A Glance at Australia

A Comprehensive Summary on Australia’s Economy and Related

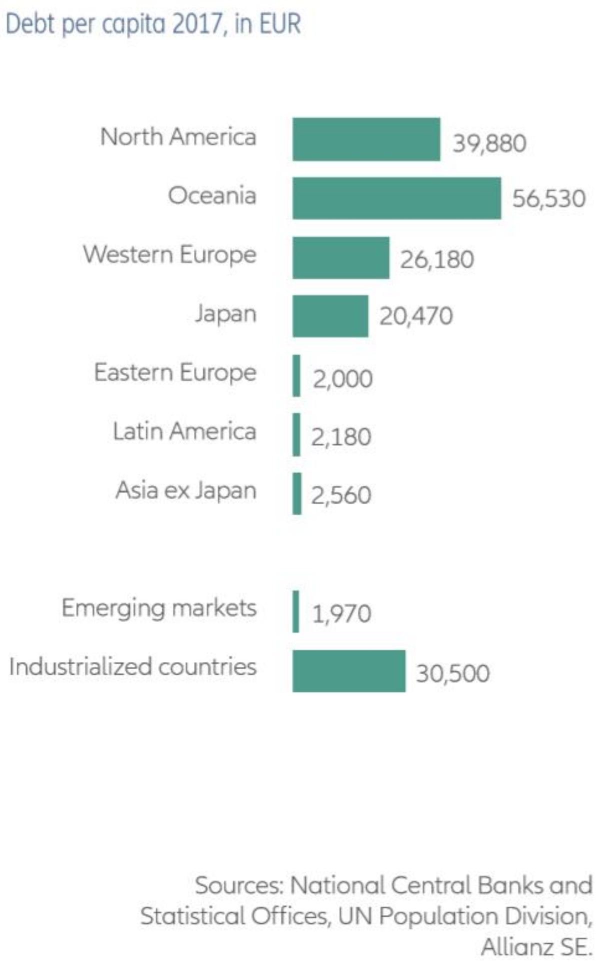
June 21st, 2019

Introduction

The following report is a comprehensive analysis summary on Australia's economy and its investors. It should give a snapshot of insights onto the nation's debt level, financial assets level, investor's preferences, and wealth distribution. All data and graph used are sourced from articles published online, which the links are cited at the end of this report.

