Warnings of further housing plunge and job losses in Australia

Mike Head
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Dire reports are appearing in Australia's financial media, away from the view of most of the population, about the state of the economy and its implications, especially for property prices, jobs and the agenda of the next government.

House values could fall by as much as another 25 percent this year, and more than 50,000 construction and retail jobs could be eliminated, according to forecasters. New lending for housing has fallen almost 15 percent since mid-2018.

These fears are interlaced with concerns over the impact of the US-China conflict, the Brexit crisis and global financial volatility.

With a federal election due in May, the corporate elite is denouncing both the fracturing Liberal-National government and the Labor Party opposition for making populist promises in order to buy votes. It is insisting that austerity measures be imposed.

The *Australian Financial Review* this week highlighted a report by housing market analyst LF Economics, entitled "Let the Bloodbath Begin." It predicts a worse phase ahead in the bursting of the debt-financed real estate bubble that kept much of Australian capitalism afloat when the mining boom finally imploded in 2012, four years after the global financial crisis.

LF's baseline prediction is a 15-20 percent average fall in house prices nationally during 2019, although 25 percent is possible, accelerating the 6 percent drop since the 2017 peak. The report lists 18 factors putting pressure on the markets, especially in Sydney and Melbourne, the country's two largest cities.

One factor is $120 billion worth of interest-only loans, promoted by the predatory banks during the boom, now transitioning to full principal and interest loans by 2021. Heavily-indebted households and over-committed investors face increases of 20 to 50 percent in their mortgage repayments, combined with falling property values, heightening the risks of "considerable financial stress."

The next five factors relate to a growing credit crunch and changes in the way banks operate following a financial services royal commission into rapacious lending practices and other abuses. The changes include tougher criteria and expense verification on loan applications, producing a rising rate of mortgage rejections.

LF's other factors include "foreign buyer exodus," "class action lawsuits" over shoddy construction, "criminal prosecutions" for unsafe buildings, and Labor's proposed cuts to investors' tax subsidies.

Along with falling rental income, particularly in Sydney, and construction defects in "off the plan" apartment blocks such as Sydney's Opal Tower, the market is moving into the "third stage" of a five-stage bubble-bursting process, LF said.

The first two stages surround price falls and cancelled projects while the third stage refers to a deflation of property prices falling past "thresholds that owners are comfortable with."

Stage four is when a recession starts. Banks suffer a profit "wipe-out," residential construction comes to a "grinding halt," properties go unsold as mortgage defaults and unemployment rise. The mindset is "we're doomed."

The final stage is when the property market finds its "floor." Banks have been bailed out or nationalised but credit availability is still limited. Cashed-up buyers or private funds buy distressed debt and dwellings at discounted rates.

Not all corporate analysts agree with this doomsday scenario, but most forecast a further house price fall this year of at least 8 percent, taking the total drop to around 14 percent.

This is a sharp reversal from the 50 to 70 percent rise from 2012 to 2017 that enabled households, hit by falling real wages, to borrow money on the back of higher property values, sending their average debt levels to almost double their income.

In some parts of Australia, house prices have dropped further already. Prices in Perth, the capital of Western Australia, a mining boom state, have fallen 17.8 percent since they peaked four years ago.

The dramatic fall off in foreign buying of housing was confirmed by Foreign Investment Review Board figures showing offshore demand has all but disappeared. UBS analysts said the market had gone from a “super boom,” capped by a record $72 billion in 2015-16, to approvals collapsing by 83 percent over two years to $12.5 billion in 2017-18.

This is another indicator of Australian capitalism’s vulnerability to global turmoil, on top of the feared fallout from the Trump administration’s trade and economic war against China, Australia’s largest single export market.

With total construction work already down in the last quarter of 2018 by 2.6 percent from the same period in 2017, UBS is predicting that 50,000 jobs will be lost in the building industry over the next six months. Analysts are also warning of further retail jobs to go, amid a growing list of retail chain bankruptcies and store closures, sending the official jobless rate up from 5.0 to 5.5 percent by the end of the year.

Such a rise would mean another 67,350 jobless, taking the total above 740,000, even on the seriously understated Australian Bureau of Statistics estimates. “Underemployment,” currently at 8.1 percent, would likely rise as well as more workers are forced into lower-paid temporary, casual and part-time employment.

These conditions are generating ruling class demands for further measures to slash social spending and boost corporate profits.

Treasury Secretary Philip Gaetjens this week told a Senate Estimates committee that falling housing prices could further impact stagnating consumer spending, exacerbating the risks facing the Australian economy as global economic momentum faltered amid a US-China trade conflict.

Gaetjens declared that with “new downside economic risks emerging” both locally and abroad, it was “vital” for the government that “fiscal discipline be maintained to ensure Australia has budget headroom to be adequately prepared for any adverse surprises.”

A series of *Australian Financial Review* editorials this week focussed on an International Monetary Fund (IMF) projection of continued stagnation in real incomes per person and falling living standards for the next six years, on top of a six-year decline since 2012.

According to the IMF, incomes adjusted for inflation would average just 0.3 percent growth a year through to 2024, well below the long-term average of 1.8 percent since the 1960s. But even this figure grossly underestimates the impact on working class households, because it is an average that includes company profits and dividends.

Mining export prices have recovered somewhat since 2016, and company profits have soared, but wages have remained suppressed, with the trade unions keeping workers straitjacketed via union-employer workplace agreements.

On February 25, the financial newspaper featured a column by Craig Emerson, a cabinet minister in the last Labor government of 2007 to 2013, insisting: “The party that wins the coming election will have its work cut out for it if the IMF’s projections about material living standards are any guide.

“Shirking hard decisions in favour of populism will, ironically, fail to gain popular support, as workers continue to struggle on flat wages in a slowing domestic and global economy.”

This is a warning that a Labor Party-led government will be committed to implementing the dictates of the financial markets, regardless of Labor’s pre-election rhetoric of “fairness.”

A February 26 *Australian Financial Review* editorial issued seven demands of an incoming government, supposedly to reboot “the hard-won productivity reforms of the 1980s and 1990s”—a reference to the pro-market restructuring enforced by the Hawke and Keating Labor governments and their trade union partners.

The demands included slashing company and income taxes to “globally uncompetitive” rates, and “shifting the tax base” to the Goods and Services Tax, which hits working class households the most.

Also on the list were measures to prevent industry-wide wage rises and “excessive minimum wage or penalty rates” and an avoidance of a regulatory “overreaction” to the financial services royal commission. Such a “lapse into anti-business populism” would “heedlessly damage companies and wealth creators.”

The editorial concluded by calling for a return to the “resolve” displayed by the Hawke and Keating Labor governments. These comments reveal the anxiety haunting the capitalist class—that falling living conditions and deepening inequality will fuel a working class rebellion that the Labor and union bureaucracy cannot contain.