

Financial Statistics for Analysts

By
W. E. DAVIES,
B.Ec., A.A.S.A. (Prov.)

In plying his trade, the security analyst deals with many varieties of securities. A feature common to them all is that each takes the form of a financial claim and carries with it certain income rights. Evaluation of the worth of these claims must take account not only of the standing and prospects of the issuer of the claim but also of the particular forms of benefit conferred on the holder in the economic and financial conditions likely to prevail during the period for which the claim is to be held.

Financial claims can have a wide range of attributes as regards security, repayment and income entitlements and the objective of the holder will presumably be to maximise the benefits accruing to him over the period of his holding. These objectives will normally be highly personalised but, if maximisation of benefits is sought, decisions to hold particular claims must involve implicit or explicit judgments about economic and financial conditions likely to be encountered over the period of the holding. Not the least of these judgments will relate to prospective conditions in money and capital markets in which arrangements for the issue and take up of new claims are made and facilities for trading in existing claims are provided.

With the rapid growth and diversification of money and capital markets which have taken place in Australia over the post-war period, keeping track of financial developments and assessing their significance for particular markets and for particular classes of securities is no mean task. The objective of this note is to attempt a brief summary of the range of statistics now available in Australia covering major areas of money and capital market activity. To provide a framework for such a summary, however, some recapitula-

tion of the major features of money and capital market activity generally seems desirable.

Broadly speaking, money and capital markets stand between final borrowers and final lenders. Borrowers will, in the main, be groups who spend in excess of their income and must finance this excess by running down existing holdings of financial assets or by borrowing. The funds for these borrowers come from other (domestic and overseas) groups whose income for the time being exceeds their spending. In practice, however, most groups in the community engage in both borrowing and lending activities.

Some borrowing and lending transactions take place directly between final borrowers and final lenders. The great bulk, however, takes place through financial institutions which sell claims on themselves to lenders and acquire claims on borrowers. This helps expedite the processes by which lenders acquire assets which meet their portfolio requirements and borrowers incur liabilities which satisfy their needs on terms appropriate to their ability to service them. Particular financial institutions may also have special attributes arising from their expertise in raising funds or appraising investments or because their size enables them to pool risks both in respect of default by borrowers and withdrawals by lenders.

At any point of time, groups with surplus funds thus have a wide variety of choices available to them regarding the disposition of these funds and potential borrowers will usually be similarly placed with regard to sources of funds. The choices that various groups actually

make regarding borrowings and lendings, in interaction with official and overseas transactions, will determine the overall pattern of domestic money and capital market activity and imbalances as between the objectives of various groups will be evidenced in changes in trading conditions in these markets.

Statistics relating directly to money and capital markets may take a variety of forms. In the main, however, they will fall into one or other of the following broad categories:

- (a) Balance sheet data for major groups of borrowers and lenders in the community showing the main classes of claims owing and held;
- (b) transactions data showing major types of claims received and given by various groups;
- (c) turnover data showing the volume of trading in various classes of claims;
- (d) price and yield data covering the terms and conditions on which claims are being acquired or traded.

Complete documentation for all groups of borrowers and lenders and for all types of financial claims is rarely, if ever, attempted. In most modern countries, however, statistics are compiled and published by official agencies covering the activities of major groups of borrowers and lenders and activity in major types of financial claims and these official compilations are supplemented by regular compilations by authoritative private groups such as stock exchanges and a variety of ad hoc collections, some of which may be of doubtful authenticity.

In Australia the primary source of financial (and other) statistics is the Commonwealth Bureau of Census and Statistics. Other major authoritative sources of such data

are the Reserve Bank, the Commonwealth Treasury and the Stock Exchanges in the various States. Between them these agencies make available a wealth of statistical information relating to money and capital markets. In large part this data is presented as relating directly to the activities of financial institutions. Indirectly, however, this gives in very convenient form extensive statistical coverage in a much wider field as the liabilities of these institutions make up the main body of financial assets accumulated by the community and their assets make up a significant portion of claims issued on the community. These basic statistics are supplemented by special compilations in respect of transactions in classes of financial claims of particular importance (such as Government securities and company shares, debentures and notes) and by tabulations of interest rates, prices and yields for a wide variety of financial claims.

