



Embargoed to 12:01am, Tuesday 17th August 2021

Household financial comfort buoyed to another record high, as nation weathers COVID lockdowns – but some going backwards.

Despite the fact snap COVID-19 lockdowns have remained a regular national fixture, the financial comfort of the average Australian household has continued to climb to an all-time peak. Spending cutbacks, rising residential property and investment markets, an improved labour market and greater household financial resilience built as a result of the pandemic, have all contributed.

These are the key findings from the 20th edition of *ME's Household Financial Comfort Report*, a bi-annual survey which quantifies how comfortable Australian households feel about their financial situation.

ME's 20th Report shows Australian household financial comfort, on average, increased a further 3% to an index of 6.04 out of 10 during the past six months to June 2021. This is 8% higher than December 2019, before the onset of the pandemic, and 5% higher than the same time last year.

Almost all 11 measures underlying the *Household Financial Comfort Index* continued to improve and reach record levels during the first half of 2021. Notably, comfort with net wealth (up 5% to 6.21), comfort with cash savings (up 1% to 5.83), comfort with investments (up 3% to 5.67 – approximately 14% above its historical average) and comfort with expected retirement (up 8% to 5.82).

ME's Consulting Economist, Jeff Oughton, said: "Despite the phasing out of most government COVID-19 financial assistance during the first half of the year, several factors have bolstered households' sense of wealth and comfort with their finances. These include rising investments such as the property market, slightly higher average incomes in a rebounding job market and more conservative spending and savings behaviour. For most households, their comfort has even bounced significantly higher than pre-pandemic levels.

"Of course, there are still sections of the population, for example single parents, insecure workers including casual and gig economy workers, the unemployed, and self-employed Australians, who aren't feeling as financially comfortable. These groups are highly susceptible to changes in Government support and ongoing turbulence during Australia's economic recovery," said Mr Oughton.

Comfort with cash savings at all-time high, but nearly a quarter of households can only maintain their lifestyle for up to a month if they lost their income

During the six months to June 2021, comfort with cash savings peaked to a new record, rising 1% to 5.83 – noticeably above the Report's historical average and pre-pandemic levels (up 15%).

Furthermore, households maintained high precautionary saving behaviours with 'savers' saving more and 'over-spenders' spending a lot less during the past six months. In fact, changes to expenditure and/or spending habits was the main reason given by households for their improved financial situations over the past six months.

The proportion of households saving improved 1 percentage point to 58% and the amount typically saved rose to \$960 per month – both new record highs. In contrast, 34% of households spent all of their income, but did not overspend, and 8% overspent with the amount overspent falling to \$483 in June – the lowest amount reported since December 2018. This is a marked change from the historical average of about 50% saving, 40% breaking even and 10% overspending since the survey began 10 years ago.

Comfort with the ability to cope with a financial emergency also improved 1% to 5.69 – a record high and 18% above pre-pandemic levels.

However, despite these new records, 21% of Australian households reported less than \$1,000 in cash savings – down 6 percentage points than prior to the pandemic. Additionally, 24% of households reported that if they lost their income, they'd only be able to maintain their current lifestyle for one month, and 11% for only two weeks – or the equivalent of a short COVID lockdown.

“Despite more households saving and an overall greater comfort with cash savings, there’s still a significant proportion of Australians that remain highly vulnerable to a loss of income,” said Oughton.

“With pandemic lockdowns continuing to occur across Australia, households with low cash savings are at significant risk, especially in instances of extended strict lockdowns like we’re currently seeing in New South Wales, Queensland and Victoria.”

Labour market conditions continued to improve, but are still difficult for a lot of employees

According to ME’s Report, those Australians that think ‘it would be easy to find another job within two months’ improved by 5 percentage points to 41% (returning to its historical average). Furthermore, job security improved – up 3 percentage points to a record high of almost 75% of workers since end 2020.

Underemployment also eased substantially during the past six months; however, 40% of casual workers (a cohort highly impacted by COVID lockdowns), indicated they’d prefer to work an additional 13 hours per week on average.

“Employment arrangements and job security remain of critical importance to the overall financial comfort of Australian households and longer-term economic recovery. In fact, labour market conditions are a key reason that overall financial comfort has increased over the past six months, but paradoxically they’re also one of the leading drivers among households who said their financial situation has worsened,” said Oughton.

Key winners and losers from ME’s 20th Household Financial Comfort Report:

Winners

- **Young singles/couples with no children and retirees** recorded the highest levels of comfort out of all life stages – up 15% to 6.52 and 12% to 6.83, respectively, since December 2020.
- **Most states and territories** reported new records, with the highest levels recorded in NSW (6.13) and Victoria (6.10). Across major cities, financial comfort is also substantially higher in Sydney (6.34), Melbourne (6.28), compared with Adelaide (6.09), Perth (6.07) and Brisbane (5.91).
- **Younger adults (18-29) and older adults (over 60)** recorded the highest financial comfort levels across age groups at 6.38 and 6.59, respectively.

Losers

- **Single parents dependent on government assistance** recorded a fall in financial comfort, down 13% to 3.06 – a return to pre-pandemic levels, following the temporary introduction of ‘free’ childcare during 2020.
- **Self-employed workers** reported a significant fall in overall comfort, down 6% over the past six months to 5.83. This group recorded falls across most drivers, especially comfort with their net wealth and debt.
- **Casual workers and to a greater extent unemployed Australians** continue to have relatively low levels of financial comfort at indexes of 5.54 and 5.32, respectively.
- **Gen X (41-56)** has seen a fall in financial comfort by 1% to 5.55, continuing to have below average levels of comfort across age groups.

The full copy of ME’s 20th Household Financial Comfort Report can be found at www.mebank.com.au/hfcr.

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Editor notes: The *ME Household Financial Comfort Report* provides in-depth insights into the financial situation of Australians based on a survey of 1,500 households. The survey is designed, developed and produced biannually by ME with assistance from DBM Consultants and Economics & Beyond. This edition presents the findings of the 20th survey conducted in June, published in August 2021.

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