March 2021

RESPONSE TO COVID-19

REPORT TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

Public

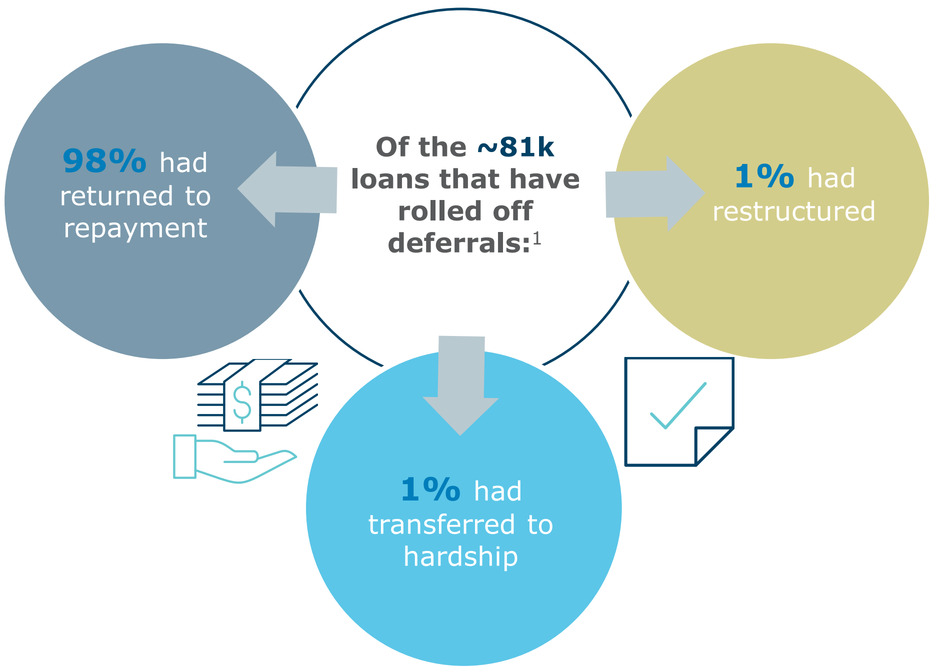
AUSTRALIA HOME LOAN DEFERRALS

As of 31 January 2021

DEFERRAL ROLL-OFFS

ANZ has over 1m home loan accounts, of which ~96k loans received a loan repayment deferral

~81k of these home loans have rolled off deferrals at 31 January 2021[1]



Of the ~15k that remained on active deferral at 31 January 2021:[2]

- **~30%** were original 6 month deferrals
- **~70%** were 4 month extensions
- **~40%** were scheduled to roll off in February
- **~40%** had a buffer[3] of >3 months
- **69%** were owner occupier, higher than portfolio average

Our home loan repayment deferral period ended on 31 March 2021. Our COVID-19 support packages are no longer available to new applicants. If customers are experiencing ongoing financial difficulties, we will continue to work with them to understand their circumstances and try to help where we can.

Refer to last page for footnotes.

AUSTRALIA SME & COMMERCIAL LOAN DEFERRALS

As of 31 January 2021

DEFERRAL ROLL-OFFS

ANZ has >236k commercial lending accounts, of which ~23.8k loans received a business loan deferral

~21k of these loans have rolled off deferrals at 31 January 2021[1]

Of the ~$9b[4] loans (~21k accounts) that have rolled off deferrals:[5]

90% had returned to repayment

6% had restructured, largely to interest only

4% had transferred to hardship

OPEN

Of the $1b that remained on active deferral at 31 January 2021:[2]

- **~10%** were original 6 month deferrals
- **~90%** were 4 month extensions

- **~75%** were scheduled to roll off in February, driven by **90%** of deferral applications received in March/April 2020

- **Accommodation, cafes and restaurants** were the largest industry on deferral
- **~15%** opted for 4 month extension (vs ~8% across the deferral population)

- **~30%** of active deferrals were associated with customers receiving JobKeeper payments from the government

Our commercial loan repayment deferral period ended on 31 March 2021. Our COVID-19 support packages are no longer available to new applicants. If customers are experiencing ongoing financial difficulties, we will continue to work with them to understand their circumstances and try to help where we can.

Refer to last page for footnotes.

ADDITIONAL SUPPORT FOR AUSTRALIA SME & COMMERCIAL CUSTOMERS

Offering Australian Government SME Guarantee and Recovery Loan Schemes

~5.1k loans worth $550m have been written under the Coronavirus SME Guarantee Scheme[6]

~6.3k accounts still benefiting from temporary overdraft increases worth $674m[4]

Offering Australian Government Show Starter Loan Scheme

~2k loans worth ~$65m were written to assist with providing JobKeeper[4]

~23.8k accounts have benefitted from business loan deferrals on loans of $9.5b[5]

Refer to last page for footnotes.

SUPPORT FOR INSTITUTIONAL CUSTOMERS

In the early days of the pandemic we moved quickly – in the six months to end-March 2020 we provided **$16 billion**[7] in additional lending globally

Lending volumes declined in the second half as global capital market conditions improved, enabling customers to access debt and equity markets and repay bank debt

Through the pandemic, our digital channels came to the fore, and payment volumes increased **9.4% year on year**

We supported hundreds of customers working from home by providing secure remote access via web and mobile, and helped reduce customer net losses from fraud by **62%**

We helped arrange the **largest social bond** by an Australian issuer for the National Housing Finance and Investment Corporation, as well as **$72 billion** in funding for the Australian Government's COVID-19 support package

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

Since March 2020 together with our employees, we have donated over $2 million to the community through workplace giving

Financial inclusion programs have been adapted to be delivered online, reaching over 46,000 Australians in FY20

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 are returning 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; programs to support mental & financial wellbeing; and reimbursement of equipment for home workspaces

Protecting our employees and customers in our branches

Perspex screens, enhanced cleaning, hand sanitiser & masks available

NOTES

1. As at 31 January 2021. 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.

2. Active Deferral numbers exclude accounts due to expire / exit where customers have already confirmed they will recommence repayment.

3. Buffers are calculated at customer level, incorporating all retail debts within the customer cluster at ANZ, and all funds available in ANZ redraw, offset and transaction and savings accounts.

4. Number of accounts as at 16 March, EAD as at 31 January 2021.

5. As at 31 January 2021.

6. As at 26 February 2021.

7. Institutional Gross Loans and Advances excluding FX and Markets.

24 March 2021

Housing: powering ahead

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Housing strengthens on low mortgage rates and a stellar economic recovery

- The housing sector is recovering strongly. National **house prices** have recovered their (modest) COVID-19 losses and are now rising strongly. Ultra-low interest rates are supporting the housing market. The impact of low rates has more than offset the headwinds from elevated unemployment and very low population growth. We expect house prices at the national level to rise a sharp 17% across the capital cities in 2021. Pages 3-15

- The combination of strong demand and low supply is pushing prices sharply higher. Housing finance has risen 76% since the low in May, investors are returning to the market, auction clearance rates are running close to 80%, and households are reporting expectations of significant price rises. While new listings are picking up, they have not keep pace with sales, leaving stock levels very low.

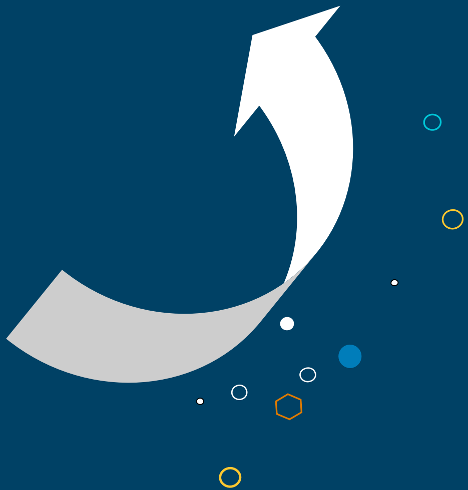
- Performance across geographies and segments has been mixed over the past year, but price gains are now converging. Regional prices led the charge, but capital city prices are now outperforming. The unit market remains softer than the house market. Although rents are now in positive territory at the national level, they remain weak in the Sydney and Melbourne apartment markets, where vacancy rates are still high.

- **Housing construction** is rebounding sharply, helped by the federal HomeBuilder scheme, other government support and low interest rates. Housing finance for the construction of new homes rose just under 160% between June and January this year. Building approvals rose more than 50% between June and December, before pulling back in January as the HomeBuilder grant halved. There is now a substantial pipeline of activity for 2021, and we expect double-digit growth in housing construction in 2021. Pages 16-24

- Government stimulus, superannuation withdrawals and mortgage repayment deferrals have lowered the risk of financial stress by providing temporary assistance to some borrowers. While many borrowers have returned to repayments, there remains a small number of borrowers still on deferral. Lender forbearance is expected to limit the incidence of household financial stress, but we expect a modest rise in arrears over 2021. Pages 30-34

- We expect strongly rising house prices and a likely easing in lending standards to see the Australian Prudential Regulation Authority (APRA) step in with macroprudential controls later this year, which will see house price growth slow in 2022.

Prices



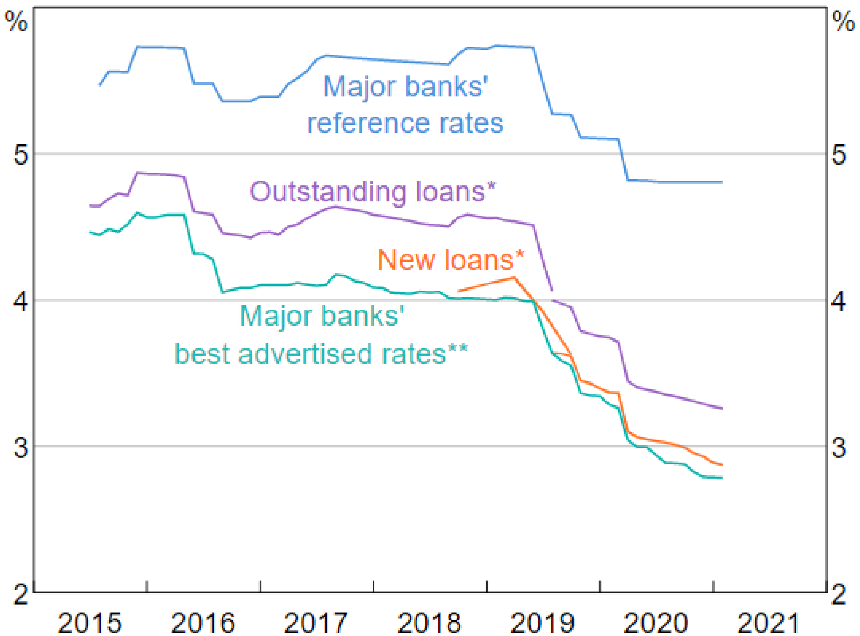
We expect house prices at the national level to rise a very strong 17% through 2021, before slowing to 6% in 2022 as macroprudential policies bite.

House prices accelerating

- Prices rose a rapid 1.9% m/m in February, accelerating sharply from the 0.5–0.6% gains over the previous three months. Strength was evident across all capital cities, with Hobart (+2.4%) and Sydney (+2.3%) the strongest and Adelaide (+0.8%) and Darwin (+0.9%) making the smallest gains. Daily house price data suggest the gains in March will be even stronger. Prices are now above levels seen in February 2020 (before the real onset of the pandemic) in all capital cities bar Melbourne where prices are down 1.5% y/y.
- Owner-occupiers are driving the market with new housing loans up 80% since the low in May. Buyers are taking advantage of historically low interest rates, particularly fixed rates, as well as various government support programs. First home buyers are also benefitting from government support in the form of first home owner grants and reduced stamp duty. Investor activity is also growing strongly (+62% from the low in May), but given earlier weakness its share of total new finance remains low at 16% compared to an average of 25% over the previous decade.
- The strength in sentiment is putting upward pressure on prices, with low stock levels adding to the fear of missing out (FOMO) sentiment emerging in the market.
- We now expect price gains of around 17% across the capital cities (up from 9% previously) in 2021. With interest rates the primary driver of price gains, we see strength across all capital city markets.
- The first half of 2021 is likely to be stronger than the second half. By June we expect prices to be rising at a more moderate pace given the end of government programs like JobKeeper and HomeBuilder, and a lift in fixed mortgage rates. By year end though, we expect the regulators will step in with macroprudential controls to address the overheating market, with the exact measures likely to be dependent on how the market develops over the next six months or so.

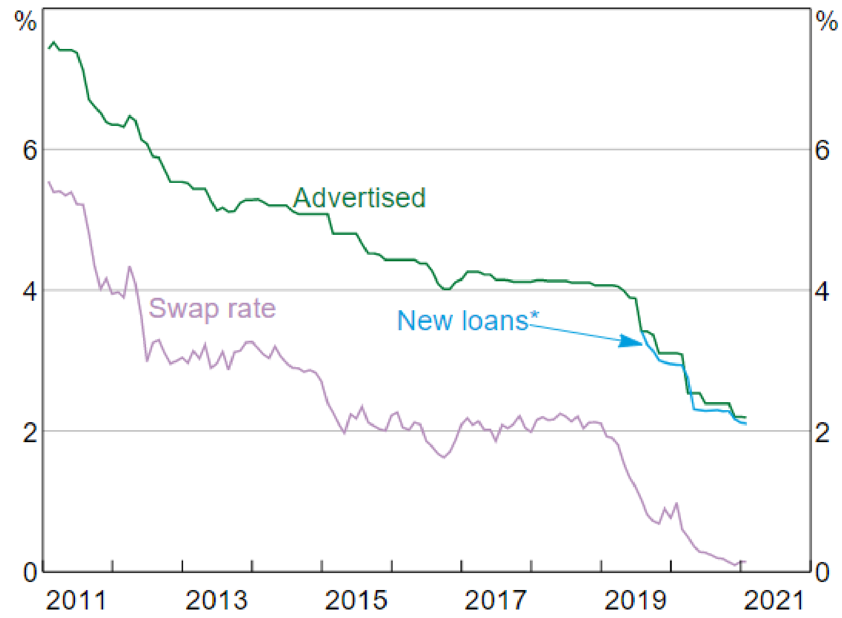
Falling housing interest rates are driving the market

Variable rates



* Series break in July 2019; thereafter, data based on EFS collection
** Including low-cost brands
Sources: APRA; banks' websites; CANSTAR; RBA; Securitisation System

Fixed rates**



* Data based on the EFS collection
Sources: APRA; Banks' websites; CANSTAR; RBA; Refinitiv

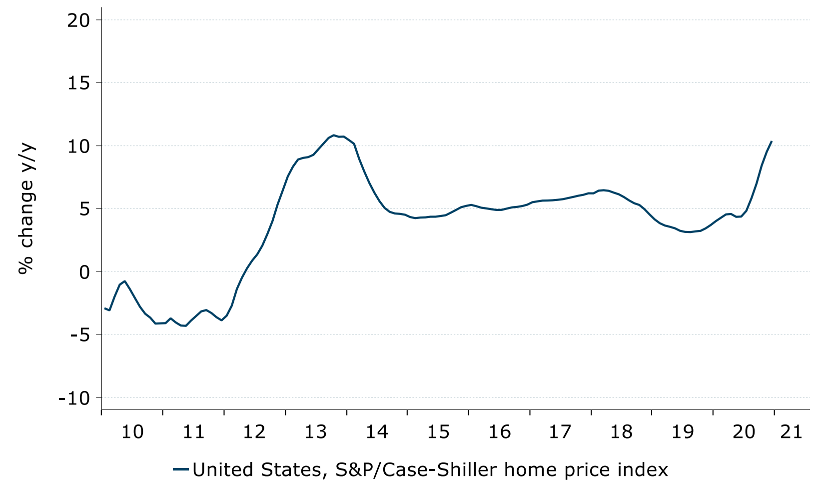
**Owner-occupiers; three-year term to maturity