The major financial institutional groups for which authoritative statistics are presently available are:

Banks

The main source of banking statistics is the Commonwealth Bureau of Census and Statistics. A great deal of the information which the Bureau publishes is reproduced in convenient reference form (along with supplementary collections) in the Monthly Statistical Bulletin of the Reserve Bank* and in the quarterly Treasury Information Bulletin*. Information available embraces basic monthly data on the assets and liabilities of the Reserve Bank and trading and savings banks, with regular monthly, quarterly or half-yearly extensions covering such aspects as the lending activities of trading and savings banks, industry and interest rate classifications of deposits and advances, etc.

Life Insurance Offices

The Commonwealth Statistician

*These publications also regularly include a selection of other financial statistics in convenient reference form, reproduced from a variety of sources.

publishes monthly details of premiums, claims and new loans paid over by life offices and quarterly balance sheet data on selected assets, bank overdraft and deposit borrowings; the statistics exclude the life business of the Government Insurance Office of N.S.W. and the Queensland State Government Insurance Office. Some additional annual information including the business of the two State offices is also published in "Insurance and Other Private Finance Bulletin" (Commonwealth Statistician). Details of retained investment income of, and net contributions to, life offices (and pension funds) are published annually in "Australian National Accounts" (Commonwealth Statistician).

Public and Private Pension Funds

The Commonwealth Statistician publishes annual data on income and expenditure, assets and liabilities of government pension and superannuation schemes and of separately constituted private pension funds; in the latter case, coverage varies from full surveys to surveys of selected funds.

Finance Companies

The Commonwealth Statistician publishes monthly statistics on the lending activities of finance companies and also a separate longer-standing series on instalment credit for retail sales.

The instalment credit series covers the operations of all types of schemes relating primarily to the financing of retail sales of goods for which repayment is made by regular predetermined instalments. Quarterly estimates including details of amounts financed, collections and balances outstanding are published for retailers and non-retail finance businesses and preliminary monthly estimates, based on sample collections, are published for non-retail finance businesses.

The finance companies' tabulations do not cover all the firms included in the instalment credit series but take in a much wider

range of lending activities. As well as instalment credit, there are details on amounts financed, collections and other liquidations and balances outstanding for other consumer and commercial loans, wholesale hire purchase and factoring transactions of finance companies. They do not, however, cover leasing transactions which have, over recent years, come to assume considerable importance in the operations of finance companies.

Building Societies

Annual information on new lending by registered building societies is published by the Commonwealth Statistician. The publications also include details of mortgages and other assets and of members' funds, deposits and other selected liabilities of the societies. Separate details for permanent, Starr-Bowkett and terminating societies are available.

Short Term Money Market

Monthly statistics of selected liabilities and assets of the authorised dealers in the short term money market and interest rates paid, together with quarterly classifications of liabilities (i.e., deposits) by type of client are published by the Reserve Bank in its Statistical Bulletin. (Summarised weekly reports showing less detail are also issued.)

Pastoral Finance Companies

Monthly aggregates of rural advances of major pastoral finance companies are published regularly in the Reserve Bank Statistical Bulletin. The bulletin also includes quarterly aggregates of other assets and of debentures, notes and deposits, clients' credit balances and other liabilities of the companies.

Unit Trusts, Land Trusts and Mutual Funds

The Commonwealth Statistician publishes quarterly data on the cash transactions, purchases and sales of investments and cash and short term deposits of trusts and funds. The total market value of trusts and funds at the end of each quarter is also available.

Other major statistical series

which warrant special mention in any listing of financial data include:

New Capital Raisings

Statistics of new capital raisings by companies in Australia are published quarterly by the Commonwealth Statistician. The estimates include new money raised by listed

are available in banking statistics tabulations.

Balance of Payments

Quarterly estimates of Australia's balance of payments with the rest of the world are published by the Commonwealth Statistician. An aspect of the balance of payments of particular relevance to conditions

reserves are disclosed weekly in the Reserve Bank's weekly release to the Press of its main balance sheet aggregates.

Interest Rates and Security Prices and Yields

The Stock Exchanges in the various States make available a wide range of statistical data on the interest rates, prices and yields and turnovers for listed securities. Sydney and Melbourne Stock Exchanges compile and publish widely-quoted series of share prices and share yields. Tabulations of yields on Government securities both in Australia and abroad appear regularly in the Reserve Bank Statistical Bulletin along with selected data on overseas interest rates and security yields.

