



“Why increase the First Home Owners Grant?”

A position paper

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Introduction

Recent media reports¹ have suggested that the State Government is actively considering a proposal from Housing Minister Troy Buswell to almost treble the allowance made under the First Home Owners Grant Scheme (FHOG) from \$7,000 to \$20,000. CHCWA assumes that the content of those media reports is credible.

The First Home Owners Grant was commenced on 1 July, 2000, by the Commonwealth Government and has been kept in place by successive governments. Former Prime Minister John Howard introduced the grants in 2000 to boost a slumping housing market.² Eligible applicants are entitled to a one-off \$7,000 grant providing they meet the Scheme's eligibility criteria.³ All States and Territories provide the grant under broadly uniform arrangements agreed with the Federal Government.⁴

The Community Housing Coalition of Western Australia (CHCWA) is the peak body for community housing providers in Western Australia. CHCWA's primary role is to support the development of community housing in WA, working with Federal, State and Local Governments to increase the provision of community housing, assisting providers to tackle homelessness and by providing a range of training and development opportunities designed to enhance the Community Housing Sector's ability to deliver quality outcomes. CHCWA also provides comment on policy issues that affect broader housing affordability in Western Australia because of the intrinsic link between the cost of accessing housing in the private market and demand for social and affordable housing.

CHCWA believes that increasing the allowance offered under the First Home Owners Grant Scheme (FHOG) would be counterproductive for several reasons. The remainder of this paper will explain our opposition to the proposed increases. It will argue that the available evidence suggests that an increased First Home Owners Grant will have an inflationary effect on house prices with the inevitable deleterious effects on housing affordability in the state and that, in truth, a boosted grant would primarily serve the financial interests of people selling houses not those who are buying them.

It will also argue that government's priority, with the finite resources available to it, should be to address the state's chronic social housing deficit and the housing needs of the tens of thousands of West Australians struggling to maintain tenancies in the private rental market and those on the public housing waitlist. The public and community housing units built under state and federal stimulus packages in the last two years were a much needed shot in the arm for a sector that is creaking under the weight of ever increasing demand for social and affordable housing. However, projections of future funding tells us that

¹ <http://www.theaustralian.com.au/national-affairs/state-politics/buswell-building-to-cabinet-comeback/story-e6frgczx-1225966040094>

² <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=azjnQbCD2dm8&refer=australia>

³ <http://www.dtf.wa.gov.au/cms/content.aspx?id=344>

⁴ http://www.dtf.wa.gov.au/cms/uploadedFiles/State_Revenue/FHOG/FHOG_Fact_Sheet.pdf

the State Government would do well to maintain existing stock levels in the next decade let alone increase them unless new sources of funding are found.

Finally, it will argue that focusing investment on increasing social and affordable housing stock levels, as well as being a far more equitable use of scarce Government money and resources, will achieve the goal of stimulating the housing industry and related industries, if that emerges as one of the desired outcomes of the scheme, without artificially inflating prices in the private housing market.

The First Home Owners Boost: Cui Bono?

In 2008, the Commonwealth Government decided to increase the value of grants given out under the FHOG for a limited time. From October 2008 to September 2009 the existing allowances for first time buyers doubled from \$7,000 to \$14,000, for those purchasing an existing dwelling, and from \$7,000 to \$21,000, for those buying a newly built home. From October 2009 to December 2009, those additional grants were reduced to \$3,500 for an established home and \$7,000 for a new build. Those increases were known as The “First Home Owners Boost” (FHOB) and were part of the Commonwealth Government’s overall economic stimulus measures in the wake of the Global Financial Crisis. Prime Minister Kevin Rudd announcing the commencement of the FHOB in parliament on October 14th 2008, said:

“...The construction sector and private dwellings investment are important generators of economic activity in this country. They are also important for the wellbeing and the living standards of Australians. To strengthen this important sector of the economy, the government has resolved to introduce a new first home owners boost. This measure will cost around \$1.5 billion in 2008-09 and around \$350 million in the following financial year. This measure will benefit around 150,000 first home buyers.”⁵

A press release issue by the Prime Minister on the same day said that: “The First Home Owners Boost is a decisive Rudd Government initiative to stimulate housing activity and give first home buyers a better chance in the housing market.”⁶

The evidence demonstrates that the FHOB was successful in stimulating housing activity. Moreover, historically low interest rates in the wake of the global financial crisis in late 2008 also played a part in stimulating market activity. This was welcome news for the construction and related industries. Welcoming the Rudd government’s decision to extend the grant past its original cut off point in May 2009, David Airey, Deputy President of REIWA said: “This decision will benefit the property industry greatly and have tremendous flow on effects to those in the business of servicing the property industry such as solicitors, financiers, valuers, removalists and a range of trades people.”⁷

