

Box C

Housing in the Consumer Price Index

The two largest housing components of the Consumer Price Index (CPI) basket are rents and new dwelling purchases by owner-occupiers, which together account for around one-sixth of the CPI basket.^[1] Price inflation in these two components is influenced by conditions in local housing and construction markets and can vary considerably by city. Inflation in rents and new dwellings have each averaged a little over 3 per cent in year-ended terms since 2002. Over the past year these two components have been much weaker than average and have contributed notably less to CPI inflation; rent inflation was 0.4 per cent and new dwelling cost inflation was 1.2 per cent (Graph C1).

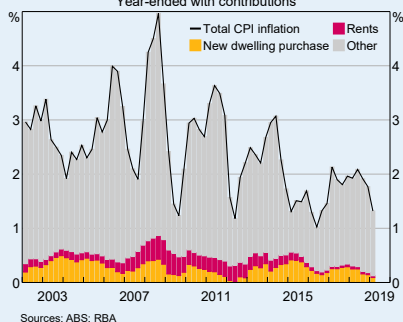
The new dwelling purchase component of the CPI captures the cost of adding to the housing stock – newly built dwellings and major renovations. It is measured as the price of a *new* dwelling, excluding the value of the land.^[2] Purchases of *established* dwellings are not captured in the CPI, because they are

treated as transfers of existing assets. As a result, the price of established dwellings has no direct influence on CPI inflation. For most dwelling types, the Australian Bureau of Statistics (ABS) obtains prices by surveying home builders. The types of new dwellings captured by the survey are those most commonly built in each capital city. The ABS adjusts the final prices of new dwellings to take into account first home owner grants and purchase incentives, both of which reduce the effective price faced by the consumer. Initially, only newly built detached houses were captured in the CPI; however, newly built apartments and other attached dwellings (such as townhouses) have been included since 2017.

Although the ABS does not publish CPI figures separately for houses and apartments, the closely related Producer Price Index (PPI) ‘Output of Construction’ series provides an approximation of price movements for new houses and apartments (Graph C2). Prices for new houses and new apartments do not necessarily move in tandem. One reason for this is that the materials used in construction differ substantially between houses and apartments. Timber and bricks are generally the major materials used in house construction. In contrast, steel and concrete are typically the biggest material inputs to apartment construction. Over much of the past decade, prices for new apartments have risen more slowly than prices for new houses. However, this trend has reversed over the past year. Inflation in the price of

Graph C1

Housing and CPI Inflation
Year-ended with contributions

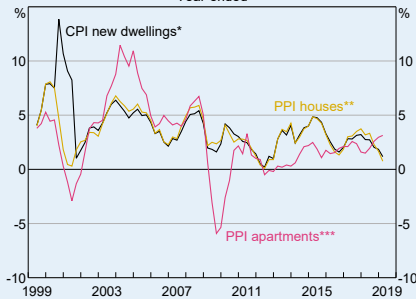


new houses has declined because home builders have increased the size of purchase incentives to encourage sales. Over the same period, new apartment price inflation has increased, driven by higher input costs, particularly for steel products. Ongoing strength in other types of construction has contributed to the pick-up in new apartment price inflation because the materials and trades used in apartment construction are similar to those used in non-residential building and infrastructure construction.

The rents component of the CPI captures payments made by households to landlords as rent. For privately owned properties, the ABS tracks the rents paid on a sample of rental dwellings in each city over time. Rents for publicly owned housing are estimated by the ABS using information collected from government housing authorities. Advertised rents are a leading indicator of CPI rents (Graph C3). However, new rents account for only a portion of the existing rental stock and so pass through to the CPI rents measure gradually. ↕

Graph C2

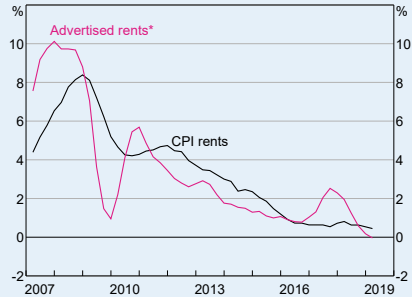
New Dwelling Prices
Year-ended



* Adjusted for the tax changes of 1999–2000; attached dwellings included from March 2017 onwards
 ** Output of house construction series
 *** Output of other residential construction series; includes apartments and other attached dwellings
 Sources: ABS, RBA

Graph C3

Rent Inflation
Year-ended



* Capital cities, hedonic three-month average
 Sources: ABS, CoreLogic; RBA

Endnotes

- [1] There are a number of other housing-related components of the CPI including utilities, dwelling repairs and maintenance, and property rates and charges. Demand for housing may also exert an indirect influence on inflation, for example, by influencing prices for furniture and white goods.
- [2] The value of the land is excluded because land is treated as an

investment asset rather than a consumable item. The cost of servicing a mortgage has also been excluded from the CPI since 1998, although it is included in the ABS's Selected Living Cost Indexes. In analysis of the CPI before 1998, the RBA generally excludes the impact of mortgage interest charges.