

Household Debt in Australia: The Looming Crisis that Isn't

***Mark Wooden
(and Roger Wilkins)***

***Presentation to the
Melbourne Institute Public Economics Forum,
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***[Based on article forthcoming in
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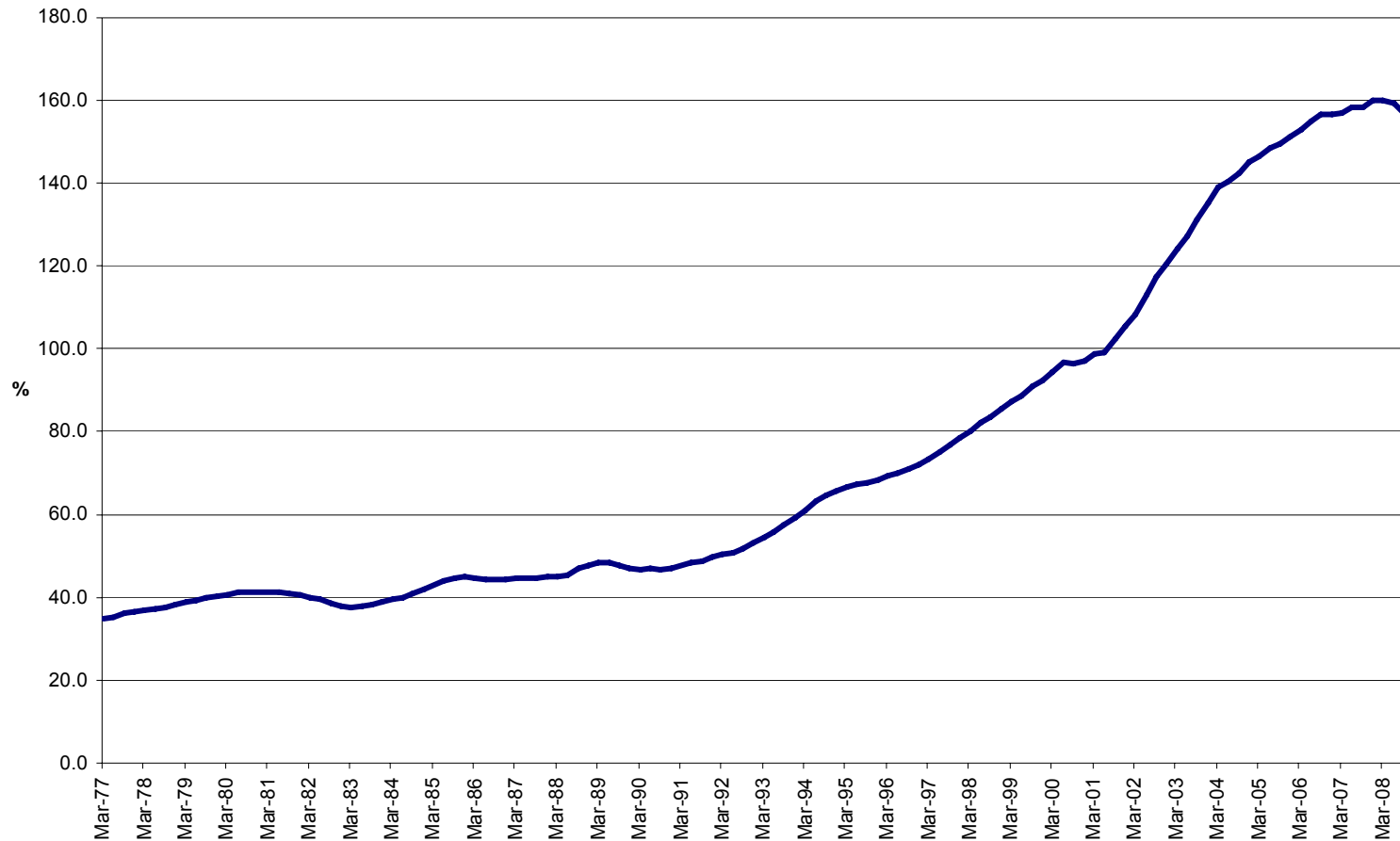


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Household debt as a % of household disposable income (seas adj)



Source: Reserve Bank Bulletin, Statistical Table B21.

Conclusions!

1. Small minority of Australians carry “excessive” debt.
2. Most exposed are the least vulnerable.
3. High debt not necessarily “bad”.

Acknowledgement

“This [presentation] uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research. The findings and views reported in this [presentation], however, are those of the authors and should not be attributed to either FaHCSIA or the Melbourne Institute.”

