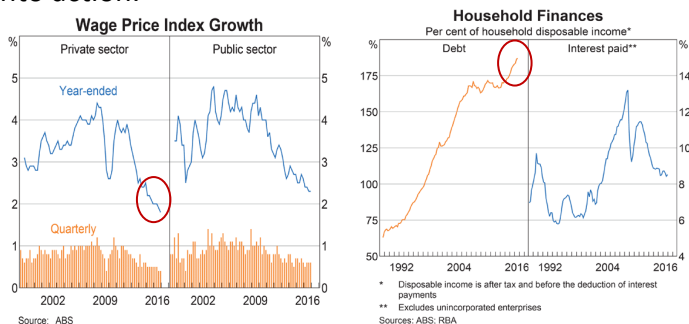


Market Musings

The Price of Stability

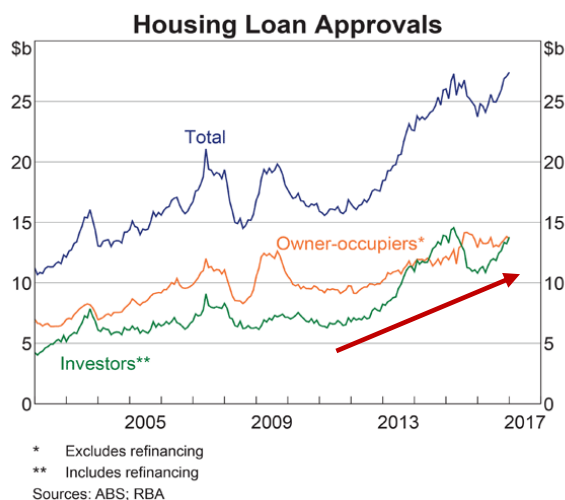
Australia’s banking regulators have been ever so slowly, but surely clamping down on a newly acknowledged housing bubble.

A trio of fast rising dwelling prices (growing at the fastest rate since May 2010, according to CoreLogic data), record levels of household debts, and lows in wages growth have conspired to spark the regulators into action.



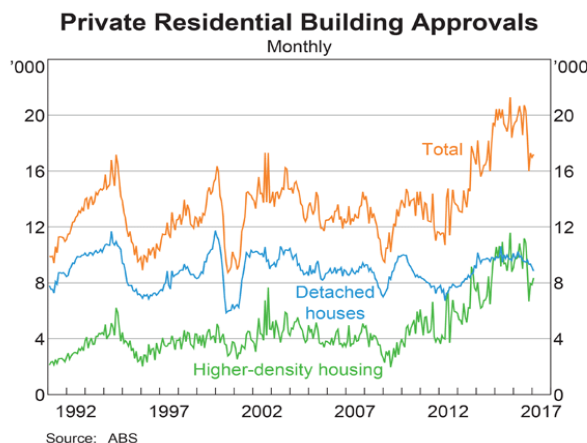
At the heart of the issue for the regulators, is financial stability, and systemic risk is the very subject that prompted scrutiny from the credit ratings agencies and criticism from the likes of the IMF and the OECD in recent times.

The regulators have targeted the investor segment of the housing market, and it seems to make plenty of sense. Because, investors have been the driving force behind the housing market in recent years. The below chart, reveal the owner-occupier segment have barely changed since 2009, whilst investor approvals have roughly doubled.



Credit growth is a very important metric for the Australian economy, due to the ingrained nature of the finance and insurance industry. Indeed, the housing sector, including housing construction, has been the key driver of economic activity over the last five years. Interestingly, private credit growth struck a peak of 6.7% in 2015, but has slowed since for a low of 5.0% in February.

As can be seen in the below chart, building activity has already begun to slow after reaching a peak in 2015. The challenge in interpreting approvals data is the fact that the construction of multi-storey apartment buildings can take up to two years to complete. Therefore, there are large lags between building permits and the need for housing finance.



It seems the regulatory tightening comes at a time when the housing sector is already slowing. Perhaps the regulators have some insights into the upcoming Federal Budget (in May), which is expected to address concerns surrounding housing affordability.

An ‘unquestionably strong banking system’ is a noble ambition, and to-date the response has been one of raising the price of credit. The other price to be paid is slower economic growth for the present day. After all, borrowing simply brings forward consumption and income at the expense of future activity.

"The price of anything is the amount of life you exchange for it." ~ Henry David Thoreau