⁵ <http://www.aph.gov.au/hansard/reps/dailys/dr141008.pdf>

⁶ <http://prrudd.archive.dpmc.gov.au/node/5525>

⁷ <http://issuu.com/mrfb/docs/wr66>

The increased grants also precipitated a significant increase in the number of first home buyers entering the housing market. According to Department of Treasury and Finance figures⁸, during the life time of the FHOB 29,637 grants were paid. During the previous fifteen months, July 2007 to September, 19,592 were paid. This equates to a 51% increase in the number of first time buyers purchasing homes.

However, the FHOB was inflationary. During the period of the boost, particularly in Western Australia, the FHOB contributed to an increase in the median price paid by first time buyers. Consider the following data:

- In October 2008, the month the FHOB was introduced, the average loan size for a first time buyer in WA was \$266,400. By November 2009, the month before the FHOB expired the average loan size for a first time buyer had increased to \$300,800⁹
- In October 2008, the median price paid for a home using the FHOB/ FHOG in WA was \$368,000. By November 2009, the median price has risen to \$385,000.

What the data demonstrates is that most of the grant money paid out under the boost was subsumed into higher housing prices with the principle beneficiary being house vendors, not first home purchasers. (See Chart 1 for graphic representation of this trend).

Granted, thousands of West Australians availed of the grants to enter into home ownership for the first time. Arguably, many of those purchasers would not have been able to do so without the increased subsidies offered by the FHOB. However, because they were buying into a market that was being inflated by the effects of the FHOB, it is quite possible that had no such grants been available they would have been able to purchase at a lower price.

The FHOB was successful in its stated goal to “stimulate housing activity” and made it possible for some first time buyers to enter the market who may otherwise would not have been able to. It did all this, however, at considerable cost to the tax payer, almost \$ 2 billion nationally, and exacerbated rather than ameliorated affordability problems in the market by playing a pivotal role in increasing house prices while it was in effect.

Stimulus lost

Housing market data compiled after the FHOB expired (December 2009) shows that house prices and average loan sizes maintained or increased on average in the first half of 2010 but began to decline thereafter (See Table 1). This strongly suggests that the FHOB provided only temporary inflationary pressure on house prices.

⁸ http://www.dtf.wa.gov.au/cms/uploadedFiles/Treasury/Economic_Data/fhog_data_oct2010.xls

⁹ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Oct%202010?OpenDocument>

In analysing the causes of this deflationary effect, there are other factors to consider also: The FHOB stole future demand. In effect, it convinced people who were planning to buy in the near future to do so sooner with the more attractive grants on offer. Naturally, when that future point was reached, there were less first time buyers around and with the resultant drop in overall demand.

We must also consider general consumer sentiment among first home buyers towards the housing market. Interest rates have been slowly rising and are tipped to rise further in the near future. This may be adversely affecting consumer sentiment seeing as it will increase mortgage repayment levels. Equally, other factors such as rising stock levels in Perth, which is indicative of oversupply, is likely putting downward pressure on prices and adversely affecting consumer sentiment. "The number of properties for sale has dropped 12 per cent in the past month but Perth's property market is still starting the year with a 27 per cent oversupply and 47 per cent more listings than this time last year."¹⁰

Underpinning all of those factors, however, is the simple fact that for many prospective buyers even housing in the typical first time buyer sections of the market remains unaffordable with obvious consequences for demand levels.

Follow Victoria?

It is against this backdrop that plans to introduce what, in effect, will be a state based First Home Owners Boost are being mooted. Some media reports suggest that the State Government's intention is to supplement the existing First Home Owners Grant using a scheme similar to the Victorian model. The Victorian government has steadily increased top ups to the existing First Home Owners Grants known as the "First Home Bonus."

"First home buyers who qualify for the First Home Owner Grant (the grant) may also be eligible for an additional payment known as the First Home Bonus (the bonus). To be eligible to receive the bonus, the value of the property must not exceed \$500,000 (for contracts entered into up to 30 June 2009). For contracts entered into between 1 July 2009 and 30 June 2011, the value of the property must not exceed \$600,000...Where the purchase or construction of a new home is in a regional municipality in Victoria, an additional bonus of \$6,500 is also available in addition to the \$13,000 bonus. These payments are subject to certain requirements...."¹¹

Any comparative analysis of the Western Australian housing market and the Victorian housing market must take into account that each market has its own idiosyncrasies which continue to shape the way the respective markets behaves. Nevertheless, a comparative analysis shows that the Victorian housing market has followed a different trajectory to the West Australia market in the last year and the increase

¹⁰ <http://au.news.yahoo.com/thewest/a/-/wa/8624785/glut-of-properties-still-on-the-market/>

¹¹

<http://www.sro.vic.gov.au/sro/SROnav.nsf/LinkView/BBB89806303008C1CA2575CB00011AD565A02CC2EEDDD527CA2575A1004420E8>

in the monies available to first time buyers under the First Home Bonus scheme may have played a part in that.

