



Australian Economic Update:

The Beginning of the End of the Long Australian House Price Boom...

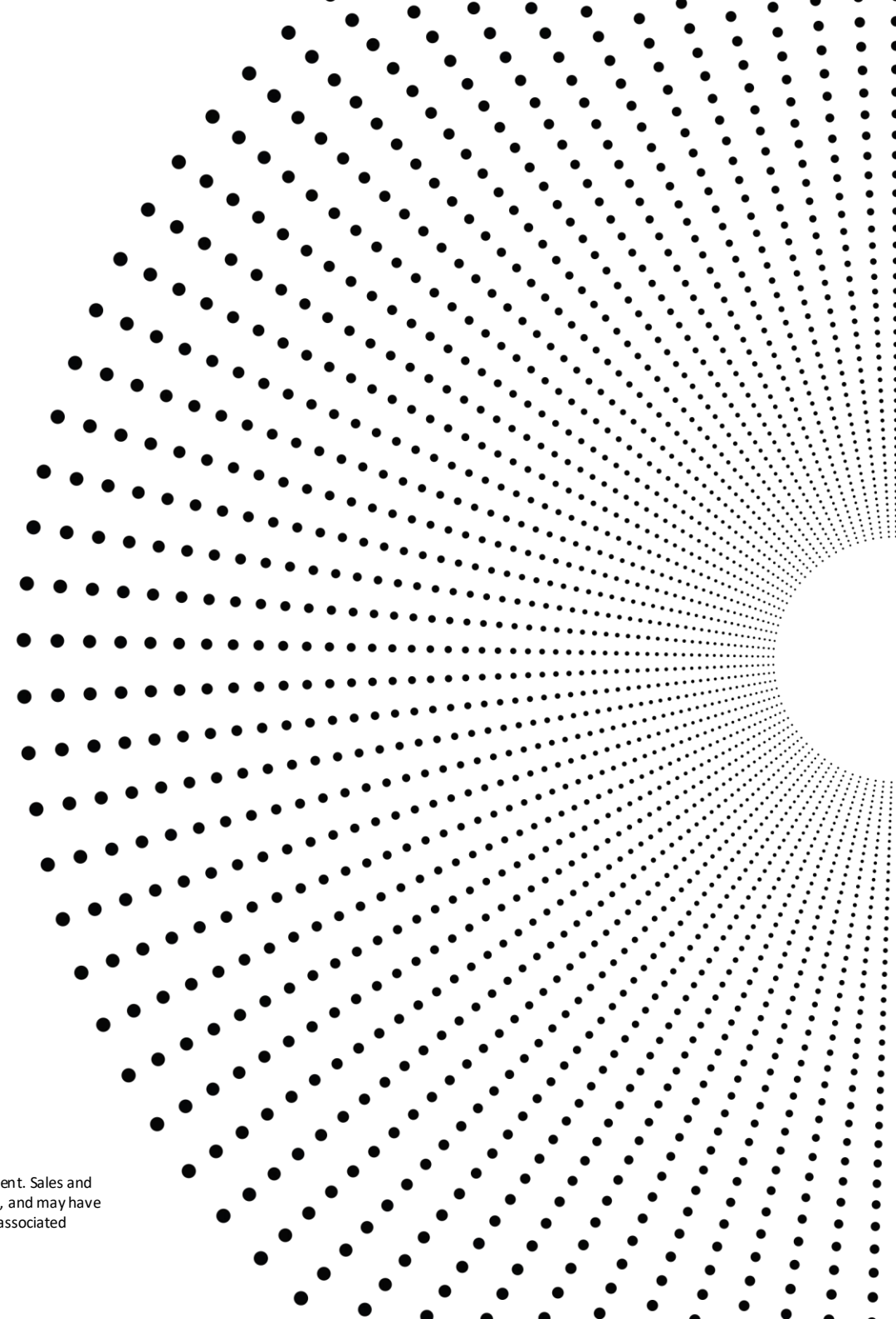
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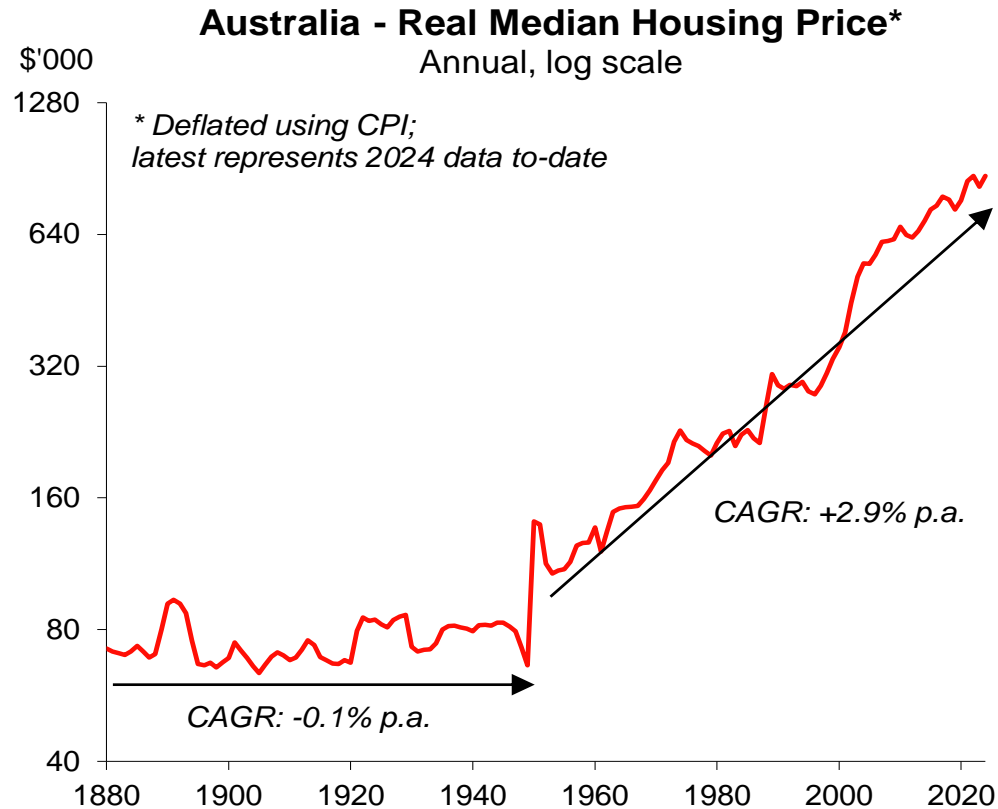
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Nov 2024

