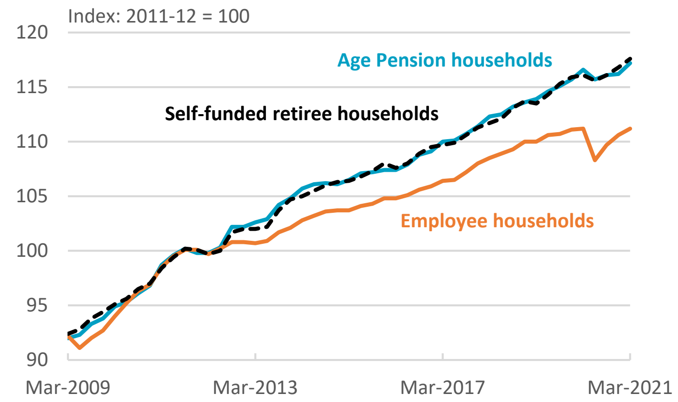
ASFA Economic Snapshot: week ending 7 May

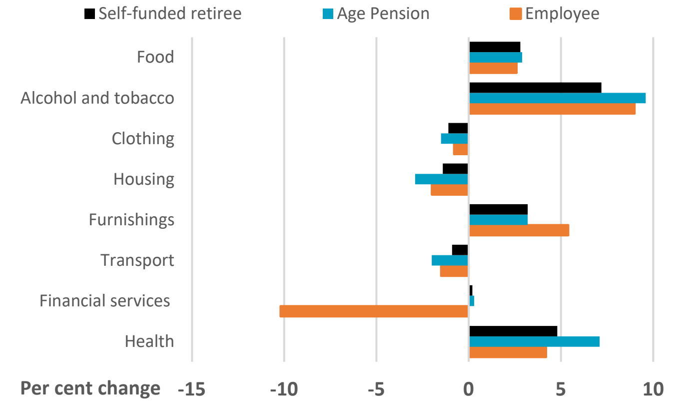
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

General cost-of-living pressures are up slightly …



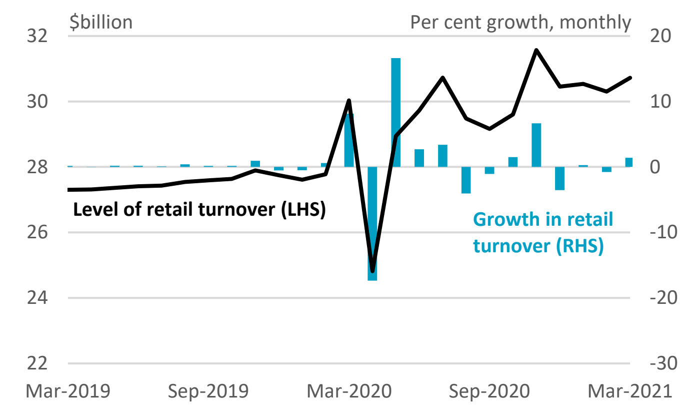
After easing in mid-2020, measures of the cost-of-living for selected household types have risen to above pre-crisis levels. The crisis impact for employee households largely reflects the impact of temporary free childcare (that ended on 13 July) and lower mortgage interest rates. The diverging trends reflect the decline in mortgage rates, as a relatively high proportion of employee households have a mortgage.

… with mortgage-servicing costs down



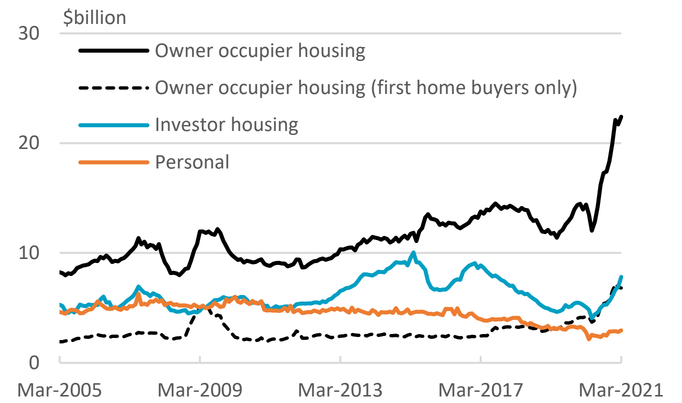
For each household type (on average), this chart shows changes for components of cost-of-living indices since the end of 2019, where changes reflect both price rises and consumption patterns. Common among household types was upward pressure due to household furnishing, pharmaceutical, and alcohol and tobacco (excise) prices. The starkest difference relates to the impact of lower mortgage rates.

