Data Snapshot

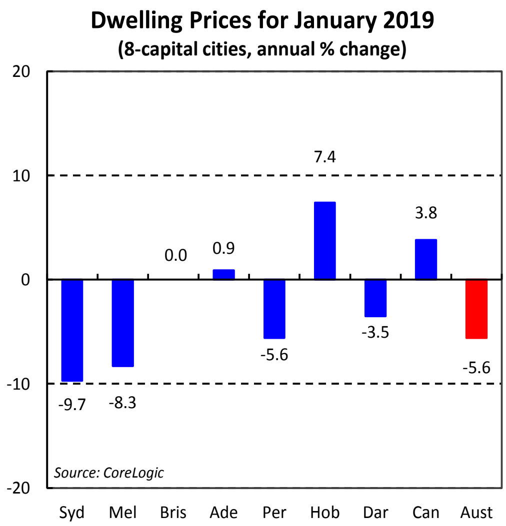
Friday, 1 February 2019

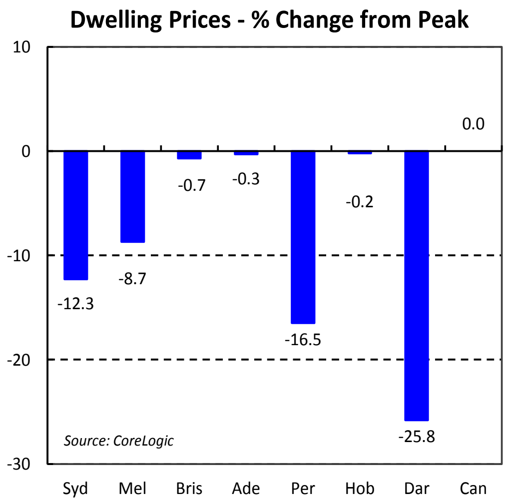
Bank of Melbourne

Dwelling Prices

The Tipping Point*

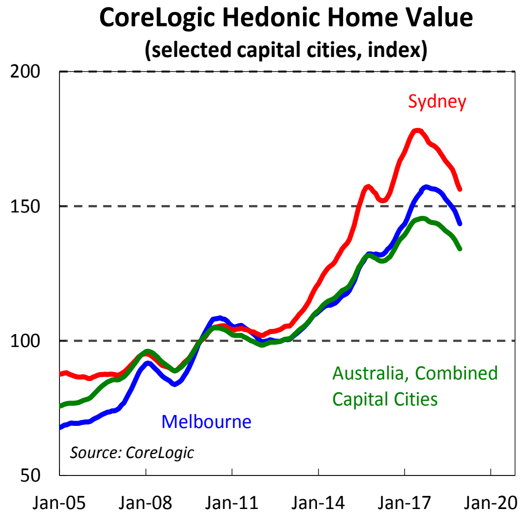
- **Dwelling prices across the capital cities fell by 1.2% in January and by 6.9% in the year to January. Every capital city experienced a fall in January with the exception of Canberra.**
- **The housing slump continued to be deepest in Sydney and Melbourne. Sydney dwelling prices declined by 1.3% in January and fell by 1.6% in Melbourne last month. The pace of annual decline was 9.7% in January in Sydney, the largest in 35½ years (since May 1983). In Melbourne, the annual contraction of 8.3% is the biggest since February 2009.**
- **In the year to January, Hobart, Canberra and Adelaide still recorded growth; however, the pace of growth has decelerated, indicating that a slowing might even be underway in these markets.**
- **These sorts of declines could present a tipping point for the consumer. Consumer spending grew moderately through 2018. The risk is that there is a bigger pullback from the consumer in 2019, hurting economic activity.**
- **The firming of the jobs market has given support to the consumer, but wages growth is still soft and employment growth is likely to slow from its current rate. A recent business survey revealed a sharp fall in business conditions and another drop in confidence, which also means we need to be cautious about the outlook for business spending, and in turn, hiring activity.**
- **It is clear that the risks in the Australian economy have shifted to the downside in recent months, including from a more fragile-looking global economy.**
- **Vendor discounting, lower sales volumes and falls in housing lending and building approvals suggest this downturn in dwelling prices has much further to run.**





Dwelling prices across Australia (both capital cities and regional areas) fell by 1.0% in January and by 5.6% on a year ago. Dwelling prices across the 8 combined capital cities fell by a deeper 1.2% in the month and by 6.9% in the year to January.

Every capital city experienced a fall in January with the exception of Canberra. Most capital cities have also entered a downturn. The housing slump continues to be deepest in Sydney and Melbourne. These two cities are leading the decline in dwelling prices and the pace of declines in these cities has accelerated in recent months.



Sydney dwelling prices declined by 1.3% in January and fell by 1.6% in Melbourne last month. Sydney dwelling prices have now declined for 18 consecutive months while in Melbourne the string of monthly declines amounts to 14.

