



CAN AUSTRALIAN PROPERTY REBOUND FROM COVID?

WITH MARTIN NORTH

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Agenda

- RBA dropping interest rates to unprecedented levels, will it work?
- Covid impacts & household confidence
- Listings and values
- Mortgage stress
- Viewer Questions
- Investment Outlook



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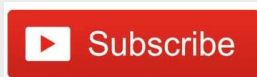
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RBA Decision to lower interest rates & Phil Lowe:

- RBA Decision - Phil Lowe
- “Monetary Policy Can’t Affect Anything Real in the Long Run”
- A cash rate cut is unlikely to stimulate the economy” Canstar
- Credit Demand, Not Supply Is The Issue...
- Has Near Zero Rates Done Any Good?
- Flogging A Dead Horse?

Source: DigitalFinanceAnalytics.com



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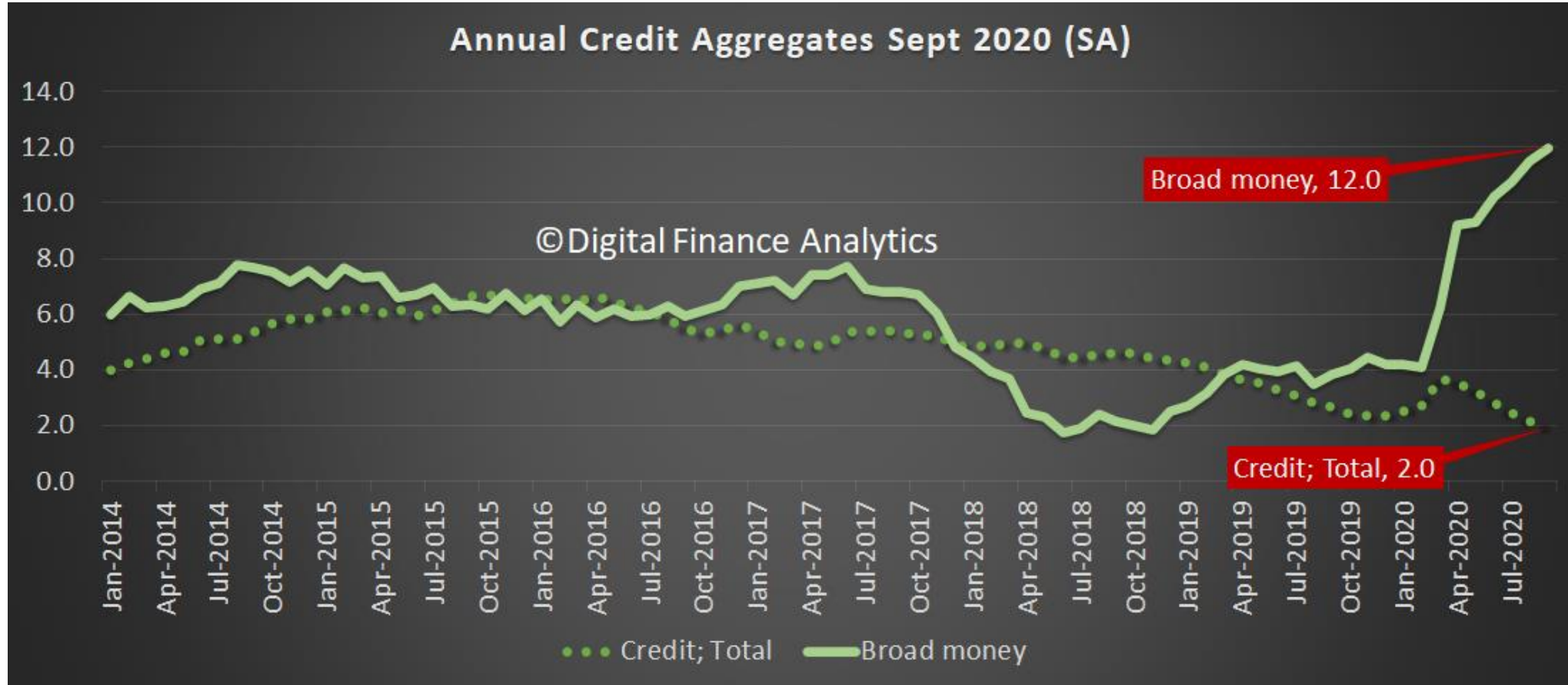
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Flogging a dead horse?



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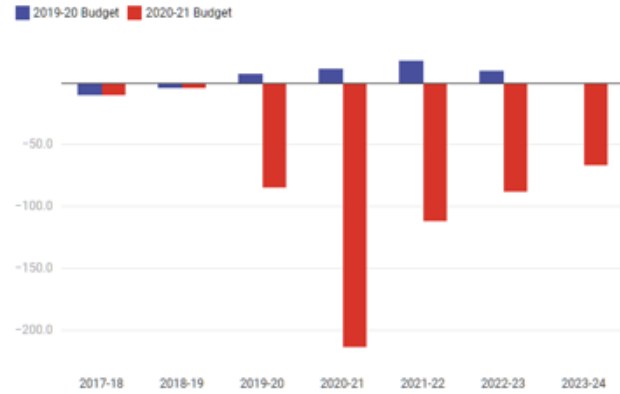
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The \$1 Trillion Debt Budget: Missed Opportunity 2021 Budget

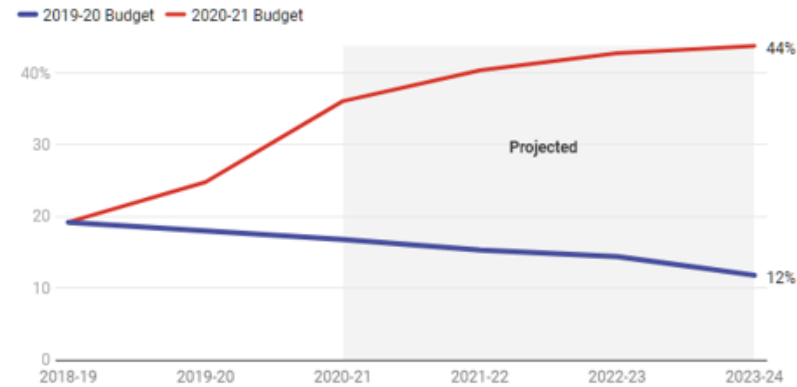
Underlying cash balance

\$. billions.