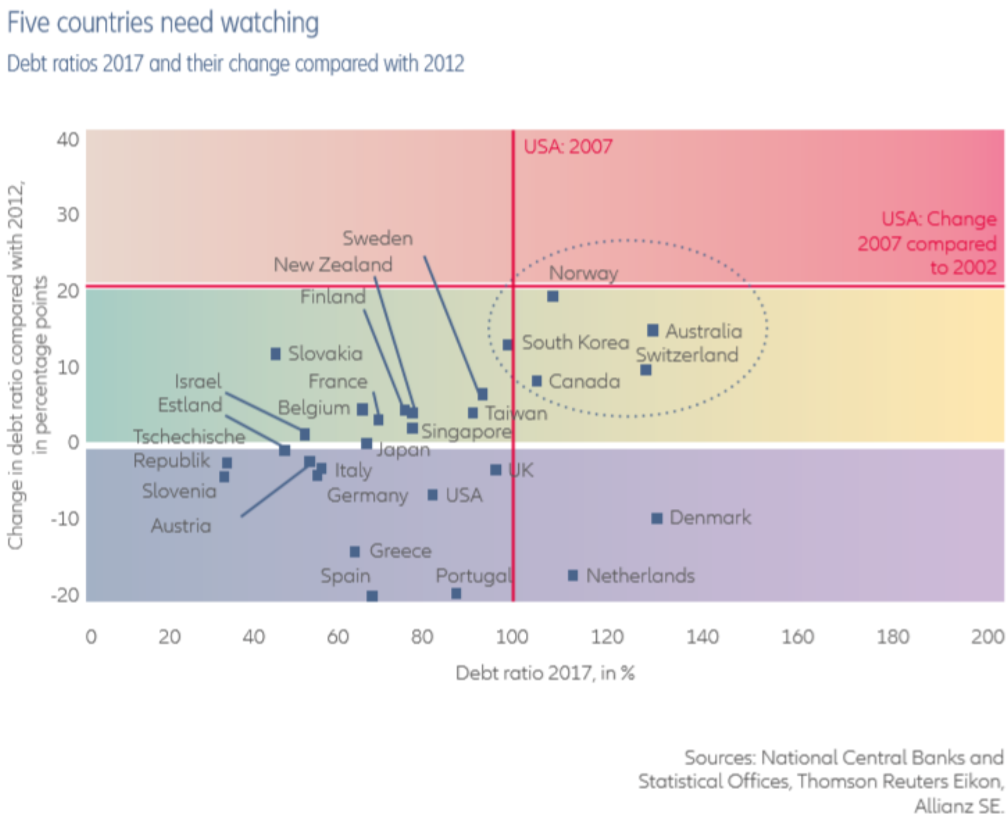
Debt Level and Related

Worldwide private household liabilities reached a historic high of EUR 39.8 trillion in 2017. Within that total, households in Oceania have by far the highest per capita debt in a regional comparison (EUR 56,530), comparable with Japan (EUR 20,470) and Western Europe (EUR 26,180). Even the North Americans had almost 30% less debt in per capita terms, at EUR 39,880.



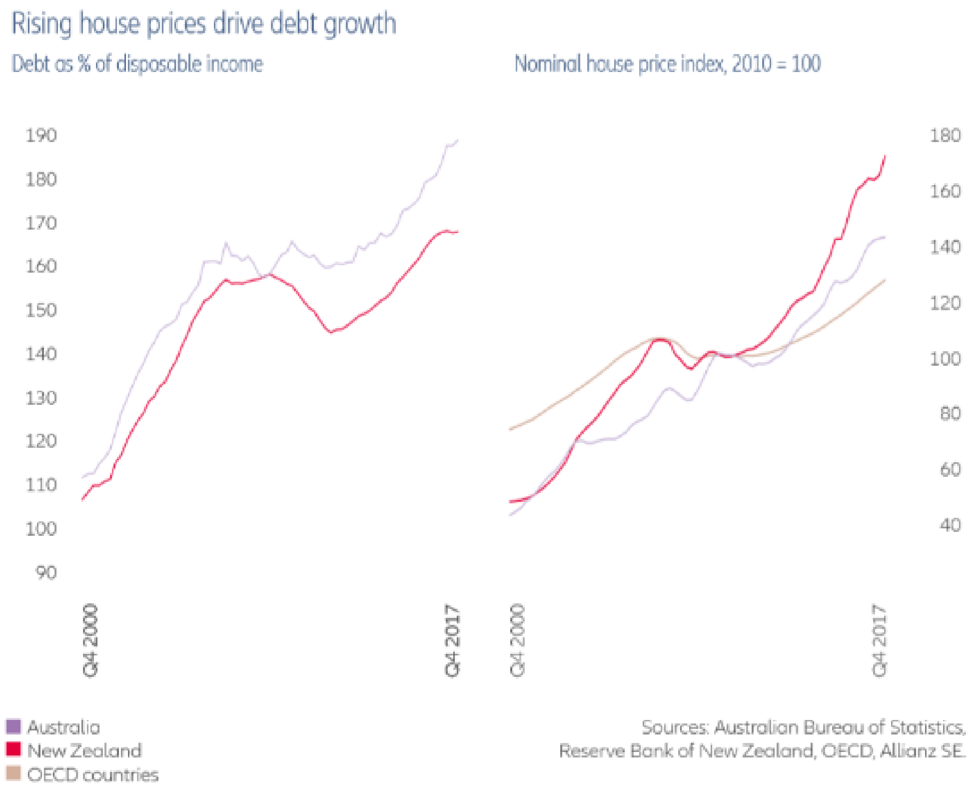
Another tool that is often used for indebtedness level analysis is the debt to nominal GDP ratio. How sustainable is the debt ratio in the household sector? In the following analysis, the situation in the US shortly before the property bubble burst is used as a benchmark. In 2007, the ratio of private household debt to GDP was around 100% and had increased by 20% over the previous five years. Any country lying above this benchmark will be considered "problematic" or "needs watching".

Though the private household debt is still at a moderate level in most countries, there are five countries that need watching under this benchmark analysis, and Australia is one of them. Its debt to GDP ratio is 131.2% and has grown by 15.6% over the previous five years. This figure seems very worrying and close monitoring should be required.



Moreover, the Australian private liability as a percentage of disposable income has also climbed from 180.7% at the start of 2017 to 188.6% when the year ends. The average liabilities per capita is at EUR 62,380, twice the average of the industrialized countries average.

However, with that being said, though the Australian debt level is very worrying, there are also reasons for why that is happening. The first and foremost reason is the rapid growth in house prices. According to the Allianz global wealth report 2017, mortgage debt accounts for the majority of Australian household debt.



