

Australia's Real Estate Bubble – early 2011, late 2010 statistics

The quotes below were taken from John Mauldin's book, *Endgame*.

“Australia was one of the few countries in the world where house prices made new highs following the Great Financial Crisis, and its housing market is in nosebleed territory.”

“... we think Australia may turn out to be one of the biggest bubble implosions yet seen.”

China imports a vast amounts of commodities from Australia. That's what's kept the economy ticking over at its current rate.

“The rise in Australian house prices is extreme no matter how you look at it: price to income, rental yields, whatever. The Economist House Price Index shows that Australian housing is 63% overvalued.”

“Fully half of investors have interest-only mortgages, and the number for owner-occupiers is 30% ... Australia may not have the terrible securitization issues the United States had, but its housing presents far worse fundamentals.”

“The weak link in the Australian economy is the banking sector. It is this that will exacerbate any fallout in the property market. It is, of course, the banks that have helped fuel Australia's property bubble.”

“Australia's banking sector also has the highest loan-to-deposit ratio on the G20, with more than \$180 of loans made for every \$100 of deposits. Consequently, Australia relies heavily on wholesale funding provided by other banks or large institutions. The major Australian banks get more than 40% of their funding from abroad, and roughly half of that is short-term. The shorter-term the debt is, the more frequently it needs to be rolled over (renewed), and, therefore, there are more opportunities for a lender not to extend credit.”

“The problem with wholesale funding is it can vanish very rapidly at the merest hint of trouble.”

“Any problem in the property market would be catastrophic for the banks. The multiplier effects – where banks freeze their lending as they race to salvage their balance sheets, damaging the economy further and causing yet another wave of asset write-downs – would be severe.”

“Australia is a house of cards. We are confident the bubble will burst and that it will be spectacular, but we do not know what will provide the spark.”

“The most obvious catalyst is a slowdown in China.”

“Australia never experienced an economic slowdown to speak of in the aftermath of the financial crisis. Economies that did, and that is most of them, have had at least some chance to release some of the pressure built up by the imbalances of the previous decades (even if many are implementing policies that will help build some of these imbalances back up again). .. Thus, Australia's endgame, when it happens, is likely to be all the more spectacular.