

AUSTRALIAN BUREAU OF STATISTICS

SUBMISSION TO

THE SENATE ECONOMICS REFERENCES COMMITTEE

**INQUIRY INTO THE POSSIBLE LINKS BETWEEN HOUSEHOLD
DEBT, DEMAND FOR IMPORTED GOODS AND AUSTRALIA'S
CURRENT ACCOUNT DEFICIT**

Australian Bureau of Statistics
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Australian Bureau of Statistics Submission to the Senate Economics References Committee Inquiry into Possible links between household debt, demand for imported goods and Australia's current account deficit

Introduction

This submission provides a broad statement of the types of data that the Committee might find useful in answering the questions posed and gives an initial insight into the types of issues that might be encountered in using these data. The submission does not give suggestions or comments regarding policy settings or regulatory matters as this is not the role of the ABS. The ABS has no concerns about the Committee making this submission public.

2 From a statistical perspective, there are no simple, one-number answers that capture the links between household debt, the demand for imported goods and the current account deficit. Nonetheless, there is a wide range of relevant data that might be used to analyse the possible links and which can directly target some of the questions posed in the inquiry. In some cases, there are issues with regard to the data that should be considered before using the data in analysis. These issues relate particularly to the concepts, definitions and coverage underlying the data.

3 This submission is structured broadly in line with the first five questions posed by the Committee.

Data related to analysing the current levels of household debt

4 General discussion and commentary around the level of household debt tends to focus on the gross debt or liabilities of households. A significant proportion of household debt is in the form of mortgages but there are other components of the total liabilities of the household sector. Information on the level and composition of liabilities of the household sector and how these have changed over time are presented in the *Australian National Accounts: Financial Accounts* (cat.no. 5232.0) released quarterly by the ABS. The benefit of using this data source is that the data are compiled according to well defined international standards and the dataset ensures a consistency and coherence in measurement across the household and other sectors (corporations, government and the rest of the world). Thus, for the purposes of looking at linkages between the household sector and other parts of the economy this dataset is particularly well suited.

5 As well as analysing household liabilities it is also relevant to consider the broader balance sheet of households by also considering household assets. Both non-financial assets such as houses and land, and financial assets such as shares - might be changing over time in level and composition. The difference between total assets and total liabilities is net worth. Analysis of this variable may give a different perspective to analysis focused solely on liabilities. Information on household financial assets is provided in 5232.0. A

comprehensive household balance sheet is released in the annual publication *Australian System of National Accounts* (cat.no 5204.0), along with balance sheets for other sectors and the nation as a whole. These balance sheets are consistent with the data released in the financial accounts publication mentioned above and have the same benefit of providing a coherent view across the economy.

6 In order to provide information on debt servicing and similar types of analytical ratios (eg debt to income ratios) information contained in household income accounts are relevant. These accounts provide measures of gross household income, gross household disposable income, net household disposable income (which adjusts for depreciation costs) and measures of interest flows. Household income accounts are released quarterly in *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0) and annually in 5204.0.

7 A fourth perspective that might be used to analyse patterns of household debt concerns the distribution of household debt and household wealth across different types of household. There are three relevant pieces of information to assist such analysis. The first is data collected in the 2002 General Social Survey (GSS) on selected household assets and liabilities. These data have been presented in an article "Household assets, liabilities and financial stress" in *Australian Social Trends, 2004* (cat. no. 4102.0). The second is ABS analytical work that combines the household balance sheet data released in 5204.0 (mentioned above) and data from ABS household surveys to generate modelled estimates of wealth by household type. This work was released in ABS Working Paper 1351.0 (2202/1) *Experimental Estimates of the Distribution of Household Wealth, Australia, 1994-2000*. There are plans to enhance this analysis through use of the recently collected detailed household asset and liability data from the 2003-04 Survey of Income and Housing. The third set of information is analysis of the Household Income and Labour Dynamics in Australia (HILDA) dataset. A recent example of such analysis is *Household Debt in Australia*, AMP.NATSEM Income and Wealth Report Issue 9 November 2004.

