

# **The Outlook for the Housing Industry in Western Australia**

Dr. Harley Dale  
HIA Chief Economist

**HIA Industry Outlook Breakfast**

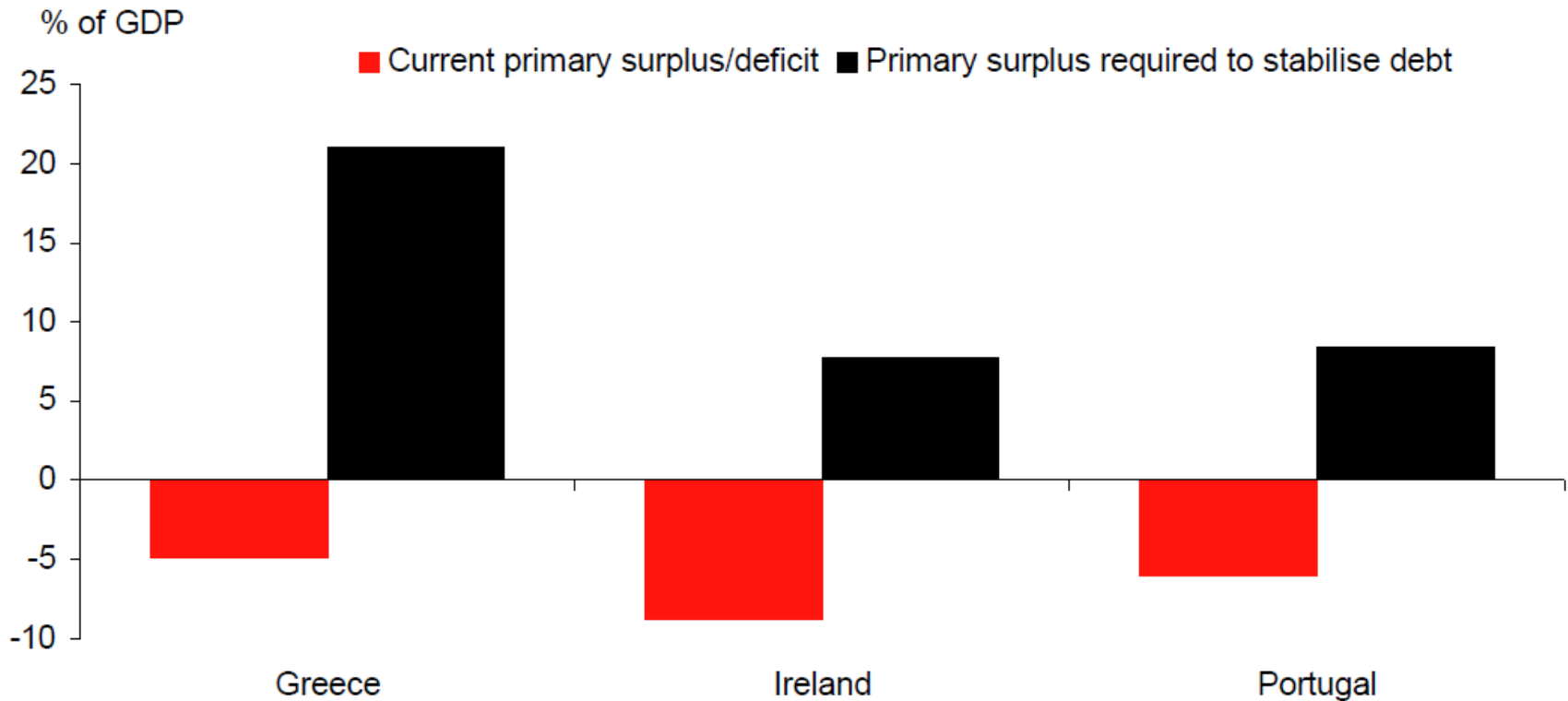
Perth  
December 2011

## It's (apparently) all about Europe



## There is a long road ahead for Europe...

**Fig 46 Greece, Ireland and Portugal: Required adjustments under current market interest rates**



Source: IMF, Macquarie Research, August 2011

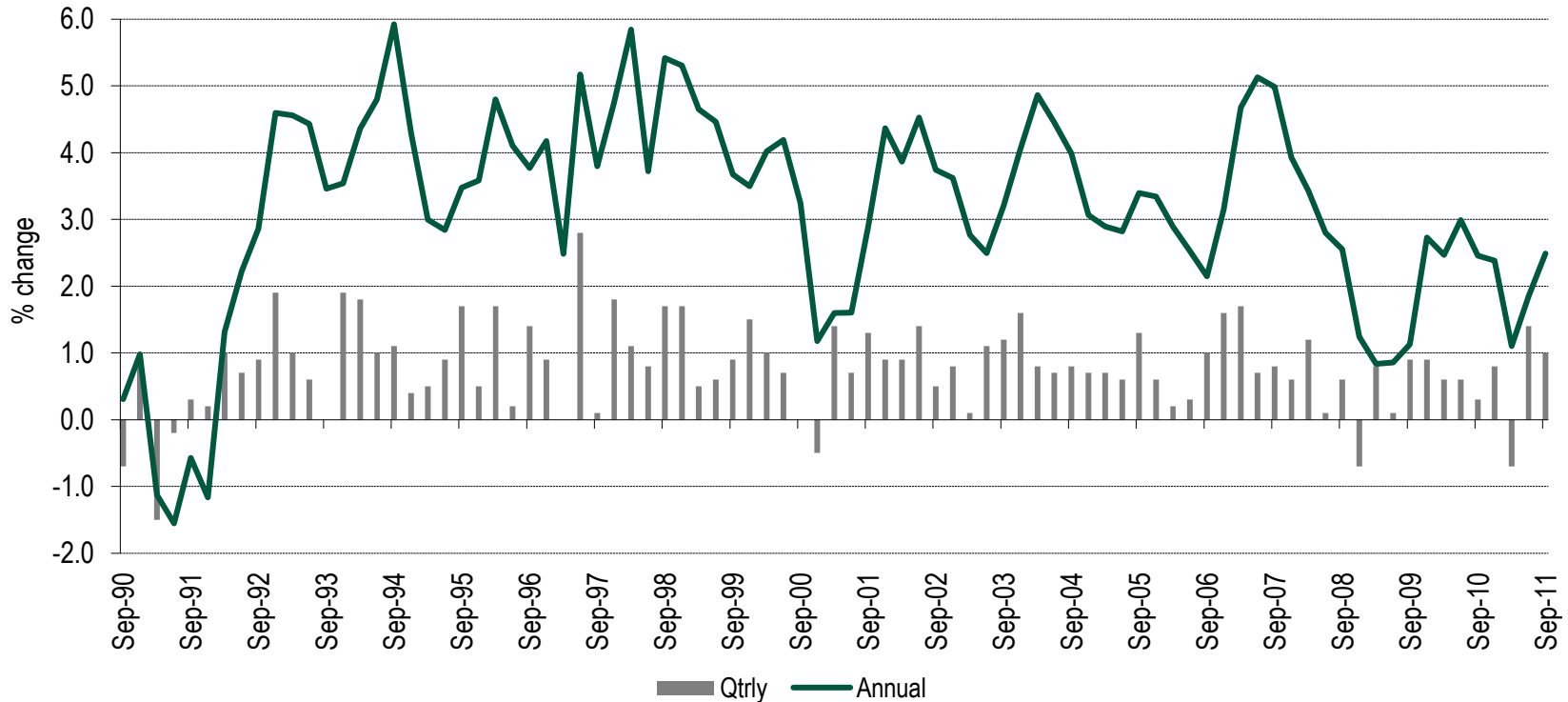
## ... and there is a link to China and wider East Asia

- Europe is already back in recession.
- 'Think' Australia circa 1990 but with unemployment already at 10% (or in Spain's case 22%).
- Europe is China's largest trading partner (25 – 30% of exports).
- China's net exports are at a two year low and manufacturing activity is falling sharply.
- Monetary policy is at its tightest for ten years, but ...
- ... the Chinese retail sector appears okay and fixed internal investment is still growing at over 20%.
- Remember, China takes 50% of the world's steel.
- There is ample room to move to stimulate domestic demand and ...
- ... there is a change in leadership next year.

