

# Housing Pulse

August 2017

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Westpac Institutional Bank

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# Executive summary

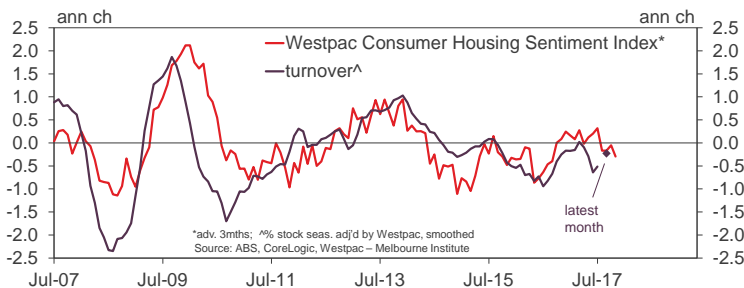
Our last **Housing Pulse** showed Australia's housing markets faltering as new macro prudential measures and related mortgage rate rises knocked sentiment lower while turnover was already weakening across the major eastern states. Three months on and the picture still points to a material slowing with the **Westpac Housing Consumer Sentiment Index\*** slipping further into contractionary territory. Conditions on the ground have also softened although the degree of slowing remains unclear and trends continue to vary widely across regions.

The next few months should offer a better read as the full effect of macro-prudential measures flows through and the spring selling season tests both the depth of demand and the ability of key markets to absorb significant increases in supply. Buyer sentiment will remain a critical barometer.

Performances remain very uneven across states: NSW is showing the clearest signs of a slowdown, albeit with the moderation in price growth notably milder than during the 2015 macro-prudential tightening; Vic buyer sentiment and turnover have weakened but price growth is showing a surprising acceleration; Qld is looking softer with low levels of turnover and price growth stalling, weighed down by a shakeout in the Brisbane unit market; WA is still seeing prices slip lower despite firmer sentiment and stabilising turnover; SA is hinting at a pick up; and Tas – an addition to this month's report – is cooling after a brief burst.

The **special topics** in this month's issue look at consumer expectations for interest rates; the relationship between buyer sentiment and affordability; and recently announced changes in state government assistance for first home buyers.

## 1. Australia: national housing conditions



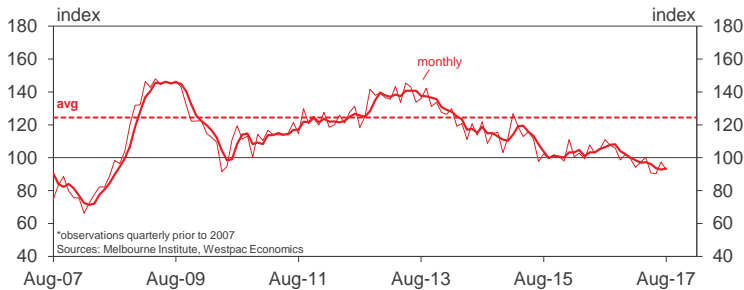
### *“Westpac Consumer Housing Sentiment Index\* slipping further into contractionary territory”*

\*The **Westpac Consumer Housing Sentiment Index** is a composite measure based on four housing-related components of the **Westpac Consumer Sentiment survey**. It provides a particularly useful guide to turning points in the housing market with over 40yrs of history and measures for all of the major states.

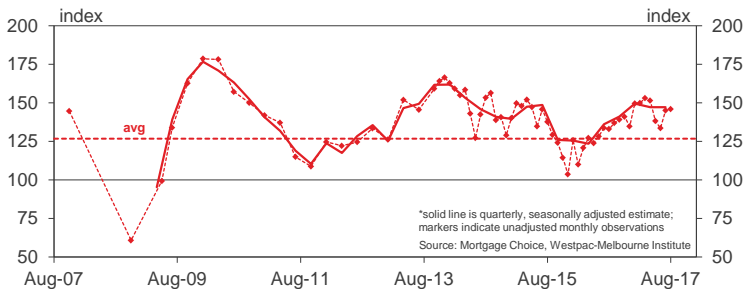
See **Appendix** on p27 for more details.

# Overview: sizing the slowdown

## 2. Westpac-MI 'time to buy a dwelling' index

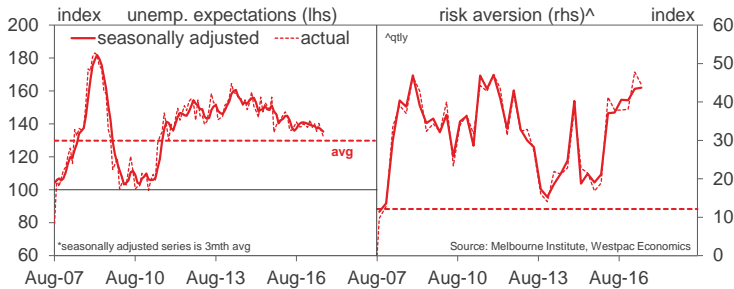


## 3. Westpac-MI House Price Expectations Index

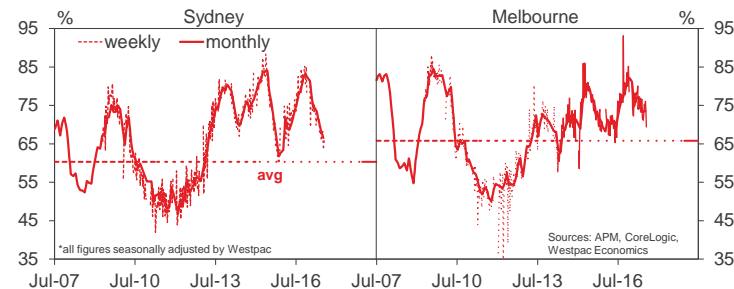


- Getting a precise fix on Australia's housing markets remains tricky. Sentiment and lead indicators continue to point to a material slowdown and turnover is showing a renewed decline. However the picture around price growth is much less clear cut, with some moderation overall but trends varying greatly across capital cities - ranging from double digit growth to persistent declines.
- The situation continues to have many moving parts. The main drivers are the 'macro-prudential' measures deployed in March and weaker foreign buyer demand. However, there are numerous 'sub-plots' driving variations across sub-markets including: state government policy changes affecting foreign investors and first home buyers; differing exposures to investor activity and the mining downturn; and differences in the supply-demand balance including across wider metropolitan areas and specific sub-markets such as those being more heavily affected by surging 'high rise' construction.
- Sentiment-wise, the last 3mths have seen some improvement, particularly around price expectations and, to a lesser extent, unemployment expectations. However, core buyer sentiment is still weak and risk aversion remains elevated.
- Nationally, the **Westpac Melbourne Institute 'time to buy a dwelling' index** has recovered 5% from its May low, some of which is a seasonal effect. The remainder likely reflects some bounce-back from the initial shock of macro-prudential measures and associated mortgage rate increases in Mar-Apr (although further increases for 'interest only' were announced in late Jun).

## 4. Consumer sentiment: jobs & risk



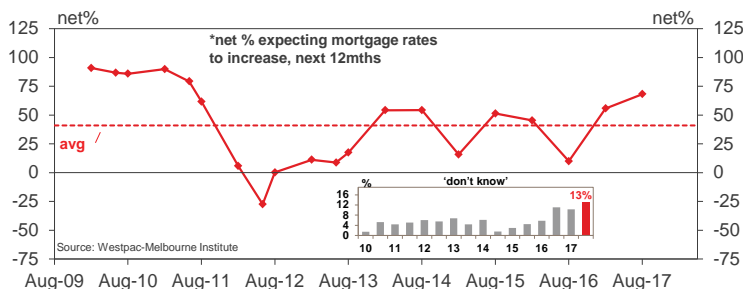
## 5. Auction clearance rates



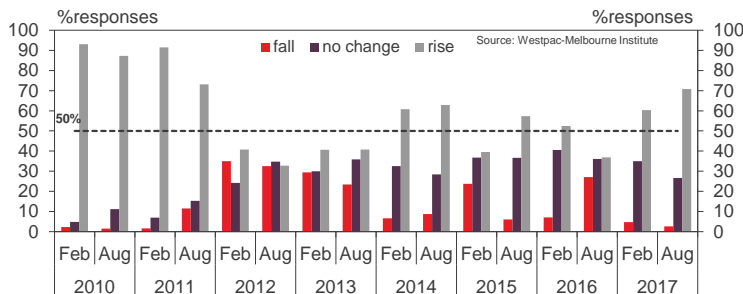
- Consumer expectations for house prices have shown a more substantial rebound. The **Westpac-MI Consumer House Price Expectations Index** fell sharply in Apr-Jun, down 12.7% but regained most of the decline in Jul-Aug, rising 9.2%. Indeed, allowing for seasonality, the quarter to quarter reads are essentially unchanged.
- Confidence around the labour market has been mixed, improving slightly but with choppy monthly moves. The **Westpac Melbourne Institute Unemployment Expectations Index** fell 2.3% from 135.5 in May to 132.5 in Aug (recall that lower reads mean fewer consumers expect unemployment to rise over the next year). The Index is now at its lowest level since November 2011. The measure is a proxy for consumers' job-loss fears. As such it suggests that, at the margin, job security is becoming less of an inhibiting factor for buyers.
- More generally, consumer attitudes towards risk remain a restraining factor. The **Westpac Consumer Risk Aversion Index** - a proxy based on consumer responses to questions on the 'wisest place for savings' - held at 43.9 in Jun, vs 44.2 in Mar and 20 at the end of 2015. Notably, the detailed responses underlying the measure show consumers remain more inclined to pay down debt and wary of investing in residential real estate.
- Auction markets have continued to cool, Sydney in particular is tracking a slowdown almost identical to that following the regulator's previous round of macro prudential tightening in 2015. Adjusting for seasonal variations, clearance rates have pulled back to around 65% in Sydney and just over 70% in Melbourne, both still marginally above long run averages.

