



MASTER BUILDERS
AUSTRALIA

VICTORIAN ECONOMIC REPORT

November 2019

SUMMARY

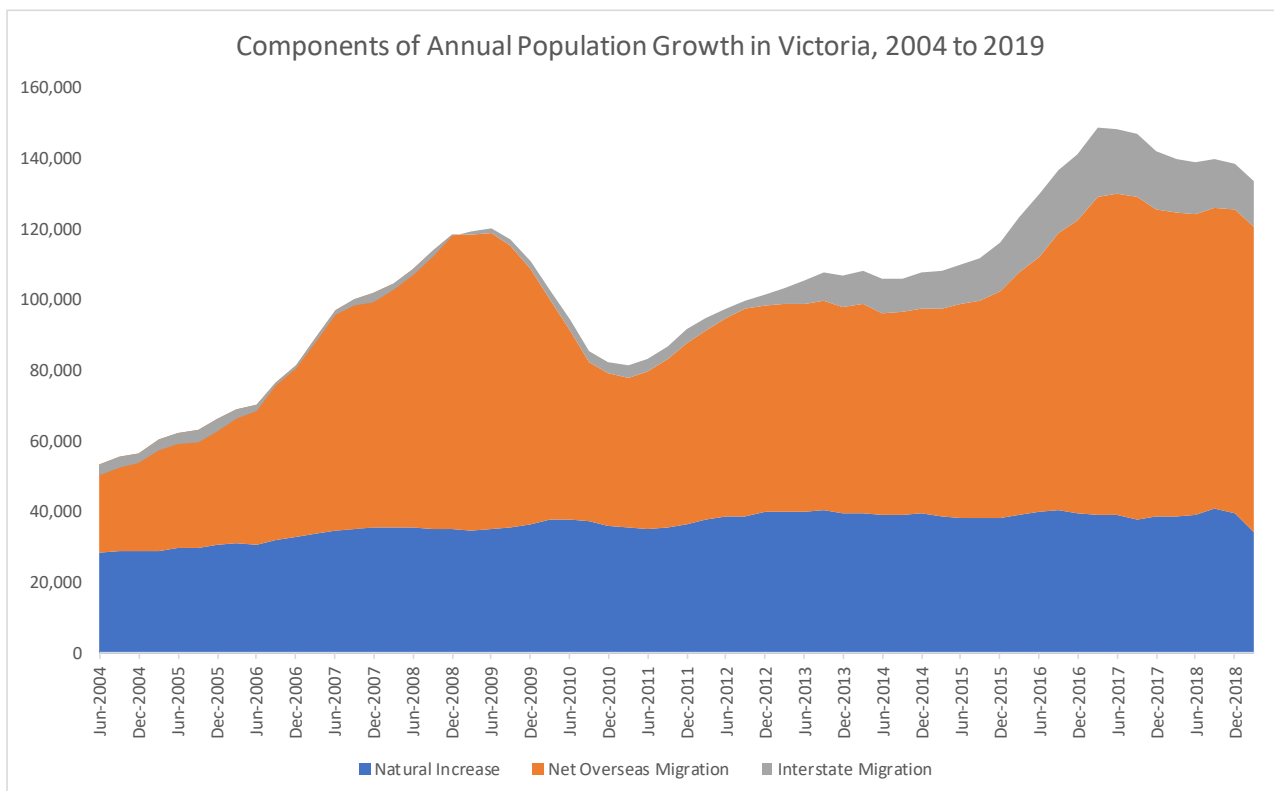
- Victoria's rate of population growth has slowed a little but is still Australia's fastest
- Job creation remains quite healthy with total employment up by 103,200 over the past year.
- The unemployment rate has edged up slightly over the past year and was 4.7% in September.
- Over the year to September 2019, the majority of new jobs created in Victoria were part time rather than full time, indicating a soft profile to the labour market.
- New home building activity in Victoria remains at an elevated level by historic standards although it is retreating from record highs.
- Over the year to September 2019, a total of 57,123 new dwellings received approval in Victoria. This compared with the all-time peak of 75,955 reached over the year to June 2018.
- The reduction in the volume of new building approvals has been much more marked on the high density side compared with detached houses where the fall off in new approvals has been more measured.
- Over the year to August 2019, the number of loans to households in Victoria for building a new home totalled 20,957. The same period saw 8,395 loans being granted for the purchase of newly-built dwellings.
- Both segments of lending have moved backwards over the last two years with the reduction in the volume of loans for the purchase of newly-built homes being more pronounced.
- Along with the volume of lending for new homes, activity in Victoria's established home loan market has also moved lower.
- During the month of August 2019, FHBs accounted for 32.6% of all owner occupier loans - the highest monthly share since July 2012.
- Improved state government incentives as well as the environment of declining prices contributed to an increase in the volume of FHB loans from a trough of 26,370 during 2016/17 to over 36,000 in 2017/18.
- Latest data indicate that the value of lending to investors totalled \$16.3 billion over the year to August 2019 - a reduction of some 34.7% since the peak.
- Over the year to March 2019, the volume of commercial building work done in Victoria reached \$13.2 billion which was the highest on record although there was a sizeable drop during the June 2019 quarter.
- Latest figures indicate that engineering construction work done totalled \$16.58 billion over the year to June 2019. This was 3.3% higher than a year earlier.