The data demonstrates that the average loan size taken out by first time buyers in Victoria continued to increase in 2010 but declined in Western Australia:

- In January 2010 the average loan size for a first time buyer in Victoria was \$273,600. By October 2010, the latest date for which figures are available, average loan size had risen to \$276,600.
- In contrast, in January 2010, the average loan size for first time buyer in Western Australia was \$298,700. By October 2010, this figure had declined to \$276,600.¹²
- (See Chart 2 for graphics on this data)

Again, it must be acknowledged that there is a wide variety of factors that can affect how the housing market behaves. Nevertheless, it is interesting to note the different fortunes of the first home buyers section of the market in Victoria, with its additional grant in the form of the bonus, and Western Australia which had no such additional grants once the FHOB expired. It is also worth noting that housing affordability in Victoria consistently declined during the period of the FHOB and the beefed up First Home Bonus. The implication that boosts to first home owners grants are inflationary remains.

Charts 3 and 4, which were developed by *Rpdata*, show market activity in the entire housing market since November 2000 in Perth and Melbourne. These charts show a steady decline in house prices in Perth and a drop in overall demand represented by sales volume, coinciding with the end of the FHOB but a different experience in Melbourne where the Victorian government effectively replaced the grants available under the FHOB with its own increased First home buyers bonus.

Thresholds don't work.

Targeting any increased grants by excluding homes priced over a certain threshold will do little to offset the inflationary effect of an increased First Home Owners Grant. The Victorian government has set its threshold to such a high level that that it falls comfortably below the median price level. But it renders the threshold largely meaningless since the majority of properties in the first home buyer section of the market are priced comfortably inside those limits.

If the thresholds were set lower in Western Australia e.g. \$400,000, it is likely that vendors with properties priced just below that currently will increase their price to just under the threshold in the knowledge that prospective buyers have had their purchasing power increased by the boosted grant.

This exact scenario played out in the Republic of Ireland in 2005. Unveiling the 2005 national budget In December 2004, the Irish government announced that stamp duty for first time buyers would be reduced from 3.75% of the total purchase price to 0%, providing the property was owner occupied,

¹² <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Oct%202010?OpenDocument> Table 9b.

second hand, and bought for less than € 317,500.¹³ Reductions in stamp duty rates for homes purchased above that threshold were also announced. At that time the average cost of a house in Dublin, for example, the capital and main metropolitan centre, and where almost 40% of the country's population lives, was €389,791.¹⁴ The Stamp duty exemption measures were described as an attempt to address housing affordability problems in the country. Making his budget speech in parliament, the then Finance Minister, Brian Cowen, said:

*"I am very aware of the difficulties that many first-time buyers face in their efforts to get onto the property ladder. To assist first-time buyers of secondhand houses, I am providing today for a significant reduction in stamp duty for them... As a result of this, there will be no stamp duty on first-time purchasers of second-hand houses up to €317,500 in value and reduced rates on such purchases up to €635,000."*¹⁵

When the new stamp duty regime came into effect, a slew of properties came onto the market priced fractionally below the €317,500 cut off point. In addition, existing vendors who had priced properties below the cutoff point upped their prices to just under the threshold in the knowledge that the stamp duty for prospective first time buyers had been eliminated and their purchasing power, accordingly, was enhanced. A newspaper report from January 2006 described the phenomenon:

*"At the lower end of the market, the big event of the year was the change in stamp duty for first-time buyers in budget 2005, making second-hand homes under 317,500 exempt. The effects were certainly felt by the end of 2005, when most agents reported dramatic increases in this market...Homes that had been priced at around 280,000 shot up overnight to just below 317,500, as buyers battled to be the first to offer the stamp duty cut-off figure, and most agents agreed that this measure had done little for first-time buyers except fuel sharp price increases."*¹⁶

Moreover, in combination with other factors that would go on to see Ireland become home to one of the biggest and most economically damaging property bubbles in history, the stamp duty measures proved inflationary throughout the housing market. By the end of 2005, the average cost of a house in Dublin had climbed to €438,790, a year on year increase of almost 13%.

