



ING DIRECT

FINANCIAL WELLBEING INDEX

Q3 2011

ING  **DIRECT**

It's your money



Households gaining strength as confidence rises

28% of Australians plan to boost spending over the festive season

It's been a tough year for the nation's retailers, and as we head into the peak spending period of the year, many may be wondering just how merry Christmas 2011 will be at the check out.

While financial markets have been volatile, households have been steadily strengthening their balance sheets by paying down debt and increasing savings.

This prudent attitude shows that Australian households are well placed to withstand external economic shocks. It also means households will be in a better position to return to responsible spending habits.

The good news is that 28% of Australians are preparing to spend again over the upcoming festive season. However 37% of households want to see more money in the bank before loosening their purse strings, and a further 28% are giving debt reduction priority over Christmas spending.

These are the findings of ING DIRECT'S quarterly Household Financial Wellbeing Index – a unique perspective on the financial health of Australian households as measured by six key indicators of personal money management.

Our focus areas include short and long term debt, personal savings, investments, income and ability to meet regular bills, creating unique insights into whether Australians are forging ahead financially, holding steady or slipping behind with money matters.

Based on almost two years of data, the quarterly Index measures reveal emerging trends in the way Australian households are coping with a local, and global economic environment that is often volatile and uncertain.

Don Koch
CEO, ING DIRECT Australia

Index rises to 105.9

Slowly but surely...financial wellbeing is improving

After bottoming in Q1 of 2011, household financial confidence is steadily improving. The overall Financial Wellbeing Index for Q3 is 105.9 – up from the lowest recorded level of 104.8 in Q1 2011, and a slight uptick on the Q2 reading of 105.8.

It follows an extended period of saving and paying off debt, and household frugality is being rewarded with a greater sense of financial wellbeing.

Confidence in credit card debt has climbed from an Index of 126 in Q1 2010, to 130 in Q3 2011, and the majority (54%) of households say they are 'very comfortable' with card debt – the highest since the Index began in Q1 2010. An even higher proportion - 59%, are very comfortable with their home loan debt.

However, Australians remain least confident in personal savings – 34% say they are “very uncomfortable” with household savings, the highest proportion since tracking began in Q1 2010, showing a desire for a higher level of savings.

Confidence in ability to pay bills is also declining, reaching its lowest point since the inception of the Index. The Q3 2011 Index score of 96 marks a steady decline down from 102 in Q1 2010.

The ING DIRECT Financial Wellbeing Index

Insights into the financial confidence of a nation

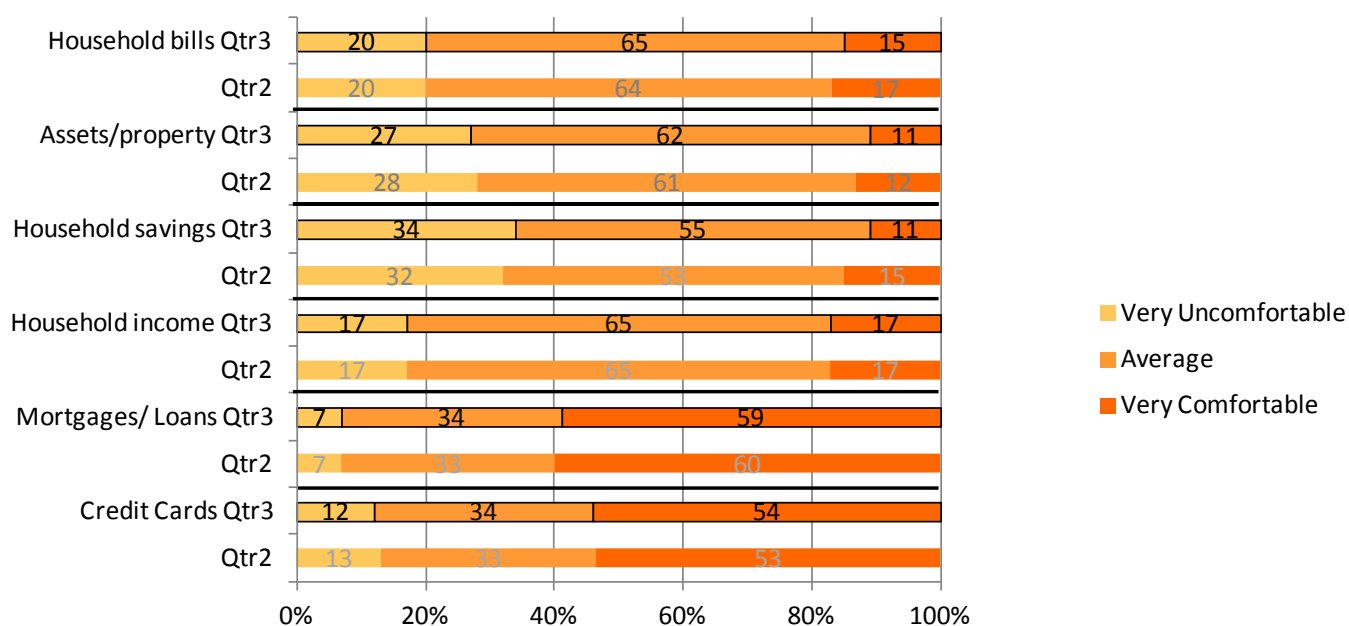
The ING DIRECT Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing (as noted below).

