

Victoria remains focus of RBA attention

Reserve Bank Board minutes; Property prices

- **Reserve Bank Board minutes:** There were few extra insights provided on the operation and outlook for the economy.
- **Home prices:** The Bureau of Statistics reports that Australian home prices fell by 1.8 per cent in the June quarter to stand 6.2 per cent higher over the year. The total value of Australia's 10.5 million dwellings was \$7,138.2 billion with the average dwelling price at \$678,500.
- **Fewer people per home:** The number of people per home stood at 2.443 in the June quarter – one of the lowest results on record.

The Reserve Bank Board minutes are important in gauging policy settings. Home price data is important for retailers, especially those focussed on consumer durables.

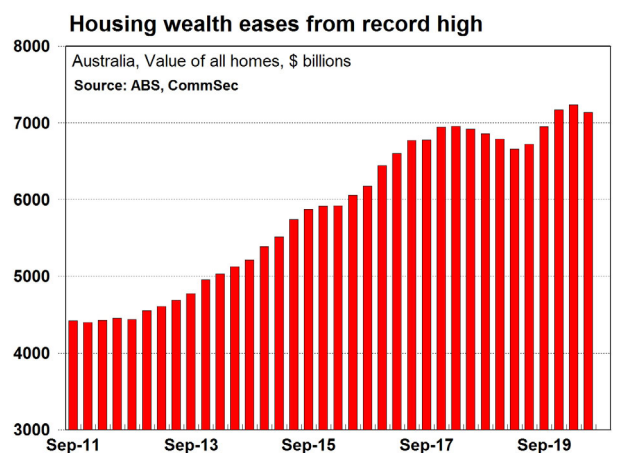
What does it all mean?

- Before COVID-19, the average number of people in each Aussie home was near the lowest level on record. In recent years, low interest rates and improved housing affordability had boosted the number of people buying and building homes. So younger Aussies have been moving out of the family home.
- However, the anecdotal evidence suggests this may have been changing in recent months with more people cohabiting – younger people returning to the family home and more grandparents living with their children during the health crisis. It will be interesting how the data fleshes out over the coming year. The trends are clearly important for builders and housing-dependent firms.
- The value of all residential property eased in the June quarter by 1.4 per cent but was still 6.2 per cent up on a year ago. Wealth held in homes is only just off record highs, and still serving as a solid support for spending. The value of homes has grown at a 6 per cent average annual pace over the past five years, ahead of a sub 2 per cent average annual pace for inflation.
- There were no stand-out new insights provided on the economy from the minutes of the last Reserve Bank Board meeting. The Reserve Bank continues to highlight the capacity of governments to take on more debt to add stimulus to the economy.

What do the reports and figures show?

Minutes of the Reserve Bank Board meeting held on September 1

- The minutes can be found here: <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-09-01.html>
- **Last paragraph:** *“Members recognised that the substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia was helping to sustain the economy through this difficult period. Members noted that public sector balance sheets in Australia were strong, which allowed for the provision of*



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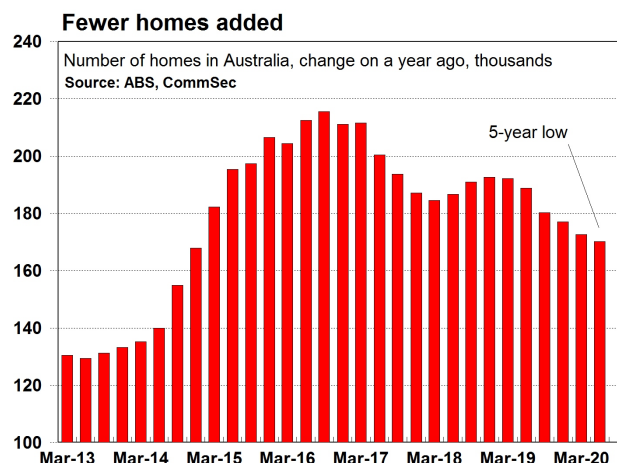
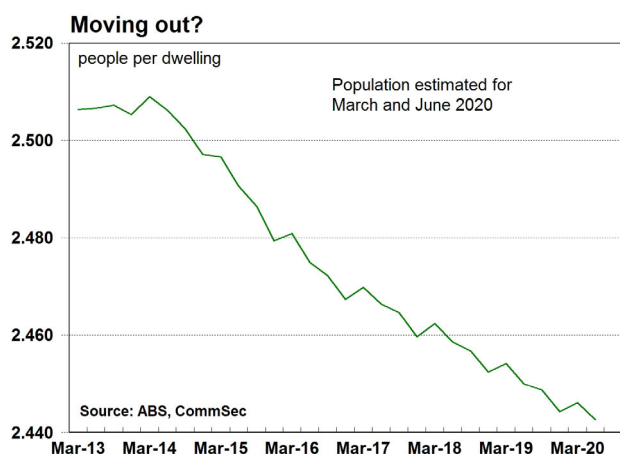
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continued support. They considered it likely that fiscal and monetary support would be required for some time given the outlook for the economy and the labour market. The Board affirmed its commitment to supporting jobs, incomes and businesses in Australia. It agreed to maintain highly accommodative settings as long as required and to continue to consider how further monetary measures could support the recovery.”