The second reason may be that the Australian government has continuously lowered the interest rate to offsets large loans. The initial intention might be to ease the interest payment burden on private households but has definitely unintentionally increased the borrowing rate. As of 2017, the ratio between interest payments and disposable income came around 8.9%.

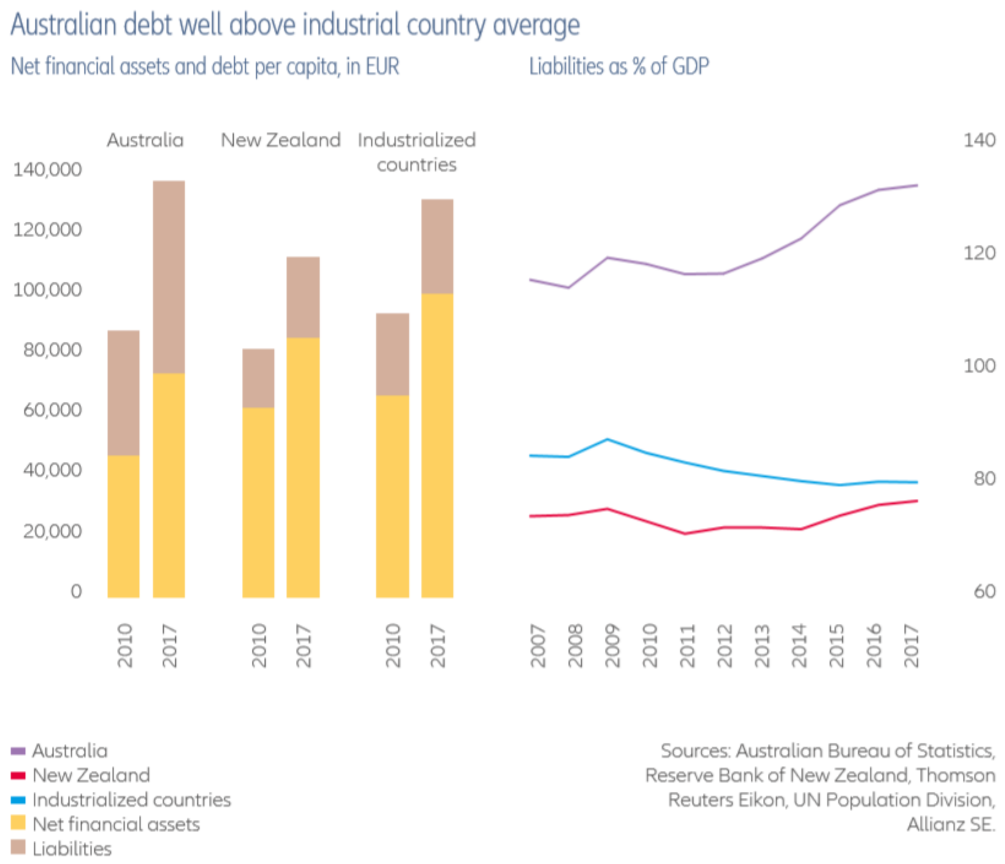
Financial Assets

Though Australia’s indebtedness level is worrying, its financial assets have also grown by adequate level over the same time period.

Australian’s financial assets have been growing by an average of 8.4% per year since the end of 2000, compared with an average of 6.2% to its neighbor, New Zealand. In 2017, the Australian financial assets grew by 6.5% or EUR 200 billion. Also, in the same year, the average per capita gross financial assets were EUR 134,460, putting them 23% ahead of their neighbors in New Zealand (EUR 109,700 per capita).

However, following the deduction of liabilities, the net financial assets comparison picture looks much different. New Zealand is now in a much better position: Eur 83,570, whereas Australian net financial assets fell to only EUR 72,080, both in per capita terms

Moreover, for each euro borrowed in Australia, there were assets worth EUR 2.20, while households in New Zealand had EUR 4.20 in assets for each liability of one euro. The debt to nominal GDP ratio also implicates the same conclusion. At the end of 2017, the ratio of private debt to nominal economic output in Australia was the second-highest worldwide at 131.2%, after Denmark at 132.1%, and around 52% above the industrialized countries average(78.7%). On the other hand, the same ratio in New Zealand is only beginning to come close to the average level, at 75.4%.



