



Real talk on cost of living

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Committee
for
Sydney



Introduction

We are going to hear a lot about the cost of living over the coming weeks and months.

Inflation is running at 3.5%, and could go as high as 5% this year, which would be the highest level since the global financial crisis.

The federal election looks set to focus on cost of living as one of its major themes.

In all likelihood, the same will be true for the NSW election next year.

What's behind this issue, and what if anything can we do about it?

Key points

1. The underlying causes of inflation are global
2. Housing costs are the biggest economic problem facing Sydney
3. What can government do about it?
4. How to deliver real affordability.

1. Underlying causes of inflation are global

Covid-19 has massively disrupted supply chains.

Shipping containers are stuck in China and cargo ships are backed up in the US and Europe. A global chip shortage is constricting the supply of new cars, consumer electronics, household appliances and LEDs.

Now, war in Ukraine is upending global food and energy markets.

The shortage of corn and wheat caused by war has pushed up the price of food staples. Sanctions on the import of Russian oil and natural gas has pushed up the price of fuels worldwide.

At the same time, every country in the developed world borrowed massively to stimulate its economy, so we have a globally synchronised economic boom.

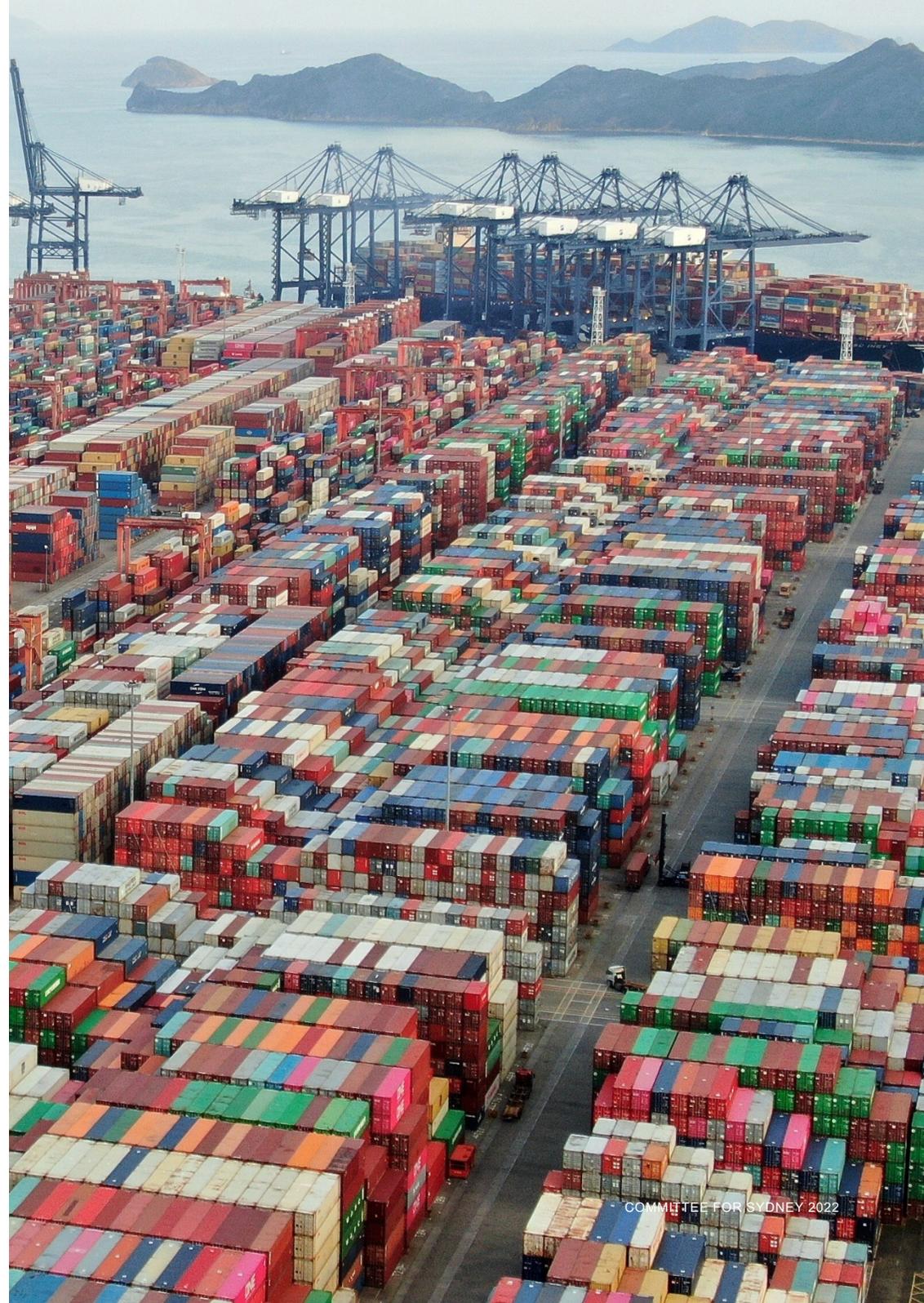
The results have been largely beneficial. Unemployment is low, and in many countries, poverty hit historic lows during the Covid-19 pandemic.

