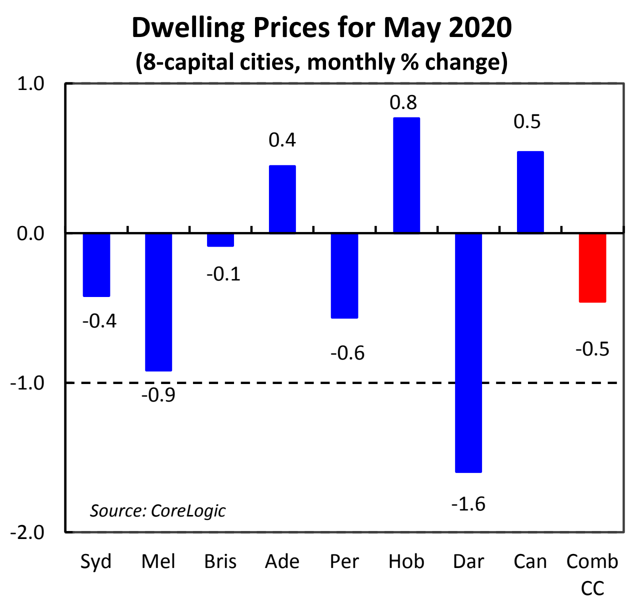
Data Snapshot

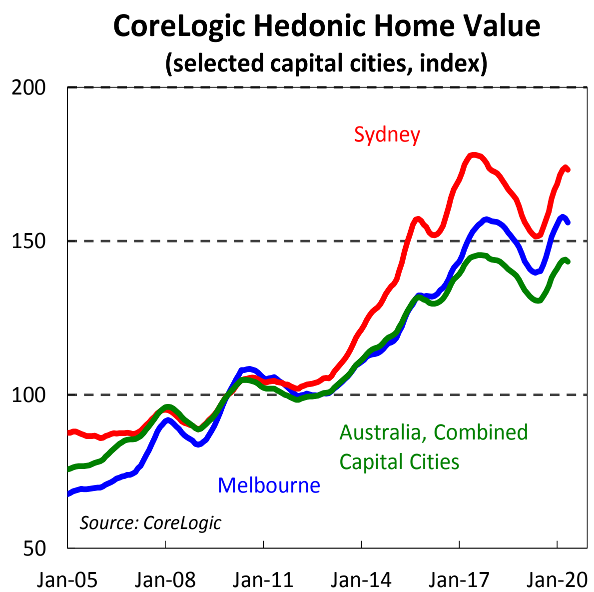
Monday, 1 June 2020

Dwelling Prices

Weak Confidence Sets In

- **Dwelling prices fell in May as the impact of COVID-19 on confidence and the economy took its toll.**
- **The 8-capital cities index fell 0.5% in May following a 0.2% increase in April, its first monthly decline in just under a year. Over the year, the annual pace of growth held at 9.7%.**
- **Turnover remained extremely low as buyers and sellers opted to sit on the sidelines amid the uncertainty caused by COVID-19. Restrictions on physical auctions as well as broader movement restrictions have directly impacted housing market activity. Despite the relaxation of some of these measures, turnover is expected to remain subdued.**
- **The change in prices was not uniform across capital cities. Darwin recorded the sharpest fall of 1.6% over the month in May, reversing most of the previous month's 1.7% gain. Melbourne dwelling prices registered a 0.9% decline and Sydney prices fell by 0.4%. Perth (-0.6%) and Brisbane (-0.1%) also recorded price declines in May. Prices rose in Hobart (0.8%), Canberra (0.5%) and Adelaide (0.4%).**
- **Record low interest rates and other policy measures will support housing demand. However, it is clear that the economy has contracted sharply along with population growth and that household incomes are under downward pressure. Consequently, we expect that prices will continue to decline.**