¹³ Further information here:

<http://www.cpaireland.ie/UserFiles/File/Accountancy%20Plus/Taxation/December%202004/Taxation.pdf>

¹⁴ [Drudy, PJ, *Journal of the Statistical and Social Inquiry Society of Ireland Vol. XXXVI, HOUSING IN IRELAND: PHILOSOPHY, AFFORDABILITY AND ACCESS*, Trinity College Dublin, 2007, p92.](#)

¹⁵ <http://www.budget.gov.ie/Budgets/2005/Documents/Speech.pdf>

¹⁶ ["South Dublin leads the way in house price rises", The Sunday Tribune, January 22 2006](#)

The Opportunity cost: Much needed investment in Social and Affordable Housing.

By any fair national or international comparison, Western Australia suffers from a chronic shortage of social housing with the total amount of housing that could be considered social amounting to less than 4% of the total housing stock. Western Australia's housing recent "housing boom" has resulted in tens of thousands of low and fixed income West Australians struggling to access and maintain stable accommodation and thrown into sharp relief the inadequacy of the state's social housing volumes. Public housing waiting list applications have risen almost 68 per cent in the past four years, with 24,640 applications for public housing by the end of September, compared with 14,668 in October 2006.¹⁷

The Social Housing Taskforce final report acknowledges that current and projected funding levels will not be sufficient to increase the overall level of social housing in the state. The stimulus properties transferred to community housing growth providers under the stimulus package will engender much needed growth in the community housing sector. But after stimulus the cupboard is bare, and while much can be achieved as a result of the extra properties built under stimulus, further investment is desperately required. Moreover, any further transfers of public housing stock to the community housing sector while welcome and an integral part of any successful growth strategy will see a diminution in the number of public housing units in Western Australia.

The Social Housing Taskforce final report also acknowledges that the Department should look to create new and innovative ways to attract other sources of funding and specifically from private and institutional investors. Proposals in relation to this are detailed in Chapter five of the report and, as a Social Housing Taskforce member, are supported by CHCWA.

Undoubtedly, the State Government and other stakeholders, including the community housing sector, must look to find new and innovative ways to fund the growth of social housing in the state if we are to meet increasing demand levels. A social housing model so reliant on State and Commonwealth funding is neither efficient, desirable or necessary. However, we contend that, for the foreseeable future, the State and Commonwealth Government will be the key actors in any attempt to meet growing demand for affordable housing solutions.

However, in the meantime, CHCWA believes that given the enormity of that demand and the pressing need to address it, the opportunity cost of launching an enhanced First Home Owners Grant, i.e. reducing the state's social housing deficit- is far too great to be ignored.

There is also an issue of fairness. The State Government, like all governments, is constantly faced with the dilemmas posed by a virtually limitless supply of deserving causes and sound policy ideas but a very limited supply of funds at their disposal. It must make choices. In choosing to fund an increased First Home Owners Grant instead of increasing funding for social housing, the State Government would, in effect, be favoring a relatively well off section of the population over some of the poorest and most

¹⁷ <http://au.news.yahoo.com/thewest/a/-/breaking/8325054/public-housing-queue-swells-to-55-000/>

disadvantaged people living in the state. This includes, among others, families escaping domestic violence, homeless persons, people with physical and mental disabilities, and the elderly.

Crunching the numbers¹⁸

Let's look at what in dollar terms the costs might be. For the purpose of this exercise, let us assume that the State Government announces that the beefed up grants, entailing an increase in the grant from \$7,000 to \$20,000, will come into effect on March 1st 2011. It is, obviously, impossible to know how many successful applicants might receive monies under any new enhanced FHOG but let's look at the period of the last boost for indicative figures. During the period of the FHOB (October 2008 to December 2009), the State Government paid the enhanced FHOG to 9559 eligible applicants purchasing new housing or lands. If 9559 applicants were to apply for the grant under the new enhanced conditions over the same time frame, i.e. March 2011 to May 2012, the cost equation would look like this:

9559, (successful applicants), times 20000, (total sum of money each successful applicant receives)

$$9559 \times 20000 = \$ 191,180,000$$

And if there is no increase to the existing FHOG i.e. its stays at \$ 7,000:

$$9559 \times 7000 = \$ 66,913,000$$

Therefore if the FHOG was kept at its current level and using the demand assumption detailed above, in the fifteen month period starting March 1st 2011, the state would save \$ 124,267,000. And if it abolished the grant altogether it would save \$ 66,913,000.