## The Australian Economy – tracking largely as we predicted

### Gross Domestic Product

Source: ABS 5206



- Economic growth is okay, but patchy and ...
- ... as we predicted from this time last year, nowhere near what was originally forecast.

## WA's fortunes – a net improvement since my last visit

WA ECONOMY	
INDICATOR	UPDATE
Economic Growth	Improved
Interest rate outlook	Improved
Household consumption	Improved
Manufacturing	Deteriorated
Labour market	Steady/Deteriorated
Detached houses	Improved
Multi-units	Improved
Renovations investment	Deteriorated

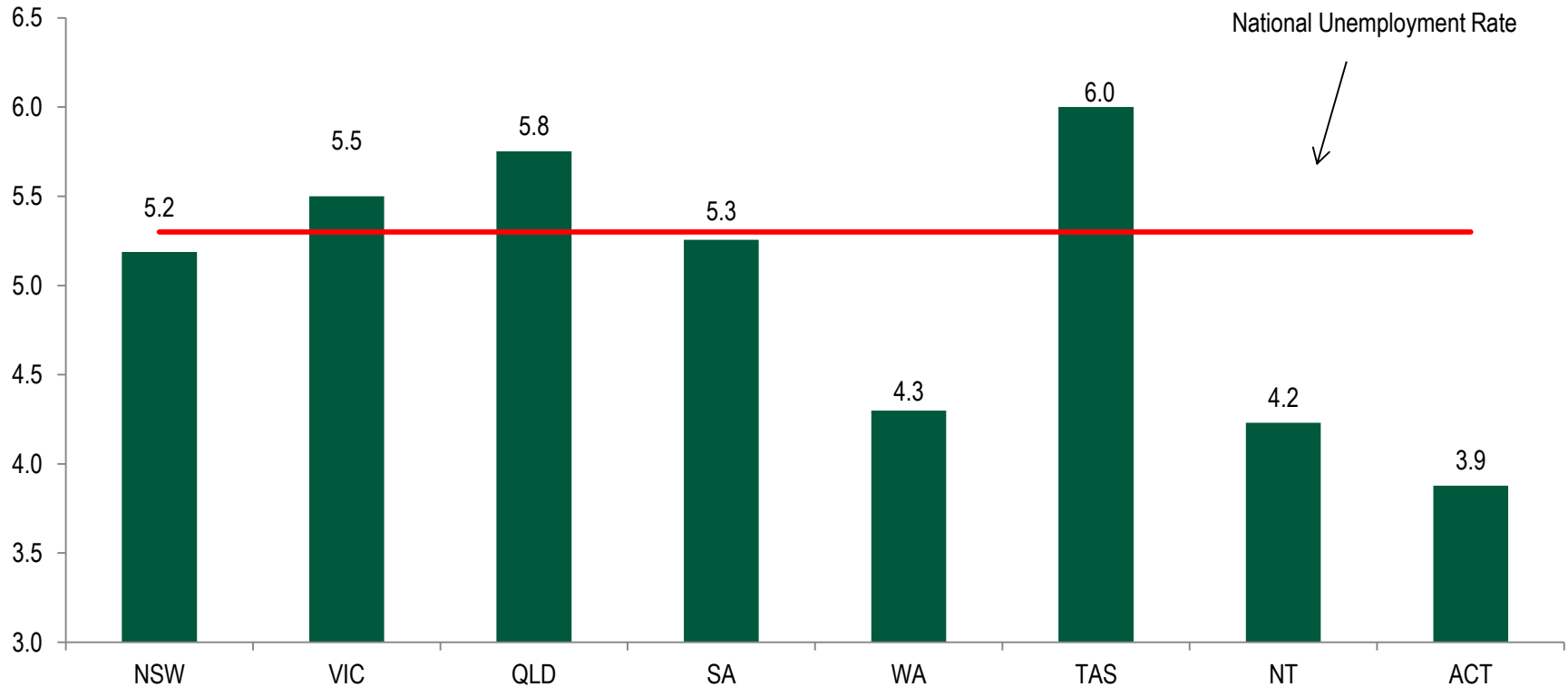
