bankSA

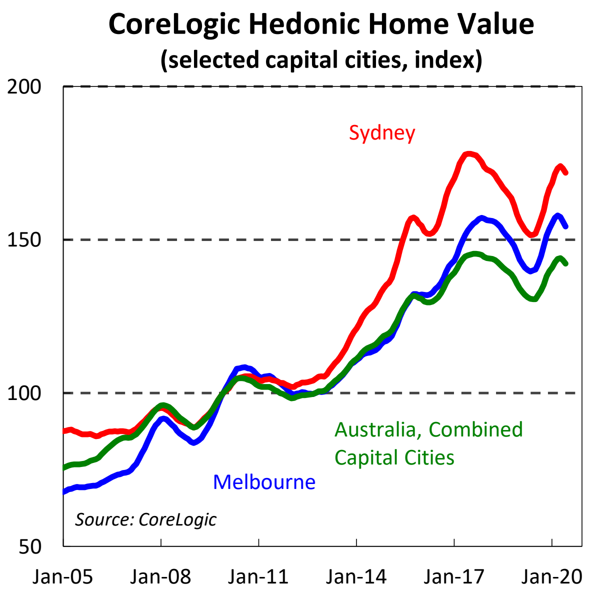
Data Snapshot

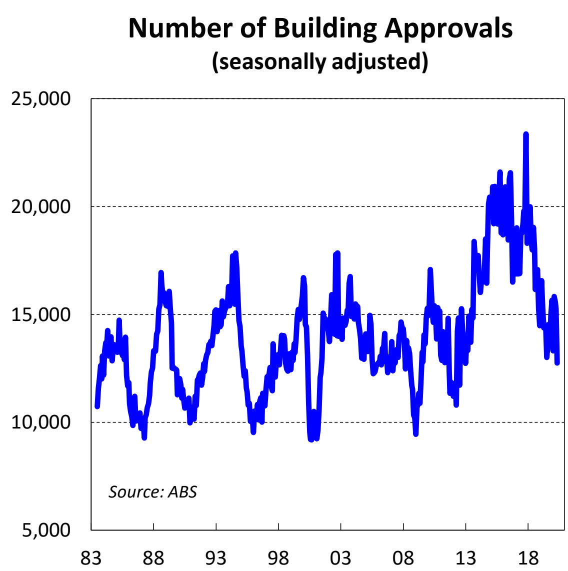
Wednesday, 1 July 2020

Dwelling Prices & Building Approvals

Deterioration Intensifies

- **Dwelling prices and building approvals are showing further signs of stress as demand conditions erode further.**
- **The 8-capital cities dwelling price index fell 0.8% in June following a 0.5% decline in May. The annual pace of growth slipped to 8.9%.**
- **Many of the physical restrictions facing the property market have been relaxed, however, turnover is likely to remain extremely low. It is likely that many potential buyers have opted to sit on the sidelines amid heightened uncertainty while property owners who might otherwise have been forced to sell have been supported by policy measures such as JobKeeper and mortgage repayment deferrals.**
- **Building approvals fell 16.4% in May, driven by the volatile "other" dwelling sector (which includes apartments). Private "other" dwelling approvals fell 34.9%. The ABS noted that COVID-19 may not have had its full impact on approvals due to the lag between applications being prepared, submitted and decided, suggesting further weakness ahead**
- **The economic damage caused by COVID-19 has the potential inflict heavy losses on the housing market. Official data is only just beginning to corroborate this potential. Record low interest rates and additional policy measures such as the introduction of HomeBuilder will support housing demand. However, it is clear that key drivers are absent; the economy has contracted sharply and overseas migration has ground to a halt. We continue to expect dwelling prices and approvals to fall further.**





