THE ANZ FINANCIAL WELLBEING INDICATOR

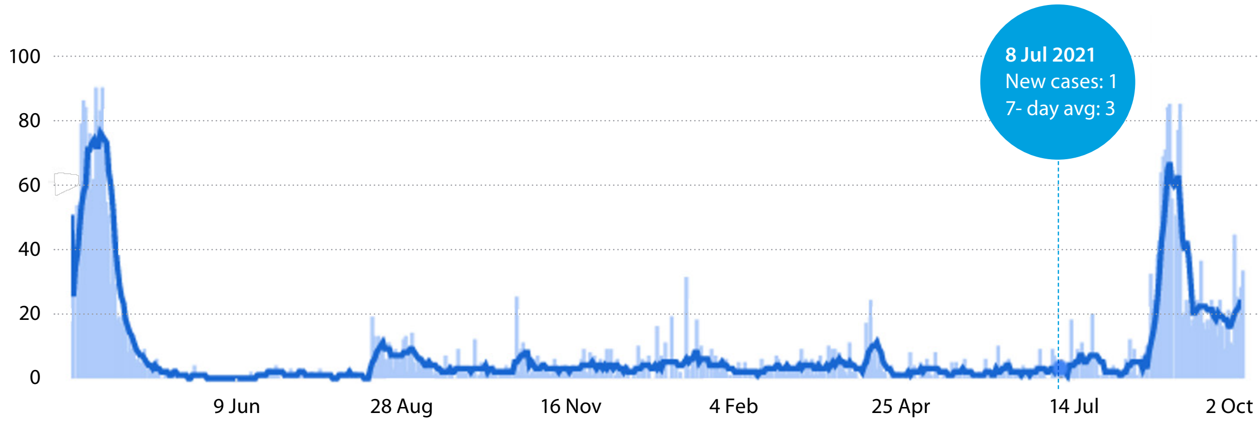
UPDATE OCTOBER 2021

THE SQUEEZED MIDDLE

This update covers the year up to the end of June 2021. It was a year where NZ was to a large extent free of the Covid 19 virus. While we did see the occasional lockdown in both Auckland and Wellington, these were both rare and short-lived. For most of the year NZ was at alert level 1, with businesses open to trade. In April 2021 the trans-Tasman travel bubble opened, albeit briefly.

Despite appearing to be a period of comparative calm it was a year where things changed very quickly, while several sectors of the economy such as tourism and education for international students, remained heavily impacted by the closed border. So it may be a little surprising that at the end of June **the Financial Wellbeing Indicator was 63.** Exactly where it had been a year earlier in June 2020. (See Fig 2 Overall Financial Wellbeing Indicator).

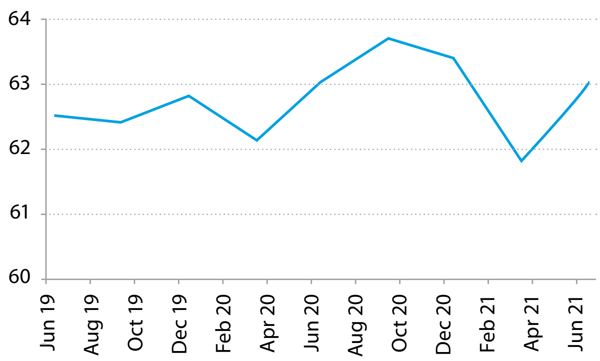
FIG 1 - NZ DAILY COVID 19 CASES



Source: Our World in Data

THE ANZ FINANCIAL WELLBEING INDICATOR

FIG 2 - OVERALL FINANCIAL WELLBEING INDICATOR



While you would not expect the indicator score to move either very much or very quickly in normal circumstances, the past year has been anything but normal. So it's not surprising that when we take a closer look at the various segments of people within our financial wellbeing range we can see there have in fact been some significant movements. (See Fig 3 Changes in Financial Wellbeing Segments).

The groups at both the top and the bottom of the range have grown in size, indicating a greater dispersion of financial wellbeing. Let's start by looking at the lower end.

Struggling: People in this group have a relatively low financial wellbeing score of 30 or less. Members of this group were struggling to meet their current financial commitments. The Financial Wellbeing survey of April 2018 found that 61% always or often ran short of money for food and other regular expenses, while 32% always or often lacked the money to pay bills at the final reminder. They had limited financial resilience, with 79% saying they did not have any savings at all. Not surprisingly they were not feeling comfortable about their financial situation with 84% describing their current financial situation as 'bad'.

Another feature of the struggling group is very high levels of renting. In April 2018 the survey found that 50% of the group were renting on the private market, with a further 13% from a government agency.

