



ING DIRECT
FINANCIAL WELLBEING INDEX
Q4 2011

ING  **DIRECT**

It's your money



It's been tough but things are looking up.

Australians beat the doom and gloom by strengthening household finances.

If 2011 is remembered for one thing it could be the sheer volume of negative news we encountered regarding the global - and even local, economy.

However Australian households are proving their ability to override the doom and gloom and keep their focus on issues they have direct control over – notably personal savings, household debt and day to day spending.

By shoring up their financial wellbeing throughout 2011, the majority of Australians have been able to shrug off much of the economic bad news. Indeed, 65% of households say their financial position improved or at least stabilised in 2011, and higher savings and sensible budgeting are building confidence for 2012.

Even though one in three (35%) households believes the economy will worsen in 2012, 75% expect their own financial situation to improve or at least remain stable over 2012.

In this edition of the ING DIRECT Financial Wellbeing Index, we look at the steps households have taken to strengthen their financial situation - and where those who are falling behind face the greatest challenges. We also discover the key financial concerns facing the nation's households as we head into 2012.

Don Koch
CEO, ING DIRECT Australia

Index drops slightly to 105.6

Financial wellbeing stalls in Q4 2011

Following a steady rise in household financial confidence throughout most of 2011, the overall Financial Wellbeing Index for Q4 recorded a slight backwards step, with a score of 105.6, down from 105.9 in Q3. This remains above the lowest recorded level of 104.8 in Q1 2011.

Across several quarters our Index continues to confirm the ongoing trend of deleveraging among Australian households. Confidence in credit card debt remains at its highest level since the inception of the Index in 2010 and 54% of households are 'very comfortable' with their card debt.

Eliminating any doubt about our national focus on paying down debt, 17% of Australians no longer own a credit card compared to 11% in the first quarter of 2011.

Comfort with home loans is even higher. The majority of households (61%) say they are 'very comfortable' with their home loan, and 41% are ahead with their mortgage - though is down slightly from 46% in Q3.

It is the other side of the ledger, our savings and investments, that continue to be of concern to Australians, and it is an area that rates comparatively poor in terms of financial confidence. Only about one in ten say they are confident with savings (12%) and the value of their long term assets (10%).

One in four (27%) households hold less than \$50,000 worth of assets including equity in the family home (excludes superannuation savings). Over half (52%) have no investments at all outside their home and almost the same proportion (50%) have less than \$17,000 in personal savings. Among low income households, 30% have zero savings.

Household income and ability to pay regular bills are additional weak spots. About one in five Australians are uncomfortable with their income (18%) and ability to meet bills (20%) – figures that are of special concern as 31% of households in Q4 nominated rising taxes/levies and higher living costs (food, power, transport) as the key financial issues for 2012.

The ING DIRECT Financial Wellbeing Index

Insights into the financial confidence of a nation

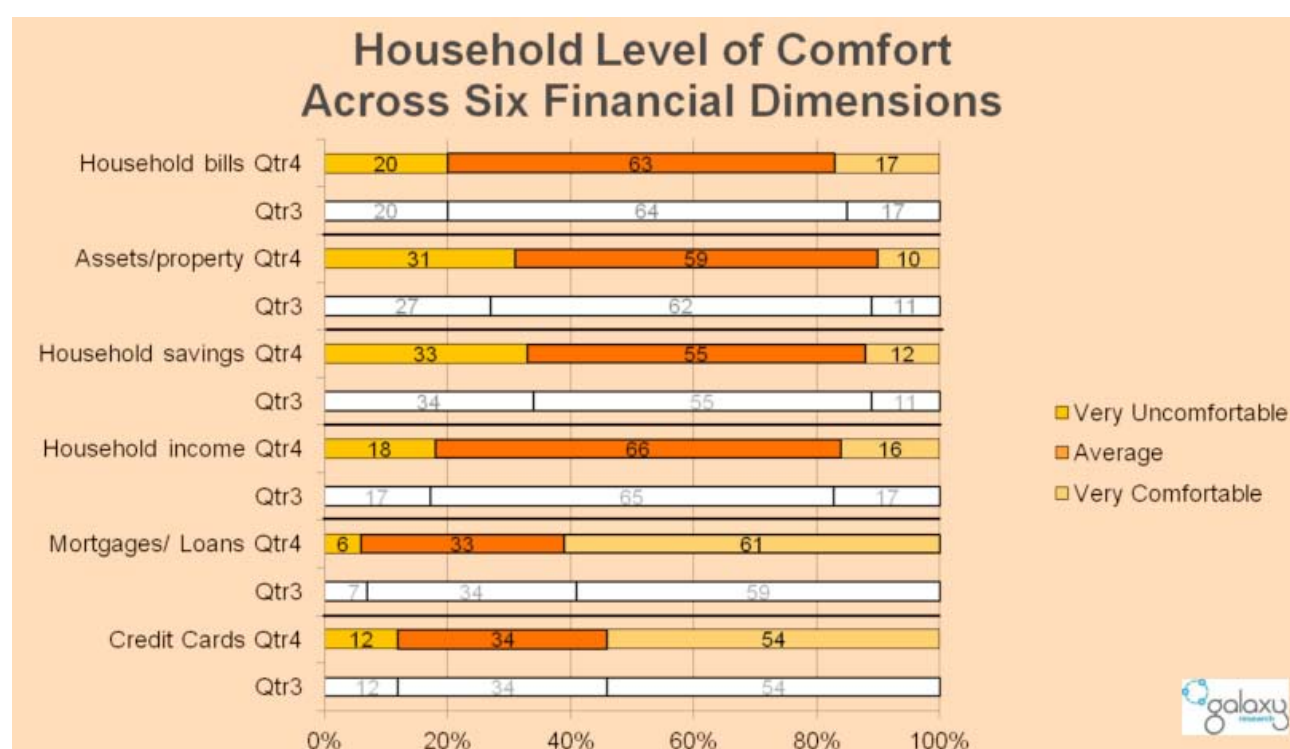
The ING Direct Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing (as noted below).

