



Housing approval collapse shows the game is up

By Jeremy Beck

15 Jan.—Official November figures, released last week, show that Australia experienced the biggest annual fall in residential building approvals since the 2008-09 global financial crisis. The Australian Bureau of Statistics' data shows that from November 2017 to November 2018, seasonally adjusted private sector dwelling approvals excluding detached houses collapsed by a massive 53.9 per cent nationwide.

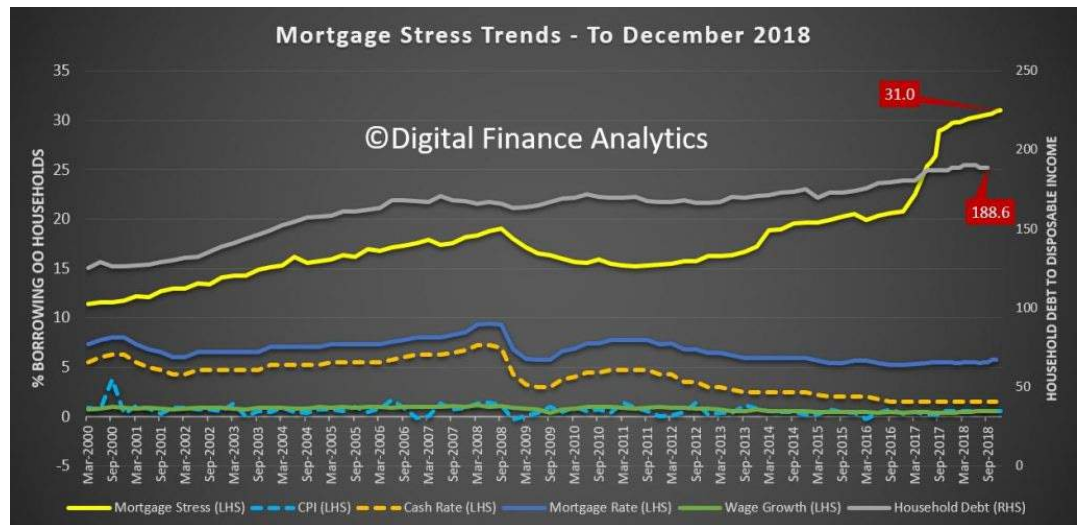
This data clearly shows the apartment-building mania accompanying the property bubble is now officially over. House building approvals also dropped somewhat in the same period, such that overall seasonally adjusted dwelling approvals collapsed by 32.8 per cent.

In Victoria 6,611 dwellings excluding houses were approved in November 2017, but only 1,899 such approvals were recorded for November 2018, a whopping 71 per cent fall! This is one of the more extreme examples, given approval numbers move substantially from month to month, but it's a sign of how much trouble the nation will be facing over the coming months as the real-estate sector implodes.

The seasonally adjusted estimate for private sector dwelling approvals excluding houses collapsed 17.9 per cent in one month (October to November 2018), and for total dwellings fell 9.1 per cent. The banks are worried! Citi said the 9.1 per cent decline in building approvals in November "vastly eclipsed the general consensus expectation of a 0.3 per cent drop and went against our forecast of a 1.5 per cent increase". As the CEC has long warned, given Australia's banks are up to their eyeballs in real-estate speculation, Australia can expect major bank failures soon, to the extent this nation has not seen since the 1890s depression.

Figures vary across the country but it's clear that approvals for flats, townhouses and apartments are dropping just about everywhere. Developers are struggling to raise finance in the face of lower demand for apartments. Even the Property Council of Australia painted a gloomy picture in a 10 January media release headlined "NSW Property Industry Confidence Down Again". "Sentiment is down", said the council's NSW executive director, Jane Fitzgerald, "and with a state and federal election just around the corner, I don't think we will see it rebound in the short term despite stronger results in some sectors".

The Housing Industry Association (HIA) is in panic mode, to the point of championing the scandalous interest-only mortgages. HIA economist Diwa Hopkins, as reported in *The Australian* on 10 January, said "APRA's decision late last year to lift its 30 per cent cap on banks' interest-only lending is a welcome development, but more



needs to be done to mitigate the *growing risks of a hard-landing* in the housing market." And in a 19 December media release, HIA Principal Economist Tim Reardon said: "The removal of the restriction on interest-only lending is essential to addressing the concerning decline in credit growth for new housing. *Credit growth across the market is the lowest it has been since the 1983 recession. Credit growth to investors is the lowest on record.*" (Emphases added.)

Mortgage stress hits new all-time high

On 8 January Martin North, Principal at Digital Finance Analytics (DFA), released his December 2018 mortgage stress and default analysis update. He reported Reserve Bank of Australia data showing that the housing debt to household income ratio has hit a new record of 139.6 per cent. To put this in perspective, in September 1988 when this RBA data series commenced, this figure was just 31.9 per cent. North's analysis is sobering: "Across Australia, more than 1,023,906 households are estimated to be now in mortgage stress (last month 1,015,600), another new record. This equates to 31 per cent of owner-occupied borrowing households. In addition, more than 22,000 of these are in severe stress. We estimate that more than 62,000 households risk 30-day default in the next 12 months."

The DFA analysis combines information from its 52,000-household surveys with public data from several sources, along with private data from lenders and aggregators. Households are defined as "stressed" when net income (or cash flow) does not cover ongoing costs. North adds that "negative equity is touching 'lots of different segments' of the market for different reasons, but collectively it is an 'early warning sign' for what is to come."

Australia clearly needs a full Glass-Steagall standard in banking to separate out the trillions of dollars in derivatives speculation which is tied to the real estate bubble. And a Homeowners and Bank Protection Act, which the CEC first called for in August 2007, will ensure the negative equity problem is addressed, by revaluing mortgages to match the collapsed property values. This and a productive economy financed with national banking will be necessary for Australia to survive the coming crisis.