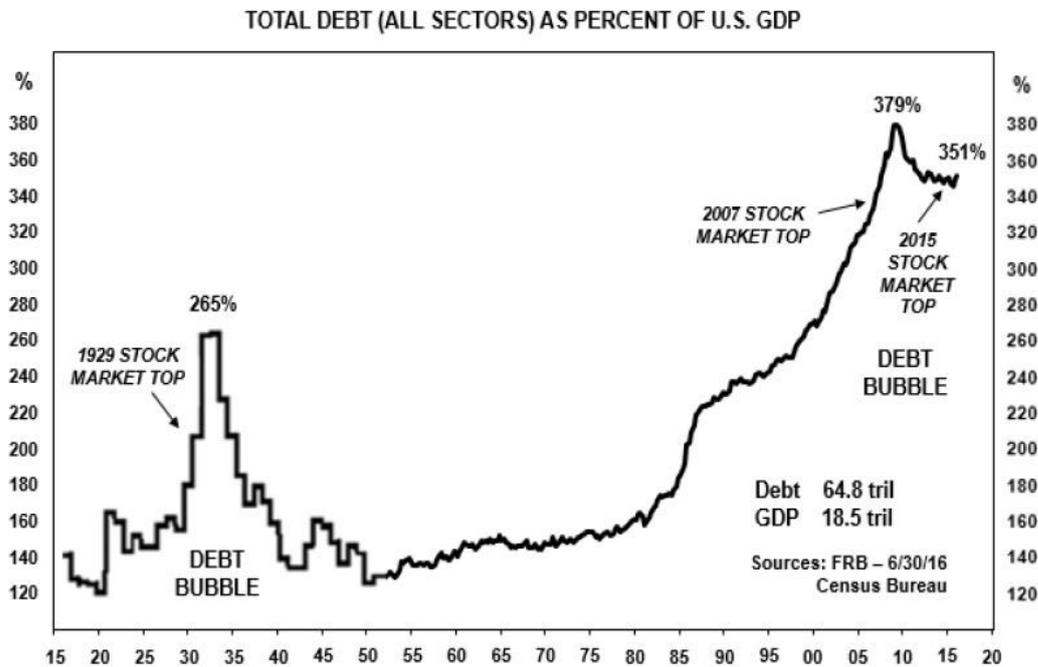


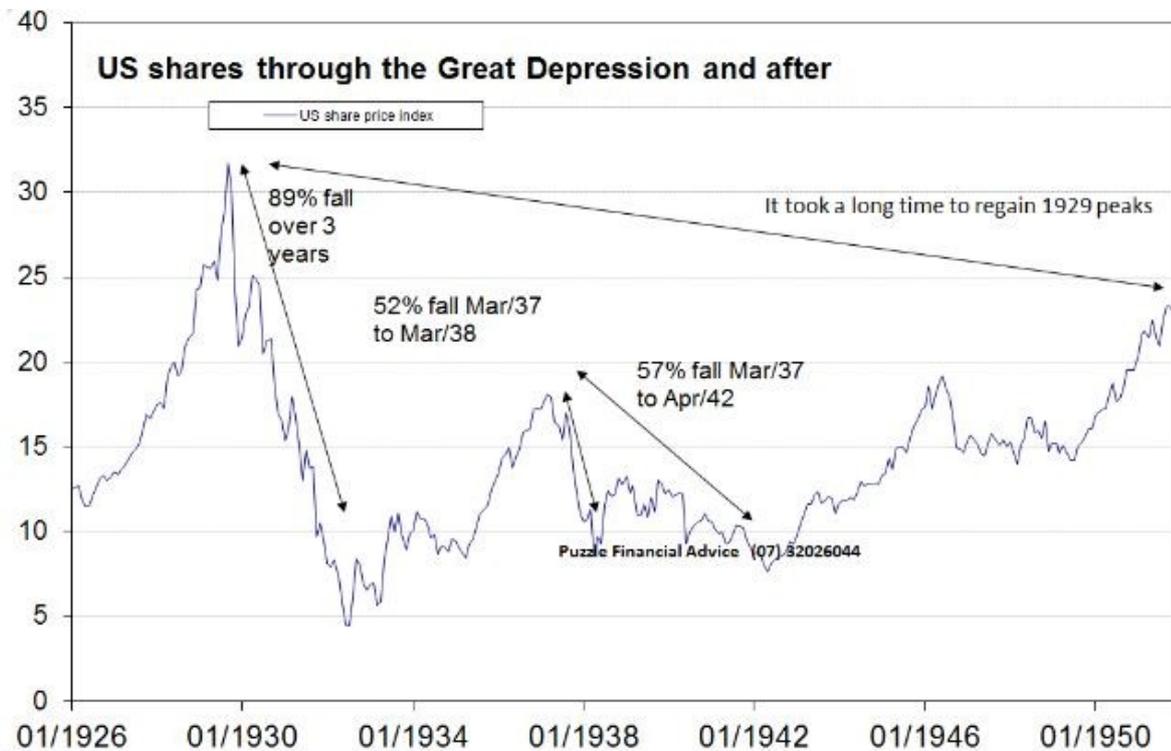
Versus the last major debt cycle, USA is at 1937 stage, Australia is at 1929 stage.

