

Australian Consumer Financial Wellbeing Report

Quarterly Update
December 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. 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 general¹.

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

¹Commonwealth 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

²Comerton-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>

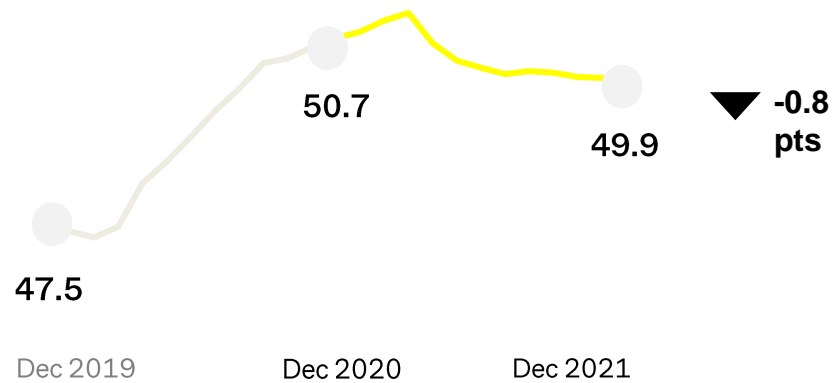


Australian Consumer Financial Wellbeing Report

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



Average observed financial wellbeing score

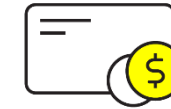


Change in the median annual finances



Inflows & income

▲ \$1.6k



Outflows & expenditure

▲ \$3.6k

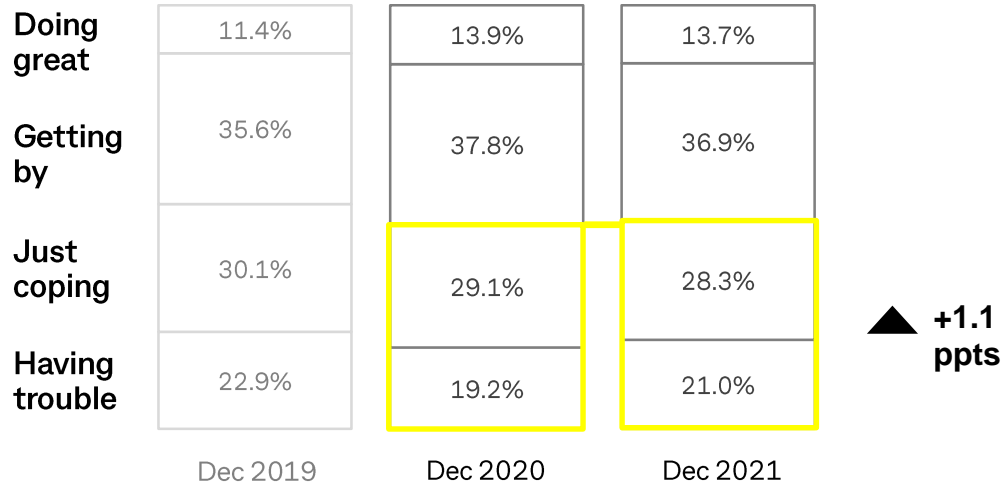


Savings balance

■ \$0k



Distribution of financial wellbeing outcomes



Change in the proportion of Australians experiencing problematic outcomes

▲ +6 pts - consistently spending at high levels

▲ +1 ppt - frequently living pay day to pay day

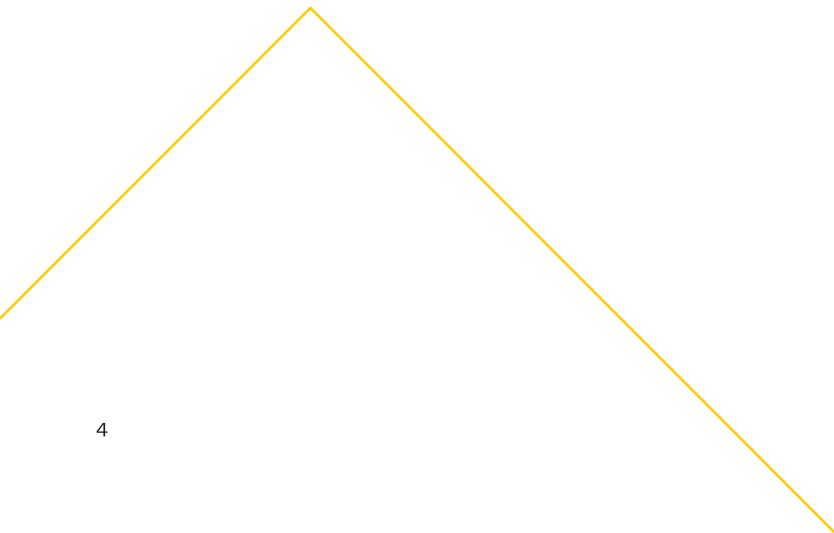
■ Stable - experiencing severe payment problems

