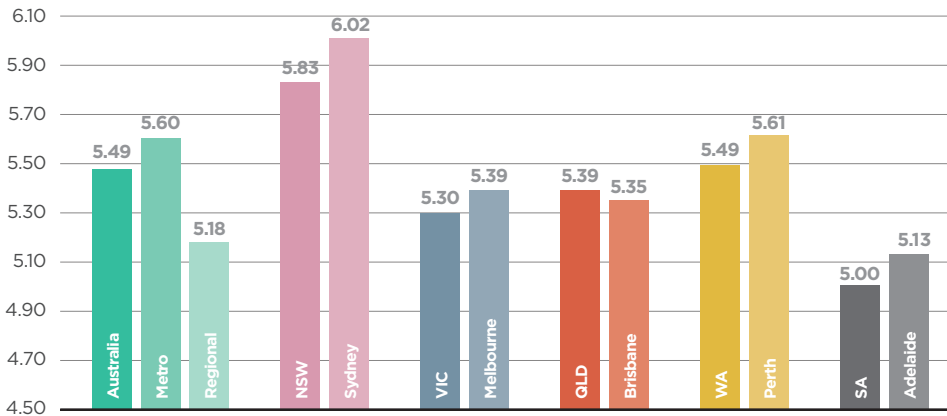


Figure 15 - Comfort index across larger states. Scores out of 10.

4.4 Financial comfort mixed across workforce segments.

Financial comfort also remained mixed across the labour force over the six months to December 2017. A continued rise in comfort for 'full-time' workers and a marked rise among the 'unemployed' were largely offset by falls among 'casual' and 'self-employed' workers (see figure 16).

The highest household financial comfort among the labour force continued to be reported by 'full-time paid employees' – up 2% to 6.02 in the six months to December 2017. 'Full-time paid employees' reported improvements with most drivers, with the exception of 'income' and 'expenses' (both down 2%) – arguably reflecting continued sluggish income gains and the rising inflation with necessities.

Meanwhile, the lowest financial comfort in the workforce continued to be reported by 'casual' workers, declining the most of any workforce segment (down 11% to 4.87), and to a lesser extent, 'self-employed' workers (down 9% to 5.34). Both these worker segments reported falls across all drivers, notably comfort with income and confidence in their ability to handle a financial emergency.

Moreover, both unemployment and under-employment remained significant challenges for many households due to the lack of opportunities to fully engage in work, earn an income and achieve a desired level of financial comfort.

Despite strong job gains over the past year and improvements in advertised job vacancies, almost 50% of employed workers still say 'it would be difficult to find another job in two months if they became unemployed' with much higher levels of difficulty anticipated among 'part-time' and 'casual' workers.

A significant part of the workforce also continued to lack job security, with 28% of workers feeling 'insecure' in December 2017 – the same as the average outcome reported since late 2011.

In addition, a significant number of 'part-time' and 'casual' employees continued to seek more hours and full-time work. In December 2017, 20% of 'part-time' and 'casual' workers indicated a preference to work full-time, while the majority (67%) preferred to remain in part-time work. Only 13% said they preferred to work casual hours.

Despite an increase to 4.30 in December 2017, 'unemployed' people reported the lowest financial comfort among the labour force, well below 'casual' workers (4.87).

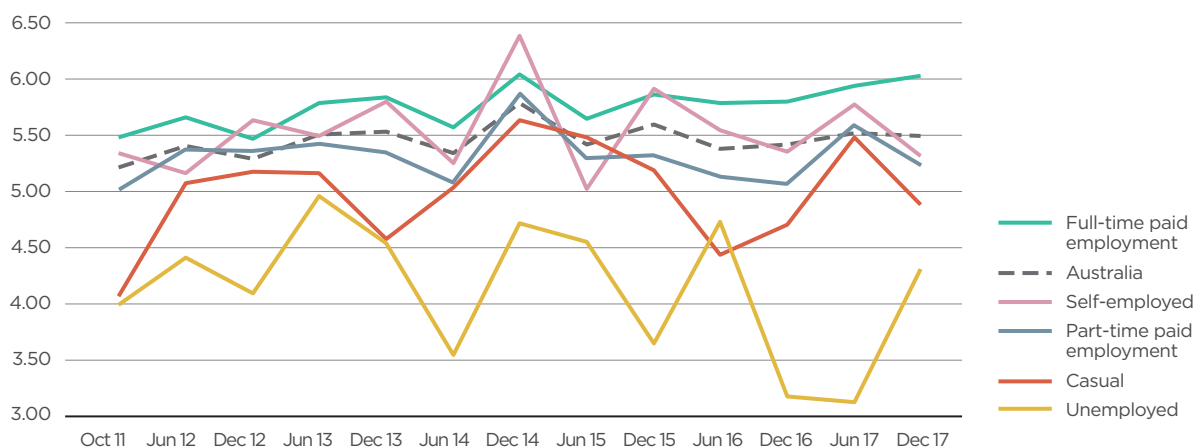


Figure 16 – Financial comfort across the workforce. Scores out of 10.

4.5 Financial comfort across housing tenures.

Renters worse off than homeowners.

The household financial comfort of renters remained significantly lower (down 1% to 4.49) than households paying off their mortgage (down 2% to 5.38) and, to a greater extent, homeowners who own their home outright (unchanged at 6.43) – see figure 17.

Compared with both owner-occupiers paying off a mortgage and, to a greater extent, homeowners who own their home outright, renters typically had lower levels of comfort with all the main drivers – in particular ‘cash savings’, ‘wealth’ and ‘the ability to manage a financial emergency’. That said, renters and owner-occupiers paying off a mortgage reported similar comfort levels with debt – both significantly below the comfort with debt of homeowners who own their home outright.

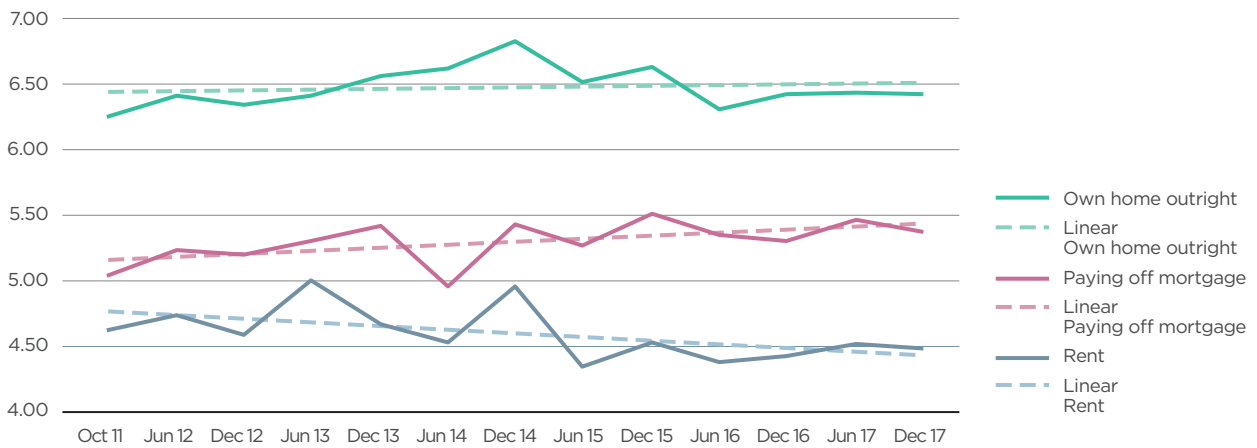


Figure 17 – Overall financial comfort based on housing tenure. Scores out of 10.

Leveraged investors better off than owner-occupiers with and without home mortgages.

Financial comfort continued to vary a great deal across households paying off mortgages. There were also no marked changes in comfort by mortgage status during the past year, notwithstanding some apparent cooling in house prices, higher loan rates and some slowing in the growth of investor loans during the past six months or so.

Households with mortgages on investment properties reported higher household financial comfort (unchanged at 6.61) than those who own their own home outright (unchanged at 6.43) and, to a greater extent, those households with mortgages on their home and an investment property (unchanged at 6.16) and households with only a home mortgage (down 1% to 5.20). This arguably reflects that households with investment loans tend to have both higher incomes (before and after tax) as well as higher (net) wealth.

