Australian Government

The Treasury

s 22

Instructions on the note for ABS National Accounts: Finance and Wealth

(ABS cat. no. 5232.0), quarterly release

Procedure

Step 1: In the folder, s 22 archive the previous spreadsheet and place it under the folder 'archive'.

Step 2: Data from the ABS will be released around 11:30 am. This can be downloaded from the website here, http://www.abs.gov.au/ausstats/abs@.nsf/mf/5232.0?OpenDocument.

To download all the files from the ABS website, we use a macro spreadsheet to download all the data.

- Go to s 22 and click on the **Go** button. Follow the steps in the box.
  - Step 1: Click the Browse button and select s 22
    s 22 in the browser for the folder path.
  - Step 2: Select 5232.0 from the list of catalogues to download.
  - Click on start downloading.

We now should have all the new ABS files in s 22
s 22

Step 3: The main sheet used to calculate briefing statistics and for drafting the note is at:
s 22

- In the spreadsheet, under the 'Data – Table 33' and 'Data – Table 34" and 'Calcs' worksheets, insert a new row at the bottom of the data and carry the formulas from the above row into the new row.
- Click on "Refresh All" under data to update all the data in the spreadsheet.
- Data from the 'Summary Table' worksheet are the main ones used in drafting the note/email.

Step 4: We may want to cross check and obtain additional data from the **household sector summary** page on the ABS website in the note.

Step 5: The two charts from the note are derived from s 22
s 22

Shortly after 11:30 am, the statistical assistant at MECD will have downloaded the data in Odysseus. Once they are updated in Odysseus, click on "Refresh All" under Data to update the spreadsheet. Double check the data in the spreadsheet. The two charts from the "Charts" worksheet can be copied and paste in the note.

Step 6: Have someone to check the draft note in the email and charts.

Step 7: Send the email to s 22

How to find the recipients

s 22

To include these addresses in an email:

- Select the address and click the Email button.
- Click on the 'To' section to bring up the Bcc column then drag the email addresses.

Output Example

The final email to be sent looks as follows. The below example is for September quarter 2016.

Good afternoon all,

For your information, today the ABS released quarterly data on household finance and wealth (ABS Cat no. 5232.0), the outcomes of which are outlined below.

Household **net worth** rose by 2.2 per cent or $197.6 billion in the September quarter of 2016, to stand at $9,062 billion (chart 1). This result was driven by an increase in both **financial wealth** (up 3.7 per cent) and **non-financial assets** (up 1.7 per cent).

Household **non-financial wealth** rose by $115 billion (up 1.7 per cent) to $6,757 billion, with **residential land and dwellings** contributing $107 billion to this increase.

Household **financial wealth** increased by $83 billion (up 3.7 per cent) to $2,304 billion. In the September quarter financial assets rose by $103 billion, offsetting an increase in financial liabilities of $20 billion. A significant part of the rise in financial assets was driven by a rise in the value of assets of $64 billion, with further contribution from the acquisition of new financial assets of $39 billion.

Chart 1: Household net wealth

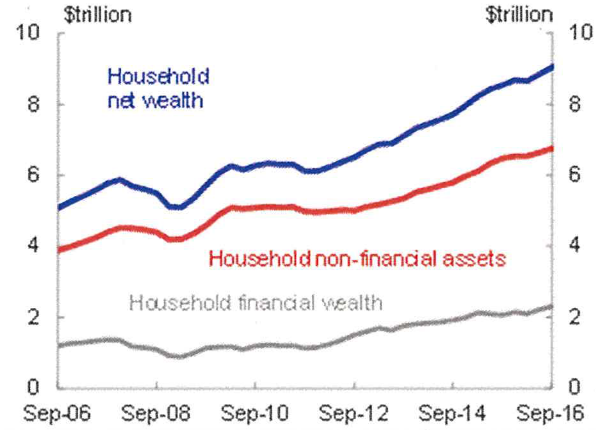
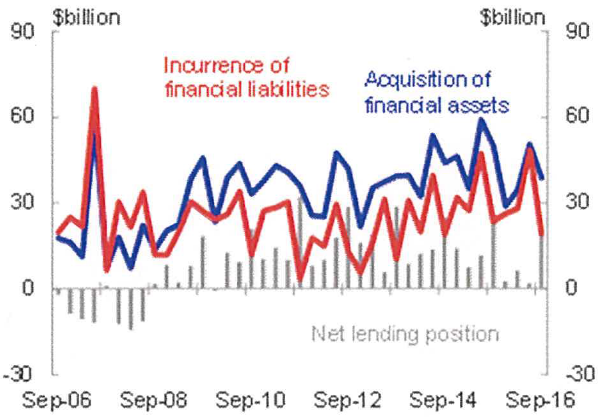


Chart 2: Household net lending position



The next release of ABS 5232.0 *Australian National Accounts: Finance and Wealth* will be on 30 March 2017.

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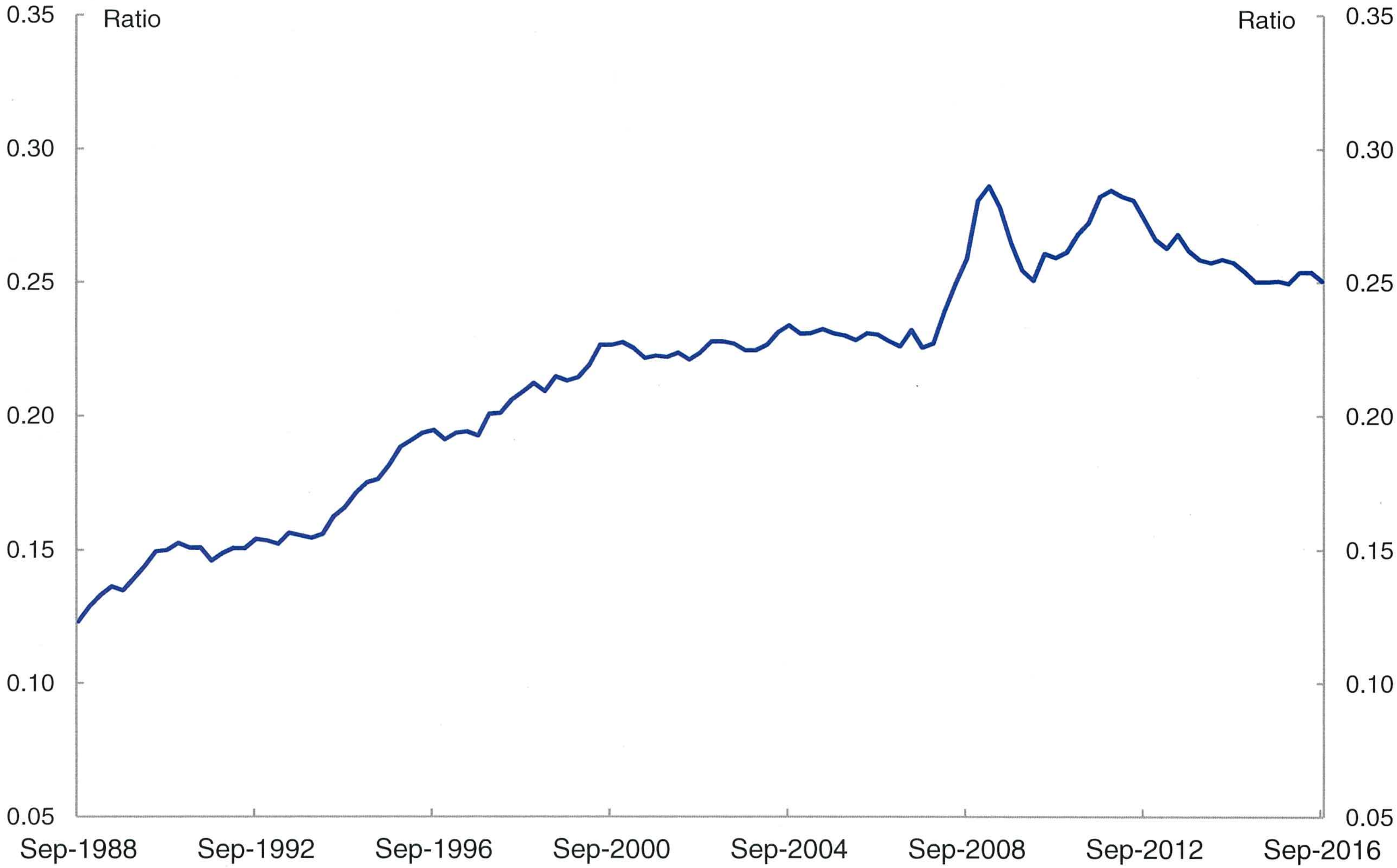
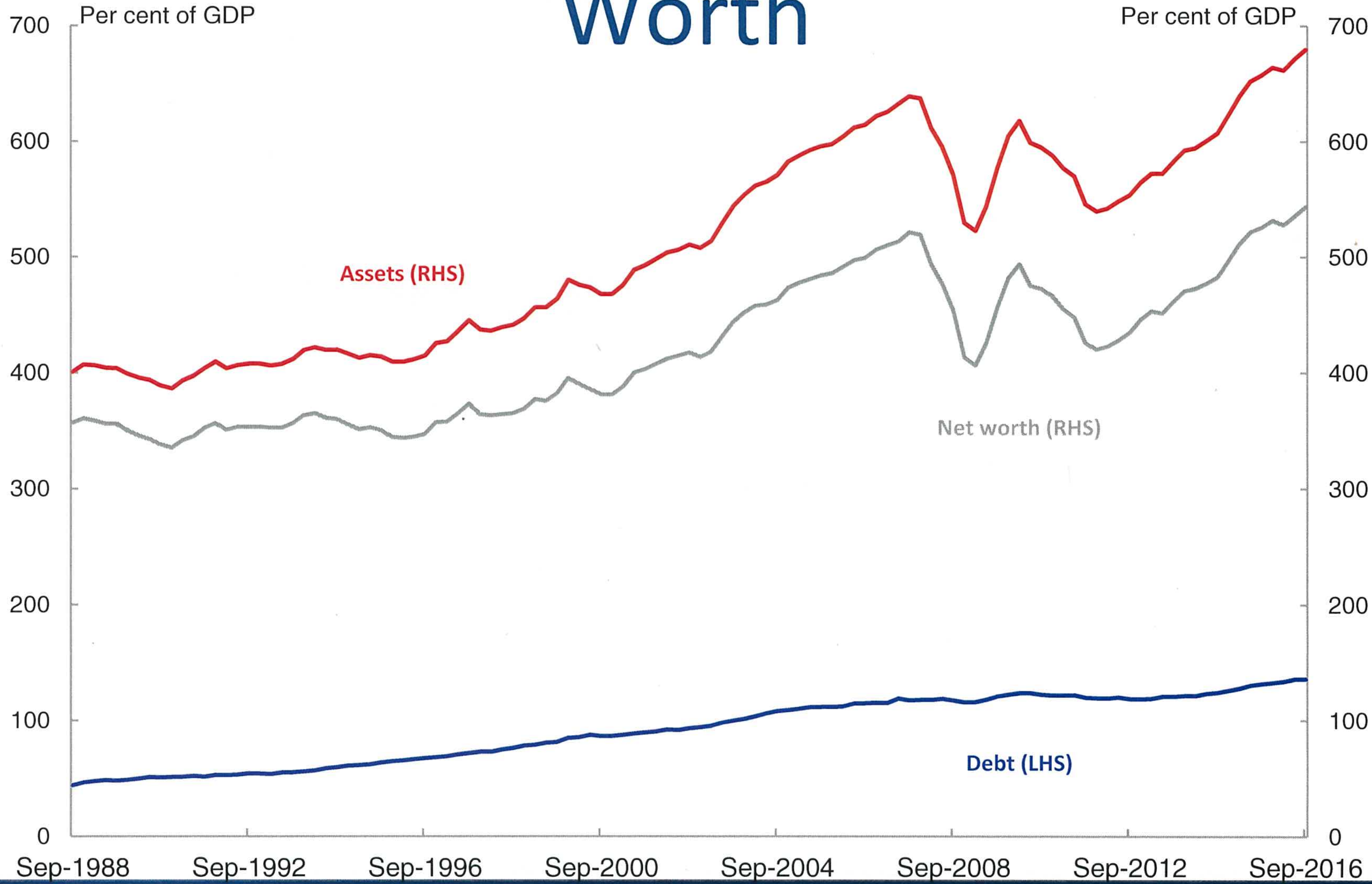
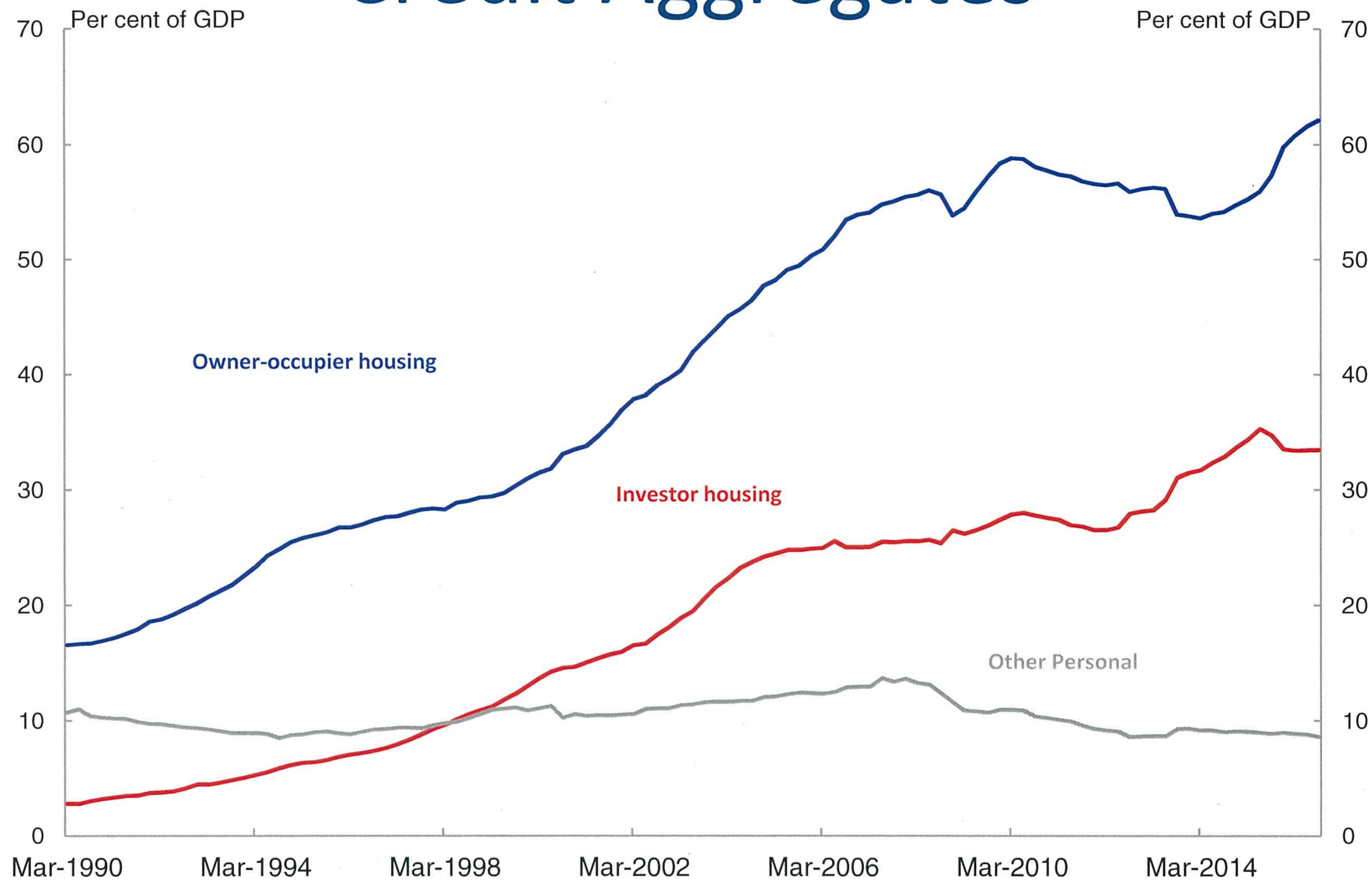
Household Debt-to-Equity Ratio



