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The two-speed Australian economy

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1. Introduction

The June quarter Australian National Accounts confirm a trend that has been emerging in Australia over the last year. Some sectors (such as manufacturing) and regions (such as Sydney) are struggling while other sectors (such as mining) and regions (such as Western Australia) are booming. These trends – popularised by the term 'two-speed economy' – whereby serious sectoral and regional imbalances accompany overall economic growth, challenge the fundamental patterns of our economic and social settlements and threaten the financial viability of many Australian households. While the term 'two-speed economy' has taken on a number of meanings in different countries the imbalance of most interest here is the precariousness of the NSW economy (particularly, Sydney) relative to the prosperousness of the mining regions of Western Australia, Queensland and the Northern Territory. Several coincident factors are driving the 'two-speed' economy some of which have not received much public attention.

First, our terms of trade for non-rural, particularly base metal commodities are booming but delivering uneven benefits to Australian regions. Further, Australian manufacturing is declining with regionally concentrated costs. Consequently, unemployment is falling in some areas but rising elsewhere. Second, the major city property booms in recent years have abated with households left holding record debt levels. In some areas, household finances are now highly vulnerable to minor interest rate variations and increasing unemployment. Third, record fuel prices are impinging on household spending power and industry cost levels, the latter, in turn, affecting inflation. Rising inflation has provoked the Reserve Bank of Australia (RBA) to increase interest rates rises which exacerbate the financial stress for many households. Fourth, there is unprecedented fiscal drag as a result of Federal Government budget surpluses.[2] The resulting squeeze on household disposable income combined with rising interest rates, has increased the danger that economic slowdown in some areas (like Sydney) will bankrupt many households.

In this paper we analyse the disparate sectoral and regional growth trends in the Australian economy and highlight the precariousness of the Sydney economy.

2. What the National Accounts show

The concept of a 'two-speed' economy is not new. In the 1970s, the term 'Dutch Disease' was coined.[3] An Australian variant, the 'Gregory Thesis' hypothesised that a resources boom caused the Australian dollar to appreciate which then: (a) damages the competitiveness of 'import-competing' sectors (dominated by manufacturing, service and agricultural firms) because import prices fall relative to local cost levels; and (b) promotes wage pressures which further damage sectors who are not enjoying buoyant demand conditions.[4]

The ABS June quarter National Accounts data reveal a sharp economic slowdown, with annual GDP growth to June 2006 being 1.9 per cent. Despite the booming minerals sector, net exports overall are weak as is household consumption. The 'two-track economy' is revealed when State final demand data are examined (Table 1). Growth in annual final demand to June 2006 in Queensland was more than double the national average while Western Australia achieved growth over 4.5 times the national average. Meanwhile, growth in demand in NSW and Victoria was about one-third of

the national average. The other demand aggregates (consumption and investment) tell a similar story.

Table 1 Percentage changes in State Final Demand, June 2005-June 2006

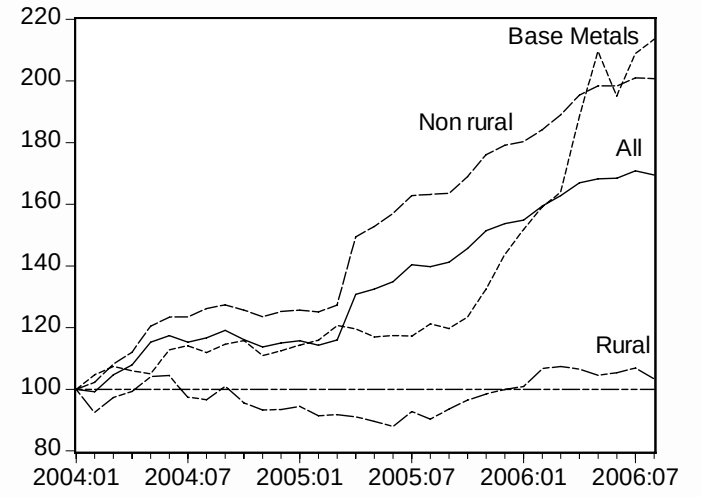
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUST
	%	%	%	%	%	%	%	%	%
GG Consumption	2.6	0.1	7.3	-1.5	4.8	4.4	1.8	0.8	2.7
Private Consumption	2.0	2.1	3.3	2.1	3.9	3.2	5.1	4.3	2.6
Public Investment	-4.3	0.5	11.0	-0.6	38.7	-0.6	-5.0	33.8	12.3
Private Investment	9.6	-6.5	36.6	-13.1	17.3	23.4	-24.7	6.9	12.4
Final Demand	1.1	1.1	7.3	0.5	14.0	3.5	0.1	5.2	3.0
Exports	3.1	-0.7	-3.7	14.6	-2.2	-13.0	40.6	0.0	1.6
Imports	9.2	0.6	4.0	-3.5	39.1	-4.1	105.8	-133.3	7.0

