

AUSTRALIAN MARKETS WEEKLY

Household debt around Australia



In this issue

Household debt around Australia 2

Calendar of economic releases 6

Forecasts 7

Analysis – Household debt around Australia

- Household debt is growing very slowly at present, up only 4% over the past year. Leverage has edged higher, though, reaching a new record high of 202% of annual household income amid even weaker growth in income. Equity in the housing stock should improve given house prices have picked up, but is currently near the multi-decade low of 70% reached in 2012.
- Constructing crude estimates of debt by state, debt is growing slowly across the country, with leverage edging higher given widespread weakness in household income. Leverage is highest in the largest states, with some deleveraging over the past twenty years in Western Australia and the NT where home equity has slumped on lower house prices.
- New loans have recently picked up, but weak incomes and already high levels of debt could constrain further borrowing. This is illustrated by the fact that despite the lowest mortgage rates since the 1950s, the debt-servicing ratio for households is near its 2008 peak, back when the cash rate was 7.25%.

The week ahead – RBA Board minutes; US-China trade; FOMC minutes; EZ PMIs

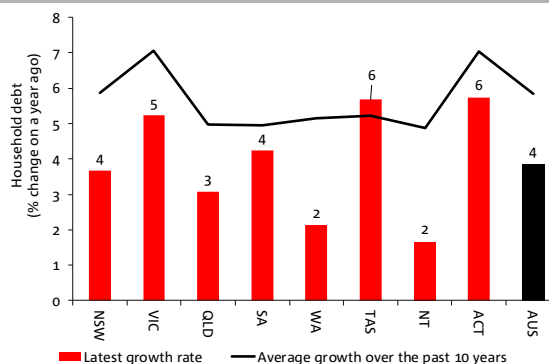
- In Australia, the RBA minutes on Tuesday should echo the November Statement on Monetary Policy, where the Board noted low rates meant it was approaching the limits of conventional policy, bringing closer the point at which “other policy options might come into play”. The minutes could elaborate on these limits, although we think it more likely they will be covered in Governor Lowe’s 26 November speech on unconventional policy.
- Globally, the US-China trade saga continues. In the US, regional manufacturing surveys are due, along with the NAHB index and housing starts. The FOMC minutes should reinforce the Fed’s on hold message. The eurozone PMIs on Friday may show continued stabilisation or even a modest improvement. Election speculation dominates in the UK.

Key markets over the past week

	Last	% chg week	Last	bp/% chg week
AUD	0.6810	-0.6	RBA cash	0.75 0
AUD/CNY	4.78	-0.5	3y swap	0.80 -11
AUD/JPY	74.1	-0.8	ASX 200	6,756 -0.2
AUD/EUR	0.616	-0.8	Iron ore	83 8.6
AUD/NZD	1.064	-1.2	Brent oil	63.3 1.8