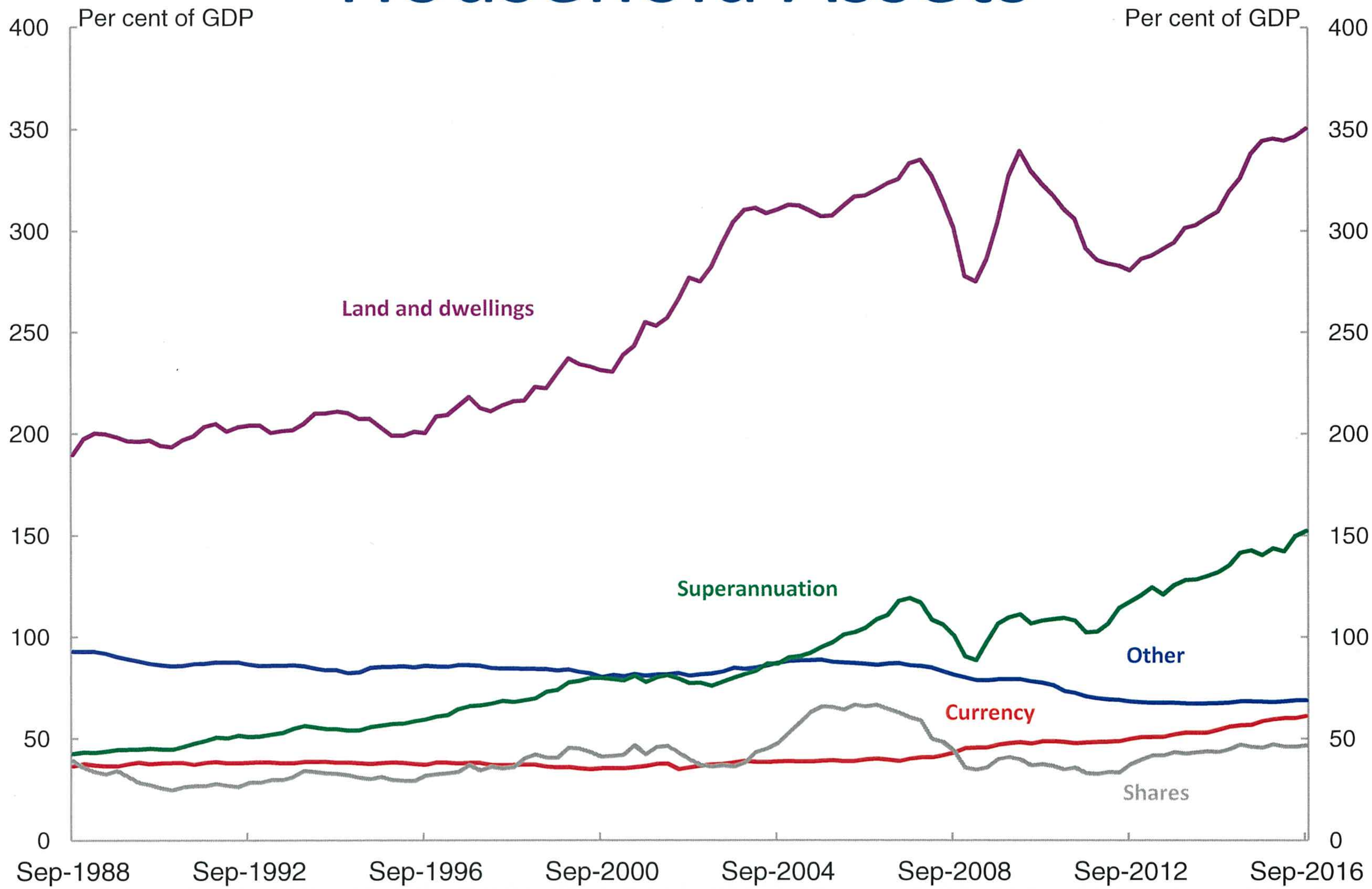
Household Assets, Debt and Net Worth



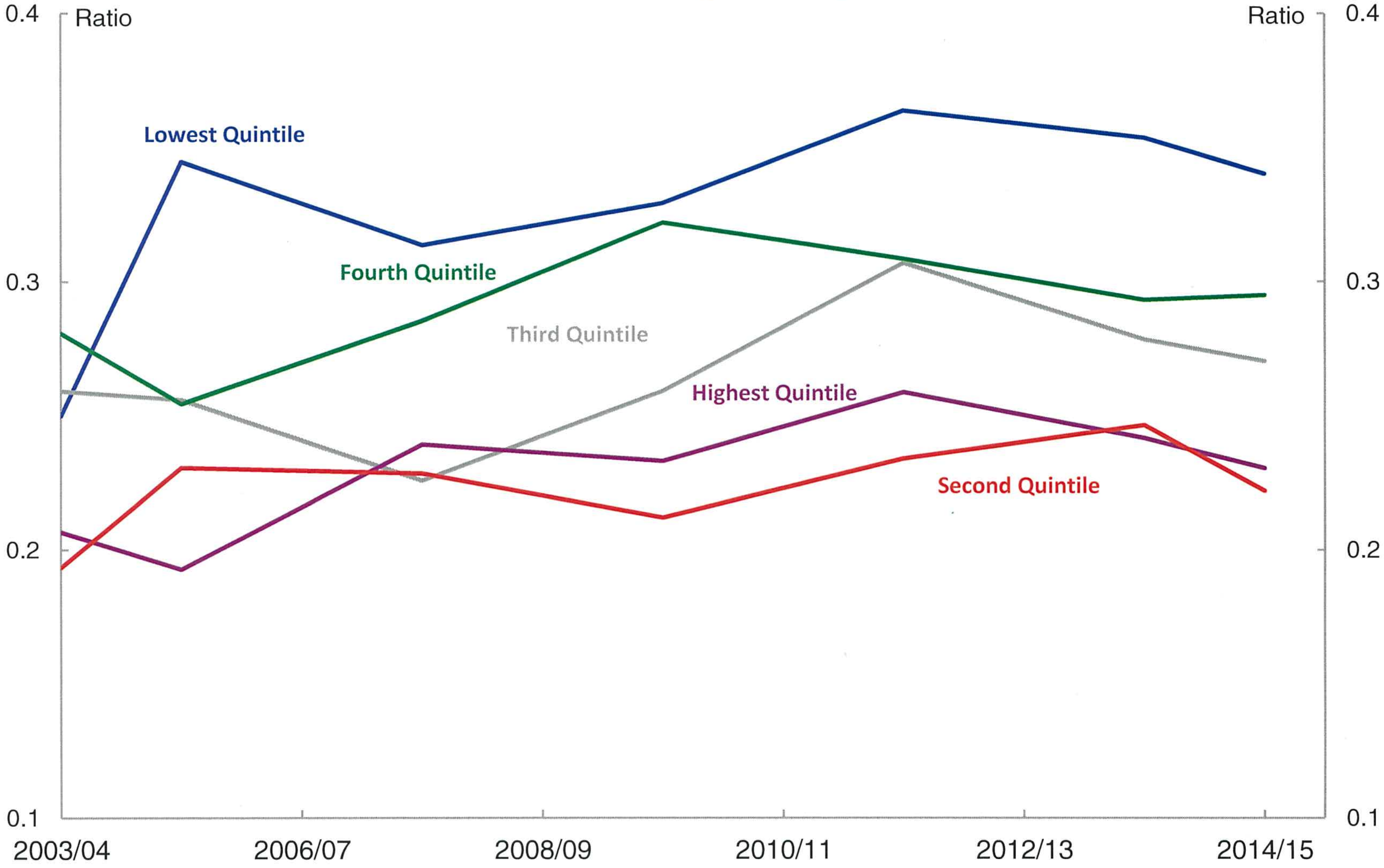
Credit Aggregates



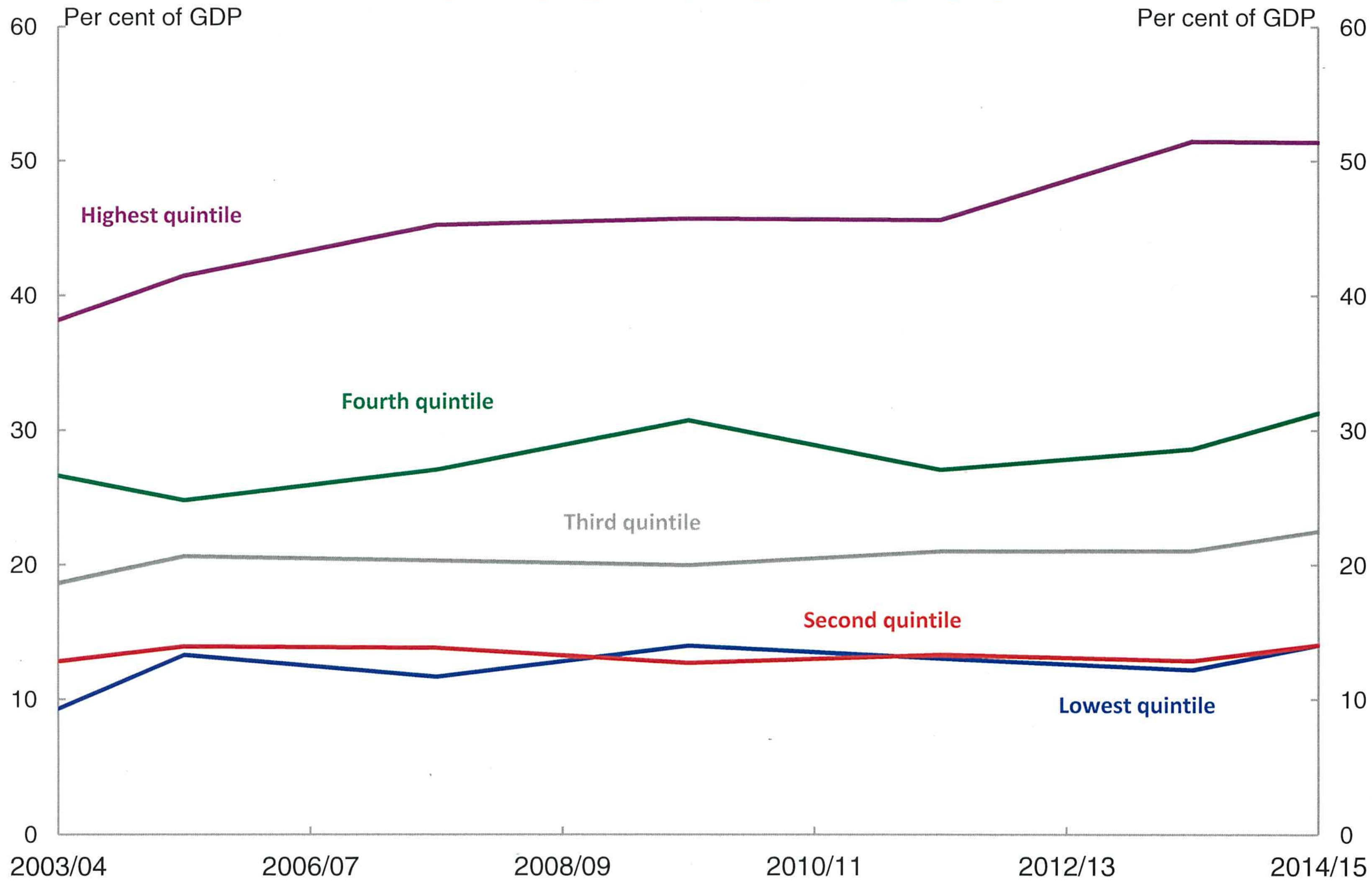
Household Assets



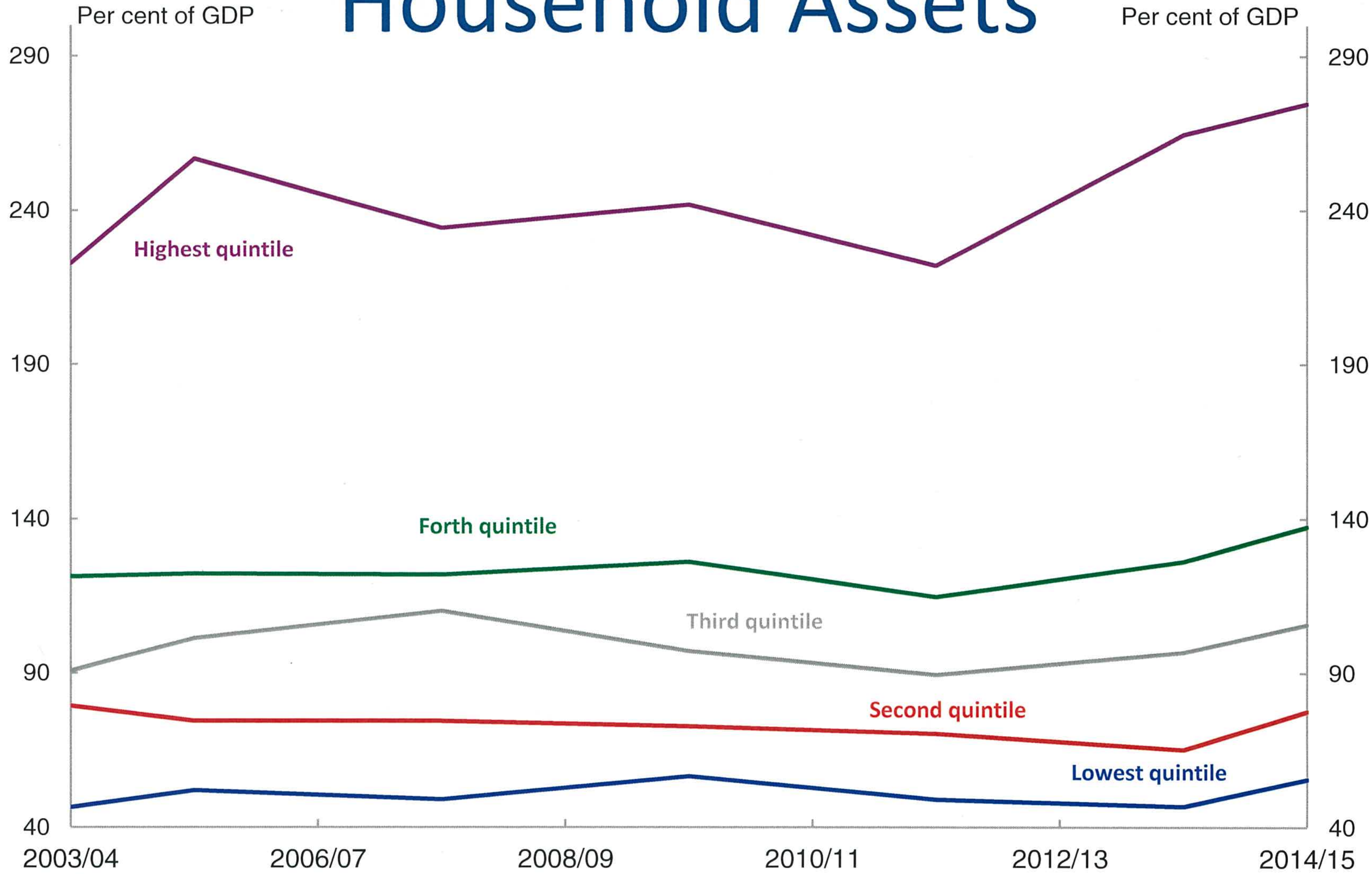
Debt-to-Equity Ratio



Household Debt



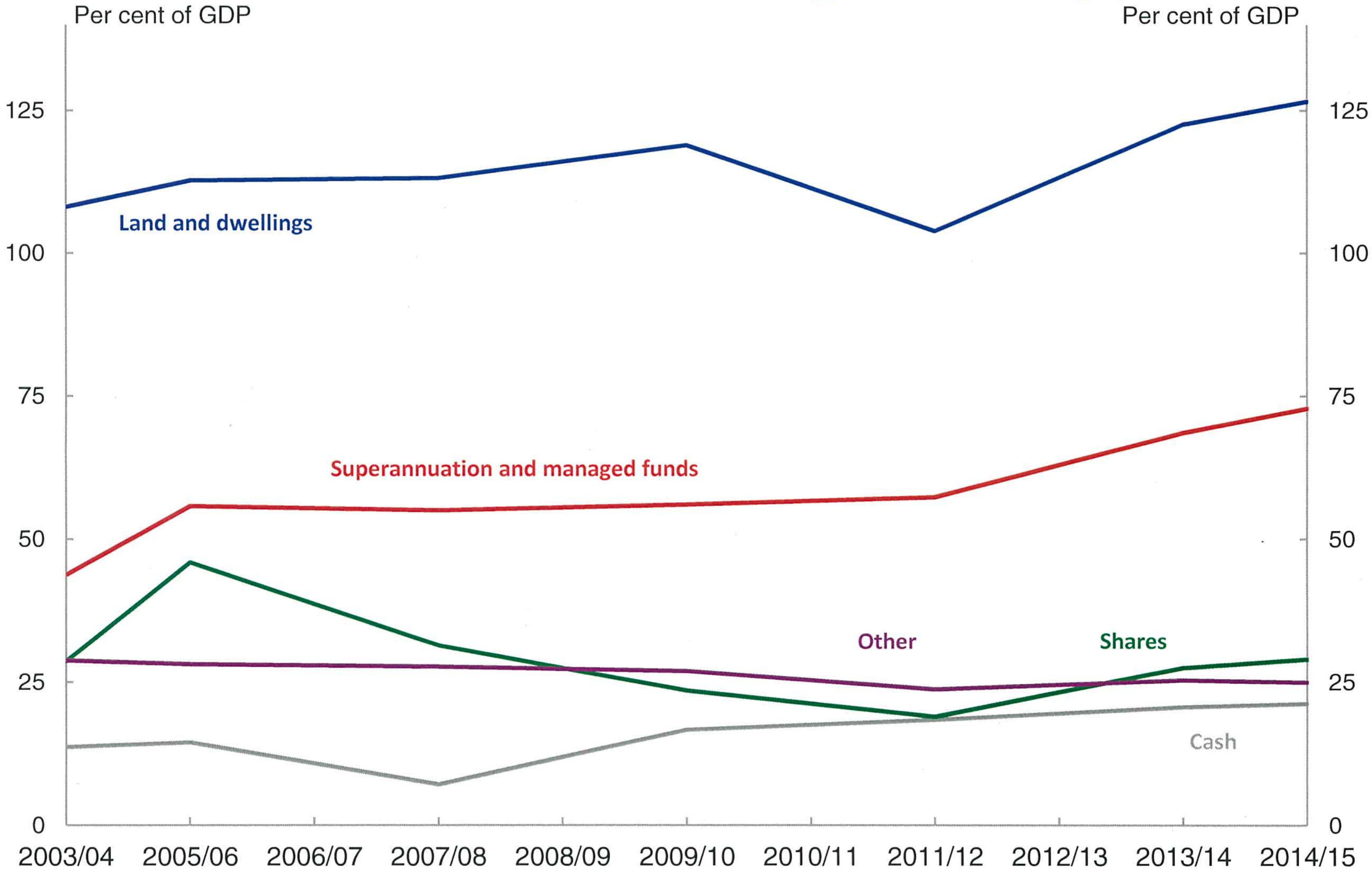
Household Assets



Source: ABS 5204.0

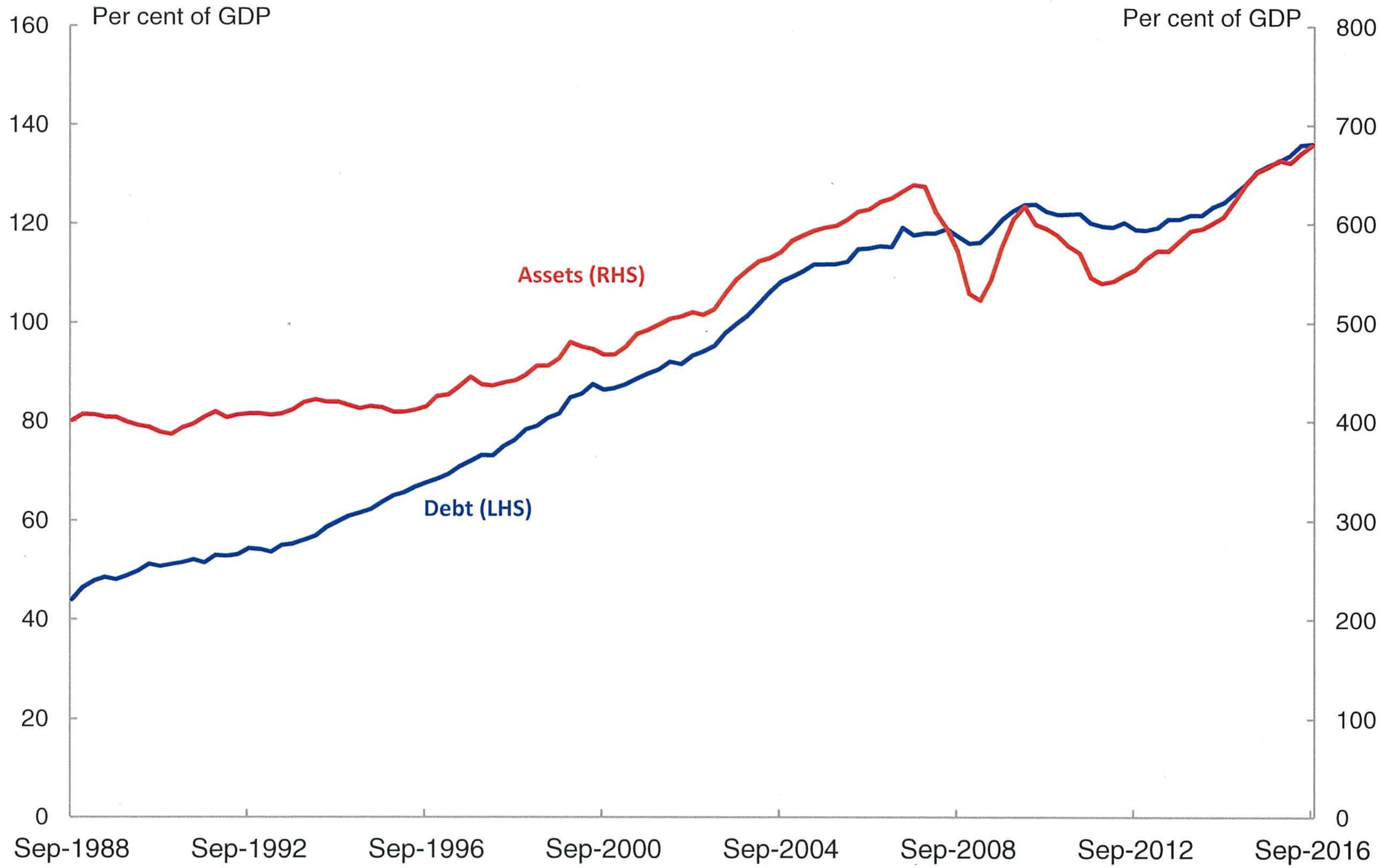
Note: Superannuation and managed fund series also includes insurance premium prepayments.

Household Assets, highest quintile

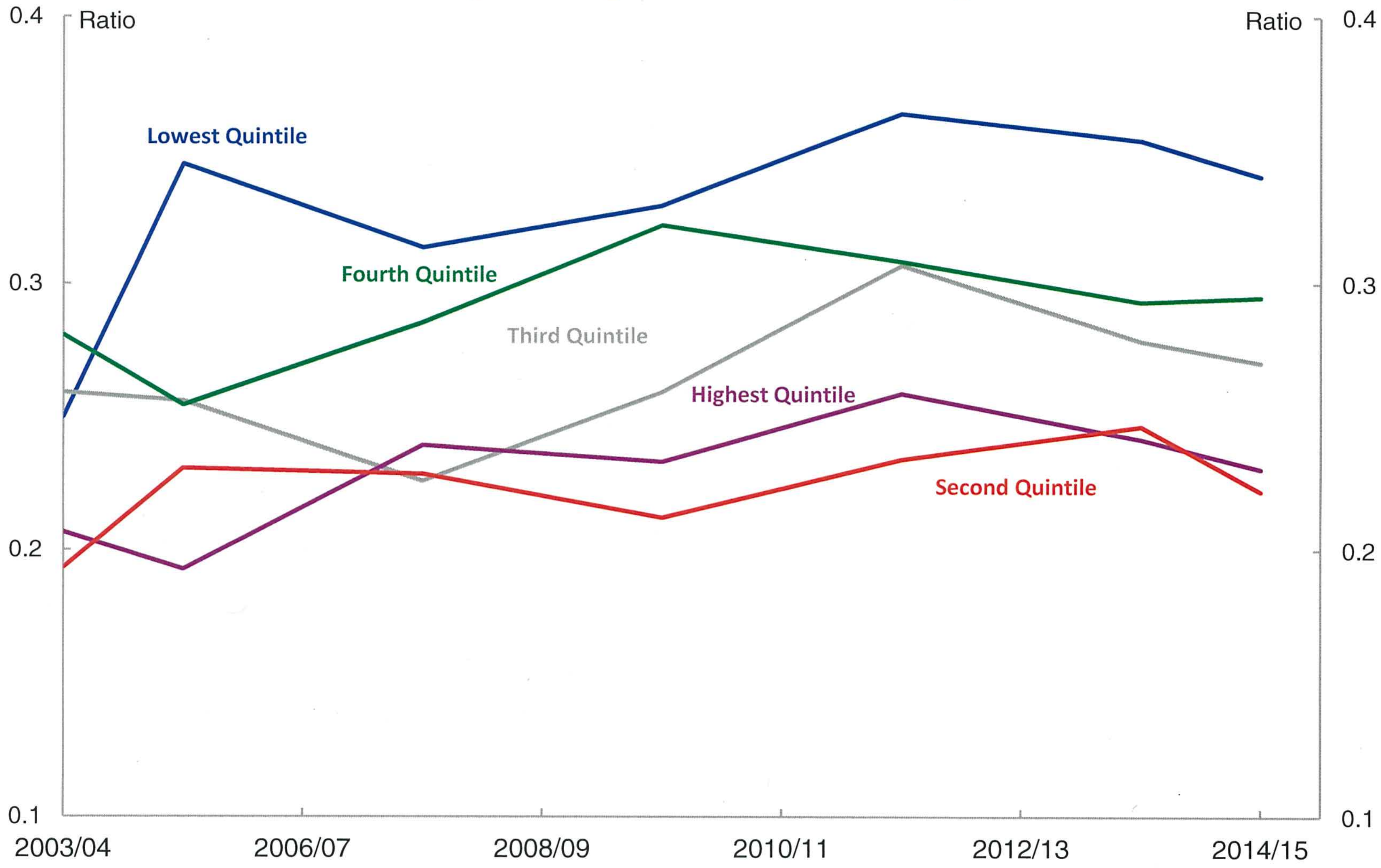


Household Debt-to-Equity Ratio

Household Balance Sheet



Debt-to-Equity Ratio by Quintile



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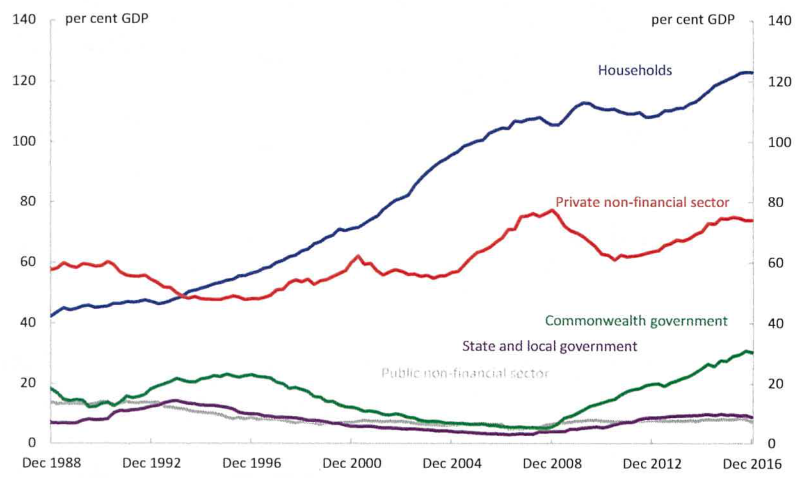
Housing in the economy:

Household debt levels in Australia

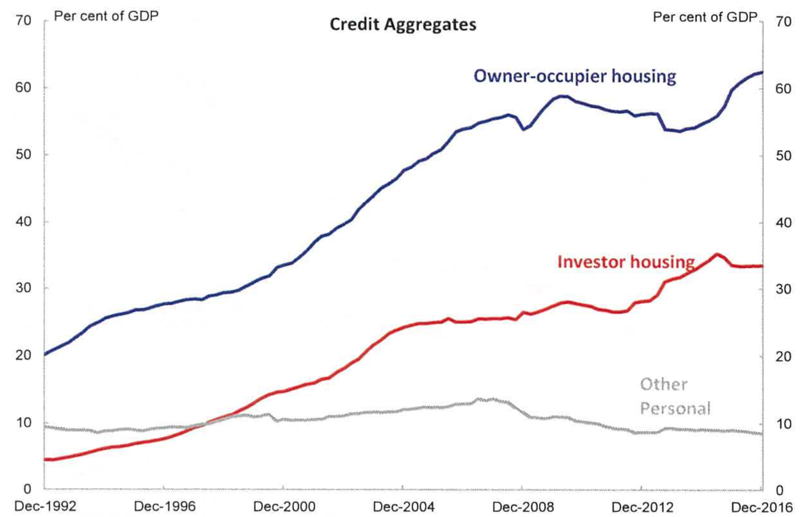
- As of December quarter 2016, gross economy-wide debt (excluding the financial sector) was 243.1 per cent of nominal GDP. **Household sector debt was 123.1 per cent of nominal GDP.**
- Australian household debt has risen over recent years and is high by international standards.
- **Mortgages dominate Australian household debt**, currently accounting for around 80 per cent of outstanding household debt.
  - Owner-occupier mortgages account for around 51 per cent of household debt, while investor mortgages account for around 27 per cent of household debt.
- Low interest rates, increasing household assets, and our debt concentration in higher income households provide some comfort regarding the serviceability of this debt.
- The value of **the household sector's assets remains around five times greater than its debts**. While total household debt is currently around $2.3 trillion, total household assets are currently around $11.7 trillion
- Interest rates have fallen faster than debt has increased, meaning that the share of income going to debt payments has actually fallen over the past decade from 11.4 to 8.5 per cent.
- The distribution of **debt is skewed towards high income households**. Households in the top two income quintiles hold around 60 per cent of Australian household debt.

