3. Domestic Financial Conditions

The policy measures implemented by the Reserve Bank since the onset of the pandemic are providing important support to the Australian economy, having reduced funding costs across the Australian economy to very low levels. These measures include the reductions in the cash rate, the use of forward guidance, the Term Funding Facility (TFF), the yield target and the bond purchase program. In February, the Board decided to cease further purchases under the bond purchase program. The expansion of the Bank's balance sheet associated with the bonds purchased under the program and other policy measures will continue to support highly accommodative financial conditions.

Australian Government bond yields are little changed over the past three months. Yields declined in late 2021 as the emergence of the Omicron variant of COVID-19 led to increased uncertainty around the economic outlook. However, yields have since risen and reversed that decline, broadly in line with offshore developments. Bond markets continue to function reasonably well, although at times some market segments have been operating less effectively. Money market rates have risen slightly but remain close to historical lows. Australian equity prices have fallen recently following gains in 2021.

Overall, interest rates on outstanding loans declined by more than banks' funding costs over 2021. Both are at historic lows, supported by the Bank's policy measures. Meanwhile, demand for housing finance remains robust, and business debt has been growing at a fast pace, driven by the borrowing of larger firms.

The Australian dollar has depreciated in recent months, notwithstanding a rise in commodity prices, as market participants have brought forward their expectations for monetary policy tightening in the United States.

In February, the Board decided to cease further purchases under the bond purchase program

At the February Board meeting the Board decided to cease further purchases under the bond purchase program, with the final purchases to take place on 10 February.

Under the bond purchase program, the Bank has purchased $277 billion of longer-term government bonds since November 2020, consisting of $220 billion of Australian Government Securities (AGS) and $56 billion of semi government securities (semis) (Graph 3.1). The Bank also bought bonds in support of the yield target and market functioning. Total bond purchases since the start of the pandemic amount to $360 billion. The Bank currently holds 36 per cent of outstanding AGS and 18 per cent of outstanding semis. The stock of bonds purchased, along with other policy measures taken by the Bank, will continue to contribute to very stimulatory financial conditions.

AGS yields are little changed over the past few months

Yields on longer-term AGS are little changed over the past three months (Graph 3.2). Yields declined following the emergence of the Omicron variant late last year but then rose

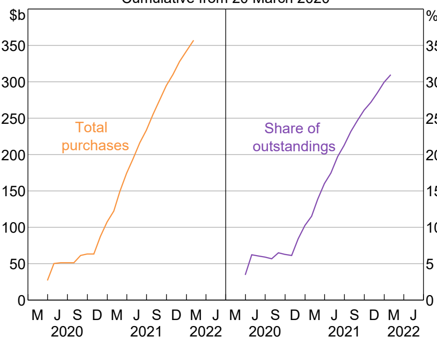
alongside a move higher in bond yields globally. US Treasury yields are currently around 20 basis points higher than the beginning of November. Consequently, over the same period the spread between 10-year AGS and US Treasury yields has declined by around 20 basis points. The increase in US Treasury yields reflects firming expectations of a number of policy rate increases in the United States in response to rising inflation and inflation expectations, alongside further signs of tightness and wages pressure in the US labour market (see chapter on 'The International Environment'). Short-end AGS yields have increased over recent months, having risen sharply in October last year in response to stronger-than-expected Australian inflation data, growing expectations that central banks around the world would need to tighten policy rates in the near future, and the Board's decision to discontinue the yield target. The Board's decision in February to cease further bond purchases under the bond purchase program was widely expected and had little effect on yields at the time.

The increase in longer-term AGS yields since the recent low in December has been driven by higher real yields, with longer-term inflation compensation (which captures both inflation expectations and inflation risk premia) little

Graph 3.1

RBA Purchases of AGS and Semis*

Cumulative from 20 March 2020



* Includes purchases made: under the bond purchase program; to support market function; and to support the yield target.

Sources: AOFM; Bloomberg; RBA; state and territory central borrowing authorities

changed (Graph 3.3). Conversely, the increase in shorter-term AGS yields over this period has been driven by both higher inflation compensation and higher real yields.

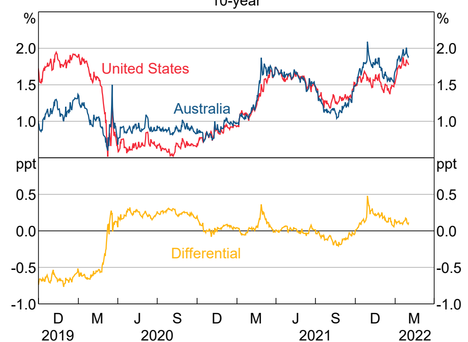
Government bond issuance has been steady as funding tasks have been revised slightly lower

Bond issuance by the Australian Office of Financial Management (AOFM) has been steady over recent months – other than for the usual hiatus over year-end – at around $2 billion to $2.5 billion per week, with auctions continuing to attract solid demand (Graph 3.4). Issuance is around that implied by the AOFM's mid-December update, where annual funding guidance was decreased to $105 billion for the

Graph 3.2

Government Bond Yields

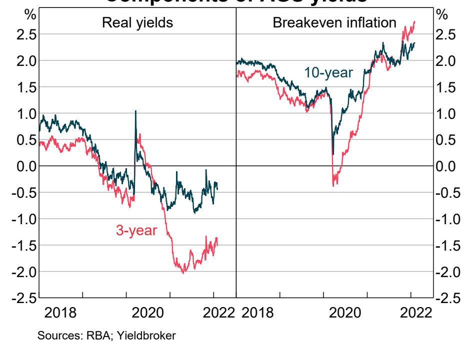
10-year



Sources: Bloomberg; RBA; Yieldbroker

Graph 3.3

Components of AGS yields



Sources: RBA; Yieldbroker

2021/22 financial year, from $130 billion previously. The broader increase in yields (including semi spreads over AGS) in October saw the pace of issuance by state and territory borrowing authorities slow for a time. This was followed by issuance blackouts ahead of funding updates over the first half of December, which showed a small decrease in the overall funding task for most semis issuers. A number of state authorities continue to be ahead of their implied funding schedules.

