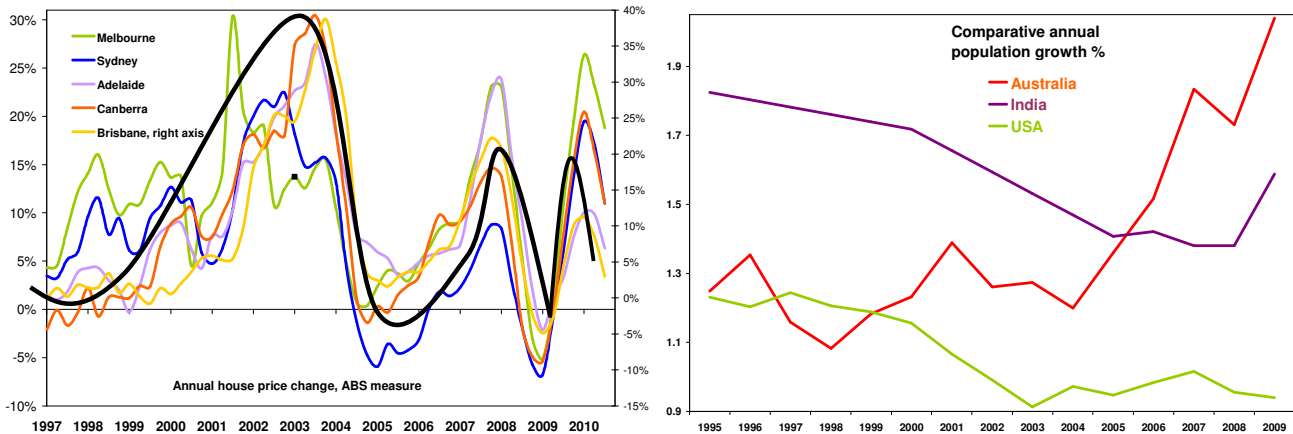
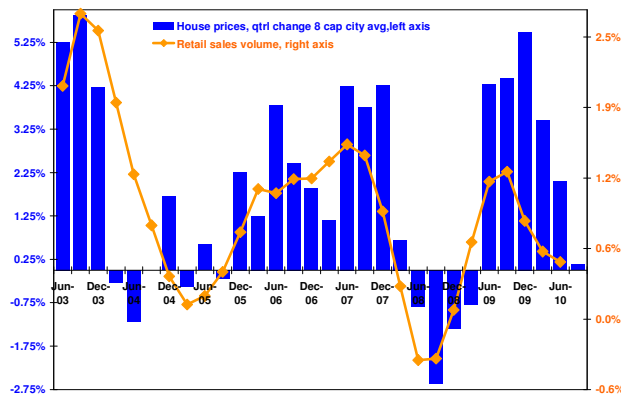


One of the main reasons Australian housing prices will likely not collapse and prices are not in a “bubble”, is that Australia’s population growth is one of the highest in the world even including the third world. For example Australia’s population growth is now greater than that of India. Moreover the majority of the growth in Australia is due to immigration not natural growth; 60% of the growth is from immigration and the majority of these are made up of working age adults. These adults require additional housing and this should prevent any collapse of house prices. In the past five years alone, the net gain from overseas migration has been 1,218,000 people which is larger than the entire population of the city of Adelaide. The attention-seeker commentators warning that Australia has a house price bubble they forget basic economics. They also ignore recent economic history: we already had our bubble which burst at the end of 2003; see first chart on the left below. Now back then Australia’s population growth rate was about the same as that in the USA but since then Australia’s population has consistently been growing at twice the US rate; see second chart on the right.



Today’s release of the ABS house price data prompts me to discuss this especially given the latest “bubble” talk. In the latest data the weighted average of the 8 capitals was flat: +0.1% in the September quarter 2010.



Now the real importance of today news of flat house prices is the third and last chart which shows how important housing is for the rest of the economy: There is a strong correlation with a healthy housing market and retail turnover (*the next orange diamond in the chart will be released on Thursday*) and both of these are strongly influenced by monetary policy. All of this supports my view that cash rates are already too high and any more rate rises will likely weaken an already weak domestic economy. I am not worried about a house price bubble because of strong demand from immigrants but I am worried about the RBA bursting the domestic economy with dumb rate rises.