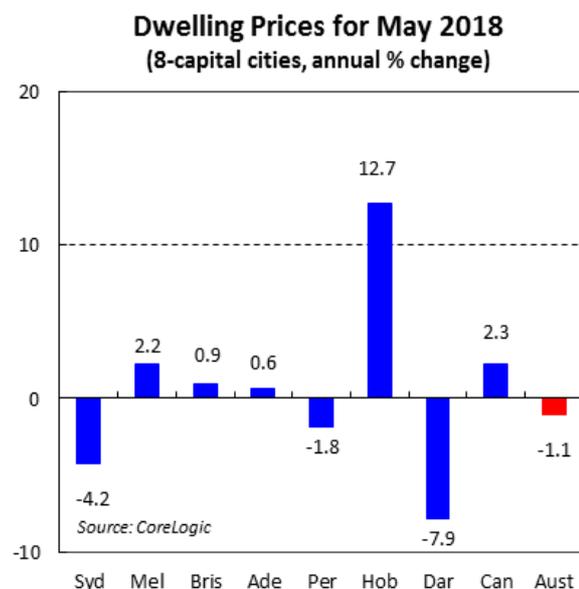
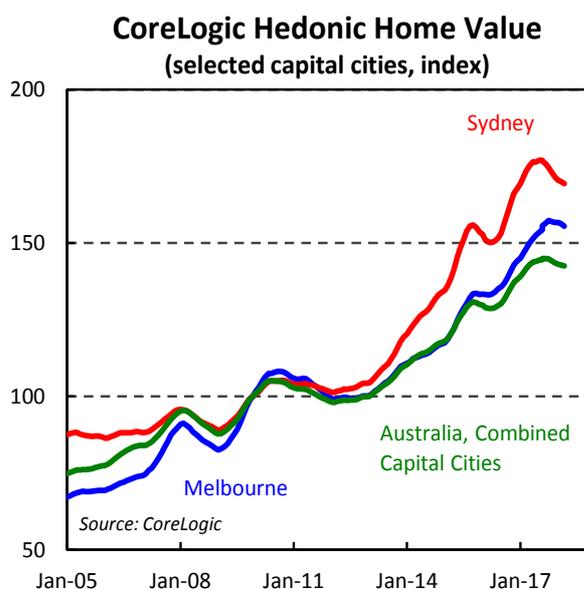


Dwelling Prices The Correction Continues

- In May, the 8-city capital cities combined prices published by CoreLogic fell 0.1%. On a year ago, prices were down 1.1%.
- A downturn in the housing market is clearly underway. Dwelling prices nationally have fallen for seven consecutive months. A tightening of lending standards reflecting macro-prudential measures are taking their toll on housing demand.
- Recent weakness in prices has been led by Sydney and Melbourne, where prices have run up the most over the past few years. That said, prices in these two capital cities are only 4.5% and 1.6% down, respectively from their peaks.
- A correction phase in the housing market is becoming established. We expect that dwelling prices will continue to moderate, especially in Sydney and Melbourne. Falling auction clearance rates and softer lending also point to further weakness in prices ahead. There are still solid fundamentals which is supporting housing demand over the longer-term. Strong population growth and the healthy labour market should limit the extent of the downturn.



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Recent weakness in prices has been led by Sydney and Melbourne, where prices have run up the most over the past few years. Price falls in Melbourne over the three months to May now exceed Sydney. That said, prices in these two capital cities are only 4.5% and 1.6% down, respectively from their peaks.

In the month, prices declined in Melbourne (-0.5%), Sydney (-0.2%), Darwin (-0.2%) and Canberra (-0.1%). Adelaide (0.5%) and Brisbane (0.2%) are still witnessing modest price growth. Hobart continued to outperform all other capital cities, with price growth of 0.8% in the month.

On an annual basis, Hobart continued to be the standout – prices grew 12.7% in the year to May. Among other capital cities, Canberra (2.3%), Melbourne (2.2%), Brisbane (0.9%) and Adelaide (0.6%) were modestly higher over the year.

The annual rate of decline extended further in Sydney, where prices were down 4.2% in the year to May. Prices in Perth (-1.8%) and Darwin (-7.9%) were also weaker in the year, continuing to be affected by the downturn in mining investment. However, in Perth, it was the best result in three years.

Outlook

A correction phase in the housing market is becoming established. We expect that dwelling prices will continue to moderate, especially in Sydney and Melbourne. Falling auction clearance rates and softer lending also point to further weakness in prices ahead.

There are still solid fundamentals which is supporting housing demand over the longer-term. Strong population growth and the healthy labour market should limit the extent of the downturn.

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