Net debt

% of GDP



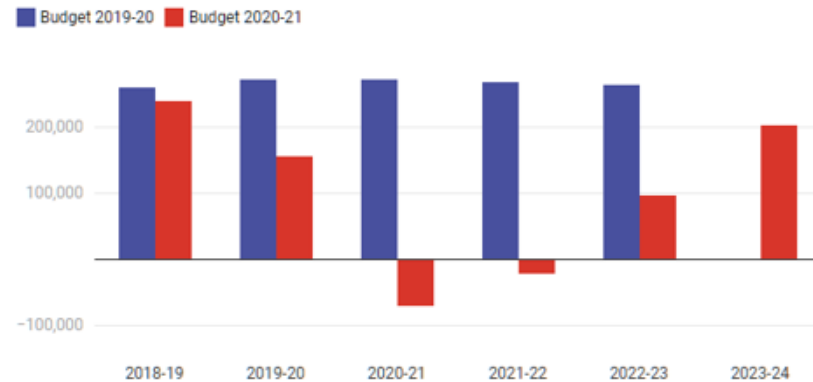
Past and projected GDP growth

% growth, 1961 to 2024 (2021 to 2024 Budget projections).



Net migration

Budget 2019-20 vs 2020-21.



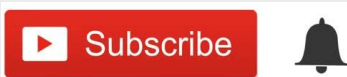
- Budget results in “significant step-down in stimulus provided” in 2021

- Stay cautious on discretionary retailers with elevated P/E ratios; Impact on retail demand is positive but needs to clear high hurdle in 2021

- Volume of stimulus from tax cuts and pensioner payments “pale in comparison to the stimulus paid in June and September 2020”

- Infrastructure spending proposals may drive small earnings uplift in building material producers

- Homebuilder program not extended; While it did pull forward some work into FY21, medium-term housing risks from stimulus wind-back and border closures remain (Citi)



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Household financial confidence via ANZ-Roy Morgan:

Confidence up 0.2%



Source: ANZ-Roy Morgan, ANZ Research



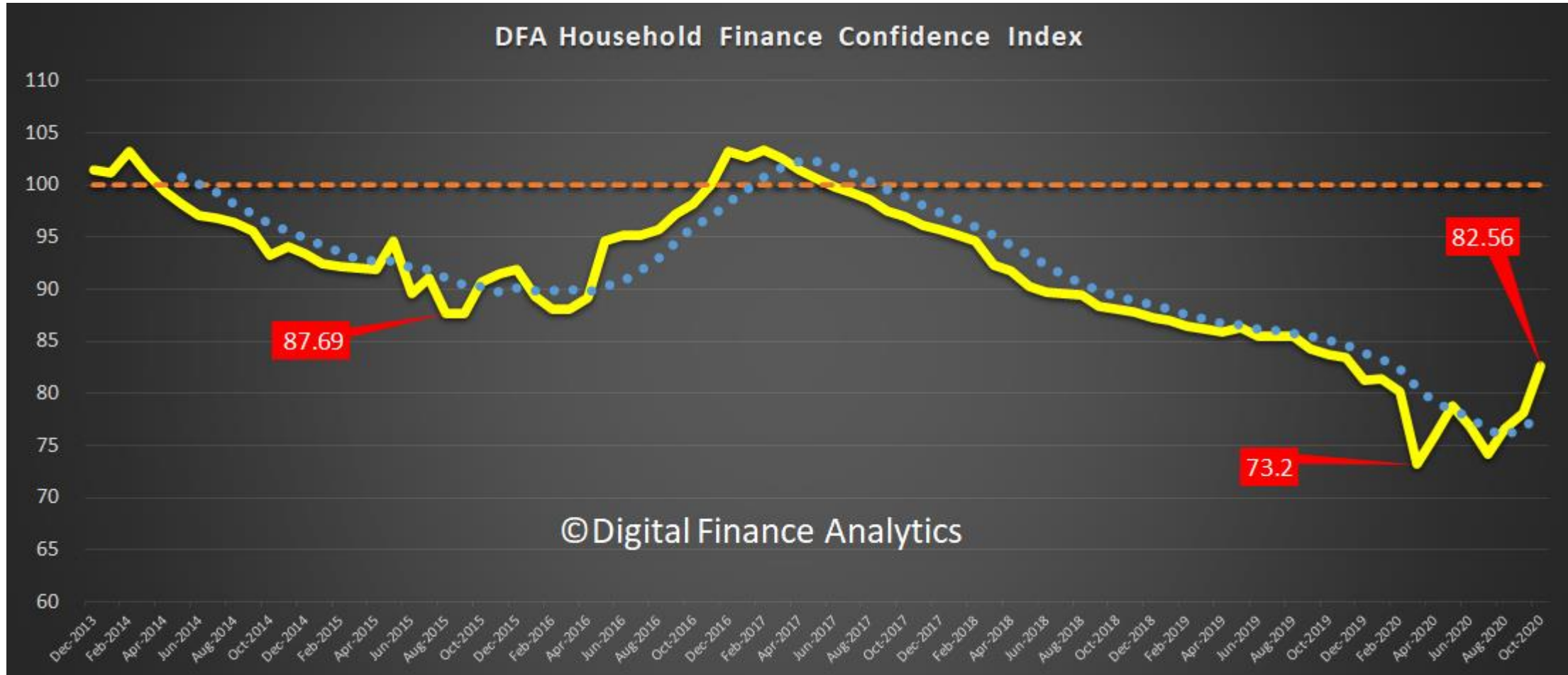
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Household financial confidence via DFA:

Up a bit.. But..



