December 2020

RESPONSE TO COVID-19

REPORT TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

Public

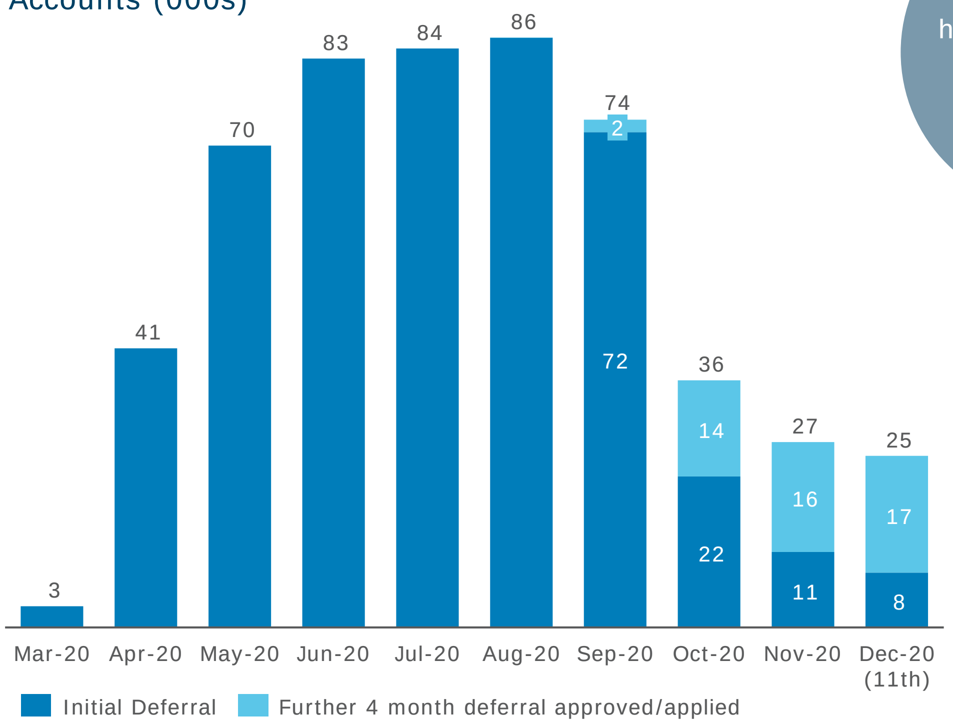
AUSTRALIA HOME LOAN DEFERRALS

ANZ has over 1m home loan accounts with ~96k loans having received a loan repayment deferral

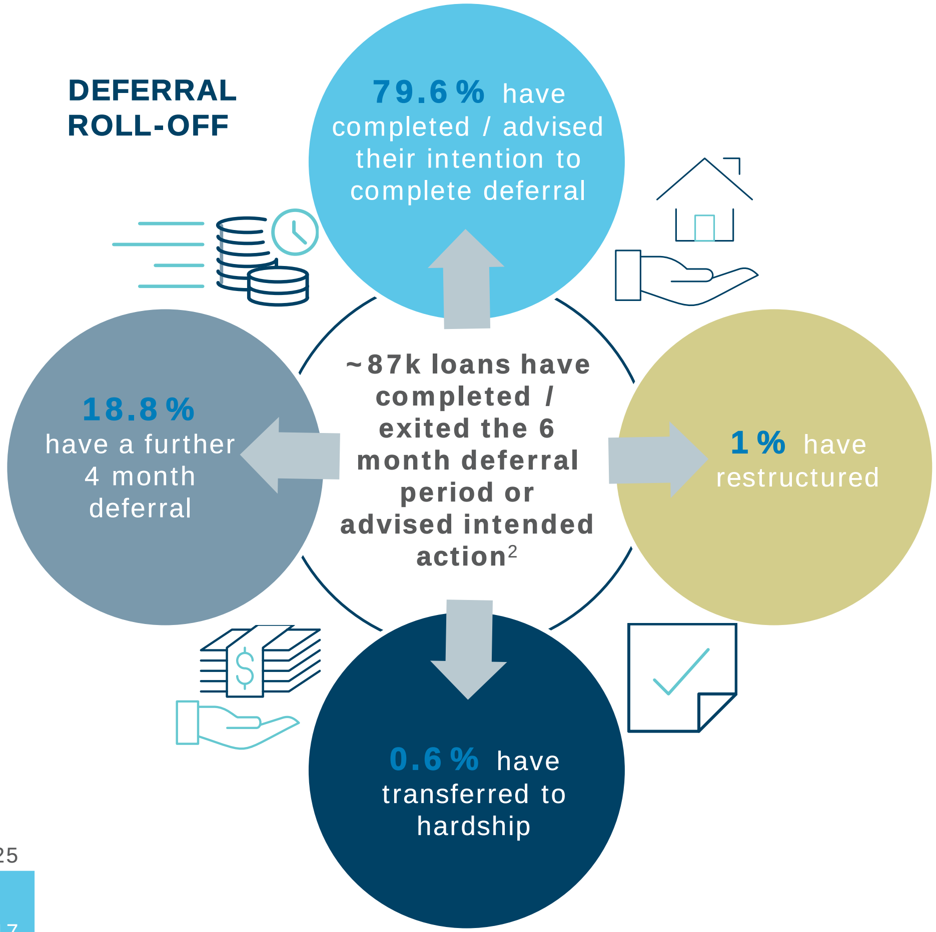
ACTIVE LOAN DEFERRALS[1]

End of month net position

Accounts (000s)



DEFERRAL ROLL-OFF



Refer to last page for footnotes.

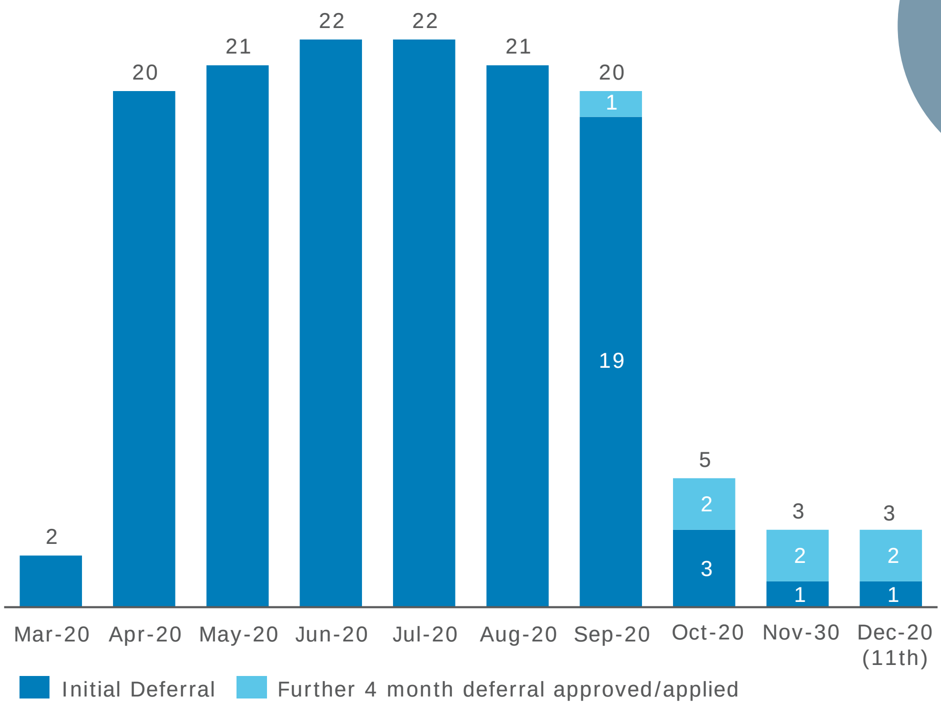
AUSTRALIA SME & COMMERCIAL LOAN DEFERRALS

ANZ has >236k commercial lending accounts with ~23k loans having received a business loan deferral

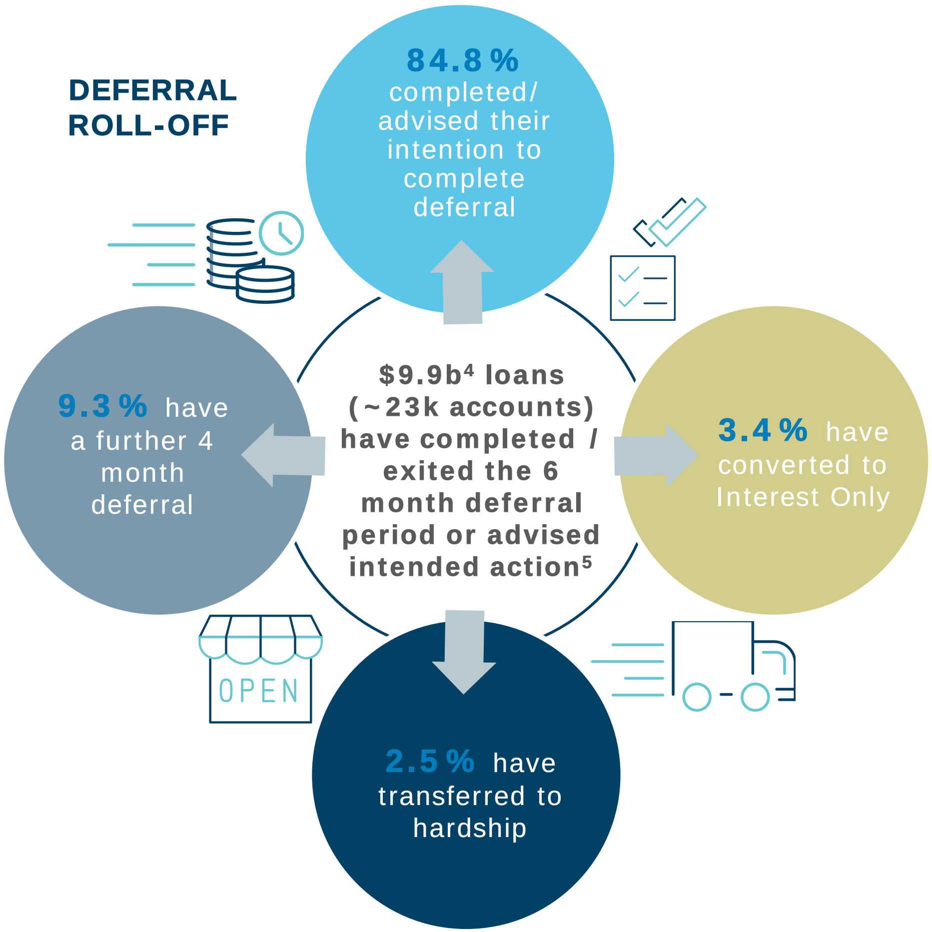
ACTIVE LOAN DEFERRALS[3]

End of month net position

Accounts (000s)



DEFERRAL ROLL-OFF



Refer to last page for footnotes.

ADDITIONAL SUPPORT FOR AUSTRALIA SME & COMMERCIAL CUSTOMERS

~2.4k loans worth $260m have been written under the Coronavirus SME Guarantee Scheme[6]

Offering Australian Government Show Starter Loan Scheme

~7.8k accounts still benefiting from temporary overdraft increases worth $800m[4]

~1.8k loans worth $65m to assist with providing JobKeeper[7]

Merchant terminal fees relief

~0.8k accounts are benefiting from asset finance loan deferrals on loans of $100m[4]

Refer to last page for footnotes.

ADDITIONAL RESPONSES TO COVID-19

COMMUNITY RESPONSE

ANZ has worked with our community partners throughout the COVID-19 pandemic.

- $1.5 million to community partners to support Australia's most vulnerable
- Double matching employee giving
- Adapting our financial inclusion programs such as MoneyMinded and Saver Plus
- Funding the Brotherhood of St Laurence to research COVID-19 impacts on vulnerable populations

CORPORATE RESPONSE

ANZ is taking action to ensure the wellbeing of our employees and customers during the COVID-19 pandemic.

- Staff beginning to return to the office in line with COVID-19 workplace requirements
- CovidSafe plans for our branches and buildings, visiting customers, domestic travel, meetings, events & recruitment
- Physical distancing in offices: every second desk not in use, meetings via video conferencing & limiting people in elevators
- A range of wellbeing resources including a wellbeing app and support for home workspaces
- Protecting our employees and customers in our branches
- Perspex screens, enhanced cleaning, hand sanitiser & masks available

NOTES

1. Excludes accounts currently deferred where customer has indicated return to payment at expiry.
2. As at 11 December 2020. Prior to 8 October 2020, COVID-19 loan deferrals were available to customers if either their Home Loan repayments were less than 30 days past due, or if their repayments were less than 90 days past due and they were up to date at 1 March 2020. From 8 October 2020, loan deferrals have been available to customers that are less than 90 days past due. Figures exclude a population of Home Loan deferrals where the loan is being managed by Private Bank, at 30 November this population is 45 loans.
3. Excludes accounts currently deferred where customer has indicated return to payment at expiry. Note: due to improved business logic capturing roll off status, volumes of active deferrals across October have decreased since previously published (from 10k accounts and $4b EAD).
4. EAD as at 31 October 2020.
5. As at 11 December 2020.
6. As at 27 November 2020.
7. As at 14 December 2020.

ANZ Research

Australian Economic Insight

9 December 2020

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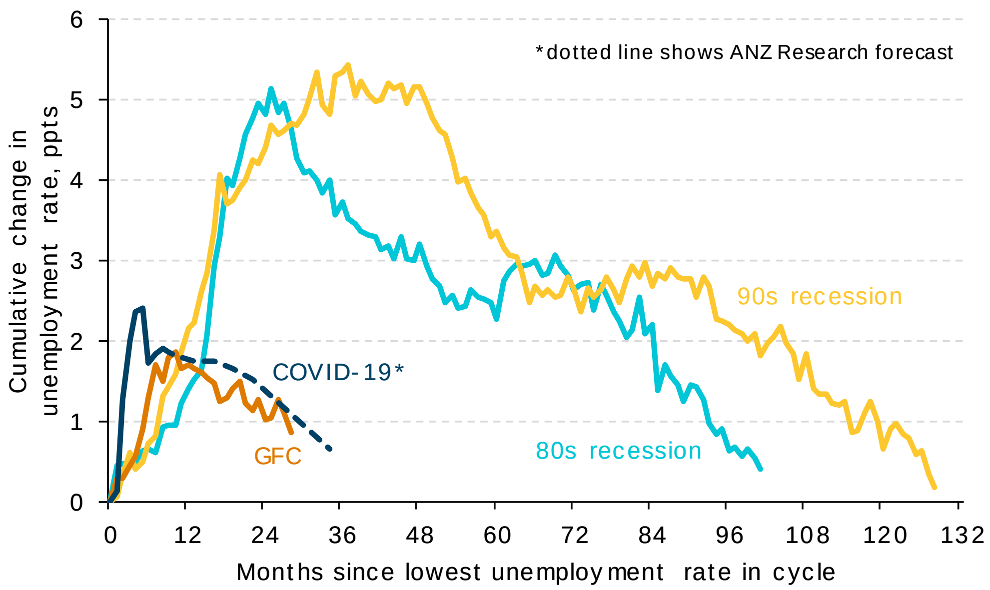
Successful policy responses underpin strong growth outlook

- The Australian economy rebounded solidly out of the COVID-19 slump. 2020 growth looks likely to be much less weak than we anticipated. With the virus seemingly under control, the prospect of a vaccine in H1 2021 and a substantial amount of stimulus supporting the economy the outlook for next year is very positive. We now expect GDP to reach its pre-pandemic level by Q3 2021, with the economy expected to grow 4.4% through the year.
- Similarly, the labour market outlook has improved, with a much better starting point than we earlier envisaged. The official unemployment rate looks to have already peaked at 7.5% in July, well below the 10%-plus rate originally feared. The improvement will likely be gradual, however, and it's unlikely that the unemployment rate has a 5 in front of it until very late in 2022.
- A high degree of uncertainty surrounds the outlook. The recovery is likely to be bumpy and uneven. One area of uncertainty is the pandemic itself. Global infection rates have risen, particularly in Europe and the United States, and recoveries in these economies have lost momentum. Although the possibility is fading, especially with the prospect of a vaccine early in 2021, the risk of another virus outbreak can't be discounted. But the greatest risk to the outlook, in our view, is the policy trajectory. There is a very substantial amount of stimulus supporting the economy at present, and calibrating the withdrawal of that stimulus as the economy recovers will be a challenge. The biggest mistake policy makers could make would be to withdraw that support too early, given the significant economic and social costs of high unemployment.

Figure 1. The decline in the unemployment rate is likely to be quite gradual



Source: ABS, ANZ Research

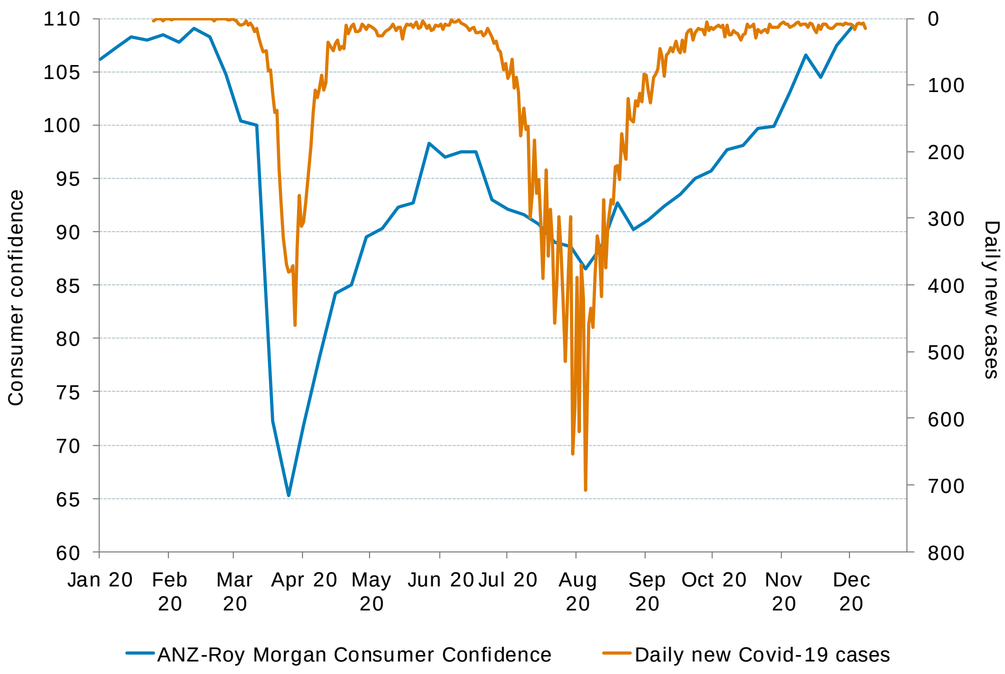
Activity has rebounded strongly, and the outlook remains positive

The recovery from the economic shock caused by the pandemic is proceeding much faster than expected. In Australia, this reflects successful management of the health crisis, albeit with still tragic results for many families, and enormous fiscal and monetary stimulus. GDP looks set to return to pre-COVID levels by Q3 2021.

Successful suppression of the virus has been a key factor in the recovery in confidence and broader economic activity in Australia. The first wave of the virus hit consumer confidence hard, after which it recovered quickly. The second wave drove another dip in confidence, but as case numbers fell, sentiment bounced. ANZ-Roy Morgan Australian Consumer Confidence is now back above pre-pandemic levels (Figure 2). Business confidence has also recovered and is running well above levels recorded early this year.

The recovery in confidence is key to the economy's rebound

Figure 2. Swings in confidence have been largely driven by case numbers



Source: COVID19data.com.au, ANZ-Roy Morgan

Policy stimulus, both fiscal and monetary, are supporting confidence and the recovery. Through the worst of the virus caseload and the associated lockdowns, income support measures helped keep households and businesses afloat. Fiscal stimulus measures topped 13% of GDP in Q3. The focus for fiscal policy has now switched to engineering a strong private sector recovery, with income tax cuts and substantial investment incentives. The economy seems to be managing the large withdrawal of stimulus since late September with aplomb.

The household sector is currently driving the economic rebound. Consumption is bouncing back as restrictions lift and sentiment improves. A combination of restricted spending options (as a result of the lockdowns through Q2 and Q3) and significant income support has driven the household saving rate to record highs (Chart 2), giving households a significant buffer to draw on as fiscal stimulus is withdrawn. Early release of superannuation along with income tax cuts which came into effect in the current quarter are also helping.

Figure 3. The rise in the saving rate gives households a buffer to draw on as fiscal stimulus is withdrawn

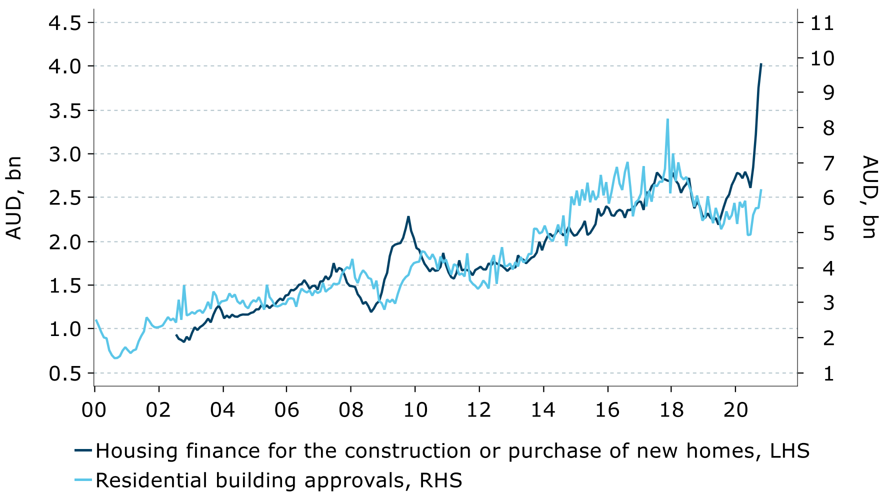
Source: ABS, Macrobond, ANZ Research

Low rates and fiscal stimulus are driving a strong housing market recovery

The housing sector is also rebounding, helped by low interest rates, the Commonwealth Government’s HomeBuilder scheme and other state and federal government support. Housing finance has picked up strongly, with owner-occupier upgraders and first home-buyers driving the rebound. Alongside solid auction clearance rates, this points to strong gains in housing prices through 2021. There are considerable risks to the housing price outlook. While low rates are clearly fuelling a strong recovery, low population growth and high residential vacancy rates in (Sydney and Melbourne) should limit the upside. But if prices grow too strongly and household financial risks start to build, APRA is likely to step in with macroprudential controls. We expect though that this is more a story for 2022 or late 2021 at the earliest.

The housing construction outlook has also improved substantially. Building approvals are more than 30% above their lows and point to a robust construction recovery – particularly in detached homes, which are the largest beneficiary of the HomeBuilder program. Renovation activity is also already expanding, and even unit approvals have bounced. Like the established market, first home-buyer incentives are supporting the market for new homes. Much of this stimulus brings forward activity which inevitably creates an activity shortfall once stimulus is withdrawn or demand is sated. And with population growth so weak, there is a risk that the lift in activity is not as strong as we currently expect, or it peters out earlier than anticipated.

Figure 4. The jump in housing finance points to strong growth in approvals and construction



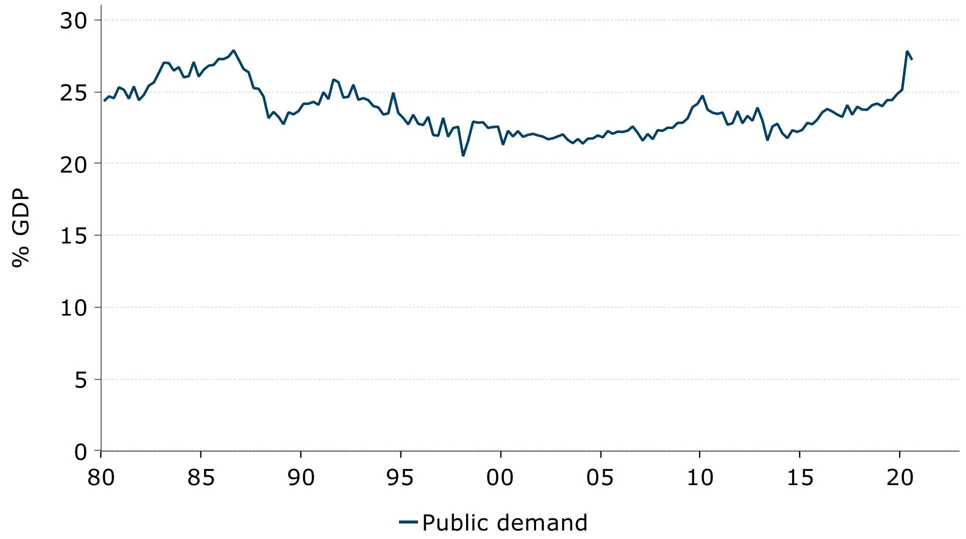
Source: ABS, Macrobond, ANZ Research

Tax incentives should support an investment recovery

Business investment has fallen sharply, but we expect a recovery through 2021, more so in H2, as the government's temporary full expensing scheme lifts spending on machinery and equipment solidly through 2021 and 2022. Non-residential construction is, however, likely to remain weak through 2021, given the decline in non-residential approvals to date and the shrinking pipeline of work. Confidence has recovered strongly, and stimulus measures will clearly help, but there are some downside risks. Investment growth was hardly strong prior to the onset of the pandemic, measures of capacity utilisation remain well below pre-COVID levels and there is a risk that business failures rise by more than we expect once the stimulus and insolvency protections are withdrawn.

