

Australian Consumer Financial Wellbeing Report

Quarterly Update
March 2021



Commonwealth
Bank



A new view on Australians' financial wellbeing

The Australian Consumer Financial Wellbeing Report provides a nationally representative view of Australians' financial wellbeing, and the annual rate of change.

Based on the actual transactional and account data of over five million CommBank customers who do most, or all of their personal banking with CommBank, the report tracks financial wellbeing outcomes experienced by more than one quarter of the Australian adult population.

The report's methodology draws on the **Melbourne Institute (MI) Observed Financial Wellbeing Scale**¹, developed by the Melbourne Institute: Applied Economic & Social Research at the University of Melbourne. The scale is not simply a measure of income or wealth, but more importantly, a measure of the extent to which Australians have;

- Financial outcomes in which they meet their financial obligations;
- Financial freedom to make choices that allow them to enjoy life;
- Control of their finances; and
- Financial security – now, in the future, and under possible adverse circumstances.

It combines five major indicators of financial wellbeing to produce a single score, from zero (low) to 100 (high) calculated on 12 months of data. The following categories and data sources are included:

- Months when spending levels were high compared to income
- The ability to cover monthly expenses
- Times when the bank customer experienced payment problems
- Amount of time with low bank balances
- Savings levels compared to individuals of the same age

¹ Comerton-Forde, Carole, Edwin Ip, David C. Ribar, James Ross, Nicolas Salamanca, Sam Tsiaplias (2018) "Using Survey and Banking Data to Measure Financial Wellbeing", Commonwealth Bank of Australia and Melbourne Institute, Financial Wellbeing Scales Technical Report No. 1, March 2018
<https://melbourneinstitute.unimelb.edu.au/data-tools/tools/financial-wellbeing-scales>

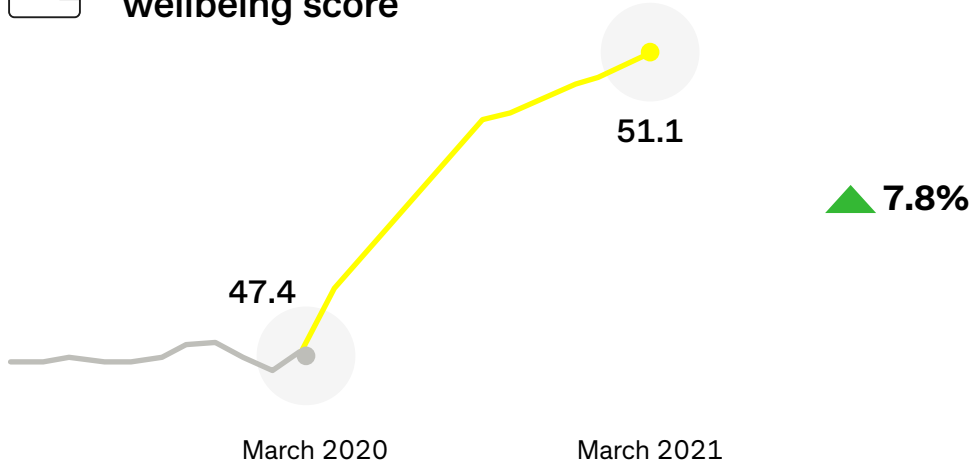


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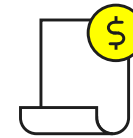
Quarterly Update – Year ending March 2021 vs year ending March 2020



