Department of State Development, Infrastructure, Local Government and Planning

SEQ Market Factors – Dwelling Demand Analysis - December 2020 Update Final

December 2020

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1.0 Introduction

This 2020 SEQ Market Factors report is the second report of its type, the first being undertaken in September 2019. Much has changed since then, specifically the spread of the Covid-19 virus creating a global pandemic. This has made the compilation of this report particularly challenging as the full impact of the virus and the measures taken to restrict its spread continue to evolve.

In recognition of this, the 2020 SEQ Market Factors report has incorporated a dedicated section on the impact of Covid-19 on the SEQ dwelling market and a number of additional measures have been utilized to provide as up to date a picture of the SEQ dwelling development market as is feasible at this time.

1.1 Background

The SEQ Market Factors report was initially undertaken in response to feedback from the first release of the LSDM report which indicated that such a report would provide important contextual information.

The initial SEQ Market Factors report (September, 2019) identified ten metrics comprising measures of underlying demand and effective demand. These metrics were:

- Building (Dwelling) Approvals
- Median House Price Growth
- Employed Persons (Total)
- Interest Rates
- Property Sentiment Surveys
- Housing Finance
- Lot Registrations
- Wage Price Index
- State Population Growth
- Gross State Product (GSP).

Whilst the above metrics are all still extremely relevant to providing insights into the dwelling and land development market in SEQ, it is considered beneficial to include a number of additional metrics that provide either more up to date information, and/or information at the specific SEQ region level rather than at the State or National level. Notably these metrics represent extensions of existing metrics rather than different metrics. These are identified as they appear in the report and highlighted again in the final section of the report.

1.2 Underlying and Effective Factors

The ten core factors are separated evenly between Underlying factors and Effective factors. Within these types of factors they are categorized as Economy Wide, or Direct (Underlying); and Lag, or Current/Lead (Effective) as shown in Table 1.2. Explanations of these categorisations are outlined in the following sections.

Table 1.2 Categorisation of Core Market Factors

Dwelling Demand Factor Types		
Underlying	***Economy Wide*** • Gross State Product (GSP) • Interest Rates	***Direct*** • Population Growth • Employment Growth • Wage Growth
Effective	***Lag*** • Residential Building Approvals • House Price Movements	***Current & Lead*** • Housing Finance • Lot Registrations • Property Sentiment Surveys

2 Underlying Factors

The Underlying Factors of dwelling demand capture the overall drivers that influence dwelling demand. They incorporate economy wide factors that reflect and operate at the National and State level including Gross State Product and Interest Rates. They also include factors that more directly drive dwelling demand including population growth, employment growth, and income.

2.1 Economy Wide Factors

The initial SEQ Market Factors report identified that Gross State Product and Interest Rates were the most significant economy wide factors that influence the underlying demand for dwellings. They are constrained by being applicable at the State and National level respectively, however they provide an important balance with the other factors incorporated into this report in providing an overall perspective on the broader economy and the financing climate.

2.1.1 Gross State Product (GSP)

At the state level, Gross State Product (GSP) is the most direct measure for state economic growth, whilst Gross Domestic Product (GDP) is the equivalent measure at the national level. Over the 12 months to June 2020 GSP for Queensland declined by -1.07%, the first negative 12 months of growth in over ten years. This was principally due to the significant decline in GSP in the March and June quarters. In comparison, Australia's GDP experienced a less substantial decline of -0.16% over the 12 months to June 2020.

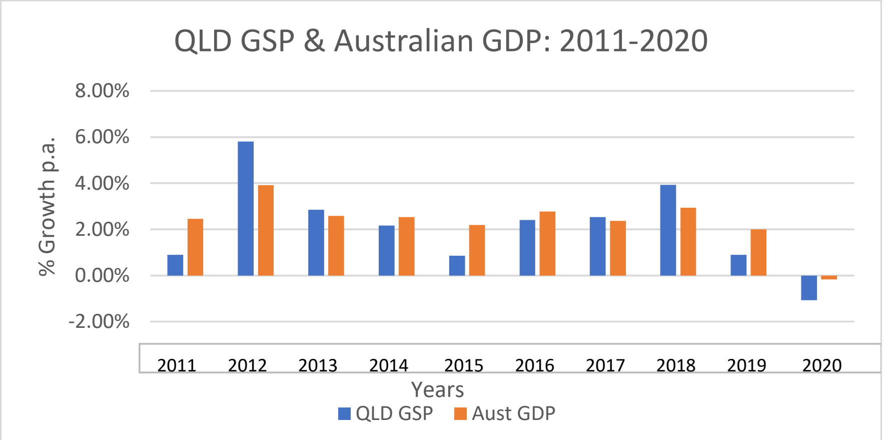
Table 2.1.1 QLD GSP & Australia GDP Growth: Jun 2011-Jun 2020

Timing (as at Jun)	QLD GSP (annual)		Aust GDP
	Amount ($m)	% Change	% Change
Jun-2011	$297,652	0.90%	2.5%
Jun-2012	$314,938	5.81%	3.9%
Jun-2013	$323,901	2.85%	2.6%
Jun-2014	$330,903	2.16%	2.5%
Jun-2015	$333,738	0.86%	2.2%
Jun-2016	$341,765	2.41%	2.8%
Jun-2017	$350,440	2.54%	2.4%
Jun-2018	$364,215	3.93%	2.9%
Jun-2019	$367,468	0.89%	2.0%
Jun-2020	$363,524	-1.07%	-0.16%
10 Yr Growth		**2.11%**	**2.36%**
5 Yr Growth		**1.72%**	**1.98%**
3 Yr Growth		**1.23%**	**1.58%**

Source: ABS National Accounts and State Accounts, June 2020.

Whilst Queensland had a stronger period of growth than the Australian economy in 2016-17 and 2017-18 as a result of the strength of Queensland's mining export sector, it has fallen behind over the past two years.

Figure 2.1.1 QLD GSP & Australian GDP Growth, 2011-20



Source: ABS National Accounts and State Accounts, June 2020.

The impact of the measures taken to prevent the spread of the Covid-19 virus has become apparent in the March GDP and GSP figures reflecting a contraction of the Australian and Queensland economies. The Federal Government's July 2020 Economic and Fiscal Update is forecasting growth of -2.5% for Australian GDP in the 2020-21 financial year.

The negative GSP growth for Queensland over the past two quarters is likely to be reflected in demand for new dwellings in 2020-21.

