
From: EVANS, Richard
Sent: Wednesday, 11 March 2020 3:37 PM
To: EA - COVID-19 Work
Cc: EA - Household & National Accounts; EA - Business & Trade
Subject: Forecasting COVID-19 Confidence Effects on Housing Prices [SEC=UNCLASSIFIED]

Hi COVID-19 team,

I thought I'd share HANA's experience of trying to quantify the economic impact of COVID-19 on housing prices.

Our forecasting models either treat housing prices as a univariate process (monthly AR(3)), or in an error correction framework (in MARTIN, prices are cointegrated with rents and mortgage rates). In either case, the models aren't well suited to modelling the impact of a confidence/preference shock.

If we think confidence may be important, we can calibrate our forecasts using the experience of the GFC. MARTIN allows us to look at historical episodes and decompose the residuals into misses due to misses on a) other variables in the model (for example, the unemployment rate, interest rates, consumption), and misses which b) can't be explained by any other model variables (for more information, see: [Residual Decompositions in MARTIN](#)). As long as we don't think MARTIN is severely misspecified, b) can be loosely interpreted as a housing preference/confidence shock (thanks to Peter Rickards for his help with the residual decompositions).

Taking these unexplained residuals (b) we calibrate two scenarios:

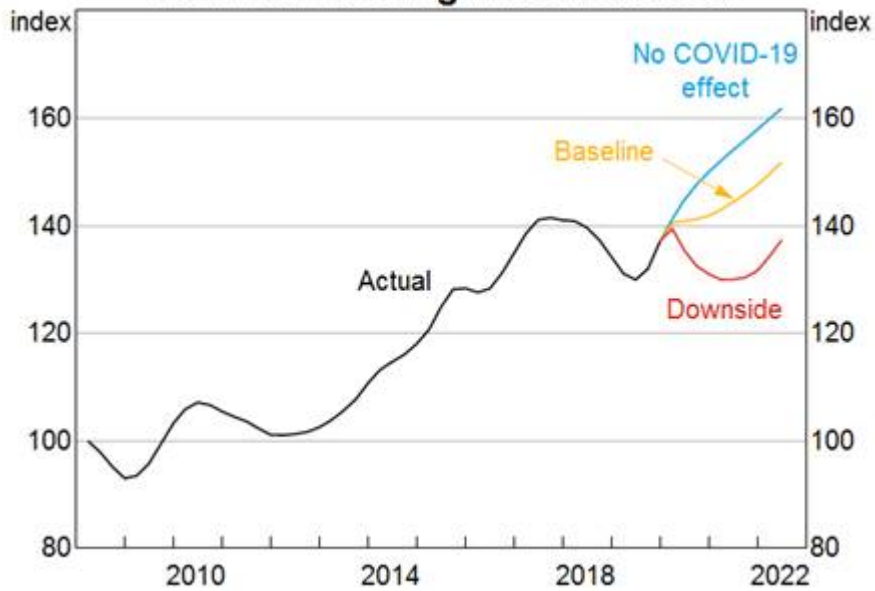
- In the *baseline scenario*, we scale the GFC residuals by 0.5, applied to the baseline monthly AR(3) model over 3 quarters (Q1 2020 to Q3 2020)
- In the *downside scenario*, we scale the GFC residuals by 1.5, applied to the baseline monthly AR(3) model over 4 quarters (Q1 2020 to Q4 2020)

Note, Lachie also used a confidence shock scaled to 0.5 of the GFC to inform BAT's M&E forecast for the *baseline scenario*, using a mapping from NAB business confidence.

These scaling are fairly arbitrary, but a nice feature of this approach is they can be easily scaled up or down as we receive new information. Moving forward, it would be useful to get a sense of the size of the confidence shock we expect, so that our forecasts are internally consistent.

And the housing price forecasts for context:

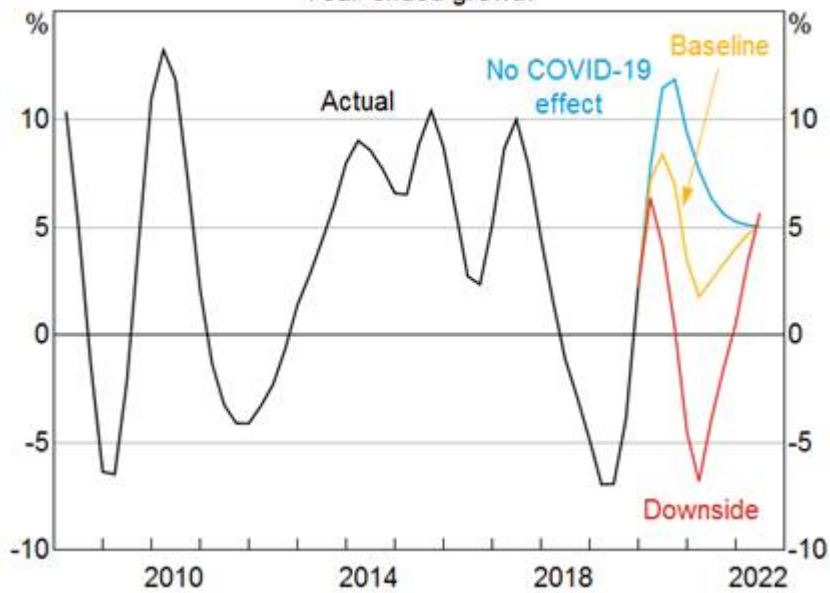
Nominal Housing Price Forecast



Source: RBA

Nominal Housing Price Forecast

Year-ended growth



Source: RBA

Thanks,

Richard Evans | Economist | Household and National Accounts | Economic Group
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

From: EVANS, Richard
Sent: Tuesday, 17 March 2020 12:26 PM
To: EA - Household & National Accounts; EA - Business & Trade
Subject: Established and New Housing Market Forecasts for Scenario 3 [SEC=UNCLASSIFIED]

Hi Team,

Here are the housing-related profiles for scenario 3:

Housing prices

We're assuming the same housing price profile for scenario 3 as we used for the previous *downside* scenario (scenario 2). The negative confidence shock we've applied is a bit over 1.5x the GFC (for more information on calibrating the housing shock, see [D20/83319](#)).

HANA Nominal Dwelling Price Forecasts

Quarterly growth rates (%)

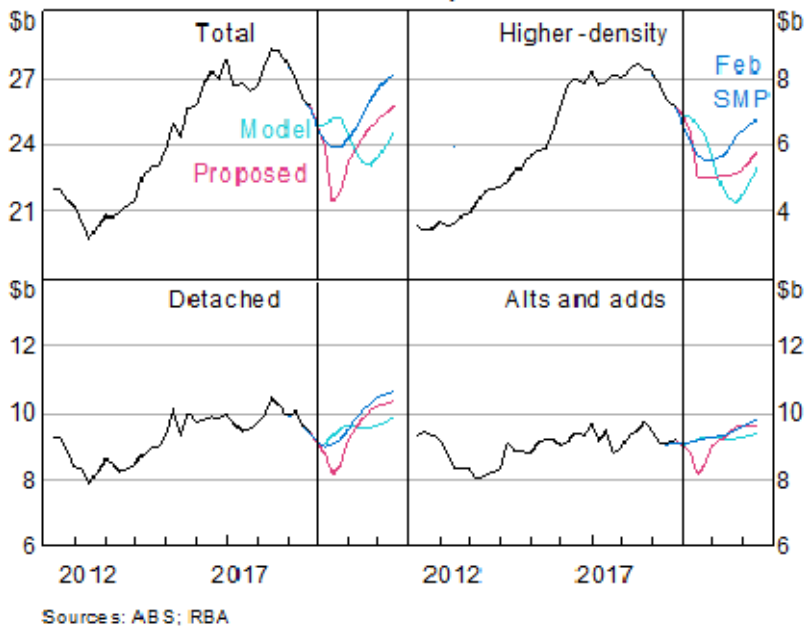
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Scenario 1	2.43	0.25	0.26	0.47	0.79	0.98	1.03	1.18	1.41	1.44
Scenario 2	1.64	-2.92	-2.12	-1.13	-0.78	0.05	0.28	0.98	2.05	2.23
Scenario 3	1.64	-2.92	-2.12	-1.13	-0.78	0.05	0.28	0.98	2.05	2.23

Dwelling investment

Dwelling investment is expected to be significantly lower than at the February *Statement*. On the demand side, established market conditions are expected to deteriorate, and we assume foreign buyer activity dries up for the June and September quarters before we get fully-offsetting payback in 2021/22. Because of the lags in dwelling investment, these demand shocks have fairly long-lasting effects. On the supply side, we assume 20 per cent of the labour force in the construction sector are unable to work at some point in the June and September quarters. I assume 2/3 of this effect in the June quarter and 1/3 in the September quarter, with a prolonged period of payback starting from the December quarter 2020.

Dwelling Investment

Quarterly



Forecasts are here:

<\\San1\Ea\Forecasts\Activity\Supporting material\Dwelling investment\Dwelling investment forecasts s3 5m.xlsx>

Tab: *Forecasts Summary*

PROPOSED									
Dwelling Investment forecasts (chain volumes)									
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<i>New investment</i>	15,877	15,182	13,254	13,549	14,253	14,632	14,974	15,227	15,400
qoq (%)	-4.1	-4.4	-12.7	2.2	5.2	2.7	2.3	1.7	1.1
yoy (%)	-12.2	-15.2	-22.0	-18.1	-10.2	-3.6	13.0	12.4	8.0
<i>Alts and Adds</i>	8,991	8,795	8,183	8,456	9,010	9,178	9,419	9,596	9,600
qoq (%)	-2.2	-2.2	-7.0	3.3	6.6	1.9	2.6	1.9	0.0
yoy (%)	-5.0	-3.3	-9.6	-8.0	0.2	4.3	15.1	13.5	6.0
<i>Total</i>	24,868	23,978	21,437	22,005	23,262	23,809	24,393	24,823	25,100
qoq (%)	-3.4	-3.6	-10.6	2.7	5.7	2.4	2.5	1.8	1.1
yoy (%)	-9.7	-11.2	-17.7	-14.5	-6.5	-0.7	13.8	12.8	8.0

Thanks,

Richard Evans | Economist | Household and National Accounts | Economic Group
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 | w: www.rba.gov.au

HOUSING MARKET WEEKLY UPDATE – 19 MARCH 2020

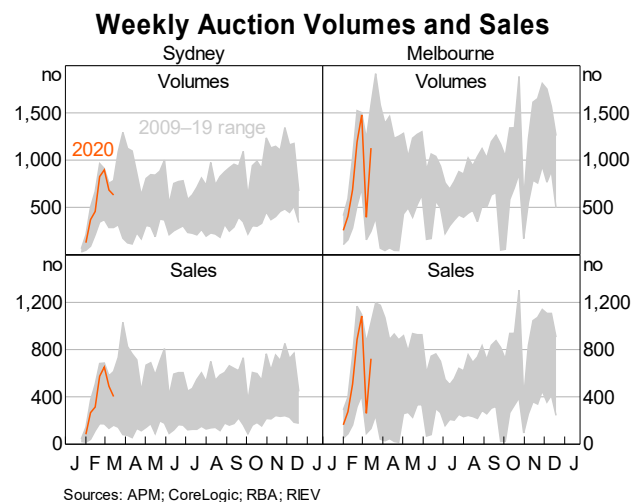
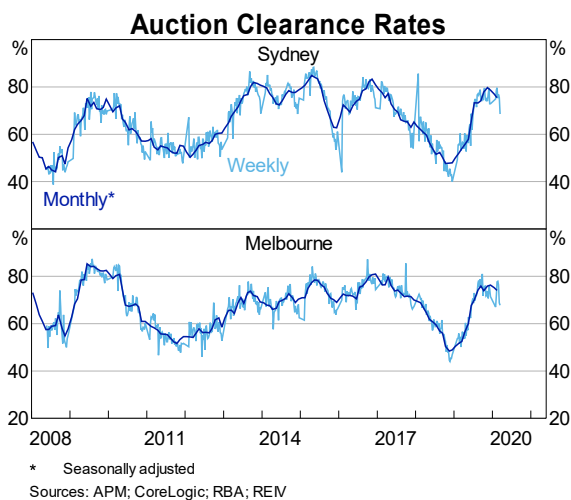
There is only limited evidence to date that COVID-19 has had an impact on the established housing market – weekly auction market data and daily housing price data suggest conditions remain strong in most of the major capitals. Sales market activity in the past few weeks largely reflects decisions to buy and sell property in the past few months. We expect this to change significantly over coming weeks as social distancing measures (rules or changes in behaviour) begin to affect market conditions. Across the key timely indicators:

- Auction clearance rates declined in Sydney and Melbourne last weekend. Anecdotal evidence suggests foot traffic at open inspections was down, and some vendors cancelled inspections.
- To 18 March, housing price growth remained strongest in Sydney and Melbourne, although growth is starting to moderate in Melbourne. Growth edged up in Brisbane and Adelaide and remained positive in Perth. The construction of CoreLogic's daily measure likely introduces some lag relative to 'real-time' conditions.
- Consumers' housing price expectations (surveyed between 3–6 March) declined, alongside a deterioration in expectations for economic conditions over the coming year (see [May 2020](#)).

Details

Auctions

- In Sydney, the auction clearance rate declined by 7 percentage points to 69 per cent. Auction volumes edged down but remain elevated relative to the equivalent weekend over the past decade.
- In Melbourne the clearance rate declined by 1 percentage point to 68 per cent. Auction volumes increased following the Labour Day public holiday in Victoria.

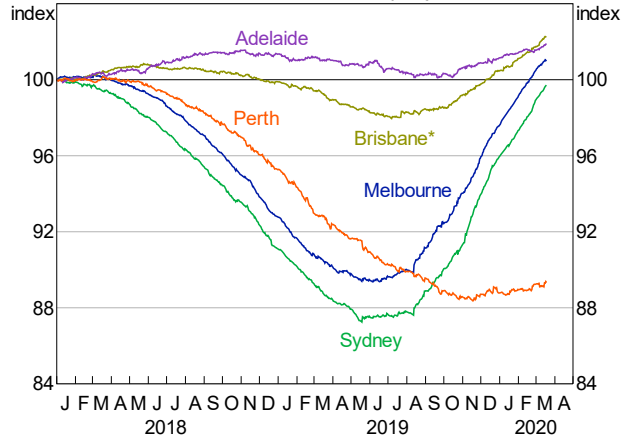


Housing Prices

- Monthly price growth was broadly stable in most capitals over the first 18 days of March. In Melbourne, price growth continued to moderate. Growth rates in Sydney and Melbourne have moderated from highs recorded in late 2019. Nominal prices in Sydney remain about 2 per cent below previous highs and national housing prices are less than 0.2 per cent below their previous peak.
- The net share of individuals expecting housing price increases declined by 11 points; the largest one-month fall since May 2017 (the Westpac-Melbourne Institute survey was conducted from 3–6 March). The index still remains about 14 points above its 5-year average.

Daily Housing Price Index

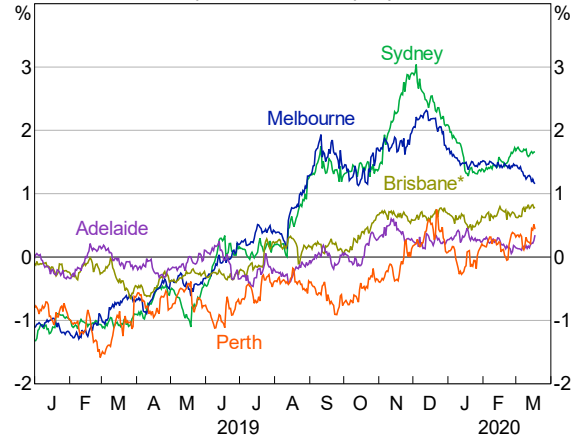
1 Jan 2018 = 100, seasonally adjusted



* Includes Gold Coast from 19/03/2018
Sources: CoreLogic; RBA

Housing Price Growth

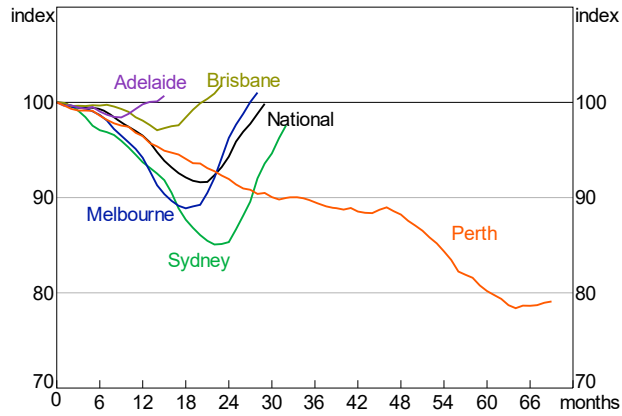
30-day-ended, seasonally adjusted



* Includes Gold Coast from 19/03/2018
Sources: CoreLogic; RBA

Housing Prices – Peak to Trough*

Peak = 100



* Latest month based on partial data
Sources: CoreLogic; RBA

Housing Price Expectations

Over the coming year



* Share of respondents expecting an increase in prices less share of respondents expecting a decrease in prices
Sources: RBA; Westpac Melbourne Institute

Housing Prices

Percentage change, seasonally adjusted

	March*	February	January	December	Year-ended	Growth over previous 5 years
Sydney	1.4	1.6	1.4	2.1	12.5	25
Melbourne	1.0	1.4	1.5	1.8	11.8	33
Brisbane	0.9	0.6	0.5	0.7	1.9	10
Adelaide	0.6	0.2	0.2	0.3	0.9	11
Perth	0.2	0.3	0.2	0.1	-3.7	-19
Darwin	-	-1.1	0.1	-0.5	-7.8	-30
Canberra	-	0.7	0.5	0.2	4.1	23
Hobart	-	0.7	0.9	0.2	5.0	45
Capital cities	-	1.2	1.2	1.5	7.3	19
Regions	-	0.5	0.5	0.4	1.4	13
Australia	-	1.1	1.0	1.3	6.1	17

* Estimate based on partial data.

Sources: CoreLogic, RBA

CoreLogic published a paper this week on the potential impacts of COVID-19 on the Australian housing market ([Coronavirus and the Australian Property Market – 17 March](#)). Their key findings are:

- (a) Housing has performed relatively well against negative economic shocks. Historically, housing prices have been less volatile and declined less than equity prices during economic downturns;
- (b) Property transactions may fall significantly over coming weeks, but the impact on values is unclear;
- (c) Anecdotal evidence suggests foot traffic at open inspections was down last weekend; and
- (d) Existing economic headwinds, including high household debt, make the property market particularly susceptible to a fall in demand.

Aaron Wong and Richard Evans
Household and National Accounts
Economic Analysis Department
19 March 2020

From: HAMILTON, Adam
Sent: Tuesday, 24 March 2020 11:06 AM
To: MAJOR, Mike; GARVIN, Nicholas
Cc: GUTTMANN, Rochelle; ROBERTS, Ivan
Subject: FW: FS scenario [SEC=UNCLASSIFIED]
Attachments: Scenario outputs for FS.xlsx

Hi guys

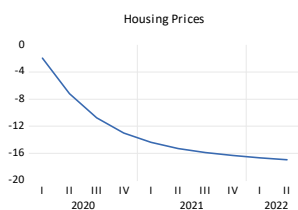
Attached are a few key outputs from a scenario we ran in MARTIN this morning based on current information available in EA. The scenario baseline is the Feb SMP forecasts and from there we used EA's revised technical assumptions as well profiles for some of the key expenditure components and housing prices:

- Impose EA's revised paths for housing prices

The graphs below show the key scenario inputs for context. They are deviations from baseline in either % or ppts.

Happy to talk over the phone if you have questions. We are working on two additional scenarios today. We can keep you in the loop if you want.

Adam



From: GUTTMANN, Rochelle
Sent: Monday, 23 March 2020 4:07 PM
To: HAMILTON, Adam ; MCCRIRICK, Rachael
Cc: ROBERTS, Ivan
Subject: FS scenario [SEC=UNCLASSIFIED]

Hi,

So, please send through to Nick Garvin and Mike Major:

- House prices

Please send through the data from the most recent scenario.

Thanks,
RG

Rochelle Guttman | Senior Economist | Macroeconomic Modelling | Economic Analysis Department
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| w: www.rba.gov.au

HOUSING MARKETS REVIEW – MARCH 2020

Summary

- Conditions in the established housing market deteriorated over the second half of March. Housing price growth eased in Melbourne and Sydney over the month, while non-price indicators fell sharply.
- CoreLogic's national hedonic housing nominal price index increased by 0.6 per cent over March, to be 7.5 per cent higher over the year.¹ Growth was positive in most capitals, with the exception of Hobart.
- Auction clearance rates fell sharply in Sydney and Melbourne, particularly over the past two weeks. The national turnover rate ticked down in March.
- Liaison with data providers suggests that online search volumes for both buyers and renters declined significantly in the month. At the same time, rental listings increased, potentially reflecting supply from owners previously offering their properties on the short-term accommodation market.

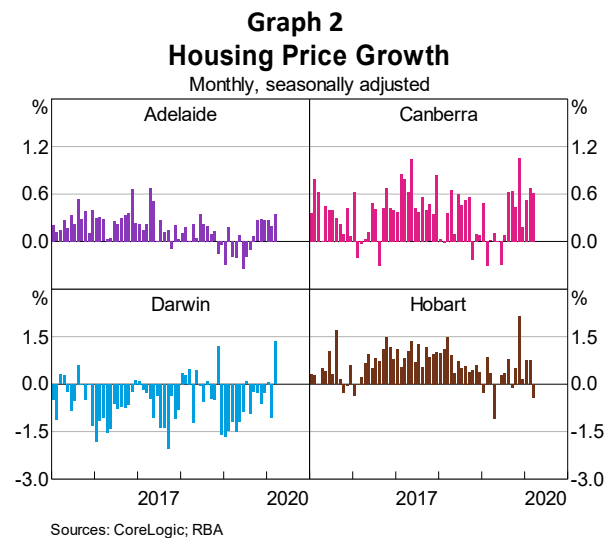
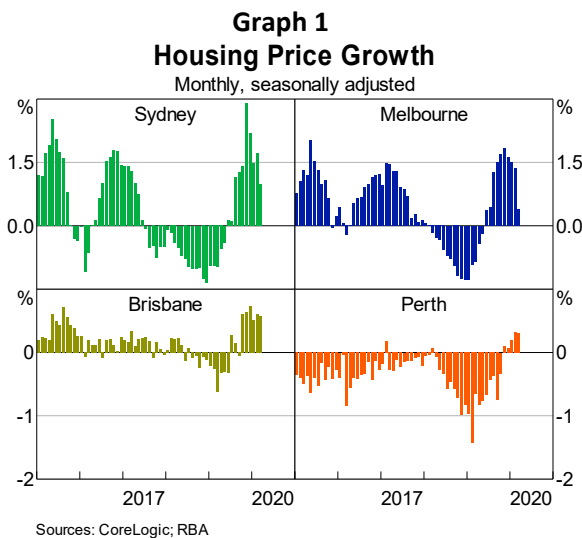


Table 1: Housing Price Growth
Percentage change, seasonally adjusted

	Mar-20	Feb-20	Jan-20	Dec-19	Year-ended	Five-year growth
Sydney	1.0	1.7	1.5	2.2	13.0	24
Melbourne	0.4	1.4	1.5	1.6	12.0	31
Brisbane	0.6	0.6	0.5	0.7	3.1	10
Adelaide	0.3	0.2	0.3	0.3	0.9	11
Perth	0.3	0.3	0.2	0.1	-3.1	-19
Darwin	1.3	-1.1	0.1	-0.3	-5.4	-29
Canberra	0.6	0.7	0.5	0.2	4.7	23
Hobart	-0.4	0.8	0.8	0.1	4.2	45
Capital cities	0.6	1.2	1.1	1.5	8.9	18
Regional	0.5	0.5	0.5	0.4	2.4	13
National	0.6	1.1	1.0	1.3	7.5	17

Sources: CoreLogic; RBA

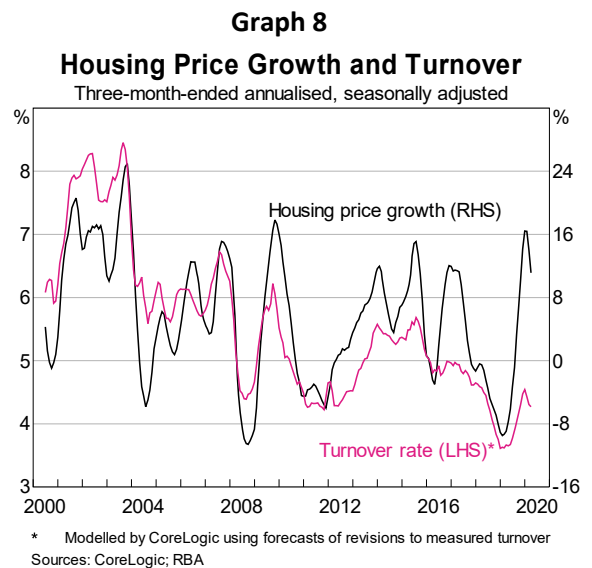
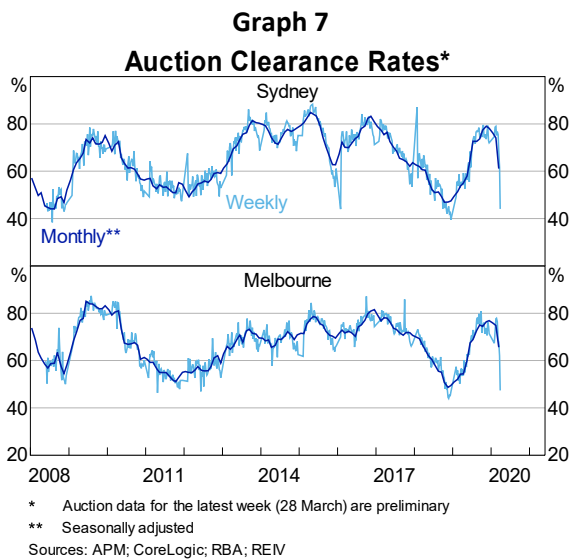
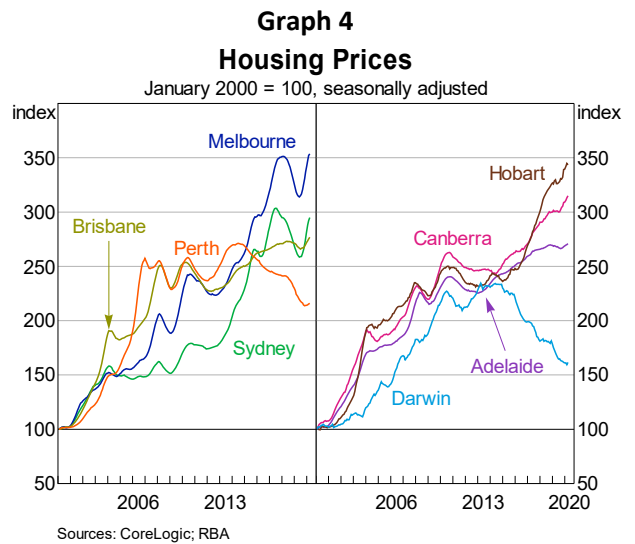
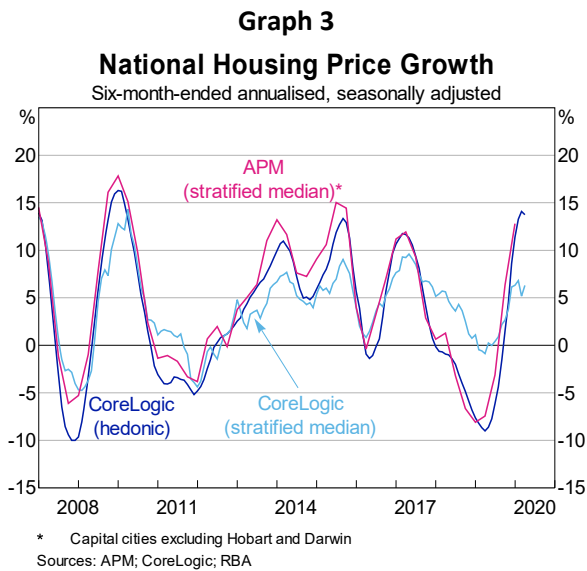
¹ Housing price data have been seasonally adjusted by the RBA. CoreLogic anticipates there could be a material reduction in the volume of property transactions which may affect its ability to accurately estimate the value of residential properties.

