# THE AUSTRALIAN ECONOMY AND ITS RELATIONSHIP TO PROPERTY

*"Australia is not only one of the richest countries in the world; Australians are among the richest people the world has ever known.*

*"While poverty certainly exists in Australia, the average Australian enjoys a material standard of living that few in the world can imagine"* - Richard Denniss, chief economist at the Australia Institute. April 2016

**The economy of Australia** is one of the largest mixed market economies in the world, with a GDP of AUD$1.69 trillion as of 2017. Australia's total wealth is AUD$6.4 trillion.

**Australia has experienced** 26 years of uninterrupted annual growth since 1990-91, an achievement unequalled by any other developed economy (IMF World Economic Outlook Database) It emerged from the 2009 global recession relatively unscathed.

**In 2017, it was the 9th** largest national economy by per capita nominal GDP (International Monetary Fund)

**The Australian economy** is dominated by its service sector, comprising 58% of GDP. The mining sector represents around 7% - 8% of GDP.

**While economic growth** is somewhat dependent on the mining sector and agricultural sector (12% of GDP) even the recent decline of the mining boom in the country the Australian economy has remained **resilient and stable**.

**Australia's per-person GDP** is higher than that of Singapore, Hong Kong, Malaysia, the UK, Germany, the United States and France.

**The country was ranked second** in the United Nations 2013 Human Development Index and sixth in The Economist worldwide quality-of-life index.

**Australia's sovereign credit rating** is "AAA", higher than the United States of America and the United Kingdom.

**The proportion of those with wealth** above US$100,000 is the highest of any country – eight times the world average. (2011 Credit Suisse Global Wealth report)

**Australia has the highest median wealth** in the world, of US$222,000 nearly four times the amount of each US adult.

**Average wealth** was $US397,000 the world's second-highest after Switzerland.

**Australia is ranked number two** in the world on the Human Development Index.

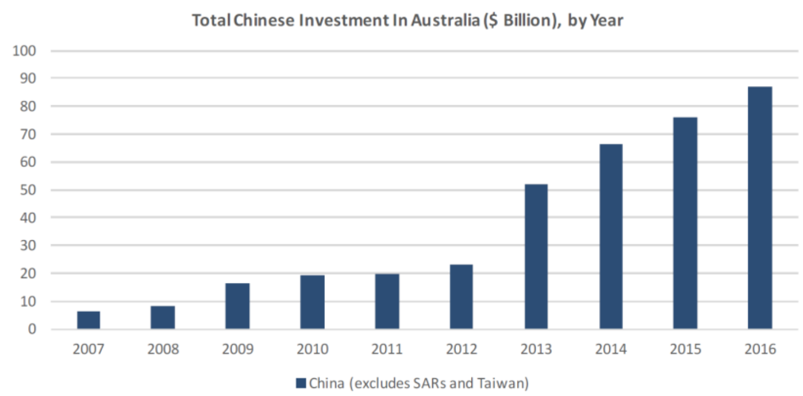
**Australia is among OECD's lowest** government debt in 2016 and regarding IMF's economic growth forecast we can expect it to stay this way for the years to come.

| Statistics (IMF and CIA World Fact Book) | |
|---|---|
| **GDP** | $1.69 trillion (2017) |
| **GDP rank** | 13th (nominal) / 19th (PPP) |
| **GDP growth** | 0.6% (Q3, 2017) |
| **GDP per capita** | $56,135 USD (2017)<br>(5th, nominal; 16th, PPP) |
| **GDP by sector** | Services: 61%, Retail Trade: 5%, Mining: 7%, Construction:8%, Manufacturing:6% (2016) |
| **Inflation (CPI)** | 1.8% (2017) |
| **Labour force** | 12.7 million (2017) |
| **Labour force by occupation** | Agriculture: 2.7%, industry: 21.1%, services: 79% (2009 est.) Construction 9% Mining 1.9% |
| **Unemployment** | 5.4% (Non 2017) |
| **Main industries** | mining, industrial and transportation equipment, food processing, manufacturing,chemicals, steel |
| **Ease-of-doing-business rank** | 14th (2018) |

