

# Update of Extended Credit Measures

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*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.<sup>1</sup> The decline is largely explained by the \$5,200

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<sup>1</sup> 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 <sup>1</sup> | 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    |

<sup>1</sup> This includes lending by life offices, the Housing Corporation and Mortgage Corporation.

TABLE 2

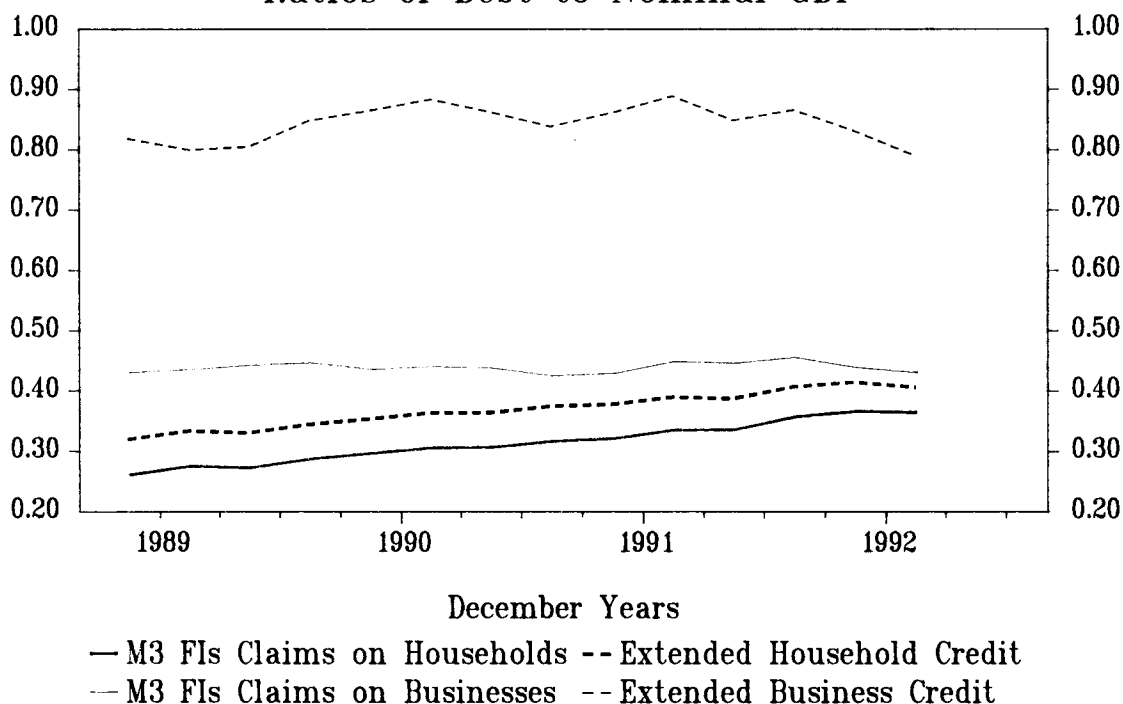
## EXTENDED MEASURE OF BUSINESS CREDIT

(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 <sup>1</sup>              | 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    | 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 <sup>2</sup>                    | 375    | 373    | 357    | 346    | 332    | 252    | 253    | 239    | 230    | 240    | 238    | 217    | 241    | 328    | 335    |
| + Local Authority and SOE Securities held by Life Offices <sup>2</sup> | 643    | 707    | 767    | 745    | 755    | 907    | 988    | 936    | 876    | 864    | 816    | 944    | 817    | 739    | 787    |
| + Other Business Borrowing from Life Offices <sup>2</sup>              | 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   | 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    | 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 <sup>3</sup>                              | 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 <sup>3</sup>                                  | 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   | 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   | 13.5   | 10.4   | 13.3   | 8.3    | -1.2   | -0.7   | 0.4    | -1.2   | 3.6    | -2.2   | -7.9   |

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