

*UDIAV Conference 2007*

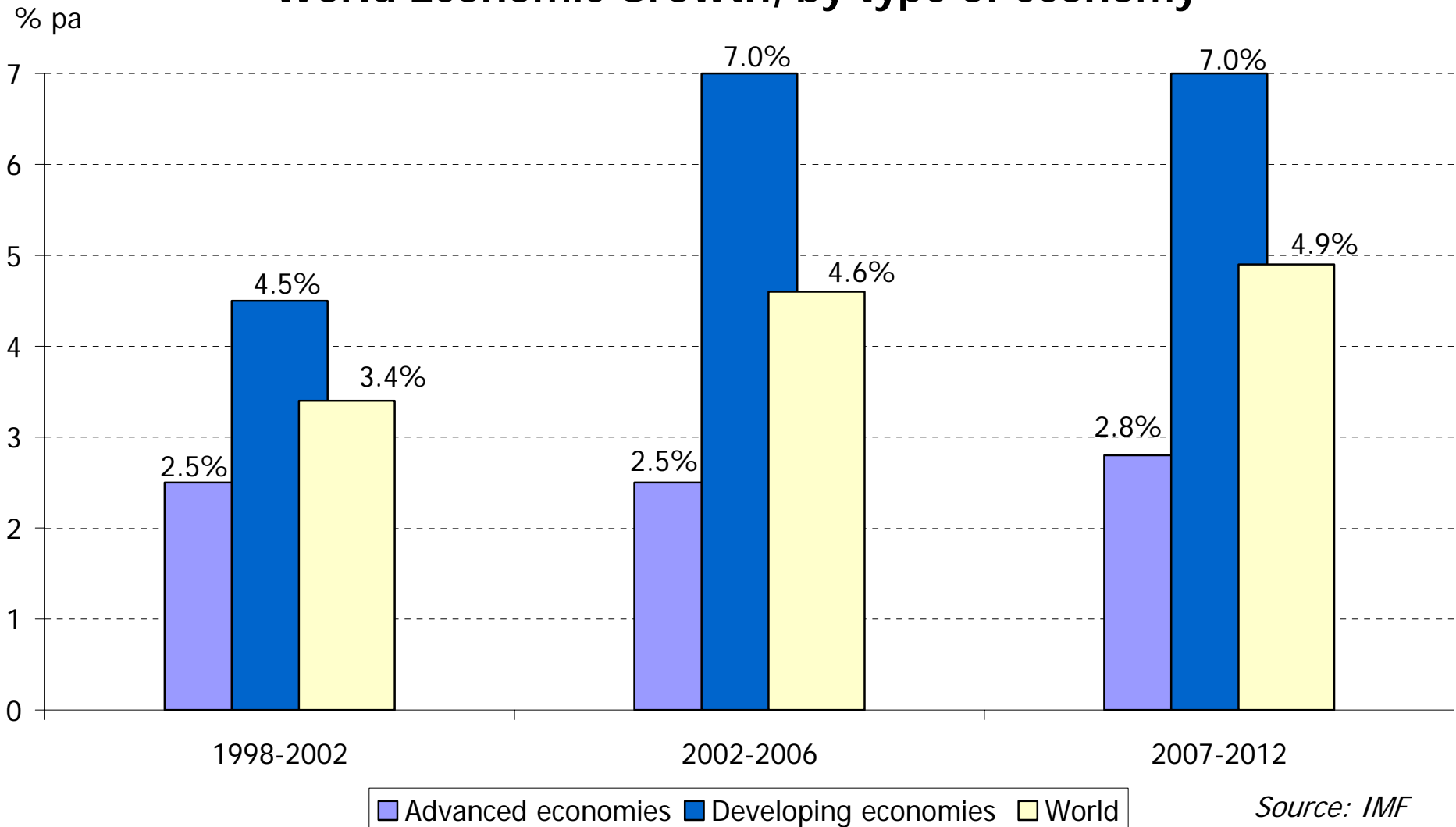
**Economic Overview**  
**Outlook for the economy and for**  
**housing**

**Geoff Bills**  
Consulting Economist

***What I want to cover:***

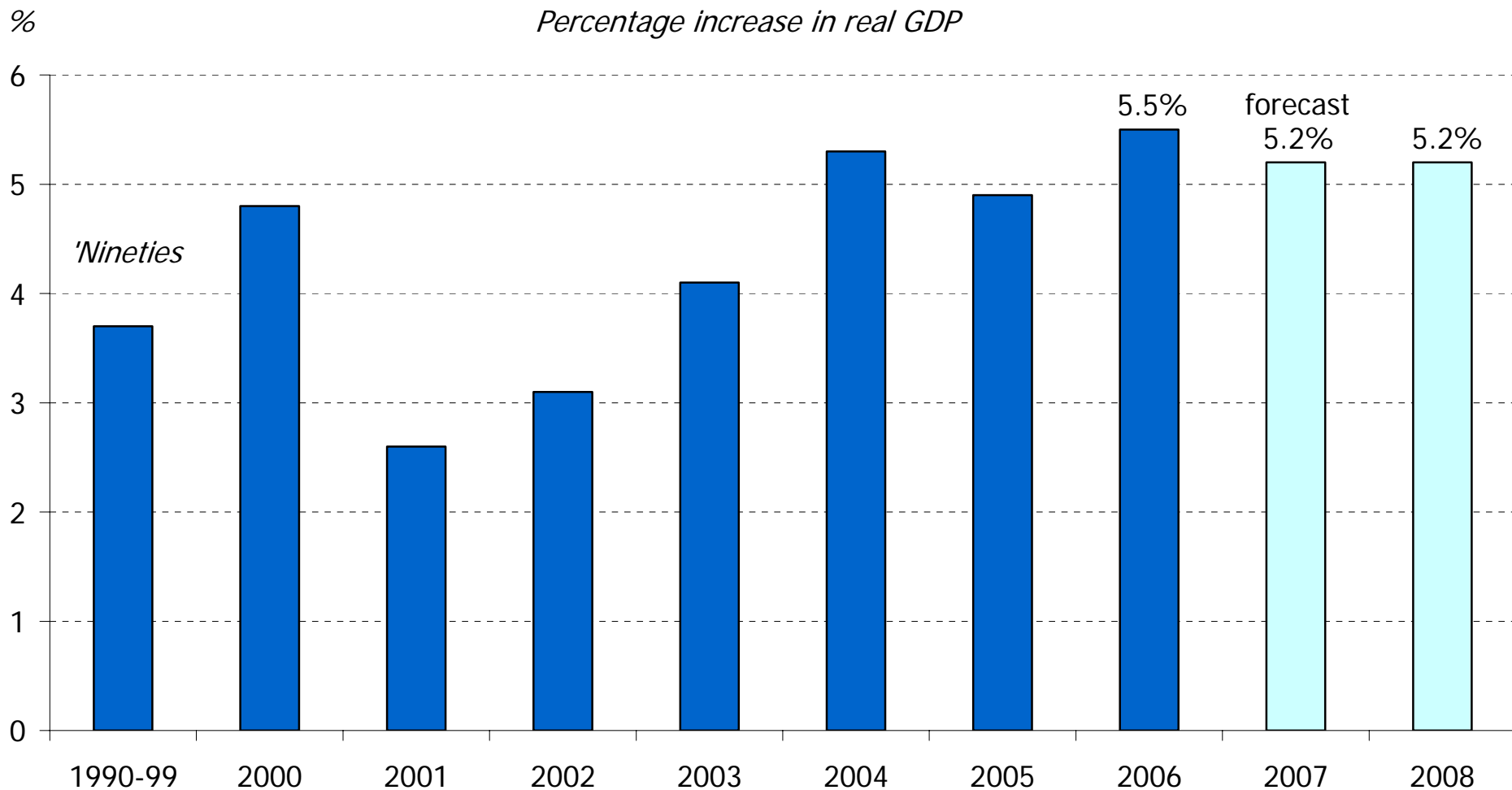
- 1. Economic outlook**
- 2. What drives housing?**
- 3. Outlook for housing**

