



LAX LENDING ROCKET FOR AUSTRALIAN HOUSING?

Agenda

- Credit for everyone
- Unemployment for a lot of people
- Stimulus Cliffs
- Other factors affecting property market
- Investment Outlook



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David Llewellyn-Smith
Tim Fuller
Damien Klassen



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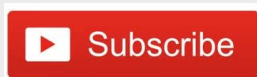
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Credit for Everyone:

I made a mistake

Made a calculator to illustrate property in purgatory :

1. if economy improved, interest rates increased then higher rates would cap property prices,
2. if the economy didn't improve, then weak growth and already low interest rates would see property prices fall



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Credit for everyone:

Mechanism is already working

- Mechanism is here: TFF
- Japan, Germany, France
- TLTRO
- Banks are already being paid to lend



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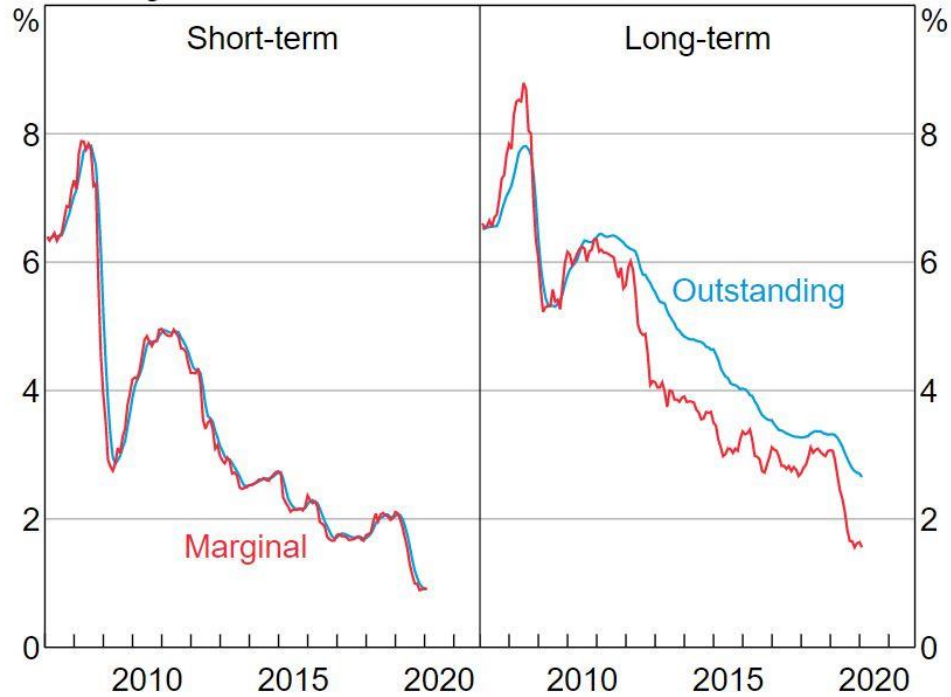


Credit for everyone:

