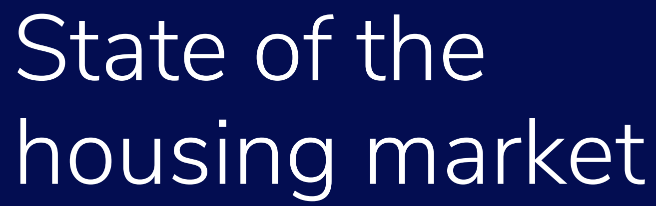
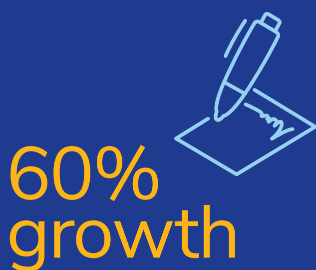


State of the housing market

State of the Nation’s Housing 2021–22

State of the housing market

23% increase
in house prices
IN AUSTRALIAN CAPITAL CITIES OVER 2021



60% growth
in detached dwelling building approvals
AIDED BY HOMEBUILDER, IN THE YEAR TO MAY 2021

40%
of Sydney rental listings were **withdrawn**
reducing vacancy rates and impacting rental affordability

KEY POINTS

- House prices across Australia exhibited strong momentum since the middle of 2020. Regional areas generally outperformed capital cities as buyers flocked to more affordable lifestyle markets to upsize and take advantage of more flexible work arrangements. However, the capital city markets have also remained strong and first home buyer affordability is now deteriorating after peaking in early 2021.
- Price growth in the multi-density market has generally been softer than for detached dwellings, particularly during the early stages of the pandemic. However, the fundamentals in the rental market have improved and investor interest is picking up. Consequently, price growth is now increasing, even in Sydney and Melbourne, where international border closures caused a sharp rise in vacancy rates in 2020.
- Strong house price growth was not just confined to Australia. Germany and Canada experienced similar trends. In NZ, growth soared 23%. Record low global interest rates and expansionary fiscal policies promoted a relatively quick economic rebound from the early stages of the pandemic. In Australia, this increased household confidence and created a solid background for strong house price growth. Now, with financial stability concerns emerging, Australia has followed China and NZ in reining in credit and dwelling price growth.
- Construction activity for detached housing was increasing rapidly on the back of low interest rates and state and federal government stimulus measures. However, lead indicators, such as home loan and building approvals, are now slowing after the HomeBuilder program ended. Nonetheless, construction activity should remain at high levels in the year ahead with other stimulus remaining in place. Approvals in the multi-density market are already rising, led by NSW.
- After being severely hit in the early stages of the pandemic, vacancy rates fell sharply in the Sydney and Melbourne rental markets over 2021 to be on par with or below pre-pandemic levels. The fall in vacancy rates in these markets was largely driven by the withdrawal of rental listings – many likely sold to owner-occupiers. Deteriorating affordability may have forced some first home buyers into the rental market, also contributing to declining vacancy rates. In other capital city rental markets, which were relatively less affected by border closures, rents and prices are now rising strongly.
- Around the world, COVID-19 has disrupted the supply of materials and labour in the construction industry. Australia experienced supply constraints in materials such as structural timber, PVC pipes and reinforcing steel. The supply constraints combined with strong demand for construction has seen the price of these building materials increase sharply, with price growth in some materials soaring 20–34% in 2021. In contrast, wage growth has remained more modest.

Introduction

Low interest rates, fiscal policy support and income growth are supporting confidence in the housing market even though the post-COVID path of recovery remains relatively uneven, with some lingering uncertainty.

In 2021, house prices rose rapidly in both capital cities and regional areas. However, this has not yet led to a concerning pick up in credit growth. Investor housing credit growth has only risen by 3% over the past year. Access to finance for developers doesn't appear to be constraining construction activity.

The Sydney and Melbourne multi-density rental markets saw sharp rises in vacancy rates during the early stages of the pandemic, but these markets now seem more evenly balanced as a large number of properties have been withdrawn for rent and likely sold to owner occupiers. The rental markets in the other capital cities and in regional areas are tighter, with rents rising solidly.

Construction activity has lifted in response to the low interest rate environment and fiscal stimulus, led by the detached market and alterations and additions. Multi-density and apartment construction is picking up in NSW, but in other states the recovery has less momentum. A shortage of unit completions is expected in the next 2–3 years, especially now the rental market is already tightening, and demand will lift as international borders reopen.

The Federal Government's HomeBuilder program was very successful and helped drive a surge in building approvals in detached housing and alterations and additions. The end of the program has naturally led to a decline in detached dwelling approvals. However, lending commitments for detached dwellings have returned to pre-pandemic levels, suggesting construction activity in this segment of the market should remain at relatively high levels for some time yet.

Global supply chain disruption has been felt keenly in the construction industry. Supply of materials such as structural and laminated timber, steel reinforcement and PVC pipes has been limited. Combined with strong demand, this has led to sharp price increases and delays in the start and completion of projects in some jurisdictions.

Prices and rents

Detached housing market

After the first few months of the pandemic, national housing prices increased led by strong demand for detached houses, driven by record low mortgage rates. Strong house price growth continued throughout 2021, despite extended lockdowns in both Sydney and Melbourne.

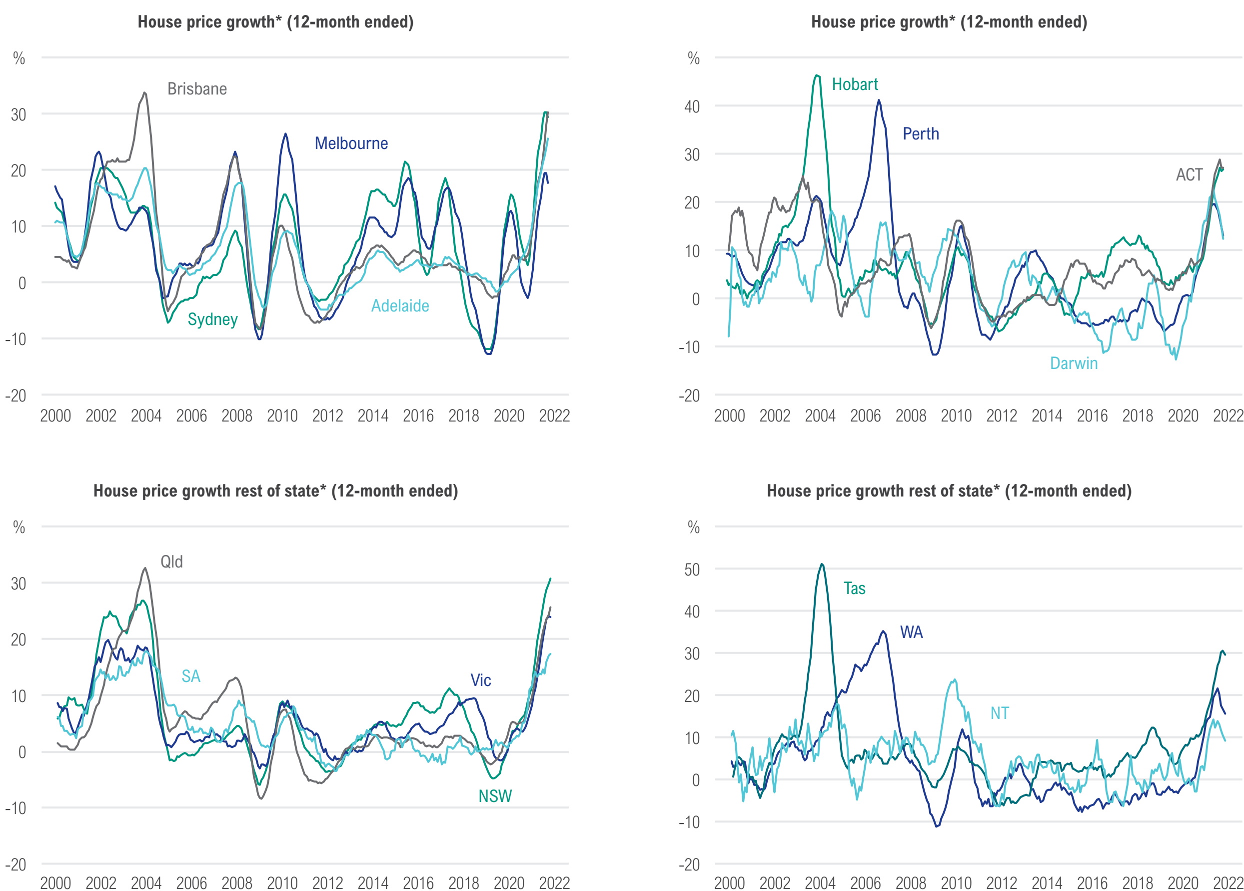
In the detached market the average capital city price growth was 23%. In Sydney, Adelaide and the ACT, this pace of growth has exceeded that seen during previous housing booms in the last two decades.

In the past 12 months, house price growth was very strong in Brisbane and Sydney (both 30%), as well as the ACT and Hobart (both 27%). Darwin recorded the weakest growth (12%) after a slowdown in the second half of the year.

Detached prices in regional areas across the country saw an average increase of 22% in the past 12 months. Moreover, growth in the regional areas of NSW, Vic, WA and Tas outpaced gains in capital city areas of these states.

Regional NSW and Tas saw the strongest regional price increases (31% and 29% respectively) followed by regional Qld (26%) and regional Vic (24%).

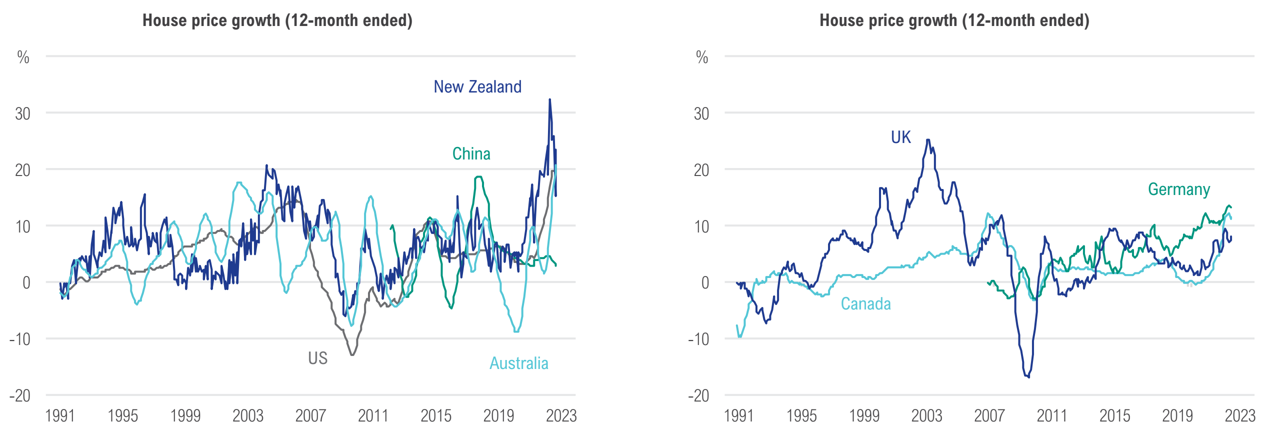
Figure 1.1: House price growth (12-month ended)



*Indicates Hedonic Index

Source: CoreLogic, NHFIC.

Figure 1.2: International house price growth (12-month ended)



Source: Refinitiv, CoreLogic, NHFIC.

International comparisons of house price growth

Australia was not the only country experiencing strong residential property price growth during the pandemic. Over the past 12 months low global interest rates underpinned house price growth of 13% in Germany and 12% in Canada.

Stronger price gains were recorded in NZ (23%) and the US (20%), while growth was weaker in the UK (8%) and China (3%). By comparison, house prices in Australia rose by 21% over the same period.

NZ house prices increased strongly during the first year of the pandemic, with 12–month ended price growth reaching 32% in May 2021. In response, the Reserve Bank of New Zealand (RBNZ) introduced macro-prudential regulation limiting investors from deducting mortgage interest from their taxable incomes. These new rules, announced in March 2021, took effect at the start of October. The RBNZ also raised interest rates in response to rising inflationary pressures.

China's house price growth remained relatively stable throughout the pandemic. Price growth has remained well-contained in the past few years as authorities reined in credit availability for both developers and households.

In 2020, Chinese authorities capped the share of mortgages and property-related loans that banks hold and limited the amount of debt property developers could accumulate. This has contributed to a decline in home sales and a broad residential property downturn.

The most noteworthy byproduct of the tighter lending standards has been the deteriorating outlook for one of China's largest property developers: Evergrande. At the end of June 2021, Evergrande had a debt-to-equity ratio of 3.0 and a long-term debt to capital ratio of 33.6%. The company is listed on the Hong Kong stock exchange, with $US92 billion of debt outstanding. Its stock price has fallen by 90% since the start of 2021. Other Chinese property developers also appear under pressure to meet coupon payment obligations to their investors.

