How Millennials Manage Money

Facts on the spending habits of young Australians

Commissioned by Afterpay Touch Group Limited

αlphaβeta strategy x economics

Five Facts on Millennial Money Management

Millennials (people born between 1981-1996) face a range of new financial pressures, from higher house prices to growing education costs. Despite the 'smashed avocado' stereotype, millennials are responding prudently:

Fact

Millennials are turning away from credit cards

Just **41%** of millennials own a credit card, versus two-thirds of older generations. Millennials that do own a credit card have about half the debt of older generations. **69%** of millennials are using their credit card less as a result of using Afterpay.

Millennials are savvy spenders

Millennials are delaying home ownership, cutting back on alcohol and tobacco and spending more on public transport and private health insurance.

Millennials are saving more money than their parents

Millennials are **30%** more likely to save regularly than their parents. More than **80%** of millennials budget, compared to two-thirds of older generations.

Millennials are harnessing new technology to manage their finances closely

Almost **1 in 3** millennials use online tools to track their spending and **7%** use budgeting apps. **72%** of millennials research on the go before they spend, compared to **28%** of older Australians.

Millennials are using Buy Now, Pay Later (BNPL) products to manage their finances responsibly

57% of millennials like Afterpay because it helps them manage their finances.

Executive Summary

Millennials matter. As the baby boomers enter retirement and Generation X settles into middle age, millennials are the new force in Australia's economy.[1] They now represent almost half our workforce (**44% of all workers**) and **one out of every three dollars spent**.

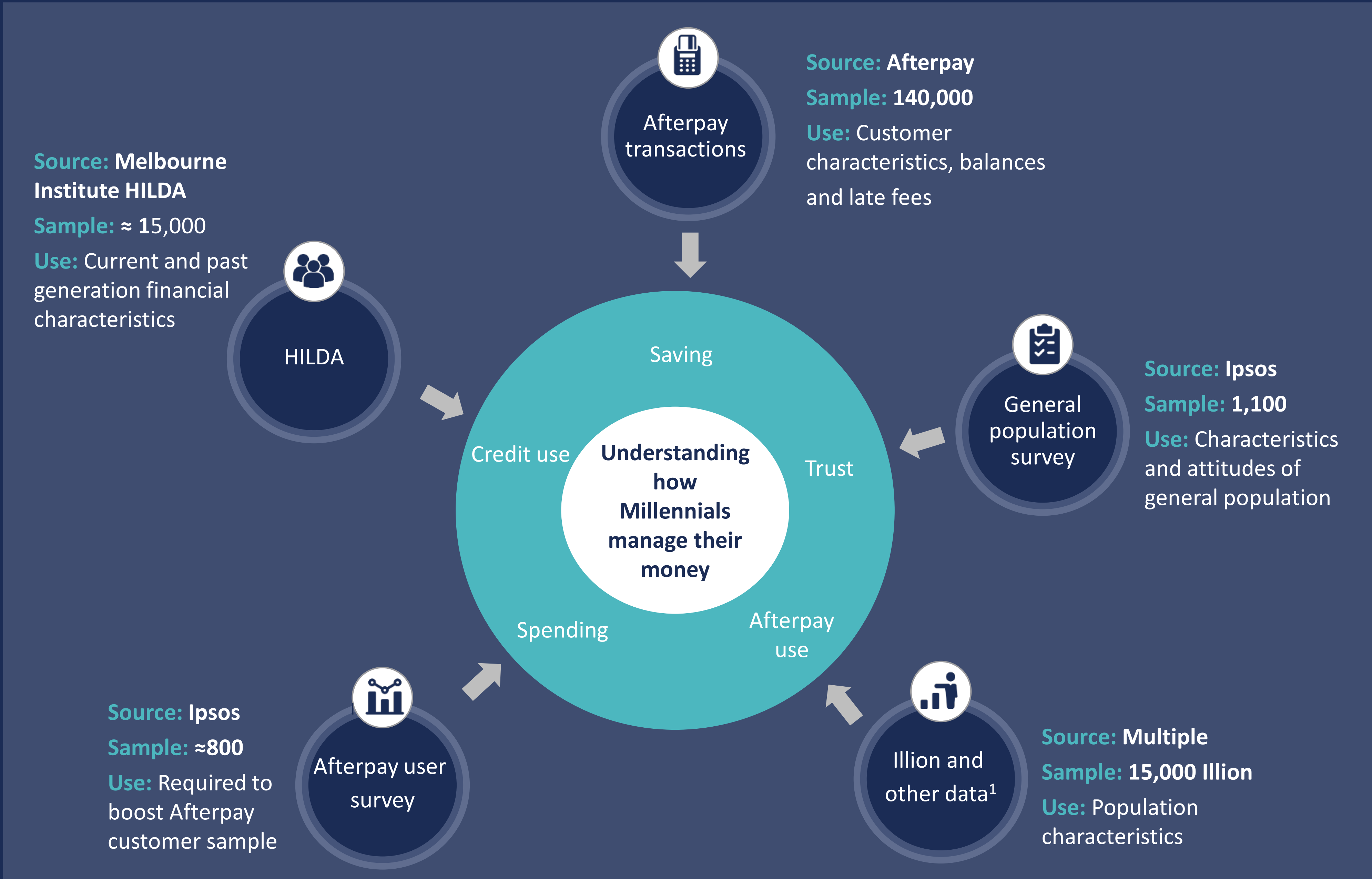
Despite their importance to our economy, the financial behaviours of **millennials are poorly understood**. The 'avocado on toast' meme paints millennials as a spendthrift generation, more likely to fritter their last dollar away on brunch than to save for a house or build a nest egg. The **mistrust is mutual** with many millennials expressing distrust of established institutions such as banks (35% distrust), with trust declining over the last year.

This report shows that while **millennials manage money differently to their parents**, that doesn't mean they are less financially responsible. Faced with the rising cost of housing, education costs that have doubled in a generation, and record levels of underemployment, millennials are in fact **responding sensibly to greater financial pressures** in the way they spend, use credit, and save. This report presents **five myth-busting facts** which demonstrate that millennials manage their finances closely using new technologies and, in many ways, are **more financially prudent than their parents**:

1. **Kicking the credit addiction:** Millennials are turning away from credit cards. The proportion of young people with a credit card has fallen **from 58% to 41%** in the last 14 years. Millennials are **37%** less likely to own a credit card than older Australians because they see credit cards as being costly and risky. Millennials have about half the credit card debt of older Australians as a proportion of their income. Millennials are increasingly using BNPL as a cheaper alternative to credit cards. Almost **70%** say Afterpay helps them use credit cards less, so they avoid interest costs and debt traps.
2. **Savvy spending:** Millennials have different spending priorities to their parents. Millennials are delaying their house purchases and spending their money on education, health, and lifestyle. They spend much less on cigarettes and alcohol, and more on public transport and private health insurance.
3. **Generation save:** Millennials are better savers than their parents. **36%** of millennials say they save regularly compared to just 28% of older Australians. **80%** of millennials have a budget compared to just 67% of older Australians. When millennials need money, only a quarter will turn to banks, with most preferring to use savings.
4. **Tech tools:** Millennials are using technology to help them manage their finances closely. **30%** of millennials use online tools to track their spending and **7%** use budgeting applications. **72%** of millennials use technology to compare prices before they shop compared to just 28% of older Australians.
5. **Budgeting with BNPL:** Millennials are turning to Afterpay because it meets their needs better than banks and credit cards. **57%** use Afterpay because it helps them budget. A vast majority **(93%)** of Afterpay transactions incur no late fees as a result of Afterpay's highly valued in-built protections.

1 Millennials are born between 1981 and 1996.

Data sources for this report



1 Other data includes ABS, Grattan Institute, previous Ipsos surveys, Illion credit rating data

Introduction

Millennials have long been misrepresented as a young, narcissistic generation that spends frivolously because – well, 'YOLO'[1]. That characterisation isn't true.

Born between 1981 and 1996, millennials are now between 22 and 37 years old. They represent almost half the workforce and one in every three dollars spent. Almost a quarter (**22%**) have a bachelor's degree, and about a fifth (**18%**) have children of their own. They are a large, diverse and economically important group.

While it is true that millennials manage and spend their money differently from their parents, their priorities are driven largely by the new financial burdens they face. While baby boomers lived through an era of free education and affordable housing, **millennials are not as lucky.**

In 1970, baby boomers could buy a house for around five times the average household income.[2] Generation X faced house prices of six times income. For millennials today, houses now cost **eight times** the average household income.

Similarly, baby boomers enjoyed free university education. By contrast, university-educated members of Generation X entered the workforce with more than $10,000 of HECS debt. Millennials now face almost **twice the HECS** debt of their predecessors, at $19,000.

Many millennials are also having difficulty finding enough work to pay the bills, with **12%** of Australia's young people currently underemployed, up from 3% forty years ago. Surveys show that millennials are generally pessimistic about businesses and the economy. Many distrust banks and are unlikely to rely on them despite their financial challenges.

Put simply, the millennial generation has grown up, but institutions that are still run predominantly by their parents' generation have yet to recognise this.

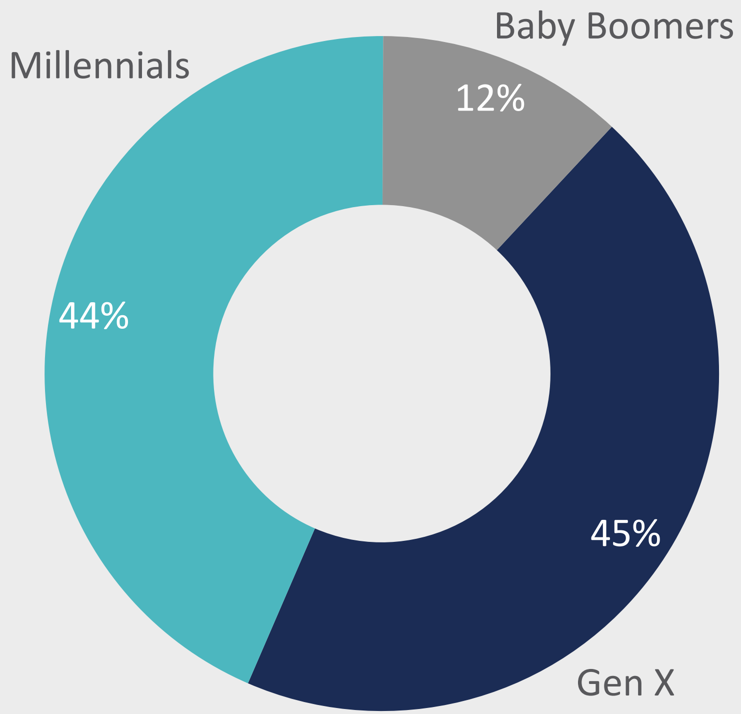
1 You only live once

2 Abelson and Chung (2004), House prices in Australia 1970-2003

Millennials represent almost half the workforce and one in every three dollars spent

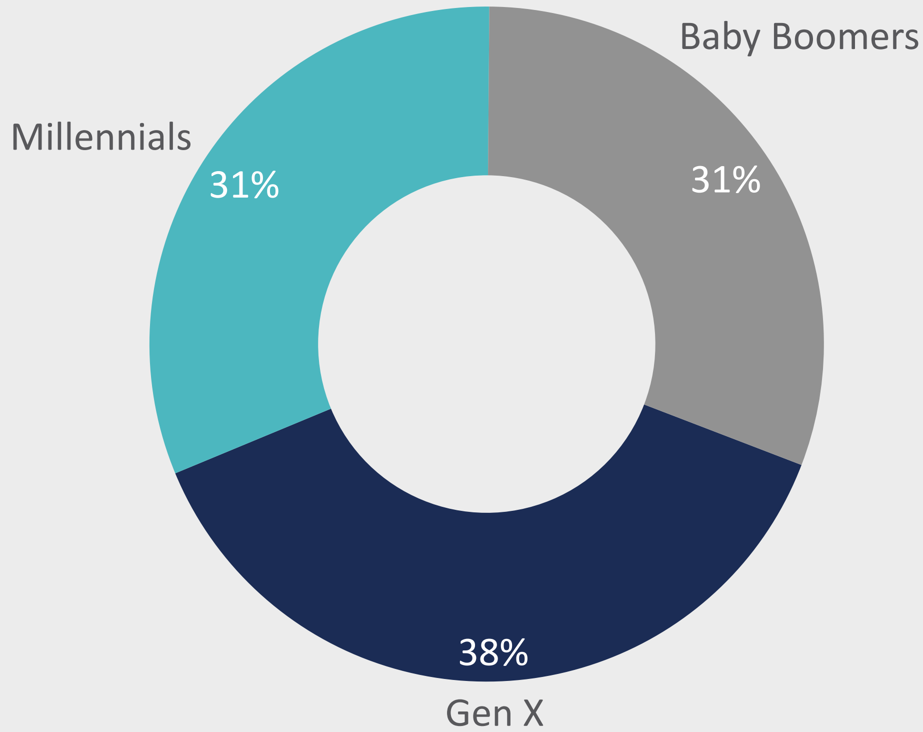
Millennials represent almost half the workforce