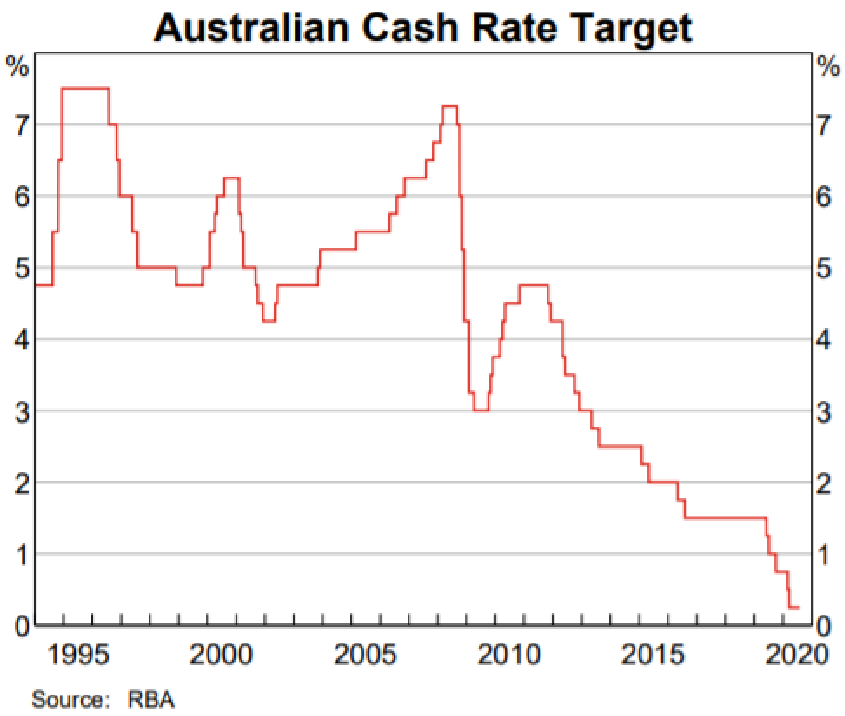
2.1.2 Interest Rates

Australian interest rates (the Australian Cash Rate) as determined by the Reserve Bank of Australia (RBA) have continued their downward path stretching this to 105 months, since November 2011. Since the last SEQ Market Factors report the Reserve Bank reduced the Cash Rate by 75 basis points (0.75%) from 1% to 0.25%. This represents an historical low for Australian interest rates. The RBA has kept the rate at 0.25% for the past five months reflecting the limited scope it has to move rates lower.

Clearly the global economic environment has changed over the past 12 months. Whereas last year the RBA indicated that the outlook for the Global Economy remained reasonable, it has now experienced a severe downturn and the RBA now notes that "the outlook remains uncertain and the recovery is expected to be bumpy and will depend upon the containment of the coronavirus" (Phillip Lowe, Governor RBA, July 2020).

The reduction in interest rates over the past ten months will have provided stimulus for the Australian economy, however this has now been overshadowed by the economic impacts resulting from Covid-19. It is unlikely that the current low rate is having a significant ongoing impact on driving dwelling demand. It does, however, appear that other government stimulus measures including HomeBuilder, Job Keeper, and extensions to Job Seeker have had a positive impact on dwelling purchases.

Figure 2.1.2 Australia's Cash Rate, 1994-2020



2.2 Direct Demand Factors

The most influential factors that directly influence underlying dwelling demand that are readily available are Population Growth, Employment Growth, and Wage Growth. The most recent data on these factors and their trends provide key insights for dwelling demand at the State and SEQ level.

2.2.1 Population Growth

Population growth in Queensland increased in the year to March 2019 (1.73%) before slowing in 2020 (1.62%) in line with the ten year average rate. *Note: This is the latest available population data.* This was driven by a slight fall in the rate of Natural Increase and Overseas Migration. Interstate Migration is at its highest level in over ten years which provides an important base for Queensland population growth in the coming post Covid-19 era.

Table 2.2.1 QLD Population Growth Components 2010-20

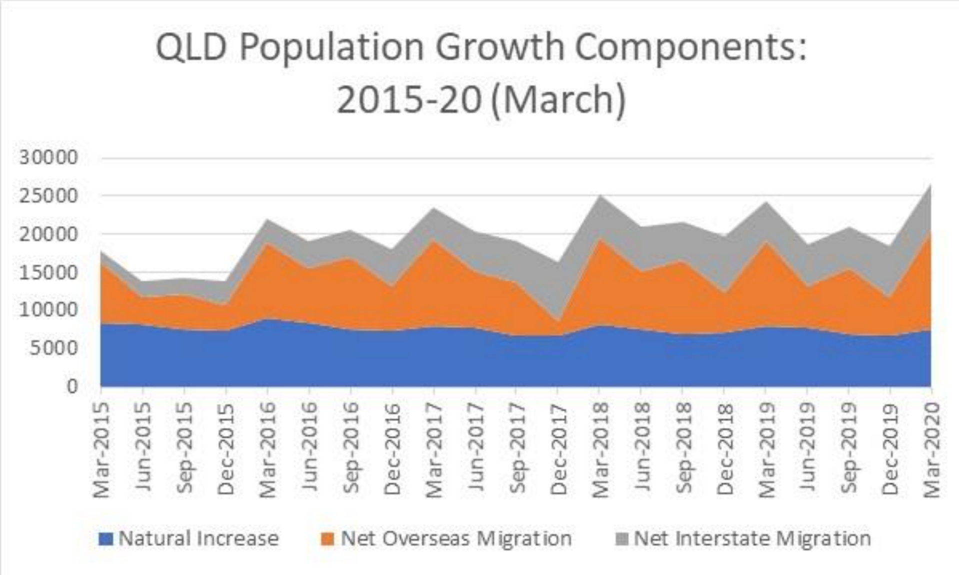
Year (as of March)	Natural Increase	Net Overseas Migration	Net Interstate Migration	Total Population Growth	QLD Total Population	
					ERP (no. persons)	% Growth
2010	36,600	40,320	7,549	82,196	4,387,801	
2011	36,018	32,418	6,285	70,170	4,457,971	1.60%
2012	35,536	43,693	11,094	87,642	4,545,613	1.97%
2013	35,776	45,357	9,718	88,817	4,634,430	1.95%
2014	35,690	30,966	6,347	70,757	4,705,187	1.53%
2015	33,700	21,257	6,650	59,252	4,764,439	1.26%
2016	32,175	21,376	10,546	62,099	4,826,538	1.30%
2017	31,290	33,923	16,058	80,810	4,907,348	1.67%
2018	29,417	27,604	24,004	81,025	4,988,373	1.65%
2019	29,692	33,694	23,269	86,655	5,074,742	1.73%
2020	28,869	32,105	24,021	84,995	5,156,741	1.62%
10yr Average	**33,160**	**32,974**	**13,231**	**77,674**		**1.63%**
5yr Average	**30,289**	**29,740**	**19,580**	**79,117**		**1.60%**
3yr Average	**29,326**	**31,134**	**23,765**	**84,225**		**1.67%**

Source: ABS, 3101.0 Australian Demographic Statistics, Table 2. Population Change, Components – States and Territories

Natural increase is at a ten year low highlighting the importance of migration to Queensland's population growth. Net Overseas Migration is the the largest contributor to Queensland's population growth (as shown in Figure 2.2.1) maintaing a volume around its ten year average.