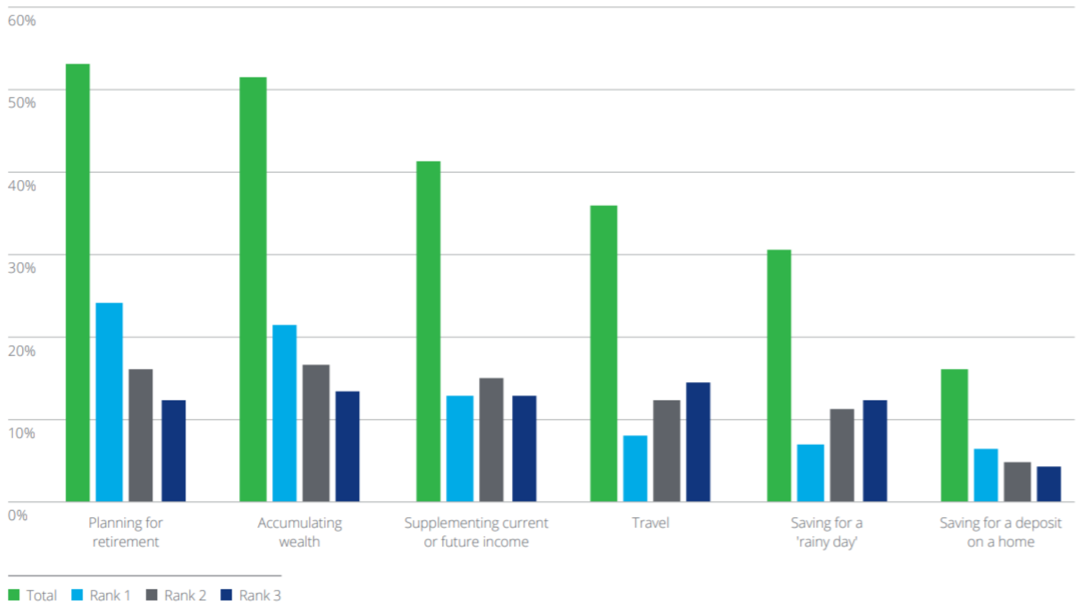
Investment preferences

Although investing is not a major contributing factor to Australia's indebtedness, it is still important to look at the nation's investment preferences. Investing is a critical activity in any modern economy, it is how a nation grows over time, and how individuals and families can participate in financial successes of businesses and earn an income.

The number of investors in Australia is also rapidly growing. At the end of 2017, 60% of Australian adults, or 11.2 million people, hold investments outside of their institutional superannuation fund. The number of young investors is also growing, doubling in the past 5 years, from 10% to 20%.

With that being said, older investors still take up the majority of the population. Therefore, the top investment goals in 2017 are more relevant to senior investors, such as planning for retirement, accumulating wealth and supplementing current income.

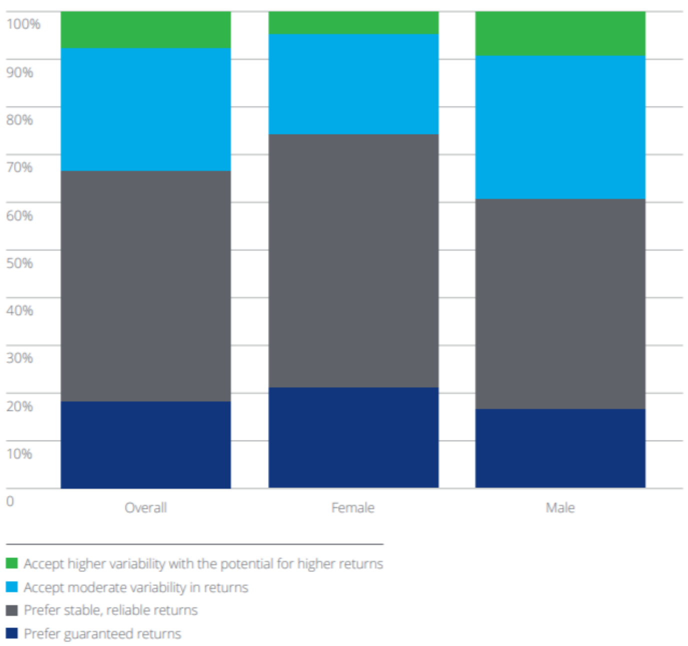
Chart 5.1: Top investment goals, all investors



Notes: n=2391

Australian investors are also relatively very risk-averse compared to its neighbors, the New Zealanders. According to the Deloitte Access Economics ("ASX") Investors Study 2017, 81% of Australian investors under 35 are now seeking guaranteed or stable investment returns, and approximately half of all investors would prefer stable and reliable returns.