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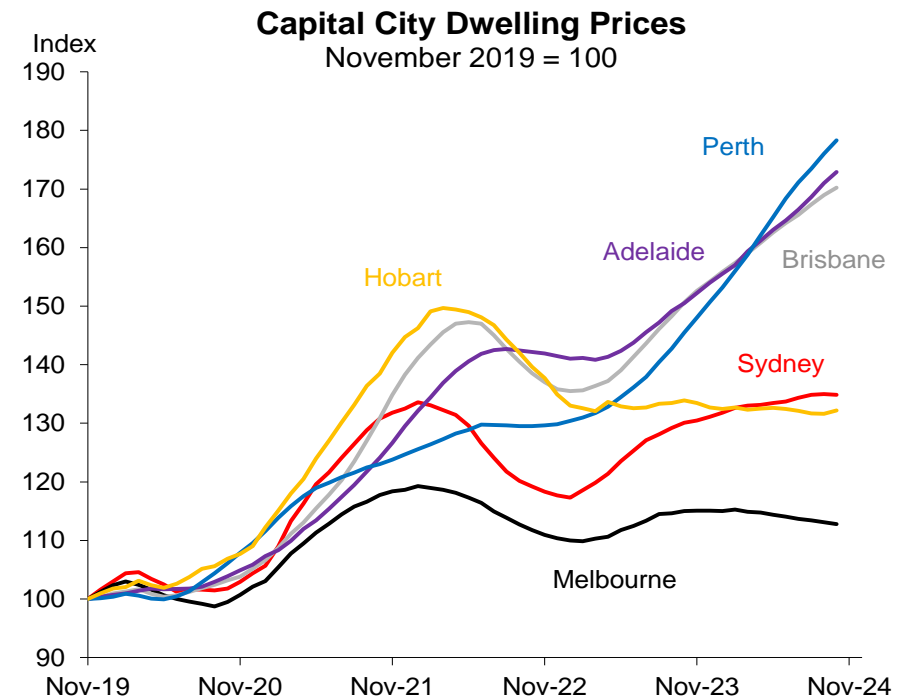
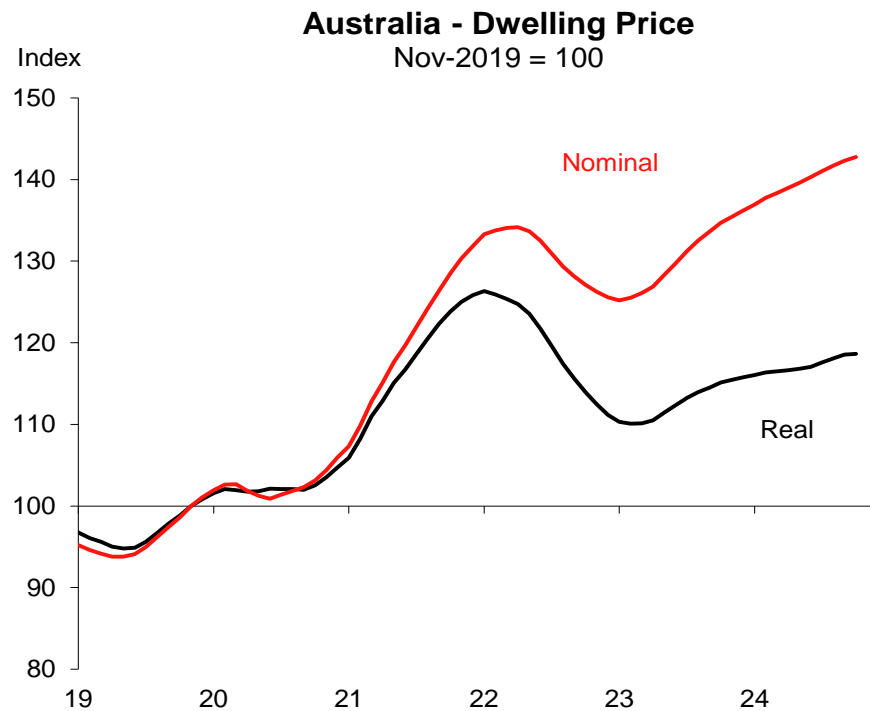
After moving sideways from 1880 to 1950, real Australian house prices have increased by a compound 2.9% per year over the past ~75 years.



Source: ABS, CoreLogic, Stapledon, Macrobond, Macquarie

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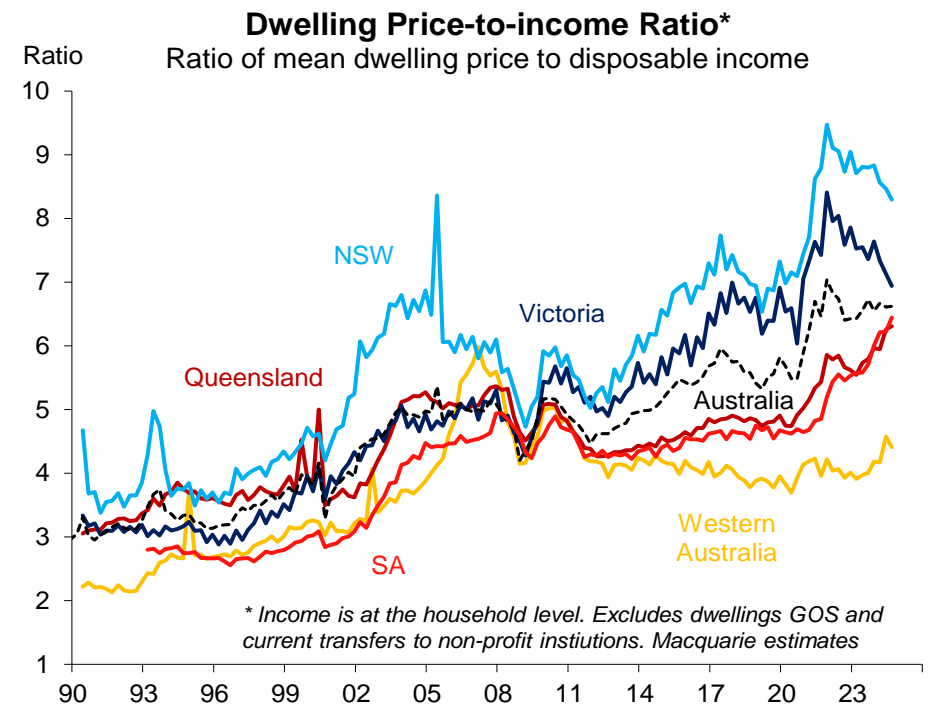
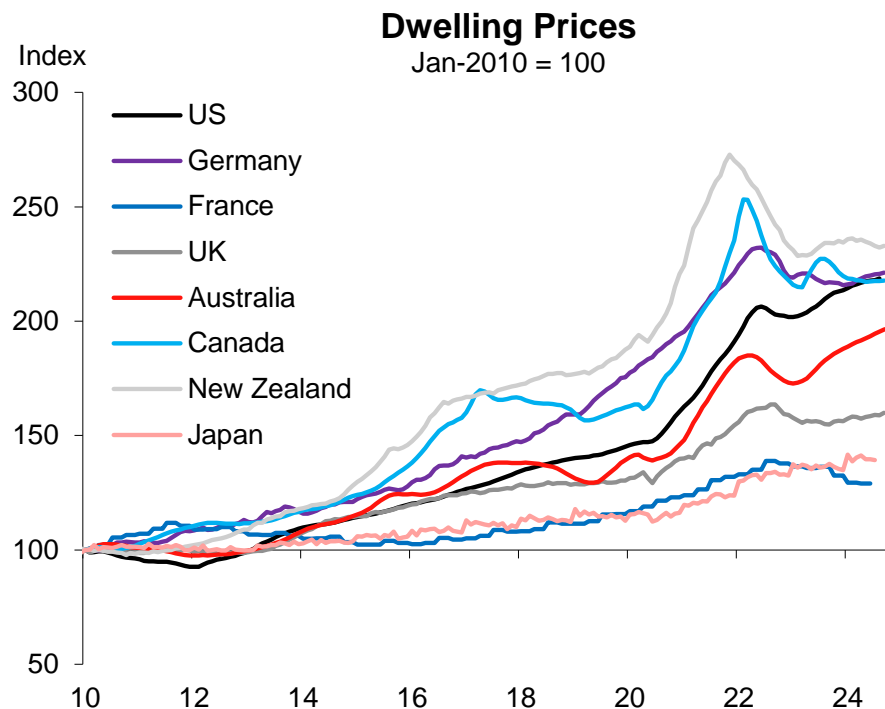
Over the past 5 years, nominal prices increased by ~45% (~20% in real terms), confounding expectations of a large fall during COVID. As always there have been large differences among cities.