The attraction of Queensland as a place to live for people from other parts of Australia is continuing with average Net Interstate Migration over the past three years (23,765) representing a dramatic recovery in comparison to the ten year average (13,231), and particularly in comparison to the extremely low levels in 2011 (6,285), 2014 (6,347), and 2015 (6,650).

Figure 2.2.1 QLD Population Growth Components 2015-20



Source: ABS, 3101.0 Australian Demographic Statistics, Table 2. Population Change, Components – States and Territories

The slowing of the population growth rate across Queensland over the 12 months to March 2020 is consistent with the slow down in economic growth over this same period. This is likely to continue through 2020 following the negative growth in the economy over the last two quarters of 2019-20. We would expect this to be reflected in slower employment growth and a reduction in demand for dwellings.

2.2.2 Employment Growth

The employment impact resulting from the measures implemented to control the Covid-19 pandemic became apparent in South East Queensland (SEQ) from March 2020 when the number of total employed persons fell from 1,877,600 in February to 1,868,500 the following month. The employment level continued to fall in the following two months first to 1,761,500 in April then 1,741,000 in May. From February to May SEQ saw 136,600 persons lose employment. June has seen a slight turnaround with employed persons rising to 1,758,825.

Over the 12 month period to June 2020 SEQ has experienced a loss in total employed persons of (-) 5.39%. This is far higher than any other comparable time period over the past ten years with 2012 the next lowest at 0.26% growth.

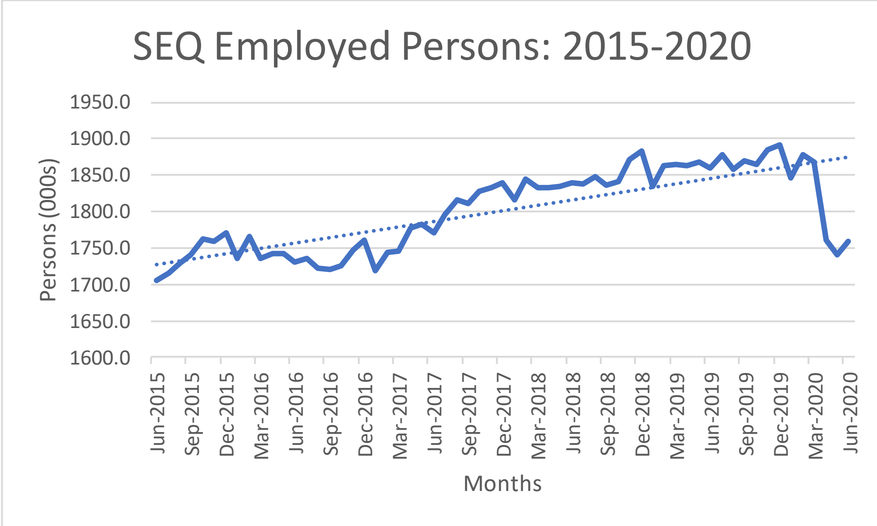
Table 2.2.2 SEQ Total Employed Persons 2010-20

Year	Employed Persons No.	Employed Persons % Growth
2010	1,602,975	
2011	1,614,302	0.71%
2012	1,618,576	0.26%
2013	1,635,843	1.07%
2014	1,679,664	2.68%
2015	1,705,054	1.51%
2016	1,730,397	1.49%
2017	1,771,328	2.37%
2018	1,838,691	3.80%
2019	1,858,934	1.10%
2020	1,758,825	-5.39%
10 Yr Growth		**0.93%**
5 Yr Growth		**0.62%**
3 Yr Growth		**-0.24%**

Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed, Table 16, June 2020
Note: Includes Toowoomba LGA

The upward trend in employment growth that SEQ had experienced to mid 2019 has been drastically altered by the loss of employment resulting from the measures put in place in response to Covid-19 (Figure 2.2.2). The previous three year average to June 2019 of 2.42% compares to the three year average to May 2020 of -0.24%. Such is the scale of the economic downturn that SEQ and Australia and the world in general is currently experiencing.

Figure 2.2.2 SEQ Employment 2015-20



Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed, Table 16, June 2020

Employment provides confidence for people to purchase dwellings. The decline in employment is expected to directly lead to a weakening in demand for new dwellings.

2.2.3 Wage Price Growth

Over the 12 months to June 2020 Wage Price growth slowed significantly in Queensland and Australia. In Queensland this reflects a slowing of over 0.5% from 2.26% to 1.75% whilst Australia overall has seen an event stronger slow down from 2.41% to 1.75% (0.66%). This provides a slight buffer for Queensland retailers, whilst also benefiting consumers. This has reversed a trend of modest growth over the previous four years in Queensland (Figure 2.2.3).

Table 2.2.3 QLD & Australia Wage Price Index 2010-20

	QLD		Australia	
Year	**Index**	**% Change**	**Index**	**% Change**
2009	101.1		101.1	
2010	104.4	3.26%	104.2	3.07%
2011	108.4	3.83%	108.2	3.84%
2012	112.5	3.78%	112.2	3.70%
2013	115.6	2.76%	115.5	2.94%
2014	118.6	2.60%	118.5	2.60%
2015	121.1	2.11%	121.2	2.28%
2016	123.4	1.90%	123.7	2.06%
2017	125.8	1.94%	126.1	1.94%
2018	128.6	2.23%	128.7	2.06%
2019	131.5	2.26%	131.8	2.41%
2020	133.8	1.75%	134.1	1.75%
10 Yr Change		**2.51%**		**2.55%**
5 Yr Change		**2.01%**		**2.04%**
3 Yr Change		**2.08%**		**2.07%**

Source: ABS 6345.0 Wage Price Index, Australia, Table 2b, June 2020

It appears that neither the Reserve Banks efforts to stimulate wage growth through reduced interest rates or the Federal Government's spending on infrastructure have been able to overcome the negative impact on wages being generated from the response to Covid-19.

The Federal Government introduced employment supporting mechanisms in JobKeeper and extensions to JobSeeker in March 2020. These are intended to reduce the negative impact on wages being created as a result of Covid-19. They appear to have played a role in supporting house price growth and housing finance as illustrated in following sections of this report. It is noted that these wage supporting measures have been extended into 2021 though at reduced rates to the initial stimulus levels.

Figure 2.2.3 QLD Wage Price Growth 2010-20

Source: ABS 6345.0 Wage Price Index, Australia, Table 2b, June 2020

Low wage growth places a constraint on dwelling demand and gives banks cause to tighten lending conditions. Looking forward it is likely that these factors will place downward pressure on demand for dwellings and land purchases.

3 Effective Factors – Dwelling Activity

Effective demand describes the market specific aspects of dwelling demand including the "number, size, type, and location of dwellings that owner-occupiers and investors are willing and able to buy in the housing market" (National Housing Supply Council, Australian Government, 2008). The National Housing Supply Council research into Effective demand factors identified that a balance of lag and lead indicators provides the most effective and beneficial insights into dwelling demand for a region.

