



WA's Housing and Economic Outlook

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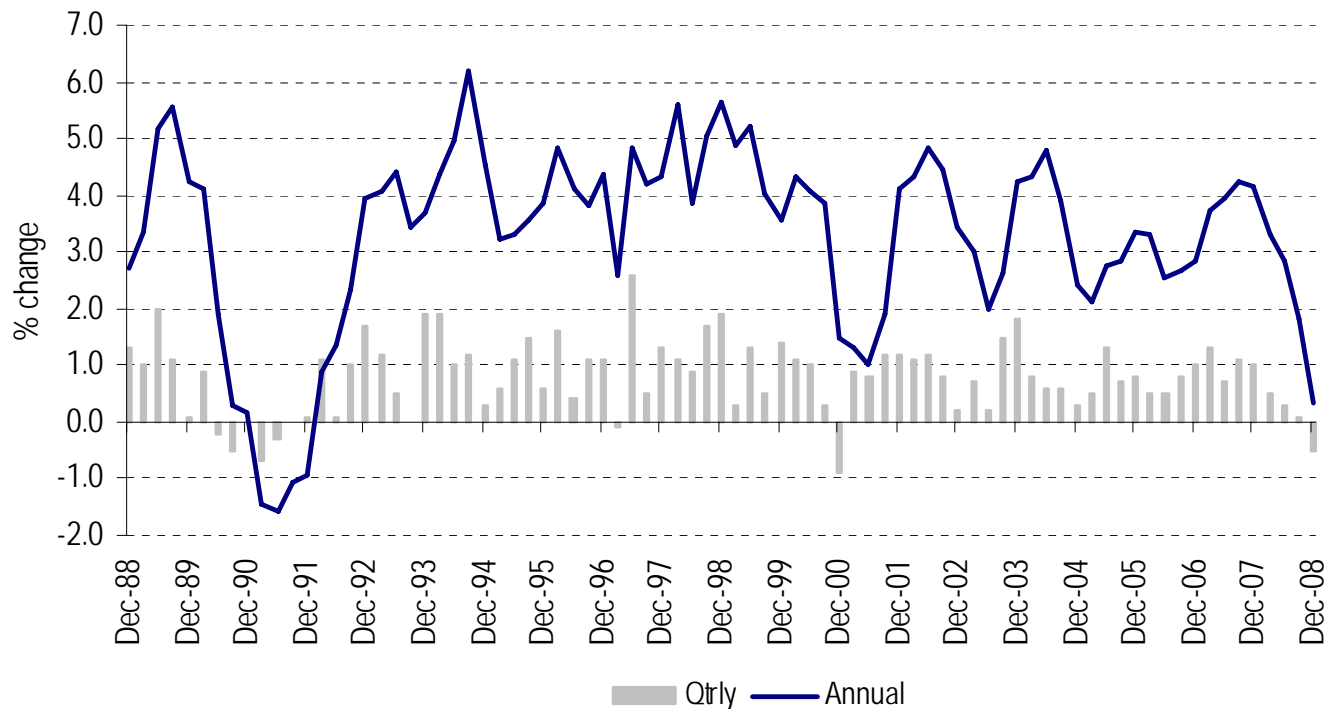
Perth
May 28 2009



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

Gross Domestic Product

Source: ABS 5206



- **Australia to almost certainly slide into a recession in 2009.**
- **Treasury expect -0.5% 2009/10, 2.25% 2010/11, 4.5% thereafter.**
- **Dec negative figure was driven mostly by firms reducing inventory.**



World Growth Prospects

Growth Forecasts 2009: then and now

	United States		World	
	IMF	Access	IMF	Access
Jan-09	-1.6%	-1.6%	0.5%	0.9%
May-09	-2.8%	-3.9%	-1.3%	-1.4%

Source: International Monetary Fund; Access Economics



Australia's 4 big challenges

- Rising unemployment.
- Low consumer and business confidence.
- Stumbling world economy – fewer exports, lower prices received.
- A lack of available finance.

Australia's big responses

- Budget policy.
- Interest rate (monetary) policy.



Federal Budget

- \$58B underlying cash deficit in 09/10, \$188B over next 4 years.
- \$22B infrastructure spend – roads, rail, ports, unis, energy efficiency
- Jobs program: boost to university sector, jobs training
- Maternity leave boost (18 weeks)
- Reduced marginal taxes for high income earners
- FHOB extended to Dec 2009 (halved in October)
- Cuts:
 - Super caps halved
 - Private health insurance rebates cut
 - Family tax breaks scaled back



February Mini-budget

- \$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.



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



1. Unemployment – the key to everything

Western Australia's Unemployment Rate

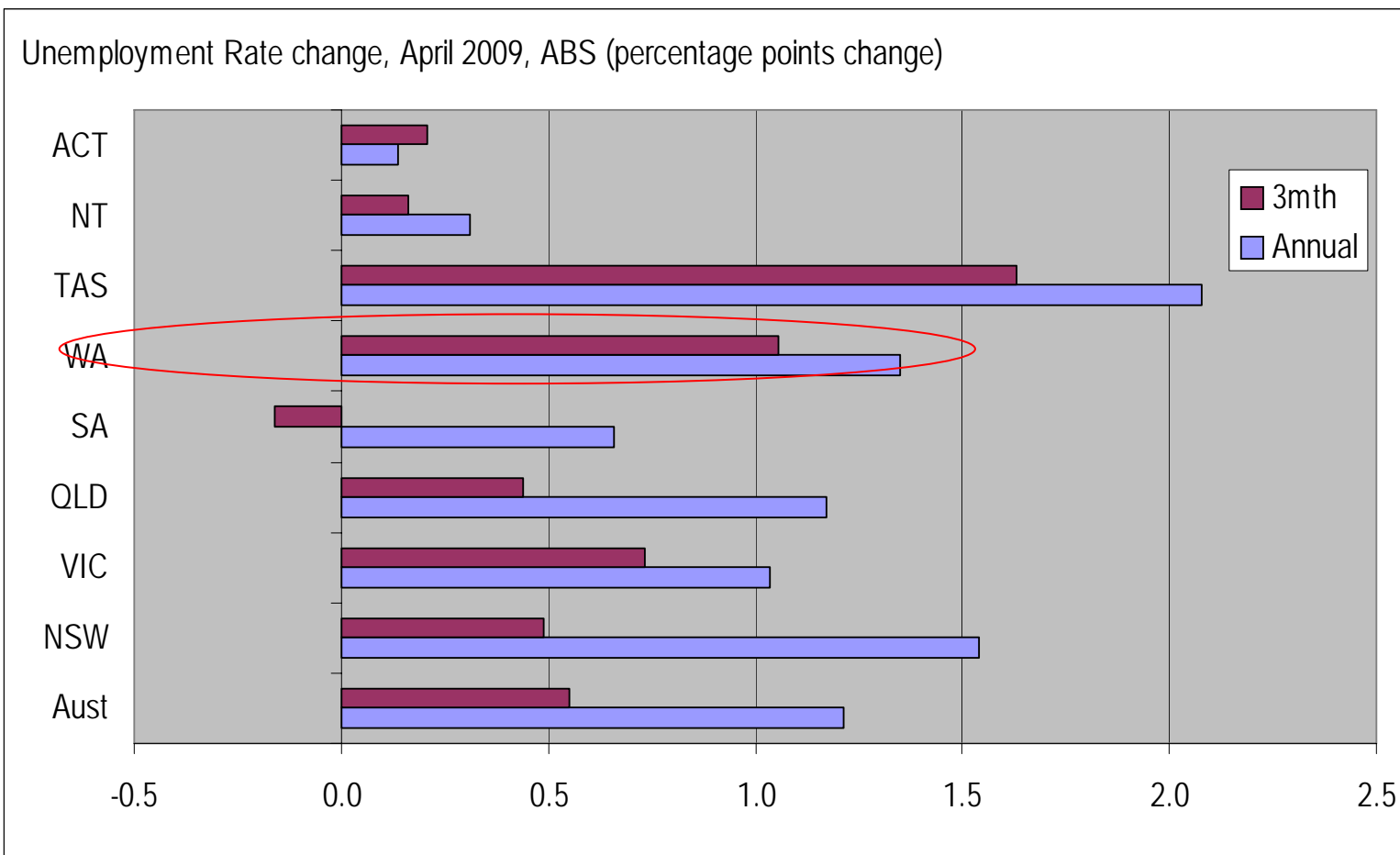
Source: ABS Labour Force



- We have a stronger starting point to the early 1990's recession.
- Treasury expects 8.25% for Australia June 2010, peaking at 8.5% - 1M unemployed.