Source: CoreLogic, Macrobond, Macquarie

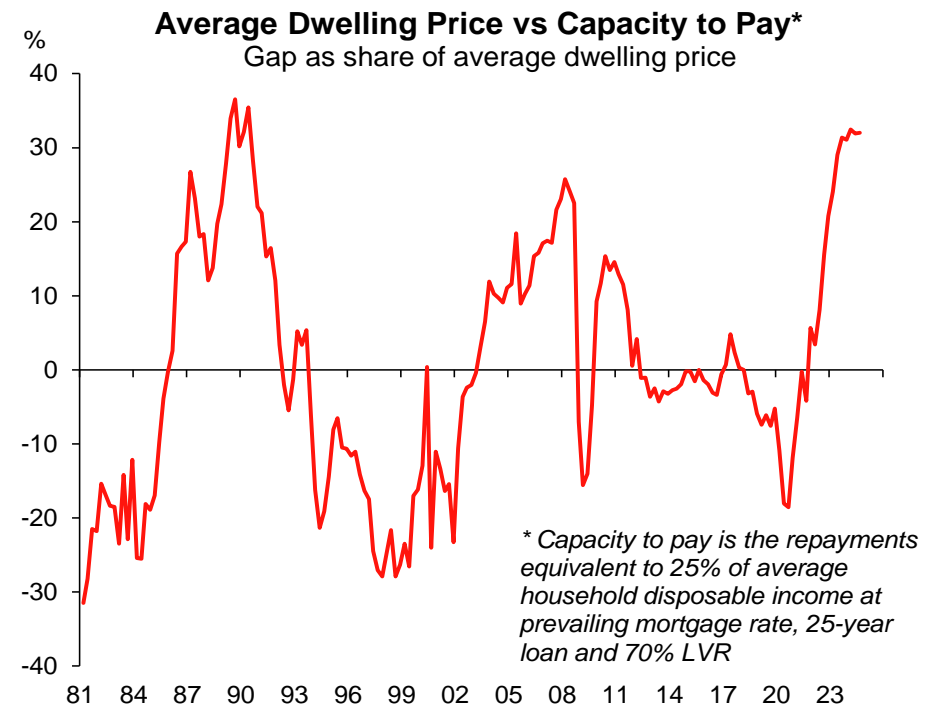
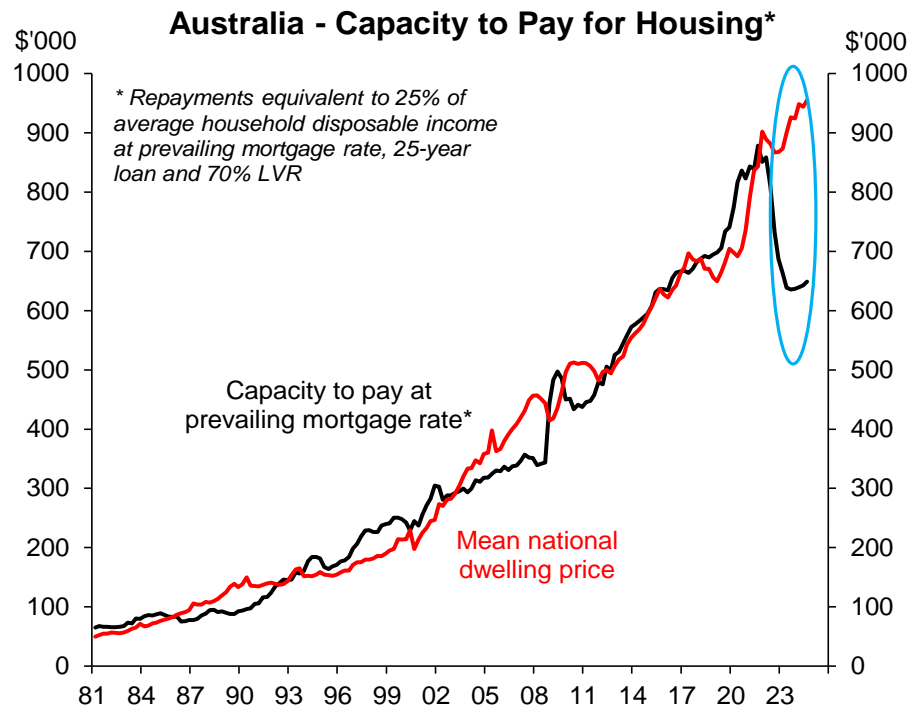
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Australian prices have gone up significantly, but the increase since the GFC has been middle of the pack relative to global peers. In most states, housing has become more expensive relative to income.



Source: National Sources, Macrobond, Macquarie

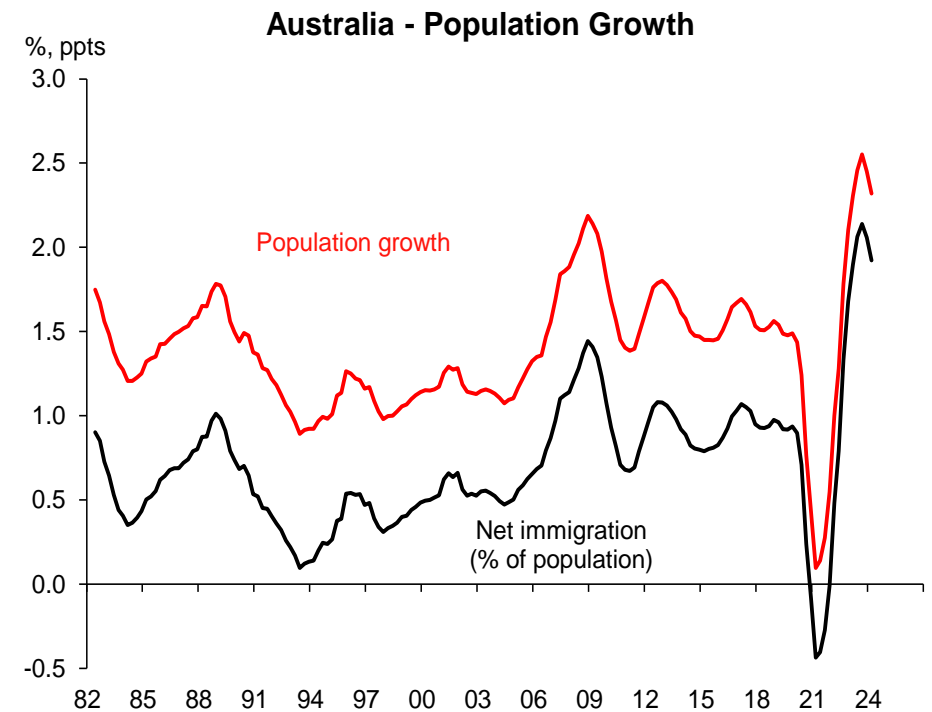
Prices tend to move closely with “capacity to pay”, suggesting that most of the increase since 1980 is a function of rising incomes and falling interest rates. However, prices did not “correct” in 22/23.



