



Treasury Corporation of Victoria

# Economic, housing and population outlook

*Presentation to FinPro*

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# Macroeconomic update

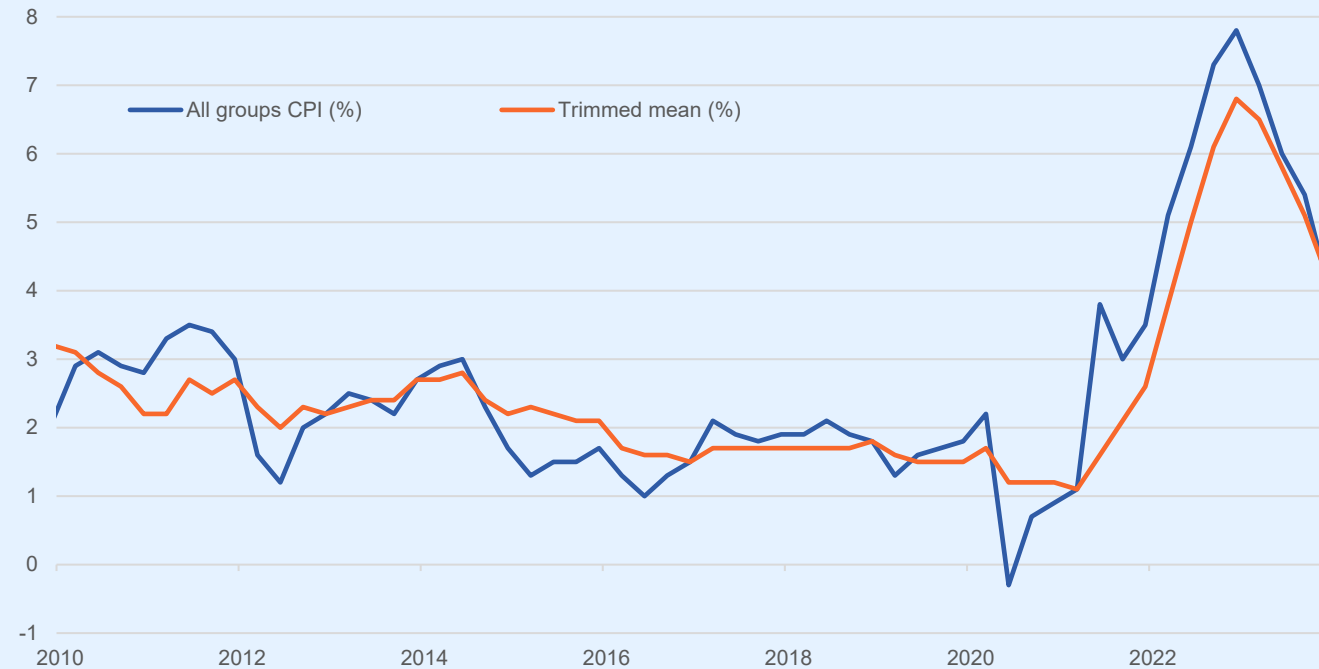


# Summary

- The last few months has seen a radical repricing of interest rate
- expectations
- Inflation is coming under control both here and abroad
- US economy is firing on all cylinders, while China continues to struggle. Europe looking not so good.
- Recent Australian data has been much weaker
- Where to for housing? ... coming up in part two

# Have we won the war on inflation?

Australian CPI



Source: ABS

## Key points

- No, not quite. US CPI printed higher than expected
- Some elements of inflation are proving sticky
- Rents and electricity will be particularly challenging for Australia

# The US continues to defy expectations

Change in US nonfarm payrolls, ('000/month)



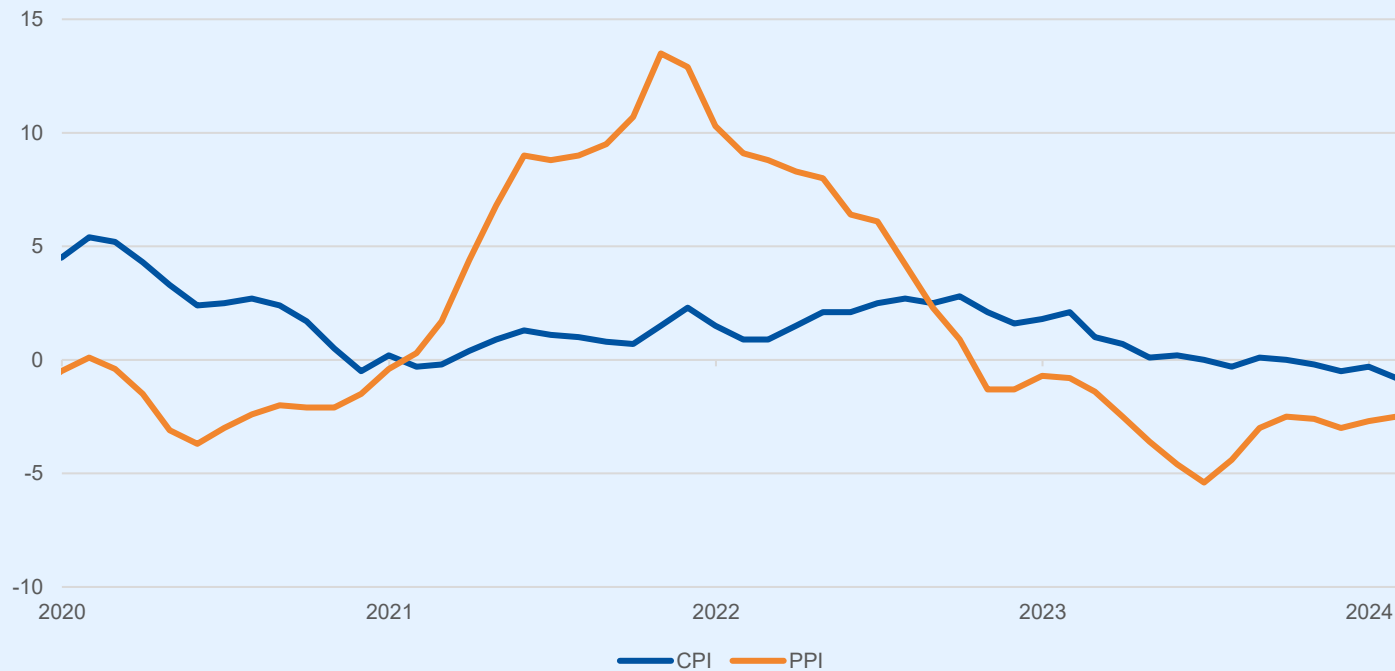
Source: Bloomberg

## Key points

- US labour market appears to be accelerating
- Inflation falling but less so than expected
- How can the Fed cut rates in this environment?