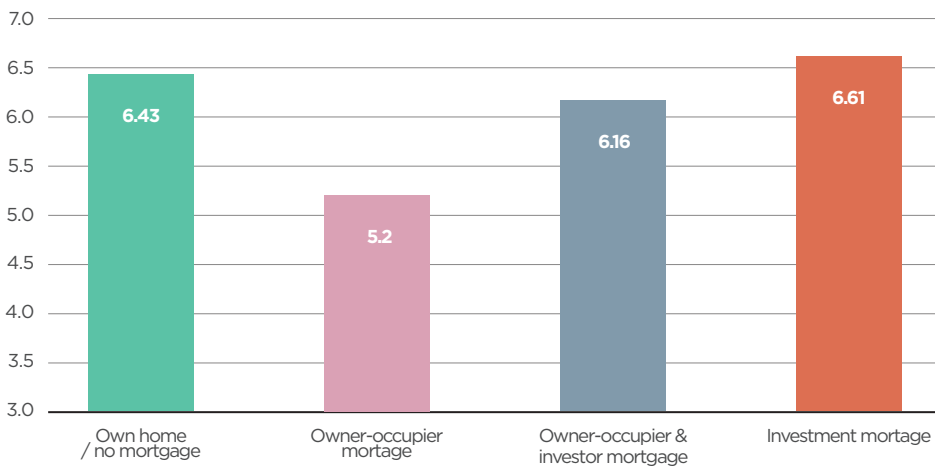


Figure 18 - Overall financial comfort for households with and without mortgages in December 2017. Scores out of 10.

**“Living expenses
are eating into
our savings for
things like a
family holiday.
My part-time job
is also at risk of
finishing.”**

Couple with young children.
Western Australia.

5.1 Decreased comfort with income.

The report's 'income comfort' index fell slightly by 1% to 5.65 out of 10 during the six months to December 2017 (see figure 19).

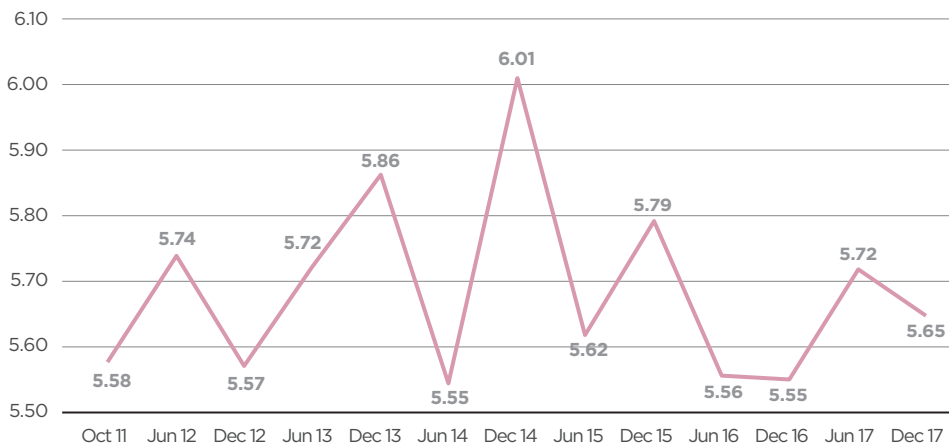


Figure 19 – Comfort with income. Scores out of 10.

By household, the highest 'comfort with income' was reported by 'retirees' (up 3% to 6.20), followed by 'young singles/couples under 35 years with no children', whose comfort increased the most of any household group (up 9% to 6.14).

Meanwhile, 'single parents' continued to record the lowest 'comfort with income', declining the most of any household type (down 17% to 4.30), followed by 'middle-aged singles/couples with no children' (unchanged at 5.25).

Subdued income gains, especially for self-employed, casual workers and those on government income support.

Despite recent job gains and a fall in the rate of unemployment, wage growth for the majority of Australians remains historically low - consistent with historically higher unemployment. From a macroeconomic perspective, up until the significant pickup over the past year, there has been a continued shift from full-time jobs towards part-time jobs and jobs with lower wage rates. Income from some investments has also fallen - notably from bank term deposits, other savings accounts as well as falling rental incomes on investment properties in Perth, some mining regions and apartments in some metropolitan cities.

In the latest survey, households reported subdued income gains. Around 34% of households - up 1 point over the past six months to December 2017 but down 2 points over the past year to December 2017 - reported 'annual income increases'.

On the other hand, a quarter of households - down 2 points over the past six months - recorded their 'income decreased'. Furthermore, around 41% - up 1 point over the past six months to December 2017 - reported their 'income remained the same'.

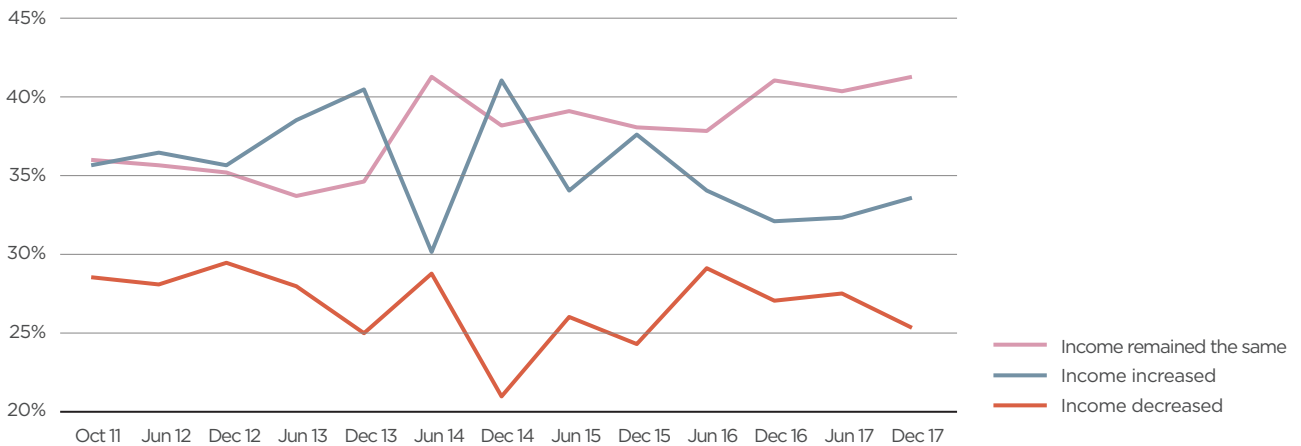


Figure 20 - Household income changes during the past year.

Across the workforce, 'self-employed' and 'casual' workers were the most likely to report that household income was unchanged or fell during the past year at 76% and 71% respectively. In contrast, 51% of full-time workers reported income increases during 2017.

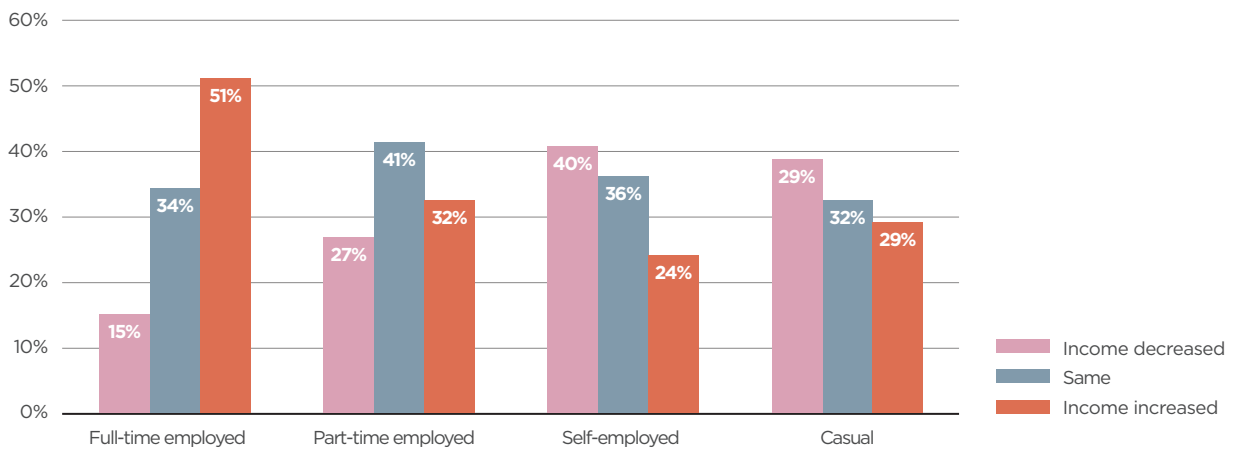


Figure 21 - Income changes over the past year across the labour force.