Source: Bloomberg

Chart of the week: Weak debt around Australia



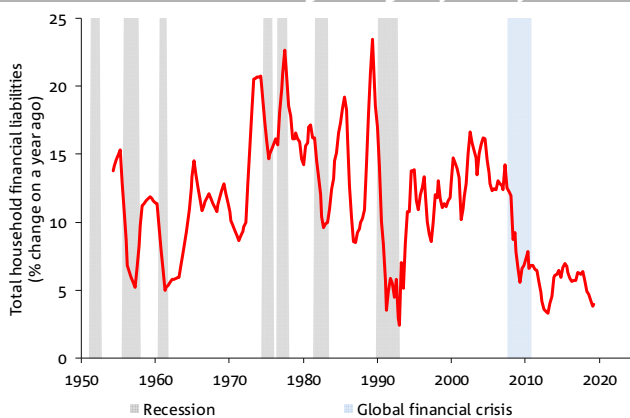
Household debt around Australia

- Household debt is growing very slowly at present, up only 4% over the past year. Leverage has edged high, though, reaching a new record high of 202% of annual household income as growth in income is weaker still. Equity in the housing stock should improve given house prices have picked up, but is currently near the multi-decade low of 70% reached in 2012.
- Constructing crude estimates of debt by state, debt is growing slowly across the country, with leverage edging higher given widespread weakness in household income. Leverage is highest in the largest states, with some deleveraging over the past twenty years in Western Australia and the NT where home equity has slumped on lower house prices.
- New loans have recently picked up, but weak incomes and already high levels of debt could constrain further borrowing. This is brought home by the fact that despite the lowest mortgage rates since the 1950s, the debt-servicing ratio for households is near its 2008 peak, back when the cash rate was 7.25%.

Household debt is growing very slowly given weak growth in mortgages

Household financial liabilities have reached the \$2.5 trillion mark, but are growing very slowly, increasing by only 4% over the past year. This is extremely slow growth by modern standards, beaten only by the 3% low after the global financial crisis and the post-WW2 low of 2% during the early 1990s recession.

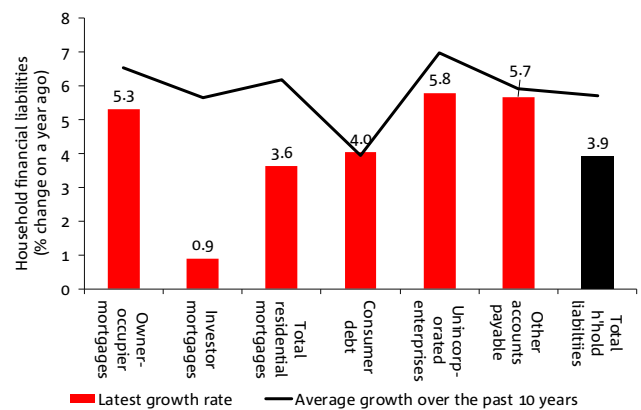
Chart 1: Household debt is growing very slowly



Source: Australian Bureau of Statistics, Melbourne Institute, Reserve Bank of Australia, National Australia Bank

The slowdown in growth has been broadly based, but is most pronounced in residential mortgages, which account for almost 75% of household financial liabilities. Mortgages have increased by about 3½% over the past year, compared with average annual growth over the past ten years of 6%. Most of the weakness in mortgages reflects lending to investors, where debt has increased by only 1% over the past year, relative to average growth of about 5½%.

Chart 2: The slowdown in growth has been led by residential mortgages

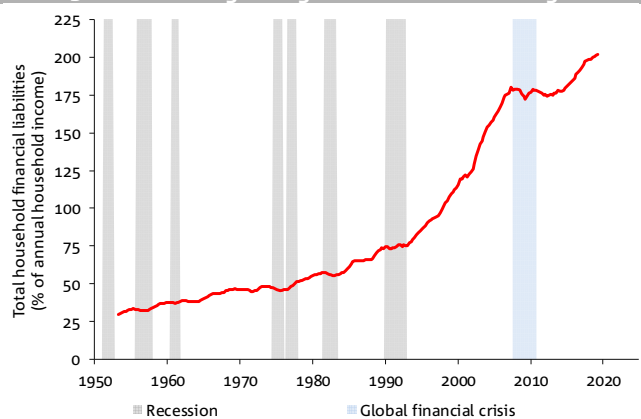


Source: Australian Bureau of Statistics, Reserve Bank of Australia, National Australia Bank

Leverage has reached a new record high given income is growing more slowly than debt

However, even with such weak growth in debt, household leverage is still edging higher given household income is increasing at an annual rate of just over 2%. As a result, household gearing now stands at a fresh all-time high of 202% of annual income. By way of comparison, leverage was 120% of income in 2000 and 178% of income in 2010.

