



The Economic and Housing Outlook

Launceston Industry Outlook Lunch

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If you're not aged over about 75 ...

- ... you ain't seen nothing like the current global scene.
- The IMF keeps 'updating its mind' but the world economy will go backwards in 2009, the first time this has happened in the post WWII era.
- The developing world is slowing down sharply, and this includes China and the rest of East Asia.
- We are still being told ad nauseam how bad everything is ...
- ... and the world has certainly caught Australia in its grip ...
- ... but that doesn't answer the question of what happens to housing in Tasmania over this year and next?



The Cheap Fix

- Dear Mr. President,
- **Patriotic retirement:**
There are about 40 million people over 50 in the work force;
Pay them \$1 million a piece severance with stipulations:
 - 1) They leave their jobs. Forty million job openings - Unemployment fixed.
 - 2) They buy NEW American cars. Forty million cars ordered - Auto industry fixed.
 - 3) They either buy a house or pay off their mortgage- Housing Crisis fixed.

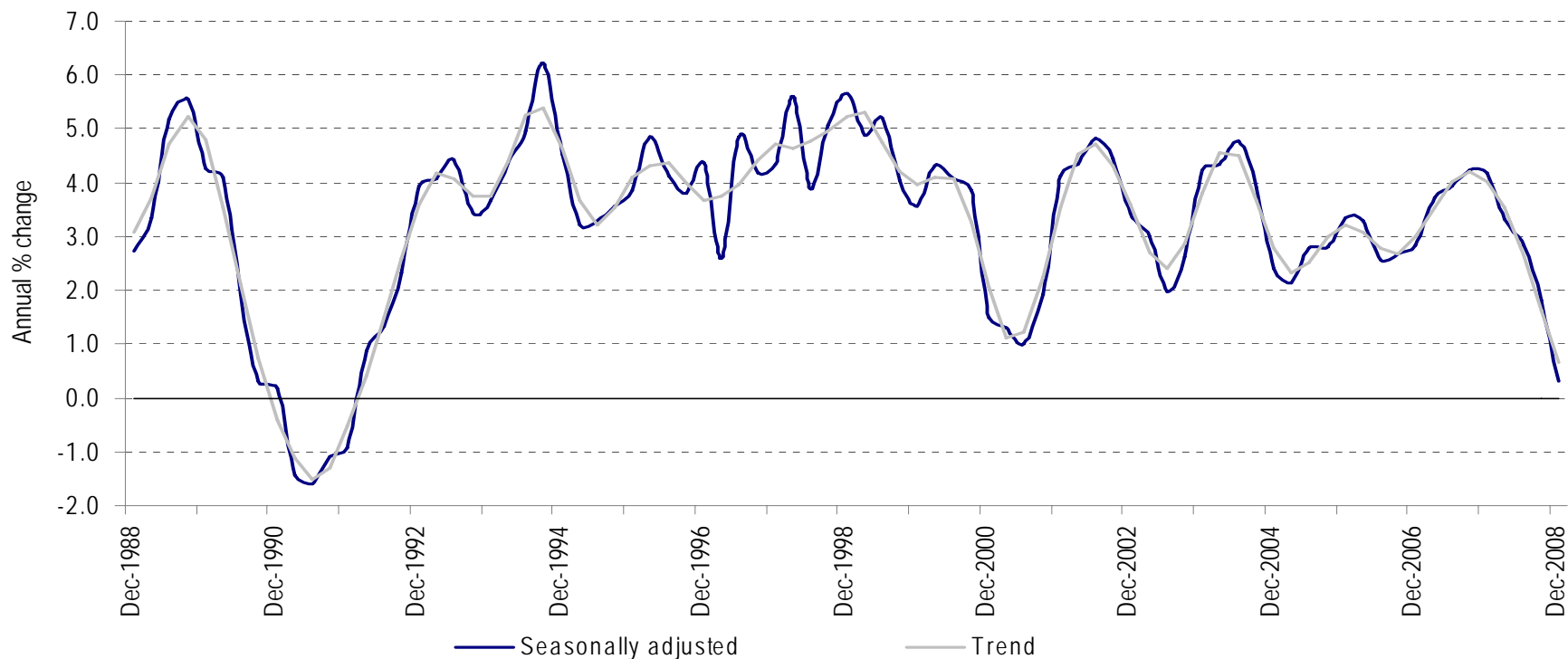
All this and it's still cheaper than the "bailout". ... you ain't seen nothing like the current global scene.



The situation spells bad news for Australia but then ...

Australia's GDP

Source: ABS 5206.2



... we were 'spelling' that bad news in bold long before we needed to.



Australia's 4 big challenges

- Rising unemployment.
- Low consumer and business confidence.
- High business loan rates.
- A lack of available finance.

Australia's 3 big responses

- New fiscal (spending) policy.
- Interest rate (monetary) policy.
- Existing fiscal policy.



Response 1 – new Government spending (fiscal) policy

- \$42 billion Federal spending package – a ‘mini-budget’.
- A total of \$6.4bn for the housing industry.
- Funding the construction of approximately 20,000 new public and community housing dwellings.
- This will also unlock private sector projects currently on hold through lack of available finance.
- \$400 million for repairs of existing public housing dwellings.
- \$252 million to Defence Housing Australia (DHA) to construct 802 new dwellings.
- A \$2.7 billion free ceiling insulation and installation program (capped at \$1,600 per household).
- For households that have ceiling insulation, an additional \$507 million is available (for a rebate of up to \$1,600 per household) to replace electric storage hot water systems with solar and heat pump hot water systems.
- Bringing forward of \$110mn of the \$2.5bn ‘Trade Training in Schools’ Program.



Response 2 – Interest Rate (Monetary) Policy

- The Official Cash Rate (OCR) has been lowered by 4.25 whole percentage points to the lowest level since 1960.
- Variable mortgage rates are at their at lowest since the early 1960's.
- More to come?
- The dominance of variable mortgages in Australia has helped enormously.

Mortgage Repayment Savings*

Loan Size	Feb-09 Mthly Repayment	Mthly Saving from February cut	Total Saving since Aug-08
\$200,000	\$1,180	\$131	\$516
\$300,000	\$1,770	\$196	\$775
\$400,000	\$2,360	\$261	\$1,033
\$500,000	\$2,950	\$327	\$1,291

*Assumes 30 year loan and standard variable mortgage rate (RBA)

Source: RBA; HIA



Response 3 – existing Government spending (fiscal) policy

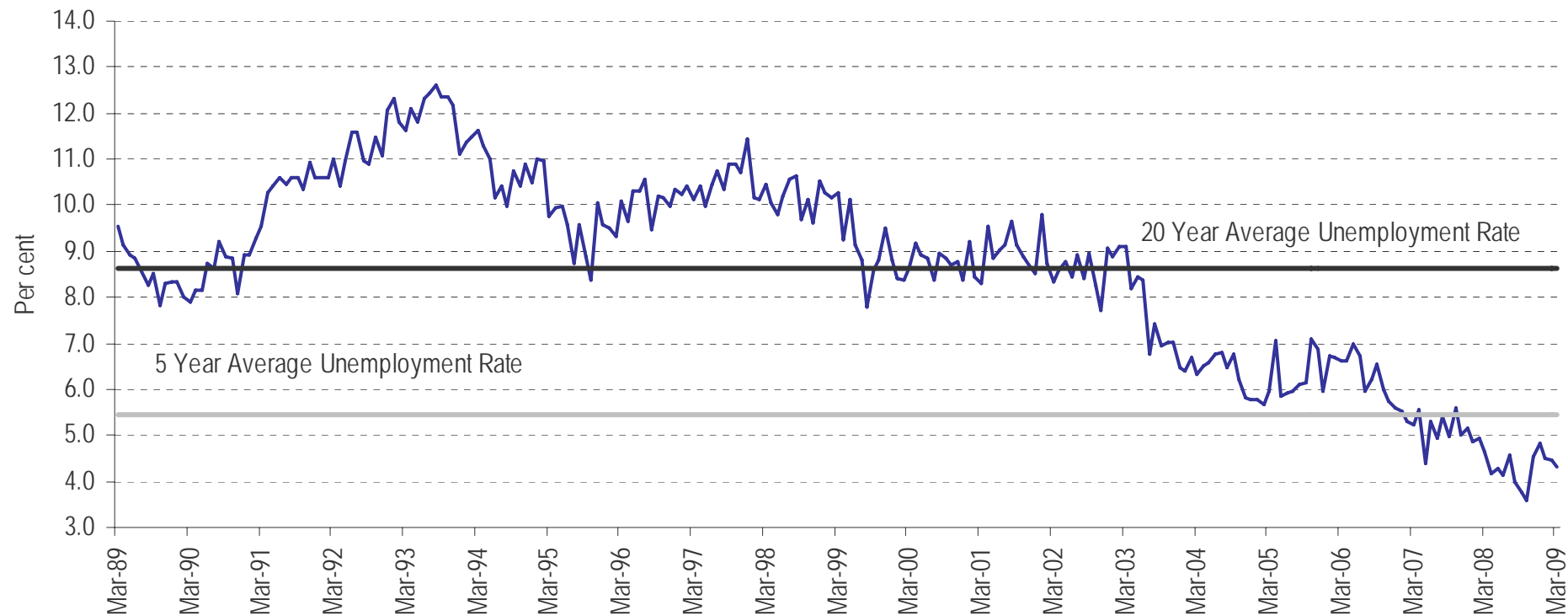
- Tripling of the FHOG to \$21,000 for construction/purchase of new.
- National Rental Affordability Scheme (NRAS) – 677 across four providers in Tasmania in round 1. Round 2 has closed (March 27).
- Housing Affordability Fund (HAF) – round 1 applications have been allocated \$112 million to assist in delivery of 14,000 lots. Round 2 applications being called for “mid year”.