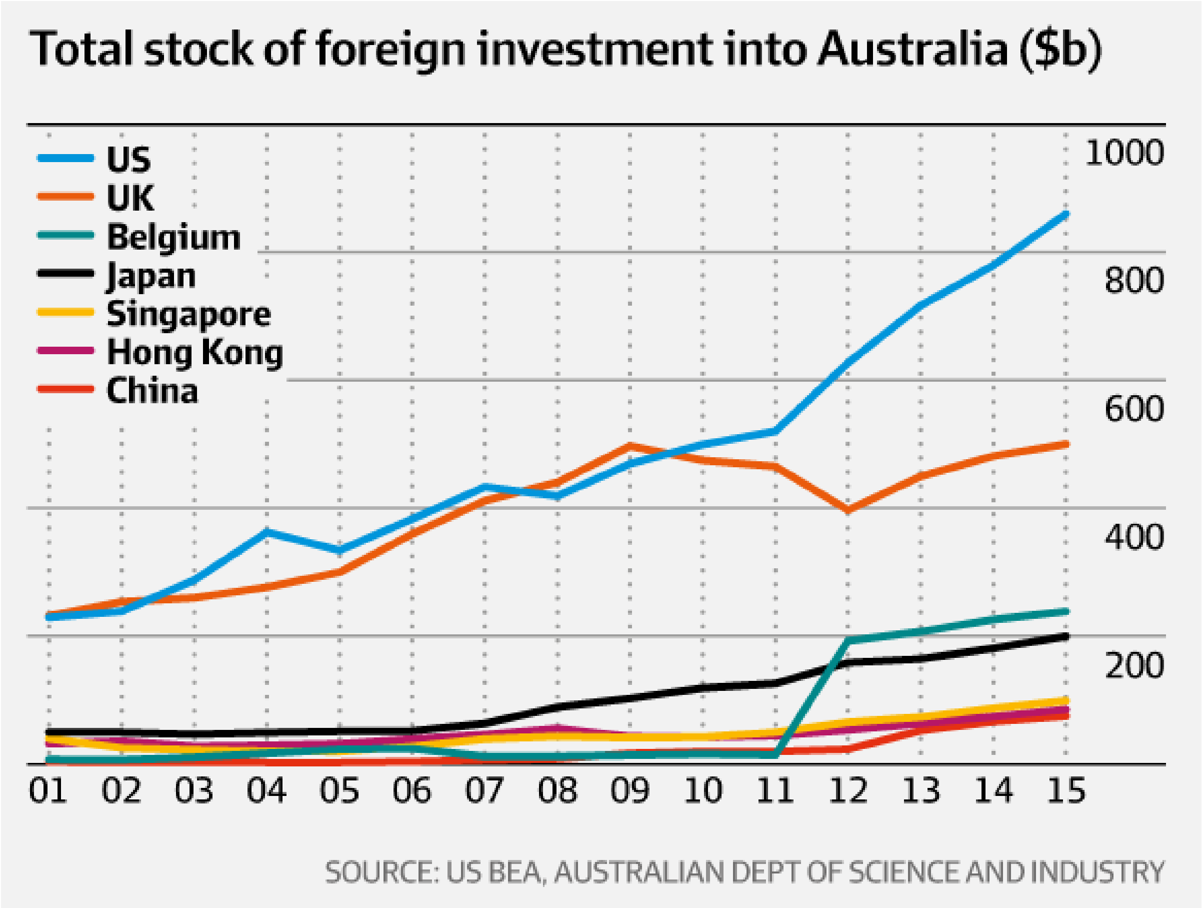
## FOREIGN INVESTMENT, HOME OWNERSHIP AND AFFORDABILITY IN AUSTRALIA

**The United States** and the United Kingdom are the top two sources of investment in Australia, according to the Department of Foreign Affairs and Trade.

