



## The Residential Sector in Victoria

### Industry Outlook Breakfast

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Melbourne  
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# Economics Group

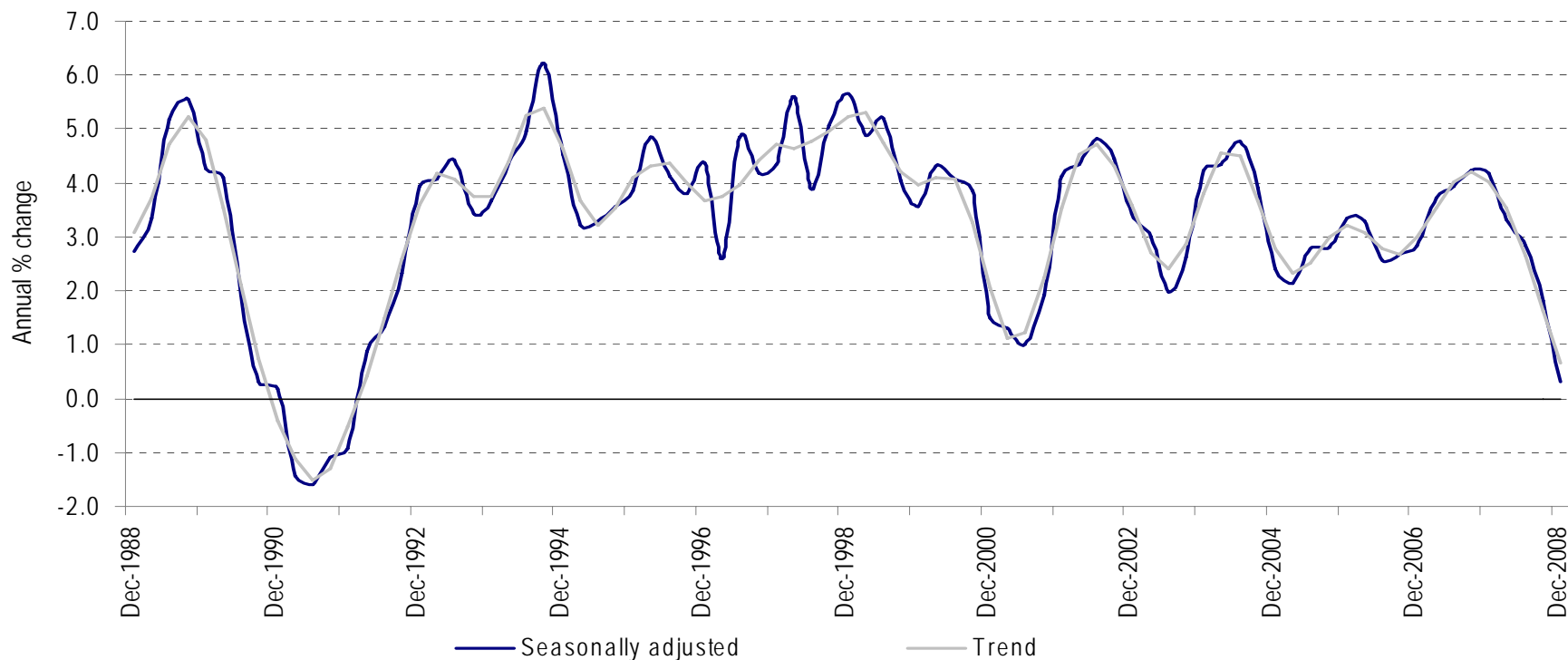




## The situation spells bad news for Australia but then ...

### Australia's GDP

Source: ABS 5206.2



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



## 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.
- We are still being told ad nauseam how bad everything is ...
- ... but that doesn't answer the question of what happens to housing in Victoria and Australia 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.



## 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 mid 1960.
- Variable mortgage rates are at their lowest since the early 1960's.
- How much further to go – probably not far but we still have room to move.
- Increase in borrowing capacity of between \$7,000 (non FHB) and \$31,000 (FHB).
- This is not enough, but thanks to our reliance on variable mortgage rates it is something.

### 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) – first round of offers have been made and this includes 696 dwellings in Victoria.
- 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

### Victoria's Unemployment Rate

Source: ABS Labour Force

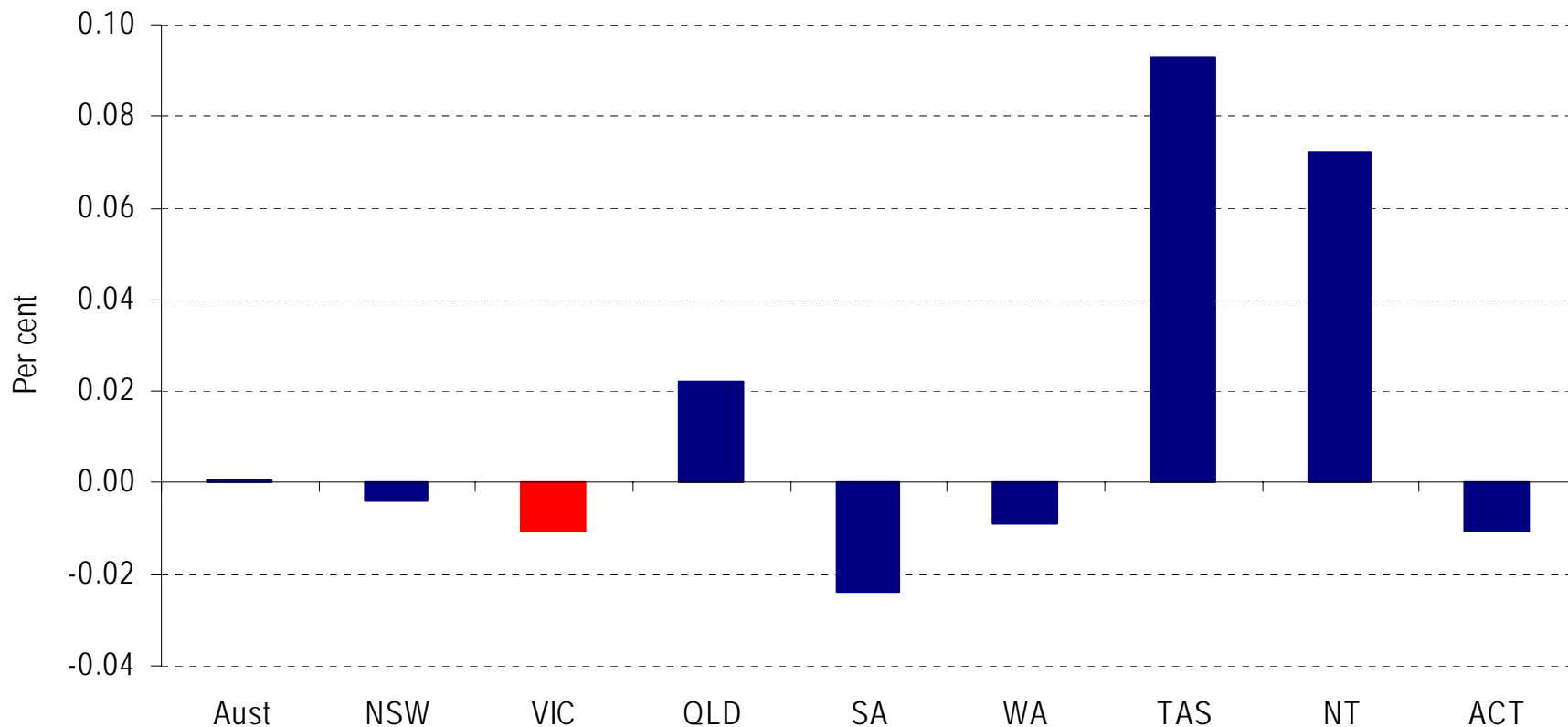


- We have a very similar starting point to the early 1990's recession.