1. Unemployment – the key to everything

Tasmania's Unemployment Rate

Source: ABS Labour Force



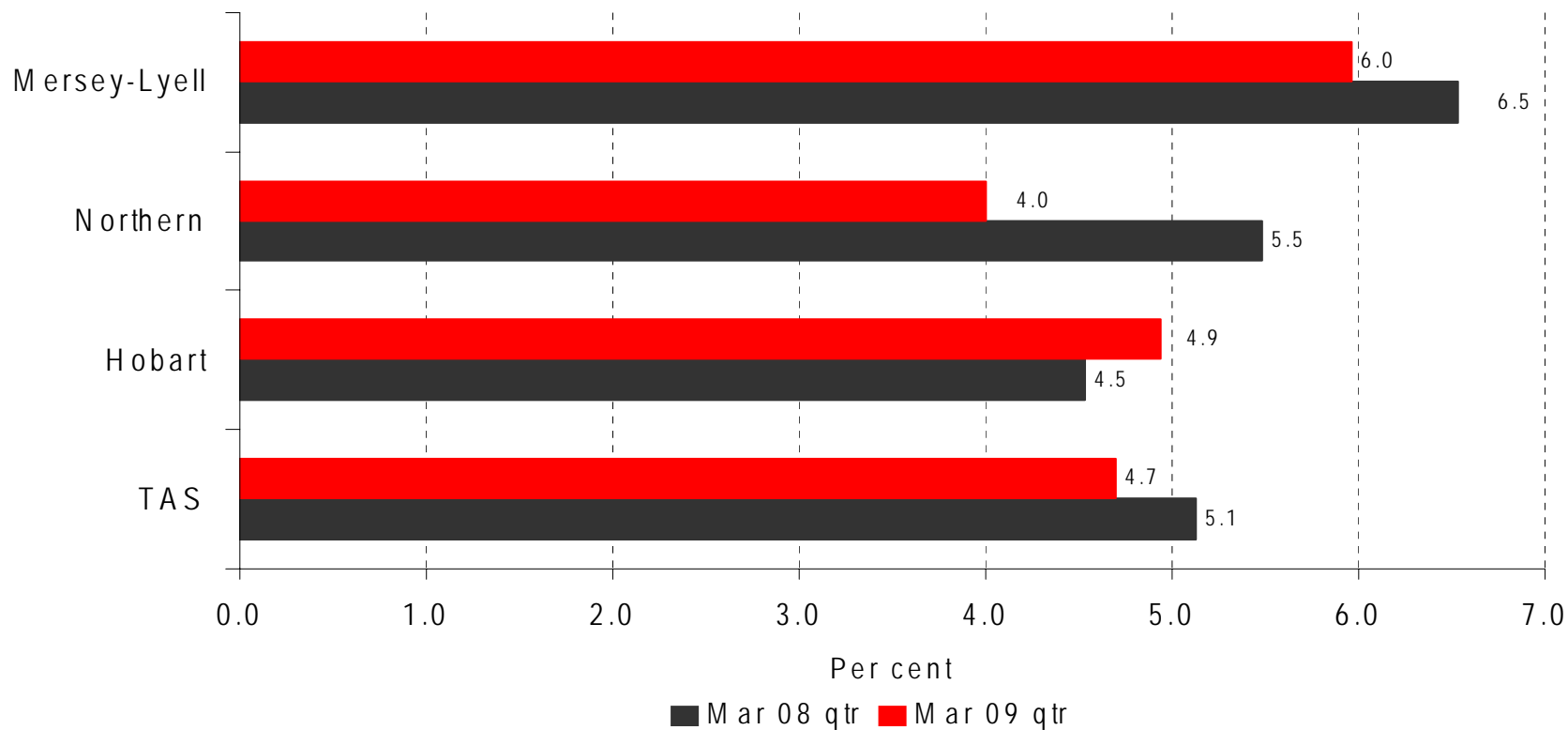
- Don't forget we're effectively starting from full employment



1. Unemployment

Unemployment Rates in TAS

Source: ABS Labour Force



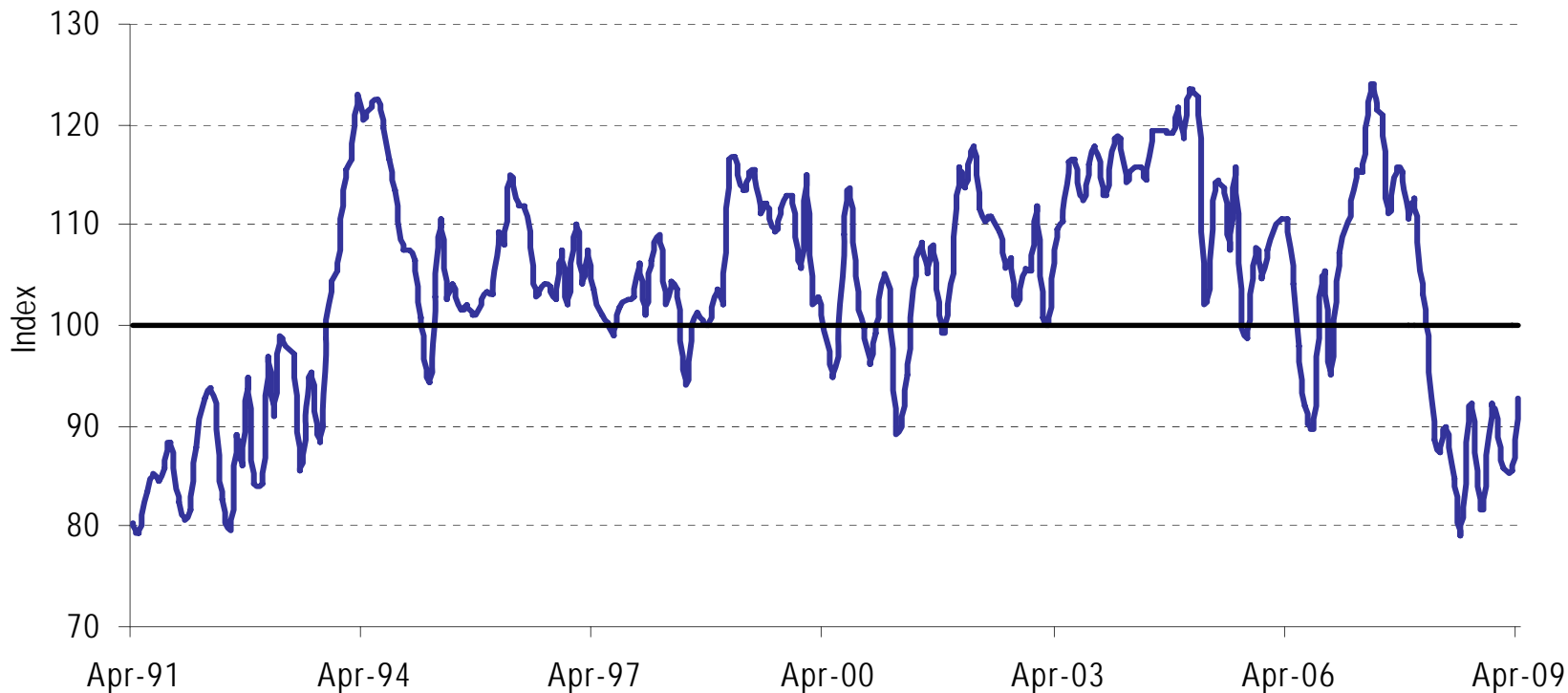
- The labour market here looks to be holding up well.