# But Chinese deflation rolls on

China CPI and PPI y/y



Source: Bloomberg

## Key points

- Chinese consumer demand remains weak
- The US is explicitly trying to decouple from China
- Chinese population now past its peak
- But China primed for a higher value add export boom

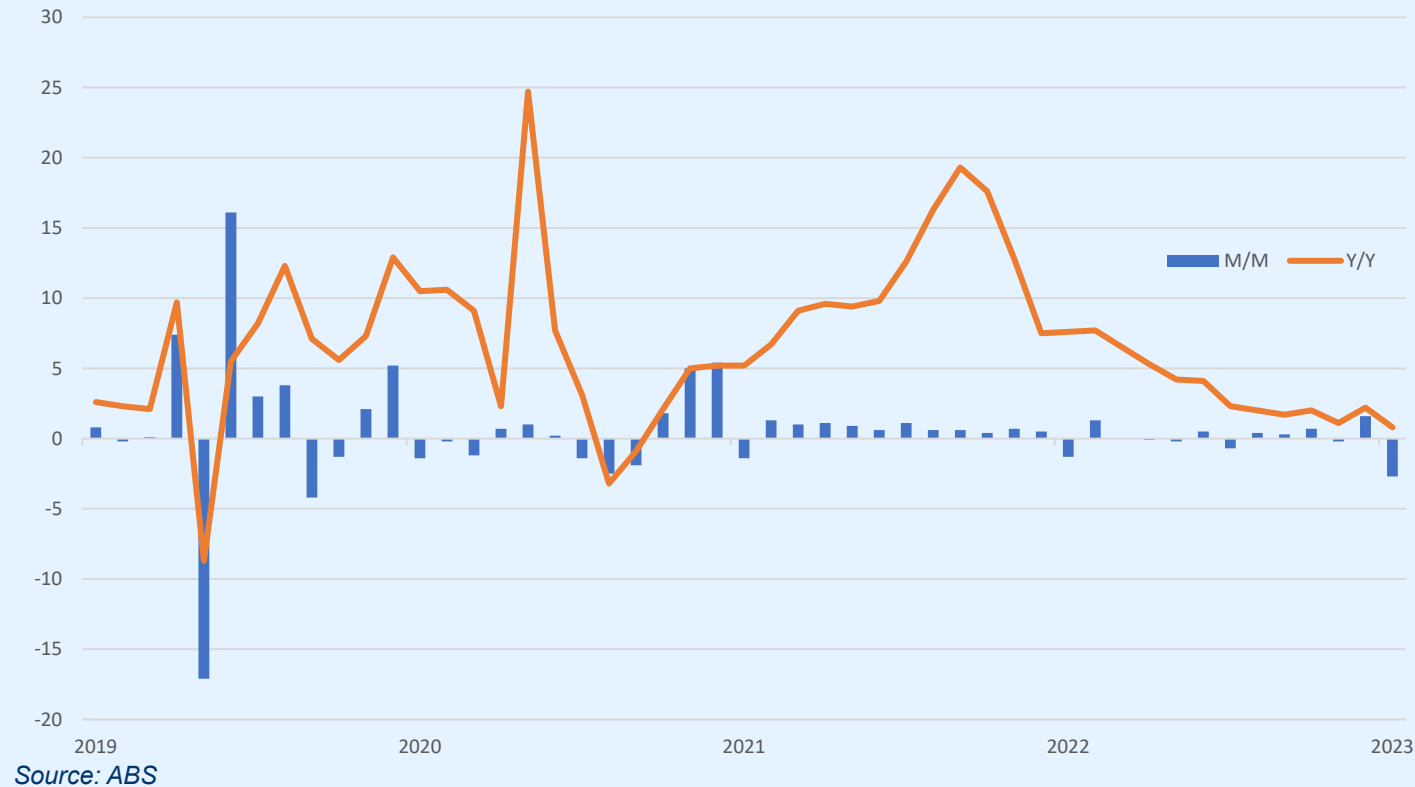
# Australian consumer now quite weak



## Key points

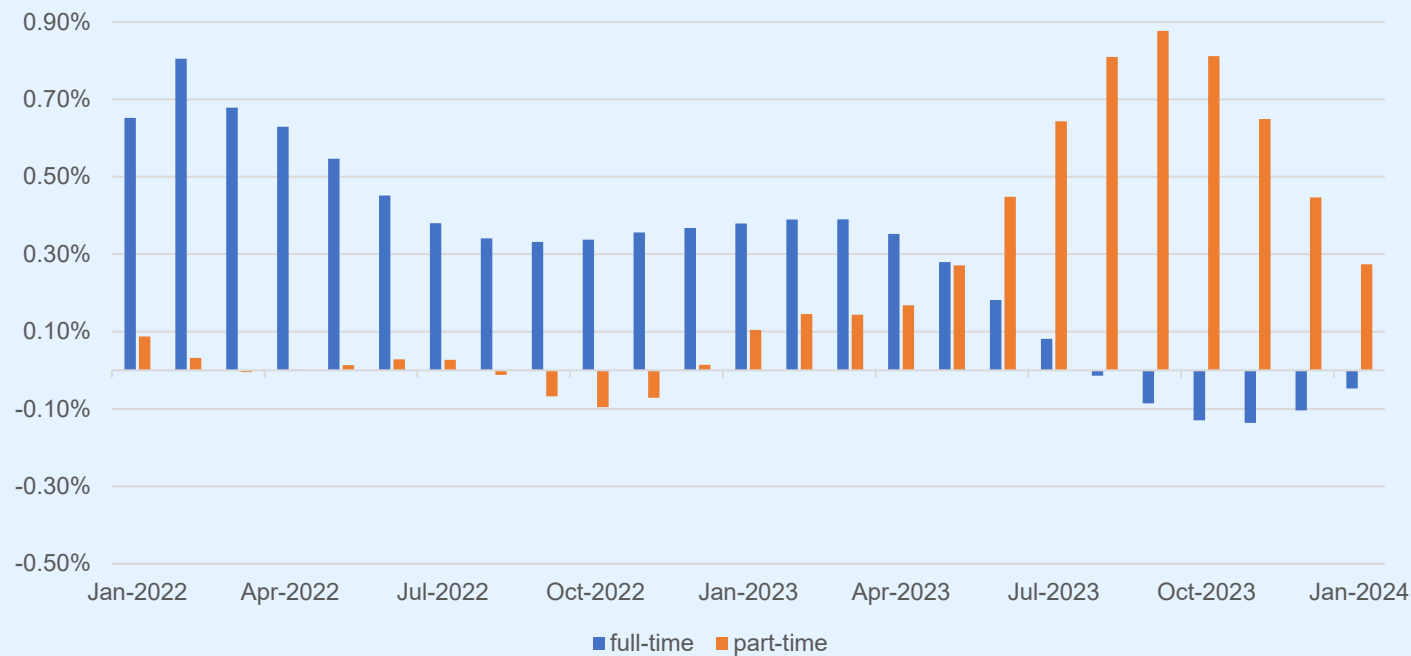
- December is normally bad now, due to lagged seasonal factors
- But last December was bad even by those standards
- Clearly the cumulative impact of rate rises is hurting