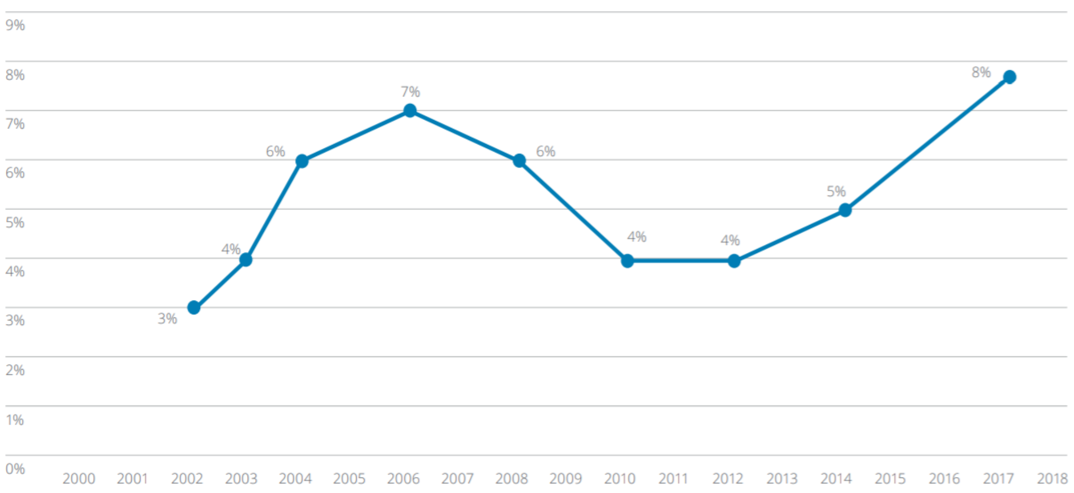
Chart i: Investors attitudes to risk, proportion of investors



Notes: n=2391

Another point to prove the risk preference conclusion is the considerably low proportion of international shares invested by Australians. The ownership of international shares has always been fluctuating around 5%, however, it has been increasing from 2014 (5%) to a historical high, 8%, in 2017. And, in the same year, 75% of share owners hold only Australian shares.

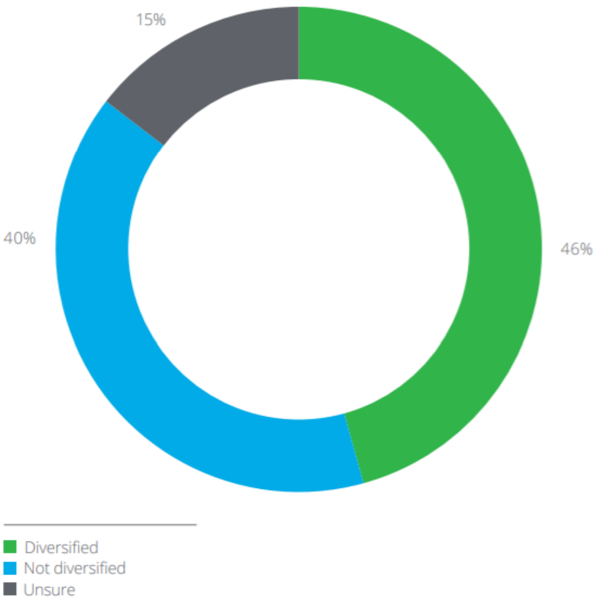
Chart 3.2: International share ownership, proportion of adult population



Notes: 2017 (n=4000)

However, interestingly, diversification, what is assumed to be the most common risk reduction investment strategy, is not well understood in Australia. 46% of the investors claim to be diversified and hold only 2.7 investment products on average. Another 40% says that they do not have diversified portfolios and hold 1.6 investment products on average. The remaining 15% do not know if they are diversified.

