

## Aussies prefer local; Financial risks contained Financial Stability Review; Credit/debit cards

- **Credit and charge cards:** Only 4.2 per cent of credit and charge card transactions were made on overseas purchases in February – a near 10-year low.
- **Reserve Bank Financial Stability Review:** The Reserve Bank has handed down the latest review of the financial system: *“Overall, the financial system appears much better placed to respond to a range of challenges than it was a decade ago.”*

*The Financial Stability Review has implications for finance providers, the broader sharemarket and interest rate settings. Credit card data is important for the retail and financial sectors.*

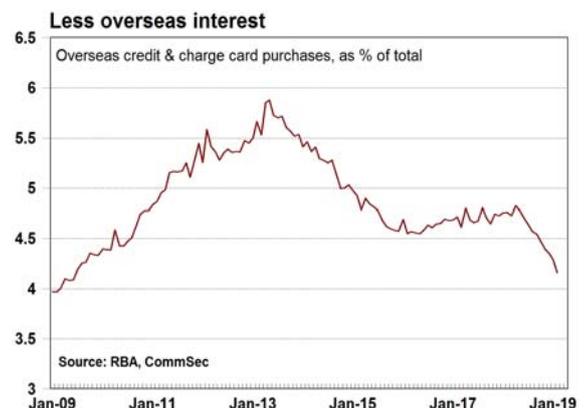
### What does it all mean?

- Aussies continue to grow more conservative. Only 4 per cent of credit card purchases are made on overseas purchases, close to a 10-year low and well down on the peak level of 6 per cent of transactions. At the same time, Aussies continue to switch their affections from credit to debit cards.
- The Reserve Bank has provided a detailed assessment of current risks in its semi-annual update on the financial sector. And while there are always risks, the Bank believes that the financial system is in better shape to deal with the challenges than in the past.

### What do the figures show?

#### Reserve Bank Financial Stability Review

- The Reserve Bank identified risks under four headings: **External; High household debt; The slowing housing market; and Bank culture and operational risk.**
- **Overall, the RBA noted:** *“Domestic economic conditions remain broadly supportive of financial stability. The unemployment rate has remained around 5 per cent since the previous Review and corporate profit growth has also been strong. However, GDP growth in Australia also slowed in the second half of 2018. In particular, consumption growth eased and the outlook for consumption is uncertain.”*
- **Housing:** *“Conditions in the housing market remain weak. Nationally, housing prices are 7 per cent below their late 2017 peak, although they are still almost 30 per cent higher since the start of 2013.”*
- **Housing:** *“more rigorous lending standards have seen the quality of new loans improve in recent years.”*
- **Households:** *“Measures of financial stress among households are generally low and households remain well placed to service their debt given low unemployment, low interest rates and improvements to lending standards.”*
- **Households:** *“Most households have enough equity in their property such that even much larger price falls than seen to date would still leave the value of their homes greater than their debt.”*
- **Business:** *“...businesses are well placed to meet their debt obligations given the strong profit growth.”*
- **Banks:** *“Stress tests of the banks indicate that they have sufficient capital to withstand double-digit unemployment rates*



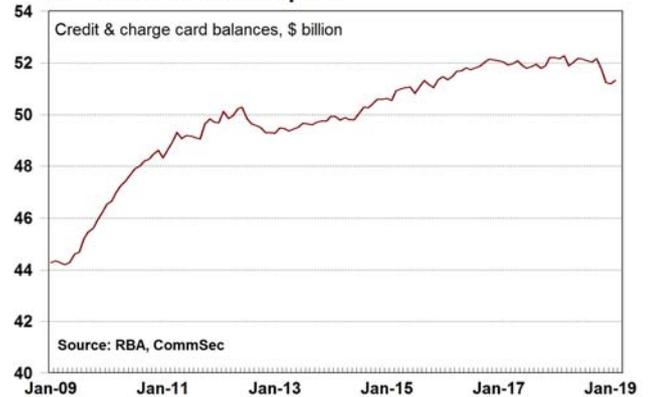
Craig James, Chief Economist  
Twitter: @CommSec

and housing price falls exceeding 30 per cent.”