Source: ABS, CoreLogic, RBA, Macrobond, Macquarie

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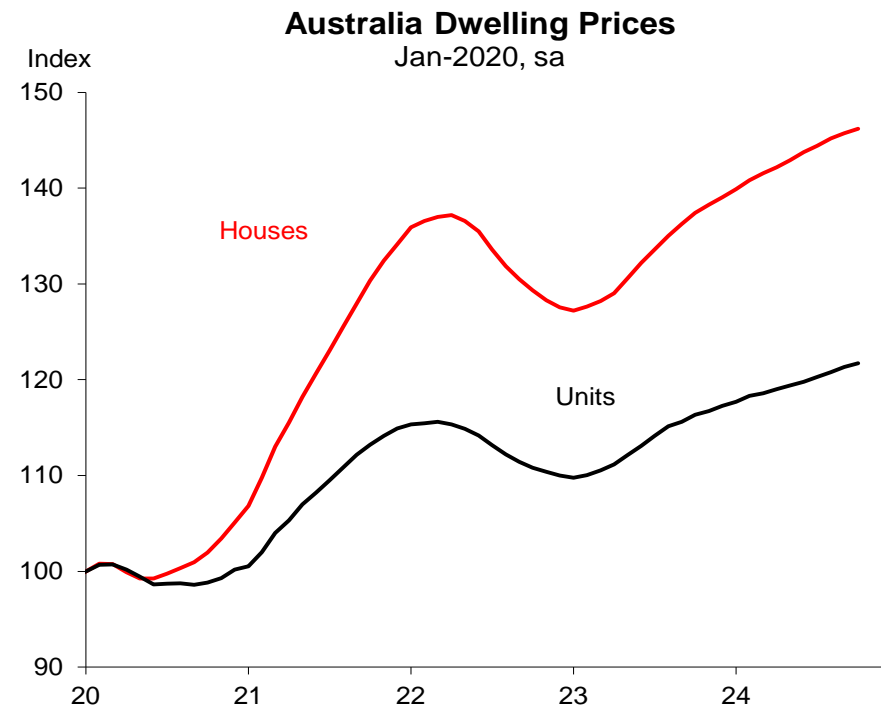
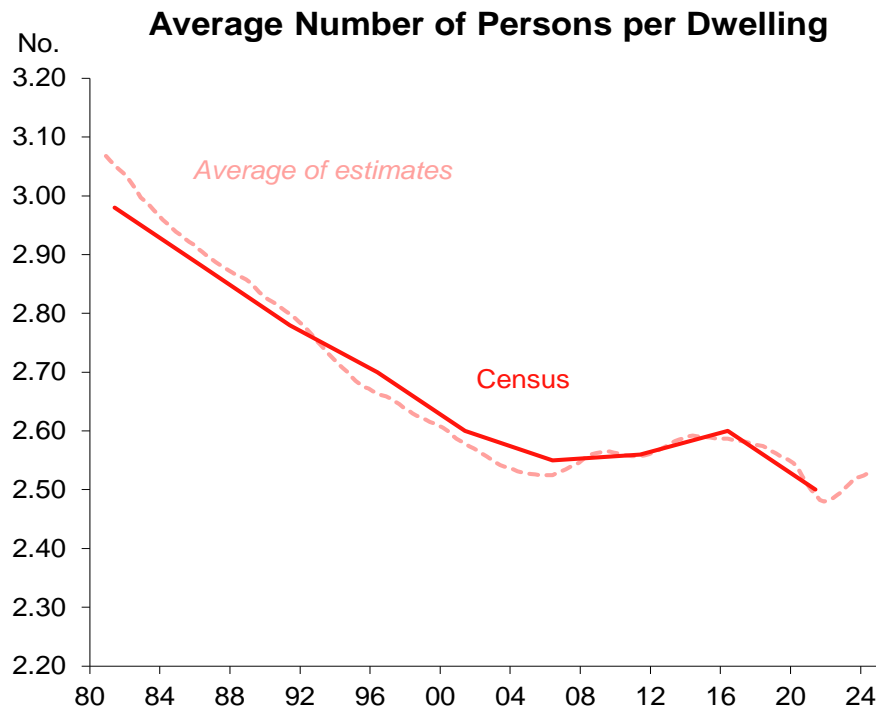
In part that recent resilience reflects still low unemployment. The rapid rebound in population was also supportive.