## World Economic Growth, by type of economy



## World Economic Growth

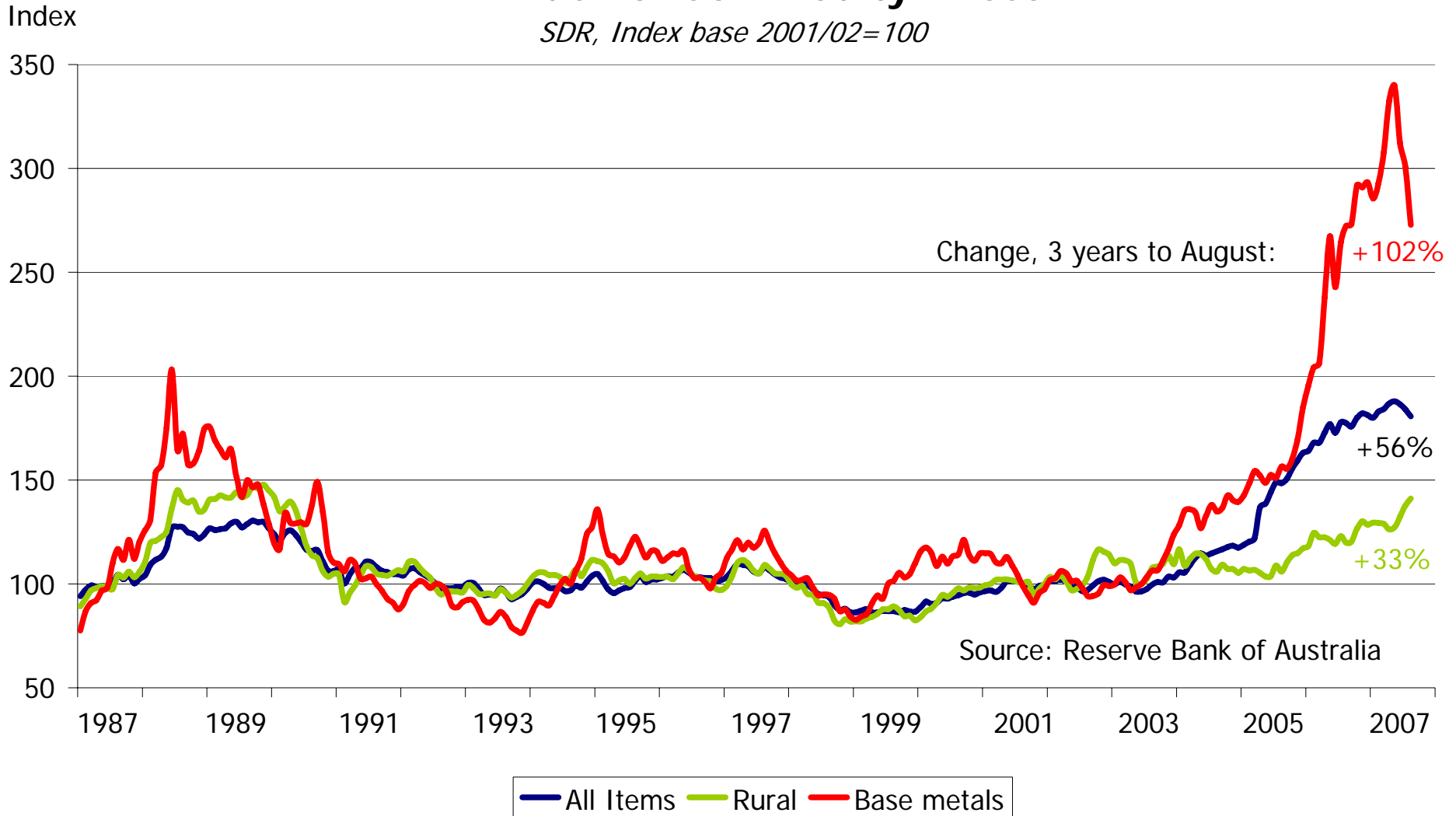
*Percentage increase in real GDP*



*Source: IMF, July 2007*

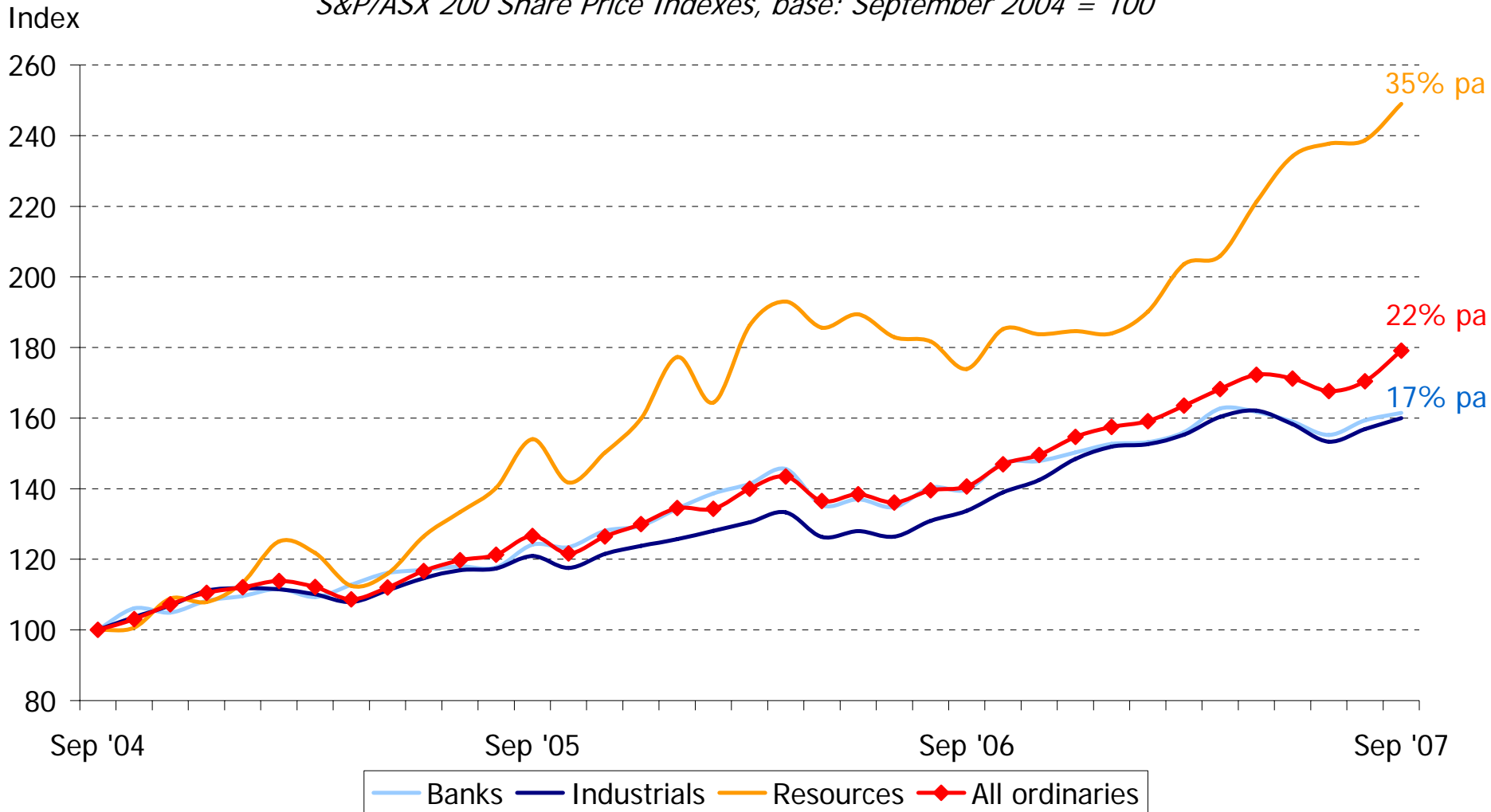
## RBA Index of Commodity Prices

*SDR, Index base 2001/02=100*

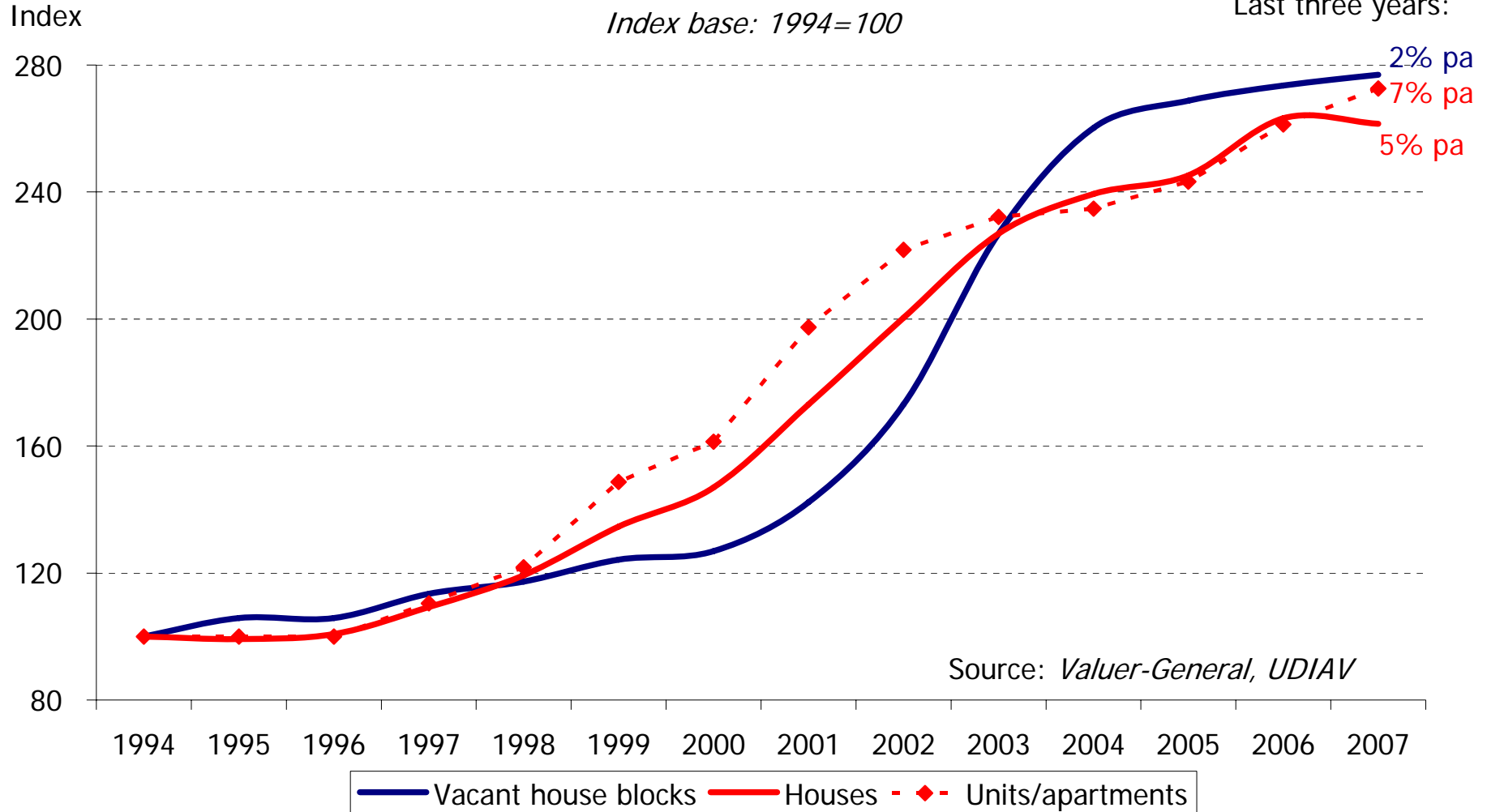


## Share Market has been Strong

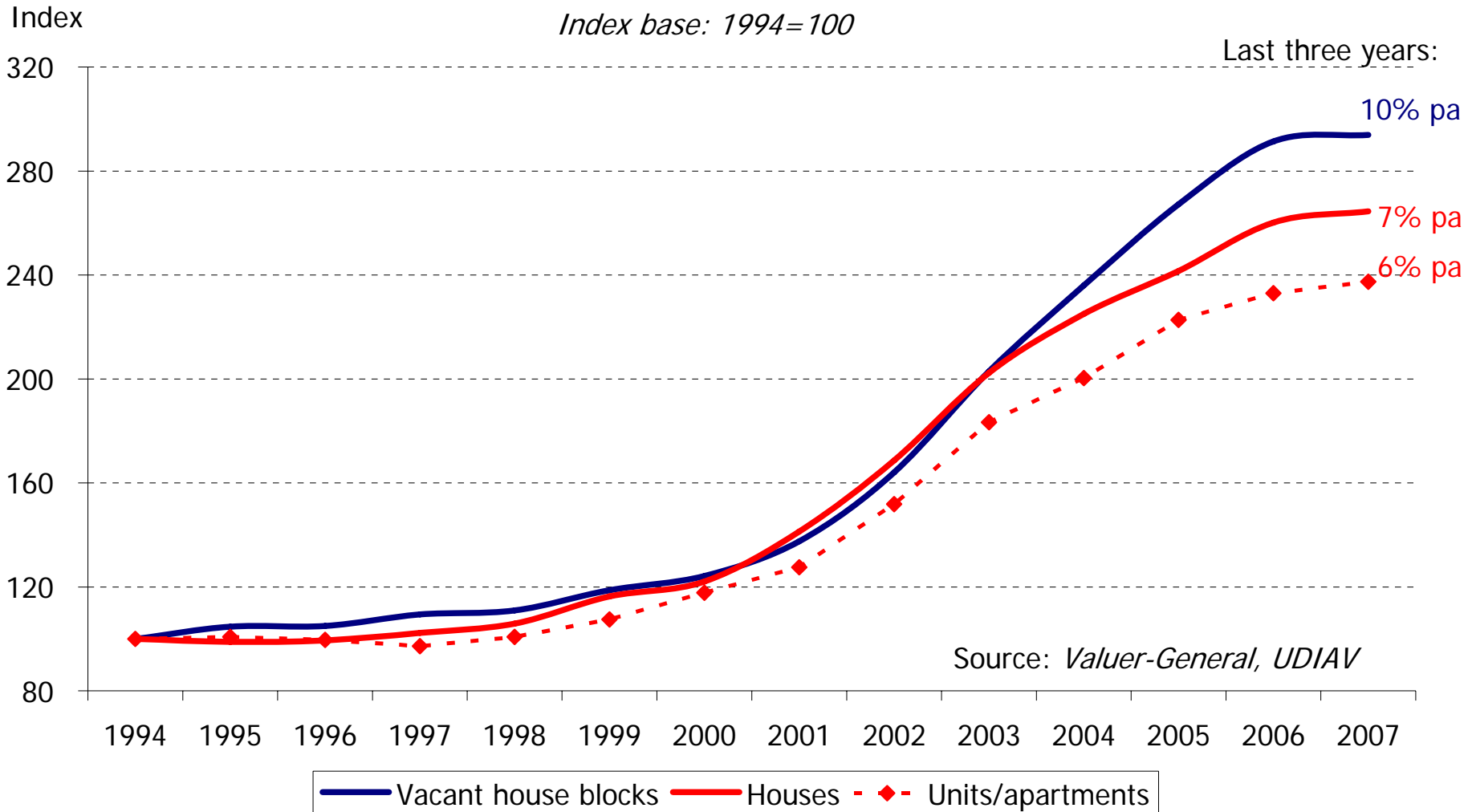
*S&P/ASX 200 Share Price Indexes, base: September 2004 = 100*



