

Housing in the economy

National Housing Conference 2013 *a new way home ...*

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more give, less take

Important information



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The big issues

Australian economic growth soft

Mining, prudence & unemployment



- Australian economic growth has slowed to 2½%: not enough to stop unemployment rising

Reasons:

- AUD has remained stubbornly high (manufacturing & agriculture)
- Consumers have discovered frugality (now saving 10% of income)
- Fiscal policy tightening
- Weaker commodity prices (Chinese growth has slowed)
- No new mining mega projects: mining investment set to fall

Outlook:

- Cash rate to stay low (monetary policy loose) until 2015
- AUD to decline (commodity prices, demand for AUD by central banks)
- Frictional unemployment to rise; wages growth to remain weak
- Will housing fill the gap?

Labour market adjustment

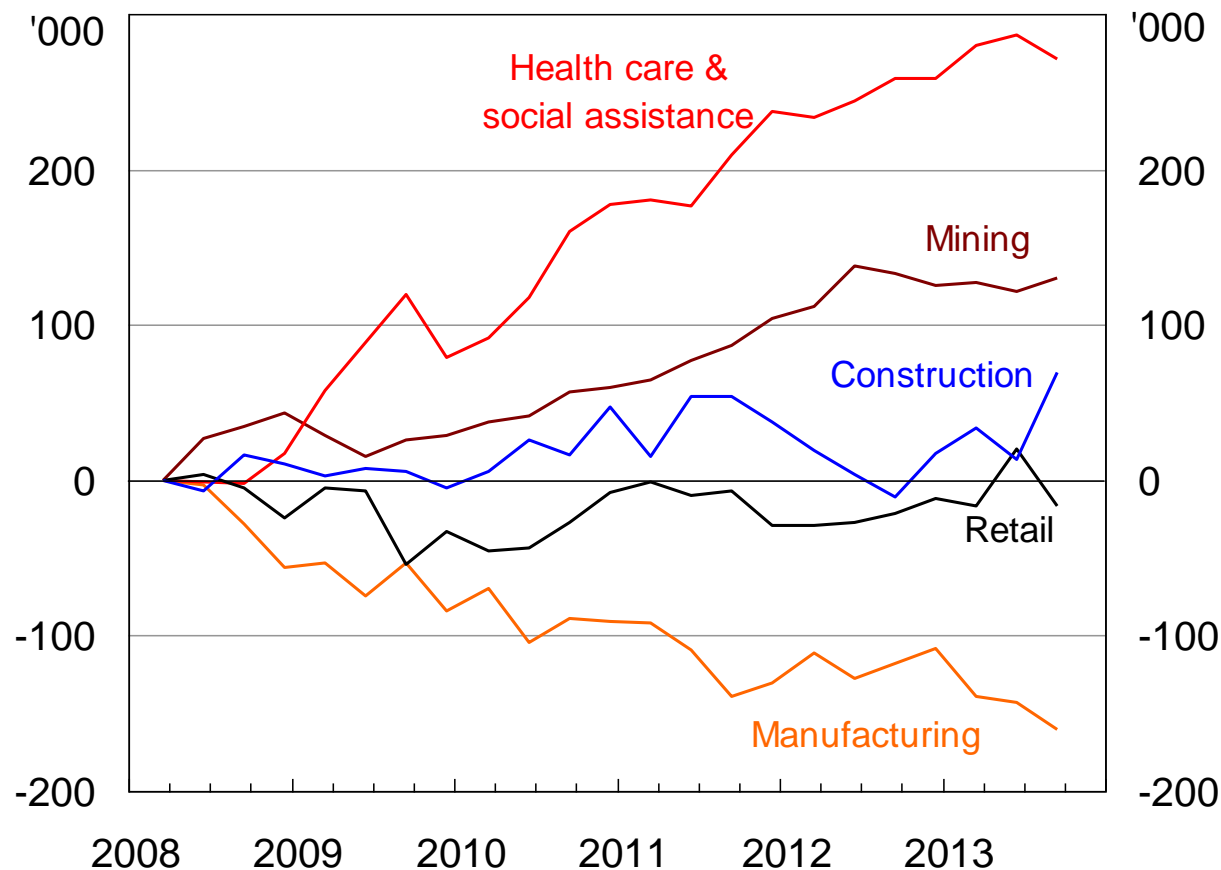
Mining investment already responsible for big adjustments