Source: ABS, Macrobond, Macquarie

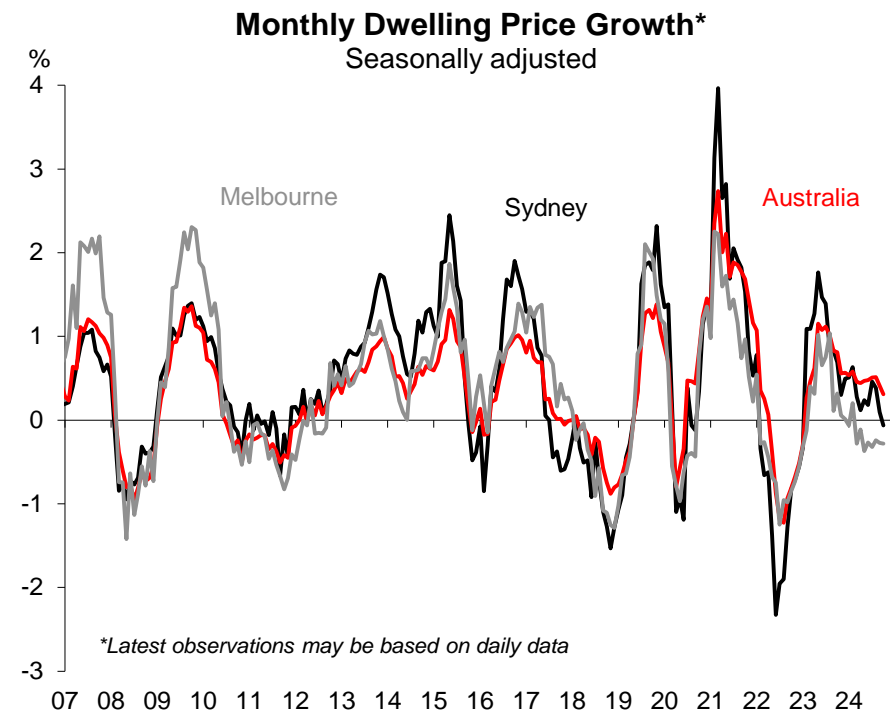
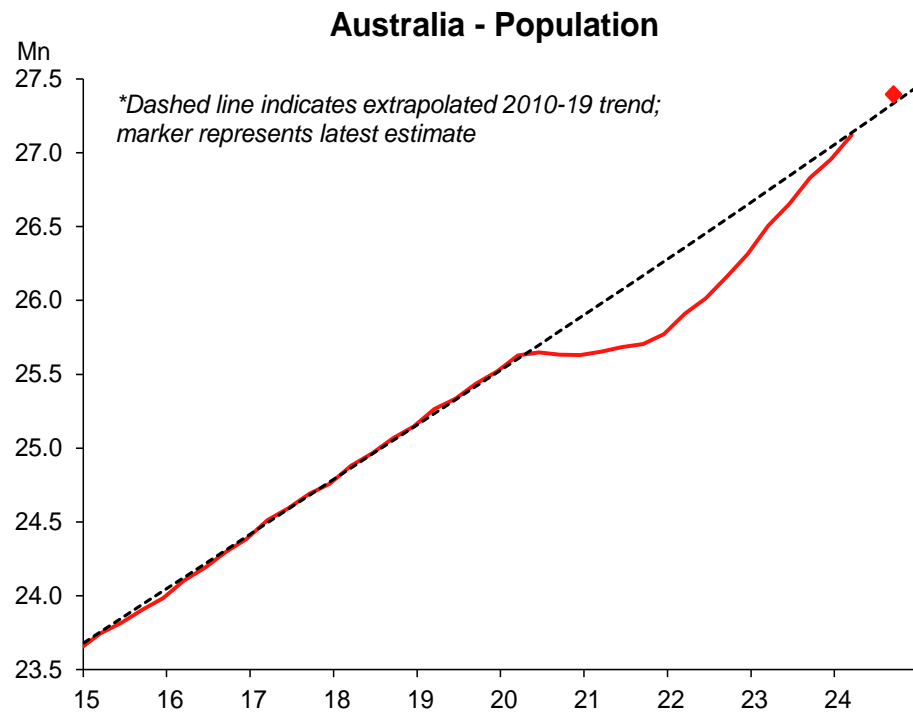
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Demand during COVID was boosted by a fall in the average number of people per house. Lifestyle suburbs went up the most, with prices of standalone houses increasing more than apartments.



Source: ABS, CoreLogic, Macrobond, Macquarie

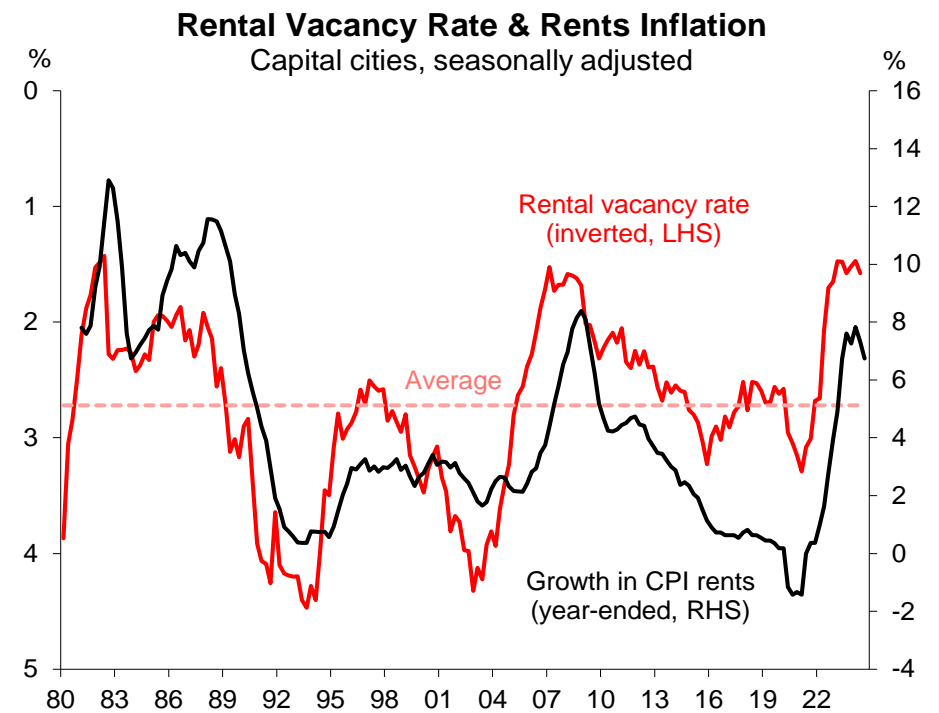
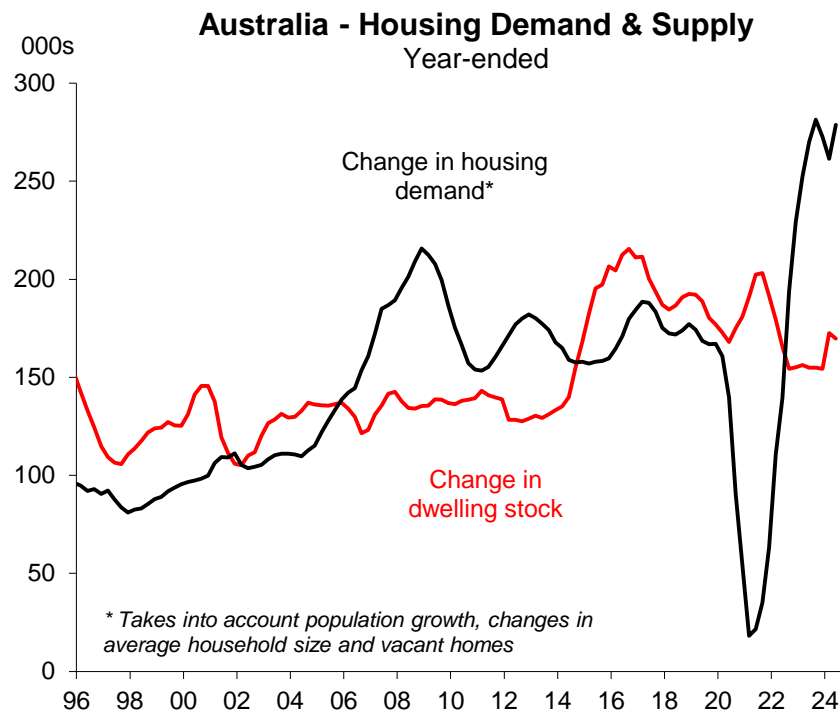
More recently, still high interest rates and normalising population growth have seen growth slow, with prices now falling modestly in Sydney and Melbourne.