Chart 3: Household gearing is at a new record high



Note: Estimates of household income prior to 1959 are experimental NAB calculations. Source: Australian Bureau of Statistics, Melbourne Institute, Reserve Bank of Australia, National Australia Bank

Household equity in housing is almost back at the multi-decade low of 70% reached in the early 2010s

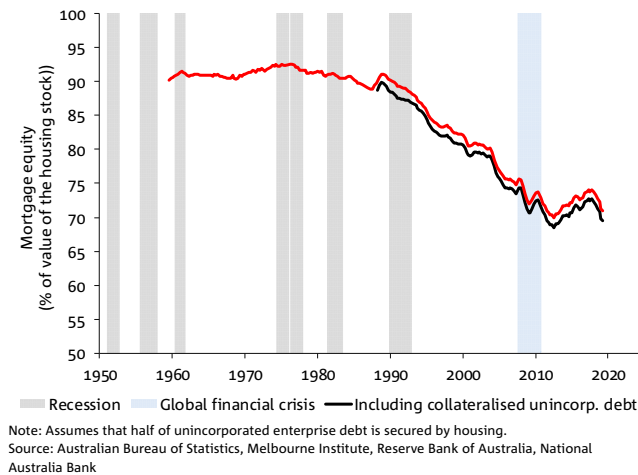
Gauging leverage from a different perspective, mortgage debt has risen to 29% of the value of the housing stock, meaning that equity in the housing stock has fallen to 71%. This is almost back at the historic low of 70% reached in 2012, which marked the trough after decades of decline.

The reduction in equity might seem surprising given the weak growth in mortgages, but the value of the housing stock has fallen about 5% over the past year as lower house prices have more than offset a 2% increase in the number of homes. With house prices recently rebounding, this suggests that home equity should improve modestly from its current low level.

Note, though, that effective equity is a little lower than we have estimated given many unincorporated

enterprises – which are counted in the household sector – rely on housing as collateral for loans. The Reserve Bank reports that at least 75% of small business loans are collateralised, with around one-half to two-thirds of this lending secured by housing.¹ Assuming one-half of unincorporated loans are collateralised by housing reduces equity to 69% of the value of the housing stock, almost back at the 2012 low of 68%.

Chart 4: Household equity nearly matches the historic low reached in 2012

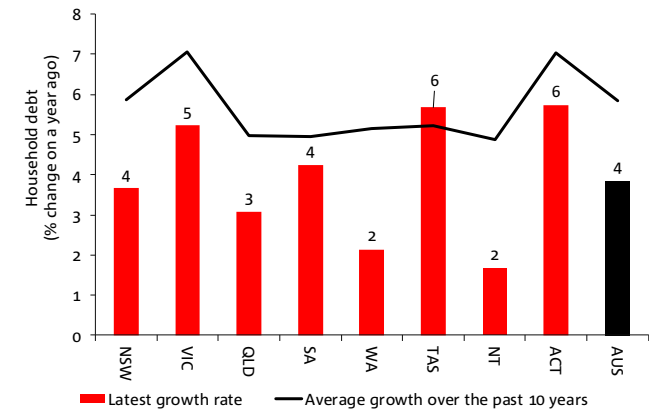


Household debt is growing slowly across the country

A regional split of household financial liabilities is not available, but we have estimated a crude state split of household debt using financial-year data on interest payments from the state accounts (state interest payments are derived from accumulating state figures on new loans). This involved making the strong assumption that loan characteristics were similar across states and meant that we left out “other accounts payable”, which form a small part of total liabilities.

