

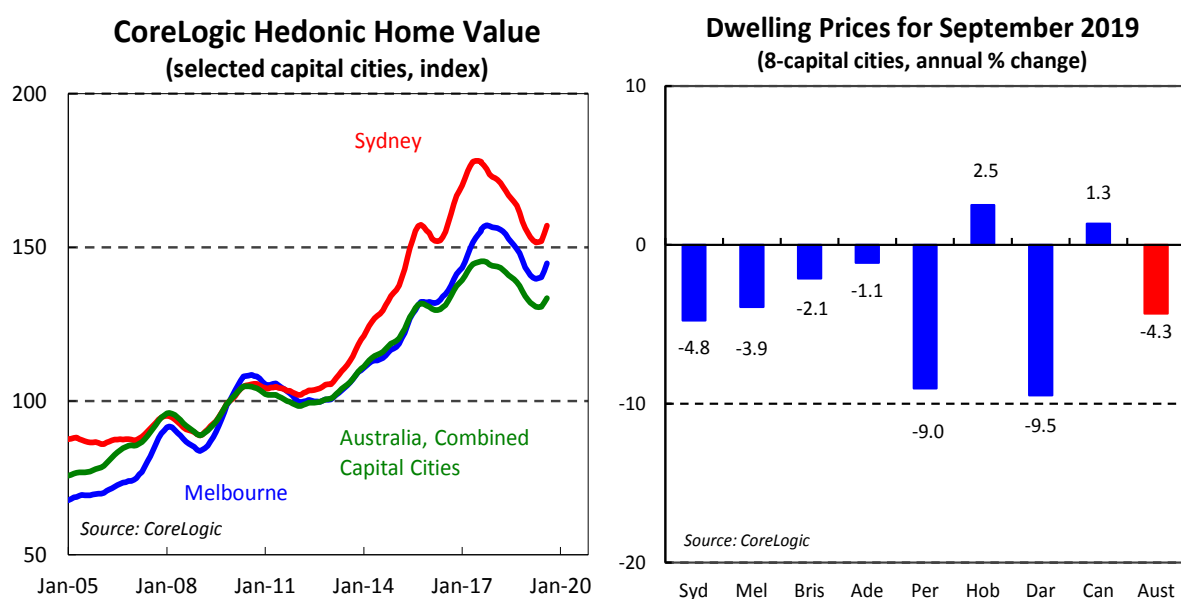
Tuesday, 1 October 2019



Dwelling Prices & Building Approvals

Mixed Signals

- A recovery appears to be in place for house prices. For the third month in a row, CoreLogic dwelling prices across 8-capital cities lifted. In September they rose 1.1%, which was the strongest monthly gain since 2017.
- The increase in September was again driven by dwelling prices in Sydney and Melbourne, where prices rose 1.7% in both cities. It was the second month in a row that their monthly price gains exceeded 1.0%.
- Despite the improvement in dwelling prices, residential construction is set to remain weak. Building approvals fell 1.1% in August, and have fallen for three consecutive months. The weakening trend suggests that the downturn in residential construction has further to run. The number of approvals was the lowest since January 2013, and down 44% from its peak in November 2017.
- Expectations of further interest rate cuts would provide further support to housing demand. However, any recovery in prices is likely to be more muted than the previous upswing in prices. Soft wage growth and high household debt are likely to restrain the recovery.
- It is too early for the nascent recovery in dwelling prices to translate into an improvement in approvals. However, there are also conditions, particularly in the Sydney housing market, which could limit the price recovery and keep dwelling investment weak.



Dwelling Prices

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across 8-capital cities lifted. In September they rose 1.1%, which was the strongest monthly gain since 2017.