Australian debt as a per cent of GDP



Source: ABS; Treasury calculations

Split of Australian household debt



Source: RBA D2 Lending and Credit Aggregates

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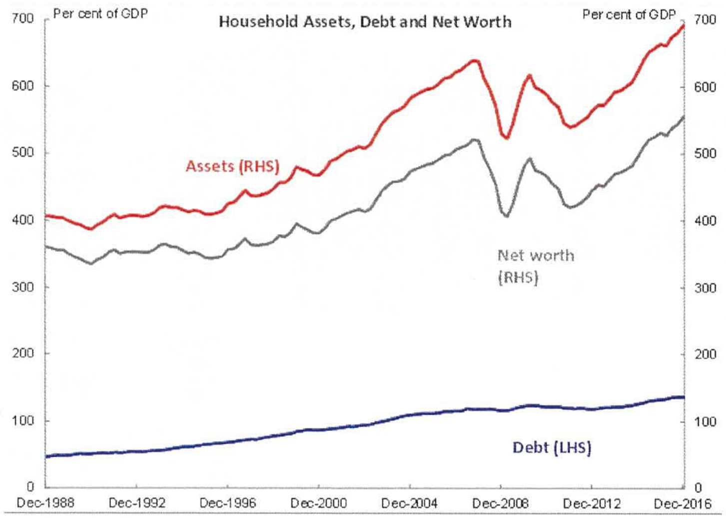
Household Assets, Debt and Net Worth



International comparisons of debt at a per cent of GDP

	Household	Corporate	Government	Total Debt
Switzerland	128.2	86.4	33.6	248.1
Australia	123.1	82.0	40.5	245.6
Denmark	120.7	108.0	47.5	276.2
Netherlands	111.0	125.3	72.2	308.5
Norway	101.1	145.9	36.1	283.1
Canada	100.6	119.2	81.2	301.1
New Zealand	94.4	81.8	33.2	209.4
United Kingdom	87.6	76.7	118.8	283.1
Sweden	85.3	143.2	45.0	273.5
United States	79.4	72.8	103.5	255.7
Spain	65.2	102.2	115.5	282.9
Japan	62.2	94.2	216.1	372.5
Greece	60.9	62.7	172.3	295.9
France	57.1	127.7	115.2	299.9
Germany	53.5	53.6	78.2	185.3
China	43.2	166.2	46.1	255.6
Italy	41.7	76.6	154.8	273.1

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HOUSEHOLD DEBT

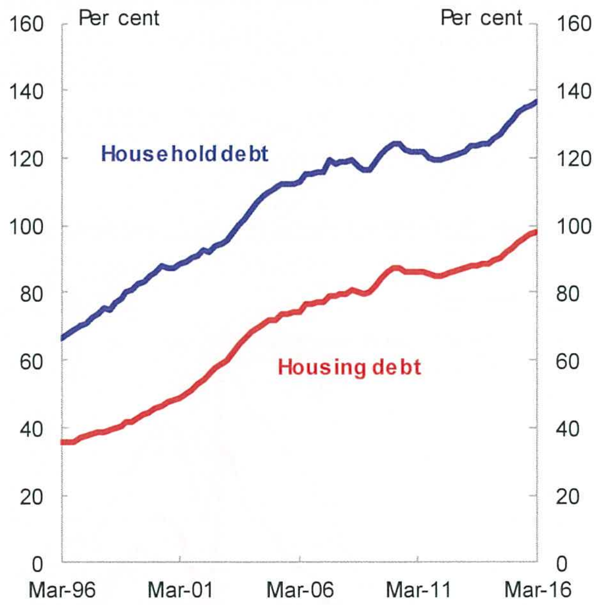
Key point

- Aggregate household debt has increased from around 67 per cent of GDP 20 years ago to around 137 per cent of GDP now, driven by growth in housing debt. While many countries experienced growth in debt, Australian household debt is high compared with other advanced economies.
- Aggregate indicators - in particular the share of income required to service the debt, suggest risks of financial stress to the household sector as a whole are relatively benign at current levels of income and interest rates. However we may see regional divergence due to differences in economic performance.

Household Debt - Trend and drivers

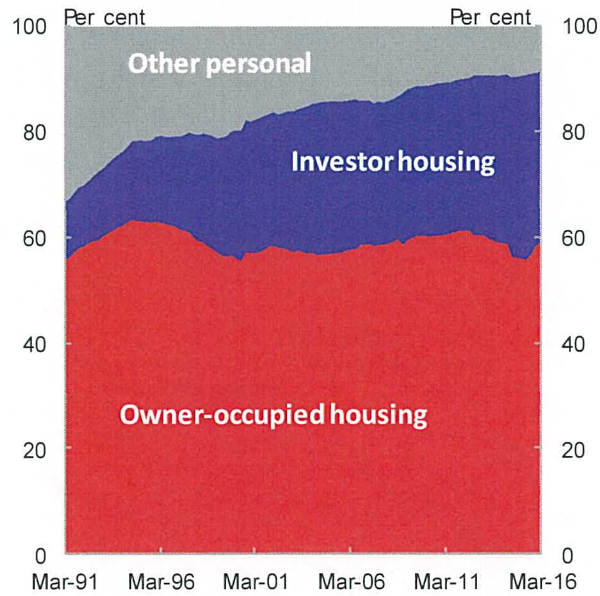
- Aggregate outstanding household debt in Australia currently stands at around $2.2 trillion or 136 per cent of GDP, driven primarily by rapid growth in housing credit (Chart 1).
- The rapid growth in housing credit has in turn been driven by increases in investor housing credit, which accounted for around 10 per cent of total household credit in 1990 and is now around a third of total household credit (Chart 2).
- A structural decline in nominal interest rates and financial deregulation saw a rapid increase in debt accumulation in the 1990's, both in Australia and globally. During the 2000's the rise in household incomes allowed for further accumulation of debt.

Chart 1: Debt as a percentage of GDP



Sources: ABS Cat. No. 5232.0 and Treasury.

Chart 2: Household credit composition[1]



Source: The RBA.

- Household wealth also increased during this period, driven by growth in the value of residential land and dwellings and financial assets (Chart 3). Net wealth fell during the GFC, but has since recovered to nearly reach its pre-GFC peak.

[1] This measure (which is also used in Chart 4) is different to those in the ABS financial accounts (which are data underpinning charts 1 and 3). It is a narrower measure that only captures household sector debt owed to the financial sector, excluding unincorporated enterprises. It accounts for around 85 per cent of households' total liabilities. Other household credit that is not included in this measure relates to household debt owed to the public sector, and overseas banks and governments.

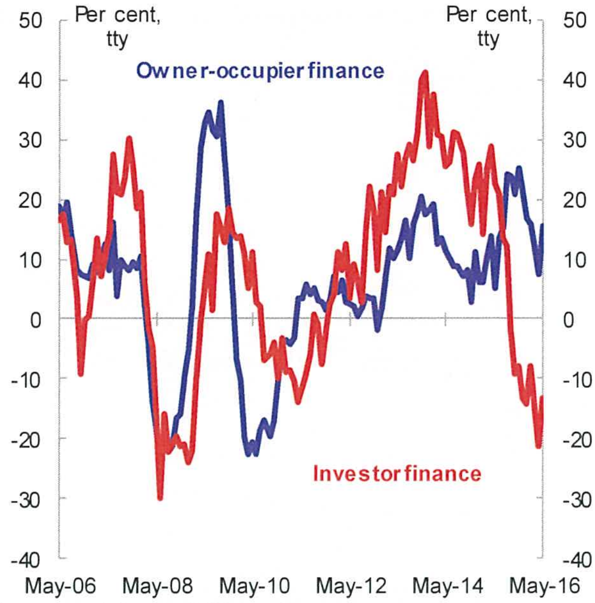
- Following almost two years of moderation in growth, investor housing finance commitments fell over the past nine months, partially offset by an acceleration in owner-occupied housing debt (Chart 6). This is consistent with tighter housing lending standards by banks following policy measures put in place by APRA, including those aimed at capping growth in banks' investor lending to 10 per cent per annum.

- On the other hand, there has been an increase in personal insolvency over the last 12 months and in particular instances of individuals entering into personal debt agreements (Chart 7). However, when viewed on a per capita basis insolvencies and bankruptcies remain relatively modest compared with history. Similarly, banks have been reporting relatively low levels of non-performing housing loans.

- But these are often lagging indicators. Rising house prices in recent years may be masking financial stress, given it has been easier for households who experience repayment difficulties to sell their dwellings rather than default on obligations.

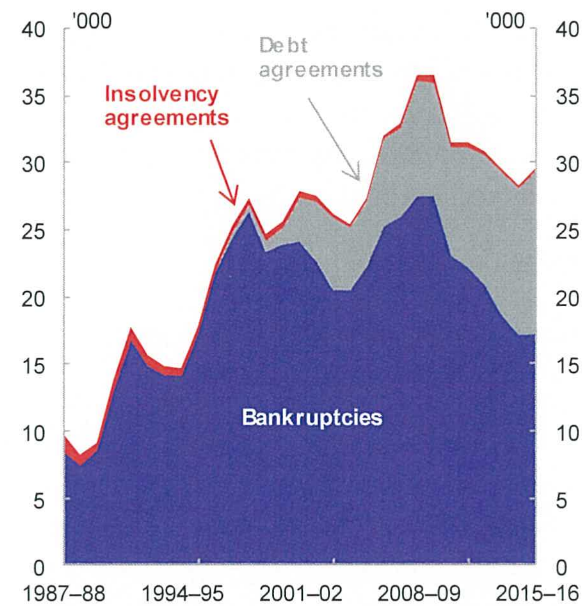
- It should also be noted that the risk profile for individual households may differ substantially, with the socioeconomically-disadvantaged households most vulnerable to rises in interest rates and falls in income.

Chart 6: Growth in the value of housing finance commitments



Sources: ABS Cat. No. 5609.0 and Treasury.

Chart 7: Personal insolvencies



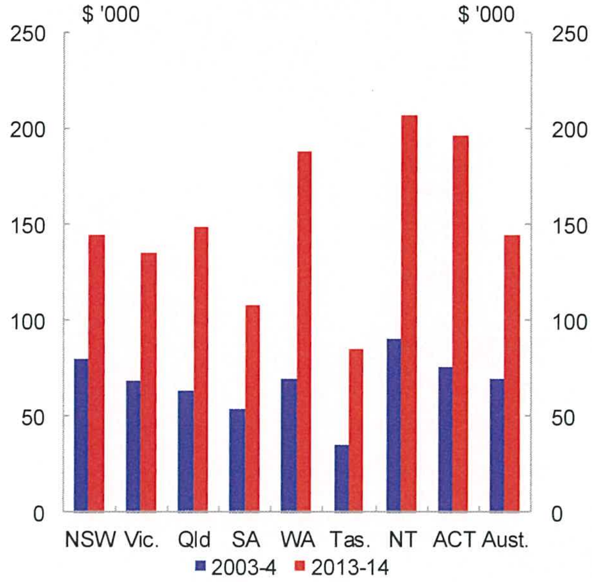
Sources: AFSA and Treasury.

International comparison

- Australia's household debt is relatively high compared with other advanced economies, though it should be noted that differences in data sources across countries make international comparisons difficult. According to the Bank for International Settlements credit series, Australia's household debt is higher than every country in the G7, and is almost fifty per cent higher than the average for all advanced economies (Chart 8).

- Recent state level data on serviceability are unavailable, however the mining states, particularly Western Australia, have seen a decline in house prices over the last two years. This, combined with a weaker employment and income outlook for these states, may point to vulnerabilities. Disaggregated personal insolvency data show that the recent increase in insolvencies has been driven by increases in Western Australia, Queensland and the Northern Territory, regions that had the most rapid increase in household debt in the preceding decade.

Chart 10: Mean household liabilities by State: 2003-4 and 2013-14



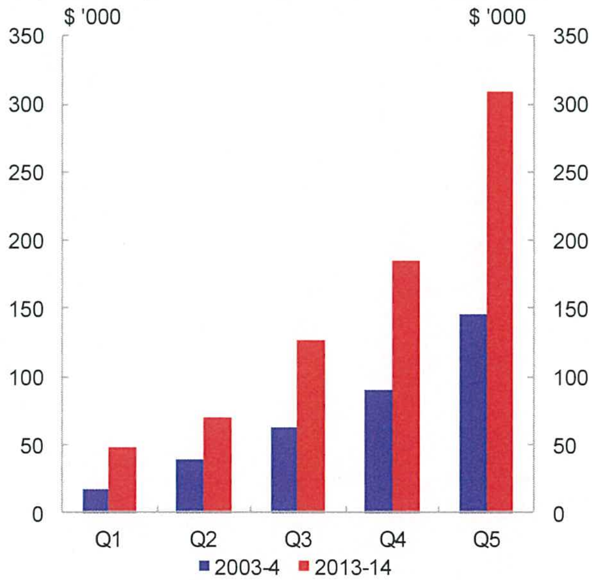
Source: ABS Survey of income and housing

Distribution between households

- The bulk of Australian household debts are held by those households with the highest level of income. Households in the highest income quintile hold on average over six times the debt of the poorest households. The top two income quintiles of households alone hold on average over 60 per cent of Australian household debt, and have done so for the last decade (Chart 11).

