Economics Weekly

This week's economic highlights

- The **RBA** expects some households to come under financial stress due to rising interest rates, but the strong labour market and savings buffers means that debt servicing burdens are manageable. The board will make decisions regarding the timing and size of future interest rate increases given the path of **future employment growth** and inflation.

- The **RBA** estimates that households with fixed-rate loans that are due to expire by the end of 2023 would experience a median increase of around **$650** (or 45 per cent) in their **monthly repayments**.

- **Job vacancies** remain elevated in June, rising in all states and territories except in the Northern Territory. An indicator of labour shortages, vacancy rates are especially high in the engineering industry and for skill level 2 (advanced diploma or diploma) occupations.

Speech by the RBA Governor and Deputy Governor

RBA Deputy Governor Michelle Bullock in her speech on 19th July 2022 outlined **the implications of rising interest rates for the household sector** with a focus on the potential implications for financial stability. RBA will be giving special attention to indebted households (i.e., indebted homeowners) as they pose more "direct potential risks to the financial sector".

According to the RBA, the household credit-to-income ratio is currently 150 per cent (see chart 1). Since 1990 it has remained relatively steady, as nominal incomes have largely kept pace with increased debt. Although the high level of debt implies that Australian households will face difficulties as a result of rising interest rates, the bank believes there are factors that suggest considerable resilience in the household sector to rising interest rates, as also implied by the high levels of household assets compared to liabilities (see chart 2).

Furthermore, given the extensive support programs offered by the government during the pandemic lockdown periods, along with the curtailment of household spending households have experienced increases in savings (see chart 3). An increasing proportion of which has ended up in housing loan and offset accounts (see chart 4).

Almost three-quarters of outstanding debt is held by households in the top 40 per cent of the income distribution; indebted households in the bottom 20 per cent of the income distribution hold less than 5 per cent of the debt (see chart 5). This suggests that most households will be able to meet increasing debt servicing costs.

Bullock concluded with:

> *"While in aggregate it seems unlikely that there will be substantial financial stability risks arising from the household sector, risks are a little elevated. Some households will find interest rate rises impacting their debt servicing burden and cash flow. While the current strong growth in employment means that people will have*

> *jobs to service their mortgages, the way the risks play out will be influenced by the future path of employment growth. This, along with the Board's assessment of the outlook for inflation, will be important considerations in deciding the size and timing of future interest rate increases*."

In his speech to the Australian Strategic Business Forum on July 20, 2022, **the RBA Governor, Philip Lowe highlighted three strategic issues** that are important to the Bank. These are the challenge of returning inflation back to target, lifting productivity growth and the future of money. He noted that a return to inflation target rate would be influenced by the interruptions to global supply chain, the global uncertainty around Russia's invasion of Ukraine and the general inflation psychology in Australia. A higher inflation expectation would lead to a self-reinforcing cycle. If households and firms push prices and wages up, this would in turn perpetuate higher rate of inflation. Hence, *"the RBA is committed to ensuring that the current period of higher inflation is only temporary and it will do what is necessary to bring inflation back to target."*

Latest Australian economic data

The National Skills Commission's monthly **internet job vacancies index increased by 1.2%** to 303,400 in June 2022 (see chart 6). Job ads grew across all skill level groups, with the strongest growth in skill level 2 occupations (advanced diploma or diploma). All 48 detailed occupation groups compiled by the NSC during June 2022 remained above their pre-COVID-19 level of recruitment activity.

Job advertisement levels rose in all states and territories in June 2022 except in the Northern Territory. Month-on-month improvement in recruitment activity was most significant in Tasmania (+4.7% m/m), Victoria (+4.3% m/m) and South Australia (+2.8% m/m) (see chart 8). The NSC notes that *"job advertisements in capital cities recorded an increase of 60.6% compared to pre-COVID levels. By contrast, job advertisements in regional areas increased by 95.8%*".

Detailed occupational data from the NSC's Internet Vacancy Index (IVI) indicate that the occupations with the biggest increases in job ads in June were:

- engineers (+6.1% m/m),
- medical practitioners and nurses (+5.2% m/m),
- general-inquiry clerks, call centre workers and receptionists (+3.5% m/m),
- automotive and engineering trades workers (+3.0% m/m) and
- sales assistants and salespersons carers and aide workers (+2.5% m/m).

Across **skill level groups**, the NSC's IVI data indicate that job ads changed in June 2022 as follows:

- skill level 1 – bachelor degree or higher (+1.9% or + 2,000 vacancies),
- skill level 2 – advanced diploma or diploma (+2.6% or + 840 vacancies),
- skill level 3 – certificate IV or III[1] (skilled VET) (+1.6% or + 670 vacancies),
- skill level 4 – certificate II or III (+1.6% or + 1300 vacancies),
- skill level 5 – certificate I or secondary education (+1.7% or + 680 vacancies).