The above listings are far from exhaustive and serve mainly to illustrate the range of financial data presently available in Australia. An attempt to integrate the various strands of information, fill in gaps where practicable and link the data to national income estimates so as to present an overall picture of the pattern of money and capital market activity has been made by the

TABLE I
Life Offices and Pension Funds
Increases in Selected Assets
\$ Million

	1960-61	1961-62	1962-63	1963-64	1964-65
Fixed Assets	21	32	36	44	56
Commonwealth Securities	11	101	136	99	92
Local and Semi-Governmental Securities	71	110	80	97	73
Ordinary and Preference Shares	77	61	82	91	98
Debentures, Notes and Deposits	56	37	50	72	79
Mortgages	77	29	29	55	85

companies by way of shares and of debentures, notes, loans and deposits and by unlisted companies by shares and by loans secured over the entire assets of the company. The statistics include a classification by industry groups. Subscriptions by associated companies whether local or overseas and by overseas investors are excluded and accordingly a substantial amount of capital investment from abroad is omitted from the series. Estimates of new money raised by listed companies from banks, life insurance and pension funds and from other sections of the investing public are also published.

Government Financial Operations

The Commonwealth and State Governments all issue monthly statements of their financial transactions. These statements are summarised in handy reference form in the quarterly Treasury Information Bulletin and in the Reserve Bank Statistical Bulletin, along with annual tabulations classifying the holders of Commonwealth Government securities. A monthly classification of Treasury notes by holder is also available in the Reserve Bank Bulletin. Monthly data on banking system holdings of Commonwealth Government securities

in money and capital markets is capital inflow. The information on this given in the quarterly statements is supplemented by an annual survey.

Statistics of Australia's holdings of international reserves are released monthly by the Reserve Bank. The Reserve Bank's own holdings which make up the great bulk of these

TABLE II
Financial Patterns 1960-61 to 1964-65

	Non-Finance Companies	Persons and Unincorporated Enterprises
	\$m.	\$m.
Gross savings	4499	7819
Less Capital expenditure	7301	6907
	-2802	+ 912
Selected Financial Assets		
Bank deposits, notes and coin	215	1117
Savings bank deposits	—	1834
Commonwealth securities	1	- 210
Local and semi-governmental securities	—	- 73
Net contributions to life insurance, etc.	—	939
Ordinary and preference shares	144	285
Debentures, notes and deposits	52	613
Other advances	187	—
Capital outflow	98	51
Selected Liabilities		
Trading bank advances	354	294
Savings bank advances	—	638
Other advances:		
from other financial institutions	315	1265
from governments	17	521
Issues of:		
shares	1365	—
debentures, notes and deposits	841	—
Capital inflow (other than shares and debentures, etc.)	661	—
Trade credit (net)	179	115
Other items (incl. discrepancy)	(asset) 233	(liability) 811

research staff of the Reserve Bank and released in the form of flow-of-funds accounts for Australia.

The most recent of these studies was published in a Supplement to the Bank's Statistical Bulletin for December, 1966, and includes estimates on an annual basis of net borrowings and lendings between major economic groups classified according to the type of financial claim involved, covering the years 1960-61 to 1964-65.

One or two examples of the type of information presented will perhaps serve to illustrate the possible usefulness of these studies to security analysts.

Table I illustrates the investment patterns of life offices and pension funds. It calls for little comment other than to note that the volume of new funds commanded by these

institutions year after year is such that even modest changes in their investment patterns could have very important repercussions in the securities markets in which they operate.

A second example, designed to illustrate overall financing patterns of non-finance companies and persons and unincorporated enterprises, is given in Table II.

This table brings out the point that, during the period covered, non-finance companies did not generate sufficient internal savings to cover their capital expenditures. Borrowings by shares, debentures, etc., and other capital inflow from abroad and, to a lesser extent, loans from banks and other financial institutions were important sources of funds. Concurrent with these borrowings, however, there was a mod-

est accumulation of financial assets by non-finance companies.