Mechanism is already working

Graph 8

Major Banks' Wholesale Debt Costs*

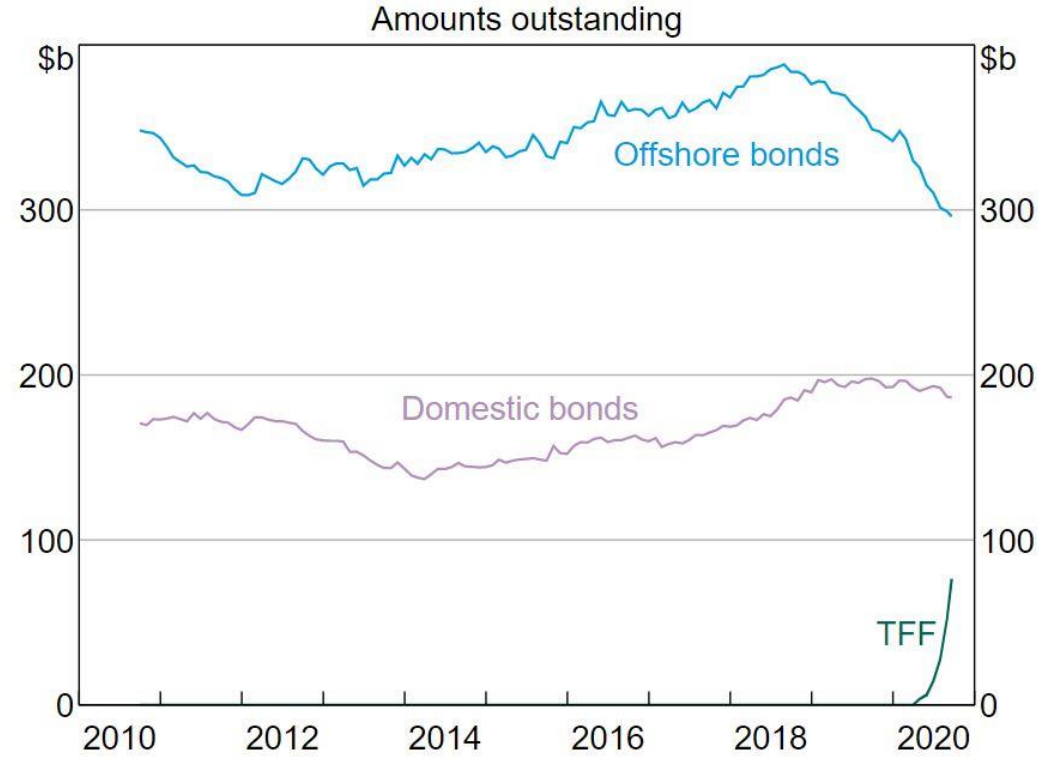


* RBA estimates; costs do not include interest rate hedges

Sources: AFMA; APRA; ASX; Bloomberg; RBA; Refinitiv; US Federal Reserve; Yieldbroker

Graph 5

Wholesale Funding of Banks in Australia



Sources: Bloomberg; Private Placement Monitor; RBA



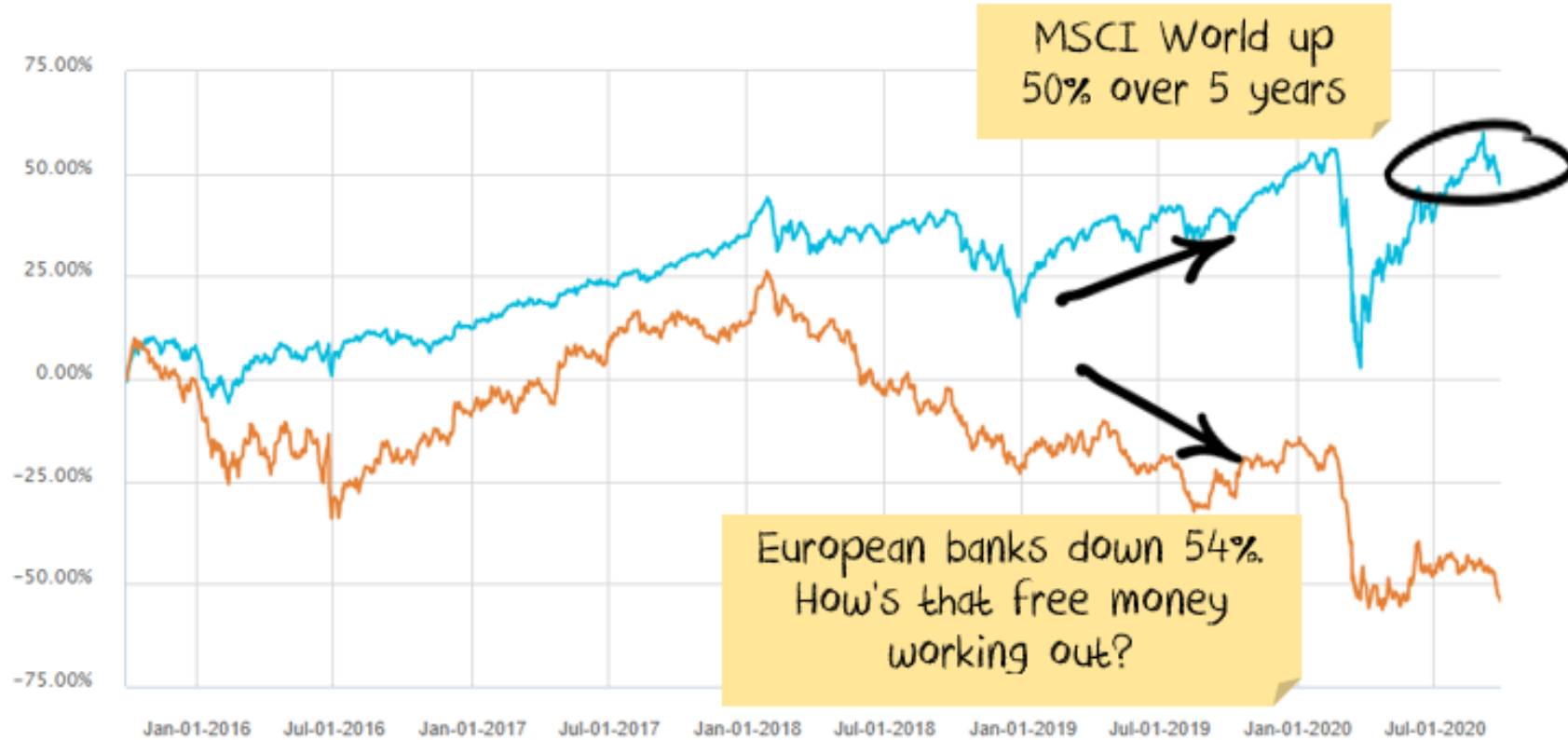
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Credit for everyone:

