

Housing market trends

Our Insights. Your Story.

May 2020



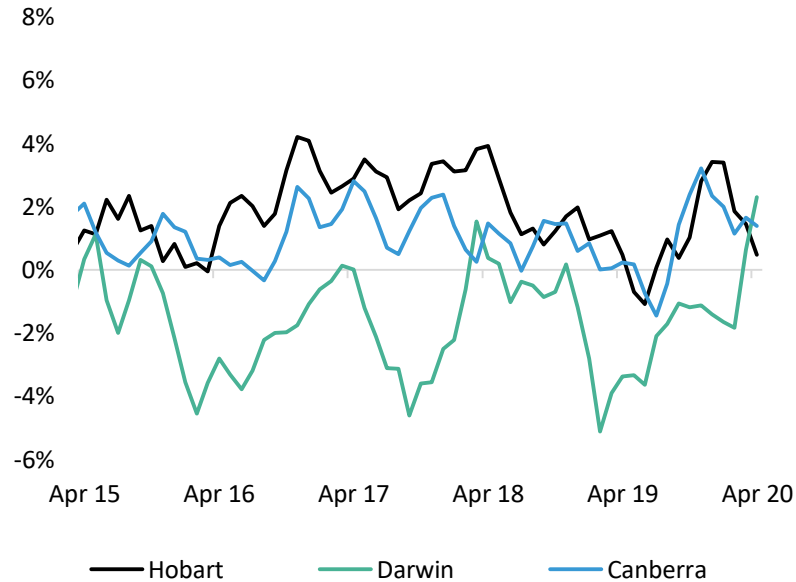
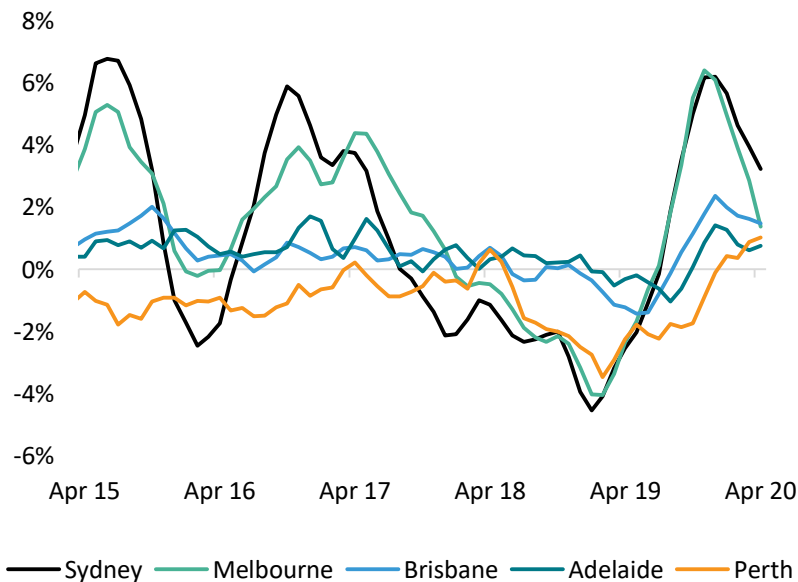
Quarterly growth rates suggest that some housing markets had softer growth rates well before COVID-19.

However, it is clear that COVID-19 has placed Australian housing markets at the cusp of another downturn.

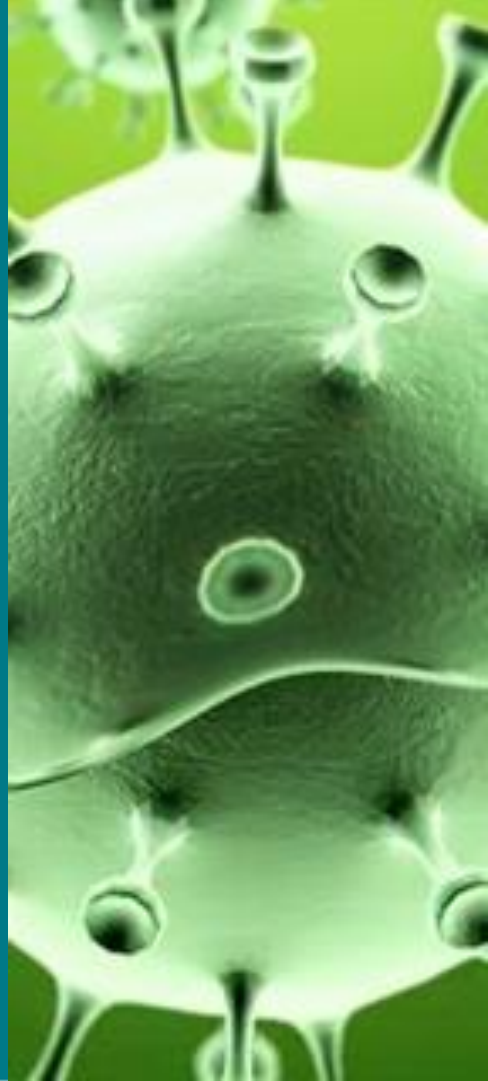


The quarterly trend in value growth shows the market moved through 'peak' growth late last year

Quarterly change in dwelling values

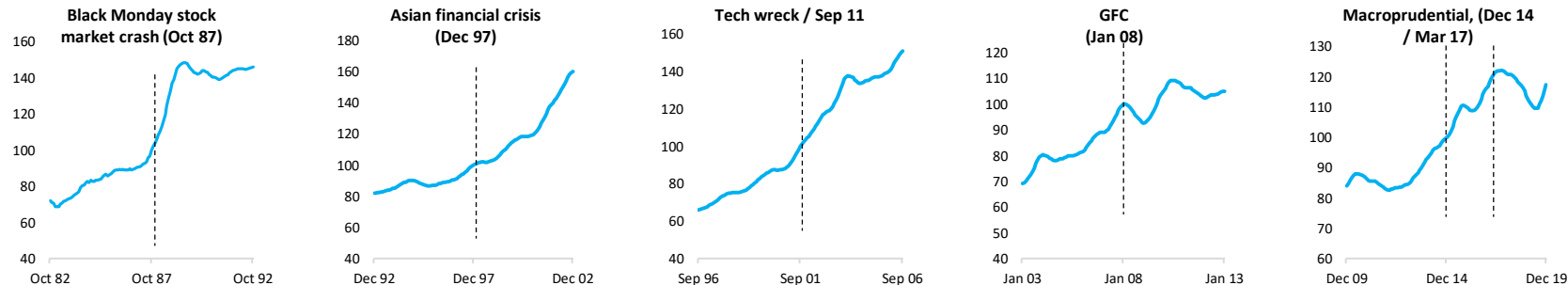


Previous economic shocks have seen housing values relatively insulated, while volumes are more susceptible to volatility.

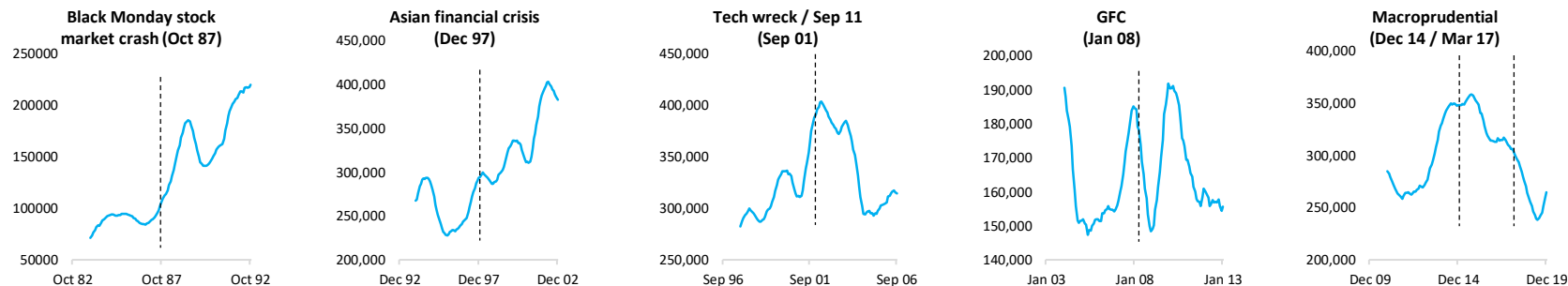


Housing values have generally been insulated from financial shocks historically but have been more reactive to credit tightening events

Housing indices across previous shocks (5yrs either side of event)



Housing sales volume across previous shocks (5yrs either side of event)



