Are Aussies Splashing Or Stashing Their Cash?

21 September 2020 | Tim Carleton, Auscap Asset Management

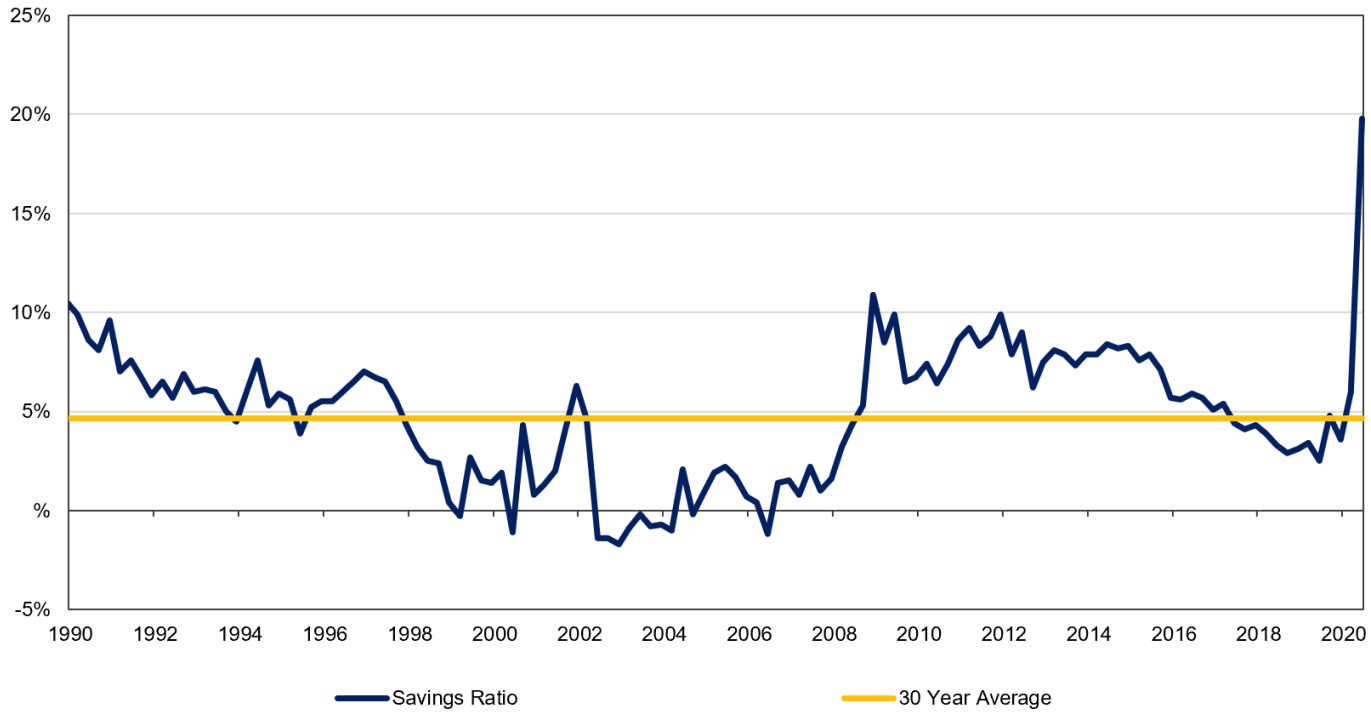
The last six months has been a uniquely challenging period, with the COVID-19 disruption being significant enough to bring Australia's 29 year recession-free streak to an end. Despite this, one notable bright spot has emerged: spending on consumer goods. This spending has been particularly strong in categories such as furniture, home improvement and electronics. The strength in these categories, which has clearly been supported by government stimulus, will inevitably decelerate from current levels over time. But are there reasons to be more optimistic on the outlook for consumer spending than the media headlines might lead us to believe? This newsletter covers recent data points which suggest that some optimism might be warranted.

Over the last 30 years, Australian households have saved an average of 4.7% of their net disposable income per annum. In the June quarter just gone, this rate rose to 19.8%, the highest level recorded in 40 years. This extraordinary $42bn increase in household net savings was due to a $35.2 billion fall in household spending and a $7.1bn increase in income due to the Government's income assistance measures. If the early access to superannuation scheme were included as a savings measure, the household savings ratio would have jumped to 24.8%.