Households are spending more



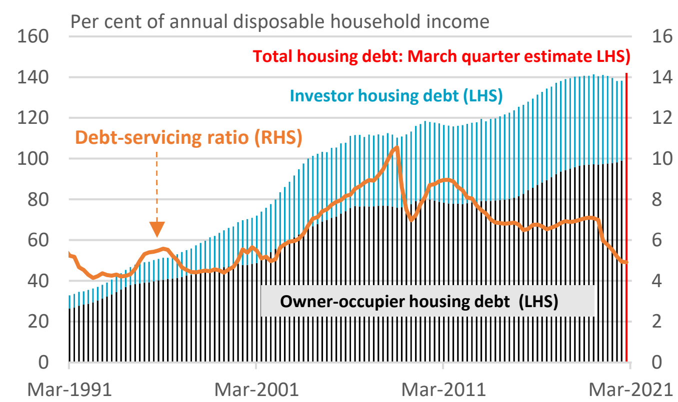
Household spending on retail goods and services is well above pre-crisis levels. With the volatile impacts of the crisis now past, total retail spending is about 11% higher than the end of 2019. Given that retail prices have increased by an average of about 2% over the same period, this implies an 8% rise in the volume of goods and services purchased.

More households are borrowing …



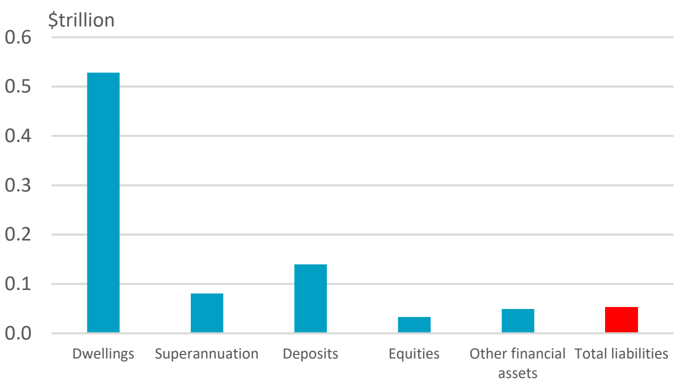
Spurred by lower mortgage interest rates, the value of new housing loans (for each month) has surged. During March, the value of new loans for owner-occupier housing was about 50% higher than before the crisis (70% higher for first-home buyers). For investors, new lending during March was around 40% higher than before the crisis.

… which is pushing up total housing debt



The surge in new lending for housing will be reflected in higher aggregate debt. As a share of total annual income, debt for owner-occupier and investor housing *combined* will tip over 140% (red line). For some households higher mortage borrowing (Panel 4) will increase their vulnerability to economic/financial shocks, while falling mortgage rates has sharply reduced debt-servicing burdens for many.

Asset price rises have pushed up household wealth



This chart shows *changes* in the household-sector balance sheet over 2020. The sharp rise in house prices in the second half of 2020 led to a strong rise in dwelling wealth. Superannuation wealth fell in early 2020 due to member withdrawals under COVID Early Release^ and falls across financial markets. However, the subsequent recovery helped push up super wealth by $81 billion compared to the start of 2020.

Sources for each panel: (1 & 2) ABS, *Selected Living Cost Indexes*, March; (3) ABS, *Retail Trade - Preliminary*, March; (4) ABS, *Lending Indicators*, March; (5) RBA, *Statistical tables*, E2 and ASFA; (6) RBA, *Statistical tables*, E1 and ASFA. *See the ASFA Economic Snapshot on 16 April 2020.