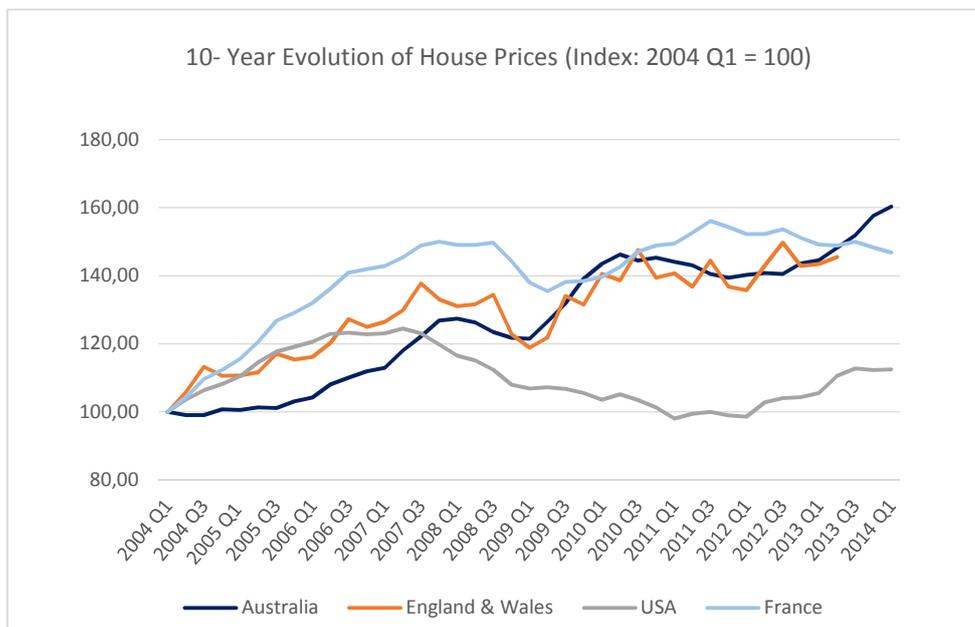


Boom to become Bust? Are housing markets back on the rollercoaster?

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I'm sure you've read several times recently that Australian house prices are at a precipice and will fall spectacularly off it any time soon. Yet this doesn't seem to have happened yet and, with the digital age's appetite for hyperbole, we could be forgiven for thinking it's a load of hot air.

The problem is that, if you analyse all the indicators, everything points to the doomsday scenario becoming reality – and not just in Australia. When the IMF warned of property bubbles in June, it mentioned Belgium, Canada, New Zealand, as well as Australia, and to a lesser extent France¹. In fact, looking at figures from four major countries alone, there has been a sharp rise in housing markets in all but the struggling US.



Sources: Australian Bureau of Statistics, Land Registry, FHFA, INSEE.

Key economists, such as Steve Keen², have long since been sounding the warning bells that a burst will come; and when it does it will be devastating. Over two years ago I suggested to CNBC that Australia's huge credit bubble, would at some point burst – possibly pricked by poor results in the Chinese economy, making the Australian dollar

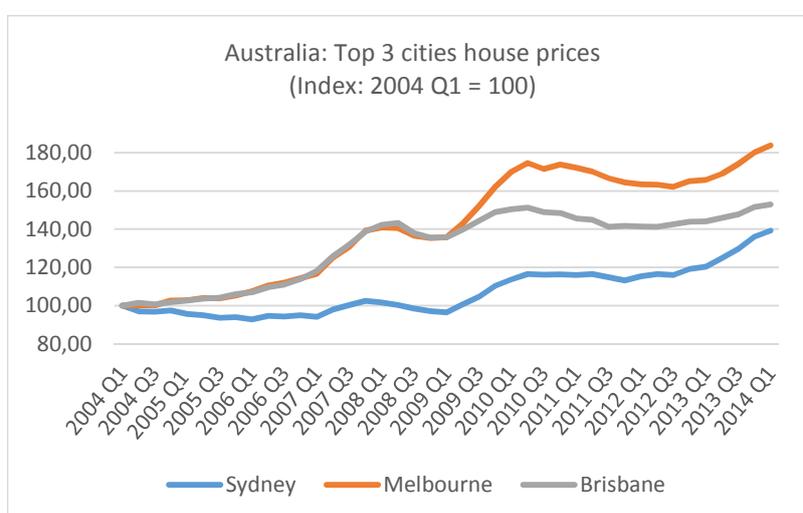
¹ <http://www.lesechos.fr/monde/europe/0203561280927-le-fmi-craint-une-bulle-immobiliere-en-france-1012176.php>

² <http://www.debtdeflation.com/blogs/2014/04/08/a-sudden-conversion-of-property-bubble-doubts/>

and perhaps the property market drop in price³. That hasn't happened yet, as Chinese economic results have so far stood up over the last couple of years, but Australia's heavy reliance on the Asian giant's mineral resources means the Sword of Damocles still hangs above its markets.

In fact, the United Nations warned in mid-August that the property sector in Australia needed to be "monitored closely"⁴ amidst "sluggish" 2014 economic growth of 2.8% due to "falling mining investments, fiscal restraint and fragile private consumption" – so the signs of cracking are there.

Looking solely at the property market, since the dip in 2008, Sydney area prices have increased by over 40%. However, Brisbane and Melbourne continued augmenting without experiencing anything close to a slowdown: over the last ten years the former's house prices have increased by almost 53%; the latter's by a huge 84%.



Source: ABS

Whilst anecdotes are no basis for analysis of a whole nation's economy, I read an interesting story recently about a property in the Melbourne suburb of Glen Waverley. After being on the market for just five weeks, a property sold for AUD 1.1 million to an Indian investor. Two months later, it was auctioned off for AUD 1.365 million: a 24% rise in just over 60 days.⁵

The central banks in Australia and elsewhere should take heed of what happened in Spain. So too should investors, when contemplating putting money into bricks and mortar.

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³ <http://www.cnbc.com/id/47290031#>.

⁴ http://www.unescap.org/sites/default/files/Survey%202014%20note_Australia_2.pdf

⁵ <http://www.macrobusiness.com.au/2014/09/meanwhile-on-the-bubble-front-line/>

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