**Levels of Chinese investment** in Australia has grown since 2005.

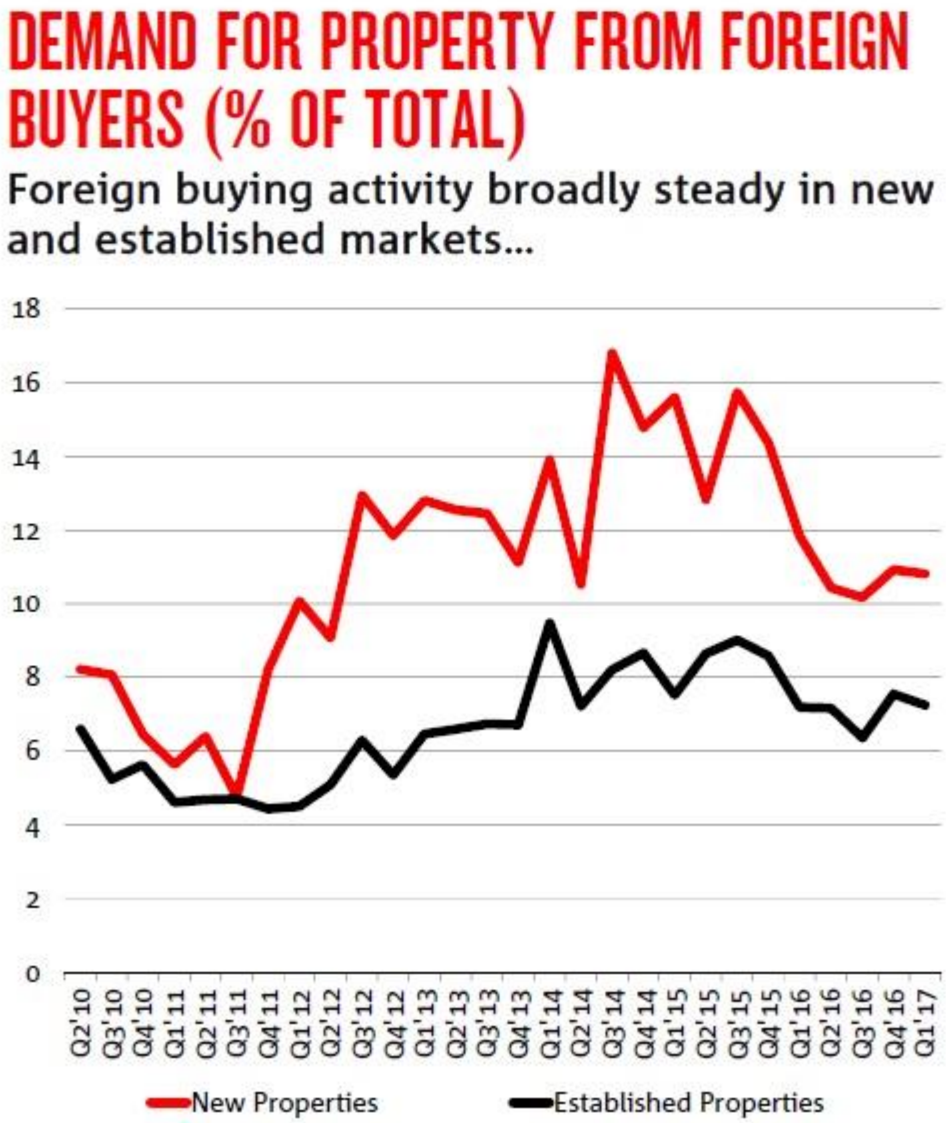


But China still is well behind Belgium, Japan, Singapore and Hong Kong while India is not in the top 20 countries.




**Real Estate (commercial and residential)** accounted for under 2% of the total foreign investment in Australia.

**And based on Foreign Investment** Review Board (FIRB) approval figures, ABS data on actual Chinese investment it is estimated Chinese residential real estate investment totals around 3 per cent of all residential real estate transactions in Australia. Foreign buyers in total account for under 12 percent in 2017.




Source: NAB

**Housing affordability is sometimes a concern** for many investors, who wonder whether Australians can still **afford to buy property** themselves, as this greatly affects not only capital growth, but the potential to be able to resell to an Australian citizen, as required under the FIRB laws.

## So, what are the facts about housing in Australia?

As mentioned above, firstly **the proportion of those with wealth** above US$100,000 is the highest of any country, and also Australia has the highest **median wealth** in the world, and yet we have the amongst the world's LOWEST per sq. metre rates for new build apartments.

**1. There are approximately 9,000,000 dwellings** in Australia. The latest Census found that nearly 70% households own their home or are purchasing it through a mortgage – less than 30% are renters

**2. The proportion of home ownership** has been stable for more than fifty years, after rising from 53 per cent in 1947 to 63 per cent in 1954 and 70 per cent in 1961. Just under 70% of dwellings are currently owner-occupied.

(Also, and **very importantly**, only about one third of the owner-occupied dwellings were under mortgage. This remains one of the secrets to Australia's property market, and why the country has **never seen** in the past the free falls in value so often seen in other markets around the world as most of the Australian housing market is in fact owners: that's is, people living in their own home, not investors. These people do not panic and sell whenever there is stock market collapse or some other negative world event!

**3. One measure of housing affordability** is housing costs as a proportion of total gross household income, also described as a housing affordability ratio. A 30% rule has been around for a while, that is, renters or owners should try to not pay much more than 30% of household income in rent or mortgage payments.

**Housing affordability** is affected by changes in housing costs and household income levels.

**The latest figures** from the Australian Bureau of statistics shows that for owners with a mortgage, the proportion of household income spent on mortgage costs fell from 18% in 2011–12 to 16% in 2013–14.

**This decrease is driven** by an increase in household income and a period of low interest rates. Owners without a mortgage spent 3% of average gross weekly income on housing costs, which has not changed since 2007–08.

Private renters spent just 20% of gross household income on housing costs in 2013–14, the same rate as 2011–12.

**This tends to indicate** there is still great potential to see rent rises as well as future property price rises.

**4. And we should expect housing to take up an increasingly large part of our incomes:** As the economy grows, the cost of many goods are going to fall. For instance, in 1936 in the USA the average family spent about one-third of its income on food, compared with roughly 13% in 2003.

As food production becomes more efficient, we should expect to spend a smaller portion of our incomes on it.

For instance, the average New York family that spends 40% of its income on housing is also deriving benefits, like superior public transportation, from living in the city. Quality public education is another good that also drives up housing prices, and it might make perfect sense for a family to spend more money on a home if it means they can then spend less on education.

But some goods, like housing, won't follow this trend. That's because much of the cost of housing is made up of the land on which the housing sits, and the cost of land is largely the result of its proximity to economically productive areas. This makes housing somewhat similar to healthcare and education, where the main driver in the good's cost (skilled labour in the cases of healthcare and education) won't be made much cheaper via technological advances. So, we shouldn't expect these goods to account for the same portion of an individual's budget as time goes on.

**5. Less than <u>3 per cent</u>** of Australian households have investment loan debt, compared to around one third of households with home loan debt.

Australian governments have encouraged broad-scale home ownership through tax incentives, although mortgage interest is not tax deductible as, for example, in the United States. The owner-occupied residential home is not subject to the capital gains tax on sale and is not counted in the assets test for Centrelink pension purposes. It is also not taxed for land tax or other property tax.