3.1 Lag Factors

Factors that lag the market essentially inform the industry on what has occurred. This is important in recording the history of what has happened in the residential sector including trends and provides insights into what may happen in the future. The most insightful lag factors in relation to dwelling demand have been identified as Residential Building Approvals, and House Price movements (Innovociti, 2019, SEQ Market Factors 2019).

3.1.1 Building Approvals

South East Queensland experienced a continuation of the downward trend in residential building approvals in the 12 months to June 2020. Over this period there were 25,445 residential building approvals (Houses, Middle Rise, and High Rise Dwellings) which compares to the peak of 45,126 dwelling approvals in 2015/16. The 2019/20 rate is well below the long, medium, and short term averages and around 20,000 dwellings below the 2015/16 peak. The downward trend of dwelling approvals has been a result of an oversupply built up over 2014/15 and 2015/16 and slowing economic growth over the past two years. The continuation of this downward trend is now almost certainly a result of the impact of Covid-19 and the associated constraints on the national and regional economy.

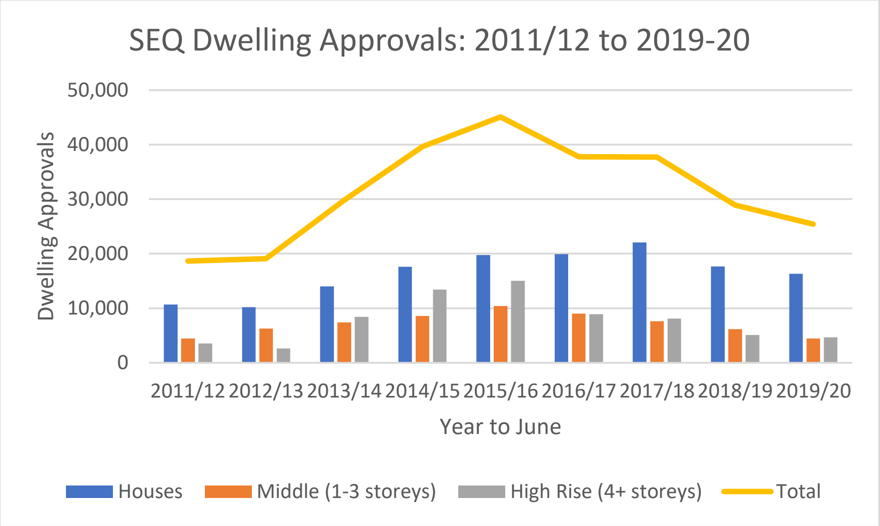
Table 3.1.1 SEQ Residential Building Approvals 2012-20

	Year (to June)									Averages		
Dwelling Type	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**9 Years**	**5 years**	**3 Years**
Houses	10,688	10,187	13,988	17,634	19,733	19,913	22,062	17,682	16,323	16,468	19,143	18,689
Middle (1-3 storeys)	4,437	6,279	7,397	8,603	10,385	9,011	7,594	6,151	4,449	7,145	7,518	6,065
High Rise (4+ storeys)	3,542	2,634	8,439	13,429	15,008	8,890	8,073	5,110	4,673	7,755	8,351	5,952
Total	**18,667**	**19,100**	**29,824**	**39,666**	**45,126**	**37,814**	**37,729**	**28,943**	**25,445**	**31,368**	**35,011**	**30,706**

Source: Department of State Development, Infrastructure, Local Government and Planning, December 2020

All forms of dwelling approvals have continued to decline over the past 12 months, Medium Rise approvals (-27.7%) have declined more significantly than both Houses (-7.7%), and High Rise (-8.6%) approvals. Notably Middle Rise dwellings have reached an eight year low of 4,449, some 27% lower than the short term average, and 41% lower than the five year average.

Figure 3.1.1 SEQ Residential Building Approvals 2012-20



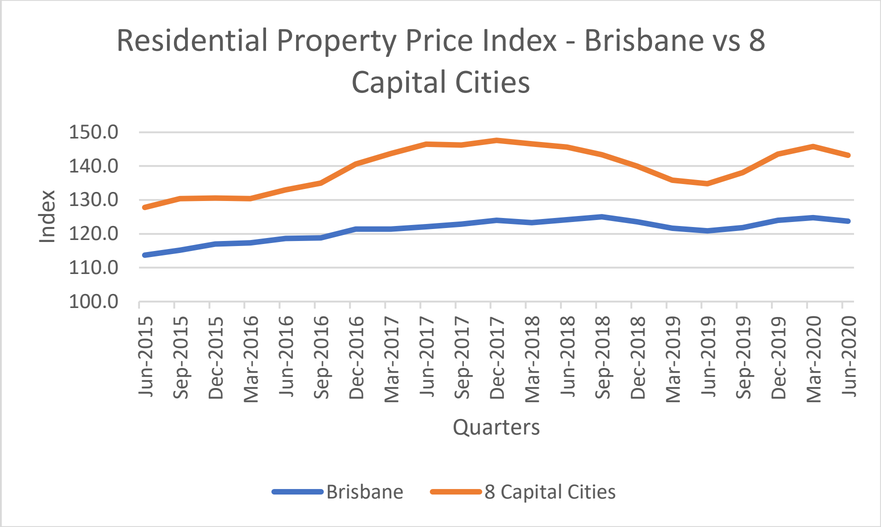
Source: Department of State Development, Infrastructure, Local Government and Planning, December 2020

The latest fall in residential building approvals is consistent with slowing population growth at the state and regional level and a decline in employment at the SEQ region level. A year ago the market appeared to be gathering strength and taking up the level of dwelling oversupply. This has now changed as a result of the impact of Covid-19 and most measures are now heading down, though house prices appear to be on a different trajectory, at least temporarily.

3.1.2 House Prices

Dwelling prices in the Brisbane Capital City area grew by 2.32% over the 12 months to June 2020, recovering from the -2.66% decline the year prior. This was a more modest recovery than the 8 Capital Cities index which showed growth of 6.23% for the 12 months to June 2020, recovering most of the previous years fall of -7.42%. This continues a pattern where Brisbane's residential prices have shown far greater stability over the past five years than the 8 Capital Cities which have seen quite significant fluctuations (Figure 3.1.2).

Figure 3.1.2 Brisbane vs Australian Capital Cities Residential Prices



Source: ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities, Sept 2020

Table 3.1.2 Brisbane House Price Index, 2015-20

Period (Qtrs)	Brisbane		8 Capital Cities	
	Index	Growth p.a	Index	Growth p.a
Jun-2015	113.7		127.8	
Sep-2015	115.2		130.4	
Dec-2015	117.0		130.6	
Mar-2016	117.3		130.4	
Jun-2016	118.6	4.31%	133.0	4.07%
Sep-2016	118.8		135.0	
Dec-2016	121.4		140.6	
Mar-2017	121.4		143.7	
Jun-2017	122.1	2.95%	146.5	10.15%
Sep-2017	122.9		146.2	
Dec-2017	124.0		147.6	
Mar-2018	123.3		146.6	
Jun-2018	124.2	1.72%	145.6	-0.61%
Sep-2018	125.0		143.4	
Dec-2018	123.6		140.0	
Mar-2019	121.7		135.8	
Jun-2019	120.9	-2.66%	134.8	-7.42%
Sep-2019	121.8		138.1	
Dec-2019	124.0		143.5	
Mar-2020	124.8		145.8	
Jun-2020	123.7	2.32%	143.2	6.23%

Source: ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities, Sept 2020

This initial recovery in dwelling price growth in the Brisbane Capital City area is likely to represent a rebound from the previous year's decline.

