Use of Housing Data in the Reserve Bank of Australia for Monitoring and Research Purposes

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Overview

- Why housing market dynamics are important for a Central Bank

- How we use data to understand market dynamics

- Emerging Opportunities

Why housing markets matter

- Housing-sector is an important driver of real activity

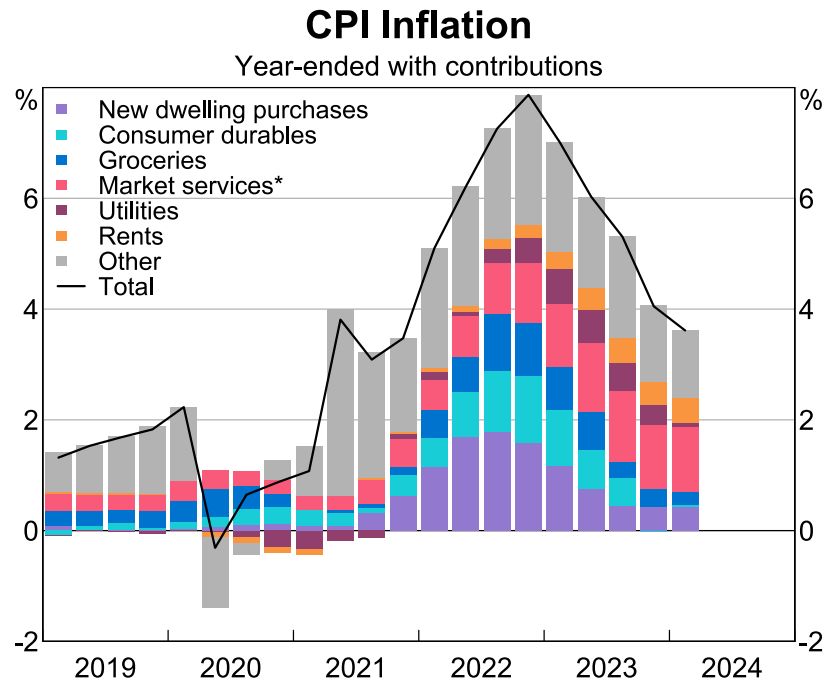 - Sizable component of activity

  - Responsive to monetary policy

Sectoral Output and Investment Response to a Monetary Policy Shock

Deviation from baseline
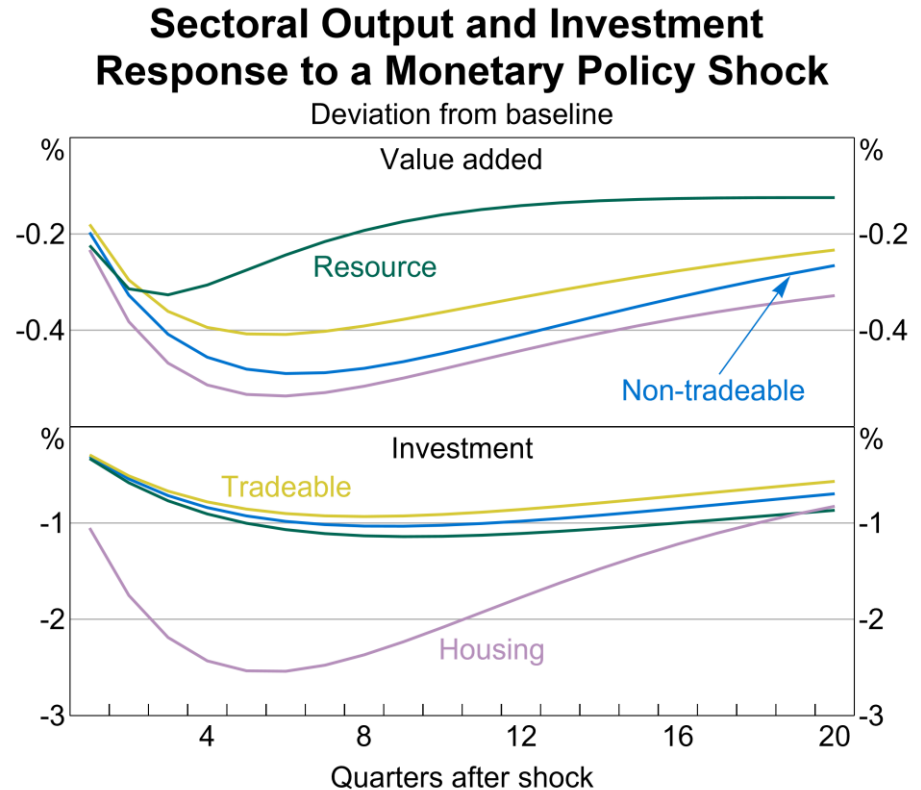
Note: 100 basis point increase in cash rate

Source: Gibbs, Hambur and Nodari (2018).

