

Australia's Outlook Amidst the Housing Slowdown

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OCT 11, 2018

Presenters



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Forecasting Approach

Moody's Analytics Structural Macro Models

Each country model is based on theory and grounded with data

Specification choice

- » Economic theory puts restrictions on econometric specifications
- » No reliance on the extreme and unrealistic assumptions
- » Scalability and aiming at reducing problems of endogeneity bias

In-sample equation fit

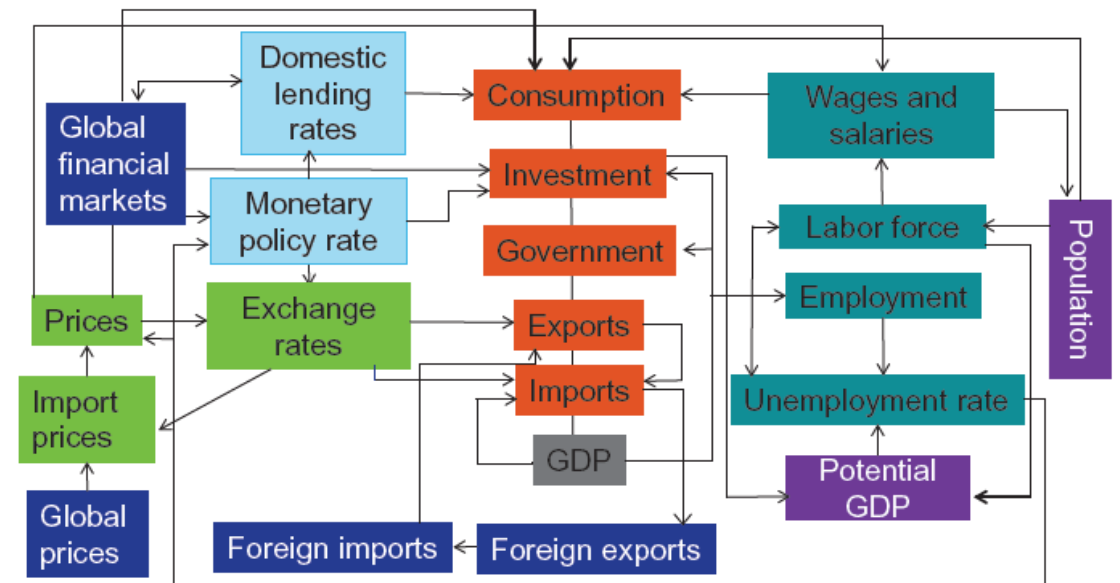
- » R-squared, RMSE, information criteria
- » Fitted values and residuals

Forecasting performance

- » Back-testing: conditional and unconditional evaluation
- » Benchmarking during important past episodes

Sensitivity to shocks

- » Forecasts across scenarios
- » Response to individual shocks



More Than Just Macro...

Subnational, housing and scenarios

Subnational

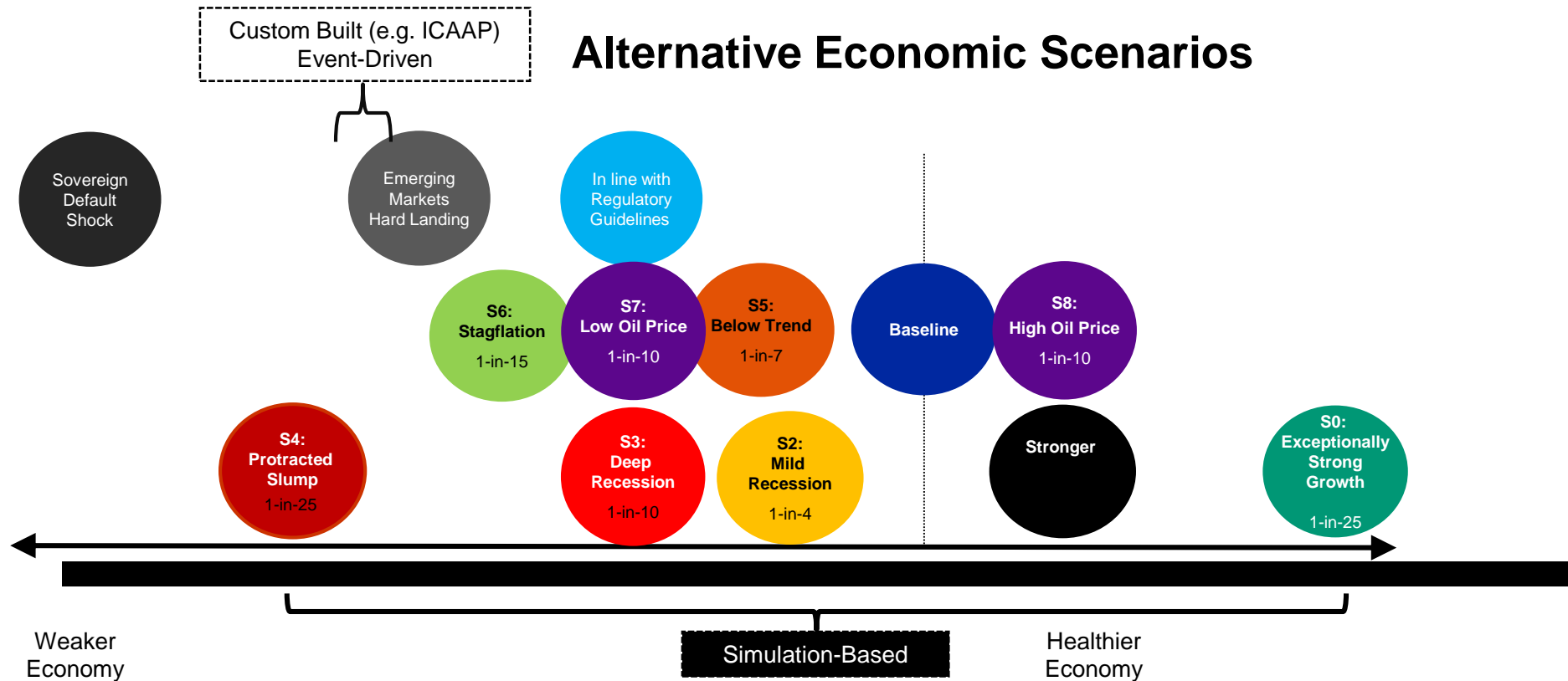
1. All States and Territories
2. All Greater Capital City Statistical Areas
3. All 106 SA4 areas

Housing

1. Using CoreLogic hedonic price indexes for 85 SA4 areas
2. Two-stage error correction framework
3. Pooled cross-sectional estimations account for area-specific fixed effects