## Land, House and Unit Prices, Melbourne



## Land, House and Unit Prices, Country Victoria



# Land, House and Unit Prices, Geelong

Index base: 1994=100

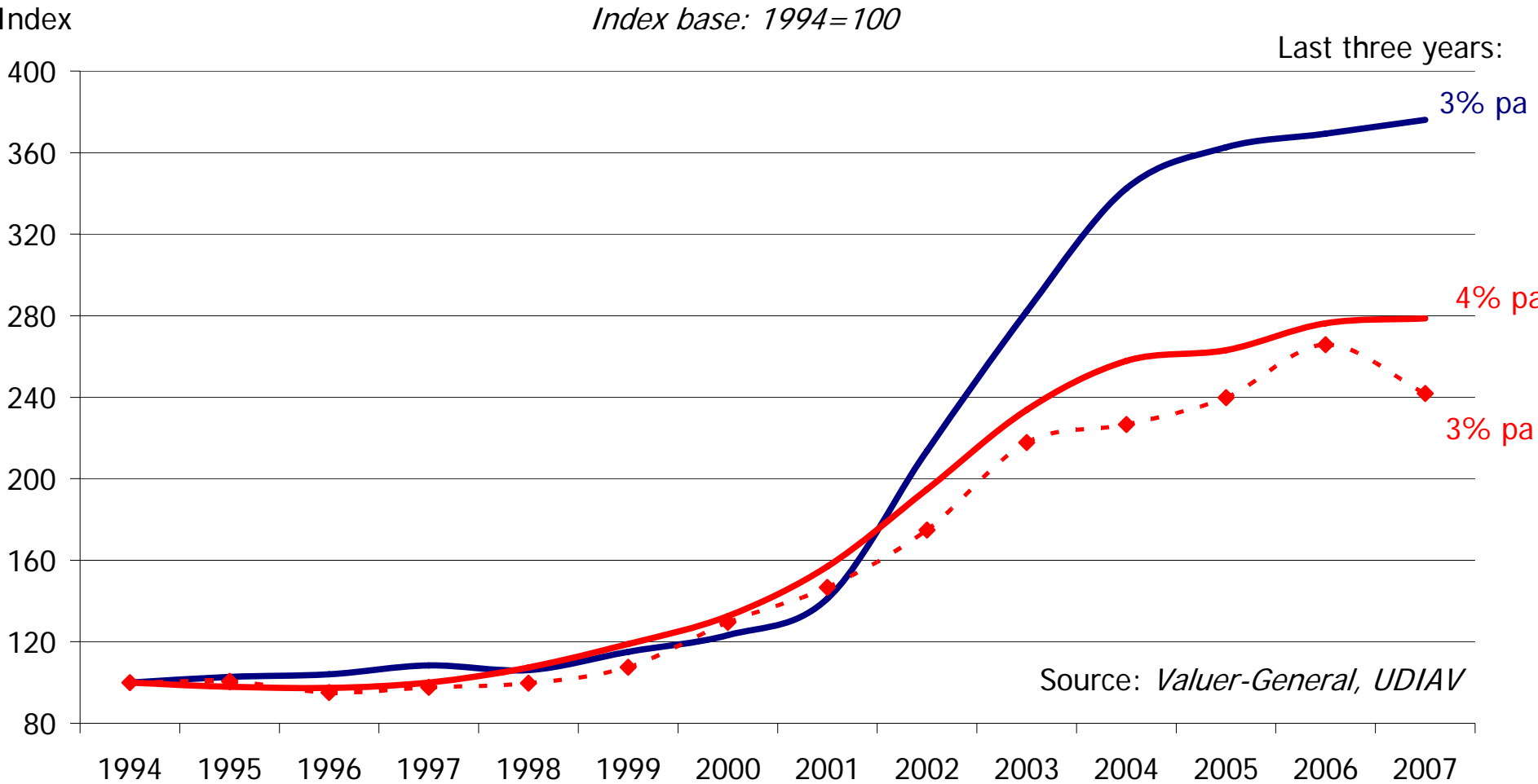
Last three years:

3% pa

4% pa

3% pa

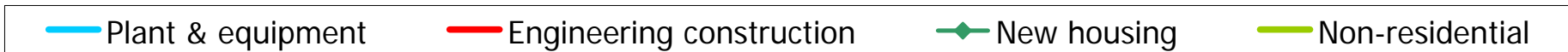
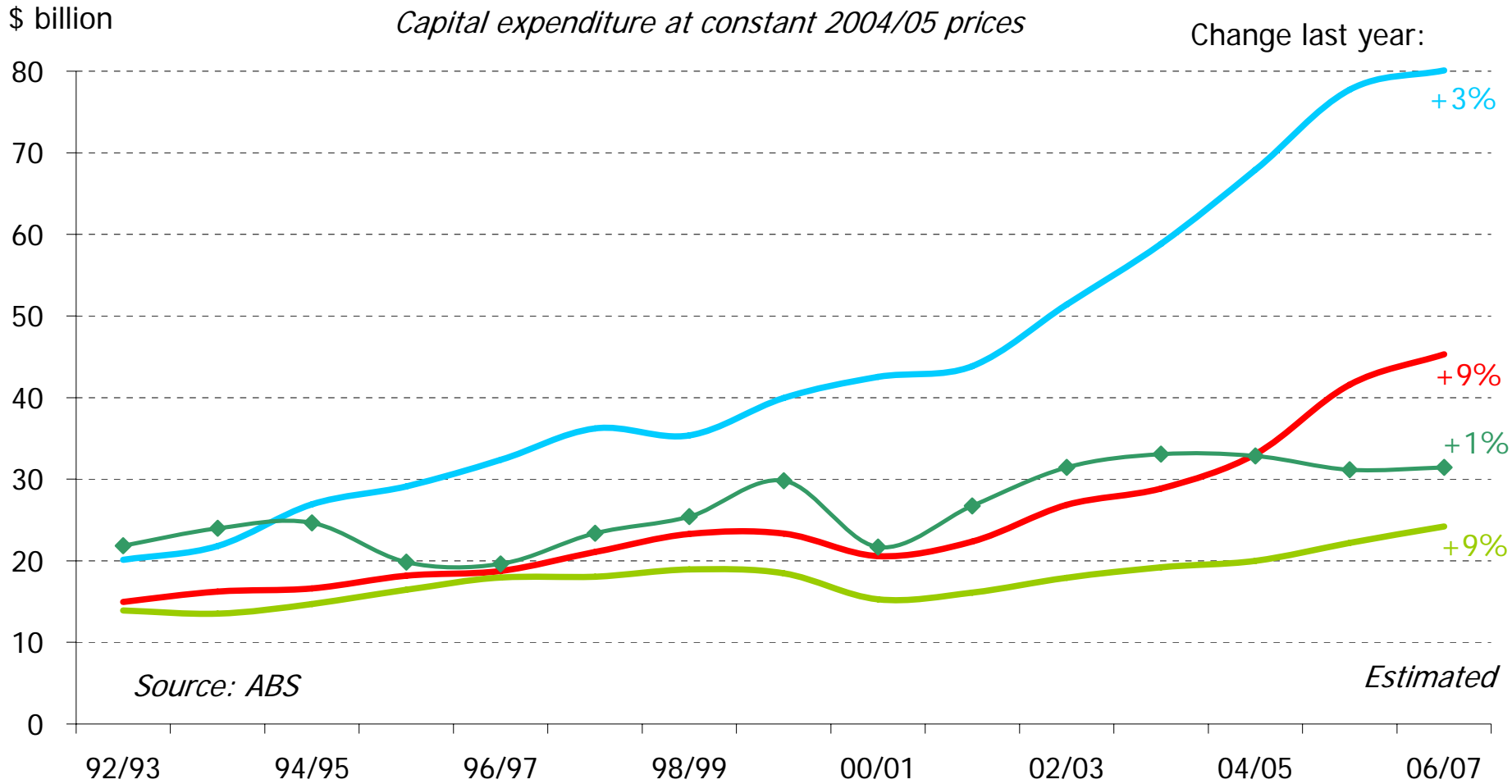
Source: *Valuer-General, UDIAV*



# Capital Spending Now Driving Australian Growth

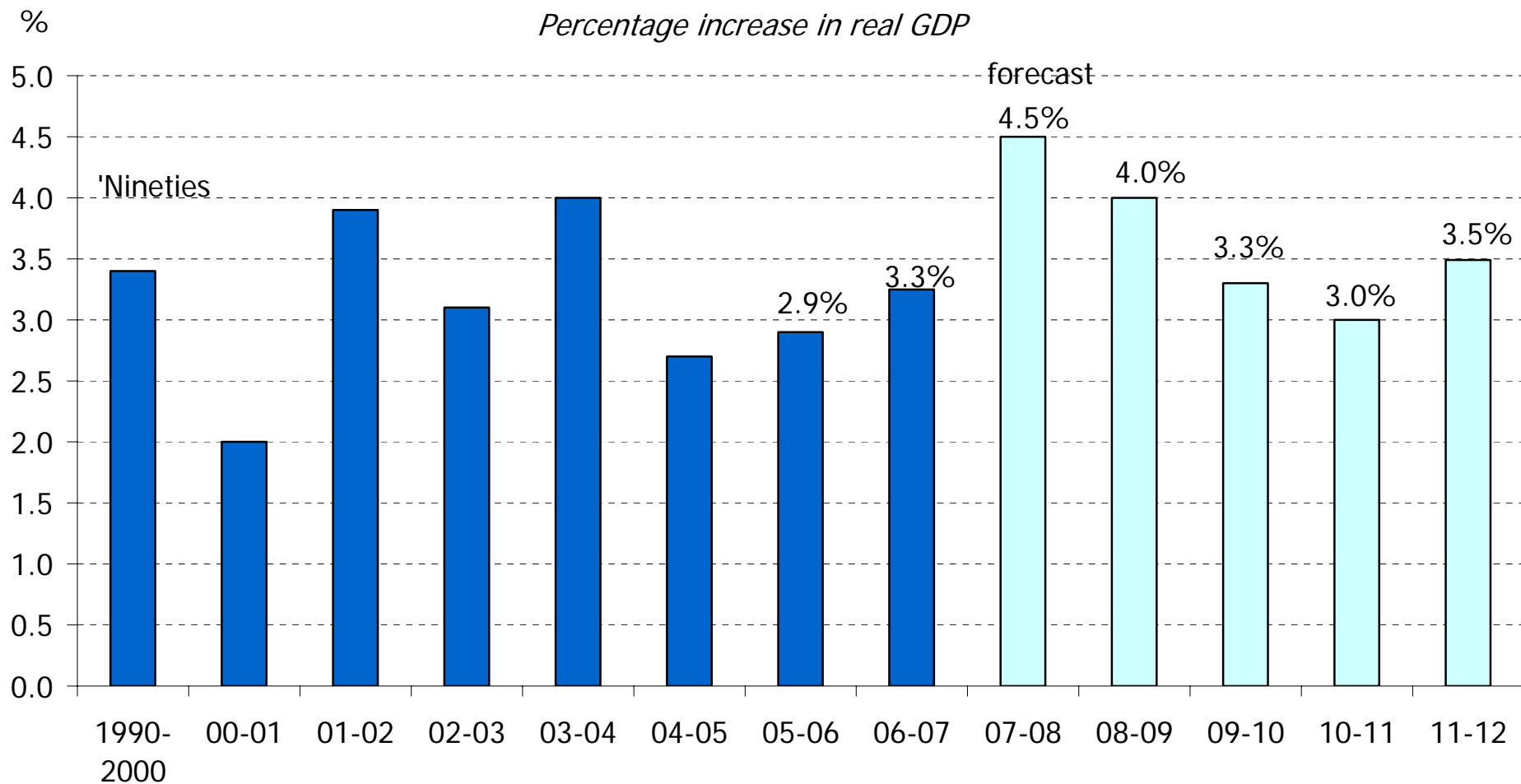
*Capital expenditure at constant 2004/05 prices*

Change last year:



## Australian Economic Growth

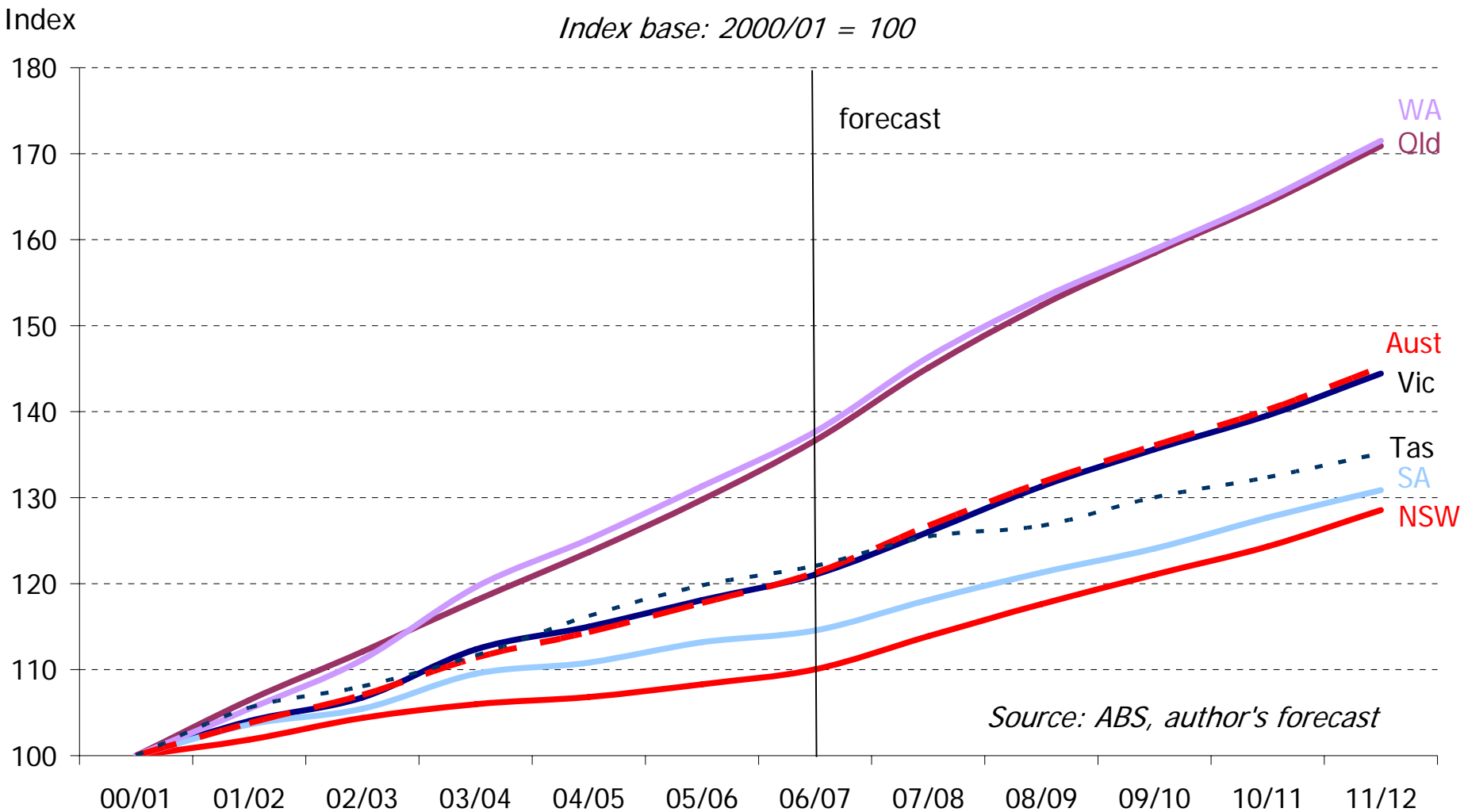
*Percentage increase in real GDP*



*Source: ABS, author's forecasts*

## GDP Growth, Australian States

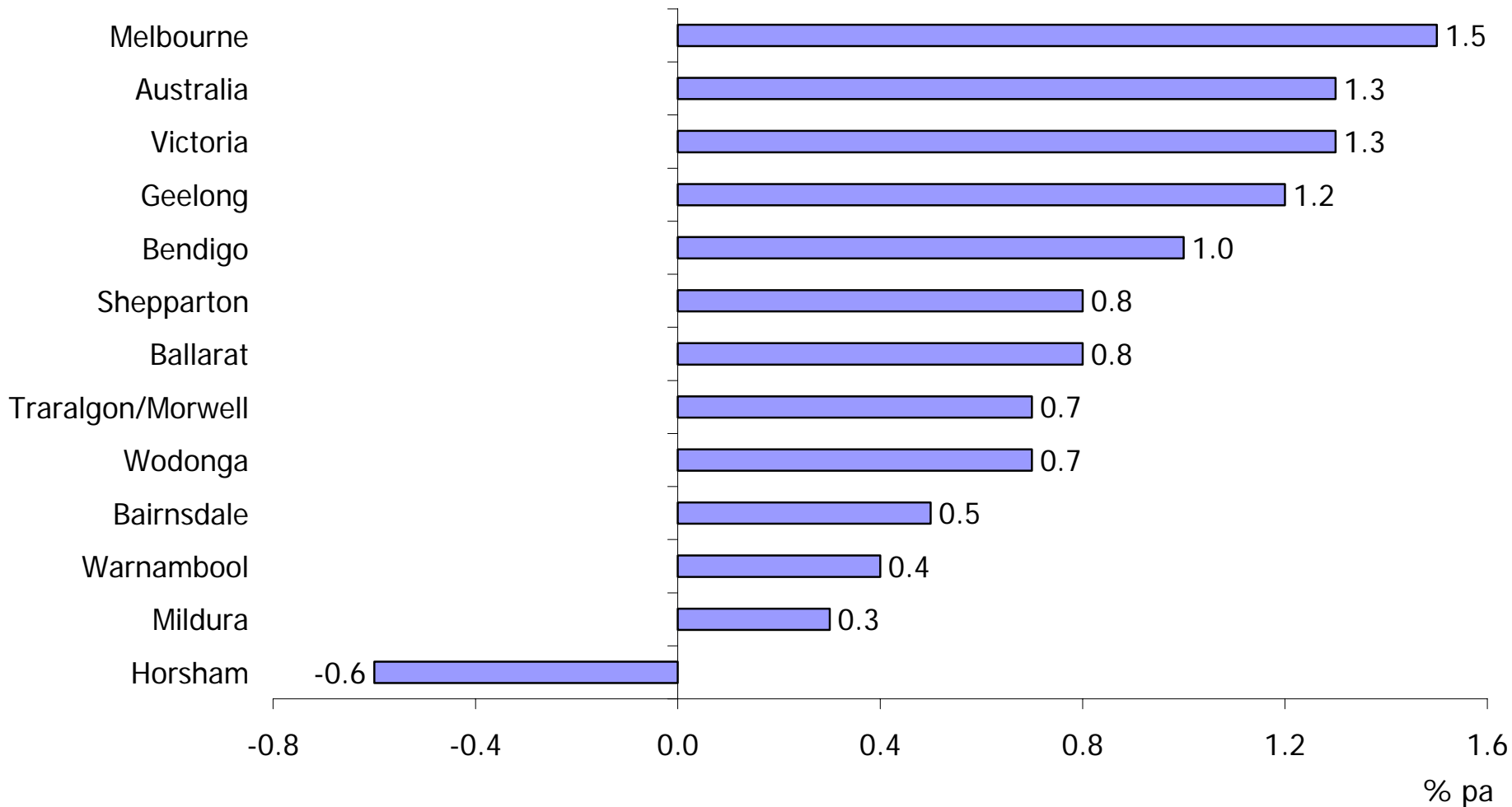
*Index base: 2000/01 = 100*



*Source: ABS, author's forecast*

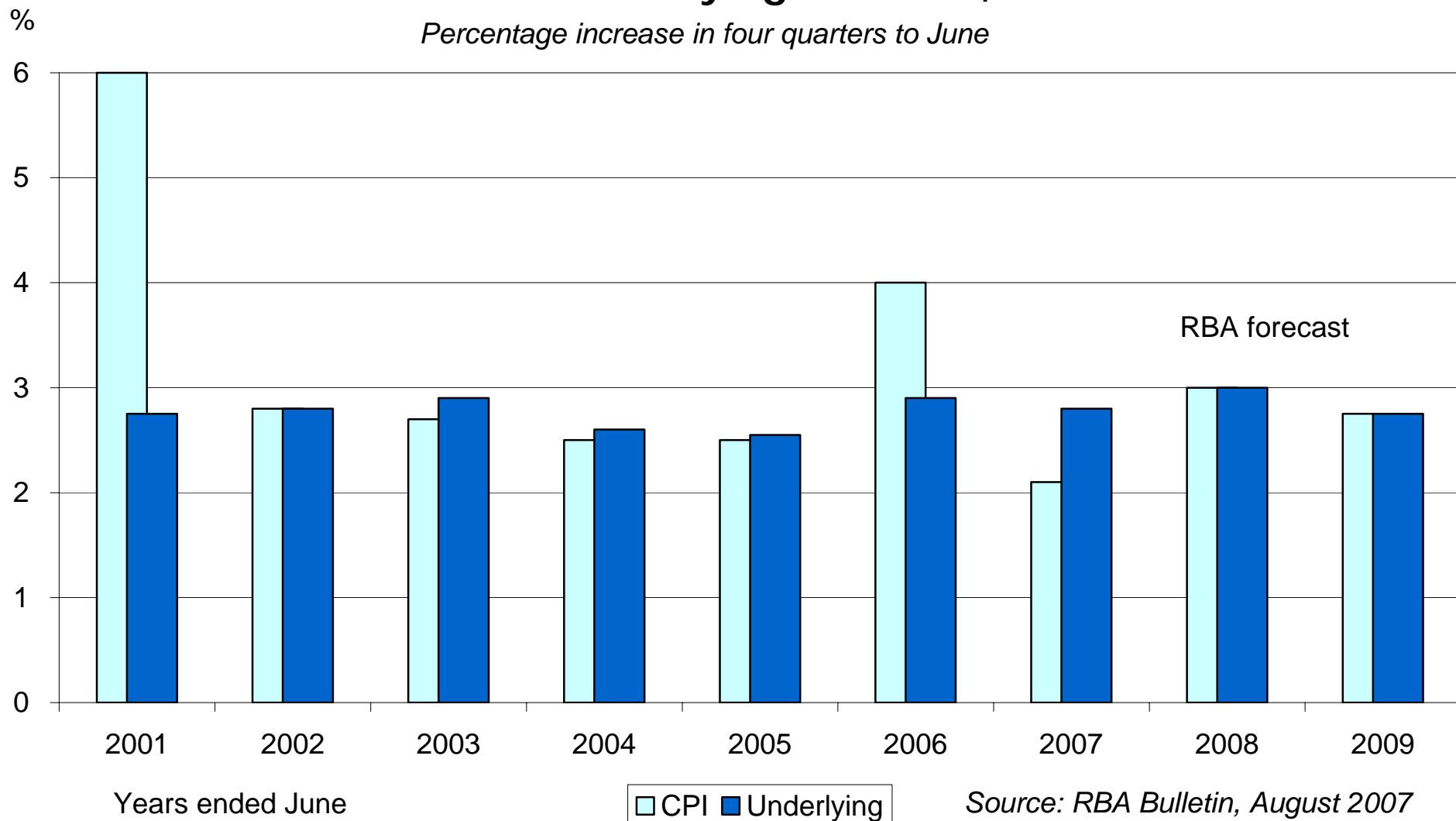
## Rate of Population Growth, 2001-06

*Victorian Statistical Divisions, named by main city, and Australia*



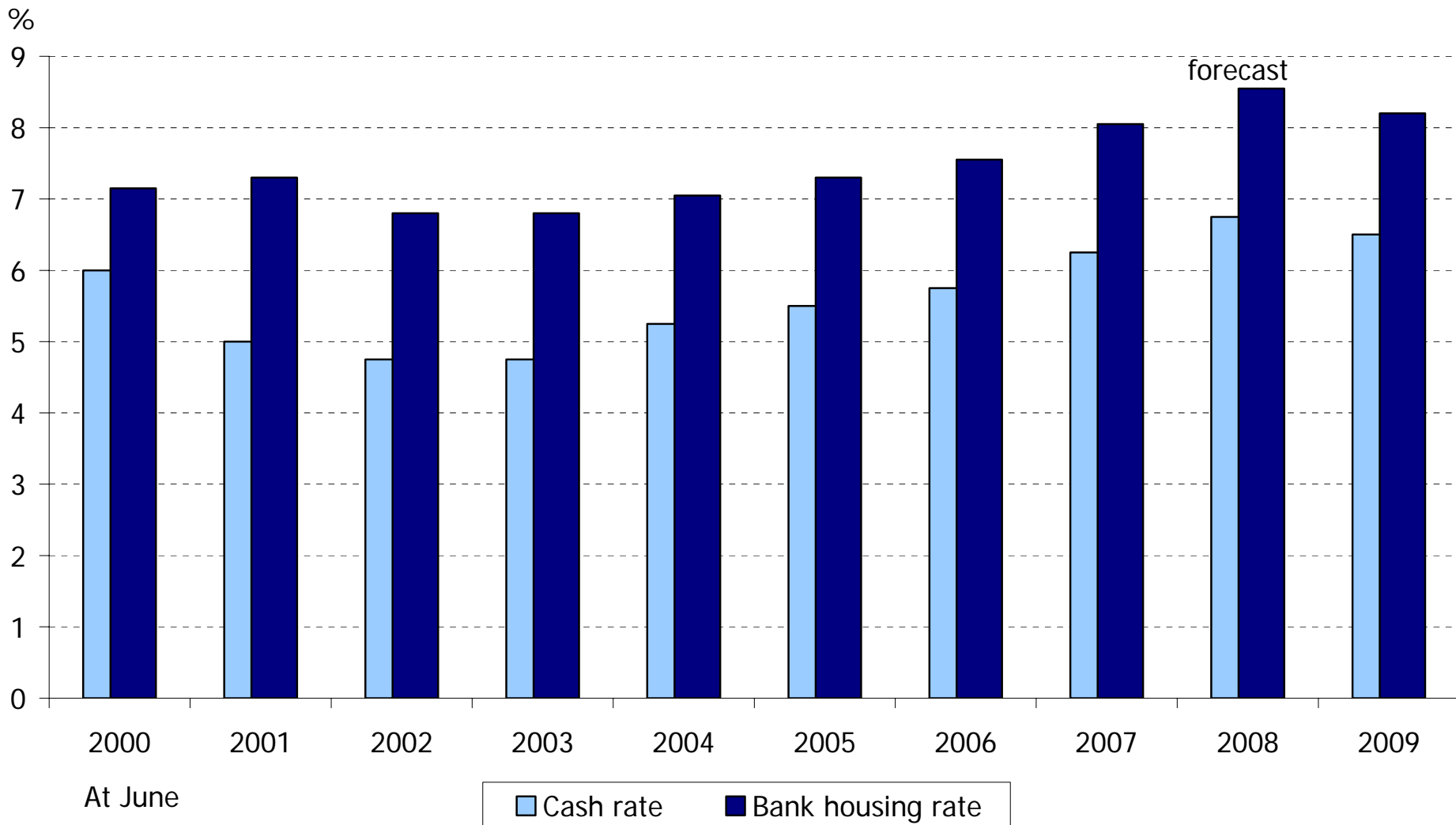
## Headline and Underlying Inflation, Australia