Of those not in the workforce, there was a high propensity to report that incomes were unchanged or fell during the year to December 2017 - particularly among 'unemployed' people (89%), 'retirees' (78%) and 'students' (78%).

Underemployment was also significant barrier to increased incomes for many households. As outlined in section 4.4, a significant number of 'part-time' and 'casual' employees said they would prefer more hours and full-time work.

5.2 Comfort with cash savings stays the same, but is one of the least comfortable drivers.

Comfort with 'cash savings' remained largely unchanged at 5.08 during the six months to December 2017 - see figure 22. That said, 'comfort with cash savings' remained one of the least comfortable drivers of overall financial comfort among all households and was one of the 'biggest worries' for over 30% of households - see section 3.3.

By household type, 'retirees' remained the most comfortable with their 'cash savings' (up 5% to 5.81).

Meanwhile, 'single parents' remained the least comfortable, declining the most of any household type (down 12% to 3.97).

'Young singles/couples under 35 years with no children' reported the largest rise of all household types (up 11% to 5.52).

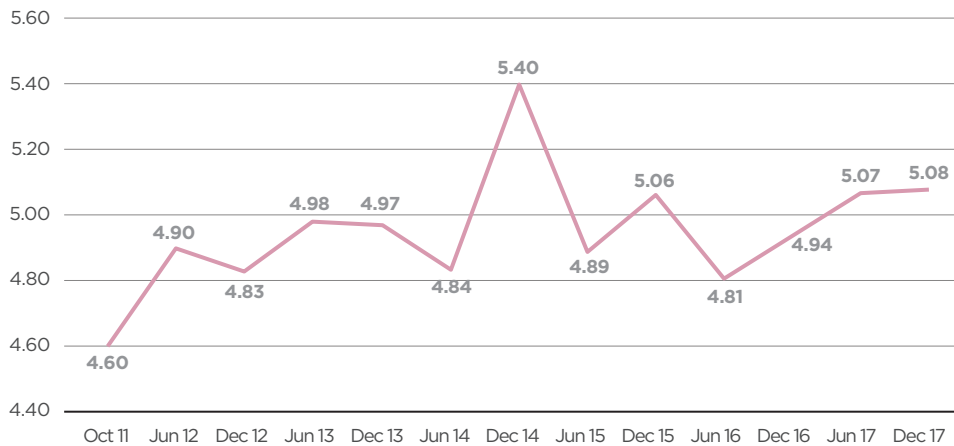


Figure 22 - Comfort with cash savings. Scores out of 10.

Slightly more savers saving more.

There was a small increase in the proportion of households saving over the six months to December 2017. 'Net savers' (i.e. the proportion of those 'spending less than they earn each month' (49%) minus those 'spending all of their income and more' (8%)) improved by 2 points to 41% (see figure 23).

The proportion of households that 'typically spend all of their income and no more' remained stable at 43%.

Across households, 'young singles/couples under 35 with no children' were most likely to be 'saving more than they earn' (65%), while 'single parents' were least likely to be at 31%.

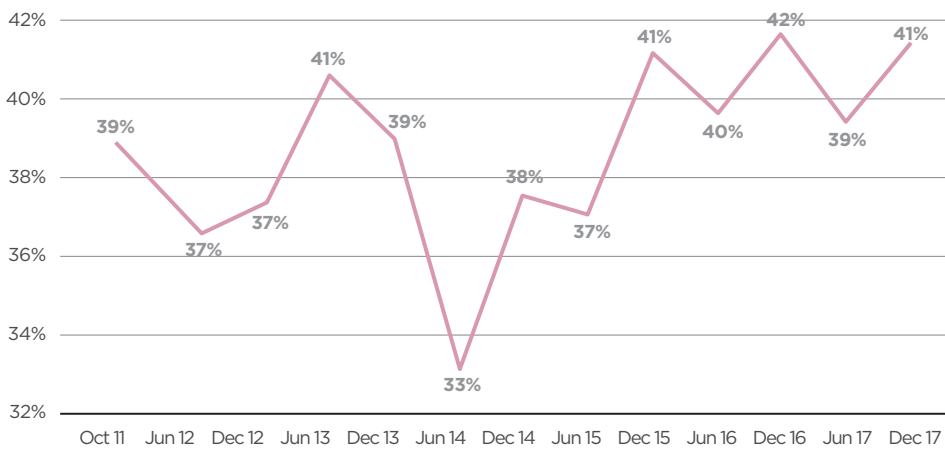


Figure 23 - 'Net savers' (the proportion 'spending less than they earn each month' minus those 'spending all of their income and more').

In addition to a higher proportion of net savers, the estimated average amount saved increased by 2% to \$905 per month in December 2017.

In contrast, the estimated average amount spenders overspent each month increased by 17% from \$525 to \$613 per month, after little change in the previous survey.

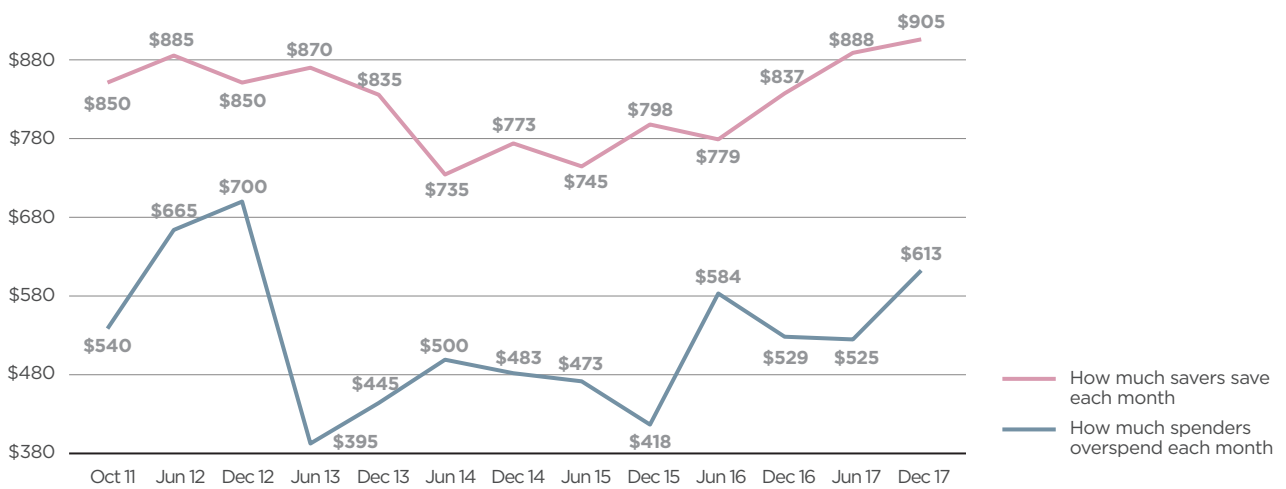


Figure 24 - Estimated average amount saved or overspent each month.

Disparate savings amounts across households.

While savings continued to vary a great deal across households, the majority of households lacked a cash buffer such as savings deposits or mortgage offset accounts.

Over half (51%) reported cash savings less than \$10,000 - including 27% with less than \$1,000 in cash savings. See figure 25.

In contrast, 22% of households reported cash savings of \$10,001-\$50,000 and 11% recorded cash savings of between \$50,001 and \$100,000.

Around 16% reported cash savings above \$100,001.