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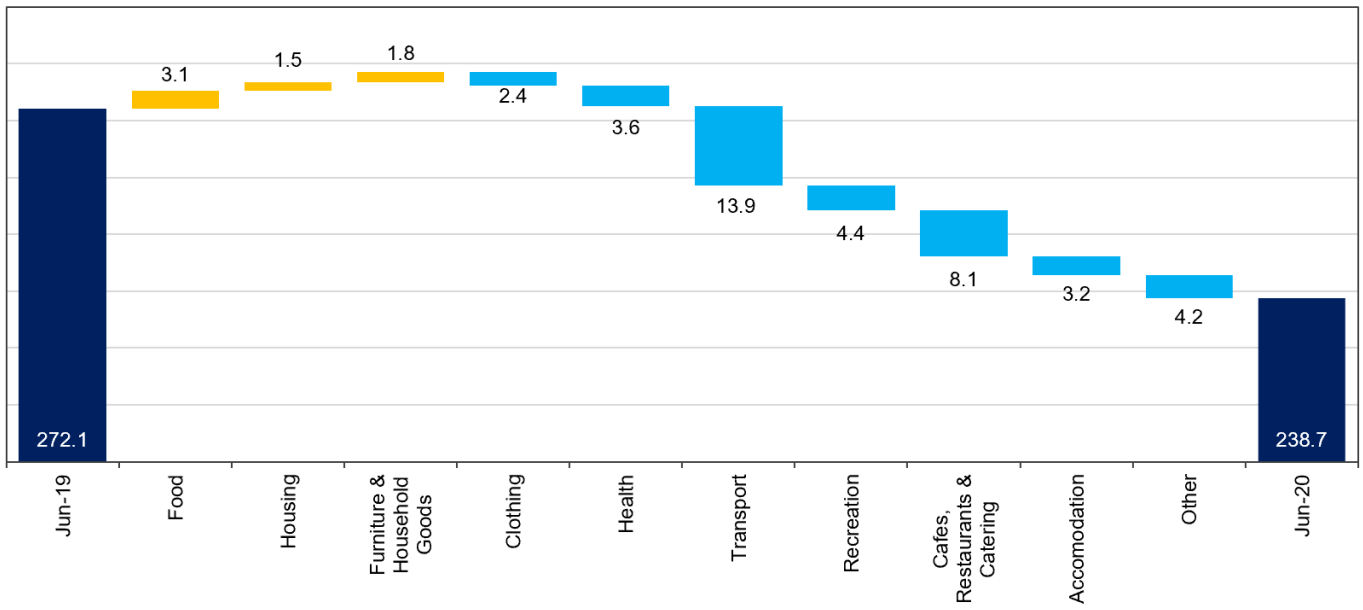
Household Saving Ratio



Source: Australian Bureau of Statistics, Auscap Asset Management

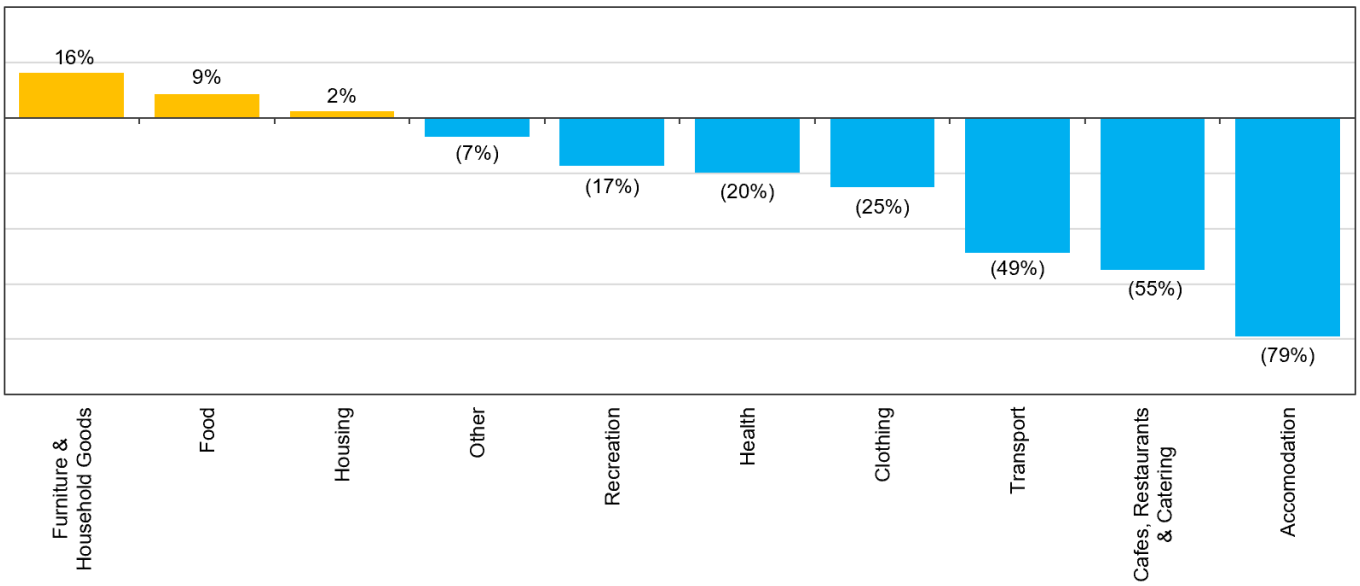
Whilst there has been much commentary on the acceleration of consumer spending on household items, it is worth putting this strength in context. Australian Bureau of Statistics (ABS) data suggests furniture and household goods spending accelerated by $1.8bn in the June quarter. However, this increase appears relatively minor in the context of material declines in most other major categories of expenditure, with a net reduction in expenditure of over $33bn.