Source: ABS National Accounts, June quarter. GG is general government.

3. The minerals boom and sectoral employment trends

Australian economic growth is currently due to our buoyant terms of trade, which are at their highest level in 30 years. A rising terms of trade means that prices we receive from foreigners for our products are moving favourably relative to prices we pay for products from abroad. Figure 1 shows that while rural commodities have faced declining/flat world prices, Non-rural commodity prices, especially Base Metals have escalated substantially.

Figure 1 RBA Index of Commodity Prices, January 2004 = 100



Source: Reserve Bank of Australia (RBA) Bulletin database, September 2006.

A rising terms of trade rise usually promotes exchange rate appreciation. Since early 2004 (up to August 2006) the Australian dollar appreciated by 14 per cent against the YEN, 11 per cent against the US dollar, 3 per cent against the Euro and some 6 per cent against the Trade Weighted Index.[5] This suggests a classic Dutch Disease situation where world demand growth in resources is placing upwards pressure on the

currency, disadvantaging export industries which are not enjoying buoyant world prices (such as, manufacturing). Mineral sector employment sector has grown strongly over the last 3 years (33 per cent between May 2003 and May 2006). The strongest growth has been in Queensland (109 per cent) and Western Australia (52.4 per cent).[6] By comparison, manufacturing employment is generally in decline. The 1991 recession exerted a heavy toll on manufacturing overall and in NSW, Victoria, South Australia and Tasmania no coherent recovery has occurred. Contrarily, manufacturing in the growth regions of Western Australia and Queensland has expanded after the 1991 recession (Table 2). In the last year, the Sydney Major Statistical Region (MSR) and the Balance of NSW have suffered the strongest decline in manufacturing (both around 7 per cent), a trend mirrored in Melbourne (4.4 per cent decline). The Sydney MSR has also suffered a huge (20.4 per cent) decline in construction, partly reflecting the end of the property boom.[7] The July Performance of Manufacturing Index confirms the manufacturing malaise. The current wave of interest rate increases is projected to further damage this sector and regions (such as South-west Sydney) which depend highly on manufacturing employment. [8]

Table 2 Trends in Australian manufacturing employment, 1989-1990 and 2005-2006, averages

	NSW	VIC	QLD	SA	WA	TAS	AUST
	%	%	%	%	%	%	%
Average June 1989-March 1990							
MAN share of total MAN	34.4	32.2	13.4	9.5	7.2	2.5	100.0
MAN share total EMP	15.8	18.7	12.4	17.7	11.6	14.8	15.4
MAN employment (000's)	417	391	163	115	87	30	1212
Average June 2005-March 2006							
MAN share of total MAN	30.8	31.5	17.1	8.8	8.9	2.2	100.0
MAN share total EMP	9.9	13.7	9.3	12.4	9	9.8	10.6
MAN employment (000's)	328	336	182	94	95	24	1066

Source: ABS Labour Force Survey. MAN share of total MAN is the manufacturing in each region as a percentage of total manufacturing employment in Australia; MAN share of total EMP is the percentage of manufacturing in total employment in each of the regions.