With the fiscal taps turned on, public demand will also be a key driver of growth. While the Commonwealth government's stimulus is tilted towards stimulating private demand, there will still be an expansion of government spending over the next year or so. The states have boosted spending, and both public consumption and public investment should grow solidly through 2021 and into 2022, with more spending likely to be announced next year in response to ongoing elevated unemployment.

Figure 5. Public demand has been and will continue to be a key driver of growth



Source: ABS, Macrobond, ANZ Research

Exports will pick up as border controls relax, but there are risks around trade tensions with China

Closed international borders will continue to weigh on services exports. The rollout of a vaccine in the first half of 2021 will, in our view, see a relaxation of international border controls sometime around the middle of next year. Some international students are likely to start to return by the second semester, while tourism is likely to take a while to return to pre-pandemic levels. Exports will also be boosted by a strong recovery in rural shipments over the coming year as farm produce recovers after the drought. One downside risk to the outlook for exports is heightened trade tension with China. While we have factored in some impact, a further escalation of that tension would pose significant risks for the outlook for exports of education and tourism, as well as commodity shipments.

Similarly, the opening of international borders will boost services imports, and we expect strong growth through the second half of 2021 and first half of 2022 as Australians revive their international holiday plans.

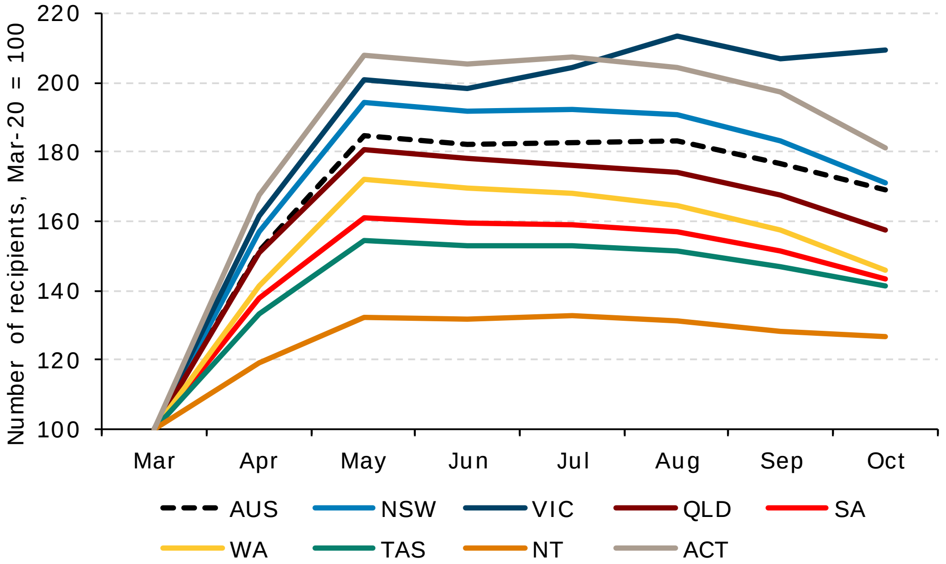
A high degree of uncertainty surrounds the outlook. One area of uncertainty is the pandemic itself. Global infection rates have risen, particularly in Europe and the United States, and recoveries in these economies have lost some momentum. Australia's trading partners are concentrated in Asia and here the recovery is well entrenched and 2021 growth looks set to be strong, but a material deterioration in the global growth outlook could set back Australia's recovery.

Unemployment likely to fall only gradually

Unemployment has fallen more quickly than we anticipated

As with GDP, the labour market will be in a much better position going into 2021 than we had anticipated just a few months ago. Despite a stumble in September, three quarters of COVID-19 employment losses across April and May were regained by October. While the official employment rate has been distorted during the pandemic, the effective unemployment rate has plummeted from its earlier extremes. Accordingly, the number of people on JobSeeker and Youth Allowance (other) has been in decline across all states and territories bar Victoria.

Figure 6. JobSeeker and Youth Allowance (other) recipients by state



Source: Department of Social Services, ANZ Research

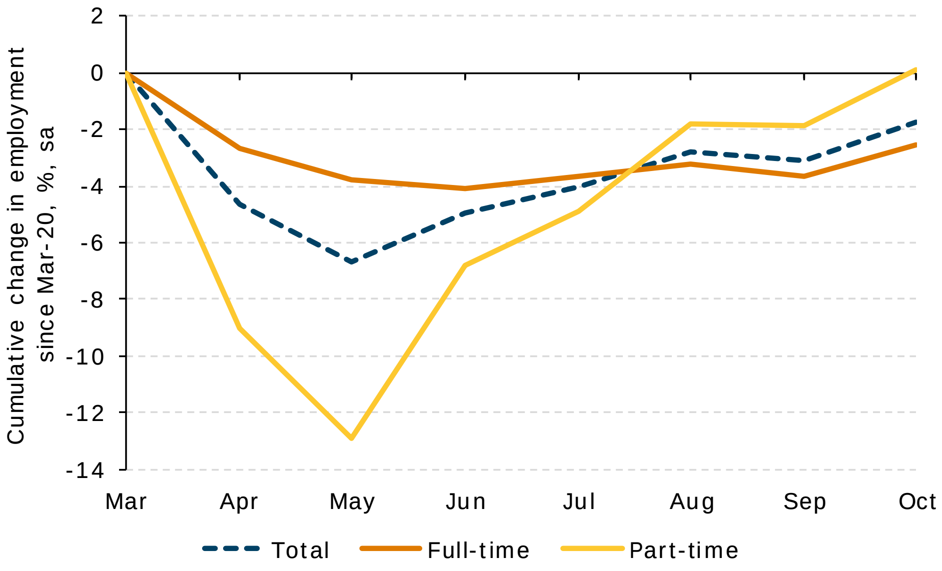
The rebound in national employment could continue into early-2021 at least, with a large part of that coming from Victoria. ANZ Job Ads increased 27% over October and November, in line with the progressive easing of restrictions in Victoria, and are on track to match or even exceed pre-COVID levels by year-end.

Job losses have been greatest among low income workers

However, we need to keep in mind that headline data can mask variance in employment outcomes for workers in different industries and occupations and in different age, income and other cohorts. For example, the lowest income workers have experienced the largest employment losses during the pandemic while employment has actually risen for the highest income workers. And by October, there were 210k fewer 15–34 year olds employed compared with March, but only 12k fewer 35+ year olds employed. Some policies introduced during the pandemic aim to improve employment prospects for some of these groups, such as the federal government's JobMaker hiring credit, which Treasury estimates will generate an additional 45k jobs for 16–35 year olds. These disparities are likely to continue to play out in the recovery though.

At a broader level, the lagged recovery in full-time employment is a concern. By October, while part-time employment was slightly above its March level, full-time employment was still down 2.6% (228k workers) (Figure 7).

Figure 7. Full-time employment has lagged the part-time recovery



Source: ABS, ANZ Research

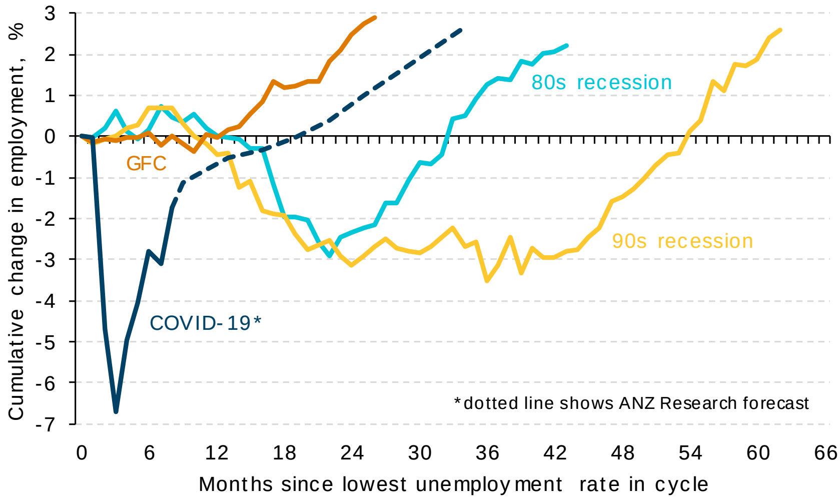
This may reflect a couple of trends. Firstly, some businesses have hoarded labour during the pandemic period, ie retained workers even if they couldn't fully utilise them. JobKeeper has even encouraged this. Consequently, some workers may have been reclassified from full-time to part-time. Secondly, there may be some hesitancy on the part of businesses to hire new full-time workers and a preference to hire part-time or casual workers. Given there is still a degree of uncertainty around the recovery, this allows businesses more flexibility and options to respond to unforeseen changes in the health situation, policy landscape and/or business conditions. But it also means that some workers who would usually be on full-time hours are only working part-time at the moment, on top of a wider pool of workers who would prefer to be on full-time hours.

In early 2021, hours worked are likely to pick up more quickly than employment, as firms give existing workers longer hours.

So we could see a period in 2021 where employers favour increasing hours worked by their current employees, rather than hiring additional workers as demand improves. While this would bring down underemployment and be a positive for individual workers' incomes, it could also come at the expense of employment growth (Figure 8). There will be other challenges for the labour market to face in H1 2021, not least the end of JobKeeper, as well as the end of temporary changes to bankruptcy laws. As such, we have factored in a marked slowdown in employment growth in Q2 2021, following three quarters of substantial gains.

After this adjustment though, we expect employment growth will reaccelerate from mid-2021, supported by firmer demand and increased certainty as international borders reopen and a vaccine rolls out. This should see employment exceed its pre-pandemic level in H2 2021 and end 2022 up 2.3% y/y.

Figure 8. Employment should exceed its pre-pandemic level by H2 2021



Source: ABS, ANZ Research

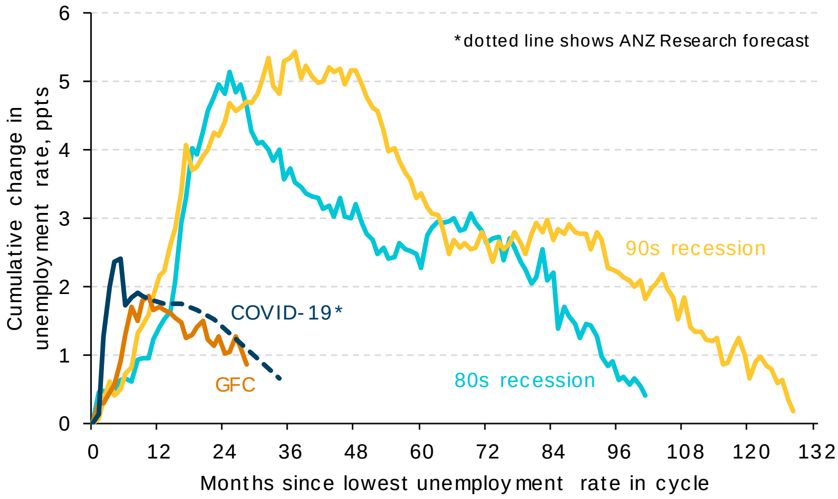
We now believe the official unemployment rate has already peaked at 7.5% in July, and we don't expect it to trend higher (although month-to-month volatility could see it pop above its current 7% temporarily). Yet, despite our expectation of solid employment gains over the remainder of 2020 and into early-2021, we also don't expect the unemployment rate to drop materially in the near-term, given an expected increase in participation. This will largely be driven by the Victorian participation rate, reflecting the improvement in activity as restrictions are lifted, as well as the full reintroduction of mutual obligations in Victoria from 23 November.

By October, participation was already above pre-pandemic rates in most states and territories outside Victoria, although at the national level, 15–34 year olds still have a lot more ground to make up than 35+ year olds. We expect the overall participation rate to meet or exceed its previous record high of 66.2% over the forecast horizon. With some households experiencing lower income – particularly as direct fiscal income support tapers off – this may prompt additional household members to look for work. The longer-term trends of older workers remaining in the labour force longer and rising female participation are also likely to return. Recent policies such as the Victorian government's move to make kinder (pre-school) free and increase availability of before- and after-school care should support the latter.

Given our expectation of a temporary but sharp slowdown in employment growth (discussed above), as well as the upward pressure on participation, this could mean the unemployment rate is quite sticky in the first half of 2021. We are forecasting it to hover around the high 6s during this period, which will likely prompt additional measures on both the fiscal and monetary policy sides (see below). From mid-2021, as the labour market adjusts and employment growth reaccelerates, we expect the unemployment rate to start gradually decreasing, reaching 6.6% by end-2021, before falling more quickly through 2022, ending the year around 5.7%.

A slowdown in employment growth and upward pressure on the participation rate will mean that the unemployment rate may be a bit sticky in 2021

Figure 9. The unemployment rate may be a bit sticky in 2021



Source: ABS, ANZ Research

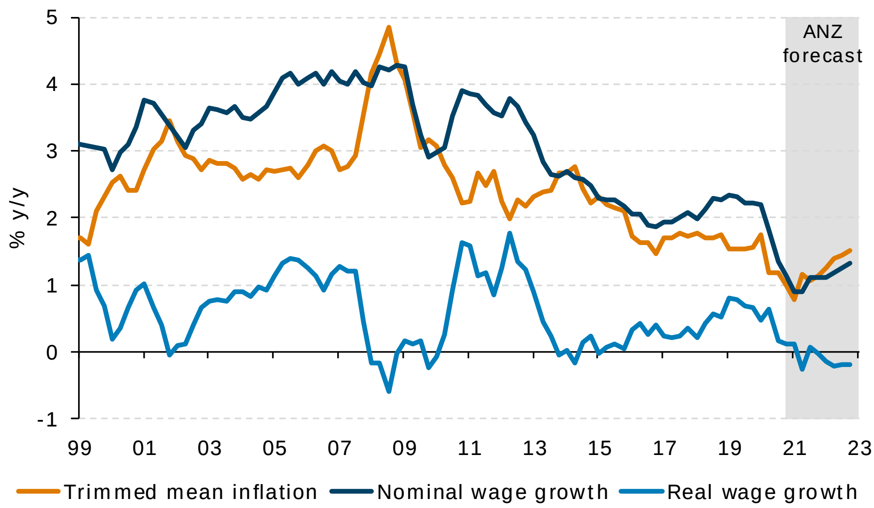
During the pandemic, wage growth has been dragged down by the smaller, partially-deferred minimum wage increase, wage freezes across both the private and public sectors, and COVID pay cuts (without commensurate cuts to hours worked). In the September quarter, the wage price index rose just 0.1% q/q, leaving annual growth at a record low 1.4% y/y. We believe we are yet to see the low point in annual wage growth for this cycle.

Over the medium-term, elevated labour market underutilisation will be a headwind for wages growth

Wage freezes will continue to weigh on growth in the near term. More than half of firms in the RBA's liaison program report that wage freezes are currently in place or expected to be put in place. Over the medium-term, elevated labour market underutilisation will limit improvements in wage growth and lessen the likelihood of "catch up" wage increases. Having said that, there will be pockets of strong wage growth in some sectors, particularly those that have been reliant on skilled migration in recent years.

Overall, we still see annual wage growth slowing to below 1% y/y in H1 2021 before gradual improvement to around 1.3% y/y by the end of 2022. Taking into account our inflation forecasts, this means that real wages would fall through much of 2021 and 2022, reducing households' purchasing power (Figure 10).

Figure 10. Real wages to fall



Source: ABS, ANZ Research

The labour market could continue to outperform

While we have outlined our central scenario above, there remain considerable risks to our labour market and wage outlook, both to the upside and downside. The strength of the employment rebound has surprised to the upside so far and it is possible that it will continue to outperform expectations in the face of some of the hurdles we have outlined above.

So far in Q4, the labour market and broader economy have been resilient despite the fiscal cliff at the end of Q3. The fiscal and monetary stimulus, both past and ongoing, may be enough for employment to continue on its robust growth trajectory until strengthening fundamental drivers take over, particularly with regard to the effects of the vaccine rollout and reopening borders. Proposed changes to the industrial relations system have the potential to boost employment growth, although this may come at the expense of wage growth.

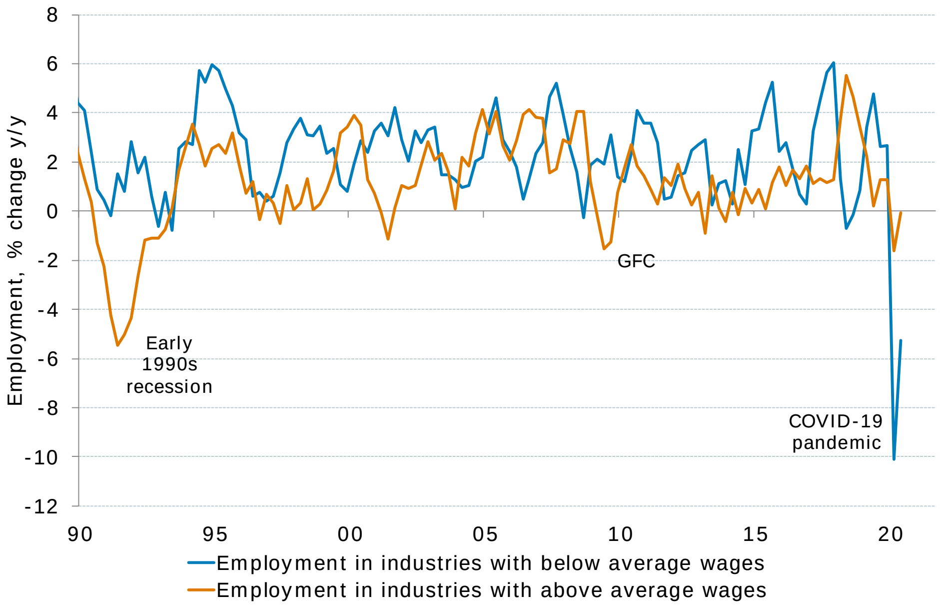
On the downside, the recent scare in South Australia has reminded us that things can change quickly. NAB's latest monthly business survey suggests there is some job-shedding still to come. Skills mismatches may limit the labour market recovery as some of the event-driven, cyclical and structural shifts in the economy continue to play out. It's also worth noting that if employment growth continues to be driven by part-time rather than full-time workers, the headline indicators may exaggerate the strength of the labour market.

With aggregate demand and the labour market improving faster than expected, we also now anticipate inflation coming back faster. We have already seen signs of inflation normalising in the Q3 inflation data. However, though inflation is now forecast to rise faster in 2021 than we previously had, we only expect annual underlying inflation to get back to where it was prior to the pandemic by late 2022 given the subdued wages outlook.

Inequality could be a legacy of this crisis

Longer term, one of the key risks to the outlook is the legacy of inequality from this crisis. While it's too early to be conclusive about permanent impacts, this recession differs from past ones in its impact on the labour market. While there are clear exceptions, in general, high paying jobs have remained relatively secure, while low paying ones have borne the brunt of the labour market impact (Figure 11). Moreover, one of the side effects of the stimulus programs has been a large increase in the profit share, while the wage share has dipped to its lowest on record. As the stimulus is withdrawn the profit and wages share will likely revert at least partly to pre-pandemic levels. But the trend decline in the wage share is likely to be a focus for policy makers over the longer term.

Figure 11. Low paid workers have been hit hardest in this downturn



Source: ABS, ANZ Research

Policy outlook

While we expect GDP will recover to pre-COVID levels around Q3 2021, the primary focus of the RBA and Treasury is the labour market rather than GDP. Unemployment and underemployment are both expected to be higher than they were prior to the pandemic. And even if/when they get back to pre-pandemic rates, we need to remember that this was too high to generate the wage growth necessary for inflation to rise to the RBA's target.

Slow improvement in the unemployment rate is likely to prompt further stimulus

Current policy settings imply a material tightening of fiscal policy from now on. A tightening in monetary policy is also implied by the current end dates of May and June for the RBA's QE program and term funding facility respectively. In response to the slow improvement in the labour market, we expect to see a loosening of both fiscal and monetary policy *relative* to these settings. The 2021 Budget is likely to see further measures to support private sector growth and perhaps some targeted direct expenditure. Our GDP and employment forecasts reflect this expectation. As for monetary policy, we look for both the TFF and QE to be extended beyond their present end dates. Whether or not the size of these programs will be altered will depend on the health of the Australian economy and, as the RBA has emphasised, what other central banks are doing.

A rapid return to economic 'normal' could spark debate about whether the extraordinary levels of support being directed at the economy need to continue. Especially when the other impacts of those policies are considered. The RBA is already facing questions in this regard. Appearing before Parliament's Standing Committee on Economics in early December, the Governor was asked about house prices. He replied that he didn't think sustained rapid gains in house prices were likely given the population dynamics. In our view, the RBA is underplaying (again) the potential for the record lows in interest rates to drive house prices higher. But even if we are right, it doesn't necessarily have direct implications for monetary policy settings. Lowe said that the RBA considered asset prices, "only to the extent that they influence spending in the economy and financial stability." Going further he said:

> It would be inappropriate for us to target specific asset prices. It's not for the Reserve Bank to determine what the average level of prices of housing is in the country or, to go a step further, the price of equities or the price of any other assets. That's not our job and it shouldn't be our job.

Still, rising house prices in 2021 could well be part of a mix of economic developments that could raise questions about whether the current level of policy support is needed.

There remains a high degree of uncertainty around the outlook, with the virus itself and the policy responses to it creating a significant amount of that uncertainty. Calibration of the removal of this stimulus will be a key challenge for policy makers over the next few years. An earlier-than-expected withdrawal of stimulus, either fiscal or monetary, remains a key risk over the forecast horizon. The RBA is acutely aware of this, with Deputy Governor, Guy Debelle noting in November:

> There was one lesson from the [global financial] crisis … that is relevant to today: be careful of removing the stimulus too early. A number of European countries learned this lesson to their cost after the global financial crisis.

Figure 12. Economic forecasts

	% q/q						% ch yr average		
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	2019	2020	2021
GDP	-0.3	-7.0	3.3	**1.8**	**1.3**	**1.0**	4.5	**-2.0**	**4.1**
Employment growth	0.4	-5.4	2.3	**2.2**	**0.7**	**0.2**	2.3	**-1.5**	**2.4**
Unemployment rate	5.2	7.0	7.1	**6.9**	**6.8**	**6.8**	5.2	**6.5**	**6.8**
Headline inflation	0.3	-1.9	1.6	**0.4**	**0.3**	**0.3**	1.6	**0.7**	**1.4**
Trimmed mean inflation	0.5	-0.1	0.4	**0.3**	**0.3**	**0.3**	1.5	**1.3**	**1.0**

*Forecasts in bold. Annual data and forecasts are year-averages.

