

ING  DIRECT

ING DIRECT

FINANCIAL WELLBEING INDEX

Q3 2012

ING  DIRECT

Spend your life well



Financial wellbeing climbs to 2-year high

Comfort with savings, income and ability to pay bills rises significantly.

The ING DIRECT Household Financial Wellbeing Index continues to provide unparalleled insights into the financial health of Australian households. Once again in the third quarter (Q3) of 2012, our research reveals the steps the nation's households are taking to navigate new and sometimes challenging developments in the economy.

Despite well-publicised rises in living costs, the introduction of carbon pricing and the means testing of the health insurance rebate for high income households, financial wellbeing climbed substantially in Q3 - reaching an Index score of 109.0 up from 105.6 in Q2.

This is the highest Index reading since Q2 2010, and much of the increase in financial wellbeing can be attributed to ongoing efforts by Australian households to reduce debt and increase personal savings. As a guide, almost one in two (47%) households with a mortgage are ahead with their loan repayments and 63% of credit card holders are paying their card balance off in full each month.

A further insight reveals that Australians are potentially more mobile than commonly thought. This quarter, one in three (31%) households told us they would be prepared to relocate interstate to get ahead financially.

The key driver for relocating is the prospect of earning a higher salary - nominated by 32% of those who'd consider a move. The chance to enjoy a better work/life balance ran a close second though securing 30% of the vote.

Queenslanders can take heart in the knowledge that across the nation, the sunshine state was nominated by 46% of those who'd consider a move as their preferred destination.

With all the signs pointing to a rise in household financial confidence, it appears many households have the money management strategies, of paying down debt and saving more, in place to build financial security.

The missing ingredient now is better performing long term investments including superannuation.

Vaughn Richter
CEO, ING DIRECT Australia

Financial confidence returns to Australian households

Index at highest point since Q2 2010.

The ING DIRECT Financial Wellbeing Index shows Australians are more confident in their household finances today than at any other time since Q2 2010. The Index rose to 109 in Q3 2012, up from 105.6 in Q2 2012, and on par with the highest ever Index score recorded in Q2 20120.

Australian households are continuing to adopt cautious money management with a focus on reducing household debt. Importantly, comfort with household savings – a consistent weak spot in household finances, has risen to its highest level since Q1 2010.

At a glance:

- Households are more comfortable with their mortgage than any other aspect of personal finances. Almost one in two (47%) of those households with a home loan are ahead with their repayments.
- Comfort with credit card debt has improved as households continue to pay down balances. Median outstanding card debt has dropped to \$1,470 per household - the lowest since tracking began in Q1 2010.
- Comfort with household income is the highest since Q2 2010.
- Median household savings across the country is \$9,735
- 6% of households say income is insufficient to pay immediate bills – rising to 10% of low income households.
- Across the states, Victoria has the highest Index rating of 111.1 (up from 105.5 in Q2), with NSW having the lowest score of 107.3 (down from 108.1 in Q2).

Household confidence has risen across five out of six key financial indicators

Household confidence has increased across virtually all measures during Q3 – the only exception being long term investments.

Ability to pay regular bills

Household comfort with the ability to pay regular bills has risen from 3.84 in Q2 to 4.06 in Q3. Sixteen percent say they are uncomfortable with household bills – down from 20% in Q2, and the lowest reading since Q1 2010.

Credit card/short term debt

Australian households are focusing on paying down card debt. The average number of cards per household has dropped slightly from 1.9 cards in Q2 to 1.8 in Q3, and among households with credit cards the median outstanding balance is \$1,470 - the lowest level since tracking commenced.

Mortgage/long term debt

Australians are more comfortable with their home loan than any other aspect of financial wellbeing. Comfort levels with long term debt achieved a rating of 5.62 in Q3 and 94% of households with a mortgage say they are comfortable with their loan. Only 3% are getting behind in their mortgage compared to 5% in Q2.

Household income

Confidence with income is on the rise with 83% of households saying they are comfortable with income – up from 78% in Q2 2012. Six percent of households say their income is not enough to meet immediate bills and debts, down from 10% in Q2. The Q3 comfort rating of 3.09 for household income is the highest since Q2 2010.