**Credit and debit card lending:**

- The number of credit and charge cards stood at 15.85 million in February. While there have been ‘series breaks’ over time, accounts stand at 4-year lows.
- The average balance on credit and charge cards stood at \$3,274.85 in February.
- There were 243.6 million purchases made on credit and charge cards in February, up 4.3 per cent on a year ago. The value of purchases was \$27.41 billion, up 1.6 per cent on a year ago.
- There were 10.13 million overseas purchases made on credit and charge cards in February – a 2-year low. Only 4.16 per cent of credit and charge card transactions were made on overseas purchases – a near 10-year low.
- Balances outstanding on credit and charge cards in February stood at \$51.32 billion, down 1.6 per cent on a year ago.
- The number of debit card purchases in February was up 14.7 per cent on a year ago with the value up 9.6 per cent.

Credit & cash cards top out



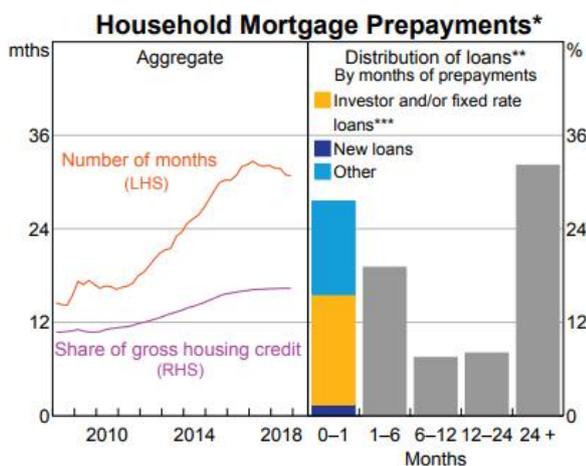
**What is the importance of the economic data?**

- The **Financial Stability Review** is published by the Reserve Bank every six months. The report is basically a health check on the financial sector but it also assesses the state of household and business balance sheets.
- The Reserve Bank releases data on **credit and debit card transactions** each month. The credit card figures are useful in highlighting consumer borrowing and spending trends.

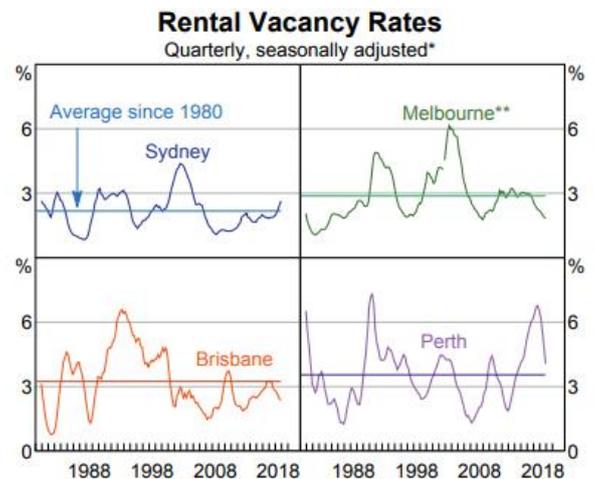
**What are the implications for interest rates and investors?**

- There are no implications for interest rates from the latest Financial Stability Review.
- The Reserve Bank has now expanded the amount of data on credit and debit cards. But the conclusions are the same. Credit cards are out of favour and Aussies are more active in paying balances off by the due date. The good news in the latest data is that Aussies increasingly prefer to make internet purchases from domestic businesses – no doubt the weaker Aussie dollar is helping shift preferences.

Craig James, Chief Economist, CommSec  
 Twitter: @CommSec



\* Available redraw plus offset account balances  
 \*\* As a share of the total number of loans as at February 2019  
 \*\*\* These loans have features that discourage prepayments  
 Sources: APRA; RBA; Securitisation System



\* 12-month moving average  
 \*\* Series break December quarter 2002  
 Sources: RBA; REIA; REIVA