

New evidence on household wealth from the Reserve Bank

RPRC *PensionBriefing* 2013-2

Each year, the Reserve Bank publishes an annual estimate of the assets and liabilities of all New Zealand's households. In the past, there have been significant (acknowledged) gaps in the numbers. The Reserve Bank has now filled some of those.

In summary

Each year, the Reserve Bank publishes information about the assets and liabilities of New Zealand households. This is based on a 'top down' analysis of the data gathered for all households, counting all debt, all housing, all financial assets etc. for all New Zealanders. Measured in relation to current household disposable income, net wealth has increased by 78% in real terms in the 31 years to 31 December 2011. Net housing assets appear to be 69.6% of total net assets in 2011. However, the Reserve Bank's numbers miss out some of what households own. Including the 'missing' assets changes the picture.

Briggs (2012) in *Financial accounts and flow of funds* supplies some of the 'missing' data. For 2011, the total net worth of all New Zealand's households is 27% higher than previously estimated (total assets up by 19.8%; total liabilities down by 1%). Net housing is now 54.0% of net worth.

There still some data gaps to fill so even these new numbers are conservative estimates of the likely actual position at 31 December 2011.

Background

The Reserve Bank of New Zealand (RBNZ) compiles information on the assets and financial obligations of New Zealand households. The reports used to be annual but the data are now compiled on a quarterly basis. The most recent data relate to the position at 31 December 2011.

New Zealanders are probably used to hearing they are not good savers; that they rely too much on housing and have borrowed too much. Those messages provided the policy backdrop for initiatives like the New Zealand Superannuation Fund and KiwiSaver.

The evidence for this received wisdom is actually very unclear.

What the RBNZ collects

Since 1979, as at 31 December, the RBNZ has compiled the total of:

- all financial assets and liabilities of New Zealand households, gathered from a number of sources, including surveys of financial institutions carried out by the RBNZ itself, and

- the value of all houses obtained from Quotable Value¹.

The RBNZ then publishes a number of tables, both dollar-based and also calculated in relation to households' total disposable income². This gives us an estimate of the *stocks* measure of household wealth – what New Zealanders own and owe.

*PensionBriefing 2008-4, Evidence on household wealth from the Reserve Bank*³, analysed the data to 31 December 2007 and concluded that the annual statistics provided a very conservative estimate of the actual numbers. This was mostly because of the information that was not included, as the Reserve Bank itself clearly acknowledged.

The 'missing' assets

The RBNZ counts assets and liabilities in the balance sheets of all New Zealand households using readily accessible statistics on financial investments, house values, and bank and other borrowings. Values of other assets, especially those that are owned by households but that would be put into the 'business' category of the System of National Accounts (SNA), are far more difficult to locate or calculate.

Business loans are also an extension (and, ultimately the liability) of the 'household'. In a country like New Zealand, 'businesses' and 'households' are closely linked. For example, a farmer's 'household' is usually also the farmer's 'business'. Money borrowed for one might be used in the other but when the farmer retires, the farm is sold, liabilities are repaid and the net proceeds invested for income. The 'business' effectively disappears in favour of investments now owned by the 'household', but they were always owned by the 'household'.

To work out whether or not Kiwis are saving, the farmer's 'savings' need to include the net value of the business assets; and so it is for all businesses. Working out what the value of a farm is might be difficult but not as difficult as working out the value of some other unlisted businesses. However, 'wealth' is what really matters rather than which sector of the economy owns that wealth.

The RBNZ calls its report *Household financial assets and liabilities, housing value and net wealth* but, if we want a full measure, then all of the assets and liabilities of New Zealand's households should be included. To date that has not been the case.

The RBNZ itself has always acknowledged that its annual series gives only a partial view of the assets of New Zealand's households. As the RBNZ says (Reserve Bank of New Zealand 2012), "Significant elements of household net worth are not yet represented and care should be taken when interpreting these statistics." When commentators suggest, for example, that New Zealanders have 70% or more of their wealth in housing or have net financial assets of 5% of net wealth, they have not understood the RBNZ data.

The RBNZ's report lists the following 'missing' assets:

- "Equity in farms

¹ This is the value of "all private sector residential dwellings – detached houses, flats, apartments, 'life style blocks' with a dwelling, detached houses converted to flats and 'home and income' properties... Farms and publicly-owned dwellings are not included.

² "Household disposable income from [Statistics New Zealand] on an SNA basis has consumption of fixed capital and household interest paid (total primary income payable) added back. Imputed rent is included in the income definition."

³ Retirement Policy and Research Centre (2008)

- Equity in unincorporated businesses
- Shares in unlisted incorporated businesses
- Equity in directly-held commercial property
- Direct ownership of assets such as forests
- Consumer durables
- Overseas property owned by New Zealand residents
- Non-equity overseas financial assets
- Notes and coin held by households.” (Reserve Bank of New Zealand 2012)

The RBNZ also says that “In addition, it is likely that direct ownership by NZ residents of overseas equities is underestimated in the series presented here.”

In all, these are significant omissions in New Zealand’s context. The business assets owned directly by households (other than most locally listed shares) were not counted and, probably, most of households’ overseas assets as well⁴.

