

Update of Extended Credit Measures

Alan Boaden updates extended measures of household and business credit that were first published in the Bulletin, June 1992.

Some extended measures of business and household credit were published for the first time in the *Bulletin*, June 1992. These are updated in the tables that follow and comment is provided below. Some earlier figures in the tables have been amended following the receipt of additional data from some survey respondents.

Extended Household Credit Measure

Table 1 shows that the Extended Household Credit (EHC) measure, which was \$21,868 million in September 1989, rose by about \$8,900 million to \$30,754 million in March 1993. This represents an average annual growth rate of 10.2 percent. Lending by M3 institutions rose by \$10,300 million, while that by other organisations fell by \$1400 million.

In recent years most large banks have significantly increased their lending to households, particularly mortgages against residential property. Some of the reported growth in lending would also be due to increased borrowing for business purposes against the security of a home. Nevertheless, underlying growth has been quite strong. The decline in household borrowing from other sources is mainly attributable to reduced lending by the Housing Corporation.

It may seem surprising that households have been increasing their borrowing at a time when repayment of debt is widely seen as the most attractive form of saving. The decline in nominal interest rates is probably one important factor behind the increased borrowing. In September 1989 the weighted average First Mortgage Rate (FMR) published by the Reserve Bank was 14.9 percent. It fell to 9.6 percent in March 1993 and to 8.4 percent in August 1993.

Most of the debt included in EHC probably attracted an interest rate close to the FMR. The annual cost of servicing household debt (excluding principal payments) was therefore about \$3250 million in September 1989, but only about \$2950 million in March 1993, despite the large rise in the level of debt. Full debt statistics are not yet available for later months, but the continued decline in the FMR suggests that household debt servicing costs have fallen further since March.

Extended Business Credit Measure

The Extended Business Credit (EBC) measure fell by 7.9 percent in the year to March 1993 (see Table 2). As can be seen, this is a much sharper decline than that in M3 lending to businesses over the year to March.¹ The decline is largely explained by the \$5,200

¹ M3 financial institutions' lending to the business sector has shown somewhat stronger growth in the year to June 1993.

TABLE 1

EXTENDED MEASURE OF HOUSEHOLD CREDIT

(YEAR TO PERCENTAGE CHANGES ARE SHOWN BELOW RELEVANT TOTALS)

	Sep.89	Dec.89	Mar.90	Jun.90	Sep.90	Dec.90	Mar.91	Jun.91	Sep.91	Dec.91	Mar.92	Jun.92	Sep.92	Dec.92	Mar.93
M3 Institutions:															
Housing	12,499	13,455	14,168	15,305	14,994	15,442	15,967	17,013	17,489	18,159	18,844	19,301	20,350	21,147	21,793
Other	4,923	4,933	5,556	4,525	6,085	6,407	6,486	5,569	5,743	5,436	5,735	5,499	5,955	6,177	5,915
Total	17,422	18,388	19,724	19,830	21,079	21,849	22,453	22,582	23,232	23,595	24,579	24,799	26,304	27,324	27,708
	(%)				21.0	18.8	13.8	13.9	10.2	8.0	9.5	9.8	13.2	15.8	12.7
Other Borrowing ¹	4,446	4,236	4,250	4,285	4,288	4,280	4,316	4,274	4,342	4,230	4,048	3,871	3,584	3,495	3,046
	(%)				-3.6	1.0	1.6	-0.3	1.3	-1.2	-6.2	-9.4	-17.5	-17.4	-24.8
Extended Household Credit	21,868	22,624	23,974	24,115	25,366	26,129	26,769	26,856	27,574	27,825	28,627	28,671	29,888	30,819	30,754
	(%)				16.0	15.5	11.7	11.4	8.7	6.5	6.9	6.8	8.4	10.8	7.4

¹ This includes lending by life offices, the Housing Corporation and Mortgage Corporation.

