

Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

2017-18 Update

The 2017-18 Update reviews the Group's forecasts made in October 2017.

HIFG Forecast of Dwelling Commencements in WA, 2017-18 to 2019-20¹

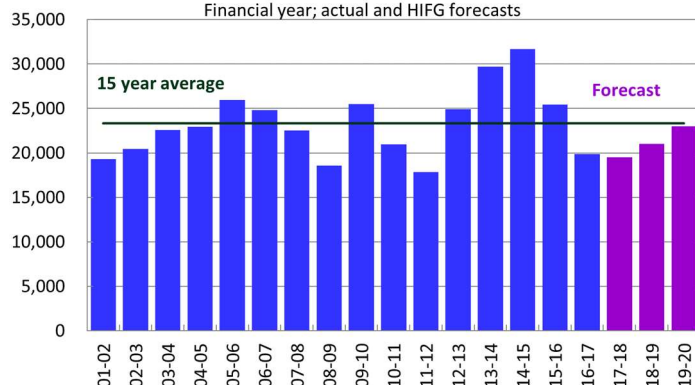
Financial Year	Dwelling Commencements
2016-17 (actual)	19,807 (19,000 forecast)
2017-18 (forecast)	19,500
2018-19 (forecast)	21,000
2019-20 (forecast)	22-24,000

The Housing Industry Forecasting Group (HIFG) has confirmed its forecast for 19,500 dwelling commencements for the year 2017-18. Members noted that conditions had not changed substantially since the Group's previous forecast was made in late 2017.

Dwelling commencements have been flat over the past six months. Population growth, one of the key drivers of dwelling demand, has improved but remains soft. Subdued labour market conditions, with low wages growth, have also dampened demand for new housing, along with good availability of stock in the established market for both purchase and rentals.

Western Australian Dwelling Commencements

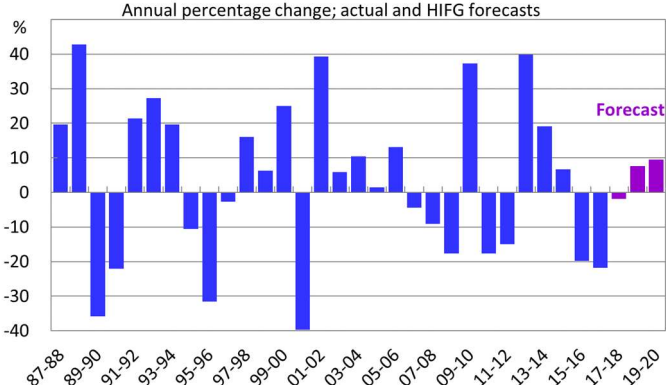
Financial year; actual and HIFG forecasts



Sources: ABS, HIFG. Midpoints used for 2018-19 and 2019-20.

Western Australian Dwelling Commencements

Annual percentage change; actual and HIFG forecasts



Sources: ABS, HIFG. Midpoints used for 2019-20.

The 2017-18 forecast of 19,500 reflects flat conditions from the previous year. While commencements are lower than average, it is not unusual given the cyclical nature of the industry. Despite the relatively low level of commencements, members noted that there are signs many aspects of the Western Australian economy have bottomed, and maintained the expectation that dwelling commencements will recover to 21,000 in 2018-19. This is based on indications of a moderate recovery in population growth, employment conditions and improved consumer and business confidence.

¹ Data and forecasts finalised May 2018.

1 Economic overview

WA's State Final Demand (SFD) fell by 0.2% in the December quarter 2017², but in annual terms, increased by 1.2%. Dwelling investment was the largest detractor to growth over the year, while the pace of decline in business investment has slowed considerably.