But the downside, of course, is inflation.

We know from the headlines that groceries and petrol are getting more expensive.

But there is now so much price inflation across so many sectors of the global economy that almost everything is getting more expensive.

Image source: – [South China Morning Post](#)



2. Housing costs are the biggest economic problem facing Sydney

Home prices in Sydney have gone up by 23.7% since March 2021. But the longer term view reveals the problem of housing costs has been a long time in the making.

While homeowners (roughly 60% of the population) may want the cost of housing to remain high, young people and low to middle income families are being locked out of future home ownership.

Without a major change to housing price dynamics, Australia is sleepwalking into a permanent class divide, where only those who inherit wealth are able to obtain the security of home ownership.

Federal policy settings in Australia are mostly to blame for this. Negative gearing and the capital gains tax discount draws investment into rental properties rather than the 'real' economy.

If we want to increase rates of home ownership, that means decreasing rates of investment property ownership.

State policy settings are also to blame, with a long-term, chronic undersupply of housing at all levels.

The process for getting permission to build housing is fraught. Only 30% of homes in NSW are approved via a complying development pathway, compared to 70% in Queensland.

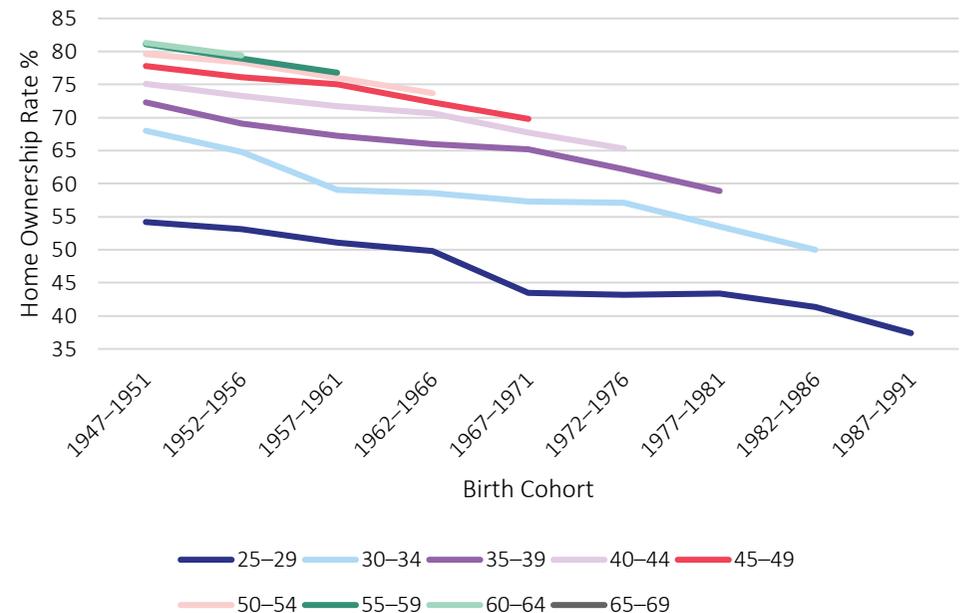
At the same time, there has been a failure to invest in social and affordable housing, such that it now makes up just 4% of the housing stock in Sydney, compared to upwards of 10% in other global cities.

Inflation of consumer goods and of housing costs do share some causes like low interest rates. But for the most part, the solutions will be distinct.

Consumer price inflation can be tamed by a combination of raising interest rates in Australia and global supply chains gradually being restored. But housing costs will be a more difficult, longer-term problem to solve.

Home ownership rate by birth cohort and age group

Over the last 60 years home ownership rates in Australia have declined for all age groups, but young people are most affected.



3. What can government do about it?

A lot, actually.

The RBA is going to raise interest rates, as will pretty much every reserve bank in the world. That will eventually tame broad-based inflation. The trick is whether they can do it without causing a recession.

The federal government has powerful levers to help with long term housing affordability.

Chief among them is the ability to reform the tax structure so owning one home to live in is advantaged over the status quo, which has made homes an investment class, driving up prices and locking out new potential home owners.