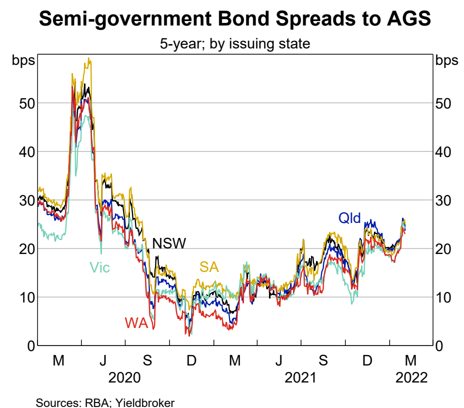
Spreads of yields on semis over those on AGS are little changed over the past few months (Graph 3.5). Spreads initially narrowed, with market contacts suggesting higher outright yield levels had encouraged buying from yield-sensitive investors, but more recently spreads have moved higher again alongside widespread expectations that the Bank would cease bond purchases in February. The Board's decision to cease further bond purchases under the bond purchase program had no additional impact on semis spreads.

Measures of market functioning have been mixed

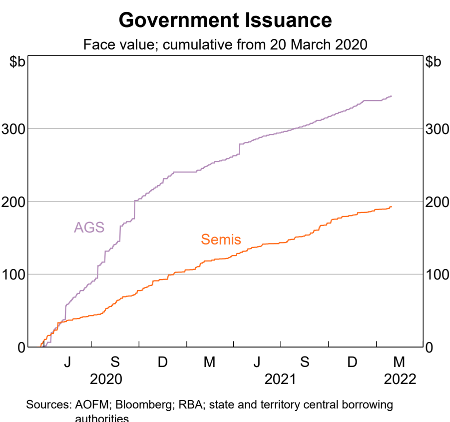
After a period of reduced functioning in the latter part of October and early November, there are measures of bond market functioning that have improved, with the November Board meeting clarifying the Board's outlook and policy settings, including the discontinuation of the yield target. In particular, bid-offer spreads have narrowed since early November to be in line with long-run averages (Graph 3.6).

Meanwhile, demand to borrow AGS from the Bank has increased over recent months, although the value of bonds lent by the Bank remains small relative to the size of the Bank's AGS holdings. An average of almost $4 billion of bonds was lent out to the market on any given day in December, and over $6 billion was lent out per day in January, with the Bank's share of total securities lending volumes in the Australian

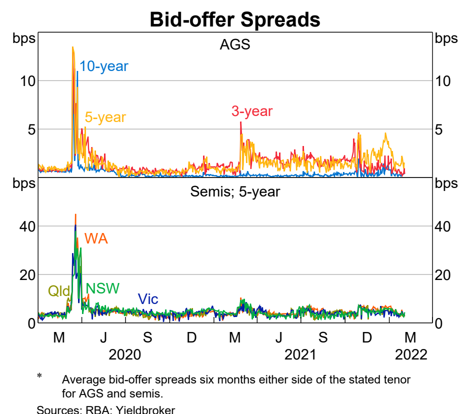
Graph 3.5



Graph 3.4



Graph 3.6



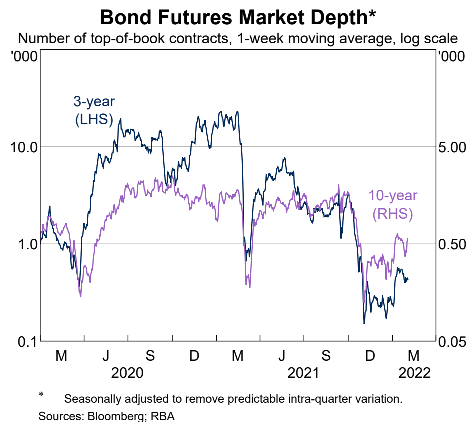
market likely to have increased over recent months (Graph 3.7). Volumes have been concentrated in the bonds underpinning the three-year futures contract (of which the Bank holds a sizeable share); market liaison suggests that a significant portion of the securities lending is a result of intermediaries facilitating demand for short-end AGS from medium- and longer-term investors. By lending these bonds back into the market for short periods, the Bank supports the functioning of the government bond market.

Measures for the bond futures market suggest relatively low levels of liquidity at times, especially for the three-year futures contract. This is evident in the number of three-year futures contracts available to trade at the best price, which fell over October 2021 and has remained low (Graph 3.8). Also, the implied yield on three-year futures contracts has diverged for a time from the yield on three-year bonds, whereas arbitrage should keep this difference close to zero in an efficient market (Graph 3.9). Market liaison suggests that strains evident in some measures of three-year futures market functioning may in part reflect an unwillingness and/or inability of market participants to take on risk following the earlier episodes of market volatility.

Cash market activity has increased moderately from a low level, while implied cash rate expectations have risen a little

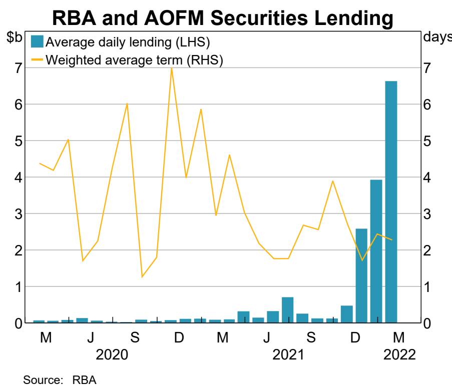
Activity in the cash market has picked up moderately from a very low level, despite the high level of system liquidity. The past three months has seen average volumes increase from around $200 million per day to around $400 million per day, while the cash rate has risen slightly to 5 basis points. Along with the increase in cash market volumes, the proportion of days where the cash rate is determined by market transactions rather than expert judgement has increased, to slightly less than half of all days in this period. Market expec-

Graph 3.8



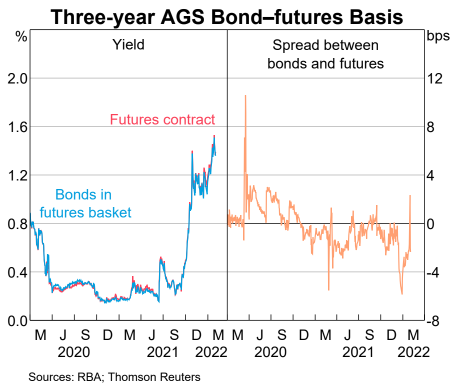
* Seasonally adjusted to remove predictable intra-quarter variation.
Sources: Bloomberg; RBA

Graph 3.7



Source: RBA

Graph 3.9



Sources: RBA; Thomson Reuters

tations for the cash rate have increased a little over the past three months, with prices for overnight indexed swap (OIS) contracts implying that market participants expect the cash rate to be around 1 per cent by the end of 2022, and a little above 1¾ per cent by the end of 2023 (Graph 3.10).

