

ING  **DIRECT**

**ING DIRECT
FINANCIAL WELLBEING INDEX
Q2 2013**

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Spend your life well



Households battle rising living costs

Despite record low interest rates, 83% of households are battling rising living costs.

The ING DIRECT Household Financial Wellbeing Index for the second quarter (Q2) of 2013 confirms what 83% of Australian households already know – the rising cost of living is putting budgets under pressure.

The Index surveys have been conducted each quarter since 2010, allowing an in-depth picture to be developed of household financial health. Over a period that now spans close to four years, we have been able to observe how households cope with shifts in the economy. Right now, one of the key challenges facing Australians is the pressure of soaring living expenses.

When 83% of the nation's households tell us living costs have climbed over the last 12 months – by an average of \$43 each week, there's bound to be some fallout on financial wellbeing. And that's exactly what we found.

The Index reading stands at 107.8 for Q2 2013, down from 108.2 in Q1. With the exception of Western Australia, financial wellbeing declined in every mainland state.

This national decline comes at a time when the official cash rate is at an historic low. Highlighting the complex issues facing households, comfort level with mortgages rose in Q2, and long term debt continues to be the aspect of household finances that Australians are most at ease with.

On the flipside, household confidence in the ability to manage regular bills deteriorated over the quarter.

The vast majority of Australians (83%) who say living costs have risen in the last year are taking proactive steps to stretch their money further. Chief among these is shopping for bargains (60%), shopping less and making do with what we have (53%), and shopping more carefully in the supermarket (49%).

Highlighting the determination of households to get their finances under control, many Australians now see saving as the most enjoyable way to 'spend' their money. One in four (26%) get more pleasure from saving than treating themselves to a special purchase (21%). And 17% would rather pay off debt than buy gifts for friends or family (10%).

As always, the findings of our latest Household Financial Wellbeing Index are thought provoking, and, as we head into the second half of 2013 with a federal election looming, it will be interesting to see if households continue to build a war chest for the future as they simultaneously tackle rising bills.

Vaughn Richtor
CEO, ING DIRECT Australia

Financial wellbeing dips while confidence rises as households grow savings

Index drops in Q2 2013 losing ground gained in Q1.

The ING DIRECT Financial Wellbeing Index fell to 107.8 in Q2 2013, down from 108.2 in Q1, and almost back to the Q4 2012 level of 107.4.

Highlighting households' ongoing preference for deleveraging, comfort levels with long term debt (mortgages) rose from a score of 5.67 (out of a possible 7) in Q1 to 5.73 in Q2. Comfort with short term debt (credit cards) also improved, up from 5.2 in Q1 to 5.24 in Q2. Households are more comfortable with debt than any other aspect of financial wellbeing. Comfort levels with saving rose marginally from 3.5 in Q1 to 3.56 in Q2 however comfort with ability to pay regular bills fell from 4.0 in Q1 to 3.93 in Q2.

The overall comfort reading across all six key indicators nationally is 4.31 in Q2, down slightly from 4.33 in Q1.

Credit card/short term debt

Households appear to be forging ahead in their management of credit card debt. Nationally, the average number of cards per household has dropped from 1.8 in Q1 to 1.7 in Q2. Victoria has the highest number of cards per household averaging 1.9 compared to 1.4 in South Australia. Reflecting this trend, the majority of households are comfortable with card debt - only 12% report feeling uncomfortable with their short term debt.

Mortgage/long term debt

Comfort with home loans continues to enjoy the highest reading across all six financial indicators with a Q2 2013 score of 5.73 – a slight improvement on the Q1 reading of 5.67 and a further advance on the Q4 2012 score of 5.64. Nationally, 43% of households with a mortgage are ahead with their loan.

Household income

Confidence with income has declined slightly over the quarter with a comfort reading of 3.89 compared to 3.9 in Q1. One in five households (20%) are uncomfortable with income levels – up from 17% in Q1.

Ability to pay regular bills

Household comfort with ability to pay regular bills has declined from a comfort reading of 4.0 in Q1 to 3.93 in Q2. The proportion of households who report being uncomfortable with their ability to meet regular bills has risen from 17% in Q1 to 20% in Q2.

Personal savings

Over one in four households (29%) report being uncomfortable with personal savings, however the comfort reading has risen from 3.5 in Q1 to 3.56 in Q2.

Investments/long term assets

Long term assets continue to be a weak spot in household financial wellbeing. One in three (32%) households are uncomfortable with their long term investments and the reading dropped from 3.5 in Q1 to 3.48 in Q2.