This process may now be thrown into reverse



Australian employment

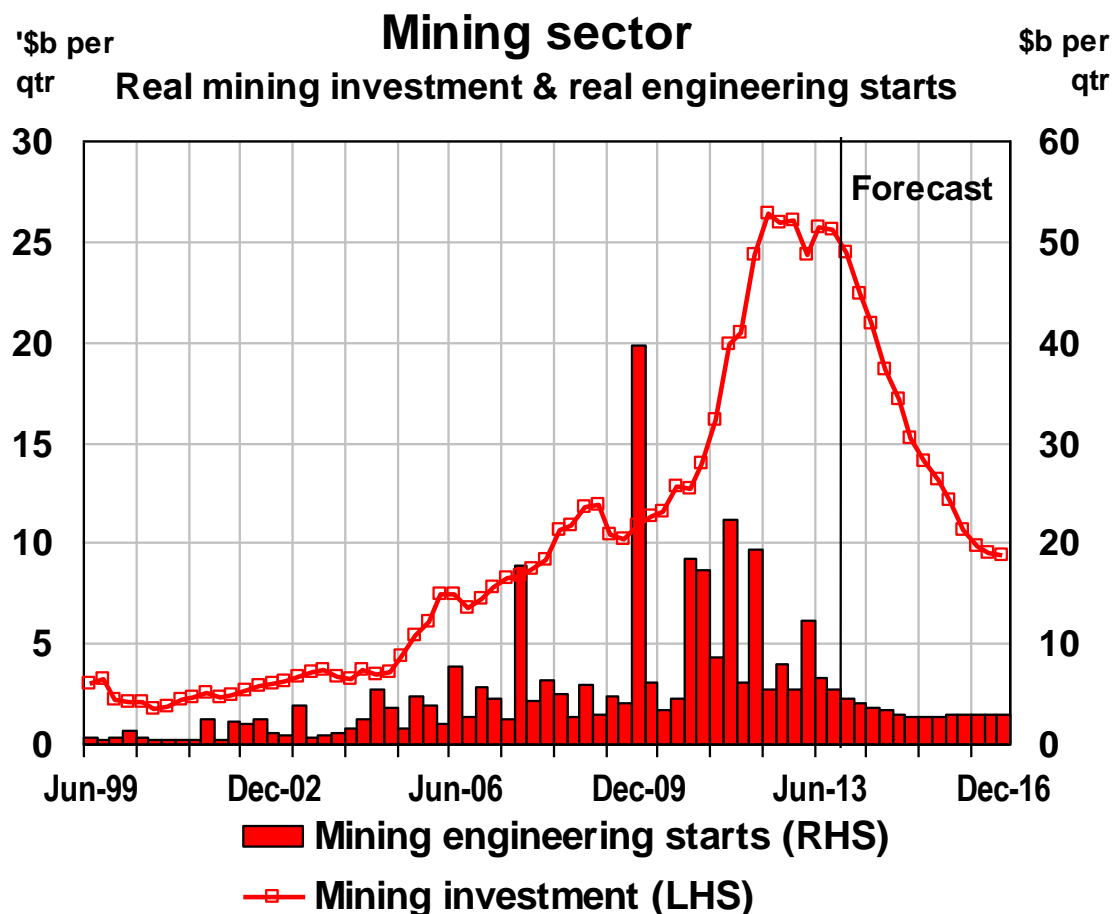
Change since March 2008



Sources: ABS; NAB

Mining investment cliff?

Mining supported by mega-LNG projects: without more investment to decline rapidly as current projects commissioned