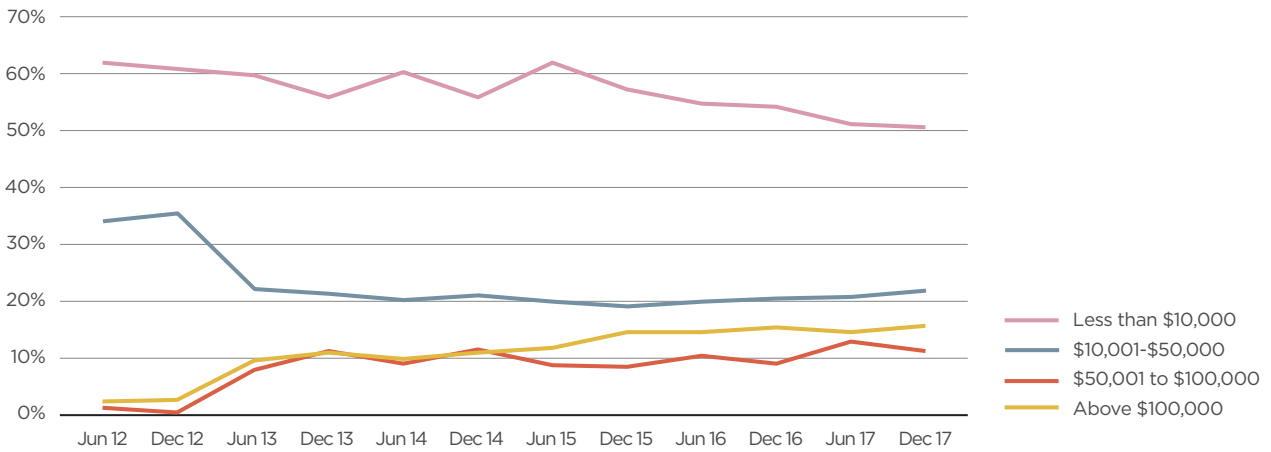


Figure 25 - How much cash savings do households currently hold?

5.3 Improved confidence in coping with a short-term income loss.

‘Confidence in the ability to maintain your lifestyle, if you lost your income for three months’ improved – up 3% to 4.82 in the six months to December 2017.

As noted in section 3.2, it was the only financial driver of financial comfort to improve notably over the past six months to December 2017 and, more generally, since mid-2016. The recent significant full-time job gains and fall in unemployment across Australia are arguably helping to improve confidence – albeit underemployment remains high and job security remains low.

Around half (47%) of households reported to be ‘confident in maintaining their lifestyle, if they lost their income for three months’.

Generally, most households reported increased confidence over the past few surveys. In the latest survey, ‘retirees’ continued to record the highest confidence (up 3% to 5.46), followed by young singles/couples under 35 years with no children (up 18% to 5.37).

‘Single parents’ reported the lowest confidence – down the most of all households by 9% to 3.82 – partly unwinding rises in confidence during the twelve months to December 2017.

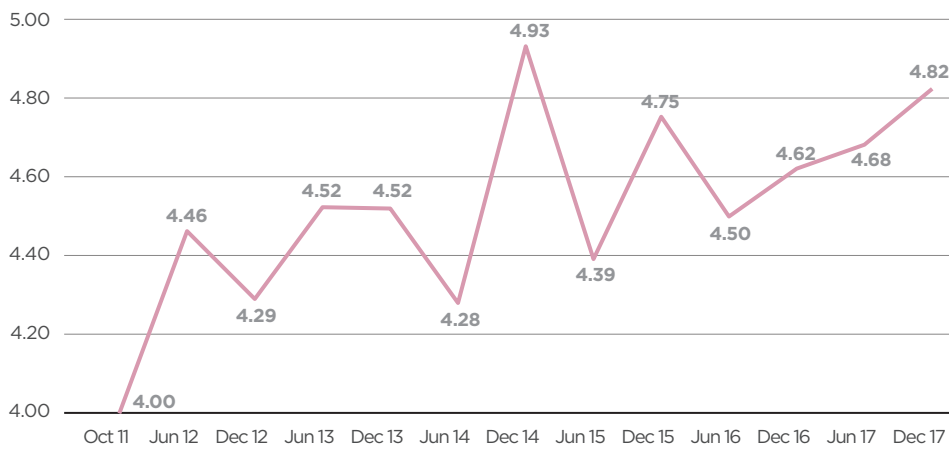


Figure 26 – Confidence in ability to handle an emergency, if you lost your income for three months. Scores out of 10.

Confidence in the ability to raise \$3,000 for an emergency is also rising.

Consistent with higher ‘confidence in maintaining your lifestyle, if you lost your income for three months’, confidence in ‘raising money for an emergency’ also improved for the third consecutive survey (see figure 27).

Around 37% indicated it would be ‘easy to raise \$3,000 in an emergency’ – up 3% since mid-2016 as well as 3 points higher than the average record since the survey began.

However, a higher proportion (63%) of households reported they ‘could not easily raise \$3,000 for an emergency’.

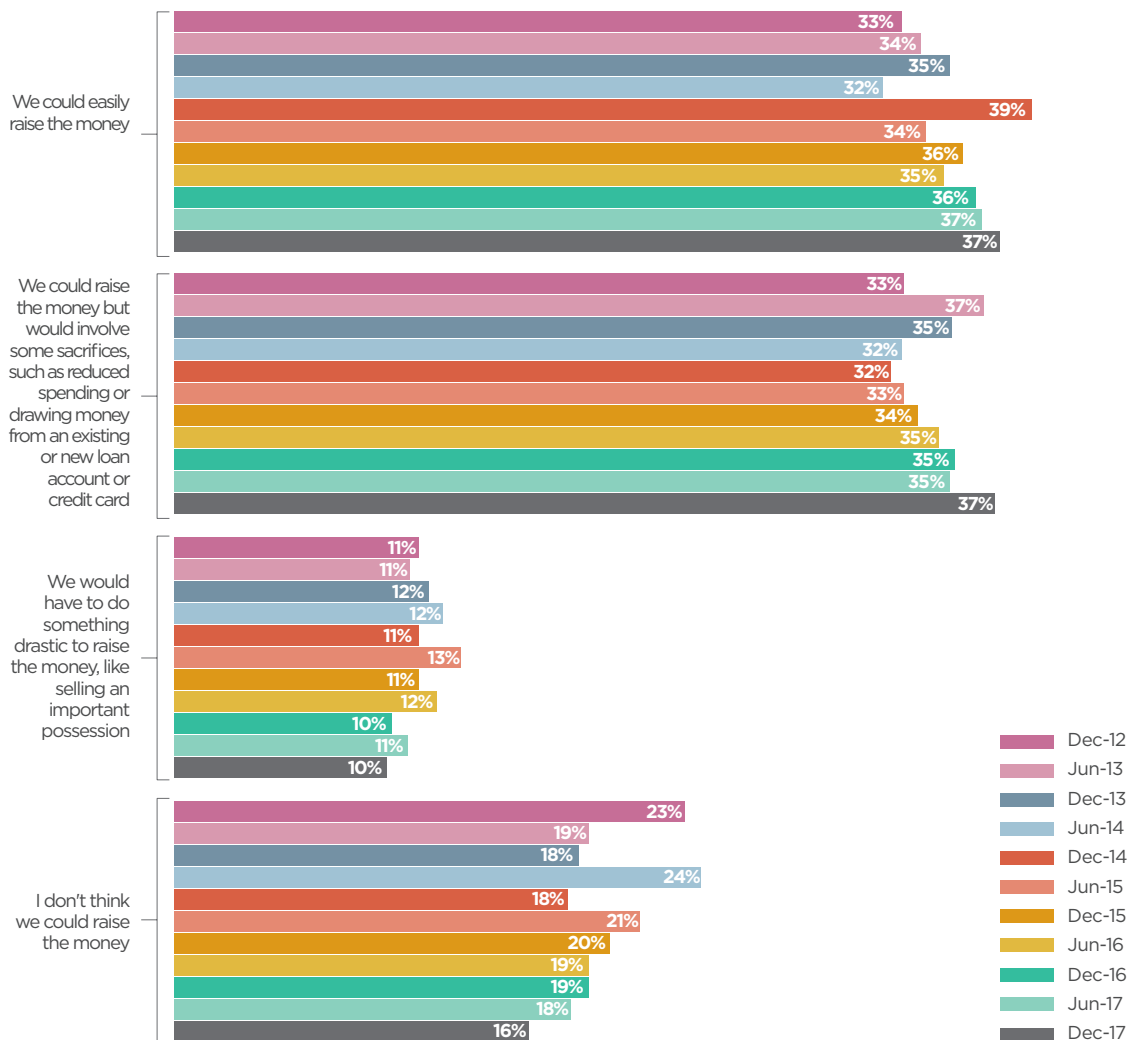


Figure 27 – Ability to raise \$3,000 in a week for an emergency.

5.4 Comfort in paying monthly expenses falls.

Comfort with the 'ability to pay regular expenses' deteriorated by 3% to 6.40 during the six months to December 2017 to its lowest level in over 3 years.