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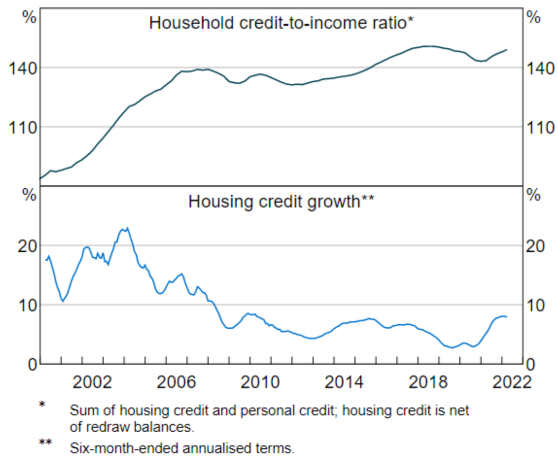
[1] Includes at least two years on-the-job training.

Chart 1: The household credit-to-income ratio is currently around 150 per cent. This is high relative to the early 1990s.

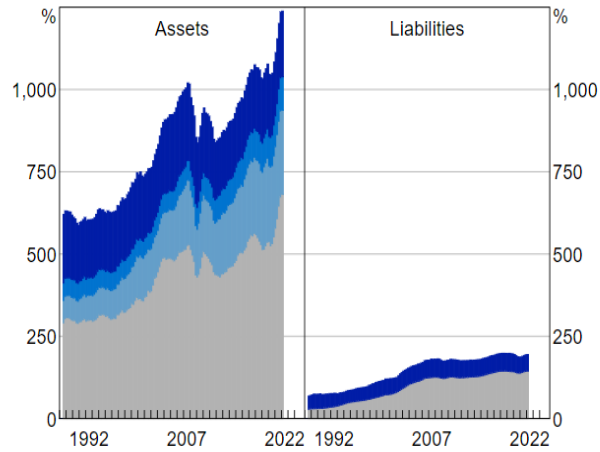
Household credit, 2000 to 2022



Source: ABS; APRA; RBA

Chart 2: Households have high levels of debt; this is accompanied by sizeable holdings of assets. **Housing assets** now comprise around half of household assets.

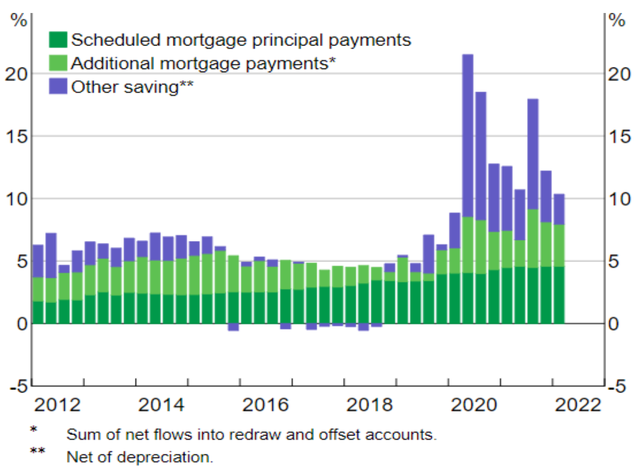
Household Balance Sheet, share of disposable income 1992 to 2022



Source: ABS; APRA; RBA

Chart 3: Even though expenditure on goods increased during the pandemic, it remained below pre-pandemic levels and as a result **household saving rate rose sharply**. Many households therefore built-up large liquidity buffers, including those households with mortgages.

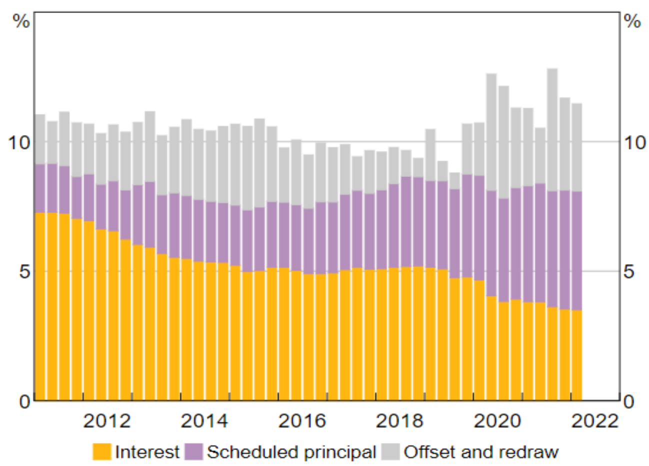
Share of household disposable income, 2012 to 2022



Source: ABS; APRA; RBA

Chart 4: Since the start of the pandemic, **payments into offset and redraw accounts have been substantial**, totalling around 3.5 per cent of disposable income.