Average observed financial wellbeing score

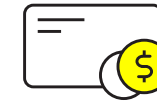


Change in the median Australian's annual finances



Inflows & income

▲ \$6,936



Outflows & expenditure

▲ \$4,611

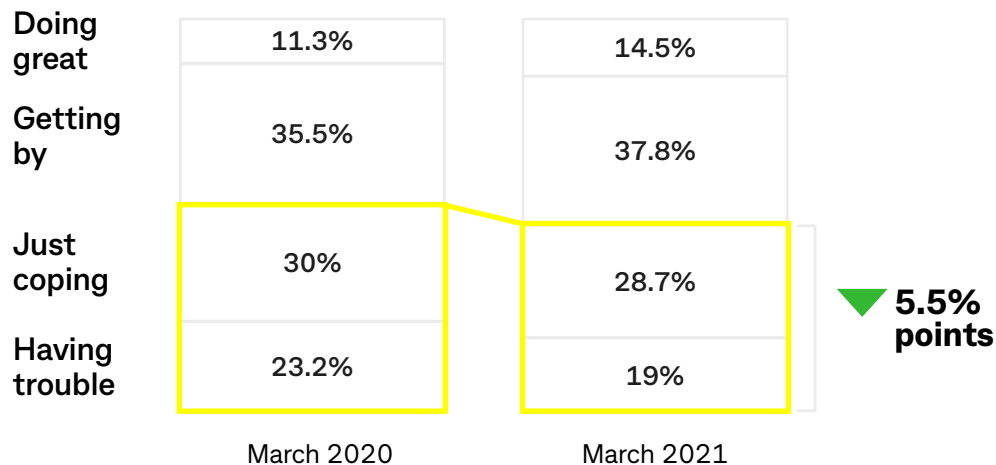


Savings balance

▲ \$1,115



Distribution of financial wellbeing outcomes

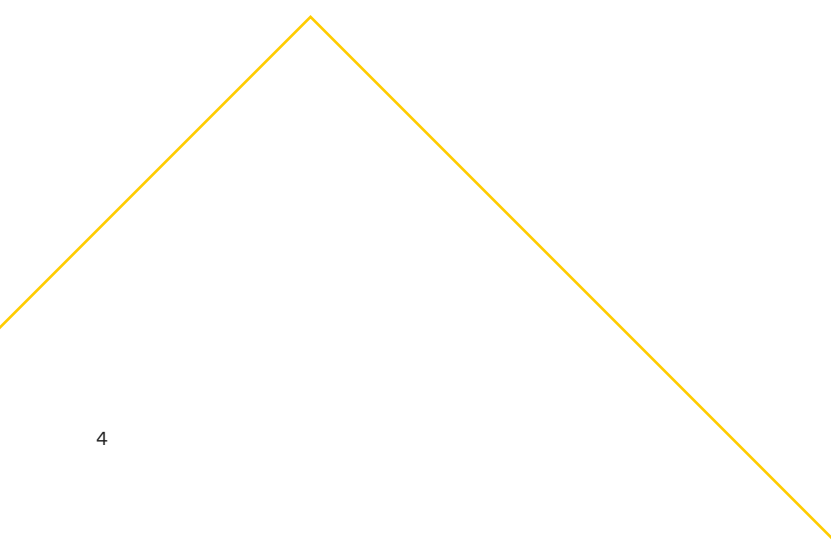


Change in Australians experiencing problematic outcomes

- ▼ 17% fewer are consistently spending at high levels
- ▼ 16% fewer are frequently living pay-check to pay-check
- 1% fewer are experiencing severe payment problems
- ▼ 10% fewer have an insufficient safety-net
- ▼ 18% fewer have well-below average savings

Executive summary

- The observed financial wellbeing of the average Australian has improved by 7.8% over the past 12 months (N = 5.87 million individuals). This is the highest absolute level and the largest year-on-year difference ever recorded since the observed financial wellbeing score was first calculated since 2017.
- The unexpected improvement in financial wellbeing since the onset of the pandemic may be supported by factors including targeted and swift Australian government fiscal policy intervention, expansionary monetary policy, widespread loan deferrals, emergency access to superannuation and changes to consumer spending patterns amid lockdowns and economic uncertainty.
- During the past 12 months the median Australian's inflows and income increased (+\$6,936) outpacing outflows and expenditure (+\$4,611). Median precautionary savings also increased (+\$1,115) over the same period.
- Encouragingly, at the population level improvements have been favourable with a 5.5 % point reduction in Australian's 'Having trouble' and 'Just coping'. This includes, 17% fewer Australians consistently spending at high levels, 16% fewer Australians living pay-check to pay-check and 10% fewer Australians with an insufficient safety-net.
- Demographically, the highest average levels of financial wellbeing are found in ACT at 53.8 and VIC at 53.7. The lowest levels are found in NT at 46.9 and QLD at 48.1. Australians aged between 30-39 (+4 points or 8.9%) and 40-49 (+4.5 points or 10%) had the greatest increases, while those aged over 80 had the smallest increase in financial wellbeing (+3 points or 6.9%).

