Economic Insights CommSec

Economics | August 1 2018

Home prices fall the most in 6½ years

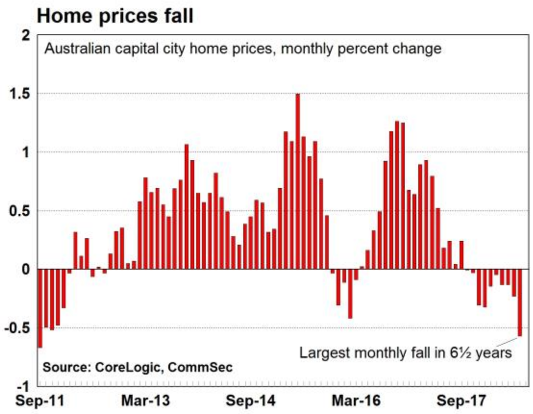
Home prices; Manufacturing

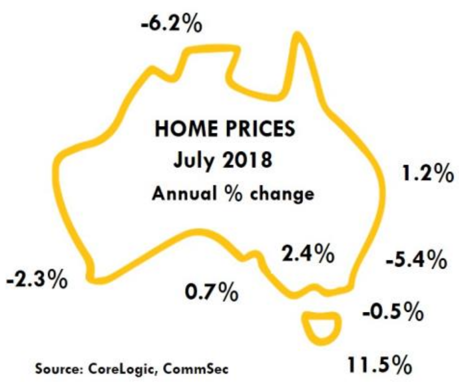
- **<u>Home prices:</u> The CoreLogic Home Value Index of capital city home prices fell by 0.6 per cent in July to stand 2.4 per cent lower over the year. The national home price index also fell by 0.6 per cent in the month to be down 1.6 per cent over the year. The monthly decline was the largest fall in 6½ years.**
- **<u>Manufacturing activity:</u> The Australian Industry Group (AiGroup) Performance of Manufacturing Index fell from 57.4 points to 52.0 in July. And the CBA/Markit Manufacturing Purchasing Managers' Index fell from 55.0 points to 52.4 in July. Both surveys have readings above 50 points, indicating that the manufacturing sector is expanding.**

Home price data is important for retailers, especially those focussed on consumer durables. The manufacturing data provides guidance for companies in the Industrials sector.

What does it all mean?

- The correction in Aussie home prices continues. National home prices have fallen for ten straight months. The monthly decline in prices was the largest decline since September 2011.
- The rebalancing of supply and demand in Australia's two largest cities – Sydney and Melbourne – will be ongoing. Despite strong population growth, demand is receding as falling prices and tighter lending conditions discourage property investors from taking out loans. And if building approvals are any guide, the supply of homes being built is still elevated.
- Home prices still increased in three cities – Darwin, Canberra and Brisbane – while Hobart prices were flat in July. And the annual growth rate of home prices in the ACT and Queensland appear to have stabilised. Queensland prices have consolidated at 0.7 per cent for three successive months. In the ACT, the annual growth rate has lifted to 2.4 per cent in July from 2.3 per cent in May and June.
- Over the coming year, we expect variable capital city and regional home price direction. While some capital city home prices will fall, others will lift. The recovery in the mining sector should eventually support prices in Western Australia, Queensland and the Northern Territory as job opportunities are created.
- And retiring Baby Boomers will continue to seek a "Sea Change", driving up prices in Newcastle, the Shoalhaven,

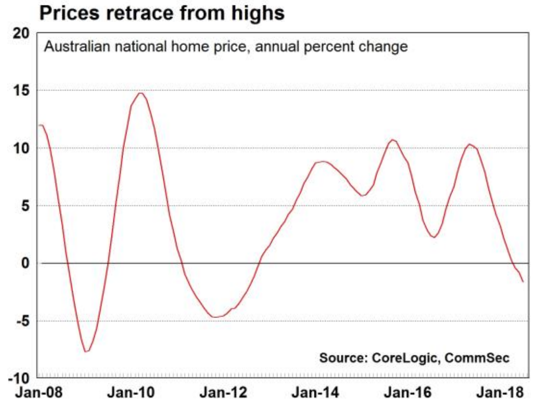




Ryan Felsman, Senior Economist (Author)
Twitter: @CommSec

the Mornington Peninsula and the Southern Highlands – all regions within a two hour commute of Sydney and Melbourne. And affordability has made Hobart Australia's star property market performer.

- Business conditions are still positive, supported by a falling Aussie dollar. The AiGroup gauge has expanded for 22 successive months. The manufacturing surveys highlight that wages are beginning to lift, increasing costs for businesses. The drought and lifting energy costs are likely to increase input costs to production. And trade protectionism and weaker Chinese demand may impact new export orders.



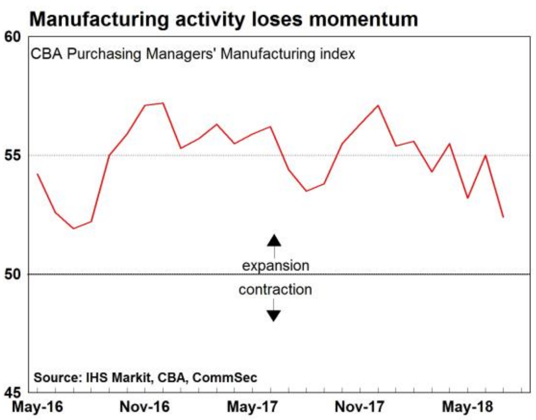
What do the figures show?