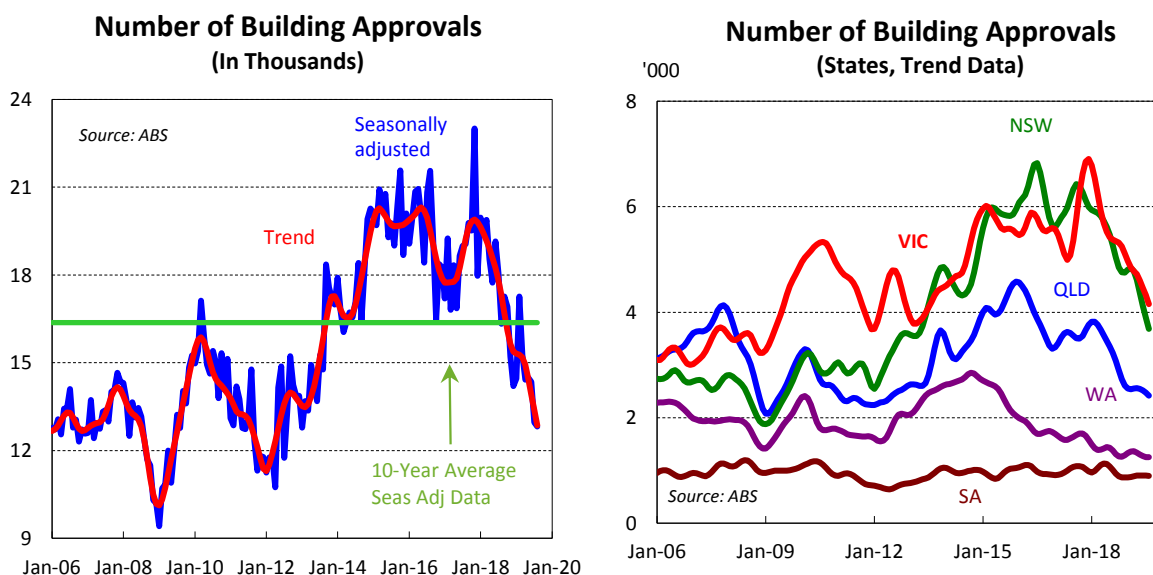
The increase in September was again driven by dwelling prices in Sydney and Melbourne, where prices rose 1.7% in both cities. It was the second month in a row that their monthly price gains exceeded 1.0%.

There was also a solid gain in Canberra, where dwelling prices rose 1.0% in September. The housing market in Canberra is also showing early signs of recovery over the past two months, after flat-lining earlier in the year.

Housing prices in all other capital cities were soft, pointing to uneven performance across the country. Dwelling prices in Brisbane edged up just 0.1% in September, and were flat in Adelaide. In Darwin (-0.2%), Perth (-0.8%) and Hobart (-0.4%), dwelling prices declined in the month.

On an annual basis, only Canberra (1.3%) and Hobart (2.5%) had positive growth over the year.

However, the annual rate of decline lessened in Sydney (from -6.9% to -4.8%) and in Melbourne (from -6.2% to -3.9%), reflecting the jump in prices in the month. There continued to be modest annual declines in Brisbane (-2.1%) and Adelaide (-1.1%). Perth (-9.0%) and Darwin (-9.5%) housing markets continue to struggle, given ongoing weak population growth.



Building Approvals

Despite the improvement in dwelling prices, residential construction is set to remain weak.

Building approvals fell 1.1% in August, following a sizeable 9.7% decline in July. Approvals have fallen for three consecutive months, and suggest that the downturn in residential construction has further to run. The number of approvals was the lowest since January 2013, and down 44% from its peak hit in November 2017. On a year ago, approvals were down 21.5%.

The weakness was driven by approvals for houses, rather than apartments. Approvals for private sector houses fell 2.4% in August, following a 3.1% decline in July. Approvals for “other” dwellings in the private sector rose 3.1%. A downward trend however, remains intact for both sectors.

Across States, there were partial rebounds in approvals over August in NSW (10.6%) and Victoria (6.5%), after sizeable declines in July. Increases in both States were driven by apartments. However, falling approvals in Queensland (-21.4%) and South Australia (-29.7%) more than offset

the gains in the other States. Approvals in Western Australia (4.2%) and Tasmania (4.4%) also rose in August. Looking through monthly volatility, approvals in all States remained in decline in trend terms.

Outlook

Evidence is mounting that a recovery in dwelling prices is taking hold, particularly in Sydney and Melbourne. The improvement in sentiment that began from the middle of this year is continuing. Expectations of further interest rate cuts would provide further support to housing demand. However, any recovery is likely to be more muted than the previous upswing in prices. Soft wage growth and high household debt are likely to restrain the recovery. Further, despite the lift in housing prices, residential construction is set to remain weak.

It is too early for the nascent recovery in dwelling prices to translate into an improvement in approvals. There are also conditions, particularly in the Sydney housing market, which could limit the price recovery and keep dwelling investment weak. The lift in vacancy rates in Sydney suggests that its housing market is not faced with the same supply constraints that characterized the market earlier in the decade. Moreover, residential construction in the State is also likely being weighed down by public concerns over building quality.

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