



TRS21D0812

Hon Stephen Mullighan MP  
Member for Lee  
Unit 1, 62 Semaphore Road  
SEMAPHORE SA 5019

Treasurer  
Level 8  
State Administration Centre  
200 Victoria Square  
Adelaide SA 5000  
GPO Box 2264  
Adelaide SA 5001  
DX 56203 Victoria Square  
Tel 08 8226 1866  
treasurer.dtf@sa.gov.au

[lee@parliament.sa.gov.au](mailto:lee@parliament.sa.gov.au)

  
Dear Mr Mullighan

**APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991***

I refer to your application made under the *Freedom of Information Act 1991* (the Act), dated 9 April, 2021.

Your application seeks access to:

*"All minutes, briefings and correspondence titled 'Household Saving Ratio Outlook' as described on the Objective document management system." From 26 October 2020 to 9 April 2021.*

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application and I have determined to release the document in full.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the Act.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

As I am determining this application as Principal Officer, section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Ms Vicky Cathro, Ministerial Liaison Officer, by telephone on 8226 9769 or by email to [vicky.cathro@sa.gov.au](mailto:vicky.cathro@sa.gov.au).

Yours sincerely



**Hon Rob Lucas MLC**  
*Principal Officer*

27 April 2021

RELEASE

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MINUTE

22/1/2021  
T21/018  
TRS21D0133



Government  
of South Australia  
Department of Treasury  
and Finance

MINUTES forming ENCLOSURE

File T&F18/0349

Doc No A1713938

To The Treasurer

## HOUSEHOLD SAVING RATIO OUTLOOK

Timing: ROUTINE — For information only

**Recommendations/Issues:** It is recommended that you note:

- The household saving ratio is expected to decline from its current level but is likely to remain higher than pre-COVID levels, at least for a number of years.
- There are some positive factors that will help to underpin spending in the immediate term, including the reported \$200b that has been accrued by households and businesses along with a desire to direct spending to areas that have been 'off limits' during the COVID period e.g. international travel.
- If the household saving ratio remains higher than might otherwise be the case, the pace of economic growth will be commensurately slower. Growth in household spending and business investment will be more subdued and government revenues will be curtailed.

Noted

Hon Rob Lucas MLC  
Treasurer

26/1/2021

### Key Points:

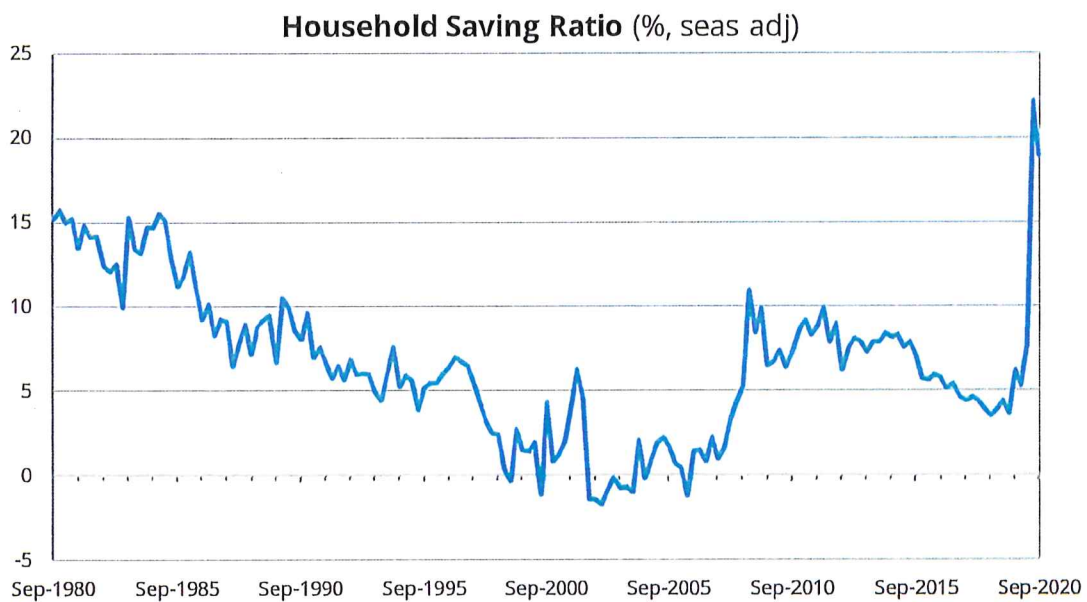
#### Australian Household Saving Ratio – History and Outlook

- The household saving ratio is a measure compiled and published by the Australian Bureau of Statistics (ABS) as part of its National Accounts collection. It is a 'flow' measure – the ratio of household net saving to household net disposable income in a given period (typically, a quarter).