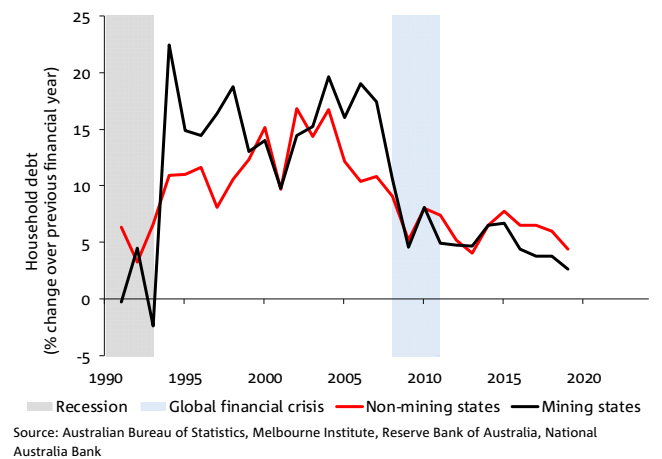
On this basis, total household debt is growing more slowly than the past ten years in almost every region, with the slowdown most pronounced in Western Australia and the Northern Territory (debt has increased by 2% over the past year in both jurisdictions). The exception is Tasmania, where growth is slightly higher than average at 6% over the past year.

Chart 5: Household debt is growing more slowly in most states



Constructing a broad mining/non-mining split of household debt, where we classed Queensland, Western Australia and the Northern Territory as mining states, did not make a major difference to the analysis.² Debt in the mining states is growing at an annual rate of only 3%, but growth in debt in the rest of the country has also cooled and is only slightly higher at 4%. This suggests that while the end of the mining construction boom has contributed to slower growth in debt in the resource-rich states, slower growth across the country points to the greater role of common shocks such as tighter credit conditions and weaker growth in incomes.

Chart 6: Debt is growing more slowly in the mining states, but growth has also cooled in the rest of Australia



Leverage has increased over recent years across Australia

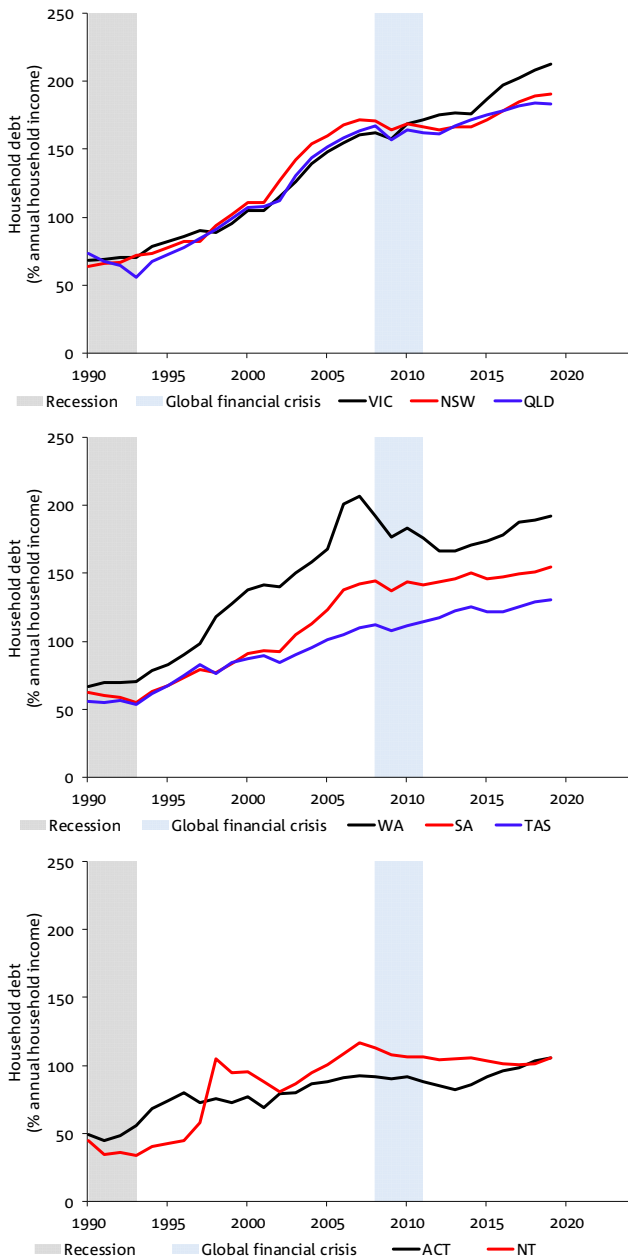
Using our crude split of household debt, we calculated leverage by state. Leverage is highest in the largest states – debt is currently 212% of annual income in Victoria, 191% in New South Wales and 183% in Queensland – with some deleveraging over the past twenty years in Western Australia and Northern

¹ See Ellis Connolly and Ben Jackman, *The availability of business finance*, Reserve Bank of Australia Bulletin, December quarter 2017.