Other dwelling market

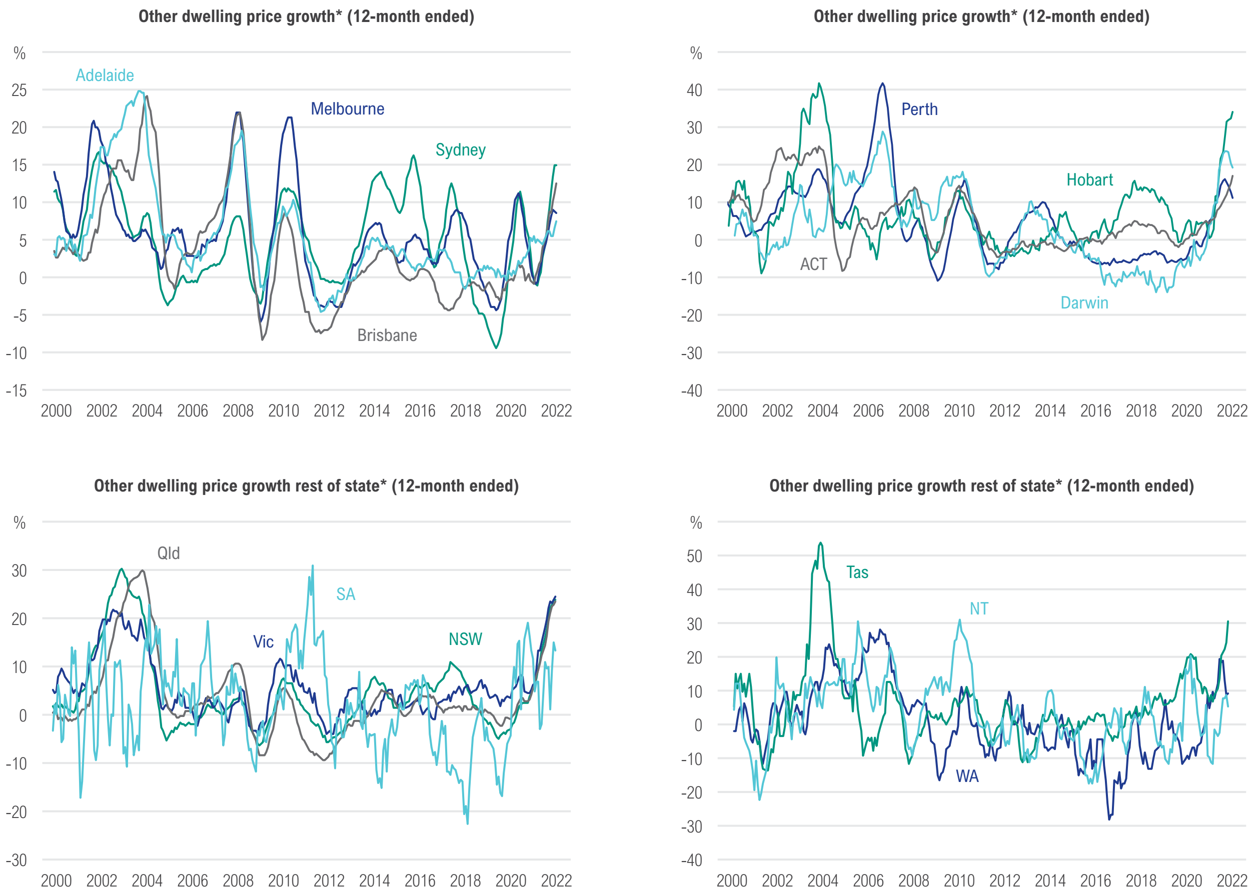
Despite Australia's international borders being closed to foreign students, other dwelling[1] prices also appreciated across most capital cities over 2021, albeit at a slower pace than detached dwellings. More recently, the pace of growth has picked up as falling affordability squeezed buyers out of the detached housing market. Regional NSW, Vic and Qld have seen investor interest return strongly.

The pickup in other dwelling prices in capital cities in the past 12 months was strongest in Hobart (34%) and Darwin (20%), followed by the ACT (17%). Other dwellings in Sydney, Melbourne and Brisbane experienced price growth of 15%, 9% and 13%, respectively.

Other dwelling prices in regional areas outpaced those in capital cities in most states apart from WA, Tas and NT. In the past 12 months growth was strongest in regional Tas (31%), followed by regional Vic (25%), regional NSW and regional Qld (both 24%). Limited supply and stronger demand in lifestyle and coastal regions probably underpinned the strong performance.

Regional detached dwelling prices generally appreciated faster than regional other dwelling prices, except in regional Vic and Tas.

Figure 1.3: Other dwelling price growth (12–month ended)



Source: CoreLogic, NHFIC. *Indicates Hedonic Index

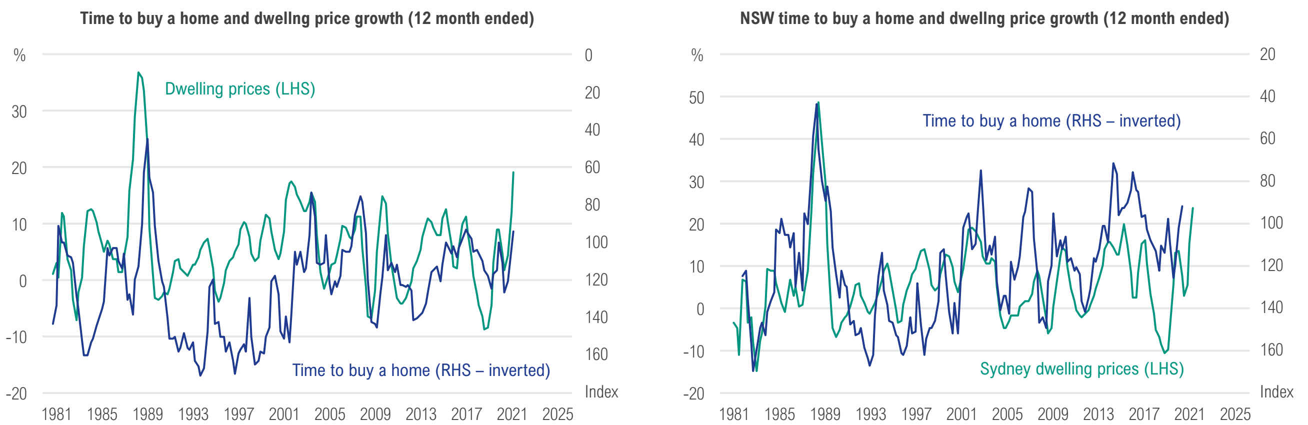
1 Other dwellings refers to properties on a strata title where the title holders own a shared claim to common land that multiple properties may reside on. This includes apartments, villas and townhouses.

Buyer sentiment

Across Australia, buyer sentiment (measured by Westpac's 'time to buy a home' survey) fell during the early stages of the pandemic, but quickly rebounded to peak in December 2020 to levels unseen since early 2014. At the time of writing, buyer sentiment remains positive, despite the strong increase in dwelling prices, although it has eased since early 2021.

In NSW, buyer sentiment remains above the levels seen during 2014–2017 when unit prices and apartment construction was booming. However, sentiment has declined alongside recent solid price increases.

Figure 1.4: Time to buy a home and dwelling price growth (4–quarter ended)



Source: Westpac Survey, CoreLogic Home Property Value Index – 5 capital city aggregate

Property listings and sales

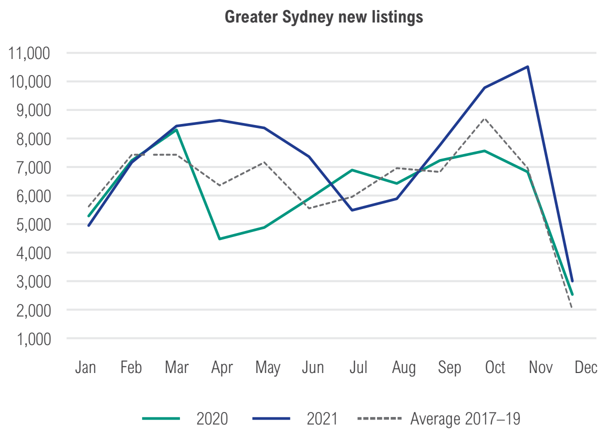
The number of sales in Sydney were easing before the 2021 lockdown, but sales activity picked up over spring to be in line with 2020 levels and above the average of the 2017–19 period.

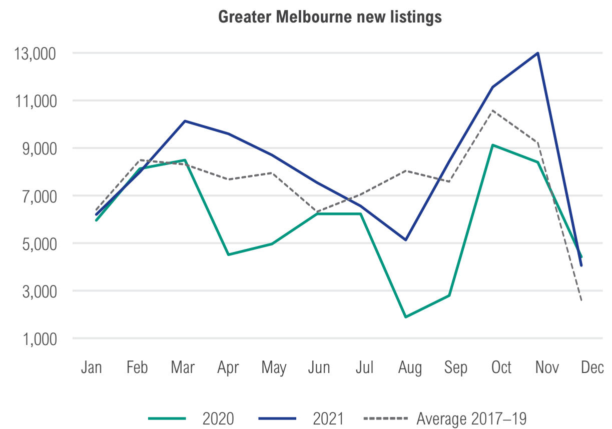
Despite the seasonal increase in listings in spring, sales as a proportion of total listings were still higher than the previous 2017–19 period average – suggesting demand still remains strong.

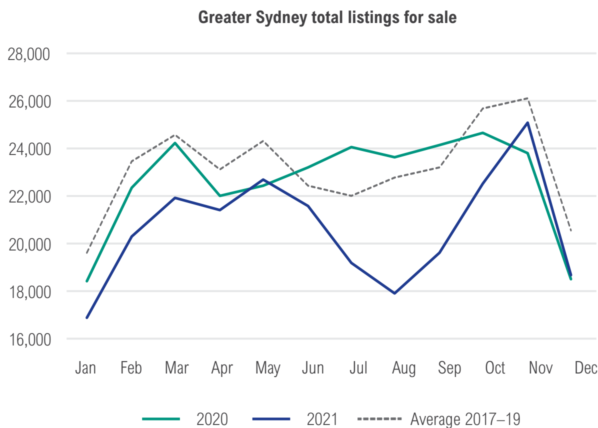
Sales picked up in Melbourne during the first half of 2021, to be above the average of the 2017–19 period. The number of advertised property listings in the city in 2021 was generally above 2020 levels and the average of the 2017–19 period.

Sales as a proportion of listings declined in both Sydney and Melbourne in the last few months of 2021. It is difficult to tell whether this is the normal seasonal slowdown leading into Christmas, or whether tighter lending restrictions are having an effect.

Figure 1.5: Property listings

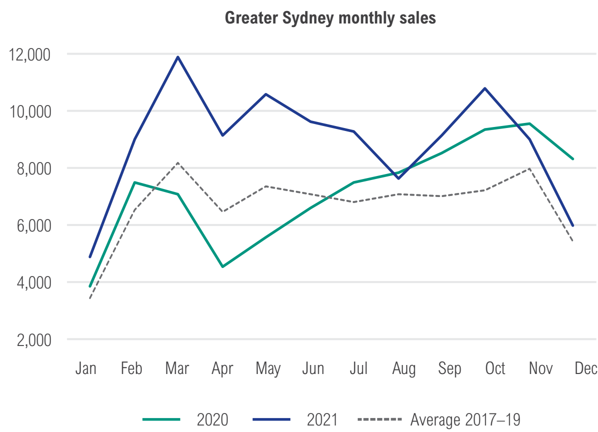


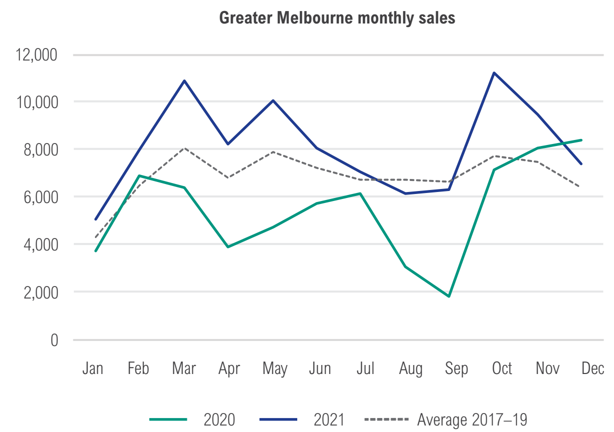


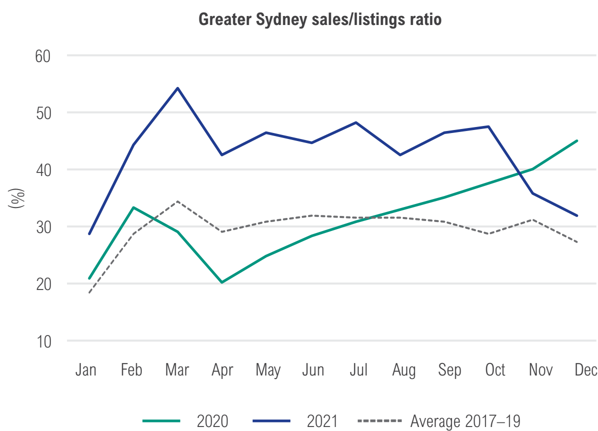


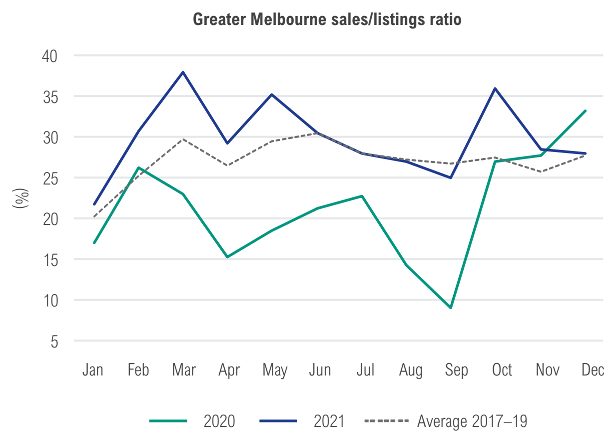
Across Australia, buyer sentiment fell during the early stages of the pandemic, but quickly rebounded to peak in December 2020 to levels unseen since early 2014.