Data: HILDA Survey vs ASNA (~Oct 2006)

	<i>ASNA</i> (\$b)	<i>HILDA</i> (\$b)
Financial assets	2098	1706
Non-financial assets	3862	4061
Debts	1062	898
Net worth	4898	4869

Note: The ABS (ASNA) estimates reported here are based on interpolating a figure for October 2006 from the official estimates for 30 June 2006 and 30 June 2007. They are based on estimates reported in *Australian System of National Accounts* (ABS cat. no. 5204.0, Table 51). These estimates have been adjusted by including consumer durables (ABS cat. no. 5204.0, Table 16).

Distribution and composition of debt

	<i>Home</i>	<i>Other prop.</i>	<i>Credit card</i>	<i>Other pers'l</i>	<i>Business</i>	<i>TOTAL DEBT</i>
% with debt	34.9	9.4	27.8	43.4	4.4	68.4
Mean (\$000)	61.5	26.4	1.5	14.4	8.1	111.9
Median (\$000)	0.0	0.0	0.0	0.0	0.0	14.0
75 th percentile (\$000)	80.0	0.0	0.5	9.0	0.0	140.7
90 th percentile (\$000)	224.0	0.0	4.5	27.6	0.0	318.4

Distribution of indicators of indebtedness

<i>Percentile</i>	<i>Debts to assets</i>	<i>Debt to income</i>	<i>Prop debt service</i>
25 th	0.00	0.00	0.00
50 th (median)	0.08	0.27	0.00
75 th	0.35	2.06	0.17
90 th	0.65	4.30	0.34
95 th	0.92	6.24	0.47

High indebtedness by property ownership (%)

<i>Ownership status</i>	<i>Debt-income ≥ 4</i>	<i>Property debt serv'g ≥ 0.5</i>
None	0.9	0.0
Own home only	9.5	3.0
Holiday / 2 nd home	23.1	9.6
Other residential	37.2	16.5
Other property	24.4	10.7
TOTAL	11.2	4.2

High indebtedness by equivalised disposable income quintile (%)

<i>Income quintile</i>	<i>Debt-income ≥ 4</i>	<i>Property debt serv'g ≥ 0.5</i>
First (lowest)	8.2	4.6
Second	9.5	4.0
Third	12.4	4.8
Fourth	12.4	3.8
Fifth (highest)	13.2	3.8
TOTAL	11.2	4.2

High indebtedness by education (%)

<i>Educational attainment</i>	<i>Debt-income ≥ 4</i>	<i>Property debt serv'g ≥ 0.5</i>
Degree (or higher)	14.6	5.8
Diploma / Certificate III or IV	12.6	5.0
Completed Year 12	12.2	3.7
Certificate I or II	8.6	6.3
No quals & did not complete Yr 12	7.3	2.5
TOTAL	11.2	4.2

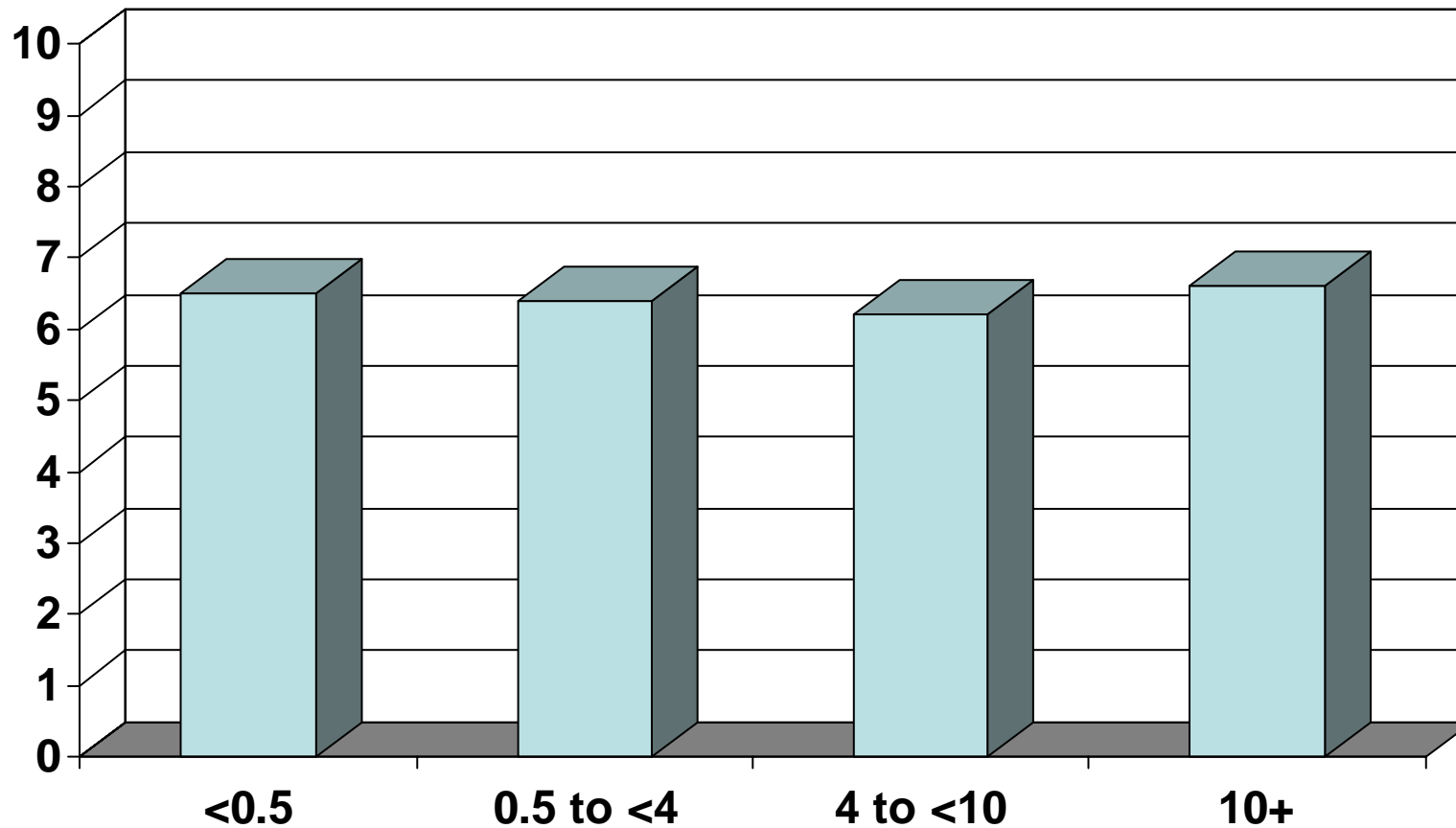
High indebtedness by labour market status (%)