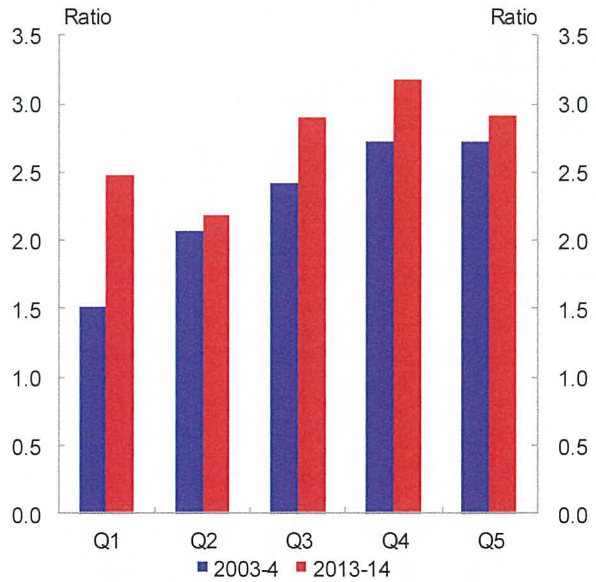
- While wealthier households have the most debt, those in the lowest income quintile have similar debt to income ratios, currently at an average of 2.5 times income. This ratio has grown more rapidly for low income households compared with other income groups, suggesting a degree of additional financial pressure on lower income households (Chart 12).

Chart 11: Mean household liabilities by income quintile - per household: 2003-4 to 2013-14



Source: ABS Survey of income and housing
Note: Disposable income is equivalised by household composition

Chart 12: Mean debt to disposable income by income quintile : 2003-4 to 2013-14

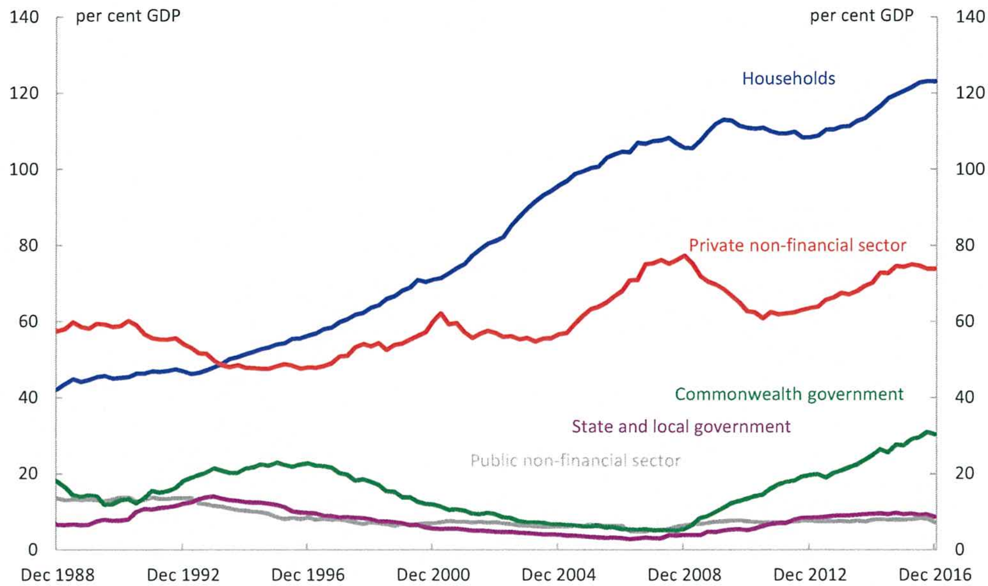


Source: ABS Survey of income and housing
Note: Disposable income is equivalised by household composition

Australian Economy Debt

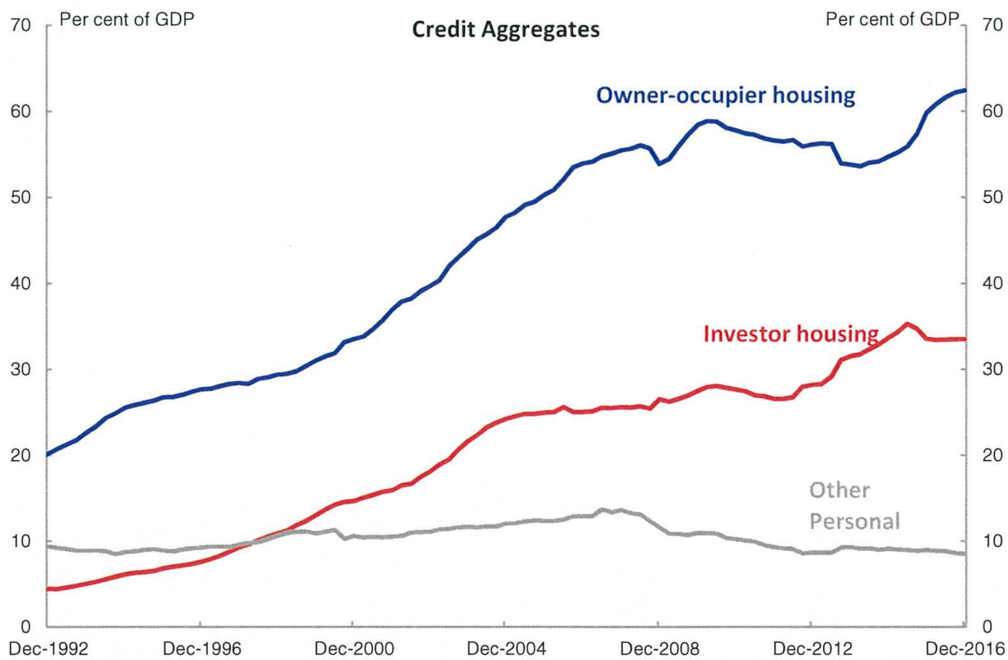
As of December quarter 2016, gross economy-wide debt (excluding the financial sector) was 243.1 per cent of nominal GDP. The sectoral breakdown is as follows:

- Household sector – 123.1 per cent of nominal GDP
- Private non-financial corporations – 73.8 per cent of nominal GDP
- Public non-financial corporations – 7.2 per cent of nominal GDP
- Commonwealth government – 30.3 per cent of nominal GDP
- State and local government – 8.7 per cent of nominal GDP



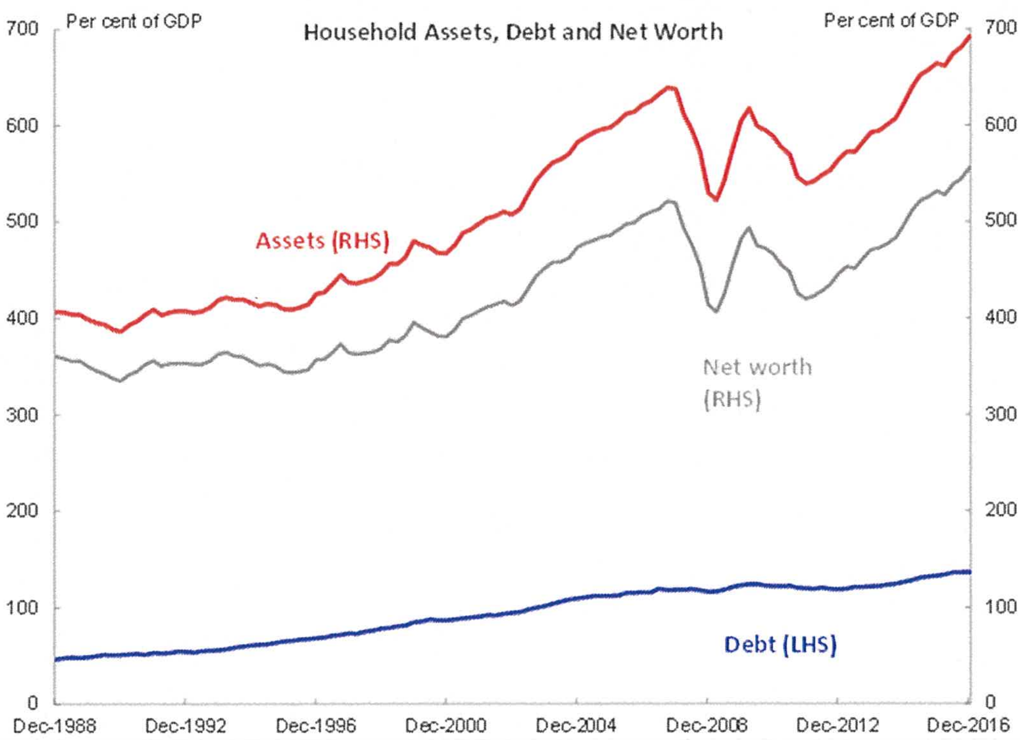
Source: ABS; Treasury calculations

- Australian household debt has risen over recent years and is high by international standards. Mortgages dominate Australian household debt, currently accounting for around 80 per cent of outstanding household debt. Owner-occupier mortgages account for around 51 per cent of household debt, while investor mortgages account for around 27 per cent of household debt.
  - The remainder is made up of personal loans, credit card balances, and HECS debt.



Source: RBA D2 Lending and Credit Aggregates

- Low interest rates, increasing household assets, and our debt concentration in higher income households provide some comfort regarding the serviceability of this debt.
  - The net worth of households has risen by around 80 per cent over the past decade, led by increases in the value of housing assets and superannuation holdings.
  - The value of the household sector's assets remains around five times greater than its debts. While total household debt is currently around $2.3 trillion, total household assets are currently around $11.7 trillion.
  - Interest rates have fallen faster than debt has increased, meaning that the share of income going to debt payments has actually fallen over the past decade from 11.4 to 8.5 per cent. This has allowed households to get ahead of their scheduled mortgage payments, which are now equivalent to around two and half years of mortgage payments at current interest rates.
  - The distribution of debt is skewed towards high income households. Households in the top two income quintiles hold around 60 per cent of Australian household debt. To the extent that higher income households are comprised of high skill workers that may be less vulnerable to unemployment, this distribution enhances debt sustainability.



- Nonetheless, elevated levels of debt presents a potential source of vulnerability to individual households and to broader financial stability.

International comparisons

Debt by Sector
(per cent of GDP)

	Household	Corporate	Government	Total Debt
Switzerland	128.2	86.4	33.6	248.1
Australia	123.1	82.0	40.5	245.6
Denmark	120.7	108.0	47.5	276.2
Netherlands	111.0	125.3	72.2	308.5
Norway	101.1	145.9	36.1	283.1
Canada	100.6	119.2	81.2	301.1
New Zealand	94.4	81.8	33.2	209.4
United Kingdom	87.6	76.7	118.8	283.1
Sweden	85.3	143.2	45.0	273.5
United States	79.4	72.8	103.5	255.7
Spain	65.2	102.2	115.5	282.9
Japan	62.2	94.2	216.1	372.5
Greece	60.9	62.7	172.3	295.9
France	57.1	127.7	115.2	299.9
Germany	53.5	53.6	78.2	185.3
China	43.2	166.2	46.1	255.6
Italy	41.7	76.6	154.8	273.1

Source: Bank for International Settlements (as at 30 Sep 2016)

Note: figures may differ slightly from national agency data due to adjustments to facilitate international comparisons.

TREASURY MINISTERIAL BRIEF

FOI 2147 - 1

PDR No. MS16–002845 22 November 2016

Treasurer

TREASURER INFORMATION NOTE: AUSTRALIAN HOUSEHOLD BALANCE SHEETS

- Australian household debt is high by international standards. The IMF has cautioned it's 'unsustainable.' However, low interest rates, growing asset holdings, and debt concentration in high income households should provide some comfort to policy makers.
- Nevertheless, while household debt may not *catalyse* a downturn it could *compound* any downturn that occurs. While Australia's level of household debt may currently appear manageable, a large increase in unemployment could quickly make it unmanageable, driving an increase in defaults, leading banks to slow the flow of credit to the economy.
- This ability of household debt to *compound* any downturn that otherwise occurs means that policy makers should continue to carefully monitor risks to household balance sheets and promote sound lending practices amongst Australian financial institutions.

Key points

- Australian household debt is high by international standards. The IMF has cautioned that it is 'unsustainable.' However, low interest rates, growing asset holdings, and debt concentration amongst high income households should provide some comfort to policy makers.
  - Interest rates have fallen faster than debt has increased, with the share of household income going to debt-servicing falling from 11.1 to 8.5 per cent over the past decade.
  - While household debt has risen over recent years, so have asset values. The net worth of the household sector has risen by around 80 per cent over the past decade, led by rising residential real estate values, and growing superannuation holdings.
  - The distribution of debt is skewed towards higher income households. To the extent that these households are comprised of high skill workers less vulnerable to periods of unemployment, this distribution is a positive for household debt sustainability.
- Nevertheless, while household debt may not *catalyse* a downturn it could *compound* any downturn that otherwise occurs. While Australia's household debt currently appears manageable, a large increase in unemployment could quickly see this become unmanageable, driving an increase in loan defaults, leading banks to slow the flow of credit to the economy. The situation would likely be compounded by household efforts to repair balance sheets.

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- Regulators are alive to these issues and will continue to carefully monitor risks to household balance sheets, and promote sound lending practices amongst Australian financial institutions.

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ADDITIONAL INFORMATION

Thinking about whole of economy debt

- Economists commonly think about an economy as having four main sectors – the household sector; the business sector; the government sector; and an external sector (i.e. 'the rest of the world'). A fifth sector, the financial sector, is often considered separately as an intermediary that transfers financial capital from those groups with savings to those that would like to borrow, either to finance consumption or investment.

- Within Australia, as is the case in most economies, it is the household sector that has savings, and the government and business sector that are in need of them. That is, the household sector is the creditor sector, while the business sector and (occasionally) the government sector are the debtor sectors.
  - While individual households may be net debtors (i.e. they owe more than they own), the household sector as a whole is a net creditor (i.e. they own more than they owe), with the total assets of the household sector a multiple of the debts of the household sector.

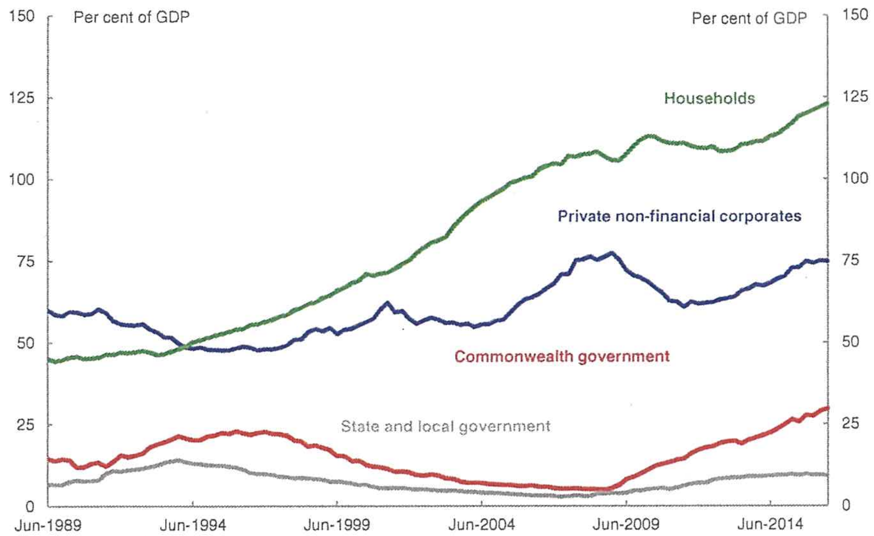
- In Australia, the financing needs of the business and government sectors have historically been in excess of household savings. The additional demand for finance has been met by the rest of the world, leaving Australia with foreign debt of around 63 per cent of GDP.