% of labour force, 2018



Millennials spend one in every three dollars

% of total spending, 2016



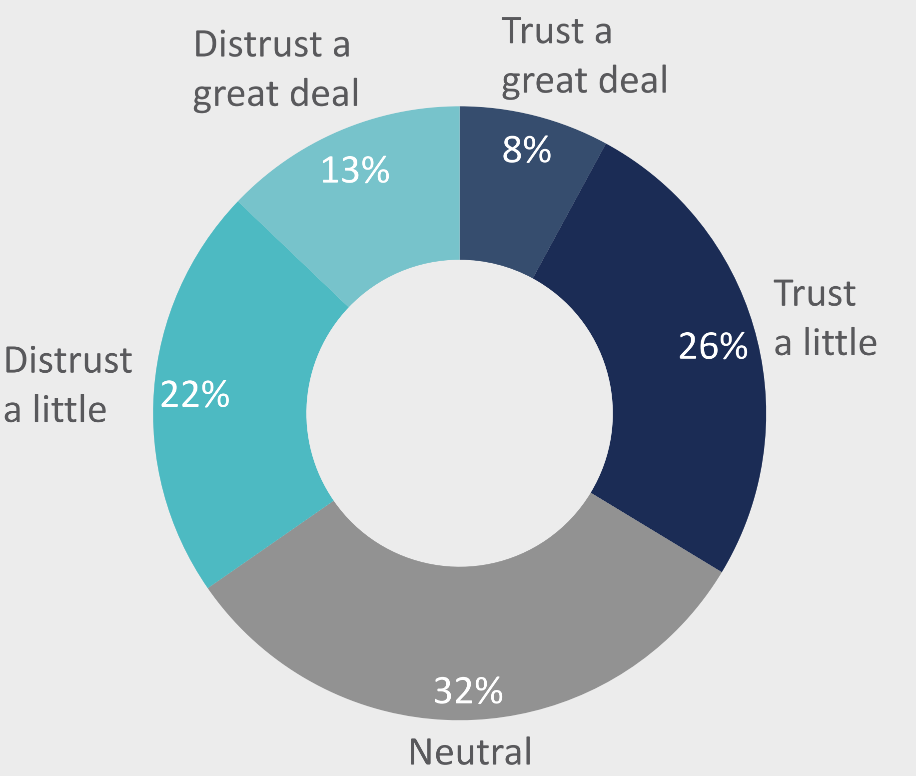
NOTE: Definition of generations: Millennials here includes people born after 1981 and older than 18, Gen X are people born between 1960–1981, Baby Boomers are people born before 1959.

SOURCE: ABS, Census (2016), HILDA, AlphaBeta analysis

More than one in three millennials distrust banks and their distrust has worsened over the last year

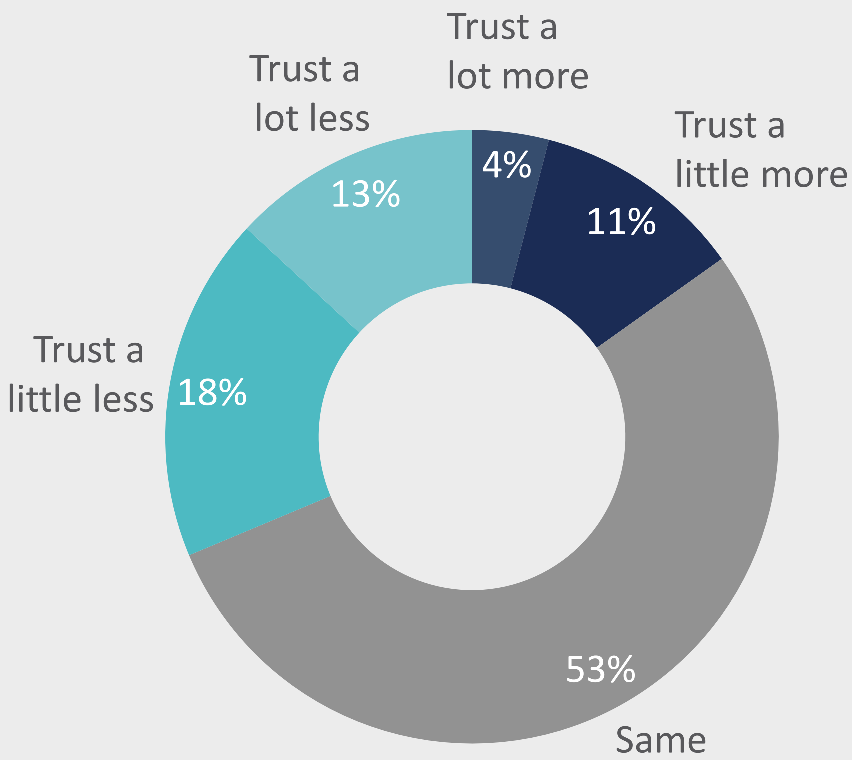
More than a third of millennials[1] don't trust banks

How much do you trust banks?
% of millennial survey respondents, 2018



Trust in banks has fallen over the last year

How has your trust in banks changed over the last year?
% of millennial[1] survey respondents, 2018



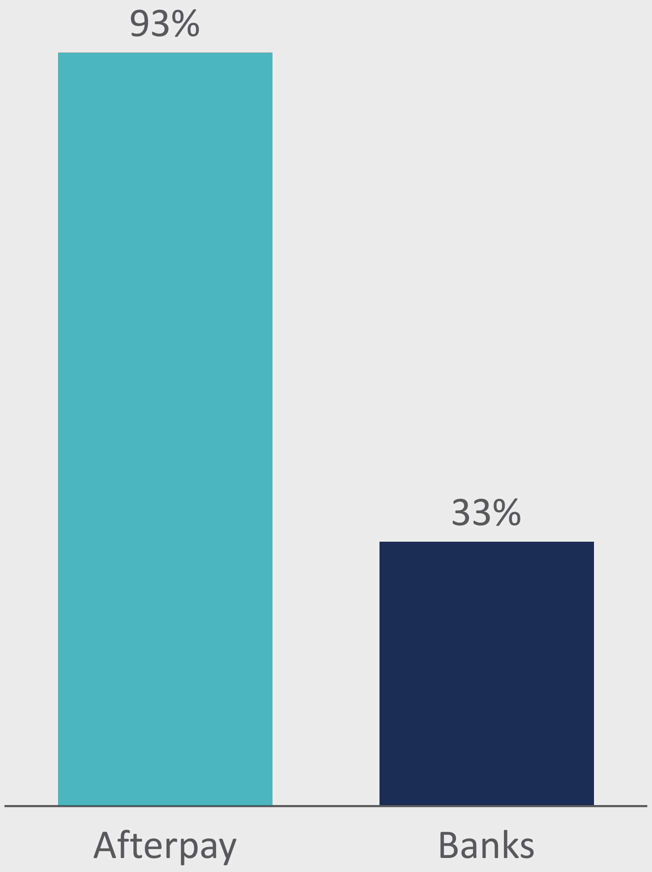
1 Millennials defined as being born between 1981 and 1996.

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

Millennials believe Afterpay better understands the financial pressures they face and is more helpful in managing finances than banks

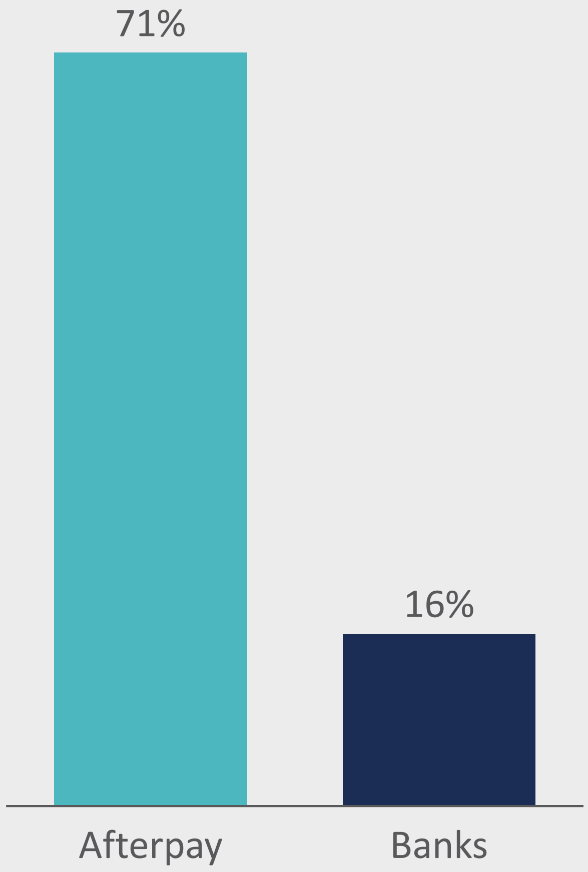
Millennial attitudes to institutions' understanding of their financial pressures

% of responses that selected 'they understand'[1], 2018



Millennial attitudes to institutions' helpfulness in managing their finances

% of responses that selected 'they are helpful'[2], 2018



1 This aggregates the responses of people who responded «They completely understand the pressure», «They understand a lot» and «They understand a little».

2 Aggregates responses of people who responded "Extremely helpful" and "Helpful".

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

1. Kicking credit: Millennials are turning away from credit cards

Credit cards came to Australia in the 1970s and have become increasingly popular since. More than **60%** of all Australians now own at least one credit card, and more than one in six of those reportedly struggle with credit card debt.[1]

But millennials are bucking the trend. Young people have been turning away from credit cards, with ownership rates among young people dropping **from 58%** in 2002 **to just 41%.**

Millennials are **37%** less likely than older Australians to own a credit card. Those that do use it more conservatively, with **45% less credit card debt** than older Australians as a percentage of their income.