Source: RBA

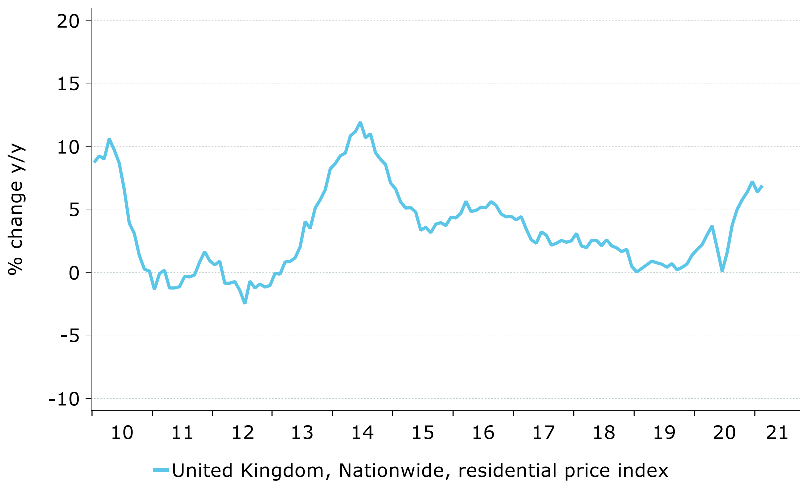
Low interest rates are fuelling strong house prices gains globally

New Zealand

United States



United Kingdom



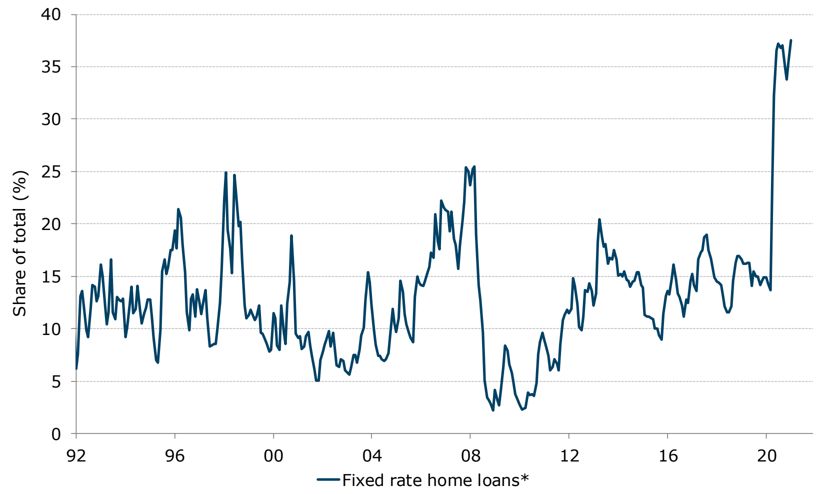
South Korea

Source: SPDJI, Nationwide, REINZ, KOSTAT, Macrobond, ANZ Research

Fixed rates have been a key driver, but are likely to rise in H2 2021

Fixed rates still well below variable rates

Borrowers have switched to fixed-rate loans



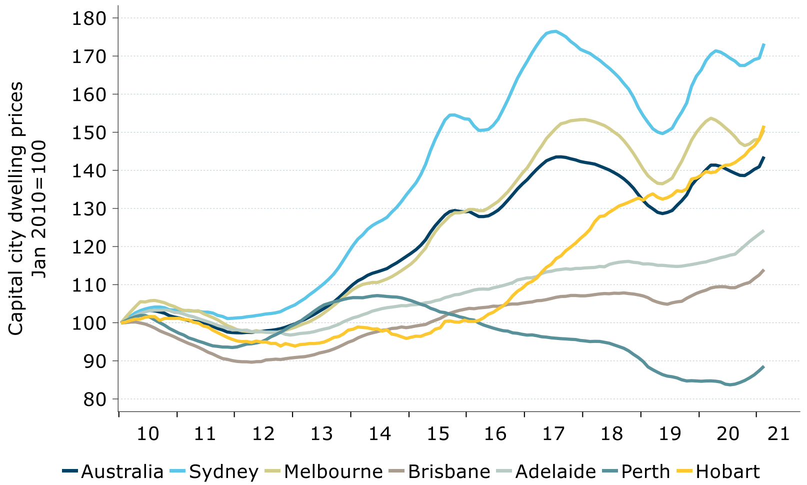
* seasonally adjusted loan approvals to Sep 2019; thereafter loans funded in the month (not seasonally adjusted)

- Low mortgage rates are a key driver of the strength in the market, with fixed mortgage rates falling at more than double the rate of variable mortgages over the past year or so. Home buyers are taking advantage of these lower rates, flocking into fixed mortgages.
- The average cost of new mortgages is still falling. And with two of the big four Australian banks now offering two-year fixed rate home loans below 2%, competition is pushing rates even lower.
- But we are likely to be close to the bottom in fixed rates. With the Term Funding Facility (TFF) ending in June, and the likelihood that the RBA chooses not to roll the Yield Curve Control (YCC) target into the Nov-24 ACGB, fixed mortgage rates are likely to move higher in the second half of 2021.
- Further out, there will be more significant increases in interest costs. Over the past six months, more than 30% of new loans have been at fixed rates. While we don’t have data on the tenor of these loans, it’s safe to assume that a large proportion will begin rolling off from May 2023. By then, fixed rates are likely to be significantly higher and variable rates will also likely be higher given higher funding costs for the banks.
- So, even without a lift in the cash rate, the housing market will face higher rates as early as H2 2021, with a more significant tightening in 2023.

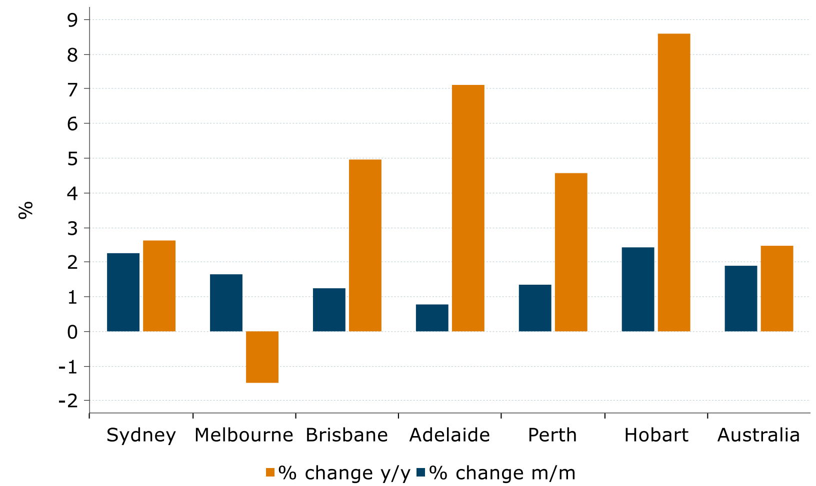
Source: RBA, ABS, Macrobond, ANZ Research

Housing price growth is converging across cities, but large divergences remain

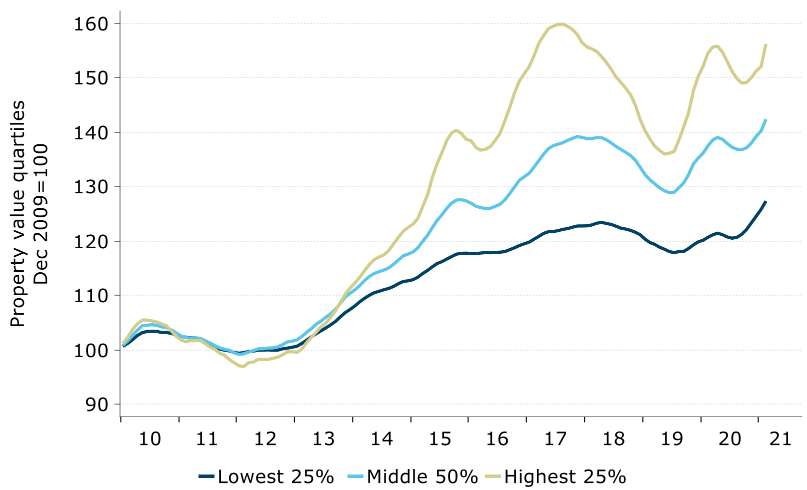
House price performance has varied



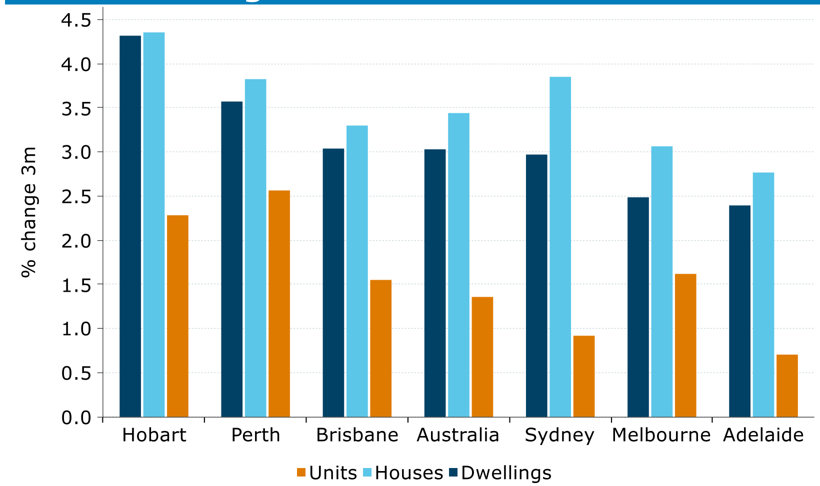
Melbourne and Sydney have been the weakest markets but are catching up



Prices at the high end are sharply picking up



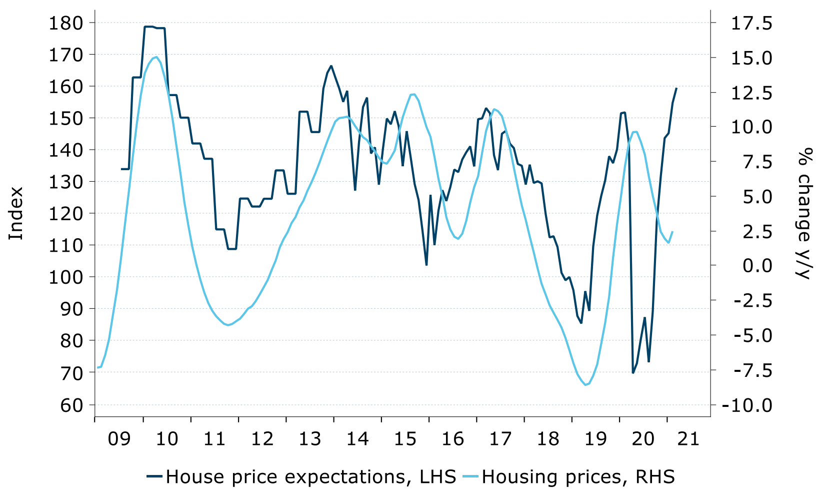
Performance across cities and segments has been mixed



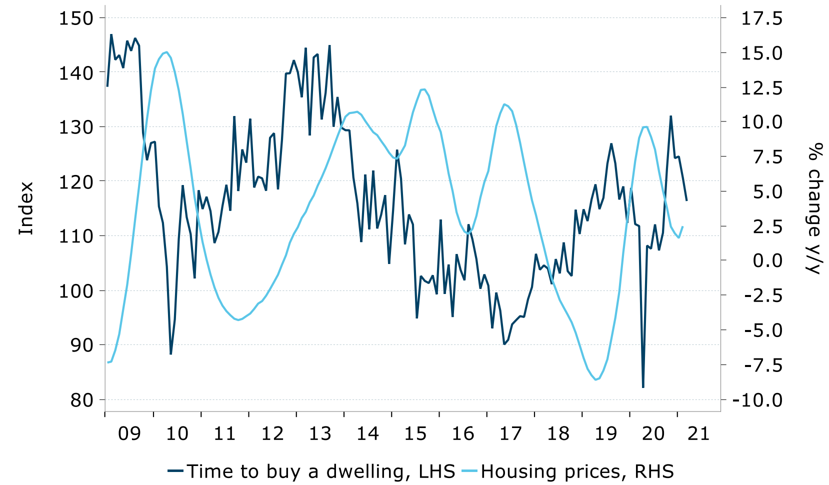
Source: CoreLogic, Macrobond, ANZ Research

Both household and business sentiment towards housing has turned around sharply

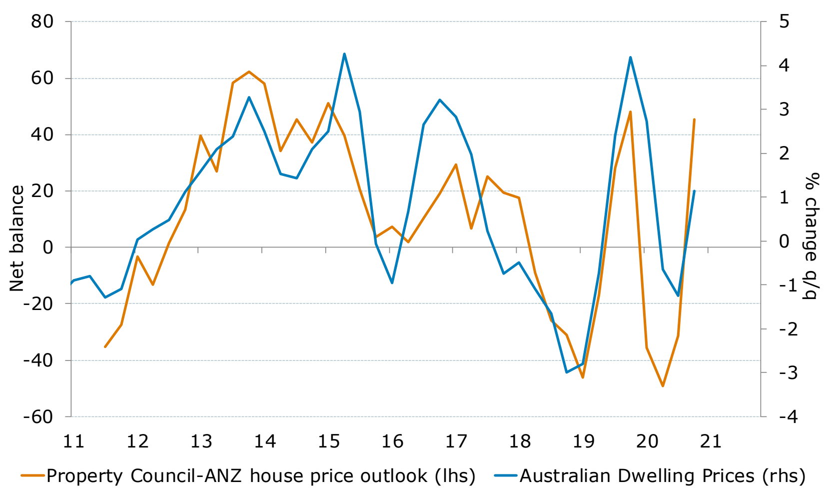
House price expectations continue to rise...



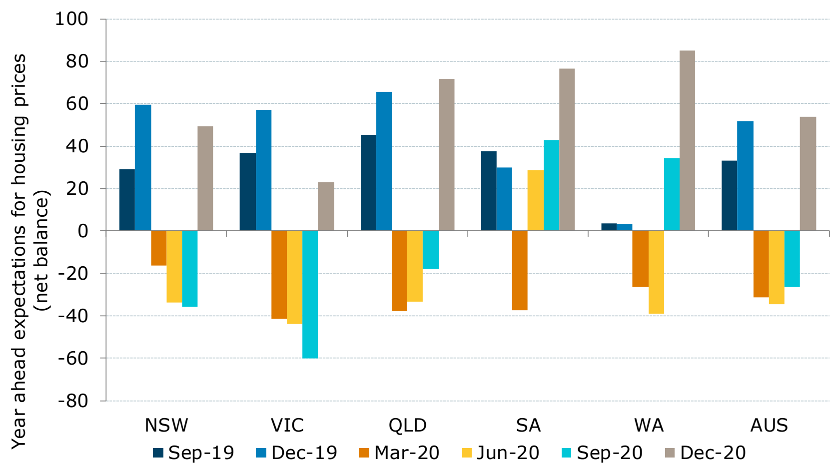
...but affordability constraints are biting, with "time to buy a dwelling" down



Property industry participants now expect house prices to rise...



