Accepted Manuscript

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PII: S0313-5926(17)30121-2
DOI: http://dx.doi.org/10.1016/j.eap.2017.05.007
Reference: EAP 172

To appear in: Economic Analysis and Policy

Please cite this article as: Lowe, P., Household debt, housing prices and resilience. Economic Analysis and Policy (2017), http://dx.doi.org/10.1016/j.eap.2017.05.007

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Household Debt, Housing Prices and Resilience

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Abstract
Recent rises in the ratio of Australian housing prices and household debt have become an issue of public debate. This paper outlines the Reserve Bank of Australia’s investigation into this issue. Three areas are examined: aggregate trends in housing prices, debt and household incomes; the distribution of household debt and their effect on the economy as a whole. It is found that part of the cause of the rising ratio of house prices to household debt has been a recent slowdown in household income, strong demand from overseas buyers and strong population growth. While borrowing has added to the upward pressure on prices the underlying cause is embedded in the supply-demand dynamics. It is concluded that the recent increase in household debt relative to incomes has made the economy less resilient to future shocks.

Keywords
Household debt; house prices; capital cities; central bank; monetary policy; prudential regulation

1. Introduction
The rise in both household debt and housing prices is an issue which has attracted considerable attention over recent times. It is understandable why this is so. The cost of housing and how we finance it matters to us all. We all need somewhere to live and for many people, their home is their largest single asset. Real estate is also the major form of collateral for bank lending. The levels of debt and housing prices also affect the resilience of our economy to future shocks. Beyond these economic effects, high levels of debt and housing prices have broader effects on the communities in which we live. The high cost of housing is a real issue for many Australians and can have serious side-effects. High levels of debt and high housing costs can also reinforce the existing distribution of wealth in our society, making social and geographic mobility more difficult. So it is understandable why Australians are so interested in these issues.

At the Reserve Bank, we too have been focused on these issues in the context of our monetary policy and financial stability responsibilities. This paper outlined this work in three broad areas. First, is the work on understanding the aggregate trends and their causes, focussing on high ratio of house prices to household income. The substantial increase in the value of households' financial assets and the record high

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1 Based on a presentation to the Economic Society of Australia (QLD branch) Business Lunch, Brisbane, Queensland – 4 May 2017.
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