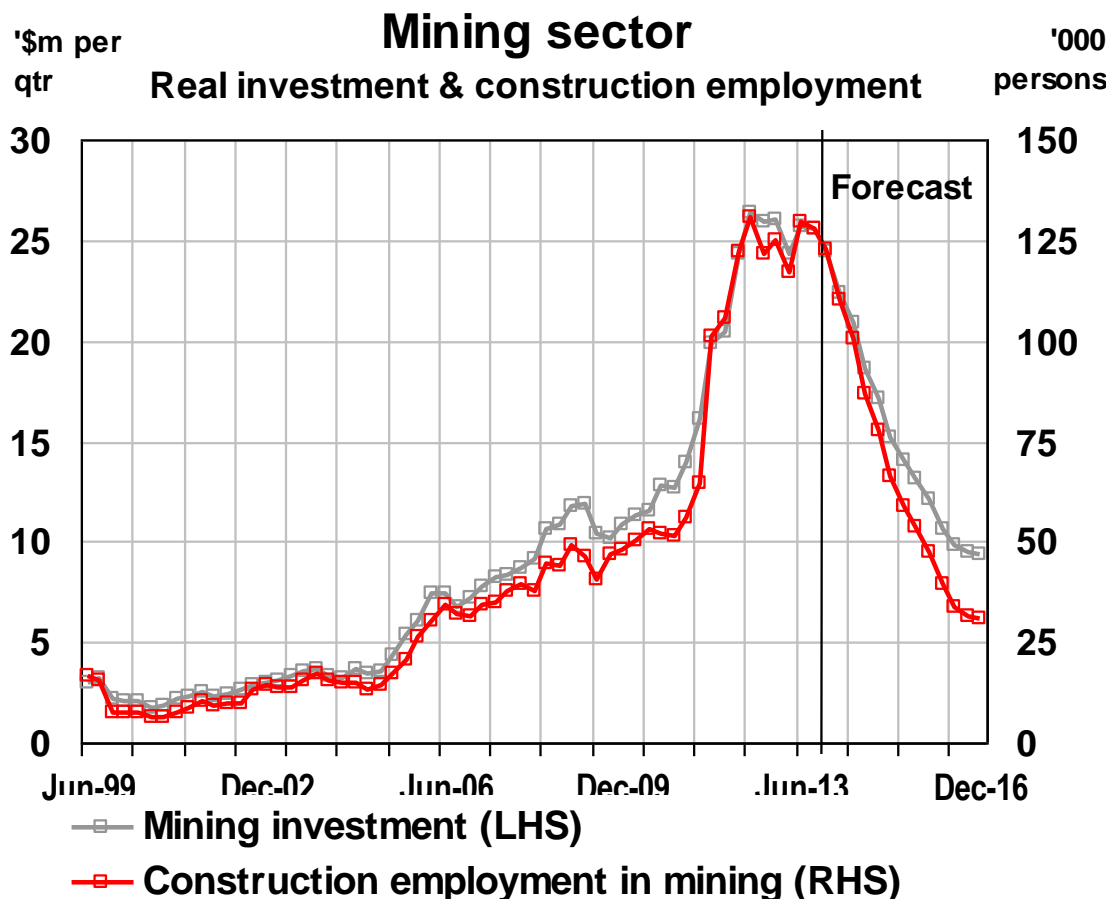


Source: NAB estimates

Construction jobs in mining to fall

Mining could release 100k construction jobs in 3 years

Most of these may be outside 'construction' sector

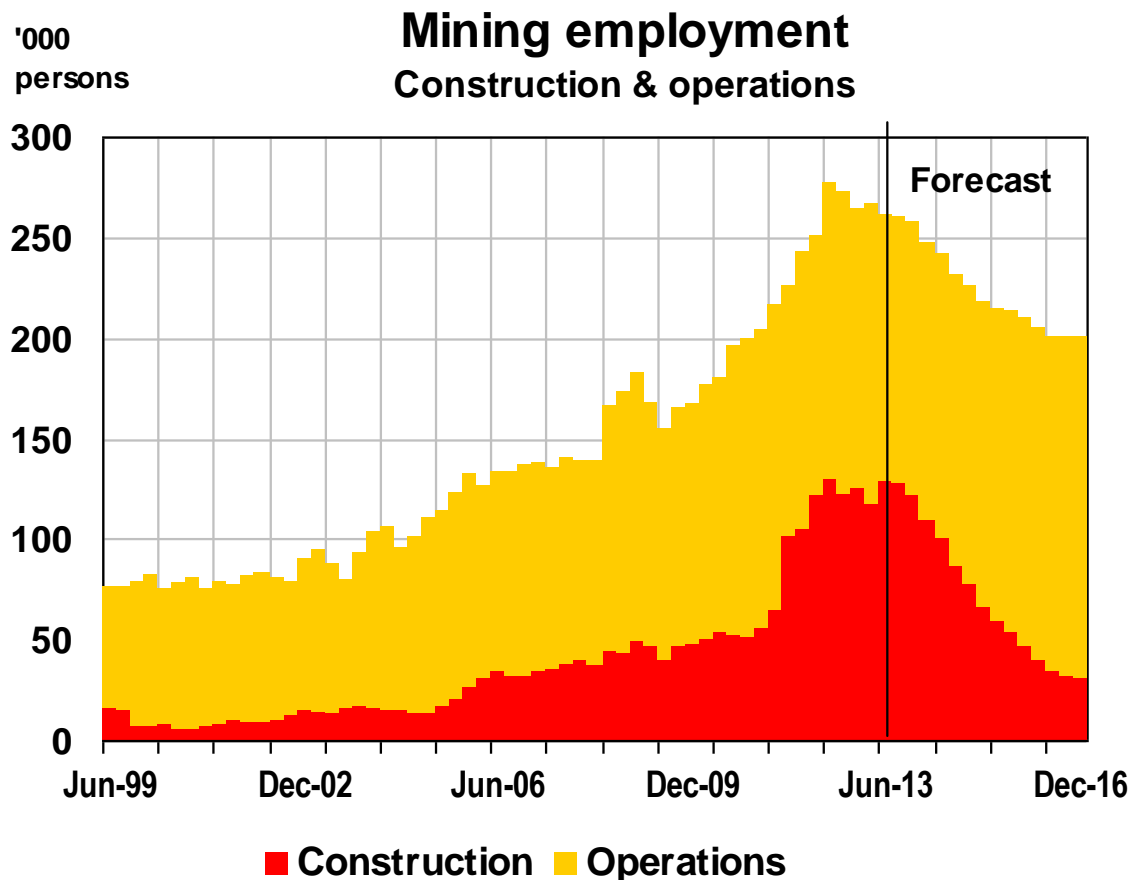


Source: NAB estimates

Employment in mining

Operational employment should grow with exports

... but mining employment still set to decline