Why housing matters

- Rents and new housing are important components of inflation
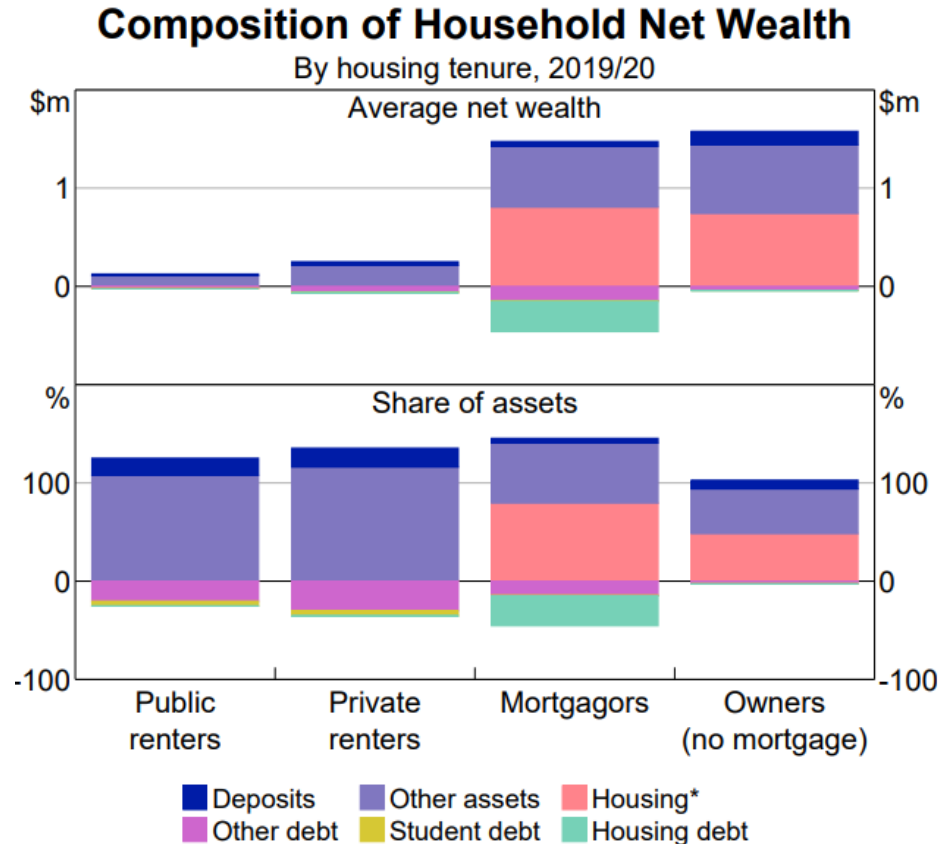 - Sizeable weight in CPI
  - Rents especially are quite persistent

CPI Inflation
Year-ended with contributions

* Excludes domestic holiday travel & accommodation and telecommunications.

Source: ABS; RBA.

Why housing matters

- Significant component of household assets and liabilities

- Housing market dynamics affect activity via wealth effects

- Important financial and macro-stability implications

Composition of Household Net Wealth
By housing tenure, 2019/20

Legend: Deposits | Other assets | Housing* | Other debt | Student debt | Housing debt

* Includes value of offset account.
Sources: ABS; RBA

How we use data

- Important to be able to forecast housing construction activity

- Use data on approvals, commencement and completions to build up pipeline
  - Full picture important – approvals fallen, but pipeline remains high