▲ +2 pts - with an insufficient safety-net

■ Stable - with well-below average savings

Executive summary

- As of December 2021, the average observed financial wellbeing score for December 2021 is 49.9, down 0.8pts YoY (year on year). However the score remains 2.4 pts higher than two years prior, pre-pandemic.
- The median annual inflows and income increased by \$1.6k YoY. This was outpaced by a \$3.6k YoY increase in the median annual outflows and expenditure, partly reflecting the lower expenditure base given the response to the pandemic in 2020 and also the rebound in consumption in 2021.
- The median annual savings balances remained stable YoY, however savings balances are still elevated and are 42% higher than two years ago.
- 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.
- While all states and territories experienced a continued YoY decline in financial wellbeing since the national historical peak in March 2021, notably since June-July 2021 monthly financial wellbeing scores for NSW and ACT have begun to slowly increase.
- Demographically, financial wellbeing decreased YoY across all age groups between 0.6-0.8 pts, except for Australians from the Silent and Greatest generations who experienced the largest decline of 1.5 pts.

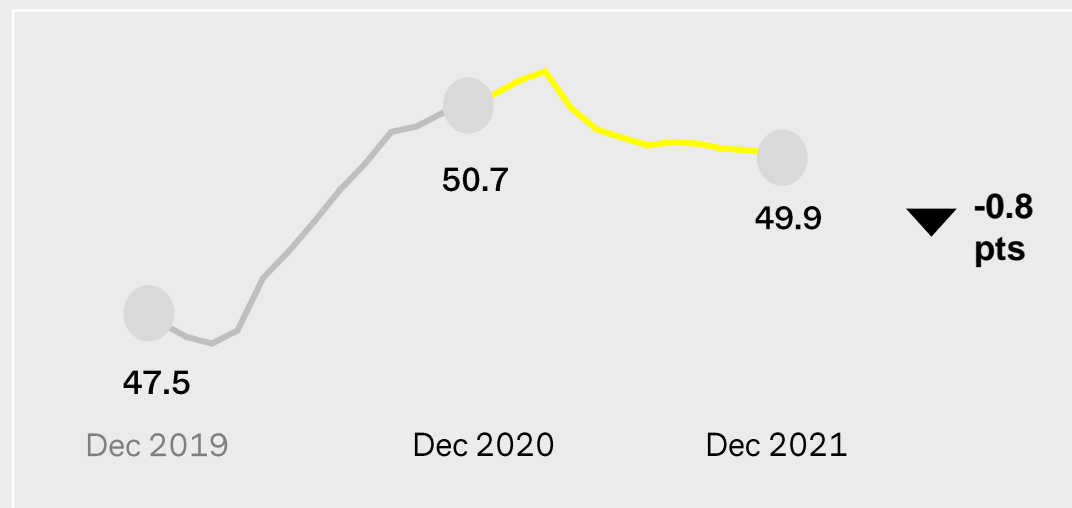




Average observed financial wellbeing score



- As of December 2021, the average observed financial wellbeing score is 49.9, down 0.8 pts from a score of 50.7 for December 2020.
- Despite this recent gradual decline in financial wellbeing YoY, financial wellbeing is a remarkable 2.4 pts higher than two years prior pre-pandemic, largely due to voluntary (and involuntary) amassed household savings and reduced spending since the start of the pandemic.
- Over the past quarter, the five components of the observed financial wellbeing scale have remained largely flat. Median savings balances have remained at the near all-time highs compared to pre-pandemic. Meanwhile, the Australian Bureau of Statistics' (ABS) household saving ratio (Household net saving as a per cent of household net disposable income) has remained very high since June 2020 (two to four times higher than pre-pandemic levels)¹.
- Driving the overall minor reduction in financial wellbeing is a worsening of the component concerning having an insufficient safety net to cover one to three months of expenses and the net spend component concerning customers increasingly spending at high levels compared to their inflows. Despite this slight decline YoY, net spend, expense coverage and savings levels have improved compared to pre-pandemic months.