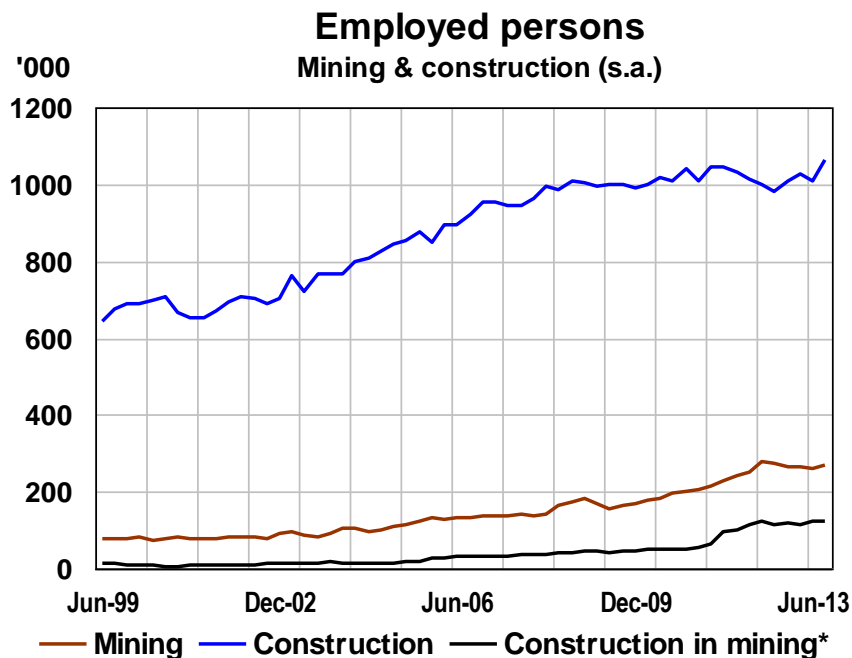


Source: NAB estimates

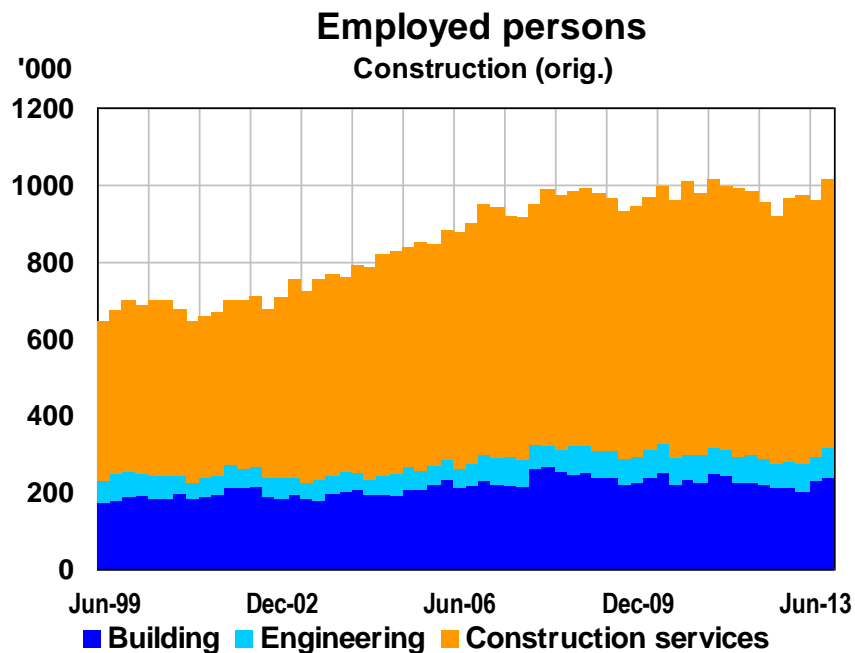
Construction outside mining

Construction employment has been flat for 5 years

Implies little growth in capacity



Source: ABS. *NAB estimates

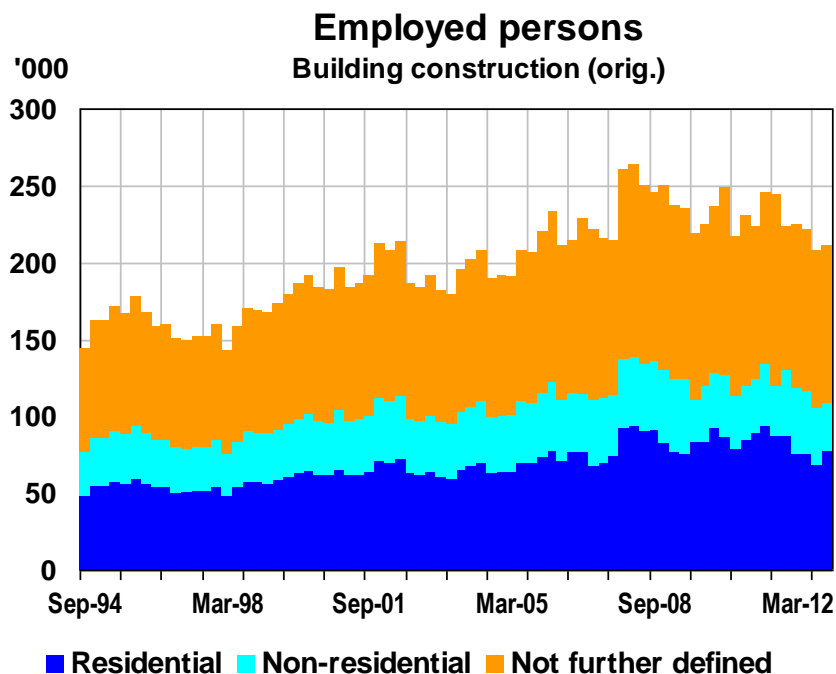


Source: ABS

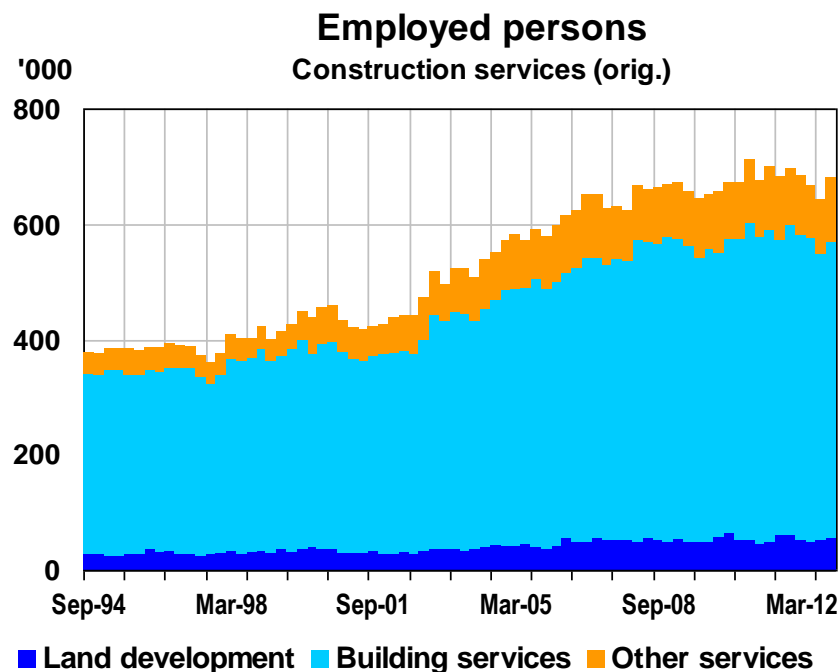
Housing supply issues