Our respondents rated their personal comfort level for each of these aspects on a scale from 1 ('very uncomfortable') to 7 ('very comfortable').

Six key focus areas	Qtr 3 2011	Qtr 4 2011
	Index	
Short term debt – in particular credit cards	130	130
Long term debt – mortgages and personal loans	137	139
Household income	100	98
Short term credit – savings and term deposits	84	84
Long term assets – net home equity and other investments	88	86
Comfort meeting household bills	96	97

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 if household financial wellbeing is improving or deteriorating.

Household comfort levels across six financial dimensions



Events that helped shape sentiment

In the fourth quarter of 2011:

- The Reserve Bank of Australia lowered the official cash rate by 0.25% in both November and December 2011.
- Europe continued to experience uncertainties over a resolution to sovereign debt problems.

Looking Back

In 2011 the majority (65%) of Australian households saw their financial position improve or hold steady. **Key steps taken to maintain financial wellbeing included:**

- 38% Building a bigger pool of savings
- 38% Reduced spending on unnecessary purchases
- 37% Securing a better paying job
- 36% Improved household budgeting
- 29% Lower home loan interest rates
- 24% Paying down most of credit card debt
- 9% Closing out credit card altogether.

Not everyone experienced an upswing

One in three (32%) households say their financial wellbeing deteriorated last year, rising to 53% among low income earners. South Australian households were the nation's hardest hit, with 44% saying their financial wellbeing declined in 2011.

These households faced a number of hurdles including:

- 71% Rising fixed costs – food, power, transport
- 39% Reduced pay
- 33% Less savings in the bank
- 24% Rising credit card debt
- 18% Investments lost money
- 15% More money spent on unnecessary purchases
- 14% Poor budgeting

Who's falling behind	NAT	NSW	VIC	QLD	SA	WA
Proportion of households who say their personal finances deteriorated in 2011	32%	21%	36%	39%	44%	35%
Proportion who expect to be worse off in 2012	22%	18%	25%	22%	27%	21%

ING DIRECT Household Financial Wellbeing Index Q4 2011

...looking ahead

Although 35% of Australians expect the economy to deteriorate in 2012, only 22% of households believe their personal financial wellbeing will decline this year. The majority (75%) expect their financial position to improve or remain unchanged.

Key concerns for 2012

Despite confidence in the ability of household finances to weather a possible economic storm, Australians anticipate a number of financial headwinds in 2012:

- 31% Rising fixed costs taxes/levies and living expenses (food, power, transport).
- 18% Cost of maintaining household lifestyle
- 17% Uncertainty over job security
- 13% Ability to fund major purchases such as a property, car, renovations, new car or holiday
- 11% Uncertainty about interest rate movements.

Financial wellbeing around the nation

NSW

NSW achieved nation's top score for financial wellbeing in Q4 2011 – achieving an Index of 109.1 (105.6 nationally).

Only 21% of NSW households saw their financial situation deteriorate in 2011 compared to 32% nationally. Among those who experienced an improvement in their personal finances last year, key drivers included increased household saving (47%), fewer unnecessary purchases (47%) and better budgeting (40%).