Change in median Australian's annual finances

- Our analysis reveals the median annual inflows and income increased by \$1.6k YoY. This was outpaced by a \$3.6k YoY increase in the median annual outflows and expenditure, partly reflecting the lower expenditure base given the response to the pandemic in 2020 and also the rebound in consumption in 2021.
 - Despite the pandemic, many Australians have experienced quite healthy monthly inflows, with this observation mirrored in the ABS real household disposable income data¹.
 - Similarly, outflows have remained strong in the past six months, which is also reflected in the ABS year-ended household consumption growth, with the Q2 2021 exceptionally strong at 15% and the Q3 2021 reduced to a more usual level of 1.8%¹.
 - This expenditure pattern is quite understandable, given the very strong confidence consumers have in the Australian economy and the current consumer sentiment index sitting at 102.2², which is similar to pre-pandemic records.
- Although our analysis shows median savings remains stable YoY for December 2021, median savings balances still remain quite elevated (42% higher) compared with pre-pandemic data from December 2019.
 - The savings component of financial wellbeing has played an important role in keeping financial wellbeing very high during the pandemic, as savings represent a hedge against uncertainty.
 - Despite consumers behaving in a cautiously optimistic manner due to pandemic uncertainty, it appears consumers have concerns about the impact of inflation on their weekly spending and also mortgage payments, if interest rates rise in the future.
 - This is reflected not only in the Melbourne Institute's subjective 1-year ahead consumer inflation expectations at its highest level of 4.8%³ since first reported in early 2017, but also in the hard market indicator of the 10-year Commonwealth government bond rate. In December 2020 the 10-year bond rate was 0.98%; in 2021 it is at 1.61% indicating a factoring in of future inflation risk⁴.

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

²[Consumer optimism holds in positive territory](#), December 2021, Westpac-Melbourne Institute Consumer Confidence Index; RBA Statistical Tables, Inflation Tables, h03hist.xls, MI Consumer sentiment index, GICWMICS, latest data: Dec 2021

³RBA Statistical Tables, Inflation Tables, g03hist.xls, MI Consumer inflation expectations – 1-year ahead, GCONEXP, latest data: Dec 2021

⁴RBA Statistical Tables, Capital Markets, f02hist.xls, MI Commonwealth Government 10 year bond, FCMYGBAG10, latest data: Nov 2021

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.

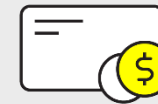
Note on median calculations: For example, if we were to rank 100 individuals by their income, listing from the lowest to the highest, the median income is that income which separates the lowest 50 observations from the highest 50 and provides insight into the "representative" individual. This is preferred 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. 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).



Inflows & income

▲ \$1.6k



Outflows & expenditure

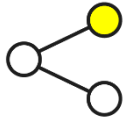
▲ \$3.6k



Savings balance

■ \$0k





Distribution of financial wellbeing outcomes



- Despite the proportion of Australians in the lowest two financial wellbeing categories, 'Just coping' and 'Having trouble' increased a minor 1.1 ppts YoY, this is still a significant 3.7 ppt improvement from two years prior in December 2019.
- The proportion of those in the 'Having trouble' category dropped dramatically at the start of the pandemic, largely due to generous JobKeeper and JobSeeker benefits. This proportion has slowly increased in the past 12 months, but it is still at levels substantially lower than pre-pandemic, indicating that on average, the most disadvantaged Australians have experienced improvements in their financial wellbeing during the pandemic.
- Similarly, for the highest two categories 'Getting by' and 'Doing great' there was a minor -1.1 ppt decrease YoY, however this is still a significant 3.7 ppt uplift from December 2019.
- The proportion of Australians in the 'Doing great' and 'Getting by' categories peaked in March 2021 and has only slightly dropped in the past nine months.

Doing great	11.4%	13.9%	13.7%
Getting by	35.6%	37.8%	36.9%
Just coping	30.1%	29.1%	28.3%
Having trouble	22.9%	19.2%	21.0%
	Dec 2019	Dec 2020	Dec 2021

▲ +1.1 ppts

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 changes for December 2021 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.
 - 1 ppt 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.
 - No change 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