Potential for construction labour to be released from mining

But housing project management capacity looks limited



Source: ABS

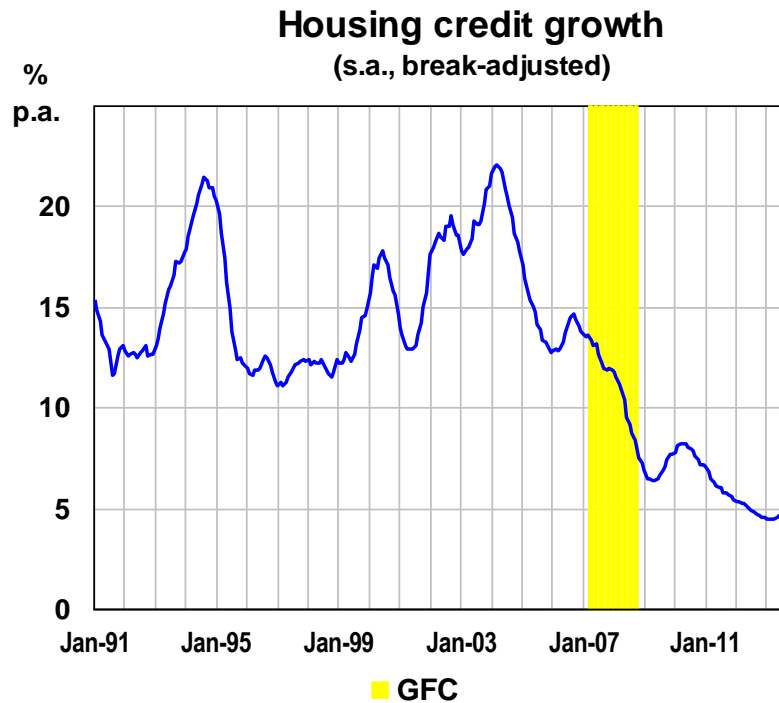


Source: ABS

Post-GFC credit demand

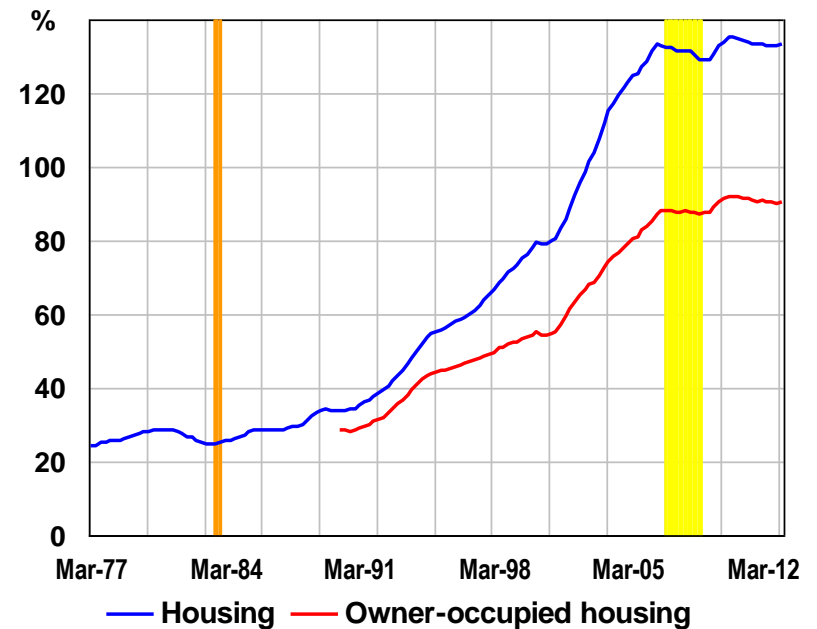
Reduced appetite for household debt

Post-deregulation growth stabilising



Source: RBA

Ratio of household debt to disposable income
(s.a.)

