

The Australian Housing Industry: Challenges and Opportunities

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Economic and New Housing Outlook

Economic backdrop

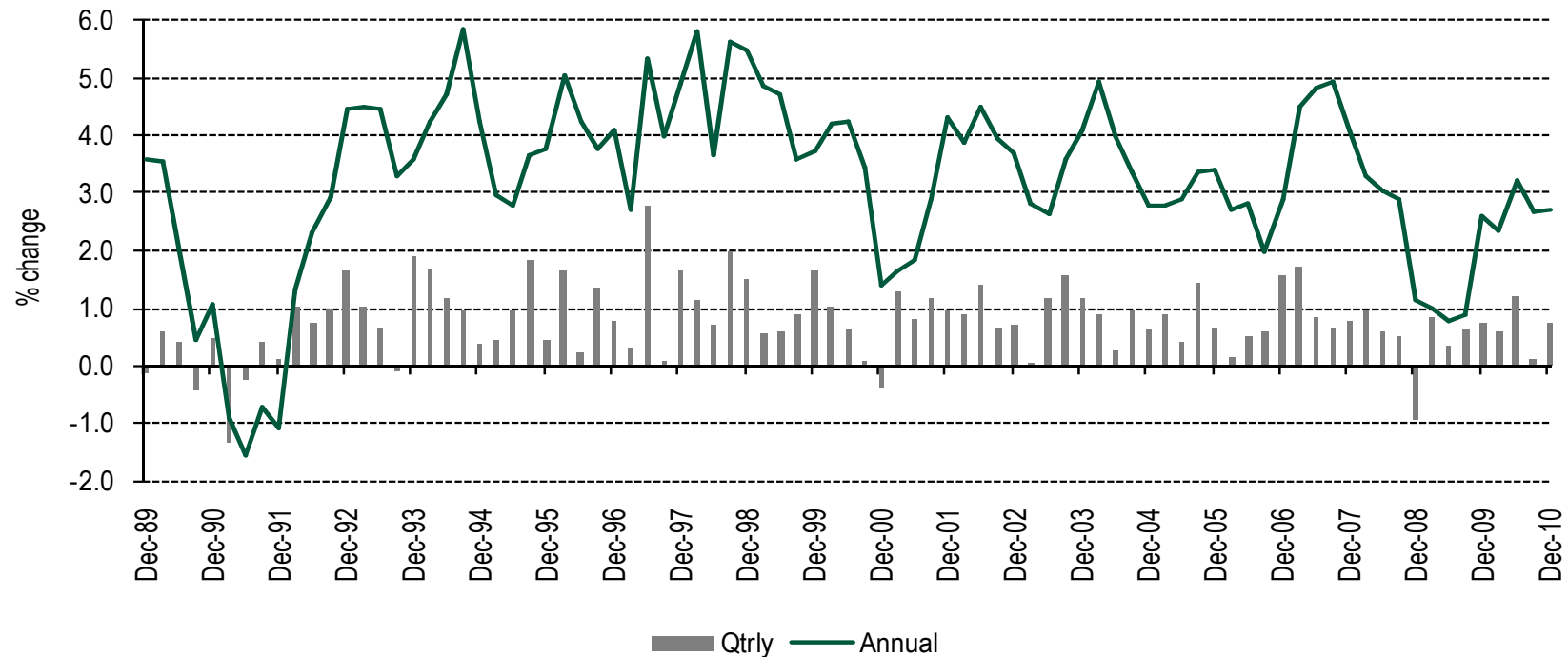


Economic and New Housing Outlook

The Australian Economy – growing, but hardly on fire