Residential Pipeline
Quarterly
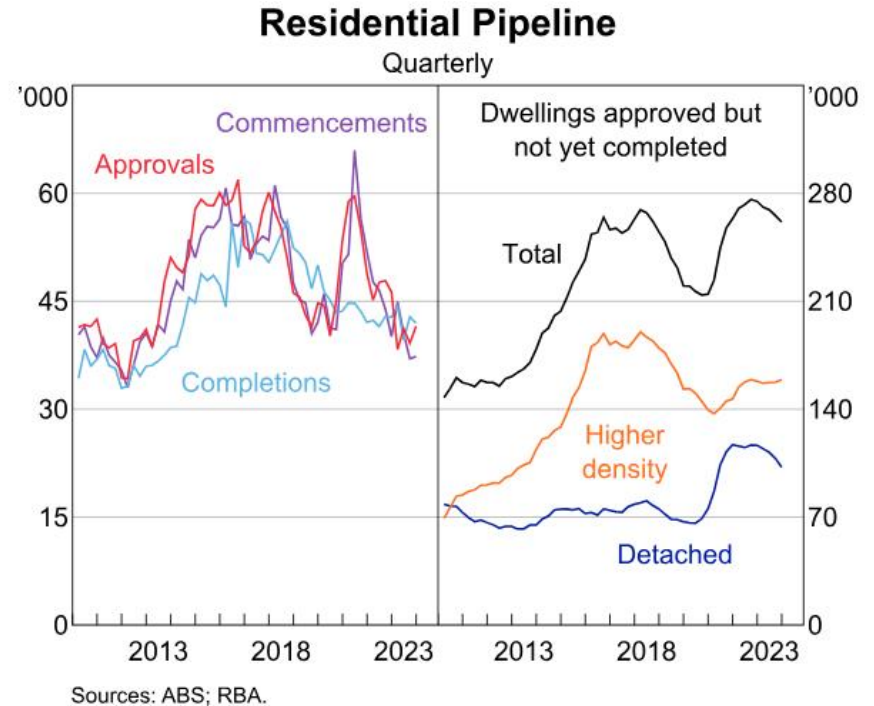
Sources: ABS; RBA.

How data helps

- In understanding inflation, need to understand balance of supply and demand
  - Strong relationship vacancies and rents

Vacancy Rate and Rent Growth

Vacancy rate
(RHS, inverted scale)
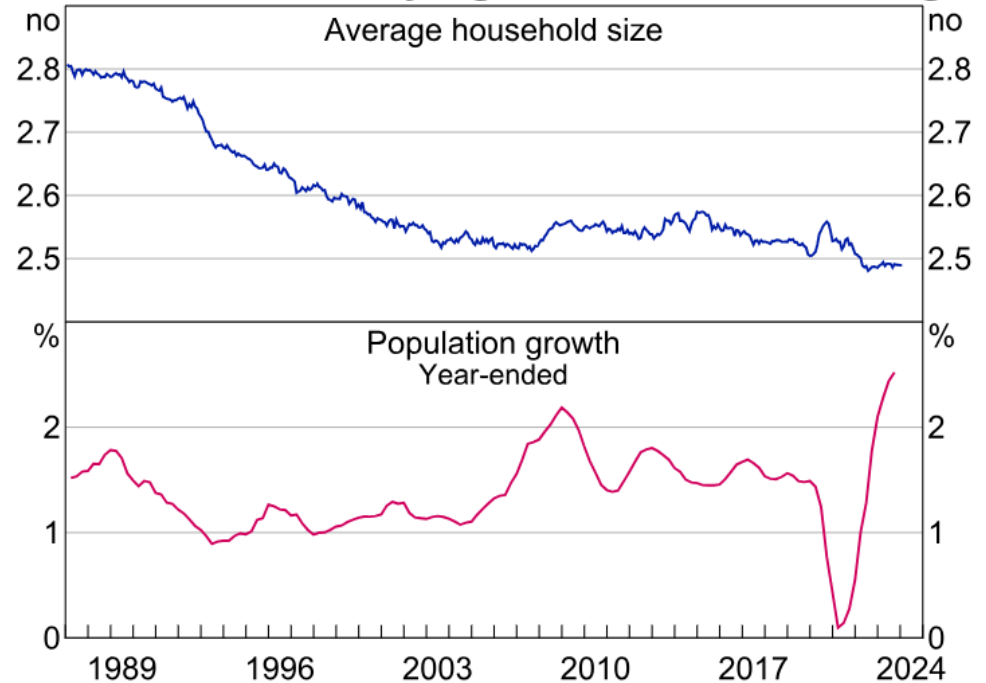
CPI rents*
(LHS)
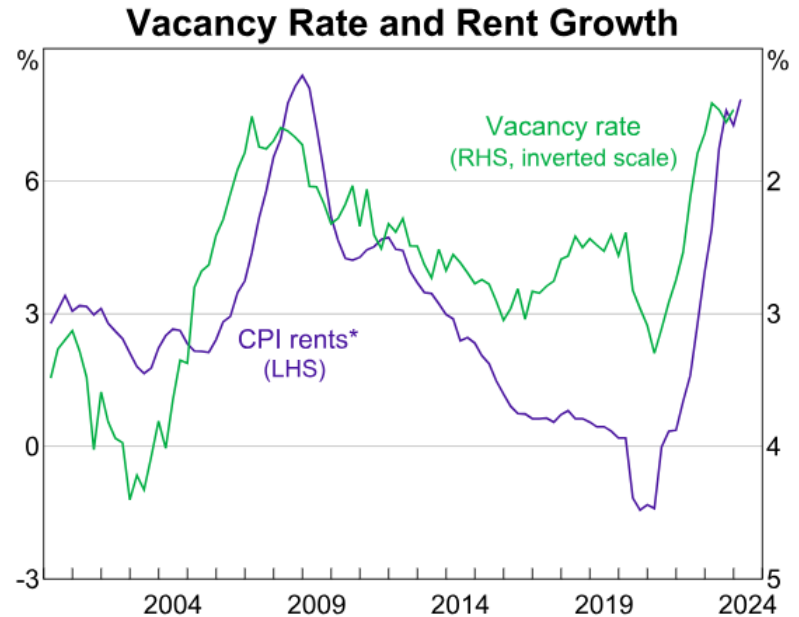
*   Year-ended growth.
Sources: ABS; RBA; REIA.