By Bruce Baker BSc MBA DFP for clients of Puzzle Financial Advice. 12/1/2019

To argue this point, we need to first start with a review of the last major debt cycle to remind you of what it looked like for the USA.



This is what happened to US share market through the 1930s.



Ray Dalio is arguing that for the USA, the 2008-2009 Global Financial Crisis is the USA's equivalent in this long-term debt cycle, to what happened to the USA in the last long-term debt cycle 1929-1932 – and that now, the USA is at the equivalent position of 1937 vs last cycle.

<http://puzzlefinancialadvice.com.au/2019/Core/>

[Ray Dalio putting recent economic and market moves into perspective 190105_02_Final.pdf](#)

But is Australia, in the same stage of the long-term debt cycle as the USA? I think the answer is NO.

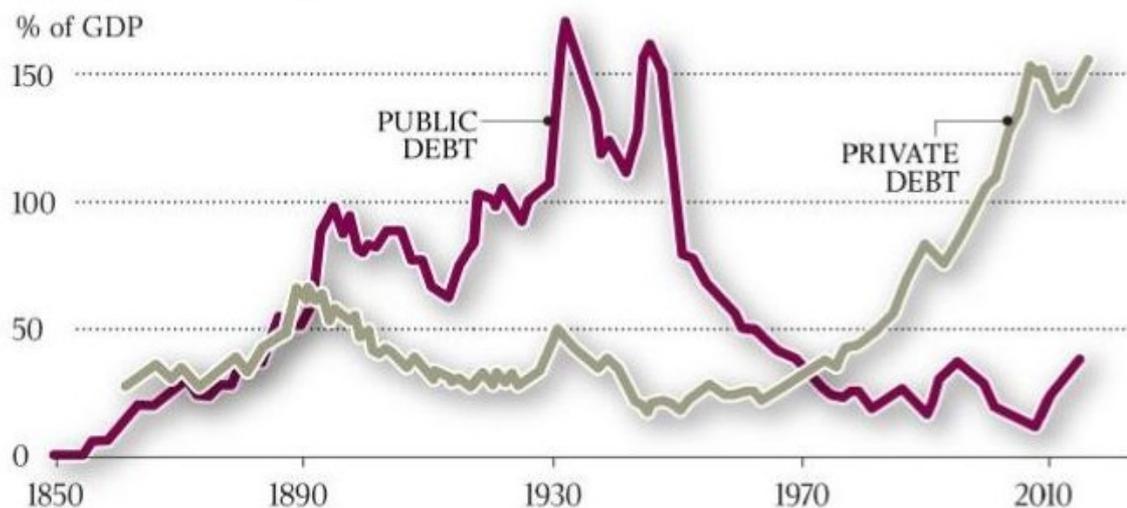
I would like you to focus on private debt/GDP for Australia.