Assessment

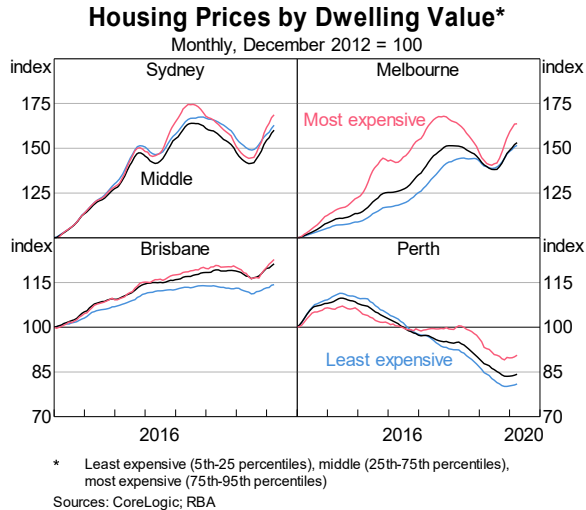
Conditions in the established housing market deteriorated over the second half of March. Monthly growth in the CoreLogic hedonic index moderated, largely driven by Sydney and Melbourne. Six-month ended annualised growth also ticked down. Non-price indicators suggest a more pronounced deterioration in established market conditions in March. In Sydney and Melbourne, auction clearance rates declined by around 30 percentage points since the end of February to below 50 per cent, coinciding with a sharp increase in withdrawal rates. Liaison with data providers and survey information points to a large decline in buyer and seller interest in recent weeks.

On 24 March, the National Cabinet announced an indefinite ban on public auctions and open houses. This ban means that auction data may not provide as useful a read on established market conditions going forward. Turnover also edged down in March, the third straight month it has declined. Although agents have attempted to adapt to conditions with private inspections and online auctions, it is likely that turnover will decline substantially in coming months. Obtaining an accurate read on established prices will be difficult for data providers.

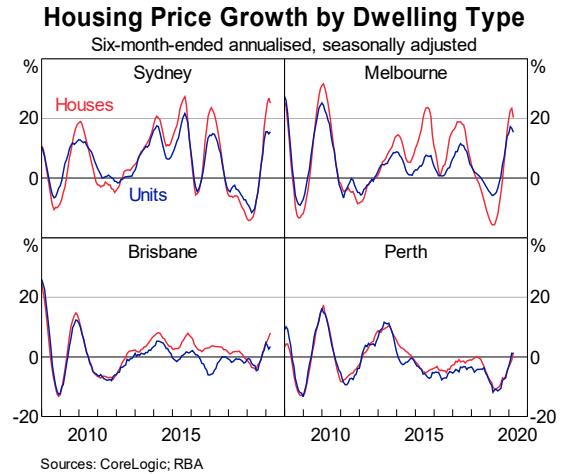
Information from liaison suggests there has been a deterioration in rental market conditions in recent weeks. Online searches for rental properties have declined in most states. At the same time, there is some evidence that rental listings have increased in some markets, possibly reflecting supply from owners previously offering their properties on the short-term accommodation market. On 29 March, National Cabinet agreed to a six-month moratorium on evictions for both residential and commercial tenants and further measures are under consideration.



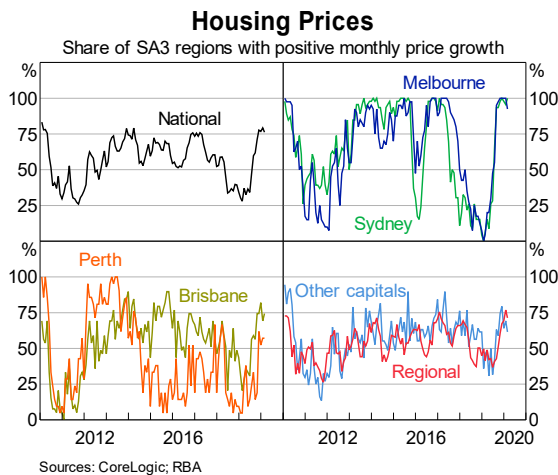
Graph 9: In Sydney and Melbourne, the moderation in price growth in March was most pronounced for the *most expensive* segment of the market.



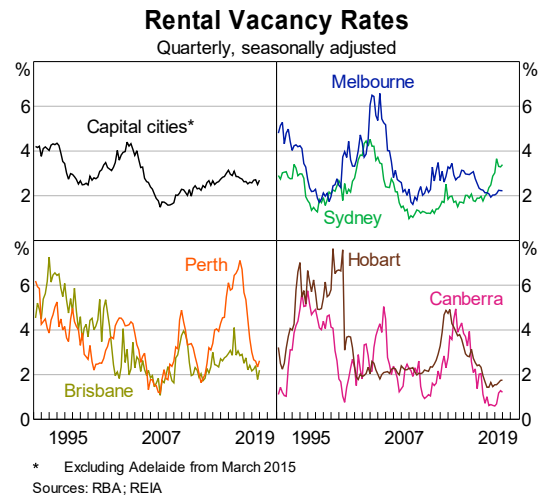
Graph 10: In Sydney, the moderation in housing price growth was driven by houses. In Melbourne, both house and unit price growth eased in March.²



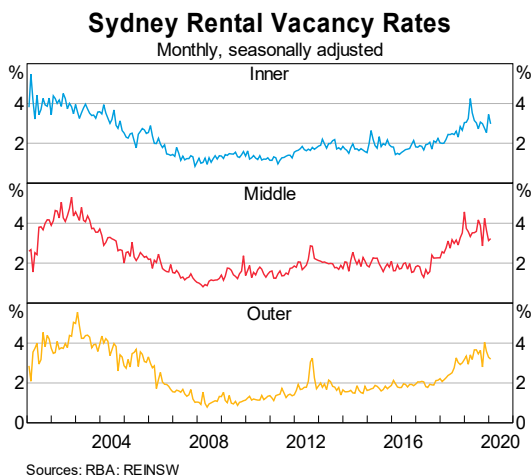
Graph 11: The share of SA3 regions with positive monthly price growth decreased slightly over February, driven by Melbourne, the other capitals and regional Australia.



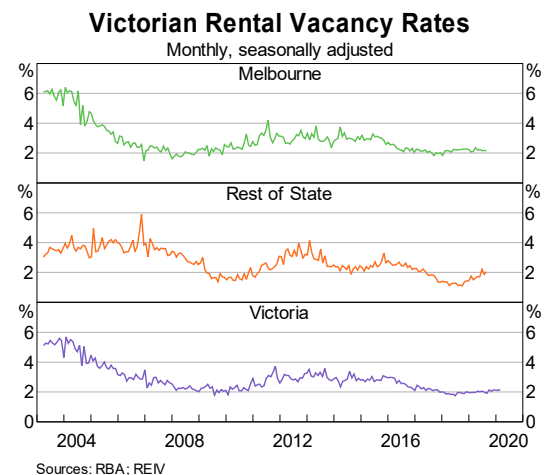
Graph 12: Vacancy rates ticked up in the December quarter, driven by Brisbane, Perth and Sydney. Vacancy rates in the other capitals were broadly unchanged.



Graph 13: Vacancy rates in Sydney edged lower in January.

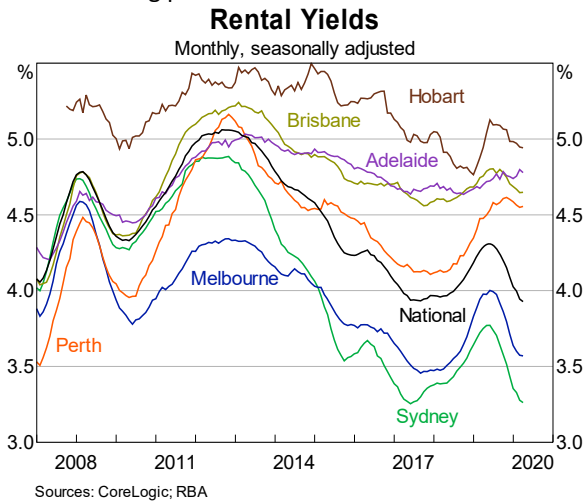


Graph 14: Vacancy rates were stable in Melbourne and ticked up in the rest of Victoria in February.

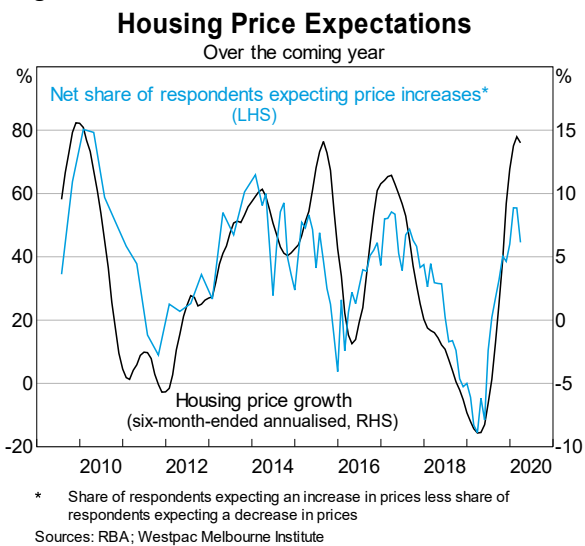


² CoreLogic defines a house as any property on a Torrens title, where the title holder claims ownership of the land which the property resides on. This includes property types such as semi-detached dwellings, terraces and duplexes. A unit is any property that is on a strata title, where the title holders own a shared claim to common land that multiple properties may reside on. This includes property types such as villas and townhouses.

Graph 15: The national rental yield edged down in March. Hedonic rents ticked up in the month in most states, but by less than housing prices.



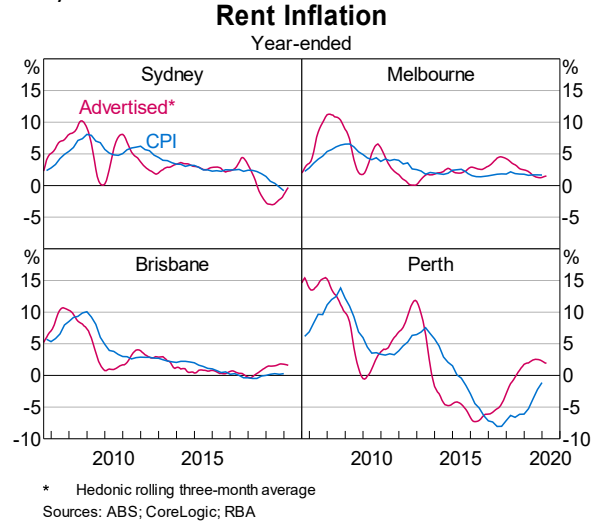
Graph 17: The net share of individuals expecting housing price increases (surveyed between 3–6 March) declined by 11 points; the largest one-month fall since May 2017. The index still remains about 14 points above its 5-year average.



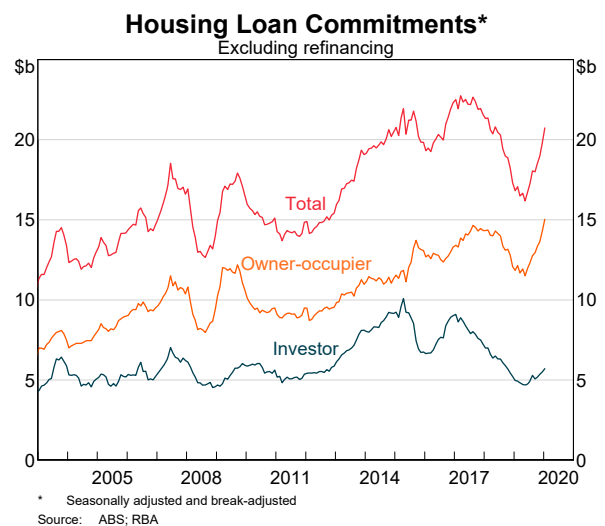
Graph 19: There were no new listings data in Q1 2020. CoreLogic are currently improving the coverage of the series.



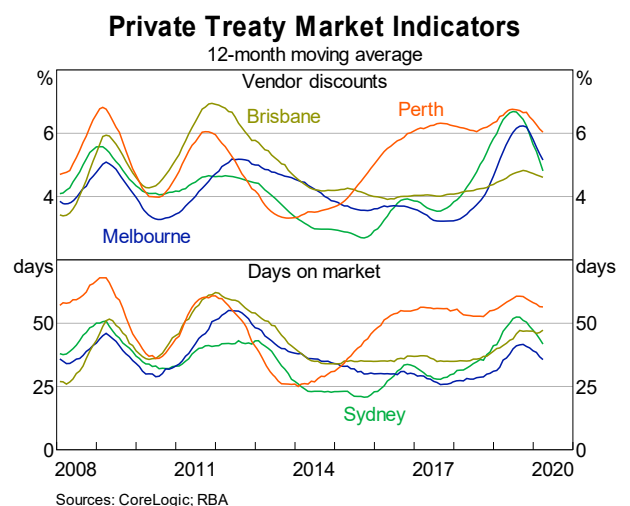
Graph 16: Advertised rent inflation remained subdued across the major markets, and broadly consistent with vacancy rate data.



Graph 18: Housing loan commitments for both owner-occupiers and investors continued to increase in January.



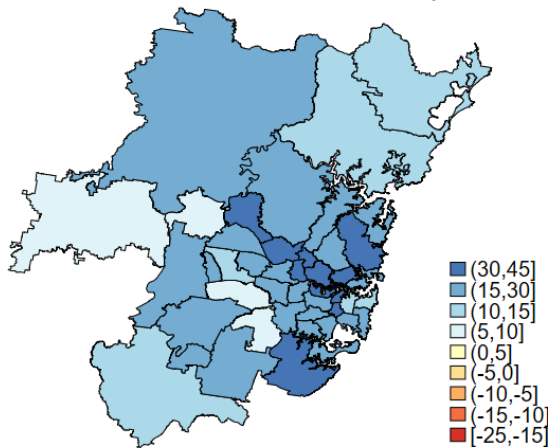
Graph 20: Vendor discounts declined in Sydney and Melbourne while days on market edged down in both cities in March.



Graphs 21-24: Housing prices increased in all areas of Sydney and Melbourne, and 95 per cent of SA3s in Brisbane over the six months to February 2020. Housing prices declined in two-thirds of Perth SA3s over the same period.

Sydney Housing Price Growth

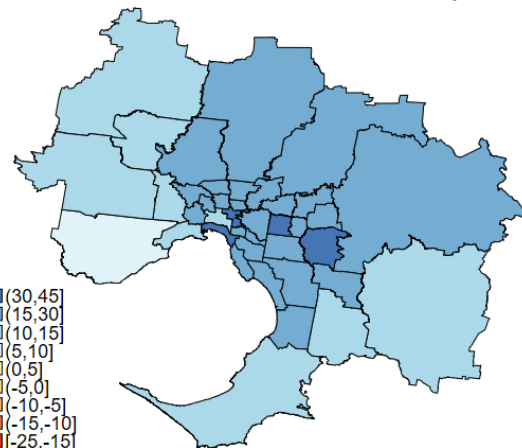
Six-month-ended annualised to February



Sources: CoreLogic; RBA

Melbourne Housing Price Growth

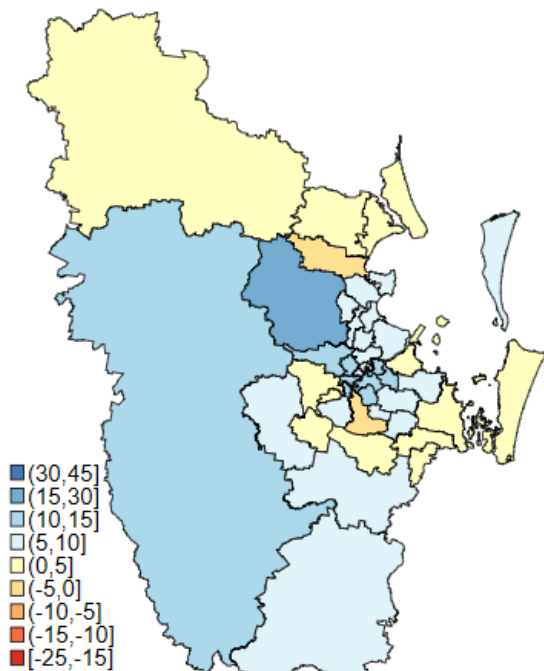
Six-month-ended annualised to February



Sources: CoreLogic; RBA

Brisbane Housing Price Growth

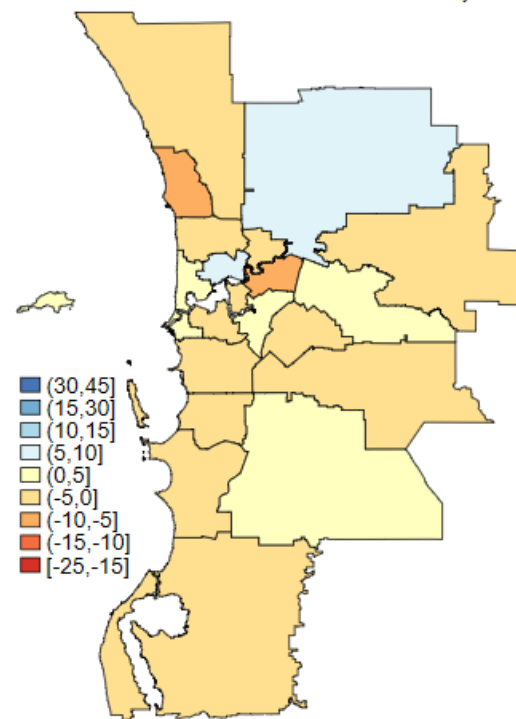
Six-month-ended annualised to February



Sources: CoreLogic; RBA

Perth Housing Price Growth

Six-month-ended annualised to February



Sources: CoreLogic; RBA

Richard Evans and Aaron Wong
Household and National Accounts
Economic Analysis Department
1 April 2020

Appendix A – Additional graphs and tables

Table A1: House Price Growth
Percentage change, seasonally adjusted

	Mar-20	Feb-20	Jan-20	Dec-19	Year-ended	Five-year growth
Sydney	0.9	1.8	1.7	2.2	14.5	26
Melbourne	0.4	1.4	1.6	1.9	12.5	35
Brisbane	0.7	0.6	0.7	0.7	3.5	14
Adelaide	0.3	0.2	0.3	0.3	0.9	12
Perth	0.3	0.3	0.2	0.0	-3.1	-17
Darwin	1.1	0.3	0.3	-0.1	-5.4	-22
Canberra	0.8	0.8	0.5	0.1	5.6	27
Hobart	0.5	0.8	0.9	-0.3	5.1	47
Capital cities	0.6	1.2	1.3	1.6	9.1	19
Regional	0.6	0.6	0.5	0.5	2.6	14
National	0.6	1.1	1.1	1.3	7.5	18

Sources: CoreLogic, RBA

Table A2: Unit Price Growth
Percentage change, seasonally adjusted

	Mar-20	Feb-20	Jan-20	Dec-19	Year-ended	Five-year growth
Sydney	1.1	1.4	0.4	1.6	9.8	19
Melbourne	0.4	1.2	1.4	1.0	11.0	24
Brisbane	0.2	0.2	-0.3	0.6	1.3	-4
Adelaide	0.4	0.0	0.4	0.0	1.3	8
Perth	-0.2	0.9	0.3	0.1	-3.2	-24
Darwin	1.6	-3.2	-0.4	-0.2	-5.5	-39
Canberra	0.1	0.4	0.2	0.4	1.4	7
Hobart	-3.6	0.1	0.6	1.6	0.7	38
Capital cities	0.7	1.1	0.7	1.2	8.3	14
Regional	0.5	0.3	0.6	0.0	1.4	10
National	0.7	1.0	0.7	1.0	7.3	14

Sources: CoreLogic, RBA

From: GARVIN, Nicholas
Sent: Wednesday, 1 April 2020 3:23 PM
To: EVANS, Richard; ROSEWALL, Tom
Cc: MCLOUGHLIN, Kate; WONG, Aaron
Subject: RE: Note EA: Housing Markets Review – March 2020 [SEC=UNCLASSIFIED]

Thanks for the reply Richie.

I'm not sure how sales will work when most people aren't allowed to inspect places or even speak in person to real-estate agents. Given this, I'm not sure that observations of turnover can be treated as a measure of the same series as past observations. Similar with prices, which could additionally be skewed by only desperate sellers remaining in the market (e.g. those willing to sell online etc).

Such a 'pause' would not be a statement that there is zero activity, although it could indeed be wise to recommend that the govt temporarily halt all sales of established dwellings. It would be more a statement of 'we're in a different category of situation that makes the usual data reporting misleading'.

I agree with your last sentence, but I'd argue that my points hold even if price developments are only partly the result of impaired market functioning.

Cheers,
Nick

From: EVANS, Richard
Sent: Wednesday, 1 April 2020 2:30 PM
To: GARVIN, Nicholas ; ROSEWALL, Tom
Cc: MCLOUGHLIN, Kate ; WONG, Aaron
Subject: RE: Note EA: Housing Markets Review – March 2020 [SEC=UNCLASSIFIED]

Hi Nick,

Agreed, and we included a caveat regarding the difficulty in obtaining an accurate read on established prices; CoreLogic issued a similar disclaimer with their data today so hopefully other data consumers are on the same page. We also stated that changes to auction rules mean auction data may also not be as useful as they have been in the past.

Looking ahead, we're expecting that turnover will decline significantly in coming months which will make getting a read on prices challenging, that's true. However, I don't know if I would characterise the housing market as paused in March. The changes in auction rules did lead to a sharp fall in the clearance rate towards the end of the month as lots of vendors withdrew their properties, though at this stage, estimates of turnover remain above their recent troughs (note that real-time estimates of turnover are subject to large revisions).

More generally, as consumer confidence deteriorates and unemployment increase, demand for established dwellings should decline. I don't think we'll be able to write off all price developments over the next few months as the result of impaired market functioning.

Keen to discuss further,

Richie

From: GARVIN, Nicholas
Sent: Wednesday, 1 April 2020 1:47 PM

To: EVANS, Richard ; ROSEWALL, Tom
Subject: RE: Note EA: Housing Markets Review – March 2020 [SEC=UNCLASSIFIED]

Hey Richie, Tom,

I think it's dangerous for regulators to be reporting on housing prices as though the market is currently functioning.

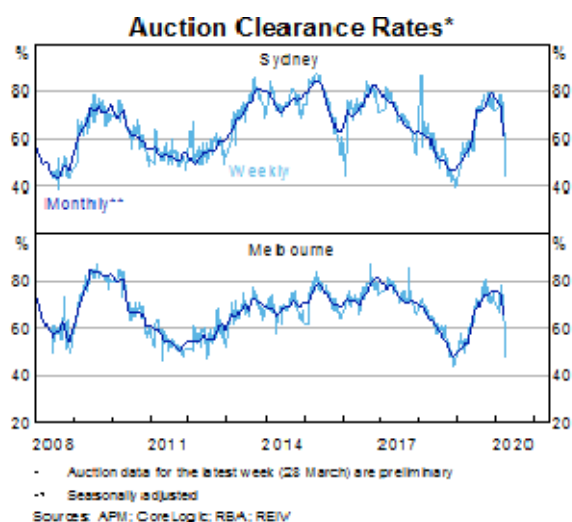
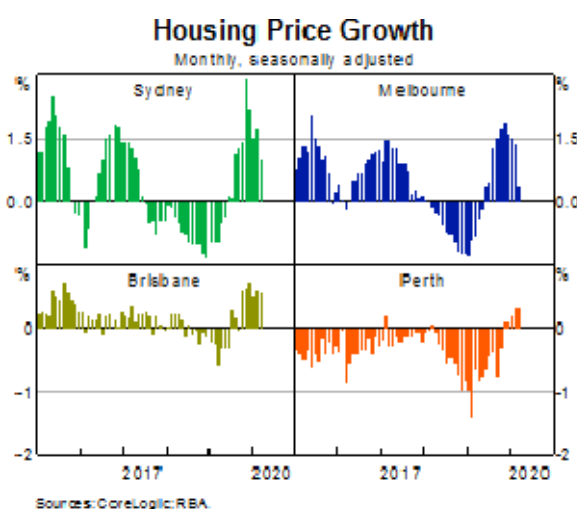
I'd suggest we classify the market as paused, and treat the prices observed before the pause as the current prices – like how equity markets operate, but on a larger scale. Real-estate agents cannot operate normally so 'paused' would be a fair classification. We should also tell private-sector data providers to follow this rule.

If people start mistakenly thinking that we're experiencing a housing market crash, it's not going to help things.

Cheers,
Nick

From: EVANS, Richard
Sent: Wednesday, 1 April 2020 1:09 PM
To: Notes policy groups
Cc: WONG, Aaron
Subject: Note EA: Housing Markets Review – March 2020 [SEC=UNCLASSIFIED]

- Conditions in the established housing market deteriorated over the second half of March. Housing price growth eased in Melbourne and Sydney over the month, while non-price indicators fell sharply.
- CoreLogic's national hedonic housing nominal price index increased by 0.6 per cent over March, to be 7.5 per cent higher over the year.^[1] Growth was positive in most capitals, with the exception of Hobart.
- Auction clearance rates fell sharply in Sydney and Melbourne, particularly over the past two weeks. The national turnover rate ticked down in March.
- Liaison with data providers suggests that online search volumes for both buyers and renters declined significantly in the month. At the same time, rental listings increased, potentially reflecting supply from owners previously offering their properties on the short-term accommodation market.



For more information, see: [D20/98613](#)

This note was written with **Aaron Wong**

Richard Evans | Economist | Household and National Accounts | Economic Group
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

[1] Housing price data have been seasonally adjusted by the RBA. CoreLogic anticipates there could be a material reduction in the volume of property transactions which may affect its ability to accurately estimate the value of residential properties.

From: EVANS, Richard
Sent: Friday, 3 April 2020 9:54 AM
To: BECKERS, Benjamin; WONG, Aaron
Cc: MAJOR, Mike
Subject: RE: House price forecasts [SEC=UNCLASSIFIED]

Hi Ben,

Here's the current housing price forecast:

HANA Nominal Dwelling Price Forecasts

Quarterly growth rates (%)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
'Status quo'	1.64	-2.92	-2.12	-1.13	-0.78	0.05	0.28	0.98	2.05	2.23

This sees housing prices peak in March before declining by 7 per cent.

We're also expecting a very sharp decline in turnover in the June quarter, before recovering back to around its level at December 2019 by the end of the year:

HANA Turnover Forecast

Quarterly growth rates (%)

	Mar-20	Jun-20	Sep-20	Dec-20
'Status quo'	0.0	-70.0	33.3	150.00

I agree, this turnover channel feels like it's going to be relatively more important. My prior is that the established housing market effect on consumption is larger, more immediate and more temporary than our consumption models would want, given our housing price forecast.