POPULATION

- At 2.1% over the year to March 2019, the rate of population growth in Victoria continues to be the fastest in Australia.
- However, the rate of growth has slowed a little since peaking at 2.5% in 2016.
- Over the year to March 2019, Victoria's population grew by 133,500 with net overseas migration being the main engine of growth.
- At the end of March 2019, Victoria's population was estimated at 6.57 million.
- Population growth is the single largest driver of demand for many types of building activity particularly new dwelling construction and projects in the health, education and infrastructure spaces.



- The chart below provides a clear illustration of how dominant net overseas migration is in terms of its contribution to population growth in Victoria.
- Over the year to March 2019, net overseas migration in Victoria totalled 86,700 which was slightly lower than the peak of 91,300 reached over the 12 months to September 2017.
- Natural increase is the second-largest component of population growth having added about 34,000 over the year to March. Net migration from interstate contributed 12,780 to the increase in population over the past year.
- The volume of net interstate migration to Victoria has dipped quite considerably over the past two years, probably the result of the slowdown in the local jobs market.
- In recent years, the rate of population growth in Victoria has been tied to growth in the labour market.



LABOUR MARKET CONDITIONS

- The unemployment rate in Victoria has edged up a little over the past 12 months. During September 2019, the rate of unemployment was 4.7% which compares with the 4.2% trough reached in December 2018.
- Despite the modest uptick in the state's unemployment rate, the rate of job creation in the local economy is still quite healthy. Over the year to September 2019, total employment in Victoria increased by 103,200 which still represents a healthy rate of job creation.
- The labour force participation rate in Victoria has increased from 65.6% to 66.3% over the past 12 months.
- Victoria's unemployment rate had peaked at 7.0% in October 2014.