By household, 'retirees' continued to be most comfortable paying regular expenses (although down 2% to 7.08), followed by 'couples with older children' (also down 2% to 6.82). Meanwhile, 'single parents' continued to be the least comfortable and recorded the largest deterioration – down 9% to 5.31 – to the lowest level in over three years.

In other fluctuations, 'young singles or couples with no children' reported the only improvement with the 'ability to pay regular expenses' (up 2% to 6.69).

As noted in section 3.3, 46% of households cited the 'cost of necessities' as one of the biggest worries, while 40% of households cited it as a key reason for the deterioration in their 'financial situation over the past year'.

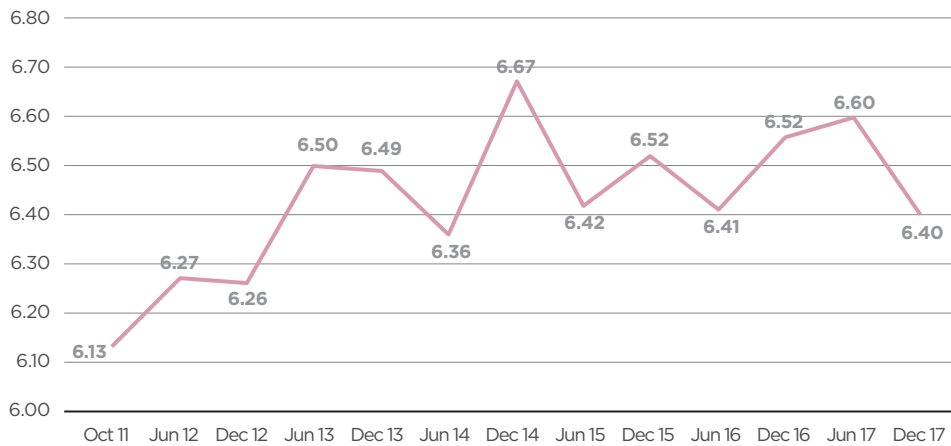


Figure 28 – Comfort with ability to pay regular expenses. Scores out of 10.

5.5 Overall comfort with debt declines.

Figure 29 shows 'overall comfort with debt' deteriorated slightly by 1% to 6.27 during the six months to December 2017 – above the medium-term average of 6.10 since the survey began.

Across life stages, 'retirees' continued to be the most comfortable with debt (up 2% to 7.65), followed by 'empty nesters' (down 1% to 6.78).

Meanwhile, 'single parents' remained the least comfortable with debt, recording the greatest decline of any household type by 7% to 5.24, closely followed by 'couples with young children' who nonetheless recorded the largest improvement of any household type by 3% to 5.79.

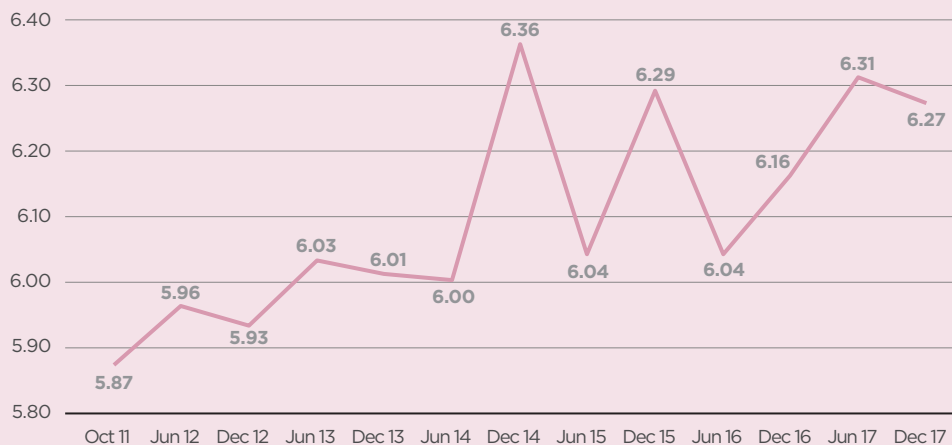


Figure 29 – Comfort with household's level of debt. Scores out of 10.

Demand for debt remains the same.

Household demand for debt remained unchanged over the past six months to December 2017.

Around 31% reportedly increased their level of debt, while 24% of households decreased it. As a result, (net) demand for debt increased to 7% of households – a bit below the levels reported in the two previous financial years.

By household type, ‘young singles/couples with no children’ recorded the highest net demand for debt (although down 7 points to 31%), and to a lesser extent, ‘couples with young children’ (down 5 points to 18%).

Meanwhile, ‘couples with older children’ recorded the lowest net demand for debt (up 3 points to -3%), followed by ‘empty nesters’ (up 2 points to -8%).

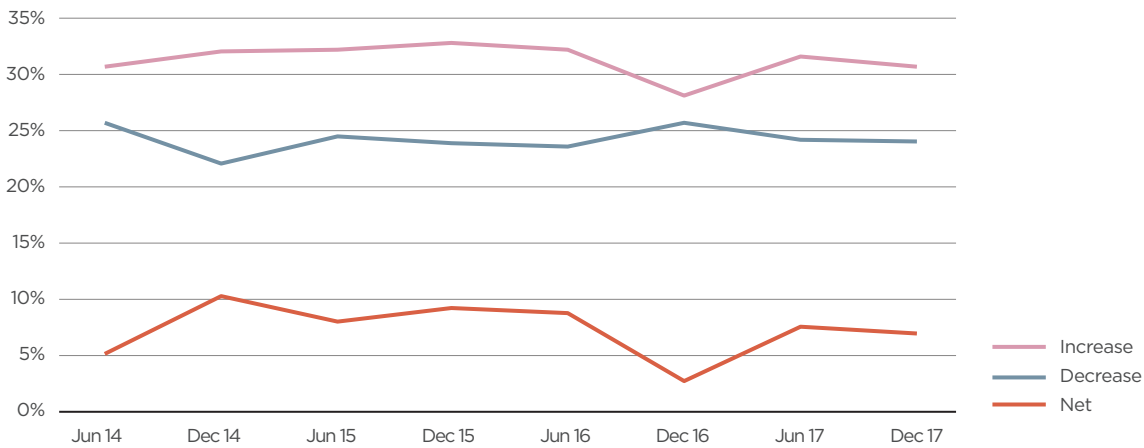


Figure 30 – Change in household debt over the past year. Net equals increase less decrease.

Ability to manage debt high due to lower unemployment and low but rising loan rates.

Consistent with relatively low unemployment rates and loan rates, actual non-performing loans (NPLs) on owner-occupied mortgages remain low – and household expectations are for mortgage defaults to remain low.

In December 2017, there were only 7% of households that could not pay their mortgage on time during the past year, and 7% could not pay rent on time. In contrast, 12% were unable to always pay off their personal loan or credit card on time.

Looking ahead, the proportion of households reporting that their ability to repay and service their debt in the next 6-12 months has increased, compared to the previous report.

Households expecting to ‘not meet their required minimum payment on their debt’ decreased by 2 points to 7% and households anticipating to ‘just manage to make the minimum payments’ decreased by 2 points to 31%.

In contrast, households ‘expecting to pay a little/lot more than the minimum payments on their debts’ increased by 4 points to 62%.

‘Single parents’ (13%) reported the highest expectations with regards to their ability to ‘not meet their required minimum payment on their debt’ while retirees (79%) recorded the highest expectations in ‘paying a little/lot more than the minimum payments on their debts’.

By mortgage type, slightly more owner-occupiers expected to ‘not meet their required minimum payment on their debt’ than investors (both up 1 point to 6% vs 4% respectively).

Households with no mortgage but that may have credit cards or other unsecured personal debt were the most pessimistic, with 8% not expecting to meet minimum repayments (down 4 points in December 2017).