Quarterly Household Consumption Expenditure Changes - June 19 to June 20 ($bn)



Source: Australian Bureau of Statistics, Auscap Asset Management

Quarterly Household Consumption Expenditure Changes - June 19 to June 20 (%)

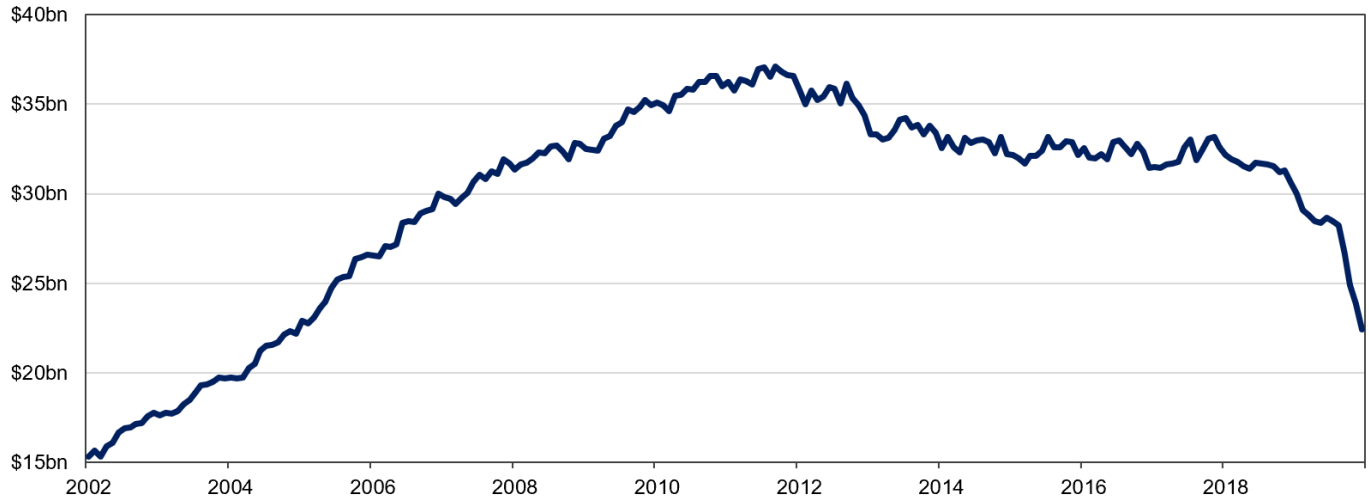


Source: Australian Bureau of Statistics, Auscap Asset Management

Rather than using the Government's income support and reduced expenditure in categories such as travel and transport to splurge on discretionary goods, it appears that the majority of households have prudently decided to improve their personal balance sheets. Australian credit card debt has fallen over 20% to

$22.4bn in June 2020 from $28.4bn in December 2019, as shown in the following chart. The Commonwealth Bank of Australia has reported that its savings accounts and term deposit balances have grown 5% between January and July 2020. Similarly, leading alternative finance company Zip has seen its customer repayment rate increase from 13% in December 2019 to a high of 16% in May 2020. Clearly, a number of Australians are using COVID-19 as an opportunity to save.