Source: ABS, ANZ Research

Important notice

[4 August 2020]

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16 November 2020

Housing: a strong 2021

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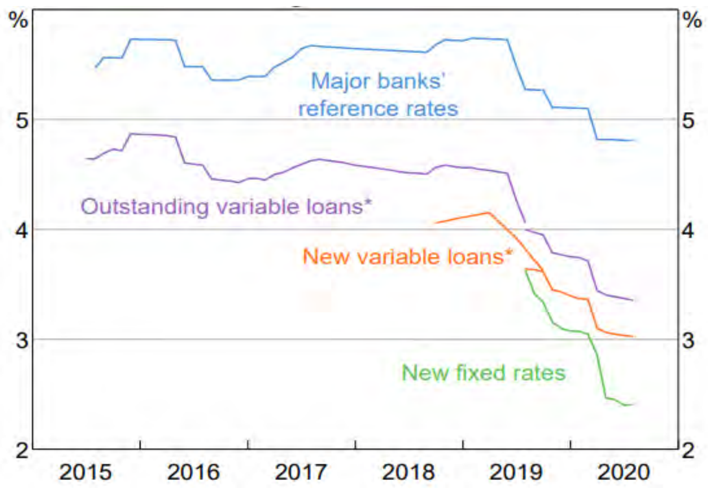
Housing sentiment turns up as low rates trump labour market weakness

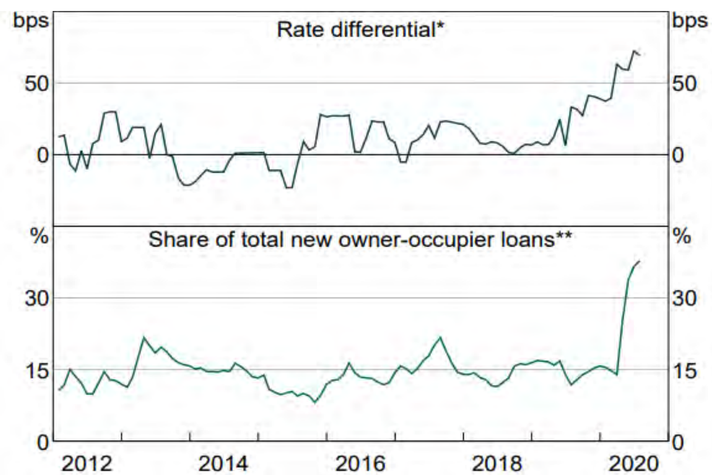
- The housing sector is turning a corner. After falling since April, national house prices were flat in October and look set to rise over coming months. The strength is largely being driven by owner-occupiers, with low interest rates appealing to buyers in secure employment. This is the case for upgraders as well as first home buyers.
- Our view that **house prices** would decline around 10%, peak to trough, has proven too pessimistic: low rates have trumped factors like elevated unemployment and low population growth. Government income support and the deferral of home loan repayments have also helped support the market. The RBA's recent rate cut, the further decline in fixed mortgage rates and the prospect of low rates for some years will all add to the momentum currently in the market. We now expect house prices at the national level to rise modestly over the balance of this year. Next year, we expect price gains of around 9% across the capital cities.
- Many deferred home loans have now moved back to regular payments, and some will move on to more medium-term forbearance measures. While there will be some borrowers who find themselves with too much debt given their changed circumstances, our view is that accommodative lender measures will mitigate the downside risk these sales pose to overall prices. **Pages 4-15**
- The strong turnaround in sentiment is evident in leading indicators of **housing construction**. Building approvals have turned around, and leading indicators suggest further near-term strength. The federal government's AUD25k HomeBuilder grant is clearly hitting the mark, with house and renovation approvals rising solidly. Apartment approvals are not getting as much benefit from HomeBuilder, but low rates look to be helping that sector, with approvals up sharply in recent months. We expect construction activity to decline a little further through 2020, before turning higher in early 2021. **Pages 16-25**
- Government stimulus, superannuation withdrawals and mortgage repayment deferrals have lowered the risk of **financial stress** by providing temporary assistance to some borrowers. Deferrals are now rolling off, and many borrowers have returned to repayments. Lender forbearance is expected to limit the incidence of household financial stress and any rise in arrears rates is expected to be modest. **Pages 26-33**

Lower rates are providing a strong offset to soft fundamentals

Fixed mortgage rates have fallen sharply



Borrowers have switched to fixed rate loans



- The housing sector looks to be turning a corner. After falling since April, national house prices were flat in October and look set to rise over coming months. The strength is largely being driven by owner-occupiers, with low interest rates appealing to buyers in secure employment. This is the case for upgraders as well as first home buyers.
- The decline in rates is more marked than the cut in the RBA's cash rate would imply. Since May 2019, the cash rate has declined 140bps. The advertised variable mortgage rate has declined only around 85 basis points, but 3-year fixed owner-occupier rates have declined around 180 basis points. On our estimates, the 3-year fixed rate has nearly halved over the past two years, from 4.1% in late 2018 to around 2.1% currently. And mortgage holders are taking advantage of these lower rates, flocking into fixed mortgages.
- This drop in interest rates is dominating the house price cycle, and has helped turn sentiment around sharply.

* Rate differential between variable and fixed rate loans for owner-occupiers; major banks' package rates less advertised 3-year fixed rate to April 2009; thereafter, major banks' best advertised variable rate less advertised 3-year fixed rate
** Seasonally adjusted loan approvals data until September 2019; thereafter, loans funded in the month (non-seasonally adjusted)

Source: RBA, ANZ Research

Prices

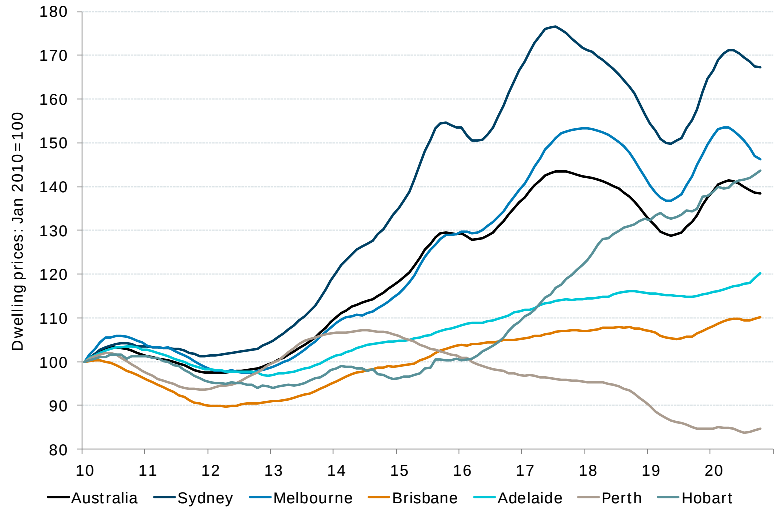
We now expect house prices at the national level to rise modestly over the rest of this year. Next year, we expect price gains of just under 9% across the capital cities.

House prices turning higher

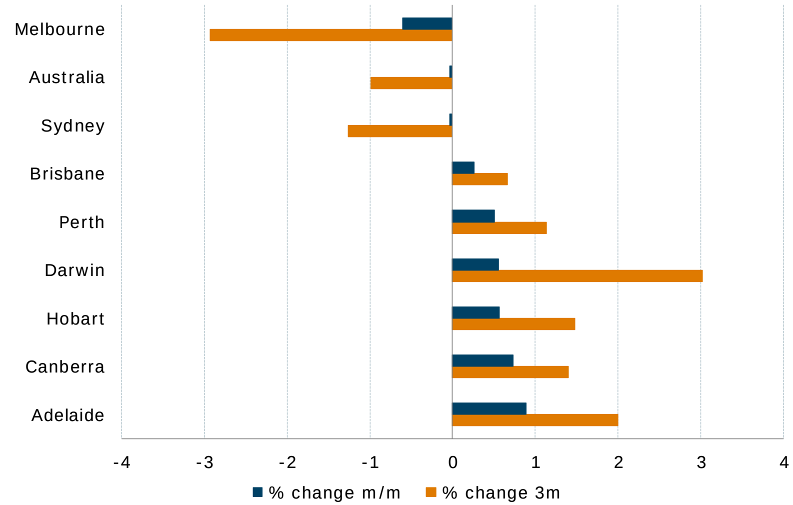
- House prices are turning higher, helped by lower interest rates, substantial government stimulus and a bounce in confidence as the second wave of the pandemic comes under control. These factors seem to be offsetting weak fundamentals of high unemployment, very low population growth and a fractured rental market.
- Prices were flat in October after falling a very modest 2.1% over the previous six months. The weakness has been concentrated in Melbourne (-4.9%) and Sydney (-2.5%). Prices in Brisbane and Perth are already recovering after very modest declines, while prices in Adelaide, Hobart, Darwin and Canberra have maintained their upward trend through the pandemic.
- Owner-occupiers, and particularly first home buyers, are driving the market. Clearly a significant cohort of buyers with stable employment are keen to take advantage of historically low interest rates. Bolstered by government support, first home buyers have increased their new loan commitments sharply over the past few months, a story which is consistent across the states. In contrast, investor activity remains soft. Investor lending approvals picked up in the latest month, but at 14.8% of new loans, it is close to the recent low and well off the 30%-plus levels seen in 2015.
- The sharp turnaround in sentiment is putting upward pressure on prices, and the peak-to-trough decline now looks to be limited to just over 2%. Next year, we expect price gains of around 9% across the capital cities. Perth looks set to be one of the strongest performers with gains of 12% expected, followed by Brisbane (+9.5%) and Hobart (+9.4%). Sydney prices are expected to rise close to the national average (+8.8%), while Melbourne prices are forecast to lag a little (+7.8%).
- We see the risks to the outlook as evenly balanced. An early vaccine rollout and the resulting lift to sentiment could drive larger price gains than we currently anticipate. That said, we think regulators would be quick to step in with macro prudential measures if the market looked be overheating.

House prices declined nationally through the worst of the pandemic, but varied widely across cities

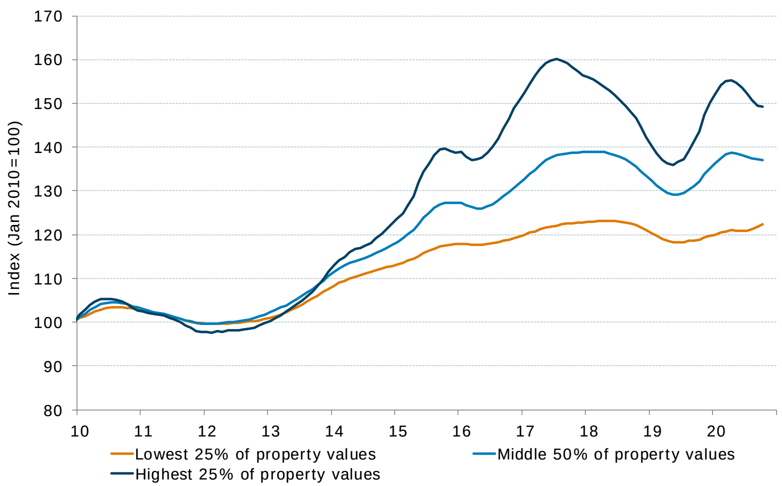
House price performance has varied



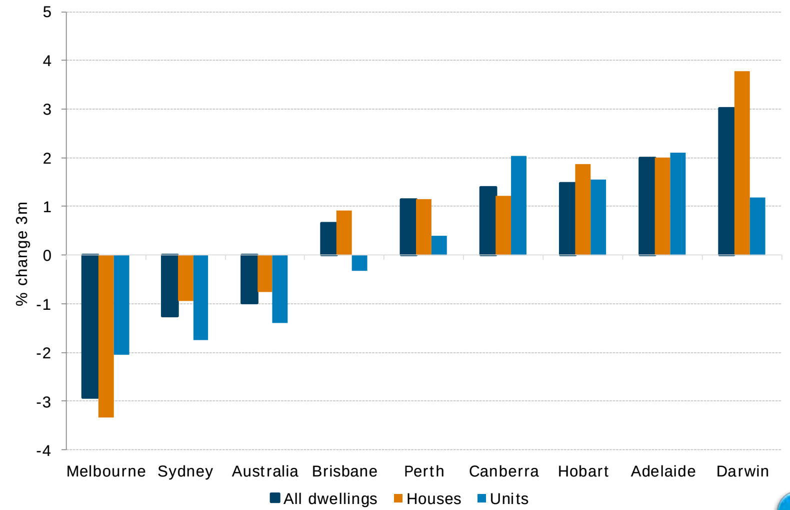
Melbourne and Sydney have been the weakest markets



A pick-up at the lower end of values is driving the recovery



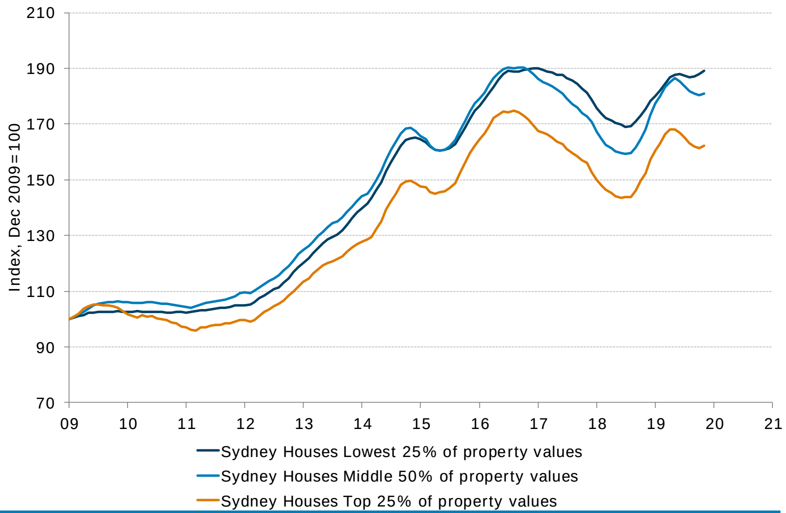
Performance across cities and segments has been mixed



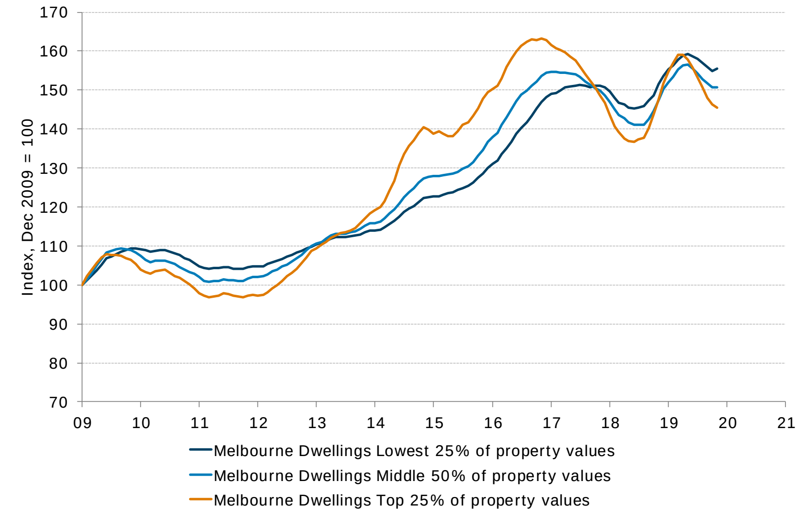
Source: CoreLogic, ANZ Research

In most cities, the lower end of the market has performed best

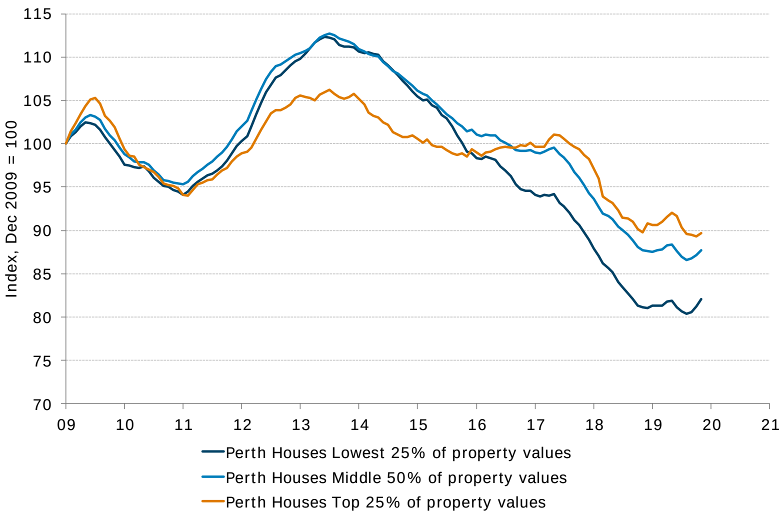
Sydney



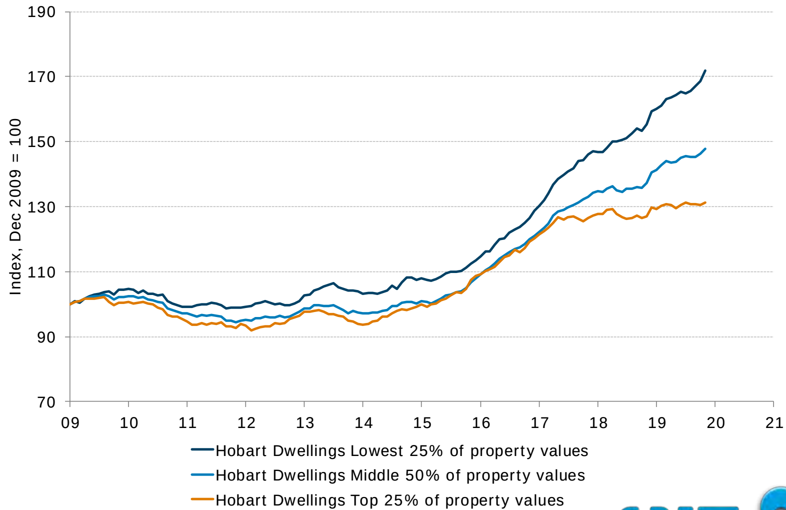
Melbourne



Perth



Hobart



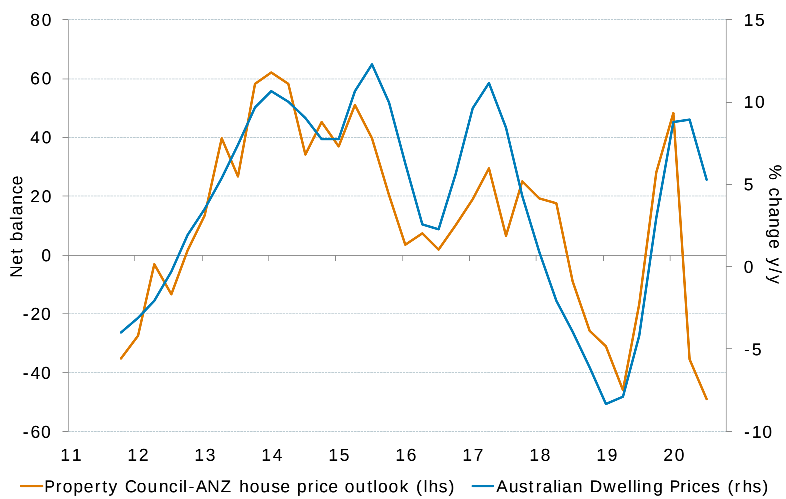
Source: CoreLogic, ANZ Research

Household sentiment towards housing has turned around sharply, although industry participants remain more pessimistic

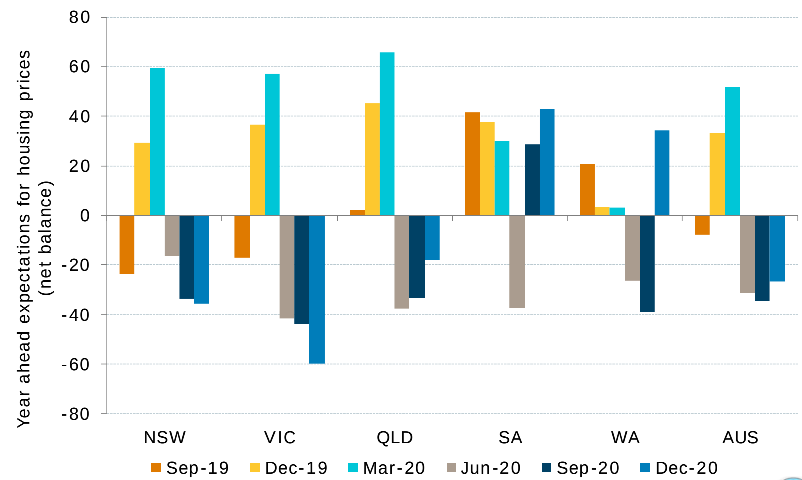
Consumer perceptions of "time to buy a dwelling" have picked up…

…and house price expectations have bounced

Property industry participants expect house prices to fall…



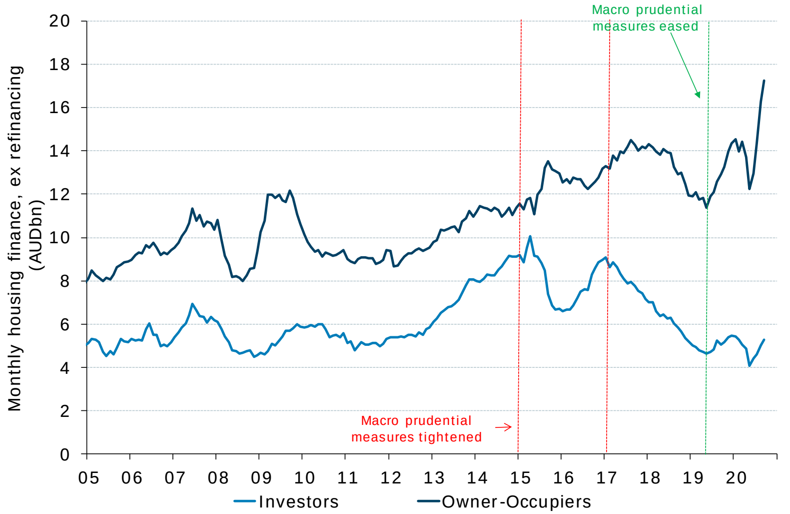
…with the most negative expectations in Victoria



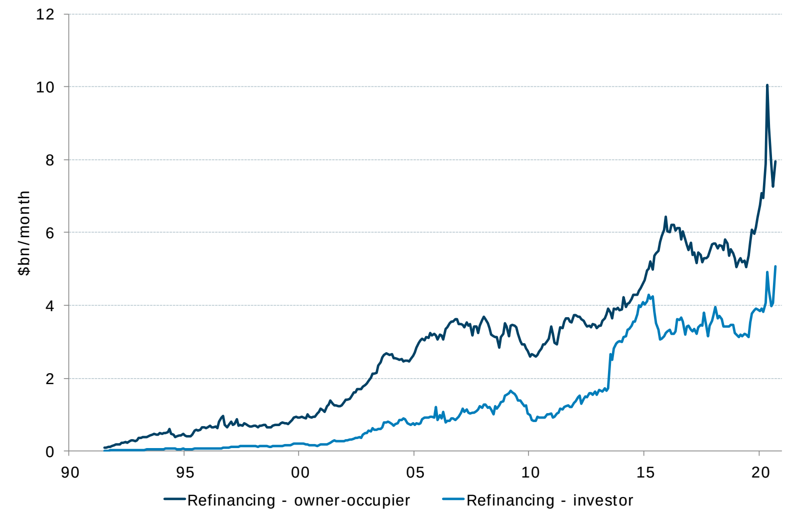
Source: ABS, ANZ-PCA, CoreLogic, Macrobond, Westpac-Melbourne Institute, ANZ Research