Not good for banks



Source: S&P Capital IQ, Nucleus Wealth



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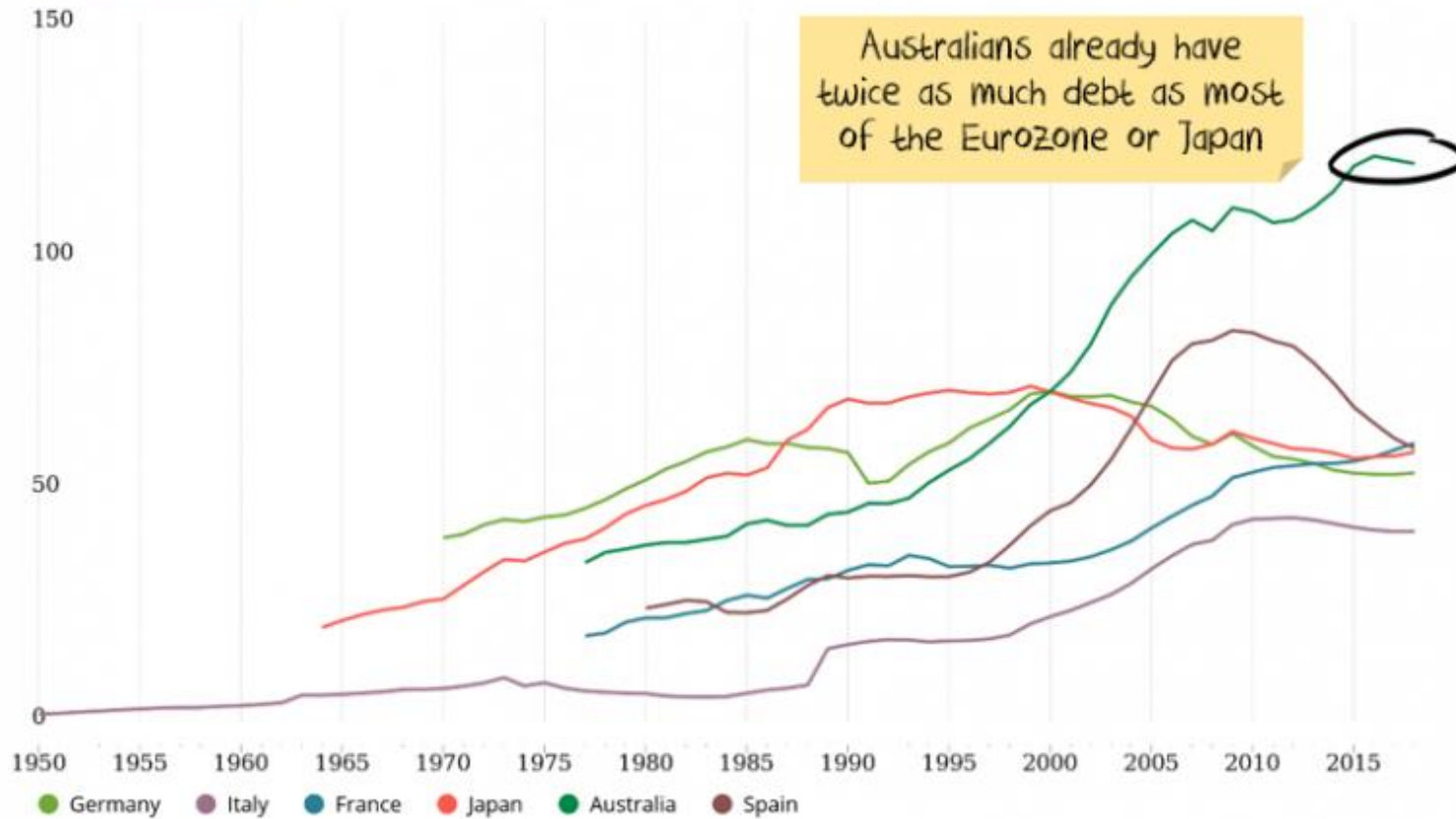


Credit for everyone:

Australia has already played the debt card

IMF DataMapper

Household debt, loans and debt securities (Percent of GDP)



©IMF, 2020, Source: Global Debt (December 2019)