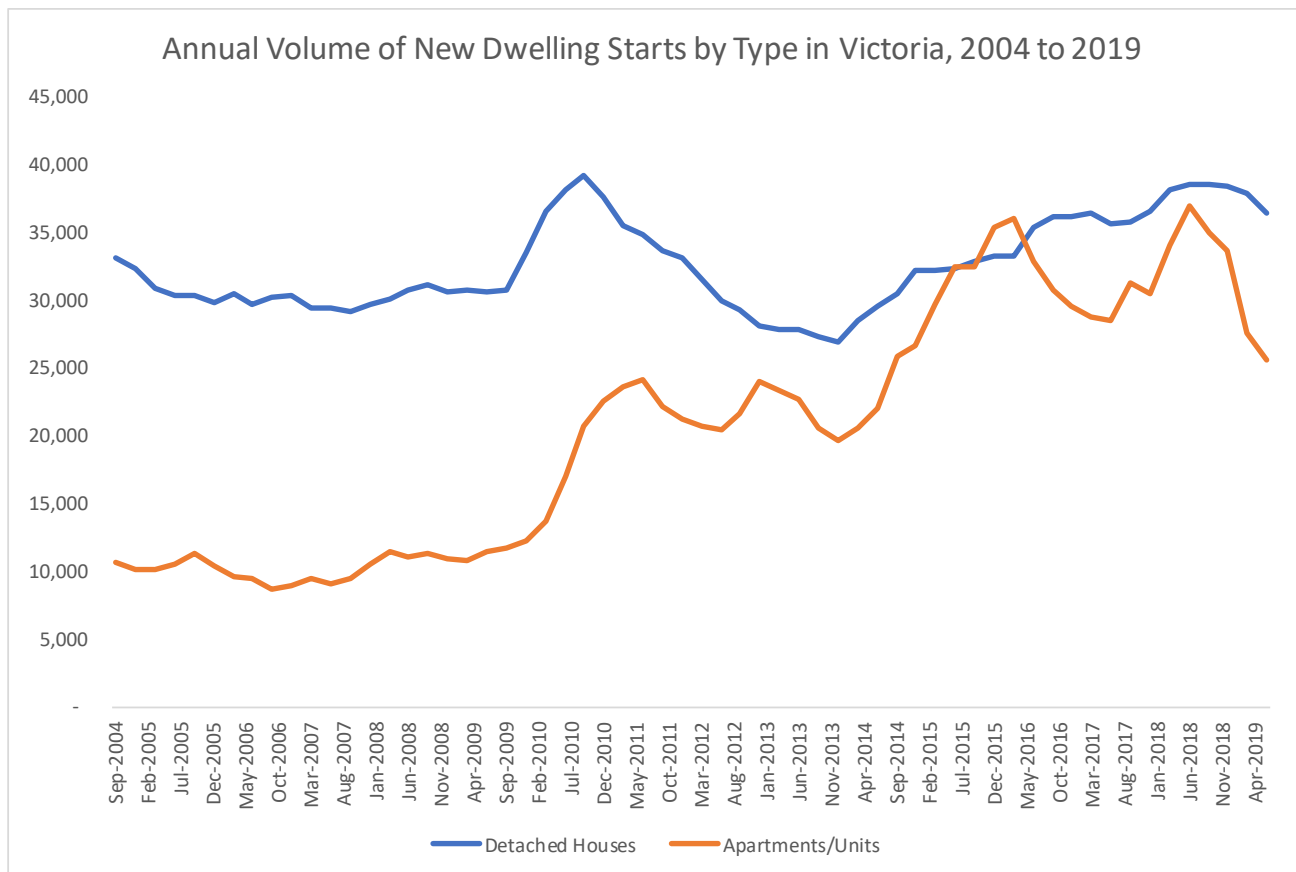


- The sustained reduction in Victoria’s unemployment rate over recent years is the result of the favourable confluence of factors on the local economy.
- The international economy has got back on its feet over recent years while the Australian dollar’s weaker exchange rate has enhanced the Victorian economy’s ability to compete on price and cost. This effect has benefitted inward investment as well as the ability of the state’s tourism, international education and traded services sectors to compete on a global basis.
- Of the net 103,200 jobs created in Victoria over the year to September, part-time jobs accounted for a clear majority of the total. This suggests that there is a softness to the profile of job creation in the state at the moment.
- As described above, the marked reduction in the net volume of interstate migration to Victoria may be linked to the softer labour market conditions.