Source: ABS, CoreLogic, Macrobond, Macquarie

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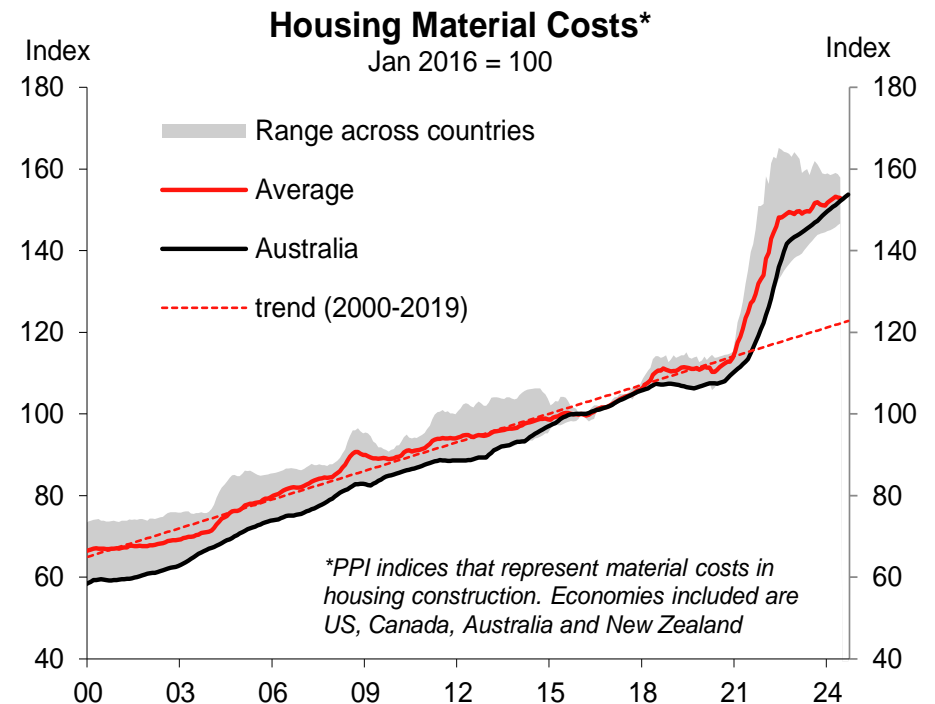
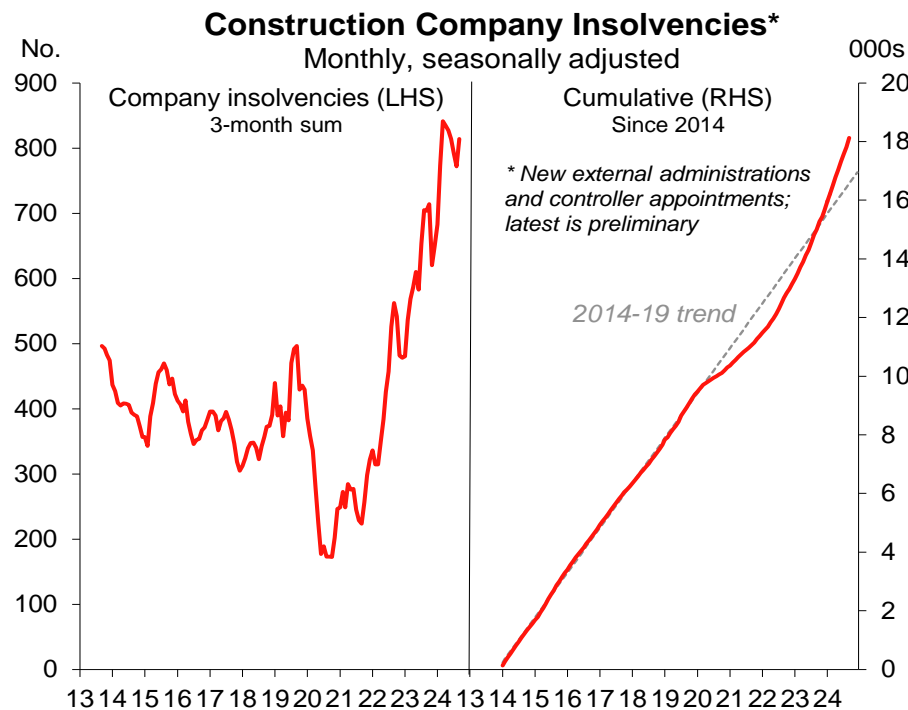
While capacity to pay is the main driver of near-term moves, supply also matters, with building failing to keep up with demand in recent years.



Source: ABS, REIA, Macrobond, Macquarie

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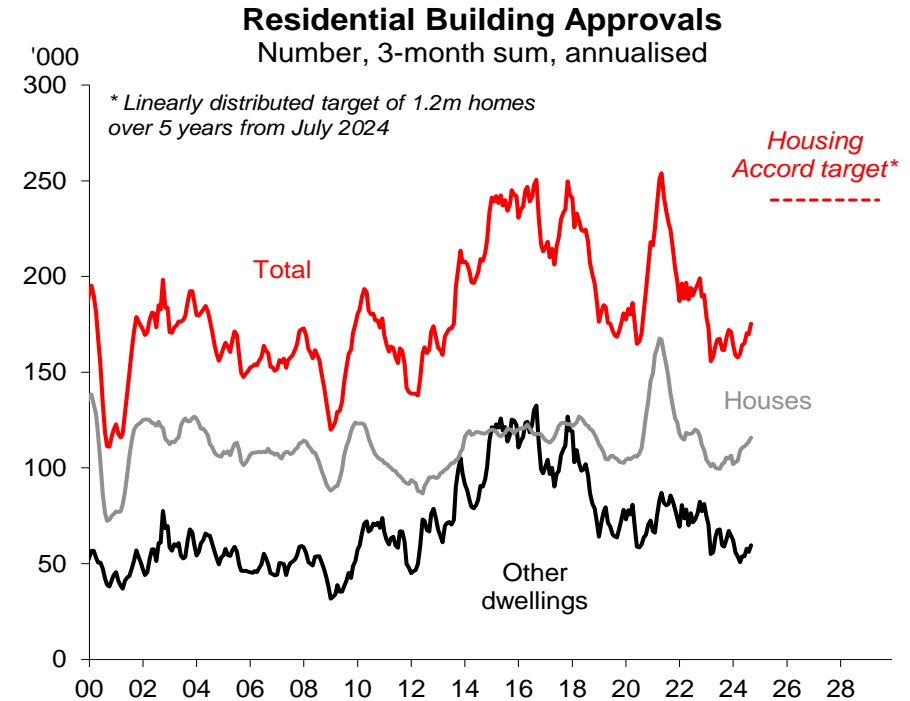
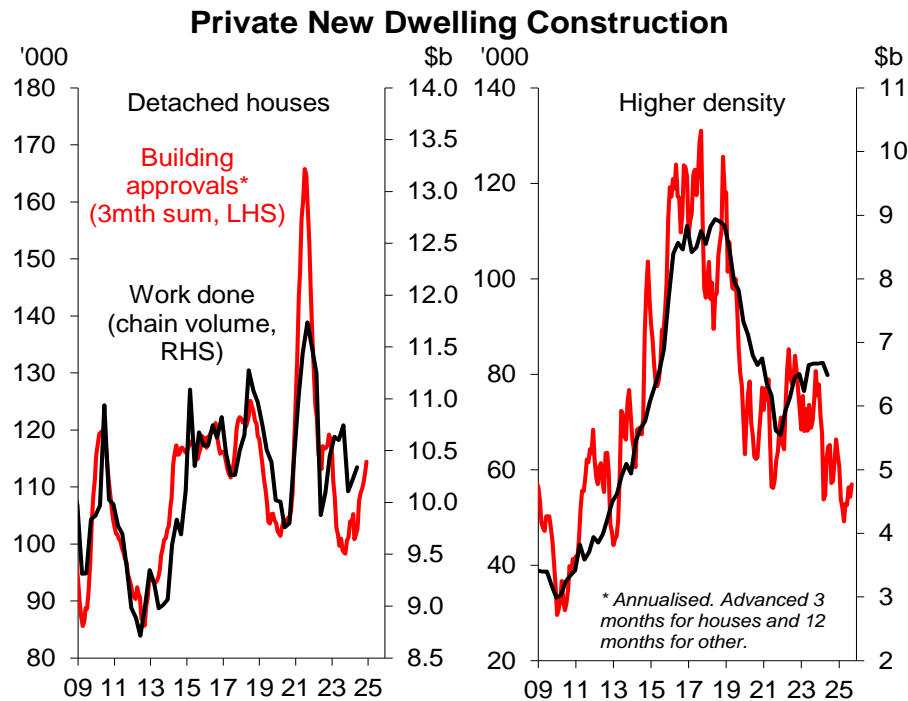
Builders have been hit by both higher interest rates and input cost inflation. Thankfully, while costs remain high, the rate of increase is now slowing.