Socio-demographically members of this group are more likely to be female (64%) and to have a government payment or allowance of their main source of income (43%). For those whose main income was wages or salary, for most that income varied either considerably (21%), or a bit (48%) each month.

Over the past year this group has grown from 8.8% to 11.2%, which is alarming. Over the past year the government has increased the level of many social security benefits, increasing the income for some in this group, and in the 'Getting By' group above them; however, this group has still grown.

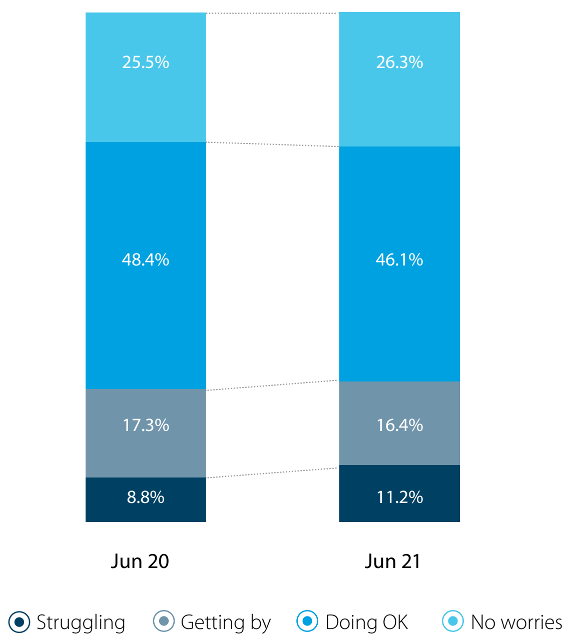
The property market and the broader economy

We believe the change is driven by the dominant economic feature of the year, which was runaway house price growth. For the 12 months to June NZ house prices jumped 25.9%, second only to Turkey, according to the Frank Knight global house price index. This huge increase in house prices has two big impacts. The first is to increase the wealth of those who already own property, as the value of their asset (or assets if they own multiple properties) lifted.

The other big impact was a lift in residential rents, as some landlords moved to bring rents more into line with the new value of their properties. According to the Trade Me Rental Price Index, rents rose by 6.9% on average nationwide between June 2020 and June 2021. This was an 8.7% increase outside of Auckland. This increase compares to a 2.1% increase in average weekly earnings over the same period, according to NZ Stats.

Over this same time period the unemployment rate actually fell by 0.1% to just 4.0%, while the employment rate lifted. This leads us to believe it is the impact of rising rents that is driving more people into the struggling category.

FIG 3 - CHANGES IN FINANCIAL WELLBEING SEGMENTS



At the other end of the financial wellbeing segmentation is the top group.

No worries – this group has also increased in size, although only by 0.8%. This group has relatively high levels of overall financial wellbeing with scores in excess of 80 out of 100. As might be expected, in the Financial Wellbeing survey of April 2018 they had high scores on all three components of financial wellbeing; meeting commitments (mean score of 98 out of 100), feeling comfortable (mean score of 83 out of 100) and resilience for the future (mean score of 91 out of 100). 86% of this group described their current financial situation as good – compared to 34% of those who were 'doing okay'.

People in this group are much more likely to own their own home outright, which is without a mortgage (60% versus 26% of the total sample). As a result, the increase in house prices will have had a substantial impact on the net wealth of this group. This may account for the lift in the overall 'feeling comfortable' component of the financial wellbeing metric, even when those at the other end of the scale are feeling any but.

The **Doing okay** group has financial wellbeing scores ranging from 51-80 out of 100. This is linked to secure employment and steady household income. Those with homes and mortgages have seen the value of their asset rise while interest rates have remained low. This helps explain why we have seen an increase in those feeling comfortable. Among this group nearly all could meet their current financial commitments (only 3% always/often ran short of money for food and other regular expenses, compared with 14% of those who were getting by) and only 2% were always or often unable to pay bills and loan commitments at final reminder (compared to 9% of those who were getting by) during the last 12 months.

The final group is the **Getting by** segment, with scores from 31 to 50 out of 100. This group has shrunk a little as some have fallen into the struggling segment below. In the 2017 study we found that a substantial proportion (28%) depended on a government payment or allowance as their main source of income and, of those whose main source of income was wages or salary 53% reported that their income varied considerably (7%) or a bit (46%) each month.