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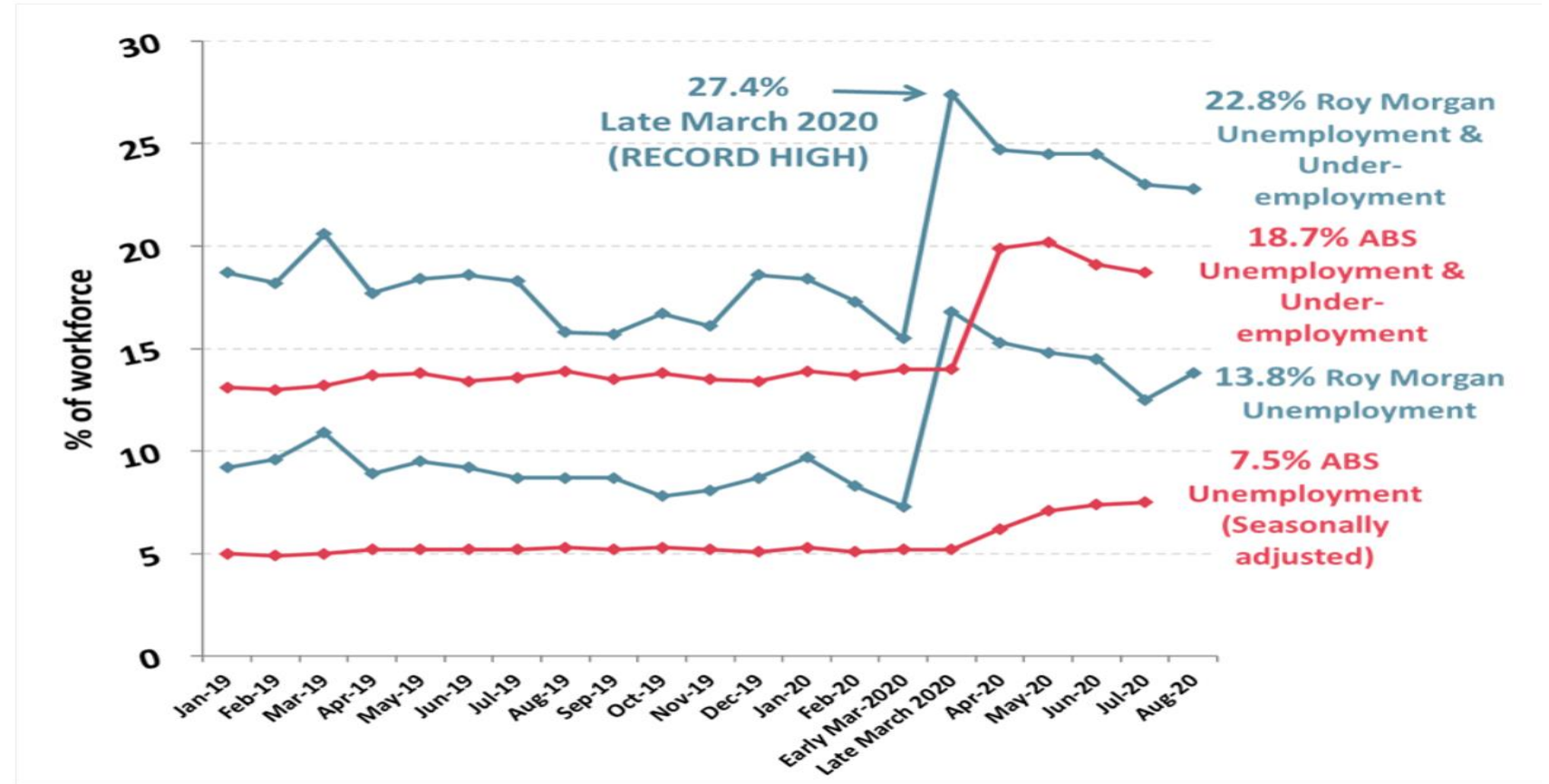
Unemployment Sky high

Ongoing headwind for property and economy

ABS' official unemployment rate understated due to:

- JobKeeper
- Discouraged workers not counted.

Roy Morgan Unemployment & Under-employment (2019-2020)



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Fiscal cliff looms large

Jobkeeper and JobSeeker unwound this month:

- JobKeeper reduced from \$1500 to \$1200 (\$750 part-time)
- JobSeeker reduced from \$1100 to \$815

