

# INCOME & WAGE GROWTH VERSUS HOUSEHOLD INDEBTEDNESS

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Rapidly rising household indebtedness has been at the forefront of the regulator's minds for sometime, particularly when compared to household income growth in the last decade.

The Curve team have been writing about flat wage growth being a significant hinderance to Phillip Lowe and the [RBA](#) for most of 2017. The [RBA](#) eased the cash rate twice in 2016, in May and then in August. The lower cash rate eased some sort of pressure but it was not always reflected in terms of a full rate transfer to the consumer from the banks.

The intention of the two rate cuts were to stimulate domestic growth and get the annualised inflation number back towards the 2-3% target band. The AUD took a hit after the May cut, however there was no material change following the August cut. This would have been a little disappointing from the [RBA's](#) perspective, considering a lower dollar should drive a positive net exports number, which is a key component of GDP. Maybe the banks and consumers don't see a 25pt change in the cash rate having the same impact it once did?

According to the [ABS](#), about 30% of households were classified as 'over-indebted' in 2015-16. Further, in CPI adjusted real terms, [debt](#) levels have increased 83% in the period of 2004-2016, whilst gross income was under 40%. This is a dangerous statistic that has left the [RBA](#) hamstrung in terms of a possible tightening schedule, following the [Fed](#) in the US. The [RBA](#) would be very brave to hike rates before they see substantial and sustained income growth. The graph below shows the rising levels of household finances [debt](#) against income levels in Australia.

The [risk](#) of driving households into over-indebtedness is real, and the regulators have imposed various handbrakes on [investor](#) lending. We have started to see these changes in our world, as the liability side of the banks (seeking deposits) has decreased in line with their lending.

The [RBA](#) minutes are out today, which is always a decent read. The rhetoric has changed a little bit over the last period so it'll be interesting to see whether there are any gems in there today or whether they will just hammer in what they have been saying in the last few months.



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