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- Disposable income includes wages and salaries, an imputed income from owned dwellings, income from unincorporated enterprises, workers' compensation and social assistance benefits less interest payable on home loans and consumer debt, and taxes on income and wealth.
- The household saving ratio rose sharply from 7.6% in the March quarter 2020 to 22.1% in the June quarter, as risk and uncertainty about future household finances took hold amidst the COVID pandemic. In the latest published National Accounts (September quarter 2020), the ratio fell modestly to be 18.9%. In year-average terms, the household saving ratio was 10.5% in 2019-20.
- There is a question as to whether the household saving ratio will return to pre-COVID levels or remain elevated by some margin into the future.
- For several decades leading up to 2000, the household saving ratio exhibited a long-term downward decline and was, for brief periods, negative. Substantial gains in property and equity markets supported exuberant spending patterns and low saving ratios until the global financial crisis (GFC) in 2008-09. In the December quarter 2008, the household saving ratio peaked at 10.9%.



Source: Australian Bureau of Statistics, *Australian National Accounts* (2020)

- The household saving ratio remained elevated for around six years following the GFC, relatively stable in the range of around 6-9%. It is only in the past five years that the ratio has trended downwards.
- A range of household characteristics and macroeconomic risk factors may influence the choices of individuals and the path of household savings in coming years. Some that are likely to contribute to an elevated savings ratio include:
  - Structural change and reforms to job markets that reduce employment security (e.g. increasing casualisation of the workforce, emergence of 'gig' economy jobs etc)
  - The recent experiences of loss of employment particularly for casual workers and the perception that this could be an ongoing risk through the current or future pandemics.

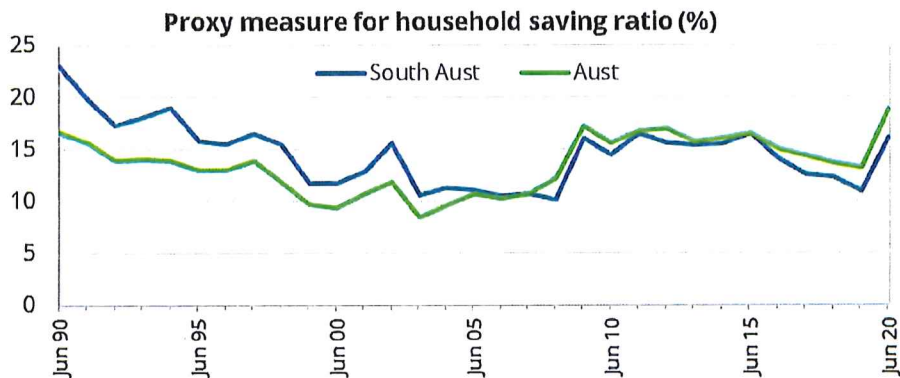
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- Perceptions of difficulty in finding alternative employment, particularly for older workers who lose their jobs
  - The prospect of depressed wages growth (including the added negative impact on wages that may arise from increases to the Super Guarantee)
  - Severely depressed fixed income returns that are likely to remain low for an extended period, in line with record low official interest rates
  - The potential, although unlikely in the near-term, for asset price decreases that might lead to lower consumption and a higher saving ratio
  - Households having accessed early draw down on superannuation entitlements
  - Prices of essential goods that rise faster than wages or non-wage investment returns (including housing, health, utilities) that impact on discretionary spending
  - Rapidly rising housing prices across many parts of Australia leading to increased savings from those seeking to enter the market
  - The very considerable JobKeeper, JobSeeker, and other business and household assistance debt that has been accrued that will need to be repaid by households and businesses in the future, in the form of higher taxes and/ or lower public expenditure as governments repair balance sheets.
  - Discussion of world economic troubles – respected economist Chris Richardson says in the latest Deloitte-Access Economics Business Outlook that it's "a mess".
  - Adverse relations with China at the political level that, if ramped up, could have considerable negative impacts on Australia's economy.
- These type of negative impacts bear on household assessments of lifetime earnings, risk perspective and can create a drag on spending over time as savings are built for a 'rainy day'.
  - Previous Intergenerational reports have argued the case that productivity gains will increase standards of living and wages but these assumed gains are not evident at present. Further, there is a much reduced 'to do' list of reforms that could potentially drive substantial productivity gains in the future compared with those realised in the 1980s and 1990s.
  - More optimistically, there are influences that may act to drive the household saving ratio lower over time:
    - Recent media reports suggest there is around \$200 billion that has been accrued by businesses and households during the COVID period.
    - The Reserve Bank of Australia says consumers will "smooth out" consumption over the next couple of years, spending some of what they've put aside.
    - Positive news on vaccine developments may, in time, allow for further relaxation of restrictions making way for spending to be directed to areas that are presently inaccessible eg international travel.
  - It is, however, not possible to attribute the influence of specific factors to changes in the household saving ratio, or to specific types of households. Further, there is limited capacity for state governments to influence macroeconomic factors affecting the household saving ratio.
  - It is DTF's view that the household saving ratio will decline in coming years but may take some time before approaching levels that prevailed in the pre-COVID period.