# Special topic: interest rate expectations

## 6. Westpac Consumer interest rate expectations



## 7. Consumer expectations for mortgage rates

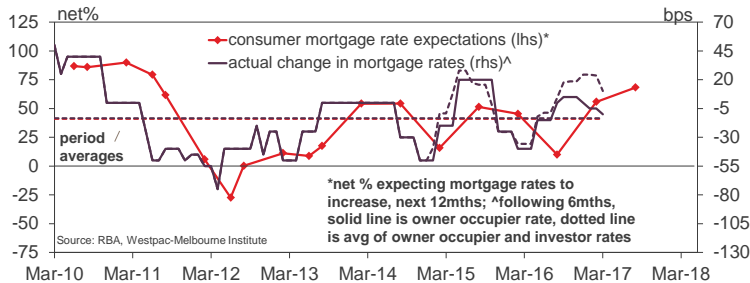


- Recent months have again highlighted the sensitivity of Australian consumer sentiment and housing-related sentiment to interest rate developments. Although the RBA has kept its official cash rate unchanged, the move by regulators to tighten 'macro-prudential' conditions in late Mar has resulted in significant increases in mortgage interest rates for investor and 'interest only' loans with rises ranging from 10-35bps. The selective nature of the increases appeared to dampen the overall impact on the consumer mood.

- However these moves and more recent market and media speculation about potential RBA interest rate rises have undoubtedly contributed to a weakening in consumer sentiment over the last 3mths, a factor highlighted by responses to our biannual question on mortgage interest rate expectations (run every Feb and Aug since 2010). These show that, of those consumers with a view, 71% expect rates to be higher in 12 months; 27% expect rates to be steady; and just 2.6% expect further cuts. That compares to 60% expecting higher rates when the question was last run in Feb and just 37% in Aug 2016 - after the RBA last official rate cut.

- The simplest summary measure - the net % expecting rates to rise - rose from 55.7 in Feb to 65.2 in Aug, the highest level since Jun 2011, prior to the RBA commencing its current, extended easing cycle. That in turn compares to a reading of 9.9 in Aug last year and similar to readings in Aug 2015 (51.4), and Aug and Feb 2014 (+54.3 and +54.2 respectively). The average reading since we started running the question in 2010 is 40.9.

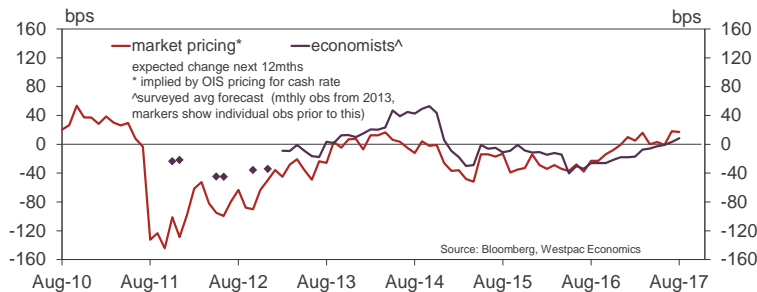
## 8. Mortgage rate changes: actual vs expected



- Taken at face value, responses point to a median expected increase of +43bps taking the benchmark standard variable mortgage rate from 5.20% to 5.63%. This compares to the Feb survey results which pointed to a median expected rate increase of +27bps taking the standard variable rate from 5.25% to 5.52% (note that the benchmark rate declined by 5bps between Feb and Aug). All up, the shift in expectations can be viewed as a 'de facto tightening' worth about half of an official RBA rate move.

- It should be noted that there is a clear 'upward bias' to consumers' mortgage rate expectations. As mentioned, the average net % reading is +41 over the period we have been running the interest rate expectations question. This is despite the fact that rates have declined more often than they have risen.

## 9. Cash rate expectations: market pricing, economists

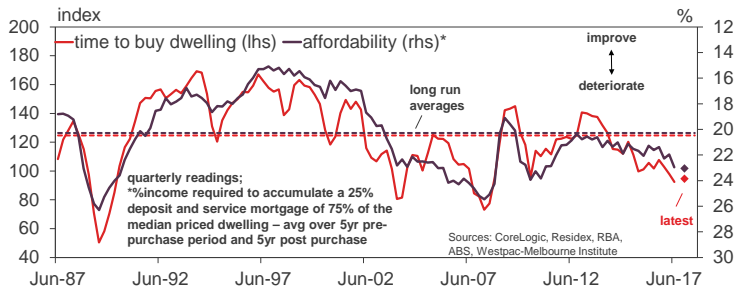


- Also notable is the high and rising level of "don't know" responses - 13.3% in Aug, well above the 5% average historically. The sub-group detail shows consumers in SA and NSW, renters and those in younger age groups tend to be both more hawkish on rates and have a higher proportion of "don't know" responses.

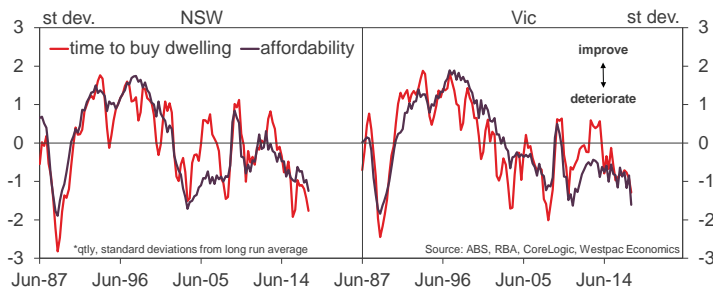
- The more hawkish consumer view on interest rates is broadly consistent with shifts in market pricing and economist forecasts for the official cash rate. Back in Feb markets were pricing in a 5bp increase by Feb 2018. They are now pricing in a 17bp rise by Aug 2018. Similarly, the average year ahead forecast for the cash rate from surveys of economists has moved from -17bps in Feb to +8bps in Aug. Westpac Economics expects no change in official rates over 2017 and 2018.

# Special topic: affordability & buyer sentiment

## 10. 'Time to buy' vs affordability: Australia



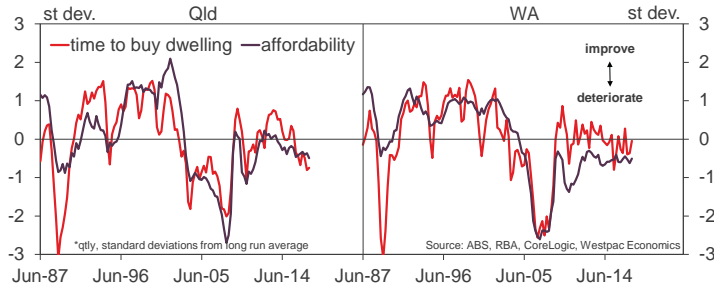
## 11. 'Time to buy' vs affordability: NSW, Vic



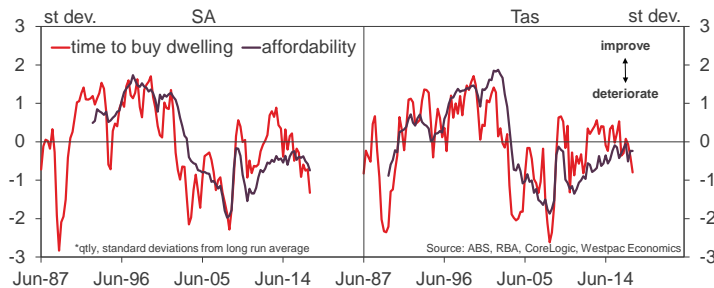
- There is little doubt that housing affordability and consumer sentiment towards housing are closely linked. Our working hypothesis has always been that the 'time to buy a dwelling' index in particular captures consumer perceptions of affordability from an owner occupier's point of view. However, pinpointing the link has always been tricky, the main problem being identifying the most appropriate measure of actual housing affordability to benchmark against.
- Our preferred measures, for example, is the proportion of average household income required to service a mortgage of 75% of the median priced dwelling. This metric is preferable to price-income ratios as it incorporates the cost of finance (which has changed significantly both over the course of cycles and due to longer term structural reasons). It also highlights the 'peak' stress on household incomes which is usually during the initial few years of a new mortgage. One of the main shortcomings with this measure though is that it does not allow for the higher deposit required to qualify for a loan.
- An alternative affordability measure that incorporates deposit requirements also goes a long way towards explaining shifts in buyer sentiment. The measure in Chart 10 is based on the savings required to accumulate a 25% deposit over 5yrs and the cost of servicing a mortgage over the first 5yrs of the loan, expressed as the average proportion of income required over the 10yr period. As the chart highlights, this refined measure tracks the 'time to buy a dwelling' index much more closely over time.