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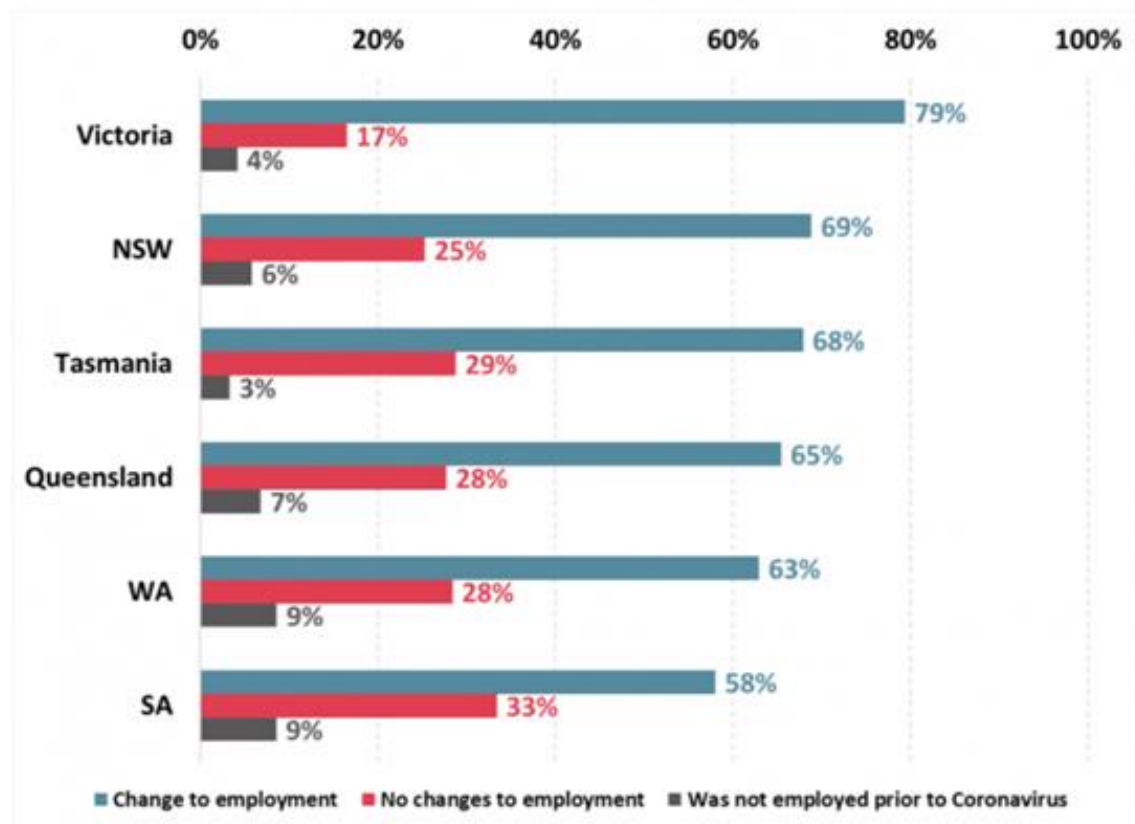
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70% of working Australian's employment impacted by COVID-19

Impact of the Coronavirus on employment By State



Source: Roy Morgan multi-mode survey of Australians conducted during September 2020, n=4,059. Base: Working Australians aged 14+. Respondents could nominate multiple employment changes.

- Changes include being stood down, having reduced hours and working from home
- Another 1.6 million (10%) cited other changes such as enforced leave, changes in work rostering, social distancing at work etc