² In 2018-19, mining’s share of state GDP was 36% in Western Australia, 19% in the Northern Territory and 13% in Queensland. The shares ranged from 0-3% in the rest of the country.

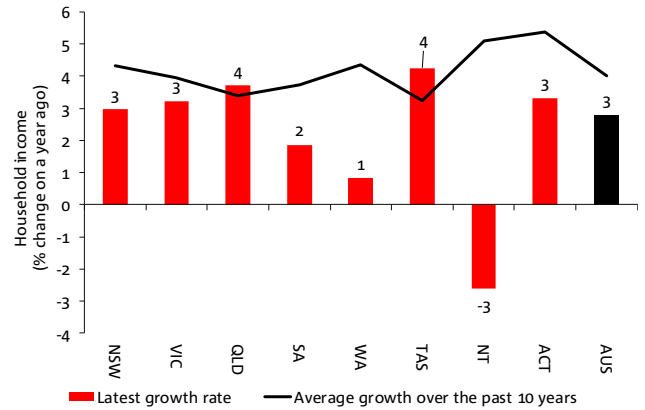
Territory. Over the past few years, though, gearing has increased in every region as household income has been weaker than slow growth in debt, particularly in Western Australia and Northern Territory.

Chart 7: Household leverage is highest in the largest states and has picked up in recent years ...



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

Chart 8: ... given debt is growing faster than income across the country

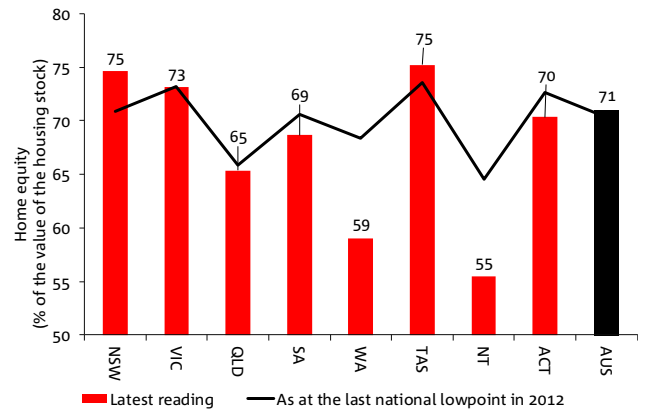


Source: Australian Bureau of Statistics, National Australia Bank

Home equity varies sharply across the country

As mentioned above, nationally equity is currently 71% of the value of the housing stock, almost matching the multi-decade level of 70% in 2012. Estimating equity at the state level, there has been a substantial house-price-driven decline in home equity in Western Australia (-9pp) and the Northern Territory (-9pp) to the lowest levels across the country of 59% and 55%, respectively. This contrasts with New South Wales, where equity has increased by 4pp over the period to 75%, which, along with Tasmania, is the highest share of any state.

Chart 9: Home equity has fallen in Western Australia and the Northern Territory and increased in New South Wales



Source: Australian Bureau of Statistics, National Australia Bank

High debt levels leave households vulnerable to any shock to the labour market and underpin high debt-servicing ratios