Home prices

- The **CoreLogic Home Value Index of capital city home prices** fell by 0.6 per cent in July to stand 2.4 per cent lower over the year. The national home price index also fell by 0.6 per cent in the month to be down 1.6 per cent over the year.
- **In capital cities, house prices** fell by 0.6 per cent in July and apartment prices fell by 0.5 per cent. House prices were down 3.1 per cent on a year ago and apartments are down by 0.5 per cent.
- **In regional areas**, home prices were down by 0.4 per cent in July, but are still up 1.6 per cent on the year.
- **The average Australian capital city house price (median price)** was $690,512 and the average unit price was $571,618.
- **Dwelling prices fell in four of the eight capital cities in July.** Home prices fell in Melbourne (down 0.9 per cent); Perth (down 0.8 per cent); Sydney (down 0.6 per cent); and Adelaide (down 0.1 per cent).
- **Prices rose** in Darwin (up 0.4 per cent); Canberra (up 0.2 per cent) and Brisbane (up 0.1 per cent). Hobart was flat.
- **Home prices were higher than a year ago in four of the eight capital cities in July.** Prices rose most in Hobart (up 11.5 per cent); Canberra (up 2.4 per cent); Brisbane (up 1.2 per cent); and Adelaide (up 0.7 per cent). Prices fell in Darwin (down 6.2 per cent), Sydney (down by 5.4 per cent); Perth (down by 2.3 per cent); and Melbourne (down 0.5 per cent).
- **Total returns on capital city dwellings** rose by 1.9 per cent in the year to July with houses up 1.3 per cent on a year earlier and units up 3.8 per cent.

Manufacturing Purchasing Managers' Indexes

- **The Australian Industry Group (AiGroup) Performance of Manufacturing Index** fell from 57.4 points to 52.0 in July. And the **CBA/Markit Manufacturing Purchasing Managers' Index** fell from 55.0 points to 52.4 in July. Both surveys have readings above 50 points, indicating that the manufacturing sector is expanding.
- CBA noted: *"Manufacturing activity has proved volatile of late. The July readings indicate a sluggish start to Q3. The downside looks limited, however, with firms remaining very positive on the outlook for the year ahead. They are also indicating that employment is lifting on the back of planned business expansion and inventories are lifting in anticipation of additional work. Demand appears strong enough to allow a relatively rapid lift in prices charged. The negative impact of a trade war would be magnified by any weakness in business confidence. That weakness is not evident at this early stage. New export orders fell in July. But they remain comfortably in expansion territory."*
- AiGroup highlights: *"Infrastructure projects continue to support demand for manufacturing products, but rising energy costs and growing wage pressures are constraining activity."* Of particular note, *"many respondents noted an increase in wage rates from 1 July (including this year's minimum wage increase of 3.5 per cent) that are pushing up their labour input costs."*



What is the importance of the economic data?

- The **CoreLogic Hedonic Australian Home Value Index** is based on Australia's biggest property database. Unlike the ABS Index, which excludes terraces, semi-detached homes and apartments, the CoreLogic Hedonic Index includes all properties. Home prices are an important driver of wealth and spending.
- The Australian Industry Group compile the **Performance of Manufacturing Index and Performance of Services index**

each month. CBA and Markit also compile **purchasing manager surveys** for manufacturing and services sectors. The surveys are amongst the timeliest economic indicators released in Australia. The surveys are useful not just in showing how key sectors are performing but also in providing some sense about where they are headed. The key ‘forward looking’ components are orders and employment.

What are the implications for interest rates and investors?

- The rebalancing of the Aussie housing market continues. There will be winners and losers. While home prices are retracing in Sydney and Melbourne, prices are still up by 45-50 per cent over the past five years.
- Home price leadership has been handed over to Hobart where home owners are now enjoying significant price appreciation of 11.5 per cent over the past year. Prices in the Apple Isle are quickly closing in on the gains seen in Sydney and Melbourne over the past five years, with prices up by almost 39 per cent.
- Both the bank regulator APRA and the Reserve Bank will be quietly pleased with their “managed slowdown” of the Sydney and Melbourne property markets, with unsustainable price gains and rising mortgage debt both posing financial stability risks to the broader economy at the height of the housing boom.
- But clearly developments in the housing sector will be watched carefully by the Reserve Bank. Tightening credit conditions, in particular, will need to be monitored. Some smaller lenders are lifting mortgage rates, squeezing households struggling with elevated mortgage debt and anaemic wages growth.
- Total returns on shares have lifted 14.9 per cent over the past year while returns on capital city homes are up 1.9 per cent. And the Aussie sharemarket has posted gains for four consecutive months now and is up around 3.5 per cent so far in 2018. Performance of these asset classes fluctuate over time, highlighting the value of diversification.
- CommSec expects official interest rates to be stable until 2019.

Ryan Felsman, Senior Economist, CommSec
Twitter: @CommSec