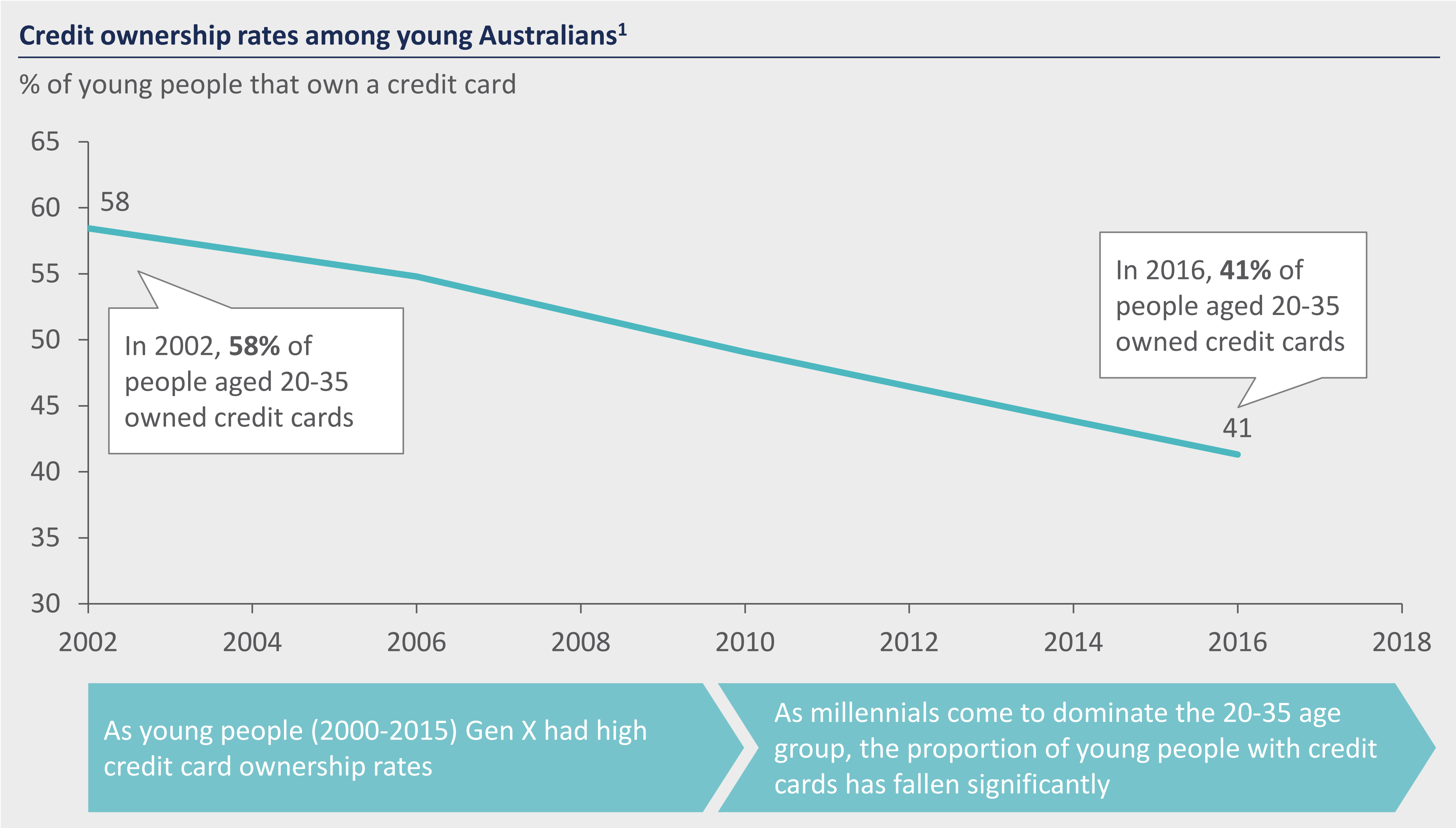
Surveys suggest that most millennials are **avoiding credit cards by choice**. Millennials deem credit cards **costly and risky**.

Millennials are turning to Buy Now, Pay Later (BNPL) because they see it as a cheaper **alternative** to banking and open-ended credit. Two-thirds of millennials say using Afterpay has helped them **use their credit cards less.** In fact, Australians that use Afterpay have up to **$3,000** less credit card and overall debt. Afterpay is also a cheaper way to pay, with customers saving up to $1,815 when purchasing a fridge compared to other payment methods.

The data dispels the myth that millennials rely on credit to fund their lavish lifestyles, and instead, describes a **financially savvy generation** that wants more control over its spending than its predecessors.

1 ASIC (2018), Credit card lending in Australia.

Young people are turning away from credit cards; the proportion of young Australians with credit cards has fallen from 58% to 41% in the last 14 years



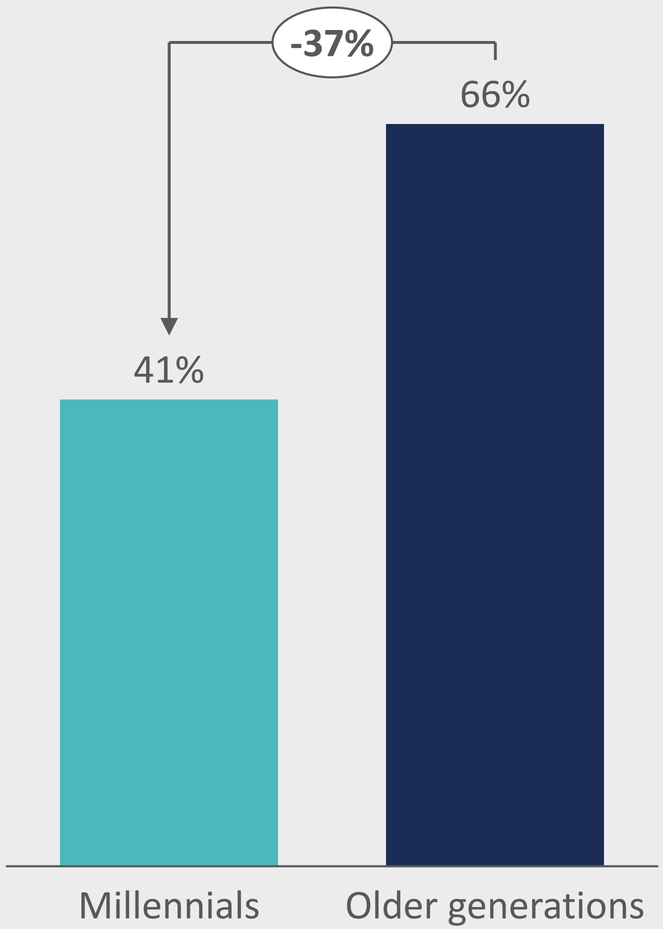
1 The young people cohort constructed by taking people aged 20-35 in each year.

SOURCE: HILDA, AlphaBeta analysis

Millennials are 37% less likely to own credit cards than older Australians and hold about half as much debt as a percentage of their income

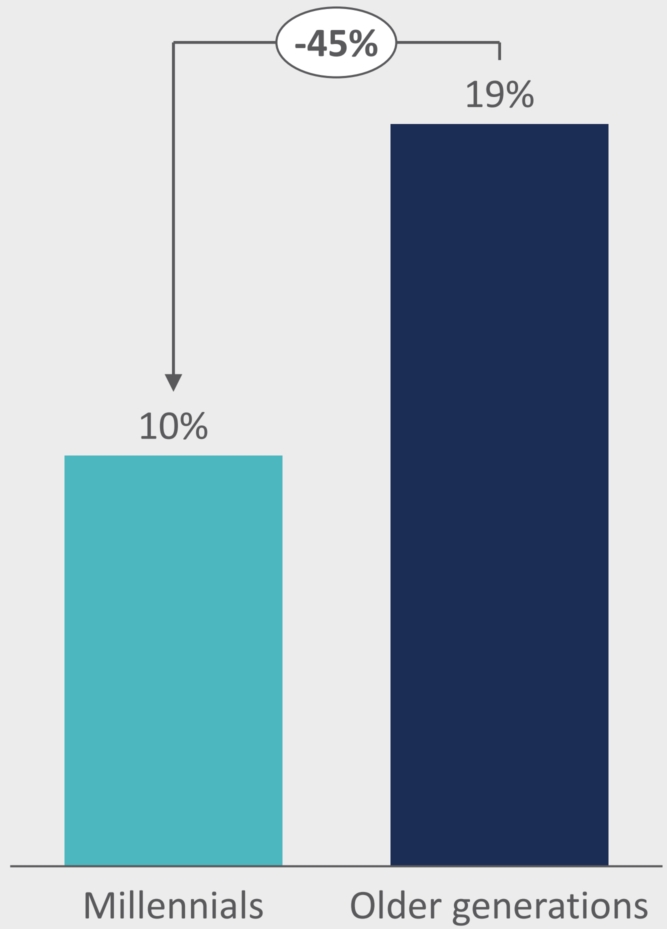
Millennials are 37% less likely to own credit cards

Ownership of credit cards, latest data 2016



Millennials have 45% less credit card debt

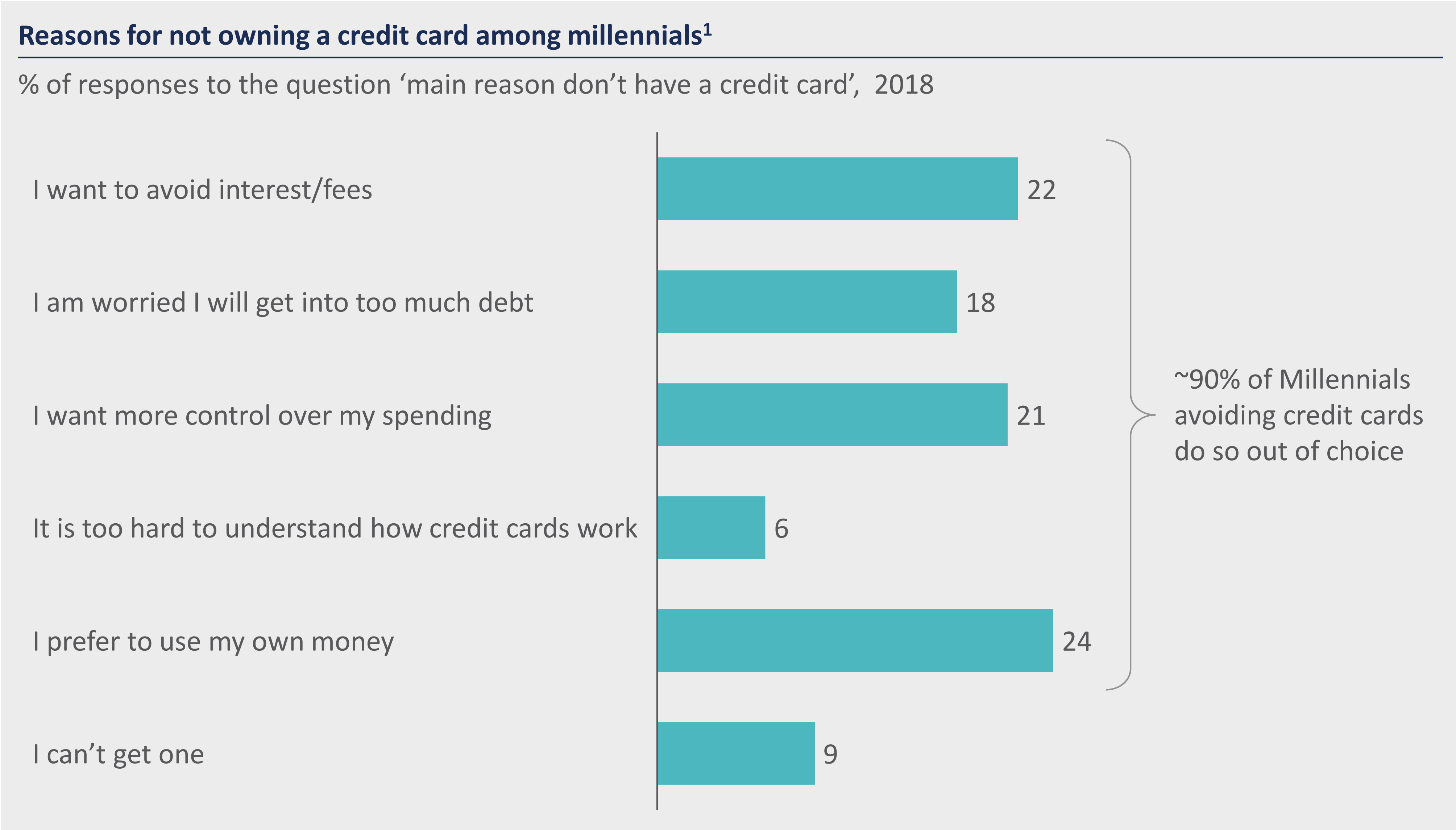
Credit card debt as a % of income, latest data 2014



NOTE: Millennials defined as being born between 1981 and 1996. Older generations are defined as being born before 1981.