FIG 4 - COMPONENTS OF THE FINANCIAL WELLBEING INDICATOR

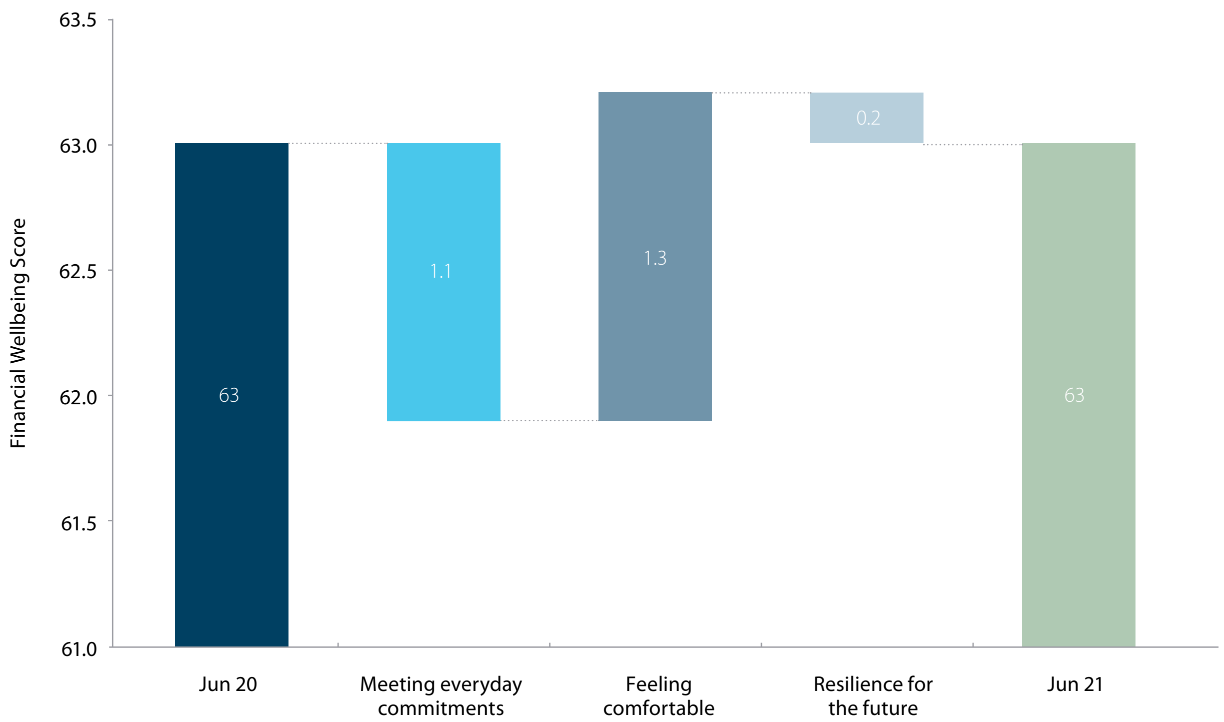


Fig 4 Components of the Financial Wellbeing Indicator shows the three elements of the Indicator. At first glance the metrics appear to be a bit contradictory. If fewer people are meeting everyday commitments, how can more people be feeling comfortable?

We think the answer is that these are different groups of people being impacted in different ways. We believe more people are having trouble meeting everyday commitments as those at the bottom (the struggling) are squeezed by the likes of increasing rents and prices, with only modest income increases.

At the other end a number of people are recording higher scores in feeling comfortable as rising house prices have increased their equity and their net wealth.

It appears to increasingly be a game of two halves. We seem to be witnessing an increasing divide between the haves, and the have nots.

And not surprisingly, this frustrates those at the bottom who see property ownership slipping further from their reach. This is evident in the increase in the proportion of people who feel 'they get a raw deal out of life'. Fig 5 Raw deal out of life, shows the proportion of people who say they agree with the statement that "I get a raw deal out of life". And concerningly, this has reached the lowest level we have seen in the past 5 years.

This reflects the views seen in the recent Money & You – Generation Rent study by the Financial Services Council. The study found that 88% of respondents thought that 'younger kiwis were being locked out of the property market'. While a total of 82.9% believed that 'The New Zealand dream of home ownership is no longer attainable for the average kiwi'. While the overall indicator score for financial wellbeing may be unchanged over the past 12 months it appears our overall society has, and not for the better.

About the Financial Wellbeing Indicator series

The ANZ Financial Wellbeing Indicator provides a time-series measure of New Zealand's financial wellbeing. ANZ has partnered with Roy Morgan to replicate key financial wellbeing questions from the 2017 ANZ Financial Wellbeing Survey. This robust, quarterly snapshot of the personal financial wellbeing of New Zealanders identifies key questions from that survey and applies them to proxies within the weekly Roy Morgan Single Source survey of 7,000 New Zealanders annually. You can find a copy of the report here:

https://bluenotes.anz.com/financialwellbeing/foreword-financial-wellbeing-in-new-zealand

FIG 5 - RAW DEAL OUT OF LIFE