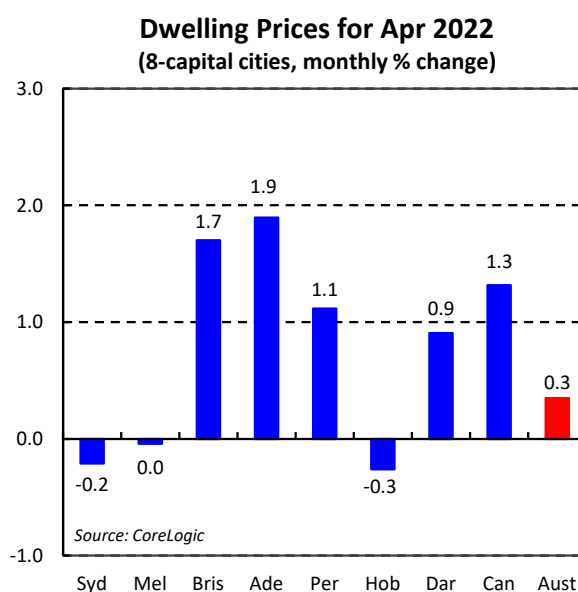
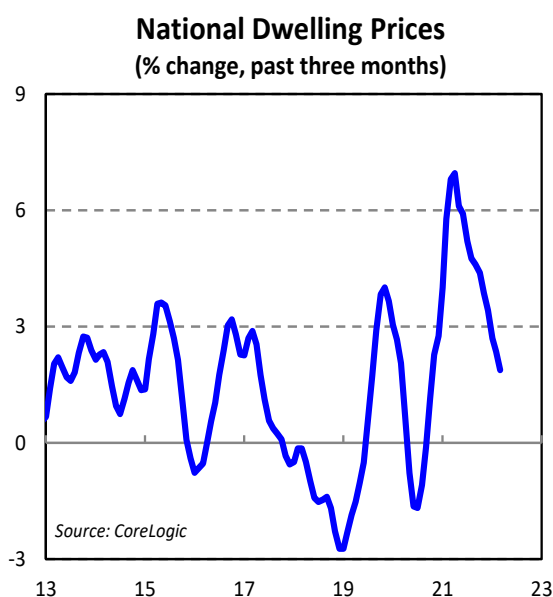


Monday, 2 May 2022

Dwelling Prices

Growth Slows Ahead of Rate Hikes

- Dwelling prices grew by 0.6% in April as the housing market continues to lose momentum ahead of expected increases in the cash rate from as early as tomorrow. In quarterly terms, price growth slowed to 1.9% over the three months to April – the slowest quarterly pace of growth since the three months to November 2020.
- A large degree of variation exists across the country. Monthly growth in Sydney (-0.2%) and Melbourne (0.0%) was weak. Prices have now fallen for three consecutive months in Sydney.
- The more affordable capital cities of Brisbane and Adelaide have seen strong growth over 2022, as demand remains high amid an environment of low supply. This continued in April – prices grew by 1.9% in Adelaide and 1.7% in Brisbane. However, signs of slowing momentum are evident as the quarterly rate of growth declined.
- Regional areas continued to outperform capital cities. In fact, while momentum is declining across both areas, growth has held up more strongly in regional areas than in capital cities.
- The housing market faces a range of headwinds, momentum is slowing as stretched affordability, increasing supply, particularly in Sydney and Melbourne, and higher fixed rates impact prices. Expected cash rate increases will also weigh on the market in coming months.
- The strength of price pressures across the economy means that the Reserve Bank (RBA) can no longer afford to wait to begin to raise rates. We expect the RBA to kick off the rate-hike cycle with a 15 basis point increase at its May meeting tomorrow.