Australia

Debt bubbles 1890,1929 and now

Higher Australian household debt mounts to 'unsustainable' levels

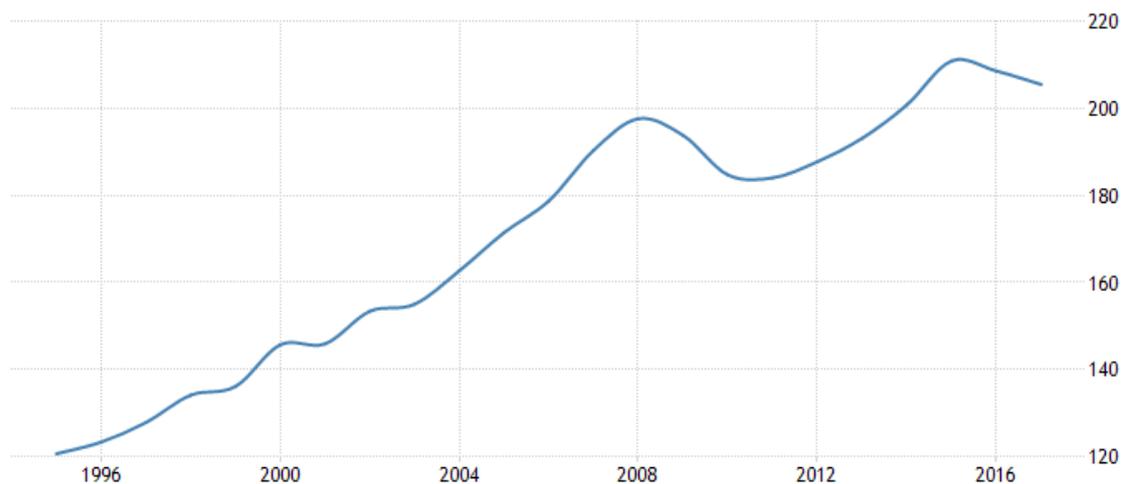
Up, up and away



Source: UBS, LF Economics

Mounting debt levels.