## 12. 'Time to buy' vs affordability: Qld, WA



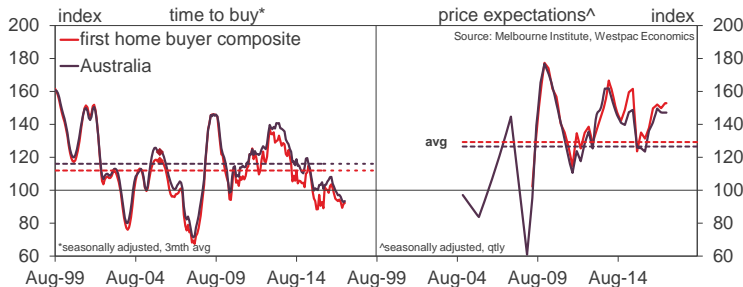
## 13. 'Time to buy' vs affordability: SA, Tas



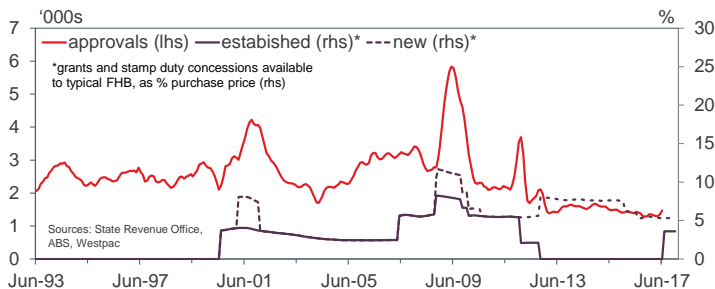
- The close fit of this alternative measure also gives a different angle on assessing buyer sentiment. Current readings for instance have clearly been influenced by the deterioration in affordability over the last 4yrs that has accelerated sharply over the last 12mths. However, the weakness in 'time to buy' since late 2015 has been over and above that suggested by our affordability measure, consistent with some other factor hitting sentiment – expectations around the impact of macro-prudential measures or shifts in foreign buyer demand for example. Similarly earlier periods when buyer sentiment was much stronger than might be 'justified' by our affordability measure may also reflect other factors such as over-blown expectations for price gains.
- We can extend this analysis to the state level. Charts 11, 12 and 13 show the same affordability measures at a state level alongside 'time to buy' indexes for NSW, Vic, Qld, WA, SA and Tas (shown as standard deviations to long run averages in order to simplify comparisons). The charts highlight the more acute affordability pressures in NSW and Vic. Interestingly, buyer sentiment appears slightly over-pessimistic for NSW given affordability levels and slightly under-pessimistic in Vic. Although affordability is less stretched across the other states, there is a similar contrast between WA (less pessimistic than affordability would suggest) and Qld, SA and Tas where buyer sentiment looks overly negative given affordability.
- This analysis can be taken further still. In particular, focusing on deviations between affordability and 'time to buy' could pin-point the temporary impact of rate shifts and sustained periods of excessive optimism.

# Special topic: first home buyer assistance

## 14. First home buyers: housing related sentiment

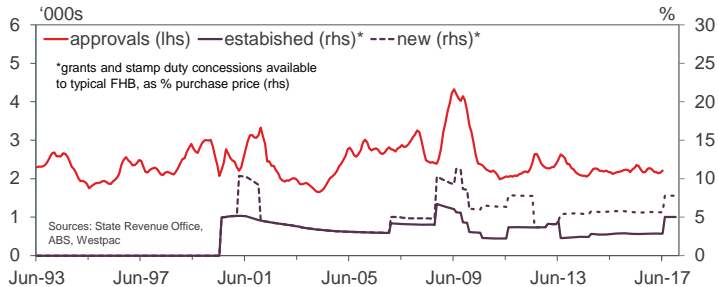


## 15. First home buyers, number & assistance: NSW

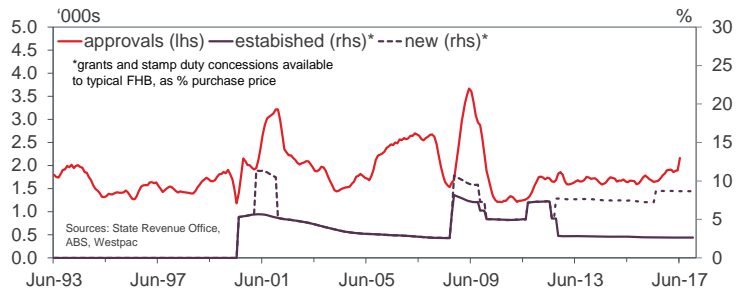


- There is little doubt that first home buyers (FHBs) are at the 'pointy end' of Australia's housing affordability problems. Recent increases in state government assistance for FHBs have sought to improve the situation. In this special topic we review housing-related sentiment across typical FHB age groups and compare the recently announced measures with previous programs and how these impacted.
- ABS data shows just over half of FHBs are in the 25-34 year age group with another quarter in the 35-44 age range and the rest evenly split between the under 25 and over 45 groups. Our composite measures of 'time to buy' and house price expectations use these weights to combine sentiment responses across the different age sub-groups. Not surprisingly, they suggest FHBs have been persistently more downbeat about 'time to buy' over the last 5yrs although the gap has closed up in recent months, likely reflecting the aforementioned state government policy announcements. On prices, FHBs have been more positive than Australians overall, particularly since 2014. Note that this is not likely to be a positive from the perspective of FHB demand as they are more sensitive to the negative implications for affordability than the prospects for capital gain.
- FHB finance approvals have been tracking at very low levels since 2012. Some of this reflects under-reporting. Reduced assistance since 2012 means borrowers are less likely to identify as FHBs and the figures exclude FHBs purchasing as investors rather than owner occupiers. However, even allowing for this the figures are likely still low, particularly given a significant lift in population growth across key FHB groups.

## 16. First home buyers, number & assistance: Vic



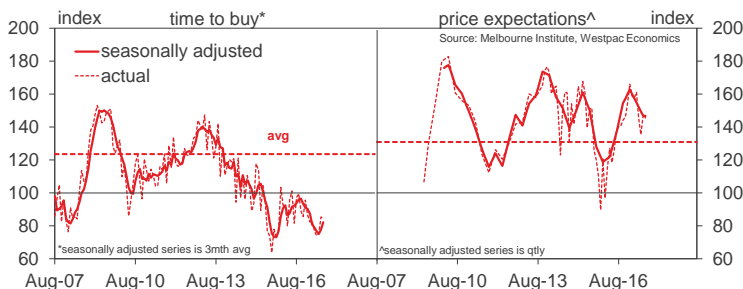
## 17. First home buyers, number & assistance: Qld



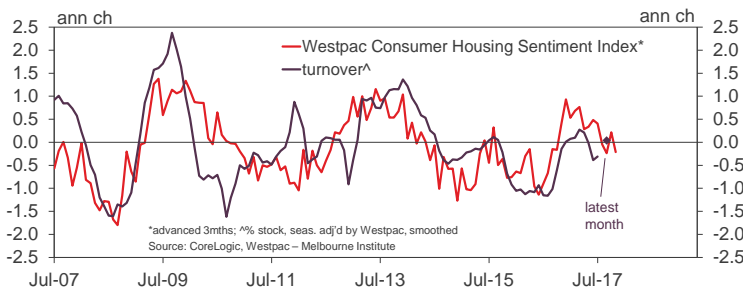
- Whereas growth across this demographic group averaged just 0.6%/yr over the 15yrs to 2006, it has been running at closer to 1.7%/yr over the last decade. Indeed, scaled by the FHB population 'cohort' FHB finance approvals have been running 25-50% below avg levels.
- Charts 15, 16 and 17 show FHB approvals for NSW, Vic and Qld alongside estimates of the assistance available for typical FHBs in each state shown as a proportion of the purchase price. This includes grants and stamp duty concessions, the latter calculated for the estimated average purchase price of FHBs based on average loan sizes. Assistance rates are shown for established and new dwellings respectively and exclude additional assistance, e.g. for those purchasing in regional areas.
- The charts show how previous increases in FHB assistance have generated significant increases in FHB approvals. This usually appears as an initial surge when assistance is first increased and a smaller lift just before the increased assistance is set to wind down.
- The latest round of FHB measures include: in NSW, stamp duty exemption for all dwelling purchases up to \$650k with concessional rates for those in the \$650k to \$800k range (previously the exemption and concessions were for new dwellings only with lower thresholds); in Vic, stamp duty exemption for all dwelling purchases up to \$600k with a concessional rate for the \$600-750k range (previously just a 50% concession for dwellings up to \$600k). History suggests these will generate a significant lift in FHB activity in coming months. The response will be a test of exactly how much restraint affordability pressures are exerting on demand.