... With Baseline and Alternative Scenarios

Baseline forecast and scenarios updated each month

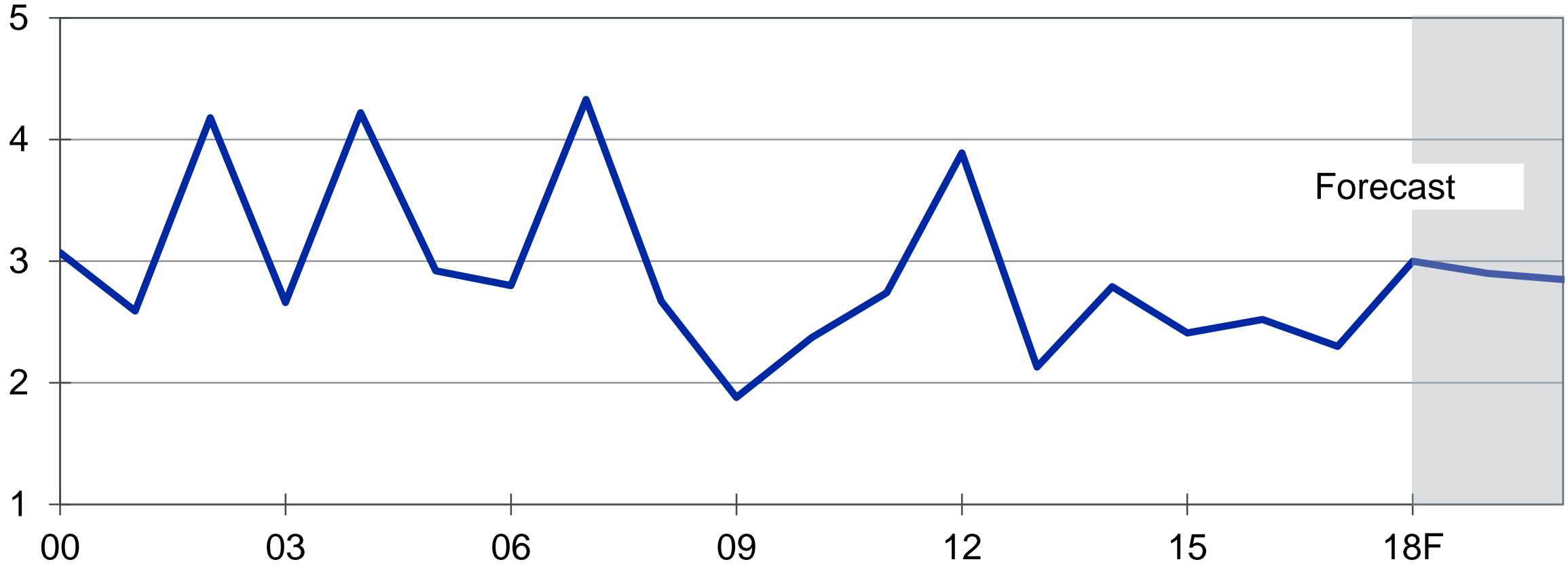


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Macro Outlook

Hovering Around Potential

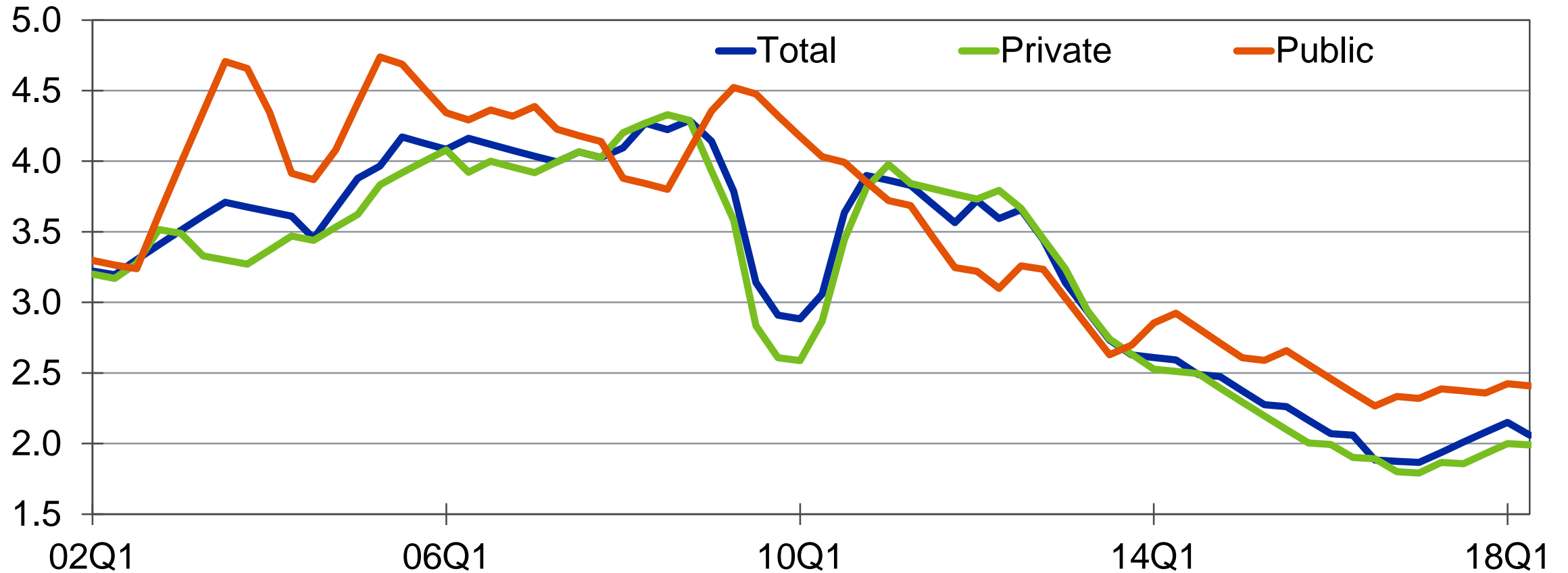
Australia's Real GDP, % change yr ago



Sources: Australian Bureau of Statistics, Moody's Analytics

A Slow Climb

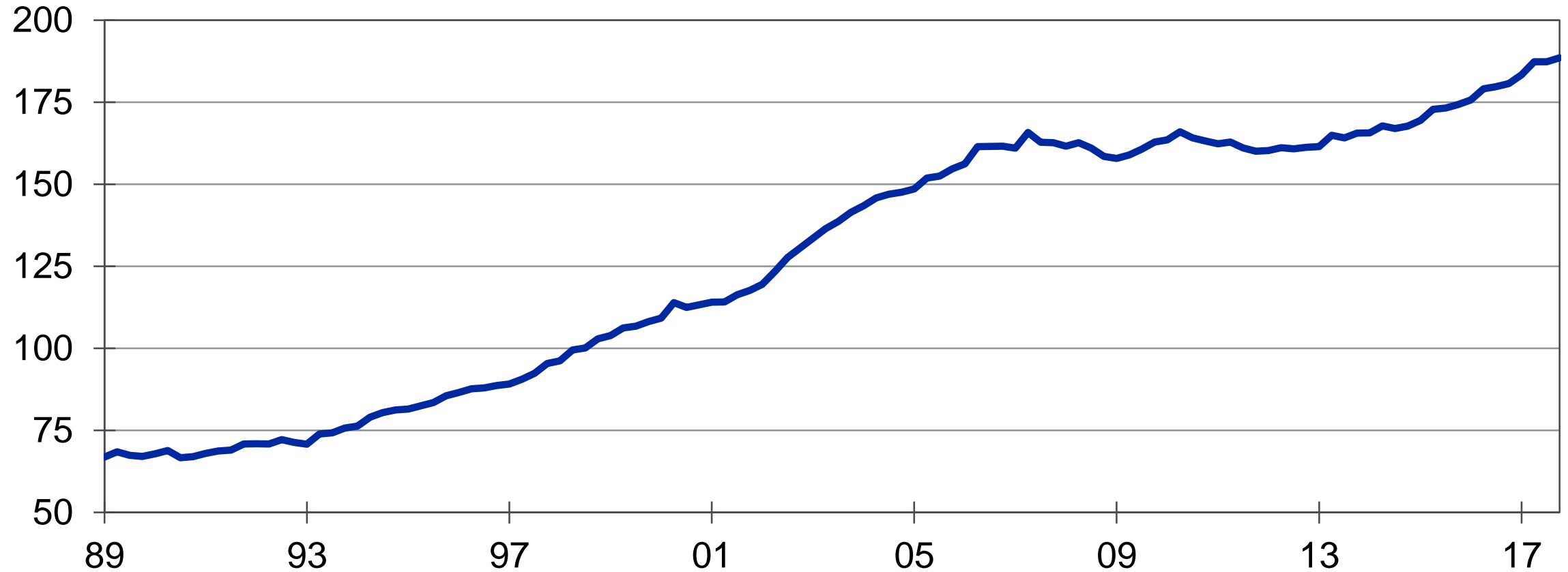
Wage price index, % change yr ago, trend