Does the Dutch Disease phenomenon explain the current regional growth disparities? The RBA reports that since March 2004, resource exports have grown by around 77 per cent.[9] Movements in other sectors have been mostly favourable with manufactures up 14 per cent and services up by 104 per cent. The exception has been the rural sector which was down by 3.0 per cent. Austrade suggests currency appreciation and rising oil prices are the most significant negative factors influencing export confidence. However, manufacturing and services appear to exhibit the most confidence for 2006. This evidence contradicts a Dutch Disease interpretation. Austrade say manufacturing is less affected by currency pressures now because it imports and exports in a global supply chain.[10] The favourable export trends in manufacturing output have not translated into employment gains as a result of accelerated productivity growth.

It remains that manufacturing employment is in trend decline in Australia. Gregory and Hunter (1995) argue that substantial deindustrialisation of the Australian economy in the 1970s and 1980s increased unemployment and neighbourhood inequality in many regions which persisted over the next decade.[11] Manufacturing workers are disproportionately located in disadvantaged neighbourhoods and a continued decline is likely to have strong spatial biases, inflicting substantial scars on those individuals and localities least able to readily respond to job loss - a trend which may prove, as it has in the past, difficult for policy makers to reverse.

4. Recent regional labour market trends

The sectoral employment trends discussed earlier have strong regional biases. Table 3 shows annual employment growth in Metropolitan and Balance of State areas from 2000-01, ranked in ascending order by the current year (2005-06). The changing employment patterns are evident with mining areas such as the Northern Territory, Balance of WA, and Balance of SA all enjoying rapid employment growth in recent years. Employment contracted in the Sydney MSR and NSW overall in the last 12 months.

Table 3 Employment growth (%), City and Balance of State, ranked by 2005-06 growth

Region	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	
	Total	Total	Total	Total	Total	Total	Full-time
	%	%	%	%	%	%	%
NT	5.27	3.55	0.71	-2.30	-4.61	7.20	9.1
Balance WA	-0.85	4.44	3.43	-3.13	5.69	6.60	19.4
Hobart	3.18	-2.96	6.96	2.74	5.11	4.02	9.84
Balance SA	1.74	1.21	2.73	0.90	1.68	3.41	-0.81
Balance VIC	3.86	1.52	3.96	-0.14	2.61	2.00	-3.31
Perth	2.86	-0.16	2.30	4.86	4.76	1.96	2.90
Brisbane	0.23	4.57	1.86	3.61	6.95	1.87	4.47
Balance Tas	-1.26	-0.43	1.63	3.12	1.47	1.85	1.49
ACT	1.43	1.29	2.15	0.28	2.04	1.83	0.85
Melbourne	2.60	0.74	1.54	2.51	3.98	1.51	5.94
Australia	1.56	1.17	2.58	2.00	3.65	1.18	1.60
Balance QLD	1.12	1.58	4.72	4.04	6.27	0.87	-2.03
Adelaide	-1.22	4.02	2.45	-0.28	3.96	0.04	2.64
Balance NSW	1.92	-1.90	4.19	1.31	2.14	-0.08	-4.07
Sydney	1.06	0.99	1.58	1.61	1.94	-0.22	0.07

Source: ABS Labour Force Survey. Balance refers to the Balance of State corresponding to the urban MSR. Annual growth is from April to April.

Tables 4 reports additional labour force data for States/Territories from July 2004 to July 2006. The data confirms the stagnation of employment and labour force growth with rising unemployment in NSW in recent years. The boom states of Queensland and Western Australia enjoyed buoyant labour market conditions with sharp declines in unemployment, although labour force growth in Western Australia slowed during 2005-06.

Table 4 Labour force trends in States/Territories, July 2004 to July 2006

2004-05		NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUST
% Change	EMP	3.7	3.3	5.1	2.6	7.5	3.7	2.3	4.0	4.2
% Change	LF	3.0	2.3	5.0	1.3	7.0	3.0	-0.9	2.7	3.5
Change (000s)	UN	-14.5	-20.1	2.6	-9.3	-1.3	-1.0	-3.1	-2.1	-48.8
2005-06										
% Change	EMP	0.7	2.2	3.7	1.8	1.6	0.7	5.6	4.9	2.0
% Change	LF	1.4	1.5	3.0	1.7	0.8	0.8	5.8	4.9	1.8
Change (000s)	UN	25.1	-16.0	-11.0	0.2	-8.3	0.4	0.3	0.4	-8.7

Source: ABS, Labour Force Regions. EMP is total employment, LF is the Labour Force, UN is total unemployment.