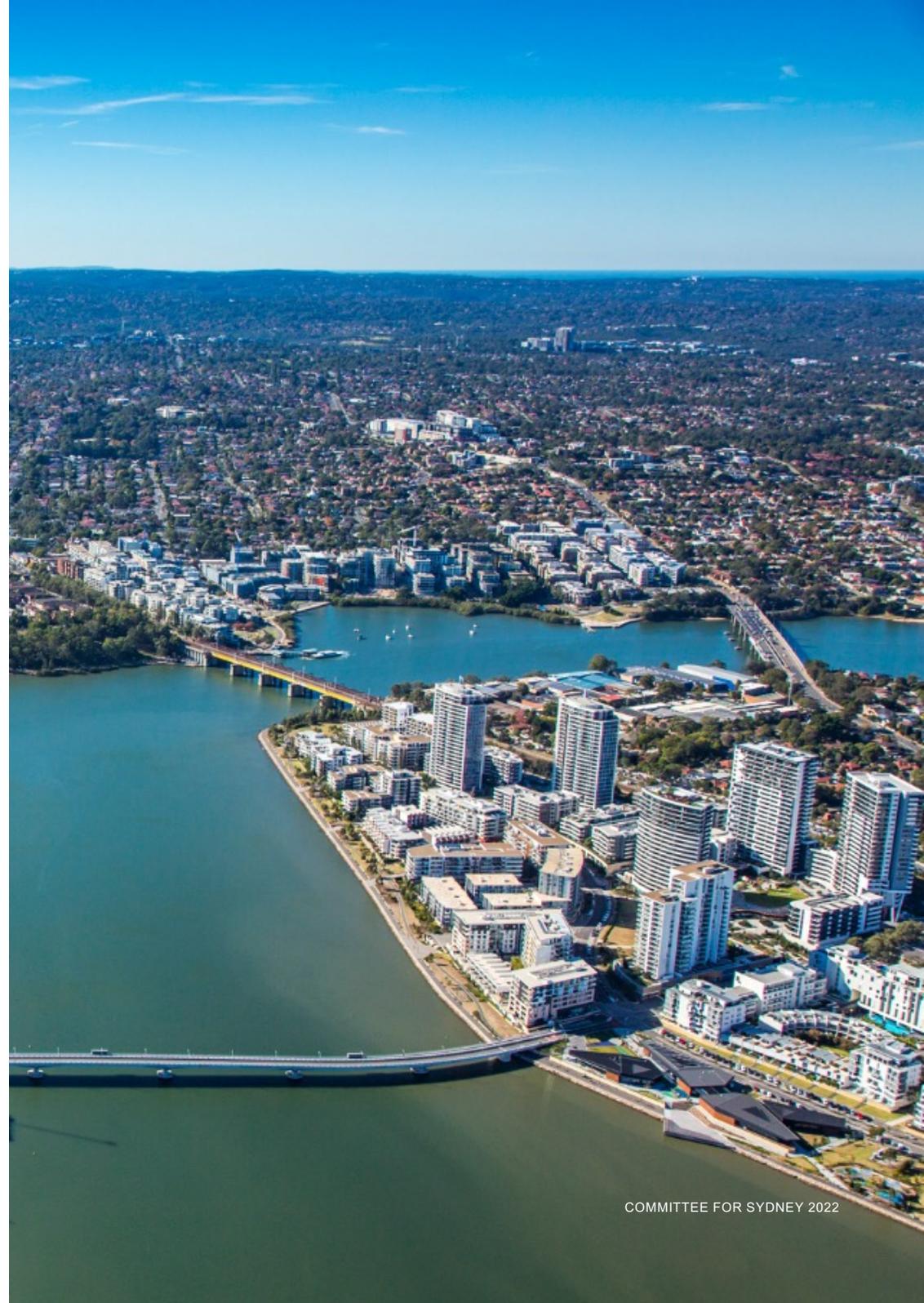
Both federal and state governments should step up to their responsibility to fund a real social and affordable housing program.

NSW has all the tools it needs to deal with the structural shortage of supply. We believe one of the best solutions is to increase development around rail stations – this will be the subject of the next major policy paper from the Committee.

Election-year grants to households or toll refunds are not going to help with the real problem.

What we need is a real long-term strategy to make Sydney more affordable.

Image source: – *Billbergia Rhodes*



4. How to deliver real affordability

The quick fix is to approve lots of housing on greenfield sites on the outskirts of Sydney. This would be a mistake.

The affordability of living far from jobs in spread-out greenfield suburbs is illusory. The traditional post-War development pattern locks households into permanent high spending on transport, as every adult needs their own car. This forces people into paying large amounts for petrol each week and spending a disproportionate amount of time commuting. Many of these homes are expensive to cool and expensive to heat.

If greenfield development is in the floodplain, the problem is even worse. What appears to be a bargain is actually putting Sydney households at risk of losing everything. On top of this, they will not be able to obtain affordable home insurance.

Deep affordability comes from living in a complete neighbourhood, where many trips can be taken for free (by walking and cycling) or low cost (by public transport).

We need a transport strategy that ends car dependence at scale. That means continuing to invest in building out Sydney Metro and creating a complete network of physically separated cycleways across Greater Sydney.

We need a planning strategy that delivers walkable communities at scale. That means overcoming the long-term housing supply shortage while being smart about the location and format of housing. The best planning strategy is to cluster development around rail stations in mixed use, walkable formats.

Those are the approaches that will provide deep affordability.





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