Housing values and volumes are based on combined capitals region

Rolling 28-day growth rate in combined capital city dwelling market

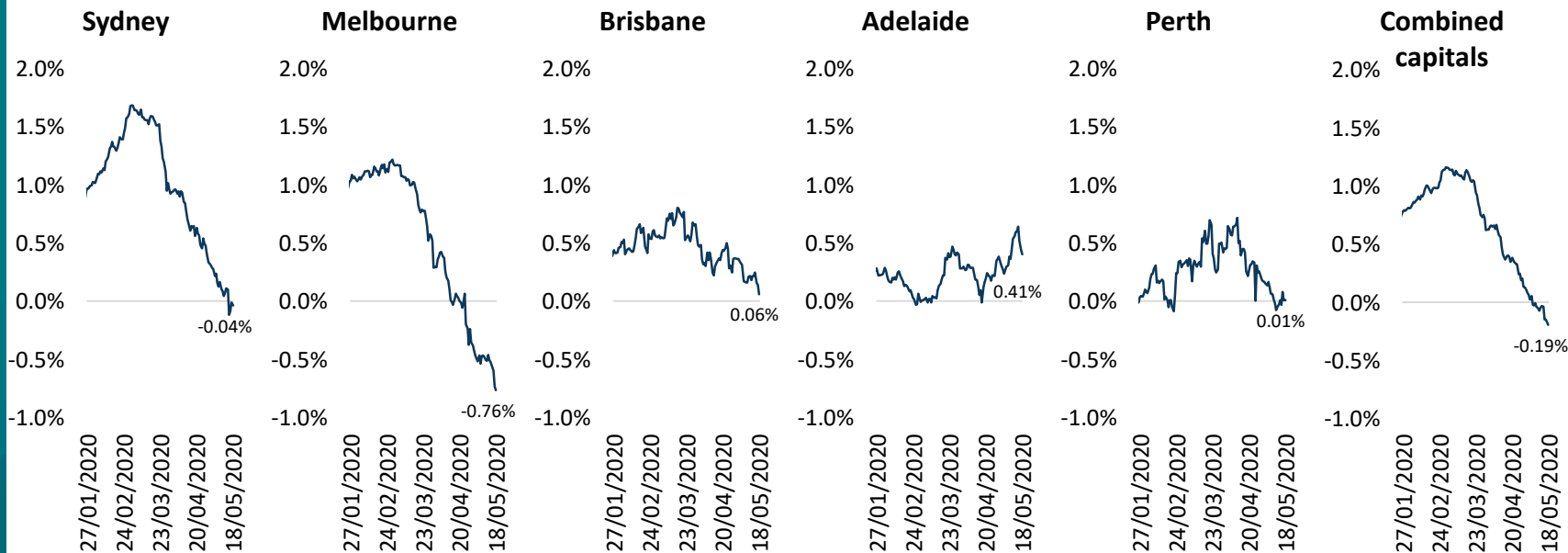


The same is true of the COVID-19 downturn.

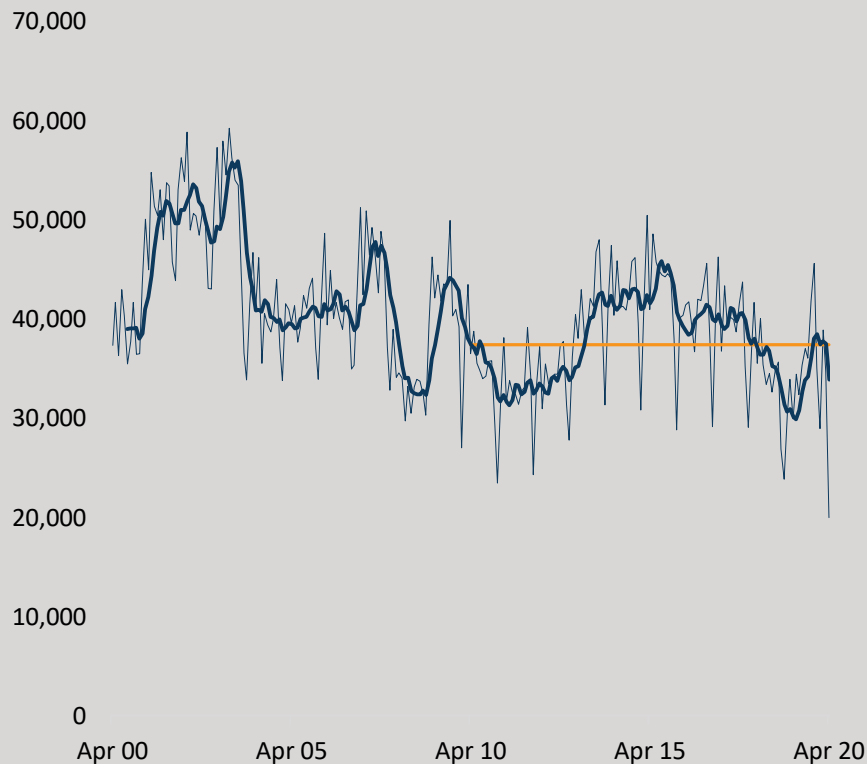
The combined capital cities market has seen less than *half a percent* in value declines over the past month.

Melbourne and Sydney have shown the sharpest slowdown in housing values, however the level of decline remains mild to date.

Daily CoreLogic home value index – rolling 28-day change



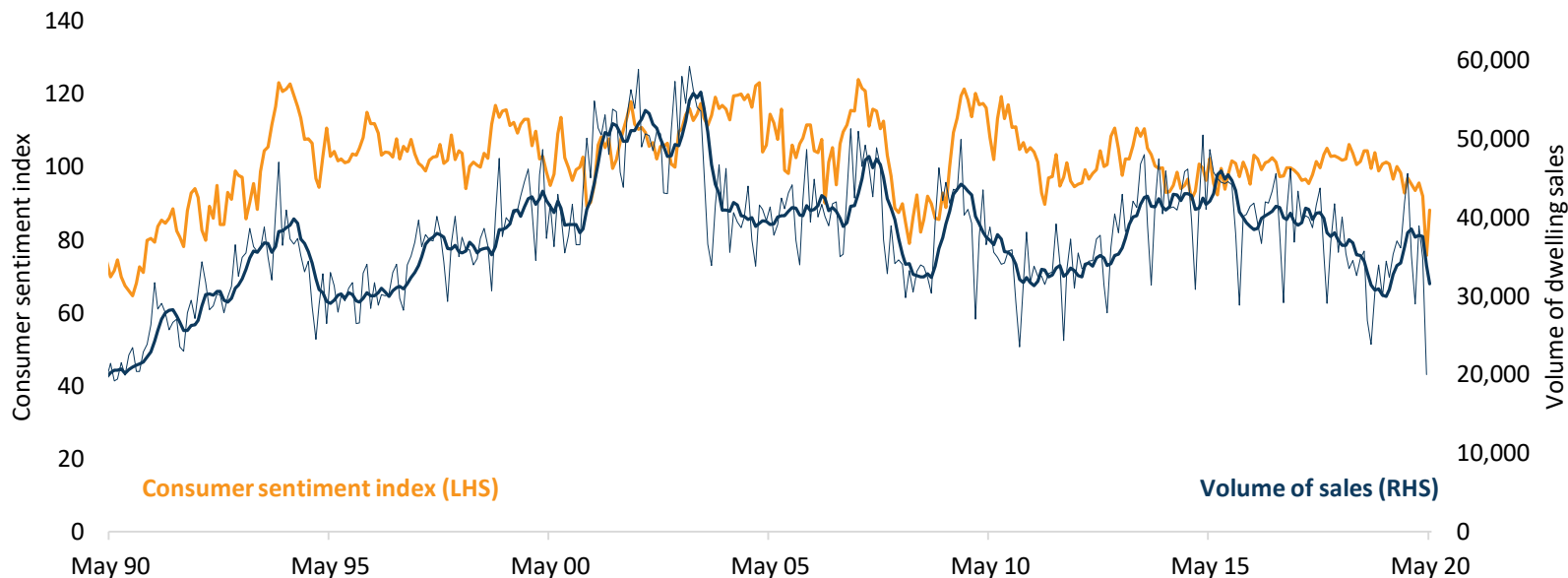
Monthly sales with six month moving average,
National



National home sales fell by
around 42% in April
compared with March...
the lowest monthly
reading since 1990

Sales volumes are declining significantly as consumer confidence reaches its lowest levels since the early 90's recession, however sentiment has shown a bounce back in May

