

THE BIG PICTURE FOR THE AUSTRALIAN RESIDENTIAL PROPERTY MARKET

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SYNOPSIS:

For most of the past decade, it's been suggested that the Australian residential property market has been displaying many of the characteristics of a 'bubble' – an unsustainable upward trend in prices that has (so the argument runs) gone way beyond anything that could be justified by reference to 'fundamentals' and which therefore must end in a 'bust' of some kind, entailing plummeting prices, widespread defaults, bankruptcies and sundry other forms of distress. The boom-bust cycles experienced in other countries (such as the US, Spain and Ireland) in recent years have served only to re-inforce the conviction of those who argue that it's only a matter of time before the same experiences are repeated in Australia. And more recently still, the 'end is nigh' school have pointed to the downward revisions to previous estimates of population growth emerging from the 2011 Census as debunking the notion that Australia has a 'shortage' of housing relative to the underlying demand for it.

This presentation will argue that Australia's housing market experience has been very different from that of countries which have experienced boom-and-bust cycles over the past decade (and has instead been in some respects more akin to that of the UK). While Australia's population growth has accelerated over the past decade – albeit perhaps not quite as dramatically as pre-Census estimates had implied – there has been no increase in the rate at which the stock of dwellings has grown (unlike the US, Spain or Ireland), and indeed more recently the rate of new dwelling completions has fallen sharply.

The presentation will also argue that the distribution and structure of Australian household debt is quite different from that in countries which have experienced housing 'busts' in recent years, in ways that make it far less likely that Australia will experience levels of 'forced sales' that have been a key driver of those 'busts' overseas.

However the presentation will also argue that there is a downside to the persistence of what are undoubtedly still very high prices for Australian residential property – that housing affordability will remain stretched, that home ownership rates will decline, and that the shortage of housing will persist unless governments change the policies which have contributed to this state of affairs.