

# WA housing the canary in the mine



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It will keep you updated of strategic events both in Australia, and worldwide, as well as the organising activities of the CEC.

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Ahead of the Citizens Electoral Council's 29 June Western Australia State Seminar, guest speaker economist John Adams joined CEC staff for two days of real-estate reconnaissance and meetings, to assess the state of the WA economy. What they found is frightening. CEC Research Director Robert Barwick, who accompanied Adams, commented: "If WA's housing market were replicated across the rest of Australia, Australian banks would already be failing."

The city of Mandurah, south of Perth, was the first shock for the east coast delegation. A decade ago, Mandurah was one of the boom areas of Australia. Eighteen months ago, Digital Finance Analytics banking expert Martin North identified it as having the highest mortgage stress in WA. Today, the over-developed waterfront area is like a ghost town, with very few people walking around, very low occupancy in its high-rise apartment buildings, and street after street littered with For Sale signs.

Along with this decline, Mandurah and WA are suffering a deadly drug epidemic. A state member of parliament involved in policing informed John Adams that WA is the ice (methamphetamine) capital of the world, and Mandurah is the ice capital of WA. The drug scourge is not discriminating, affecting low and high income areas alike, including the upmarket suburb of Hillarys, which is full of highly paid but heavily indebted fly-in fly-out (FIFO) mine workers.

The reconnaissance also took in the northern coastal suburbs of Perth, as far north out of the city as Yanchep, guided by an expatriate Irishman

who had lived through the Irish property crash, and moved to Perth for FIFO work. The guide pointed out dozens of stalled housing developments, with laid-out streets and footpaths, stairs to upper terraces, even picket fences, but no houses. These developments have been stalled for years, giving the outskirts of Perth the appearance of Dublin in the Irish crash, according to the guide. Another suburb, Ellenbrook, is a white elephant of crammed-in houses and mortgage stress, with a very high youth crime rate—symptoms of an economy distorted by a bubble. In meetings, locals involved in the housing market either confirmed the grim reality of WA, or expressed denial, insisting that if the banks went back to allowing borrowers to pay interest-only for ten years and more, the market can recover! The state government's Keystart program to help people into homes with a 2 per cent deposit, which worked for 30 years, is now trapping borrowers in negative equity.



Desperate developers are resorting to these kinds of offers.

The WA market is down around 20 per cent from its peak, with pockets like Mandurah down much more. At this level of decline banks can no longer deny the impact on their books, and must revalue their mortgage assets and set aside more capital against those mortgages. WA is a small market, so the banks may manage these adjustments, but if the huge Sydney and Melbourne markets catch up to Perth, the banks will be in deep trouble. As Martin North observed about Mandurah, there is a lag between the first signs of rising mortgage stress and a mass break for the exits, but that's the direction the east coast is heading. And forget all the post-election hype about a housing recovery—credit growth, which is the expansion of bank lending, has hit an all-time low of 3.7 per cent, one of the reasons the terrified RBA has just slashed interest rates for the second month in a row to just 1 per cent.

At the CEC seminar, Adams delivered a powerful presentation on Australia having the biggest debt bubble in its history, which, he pointed out, is the real bubble—as WA shows, even when the housing bubble shrinks, the debt bubble remains. Having spent years warning about economic Armageddon, Adams presented policy solutions—including CEC policies such as Glass-Steagall—to overhaul the economy and clean out the unpayable debt, which must now define the political debate (p. 11).

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