The household sector

- Notwithstanding the net asset position of the Australian household sector (more below), households hold a relatively high level of debt by international standards. According to the OECD, as a proportion of net disposable income, Australian households are the fifth most indebted in the OECD – behind only Denmark, the Netherlands, Norway and Ireland.

- Australian household debt is greater than government (both State and Commonwealth) and private non-financial business debt combined, and has risen to 123 per cent of nominal GDP from 103 per cent of nominal GDP a decade ago (Chart 1). Over the same period the household debt-to-disposable income ratio has increased from 169 per cent to 186 per cent.

Chart 1: Australian debt by sector



Source: ABS 5232.0; ABS 5206.0; Treasury calculations

- Mortgages dominate Australian household debt, currently accounting for around 77.5 per cent of outstanding household debt. Owner-occupier mortgages account for around half of household debt, while investor mortgages account for 27.3 per cent of household debt. Other debt categories include personal loans, credit card debt, and HECS debt.

- The increase in debt has led international institutions like the IMF to warn that Australia's level of household debt is above 'sustainable' levels. However, as there is no commonly accepted definition of the 'sustainable' debt level, this result should be treated with caution.

Thinking about debt 'sustainability'

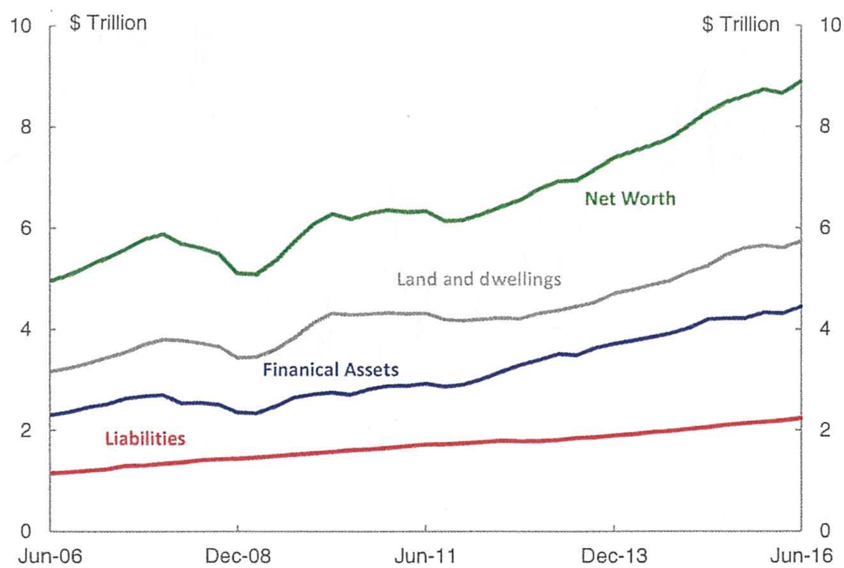
- It can be misleading to think about household debt in the aggregate, gross terms, in which it is commonly reported – statements that household debt now exceeds $2 trillion or is over 120 per cent of nominal GDP are not particularly meaningful in their own right.

- The value of assets that sit as collateral against that debt, the financial burden of servicing that debt, and the distribution of that debt between households are all factors that need to be taken into consideration when drawing conclusions about the sustainability of household debt.

- While the level of household debt in Australia is substantial, the asset holdings of Australian households are even more so. In fact, the asset-to-debt ratio of Australian households is currently around five – that is, the aggregate asset holdings of the household sector are around five times greater than the debts of the household sector.

  – While household debt has risen over recent years, so have asset values. In fact the net worth of the household sector has risen by around 80 per cent (around 40 per cent of nominal GDP) over the past decade, led by increases in housing and land values as well as superannuation holdings (Chart 2).

Chart 2: Household Sector Balance Sheet



Source: ABS 5232.0

  – It is natural to question whether the increase in asset values reflects an unsustainable increase in asset prices that are vulnerable to reversal. However, the probability of large price reversals are limited by the likelihood that interest rates will remain low for the foreseeable future (more below), while oversupply risks facing dwelling prices are likely to be concentrated in specific geographic markets, such as inner-city apartments in Melbourne, Brisbane and Perth.

- More broadly, an aggregate assets-to-debt ratio of around five means that asset prices would have to fall considerably to challenge the net worth of the household sector.

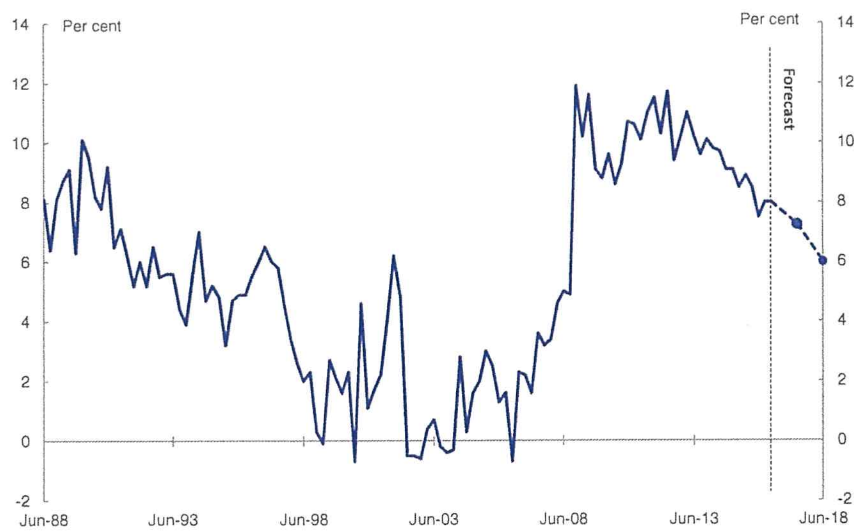
- As households continue to put aside a share of their income each year, their asset holdings will continue to grow. Net asset accumulation is expected to continue with the household saving ratio (the proportion of disposable income that is available for net investment in assets) expected to remain elevated for some years to come (Chart 3).

- In addition, interest rates have fallen faster than debt has increased. As a result, the proportion of household income going to servicing debt has fallen from 11.1 to 8.5 per cent over the past decade. Falling interest rates have allowed households to get ahead of their scheduled mortgage payments. Excess payments in offset accounts, available under redraw facilities, are equivalent to around two and half years of mortgage payments at current interest rates.

  - International institutions like the IMF that have expressed concern about Australian household debt levels, argue that low interest rates are only temporarily disguising Australia's debt challenge. These institutions argue that such challenges will be revealed once official interest rates return to pre-crisis levels.

  - However, there is reason to believe that interest rates are unlikely to return to pre-crisis levels in the short-to-medium term – both because it's likely that the natural rate of interest has fallen over recent years, and because the level of household debt itself will likely factor into future monetary policy decisions.

Chart 3: Household Savings Ratio Projections



Note: Forecasts presented are from the 2016-17 Budget
Source: ABS 5206.0, Treasury

- More broadly, Australian household debt is not distributed equally across income groups. The distribution of debt is skewed towards high income households. Households in the top two income quintiles hold around 60 per cent of Australian household debt. To the extent that higher income households are comprised of high skill workers that may be less vulnerable to unemployment, this distribution enhances debt sustainability.

- Moreover, it is high income households that have the highest offset balances, allowing ongoing debt servicing even in the event of unemployment.
- However, the distribution of household debt is not without its challenges. While absolute debt levels may be skewed towards the highest income quintiles, households in the lowest income quintile still face elevated debt-to-income ratios.

Households will continue to service debt unless unemployment prevents them from doing so

- Periods of financial instability are commonly precipitated by a fall in asset values, an increase in non-performing loans and loan defaults, and a subsequent decrease in the flow of credit to the real economy as banks move to repair their balance sheets, weighing on GDP growth. The situation can be compounded by household and business efforts to rebuild balance sheets.
- This dynamic is particularly pronounced in the case of business debt. A marked fall in asset values could quickly see the value of a firm's assets fall below that of its debt, in which case the firm is said to be insolvent. When that occurs, the firm's assets are liquidated, and the firm's creditors suffer (at least partial) losses on their loans.
- However, this dynamic need not operate to the same degree in the household sector. Unlike businesses, households can operate with negative equity. As a result, a fall in asset prices does not automatically lead to forced sales of assets and repayment of debt. Banks will only foreclose on household debt when that household no longer services it.
- It follows that policy makers should be more immediately concerned about events that have the potential to drive a marked increase in unemployment, preventing households from continuing to service their debts, rather than falling asset values per se.
  - Nevertheless, a marked fall in asset values would still be problematic insofar as they would increase any post-foreclosure impact on bank balance sheets, and weigh on consumption as households sought to repair balance sheets – further slowing economic activity and increasing the risk to bank loans elsewhere in the economy.
- In aggregate there appears little evidence to suggest that Australian households are struggling to service their debt. However, the downturn in mining-related areas has seen a recent pick up in non-performing loans in these areas. Fortunately the challenge remains contained at this stage. Moreover, increases in capital requirements over recent years have increased the resilience of Australian banks to a broader decline in asset values.

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Policy makers must continue to monitor risks closely

- While Australian household debt may not *catalyse* an economic downturn it could *compound* any downturn that otherwise occurs. A marked increase in unemployment could drive an increase in mortgage and personal loan defaults, with the potential for banks to slow the flow of credit to the real economy as they seek to repair their balance sheets. Efforts to repair household balance sheets would compound the situation.

- The ability of household debt to compound any downturn that otherwise occurs means that policy makers should continue to carefully monitor risks to household balance sheets, and promote sound lending practices amongst financial institutions.

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HOUSEHOLD DEBT

TOP LINES:

- Australian household debt has risen over recent years and is high by international standards, at around $2.1 trillion. However, low interest rates, increasing household assets and our debt concentration in higher income households provide some comfort.
  - The net worth of households has risen by around 80 per cent over the past decade, led by increases in the value of housing and superannuation assets.
  - The value of the household sector's assets remains around five times greater than its debts.
  - While house prices have risen rapidly in Sydney and Melbourne in recent years, interest rates have also fallen such that in aggregate the share of household disposable income going to debt payments is around its long-term average. In this low interest rate environment, many households have taken the opportunity to get ahead of their scheduled mortgage payments, which are now equivalent to around two and half years of mortgage payments at current interest rates.
  - The distribution of debt is skewed towards high income households. Households in the top two income quintiles hold around 60 per cent of Australian household debt. To the extent that higher income households are comprised of high skill workers that may be less vulnerable to unemployment, this distribution enhances debt sustainability.
- APRA began implementing measures in response to concerns about declining lending standards and growth in lending to housing investors in December 2014. Additional supervisory measures that continue to reinforce sound lending practices were announced in March 2017, including measures to better manage the proportion of interest-only lending.
- Australian regulators will continue to carefully monitor risks to household balance sheets and promote sound lending practices by Australian financial institutions.

KEY FACTS AND FIGURES:

- According to the OECD as a proportion of household disposable income, Australian households were the fourth most indebted in the OECD in 2015 – behind only Denmark, the Netherlands, and Norway.
- Australian household debt is higher than government (both State and Commonwealth) and private non-financial business debt combined, and has risen from 105 to 123 per cent of GDP over the past decade.
  - Over the same period the household debt-to-disposable income ratio has increased from 168 to 189 per cent.
  - Balances in offset and redraw facilities remain high at around 17 per cent of outstanding loan balances or around 2 ½ years of scheduled repayments at current interest rates.
- Mortgages dominate Australian household debt, currently accounting for around 80 per cent of outstanding debt. Owner-occupier mortgages account for around 51 per cent, while investor mortgages account for around 27 per cent.
  - The remainder is made up of personal loans, credit card balances, and HELP debt.

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BACKGROUND:

- The increase in debt has led international institutions like the IMF to warn that Australia's level of household debt is above 'sustainable' levels. However, as there is no commonly accepted definition of the 'sustainable' debt level, this result should be treated with caution.

- It can be misleading to think about household debt only in aggregate, gross terms. The value of assets that sit as collateral against that debt, the financial burden of servicing that debt and the distribution of that debt between households are all factors that need to be taken into consideration when drawing conclusions about the sustainability of household debt.

- Nevertheless, while Australian household debt may not catalyse an economic downturn it could compound any downturn that otherwise occurs. A marked increase in unemployment could drive an increase in mortgage and personal loan defaults, with the potential for banks to slow the flow of credit to the real economy as they seek to repair their balance sheets. Efforts to repair household balance sheets would compound the situation.

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AUSTRALIAN HOUSEHOLD DEBT

Headline Statement

- Australian household debt has risen over recent years and is high by international standards, at around $2.1 trillion or 123 per cent of GDP. While low interest rates, increasing household assets and the concentration of debt in higher income households provide some comfort to policy makers, high household debt makes Australia more vulnerable to economic shocks.

Key Points

- Australian household debt has risen to around $2.1 trillion or 123 per cent of GDP, from around 105 per cent of GDP a decade ago. The household debt-to-income ratio has increased from 168 per cent to 189 per cent over the same period.
  - Total household sector liabilities are around $2.3 trillion, or 136 per cent of GDP. This broader measure principally differs through the inclusion of around $200 billion of accounts payable associated with unincorporated businesses.
- Mortgages dominate Australian household debt, accounting for around 80 per cent. Owner-occupier mortgages are around 51 per cent of household debt, while investor mortgages account for an additional 27 per cent of household debt. The remainder is made up of personal loans, credit card balances, and HELP debt.
- The IMF has cautioned that the level of Australian household debt is "unsustainable." However, as there is no commonly accepted definition of what constitutes a 'sustainable' level of debt in an economy, this claim should be treated with caution.
- It can be misleading to think about household debt in the aggregate, gross, terms in which it is commonly reported. Statements that household debt is $2.1 trillion or 123 per cent of nominal GDP are not particularly economically meaningful in their own right.
- A number of factors should be taken into consideration when assessing the sustainability of household debt. These include the size of offsetting asset positions, the magnitude of debt servicing burdens, and the distribution of debt between households.
- These three factors provide some comfort to those considering the sustainability of Australian household debt levels.
  - While household debt has risen over the past decade, so have asset values. In fact, the net worth of the household sector has increased from around 5.1 times the size of the Australian economy to around 5.6 times the size of the Australian economy over the past

decade. These gains have been led by increases in the value of housing and superannuation assets.

  : The assets-to-liability ratio of the Australian household sector remains over five.

- Moreover, the increase in household debt has been offset by falling interest rates. As a result, the proportion of household income that goes to servicing debt remains close to its long-term average.

- Household debt in Australia is not distributed equally across all income groups. The bulk is held by those households with the highest incomes.