SOURCE: HILDA, AlphaBeta analysis

Millennials are turning away from credit cards because of the high costs of interest and the risk of getting into too much debt



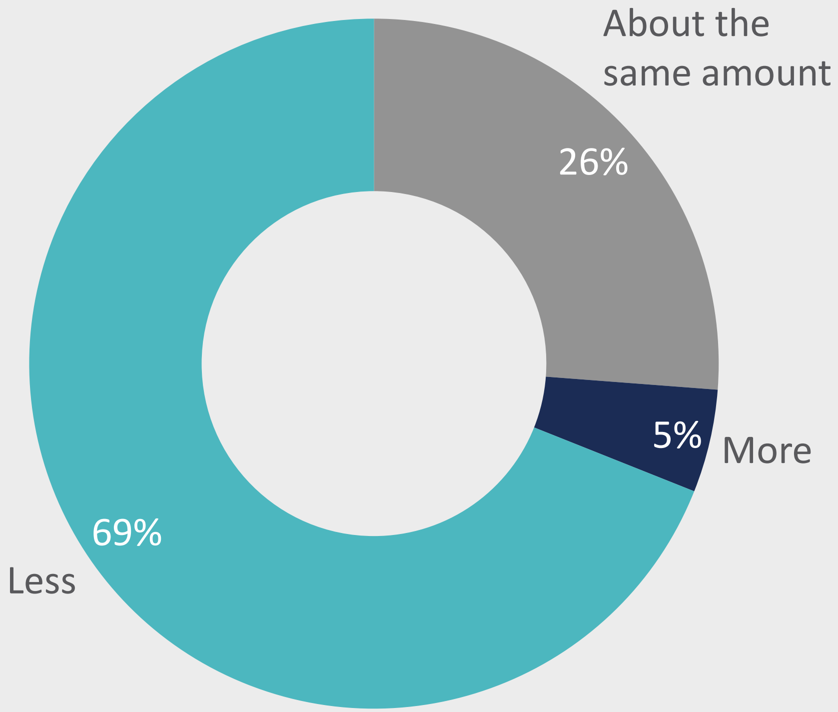
1 Millennials defined as being born between 1981 and 1996. Aggregates responses for top 3 reasons selected.

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

Millennials are using BNPL as an alternative to credit: almost 70% use their credit cards less as a result of using Afterpay, helping to keep overall debt low

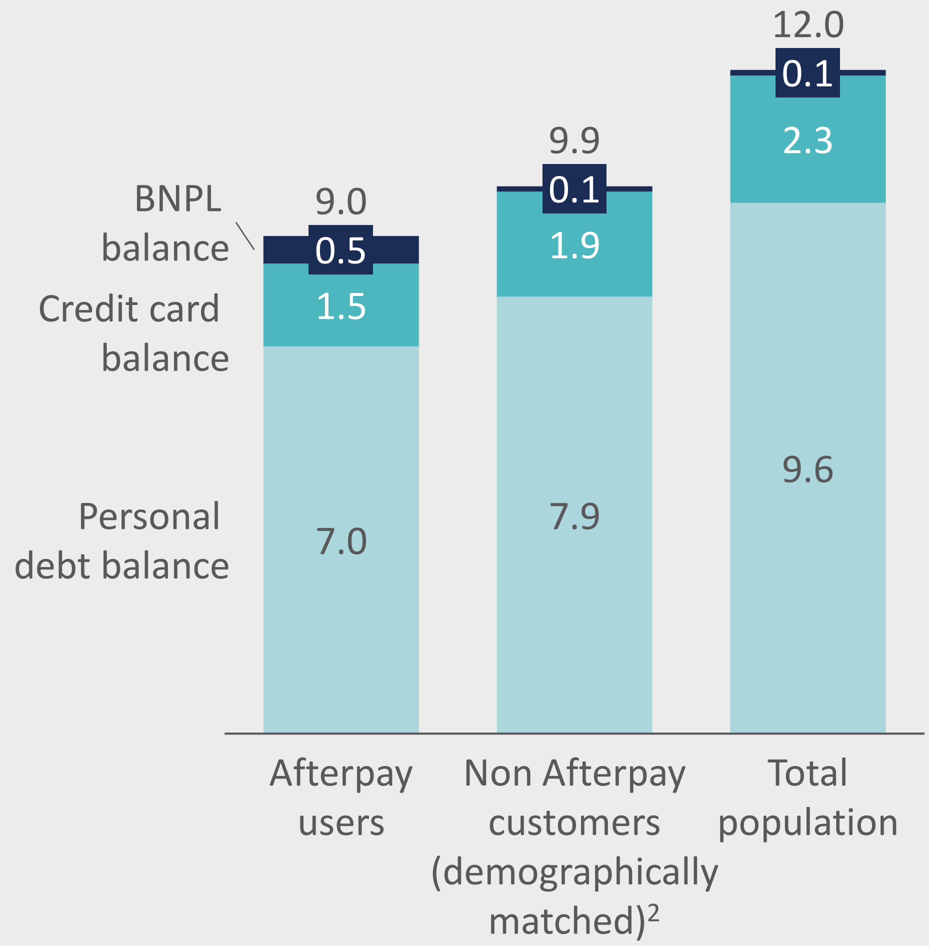
Millennial use of credit cards after signing up to Afterpay

% of responses by millennials[1] to use of credit card after Afterpay, 2018



Total personal debt

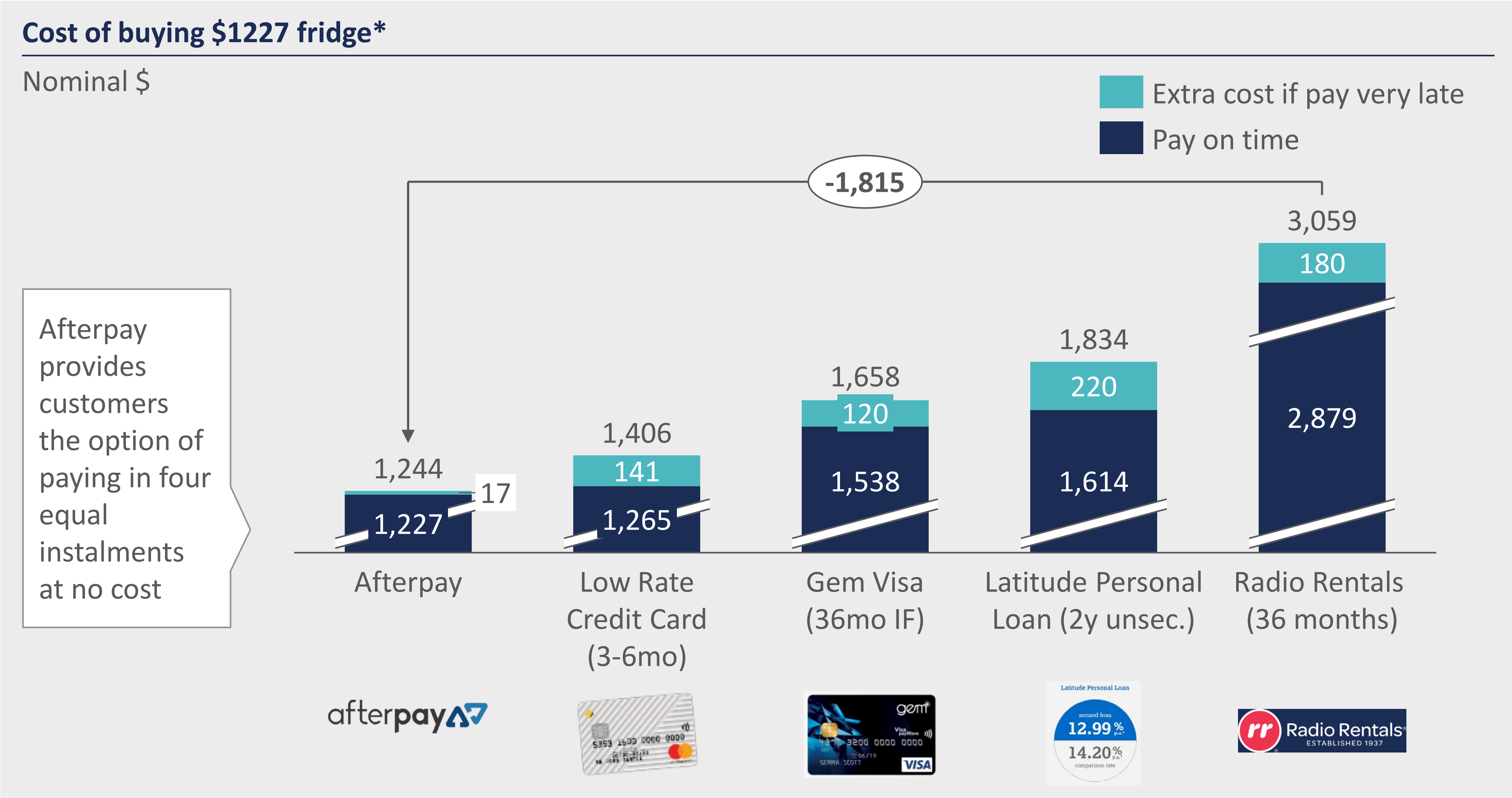
Average outstanding balance, $000s, 2018



1 Millennials defined as being born between 1981 and 1996.
2 Matched population is by demographic characteristics; age, gender and income.

SOURCE: Ipsos Survey (December 2018), Illion data, Afterpay data, Ipsos survey data (February 2018)), HILDA data, AlphaBeta analysis

Afterpay is also a cheaper way to pay, with customers saving up to $1,815 when purchasing a fridge compared to other payment methods



Assumptions: Extended interest free (IF) cards – assumed paid off within IF period, full establishment and annual fees included. Personal loan fees and charges pro-rata based on minimum $3K borrowing amount. CBA credit card upper scenario assumes equal payments over 5 months and remainder at end. Commonwealth Bank Credit Card example – fees are pro-rata based on $19.8K card spend. Assume payments made online.

NOTE: Pay very late is last payment made six months late

**Example: LG 450L Bottom Loader retailing at Good Guys (offers Gem, Go) & Harvey Norman for $1,227 as at 11 May 2018. Assumes repayments made on time over period specified*

SOURCE: Company websites

2. Savvy spenders: Millennials are sensibly responding to greater financial pressures

Lazy, lavish, and 'live for today' are all too common stereotypes of millennials but the truth is, millennials just have **different spending priorities** to previous generations.

As millennials turn away from credit, they are making ends meet by making different spending decisions to past generations and are **spending wisely**.

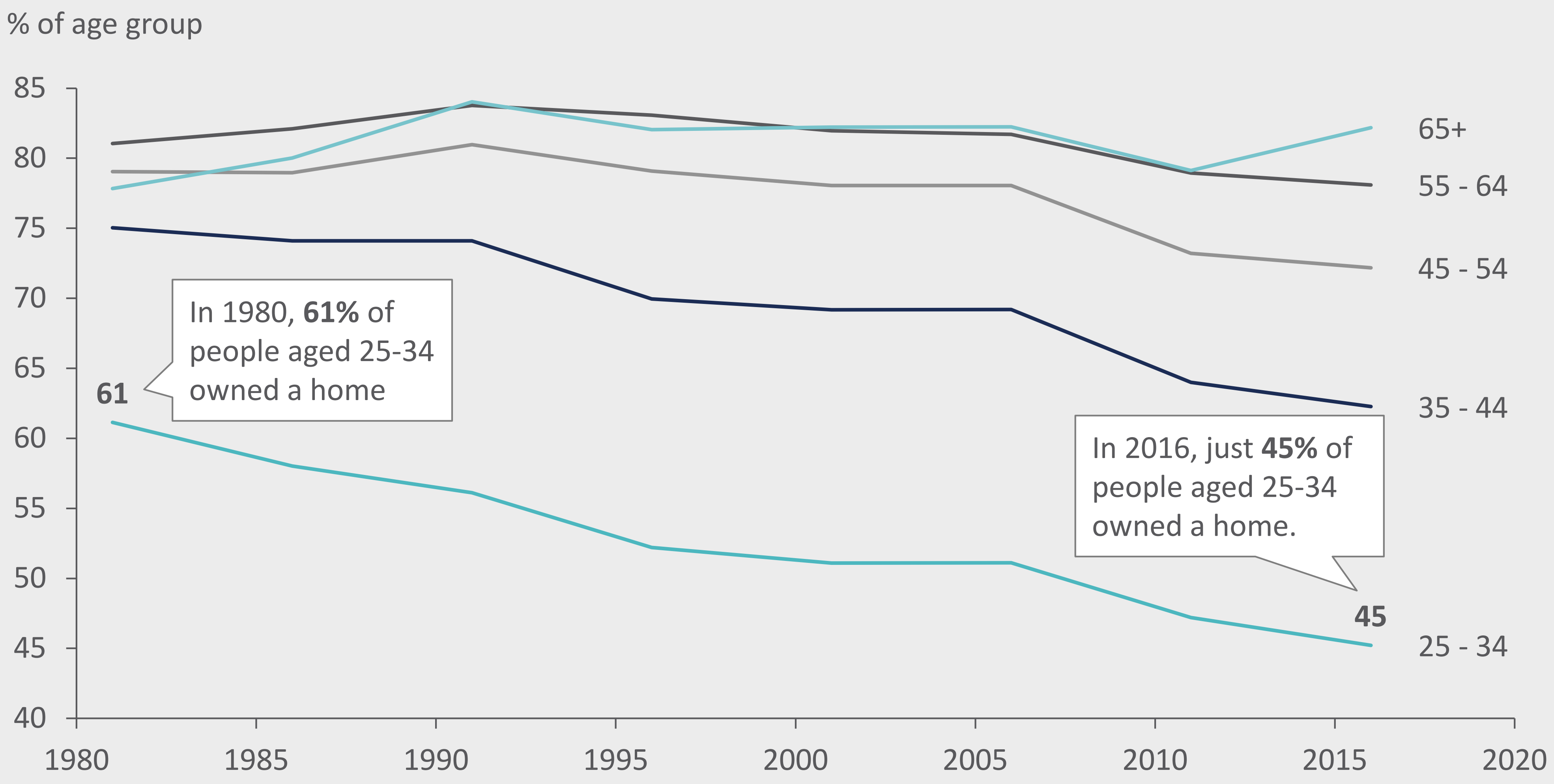
Millennials have responded to the high cost of housing by delaying home buying. Only about **45%** of millennials own a home, versus more than 60% of young people, 40 years ago.