2. Consumer confidence – worried about the future but ...

Consumer Confidence

Source: Westpac-Melbourne Institute



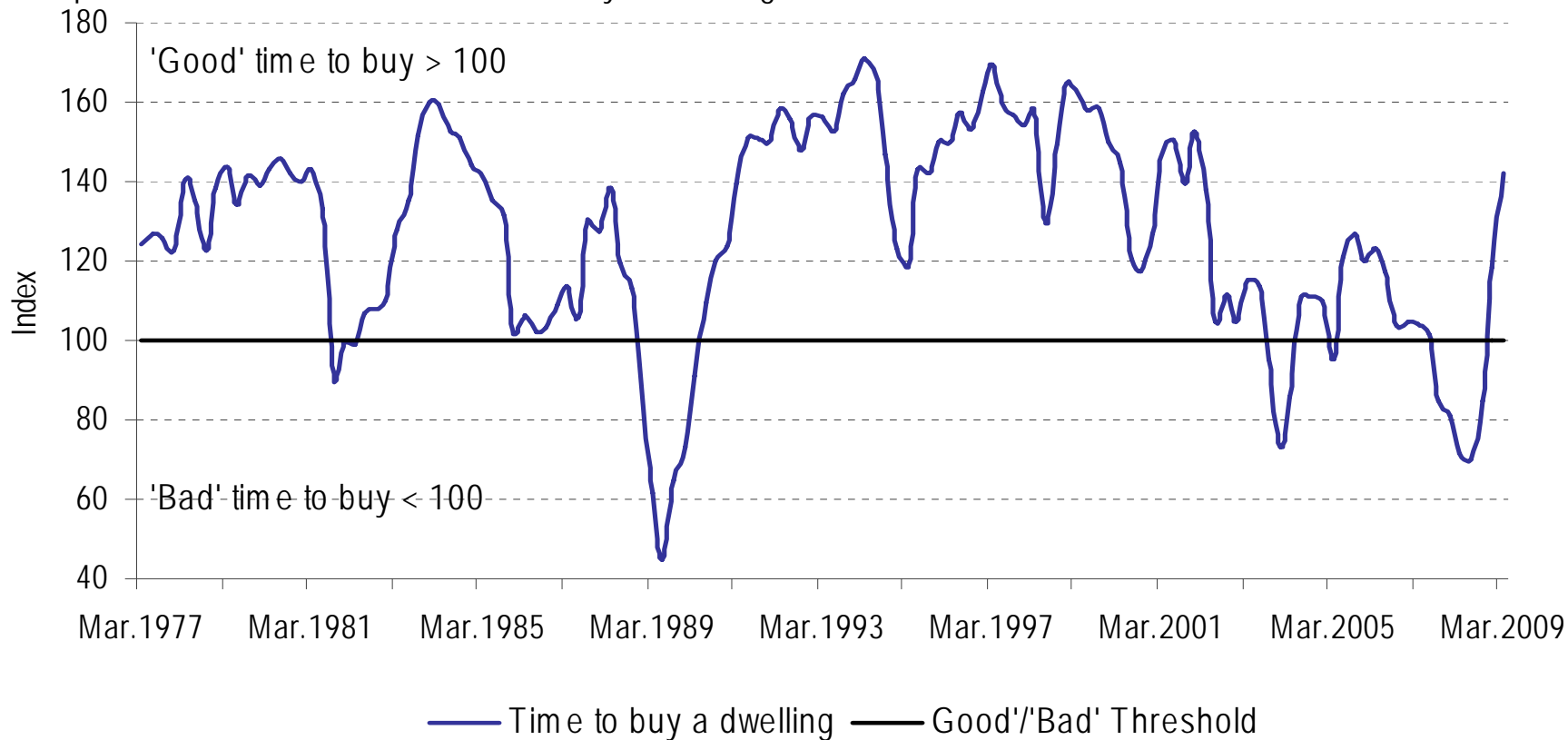
- Plus, business confidence is at or near record lows



2. ... home buying confidence is on the rise

Home Buying Sentiment

Westpac - Melbourne Institute Time to Buy a Dwelling Index

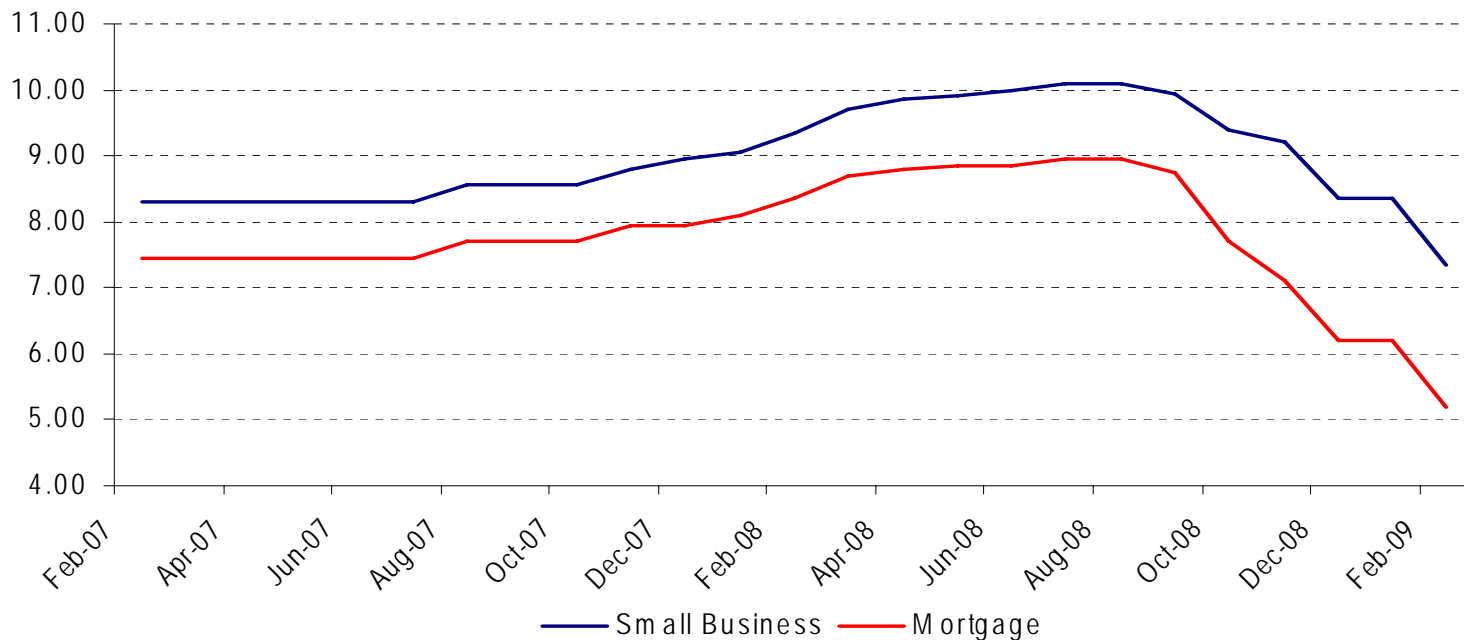




3. Business loan rates – fattening bank margins

Small Business vs Variable Mortgage Rates

Source: RBA



- Small business loan rates have fallen by 265 to 275 basis points
- Variable mortgage rates have fallen by 375 basis points