## **The good, the bad, and the ugly**



## The good: unemployment rate is still a good story for WA

Unemployment Rate by State - November 2011

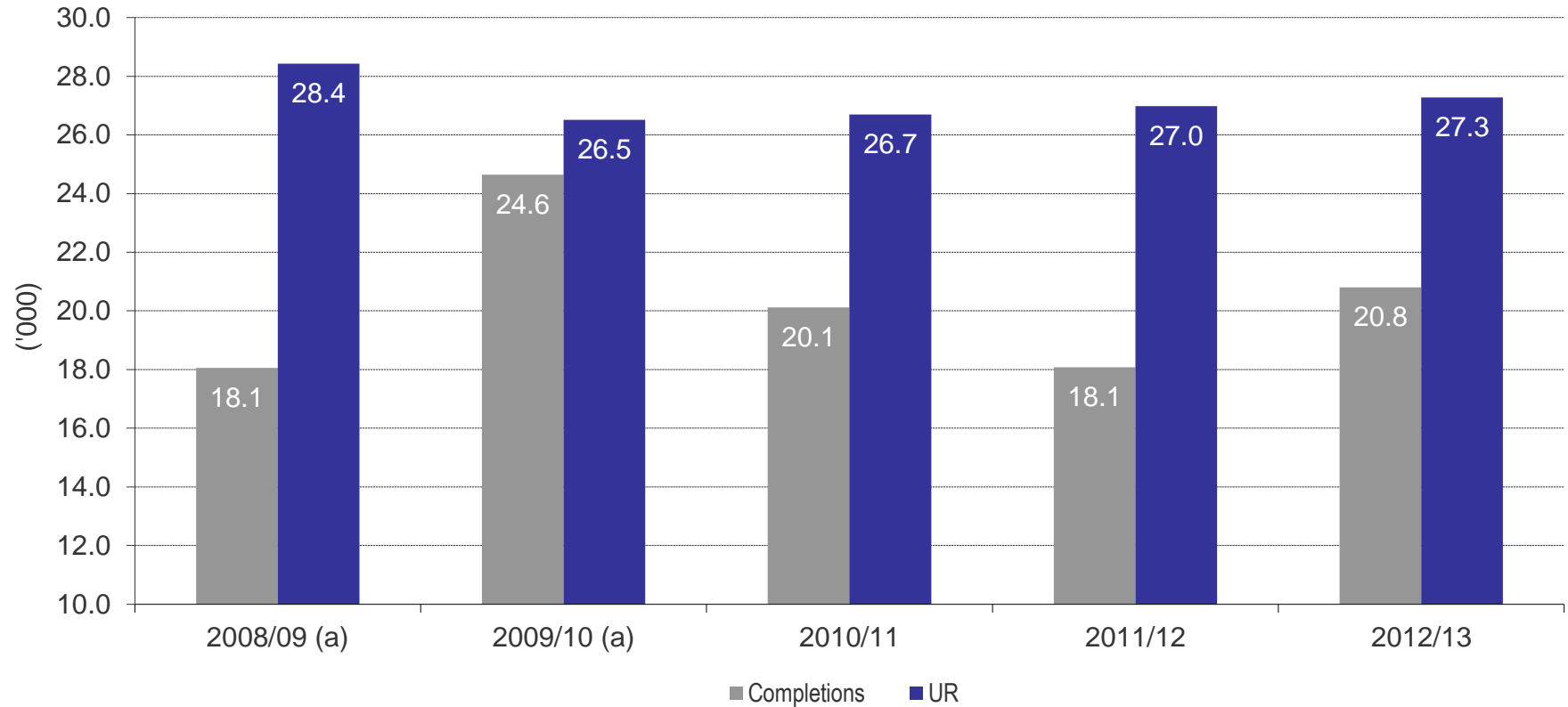
Source: ABS Labour Force



## The good: underlying demographic demand is strong

### Underlying Requirement for Housing vs Dwelling Completions - WA

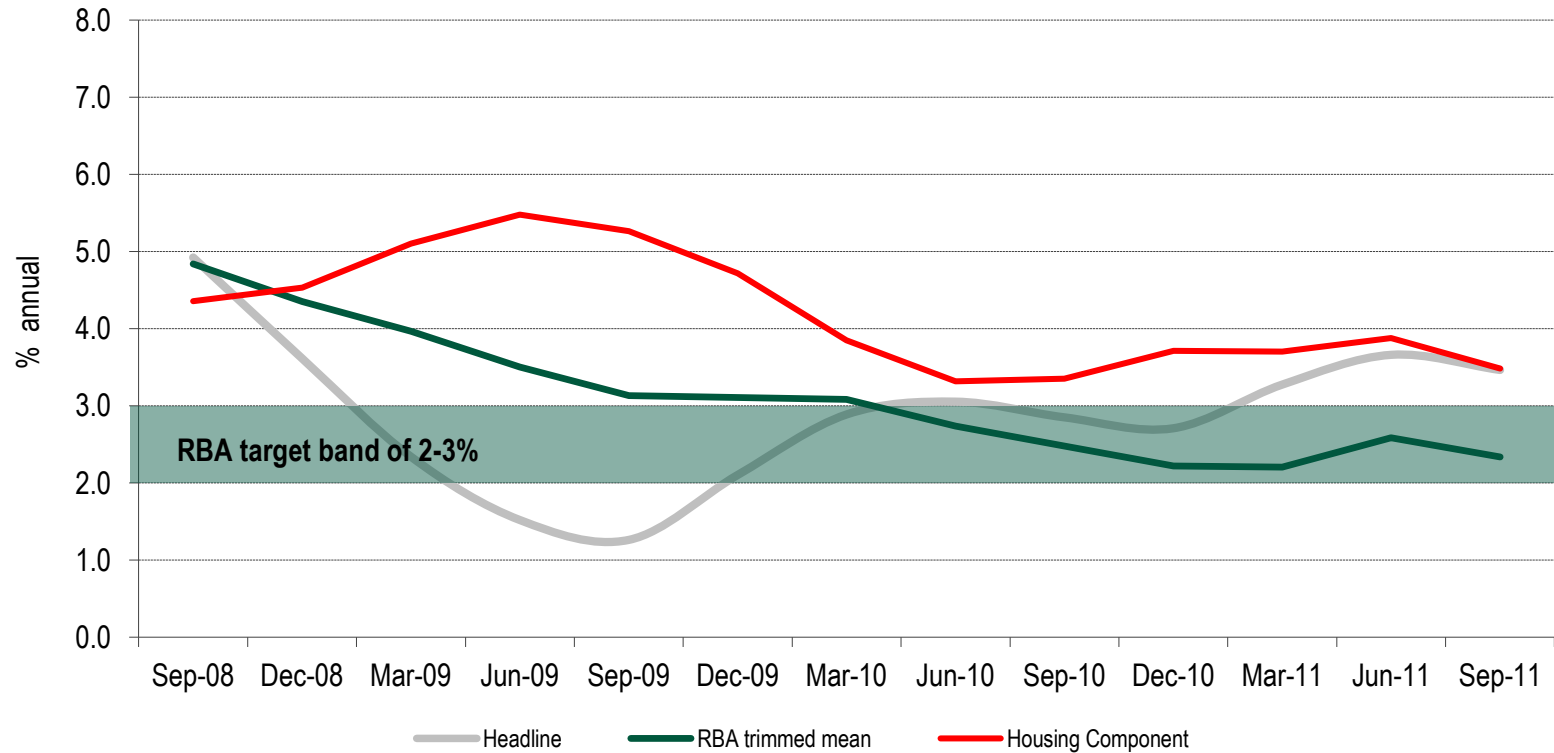
Source: ABS, HIA



## The good: inflationary pressure is easing

### Consumer Price Index

Source: ABS 6401; Reserve Bank of Australia

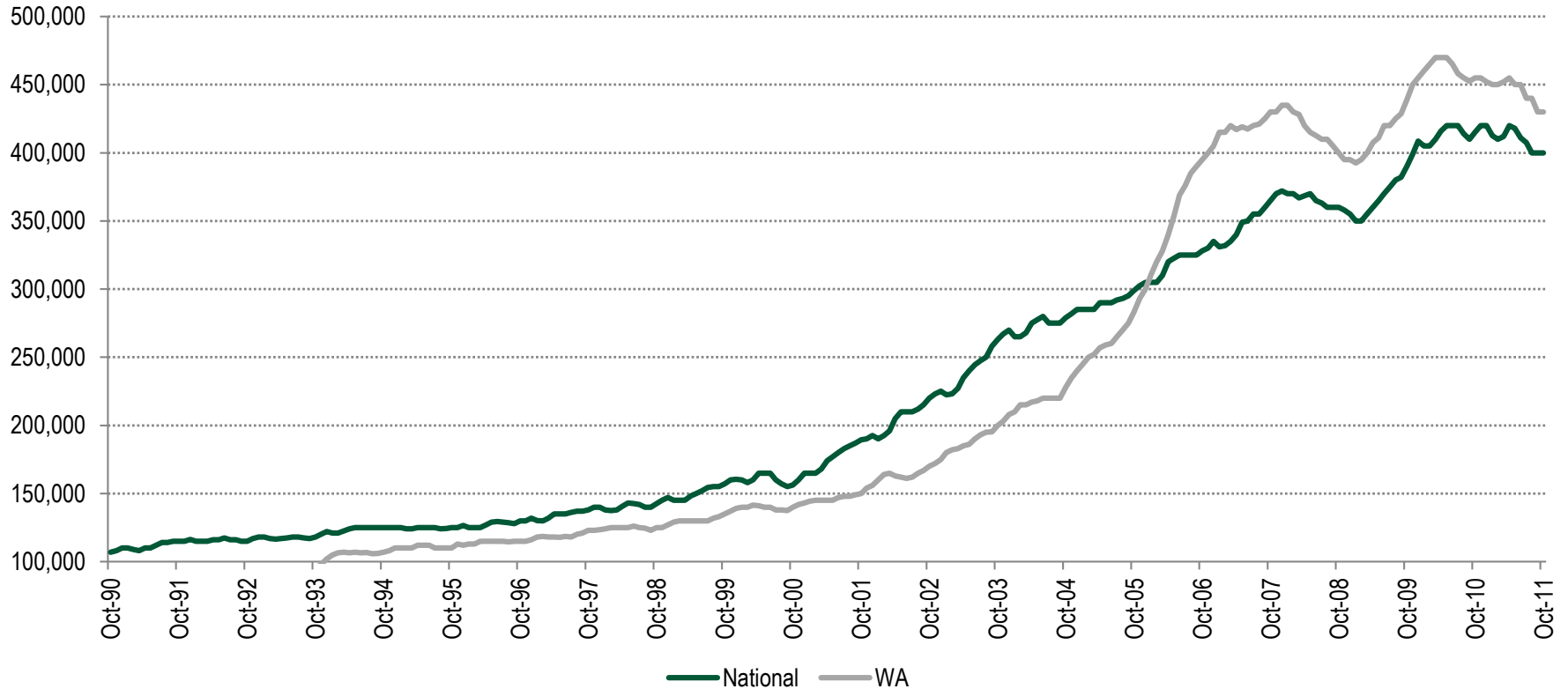


- The RBA was talking about interest rates based on inaccurate inflation data.