Dwelling Prices

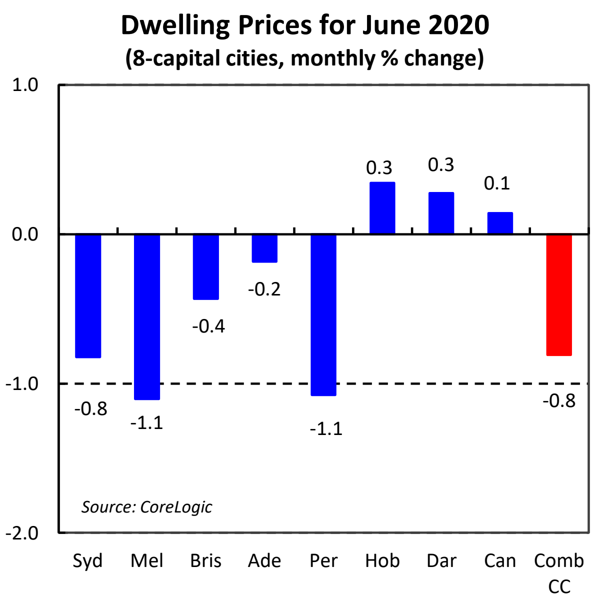
Dwelling prices fell for the second consecutive month in June amid low transaction volumes and deteriorated confidence in the economy. COVID-19 has halted momentum in the housing market, which had been on a broad uptrend in the months leading into the pandemic. The 8-capital cities index fell 0.8% in June following a 0.5% fall in May. It was the largest fall since February 2019. The annual pace of growth slowed from 9.7% to 8.9%.

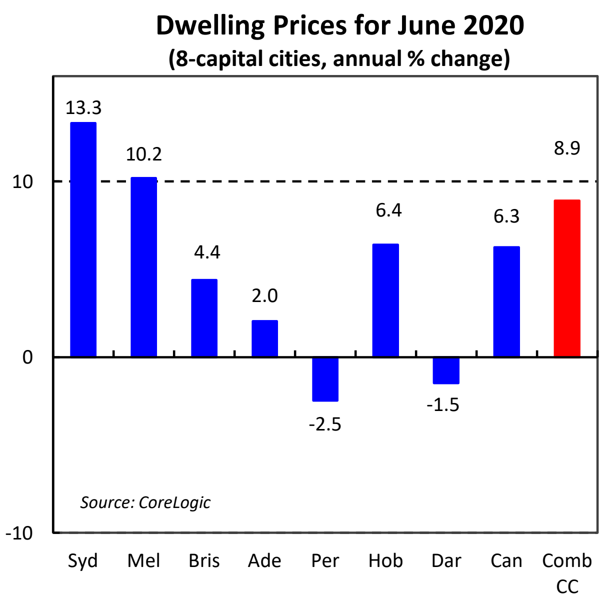
COVID-19 has presented a unique set of challenges for the housing market. On a logistical level, movement restrictions introduced in late March and early April physically deterred buyers and sellers. Many of those restrictions have been removed or relaxed in most States, but powerful headwinds remain. The closure of Australia's international border has brought overseas migration to a halt, further reducing the demand for housing. Aside from physical restrictions, it is likely that many potential buyers would have opted to sit on the sidelines amid heightened uncertainty.

The fall in house prices has not yet been as drastic as the decline in measures of economic activity or household income. Hours worked have fallen almost 10% since March while dwelling prices between March and June are down by a relatively sedate 1.1%. Stimulus and support measures have stemmed the number of forced sales, preventing the market from flooding with new listings.

Transactions are expected to remain extremely subdued during the economic rout, with prices likely to continue to grind lower. Sales volumes were less than half of their level last year in June (turnover data is subject to significant revisions). A key test for the housing market will be in September when some major supports are removed, including the JobKeeper wage subsidy and mortgage payment deferrals.

The sector will continue to benefit from pockets of support. The sudden nature of the COVID-19 induced recession will result in pent up demand from those buyers who were priced out of the market during the upswing. The Federal Government's HomeBuilder scheme and the additional grants introduced in some States will also provide some support for demand.





Five of the eight capital cities recorded a fall in dwelling prices in June. The largest falls were in Perth and Melbourne of 1.1%, each. Despite the monthly fall in prices in Melbourne, the annual pace of growth remained robust at 10.2%. Perth's housing market was already sluggish before the pandemic and June's fall pushed the annual rate of decline further negative to -2.5% in June.