Figure 1.5: Property listings (continued)



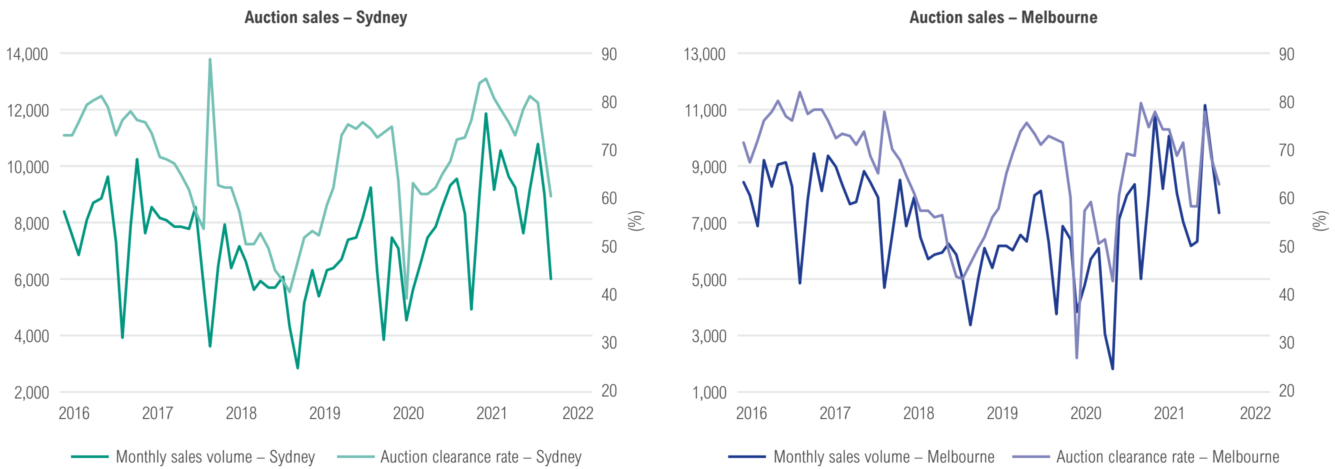






Source: CoreLogic, NHFIC

Figure 1.6: Auction clearance rates in Sydney and Melbourne



Source: CoreLogic, NHFIC

Fewer listings and strong buyer demand over the year kept auction clearance rates firm at around 80% in Sydney for most of 2021. However, the clearance rate declined to around 60% and this provides further evidence that the slowdown could be due to weaker underlying demand rather than seasonality. In Melbourne, auction clearance rates also declined to around 60% and sales declined to around 7,000 properties from a peak of 11,000 at the start of 2021.

Rental markets

In this section, we focus on other dwellings rather than detached dwellings because the rental market for these properties tends to be larger. Since mid-2021 price growth has outstripped growth in rents, and rental yields on other dwellings in most capital cities are now at record lows.

The premium that investor variable mortgage rates have over rental yields tightened following cuts to the variable mortgage rate in March 2020 but has since widened due to the decreases in rental yields.

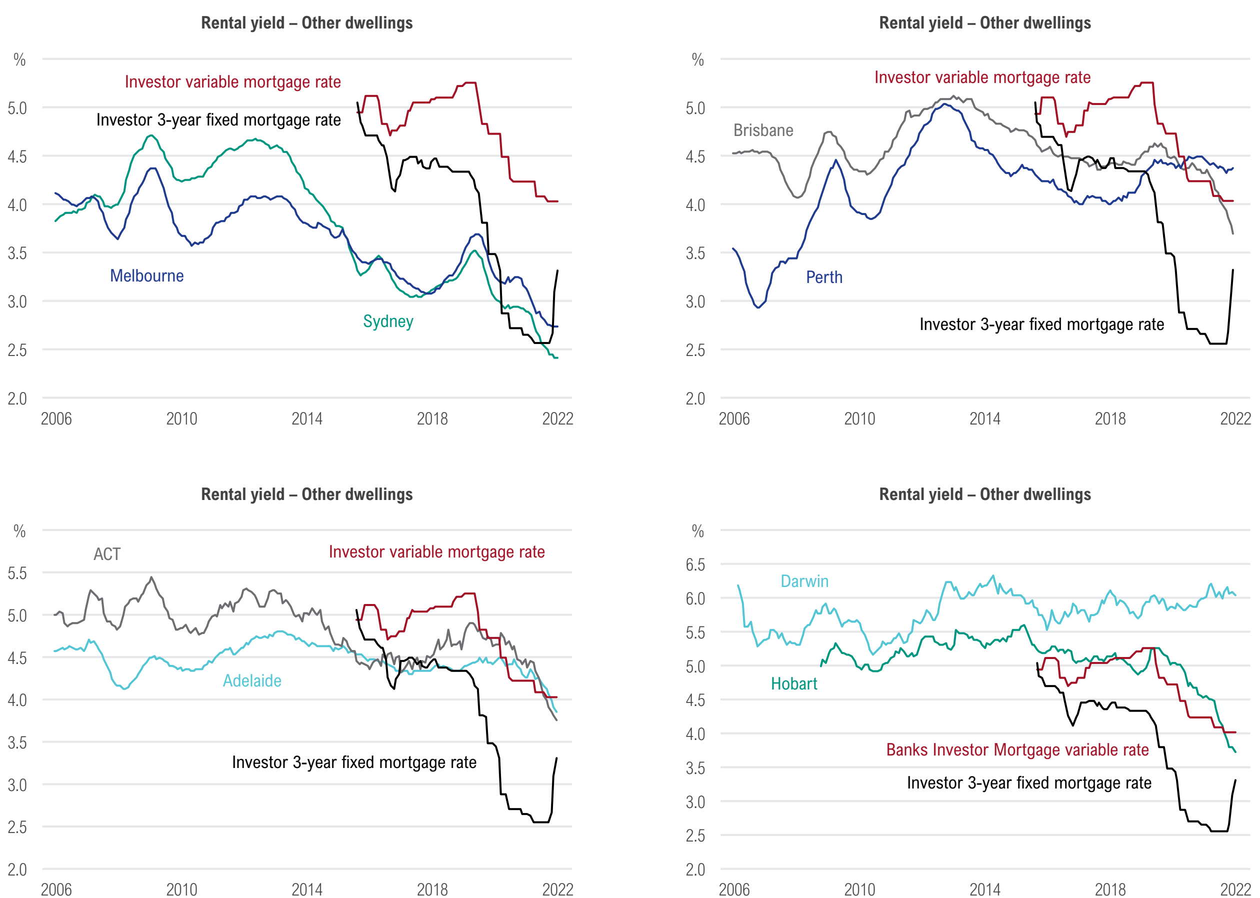
This spread between the rental yield and the investor variable mortgage rate is larger in Sydney and Melbourne than the other capital cities. Latest data shows the variable mortgage rate is on average 1.5 percentage points greater than rental yields in those cities.

But investor fixed mortgage rates have also fallen significantly over the last 3 years on the back of falling global interest rates. However, global interest rates increased during the second half of 2021 and at the time of writing, fixed mortgage rates were 3.3%, after falling to 2.6% in early 2021. This low cost of finance is a large part of the positive backdrop for investors contemplating entering the property market, although this recent rise in fixed rate mortgages has resulted in the fixed mortgage rate being above yields in Sydney and Melbourne.

Vacancy rates in other dwellings rental markets declined in 2021, despite international borders being closed. Vacancy rates in most capital cities apart from Sydney are now below their long-term average, with almost all capital cities recording vacancy rates close to 1%. The largest vacancy rate falls over the past year were recorded in Melbourne (-4.3% pts), Sydney (-2.2% pts) and Brisbane (-1.6% pts). Brisbane's vacancy rate had been trending downwards since 2016. By comparison, Sydney's rental vacancy rate generally increased in the period 2017–2020 due to a hangover of apartment supply, but declined sharply in 2021 to 2%.

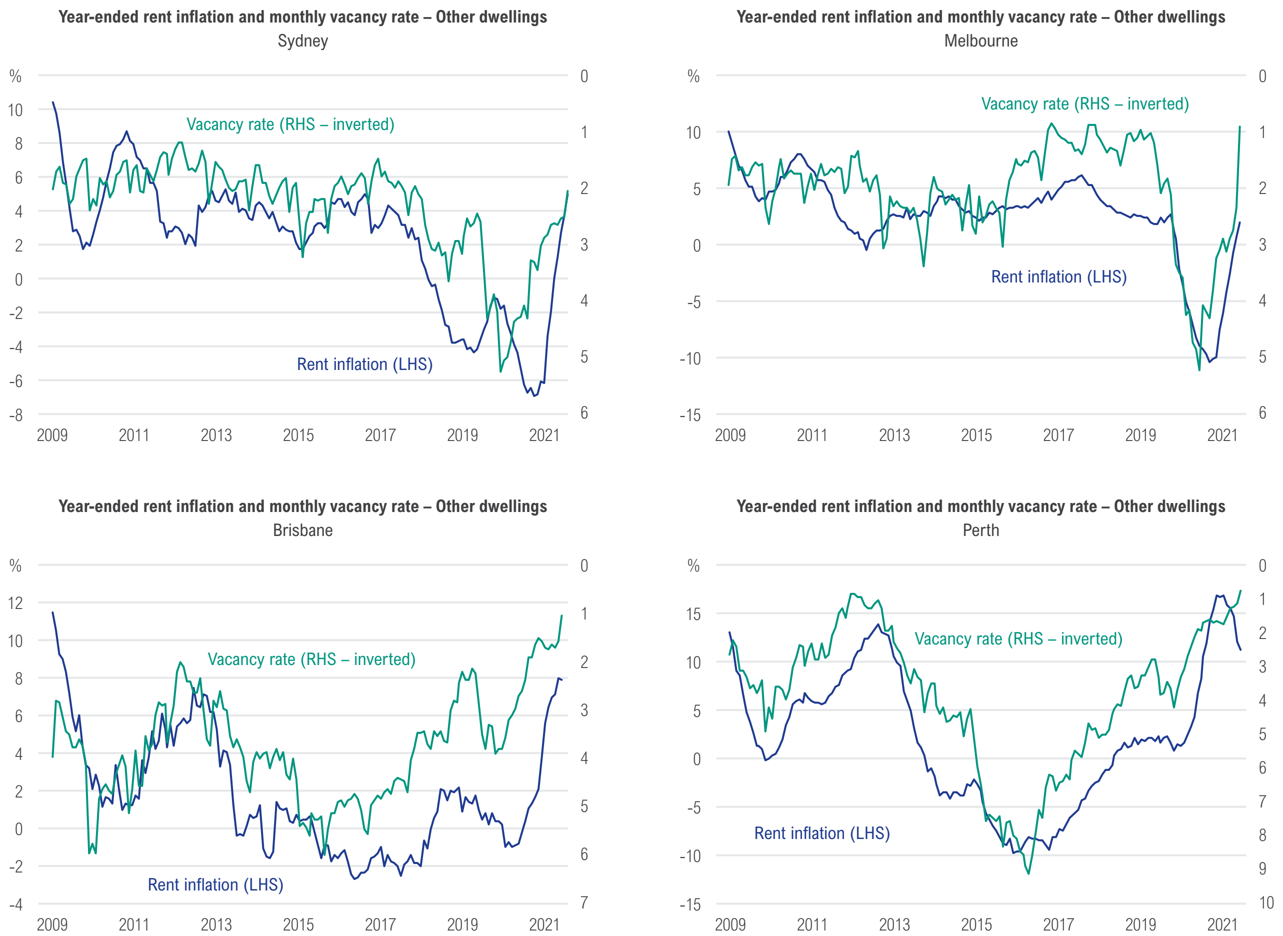
Rental prices of other dwellings in capital cities generally rose in 2021, with Sydney, Melbourne and Brisbane seeing the slowest pace of growth. By mid–2021, rental prices in Sydney (-3%) and Melbourne (-7%) were lower than what they were mid-2020. But, since then, they have been increasing. Latest data shows Sydney's rents are 5% higher than the same time in the previous year, and 2% higher in Melbourne. In Brisbane, rents grew 8% over the year.

Figure 1.7: Other dwelling gross rental yield and investor mortgage rates



Source: CoreLogic, NHFIC, RBA.

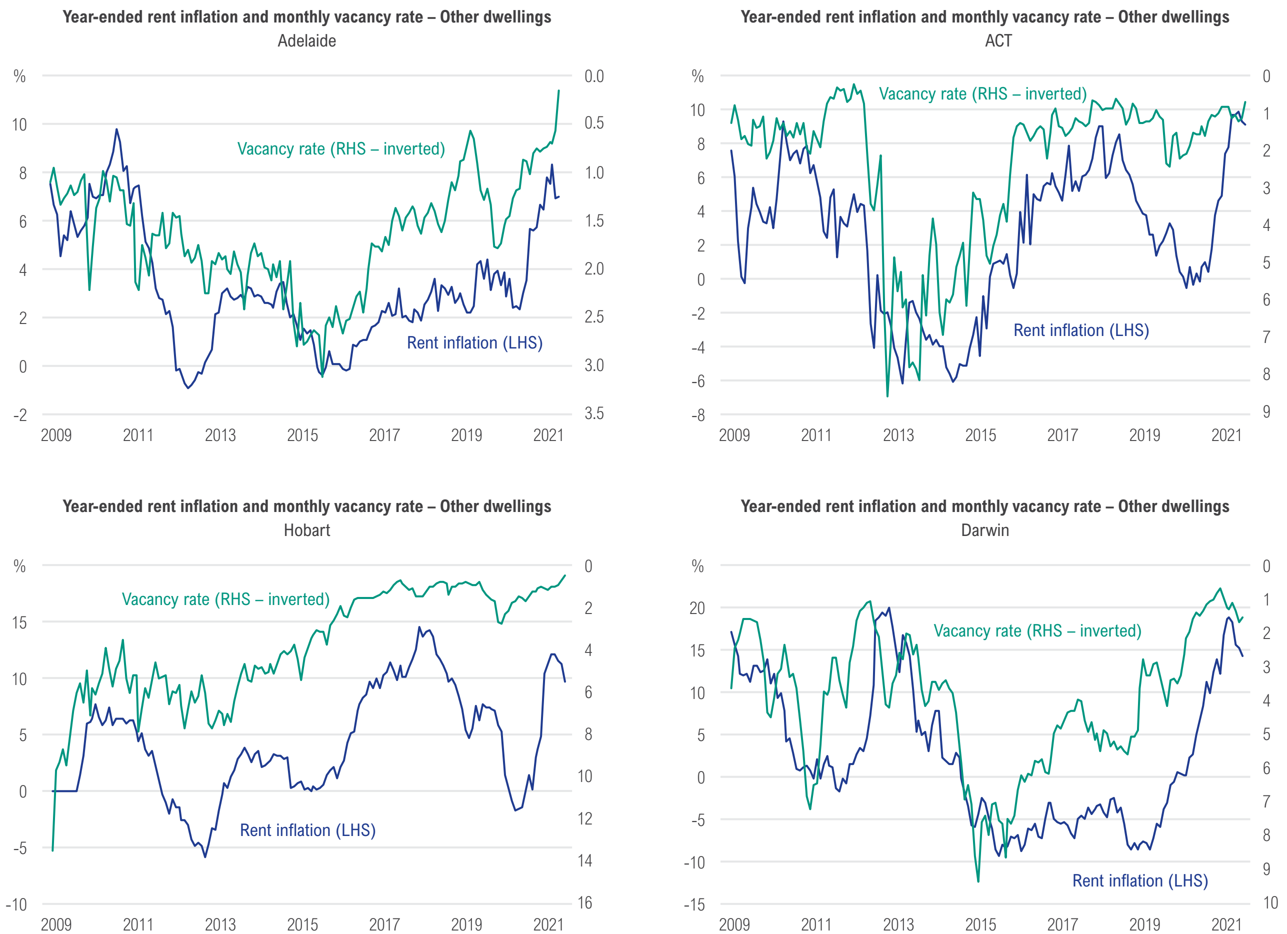
Figure 1.8: Other dwelling advertised rental growth (12–month ended) and vacancy rates



Source: CoreLogic, NHFIC (The vacancy rates published by CoreLogic use a different methodology to those published by the Real Estate Institute of Australia (REIA). The CoreLogic vacancy rate is more a measure of the time properties are vacant whereas the REIA data reports the proportion of rental property that is vacant. A shortcoming of the REIA data is that it is not reported by dwelling type. Most available datasets show a decline in vacancy rates, with CoreLogic showing they are falling further than what other datasets suggest.)