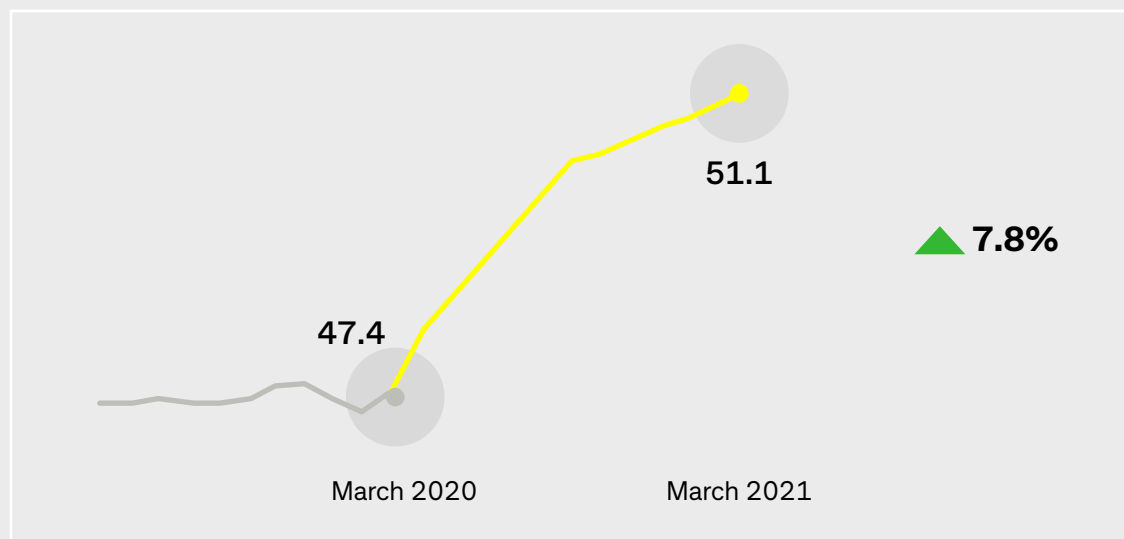




Average observed financial wellbeing score



- As at March 2021, the average observed financial wellbeing score is 51.1, up 7.8% or 3.8 points, from a score of 47.4 for March 2020. This is the largest recorded year-on-year increase since the score was first calculated in 2017.
- There has been a steady increase in the observed financial wellbeing score from March 2020 onwards, which also marked the start of the coronavirus pandemic.
- The unexpected improvement in financial wellbeing since the onset of the pandemic may be supported by factors that provide greater financial security through reducing expenses and spending, and increasing savings.
- These factors may include targeted and swift Australian government fiscal policy intervention (including the introduction of JobKeeper and JobSeeker), expansionary monetary policy through historically low interest rates, widespread loan deferrals, emergency access to superannuation, and changes to consumer spending patterns amid lockdowns and economic uncertainty.
- The latest leading economic indicators look optimistic and an economic recovery appears to be in full swing, with total employment, total hours worked and the underemployment rate almost back to pre-pandemic levels.



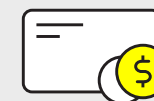


Change in median Australian's annual finances

- Our analysis reveals a \$6,936 increase in the median annual income and inflows of Australians for the 12 months to March 2021. There was a \$4,611 increase in the median annual expenditure and outflows over the same period. Separately, the median savings balance has increased by \$1,115.
- It is important to note these are independent and incomplete observations and not intended to provide a conclusive view of an individual's finances. Other factors may include savings and investments with other financial institutions, debt repayments, for example.
- Comparing income, expenditure and savings, and due to timely and generous policy interventions, incomes increased for many Australians. Meanwhile, consumption expenditures and mortgage payments decreased, allowing the difference to accrue as savings, to be used to pay down debt or invested.
- The research shows the largest movements have been in median monthly savings over the 12-month period. This suggests a precautionary savings intention, allowing Australians to add to their reserve in uncertain economic times. This reserve hit a peak in July 2020, subsequently subsiding to March 2021. This tendency towards saving appears to have run its course, given the median monthly savings balance for March 2021 and April 2020 are almost identical.
- As with many leading economic indicators, current values of median monthly balance are very close to their levels at or around the start of the pandemic.