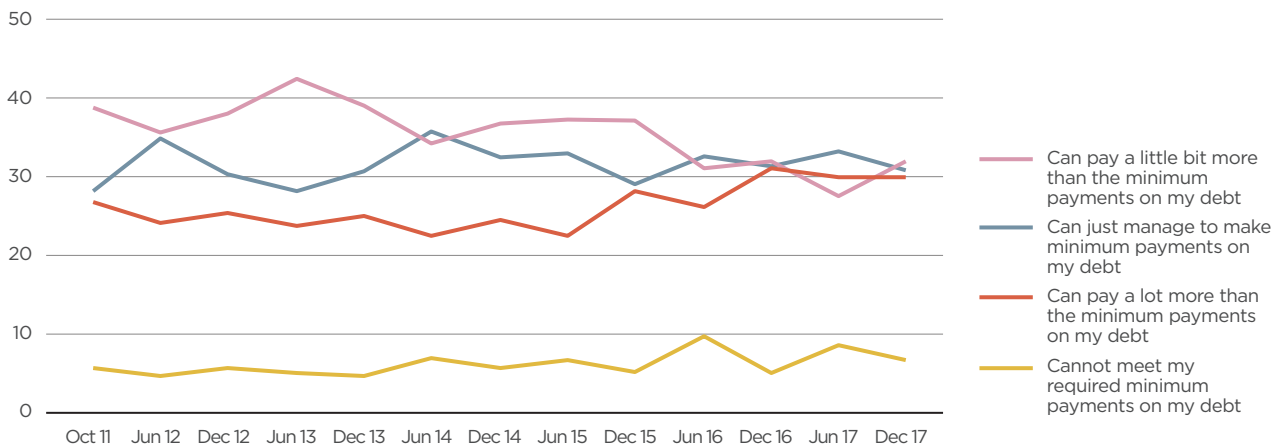


Figure 31 – Ability to manage debt over the next 6-12 months.

Concerns over level of debt.

The proportion of households who 'worried about their household's level of debt over the last month' increased by 1 point to 38% (see figure 32).

That said, as noted in section 3.3, the biggest worry among all households is the cost of necessities – much higher than the worry about their ability to pay off owner-occupied homes, investment property or personal debt.

This proportion of households 'worried about their household's level of debt over the last month' increased to 51% among mortgage holders, compared to 27% with no mortgage and 23% who own their own home outright.

Households based in metropolitan Sydney (45%) and metropolitan Melbourne (43%) also reported a high level of 'worry about their household's level of debt over the last month', perhaps a reflection of higher house prices in these cities.

By household type, 'couples with young children' (51%) reported the highest level of 'worry with debt'.

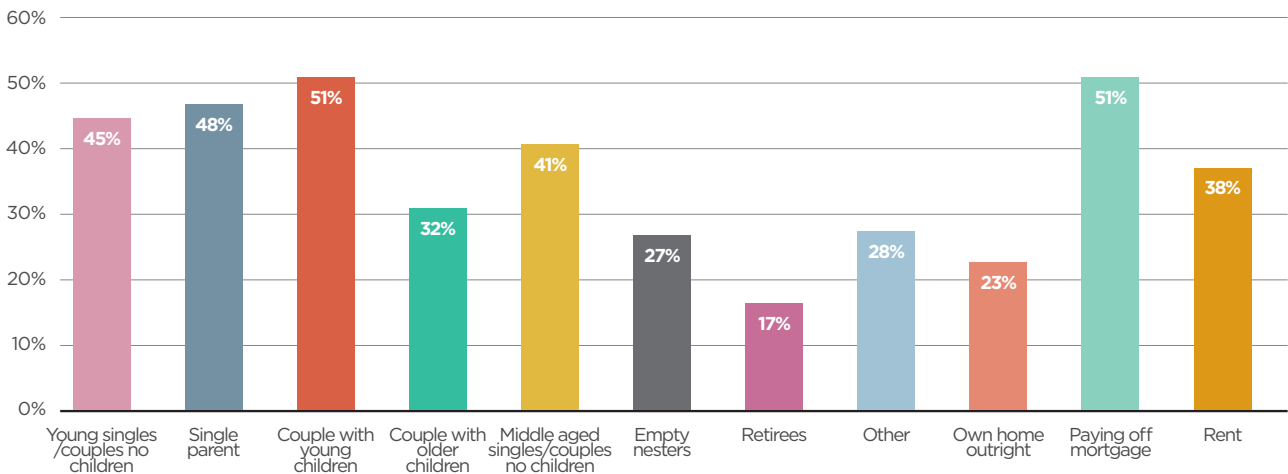


Figure 32 – How much have you worried about your household's level of debt over the last month?

More worse off if interest rates rise significantly.

Consistent with current high levels of stress among lower income households with mortgages, expectations about higher loan rates caused some household concern. Higher interest rates will negatively impact household cash flows, reduce household savings and/or spending and impact the ability to service debt.

More households reported to be 'worse off' than 'better off' if changes in the economy were to lead the RBA to increase interest rates by a total of 1.0% in the near future – see figure 33.

Not surprisingly, almost half (47%) of households paying off a mortgage said they would be 'worse off', particularly owner-occupiers (49%) if compared to property investors (33%).

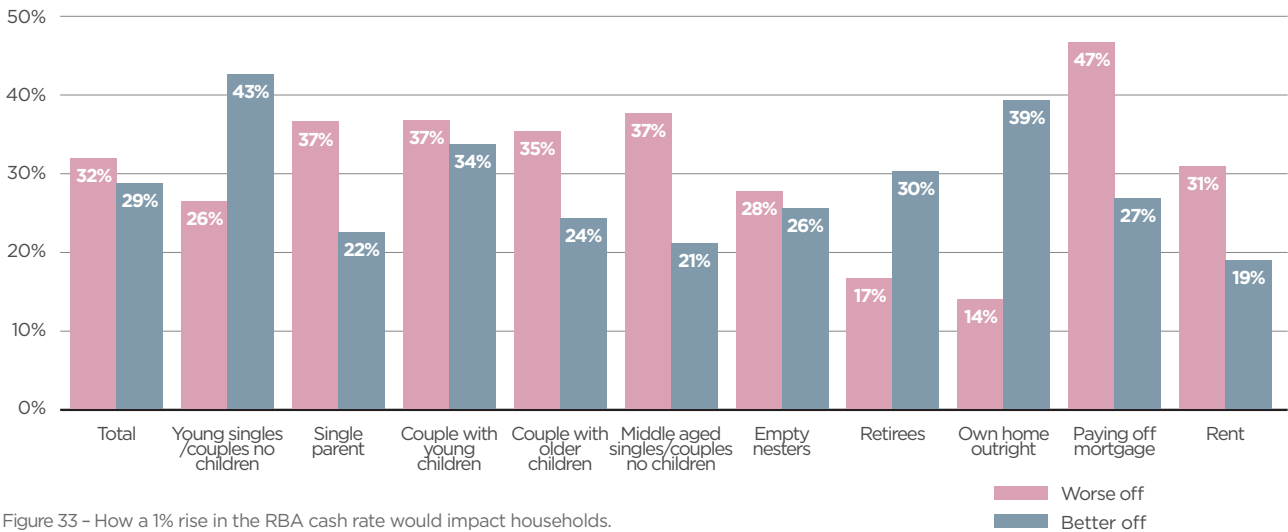


Figure 33 – How a 1% rise in the RBA cash rate would impact households.

5.6 Investments.

Comfort with investments declines a bit.

Figure 34 shows overall 'comfort with investments' decreased slightly by 1% to 4.94 over the past six months to December 2017. Despite the fall, this recording is higher than the medium-term average outcome of 4.86 since the survey began.

By household, 'retirees' recorded the highest level of 'comfort with investments' in the six months to December 2017 (up 2% to 5.41).

Conversely, 'single parents' reported the lowest level of comfort and fell the most of any household type by 18% to 3.49.

'Mid-aged singles/ couples with no children' reported the greatest increase in 'comfort with investments' (up 7% to 5.39).

By housing tenure, households 'owning their home outright' continued to have significantly higher comfort with investments than those 'paying off a mortgage' (6.20 vs 4.93) and, to a greater extent, 'renters' (3.38).

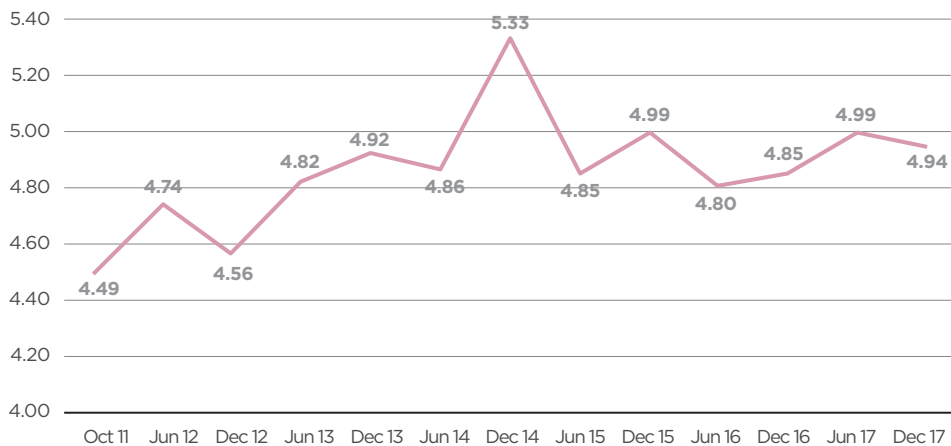


Figure 34 – Comfort with level of investments. Scores out of 10.