Gross Domestic Product

Source: ABS 5206



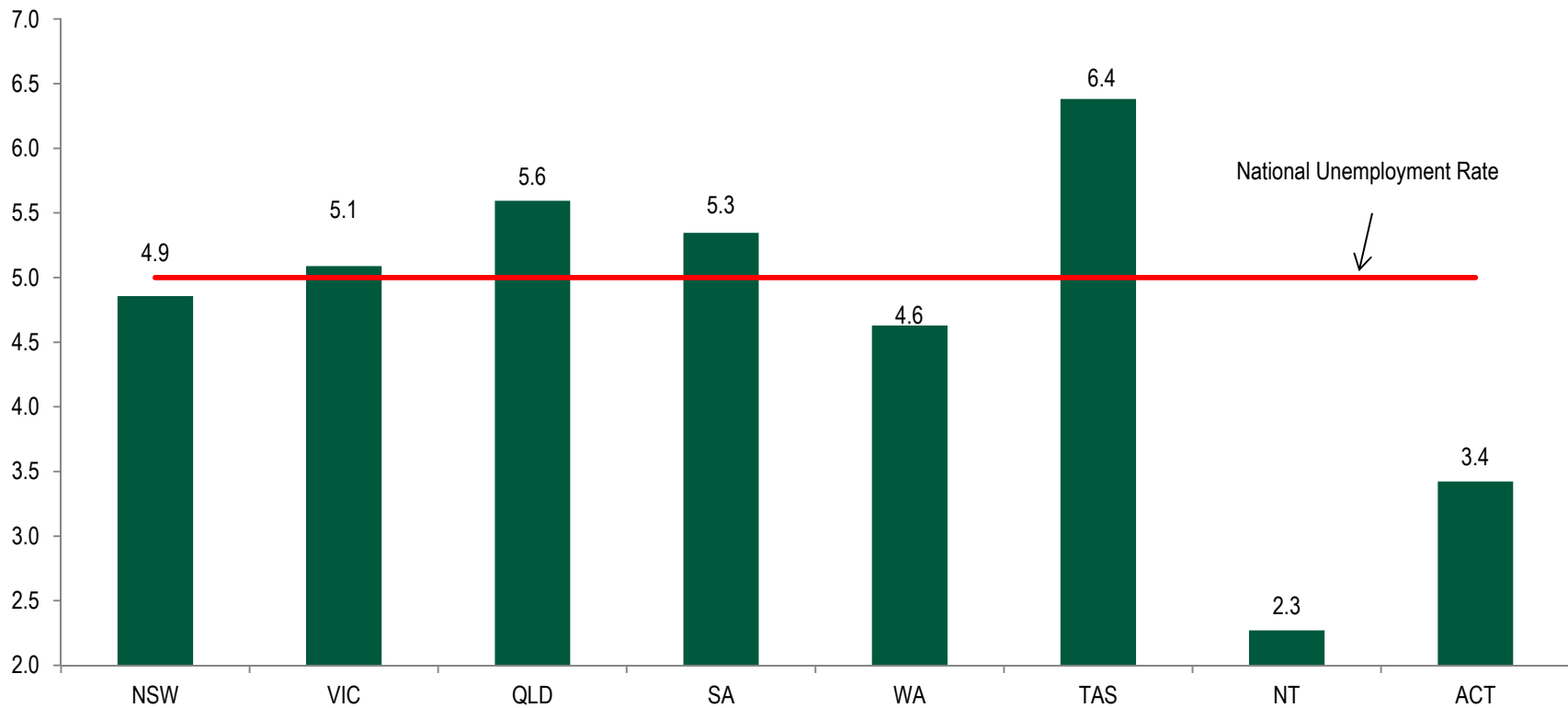
- The RBA is forecasting 4.25% growth in 2011, but ...
- ... that's hard to see right now.

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The labour market is our friend, but ...