TABLE 2

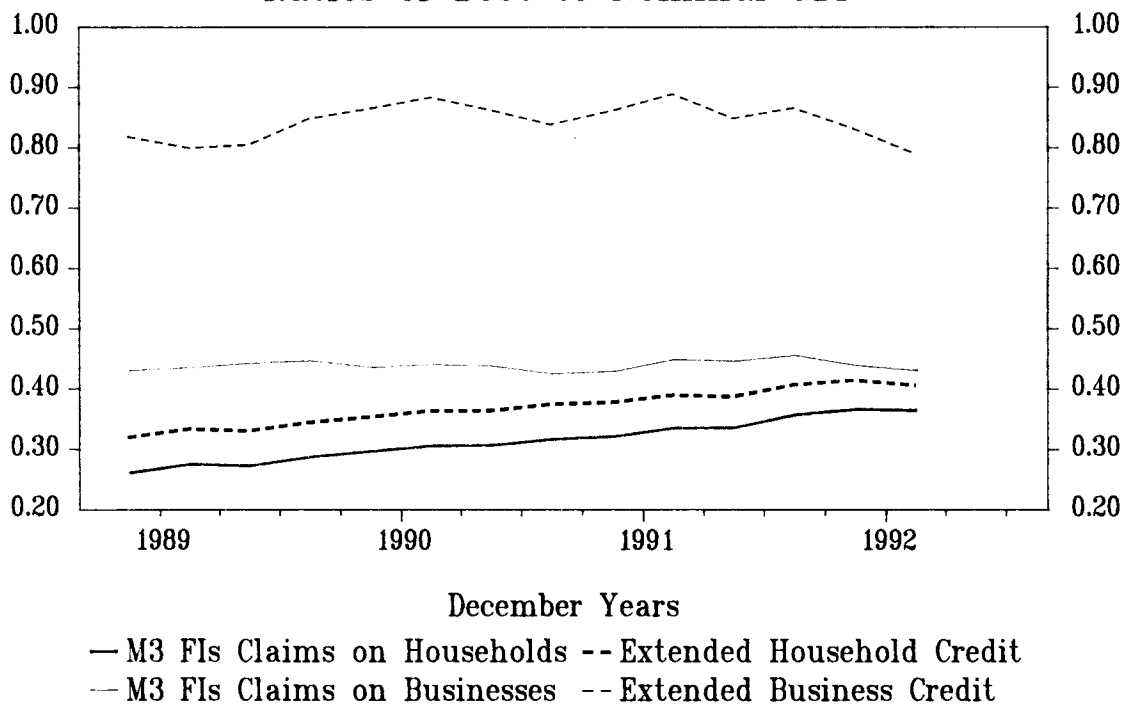
EXTENDED MEASURE OF BUSINESS CREDIT

(YEAR TO PERCENTAGE CHANGES ARE SHOWN BELOW RELEVANT TOTALS)
(\$ million)