Rent growth over the year was strongest in Darwin (14%) and Perth (11%) followed by Hobart (10%) and the ACT (9%). Vacancy rates in these cities decreased during the pandemic and remain very low at less than 1% on average.

Figure 1.9: Other dwelling rental growth (12–month ended) and vacancy rates



Source: CoreLogic, NHFIC

Since mid-2021 price growth has outstripped growth in rents, and rental yields on other dwellings in most capital cities are now at record lows

Sydney and Melbourne rental markets

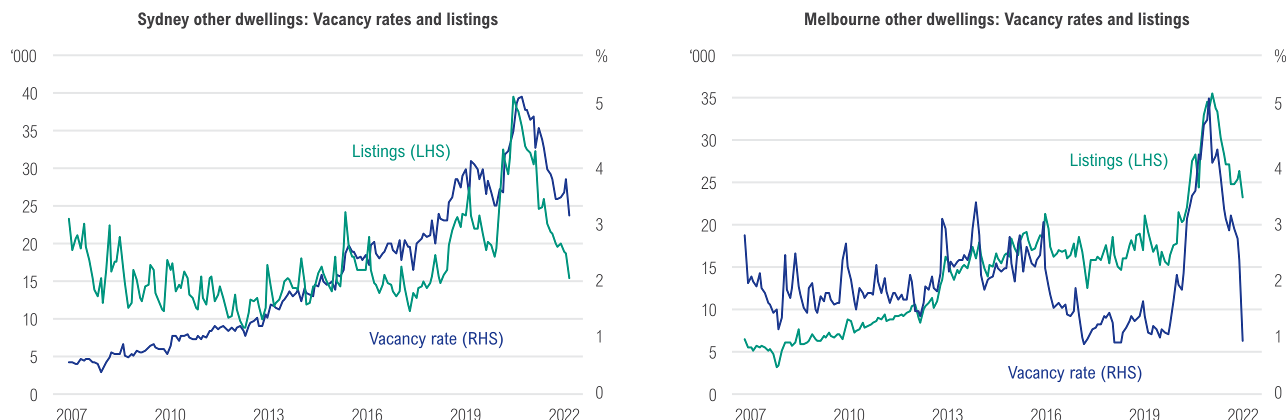
Rental listings in Sydney and Melbourne decreased substantially driving a large fall in vacancy rates during 2021. Many of these properties were likely sold to owner-occupiers and particularly first home buyers.

The number of rental listings in Sydney peaked in mid-2020 with almost 40,000 listings and has since fallen by 40% and back to pre-pandemic levels. Over the same period, the vacancy rate decreased from 5% to be lower than pre-pandemic levels of 2%.

The pandemic had a greater impact on Melbourne's rental market. The vacancy rate rose from 1.9% at the start of 2020 and peaked at 5.2%. Rental listings then declined from 35,000 to 23,000 in Melbourne in response to the sharp rise in the vacancy rate. In Sydney, the vacancy rate fall was mostly due to reduced rental listings. However, in Melbourne, other factors, including a large increase in household formation (not explicitly accounted for in our projections), may also have played a role in driving down the vacancy rate.

Relatively stronger rental demand for other dwellings also seems consistent with the rebound in other dwelling prices. Rents should continue to rise in the near-term as international borders open, particularly to international students.

Figure 1.10: Sydney and Melbourne other dwellings: Vacancy rates and rental listings

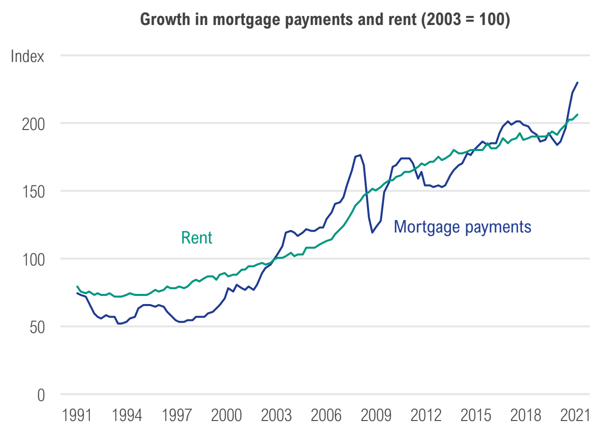


Source: CoreLogic

The long-run relationship between the growth in rents and the growth in mortgage payments suggests that the cost of housing increases at the same rate, regardless of whether a property is owner-occupied or rented. Over the long run, household formation and other factors, such as growth in construction and maintenance costs, increase the cost of housing. New supply is also closely linked to price growth and interest rates in the short term, with implications for the supply of properties available for rent.

Mortgage payments increased strongly from mid-2020 on the back of the property price increases. Mortgage rates were cut in response to the pandemic, but this didn't offset the impact on mortgage payments from rising prices. However, savings also increased during this time, as households stayed home more and consumed less. Rents also increased, albeit at a slower rate.

Figure 1.11: Growth in mortgage payments and rent



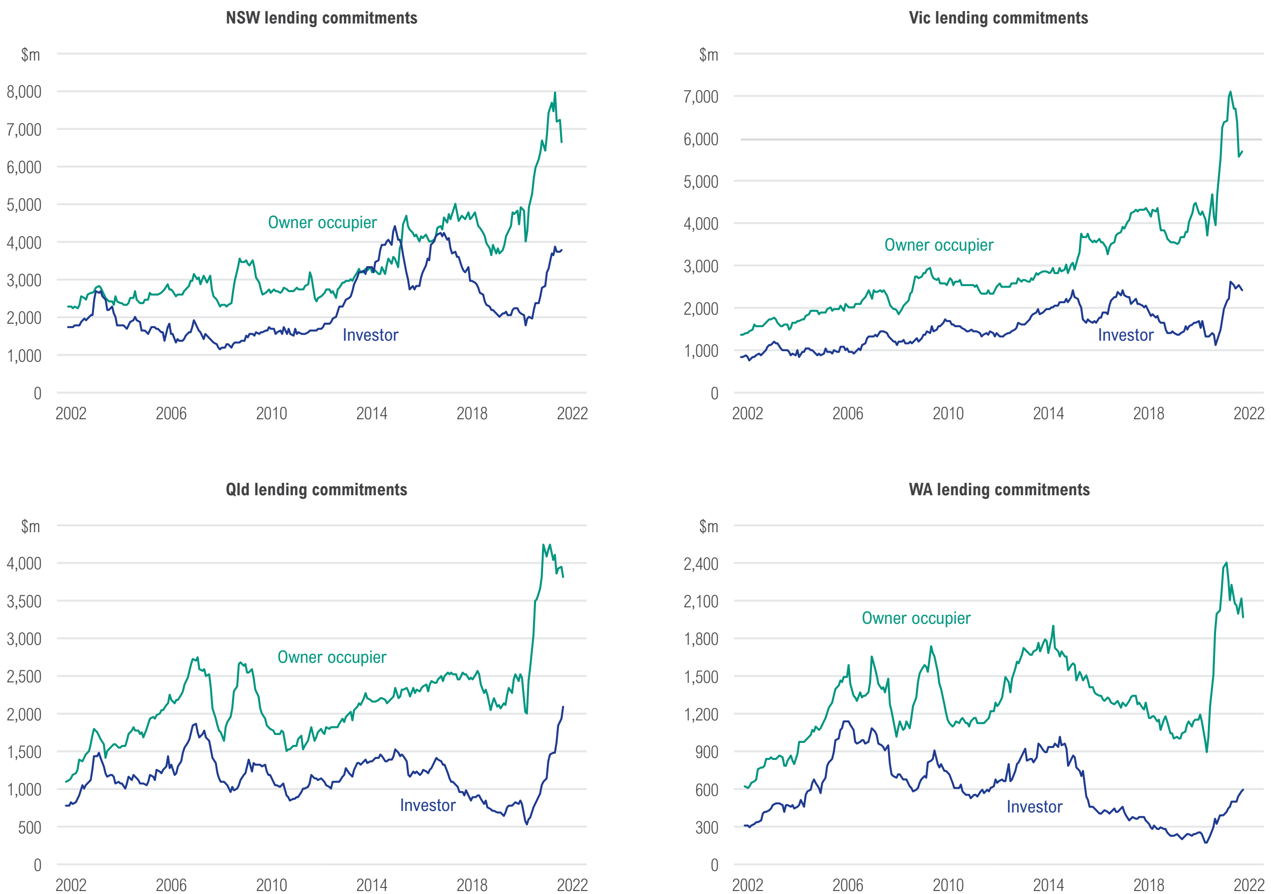
Source: REIA, RBA, NHFIC. Mortgage payments are calculated using median house prices of the capital cities. Rent is the median rent in each capital city for a 3-bedroom house. Each capital city median price and rent is weighted by respective state final demand. Mortgage payments are calculated on the median price using the banks' standard variable mortgage rate.

Finance and credit

Across the states, the value of new owner occupier lending commitments declined in the first few months of the pandemic but began increasing strongly in the second half of 2020. The value of owner-occupier lending commitments during the 12 months ending in June 2021 grew by 70%, on average, across the states. They more than doubled for WA, while NSW, Vic and Qld recorded growth of between 70% to 80%. In recent months, the value of owner occupier lending commitments has declined with the largest falls seen in the ACT (-31%) and NT (-27%), followed by Vic (-20%) and NSW (-17%)

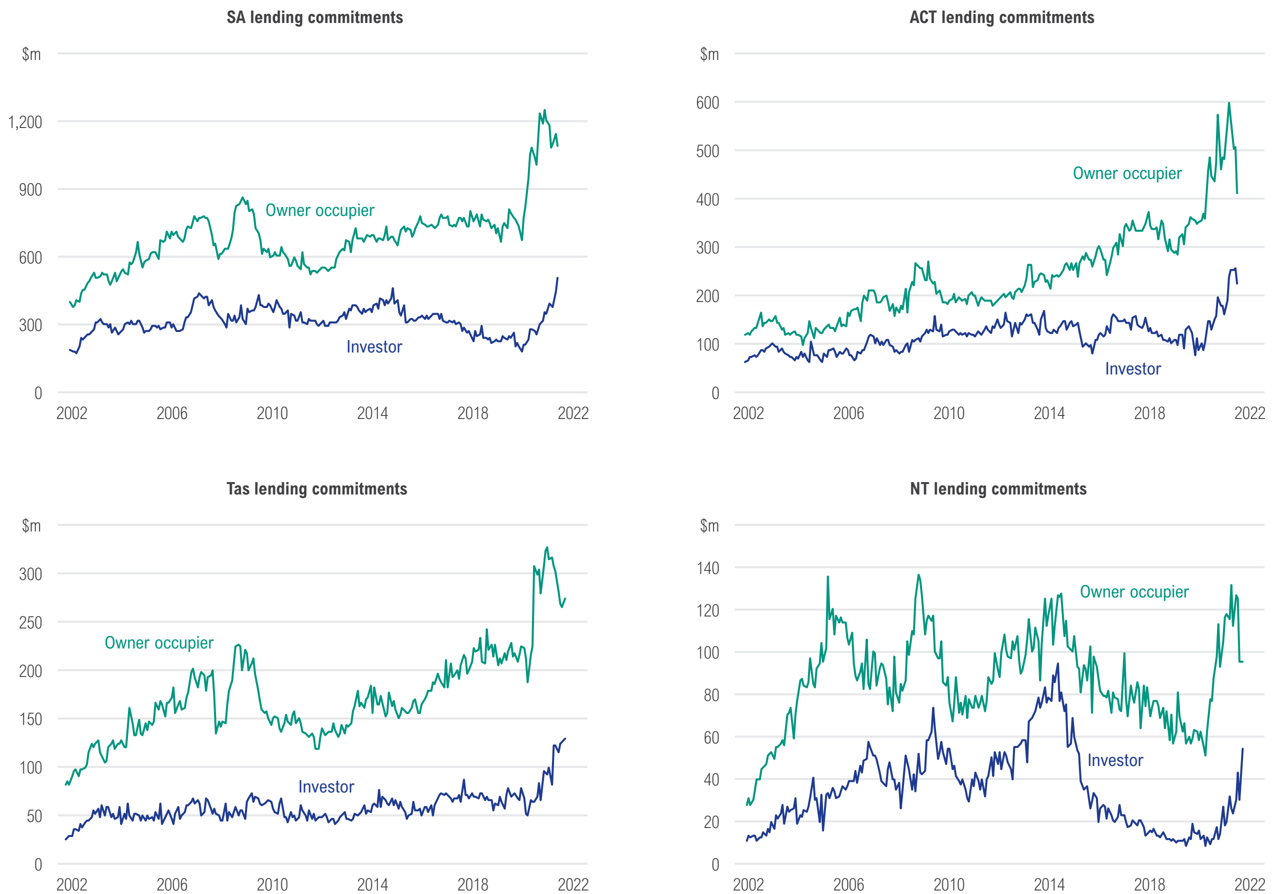
The value of investor lending commitments rose strongly in Vic, Qld, SA, the ACT and Tas. Lending commitments also increased in WA and the NT but growth was relatively weak.