Unemployment Rate by State - January 2011

Source: ABS Labour Force



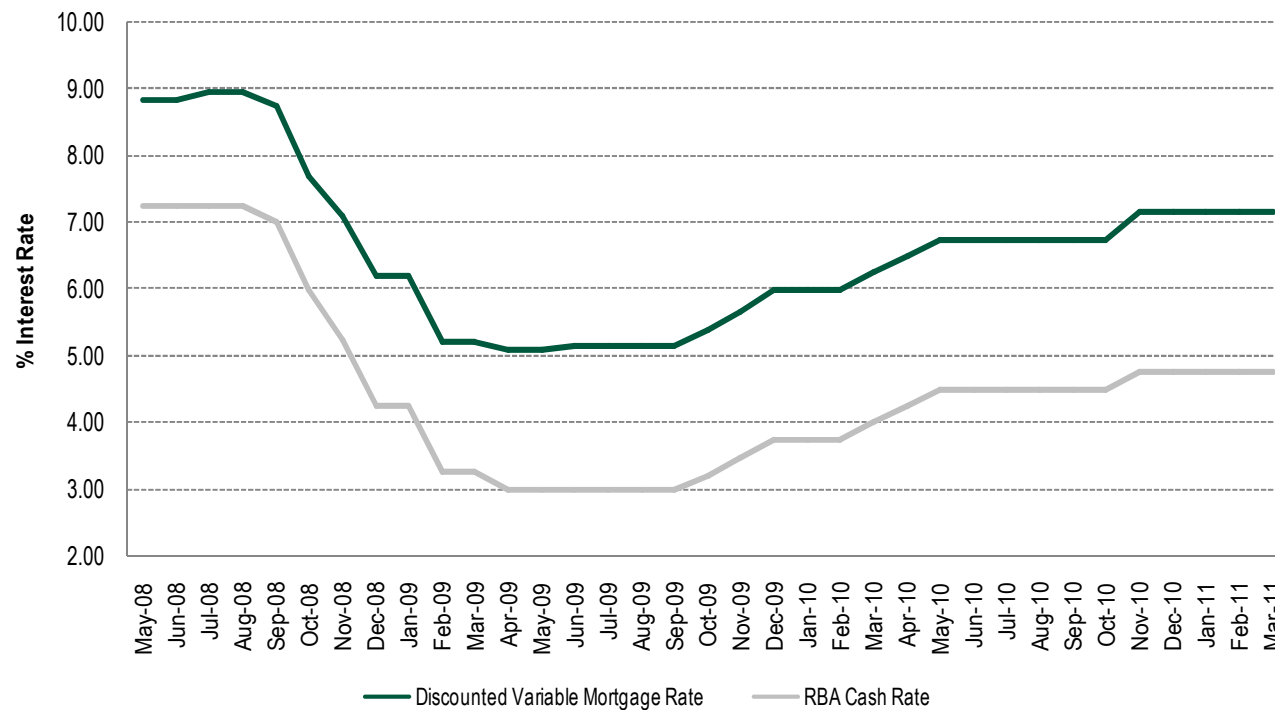
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... interest rates haven't been and ...

Interest Rates, Australia

Source: RBA



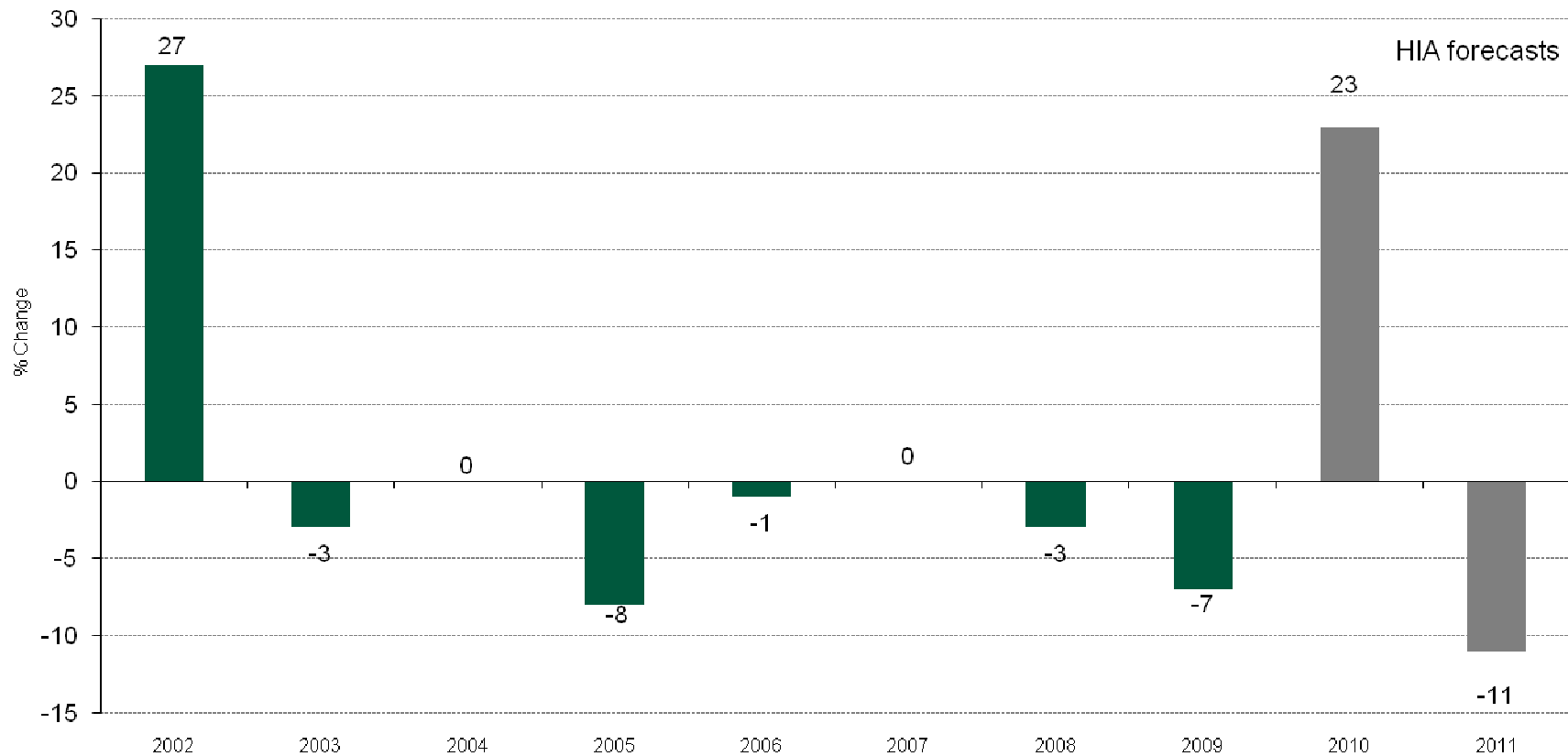
- The RBA lifted the cash rate by 25bps in Nov 10 and the major banks infamously went by more.
- Rates may be on hold for some time which is good news for our industry, but ...
- ... the RBA's communication record in 2010 was the poorest for some years.