8 In using the data described above there are a number of issues which need to be kept in mind.

- *Definition of the household sector.* In the macro-economic datasets listed above the household sector is defined to include unincorporated businesses and many non-profit institutions. In some cases it is possible to identify the size of these components but in other cases the distinction is difficult to draw. For example, who holds the assets and liabilities in a family farm - the business or the family? In using the data care needs to be taken that any inferences regarding the more commonly understood notion of households are not affected by this definitional issue.
- *Definition of household debt.* Linked to the issue of who comprises the household sector is the issue of what type of debt is under consideration. Is it only mortgage and consumer debt, or is debt for investment purposes also within scope?

- *Measurement of the housing stock.* In the household balance sheets published in 5204.0 the value of the housing stock is estimated by adding the components of land and dwelling stock. In recent years this combined value has been lower than other estimates of the value of the housing stock, for example those produced by the RBA and collected in ABS household surveys. Work is continuing to understand the differences but at this stage it is reasonable to conclude that the published balance sheet estimate is a lower bound and hence the estimate of household wealth may well be higher than shown in the balance sheet. This issue should also be kept in mind when considering the distributional aspects of household wealth based on the balance sheet data and when calculating debt to asset ratios.
- *Linkages to Reserve Bank data.* In addition to the debt series released by the ABS in 5232.0 there are also a range of debt and related analytical series released by the RBA. In most cases the series are similar to the ABS series but there are differences in definition, scope and time series length which need to be taken into account. In particular the RBA series are not placed within a financial accounts (or flow of funds) framework and thus linkages with movements in related series in other parts of the economy cannot be made as coherently.
- *Different compilation methods* are used to compile the various datasets described above. In some cases estimates are sourced directly from households, in other cases estimates are obtained from counterparty information (usually financial institutions), derived as a residual, or modelled. The different compilation methods can lead to different results for similar items. The ABS provides information on compilation methods to help users understand this issue.

Data related to analysing the factors contributing to household debt levels

9 There are two main perspectives from which the factors contributing to household debt levels can be analysed. The first is to consider the structure and purpose of household debt (liabilities). In addition to the series published in 5232.0 (mentioned above), personal finance series from the RBA and the ABS are of relevance. The RBA compiles and publishes (in the RBA Bulletin) a series "other personal credit" extended by financial institutions, which excludes housing and business credit to the extent identifiable in their data sources. ABS compiles a monthly series on new personal lending commitments by significant lenders in *Lending Finance* (cat.no. 5671.0). Analysis of new personal lending and personal credit balances by purpose is hampered by the increasing use of revolving credit facilities, such as credit cards, where the lending institution does not record the purpose of individual transactions in the facility. However, some broad indications of purposes of personal lending is provided by the breakdown of new fixed lending commitments in 5671.0.

10 As an alternative approach to determining the purpose of household debt, the Survey of Income and Housing (SIH) obtains estimates, for owner-occupiers of dwellings, of the value of the dwelling, the amount of equity held, the main purpose of any mortgage or secured loan on the dwelling, and the value of any unsecured loans taken out to purchase or alter the dwelling, along

with income and other household characteristics. Recent home buyers can be distinguished from other owner-occupiers. Selected data are included in *Housing Occupancy and Costs, Australia* (cat. no. 4130.0.55.001), with additional data available on request. The latest published issue was for 2000-01, 2002-03 results are expected to be published on 23 February 2005 and results from the 2003-04 SIH will be available in the second half of 2005.

11 The second perspective is a more macro-economic view in which household debt is linked to patterns of consumption and saving by households and their associated patterns of investment in financial assets (eg shares) and non-financial assets (eg houses). These relationships can be explored using data presented in the quarterly Australian National Accounts publications 5206.0 and 5232.0.