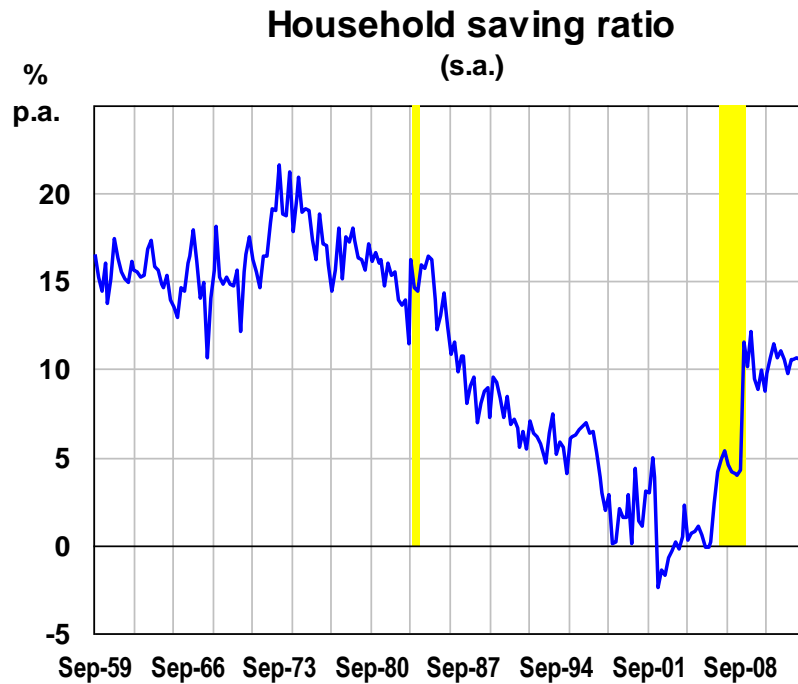


Source: RBA

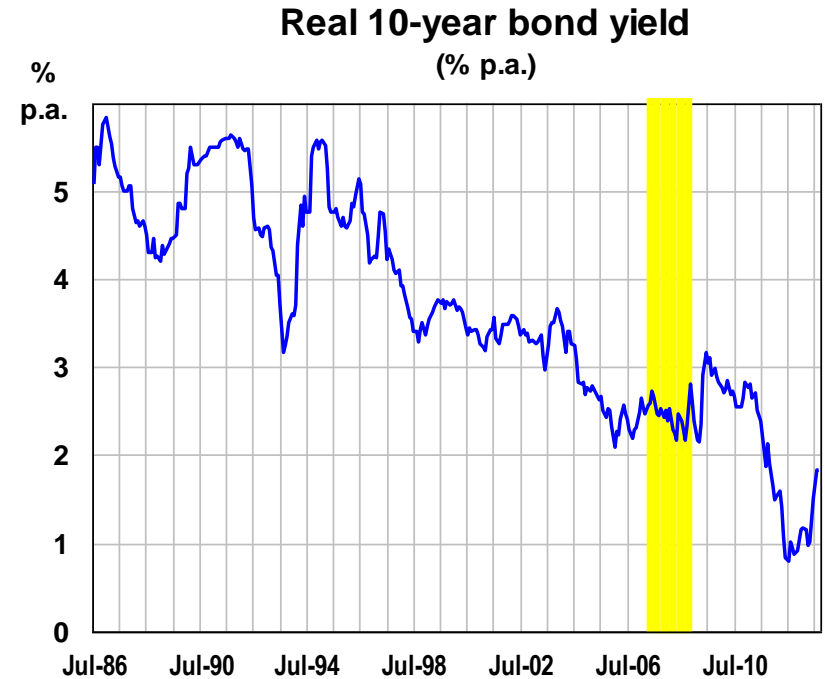
Post-GFC household saving

Return of prudence

Despite low real interest rates



Source: ABS

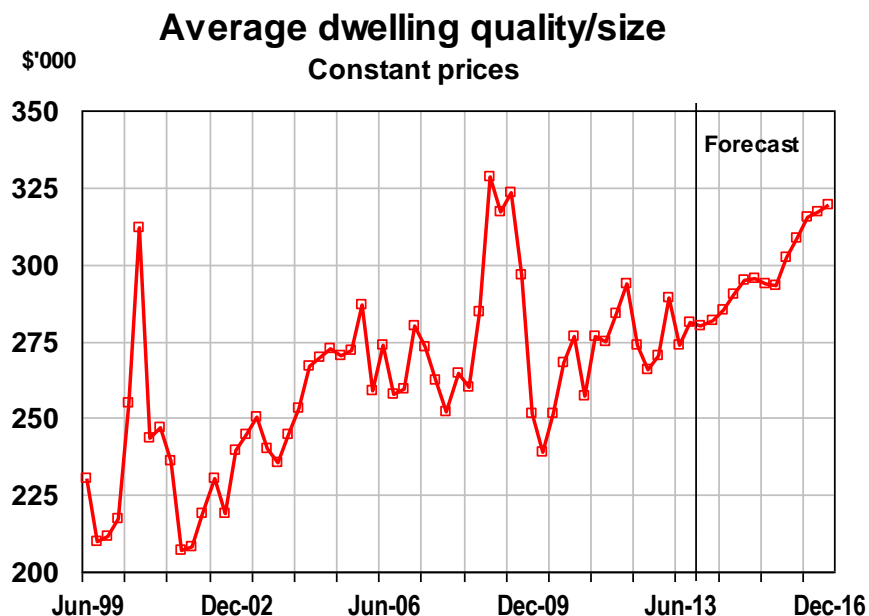


Source: RBA

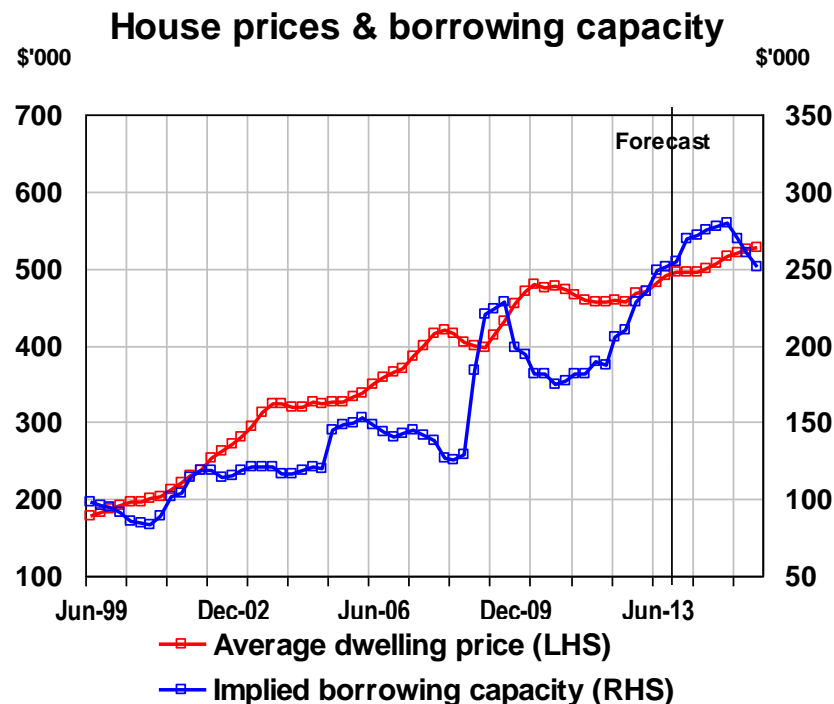
Price bubble unlikely

Prices broadly in line with household borrowing capacity

House prices constrained by job insecurity



Source: NAB estimates

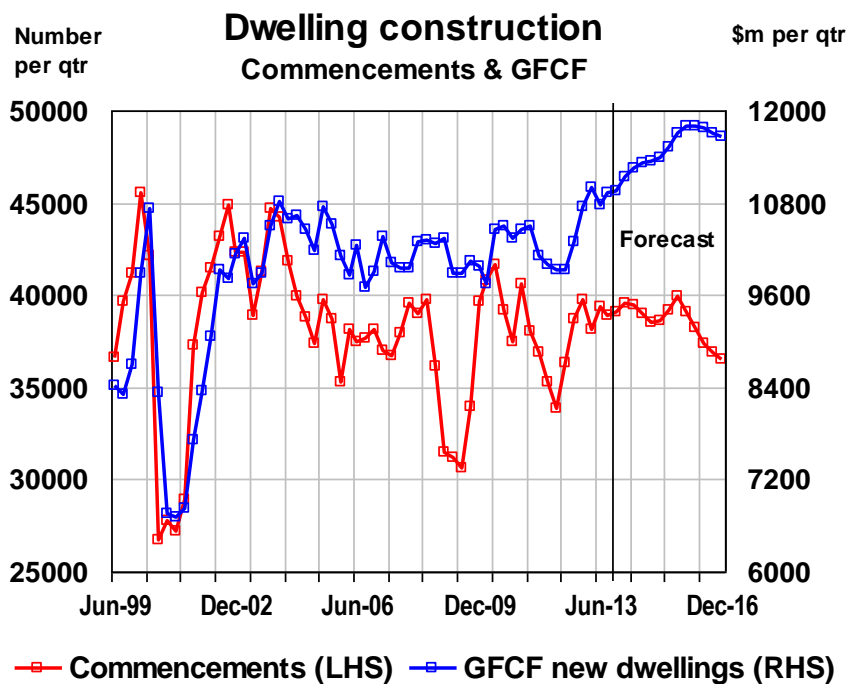