Short-term money market rates remain low, though they have edged higher

The low level of the cash rate and the high level of liquidity in the banking system continue to underpin low money market rates. Even so, short-term money market rates have risen very slightly following an extended period around historic lows (Graph 3.11). In particular, three-month bank bill swap rates (BBSW) have moved a few basis points higher over the past three months, but remain very low. The costs of Australian dollar funding from offshore short-term issuance (via the foreign exchange swap market) have fluctuated around zero. Repo rates at the Bank's open market liquidity operations remain at 10 basis points, while repo rates in the private market are around zero for terms of up to three months. Demand for short-term liquidity at the Bank's regular open market liquidity operations increased moderately ahead of the end of the year.

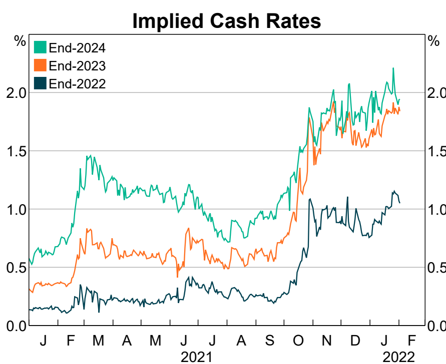
The Bank's balance sheet has continued to grow

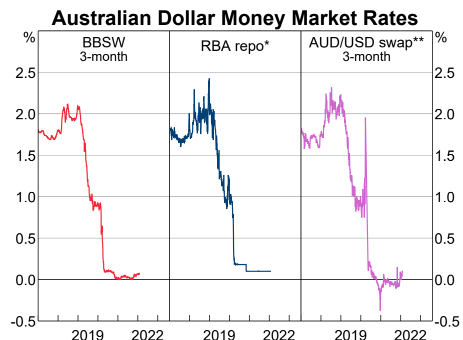
The Bank's balance sheet has grown considerably during the pandemic as a result of the Bank's policy measures (Graph 3.12). Since the previous *Statement*, the balance sheet has increased by $40 billion to around $640 billion. Over this period, growth in the Bank's assets has reflected a further increase in holdings of AGS and semis, owing to the Bank's bond purchases. Correspondingly, on the liabilities side, Exchange Settlement balances have continued to rise (Graph 3.13). 'Other liabilities' have risen because of an increase in securities lending, where the Bank lends bonds from its portfolio in exchange for cash.

The bank bond market is returning to pre-pandemic issuance patterns

Australian banks' issuance of senior unsecured bonds increased in 2021 compared with 2020, but remained low by historical standards (Graph 3.14). The low level of bond issuance reflected the availability of low-cost funding from the TFF in the first half of the year and strong deposit growth.

The average tenor of banks' bond issuance in 2021 was six years, which is long by historical standards. Banks are likely to be seeking funding

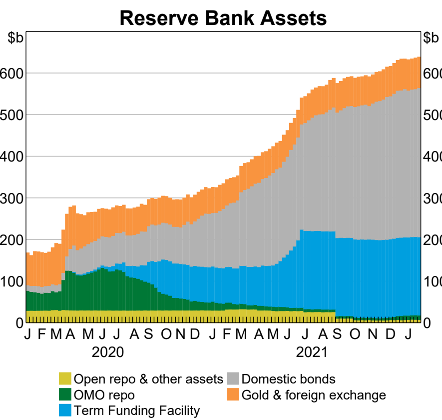


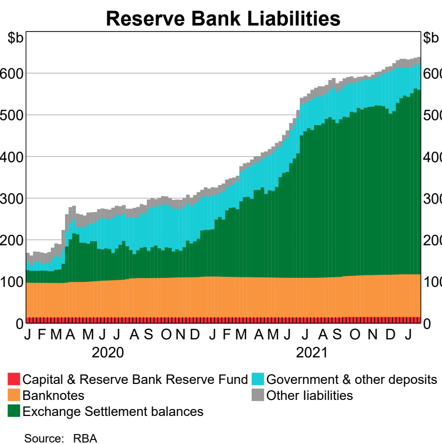


at relatively long tenors to avoid additional maturities close to the periods when TFF funding will need to be refinanced, as well as to take advantage of historically low yields on longer-term debt. Issuance has been largely in offshore markets, which are typically deeper and more liquid for long-term funding.

Banks raised $22 billion of funding through bond markets in January 2022, including the largest single-maturity deal by a bank in the domestic market on record. January is typically a month with strong issuance and so banks need to fund a high level of maturities during this time. Issuance over 2022 is expected to be stronger than in the previous two years, when banks had access to new longer-term funding from the TFF. Banks might also seek to fund purchases of AGS to satisfy High Quality Liquid Asset requirements given the changes to the Committed Liquidity Facility.

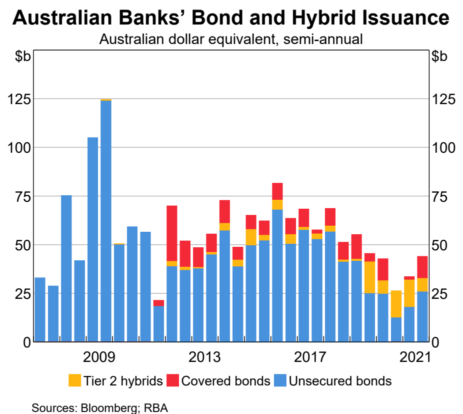
Banks continued to issue Tier 2 hybrid securities in 2021, raising $21 billion in this form. Hybrid securities have both equity and debt features and can be used to fulfil a part of regulatory capital requirements, which will increase in January 2024. Spreads on these Tier 2 hybrid issues were lower compared with those in 2020.





RMBS issuance was high in 2021, driven by non-banks

Issuance of residential mortgage backed securities (RMBS) in 2021 was higher than in recent years, owing to the high level of issuance by non-banks (Graph 3.15). Non-bank issuance has been elevated during the pandemic, benefiting from strong demand given low issuance of bonds by banks, which are close substitutes for investors. Pricing on RMBS throughout 2021 remained at the most attractive levels for issuers seen in the post-GFC period.



Banks' overall funding costs are at historic lows

Banks' outstanding funding costs declined a little further over the past year. BBSW rates, to which much of banks' wholesale debt funding is linked (either directly or via hedging), remained low consistent with the low level of the cash rate and the Bank's other policy measures (Graph 3.16).