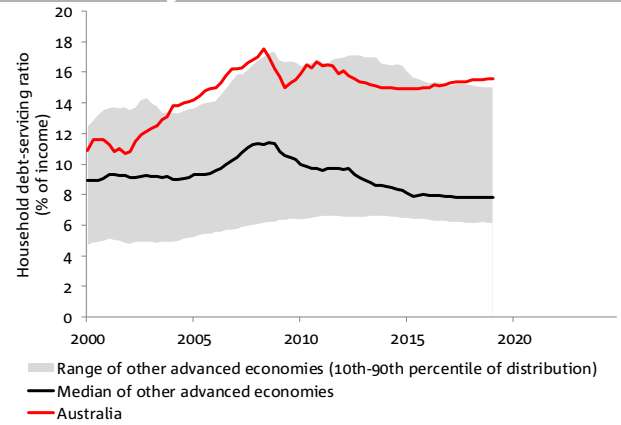
The co-existence of high levels of housing leverage and housing equity in New South Wales and Victoria is surprising, but high leverage still means these states are still vulnerable to any economic shock that disrupts their labour markets.

The deleveraging in Western Australia and the Northern Territory from the broad peak of the mining boom – while not sustained – is also interesting in that there is no parallel at the national level. Nonetheless, the experience of those jurisdictions reinforces how high

levels of debt can compound a drawn-out adjustment in consumer spending to falling house prices.

More generally, while new loans have picked up over recent months, weak growth and already high levels of debt may constrain further borrowing even as mortgage rates have fallen to the lowest level since the 1950s. This is brought home by the fact that the current debt servicing ratio for households of 16% of income is not far from the 18% peak in 2008 when the cash rate was 7¼%, reflecting the high level of mortgages.

Chart 10: Despite low interest rates, high debt-servicing ratios reflect high debt levels



Source: Bank for International Settlements, National Australia Bank

Kieran Davies

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday 18 November 2019								
US	Fed's Mester speaks at University of Maryland			--			17.00	4.00
Tuesday 19 November 2019								
AU	RBA's Kent takes part in panel on benchmarks			--			22.05	9.05
AU	RBA Minutes	Nov		--			0.30	11.30
US	Housing Starts	Oct		1315		1256	13.30	0.30
US	Fed's Williams speaks at capital markets conference						14.00	1.00
Wednesday 20 November 2019								
NZ	Dairy Auction Avg. Winning Price MT	Nov 19		--		3446		early am
AU	Westpac Leading Index MoM	Oct		--		-0.08	23.30	10.30
CA	CPI YoY	Oct		--		1.9	13.30	0.30
CA	CPI Core- Common YoY%	Oct		--		1.9	13.30	0.30
US	FOMC Meeting Minutes	Oct 30		--			19.00	6.00
Thursday 21 November 2019								
NZ	Credit Card Spending YoY	Oct		--		4.8	2.00	13.00
JN	All Industry Activity Index MoM	Sep		--		0	4.30	15.30
US	Philadelphia Fed Business Outlook	Nov		6.65		5.6	13.30	0.30
US	Fed's Mester speaks at financial stability conference						13.30	0.30
EC	Consumer Confidence	Nov A		--		-7.6	15.00	2.00
US	Fed's Kashkari speaks						15.10	2.10
Friday 22 November 2019								
JN	Natl CPI YoY	Oct		--		0.2	23.30	10.30
JN	Jibun Bank Japan PMI Mfg	Nov P		--		48.4	0.30	11.30
EC	ECB's Lagarde speaks in Frankfurt						8.00	19.00
GE	Markit Germany Services PMI	Nov P		--		51.6	8.30	19.30
GE	Markit/BME Germany Manufacturing PMI	Nov P		--		42.1	8.30	19.30
EC	Markit Eurozone Manufacturing PMI	Nov P		--		45.9	9.00	20.00
CA	Retail Sales MoM	Sep		--		-0.1	13.30	0.30
US	Markit US Manufacturing PMI	Nov P		--		51.3	14.45	1.45
US	Markit US Services PMI	Nov P		--		50.6	14.45	1.45
US	U. of Mich. Sentiment	Nov F		--		95.7	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Dec 3	0.75	0.75		0.75		
US, Federal Reserve		Dec 11	1.5/1.75	1.5/1.75		1.5/1.75		
Europe, ECB		Dec 12	-0.50	-0.50		-0.50		
Japan, BoJ		Dec 19	-0.10	-0.10		-0.10		
UK, BOE		Dec 19	0.75	0.75		0.75		
New Zealand, RBNZ		Feb 12	1.00	1.00		1.00		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Time