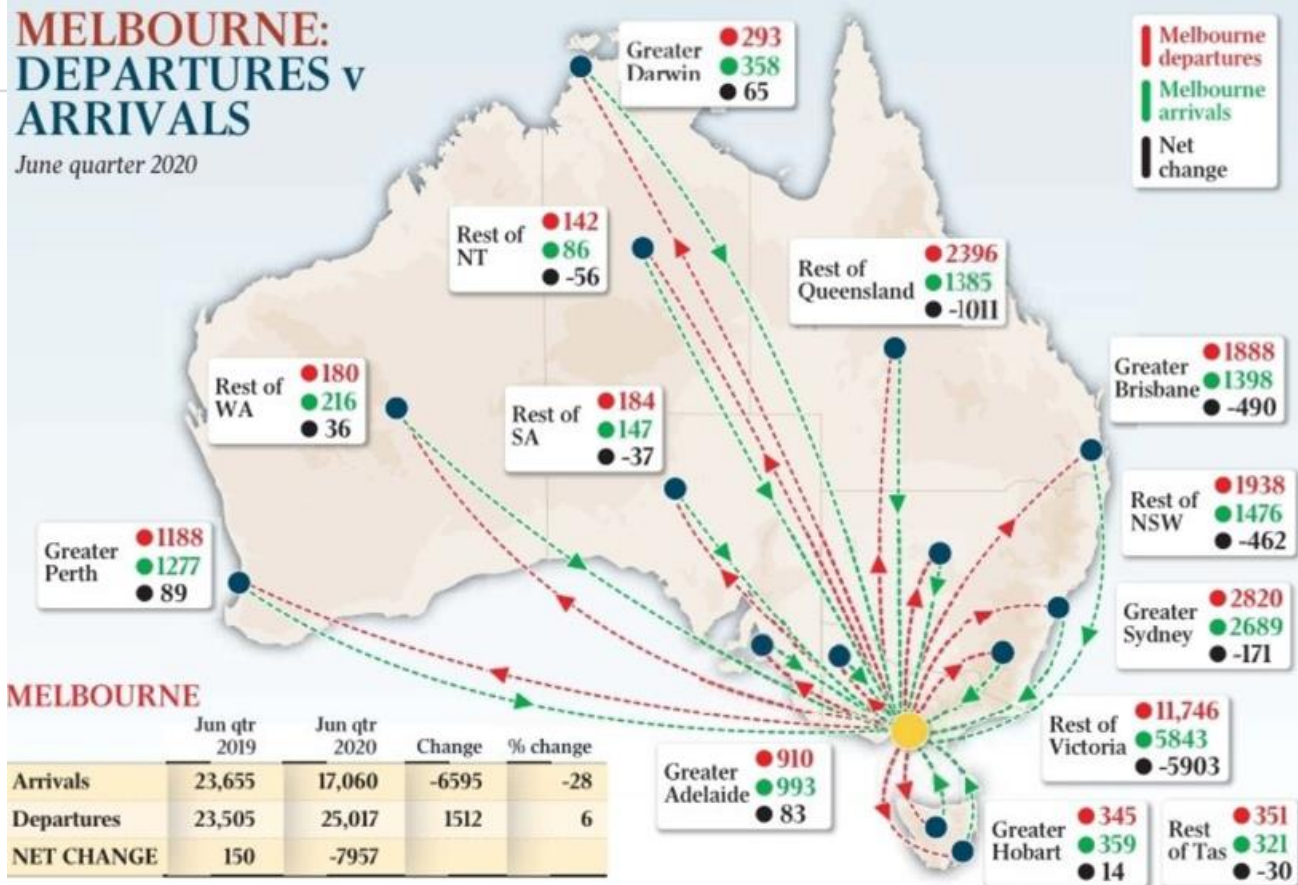


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Departures vs Arrivals to Melbourne:



INTERSTATE TRANSFERS

	Arrivals	Departures	Net change
NSW	21,808	25,763	-3955
Vic	15,930	18,972	-3042
Qld	24,141	17,391	6750
SA	5793	5689	104
WA	6689	6916	-227
Tas	3160	2773	387
NT	3207	3467	-260
ACT	4723	4480	243

INTRASTATE TRANSFERS

	Capital to regions	Regions to capital	Net change for capital
NSW	10,767	7026	-3741
Vic	1,746	5843	-5903
Qld	9677	10,564	887
SA	2467	2426	-41
WA	3768	4352	584
Tas	588	619	31
NT	342	446	104
Total	39,355	31,276	-8079

TOTAL CAPITAL CITY TRANSFERS

	Arrivals	Departures	Net change
Sydney	17,253	23,217	-5964
Melbourne	17,060	25,017	-7957
Brisbane	20,346	17,136	3210
Adelaide	6707	6885	-178
Perth	9416	9003	413
Hobart	1844	1888	-44
Darwin	2562	2769	-207
Canberra	4723	4480	243
Total	47,453	57,937	-10,484

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Damien Klassen



Corelogic Says Dwelling Values Rose 0.4% In October:

Index results as at October 31, 2020

	Change in dwelling values				Median value
	Month	Quarter	Annual	Total return	
Sydney	0.1%	-0.6%	6.1%	8.8%	\$860,955
Melbourne	-0.2%	-2.2%	0.7%	4.1%	\$666,240
Brisbane	0.5%	0.9%	3.5%	7.5%	\$510,353
Adelaide	1.2%	2.0%	4.4%	8.5%	\$455,425
Perth	0.6%	0.9%	0.0%	4.3%	\$456,267
Hobart	1.0%	1.6%	6.5%	11.9%	\$498,073
Darwin	1.2%	3.9%	2.8%	9.4%	\$398,910
Canberra	1.0%	1.9%	6.8%	11.8%	\$656,739
Combined capitals	0.2%	-0.5%	3.7%	7.1%	\$638,264
Combined regional	0.9%	1.3%	4.8%	9.6%	\$403,181
National	0.4%	-0.1%	3.9%	7.6%	\$559,254



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New listings up massively:

Nationally, new listings (30 days) increased by a significant 27.45% over the course of October

Stock on Market Table:

City	October 2019 Total	September 2020 Total	October 2020 Total	Monthly change %	Yearly change %
Sydney	29,977	31,429	34,061	8.4%	13.6%
Melbourne	36,122	34,771	44,057	26.7%	22.0%
Brisbane	31,101	28,883	30,213	4.6%	-2.9%
Perth	24,368	22,272	23,203	4.2%	-4.8%
Adelaide	16,369	14,062	14,691	4.5%	-10.3%
Canberra	4,529	3,844	4,167	8.4%	-8.0%
Darwin	1,921	1,441	1,450	0.6%	-24.5%
Hobart	2,138	1,737	1,879	8.2%	-12.1%
National	318,874	289,566	308,413	6.5%	-3.3%

Source: SQM Research



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Mortgage Stress Hits New Record In October 2020 At 40.6%



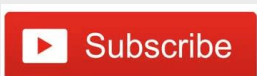
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Stress by states - October 2020