# New South Wales: 'orderly' slowdown

## 18. NSW consumers: housing-related sentiment

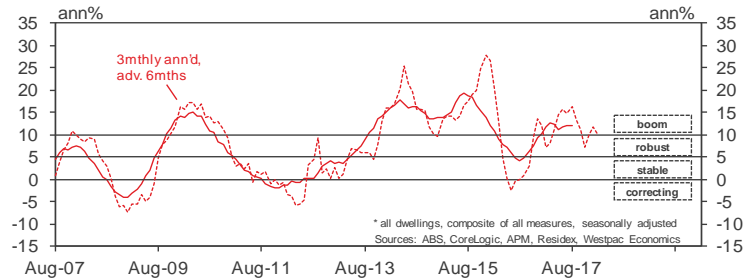


## 19. NSW housing composite vs turnover



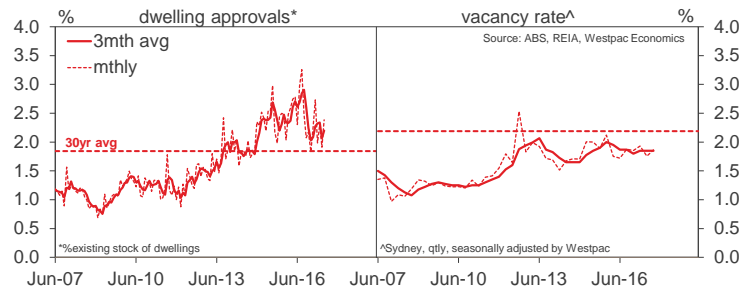
- The NSW housing market continues to show signs of softening. Buyer sentiment has stabilised through mid-2017, improving slightly after a sharp deterioration earlier in the year. Sentiment still points to a further decline in turnover heading into year end. Price growth is also showing signs of cooling although the slowdown to date has been much milder than that seen following the macro-prudential tightening in 2015.
- The **NSW Consumer Housing Sentiment index** firmed slightly over the last 3mths but remains at a weak level, the annual change continuing to point to turnover remaining down slightly on a year ago (note that in chart 19 and similar charts for other states both the index and turnover are shown in annual change terms rather than levels). Turnover has softened again through the June quarter but July data hints at a stabilisation. Overall just 4.2% of the dwelling stock is transacting at the moment, well below the long run average of 5.7%.
- Consumer 'time to buy' assessments and price expectations have both retraced some of the weakness earlier in the year. NSW consumers' unemployment expectations have also improved slightly, reflecting the better tone from labour markets (the NSW unemployment rate dipped below 5% in Q2). However, risk aversion remains at a 5½yr high.
- The most timely gauges continue to show the wider Sydney market cooling. Auction clearance rates have tracked back to around 65% following a similar path to 2015. Monthly price measures point to a gentle slowing back to a 10% annual pace over the last 6mths.

## 20. Sydney dwelling prices



**Population: 7.8mn**  
**Net migration: 72k pa**  
**GSP: \$531bn (32% Aus)**  
**Dwellings: 3mn, \$2.7trn**  
**Capital: Sydney**

## 21. NSW: dwelling approvals, vacancy rates

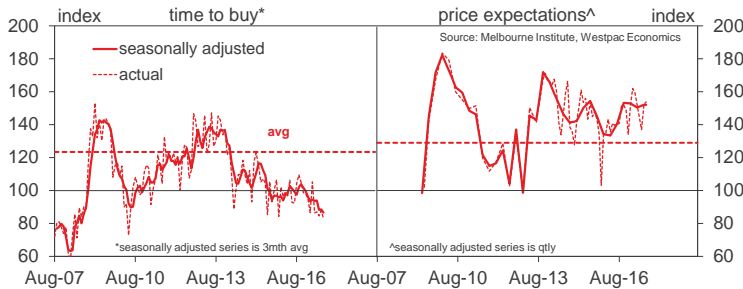


June years	avg*	2014	2015	2016	2017^
GSP, ann%	2.6	2.4	2.6	3.5	2.6.
State final demand, ann%	3.1	2.5	3.4	4.4	3.8
Employment, ann%	1.5	0.5	1.3	3.8	0.8
Unemployment rate, % <sup>#</sup>	6.5	5.7	5.8	5.2	4.9
Population, ann%	1.1	1.5	1.5	1.5	1.5
Dwelling prices, ann%	7.2	16.0	18.7	6.0	12.1
Rental yield, % <sup>#</sup>	4.7	4.2	3.8	3.9	3.7

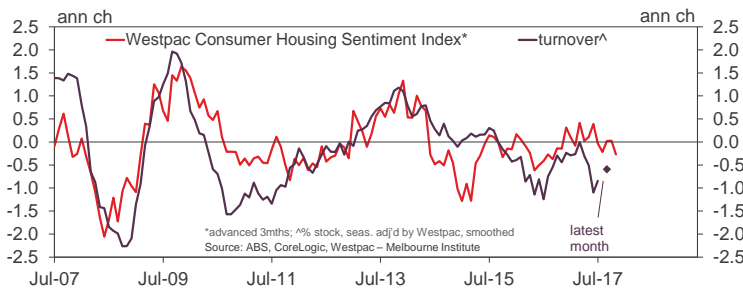
\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# Victoria: price growth lifts despite negatives

## 22. Vic consumers: housing-related sentiment

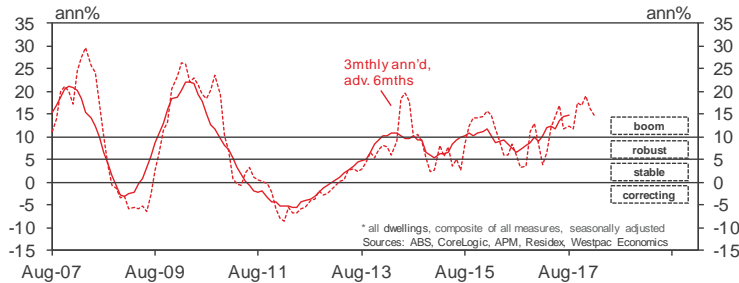


## 23. Vic housing composite vs turnover



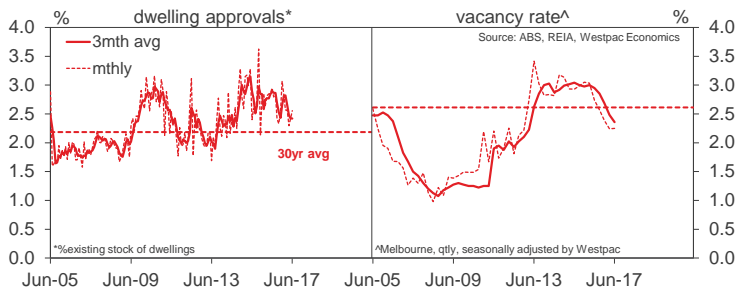
- The Vic housing market is showing surprising strength. Despite a softening in sentiment since the start of the year, very weak reads on 'time to buy' and a clear cooling in auction activity, price growth has accelerated to a 15% annual pace. Melbourne is now the top performing capital city for price growth, despite having a higher exposure to macro-prudential measures, weakening foreign buyer activity and surging apartment supply.
- The **Vic Consumer Housing Sentiment index** continues to point to falling turnover in coming quarters, although the pace of decline may moderate. Turnover is already at historic lows (just 3.5% of the dwelling stock). Note that 'off the plan' transactions are recorded at point of sale rather than settlement, hence declines in recent years likely reflect slower apartment pre-sales.
- Assessments of 'time to buy' have deteriorated further over the last 3mths, Aug marking the second lowest read since the GFC. House price expectations remain elevated though. Vic consumers' unemployment expectations have also improved significantly but risk aversion has deteriorated, reaching a record high in Jun.
- Melbourne auction clearance rates have eased from 80%+ reads at the start of the year to around 70% currently. Price growth has lifted with the acceleration coming across both houses and units (although units continue to underperform). Detailed price data shows the lift is mainly coming across middle and outer areas.
- Rental vacancy rates have fallen sharply over the last year. Census data has also seen significant upward revisions to Vic population estimates suggesting the state's housing market is tighter than previously thought.