Australian retail trade



# Labour market looking softer too

Monthly change in employment by type – trend



Source: ABS

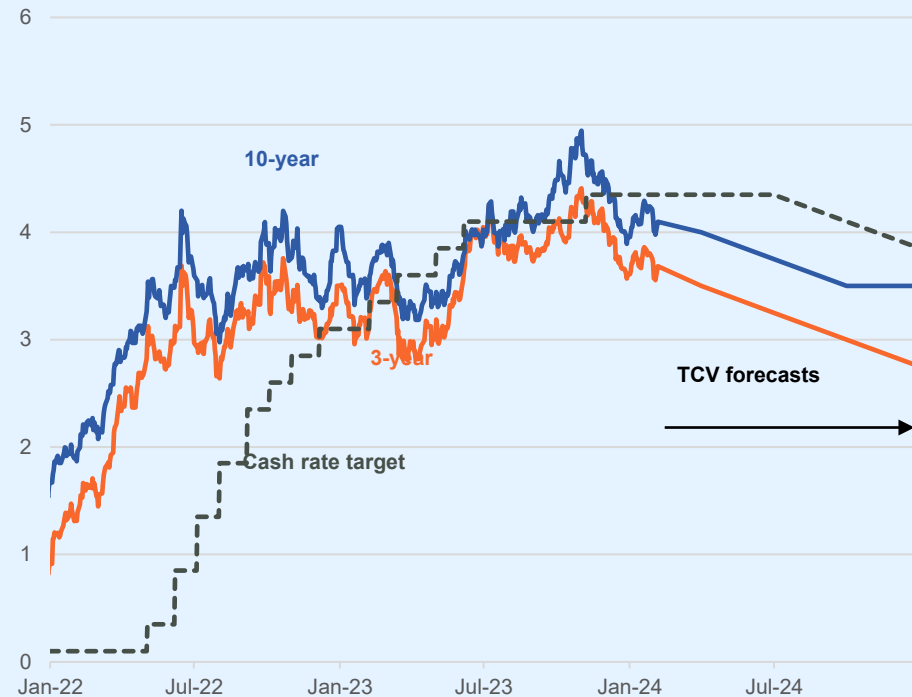
## Key points

- Full-time employment boom of 2022 and H1 2023 gone
- Part-time employment boom of H2 2023 weakening too
- Next comes higher unemployment



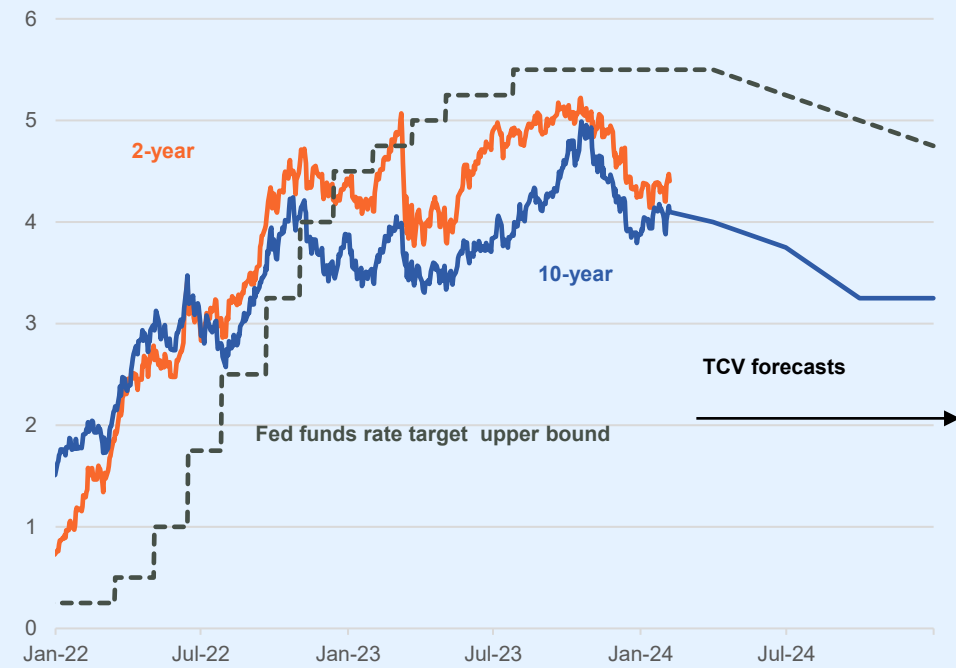
# Rates should come down, but how fast?

Australian yields



Source: Bloomberg, TCV

US yields



Source: Bloomberg, TCV

# Forecast table

		Mar-24	Jun-24	Sep-24	Dec-24
<b>Australia</b>	Cash	4.35	4.35	4.10	3.85
	90 Day Bank Bills	4.30	4.30	4.05	3.80
	3 year CGL bonds	3.50	3.25	3.00	2.75
	10 year CGL bonds	4.00	3.75	3.50	3.50
<b>Victoria</b>	3 year TCV bond	4.00	3.75	3.50	3.25
	10 year TCV bond	4.80	4.55	4.30	4.30
<b>United States</b>	Cash	5.50	5.25	5.00	4.75
	US 10 year T notes	4.00	3.75	3.25	3.25

# Risks worth noting

- Commercial real estate valuations are back in the news – impact unclear
- Geopolitical risks are still massive
- US election

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How bad is the  
housing crisis?

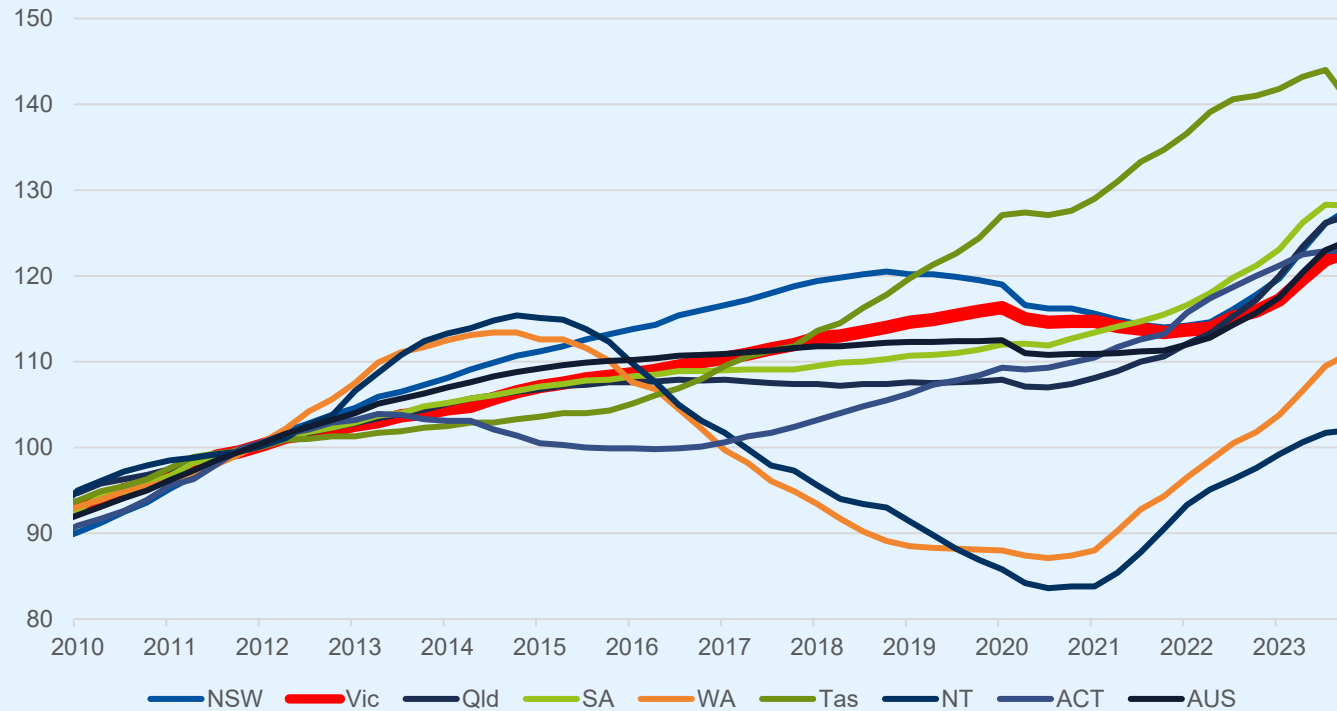


# Summary

- Rents have skyrocketed
- Asking rent surge means more to flow through to CPI rents
- Approvals have fallen, albeit from high levels
- Building costs have skyrocketed
- The short-term trajectory of migration is uncertain, but looking lower at this stage