However, from March the negative impact of Covid-19 on residential prices has started to flow through. Comparing the June index to March indicates that there has been a decline in residential prices over the June quarter of -0.88% for Brisbane, and -1.78% for the 8 Capital Cities.

3.2 Current and Lead Factors

Factors that provide insights on the current market or the future market are highly valued but less accurate than lag factors. Housing Finance provides a relatively contemporary view of dwelling demand as it reflects the funding requirements for dwelling purchases and is available up to May of this year. This is similarly the case with Lot Registrations which occur towards the end of the land production process. Property sentiment surveys of industry operators provide an insight into a collective view of how the industry sees the near future and provide a perspective of what dwelling demand might be like in the next 12 months.

3.2.1 Housing Finance

Dwelling finance for Owner Occupier loans and Investor loans in Queensland rose by around 3% over the 12 months to June 2020 to $37.16 billion up from $36.10 in the previous 12 months. This reflected a bounce back in June 2020 after a major fall in April and a steadying in May (Figure 3.2.1). Notably though this is well below the long and short term average levels.

The current turnaround in dwelling finance in Queensland reflects the dwelling finance trend for Australia overall which saw a 4.6% increase in the year to June 2020 rising to $222.22 billion, above the 10 year average and up from the previous year's $212.43 billion.

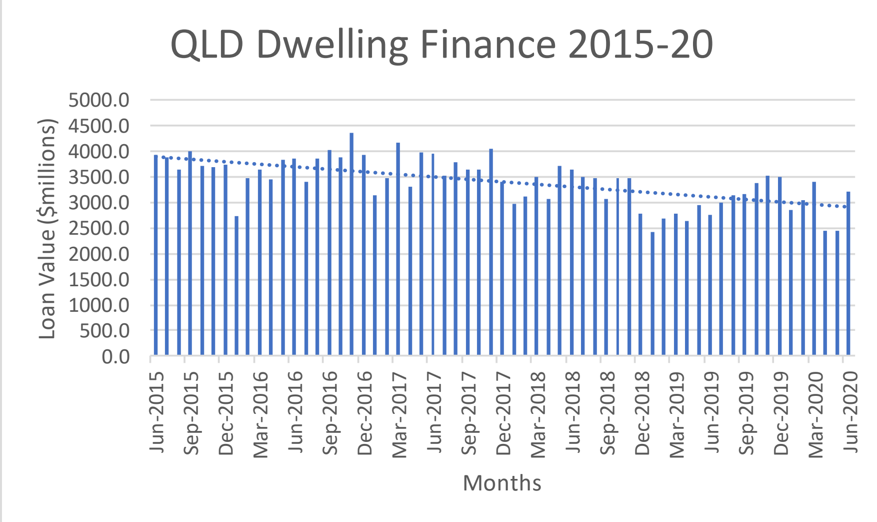
Table 3.2.1 QLD and Australia Dwelling Finance 2010-20

Year (to June)	Dwelling Finance	
	QLD ($m)	Australia ($m)
2010	$42,142.4	$197,302.1
2011	$31,918.0	$174,261.9
2012	$33,690.4	$172,846.7
2013	$35,982.4	$190,516.2
2014	$41,629.3	$226,695.4
2015	$44,072.6	$246,583.2
2016	$43,715.3	$243,303.2
2017	$45,562.3	$261,026.9
2018	$42,095.1	$256,646.2
2019	$36,096.1	$212,426.4
2020	$37,161.3	$222,215.4
10 Yr Av.	$39,192.3	$220,652.2
5 Yr Av.	$40,926.0	$239,123.6
3 Yr Av.	$38,450.8	$230,429.3

Source: ABS 5601.0 Lending Indicators Australia, Sept 2020

This stabilization of dwelling finance tends to reflect a more conservative approach to home loan borrowing in Queensland compared to Australia overall. This has some parallels with the more constrained growth in dwelling prices that Queensland, and in particular South East Queensland, has been experiencing in recent years. The upside of this is that it may provide some cushioning to the economic impacts coming to borrowers in the near and medium term.

Figure 3.2.1 QLD Dwelling Finance



Source: ABS 5601.0 Lending Indicators Australia, Sept 2020

3.2.2 Lot Registrations

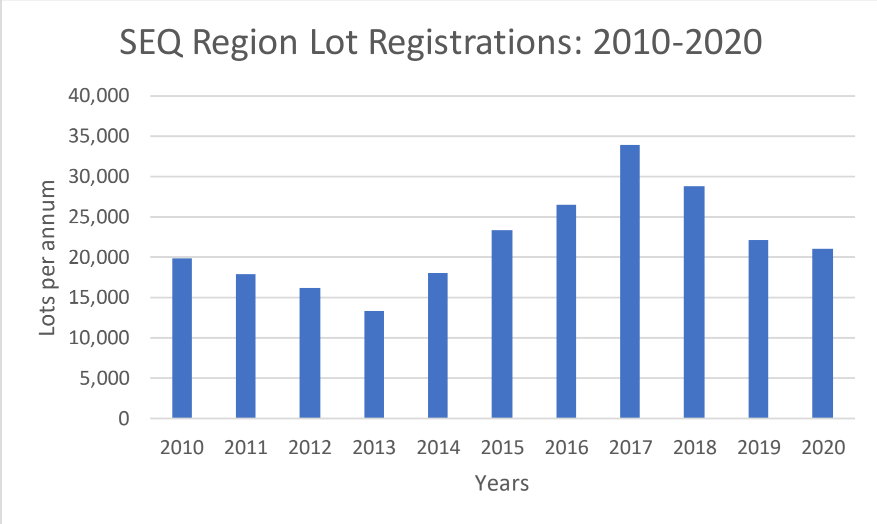
Lot Registrations for the SEQ region for the 12 months to June 2020 have dropped 5.1% from the previous year and below the short, medium, and long term averages. This continues the slow down from the peak in 2017 (Figure 3.2.2a), which started as a response to an oversupply but has now been extended as a result of the impacts from Covid-19.

