

## Making the right property call!

By Michael Matusik Wednesday, 06 July 2011

Automatic pessimism versus foolish optimism:

From the mundane – housing market crash; mortgage defaults climbing; low housing affordability; interest rates set to rise; household costs skyrocketing; double-dip recession – to the catastrophic – Malthusian population explosions; peak oil everything; climate change; global warming; deforestation; urbanisation and over-consumption – all we hear these days is doom and gloom.

Janet Albrechtsen, a few weeks back in *The Australian*, titled these portrayers of gloom “apocaholics”. An apt description, indeed.

Let’s turn the tables on some recent reports of gloom and doom and see how they sound.

- Australian dwelling prices fell just 2.3% over the last 12 months despite the pessimistic jawboning of expectant falls in excess of 10% to 15%. Brisbane’s values fell just 5.9% – a great result if you ask me given the floods, the ham-fisted governance and pending local/state elections.
- Sellers are starting to get the message. They’re taking their dwelling off the market, with fewer new “for sale” listings this month across Brisbane compared to the same time last year.
- It is a good time to buy a dwelling in Queensland, according to the Westpac-Melbourne Institute. Its June Queensland index is sitting at 134.4, up 11% on May, and a massive 52% on this time last year. Queensland not only has the highest “good time to buy a dwelling” index in the country, but also enjoys the largest monthly and annual improvement as well.
- Queensland’s dwelling approvals have risen for the second consecutive month. ABS monthly approvals figures released this week show a 1.1% increase in Queensland activity. Not much, true, but an improvement nevertheless. In contrast, across Australia approvals were down 7.9% in May. While the small rise in Queensland numbers was largely due to the volatile apartment sector, the monthly trend provides grounds for optimism.
- Forty-nine out of 50 Queensland households pay their mortgage on time. Just short of 99% of other Australians do so, too.
- Australians are now saving one-eighth of their take-home pay. It’s a massive plus for our economy as household balance sheets become stronger and more resilient to difficult times.
- Official interest rates have been raised only once in the last fifteen months and actual mortgage rates are starting to fall. Three-year fixed interest rates are also starting to fall and are lower than the current variable rate of interest – suggesting interest rates could fall. Bank bills and government bonds are, at present, only slightly up on the current cash rate, suggesting any interest rate rise should be modest.
- According to Rismark International, Australian homes are currently at their most affordable in almost a decade. Rismark’s work looks at all properties across the country, not just detached houses in our capitals; and also uses household incomes rather than average weekly earnings.
- We are doing better, financially, than we think. While the cost of certain consumer items has increased, real household incomes are rising faster than inflation. Since March 2009, inflation has risen 6.3%, whereas real household income rose 7.3%. Real household incomes have grown by about 16% in the past six years. Maybe John Howard was right after all – we have never had it so good.

Too optimistic? Was the last point a step too far? Well consider how long we have to work these days to earn an hour of reading light. On the average wage today, half a second of work will pay for an hour of light. Just 50 years ago you had to work for 10 seconds. In 1880 it took 15 seconds to burn a kerosene lamp, and more than six hours of work for an hour of light by a candle.

In 1750 BC your average Babylonian needed to work 50 hours to get 60 minutes of light from a sesame oil lamp. Little, obviously, happened at night before the birth of Christ. How many TV screens, laptops, iPads and other mobile devices do you have at home? We have 11 and neither of our children, at present at least, are not living at home.

Healthy economic growth doesn’t only have to be supported by government, and ideally, shouldn’t be that frustrated by perverse policies.

But increasingly, of late, that isn’t necessarily the case. Yet the greatest barrier to recovery is psychology – stubborn gloom – which is conditioning household and business spending decisions.

Foolish optimism led to the GFC by assuming things would work out for the best. Now, automatic pessimism weakens growth by ignoring good news or believing it cannot last. Our greatest challenge this financial year is to think and act more optimistically. I will give it a serious try. How about you?