4. Lack of available credit – high rise, commercial, detached

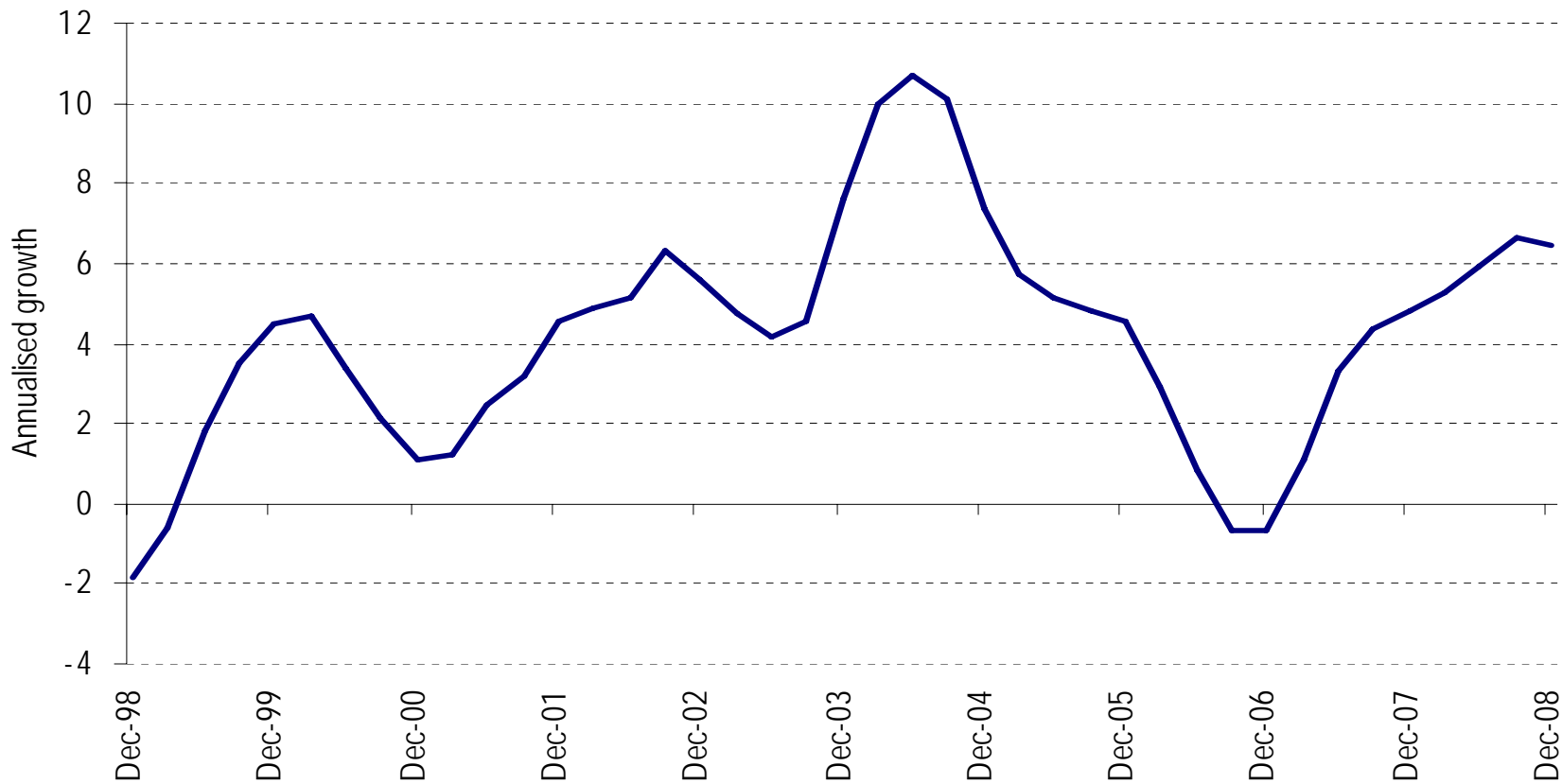


The Tasmanian Economy and New Home Building Sector



The TAS economy held up extremely well in 2008

TAS State Final Demand - Trend

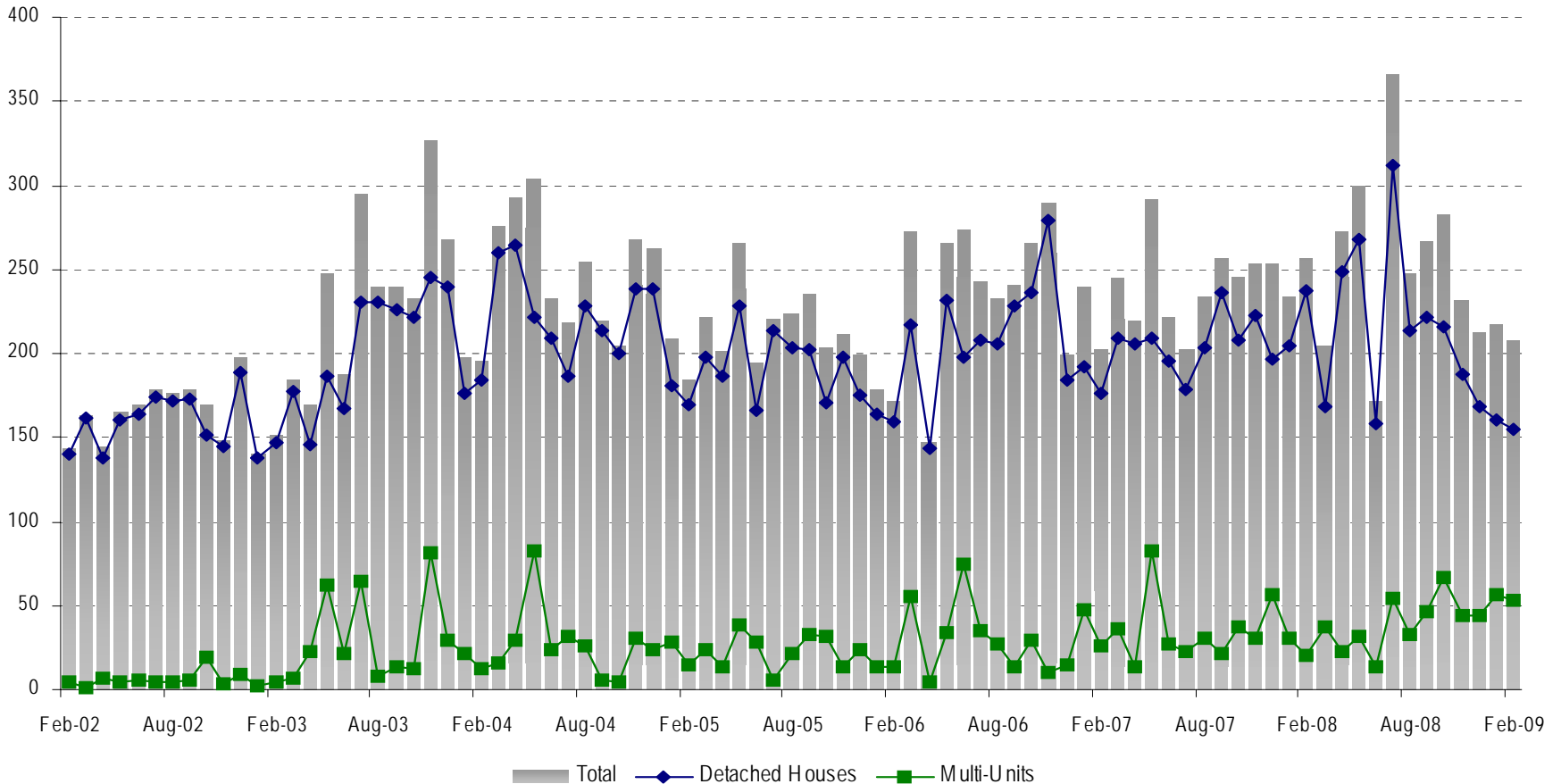




Building approvals – slipping back but ...