## The good and bad: easing dwelling prices

### Median House Price - National and Western Australia

Source: RP Data

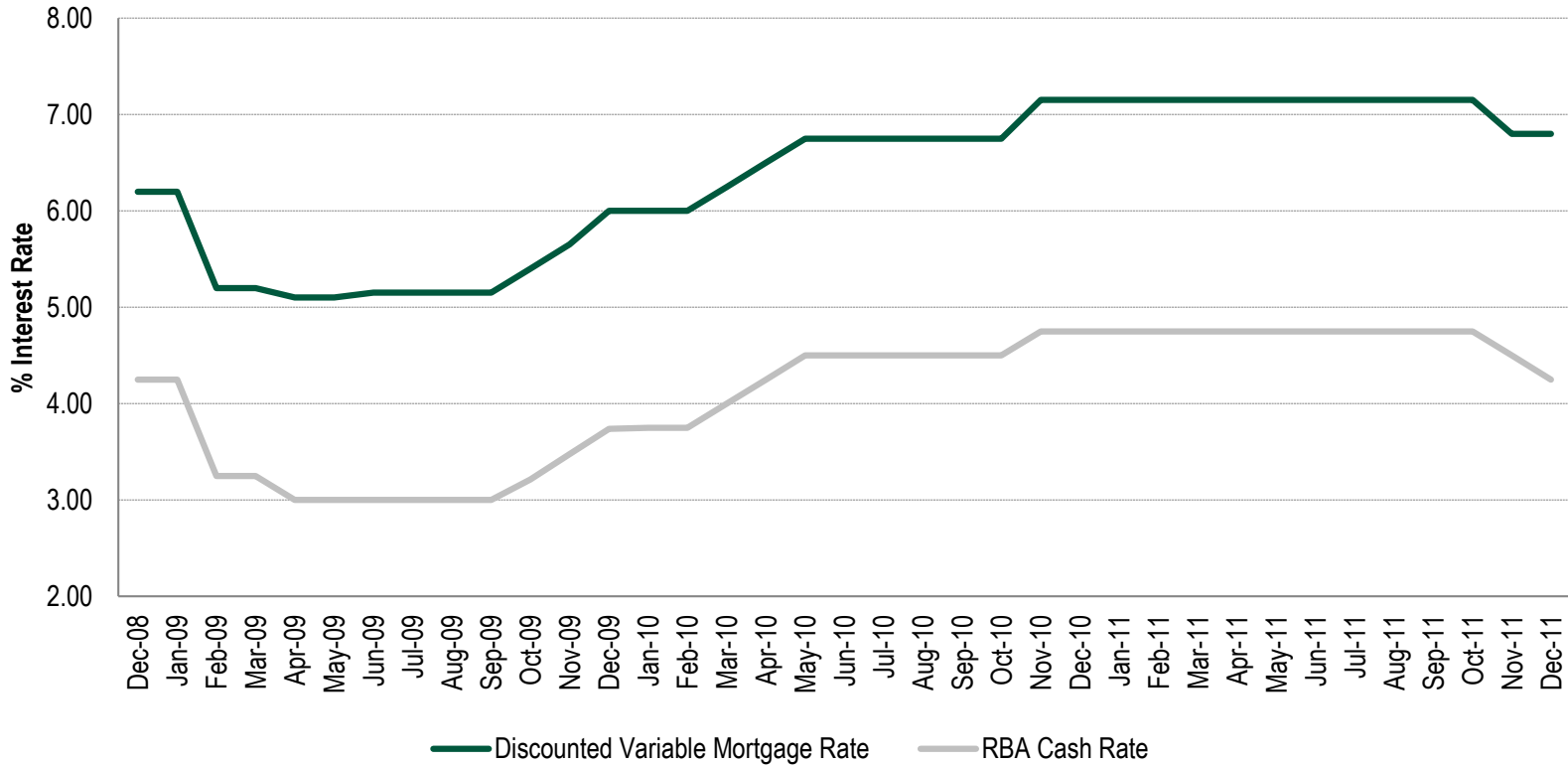


- Do we really need to scare the living daylights out of people?

## The good and bad: interest rate uncertainty

Interest Rates, Australia

Source: RBA

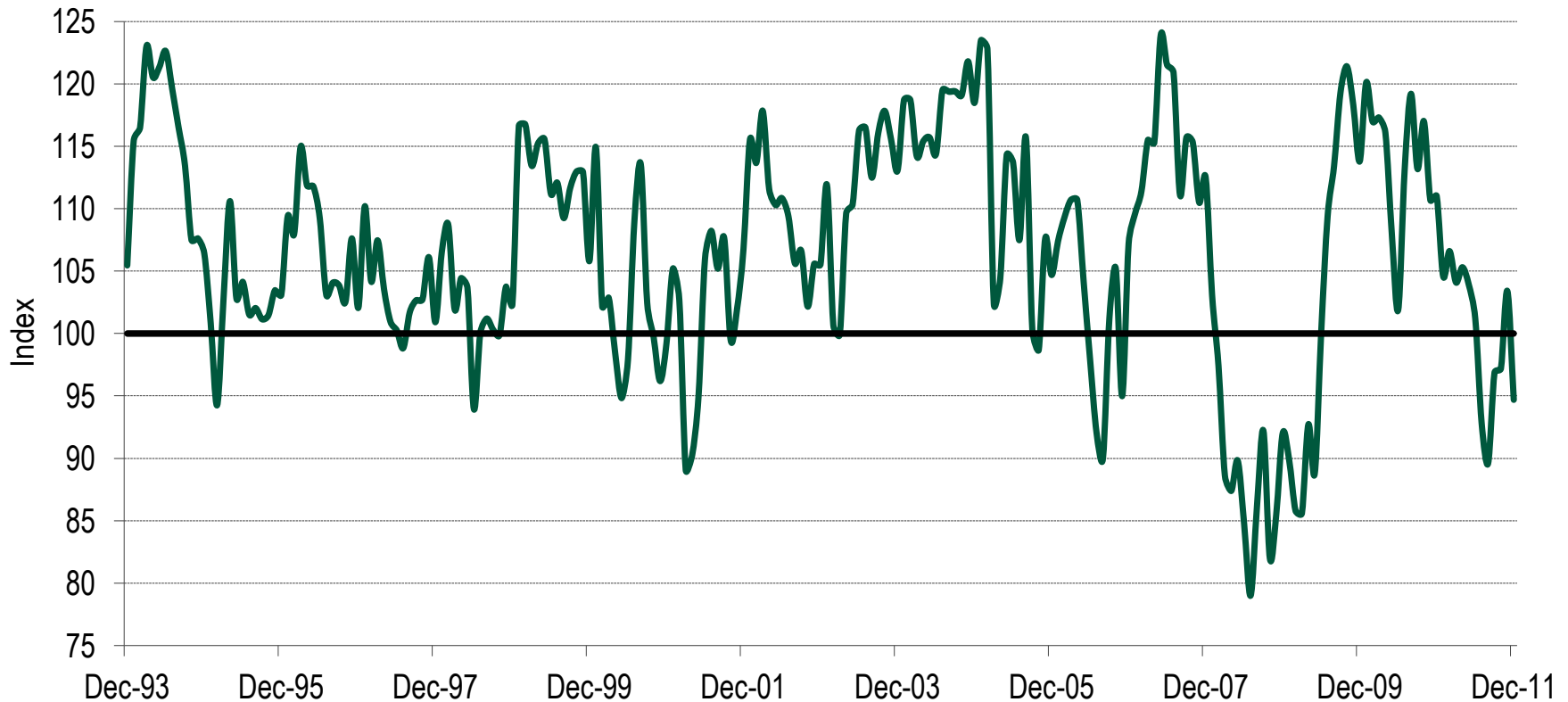


- The recent 'will they, won't they' focus on the banks was unhelpful.