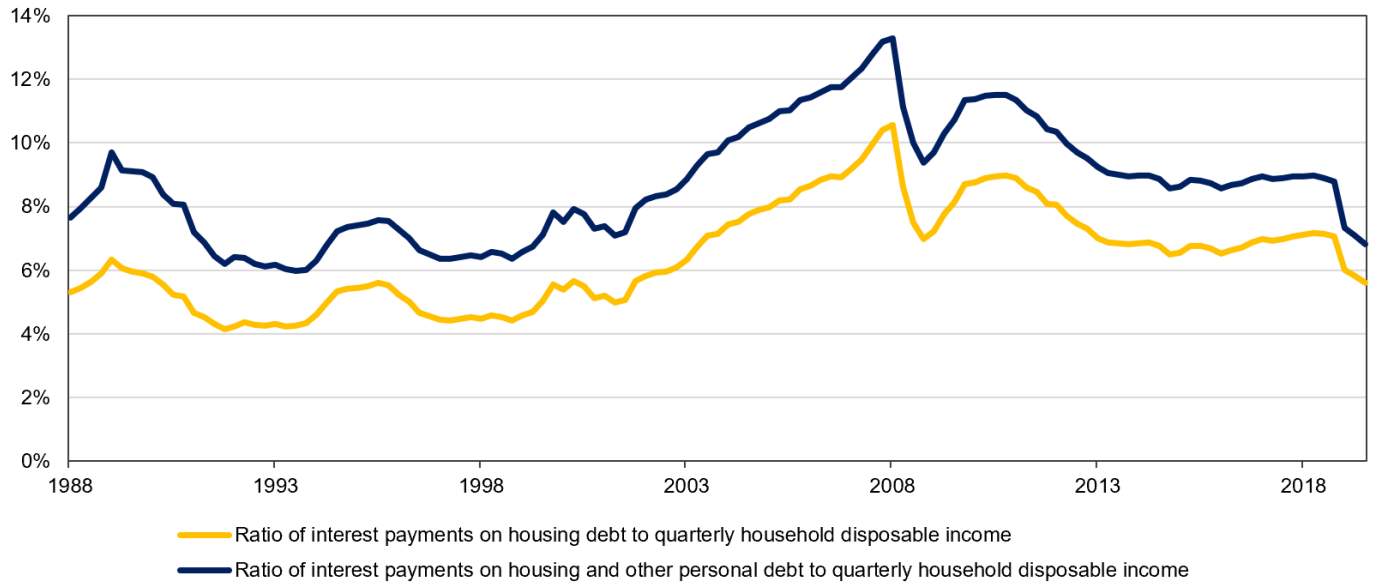
Value Of Credit Card Balances Accruing Interest



Source: Reserve Bank of Australia, Auscap Asset Management

While it is positive to see consumers reducing their high-interest bearing credit card debt, most Australian household debt relates to housing. With the Reserve Bank of Australia cutting the cash rate to a record low 0.25% and providing forward guidance that they are unlikely to increase this rate for "at least three years", housing debt interest serviceability has dropped to 5.6%, a level not seen since 2002. Total interest payments as a percentage of household disposable income now sits at 6.8%, the lowest level in two decades.