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 2 2011	Qtr 3 2011
	Index	
Short term debt – in particular credit cards	126	130
Long term debt – mortgages and personal loans	138	137
Household income	99	100
Short term credit – savings and term deposits	86	84
Long term assets – net home equity and other investments	88	88
Comfort meeting household bills	97	96

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



Key findings

Household financial wellbeing has risen steadily over the past six months. The Index stands at 105.9, a small but noteworthy rise on the Q2 reading of 105.8, however, results vary between states.

- Victorian households achieved the nation's highest Index score of 110.1 in Q3 compared to 105.9 nationally.
- NSW has experienced a significant uptick in financial comfort levels as the state Index rose to 108.0 in Q3, up from 104.5 in Q2.
- Queensland households saw a marked drop in financial wellbeing. The state Index stands at 97.3 – the first time a state reading has fallen below 100 since tracking began in early 2010.
- Financial wellbeing has also declined in WA. The state's Index score dropped to 105.9 in Q3 down from 107.4 in Q2.

Events that helped shape sentiment

In the second quarter of 2011:

- The Reserve Bank of Australia left the official cash rate unchanged at 4.75% for July, August and September 2011.
- August 2011 saw ratings agency Standard & Poors downgrade the credit rating of the USA.
- Late September saw a sharemarket sell off based on economic concerns of the European Community, USA and China.

When will Australians make a return to spending?

As we approach the Christmas spending period, we asked about the key drivers that would loosen household purse strings.

More than one in four (28%) households see the upcoming festive season as the main driver that will reignite spending. However Australians are still wary of over spending during the holiday period.

- 37% would prefer to build a bigger buffer of savings before spending again.
- 43% of Gen Y Australians are most likely to prioritise saving over spending.
- 28% of households want to get debt under control before increasing spending.
- One in four (27%) won't be loosening the purse strings for another 12 months at least.

In Queensland, where households are still rebuilding their lives and financial wellbeing following the earlier spate of natural disasters, only 12% expect to increase personal spending in the three months to Christmas.

A well earned holiday tops plans for future spending

When Australians do feel more comfortable to spend again, half (55%) the nation's households will take a well-deserved holiday – NSW residents (61%) are especially keen for a break.

- One in three (33%) will purchase a new car, or undertake maintenance on their current vehicle.
- 31% intend to do some renovations/home improvements, perhaps committing to larger expenses postponed in the aftermath of the global financial crisis.
- One in four (31%) will release the brakes by spending on 'better lifestyle, eating out/entertainment' (40% among Gen Y).
- One in five (22%) will spend on consumer items such as clothes/fashion.
- 23% will spend on personal electronics like an iPad, while 17% will splurge on large electronic items like big screen TVs.

Barriers to spending

Households say concerns over job security, the outlook for interest rates and uncertainty over the political environment are the main barriers to spending.

- More than one in three (36%) households are restricting spending due to job security fears.
- 33% of Australians would spend more if interest rates dropped. This rises to 60% among households with a mortgage over \$100,000.
- 30% of households are waiting for signs of economic growth/stability to start spending again.
- Almost one third (28%) blame the volatile political environment for restricted spending – a figure that rises to 34% among WA households.

Financial wellbeing around the nation

NSW

NSW households have seen a significant improvement in financial wellbeing. Median credit card debt per household has fallen from \$2,287 in Q2 to \$2,029 in Q3. Confidence in ability to pay regular bills is higher in NSW than in any other mainland state, scoring a comfort rating of 3.99 (out of a possible 7) compared to 3.84 nationally.