How data helps

- Demand reflect population growth, but also household formation
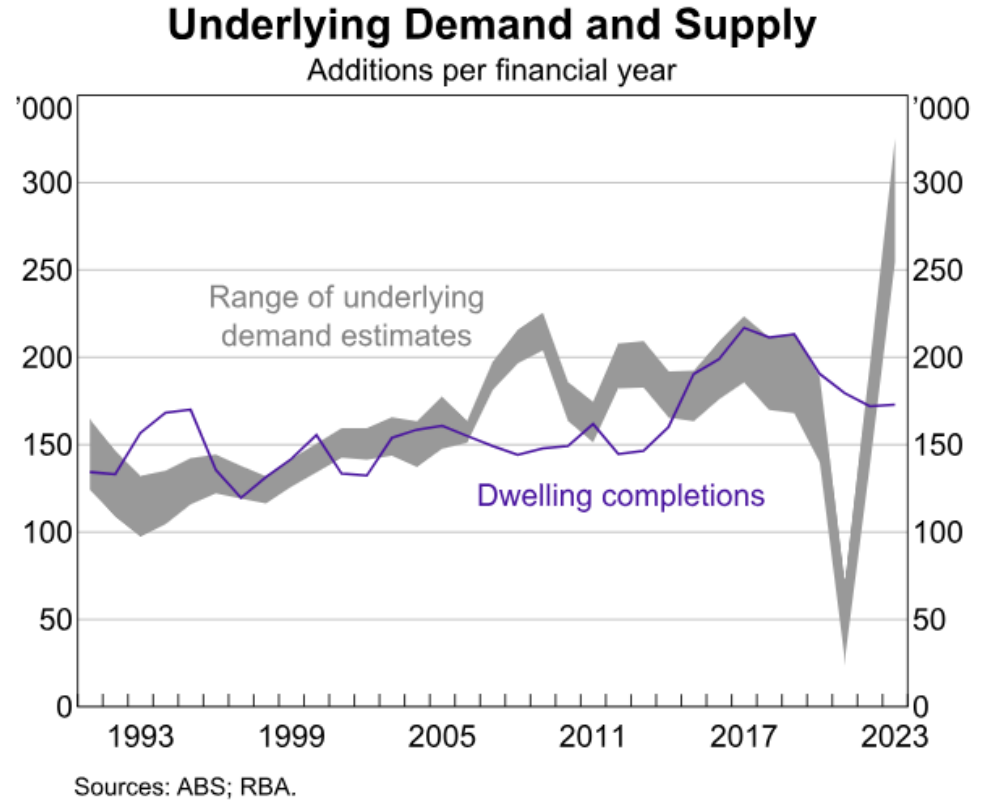   - Household size has declined, contributing to higher demand

Drivers of Underlying Demand for Housing

Sources: ABS; RBA.

How data helps

- Putting them together can give us a view on the balance between supply and demand

Underlying Demand and Supply
Additions per financial year

Range of underlying demand estimates

Dwelling completions

Sources: ABS; RBA.