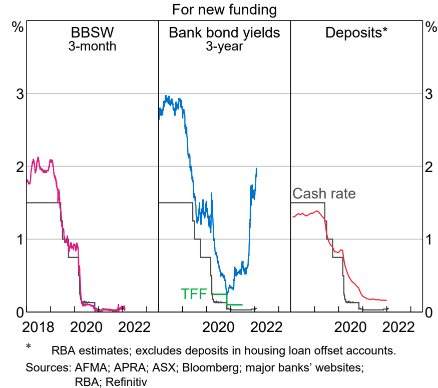
Low-cost funding from the TFF has contributed directly to lower funding costs for banks, and will continue to do so until mid-2024. In addition, the stock of low-rate deposit funding in the banking system continued to grow strongly over 2021, partly reflecting the Bank's policy measures. The Bank's bond purchases create deposits because payments for bonds purchased from the private (non-bank) sector are credited to deposit accounts of the sellers of these bonds. In addition, funds from maturing bank bonds also contributed to deposit growth, and net maturities were elevated during the period when banks were drawing on the TFF. These inflows of deposits have put downward pressure on banks' funding costs and have supported the very low level of interest rates on term and at-call deposits, which account for around 60 per cent of banks' overall funding. Rates on new term and at-call deposits fell by around 5–10 basis points over 2021. Most of this decline occurred early in the year, with rates on new term deposits rising slightly towards the end of 2021 (Graph 3.17).

Bank bond spreads to reference rates rose in late 2021, increasing the cost of new debt issuance for banks. However, this did not materially affect banks' overall funding costs due to limited new issuance over this period. That said, further wholesale issuance over 2022 (and any increases in issuance costs) would put upward pressure on banks' funding costs this year.

Graph 3.16

Major Banks' Funding Costs

For new funding

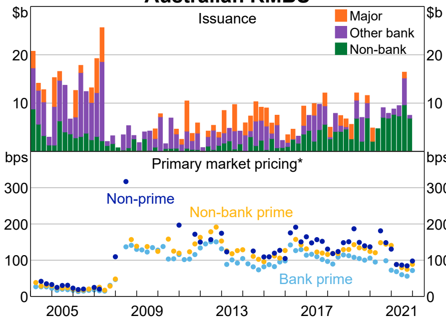


* RBA estimates; excludes deposits in housing loan offset accounts.

Sources: AFMA; APRA; ASX; Bloomberg; major banks' websites; RBA; Refinitiv

Graph 3.15

Australian RMBS

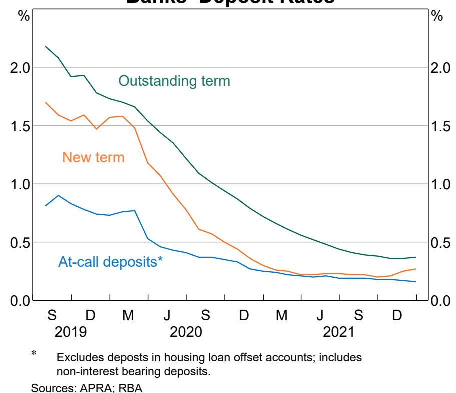


* Face-value weighted quarterly average of the primary market spread to bank bill swap rate for AAA-rated notes.

Sources: Bloomberg; KangaNews; RBA

Graph 3.17

Banks' Deposit Rates



* Excludes deposts in housing loan offset accounts; includes non-interest bearing deposits.

Sources: APRA; RBA

Table 3.1: Average Outstanding Housing Rates

December 2021

	Interest rate (per cent)	**Change since February 2021** (basis points)	**Change since February 2020** (basis points)
Variable-rate loans			
– Owner-occupier	2.96	–16	–61
– Investor	3.28	–19	–68
All variable-rate loans	3.07	–17	–64
Fixed-rate loans			
– Owner-occupier	2.21	–42	–152
– Investor	2.57	–47	–144
All fixed-rate loans	2.34	–45	–152
By repayment type[(a)]			
– Principal-and-interest	2.72	–30	–91
– Interest-only	3.31	–34	–92

(a) Weighted average across fixed- and variable-rate loans.

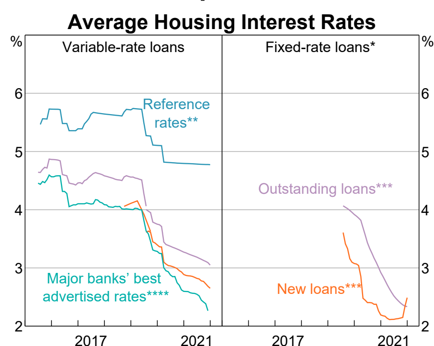
Sources: APRA; RBA

Interest rates on outstanding housing loans continue to drift lower …

Interest rates on outstanding housing loans drifted lower over 2021, as further declines in new lending rates encouraged both new housing borrowing and ongoing refinancing by existing borrowers to lower loan rates (Graph 3.18; Table 3.1). Price competition was particularly strong for fixed-rate loans for much of the year, partly reflecting the impact of the Bank's policy measures. Some banks also sought to attract new customers by offering cashback deals of around $2,000–$3,000 for refinancing.

… though interest rates on new fixed-rate loans have increased in recent months

Fixed rates for new housing loans increased sharply from November following the rise in swap rates (the pricing benchmark for fixed-rate loans). Pricing in swap rates and fixed-rate loans had been edging higher for a time – particularly for longer-terms of more than three years (Graph 3.19). The average interest rate paid on new fixed-rate loans remains around 15 basis points below that on new variable-rate loans, although this gap has narrowed quickly as changes in advertised fixed rates have flowed through to loans funded each month. The share of new fixed-rate housing lending, which was previously at an all-time high, also decreased towards the end of the year.



* Weighted average interest rate across all fixed-rate periods.
** Major banks' standard reference rates for variable-rate loans.
*** Series break in July 2019; thereafter, data based on EFS collection.
**** Includes low-cost brands.
Sources: APRA; banks' websites; CANSTAR; RBA; Securitisation System

Meanwhile, banks have been offering increasingly large discounts on 'basic' variable-rate mortgages (which do not include features like offset accounts). These changes have meant that many banks' cheapest advertised variable rates for home loans are now below their cheapest advertised fixed rates. The average interest rate paid on new variable-rate loans has continued to drift lower over recent months, and in December it was 20 basis points lower than at the end of February 2021. Variable-rate loans account for two-thirds of the stock of total mortgages.