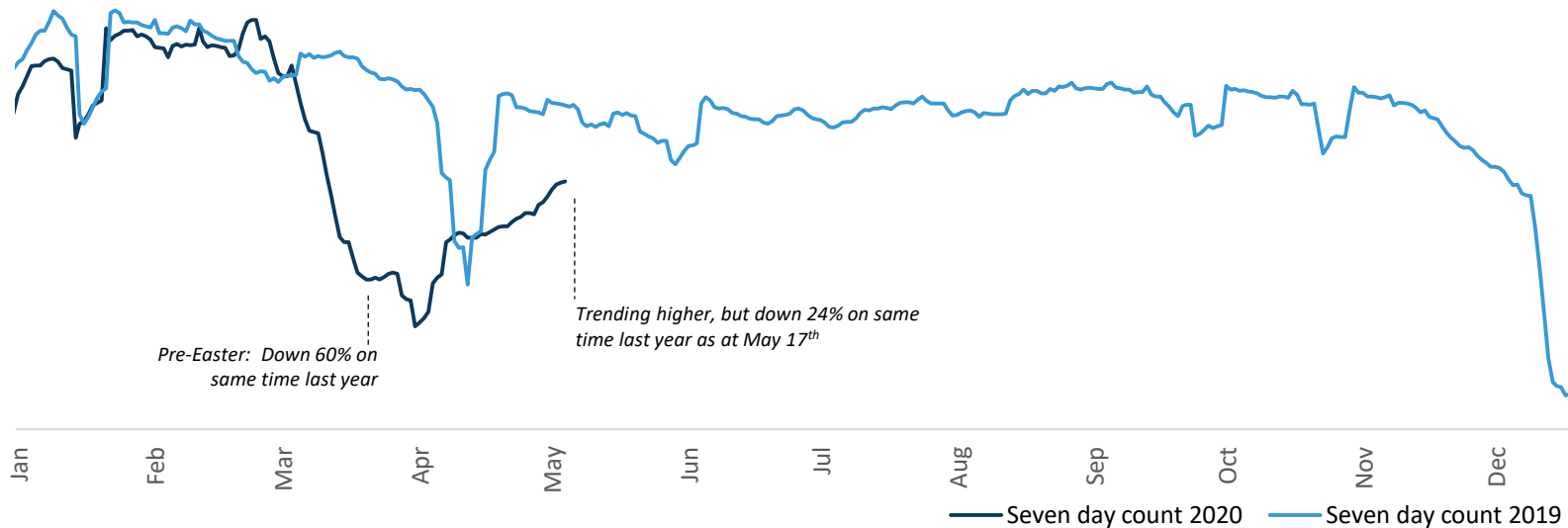
Consumer sentiment v Volume of dwellings sales



Note: recent months of sales volumes are modelled estimates, and are subject to revision

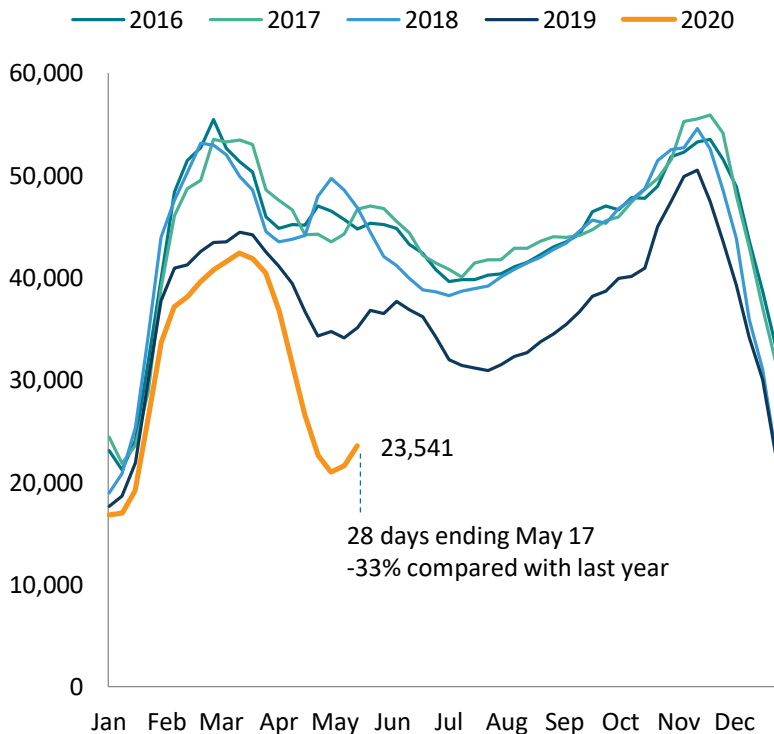
Real estate agents have seen a significant drop in activity, although activity has bounced back post Easter and continues to trend higher

Rolling seven day count of CMA reports, Australia
2019 v 2020

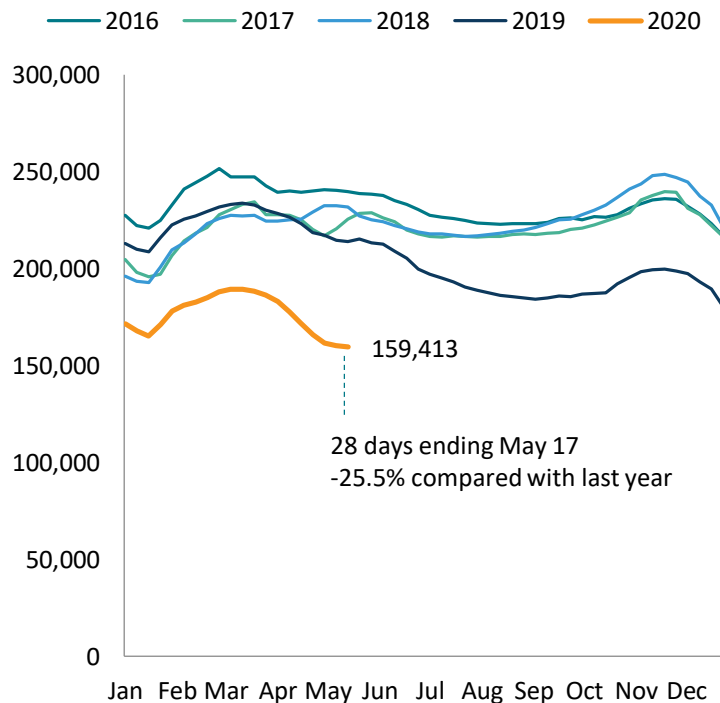


New listing numbers have fallen sharply and could fall further over the coming months

New Listings, rolling 28-day count, national

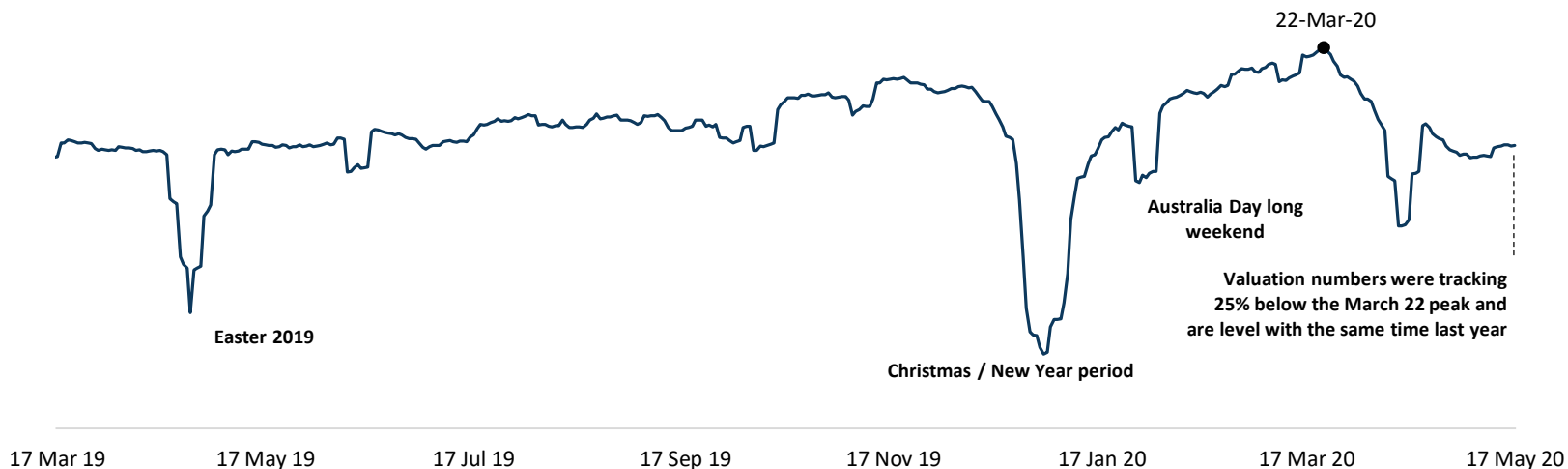


Total Listings, rolling 28-day count, national



Mortgage related valuations activity has also levelled out, with refi activity helping to offset lower purchasing related valuations