Table 3.2.2 South East Queensland Lot Registrations 2010-20

Year (to June)	SEQ Lots
2010	19,769
2011	17751
2012	16,208
2013	13,219
2014	17,913
2015	23,278
2016	26,410
2017	33,825
2018	28,695
2019	22,128
2020	20,995
10 yr Average	22,042
5 Yr Average	26,411
3 Yr Average	23,939

Source: QLD Treasury, August 2020

Figure 3.2.2a South East Queensland Lot Registrations 2010-20

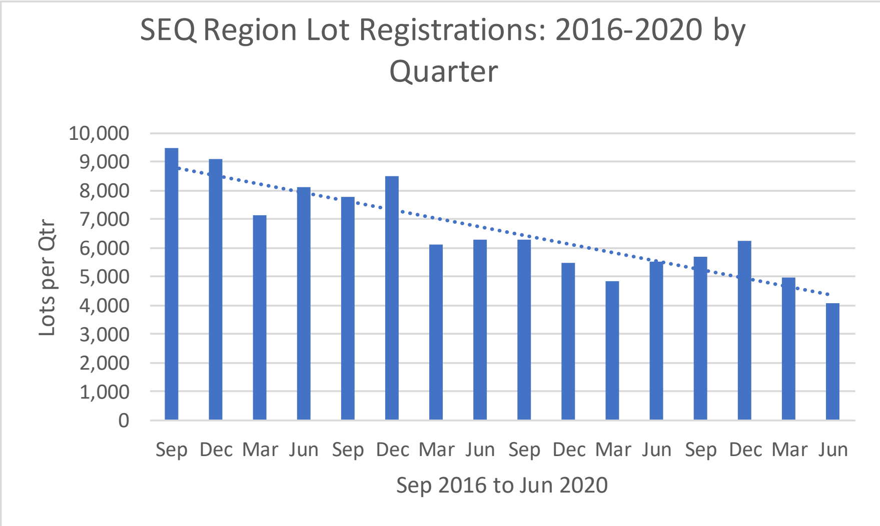


Source: QLD Treasury, August 2020

The slow down in lot registrations appears to have become particularly significant over the last quarter (June Qtr 2020) which is down 26% from the same quarter in 2019. The previous March quarter had actually been up 3% on the March quarter in 2019.

Whilst the residential lot development market had appeared to be recovering from a three low in March Qtr 2019, it began to turn down in the March quarter of this year and has taken a further hit in the June quarter. This is most likely to be directly a result of the impact of the Covid-19 virus and associated measures.

Figure 3.2.2b SEQ Registrations 2016-20 by Quarter



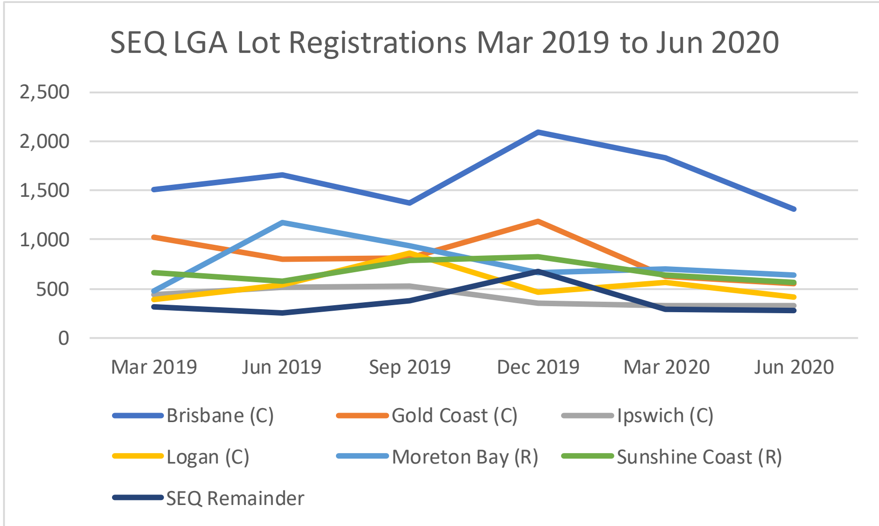
Source: QLD Treasury, August 2020

Two additional measures in relation to Lot Registrations have been introduced in this edition of the SEQ Market Factors report to provide a finer grain of analysis and insight:

- Lot Registrations by SEQ LGA
- Lot Registrations by lot type – Standard, and Attached.

At the LGA level the majority of SEQ LGAs have been experiencing a slow down in Lot Registrations since December 2019 including Brisbane, Gold Coast, Sunshine Coast, Ipswich and the smaller LGAs. However, Logan and Moreton Bay actually experienced a bounce around this time but have since flattened or fallen. The declines for Brisbane and the Gold Coast LGAs have been particularly significant with the Gold Coast down 54% and Brisbane down 37% over the six months since December 2019.

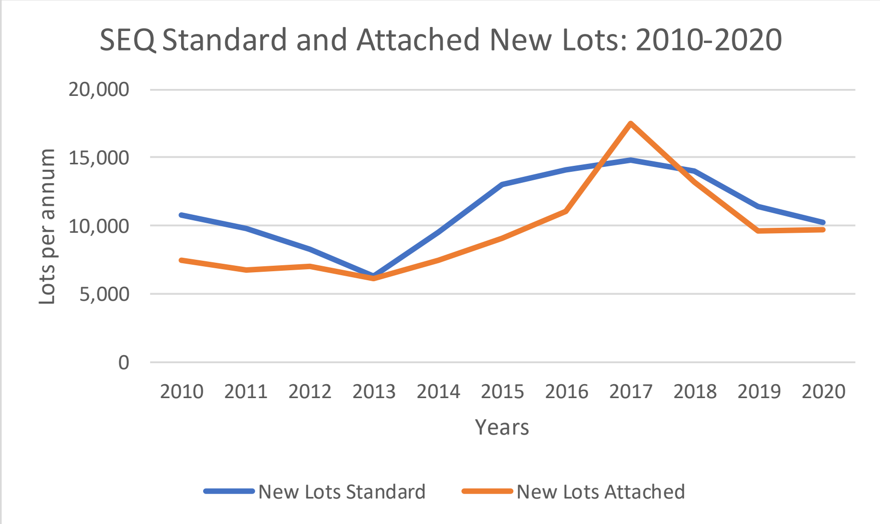
Figure 3.2.2c SEQ LGA Lot Registrations 2019-20



Source: QLD Treasury, August 2020

An examination of Lot Registrations by type indicates that the slow down over the past 12 months has been principally due to the reduction in Standard lots, as Attached lots have achieved a level of stability. This partly reflects the significant reduction in Attached lot registrations since 2016/17 and the market response to this.