1. Unemployment – the key to everything

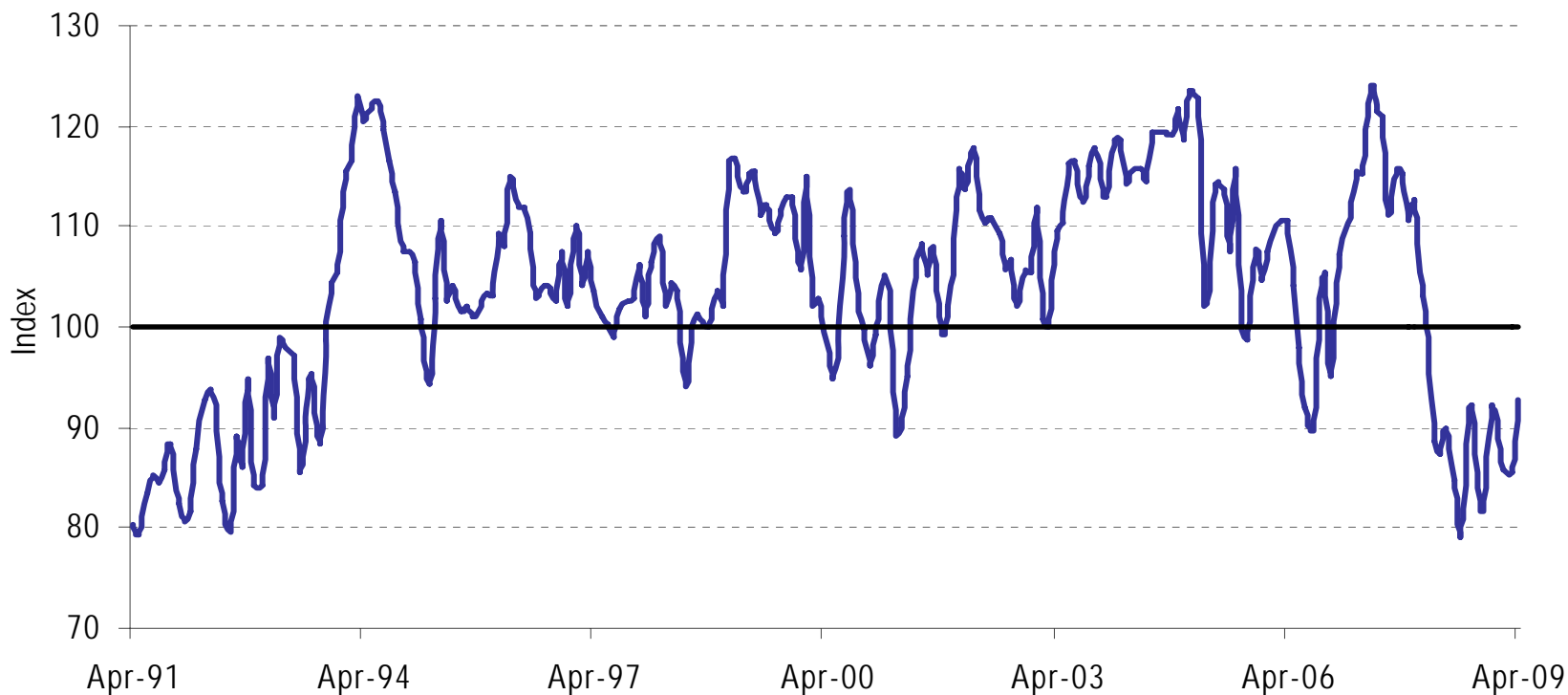




2. Consumer confidence – worried about the future but ...

Consumer Confidence

Source: Westpac-Melbourne Institute



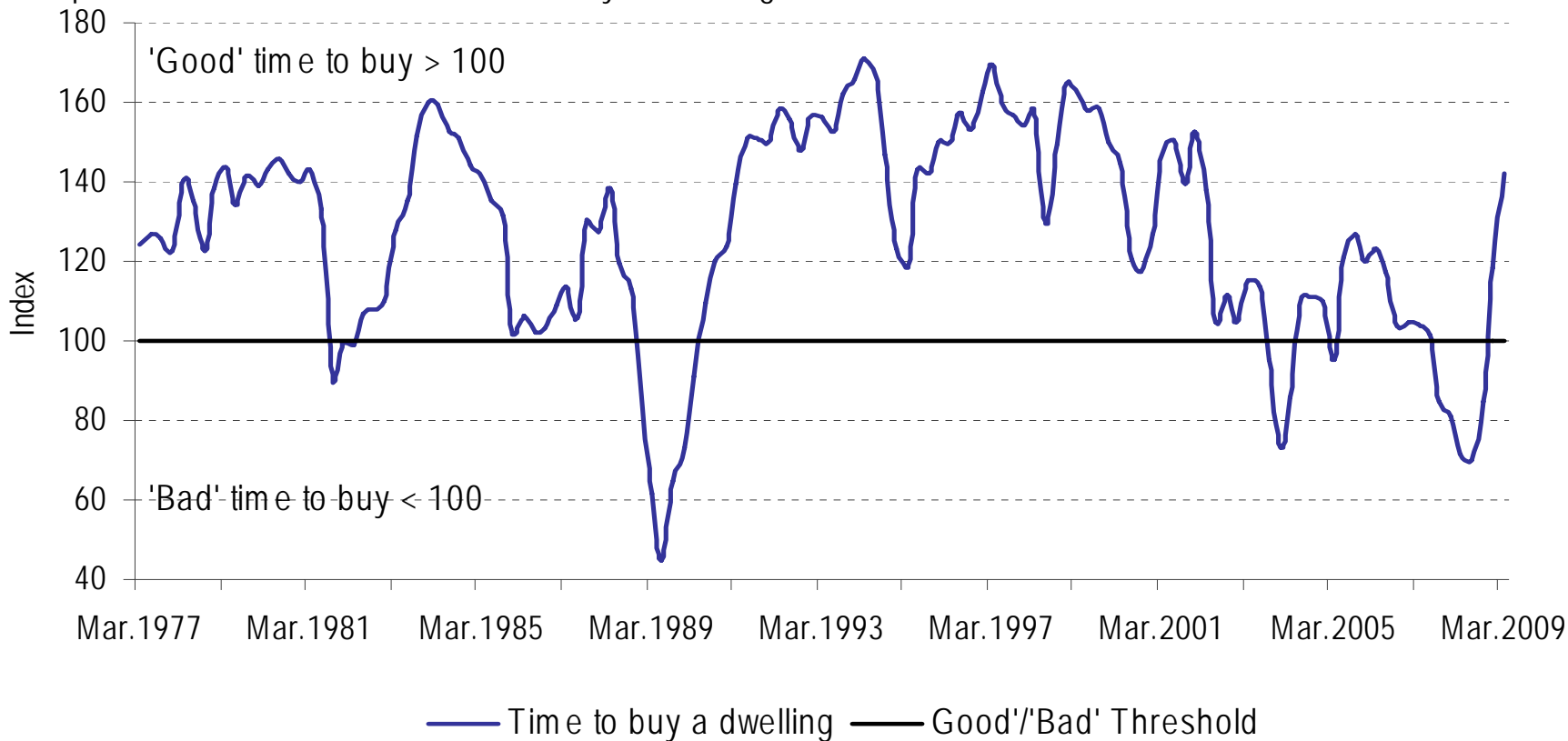
- Plus, business confidence is at or near record lows



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

Home Buying Sentiment

Westpac - Melbourne Institute Time to Buy a Dwelling Index





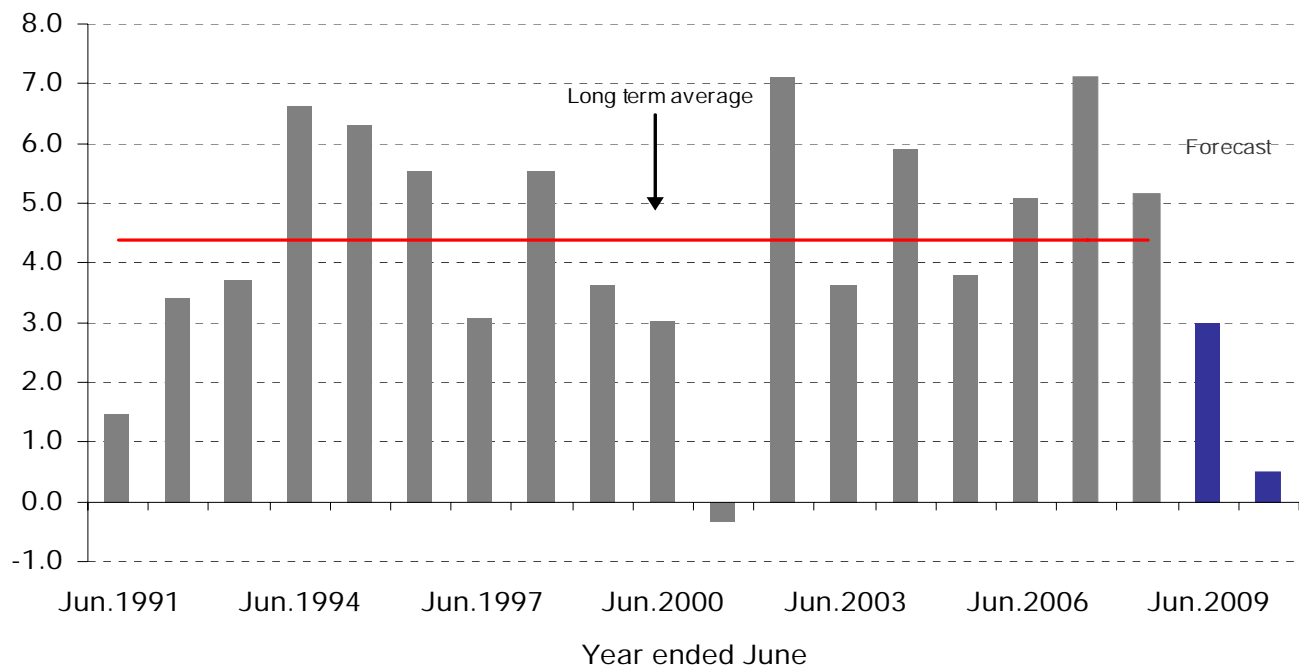
The WA State Economy and New Home Building Sector



