

MELBOURNE INSTITUTE
Applied Economic & Social Research

Monthly Bulletin of Economic Trends: Households and Housing

August 2017



Outlook for Australia¹

	Actual				Forecasts				Actual	Forecast
	2016	2016	2016	2017	2017	2017	2017	2018	Calendar Year	
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	2016	2017
<i>Economic Activity</i>										
GDP	3.1	1.8	2.4	1.7	1.2	2.9	2.6	3.0	2.5	2.1
	(0.7)	(-0.4)	(1.1)	(0.3)	(0.3)	(1.2)	(0.8)	(0.7)		
Household Consumption	2.8	2.2	2.5	2.3	2.5	2.9	2.5	2.6	2.6	2.5
	(0.5)	(0.3)	(1.0)	(0.5)	(0.7)	(0.6)	(0.6)	(0.7)		
Private Dwellings	11.2	4.8	6.1	-2.5	-2.4	-0.4	-1.7	2.8	7.6	-1.7
	(1.4)	(-1.2)	(1.9)	(-4.4)	(1.5)	(0.8)	(0.5)	(0.0)		
New Business Investment	-10.2	-9.3	-6.0	-2.8	-1.6	1.4	-0.4	-1.2	-9.1	-0.9
	(-1.5)	(-3.5)	(1.4)	(0.7)	(-0.3)	(-0.5)	(-0.4)	(-0.1)		
Domestic Final Demand	1.6	1.2	1.8	1.7	1.9	3.0	2.4	2.6	1.5	2.2
	(0.8)	(-0.5)	(1.1)	(0.3)	(0.9)	(0.6)	(0.5)	(0.6)		
Imports of Goods & Services	-0.7	1.3	3.1	7.9	5.9	6.1	5.1	4.5	0.2	6.2
	(3.4)	(0.8)	(1.9)	(1.6)	(1.4)	(1.0)	(1.0)	(1.0)		
Exports of Goods & Services	10.1	6.6	10.2	5.6	3.2	5.4	4.1	7.5	7.9	4.6
	(2.0)	(1.4)	(3.7)	(-1.6)	(-0.2)	(3.5)	(2.5)	(1.5)		
<i>Inflation & Financial Market</i>										
Underlying inflation ²	1.7	1.7	1.6	1.9	1.8	1.9	1.9	1.9	1.7	1.9
	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)		
Headline Inflation	1.0	1.3	1.5	2.1	1.9	1.7	1.6	1.6	1.3	1.8
	(0.4)	(0.7)	(0.5)	(0.5)	(0.2)	(0.5)	(0.5)	(0.5)		
90-day Bill Rate ³	2.1	1.8	1.8	1.8	1.7	1.7	1.7	1.7		
Trade Weighted Index ⁴	62.7	63.5	64.7	66.1	64.5	64.9	64.9	64.9		
\$A/\$US rate (100) ⁴	0.75	0.76	0.74	0.76	0.75	0.75	0.75	0.75		
<i>Labour Market</i>										
Unemployment Rate ⁴	5.7	5.7	5.7	5.8	5.7	5.7	5.6	5.6	5.7	5.7
Employment Growth Rate ⁵	1.9	1.6	0.8	1.0	1.9	1.9	2.0	2.0	1.6	1.7
	(0.2)	(0.2)	(0.2)	(0.4)	(1.0)	(0.2)	(0.4)	(0.4)		
Participation Rate ⁴	64.8	64.9	64.6	64.6	64.9	64.7	64.7	64.8	64.8	64.7
Wage Price Index	2.1	2.0	1.9	1.9	1.9	1.9	2.0	2.1	2.0	1.9
	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)		

1: Actual in black and forecasts in blue; values in parentheses are quarterly growth rates.

2: As measured by the Reserve Bank's trimmed mean measure of inflation.

3: Average over last month in quarter.

4: Average of 3-months in the quarter.

5: Calculated from quarterly employment numbers that are averaged over the 3 months in the quarter.

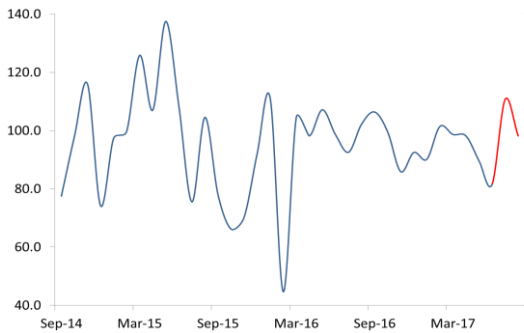
Prepared by G. Lim and S. Tsiaplias, Macroeconomics@MI. Forecasts in this report were finalised on 22/6/17.