Figure 1.12: Lending commitments by state and borrower type



Source: ABS Cat 5601.0

Figure 1.13: Lending commitments by state and borrower type

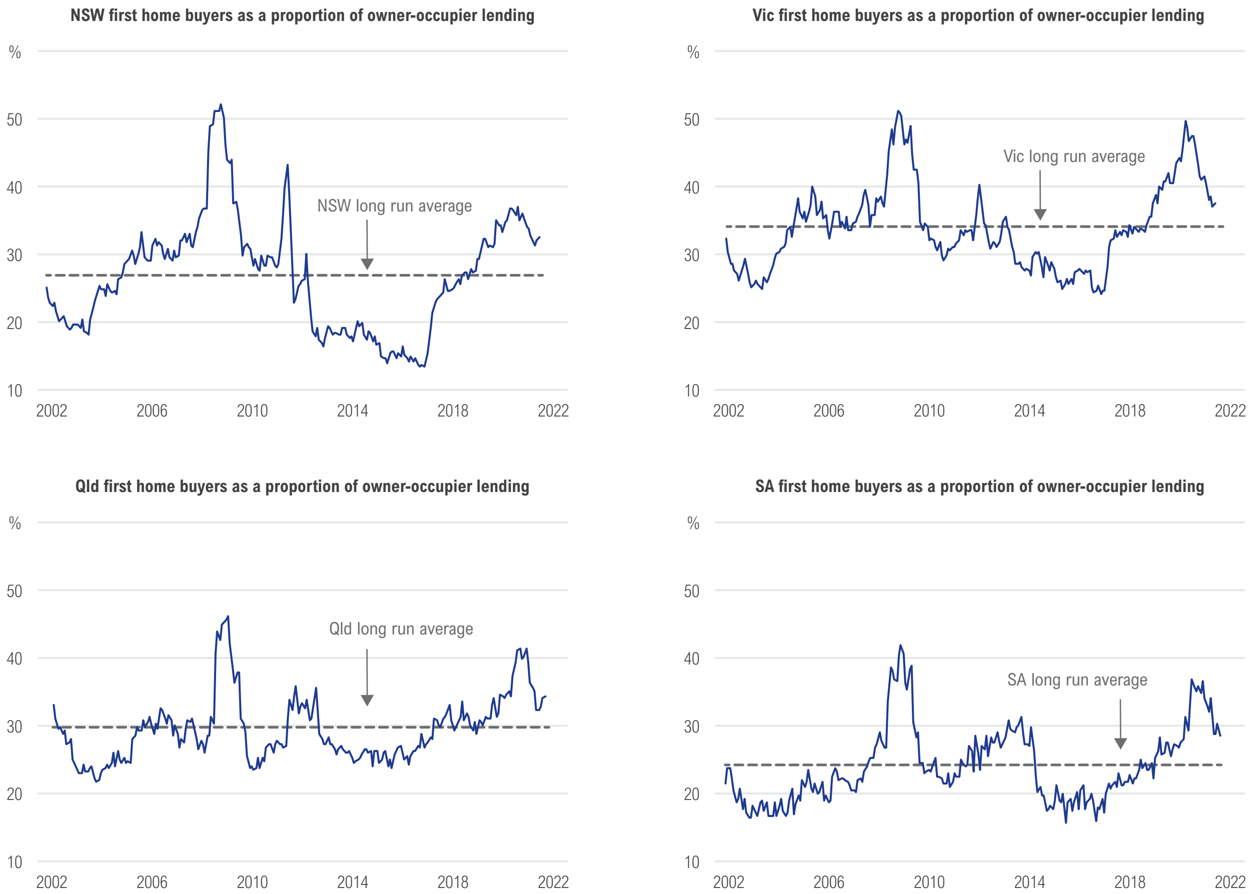


Source: ABS Cat 5601.0

The easing of home lending since mid-2021 was mostly due to a slowdown in first home buyer demand. The proportion of owner-occupier loans that went to first home buyers fell back to pre-pandemic levels, after increasing by 5 percentage points on average over 2020. This also coincided with state government fiscal stimulus being removed in many markets, tighter lending restrictions and higher fixed mortgage rates.

First home buyer participation remains above long-run averages, but deteriorating affordability means first home buyer demand is unlikely to restrengthen in the coming months.

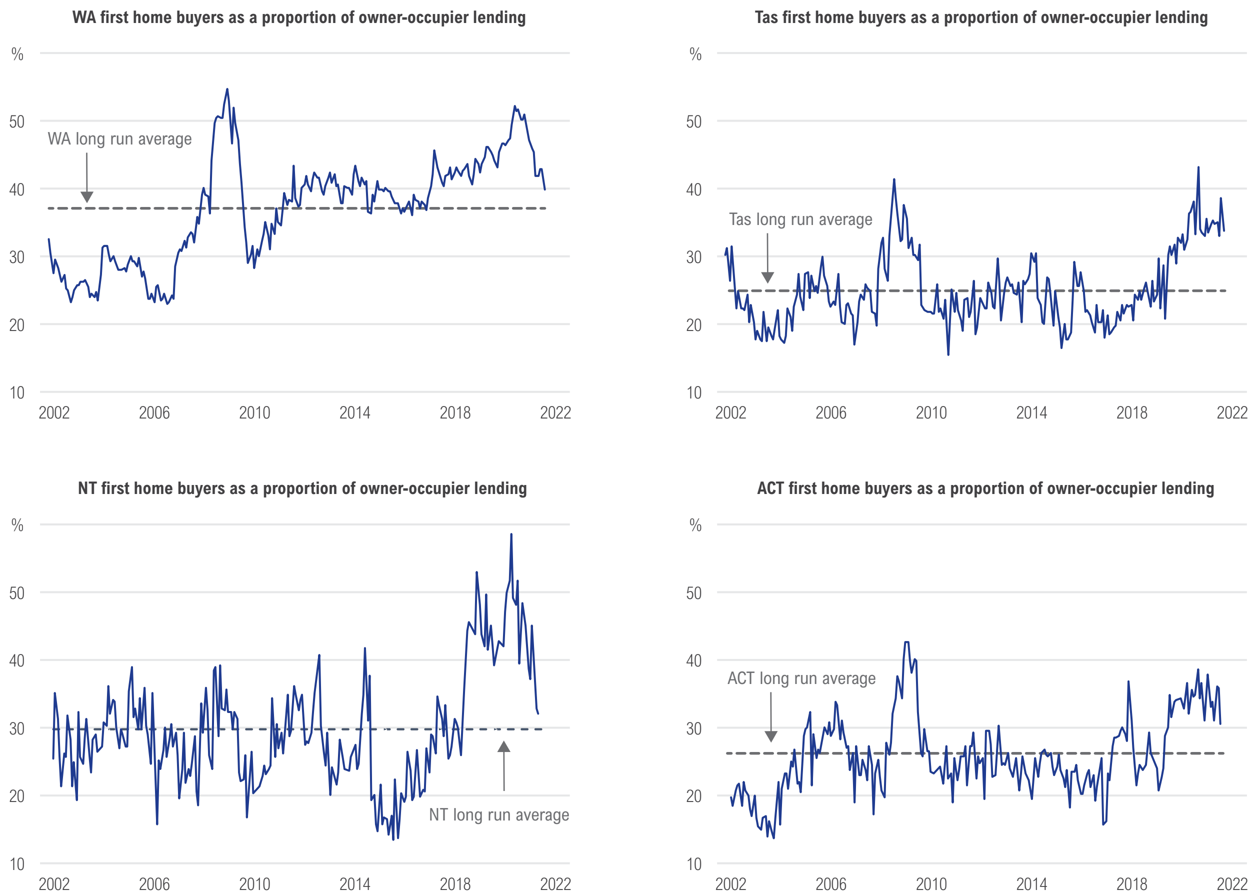
Figure 1.14: First home buyers as a proportion of total owner-occupier lending



Source: ABS Cat 5601.0

The percentage of first home buyers borrowing during the global financial crisis (GFC) rose strongly due to the monetary and fiscal response. However, it fell back below the long-run average as this stimulus was withdrawn and affordability deteriorated. In the early months of the COVID-19 pandemic, the percentage of first home buyers borrowing rose to be close to or even higher than during the GFC in Vic, Tas, WA and the NT.

Figure 1.15: First home buyers as a proportion of total owner-occupier lending



Source: ABS Cat 5601.0

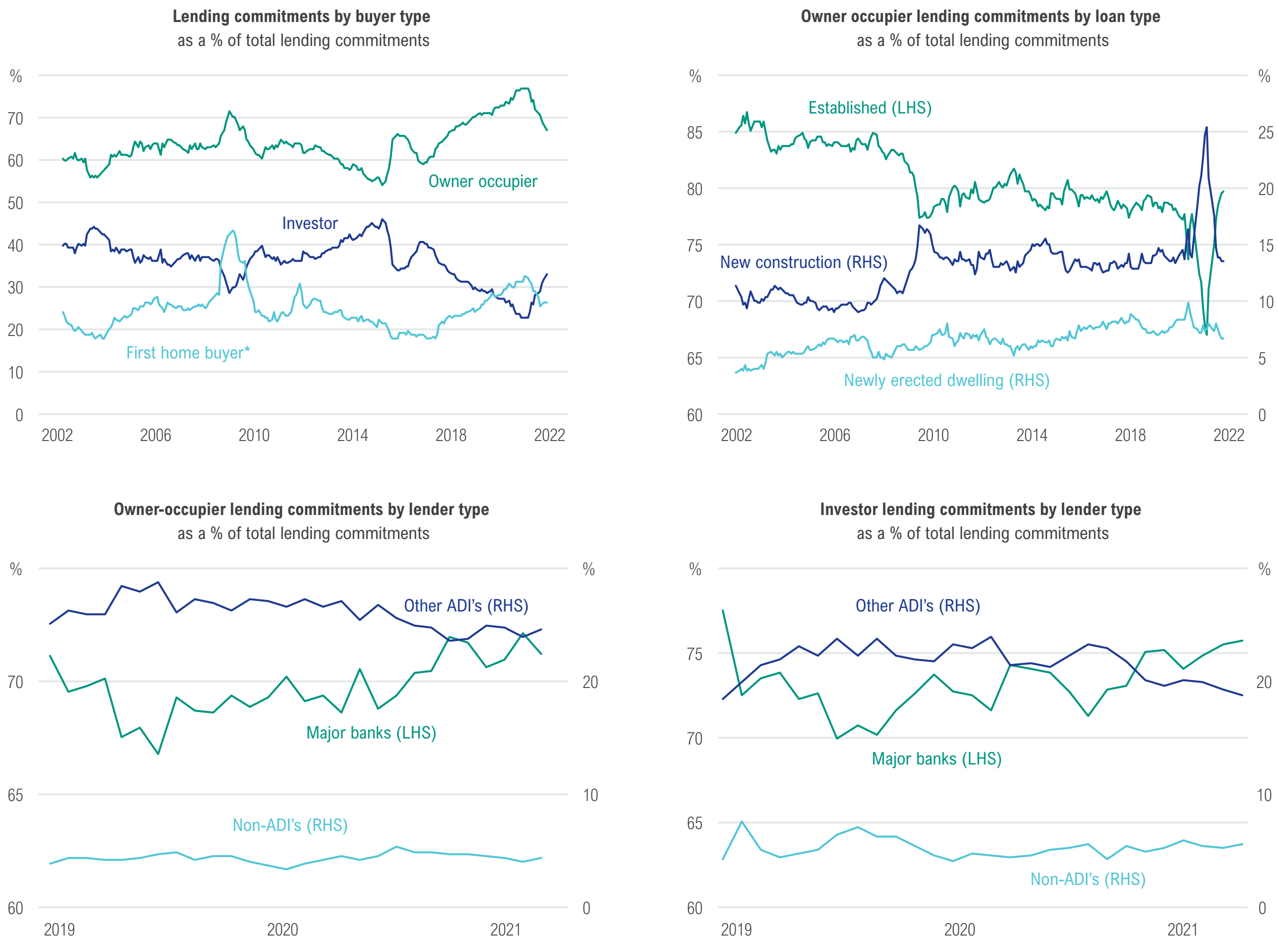
The HomeBuilder program, which provided owner-occupiers, including first home buyers, with a grant[2] to build a new home, substantially renovate an existing home, or buy a new home, was a key driver behind the surge in owner-occupier lending. Loans for new construction peaked in early 2021 to a quarter of all owner-occupier lending commitments, before dropping back to pre-pandemic levels (14%) after HomeBuilder was withdrawn.

The rise in first home buyer lending commitments during 2020 squeezed out investors. But this trend reversed in 2021 as investor demand increased in response to improved fundamentals in the rental market.

Around 70% of owner-occupier loans and 75% of investor loans continue to originate mostly from the major banks, with the share of loans from other authorised deposit-taking institutions gradually decreasing.

2 HomeBuilder provides a $15,000 grant for eligible contracts entered into on or after 1 January 2021 until 31 March 2021 (inclusive). A $25,000 grant is available for eligible contracts entered into on or after 4 June 2020 up to and including 31 December 2020.

Figure 1.16: Household lending commitments



Source: ABS, NHFIC.

