

RBA watching Sydney property investment and urges due care

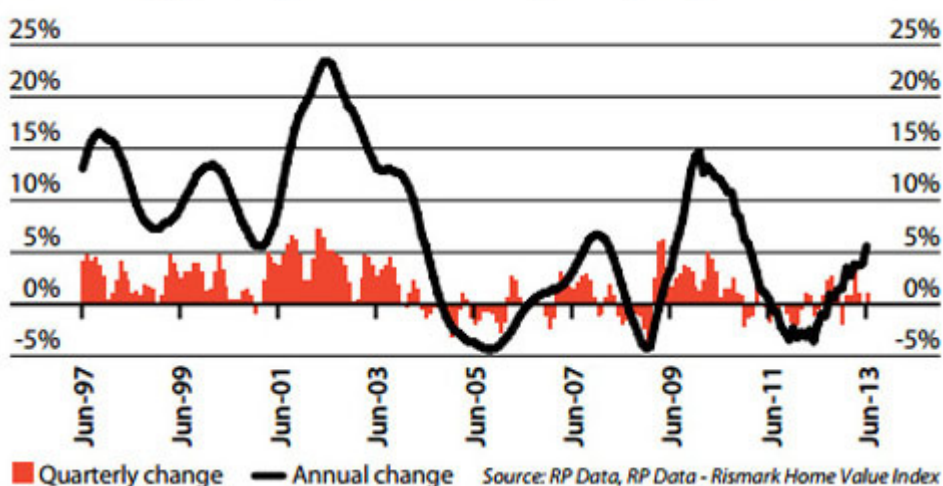
By Jonathan Chancellor
Tuesday, 29 October 2013

I have not been among the commentators who have taken the view that the current Sydney property market dynamics are worrying. Nor do I think that Sydney is in a boom or in a bubble.

Yes there have been some silly prices paid, and there are pockets of intensity across Sydney, but this spring's market momentum is more about strong across the board auction clearance rates than strong across the board price growth.

And a recent RP Data chart indicates just why we are not near any level of unease. Sure there is a clear price momentum, but you never know what will emerge from left field to slow it, halt it, or send prices backwards as the rollercoast chart since 1997 shows.

G1: Rolling quarterly and annual change in Sydney home values



So I was not surprised when the RBA governor Glenn Stevens noted today that "some" rise in housing prices is part of the normal cyclical dynamic.

The ongoing question for the commentariat is what's the RBA's definition of "some".

Stevens wants price growth as it improves the incentive to build and "reversing an earlier decline probably isn't something to complain about too quickly."

It was in his speech to the Citi's 5th Annual Australian & New Zealand Investment Conference where Stevens noted an overall positive trend in asset markets in Australia, in part due to reduced recent political uncertainty.

"Over the past year, the stock market, as measured by the ASX 200 accumulation index, has returned about 25%.

"The median price of a dwelling in Australia has risen by about 8% over the past 18 months, reversing a previous decline."

His conclusion was the net worth of Australians has increased by around 15% - or more than \$800 billion since the end of 2011.

He went on to note that credit growth, at between 4% and 5% per annum to households, and less than that for business, did not suggest that rising leverage was so far feeding the price rise.

"Hence it has been a little too early to signal great concern."

"It is not yet clear to what extent, or when, these more favourable trends in 'confidence' will translate into intentions to spend, invest and employ.

"The pace of new dwelling construction is starting to respond to higher prices in the established property market, as we need it to.

"But at this stage, the available information suggests that broader investment intentions in the business community remain subdued.

"It may be a while yet before we can expect to see conclusive evidence of a change here.

"In the interim, some commentators have taken the view that the property market dynamics are worrying."

But being the sage who has to foresee all possibilities Stevens did express two caveats.

"The first is that, notwithstanding the above comment, credit growth may pick up somewhat over the period ahead.

"So this is an area to which we will, naturally, pay close attention.

"Secondly, while overall credit growth remains low at present, borrowing is increasing quite quickly in some pockets.

"Investor participation in housing in Sydney, in particular, is becoming noticeably stronger.

"Over the past year, the rate of finance approvals for this purpose has increased by 40%."

He acknowledged there had been prior higher rates of growth of finance approvals "and it may be that we are seeing some catch-up from a delayed initial response to fundamentals favouring more investment in housing."

"Nonetheless, as this activity continues, lenders and borrowers alike would be well advised to take due care.

"It is very important that strong lending standards remain in place, and that decisions be based on sensible assumptions about future returns.

"That's what we need if we are to experience a long and sustainable expansion in housing investment that houses our growing population at acceptable cost, and pays reasonable returns on the capital deployed.

"That's the sort of outcome we want, as part of the more balanced growth path for the economy we are seeking over the years ahead," he concluded.