Millennials are also cutting back on some discretionary purchases. Compared to previous generations, millennials spend **16% less on alcohol** and **71% less on cigarettes.**

The areas of spending for millennials that have seen the biggest increase are **public transport (up 24%)** and **private health insurance (up 23%).**

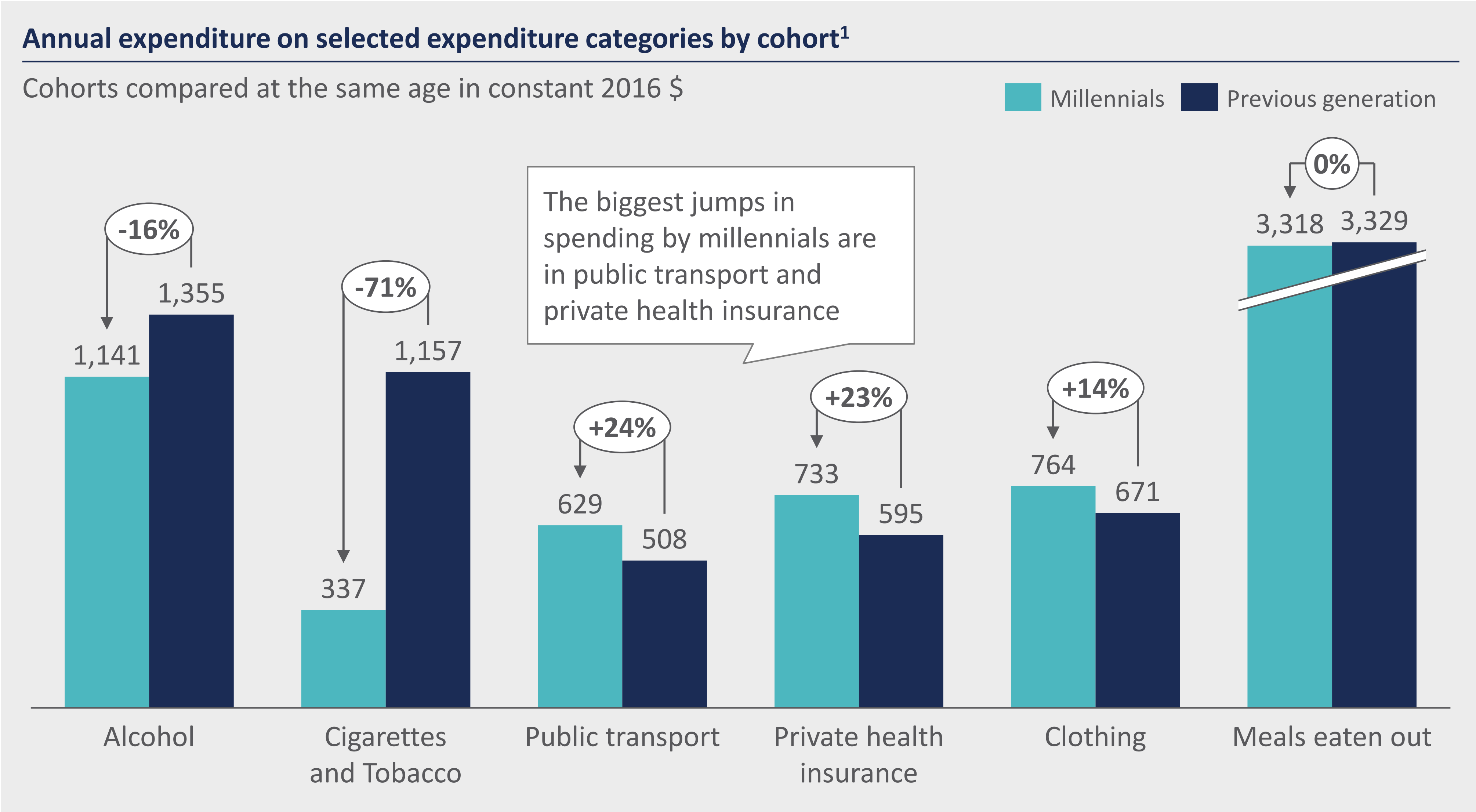
Fewer young people are spending money on home ownership; down from 61% in 1980 to just 45%

Share of population with home ownership by age group



SOURCE: Grattan Institute, AlphaBeta analysis

Millennials are spending less on alcohol and cigarettes and more on public transport and health insurance than the previous generation



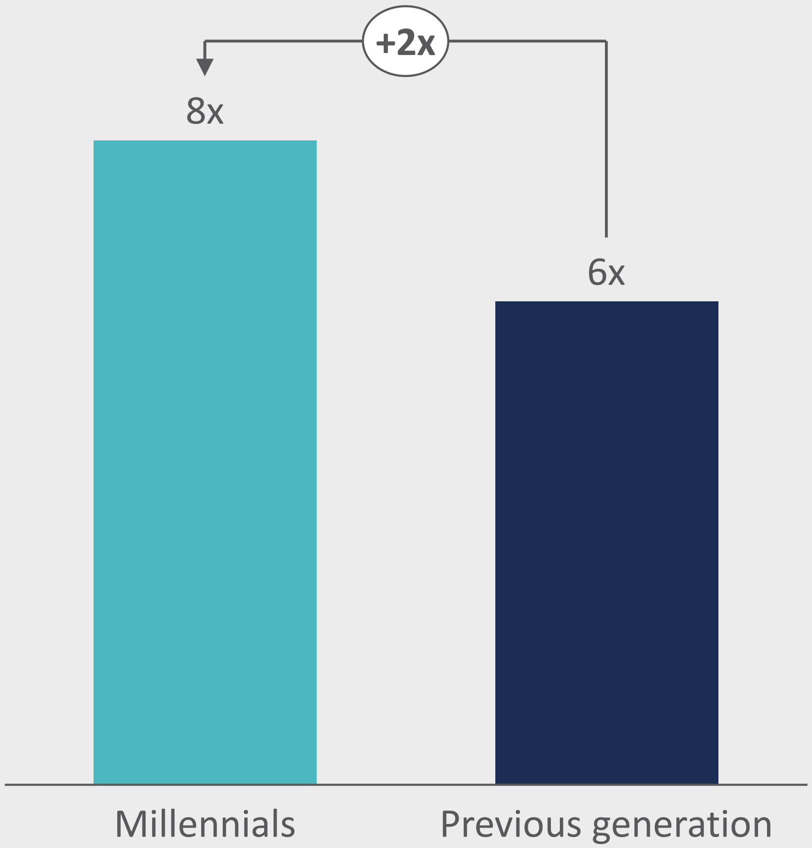
1 Millennial cohort constructed using HILDA Wave 16 (people born between 1981-1996, 26 – 35 years old). Previous generation (Gen X) cohort constructed using HILDA Wave 6 (people born between 1960-1980, 26 – 35 years old).

SOURCE: HILDA, ABS, AlphaBeta analysis

Millennials face new financial pressures due to the higher costs of housing and education

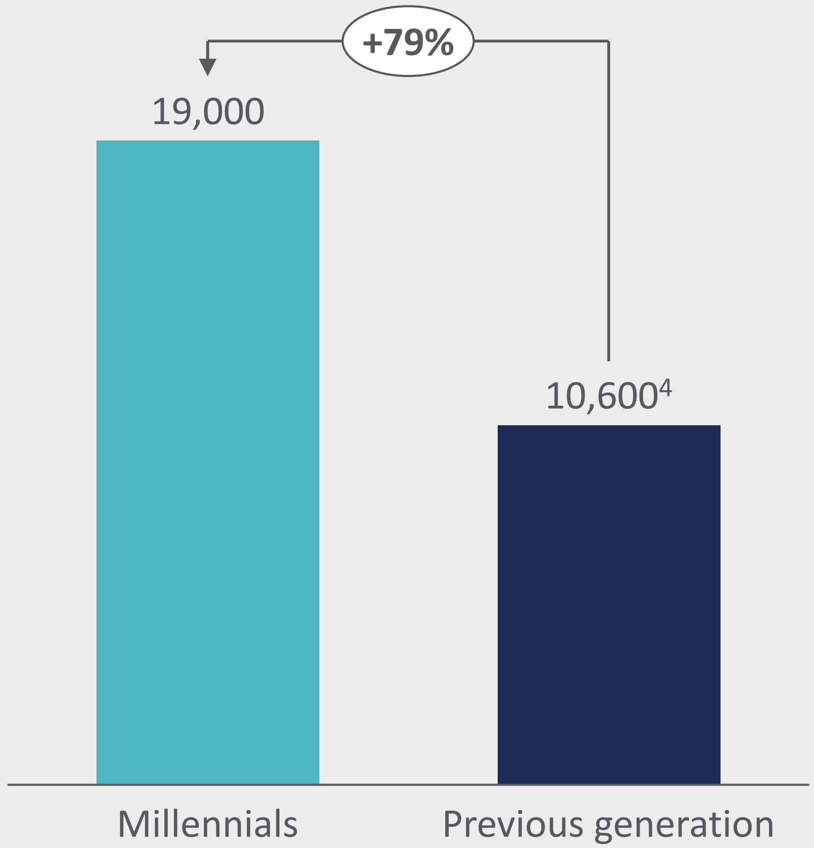
Median house prices by cohort[1]

House price[2] paid at the same age, as a multiple of income, 2016 $



Average HECS debt of debt holders by cohort[3]

Cohorts compared at the same age in constant 2014 $



1 Millennial cohort includes people born between 1981 – 1996, aged between 26 – 33 in 2016. Previous generation (Gen X) cohort includes people born between 1960 – 1981, aged between 26 – 33 in 2006.