Broader measures of labour underutilisation by State which aggregate official unemployment, underemployment and hidden unemployment show that while the Australian economy overall has reduced it labour wastage in recent years, the reverse trend is operating in NSW (see Table 5).[12]

Table 5 Total labour underutilisation by State, August 2006 and trend.

	August 2006 %	Change Nov-04-Aug-06 %
New South Wales	10.33	0.62
Victoria	9.66	-1.24
Queensland	7.56	-1.88
South Australia	10.14	-0.66
Western Australia	6.45	-2.32
Tasmania	11.95	-0.13
Australia	9.45	-0.5

Source: CofFEE (2006). Total labour underutilisation adds official unemployment to estimated underemployment and hidden unemployment, and divides the sum by the total labour force, all expressed in hours.

5. The decline of the Sydney labour market

Table 6 reports more detailed labour force trends for ABS Labour Force Regions in NSW for 2005-06. The previous year's data (July 2004 to July 2005) shows that labour markets in non-metropolitan regions of NSW experienced inferior performance to the Sydney MSR.[13] However, this trend has reversed since July 2005. Full-time employment growth declined and part-time growth stagnated in NSW overall. Many of Sydney's regions were among the worst performers for NSW. In traditional

manufacturing regions, full-time employment growth was sharply negative (Fairfield-Liverpool and Outer South-Western Sydney, and Illawarra and South Eastern Sydney). Labour Force growth in these regions was also negative, signalling a recessed labour market. Increasing unemployment was in sharp contradistinction to national trends.

Table 6 Growth in labour force aggregates, NSW, ABS Labour Force Regions, July 2005 to July 2006.

Region	EFT %	EPT %	ETOT %	UN 000's	LF %	UR %
Inner Sydney and Inner Western Sydney	0.6	9.1	2.7	-2.3	1.8	2.6
Eastern Suburbs	-10.8	9.7	-6.4	-2.1	-7.6	2.5
St George-Sutherland	-5.4	-8.1	-6.1	-0.8	-6.2	3.5
Canterbury-Bankstown	1.7	-2.0	0.8	3.4	3.2	6.7
Fairfield-Liverpool and Outer SW Sydney	-12.8	-19.0	-14.2	4.8	-10.6	10.0
Central Western Sydney	4.0	-15.4	-1.1	2.3	0.5	5.4
North Western Sydney	6.4	-0.1	4.6	-5.2	2.7	3.7
Lower Northern Sydney	-3.0	-9.2	-4.6	3.5	-2.7	4.2
Central Northern Sydney	1.3	24.8	7.3	-3.1	5.7	2.4
Northern Beaches	-10.3	5.1	-6.3	-0.4	-6.4	1.9
Gosford-Wyong	17.3	4.7	12.9	2.7	14.3	4.9
Hunter	6.2	0.0	4.3	-2.1	3.3	4.6
Illawarra and South Eastern	-8.4	10.2	-2.4	2.3	-1.0	8.2
Northern, Far West-NW and Central West	3.6	-13.2	-2.0	2.7	-0.8	4.7
Richmond-Tweed and Mid-North Coast	2.7	17.5	7.8	1.1	7.8	6.8
Murray-Murrumbidgee	14.2	6.3	11.7	-1.6	9.8	3.6
New South Wales	1.0	0.6	0.8	10.6	1.1	4.7
Sydney Major Statistical Region	-0.9	0.6	-0.5	5.1	-0.3	4.2
Balance of New South Wales	5.1	0.4	3.6	5.5	3.9	5.6
Australia	2.0	2.7	2.2	-15.4	1.9	4.4

Source: ABS, Labour Force Regions, 2005-06. Data is from July 2005 to July 2006. EFT is full-time employment, EPT is part-time employment, ETOT is total employment, UN is unemployment, LF is the Labour Force, and UR is the official unemployment rate which is evaluated at July 2006.