The economy – 'above zero' would be a good result

Gross State Product - Western Australia

Source: ABS; HIA Economics Group

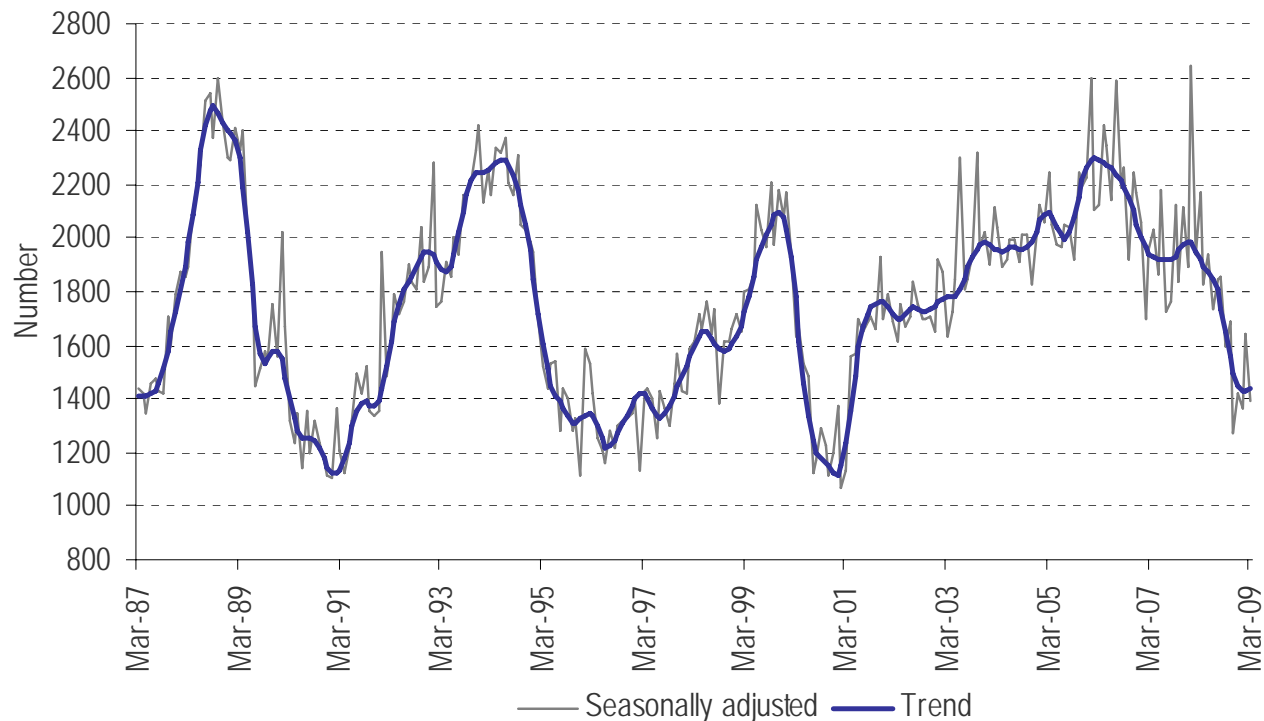




Building approvals – 2008 a bad year!

Building Approvals - WA

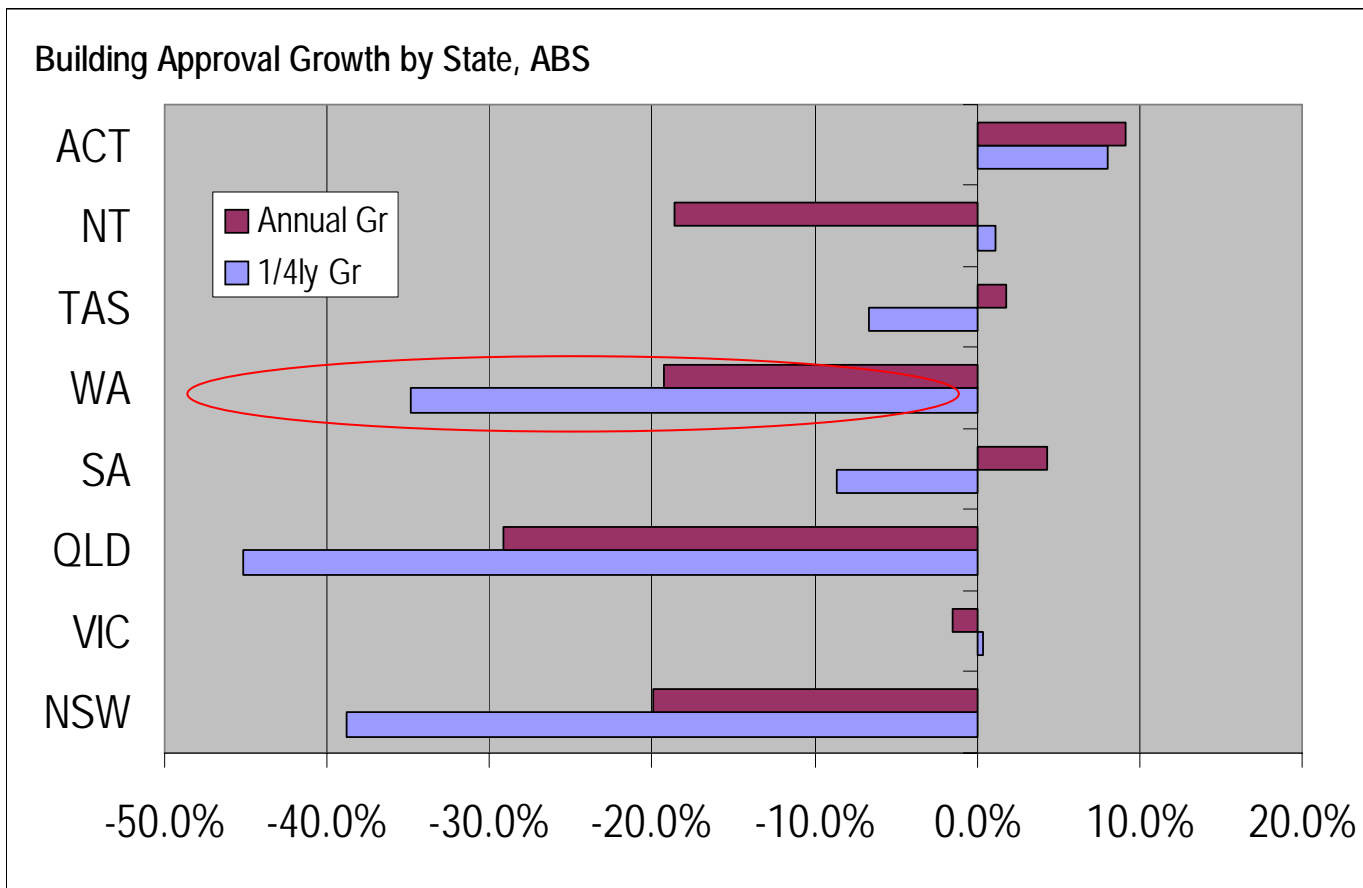
Source: ABS Building Approvals



- Building approvals have tanked badly over the past 12 months
- Tentative signs we've hit the bottom in the March quarter.



State Comparison – WA struggling!

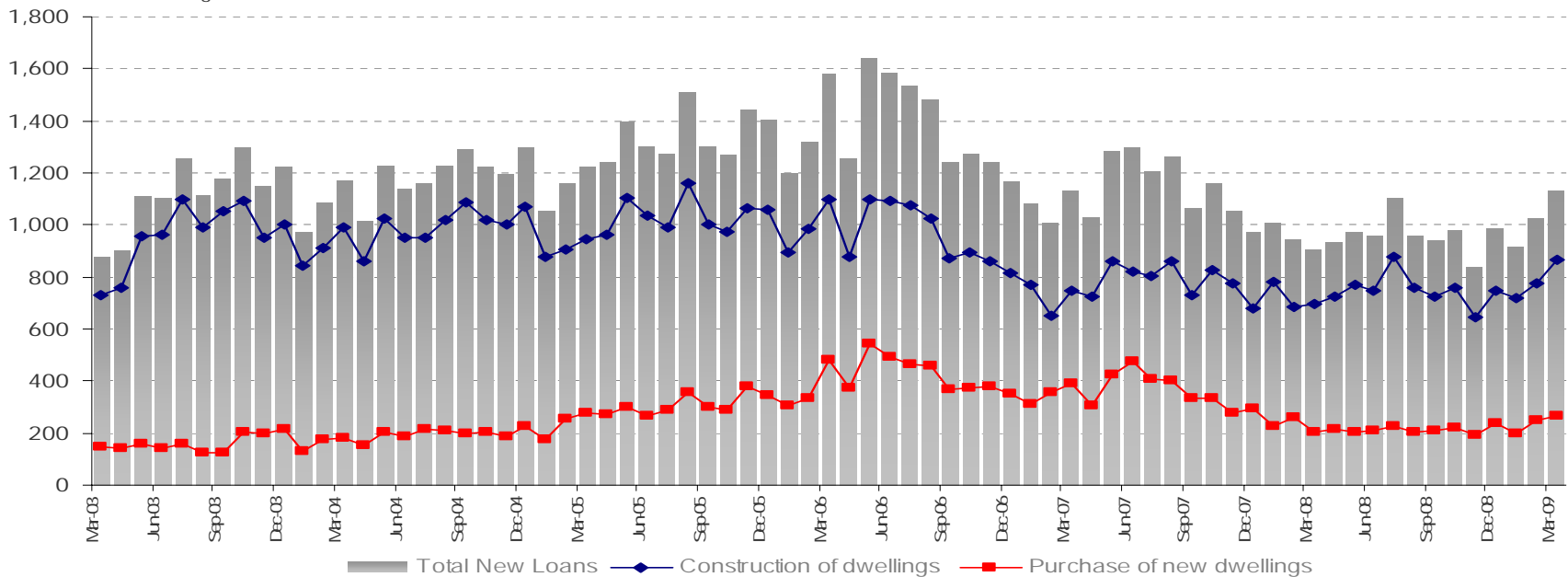




New home lending is looking quite good – suggesting improved 2009.