*Percentage increase in four quarters to June*



*Source: RBA Bulletin, August 2007*

## Interest Rate Forecast



## **Summing up:**

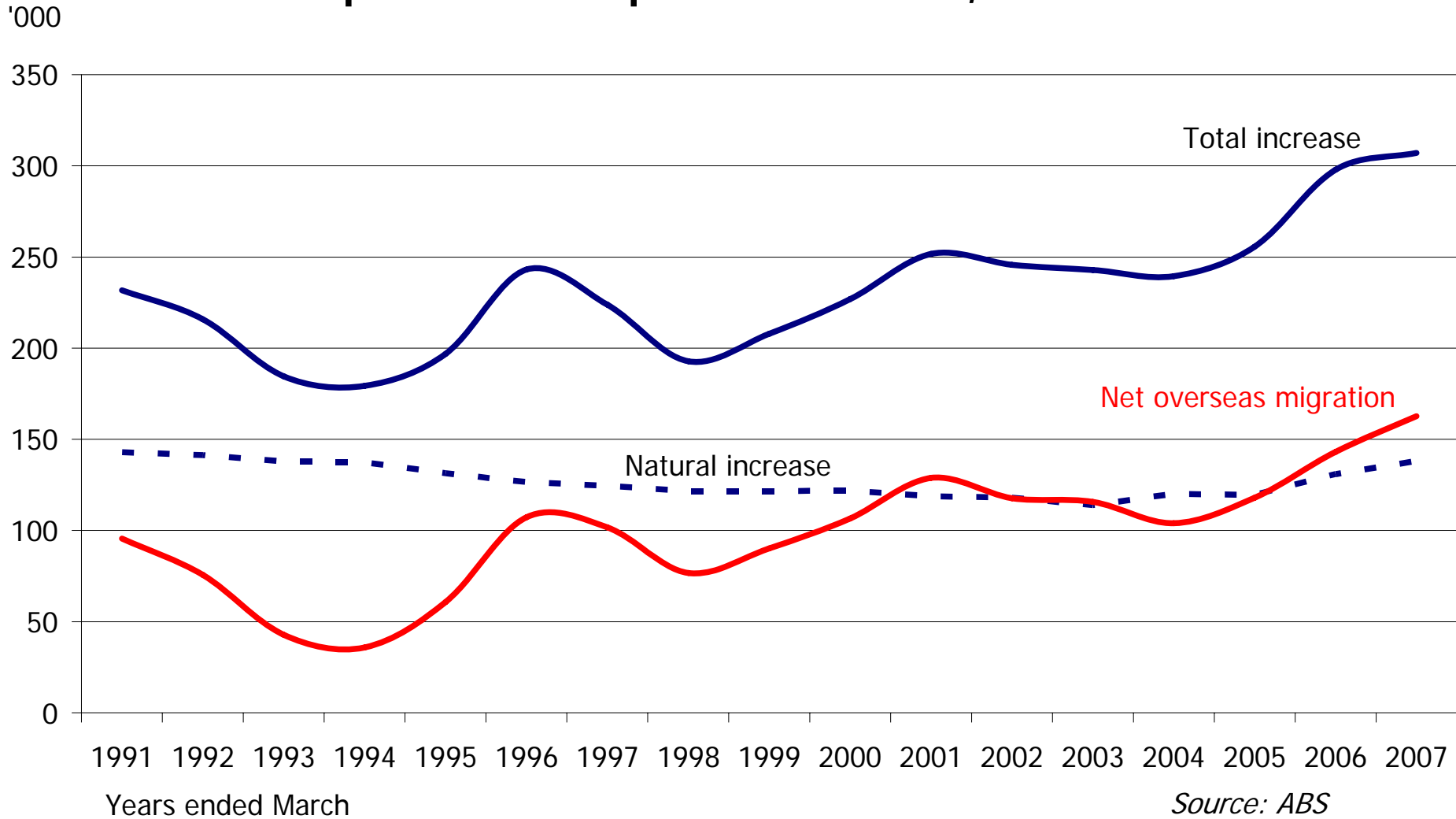
- The world economy is still growing fast
- The sub-prime mortgage panic will slow growth only slightly
- Much Australian household spending has been financed by borrowing against housing
- The ending of the house price boom slowed growth in this spending in 2005/06, but it has since strengthened
- Capital spending has been booming and will stay strong this year and next
- There are big differences in growth between states, regions
- Inflation is rising and interest rates are likely to be raised again, probably after the election

**What about the specific drivers of the housing market?**

## **What drives housing?**

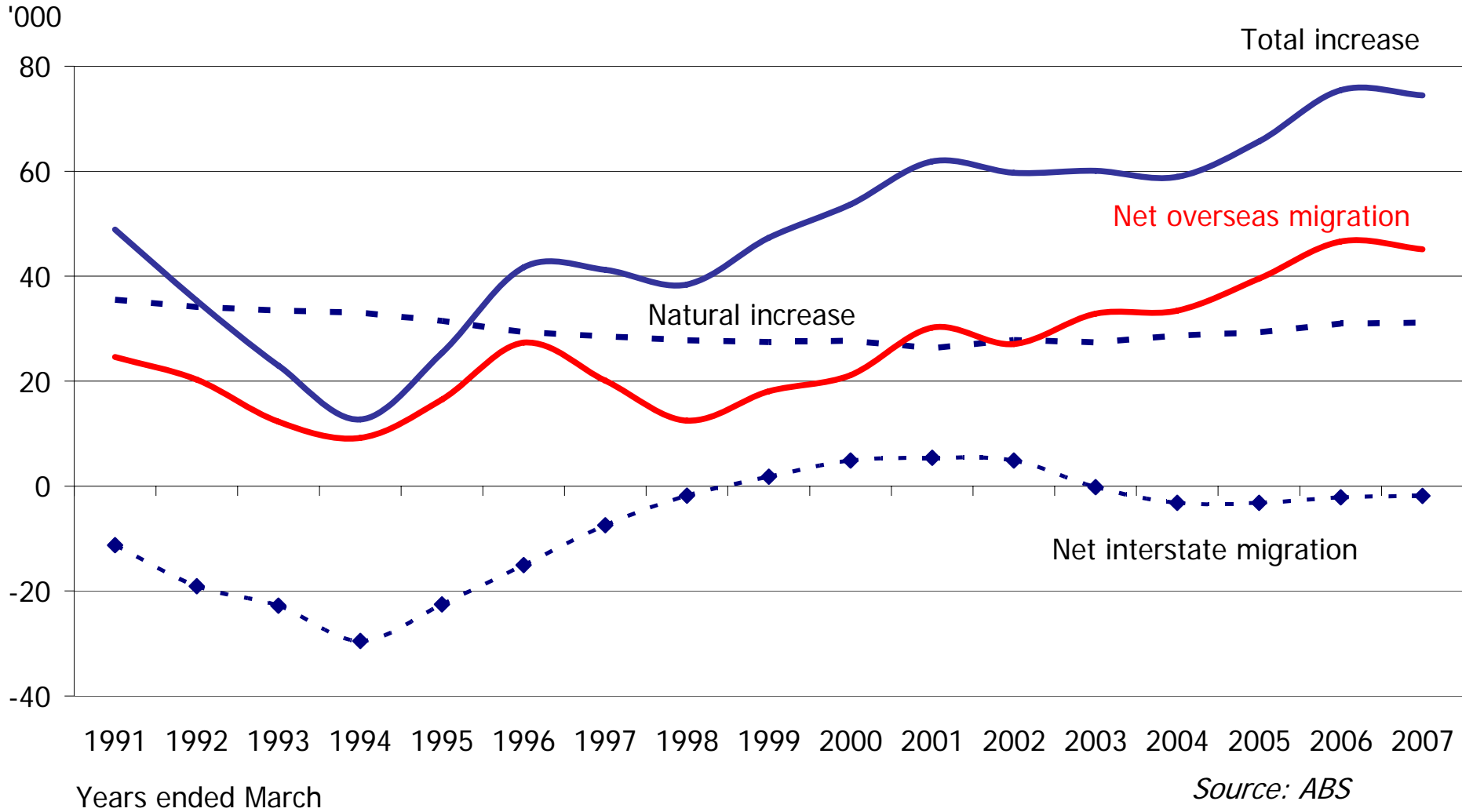
- Population growth
- Household formation
- Affordability
- Confidence