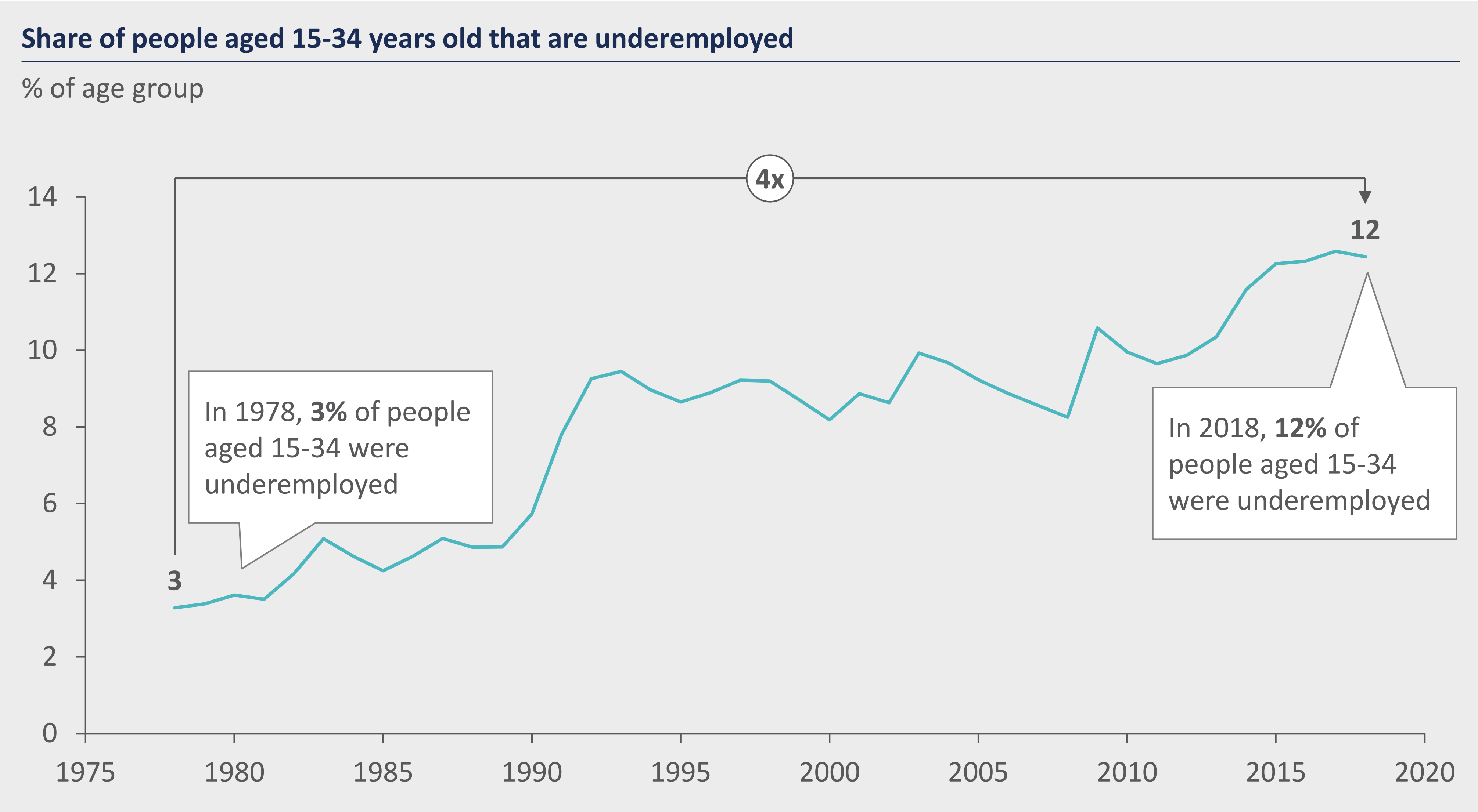
2 National weighted average of established house and attached dwelling median prices. Weighting based on number of transfers by city and rest of state.

3 Millennial cohort constructed using HILDA Wave 14 (people born between 1981-1996, 22-33 years old). Previous generation (Gen X) cohort constructed using HILDA Wave 2 (people born between 1960-1980, 22-33 years old).

4 Adjusted for inflation between 2002 and 2014.

SOURCE: Census (2006), Census (2016), HILDA, AlphaBeta analysis

The share of young people that are underemployed has quadrupled over the last 40 years, up from 3 to 12%



SOURCE: ABS, AlphaBeta analysis

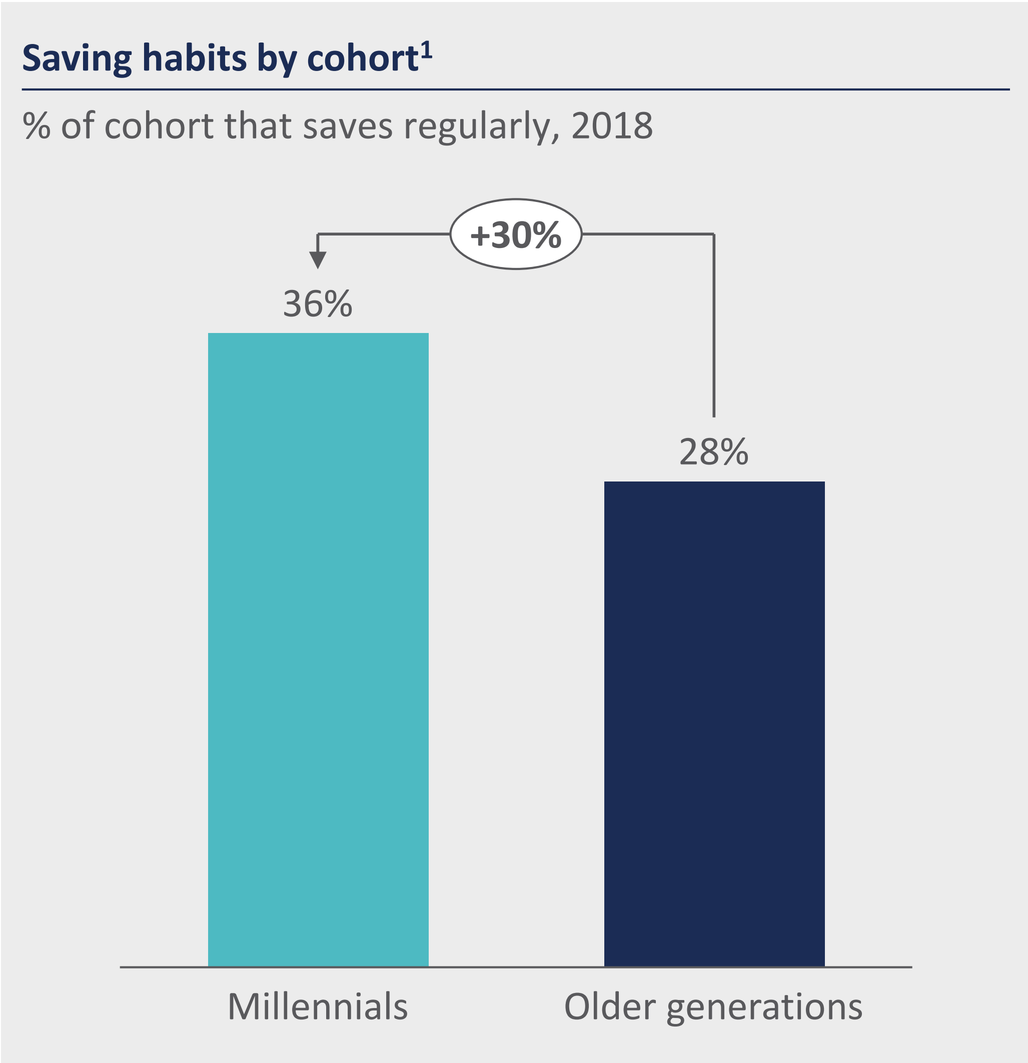
3. Generation save: Millennials are saving more money than their parents

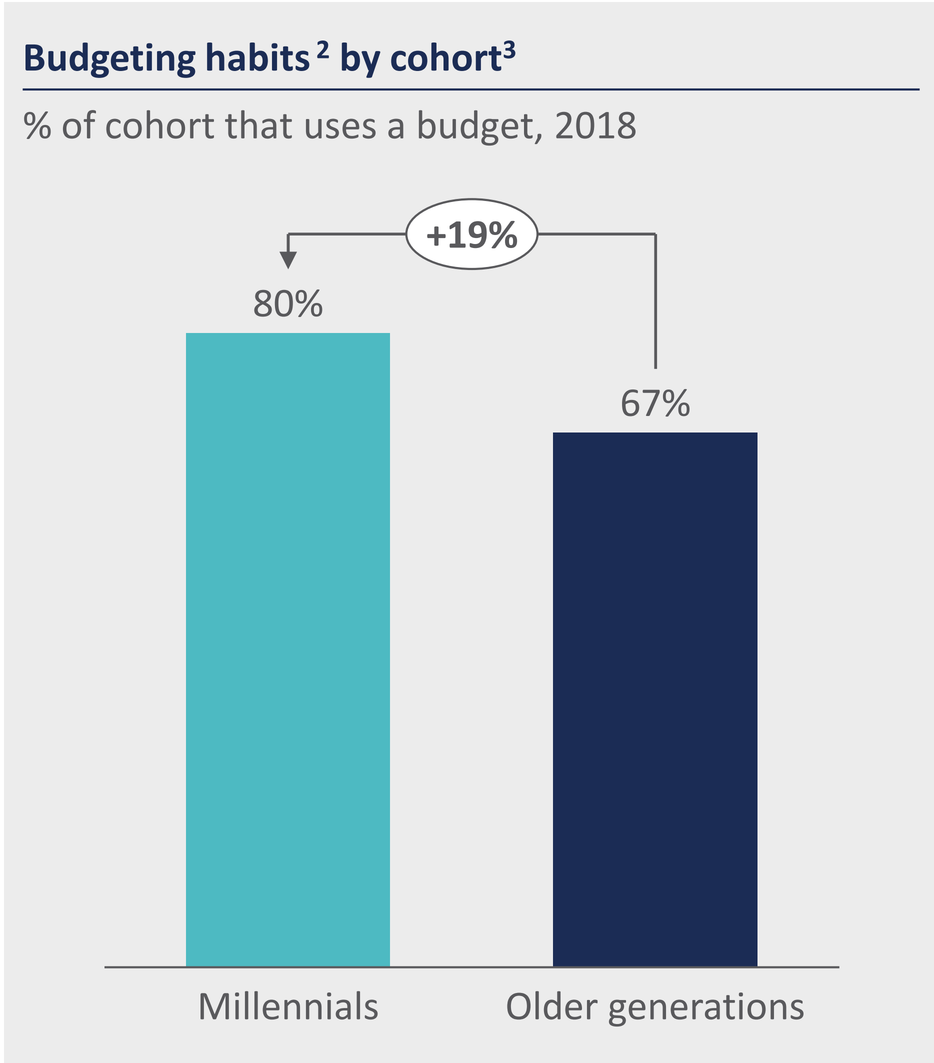
Millennials have also **adapted to more challenging economic conditions** by more carefully and responsibly managing their finances.

Millennials are **better savers than their parents**. They are **30%** more likely than older Australians to save regularly. An impressive **80%** of millennials use a budget.

When it comes to spending, millennials have a strong preference for **using their own money** instead of borrowing. Most millennials will dip into savings if they need to raise funds, turning to banks as a last resort. Millennials are **29%** more likely than older Australians to use their savings if they need to, and **9% less likely to borrow from a bank.**

Millennials are 30% more likely to save regularly than their parents and 19% more likely to have a budget





1 Millennial cohort for saving habits constructed using HILDA Wave 16 (people born between 1981-1996, 21-35 years old). Older generations include people older than 35.

2 Based on responses to questions on how they manage their budget. Includes categories: "I have a budget that I follow exactly"; "I have a budget that I follow most of the time"; and "I have a budget that I follow some of the time".