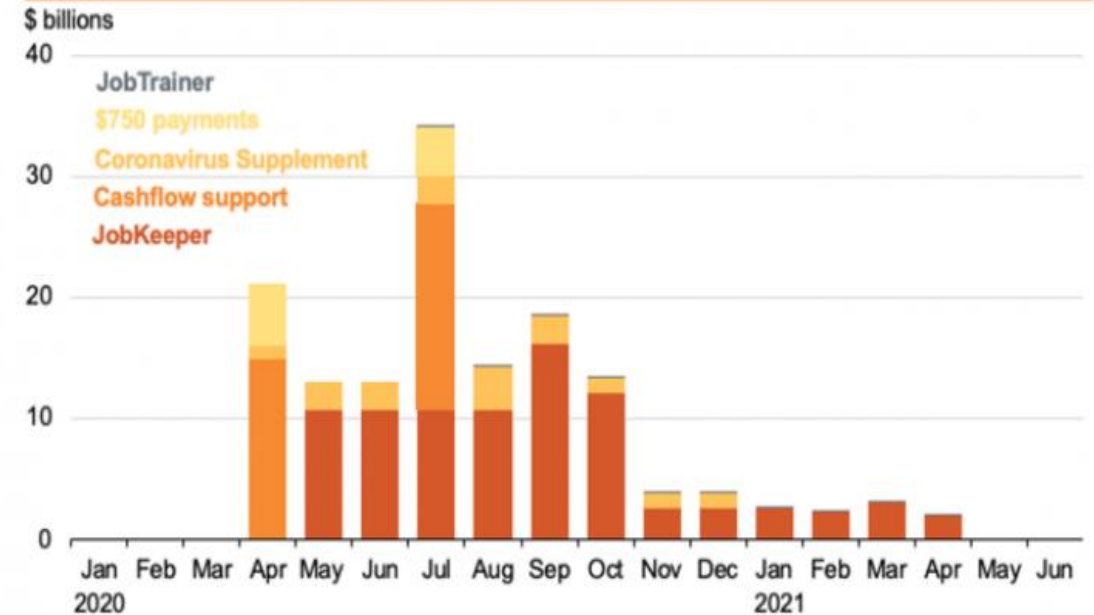
Grattan estimates tapering will reduce income support from \$18 billion a month (10.7% of monthly GDP) to \$3 billion a month (1.9% of GDP) for the six months beyond.

Loan repayment holidays to also be wound back:

	Deferred loans	Total loans	Deferred loans, share of total loans
Total	\$229 billion	\$2.7 trillion	8.5%
Housing	\$160 billion	\$1.8 trillion	9.0%
SME	\$53 billion	\$325 billion	16.2%

Early super release ends in December

A fiscal cliff still looms in October, even though the fall has been cushioned a little



Notes: Amounts reflect payment timing. JobKeeper runs from late March 2020 to late March 2021 but is paid in arrears.
Source: Grattan analysis of government announcements.



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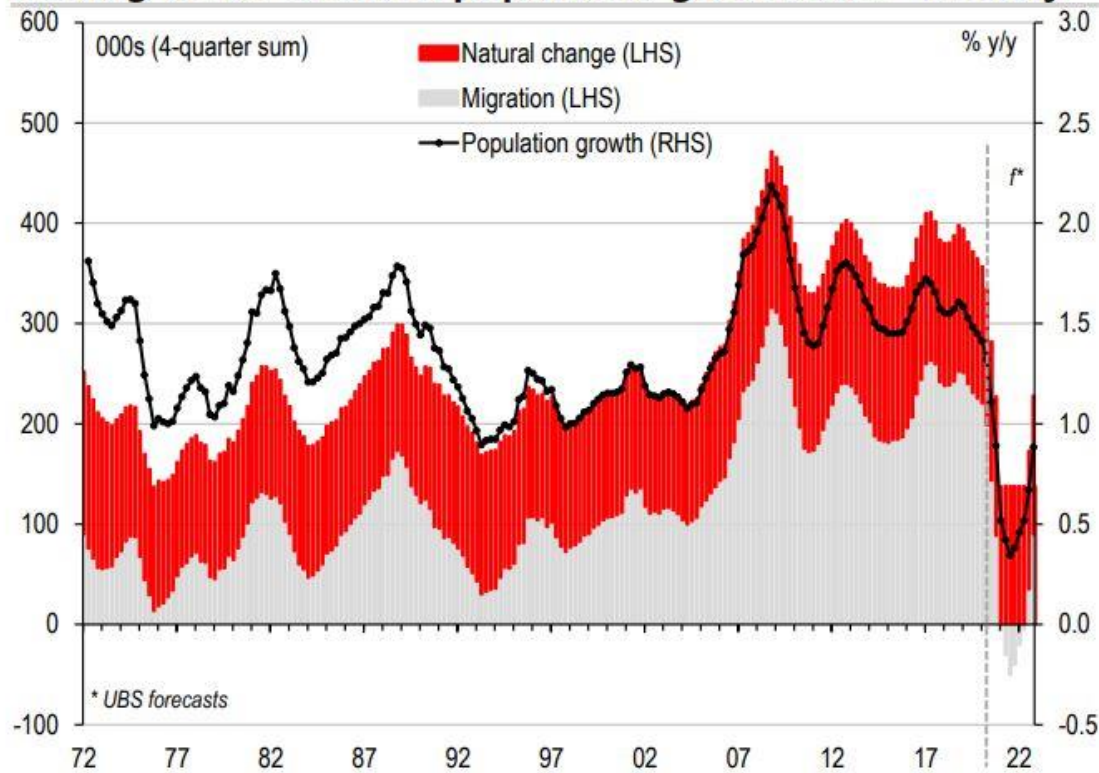
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Mass immigration caput