  : Households in the top two income quintiles hold around 60 per cent of Australian household debt. This distribution is a positive for debt sustainability to the extent that higher income households have higher net worth and are comprised of higher skilled workers that are less likely to experience periods of unemployment.

- Nevertheless, high household debt levels make Australia more vulnerable to large economic shocks. A marked increase in unemployment could drive an increase in mortgage and personal loan defaults. That could push banks to reduce lending, further compounding the slowdown.

- Australian regulators are alive to these issues. They will continue to carefully monitor risks to household balance sheets and promote sound lending practices amongst Australian financial institutions.

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Hi MECD and MMPD,

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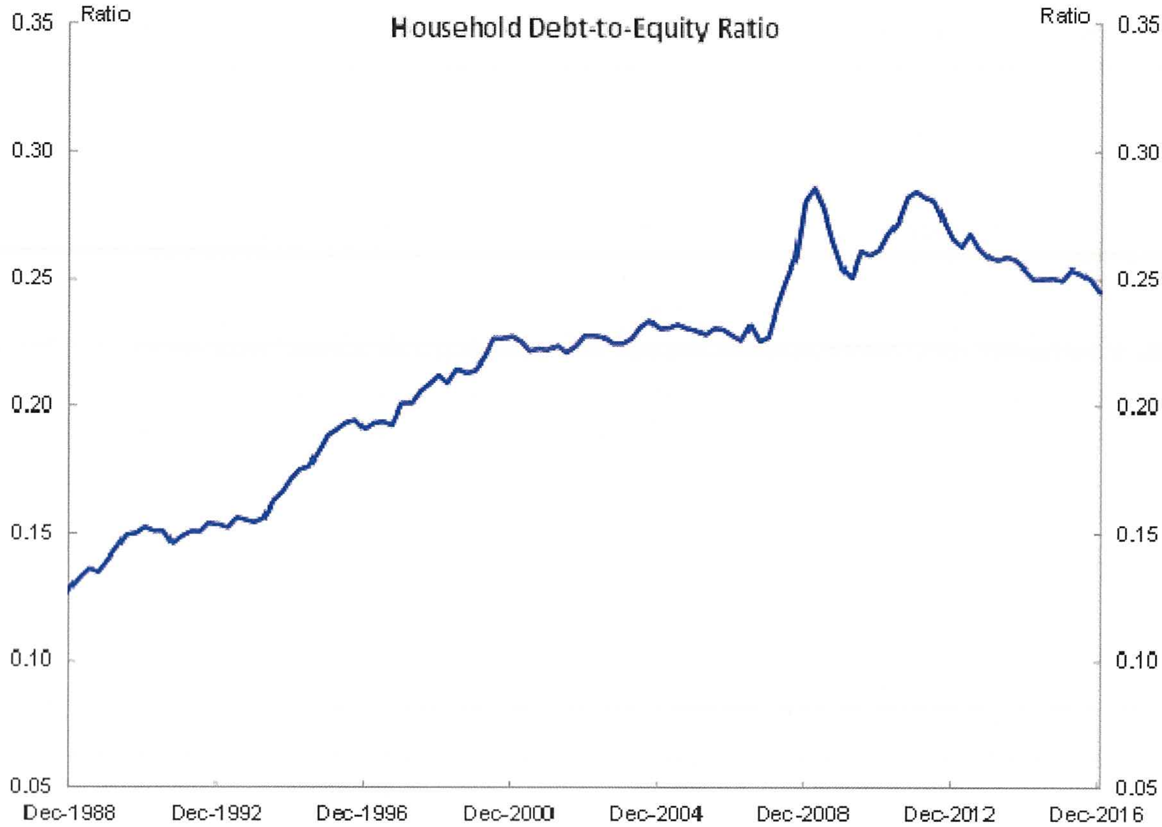
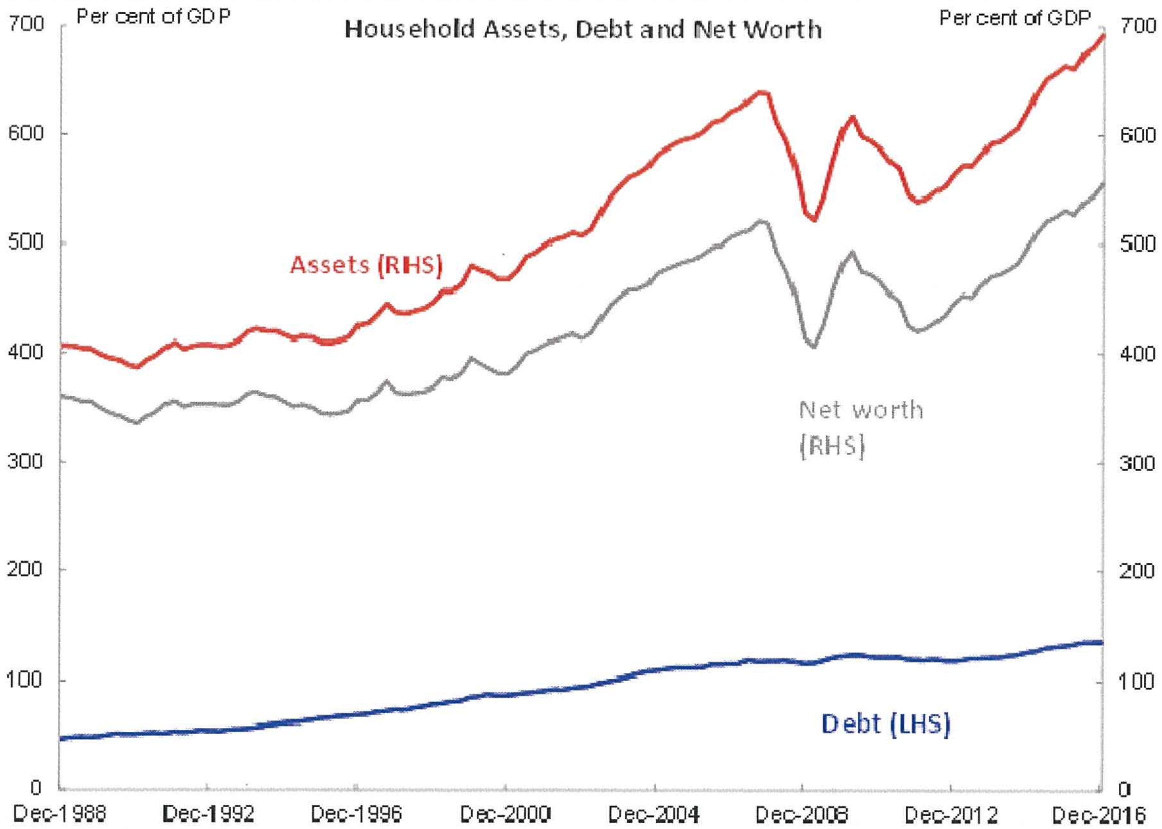
So what has actually happened in Australia?

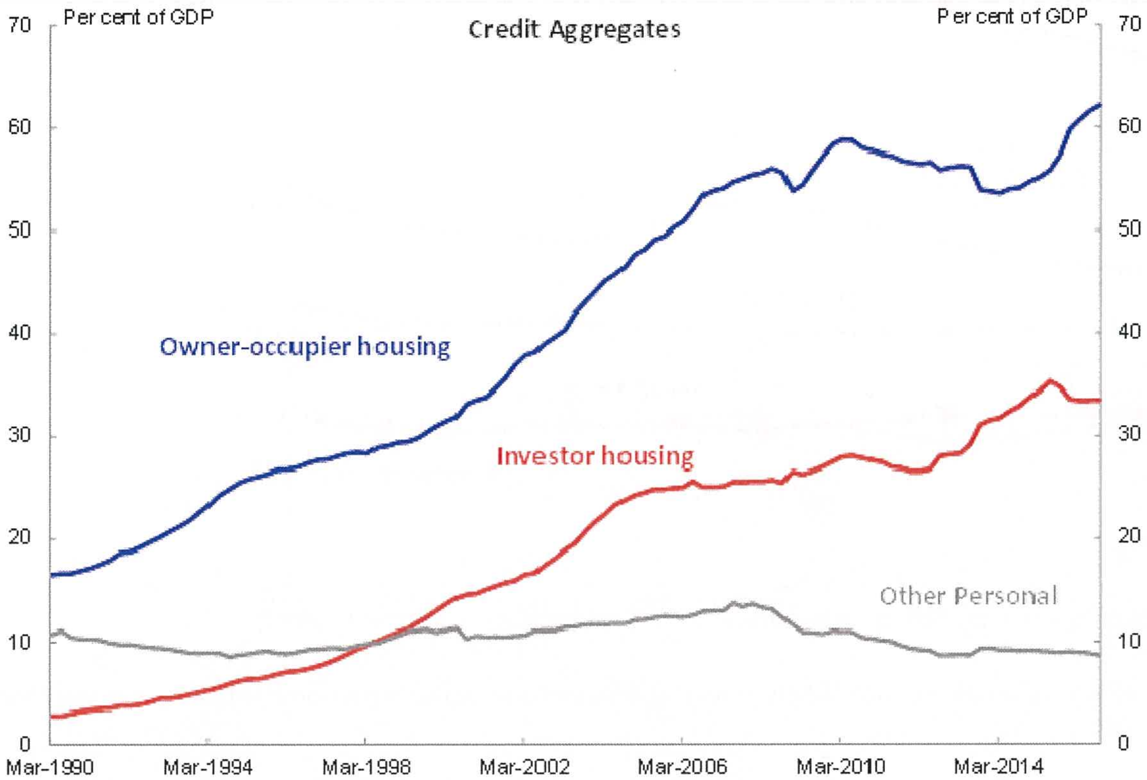
- Household debt-to-equity ratios spiked during the GFC. Despite subsequently moderating, the household debt-to-equity ratio remains above pre-GFC levels.



- However, the moderation in debt-to-equity ratios to date has been principally driven by rising asset prices. Debt has continued to rise in aggregate terms.
  - A circa 11.5 per cent fall in asset values would unwind all post-GFC deleveraging (as measured by debt-to-equity ratios).

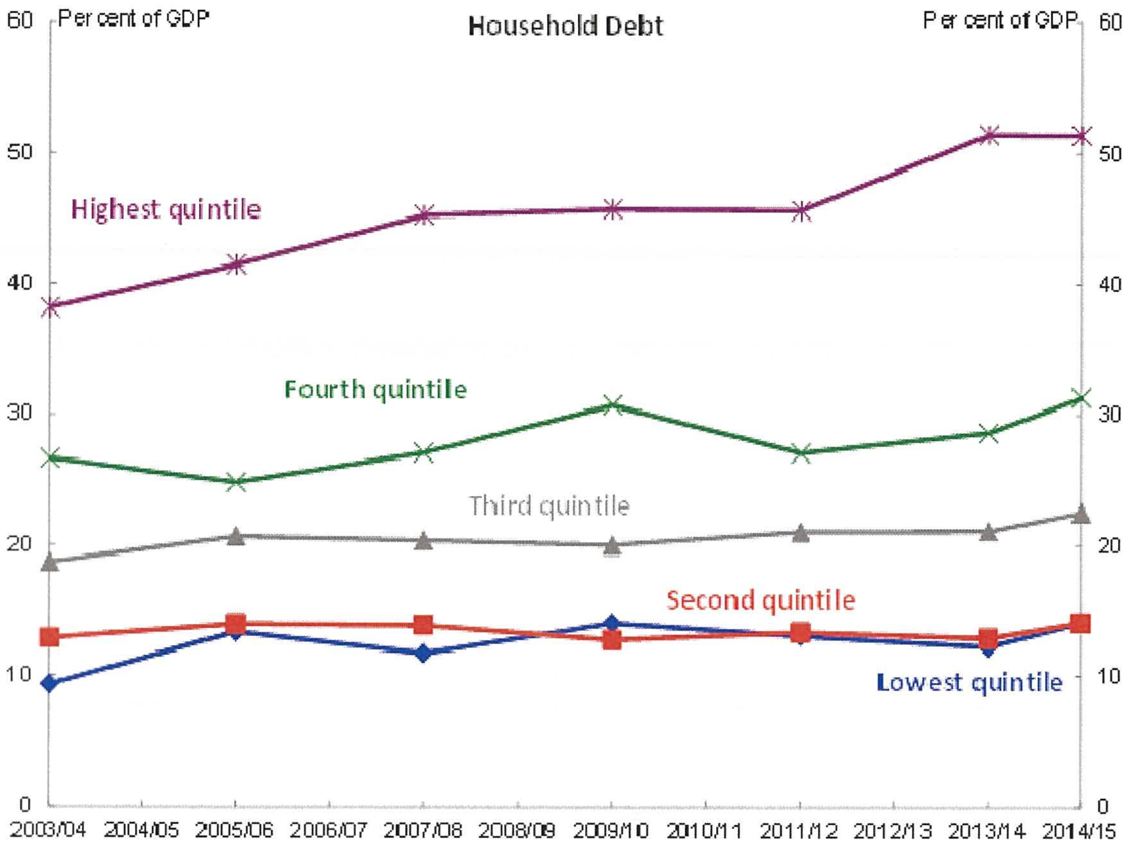


- However, this should not be taken to mean that households have reacted passively to recent developments.
  - While aggregate household debt has risen (driven by household mortgages), there has been a compositional shift in that debt, with the share of (higher interest rate) personal loans falling over recent years.

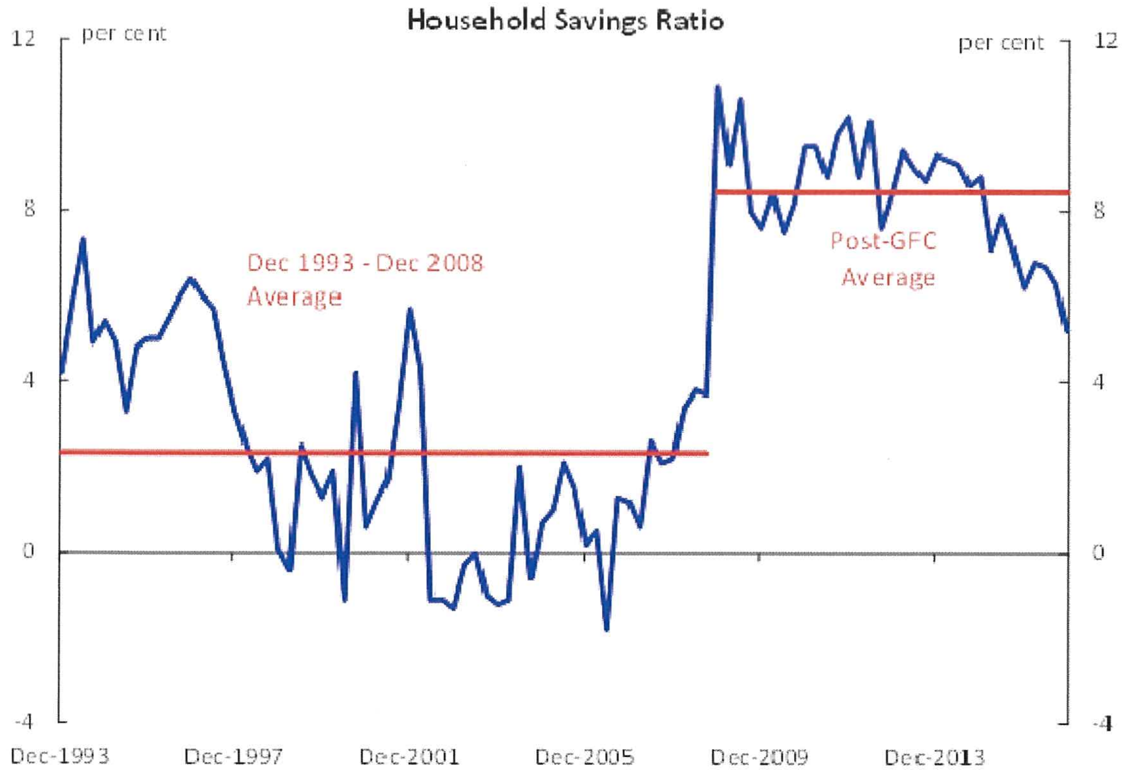


Source: RBA D2 Lending and Credit Aggregates

  - Moreover, the increase in aggregate household debt has been principally driven by the top two income quintiles.