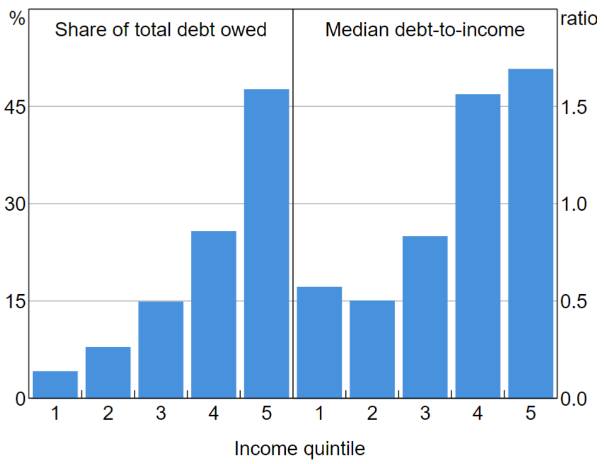
Share of disposable income, quarterly, 2010 to 2022



Source: ABS; APRA; RBA

Chart 5: Almost three-quarters of outstanding debt is held by households in the top 40 per cent of the income distribution; indebted households in the bottom 20 per cent of the income distribution hold less than 5 per cent of the debt.

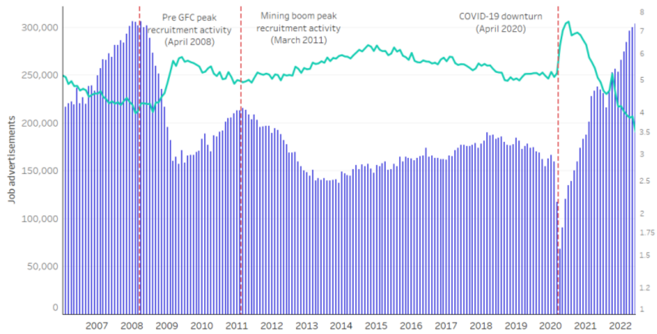
Distribution of household debt by income quintile, 2019/20



Source: ABS; RBA

Chart 6: The National Skills Commission's monthly **internet job vacancies index increased by 1.2%** (3,700 job ads) to 303,400 in June 2022. Job ads growth was strongest for skill level 2 occupations (advanced diploma or diploma).

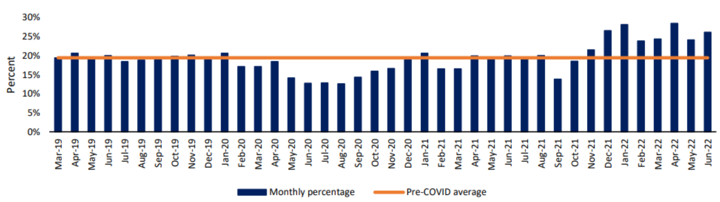
Online job ad volumes – January 2007 to June 2022



Source: National Skills Commission, *Vacancy Report*, Jun 2022

Chart 7: 26.1% of total job advertisements were duplicates of at least one vacancy posted in the previous three months. This indicates that businesses are finding it hard to fill advertised roles.

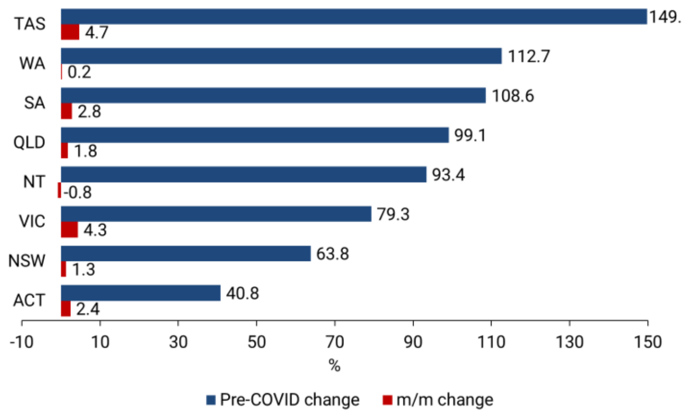
Share of total job advertisements identified as across-month duplicates March 2019 to June 2022



Source: National Skills Commission, *Vacancy Report*, Jun 2022

Chart 8: The number of **job vacancies advertised online** rose in June 2022 in all states and territories except in the NT. Job ads rose most prominently in Tas, Vic and SA. All states had more job ads in June 2022 than prior to COVID.

Online job ads growth, by state and territory, June 2022



Source: National Skills Commission, *Vacancy Report*, Jun 2022

This week's data and events 18 July – 22 July 2022

Day	Date	Data/event	Data period
Tue	19 Jul	RBA, Speech by Deputy Governor Michele Bullock	July 2022
Wed	20 Jul	RBA, Speech by Governor Philip Lowe	July 2022
Wed	20 Jul	NSC, Internet Vacancy Index	June 2022
Thu	21 Jul	ABS, Labour Force Detailed	May 2022

Next week's data and events 25 July – 29 July 2022

Day	Date	Data/event	Data period
Wed	27 Jul	ABS, Consumer Price Index	June 2022
Thu	28 Jul	ABS, Retail Trade	June 2022
Thu	28 Jul	ABS, International Trade Price Indexes	June 2022
Fri	29 Jul	ABS, Producer Price Indexes	June 2022

Ai Group Industry Performance Indicators

Australian Performance of Manufacturing Index®	June 2022	54.0 ▲
Australian Performance of Construction Index®	June 2022	46.2 ▼
Australian Performance of Services Index®	June 2022	48.8 ▼

Seasonally adjusted. Arrows represent direction of movement relative to last observation. Source: Ai Group.

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