Sources: Australian Bureau of Statistics, Moody's Analytics

Households' High Debt Burden

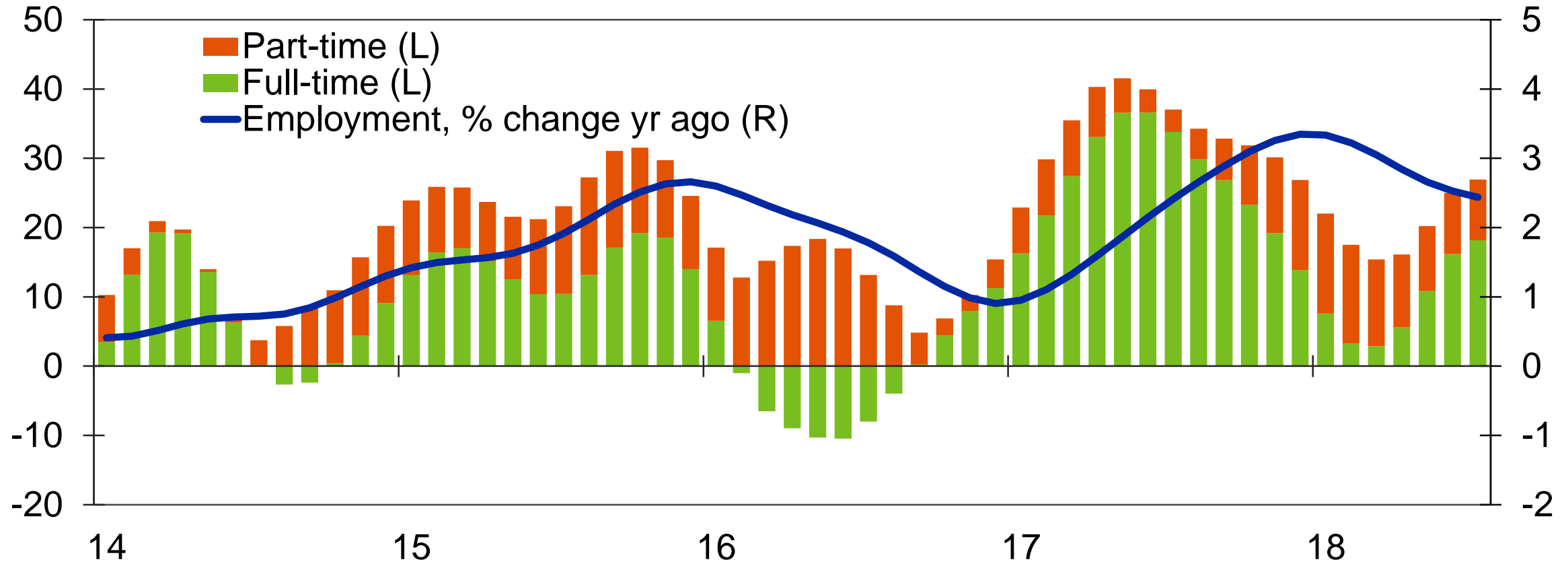
Australia household debt to disposable income, %