Source: ASIC, Macrobond, Macquarie

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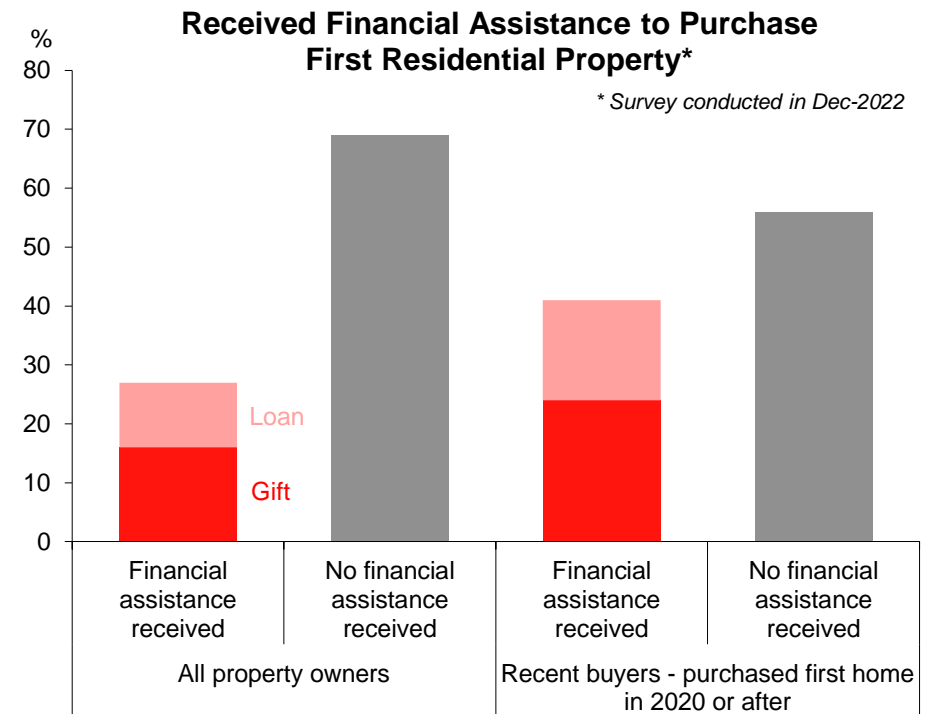
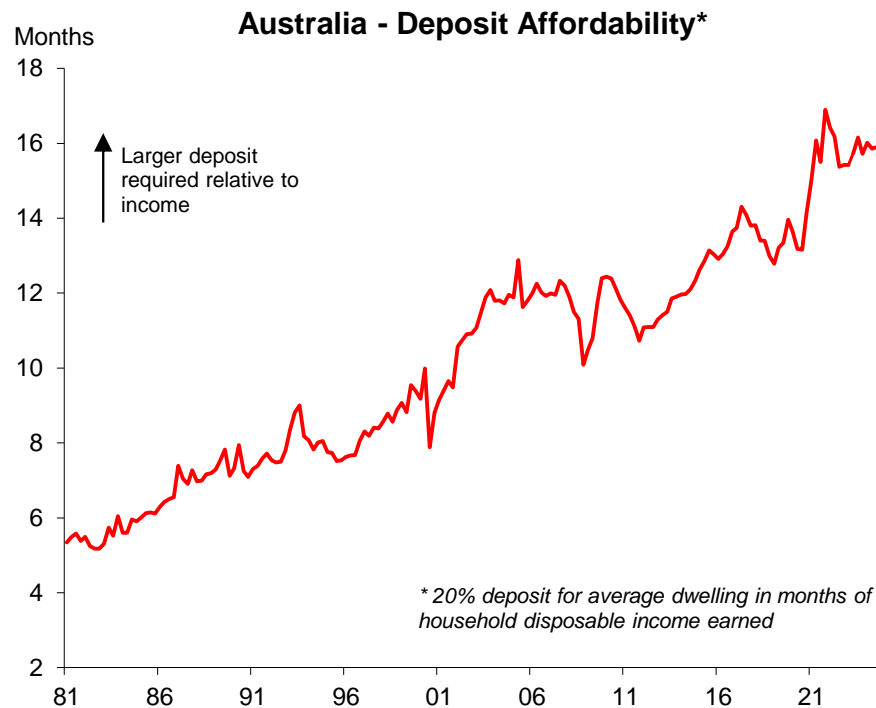
While headwinds remain, there are early signs that new detached housing construction has bottomed. The outlook for higher-density building construction, however, remains weak.