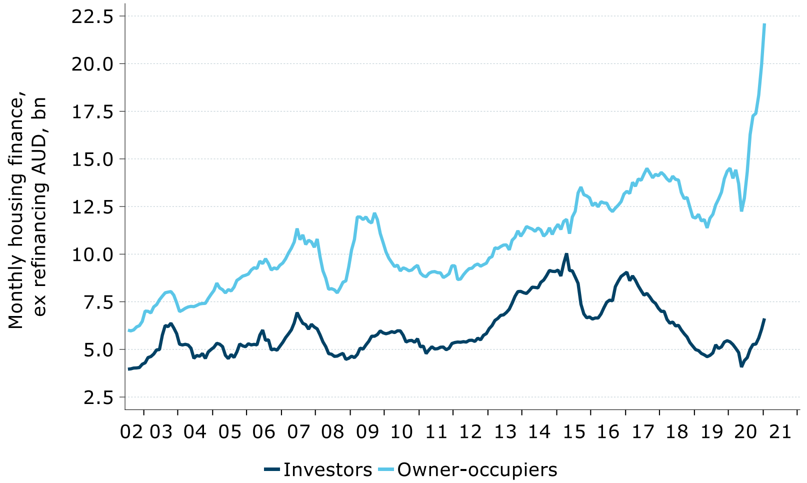
...with the most positive expectations in WA



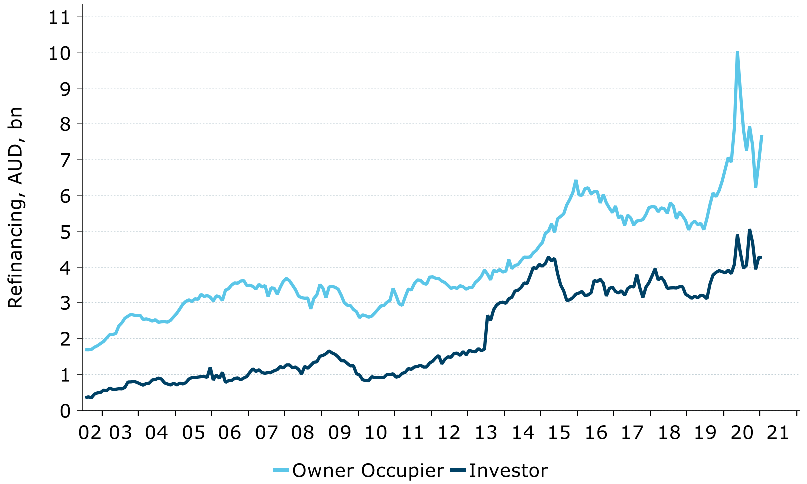
Source: ABS, ANZ-PCA, CoreLogic, Macrobond, Westpac-Melbourne Institute, ANZ Research

Housing finance: no flattening of this curve yet!

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

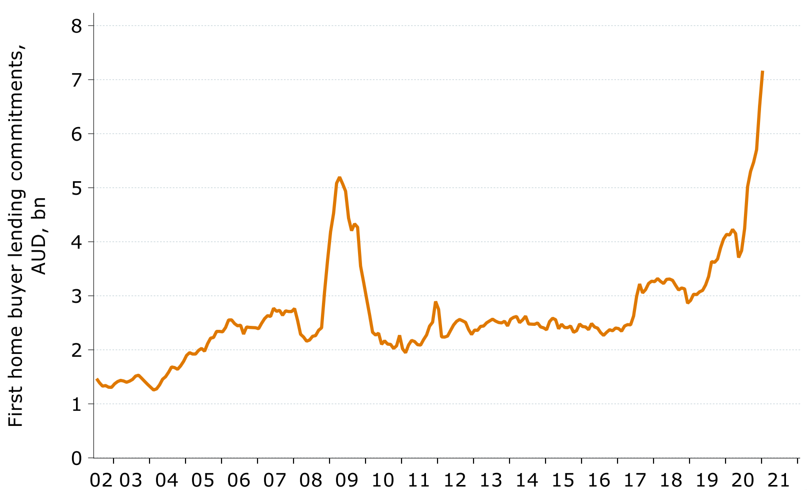


Refinancing is down from the peak, but remains high



The investor share of finance remains very low

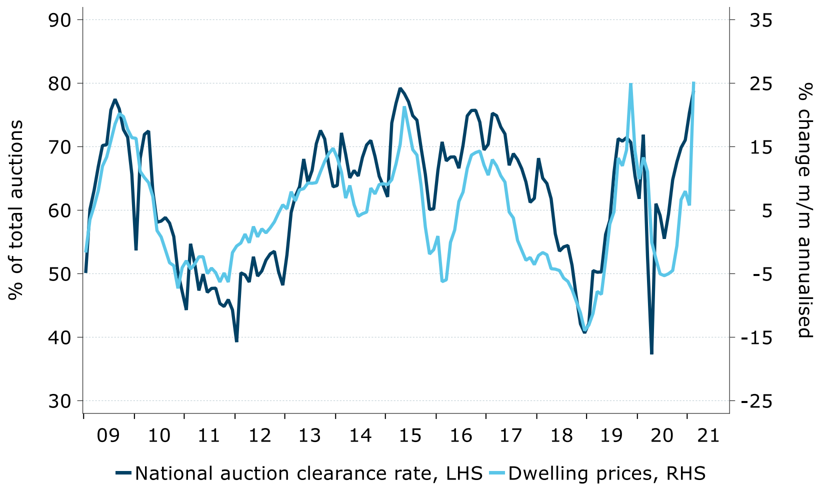
First-home buyer finance has surged



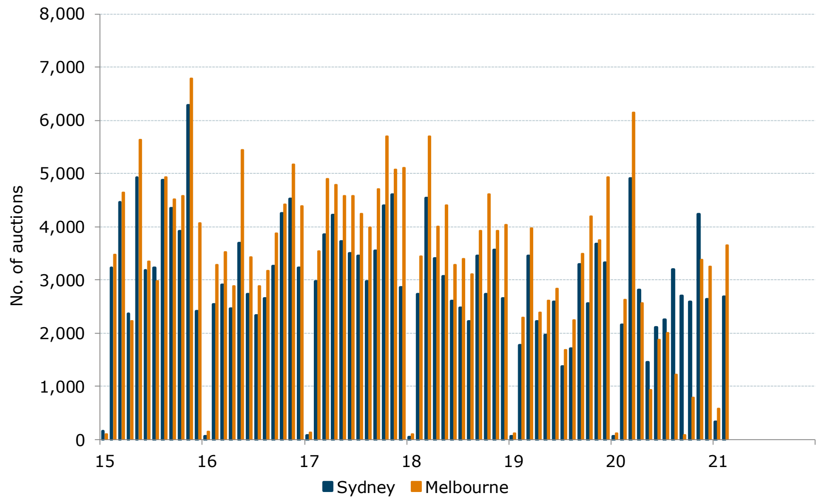
Source: ABS, APRA, Macrobond, ANZ Research

Auction indicators have rebounded and volumes are picking up, but the level of stock on the market remains very low

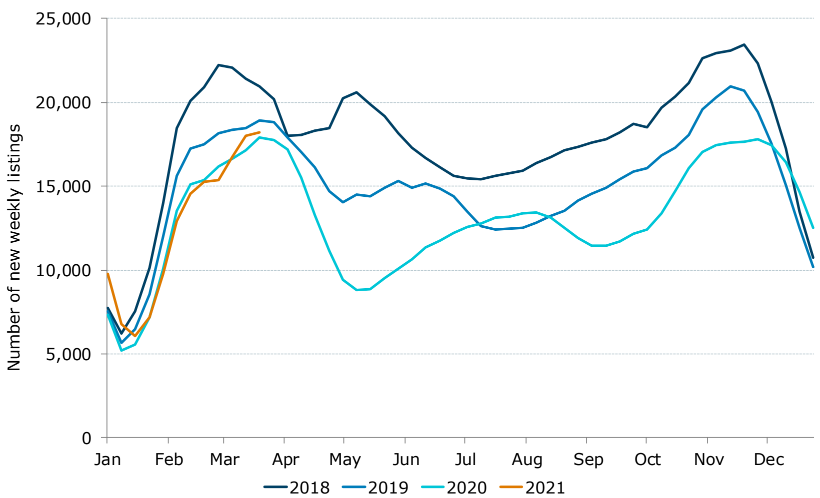
Auction clearance rates have picked up and are signalling solid price gains



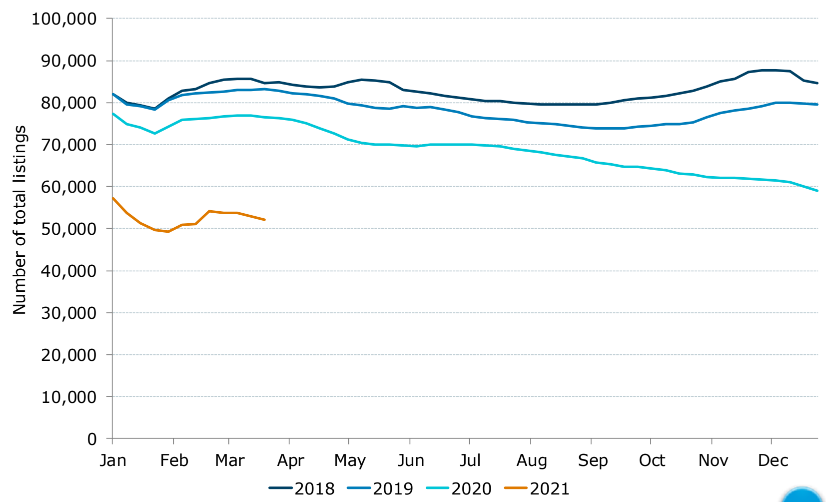
Auction volumes are recovering



Listings are recovering…



…but high demand is absorbing new properties and total stock on the market remains low



Source: CoreLogic, ANZ Research

We expect sharp gains in house prices in 2021

We now expect a 17% rise in house prices on average across the capital cities in 2021.

Perth and Sydney look set to be the best performers (+19%), with Hobart (+18%) close behind. Melbourne, Brisbane (+16%) and Adelaide (+13%) are all set to enjoy strong gains.

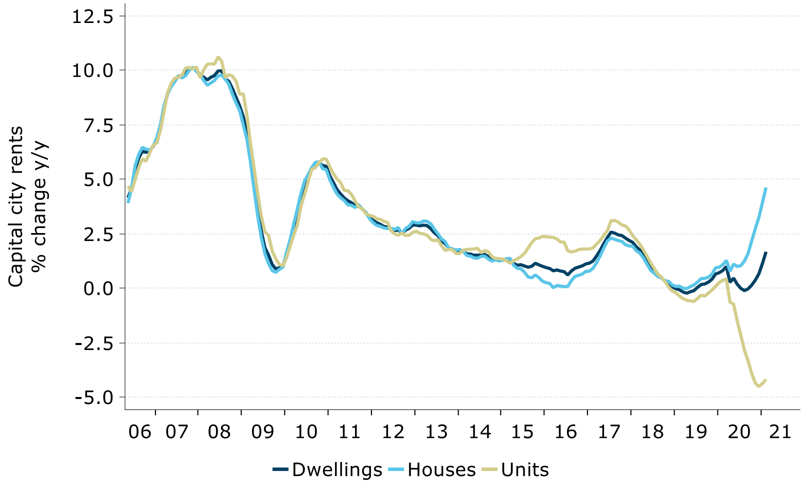
Housing price forecasts, by capital city

* Capital city weighted average

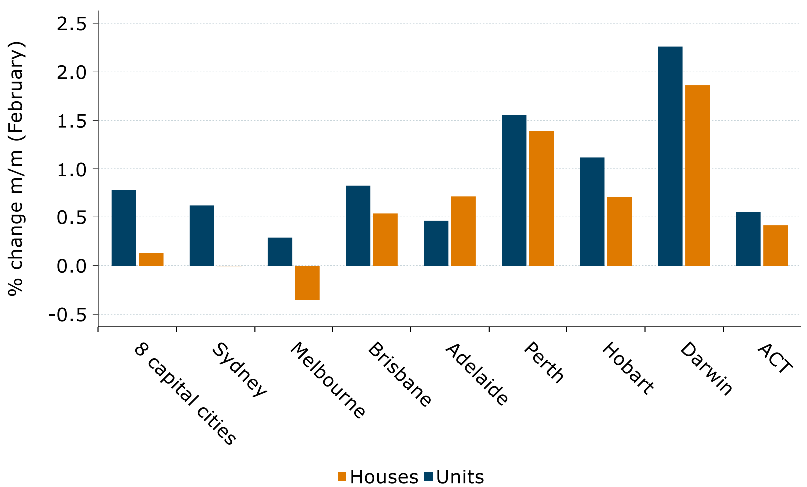
Source: CoreLogic, ANZ Research

Rental markets have strengthened but the market remains challenged by weak fundamentals

Rents have risen, with houses leading the way



Unit rents are weighed down by weakness in Melbourne and Sydney

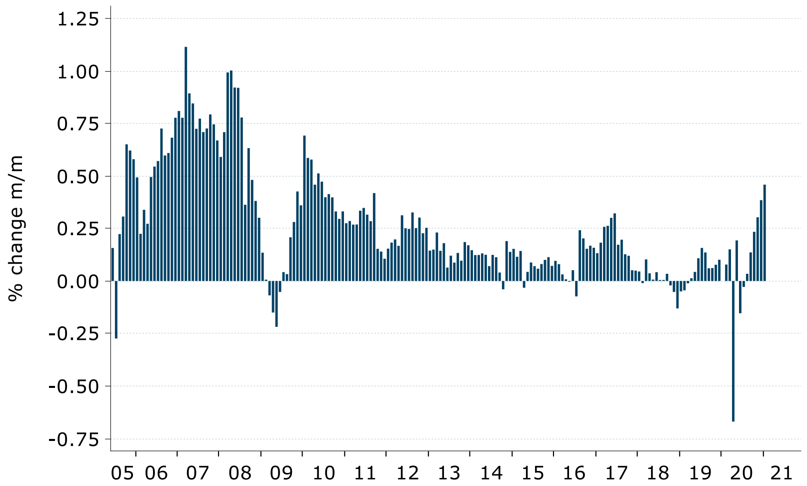


- After falling sharply in the initial months of the pandemic, advertised rents are rising strongly, with all capital cities recording gains in February. The strong economic recovery is likely to bolster the rental market, although headwinds remain.
- While overall rents have ticked higher, this masks very disparate performances across markets. Sydney and Melbourne rents are still being weighed down by weakness in the unit market. This is gradually abating, although fundamentals remain soft. Residential vacancy rates are highest in the two largest capital cities, which have been hit much harder by the lack of overseas migration (where new migrants tend to rent rather than buy when they first arrive). These markets are also seeing supply in the form of new apartment completions increase at a time of reduced demand.
- More broadly, the rental market is facing headwinds from the lagging employment recovery for younger people (who are more likely to rent).

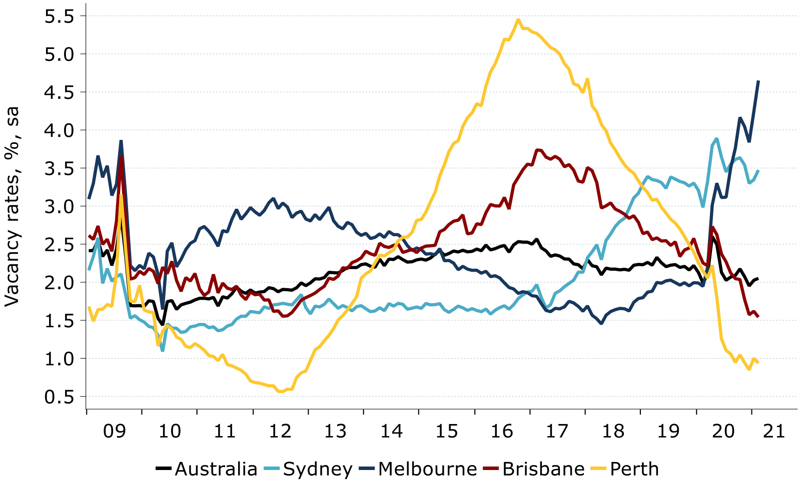
Source: CoreLogic, Macrobond, ANZ Research