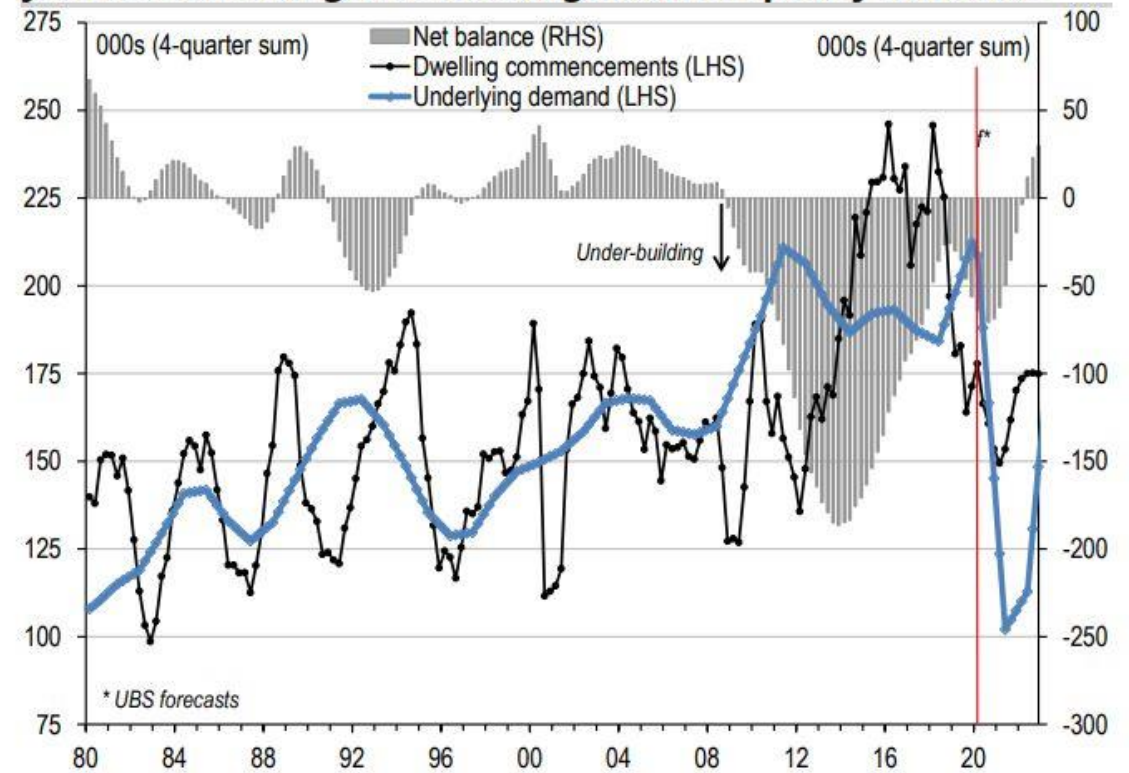
Slowest in a century

Figure 28: Australian Government now indicates there will likely be ~no migration in both FY21 and FY22, leading to the weakest population growth in a ~century



Source: ABS, UBS

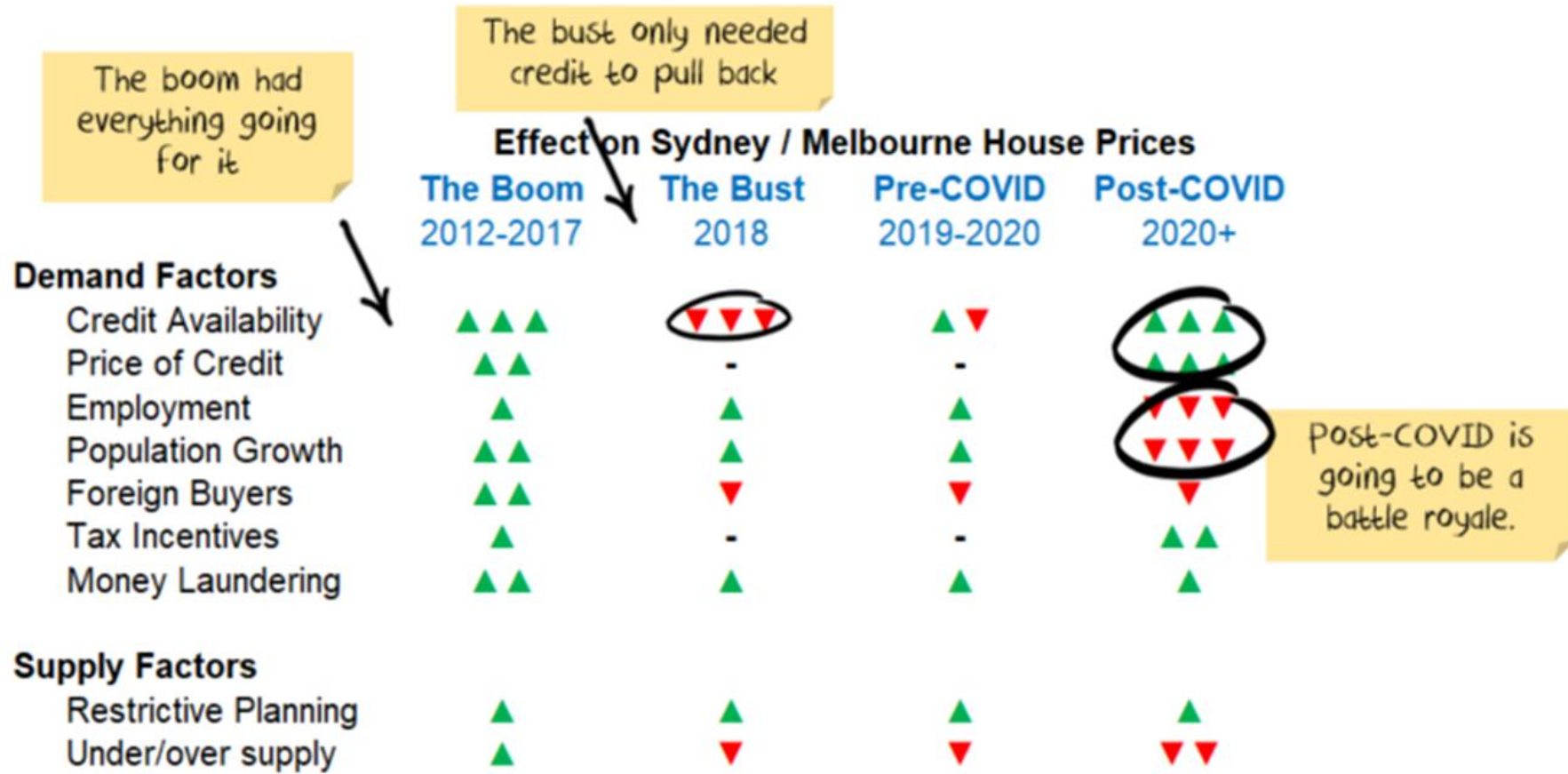
Figure 29: With no migration, our model shows underlying demand for housing will collapse in coming years, a clear negative muting material policy stimulus