Happy to discuss further,

Richie

From: BECKERS, Benjamin
Sent: Thursday, 2 April 2020 4:10 PM
To: EVANS, Richard ; WONG, Aaron
Cc: MAJOR, Mike
Subject: House price forecasts [SEC=UNCLASSIFIED]

Hey Richie and Aaron,

I hope you're both doing well. Mike and I are now ready to use his household consumption stress-testing model and one ingredient for that is a house price forecast. The last number we have seen suggested something like a 10% fall. Could you guys send me through the current forecast?

If you have any views on the importance of housing wealth effects in these current circumstances, I'd be keen to hear your thoughts. My not-very-well-thought-through take would be that turnover (or better the lack thereof) will be considerably more important, and assuming that the crisis is temporary potential sellers would be unwilling to sell for a lower price than before the crisis unless something else forces them to.

Many thanks,

Ben

Benjamin Beckers | Senior Research Economist | Economic Research Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

The Reserve Bank of Australia acknowledges the Traditional Custodians of Australia and we pay our respects to their past, present, and emerging Elders.

COVID-19 LIAISON MESSAGES UPDATE: 6 APRIL 2020

This email updates RIA's key messages following meetings with 34 contacts over the past week. All liaisons focused on the impacts of COVID-19, with some taking place before the 30 March 'JobKeeper Payment' policy announcement.

- Demand for new housing has declined, with builders reporting lower sales and higher cancellations. Housing contacts have expressed concerns that banks may restrict finance to borrowers who have lost their jobs or experienced reduced work hours, which could lead to an increase in settlement failures. Although construction is still deemed an 'essential service', broader weakness in housing demand is a downside risk to future activity.

From: ROSEWALL, Tom
Sent: Monday, 6 April 2020 2:10 PM
To: COOMBS, Merylin; CASSIDY, Natasha; ELLIS, Luci
Cc: MCLOUGHLIN, Kate; NODARI, Gabriela; BISHOP, James; HEATH, Alex; CAGLIARINI, Adam; COCKERELL, Lynne; SIMON, John; EVANS, Richard
Subject: RE: Dwelling investment and population flows [SEC=UNCLASSIFIED]

From our side, the June quarter decline in dwelling investment is largely due to supply-side constraints, including with materials and site closures, on top of what was already shaping up to be a weak quarter pre-COVID. Disruptions have been reasonably limited to date, but we are only a few days in to the quarter.

The June quarter is probably a bit too soon for the weakness in demand we saw in the in the second half of March to flow through to construction given the lags in the system (it takes just under a quarter on average for a detached or higher-density approval to progress to commencement).

From September onwards weak demand and weaker house prices are much more relevant. Weakness in demand will weigh on approvals significantly, which will lead to a drag in construction activity for a while. We don't have full payback relative to February Statement profile because underlying house price expectations are much weaker now. Part of this demand-side weakness can be interpreted as the effect of ongoing travel bans and lower population growth, though our current forecast does not take this into account explicitly.

Tom

From: COOMBS, Merylin
Sent: Monday, 6 April 2020 1:24 PM
To: CASSIDY, Natasha
Cc: ELLIS, Luci ; ROSEWALL, Tom ; MCLOUGHLIN, Kate
; NODARI, Gabriela ; BISHOP, James ;
HEATH, Alex ; CAGLIARINI, Adam ; COCKERELL, Lynne
; SIMON,
Subject: Re: Dwelling investment and population flows [SEC=UNCLASSIFIED]

All reasonable from the liaison side - the new detached build concern is for sept qtr onwards for commencements given job losses and household balance sheets being in a worse condition and the flow on to financing constraints by banks in such an environment.

Kind regards
Merylin

On 6 Apr 2020, at 1:09 pm, CASSIDY, Natasha

wrote:

Re: population

We have made some initial revisions (lower) to our population forecasts, but didn't have the time or expertise to do as proper job as we'd like. I already have a call mid week with the team (actually it is called a Centre) at Treasury responsible for population projections and analysis, because I am hoping we can largely outsource our population assumptions to them (as the DHA no longer provide us with timely NOM projections).

Thanks
Tash

From: ELLIS, Luci
Sent: Monday, 6 April 2020 12:57 PM
To: ROSEWALL, Tom ; CASSIDY, Natasha
MCCLOUGHLIN, Kate ; NODARI, Gabriela ; BISHOP,
James
Cc: HEATH, Alex ; CAGLIARINI, Adam ;
COCKERELL, Lynne ; SIMON, John ; COOMBS, Merylin

Subject: Dwelling investment and population flows [SEC=UNCLASSIFIED]

Hi all

As I'm writing my speaking notes for tomorrow, this is part of what I came up with for the final graph on dwelling investment.

- Near-term reflects what we are already hearing from liaison and new orders. February building approvals were up but pre-sales demand indicators have fallen a lot since then, and I wonder how many building approval applications will actually be processed by local councils in coming months.
- Further out, we have also revised down. This is partly because it will take time for the industry to recover, but also because we are seeing a lot of short-term accommodation come back into the longer-term rental market, and because we expect population flows from students and other temporary visa holders (mainly backpackers) to be lower.

Does this seem reasonable to you? Have we fully factored in ongoing travel bans/reluctance on population growth? Not necessarily for this week, but something to think about in the lead-up to SMP?

Any thoughts welcomed

Luci Ellis | Assistant Governor (Economic)
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000

COVID-19 LIAISON MESSAGES UPDATE: 27 APRIL 2020

RIA met with 38 contacts over the past week. Liaisons focused on the impacts of COVID-19 and associated government measures.

- Demand for new housing has declined substantially since mid March and is expected to decrease further. There have been sharp falls in sales, enquiries and foot traffic following the introduction of stricter containment measures. Contacts have also reported increases in contract cancellation rates, particularly for new detached houses and greenfield land.
- Financial risks have increased for developers and builders as a result of the decline in demand for new housing. Looking ahead, several contacts have expressed concerns about changes in buyers' financial circumstances and possible valuation shortfalls driving up settlement failure rates.

HOUSING MARKET WEEKLY UPDATE – 9 APRIL 2020

Expected weakness in the housing market continues to flow through the latest data. Over the past week:

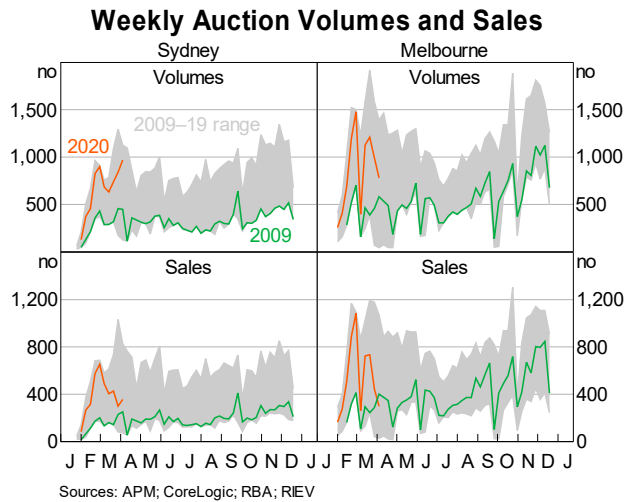
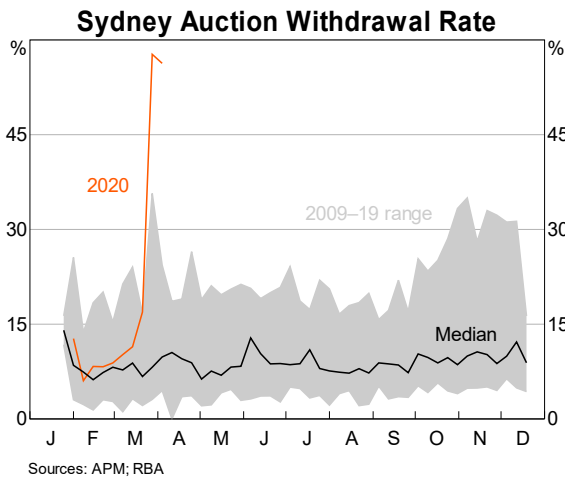
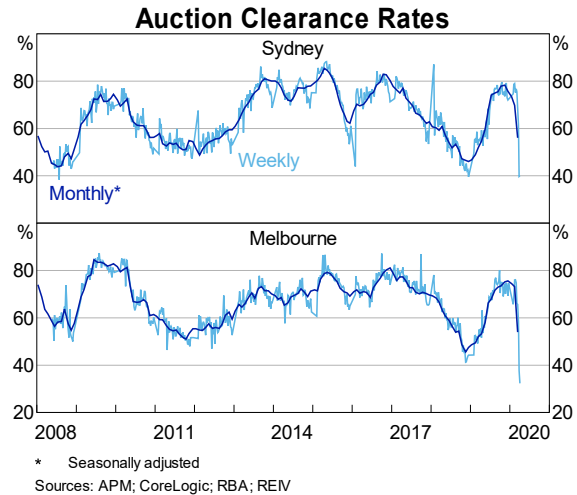
- Auction clearance rates declined further in Sydney and Melbourne to around their lowest levels in a decade and withdrawal rates remained high;
- New residential listings declined nationally; and
- Discounting events for existing residential leases increased nationally.

On the other hand, while housing price growth moderated noticeably over last few weeks of March in Sydney, Melbourne and Brisbane, price growth over the first week of April was broadly steady. Online buyer and rental housing search volumes picked up in the first week of April though remain well below their mid-February peak.

Details

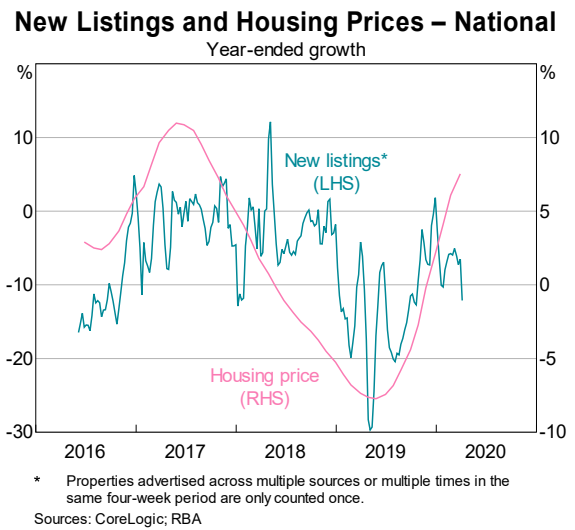
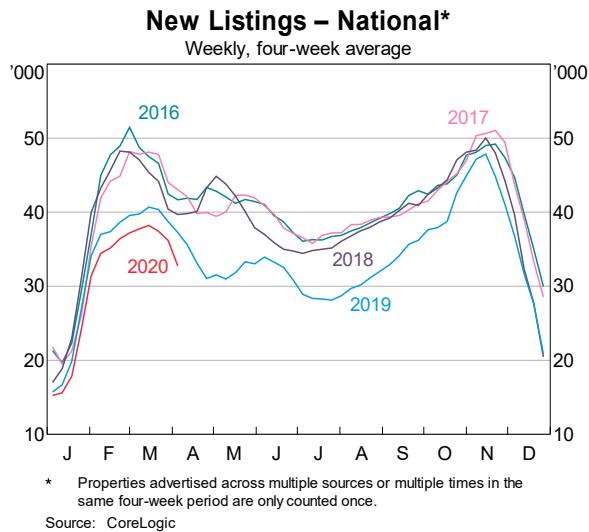
Auctions

- In Sydney, the auction clearance rate remained near decade lows of 40 per cent. Withdrawal rates remained high and are 46 percentage points above their median for the equivalent weekend over the past decade.
- In Melbourne the clearance rate declined by 5 percentage points to 32 per cent, the lowest level since the series began in 2006.
- In Sydney and Melbourne, auction clearance rates have declined by 36 and 42 percentage points since the end of February.
- Sales have declined in both cities to around their 2009 levels.



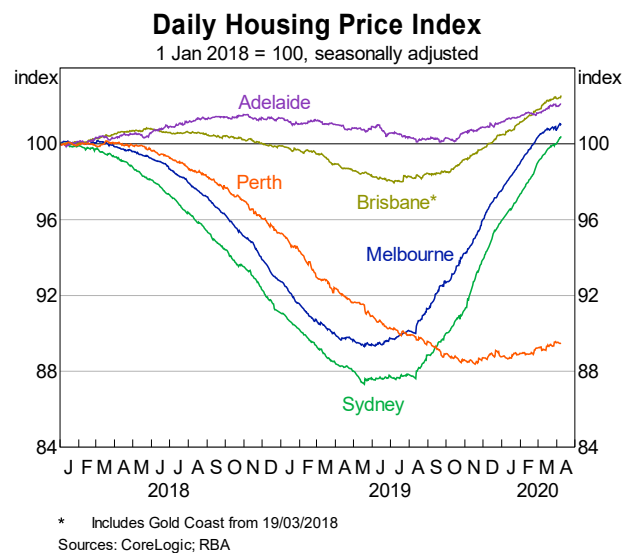
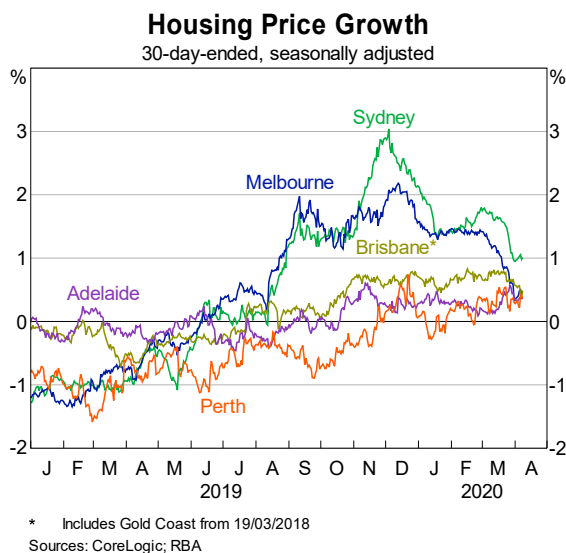
New residential listings

New listings have declined over recent weeks. Part of this decline is seasonal, as listings tend to decline after the peak March period.



Housing prices

- Over the last two weeks of March, housing price growth eased in Sydney and Melbourne, but remained positive. A similar rate of growth has been recorded in the first week of April. Growth was positive in Brisbane and Adelaide, and prices were flat in Perth.



Housing Prices

Percentage change, seasonally adjusted

	April*	March	February	January	Year-ended	Growth over previous 5 years
Sydney	1.0	1.0	1.7	1.5	13.8	24
Melbourne	0.5	0.4	1.4	1.5	12.7	31
Brisbane	0.5	0.6	0.6	0.5	3.1	10
Adelaide	0.4	0.3	0.2	0.3	1.1	11
Perth	-0.1	0.3	0.3	0.2	-2.9	-19
Darwin	-	1.3	-1.1	0.1	-5.4	-29
Canberra	-	0.6	0.7	0.5	4.7	23
Hobart	-	-0.4	0.8	0.8	4.2	45
Capital cities	-	0.6	1.2	1.1	8.9	18
Regions	-	0.5	0.5	0.5	2.4	13
Australia	-	0.6	1.1	1.0	7.5	17

* Estimate based on partial data.

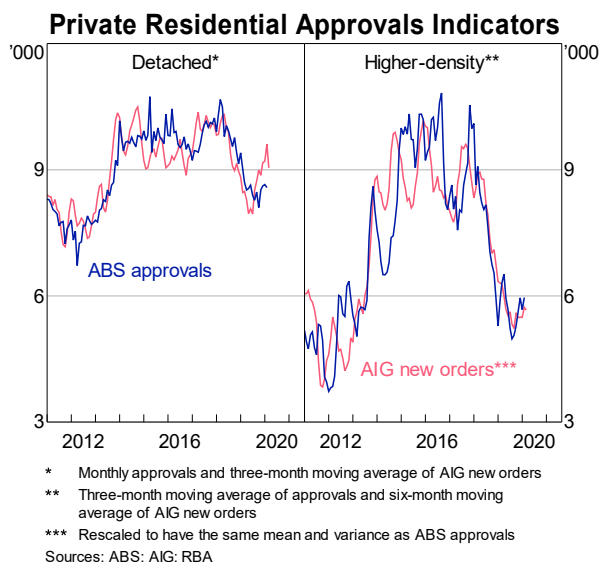
Sources: CoreLogic, RBA

AIG new orders

AIG new orders for both detached and higher-density dwellings declined in March.

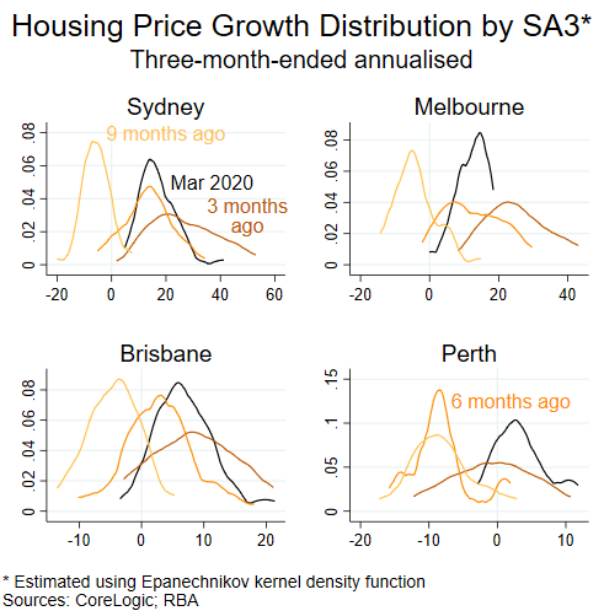
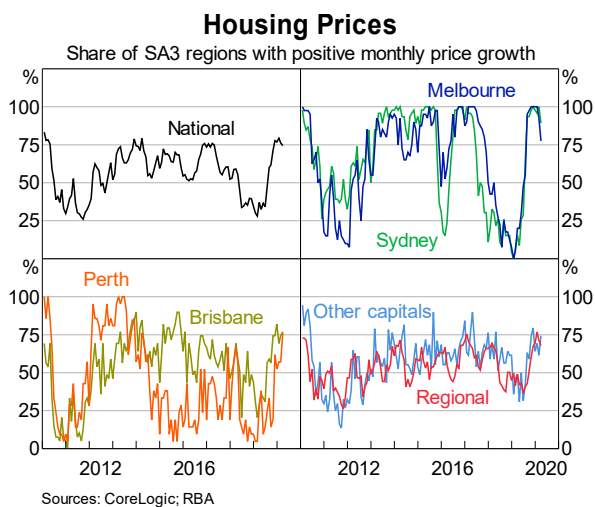
- The decline in detached orders was particularly pronounced, to be at its lowest level since mid 2019. The three-month moving average also declined.²
- Higher-density new orders also declined.

Note, firms were able to respond to the survey throughout the month, so this read likely includes some responses from the start of March, before conditions deteriorated.



SA3 housing price data

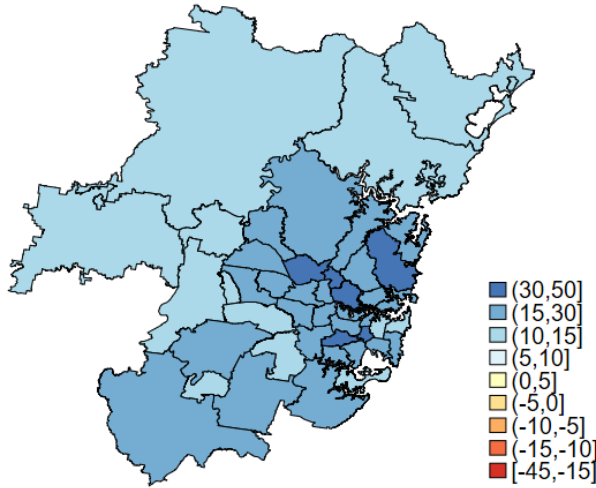
- In March, the share of SA3s reporting positive price growth declined by 15 percentage points in Melbourne and 10 percentage points in Sydney. The share of SA3s with positive price growth ticked up in the other capitals.
- In Perth, the share of SA3s reporting an increase in prices over the past six months increased by nearly 30 percentage points to 62 per cent.



² Moving averages for AIG new orders more closely align with the statistical relationship between new orders and approvals, see: [D19/485362](https://www.rba.gov.au/publications/quarterly-bulletin/2020/04/d19/485362) for more information.

Sydney Housing Price Growth

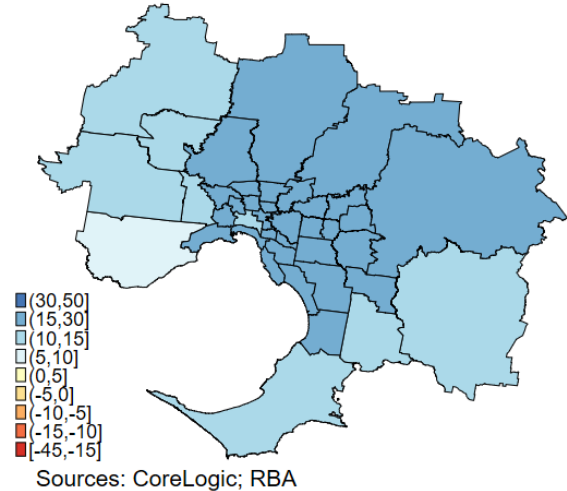
Six-month-ended annualised to March



Sources: CoreLogic; RBA

Melbourne Housing Price Growth

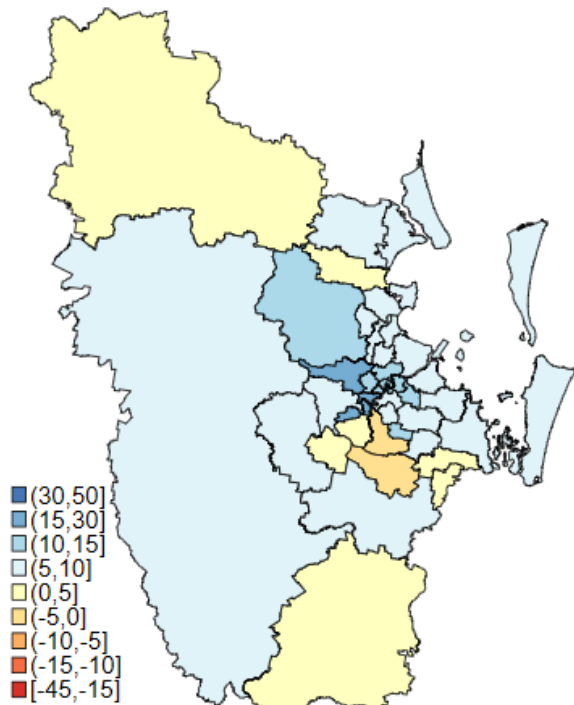
Six-month-ended annualised to March



Sources: CoreLogic; RBA

Brisbane Housing Price Growth

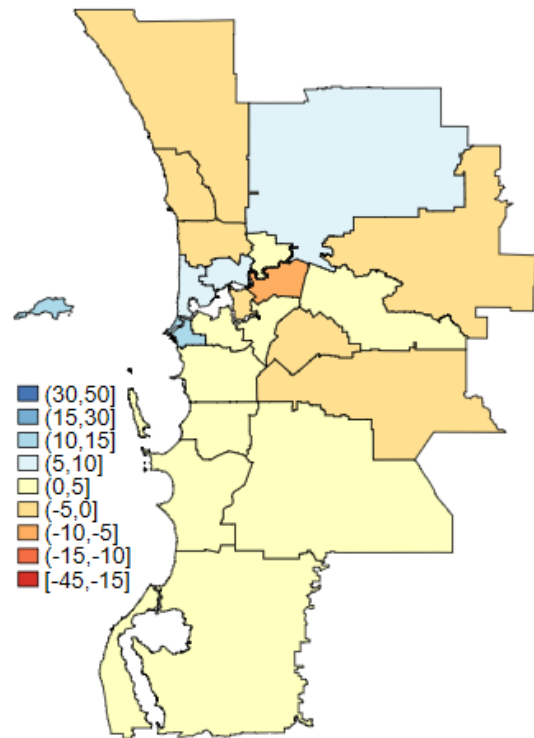
Six-month-ended annualised to March



Sources: CoreLogic; RBA

Perth Housing Price Growth

Six-month-ended annualised to March



Sources: CoreLogic; RBA

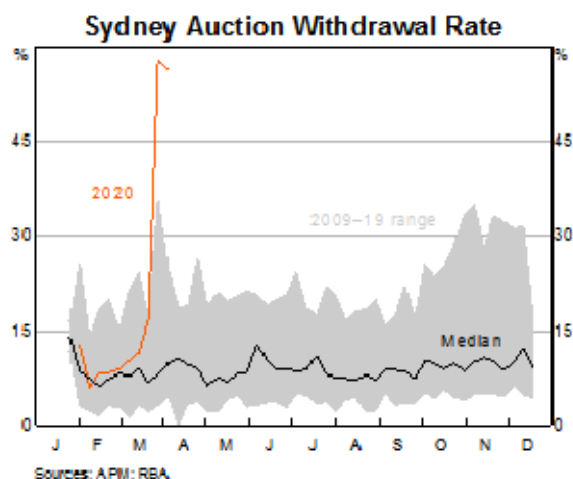
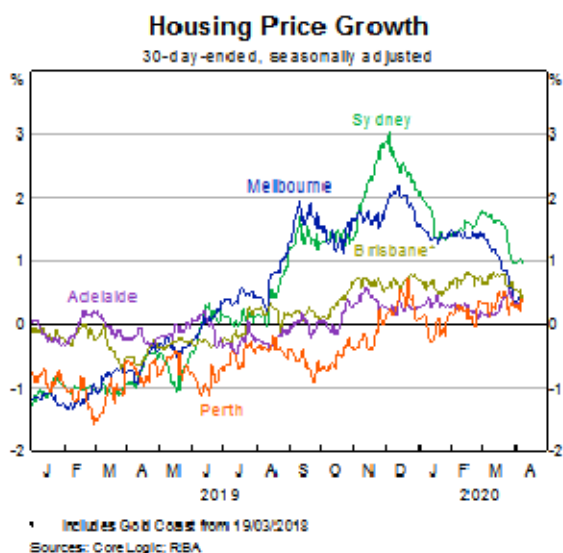
Aaron Wong and Richard Evans
Household and National Accounts
Economic Analysis Department

From: WONG, Aaron
Sent: Thursday, 9 April 2020 3:11 PM
To: EA - L5 and above; Domestic Housing Community; FS - HBC Management; EA - Household & National Accounts
Cc: EVANS, Richard
Subject: EA Briefing: Housing Market Weekly Update – 9 April 2020 [SEC=UNCLASSIFIED]

Expected weakness in the housing market continues to flow through the latest data. Over the past week:

- *Auction clearance rates declined further in Sydney and Melbourne to around their lowest levels in a decade and withdrawal rates remained high;*
- *New residential listings declined nationally; and*
- *Discounting events for existing residential leases increased nationally.*

On the other hand, while housing price growth moderated noticeably over last few weeks of March in Sydney, Melbourne and Brisbane, price growth over the first week of April was broadly steady. Online buyer and rental housing search volumes picked up in the first week of April though remain well below their mid-February peak.



For more information, see: [D20/108624](#)

This briefing was written with **Richard Evans**.