- This view is broadly supported by Deloitte Access Economics (DAE) forecasts that indicate a decline in the household saving ratio over the next five years but not to pre-COVID levels. By 2024-25, DAE is forecasting the saving ratio to be 5.1% down from 10.5% in 2019-20. Prior to COVID, DAE was forecasting the ratio to rise across the forecast period to be 3.1% by 2023-24. DAE's latest forecasts indicate the savings ratio will be higher at the end of the forecast period than previously anticipated and higher than pre-COVID levels.

#### South Australia's household saving rate – differences from national average

- Data limitations at the state level prevent the calculation of a household saving ratio for South Australia. However, a proxy measure than can be derived at the state level from available data is (household net saving *plus* consumption of fixed capital) as a share of gross household disposable income.



- This measure indicates a similar ratio for both South Australia and Australia over the past two decades, with the direction of movements also following each other closely. The main point of difference between this measure and the household saving ratio is the inclusion of 'consumption of fixed capital', which is excluded in the household saving ratio.
- Given the similarities for South Australia and Australia on this related, albeit different measure, DTF considers the national household saving ratio probably provides a reasonably good indication of the relative level and direction of movement in South Australia's household saving ratio.

#### Implication for South Australia's economy and growth sectors if the household savings rate remains elevated

- If the household saving ratio stays higher for an extended period, consumer spending will be lower than potential, businesses would be likely to respond by reducing the pace of investment and new hiring, and economic activity more generally would be slower than it would be with a lower, or declining, saving ratio. Government revenues would be likely to remain depressed.
- In terms of the pattern of spending, while various restrictions remain in place, this will dictate the types of activities where consumers can participate e.g. large crowded sporting venues, restaurants, arts and recreation, domestic and international travel have been "off limits" to various degrees through 2020 and into 2021.
- While this varied pattern of consumer spending persists, it is likely that affected businesses would defer investment intentions.

- Many of those businesses still affected by restrictions have share prices that remain depressed. Market analysts see some of these low-priced stocks as buying opportunities in investment markets.
- As restrictions ease, consumers will be looking to spend in areas where pent-up demand exists – the areas where lock-downs and restrictions have been imposed. As this occurs, there will be a rebalancing of activity, of some magnitude, back towards that which prevailed pre-COVID.
- Priority South Australian growth sectors including tourism and international education have been affected considerably more by restrictions than elevated household savings. To the extent that household savings remain high, domestic tourism may continue to be affected but this is set against consumers' desire to recommence forgone travel.



Brad Gay  
Executive Director, Commercial and Economics

21 January 2021

Contact Officer:	Rohan Callaghan
Telephone:	8429 3426
Email address:	rohan.callaghan@sa.gov.au