

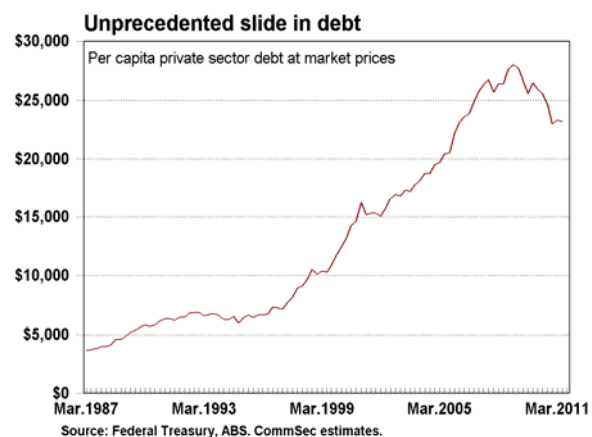
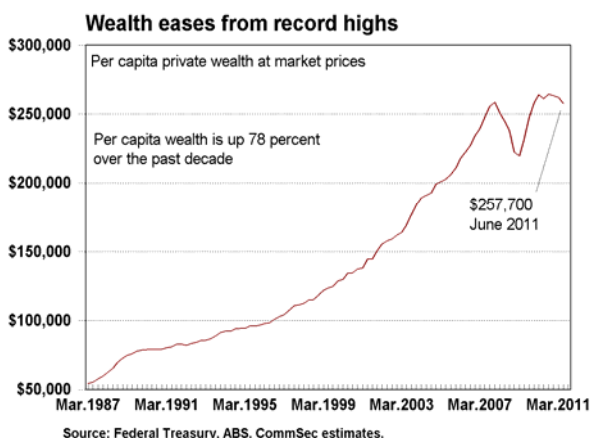
## Wealth and debt ease; Tight rental market

### Modellers' Database: Wealth, debt, financial stocks

- **Wealth eases from record highs.** Wealth held by Australians in property, shares and other assets has eased for the third straight quarter. The latest data produced by Federal Treasury and the Australian Bureau of Statistics shows that private sector wealth fell by 1.2 per cent in the June quarter, in response to falling house and share prices.
- **Per capita wealth.** CommSec estimates that each Australian has wealth equivalent to \$257,700, down \$4,300 over the quarter.
- **Debt levels fell again.** Private sector debt fell for the fifth time in six quarters. Since peaking in December 2008, debt has fallen by 17 per cent. Per capita debt fell from \$23,323 to \$23,212.
- **Overseas holdings of Aussie shares fell.** The value of Australian shares held by foreign investors fell by 2.0 per cent in the June quarter to \$734.7 billion.
- **The rental market remains tight.** The rental vacancy rate hit a 2½ year low of 1.63 per cent in the June quarter.

#### What does it all mean?

- Australians can be a bit gloomy sometimes. But really, there isn't a lot of justification. In fact over the past 10 years, even accounting for inflation and the rising population, wealth has lifted by almost 42 per cent. Not every Australian would be better off by that magnitude, but overall Australian consumers have become wealthier.
- Certainly each of us had been doing far better before the global financial crisis came along. In fact in the decade to March 2007, real per capita wealth lifted by an extraordinary 85 per cent – the best decade growth ever recorded. So we are doing OK at present, but it's clear we had been doing even better before we were blind-sided by the Europeans and Americans.
- Over the past 2½ years, per capita wealth has lifted by around \$35,000 while debt has fallen by \$4,700. Clearly Australian families have been getting their financial houses in order – to what extent can Europeans and Americans claim the same degree of improvement?
- While the big picture story is clearly favourable, certainly wealth has eased modestly over the past three quarters. So until home and share prices start to rise yet again, consumer conservatism will continue. Overall, this would



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suggest further difficult times ahead for retailers, but the better-than-expected inflation data does open the door for a rate cut, and therefore the potential for stronger consumer spending and asset purchases,

## What do the figures show?

### Modellers' database

- Federal Treasury's "**Modellers' Database**" shows that Australia's **private sector wealth** stood at \$5,835.2 billion as at the end of June 2011, down 1.2 per cent in the quarter after falls of 0.1 per cent in each of the two previous quarters. Wealth stands 0.3 per cent higher than a year ago.
- CommSec estimates that per capita wealth stood at \$257,700 as at the end of June, down \$4,300 over the quarter and down \$6,800 on the record high set in September 2010.
- In real terms, CommSec estimates that private sector wealth fell by 1.6 per cent in the March quarter to stand 2.1 per cent lower over the year. Over the past decade private sector real wealth has lifted by 78.2 per cent. And real wealth per capita has risen by 41.9 per cent.
- Unfortunately no detailed break-up is provided of the quarterly wealth figures calculated by Federal Treasury but both house and share prices eased in the June quarter.
- **Private sector debt** fell for the fifth time in six quarters, easing by just under 0.1 per cent in the June quarter from \$525.8 billion to \$525.6 billion. Debt is down 7.9 per cent on a year ago. Per capita debt eased from \$23,323 to \$23,212. Since peaking in December 2008, debt has fallen by 17 per cent.
- **Overseas holdings of Australian equity** fell by 2.0 per cent in the June quarter to \$734.7 billion but are still 9.7 per cent higher than a year ago.
- **The rental vacancy rate** fell to a 2½ year low of 1.63 per cent in the June quarter, well below the long-term average of 2.7 per cent.

## What is the importance of the economic data?

- The Australian Bureau of Statistics (ABS) and Federal Treasury release the **Modellers' Database** each quarter. The ABS notes: "the Modellers' Database consists of over 500 quarterly times series constructed from the NIF and TRYM econometric models. They are useful to economists, econometricians, financial analysts and students.

## What are the implications for interest rates and investors?

- Wealth continues to ease from record highs. And while the declines have been modest, it still acts as a brake on consumer spending. The declines in both wealth and debt levels give the Reserve Bank even more comfort about delivering a rate cut next week.
- A rate cut will clearly be discussed by the Reserve Bank Board members on Melbourne Cup day. But we reserve judgement about whether the RBA actually follows through with a rate reduction until European leaders announce measures to deal with the region's debt crisis tomorrow morning. Clearly it could go either way. If the seeming impossible does occur – a lasting solution to the crisis and major celebrations on equities markets – then the RBA may elect to stay on the interest rate sidelines for another month or so.
- The fall in the rental vacancy rate explains why housing costs remain high, putting upward pressure on inflation and downward pressure on consumer spending. Simply, governments should be doing more to increase housing supply.

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