**Inflows
& income**
▲ \$6,936



**Outflows
& expenditure**
▲ \$4,611

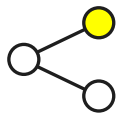


**Savings
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▲ \$1,115

Note on median calculations: For example, if we were to rank 100 individuals by their income, listing from the lowest to the highest, the median income is that income which separates the lowest 50 observations from the highest 50 and provides insight into the "representative" individual. This is preferred to the mean (or average) value, as the calculation of the mean is particularly sensitive to those with very high levels of income, whereas the median would not be.

Inflows and income include funds flowing into a customer's accounts such as payroll transactions, credits from third parties, and interest earnings. They exclude transfers between accounts owned by the same customer. Outflows and expenditure include funds out of a customer's accounts such as purchases, interest charges, transfers to third party accounts. The exclude transfers between accounts owned by the same customer. Savings balance includes all credit balances for transactions, savings, term deposits, CDIA accounts, offset accounts, and loan products with a cash balance (i.e. overpaid loan products).

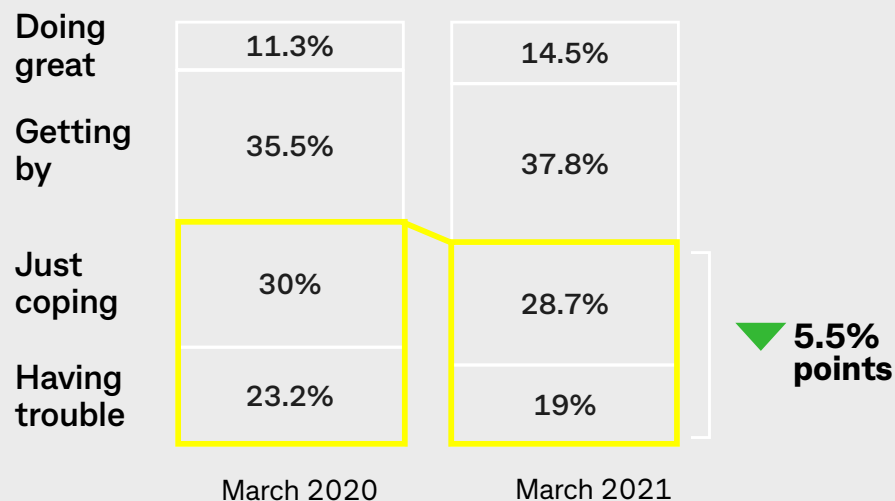




Distribution of financial wellbeing outcomes



- The distribution of financial wellbeing outcomes across the population improved for the year ending March 2021.
- Most encouragingly, the proportion of Australians in the lowest two categories – those who are experiencing the negative financial wellbeing outcomes – ‘Just coping’ and ‘Having trouble’ – decreased 5.5 % points over the past 12 months from 53.2% to 47.7%.
- Consequently, there was an increase in the proportion of Australians within the ‘Getting by’ (+2.3 % points) and ‘Doing great’ (+3.2 % points) categories.
- The JobSeeker program effectively doubled the pre-pandemic Newstart Allowance unemployment benefit. The JobKeeper program helped those otherwise at risk of losing their employment due to pandemic-related reduced consumer demand or simple inability to go to work. These benefits helped improve the economic situation of some of the most economically vulnerable.
- Those in the higher two categories benefitted from historically low interest rates and were able to reduce monthly payments on any existing mortgages and borrow more cheaply to finance additional investments. Many of those already owning real estate would have additionally benefitted from rising property prices and may have experienced windfall wealth gains, providing an additional economic buffer.



Doing great – Australians experiencing the best financial wellbeing outcomes for one or more indicators with scores greater than 80.

Getting by – Australians experiencing neutral to positive financial wellbeing outcomes on average with scores between 55 and 80.

