

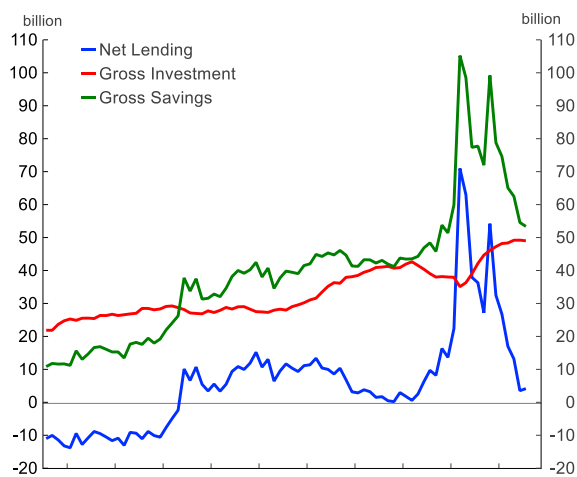
Thursday, 29 June 2023

Finance and Wealth

Household Finances Remain Resilient, For Now.

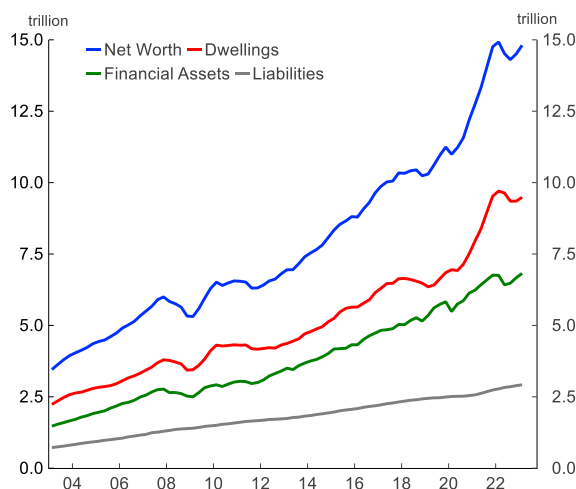
- Households spent around \$4bn less than the income they generated over the March quarter 2023, lending the surplus to other sectors in the economy. This was in line with the outcome recorded in the December quarter, but well below the average \$31bn quarterly increase in net lending since December 2019.
- Elevated cost of living pressures and higher interest rates have seen household dip into savings. Gross savings are sitting at around the level recorded in the December quarter 2019.
- Going forward, higher cost of living pressures and higher interest rates are likely to continue to weigh on household income and savings. However, finances remain resilient to date.
- Importantly, household wealth strengthened for a second consecutive quarter, increasing by 2.1% in the March quarter – this was the strongest quarterly rise since the December quarter 2021. This outcome was driven by a 1.4% increase in the value of dwellings, which follows a flat outcome in December.
- Notwithstanding the most aggressive hiking cycle since the start of the inflation targeting era, household wealth is only 0.8% lower than the peak recorded a year ago. The imbalance in the housing market, along with strong population growth, is seeing the value of dwellings increase, even though interest rates are still on the rise. Indeed, from the peak in March 2022, the value of household dwellings has fallen by only 2.2%.
- The increase in household wealth means that the wealth channel of monetary policy may have become more muted, when compared with previous cycles. This is consistent with our view that the RBA will need to hike to at least 4.6% to ensure inflation falls back to target.

Household Savings and Investment
Current Values, \$billions



Sources: ABS, Macrobond

Household Balance Sheet
Current Values, \$trillions



Sources: ABS, Macrobond

Households

Households spent around \$4bn less than the income they generated over the March quarter 2023, increasing lending to other sectors. This was in line with the outcome recorded in the December quarter, but well below the average \$31bn quarterly increase in net lending since December 2019. It was also the lowest level since the September quarter 2018.