Investment risk appetite improves a bit.

Figure 35 shows the report's (net) risk index with 'risk avoiders' outnumbered by 'risk takers' by -18%.

The latest outcome suggest that households are taking on a bit more risk than the average risk at net -19% since the report began, and is the same outcome reported in both December 2013 and 2014.

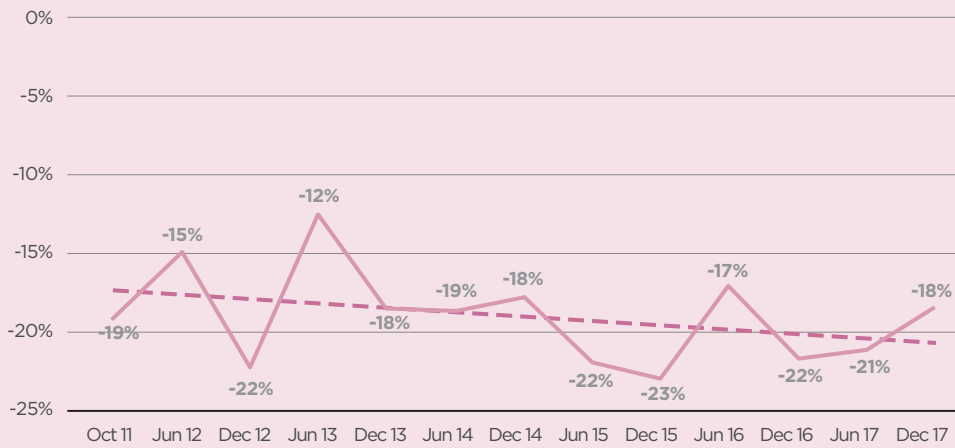


Figure 35 – What financial risk would you be willing to take with your investments? Risk takers less risk avoiders.

5.7 Superannuation.

Comfort with anticipated standard of living in retirement remains the same.

As per figure 36, confidence with households' 'anticipated standard of living in retirement' remained unchanged at 5.19 out of 10 and a bit above (3%) the historical average of 5.05 out of 10 since the survey began.

The past six months to December 2017 saw another strong gain in superannuation returns - largely due to a strong rise in global and, to a lesser extent, Australian equity prices. These gains were partly offset by falling bond prices and continued compulsory contributions.

That said, some tightening in both aged pension entitlements and superannuation concessions may have also weighed on household comfort with 'anticipated standard of living in retirement' during the past year or so.

Excluding 'retirees', 'young singles/couples under 35 years with no children' reported the highest score with regards to their 'anticipated standard of living in retirement' (up 2% to 5.44), while 'single parents' reported the lowest score and largest decline in the six months to December 2017 (down 16% to 3.90).

Households reporting the largest improvements included 'empty nesters' (up 7% to 5.05) and 'couples with older children' (up 3% to 5.31).

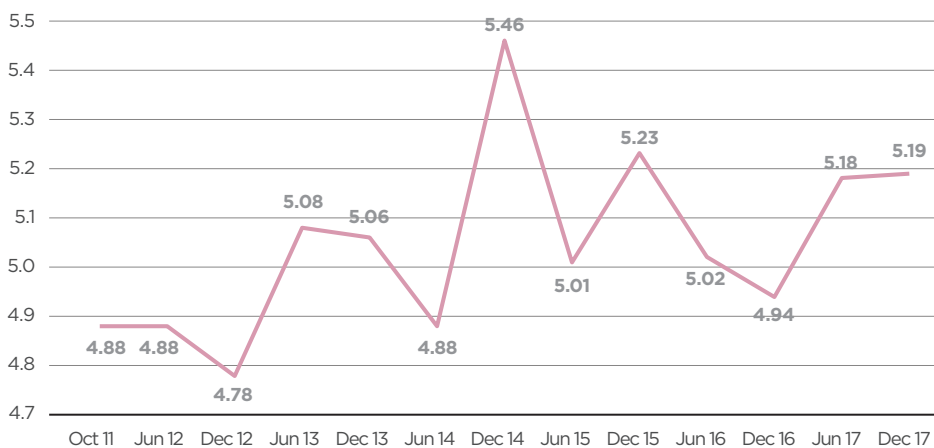


Figure 36 - Expectations for comfort in household's standard of living in retirement. Scores out of 10.

More households continue to expect to fund retirement themselves.

Around 22% expected to ‘fund retirement with their own superannuation’ (up 2 points in the past six months).

Meanwhile, the number of households expecting to ‘rely on the government pension’ during retirement decreased 1 point to 20%, while the number of households expecting to ‘use both private savings and the government pension’

declined 2 points to 40%. A combination of the government aged and private pension remains the expected main sources of retirement income.

Across households, ‘single parents’ (17%) reported the lowest expectations in solely funding retirement with their superannuation, while ‘young singles/couples over 35 years with no children’ and ‘empty nesters’ recorded the greatest confidence (both at 28%).

By gender, 26% of men compared to 18% of women expected their household to be able to ‘fund retirement with their own superannuation’.

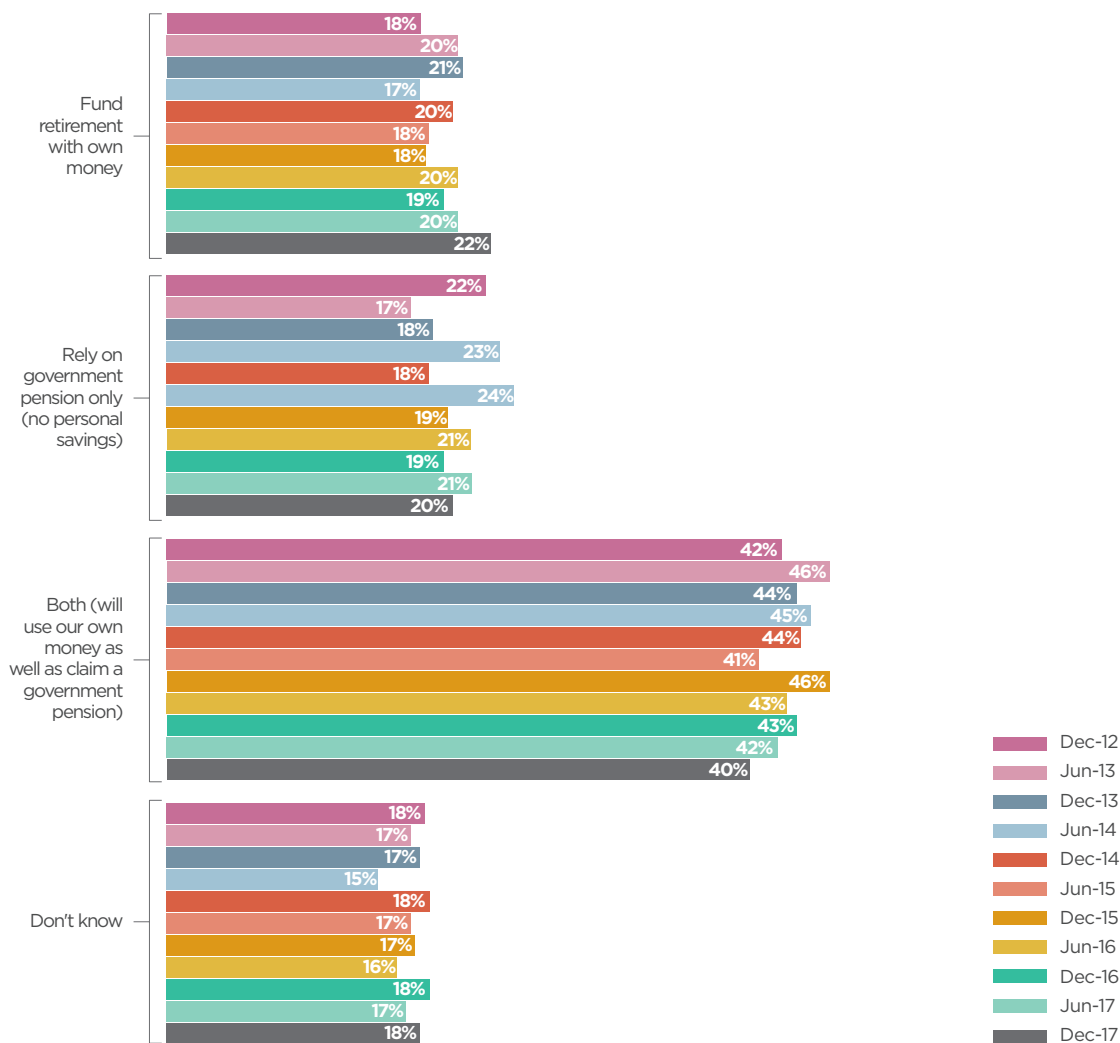


Figure 37 - How will your household fund retirement?