Sources: Australian Bureau of Statistics, Moody's Analytics

Still Favorable Labour Market

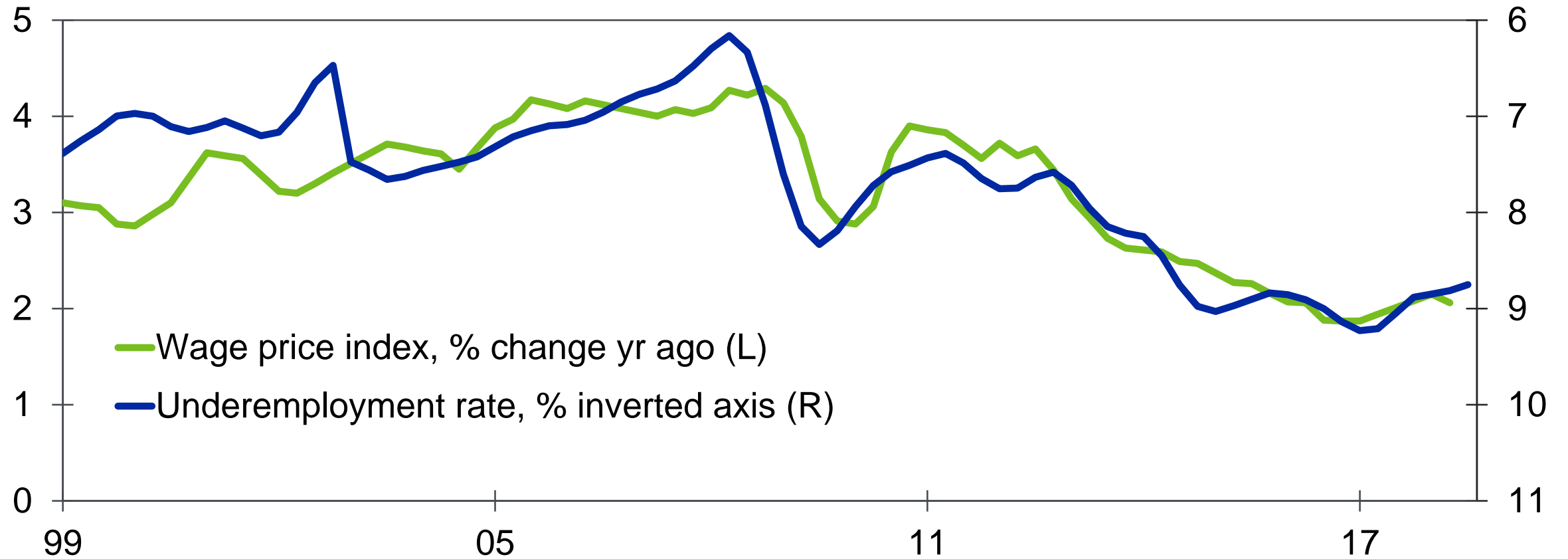
Employment change monthly, trend, ths



Sources: Australian Bureau of Statistics, Moody's Analytics

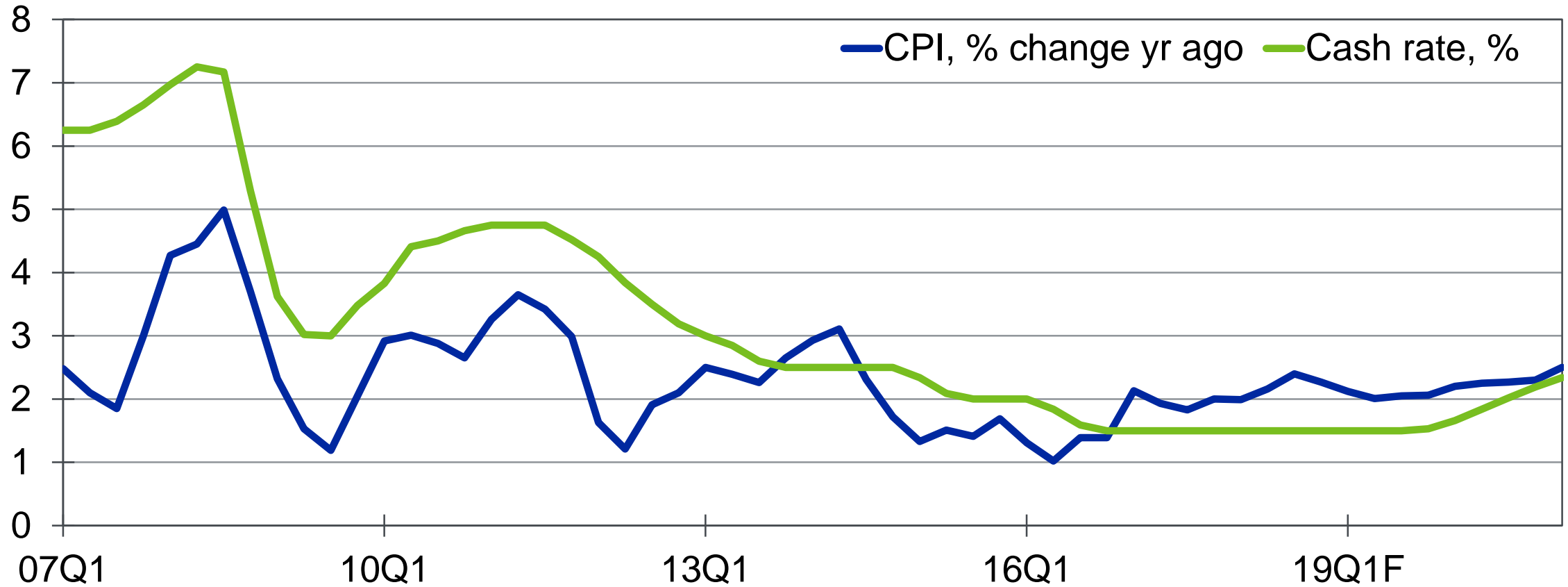
Strong Inverse Relationship

Trend



Sources: Australian Bureau of Statistics, Moody's Analytics

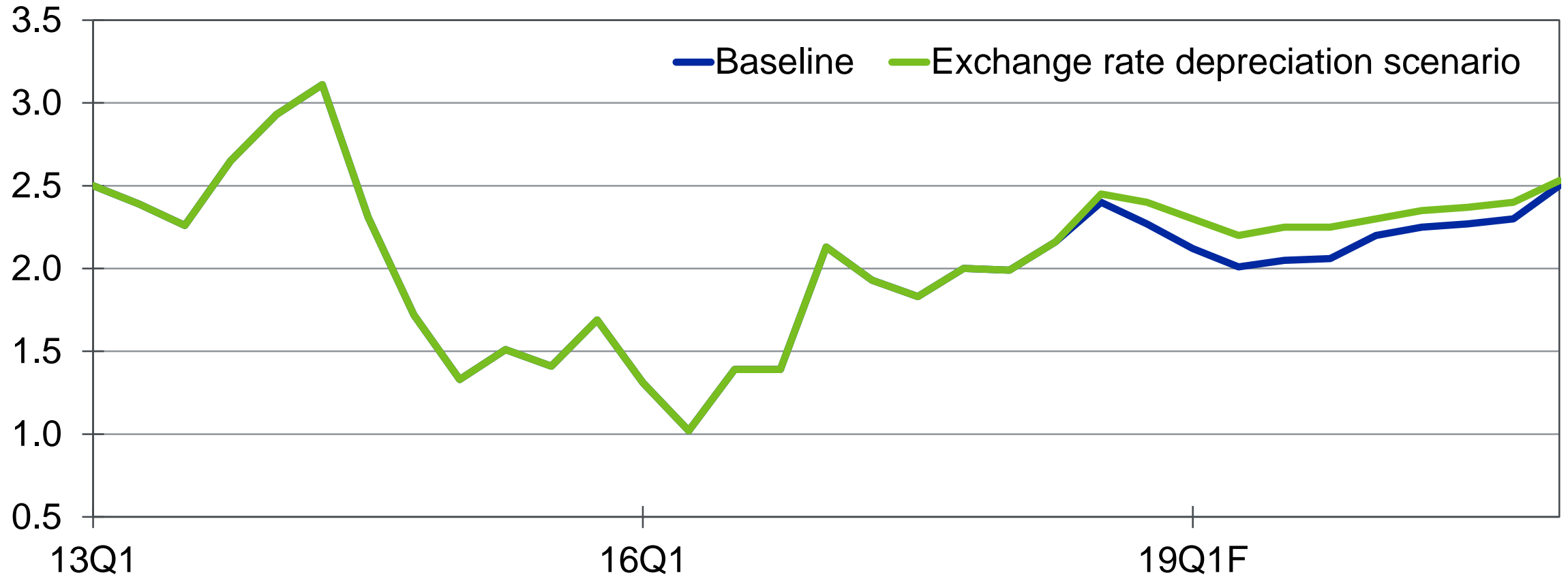
Gradual Tightening Cycle



Sources: Reserve Bank of Australia, Australian Bureau of Statistics, Moody's Analytics

Weaker Aussie Pushes Inflation Higher

CPI, % change yr ago



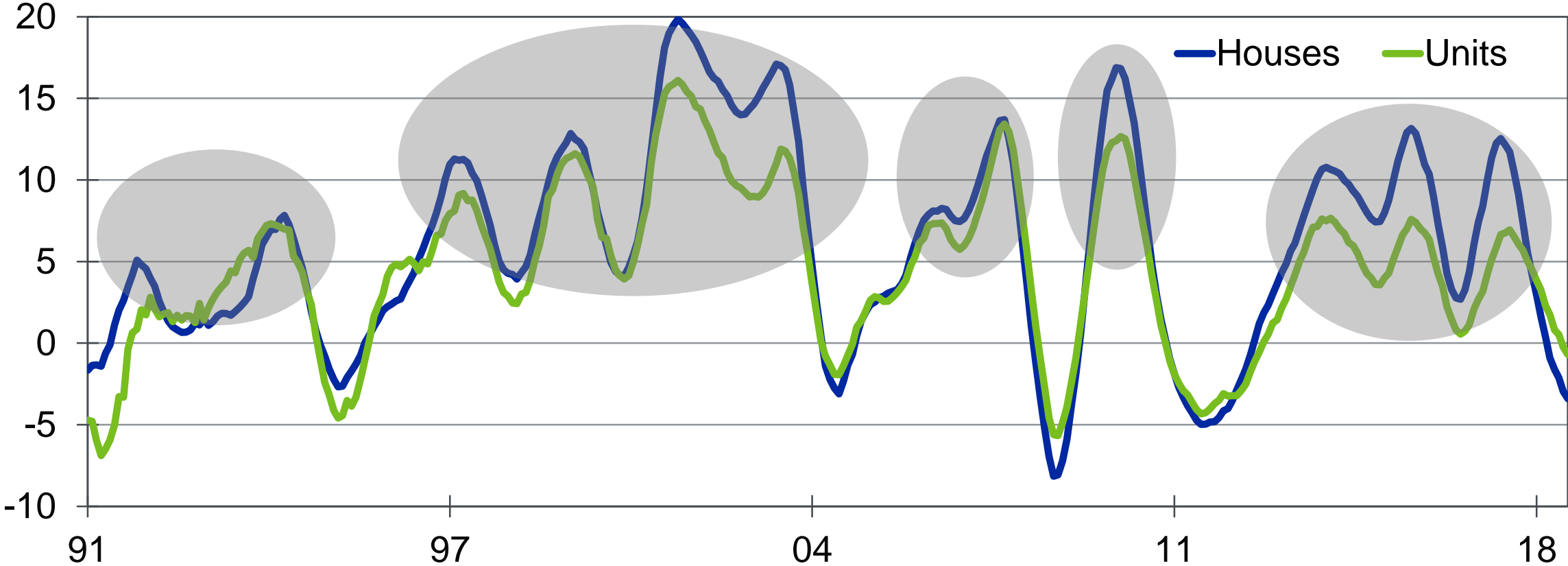
Sources: Australian Bureau of Statistics, Moody's Analytics

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Housing Outlook

National Home Values

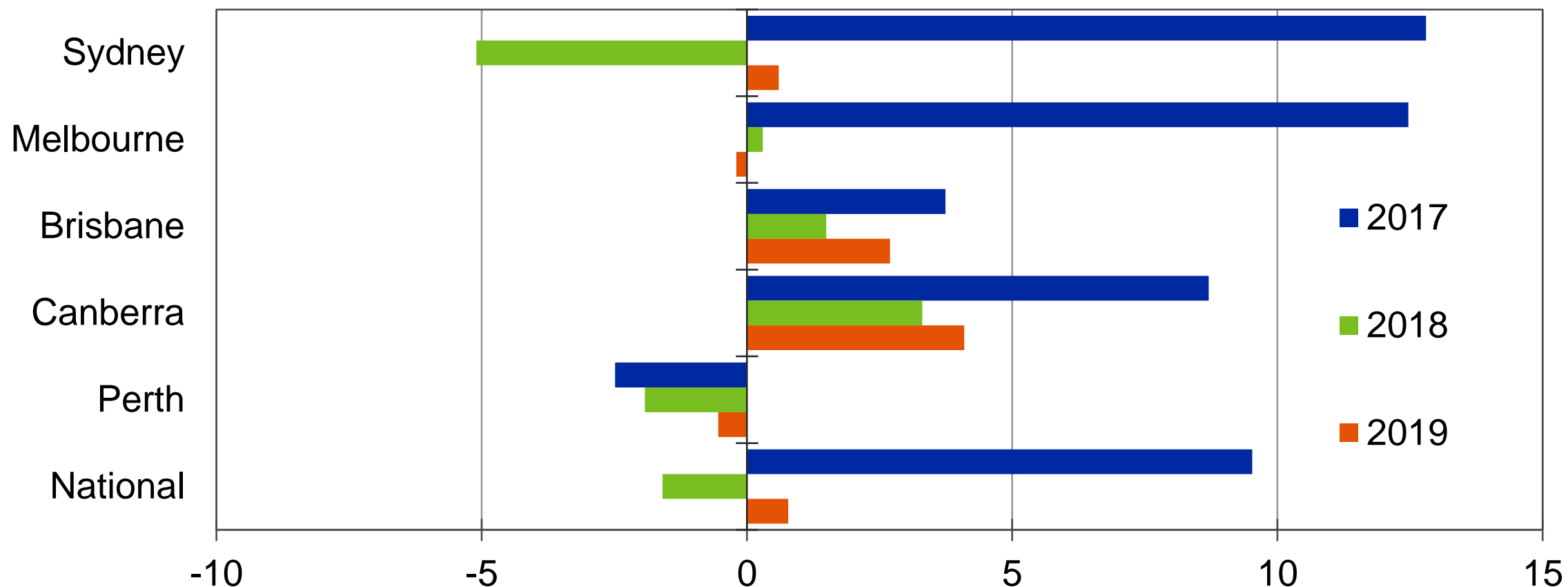
Hedonic home value index, % change yr ago