<i>Educational attainment</i>	<i>Debt-income ≥ 4</i>	<i>Property debt serv'g ≥ 0.5</i>
Not in labour force	3.3	1.5
Unemployed	11.5	7.6
Employer / self-employed	25.6	10.6
Employee		
High risk of unemployment (≥50%)	6.3	3.0
Moderate risk (10-50%)	12.8	4.8
Low risk (<10%)	15.2	5.8
No risk (0%)	11.9	3.7
TOTAL	11.2	4.2

High indebtedness by other selected characteristics (%)

<i>Educational attainment</i>	<i>Debt-income ≥ 4</i>	<i>Property debt serv'g ≥ 0.5</i>
Lone parent	7.7	4.1
Indigenous	6.1	4.6
Disabled	6.2	2.5
Casual employee	10.5	4.3
Unemployed during preceding FY	9.5	5.2
Business owner	26.8	10.2
TOTAL	11.2	4.2

Mean satisfaction with finances by debt-to-income ratio (% of households)



Financial stress and household debt to income ratios (%)

<i>Stress indicator</i>	<i><.5</i>	<i>.5 - <4</i>	<i>4 - <10</i>	<i>10+</i>
Can't pay bills on time	13.2	13.9	11.9	17.7
Can't pay mortgage / rent on time	6.2	7.0	8.0	14.7
Pawned or sold something	4.1	3.7	2.6	12.1
Went without meals	3.3	2.3	1.6	3.5
Unable to heat home	2.8	1.8	0.6	4.7
Asked for fin'l help from fam / friends	11.3	11.4	12.2	10.5
Asked for fin'l help from welfare org	4.0	2.0	1.6	5.7
% OF ALL HOUSEHOLDS	56.6	32.2	8.9	2.3

Financial stress and household debt to income ratios (%)

<i>Stress indicator</i>	<.5	.5 - <4	4 - <10	10+
Can't pay bills on time	13.2	13.9	11.9	17.7
Can't pay mortgage / rent on time	6.2	7.0	8.0	14.7
Pawned or sold something	4.1	3.7	2.6	12.1
Went without meals	3.3	2.3	1.6	3.5
Unable to heat home	2.8	1.8	0.6	4.7
Asked for fin'l help from fam / friends	11.3	11.4	12.2	10.5
Asked for fin'l help from welfare org	4.0	2.0	1.6	5.7
% OF ALL HOUSEHOLDS	56.6	32.2	8.9	2.3

“Excessive Debt”: Summary

- How many?
 - Anywhere b/w 2 and 10% of hh's
- Who holds it?
 - Self-employed / business owners / university educated.
- How bad for you?
 - Weak relation b/w financial stress and debt
- BUT will a recession change all this?

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