Source: NAB estimates

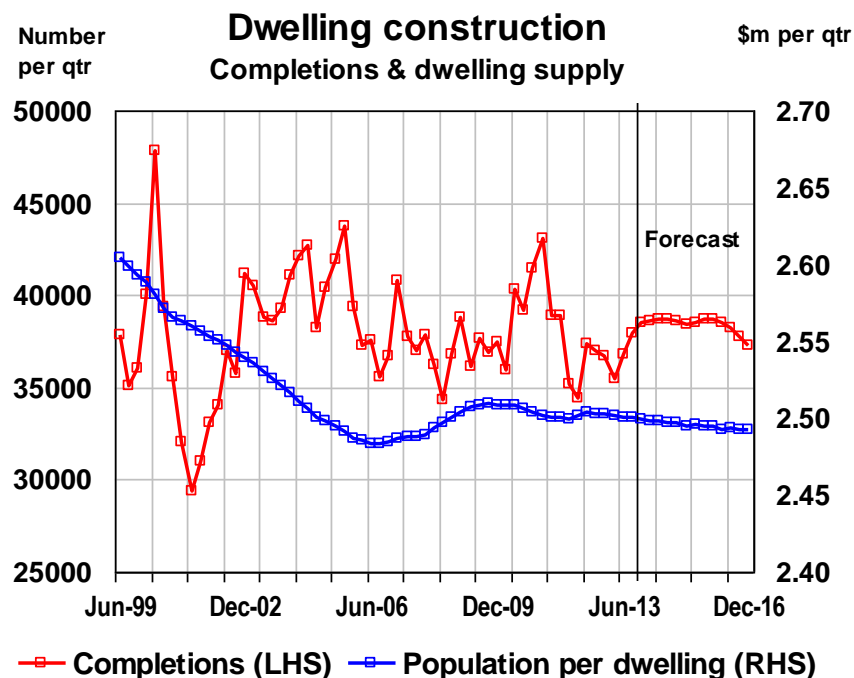
New dwellings demand subdued

Rising unemployment & interest rates weighing on construction

But enough activity to prevent under-supply worsening



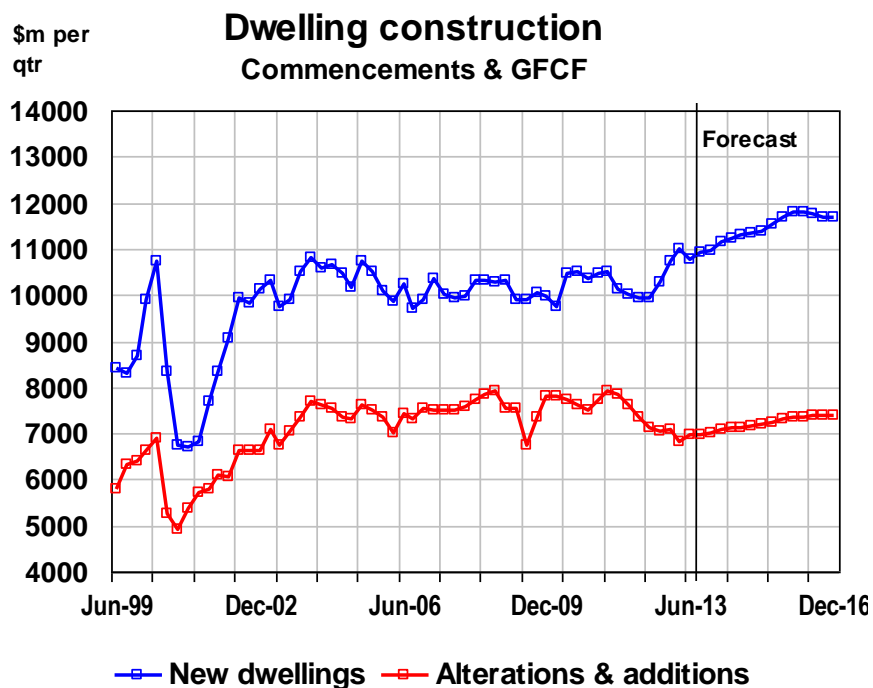
Source: NAB estimates



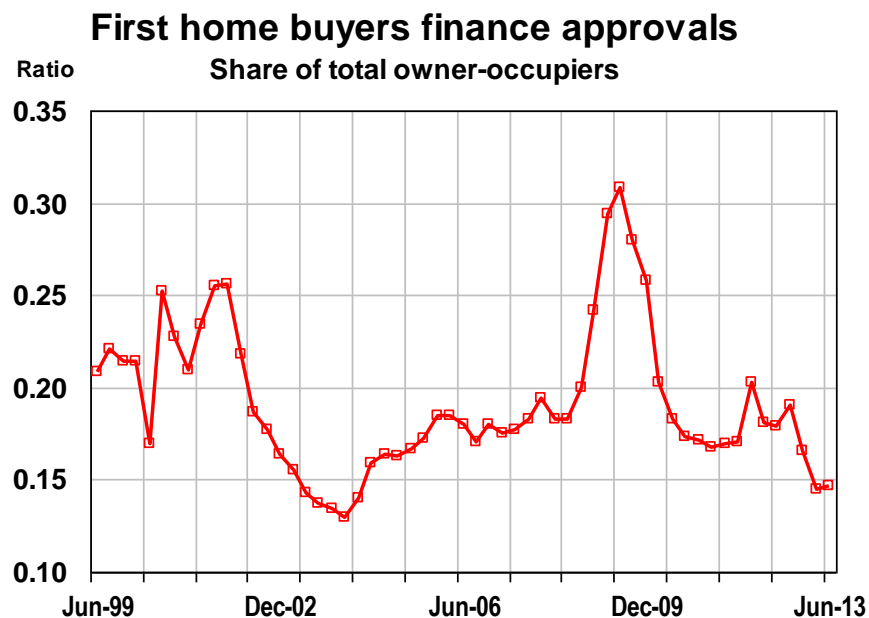
Source: NAB estimates

Renovations subsiding

... and first home buyer activity declining as schemes tilted towards construction