WA New Home Lending - Number of Loans

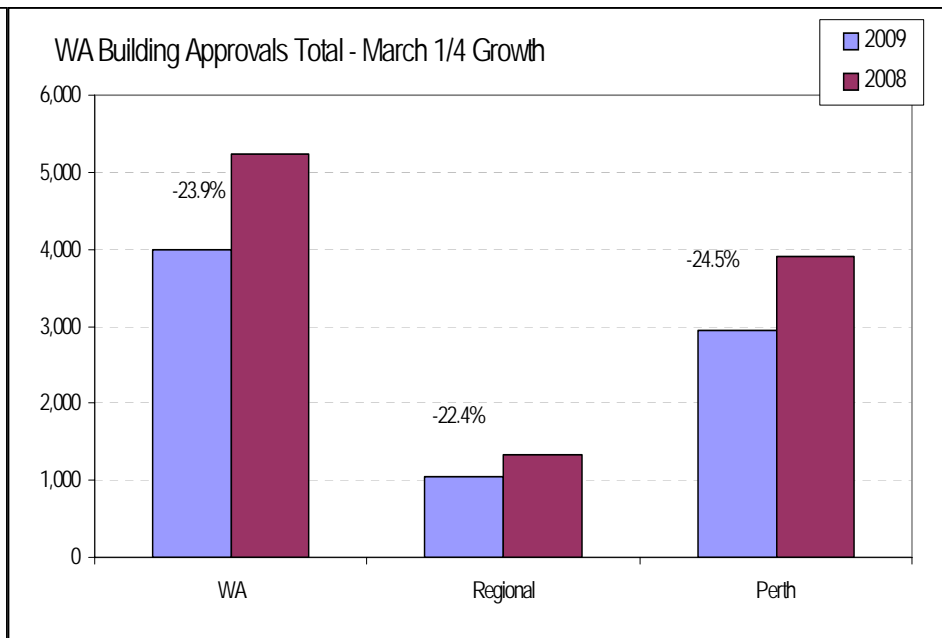
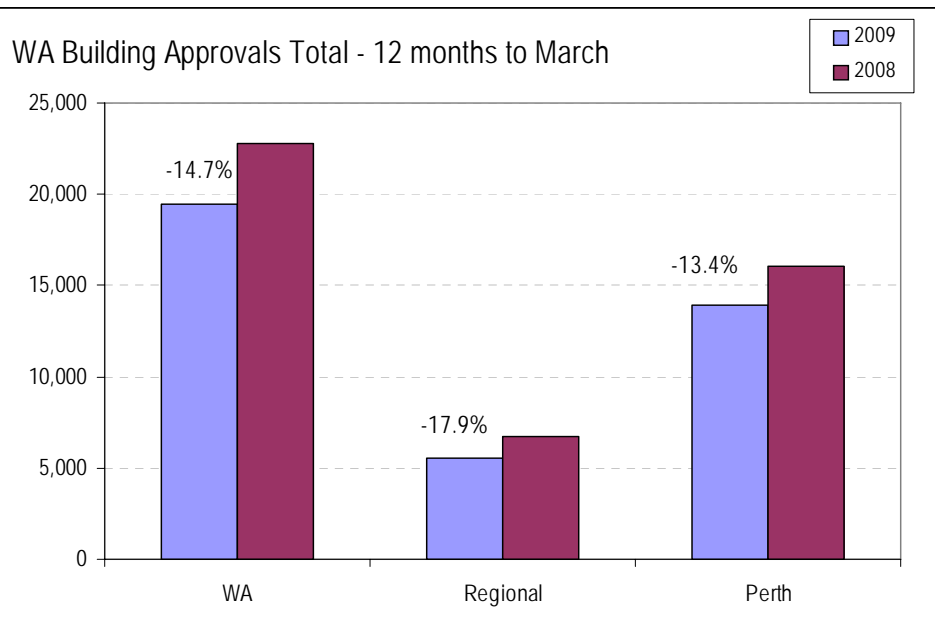
Source: ABS Housing Finance



- New home lending was up 18% over the 3 months to March 2009 and slightly better than March quarter 2008.
- It's encouraging that much of the improvement has been in construction, rather than just sales of inventory.