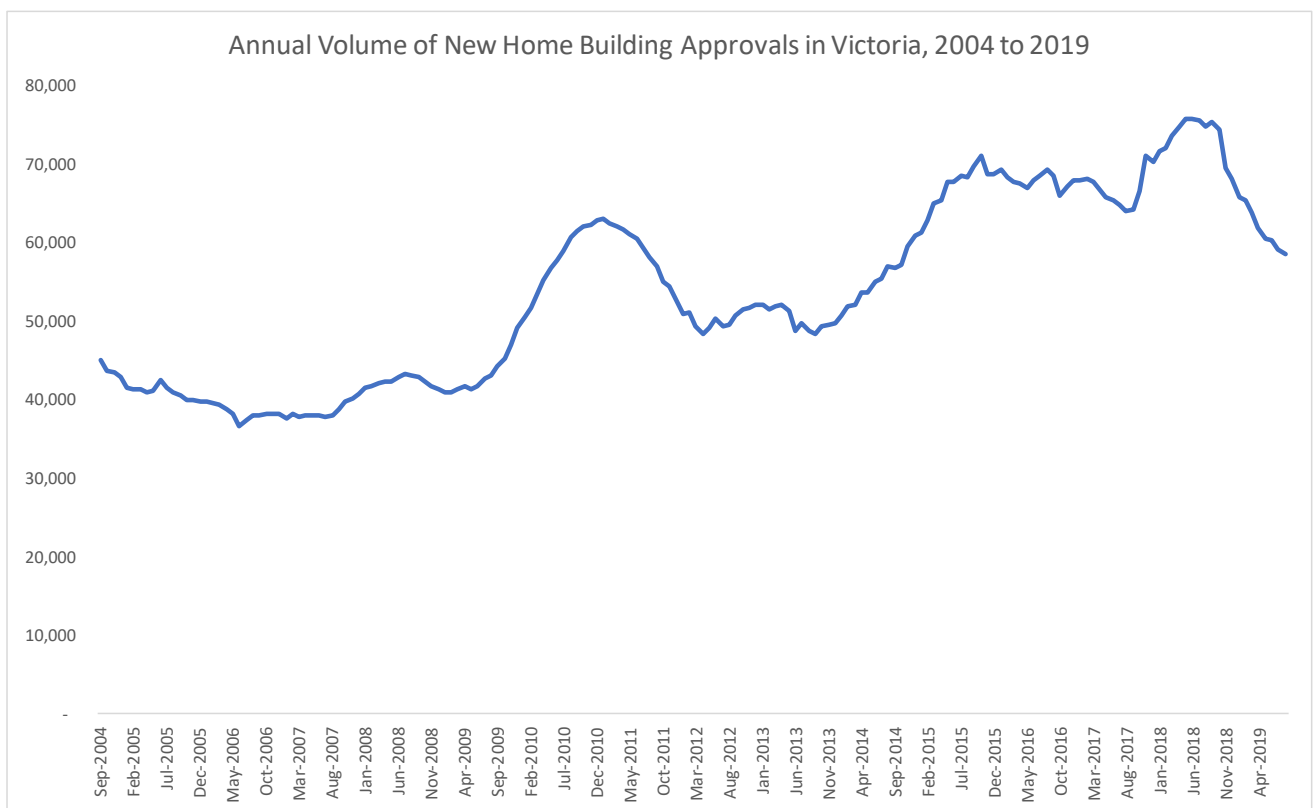


NEW HOME BUILDING ACTIVITY

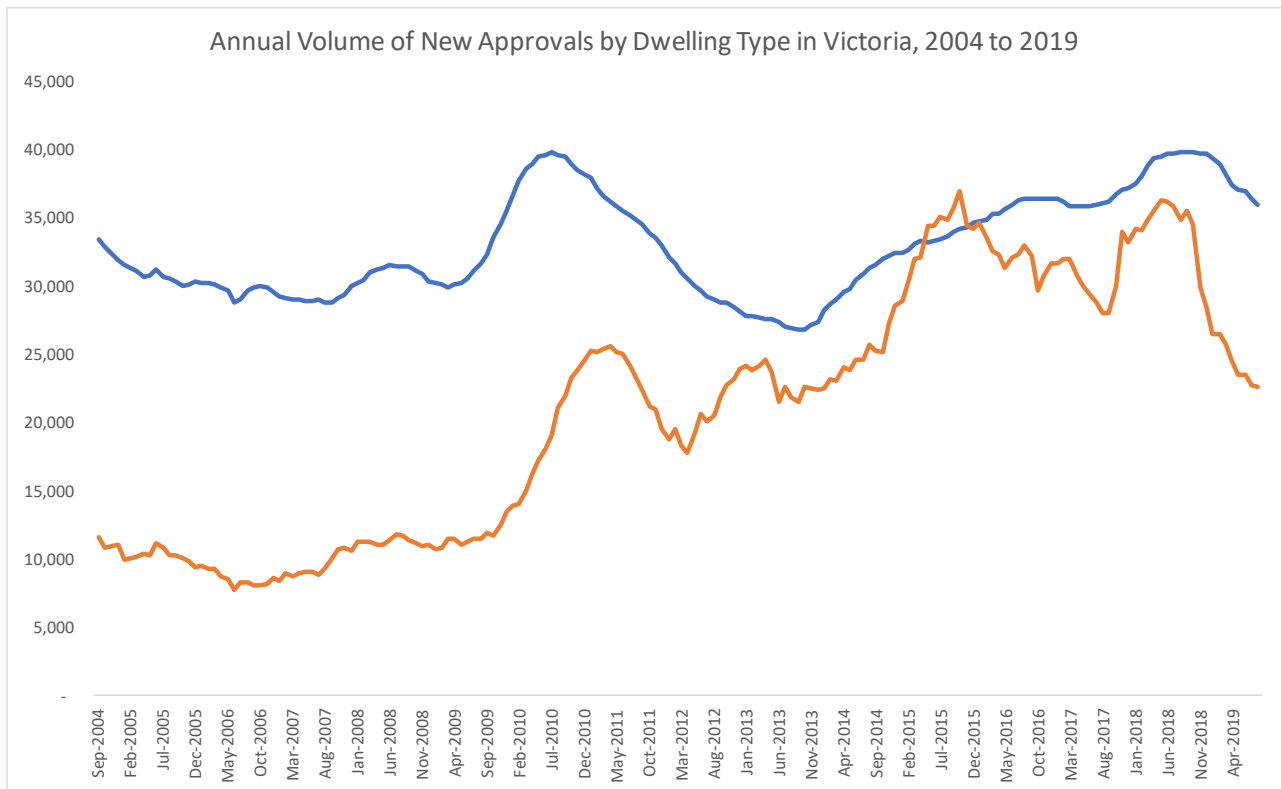
- New home building activity in Victoria remains at an elevated level by historic standards although it is retreating from record highs.
- The chart below summarises the performance of new home building activity in Victoria over the past 15 years.
- During the 2017/18 year, new dwelling starts in Victoria reached a record high of over 75,600. Over the year to June 2019, the total number of new starts was 62,127.
- Activity on the apartments/units side of the market has seen a much bigger reduction compared with detached house building which has held up reasonably well.
- Latest figures indicate that a total of 70,631 new homes were still under construction across Victoria at the end of June 2019 – with a further 4,740 awaiting commencement.