Interest rates on business loans are at historic lows

Interest rates on outstanding business loans are also at historically low levels (Graph 3.20). Since February 2020, interest rates on variable-rate loans to small- and medium-sized enterprises (SMEs) and large businesses have declined by around 110 basis points and 100 basis points, respectively. Over the same period, interest rates on fixed-rate loans to SMEs and large businesses have declined by around 95 basis points and 75 basis points, respectively. In the coming months, interest rates on new fixed-rate business loans may increase in response to the rise in swap rates, although fixed-rate loans account for just under 20 per cent of business loans.

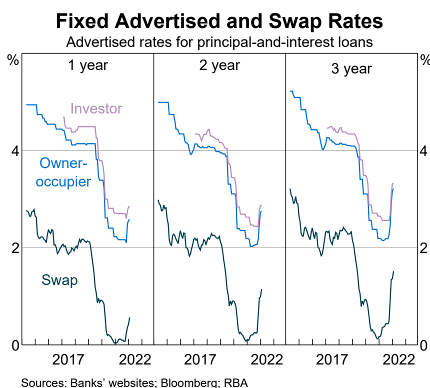
Growth in total credit increased in 2021

Total credit growth picked up over 2021, to be around its fastest pace in some years on a six-month-ended annualised basis (Graph 3.21; Table 3.2).

In monthly terms, owner-occupier housing credit growth picked up in late 2021, after easing over the few months prior. Investor credit growth continued to move higher, increasing to 4¼ per cent in December in six-month-ended annualised terms. Demand for housing credit continues to be supported by the low level of interest rates and strong activity in housing markets. The easing of lockdown restrictions in New South Wales and Victoria in late 2021 may have also boosted demand for credit by facilitating a pick-up in housing turnover.

Growth in business credit picked up to around 12 per cent in late 2021 on a six-month-ended annualised basis – the strongest pace of growth seen over the past decade. The increase in demand for business loans has been particularly pronounced for larger firms and industries that are less exposed to the adverse economic effects of lockdowns and pandemic-related changes in behaviour.

Personal credit declined over the second half of 2021 and in the December quarter, despite



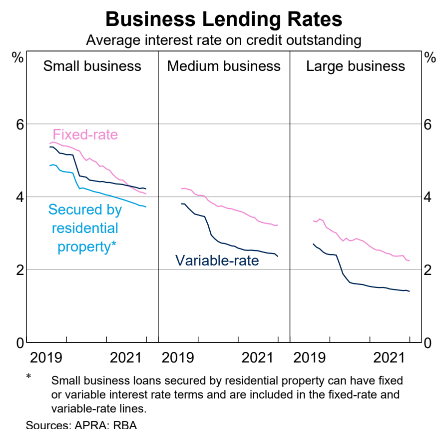


Table 3.2: Growth in Financial Aggregates

Percentage change[(a)]

	Three-month annualised		Six-month annualised	
	Sep 21	Dec 21	Jun 21	Dec 21
Total credit	8.1	9.4	5.6	8.8
– Household	6.8	7.6	6.0	7.2
– Housing	7.9	8.2	6.8	8.0
– Owner-occupier	10.4	9.8	9.0	10.1
– Investor	3.4	4.9	2.6	4.2
– Personal	–8.4	–0.8	–3.0	–4.7
– Business	10.6	13.4	4.9	12.0
Broad money	11.2	13.4	6.8	12.3

(a) Figures are break-adjusted and seasonally adjusted.

Sources: ABS; APRA; RBA

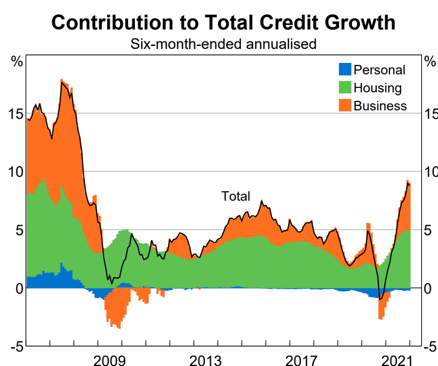
increasing in November after restrictions were eased in New South Wales and Victoria. Much of the decline in personal credit over the past six months has been driven by lower credit card debt, consistent with consumers having had reduced opportunities for spending during lockdowns.

Demand for housing loans remains high

Housing credit growth picked up in recent months, to around 8 per cent on a six-month-ended annualised basis. Investor credit growth has continued to increase since the middle of 2021, while owner-occupier growth has been little changed (Graph 3.22).

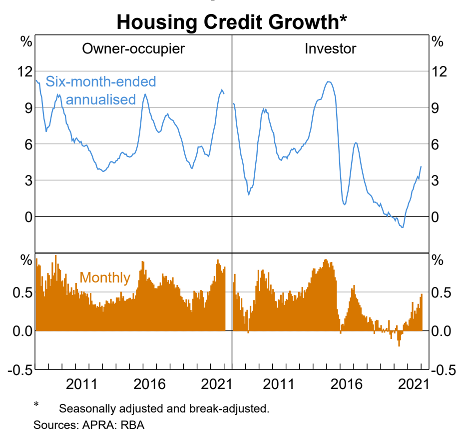
Commitments for new housing loans are at high levels (Graph 3.23). Owner-occupier commitments rebounded in New South Wales and Victoria in recent months, which may partly reflect the effect of the end of lockdowns on housing turnover. Investor commitments continued to rise throughout the second half of 2021 to a historically high level.

The higher serviceability assessment rate for new housing loans, announced by the Australian Prudential Regulation Authority in



* Seasonally adjusted and break-adjusted.

Sources: APRA; RBA



* Seasonally adjusted and break-adjusted.

Sources: APRA; RBA

early October, has been in effect since the beginning of November. Since the lag between housing loan applications to commitments is approximately six weeks, the policy change is expected to have started influencing the level of commitments by the end of 2021. However, the effect on overall housing credit is expected to be modest; while the measure will lower the maximum amount available to some borrowers, only a small proportion of households borrow at the maximum amount on offer.