State	Households	Mortgage Stress	Rental Stress	Stressed Investors	Financial Stress	% Mortgage Stress	% Rental Stress	% Investors Stressed	% Financial Stress
ACT	162,141	26,320	22,437	20,241	68,998	38.0%	33.0%	34.7%	45.4%
NSW	3,022,759	438,202	734,672	317,245	1,490,086	38.5%	49.5%	34.7%	45.0%
NT	82,561	9,240	7,651	4,084	20,975	41.2%	15.7%	13.8%	24.2%
QLD	1,954,797	271,858	316,840	151,038	739,736	37.6%	31.7%	23.1%	34.8%
SA	736,324	132,248	70,236	37,133	239,617	41.3%	18.4%	16.4%	29.7%
TAS	231,160	42,863	17,128	9,924	69,915	50.3%	14.8%	13.1%	27.7%
VIC	2,485,012	448,732	465,679	209,720	1,124,131	43.5%	36.9%	23.7%	39.5%
WA	1,036,731	196,768	146,026	82,426	425,220	39.2%	27.0%	23.6%	34.6%
Grand Total	9,711,485	1,566,231	1,780,669	831,811	4,178,678	40.6%	34.8%	25.2%	37.9%



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Stress by segments - October 2020

Segment	Households	Mortgage Stress	Rental Stress	Stressed Investors	Financial Stress	% Mortgage Stress	% Rental Stress	% Investors Stressed	% Financial Stress
Battling Urban	405,909	109,553	70,626	13,816	193,995	64.5%	37.9%	18.7%	46.4%
Disadvantaged Fringe	1,686,297	424,623	265,338	69,910	759,871	62.2%	33.8%	17.4%	40.9%
Exclusive Professionals	739,180	84,399	128,178	121,103	333,680	33.0%	36.2%	49.4%	45.0%
Mature Stable Families	1,220,696	166,442	255,656	120,576	542,674	31.4%	47.6%	32.7%	41.9%
Multicultural Establishment	537,860	75,136	142,189	41,049	258,374	36.9%	50.9%	33.0%	46.7%
Rural Family	927,046	109,030	86,523	28,308	223,861	30.4%	16.4%	10.0%	20.3%
Stressed Seniors	393,985	27,091	74,116	46,071	147,278	15.6%	40.2%	32.8%	32.4%
Suburban Mainstream	1,692,035	237,077	285,517	149,707	672,301	31.9%	36.0%	25.6%	35.1%
Wealthy Seniors	813,952	48,794	170,249	77,468	296,511	16.7%	36.1%	31.0%	31.8%
Young Affluent	611,255	33,544	175,408	108,627	317,579	17.1%	47.8%	54.3%	48.1%
Young Growing Families	683,270	250,542	126,869	55,176	432,554	79.0%	38.6%	23.1%	57.9%
Grand Total	9,711,485	1,566,231	1,780,669	831,811	4,178,678	40.6%	34.8%	25.2%	37.9%



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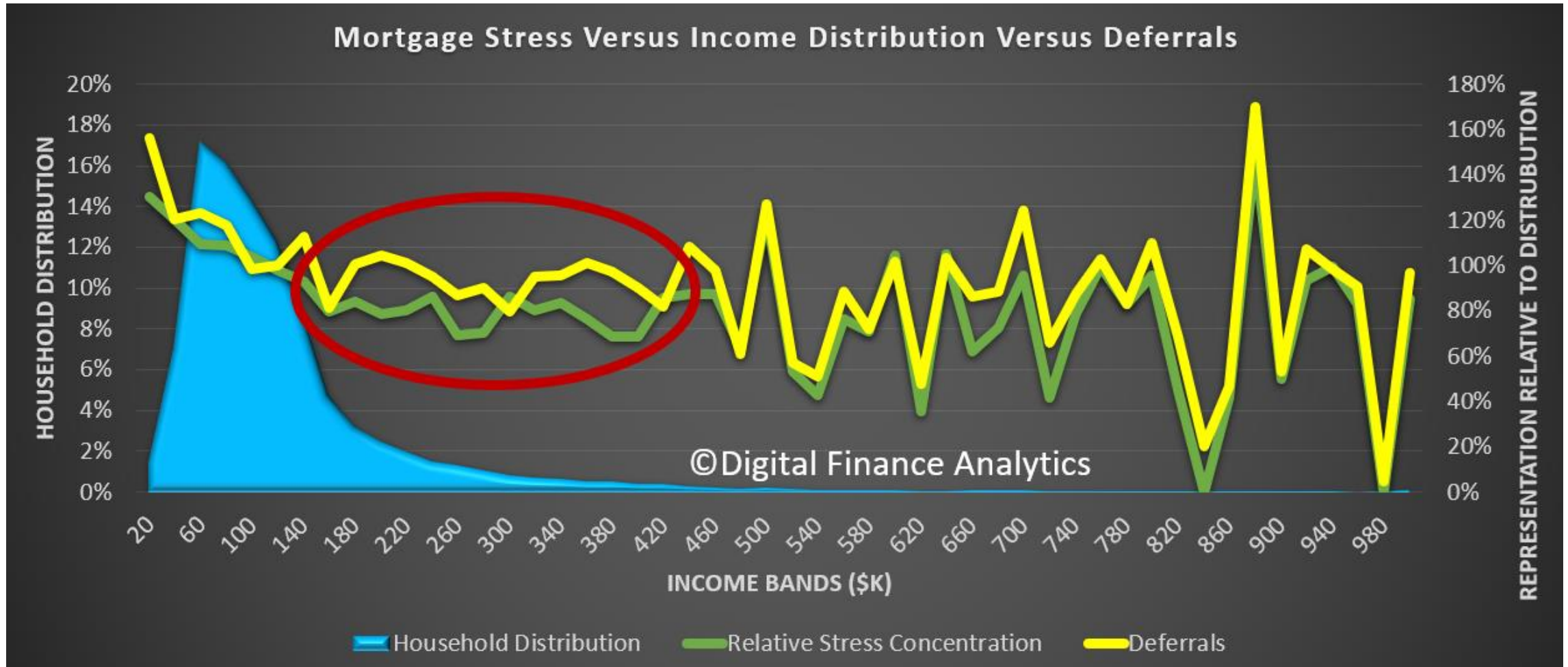
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Some Who Deferred Are Not Stressed:

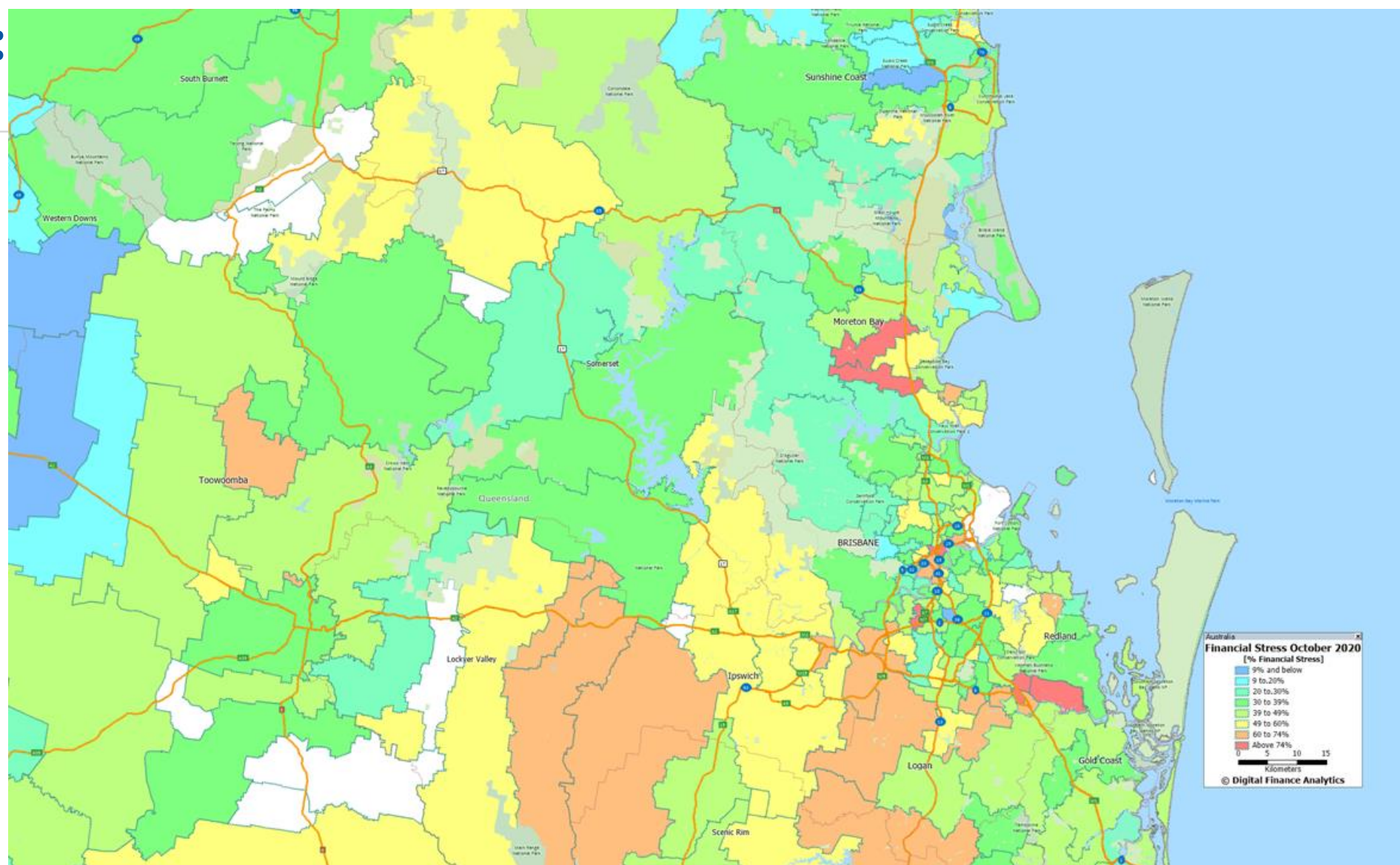


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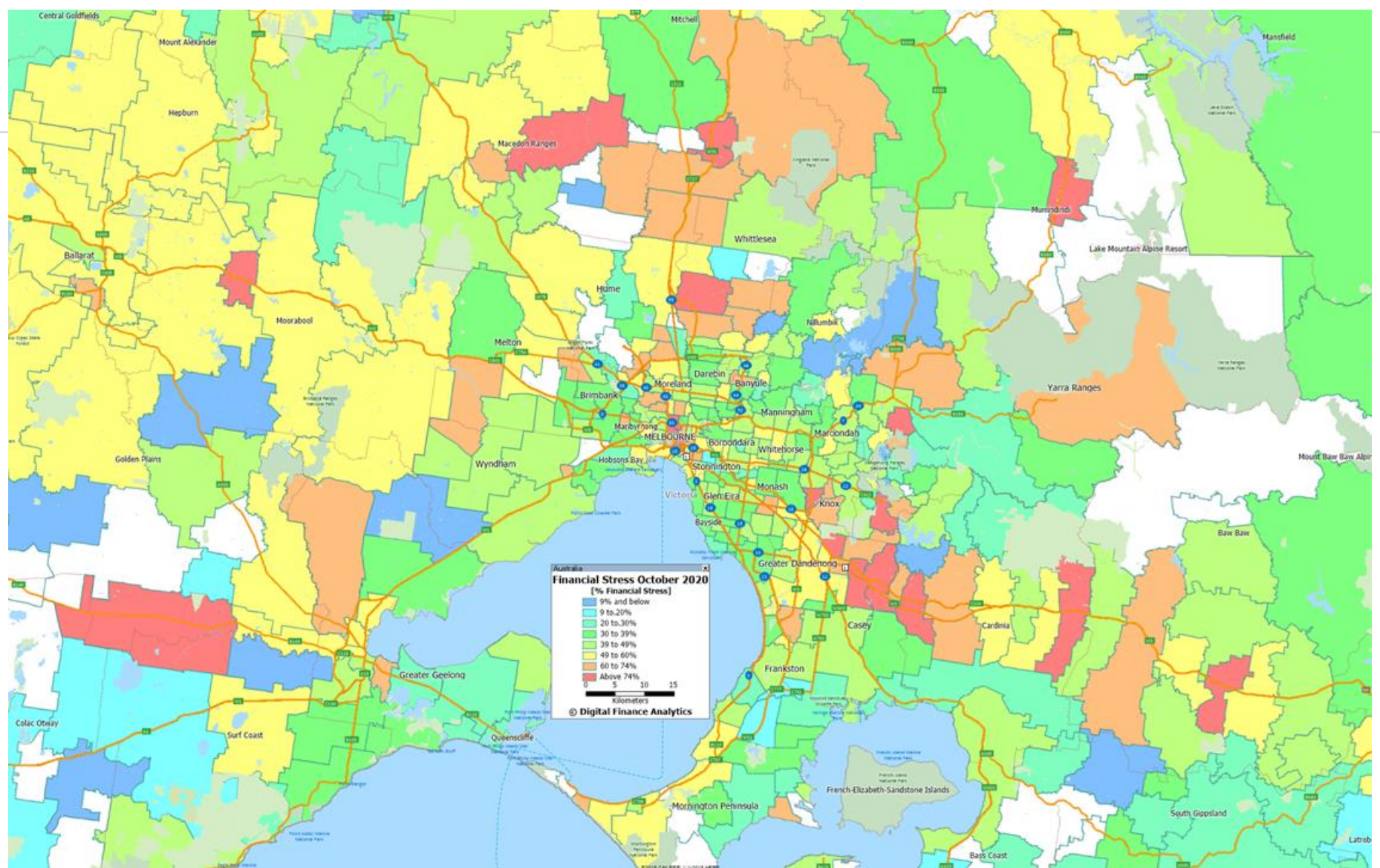


