Weekly Economic Outlook

Monday, 27 September 2021

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Housing: China Wobbles, Australia Booms

Chinese property developer Evergrande remains under the microscope. Global investors are scrutinising every move of the company on the brink of collapse to assess whether this event will lead to broader financial and economic contagion.

There have been concerns that a disorderly collapse of the property giant could spur a sharp downturn in the Chinese property market which could spill over to a protracted slowdown in economic growth in the country. This would then have broader implications for global growth.

This could mean a significant hit to Australia's resource exports, notably iron ore. The Chinese residential property market is an important source of the global demand for steel and a sharp drop in Chinese demand would add more pressure to an already tumbling iron ore price.

The troubles faced by Evergrande reflect efforts from Chinese authorities to clamp down on excessive risks in the financial system. This is a positive for sustainable, longer-term growth in China. However, Chinese policymakers are playing a balancing act. They do not want these efforts to cause a sharp slowdown in broader economy.

There is still considerable uncertainty over how events will unfold. It is a complex and evolving situation. The near-term outcome will ultimately come down to the effectiveness of Chinese policymakers in containing the fallout from Evergrande's woes.

But over the long-term, the efforts of the authorities to reduce risks in the financial system will make the Chinese economy stronger.

Meanwhile in Australia, dwelling prices have recovered from the COVID-19 recession faster than any other major economic downturn in the past 40 years. And even with lockdowns across NSW and Victoria in recent months, the boom has continued to steam ahead.

We will get a data dump on the housing market this week.

While it might seem surprising that housing prices have continued to rise during lockdowns, this is because the adjustment in the property market has largely been felt through a fall in turnover. Meanwhile, demand remains strong alongside low mortgage rates and the listings that are available are being snapped up quickly.

We expect dwelling prices rose a further 1.4% in September, following a 1.5% increase in August. In annual terms, dwelling prices increased 18.4% over the year to August 2021, marking the strongest growth in over 32 years.

The monthly growth rate has slowed over the past few months, although remains elevated, likely reflecting affordability constraints pushing price-sensitive buyers out of the market. Indeed, lending to first home buyers has dropped off over recent months.

Looking ahead, we expect price growth will continue but at a slower pace, as affordability pressures bite. Notably, while mortgage rates remain low, saving for a deposit is becoming a more and more challenging hurdle for first home buyers, especially in Sydney and Melbourne.

Also this week, data on housing finance approvals for August will be released. We anticipate housing finance approvals declined by 3.0% in the month, alongside a decline in turnover underpinned by lockdowns. In July, housing finance approvals were broadly unchanged. Lending for construction has declined sharply in recent months as the impact of the Federal government's HomeBuilder scheme continues to unwind. Meanwhile, lending to investors has continued to grow at a solid clip.

We will also get a read on building approvals in August this week. We expect approvals fell 5.0% following an 8.6% drop in July. Approvals have fallen 25% since their March peak, alongside the end of HomeBuilder. Despite the massive drop in recent months, total building approvals were still over 10% higher than their pre-COVID level as at December 2019. We expect the HomeBuilder unwind has further to run plus lockdown disruptions will also hit approvals.

Outside of housing, August retail sales data will also be released this week. We have forecast a 1.5% decline with parts of NSW, Victoria, Queensland, the ACT, and the NT in lockdown for all or part of the month. This follows a 2.7% fall in July and a 1.8% decline in June. Spending patterns over recent months have been consistent with previous lockdowns. There have been double-digit falls across Clothing, footwear & personal accessories, Cafes, restaurants & takeaway food services, and Department stores. Meanwhile, food spending has increased as people are forced to spend more time at home and stock up on essential goods.

Lastly, we will receive data on private sector credit for August. Credit extended to the private sector grew by a solid pace in July – up 0.7% in the month and 4.0% over the year to July. Business credit expanded 1.1% in July, after a solid increase of 1.6% in June. But the lift in July had more to do with businesses shoring up their cash flow buffers rather than taking on more debt to invest in new equipment or premises. We anticipate a 0.5% increase in the month, factoring in another increase in business credit as Victoria re-entered lockdown.

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Forecasts

		2021	2022				2023
End Period:	**Close (24 Sep)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.25
90 Day BBSW, %	0.02	0.07	0.10	0.15	0.20	0.40	0.65
3 Year Swap, %	0.30	0.55	0.70	0.80	0.95	1.10	1.20
10 Year Bond, %	1.41	1.55	1.70	1.80	1.90	2.00	2.05
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.375	0.625
US 10 Year Bond, %	1.44	1.60	1.70	1.80	1.90	2.00	2.05
USD Exchange Rates:							
AUD-USD	0.7297	0.75	0.76	0.77	0.78	0.78	0.79
USD-JPY	110.45	111	112	112	112	113	113
EUR-USD	1.1739	1.21	1.23	1.22	1.21	1.21	1.21
GBP-USD	1.3720	1.41	1.43	1.44	1.45	1.44	1.44
NZD-USD	0.7067	0.71	0.72	0.73	0.74	0.74	0.74
AUD Exchange Rates:							
AUD-USD	0.7297	0.75	0.76	0.77	0.78	0.78	0.79
AUD-EUR	0.6184	0.62	0.62	0.63	0.64	0.64	0.65
AUD-JPY	80.41	83.3	85.1	86.2	87.4	88.1	89.3
AUD-GBP	0.5307	0.53	0.53	0.53	0.54	0.54	0.55
AUD-NZD	1.0325	1.06	1.06	1.05	1.05	1.05	1.07

	2019	**2020**	**2021 (f)**	**2022 (f)**
GDP, %	2.1	-0.9	0.0	7.4
CPI (Headline), %	1.8	0.9	2.6	2.4
CPI (Trimmed mean), %	1.6	1.2	1.9	2.6
Unemployment Rate, %	5.2	6.8	5.1	3.8
Wages Growth, %	2.2	1.4	2.0	2.8

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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