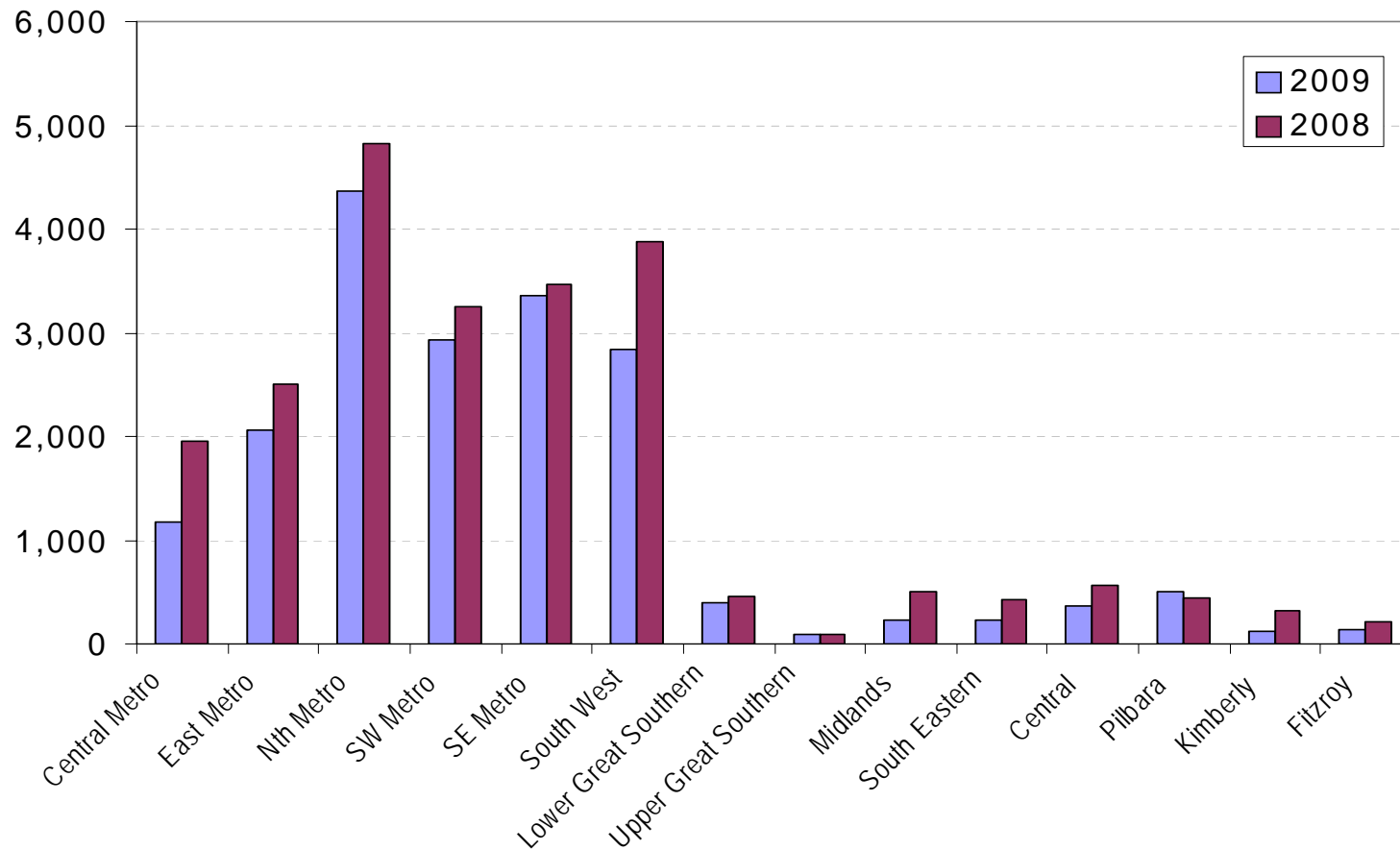


Regional Approvals Picture



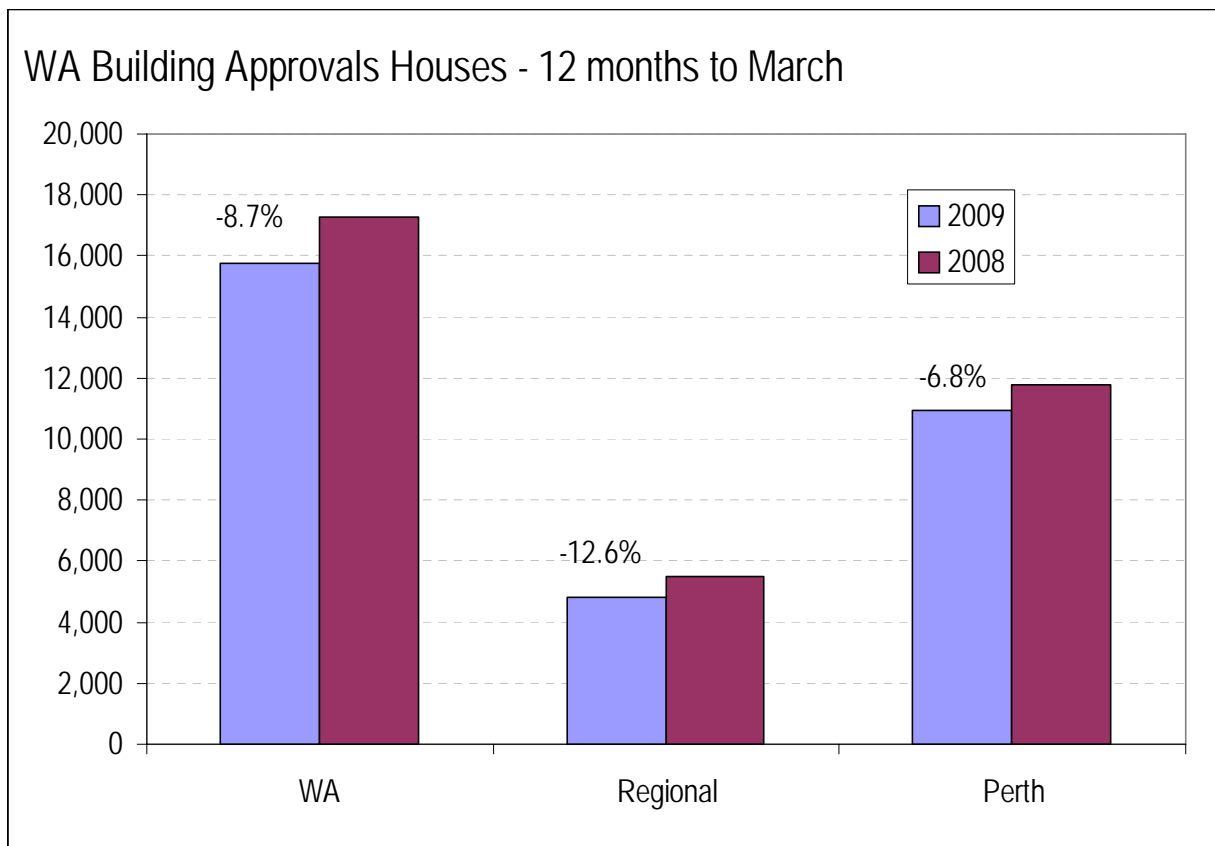


WA Building Approvals Total - regions - 12 mths to March



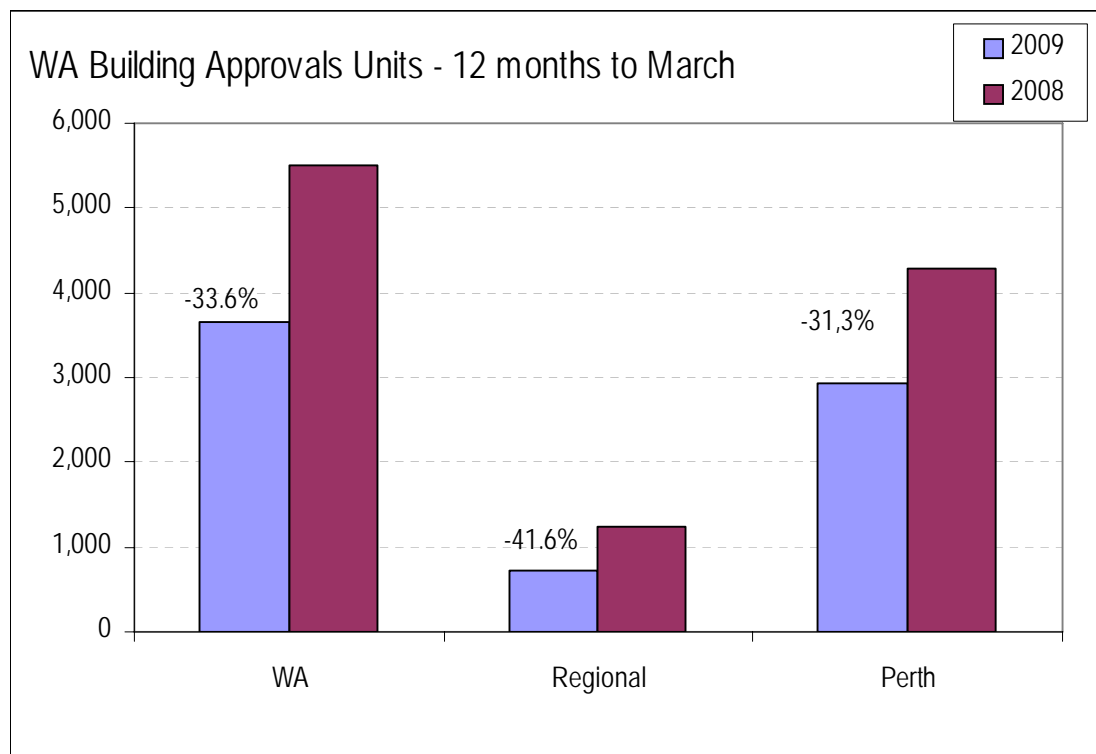


Regional Approvals - Detached





Regional Approvals - Units

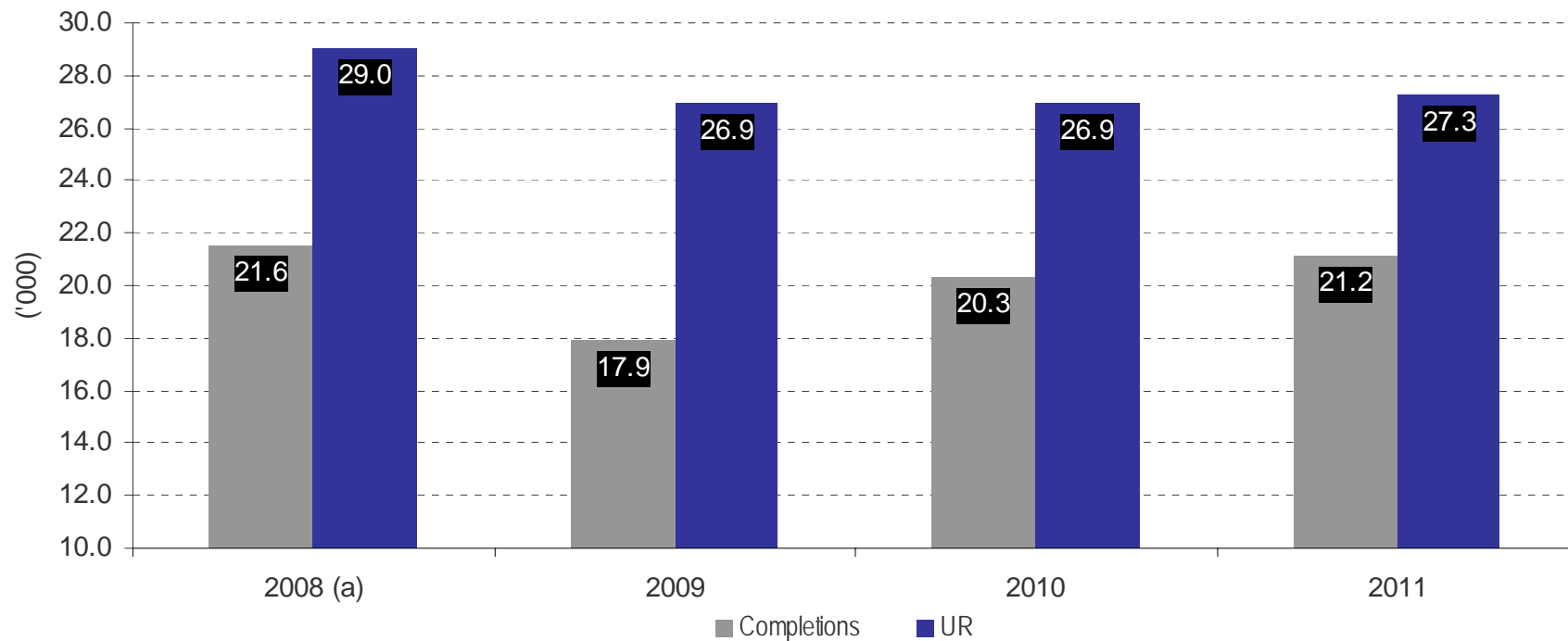




Underlying Demand

Underlying Requirement for Housing vs Dwelling Completions - WA