## 24. Melbourne dwelling prices



**Population: 6.2mn**  
**Net migration: 92k pa**  
**GSP: \$374bn (22% Aus)**  
**Dwellings: 2.5mn, \$1.8trn**  
**Capital: Melbourne**

## 25. Vic: dwelling approvals, vacancy rates

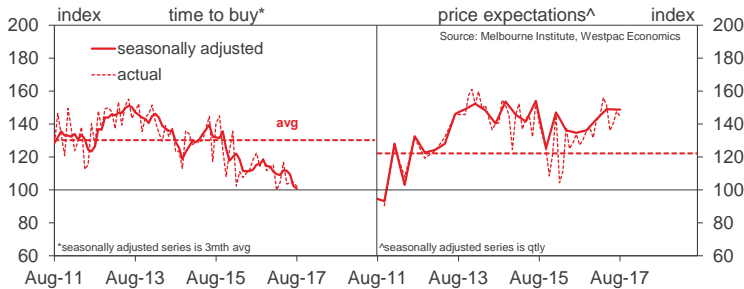


June years	avg*	2014	2015	2016	2017^
GSP, ann%	3.0	0.8	2.6	3.3	2.8
State final demand, ann%	3.6	1.7	3.2	4.0	3.5
Employment, ann%	1.6	0.5	2.1	2.4	3.6
Unemployment rate, % <sup>#</sup>	6.9	6.4	6.0	5.7	6.0
Population, ann%	1.3	2.2	2.2	2.4	2.4
Dwelling prices, ann%	7.7	9.5	9.3	8.5	14.7
Rental yield, % <sup>#</sup>	4.7	3.8	3.9	4.0	4.1

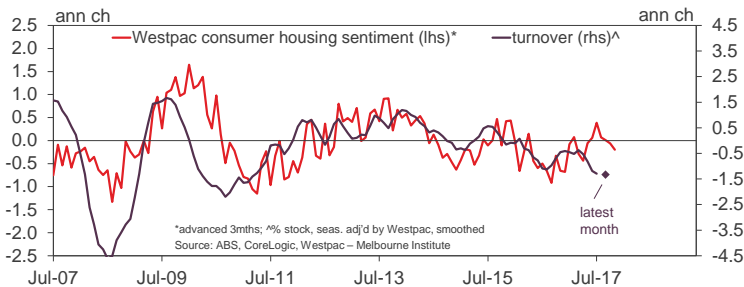
\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# Queensland: Brisbane unit shakeout

## 26. Qld consumers: housing-related sentiment



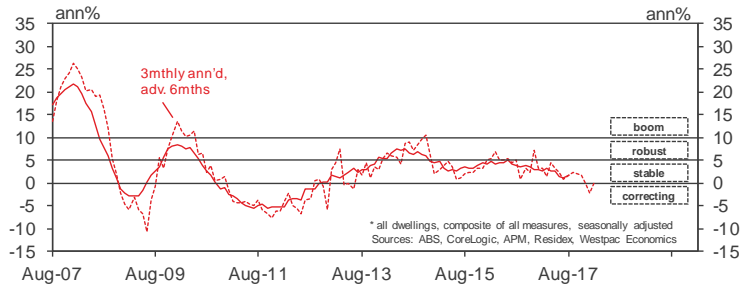
## 27. Qld housing composite vs turnover



- The Qld housing market has seen a further weakening over the last 3mths, with sentiment deteriorating again, turnover continuing to slide and price growth showing signs of flatlining. Brisbane's unit market is particularly weak with a slump in turnover and prices declining at a 1-2% annual pace. This segment accounts for about 15% of total turnover across the state. The recent weakness is concentrated in Brisbane's inner ring areas. Note that price growth is considerably firmer for Brisbane houses and across other markets in the state including the Gold and Sunshine Coasts.
- The **Qld Consumer Housing Sentiment index** has deteriorated over the last 4mths, reversing much of the promising improvement seen in late 2016/early 2017. The decline in market turnover accelerated despite the earlier improvement in sentiment, weakness initially concentrated in the units segment but spreading to houses in more recent months. Current index reads point to further declines, albeit at a more moderate pace.
- Qld consumers' assessments of 'time to buy' continue to slide, Aug marking a 7yr low. House price expectations remain positive but unemployment expectations have deteriorated, reversing all of the sharp improvement over the first half of the year, and consumer risk aversion remains elevated.
- Brisbane rental vacancy rates have continued to track higher, rising to around 3%, slightly above the market's long run average. Rental markets are much tighter in the Gold and Sunshine Coasts (vacancy rates <2%) and badly oversupplied in mining regions (6-8%).

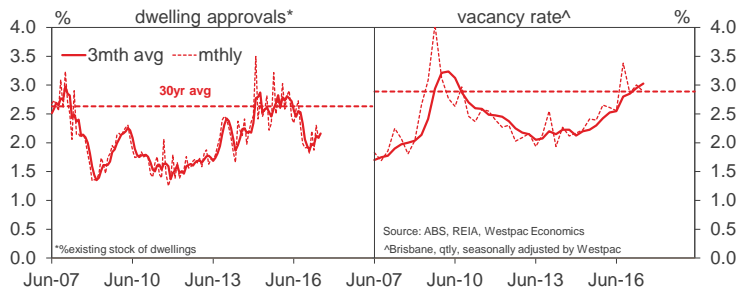


## 28. Brisbane dwelling prices



**Population: 4.9mn**  
**Net migration: 38k pa**  
**GSP: \$315bn (19% Aus)**  
**Dwellings: 2.0mn, \$1.0trn**  
**Capital: Brisbane**

## 29. Qld: dwelling approvals, vacancy rates

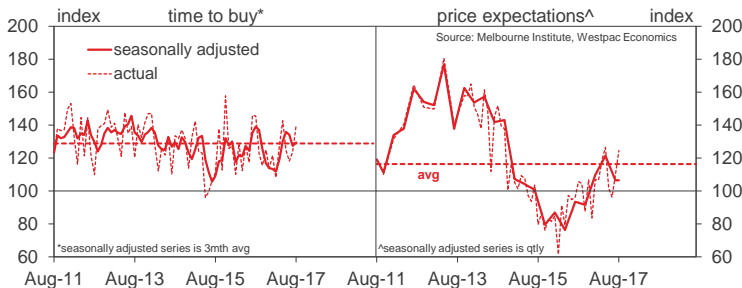


June years	avg*	2014	2015	2016	2017^
GSP, ann%	4.2	3.3	1.2	2.0	2.6
State final demand, ann%	4.2	1.5	-3.1	-1.4	1.1
Employment, ann%	2.4	1.3	0.2	1.6	0.1
Unemployment rate, % <sup>#</sup>	7.1	6.2	6.2	6.4	6.3
Population, ann%	2.0	1.5	1.3	1.3	1.5
Dwelling prices, ann%	5.9	7.4	2.6	5.0	1.7
Rental yield, % <sup>#</sup>	4.8	4.5	4.5	4.6	5.0

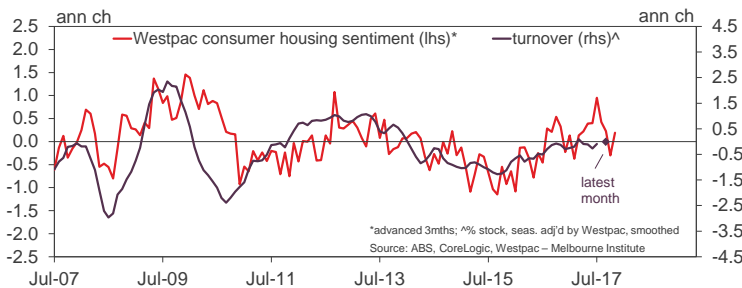
\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# Western Australia: price slippage continues