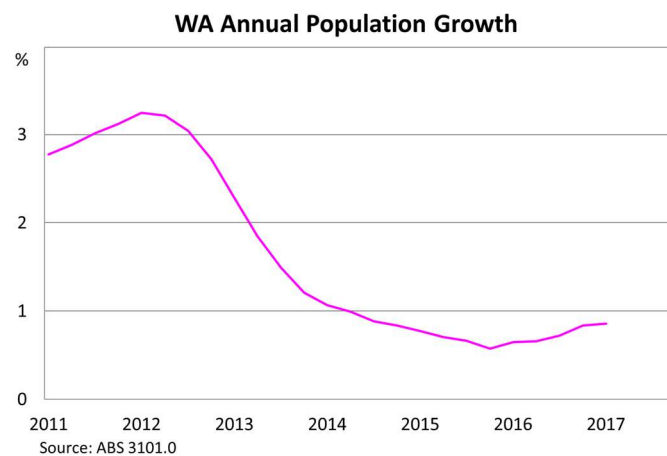
While there has been some recent volatility in the headline unemployment rate, overall the labour market looks to have improved somewhat with the trend unemployment rate sitting at around 6% for the past few months. WA's participation rate has increased to 68.4% in trend terms, much higher than the national rate of 65.7%. Underemployment has fallen but remains relatively high at 8.8%³. Wages growth remains soft.

There are signs economic confidence is strengthening, with the *CCI Survey of Consumer Confidence* showing an increase in people expecting the WA economy to improve or remain unchanged in the short-term.

2 Population growth

WA's population growth has recovered slightly, but remains subdued with a figure of 0.9% recorded for the year to September 2017. WA's estimated residential population is now 2,587,135. Net interstate migration has been negative for 14 quarters. Net overseas migration grew by 13,800 in the year to September 2017, a slight increase on the previous year. This slow rate of growth, particularly in interstate and overseas migration, is one of the drivers behind the decline in dwelling commencements.

HIFG believes that the record low growth in population has now stabilised and expects a moderate pick-up over the forecast horizon.

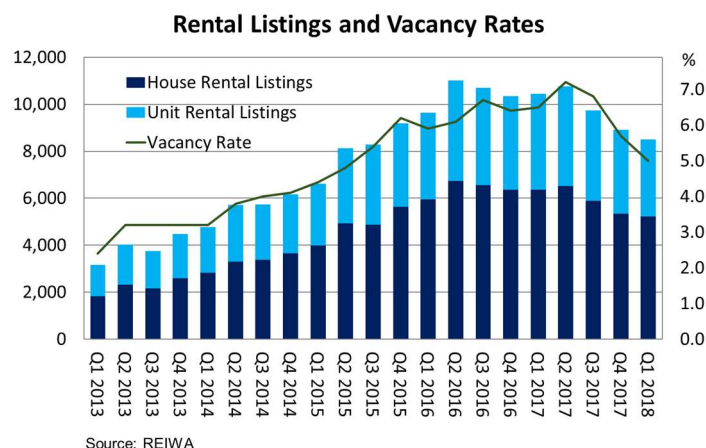
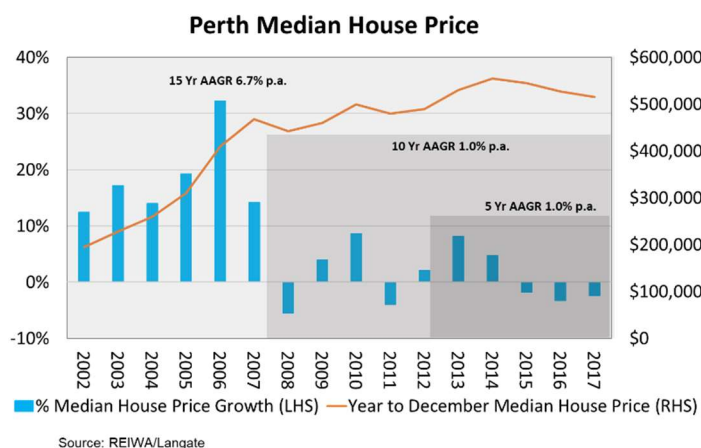


3 Established purchase and rental market

House prices in Perth rose slightly in the December quarter 2017, with the median house price increasing by 2.9% in the quarter to \$525,000, but remaining flat over the year. Regional house prices also picked up overall, but there were large variations between markets.