Sources: CoreLogic, Moody's Analytics

East Coast Softer; Recovery Elsewhere

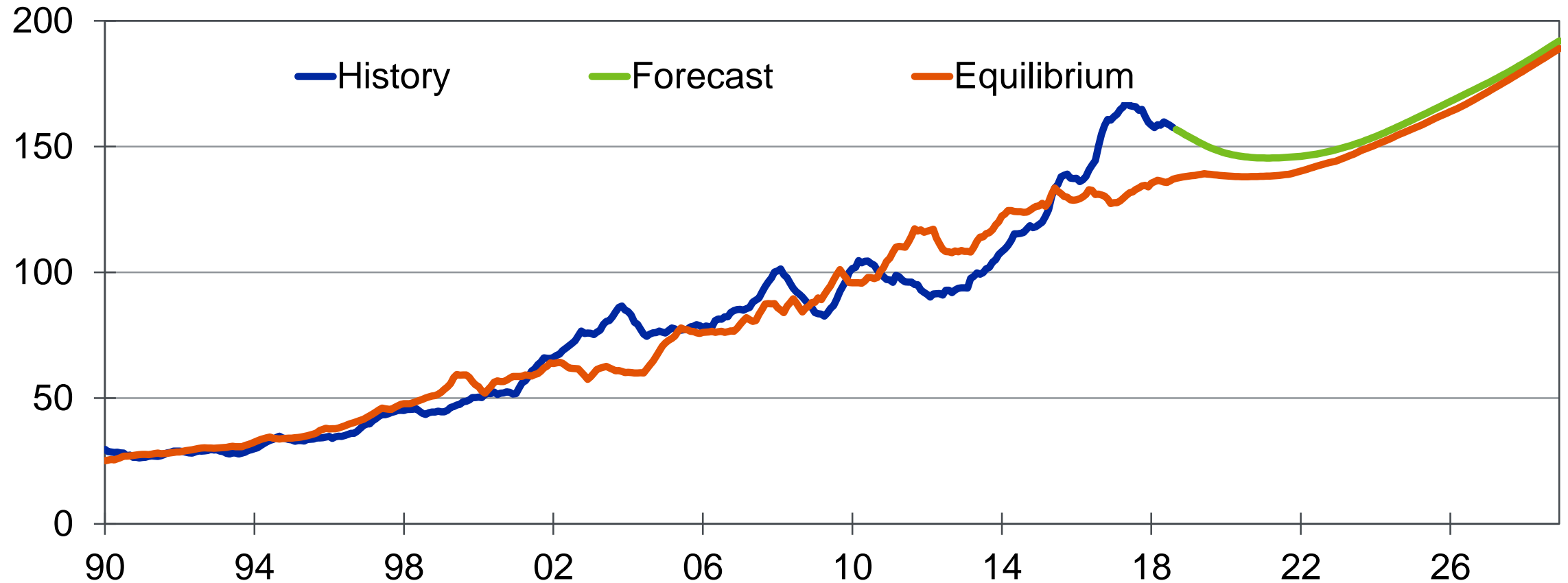
Greater capital city house value forecasts, % change



Sources: CoreLogic, Moody's Analytics

Slowdown in Sydney Areas...

Sydney–Eastern Suburbs, hedonic house index, Dec 2009=100



Sources: CoreLogic, Moody's Analytics

...But Improvements Outside Sydney

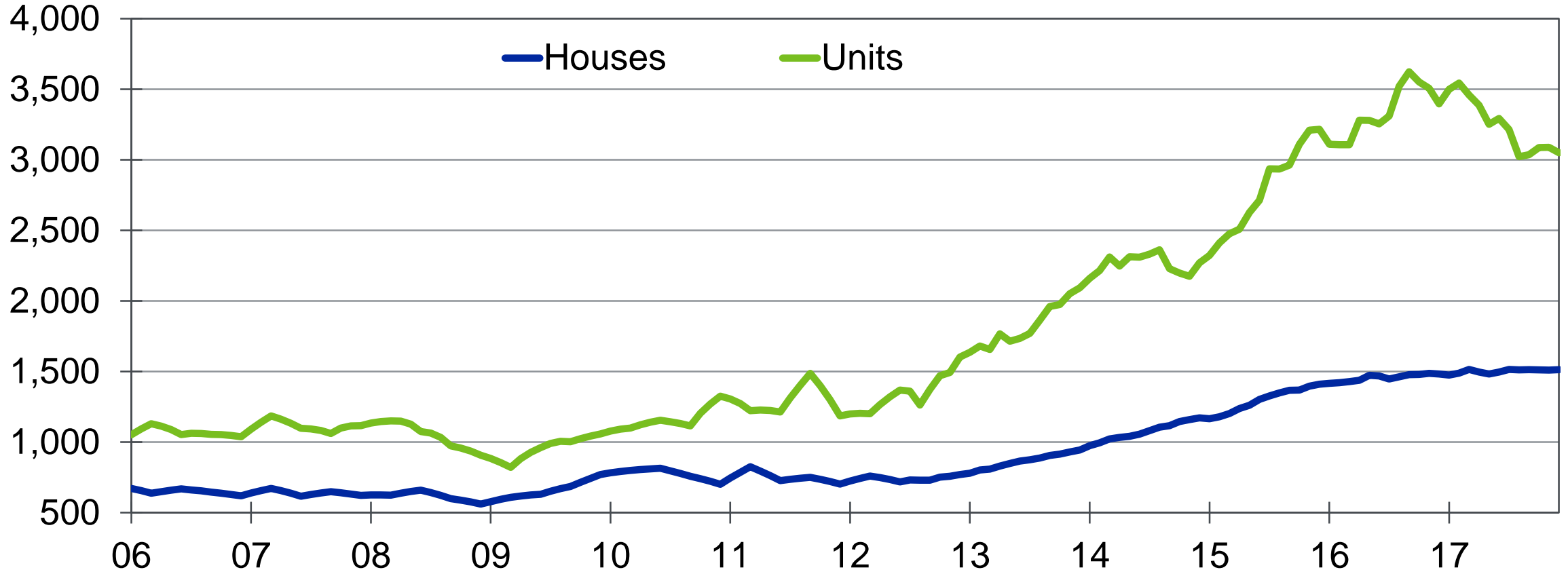
Central Coast, hedonic house index, Dec 2009=100



Sources: CoreLogic, Moody's Analytics

High Unit Supply in Sydney

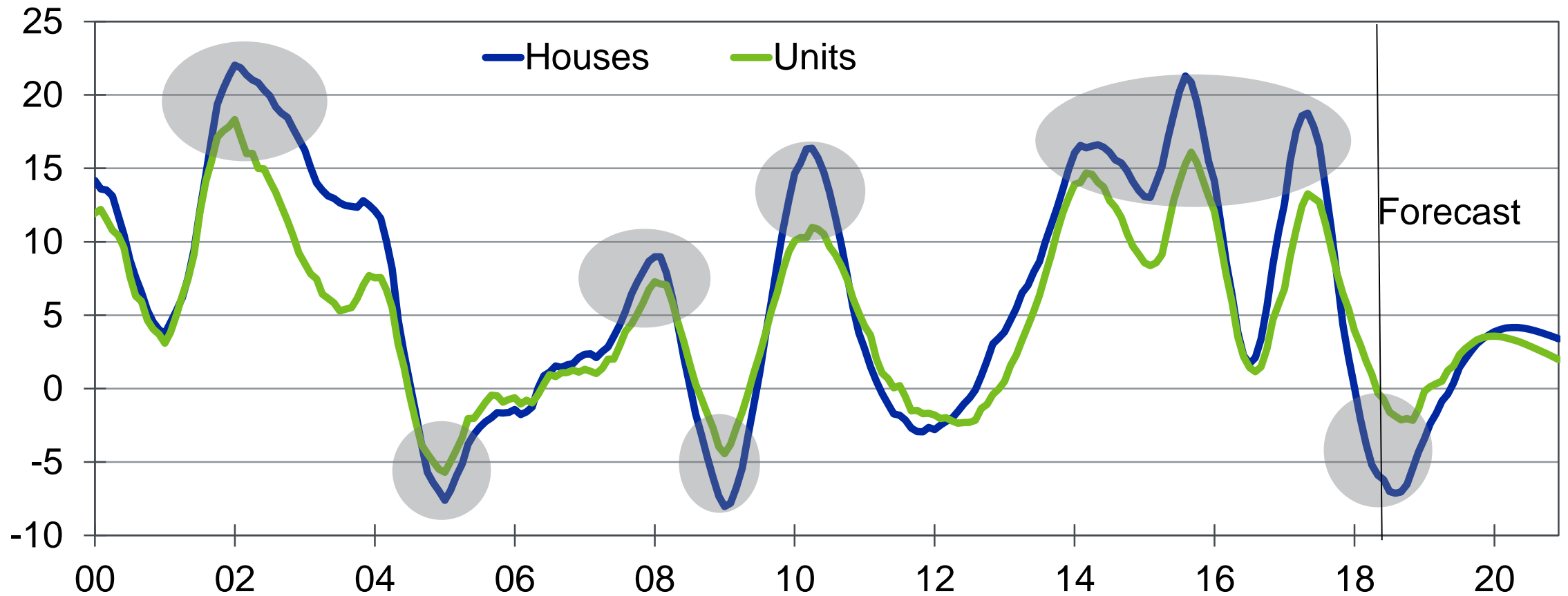
Building approvals, Greater Sydney, SAAR