Aaron Wong | Graduate Economist | Household and National Accounts | Economic Analysis Department
 RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
 | w: www.rba.gov.au

NEW HOUSING (IMPACTS OF COVID-19) – THE VIEW FROM LIAISON – APRIL 2020*¹

Summary

- *Demand for new housing has declined substantially since mid-March, as concerns around job security and increased economic uncertainty have weighed on buyer sentiment. Contacts have also reported significant declines in sales volumes and increases in contract cancellation rates, particularly for new detached houses and greenfield land, since mid-March. Looking ahead, contacts expect demand to continue to fall and contract cancellation rates to remain elevated.*
- *Apartment building activity is expected to decline further into mid to late 2020, although contacts are still uncertain about the degree to which COVID-19 will weigh on activity. While builders of detached houses have reported relatively small impacts of COVID-19 on current building activity to date, several have expressed concerns about future work beyond their current pipeline (around 4–9 months). The key downside risks to future construction activity are weaker new housing demand and the potential deterioration of financing conditions. Some developers have also expressed concerns that supply disruptions, staff absences and social distancing measures may draw out the length of construction timelines.*
- *Residential construction contacts have implemented a range of strategies in relation to their workforce in response to declining demand, including: reducing direct headcount; implementing freezes on new hires; reducing hours of employees; or requesting employees to take different forms of leave (e.g. sick leave, annual leave).*
- *Financing conditions for buyers remain tight, and some contacts are concerned that buyers will find it more difficult to obtain finance as a result of job losses or reductions in hours because of COVID-19.*
- *Financing conditions for developers and builders continue to remain challenging.*
- *Some contacts have reported a noticeable increase in settlement failure rates and requests from buyers for a settlement extension since mid-March, while only a few contacts are yet to see a pick-up in settlement failures.*

Demand

Demand for new housing has declined substantially since mid-March, with sharp falls in enquiries and foot traffic, following the introduction of stricter containment measures. Concerns around job security and increased economic uncertainty have weighed on buyer sentiment. Contacts have also reported significant declines in sales volumes and increases in contract cancellation rates, particularly for new detached houses and greenfield land, since mid-March. Looking ahead, contacts expect demand to continue to fall and contract cancellation rates to remain elevated.

Demand for new apartments

Demand for off-the-plan (OTP) apartments remains weak across the country and has been dampened further by the impacts of COVID-19. Some contacts have reported that demand in Sydney and Melbourne has been most affected by the virus, while demand in South East Queensland appears to be slightly more resilient, albeit still low. The relatively more resilient demand in South East Queensland has been partly attributed to greater housing affordability.

Demand for new detached housing and greenfield land

In Sydney and Melbourne, demand for new detached houses and greenfield land has decreased significantly since mid-March, with some contacts reporting a reduction in detached dwelling sales of more than 50 per cent. In Melbourne, demand for new detached houses has declined by more in the outer suburbs compared with the inner and middle ring suburbs.

* We would like to thank Team RIA for their efforts in collecting the liaison information necessary to write this note.

1 This note focuses on the liaison messages that have been collected since the start of March to provide an up-to-date discussion of the impacts from COVID-19 on the new housing sector. As information on prices of new housing is limited, this quarter's note has excluded the 'Prices and Incentives' section that is usually included.

In South East Queensland, sales of new detached houses and greenfield land were generally weak in March. Although, there was still demand for detached housing in the inner and middle ring suburbs of Brisbane, albeit low.

In Perth, sales of new detached houses and greenfield land were relatively strong in March, but several contacts have flagged expectations of a weakening in demand and slowing sales in the next few months.

In Adelaide, the demand and sales of new detached houses have weakened since the beginning of March, following a slight improvement earlier in the year.

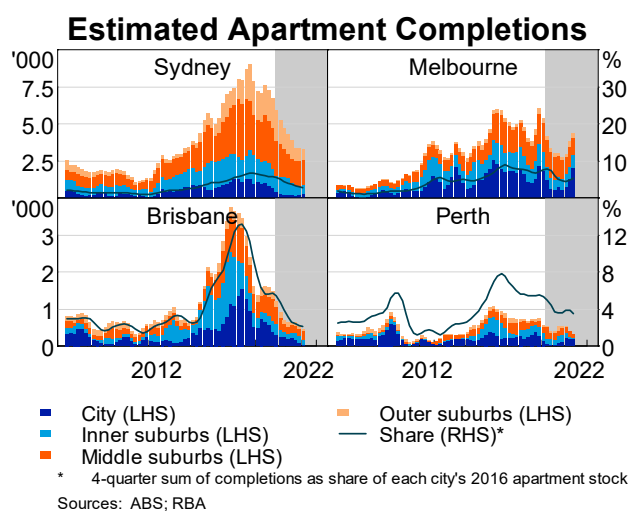
Building Activity

Building of apartments

Apartment building activity is expected to decline further into mid to late 2020, although contacts are still uncertain about the degree to which COVID-19 will weigh on activity. Some contacts are considering delaying new starts until conditions in the high-density housing market improve.

Contacts report that the main downside risks to new starts in light of COVID-19 include:

- weaker OTP demand that makes it difficult for developers to achieve the necessary pre-sales to obtain finance;
- social distancing and staff absences on construction sites, which could cause building delays (reports of meaningful delays have not been widespread to date);
- supply chain disruptions of building materials (reports of disruptions are not widespread to date);
- and availability of finance for developers (see [Financing Conditions](#)).



Building of houses

Some contacts have continued to report a small decline in the building of detached houses on the east coast as the earlier weakness in sales flows through to building activity, while WA has been less affected to date (partly because of low building activity in the region). Several contacts have expressed concerns about significant declines in future work beyond their current pipeline (around 4–9 months) because of weak demand for new housing and the potential deterioration of financing conditions (see [Financing Conditions](#)).

Building Costs and Supply Constraints

Several contacts have expressed concerns about potential import delays of building materials, in part because of the high costs associated with holding land. Most contacts have been able to manage supply disruptions to date because they hold sufficient inventories, have substituted some imported materials with domestic products and disruptions stemming from China have eased.

Other drivers of costs growth raised by contacts include:

- the implementation of social distancing and hygiene measures on-site, which has slowed construction for some contacts;
- and the depreciation in the AUD which will lead to higher prices on imported inputs.

Employment

Residential construction contacts have implemented a range of strategies in relation to their workforce in response to declining demand, including: reducing direct headcount; implementing freezes on new hires; reducing hours of employees; or requesting employees to take different forms of leave (e.g. sick leave, annual leave). Some contacts in the property-related industry more broadly (including construction, real estate and

architecture) have expressed concerns that they will not qualify for the JobKeeper Payment because although sales may have declined by more than 30–50 per cent, they are still receiving revenue from sales made over previous months.² Looking ahead, most contacts expect to continue to adjust their workforce in some format because of the uncertain outlook for construction activity (see *Building Activity*).

Financing Conditions

Buyers

Financing conditions for buyers remain tight, although several contacts reported a slight improvement in access to credit for buyers earlier in the year. Some contacts are concerned that buyers will find it more difficult to obtain finance as a result of job losses or reductions in hours because of COVID-19.

Developers and builders

Financing conditions for developers and builders continue to remain challenging. Most contacts have reported sufficient cash flow to support their businesses over the next few months, but some have approached or plan to approach their lenders to seek additional financial assistance such as emergency liquidity facilities.

Settlement Failures

Some contacts have reported a noticeable increase in settlement failure rates and requests from buyers for a settlement extension since mid-March, while only a few contacts are yet to see a pick-up in settlement failures.³ Looking ahead, several contacts have expressed concerns about changes in buyers' financial circumstances and possible valuation shortfalls driving up settlement failure rates.

Since the beginning of March 2020, RIA spoke to 17 housing developers and builders and 17 other contacts involved in building new housing (e.g. industry bodies, local councils, financiers, architects, and materials suppliers).

Alexis Tan & Patrick Parrish
Economists
Regional and Industry Analysis
Economic Analysis Department
14 April 2020

2 The *ATO has some discretion* to take into account additional information: 'where [a businesses'] turnover a year earlier was not representative of their usual or average turnover [...] to establish that they have been significantly affected by the impacts of the Coronavirus.'

3 In *New Housing – The View from Liaison – December Quarter 2019*, apartment settlement failure rates were at 3–5 per cent.

COVID-19 LIAISON MESSAGES UPDATE: 14 APRIL 2020

This email updates RIA's key messages following meetings with 33 contacts over the past week. All liaisons focused on the impacts of COVID-19.

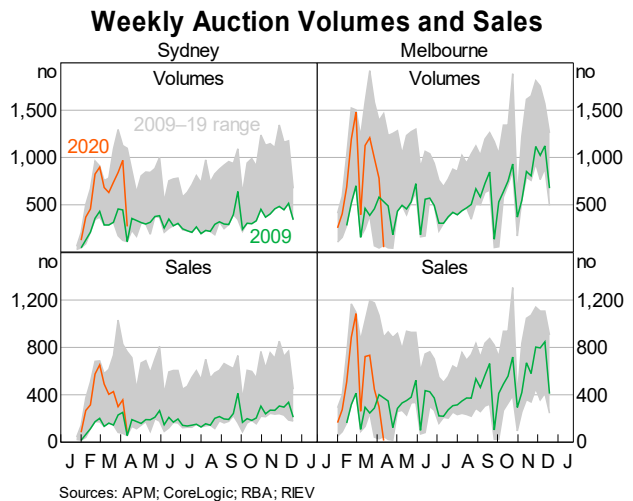
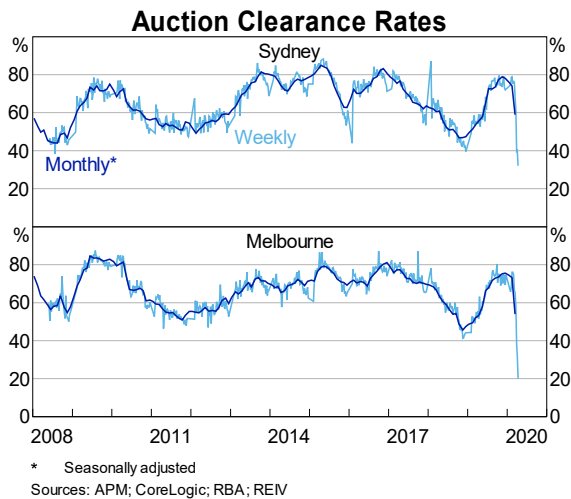
- Demand for new housing has declined substantially and is expected to decrease further. Housing contacts have reported lower sales, higher cancellations and a sharp fall in foot traffic. There are concerns that banks may restrict finance to borrowers who have lost their jobs or experienced reduced work hours, which could lead to an increase in settlement failures. Although some builders and developers have sufficient work for the next 4–6 months, the weakness in demand for new housing and the potential deterioration of financing conditions pose downside risks to future activity.

HOUSING MARKET WEEKLY UPDATE – 16 APRIL 2020

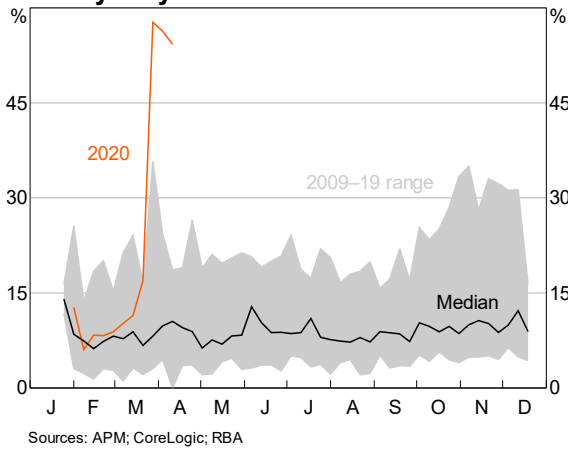
Conditions in the housing market continued to ease over the past week:

- Over the traditionally quiet Easter weekend, auction clearance rates declined further in Sydney and Melbourne to the lowest level since the series began in 2008. Withdrawal rates in Sydney remained high. Weakness in the auction market indicators should be interpreted with caution due to the ban on public (in-person) auctions and open houses announced by National Cabinet on 24 March.
- New residential listings declined substantially across all capital cities last week.
- Expectations for housing price growth recorded the largest monthly decline since the survey began in 2009, with over half of respondents expecting prices to decline over the coming year (up 39 percentage points). This is consistent with betting market expectations for housing prices, with a 75 per cent implied probability that the national prices decline by more than 2 per cent in the June quarter.
- Daily price data suggest that housing prices in Melbourne, Adelaide and Perth may have reached a turning point, with prices edging down in the past week. The large reduction in housing turnover will make it difficult to accurately assess changes in housing prices in the period ahead.
- Conditions in the rental market were mixed in March. Vacancy rates increased in Melbourne, consistent with liaison and media reports of short-term rentals transitioning to the longer-term rental market; the vacancy rate ticked down in Sydney.
- Online buyer and rental housing search volumes picked up in the first two weeks of April though remain well below their mid-February peak.

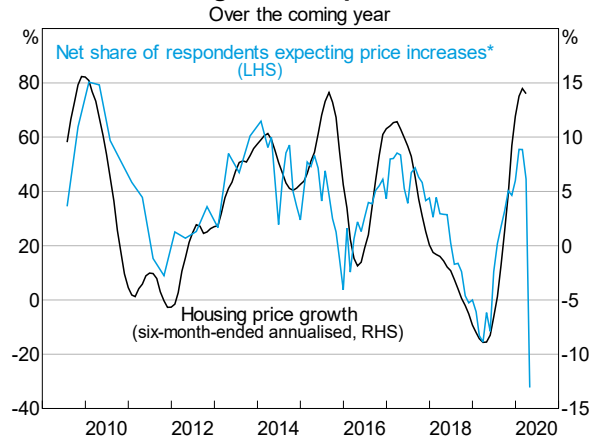
Data



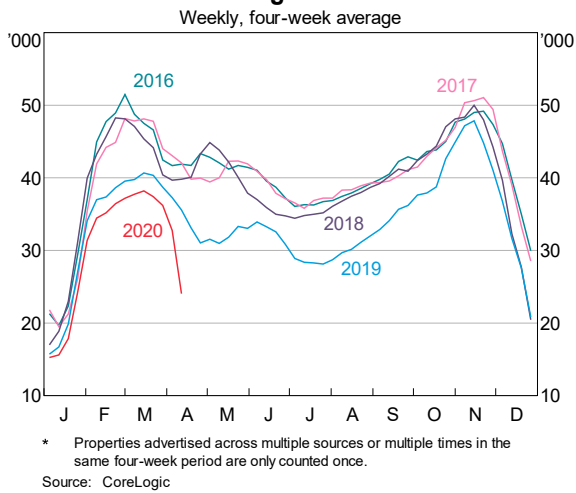
Sydney Auction Withdrawal Rate



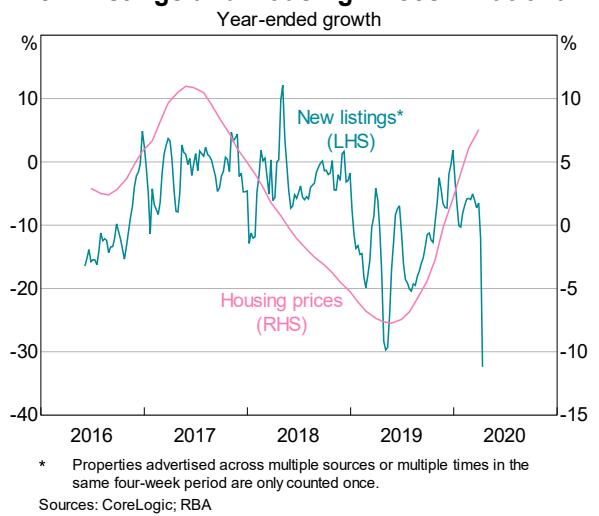
Housing Price Expectations



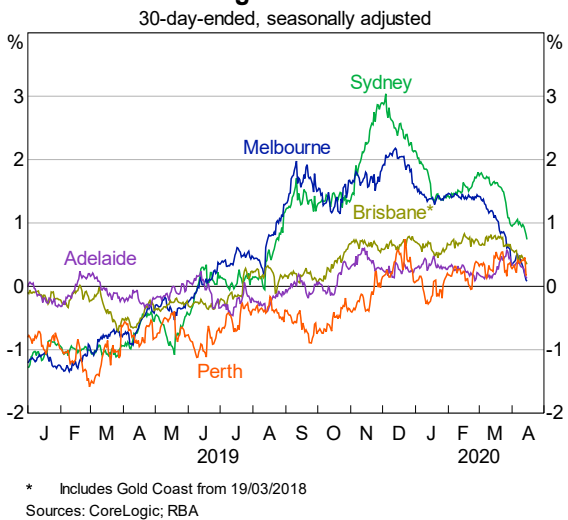
New Listings – National*



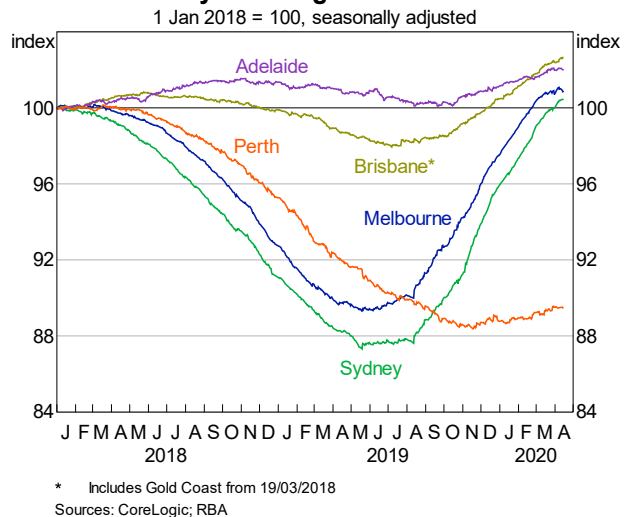
New Listings and Housing Prices – National



Housing Price Growth



Daily Housing Price Index



Housing Prices

Percentage change, seasonally adjusted

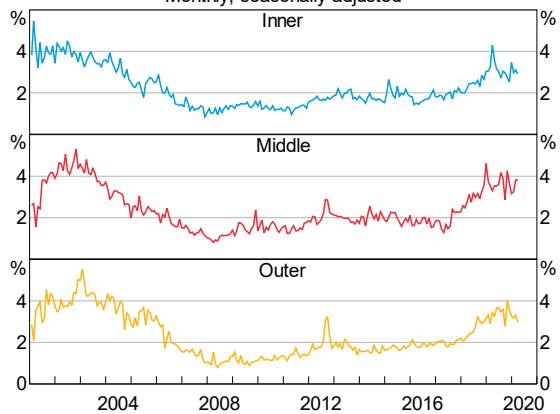
	April*	March	February	January	Year-ended	Growth over previous 5 years
Sydney	0.9	1.0	1.7	1.5	13.9	24
Melbourne	0.4	0.4	1.4	1.5	12.5	31
Brisbane	0.4	0.6	0.6	0.5	3.1	10
Adelaide	0.0	0.3	0.2	0.3	1.1	11
Perth	-0.1	0.3	0.3	0.2	-2.8	-19
Darwin	-	1.3	-1.1	0.1	-5.4	-29
Canberra	-	0.6	0.7	0.5	4.7	23
Hobart	-	-0.4	0.8	0.8	4.2	45
Capital cities	-	0.6	1.2	1.1	8.9	18
Regions	-	0.5	0.5	0.5	2.4	13
Australia	-	0.6	1.1	1.0	7.5	17

* Estimate based on partial data.

Sources: CoreLogic, RBA

Sydney Rental Vacancy Rates

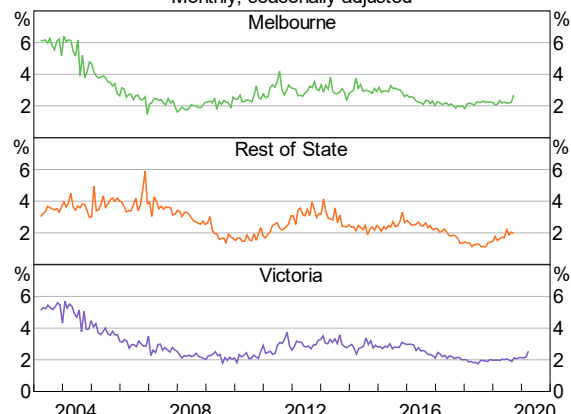
Monthly, seasonally adjusted



Sources: RBA; REINSW

Victorian Rental Vacancy Rates

Monthly, seasonally adjusted



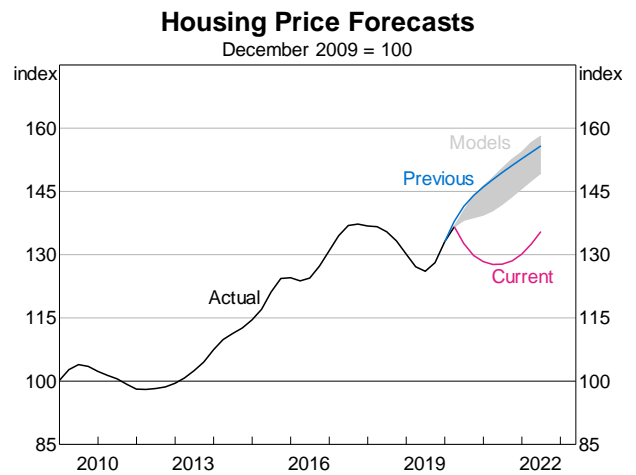
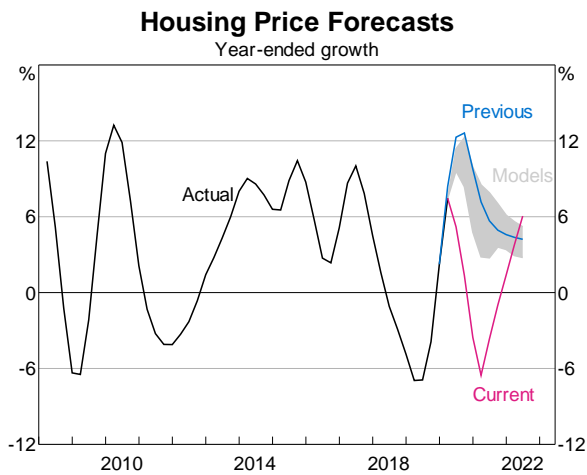
Sources: RBA; REIV

Aaron Wong and Richard Evans
Household and National Accounts
Economic Analysis Department
16 April 2020

SUMMARY OF PRELIMINARY DOMESTIC ACTIVITY FORECASTS – MAY 2020**Overview**

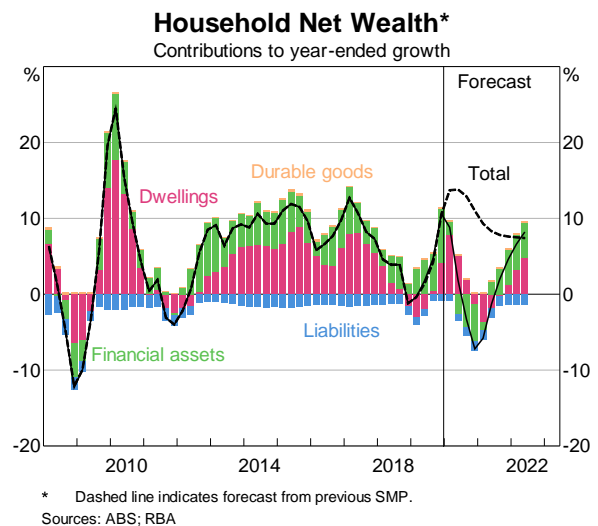
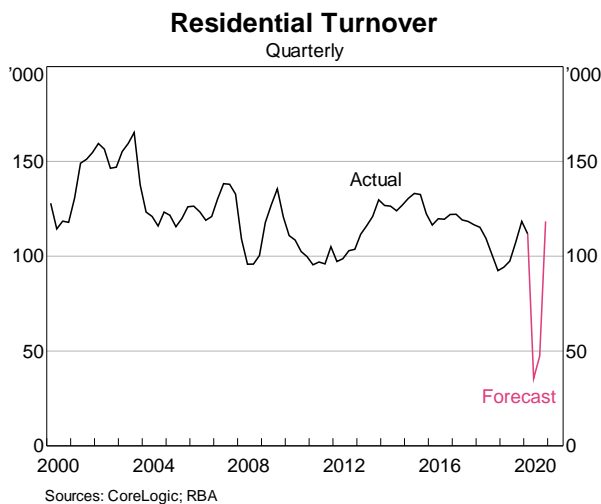
Housing prices, dwelling investment and household wealth

Housing prices are expected to decline by around 7 per cent over the next year. Prices are expected to remain around 10 per cent lower than at the February *Statement* over the forecast horizon. This downgrade mainly reflects the negative confidence effects of COVID-19. Some degree of forbearance by the banking sector is assumed to mitigate larger declines in prices caused by forced sales and financial stress. The magnitude of the confidence shock and forecast decline in housing prices are consistent with observed declines in consumer confidence and survey measures of expectations for housing prices. Daily data suggest prices may have peaked in several capital cities in April. Auction market indicators deteriorated sharply alongside National Cabinet's decision in March to ban in-person auctions and open houses. Clearance rates fell by over 40 percentage points to around 30 per cent in Sydney and Melbourne alongside a sharp pick-up in withdrawal rates.



These social distancing measures are expected to have an even larger effect on the number of housing transactions than on prices; **housing turnover** is expected to decline by 70 per cent in the June quarter, and remain low in the September quarter. Consistent with this, new listings have declined sharply in recent weeks.

Household wealth is expected to decline over the coming year, reflecting declines in both financial and housing wealth.

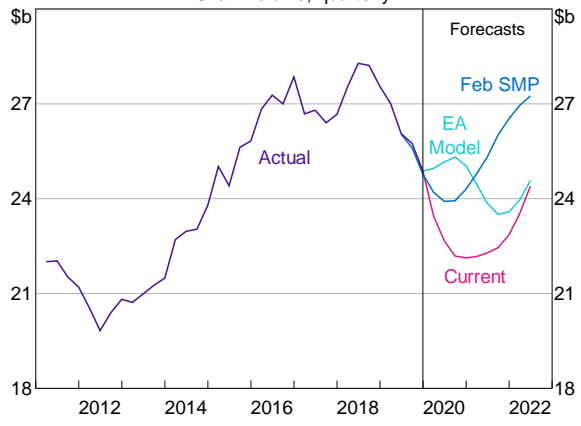


Despite policies announced to support residential rental markets, the **rental vacancy rate** is forecast to increase and rents to decline. Online searches for rental properties have declined while rental listings have increased, in part reflecting supply from owners previously offering their properties on the short-term accommodation market. The number of residential rental leases subject to discount and rent deferrals has also picked up significantly. Recent state-based policy measures designed to allow renters to renegotiate rents could see this increase further. This downward pressure on rents is expected to weigh on housing prices over the medium term.

The deterioration in established housing market conditions is expected to prolong the ongoing decline in **dwelling investment**. Dwelling investment is expected to be significantly lower over most of the forecast horizon than forecast in the February *Statement*. The trough in construction activity is now expected to occur in early 2021, two quarters later than previously expected. The near-term downgrade to activity incorporates information from liaison citing significantly weaker demand for new detached dwellings. Some possible labour supply disruptions and site closures due to COVID-19 have also been incorporated. Over the rest of the forecast horizon our profile for dwelling investment is consistent with the historical relationships with housing prices, the sharp contraction in foreign demand and slower population growth.