## 30. WA consumers: housing-related sentiment

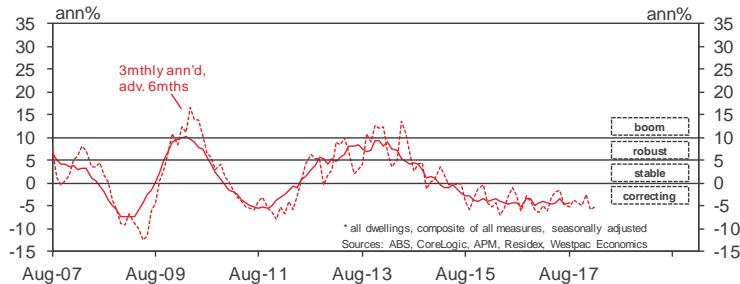


## 31. WA housing composite vs turnover



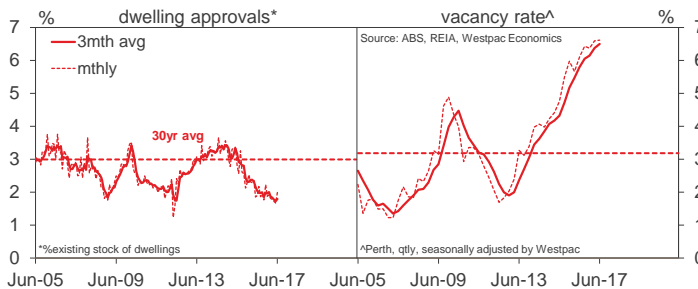
- WA's housing market has been stuck in a price correction for 3yrs now, with a cumulative price decline of just over 11% meaning Perth prices are now unchanged on 5yrs ago. While sentiment continues to suggest the market is close to bottoming out, ongoing pressures on incomes, a bleak near term outlook for the state economy, a large overhang of vacant dwellings and sharply reduced population growth suggest it may take some time yet for conditions to stabilise.
- Despite a choppy few months the **WA Consumer Housing Sentiment index** is broadly unchanged since May. The strong positivity earlier in the year has faded but the index continues to point to a slight firming in turnover. That is from an exceptionally weak starting point: turnover hit a 25yr low in WA in mid-2016.
- Component-wise, assessments of 'time to buy' have improved slightly but price expectations have faltered, monthly updates suggesting the latter may have been a temporary setback.
- Notably WA consumers are much less negative about the outlook for jobs with Aug marking the best read on unemployment expectations since Jan 2012. Risk aversion has also improved over the last 3mths but from a very high starting point.
- The latest data show Perth prices continuing to decline at a steady 5% annual pace. There is a hint of stabilisation starting to show through in unit prices although these make up a small portion of WA market activity (about 18%). The oversupply situation is also showing hints of stabilising with Perth's rental vacancy rate showing signs of topping out around 6½%.

## 32. Perth dwelling prices



**Population: 2.6mn**  
**Net migration: 2k pa**  
**GSP: \$255bn (15% Aus)**  
**Dwellings: 1.1mn, \$0.6trn**  
**Capital: Perth**

## 33. WA: dwelling approvals, vacancy rates

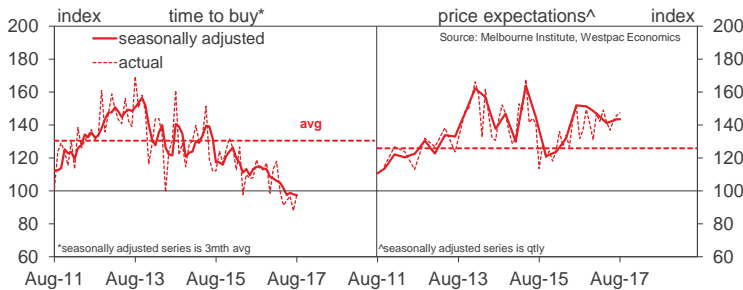


June years	avg*	2014	2015	2016	2017^
GSP, ann%	4.8	5.8	3.6	1.9	0.2.
State final demand, ann%	4.6	-1.5	-2.8	-4.0	-8.0
Employment, ann%	2.4	0.5	1.4	0.2	-0.2
Unemployment rate, % <sup>#</sup>	6.2	5.1	5.7	5.8	5.5
Population, ann%	1.8	1.2	0.8	0.6	0.7
Dwelling prices, ann%	6.8	4.7	-1.2	-4.7	-4.4
Rental yield, % <sup>#</sup>	4.8	4.9	4.7	4.4	4.0

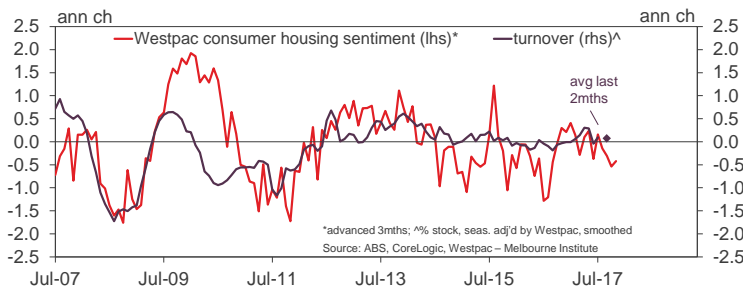
\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# South Australia: perking up?

## 34. SA consumers: housing-related sentiment

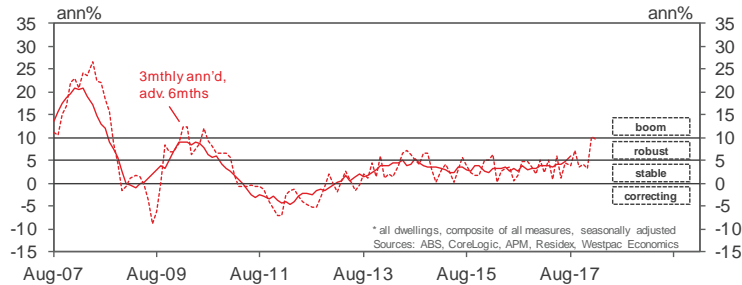


## 35. SA housing composite vs turnover



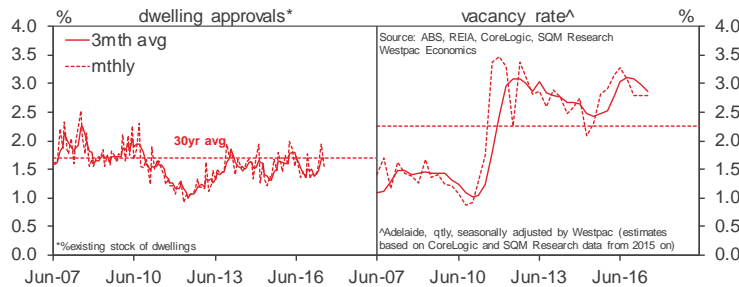
- South Australia's housing market has been a stable, if somewhat lacklustre performer in recent years. While sentiment has been prone to bouts of negativity, turnover has been relatively steady, lifting slightly over the last year with prices also hinting at a lift in growth. That said, sentiment has again turned negative and looks set to weigh on activity again over the near term.
- The **SA Consumer Housing Sentiment index** is largely unchanged since May having deteriorated slightly since late last year. Overall, the index is pointing to a modest fall in turnover towards year end.
- Consumer assessments of 'time to buy' have seen an extended slide since Aug last year with recent months seeing outright pessimistic reads that are the weakest since Jan 2011.
- Price expectations have remained firmly positive but unemployment expectations have deteriorated again. SA's poorly performing labour market has been a key factor undermining its housing market performance in recent years although there has at least been some clear improvement over the last 2yrs. Consumer risk aversion has eased notably since late 2016.
- Monthly measures suggest price growth has gained momentum in Adelaide, lifting above 5%/yr. The detail suggests the city's eastern suburbs are leading the way with a more modest lift in the west and south. Unit prices are also seeing a lift.
- Rental markets also look to have tightened slightly over the last 6mths although we warn that estimates since Sep 2016 are less reliable.

## 36. Adelaide dwelling prices



**Population: 1.7mn**  
**Net migration: 3k pa**  
**GSP: \$101bn (6% Aus)**  
**Dwellings: 0.8mn, \$0.3trn**  
**Capital: Adelaide**

## 37. SA: dwelling approvals, vacancy rates

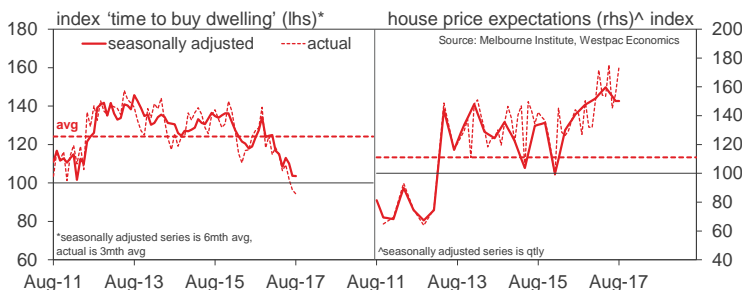


June years	avg*	2014	2015	2016	2017^
GSP, ann%	2.4	0.9	2.0	1.9	2.0
State final demand, ann%	2.8	0.8	2.4	1.1	2.0
Employment, ann%	0.8	-1.3	0.5	0.5	1.2
Unemployment rate, % <sup>#</sup>	7.4	6.8	7.7	6.9	6.6
Population, ann%	0.7	1.0	0.8	0.7	0.6
Dwelling prices, ann%	5.8	3.8	3.6	2.6	5.9
Rental yield, % <sup>#</sup>	5.0	4.2	4.1	3.9	4.0

