

Surging housing confidence fuels bubble concerns

PUBLISHED: 11 Sep 2013 PRINT EDITION: 11 Sep 2013



Confidence in buying a home has jumped 13.7 per cent from a year ago to be just shy of the level reached in August 2009. **Photo: Louie Douvis**

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Confidence among home buyers has surged to close to its highest level in 12 years, adding to evidence the new Coalition government and the Reserve Bank of Australia face the risk of a property bubble on their watch.

A day after the prudential regulator warned banks against increasing the number of risky loans to home buyers, Westpac's consumer confidence index posted its strongest result in almost three years.

The rise continues the long historical pattern of expected Coalition victories encouraging consumers, and is likely to fuel concerns about big property price rises in some cities, including Sydney, Melbourne and Perth.

Confidence in buying a home has jumped 13.7 per cent from a year ago to be just shy of the level reached in August 2009, when the Reserve Bank began unwinding "emergency low" rate cuts.

There has also been a big shift in the favoured destination for savings from bank deposits and paying off debt, into property.

Chris Curtis, managing director of Curtis Associates, which advises and represents property buyers, said while the risk of an overall bubble was low, the market in Sydney for more affordable houses was becoming "too hot".

"I think the brakes are off below \$1 million," he said.

"The fact there was a 91 per cent clearance rate on the day of the election, around that sub-\$1 million mark, says it all."

House sales are being driven by mortgage rates around 5 per cent and demand from self-managed superannuation funds for property.

"There's something brewing, and there's a bit of a sense of 'crikey. better get in quickly'," he said.

Resurgent interest in property reduces the Reserve Bank's scope to deliver further interest rate cuts after it slashed the cash rate to a record low 2.5 per cent last month, largely to put downward pressure on a stubbornly strong dollar, which on Wednesday hit a two-month high of US93.3¢.

Reluctance to cut rates further

So far, there are few signs the rate cuts have spurred the kind of investment Treasury and the Reserve Bank are relying on to re-invigorate economic growth, which is slowing.

Unemployment is forecast to hit a four-year high of 5.8 per cent in data out on Thursday, according to economists surveyed by Bloomberg.

Officials at the Reserve Bank have indicated a reluctance to cut rates further to put more downward pressure on the dollar. One reason is that it could spur property price gains without flowing into broader growth.

Sydney house prices have risen 8.6 per cent this year, and Melbourne's have gained 5.2 per cent, according to RP Data. Nationwide, prices have gained 5.7 per cent.

Westpac chief economist Bill Evans cautioned against treating the latest sentiment figures as overly optimistic. While consumers feel better about the economy they are less confident about their own finances, he said.

"The message is that yes, they've given the election result, if you like, the benefit of the doubt, but until they feel it's better individually in terms of job security and their finances, they'll remain conservative," he said.

Overall sentiment rose 4.7 per cent to 110.6 points, the highest since December 2010, Westpac's survey shows. It was based on interviews conducted last week in the lead-up to Saturday's poll and on Sunday.

Confidence in buying a home jumped to 145 points. Excluding the level reached in 2009, the index is now at its highest since mid-2001, when then prime minister John Howard introduced the first-home owners' grant to reduce the impact of the introduction of the goods and services tax on home construction.

The survey shows some 27.5 per cent of people believe real estate is the wisest place to stash savings, and is second only to bank deposits on 29.3 per cent.

The popularity of real estate as an investment destination has jumped 7.7 per cent over the past 12 months, the biggest increase among 12 options presented to consumers in the Westpac survey. Bank deposits recorded the biggest drop over the past year, sliding 9.7 per cent, while "paying down debt" fell 6.7 per cent.

Rise in sentiment similar to election of Howard

With house prices rising at double-digit annualised rates in Sydney, Perth and elsewhere this year, the Australian Prudential Regulation Authority said on Tuesday there was a risk banks would ease lending standards to lure borrowers who may be unable to afford repayments as official rates rise.

APRA's concerns have been seen as the first significant warning about Australia's low-rate settings, and may presage the introduction of so-called "macro-prudential" tools, already in operation in New Zealand and Canada, to reduce risky lending.

The latest survey follows calls by Treasurer-elect Joe Hockey for consumers to "spend your hearts out" before Christmas.

Mr Evans said the rise in overall sentiment was comparable to the boost recorded in March 1996, following the election of John Howard after 13 years of Labor governments. On that occasion the index jumped 6.5 per cent.

Mr Evans said a further indicator was that the election was a significant factor in the 19.1 per cent surge in confidence among Coalition voters, versus a 10.3 per cent fall for Labor voters.

That compared with comparable changes in 1996 of plus 25.3 per cent and minus 17.2 per cent respectively. The lift in consumer sentiment follows a large and widespread jump in business confidence reported on Tuesday.

Results were more mixed across the states, with sentiment up 13.1 per cent in Victoria, Queensland (7.4 per cent) and South Australia (6.3 per cent). Sentiment fell 2.9 per cent in NSW and was little changed in Western Australia.

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