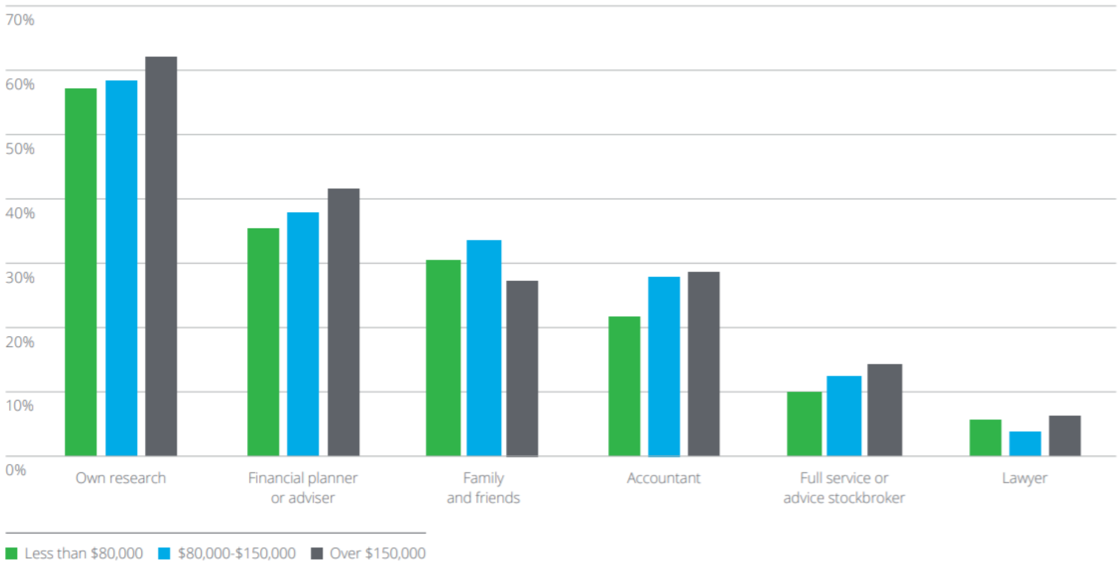
Chart 5.10: Diversified portfolios, proportion of investors



Notes: n=2391

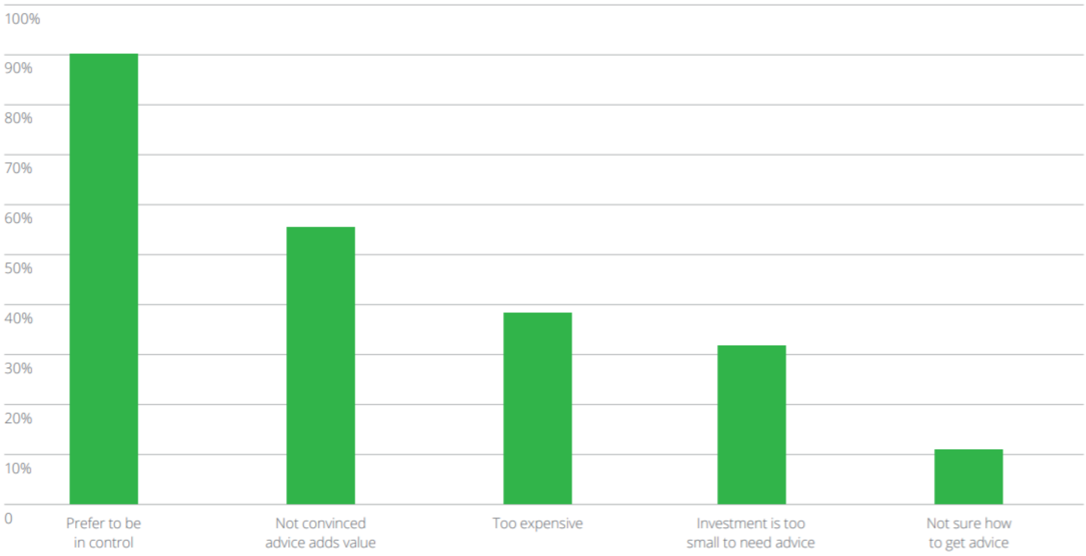
There is also an apparent lack of use on professional advice when it comes to sources of investment advice. The majority of Australian households seek advice through own research, followed by financial planners or advisors, and family and friends. Full service or advice stockbroker and lawyers lie at the bottom of the rank.

Chart 4.9: Source of investment advice by household income, proportion of investors



Notes: Respondents could select more than one option, n=2391

Chart 4.11: Reasons for not seeking professional advice, proportion of those investors who do not use advice