The ING DIRECT Household Financial Wellbeing Index

Measuring the pulse of the nation's financial health.

The ING Direct Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing (as noted below).

Our respondents rated their personal comfort level for each of these aspects on a scale from 1 ('very uncomfortable') to 7 ('very comfortable'). The average of these scores is indexed to the scale midpoint, so that a score of 4 has an Index value of 100. By comparing the Index scores between quarters we can see how household financial wellbeing is changing over both short and longer timeframes.

Events that helped shape sentiment

In May 2013, the Reserve Bank of Australia cut the official cash rate from 3.0% to a record low of 2.75%.

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2010	2010	2010	2010	2011	2011	2011	2011
	Index	Index	Index	Index	Index	Index	Index	Index
Overall	107.5	109	107.2	106.5	104.8	105.8	105.9	105.6
Short term debt (credit cards)	126	129	127	126	127	126	130	130
Long term debt (mortgages)	139	142	137	136	136	138	137	139
Household income	99	102	101	100	97	99	100	98
Short term credit (savings)	88	87	86	88	83	86	84	84
Long term assets (investments)	91	93	92	91	88	88	88	86
Household bills	102	102	100	100	98	97	96	97

	Q1	Q2	Q3	Q4	Q1	Q2
	2012	2012	2012	2012	2013	2013
	Index	Index	Index	Index	Index	Index
Overall	106	105.6	109	107.5	108.2	107.8
Short term debt (credit cards)	129	126	130	127	130	131
Long term debt (mortgages)	140	139	141	141	143	143
Household income	100	97	102	99	100	97
Short term credit (savings)	86	85	91	89	89	89
Long term assets (investments)	88	90	89	90	88	87
Household bills	98	96	102	99	101	98

Households forced to find an extra \$43 each week

Eight out of ten Australians say living costs have risen in the last 12 months, with half of those describing the rise as “significant”

The ING DIRECT Financial Wellbeing Index confirms Australian households are struggling to maintain their financial wellbeing with 83% saying living costs have risen over the past year. Nine out of ten (91%) blame the burden on utility bills, followed by groceries (77%) and fuel (74%).

Key findings

- 83% of households nationally say living costs have increased in the past 12 months – rising to 86% of Gen X households (aged 35-49), those most likely to have families.
- Higher living costs are consuming, on average, an extra \$43 from weekly budgets.
- Household necessities seen as being ‘unreasonably expensive’ include:
 - Utilities (91%)
 - Groceries (77%)
 - Petrol (74%)
 - Public transport (24%)
 - Clothing (21%)
- School/day care costs (13% - 44% among households with children under 18)
- Among the 3% of households that say living costs have fallen, 67% say they are shopping/spending less.

Bargain hunting, smart shopping - how we’re coping with higher living costs

Among the 83% of households who say living costs have risen in the past year, shopping around for bargains (60%) is the main strategy being used to make ends meet. Over one in two (53%) households plan to shop/spend less; 49% will change their grocery habits, and 43% are economising on meals and bought lunches.

Men are less likely than women to adjust to rising bills with 20% saying they will just accept higher costs compared to 9% of women.

How we’re handling higher living costs:

Shop around for bargains	60%
Spend less/make do with what we have	53%
Shop more carefully for groceries	49%
Economise on meals and bought lunches	43%
Save on other areas of the household budget	38%
Considering switching utility providers	18%
Change transport habits	17%
Change job or increase work hours	15%
Just accept higher costs	14%

Saving proves more enjoyable than spending.

Over one in four (26%) Australians say 'saving for a goal' is the most enjoyable way to spend money – ranking above spending on personal treats (21%) or one-off events like concerts (12%).

Saving ranks as the nation's preferred form of spending cited by 26% of households. Spending on personal treats comes in a close second (21%). Repaying debt (17%) ranks as our third favourite type of spending.

At a glance

- 26% of Australian households say saving for a goal provides the most enjoyment - rising to 33% of Victorian households, and 31% of Western Australian residents.
- Households prefer to spend on personal treats (21%) rather than buying gifts for family and friends (10%).
- Repaying debt (17%) gives us more enjoyment than spending on home improvements (12%).
- Only 2% of households say charitable giving is the most enjoyable way to spend.

One in three Gen Y prefer to save

Saving is the favourite form of 'spending' among Australians cited by 26% of households. The preference for saving rises to 32% for Gen Y households (aged 18-34), who are most likely to be saving for a first home.

