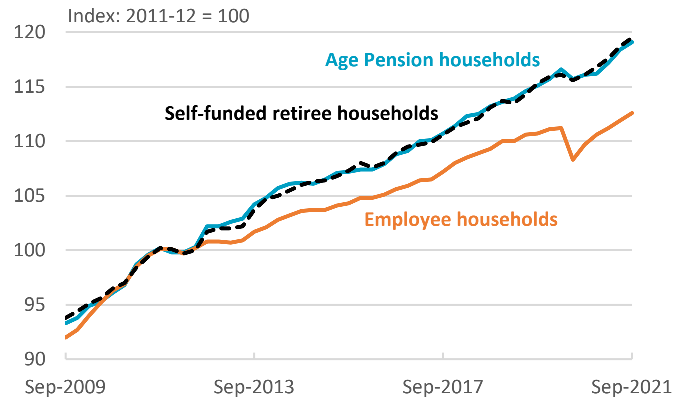
ASFA Economic Snapshot: week ending 5 November

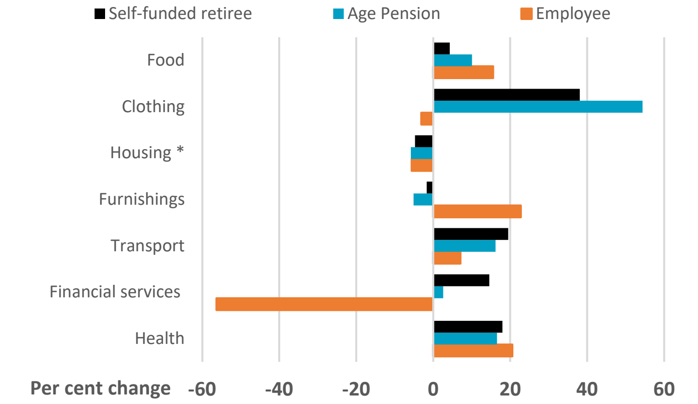
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Cost of living up, particularly for retirees …



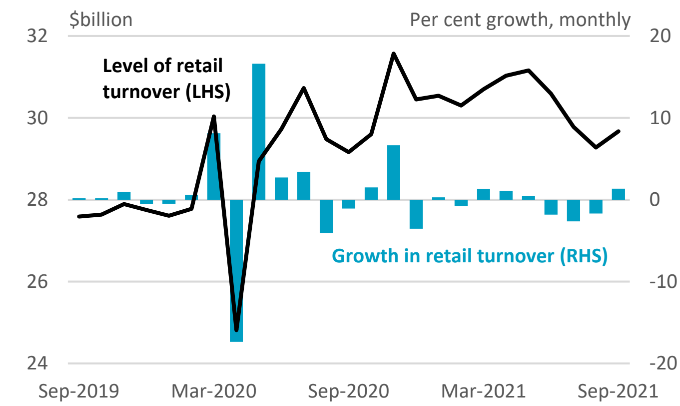
After falling in mid-2020, measures of the cost-of-living for selected household types have risen to above pre-crisis levels. The crisis impact for employee households largely reflects the impact of temporary free childcare and lower mortgage interest rates. The diverging trends (since 2012), reflect the long-term decline in mortgage rates – as a relatively high proportion of employee households have a mortgage.

… with mortgage-servicing costs down



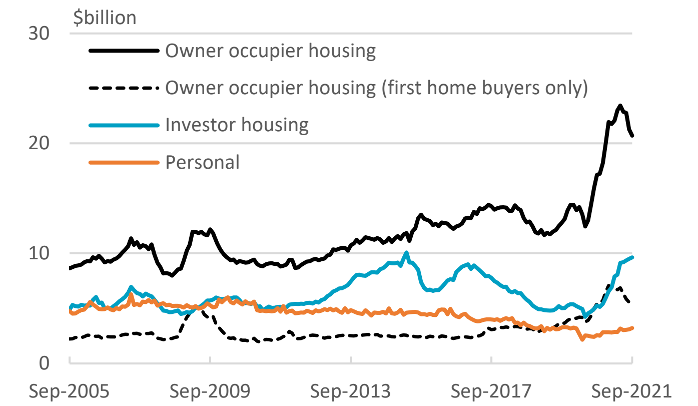
For each household type, this shows average changes in cost-of-living components since the end of 2019, where outcomes reflect price changes and consumption patterns. Common among households has been upward pressure due to petrol (transport) and pharmaceutical (health) prices. The starkest difference relates to the impact of lower interest rates on mortgage repayments (financial services).