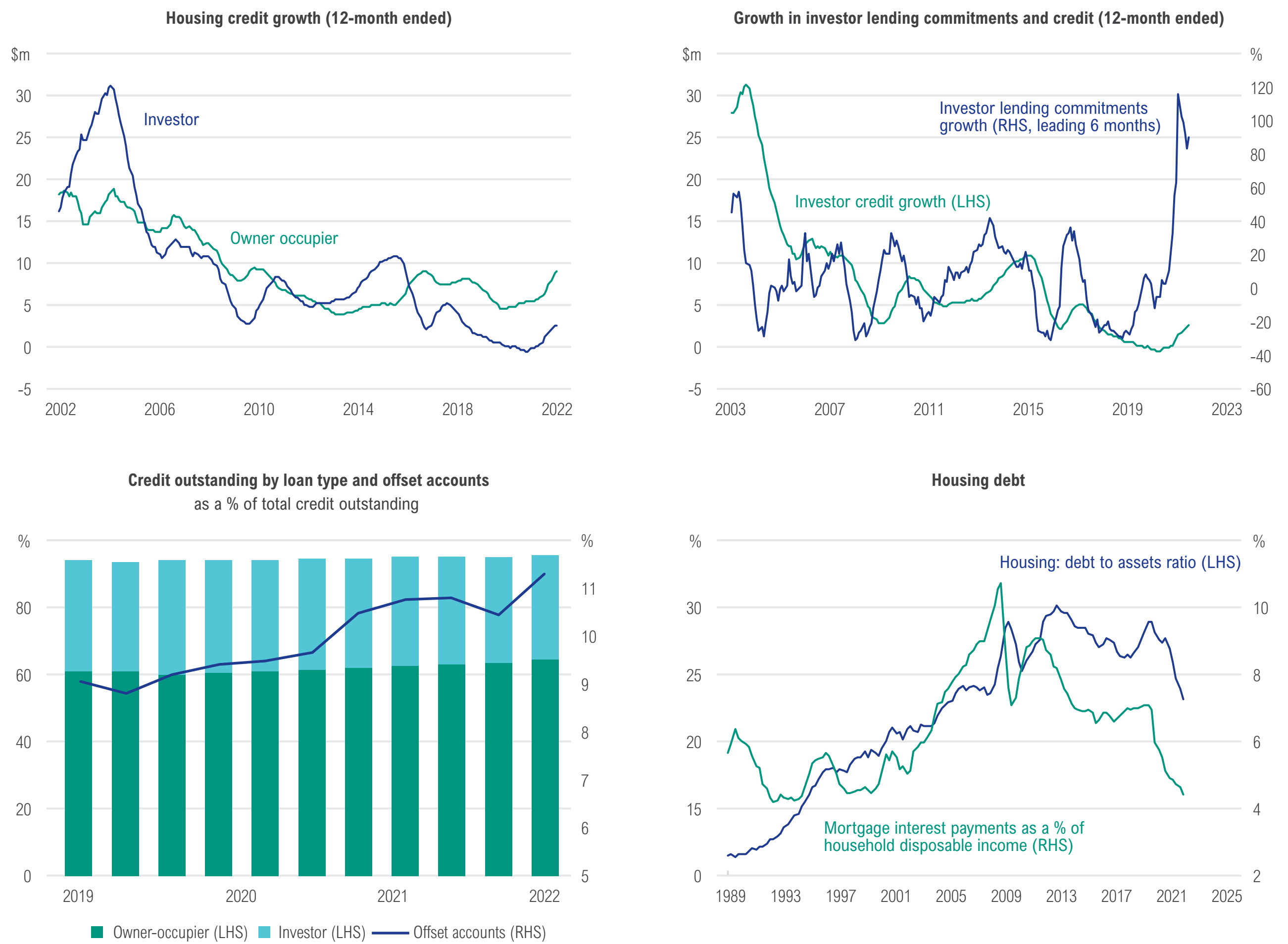
Despite strong property price appreciation, credit growth increased only at a modest pace during 2021. Nevertheless, when prices are rising rapidly and expected to continue to do so, borrowers may become overstretched, threatening the economy's overall financial stability.

Mindful of this risk, policymakers and regulators are closely monitoring developments in the housing and credit markets.[3] In October 2021, APRA increased the minimum interest rate buffer it expects banks to use when assessing serviceability of home loan applications from 2.5% to 3.0%.

In another sign of emerging risks, growth in investor lending – an indicator of more speculative activity in the housing market – accelerated during 2021, albeit from an exceptionally slow pace of growth. Investors are being attracted by rising prices and positive rental market fundamentals. If, as seems likely, growth continues over the coming months, regulators may step in to restrict some lending activity. However, at this stage, growth in investor lending is still significantly slower than the pace seen in 2014 when APRA capped lending to these borrowers.

3 https://www.rba.gov.au/speeches/2021/sp-ag-2021-09-22.html

Figure 1.17: Credit growth and housing debt



Source: RBA, ABS, NHFIC.

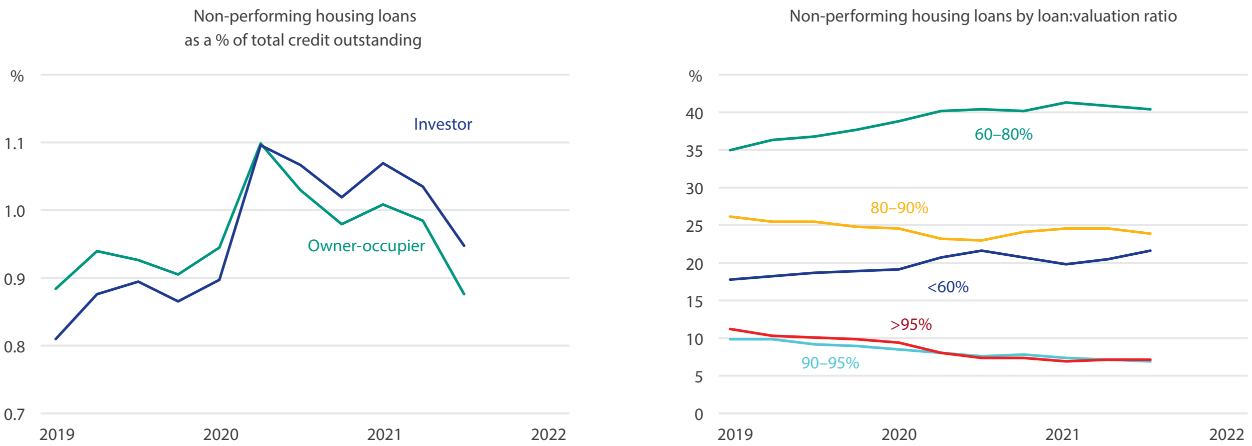
Despite the rise in property prices, low mortgage rates meant debt servicing costs continued to decrease as a share of household income. Households were also supported by low unemployment and high levels of savings, as evidenced by the strong growth in offset account balances. Unprecedented levels of government assistance through JobKeeper and JobSeeker payments also helped to support households through the pandemic.

Banks and the supply of credit

Non-performing loans for investors overtook non-performing loans for owner-occupiers as a share of total credit outstanding from 2020, probably due to the shock to the rental market during the early stages of the pandemic when borders closed. This deterioration in fundamentals may have led to many investment properties being sold to owner-occupiers and removed from the rental market.

Most non-performing housing loans have Loan-to-Value Ratios (LVRs) between 60 to 80%. These loans are not necessarily mature loans and may have been written just before or during the pandemic because house prices have risen strongly since then. It is also possible that some of these loans are older and were set on higher rates.

Figure 1.18: Authorised deposit-taking institutions non-performing loans

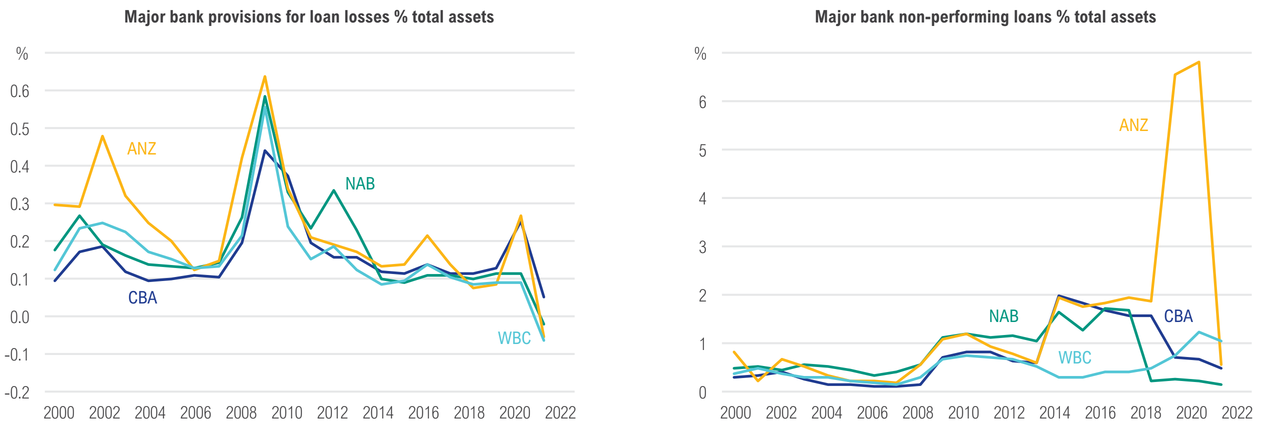


Source: APRA, NHFIC.

In the first year of the pandemic, provisions for loan losses remained stable for NAB and Westpac but rose for ANZ and CBA, Australia's largest home loan lender.

However, in its full year results in August 2021, CBA reported a substantial fall in provisions from the previous year. The bank also reported that actual loan losses declined in both 2020 and 2021.

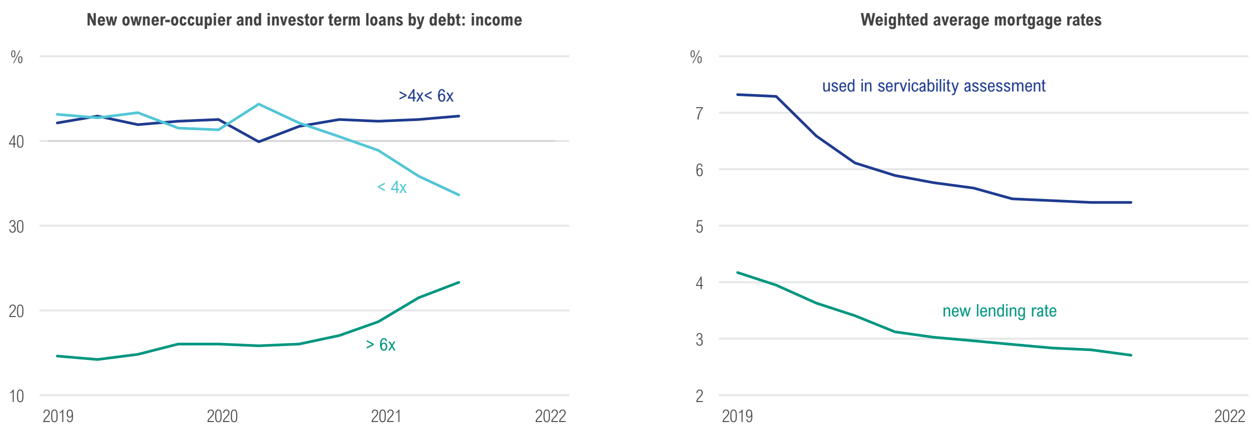
Figure 1.19: Authorised deposit-taking institutions provisioning for loan losses



Source: Refinitiv, NHFIC.

Over 2021, the proportion of loans greater than 6 times the applicant's income increased rapidly while the proportion of loans less than 4 times income fell. Weighted average mortgage rates used in serviceability assessments also declined.

Figure 1.20: New lending ratios

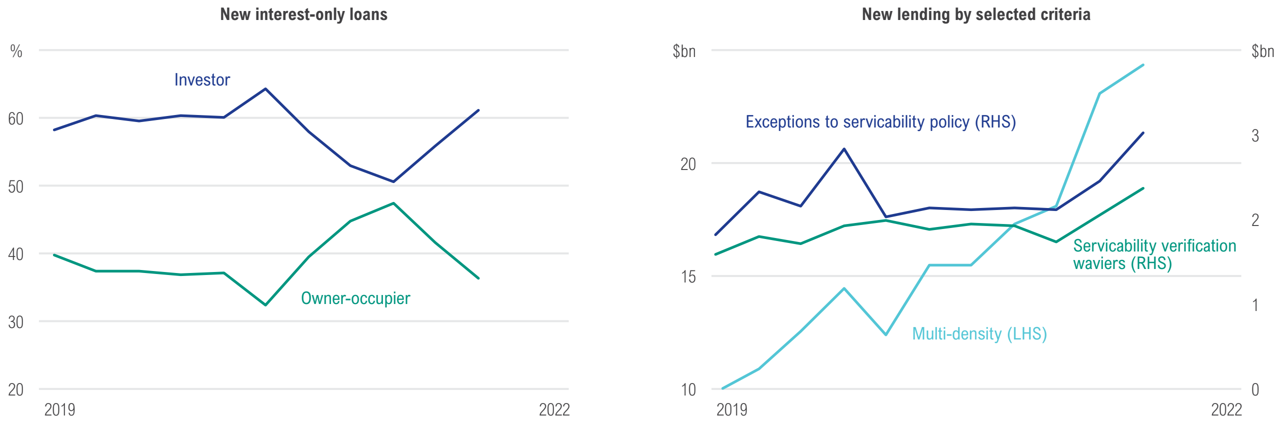


Source: APRA, NHFIC.

Lending for interest-only loans to owner-occupiers increased during 2020 as prices surged and borrowers found it more difficult to finance property purchase with a principal and interest loan. The share of new interest-only loans has since grown as investors return to the market.

Exceptions and waivers to the serviceability policy increased in 2021.