Emerging Opportunities

- Existing aggregated data extremely valuable in understanding macro dynamics

- More granular data or integrated can help tell a richer picture
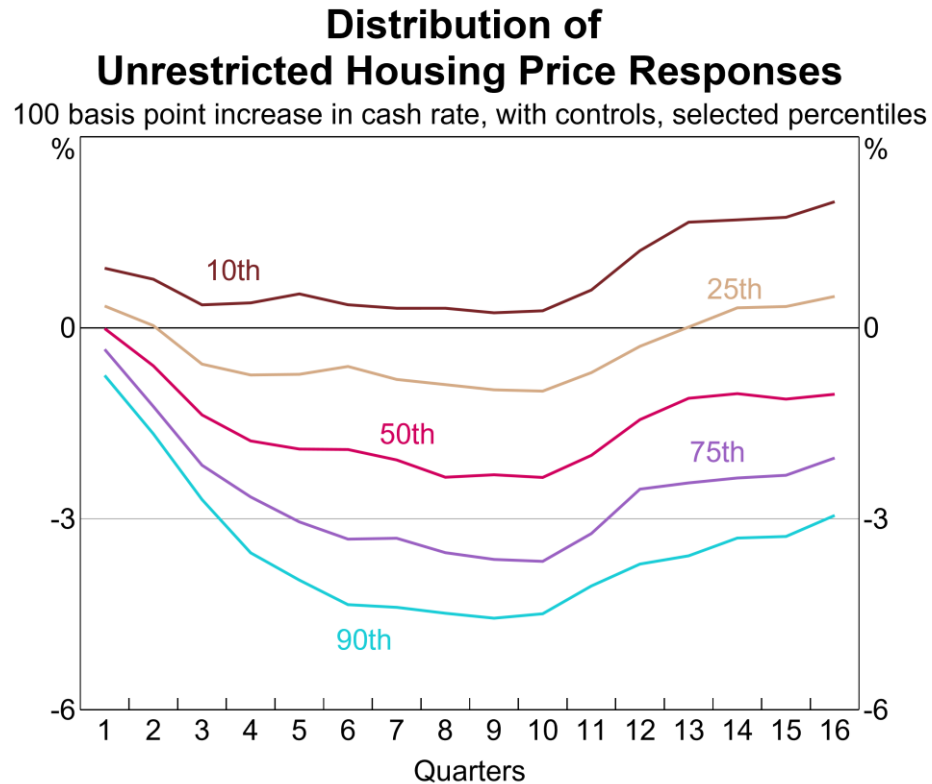 - COVID saw very different rental dynamics for inner and outer suburbs

Rent Price Indices*
By capital city SA3, March 2020 = 100
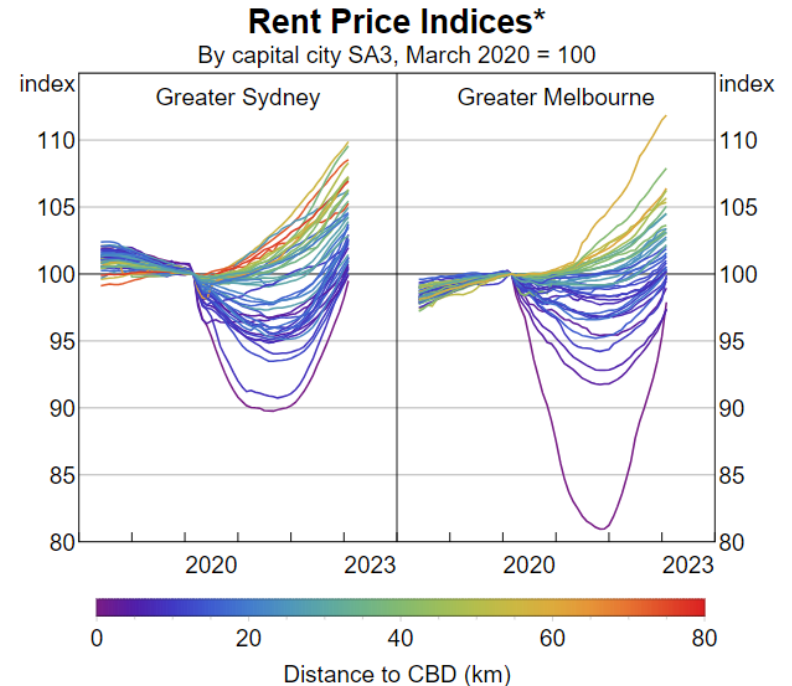
* Total private dwellings, excluding rent assistance. Stratified by SA3 and property type.

Source: ABS

Emerging Opportunities

- More granular data or integrated can us understand policy effects

- Using detailed geographic prices data found prices in areas with higher incomes are more responsive to policy
    - Implication for interpreting wealth effects and inequality

- Using investor-level data, found no pass-through of higher interest costs into rates charged by landlords
    - Important for understanding passthrough of policy

Distribution of Unrestricted Housing Price Responses

100 basis point increase in cash rate, with controls, selected percentiles

Sources: ABS; Authors' calculations; CoreLogic data; He and La Cava 2020; RBA.

Conclusions

- Housing markets important consideration for central banks

- Good data on prices and activity are crucial for understanding dynamics

- Emerging granular and integrated data provide more analytical firepower