Australian Consumer Financial Wellbeing Report

Quarterly Update

March 2022

Commonwealth Bank

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE

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. CommBank has a broad customer base and the largest number of customers of any bank in Australia. As such, the analyses performed with the CommBank customer base's transaction record data is an unparalleled representation of Australian society in general[1].

The report's methodology draws on the **Melbourne Institute (MI) Observed Financial Wellbeing Scale**[2], 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]Commonwealth of Australia (2018) "Some Features of the Australian Banking Industry", page 17, https://web.archive.org.au/awa/20190808035003mp_/https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf

[2]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

Australian Consumer Financial Wellbeing Report

Quarterly Update – year ending March 2022 vs year ending March 2021

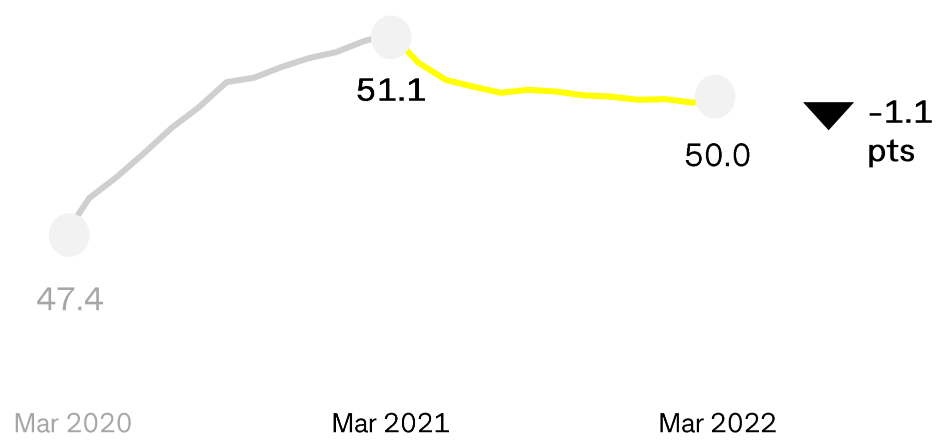
- The average observed financial wellbeing score for March 2022 is 50.0, down 1.1 pts from the peak in March 2021. However, the score remains a substantially 2.6 pts higher than two years ago at the beginning of the pandemic.

- Economic uncertainty, mildly pessimistic consumer sentiment and inflation concerns have been driving continued high levels of precautionary savings, with balances stable YoY and 46% higher than two years ago.

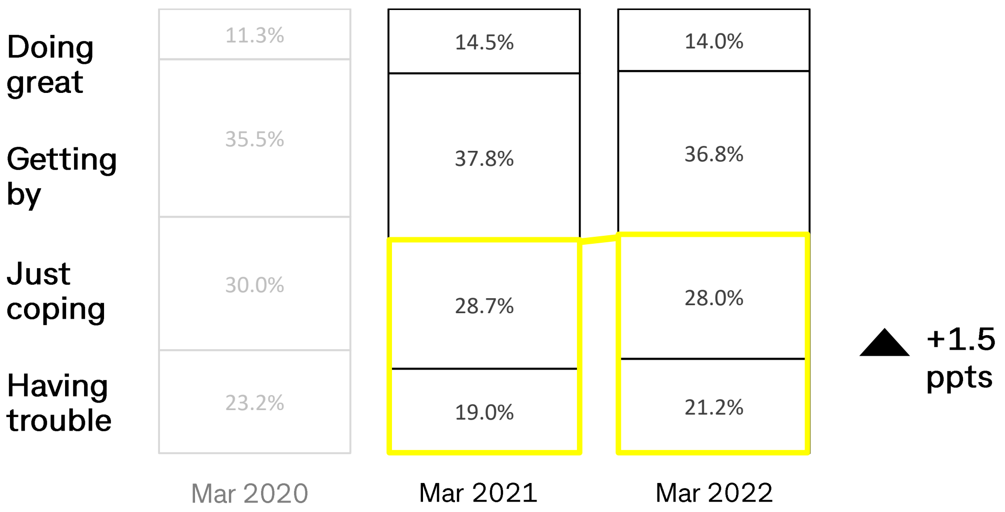
- The median annual inflows and income remained largely unchanged, but the median annual outflows and expenditure increased by $1.6k YoY, reflecting the continuing rebound in consumption in 2021.

- At the population level, there was a 6 ppt increase in the proportion of Australians consistently spending at high levels, which is driven by the YoY increase in annual outflows and expenditure. Despite the increase in outflows and expenditures, the proportion of Australians experiencing payment problems has remained stable.

