Economic and Housing Snapshot

We are more than half way through a year where the **global economy** is continuing to weaken and confidence is following suit. This global backdrop has planted itself firmly inside Australia's own house, exacerbating stresses already in place as a result of domestic interest rates being at their highest level in 12 years.

Economic conditions in **Australia** have deteriorated markedly in 2008. Economic growth is forecast to slow to around 2 per cent in 2008/09. This would mark the slowest pace of growth for the nation since 2000/01 (a year influenced by the introduction of the GST).

Help is on the way, however, in the form of lower **interest rates**. A reduction in the Official Cash Rate is widely expected on September 2. This will mark the first reduction in rates since December 2001. Whether or not retail institutions pass on the full extent of official rate reductions remains to be seen.

Regardless of the magnitude of **mortgage rate** cuts brought down by the end of this year, the household sector horse has already bolted. We will be well into 2009 before the residential sector sparks to life.

The **household sector** has borne the brunt of the economic slowdown. The **retail** industry endured a contraction in sales volumes in both the March and June quarters.

Early indicators of **new housing activity** have reacted more negatively to Australia's current economic woes than our already pessimistic view suggested. For the 2008/09 financial year HIA's new **housing starts forecast** has been revised down significantly, from 154,330 to 145,340. In annual growth terms this means 2008/09 slides by 6 per cent, where previously the forecast was for a flat year.

The majority of the downward revision fell on **Queensland**, where building approvals in 2008 have been very weak. **Victoria** and **Western Australia** have also been pared back significantly reflecting poor new housing indicators and weak builder sentiment.

HIA estimates that Australia needs to build around 190,000 new homes each year to keep up with **underlying demand**. This level represents an annual under-supply of 40,000 dwellings, and approaching 50,000 dwellings based on the very weak 2008/09 forecasts for new home building activity.

The overall prospects for **renovation activity** are more positive. Growth is considered unlikely in 2008/09, but a largely steady year would still represent a healthy outcome and see total investment in renovations of around $30 billion.