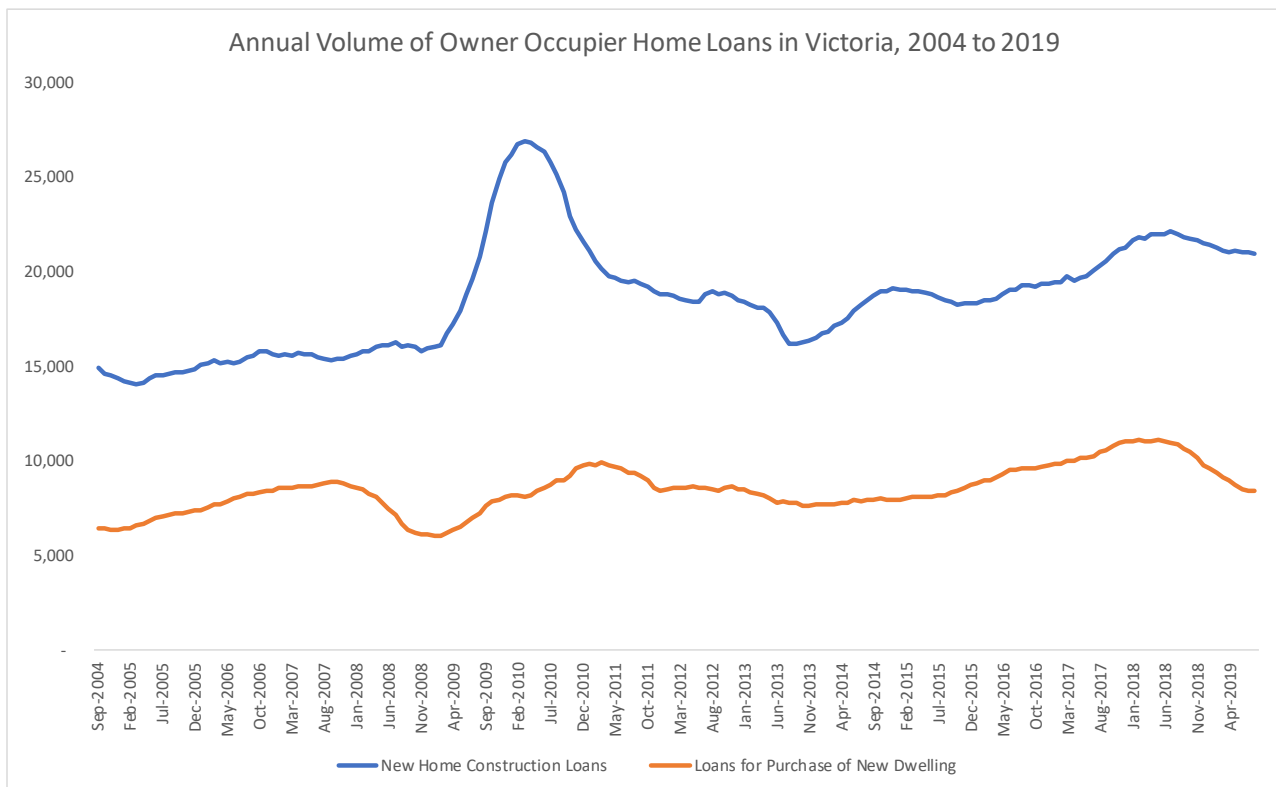
- The short term prospects for new home building in Victoria can be gauged by the pipeline of new approvals which is shown in the chart below.
- By this measure, we can see that the volume of upcoming work is still quite elevated by historic standards. However, it has moved firmly downwards in the last two years.
- Over the year to September 2019, a total of 57,123 new dwellings received approval in Victoria. This compared with the all-time peak of 75,955 reached over the year to June 2018.
- The continued fall in new building approvals means that the amount of new home building work taking place across in Victoria is set to continue moving lower, at least over the next six months or so.



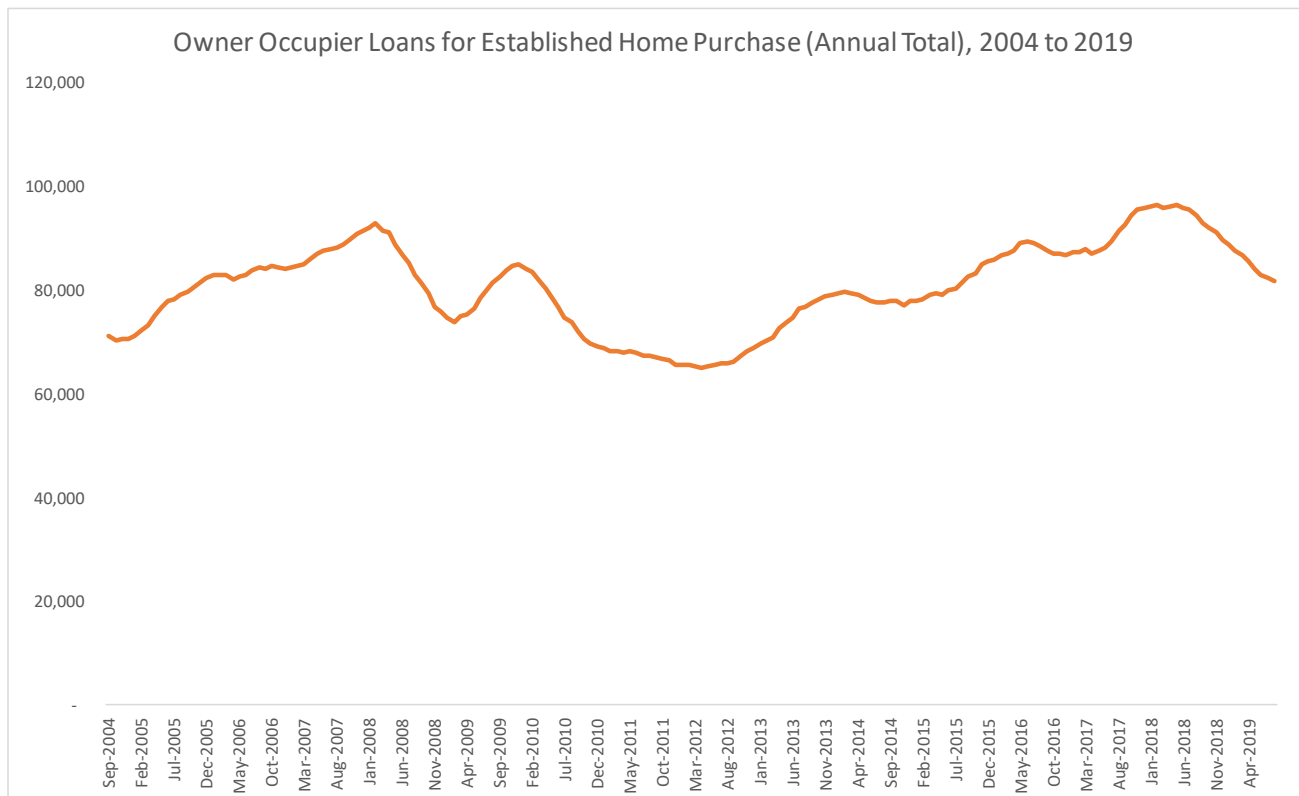
- The chart below breaks new home building approvals down between detached houses and apartments/units.
- The reduction in the volume of new building approvals has been much more marked on the high density side compared with detached houses where the fall off in new approvals has been more measured.
- Over the year to September 2019, the volume of new approvals for apartments/units totalled 21,344 which is considerably short of the 36,282 peak reached over the 12 months to May 2018.
- Detached house approvals have moved backwards in a more orderly fashion from 39,884 over the year to July 2018 to 35,779 over the most recent 12 months.
- This pattern reflects the typical cycle in which apartment building tends to be most sensitive to reversals in market conditions.



