



Embargoed to 12:01am AEDT, 1st March 2021

Australians' financial comfort hits record high despite COVID-19 – but not for all and likely to be short-lived

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

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

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

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

ME Bank's Consulting Economist, Jeff Oughton, attributed the peak in financial comfort to a combination of prudent and resilient household financial behaviours, substantial and extended government income payments, record low borrowing costs and a rebound in share and house prices.

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

"Households have increased cash savings, cut overspending, paid down debts, and withdrawn retirement savings to improve their ability to handle the emergency.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

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

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

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

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

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

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

Peak comfort is likely to pass and subside

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

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

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

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

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

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

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

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

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

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

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

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

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

Winners

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

Losers

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

The full copy of ME's 19th Household Financial Comfort Report can be found at www.mebank.com.au/hfcr.

-ends-

Editor notes: 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 superfund-owned bank ME with assistance from DBM Consultants and Economics & Beyond. This edition presents the findings from the 19th survey conducted in December 2020, published in February 2021.

Generational definitions: Gen Z = 18-24, Gen Y = 25-34, Gen X = 35-54, Baby Boomers = 55-74, Builders = 75+.

Matthew Read
General Manager Communications
03 9708 3334 | 0432 130 338
matthew.read@mebank.com.au

Jennifer Timm
Consumer PR Manager
03 9708 4162 | 0403 369 707
jennifertimm@mebank.com.au

mebank.com.au
Members Equity Bank Ltd.
ABN 56 070887 679 AFSL and
Australian Credit License 229500