Average observed financial wellbeing score

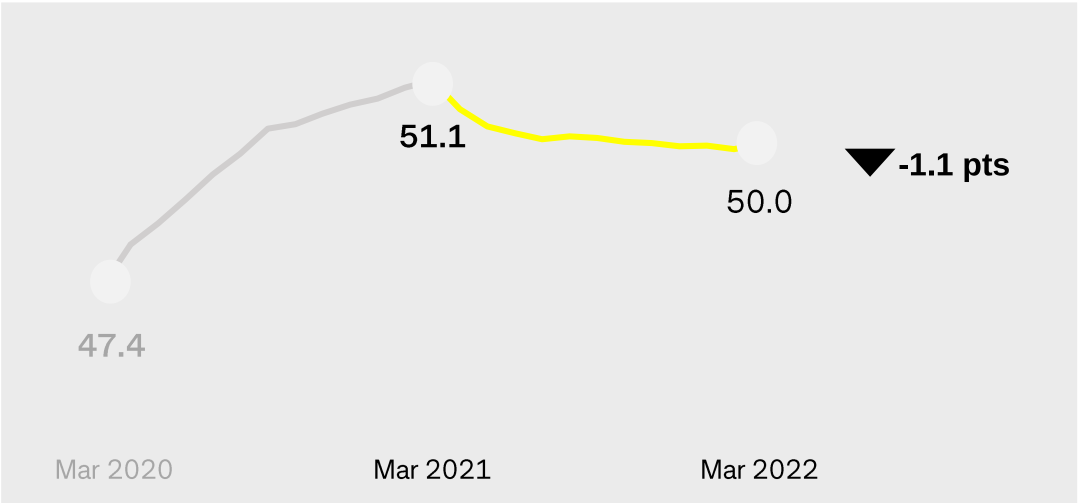


Distribution of financial wellbeing outcomes



Average observed financial wellbeing score

- As of March 2022, the average observed financial wellbeing score is 50.0, down 1.1 pts from a peak of 51.1 for March 2021.
- Despite a gradual decline over the past year, financial wellbeing is a remarkable 2.6 pts higher than two years prior at the beginning of the pandemic, largely due to voluntary (and involuntary) amassed household savings and reduced outflows and expenditure in response to the pandemic.
- Driving the overall minor reduction in financial wellbeing is a worsening of one of the five components of the financial wellbeing score; the net spend component concerning customers increasingly spending at high levels compared to their inflows.
- Despite this slight decline in financial wellbeing YoY, savings levels have improved with median savings balances 46% higher than pre-pandemic levels two years ago in March 2020. This observation is mirrored in the Australian Bureau of Statistics' (ABS) household saving ratio (Household net saving as a per cent of household net disposable income) which has remained very high since June 2020 (two to four times higher than pre-pandemic levels). The current savings rate of 13.6% is indicative of the levels for all of 2020 and 2021.



[1]RBA Statistical Tables, Demand and Income, h02hist.xls, Household Saving Ratio, GGDPICHDISR, latest data: Dec 2021

Change in median Australian's annual finances

- Our analysis reveals the median annual inflows and income remained flat YoY for March 2022, while there was a $1.6k YoY increase in the median annual outflows and expenditure, partly reflecting the lower expenditure base given the response to the pandemic in the 12 months to March 2021 (compared to the 12 months to March 2022).
    - Despite the pandemic, many Australians have experienced quite healthy monthly inflows, with this observation mirrored in the ABS real household disposable income data[1]. However recently, these inflows are clearly flattening.
    - Similarly, outflows have remained strong in the past six months (but moving downwards), which is also reflected in the ABS year-ended household consumption growth, with Q2 2021 exceptionally strong at 15% and Q4 2021 reduced to a more usual level of 3.5%[1].
    - This expenditure pattern is clearly more cautious in nature, given the reduced confidence consumers have in the economy and the current consumer sentiment index sitting at 95.8[2], a substantial 10-point drop in the past 6 months.
- Although our analysis shows median savings remains stable YoY for March 2022, median savings balances still remain quite elevated (46% higher) compared with March 2020 levels at the beginning of the pandemic.
    - The precautionary savings component of the financial wellbeing score has played an important role in keeping financial wellbeing very high during the pandemic, as savings represent a hedge against uncertainty.
    - Australians' previous cautious optimism has slid into more mildly pessimistic behaviour due to continued economic uncertainty. It is driven by concerns about inflation and the impact on weekly household spending, and also the impact on mortgage payments, with interest rates on the move, not only in the near future, but also in the medium term[3].
    - This is reflected not only in the Melbourne Institute's subjective 1-year ahead consumer inflation expectations at its highest level of 4.9%[3] since first reported in early 2017, but also in the 10-year Commonwealth government bond rate. In December 2020 the 10-year bond rate was 0.98%; in December 2021 it was at 1.61% before jumping to 3.01% in April 2022, indicating a substantially higher factoring in of future inflation risk[4].