Household spending will start to recover



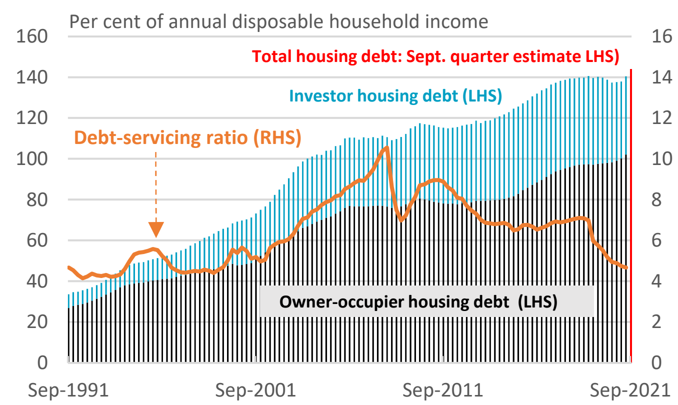
Retail spending has bottomed-out as the impacts of the Delta-COVID shock have diminished. For September, the level of spending was 7% higher than the end of 2019. Given that prices (on average) were up 5% (since end-2019), this implies that the quantity of purchases was up only 2%. That said, volumes will recover over the next few months.

Household borrowing surges …



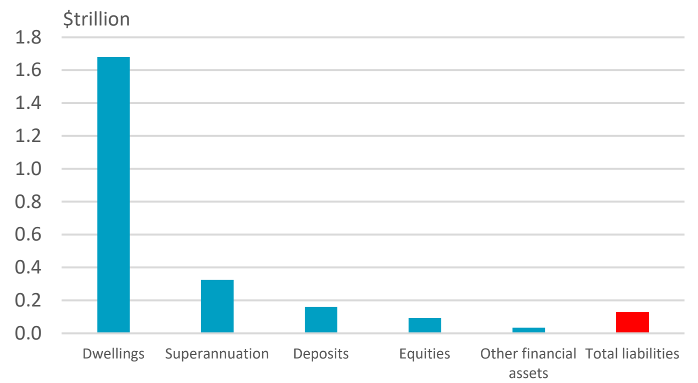
Spurred by lower interest rates, the value of new housing loans (each month) has surged. In September, the value of new loans for owner-occupier housing was about 50% higher than before the crisis (40% higher for first-home buyers), after peaking in May. For investors, new lending in September was about 80% higher than before the crisis.

… which is pushing up total housing debt



Combined housing debt for owner-occupiers and investors has hit 140% of annual income. Conversely, falls in mortgage interest rates over the last 2 years has reduced (average) debt servicing. Looking ahead, the RBA is likely to tighten monetary policy (in response to inflationary pressures), with higher rates likely to increase incidence of mortgage stress (among financially-vulnerable households).

Asset price rises have pushed up household wealth



This chart shows *changes* in the household-sector balance sheet since the end of 2019. The sharp rise in house prices since mid-2020 has 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 has helped increase super wealth by $325 billion compared to end-2019.

Sources for each panel: (1 & 2) ABS, *Selected Living Cost Indexes*, September; (3) ABS, *Retail Trade*, September; (4) ABS, *Lending Indicators*, September; (5) RBA, *Statistical tables*, E2 and ASFA; (6) RBA, *Statistical tables*, E1 and ASFA. * The *Housing* component includes out-of-pocket housing-related expenses, such as rates and rental payments. Mortgage repayments are within the *Financial Services* component.