

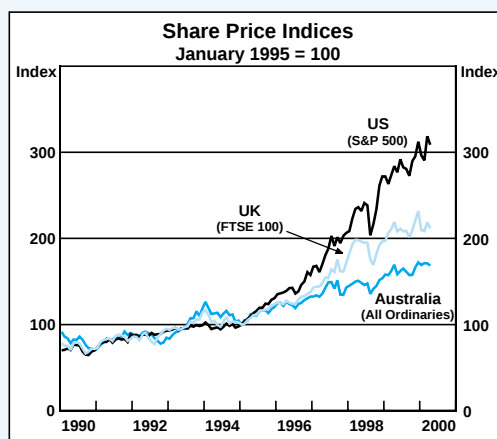
Box B: Household Wealth: Some International Comparisons

Households in Australia, the United States and the United Kingdom have all benefited from rapid increases in wealth during the 1990s, and particularly in the later years of the decade. In all three countries, household wealth increased at an annual rate of more than 10 per cent in the period from 1996 to 1999, contributing to the strong pace of consumption growth and supporting the overall growth of economic activity. The composition of the increases in wealth has, however, varied considerably across the three countries.

In the United States and the United Kingdom, the rise in wealth has primarily resulted from increases in the value of financial assets, and from rises in equity prices in particular. In Australia, while equities have been the fastest growing component of household wealth, they still form a smaller share of the total than in the other two countries.

The relatively low share of equities in household wealth in Australia partly reflects a lower market value of business assets,

Graph B1



compared with the other two countries. The market capitalisation of Australian equity markets in 1999 was just over 100 per cent of GDP, compared with around 200 per cent in the UK and the US. In recent years, the faster increases in equity prices in the US and the UK have amplified the differences in the value of equity holdings among households in the three countries

Table B1: Household Wealth in Selected Countries

1999, per cent

	Average annual growth 1996–1999	Ratio to household disposable income	Share of total wealth		
			Dwellings	Equity ^(a)	Other financial assets ^(b)
Australia	13	721	57	17	22
United States	11	737	23	27	44
United Kingdom	12	770	38	35	27

(a) Includes equity held in life, superannuation and mutual funds

(b) Includes currency and deposits, and non-equity assets held in life, superannuation and mutual funds

Notes: Total wealth in Australia and the US also includes consumer durables. UK data to 1998.

Sources: ABS; RBA; CBA/HIA *Housing Reports*; Board of Governors of the Federal Reserve System; Government Statistical Service (UK); Nationwide Building Society (UK)

(Graph B1). Another factor is that net foreign ownership of Australian equity assets is relatively high; hence the share of business assets held by domestic residents, either directly in the form of equity, or indirectly through financial institutions, is lower than in the other countries.

Available data suggest that more than half of total household wealth in Australia in 1999 was held in the form of dwellings, compared with only around a quarter in the United States and a third in the United Kingdom (Table B1). With house prices rising solidly in Australia during the past few years, increases in the value of dwelling assets have accounted for much of the increase in total household wealth.

The high proportion of wealth held in the form of housing in Australia does not appear

to reflect significant differences in home ownership patterns among the three countries; most of the dwelling stock in each country is owned by domestic residents. Rather, the available data suggest a relatively high valuation of the overall housing stock in Australia. This may partly reflect differences in the type of housing, as well as differences in the value of and amount of land devoted to dwellings.

The differences in the composition of wealth among the three countries imply that recent share market fluctuations will have differing effects on the overall levels of household wealth. The direct effects of a decline in share prices on household wealth will be larger in the US and the UK than in Australia. In Australia, household wealth will be more sensitive to movements in house prices. ✎