- **The Decision:** “The Board reaffirmed the elements of the policy package announced on 19 March 2020, namely:
 - a target for the cash rate of 0.25 per cent
 - a target of 0.25 per cent for the yield on 3-year Australian Government bonds
 - the Term Funding Facility to support credit to businesses, particularly small and medium-sized businesses
 - an interest rate of 10 basis points on Exchange Settlement balances held by financial institutions at the Bank.
- “The Board agreed to increase the size of the Term Funding Facility and make the facility available for longer.”
- “The Board reaffirmed that the yield target for 3-year bonds would be maintained until progress is made towards the Bank’s goals of full employment and the inflation target, and that it would be appropriate to remove the yield target before the cash rate itself is raised. The Board also reaffirmed that it would not increase the cash rate target until progress is made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.”
- **There were seven mentions of ‘Victoria’ in the text.** Of note, “The recent decline in Victoria had erased much of the recovery in jobs between April and June. Outside of Victoria, the recovery in jobs appeared to have slowed.”
- **On fiscal policy:** “Members noted that debt levels relative to the size of the economy were low for the Australian and state governments. Overall, public sector balance sheets in Australia were assessed as being strong. In an environment of record low borrowing rates and significant spare capacity in the economy, this meant fiscal policy was well placed to continue to support the recovery.”

Residential property prices – June quarter

- **The Australian Bureau of Statistics (ABS)** has released its Residential Property Price indexes for the June quarter.
- The ABS reports that Australian home prices fell by 1.8 per cent in the June quarter to stand 6.2 per cent higher over the year. The total value of Australia’s 10.5 million dwellings was \$7,138.2 billion with the average dwelling price at \$678,500.
- In the June quarter, capital city residential property price indexes were: Sydney (down 2.2 per cent); Melbourne (down 2.3 per cent); Brisbane (down 0.9 per cent); Adelaide (down 0.8 per cent); Perth (down 0.7 per cent); Hobart (down 0.4 per cent); Darwin (down 1.4 per cent); Canberra (up 0.8 per cent).
- Over the year to June, residential property prices were: Sydney (up 8.1 per cent); Melbourne (up 8.8 per cent); Brisbane (up 2.3 per cent); Adelaide (up 0.7 per cent); Perth (down 0.2 per cent); Hobart (up 6.1 per cent); Darwin (down 2.7 per cent); Canberra (up 3.6 per cent).
- The total value of residential dwellings in Australia fell by \$98.2 billion to \$7,138.2 billion in the June quarter. The mean price of residential dwellings fell \$12,200 to \$678,500. The number of residential dwellings rose by 43,800 to 10,520,300.
- CommSec estimates that the number of people per home eased from around 2.446 in the March quarter to 2.443 in the June quarter.
- The mean value of all dwellings in in the June quarter: NSW (\$871,800, up 5.4 per cent on the year); Victoria



(\$736,800, up 6.6 per cent); Queensland (\$517,900, up 2.2 per cent); South Australia \$460,100, up 1.2 per cent); Western Australia (\$498,500, down 0.4 per cent); Tasmania (\$451,400, up 6.7 per cent); Northern Territory (\$410,100, down 6.7 per cent); and the ACT (\$699,100, up 4.6 per cent).

- Over the past year the number of homes grew by 170,100, the slowest annual gain in five years.

What is the importance of the economic data?

- The **Reserve Bank** releases minutes of its monthly Board meeting a fortnight after the event. The minutes give a guide to Reserve Bank thinking on interest rate settings.
- The **Australian Bureau of Statistics (ABS)** provides quarterly data on **residential prices**. The figures provide further perspectives on the state of the housing purchase sector.

What are the implications for investors?

- Trends in home prices, new home building, renovation activity, internal and external migration and community preferences for cohabitation are all in a state of flux – nationally and across regions. It will be important for investors to stay on top of the trends.
- Monetary policy is largely exhausted. But as Reserve Bank Board members stress, there is plenty of scope for governments to ramp up stimulus.

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