In the last few years, two broad groups of regions have emerged within the Sydney MSR. One group has experienced modest and/or slowing growth (Central Western Sydney, Eastern Suburbs, Northern Beaches and Canterbury-Bankstown) or very sharp reversals in employment growth (Fairfield-Liverpool and inner Western Sydney) in the last year. The other group comprises the inner and northern suburbs which has enjoyed consistently higher employment growth. The data underpins the claim that "Sydney is becoming a tale of the two cities. In the northern and eastern

labour force regions the unemployment rate remains low and employment growth is strong. However, in the western and southern labour force regions such as Fairfield-Liverpool, St George-Sutherland and Wollongong a major labour market contraction is now visible."[14]

In the year to July 2006, the biggest industry shifts in terms of lost jobs inside the Sydney MSR have been in manufacturing (16,100), finance and insurance (12,600 per cent) and accommodation, cafes and restaurants (7,000). The biggest percentage falls in manufacturing over the year occurred in Central Northern Sydney (down 23.8 per cent), St George Sutherland (down 21.3 per cent), and Canterbury-Bankstown (down 18.2 per cent) with Central Western Sydney and Fairfield-Liverpool and Outer South Western Sydney also experiencing declines. Employment in Fairfield Liverpool fell across many industries, but most sharply in manufacturing (6,600), wholesale trade (6,100), property and business (5,500) and finance and insurance (3,800).

6. The housing market in capital cities

The labour market malaise in Sydney has followed the end of the housing boom as spending declined and economic activity faltered. Table 7 (latest available data) shows that Sydney has the highest median prices for established houses in Australia but has experienced negative price growth since March 2004.

Table 7 Median established house prices and price growth in Australian capital cities, 2002-2006.

	Sydney	Melb	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
March	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
2002	365.0	241.0	185.0	166.0	190.0	123.3	180.0	245.0
2003	434.0	270.0	225.0	208.0	216.0	144.3	198.0	300.0
2004	523.0	305.0	302.0	250.0	255.0	200.0	221.5	375.0
2005	485.0	310.0	310.0	267.0	290.0	240.0	255.0	375.0
2006*	470.0	322.0	319.0	281.0	374.0	264.0	299.0	380.0
	%	%	%	%	%	%	%	%
2002-03	18.2	13.7	24.6	22.7	13.8	27.7	9.4	27.4
2003-04	13.2	10.4	32.7	18.1	19.1	41.3	17.4	18.4
2004-05	-5.9	2.4	2.4	5.9	13.7	10.7	14.6	0.3
2005-06*	-3.1	3.8	2.8	5.3	28.8	9.9	17.4	1.4

Source: ABS, House Price Indexes: Eight Capital Cities, Cat. NO. 6416.0, March 2006, Table 7. * Estimates based on Index numbers provided in 6416.0. Melb is Melbourne

While prices growth in most of the other Capital Cities have moderated the Perth and Darwin markets have enjoyed consistent growth. The Australian average of 8 capital cities was 17.6 per cent per annum (2002-03), 15.8 per cent per annum in 2003-04, 0.1 per cent per annum in 2004-05 and 3.6 per cent per annum since March 2005.[15]

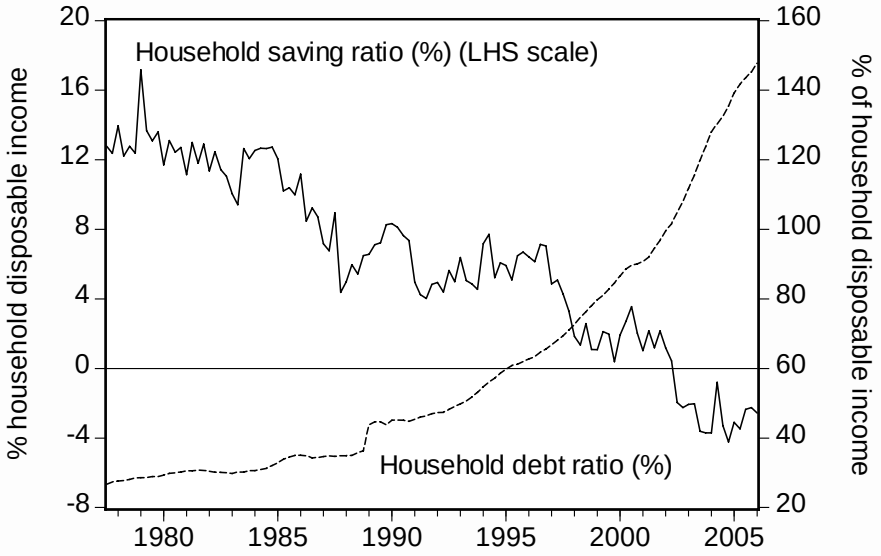
The Sydney housing market has more than 51 per cent of dwellings with values above $500,000 which stands out from the other capitals which all have more than 50 per