Source: ABS, HIA

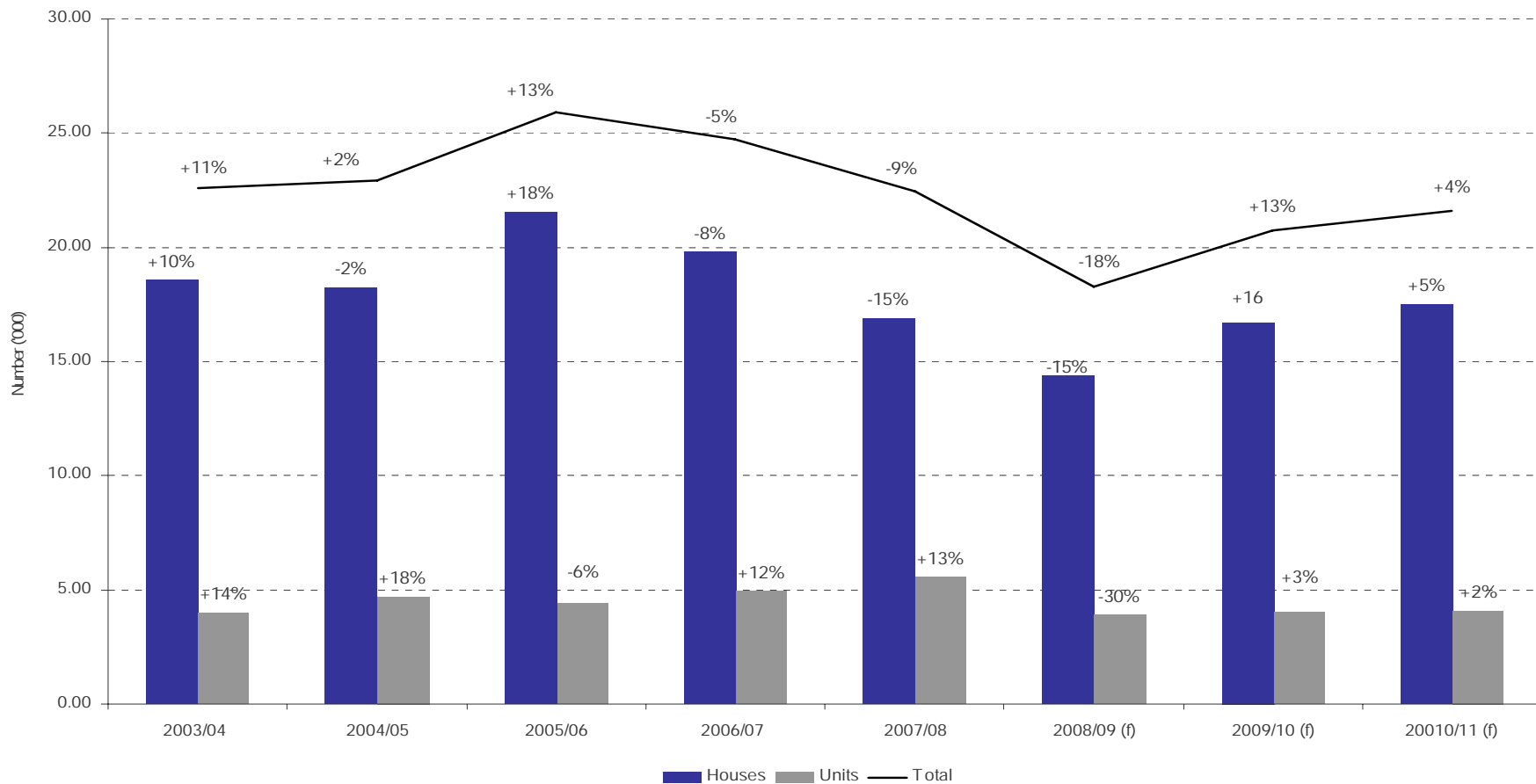




The outlook – new housing

New Housing Forecast, by Type, WA Dwelling Starts

Source: HIA Economics Group





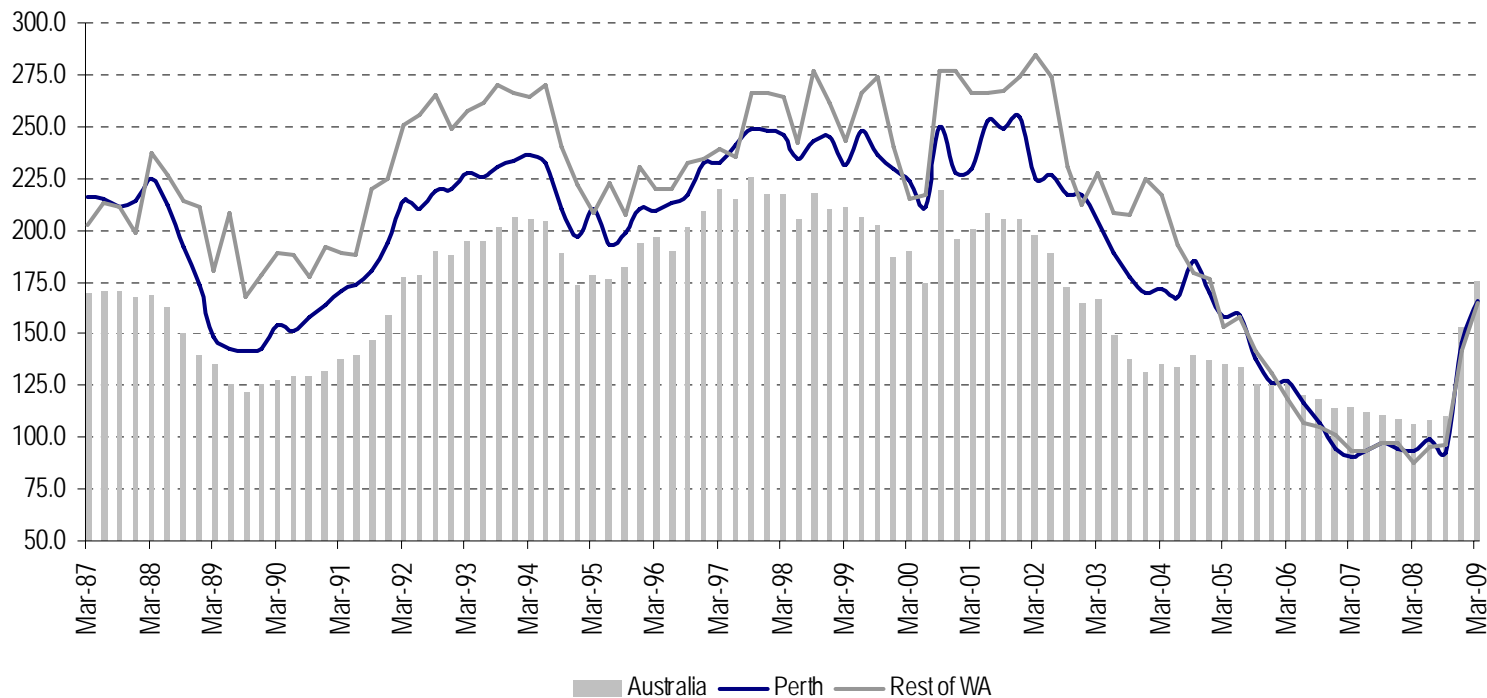
First Home Buyers and Affordability



Housing Affordability – solid on-going improvement

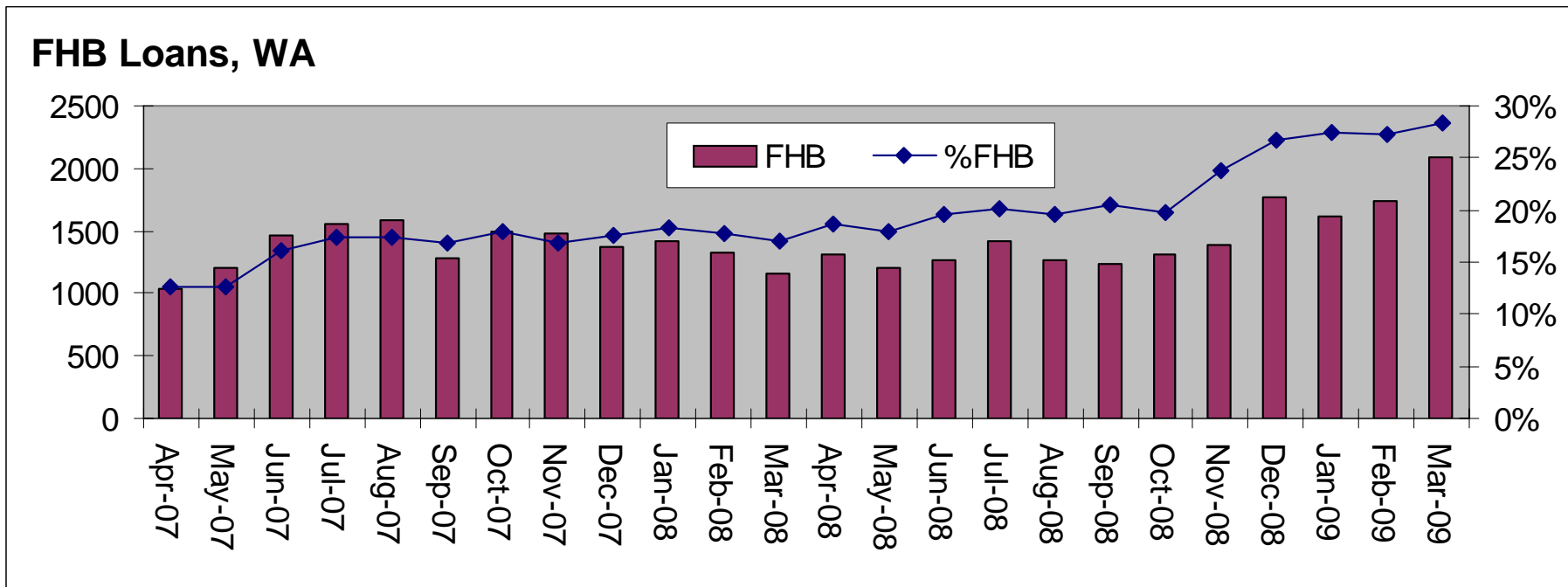
Housing Affordability in Western Australia