As a consequence, NSW households are more likely to renew spending in time for the festive season than residents of any other state, with 33% saying Christmas is the circuit breaker that will revitalise their spending.

VIC

Victorian households enjoy Australia's highest level of financial wellbeing with an Index score of 110.1 (105.9 nationally). The state's residents lead the nation for comfort levels across three leading indicators including comfort with their mortgage (5.6 out of a possible 7), household income (4.19) and personal savings (3.58).

Nonetheless, 39% of households will wait to build further savings before resuming spending. One in four (26%) Victorians plan to loosen their purse strings in time for Christmas.

Western Australia

Financial wellbeing in WA has declined in Q3, falling from 107.4 in Q2 down to 105.9. Many households plan to keep a tight rein on spending during the festive season. Only 25% see Christmas as the driver to increase spending.

Four out of ten (43%) WA households say they won't start spending again until they have built up a buffer of savings – this figure rises to 50% among Gen Y households. One in four (24%) of WA households will only resume spending once debt is under control. A fall in interest rates is the key driver that would encourage 38% of WA households to boost spending.

South Australia

South Australians have made valuable gains in financial wellbeing over Q3. The Index stands at 103.6 – up from 102.3 in Q3 though below the national figure of 105.9.

Only 26% of SA households see the upcoming festive season as the driver for increasing personal spending, with Gen Y most likely to loosen the purse strings for Christmas (32%), compared to only 22% of baby boomers. One in four (28%) households with low personal savings (less than \$1,675) will open their wallets in time for Christmas.

Fear over job security is the key factor for spending restraint cited by 34% of SA households, rising to 44% among single South Australians.

Queensland

The challenge of rebuilding disaster-ravaged households has taken a toll on the financial wellbeing of Queenslanders. The Queensland Index is 97.3 - down from 105.2 in Q2. Median household income was \$62,518 in Q3 compared to \$72,737 nationally. Median household savings are worth \$2,905, below the national figure of \$7,812. One in four (24%) households has no personal savings, and 9% say they are falling behind on their mortgage.

The deterioration in financial wellbeing sees just over one in ten (12%) of the state's households likely to increase their spending in the lead up to the festive season. One in three (30%) don't expect to loosen the purse strings in the foreseeable future.

However there are some bright spots for Queensland. Median figures for household credit card debt and home loan balances show Queenslanders are about on par with national figures.

*Percentages do not always tally 100% as more than one response was given to some questions.

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	5.4	5.0	5.4	5.0
Ave no of credit cards per household	1.8	2.1	1.7	1.7	1.6	1.8
Median card balance	\$1,635	\$2,029	\$1,286	\$1,510	\$1,526	\$1,854
Pay off card in full each month	58%	60%	61%	52%	54%	58%
<u>Long term debt incl mortgages</u>						
Comfort level	5.8	5.6	5.6	5.4	5.4	5.4
Paying extra on mortgage	43%	48%	48%	40%	32%	28%
Median mortgage balance	\$224,853	\$260,342	\$207,830	\$229,217	\$150,714	\$185,247
<u>Household income</u>						
Comfort level	3.9	4.1	4.2	3.5	3.8	4.1
Average income	\$72,373	\$77,678	\$76,117	\$62,518	\$57,832	\$78,111
<u>Savings</u>						
Comfort level	3.4	3.5	3.6	2.9	3.2	3.3
Household savings below \$1,674	29%	24%	26%	36%	37%	27%
<u>Investments</u>						
Comfort level	3.5	3.7	3.7	3.1	3.5	3.7
Rental property ownership	18%	17%	20%	17%	18%	16%
Share ownership	30%	36%	30%	21%	27%	26%
<u>Managing household bills</u>						
Comfort level	3.8	4.0	3.9	3.5	3.6	3.9
Likely to spend again over Christmas period	28%	33%	26%	12%	26%	25%
Overall comfort level	4.24	4.32	4.41	3.89	4.14	4.24
Index score	105.9	108.0	110.1	97.4	103.6	105.9

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 \$24 billion in deposits, more than \$37 billion in loans and around 1.4 million customers.

Research methodology

The ING DIRECT Financial Wellbeing Index was compiled by Galaxy Research from the online responses of 1,009 households recorded in September and early October 2011 (Q3) and June and July 2011 (Q2). 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 17th Oct 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.