Personal savings

For the first time since tracking began in 2010, confidence in personal savings is not the lowest score across the six financial dimensions. Comfort levels have risen from 3.39 in Q2 to 3.63 in Q3, and median household savings across the country are \$9,735. However 26% of households continue to say they have savings worth less than \$1,674.

Investments/long term assets

Long term investments have taken over as the weak spot of household financial wellbeing. Overall, 55% of all households have no assets or investments outside of the family home – up from 47% in Q2, and the highest since tracking commenced.

The ING DIRECT Financial Wellbeing Index

Tracking the financial health of a nation.

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

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
	Index										
Short term debt (credit cards)	126	129	127	126	127	126	130	130	129	126	130
Long term debt (mortgages)	139	142	137	136	136	138	137	139	140	139	141
Household income	99	102	101	100	97	99	100	98	100	97	102
Short Term credit (savings)	88	87	86	88	83	86	84	84	86	85	91
Long term assets (investments)	91	93	92	91	88	88	88	86	88	90	89
Household bills	102	102	100	100	98	97	96	97	98	96	102
Overall	107.5	109	107.2	106.5	104.8	105.8	105.9	105.6	106	105.6	109

Events that helped shape sentiment

In the third quarter of 2012:

The Reserve Bank of Australia (RBA) held the wholesale overnight lending rate steady at 3.5% in July, August and September 2012.

1 July saw the introduction of means testing of the health insurance rebate for high income households.

Additional income tax benefits become available for low income earners from 1 July. From 1 July the tax free threshold increased to \$18,200 pa

One in three prepared to move to save money

31% of Australians would move for financial benefit

The ING DIRECT Financial Wellbeing Index reveals 31% of Australians would pull up stumps and move interstate if it meant being better off financially. Among those who would consider relocating, Queensland is the preferred destination nominated by 46% of those who'd consider relocating. The Top End is the least attractive destination, attracting just 16% of the vote.

A higher salary is the key driver to relocate nominated by 32% of would-be movers, however a better work/life balance runs a close second, nominated by 30% of those likely to relocate.

Men (34%) are more willing to move for a financial benefit than women (28%) however it is younger Australians who are most likely to relocate to get ahead financially. One in four (42%) Gen Y households (aged 18-34) would move for financial gain compared to 22% of baby boomers (aged 50-64) and 32% of Gen X households (aged 35-49).

Only 22% of low income earners (less than \$40,000pa) would relocate for a financial benefit compared to 34% of high income earners (\$100,000+pa).

Key drivers for relocating

Among those who would consider a move, key drivers are:

- 32% The chance to earn a higher salary
- 30% Improved work/life balance
- 19% Lower cost of living
- 10% Reduced home loan repayments as a result of lower property prices
- 9% Better job opportunities

Preferred destination among households that would move interstate for financial benefit

Qld	NSW	ACT	VIC	SA	WA	NT	TAS
46%	40%	20%	40%	30%	31%	16%	22%

**Percentages do not total 100 as respondents nominated more than one preferred destination.*

Queensland – the preferred destination for 46%

Across households that would consider relocating interstate, Queensland (46%) is the most popular destination followed by NSW (40%) and Victoria (40%). The Northern Territory (16%) and the ACT (20%) are the least preferred destinations.

Who wants to move where?

Ideal interstate destinations differ according to home states. Among households that would consider an interstate move to be better off financially:

- 56% of NSW residents nominate Qld as their preferred destination
- 55% of Victorians would move to Queensland
- 62% of Queenslanders would relocate to NSW
- 41% of South Australian households would move to Qld
- 47% of WA households would move to Victoria.

Financial wellbeing around the nation

New South Wales

Financial wellbeing declined in NSW during Q3 – the Index dropping to 107.3 down from 108.1 in Q2.

Comfort levels across several key indicators rose during the quarter – notably household income (4.08 versus 4.02 in Q2), comfort with the mortgage (5.63 versus 5.58) and household savings (3.64 up from 3.47 in Q2). However confidence declined for household savings (3.64 compared to 3.47 Q2) and long term investments (3.43 versus 3.68). However confidence declined for long term investments (3.43 versus 3.68).

Victoria

The Household Financial Wellbeing Index for Victoria rose to 111.1 in Q3, the highest reading across all states, and an increase on the Q2 Index score of 105.5. Comfort levels rose across five out of six key indicators in Victoria in Q3, with confidence in long term debt remaining stable. Victorian households are focusing on reducing personal debt. Median credit card debt per household fell from \$1,611 in Q2 to \$1,311 in Q3. The majority of cardholders (63%) are paying their credit card off in full each month, up from 59% in Q2, and almost one in two Victorian households (48%) are ahead with their home loan.