## 1. Unemployment – the key to everything

Employment Growth – 3 month Annualised to March 2009

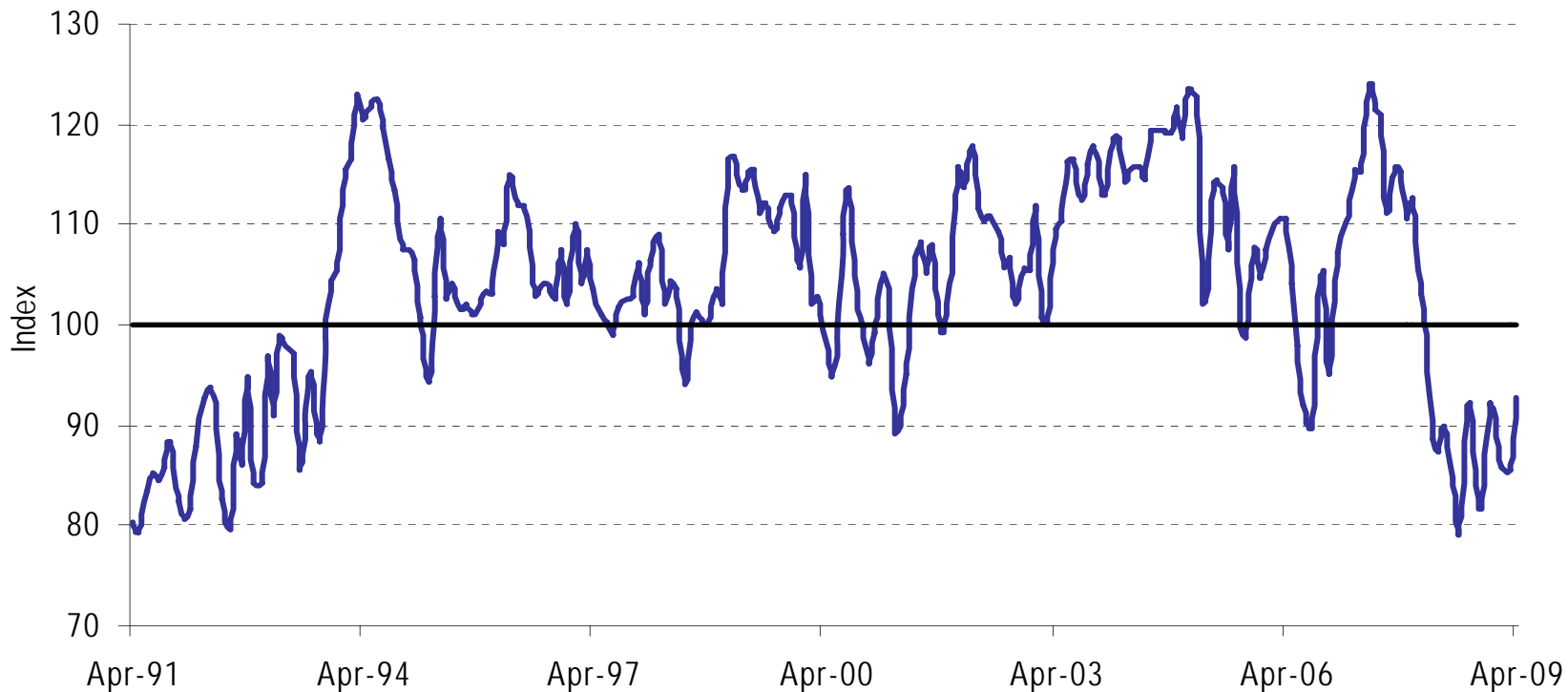




## 2. Consumer confidence – worried about the future but ...

### Consumer Confidence

Source: Westpac-Melbourne Institute



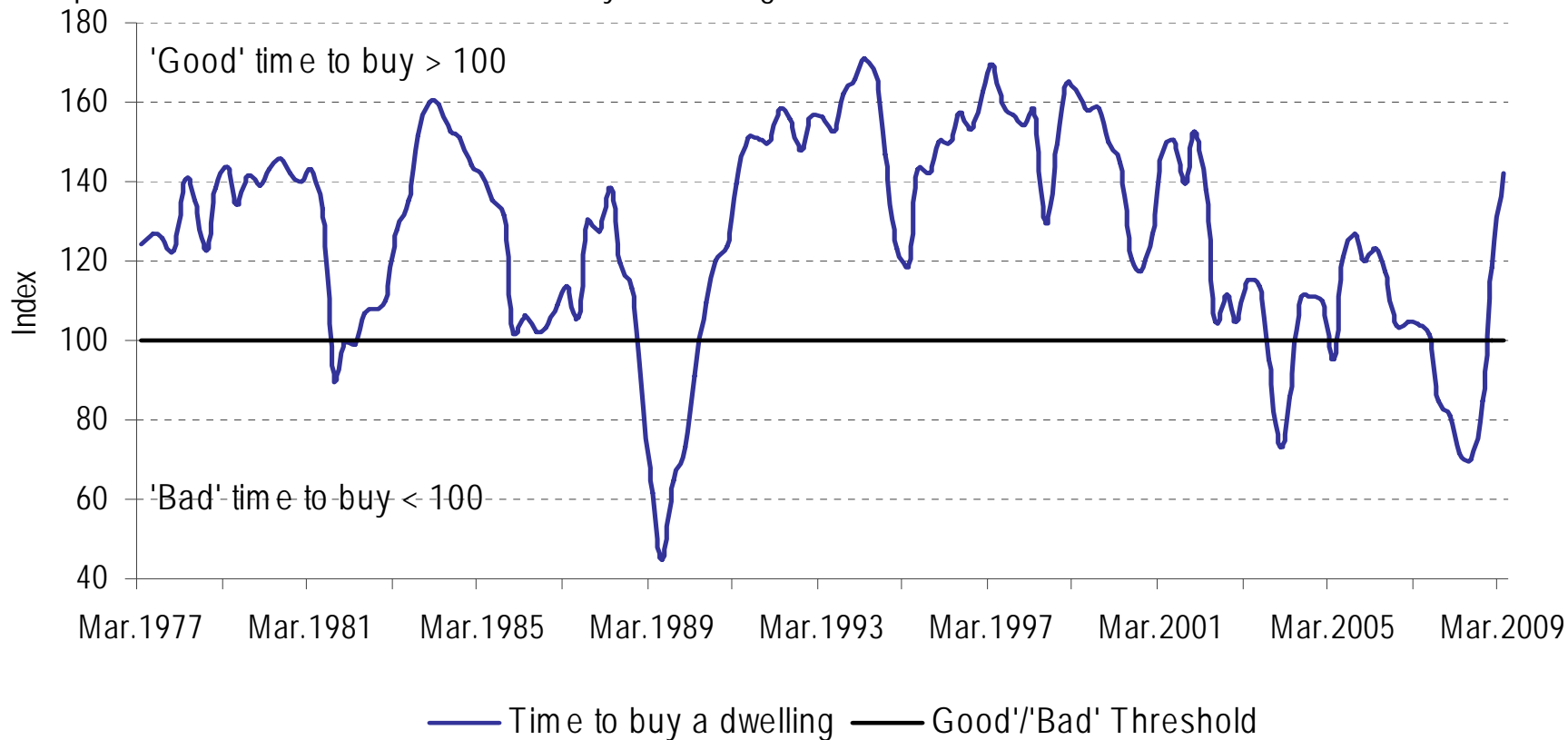
- Plus, business confidence is at or near record lows



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

### Home Buying Sentiment

Westpac - Melbourne Institute Time to Buy a Dwelling Index

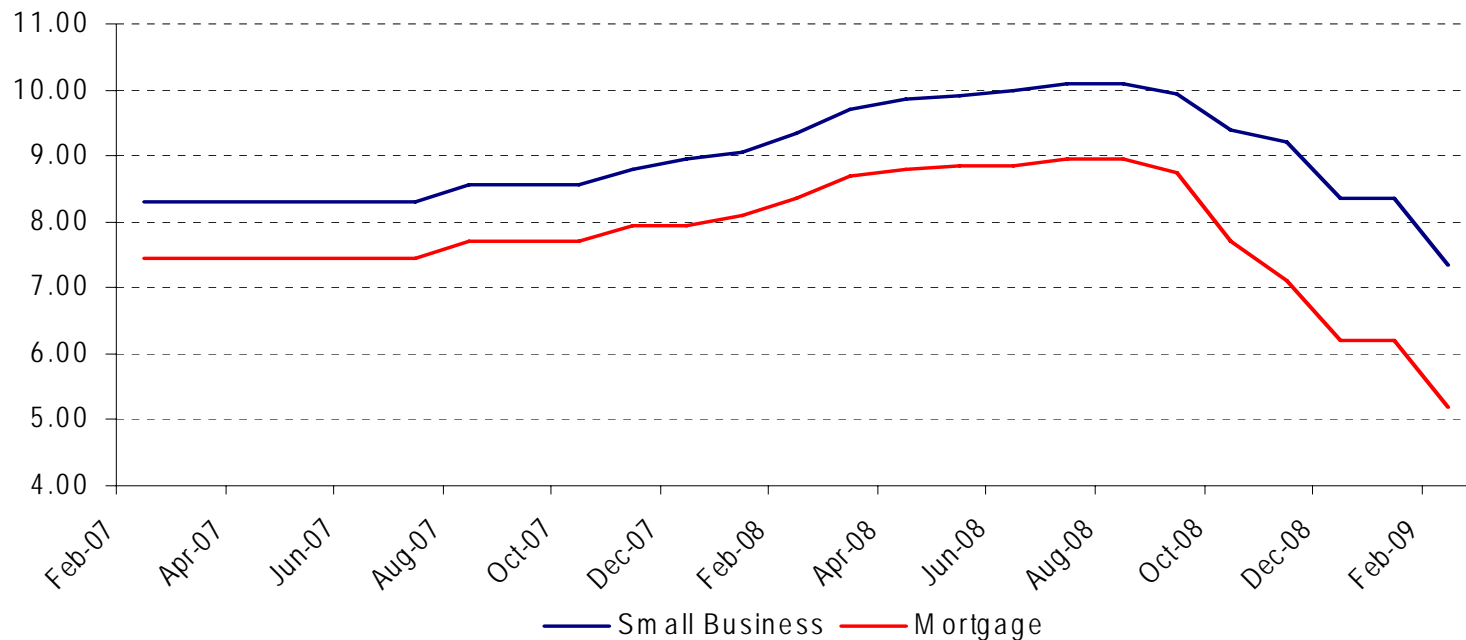




## 3. Business loan rates – fattening bank margins

Small Business vs Variable Mortgage Rates

Source: RBA



- Small business loan rates have fallen by 265 to 280 basis points
- Variable mortgage rates have fallen by 385 basis points