## The bad: consumers are unsure and nervous

### Consumer Confidence

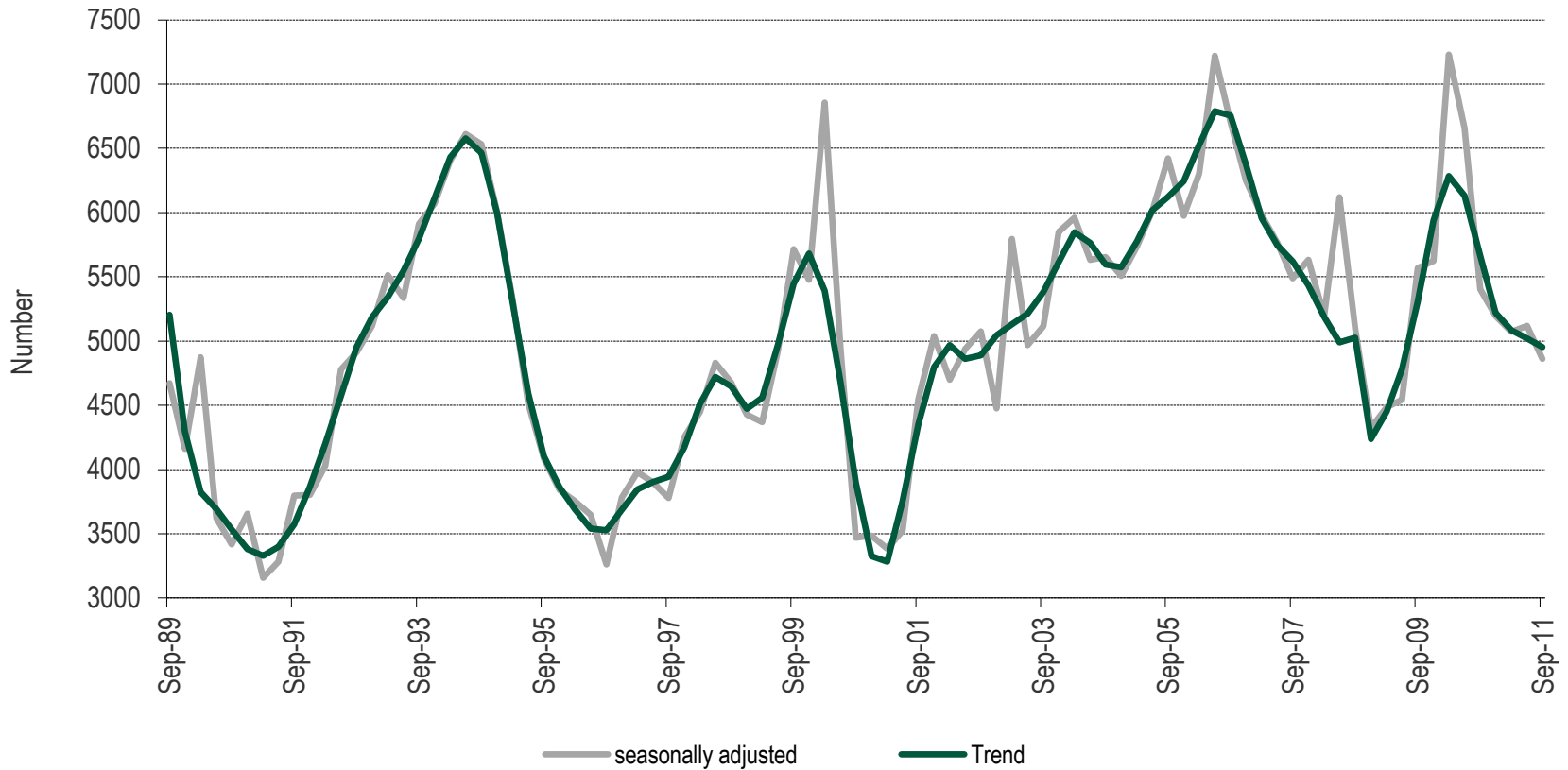
Source: Westpac-Melbourne Institute



## The ugly – housing starts continue in the wrong direction

Total Dwelling Starts – Western Australia

Source: ABS 8750.0



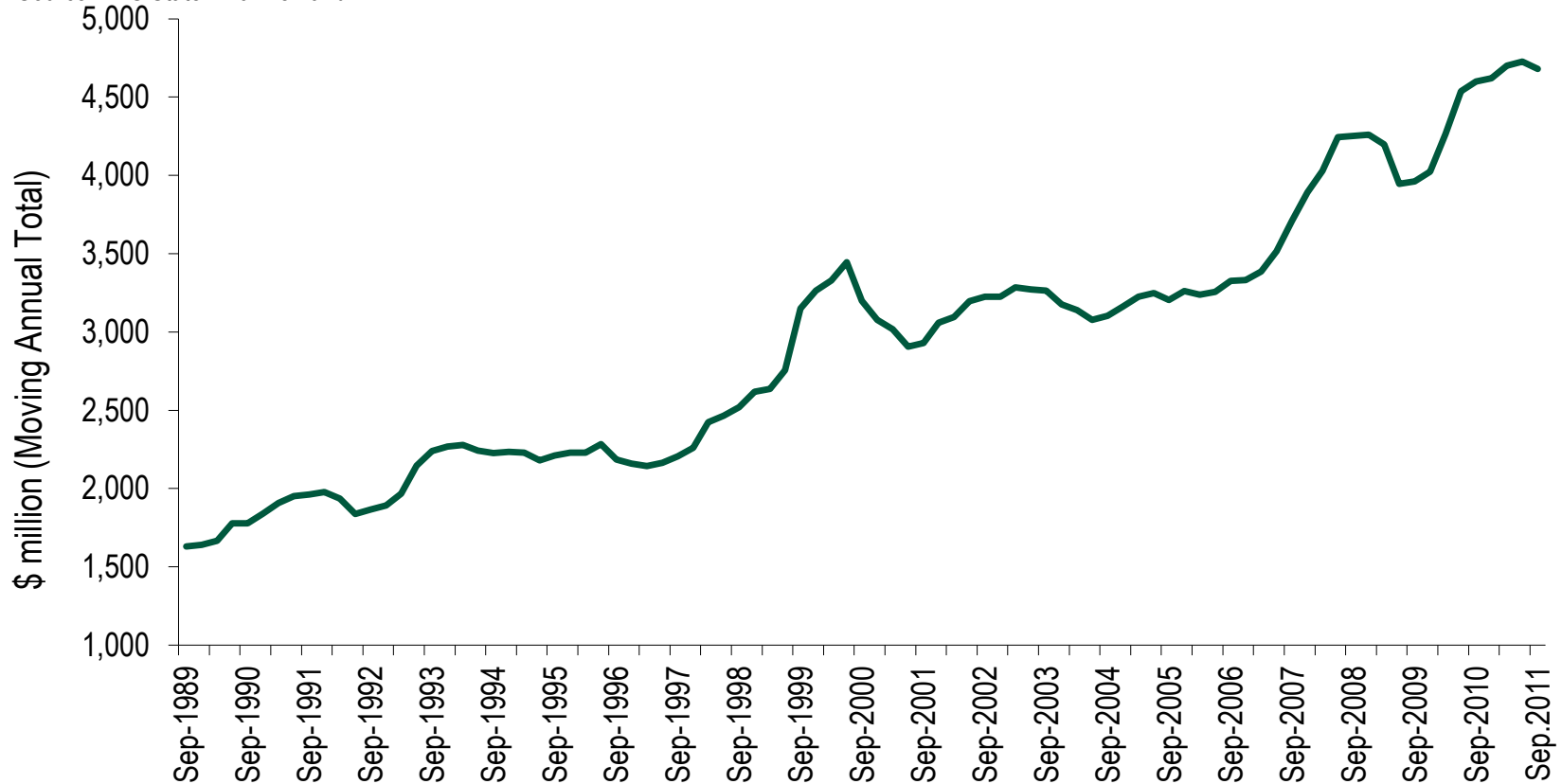