# CPI rents are surging across Australia

ABS capital city rent index, by state



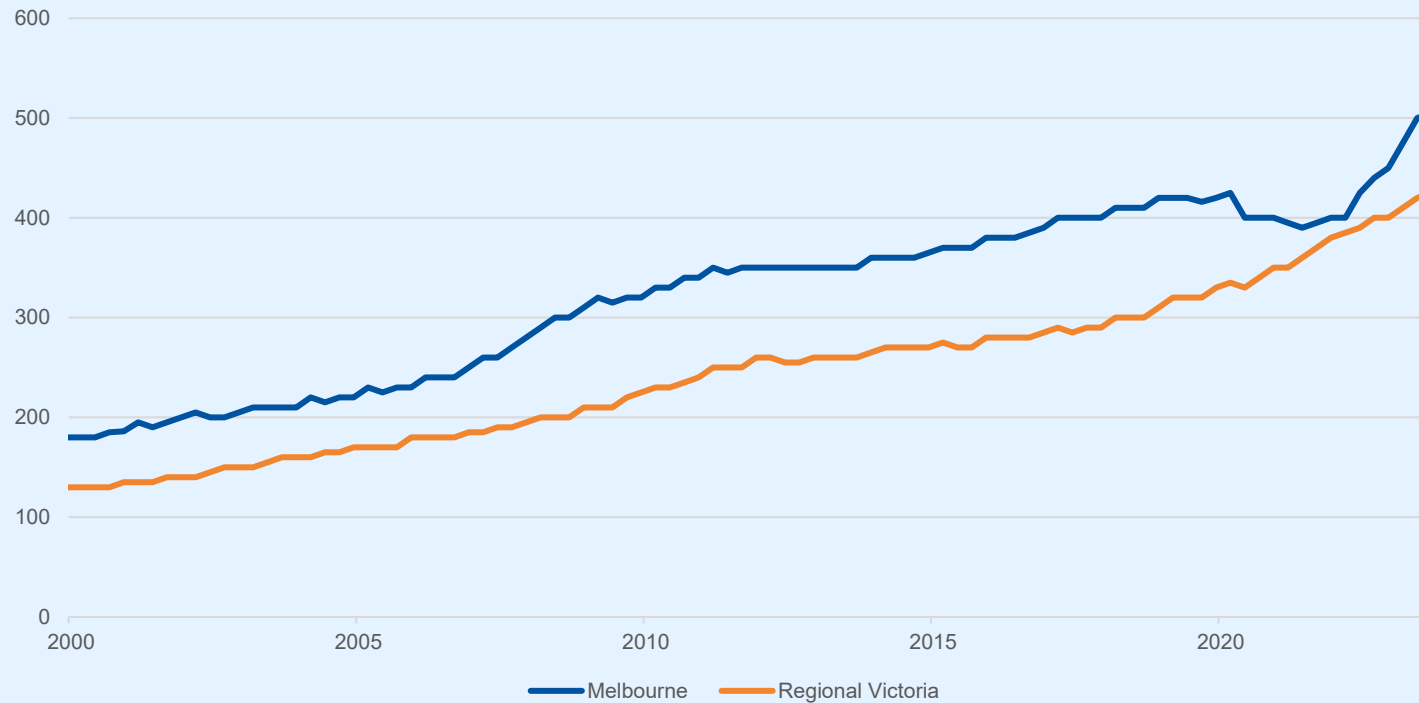
Source: ABS

## Key points

- ABS rents – which importantly are not just asking rents – have surged

# And here's long-term Homes Vic rent data

Homes Victoria quarterly moving rents \$/pw



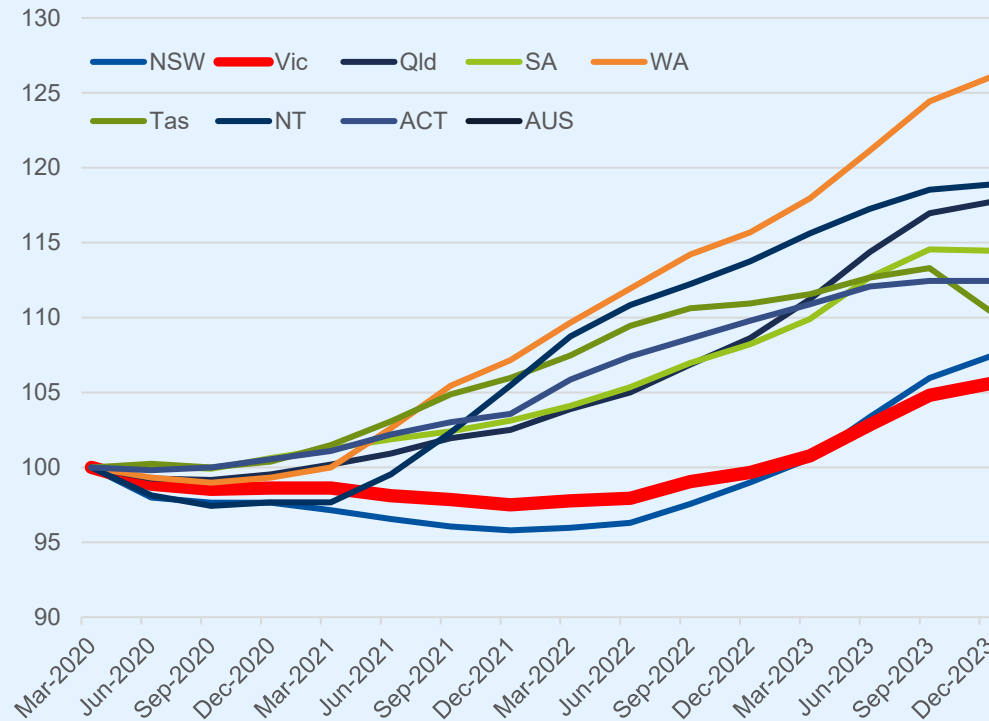
Source: Homes Victoria

## Key points

- The current surge in rents is the biggest this century by some margin

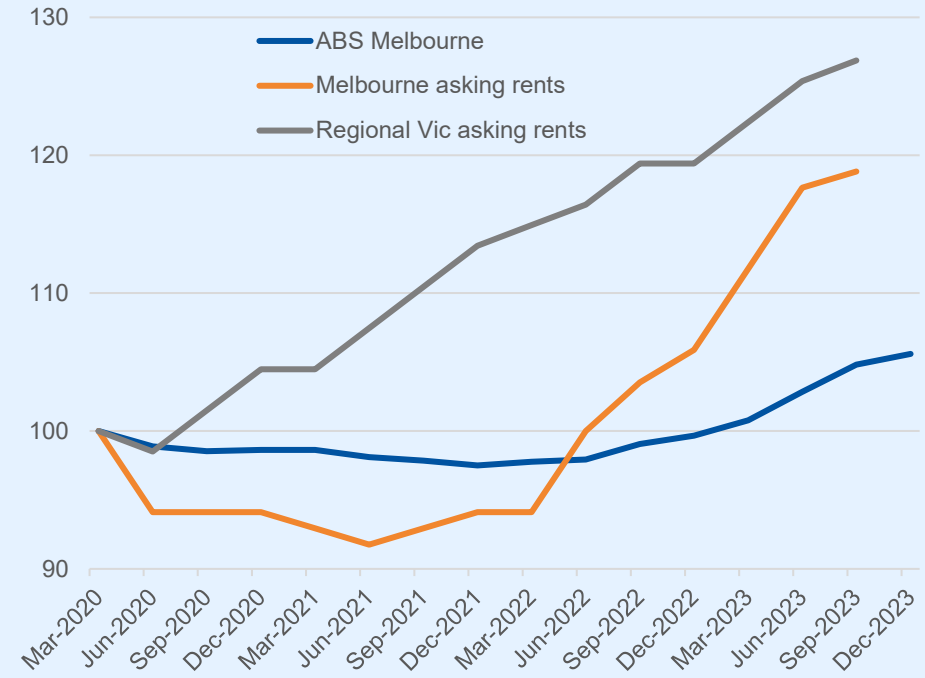
# Now let's just look at this decade

CPI rents rebased to Q1 2020



Source: ABS, TCV

ABS rents vs Homes Victoria asking rents