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... the starting point is a challenging one

Change in the Number of Housing Starts

Source: ABS 8752; HIA

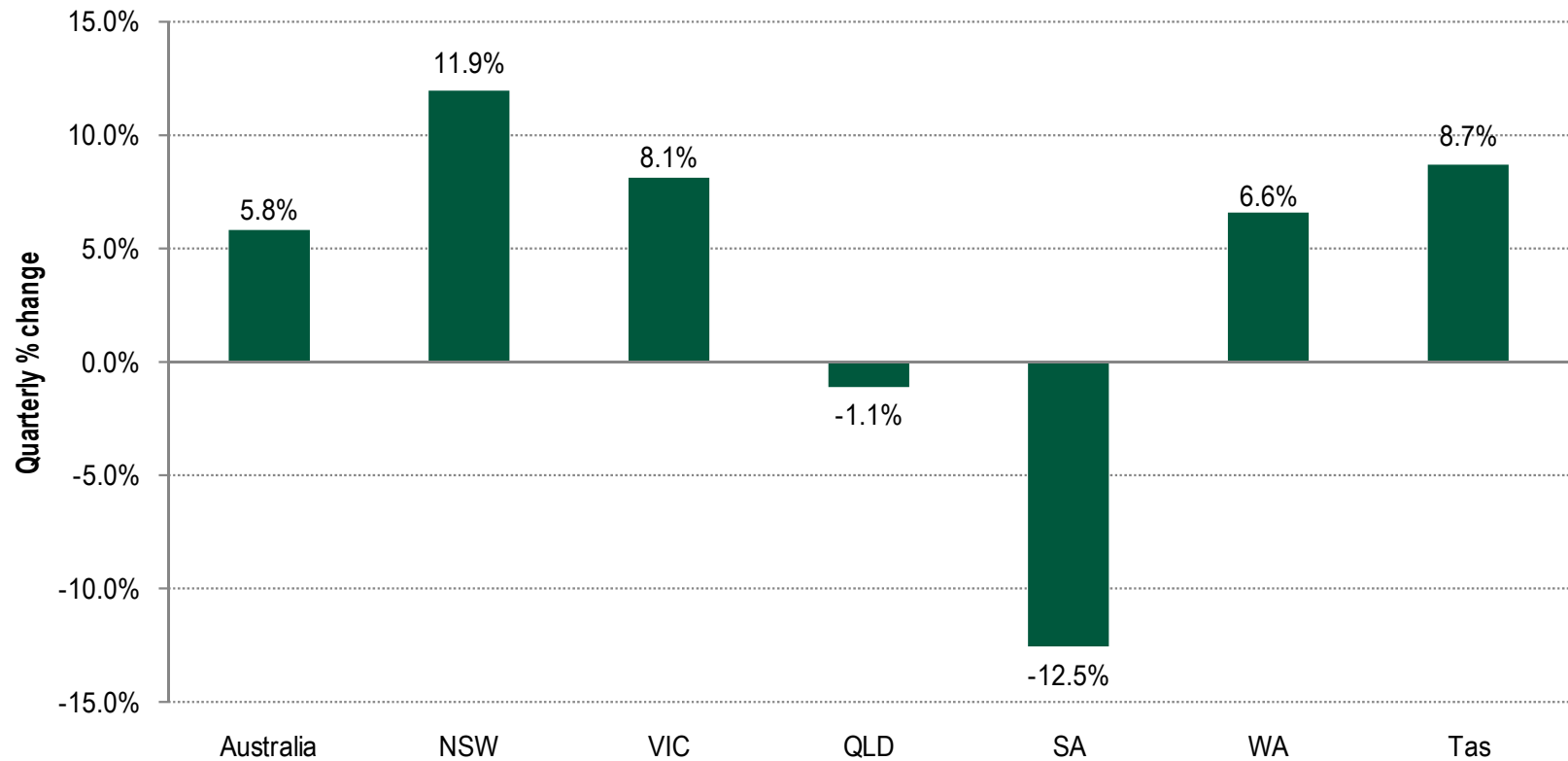


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It's not all negative, though

New home lending - % change - December 2010 quarter

Source: ABS 5906.0



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State by State



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New South Wales

- “Please re-elect me,” she implored, but ...
- ... a change of government in NSW may boost confidence in the state.
- Economic conditions continue to improve with a recovery in business investment the key driver.
- 30,250 housing starts in 2010/11 with downside risk; but we could then begin to see a recovery emerge.
- Decent prospect for the renovations recovery to continue.



Victoria

- Boom housing conditions with annualised housing starts running at 61,000 dwellings!
- Stamp duty cuts for first home buyers may soften the blow of a decline in new home building from extraordinary levels.
- The overall economy faces challenges through the double whammy of rising interest rates and a high Aussie dollar. Housing is the current economic strength.
- Renovations market may be steady as she goes.

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Queensland

- In 2010 Queensland endured the weakest housing conditions in Australia, especially SEQ and Cairns.
- The devastation from the natural disasters generates considerable heartache and uncertainty.
- Labour supply and building materials supply were hot, over-cooked topics of discussion.
- The most likely outcome is that 2011/12 is a stronger year for both new home building and renovations but ...
- ... labour shortages may be a constraint.



South Australia

- SA has been a reasonably stable housing market for a number of years but ...
- ... housing indicators and confidence within the industry have suffered since mid 2010.
- Population growth is an economic strength.
- In the Sep 10 qtr starts were running at an annual level of over 12,200, still very healthy.
- Housing starts look set to drop back well below the 12,000 mark.
- Renovations activity is slowing, but is forecast to rebound in 2011/12.

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Western Australia

- Non-residential construction is an economic strength for the state, but ...
- ... with renewed economic growth from the resources boom mark II comes the same old challenges.
- In 2006/07 the new home building cycle came to a premature end due to poor land affordability and the same thing is happening again - residential land per square metre is now more expensive than in Sydney.
- Renovations activity – strongest in the country.



Tasmania

- Tasmania has been a bit like SA, punching above its weight for much of the last decade.
- However, economic and housing confidence in the state is sliding, although the labour market is a positive still.
- Housing starts look set to weaken over 2011/12 and 2012/13.
- Renovations activity has been uncharacteristically weak, but should turnaround in 2011/12.