The rental market has improved, but headwinds remain

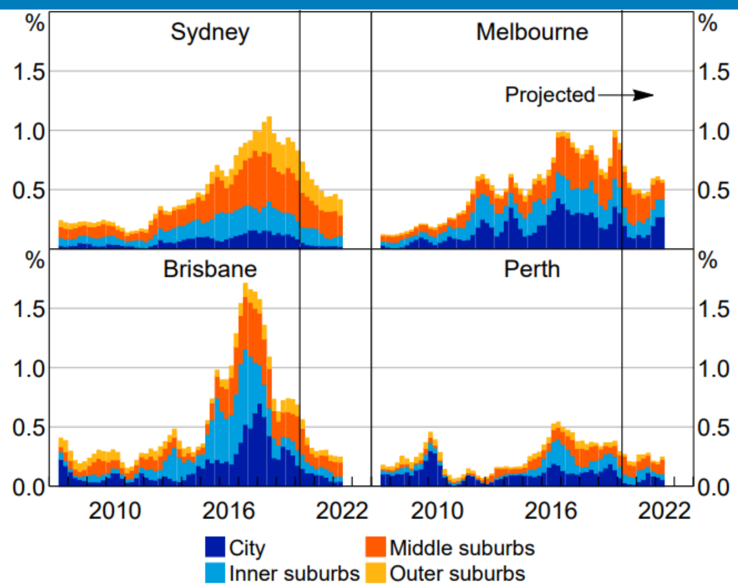
Rents have turned around



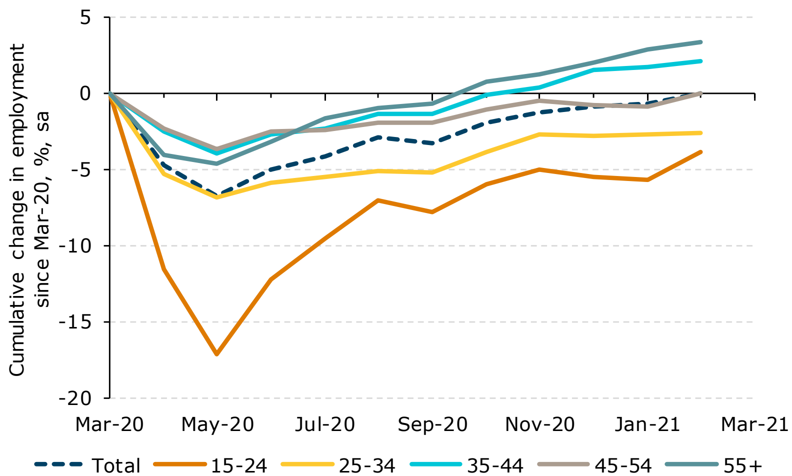
Vacancy rates have risen sharply in Melbourne, but are much lower in Perth



Apartment completions*



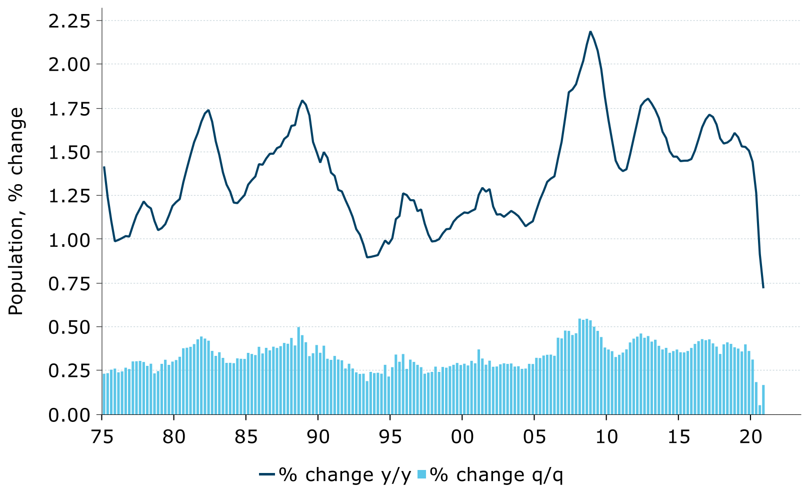
The lagging recovery in youth employment is a headwind for the rental market



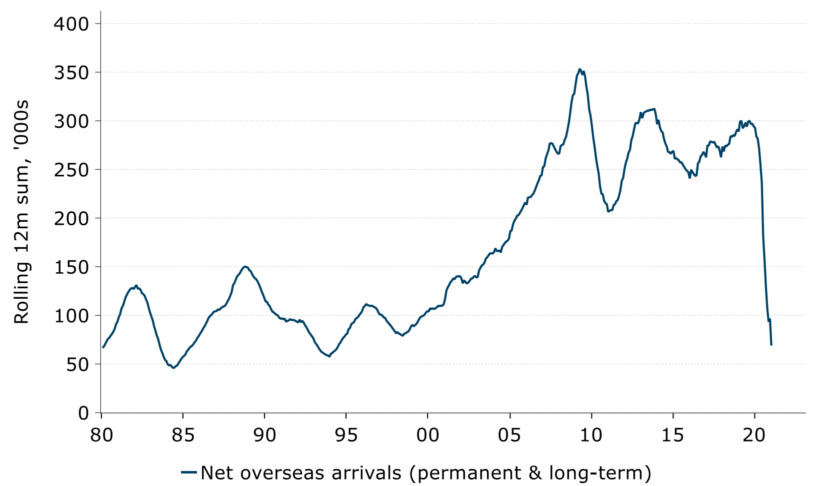
* Quarterly, share of 2016 non-detached housing stock
Source: CoreLogic, Macrobond, SQM, ANZ Research

Very weak population growth is constraining housing demand

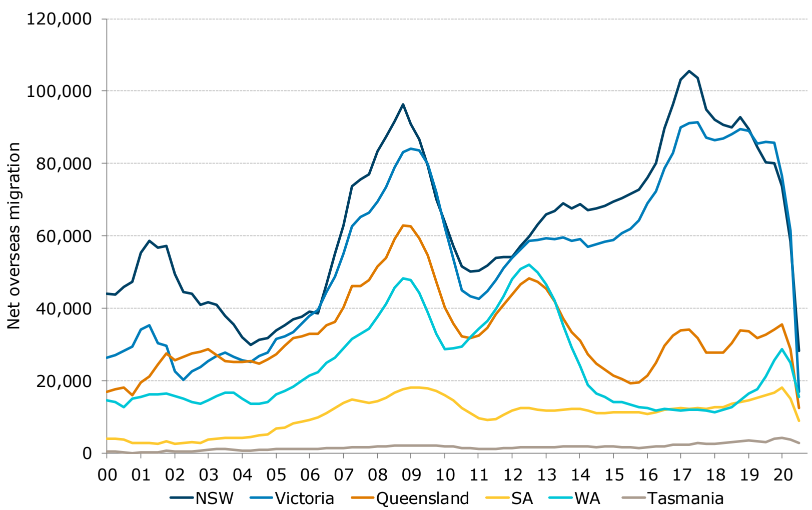
Population growth is falling sharply…



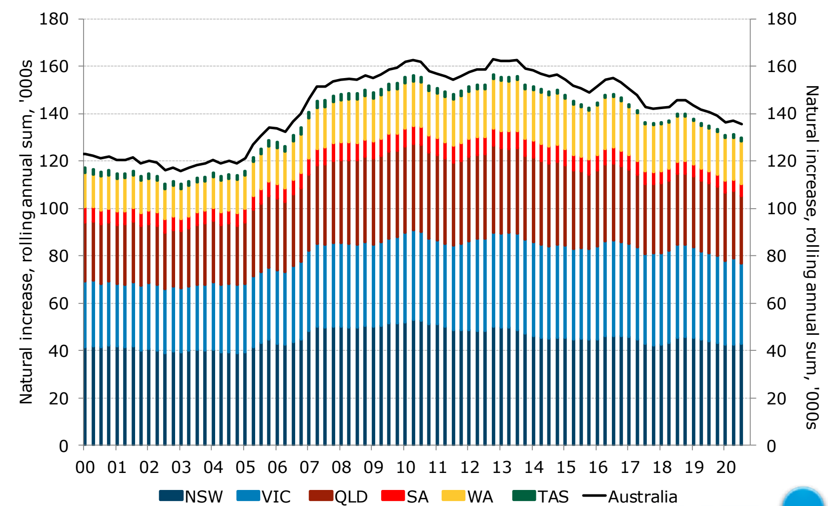
…as immigration collapses…



NSW and Victoria have borne the brunt of the drop in overseas migration



Natural increase is also slowing



Source: ABS, Macrobond, ANZ Research

Construction activity

Residential construction to grow strongly in 2021

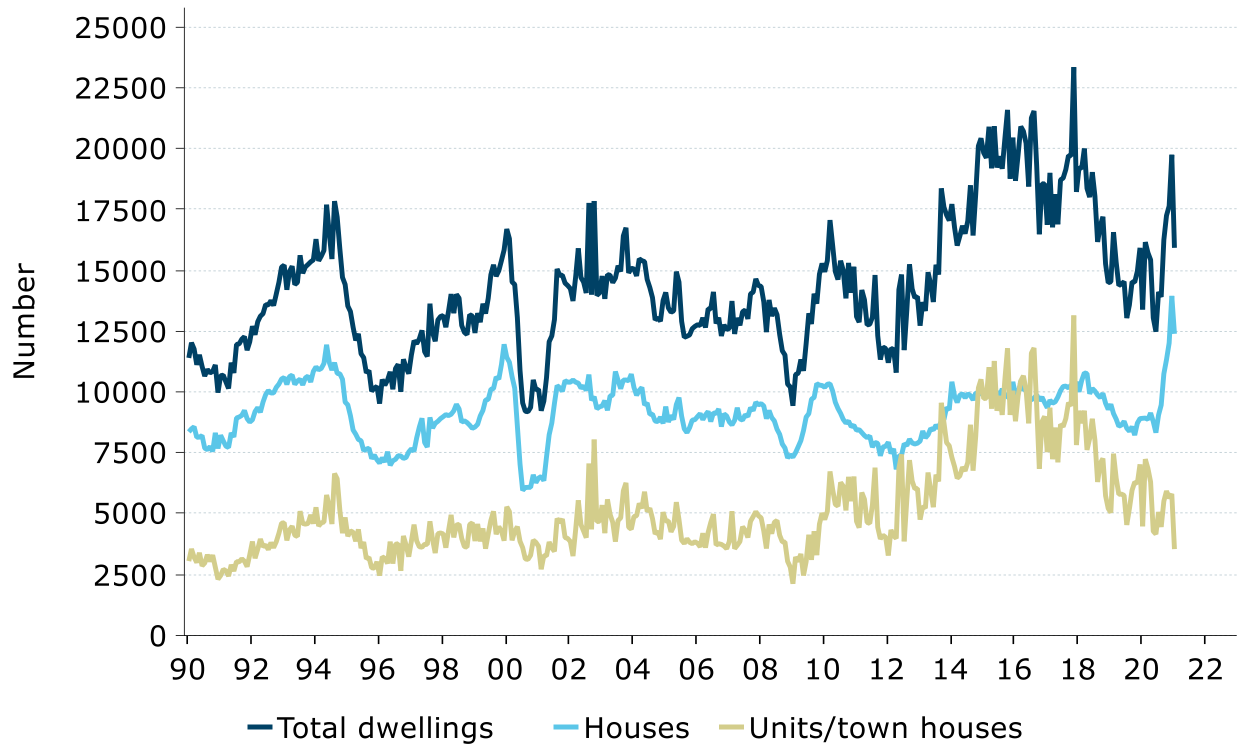
- Housing construction is rebounding sharply, helped by the federal HomeBuilder scheme, other government support as well as low interest rates. Finance for the construction of new homes rose nearly 160% between June and January this year, while building approvals rose more than 50% between June and December, before pulling back in January as the HomeBuilder grant halved. We are likely to see a pick-up through February and March before the grant finishes at the end of this quarter.
- Within approvals, there has been a change in home buyer preferences towards larger, detached dwellings, with less focus on proximity to the city. This is a likely a result of the increase in home-based working following pandemic lockdown conditions, as well as a heightened appreciation for more space at home. In the year to January, total approvals outside capital cities were up 41% y/y while approvals in capital cities were only up 11%. House approvals were up 40% y/y, while unit approvals were down 21%.
- This recovery in approvals provides a substantial pipeline of activity for 2021 and we expect housing construction to grow a solid 12% in 2021, with strength concentrated in detached house building and renovations. Bringing forward construction will inevitably create a shortfall of activity once the stimulus is withdrawn, so activity is likely to decline next year.
- The decline in activity in 2022 is likely to be modest, however, given ongoing low interest rates, as well as remaining government supports, including first home owner grants by state governments and the first home buyer deposit scheme.
- While home-based working trends and the lack of overseas migration may dampen unit approvals for a time, the faster-than-expected recovery in economic activity and the labour market looks to be bringing more investors back to the market.

Housing approvals have picked up strongly

Building approvals, particularly house approvals, have risen strongly over recent months.

Building approvals rose more than 50% between June and December, before pulling back in January as the HomeBuilder grant halved.

Residential approvals rose strongly through 2020

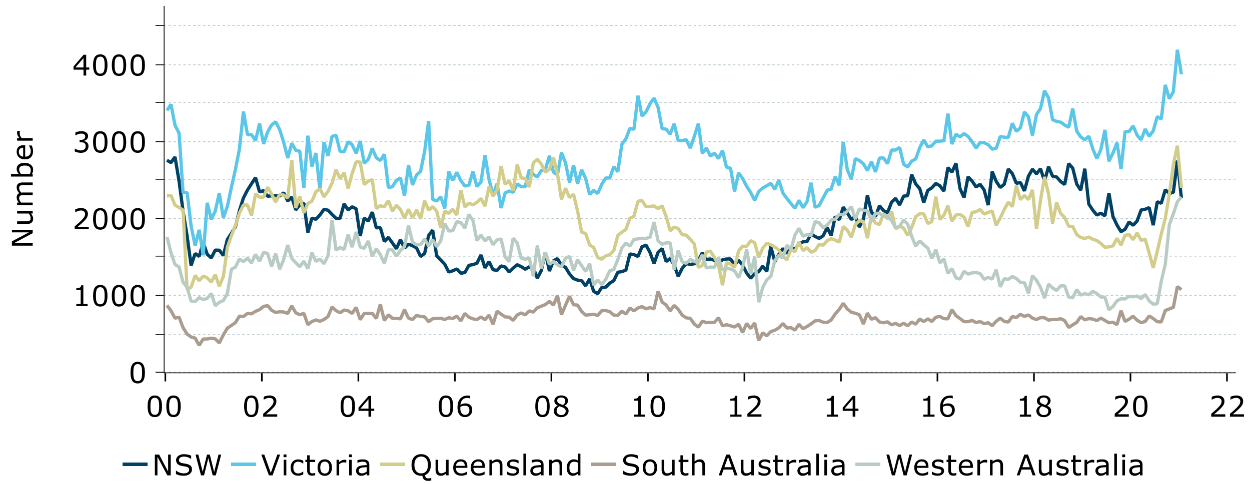


Source: ABS, Macrobond, ANZ Research

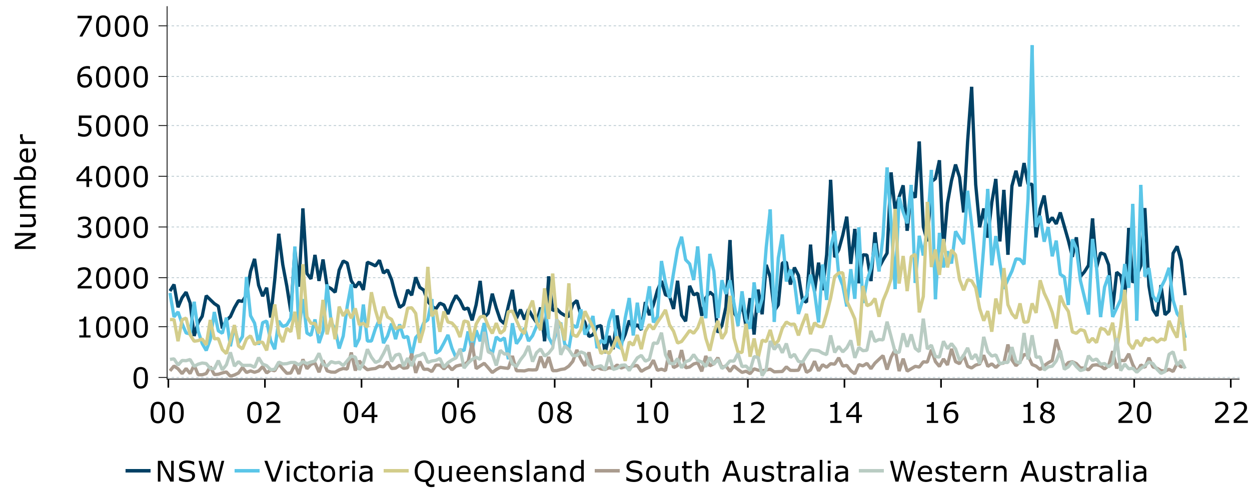
Approvals in all states have picked up solidly

Approvals have picked up strongly across all states, but Western Australia has experienced the biggest rise, helped by additional state government support.