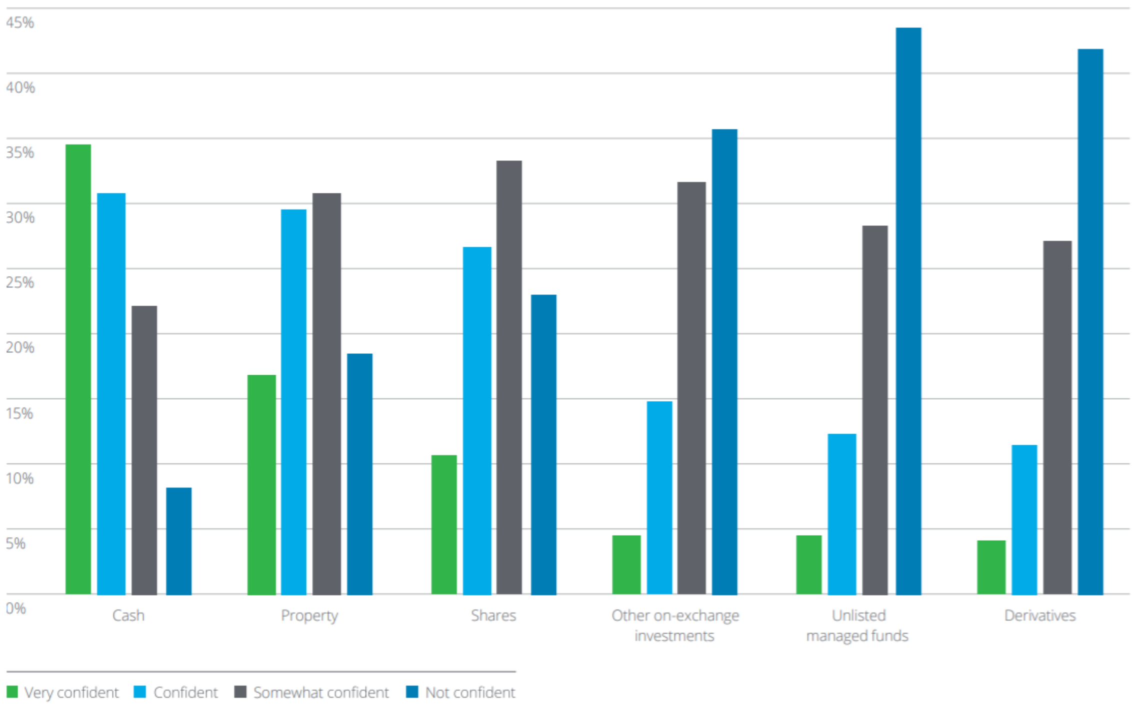


Notes: n=948

Of the investors that do not use professional advice, the most commonly cited reason is that they prefer to be in control of their investments; however, what may be of concern for the advice industry is that the reasons chosen following the first are perceptions of a lack of value (over half 56%) and high costs (39%).

However, also interestingly, though the majority prefer to not seek professional advice, they are also not confident in their investments. The investor confidence levels on the majority of the investment projects available lie within 'somewhat confident' and 'not confident' category, except for cash investments.

Chart 5.3: Investor confidence level with investing by investment product, all investors



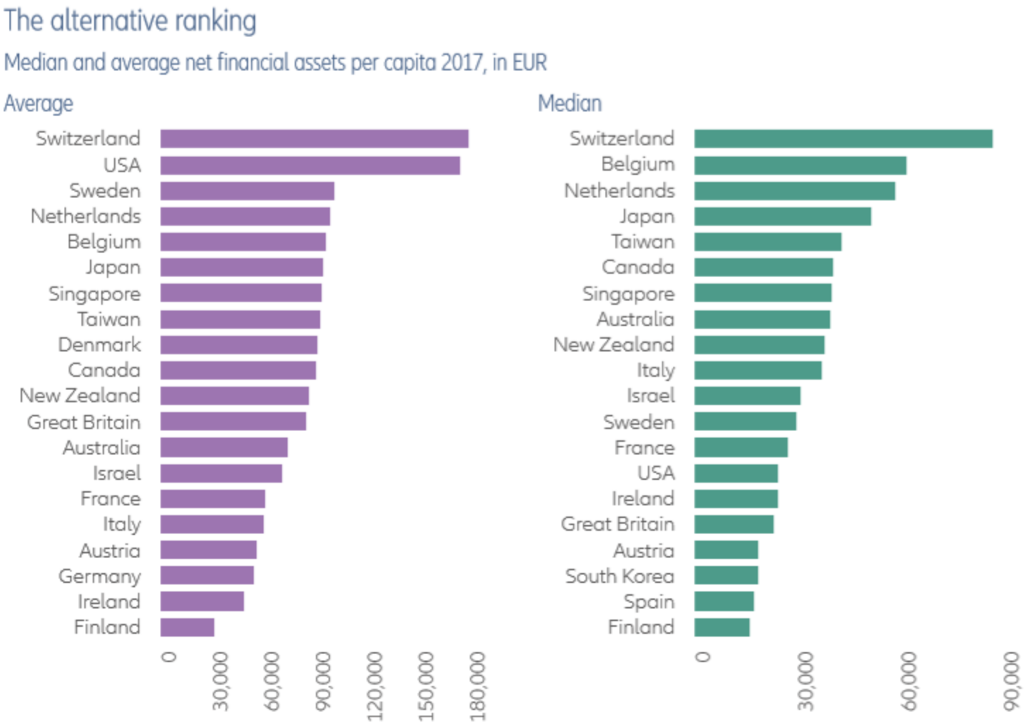
Wealth Distribution

In the last few years, public attention has focused less on growth in assets and debts than on the distribution of wealth. A growing number of investors are turning their backs on open markets and liberal societies, disappointed that it is always, 'other people' who benefit from globalization and foreign investment. Therefore, whether it be distribution analysis between or within countries, it is important to look into a country's wealth distribution to understand where a nation's income population separates.