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



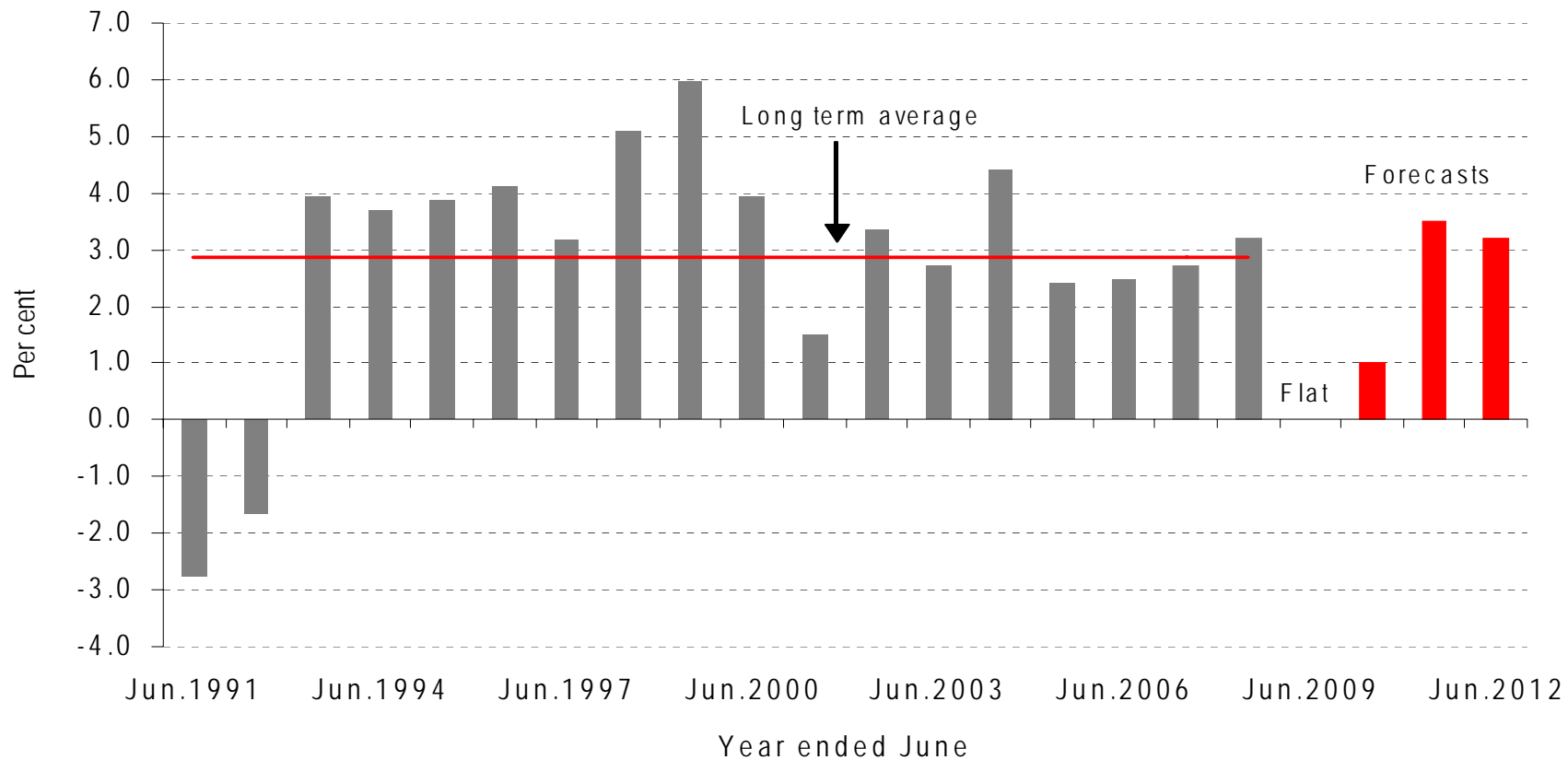
## The Victoria State Economy and New Home Building Sector