Source: ABS, Commonwealth Treasury, Macrobond, Macquarie

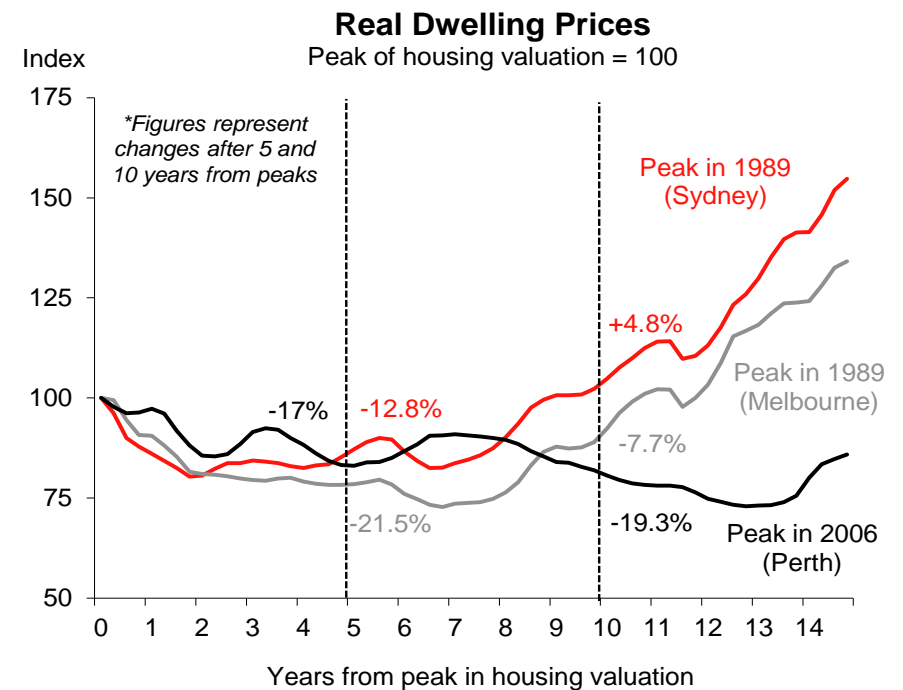
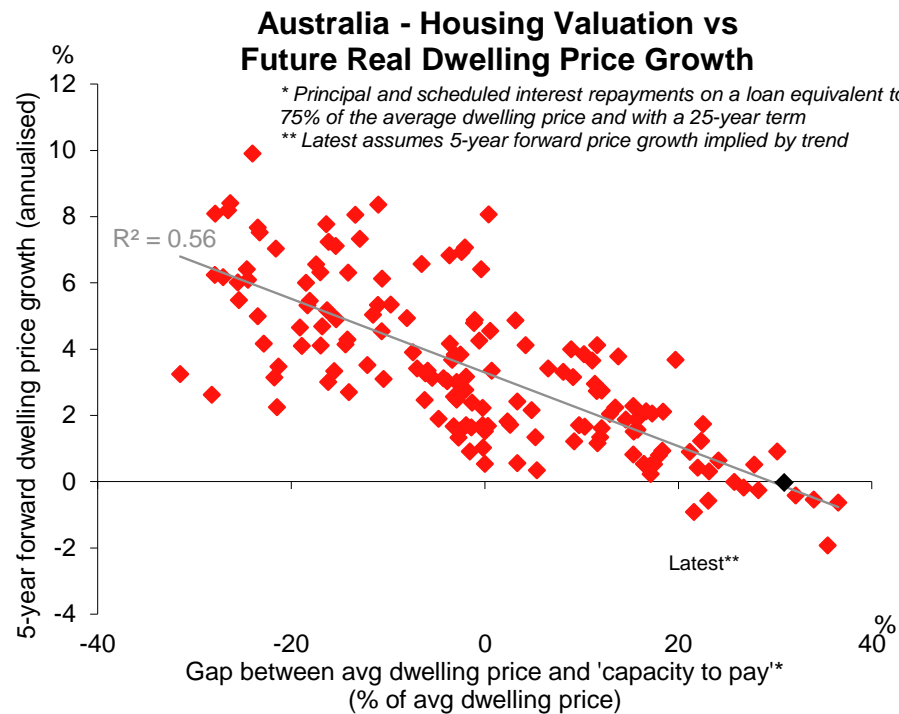
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High prices add to inequality, with many who can't access the “bank of mum and dad” locked out of the market.



Source: ABS, Per Capita, Macquarie

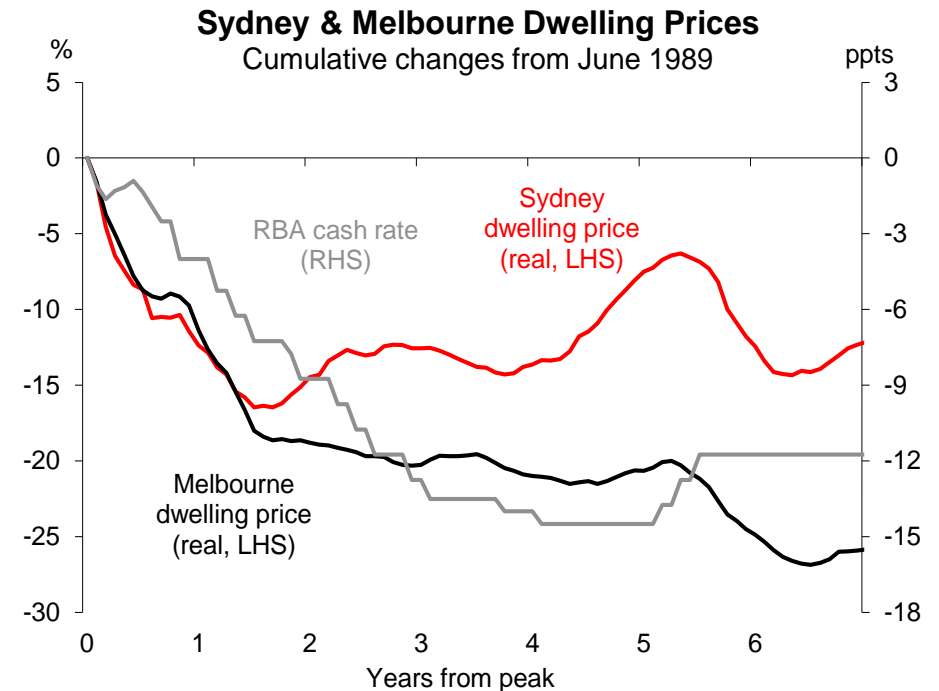
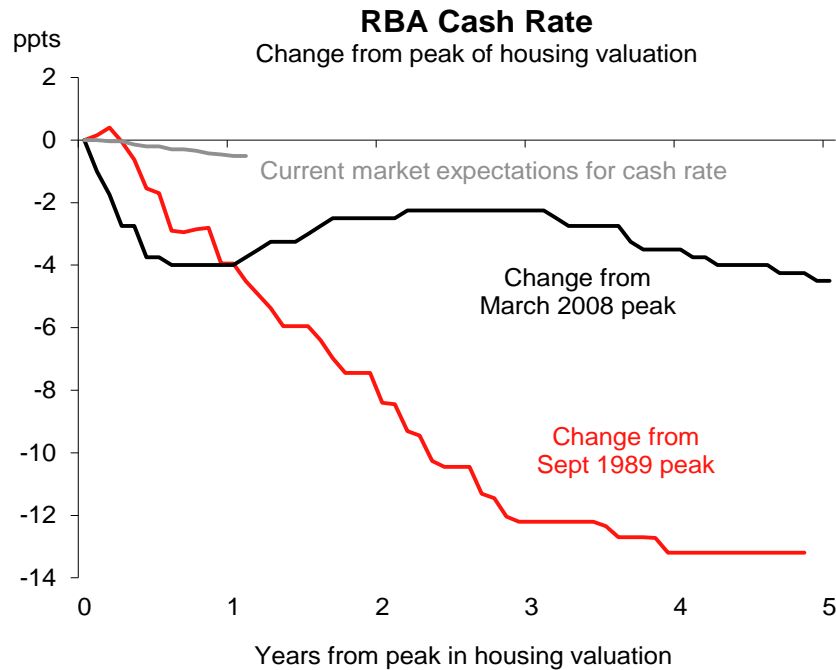
In the past when housing has become this unaffordable, it has been followed by an extended period of flattish real prices.



Source: ABS, CoreLogic, RBA, Macrobond, Macquarie

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Much of the improvement in “capacity to pay” has occurred through falling rates. If the RBA is able to cut next year that could provide some relief. However, even large cuts did not reignite previous booms.



Source: Bloomberg, CoreLogic, RBA, Macrobond, Macquarie

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