## Components of Population Growth, Australia

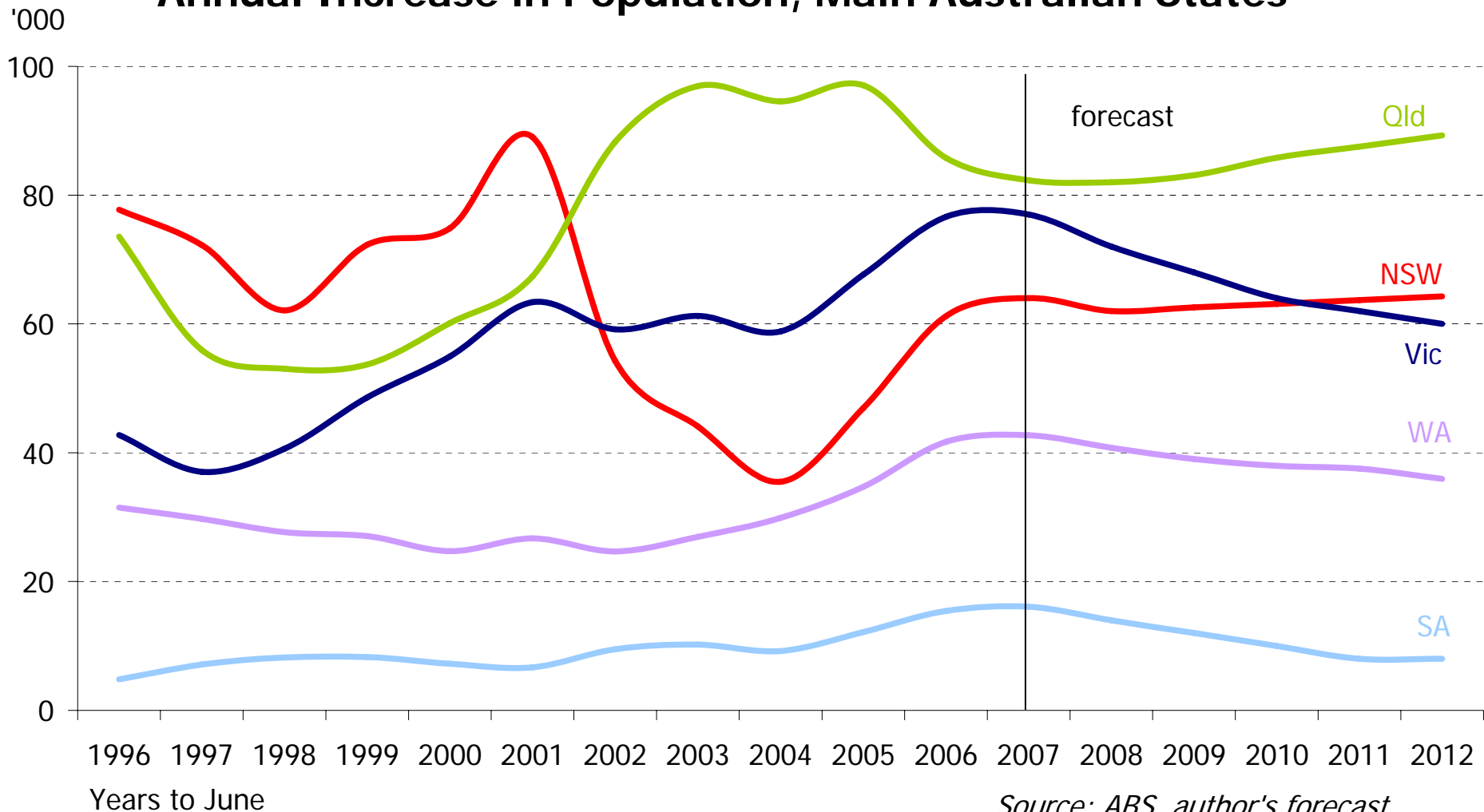


*Source: ABS*

## Components of Population Growth, Victoria

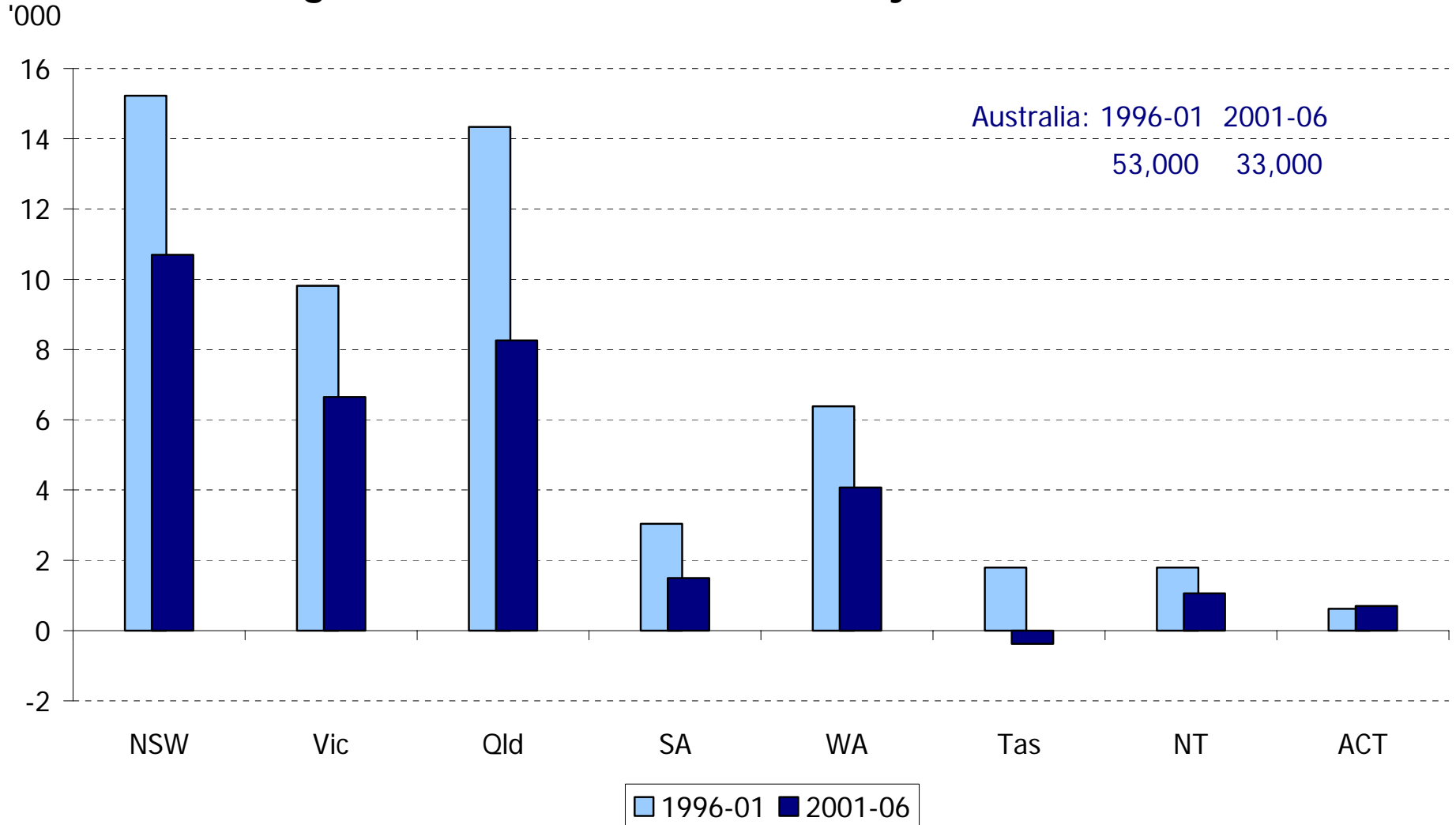


## Annual Increase in Population, Main Australian States

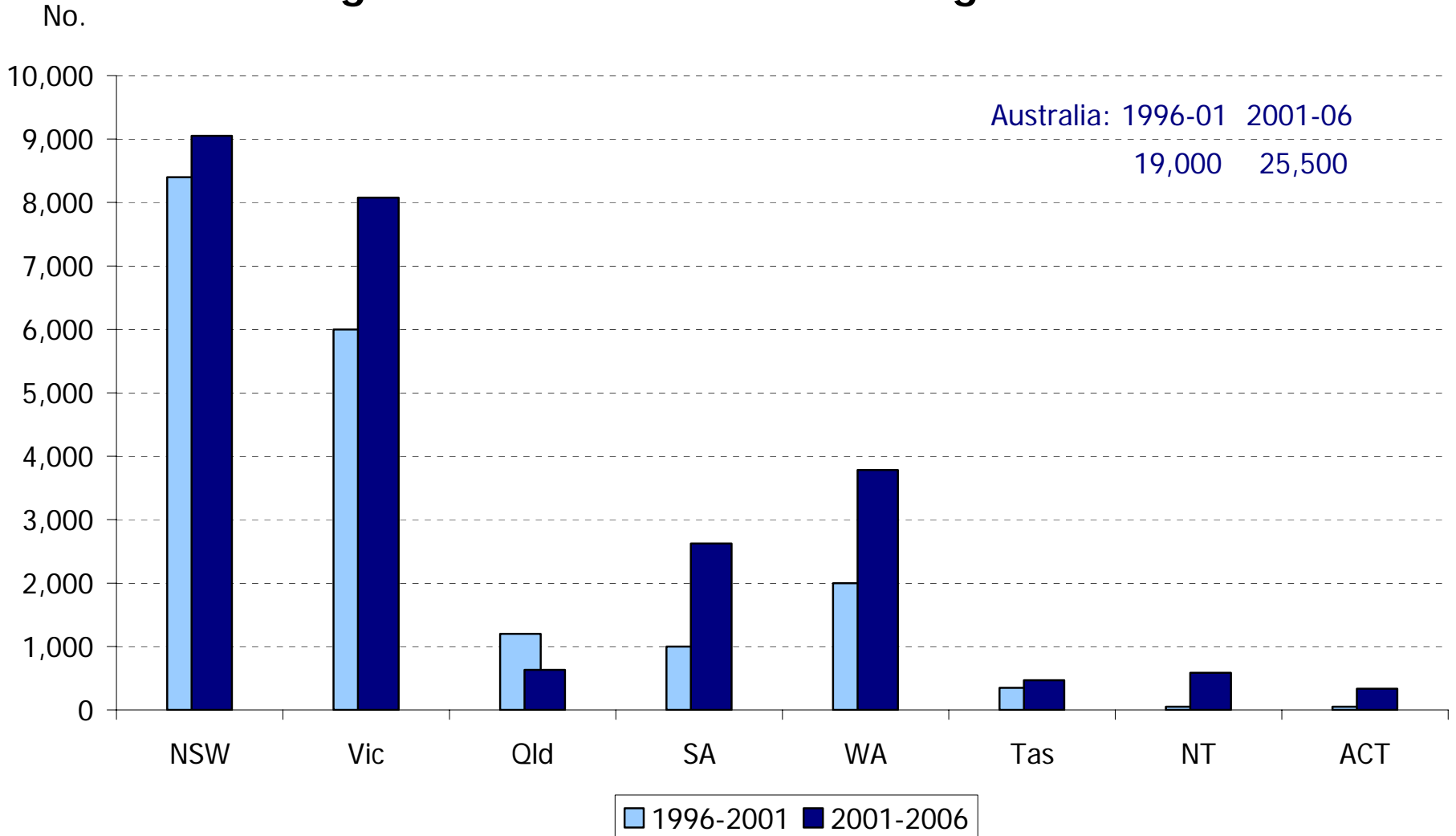


*Source: ABS, author's forecast*

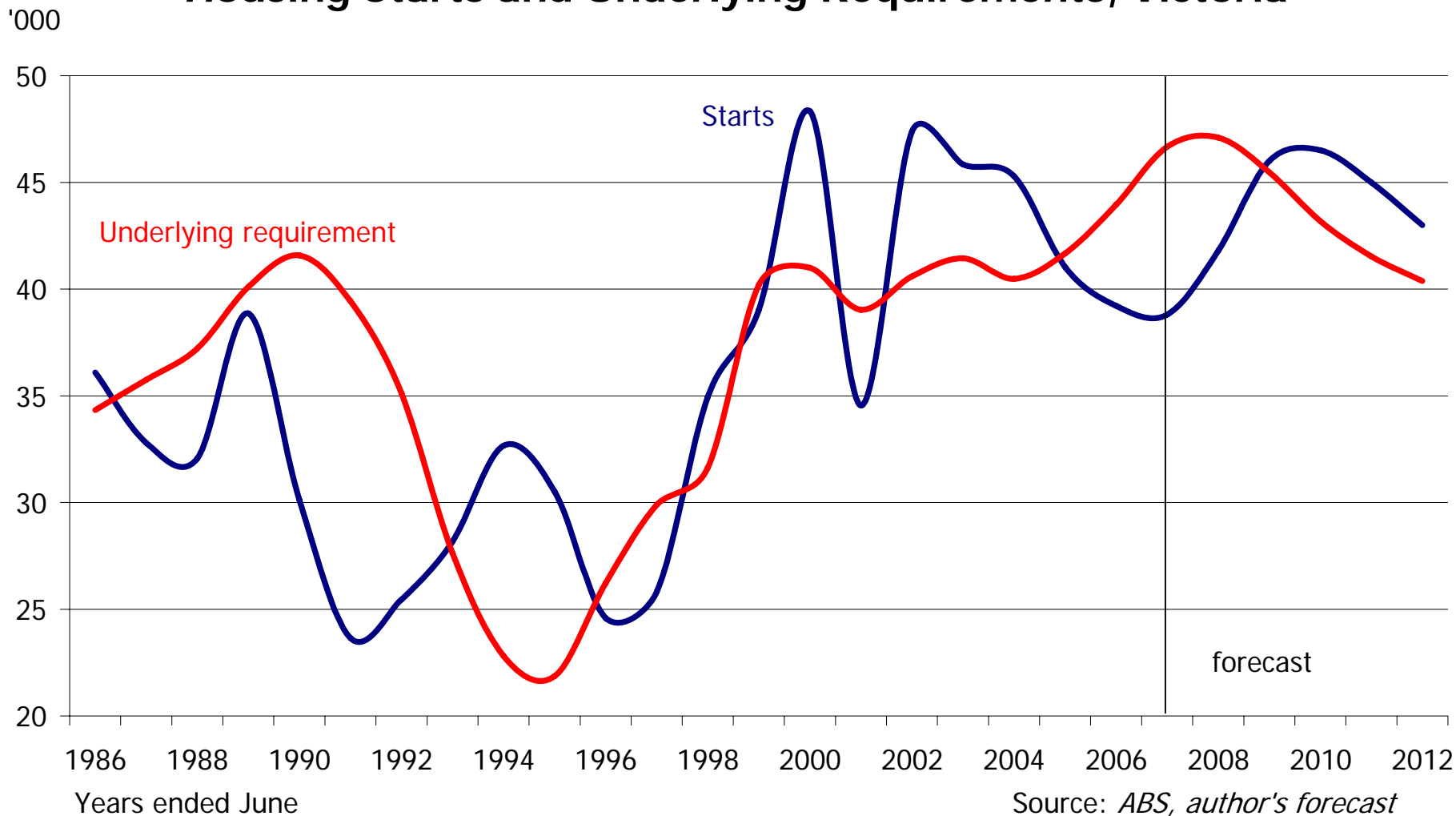
### Average Annual Demand Generated by Smaller Households