Housing finance has turned up convincingly

Housing finance has picked up sharply, especially for owner-occupiers

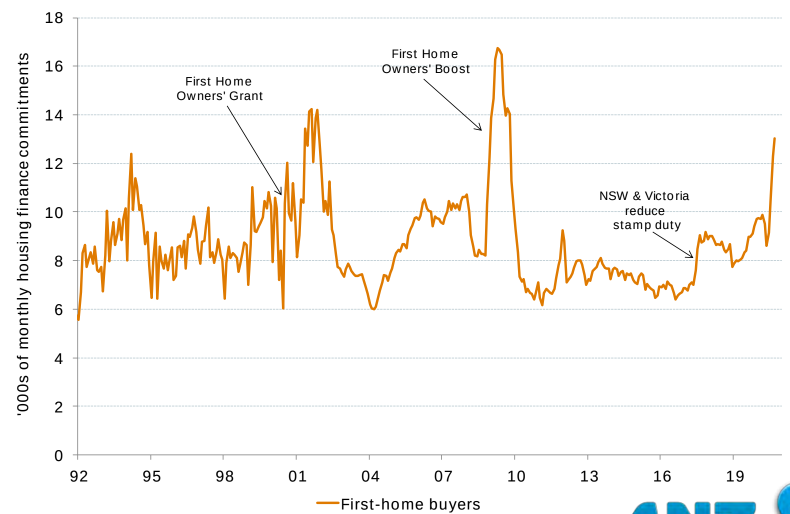


Refinancing is down from the peak, but remains high



The investor share of finance is now at its lowest level since the 1990s

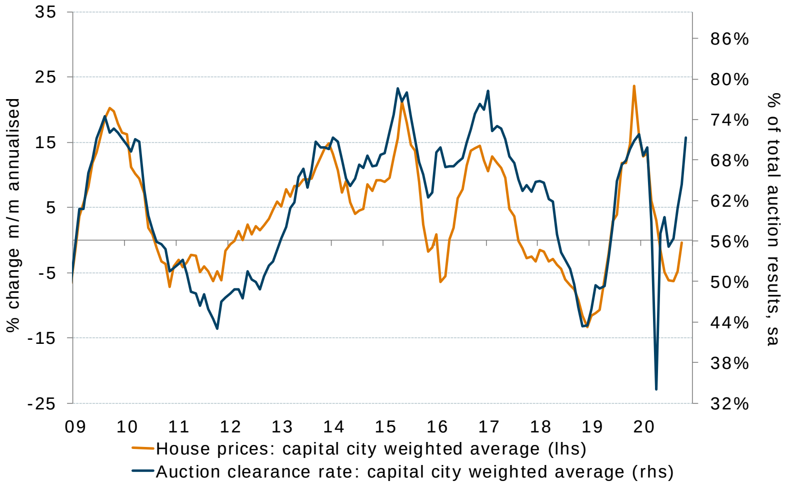
First-home buyer finance has surged



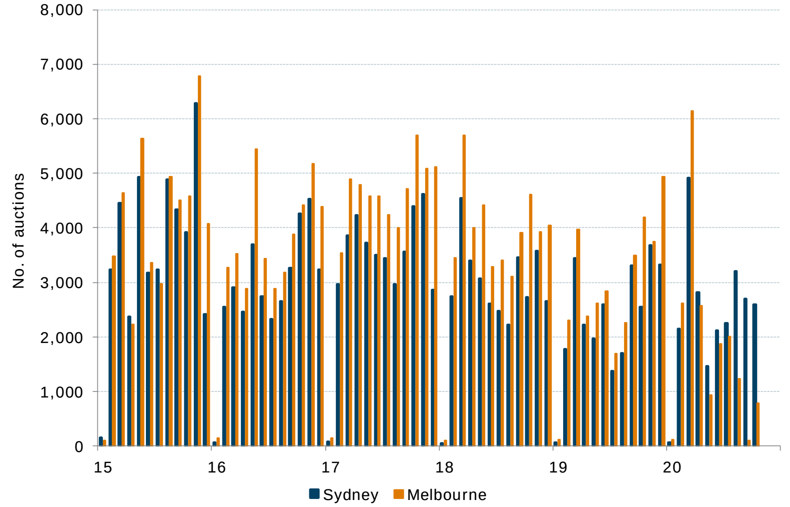
Source: ABS, APRA, ANZ Research

Auction indicators have rebounded, and volumes are recovering

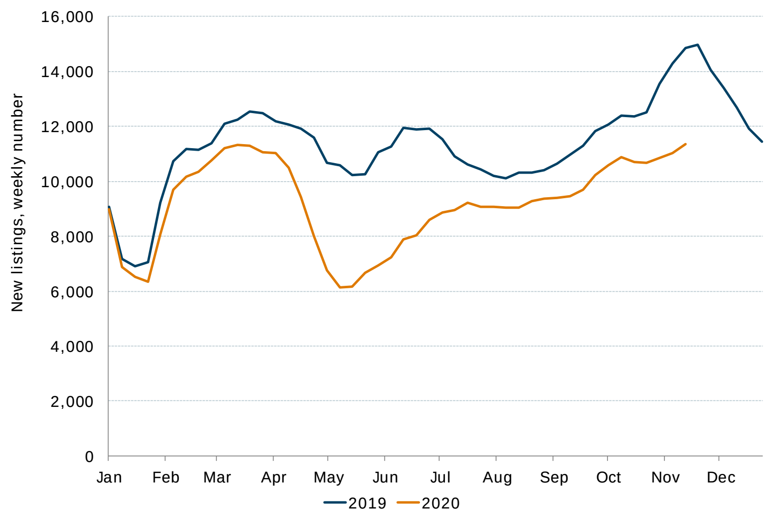
Auction clearance rates have picked up and are signalling solid price gains



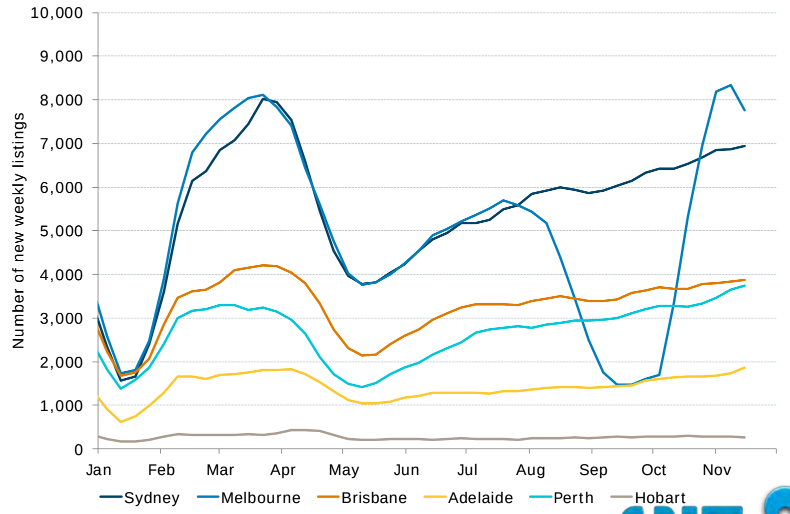
Auction volumes are recovering



Listings are recovering strongly...



...as Melbourne bounces back



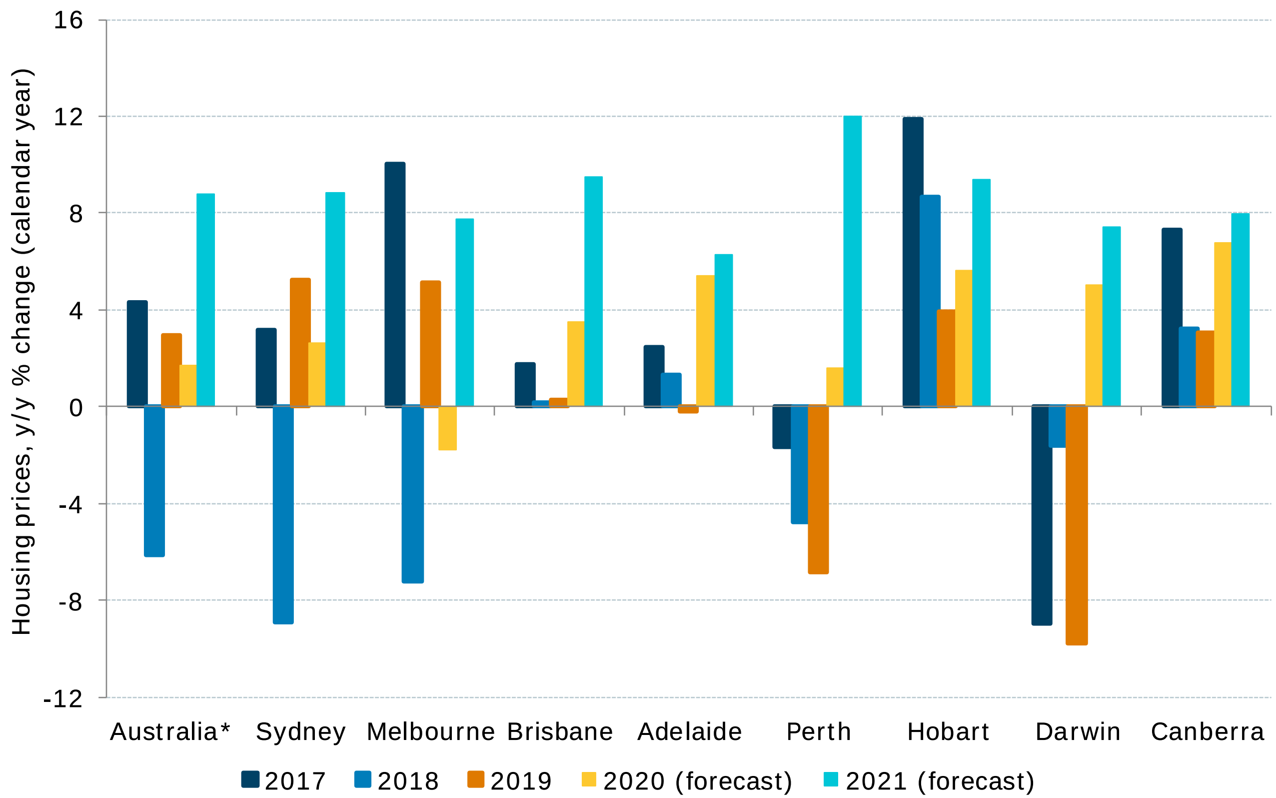
Source: CoreLogic, ANZ Research

House prices have been more resilient and have turned around earlier than we expected.

We now expect October 2020 to mark the bottom of the house price cycle and look for a gain of 9% in house prices on average across the capital cities in 2021.

We now expect solid gains in house prices in 2021

Housing price forecasts, by capital city

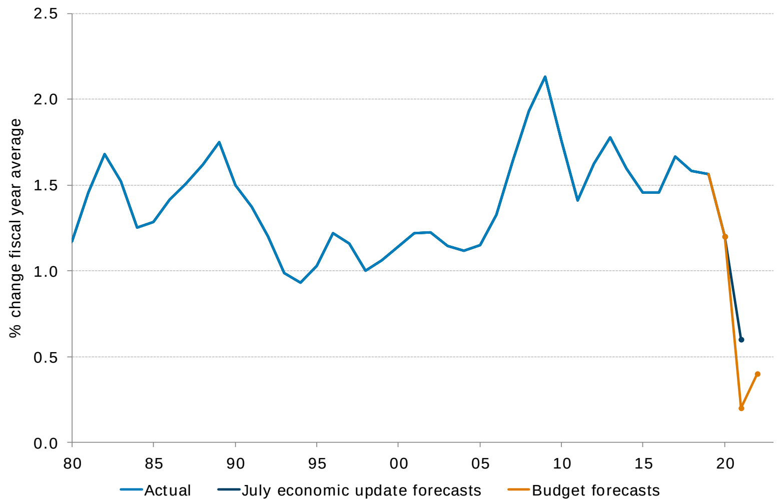


* Capital city weighted average

Source: CoreLogic, ANZ Research

Falling population growth will constrain housing demand

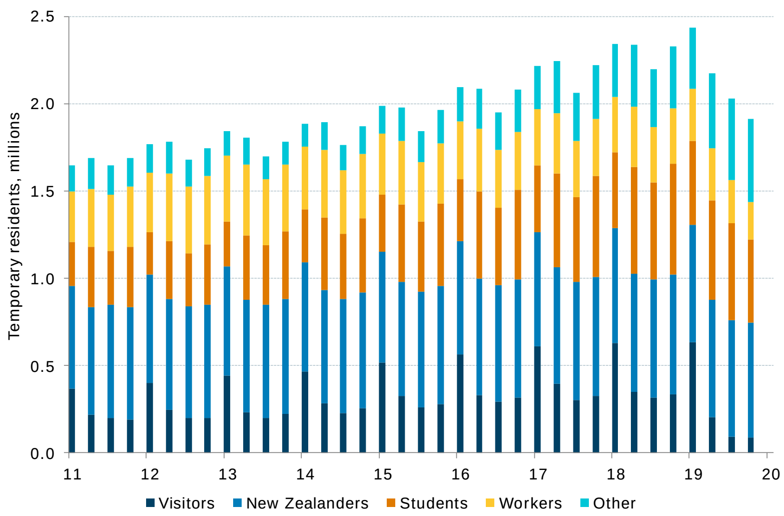
Population growth is set to fall sharply



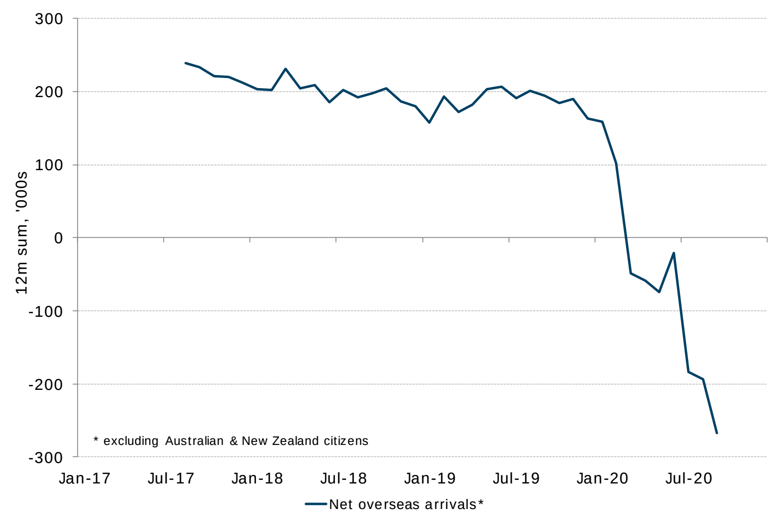
- Low population growth will continue to be a headwind. The lack of overseas migration, which in 2019 accounted for nearly two-thirds of Australia's population growth, will weigh on housing demand and provide a solid headwind.

- At the end of 2019, there were 2.4m temporary residents in Australia. With limited income support, many temporary residents are choosing to leave. Since the end of 2019 more than 520k of these temporary visa holders have left Australia, including visitors, students and those on working visas.

Temporary residents are declining



In the year to September, net departures were nearly 270k



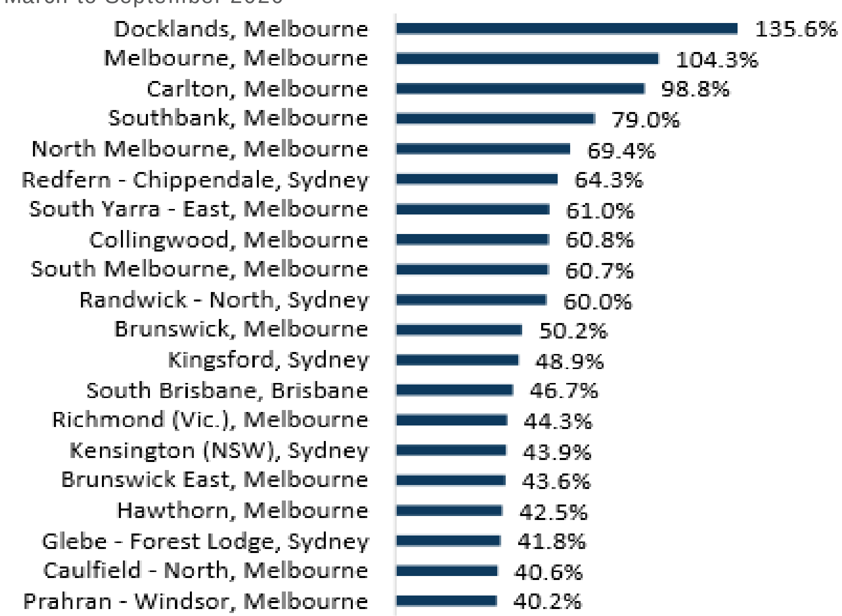
Source: ABS, Department of Home Affairs, ANZ Research

Rental markets are also turning, but they lag the buyers' market

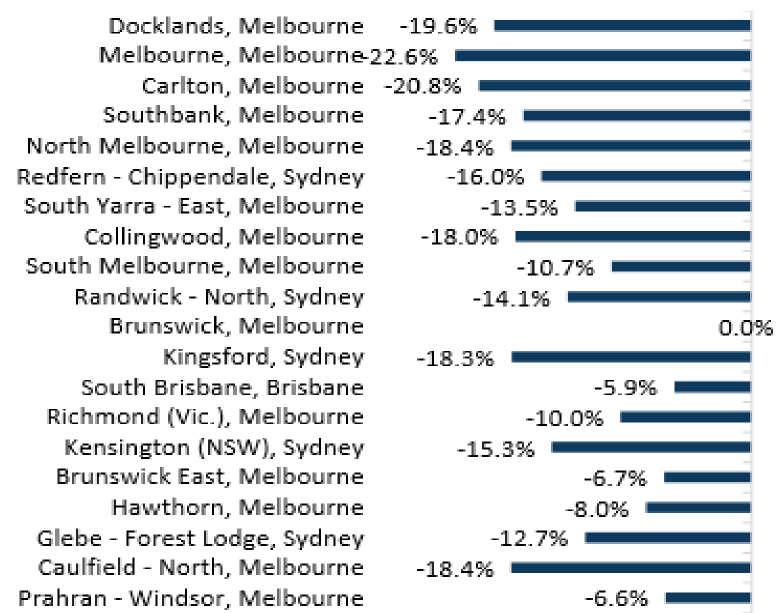
- After falling sharply in the initial months of the pandemic, advertised rents have now lifted. Rental demand was hit by a disproportionate loss of income in industry sectors where workers were more likely to be renting, as well as the closure of Australia's borders to international travellers and migrants, who tend to rent rather than buy when they first arrive. Increased supply from the conversion of short-term accommodation to the long-term rental market also weighed on rents.
- While overall rents have ticked higher, this masks very disparate performances across markets. Sydney and Melbourne rents are being held down by sharply weaker unit markets (particularly in the inner-city markets), while in Hobart (which prior to the pandemic had the lowest rental affordability of all the capital cities) the weakness is spread across both houses and units.
- The overall weakness in the rental market is flowing through to investor demand, for both established and new housing.

Change in rental listings

March to September 2020



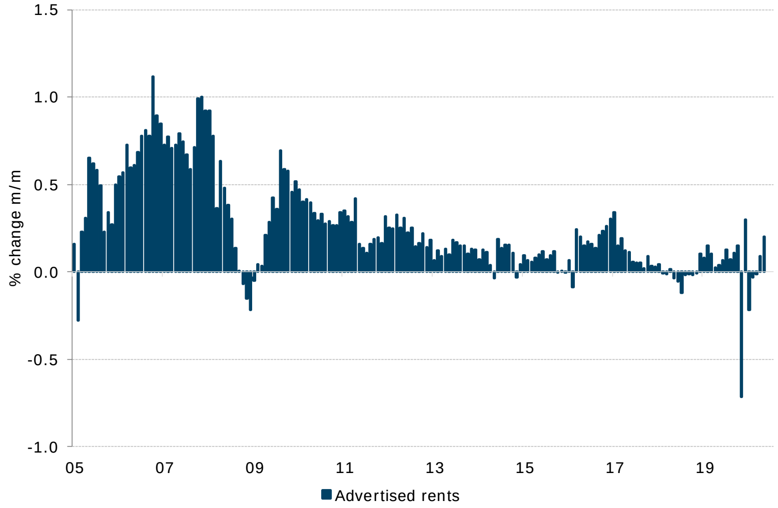
Change in asking rents



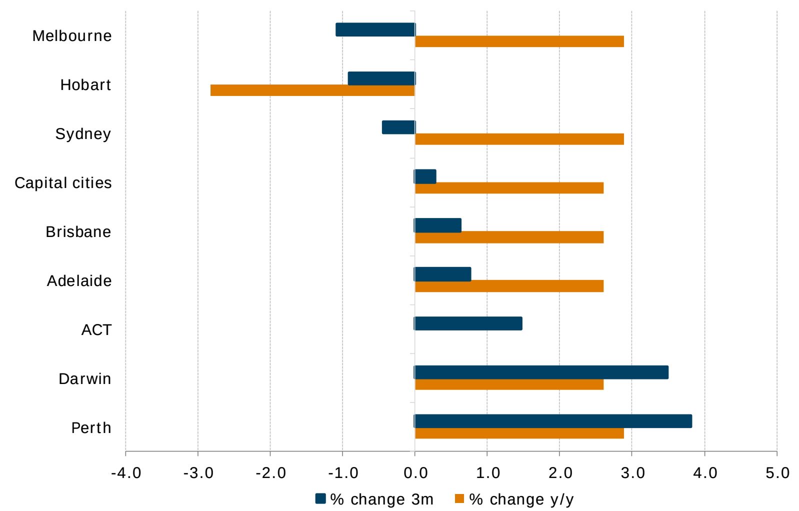
Source: CoreLogic, ANZ Research

The rental market has improved, but performance is mixed across cities and segments

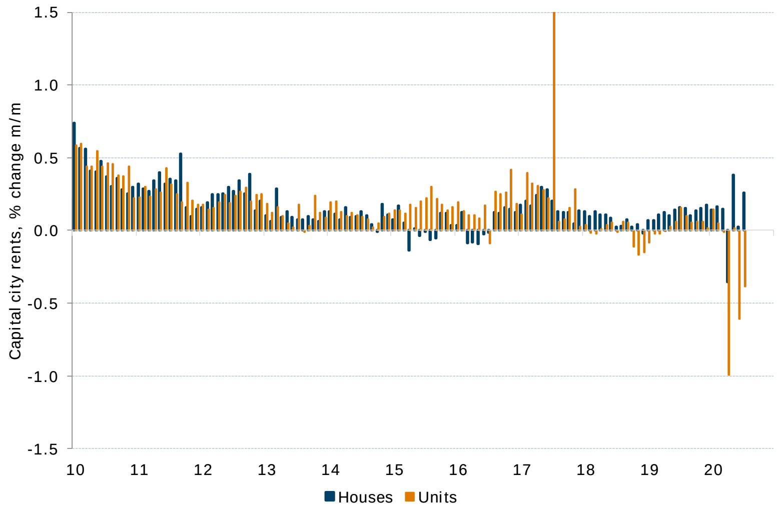
Rents have turned around



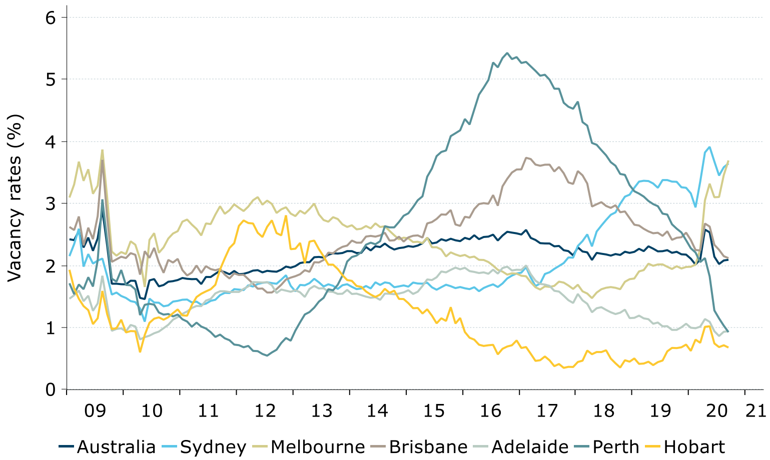
Melbourne, Hobart and Sydney continue to be the weakest markets



Unit markets have been much weaker than houses



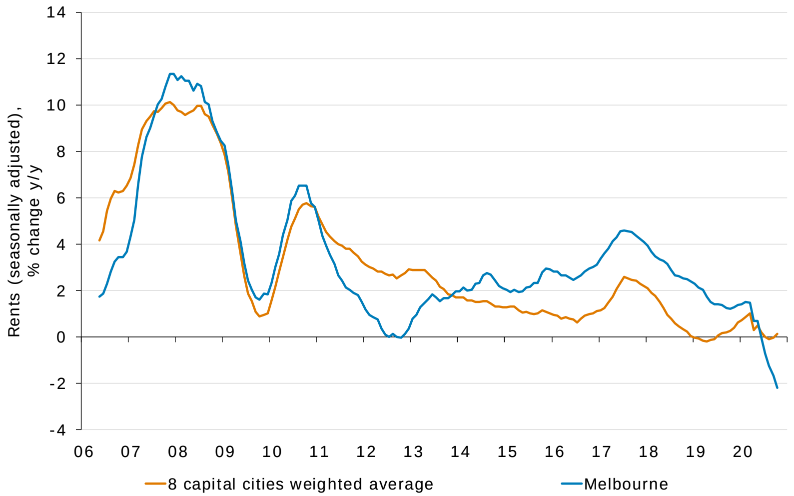
Vacancy rates have risen sharply in Sydney and Melbourne, but are much lower in Perth



