



MASTER BUILDERS
A U S T R A L I A

3 February 2021
Committee Secretariat
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600
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Dear Manager

RE: Submission on National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020

Master Builders Australia welcomes the opportunity to provide its views on the proposed amendment to the National Consumer Credit Protection Bill to the Economics Legislation Committee.

In short, Master Builders Australia supports the proposed amendments.

We are of the view that the proposed amendments will deliver a smoother and more timely flow of credit to the housing market yet still retaining important safeguards to ensure consumer protection. It is vital that a balance is struck between laws that protect consumers and enabling access to finance without onerous restrictions. Master Builders is of the view that the laws are currently unbalanced to the detriment of consumers and the economy.

There are other important reasons why these changes should be proceed.

At present, it is planned that HomeBuilder and several other important economic stimulus measures will be phased out during the first half of 2021. Once this happens, underlying demand for residential building work will enter into a very challenging phase. Inward migration and full-time employment are two of the most important factors in determining the demand for residential building. The effective cessation of inward migration to Australia since March 2020 has deprived the housing market of its single-most important stream of first home buyers, new renters and new investors. Thus far, HomeBuilder has insulated residential building activity from the shock represented by the suspension of inward migration. (see Appendix below for a full summary of the latest forecasts from Master Builders Australia). However, once HomeBuilder is phased out, new home building activity will be fully exposed



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to the absence of demand from migrants that would have come to live in Australia had circumstances been more favourable.

This problem is compounded by the fact that our economy has suffered the loss of a huge number of full-time jobs over the past year. While employment has been enjoying a recovery over recent months, the latest figures still show that over 125,000 full-time jobs were lost between February and December 2020. Those working full-time account for a disproportionately large component of demand for residential building work. Treasury's latest economic projections which were published in December's *Mid-Year Economic & Fiscal Outlook* anticipate that the labour market's recovery from the pandemic will be a slow and lengthy one, with the unemployment rate projected to still be well above 6 per cent at the end of its forecast horizon (in the June 2022 quarter). The sharp drop in full-time employment is going to exacerbate the difficulties created by the pause in inward migration described above.

The situation with migration and employment means that two of the most important pillars of demand for new home building work are in a very compromised state. This unfavourable situation would be partly remedied by bolstering the flow of credit to households, an objective which we believe the proposed amendments to the legislation would help achieve. While improving the flow of credit is unlikely to fully compensate for the detrimental state of migration and employment, it would still represent a very helpful intervention in terms of bolstering the demand for new home building and major renovations projects.

Over the short term, Master Builders Australia believes that the benefits of the HomeBuilder scheme would be magnified by the introduction of the proposed amendments. Because these changes would speed up the process of credit approval for households wishing to undertake building work, a larger set of building jobs would be able to fit into the timeframe for HomeBuilder eligibility. The current timeframe means that no contracts signed after 1st April 2021 will be eligible for the \$15,000 HomeBuilder grant. However, a faster process for loan approval would expand the range of contracts which could be signed off on before the end of March. The commencement of these jobs would continue all the way to the end of September with the completion of some HomeBuilder-supported projects taking us well into 2022.

Thank you for the opportunity to make a submission. Should you have any questions or seek further information please contact Shane Garrett on [REDACTED] or at: [REDACTED]

Yours sincerely

Shane Garrett

Chief Economist

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Appendix: Summary of latest Master Builders Australia forecasts for new home building

Our latest forecasts for new home building activity were published in December 2020 and are based on a similar set of economic assumptions to those which underpin the projections published the 2020-21 Federal Budget which was released in early October 2020. Our forecasts also assume that the timeframe around several key government supports continues as planned, namely:

- The HomeBuilder grant is phased out at the end of March;
- JobKeeper will cease completely in late March 2021.

In terms of our forecasts, monthly results for building approvals and home lending indicate that HomeBuilder has had a strongly favourable effect on new detached house building and major home renovations works. The extension of HomeBuilder to 31 March 2021 and the relaxation of some of its restrictions around price caps and commencement timeframes means that HomeBuilder-supported new home starts will continue up until the end of September 2021 with the completion of some of the work occurring up until the early months of 2022.