Number of valuations events, Australia (rolling seven day count)

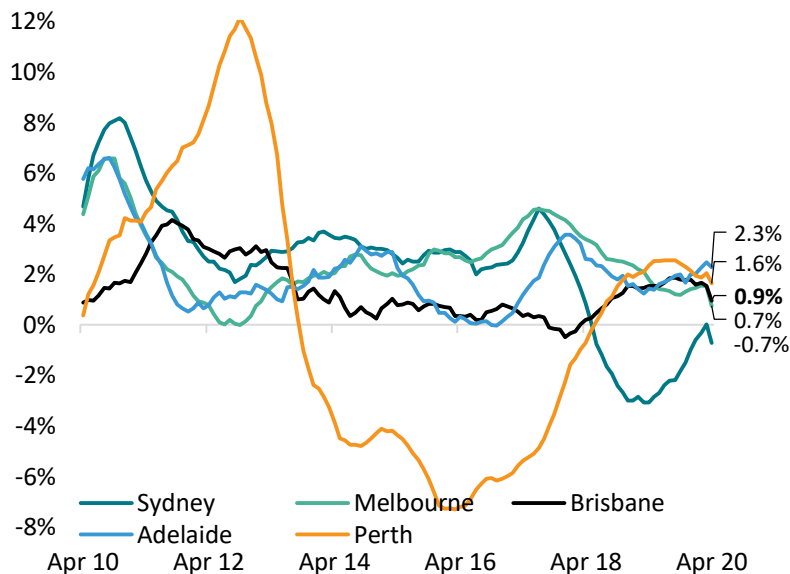


Rental markets are likely to see larger declines than housing values due to higher supply at a time of lower demand.

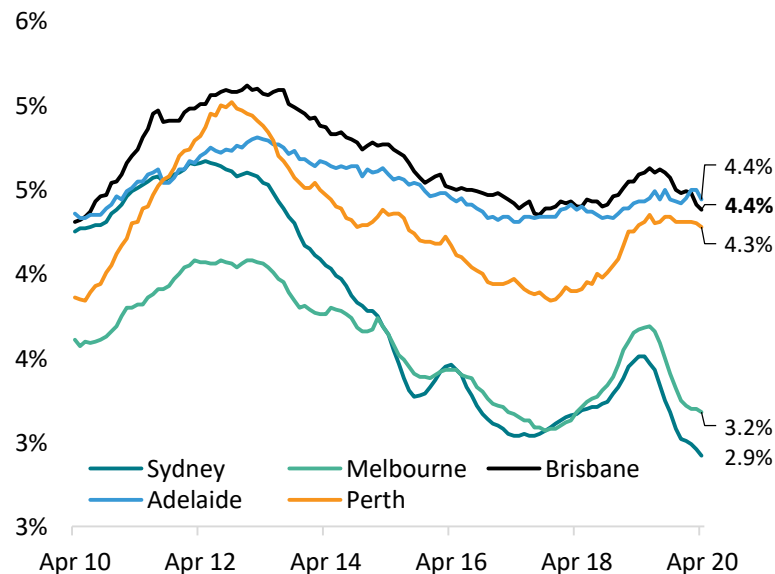


Rents have generally shown a softer trajectory than housing values, with early signs of weakness through April

Annual change in rents

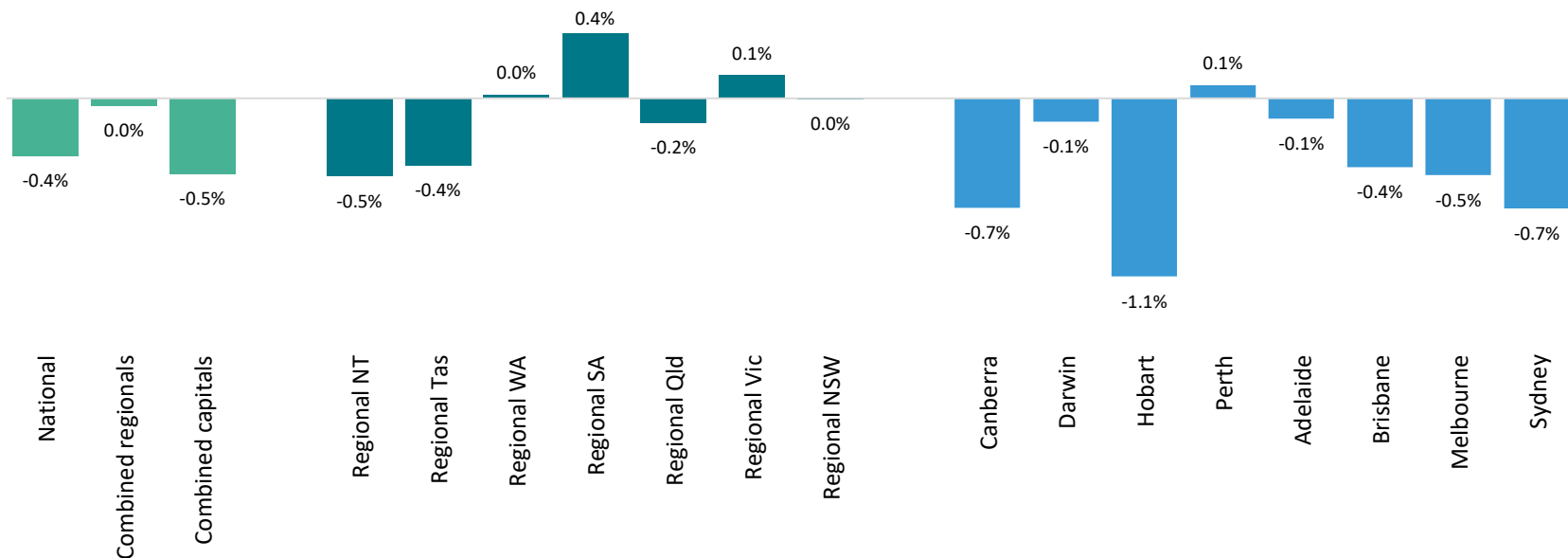


Gross rental yields



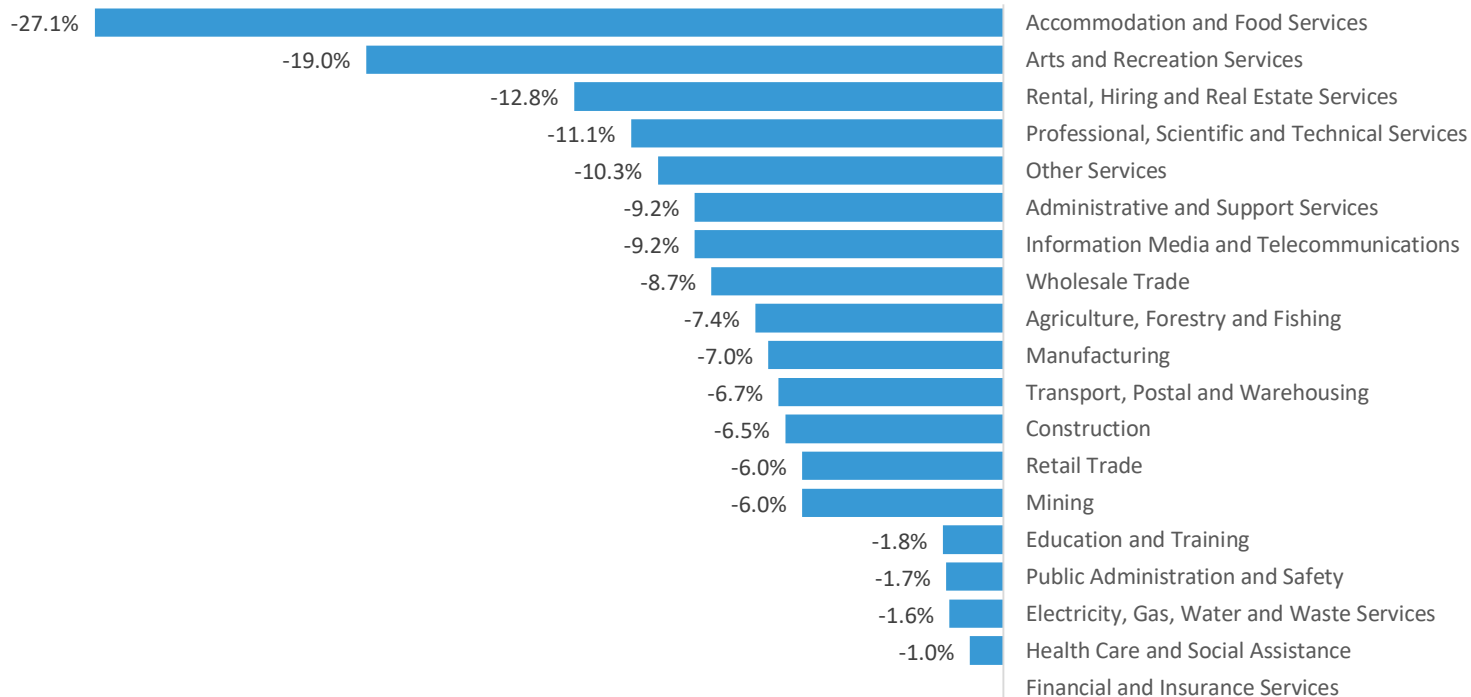
7 of the 8 capital cities recorded a fall in rents through April... the first sign of a broad based weakening in rental market conditions

