Australian Citizens Party

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MEDIA RELEASE

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An Australian housing and economic bust is reality—time to act

Australia's housing market is tanking fast and the economy is facing an Ireland-style economic bust. We must act, *now*, to avert a social catastrophe and restructure the financial system to fix the cause of this crisis.

Australia's big four banks account for 80 per cent of the financial system, and mortgage lending is around 65 per cent of their business. This concentration on housing is the highest by far of any banks in the world. Thanks to decades of deindustrialisation, financial services is the biggest sector of the economy, and, thanks to the housing bubble, construction is second. A crash in housing is economic Armageddon.

The fall in house prices that started in late 2017 continued all through 2018, and has now accelerated in 2019, with the biggest falls in the biggest markets of Sydney and Melbourne. Melbourne is experiencing the fastest falls ever recorded. The real estate sector is desperately trying to talk up the market by wheeling out improved auction clearance rates and highlighting one-off large sales, but the auction figures are distorted by very large numbers of auctions that are not being reported, and real estate reporters have been caught out faking claims.

The downturn is being blamed on bank lending, but that is only half the story. The real issue is the borrowers, the Australian people, who are saturated in debt.

Banking and real estate analyst Martin North of Digital Finance Analytics, and economist John Adams, have recently posted important video presentations on YouTube which expose the reality of where Australia is at, and how bad it can get based on the Ireland precedent.

In "Just How Much Trouble Are We In?", North reports the latest Bank for International Settlements (BIS) statistics on household debt. Australia's household debt-to-GDP is now 120 per cent, higher than all equivalent nations and second only to Switzerland, and far higher than the USA, UK, and Ireland were in 2008 when they all experienced devastating housing bubble crashes. Australia's household debt service ratio is also the second highest in the world, which is a measure of the mortgage stress being experienced by over a million households which are struggling to meet their repayments, despite record low interest rates.

We know from the banking royal commission last year, and the work of Denise Brailey of the Banking and Finance Consumers Support Association, and Lindsay David and Philip Soos of LF Economics, that the only way the banks were able to push the market up over the last decade was by ignoring household debt and committing outright fraud in their mortgage lending, based on grossly understated living expenses. It would seem they can't do that now. As prices are still not back to affordable levels, though, where are the buyers going to come from to stop the price falls?

Economist John Adams tweeted the news on 7 March that the giant American bank JP Morgan last week flew its top housing experts in to Melbourne for a conference, and is telling its clients to get out of Australian real estate. This is ominous, as a 2017 report by the US Studies Centre at the University of Sydney, "Indispensable economic partners: the US-Australia investment relationship", revealed that the United States has been the "overwhelming" source of the funding for the Big Four banks.

The fall in house prices, combined with the fall in the number of house sales, is hitting the stamp duty revenue of state governments. Stamp duty revenue almost doubled in the four years to 2018, such was the frenzy of buying in the housing bubble, providing a windfall to state governments. That's now over. On current trends, Victoria could suffer a $1 billion hit to its budget this year, and NSW will also take a big hit.

Out of options?

The last time house prices were falling like this, back in 2008, prices were lower than now, and interest rates were far higher—the Reserve Bank's cash rate was 7.25 per cent. In response to the falls, which threatened a banking crash, the RBA slashed its cash rate from 7.25 per cent to 3 per cent within a few months, which averted mass foreclosures and, combined with the Rudd government's tripling of the First Home Owner Grant, drew a lot more people into the market. But that means that to save the market they created a lot more household debt, and effectively only "kicked the can" of a crash down the road. The can has now stopped, but this time the RBA rate is 1.5 per cent, so it doesn't have the option of cutting rates by 425 basis points to save the bubble.

Another Martin North video, "A First Hand View from Ireland", is a confronting account of the Irish housing bubble and banking crash in 2008. Financial commentator Eddie Hobbs relates the disturbing similarities between Ireland and Australia, which many expatriate Irish who migrated to Australia as economic refugees after 2008 are starting to see here. In a third video, "The Document that will Shock You", Martin North and John Adams reveal that in 2007 the IMF had stress-tested Ireland's banks for steep falls in house prices and large withdrawals of deposits, and announced they would survive both. Ireland eventually suffered house price falls of 50 to 70 per cent, and a massive exodus of bank deposits, and its banks collapsed, plunging Ireland into deep economic and social misery. Indebted Irish homeowners suffered through a hellish bankruptcy process, and the nation witnessed a spike in suicides.

Act now!

Australia's government, financial authorities and banks are right now desperate to prop up the bubble again, but that would be insane, if it would even work. It's time to acknowledge it's a bubble and let it burst, but implement measures to protect the economy. The CEC is fighting to:

1. restructure the banking system to protect the public and stop such bubbles recurring, through a Glass-Steagall separation of banking from speculation, and a national bank to regulate banking and credit;
2. avert a social catastrophe with an immediate moratorium on home and farm foreclosures (*not*investment properties) to stop families being thrown out on the streets;
3. launch an infrastructure development program to create jobs and restructure the economy and employment back on to a productive footing.

Join the CEC's fight!

What you can do

Get involved in the fight, starting with the immediate campaign for a Glass-Steagall banking separation. The CEC drafted legislation that Pauline Hanson introduced in Parliament on 12 February, the Banking System Reform (Separation of Banks) Bill 2019, into which the Senate Economics Legislation Committee is now conducting an inquiry. Make a submission to that inquiry in support of banking separation today.

Click here for instructions on making a submission.