FORECASTS

Economic Forecasts																					
	Annual % change				Quarterly % change																
	2018	2019	2020	2021	2018				2019				2020				2021				
Australia Forecasts	2018	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Household Consumption	2.6	1.5	1.9	2.1	0.5	0.8	0.3	0.4	0.3	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Underlying Business Investment	1.2	-2.4	0.0	3.4	0.7	-0.8	-2.1	0.1	-0.2	-0.6	-0.7	-0.9	0.1	0.7	0.9	0.2	1.0	1.0	1.0	1.0	1.1
Residential Construction	4.8	-8.9	-9.6	0.6	3.3	2.8	0.1	-2.8	-2.2	-4.4	-3.1	-3.1	-2.9	-1.7	-1.5	-0.2	0.6	0.8	1.0	0.8	0.8
Underlying Public Spending	4.3	4.2	3.8	3.5	1.4	-0.1	2.1	0.8	1.1	1.4	0.4	0.8	1.1	1.1	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.8	1.4	-0.1	-0.2	0.6	0.0	0.4	-0.2	0.4	0.6	0.2	0.1	0.1	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Inventories (a)	0.1	-0.4	0.1	0.1	0.0	0.2	-0.3	0.2	-0.1	-0.5	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand (q/q %)	-	-	-	-	0.9	0.5	0.4	0.2	0.1	0.3	0.1	0.3	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Dom Demand (y/y %)	2.8	0.9	1.7	2.7	3.5	3.3	2.5	2.0	1.2	1.0	0.7	0.8	1.1	1.4	1.9	2.2	2.5	2.6	2.8	2.9	2.9
Real GDP (q/q %)	-	-	-	-	1.0	0.7	0.3	0.1	0.5	0.5	0.3	0.5	0.5	0.6	0.6	0.6	0.7	0.6	0.6	0.7	0.7
Real GDP (y/y %)	2.7	1.6	2.1	2.5	3.1	3.1	2.6	2.2	1.7	1.4	1.5	1.9	1.9	2.0	2.3	2.4	2.5	2.5	2.6	2.6	2.6
CPI headline (q/q %)	-	-	-	-	0.4	0.4	0.4	0.5	0.0	0.6	0.5	0.6	0.4	0.4	0.5	0.6	0.5	0.5	0.6	0.7	0.7
CPI headline (y/y %)	1.9	1.6	2.0	2.2	1.9	2.1	1.9	1.8	1.3	1.6	1.7	1.7	2.1	1.9	1.9	1.9	2.0	2.2	2.3	2.4	2.4
CPI underlying (q/q %)	-	-	-	-	0.5	0.5	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
CPI underlying (y/y %)	1.8	1.4	1.6	1.9	1.9	1.8	1.8	1.8	1.5	1.4	1.4	1.4	1.6	1.6	1.6	1.6	1.8	1.9	2.0	2.1	2.1
Private wages (q/q %)	-	-	-	-	0.5	0.6	0.5	0.6	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Private wages (y/y %)	2.1	2.3	2.5	2.8	1.9	2.1	2.1	2.3	2.4	2.3	2.3	2.3	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8	2.8
Unemployment Rate (%)	5.3	5.2	5.3	5.4	5.5	5.6	5.1	5.0	5.1	5.2	5.3	5.3	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.5	5.5
Terms of trade	2.0	6.1	-6.3	-1.8	3.3	-1.3	1.1	3.0	3.1	1.5	0.9	-4.6	-1.9	-1.9	0.0	-1.9	-0.3	0.2	0.2	0.2	0.6
Current Account (% GDP)	-2.1	0.8	-0.2	-0.8	-2.2	-2.7	-2.2	-1.4	-0.2	1.2	1.7	0.7	0.3	-0.1	-0.3	-0.7	-0.8	-0.8	-0.9	-0.8	-0.8