House approvals are picking up everywhere



Unit approvals have been much more subdued

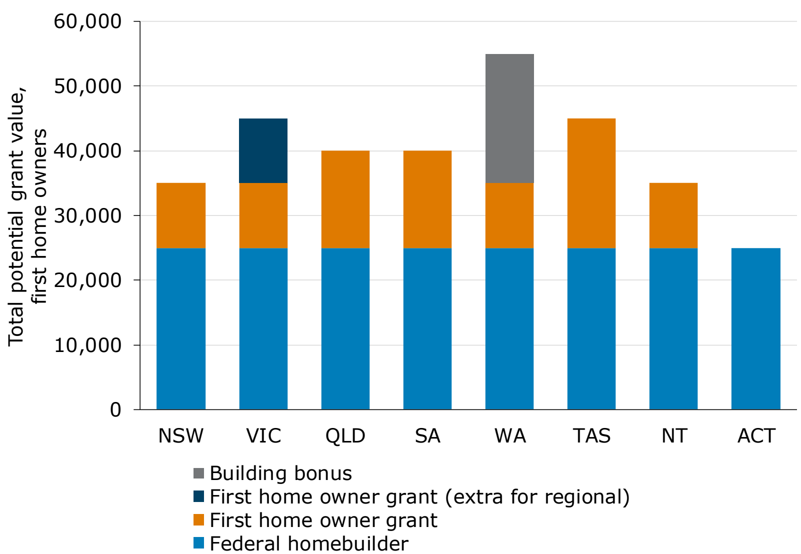


Source: ABS, Macrobond, ANZ Research

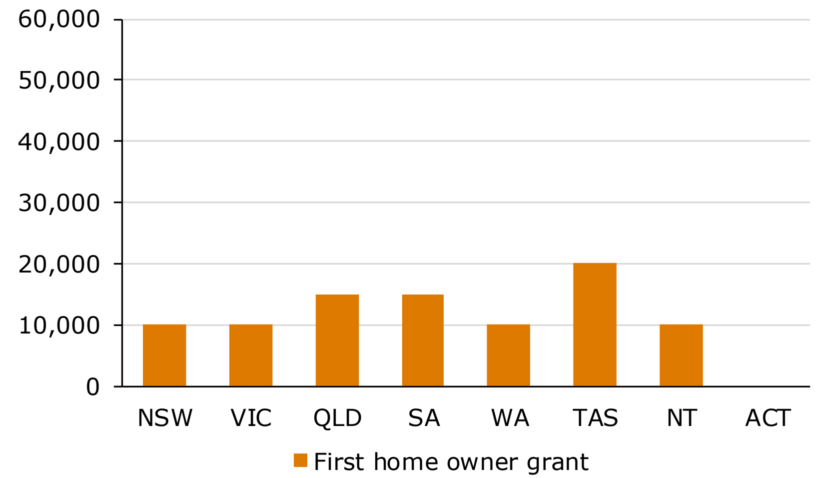
Key housing support policies are rolling off this year

Key supports that will not continue into 2021-22, including the $12,500 (reduced from $25,000 since 1 January) Homebuilder grant for new builds and renovations (ends in March), the 50% stamp duty concession in Victoria (ends in June) and the Western Australia building bonus of $20,000 (ended in Dec 2020).

Housing grants 2020



Housing grants 2021-22



Other government housing supports 2020-21

- First home super saver scheme
- First home loan deposit scheme, 11,800 places total (inc 1,800 rolled over from 2019-20)
- Victorian 50% concession on stamp duty for properties under $1m (ending 30 June 2021).
- Various first home buyer stamp duty concessions across the states

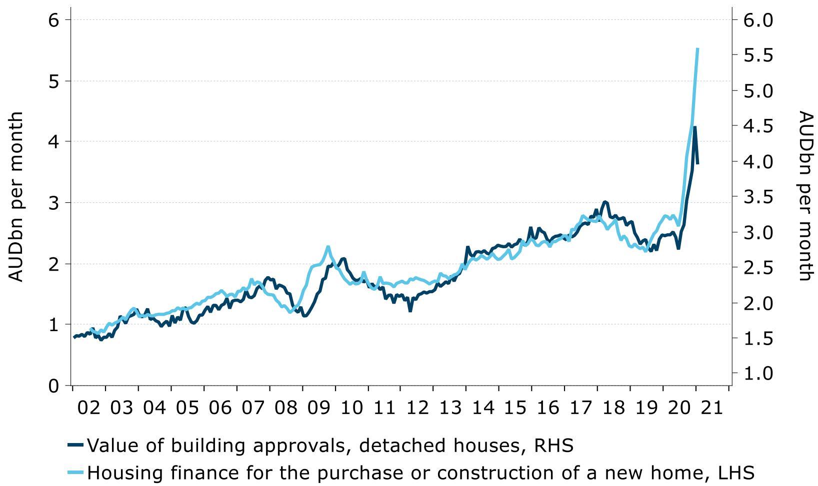
Government housing supports 2021-22

- First home super saver scheme
- First home loan deposit scheme, 10,000 places
- State-based first home buyer stamp duty concessions likely to continue

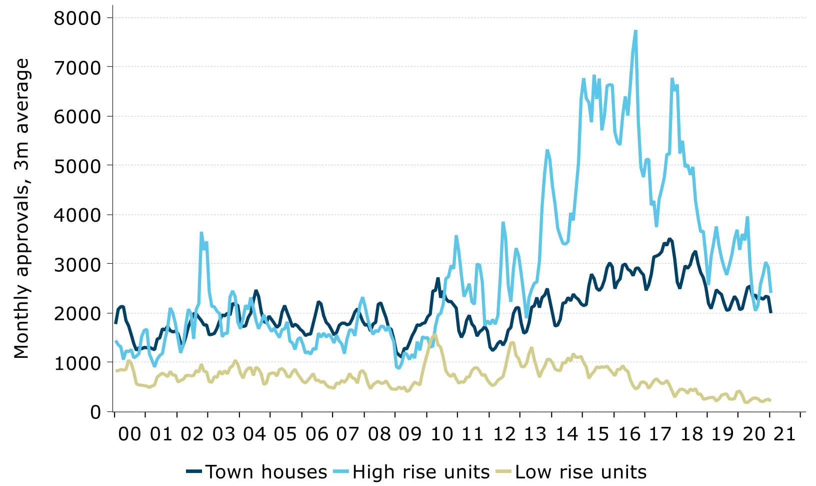
Source: State Revenue Offices, Commonwealth Treasury, ANZ Research

Strength in housing finance and a recovery in building approvals point to a substantial pipeline of construction

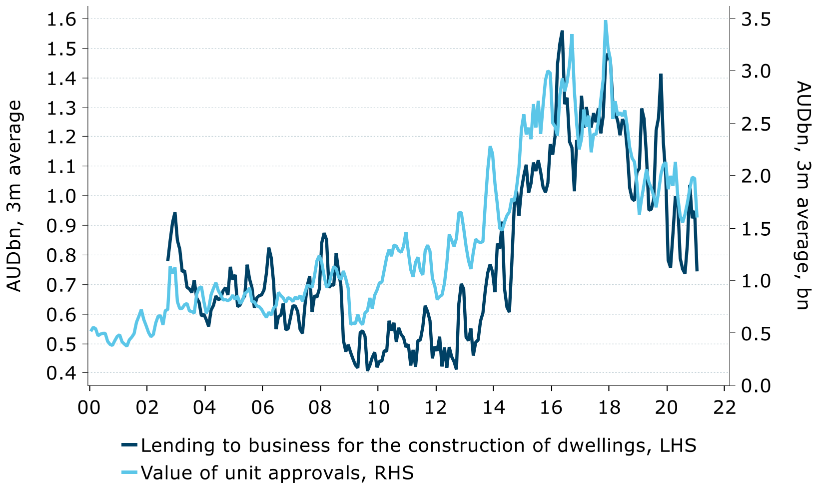
Housing finance points to more strength in approvals



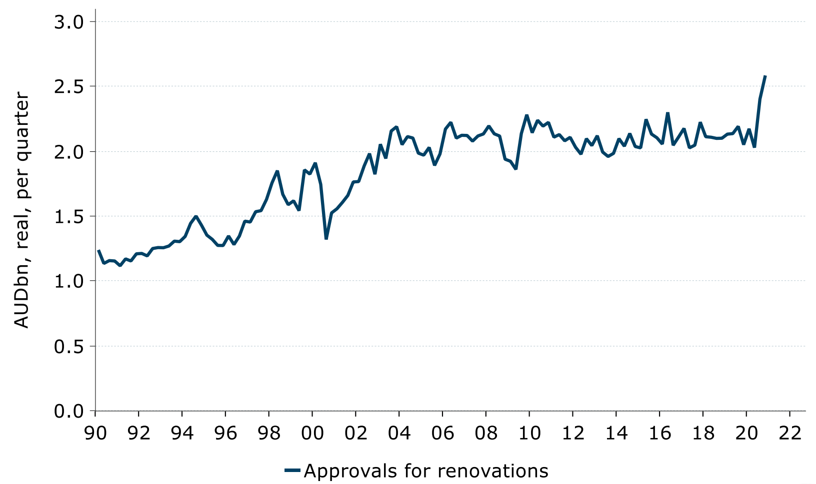
Unit approvals remain depressed



Developer finance looks to be flattening out



Renovation approvals have spiked



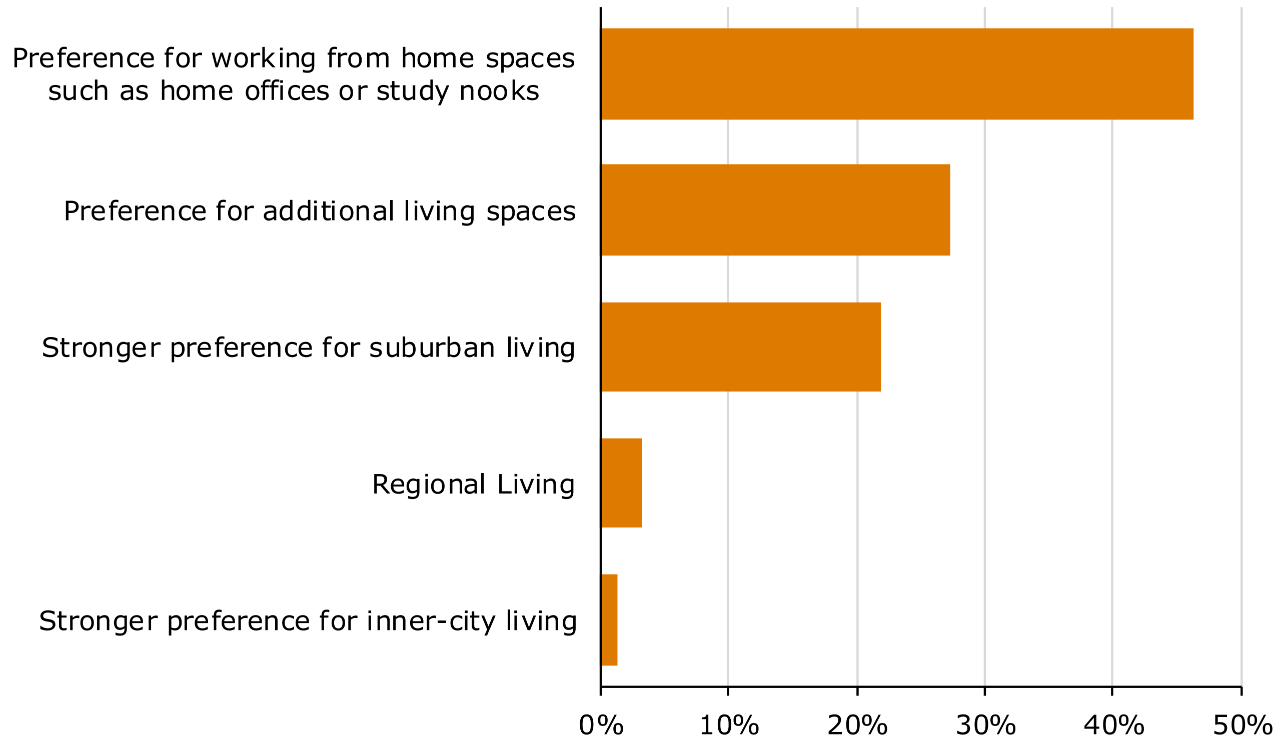
Source: ABS, Macrobond, ANZ Research

Structural trends coming out of the pandemic, including increased working-from-home, will change the price trajectory of certain areas and dwelling types.

COVID-19 has changed home-buyer preferences

Survey of home-buyer preferences

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



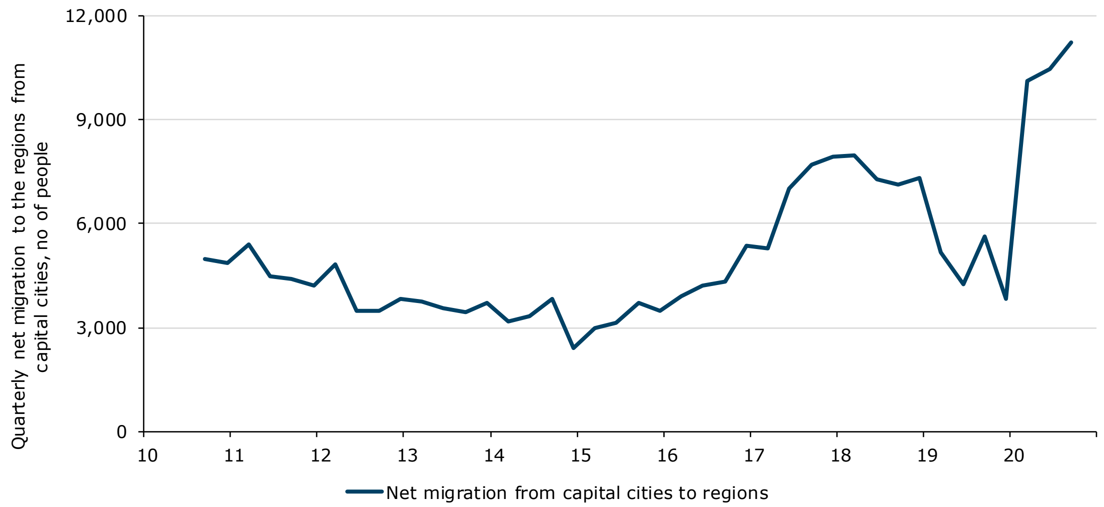
Source: HIA Economics

Regional building approvals have increased as more people moved out of cities

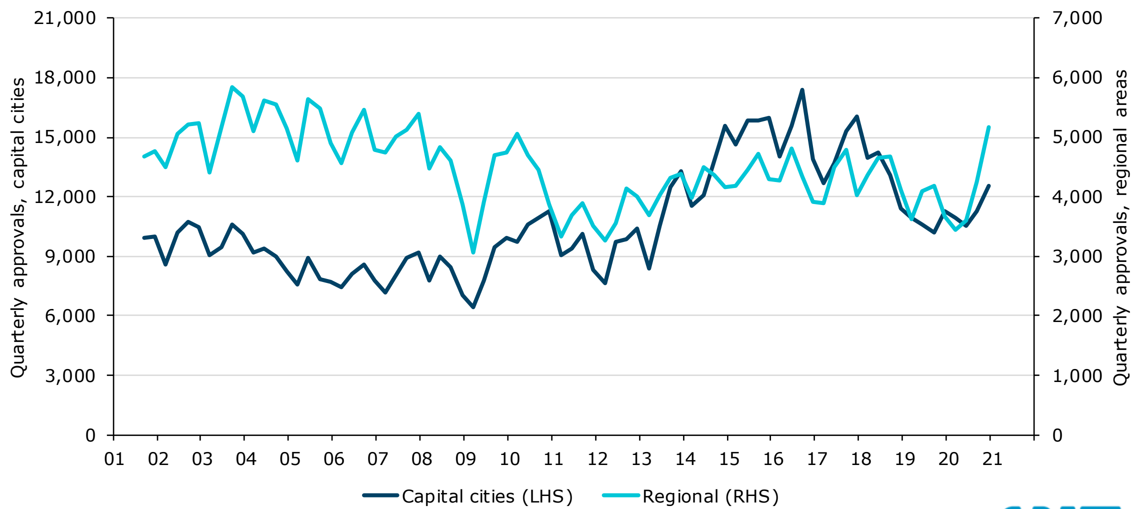
HomeBuilder and a strong rise in migration to the regions have driven a sharp increase in regional approvals.