## Renovations Activity



## WA renovations – still looking very healthy

Renovations Investment in Western Australia - Moving annual total

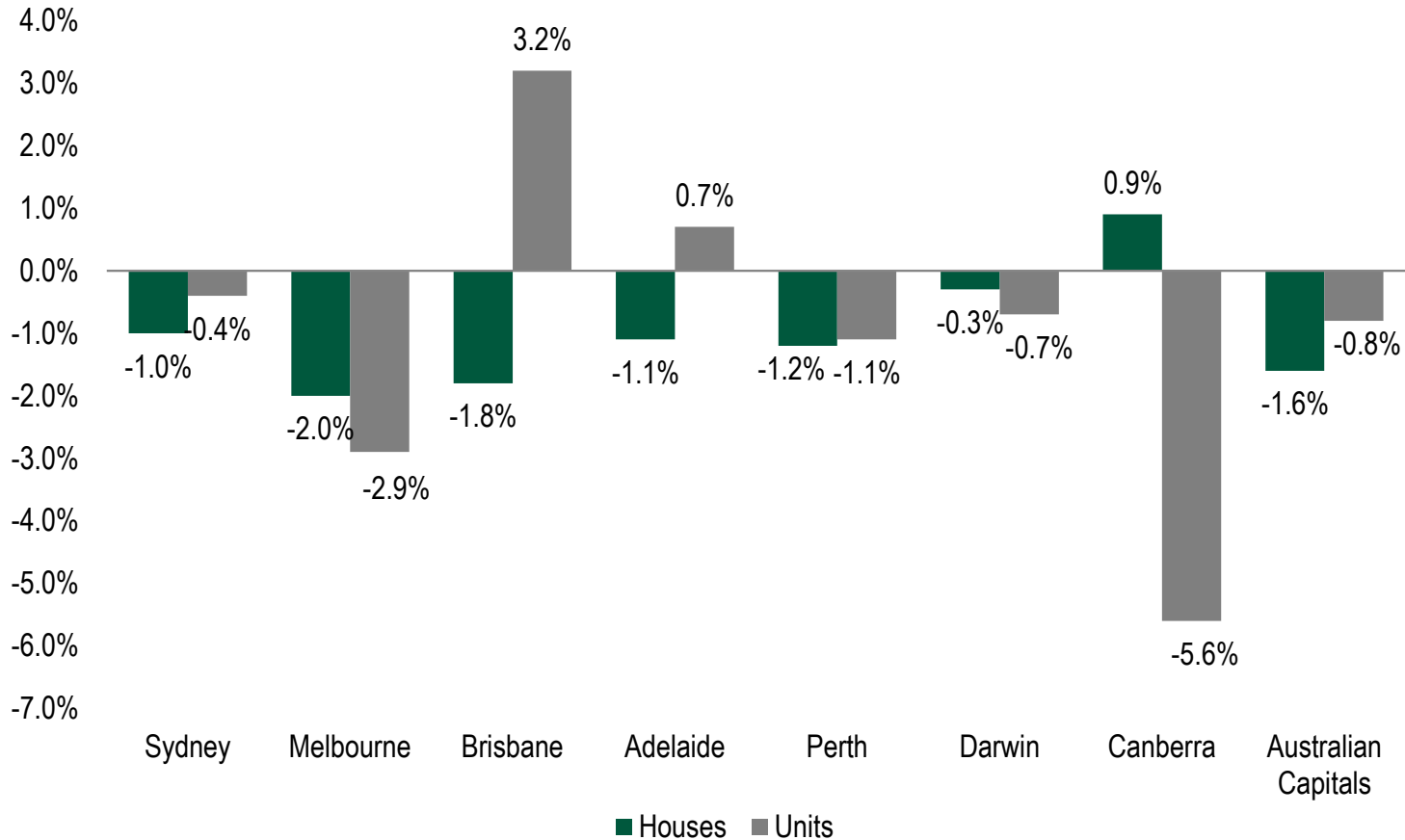
Source: ABS State Final Demand



## Dwelling Prices – still falling

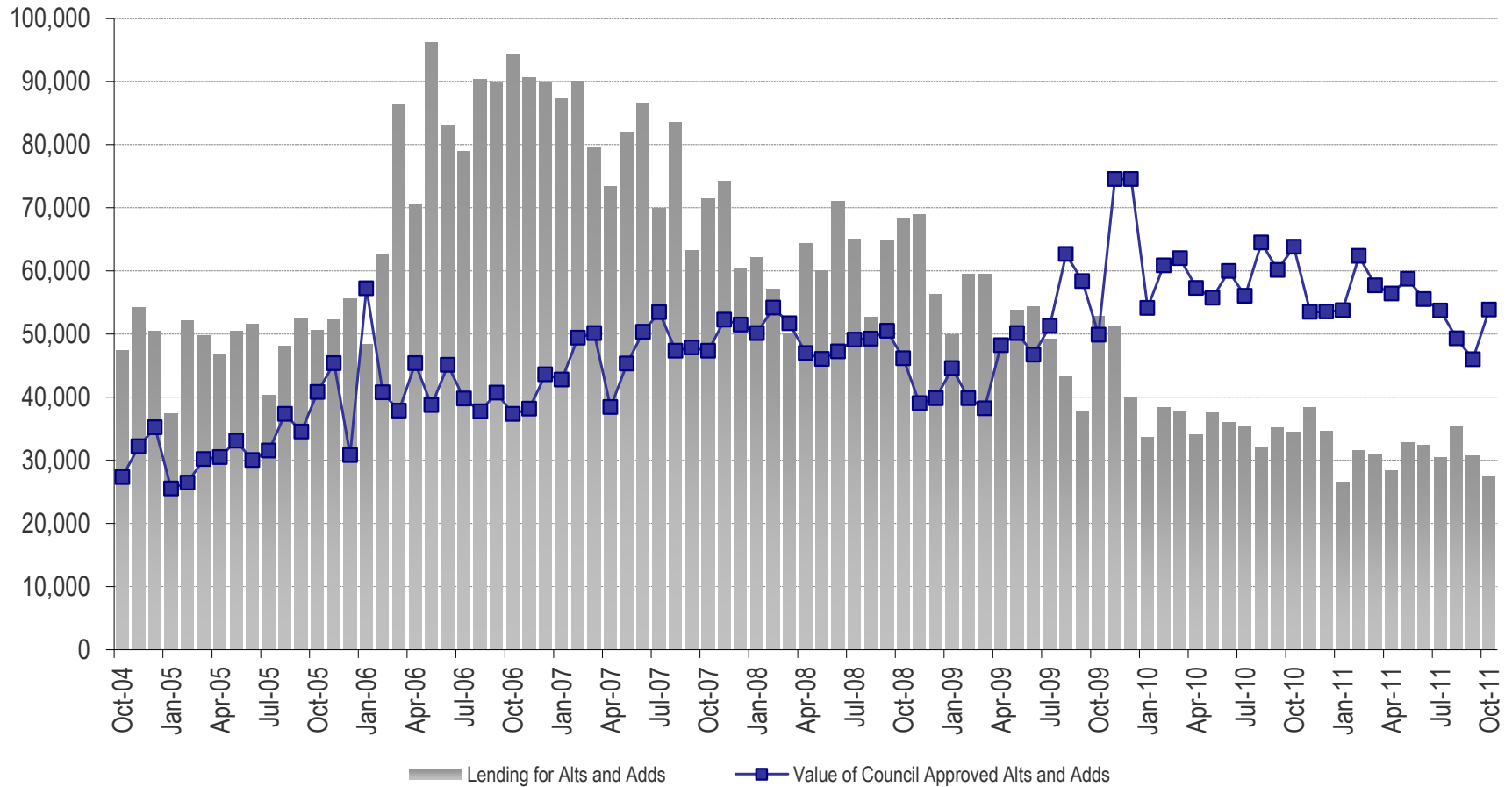
Change in home values - 3 months to October 2011