## The economy – ‘nothing’ would be a good result

### Gross State Product - Victoria

Source: ABS; HIA Economics Group

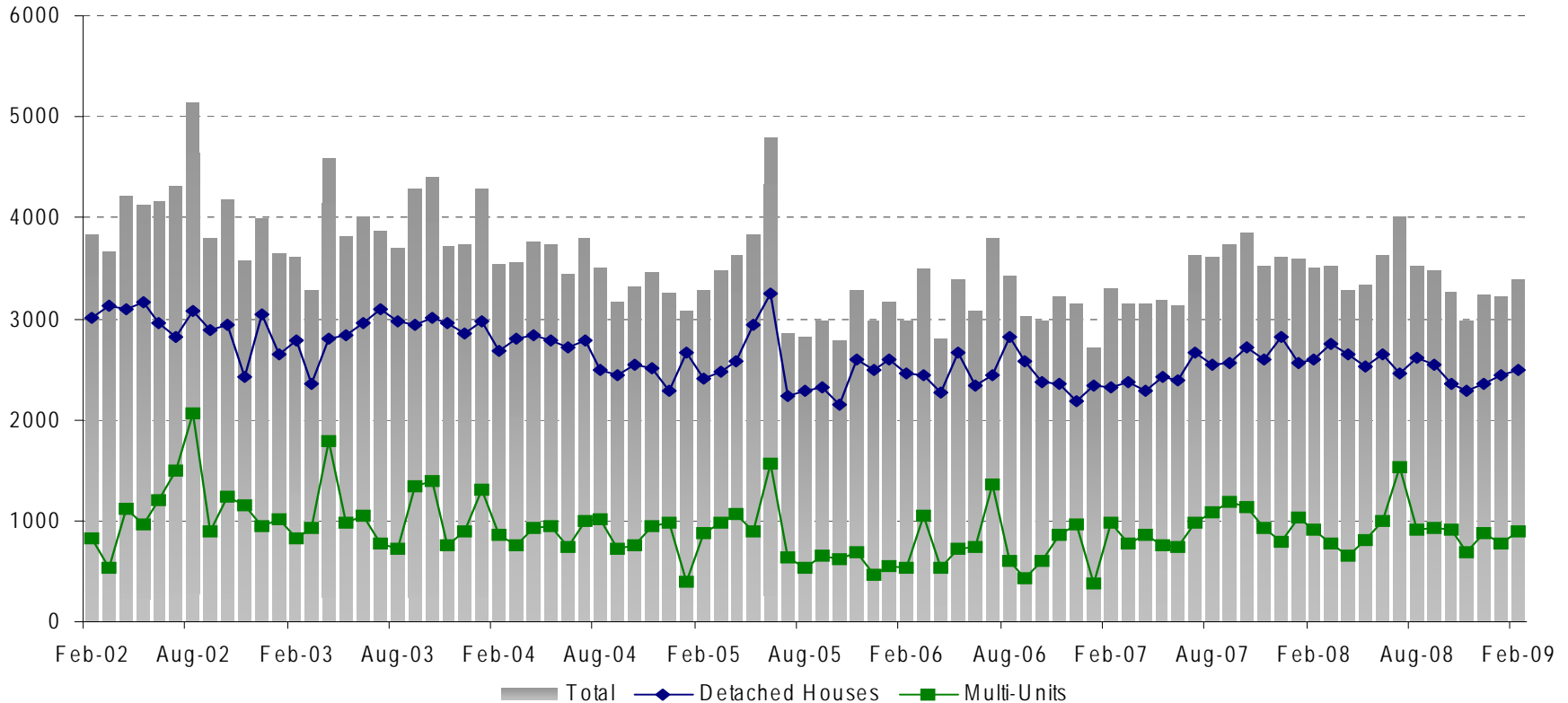




## Building approvals – holding up very well

Victoria Monthly Dwelling Approvals

Source: ABS Building Approvals



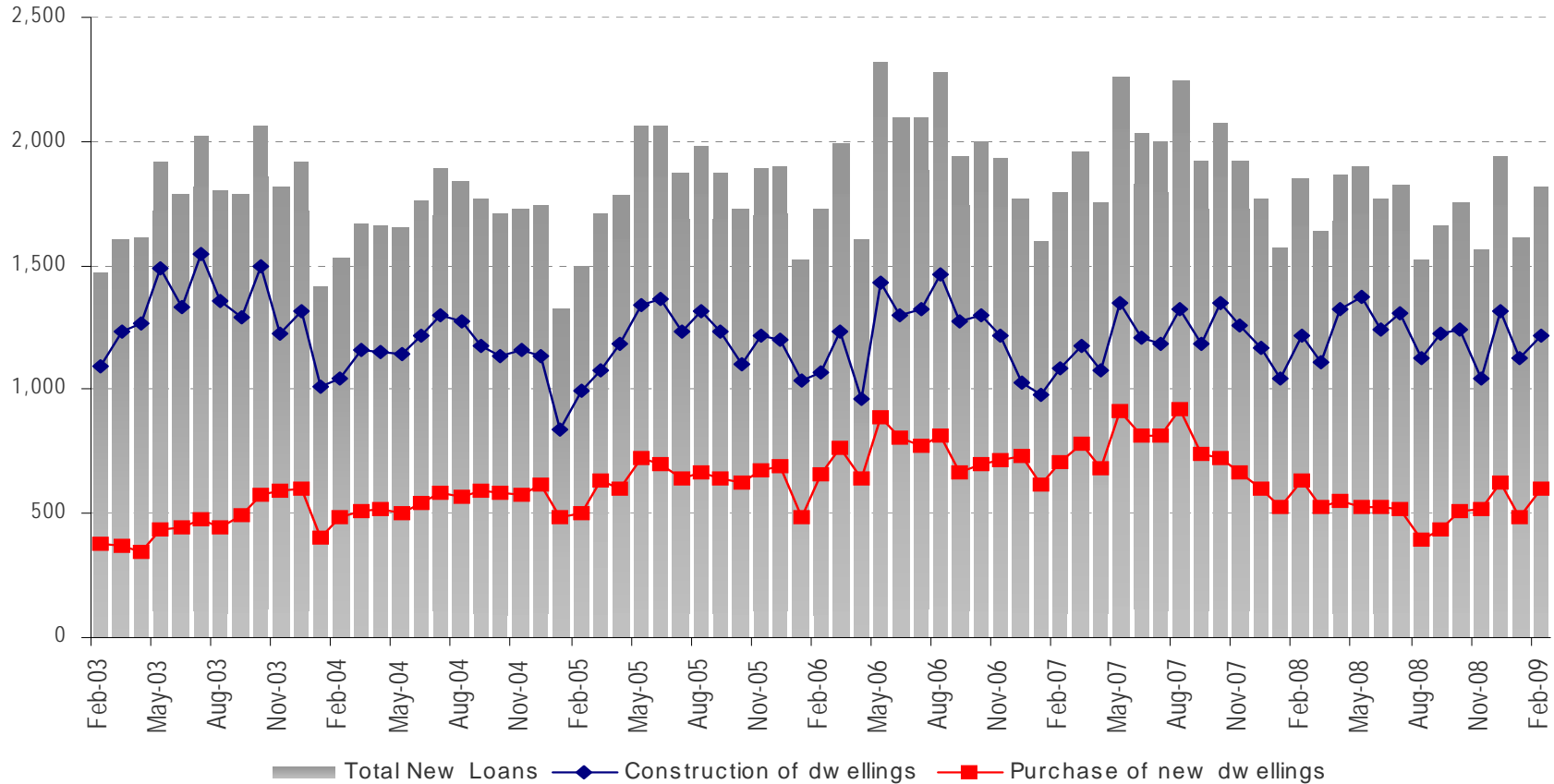
- Building approvals increased by 1.9% in 2008 and ....
- ... approvals rose by 1.2% over the 3 months to Feb 2009, the only increase in Australia.



## New home lending is looking quite good

### Victoria New Home Lending - Number of Loans

Source: ABS Housing Finance



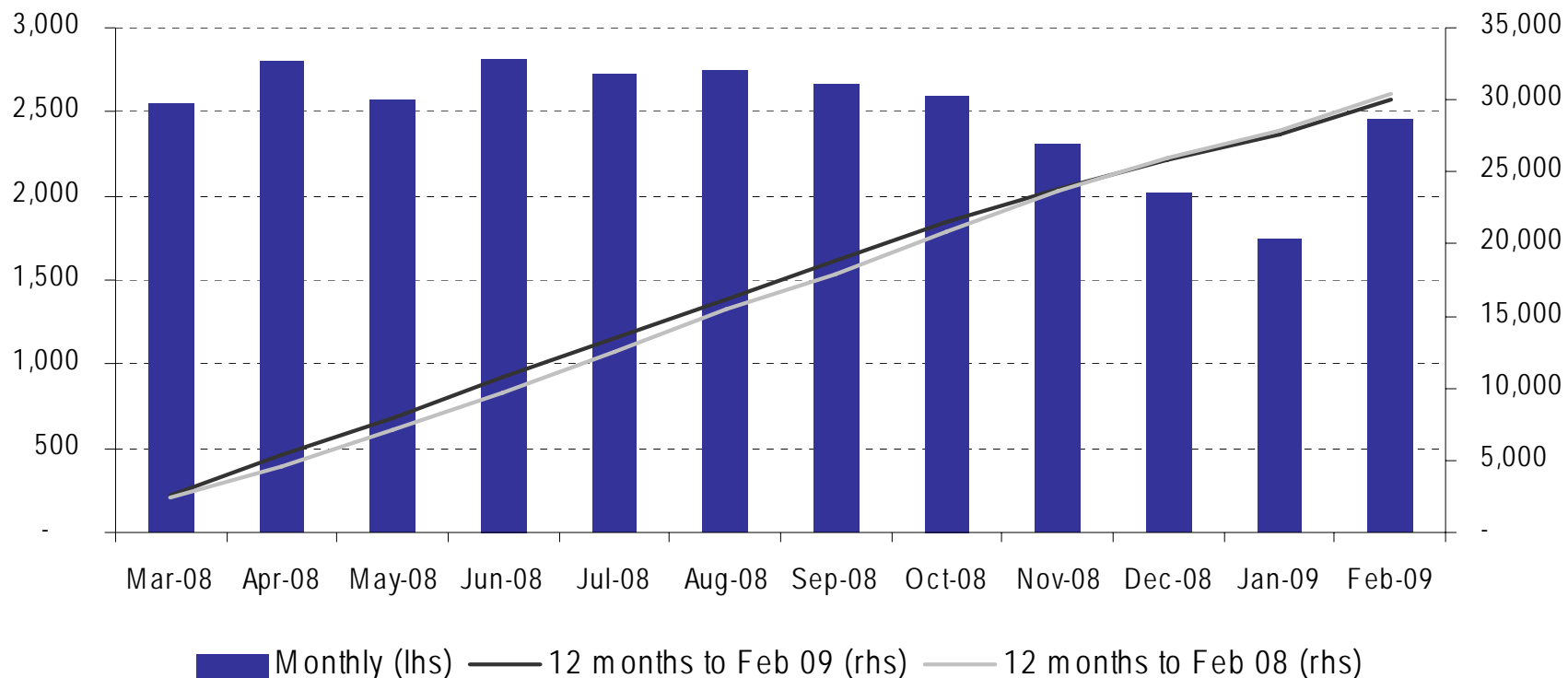
- New home lending was up 16% over the 3 months to Feb 2009.



## Detached Dwelling Approvals

### Approvals for Detached Dwellings

Source: ABS 8731



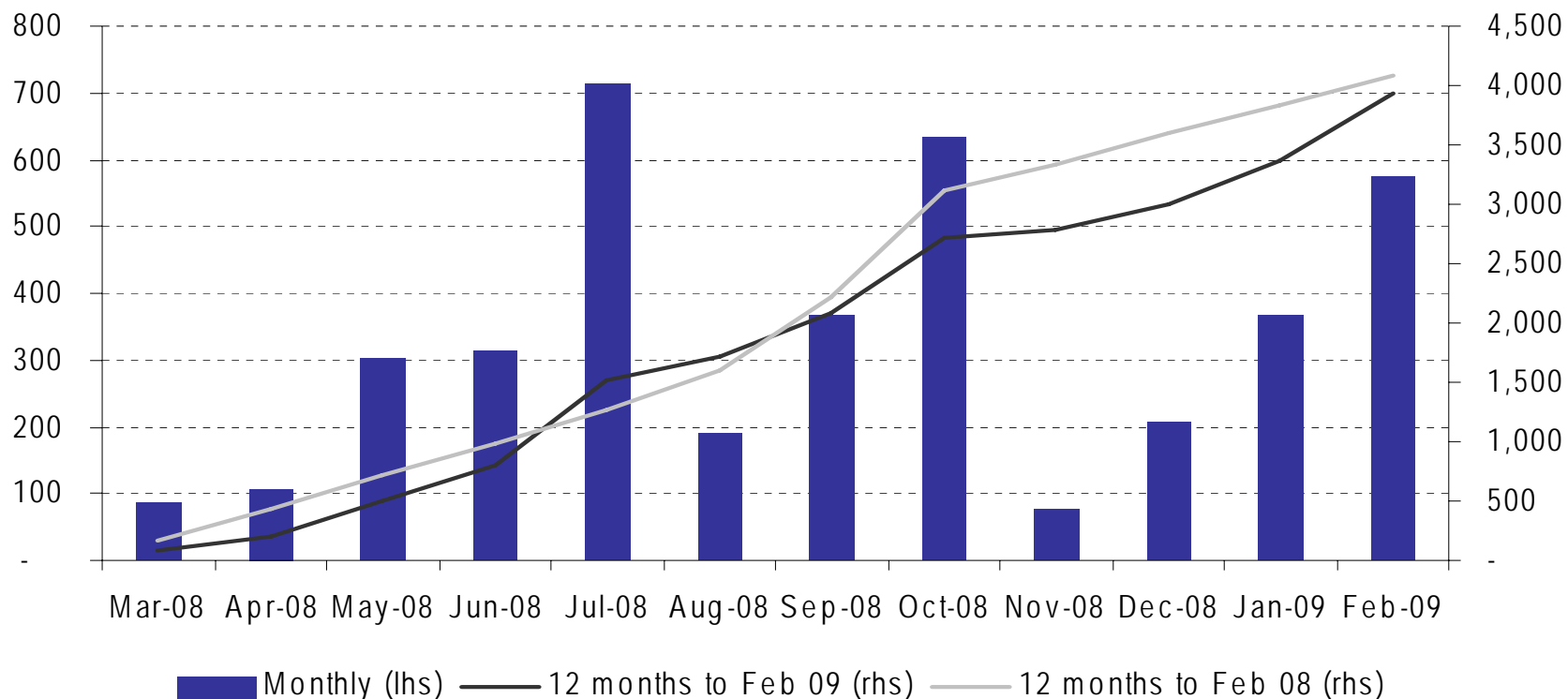
- Over the 3 months to Feb 09 approvals were up by 1%.