Capital city approvals are also growing, but are modest compared to the construction boom of the 2010s.

Net migration out of capital cities has risen strongly since COVID



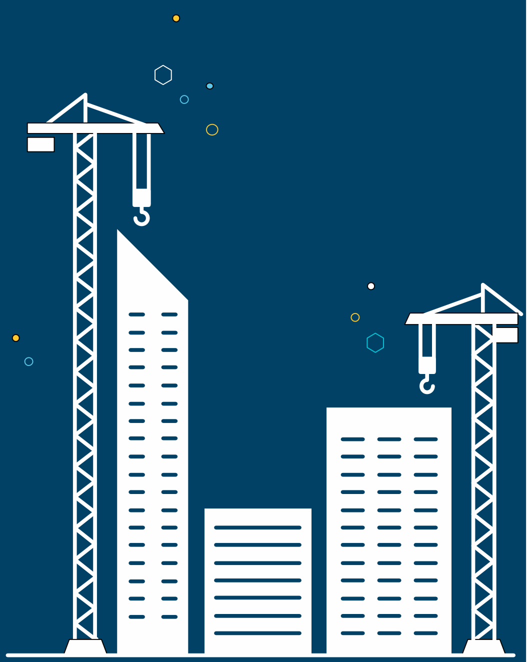
Quarterly approvals outside capital cities are at a decade high



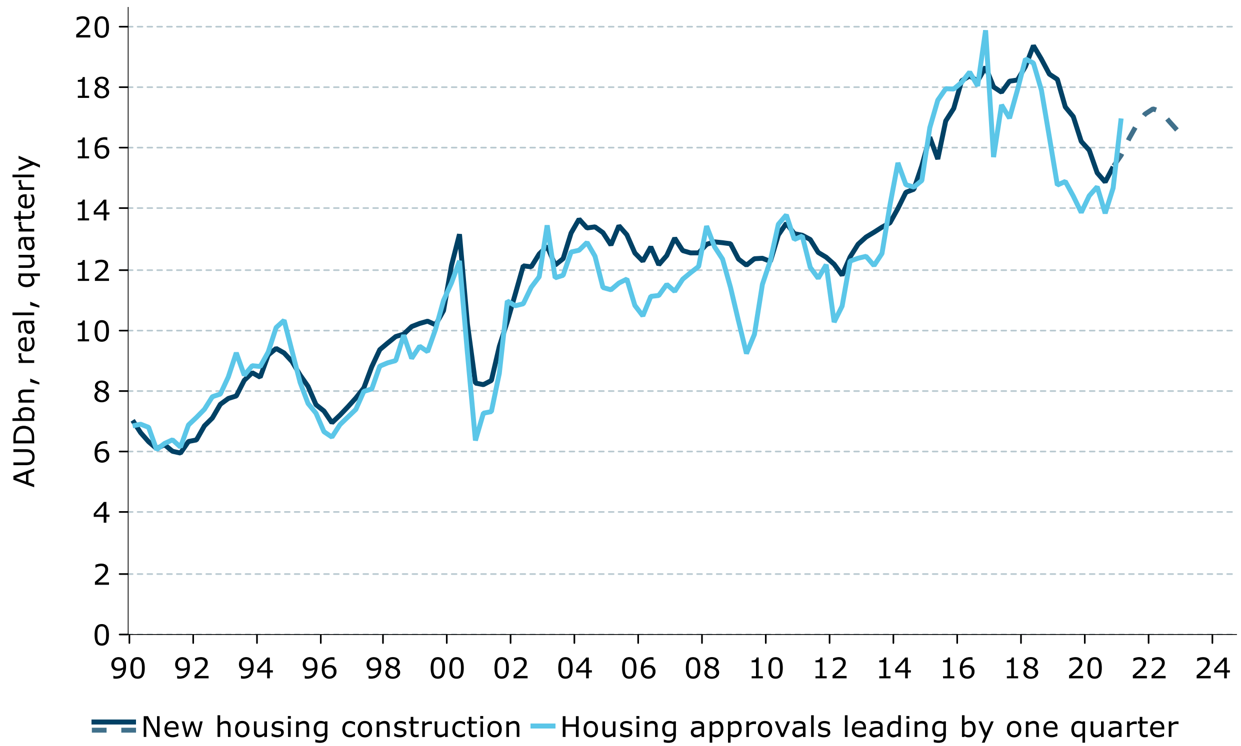
Source: ABS, ANZ Research

Housing construction set to grow in 2021

We expect growth in housing construction of close to 12% this year, before activity brought forward by government incentives dries up. Low interest rates will keep a floor under activity in 2021.



Housing construction forecasts



Source: ABS, Macrobond, ANZ Research

Affordability

Affordability: policy supports unlikely to keep pace with price gains over the medium term

Policy support has led to a surge in first home purchases
Homebuilder, the first home loan deposit scheme and various state-based first home buyer supports have led to much stronger first home buyer lending over 2020, with annual growth of 73% to January 2021.

Low interest rates are raising borrowing capacity…and prices
While low interest rates have added to borrowing capacity across all homebuyers, they have also put upward pressure on home prices, which grew by 1.9% in February alone. Strong price gains will lock some aspiring homeowners out of the market. Deposit affordability remains a key element of housing affordability.

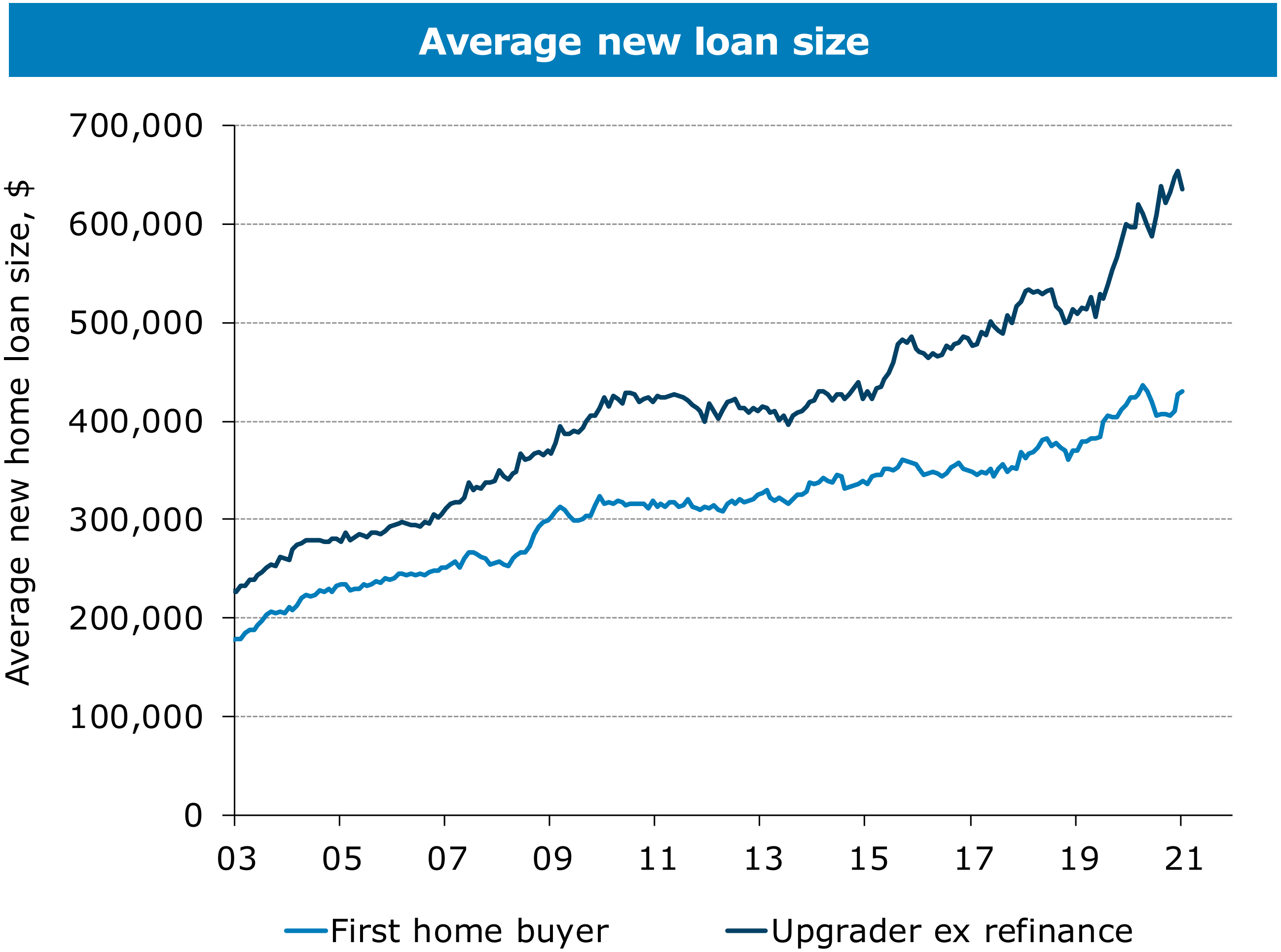
New homeowners taking on near-peak debt
First home buyers entering the market in 2021 are taking on almost-peak levels of debt. The average first home buyer took on a $429,950 home loan in January 2021, around $1,000 less than the peak in 2019. The average first home buyer loan approximately doubled between March 2004 and February 2021.

The post-COVID jobs recovery has been skewed to older workers
More people under 35 lost work during the COVID downturn and, as at February, there were fewer employed people under the age of 35 compared to before the pandemic. In contrast, there were more people over the age of 35 working compared to before the pandemic. The higher likelihood of unemployment for younger workers will slow their progress on saving for a home deposit.

Millennials already have lower home ownership
Millennial cohorts have much lower home ownership rates adjusted for age compared with previous generations. In 2016, only 37% of those aged 25-29 were home-owners. This compares with 41-45% between 2001-2011 and over 50% in the late 20th century. With policy support unlikely to fully offset price gains, it is unlikely we'll see a reversal of this trend anytime soon.

First home owners are taking on more debt

The average new loan for a first home buyer is now nearly $430,000, fractionally below the peak in 2019. It has approximately doubled since 2004.



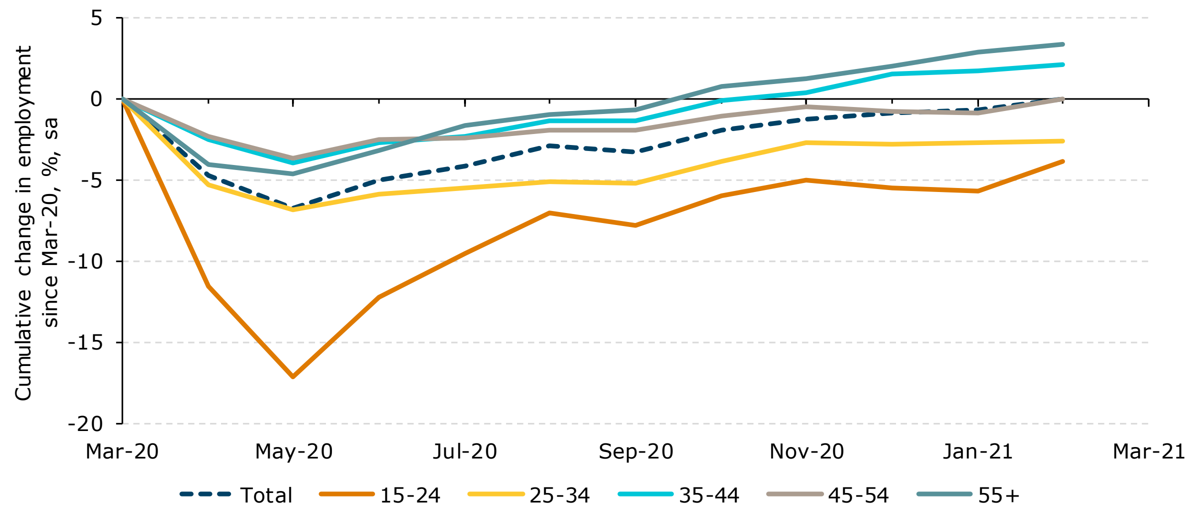
Source: ABS, ANZ Research

COVID-19 employment impacts will weigh on home ownership rates of younger people

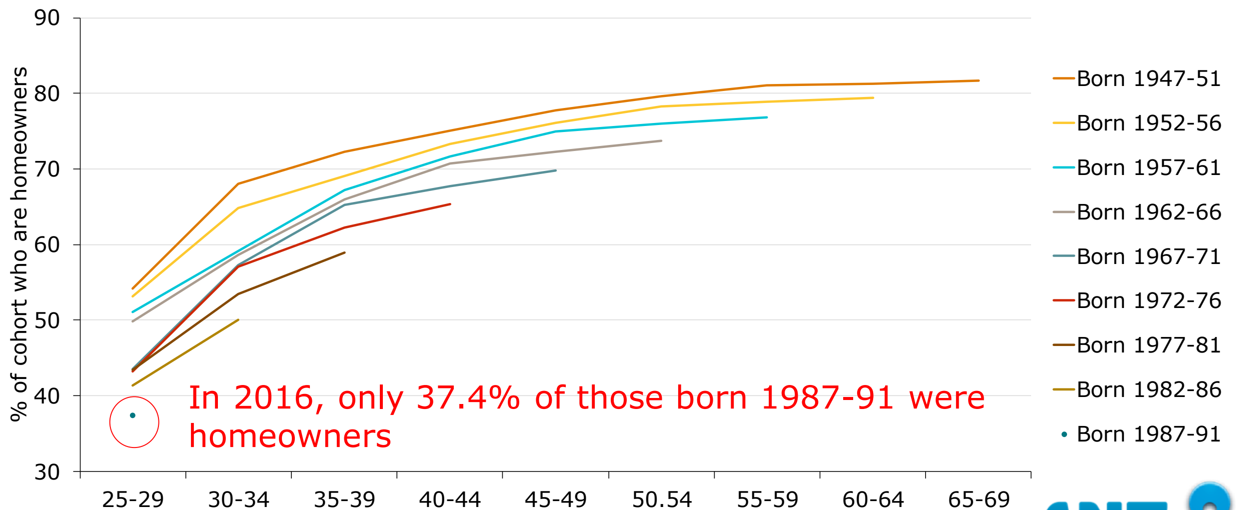
Home ownership rates by age have fallen particularly for older "millennials" including those born 1982-86 and 1987-91.

