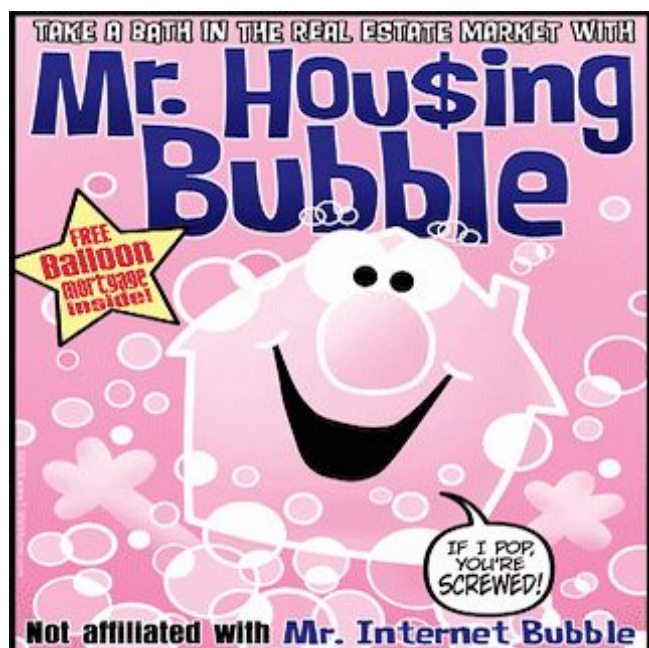


Australian private debt: and don't skimp on the paté

By Philip Soos

16 January 2015



If the real estate fever gripping the nation does not break soon, Australia may well secure the top OECD ranking for the most over-indebted household sector. A financial crisis beckons warns Paul Egan and Philip Soos.

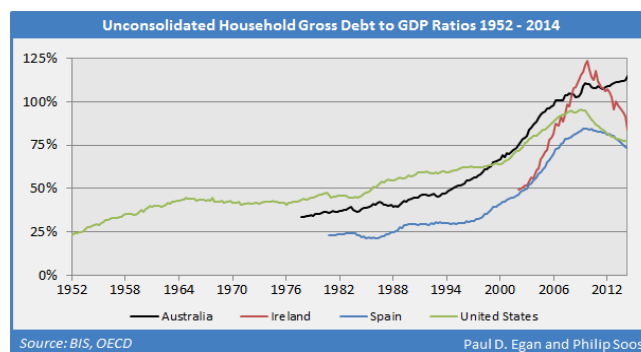
AUSTRALIA'S PRIVATE debt dynamics have been thoroughly [explored elsewhere](#), but less well understood is the country's position relative to the OECD and [BRIC](#) nations (Brazil, Russia, India, China). Thankfully, the [Bank for International Settlements](#) (BIS) provides a useful database of unconsolidated household, non-financial business and total sector debts to enable a meaningful comparison.

The difference between consolidated and unconsolidated debts is an important consideration. The former constitutes debt that is netted out within the sector and only

records debts owed to other sectors, while the latter is the actual debt a sector owes, irrespective of to whom. Unconsolidated debts are typically larger than consolidated debts.

Caution must be taken when using measures of consolidated debts as it assumes intra-sector solvency; an assumption the Global Financial Crisis (GFC) revealed to be precarious. Consolidated debts disguise the risk of intra-sector debts that can metastasise and threaten financial stability.

In retrospect, Ireland, Spain and the U.S. are three countries that clearly experienced debt-financed housing bubbles, thus providing a useful benchmark for comparison. Australia's household debt to GDP ratio is clearly higher than both Spain and the U.S. at their peaks, and remains only slightly below Ireland's peak.



In the BIS dataset comprising 34 nations, Australia has the unenviable status of ranking fourth highest, only below that of Denmark, Switzerland and the Netherlands. Ironically, the pathology of financial capitalism drove the world's leading social democratic state into accumulating the largest household debt ratio, peaking at close to 140 per cent in Q2 2009.

What Australia looked like before household debt grew out of control and we still made stuff [#ausvotes](https://t.co/XBXoAPgEMg) <https://t.co/XBXoAPgEMg>

— PFH 007 (@pfh007) [August 29, 2013](#)

A range of factors have led to the income flow from the public sector into Australian households and the Australian accumulation: a low unemployment rate relative to the OECD, very low income inequality, the highest minimum wage, a generous social welfare system.

As of Q2 2014 (the latest available BIS data), the ratio is 190.3 per cent higher than in 1977. As the former de-leverages, Australia should rank third highest by the next quarter. The ratios have remained stubbornly high in both Denmark and the Netherlands despite deleveraging, as their weak economies have resulted in falling nominal GDP (the denominator).

This article was originally published

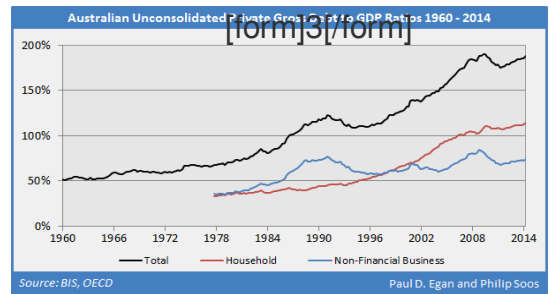


macrobusiness.com.au
on 8 January 2015.
Buy John Graham originals from IA's online store

Australia's total peaked at 190 before falling slightly in the financial business Q2 2014, the top per cent, and is peak in the next quarter or so.