Source: HIA Affordability Report





First Home Buyer market – large increase in share

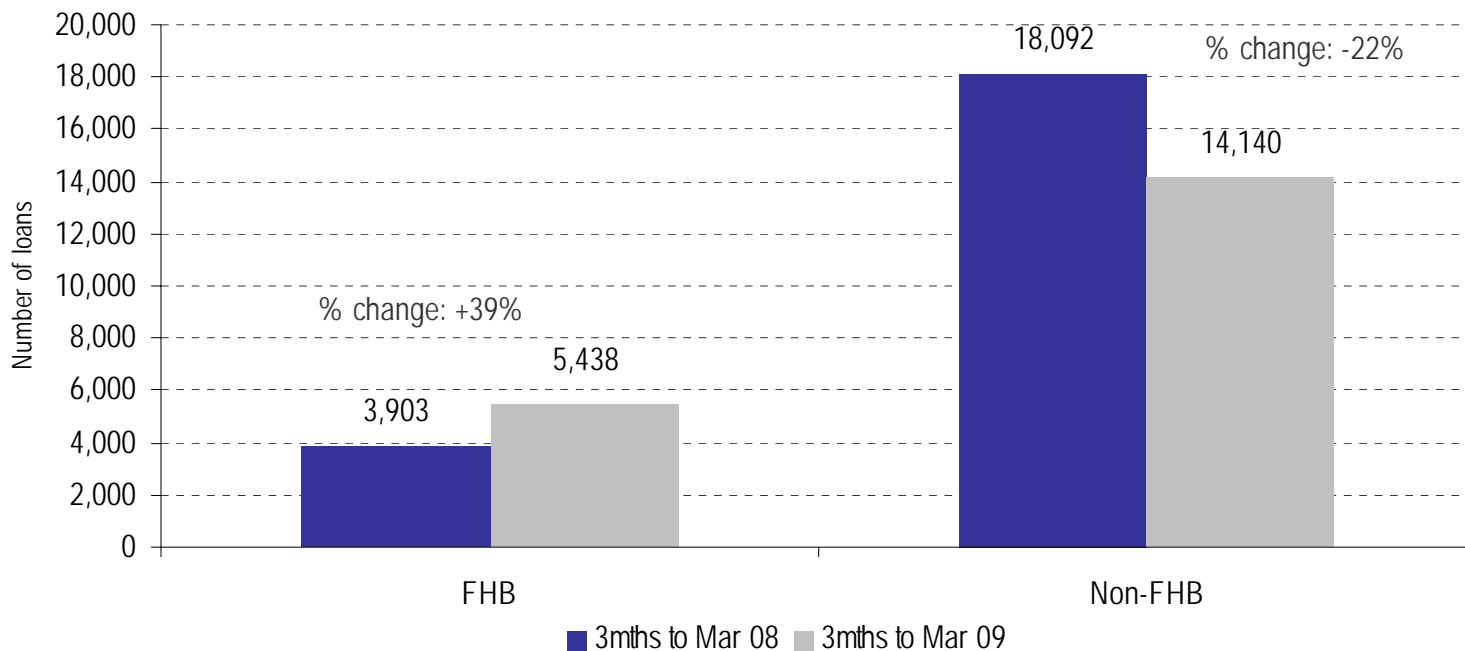




First Home Buyer loan numbers are also on the rise but ...

First Home Buyer versus Non-First Home Buyer Loans

Source: ABS Housing Finance



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



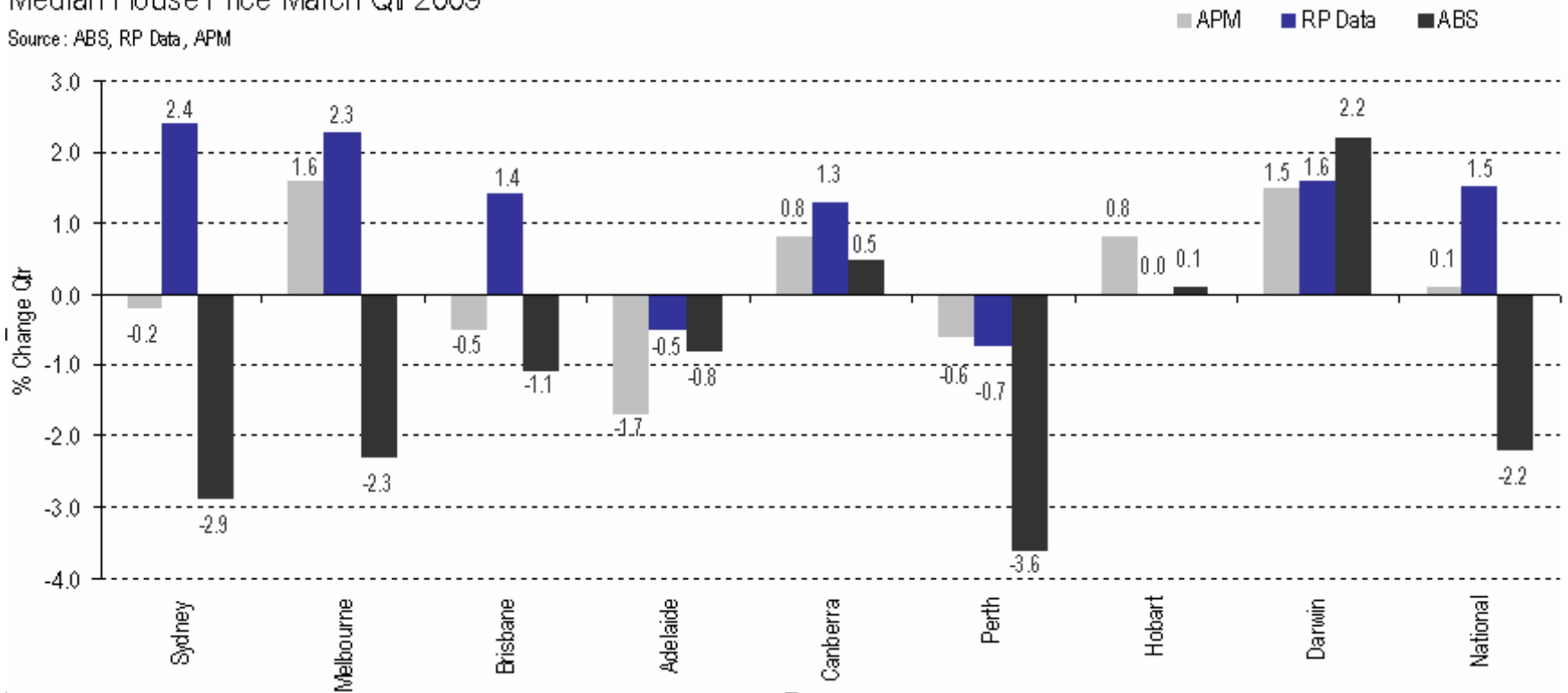
House Prices and Residential Investment

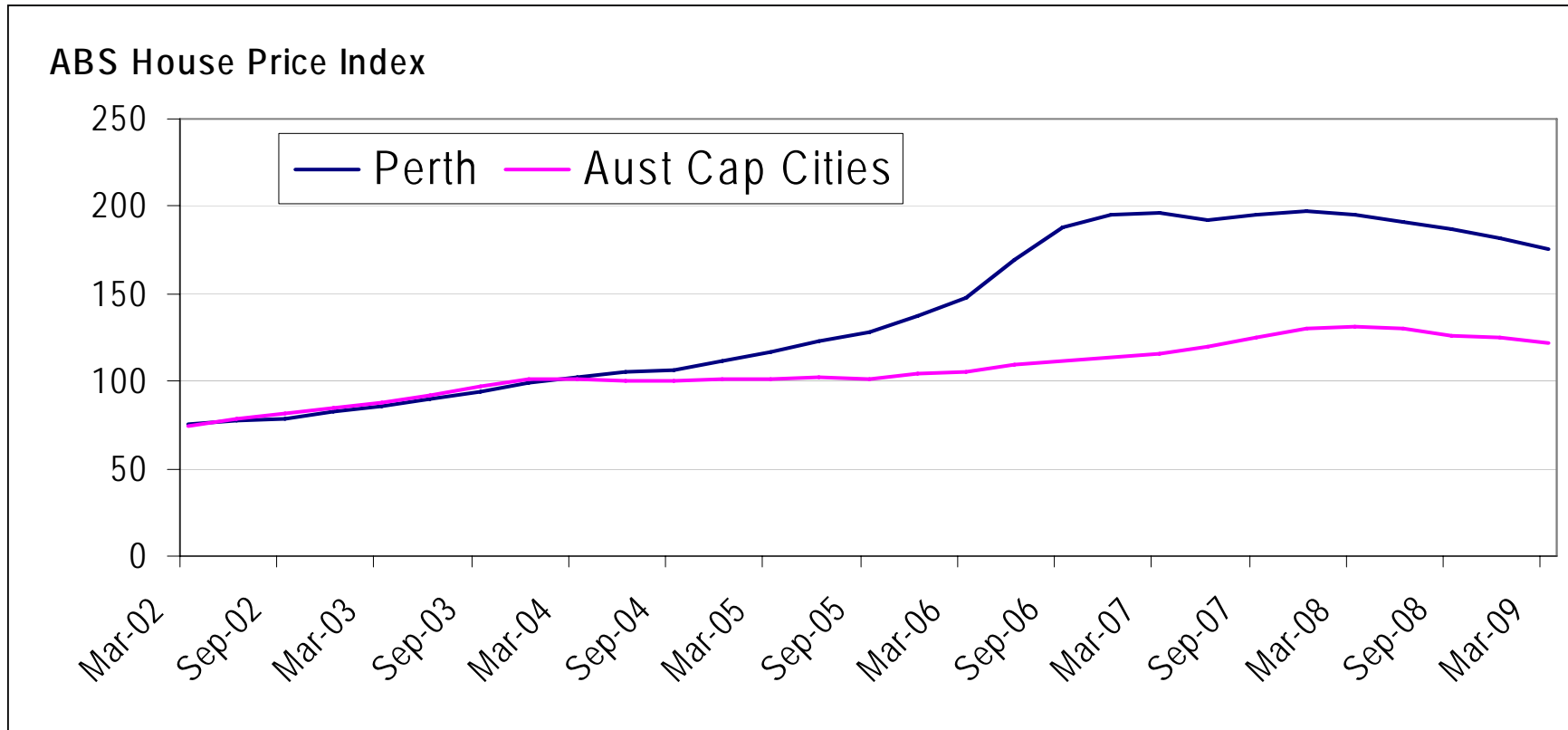


House Prices – doing better than in Steve Keens' world

Median House Price March Qtr 2009

Source: ABS, RP Data, APM





- **Perth house price growth over 7 years = 132% (Aust = 64%)**
- **Perth has dropped 10.1% over 12 mths (Aust = -6.7%)**

