

OPINION: BOOSTING AUSTRALIA'S HOUSING SUPPLY DESERVES POLICY FOCUS

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There is widespread anecdotal evidence, and increasing quantitative evidence, that new home building conditions hit a wall around June this year.

Given that global economic conditions have generally suffered for the worse since around July, the fact that the pre-existing weakness in the new home building sector in Australia accelerated from June is clearly cause for considerable concern.

New housing starts peaked in the June 2010 quarter. This peak followed only four quarters of growth after a five year (modest) trend decline in starts.

The clear weakening in new housing starts from mid-2010, and the continued trend decline in leading new housing indicators throughout 2010/11 (and now into 2011/12), has recently been joined by reports of job losses and of negative sales (when new home contract cancellations outweigh completed contracts).

Throughout 2010/11 the new home building sector was propped up by the remarkable performance of Victoria, which started almost 40 per cent of the nation's new homes while having only 26 per cent of the population.

As it was, national new housing starts still fell by 7 per cent last year (to a level of 156,250), primarily reflecting weakness in New South Wales, Queensland, and Western Australia. Allowing for an orderly decline in Victoria, Australia will still struggle to start construction of 140,000 homes in 2011/12. Should the situation dip sharply in Victoria this financial year, then starts would likely approach a GFC-like low again (around 130,000), which marks recessionary conditions for the sector.

Be the bottom 140,000 or 130,000 starts, it is still well below par, and a long way from annual underlying (notional) demand of around 175,000 dwellings and the short term achievable level of around 155,000 to 160,000 dwellings.

There is a difference between short term effective demand, notional (underlying) demand, and a level of short term supply that would be achievable if structural barriers (excessive taxation, for example) were reduced. Commentators who argue there is no housing shortage don't seem to mention these crucial distinctions.

There is a demonstrated need to boost Australia's housing supply, despite the sideshow of ignorant commentary sometimes implying the contrary. New home starts running below 150,000 dwellings per annum, much less approaching 140,000 and at risk of bottoming at closer to 130,000, is simply an unhealthy situation for the domestic economy at any juncture in time.

That's before the medium/long term social and economic consequences of failing to sustainably lift home starts from such sub-par levels are even contemplated.

Post the Tax Forum there is an opportunity to reignite a policy reform process to remove impediments to new housing supply and to begin the important process of tax reform required to reduce the highly inefficient, inequitable, and disproportionately large taxation burden borne by Australia's new housing sector.

This would ensure the platform was laid for a sustainably higher average level of new home building in the future than the below par level that has been evident in the recent past.

Housing is shelter, a necessity of life, so reducing the cost base, increasing supply, and boosting affordability are not only laudable policy aims, they are essential to a more productive Australian economy.

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