In contrast, persons and unincorporated enterprises had surplus funds available. The volume of funds actually available was a good deal greater than shown in the top section of the table as these groups financed a substantial part of their capital expenditures (on housing, farm equipment, etc.) by borrowing from banks and other financial institutions. In the disposition of their surplus funds, they invested substantial amounts in a wide range of claims, including bank deposits, shares and debentures, notes and deposits (including deposits with building societies, pastoral finance companies, short term money market, etc.) and made significant payments to life offices and pension funds. At the same time they ran

(Continued next Page)

TABLE III
Private, Non-Finance Groups
Net Financial Flows
\$ Million

	1960-61		1961-62		1962-63		1963-64		1964-65	
	S	U	S	U	S	U	S	U	S	U
1. Bank deposits, notes and coin	10	—	—	295	—	219	—	498	—	330
2. Savings bank deposits	—	111	—	314	—	466	—	535	—	409
3. Advances of trading banks	—	12	78	—	163	—	124	—	295	—
4. Other advances:										
by financial institutions	361	—	223	—	418	—	349	—	628	—
by governments	134	—	112	—	106	—	90	—	96	—
other	—	2	—	3	—	5	2	—	—	1
5. Commonwealth securities	105	—	59	—	—	23	—	1	71	—
6. Local and semi-governmental securities	2	—	43	—	12	—	27	—	—	11
7. Company securities:										
On issue—										
ordinary and preference shares	300	—	301	—	177	—	254	—	333	—
debentures, notes and deposits ..	169	—	146	—	163	—	219	—	144	—
Assets held—										
shares in co-operatives, etc.	—	16	—	33	—	32	—	50	—	46
other shares	—	38	—	93	85	—	—	87	—	118
debentures, notes and deposits ..	—	178	—	93	—	177	—	144	—	73
8. Instalment credit (retail):										
liability	41	—	—	28	79	—	89	—	82	—
asset	—	50	—	14	—	11	8	—	19	—
9. Net contributions to life insurance, etc.	—	164	—	183	—	188	—	206	—	198
10. Trade credit	86	—	20	—	52	—	40	—	95	—
11. Asset formation abroad	—	16	—	82	7	—	31	—	—	90
12. Other claims:										
liabilities	130	—	96	—	108	—	207	—	248	—
assets	—	54	—	52	—	35	—	48	—	57
13. Discrepancy (net)	222	—	—	42	116	—	106	—	140	—
	1,560	641	1,078	1,232	1,486	1,156	1,546	1,569	2,151	1,333
Financial surplus (+)			+154				+23			
Financial deficit (–)	–919				–330				–818	
	641	641	1,232	1,232	1,156	1,156	1,569	1,569	1,333	1,333

S = Source of funds

U = Use of funds

MINING IN PERSPECTIVE — from Page 7

share market appreciation rapidly outstripped the growth rate of cash flow generated. Reasons for this higher growth of share market appreciation appear to be:

1. A long-term investment image of major mining companies has become accepted whereby the investor seems prepared to overlook the possibilities of periodic fluctuations in world trade and in metal prices and to take a sophisticated view of likely future returns from projects reaching production stages several years hence.
2. The enthusiasm of investors over significant mineral exploration programmes—the faith that, if a major company is actively looking for minerals, it stands an excellent chance of finding them.

STATISTICS — from P. 11

down their holdings of Government securities quite substantially.

For some purposes it is useful to isolate financial data relating to particular classes of claims or particular classes of borrowers or lenders. For other purposes it is useful to aggregate or consolidate. As an example of the latter, all the transactions of non-finance companies and persons and unincorporated enterprises may be brought together in the one table. Doing this for the five years 1960-61 to 1964-65 produces the fearsome looking schedule identified as Table III. To the extent, however, that the borrowings and lendings of the groups covered by this table represent a major field of focus for assessments of overall patterns of financial activity, study of the year to year changes in financing patterns evidenced in such tables may not be entirely unrewarding to those interested in the behaviour of money and capital markets.

3. Confidence at government level that the Australian minerals industry will enjoy an overall growth rate of at least 10 per cent per annum, and that our future balance of payments problems will, to a large degree, be solved by mineral exports.

Mining company share markets have always been prone to reasonably wide fluctuations, or cycles. Should there be an appreciable downturn in world trade which reduced demand for minerals, minerals prices could ease appreciably

and provoke a degree of profit-taking by mining share speculators.

The companies most vulnerable to profit-taking are likely to be those where the share market is paying for potential cash flow from projects which have not as yet been reported.

However, with an increasing per capita consumption of the world's leading minerals, and a rapidly growing world population, the long-term outlook for Australian mining companies has never been more promising.

• **Acknowledgement:**

Some points of view appearing in the section, Current and Projected Investment in Australian Mining, have been adopted from a recent address given by Mr. R. W. Haynes, Bureau of Mineral Resources. Estimates in Appendix 3 are also from this address.

Calling All Chartists

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