## Dwellings of 4+ Storeys – Building Approvals

### Approvals for Dwellings of 4+ Storeys

Source: ABS 8731



- Over the 3 months to Feb 09 approvals were up by 54%.



## The outlook – new housing

### Housing Starts, by type

*thousand starts*

*(a) = actual*

% change:

Vic	Houses	Multi-units	Total				
2002/03 (a)	32.61	13.19	45.80				0.71
2003/04 (a)	34.62	10.71	45.33	6	-19	-1	0.76
2004/05 (a)	30.36	10.60	40.96	-12	-1	-10	0.74
2005/06 (a)	29.61	9.68	39.29	-2	-9	-4	0.75
2006/07 (a)	29.49	9.12	38.61	0	-6	-2	0.76
2007/08 (a)	30.82	10.87	41.68	5	19	8	0.74
2008/09	28.63	9.64	38.26	-7	-11	-8	0.75
2009/10	31.67	10.20	41.86	11	6	9	0.76
2010/11	33.41	10.55	43.96	5	3	5	0.76

- Could 2008/09 look better than this? Yes
- Could 2009/10 look better than this? Maybe, but the odds are against it



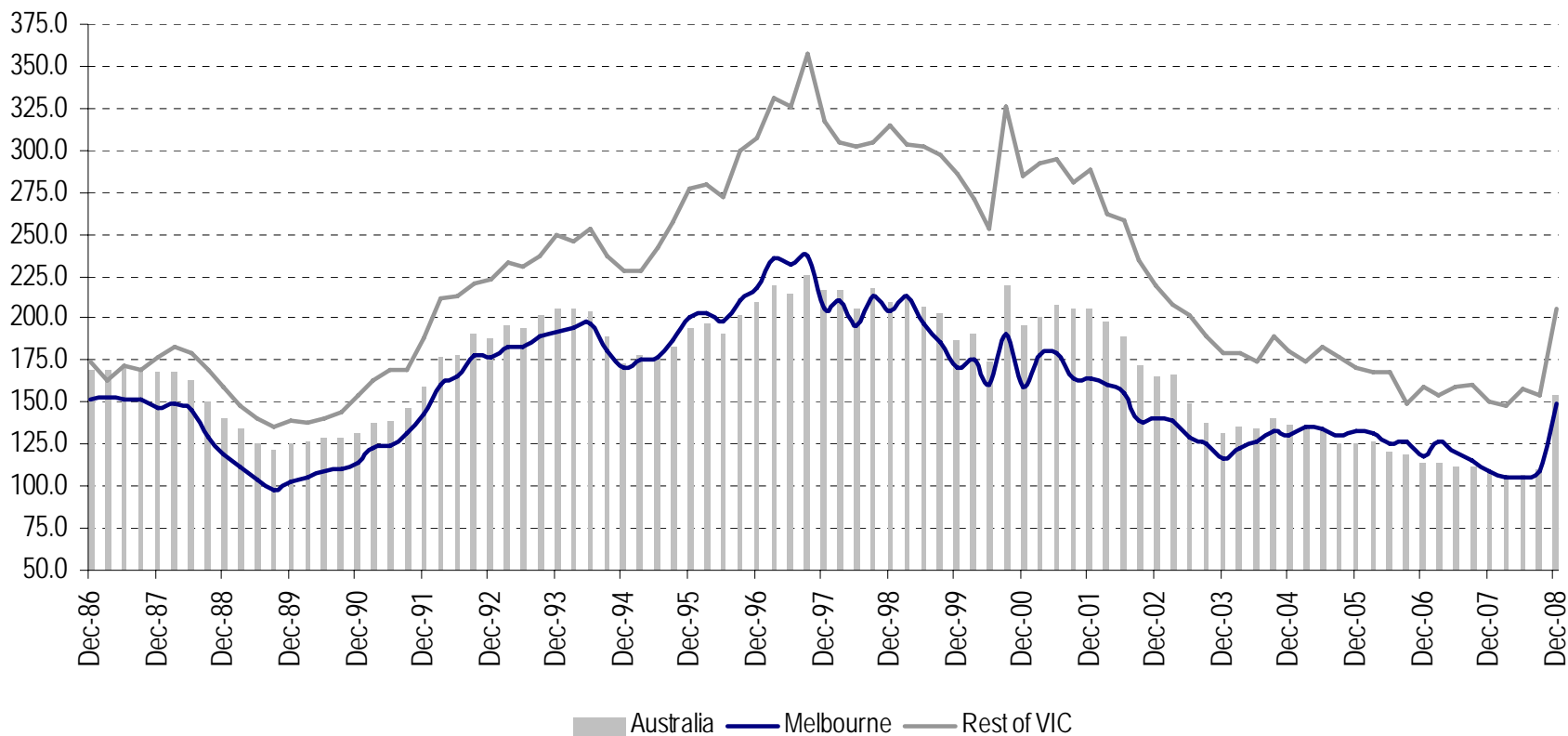
## First Home Buyers and Affordability



## Housing Affordability – big on-going improvement

### Housing Affordability in Victoria

Source: HIA Affordability Report

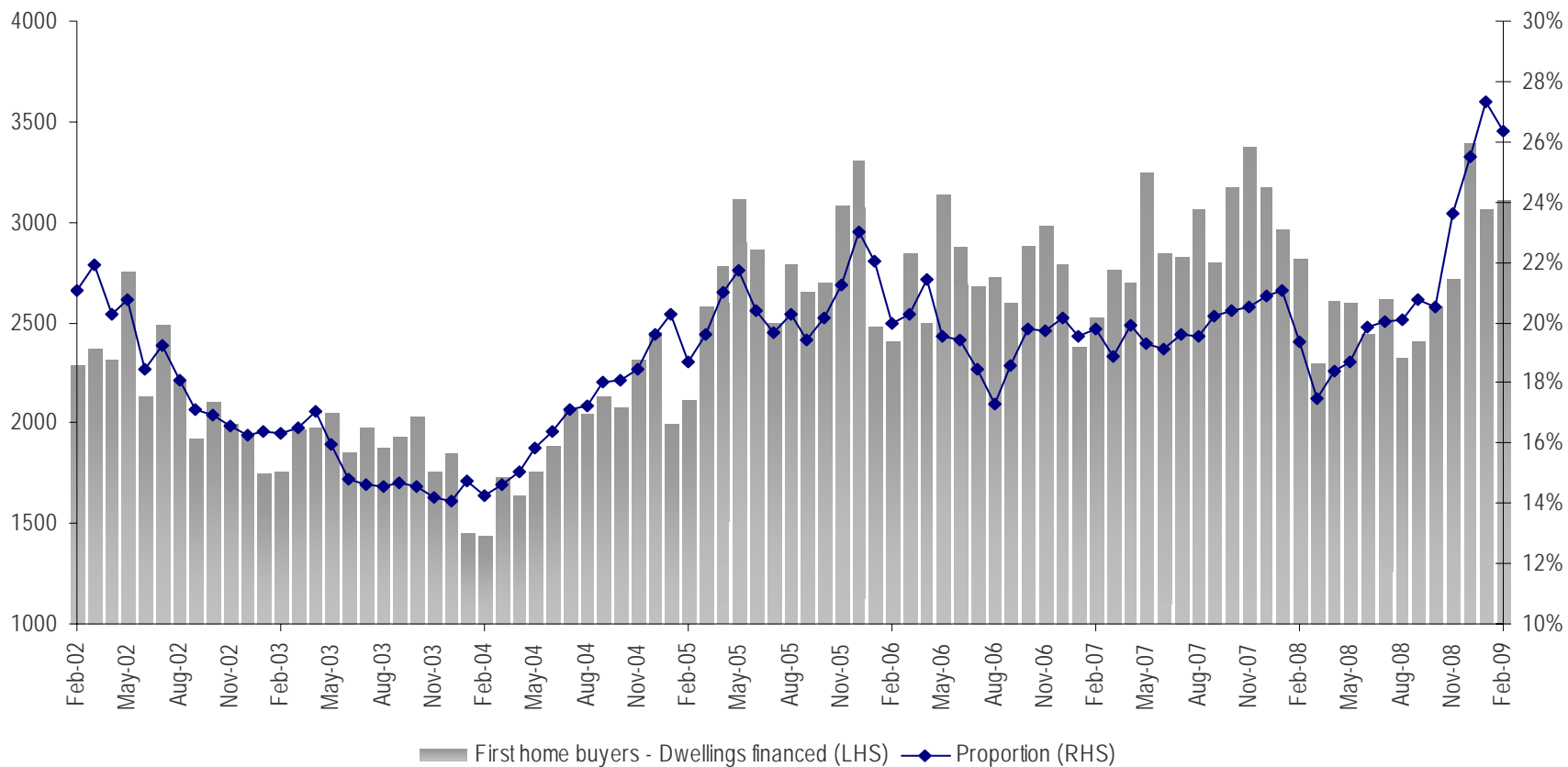




## First Home Buyer market – large increase in share

First Home Buyers – Victoria

Source: ABS Housing Finance

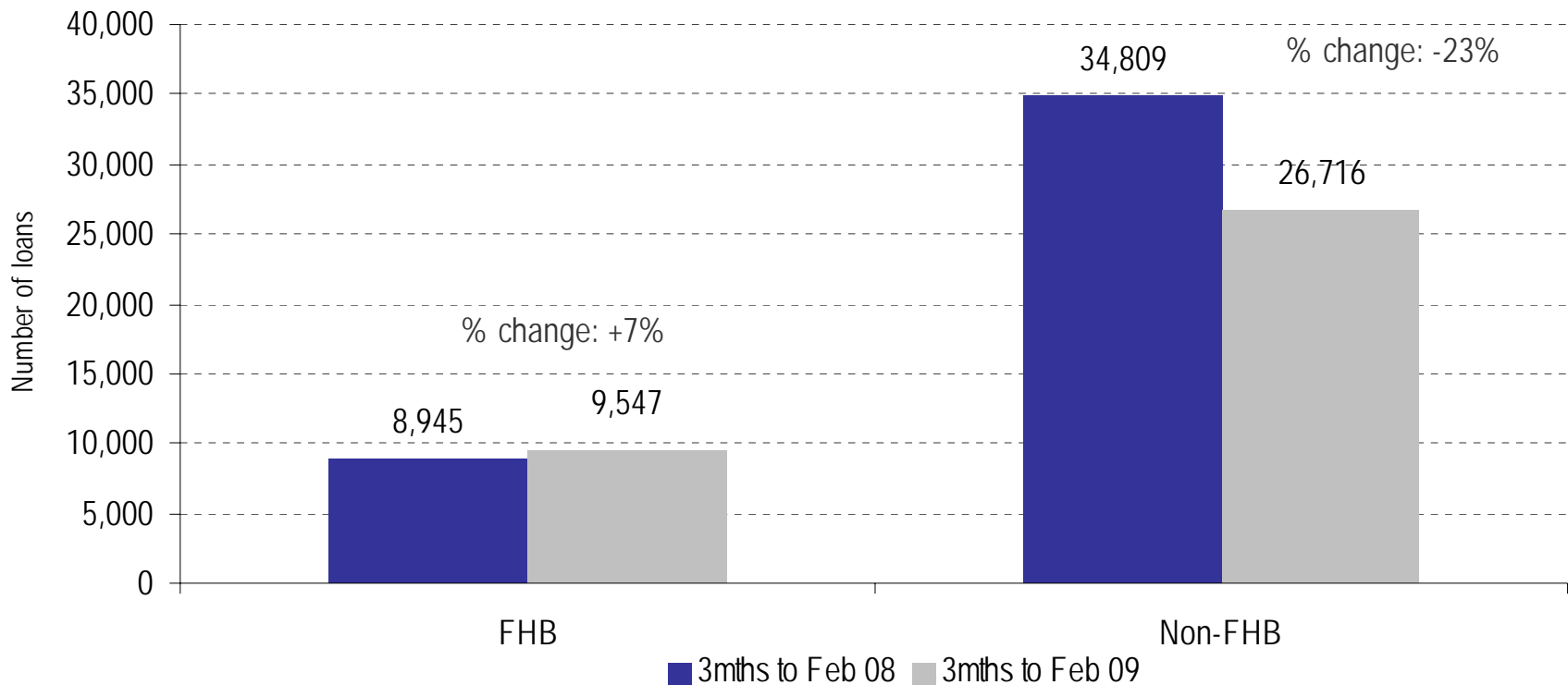




## First Home Buyer loan numbers are also on the rise but ...

### First Home Buyer versus Non-First Home Buyer Loans

Source: ABS Housing Finance



- ... Non-first home buyer numbers are still falling.



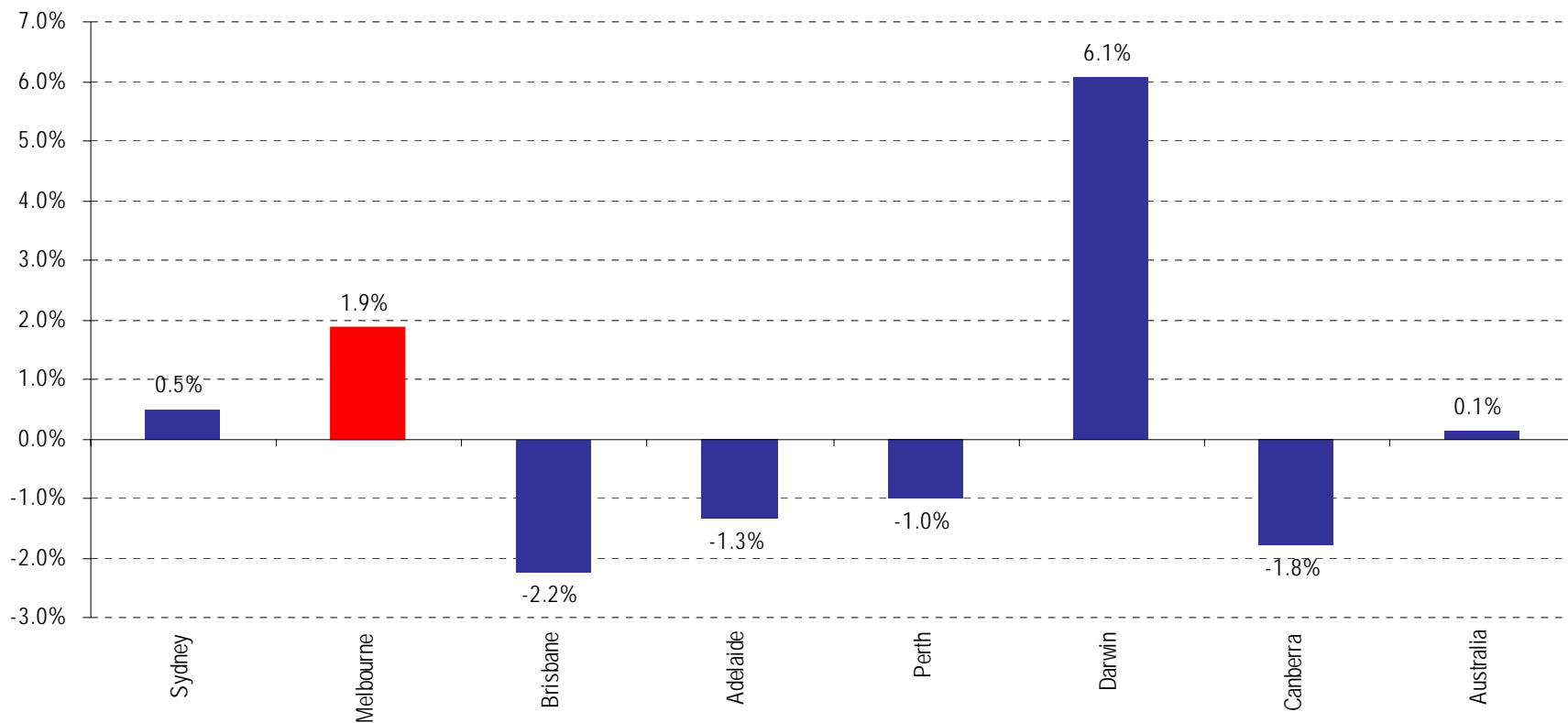
## House Prices and Residential Investment



