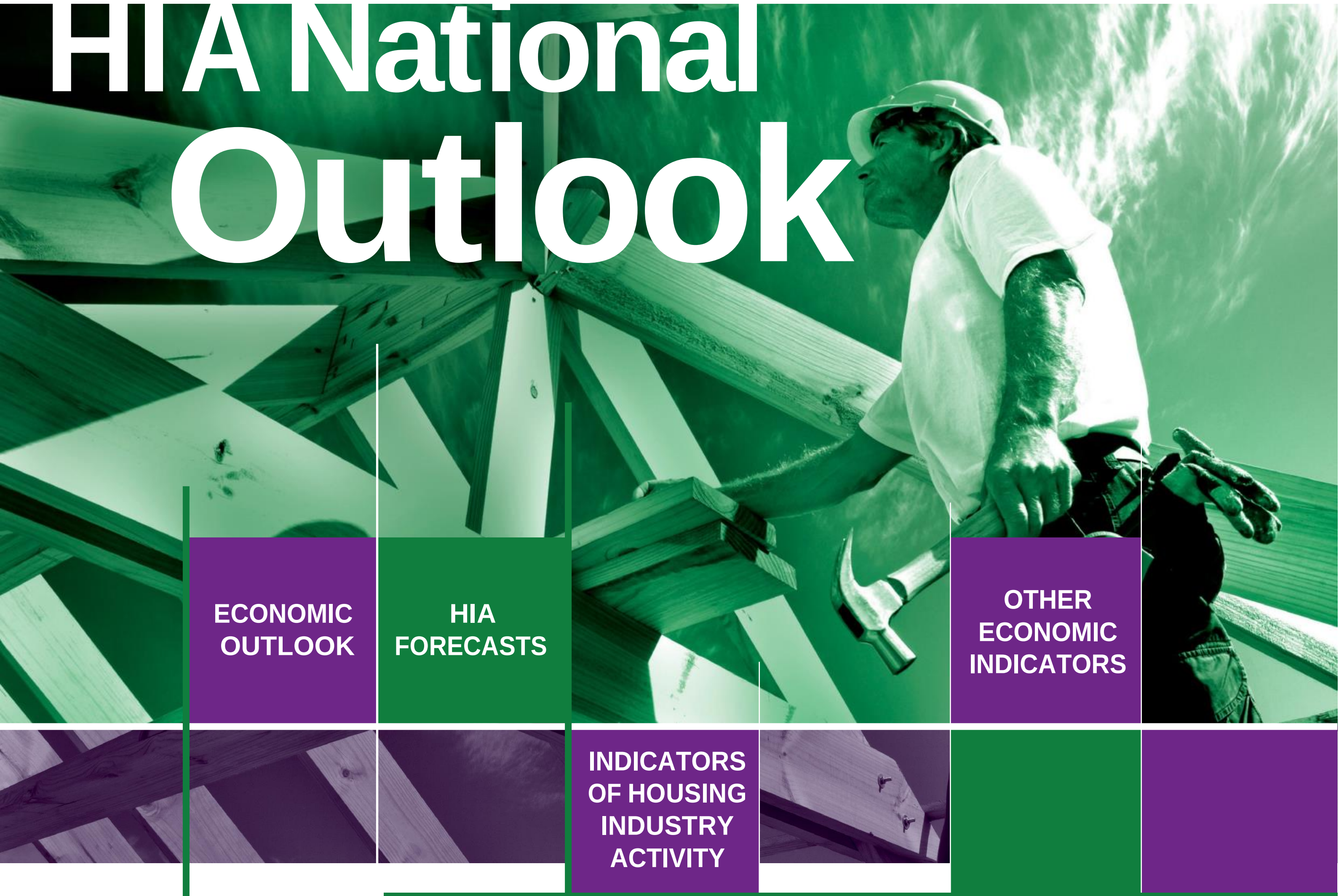
HIA National Outlook



A quarterly update on the housing & renovation industry

Spring edition 2020

Produced by HIA Economics

Tim Reardon
Chief Economist

Geordan Murray
Executive Director - Industry Policy, Economics

Diwa Hopkins
Senior Economist

Tom Devitt
Economist

Angela Lilicrap
Economist

Kirsten Lewis
Economics Coordinator

Australia

Spring Edition 2020

Data included until 18th November 2020

economics.hia.com.au

CONTENTS

SUMMARY

Confidence in the Australian housing market has rebounded faster than we had anticipated. The combined impact of stimulus, the change in household behaviour and the resilience of the national economy are pulling the housing market forward. This will see the detached housing market pull the national economy forward out of the COVID recession.