Sources: Australian Bureau of Statistics, Moody's Analytics

Houses More Volatile Than Units

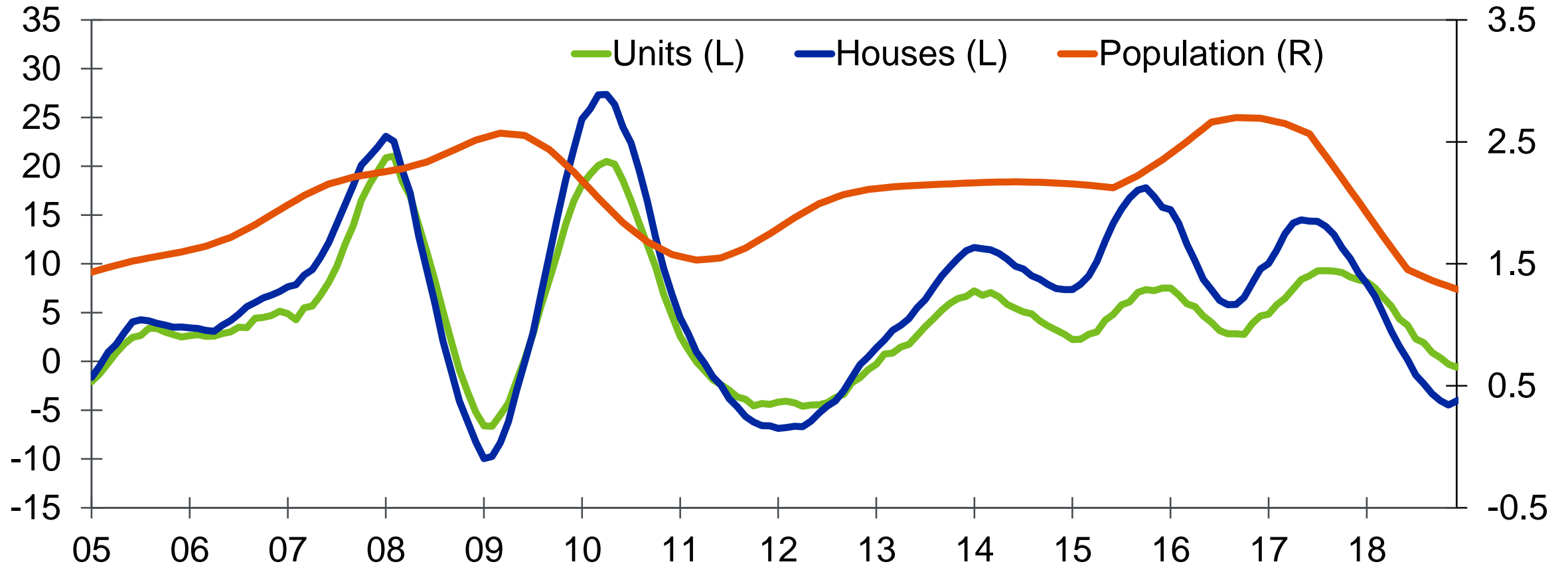
Hedonic home values, Greater Sydney, % change yr ago



Sources: CoreLogic, Moody's Analytics

Population Driving Values

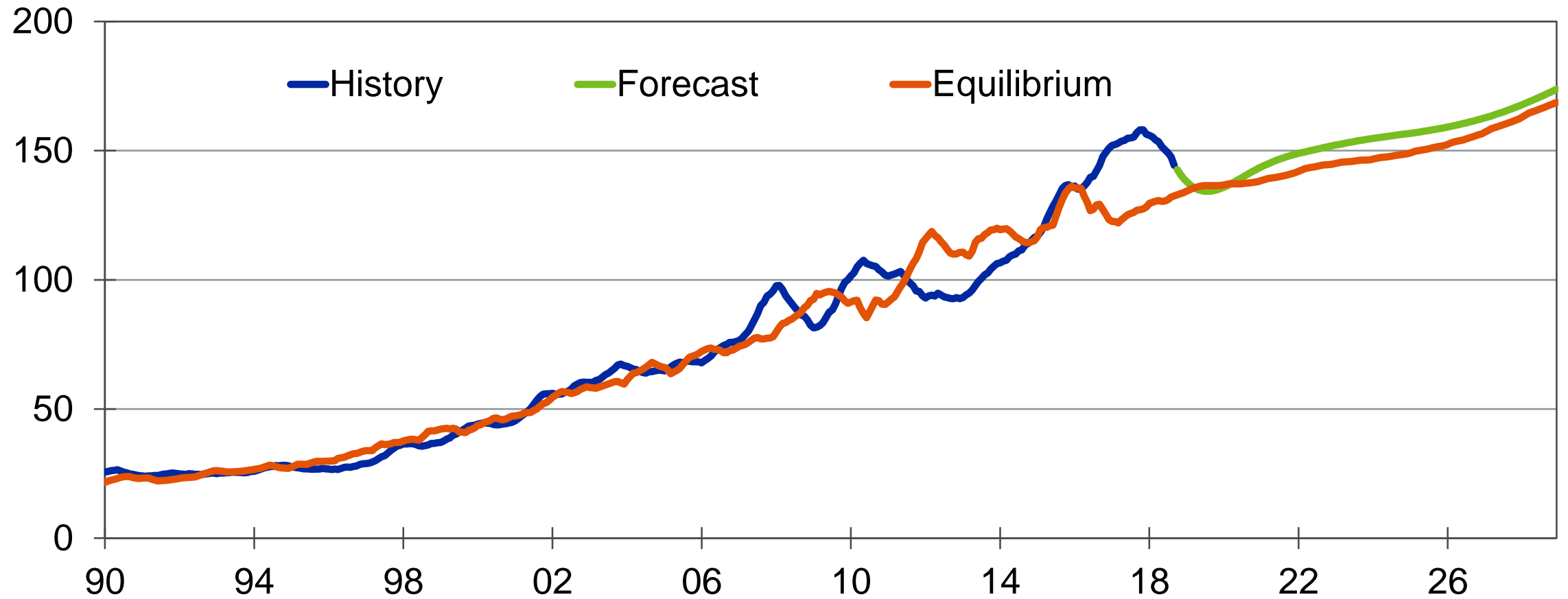
Greater Melbourne, % change yr ago



Sources: CoreLogic, Australian Bureau of Statistics, Moody's Analytics

Corrections Across Melbourne...

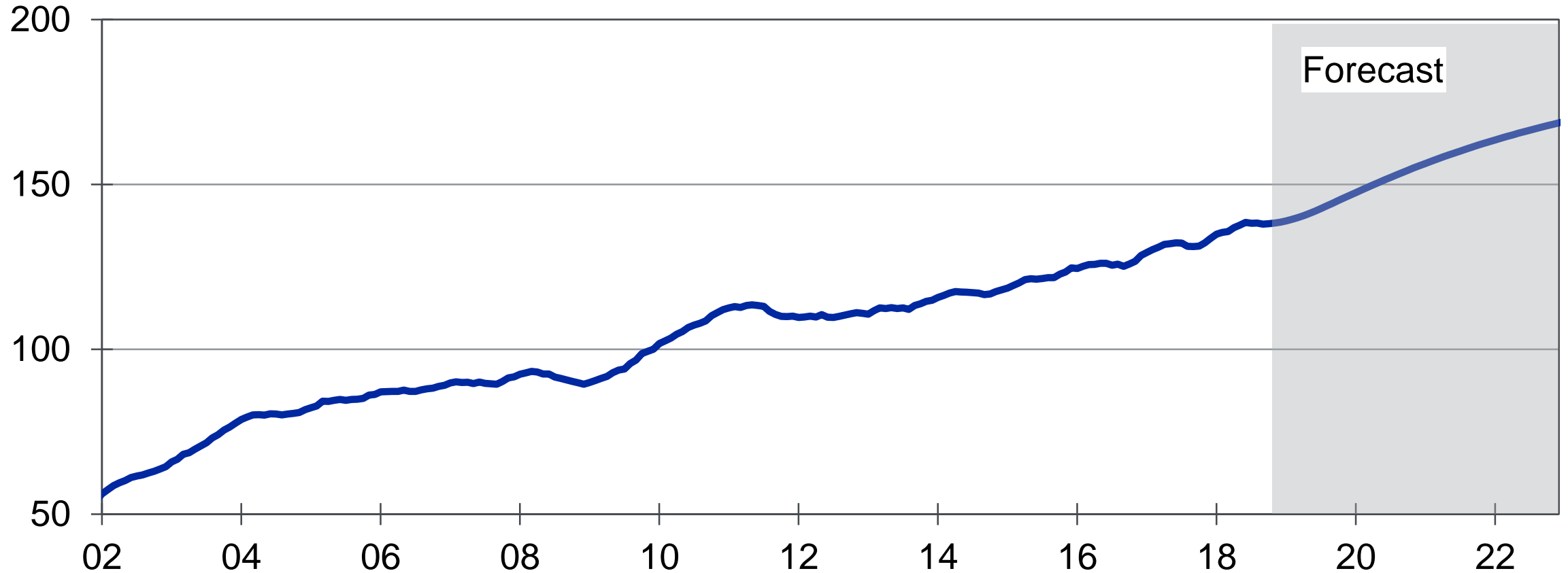
Melbourne – Inner, hedonic house index, Dec 2009=100