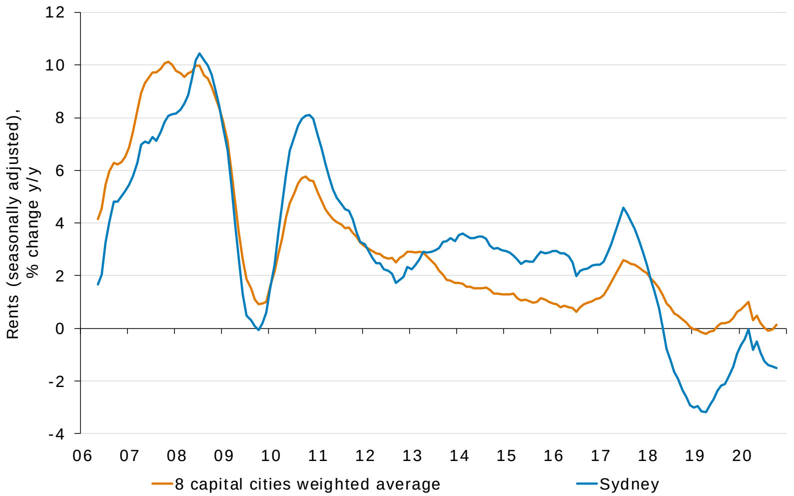
Source: CoreLogic, ANZ Research

Not surprisingly, the rental market is weakest in Melbourne, while Perth and Darwin are recovering strongly

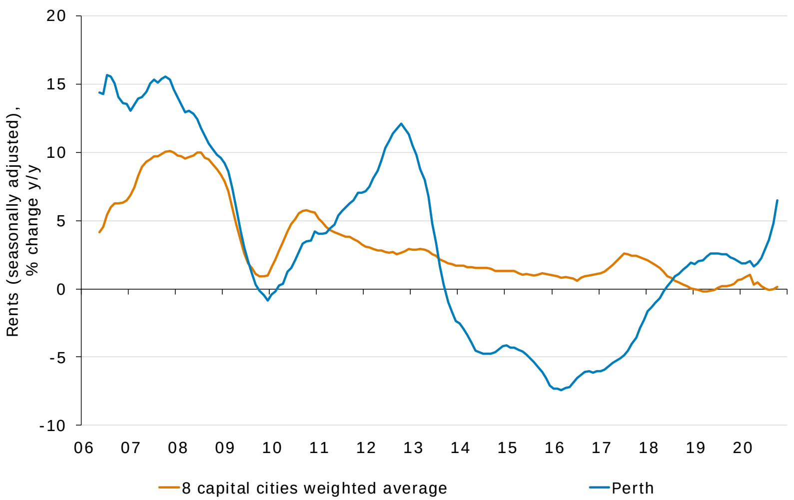
Melbourne rents remain particularly weak



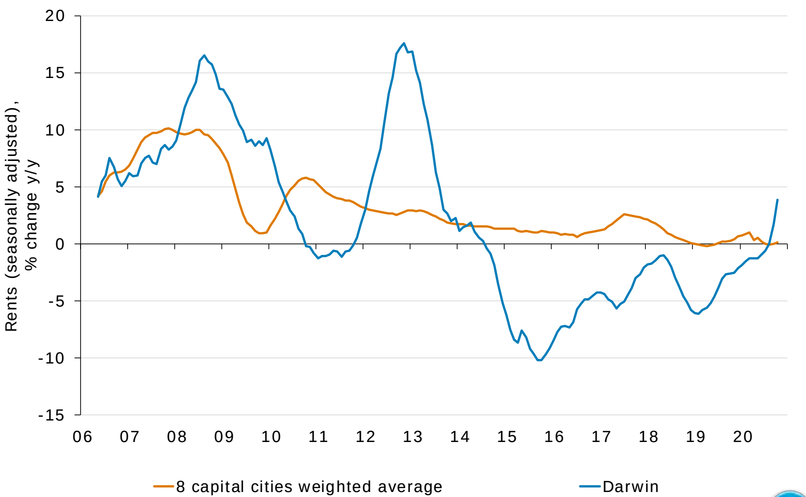
Sydney rents are also lower than a year ago



The Perth market is staging a strong recovery …



… and the Darwin market is also strengthening



Source: CoreLogic, ANZ Research

Construction activity

The HomeBuilder scheme and low interest rates are driving a recovery in residential construction

- The Homebuilder program has hit the mark and approvals for houses and renovations have risen sharply. Across all states, even Victoria, house approvals rose strongly through the September quarter. In total, approvals rose 26% in the three months to September, after a 20% decline in the previous three months.

- House building has been the main beneficiary of the HomeBuilder program. The three-month time limit for construction to begin after the contract date largely precludes apartments from the program. That said, approvals for apartments and town houses have bounced strongly in the last few months and look to be finding a bottom. Finance for developers also looks to be levelling out, which is another positive sign for the sector. Renovation approvals are also up 23% since the low in April, as home owners also take advantage of the HomeBuilder scheme to upgrade their homes.

- Western Australia, where the state government has introduced additional grants, is leading the charge higher, with a massive 77% jump in approvals in the three months to September. Queensland has also seen strong growth (+38%), followed by Victoria (+26%), Tasmania (+22%) and New South Wales (+13%) and South Australia (+10%). Unit approvals have bounced alongside house approvals across most states, suggesting low interest rates are playing a key role.

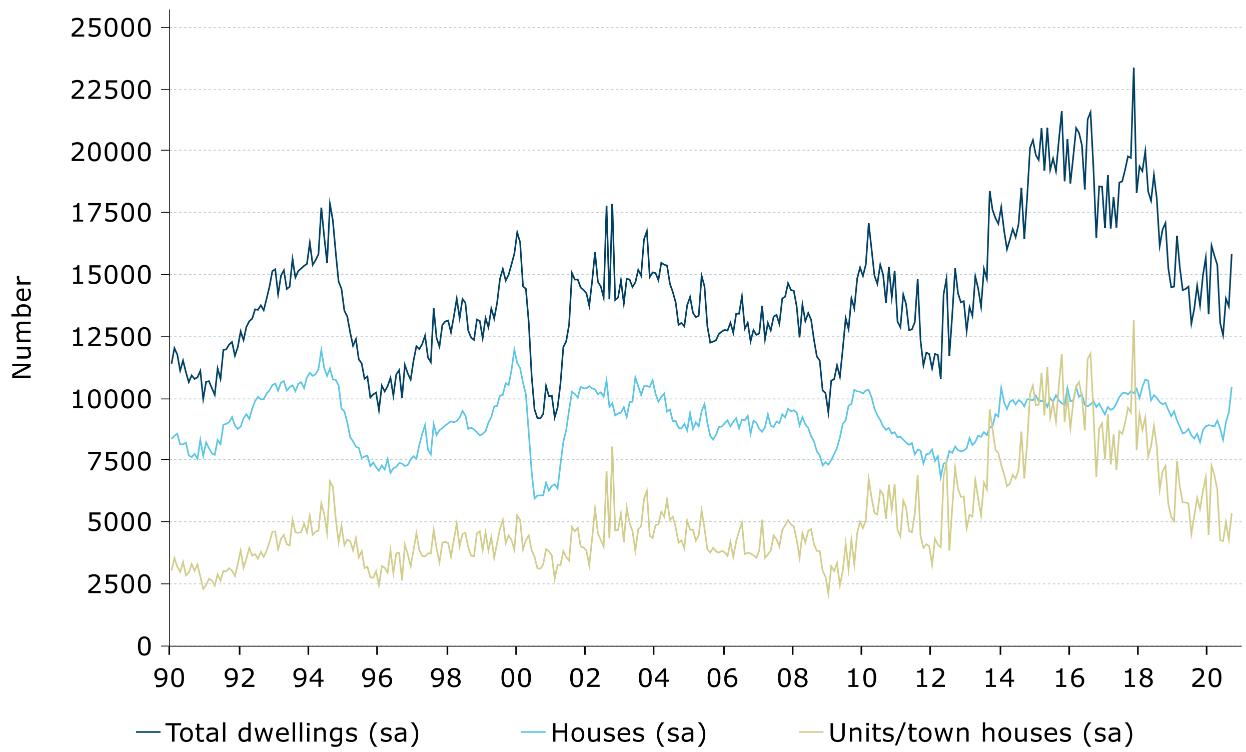
- Low population growth and weak investor demand are likely to continue to be headwinds, particularly in the apartment market. However, low rates and government stimulus are more than offsetting these negatives. The recent announcement that the Victorian government will spend AUD5.3bn on social housing over the next four years will further lift activity, while news that a vaccine may be widely available by the June quarter next year will only increase confidence in the housing market.

Housing approvals are now rising strongly

Fiscal stimulus is having an impact.

Approvals have risen 27% over the past three months, helped by the HomeBuilder scheme which is supporting the detached house building sector.

Residential approvals are recovering



Source: ABS, Macrobond, ANZ Research

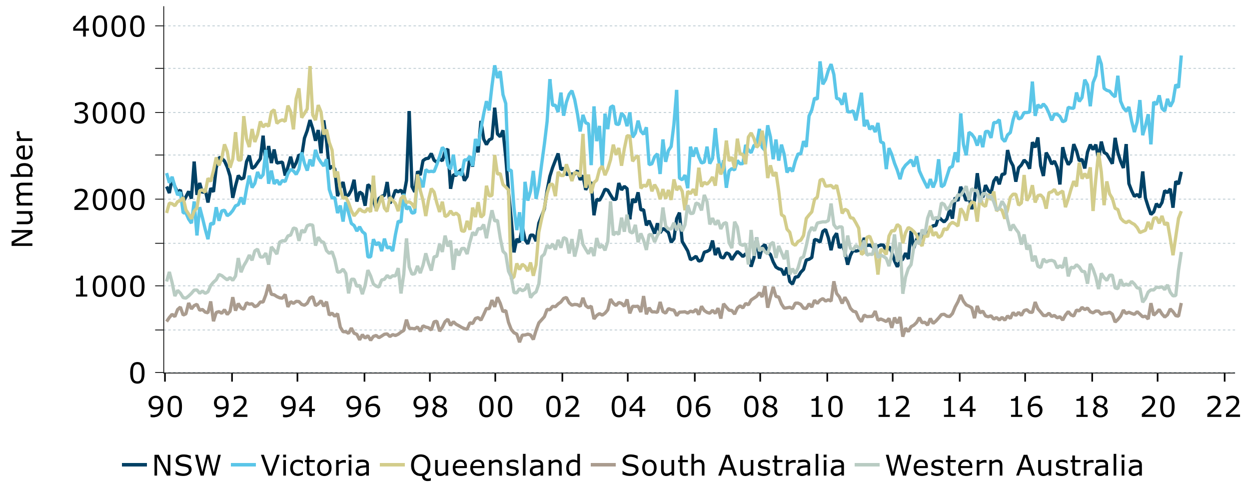
Approvals in all states have picked up solidly

Approvals have picked up sharply across the country.

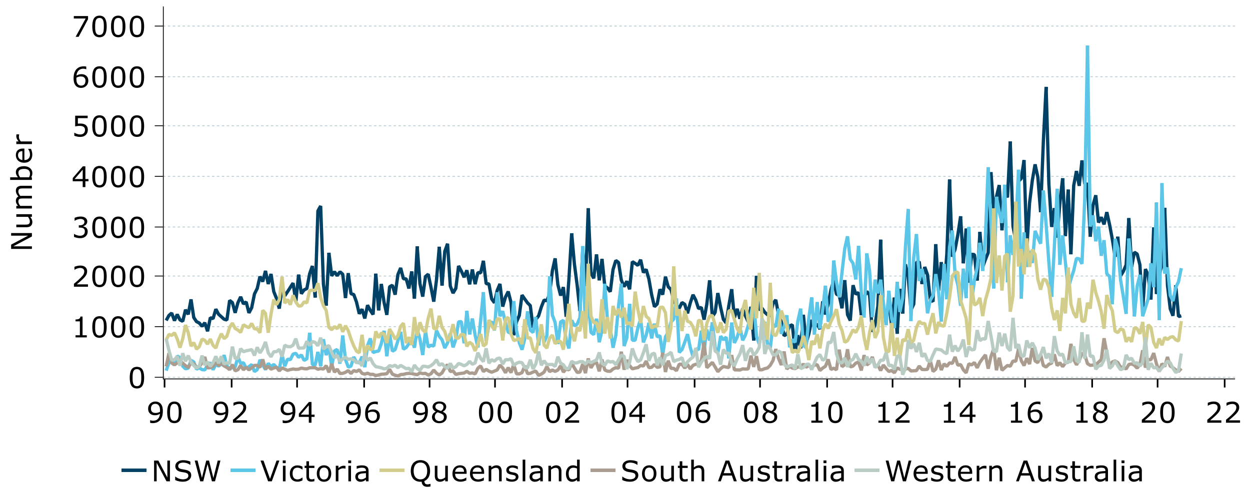
Western Australia (+77% in the three months to September) and Queensland (+38%) have seen the strongest growth.

And despite the lockdown, Victorian house approvals hit a record high in September.

House approvals are picking up everywhere



Unit approvals have bounced in most states, except NSW



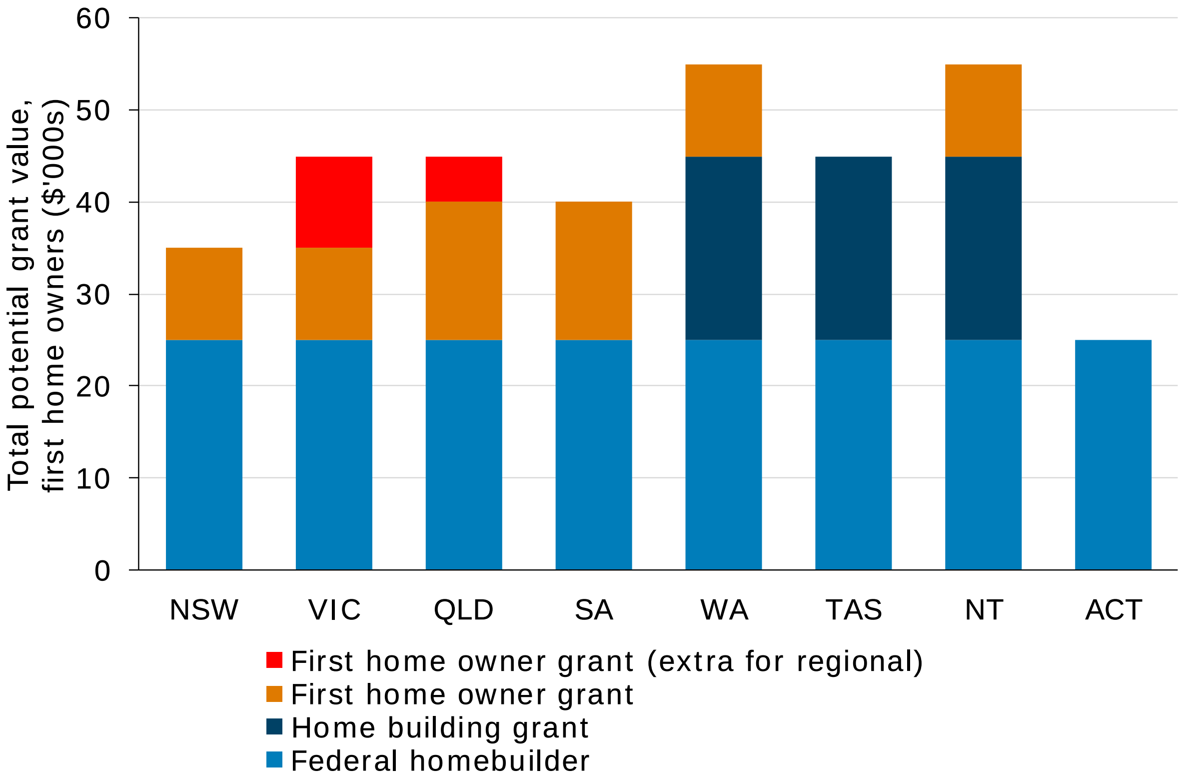
Source: ABS, Macrobond, ANZ Research

Since the pandemic hit, a number of policies have been introduced to support housing.

Many of these grants, including the Homebuilder grant, $20k Tasmanian grant, and $5k regional grant in Queensland, are set to expire at the end of 2020, but extensions can’t be ruled out.

There is significant policy support to build and buy new homes

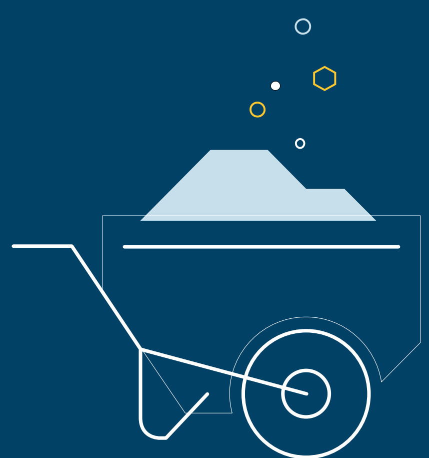
Potential grants for first home buyers



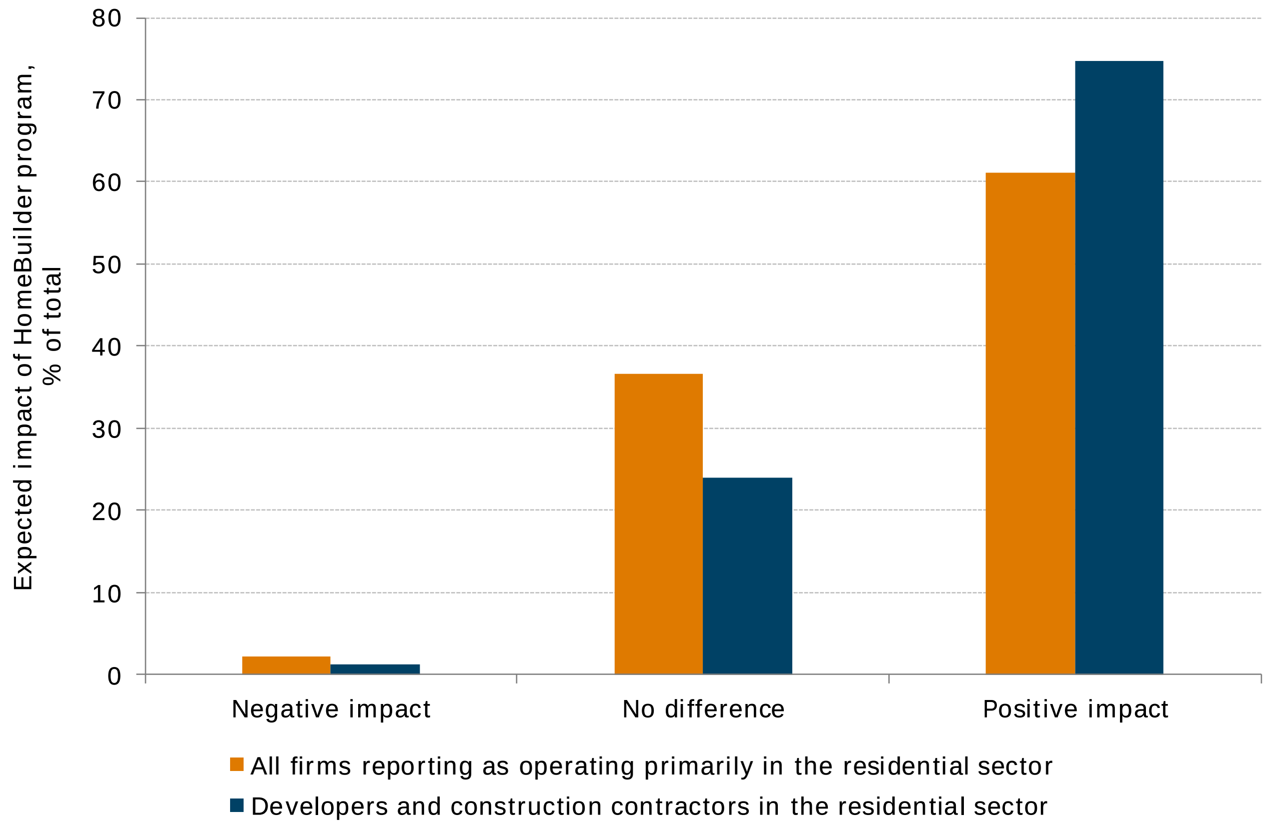
Source: Australian State Revenue Offices, ANZ Research

The HomeBuilder program has hit the spot

The most recent ANZ-PCA survey showed that 61% of respondents operating in the residential sector expect the HomeBuilder program to have a positive impact on their business, while 75% of developers expect a positive impact (up from 70% in the previous survey).



Expected impact of the HomeBuilder program



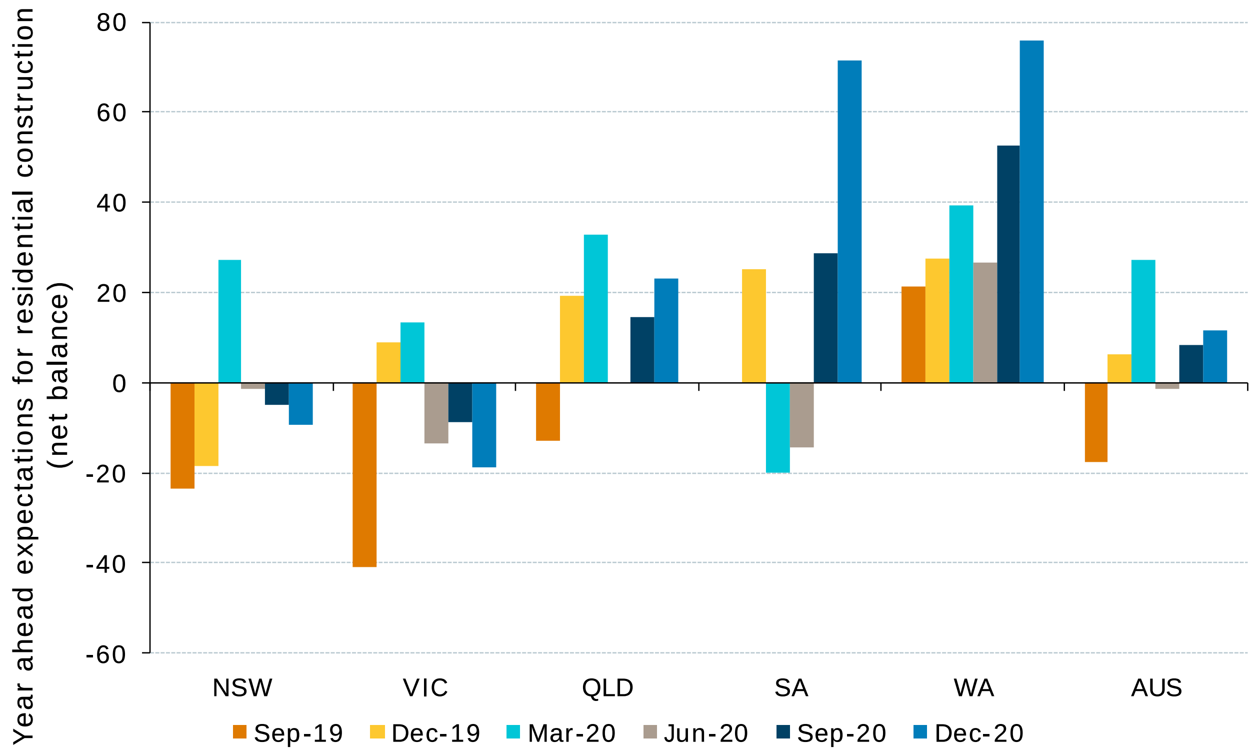
Source: Property Council of Australia, ANZ Research

The latest ANZ-PCA survey showed a lift in expectations for residential construction. The outlook is quite varied, with WA and SA respondents particularly positive about the outlook.

The outlook in Queensland is also promising. In NSW and Victoria, where the pandemic has weighed more heavily on activity and there is a higher share of apartments, the outlook remains negative.