Payments into housing loan offset and redraw accounts have declined

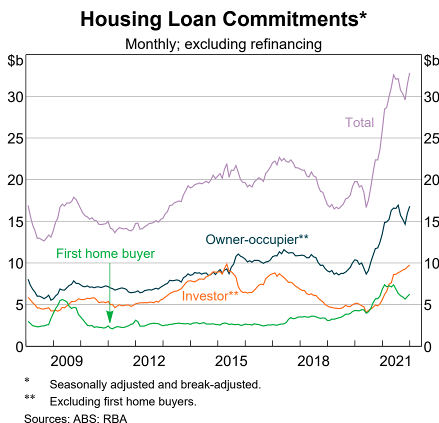
Net payments into offset and redraw accounts declined in the December quarter, after increasing to a high level in the September quarter. The decline in December quarter payments reflected the end of lockdowns and the associated increase in consumption opportunities. Since the onset of the pandemic in early 2020, mortgage borrowers' payments into offset and redraw accounts have been substantial, totalling about 3¾ per cent of disposable income (around $98 billion).

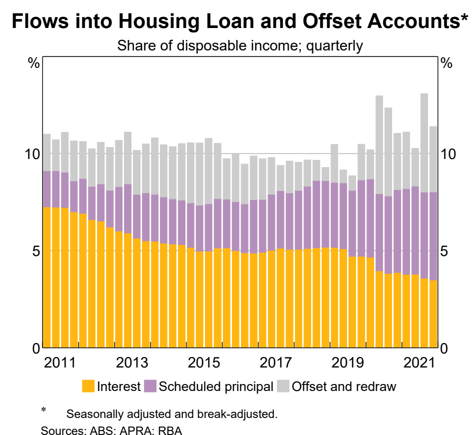
Reductions in housing loan interest rates since March 2020 have flowed through to borrowers in the form of lower interest payments (Graph 3.24). Interest payments have declined by around 1¼ percentage points as a share of disposable income, despite outstanding housing credit increasing over that period. This reflects the pass-through of the Bank's policy measures, borrowers refinancing to lower interest rates and growth in disposable income.

In response to the COVID-19 outbreaks and associated lockdowns in mid-2021, many banks offered affected household borrowers support, including payment deferrals. The uptake of these deferrals was very low, peaking at less than 1 per cent of outstanding housing credit, compared with a peak of 11 per cent in 2020. Almost all borrowers have returned to their regular repayment schedule following the expiration of their prior deferral arrangements.

Lending to businesses has picked up

Business lending has picked up over recent months (Graph 3.25). The increase of late has been driven by lending to large businesses, while the volume of lending to medium-sized firms has also increased. Lending to small firms has been little changed for some time. The increase in lending has been driven by business services and financial firms. Lending has also increased to firms that were less hindered by lockdowns, such as those in goods production industries (particularly agriculture) and those





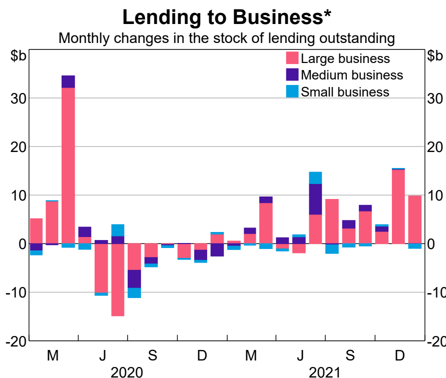
involved in goods distribution (including wholesale trade) (Graph 3.26).

Liaison suggests that demand for debt from some businesses and industries began to pick up in late 2021 as restrictions eased and spending recovered. Even so, lockdowns may have weighed on demand for debt for some firms, and these effects may linger for some time. Some businesses still have little immediate need to borrow, in part because of the cash they accumulated in 2020 and 2021. Recent outbreaks of the Omicron variant may weigh on firms' appetite for additional debt, as spending in some sectors weakens, supply chains are disrupted and businesses manage staff shortages.

Graph 3.25

Lending to Business*

Monthly changes in the stock of lending outstanding

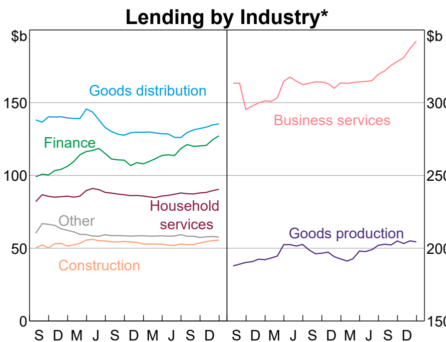


* Data cover financial institutions with $2 billion or more of business credit; not seasonally adjusted.

Sources: APRA; RBA

Graph 3.26

Lending by Industry*



* Excludes lending to ADIs, registered financial corporations and central borrowing authorities.

Sources: APRA; RBA

In December 2021, the Australian Government announced changes to the SME Recovery Loan Scheme (an extension of the SME Guarantee Scheme), with loans now available until 30 June 2022 (previously 31 December 2021) with a guarantee of 50 per cent (previously 80 per cent). As at December, around $2.8 billion of loan commitments had been made under the scheme. Take-up has picked up since the start of October, consistent with the government expanding the scheme to all SMEs adversely economically affected by the pandemic. The scheme was previously limited to firms that had received JobKeeper payments in the March quarter of 2021 or had been affected by the floods in New South Wales in March that year.

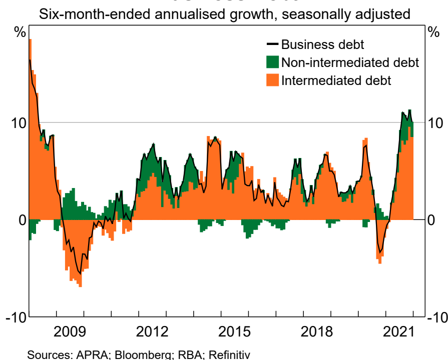
In July 2021, many banks reintroduced deferral arrangements for loan payments of up to three months for small business customers affected by lockdowns and other COVID-19-related restrictions. The take-up of deferral arrangements has been low compared with 2020. Deferrals peaked at around ½ per cent of the value of SME lending in September 2021, compared with around 18 per cent in June 2020; almost all loan deferral arrangements had expired by the end of November. The majority of loans that had repayment deferrals were located in New South Wales or Victoria.