One in three (31%) NSW households expect the economy to deteriorate in 2012, but 78% see their personal finances improving or holding steady this year.

Victoria

Victorian households experienced a significant fall in financial wellbeing in the final quarter of 2011.

Victorians are falling behind financially. Q4 2011 saw a significant plunge in Victoria's household financial wellbeing as the state's Index score dropped to 101.4 down from 110.1 in Q3 2011. The state also recorded the nation's lowest comfort ratings across five key indicators including comfort with long term debt, savings, ability to pay bills, income and investments.

In 2011 only 27% of Victorians gained ground with their personal finances – 36% fell behind (59% of low income earners) with 77% blaming the increasing cost of household essentials.

One in four (25%) expect their personal finances to deteriorate further in 2012. Higher taxes/levies and rising living costs are the chief financial concerns for 32% of Victorians, followed by fears of job losses (20%).

Western Australia

WA households continue to gain in financial wellbeing with the state's Index score rising from 105.9 in Q3 2011 to 108.8 in Q4.

The majority (62%) of WA households say their financial wellbeing remained stable or improved in 2011 – thanks largely to building extra savings in the bank (42%) and reduced spending on unnecessary purchases (42%). One in five (21%) were able to make a lump sum payment on their home loan.

Nonetheless, 35% say their financial wellbeing fell behind last year – rising to 68% among low income households. The main reasons were rising living costs (79%) and investments that lost money (26%).

Only 34% of WA residents believe the economy will deteriorate in 2012, and even fewer – 21%, expect their personal financial wellbeing to decline (37% among low income earners).

South Australia

44% report a downturn in their personal finances compared to 32% nationally.

SA households saw a rise in financial wellbeing in the fourth quarter of 2011. The state's Index score rose from 97.4 in Q3 to 103.8 in Q4 – almost on par with the national Index score of 105.6. However 44% say they fell behind financially in 2011 compared to 32% nationally. The overwhelming driver reported by 81% of these households was rising living costs (food, power, transport) followed by lower household savings (31%) and reduced employment income (26%).

One in two (54%) SA residents say their personal financial situation picked up or at least stabilised last year as a result of reduced spending on non-essentials (44%), securing a better paying job (40%), improved household budgeting (35%) and lower home loan interest rates (27%).

One in four (27%) SA households expect the economy to worsen in 2012 with 41% saying their personal finances are also likely to slide this year compared to 35% nationally.

Queensland

Queenslanders report improved financial wellbeing as households focus on saving, cutbacks to spending and tight budgeting.

Q4 saw Queenslanders enjoy an upswing in financial wellbeing. The state's Index score rose from 97.4 in Q3 2011 to 103.8 in Q4, though below the national Index score of 105.6.

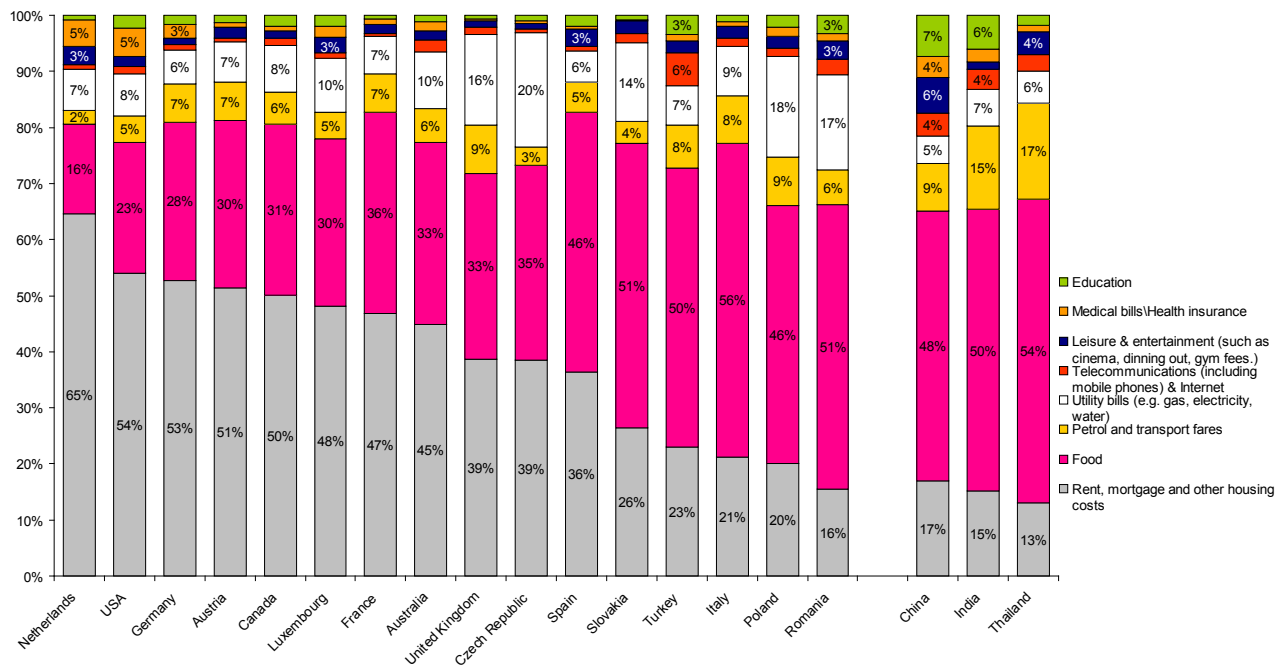
The majority (74%) of Queenslanders say their personal financial situation improved or held steady in 2011. Key drivers were reduced spending on non-essentials (42%), increased savings (36%) and better budgeting (35%).