Source: ABS, UBS

Property Price Forces:

Showdown between credit and unemployment



Source: Nucleus Wealth



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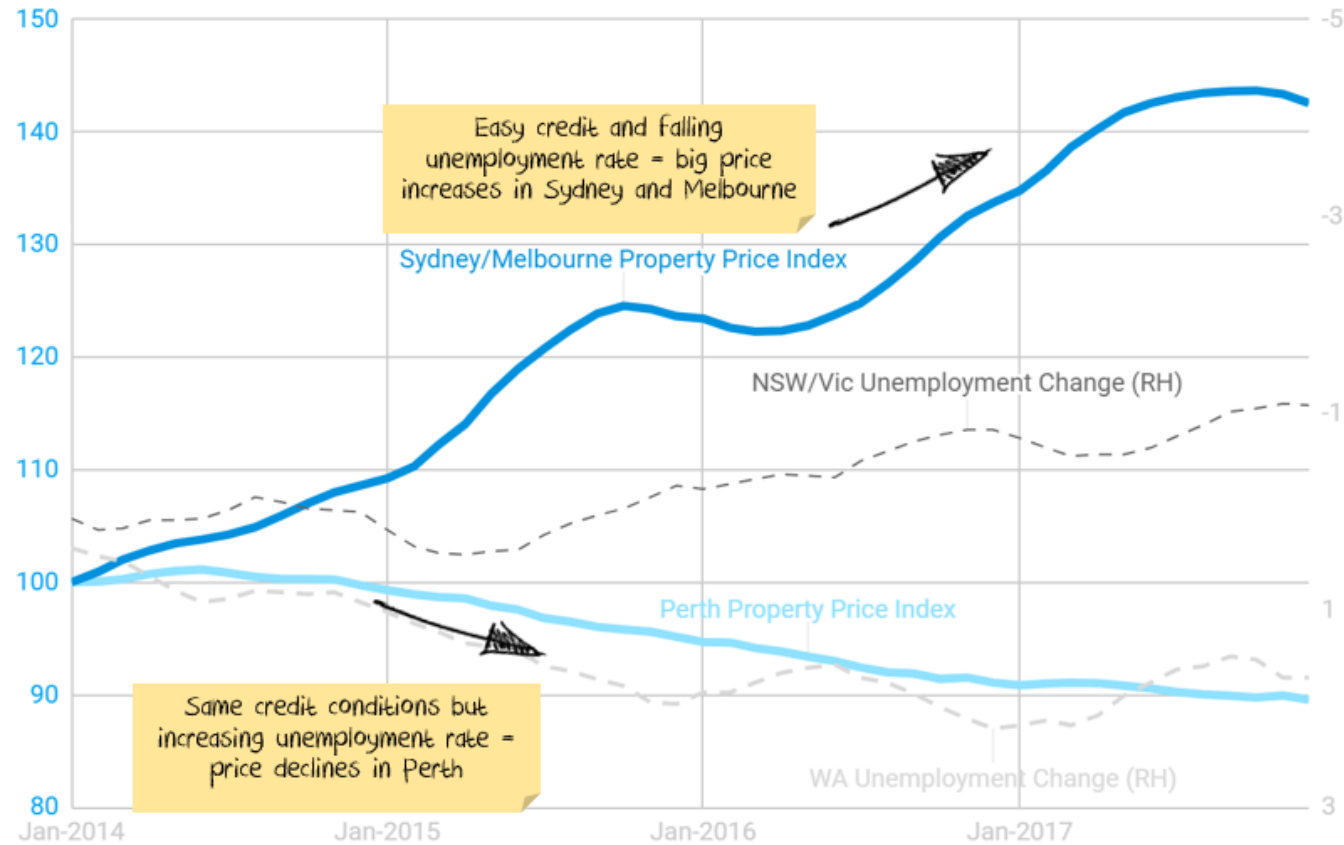
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Showdown between credit and unemployment