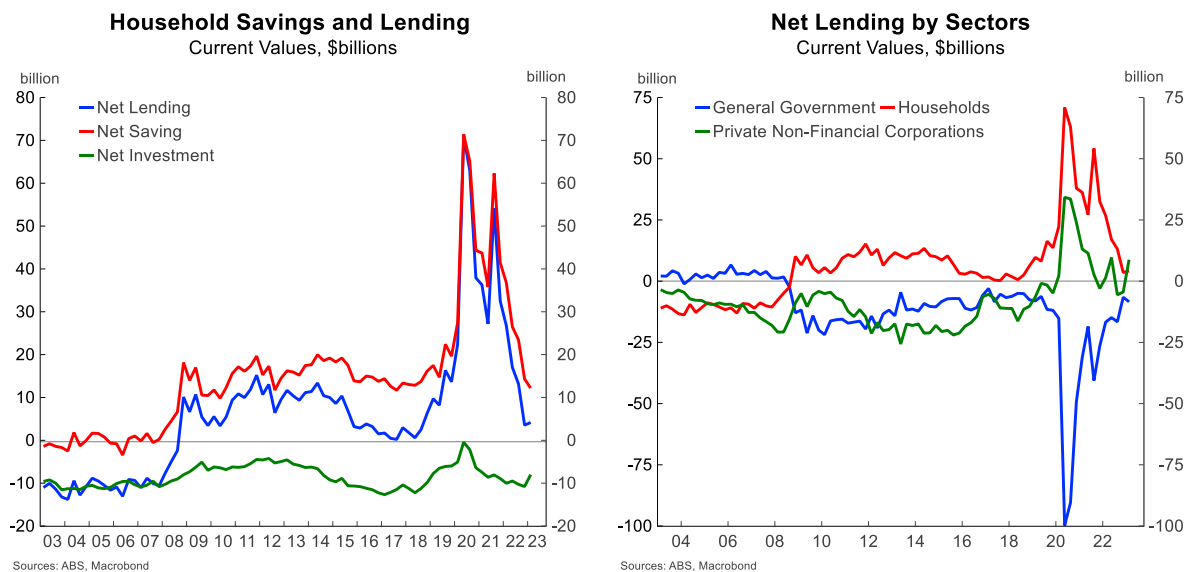
Elevated cost of living pressures and higher interest rates have seen households dip into savings. Gross savings are sitting at around the level recorded in the December quarter 2019. This fall in savings was partly offset by a fall in gross investment over the quarter.

Is the monetary policy transmission mechanism changing?

Muted Wealth Channel

Household wealth strengthened for a second consecutive quarter, increasing by 2.1% in the March quarter – this was the strongest quarterly rise since the December quarter 2021. Household wealth remains around \$120 billion (or 0.8%) lower than the peak recorded in the March quarter 2022.

The stabilisation in house prices has led to a 1.4% increase in the value of dwellings over the March quarter. An increase in the value of dwellings means that the wealth channel of monetary policy may have become more muted, when compared with previous cycles.



The corporate sector

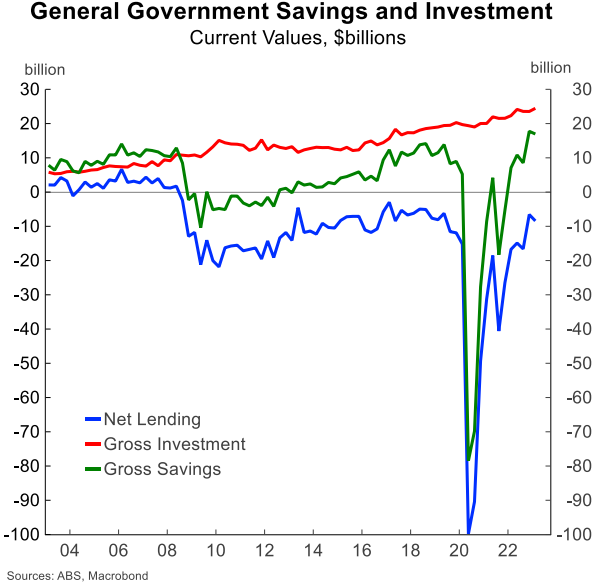
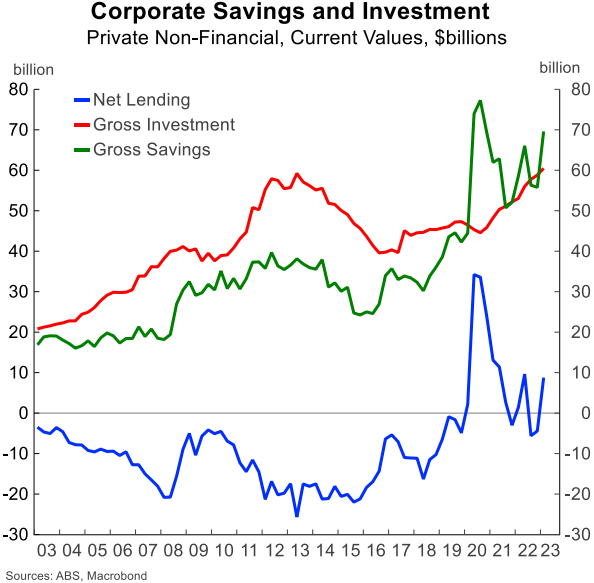
Private non-financial corporations also generated more revenue than they spent over the March quarter. This shows that the nominal economy remained resilient notwithstanding the slowdown we saw in output growth.

During the pandemic, the incomes, and gross savings of private corporations was supported by government programs. There was also a moderation in investment. During this time, the sector became a net lender for the first time since 1993, which continued over the March quarter.

In normal times, corporations borrow to invest in machinery and equipment, property, and human capital to produce a value add. The fact that corporates continue to generate a surplus and lend to other sectors, while also investing more, shows the underlying strength that remains in the nominal economy.

General government

The Commonwealth and the commodity rich states are likely to record surpluses in the 2022-23 fiscal year. This will mean the general government sector is starting to shift from being a net borrower to a net lender.



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