Dwelling Prices

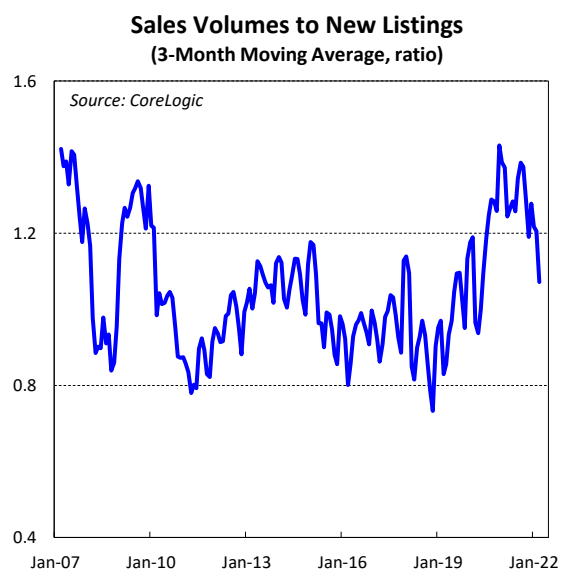
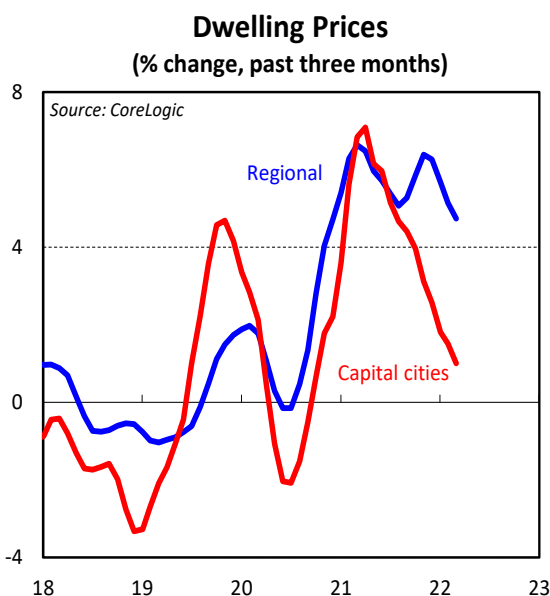
Dwelling prices grew by 0.6% in April as the housing market continues to lose momentum ahead of expected increases in the cash rate by the Reserve Bank (RBA) over coming months, and potentially from as early as tomorrow. Monthly dwelling price growth continued to trend down from its peak of 2.8% in March 2021. In quarterly terms, national dwelling price growth slowed to 1.9% over the three months to April. This was the slowest quarterly pace of growth since the three months to November 2020.

In annual terms, growth slowed to 16.7% over the year to April. This is down from 18.2% over the year to May and well below the peak of 22.4% over the year to January. The annual rate of growth is expected to continue to trend down, consistent with the slowing monthly growth rate over the past year.

While momentum continues to slow nationally, there is a large degree of variation across the country. Monthly growth across the largest markets of Sydney and Melbourne was weak, -0.2% and 0.0% in April, respectively. Dwelling prices have now fallen for three consecutive months in Sydney. The weakness across these two cities has resulted in the quarterly growth rates turning negative for the first time since the depths of the pandemic. Stretched affordability, higher fixed interest rates across lenders, an increase in supply and the prospect of interest rate increases on the horizon continue to weigh on demand.

The more affordable capital cities of Brisbane and Adelaide have seen strong growth over 2022, as demand remains high amid an environment of low supply. This continued in April, as prices grew by 1.9% in Adelaide and 1.7% in Brisbane. In annual terms, growth remained near recent peaks, at 29.3% in Brisbane and 26.2% in Adelaide. Supply levels are low across these two cities as new listings are snapped up quickly. Supply in both cities remains over 20% below levels seen at the same time last year, contributing to continued strength in prices.

However, signs of a slowing of momentum are also evident across Brisbane and Adelaide as the quarterly rate of growth slows. In Brisbane, quarterly growth fell to 5.7% over the three months to April. This was the slowest rate of quarterly growth since the three months to April 2021. In Adelaide, quarterly growth declined to 5.4%, the slowest rate of quarterly growth since the three months to August 2021.