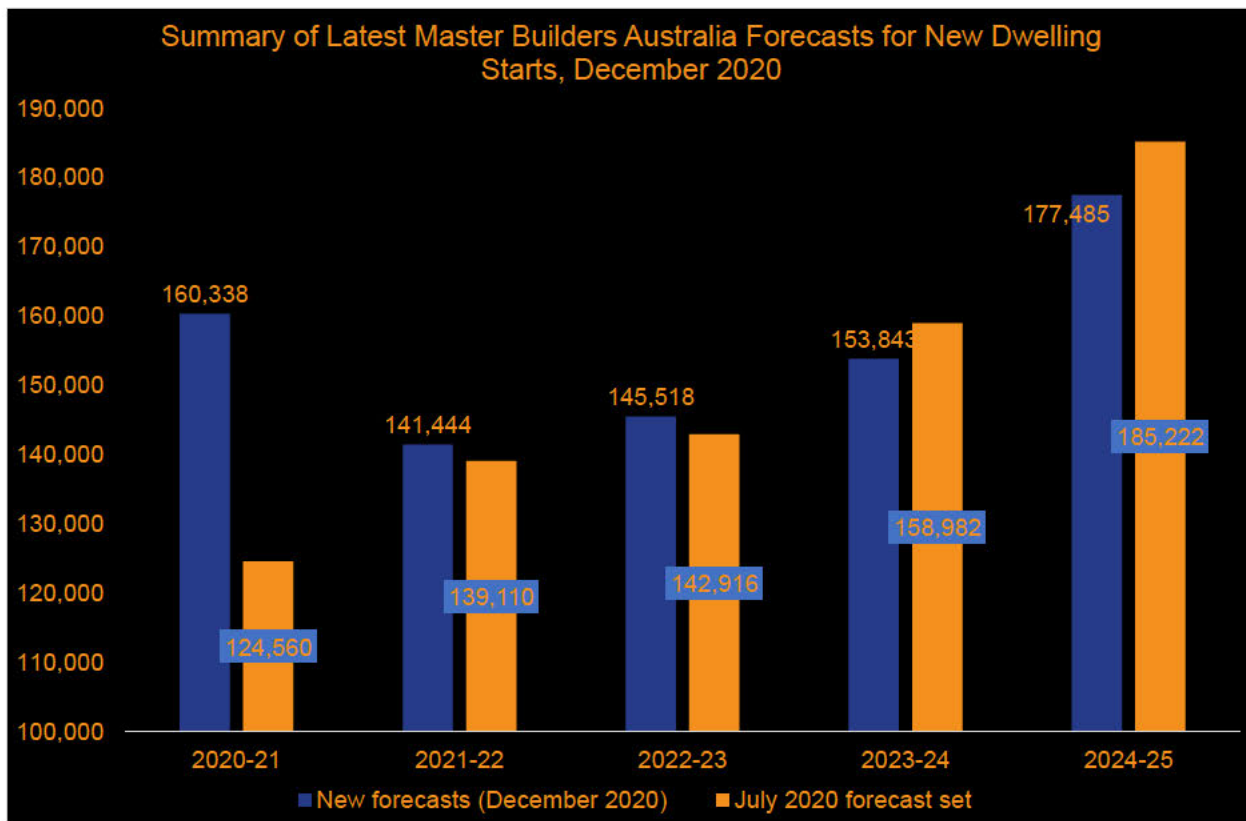
From the point of view of housing demand, inward migration from overseas has the biggest influence. As outlined in the Federal Budget, permanent departures from Australia will significantly exceed arrivals during both 2020-21 and 2021-22, and this will have a very unfavourable effect on underlying demand for new home building. Official data for the June 2020 quarter indicate that there was net emigration from Australia equivalent to a loss of almost 6,000 residents. This marks the first time Australia's population has lost people to emigration since World War II.

While net inward migration is expected to recover back to positive territory towards the middle of the decade, the size of the inflow will still be much lower than it would have been in the absence of the pandemic. This is because the damage suffered by our labour market due to COVID-19 will limit the capacity for the economy to absorb migration labour on the same scale as before.

Our forecasts envisage that the demand for high density housing will be hurt most badly by the retreat of overseas migration. This is because newly-arrived migrants to Australia tend to rely on the rental market for their housing needs, an area where the concentration of apartments and units is much heavier. At the same time, latest data indicate that HomeBuilder's benefits are not being felt in the high-density part of the new home building market.

The chart below compares the latest set of Master Builders forecasts for new home building with those produced in July 2020, at a time when HomeBuilder was still in the early stages of roll out. The impact of HomeBuilder looks to be strongly favourable over the short term, with new home building starts likely to total 160,338 during 2020-21. This volume of output is 28.7 per cent higher than what we projected in July.





The table below provides a more detailed comparison of the latest set of forecasts with those produced in July 2020. The interlinkage between residential building and activity in other parts of the economy is very strong, so the uplift in new home building resulting from HomeBuilder is having strongly positive effects on areas of the economy outside of the construction industry.

Total new dwelling starts: comparison of current and previous Master Builders forecasts (December 2020)						
	2020-21	2021-22	2022-23	2023-24	2024-25	Five-year total (from 2020-21 to 2024-25)
Latest set of forecasts (December 2020)	160,338	141,444	145,518	153,843	177,485	778,628
July 2020 set of Master Builders forecasts	124,560	139,110	142,916	158,982	185,222	750,790
Upgrade in forecast number of new dwelling starts	+35,778	+2,334	+2,602	-5,139	-7,737	+27,838
Value of forecast upgrade (\$ millions)	+\$11,864.1	+\$773.8	+\$882.9	-\$1,704.2	-\$2,565.5	+\$9,231.1
Estimated impact of home building forecast uplift on total employment across the economy	+106,777	+6,964	+7,766	-15,338	-23,089	+83,080
-of which building and construction jobs	+59,321	+3,869	+4,314	-8,521	-12,827	+46,156
Number of building and construction businesses supported	+19,902	+1,298	+1,447	-2,859	-4,304	+15,485

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0) and MHFIC (2020). Building jobs: how residential construction drives the economy.

Due to the largely favourable flow of developments since the middle of 2020, we now expect that almost 28,000 more new homes will be built across Australia over the years to 2024-25 compared with what we anticipated back in July.



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The lift to activity is likely to be front loaded, meaning that the 2020-21 year in particular is set to be much stronger than expected back in July. We have also upgraded our forecasts for new home building in 2021-22 and 2022-23.

The 'drag forward' of demand brought about by the major package of incentives on offer at present means that our expectations for new home building in 2023-24 and 2024-25 are a bit lower than before.

The National Housing Finance & Investment Corporation (NHFIC) recently estimated that every \$1 million worth of residential building activity supports about 9 jobs right across the Australian economy, including about 5 jobs in the construction industry. Accordingly:

- The \$9.23 billion uplift in our forecasts for new residential building activity over the period to 2024-25 is likely to benefit the entire labour market to the tune of about 83,000 jobs over the five-year period;
- Construction employment is likely to be about 46,000 higher as a result of the upgrade to our forecasts;
- The stronger expectations for new residential building activity is likely to sustain 15,485 more construction businesses across the economy compared with what we anticipated at the time of our July 2020 forecasts.