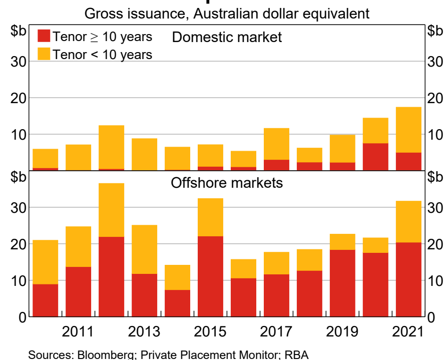
Growth of broader measures of business debt has been strong

The pick-up in business credit in recent months has contributed to an increase in growth in the broader measure of business debt, which remains well above the average of recent years (Graph 3.27). The volume of syndicated lending increased a little in December, while growth in non-intermediated debt has eased in recent months.

Corporate bond issuance increased in 2021

Bond issuance by non-financial corporations increased in 2021, driven partially by a pick-up in issuance from resource-related firms. Issuance in both the domestic and offshore markets was well above average, and the volume of bonds with a tenor of 10 years or longer remained high (Graph 3.28). Liaison suggests that the low level of interest rates has increased demand for long-term bonds as investors have sought higher yields. Corporate bond spreads increased in the second half of 2021 but remained at low levels. Issuance in January was low, as is common for that time of year.





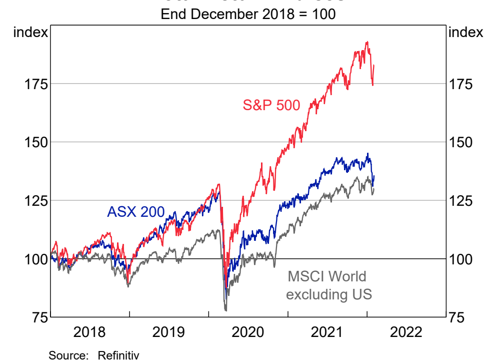
Australian equity prices have fallen recently following gains in 2021

Over 2021, the ASX 200 increased by around 17 per cent on a total returns basis, underperforming US equity markets but roughly in line with the rest of the world (Graph 3.29). More recently, on a total return basis, the ASX 200 has fallen 5 per cent over the year to date, broadly in line with the US market over the same period. The ASX 200 price index is now 7 per cent lower than its most recent peak in August 2021.

Equity prices in the resources sector increased by around 3 per cent over 2021, with some volatility associated with moves in commodity prices, most notably iron ore (Graph 3.30). By contrast, energy stocks declined over the year, despite a rise in prices for oil, coal and LNG. The financial sector increased by around 20 per cent over 2021, with a number of major banks reporting higher profits, in line with the improved economic outlook. More recently, the price of technology stocks has declined alongside a rise in long-term bond yields.

Capital markets activity was at a high level in 2021

Over the course of 2021, there were over 1,200 merger and acquisition (M&A) deals announced with a total deal value of around



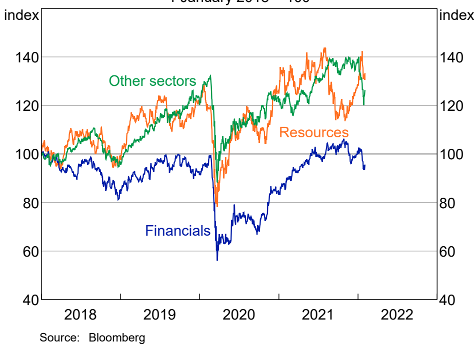
$320 billion (Graph 3.31). While it is unclear whether all of these deals will be accepted, the year ended with around the highest level of annual activity in the Australian market on record. Notable deals included Square's acquisition of Afterpay, the merger of BHP's oil and gas assets with Woodside Petroleum and the bid for Sydney Airport by the consortium led by IFM Investors. In addition, BHP removed its dual-listed company structure at the end of January.

During 2021, there were 207 initial public offerings (IPOs) with a total value raised of around $12 billion (Graph 3.32). This is significantly higher than the average over the past decade and is the highest level since 2014.

Graph 3.30

Australian Share Prices

1 January 2018 = 100



Source: Bloomberg

In addition, Australian companies raised around $58 billion in secondary offerings, which is slightly above the average over the past decade.

Buybacks and dividends were also at a record level in 2021

Buybacks in the second half of 2021 were at a record level of around $15 billion (Graph 3.33). This was driven mainly by the major banks after the constraints on capital distribution introduced early in the pandemic were relaxed and credit provisions from 2020 were partly written back. Some companies also announced buybacks following large cash windfalls due to the recent sale of assets. Dividends paid of over $100 billion during 2021 exceeded the previous high in 2019. This was in large part driven by the mining companies, which benefited from elevated commodity prices over the period.

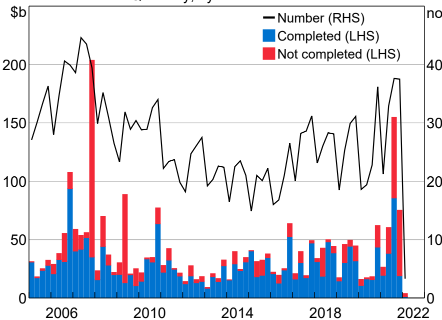
Price-to-earnings ratios are varied across sectors

The headline profits of ASX 200 companies were at a record level in the 2020/21 financial year, driven primarily by the major mining companies (Graph 3.34). Analysts forecast that earnings for energy and materials companies will increase this financial year to new highs, before declining in financial years 2022/23 and 2023/24. By

Graph 3.31

M&A by Australian Companies*

Quarterly, by date announced



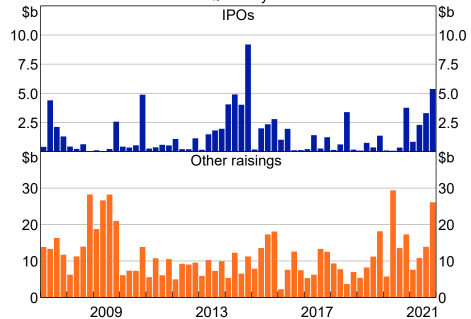
* Excludes the Telstra–NBN transaction and BHP Ltd's acquistion of BHP Plc; latest observation is quarter to date.

Sources: RBA; Refinitiv

Graph 3.32

Australian Equity Raisings*

Quarterly



* All listed companies.