Recent data indicates a more optimistic outlook for detached home building than we had previously anticipated. The uplift is not simply due to HomeBuilder. There appears to be structural changes in the demand for detached housing, a change in the resident population and consumer preferences. The outlook for multi-units, particularly for those five floors and above, remains very poor.

The number of loans issued for the construction of a new home was 37.0 per cent higher in the September quarter 2020 than at the same time last year. We had seen similar strong activity in New Home Sales and our own contracts data but had anticipated that this data may have overstated the return of market confidence. Based on these other leading data sources, we suspect that this is not the peak of the HomeBuilder surge with at least one more month of strong finance data to be revealed.

Our contracts sales data and New Home Sales have slowed in recent months, from significant peaks. This easing will not emerge in ABS Finance data until early 2021.

Detached building approvals for September recorded the third strongest month of approvals since 2003. This trend is likely to continue into 2021.

A record volume of finance approvals and strong building approvals for three months does not indicate a return to record levels of building. This strong data needs to be balanced against the poor sales from March to May and elevated levels of project cancelations. Even with this taken into consideration, the outlook for the detached housing market remains stronger than we had anticipated in our August forecast.

Victoria remains an anomaly to recent data. The second lockdown has ensured that economic indicators remained suppressed in Victoria. This is not an indication that this market will underperform the rest of the country. We simply require more data before we could draw firm conclusions on the outlook for Victoria. Victoria had a strong economy entering 2020 and if migration returns soon, then HomeBuilder will carry the market forward.

Even with these restrictions, the number of loans for the construction of a new dwelling in Victoria was 31.2 per cent higher in the three months to September than at the same time in the previous year. For comparison, the number of loans in Queensland were 68.1 per cent higher for the same timeframes.

Adding to this, leading data on renovation expenditure suggests that small scale renovation activity is currently 25 per cent higher than it was at the same time in 2019. It appears that household expenditure has shifted from travel and entertainment to household renovations. Add to this an estimated 7,000 larger scale renovation projects that are yet to emerge due to HomeBuilder and the catch-up in kitchen and bathroom renovations as established home transactions return to normal volumes, and the short term outlook for renovations remains very strong.

Rental vacancy data also shows that there is an acute shortage of detached housing across the economy, with the exception of Melbourne and Sydney. This is partly due to a sharp rise in population growth outside of metropolitan Sydney and Melbourne. There are numerous reasons for this outcome.

Firstly, the nature of the COVID shock has seen the population shift out of high rise in preference for lower density housing and toward more regional locations. Secondly, the trend of rural and regional populations moving to metropolitan areas has ceased this year as students and young job seekers were not attracted to the cities for education or employment. This de-urbanisation of the population is not likely to be sustained when migration and travel returns to pre-COVID levels.

Thirdly, after the GFC, Australia received an additional 500,000 residents as Australian citizens and permanent residents returned to their homeland. They typically occupied a high-end apartment in Sydney or Melbourne before settling on a permanent home. The nature of this year's shock has seen a very strong preference for a detached home from these returning residents.

A tight rental market would typically suggest that we are about to see a period of strong rental price growth and a subsequent increase in house prices. On this occasion, with the tight market due to government intervention, we expect much of this demographic change to reverse as metropolitan cities return to business as usual. For this reason, the size and depth of this price rise will be dependent upon the timeframe until trade and travel return to 2019 levels. The sooner the restrictions are eased the smaller the ripple effects on the housing market over the next five years.