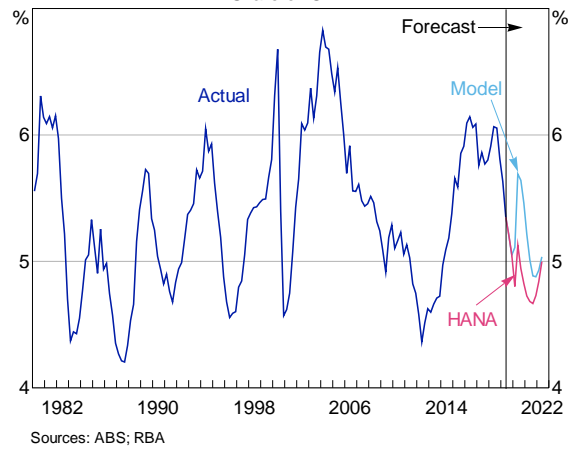
Dwelling Investment

Chain volume, quarterly



Dwelling Investment

Share of GDP



Sources: ABS; RBA

Key Risks and Considerations for the Recovery

The forecasts are heavily dependent on assumptions regarding the timing domestic and international restrictions. Changes to these would have a large effect on the timing and pace of the recovery.

In considering possible paths of economic recovery, it is helpful to consider how different types of activity will be affected even after some measures are relaxed. That is, there is a distinction between:

- Industries that can resume to near-normal levels provided sufficient health protections are in place (e.g. construction, some subset of in-person retail activities)

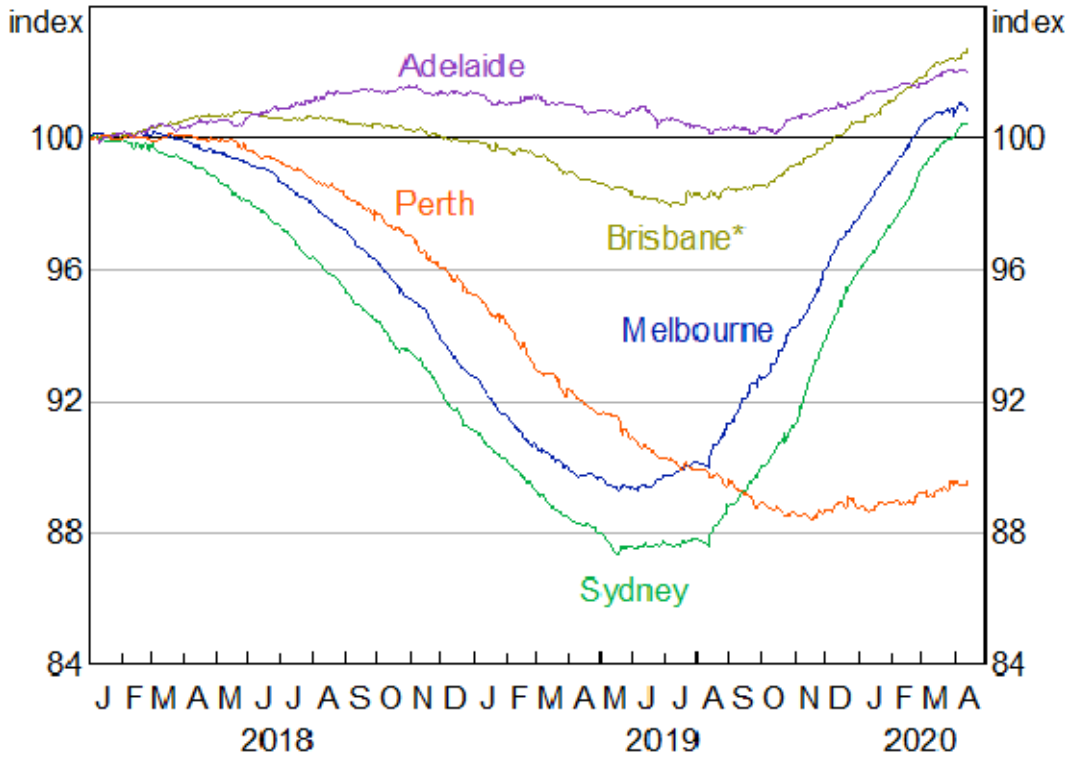
HANA & BAT
Economic Analysis Department
17 April 2020

From: ROSEWALL, Tom
Sent: Friday, 17 April 2020 8:34 AM
To: ROSEWALL, Tom
Cc: EVANS, Richard; WONG, Aaron
Subject: GOTD: Housing Market Snapshot [SEC=UNCLASSIFIED]

R Evans and A Wong, EA: *Housing price growth has slowed considerably ...*

Daily Housing Price Index

1 Jan 2018 = 100, seasonally adjusted



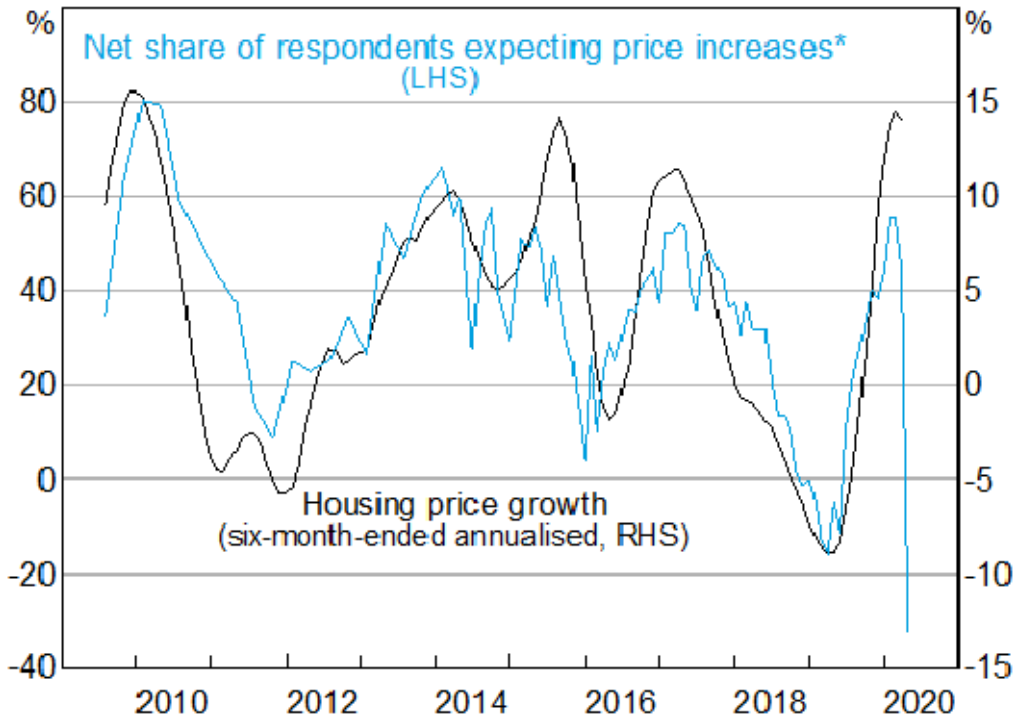
* Includes Gold Coast from 19/03/2018

Source: CoreLogic; RBA

... and households expect housing prices to decline over coming months.

Housing Price Expectations

Over the coming year

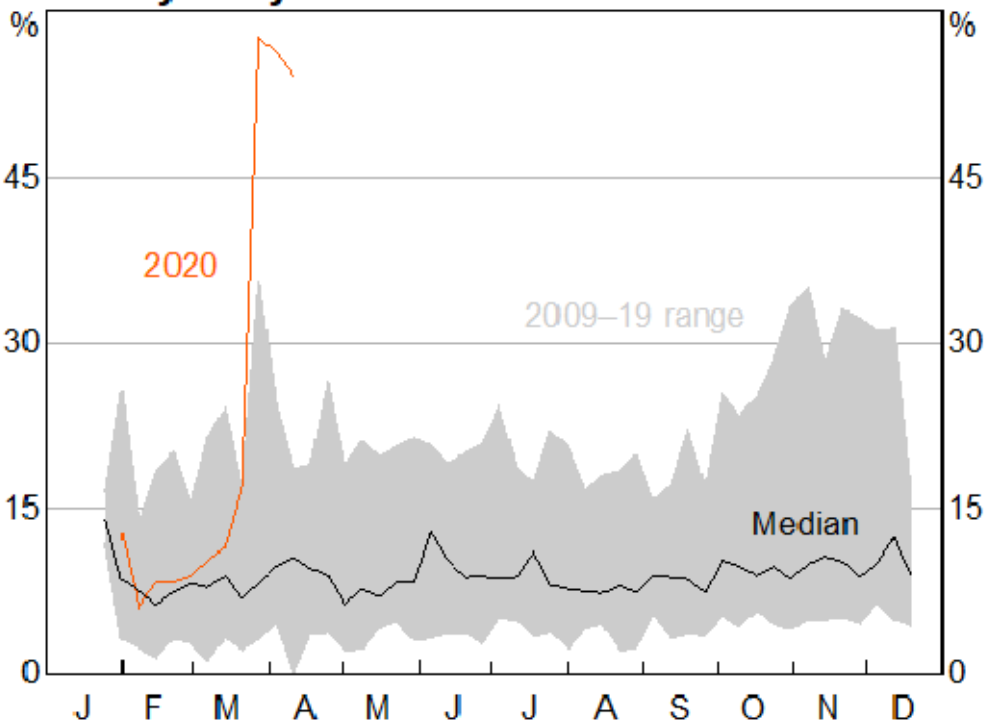


* Share of respondents expecting an increase in prices less share of respondents expecting a decrease in prices

Source: RBA; Westpac Melbourne Institute

Prospective sellers have pulled their properties from the market...

Sydney Auction Withdrawal Rate

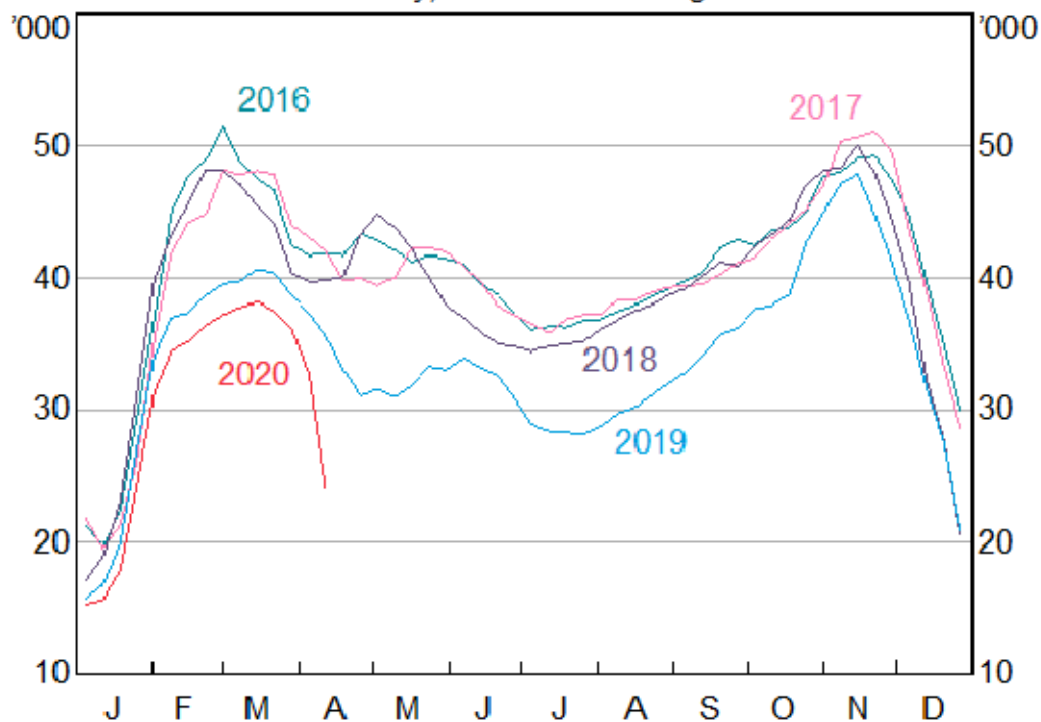


Source: APM; CoreLogic; RBA

... and new listings, which were relatively low at the start of 2020, have fallen.

New Listings – National*

Weekly, four-week average



* Properties advertised across multiple sources or multiple times in the same four-week period are only counted once.

Source: CoreLogic

Tom Rosewall | Head of Section (Households and National Accounts) | Economic Analysis Department
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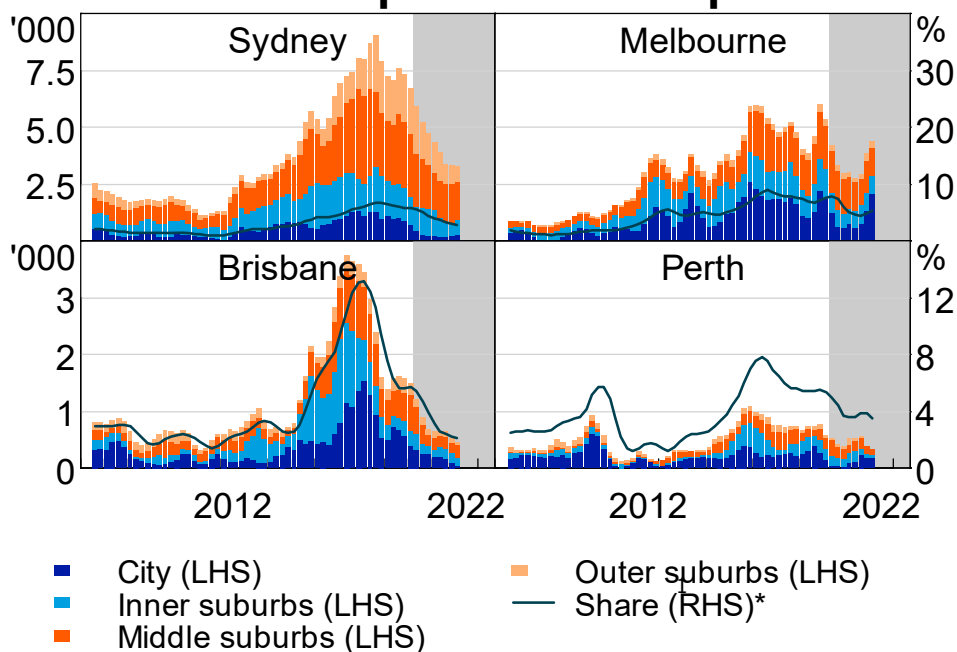
From: TAN, Alexis
Sent: Friday, 17 April 2020 6:23 PM
To: Notes policy groups
Cc: PARRISH, Patrick
Subject: Note EA: New Housing (Impacts of COVID-19) – The View from Liaison – April 2020 [SEC=UNCLASSIFIED]

- Demand for new housing has declined substantially since mid-March, as concerns around job security and increased economic uncertainty have weighed on buyer sentiment. Contacts have also reported significant declines in sales volumes and increases in contract cancellation rates, particularly for new detached houses and greenfield land, since mid-March. Looking ahead, contacts expect demand to continue to fall and contract cancellation rates to remain elevated.
- Apartment building activity is expected to decline further into mid to late 2020, although contacts are still uncertain about the degree to which COVID-19 will weigh on activity. While builders of detached houses have reported relatively small impacts of COVID-19 on current building activity to date, several have expressed concerns about future work beyond their current pipeline (around 4–9 months). The key downside risks to future construction activity are weaker new housing demand and the potential deterioration of financing conditions. Some developers have also expressed concerns that supply disruptions, staff absences and social distancing measures may draw out the length of construction timelines.
- Residential construction contacts have implemented a range of strategies in relation to their workforce in response to declining demand, including: reducing direct headcount; implementing freezes on new hires; reducing hours of employees; or requesting employees to take different forms of leave (e.g. sick leave, annual leave).
- Financing conditions for buyers remain tight, and some contacts are concerned that buyers will find it more difficult to obtain finance as a result of job losses or reductions in hours because of COVID-19.
- Financing conditions for developers and builders continue to remain challenging.
- Some contacts have reported a noticeable increase in settlement failure rates and requests from buyers for a settlement extension since mid-March, while only a few contacts are yet to see a pick-up in settlement failures.

For more information, please see: [New Housing \(Impacts of COVID-19\) – The View from Liaison – April 2020](#).

A [restricted version](#) with source notes is also available.

Estimated Apartment Completions



Patrick Parrish | Graduate Economist | Regional and Industry Analysis
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

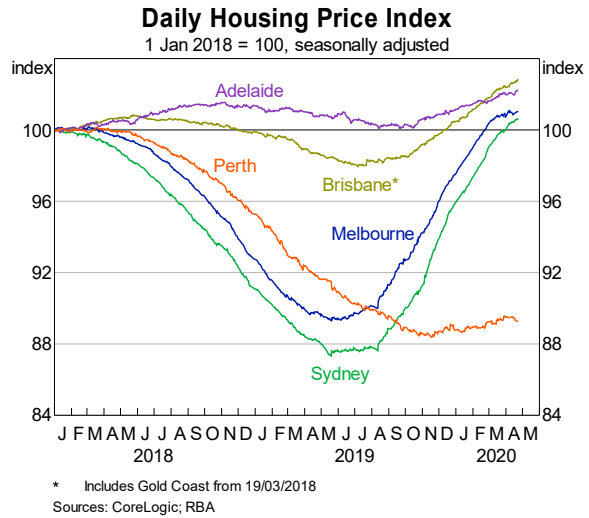
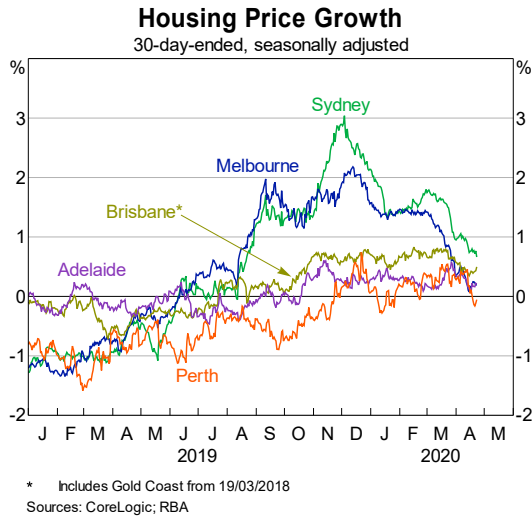
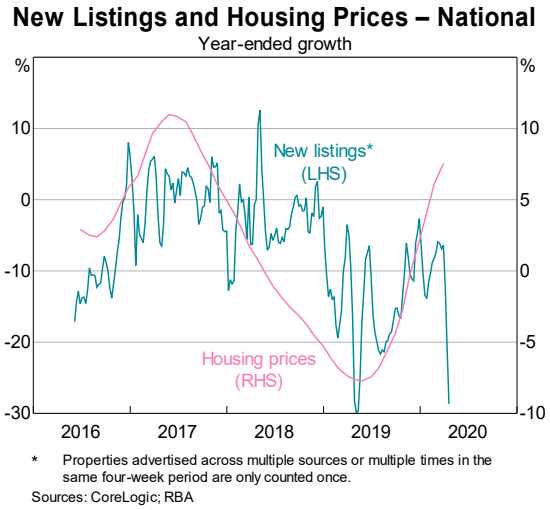
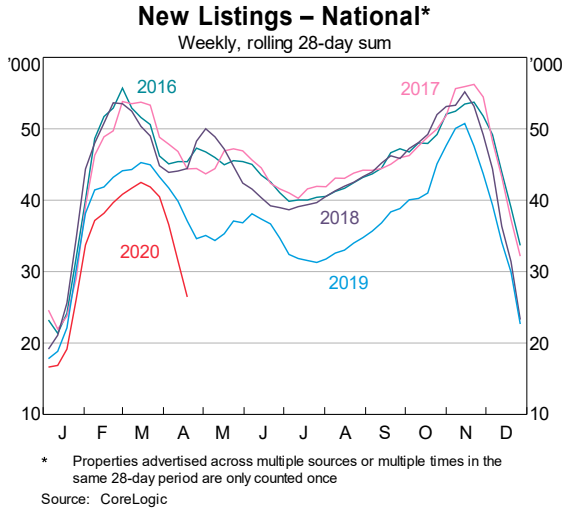
Alexis Tan | Economist | Regional and Industry Analysis
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

HOUSING MARKET WEEKLY UPDATE – 23 APRIL 2020

Weekly data continued to confirm that housing market conditions weakened in April:

- New residential listings continued to decline across all capital cities last week.
- Daily price data suggest that housing prices growth continued to moderate across most capital cities in April. The large reduction in housing turnover will make it difficult to accurately assess changes in housing prices in the period ahead.
- In Sydney and Melbourne, auction clearance rates remained near their lowest levels since the series began in 2008. Withdrawal rates in Sydney remained high. Weakness in the auction market indicators should be interpreted with caution due to the ban on public (in-person) auctions and open houses announced by National Cabinet on 24 March.

Data



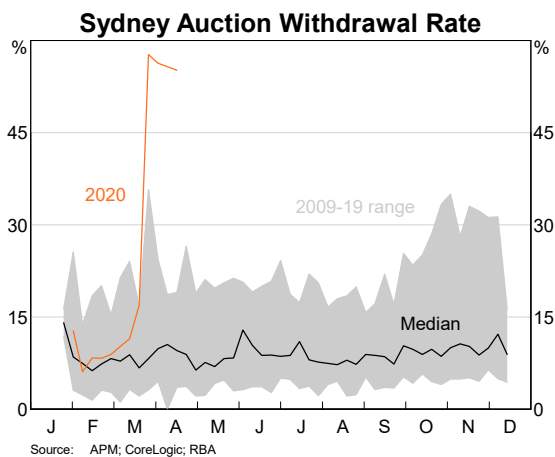
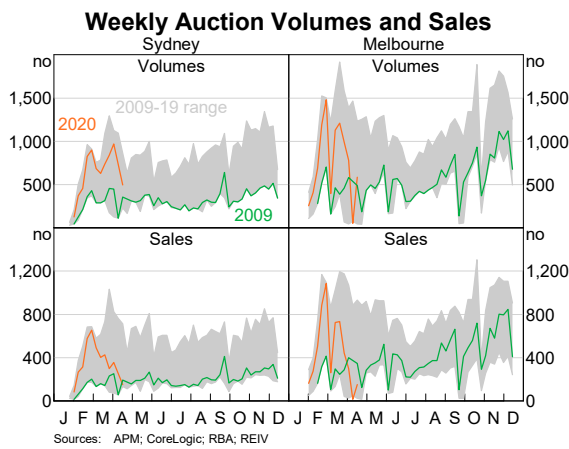
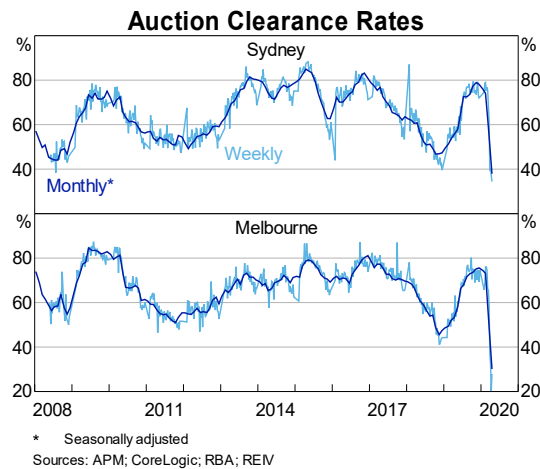
Housing Prices

Percentage change, seasonally adjusted

	April*	March	February	January	Year-ended	Growth over previous 5 years
Sydney	0.7	1.0	1.7	1.5	14.0	24
Melbourne	0.2	0.4	1.4	1.5	12.6	31
Brisbane	0.5	0.6	0.6	0.5	3.1	10
Adelaide	0.2	0.3	0.2	0.3	1.4	11
Perth	-0.1	0.3	0.3	0.2	-2.8	-19
Darwin	-	1.3	-1.1	0.1	-5.4	-29
Canberra	-	0.6	0.7	0.5	4.7	23
Hobart	-	-0.4	0.8	0.8	4.2	45
Capital cities	-	0.6	1.2	1.1	8.9	18
Regions	-	0.5	0.5	0.5	2.4	13
Australia	-	0.6	1.1	1.0	7.5	17

* Estimate based on partial data.

Sources: CoreLogic, RBA



Aaron Wong and Richard Evans
Household and National Accounts
Economic Analysis Department
23 April 2020

APRIL 2020

Summary of Economic Conditions

Established housing market conditions have deteriorated since mid March ...

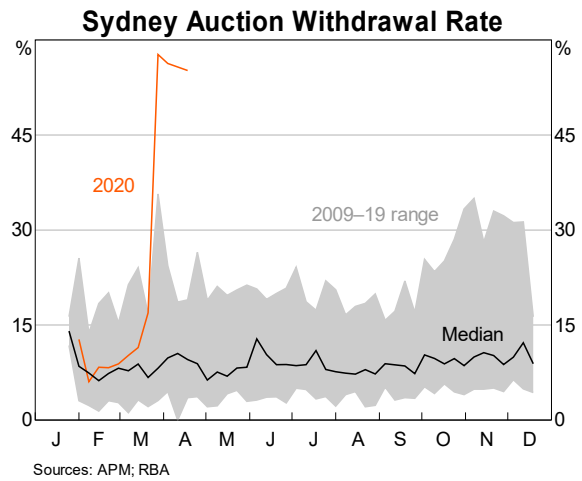
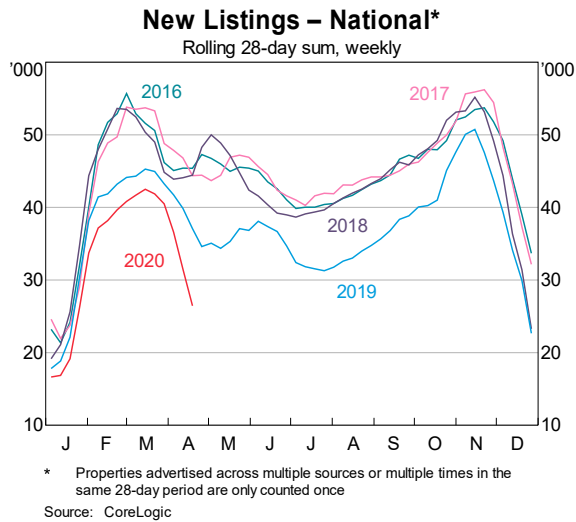
Housing price growth remained positive but moderated further in April in Sydney and Melbourne. Expectations for housing price growth over the next year has fallen sharply, with over half of respondents now expecting prices to decline, compared with around 10 per cent over the first three months of the year.

Housing Price Growth					
Percentage change, hedonic					
	April	March	February	Year-ended	Past five years
Sydney	0.7	1.0	1.7	14.0	24
Melbourne	0.2	0.4	1.4	12.6	31
Brisbane	0.5	0.6	0.6	3.1	10
Adelaide	0.2	0.3	0.2	1.4	11
Perth	-0.1	0.3	0.3	-2.8	-19
Darwin	-	1.3	-1.1	-5.4	-29
Canberra ^(a)	-	0.6	0.7	4.7	23
Hobart	-	-0.4	0.8	4.2	45
Capital cities	-	0.6	1.2	8.9	18
Regional ^(b)	-	0.5	0.5	2.4	13
Australia	-	0.6	1.1	7.5	17

(a) Seasonally adjusted by the RBA

Sources: CoreLogic; RBA

Following the ban on public (in-person) auctions and open houses in late March new listings declined sharply. Auction clearance rates in Sydney and Melbourne declined alongside a sharp increase in auction withdrawal rates. Real estate agents have also reported a sharp decline in buyer and seller enquiries. Online searches for residential properties to buy have declined markedly. The economic downturn, uncertainty and social distancing will continue to weigh on transaction volumes in coming months.



Information from liaison suggests that rental market conditions have deteriorated markedly since mid March. Online searches for rental properties have declined, while rental listings have increased, partly because properties previously offered on the short-term accommodation market are now being offered on the longer-term rental market.