<https://tradingeconomics.com/australia/private-debt-to-gdp>



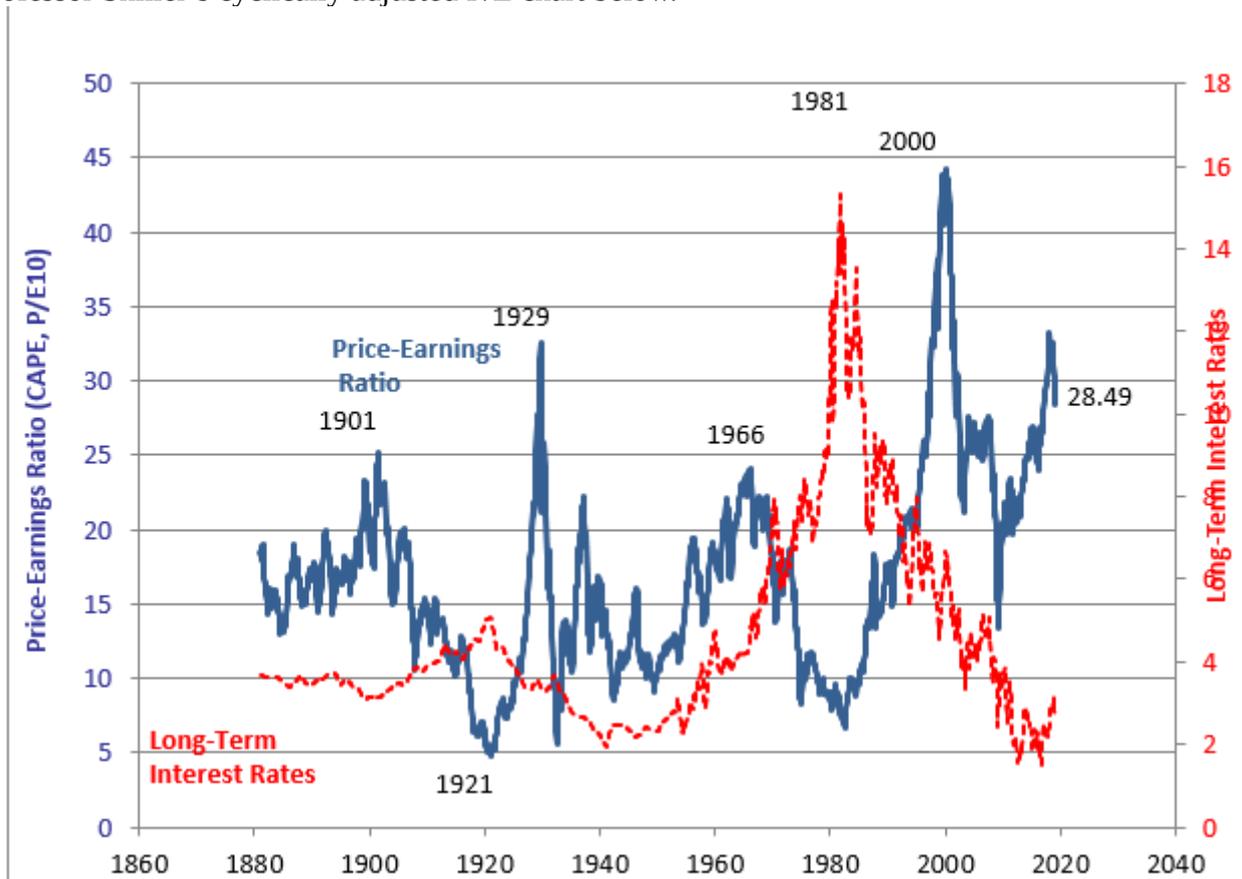
SOURCE: TRADINGECONOMICS.COM | OECD

Private debt is the most important factor in debt because in this long-term debt cycle, unless a country is potentially going to default, then private debt is the main factor. The point I want you to take from this is while US debt/GDP peaked about 2008, the Aussie private debt bubble continued to grow for a substantial period of time post GFC. In the USA, the GFC probably brought the long-term up-trend in the long-term debt cycle to an end, whereas since Australia did not have a nasty recession in 2008-2009 (because Australia was rescued by China), the long-term up-trend in the long-term debt cycle did not end with the Global Financial Crisis.

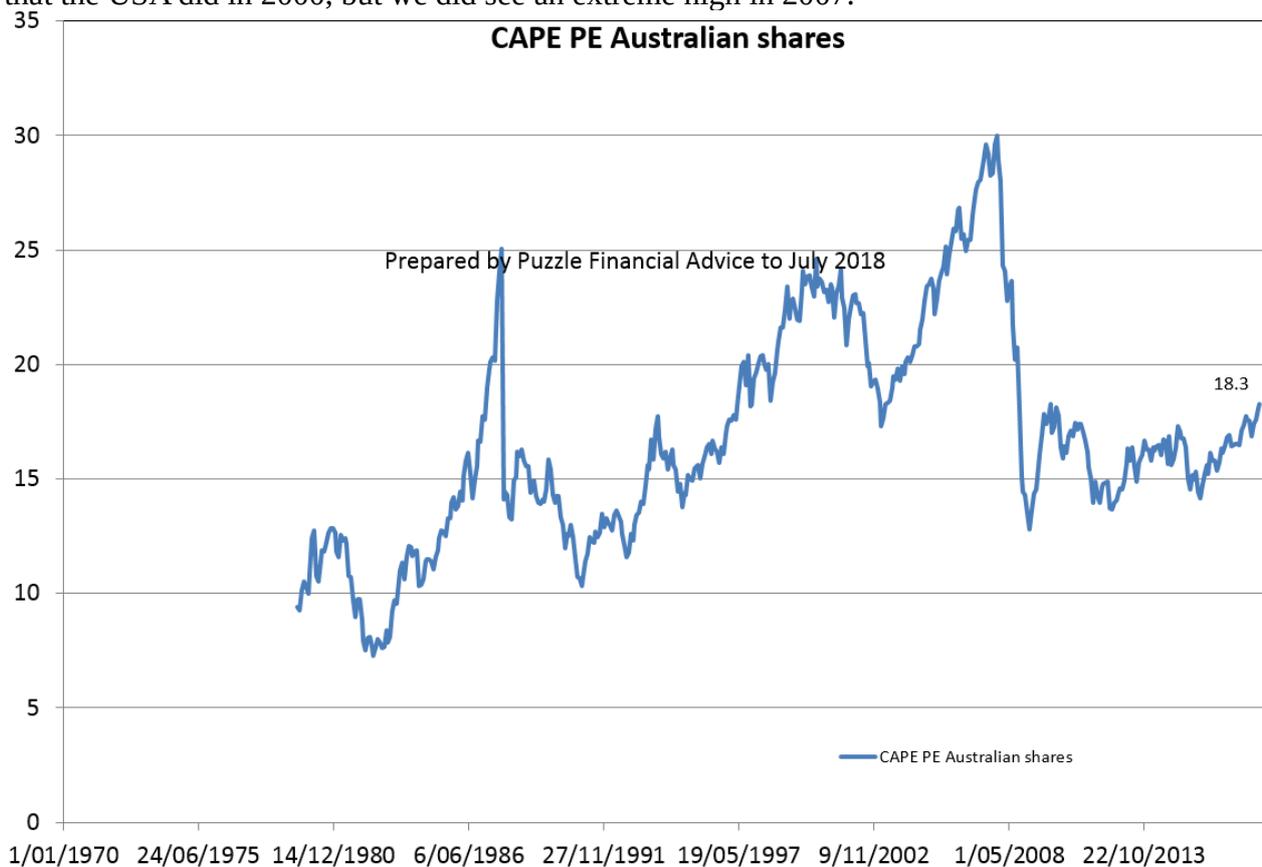
This is also reflected for example in the comparative charts of the US and Australian share markets. The US share market had a major peak in both 2000 and 2008.