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Short Term Outlook – new housing

DWELLING STARTS: by state and territory

thousand dwellings commenced

Starts	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2003/04 (a)	45.70	45.42	44.22	10.39	22.56	2.85	1.04	2.90	174.84
2004/05 (a)	39.40	40.95	39.31	11.01	22.91	2.83	1.33	2.46	160.22
2005/06 (a)	32.86	39.28	37.73	10.77	25.92	2.56	1.35	1.87	152.34
2006/07 (a)	29.71	38.59	41.16	11.17	24.71	2.86	1.42	2.31	152.07
2007/08 (a)	31.46	41.76	44.78	11.86	22.45	2.90	1.05	2.25	158.57
2008/09 (a)	23.58	41.94	28.83	11.95	18.40	2.91	1.12	2.66	131.31
2009/10 (a)	31.83	54.85	33.23	12.00	25.17	3.12	1.25	4.41	165.96
2010/11	30.25	57.95	28.02	11.74	21.09	2.95	1.28	3.69	155.98
2011/12	31.14	48.49	28.87	11.40	20.47	2.85	1.20	2.96	147.38
2012/13	32.87	44.55	31.95	11.56	22.33	2.99	1.43	2.90	150.58

Source HIA Economics

% change:	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2004/05 (a)	-14%	-10%	-11%	6%	2%	-1%	28%	-15%	-8%
2005/06 (a)	-17%	-4%	-4%	-2%	13%	-9%	2%	-24%	-5%
2006/07 (a)	-10%	-2%	9%	4%	-5%	12%	5%	24%	0%
2007/08 (a)	6%	8%	9%	6%	-9%	1%	-26%	-3%	4%
2008/09 (a)	-25%	0%	-36%	1%	-18%	0%	7%	18%	-17%
2009/10 (a)	35%	31%	15%	0%	37%	7%	11%	66%	26%
2010/11	-5%	6%	-16%	-2%	-16%	-5%	3%	-16%	-6%
2011/12	3%	-16%	3%	-3%	-3%	-3%	-7%	-20%	-6%
2012/13	6%	-8%	11%	1%	9%	5%	20%	-2%	2%

Provisional March 2011



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Short Term 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
2003/04 (a)	11,135	7,296	7,432	2,237	3,594	778	233	435	33,214
2004/05 (a)	10,932	7,009	7,810	2,259	3,782	754	336	385	33,335
2005/06 (a)	10,094	6,537	8,244	2,231	3,744	778	363	403	32,373
2006/07 (a)	8,534	6,238	8,266	2,220	3,701	729	270	342	30,229
2007/08 (a)	8,479	6,768	7,938	1,900	4,449	786	207	380	30,976
2008/09 (a)	8,111	6,668	7,455	2,077	4,109	803	213	311	29,660
2009/10 (a)	8,432	6,455	7,875	2,101	4,686	767	261	408	31,122
2010/11	8,686	6,548	7,567	1,985	4,821	737	274	436	31,044
2011/12	8,796	6,440	7,721	2,098	4,801	759	260	414	31,305
2012/13	9,453	6,675	8,610	2,196	4,911	823	265	417	33,389
% change									
2004/05	-1.8	-3.9	5.1	1.0	5.2	-3.1	44.2	-11.5	0.4
2005/06	-7.7	-6.7	5.6	-1.2	-1.0	3.2	8.0	4.7	-2.9
2006/07	-15.5	-4.6	0.3	-0.5	-1.1	-6.3	-25.6	-15.1	-6.6
2007/08	-0.6	8.5	-4.0	-14.4	20.2	7.8	-23.3	11.1	2.5
2008/09	-4.3	-1.5	-6.1	9.3	-7.6	2.2	2.9	-18.2	-4.2
2009/10	4.0	-3.2	5.6	1.2	14.0	-4.5	22.5	31.2	4.9
2010/11	3.0	1.4	-3.9	-5.5	2.9	-3.9	5.0	6.8	-0.3
2011/12	1.3	-1.6	2.0	5.7	-0.4	3.0	-5.0	-5.0	0.8
2012/13	7.5	3.7	11.5	4.7	2.3	8.5	1.9	0.7	6.7