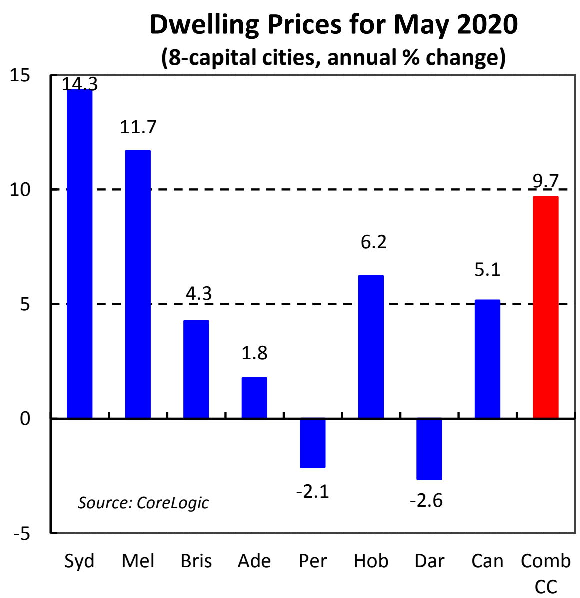


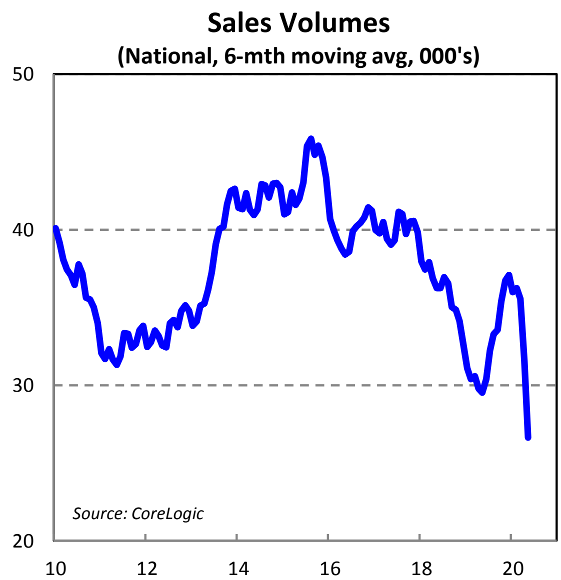


Dwelling prices fell in May as the impact of COVID-19 on confidence and the economy took its toll. The 8-capital cities index fell 0.5%, its first monthly decline in11 months. Over the year, the annual pace of growth held steady from the previous month at 9.7%.

The housing market was on the front line of movement restrictions, including a ban on physical auctions in most States. The closure of Australia's international border has brought inward migration to a halt, further reducing the demand for housing. Unsurprisingly, sales volumes fell sharply and remained low in May, even as some restrictions on auctions and inspections were lifted.

Aside from physical restrictions, it is likely that many buyers would have opted to sit on the sidelines amid heightened uncertainty. Meanwhile, many sellers are reticent to transact unless forced to. An unprecedented wave of stimulus (including mortgage relief, monetary policy stimulus from the RBA and Federal Government wage subsidies) has so far limited forced sales. Turnover across the combined capital cities plunged 41.8% compared with the same month a year earlier in April, and preliminary data for May shows a 62.0% decline on a year ago (turnover data is subject to significant revisions).





Over the weekend, news reports suggested that the Federal Government is preparing to introduce a new home-buyer grant. The grant is expected to be available for purchases of newly built properties in a bid to support the construction industry. Previous new home-buyer grants and schemes have mostly been targeted at first-homeowners, and have generally boosted activity. The new grant will be available to all buyers of newly built properties. If introduced, it will likely positively impact turnover and prices.

The change in prices was not uniform across capital cities. Darwin recorded the sharpest fall of 1.6% over the month in May, reversing most of the previous month's 1.7% gain. Melbourne saw a 0.9% decline in dwelling prices following a 0.3% decline recorded in April. The fall in Melbourne dwelling prices has been sharper than in Sydney, which recorded a milder 0.4% fall in May following a 0.4% rise in April. Concerns with regards to population growth is likely greater in Melbourne as migration has been a major source of housing demand in the city. However, Melbourne prices were quicker to return to their previous peak during the most recent upturn. Sydney prices never quite reached their July 2017 peak in the latest cycle, falling shy by just 2.3% last month. The expected sharp decline in economic activity suggests that dwelling prices won't be challenging their previous peak anytime soon. Perth (-0.6%) and Brisbane (-0.1%) also saw price declines during May.

Prices rose over the month in Hobart (0.8%), Canberra (0.5%) and Adelaide (0.4%).

On an annual basis, price growth remained highest in Sydney in May (14.3%), followed by Melbourne (11.7%). Most other capital cities retained positive annual growth in prices including Hobart (6.2%), Canberra (5.1%), Brisbane (4.3%) and Adelaide (1.8%). Darwin and Perth recorded annual price declines of 2.6% and 2.1%, respectively.

Outlook

The widespread restrictions on movement and the general air of uncertainty caused by the COVID-19 pandemic rendered a decline in dwelling activity inevitable. However, there has been a raft of stimulus measures which has limited forced sales and supported incomes.

Record low interest rates and additional policy measures such as the introduction of a national home-buyer grant as speculated by the press will support housing demand. However, it is clear that the economy has contracted sharply and household incomes are under downward pressure. Additionally, border restrictions will result in a slowdown in population growth and a further reduction in demand. Consequently, we expect that prices will continue to decline.

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