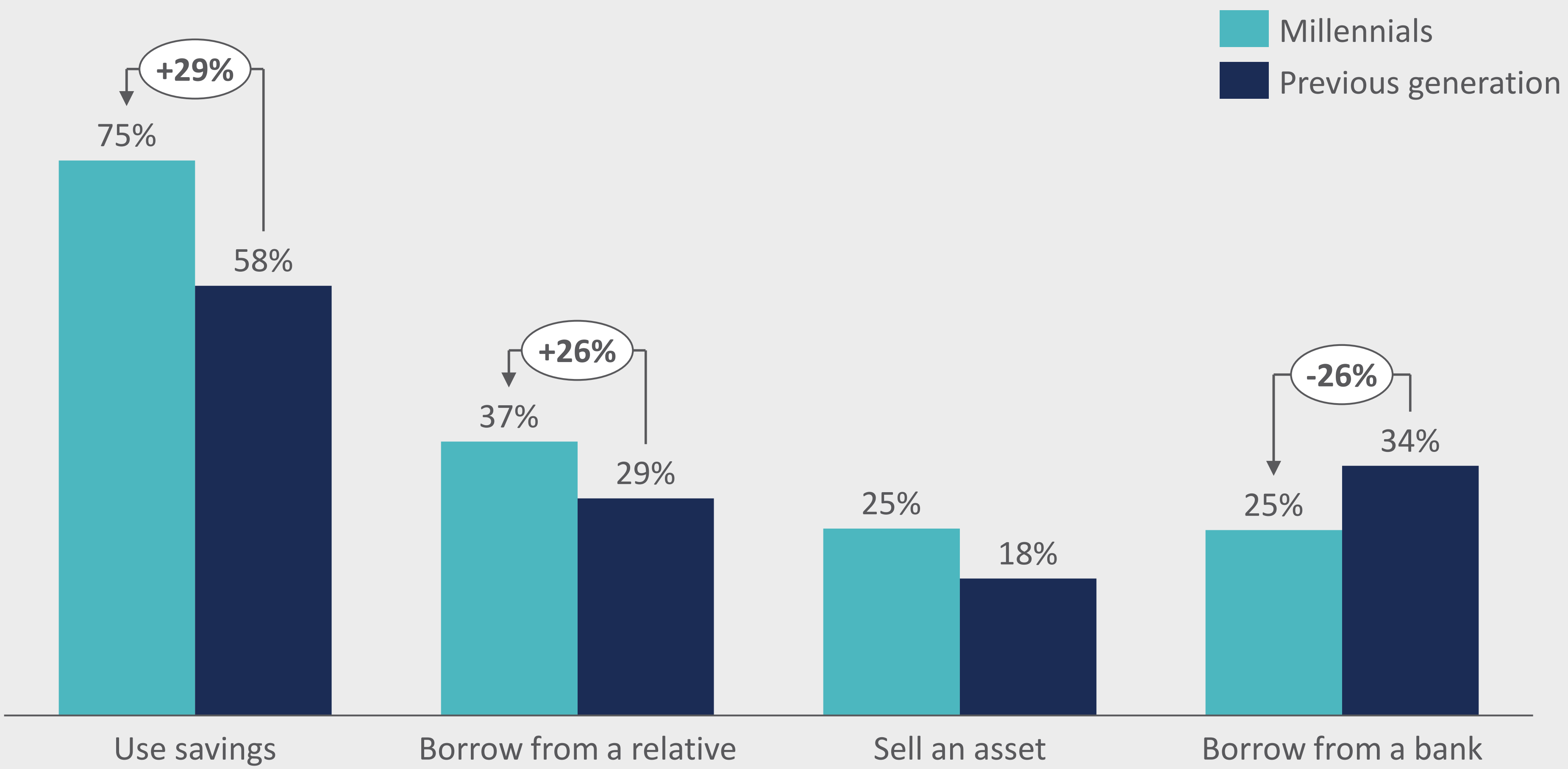
3 Millennial cohort for budgeting constructed from Ipsos survey (2018) and includes people born between 1981-1996, 21-37 years old. Older generations include people older than 37.

SOURCE: HILDA, Ipsos survey (December 2018), AlphaBeta analysis

When they need money, millennials are more likely to dip into savings or borrow from a relative and less likely to borrow from a bank

How would you raise money

"How would you raise $3,000 if you needed it?" % of responses by cohorts compared at the same age[1], 2018



1 Millennial cohort constructed using HILDA Wave 16 (people born between 1981-1996, 21-35 years old). Previous generation (Gen X) constructed using HILDA Wave 1 (people born between 1960-1980, 21-35 years old).

SOURCE: HILDA, AlphaBeta analysis

4. Tech tools: Millennials are harnessing new technology to manage their finances closely

Millennials are not leaving their financial positions to chance.

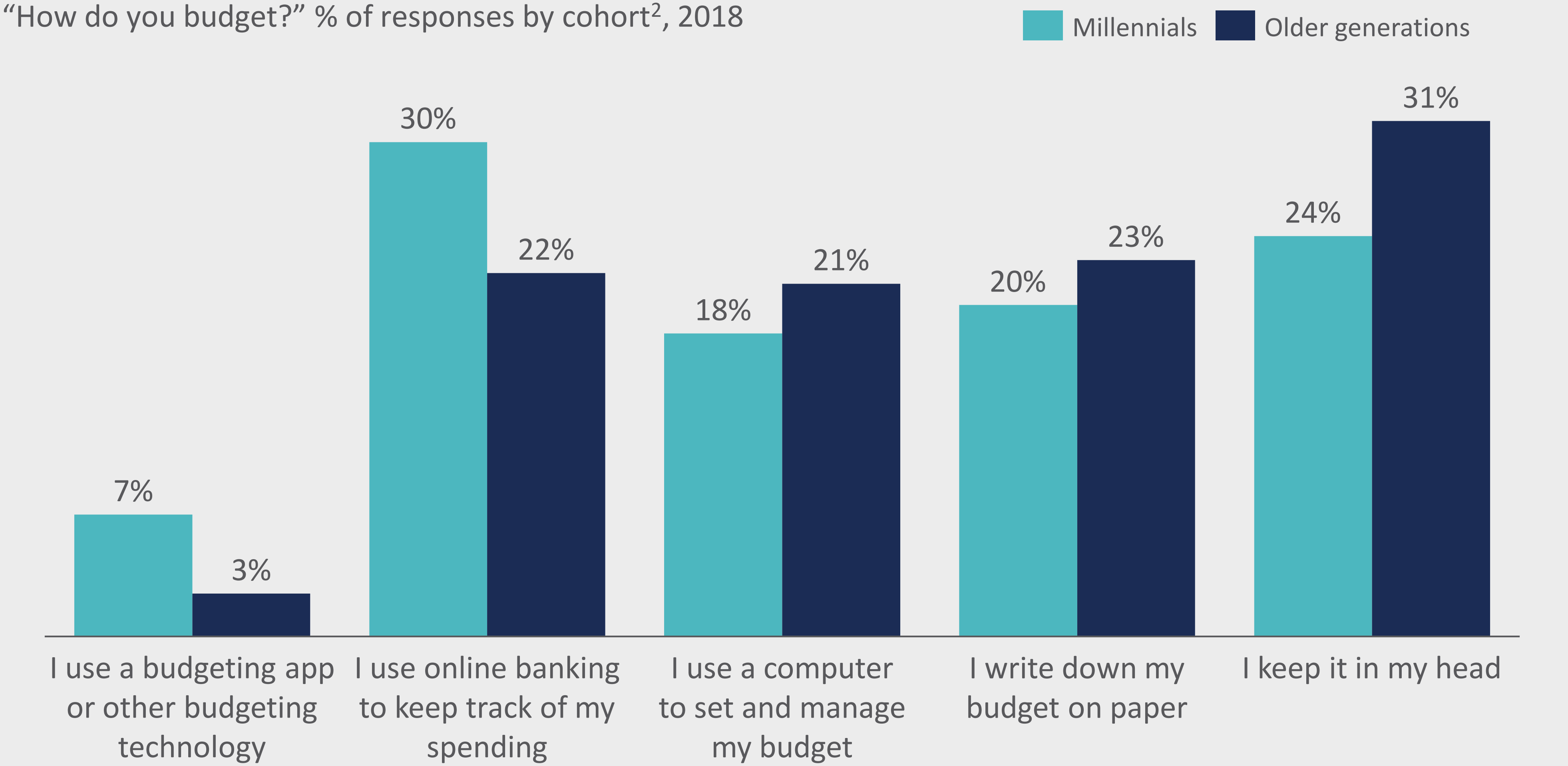
While many older Australians still budget on paper or in their heads, millennials are using technology to help them track their spending. Almost one in three use online banking, while **7% use a budgeting app** or other technology to help them stay on track.

Technology is also helping millennials spend more wisely. **93%** of millennials say they **compare prices online** and about three-quarters read product reviews and **research products on the go** before buying an item worth $100 or more.

Millennials are more likely to use financial technologies like budgeting apps and online banking to manage their budget

Budgeting methods by cohort[1]

"How do you budget?" % of responses by cohort[2], 2018

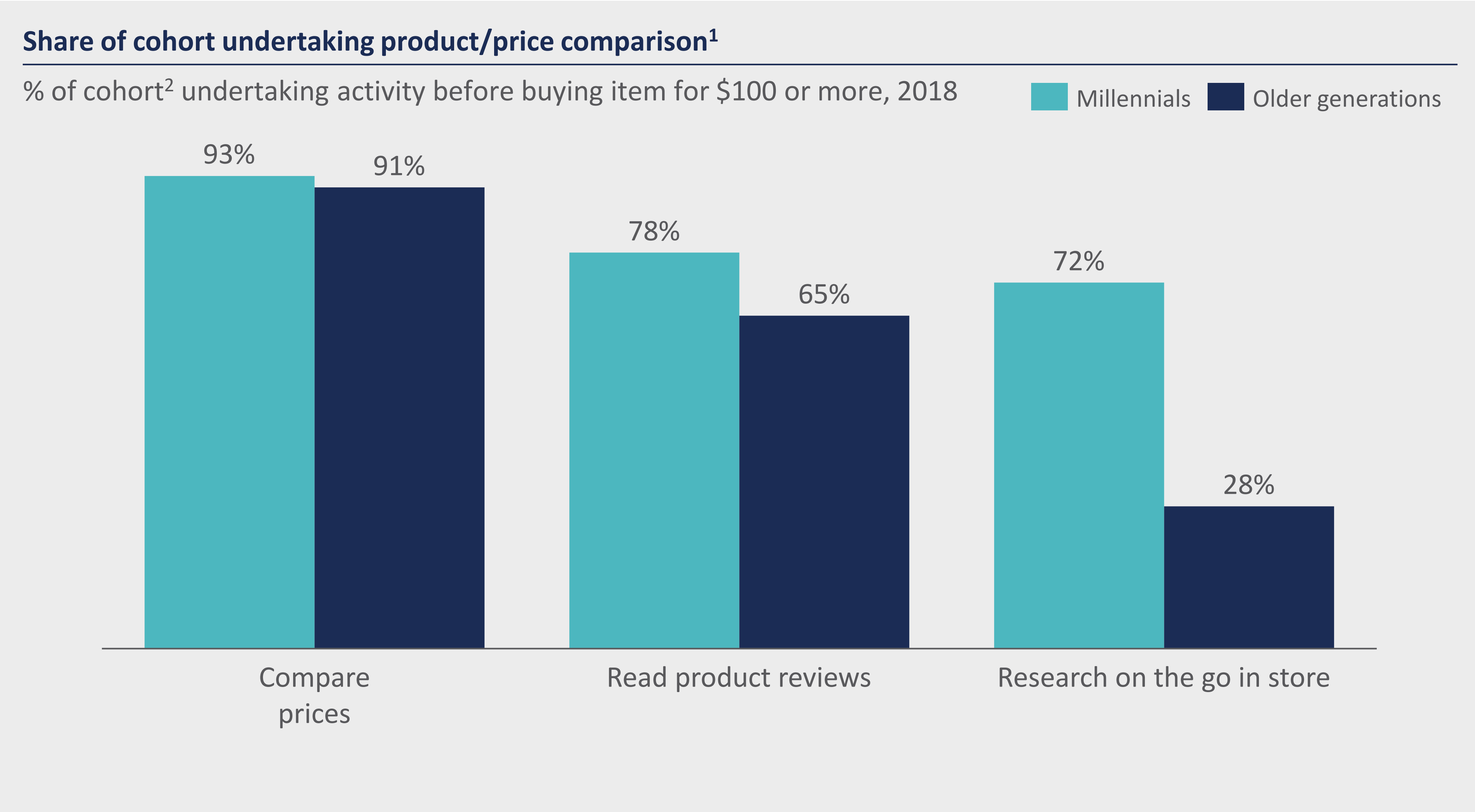


1 Millennials defined as being born between 1981 and 1996, aged 22-37. Older generations are older than 37.

2 Responses in the "some other way" category are not included.

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

Millennials are more likely to compare prices, read product reviews and research on the go in store than older generations



1 For all questions, results are aggregated for the following options: "About half the time", "More often than not" and "Always".
2 Millennials defined as being born between 1981 and 1996, aged 22-37. Older generations defined as being older than 37.