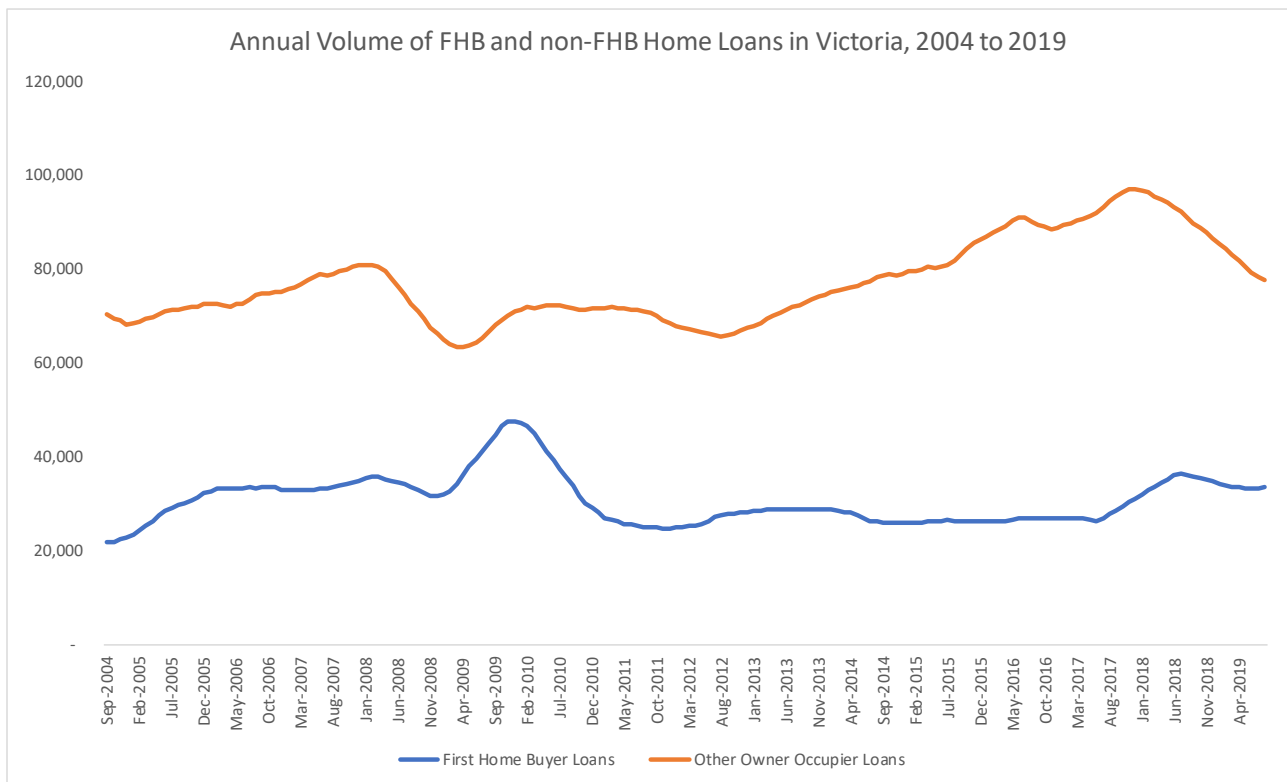
- The reverse in new home building activity in Victoria has been matched by smaller lending volumes in the local market for home loans.
- The chart below captures the performance of lending volumes related to new homes in Victoria over the past 15 years.
- Over the year to August 2019, the number of loans to households in Victoria for building a new home totalled 20,957. The same period saw 8,395 loans being granted for the purchase of newly-built dwellings.
- Both segments of lending have moved backwards over the last two years with the reduction in the volume of loans for the purchase of newly-built homes being more pronounced.
- With the volume of new home building in Victoria set to decline further over the coming year, lending activity in these categories is likely to move lower again.
- The apparent recovery in dwelling prices in Victoria may offer some support when it comes to lending activity.