Month on month change in rents



Across all industries, payroll jobs have declined 7.3%, but the effect is more acute in some parts of the economy

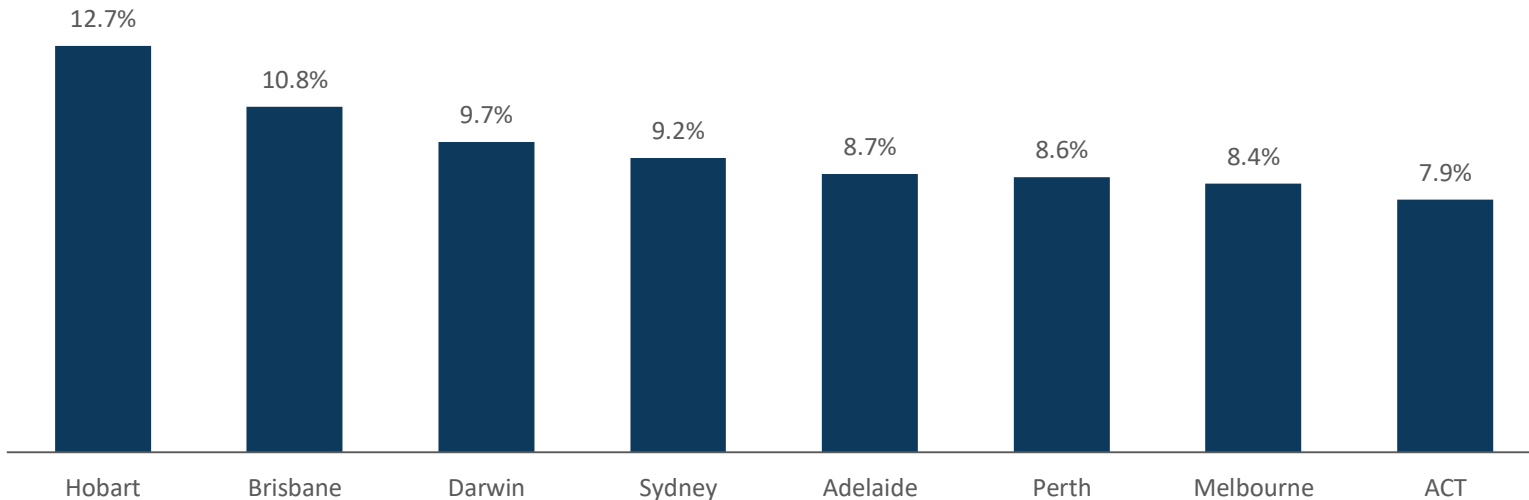
Change in payroll jobs between March 14th and 2nd May



Employment fundamentals will be an important determinant of the extent that housing demand is impacted

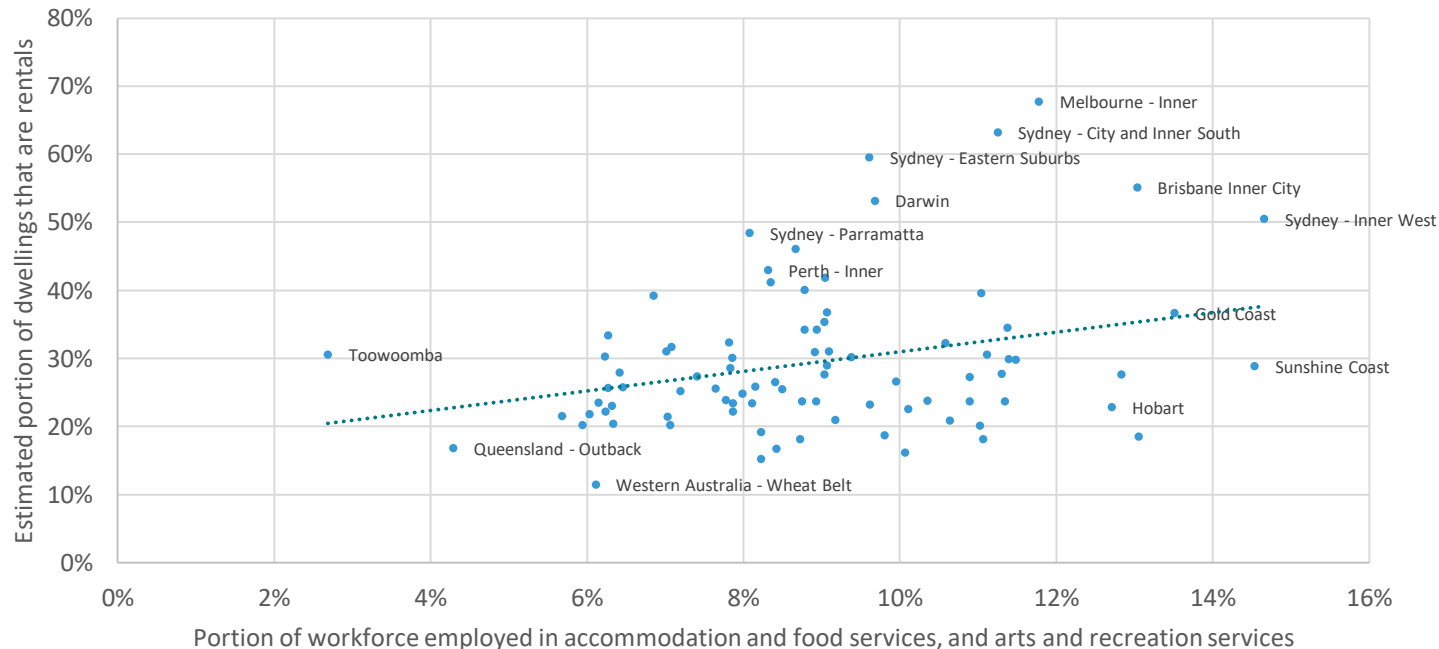
Portion of workforce employed in most impacted sectors

By Capital City



Regions with high concentrations of vulnerable workforces generally have a higher incidence of renting households