Expected adequacy of income in retirement.

In December 2017, households' expectations of income in retirement remained unchanged.

Around 63% of households expected to be able to 'afford essentials and extras', while 37% of households reported to be 'unable to afford essentials' or have 'no money left over afterwards'.

Superannuation quick facts:

- 24% either didn't have a superannuation fund or didn't know what type of super fund they were in.
- 19% of Australians reported 'building wealth for retirement' is a financial goal they're actively working towards.

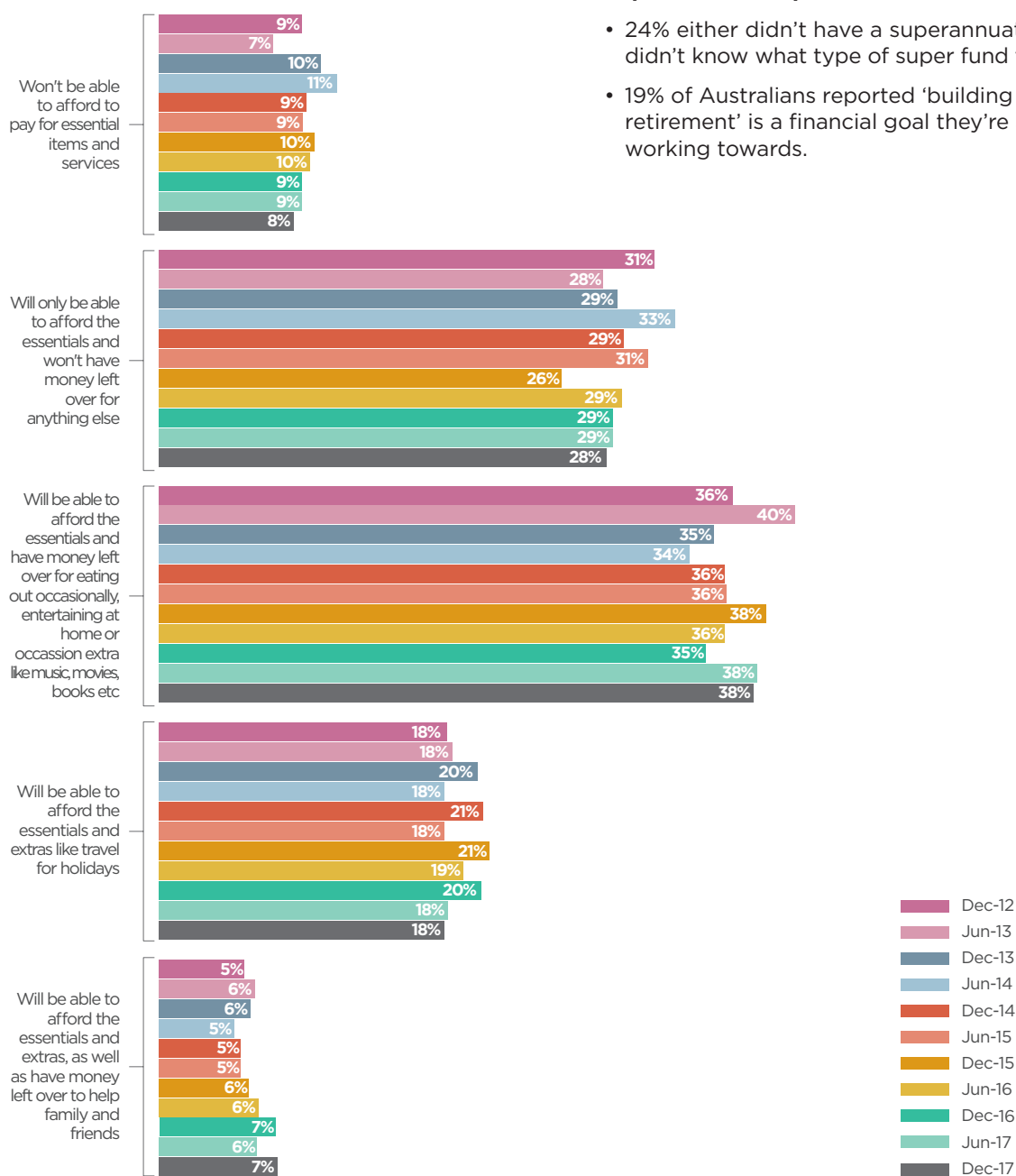


Figure 38 - Expectations for adequacy of income in retirement.

5.8 Overall level of wealth (net).

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 – decreased by 1% to 5.58 out of 10, which is 1% below the average of 5.66 since the report commenced in October 2011.

As noted above, this stands in stark contrast to the continued rise in household wealth (including housing, superannuation and other financial assets) to record levels – relative to debt, income and inflation across Australian households – on average over the past six years.

By households, ‘retirees’ continued to report the highest comfort with wealth (up 1% to 6.45) and, to a lesser extent, ‘couples with older children’ (up 3% to 5.97) and ‘young singles/couples under 35 years with no children’ who improved the most of any household type by 9% to 5.75.

‘Single parents’ reported the lowest level of comfort with wealth, declining the most of any household type by 10% to 4.36.

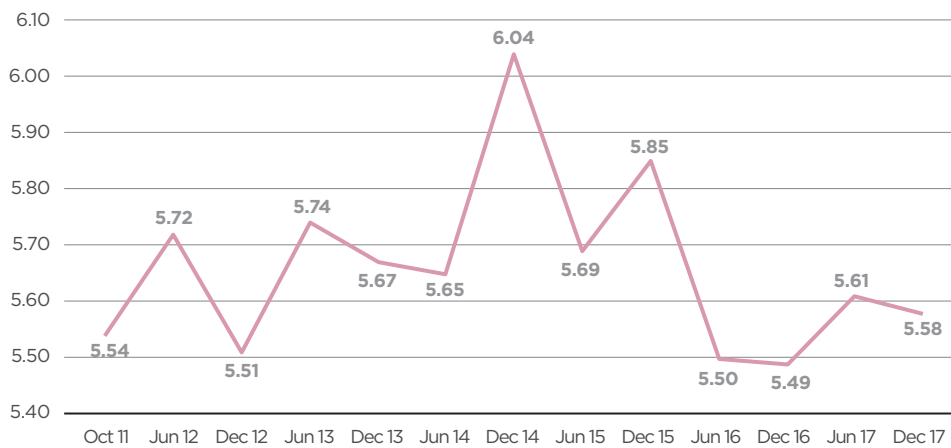


Figure 39 – Comfort with net wealth. Scores out of 10.

Appendix a – household statistics.

06.

	<i>Household Financial Comfort Index</i>	Net Wealth Average Net Wealth	Household Income Average Household Yearly Income
Young singles/ couples (<35yo) with no children	5.93	\$309,000	\$88,000
Single parents	4.45	\$412,000	\$57,000
Couples with young children	5.51	\$438,000	\$102,000
Couples with older children	5.71	\$794,000	\$101,000
Middle-aged singles/ couples with no children	5.00	\$282,000	\$75,000
Empty nesters (50+yo)	5.37	\$794,000	\$64,000
Retirees	6.02	\$826,000	\$53,000

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.

Thirteen 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 2017. For analysis, the population sample was weighted according to ABS statistics on household composition, age, vstate 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 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
- 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 ranges as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

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