Inflows & income

— $0k

Outflows & expenditure

▲ $1.6k

Savings balance

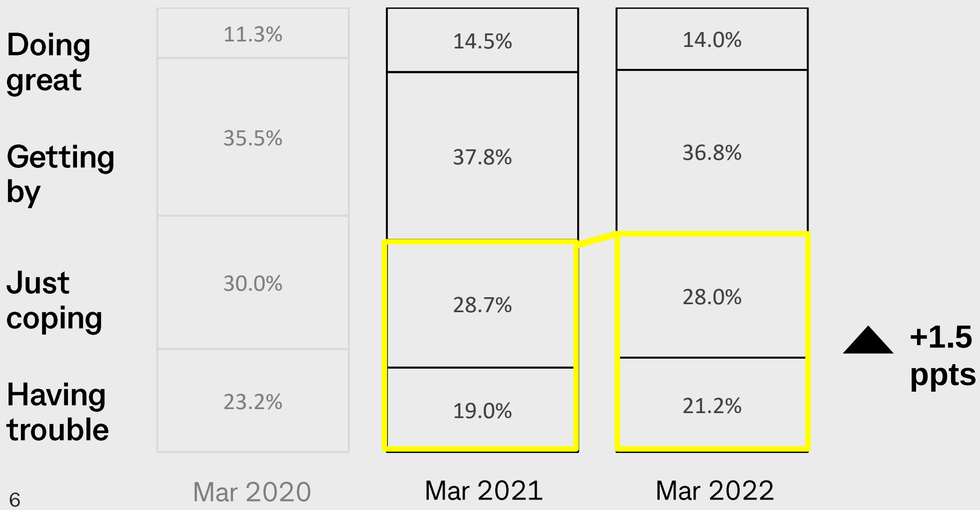
— $0k

[1]RBA Statistical Tables, Demand and Income, h02hist.xls, Household Saving Ratio, GGDPICHDISR, latest data: Dec 2021
[2]Inflation and interest rate concerns continue to weigh on sentiment, April 2022, Westpac-Melbourne Institute Consumer Confidence Index; RBA Statistical Tables, Monthly Activity Indicators, h03hist.xls, MI Consumer sentiment index, GICWMICS, latest data: Apr 2022
[3]RBA Statistical Tables, Inflation Tables, g03hist.xls, MI Consumer inflation expectations – 1-year ahead, GCONEXP, latest data: Mar 2022
[4]RBA Statistical Tables, Capital Markets, f02hist.xls, MI Commonwealth Government 10-year bond, FCMYGBAG10, latest data: Apr 2022

It is important to note the inflows and income, outflows and expenditure and savings balance measures are independent and incomplete observations and are not intended to provide a complete view of an individual's finances. Other factors may include savings and investments with other financial institutions and debt repayments for example.
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. They 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).
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.

Distribution of financial wellbeing outcomes

- Despite the proportion of Australians in the lowest two financial wellbeing categories, 'Just coping' and 'Having trouble' experiencing a slight increase of 1.5 ppts YoY, this is still a significant 4.0 ppt improvement from two years prior in March 2020.
- The proportion of Australians in the 'Doing great' and 'Getting by' categories peaked in March 2021 and has only slightly dropped over the past year.
- The proportion of those in the 'Having trouble' category dropped dramatically at the start of the pandemic in March 2020, largely due to generous JobKeeper and JobSeeker benefits. Although this proportion has slowly increased in the past 12 months, it is still at levels substantially lower than pre-pandemic, indicating that on average, the most disadvantaged Australians experienced improvements in their financial wellbeing during the pandemic. Given increased outflows and expenditure with relatively flat inflows and income, it is unsurprising to see a slight increase in the size of the 'Having trouble' category as savings balances are slowly being reduced due to higher spending.



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 the proportion of Australians experiencing problematic outcomes

- There have been a number of small changes for March 2022 YoY in the proportion of Australians experiencing problematic outcomes in each of the five indicators;
  - 6 ppts increase in the proportion of Australians who 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.
  - 2 ppts increase in the proportion of Australians who are *frequently living pay day to pay day*, which is defined as having cash liquid balances below average weekly expenses for more than half of all days in the past year.
  - No change in the proportion of Australians who 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.
  - 2 ppts increase in the proportion of Australians with 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.
  - Minor 1 ppt increase in the proportion of Australians with *below average savings*, which is defined as having savings that are more than one standard deviation below the median for their age.