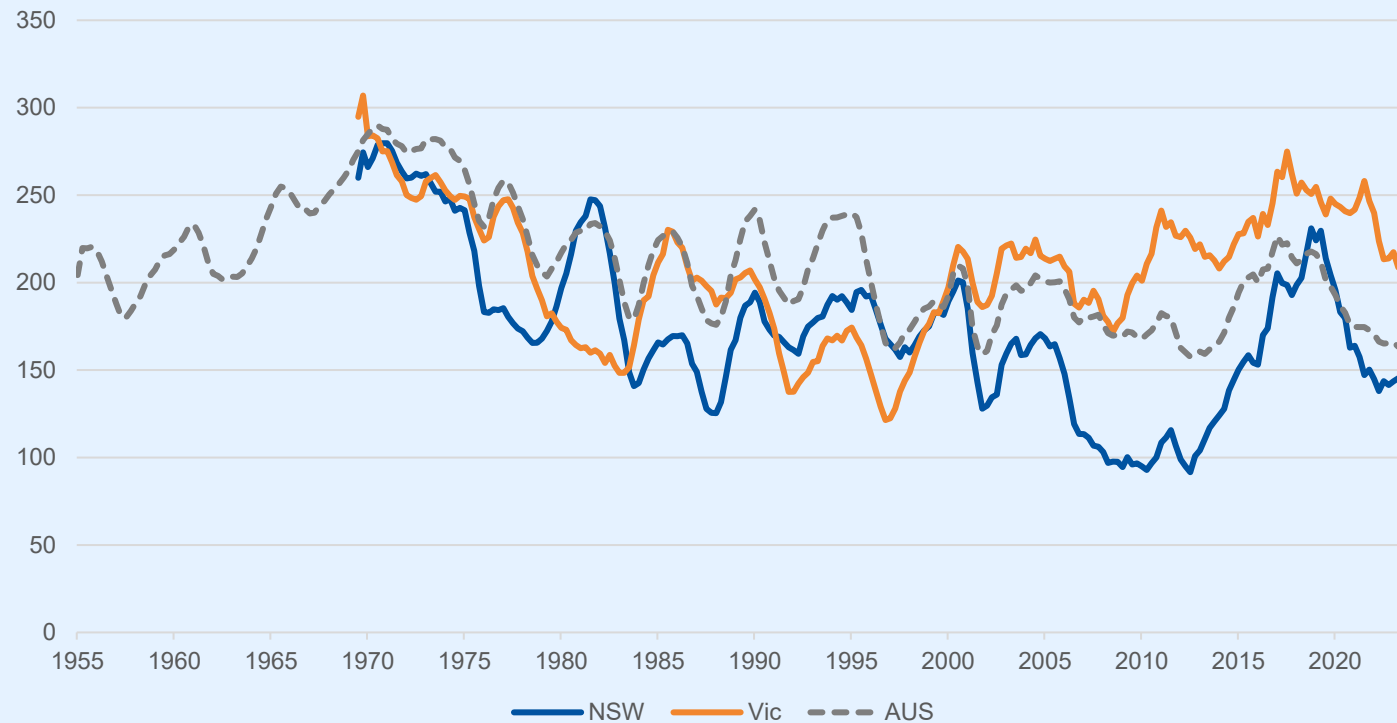


Source: ABS, Homes Victoria, TCV



# How much housing are we building?

Quarterly dwelling completions per 100k residents, rolling 4qtr average



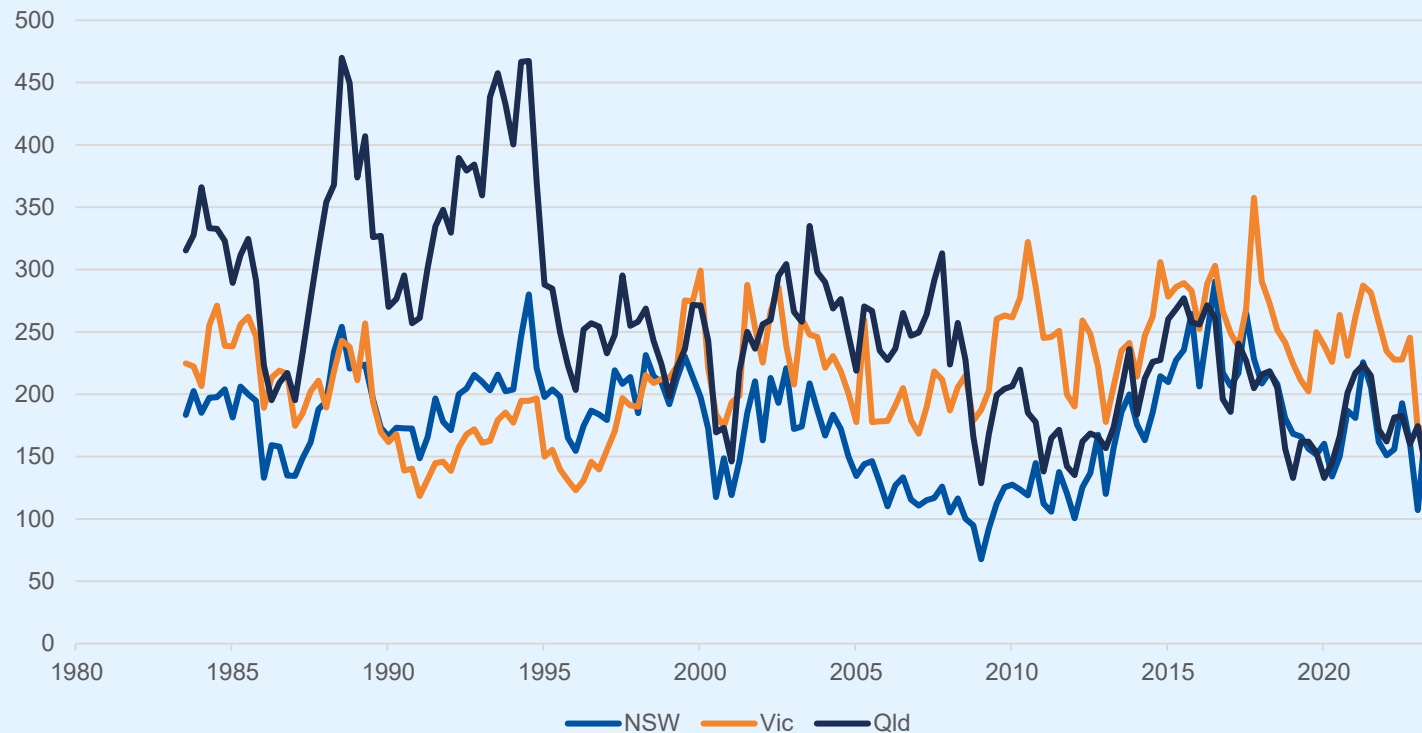
Source: ABS, TCV

## Key points

- Victoria has seen a different pattern from other states, building more housing since the late 1990s

# Approvals data not encouraging

Quarterly building approvals per 100k residents



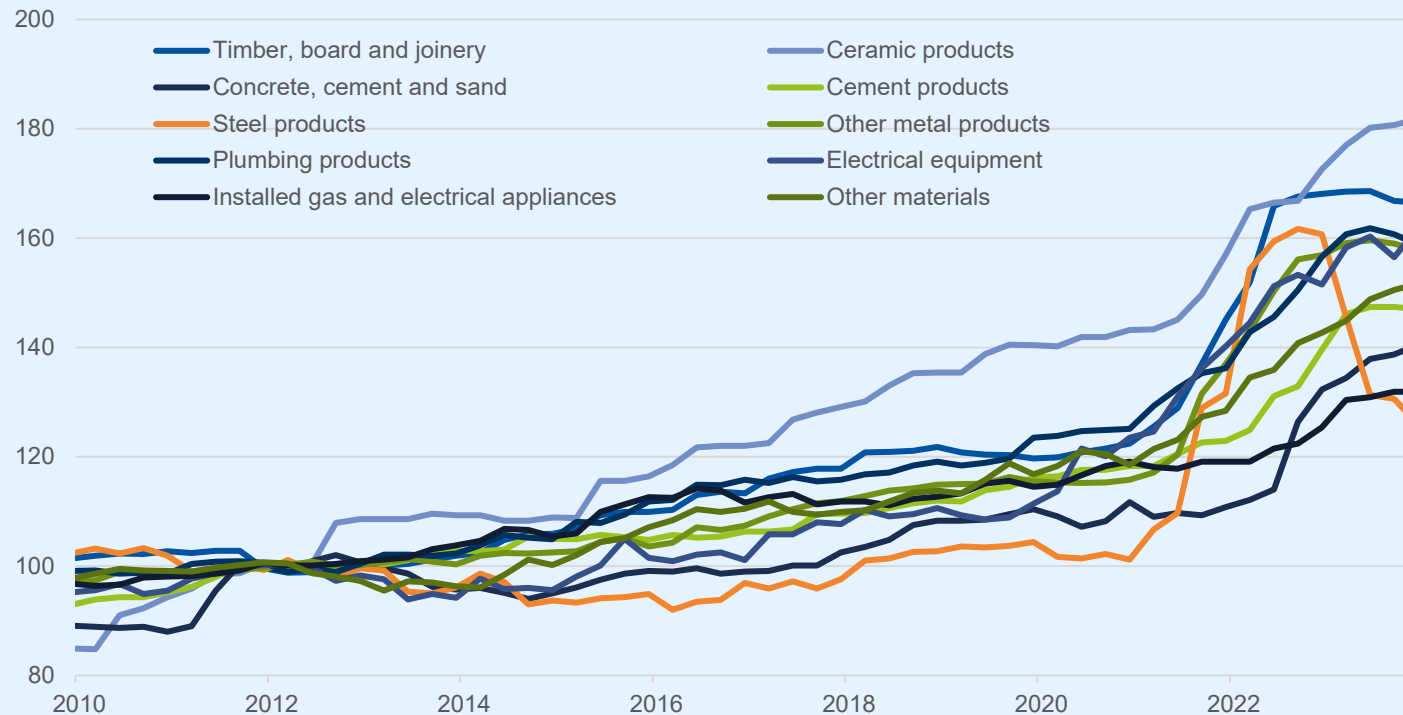
Source: ABS, TCV

## Key points

- Victorian building approvals were resilient, but have dropped off in recent months