One of the most commonly used wealth distribution indicators is the average and median net financial assets per capita comparison. If a country ranks high in average net financial assets but falls low on the median list, that means there is a pool of extremely rich population that is pulling the average high, whereas half or more of the population still remains relatively poor.

Therefore, when putting the average and median net financial assets ranking alongside each other, it is apparent that certain nations' wealth distribution is exceptional 'unequal'. For example, the US fell from 2nd on the average ranking, to 14th on the other. Sweden and Denmark also exhibit similar change, who fell from 3rd to 12th, and 9th to 23rd respectively.

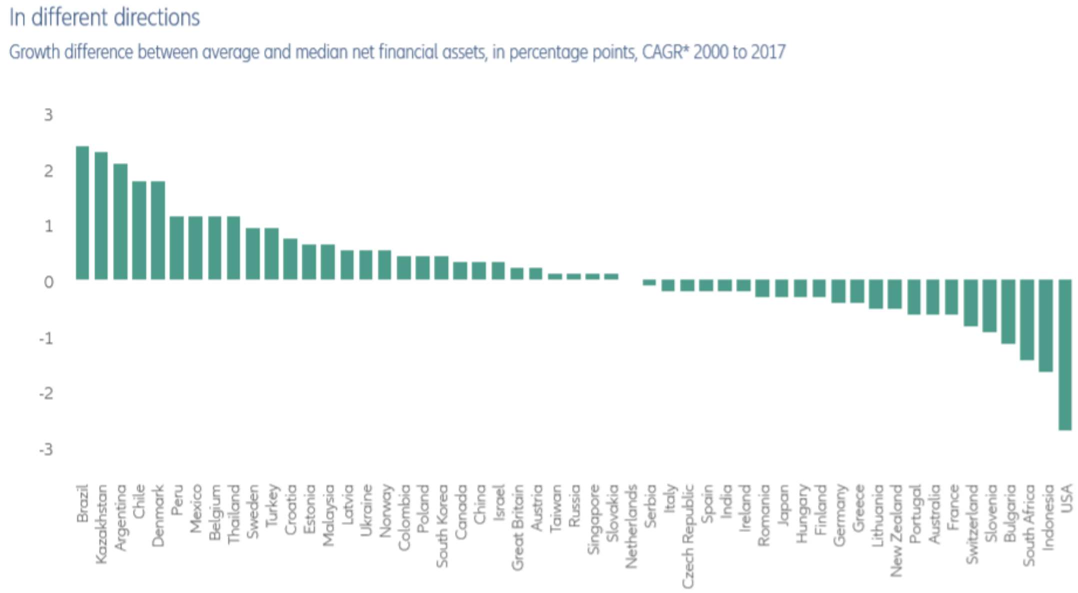
Australia has, interestingly, move up the rank, from the 13th to the 8th on the average and median ranking respectively.



Sources: National Central Banks and Statistical Offices, UN Population Division, UNU WIDER, World Bank, Allianz SE.

This movement indicates that the wealth distribution in Australia is relatively 'equal' since the median of the population holds an even higher income than the average. Or, it could be that the lowest net financial assets holders have such a low value that they pull the average of the population downwards.

This ranking comparison by its nature only provides a snapshot of the current situation. To examine what is happening in the long run, the annual growth rates (2000-2017) in median and average net financial assets will be analyzed in the following paragraphs. Where have median assets grown faster, indicating an increase in prosperity, particularly in the middle of society? And where have average assets risen faster, a sign that the richest members of the society are moving further away from the middle?



In this graph, the higher the positive difference, the more the distorted the economy (average has grown faster than median net financial assets in percentage point). Australia, as can be predicted from the previous analysis, has a negative growth difference between the two figures, indicating that the median assets have grown faster. This means that there is an increase in prosperity especially in the middle of the society; which, in other words, means that the wealth distribution has become more 'equal' over the 2000-2017 period.