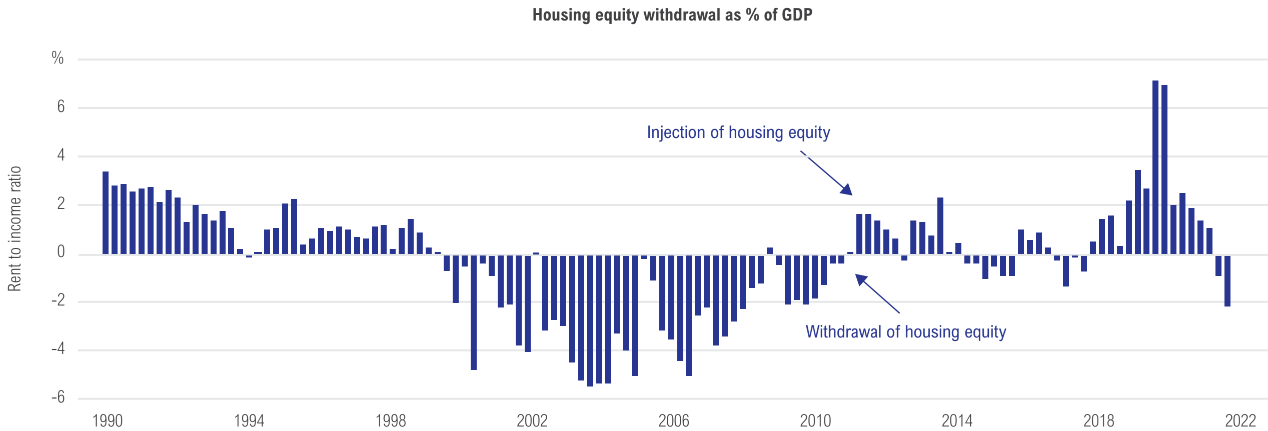
Figure 1.21: New lending by selected loan type



Source: APRA, NHFIC.

Households continued to inject equity into the housing stock through to the first few months of 2021, despite the low interest rate environment, although the rate of injection has been slowing over the past few years. More recently, household equity withdrawal has increased as households unlock the equity in their properties following strong price growth.

Figure 1.22: Housing equity withdrawal*



Source: ABS, RBA, NHFIC.

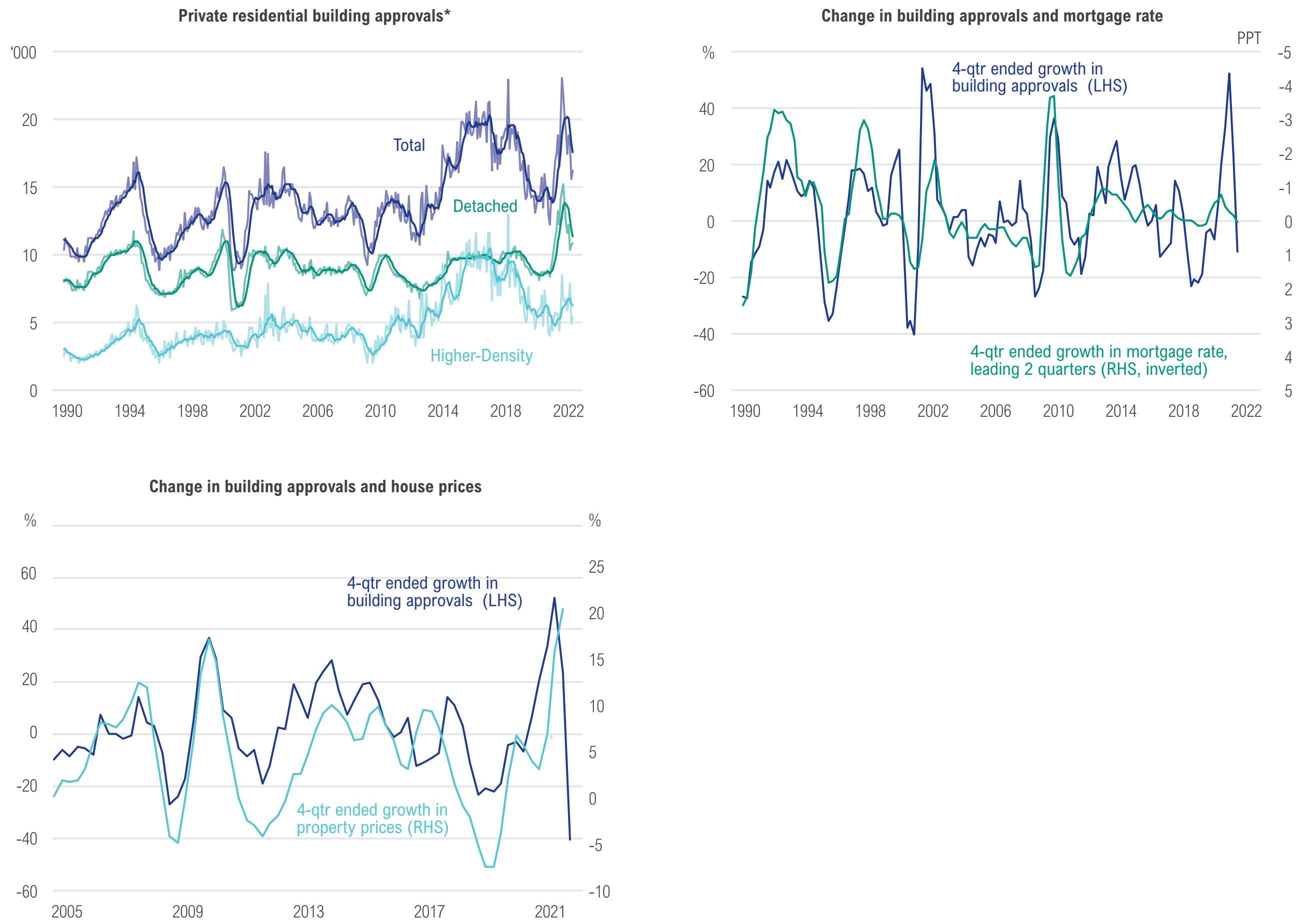
*Housing equity withdrawal is the change in housing credit less nominal dwelling investment, divided by nominal GDP. A break occurs in July 2019, the June quarter 2019 and December quarter 2019 observations are averaged.

Construction activity

The HomeBuilder program, along with other state-based schemes, has been a key support for detached dwelling construction during the pandemic. Building approvals for this dwelling type reached a record high in the first half of 2021 after rising by 60% over the year to May 2021.

Approvals fell after HomeBuilder ended, but have remained at relatively high levels on the back of low mortgage rates and rising house prices. Dwelling prices and mortgage rates have a strong relationship with construction activity.

Figure 1.23: Building approvals, interest rates and house prices



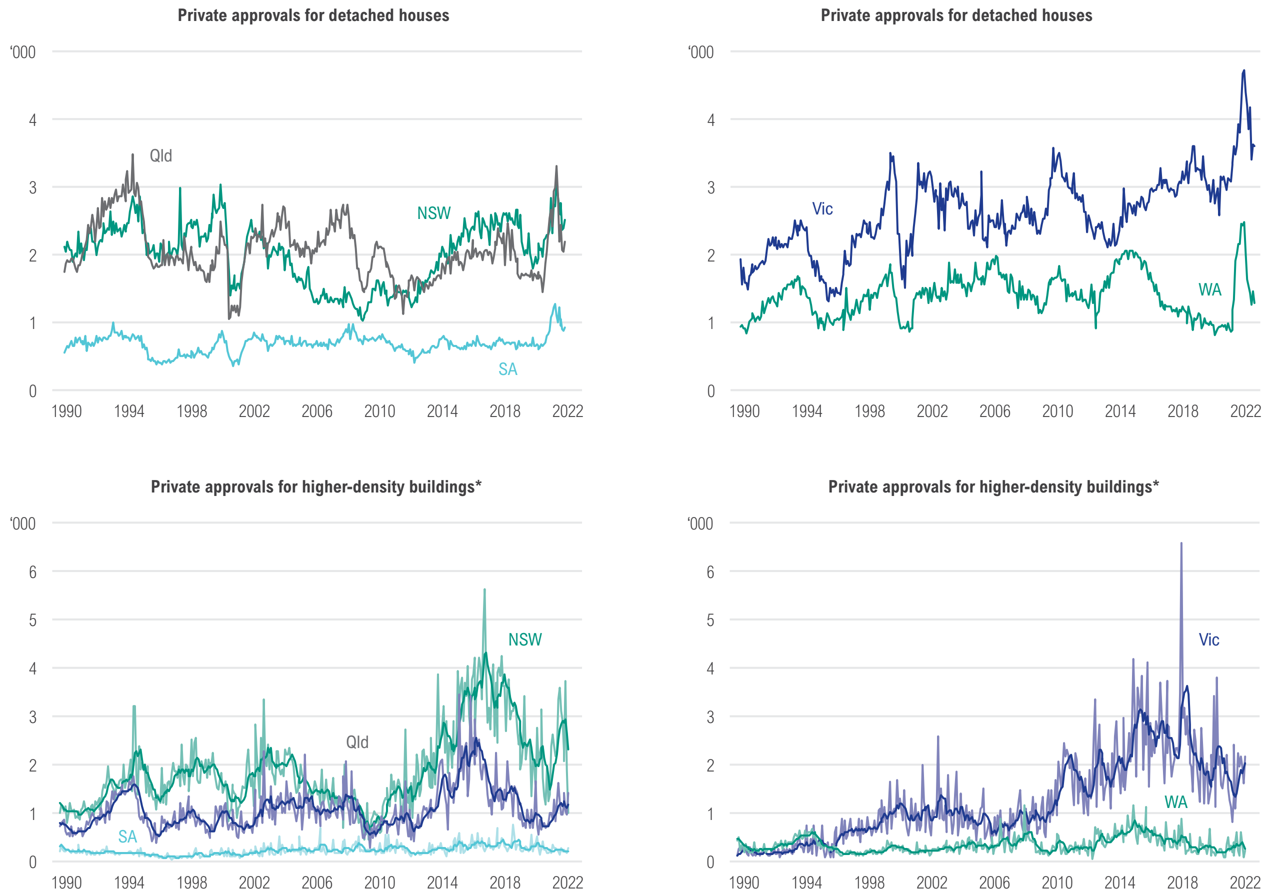
Source: ABS, CoreLogic *Smoothed trend lines indicate 6-month moving average

Early 2021 saw a broad-based surge in detached building approvals. WA had the strongest growth in approvals, up 154% over the year to April 2021. The subsequent decline in approvals since Home Builder ended has been most notable in WA, Qld and Vic.

Building approval growth in multi-density and apartment buildings was weaker than approvals for detached homes because HomeBuilder primarily supported the detached dwelling and renovation markets. Approval for multi-density dwellings was stronger in NSW, which recorded a 30% increase in 2021.

Given international borders are gradually reopening and demand in the rental market is picking up, shortages of other dwellings for rent can be expected over the next few years, because Homebuilder primarily supported the detached dwelling and renovation markets.

Figure 1.24: Private residential building approvals

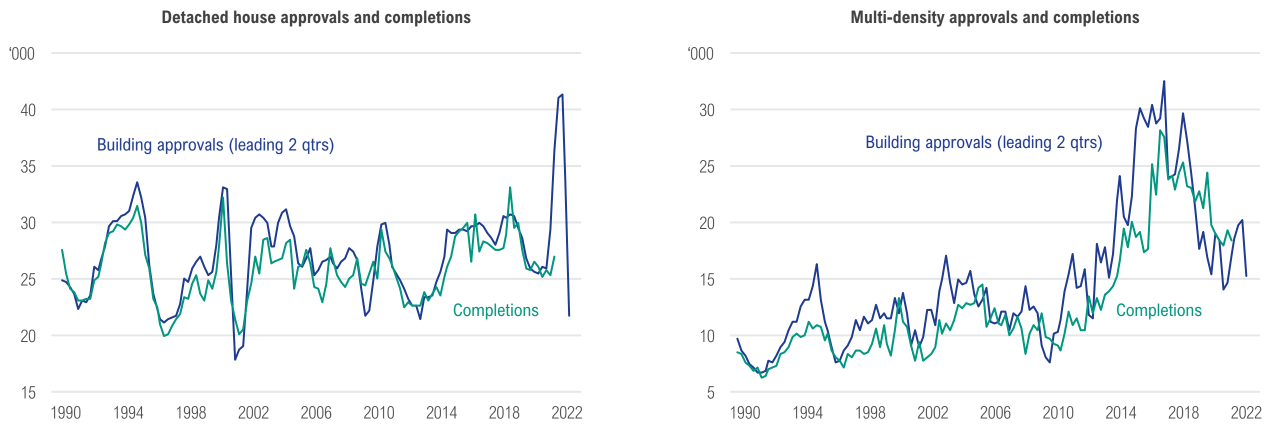


*Trend lines are calculated using a 6-month moving average
Source: ABS Cat 8731.0, ABS 5206.0, NHFIC.

Although the number of detached home building approvals have fallen after the end of HomeBuilder, the number of completions has remained low. While this is normal at turning points in the cycle, it could also be due to construction industry constraints in labour and materials.

Multi-density and apartment approvals have fallen but remain at relatively high levels and will likely remain around 15,000 per quarter for the next 6 months or so.

Figure 1.25: Building approvals and completions

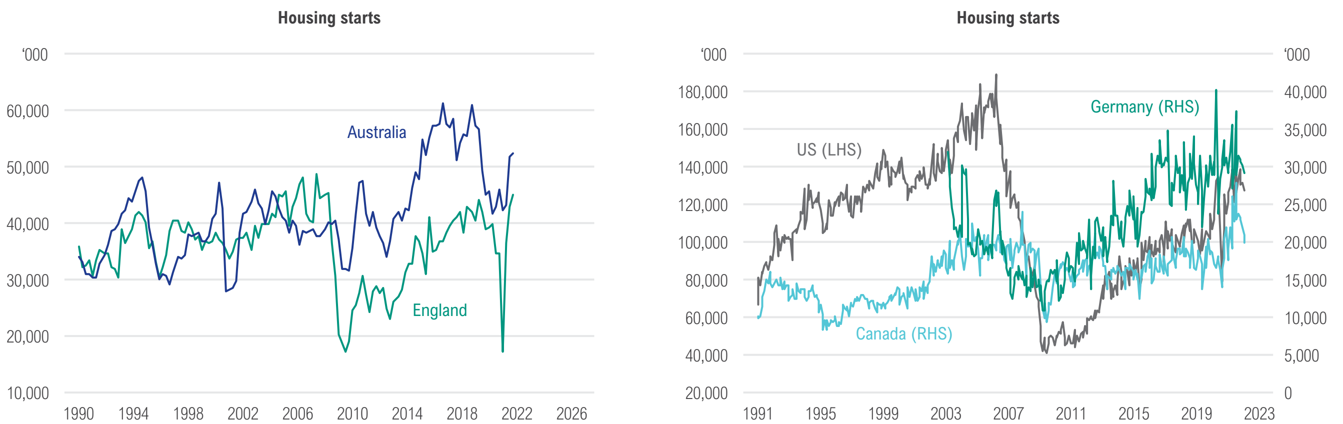


Source: ABS Cat 8752.0, ABS Cat 8731.0

International construction indicators

Internationally, housing commencements increased steadily during the pandemic. COVID-related restrictions impacted housing starts in 2020 in the US, Canada and the UK, but had minimal effect in Australia. The UK recorded a strong recovery in housing starts once restrictions were eased.

