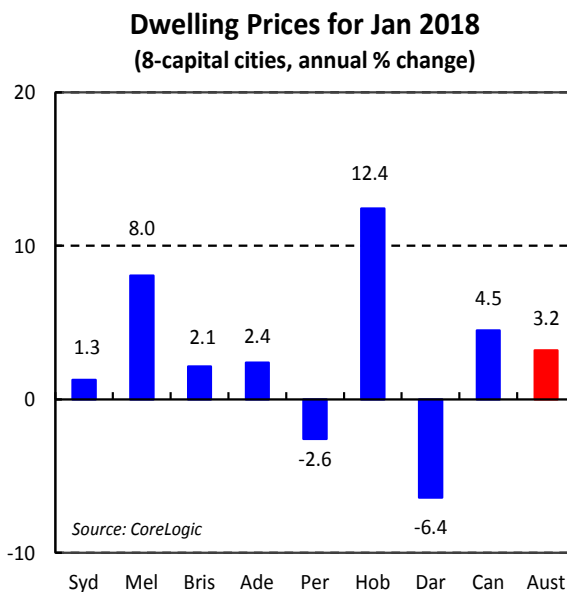
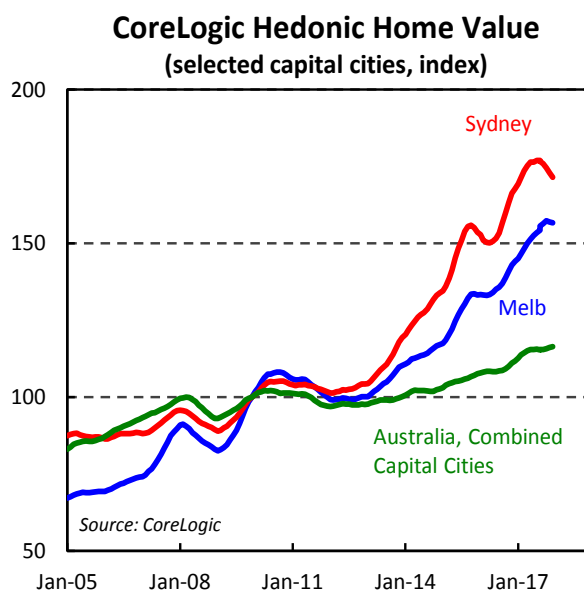


## Dwelling Prices and Building Approvals

### Is the Party Over?

- Dwelling prices continued to fall heading into 2018. The eight-capital city combined index fell 0.5% in January, dropping for the third consecutive month.
- The decline in the month was led by Sydney, the fifth consecutive monthly fall. The overall price decline however, has been modest given growth over recent years; prices are still only 3.1% lower than its July peak.
- There was weakness across all other capital cities, with the exception of Hobart.
- In separate data, a jump in building approvals in November spectacularly reversed in December. After jumping 12.6%, approvals slumped 20.0% in December to its lowest level in 14 months.
- The reversal in approvals was led by Victorian apartments which rose significantly in November, but there was also a sizeable fall in “other” approvals in NSW.
- There are reasons to be cautious in reading today’s housing data, but overall, housing conditions are continuing to moderate, which is expected to continue over the coming year.
- Higher household debt and the lift in mortgage rates for interest-only and investor loans should continue to weigh on housing demand. Weak wages growth is also contributing to the story. However, the solid labour market and low rates of interest on a historical comparison will provide some support.



## CoreLogic Dwelling Prices

Dwelling prices continued to fall heading into 2018. The eight-capital city combined index fell 0.5% in January, dropping for the third consecutive month.