Perth gives an indication

Perth House Prices and WA Employment



Source: Nucleus Wealth, ABS, CoreLogic



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Housing market already turning?

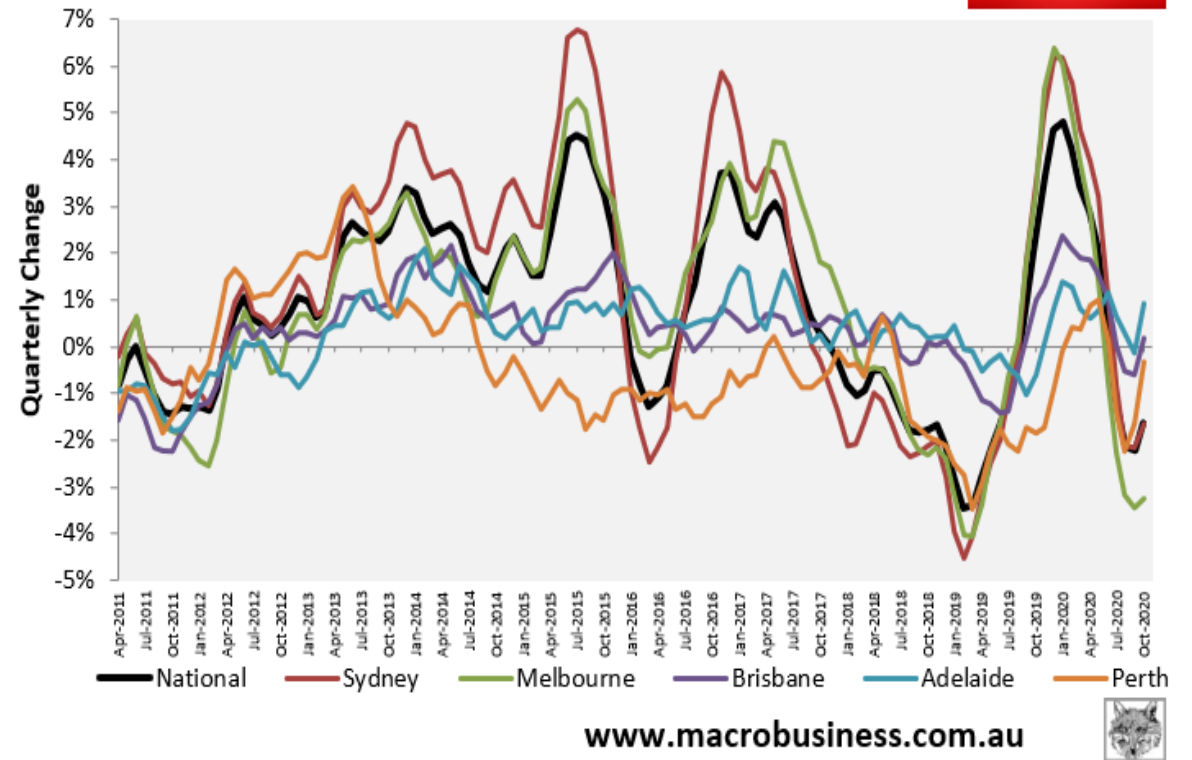
Shift in momentum led by smaller capitals

- Smaller capitals recording price growth.
- Falls slowing in Sydney.
 - Strong rebound in auction clearances.
- Melbourne remains key drag.
- Sydney and Melbourne will remain weighed down by collapsing immigration and supply glut, but price growth likely elsewhere.
- Possibility of rising property prices nationally in 2021
 - Eased lending standards
 - Lower mortgage rates

CoreLogic Capital City Dwelling Price Growth

Source: CoreLogic

MACRO
BUSINESS



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Investment Outlook

Caution

- Cautious outlook. International and bonds still generating value
- Low return environment, but volatile
- Need to be more active than in the past



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Viewer question of the week:

Is easy credit the only answer to stop falls in Australian property?

Drop your answers in the comments



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