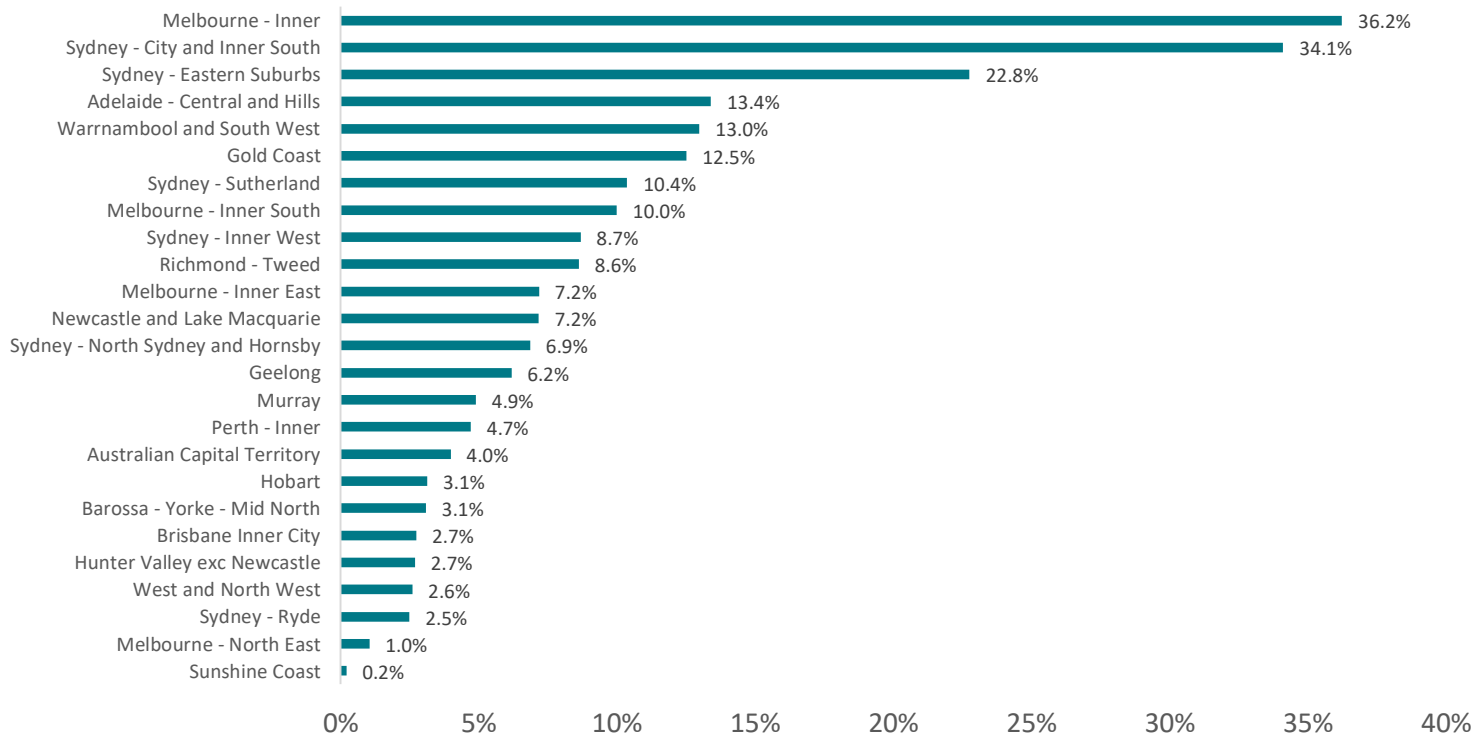
Concentration of workforce in industries highly impacted by COVID-19, and portion of renting households - SA4 Regions, Australia



Source: ABS catalogue 6291. Note employment data of the portion of the workforce in arts and tourism is derived from the four quarter average to February 2020

And this coincides with areas of significant rental stock increases

Change in total rental listings by SA4 region - 22nd of March to 26th April

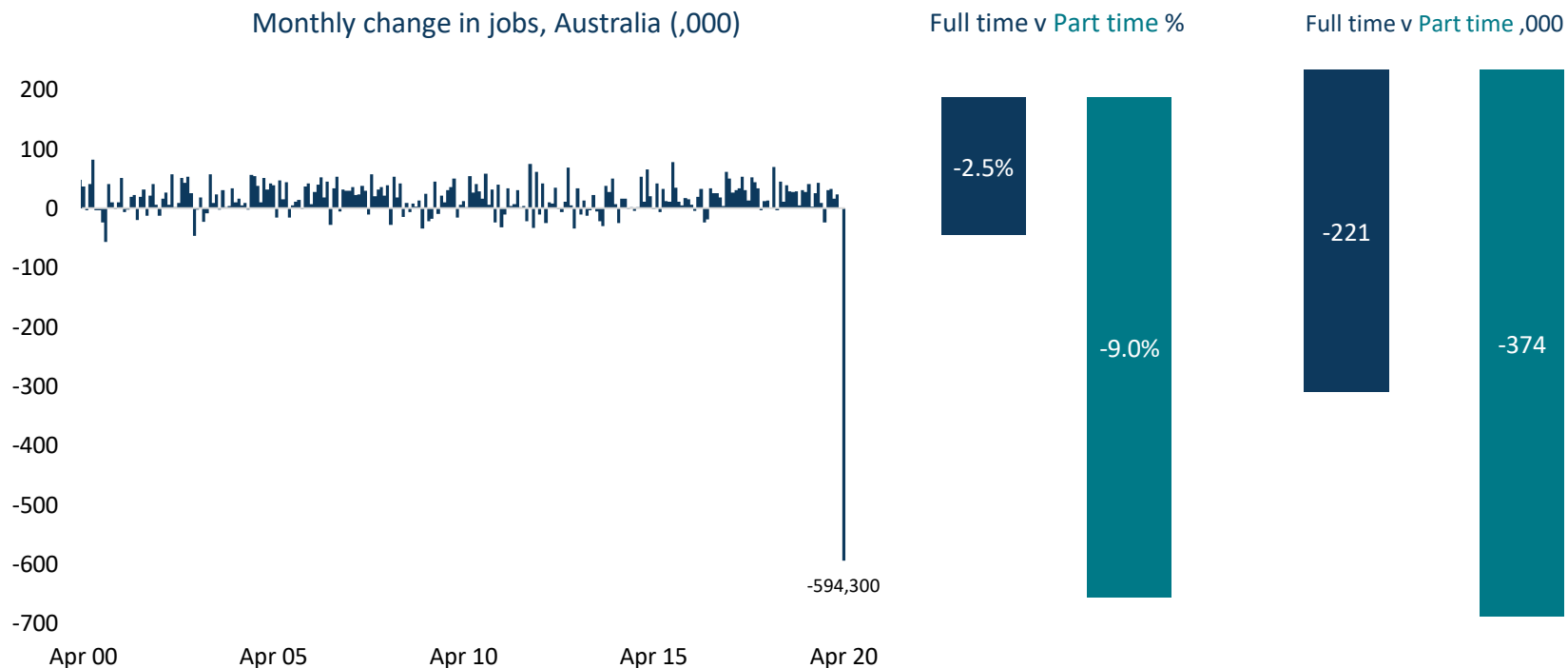


The next few months present an unprecedented shock to an economy with otherwise strong fundamentals.

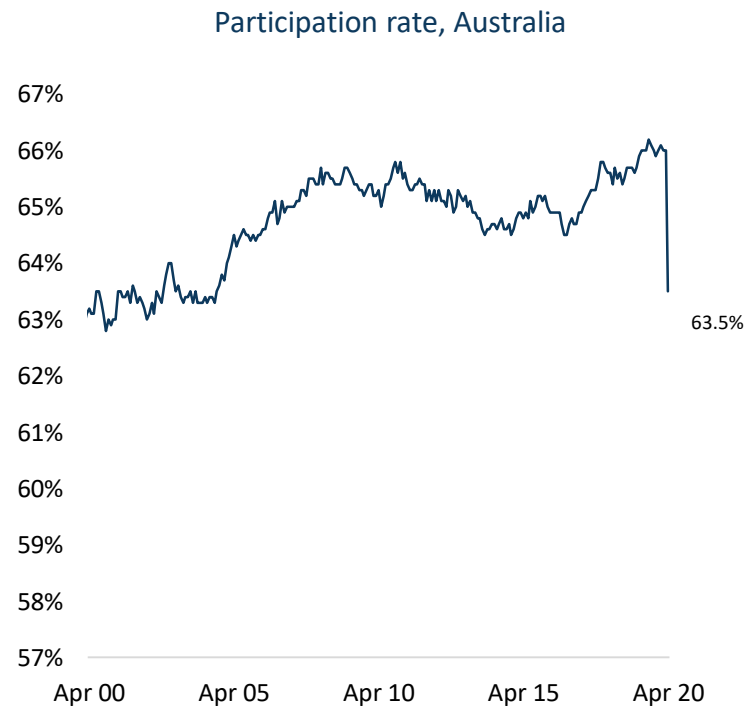
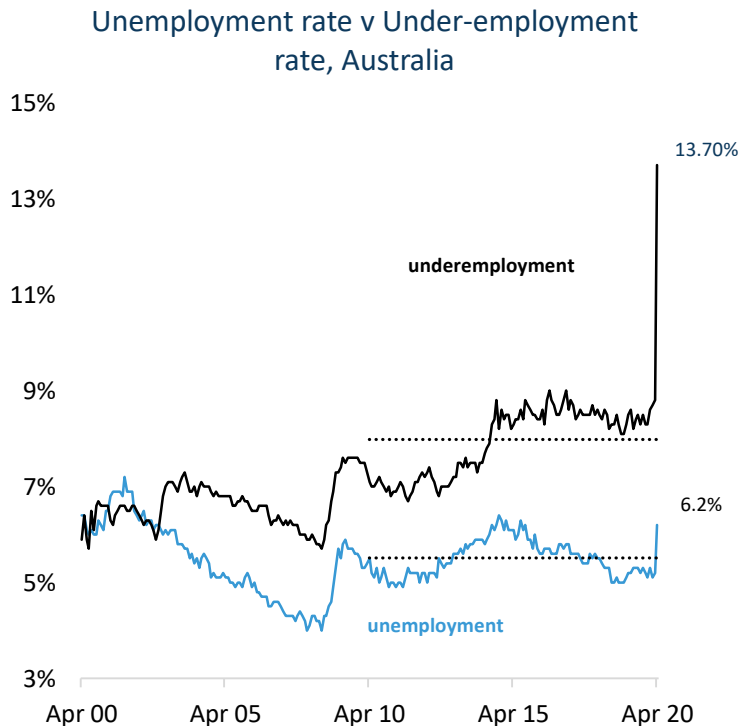
The institutional response is about 'building a bridge' to the recovery phase, with stimulus totaling about **16.5%** of GDP