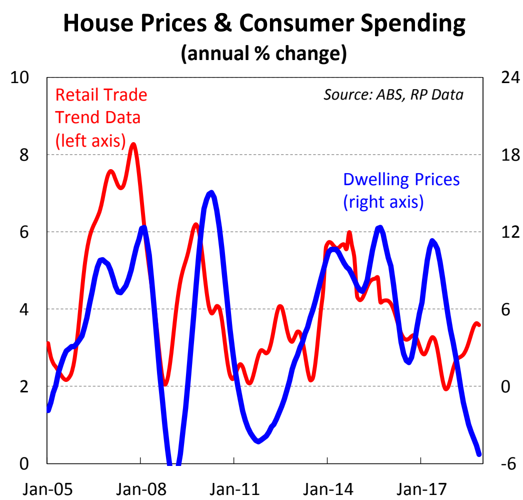
The pace of annual decline was 9.7% in January in Sydney, the largest in 35½ years (since May 1983). In Melbourne, the annual contraction of 8.3% was the biggest since February 2009.

In terms of the declines from peak levels, Sydney is off 12.3% from the peak and Melbourne is off 8.7%. These figures might seem alarming, but Sydney and Melbourne dwelling prices had risen by 74.7% and 57.8% in the boom.

In any case, these sorts of large declines could present a tipping point for the consumer. Consumer spending grew moderately through 2018. The risk is that there is a bigger pullback from the consumer in 2019, as households that own a home or have a mortgage grapple with feeling less wealthy.

The Reserve Bank (RBA) is suggesting that the wealth effects from the downturn in housing are minimal, but this might not be what transpires. The size of the slump in the housing market might already be or approaching a tipping point that sees consumers crawl into their shells.

The labour market is in good shape. Employment growth has been solid and the unemployment rate fell to 5.0% in December. The firming of the jobs market has provided support to the consumer, but wages growth is still subdued and employment growth is likely to slow from its current rate.



The recent NAB business survey revealed a sharp decline in business conditions and another drop in business confidence, which also means we need to be cautious about the outlook for business spending, and in turn, hiring activity. It is clear that the risks in the Australian economy have shifted to the downside in recent months, including from the more fragile-looking world economy. A US government shutdown, Chinese growth concerns and Europe grappling with both Brexit and Italy in recession highlights the world's vulnerabilities.

Typically, past housing downturns have ended or stabilised due to interest-rate cuts from policymakers. The RBA in its most recent remarks is still saying they expect the next move in the cash rate to be up. The RBA meet on Tuesday and also release their Statement on Monetary Policy next Friday. It will be interesting to see if this language is maintained. We suspect the RBA will become more cautious. Indeed, we think there is some risk that they drop their language suggesting the next move will be up.

States and Territories

The downturn in housing continues to be deepest in Sydney. Sydney dwelling prices dropped 1.3% in January and by 9.7% in the year to January. The annual decline is the greatest since May 1983. Within Sydney, the greatest annual declines have occurred in the Ryde region (-13.4%) and the Inner South-West region (-12.1%).

The slowdown in the Melbourne housing market started 4 months later than in Sydney, but the pace of decline is catching up. Melbourne dwelling prices dropped 1.6% in January and by 8.3% in the year to January. The annual decline is the biggest since February 2009. The annual declines in Melbourne have been greatest in the Inner East (-15.0%) and in the Inner South (-11.7%).

The more expensive regions of both Sydney and Melbourne have generally been leading the declines, as the lesser expensive regions find some demand from first-home buyers.

Dwelling prices in Melbourne are now back to January 2017 levels and in Sydney they are back to July 2016 levels.

In other capital cities in January, Brisbane fell by 0.3%, Adelaide by 0.3%, Perth by 1.1%, Hobart by 0.2% and Darwin by 1.7%. Only Canberra recorded a lift in dwelling prices in January, of 0.2%.

In the year to January, Hobart, Canberra and Adelaide still recorded growth; however, the pace of growth has decelerated

Hobart recorded annual growth of 7.4% in January, down from its recent peak of 10.9% in August 2009. Canberra recorded annual growth of 3.8% in January, down from its cyclical peak of 7.3% in December 2017. Meanwhile, Adelaide’s annual growth of 0.9% in January is off its peak of 3.6% in May 2017. Brisbane prices were flat on a year ago, but the annual pace had been as high as 4.0% in July 2017.

The annual pace of decline in the other capital cities in January were 9.7% in Sydney, 8.3% in Melbourne, 5.6% in Perth and 3.5% in Darwin.

Outlook

Deeper vendor discounting, lower sales volumes and the decline in housing lending and building approvals suggests this downturn in dwelling prices has much further to run.

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** The Tipping Point – also a book by Malcolm Gladwell. Worth a read.*

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