(a) = actual



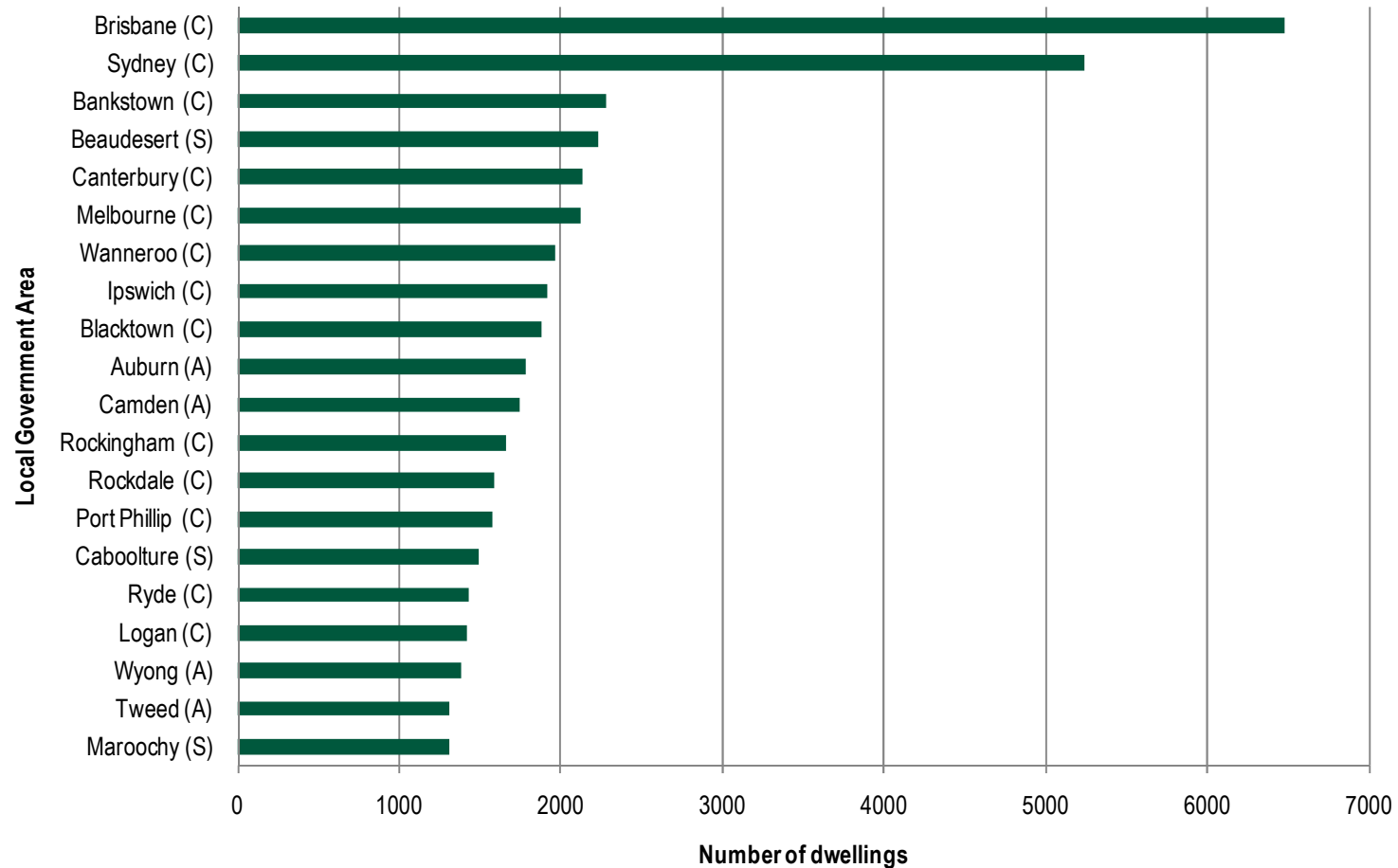
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The Long Term Outlook is healthy, but ...

Top 20 housing shortages by LGA - Australia

Source: ABS, HIA Economics



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... there is a lot we need to get right

- We need more credit being made available to developers/builders.
- We need to be releasing sufficient land to meet the demands of the growing population.
- We need fewer planning delays, less regulation, and substantially lower taxation of new housing.
- We need more skilled labour.
- We're a very efficient industry which provides an essential service – a roof over people's heads, so ...
- ... get out of our way and let us get on with it.

Economic and New Housing Outlook

THANK YOU FOR YOUR TIME THIS AFTERNOON

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March 2011

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