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State of the Nation 25: Spotlight on Financial Risk

Roy Morgan Research CEO Michele Levine this week presented the latest State of the Nation Report in Melbourne and Sydney, with a special Spotlight on Financial Risk including Mortgage debt & stress, Income risks and the adequacy of retirement funding.

Key findings of this in-depth industry spotlight include:

- Home ownership in Australia is likely to continue its downward trend whilst house price increases outpace the increase in household incomes;
- Mortgage stress levels are likely to remain elevated even with the likelihood of further interest rate reductions by the Reserve Bank of Australia (RBA) over the coming 12-18 months. Official Australian interest rates are already at a record low of 1.5% and likely to converge with the 0% interest rates found in comparable Western economies including the United States, United Kingdom, Canada and the EU;
- Household debt levels could become a risk for both households and banks should general economic conditions turn down;
- The reliance on dual incomes for home loans repayments by many Australian families is a risk in itself with the increasing trend towards part-time work throughout much of the economy and with the additional factor of low wages growth;
- Mortgage risk shows some potential problems for Australia’s older cohorts, the over 60s, if older Australians retire with debt still outstanding;
- Mortgage risk is highest in areas outside of capital cities despite the generally lower mortgage outstandings in these areas;
- Savings and superannuation levels are still generally inadequate to cover the retirement funding Australians are projected to require and this problem is exacerbated with the low interest rate environment;
- Female retirement funding is making some gains but is still generally well behind the retirement funding of male counterparts;
- Many intending retirees and retirees have a substantial proportion of their funds outside of superannuation which may be a result of not understanding the benefits, not qualifying, or not being sure about superannuation with too many rule changes proving confusing and time consuming to understand;
- Traditional measures of mortgage stress were not designed for deflation and may not adequately cover the changing nature of consumer spending and cost structures. E.g. cost of goods and services may increase at a greater rate than over the last few years – CPI is not a good measure;

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- The biggest wild card for mortgage stress is unemployment;
- The traditional estimates of the amount required to retire were not designed for near 0% interest rates – which is where Australian interest rates are headed if the words, and recent actions, of the RBA can be believed.

Michele Levine, CEO, Roy Morgan Research, says:

> *"The end of the mining boom in Australia presents the Australian economy with many pressing challenges – and some of the biggest involve the potential for a slowing Australian economy to increase mortgage stress around the country, and also to lead to diminished superannuation balances for Australians heading towards retirement.*
>
> *"The casualisation of the Australian work-force with an increasing proportion of Australians working part-time rather than full-time means many Australians are forced to save less for their retirement whilst the ability to pay current bills, including mortgage payments, is also crimped. In addition, the persistently low interest rates in Australia mean the amount required for retirement actually increases as annual returns on investments follow interest rates lower."*

Click here to view the full State of the Nation 25 – Financial Risk Powerpoint presentation (with notes) in Portable Document Format (PDF).

For more information or to organise an interview with CEO Michele Levine, please contact:

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About Roy Morgan Research

Roy Morgan Research is the largest independent Australian research company, with offices in each state of Australia, as well as in Indonesia, the United States and the United Kingdom. A full service research organisation specialising in omnibus and syndicated data, Roy Morgan Research has over 70 years' experience in collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	**Percentage Estimate**			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
5,000	±1.4	±1.2	±0.8	±0.6
10,000	±1.0	±0.9	±0.6	±0.4
20,000	±0.7	±0.6	±0.4	±0.3
50,000	±0.4	±0.4	±0.3	±0.2