Box A: A Disaggregated Analysis of Household Financial Exposures

The main source of disaggregated data on household debt and assets is the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The most recent data are from the 2002 Survey, which involved 7 245 households.

The Survey shows that household debt is concentrated among upper-income households. Of the two thirds of Australian households that owed some form of debt in 2002, those in the top 30 per cent of the income distribution owed almost 60 per cent of total outstanding debt (Table A1). In contrast, households in the bottom 40 per cent of the income distribution accounted for just 14 per cent of outstanding debt. This distribution reflects both a greater number of upper-income households with debt, and higher average levels of debt among these households. Property debt of investors was even more concentrated, with three quarters of such debt owed by upper-income households.

Table A1: Distribution of Household Debt
Per cent

Income decile	By value			By number		
	Total debt	Property debt	Property debt of investors	Total debt	Property debt	Property debt of investors
1-4 (lowest)	14	12	8	28	19	11
5-7	27	28	17	33	33	24
8-10 (highest)	59	60	75	39	48	65

Source: HILDA 2002, Release 2.0

While upper-income households owe most of the debt, they typically have lower debt-servicing burdens than other households. Of households with owner-occupier debt, those in the upper-income deciles used, on average, less than 20 per cent of their after-tax income to meet interest and principal repayments on that debt. The comparable figure for lower-income households was around a third of after-tax income (Table A2). Upper-income households are also more likely to be ahead in their mortgage repayments and hold more financial assets relative to the size of their debts. Unfortunately, the HILDA Survey does not contain information on debt servicing of investor or personal loans.

The disaggregated data also suggest that even if house prices fell significantly, the vast bulk of borrowers would not find themselves in a negative equity situation. Three quarters of those with property debt reported property-gearing ratios – property debt to property assets – of 60 per cent or less (Graph A1). The higher-income households that carried the bulk of outstanding debt typically had the lowest levels of gearing (Graph A2). Across the income distribution, ratios

Table A2: Households with Owner-occupier Housing Debt[(a)]

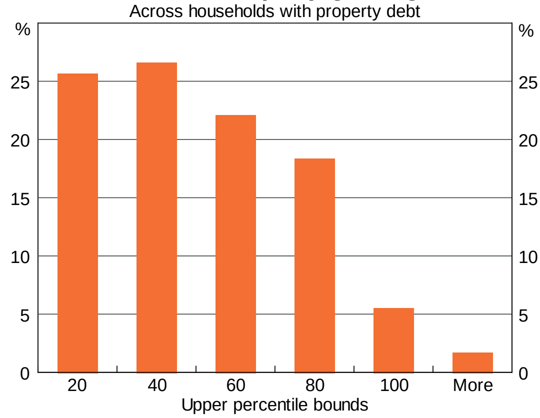
Income decile	Median owner-occupier debt-servicing ratio	Ahead of schedule on debt repayments[(b)]	Median liquid assets as share of owner-occupier debt
	Per cent	Per cent of decile	Per cent
3	34	51	5
4	31	55	4
5	24	53	5
6	22	57	10
7	21	60	7
8	20	64	10
9	16	66	16
10	14	58	22

(a) Sample differs across columns
(b) Primary mortgage repayments only
Source: HILDA 2002, Release 2.0

of total gearing – total debt to total assets – were typically lower than property gearing ratios.

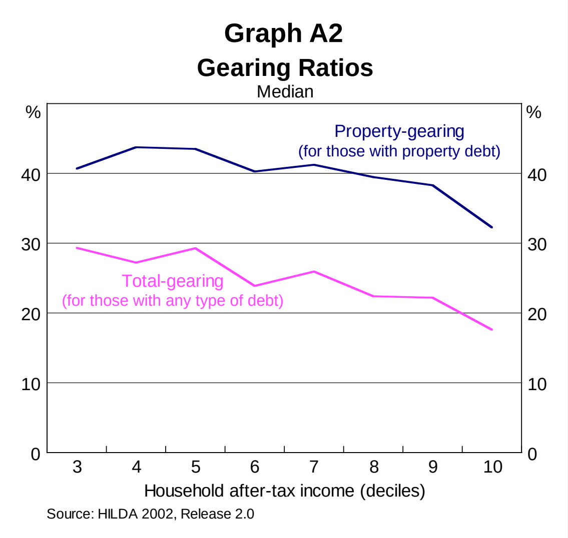
Disaggregated data based on income deciles may disguise important distributional information *within* each income decile, so analysis of financial characteristics at an individual household level is also of interest. This analysis shows that owner-occupier debt-servicing costs were at least 50 per cent of after-tax income for around 2 per cent of all households, while property-gearing ratios were greater than 75 per cent for about 4 per cent of households (Table A3). Less than half of 1 per cent of households had both debt-servicing and gearing ratios above these levels. These higher readings on financial ratios were more common among lower-income households with owner-occupier mortgages.

Graph A1
Distribution of Property-gearing Ratios
Across households with property debt



Source: HILDA 2002, Release 2.0

Overall, disaggregated measures of debt servicing and gearing from the 2002 HILDA Survey suggest that the bulk of indebted households have some buffers against a change in their financial circumstances. This is especially the case for the higher-income households that owe most of the debt. However, the increase in aggregate debt-servicing and gearing ratios since the Survey was undertaken suggests that these disaggregated indicators may understate the exposure of some households to a change in their financial circumstances. In addition, there was a group



– particularly among lower-income households – for which debt repayments occupied more than half of after-tax income, suggesting a degree of vulnerability within the household sector to a large rise in interest rates.

Table A3: Highly Indebted Households[(a)]
Per cent of each group of households, unless otherwise indicated

	Households with owner-occupier mortgage debt Income deciles				Total households[(b)]
	3-4	5-7	8-10	All[(b)]	
Debt-servicing ratio > 50%	18.4	7.5	3.1	6.7	2.4
Property-gearing ratio > 75%	10.7	15.5	9.2	11.7	4.2
Debt-servicing ratio > 50% and property-gearing ratio > 75%	1.1[(c)]	1.4[(c)]	0.8[(c)]	1.1	0.4
Memo items					
Per cent of all households with owner-occupier mortgage debt	12.6	34.6	47.3	–	–
After-tax income (range)	$18 721 –30 977	$30 981 –55 909	$55 925 and above	–	–

(a) Excludes those households not reporting debt-servicing costs
(b) Excludes households in the lowest two income deciles
(c) Estimate based on a sample of 15 or less; hence, the standard error could be quite large
Source: HILDA 2002, Release 2.0