



**ING DIRECT**  
**FINANCIAL WELLBEING INDEX**  
**Q1 2011**

**ING**  **DIRECT**

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**It's your money**



## **Financial wellbeing drops as living costs outpace CPI.**

**The first quarter of 2011 saw Australian households battling escalating living costs. On average, households have seen the cost of essentials like fuel, medicine, utilities and schooling soar by 7.5% - significantly outpacing the 2.7% Consumer Price Index (CPI), (as at 18 April).**

ING DIRECT'S latest quarterly Household Financial Wellbeing Index provides a unique insight into how Australian households are faring across six key issues of personal money management.

The focus areas include short and long term debt, personal savings, investments, income and ability to meet regular bills, to create a holistic view of whether Australians are strengthening their financial wellbeing, experiencing deteriorating conditions or simply treading water.

**Don Koch**  
**CEO, ING DIRECT Australia**

## Index at its lowest level since early 2010

The euphoria of a New Year has been short-lived for many Australians. The ING DIRECT quarterly Household Financial Wellbeing Index has plunged to 104.8 – down from 106.5 in the fourth quarter of 2010 (Q4), the lowest level since the inception of the Index in March 2010.

In the first quarter of 2011 (Q1) households report sharp rises in living expenses. Prices are rising at the bowser; utility costs are soaring; medicines are more expensive, and school bills are climbing. Indeed while official estimates put inflation at 2.7%, Australians say that over the past year key living expenses have jumped by an average of 7.5% - more than double the CPI.

This issue of the ING DIRECT Financial Wellbeing Index looks at how Australians are coping with the growing crisis of soaring bills and expenses. In many cases it means dipping into precious personal savings or resorting to credit cards. But across the board there is a sense of worry that these stop gaps can only last for so long.

## The ING DIRECT Financial Wellbeing Index

### Measuring the nation's financial health

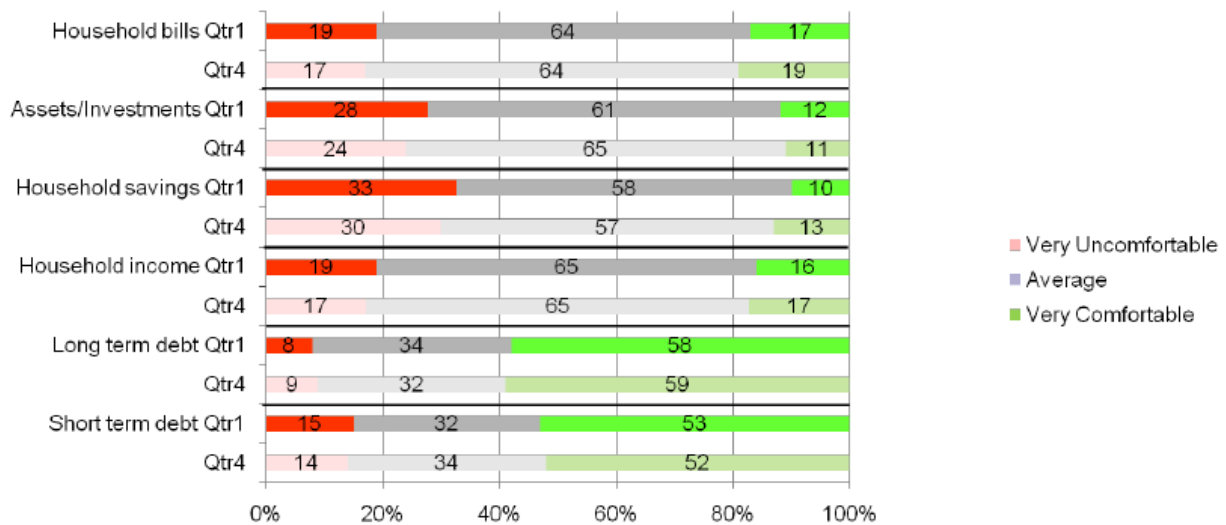
The ING Direct Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing as noted below.