The Australian labour market fell off a cliff in April, with the most severe declines recorded across part time jobs

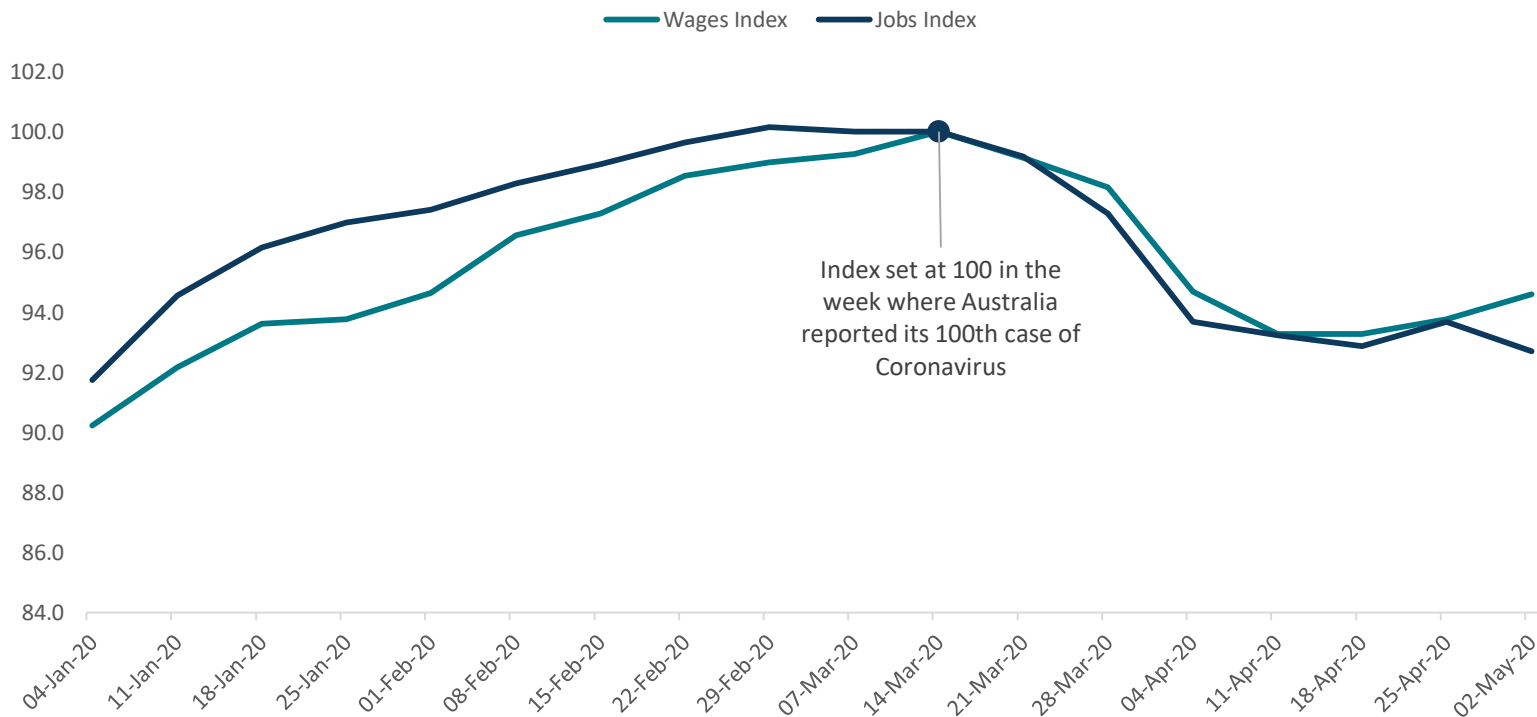


The Australian labour market fell off a cliff in April, with the most severe declines recorded across part time jobs



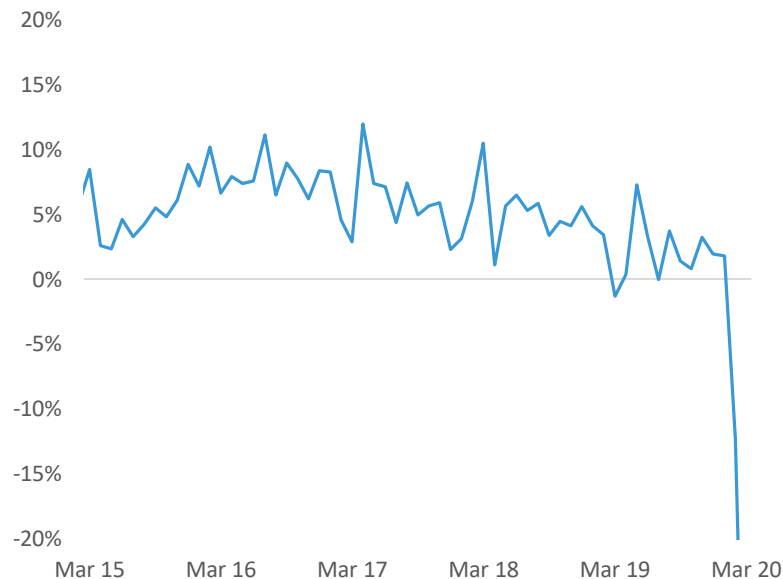
For those currently working, the loss of jobs and wages seemed to be stabilizing at the start of May

