



Affordability Report

MEDIAN
DWELLING
PRICES

INTEREST
RATES

MORTGAGE
REPAYMENTS

WEEKLY
EARNINGS

HOUSEHOLD
INCOME

DWELLING
PRICE
MOVEMENT

A quarterly update on the affordability of housing

September 2016 Quarter

Slight improvement in housing affordability

HIGHLIGHTS:

- > The HIA Housing Affordability Index improved by 0.1 per cent during the September 2016 quarter, and was 2.5 per cent more favourable than 12 months earlier.
- > Aggregate capital city housing affordability improved by 0.5 per cent during the quarter.
- > In regional Australia, affordability improved by 2.5 per cent during the September 2016 quarter, due to a small decline in the median dwelling price.
- > The slight improvement in affordability during the September 2016 quarter was helped by the reduction in the official cash rate during August and very modest earnings growth during the quarter. Continued increases in dwelling prices prevented affordability from improving by more.

Housing affordability improved marginally during the September 2016 quarter, with the HIA Affordability Index increasing by 0.1 per cent compared with the previous quarter with a result of 81.8 being recorded. This was 2.5 per cent more favourable than the same quarter a year earlier, and indicates that the burden of mortgage repayments on the purchase of a median price dwelling has fallen slightly.

Across Australia's capital cities, affordability improved by 0.5 per cent during the September 2016 quarter and was 2.7 per cent more favourable than a year earlier. A similar pattern was to be seen in regional Australia's markets, with affordability 2.5 per cent better during the quarter and 3.9 per cent more favourable than a year earlier.

During the September 2016 quarter, affordability improved in six of the eight capital cities. The biggest improvement was in Darwin (+7.8 per cent), followed by Hobart (+7.6 per cent) and Perth (+7.5 per cent). Two of the capital cities experienced less favourable conditions in affordability during the quarter: Melbourne (-2.6 per cent) and Canberra (-1.3 per cent).

The overall improvement in affordability across Australia during the September 2016 quarter is the result of the reduction in the RBA's official cash rate from 1.75 per cent to 1.50 per cent at the beginning of August, part of which was passed on to mortgage borrowers through a lower discounted variable mortgage rate which had the effect of lowering mortgage repayments. In turn, the RBA's decision to lower interest rates was taken against the backdrop of the 17-year low headline inflation rate and the upward drift in the exchange rate of the Australian dollar – the RBA wants to keep a lid on the exchange rate. The fact that inflation is so low means that the earnings growth in the Australian economy is quite

sluggish, at least in nominal terms. The weakness of earnings growth has slowed the pace of improvement in affordability, with annual earnings growth at 2.2 per cent over the year to September. We would have seen larger improvements in affordability had earnings growth been stronger.

Continued dwelling price growth has also worked against affordability in Australia. During the September 2016 quarter, the national median dwelling price increased by 2.1 per cent to \$490,000, an increase of 1.0 per cent on a year earlier. There was a contrast between capital city and regional markets on this score, with the median dwelling price increasing by 1.8 per cent in the capital city markets in the September 2016 quarter but a decline of 0.3 per cent occurring in regional Australia. The strong pace of dwelling price increases in cities like Melbourne and Canberra drove adverse affordability in those markets during the quarter, while continued price drops in Perth and Darwin resulted in more favourable affordability for recent homebuyers in those cities. Nationally, affordability has been helped by the reduction in the discounted variable mortgage rate from 4.65 per cent in September 2015 to 4.50 per cent in September 2016.

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