South Australia

In South Australia, the Index rose to 107.7 in Q3, up from 104.0 in Q2. Comfort levels improved across five out of six key indicators - only comfort levels with long term investments declined in Q3 down from 3.45 in Q2 to 3.3 in Q3. Most notably, comfort levels with ability to meet household bills rose from 3.66 in Q2 to 3.98 in Q3, and SA households continue to focus on paying down personal debt. One in two (50%) households are ahead with their home loan repayments and 62% are paying off their credit card in full each month. Less than one in three (30%) households has savings below \$1,674 compared to 40% in Q2.

Western Australia

Financial wellbeing declined in WA over the quarter as the Index dropped from 108.3 in Q2 to 107.9 in Q3, placing financial wellbeing in the state below the national average of 109. Comfort levels rose across four out of six key indicators in WA though falls were recorded for long term investments - down from 3.73 in Q2 to 3.52 in Q3, and ability to manage household bills - down from 4.16 in Q2 to 4.0 in Q3.

WA households made notable improvements in Q3 in several areas of financial wellbeing. Two out of three credit card holders (66%) are paying their card debt off in full each month, up from 60% in Q2, and 20% of households have less than \$1,674 in personal savings – down from 28% in Q2. One in two households (48%) are ahead with their home loan.

Queensland

In Qld the Financial Wellbeing Index rose to 109.9 – up from 100.6 in Q2, and above the national Index of 109.0. Comfort levels rose across all six indicators in Queensland in Q3, and the state's households remain focused on reducing personal debt. One in two (50%) households are ahead with their mortgage, and 63% are paying their credit card off in full each month – up from 53% in Q2.

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)	5.02	5.03	5.32	5.23	5.45	5.06
Ave no of credit cards per household	1.8	2.0	1.8	1.8	1.5	1.8
Median card balance	\$1,470	\$1,867	\$1,311	\$1,357	\$581	\$1,230
Pay off card in full each month	63%	62%	63%	63%	62%	66%
<u>Long term debt incl mortgages</u>						
Comfort level	5.62	5.63	5.66	5.64	5.51	5.45
Paying extra on mortgage	47%	44%	48%	30%	50%	48%
Median mortgage balance	\$203,155	\$225,751	\$178,185	\$207,764	\$165,580	\$179,513
<u>Household income</u>						
Comfort level	4.09	4.08	4.09	4.07	4.07	4.17
Average income	\$80,579	\$86,194	\$82,132	\$72,534	\$66,371	\$85,299
<u>Savings</u>						
Comfort level	3.63	3.64	3.71	3.63	3.38	3.52
Household savings below \$1,674	26%	25%	27%	26%	30%	20%
<u>Investments</u>						
Comfort level	3.55	3.43	3.74	3.59	3.30	3.52
Rental property ownership	15%	15%	15%	16%	11%	15%
Share ownership	25%	25%	27%	23%	16%	27%
<u>Managing household bills</u>						
Comfort level	4.06	3.94	4.14	4.22	3.98	4.0
<u>Relocation</u>						
Would consider moving interstate to save money	31%	34%	26%	32%	35%	30%
Overall comfort level	4.36	4.29	4.44	4.4	4.31	4.31
Index score	109.0	107.3	111.1	109.9	107.7	107.9

Research methodology

The ING DIRECT Financial Wellbeing Index was compiled by Galaxy Research from the online responses of 1,024 households between 26 September and 3 October 2012 (Q3). The data was weighted by region and household size to reflect the Australian household population based on the 2006 census. The level of savings reported in the study is also calibrated to APRA national bank total deposits (households) to ensure accuracy of household savings levels.

About ING DIRECT

ING DIRECT began operating in Australia in 1999. By doing business online, over the phone and through intermediaries, ING DIRECT keeps its overheads low and passes the savings onto customers in the form of competitive rates. Today, it has grown to become Australia's fifth largest retail bank, with \$26 billion in deposits, more than \$38 billion in loans and around 1.4 million customers. Please note, ING DIRECT is never abbreviated to ING.