

Data Set Analysis

A Review of Assumptions That May Impact on the “Business Case” for the Implementation of the “Australian Financial Services License (AFSL)” Strategy by The National Housing Affordability Consortium (NAHC)

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January 2016



INTRODUCTION

The National Affordable Housing Consortium (NAHC) as part of its strategy for future growth is investigating the acquisition of an Australian Financial Services License (AFSL).

To Provide the Board of NAHC some guidance in the decision process this paper has been prepared to identify a number of the key assumptions which may impact on the business case and to provide a number of independent “data set sources”.

The data set sources reviewed in general are those provided by the Australian Bureau of Statistics (ABS), the Reserve Bank of Australia (RBA) and various Australian industry commentators.

This paper should be reviewed in conjunction with the business case prepared by the NAHC management team and its independent consultants and the due diligence report prepared by Professor Michael Regan.

A final observation is that the data sets reviewed reflect in general the situation in the final quarter of 2015 and the potential impacts of recent economic activity (January 2016) should be monitored in the coming months.

Key Factors

The potential acquisition of an AFSL is associated with a number of initiatives in the NAHC future strategy, but the major theme is to provide equitable and affordable housing pathways to lower income households.

Given this theme the key factors to successes reviewed in this paper are:

1. The attractiveness to lower income households to participate in opportunities associated with NAHC’s acquisition of an AFSL
2. The initial and long term affordability of households participating in NAHC initiatives

To address these key factors this paper provides independent source data and analysis in the following categories:

Reviewed Categories

1. Employment/unemployment
2. Household income, expenditure, saving and debt
3. Interest rates
4. Inflation rates
5. Capital formation rates
6. Economic growth
7. Government revenue and expenditure

Data Sets Links and Observation

Before summarising the finding of the data set review the paper makes the following observation:

“Macroeconomic modeling is notoriously unreliable so the linkages we have identified in this paper are at best correlations”.

Current Ratios and Forecasts

Introduction

The ratios cited below have been abstracted from various Australian Bureau of Statistics (ABS) publications as noted and industry commentators.

In the paper future forecasts have been abstracted from various reports, which in general use an integrated moving average model, in which they use past behavior, which integrates historical data and adjust the coefficients of the econometric model by taking into account various future expectations.

Interest Rates (RBA)

The Reserve Bank of Australia in December 2015 left the cash rate unchanged at a record low of 2 percent during its recent meeting. It indicated that Inflation may leave some scope for a further easing of monetary policy should that be appropriate to lend support to demand. It also indicated with recent domestic data being positive, policymakers were confident that very low interest rates were supporting growth in household consumption and dwelling investment. The exchange rate was also adjusting to the significant declines in key commodity prices and boosting demand for domestic production.

The interest rates in Australia has averaged 4.99 percent from 1990 until 2015, reaching an all time high of 17.50 percent in January of 1990 and a record low of 2 percent in May of 2015.

Current data (RBA)

Current Rate:	2.00%
Estimated end of 2020 Rate	3.50%
Variance Value	1.50%
Variance %	75%

Unemployment (ABS 6248)

The unemployment rate in Australia is 5.90% and a basket of analysts, estimate unemployment rate in Australia to trend towards around 6.20 percent in 2020.

Current data

Current Rate:	5.90%
Estimated end of 2020 Rate	6.20%
Variance Value	0.30%
Variance %	5.1%

Employment Rates (ABS 6248)

The labor force participation rate in Australia is approximately 61 percent and various external analysts have an expectation, looking forward that it will remain static over the period 2016 to 2020.

Current data

Current Rate:	6.24%
Estimated end of 2020 Rate	6.30%
Variance Value	0.06%
Variance %	0.01%

Australia Inflation Rate (ABS 6401)

Consumer prices in Australia rose 1.5 percent through the year 2015, which was below market consensus. The reasons for this has been stated by various external analysts as:

“An increase in cost of housing and a slower drop in cost of transport offset a sharp slowdown in prices of food and non-alcoholic beverages.”

A brief summary of inflation rates in Australia is

Australian inflation has averaged 5.16 percent from 1951 until 2015, reaching an all time high of 23.90 percent in the fourth quarter of 1951 and a record low of -1.30 percent in the second quarter of 1962. In Australia, the most important categories in the consumer price index are housing (22.3 percent of

the total weight), food and non-alcoholic beverages (16.8 percent), recreation and culture (12.6 percent), transport (11.6 percent), furnishings, household equipment and services (9.1 percent), alcohol and tobacco (7.1 percent), health (5.3 percent) and insurance and financial services (5.1 percent). Clothing and footwear, education and communication account for remaining 10.2 percent of total weight.

Current data

Current Rate:	2.20%
Estimated end of 2020 Rate	3.80%
Variance Value	1.60%
Variance %	72.73%

Wage Growth (ABS 5206)

Australian wage growth by the end of 2015 was expected to be 2.51%, with the long-term trend expected to be around 2.96% in 2020.