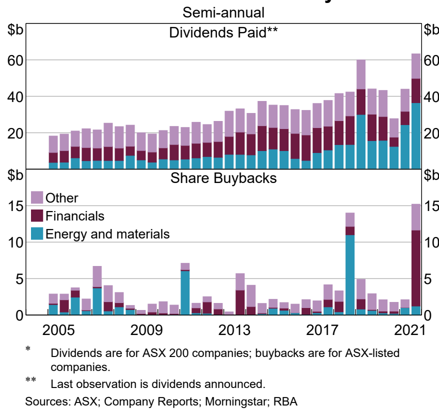
Sources: ASX; RBA

contrast, profits in the financial and other sectors were low relative to pre-pandemic levels.

These fluctuations in annual earnings have affected some common measures of valuations. For example, while the 12-month forward price-to-earnings ratio for resources is quite low, it is elevated for the financial and other sectors (Graph 3.35). In part, this is because earnings are forecast to remain high for resources and relatively lower elsewhere, although there are other influences. For example, the price-to-earnings ratio in other sectors has been trending up for a while, influenced by increases in the equity prices of sectors whose earnings are expected to grow, like health care.

Graph 3.33

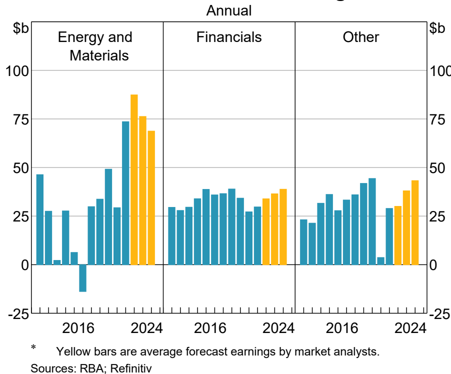
Australian Dividends and Buybacks*



* Dividends are for ASX 200 companies; buybacks are for ASX-listed companies.
** Last observation is dividends announced.
Sources: ASX; Company Reports; Morningstar; RBA

Graph 3.34

ASX 200 Headline Earnings*



* Yellow bars are average forecast earnings by market analysts.
Sources: RBA; Refinitiv

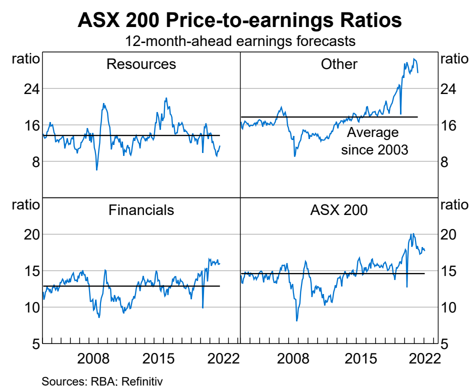
The Australian dollar remains towards the lower end of its range over the past year

The Australian dollar depreciated from early November 2021, reaching its lowest levels for the year in December, as market participants brought forward their expectations for monetary policy tightening in the United States and commodity prices declined (Graph 3.36). This depreciation was consistent with a decline in yields on shorter-term Australian Government bonds relative to those of the United States. Although the Australian dollar subsequently appreciated a little, it has since returned to the lower end of its range over the past year amid a decline in equity prices and continued focus on withdrawal of policy stimulus in the United States. The Australia dollar is now lower than it was at the start of 2021, despite noticeably higher commodity prices since then and a rise in Australian interest rates relative to some major advanced economies.

Australia continued to experience net capital outflows in the September quarter

Australia continued to record net capital outflows in the September quarter, the corollary to the current account surplus (Graph 3.37). Outflows reflected Australian investment funds

Graph 3.35

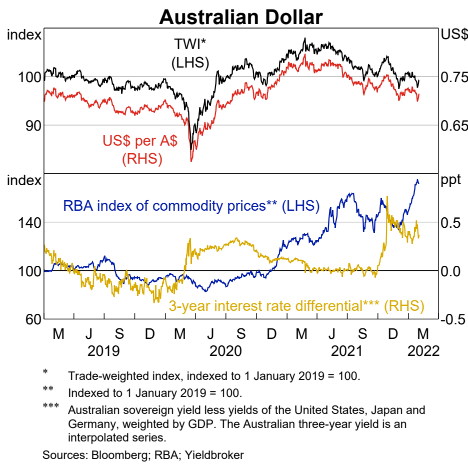


Sources: RBA; Refinitiv

continuing to increase their holdings of foreign equities. Partly offsetting this was a net inflow of capital to Australia as banks issued offshore debt.

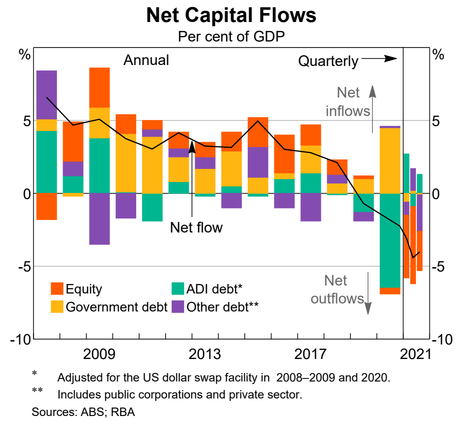
Australia's net foreign liabilities decreased to around 40 per cent of GDP in the September quarter – its lowest level since the late 1980s (Graph 3.38). The decrease was driven primarily by an increase in the net foreign equity asset position. The net income deficit, which comprises net payments made on Australia's net foreign liability position, widened considerably over the quarter. This was driven by increased payments on foreign holdings of Australian equity, which were related to higher profits in the mining sector. ✠

Graph 3.36



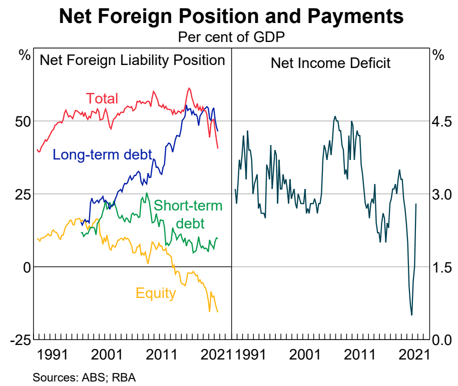
* Trade-weighted index, indexed to 1 January 2019 = 100.
** Indexed to 1 January 2019 = 100.
*** Australian sovereign yield less yields of the United States, Japan and Germany, weighted by GDP. The Australian three-year yield is an interpolated series.
Sources: Bloomberg; RBA; Yieldbroker

Graph 3.37



* Adjusted for the US dollar swap facility in 2008–2009 and 2020.
** Includes public corporations and private sector.
Sources: ABS; RBA

Graph 3.38



Sources: ABS; RBA