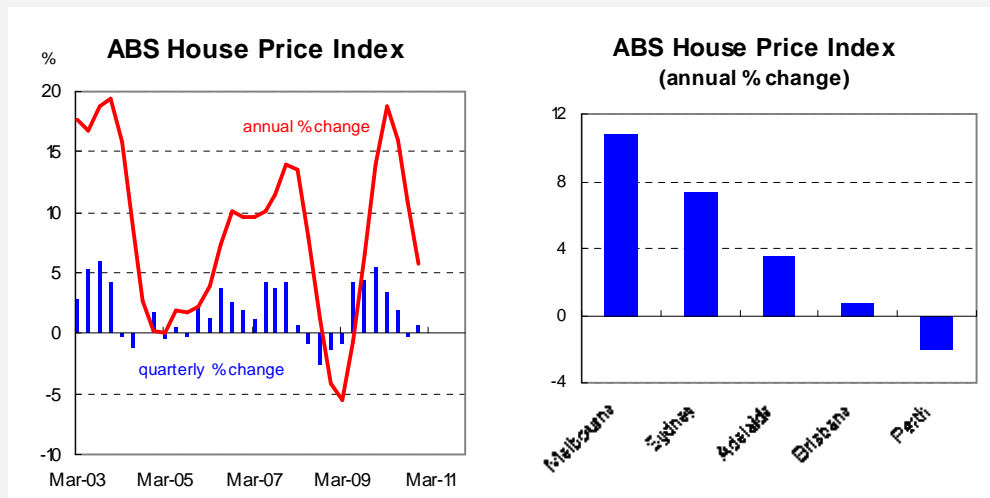


# DATA SNAPSHOT

## ABS House Price Index – Q4 2010

Tuesday, 1 February 2011

- The average price for established houses in Australia's eight capital cities rose 0.7% in Q4-10 after a 0.3% fall in Q3 and robust gains in Q2 and Q1.
- In annual terms, from the recent peak of 18.8% y/y in Q1-2010, house price growth has slowed to 5.8%.
- This gradual moderation over 2010 reflects lowered demand for housing amid higher mortgage rates and the end to the First Home Owners Boost.
- The floods are to weigh on house price growth in the short term. But progress over the medium term is also likely to be hindered by high mortgage rates, falling immigration and lower affordability. All these factors lift the potential for house price growth to be flat for most of this year.



|           | Dec Qtr % Ch | Ann % Ch |          | Dec Qtr % Ch | Ann % Ch |
|-----------|--------------|----------|----------|--------------|----------|
| Sydney    | 1.6%         | 7.4%     | Perth    | -3.2%        | -2.0%    |
| Melbourne | 1.3%         | 10.8%    | Hobart   | 1.1%         | 1.0%     |
| Brisbane  | 0.7%         | 0.7%     | Darwin   | 0.0%         | 1.7%     |
| Adelaide  | 1.1%         | 3.5%     | Canberra | 1.9%         | 6.5%     |

There was quite a bit of diversity between the eight capital cities. Sydney, Melbourne, Canberra, Adelaide and Hobart posted strong gains in the quarter - house prices rose more than 1.0% and, for Sydney and Canberra, grew close to 2.0%. Over the year, Melbourne was the strongest performer, followed by Sydney. Prices in Perth and Brisbane, which are located in the mining states WA and QLD, haven't been performing as well. House prices fell sharply by 3.2% in Perth and are 2.0% weaker over the year. In Brisbane, there was very little growth in the quarter as well as over the year.

The ABS stated in their report today that the floods will have some impact on house prices. However, this is only expected to show up from early 2011 as the flooding in QLD and some parts of NSW, VIC and SA only began from late December 2010.

Flood-ravaged Brisbane is to be a major drag on nationwide house prices due to the direct impact of the floods. But we are also likely to see an indirect impact extending out for several years and to other areas historically prone to floods. With the floods still fresh in investors' minds, demand in historical flood areas could be significantly more subdued than typically has been the case and this could weigh heavily on house prices. Further, this is

occurring together with much higher mortgage rates, falling affordability, weaker immigration and amid concerns that supply could start to outstrip demand in some States, like Melbourne. The latter suggests that Melbourne's recent very strong gains are unlikely to be sustainable (in Sydney, however, undersupply is still a large problem). Overall, it is likely that house prices could be flat for most of this year.

It doesn't, however, necessarily suggest a dire outlook for the housing market. High and growing national incomes amid a 60-year high in the terms of trade will act as a cushion. Leading indicators are also still pointing to a strong labour market, with the unemployment rate expected to fall further. Meanwhile, rents are likely to increase as higher mortgage rates and house prices deter first-home buyers from purchasing a home and look to rent instead.

Amanda Tan, Market Economist

Ph: (02) 9320-5816

Email: [tanam@stgeorge.com.au](mailto:tanam@stgeorge.com.au)

## St.George Contact Listing

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### Economics & Strategy:

|   |                     |  |                |
|---|---------------------|--|----------------|
| Chief Economist                         | Justin Smirk        | <a href="mailto:smirkj@stgeorge.com.au">smirkj@stgeorge.com.au</a>         | (02) 9320 5854 |
| Senior Economist                        | Josephine Heffernan | <a href="mailto:heffernanj@stgeorge.com.au">heffernanj@stgeorge.com.au</a> | (02) 9320 5751 |
| Market Economist                        | Amanda Tan          | <a href="mailto:tanam@stgeorge.com.au">tanam@stgeorge.com.au</a>           | (02) 9320 5816 |
| Senior Economist                        | Kate King           | <a href="mailto:kingk@stgeorge.com.au">kingk@stgeorge.com.au</a>           | (02) 9320 5892 |
| Chief Economist<br>(on maternity leave) | Besa Deda           | <a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a>           | (02) 9320 5854 |

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