

MELBOURNE INSTITUTE
Applied Economic & Social Research

Monthly Bulletin of Economic Trends: Households and Housing

November 2017



Outlook for Australia¹

	Actual				Forecasts				Actual	Forecast
	2016	2016	2017	2017	2017	2017	2018	2018	Financial Year	
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	2016/17	2017/18
<i>Economic Activity</i>										
GDP	1.9	2.4	1.8	1.8	3.3	3.1	3.5	3.2	2.0	3.3
	(-0.4)	(1.1)	(0.3)	(0.8)	(1.0)	(0.9)	(0.7)	(0.5)		
Household Consumption	2.2	2.6	2.3	2.6	2.9	2.5	2.7	2.7	2.4	2.7
	(0.3)	(1.1)	(0.5)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)		
Private Dwellings	4.9	6.2	-1.7	-2.5	-1.1	-2.5	1.2	0.7	1.6	-0.5
	(-0.9)	(1.9)	(-3.7)	(0.2)	(0.5)	(0.5)	(0.0)	(-0.3)		
New Business Investment	-9.3	-6.2	-1.4	1.5	4.3	2.4	0.1	-0.6	-3.9	1.5
	(-3.2)	(1.4)	(2.2)	(1.1)	(-0.5)	(-0.4)	(-0.1)	(0.4)		
Domestic Final Demand	1.3	1.9	2.0	2.4	3.1	2.5	2.5	2.2	1.9	2.6
	(-0.3)	(1.2)	(0.6)	(1.0)	(0.3)	(0.6)	(0.6)	(0.6)		
Imports of Goods & Services	1.1	2.8	7.8	6.5	6.3	5.8	4.5	4.5	4.5	5.3
	(1.4)	(1.6)	(2.2)	(1.2)	(1.2)	(1.1)	(1.0)	(1.1)		
Exports of Goods & Services	5.8	8.6	3.1	4.3	6.2	4.8	8.0	6.0	5.4	6.2
	(1.0)	(2.8)	(-2.2)	(2.7)	(2.8)	(1.5)	(0.8)	(0.8)		
<i>Inflation & Financial Market</i>										
Underlying inflation ²	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.8
	(0.4)	(0.5)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)		
Headline Inflation	1.3	1.5	2.1	1.9	1.8	1.7	1.8	2.1	1.7	1.9
	(0.7)	(0.5)	(0.5)	(0.2)	(0.6)	(0.5)	(0.5)	(0.5)		
90-day Bill Rate ³	1.8	1.8	1.8	1.7	1.9	1.9	1.9	1.9		
Trade Weighted Index ⁴	63.5	64.7	66.1	64.5	66.5	66.5	66.5	66.5		
\$A/\$US rate (100) ⁴	0.76	0.74	0.76	0.75	0.79	0.79	0.79	0.79		
<i>Labour Market</i>										
Unemployment Rate ⁴	5.7	5.7	5.8	5.6	5.6	5.6	5.6	5.6	5.7	5.6
Employment Growth Rate ⁵	1.6	0.9	1.1	1.9	2.6	3.1	3.0	2.3	1.4	2.7
	(0.2)	(0.2)	(0.5)	(1.0)	(0.8)	(0.7)	(0.4)	(0.4)		
Participation Rate ⁴	64.8	64.6	64.7	64.9	65.2	65.4	65.3	65.2	64.8	65.3
Wage Price Index	1.9	1.9	1.9	1.9	2.0	2.1	2.0	2.0	1.9	2.0
	(0.4)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)		

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.

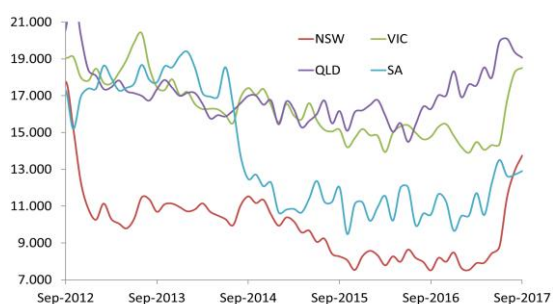
Prepared by G. Lim and S. Tsiaplias, Macroeconomics@MI. Data finalized 13 Nov 2017.

Have first home buyers responded to the stamp duty exemptions?