It is undoubtedly the case that if the money used on enhancing the FHOG, or for that matter, the FHOG proper- were invested instead in addressing the states social housing deficit, considerable progress could be made. A total of \$550million will be spent in WA to construct 2,068 new homes across Stage One and Stage Two of the Nation Building Economic Stimulus Plan¹⁹. The cost of constructing a public housing unit will vary but this Department of Housing data indicates that average unit cost equates to approximately \$266,000 ($550000000 \div 2068$).

Therefore, if the monies used for an enhanced first home owner's grant in a fifteen month period-, bearing in mind that this only includes grants allocated for new land and houses, were instead used to build extra public and community housing stock, the total build of new stock would equate to 467 new units. ($124267000 \div 266000$). Alternatively, rather than invest the money in direct housing provision, it could be used as seed capital in partnerships with the community, other not-for profit organisations and the private sector to produce an even greater yield of social and affordable housing.

¹⁸ Figures used in this section regarding FHOG taken exclusively from Department of Treasury figures here: http://www.dtf.wa.gov.au/cms/uploadedFiles/Treasury/Economic_Data/fhog_data_oct2010.xls

¹⁹ http://www.dhw.wa.gov.au/585_2144.asp

Stimulus without inflation

As detailed earlier in this paper, one of the stated intentions of the Rudd government's FHOB was to stimulate activity in the housing market. It was also shown that while the FHOB did have this effect, it also proved to be inflationary.

If it emerges that part of reasoning behind any Western Australian based boost to the existing FHOG is to stimulate activity in the housing market, then the State Government can avoid creating inflation in the private housing market by instead focusing its stimulus efforts on the construction of public and community housing. This would, in effect, amount to a state based continuation of the stimulus spending on public housing that began in 2009 and which has been successful in generating activity in the construction sector in WA.

Conclusion

*"Government policies have, over many years, shown a heavy bias towards market provision of housing and to home owners thus contributing to the escalation in house prices. The availability of mortgage interest tax relief, stamp duty remission and first-time buyer grants were intended to reduce the cost of housing for owner-occupiers and as such they proved popular political initiatives. In reality, however, with very few alternatives to house purchase, they ultimately contributed to increasing demand for market-driven housing and thus to higher house prices, creating an affordability problem even for relatively well-off purchasers."*²⁰

The above statement was not written about the Australian property market but the Irish property market in 2007. It demonstrates the inherent flaws of certain government interventions in the housing market such as stamp duty relief measures and first home owner's grants, however well intentioned or popular.

This paper has argued that any State Government decision to increase the first home owners grant in Western Australia would be a mistake. A grant of this nature rather than improve affordability in the housing market would worsen it. Rather than benefit buyers, the evidence overwhelmingly suggests, that the principle beneficiary would be vendors.

Moreover, the West Australian social and affordable housing system is currently totally incapable of meeting existing demand for sub market housing options. That demand, as the population grows and ages, is only going to increase and short of a commitment by the State Government and other stakeholders to try to find new funding sources to address this deficit, it is not clear yet where those funds are going to come from.

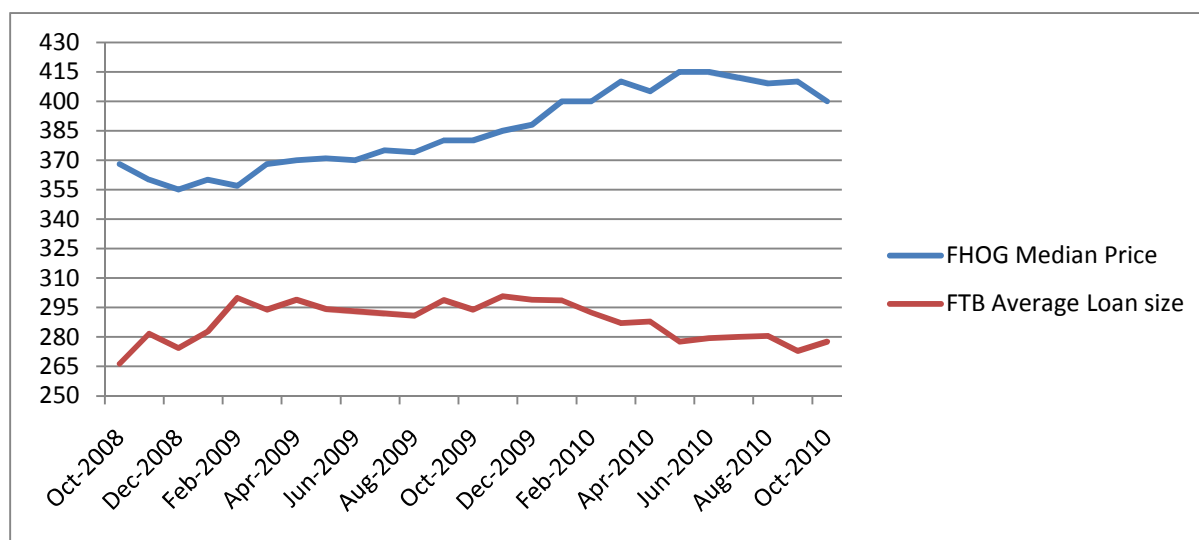
In light of these realities, CHCWA would argue that any monies earmarked to increase the FHOG should on the basis of fairness and the economic sustainability of the state, be channeled into bringing our social and affordable housing system up to the standard required of a modern society. CHCWA would