On important changes to the housing market

- A key change in the housing market this quarter has been the introduction of first homeowner stamp duty deductions in NSW and Victoria effective 1 July. These follow on from federal changes pertaining to the housing market including salary sacrificing housing deposit-related savings into super accounts, tax benefits for the purchase and subsequent rental of housing deemed 'affordable', and superannuation concessions for older persons with the aim of encouraging downsizing.
- As part of the stamp duty changes, first-home owners in NSW will receive stamp duty exemptions for dwellings up to \$650,000 and stamp duty concessions for homes up to \$800,000. In Victoria, the exemptions apply for houses up to \$600k with concessions provided for homes up to \$750,000.
- The Victorian concessions appear to be the more generous of the two. A Sydney first home buyer purchasing at the median dwelling price of about \$880,000 will continue to pay stamp duty of \$35,000 on the transaction. In contrast, a Melbourne first homebuyer purchasing at the median dwelling price of about \$675,000 will have his or her stamp duty cut from about \$35,000 to just under \$18,000.
- It has been widely posited that demand side measures such as the provision of tax benefits to first homeowners will have a positive marginal impact on house prices, particularly for dwellings at the lower-end of the price distribution. The above calculation suggests that the impact will be greater in Melbourne than in Sydney.
- Prior to the release of official data, it may be possible to glean early information about the ramifications of these changes through housing sentiment data. Figure 1 shows housing sentiment (in terms of whether it is a good time to buy a dwelling) for 25-34 year olds. This age segment is chosen as it is likely to better reflect the sentiment of first homeowners than persons in older categories (or persons in the 18-24 year category). The figure shows a spike in housing sentiment in July from an index value of approximately 81 in June to 111 and 98 in July and August respectively (the latter two months being highlighted in red). This suggests that younger households perceive an improvement in their housing purchasing power post-July. At the same time, caution should be exercised since housing sentiment for persons in the 25-34 year age group tends to exhibit greater than average volatility.
- Although it is still too early to determine the substantive impact of the first home buyer changes, the proportion of first home buyers in NSW rose for a fourth straight month in June to a (still low) 8.8 per cent (from 7.5 per cent in February). Over the same period, the proportion of first homebuyers in Victoria also rose from 13.9 per cent to 14.4 per cent (Figure 2). The relative advantage provided to first homebuyers by the new exemptions and concessions is likely to increase the strength of the current (weakly) positive trend in first homebuyer activity - although the magnitude of any increase will be partially muted by the confluence of higher prices.
- A major reason that first homebuyer activity has been on the rise in recent months (irrespective of the stamp duty changes) is that Australian lenders have been tightening mortgage rates (particularly for investors). This follows a string of changes imposed on the banking sector including limiting new interest-only home loans to 30 per cent of housing loans, and an increase in bank equity to capital ratios.

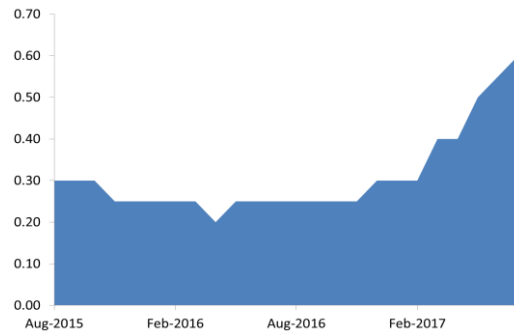
- Figure 3 shows that margins between investor lending rates and owner-occupier lending rates have increased sharply over the year thus far, especially in the last three months (the spread is now about 60 bps). This is likely to be a key reason for the decline in investor activity in recent months. In June, the proportion of housing finance provided to investors (after excluding construction lending) declined further to just under 34 per cent, whereas the proportion provided to owner-occupiers rose to around 44 per cent. The gap between the two is now similar to that observed in the first quarter of 2016 (Figure 4).

Figure 1: Housing sentiment (25-34 year olds)



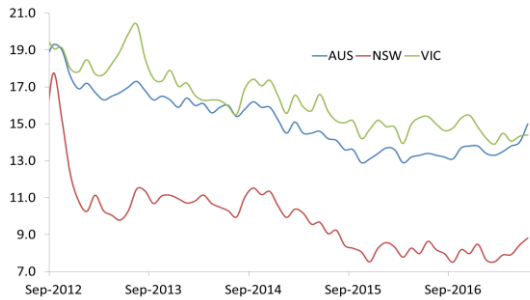
Source: MI. Red portion of the line is post July 2017.

Figure 3: Housing lending rate spread (investor minus owner-occupier lending rates)



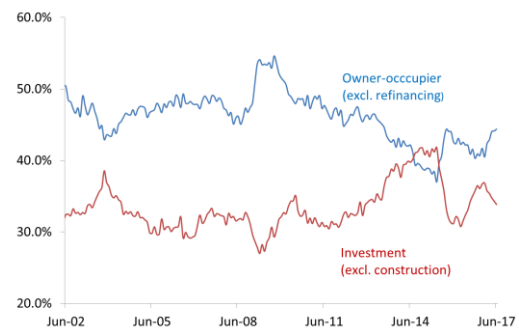
Source: RBA.

Figure 2: Proportion of first home owners



Source: ABS.

Figure 4: Housing finance decomposition



Source: ABS.

	Precision of (year-end) Forecasts				Calendar Year 2017
	2017	2017	2017	2018	
	Jun	Sep	Dec	Mar	
Australia					
<i>Economic Activity</i>					
GDP	0.6	0.9	1.1	1.2	0.7
Consumption	0.5	0.8	1.0	1.1	0.7
Dwelling	2.3	2.4	2.5	2.8	1.9
Business Investment	5.2	6.0	6.7	7.5	4.6
Import	2.5	4.2	5.8	6.6	3.7
Export	2.6	3.4	4.0	4.4	2.9
<i>Inflation & Financial Market</i>					
Underlying Inflation		0.2	0.3	0.4	0.3
Headline Inflation		0.4	0.5	0.7	0.6
90 day bill		0.3	0.5	0.7	0.6
Trade Weighted Index		3.3	3.7	3.9	2.3
<i>Labour Market</i>					
Unemployment Rate		0.1	0.2	0.3	0.3
Employment		0.2	0.4	0.5	0.5
Participation Rate		0.2	0.3	0.4	0.3
Wage Price Index	0.4	0.5	0.6	0.7	0.4

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Monthly Bulletin of Economic Trends**

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For information on the data contained in the report contact the Melbourne Institute, The University of Melbourne, on (03) 8344 2196.

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