- On 1 July 2017, the NSW and Victorian governments announced significant first home buyer stamp duty deductions. Pursuant to these announcements, first home buyers in NSW now receive stamp duty exemptions for dwellings up to \$650,000 and stamp duty concessions for homes up to \$800,000. In Victoria, similar exemptions are applicable for houses up to \$600k with concessions provided for homes up to \$750,000.
- A Melbourne first homebuyer purchasing at the median dwelling price of about \$675,000 will therefore have his or her stamp duty cut from about \$35,000 to just under \$18,000. In contrast, 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.
- Given the passage of several months since the introduction of these exemptions, it is now possible to glean information about their initial impact on first home buyer activity, housing expectations and the housing market generally.
- Figure 1 shows a clear surge in the proportion of first home buyers in NSW and Victoria. In NSW, the proportion rose from 8.8 per cent in June 2017 to 13.8 per cent in September 2017. Over the same period, the proportion of first home buyers in Victoria rose by 4.1 percentage points to 18.5 per cent.
- It is important to note, however, that margins between investor lending rates and owner-occupier lending rates have also increased sharply over the year. 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. Since July 2017, the spread between investor and owner-occupier rates has been around 60 bps. In contrast, in October 2016 the spread between the two rates was only 25 bps.
- Since the rise in the proportion of first home owners in NSW and VIC may therefore be related to the spread between investor and owner-occupier lending rates, we also consider the proportion of first home buyers in the neighbouring states of QLD and SA. In this respect, from June 2017 to September 2017 the proportion of first home buyers in the two latter states actually declined (by 0.9 and 0.6 per cent respectively). This suggests that the stamp duty exemptions are primarily responsible for the increased activity of first home buyers in NSW and VIC.
- Given rising borrowing costs for investors and increased competition from first home buyers, the proportion of housing finance provided to investors (after excluding construction lending) has continued to decline and is now around 33 per cent (Figure 2). In contrast, the proportion provided to owner-occupiers has risen to over 45 per cent. The gap between the two groups is now similar to that observed in the latter half of 2015.
- A pertinent question regarding the stamp duty exemptions provided to first home buyers is whether they encourage over-borrowing. To examine this, Figure 3 considers the ratio of the average home loan (in NSW and VIC) provided to first home buyers compared to non-first home buyers over the past 10 or so years. The ratio commenced declining in 2013, but has stabilised to about 85 per cent in the last two years. Importantly, there appears to be little change in the behavior of this ratio in the last few months suggesting that first home buyers are not borrowing more. As such, their incremental purchasing power seems to be largely a function of the cash benefits yielded by the stamp duty exemptions. This also indicates that it is the lower end of the housing market that is largely benefiting from the stamp duty exemptions in NSW and VIC.

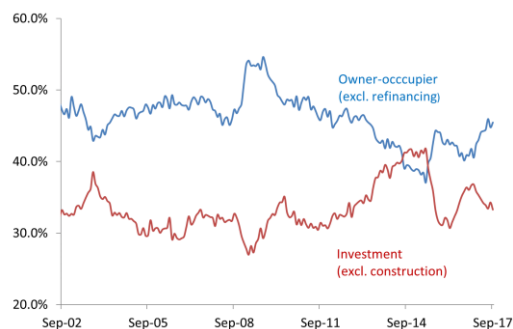
- To gauge the future path of first home buyer activity, we consider recent housing sentiment (in terms of whether it is a good time to buy a dwelling) for 25-34 year olds. We focus on this age group since it represents individuals most likely to benefit from the stamp duty exemptions for first home buyers. Figure 4 shows an immediate spike in sentiment in July and another rise in November. Although the 25-34 year age group tends to exhibit greater than average volatility, there appears to be an improvement in housing sentiment for this age group suggesting that the recent positive trend in first home buyer activity will continue in the short term.

Figure 1: Proportion of first home buyers



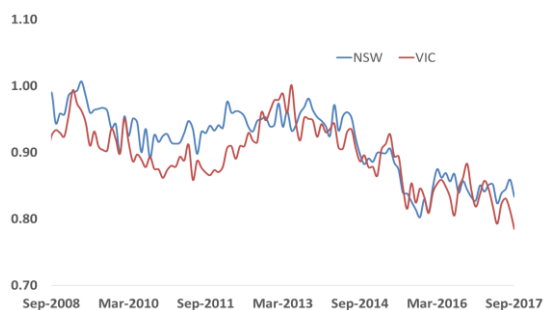
Source: ABS.

Figure 2: Housing finance decomposition



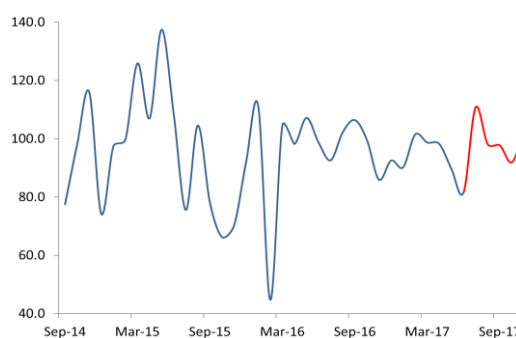
Source: ABS.

Figure 3: Ratio of average loan size of first home buyers to non-first home buyers



Source: ABS.

Figure 4: Housing sentiment (25-34 year olds)



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

	Precision of (year-end) Forecasts				Financial Year 2017/18
	2017	2017	2018	2018	
	Sep	Dec	Mar	Jun	
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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**Melbourne Institute
Monthly Bulletin of Economic Trends**

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