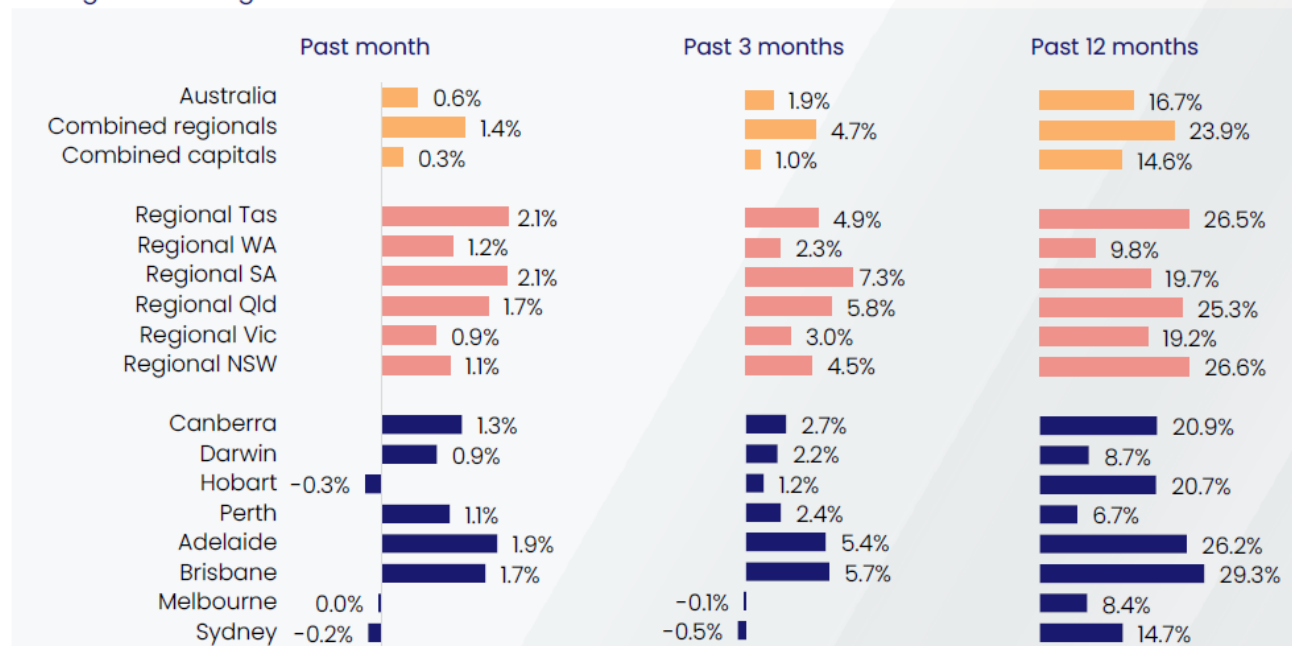
Conditions are varied across other capital cities. Hobart recorded a decline of 0.3% in April – the weakest monthly growth since September 2019. Monthly growth was strong in Canberra (1.3%), Perth (1.1%) and Darwin (0.9%).

Supply levels remain low across the country as total listings (i.e. the stock) are almost 30% below the five-year average. However, nationally, new listings (i.e. the flow) are not being snapped up as quickly as earlier in this cycle as sales volumes decline. This has contributed to the sales volumes to new listings ratio (a measure of how quickly new listings are being snapped up) falling over recent months.

Regional areas continued to outperform capital cities. In fact, while momentum is declining across both areas, growth has held up more strongly in regional areas than in capital cities. In April, dwelling prices in regional areas grew by 1.4%, versus 0.3% in capital cities. In annual terms, prices were 23.9% higher in regional areas and 14.6% higher in capital cities.

House price growth also continued to outpace unit price growth. House prices grew by 0.7% in April, while unit prices grew by 0.2%. Like other parts of the housing market, momentum is slowing across both categories. In three-month terms, house prices grew by 2.2% to April – the slowest rate of quarterly growth since the three months to November 2020. Unit prices grew by 0.8% over the same period – the slowest quarterly growth since the three months to January 2021.

Change in dwelling values



Outlook

Momentum continues to slow as the housing market faces a range of headwinds. Stretched affordability and increasing supply, particularly in the most expensive markets of Sydney and Melbourne, are impacting prices. While prices are still growing across most other markets, momentum is slowing. Fixed rates are higher than earlier in the cycle and expected increases in the cash rate will also weigh on the market in coming months.

The strength of price pressures across the economy, as evidenced by last week's stronger-than-expected March quarter inflation outcome, means that the RBA can no longer afford to wait to begin to raise rates. We expect the RBA to kick off the rate-hike cycle with a 15 basis point

increase at its May meeting tomorrow. This will be the first cash rate increase since 2010. We expect the cash rate to increase to 1.5% by the end of this year, before continuing to rise until mid-2023. The increase in the cash rate will place further downward pressure on house prices.

While the housing market faces headwinds, a strong economy, projected historic low levels of unemployment, and improving wages growth are expected to support demand and limit the extent of price falls.

Overall, we project housing prices to decline over the second half of 2022 and into 2023. However, prices are expected to settle at high levels relative to before the pandemic.

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