² Seasonally-adjusted.

³ February 2018. Western Australian underemployment rate (proportion of labour force). ABS 6202.0



The rental market has stabilised and the vacancy rate has reduced considerably, down 1.5 percentage points over the year to reach 5.0% in the March quarter 2018. Median rents remained flat at \$350 per week over the year.

Despite some tightening, properties available for rent and sale in the established market remain above historical levels. This is likely to continue to dampen demand for new housing. Buyers and renters are able to source good deals in both markets reducing demand for new dwellings.

HIFG notes that despite the softening in rental and purchase prices over recent years, housing affordability continues to be a significant issue for WA households on low incomes.

4 Forward indicators

Finance commitments for housing continue to trend downwards.

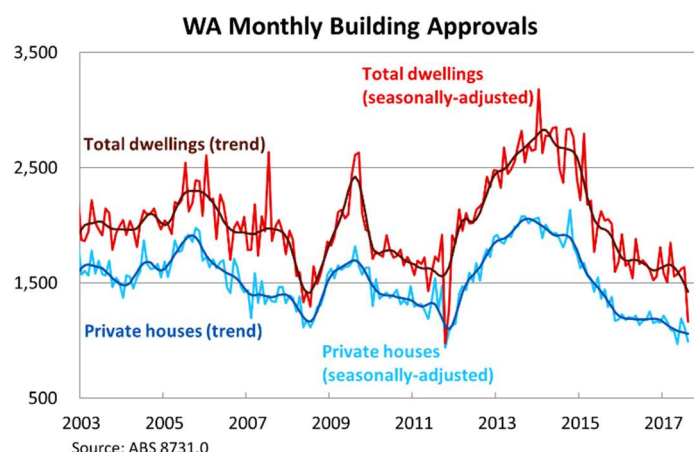
Final **lot approvals** have improved slightly to 3,191 in December quarter 2017 after falling over the past year. UDIA reports that lot sales activity has stabilised, with a slight increase in activity in the December quarter 2017. REIWA data shows that listings for established land have stabilised but remain elevated.

HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast horizon.

New home sales appear volatile on a monthly basis, but signs suggest they may have stabilised. Detached house sales were marginally higher in the March quarter of 2018 compared to the December quarter 2017⁴

The number of building approvals continued to decline in early 2018 and remain below their decade level averages. Multi-residential approvals made up around 26% of seasonally-adjusted approvals in the year to February 2018, compared to the decade average of 23%.

⁴ HIA New Home Sales March 2018.



First-home owners continue to constitute a significant proportion of the WA housing market, despite the overall volume of first-home owners falling in line with the general market. WA first-home owners secured 25% of total finance commitments in February 2018, above with the decade average for WA and well above the national level of 18%.

5 Dwelling commencements

Dwelling commencements were flat in the six months to December 2017 at 9,757 in seasonally-adjusted terms (10,172 in original terms). This is 2% lower than the same period in 2016. HIFG expects dwelling commencements to remain flat at 19,500 for the 2017-18 financial year, followed by a subdued recovery to 21,000 in 2018-19.

6 Industry issues and challenges

- Regulatory constraints remain on housing lending. The impacts of the Royal Commission into the Banking, Superannuation and Financial Services Industry are unknown at this stage, but could lead to tighter lending conditions for some borrowers.
- It was reported that valuations coming in lower than expected and constraining buyers' ability to obtain finance remains an issue for the industry.
- Members note that the WA Government is currently reviewing the security of payments to subcontractors in the building industry. This is predominantly looking at commercial builders, but also affects apartment builders. The industry is actively engaged through an Industry Advisory Group.
- Changes to GST legislation will commence on 1 July 2018, requiring purchasers of new residential premises or subdivisions to remit GST to the ATO on or before settlement. HIFG members noted that the legislation has created a great deal of uncertainty within the industry and at this stage it is unclear how it will precisely affect property transactions.