Sydney prices fell 0.8% in June, leaving the annual pace of growth still the highest of the capital cities at 13.3%. More muted declines were recorded in Brisbane (-0.4%) and Adelaide (-0.2%) and the annual pace of growth remained positive in both cities at 4.4% and 2.0%, respectively. Prices rose over the month in Hobart (0.3%), Darwin (0.3%) and Canberra (0.1%). Annual prices remained lower in Darwin by 1.5% in June while Hobart (6.4%) and Canberra (6.3%) extended their annual price rises.

We expect dwelling price declines to spread to all capital cities as COVID-19 continues to foster an uncertain environment. Border closures will reduce the underlying demand for houses which will further deflate demand.

Building Approvals

Building approvals fell 16.4% in May, the biggest fall since December 2017. The impact of COVID-19 is hitting the pipeline of residential construction with a lag; approvals fell by a relatively modest 2.1% in April, when social distancing restrictions were tightest. Approvals were 11.6% lower on an annual basis in May.

The Australian Bureau of Statistics (ABS) noted that COVID-19 had "minor effects" on approvals in May. It said that approvals figures for May likely reflected submissions lodged before social distancing measures were introduced domestically. There is a lag between demand conditions and the preparation, submission and then determination of building permits.

The apartment sector has been prone to volatility in recent months and was the main driver of the fall in overall approvals. "Other" building approvals in the private sector (which includes all multi-density dwellings) fell 34.9% in May following a 9.5% decline in April. Concerns over building quality and pockets of oversupply have been hampering high-rise building prospects over the past year. The addition of a dismal aggregate demand backdrop and an uncertain outlook amid COVID-19 will further drag on developer appetite in the coming months.

Private detached dwelling approvals fell by a more muted 4.4% in May following a 2.7% increase in April. Detached dwelling approvals are typically less volatile than high-rise dwelling approvals but will not be immune to a contraction. A rapid slowing in population growth will further weigh on underlying demand in dwellings, suggesting little incentive for strong increases to the dwelling stock, although some support will be provided by the introduction of the HomeBuilder construction grant introduced in June.

All States recorded a fall in building approvals in May. The largest decline was registered in Tasmania of 23.3%, followed by a 14.3% fall registered in Victoria. Victoria's plunge was driven by a 30.1% drop in the number of non-detached dwelling approvals in the private sector. New South Wales also recorded a large fall in non-detached approvals (-26.9%) and recorded an 11.3% fall in overall building approvals in May following a 29.3% decline registered in April.

Falls were more muted elsewhere, including in Queensland which recorded the shallowest decline of the States of 7.4%. Western Australia recorded an 8.9% fall in May while South Australian building approvals fell 9.3%.

Outlook

On paper, the housing market has been at the forefront of sectors with the potential to suffer the most from COVID-19. The key demand drivers of population growth, household incomes and confidence have all been negatively impacted due to the pandemic. Official data is only just beginning to corroborate this potential. To date, there are two main mechanisms which are working to prevent weaker conditions in the housing market: 1) forced sales have been limited due to stimulus and support measures, and 2) the long lag in the time between developers responding to demand conditions and having development applications submitted and approved.

Construction sector activity has been on a weak footing over the past year. May's decline in approvals was focussed on the embattled non-detached dwelling sector, which has been facing uncertainty due to concerns over building quality issues and pockets of oversupply. This suggests that a further decline in approvals is likely once the pipeline of submitted applications dries up. Perhaps more importantly, given the prevailing uncertainty, it is not clear how many projects which have been granted approval will progress to commencement anyway.

The widespread restrictions on movement and the general air of uncertainty caused by the COVID-19 pandemic have halted the burgeoning upward trend in dwelling prices. Record low interest rates and additional policy measures such as the introduction of HomeBuilder will support housing demand. However, it is clear that the economy has contracted sharply, and overseas migration has ground to a halt. We do not think that prices are set for a large scale decline but still expect the downturn in dwelling prices and approvals has much further to run.

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