

[Home](#) / [News](#) / [Economy](#)

Jun 7 2017 at 6:30 PM | Updated Jun 7 2017 at 6:30 PM

[Save Article](#) | [Print](#) | [License Article](#)

## OECD says large decline in house prices 'the single largest domestic risk'



House prices in some markets are still rising despite the use of macro-prudential tools. **Glenn Hunt**



by [Misa Han](#)

A large decline in house prices from current elevated levels poses the "single largest domestic risk" for the Australian economy, according to the Organisation for Economic Co-Operation and Development.

In its June economic outlook report, the OECD flagged the possibility of a sharp fall in house prices as the major risk factor for the economy and said that, if it eventuates, such a drop could reduce household wealth and consumption and damage the construction sector, leading to significant job losses.

The OECD noted that house prices in some markets are still rising despite the use of macro-prudential tools and that could prompt the central bank to tighten cash rate towards the end of the year.

"House prices in some markets, already very high, are still rising fast despite macro-prudential tightening," the OECD said in the report.

### Related articles

[How much did Alan Greenspan really know?](#)

[Chinese economy proving resilient](#)

[Property investors drunk on 'wealth effect'](#)

**This chart shows imminent boost from capital spending**

**Gorman tells Trump to lose the training wheels**

---

## Latest Stories



**Uber mess shows fragility of new economy**  
3 mins ago



**'There's no doubt the market has eased'**  
33 mins ago



**Fremantle Octopus eyes ASX listing**  
45 mins ago

[More](#)

The organisation said that it expects the Australian central bank will start lifting rates in the second half of 2017, which will take some heat off house prices. This is at odds with market pricing, which has the cash rate staying at 1.5 per cent through December. On Tuesday, the Reserve Bank of Australia left the [cash rate on hold at 1.5 per cent](#).

"Policy tightening is projected to begin towards the end of 2017 with output recovery. The tighter policy stance will ease pressures on house prices, and will forestall the build-up of other financial distortions that can accompany a sustained low-interest rate environment," it said.

But the OECD said higher interest rates alone will not be enough to address high house prices and household debt.

"High house prices and household debt still pose macroeconomic and financial risks, which call for continued use of macro-prudential tools," it said.

In March, the Australian Prudential Regulation Authority [strengthened macroprudential policies against the banks](#) by limiting the flow of new interest-only lending to 30 per cent of total new residential mortgage lending and placing internal limits on the volume of interest-only lending at loan-to-value ratios (LVRs) above 80 per cent.

The OECD's prediction assumes the economy will grow by 2.9 per cent in 2018 due to recovery in mining investment, new LNG production, and growing investment in

non-mining sectors.

The organisation also called on Australia to make greater use of efficient tax bases, such as GST and land tax, and warned the recent overhaul of 457 visas could "compromise Australia's access to the global talent pool".

## Recommended



**The dark side of leadership: Five reasons power corrupts**



**Glencore lobs \$2.5bn bid for Rio Tinto coal**



**'Airbnb took from us, we will take from them':...**



**Aston Martin may sell shares, seek listing in London next...**



**Slowest growth rate since 2009 seen as a great result**

## From Around the Web



**Vanguard's Jack Bogle says ignore the crowd and stick...**



**Over open-plan offices? Here's who to blame**



**The silent damage from drinking moderately down the decades**



**Not viable, Corporate Tax Association says**



**Qatar paid \$1.35bn to 'jihadis' in hostage deal**

powered by [plista](#)

## Special Reports

The 'magic is in the supply chain'

Jac Nasser on 30 years at the top

Average rich lister worth \$1.16b

Yenda Lee doesn't sweat the small stuff

Paul Little bought a plane for \$1

Graham Kerr chases value at South32

Telstra's transition from telco to tech services

How design firm Geyer transformed the workplace

Who will be China's next tech fairy tale?

The entrepreneurs vying to be China's next Jack Ma

This man's the toast of Tasmania

The handbag that's taken Australia by storm

Feel lavish, look fabulous with these winter treats

Why skincare should be more like fine dining

The answer to your real estate dreams

Multiple challenges for super funds

The merger option for small super funds

Australia's world class retirement income scheme

Preparing for the 8000 days of retirement

Smaller super funds should consider partnerships

The Australian Financial Review  
www.afr.com.au

### My Premium AFR

- [My Alerts Create alert](#)
- [Portfolio](#)
- [Account](#)
- [My Saved Articles \(2\)](#)

### Subscription Terms

- [Digital Subscription Terms](#)
- [Newspaper Subscription Terms](#)
- [Corporate Subscriptions](#)

### Contact & Feedback

- [About us](#)
- [Our Events](#)
- [FAQ](#)
- [Contact us](#)
- [Letters to the Editor](#)
- [Give feedback](#)
- [Advertise](#)
- [Site Map](#)
- [Accessibility](#)

### Markets Data

- [Markets Overview](#)
- [World Equities](#)
- [Commodities](#)
- [Currencies](#)
- [Derivatives](#)
- [Interest Rates](#)
- [Share Tables](#)

### Brands

- [The Australian Financial Review Magazine](#)
- [BOSS](#)
- [AFR Lists](#)
- [Chanticleer](#)
- [Luxury](#)
- [Rear Window](#)
- [The Sophisticated Traveller](#)