TAS Monthly Dwelling Approvals

Source: ABS Building Approvals

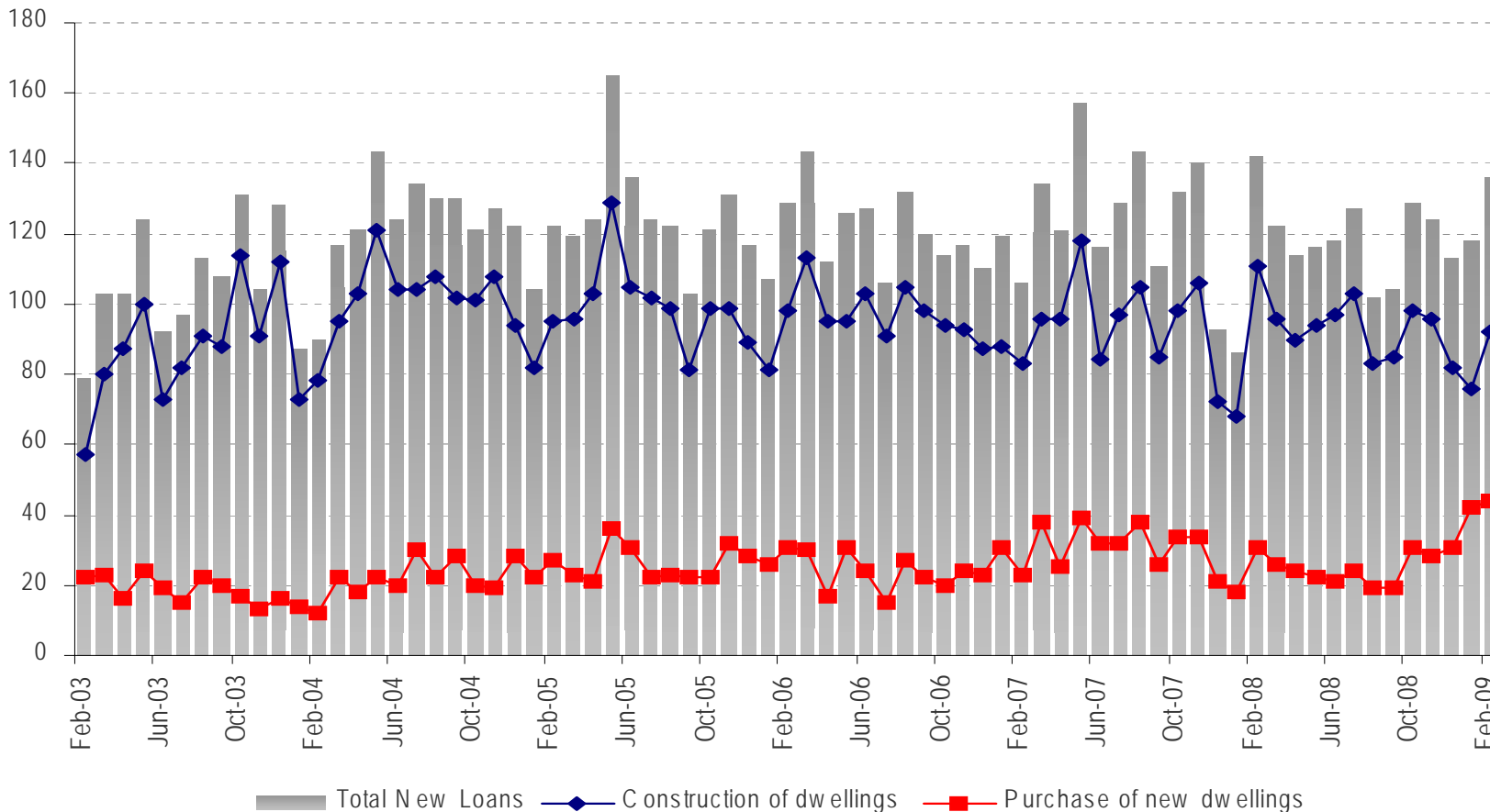




... new home lending is on the rise

Tasmania New Home Lending - Number of Loans

Source: ABS Housing Finance

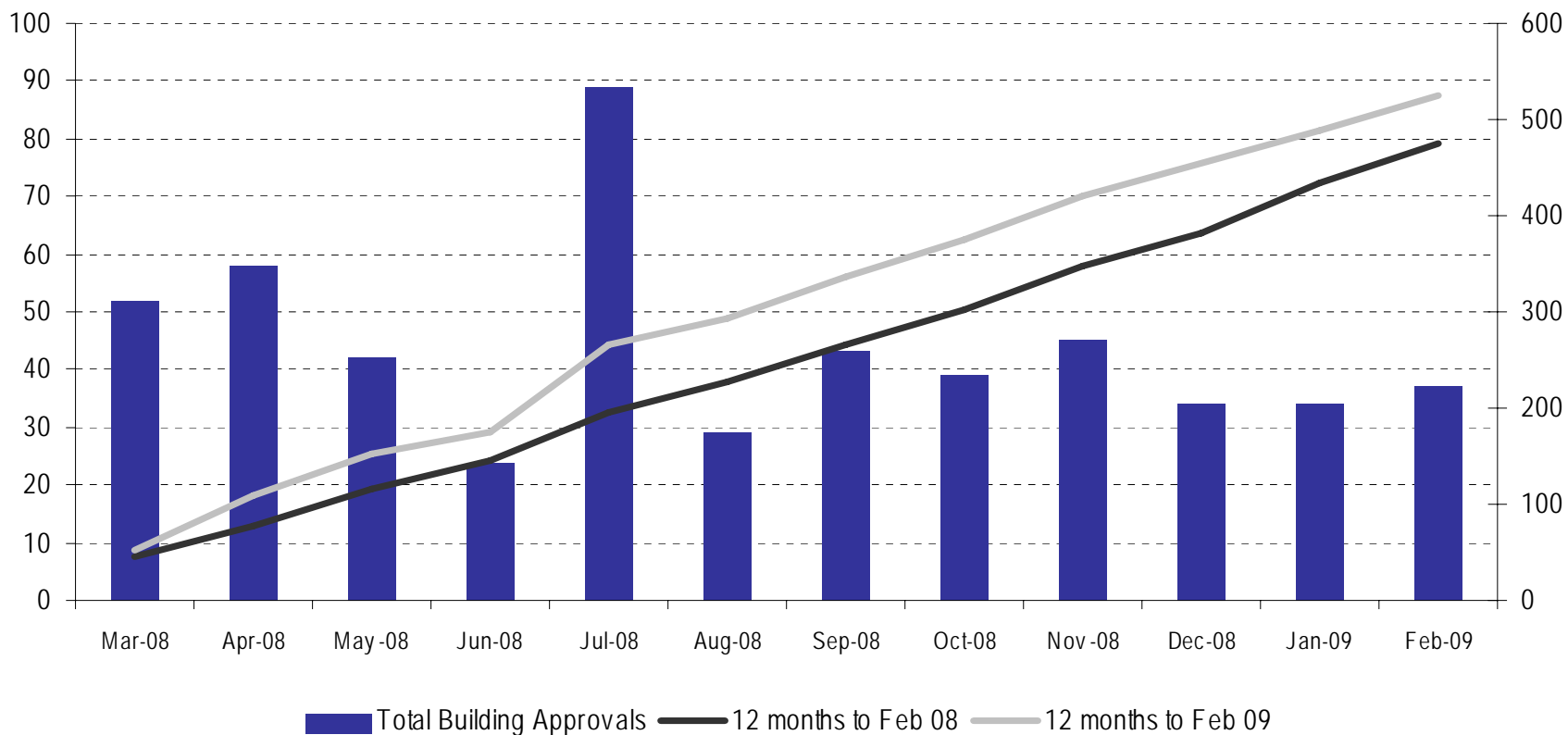




Detached Dwelling Approvals

Total Dwelling Building Approvals and Moving Totals - Greater Launceston

Source: ABS Building Approvals



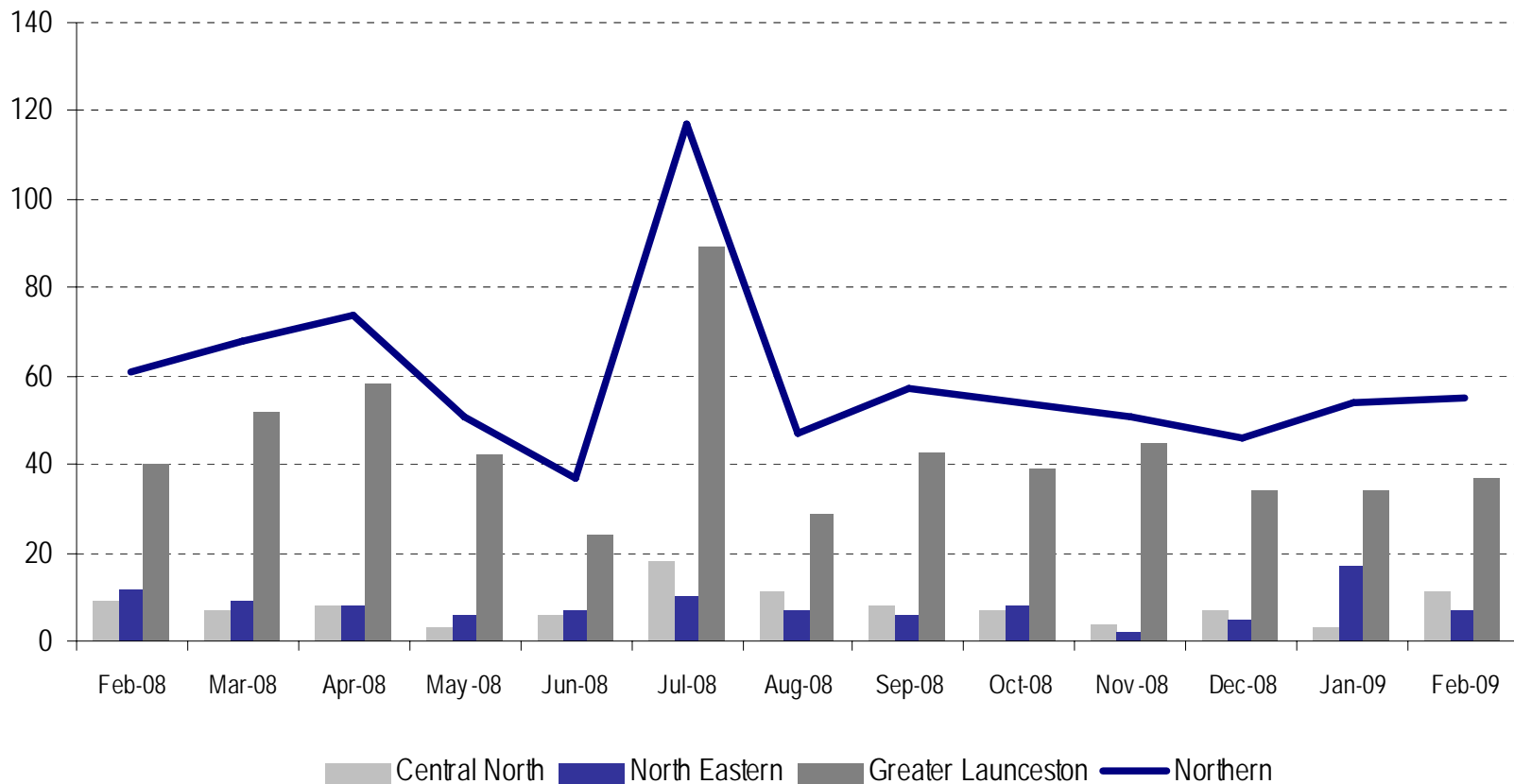
- Approvals were up by 14% over the 3 months to February 2009.



Total Building Approvals

Total Dwelling Approvals

Source: ABS Building Approvals





The outlook – new housing

Housing Starts, by type

thousand starts

(a) = actual

number of starts

% change:

Tas	Houses	Multi-units	Total	Houses	Multi-units	Total	<i>Houses / total</i>
2002/03 (a)	1,866	205	2,071				0.90
2003/04 (a)	2,507	337	2,844	34	64	37	0.88
2004/05 (a)	2,437	387	2,824	-3	15	-1	0.86
2005/06 (a)	2,245	321	2,566	-8	-17	-9	0.87
2006/07 (a)	2,445	416	2,861	9	30	11	0.85
2007/08 (a)	2,454	454	2,902	0	9	1	0.85
2008/09	2,278	422	2,700	-7	-7	-7	0.84
2009/10	2,490	460	2,950	9	9	9	0.84
2010/11	2,554	455	3,009	3	-1	2	0.85



