Australian Citizens Party

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MEDIA RELEASE

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Stunning admission shows 'kitchen sink' strategy to avert banking crisis has failed!

Since the election in May, the Morrison government, Reserve Bank and Australian Prudential Regulation Authority have thrown everything and the kitchen sink at reversing the fall in house prices. They have been desperate to avert a crisis in the major banks, which have the highest exposure to household debt of any banks in the world—far higher than the banks in the USA and Europe that collapsed when their housing bubbles burst in 2008. A stunning admission by a real estate industry authority, however, and other signs strongly indicate that the strategy has failed and therefore Australia's banks are facing a wipeout.

Here's what has gone into the kitchen sink strategy:

PM Scott Morrison announced a week before election day a 5 per cent deposit scheme for first home buyers; although the policy still hasn't come into effect, the government hoped the announcement would lure buyers back into the market in anticipation of quick capital gains.

Since the election, the RBA has cut interest rates three times, from an already record low 1.5 per cent, down to 0.75 per cent; the RBA has also said it is prepared to go to zero and negative interest rates.

Soon after the election, to enable banks to lend more freely—and recklessly—bank regulator APRA dropped its requirement that banks assess loans against the possibility that interest rates could rise to 7 per cent.

In July, Assistant Treasurer Michael Sukkar practically begged people to rush out and buy housing, implying that the implementation of the 5 per cent deposit scheme would drive up prices, and therefore buyers should get in quick so they didn't miss out. In any circumstances it is extraordinary for the government to tell people how to invest, underscoring their real desperation. One real estate analyst reported spruikers at housing investment events trying to persuade prospective clients by saying that the prime minister said it's time to buy.

Supposedly, these interventions have worked. For two months all the media has talked about is the turnaround in house prices in the Sydney and Melbourne markets, which had fallen 14 per cent and 10 per cent respectively since their peaks in late 2017. The media has emphasised the rise in auction clearance rates, which fell to as low as 40 per cent a year ago, but which in August and September started hitting 70 and 80 per cent; and claims by CoreLogic, the main source of data on house prices, that prices in Sydney and Melbourne have risen more than 3 per cent.

Hallelujah! The banks are saved!

Or are they?

Stunning admission

In the last fortnight, three signs have suddenly emerged that contradict all the hype and point to something seriously amiss in the housing market and banking system.

First, in a coordinated intervention, both PM Scott Morrison and Treasurer Josh Frydenberg begged the banks to ignore sound lending standards and beef up their lending into housing again. Morrison made his pitch in the middle of his trip to the USA; Frydenberg actually said he hoped for a 10 per cent rise in house prices, as a boost to economic growth. Their comments made no sense if the hype about rising house prices was real—wasn't it already happening? The 27 September *CEC Report* questioned whether the PM and Treasurer were privy to information not available to the public.

Second, the RBA on 30 September released data that Morrison and Frydenberg had likely been briefed on: bank credit growth to housing, which showed in August it hit an all-time low of 3.1 per cent. Credit growth is the key leading indicator of house prices—unless bank credit growth starts rising again, instead of falling, the banks will not be able to turn around the falls in house prices.

Third, on 1 October REA chief economist Nerida Conisbee made the stunning admission, in an interview with banking and real estate expert Martin North on his Digital Finance Analytics (DFA)

YouTube channel, that her company, which owns realestate.com.au, has not seen price rises in Sydney and Melbourne that others (i.e. CoreLogic) are claiming. While qualifying that prices have risen in premium suburbs, Conisbee revealed: “We’re not seeing growth in Melbourne and Sydney as yet … we are still seeing price declines.”

This admission has huge implications for the Australian economy: if the kitchen sink strategy has not succeeded in pushing prices back up, what can the government, RBA and APRA do to avert a banking crisis?

It’s the banks, stupid

Australia’s banking system is a house of cards built on a housing debt bubble. Contrary to the RBA and APRA’s claim that the banks are unquestionably strong, their real capital is razor thin, around 6 per cent, due to the perverse and fraudulent “risk weighting” scam of treating mortgages as virtually risk-free. In the bubble, fuelled by mortgage fraud and world-record interest-only lending, mortgages have been anything but risk-free, and the price falls experienced so far would be close to wiping out the collateral backing up what little capital the banks have—hence the desperation to drive prices back up.

On top of that, the banks have more than $300 billion in 90-day overseas borrowings they cannot repay and so must constantly roll over—the same vulnerability that forced the Rudd government to rescue them with guarantees in 2008—and an eye-watering $48.7 trillion exposure to risky derivatives, which has skyrocketed by more than $10 trillion in the first half of this year.

All of these risks are now in play. Don’t expect the authorities to be honest about the crisis: housing industry analyst Joseph Walker reported on 27 September that Treasury documents released to him under Freedom of Information revealed that back in 2008, the Rudd government boosted the First Home Owner Grant “to prevent the collapse of the housing market”. This means that the authorities believed that the warnings of economist Steve Keen, banking and real estate analyst Martin North (then at JPMorgan-Fujitsu Consulting), and the Citizens Electoral Council were coming true, but at the time, they lied about their response, denying the crisis and claiming the boost was to improve housing affordability. That policy succeeded in temporarily reinflating the housing bubble, but all they achieved was a postponement of the inevitable crash; the price falls in the last 18 months are much larger than the 7 per cent fall in 2008, and nothing has worked to reverse them—is this where the can has stopped?

Over many years the CEC has developed a policy program to address this crisis, including:

- a Glass-Steagall separation of normal banking from derivatives and all other forms of speculation;
- a national bank, owned and controlled by the Commonwealth, to oversee an orderly reorganisation of the banking system in the crisis, and to direct public credit into a restructuring of the economy away from property speculation and financial services, to productive infrastructure and industries; and
- a moratorium on foreclosures of family homes and family farms.

These reforms are more urgent than ever—join the CEC to fight for them.

Click here to sign the CEC’s petition against bail-in: Hands off our bank deposits—stop bail-in!

Click here for a free copy of the latest issue of the *Australian Alert Service*.