More important, valuations in the USA reach a historic extreme in both 2000 and 2007, as shown in Professor Shiller's cyclically adjusted P/E chart below.

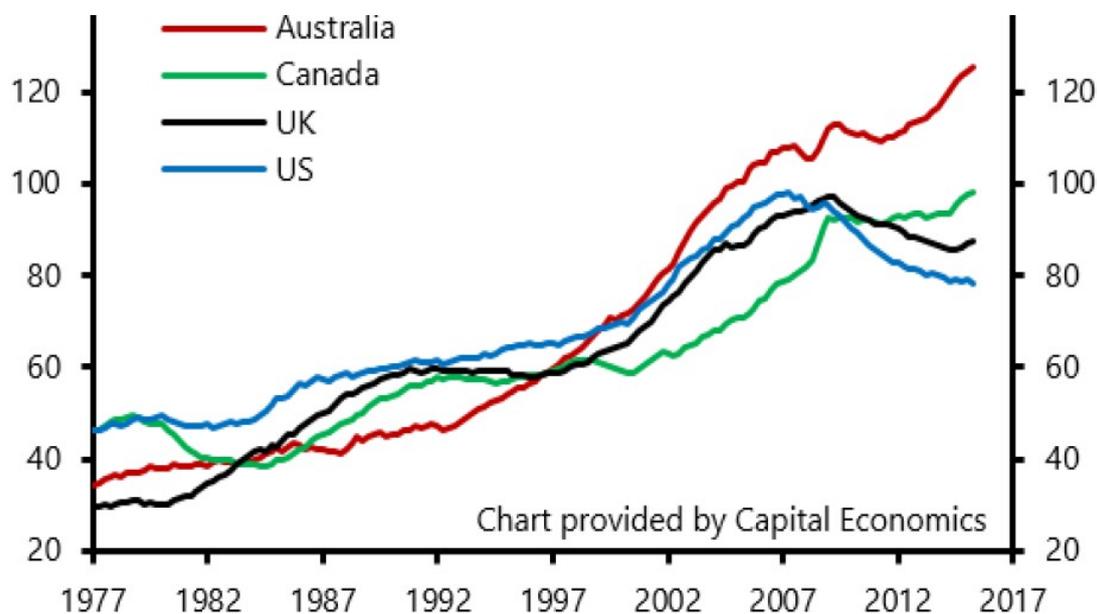


By comparison, the peak valuations in the Australian share market did not see the extreme highs that the USA did in 2000, but we did see an extreme high in 2007.