Current data

Current:	2.51%
Estimated end of 2020:	2.96%
Variance Value	0.45%
Variance %	17.93%

Australia Disposable Personal Income (ABS 6523)

Disposable personal income in Australia is estimated to be \$286,956 million at the end of 2015. Looking forward, it is estimated at \$297,569 million in 12 months' time. In the long-term, the Australia Disposable Personal Income is projected to trend around \$358,436 million in 2020.

Current data

Current:	\$286,956 million
Estimated end of 2020:	\$358,436 million
Variance Value	\$71,479 million
Variance %	24.91%

Australia Consumer Spending (ABS 5232)

Consumer Spending in Australia is estimated to be 231,628 million (Jan2016), and based on long-term trends, Australia consumer spending is projected to around 262,260 million in 2020.

Current data

Current:	\$231,628 million
Estimated end of 2020:	\$262,260 million
Variance Value	\$30,634 million
Variance %	13.23%

Australia Consumer Credit (6467, 5609)

Consumer Credit in Australia was expected to be \$2,468,225 million by the end of 2015, and \$2,590,931 by the end 2016. In the long-term, Australian Consumer Credit is projected to trend around \$3,153,182 million in 2020.

Current data

Current:	\$2,468,225 million
Estimated end of 2020:	\$3,153,182 million
Variance Value	\$684,956 million
Variance %	27.75%

Australia Household Saving (6467, 5609)

Personal Savings ratios in Australia are forecast to be 8.95 percent by the end 2015, with the long-term, ratio trending to around 8.91 percent in 2020.

Current data

Current:	8.95%
Estimated end of 2020:	8.91%
Variance Value	(0.04%)
Variance %	(0.05%)

Australian Government Expenditure (5518)

Government Spending in Australia were expected to be \$73,895 million by the end of 2015 with the long-term trend expected to be around \$81,176 million in 2020.

Current data

Current:	\$73,895 million
Estimated end of 2020:	\$81,176 million
Variance Value	\$7,281 million
Variance %	9.85%

Australian Government Revenues (5518)

Government Revenues in Australia were expected to be \$28,702 million by the end of 2015, with the long-term trend expected to be around \$32,694 million in 2020.

Current data

Current:	\$28,702 million
Estimated end of 2020:	\$32,694million
Variance Value	\$3,992 million
Variance %	13.91%

Australian Gross Fixed Capital Formation (5519)

Gross Fixed Capital Formation in Australia is forecast to be \$106,390 million by the end of 2015, with the long-term trend expected to be around \$122,800 million in 2020.

Current data

Current:	\$106,390 million
Estimated end of 2020:	\$122,800 million
Variance Value	\$16,410 million
Variance %	15.43%

Australian Dollar (6457)

The Australian Dollar was expected to trade at 0.70 (to the Dollar, USA) by the end of 2015, with the long-term trend expected to be around 0.85 in 2020.

Current data

Current:	0.70
Estimated end of 2020:	0.85
Variance Value	0.15
Variance %	21.43%

Table 1: Summary of Economic Indicators

Indicator	Current	4/Q/2020	Variance Current to 2020(Value)	Variance Current to 2020(%)
Interest Rates	2.0%	3.5%	1.5%	75%
Unemployment	5.9%	6.2%	0.3%	5.1%
Employment Rates	61.24%	61.3%	0.06%	0.01%
Inflation Rate	2.2%	3.8%	1.60%	72.73%
Wages Growth	2.51%	2.96%	0.45%	17.93%
Personal Income	\$286,957M	\$358,436M	\$71,479M	24.91%
Gross Capital formation	\$106,390M	\$122,800M	\$16,410M	15.43%
Household Debt to GDP	126%	135%	9%	7.14%
National GDP Growth	0.8%	0.77%	-0.03%	-3.75%
Personal Saving Rates	8.95%	8.91%	-0.04%	-0.05%
Consumer Spending	\$231,628M	\$262,262M	\$30,634M	13.23%
Consumer Credit	\$2,468,226M	\$3,153,182M	\$684,956M	27.75%
Government Revenue	\$28,702M	\$32,694M	\$3,992M	13.91%
Government Spending	\$73,895M	\$81,176M	\$7,281M	9.85%
Exchange rates (AUD to USA)	0.7%	0.85%	0.15%	21.43%

Conclusions

Based on the data sets above the key observations are

1. Interest rates are not expected to rise to the levels experience during the early 1990's but to cap at around 3.5% by 2020
2. Employment and unemployment rates are forecast to remain stable during the forecast period (2016-2020)
3. Inflation rates are expected to cap at around 3.80% in 2020, from the current rate of 2.2%
4. Income growth will continue to sit in the mid 2% to high 2% range

One area of concern is the continuing rise in household debt, which is expected to grow by 9% during the 2016-2020 period.