Just coping – Australians experiencing negative financial wellbeing outcomes for one or more indicators with scores between 30 and 55.

Having trouble – Australians experiencing the worst financial wellbeing outcomes for one or more indicators with scores less than 30.



Change in Australians experiencing problematic outcomes

- There have been encouraging improvements for the year ending March 2021 in the proportion of Australians experiencing negative outcomes in each of the five indicators;
 - 17% fewer Australians are *consistently spending at high levels*, which is defined as spending over 80% of their income or inflows in 11 or 12 months last year with limited capacity for saving.
 - 16% fewer Australians are frequently *living pay-check to pay-check*, which is defined as having cash liquid balances below average weekly expenses for more than half of all days in the past year.
 - 1% fewer Australians are *experiencing severe payment problems*, which is defined as being in arrears for more than two months in the yearly period, and/or experiencing multiple payment issues, which could include declines, dishonours, over-limit fees and late fees.
 - 10% fewer Australians have an *insufficient safety-net*, which is defined as not being able to raise one-month of expenses from savings or available credit for immediate or unforeseen expenses 75% of the days in the past year.
 - 18% fewer Australians have *below average savings*, which is defined as having savings that are more than one standard deviation below the median for their age.
- These improvements may reflect the physical inability to consume outside the household during lockdown, the additional household income available due to JobKeeper and JobSeeker, in addition to reduced expenditure due to lower interest rates on mortgages and deferral of loan repayments.
- Australians particularly benefited from the historically low interest rates given the number of homeowners with a mortgage is the highest in more than 25 years while the number of outright homeowner (without a mortgage) is the lowest it has been over that same period.

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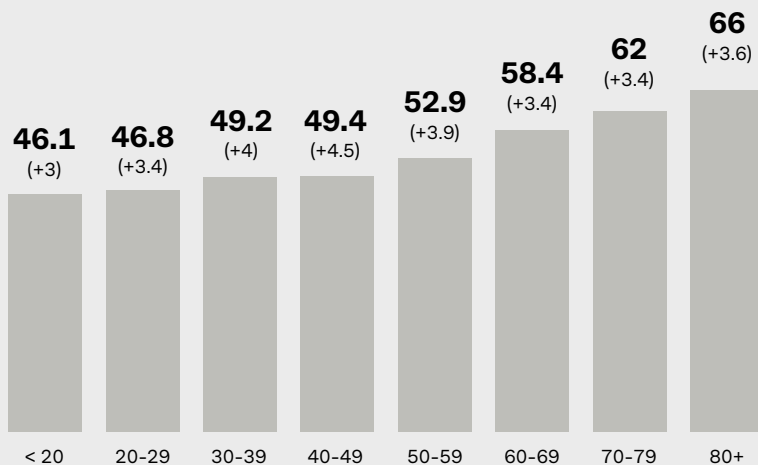
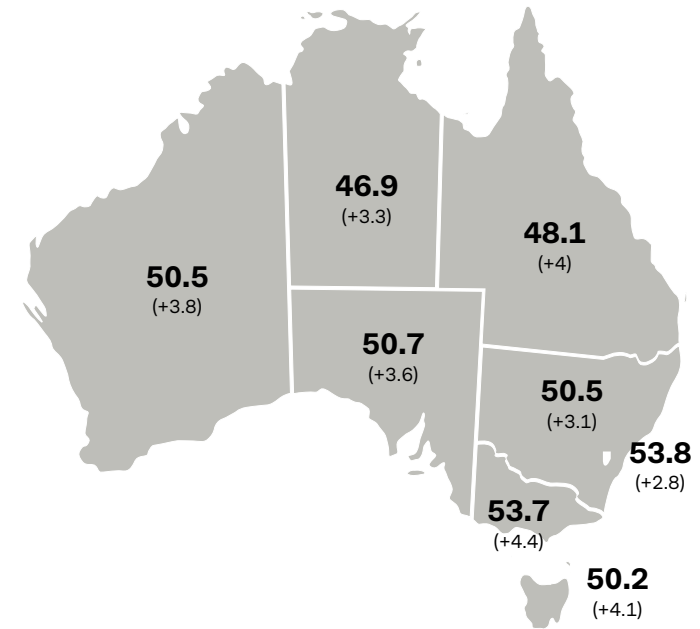