²⁰ [Drudy, PJ, Journal of the Statistical and Social Inquiry Society of Ireland Vol. XXXVI, HOUSING IN IRELAND: PHILOSOPHY, AFFORDABILITY AND ACCESS, Trinity College Dublin, 2007, p98.](#)

urge the State Government to consider the argument against increasing the FHOG set out in the paper before any use it to shape its decision on this important issue.

Charts and Tables

Chart 1: FHOG Median Price and First Time buyer average loan size (\$000)



Source: ABS & Dept of Treasury and Finance.

Table 2: Victorian First Home Bonus Scheme payments and requirements.²¹

Contract date	First Home Bonus Amount	Conditions
From 1 July 2010 to 30 June 2011	\$13,000	New homes only
From 1 July 2009 to 30 June 2010	\$11,000	New homes only
	\$2000	Established homes only
From 1 January 2007 to 30 June 2009	\$5000	New homes only
	\$3000	Established homes only
From 1 January 2006 to 31 December 2006	\$3000	Established homes or new homes
From 1 May 2004 to 31 December 2005	\$5000	Established Homes or New Homes

²¹ Ibid.

Table 1: First Home Owner Grant Median Price & Average loan size (\$000)

Date	Perth	Regional	WA	Average loan size
Oct-08	369,000	361,500	368,000	266.4
Nov-08	370,000	295,000	360,000	281.7
Dec-08	365,000	295,000	355,000	274.3
Jan-09	370,000	299,500	360,000	282.9
Feb-09	365,000	295,000	357,000	299.9
Mar-09	375,000	315,000	368,000	293.9
Apr-09	380,000	305,000	370,000	298.9
May-09	385,000	305,000	371,000	294.2
Jun-09	380,000	312,000	370,000	293.1
Jul-09	385,000	310,000	375,000	291.9
Aug-09	382,750	310,000	374,000	290.8
Sep-09	395,000	317,000	380,000	298.8
Oct-09	392,000	285,000	380,000	293.9
Nov-09	400,000	299,250	385,000	300.8
Dec-09	400,000	320,000	388,000	298.9
Jan-10	418,500	310,000	400,000	298.7
Feb-10	415,750	333,000	400,000	292.4
Mar-10	425,000	328,500	410,000	287.0
Apr-10	415,000	315,000	405,000	287.8
May-10	426,000	312,000	415,000	277.7
Jun-10	425,500	350,000	415,000	279.4
Jul-10	425,000	300,000	412,500	280.1
Aug-10	425,000	329,000	409,750	280.5
Sep-10	422,500	344,000	410,000	272.9
Oct-10	417,500	333,000	400,000	277.6

Source: ABS & Department of Treasury and Finance. Note: Dates in blue denote period of FHOB.

Chart 2: Average Loan size (\$000) First Time Buyers: Victoria & Western Australia Oct 06- Oct 10 (\$000)