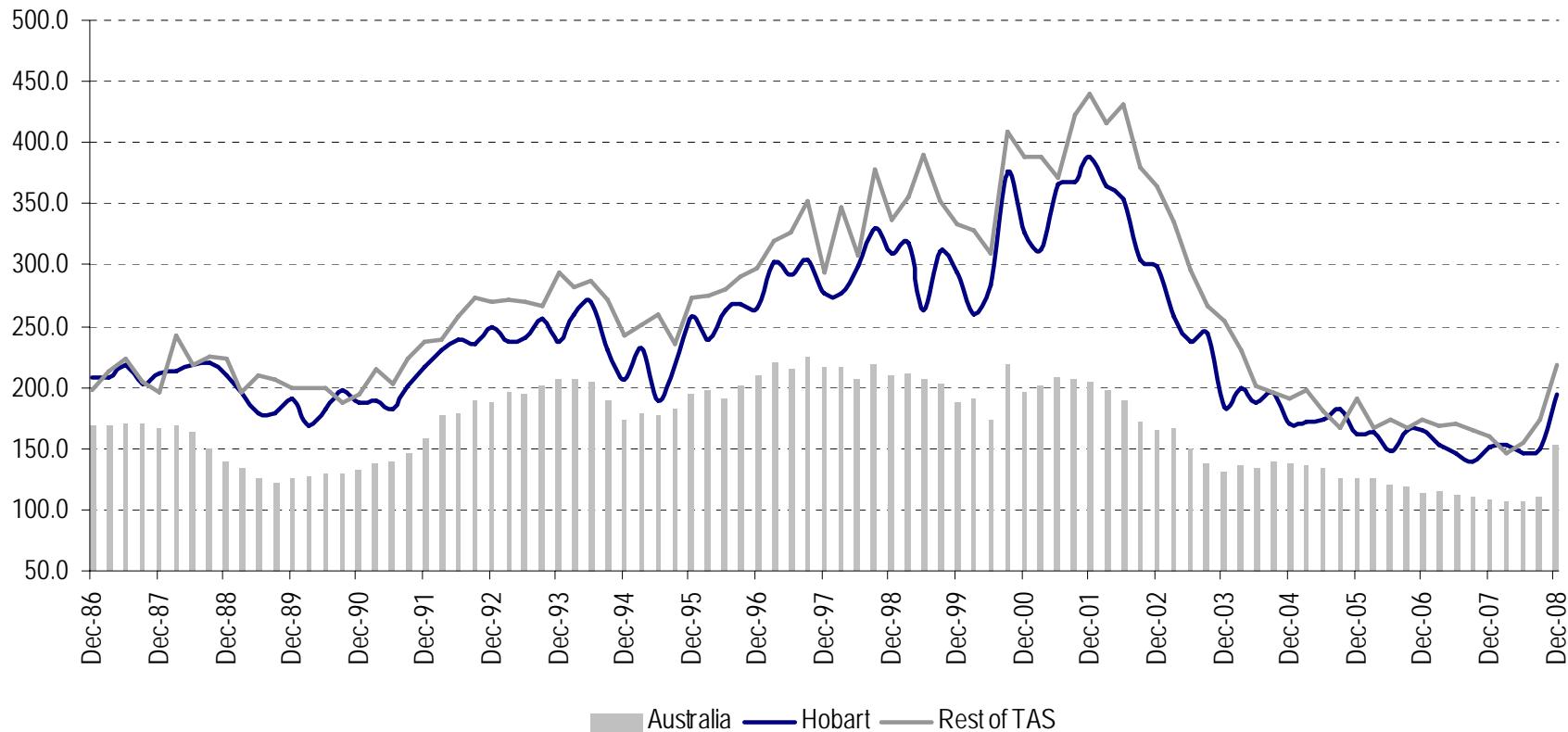
First Home Buyers and Affordability



Housing Affordability – big on-going improvement

Housing Affordability in Tasmania

Source: HIA Affordability Report

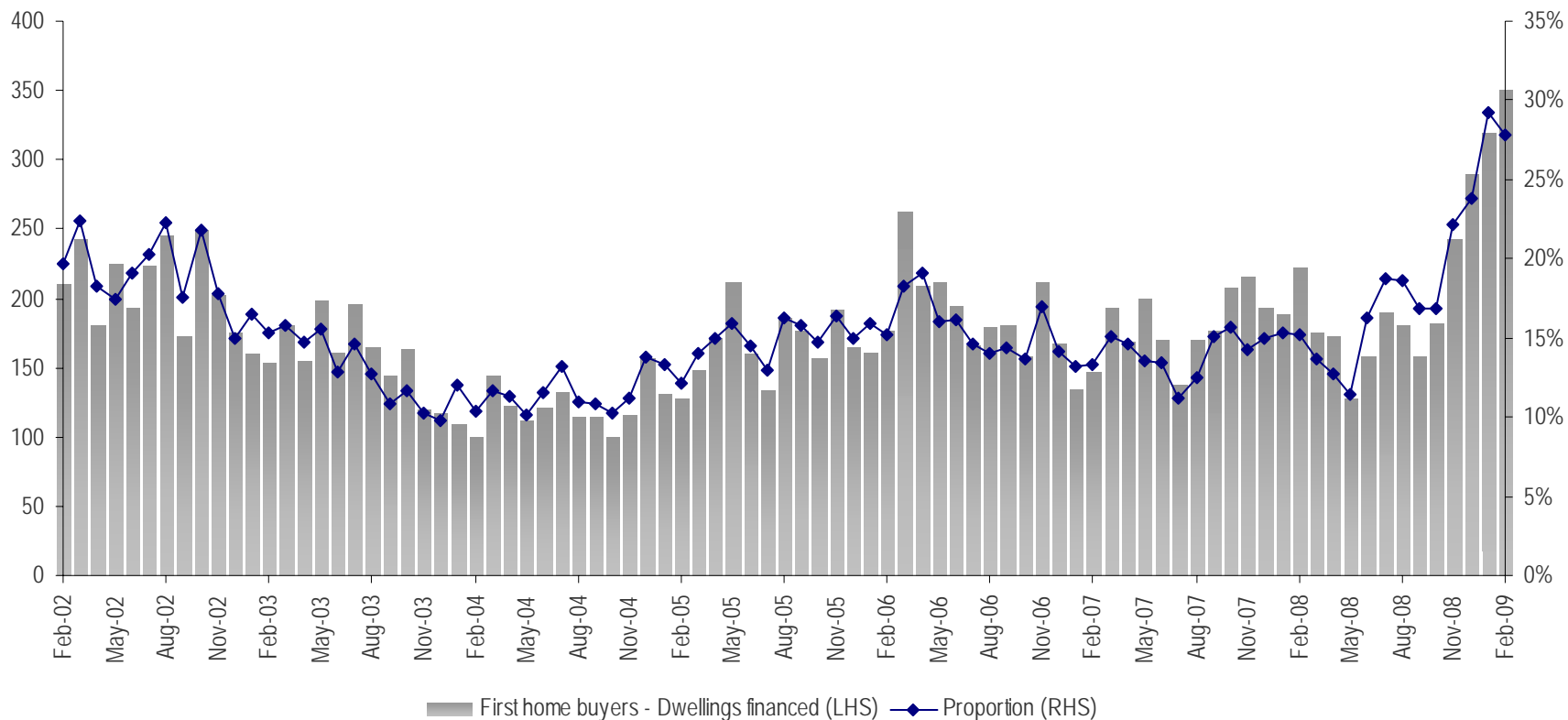




First Home Buyer market – large increase in share

Tasmania First Home Buyers

Source: ABS Housing Finance

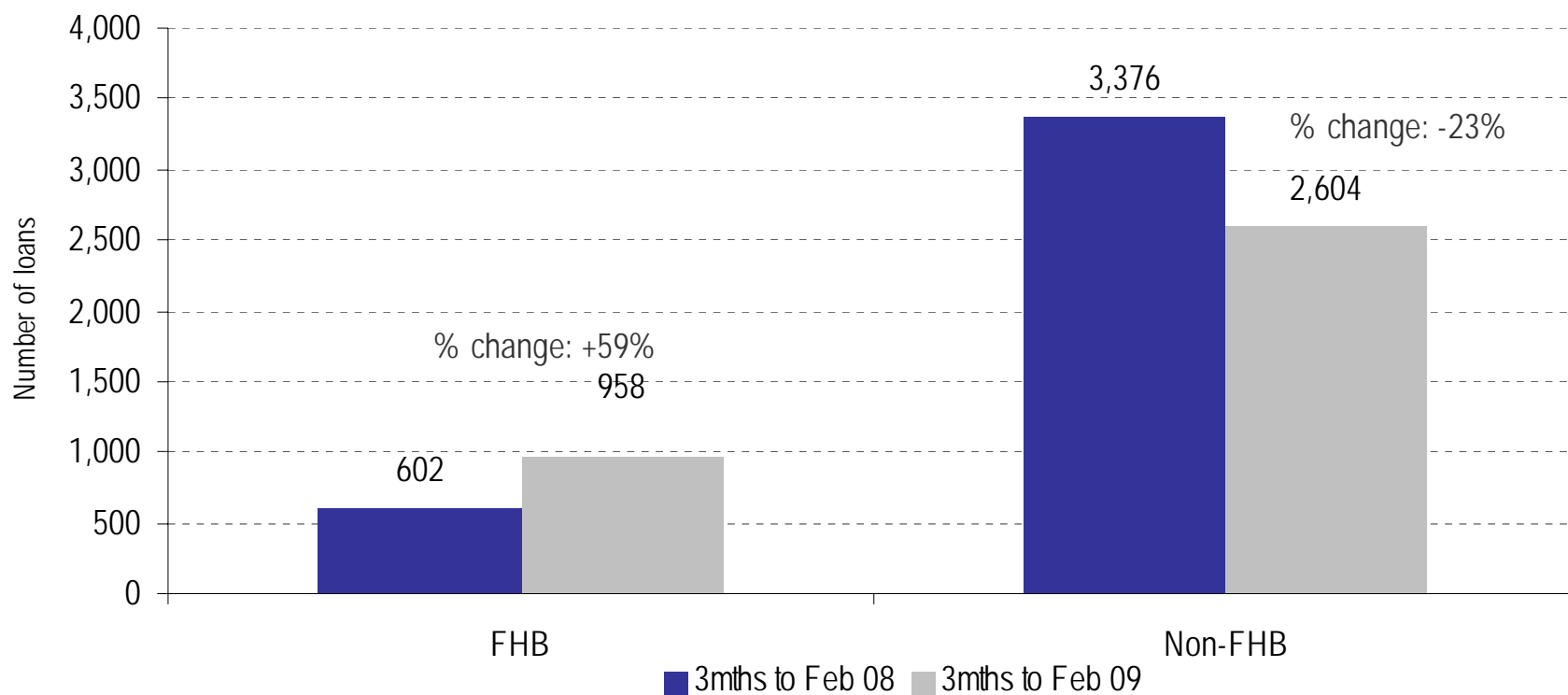




First Home Buyers leading the charge

First Home Buyer versus Non-First Home Buyer Loans

Source: ABS Housing Finance

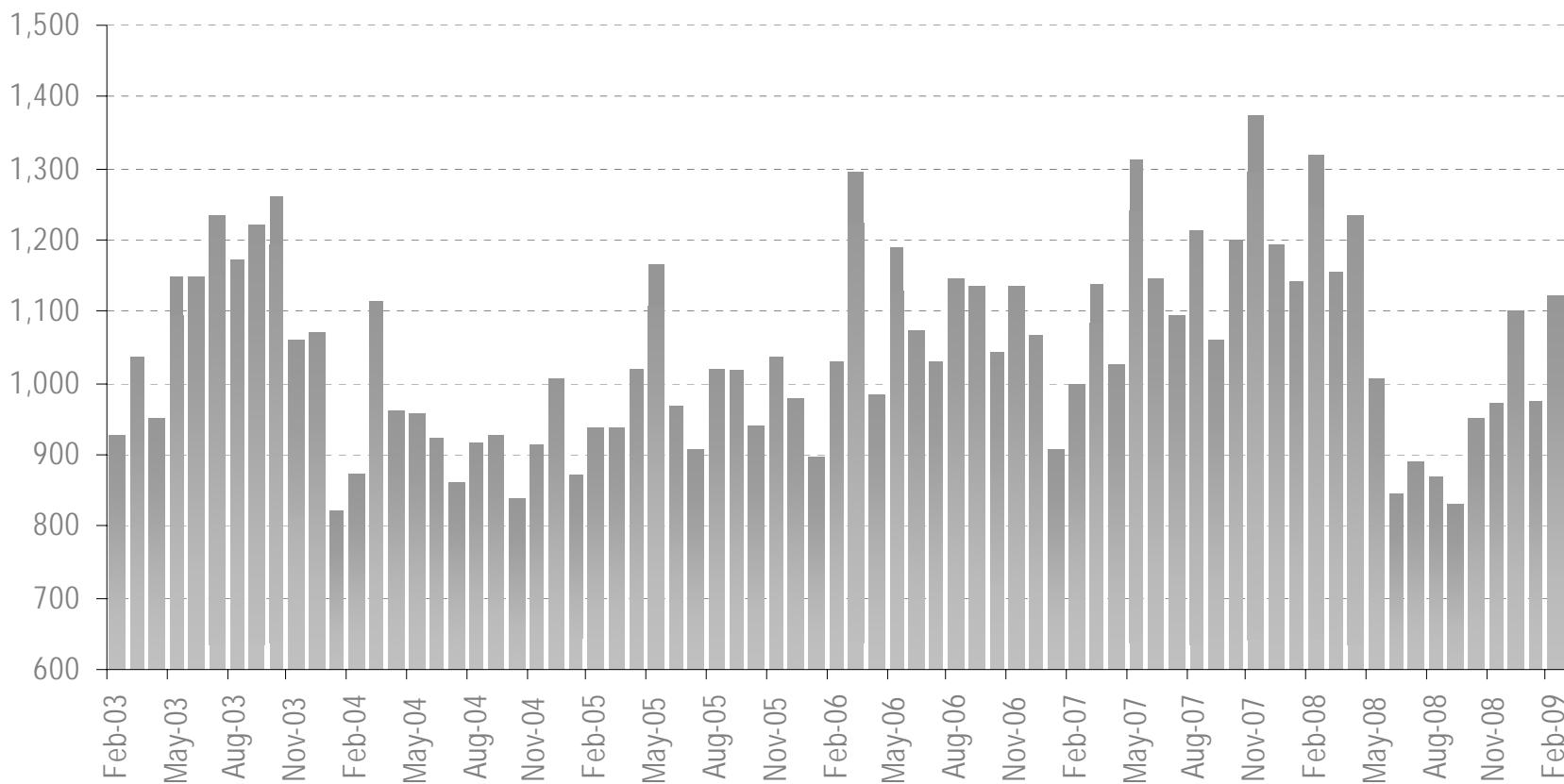




The established market is holding up very well

TAS Loans for Established Dwellings

Source: ABS Housing Finance





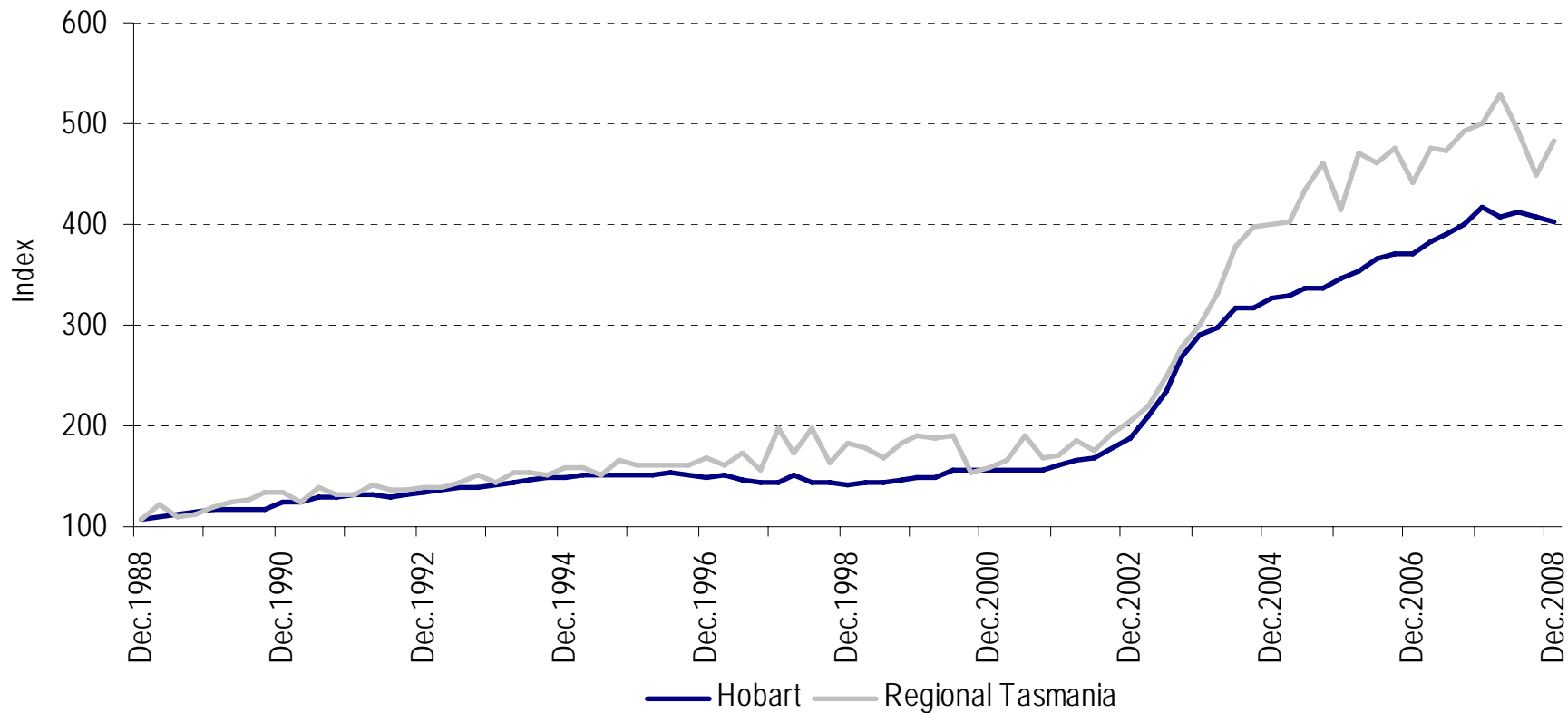
House Prices and Residential Investment



No crash in House Prices

HIA House Price Index – Tasmania

Source: ABS; HIA; Commonwealth Bank



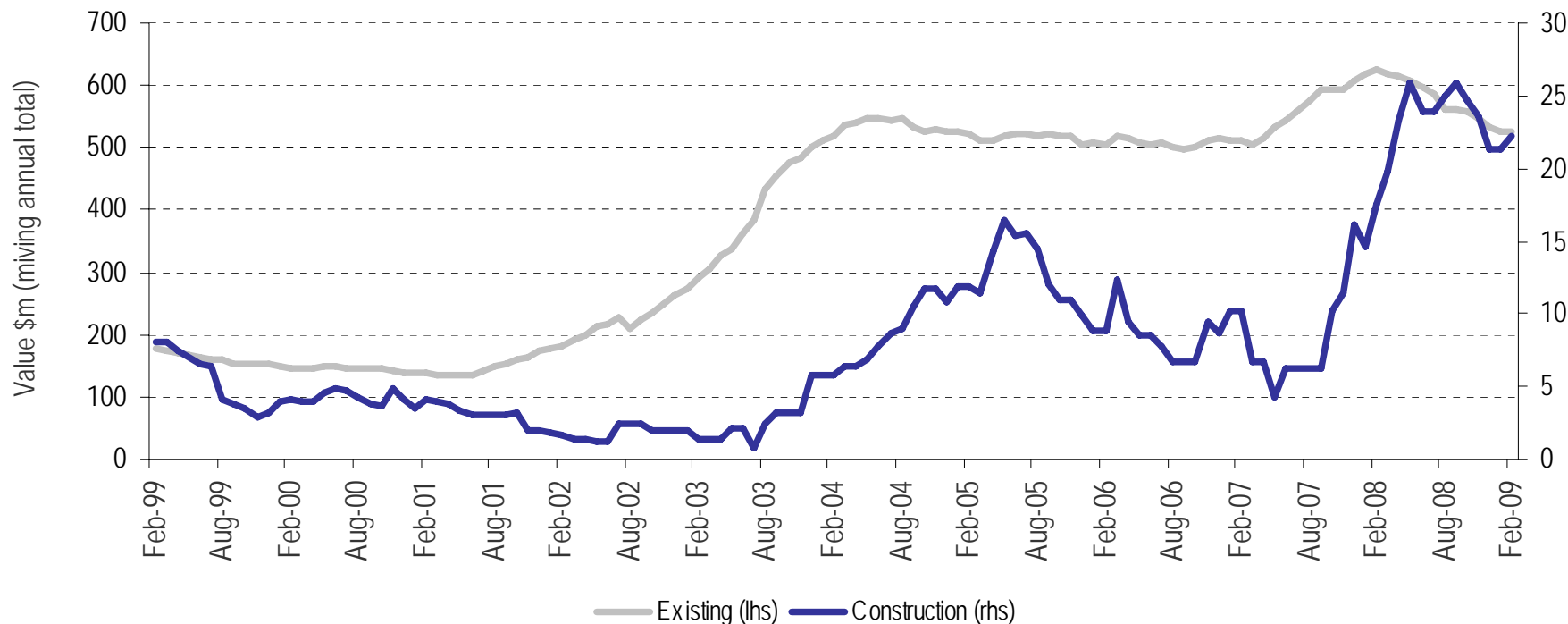
- Median house prices in Launceston are down by around 3 to 4 per cent.



Residential Investment – bottoming out?

Lending for Rental Properties - Tasmania