Sources: CoreLogic, Moody's Analytics

...But Further Gains in Regional Victoria

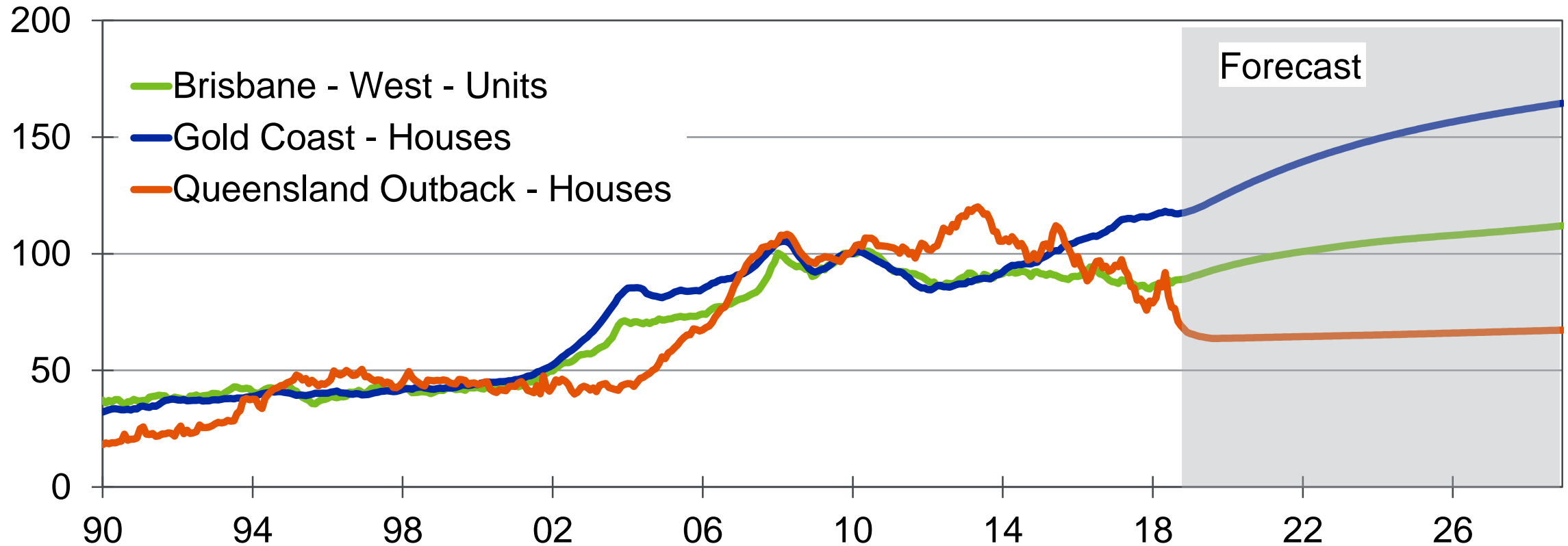
Rest of Victoria, hedonic house index, 2009=100



Sources: CoreLogic, Moody's Analytics

Diverse Outcomes Across Queensland

Hedonic home value index, Dec 2009=100



Sources: CoreLogic, Moody's Analytics

Stable Commodity Prices

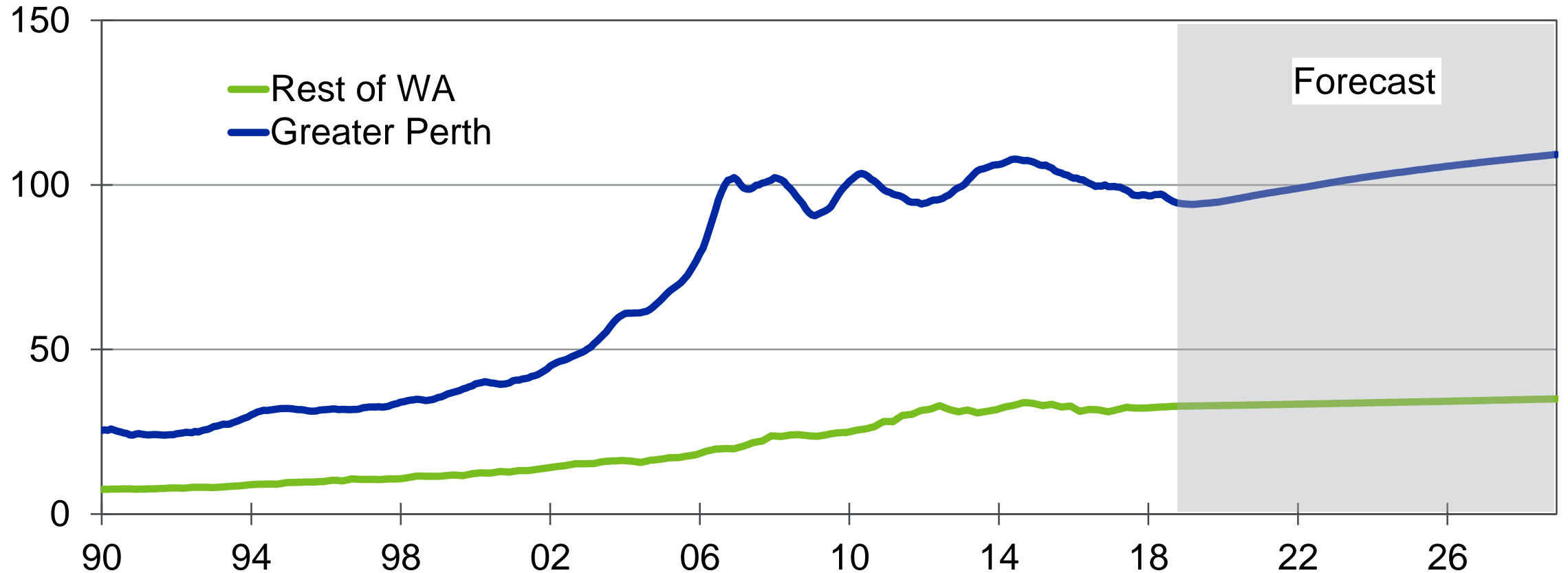
Nonrural, bulk commodity price index, \$A, 2015-16=100, NSA