Between the strong lift in housing prices over the last ten years and the over-representation of younger people who lost work through the COVID downturn, home ownership rates among younger people are likely to continue to fall. This is despite strong growth in first home lending (73% y/y to January)

Youth employment is lagging the broader recovery



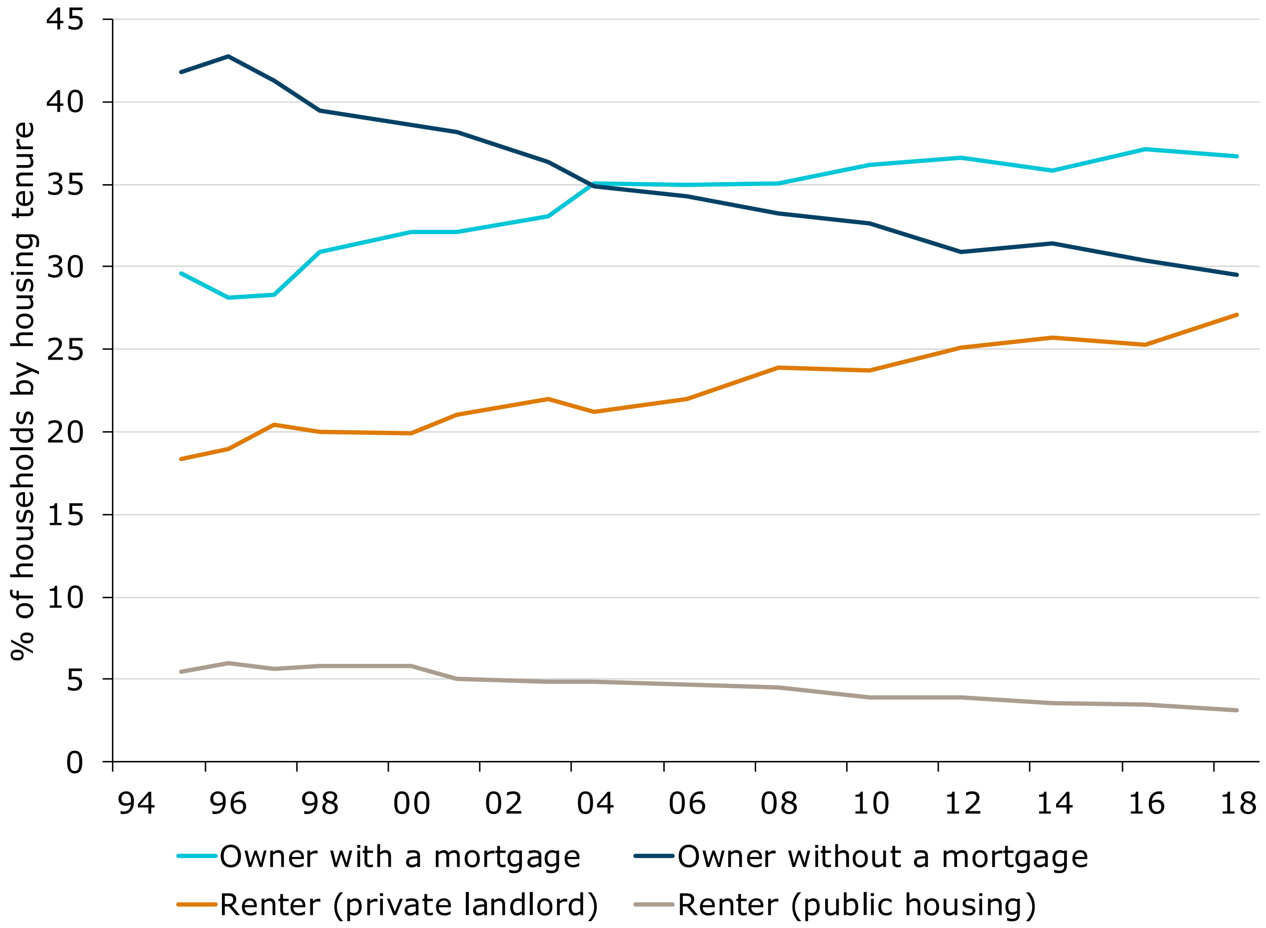
Younger people are less likely to be homeowners



Source: ABS, AIHW, ANZ Research

The share of renters may continue to increase as housing prices rise

% of households by housing tenure



Source: ABS, ANZ Research

Financial stability

Financial stability: 2021 has less of everything – fiscal support, unemployment, interest costs

Government household support and mortgage deferrals are rolling off
The bulk of special COVID-19 household support (through superannuation withdrawals, JobKeeper and mortgage deferrals) is at or close to expiry, leaving households that are still in difficulty at risk. We expect that housing arrears will rise modestly over 2021 as the last of the deferrals roll off.

The remainder of deferred loans are higher risk
As at January, less than 2% of the value of total mortgages in Australia were deferred. Of the remaining borrowers with deferred mortgages, a smaller share were voluntarily paying part or full payments in January. These borrowers are likely at higher risk of moving to forbearance measures or into arrears than previous mortgage deferral recipients.

The strong labour market recovery will help
The unemployment rate has been falling faster than expected, dropping from a peak of 7.5% to just 5.8% in February. The strong improvement in the labour market has reduced the risk of mortgage arrears for many households.

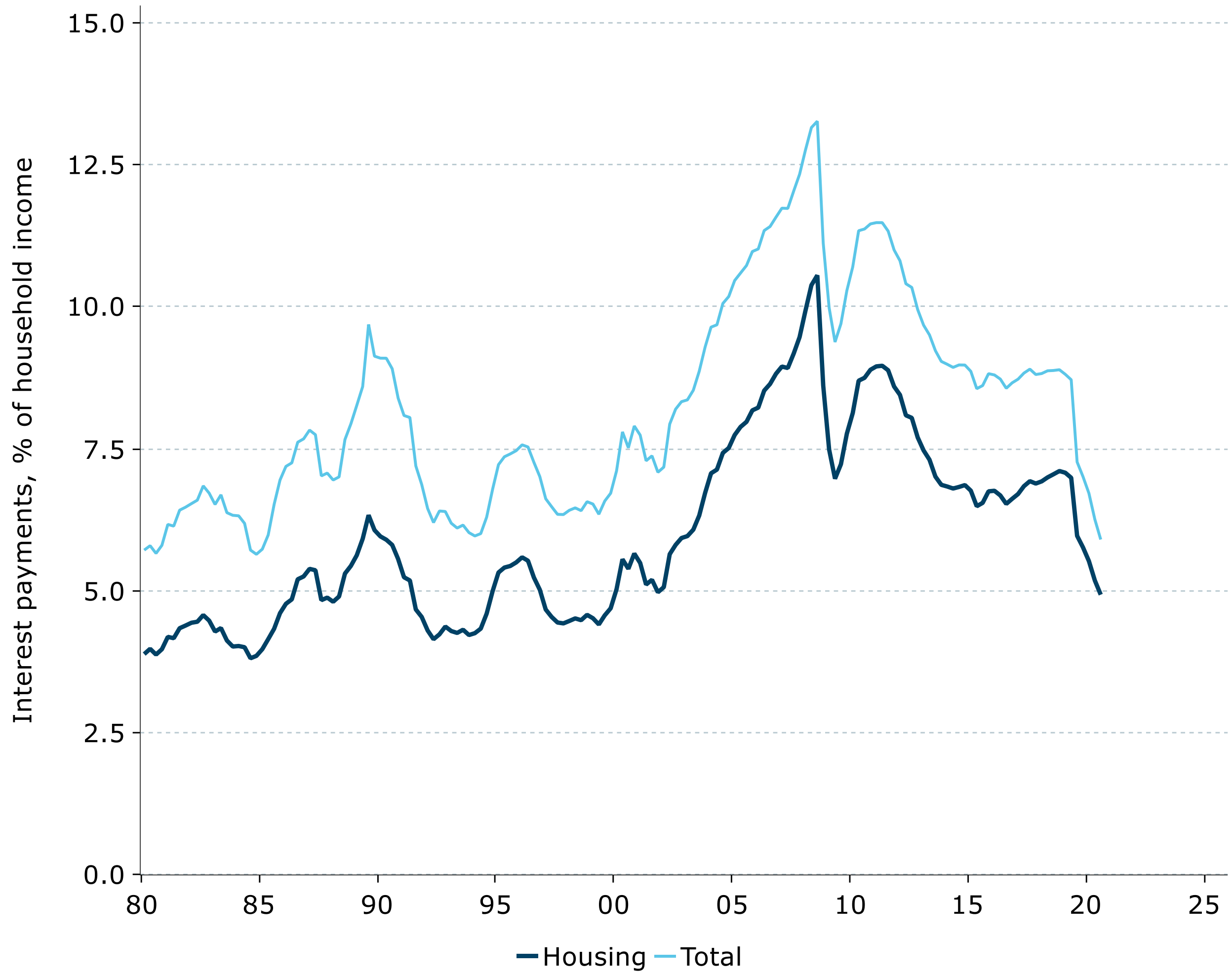
Household finances are supported by very low rates.
Interest payments relative to household income are much lower than they have been in recent years. Housing interest payments as a share of household income are at a 20-year low and total interest payments on household debt are at a 35-year low.

House prices and rising debt point to macroprudential tightening by year end
We expect macroprudential restrictions will be introduced later this year. Signs of easing lending standards will be the trigger for the regulator rather than the extent of house price gains. A soft touch approach from the regulator is likely in the first instance, followed by harder limits, most likely targeted at high debt-to-income loans.

Interest payments have fallen as a share of household income

Housing interest payments are at a 20-year low relative to household income, while total household interest payments are at a 35-year low.

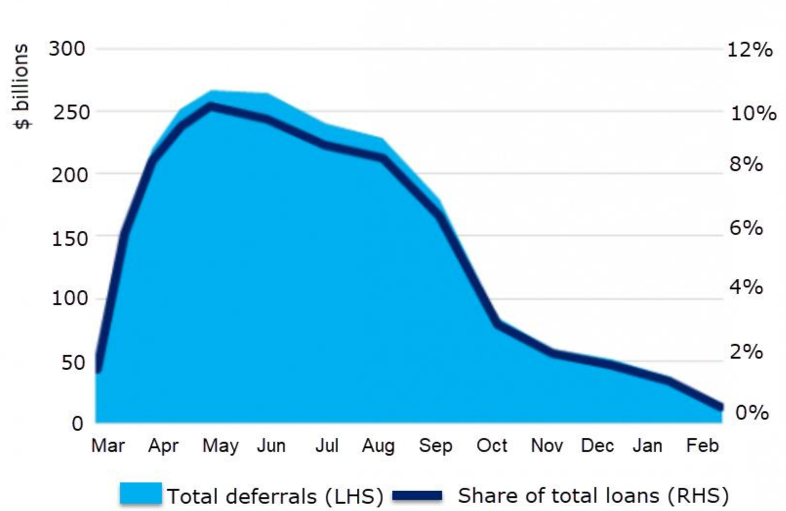
Interest payments as a share of household income



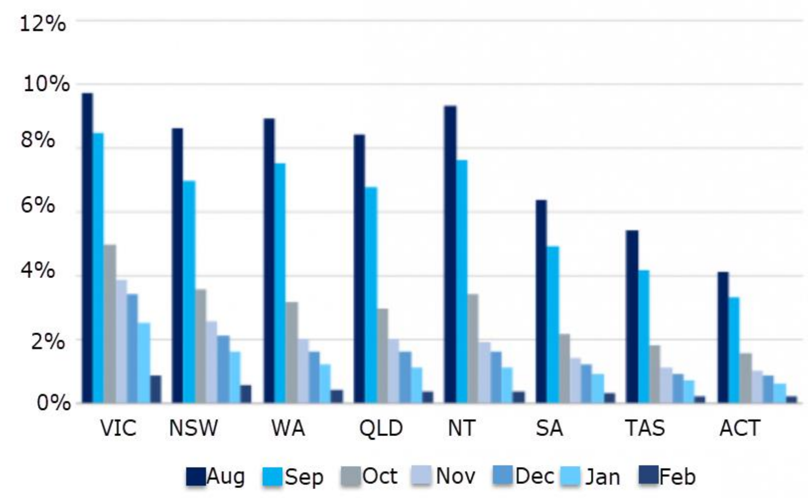
Source: RBA, Macrobond, ANZ Research

Mortgage deferrals are winding down at the same time as other income supports

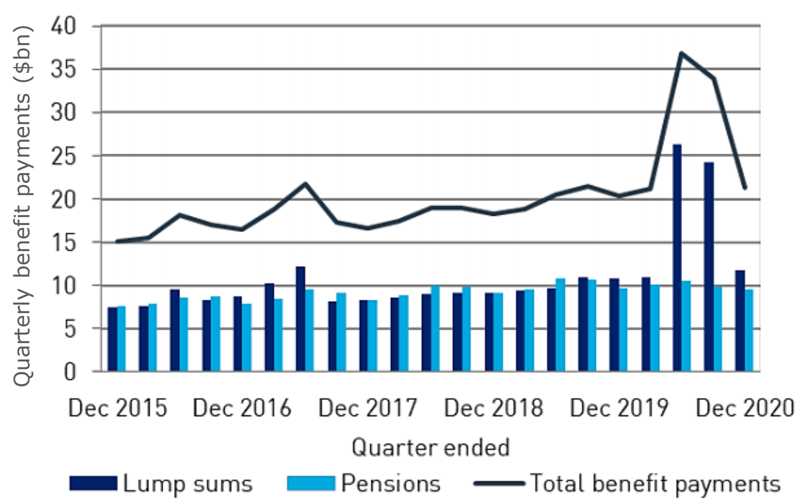
The bulk of deferred housing loans have rolled off



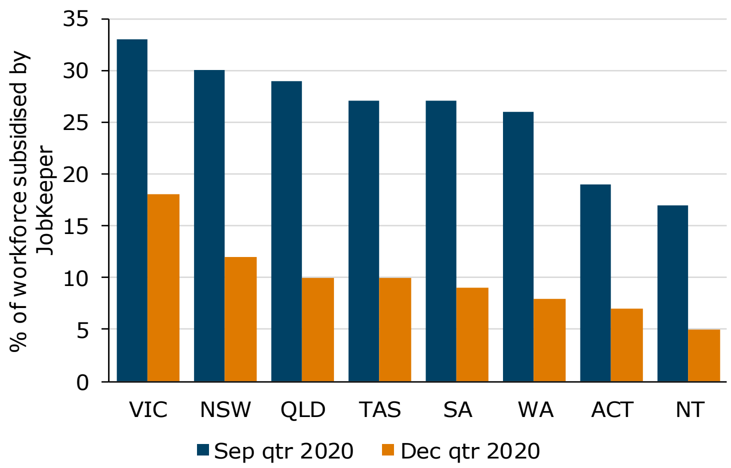
Mortgage deferrals are less than 2% of loans everywhere but Victoria



Superannuation benefit payments



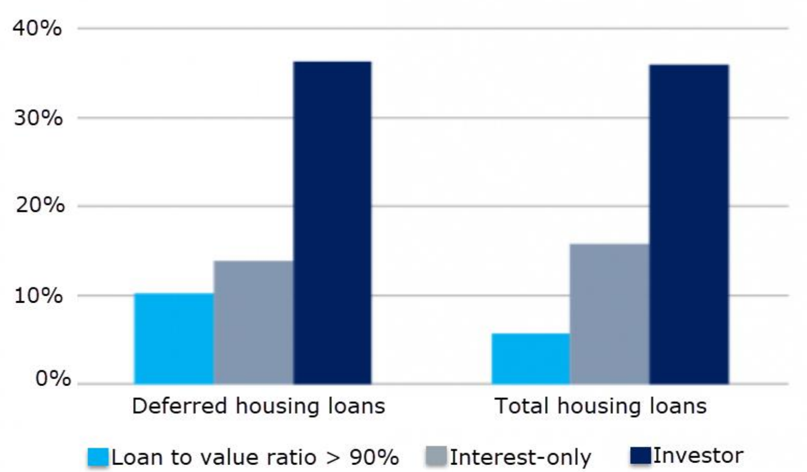
Reliance on JobKeeper shrunk in Q4



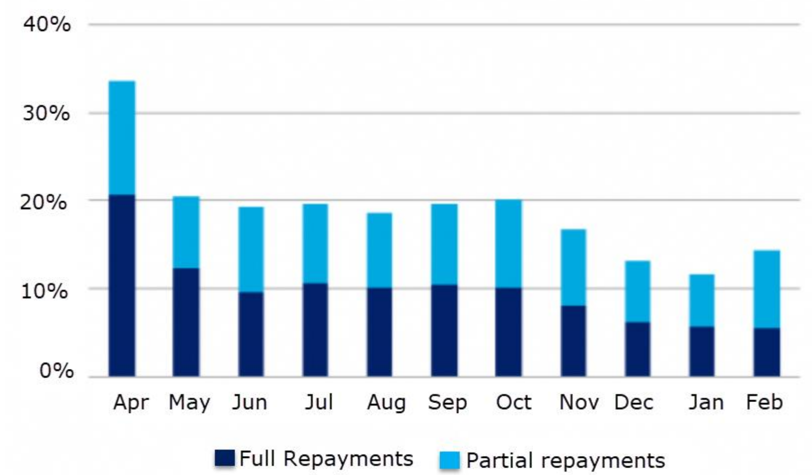
Source: Commonwealth Treasury, APRA, ANZ Research