	Sep 89	Dec 89	Mar 90	Jun 90	Sep 90	Dec 90	Mar 91	Jun 91	Sep 91	Dec 91	Mar 92	Jun 92	Sep 92	Dec 92	Mar 93
Non Financial, Non Property Borrowing from the M3 Sector	19,440	19,541	20,005	21,523	21,835	20,752	20,941	21,200	19,825	19,975	20,121	20,620	21,449	20,531	19,822
+ Lending to Local Authorities by the M3 Sector	1,089	1,014	1,201	945	1,067	762	630	742	1,186	739	922	865	946	657	795
+ Financial and Property Sector Borrowing from the M3 Sector	10,088	9,813	10,000	9,961	10,096	10,725	10,885	10,476	10,349	10,937	12,058	11,651	11,370	11,710	12,299
- Life Office Borrowing from the M3 Sector	30	28	70	229	194	148	86	161	171	161	202	183	177	161	135
Business Sector Borrowing from the M3 Sector ¹	30,587	30,340	31,136	32,200	32,804	32,091	32,370	32,258	31,189	31,490	32,899	32,952	33,588	32,736	32,781
					7.3	5.8	4.0	0.2	-4.9	-1.9	1.6	2.2	7.7	4.0	-0.4
Commercial Mortgages from Life Offices ²	375	373	357	346	332	252	253	239	230	240	238	217	241	328	335
+ Local Authority and SOE Securities held by Life Offices ²	643	707	767	745	755	907	988	936	876	864	816	944	817	739	787
+ Other Business Borrowing from Life Offices ²	666	727	668	653	809	892	814	904	935	973	1,012	805	1,012	1,091	1,144
Business Sector Borrowing from the Life Offices	1,684	1,807	1,792	1,744	1,896	2,051	2,056	2,079	2,041	2,076	2,066	1,966	2,070	2,157	2,265
					12.6	13.5	14.7	19.2	7.7	1.2	0.5	-5.4	1.4	3.9	9.7
Business Sector Borrowing from the M3 Sector and Life Offices	32,271	32,147	32,928	33,944	34,700	34,142	34,426	34,337	33,229	33,566	34,965	34,918	35,658	34,894	35,046
					7.5	6.2	4.5	1.2	-4.2	-1.7	1.6	1.7	7.3	4.0	0.2
Private Sector External Debt ³	20,867	22,427	22,826	24,563	26,863	30,305	32,482	32,262	31,822	34,138	34,942	34,601	35,860	40,028	38,587
+ External Debts of SOEs ³	11,399	10,848	10,193	8,704	9,950	10,984	8,761	7,913	7,735	7,788	7,047	7,638	8,040	3,533	3,378
- M3 Sector Funding from Offshore	9,664	7,692	8,689	8,633	9,226	11,708	10,807	11,053	11,264	12,233	11,817	14,486	15,826	16,561	17,025
Business Sector Borrowing from Offshore	22,602	25,583	24,330	24,634	27,587	29,581	30,436	29,123	28,293	29,693	30,172	27,753	28,074	27,000	24,940
					22.1	15.6	25.1	18.2	2.6	0.4	-0.9	-4.7	-0.8	-9.1	-17.3
Extended Business Sector Credit Measure	54,873	57,730	57,258	58,578	62,287	63,723	64,862	63,459	61,522	63,259	65,137	62,671	63,733	61,894	59,986
					13.5	10.4	13.3	8.3	-1.2	-0.7	0.4	-1.2	3.6	-2.2	-7.9

¹ Net of M3 inter-institutional claims. Will include lending to non-M3 businesses of a financial character including insurance companies, etc.² Source: RBNZ Survey of Life Office Assets.³ Source: Department of Statistics.

Figure 1
Ratios of Debt to Nominal GDP



million fall in Business Sector Borrowing from Offshore (which excludes M3 sector borrowing). Statistics New Zealand has attributed the overall decline in (non-M3) private sector foreign debt predominantly to repayments of overseas loans. This continues the trend noted in the June 1992 Bulletin article when the extended credit measures were first published.

Table 2 also shows that M3 institutions' overseas funding rose by \$5200 million in the year to March 1993, so total private sector overseas debt, including State Owned Enterprises (SOEs), hardly changed. SOE external debt fell by \$3,700 million in the year to March, while other private sector debt (including the M3 sector) rose by a similar amount. This is mainly due to the reclassification of a financial institution following its sale by the Government.

Finally, it should also be noted that Statistics New Zealand no longer prepares estimates of "Borrowing by Foreign Owned Holding Companies". When the EBC measure was first published, this item was subtracted from Business Sector Debt because the underlying transactions related to purchases of equity in New Zealand companies. Now that this series is no longer being updated, it has been removed from the table. The EBC figures in Table 2 therefore include such debt for all months shown.

Ratios of EHC and EBC to Nominal Income

Figure 1 shows the ratios of four credit measures to Nominal GDP over recent years. The four measures are M3FIs' lending to households, EHC, M3FIs' lending to the business sector and EBC. It is not possible yet to determine whether EHC and EBC will prove to have closer relationships than the narrow measures with important indicators such as nominal GDP. However, as longer time series are built up possible relationships will be monitored and investigated.