Source: RP Data, Rismark International



## Major alts and adds are trending down

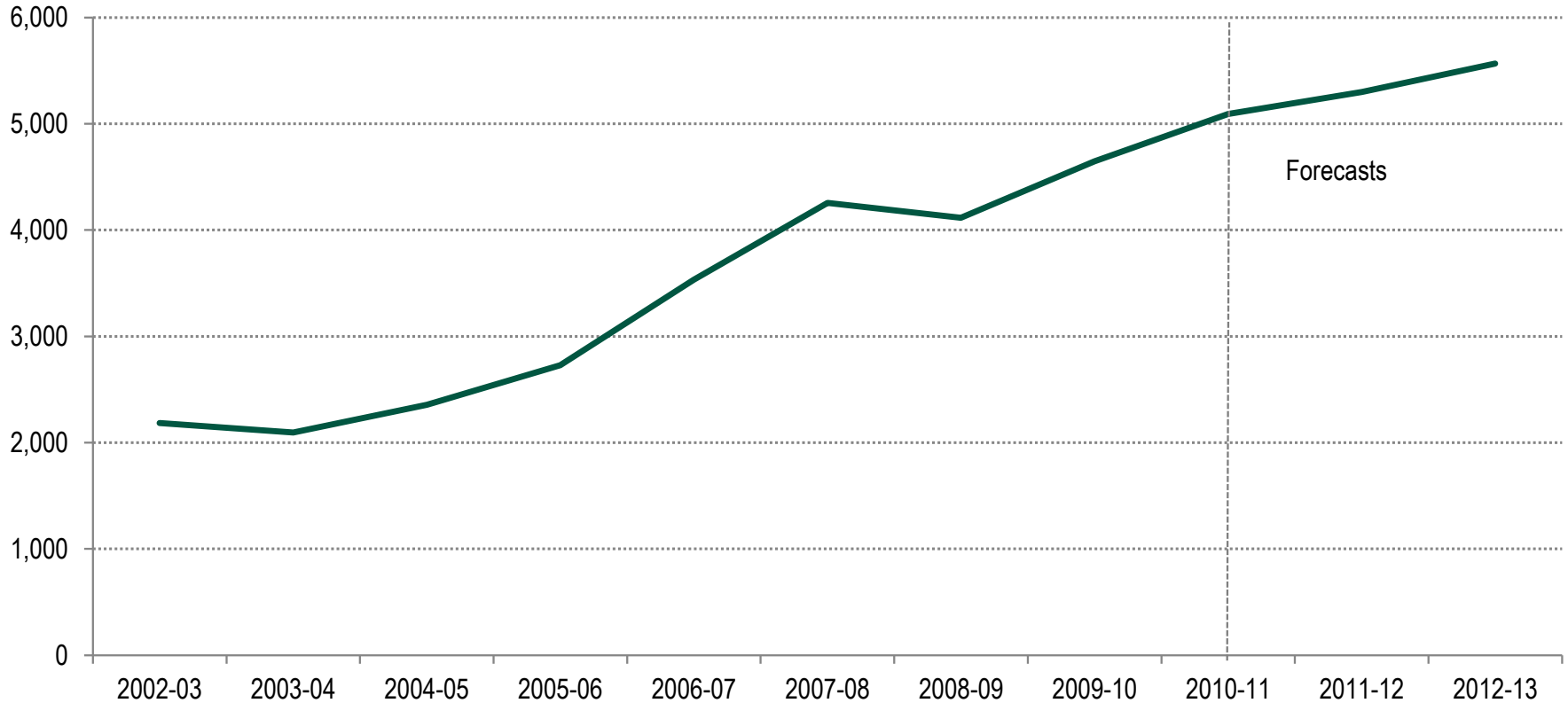
The WA Renovations and Additions Market  
Monthly Lending and Monthly Council Approvals