The construction outlook diverges widely across the states

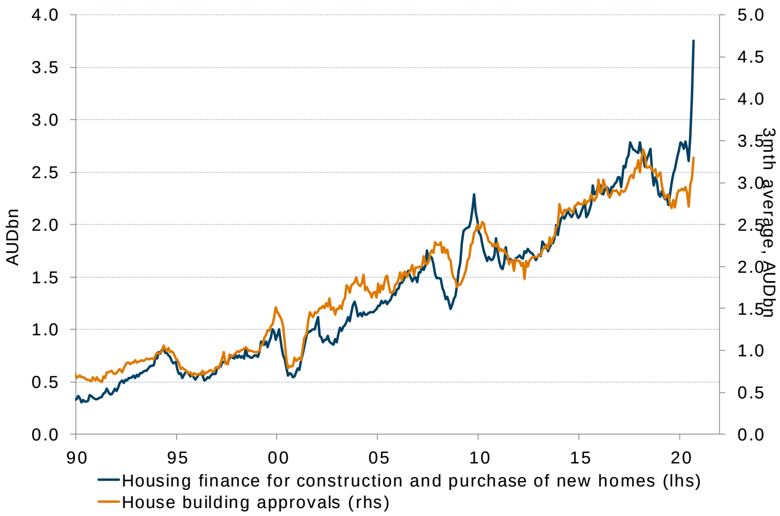
Year ahead construction outlook by state



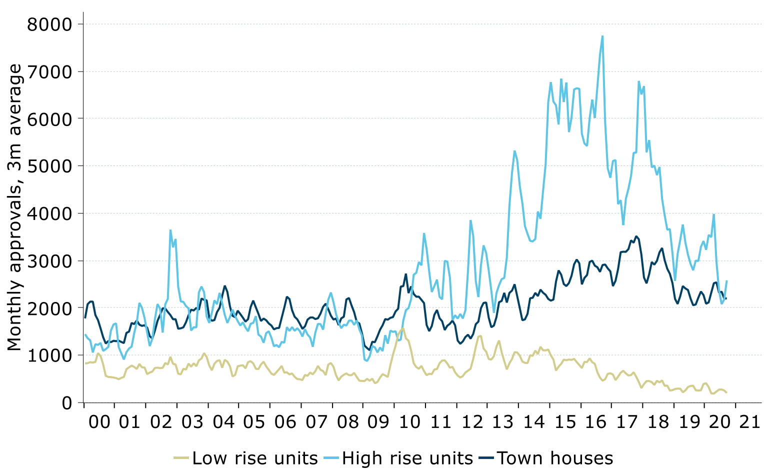
Source: Property Council of Australia, ANZ Research

Strength in housing finance and an emerging recovery in building approvals confirm the construction outlook has improved

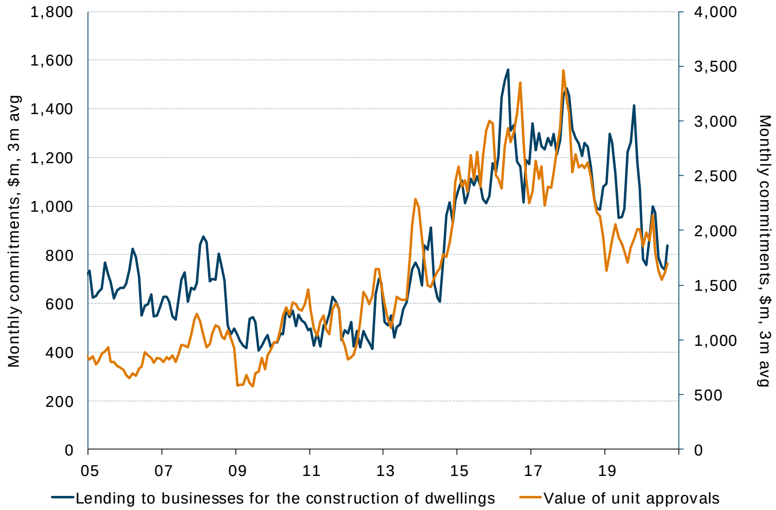
Housing finance points to more strength in approvals



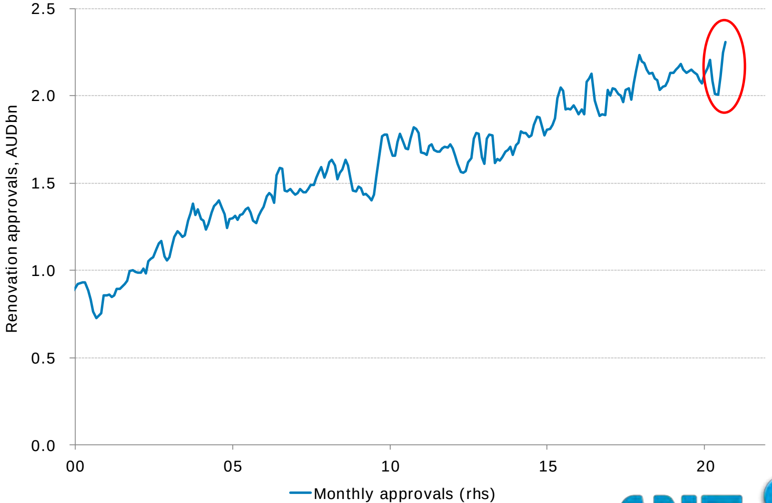
Unit approvals look to be bottoming



Developer finance looks to be flattening out



Renovation approvals have spiked



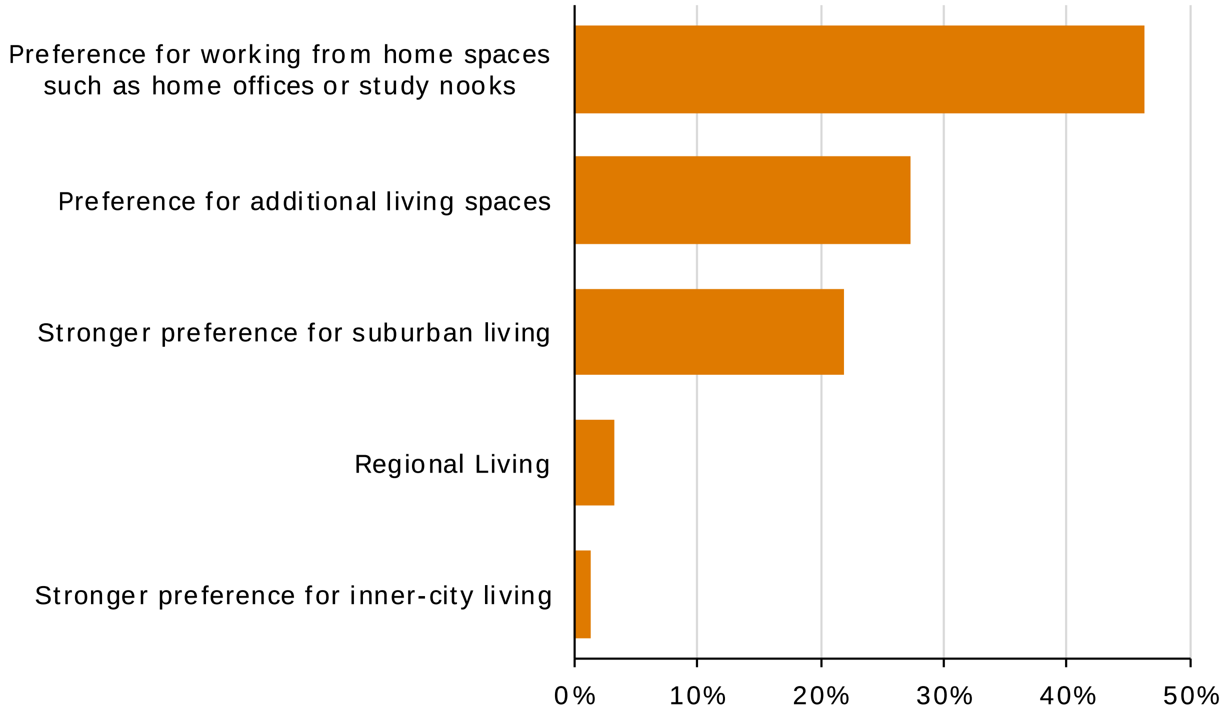
Source: ABS, Ai Group, ANZ-PCA, Macrobond, ANZ Research

COVID-19 has changed home-buyer preferences

Changing home buyer preferences will impact the shape of the recovery in housing.

Survey of home-buyer preferences

Of the 44% of builders who noticed a change in home buying preferences:



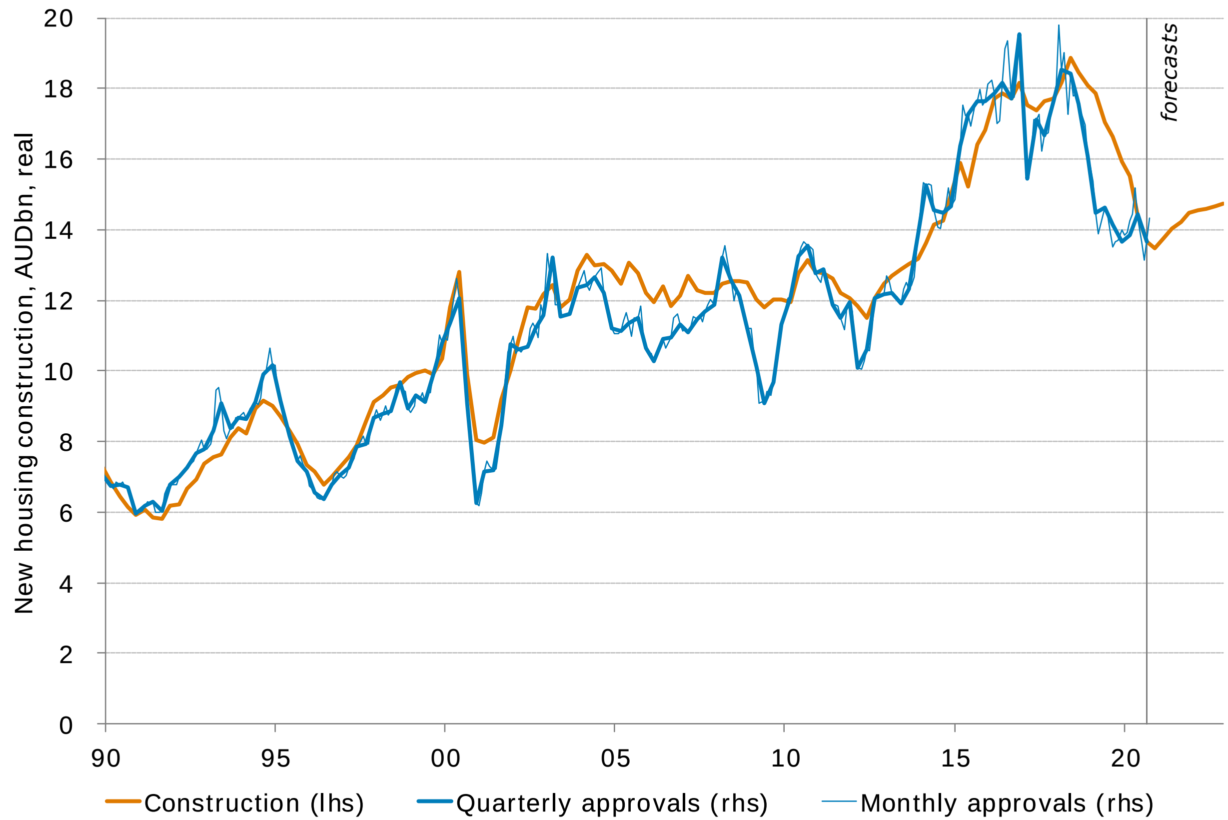
Source: HIA Economics

Housing construction has fallen 18% from the peak in mid-2018.

Activity is likely to contract in the September quarter, before flattening out and then turning higher next year, with low interest rates helping, and the HomeBuilder program providing strong support for house and renovation construction.

Housing construction looks set to turn higher early in 2021

Housing construction forecasts



Source: ABS, ANZ Research

Financial stability

Financial stability: policy and lender support will mitigate 2021 labour market risks

Housing debt is up, but so are savings

While high housing debt may pose a risk next year in light of expected higher unemployment rates, the spike in household savings in Q2, particularly by indebted owner occupiers, suggests many households have increased their mortgage buffers. On average, owner occupiers were less likely than renters to lose income and employment through the pandemic downturn.

Mortgage deferrals are falling

The number of deferred mortgages is falling quickly. At the peak, 11% of mortgages (by value) were on deferred payments. As of September, APRA reports that this had fallen to 7%. With the bulk of loan deferrals expiring in October, this number has fallen further. Victoria has the highest rate of deferral, while NSW is closer to the national average.

Housing arrears have risen, but only a little

Housing arrears in Australia have risen to around 1.2%. This is only 0.2ppt higher than September last year. ANZ 90+ day arrears data show that Victoria and NSW arrears rose modestly between March and September, but arrears rates in other states have declined through the same period. RBA research suggests that housing arrears could rise to 2% as mortgage deferrals expire and unemployment continues to rise. Our view is that accommodative lender measures and a lower peak in the unemployment rate will mitigate this risk.

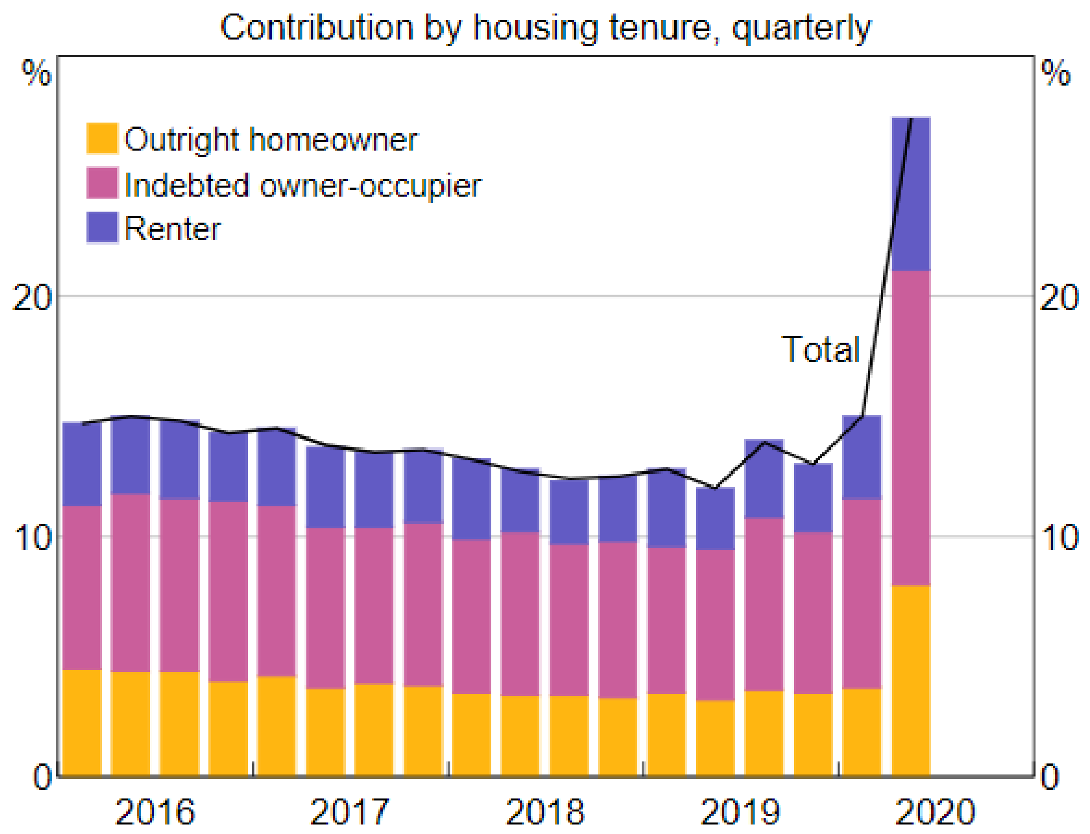
Lower servicing costs will reduce stability risks

The very low cash rate (0.1%) and increasing use of lower fixed rates for mortgages has eased mortgage servicing costs for many households. Low interest rates, combined with deferrals and fiscal support including tax cuts, is likely to mitigate the labour market risks for financial stability in 2021.

Owner occupiers have increased their buffers

Strong increases in saving rates by indebted owner-occupiers suggest that many households now have significant buffers.

Household saving rates spiked in Q2, led by indebted owner occupiers



Average saving estimated as the difference between net household income and expenses; average savings of each group weighted by 2016 Census housing tenure shares

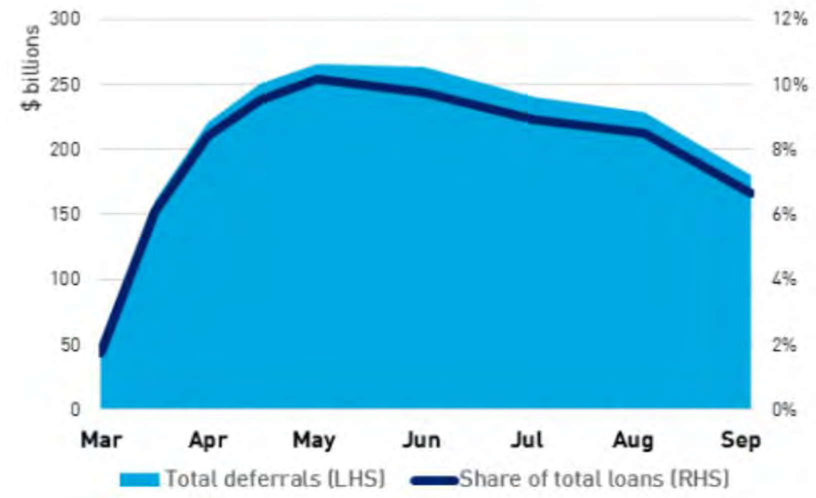
Source: RBA

Deferred loans are falling as a share of total mortgage debt

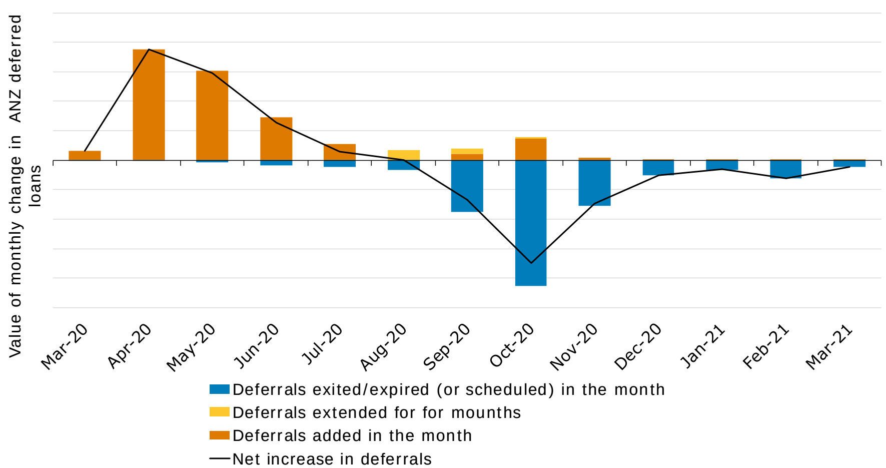
The bulk of mortgage deferrals[1] are likely to have already expired.

Lenders are likely to offer further support for owner occupier mortgage holders, and significant forced selling is unlikely.

The value of loans subject to repayment deferrals are falling



Within ANZ, most mortgage deferrals will expire by year-end



[1]based on internal ANZ data and RBA research

Source: APRA, ANZ

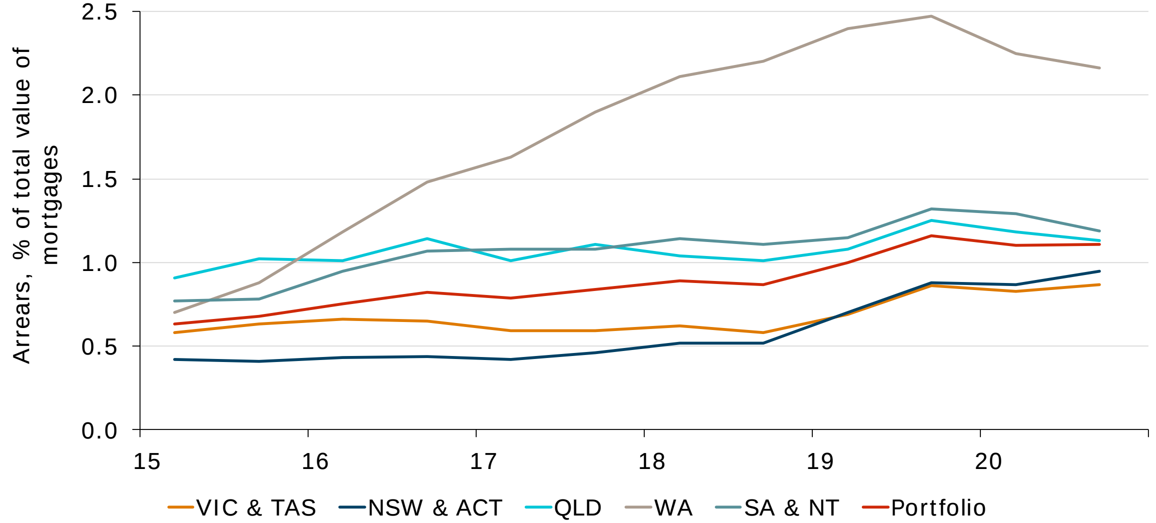
Fiscal support, monetary easing and mortgage deferrals have mitigated the arrears risk through the pandemic downturn.

While average arrears rates in Vic and NSW have risen this year, arrears in other states have fallen.

Vic has the highest share of deferred mortgages, but NSW is closer to the average across the states.

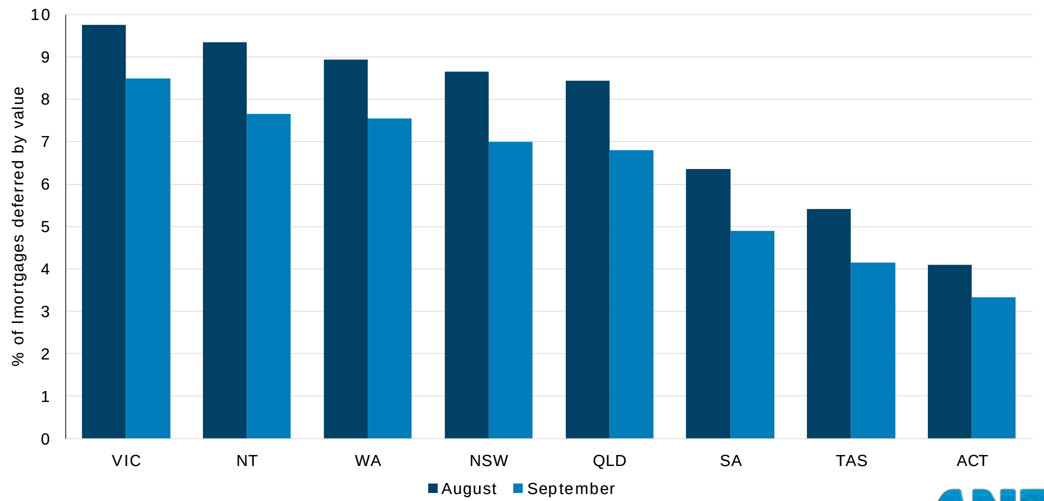
Arrears rates outside Vic and NSW have fallen

ANZ arrears rates by state



Source: ANZ

Deferred mortgages by state



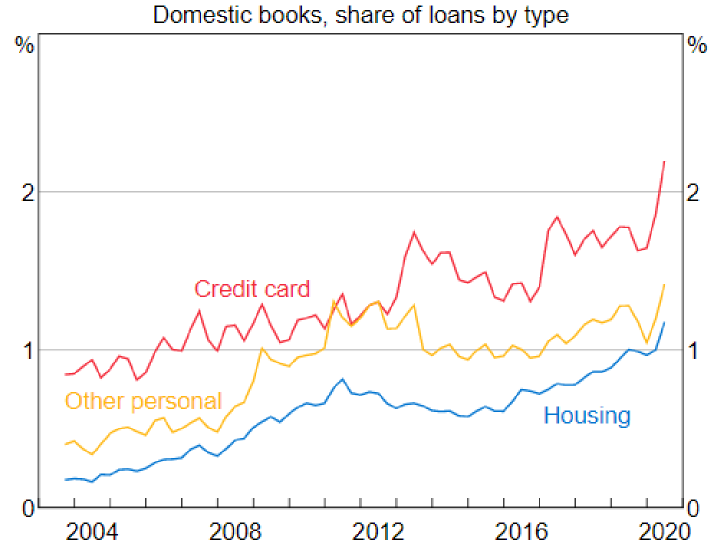
Source: APRA

Arrears rates are up modestly to date

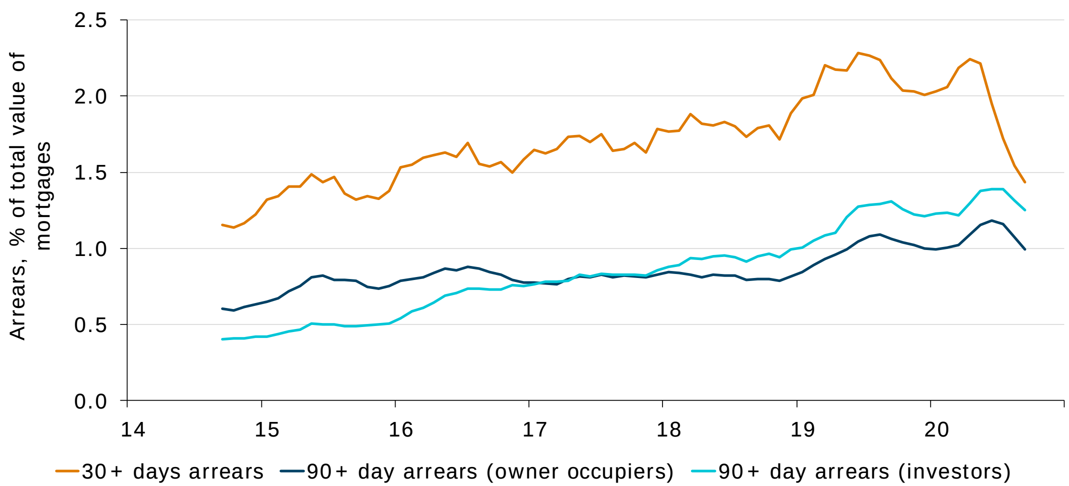
Housing arrears in Australia have risen to around 1.2%, only 0.2ppt higher than September last year.