A number of state governments have announced various forms of tax relief for landlords and rental support in cases where tenants are facing financial stress. These are in addition to the previously announced six-month moratorium on evictions for both residential and commercial tenants. These policy measures should help reduce the number of tenancy agreements that are terminated over coming months. Information from business liaison suggests the number of existing residential leases that have been subject to rent discounts or deferrals increased in April. Increased supply alongside weaker demand are also likely to have put upward pressure on the vacancy rate in April, putting further downward pressure on rents.

Economic Group
24 April 2020

HOUSING MARKET FORECASTS

Housing prices are expected to decline by around 7 per cent over the next year in our baseline scenario. Prices are expected to remain around 10 per cent lower than at the February *Statement* over the forecast period. This downgrade mainly reflects the negative confidence effects of COVID-19. In the upside scenario prices are expected to decline by 2 per cent; in the downside prices fall by 15 per cent.

The housing price forecasts for all three scenarios are primarily driven by confidence effects in the near term, calibrated using MARTIN.¹ In the baseline scenario, the magnitude of the confidence shock is assumed to be larger than experienced during the financial crisis (scaled by a factor of 1.5); this is consistent with observed declines in consumer confidence and survey measures of expectations for housing prices. The downside scenario assumes a larger confidence shock (twice the magnitude of the financial crisis) while the upside scenario assumes a smaller confidence effect (half the size of the financial crisis). In our baseline and upside scenarios, some degree of forbearance by the banking sector is assumed to mitigate larger declines in prices caused by forced sales and financial stress. In the downside scenario on the other hand, banks are not able to forbear to the same extent, leading to forced sales and some tightening in credit.

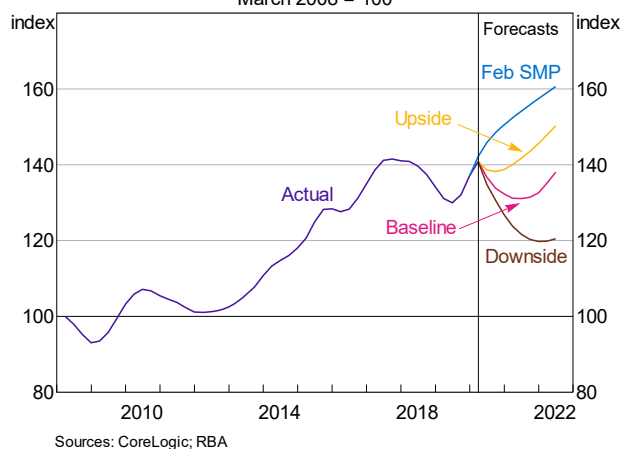
Table 1: HANA Nominal Housing Price Forecasts

Quarterly growth

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Baseline	2.7	-2.9	-2.1	-1.1	-0.9	-0.1	0.2	0.9	2.0	2.1
Upside	2.7	-1.6	-0.3	0.4	1.0	1.2	1.3	1.5	1.6	1.6
Downside	2.7	-4.3	-3.1	-3.0	-2.4	-1.7	-1.1	-0.5	0.1	0.5

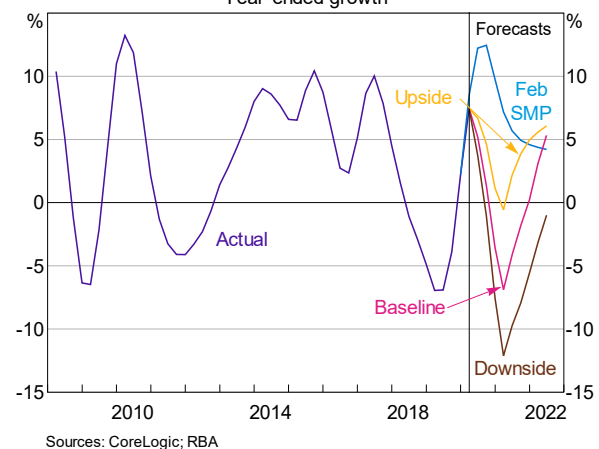
Graph 1
Housing Price Forecast

March 2008 = 100



Graph 2
Housing Price Forecast

Year-ended growth



These social distancing measures are expected to have an even larger effect on the number of housing transactions than on prices; **housing turnover** is expected to decline by 70 per cent in the June quarter, and remain low in the September quarter. Consistent with this, new listings have declined sharply in recent weeks. A significant reduction in housing turnover would make it difficult to accurately assess changes in housing prices in the period ahead.

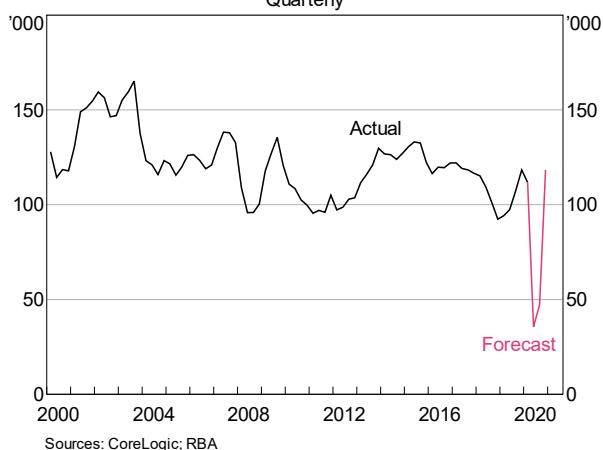
Despite policies announced to support residential rental markets, the **rental vacancy rate** is forecast to increase and rents to decline. Rental listings have increased, in part reflecting supply from owners previously offering their properties on the short-term accommodation market. The number of residential rental leases subject to discount and rent deferrals has also picked up significantly. Recent state-based policy measures

¹ MARTIN allows us examine historical episodes and decompose the residuals into errors due to (a) misses on other variables in the model (for example, the unemployment rate, interest rates, consumption), and (b) misses which cannot be explained by any other model variables (for more information, see: [Residual Decompositions in MARTIN](#)). As long as MARTIN is not severely misspecified, the contribution of (b) to the total residual can be loosely interpreted as a housing confidence shock.

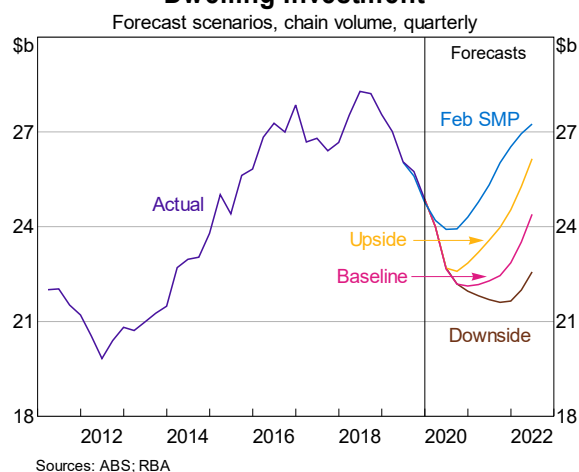
designed to allow renters to renegotiate rents could see this increase further. This downward pressure on rents is expected to weigh on housing prices over the medium term.

The deterioration in established housing market conditions is expected to prolong the ongoing decline in **dwelling investment**. Dwelling investment is expected to be significantly lower over most of the forecast horizon than forecast in the February *Statement*. The trough in construction activity is now expected to occur in early 2021 in the baseline scenario, two quarters later than previously expected. The near-term downgrade to activity incorporates information from liaison citing significantly weaker demand for new detached dwellings. Some possible labour supply disruptions and site closures due to COVID-19 have also been incorporated. Over the rest of the forecast period the three scenario profiles for dwelling investment are consistent with the relationships with housing prices, the sharp contraction in foreign demand and slower population growth.

Graph 3
Residential Turnover
Quarterly



Graph 4
Dwelling Investment



Richard Evans
Economist
Household and National Accounts
Economic Analysis Department
28 April 2020

LIAISON ON CURRENT CONDITIONS: APRIL 2020

Liaisons focussed on the impacts of COVID-19 and associated government measures.

- Demand for new housing has declined substantially since mid-March, with sharp falls in enquiries and foot traffic following the introduction of stricter containment measures. Contacts have also reported significant declines in sales volumes and increases in contract cancellation rates, particularly for new detached houses and greenfield land. Financial risks have increased for developers and builders as a result of the decline in demand for new housing. Looking ahead, several contacts have expressed concerns about changes in buyers' financial circumstances and possible valuation shortfalls driving up settlement failure rates.

Housing demand and activity

- Demand for new housing has declined substantially since mid-March, with sharp falls in enquiries and foot traffic following the introduction of stricter containment measures. Concerns around job security and increased economic uncertainty have weighed on buyer sentiment. Contacts have also reported significant declines in sales volumes and increases in contract cancellation rates since mid-March, particularly for new detached houses and greenfield land. Looking ahead, contacts expect demand to continue to fall and contract cancellation rates to remain elevated.
- Apartment building activity is expected to decline further into mid to late 2020, although contacts are still uncertain about the degree to which COVID-19 will weigh on activity. While builders of detached houses have reported relatively small impacts on activity to date, several have expressed concerns about future work beyond their current pipeline (around 4-9 months). The key downside risks to future construction activity are weak new housing demand and a potential deterioration of financing conditions. Some developers have also expressed concerns that supply disruptions, staff absences and social distancing measures may draw out the length of construction timelines.
- Most builders and developers have been able to manage supply disruptions to date because they hold sufficient inventories, have substituted some imported materials with domestic products, and supply disruptions stemming from China have eased.
- See [New Housing \(Impacts of COVID-19\) – The View from Liaison – April 2020](#) for more information.

Regional and Industry Analysis
April 2020

From: ROSEWALL, Tom
Sent: Thursday, 30 April 2020 11:21 AM
To: EVANS, Richard
Subject: paper [SEC=UNCLASSIFIED]

Ok?

Social distancing restrictions on home inspections and in-person auctions, as well as heightened uncertainty about the future, have reduced turnover in the established housing market. Contacts in the liaison program report that demand for both new and established housing has declined significantly. We had previously been concerned that residential (and non-residential) construction activity could be more severely affected in the near term by supply chain disruptions and health-related site closures, but this does not seem to have eventuated. Rather, weaker incomes and sentiment are likely to weigh on demand for new housing for a more extended period. Exacerbating this decline in demand, population growth is likely to be lower in the next year or so because border controls essentially prevent immigration. At the same time, the supply of rental housing is being boosted as properties that were previously offered as short-term accommodation are shifting to the long-term rental market. As well as reducing the incentives to build new housing, this shift could contribute to a decline in rent inflation from current historically low rates.

Tom Rosewall | Head of Section (Households and National Accounts) | Economic Analysis Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
w: www.rba.gov.au

HOUSING MARKETS REVIEW – APRIL 2020

Summary

- Conditions in the established housing market continued to weaken in April. Housing price growth eased across all of the capital cities over the month while non-price indicators fell sharply.
- CoreLogic's national hedonic housing nominal price index increased by 0.3 per cent over April, to be 8 per cent higher over the year.¹ Prices increased in Sydney, Brisbane and Adelaide, but were flat in Melbourne and Perth, and declined in Canberra and Hobart.
- Non-price indicators deteriorated further in April. Auction clearance rates fell sharply in Sydney and Melbourne to the lowest levels since the series began. CoreLogic's estimate of housing turnover fell to the lowest level since 1991 in seasonally adjusted terms and new property listings declined to levels normally seen in December and January.

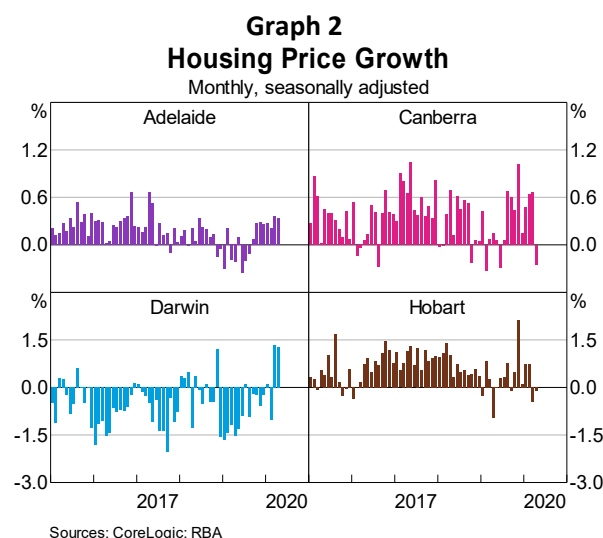
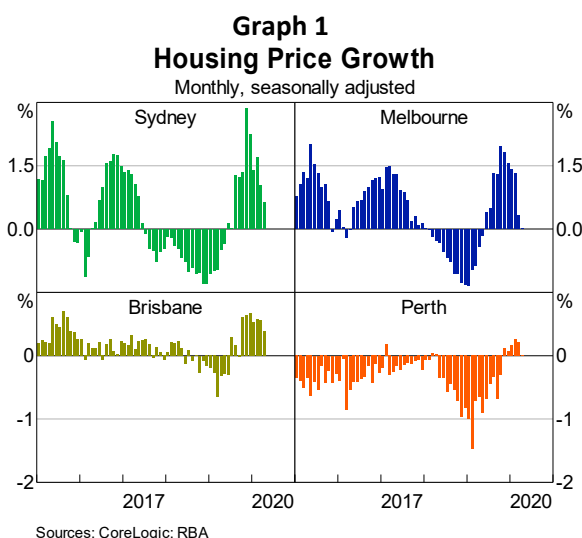


Table 1: Housing Price Growth
Percentage change, seasonally adjusted

	Apr-20	Mar-20	Feb-20	Jan-20	Year-ended	Five-year growth
Sydney	0.6	1.0	1.7	1.4	14.3	22
Melbourne	0.0	0.3	1.3	1.4	12.4	29
Brisbane	0.4	0.6	0.6	0.5	3.8	10
Adelaide	0.3	0.4	0.2	0.3	1.5	11
Perth	0.0	0.2	0.3	0.2	-2.5	-18
Darwin	1.3	1.4	-1.0	0.1	-2.7	-28
Canberra	-0.2	0.7	0.6	0.5	4.3	22
Hobart	-0.1	-0.5	0.7	0.7	5.0	44
Capital cities	0.2	0.5	1.1	1.1	9.7	17
Regional	0.5	0.5	0.5	0.5	3.2	13
National	0.3	0.5	1.0	1.0	8.3	16

Sources: CoreLogic; RBA

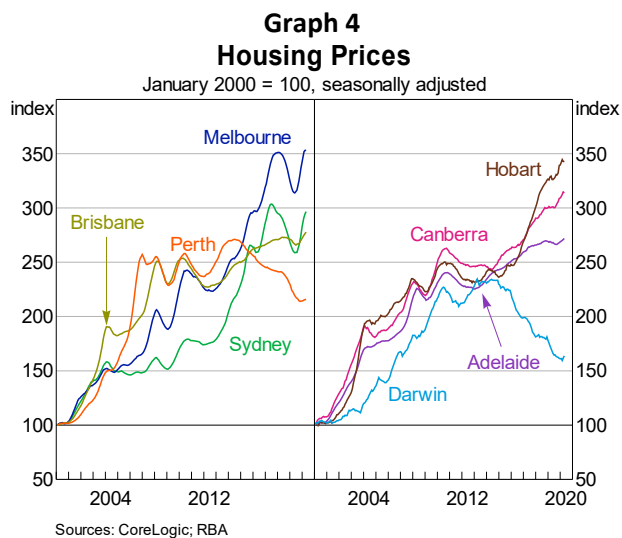
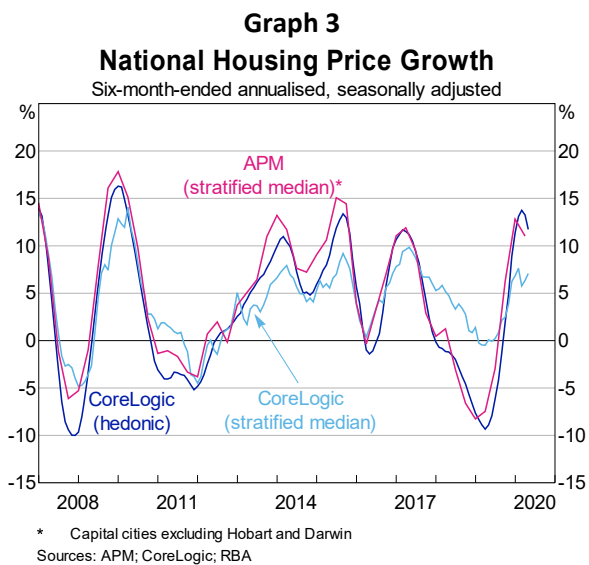
¹ Housing price data have been seasonally adjusted by the RBA. CoreLogic anticipates there could be a material reduction in the volume of property transactions which may affect its ability to accurately estimate the value of residential properties.

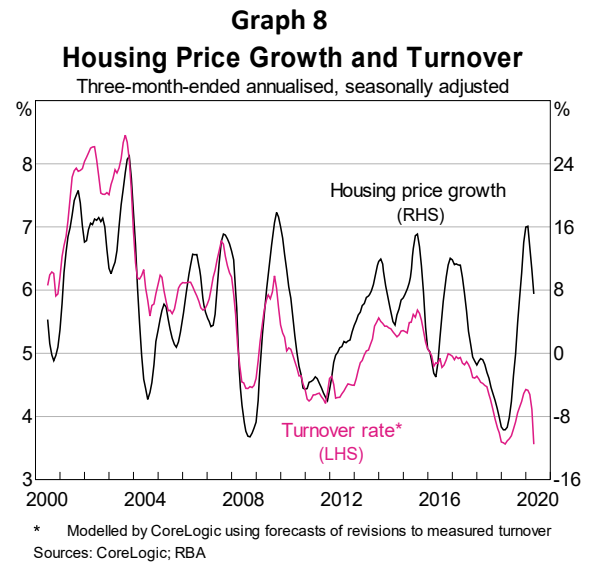
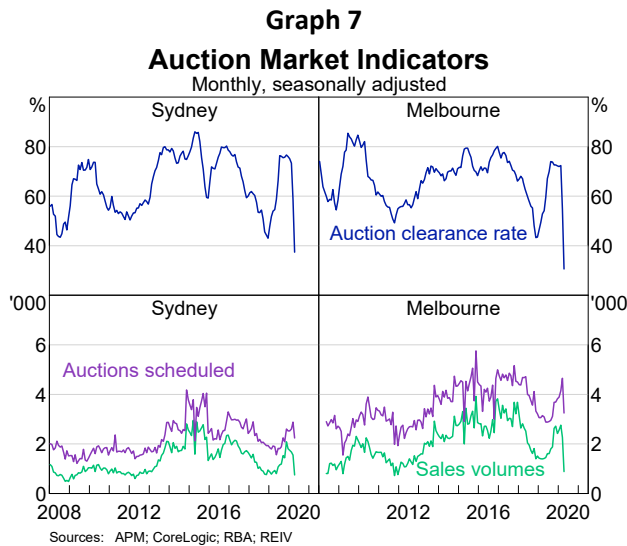
Assessment

Conditions in the established housing market continued to deteriorate in April. Monthly growth in the national CoreLogic hedonic index moderated, with broad based declines in growth across the capital cities. Prices appear to have peaked in Melbourne, with prices for detached houses falling in April. Housing prices also declined in Canberra and Hobart in the month. The deterioration in non-price indicators in April has been even more pronounced. Price expectations recorded the largest monthly decline to their lowest level since the survey began in 2009. New listings declined to levels normally seen in December and January, the quietest months of the year. Consequentially, monthly turnover fell to the lowest level since 1991 in seasonally adjusted terms (note, real time turnover data are subject to large revisions). Low turnover will make it difficult for data providers to obtain an accurate read on established prices over coming months.

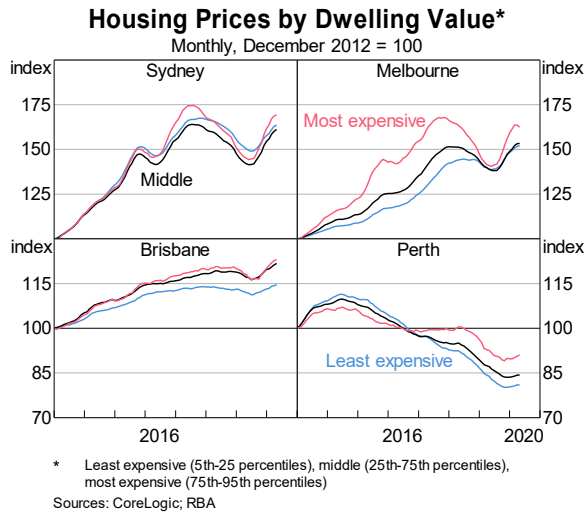
Clearance rates continued to decline in April, falling to around 30 per cent in Sydney and in Melbourne, the lowest levels since the beginning of the series. Withdrawal rates in Sydney also remained far above levels recorded in the past decade. Scheduled auctions also declined significantly in the month, although this is partially caused by the Easter long weekend and Anzac Day. The ban on public (in-person) auctions and open houses means weakness in the auction market indicators should be interpreted with caution, as their historical relationship with other housing indicators has probably broken down.

Rental market conditions eased in April. Information from liaison suggested that the number of existing residential leases that have been subject to rent discounts or deferrals increased in April. A number of state governments have announced tax relief for landlords and rental support in cases where tenants are facing financial stress. These are in addition to the previously announced six-month moratorium on evictions for both residential and commercial tenants. These policy measures should help reduce the number of tenancy agreements that are terminated over coming months.



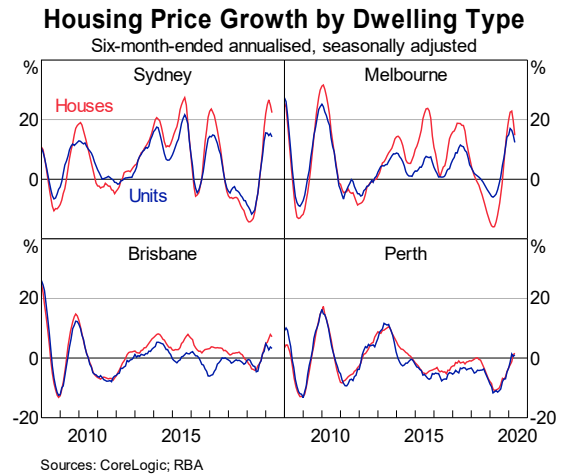


Graph 9: In Melbourne, prices for the *most expensive* segment of the market declined in April. Price growth moderated across all segments in Sydney and Melbourne.



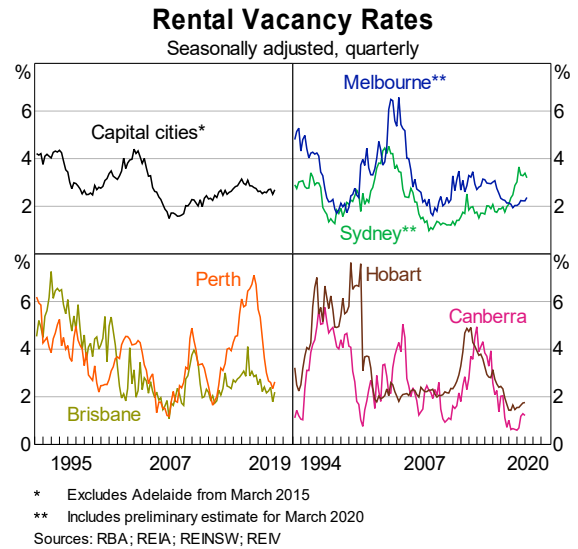
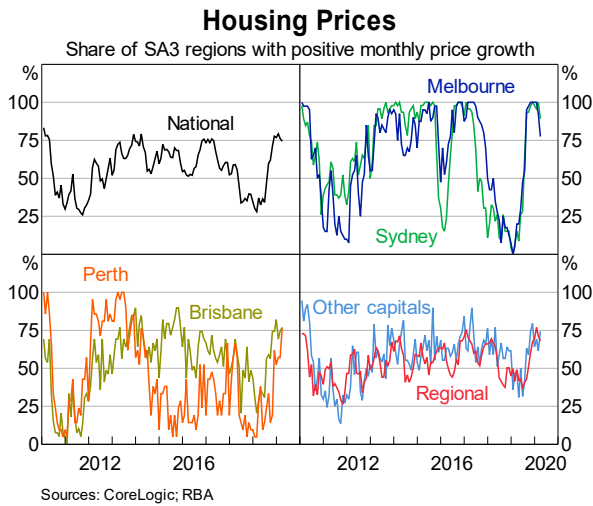
Graph 11: The share of SA3 regions with positive monthly price growth decreased slightly over March, driven by Sydney and Melbourne.

Graph 10: In Melbourne, the moderation in housing price growth was driven by a decline in house prices in April. In Sydney, both house and unit price growth eased in April.²



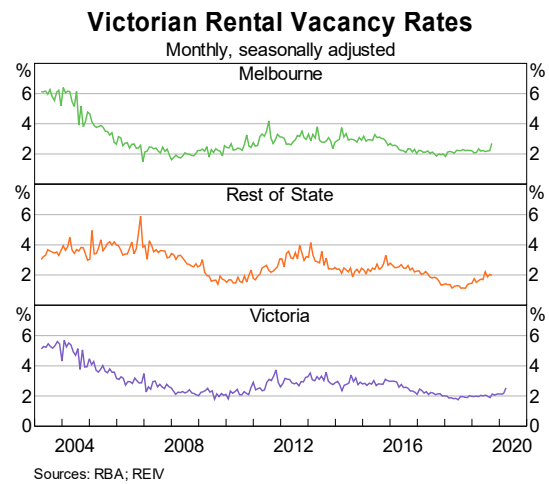
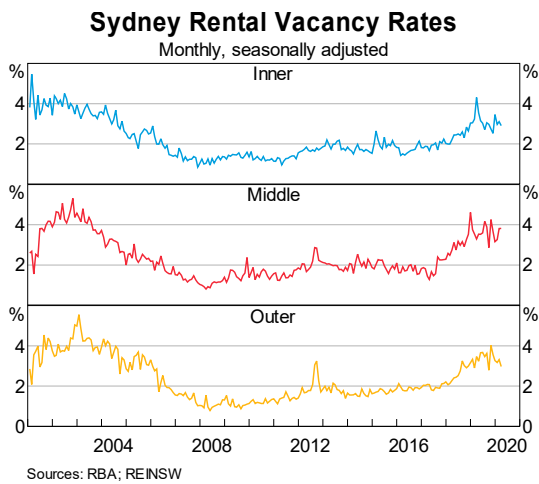
Graph 12: Preliminary data suggest that vacancy rates ticked down in the March quarter in Sydney and increased slightly in Melbourne. Vacancy rates ticked up in the December quarter.

² CoreLogic defines a house as any property on a Torrens title, where the title holder claims ownership of the land which the property resides on. This includes property types such as semi-detached dwellings, terraces and duplexes. A unit is any property that is on a strata title, where the title holders own a shared claim to common land that multiple properties may reside on. This includes property types such as villas and townhouses.



