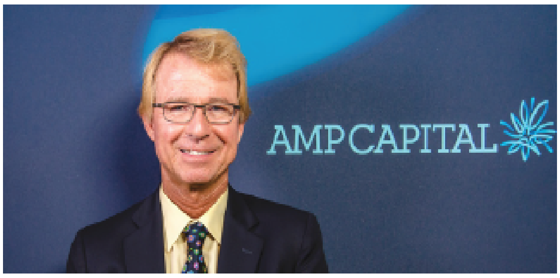
WHY AUSTRALIAN PROPERTY WON'T COLLAPSE



Stronger than feared profit results and reasonable economic data in Australia, which are consistent with a rebalancing of the economy away from mining, are among the factors steering Australia away from a recession. Shane Oliver discusses this, along with the risk of a property crash and Australia's declining negative gearing numbers.

Australian property update – negative gearing numbers

Declining tax claims due to negative gearing in Australia are largely a result of low interest rates relative to rental yields. In other words, the benefit of negative gearing has somewhat declined. There is a broader issue at play however, which is the political debate proposing to restrict negative gearing tax concessions to only new properties.

Are we heading for a property market crash?

Australian housing is expensive relative to incomes and rents. And household debt ratios are high. So yes, there is a risk of a sharp drop in property prices at some point. However, this is unlikely unless we see much higher interest rates or a surge in unemployment in the context of a recession. The foresight of the Reserve Bank and what has so far been a successful rebalancing of the economy in the face of the mining downturn mean that both of these scenarios seem unlikely at present. We're going to see a 5-10% fall in property prices at some point in the next few years but at this stage it's unlikely that we're going to see a property crash.