Figure 3.2.2d SEQ Lot Registrations by Lot Type 2010-20



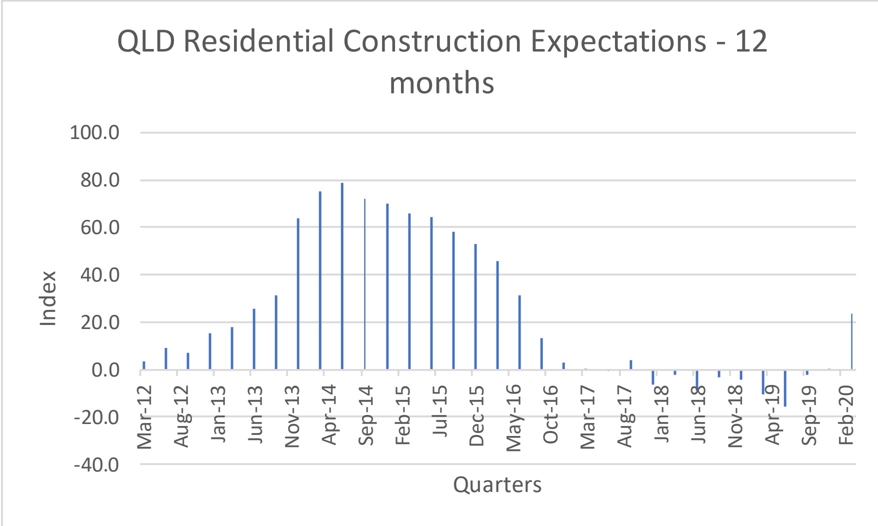
Source: QLD Treasury, July 2020

3.3.3 Residential Construction Sentiment

In the inaugural SEQ Market Factors report the Residential Construction Expectations index from the ANZ PCA property industry survey was identified as the most relevant market sentiment measure to provide insight into the likely future direction of residential development. This factor reports on expectations for residential construction in Queensland over the following 12 months from March of this year.

The latest results show a recovery in confidence for the Queensland residential construction sector to March of this year. The score of 23.5 indicates that at that point 23.5% of the residential construction sector expect the levels of construction to be higher over the next 12 months than they have been over the last 12 months. This the highest rise since the June 2016 quarter which recorded a score of 31. This level of optimism does not appear to be consistent with the majority of measures in this report, particularly the decline in building approvals. However as noted previously there was an increase in the December 2019 and March 2020 lot registrations to the corresponding periods a year earlier that may be driving the more optimistic residential construction sentiment.

Figure 3.3.3 QLD Residential Construction Sentiment



Source: ANZ PCA June 2020

The Queensland residential construction sentiment information is drawn from the ANZ PCA property industry survey Annual Review which incorporates information to March of this year. The ANZ PCA conduct quarterly surveys that report at broader sector levels and geographies. Information from the July survey which provides expectations for the next quarter (September) were released in early July of this year. These results indicated a downward turn in confidence in the Queensland property industry at that time as a result of the increased impacts of Covid-19 flowing through the economy. Confidence in the overall Queensland property industry fell from a level of 119 in March 2020 to 58 in June (with 100 being neutral). The Property Council of Australia noted this was the largest drop in confidence since the survey began in 2011 (ANZ PCA Survey, July 2020). The September results have seen a rebound in confidence to a level of 78. It is expected that this will be reflected in sentiment for the residential sector when the next results are available.

4 Covid Impacts

The Covid-19 pandemic has required state and national governments to introduce virus transmitting restrictions that are resulting in the largest economic contraction since the Great Depression of the 1930s. This will affect every industry, some significantly so, some less so. The residential development sector in South East Queensland is likely to be substantially impacted by the economic flow on affects from Covid-19. As a result this section has been added to the SEQ Market Factors report for 2020 to provide some context to what these impacts might mean for residential development in SEQ.

Frankly these are uncharted waters. There is no directly comparable event to foresee the depth and length of the economic impacts encompassing the national, state, and regional economies. The best that can be done is to draw on analysis and insights from those with the most up to date information and knowledge. This section of the report draws on such sources including the Federal Government's July Economic and Fiscal Statement; Reserve Bank of Australia communications; the special ANZ PCA Survey questions on expected impacts of Covid-19; research work undertaken by Griffith University and UACS Consulting; and a range of other economic reports and data.

This analysis looks specifically at the factors where data is available and forecasts have been made. This is principally at the national level, however where possible comparisons or inferences are made to Queensland or South East Queensland. The areas of examination include The Economy; Population Growth; and Dwelling activity. Consideration is also given to scenarios around economic recovery and the implications of a second wave of the virus.

4.1 The Economy

The Global and Australian economies are forecast to contract in 2020 4.75% and 3.75% respectively. In Australia the economy has been contracting quickly with real GDP estimated to have fallen by 7% in the June quarter following the 0.3% fall in the March quarter. Recovery is anticipated in the September quarter with a forecast 1.5% growth in real GDP. However real GDP is forecast to still be negative for the financial year 2020-21 at -2.5%. The second half of 2021 is expected to see the Australian economy return to positive annual growth levels depending on assumptions around the easing of restrictions (Australian Government, Economic & Fiscal Update, July 2020).

Employment is forecast to take some time to recover with the unemployment rate forecast to peak at 9.25% in the December quarter of this year. It is also expected that the recovery in overall employment levels will lag a recovery in hours of employment as employers first increase hours for existing staff prior to hiring new staff.

4.2 Population

Australia's population growth is forecast to be low over the next two years as a result of reduced levels of net migration, and lower fertility levels (a result of weaker economic conditions). Growth is forecast to be 0.6% in 2020-21, the lowest rate since 1916-17 (Australian Govt., July, 2020).

The biggest contributor to the slow down in population growth is the forecast contraction in net overseas migration. This is expected to decline from 232,000 persons in 2018-19 to 154,000 in 2019-20, and to 31,000 people in 2020-21. This is a direct result of the Federal Government implementing international travel bans in March 2020 with restrictions expected to be lifted from Jan 2021 but with a requirement for a two week quarantine period.

4.3 Dwelling Activity

Based purely on the forecast drop in population growth from 232,000 persons in 2018-19 to 154,000 people in 2019-20 and 31,000 people in 2020-21 this would lead to a drop in dwelling demand of 30,600 dwellings in 2019-20, and an additional drop of 48,200 dwellings in 2020-21 (Average Australian Household Size of 2.55 – ABS Census, 2016).

Over the past 12 months Queensland accounted for 17.1% of new dwelling approvals across Australia. All things being equal Queensland could see a fall in dwelling demand in the order of 5,200 in 2019-20 and an additional fall of 8,250 dwellings in 2020-21. This would represent a fall in demand of around 13,450 dwellings in 2020-21 compared to the pre-Covid levels in 2018-19. This equates to around a 35%-40% drop in market demand.

Work undertaken by Griffith University and UACS Consulting modelling the Covid-19 impacts on the Queensland residential development market indicate similar impacts. This work forecasts a W shaped trend with housing development rates oscillating across the remainder of 2020 and through 2021 (Griffith University, 2020).

These dwelling estimates are consistent with dwelling investment forecasts as reflected in the Government's July Economic and Fiscal Statement. Dwelling investment across Australia is forecast to fall substantially in 2020-21, in the order of 16%. This includes an expected fall of 11% in the September quarter. The Federal Government's HomeBuilder program is expected to reduce the potential impact contributing in the order of $1.6 billion to residential building activity in 2020-21 (discussed in more detail below).