## House Prices – doing better than in Steve Keen’s world

Quarterly change in Home values - *three months ending Feb 09 (preliminary)*

Source: RP Data, Rismark International

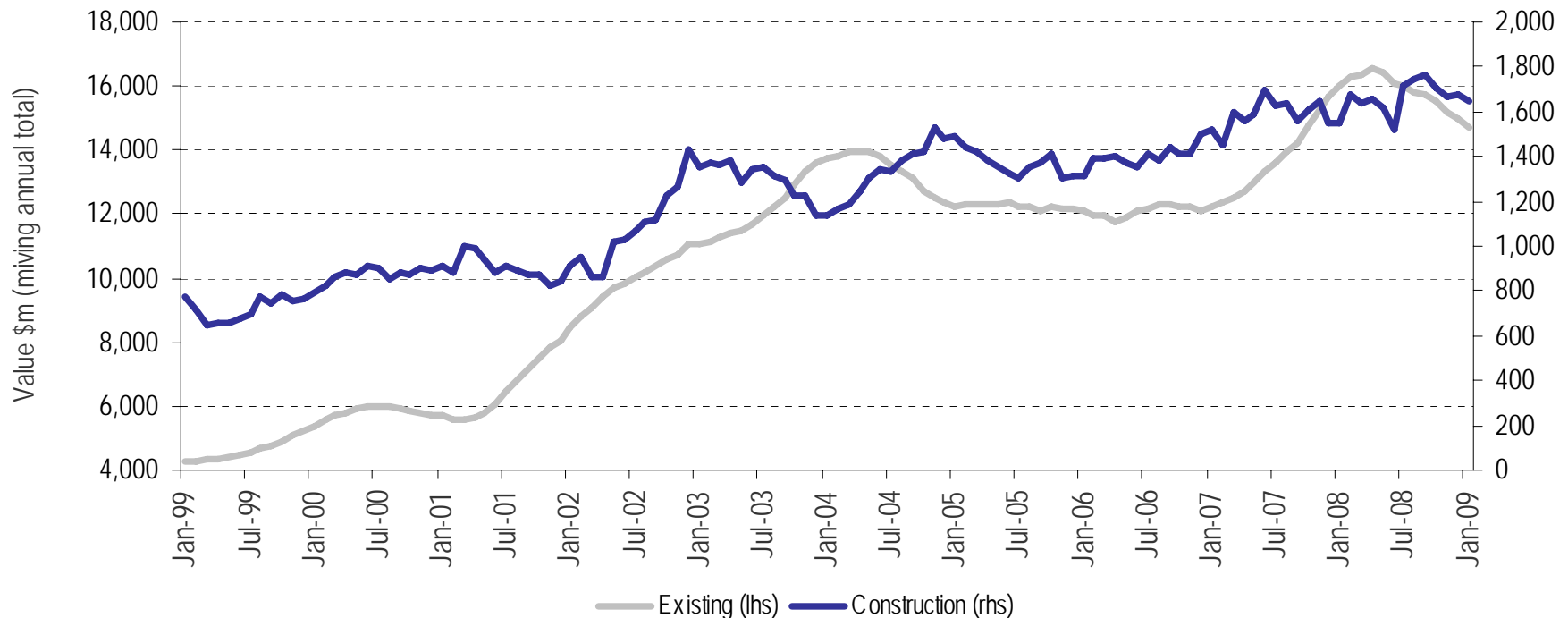




## Residential Investment is holding up better in Victoria

### Lending for Rental Properties - Victoria

Source: ABS Lending Finance



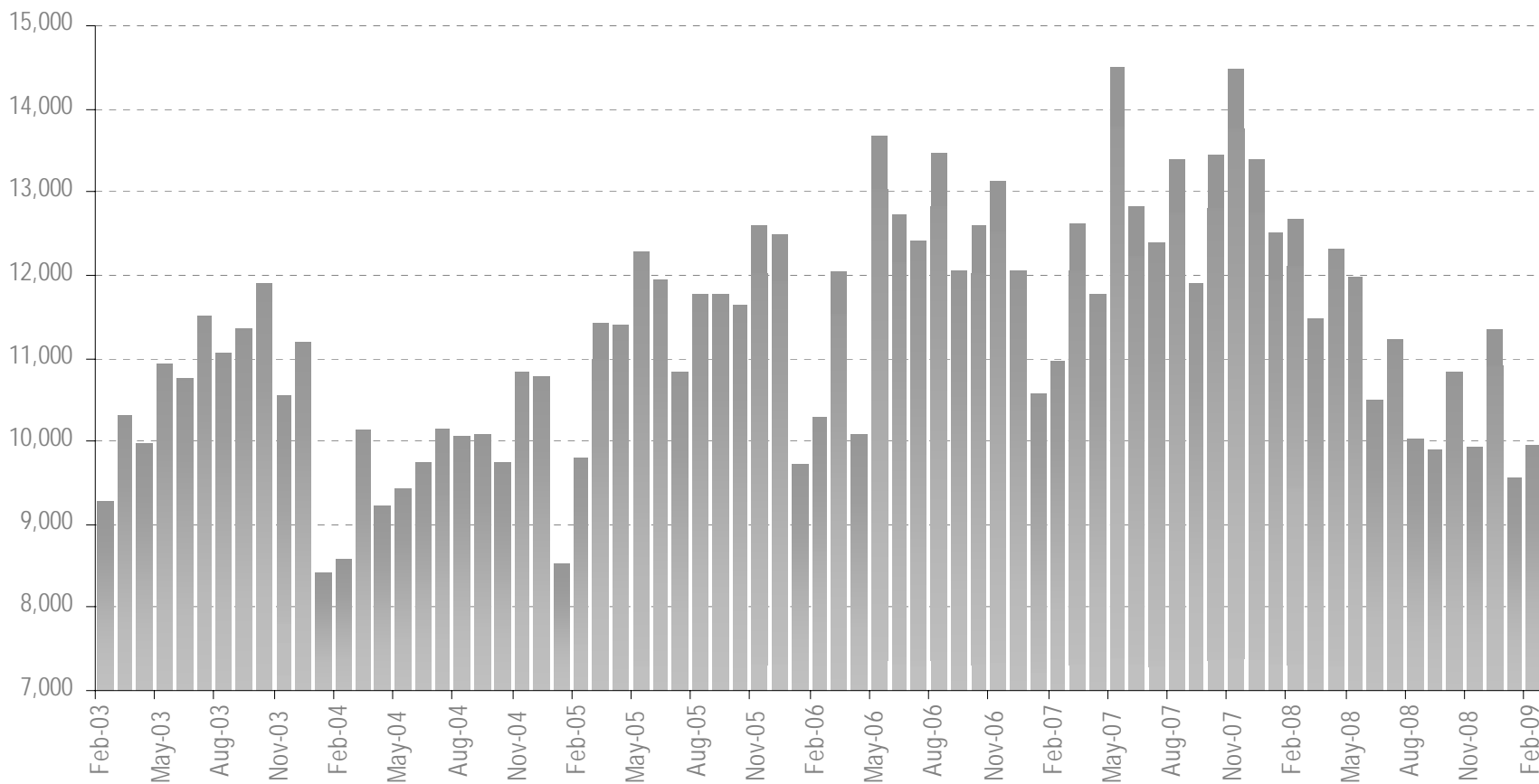
- Residential investment is an example of the right moment at the wrong time