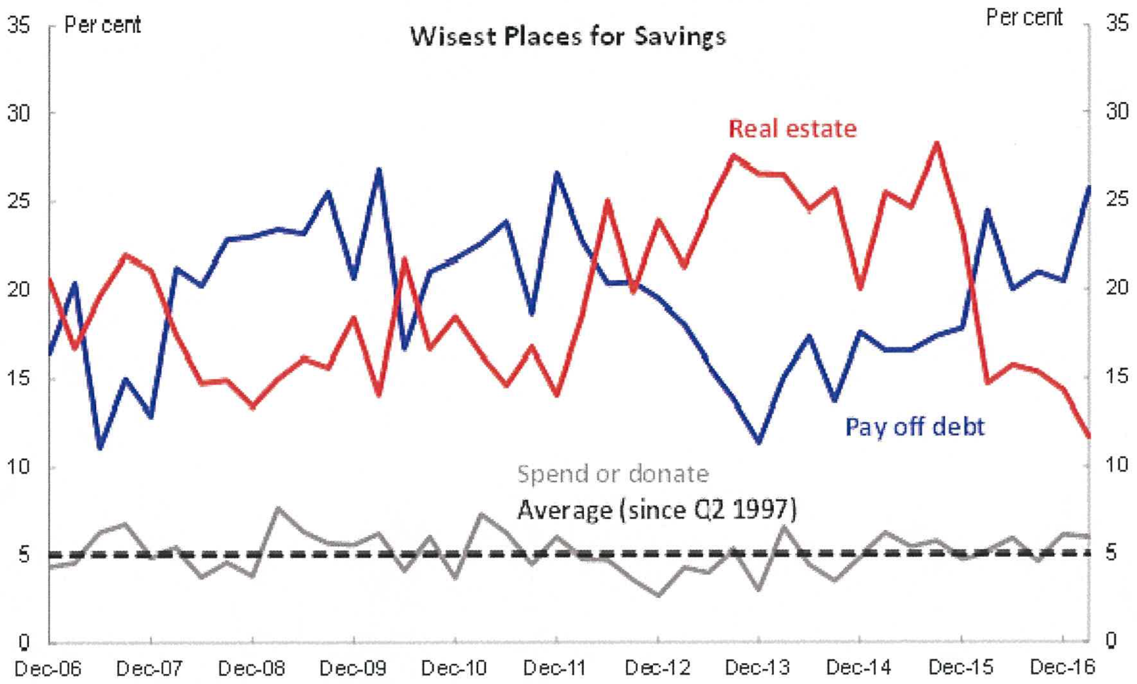
- And efforts to repair balance sheets may have also contributed to higher household savings over the post-GFC period.



Source: ABS 5206.0

- Nevertheless, asset price gains have been the principal driver of household balance sheet repair in Australia. But as questions about the likelihood of ongoing asset price gains emerge, we might expect households' focus on debt to sharpen, impacting consumption growth in the process. Indeed, recent survey results point to an increased focus on debt.

- For reference, were asset prices to remain unchanged, household debt levels would have to fall by about 6.5 per cent to return to pre-GFC debt-to-equity ratios.



Source: Westpac-Melbourne Institute Sentiment Survey

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Good afternoon all,

For your information, today the ABS released quarterly data on household finance and wealth (ABS Cat no. 5232.0), the outcomes of which are outlined below.

Household **net worth** rose by 2.2 per cent or $197.6 billion in the September quarter of 2016, to stand at $9,062 billion (chart 1). This result was driven by an increase in both **financial wealth** (up 3.7 per cent) and **non-financial assets** (up 1.7 per cent).

Household **non-financial wealth** rose by $115 billion (up 1.7 per cent) to $6,757 billion, with **residential land and dwellings** contributing $107 billion to this increase.

Household **financial wealth** increased by $83 billion (up 3.7 per cent) to $2,304 billion. In the September quarter financial assets rose by $103 billion, offsetting an increase in financial liabilities of $20 billion. A significant part of the rise in financial assets was driven by a rise in the value of assets of $64 billion, with further contribution from the acquisition of new financial assets of $39 billion.

Chart 1: Household net wealth

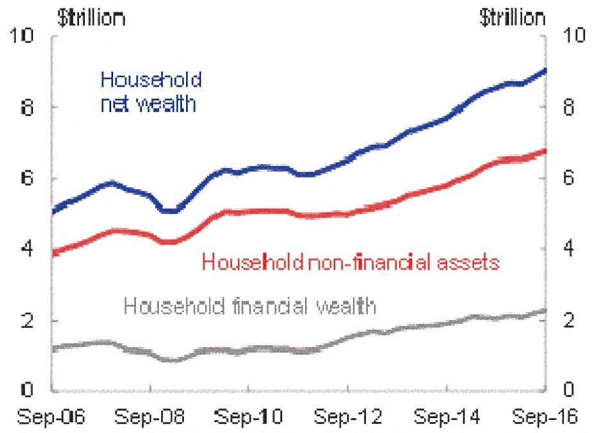
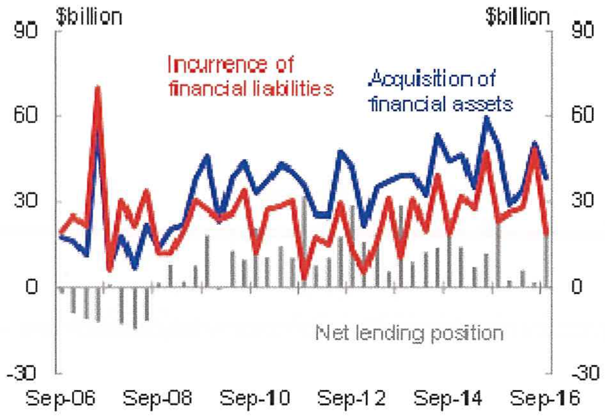


Chart 2: Household net lending position



The next release of ABS 5232.0 *Australian National Accounts: Finance and Wealth* will be on 30 March 2017.

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Good afternoon all,

For your information, today the ABS released quarterly data on household finance and wealth (ABS Cat no. 5232.0), the outcomes of which are outlined below.

Household **net wealth** rose 2.7 per cent or $231.5 billion in the June quarter of 2016, to stand at $8,891 billion (chart 1). This result was driven by a rise in **financial wealth** (up 4.3 per cent) and an increase in **non-financial assets** (up 2.1 per cent).

Household **non-financial assets** rose by $139.8 billion (up 2.1 per cent) to $6,686 billion, with **residential land and dwellings** contributing $131.9 billion to this increase.

Household **financial wealth** increased by $91.7 billion (up 4.3 per cent) to $2,205 billion. In the June quarter financial assets rose by $135.4 billion, offsetting an increase in financial liabilities of $43.8 billion. A significant part of this rise in assets was driven by a rise in the value of assets of $86.4 billion, with further contribution from the acquisition of new financial assets of $44.7 billion.

Chart 1: Household net wealth

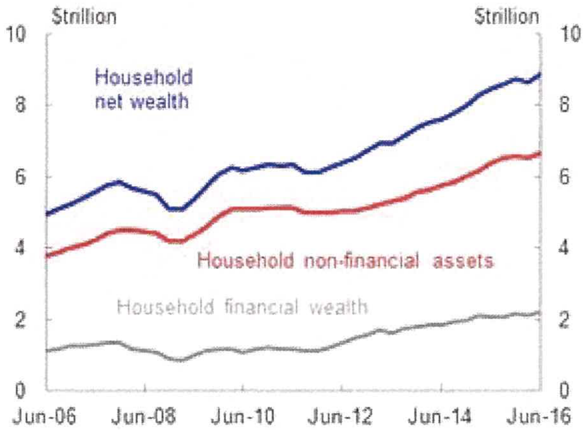
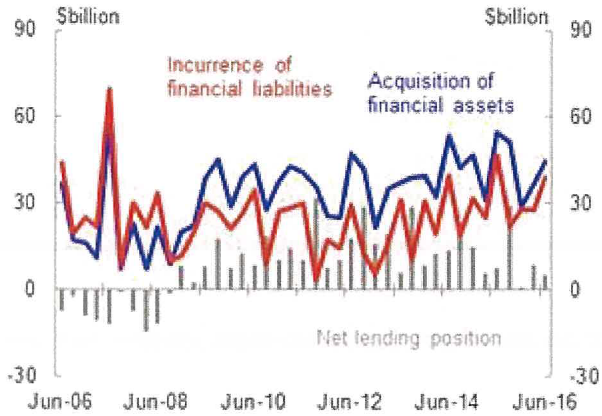


Chart 2: Household net lending position



The next release of ABS 5232.0 Australian National Accounts: Finance and Wealth will be on 15 December 2016.

Regards,

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Good afternoon all,

For your information, the ABS released data on **finance and wealth** for the December quarter of 2016 (ABS Cat no. 5232.0). The outcomes for the household sector are provided below.

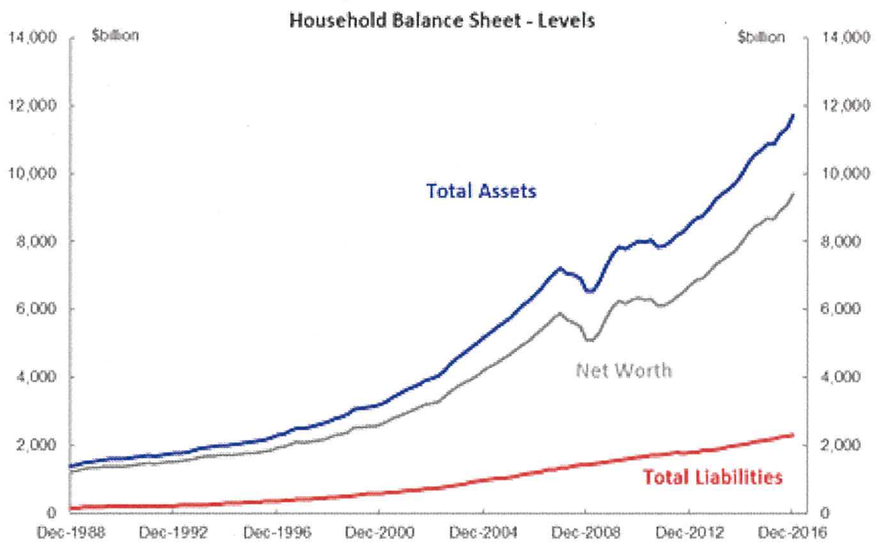
Household total assets rose by 3.2 per cent or $362.7 billion in the December quarter. In particular:

- **Financial assets** (including superannuation, shares, and cash holdings etc.) rose by 2.0 per cent or $89.9 billion.

- **Non-financial assets** (including residential land and dwellings etc.) rose by 4. 0 per cent or $272.8 billion to $7,039.8 billion. **Residential land and dwellings** contributed $261.4 billion to this increase.

Household liabilities rose by 1.5 per cent or $34.6 billion during the quarter.

As a result, **household net worth** rose by 3.6 per cent or $328.1 billion during the quarter to stand at $9,404.5 billion (see chart).



The next release of ABS 5232.0 *Australian National Accounts: Finance and Wealth* will be on 29 June 2017.

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Good afternoon all,

For your information, today the ABS released quarterly data on household finance and wealth (ABS Cat no. 5232.0), the outcomes of which are outlined below.

Household **net worth** fell by 0.2 per cent or $13 billion in the March quarter of 2016, to stand at $8,640 billion (chart 1). This result was driven by a decline in **financial wealth** (down 1.7 per cent), offsetting an increase in **non-financial assets** (up 0.4 per cent). This is the first decline in household net worth since the September quarter 2011.

Household **non-financial wealth** rose by $23 billion (up 0.4 per cent) to $6,570 billion, with **residential land and dwellings** contributing $15 billion to this increase.

Household **financial wealth** decreased by $36 billion (down 1.7 per cent) to $2,070 billion. In the March quarter financial assets fell by $8 billion, not enough to offset an increase in financial liabilities of $28 billion. A significant part of this decline in assets was driven by a decline in the value of assets of $48 billion, partially offset by acquisition of new financial assets of $38 billion.

Chart 1: Household net wealth

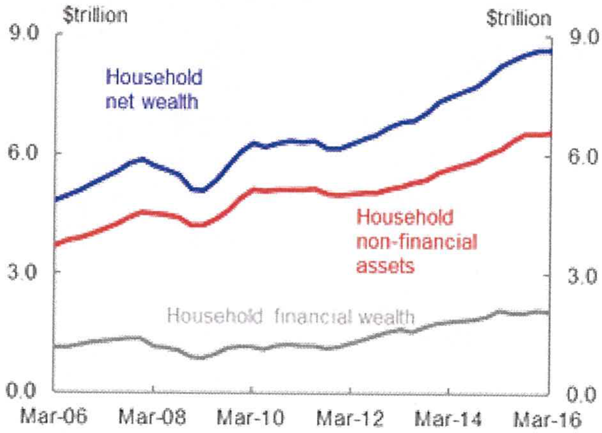
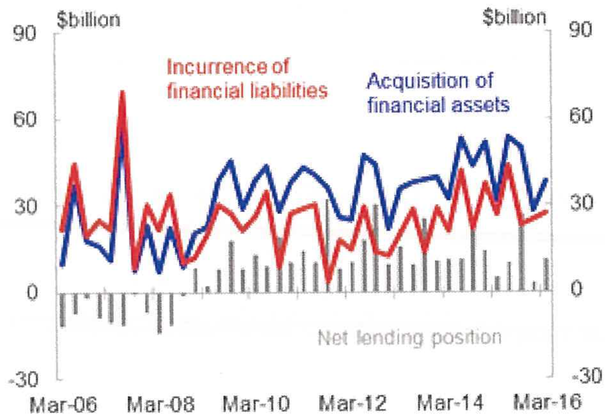


Chart 2: Household net lending position



The next release of ABS 5232.0 Australian National Accounts: Finance and Wealth will be on 29 September 2016.

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