Source: ABS Lending Finance



- Residential investment is an example of the right moment at the wrong time



The Renovations Market



Renovations – down but from a record high

Renovations Investment in Tasmania - Moving annual total

Source: ABS State Final Demand

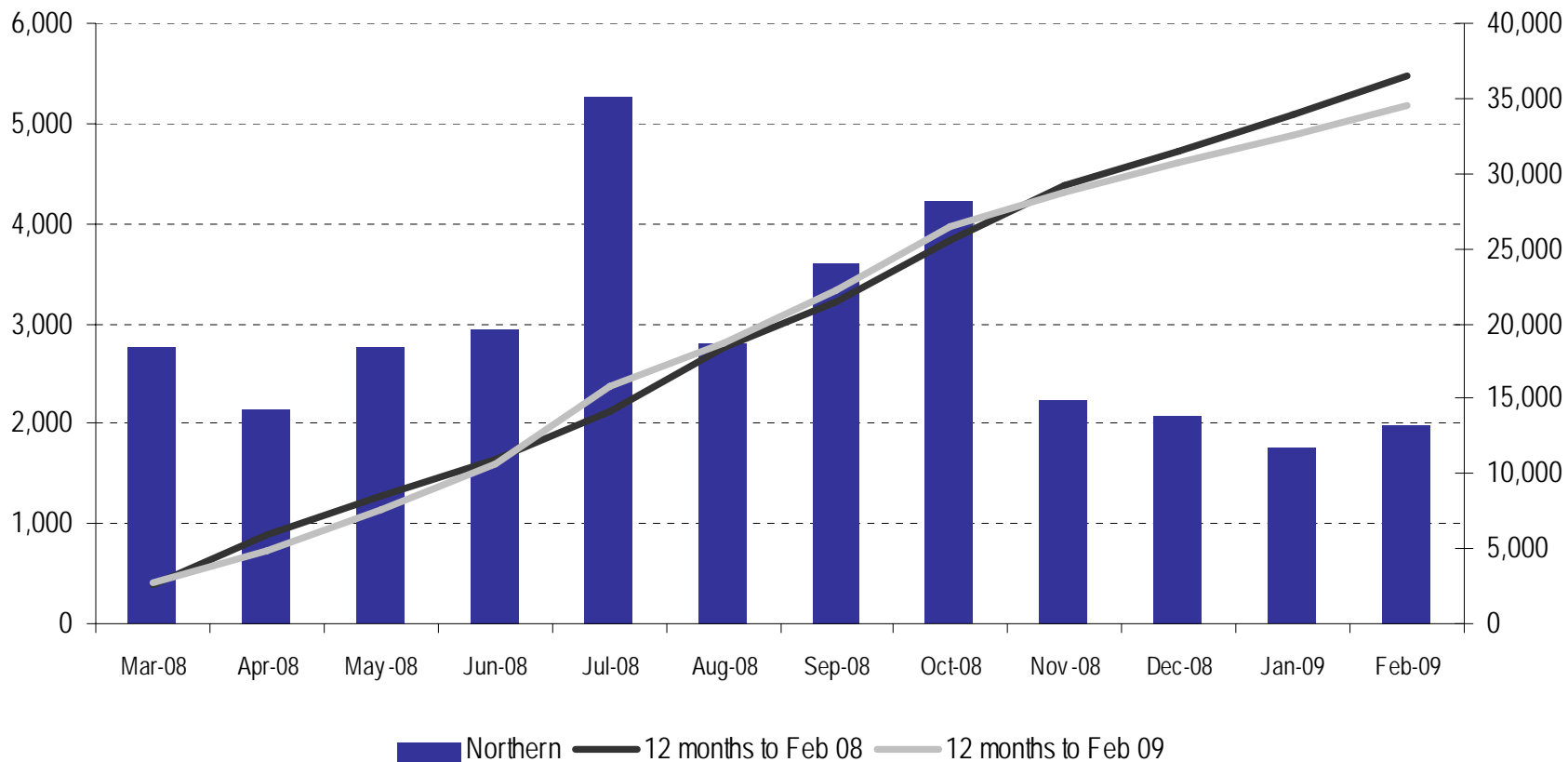




Northern Renovations

Value of Alterations and Additions ('000) - Northern

Source: ABS Building Approvals



- Lending is down by 4% over the 3 months to February 2009.



The outlook – renovations

HOUSING RENOVATIONS FORECAST: by state and territory

Value of investment, \$ million, Chain Volume Measure

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2002/03 (a)	9,363	5,959	6,194	1,570	3,217	517	191	351	27,362
2003/04 (a)	9,972	6,629	6,057	1,917	2,913	676	177	375	28,716
2004/05 (a)	9,791	6,370	6,365	1,936	3,066	657	255	333	28,773
2005/06 (a)	9,041	5,940	6,719	1,911	3,033	678	276	349	27,947
2006/07 (a)	8,597	6,376	7,574	2,141	3,371	715	230	331	29,335
2007/08 (a)	8,565	6,937	7,263	1,836	4,065	779	176	376	29,997
2008/09	8,570	6,903	7,560	1,920	3,689	780	238	367	30,027
2009/10	8,827	6,972	7,787	1,960	3,838	795	247	368	30,794
2010/11	9,250	7,374	8,160	2,058	4,011	820	259	374	32,307
% change									
2003/04	7	11	-2	22	-9	31	-7	7	5
2004/05	-2	-4	5	1	5	-3	44	-11	0
2005/06	-8	-7	6	-1	-1	3	8	5	-3
2006/07	-5	7	13	12	11	5	-17	-5	5
2007/08	0	9	-4	-14	21	9	-23	14	2
2008/09	0	0	4	5	-9	0	35	-2	0
2009/10	3	1	3	2	4	2	4	0	3
2010/11	5	6	5	5	5	3	5	2	5

(a) = actual



Summary

- The short word on it all is that the world economy is stuffed for at least another year, probably some time longer.
- The precise result for China is still unfolding and the Chinese authorities are 'holding on' to an 8 per cent growth pace for 2009.
- We are much better off with the stimulus in the system than without and ...
- ... Tasmania is starting from a strong position, even more so here than in Hobart.
- Housing is the key to the short term economic outlook.



Thank You for your time this morning

Harley Dale

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HOUSING INDUSTRY ASSOCIATION

<http://economics.hia.com.au>