Fiscal and monetary support, alongside mortgage deferrals has helped limit the rise in arrears rates to date.

Bank non-performing housing loans have risen more slowly than personal debt loans



ANZ arrears rates have ticked down



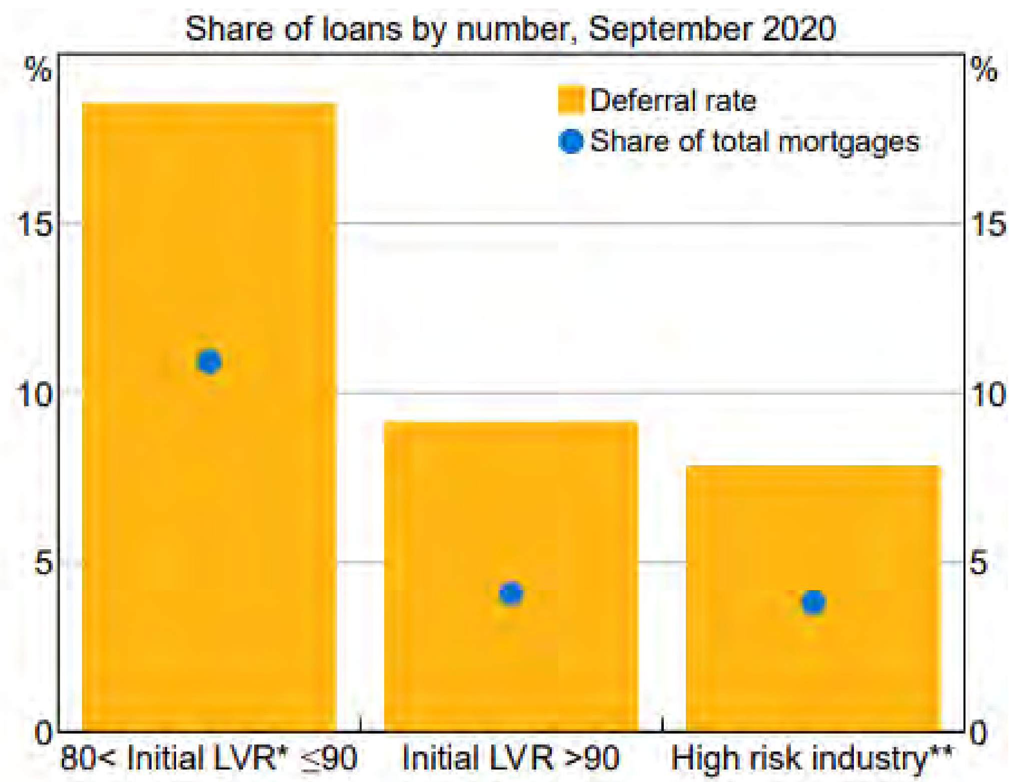
Source: RBA, ANZ Research

Borrowers who work in pandemic-hit industries were more likely to defer mortgages than other types of households.

RBA research suggests that housing arrears may rise to 2% as these mortgage deferrals expire and unemployment continues to rise. However, we think it is more likely that loan restructures and other lender forbearance measures could mitigate this risk.

More deferred mortgages are held by "riskier" customers

Share of loans by customer type



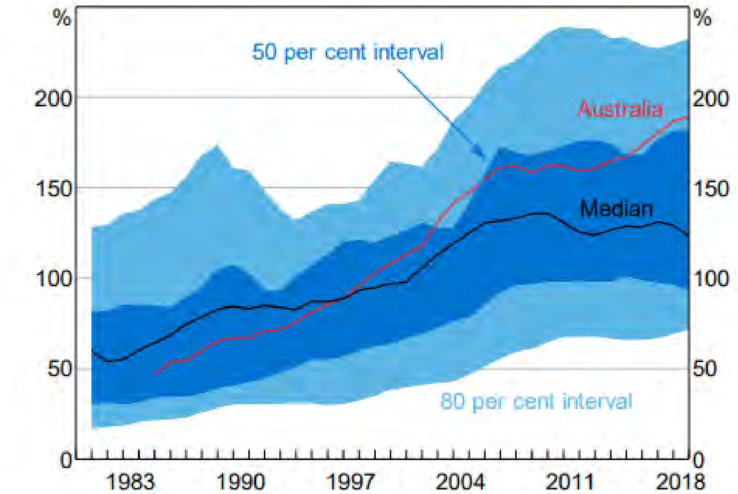
* Loan-to-valuation ratio

** Includes accommodation and food services, arts and recreation services, retail trade, and rental, hiring and real estate services

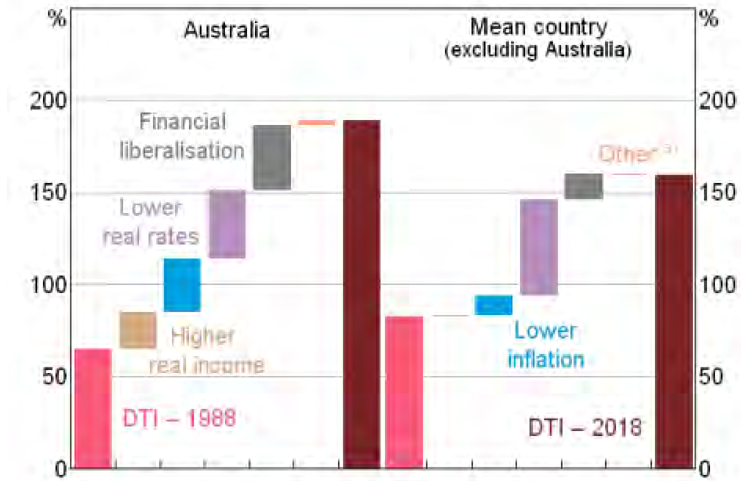
Source: RBA

How risky is Australian household debt? High debt largely reflects high ownership, but risks to the consumption outlook remain

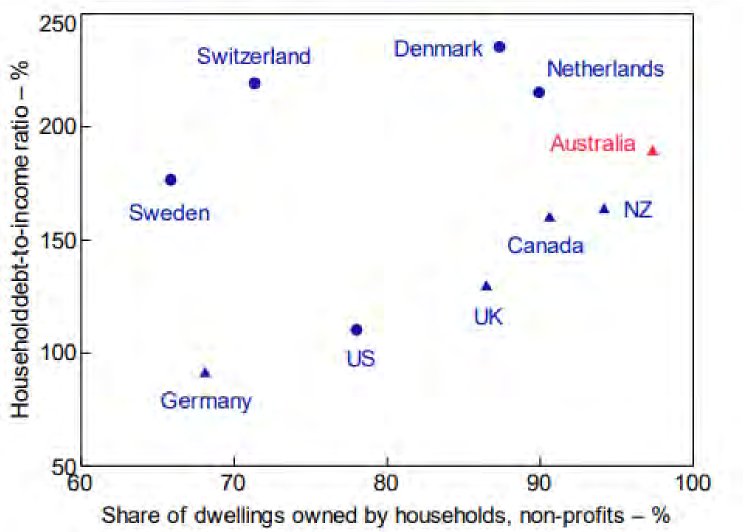
Global household debt-to-income ratios



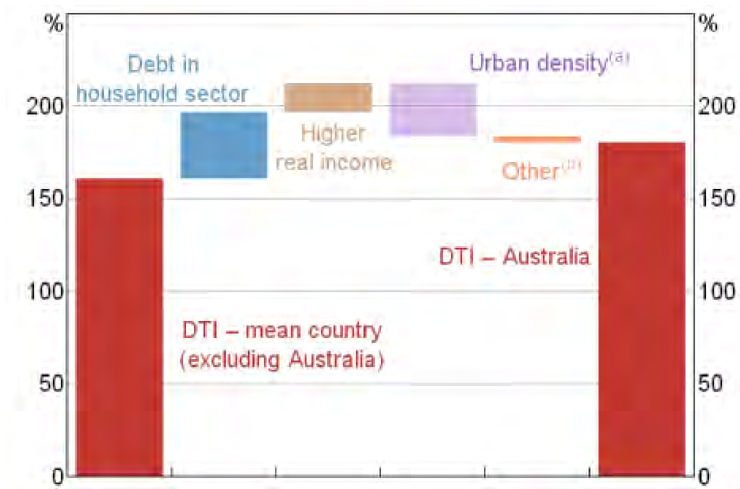
Contribution to change in debt-to-income ratio (between 1988 and 2018)



Household debt and ownership*
Available advanced economies, as at 2018



Contribution to difference in DTI ratio (Australia vs mean)



* Circles represent countries where owner-occupier mortgage payments are tax deductible
Source: RBA

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[4 August 2020]

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THE ANZ ROY MORGAN FINANCIAL WELLBEING INDICATOR

QUARTERLY UPDATE NOVEMBER 2020

FINANCIAL WELLBEING OVERVIEW

The effects of the COVID-19 pandemic have been felt across Australia both economically and socially. While the initial lockdown impacted the entire country, the pandemic is now playing out differently across states and territories with Western Australia, South Australia, Queensland and Tasmania almost back to 'normal' compared to a moderate approach in NSW and the wind back of a hard lockdown in Melbourne, Victoria.

The ANZ Roy Morgan Financial Wellbeing Indicator has previously been reported as a 12-month moving average every quarter. However, as the 12-month moving average to August 2020 incorporates seven months of data pre COVID-19, it takes into account the financial wellbeing gains made throughout the latter half of 2019 and early 2020. To better understand the changes arising from the pandemic, this update compares the pre COVID-19 12 months to March 2020 with the combined spot monthly results for April 2020 through to August 2020.

INDICATOR

The ANZ Roy Morgan Financial Wellbeing Indicator shows that as a result of COVID-19, the financial wellbeing of Australians

DECLINED 6.4% **FROM** 60.7 (as a score out of 100) in the 12 months to March 2020 → **TO** 56.8 in the 5 months to August 2020 (Figure 1 and Table 1).

ROY MORGAN

ANZ

INDICATOR (CONTINUED)

From April 2020 to August 2020, the monthly financial wellbeing scores have remained in the narrow range of 56.5 to 57.0 (out of 100), with a financial wellbeing score of 57.0 in August 2020.

While all components of financial wellbeing declined (Table 1), the biggest decline was in **'feeling comfortable'** about one's current and future situation, down 12.1% for the 5 months to August 2020 (49.2) compared to 12 months to March 2020 (56.0), recovering slightly from our July 2020 update (48.3).

'Meeting everyday commitments' was down 6.0% for the 5 months to August 2020 (68.6) compared to 12 months to March 2020 (73.0).

'Resilience for the future' – the ability to cope with financial setbacks – declined by 1.0% for the 5 months to August 2020 (52.6) compared to 12 months to March 2020 (53.2), although resilience for the single month of August 2020 returned to pre COVID-19 levels as people began to save in response to future uncertainty.

LOOKING AHEAD

- COVID-19 has had the greatest impact on how Australians feel about their current or future financial situation as opposed to more objective measures of economic impact, such as 'meeting everyday commitments' and their 'resilience for the future'. To date, individuals' ability to meet their financial commitments and ensure they have financial reserves in place, have been significantly underpinned by government support, such as Job Keeper and Job Seeker, and institutional initiatives such as payment waivers, which were put in place to help minimise the impacts of COVID-19. The extent to which the more objective dimensions of financial wellbeing are impacted in the future will depend on the strength of Australia's economic recovery once government and institutional support ends.
- The negative impacts of COVID-19 have been disproportionately felt by some segments. The gains from the recovery and its effect on people's ability to 'meet everyday commitments' and their 'resilience for the future' may also be felt unevenly.

IN THIS RELEASE

- The immediate impacts of COVID-19 on financial wellbeing shows that the 'Struggling' and 'Getting By' segments increased in size while the 'No Worries' segment decreased substantially (Figure 2).
- Financial wellbeing has fallen across all **states and territories**. **Victoria** experienced the largest fall in the 5 months to August 2020, likely as a result of a second lockdown (Figure 3). Regional Victorians have fared better than their metropolitan counterparts (Figure 4).
- The financial wellbeing of **business owners** (small and medium enterprises with less than 200 employees) has been more negatively impacted than retirees and PAYE employees (Figure 5). Prior to COVID-19, the financial wellbeing of business owners sat above the Australian national average. It now sits well below. Micro business owners (those employing less than five people) have shown the largest decline in financial wellbeing since COVID-19 (Figure 6).
- Some **occupations** were impacted more significantly than others. Food service workers, construction trades, arts and media professionals, and sports and personal service workers experienced the largest declines in their financial wellbeing (Figure 7).
- The impact of COVID-19 on **'resilience'** has been modest to date. Many Australians have improved their **savings** buffer post COVID-19. Median savings in accounts increased across all financial wellbeing segments between April and August 2020 (Table 3). Improved savings was supported by reduced consumption due to lockdowns and the presence of government programs such as Job Keeper and Job Seeker, and institutional support such as payment deferrals.
- The burden of **employment impacts** continues to fall disproportionately on younger people and those already experiencing low financial wellbeing prior to COVID-19 (Table 4).

FIGURE 1: FINANCIAL WELLBEING IN AUSTRALIA, MONTHLY SPOT DATA AND 12-MONTH MOVING AVERAGE (JAN-14 TO AUG-20)

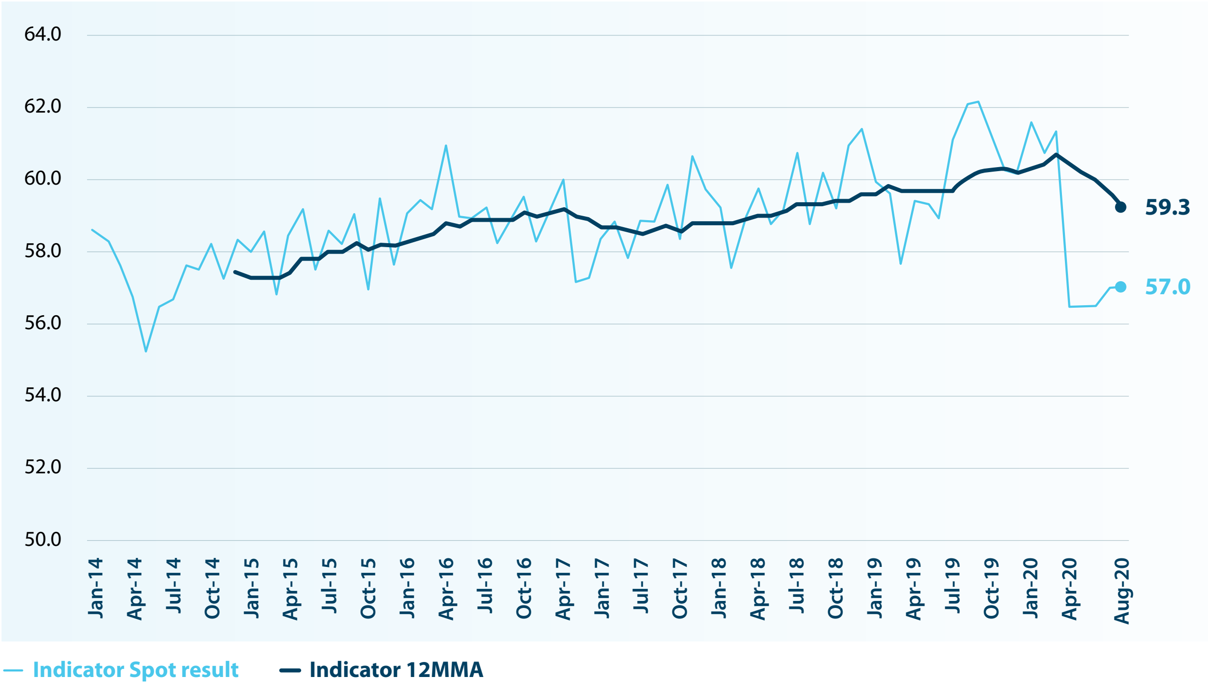


TABLE 1: FINANCIAL WELLBEING DIMENSIONS IN AUSTRALIA (12-MONTH MOVING AVERAGE, SPOT MONTH AND 5-MONTH MOVING AVERAGE VIEW)

	ANZ Roy Morgan FWB Indicator								
	12 months		Spot Result					5 months to August 2020	*% change*
	Dec-19	**Mar-20**	Apr-20	May-20	Jun-20	Jul-20	Aug-20	**Apr to Aug-20**	12m to Mar-20 vs 5m to Aug-20
Financial wellbeing	60.2	**60.7**	56.5	56.5	56.5	57.0	57.0	**56.8**	-6.4%
Meeting commitments	71.9	**73.0**	70.1	67.9	67.9	69.5	67.8	**68.6**	-6.0%
Feeling comfortable	55.9	**56.0**	47.5	49.2	49.2	49.5	49.6	**49.2**	-12.1%
Resilience for the future	52.7	**53.2**	52.1	52.3	52.5	52.1	53.6	**52.6**	-1.0%

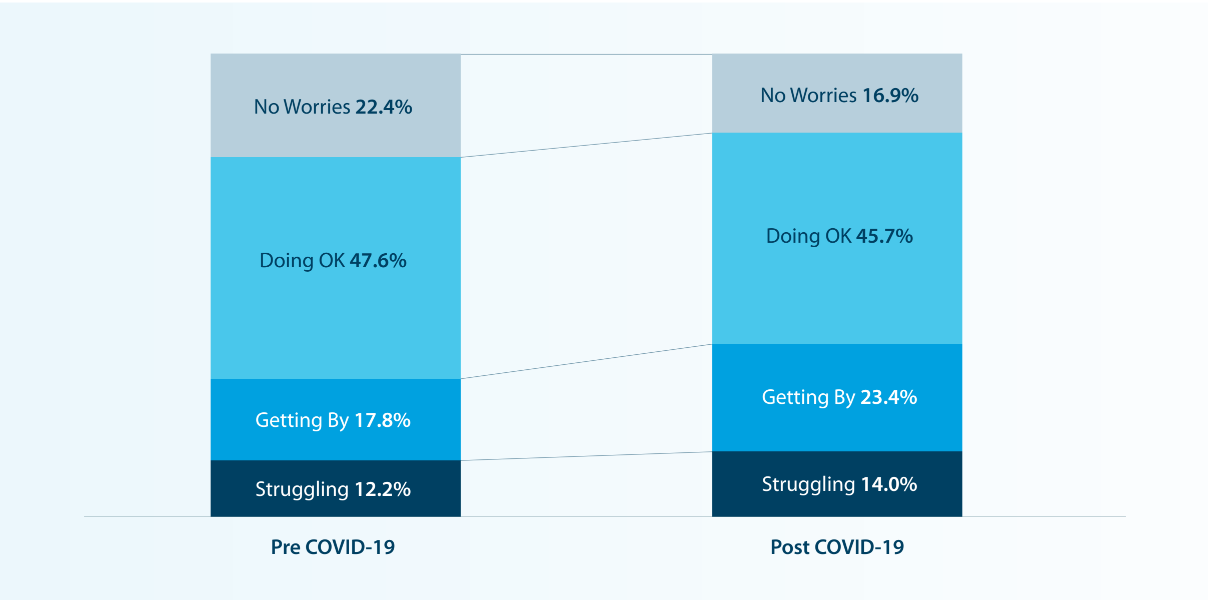
FINANCIAL WELLBEING SEGMENTS

Respondents were divided into four segments according to their overall financial wellbeing score (out of 100). These segments were described in ANZ's 2017 ANZ Financial Wellbeing Survey[1]:

- **Struggling:** (0-30) Most describing their current financial situation as 'bad', having little or no savings and finding it a constant struggle to meet bills and credit payments. Very few are confident about their financial situation over the next 12 months.
- **Getting By:** (>30-50) Many describing their financial situation as 'bad', less confident in their money management skills and their ability to control their financial future.
- **Doing OK:** (>50-80) Current financial situation is 'fair' or 'good' and reasonably confident about their financial situation over the next 12 months.
- **No Worries:** (>80-100) Financial behaviours – active savings and not borrowing for everyday expenses – contributing positively to financial wellbeing. High levels of confidence in managing money and substantial amounts in savings, investments and superannuation.

The proportion of people with the highest financial wellbeing ('No Worries') declined with the onset of COVID-19, from 22.4% in the 12 months to March 2020 to 16.9% in the 5 months to August 2020. Whilst the majority of the Australian population (45.7%) was 'Doing OK', this had also contracted from 47.6% in the 12 months to March 2020. The bottom two segments 'Getting By' and 'Struggling' both increased post COVID-19, now representing 37.4% of Australians in the 5 months to August 2020 (up from 30% in the 12 months to March 2020), with 23.4% 'Getting By' and 14.0% 'Struggling' (Figure 2). This continues to reverse the trend of recent years, which had seen growth in the upper segments in line with improvements in longer-term financial wellbeing.

FIGURE 2: CHANGE IN THE COMPOSITION OF THE FINANCIAL WELLBEING SEGMENTS ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

1. ANZ (2018). *Financial Wellbeing: A Survey of Adults in Australia*. http://www.bluenotes.anz.com/financialwellbeing

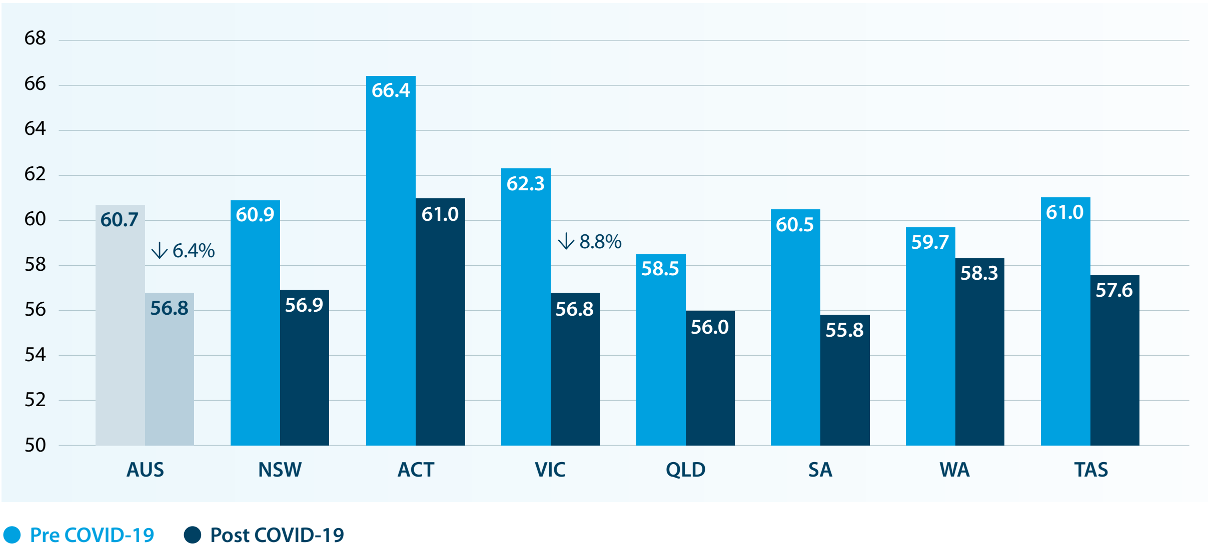
FINANCIAL WELLBEING BY STATE AND TERRITORY

The impact of COVID-19 resulted in all states and territories recording lower scores in overall financial wellbeing and most states and territories recording lower scores across all three dimensions of financial wellbeing for the 5 months to August 2020 (Figure 3).

