

## Australia has become a nation of scrooges as spending falls and savings rise

By Nick Gardner The Sunday Telegraph February 09, 2009 10:34am

- Paying down credit cards
- Extra payments on mortgage
- Savings up from zero per cent

THE sinking economy and fear of joblessness has scared Australians into paying off their debts and ramping up their savings.

Figures from the Big Four banks show that fewer than 5 per cent of mortgage borrowers have opted to reduce repayments as interest rates continue to slide.

Australia's biggest lender, the Commonwealth Bank, said that more than 95 per cent of its variable home loan customers had left repayments unchanged while, at Westpac, more than 97 per cent had done so.

Cash handouts from the Government have also largely been directed to paying down debt, rather than for shopping or holidays.

Analysts say fear of the financial "emergency", as Prime Minister Kevin Rudd called it, was leading people to pay down debts as fast as possible.

The news has cast fresh doubts over the effectiveness of the Government's \$42 billion economic stimulus package announced last week because people are too scared to spend.

Despite Reserve Bank attempts to stimulate the economy by slashing interest rates, new figures show that households are hoarding the savings and overpaying on their mortgages instead of spending at the shops.

Government data shows that Australia has been transformed from a nation of happy-go-lucky spenders to scrooge-like savers in just 18 months.

"In mid-2007, Australia had a savings ratio of zero -- that means the average household was saving absolutely nothing," said Shane Oliver, chief economist at AMP.

"But that has turned around and now we are saving around 4 per cent of our income - and rising."



Savings ... 95 per cent of homeowners are making extra mortgage payments despite interest rate cuts / File.

AMP predicted that Australians will save an average of 10 per cent of their income in five years time, as workers adopt a more cautious attitude and rely less on rising sharemarket and house prices.

Mr Oliver said the "sea change" to a culture of saving is being driven by fear - and massive losses to superannuation savings, which people are trying desperately to repair.

"Clearly, the cash handouts are designed to increase spending, but evidence suggests that less than 30 per cent of the money will be spent in the short term," Mr Oliver said.

"Official figures show that only 10 to 20 per cent of the last cash handouts in December were actually spent," he added.

Most stimulus money will be spent eventually, but it may take months or years before people feel confident enough to resume spending.

The RBA said the one-off December payment to pensioners, carers and those on low to middle incomes had boosted disposable income by 4.5 per cent during the quarter.

And the 4 percentage points in rate cuts since September have lopped a massive \$11,000 a year off interest on a \$250,000 mortgage.

But Australians still lost an average of 10 per cent of their net worth in 2008, thanks to a falling stock market and sliding house prices.

Mr Oliver said the savings and government handouts might not be spent immediately, but they would help minimise the severity of the economic downturn because people would not have to cut back on spending as much as they would have had to otherwise.

"It will also help speed up the recovery, because if people have savings in the bank, they will have plenty of money ready to spend as soon as they feel more confident," Mr Oliver said.

Australians also appear to have ended their love affair with credit cards, adding to credit card debt at the slowest annual pace on record as economic uncertainty made people more reluctant to spend.

The yearly credit growth of 4.6 per cent reported in November was the lowest since the Reserve Bank of Australia began compiling credit-card data in 1994.

Card-holders slashed their spending by a huge 9.3 per cent.