

Question and Answer Summary

Sydney Residential Property - Bubble or Bubbling Along?

The ABE forum had been gripping and time did not allow more than a few of the questions the audience would have liked to ask. Nevertheless, the Q & A did include the following comments:

Mark Bouris clarified that 'another 1.5% on interest rates would be as damaging as double digits were in the early 1990s' and 'even without further interest rate rises, the investor market is going to be set back by higher mortgage insurance premiums and higher credit-risk-related interest charges'.

David Rees observed that the average Sydney price rose from 5x average earnings to 10x over the last 20 years, just as average P/Es had risen from single to high double digits, and asked rhetorically whether we thought this could happen again. He told us all that we knew (as economists) where wealth was to be created in the next two decades. Right!

Ross Gittins kindly answered my question about the political fallout from a period of falling house prices. Apparently the pollies haven't woken up yet, but won't like it when it happens. This puts the RBA in a delicate position. [Doubtless astride a barbed wire fence.]

In response to another question from the audience, Mark Bouris confirmed that the press has an enormous responsibility for market developments, both on the upside and on the downside, since the market was informed by (at best) the grabs in the tabloids and the top-rating programs like Hot Property and Auction, Auction, Auction[?]. This prompted Ross Gittins to remind the audience that some market participants were very hungry for their story to be covered in the media.

In summing up and thanking our three wise men, our chairman recalled that in the late-1980s he had seen a 105% LVR advertised, 'to help with out-of-pocket expenses'. He also passed on the sad news that very eminent US economist, Rudi Dornbusch, had recently died, and put on the record the ABE's gratitude to Rudi for speaking at a private committee dinner last year.

Alex Erskine

For a more detailed review of the function by Alex and debate on the residential property bubble debate, Alex suggests that you visit the Henry Thornton website at

<http://www.henrythornton.com/article.asp?viewArticleID=385>