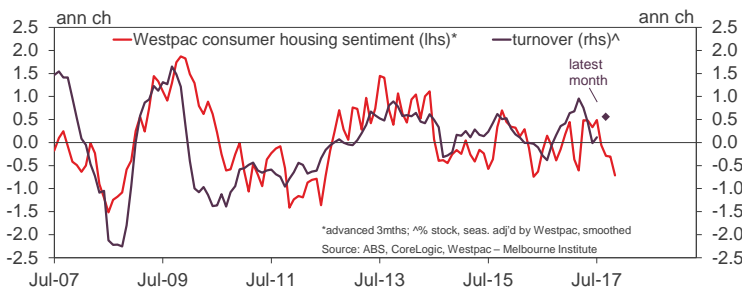
\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# Tasmania: brief burst set to cool

## 34. Tas consumers: housing-related sentiment

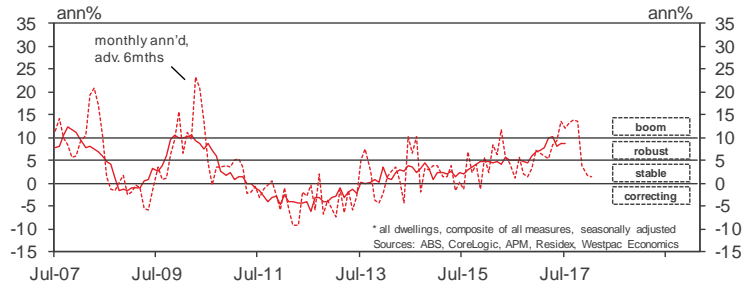


## 35. Tas housing composite vs turnover



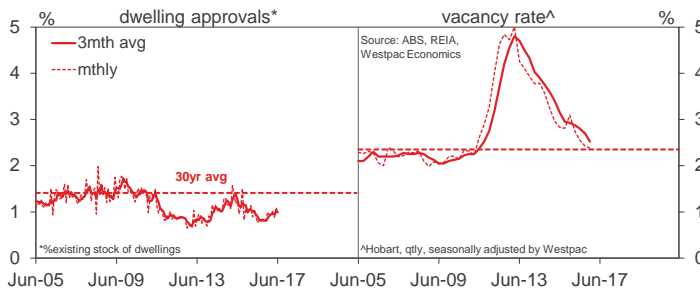
- Tasmania's housing market is considerably smaller than the 'mainland' states - about a third of the size of the next smallest state, SA and about a tenth of size of the major states, NSW, Vic and Qld - but its worth a mention nonetheless. Price growth has shown a notable acceleration over the last year, particularly in the state capital of Hobart. That has coincided with a significant lift in turnover and been sustained despite weakening sentiment. More recent data suggests the burst may be starting to moderate but for now at least, Hobart stands out as a surprisingly strong performer.
- The **Tas Consumer Housing Sentiment index** has picked the recent shifts relatively well. Note that due to the small survey sample sizes involved, readings for Tas are smoothed over six months rather than three. Latest reads point to a decline in turnover in coming months with the latest data suggesting turnover has already flattened out.
- Assessments of 'time to buy' have been the main area of weakness. After peaking in Oct 2016, assessments have shown sharp slide into pessimistic territory. Other sentiment drivers have been more positive with price expectations holding near historical highs, and unemployment expectations improving significantly (the state's unemployment rate has seen a steady decline over the last 4yrs). Risk aversion remains elevated but is below levels seen across the rest of Aus.
- Notably, Tas's rental markets have also seen tightening with vacancy rates suggesting the oversupply apparent four years ago has now disappeared. A lift in population growth over the last 2yrs has likely helped.

## 36. Hobart dwelling prices



**Population: 0.5mn**  
**Net migration: 2k pa**  
**GSP: \$26bn (2% Aus)**  
**Dwellings: 0.2mn, \$0.1trn**  
**Capital: Hobart**

## 37. Tas: dwelling approvals, vacancy rates



June years	avg*	2014	2015	2016	2017^
GSP, ann%	2.0	1.8	1.3	1.3	0.8
State final demand, ann%	2.5	1.4	1.6	2.6	2.3
Employment, ann%	0.7	-0.4	2.9	-0.2	1.0
Unemployment rate, % <sup>#</sup>	8.2	7.4	6.9	6.5	6.0
Population, ann%	0.4	0.3	0.3	0.4	0.6
Dwelling prices, ann%	6.1	3.8	2.4	5.0	8.8
Rental yield, % <sup>#</sup>	5.9	5.0	5.0	4.7	5.1

\* avg last 25yrs; ^ latest available estimate, GSP is Westpac forecast; # June qtr readings  
 Sources: ABS, CoreLogic, APM, Residex, Westpac Economics

# Economic and financial forecasts

## Interest rate forecasts

	Latest (18 Aug)	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.69	1.80	1.80	1.80	1.80	1.80	1.80	1.80
3 Year Swap	2.04	2.20	2.30	2.50	2.60	2.70	2.80	2.80
10 Year Bond	2.62	2.75	2.80	2.90	2.95	2.95	3.00	3.00
10 Year Spread to US (bps)	42	35	30	15	10	5	0	0

## International

Fed Funds	1.125	1.125	1.375	1.375	1.625	1.625	1.875	1.875
US 10 Year Bond	2.20	2.40	2.50	2.75	2.85	2.90	3.00	3.00
US Fed balance sheet USDtrn	4.52	4.52	4.49	4.43	4.34	4.23	4.11	4.00
ECB Repo Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30

## Exchange rate forecasts

	Latest (18 Aug)	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19
AUD/USD	0.7897	0.78	0.76	0.75	0.74	0.72	0.70	0.70
NZD/USD	0.7285	0.72	0.70	0.69	0.68	0.67	0.66	0.66
USD/JPY	109.36	110	111	112	113	114	115	115
EUR/USD	1.1734	1.17	1.17	1.16	1.15	1.14	1.13	1.13
AUD/NZD	1.0829	1.08	1.09	1.09	1.09	1.07	1.06	1.06

Sources: Bloomberg, Westpac Economics.



# Economic and financial forecasts

## Australian economic growth forecasts

	2016		2017			2017	
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f
GDP % qtr	1.1	0.3	0.6	1.1	0.8	0.7	0.7
Annual change	2.4	1.7	1.5	3.0	2.8	3.2	3.3
Unemployment rate %	5.7	5.8	5.6	5.6	5.7	5.8	5.8
CPI % qtr	0.5	0.5	0.2	0.8	0.5	0.5	0.4
Annual change	1.5	2.1	1.9	2.0	2.0	2.0	2.3
CPI underlying % qtr	0.5	0.5	0.5	0.3	0.6	0.7	0.6
ann change	1.5	1.8	1.8	1.8	1.9	2.1	2.2

	Calendar years			
	2015	2016	2017f	2018f
GDP % ann change	2.4	2.5	2.3	3.0
Unemployment rate %	5.8	5.7	5.7	6.1
CPI % yr	1.7	1.5	2.0	2.5
CPI underlying % yr	2.0	1.5	1.9	2.3

Calendar year changes are (1) period average for GDP, employment and unemployment, terms of trade (2) through the year for inflation and wages.

\* GDP & component forecasts are reviewed following the release of quarterly national accounts.