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	18-Nov	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Majors						
AUD/USD	0.681	0.69	0.68	0.69	0.70	0.71
NZD/USD	0.64	0.65	0.65	0.65	0.66	0.67
USD/JPY	108.8	110	109	109	108	110
EUR/USD	1.11	1.12	1.14	1.16	1.16	1.17
GBP/USD	1.29	1.33	1.35	1.35	1.35	1.33
USD/CNY	7.01	7.00	7.05	7.00	6.90	6.85
USD/CAD	1.32	1.30	1.31	1.30	1.30	1.31
USD/CHF	0.99	0.99	0.98	0.96	0.96	0.96

Australian Cross Rates

	18-Nov	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
AUD/NZD	1.06	1.06	1.05	1.06	1.06	1.06
AUD/JPY	74.1	76	74	75	76	78
AUD/EUR	0.62	0.62	0.60	0.59	0.60	0.61
AUD/GBP	0.53	0.52	0.50	0.51	0.52	0.53
AUD/CNY	4.78	4.83	4.79	4.83	4.83	4.86
AUD/CAD	0.90	0.90	0.89	0.90	0.91	0.93
AUD/CHF	0.67	0.68	0.67	0.66	0.67	0.68

Interest Rate Forecasts

	18-Nov	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Australian Rates						
RBA cash rate	0.75	0.75	0.50	0.50	0.50	0.50
3 month bill rate	0.90	0.85	0.60	0.60	0.60	0.60
3 Year Swap Rate	0.80	0.90	0.90	0.95	0.95	1.00
10 Year Swap Rate	1.31	1.25	1.25	1.30	1.35	1.45
Offshore Policy Rates						
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75
ECB deposit rate	-0.50	-0.60	-0.70	-0.70	-0.70	-0.70
BoE repo rate	0.75	0.75	0.75	0.75	0.75	1.00
BoJ excess reserves rate	-0.10	-0.20	-0.20	-0.30	-0.30	-0.30
RBNZ OCR	1.00	0.75	0.50	0.50	0.50	0.50
China 1yr lending rate	4.35	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	13.0	12.50	12.00	12.00	12.00	12.00
10-year Bond Yields						
Australia	1.15	1.10	1.10	1.10	1.10	1.20
United States	1.82	1.70	1.70	1.70	1.70	1.80
New Zealand	1.40	0.95	0.95	1.05	1.10	1.30

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

	2018	2019	2020	2021
Australia	2.7	1.6	2.1	2.5
United States	2.9	2.2	1.6	1.8
Eurozone	1.9	1.1	1.1	1.4
United Kingdom	1.4	1.2	1.2	1.5
Japan	0.8	1.0	0.2	0.9
China	6.6	6.3	6.0	5.8
India	6.8	5.7	6.8	7.1
New Zealand	2.9	2.1	2.4	2.0
World	3.6	3.1	3.2	3.5

Commodity prices (\$US)

	18-Nov	Dec-19	Mar-20	Jun-20	Sep-20
Brent oil	63.3	70	70	75	75
Gold	1466	1450	1483	1518	1547
Iron ore	na	76	72	68	71
Hard coking coal*	138	170	165	160	155
Thermal coal	64	90	93	90	88
Copper	5826	6300	6225	6150	6125
Aus LNG**	10	12	12	12	12

* FOB quarterly contract prices (thermal coal is JFY contract)

** Implied Australian LNG export prices

CONTACT DETAILS

Market Economics

Kieran Davies
+61 2 9237 1406
kieran.davies@nab.com.au

Tapas Strickland
Senior Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Kaixin Owyong
Economist, Markets
+61 2 9237 1980
kaixin.owyong@nab.com.au

Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9237 1836
ivan.colhoun@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan.oster@nab.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.