Change in financial wellbeing by age and state or territory



State or territory

- The highest average levels of financial wellbeing are found in ACT at 53.8 and VIC at 53.7. The lowest levels are found in NT at 46.9 and QLD at 48.1. States with financial wellbeing close to the national average include WA and NSW at 50.5, SA at 50.7 and TAS at 50.2.
- Financial wellbeing increased across all states or territories between March 2020 and March 2021. The greatest increases were seen in VIC (+4.4 points or 9%) TAS (+4.1 points or 9%) and QLD (+4 points or 9.1%), whilst the smallest increase was in ACT (+2.8 points or 5.5%).
- The pandemic experience for Australians was very different according to state or territory of residence. Victoria was the hardest hit with three government mandated lockdowns and approximately 70% of all Australian COVID-19 cases. However, Victoria maintained its high level of financial wellbeing, increasing more than any other state or territory between March 2020 to March 2021. Victoria offered additional support, above that offered on a national level, including \$450 COVID-19 Test Isolation Payments, a one-off \$1,500 Pandemic Leave Disaster Payment, Food relief, and a one-off Rent Relief grant of \$3,000, among others.



Age

- Financial wellbeing increased across all age bands between March 2020 and March 2021. Australians aged between 30-39 (+4 points or 8.9%) and 40-49 (+4.5 points or 10%) had the greatest increases, whilst the smallest increase in financial wellbeing was for Australians aged over 80 years (+3 points or 6.9%).
- As home ownership is positively associated with age, the benefits of lower mortgage payments due to historically low interest rates and positive wealth gains due to higher house prices were accrued especially by middle-aged Australians. Older Australians tend to own their homes outright and benefit primarily through higher wealth due to increased house prices, but less with reduced interest rates.

About the Australian Consumer Financial Wellbeing Report

Our purpose at Commonwealth Bank is to improve the financial wellbeing of our customers and communities. A vital step towards achieving our purpose was defining and measuring financial wellbeing so we can work to improve it in meaningful ways.

To do this, we worked with the Melbourne Institute: Applied Economic & Social Research to create two scales of financial wellbeing. The scales provide comprehensive yet simple measures of financial wellbeing outcomes that can be used by Australians to better understand their own financial wellbeing. The scales are also available to others, such as institutions, policy makers, academics and community organisations, to help build a body of knowledge that can be shared and replicated, both in Australia and internationally.

We will continue to refine and build on this research in the years ahead to help us pursue our purpose through practical actions that make a real difference to our customers and communities. In sharing this research, we invite others to do the same.

Ben Grauer

Executive Manager, Financial Wellbeing
Commonwealth Bank

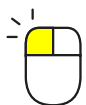
The research team at the Melbourne Institute: Applied Economic & Social Research is pleased to deliver this important report on Australians' financial wellbeing. The Melbourne Institute has been actively collaborating with the Commonwealth Bank since 2017 to develop and analyse scales of financial wellbeing.

We are proud to have developed the MI Reported and Observed Financial Wellbeing Scales. We are equally proud of the careful conceptualisation and rigorous analyses that underpin the scales. As excited as we were to create the scales, we are even more excited by this second stage in the collaboration in which we share the longitudinal results externally on regular basis. The underlying sample used in the calculations is the largest world-wide for published reports on financial wellbeing.

For almost 60 years, the Melbourne Institute has conducted path-breaking applied and engaged research on the economic lives of Australians and has pioneered the development of many widely-used measures of wellbeing. We are confident the MI Reported and Observed Financial Wellbeing Scales will take their place alongside these other measures and be valuable tools for policymakers, financial institutions, service providers, researchers, and the public for many years to come.

Professor John P. de New

Co-coordinator of the Labour Markets and Employment Research Program
Melbourne Institute: Applied Economic & Social Research, University of Melbourne



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Visit commbank.com.au/about-us/financial-wellbeing-research or melbourneinstitute.unimelb.edu.au/data-tools/tools/financial-wellbeing-scales

Or email FWB_Research@cba.com.au or Melb-Inst@unimelb.edu.au