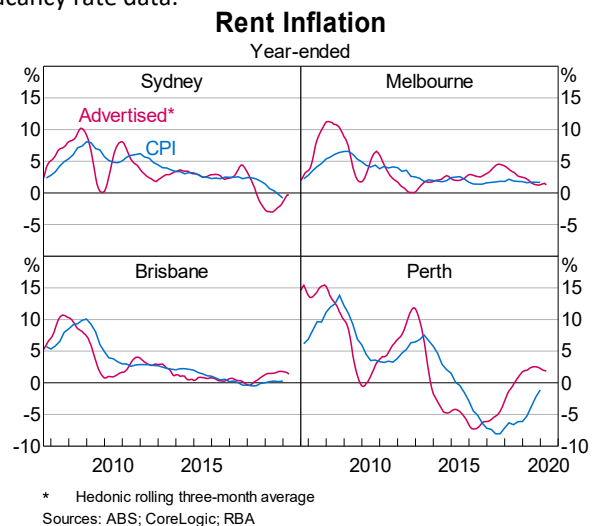
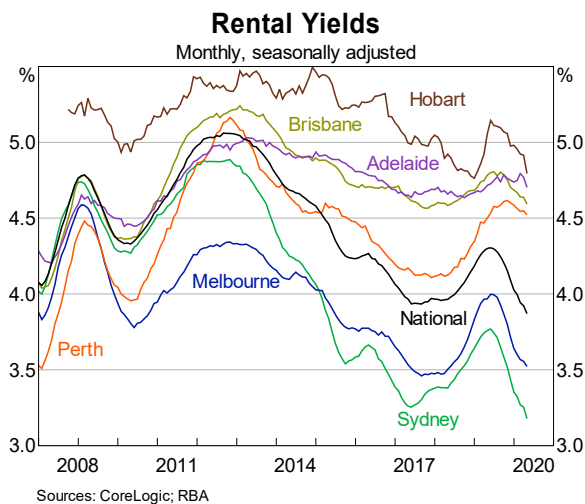
Graph 13: Vacancy rates in Inner and Outer Sydney edged lower in March.

Graph 14: Vacancy rates increased in Melbourne and ticked down in the rest of Victoria in March.

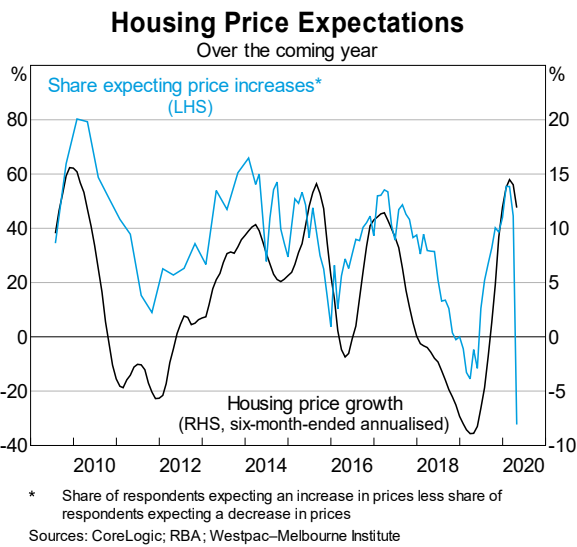


Graph 15: National and capital city rental yields declined in April, driven by a tick down in hedonic rents in most states.

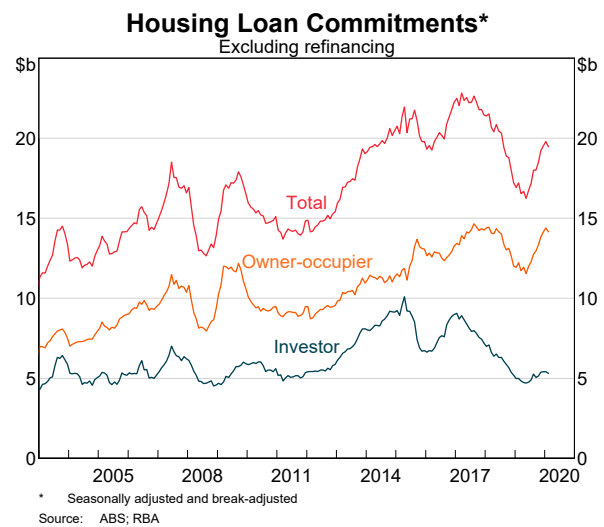
Graph 16: Advertised rent inflation remained subdued across the major markets and broadly consistent with vacancy rate data.



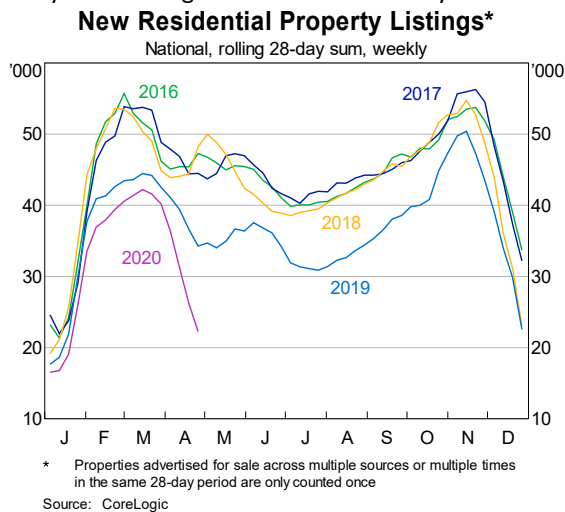
Graph 17: In April, housing price growth expectations recorded the largest monthly decline since the survey began in 2009. Over half of respondents expect prices to decline over the coming year.



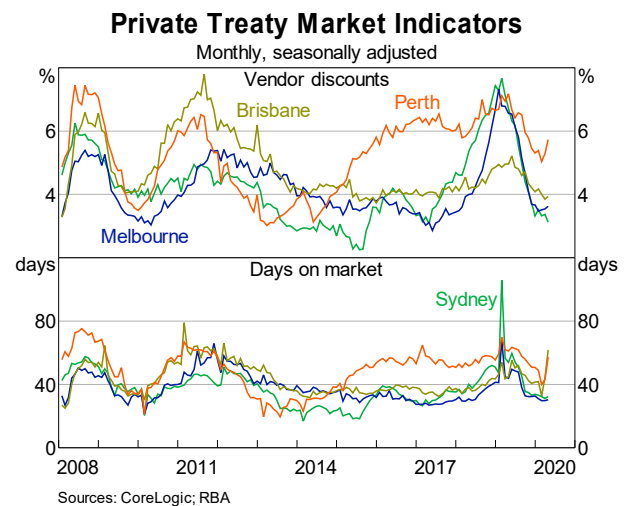
Graph 18: Housing loan commitments for both owner-occupiers and investors decreased in February.



Graph 19: New residential listings have declined significantly since the end of March and are now at levels usually seen during December and January.

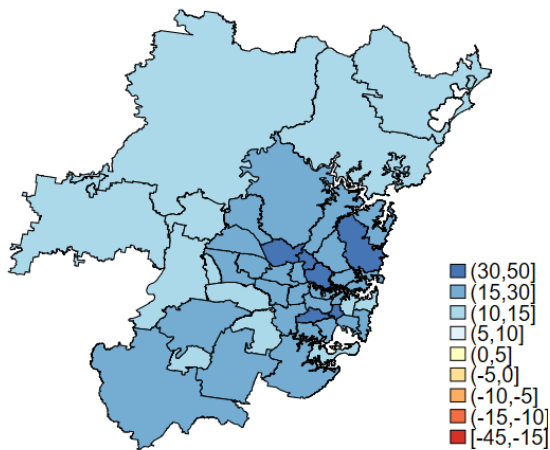


Graph 20: Vendor discounts increased in Perth while days on market increased in Brisbane and Perth.



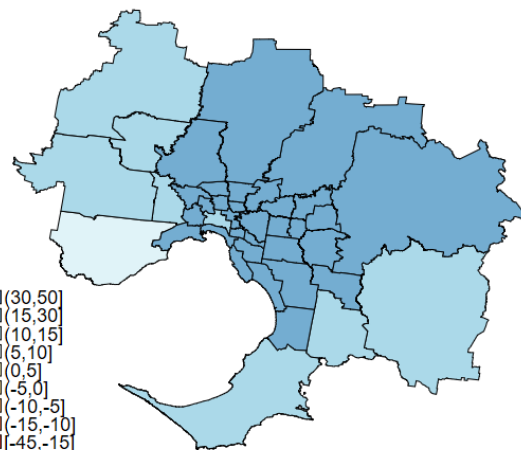
Graphs 21-24: Housing prices increased in all areas of Sydney and Melbourne, 95 per cent of SA3s in Brisbane and nearly two third of SA3s in Perth over the six months to March 2020.

Sydney Housing Price Growth
Six-month-ended annualised to March



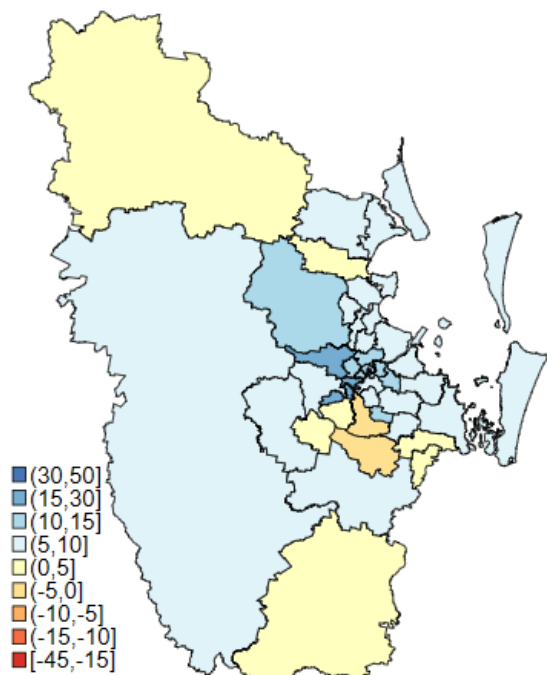
Sources: CoreLogic; RBA

Melbourne Housing Price Growth
Six-month-ended annualised to March



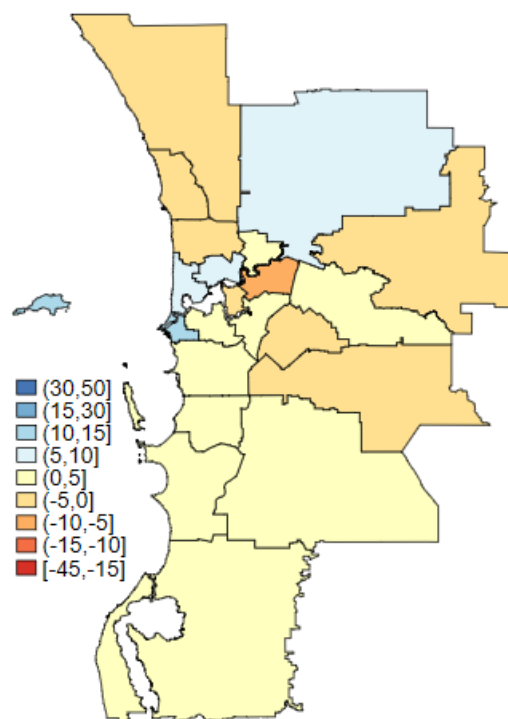
Sources: CoreLogic; RBA

Brisbane Housing Price Growth
Six-month-ended annualised to March



Sources: CoreLogic; RBA

Perth Housing Price Growth
Six-month-ended annualised to March



Sources: CoreLogic; RBA

Richard Evans and Aaron Wong
Household and National Accounts
Economic Analysis Department
1 May 2020

Appendix A – Additional graphs and tables

Table A1: House Price Growth
Percentage change, seasonally adjusted

	Apr-20	Mar-20	Feb-20	Jan-20	Year-ended	Five-year growth
Sydney	0.5	0.9	1.7	1.6	15.8	23
Melbourne	-0.3	0.4	1.4	1.5	12.8	31
Brisbane	0.3	0.7	0.6	0.6	4.2	14
Adelaide	0.3	0.3	0.2	0.3	1.3	12
Perth	0.0	0.3	0.2	0.1	-2.5	-17
Darwin	0.3	1.1	0.3	0.3	-3.8	-21
Canberra	-0.1	0.8	0.8	0.5	5.3	27
Hobart	0.0	0.3	0.7	0.9	6.1	45
Capital cities	0.1	0.6	1.2	1.2	9.8	18
Regional	0.4	0.5	0.6	0.5	3.3	14
National	0.2	0.6	1.0	1.0	8.3	17

Sources: CoreLogic, RBA

Table A2: Unit Price Growth
Percentage change, seasonally adjusted

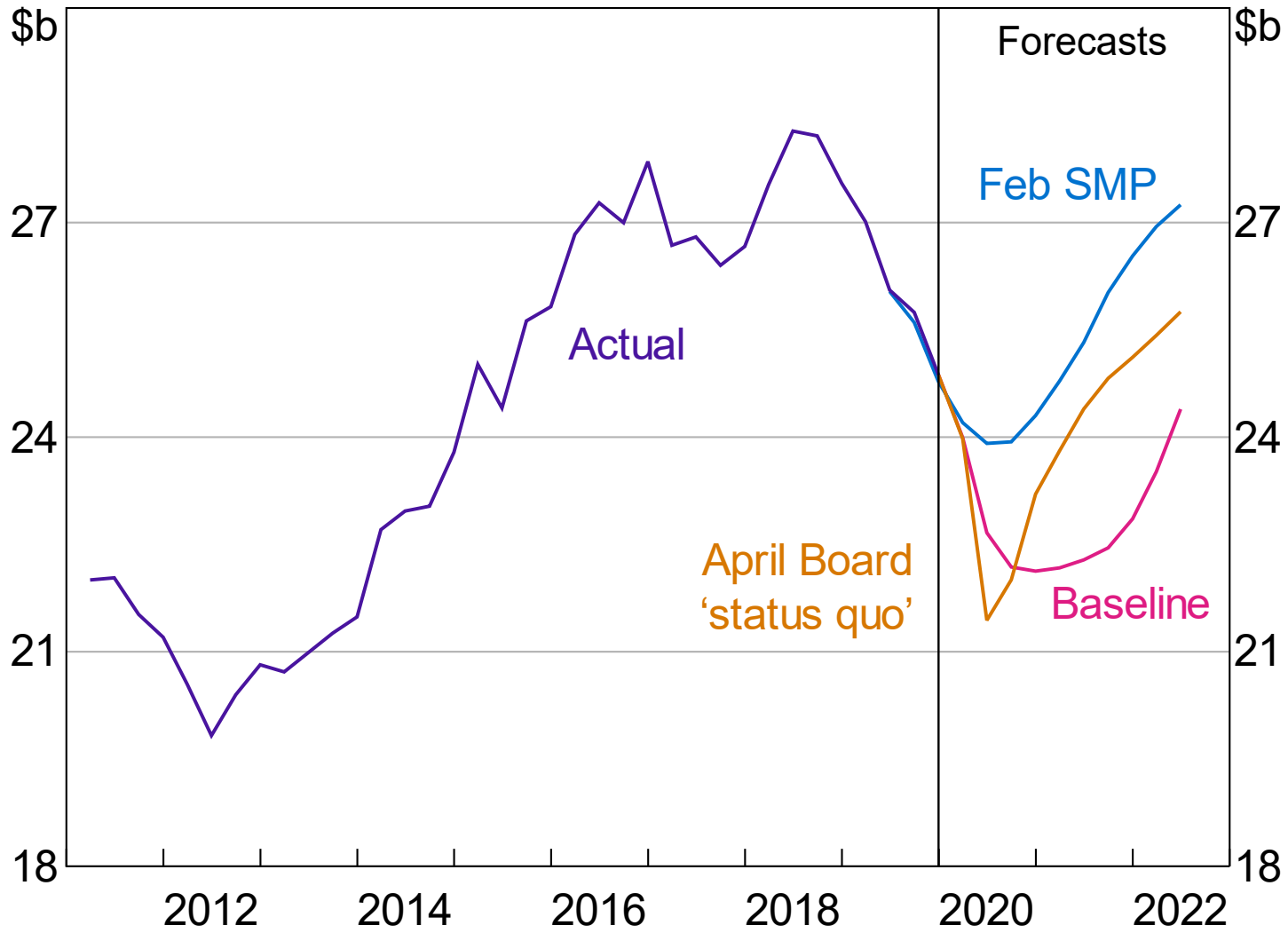
	Apr-20	Mar-20	Feb-20	Jan-20	Year-ended	Five-year growth
Sydney	0.6	1.1	1.4	0.4	11.0	18
Melbourne	0.4	0.3	1.2	1.3	11.5	23
Brisbane	0.5	0.2	0.3	-0.3	2.3	-4
Adelaide	0.5	0.5	0.1	0.4	2.5	8
Perth	-0.2	-0.6	1.0	0.3	-3.0	-24
Darwin	2.5	1.8	-3.2	-0.3	-0.3	-38
Canberra	-0.6	0.2	0.4	0.1	0.9	6
Hobart	0.1	-3.6	0.2	0.6	1.0	39
Capital cities	0.5	0.7	1.1	0.7	9.2	14
Regional	0.8	0.5	0.3	0.6	2.8	11
National	0.5	0.6	1.0	0.7	8.3	13

Sources: CoreLogic, RBA

Issues for discussion

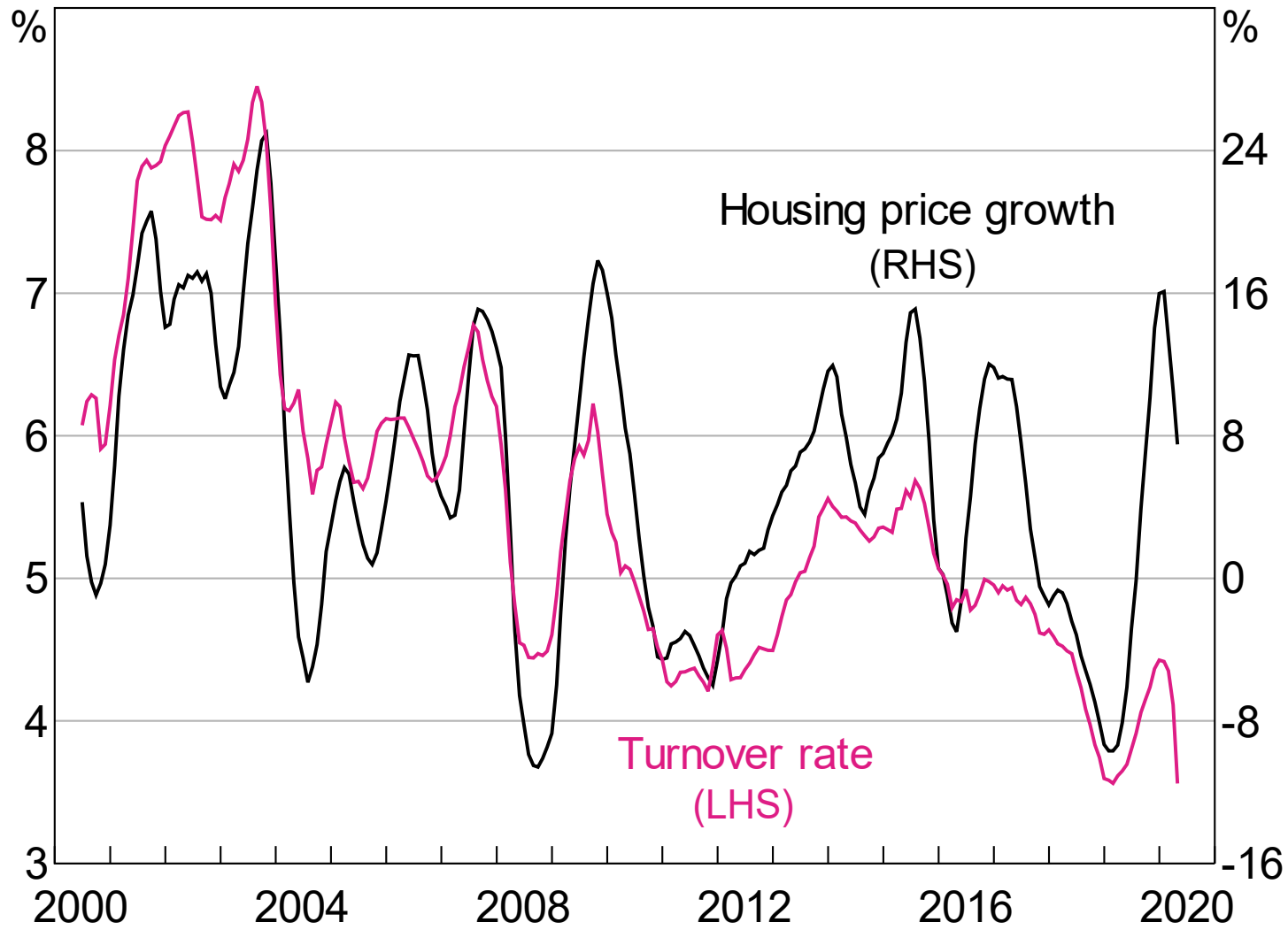
Dwelling Investment

Chain volume, quarterly



Housing Price Growth and Turnover

Three-month-ended annualised, seasonally adjusted



**MAY 2020 BOARD
SPEAKING NOTES - ASSISTANT GOVERNOR (ECONOMIC)**

17. Dwelling Investment

- One area where we have materially refined our forecasts since the first-pass version I showed you last month is in dwelling investment. I showed you the orange line last month. The policy assumption is still the same – that’s the ‘status quo’ scenario from last month which has turned out pretty much as we expected in terms of the social distancing restrictions and other policies to combat the virus.
- The difference is that last month we were quite concerned about supply chain disruptions (especially building materials from China) and site closures due to virus outbreaks affecting construction. This turns out not to have been a big deal. We have not heard of serious disruptions from either source from our liaison contacts (though a few were worried about their supply chains).
- This is very different to some of the other countries that have had more stringent lockdowns and/or narrower definitions of essential workers.
- Instead, it’s become clear that there has been a big drop-off in demand for new housing. Aside from the difficulties of actually inspecting and selling houses, people have other things on their mind than buying a home; they might be worried about their job security. Our liaison contacts are saying that contracts are being cancelled, early stage buyer interest is very weak and the pipeline is emptying.
- Similar messages from non-res construction. They are happily working on existing projects, but anything that hadn’t already been started has been deferred.

18. Housing price growth and turnover

- Social distancing restrictions have also made it harder to sell an existing home so turnover has come down. It was already low. This will matter for state government stamp duty revenue and OTC.
- Housing prices as measured have eased. A bit hard to know how well they are being measured at the moment given the decline in the number of transactions. Not actually falling yet but something to watch given the expected weakness in employment, incomes and population growth.

COVID-19 LIAISON MESSAGES UPDATE: 4 MAY 2020

RIA met with 42 contacts over the past week. Liaisons focused on the impacts of COVID-19 and associated government measures.

- Demand for new housing has declined substantially since mid March and is expected to decrease further. There have been sharp falls in sales, enquiries and foot traffic following the introduction of stricter containment measures. Contacts have also reported increases in contract cancellation rates, particularly for new detached houses and greenfield land.

HOUSING MARKET WEEKLY UPDATE – 14 MAY 2020

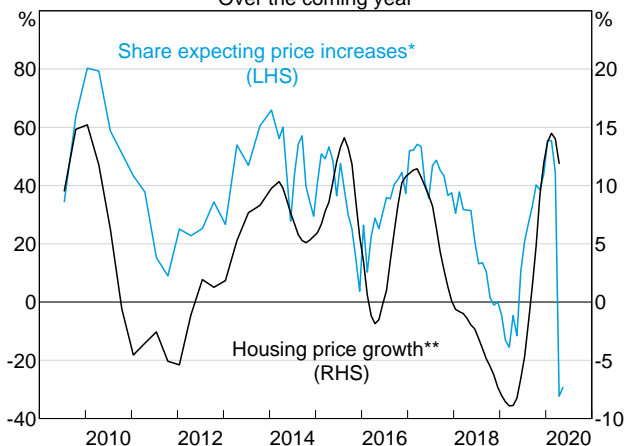
Weekly data indicate that conditions in the established housing market stabilised in the first half of May:

- Expectations for housing price growth ticked up a little, though remained near record low levels recorded in April. The survey measure of ‘time to buy a dwelling’ unwound most of last month’s sharp deterioration (see: [D20/140331](#)).
- New residential listings stabilised at a low level after falling since mid-March.
- In Sydney and Melbourne, auction clearance rates rose significantly alongside a decline in the withdrawal rate. However, auction volumes and sales in both cities remained subdued. The resumption of public (in-person) auctions and open houses should support activity in coming weeks.
- Rental vacancy rates in Melbourne rose significantly in April. Conditions in the rest of Victoria did not materially change.
- Housing prices have declined in Melbourne and Perth over recent weeks, while the pace of price growth in Sydney continued to ease. Price growth in Brisbane and Adelaide is steady. The large reduction in housing turnover will make it difficult to accurately assess changes in housing prices in the period ahead.