## The established market – finding a base?

### VIC Loans for Established Dwellings

Source: ABS Housing Finance





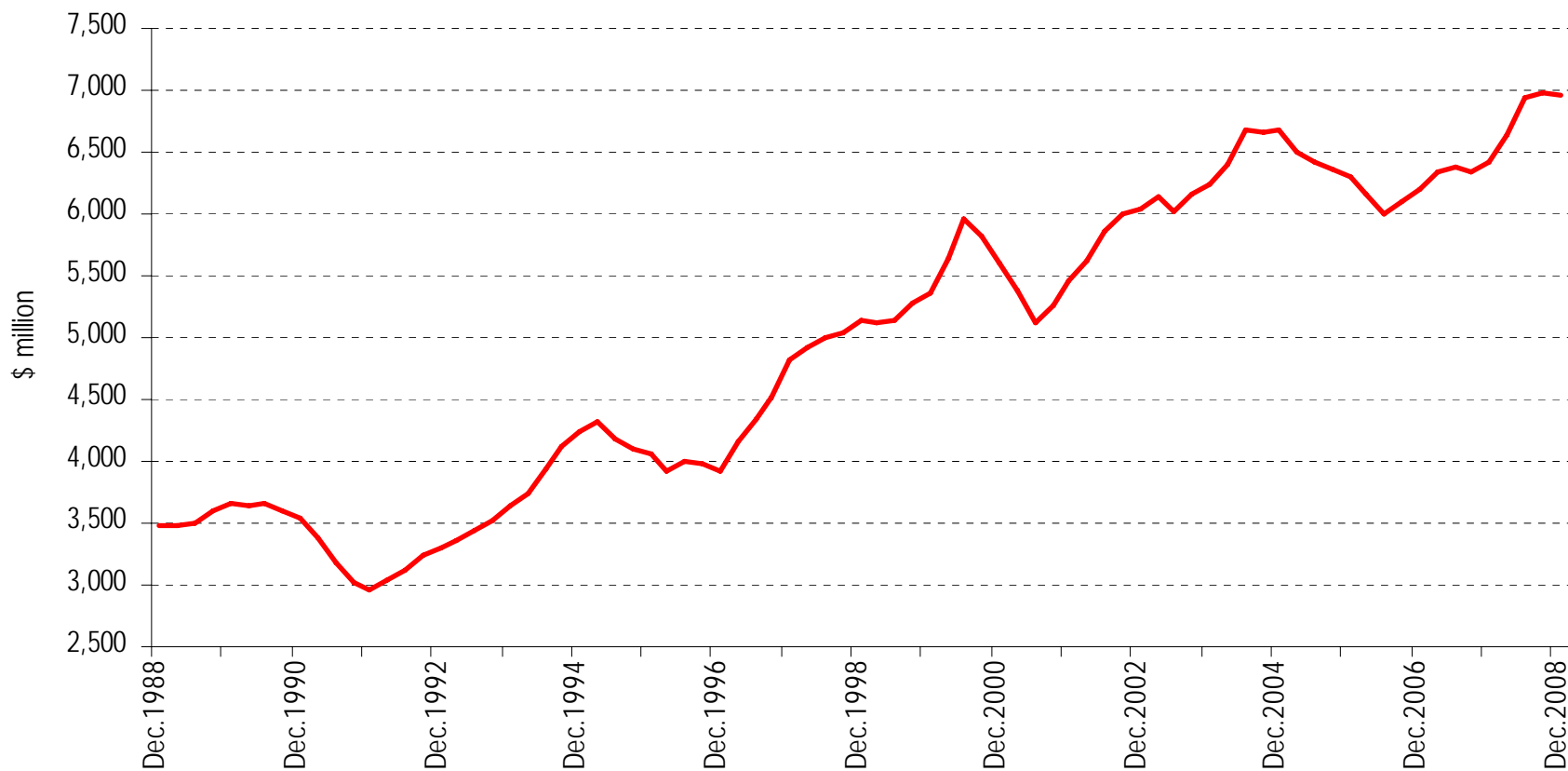
## The Renovations Market



## Renovations – holding steady

### Renovations Investment in Victoria - Moving annual total

Source: ABS State Final Demand

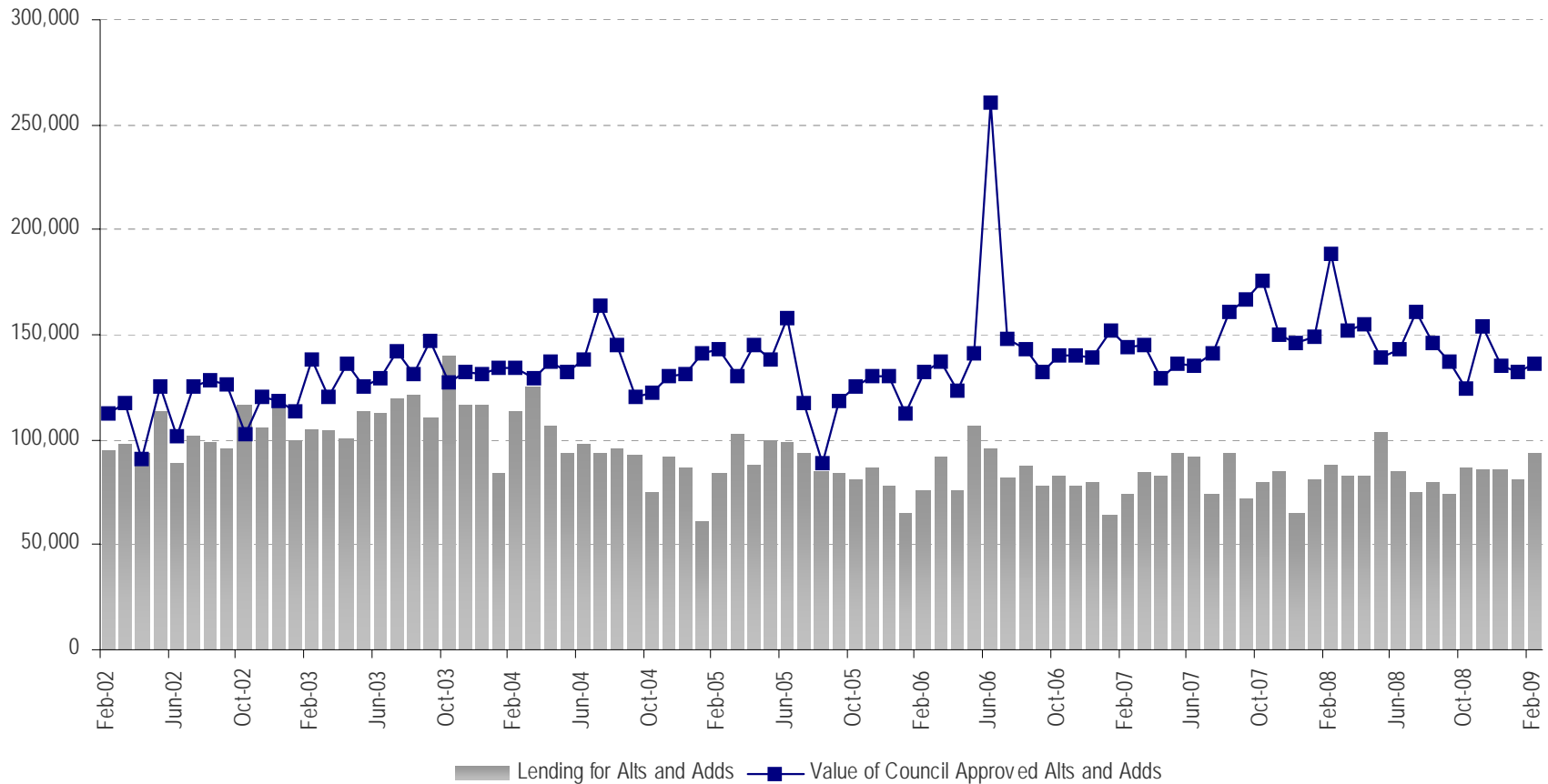




## Major renovations work is also holding up

The VIC Renovations and Additions Market

Monthly Lending and Monthly Council Approvals (\$000)





## 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
<b>% change</b>									
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

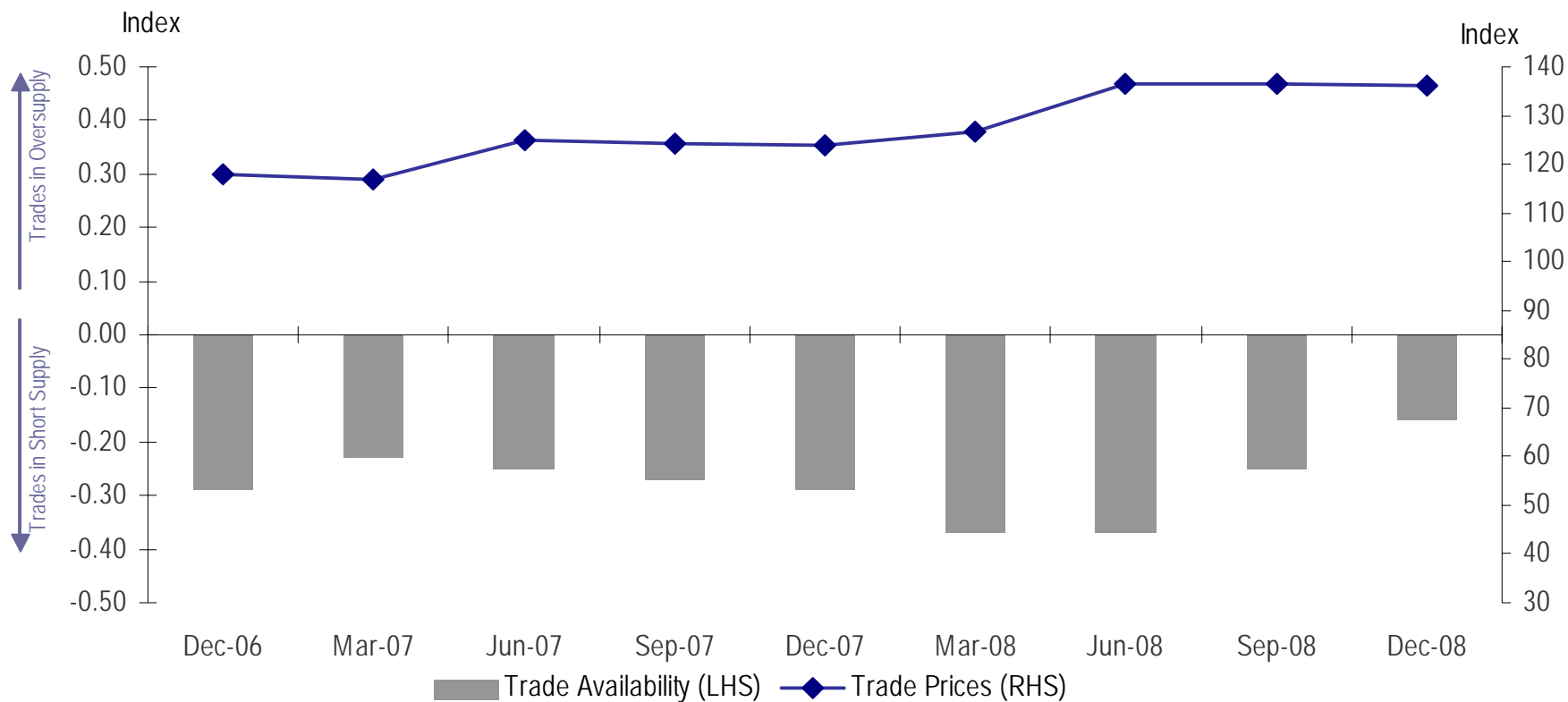
(a) = actual



## Trades – still in short supply in late 2008

### Trade Prices and Availability - Melbourne

Source: HIA-Austral Bricks Trade Report





## 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 ...
- ... Victoria has a relatively strong 'starting' position.
- Housing is the key to the short term economic outlook.



Thank You for your time this morning

**Harley Dale**

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