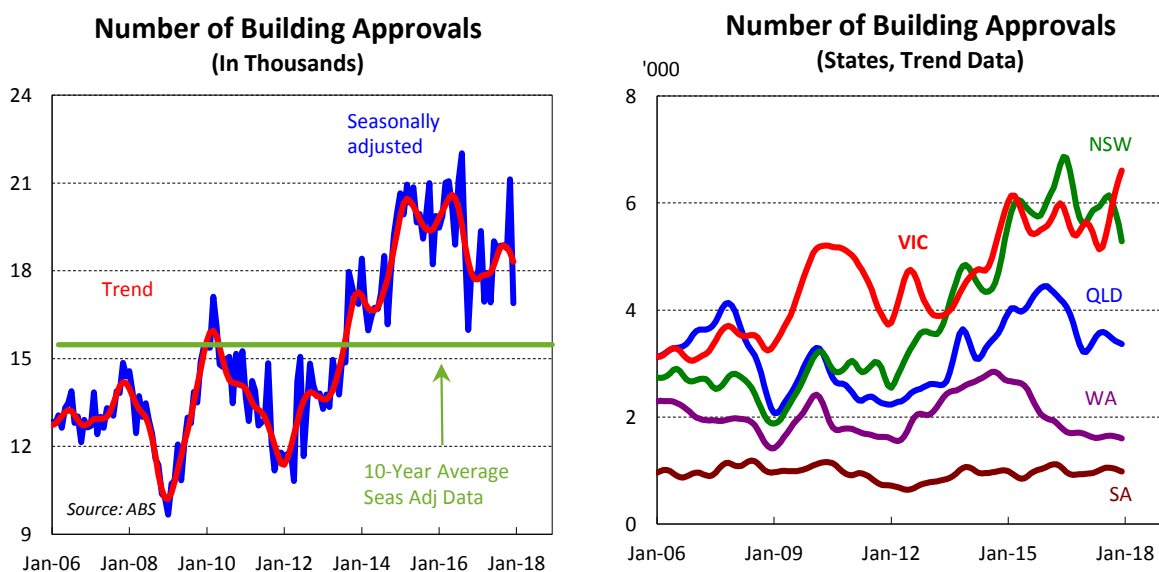
The decline in the month was led by Sydney (-0.9%), the fifth consecutive monthly fall. The overall price decline however, has been modest given growth over recent years; prices are still only 3.1% lower than its July peak.

There was evidence of further cooling in the housing market in Melbourne, where dwelling prices fell 0.2%, the second consecutive monthly fall.

Weakness was also across other capital cities. Adelaide (-0.2%), Canberra (-0.1%), Darwin (-0.2%) and Perth (-0.4%) all saw price declines, while Brisbane prices were flat.

Hobart was the only capital city where dwelling prices rose in the month, lifting 1.0%. It also had the strongest annual growth (12.4%) of all capital cities.

Prices in Melbourne also remain firm in the year, lifting 8.0% in the year to January. There was modest growth in Canberra (4.5%), Brisbane (2.1%) and Adelaide (2.4%). Annual growth in Sydney has slowed to just 1.3% in January, down from a recent peak of 17.1% in May 2017, due to the recent correction in prices over the past few months.



## Building Approvals

The jump in building approvals in November spectacularly reversed in December. After jumping 12.6%, approvals slumped 20.0% in December to its lowest level in 14 months. We had anticipated a sizeable decline given that November approvals were boosted by apartments in Victoria.

Given the substantial decline over December, a downward trend in approvals has re-emerged. In trend terms, approvals have weakened over the past three months.

In December, the decline was driven by the volatile private sector “other” category, which fell 39.2%, following a 32.1% increase in November. Meanwhile, private sector houses rose 1.0% in December.

- **By State**

The decline was unsurprisingly led by Victoria, where approvals dropped 35.2% in December after a 38.0% gain in November. There was also a sharp decline in NSW approvals (-19.1%), with the falls driven by unit approvals in both States. Approvals also fell in South Australia (-12.2%), Tasmania (-1.9%) and Western Australia (-0.5%) in December. Queensland was the only State where building approvals increased.

On an annual basis, Victorian approvals were down 12.6%. Approvals were modestly weaker in NSW (-2.1%) and Western Australia (-3.2%). Approvals in Queensland (8.1%) and South Australia (1.4%) were moderately higher in the year. Tasmania had the strongest annual growth at 30.8% in the year to December.

**Outlook**

There are reasons to be cautious in reading today's housing data, but overall, housing conditions are continuing to moderate.

House price data over January tends to be less reliable given low sales activity over the month. However, the trend of moderating housing prices is likely to continue to over the year ahead.

Building approvals has been impacted by greater-than-usual volatility in recent months, but a weakening trend is likely to continue given the downturn in house prices and other indicators of housing demand.

Higher household debt and the lift in mortgage rates for interest-only and investor loans are expected to continue to weigh on housing demand. Weak wages growth is also contributing to the story. However, the solid labour market and low rates of interest on a historical comparison will provide some support.

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