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

Six key focus areas	Qtr 4 2010	Qtr 1 2011
	(Median score out of 7)	
Short term debt – in particular credit cards	5.6	5.0
Long term debt – mortgages and personal loans	6.2	5.4
Household income	4.1	3.9
Short term credit – savings and term deposits	3.6	3.3
Long term assets – net home equity and other investments	3.8	3.5
Comfort meeting household bills	3.9	3.9

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



## Key findings

Financial wellbeing in Australia is at its lowest point since early 2010. The ING Direct Financial Wellbeing Index plummeted to 104.8 in Q1 2011 down from 106.5 in Q4 2010 - its lowest level since the inception of the Index in March 2010.

### Essential spending soars 7.5%

- Australian households say that, on average, their cost of living has climbed 7.5% over the last 12 months.
- Households that are “very uncomfortable” with their household bills say that their cost of living has risen 9.1%
- Over the last six months households have experienced “significant increases” in essential goods and service including:
  - Medicine
  - Schooling
  - Utilities
  - Transport/fuel/motor vehicle costs.

### Savings and credit cards plug the gap

- In a bid to meet rising bills, credit card debt has blown out, rising from a median of \$1,775 per household in Q4 2010 to \$2,205 in Q1 2011.
- As times get tougher, savings are suffering. Median savings per household have plummeted from \$9,238 in Q4 2010 to \$7,215 in Q1 2011.
- Almost one in three households (31%) has less than \$1,674 in personal savings.
- 33% of Australians are “uncomfortable” with their level of savings.
- More than one in four households (28%) is “uncomfortable” with their level of investments.
- Close to half (48%) have no investments outside the family home.

## Events that helped shape sentiment

In the first quarter of 2011:

- Queensland is devastated first by Cyclone Anthony, then Cyclone Yasi
- Severe flooding impacts much of eastern Australia
- Bushfires destroy homes on the outskirts of Perth
- Christchurch, New Zealand is hit by 6.3 magnitude earthquake
- The northeast of Japan experiences a 9.0 earthquake and 10 metre tsunami.
- The NSW state elections deliver a landslide victory to Liberal/National coalition.

## Financial wellbeing steadily declining

There has been a gradual decline in the overall Index since the second quarter of 2010, when household financial comfort was boosted slightly by tax rebates.

The impact of these rebates has now dissipated and comfort levels - especially regarding household income, have declined below Q1 2010 levels (when measurements first commenced).

## Financial wellbeing around the nation

### NSW

More than one in four (26%) NSW households say everyday expenses have leapt by more than 10% over the last 12 months, with the greatest price hikes occurring in essential items. The state's seniors are hardest hit – 39% of 55-69 year olds say their bills have risen by more than 10%.

Reflecting the price hikes, 40% of households are uncomfortable about their ability to pay bills. Six per cent are finding it impossible to meet bills when they fall due. Only 8% report no difficulty meeting regular bills.

### VIC

Victorians are facing a serious financial challenge as household bills increase by an average of 7.4% over the last 12 months. Close to half (42%) the state's households report being uncomfortable about their ability to meet household expenses; 7% find it "impossible" to pay bills on time.

Reserve Bank figures may suggest that Australians are saving more but it doesn't appear to be happening in Victoria. Faced with soaring living costs, the state's households are dipping into their savings at an alarming rate. Median savings in Victorian households have plunged from \$8,752 in Q4 2010 to \$7,068 in Q1 2011.

## Western Australia

Western Australians may enjoy a high median income but big pay cheques are not evenly distributed across the state's workers, and this is putting plenty of households under pressure.

Among residents aged 18 to 39, average household income is \$103,457. For older workers aged 40 to 54 - those most likely to be raising families, average income falls to \$87,906. The over-55s get by on a comparatively meagre \$51,197. Among low income earners (those whose income is below \$70,000) the average income is \$35,549.