Although 56% of Queenslanders believe the economy will deteriorate in 2012, 74% expect their own financial wellbeing to improve or hold steady. The main financial concerns for Queenslanders heading into 2012 are rising taxes/levies and higher living costs (36%) and the ability to maintain their current lifestyle (20%).

Are fears of rising living costs justified?

Although Australian households fear rises in taxes and basic living expenses like food, power and water, a global study by ING DIRECT reveals we currently spend less on these costs, as a proportion of total spending than households in many other nations.

What are your biggest personal regular monthly spending items?



Housing and food are most often considered to be consumers largest regular monthly spending items but there are some striking differences regarding the distribution of these. In the Netherlands, people spend by far the most on housing, while Italians report spending more on food. Also the Eastern European countries, China and India report spending relatively more on education. As the survey reveals, Australians lie in the middle of the spectrum though housing and food account for 88% of regular spending.

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)	5.2	5.2	5.2	5.0	5.3	5.2
Ave no of credit cards per household	1.7	1.9	1.6	1.6	1.7	1.7
Median card balance	\$1,686	\$1,699	\$1,629	\$2,077	\$1,676	\$1,431
Pay off card in full each month	58%	62%	59%	47%	55%	65%
<u>Long term debt incl mortgages</u>						
Comfort level	5.4	5.9	5.3	5.4	5.7	5.6
Paying extra on mortgage	41%	36%	41%	39%	40%	55%
Median mortgage balance	\$219,417	\$264,163	\$186,800	\$212,230	\$159,273	\$158,827
<u>Household income</u>						
Comfort level	3.9	4.0	3.83	4.0	3.8	4.0
Average income	\$79,491	\$86,663	\$78,162	\$79,004	\$63,905	\$71,039
<u>Savings</u>						
Comfort level	3.9	4.0	3.83	4.0	3.8	4.0
Household savings below \$1,674	29%	27%	31%	32%	30%	23%
<u>Investments</u>						
Comfort level	3.5	3.5	3.3	3.5	3.5	3.9
Rental property ownership	15%	18%	12%	13%	16%	16%
Share ownership	24%	25%	26%	21%	18%	20%
<u>Managing household bills</u>						
Comfort level	3.9	4.1	3.6	3.8	3.6	4.1
Overall comfort level	4.2	4.4	4.0	4.2	4.2	4.4
Index score	105.6	109.1	101.4	103.8	105.5	108.8

About ING DIRECT

ING DIRECT pioneered branchless banking in Australia by offering the first online, high interest, fee free savings account. Our low cost operating model allows us to pass these savings on to the customer in the form of great value products and services. Today, ING DIRECT has more than 1.4 million customers with \$26 billion in deposits and \$38 billion in mortgages and a range of innovative banking products.

Please note ING DIRECT is never abbreviated to ING.

Research methodology

The ING DIRECT Financial Wellbeing Index was compiled by Galaxy Research from the online responses of 1,013 households between Thursday 5 January and Tuesday 10 January 2012 (Q4). 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.

Important Information: Information is current as at 22nd Jan 2012 and is subject to change. The ING DIRECT Financial Wellbeing Index is compiled by Galaxy Research and is updated on a quarterly basis. ING DIRECT does not guarantee, and accepts no legal liability whatsoever arising from, or connected to, the use of any material contained in this Financial Wellbeing Index. ING DIRECT is a division of ING Bank (Australia) Limited ABN 24 000 893 292. ING DIRECT's colour orange is a trade mark of ING DIRECT and the ING Group of companies.