Source: NAB estimates



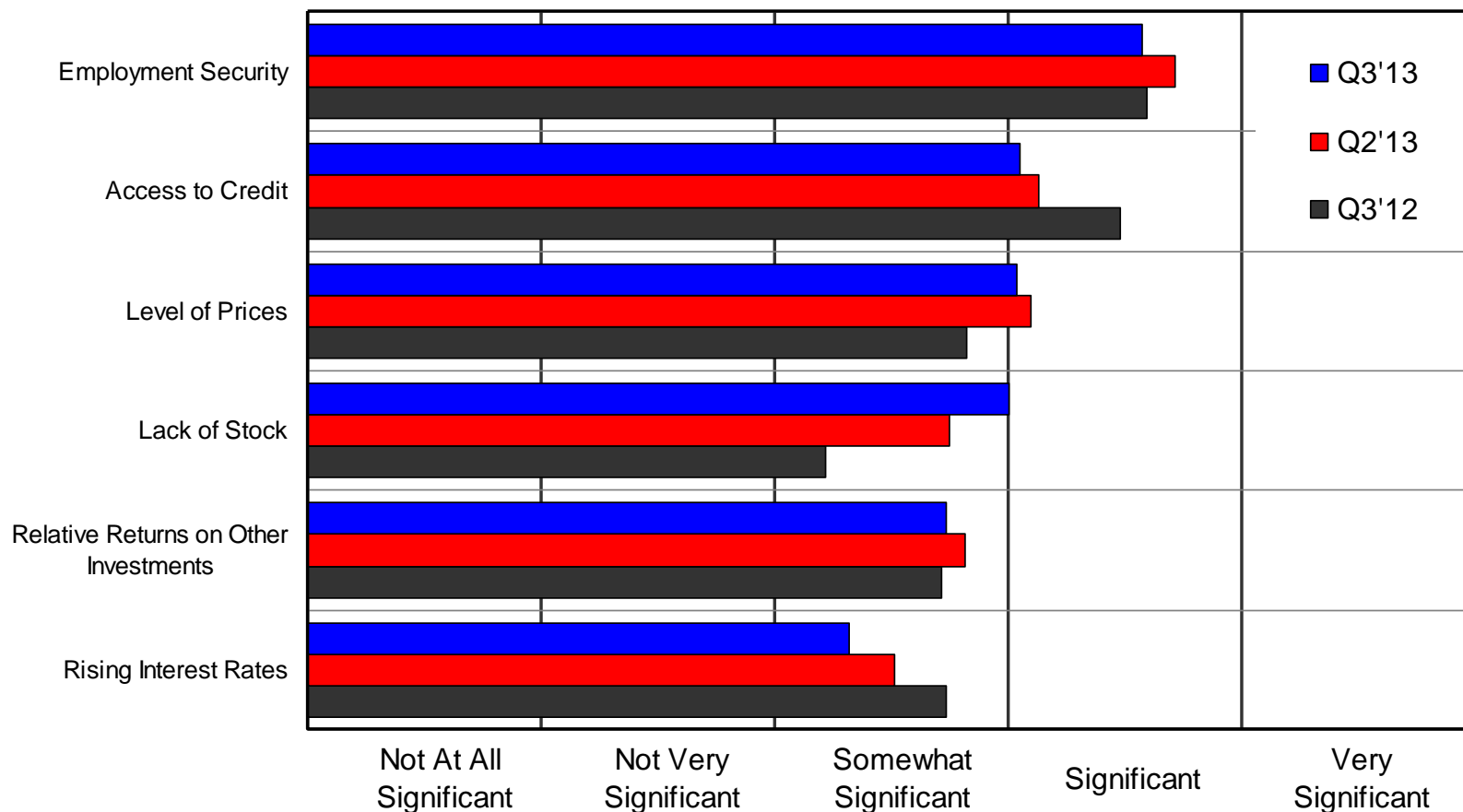
Source: ABS

Employment security a key constraint

... and first home buyer activity declining as schemes tilted towards construction



Major Constraints on Existing Property



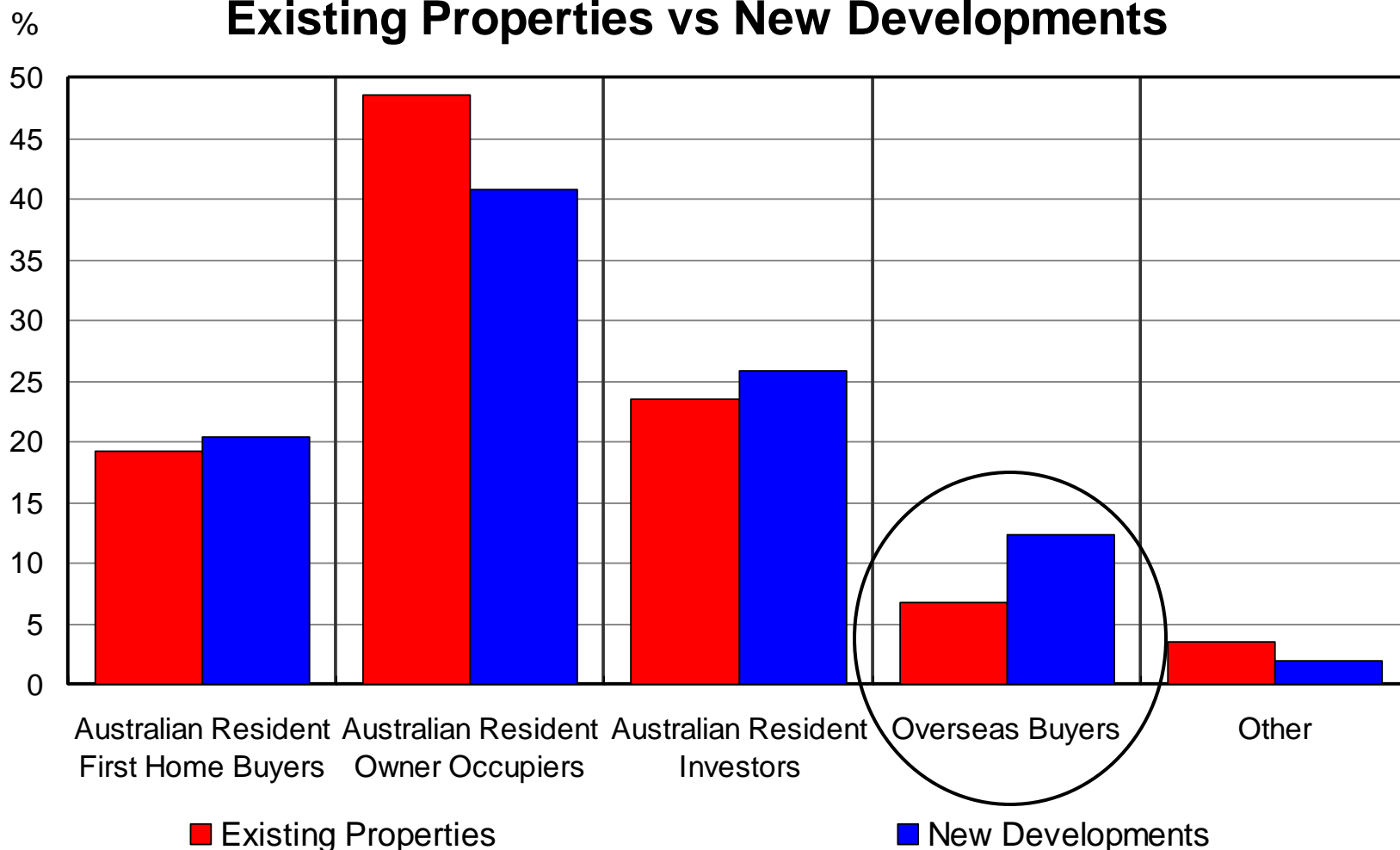
Source: NAB Residential Property Survey

Overseas interest in new construction

High levels of interest from Asian investors



Percentage Share of Buyers (Current)
Existing Properties vs New Developments



The big issues



Construction capacity likely to grow modestly

But demand growth will probably be moderate

Supply:

- Construction employment in mining may decline in large numbers
- May be absorbed into construction services ...
- but project management capacity in housing appears limited
- So capacity for supply expansion may be limited in short term

Demand:

- Households now prudent post-GFC, despite low interest rates
- Unemployment likely to constrain house prices & construction
- House prices in line with borrowing capacity: little risk of price 'bubble'
- Construction unlikely to make inroads into under-supply

Overall, housing sector unlikely to fill mining gap in short term

Under-supply issues end up being kicked down the road ...

thank you