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

5. Budgeting with BNPL: Millennials are using BNPL to manage their finances responsibly

Financially savvy millennials are increasingly turning to BNPL products like Afterpay as the solution to the pressures they face.

Over 2.5 million Australians are now using Afterpay; **69%** are young people aged under 34. Statistically, Afterpay users tend to be better paid than their peers.

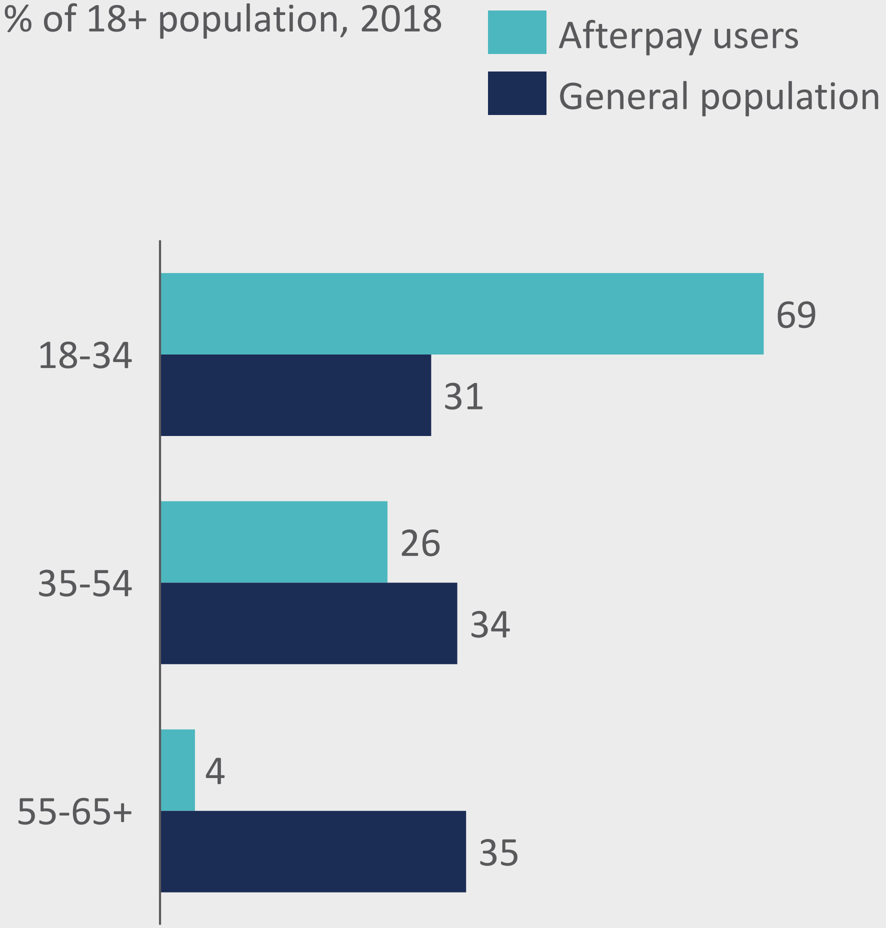
Millennials are turning to Afterpay because they see it as an alternative to better manage their finances. **57%** of Afterpay's millennial users say they do so because it helps them manage their finances.

Afterpay's in-built protections have encouraged customers to use it responsibly, which is in line with how users perceive it as a cheaper and less risky option than credit cards. A vast majority of Afterpay transactions (**93%**) incur **no late fees.**

Afterpay users are young and savvy: 69% are below the age of 34 and they earn 13% more than other millennials

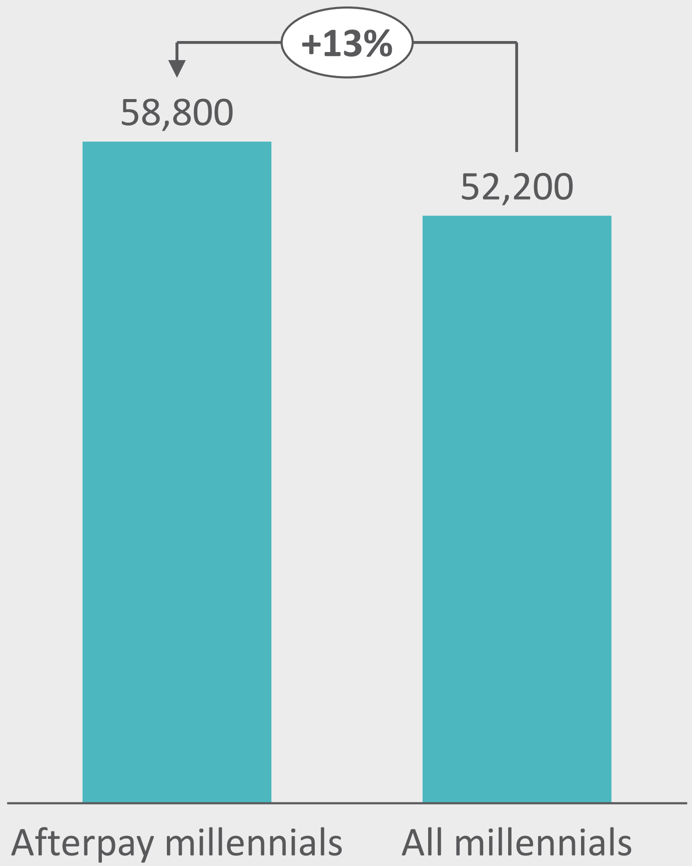
Adult population age distribution

Age, % of 18+ population, 2018



Average income by cohort

Weighted average income, 2018 $

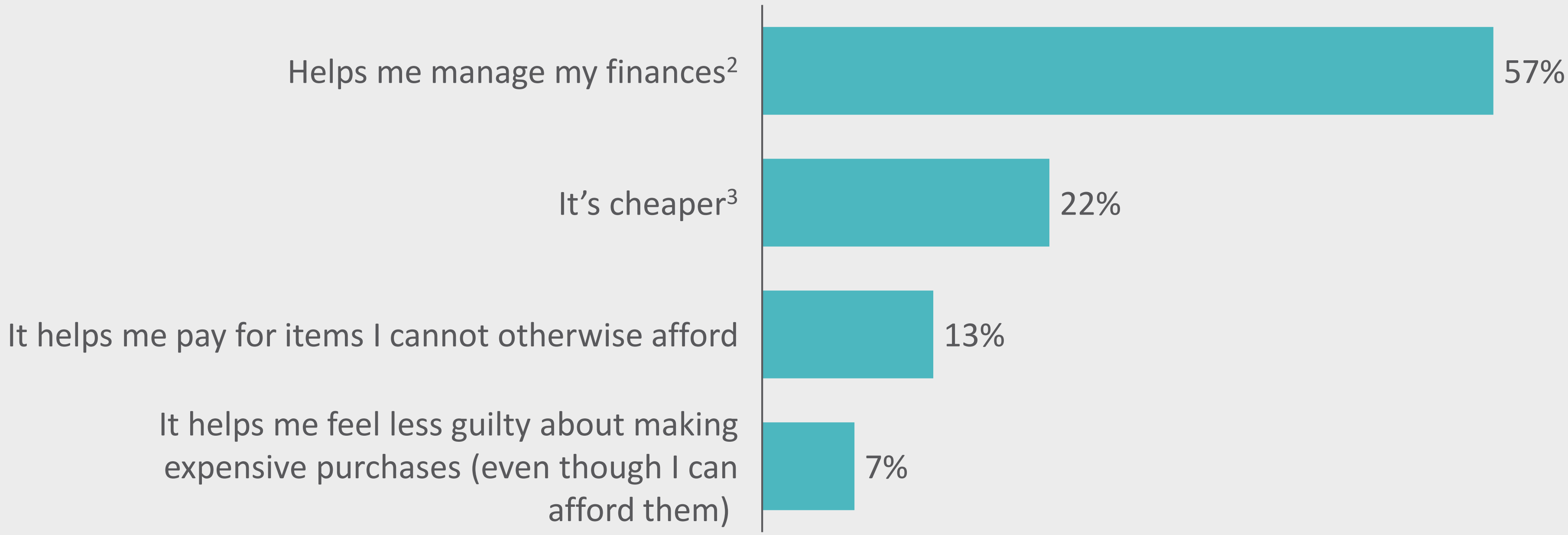


SOURCE: Ipsos survey (December 2018) + (February 2018), Afterpay data, ABS, AlphaBeta analysis

Almost two-thirds of millennials are turning to Afterpay because it helps them manage their finances

Main reason why you like Afterpay

"Why do you like Afterpay", % of responses by millennials[1], 2018



1 Millennials defined as born between 1981 – 1996.

2 Aggregates responses to: 'It helps me budget', 'the Afterpay app helps me keep track of my spending', 'I can pay in regular instalments', 'It helps me buy items I know I can afford once I get paid'

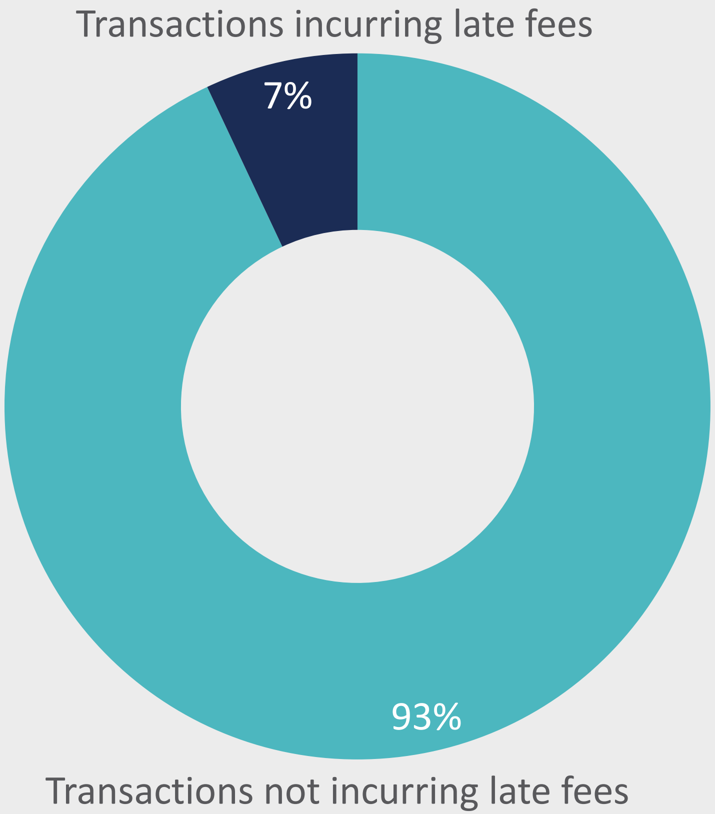
3 Aggregates responses to: 'Afterpay doesn't charge interest' and 'The fees if I miss a payment are lower'

SOURCE: Ipsos survey (December 2018), AlphaBeta analysis

Australians are using Afterpay responsibly, with 93% of Afterpay transactions incurring no late fee, and they value the in-built protections

Total transactions

2014 - 2017



Customer views on Afterpay protections

"I only spend what I can pay back, with no fees. Safer than a credit card, and really easy to use."

"Because there is a set limit I don't have to worry about getting myself in a large debt that I can't pay off...

"...the reminders are fantastic. I've never missed a payment with the alerts. And if I don't manually make a payment, the amount due is drawn from my account.."

"I love Afterpay because it limits what I can buy by having a maximum spend limit."

"I can purchase with an automatic savings plan and not pay interest! I can manage spending with a realistic credit limit."

"Before AP I would max out credit cards and tell myself I would pay it back over the next few months, but alas I never did. With Afterpay I have never missed a payment and I am always prepared for payments to come out of my account because I have a very clear overview with the app."

SOURCE: Afterpay data, Ipsos survey (February and December 2018) AlphaBeta analysis αlphaβeta

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