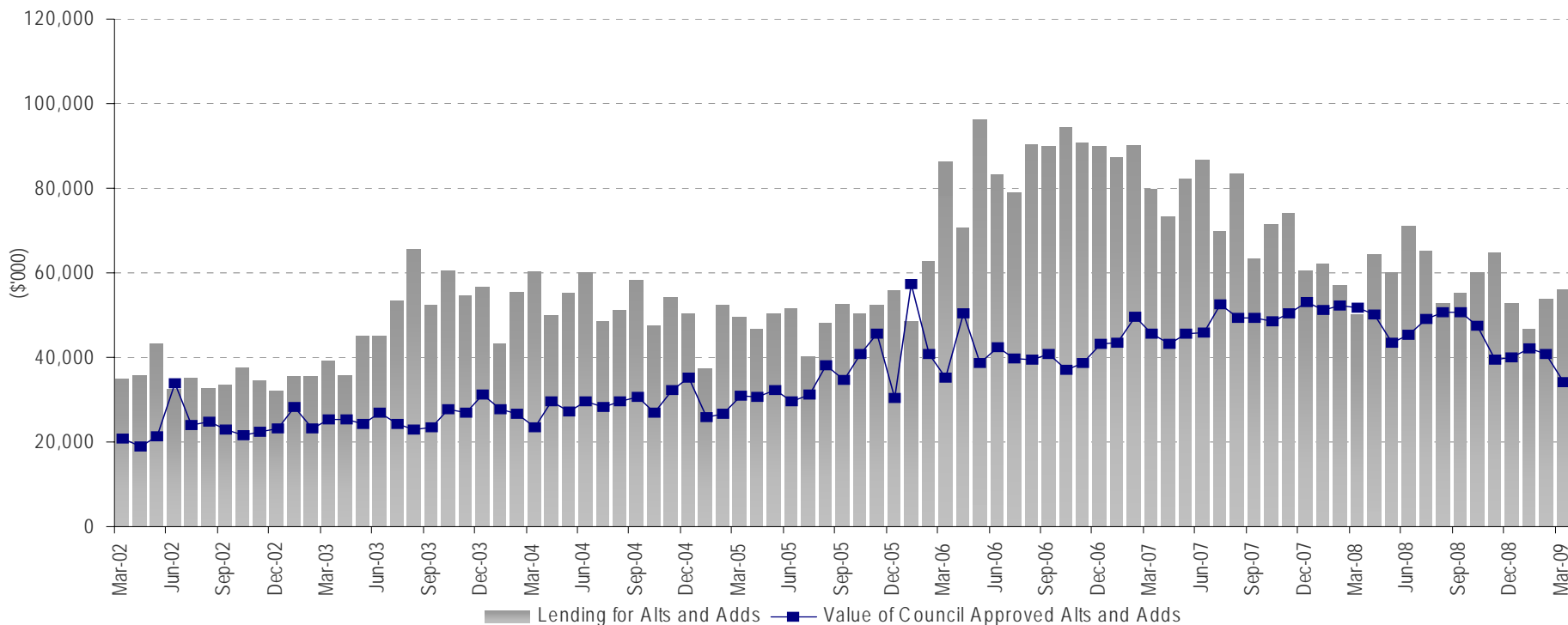


The Renovations Market



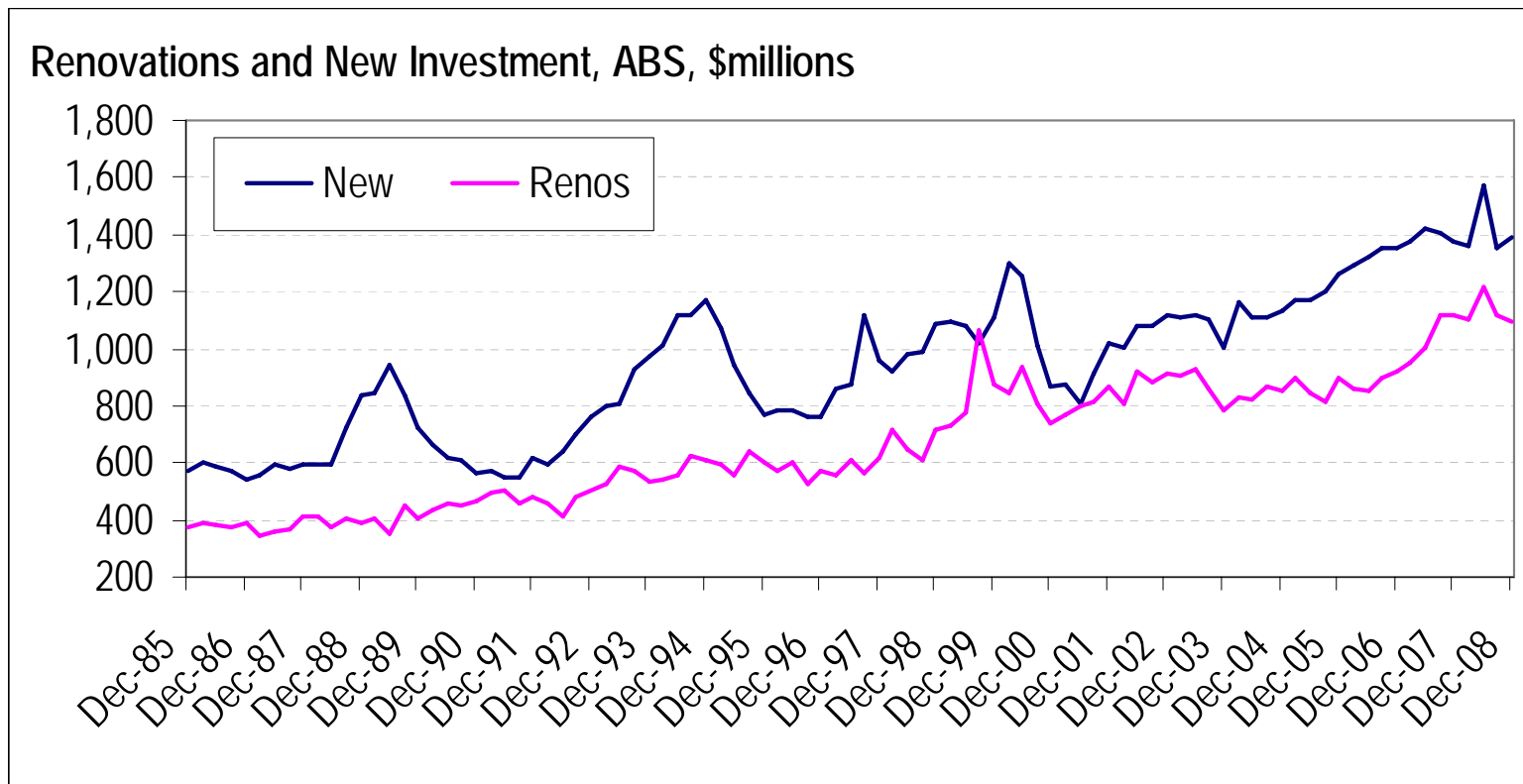
Renovations – holding steady

The WA Renovations and Additions Market
Monthly Lending and Monthly Council Approvals





Total renovations work is also holding up





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)	9,488	6,014	6,478	1,618	3,634	536	218	365	28,350
2003/04 (a)	10,104	6,688	6,334	1,978	3,291	703	202	390	29,815
2004/05 (a)	9,161	5,995	7,026	1,971	3,426	704	315	363	28,991
2005/06 (a)	9,161	5,995	7,026	1,971	3,426	704	315	363	28,991
2006/07 (a)	8,635	6,378	7,853	2,188	3,775	735	261	342	30,193
2007/08 (a)	8,612	6,932	7,542	1,876	4,560	797	203	383	30,886
2008/09	8,222	6,760	8,010	2,012	4,430	752	248	326	30,822
2009/10	8,386	6,828	8,250	2,052	4,607	767	258	326	31,475
2010/11	8,638	7,101	8,580	2,093	4,791	782	271	333	32,590
% change									
2003/04	6	11	-2	22	-9	31	-7	7	5
2004/05	-9	-10	11	0	4	0	56	-7	-3
2005/06	0	0	0	0	0	0	0	0	0
2006/07	-6	6	12	11	10	4	-17	-6	4
2007/08	0	9	-4	-14	21	8	-22	12	2
2008/09	-5	-2	6	7	-3	-6	22	-15	0
2009/10	2	1	3	2	4	2	4	0	2
2010/11	3	4	4	2	4	2	5	2	4

(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.
- Australia will move into recession in 2009 and the WA economy will slow significantly over 2009 and 2010 as export demand and private investment (particularly commercial construction) winds down.
- 2008/09 has been tough for WA housing but the stimulus in the system and the long term fundamentals will pull the industry back up.
- ... WA has solid enough long term fundamentals to rise above the current lull in housing activity – In the long term, following China is a good thing!
- Housing is important to the short term economic outlook.



Thank You for your time this morning

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