Construction Brief

28 August 2017

Economic Growth and Mortgage Stress

Insight: The Australian economy is strong, but the risks to continuing economic growth are increasing. With this, mortgage stress is an indicator to be watched.

***Update:* Economic growth in Australia**

Australian GDP is an unimpressive 1.7 per cent, though the fundamentals within the economy are satisfactory, and will need a caring approach from policy makers to return to RBA's forecast of 3 per cent by the end of 2018.

Residential building has made significant contributions to growth in GDP in recent years and went some way to offsetting the end of the resources investment boom. Residential building will continue to add to economic growth due to the substantial amount of work underway but is expected to detract from economic growth by the end of 2018. With housing activity now slowing, and the mining sector stabilising, the question is which other sectors of the economy will drive the next phase of economic growth?

Total Australian debt continues to rise and currently stands at 300 per cent of GDP, while 55 per cent of this constitutes household debt (42 per cent) and government debt (13 perc cent). Household debt is high relative to income (190 per cent), though the household assets are high too and debt service ratio is low. The problem is the rising debt, weak wages or income growth (1.9 per cent) with high under-employment, weak consumer spending and slower velocity of money. Weak consumer spending has also led to declining saving ratio, which in turn adversely affects business capital expenditure. Consumer confidence in the economic outlook is low, and downside risks persist. This may further scale back consumer spending.

Consumers are facing high mortgage payments, job security fears, weak income growth, and the rising energy and living costs. These factors may accentuate the downside to any economic shock. The good news is that both the unemployment rate and interest rates are currently low.

In response to ongoing dwelling price gains in Sydney, Melbourne and Canberra last year, and also to control the ongoing robust investor activity, APRA announced restrictive measures to help dampen down housing investor activity. From the latest 'June 2017 housing finance approval numbers' it is clear that these restrictions have not yet been enough to cool the investor market, nor they have been sufficient to nullify the RBA's ongoing concerns about house price inflation.

If rates are increased or restrictive housing finance conditions are put in place before a healthy wage rise situation, macroeconomic risks may increase.

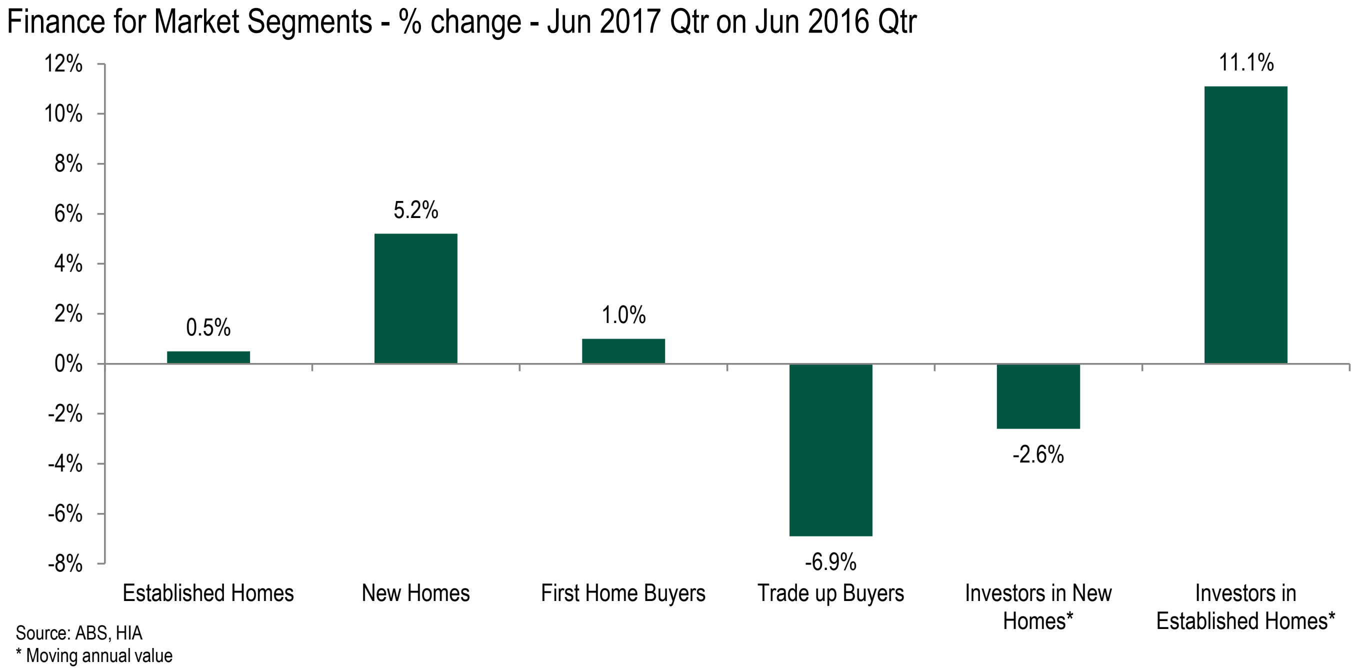
***Update:* Latest housing finance approvals: everyone who participated won the race!**

The June finance approval numbers were a case of everyone who participated, won the race! The good news in these latest June figures was that the market is adjusting with owner occupiers and first home buyers returning to the market.

In seasonally adjusted terms, out of the total $33.3 billion loan approved in the month of June 2017, nearly two thirds went to owner-occupied housing (up by 0.3 per cent in the month of June, while up 0.5 per cent in June in trend terms) while one third of the loan was accounted for by investors (up by 1.6 per cent in the month of June, while down by 0.9 per cent in June in trend terms).

Within the owner occupier category, there was a surge in construction related finance approvals (up by 3.6 per cent in the month of June), and approvals for the purchase of newly built dwellings were also up (3.5 per cent growth in the month of June). Also, the first home buyer approvals were up by 8.8 percent in the month of June. This shows that the state governments' policies providing assistance to the first home buyers are generating good results.

The macroprudential measures introduced in March and associated increases in rates for investors along with restrictions on foreign investors, have provided some support to owner occupier loan activity. Nonetheless, the June 2017 numbers, where there was growth in all main categories are not very pleasing for regulators hoping for a more substantial curb on investor activity. Will the Empire strike back with further restrictions or will the regulator wait to see the full impact in the months ahead? The regulator needs to strike a balance between the need for slowing down the residential investor activity to curbing dwelling price growth, and the impact of any further restrictions on the macro-economy.



The fortnight ahead – key dates and releases

Tuesday 29 August

HIA New Home Sales Report July 2017, 11am

Wednesday 30 August

ABS Building Approvals 11.30am

Thursday 31 August

HIA-CoreLogic Residential Land Report March Qtr 2017, 11.00am

Friday 1 September

CoreLogic House Price data, 9.30am

Tuesday 5 September

RBA Interest rates decision, 2.30pm

Wednesday 6 September

ABS National Accounts, 11.30am

Friday 8 September

ABS Housing Finance, 11.30am

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