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As rates fall, Australians have never been wealthier

The rise in house prices has been the main driver of the increase, writes Nicki Bourlioufas.

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Nicki Bourlioufas, is a Morningstar contributor. Any Morningstar ratings/recommendations contained in this report are based on the full research report available from Morningstar.

Australians have never been wealthier, with new data revealing the value of our bank accounts, homes and shares rose to record highs in 2020 despite the harsh economic impacts of covid-19.

Total household wealth jumped by 4.3 per cent or $501.5 billion to a record $12.03 trillion in the December quarter, the highest quarterly growth rate since the December quarter 2009, according to the Australian Bureau of Statistics. Household wealth rose 4.2 per cent ($19,028) to a record $467,709 per person.

Head of Finance and Wealth at the ABS, Katherine Keenan, said the December quarter growth in wealth was driven by rising residential property prices, "reflecting record low interest rates, and government support programs such as the First Home Buyer and the HomeBuilder schemes, and pent-up demand from buyers."

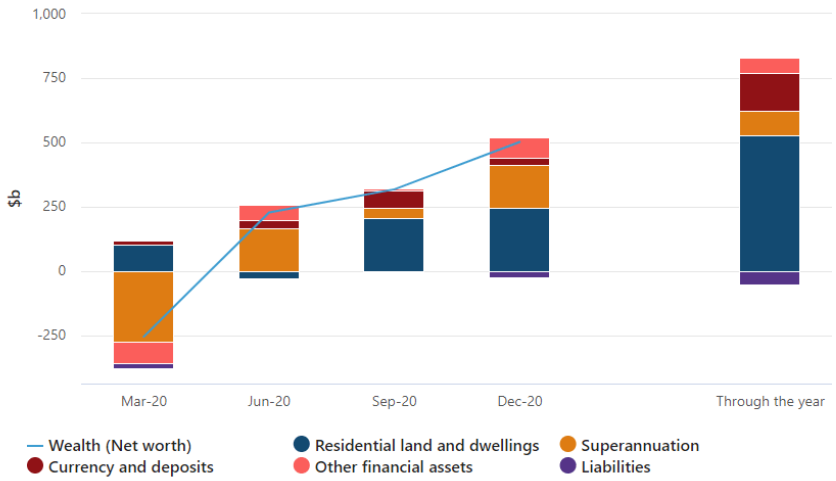
Net Australian household worth, or 65 per cent, was made up of $7.78 trillion of property assets, a record $3.34 trillion of superannuation and $1.12 trillion held in shares. Cash and term deposits holdings stood at a record $1.32 trillion, representing 21.6 per cent of financial assets held by households. Shareholdings made up 18.3 per cent of all financial assets, though that remains below the long-run average of 22.1 per cent.

"Not only did household wealth hit record highs at the end of 2020, the lift in wealth in the quarter was the biggest recorded in 11 years. No wonder that people are feeling more confident and spending," said CommSec chief economist Craig James.

"Importantly, the value of houses and listed shares continue to rise, meaning fresh highs for wealth will be recorded this quarter [the first quarter 2021]."

Superannuation reserves and shares levels now sit above pre-pandemic levels, having fully recovered from the losses experienced in March quarter 2020. Residential assets contributed 2.2 percentage points to the quarterly growth in household wealth, followed by superannuation balances and a rise in the value of shares, at 1.4 and 0.5 percentage points, respectively, the ABS said.

Change in househould wealth, main contributors, current price, original



Source: Australian National Accounts: Finance and Wealth, December 2020

Diana Mousina, senior economist with AMP Capital, said government programs and lower rates significantly helped the housing market.

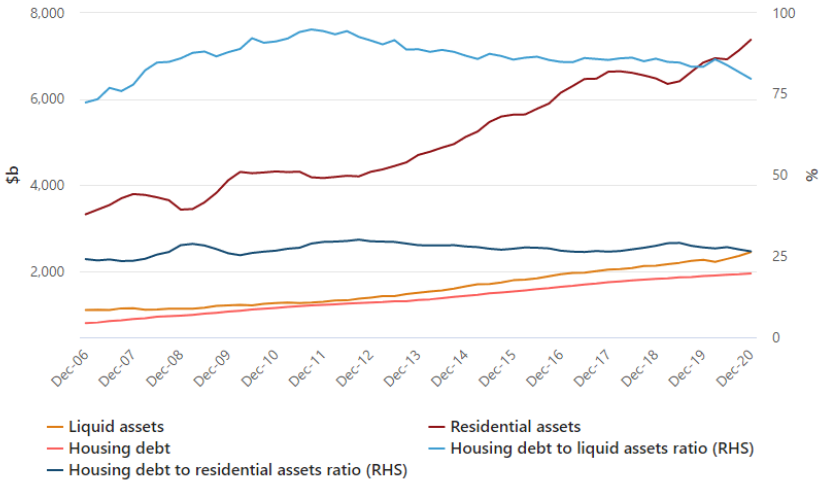
"HomeBuilder has led to a big boom in building approvals and residential construction. But the majority of the rise in home prices has been from the fall in interest rates," Mousina said.

"With the RBA cutting the cash rate to 0.1 per cent last year and starting a bond-buying program, this led to a drop in mortgage rates (particularly fixed mortgage rates) to historical low levels and this led to record housing lending and a recovery in capital city home prices back to their 2017 highs," she said.

Debts more manageable

In more good news, households are now better able to service their debts. The housing debt to liquid assets ratio, which reflects households' ability to quickly extinguish debt using liquid assets such as cash, deposits and shares, fell 2.7 per cent to 79.7 in the December quarter, as the blue line in the chart below shows. Since late 2011, the ratio has trended downwards, recording last year the largest fall in the history of the timeseries, the ABS said.

Household debt ratios, current, original



Source: Australian National Accounts: Finance and Wealth, December 2020, tables 34, 35

Reflecting both lower interest rates and government income support packages, the housing debt to income ratio fell to 139.0 from 139.2 over the quarter, as growth in income (1.0 per cent) outstripped growth in housing debt (1.0 per cent). The ratio has fallen for the past four quarters, recording a 2.5 per cent fall through the year which is the largest fall since 1990.

CommSec's Craig James said the private sector now needed to do its part too to help maintain economic growth.

"Aussie businesses need to follow the lead and take advantage of record fiscal and monetary stimulus—it won't last forever. Businesses will have to decide on paying more dividends to shareholders, investing more in the company's operations or turning attention to mergers and acquisitions," he said.

Australia's wealth tops the world

Compared to other countries, Australia is one of the wealthiest. According to the Credit Suisse Global Wealth Report 2020, when ranking countries by median wealth per adult, Australia took top place at US$206,480 ($271,320) followed by Hong Kong US$180,510, New Zealand $US168,400, Belgium US$166,280 and Denmark US$132,470.

The report notes that global household wealth has held up extremely well in the face of the economic turmoil confronting the world with the covid-19 crisis. "This unexpected outcome can be traced to three sources. First, restricted consumption opportunities have translated into higher savings and then into higher financial assets or lower debts.

"Second, lower interest rates and relaxed credit conditions have supported asset prices, including house prices and the valuations of pension entitlements. Finally, there has been massive economic support by governments involving the transfer of many trillions of US dollars from the government sector to the private sector, and ultimately to households," the report said.