The end of deferrals still carries some risk

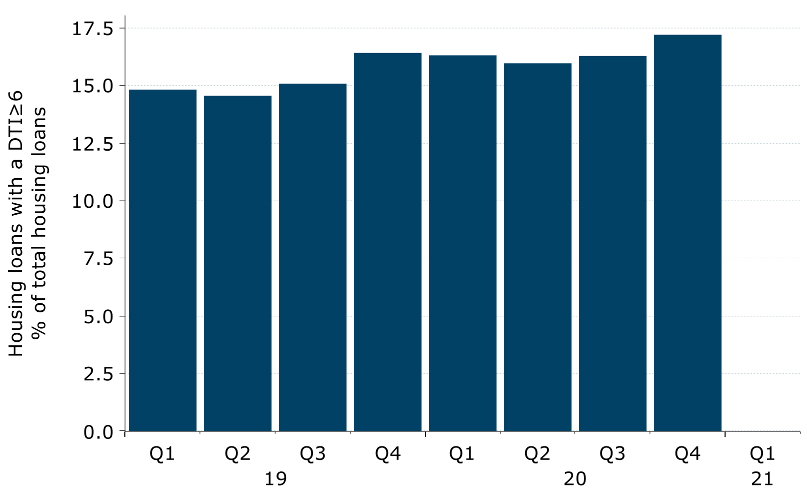
Investor and high LVR loans are over-represented in deferrals



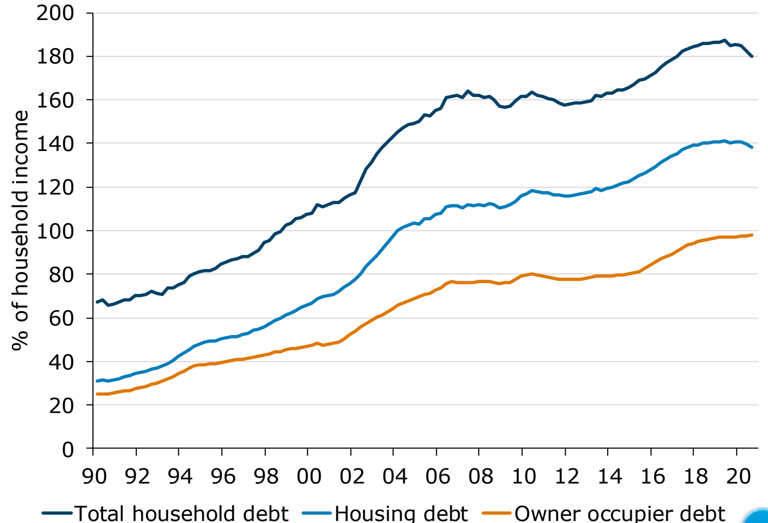
Fewer deferred loans but of the remainder, a smaller % are making payments



High debt-to-income loans are on the rise



Total household debt is lower, but owner occupier debt is at a new peak



Source: APRA, RBA, Macrobond, ANZ Research

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[15 March 2021]

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THE ANZ ROY MORGAN FINANCIAL WELLBEING INDICATOR

QUARTERLY UPDATE
MARCH 2021

FINANCIAL WELLBEING OVERVIEW

Trends in financial wellbeing have provided key insights into how the pandemic has impacted peoples lives and livelihoods in Australia.

The ANZ Roy Morgan Financial Wellbeing Indicator has been reported as a 12-month rolling average every quarter prior to the start of the pandemic. However, as the 12-month rolling average to December 2020 incorporates 3 months of data pre COVID-19, it takes into account the financial wellbeing gains made throughout early 2020. To best understand the changes in financial wellbeing arising from the pandemic, this update focuses on comparing the pre COVID-19 12 months to March 2020 with the combined spot monthly results for April 2020 through to December 2020 to provide a post COVID-19 view. Individual spot monthly results are also reported to highlight any early signs of change.

INDICATOR

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

DECLINED
5.9%

FROM
60.7 (as a score out of 100) in the 12 months to March 2020

→

TO
57.1 in the 9 months to December 2020 (Figure 1 and Table 1).

ROY MORGAN

ANZ

INDICATOR (CONTINUED)

From April 2020 to November 2020, the spot monthly financial wellbeing scores stayed in the narrow range of 56.5 to 57.5 (out of 100). In the month of December 2020, however, financial wellbeing increased to 58.2 (out of 100), indicating some initial signs of national recovery.

While all components of financial wellbeing declined post COVID-19 (Table 1), the biggest decline in the 9 months to December 2020 was in **'feeling comfortable'** about one's current and future situation, down 10.0% for the 9-month rolling average to December 2020 (50.4) compared to the 12 months to March 2020 (56.0). However, **'feeling comfortable'** scores recovered slightly since our last update to be in the range of 50.1 to 53.3 (out of 100) for the spot months of September through December 2020, compared to 47.5 to 49.6 (out of 100) for the months of April through August 2020.

'Meeting everyday commitments' was down 6.4% for the 9 months to December 2020 (68.3) compared to the 12 months to March 2020 (73.0).

'Resilience for the future' – the ability to cope with financial setbacks – declined by 1.1% for the 9 months to December 2020 (52.6) compared to the 12 months to March 2020 (53.2).

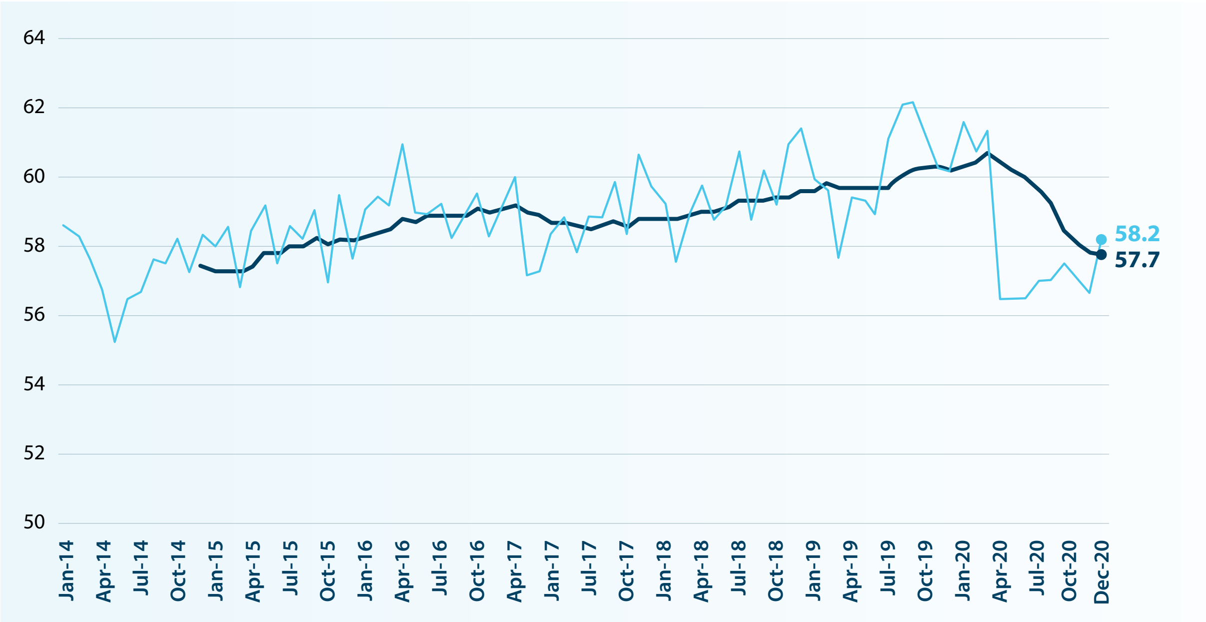
LOOKING AHEAD

- Future releases will monitor the effects of COVID-19 on financial wellbeing which are anticipated to continue for some time, particularly for those segments of the community disproportionately impacted, such as people who were already 'struggling' prior to the pandemic, younger people 'Struggling' or 'Getting By', small and micro business owners and occupations in exposed industries. The extent of the impact will depend on the strength of Australia's economic recovery once government and institutional support ends.

IN THIS RELEASE

- Nine months after the beginning of the COVID-19 pandemic the impact on financial wellbeing has led to an increase of the size of both the 'Struggling' and 'Getting By' segments while the 'No Worries' segment reduced substantially (Figure 2). Although there has been some improvement with more people reporting high financial wellbeing ('No Worries') in the last quarter of 2020.
- Financial wellbeing has declined across all **states and territories**. The largest decline in the 9 months to December 2020 was in the ACT (down 7.8%), with the smallest decline in WA (down 2.2%) (Figure 3). While still down 7.7% post COVID-19, Victoria experienced significant recovery in financial wellbeing following the easing of restrictions in October.

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



— Indicator Spot result — **Indicator 12MMA**

TABLE 1: FINANCIAL WELLBEING DIMENSIONS IN AUSTRALIA (12-MONTH MOVING AVERAGE, SPOT MONTH AND 9-MONTH MOVING AVERAGE VIEW)

	ANZ Roy Morgan FWB Indicator												
	12 months		Spot Result									9 months to December 2020	*% change*
	Dec-19	**Mar-20**	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	**Apr to Dec-20**	12m to Mar-20 vs 9m to Dec-20
Financial wellbeing	60.2	**60.7**	56.5	56.5	56.5	57.0	57.0	57.5	57.0	56.6	58.2	**57.1**	-5.9%
Meeting commitments	71.9	**73.0**	70.1	67.9	67.9	69.5	67.8	69.4	67.4	67.1	68.2	**68.3**	-6.4%
Feeling comfortable	55.9	**56.0**	47.5	49.2	49.2	49.5	49.6	50.1	51.3	50.7	53.3	**50.4**	-10.0%
Resilience for the future	52.7	**53.2**	52.1	52.3	52.5	52.1	53.6	53.0	52.3	51.9	52.9	**52.6**	-1.1%

FINANCIAL WELLBEING SEGMENTS

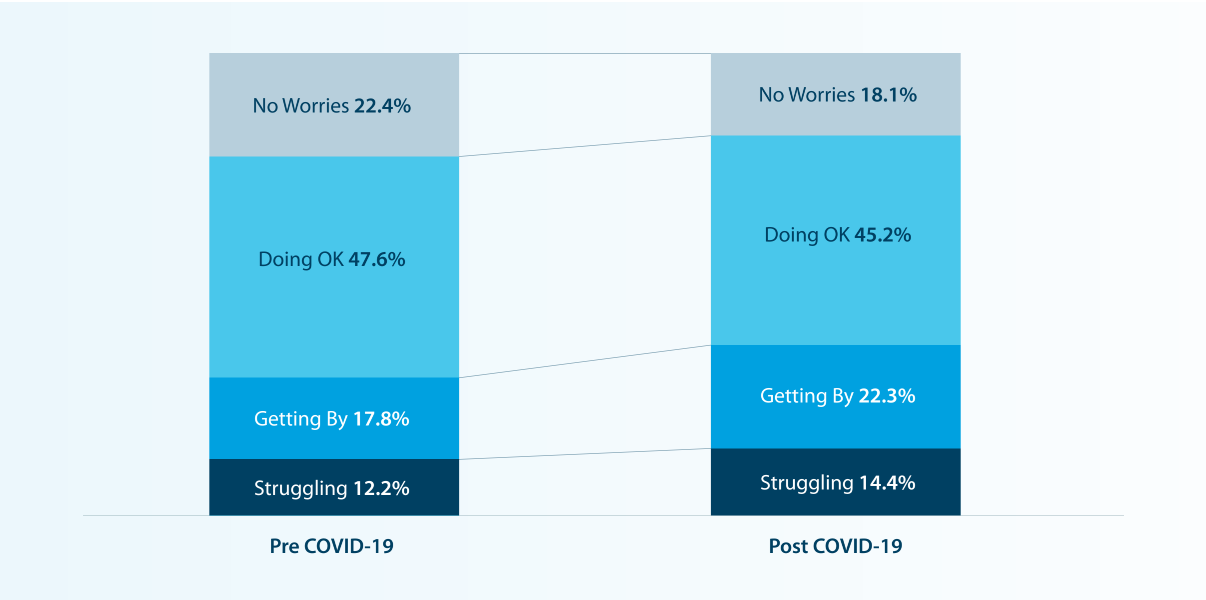
Respondents were divided into four segments according to their overall financial wellbeing score (out of 100). These segments were described in ANZ's 2017 ANZ Financial Wellbeing Survey[1]:

- **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 18.1% in the 9 months to December 2020, although this has improved from our last update with more people reporting high financial wellbeing in the last quarter of 2020. Whilst the majority of the Australian population (45.2%) were '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 36.7% of Australians in the 9 months to December 2020 (up from 30% in the 12 months to March 2020), with 22.3% 'Getting By' and 14.4% 'Struggling', the latter of which is yet to show signs of improvement (Figure 2).

FIGURE 2: CHANGE IN THE COMPOSITION OF THE FINANCIAL WELLBEING SEGMENTS ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 9 MONTHS TO DEC-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 December 2020.

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

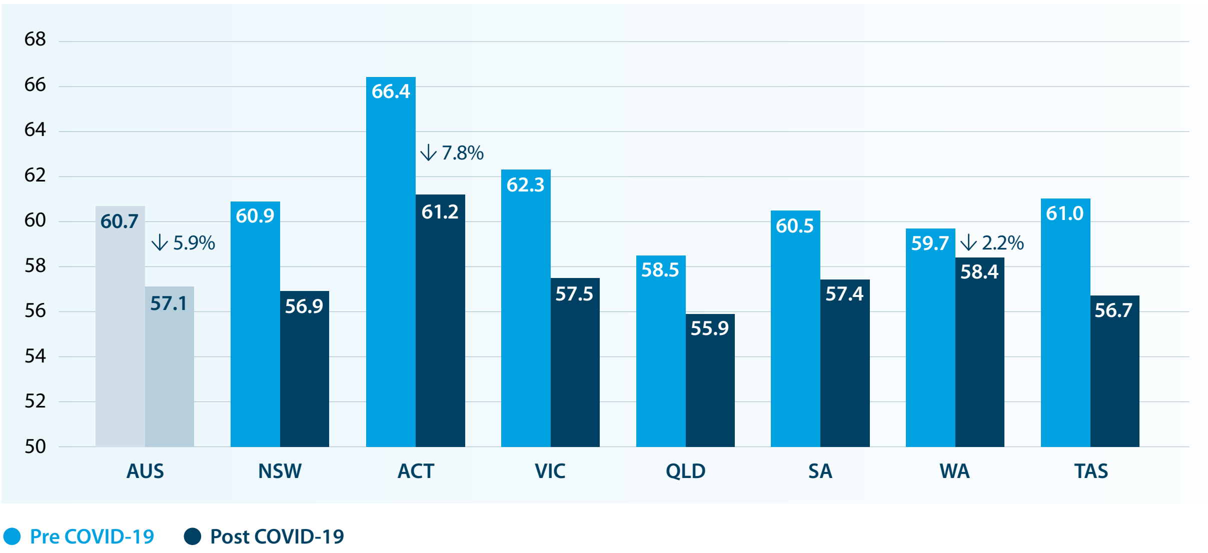
FINANCIAL WELLBEING BY STATE AND TERRITORY

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 in all the three dimensions of financial wellbeing for the 9 months to December 2020 (post COVID-19) (Figure 3).

Respondents from ACT had the highest financial wellbeing score of 61.2 (out of 100) post COVID-19 in the 9 months to December 2020, 4.1 points higher than the national average and 2.8 points higher than WA with the next highest level of financial wellbeing (58.4). Queensland had the lowest level of financial wellbeing at 55.9 (out of 100) (Figure 3).

The ACT experienced the largest decline in financial wellbeing in the 9 months to December 2020, down 7.8%, though it still sits comfortably above the national average (61.2). Victoria experienced the second largest decline (down 7.7%) and while it is currently well below the ACT, financial wellbeing in Victoria was still above the national average, after experiencing significant recovery since the easing of restrictions in October (Figure 3). WA experienced the smallest decline in financial wellbeing (down 2.2%). While previously sitting below the national average, financial wellbeing in WA is now above the national average (Figure 3).

FIGURE 3: FINANCIAL WELLBEING IN AUSTRALIA, BY STATE AND TERRITORY
(‘PRE COVID-19’ 12 MONTHS TO MAR-20 VS 9 MONTHS TO DEC-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 December 2020.

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 4). 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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FIGURE 4: 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[2], 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)

2. 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