## Average Annual Number of Dwellings Demolished



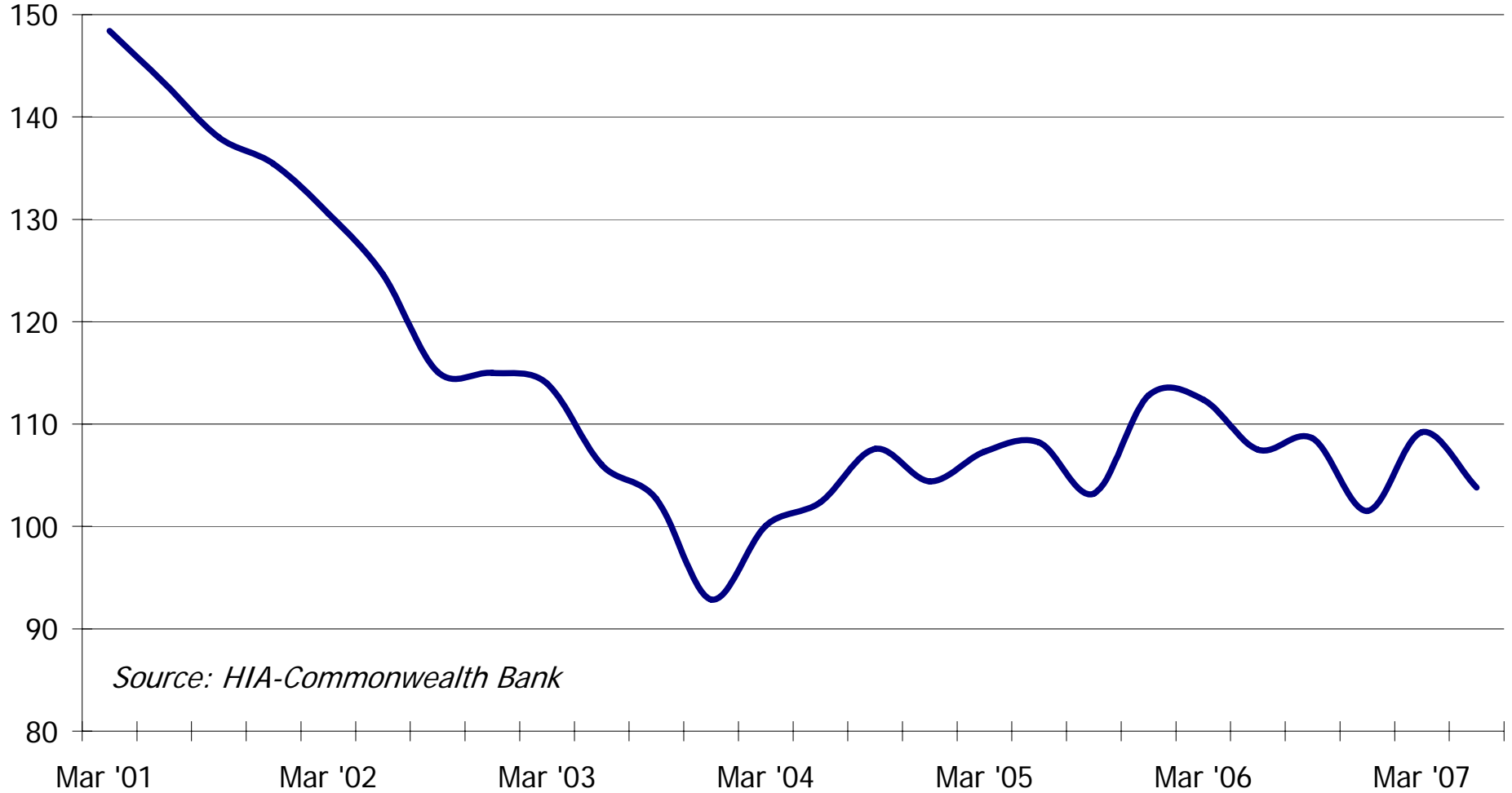
## Housing Starts and Underlying Requirements, Victoria