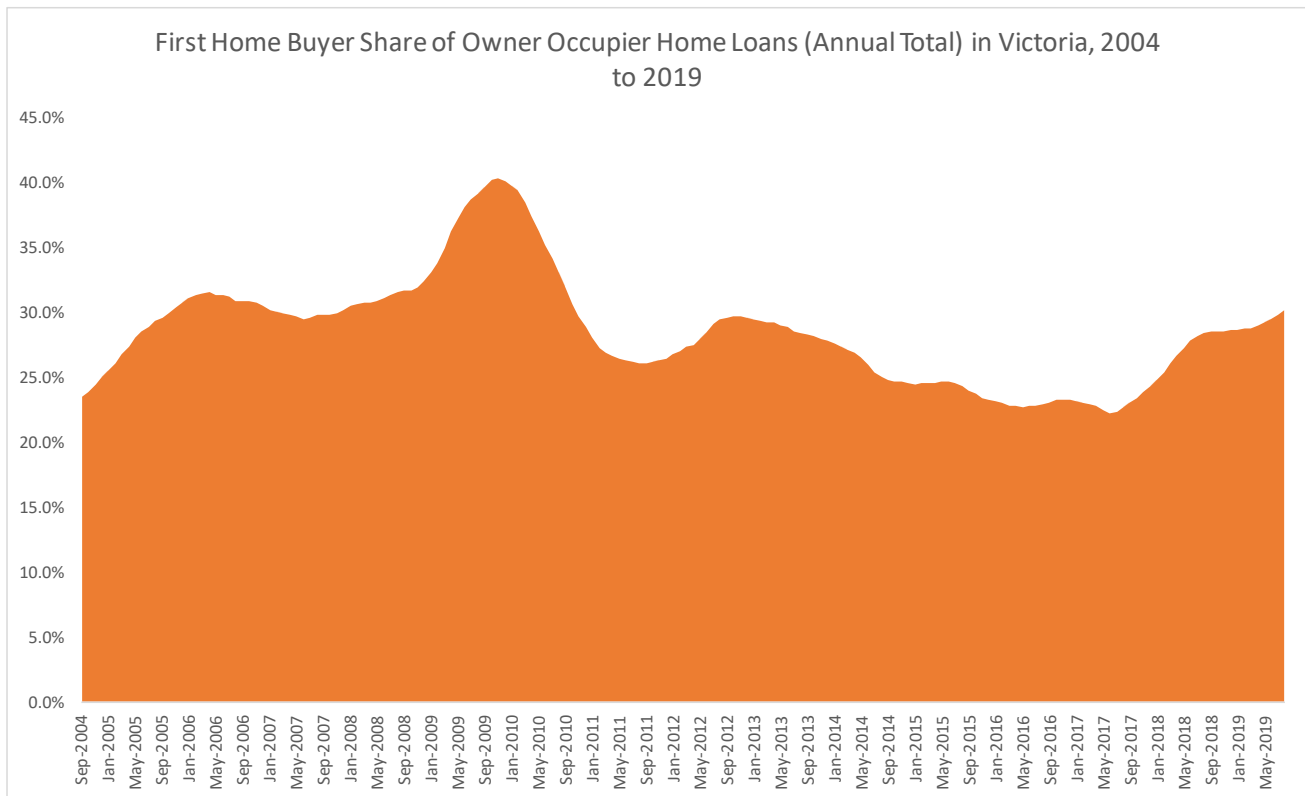
- Along with the volume of lending for new homes, activity in Victoria’s established home loan market has also moved lower.
- Latest figures indicate that 81,780 home loans were made for the purchase of established dwellings in Victoria over the year to August 2019. This excludes home refinancing loans.
- At the peak of the market, a total of 96,531 loans were made on this side of the market (in the 12 months to February 2018).
- The sharp reduction in home prices across Melbourne since the middle of 2017 as well as tougher lending conditions arising out of the banking Royal Commission have both contributed to the slowdown in lending for established homes.
- Victoria also has one of the heaviest stamp duty burdens in Australia and this situation is also impeding activity in the established dwelling market.