cent of their housing valued at less than $400,000. A strong bias exists in most of the Capital Cities for housing below $300,000. Further, while the mean dwelling price is higher in NSW than elsewhere, the average mortgage holder in NSW is considerably more indebted than in other Capital Cities.[16]

7. Household debt and the property boom

The notable trends in household debt over the last decade are: (a) debt levels have risen sharply relative to household incomes. The debt to household disposable income ratio is now well over 140 per cent; (b) debt servicing costs, relative to incomes are now the highest ever; and (c) the household sector has moved from being a net saver to a net borrower.[17] The household debt ratio has increased exponentially over the mid-to-late 1990s (Figure 2).

Figure 2 Debt and savings ratios, Australia



Source: National Income, Expenditure and Product, ABS (5206.0) Financial Accounts, ABS (5232.0). Quarterly figures are seasonally adjusted. Household debt ratio is the stock of household liabilities at the end of the quarter as a proportion of annual gross household disposable income. Household saving ratio is total saving as a proportion of household disposable income.

Several factors are cited as contributing to these trends: financial deregulation which made credit more available; greater competition contributing to lower operating margins; prolonged economic growth; low inflation; low interest rates; relatively low unemployment and 'wealth' effects due to rising property prices.[18] A further factor has been the zealous behaviour of financial engineers.[19]

Recent RBA figures show that the last time the RBA target interest rate was 5.75 per cent (February 2001), household debt stood at $409 billion. In August 2006 the target rate returned to 5.75 per cent but now coincides with household debt at nearly $900 billion.[20] The average mortgage holder had a lower debt burden when interest rates were 17 per cent in the late 1980s than they are now.[21]

The RBA, at first, took a benign attitude to rising household debt levels but recently has become more concerned about the risk involved. [22] But Bank researchers still argue that ratios of debt to income are not problematic because households' financial

assets have increased substantially more than their debt, and high debtors are typically mid-life, high income households living in regions where housing prices are less likely to fall.[23]

The problem is this view assumes that economic growth will remain strong, asset prices (including housing) will not fall substantially and that unemployment will remain stable. The falls in median house-prices shown in Table 7 and the rise in unemployment in high debt areas of the Sydney MSR belie this logic. Further, no-one predicted the rising fuel prices that are now squeezing household liquidity.

The dynamics of financial fragility are simple. Banks and borrowers begin a new growth phase cautiously and as confidence builds the financial engineers start pushing higher levels of credit onto borrowers and broaden lending to marginal borrowers previously deemed credit unworthy. The housing boom stimulates economic activity as households renovate and expand their consumption of household items (as they feel wealthier). The debt servicing burden as a percentage of disposable income rises. Then as the housing market slows the broader activity associated with it (construction, retailing, finance and insurance, manufacturing, etc) also slackens. Regions that do not have an alternative growth source such as Sydney suffer further contractions as household try to reduce their high debt exposure. This promotes and is exacerbated by rising unemployment. Other cost pressures (rising fuel prices) and interest rate rises magnify the fragility of highly levered households.[24] As unemployment continues to rise in areas such as Sydney increased bankruptcies and forced asset sales will occur. Evidence points to rising forced mortgagee sales in Sydney.[25]