# Very bad news on building costs

ABS PPI house building input cost indexes – Melbourne



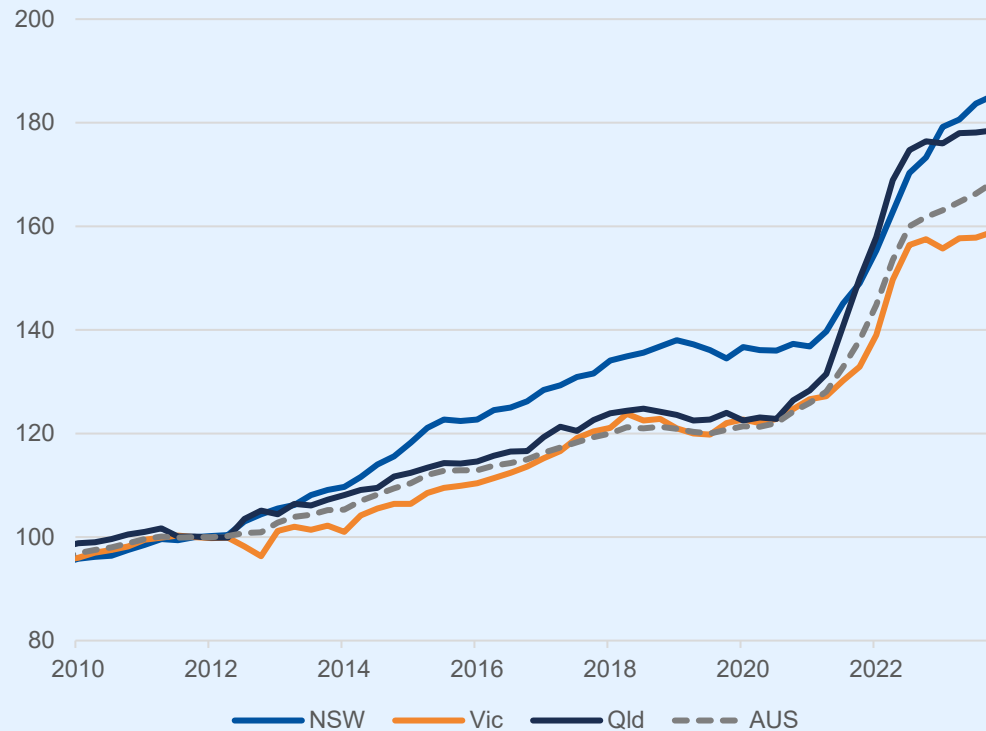
Source: ABS

## Key points

- Growth is easing, but prices not returning to pre-pandemic levels

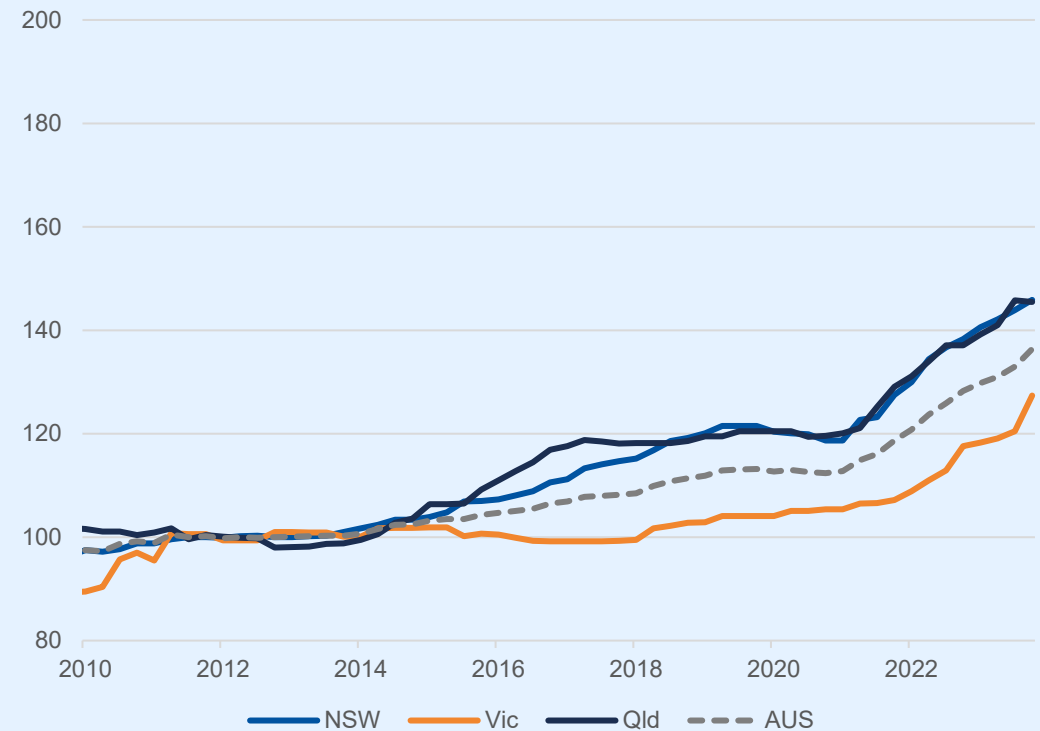
# But doesn't appear to be driven by the “big build”