Affordability  
index

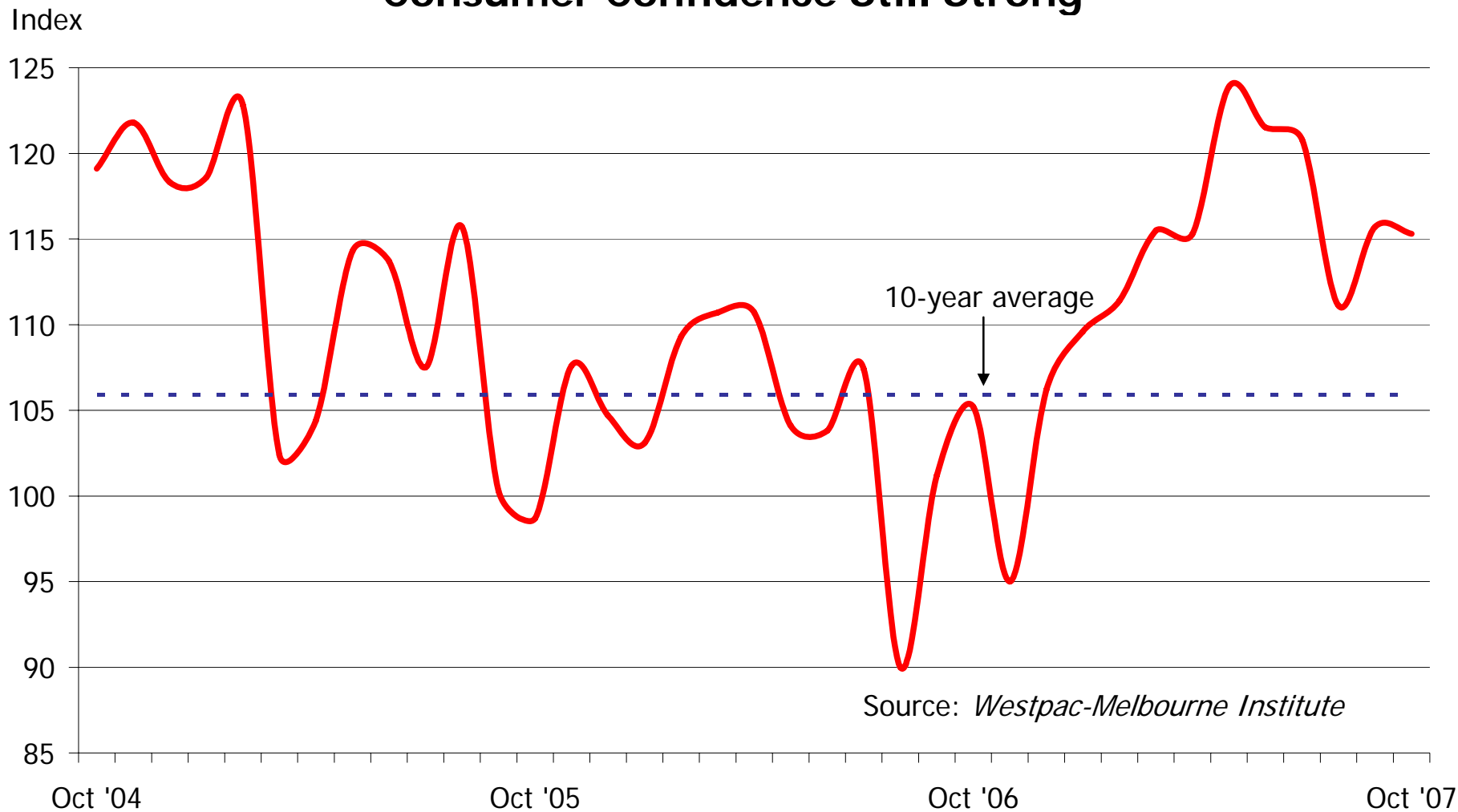
## Affordability of Housing, Melbourne

*The index measures affordability for first-home buyers*

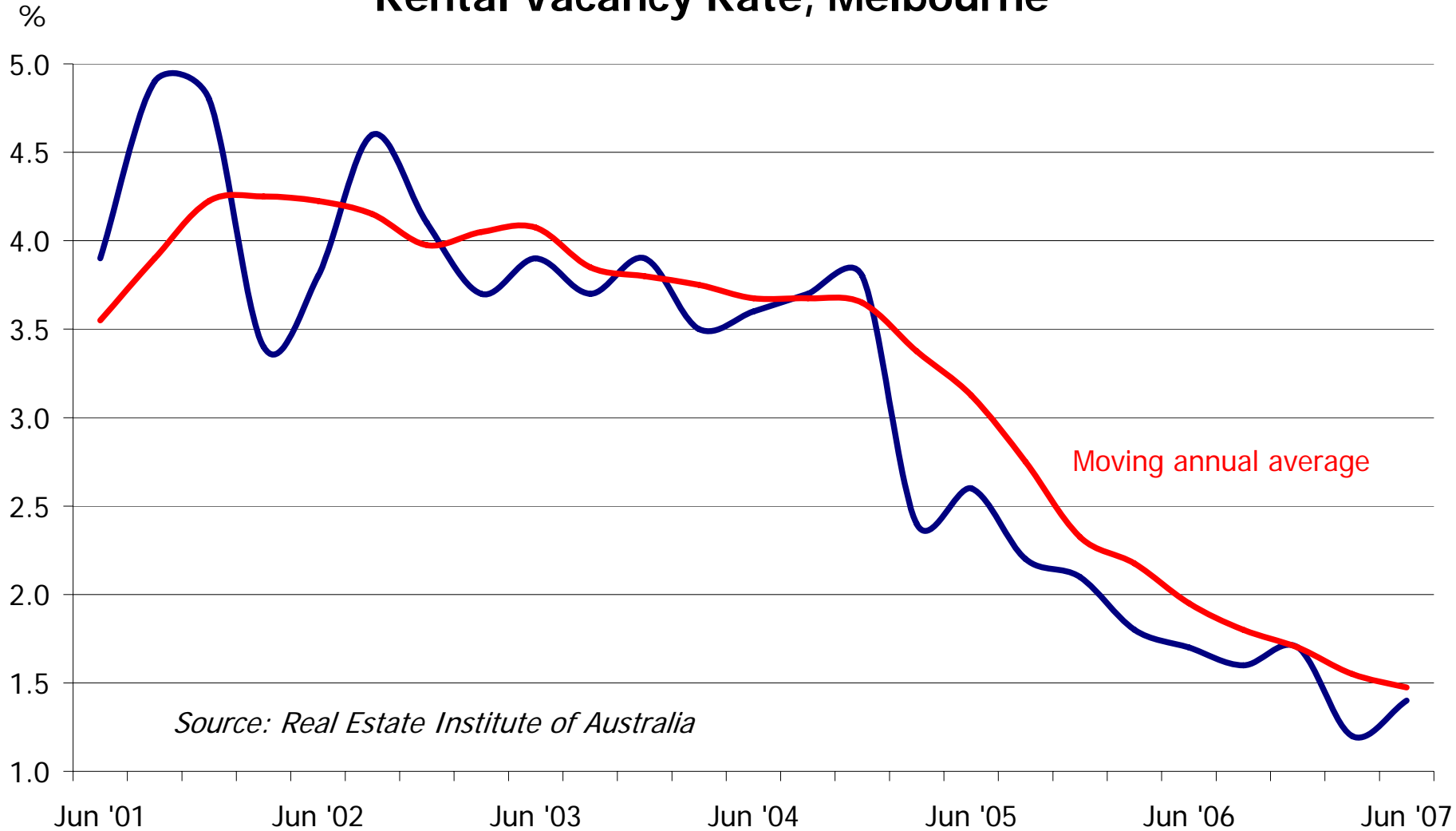


*Source: HIA-Commonwealth Bank*

## Consumer Confidence Still Strong

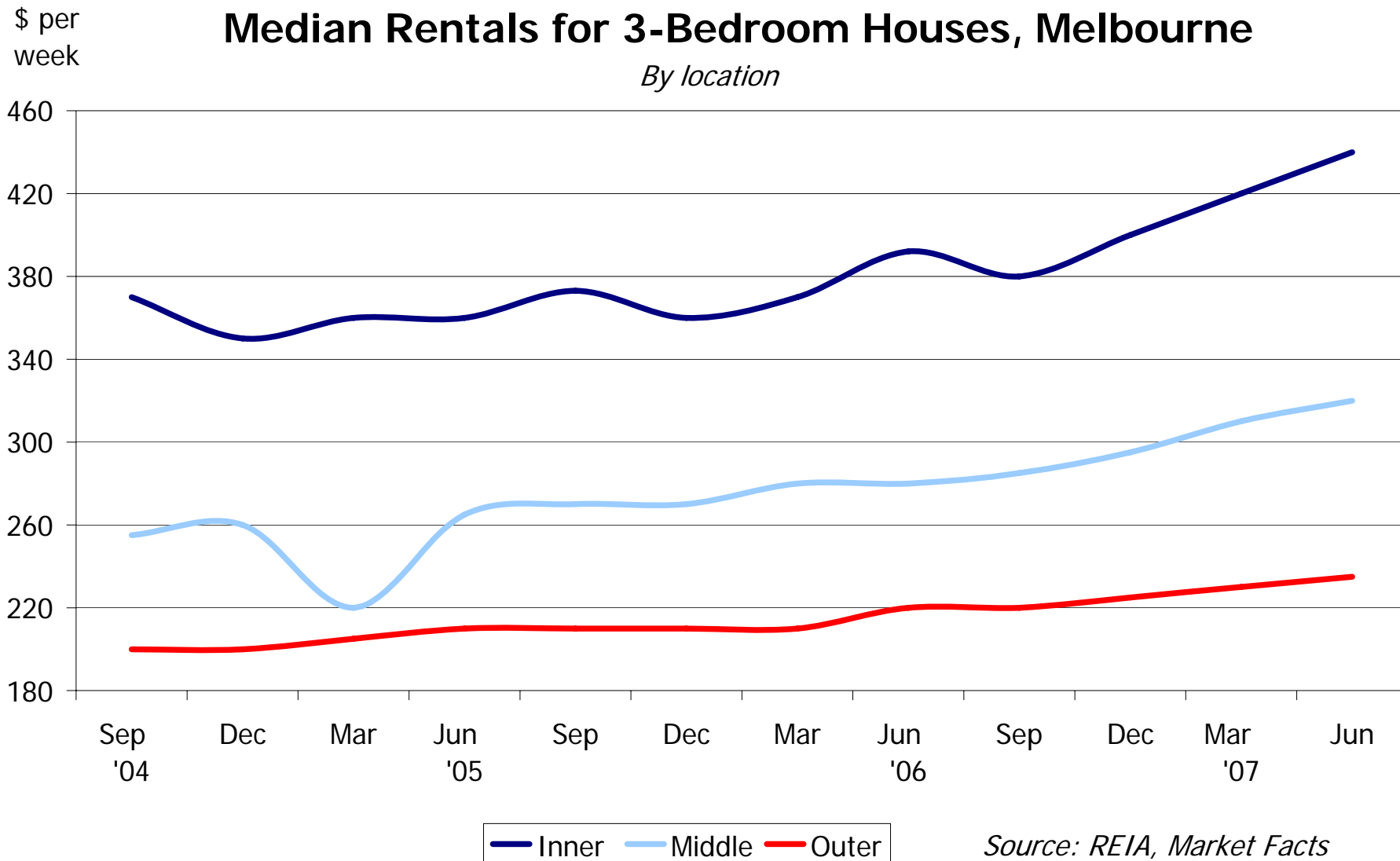


## Rental Vacancy Rate, Melbourne



## Median Rentals for 3-Bedroom Houses, Melbourne

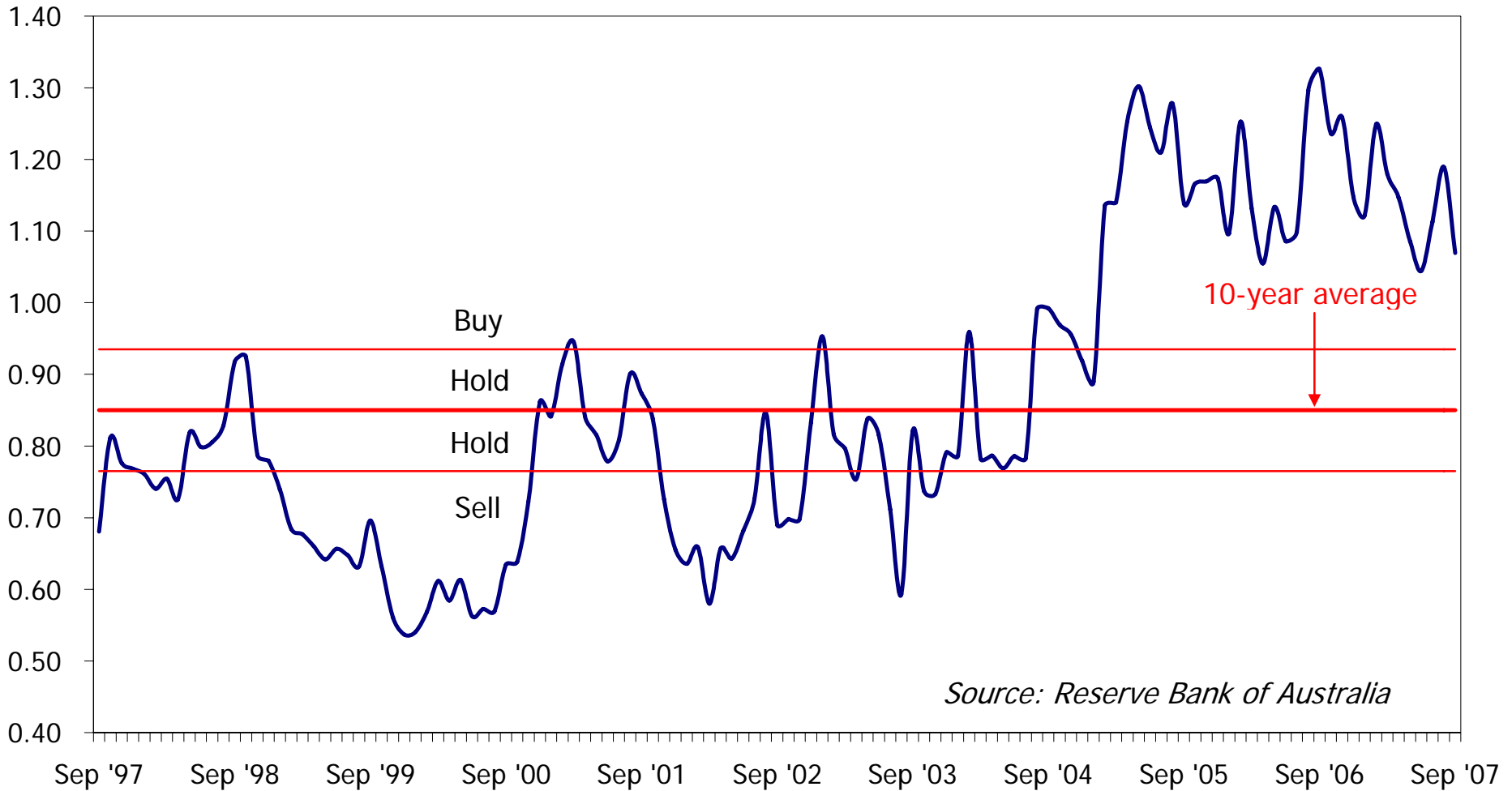
*By location*



*Source: REIA, Market Facts*

## Ratio of Earnings Yield to Bond Yield

*Historical earnings yield on S&P/ASX 200 divided by yield on 10-year government bond*



*Source: Reserve Bank of Australia*

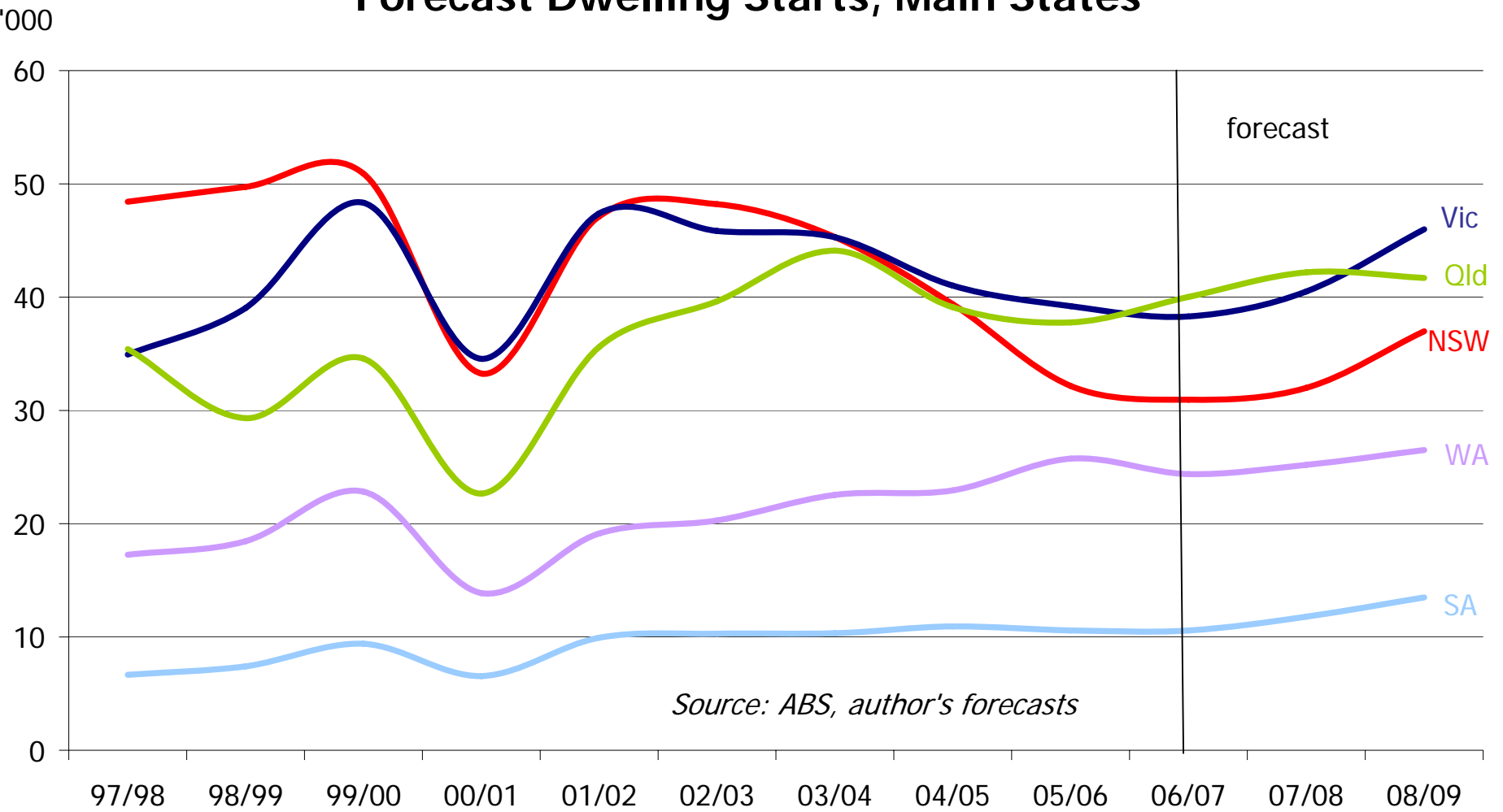
## Ratio of Dividend Yield to Interest on Cash Management Trust

*Dividend yield on S&P/ASX 200 divided by interest on cash management trust*



*Source: Reserve Bank of Australia*

## Forecast Dwelling Starts, Main States



*Source: ABS, author's forecasts*