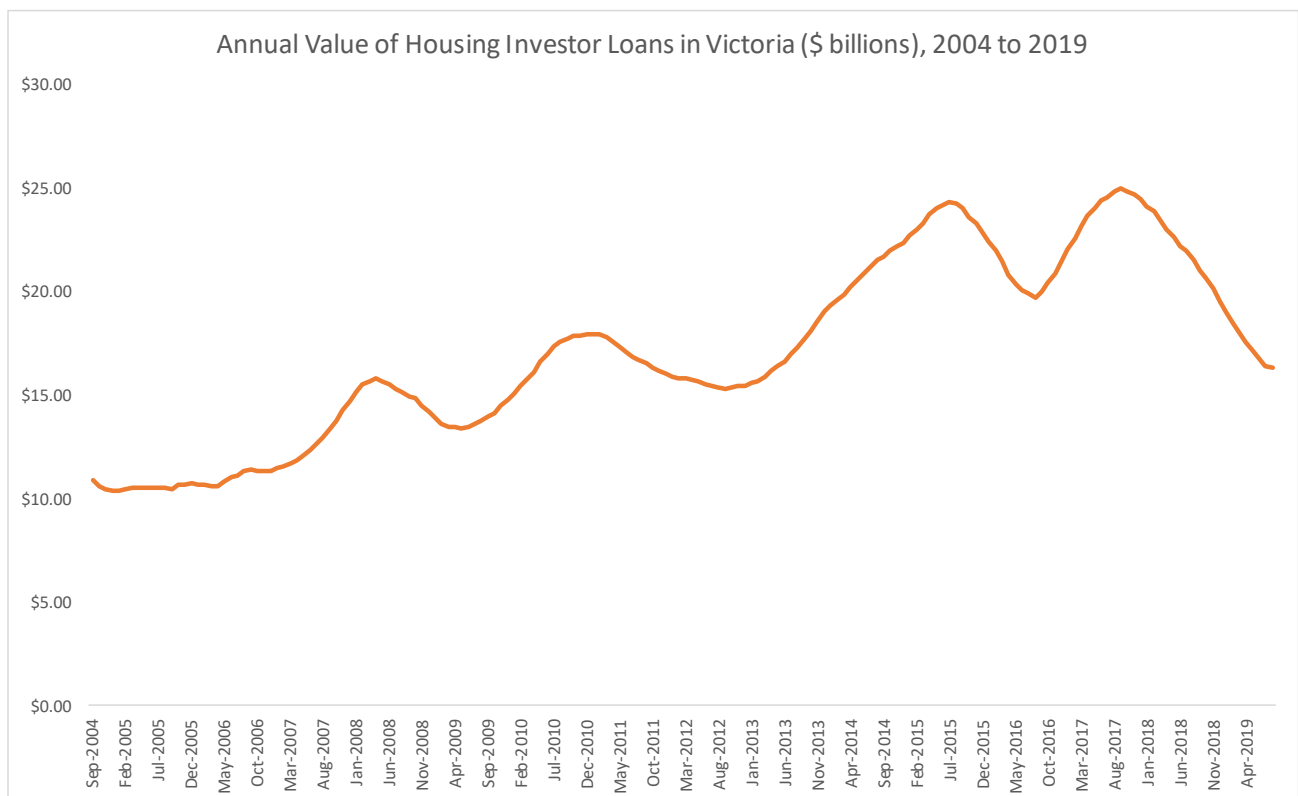
- The composition of the owner occupier home loan market in Victoria has changed significantly over the past two years.
- The chart below illustrates the annual volume of home loans to both First Home Buyers and non-FHBs over the past 15 years.
- Between about 2011 and 2017, the annual volume of FHB loans was remarkably stable at around 25,000.
- In contrast, the number of non-FHB loans increased steadily over the same period, peaking at 97,075 during 2017.
- Improved state government incentives as well as the environment of declining prices contributed to an increase in the volume of FHB loans from a trough of 26,370 during 2016/17 to over 36,000 in 2017/18.
- Over the past year, the volume of FHB lending has glided lower but remains well above what has been typical over the past decade.



- The chart below summarises the share of the home lending market accounted for by FHBs over the past 15 years.
- As described earlier, the volume of loans to non-FHB owner occupiers has fallen sharply in the past two years while First Home Buyer loan volumes have moved higher.
- This has caused the share of the owner occupier market accounted for by First Home Buyers to rise substantially over the past two years.
- During the month of August 2019, FHBs accounted for 32.6% of all owner occupier loans – the highest monthly share since July 2012.
- The commencement of the federal government’s First Home Loan Deposit Scheme in January 2020 makes it likely that the FHB share of the market could rise further over the coming year.



- The biggest shift of all in Victoria’s housing market has been on the investor side of the market.
- The chart below shows how the value of lending to investors has evolved over the past 15 years.
- Overall, the volume of lending to investors has grown over time, although several major fluctuations have occurred along the way.
- The value of lending to investors in Victoria peaked at \$25 billion over the year to September 2017.
- Since then, the magnitude of decline has been very substantial. Latest data indicate that the value of lending to investors totalled \$16.3 billion over the year to August 2019 – a reduction of some 34.7% since the peak.
- There are a number of reasons behind the sharp drop in investor lending. First, credit availability has tightened in the wake of the banking Royal Commission as well as the slowdown in the market. There has also been less appetite amongst investors since house prices began falling in mid-2017 and as rental price growth has decelerated.



- While residential building work has been declining, other areas of construction have fared differently.
- The chart below summarises the annual volume of work done in commercial building and engineering construction in Victoria over the past 15 years.
- It can be seen that the amount of activity has clearly been very elevated over very recent times.
- Over the year to March 2019, the volume of commercial building work done in Victoria reached \$13.2 billion which was the highest on record although there was a sizeable drop during the June 2019 quarter.
- Latest data indicate that engineering construction work done in Victoria peaked at \$17.54 billion during the 2018 calendar year. Latest figures indicate that engineering construction work done totalled \$16.58 billion over the year to June 2019.
- The ramping up of major government-led infrastructure projects in Victoria over the next few years will eventually provide a boost to engineering construction activity in the state.
- Accelerating the roll out of work on this side would provide a crucial boost to the state economy.
- At the end of June 2019, there was still \$8.38 billion worth of commercial building work yet to be done while the remaining pipeline of engineering construction work was estimated at \$15.87 billion.