Figure 1.26: International housing commencements



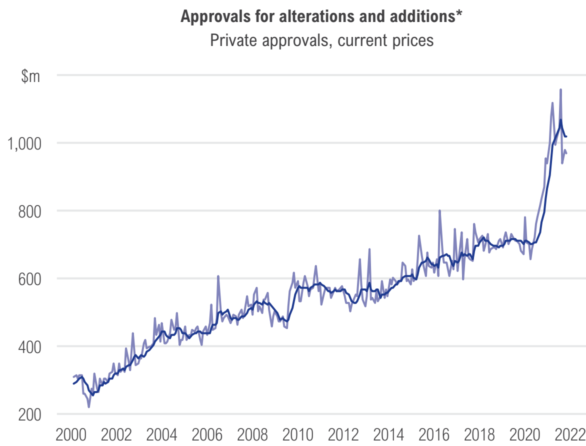
Source: Refinitiv, NHFIC.

Renovation activity

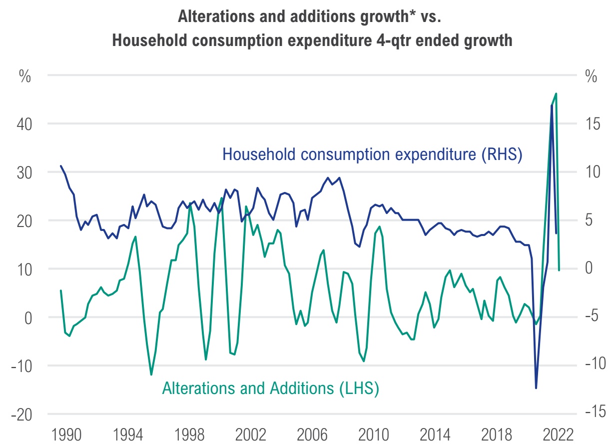
Strong growth in income, low interest rates, fiscal support policy support (including HomeBuilder) and strong growth in housing prices have all supported a rise in alterations and additions. The unique circumstances of the pandemic, with households spending more time at home, has probably also provided a strong support for investment in alterations and additions. Lending commitments for alterations and additions rose by around 85% over the year to April 2021 and a further 41% from then until November.[4] The data shows the alterations and additions market has been resilient to the end of HomeBuilder.

As the pandemic forced lower household consumption of services such as travel and hospitality, households have diverted their spending towards goods. Spending on home renovations has also benefitted, with households finding it more attractive, or cost-effective, to renovate an existing home rather than borrow to move or upsize. Transaction costs, such as stamp duty, are a major impediment to households moving to a more appropriate property.

Figure 1.27: Alterations and additions



*Trend line is calculated using a 6-month moving average
Source: ABS Cat 8731.0, ABS 5206.0, NHFIC.



*4-qtr growth derived from 6-month moving average

4 Using seasonally adjusted lending commitments for alterations and additions by value.

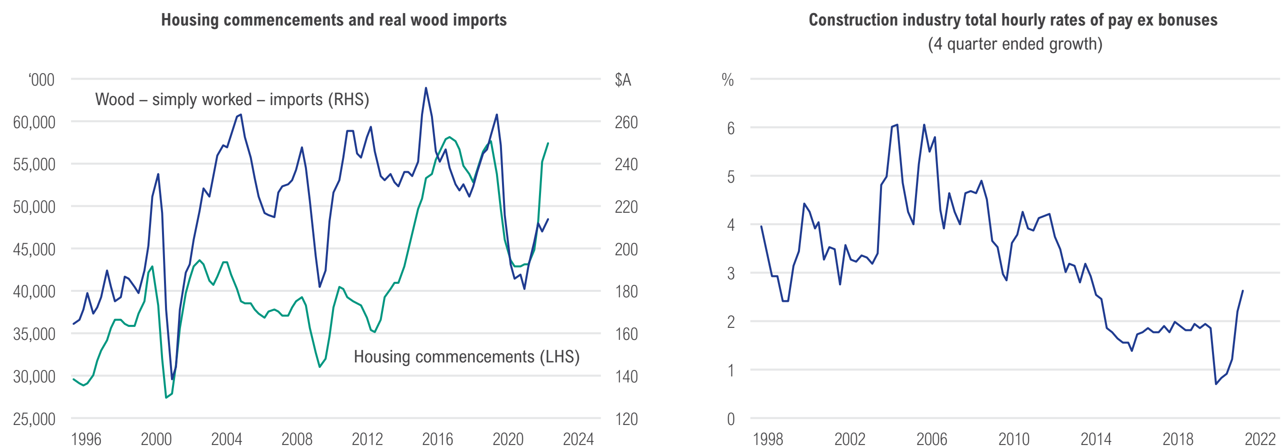
Supply-side constraints in the construction industry

The surge in demand for new construction and global disruptions to manufacturing related to the pandemic has contributed to strong upwards pressure on building material costs. Global supply chains have been affected by COVID restrictions, particularly in those countries such as China, which supply materials to the Australian construction industry. The bottlenecks have been particularly notable at ports and manufacturing facilities.

State and international border closures within Australia have also led to labour shortages. Although this is yet to translate into a stronger rise in wages, the effects on material costs and supply have been more dramatic. For example, costs for wood imports grew 15% over the year in 2021, while wage growth remained modest at around 2.6%.

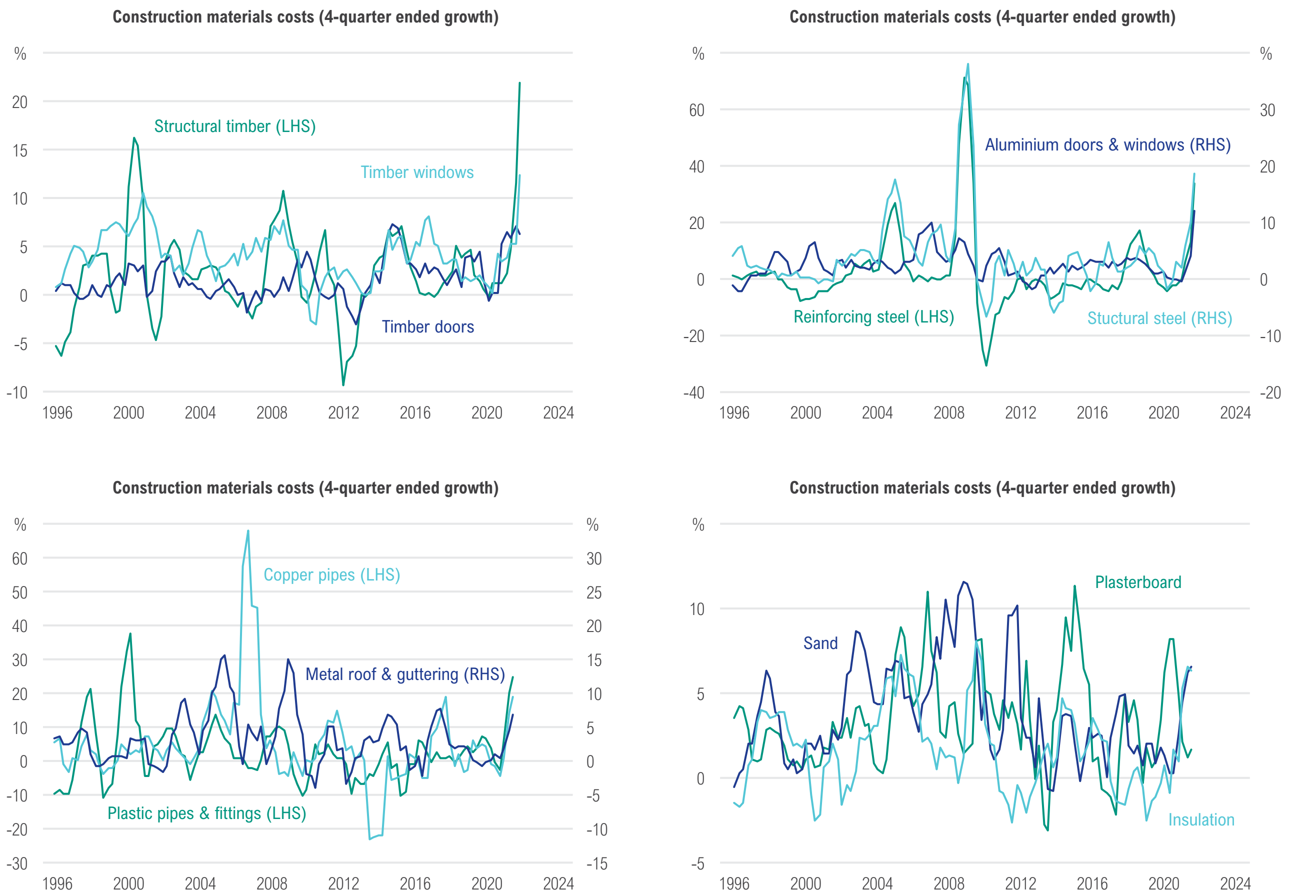
The cost of structural timber, timber windows, board and joinery, aluminium windows and doors, steel products, plastic and copper pipes and fittings, and electrical cable and conduit experienced 4 quarter-ended growth of 12-25% in 2021. The cost of reinforcing steel increased the most, with 4 quarter-ended growth of 34%.

Figure 1.28: Construction material imports and wages growth (4 quarter-ended growth)



Source: ABS Cat 53020 and ABS Cat 87520

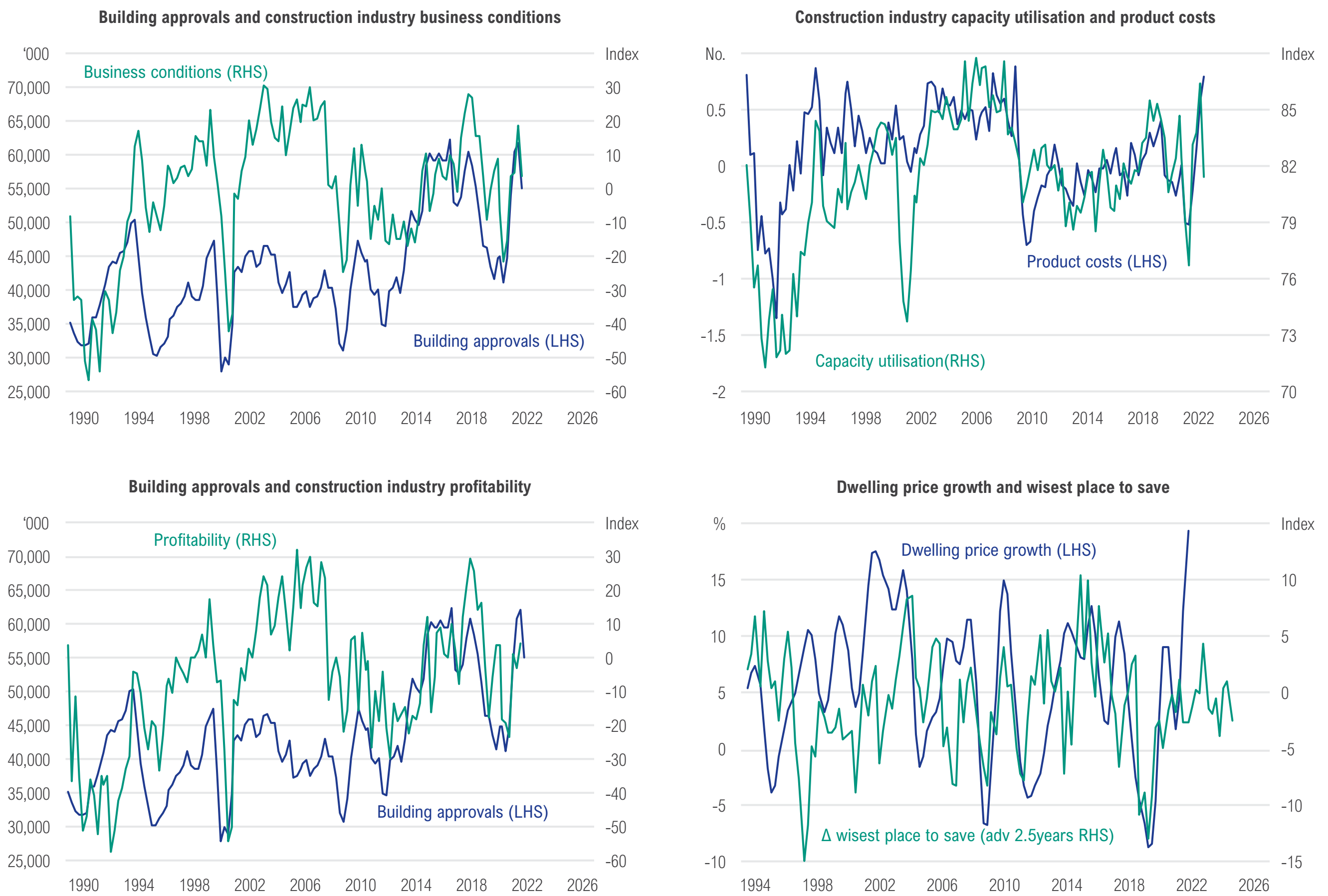
Figure 1.29: Construction material costs (quarter-ended growth)*



Source: ABS Cat 64270.0. *Weighted average of 6 capital cities.

Increased construction demand meant business conditions and profitability in the construction industry greatly improved and should remain strong while business conditions are favourable.

Figure 1.30: Housing sentiment



Source: Refinitiv, CoreLogic, NHFIC.

The surge in demand for new construction and global disruptions to manufacturing related to the pandemic has contributed to strong upwards pressure on building material costs... State and international border closures within Australia have also led to labour shortages.