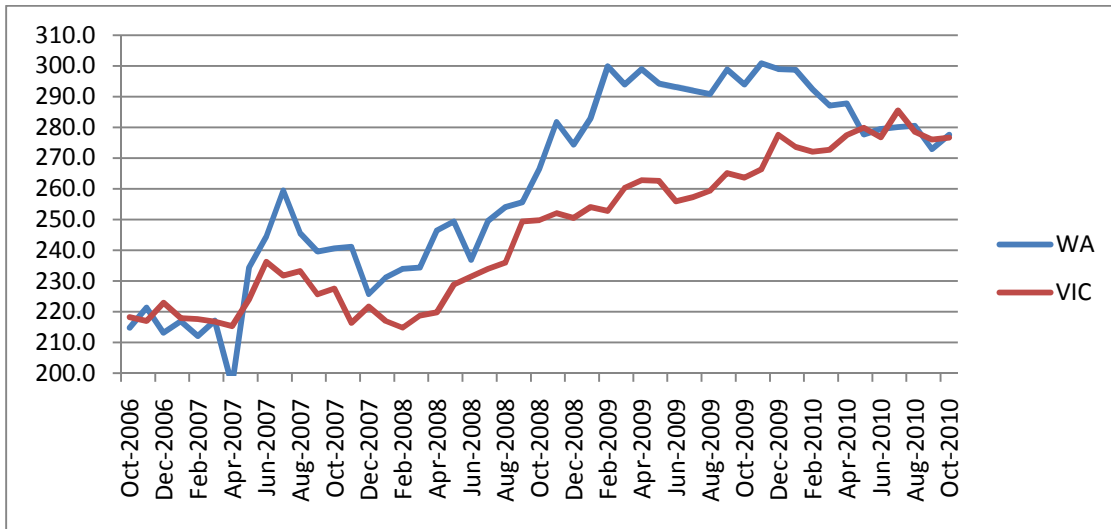
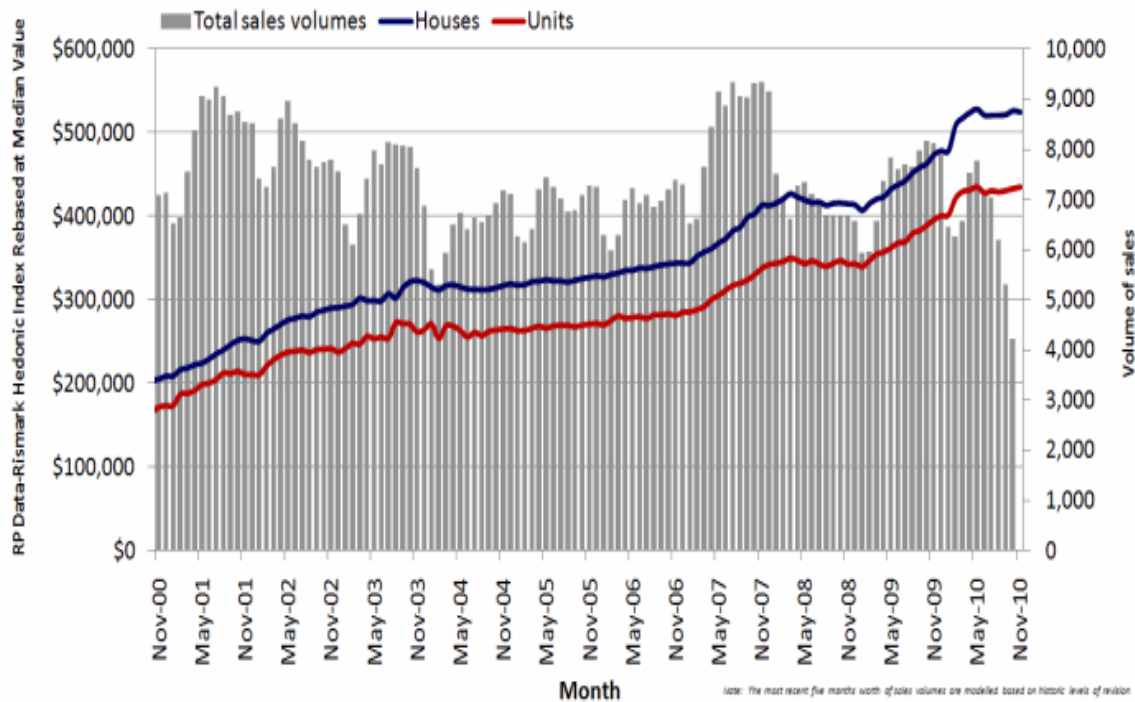