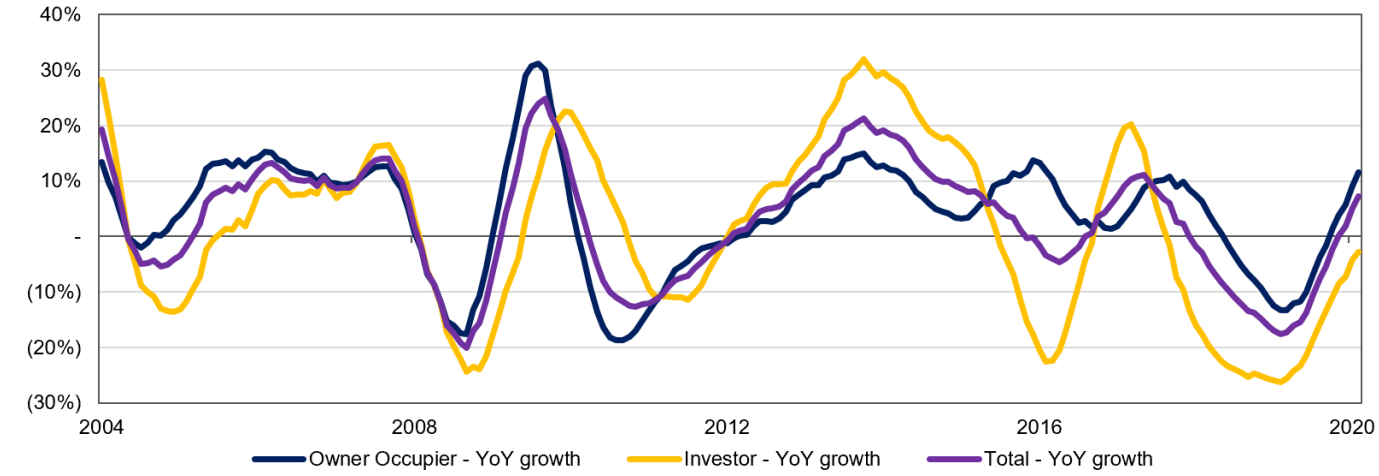
Household Debt Servicability



Source: Reserve Bank of Australia, Auscap Asset Management

Given the low interest rate environment and improving consumer balance sheets, interest amongst Australians in investing in property, particularly in the owner-occupier category, looks to be re-emerging. New housing loan commitments rose 8.9% on a seasonally adjusted basis in July, which the ABS called out as "the largest month-on-month rise in the history of the series". This data is shown in the following graph on a twelve-month rolling basis.

Housing Finance Commitments Ex Refinancing (YoY growth)



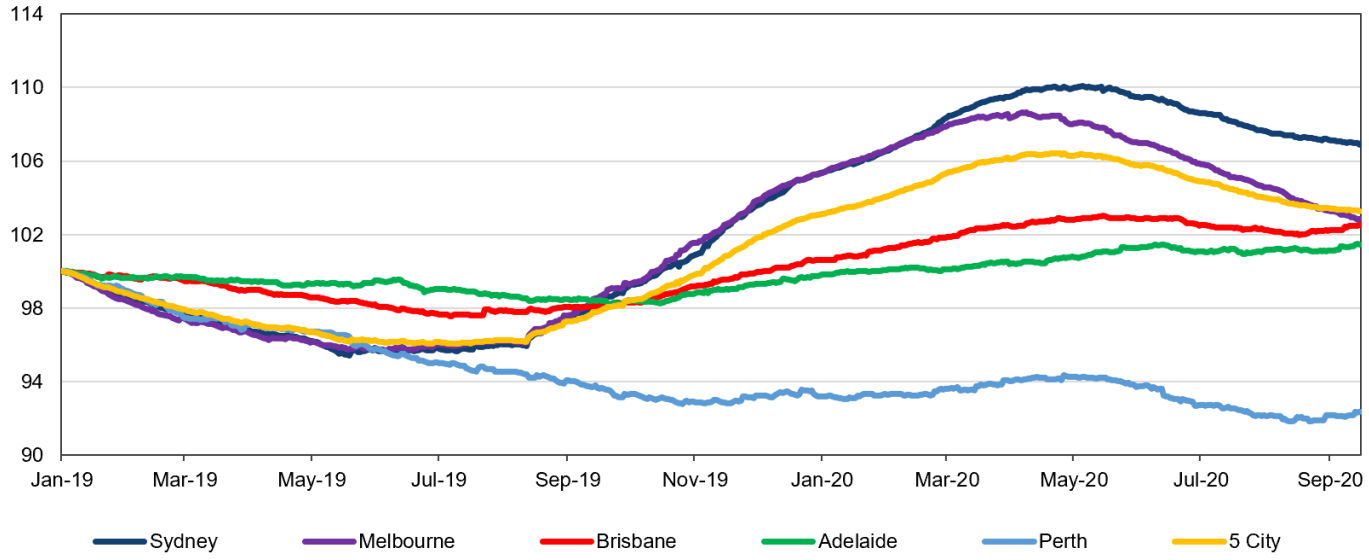
Source: Australian Bureau of Statistics, Auscap Asset Management

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At the height of COVID-19 uncertainty, market economists overwhelmingly predicted double digit falls in Australian house prices. Corelogic property price data indicates that capital city house prices have fallen circa 3% from the April 2020 high. However, this only puts house prices back to January 2020 levels, and the recent moderation in declines suggests that the probability of widespread "negative equity" in the case of defaults is currently low, absent a further significant fall in property prices.

Corelogic Property Index - Rebased to 100 (Since Jan-19)



Source: Corelogic, Auscap Asset Management

The market is justifiably focused on a pull-forward of consumer demand and elevated spending in some categories, the rise in unemployment and the impact of the gradual withdrawal of stimulus. However, the household balance sheet repair and serviceability of household debt provide reasons to be optimistic about the medium term outlook for consumer demand.

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