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Aussie households are running a tight ship - reducing debt and boosting the piggy bank

Four out of every ten Australian households have no debt and more than half are using 10% or less of their income for repayments, according to the St.George-Melbourne Institute Household Financial Conditions Report, released today.

The report shows that in the face of low interest rates, Aussies are improving their financial position by directing their savings towards property which was the only area of savings that saw an increase this quarter, lifting by 1.6 percentage points.

The report also reveals that credit card debt has fallen below 30% for the third consecutive quarter, with 29.6% of households saying they hold credit card debt for the June quarter. Prior to December last year, credit card debt had not fallen below 30% of households since September 2008.

The proportion of Australian households continuing to boost the piggy-bank and 'save a lot' rose a solid 1.9 percentage points to 8.2% over the quarter – the highest level since December 2013. Conversely, four in every ten (39%) households said they were able to maintain some form of saving.

St.George's Head of Retail Banking for Outer Metro & Regional NSW, Neelam Tandon said overall Australian's household conditions rose a strong 2.4% in the June quarter, up 7.3% on a year earlier.

"This is great news for households and shows the effect of mortgage rates declining in the first half of 2015. We're seeing households not only reduce their credit card debt but mortgage debt has fallen by 3.3 percentage points over the same period."

"More and more households appear to have strong debt reduction and savings plans in place. In previous quarters we've seen more Australians draw down on their savings, representing an increased willingness to spend. However, we're now seeing households revert back to a cautious approach, with less people drawing on their savings and more people using the low interest rates to pay off their debt quickly," she said.

So what are Australian's currently saving for?

St.George Chief Economist Hans Kunnen says the June quarter saw a 2 percentage points rise in those whose motivation for saving was to put a deposit on a house.

"While there's been a rise in the desire to save for a deposit this quarter, this factor as a motivation to save has declined over the past twelve months, indicating potential purchasers may have become discouraged in some markets."

"The report also shows over the year to June 'precaution' as a motivator lifted 6.6 percentage points to 57.4%. Forecasts of a rising unemployment rate may sit behind this increase," said Hans.

Saving for holidays still remains the number one motivation for 59.0% of respondents, followed by saving for a rainy day (57.4%), saving for retirement (46.8%), saving to pay debt (43.6%) and saving to renovate (37.1%).

Key findings:

- Household conditions improved in the June quarter as more households said they were able to save. The financial conditions index rose 2.4% in the June quarter to be up 7.3% on a year earlier. This fits well with recent data showing solid job growth and with mortgage interest rates declining in the first half of 2015.

- Four out of every 10 Australian's have no debt and more than half of Australians are using 10% or less of their income for repayments.

- Savings directed towards property lifted during the June quarter by 1.6 percentage points and 1 percentage point over the year. Property was the only area of savings that saw an increase in its share of current savings.

- Households with credit card debt are down below 30% of households for the third consecutive quarter, with 29.6% of households saying they hold credit card debt in the June quarter. Prior to December last year, credit card debt had not fallen below 30% of households for six years, since September 2008.

- HECS debt rose further and is at its highest level since the survey began in 2001. This might be due to the relatively high unemployment rate among young workers. It could also signal a higher proportion of the population obtaining tertiary education.

- The proportion of Australian households continuing to 'save a lot' rose a solid 1.9 percentage points to 8.2% over the quarter, at its highest level since December 2013. Conversely four in every ten (39%) of households said they were able to maintain some form of saving.

- There was a significant improvement in financial conditions in the 45-64 age range. This is an age group positively affected by lower mortgage rates and they may also have been assisted by recent job creation.

- Better financial conditions for tenants continued with a further 5.4% increase in conditions this quarter and by 12.9% on a year ago. This can be explained by strong investor activity lifting the supply of unit accommodation and preventing rapid increases in residential rents.

- Saving for holidays still remains the number one motivation for savings with 59.0% of respondents listing it as a motive, followed by saving for a rainy (57.4%) saving for retirement (46.8%), saving to pay debt (43.6%) and saving to renovate (37.1%).

About the *St.George-Melbourne Institute Household Financial Conditions Report*

The *St.George-Melbourne Institute Household Financial Conditions Report* is a national survey of 1200 respondents to arrive at a summary of key savings behaviours of households each quarter. The above information was gathered in June 2015, further quarterly results will be released in October 2015.

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