House building cost index by state



Source: ABS

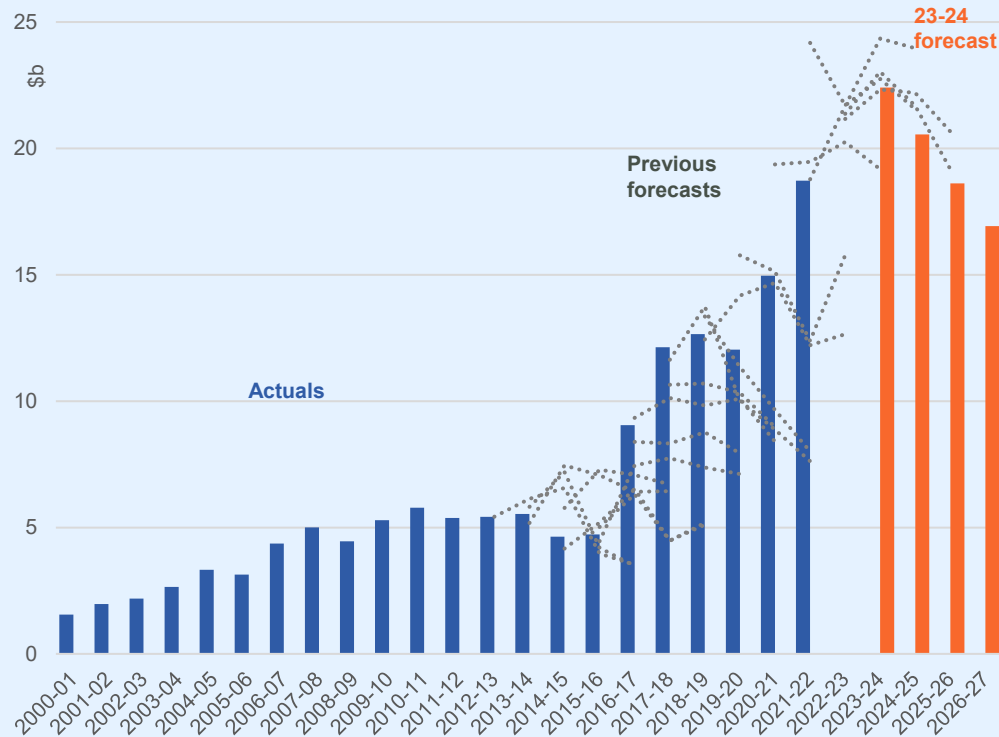
Unit building cost index by state



Source: ABS

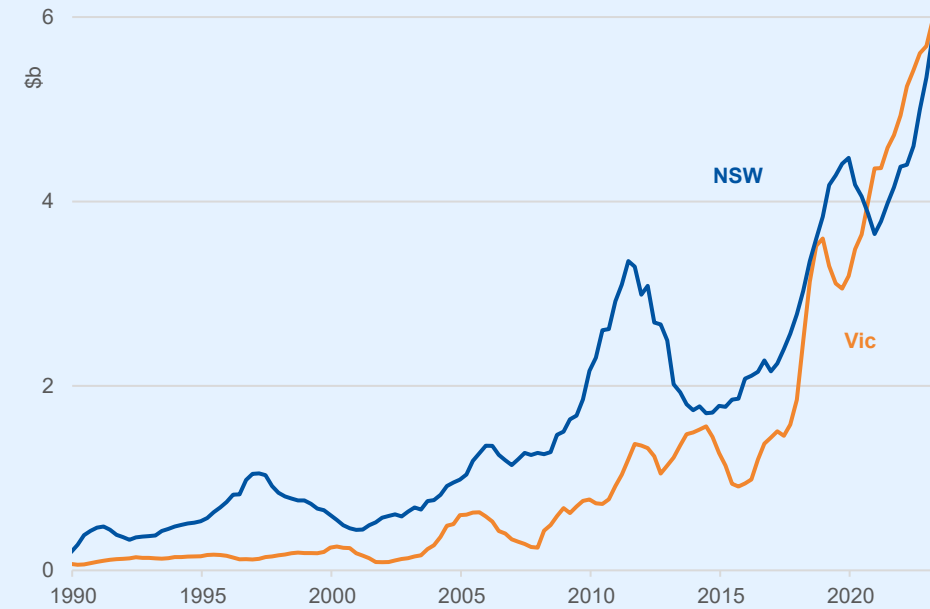
# Which is indeed very big

Government gross infrastructure investment, actuals and 2023-24 forecasts



Source: DTF, TCV

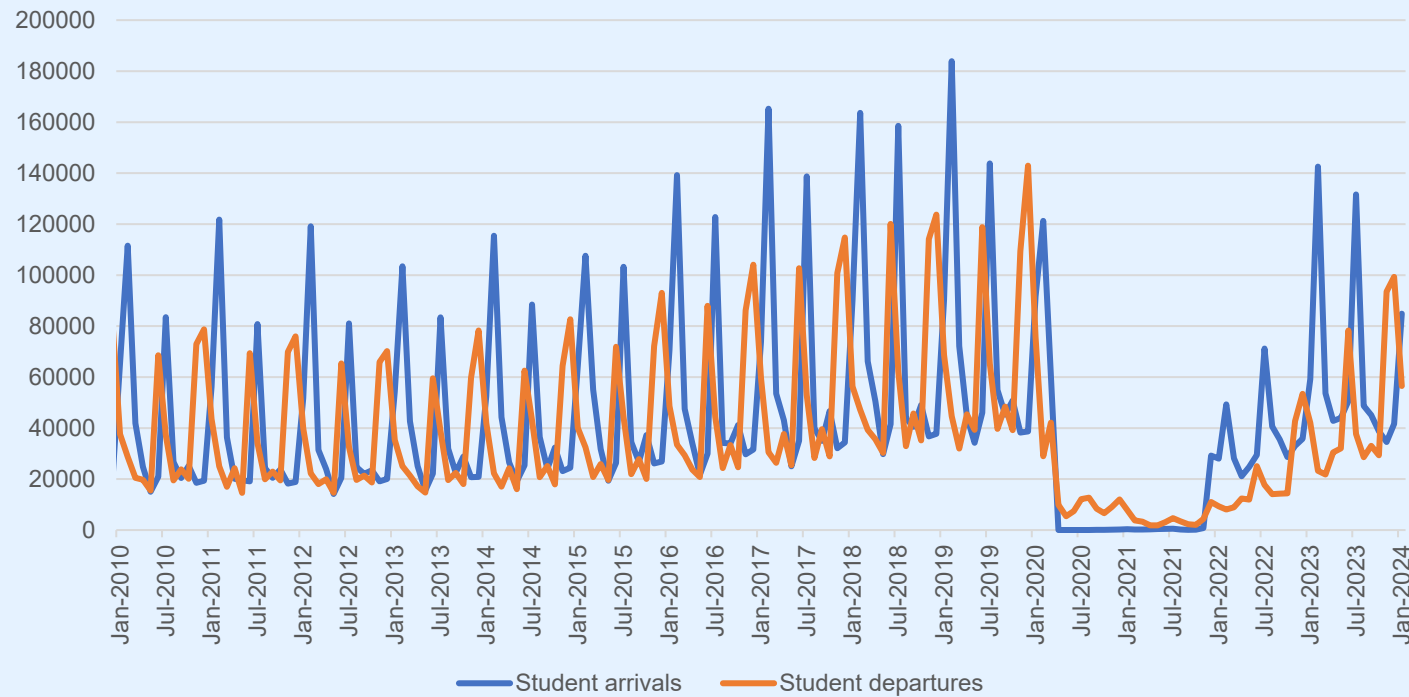
Rolling annual rail engineering construction expenditure



Source: ABS, TCV

# Some signs that migration is normalising

Monthly international student arrivals and departures



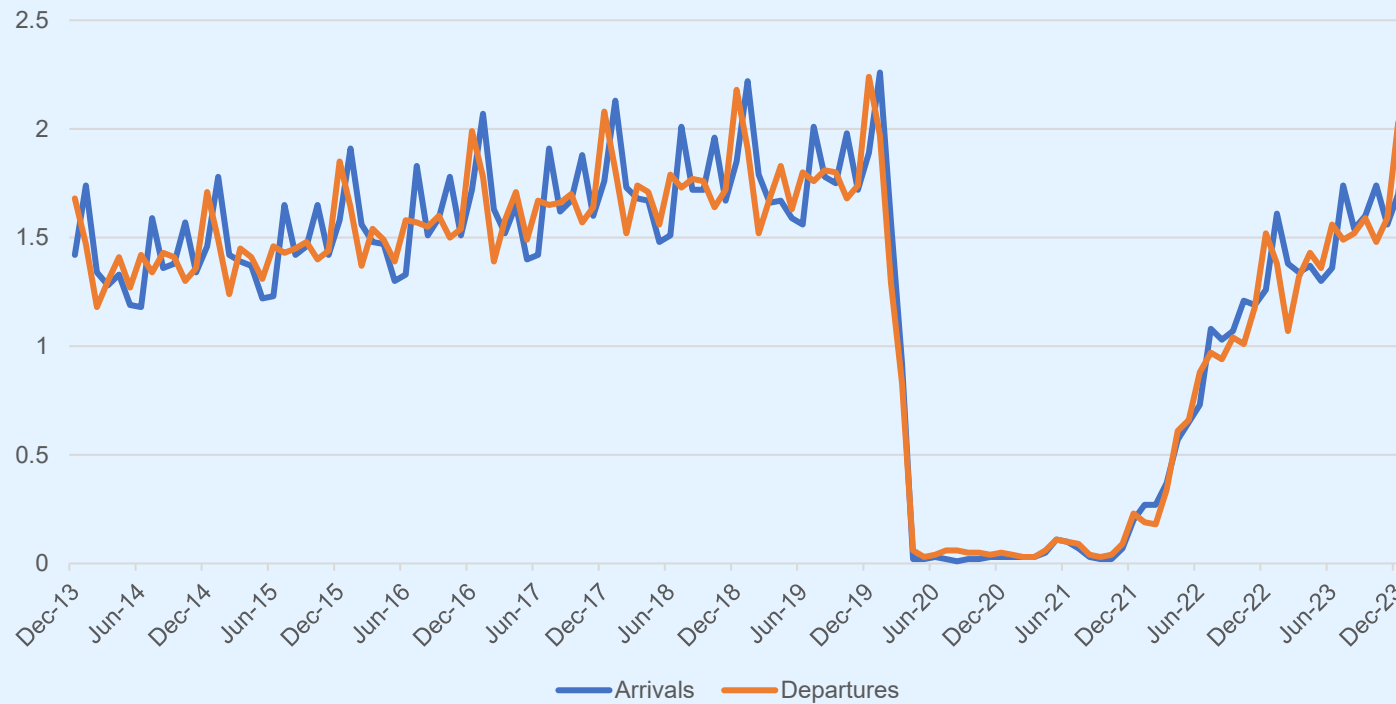
Source: ABS

## Key points

- International student departures returning closer to pre-pandemic trends

# But there was another migration jump in January

Total arrivals and departures



Source: ABS

## In conclusion...

- The US is very resilient but Australia is slowing
- Rates should come down this year, but not by that much
- The combination of higher building costs and higher project finance costs have created a perfect storm for housing
- But Victoria has been a high approvals, high construction jurisdiction and the planning system has considerable scope to build... but costs have clearly shifted



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Thank you.