



## Wealthier Australians but cash still king

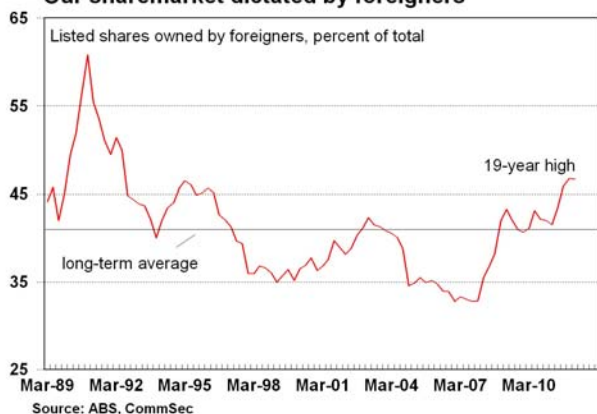
### Financial Accounts; Job Vacancies; New Home Sales

- **Wealthier:** Net household wealth per capita rose from \$47,269 to \$50,786 in the March quarter – the second consecutive quarterly increase.
- **Foreigners embrace shares:** Foreigners held 46.7 per cent of Australian listed shares in the December quarter – the highest share in 19 years.
- **Cash is still king:** Households held 25.9 per cent of assets in cash or deposits in the March quarter. Companies held 44.8 per cent of assets in cash and deposits, just shy of the 22-year high of 45.6 per cent recorded in the December quarter but still well above the long-term average of 38.9 per cent.
- **Job vacancies:** Job vacancies fell by 5.3 per cent in seasonally adjusted terms in the May quarter after rising by 0.7 per cent in the previous three months.
- **New home sales turn the corner?** New homes sales lifted by 0.7 per cent in May, after rising by 6.9 per cent in April. Home sales are crawling of the 11-year lows reached in March.

#### What does it all mean?

- Cash is still king. Australian companies are continuing to hold more money in liquid cash and deposits than ever before. Just under half of financial assets at private sector companies are held in cash or deposits, while households are holding just over a quarter of their assets in cash and deposits.
- The high level of liquid assets is both positive and negative. Companies are well able to deal with the challenges posed by the volatile global financial conditions. But at what point does the level of cash become too much? It is easy to hold funds in liquid form of cash and deposits, but shareholders also want companies to be exploring opportunities to increase efficiency, productivity or growing organically or by acquisition.
- Australian consumers and superannuation funds are also maintaining extraordinarily high holdings of cash and deposits. In fact super funds are holding almost double the “normal” cash holdings with the proportion of assets

**Our sharemarket dictated by foreigners**



**Cashed up companies**



**Savanth Sebastian – Economist (Author)**

**(02) 9118 1805 (work); 0414 188 161 (mobile) | savanth.sebastian@cba.com.au**

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report. The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker. This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Services Authority (FSA). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for private customers and are not available to them. Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

sitting just over 14 per cent.

- The uncertain global environment and high term deposit rates have been the main driver of the ongoing shift to cash. However given the substantial rate cuts and the likelihood of further cuts to deposit rates it is likely that consumers and businesses will put more of the cash to work over the coming year as activity levels pickup.
- Foreigners haven't given up on Australian equities. In March foreign investors held almost 47 per cent of all Australia's listed shares. The problem at present is that domestic investors aren't keen on shares and aren't actively trading. As a result, our sharemarket is bouncing around in line with US and European markets, seemingly impervious to changes in domestic economic fundamentals Australian households.
- The latest new home sales data confirms the ongoing weakness on the housing front. However the sizeable rate cuts are already providing a boost to enquiry levels and there have been signs of a modest pickup in the daily data on home prices over the past couple of months. Over the second half of the year activity levels pick up particularly in the likes of NSW which has been showing a significant level of underbuilding.