▲ **1 ppt increase**
frequently living pay day to pay day

■ **Stable**
experiencing severe payment problems

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

■ **Stable**
with well-below average savings



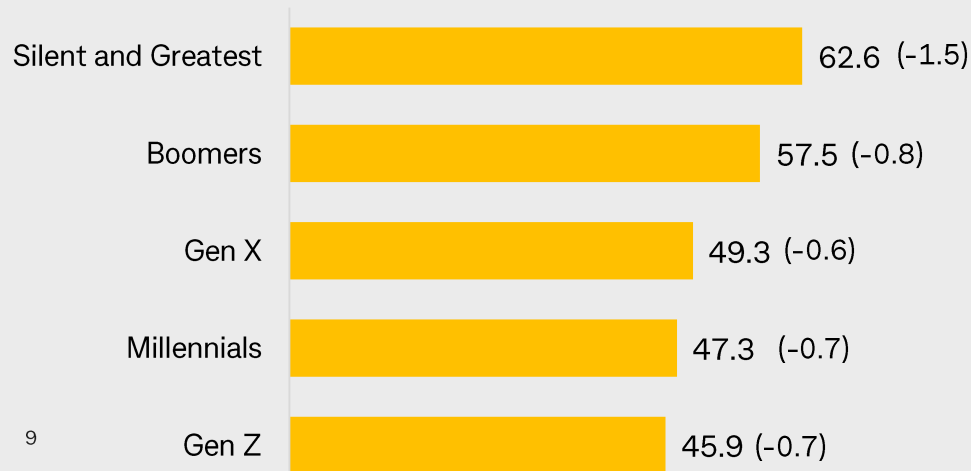
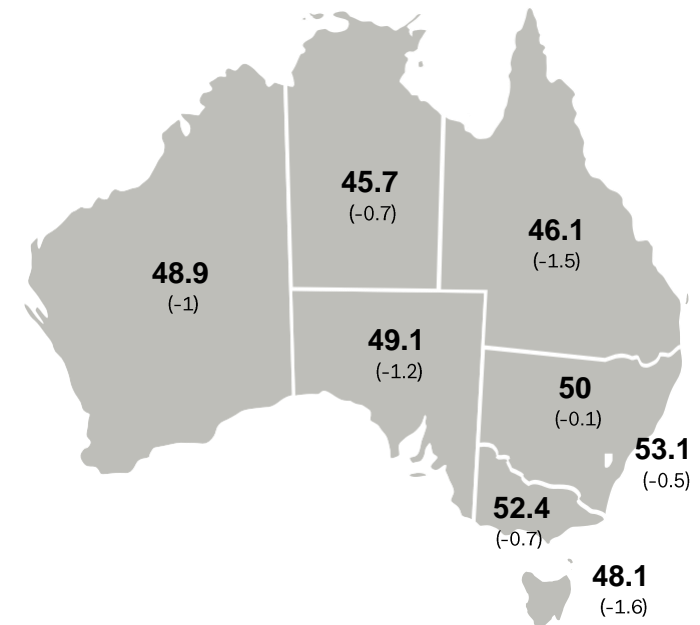


YoY change in financial wellbeing by generation and state or territory



State or territory

- As in previous quarters, the highest average levels of financial wellbeing are found in ACT at 53.1 and VIC at 52.4. The lowest levels of financial wellbeing are found in NT at 45.7 and QLD at 46.1. States with financial wellbeing close to the national average include TAS (48.1), WA (48.9), SA (49.1) and NSW (50).
- Financial wellbeing decreased slightly in all states and territories between December 2020 and December 2021. The largest decreases were in TAS -1.6 pts and QLD -1.5 pts, while NSW recorded the smallest decrease of -0.1 pts.
- Since the overall record peak in in March 2021, financial wellbeing has been falling across all states and territories, mainly due to substantially increased expenditure.
- However in June - July 2021, this decline was halted and reversed in NSW and ACT with financial wellbeing increasing, despite the continued decline in all other states and territories. This is likely due to forced saving and precautionary saving directly related to the COVID-19 Delta variant outbreak, predominantly in NSW (and by geographical proximity, ACT) at this time.
- Much of the decline in financial wellbeing in the other state and territories can be attributed to increased spending due to previously pent-up consumer demand.



Generation

- Financial wellbeing decreased at a similar level (between -0.6 and -0.8 pts) across all age bands between December 2020 and December 2021, except for Australians from the Silent & Greatest generations who experienced a slightly larger -1.5 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.

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

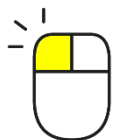
The research team at the Melbourne Institute: Applied Economic & Social Research is pleased to deliver this important report on Australians' financial wellbeing. The Melbourne Institute has been actively collaborating with the Commonwealth Bank since 2017 to develop and analyse scales of financial wellbeing.

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

Co-coordinator of the Labour Markets and Employment Research Program
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