Sources: Reserve Bank of Australia, Moody's Analytics

The West Coast Slump Is Nearly Over

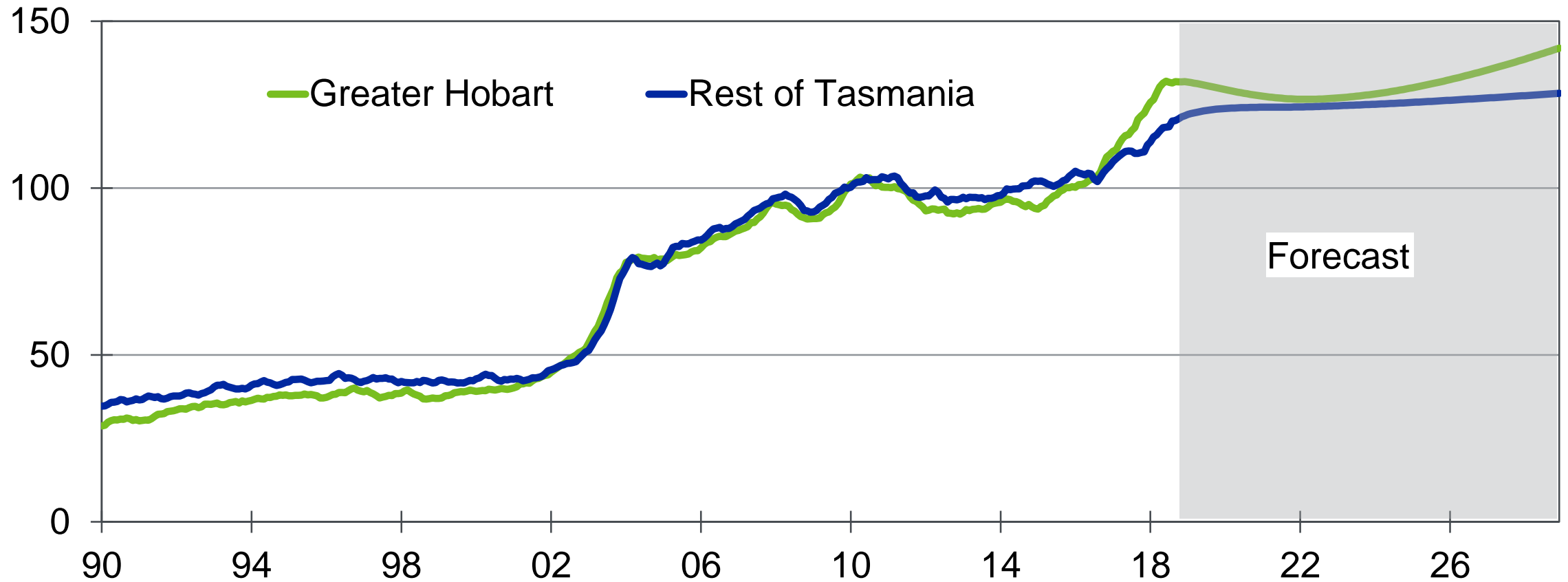
Hedonic home value index, Dec 2009 =100



Sources: CoreLogic, Moody's Analytics

Slowdown in Tasmania

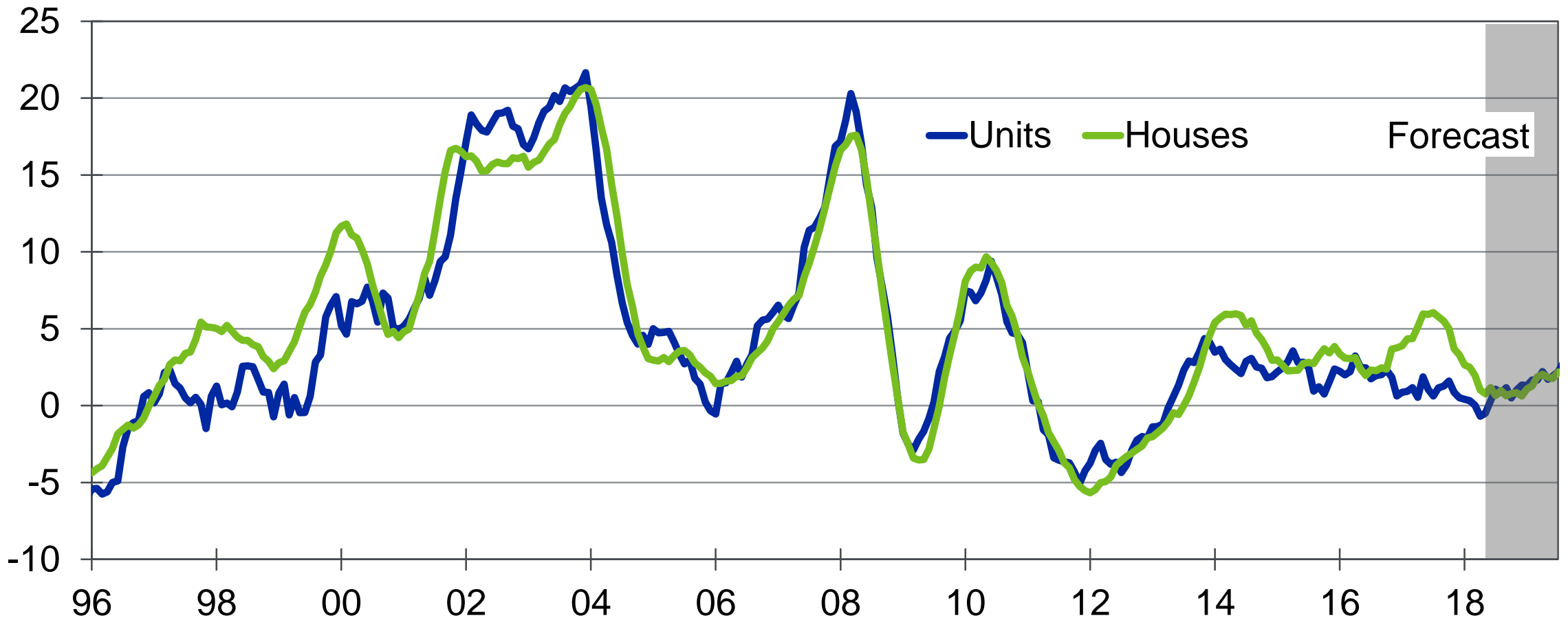
Hedonic home value index, Dec 2009 =100



Sources: CoreLogic, Moody's Analytics

Adelaide's Stable Market

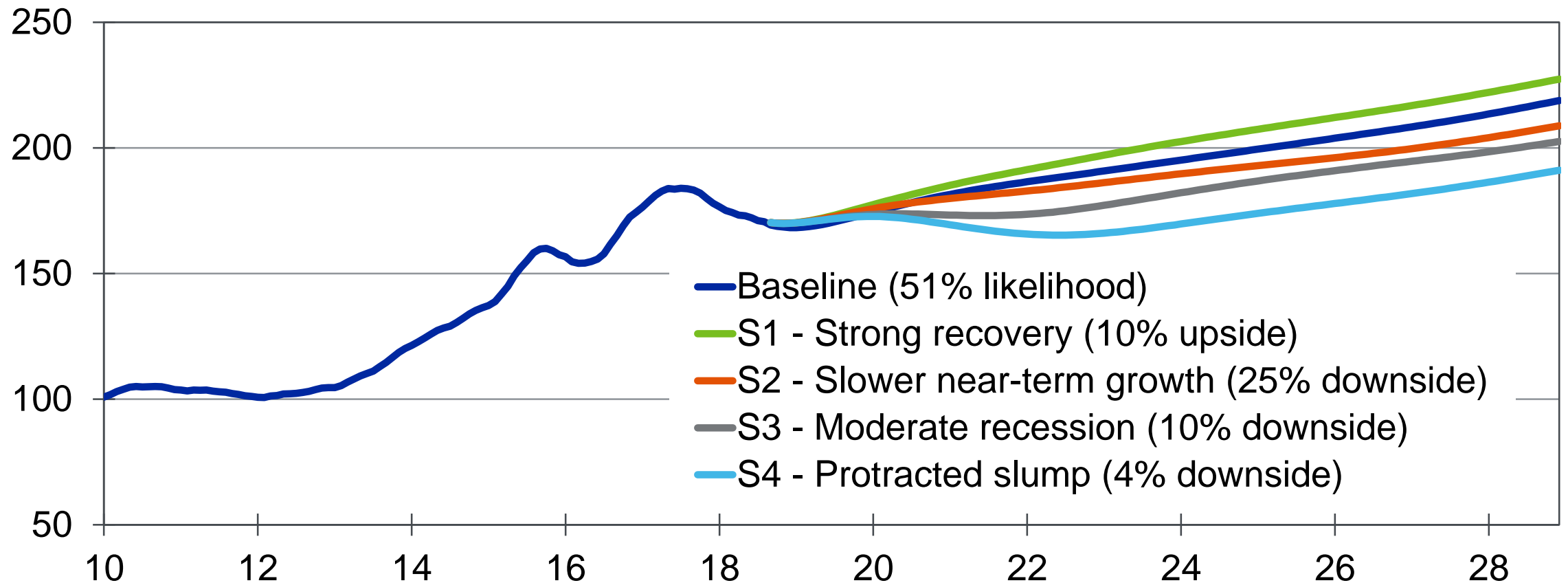
Greater Adelaide, hedonic home values, % change yr ago



Sources: CoreLogic, Moody's Analytics

Sydney's Market Under Stressed Scenario

Hedonic home value index, Dec 2009=100



Sources: CoreLogic, Moody's Analytics

Summary

- » Nationwide home values are expected to decline in 2018 and most of 2019.
- » Sydney and Melbourne are leading the slowdown.
- » Houses are expected to fall more than units owing to restrictions in supply.
- » Fundamentals remain firm: incomes and population continue rising, and interest rates are low.
- » Regional areas are forecast to outperform the capital cities in some states.

Q&A

Additional questions?

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