It is important to emphasise that the RBNZ numbers view all New Zealand households as a group. This is a very approximate look at overall wealth numbers but it is one way of seeing quickly how households as a whole are behaving. A better picture of wealth distribution is possible only through a detailed, time-consuming survey.⁵

Newly reported assets

There are difficulties in calculating the value of some of the previously ‘missing’ assets. Briggs (2012) has taken information from other surveys (such as Statistics New Zealand’s *Annual Enterprise Survey*) and adjusted those for information already included in other categories. The numbers cover:

- households’ equity in unincorporated businesses, including equity in directly-held commercial property and direct ownership of assets like forests and “most of the equity in farms, since the majority of farms are unincorporated enterprises” Briggs (2012) at p. 33;
- households’ equity in unlisted companies;
- currency holdings;
- unfunded equity in public sector superannuation schemes.

The following assets are still not included:

- overseas property directly owned by New Zealand households;
- non-equity overseas financial assets;
- consumer durables.

The effect of the newly included assets is to lift gross households’ assets at 31 December 2011 from the previously announced \$833.6 billion to \$998.6 billion, an increase of 19.8%.

Households’ net wealth rose from a previously reported \$636.6 billion to a revised \$803.6 billion, an increase of 26.2%.

⁴ New Zealand domiciled managed funds (such as superannuation schemes) aside. These will all be included in the RBNZ statistics as such schemes must file RBNZ returns.

⁵ Such as the *Household Saving Survey* produced by the Commission for Financial Literacy and Retirement Income and Statistics New Zealand in 2001 and the *Survey of Family Income and Employment* produced by Statistics New Zealand and from which data on households’ assets and liabilities are available for 2004 and 2006. Research access is also available for 2008 and 2010 data.

Briggs (2012) has re-created previous reports for the five years to 2011 and has shown those as a proportion of nominal GDP. The table summarises some key data and also re-expresses those as a proportion of household incomes, as previously reported by the RBNZ.

Household assets, liabilities and wealth 2007-2011: RBNZ existing and revised					
As previously reported:	2007	2008	2009	2010	2011
Gross assets	\$809.6 bn	\$757.6 bn	\$809.7 bn	\$812.4 bn	\$833.6 bn
Total liabilities	\$178.9 bn	\$185.7 bn	\$190.9 bn	\$194.3 bn	\$197.0 bn
Net assets \$bn	\$630.7 bn	\$571.7 bn	\$618.8 bn	\$618.1 bn	\$636.6 bn
As multiple incomes	5.62x	4.95x	5.22x	4.98x	4.90x
Revised numbers					
Gross assets	\$939.9 bn	\$968.0 bn	\$925.3 bn	\$990.8 bn	\$998.7 bn
Total liabilities	\$165.0 bn	\$180.6 bn	\$186.8 bn	\$192.1 bn	\$195.0 bn
Net assets \$bn	\$774.9 bn	\$787.4 bn	\$738.5 bn	\$798.6 bn	\$803.6 bn
As multiple incomes	6.91x	6.82x	6.23x	6.44x	6.19x
Net assets - percentage increase	+22.9%	+37.7%	+19.3%	+29.2%	+26.2%
Revised numbers – further analysis					
Liabilities to gross assets	17.6%	18.7%	20.2%	19.4%	19.5%
Liabilities to household incomes	1.47x	1.56x	1.58x	1.55x	1.50x
Net housing \$bn	\$444.1 bn	\$457.3 bn	\$404.8 bn	\$440.6 bn	\$434.3 bn
- as % net assets	57.3%	58.0%	54.8%	55.2%	54.0%

Data derived from Briggs (2012) and Reserve Bank of New Zealand (2012)

Comments on the revised RBNZ numbers

The RBNZ should be congratulated for filling probably most of the previously acknowledged gaps in household financial data.

The table offers a number of insights:

- **Missed value:** The previously published numbers missed between one fifth and one third of households' net assets. However, the previously published data on *liabilities* was reasonably close. In fact, the revised liability numbers are slightly lower. All this means that the 'missing' assets are a straight addition to households' net worth.
- **Liabilities:** The total borrowing of households (including student loans) runs at about one fifth of gross assets. Expressed another way, total liabilities are about 1.5 times household incomes across the five years covered. Neither of these measures seems excessive.
- **Net housing values:** Looking at all households, total net housing stock holdings (including rentals and holiday homes) ranges between 54% and 58% of total net worth across the five years covered. Many will be surprised that it is such a low percentage⁶.

Until the remaining gaps in the data are filled, the numbers in the table can be regarded as conservative. As with the addition of the 'missing' data noted in this *Pension Briefing*, new assets will probably be added directly to net worth.

⁶ By contrast, the Survey of Family Income and Employment for 2006 (Retirement Policy and Research Centre 2010) showed that net housing assets were even lower at only 44.6% of households' net wealth.

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References

Briggs P. (2012) *Financial accounts and flow of funds*, Reserve Bank of New Zealand: *Bulletin*, Vol 75, No. 4, December 2012 available [here](#)

Reserve Bank of New Zealand (2012) *Household financial assets and liabilities, housing value and net wealth* accessible [here](#).

Retirement Policy and Research Centre (2008) Pension Briefing 2008-4, *Evidence on household wealth from the Reserve Bank* University of Auckland (available [here](#)).

Retirement Policy and Research Centre (2010) Pension Briefing 2010-2, *What do New Zealanders own and owe?* University of Auckland (available [here](#)).