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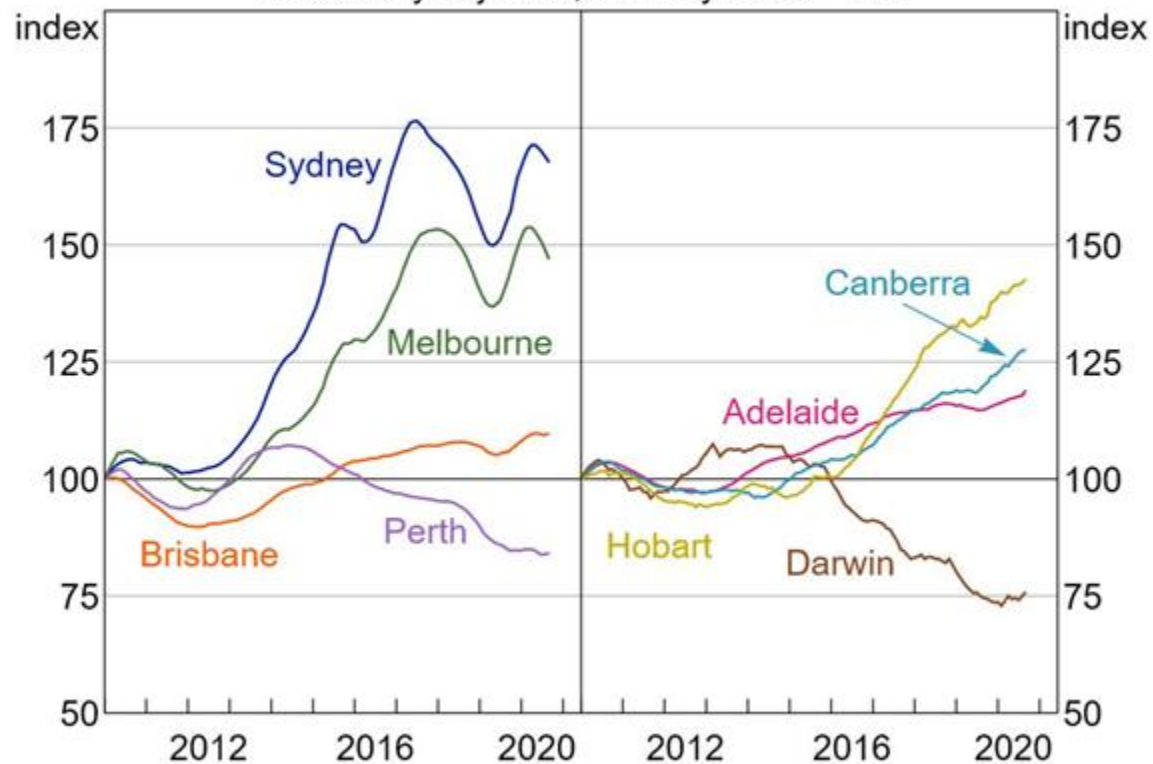
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Non-Performing Loans Will Rise:

Housing Prices

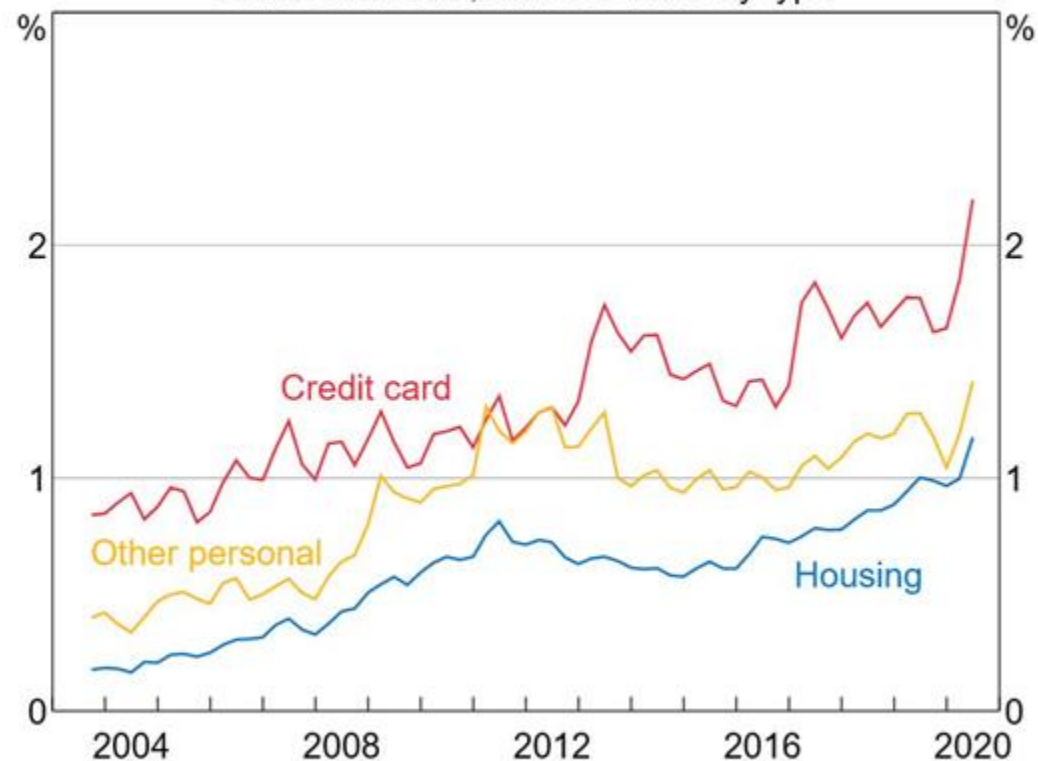
Seasonally adjusted, January 2010 = 100



Sources: CoreLogic; RBA

Banks' Non-performing Household Loans

Domestic books, share of loans by type



Sources: APRA; RBA



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Summary Outcomes (24-36 Months Later, Baselined Sept 2020):

Scenario	RBA Rate	Unemployment Rate	Mortgage Stress	Bank Losses (BP)	Home Prices	Unnatural Acts	% Probability (= Last Time)
RBA Baseline	0.1%	6.5%	36%	12.5	+10% to +15%	Easing Credit /QE/Fiscal	5% (2.5%)
Best Case (COVID Vaccination)	0.1%	6.5%	39%	18	+5% to -10%	Fiscal/QE/NR	30% (25%)
Longer Term Crunch	0.1%	8.75%	42%	25	- 10% to - 30%	QE/One Bank Bail Out	40% (42.5%)
Multi Wave Disruption	Zero and below	9.5%-11%	40%-45%	45	- 30% to - 45%	Bail In/Bail Out/QE ++	20% (25%)
Uncontrolled Pandemic	Zero and Below	16%+	65%	65+	Down to - 80%	QE+ Bank Failures	5% (5%)



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DFA's Summary Outcomes (24-36 Months Later, Baselined May 2020):

Scenario	RBA Rate	Unemployment Rate	Mortgage Stress	Bank Losses (BP)	Home Prices	Unnatural Acts	% Probability ()= Last Time
RBA Baseline	0.25%	7.0%	38%	12.5	+10 to -5%	Easing Credit /QE/Fiscal	10% (5%)
Best Case	0.1%	7.5%	40%	18	-5 to -15%	Fiscal/QE/NR	20% (7.5%)
Longer Term Crunch	0.1%	8.75%	42%	25	- 15 to 30%	QE/One Bank Bail Out	40% (45%)
Global Disruption	0.25% - Zero	9.5%-11%	40%-45%	45	- 30 to 45%	Bail In/Bail Out/QE ++	20% (32.5%)
Uncontrolled Pandemic	Zero and Below	16%+	65%	65+	Up to 80%	QE+ Bank Failures	10% (15%)

Source: DigitalFinanceAnalytics.com



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Investment Outlook:

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good: The recently
- Inequality to increase

Other positive factors

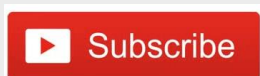
- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted



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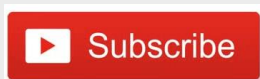
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Viewer question of the week:

Are you looking at buying an investment property in 2021? If so, where?

Drop your answers in the comments



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Coming up:

Dr Steven Hail

Economics Lecturer, University of Adelaide

YouTube.com/NucleusWealth

next

Thursday, 19th November 2020



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