12 Household debt is related to household saving and household saving in turn may be affected by saving in other sectors of the economy (eg the government sector). These relationships can be explored using data in 5206.0 and 5204.0. Also relevant in this regard is consideration of the debt levels of other sectors in the economy (corporations and government) as it is the combined debt of all domestic sectors which relates to Australia's overall debt to the rest of the world. Changes in the total debt owed to the rest of the world (which form part of Australia's international investment position) are largely reflected in the current account deficit. Data on these other sectors and the rest of the world are released in 5232.0 and *Balance of Payments and International Investment Position, Australia* (cat.no. 5302.0).

Data related to analysing the extent to which demand for imported goods contributes to household debt levels and the current account deficit

13 While there are close links between the demand for some types of imported goods and household consumption - there are no direct links to household debt levels without consideration of saving and investment behaviours of households. Thus, in analysis, many of the data sources mentioned in the previous section are relevant here as well. Also, while there are clearly close links between the demand for imported goods and the current account deficit, making links to the household sector in this relationship is less clear.

14 In terms of understanding the nature of the demand for imported goods the relevant data set is the international trade by commodity data released each month in *International Trade in Goods and Services, Australia* (cat. no. 5368.0). At a broad level the data are grouped as to whether they are consumption, capital or intermediate items. The link to household consumption would seem to be more easily made for those items classed as consumption but in some cases, such as motor vehicles and computers, establishing the sector of use (business, government or household) is not possible from the trade data. Indeed, there are no data that permit direct measurement of the extent to which households consume imported goods. Hence, any conclusions that may be drawn must be based on inference and assumptions about the likely consumers of particular types of goods. Such assumptions are made in the construction of

input-output tables and hence changes in the pattern of demand for imported goods as it relates to household consumption can be analysed. The most recent set of input-output tables available is for 1998-99, see *Australian National Accounts: Input-Output Tables* (cat.no. 5209.0.55.001).

15 Other data relevant to such analysis are data on household consumption by type of commodity. At an aggregated level, data are released in the Australian National Accounts (5204.0 and 5206.0). More detailed data, which can be broken down by type of household (e.g. income level, household composition, tenure type), is available through the *Household Expenditure Survey* (cat no. 6530.0) conducted every five years, with 1998-99 results the most recent currently available. A large proportion of household consumption is on services. Most of these services are produced in Australia rather than being imported (for example, health and education) but they may well have inputs into them which are imported (for example medical equipment and books). Unravelling these linkages is a complex task, and input-output tables can assist in this regard.

16 In considering the demand for imported goods an important aspect of analysis is changes in prices over time. The ABS produces a range of relevant prices for the analysis of the demand for imported goods. Most obvious are the import price indexes released in *International Trade Prices Indexes, Australia* (cat.no. 6457.0). Also relevant are price indexes in the *Consumer Price Index* (cat.no. 6401.0) which can be broken down into tradeable and non-tradeable components. The impact of movements in the exchange rate will be reflected in both of these sets of price indexes.

Data related to analysing the risks for households and the economy of high household debt levels

17 In analysing risks for households the relevant data can be broken into two parts. The first group of data relates to determining which types of household might be at risk from high debt levels. The second group of data relates to measuring some of the risks themselves.

18 In the first group of data there are a number of relevant datasets revolving around the distribution of household debt and the degree to which certain households are under financial stress.

- The 2002 General Social Survey (GSS) included data on household income, selected assets, selected liabilities and financial stress. The *General Social Survey, Summary Results, Australia, 2002* (cat. no. 4159.0) provides information on financial stress by households of differing composition and by household income levels. The article "Household assets, liabilities and financial stress" in *Australian Social Trends, 2004* (cat. no. 4102.0) provides information and discusses the relationship between household assets and liabilities, household income and selected financial stress indicators.