Index of job and wage levels across Australia

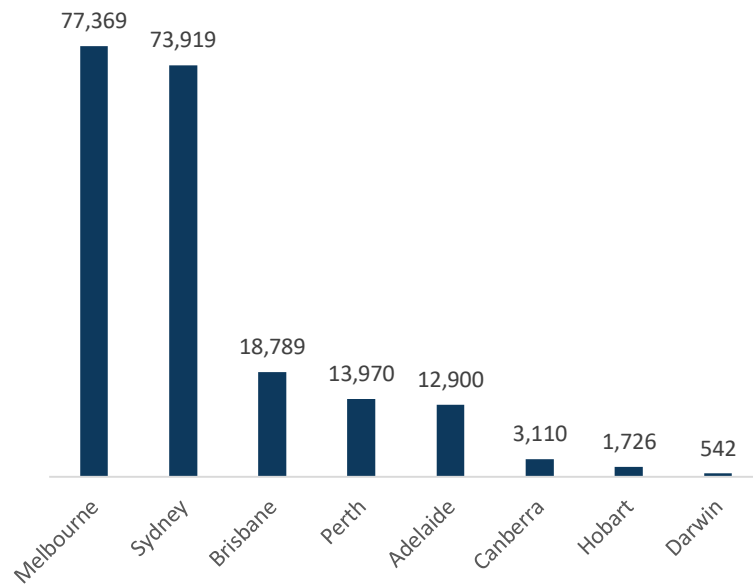


Housing demand will be materially impacted by a stalling in overseas migration

Annual change in number of overseas arrivals

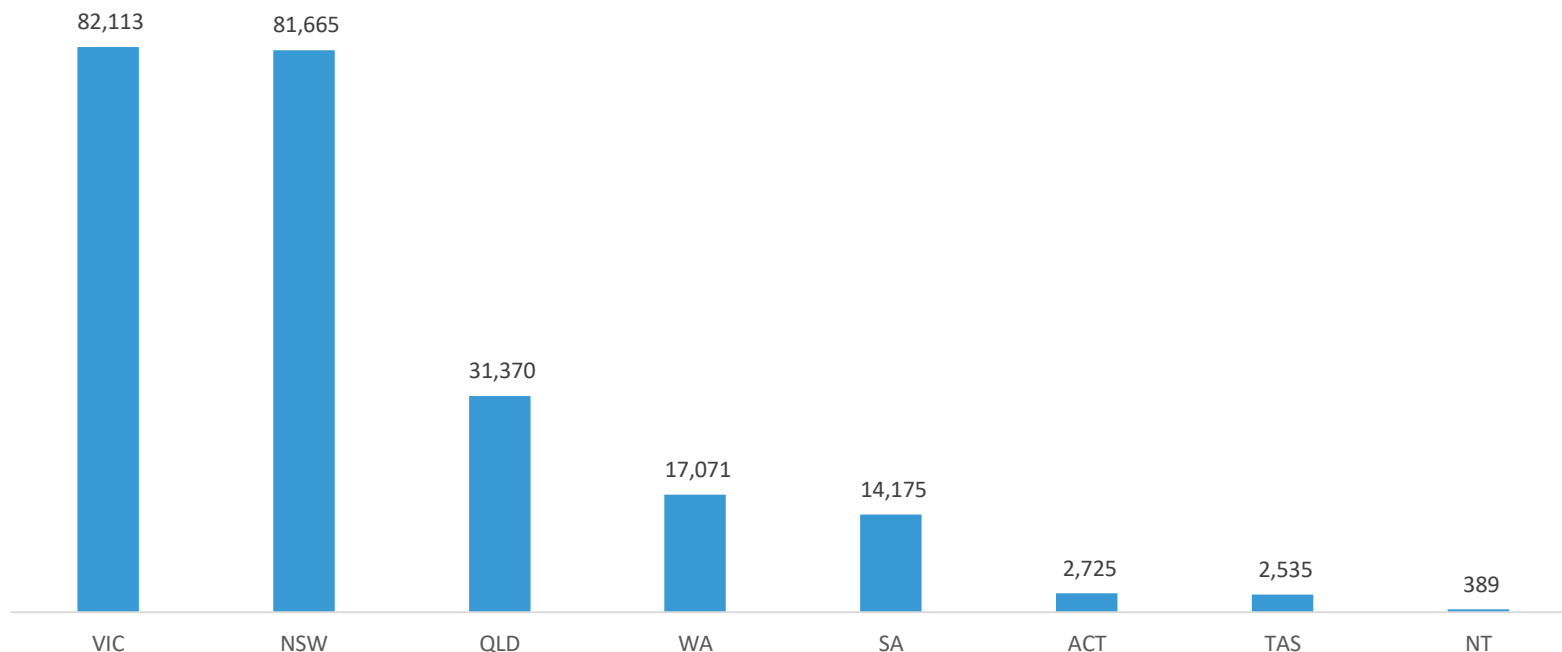


Net overseas migration by capital city 2018/19



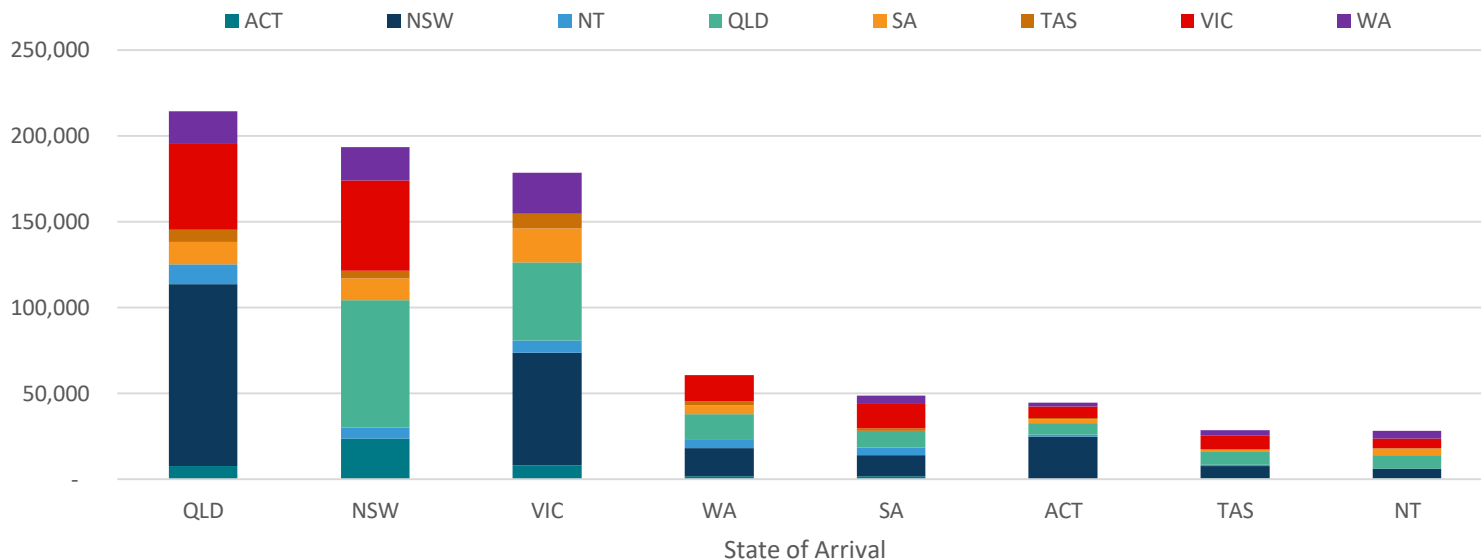
A freeze in international migration will greatly impact dwelling markets across NSW and VIC

Number of overseas migrants – four quarters to September 2019

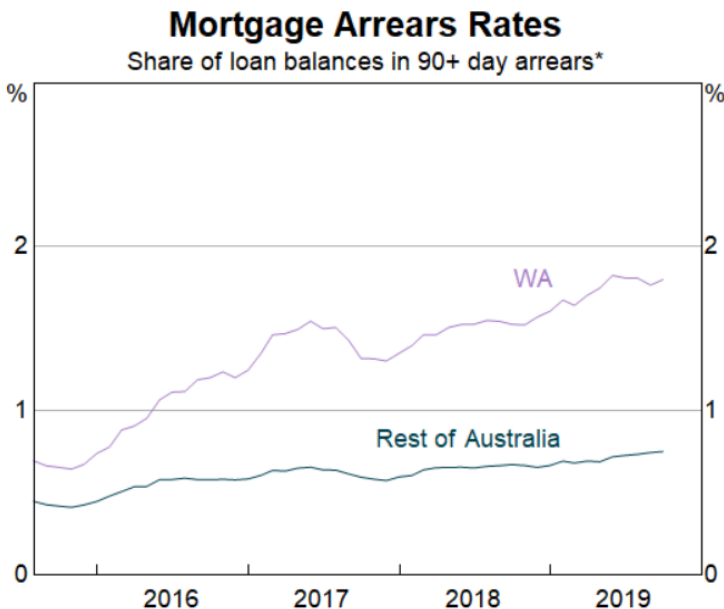


While net-interstate migration may be a bright spot for Queensland dwelling markets

Interstate migrants by state of departure – 2 years to September 2019



A longer term risk to housing values is a rise in distressed property sales associated with higher unemployment and rising mortgage arrears



* Representative selection of loans from the Securitisation System
Sources: RBA; Securitisation System

member losing their job or having their working hours reduced is typically associated with greater financial stress. If labour market dislocations and associated debt serviceability problems persist, this could translate into more mortgage loans entering arrears. Analysis based on loan-level data and historical relationships indicates that, for every one percentage point increase in the unemployment rate, the mortgage arrears rate increases by about 0.8 percentage points. In response, the major banks have announced they will allow loan

RBA Financial Stability Review, April 2020

Key takeaways

- Historically, **housing values** have been largely insulated from economic shocks, but **market activity** has seen severe declines
- The same phenomenon has played out over April. Property prices were steady, but transaction volumes declined and **estimated 40%**
- There are signs that transaction activity has reached a **new normal**, and is starting to stabilize
- One area of the housing market to watch is the **rental market**. Because of COVID-19, rental demand is falling, which already had a severe impact on prices over April.
- Downside risks for the housing market still include an increase in arrears rates, making employment a key indicator to follow.

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