## Small alts and adds: on the up and up

### Small Alterations and Additions in WA

Source: ACIF Construction Forecasting Council



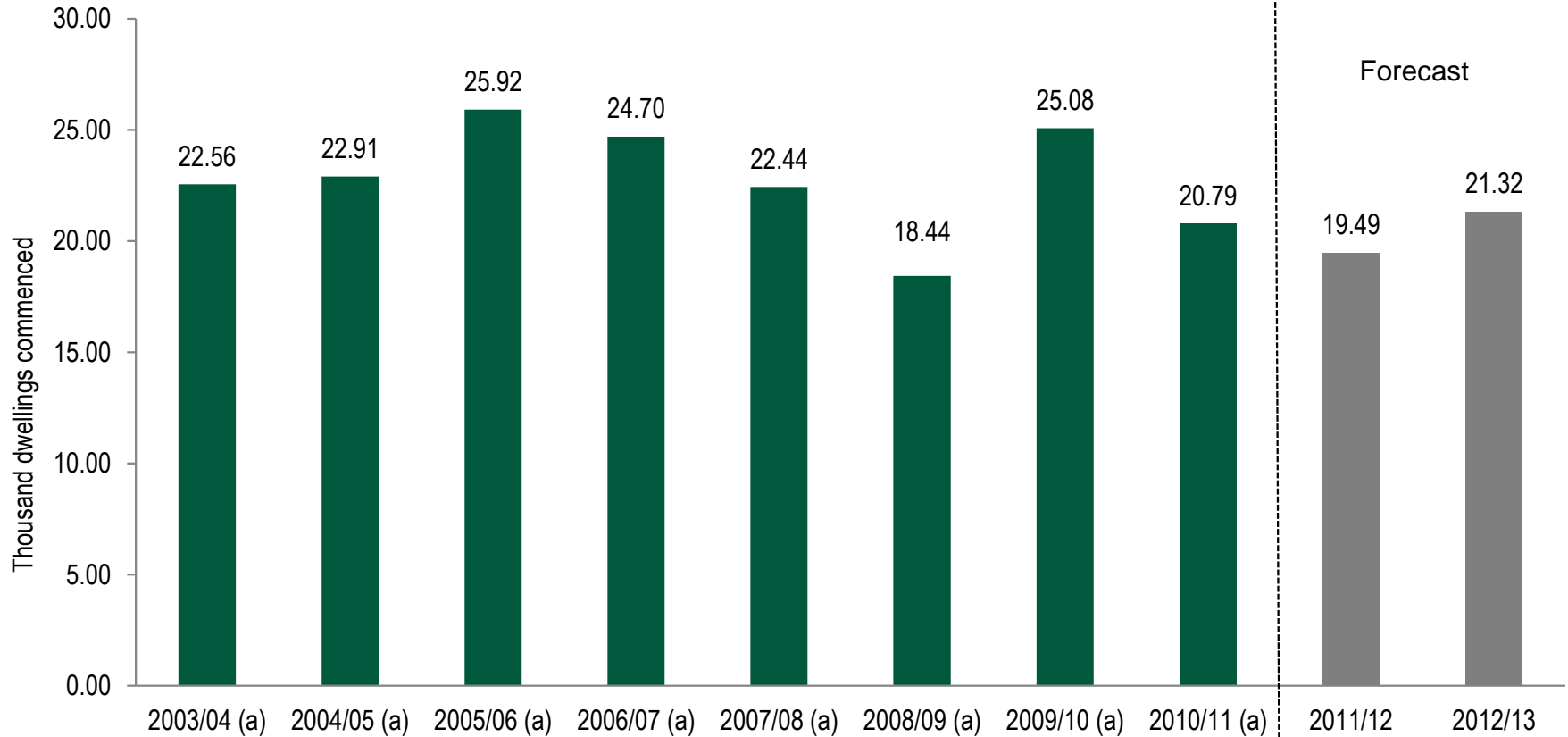
**So what does the future hold?**



## Short term housing starts outlook

### WA Housing Starts Forecasts

Source: HIA Economics Group



## The short term outlook for 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)	11,134	7,296	7,431	2,237	3,595	778	234	435	33,140
2004/05 (a)	10,933	7,010	7,811	2,259	3,781	755	335	385	33,269
2005/06 (a)	10,094	6,538	8,244	2,230	3,744	779	363	404	32,396
2006/07 (a)	8,534	6,238	8,266	2,222	3,700	729	270	341	30,300
2007/08 (a)	8,479	6,768	7,938	1,899	4,449	785	208	380	30,906
2008/09 (a)	8,112	6,667	7,456	2,076	4,110	802	213	311	29,747
2009/10 (a)	8,485	6,465	7,731	2,106	4,760	769	262	407	30,985
2010/11	8,593	6,584	7,208	1,986	5,023	772	276	454	30,896
2011/12	8,796	6,440	8,026	2,098	4,801	759	260	414	31,595
2012/13	9,453	6,675	8,294	2,196	4,911	823	265	417	33,035

Source HIA Economics October 2011

#### % change

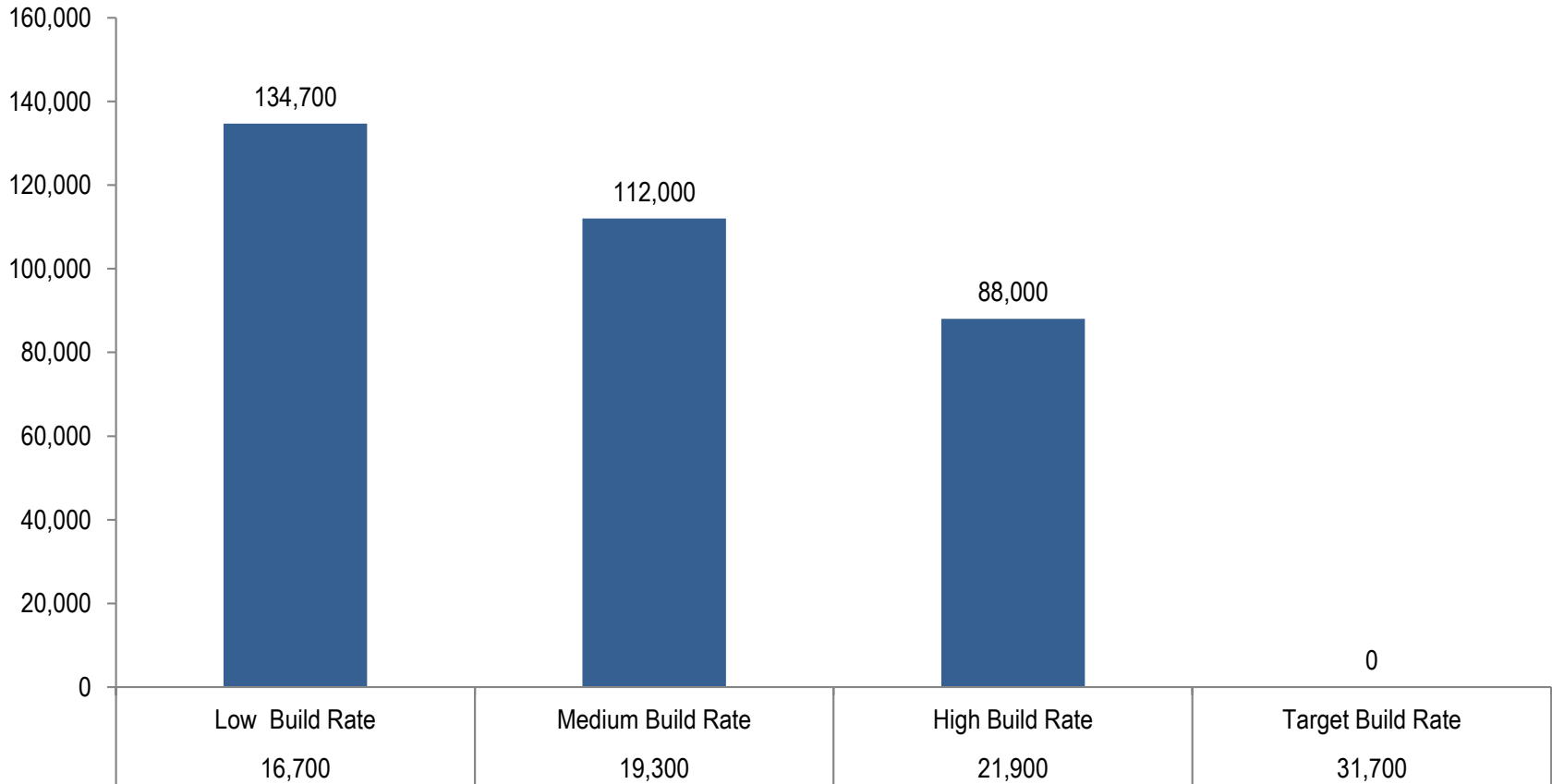
2004/05 (a)	-2%	-4%	5%	1%	5%	-3%	43%	-11%	0%
2005/06 (a)	-8%	-7%	6%	-1%	-1%	3%	8%	5%	-3%
2006/07 (a)	-15%	-5%	0%	0%	-1%	-6%	-26%	-16%	-6%
2007/08 (a)	-1%	8%	-4%	-15%	20%	8%	-23%	11%	2%
2008/09 (a)	-4%	-1%	-6%	9%	-8%	2%	2%	-18%	-4%
2009/10 (a)	5%	-3%	4%	1%	16%	-4%	23%	31%	4%
2010/11	1%	2%	-7%	-6%	6%	0%	5%	12%	0%
2011/12	2%	-2%	11%	6%	-4%	-2%	-6%	-9%	2%
2012/13	7%	4%	3%	5%	2%	8%	2%	1%	5%

(a) = actual

## The 'Big Kahuna play'

Projected Dwelling Shortage by 2020 - Western Australia

Source: HIA



## So, what now?

- Economists love a bet each way, but ...
- ... at the moment that is the reality at its barest.
- There are a multitude of outcomes that could unfold, as early as over the Christmas/New Year period.
- Perhaps we should remember two things:-
- Will authorities let China fail?
- WA's housing backyard needs work and the job has to start now.

**THANK YOU FOR YOUR TIME THIS MORNING**

**Harley Dale**  
HIA Chief Economist

December 2011

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