## What do the figures show?

### Financial Accounts:

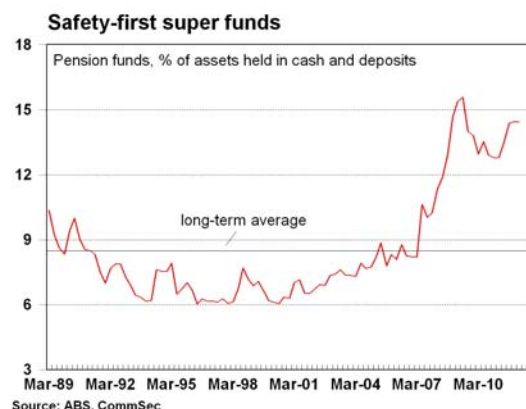
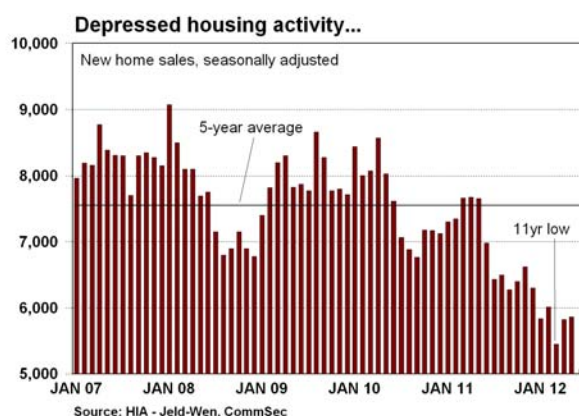
- **Households** held \$717.2 billion in cash and deposits at the end of March. Cash holdings represent 25.9 per cent of assets, down from 26.4 per cent in the December quarter and above the long-term average of 19.5 per cent.
- **Australian non-financial private companies** stood at \$393.8 billion in cash and deposits at the end of March. Cash and deposits held at 44.8 per cent of financial assets, just shy of the 22-year high of 45.6 per cent recorded in the December quarter but still well above the long-term average of 38.9 per cent.
- **Pension fund (superannuation fund) assets** rose by \$72.6 billion (6.0 per cent) in the March quarter. Cash and deposits stood at 14.4 per cent of financial assets, well above the long-term average of 8.5 per cent.
- **The net financial wealth of Australian households (assets less liabilities) rose** for the second consecutive quarter in the March quarter, lifting by \$83.3 billion or 7.8 per cent to \$1,068.5 billion.
- **Financial assets of households** (such as shares, bank deposits) rose by \$97.7 billion or 3.7 per cent in the March quarter to \$2,773.4 billion. **Financial liabilities of households** grew by \$14.5 billion or 0.9 per cent to a record \$1,627.4 billion.
- **Net household wealth per capita** rose from \$47,269 to \$50,786 in the March quarter. Per capita wealth is down 3.1 per cent over the past year and down 0.6 per cent over the past five years but is up 35.2 per cent over the past decade.
- **Foreign investors** held \$580.6 billion of Australian listed shares as at the end of the March quarter or 46.7 per cent of the total – just shy of the highest share in 19 years.

### Job vacancies:

- Job vacancies fell by 5.3 per cent in seasonally adjusted terms in the May quarter after rising by 0.7 per cent in the previous three months.
- Over the past year job vacancies fell by 8,900 or 4.9 per cent. Vacancies rose most in retail trade (up 3,000), other services (up 2,200), manufacturing and education & training (both up 1,500). Vacancies fell most in admin jobs (down 5,600), professional and scientific services (down 4,800), health (down 3,300).

### New home sales

- The Housing Industry Association / JELD-WEN new home sales report shows that number of new homes sold in May rose by 0.7 per cent after rising by 6.9 per cent in April. Home Sales are still crawling of the 11-year lows reached in March.



- Detached house sales fell by 2.0 per cent while multi-unit sales were up by 21.1 per cent.
- New home sales in May were 23.4 per cent lower than a year ago and have fallen at a double-digit annual rate for the past six months.
- The HIA note: *"It is encouraging to see a second consecutive increase in the sale of multi-units, a result which saw a lift of 11.6 per cent over the May 2012 'quarter'. However, detached house sales fell in four of five mainland states in May this year. The exception, Victoria, experienced a second consecutive (modest) rise in sales ahead of the ending of the First Home Bonus on June 30<sup>th</sup>."*

### What is the importance of the economic data?

- The Australian Bureau of Statistics releases the **Financial Accounts** publication each quarter. The data covers assets, liabilities and financial flows for the key sectors of the economy. Figures on financial wealth help reveal the true state of household finances.
- The Australian Bureau of Statistics releases **Job Vacancies** data each quarter. The data is useful in gauging the strength of the job market.
- The **Housing Industry Association** releases data on the **sales of new homes** each month. The HIA collects the data each month from a sample of Australia's largest 100 home builders. The survey covers around 13 per cent of the home building industry.

### What are the implications for interest rates and investors?

- Aussies have become too conservative. Foreigners are trimming cash holdings and embracing shares. Certainly there is significant upside for equities when the cash starts getting put to work.
- The job vacancies data confirms that the economy is treading water at present.
- The Reserve Bank looks set to keep interest rates on hold next week, and get a better read on the inflation data at the end of July before cutting rates once again August.

Savanth Sebastian, Economist, CommSec  
Work: (02) 9118 1805; Mobile: 0414 188 161