The income gap goes a long way to explaining why so many WA households are forced to dip into their savings to meet rapidly rising bills for essentials like fuel/transport, utilities and medicine and schooling. WA respondents say these costs have, on average increased by 8.2% over the last year, a far greater increase than the national average of 7.5%.

## South Australia

For many South Australians, the official inflation rate of 2.7% is well short of the mark. Almost one in five (19%) of the state's residents say the cost of living has leapt by 9% to 10% over the last year. A further 28% say basic household bills have skyrocketed by more than 10%.

Household incomes in South Australia are the lowest of any mainland state, averaging just \$68,400 compared to a national average of \$81,416. Coupled with escalating expenses, many of the state's households are facing a daily challenge to make ends meet with 44% saying they are uncomfortable about their ability to pay bills; 11% find it "impossible" to pay bills on time.

With median savings of just \$2,741 per household, significantly short of the national median of \$7,215, South Australians remain vulnerable to further hikes in living costs.

## Queensland

Having dealt with flooding and two Cyclones over recent months, Queenslanders now face what could be their biggest challenges – price hikes of around 8.3% for basic living costs.

Queensland households say that on average the price of essentials have leapt by 8.3% over the past year. It's left a massive 40% of the state's households feeling uncomfortable with their ability to manage regular bills.

Making a tough situation more difficult, the median household income across the state plunged from \$70,311 at the end of 2010 to \$67,455 in Q1 2011, possibly reflecting the impact of flood and cyclone damage across a range of industries.

## Financial Wellbeing – state by state snapshot

Aspect of financial wellbeing	National	NSW & ACT	Vic	Qld	SA	WA
<b><u>Credit card debt</u></b>						
Comfort level (out of 7)	5.0	4.9	5.2	5.1	5.3	5.1
Ave no of credit cards per household	2.0	2.3	2.0	1.9	1.6	1.8
Median card balance	\$2,205	\$2,287	\$2,130	\$2,360	\$1,513	\$2,113
Pay off card in full each month	59%	59%	61%	61%	56%	53%
<b><u>Long term debt incl mortgages</u></b>						
Comfort level	5.4	5.4	5.5	5.4	5.5	5.4
Paying extra on mortgage	46%	41%	48%	48%	47%	49%
Median mortgage balance	\$236,852	\$246,105	\$185,602	\$205,039	\$163,305	\$208,426
<b><u>Household income</u></b>						
Comfort level	3.9	3.9	3.8	3.9	3.6	4.1
Average income	\$81,416	\$90,213	\$78,336	\$74,687	\$68,400	\$84,053
<b><u>Savings</u></b>						
Comfort level	3.3	3.3	3.3	3.4	3.1	3.5
Household savings below \$1,674	31%	29%	30%	30%	41%	31%
<b><u>Investments</u></b>						
Comfort level	3.5	3.5	3.5	3.6	3.3	3.7
Rental property ownership	18%	19%	20%	19%	14%	19%
Share ownership	31%	35%	26%	35%	22%	33%
Median value of investments	\$214,396	\$188,786	\$229,078	\$246,214	\$129,714	\$235,146
<b><u>Managing household bills</u></b>						
Comfort level	3.9	4.1	3.9	3.8	3.7	4.1
% rise in living costs over last 12 months	7.5%	6.9%	7.4%	8.3%	7.5%	8.2%
<b><u>Overall comfort level</u></b>						
	4.3	4.2	4.5	4.2	4.1	4.3
<b><u>Index score</u></b>						
	104.8	104.5	104.6	105.2	102.3	107.4

## About ING DIRECT

ING DIRECT, Australia's fifth largest retail bank, 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, ING Direct has grown to become Australia's fifth largest retail bank, with around \$22 billion in deposits, more than \$36 billion in mortgages and more than 1.4 million customers.

## Research methodology

The ING DIRECT Household Financial Wellbeing Index was compiled by Galaxy Research from the online responses of 1,033 households recorded in early April 2011 (Q1 2011) and early January 2011 (Q4 2010).

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 15th April 2011 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.