(image courtesy of John Graham)



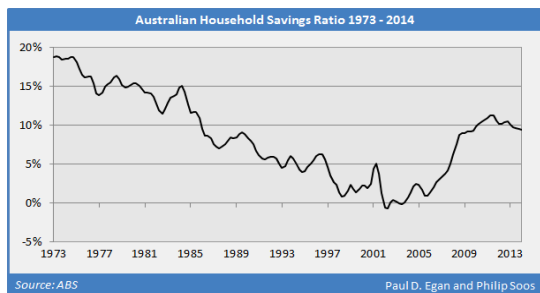
The following table lists the debt ratios for the OECD and BRIC nations. For some nations, household and non-financial business sector debts are not available, but total debt data are available for all. The non-financial business sector debt ratios are on the high end for Ireland, Luxembourg and the Netherlands, likely reflecting their generous international business taxation policies.

Country	Household	Non-Financial Business	Total
Argentina			14.2%
Australia	114.8%	73.9%	188.6%
Austria	49.8%	88.0%	137.9%
Belgium	56.2%	135.7%	191.9%
Brazil			75.3%
Canada	91.7%	99.6%	191.3%
Czech Republic	30.5%	61.2%	91.8%
Denmark	128.6%	113.6%	242.2%
Euro Area	61.1%	98.8%	159.8%
Finland	64.4%	108.2%	172.6%
France	55.5%	121.0%	176.5%
Germany	54.1%	53.9%	107.9%
Greece	65.2%	68.2%	133.4%
Hungary	26.7%	86.8%	113.5%
India	8.8%	49.6%	58.4%
Indonesia	16.8%	21.3%	38.1%
Ireland	83.6%	183.3%	266.9%
Italy	43.0%	77.8%	120.8%
Japan	64.5%	102.3%	166.8%
Korea	81.5%	103.4%	184.8%
Luxembourg	56.8%	357.1%	413.9%
Mexico	14.5%	11.8%	26.3%
Netherlands	115.1%	126.8%	241.9%
Norway	85.8%	122.0%	207.8%
Poland	34.9%	43.4%	78.4%
Portugal	83.2%	126.7%	209.8%
Russia			66.0%
South Africa	39.0%	33.3%	72.2%
Spain	73.4%	107.9%	181.3%
Sweden	81.9%	165.2%	247.1%
Switzerland	120.4%	84.1%	206.0%
Turkey	20.1%	48.2%	68.4%
United Kingdom	86.7%	72.9%	159.6%
United States	76.7%	67.2%	143.9%

The BIS has done a commendable job in gathering long-term unconsolidated data from the OECD and BRIC nations and making it publicly available. It would be helpful if the data was further classified into categories of personal, mortgage and non-banking financial sector debt, as the latter is important when analysing banking and financial

cycles.

As household debt has boomed exponentially over the last two decades, the savings of the household sector has plunged. According to the official household savings ratio provided by the ABS, it briefly became negative during the early 2000s, and then rebounded as the GFC shocked households into saving more.



In 2013, [analysis](#) by Credit Suisse revealed that the official ratio included superannuation contributions and extra principal repayments, which arguably should not be counted as disposable savings. After controlling for these two artefacts, the ratio falls significantly, exhibiting a persistently negative trend since 1997.

The household sector's savings situation is dire, as reported by [ME Bank](#) in a 2014 report:

- Only 46 per cent of households reported the ability to save each month;
- Only 32 per cent would easily be able to raise \$3,000 in an emergency;
- 50 per cent aren't confident they have enough savings to last if unemployed for three months;
- 35 per cent reported having less than \$1,000 cash on

hand;

- 17 per cent have less than \$100 in savings;
- 60 per cent have less than \$10,000 in savings; and
- In 2009, Australians were saving a median \$300 per year ([AMP/NATSEM](#)).



(image courtesy of John Graham)

Australia's private sector is grossly over-indebted, especially the household sector. The hysteria surrounding Australia's non-existent public budget 'emergency' is a smokescreen cloaking the critical household budget crisis. The fictional narrative concerning public debt arises from an unshakeable adherence to pseudo-scientific economic theory and class war, such as 'justified' public austerity policies that target the poor and marginalised.

Professor Steve Keen at Glasgow University 16 September 2014

Meanwhile, the public is distracted from the true threat: the unrestrained private spending spree that further enhance the power, profit and authority of the horde of

private monopolists, usurers,
speculators, rent seekers, free
riders, financial robber barons,
control frauds and indolent rich.

The current dynamics of the political
and economic system means private
debts will continue to spiral out of
control, until the catastrophically
inefficient [FIRE](#) sector inevitably
implodes. Nevertheless, the current
housing booms in Melbourne and
Sydney show no sign of abating in the
short-term, with 2012 an opportune
time to purchase according to the
'[Speculative Index](#)', which measures
the irrational exuberance embedded in
prices.

Australia's obsession with
property pushes the household
debt in last 20 years from
\$20,000 to \$80,000 per
person
pic.twitter.com/Uvxklz2qrf

— Rosso Rubino & Co.
(@Flemington455) [October 6,](#)
[2014](#)