\*\* Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

# Housing market data

## Consumer sentiment – housing-related measures

index*	2015		2016			2017						%mth	%yr
	avg	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug			
'Time to buy a dwelling'													
Australia	122.3	99.2	104.7	103.7	109.3	102.9	99.6	90.9	93.7	94.5	0.8	-15.7	
- New South Wales	120.2	78.0	91.9	101.1	99.6	95.6	82.8	75.5	85.4	84.6	-0.9	-13.0	
- Victoria	118.6	84.3	99.4	92.7	109.6	98.0	105.2	84.6	87.7	83.0	-5.3	-20.4	
- Queensland	130.3	124.0	111.1	112.5	114.3	113.8	104.6	104.1	104.8	102.1	-2.6	-16.6	
- Western Australia	128.9	125.9	128.9	117.4	122.7	113.8	127.4	118.2	123.8	140.1	13.2	-3.8	
- South Australia	130.5	132.0	126.6	107.6	113.7	98.6	99.6	96.9	88.0	98.1	11.5	-17.5	
- Tasmania	124.2	147.2	112.2	113.2	117.5	136.2	124.2	101.9	85.6	95.2	11.2	-34.4	
House price expectations													
Australia	126.5	103.7	120.9	128.3	137.0	134.8	153.1	133.6	145.0	146.0	0.6	9.7	
- New South Wales	131.0	89.6	116.1	125.6	140.6	154.7	157.5	135.5	147.9	145.5	-1.6	3.9	
- Victoria	129.0	103.3	143.4	139.6	151.3	134.1	159.5	137.0	152.3	153.9	1.0	9.4	
- Queensland	122.1	121.8	111.1	128.7	130.5	131.6	156.0	140.5	147.7	144.5	-2.2	13.5	
- Western Australia	116.3	81.6	91.2	94.8	104.5	83.6	119.2	96.3	109.6	124.6	13.7	17.9	
- South Australia	125.8	118.1	127.1	144.2	136.8	131.0	149.1	142.2	145.8	147.5	1.1	11.9	
- Tasmania	125.8	113.0	128.4	137.5	127.0	131.9	154.2	145.3	155.1	174.5	12.5	23.8	

\*indexes based on net balance of % assessing 'good time to buy'/'house prices to rise' and % assessing 'bad time to buy'/'house prices to decline'

Sources: Melbourne Institute, Westpac Economics

# Housing market data

## Consumer sentiment – other components

index*	2015		2016			2017						%mth	%yr
	avg	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug			
Unemp. expectations													
Australia	129.8	141.7	147.3	136.2	138.4	139.1	137.9	140.3	136.0	132.5	-2.6	-6.2	
- New South Wales	129.5	126.0	147.0	132.0	132.5	127.5	128.1	137.2	127.1	134.1	5.6	0.0	
- Victoria	130.9	150.9	143.4	136.6	136.1	142.6	137.7	138.3	134.4	131.5	-2.1	-5.2	
- Queensland	133.0	137.8	145.7	139.0	141.9	139.2	147.4	139.9	131.3	139.2	6.0	-2.0	
- Western Australia	127.6	165.2	153.8	140.7	148.2	148.9	127.5	144.2	155.5	105.6	-32.1	-28.5	
- South Australia	134.0	173.9	160.0	141.0	149.0	155.7	165.3	154.0	163.7	154.0	-6.0	-8.0	
- Tasmania	<b>138.7</b>	<b>119.8</b>	<b>126.3</b>	<b>140.4</b>	<b>147.5</b>	<b>146.5</b>	<b>152.6</b>	<b>130.8</b>	<b>117.2</b>	<b>124.3</b>	<b>6.0</b>	<b>-18.0</b>	
Risk aversion											qtr ch	ann ch	
Australia	12.1	21.1	37.1	37.2	40.5	40.4	43.4	43.7	n.a.	n.a.	0.3	4.3	
- New South Wales	8.3	11.4	25.7	29.2	25.5	42.2	34.1	35.7	n.a.	n.a.	1.6	9.0	
- Victoria	6.8	20.8	42.9	40.4	43.0	37.0	43.5	50.5	n.a.	n.a.	7.0	8.3	
- Queensland	8.1	22.0	44.6	42.1	49.8	47.9	50.3	48.2	n.a.	n.a.	-2.1	1.0	
- Western Australia	0.9	31.5	44.9	41.2	55.4	26.5	60.8	50.4	n.a.	n.a.	-10.5	-0.2	
- South Australia	9.9	26.3	41.3	50.9	46.0	50.6	47.9	42.8	n.a.	n.a.	-5.1	-4.8	
- Tasmania	13.4	37.2	38.9	30.3	19.8	37.7	39.1	41.8	n.a.	n.a.	2.7	18.5	

\*indexes based on net balance of % assessing 'unemployment to rise' and % assessing 'unemployment to fall'; ^measure based on responses to 'wisest place for savings' question.  
Sources: Melbourne Institute, Westpac Economics

# Housing market data

## Dwelling prices and turnover

%	2015				2016				2017			
	avg	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May	Jun	Jul
Dwelling prices, ann%*												
Australia	6.9	9.8	10.9	9.4	7.0	5.3	3.1	5.7	8.1	8.4	9.1	10.1
- Sydney	7.1	17.2	18.9	15.3	10.8	7.1	4.1	7.6	11.8	11.3	11.7	12.2
- Melbourne	7.6	8.5	10.2	10.8	10.1	9.4	6.7	8.8	10.4	11.8	13.5	14.4
- Brisbane	5.9	3.0	3.6	4.0	4.7	4.5	3.9	3.4	2.6	2.5	1.4	1.3
- Perth	6.8	-0.5	-2.6	-4.0	-3.7	-4.4	-4.3	-3.5	-4.1	-4.3	-3.5	-4.5
- Adelaide	5.9	2.2	3.0	3.8	3.2	3.6	2.7	3.3	3.9	4.1	4.2	4.8
- Hobart	6.1	1.4	3.1	4.9	4.6	5.7	5.1	6.0	7.9	8.1	8.6	8.8
Turnover, %stock^												
Australia	5.7	5.2	5.2	4.8	4.6	4.4	4.4	4.5	4.5	4.1	3.9	3.9
- New South Wales	5.6	5.5	5.6	4.9	4.5	4.5	4.5	4.7	4.6	4.4	4.2	4.2
- Victoria	5.6	5.6	5.5	5.2	4.9	4.5	4.7	4.8	4.7	4.0	3.6	3.5
- Queensland	6.7	5.8	6.3	5.6	5.5	5.2	5.2	5.2	4.9	4.4	4.1	3.9
- Western Australia	6.4	4.1	3.8	3.6	3.7	3.5	3.5	3.5	3.5	3.4	3.3	3.4
- South Australia	4.6	4.0	4.0	3.9	3.9	3.8	3.9	3.9	4.0	4.1	4.0	4.0
- Tasmania	5.3	4.6	4.9	4.8	4.6	4.5	4.5	5.1	5.3	5.0	4.6	4.6

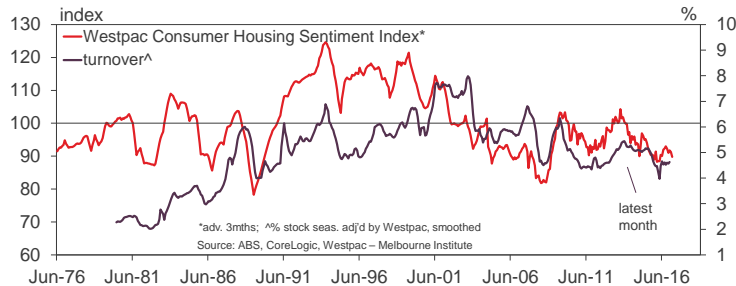
\* 'all dwellings' composite based on all available price measures, ann% ch, latest is month to date

^ % dwelling stock; most recent months are estimates modelled on preliminary data

Sources: CoreLogic, Residex, APM, ABS, Westpac Economics

# Appendix

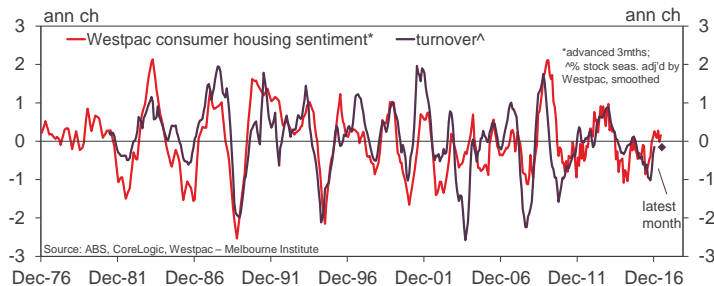
## Westpac Consumer Housing Sentiment Index: full series



The **Westpac Consumer Housing Sentiment Indexes** presented in this report are composite measures based on a weighted combination of four indexes from the **Westpac-Melbourne Institute Consumer Sentiment survey**.

Two of these are 'primary' components with a higher weight that relate directly to consumer perceptions of housing market conditions: the **Westpac-Melbourne Institute 'time to buy a dwelling' index** and the **Westpac-Melbourne Institute House Price Expectations Index**. The remaining 'supplementary' components, with lower weights, relate to consumer assessments of job security – the **Westpac-Melbourne Institute Unemployment Expectations Index** – and risk appetite – the **Westpac Risk Aversion Index**.

## Westpac Consumer Housing Sentiment Index: cycles



Each of these components is seasonally adjusted, converted to a consistent base and combined using fixed weights determined by historical regression analysis. Note that the house price expectations component is only available from 2009 on - a re-weighted composite based on the remaining measures is used for earlier periods.

The resulting composite measures provide significant insight into housing market conditions both nationally and at the individual state level. The national index has over 40yrs of history and a clear lead indicator relationship with a variety of housing market metrics. The index is particularly good at picking turning points in housing market turnover – correctly anticipating every major upswing and downturn since 1980 with a lead of around three months (four once the timeliness of sentiment updates is included).

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