As a rough estimate of debt burden across disposable income groups, Table 8 reports total debt as a percentage of the mid-point income for each income group.[26] Despite research indicating that unconstrained households rather than constrained households increased their debt levels, the debt to income ratio would seem to be extremely high for lower income groups which are also those who typically experience job loss in a slowdown.[27]

Table 8 Percentage total debt burden by disposable income band, 2002

Annual disposable income	Total debt % of Midpoint Disposable income
Negative	n/a
Zero	n/a
$1-$20,000	292.0
$20-40,000	161.0
$40-60,000	141.0
$60-80,000	137.7
$80k-100,000	137.8
$100,001+	n/a
Overall	n/a

Source: HILDA, 2002, Wave 2.

Average debt holdings for all residents by State/Territory in 2002 were highest in ACT mostly reflecting higher mortgages there. However, NSW (mostly Sydney) was next highest with Western Australia. While the latter is enjoying prosperous economic

conditions, Sydney's sluggish employment growth and rising unemployment combined with the debt legacy of its now stalled property market makes it very vulnerable to economic collapse.[28] Further, the household debt to disposable income ratio (a measure of the debt burden) was 141 per cent in NSW in 2002 compared to 132 per cent for Australia as a whole.

8. The threat from fiscal drag

Nine of the last ten federal budgets have come in surplus, the latest (2005-06) being a massive $15 billion (1.5 per cent of GDP). The cumulative surpluses over the last decade have been $67 billion (RBA, 2006). What is not often understood is that the surpluses amount to a net government withdrawal of liquidity (purchasing power) that would otherwise be available to the private sector. However, contrary to the political rhetoric, the surpluses do not represent a store of funds that are available for the future and the on-going surpluses represent a significant 'fiscal drag' (constraint on spending) on the economy's ability to grow and provide employment for all (Mitchell and Mosler, 2002). In a national accounting sense, the mirror of public surpluses over the last decade has been the private sector deficits (ever increasing debt). In these situations, GDP growth can be driven by consumption and housing investment financed by an expansion in private debt. However, the sharp decline in the household saving which has temporarily allowed the Australian government to realise budget surpluses, is unsustainable (Mitchell and Mosler, 2002). Once credit growth slows and consumption wanes then the fiscal drag begins to manifest as unemployment. The decline of the Sydney labour market is evidence that the fiscal squeeze is impacting adversely.

9. Conclusion

In this paper we have documented some aspects of the 'two-speed' Australian economy and highlighted how the current contraction in employment in the Sydney MSR combined with the record household debt levels are endangering the financial viability of many Sydney households. Many Australian households are facing increasing levels of financial stress as rising interest rates and fuel price impinge on disposable income. The policy response is not straightforward given the multiple ills that now confront the Sydney labour market. While we consider a full policy exposition to be beyond the scope of this paper, there are several areas in which policy analysis should take place. First, the Federal Government has to do all it can to ensure a low interest rate environment without fuelling another property boom. In that context, this year's Federal Budget which provided unprecedented relief to high income earners was not helpful and should be reviewed. Reform of the tax system which has encouraged an over-investment in negatively-geared properties is worth consideration. Second, there is no effective regional development strategy to ensure that regions that are dependent on manufacturing can make efficient transitions in their industry structure to promote more employment growth. Third, while total labour underutilisation rates persist at near double-digit levels industry is reporting skill shortages. The Federal Government has left skills development largely to the 'market' which has failed to deliver appropriate skill mixes. Areas like South Western Sydney would benefit from a coherent a national skills development framework which placed a priority on apprenticeship training in occupational growth areas. Fourth, the recent boom in unregulated financial planning signals an urgent need for more strict regulation on credit availability, particularly in the case of marginal households.

The persistent net spending withdrawal by the Federal Government (via surpluses) will exacerbate the pending plight of Sydney households.

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[26] Derived from data from the Household Income and Labour Dynamics Australia (HILDA) survey, Wave 2, 2002.

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[28] HILDA, 2002, Wave 2.This understates the burden on those who hold the debt. While it is often argued that around 30 per cent of households actually hold debt the reality is that their spending impacts on the wider economy.