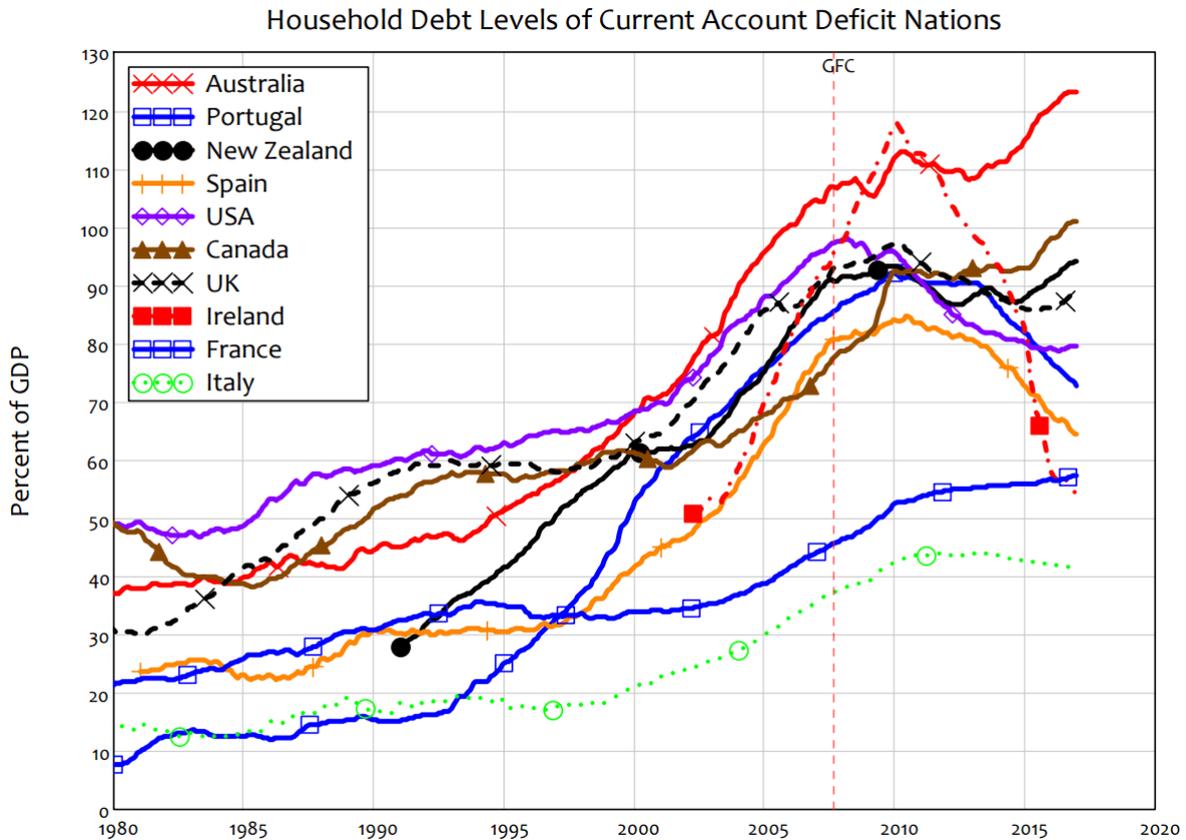
My point is simply this: I suspect the completion of the long-term debt up-trend in Australia is completing about 10 years after that it did in the USA. This is part of why:

- While Ray Dalio thinks the USA is at a stage more similar to USA's 1937,
- I think Australia might be closer to the 1929 situation.
 - In support of this proposition, you can also see the Aussie (and Canadian) household debt/GDP continuing to rise after the GFC, while in the US and other countries, it has fallen post-GFC – suggestive of markets in different phases of the debt cycle.



Similar point is being made here in the chart below. <https://i0.wp.com/rationalradical.me/wp-content/uploads/2017/07/Steve-Keen-Household-Debt-Levels-CAD-Countries-1.png>

Figure 3: Australia has the highest household debt level of any developed nation running a trade deficit



OECD <https://data.oecd.org/trade/current-account-balance.htm> (Developed nations only)

This Aussie debt chart is also an interesting. <https://cuffelinks.com.au/debt-binge-cause-house-price-rises/> 5/4/2017

