

# Housing forecasts turn dire as reality sinks in

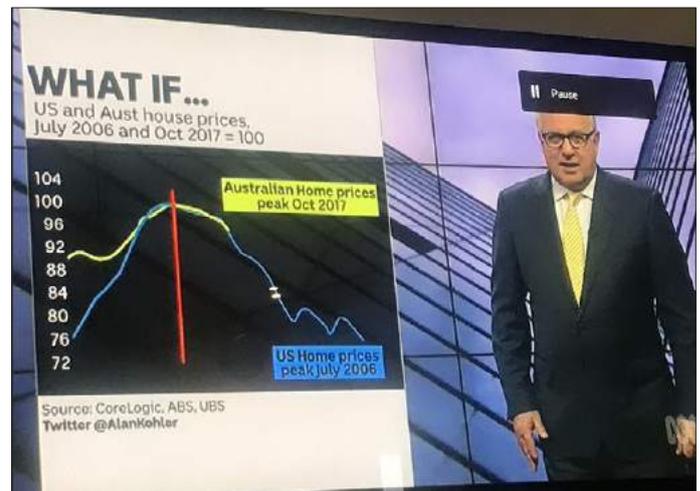
By Richard Bardon

11 Dec.—Mainstream economists and financial analysts have been trying for almost a year to convince the public, and perhaps themselves, that Australia's housing bubble is only undergoing a minor "correction". As of the last fortnight, however, they are suddenly competing to produce the most dire forecast of crashing house prices and resulting economic catastrophe. Thanks to the work of whistleblowers, independent analysts and a handful of honest journalists over several years, who have been vindicated by the revelations of Justice Kenneth Hayne's royal commission into banking misconduct, it seems to have at last dawned upon the mainstream that Australia's supposedly well-regulated financial-economic system is really a house of cards liable to topple at the first major internal or external disturbance. Granted, most who have made such predictions have billed them as "worst-case scenarios" with little chance of actually happening; but as evidence continues to mount of the sheer scale of the banks' criminal recklessness and resulting decrepitude, even the most deliberately over-the-top forecasts look less so by the day. And the developed world's premier economic think tank has just warned that when the crunch does come, desperation to save failing banks could see authorities put customer deposits on the chopping block.

The front runner for "most dire housing forecast" so far is Danish investment bank Saxo Bank, which for the first time has included Australia in its annual "Outrageous Predictions" report—a global round-up of "events and occurrences that are unlikely to materialise but which could have huge consequences for the investment outlook if they did".

As Sydney-based Saxo market strategist Eleanor Creagh points out in the report, "The 'Australian Dream' was financed through an epic accumulation of debt as interest rates collapsed, with household debt standing at 189 per cent of disposable income. The Great Financial Crisis [GFC] was responsible for deflating housing bubbles in other advanced economies, but not in Australia. In a bid to stave off the crisis's effects, Canberra's 'economic security package'" —which included cuts to the Reserve Bank of Australia's (RBA) interest rate; government guarantees for bank debt and deposits; cash handouts to households; and an increase of the First Home Owner Grant to \$21,000—"further fuelled the spectacular run-up in leverage, kicking the proverbial can down the road." 2019 may be the year we catch up to it.

In Creagh's scenario, easy credit dries up as exposure by the Hayne commission forces banks to rein in their excesses (i.e. apply something approaching normal lending standards for the first time in more than ten years)—a process which many reports suggest has already begun. "In the aftermath ... all that is left of the banks is a frozen lending business and an overleveraged, overvalued mortgage-backed property ledger, and banks are forced to further tighten the screws on lending. The confluence of dramatic restrictions in credit growth, oversupply, government filibusters and a slowdown in global growth cement the doom loop; property prices crashing [*sic*] by 50 per cent. ... The bust also contributes to a sharp decline in residential investment. GDP tumbles." To save the effectively bankrupt Big Four banks from insolvency, the Reserve Bank of Australia (RBA) would be forced into a \$300 billion quantitative easing (QE) program Creagh dubs "TARP Down Under" after the USA's 2008 Troubled Asset Relief



Financial commentator Alan Kohler presenting a disturbing comparison of Australia's housing market today with the US property crash in 2006-08. Photo: Twitter

Program, the original US\$700 billion Wall Street bailout.

Creagh reassured News.com.au finance editor Frank Chung on 4 December that her scenario was "not an official forecast, it's an outrageous forecast that could happen if certain factors were to fall into line, but something we put maybe a 1 per cent probability on." Given that RBA Deputy Governor Guy Debelle mooted QE in an official speech to the Australian Business Economists just two days later, however, Ms Creagh may have cut far nearer the bone than she intended: after all, the only reason to consider QE is the expectation of a severe liquidity crisis that would otherwise render too-big-to-fail banks insolvent (p. 3).

## OECD: Prepare for 'severe collapse'—and depositor bail-in

Paris-based intergovernmental think tank the Organisation for Economic Cooperation and Development (OECD) poured more fuel on the fire with a warning, in the overview of its Economic Survey of Australia published 10 December, that whilst "the current trajectory would suggest a soft landing" for the housing market, "the risk of an overshoot in the price correction—a hard landing—remains." Furthermore, "Past OECD work has found that soft landings are rare." Therefore, "The authorities should prepare contingency plans for a severe collapse in the housing market. These should include the possibility of a crisis situation in one or more financial institutions ... [which] would put recently passed crisis resolution legislation (the *Financial Sector Legislation Amendment [Crisis Resolution Powers and Other Measures] Act 2018*) under test. Unlike in the United States or European Union the legislation does not include explicit bail-in provisions on senior debt or deposits owned by financial institutions. *This gives flexibility to adjust resolution plans to the specific characteristics of the crisis.* ... APRA has indicated that it will start a consultation on its loss-absorbing capacity framework in late 2018." (Emphasis added.)

The OECD thereby confirms what this news service has maintained since the crisis resolution legislation first surfaced over a year ago: As that law stands, the Australian Prudential Regulation Authority—exposed by the Hayne commission as having aided, abetted and covered up the banks' crimes for 20 years—has discretion to "bail in" deposits to save the banks in the next financial crisis.