For families with children it's a close call between saving (25%) and paying off debt (21%). Paying for home improvements offers the most enjoyment for 15% of families nationally, ranking above buying gifts for friends and family (12%).

Among baby boomer households (aged 50-64), 24% cite saving over personal treats (23%) as the most enjoyable way to spend.

'Spending' we enjoy most

Saving for a particular goal	26%
Special purpose for yourself (eg clothes)	21%
Repaying debt	17%
A spontaneous one-off experience (eg concert tickets, massage)	12%
Home improvements	12%
Gifts for family and friends	10%
Giving to charity	2%

Financial wellbeing around the nation

New South Wales

The Financial Wellbeing Index for NSW fell to 105.8 in Q2 2013 down from 107.0 in Q1 2013.

Household comfort levels with short term debt and savings rose in Q2 2013, and households are most comfortable with their mortgages. Confidence with ability to pay regular bills fell from a score of 4.0 in Q1 to 3.83 in Q2.

Among the 79% of NSW households who say living costs have risen in the past year, the average budget drain amounts to \$45 weekly.

Victoria

The Index for Victoria fell to 110.4 in Q2 2013 down from 111.2 in Q1 2013. Household comfort levels fell across several key indicators in Q2 including savings, short term debt and ability to pay bills. Despite a cut to the official cash rate in May, comfort levels with long term debt fell from a score of 5.9 in Q1 to 5.8 in Q2.

Eight out of ten (82%) of the state's households say living costs have risen in the past year by an average of \$44 each week, One in five Victorians (17%) will just wear the extra costs.

Queensland

Queensland's Index score fell to 105.3 in Q2 2013 down from 105.9 in Q1 2013. Household comfort levels fell across several key indicators in Q2 including ability to pay bills and household income. Comfort levels with mortgages fell from a score of 5.7 in Q1 to 5.63 in Q2. Comfort levels with short term debt (credit cards) and savings rose in Q2.

Across the state 88% of households say living costs have risen, leaving wallets lighter by an average of \$43 per week. Among these households, 16% are considering changing jobs or increasing work hours.

South Australia

The Financial Wellbeing Index for SA fell to 103.5 in Q2 2013 down from 104.2 in Q1 2013.

Household comfort levels fell across several key indicators in Q2 including, savings, ability to pay bills and household income. Comfort levels with mortgages fell from 5.7 in Q1 to 5.67 in Q2.

Among the 80% of SA households who say living costs have risen in the past year, the average weekly additional cash outflow amounts to \$43. One in five (20%) of these households is considering switching utility providers to make ends meet.

Western Australia

WA's Index score rose to 114.0 in Q2 2013 up from 111.5 in Q1. WA was the only mainland state to record a rise in the Index in Q2. Household comfort levels in WA rose across five of the six key indicators in Q2. Only comfort with ability to pay bills declined, down to 4.09 in Q2 from 4.1 in Q1. Households are most comfortable with credit cards (5.58) and mortgages (5.73).

Almost nine out of ten (87%) WA households say living costs have risen in the past year – by an average of \$39, yet 23% say they will just accept the higher cost of living compared to 14% nationally.

Financial Wellbeing – state by state snapshot

Aspect of financial wellbeing	National	NSW & ACT	Vic	Qld	SA	WA
<u>Credit card debt</u>						
Comfort level (out of 7)	5.24	5.21	5.21	5.10	5.44	5.58
Ave no of credit cards per household	1.7	1.6	1.9	1.6	1.4	1.7
<u>Long term debt incl mortgages</u>						
Comfort level	5.73	5.75	5.21	5.10	5.44	5.58
Paying extra on mortgage	43%	39%	42%	45%	46%	51%
<u>Household income</u>						
Comfort level	3.89	3.79	4.01	3.8	3.66	4.27
<u>Savings</u>						
Comfort level	3.56	3.49	3.68	3.46	3.23	3.90
Median household savings	\$15,427	\$15,907	\$24,971	\$8,043	\$7,998	\$19,442
<u>Investments</u>						
Comfort level	3.48	3.33	3.69	3.41	3.20	3.79
<u>Managing household bills</u>						
Comfort level	3.93	3.83	4.10	3.88	3.64	4.09
<u>Overall comfort level</u>						
- across all measures	4.31	4.23	4.42	4.21	4.14	4.56
Index score	107.8	105.8	110.4	105.3	103.5	114.0