- The asset and liability information does not cover all forms of assets and liabilities but does include the major ones for most households. Use of a single financial stress indicator may not identify a household as having financial stress: it may simply reflect household financial management through the temporary prioritising of particular expenditures over others. However, where households report a number of different stress indicators, it is more likely that they are experiencing genuine difficulties.
- The 1998-99 Household Expenditure Survey (HES) included a wider range of financial stress indicators than the 2002 GSS, but less comprehensive asset and liability data. A detailed analysis of this financial stress information can be found in J. Rob Bray, *Hardship in Australia: An analysis of financial stress indicators in the 1998-99 Australian Bureau of Statistics Household Expenditure Survey*, Occasional Paper Number 4, Department of Family and Community Services, Canberra, 2001. Financial stress indicators from the 2003-04 HES will be available in the second half of 2005.
- The Household Income and Labour Dynamics in Australia (HILDA) collects a comprehensive set of asset and liability information. For analysis based on these data, see for example *Household Debt in Australia*, AMP.NATSEM Income and Wealth Report Issue 9 November 2004.

19 In the second group of data it is relevant to consider a range of indicators for which movements in particular directions may indicate increased risks for those households with high debt levels. Data sets that are relevant concern:

- Interest rates (RBA Bulletin)
- Asset price movements, such as the house price index released by the ABS (*House Price Indexes, Eight Capital Cities* (cat.no. 6416.0))
- Debt servicing and Debt-asset ratios (derived from information described in section 2)
- Unemployment measures, as indicators of security of income flows (sourced from *Labour Force, Australia* (cat.no. 6202.0))
- Bankruptcy measures (published in annual reports of the Insolvency and Trustee Service, Australia - see www.itsa.gov.au).

20 The way in which these data sets might be used will depend on the nature of the linkages which are drawn between the underlying variables. The balance of risks is not something that can be answered through statistical measurement.

21 In terms of risks to the economy as a whole, the contribution of the household sector to overall economic activity can be analysed using information in the national accounts, including the financial accounts. As such, relationships between household debt and economic activity can be explored. In terms of the implications of household debt for the financial system, analysis

of the financial sector's financial position using information in 5232.0 is relevant.

Further assistance

22 The ABS is happy to provide further advice and assistance to the Inquiry on matters relating to the availability, use and interpretation of data. An appendix to this submission lists the data sources mentioned in here. In some cases, additional, more detailed data are available on request. Further, it is noted that the list is not exhaustive and the broad and complex nature of the inquiry may require additional data to be brought into consideration.

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APPENDIX: Listing of data sources

ABS sources

Australian National Accounts: National Income, Expenditure and Product (cat. no. 5206.0)

Australian National Accounts: Input-Output Tables (cat.no. 5209.0.55.001)

Australian National Accounts: Financial Accounts (cat.no. 5232.0)

Australian Social Trends, 2004 (cat. no. 4102.0)

Australian System of National Accounts (cat.no 5204.0)

Balance of Payments and International Investment Position, Australia (cat.no. 5302.0)

Consumer Price Index (cat.no. 6401.0)

Experimental Estimates of the Distribution of Household Wealth, Australia, 1994-2000, ABS Working Paper 1351.0 (2202/1)

General Social Survey, Summary Results, Australia, 2002 (cat. no. 4159.0)

Household Expenditure Survey (cat no. 6530.0)

House Price Indexes, Eight Capital Cities (cat.no. 6416.0)

Housing Occupancy and Costs, Australia (cat. no. 4130.0.55.001)

International Trade in Goods and Services, Australia (cat. no. 5368.0)

International Trade Prices Indexes, Australia (cat.no. 6457.0)

Labour Force, Australia (cat.no. 6202.0)

Lending Finance (cat.no. 5671.0)

Non-ABS sources

Bankruptcy measures: Insolvency and Trustee Service, Australia - see www.itsa.gov.au

Bray, J. Rob, *Hardship in Australia: An analysis of financial stress indicators in the 1998-99 Australian Bureau of Statistics Household Expenditure Survey*, Occasional Paper Number 4, Department of Family and Community Services, Canberra, 2001

Household Debt in Australia, AMP.NATSEM Income and Wealth Report Issue
9 November 2004
Reserve Bank of Australia Bulletin