Chart 3: Melbourne House Prices and Unit Prices²²



²² http://www.myrp.com.au/melbourne_house_prices.do

Chart 4: Perth House Price and Unit Prices²³

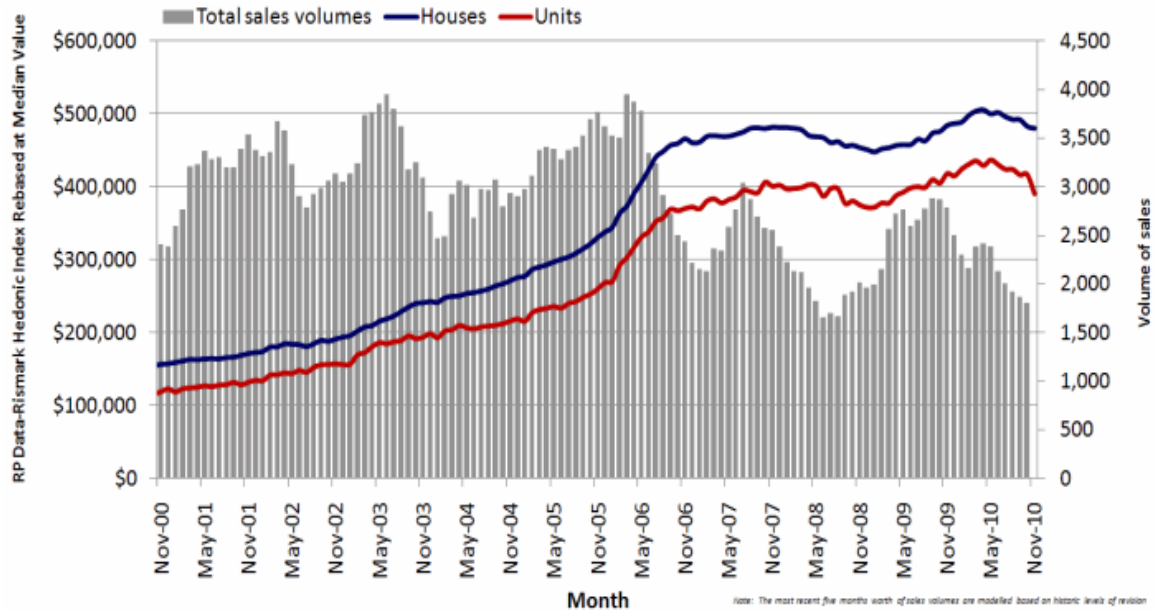


Chart 5²⁴: Running to stand still; funding levels inadequate for growth.

Figure 1.7 Department of Housing Social Housing Stock Levels 2008/2009 to 2018/2019



Note: Figures beyond 2012-13 are indicative only and do not consider any additional stock growth that may occur in future years due to new initiatives or additional funding

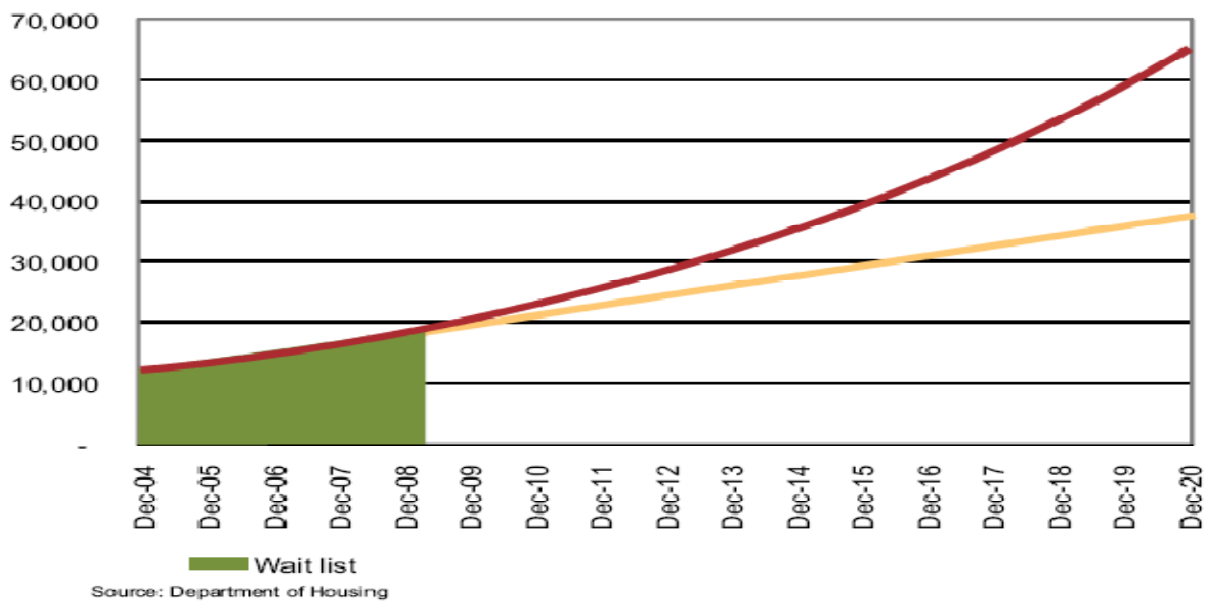
Source: Department of Housing

²³ http://www.myrp.com.au/perth_house_prices.do

²⁴ http://www.dhw.wa.gov.au/Files/SocialHousingTaskforce_FinalReport.pdf p.12

Chart 6: Demand will continue to rise.²⁵

Figure 1.1 Social Housing Waiting List Projections (December 2004 projected to 2020)



²⁵ Ibid, p13