▲ **6 ppts increase**
consistently spending at high levels

▲ **2 ppts increase**
frequently living pay day to pay day

▬ **Stable**
experiencing severe payment problems

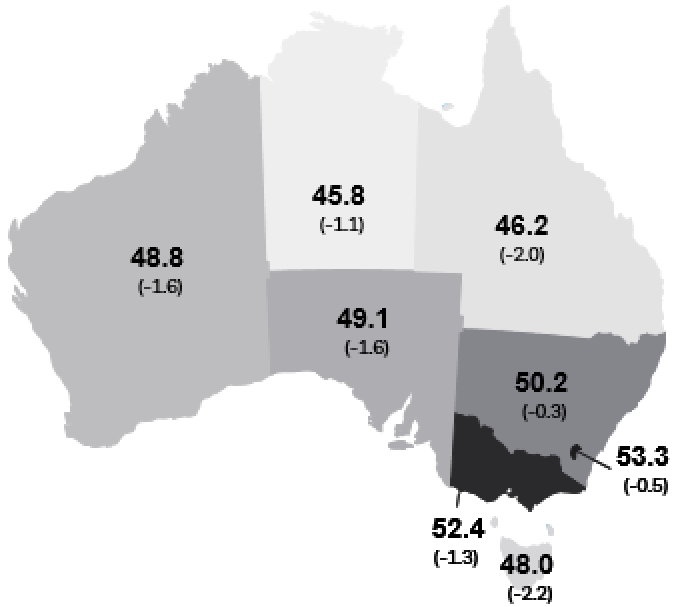
▲ **2 ppts increase**
with an insufficient safety-net

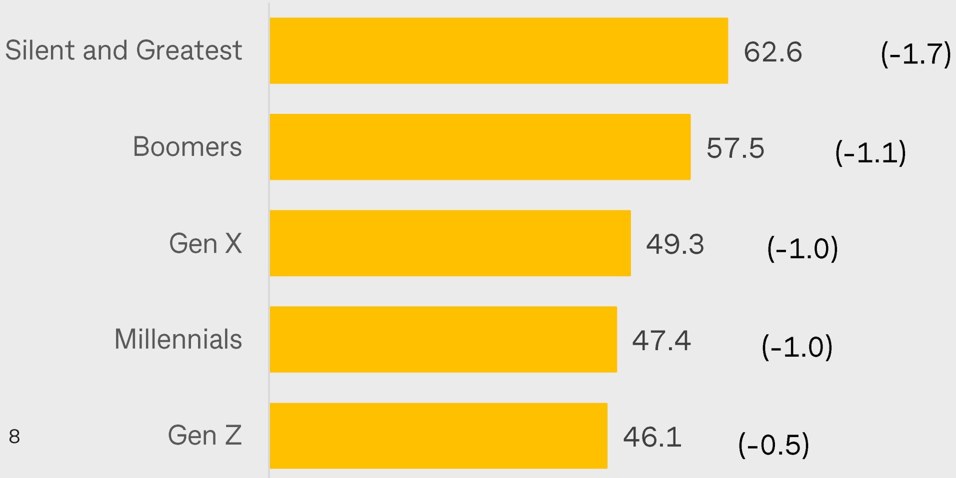
▲ **1 ppt increase**
with well-below average savings

YoY change in financial wellbeing by generation and state or territory

State or territory

- As in previous quarters, the highest average levels of financial wellbeing are found in ACT at 53.3 and VIC at 52.4. The lowest levels of financial wellbeing are found in NT at 45.8 and QLD at 46.2.
- Financial wellbeing decreased slightly in all states and territories between March 2021 and March 2022. The largest decreases were in TAS -2.2 pts and QLD -2.0 pts, while NSW recorded the smallest decrease of -0.3 pts.
- Since the overall record peak in March 2021, financial wellbeing has been slowly declining across all states and territories. However in June - July 2021, this decline was halted and reversed in NSW and ACT with financial wellbeing thereafter increasing, despite the continued decline in all other states and territories. This is likely due to sustained precautionary saving directly related to the high daily rates of COVID-19 infection during this time predominantly in NSW (and by geographical proximity, ACT).
- Much of the decline in financial wellbeing in the remaining states and territories can be attributed to increased outflows and expenditure due to previously pent-up consumer demand, although notably this development has flattened in the past quarter as consumer sentiment has worsened.





Generation

- Financial wellbeing decreased across all age bands between March 2021 and March 2022, with Australians from the Silent & Greatest generations experiencing a slightly larger -1.7 pt decrease.
- Financial wellbeing by age is remarkably stable over time. Whilst there are clear and marked differences across age groups, with older cohorts having higher levels of financial wellbeing than their younger counterparts, there is a smooth parallel development over time. The pandemic has had little impact on this whatsoever.

Note: Silent and Greatest generations - born 1945 and prior, Boomers - born 1946-1964, Generation X – born 1965-1980, Millennials – born 1981-1996 and Generation Z – born 1997-2012

About the Australian Consumer Financial Wellbeing Report

Our purpose at the Commonwealth Bank is building a brighter future for all, and an important part of this purpose is improving the financial wellbeing of customers and communities. A vital first step towards this 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 understand better 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
Head of 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 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
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Melbourne Institute: Applied Economic & Social Research, University of Melbourne

Want to find out more?

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