Data

Housing Price Expectations

Over the coming year

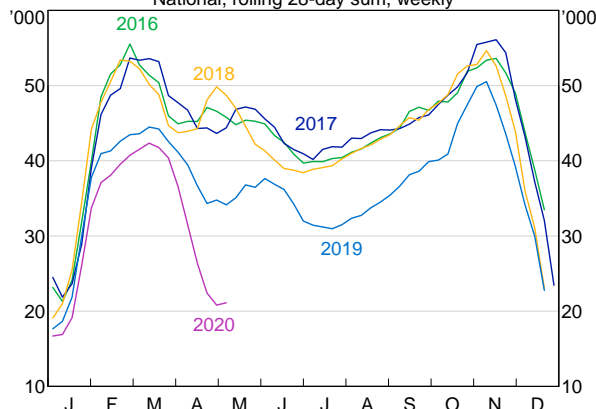


* Share of respondents expecting an increase in prices less share of respondents expecting a decrease in prices
 ** Six-month-ended-annualised growth

Sources: CoreLogic; RBA; Westpac-Melbourne Institute

New Residential Property Listings*

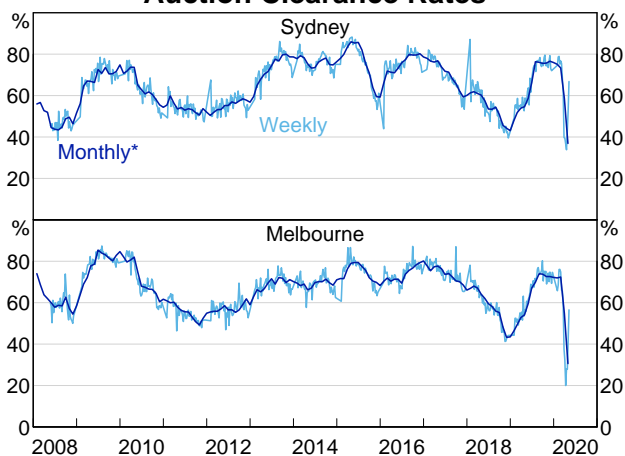
National, rolling 28-day sum, weekly



* Properties advertised for sale across multiple sources or multiple times in the same 28-day period are only counted once

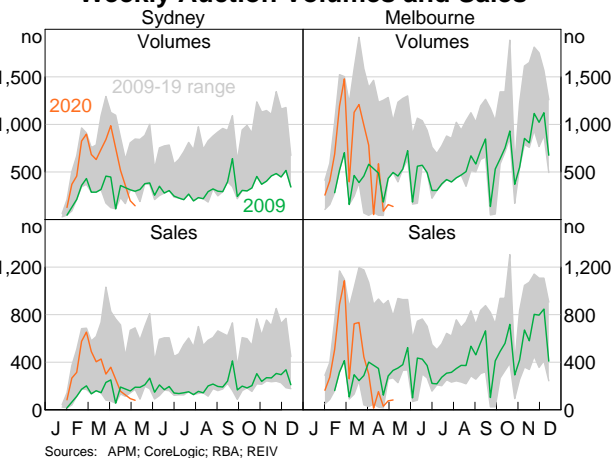
Source: CoreLogic

Auction Clearance Rates



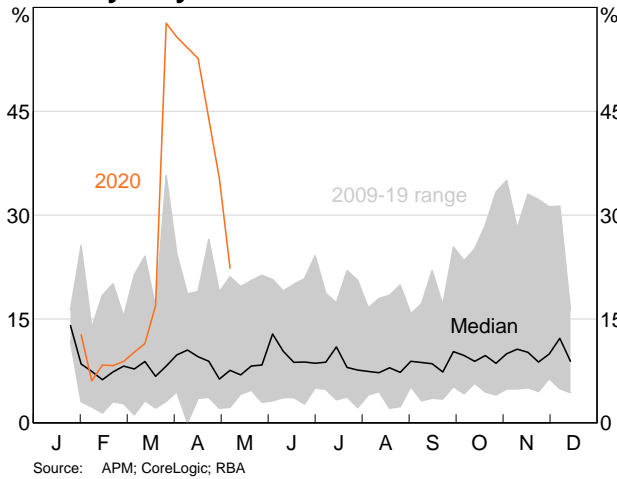
* Seasonally adjusted
 Sources: APM; CoreLogic; RBA; REIV

Weekly Auction Volumes and Sales

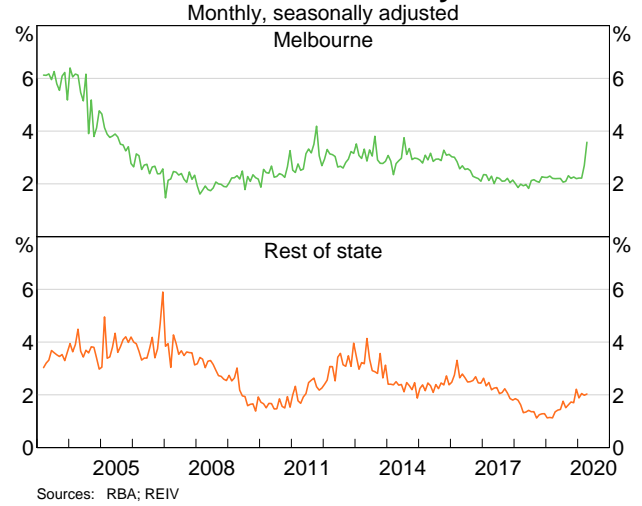


Sources: APM; CoreLogic; RBA; REIV

Sydney Auction Withdrawal Rate

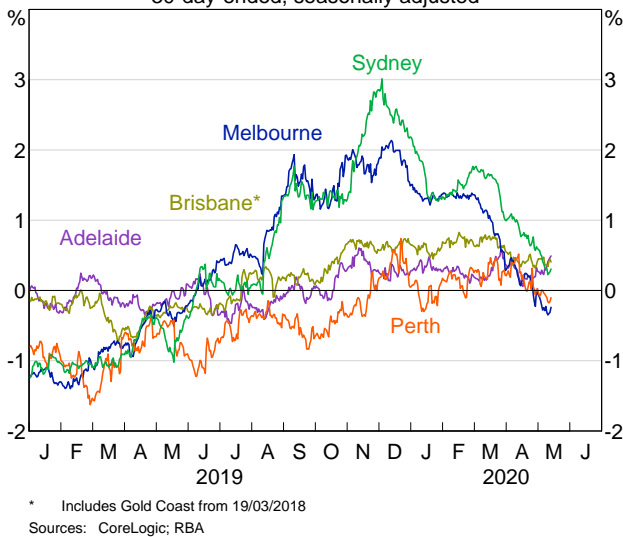


Victorian Rental Vacancy Rates



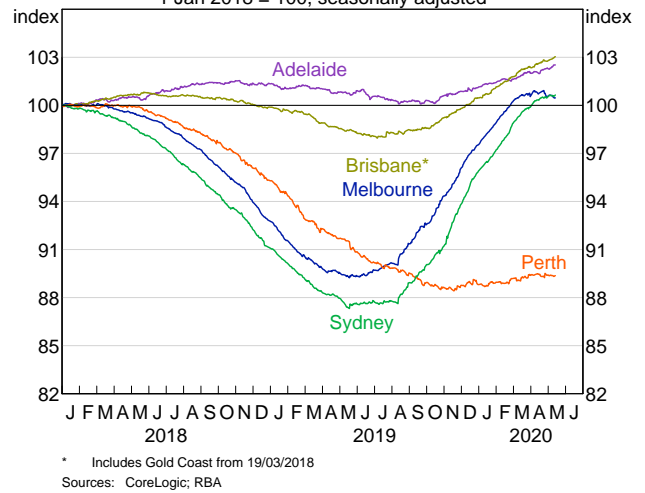
Housing Price Growth

30-day-ended, seasonally adjusted



Daily Housing Price Index

1 Jan 2018 = 100, seasonally adjusted



Housing PricesPercentage change, seasonally adjusted

	May*	April	March	February	Year-ended	Growth over previous 5 years
Sydney	0.3	0.6	1.0	1.7	–	22
Melbourne	–0.2	0.0	0.3	1.3	–	29
Brisbane	0.6	0.4	0.6	0.6	–	10
Adelaide	0.4	0.3	0.4	0.2	–	11
Perth	–0.1	0.0	0.2	0.3	–	–18
Darwin	–	1.3	1.4	–1.0	–2.7	–28
Canberra	–	–0.2	0.7	0.6	4.3	22
Hobart	–	–0.1	–0.5	0.7	5.0	44
Capital cities	–	0.2	0.5	1.1	9.7	17
Regions	–	0.5	0.5	0.5	3.2	13
Australia	–	0.3	0.5	1.0	8.3	16

* Estimate based on partial data.

Sources: CoreLogic, RBA

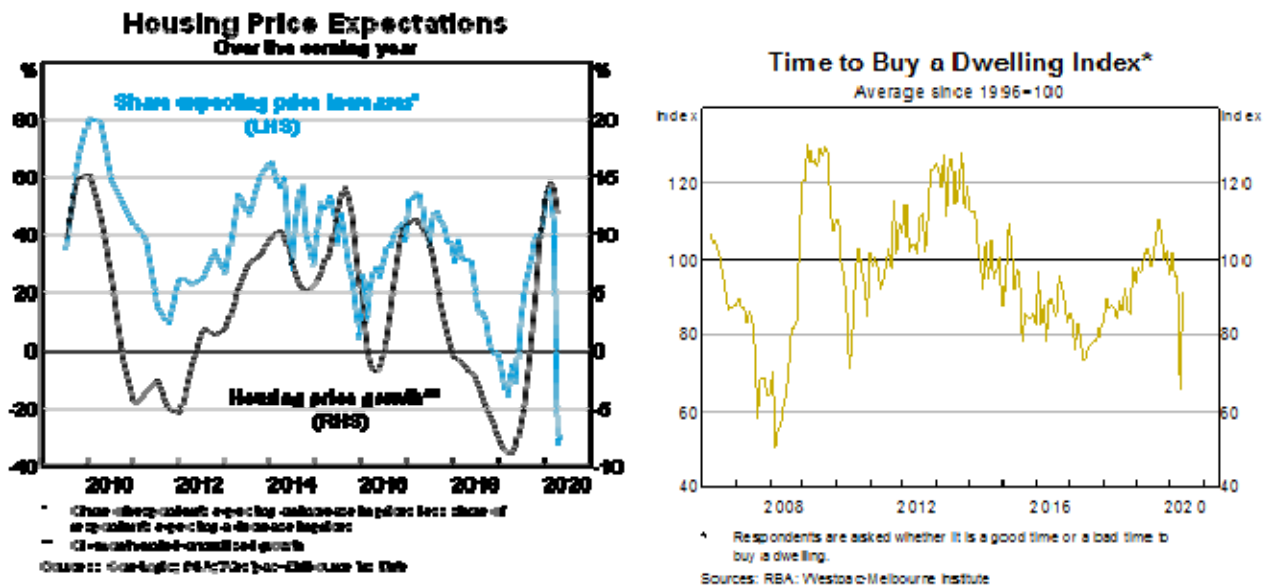
Aaron Wong and Richard Evans
Household and National Accounts
Economic Analysis Department
14 May 2020

From: EVANS, Richard
Sent: Thursday, 14 May 2020 10:13 AM
To: CREWS, Stephanie
Cc: WONG, Aaron; ROSEWALL, Tom
Subject: RE: Note EA: Housing Markets Review – April 2020 [SEC=UNCLASSIFIED]

Hi Steph,

Thanks for checking in.

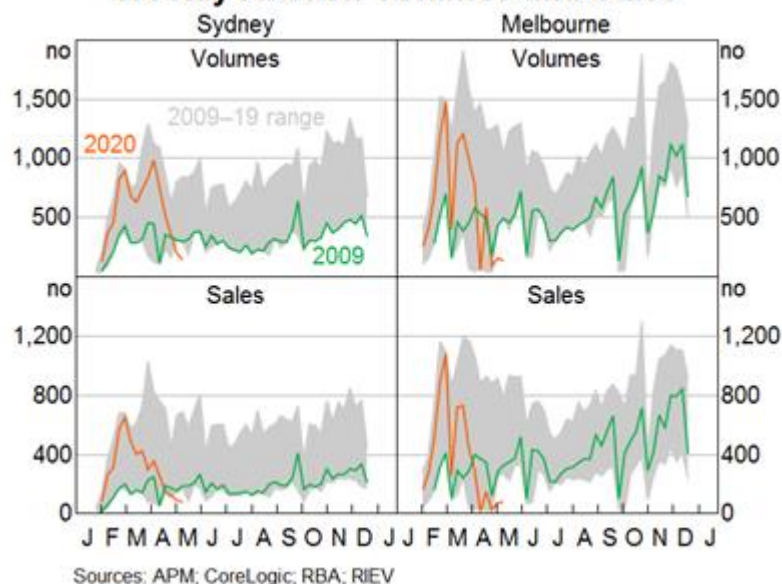
On the first point, we got the May update of the WMI survey yesterday. Expectations for price growth ticked up but remains very low; time to buy rose sharply but remains below average. In both cases I'd recommend changing the clause below to: ... combined with expectations for housing prices to decline ...



On clearance rates, we've seen a bit of a bounce in recent weeks. I'd reference low auction volumes instead:

More timely indicators of housing finance activity, including housing loan applications, auction **volumes** and turnover, suggest that commitments will decline in coming months alongside the sharp decline in economic activity and incomes.

Weekly Auction Volumes and Sales



Richie

From: CREWS, Stephanie
Sent: Thursday, 14 May 2020 9:38 AM
To: EVANS, Richard
Subject: RE: Note EA: Housing Markets Review – April 2020 [SEC=UNCLASSIFIED]

Hi Richie,

We are in the process of drafting monthly note and Board Paper.

I have a sentence in there about falling house price expectations, which I have taken from your note below. I just wanted to check this is still the case/you are okay for us to use that? The context is below:

“Taken together, strong competition, combined with falling house price expectations [and lower applications], suggests that demand factors are more likely to influence a slowing in housing finance than supply factors at this stage.”

I have also referenced lower auction clearance rates and turnover, to suggest that commitments will decline - just double checking that is still okay?

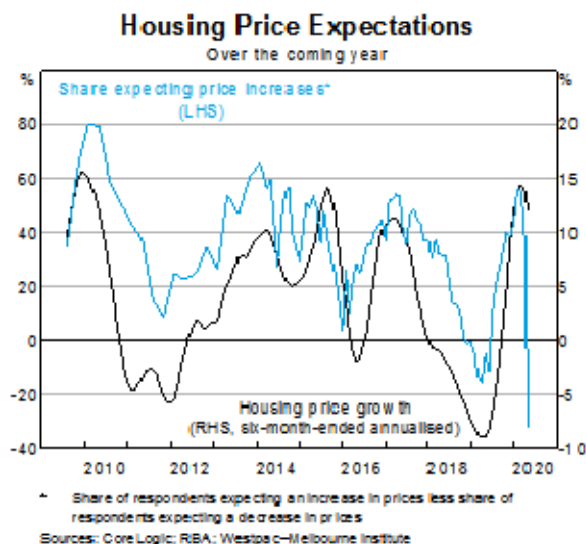
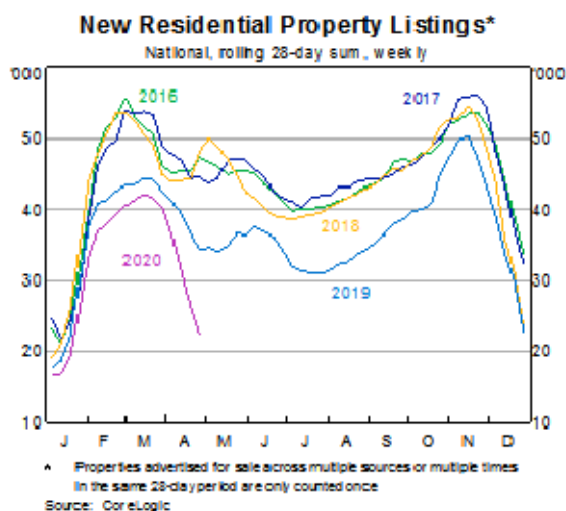
More timely indicators of housing finance activity, including housing loan applications, auction clearance rates and turnover, suggest that commitments will decline in coming months alongside the sharp decline in economic activity and incomes.

Thanks,

Steph

From: WONG, Aaron
Sent: Friday, 1 May 2020 2:29 PM
To: Notes policy groups
Cc: EVANS, Richard
Subject: Note EA: Housing Markets Review – April 2020 [SEC=UNCLASSIFIED]

- Conditions in the established housing market continued to weaken in April. Housing price growth eased across all of the capital cities over the month while non-price indicators fell sharply.
- CoreLogic’s national hedonic housing nominal price index increased by 0.3 per cent over April, to be 8 per cent higher over the year. Prices increased in Sydney, Brisbane and Adelaide, but were flat in Melbourne and Perth, and declined in Canberra and Hobart.
- Non-price indicators deteriorated further in April. Auction clearance rates fell sharply in Sydney and Melbourne to the lowest levels since the series began. CoreLogic’s estimate of housing turnover fell to the lowest level since 1991 in seasonally adjusted terms and new property listings declined to levels normally seen in December and January.



For more information, see: [D20/128220](https://www.rba.gov.au/publications/quarterly-bulletin/2020/12/2020-12-22-01)

This note was written with **Richard Evans**.

Aaron Wong | Graduate Economist | Household and National Accounts | Economic Analysis Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

THE HOUSING MARKET AND COVID-19

COVID-19 presents challenges for forecasting housing market variables. Our suite of forecasting models include demand factors such as interest rates, income and relative prices. Confidence effects and supply factors are not explicitly modelled. The experience during the financial crisis suggests that confidence effects are an important driver of short-run dynamics; social distancing measures implemented to control the spread of COVID-19 have had notable impacts on construction firms' capacity utilisation. This note documents our method for incorporating these effects into the dwelling investment and housing price forecasts in the May 2020 Statement. Generally, we find our forecasts lie within the range of other forecasters' estimates.

Forecasting strategy

Brief intro to the models, what they capture, what they don't.

Scalable

HP: Calibrating confidence effects for HP, residual decomposition and GFC scaling.

DI: Foreign demand (proxy for population), incorporating RIA data.

Forecasts

Housing prices

Housing prices are expected to decline by around 7 per cent over the next year in our baseline scenario. Prices are expected to remain around 10 per cent lower than at the February *Statement* over the forecast period. This downgrade mainly reflects the negative confidence effects of COVID-19. In the upside scenario prices are expected to decline by 2 per cent; in the downside prices fall by 15 per cent. Our three scenarios are consistent with the range of other private sector forecasters ([Adams and Royters 2020](#)).

The housing price forecasts for all three scenarios are primarily driven by confidence effects in the near term, calibrated using MARTIN.¹ In the baseline scenario, the confidence shock is assumed to be 1.5 times larger than experienced during the financial crisis; this scaling factor is consistent with observed declines in consumer confidence and survey measures of expectations for housing prices. The downside scenario assumes a larger confidence shock (twice the magnitude of the financial crisis) while the upside scenario assumes a smaller confidence effect (half the size of the financial crisis).

In our baseline and upside scenarios, some degree of forbearance by the banking sector is assumed to mitigate larger declines in prices caused by forced sales and financial stress. In the downside scenario on the other hand, banks are not able to forbear to the same extent, leading to forced sales and some tightening in credit (simulated by increasing the variable mortgage rate by 50 basis points). In the upside scenario, we simulate the positive effect of forward guidance by decreasing the mortgage rate by 50 basis points.

Table 1: HANA Nominal Housing Price Forecasts

	Quarterly growth									
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Baseline	2.7	-2.9	-2.1	-1.1	-0.9	-0.1	0.2	0.9	2.0	2.1
Upside	2.7	-1.6	-0.3	0.4	1.0	1.2	1.3	1.5	1.6	1.6
Downside	2.7	-4.3	-3.1	-3.0	-2.4	-1.7	-1.1	-0.5	0.1	0.5

Why prices are expected to be lower than Feb across the FC horizon:

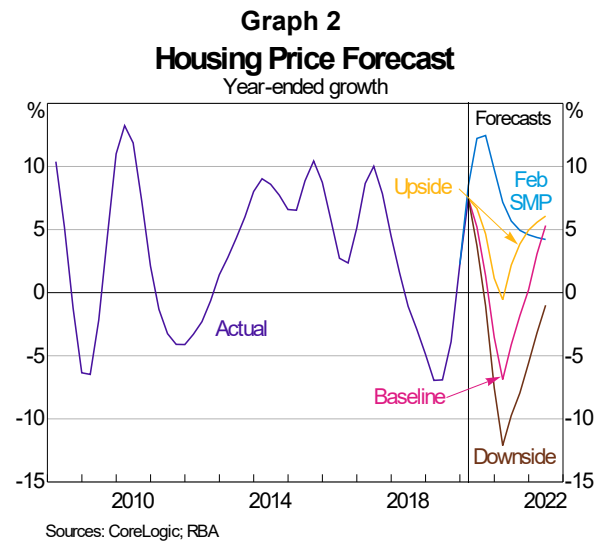
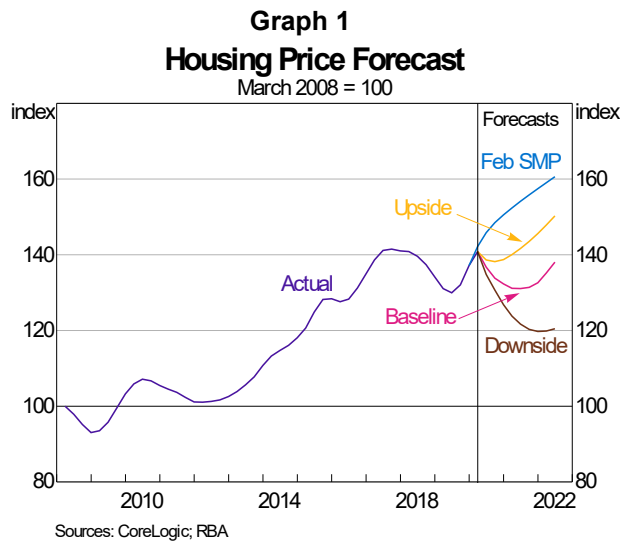
AR process – explicit

Cash rate at ELB – explicit

¹ MARTIN allows us examine historical episodes and decompose the residuals into errors due to (a) misses on other variables in the model (for example, the unemployment rate, interest rates, consumption), and (b) misses which cannot be explained by any other model variables (for more information, see: [Residual Decompositions in MARTIN](#)). As long as MARTIN is not severely misspecified, the contribution of (b) to the total residual can be loosely interpreted as a housing confidence shock.

Yields, implicit

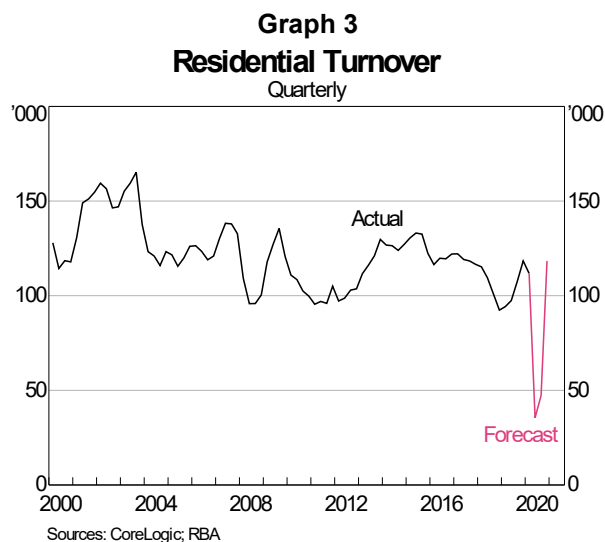
Despite policies announced to support residential rental markets, the **rental vacancy rate** is forecast to increase and rents to decline (for more information on the rents forecast, see Greenland *forthcoming*; and see Evans and Wong *forthcoming* for the effect of COVID-19 on rental markets). Rental listings have increased, in part reflecting supply from owners previously offering their properties on the short-term accommodation market. The number of residential rental leases subject to discount and rent deferrals has also picked up significantly. Recent state-based policy measures designed to allow renters to renegotiate rents could see this increase further. This downward pressure on rents is expected to weigh on housing prices over the medium term.



Ownership transfer costs

Social distancing measures are expected to have an even larger effect on the number of housing transactions than on prices; housing turnover is expected to decline by 70 per cent in the June quarter, and remain low in the September quarter. Consistent with this, new listings have declined sharply in recent weeks. A significant reduction in housing turnover would make it difficult to accurately assess changes in housing prices in the period ahead.

Map this assumption into OTCs (see Moore and Holland)



Dwelling investment

The deterioration in established housing market conditions is expected to prolong the ongoing decline in dwelling investment. Dwelling investment is expected to be significantly lower over most of the forecast

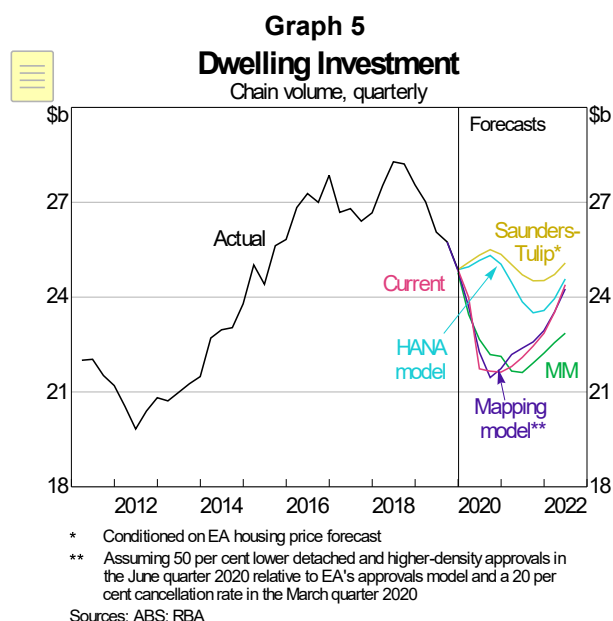
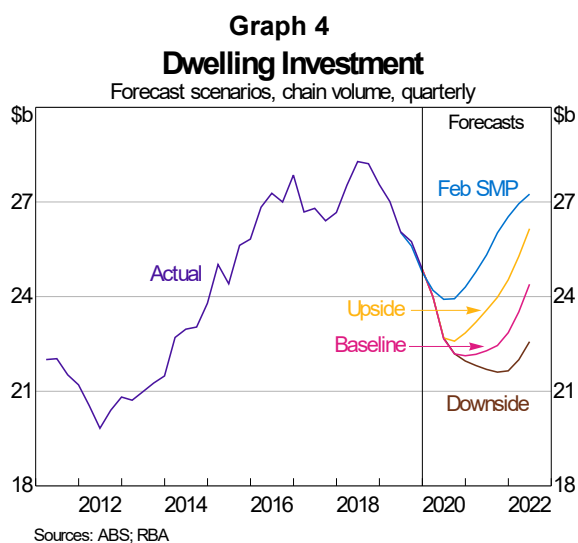
horizon than forecast in the February *Statement*. The trough in construction activity is now expected to occur in early 2021 in the baseline scenario, two quarters later than previously expected (Graph 4).

- The near-term downgrade to activity incorporates information from liaison citing significantly weaker demand for new detached dwellings, as well as a pick-up in cancellations. Some possible labour supply disruptions and site closures due to COVID-19 have also been incorporated.
- By the forecast horizon, our dwelling investment forecast is consistent with the HANA dwelling investment model; by this point, we expect that confidence and supply factors have run their course.

Our baseline forecast is a touch lower than the Saunders-Tulip model, even when we conditioned on EA’s housing price profile (see Saunders-Tulip). This difference in part reflects our assumed path for foreign demand for new housing, which appears explicitly in the HANA forecasting model. We assume that foreign demand for new housing declines to almost zero from the June quarter 2020 to the March quarter 2021 (Graph x conditioning assumptions). This weighs on the flow of higher-density building approvals until mid 2021. Because of the lags from a building approval to construction activity commencing, and the time it takes to complete a building, this effect weighs on construction activity until beyond the forecast horizon (see Holland 2019 pipeline note).

The assumed sharp contraction in foreign demand also acts as a proxy for slower population growth. Our baseline case suggests a flow of new dwellings which overshoots population growth in the medium term, due the stock of dwellings already in the pipeline but then...

The magnitude of this near-term judgment, and confidence in the speed of recovery is informed – and validated – by HANA’s new model for mapping approvals to dwelling investment (Evans *forthcoming*). Specifically, we run a scenario where we take the approvals forecast from HANA’s dwelling investment model and scale down the June quarter 2020 forecast for detached and higher-density approvals by 50 per cent (the midpoint of the 20–80 per cent cited in liaison). We assume approvals snap back to the model’s prediction for the September quarter. We account for a pick-up in cancellations by assuming a 20 per cent cancellation rate for approvals from the March quarter, in line with estimates from liaison. This profile very closely matches our May *Statement* profile (Graph 5).



DI and population graph, use mapping model

Graph of baseline conditioning assumptions

Richard Evans
 Economist

LIAISON ON CURRENT CONDITIONS: MAY 2020

Nearly all contacts reported large falls in demand as a result of virus containment measures and the weaker economic outlook. Firms have responded with a variety of measures to preserve cash. Most firms intend to defer or cancel investment, many firms have reduced staff hours worked (more so than headcount) and an increasing number of firms expect to implement a wage freeze in the year ahead.

- Demand for new housing remains weak. Builders of detached housing expect weak demand to weigh on construction activity and cash flow beyond their current pipeline (around 4–9 months). Builders and developers report that domestic banks and non-bank financiers have become more conservative in their lending. Several contacts are concerned about changes in buyers' financial circumstances and possible valuation shortfalls driving up settlement failure rates.

Housing demand and activity

- Demand for new housing remains weak, with sharp falls in enquiries and foot traffic, reflecting buyers' concerns about unemployment and the uncertain economic outlook following the introduction of stricter containment measures. This has led to significant falls in new housing sales in April. Contacts also report an increase in contract cancellation rates, particularly for new detached houses and greenfield land.¹ Looking ahead, most contacts expect sales of new housing to continue declining because of weak buyer sentiment, tight financing conditions and a decline in overseas migration. Contract cancellation rates are expected to remain elevated.
- Builders of detached housing continue to report concerns that weak demand will weigh on construction activity beyond their current pipeline (around 4–9 months). The pipeline of residential construction work in the major east coast markets is at the longer end of this range. Some high-density developers are delaying commencements because of weak off-the-plan sales, downward pressure on valuations and tighter access to finance.
- There have only been isolated reports of supply chain disruptions.

¹ Although contracts are generally cancelled before construction commences, a few contacts define cancellations as a contract being cancelled at any time up until settlement.

Regional and Industry Analysis
May 2020