

RBA warns housing supply threatens prosperity

Reserve Bank Governor speech

- **The Reserve Bank Governor, Glenn Stevens, has delivered a speech: “The Road to Prosperity”. The Governor has highlighted the “bumps, twists, and turns” on the road to economic prosperity.**

The Road to Prosperity

- If the Reserve Bank Governor is to be faulted, it is that he is too polite, and too politically correct. But the Governor has subtly warned that if the constraints to housing supply are not addressed by governments and lenders then economic prosperity will be threatened.
- The Governor shouldn't be so polite. Economists have warned for some time that state and federal governments are failing to boost the supply of housing through land production, zoning laws and lack of incentives to developers. If housing supply continues to be constrained then governments must be held accountable.
- The Governor notes that population growth is rising through immigration, adding to supply of labour resources but adding to the supply of housing. The Governor warns: “the question of whether enough is being done to make the supply side of the housing sector more responsive to these demands (increased population) will remain on the agenda.” The Governor notes “persistent difficulties” in increasing housing supply “in the areas of land supply, zoning and approval”
- The Governor has also highlighted the undue caution by lenders in providing finance to developers: “perceptions by lenders of the riskiness of development in some cases are probably being overdone just at the moment, given the strength of the underlying fundamentals on the demand side for accommodation.”
- Overall, the Reserve Bank Governor believes that Australia is on the road to recovery and that this road leads to prosperity. But apart from housing, the Governor has highlighted a number of bumps on the road to recovery:
 - We start with less spare capacity, although “This is not a problem. In fact it is good.” “But it does underline the importance of adding to supply.”
 - Investment in the resources sector will be expansionary for the economy
 - The current account deficit will expand far larger than 4-5pct of GDP and that “these trends may need some explaining, not least to foreign and international organizations.” In short if the current account deficit blows out, the Australian dollar may be dumped.
 - The resources sector will expand, meaning that other sectors will shrink: “the two speed economy debate of a few years ago was really only a preview of what we could see if the resources sector build-up goes ahead.
 - Trade could be less diversified and Australia will be exposed to “anything going seriously wrong” in China and India.
- The Governor has also warned against complacency: “it means resisting the temptation to assume prosperity is easily achieved or easily managed.”

Craig James – Chief Economist (Author)
(612) 9312 0265 (work)

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