Respondents from ACT had the highest financial wellbeing score of 61.0 (out of 100) in the 5 months to August 2020, 4.2 points higher than the national average and 2.7 points higher than WA which had the next highest level of financial wellbeing (58.3). SA recorded the lowest level of financial wellbeing at 55.8 (out of 100) (Figure 3).

It is likely the second lockdown had a significant impact on financial wellbeing in Victoria, which experienced the largest decline in the 5 months to August 2020, from well above the national average pre COVID-19, to be on par with the post COVID-19 national average (56.8) (Figure 3).

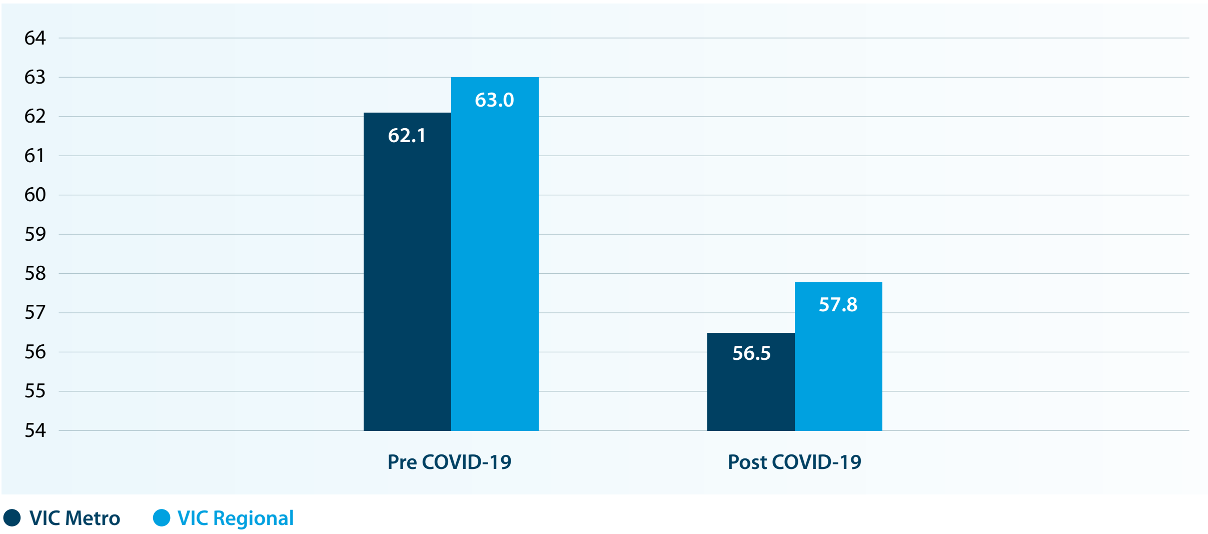
FIGURE 3: FINANCIAL WELLBEING IN AUSTRALIA, BY STATE AND TERRITORY ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

In the 12 months to March 2020, the financial wellbeing of regional Victorians was 63.0 (out of 100), 0.9 points higher than metro Victorians who had an overall financial wellbeing score of 62.1. The difference between metro and regional widened slightly post COVID-19, with regional Victorians recording a score of 57.8, 1.3 points higher than the score of metro Victorians (56.5) in the 5 months to August 2020 (Figure 4). Metro Victorians experienced larger falls in both 'meeting commitments' (down 9.1% to 68.8) and 'feeling comfortable' (down 16.1% to 47.9) (Table 2). Regional Victorians experienced a larger fall in 'resilience' than their metro counterparts, down 3.2% to 52.2 in the 5 months to August 2020 (Table 2).

FIGURE 4: FINANCIAL WELLBEING IN VICTORIA, BY METRO AND REGIONAL ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

TABLE 2: FINANCIAL WELLBEING IN VICTORIA, BY METRO AND REGIONAL ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)

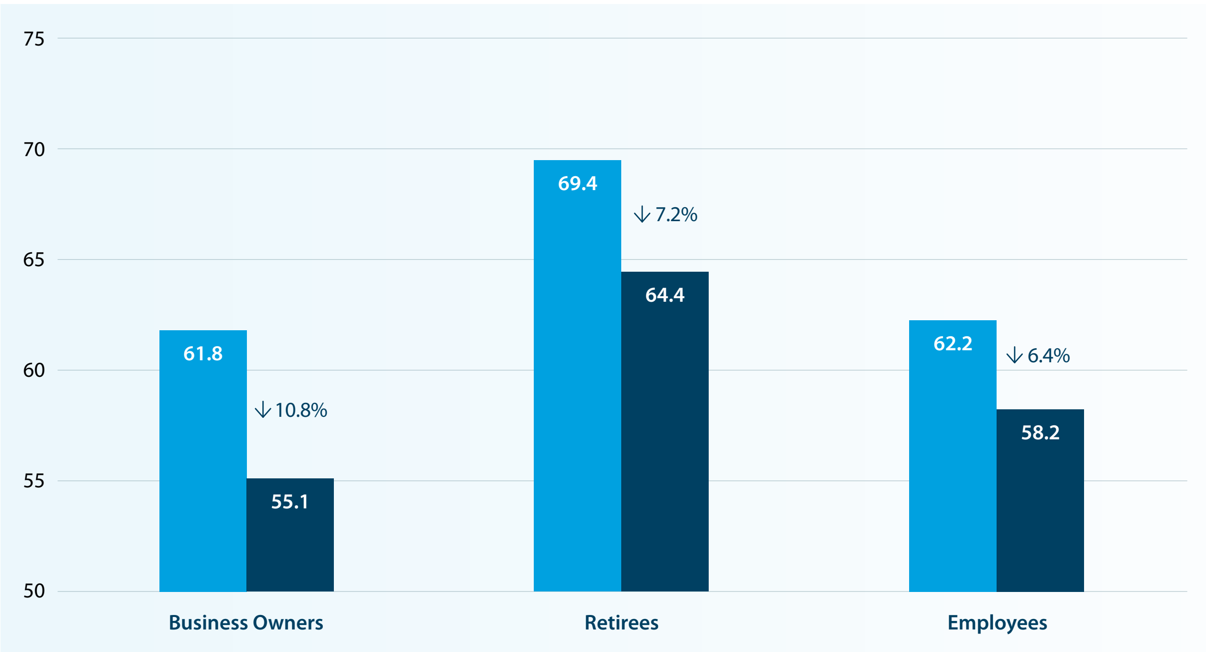
	ANZ Roy Morgan FWB Indicator					
	Pre COVID-19 (12 months to March 2020)			Post COVID-19 (5 months to August 2020)		
	VIC	VIC Metro	VIC Regional	VIC	VIC Metro	VIC Regional
Financial wellbeing	62.3	62.1	63.0	56.8	56.5	57.8
Meeting commitments	75.7	75.7	75.5	69.2	68.8	70.3
Feeling comfortable	57.7	57.1	59.6	48.6	47.9	50.7
Resilience for the future	53.5	53.3	53.9	52.6	52.8	52.2

FINANCIAL WELLBEING BY ECONOMIC GROUP

Business owners (defined as small and medium businesses with up to 199 employees) experienced the largest decline in financial wellbeing (down 10.8%), followed by retirees (down 7.2%) and PAYE employees (down 6.4%) (Figure 5).

The driver of the decline was slightly different for each group. Business owners were primarily impacted by reduced revenues caused by the lockdown and subsequent decline in economic activity, retirees were impacted by reductions in superannuation and investment values, and employees were directly impacted by a reduction in employment opportunities.

FIGURE 5: FINANCIAL WELLBEING IN AUSTRALIA, BY ECONOMIC GROUP ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)

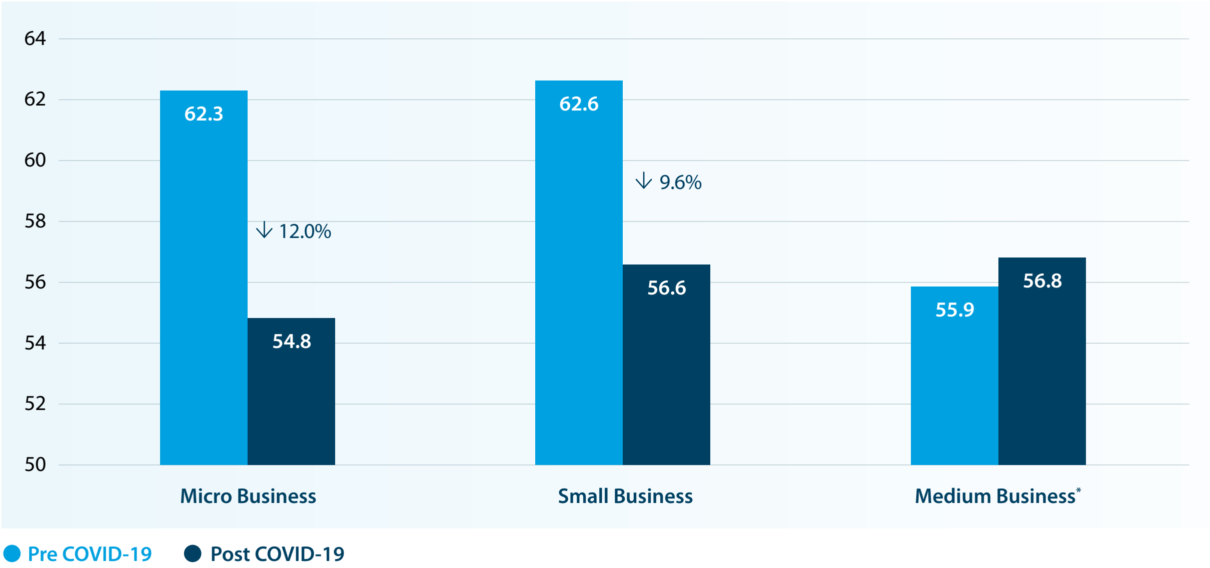


Pre COVID-19 Post COVID-19

Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

Pre COVID-19, small business owners (5-19 employees) had the highest level of financial wellbeing out of all business owners, with a score of 62.6 in the 12 months to March 2020, just higher than the financial wellbeing score of 62.3 for micro businesses owners (less than five employees), and significantly higher than those owning medium businesses (55.9) (Figure 6). Post COVID-19, the financial wellbeing of micro businesses fell 12.0% to 54.8, the lowest financial wellbeing of the three business sizes in the 5 months to August 2020. The financial wellbeing of both micro and small business owners is now below the national average for the general population, while the financial wellbeing of medium business is on par with the general population (Figure 6).

FIGURE 6: SME FINANCIAL WELLBEING IN AUSTRALIA, BY BUSINESS SIZE
('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)



* Caution small sample for medium businesses (20-199 employees) for 5-months to August 2020 (base business owners).

Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

FINANCIAL WELLBEING BY OCCUPATION

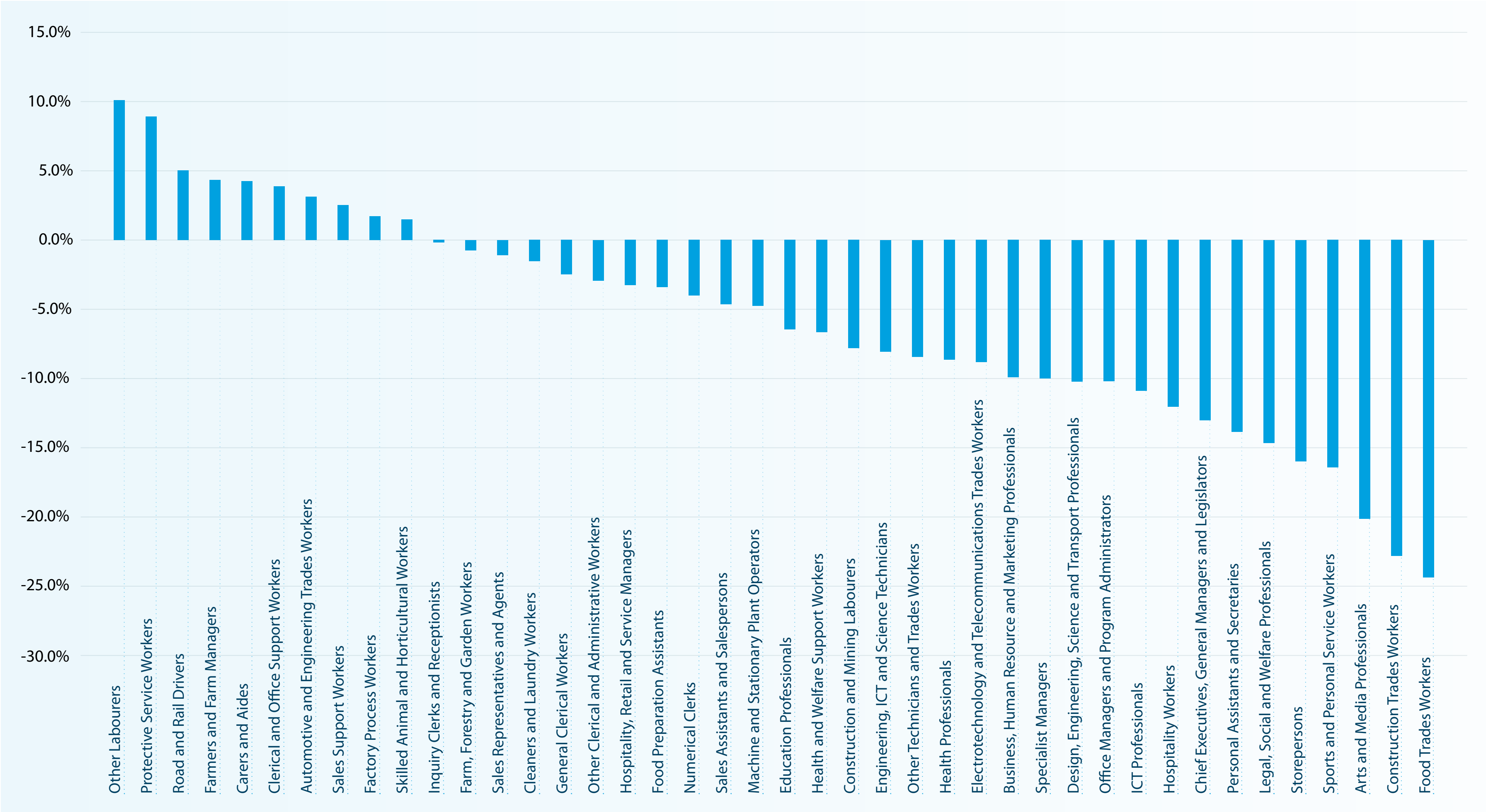
In the post COVID-19 months of April to August 2020, Australians experienced a decline in their financial wellbeing score of 6.4% to 56.8 (Table 1). However, the impact on financial wellbeing varied across occupations, as different industries were more directly impacted by lockdowns. For example, limitations on accommodation and hospitality, interruptions to professional and recreational sport, the arts and personal services, and declines in spending on advertising and marketing. The occupations experiencing the largest fall in financial wellbeing were:

- Food trades (down 24.4%)
- Construction trades (down 22.8%)
- Arts and media professionals (down 20.2%)
- Sports and personal Service workers (down 16.5%)
- Legal and social welfare professions (down 14.6%) (Figure 7).

A small group of occupations experienced improvements in their financial wellbeing over the 5 months to August 2020. COVID-19 restrictions resulted in increased demand for many of these occupations. Occupations experiencing the largest increase in financial wellbeing were:

- Other labourers (up 10.1%)
- Protective service workers (up 8.9%)
- Road and rail drivers (up 5.0%)
- Farmers and farm managers (up 4.3%)
- Carers and aides (up 4.2%) (Figure 7).

FIGURE 7: CHANGE IN FINANCIAL WELLBEING SCORE, BY OCCUPATION
(‘PRE COVID-19’ 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 ‘POST COVID-19’ VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

RESILIENCE FOR THE FUTURE

So far, COVID-19 has not greatly affected individuals' 'resilience for the future' – their ability to cope with financial setbacks – which fell by 1% in the 5 months to August 2020, a much smaller drop than the other dimensions of financial wellbeing.

With the presence of government programs supporting employment and incomes, institutional support such as payment deferrals, and reduced consumption as a result of the lockdown, individuals have not needed to draw on their savings reserves and in many instances have been able to improve their savings buffer.

In the 5 months to August 2020, respondents to the Roy Morgan Single Source survey reported an increase in the median amount of savings (in accounts) from $5,910 to $7,490 (Table 3). The increase in savings was evident across all financial wellbeing segments in the 5 months after the pandemic began (Table 3).

The Roy Morgan Single Source survey data is further supported by the Australian Prudential Regulation Authority (APRA) Monthly Banking Statistics, which showed the growth rate of household deposits doubled from 4.1% in the year to August 2019 to 8.5% in the year to August 2020. Similarly, the growth rate of business deposits (non-financial corporations) trebled from 3.2% in the year to August 2019 to 13.0% in the year to August 2020.[2]

This savings behaviour explains why there has not been a larger decline in 'resilience for the future' despite the significant fall in economic activity. The low level to which people were 'feeling comfortable' may also have influenced savings behaviour as people felt uncertain about their financial future. However, it is expected that 'resilience for the future' may be impacted once support measures are no longer available and individuals need to draw on their reserves.

TABLE 3: MEDIAN AMOUNT IN SAVINGS, BY FINANCIAL WELLBEING SEGMENT ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 5 MONTHS TO AUG-20 'POST COVID-19' VIEW)

	Pre COVID-19 (12 months to March 2020)	**Post COVID-19** (5 months to August 2020)
	Median amount of savings in accounts	Median amount of savings in accounts
No Worries	$ 64,400	$ 72,696
Doing OK	$ 6,000	$ 9,056
Getting By	$ 1,400	$ 2,131
Struggling	$ 300	$ 446
All respondents	***$ 5,910***	***$ 7,490***

Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes data from the months of April 2020 through to August 2020.

Table 4 shows the average number of months income held in deposits pre COVID-19 and the proportion of people suffering negative employment impacts (being stood down, having pay reduced for working the same amount of hours, working reduced hours or made redundant) for each financial wellbeing segment for the post COVID-19 months of April 2020 through August 2020.

The burden of employment impacts continues to fall disproportionately on those people already experiencing low financial wellbeing prior to the pandemic. Younger people – Young Adults and Young Families – continue to be more impacted by redundancies, being stood down and reducted work hours (Table 4). The effect on their ongoing financial wellbeing is likely to be exacerbated when combined with limited savings to fall back on.

2. APRA (2020), *Monthly Authorised Deposit-taking Institution Statistics.* https://www.apra.gov.au/monthly-authorised-deposit-taking-institution-statistics

TABLE 4: MONTHS INCOME IN DEPOSITS ('PRE COVID-19') AND NEGATIVE IMPACT OF EMPLOYMENT ON FINANCIAL WELLBEING AND LIFE STAGE SEGMENTS ('POST COVID-19')

	YOUNG ADULTS		YOUNG FAMILIES		OLDER FAMILIES		RETIREES		ALL	
	Pre COVID-19 Savings	Post COVID-19 Employment impact	Pre COVID-19 Savings	Post COVID-19 Employment impact	Pre COVID-19 Savings	Post COVID-19 Employment impact	Pre COVID-19 Savings	Post COVID-19 Employment impact	Pre COVID-19 Savings	Post COVID-19 Employment impact
No Worries	8.5	35.7%	8.7	16.8%	15.5	14.9%	22.7	N/A	15.8	13.5%
Doing Ok	1.9	41.8%	2.2	35.3%	4.7	23.2%	9.2	N/A	4.2	25.9%
Getting By	**0.8**	**45.9%**	**0.8**	**42.4%**	**3.1**	**29.9%**	**2.9**	N/A	**1.8**	**32.9%**
Struggling	**0.5**	**54.2%**	**0.5**	**50.9%**	**0.5**	**33.2%**	**0.9**	N/A	**0.5**	**35.2%**
Total	2.4	43.5%	2.8	36.9%	6.5	24.7%	13.4	N/A	5.9	26.8%

Savings – number of months income in deposits (Pre COVID-19, data 12 months to March 2020)

Employment impact – % stood down, lost hours, reduced pay or made redundant (Post COVID-19, data April through to August 2020)

Life stage immediately impacted by COVID-19

ABOUT THE ANZ ROY MORGAN FINANCIAL WELLBEING INDICATOR

The ANZ Roy Morgan Financial Wellbeing Indicator is a statistically robust snapshot of the personal financial wellbeing of Australians, reported as a 12-month moving average every quarter.

The Indicator is based on the Kemspon *et al.* conceptual model of financial wellbeing that was tested by ANZ in its 2017 financial wellbeing survey (Figure 8). The Kempson model acknowledges five drivers that have a proportionate impact on personal financial wellbeing:

- social environment
- economic environment
- financial knowledge and experience
- psychological factors (attitudes, motivations sand biases)
- financially capable behaviours.

The indicator is derived from data gathered through the weekly Roy Morgan Single Source interview and survey, which canvasses approximately 50,000 Australians annually. The breadth of data gathered through Roy Morgan Single Source enables examination of Australians' financial wellbeing at a more granular level than was possible with previously available data.

The indicator is reported quarterly and periodically. Releases are accompanied with a focus on specific deep dive topics.

More information about the Indicator can be found at **bluenotes.anz.com/financialwellbeing** or by contacting:

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Simon Edwards, Research and Insights Lead
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FIGURE 8: THE FINANCIAL WELLBEING CONCEPTUAL MODEL

Source: Adapted from Kempson et al, 2017, with additional data from the 2017 ANZ Financial Wellbeing Survey.

TECHNICAL APPENDIX

The data items used for the calculation of the indicator and other data items used to measure various drivers of personal financial wellbeing, all derive from the questions listed below from the Roy Morgan Single Source interview and survey.

The indicator is calculated by an algorithm that transforms responses to these questions, weighing the relative importance of each component. The algorithm was developed based on calibrated responses to 11 questions in the 2017 ANZ Financial Wellbeing Survey[3], as well as answers to the questions below.

There are many additional questions in the Roy Morgan Single Source data collection that are of relevance and can be used as filters or as cross-tabulation variables with the Indicator. The complete list of these variables are not listed here.

ANZ Roy Morgan FWI dimensions	Questions and items from Roy Morgan Single Source
Meeting commitments	Q. Meeting my bills and commitments is a struggle from time to time Q. In the past 12 months I have sometimes been unable to pay bills or loan commitments at the final reminder due to lack of money Q. I sometimes run short of money for food or other regular expenses
Feeling comfortable	Q. I feel financially stable at the moment Q. I have planned enough to make sure I will be financially secure in the future Q. Would you say you and your family are better-off financially – or worse-off than you were at this time last year? Q. Looking ahead to this time next year… do you expect you and your family to be better-off financially – or worse-off than you are now?
Resilience	Number of months' income in savings calculated using following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Would you please say the approximate amount that is in the (main/second) (say institution and account name) account as of today Managing a drop in income by a third is calculated using the following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Approximate amount that is in the (main/second) (say institution and account name) account as of today Q. How much does your family spend on all living and household expenses in an average week? Please include all expenses such as shopping, luxuries, transport costs, bills, credit and loan repayments, rent and home loans, school fees etc. (if living in a shared household, only include your own total living expenses)

3. For more information on the 11 financial wellbeing questions, see page 41 of Financial Wellbeing: A Survey of Adults in Australia. Retrieved from https://www.bluenotes.anz.com/content/dam/bluenotes/images/financial-wellbeing/ANZ%20Financial%20Wellbeing%20Summary%20Report%20-%20Australia.pdf