It is noted that there has been calls from a number of industry organisations for the Federal and State Governments to provide support to increase the volume of social housing. The logic of this strategy is that it addresses mooted social housing shortages as well as providing a stimulus to the economy.

4.4 Economic Recovery

The Federal Government has acted relatively swiftly and generously with a series of fiscal measures to support the economy in response to the impacts from Covid-19. Government estimates indicate its fiscal support has increased the level of real GDP by 0.75% in 2019-20 and will increase it by approximately 4.25% in 2020-21 relative to a case with no support. These measures are also estimated to have prevented the loss of around 700,000 jobs (Australian Govt., July, 2020).

Property industry sentiment appears to be with a relatively quick turnaround with 60% of ANZ PCA survey respondents in Queensland and Australia expecting conditions to improve in the coming quarter (September 2020). It should be noted that these results were from a survey that closed on 1st July 2020 which was prior to the resurgence of the virus in Melbourne.

With respect to the sentiment for the national Residential sector, confidence is increasing for forward work schedules, staffing levels, and construction activity, though the outlook for house prices remains poor (ANZ, July 2020).

The Mining sector has the potential to soften Australia's economic downturn with mining investment forecast to grow by 4% in 2019-20 for the first time in seven years, and by 9.5% in 2020-21. This will be primarily driven by investment in large iron ore projects (Australian Govt., July, 2020).

In terms of recovery tools, the Reserve Bank of Australia has limited ability to stimulate the economy with interest rates at historically low levels. Since the pandemic took hold the RBA has reduced rates by 50 basis points. In comparison, during an 8 month period of the Global Financial Crisis the RBA reduced rates by 425 basis points (Australian Govt., July 2020). The RBA has stated that its actions are aimed at keeping funding costs low and supporting the supply of credit to households and businesses. It also stated that "The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band" (Philip Lowe, RBA, July 2020).

The Federal Government's HomeBuilder program appears to be garnering industry support and having an impact on home sale levels. The Housing Industry Association (HIA) reported that new home sales rose 78% in June driven primarily by HomeBuilder. Whilst the latest ANZ PCA survey indicates that around 60% of firms operating in the residential sector reported that HomeBuilder will have a positive impact on their business (ANZ, July 2020).

At the state level the Queensland Government has committed in the order of $6 billion in initiatives to manage the response and also to support Queensland businesses, families, and workers. Key initiatives introduced include:

- $1B Jobs Supports Loans - A $1 billion concessional Jobs Support Loan facility, interest free for the first 12 months, to support businesses and Queensland workers
- $950M payroll tax relief - Up to $950 million in payroll tax relief including refunds, payment holidays and deferrals for eligible businesses as well as a tax exemption for JobKeeper payments
- $400M support for retail and commercial tenants - delivered as land tax relief and payment referrals.

Local Government's have also introduced programs to support business and workers through the economic downturn in relation to rates and tax exemptions.

4.5 Second Wave Scenario

The rapid spread of Covid-19 through Melbourne during July of this year was a strong reminder of how quickly the virus can spread. If a second wave of the virus was to spread across Queensland with widespread outbreaks and high rates of community transmission, it is expected that severe health controls and lockdown conditions would be reintroduced. This would once again lead to a substantial contraction of the Queensland and South East Queensland economies.

4.6 Summary

Government and market sentiment appear to be for a relatively quick recovery from the current economic downturn. However, this recovery could be protracted depending on the extent of further outbreaks of Covid-19; the level of business insolvencies; and the impact of changes to the way people work, shop, and socialize.

The second wave of the virus that developed in Melbourne and Victoria highlighted how quickly the virus can spread and how strong measures need to be to contain it. Naturally Federal and State governments are dedicating substantial resources to restricting such resurgences. This however has costs both in expenditure incurred and expenditure deferred from other projects. Both of these factors will constrain the residential dwelling market.

Business solvency has the potential to be a significant factor in whether the economic downturn is short lived or more protracted. Federal Government data indicates that two-thirds of all businesses reported decreases in revenue to the end of June 2020 (Australian Govt., July, 2020). When businesses fail, people lose jobs and incomes. This has a significant flow on impact into consumer spending, particularly dwelling payments.

Finally the measures introduced to restrict the spread of Covid-19, particularly the social distancing measures have led to changes in how people work, shop, and socialize. There have been increases in the number of people working from home, the amount of online shopping people are doing, and a significant reduction in opportunities to socialize. It is feasible that some of the habits developed during these periods of social distancing will become long term. If so this is likely to have impacts on expenditure levels, and subsequently the turnover of businesses reliant on pre-Covid interaction methods.

5 Conclusion

Last year the South East Queensland residential development market looked to be heading for a six month period of stabilization followed by a resurgence in growth over the later part of the year. Clearly this has not occurred due to the spread of the Covid-19 virus across Australia and the introduction of measures to contain the virus.

An examination of the ten core factors that provide insight into dwelling demand for South East Queensland indicate that at this point the market has slowed significantly and is likely to continue to do so. The underlying factors all indicate economic headwinds including negative GSP, slowing population growth and wage price growth, and a rapid decline in employment growth. Interest rates have fallen further to provide the greatest opportunity to stimulate investment.

Table 5.0 Summary of SEQ Market Factors, 2020

Factor		Measure		Change
		2020	2019	
Underlying	Gross State Product	-1.07%	3.08%	Negative
	Interest Rates	0.25%	1%	Down
	Population Growth	1.62%	1.76%	Slowing
	Employment Growth	-5.39%	1.87%	Rapid Decline
	Wage Price Growth	1.75%	2.34%	Slowing
Effective	Building Approvals	25,445	28,943	Down
	House Prices	2.32%	-1.30%	Up
	Housing Finance	$37.2b	$37b	Stable
	Lot Registrations	20,995	22,845	Down
	Residential Construction Sentiment	23.5	-10.5	Strongly Up

Source: Innovociti, 2020; Various, 2020

There is some cause for optimism from the effective factors. Though building approvals and lot registrations are down, and housing finance is stable. House prices are up though they declined over the June quarter. In addition, property industry sentiment on residential construction activity in Queensland has turned positive, though it is expected that future data on these aspects will see a downturn.

The specific Covid-19 impact analysis indicates that there are two broad scenarios that Australia, Queensland, and South East Queensland could follow. The first is a relatively swift recovery, with economic activity improving from early 2021. If this is to happen, dwelling development activity is likely to follow shortly after the broader economy begins its recovery. Employment is likely to be an important barometer of this recovery with dwelling investment generally underpinned by stable employment.

The alternative scenario is a more protracted recovery. This would be driven by an ongoing presence of the Covid-19 virus, higher levels of business insolvencies, and suppressed levels of population growth. On balance this scenario seems more likely for Queensland, particularly given the state’s reliance on Net Overseas Migration to support population growth; and the importance of Queensland’s Tourism and Hospitality sector. Economic recovery could be supported by sectors that are less reliant on population growth, for example the mining sector which is currently showing signs of increased growth.

Appendix 1 - References

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