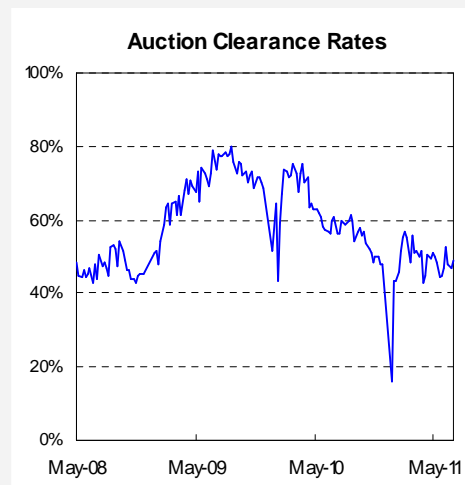
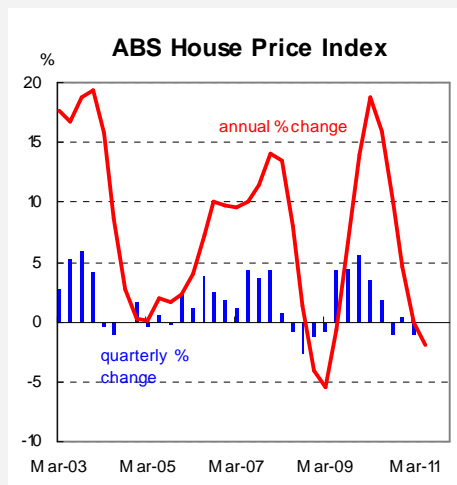


# DATA SNAPSHOT

## Housing in a Soft Spot

Tuesday, 2 August 2011

- Today's data further confirms that housing is in a soft spot, and remains one of the weak areas of the domestic economy. It adds weight to the case for the RBA to keep rates on hold for the rest of this year.
- House prices slipped 0.1% in the June quarter, and were down 1.9% over the year to June. This was the first annual decline in two years. Relatively high interest rates are weighing on housing demand. Deepening caution by households and low auction clearance rates suggests that house price growth will remain weak.
- Rents, however, are set to keep tracking higher with vacancy rates remaining very low. Investor demand should drive a rebound in house prices next year, as yields improve.
- Building approvals unexpectedly declined in June, falling by 3.5%, the third consecutive monthly decline. The total number of approvals is now the lowest in two years. Over the year to June, approvals are down 15.5%.
- High interest rates continue to weigh on housing demand and deepening caution by households further suggests that house prices will remain soft this year. An undersupply of housing will however help limit price declines on houses. Weak building approvals data indicates that the shortage is set to continue.



### ABS House Prices

	Jun Qtr % Chg	Ann % Chg		Jun Qtr % Ch	Ann % Chg
Sydney	0.4	-0.7	Perth	-1.0	-4.1
Melbourne	-0.1	-2.0	Hobart	-0.1	2.8
Brisbane	-0.3	-3.6	Darwin	-1.6	-3.0
Adelaide	-0.8	-2.1	Canberra	1.1	2.2

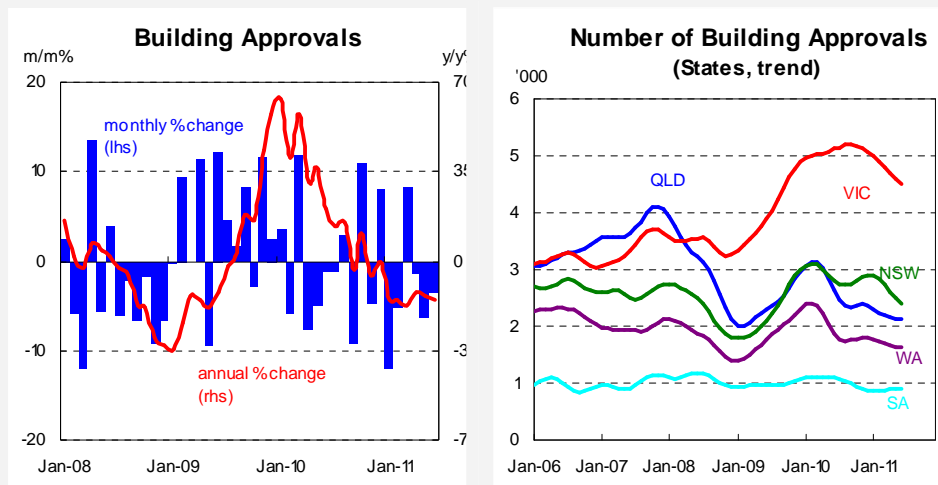
House prices continue to soften falling 0.1% in the June quarter, although it beat expectations for a 1% decline. On an annual basis, house prices fell by 1.9%, the first annual decline in two years.

All capital cities experienced declines with the exception of Sydney and Canberra. The ABS has reported that the increase in Sydney prices was largely attributed to clusters with median prices between \$600,000 and \$1,500,000. Brisbane house prices continue to be weighed down by the impact of the natural disasters earlier this year with the flooding fresh

in investors' minds. Melbourne prices continue to soften this year after very strong house price growth last year. Meanwhile, Perth house prices have yet to post an increase in five quarters and experienced the largest annual decline amongst all capital cities. Median prices for Perth decreased in almost all clusters.

### Building Approvals

The unexpected decline in building approvals in June further underscores the weakness in the housing sector. Total building approvals fell 3.5% in June, and have been in decline for 3 consecutive months. The total number of approvals is now the lowest in two years. Total approvals are down 15.5% over the year to June.



The breakdown showed falls in both private sector houses and private sector other dwellings, declining 3.2% and 4.2% respectively.

Looking across the States, approvals in Queensland and South Australia drove the decline in June falling 18.5% and 12.2%, respectively.

After some recovery from the floods and cyclone earlier this year, approvals in Queensland have taken a backward step in June. However, not all post-flood rebuilding will show up in the approvals data as some QLD councils are providing approval exemptions for some restorations as a result of accidental damage. Queensland's disaster reconstruction authority has further noted that the rebuilding of houses still has further to go.

There was an encouraging rebound in NSW and VIC approvals rising by 3.2% and 6.9% respectively, after sharp falls in May. However, the trend in both States remains in decline.

### Outlook

Relatively high interest rates continue to weigh on housing demand and deepening caution by households further suggests that house prices will remain soft this year. The prospect of another rate rise from the RBA and global growth worries are likely weighing on sentiment. Auction clearance rates throughout July are below 50% for most States also suggesting that house price growth will remain weak. Clearance rates in Perth have been particularly disappointing and point to further moderation in house prices.

Rents, however, are set to keep tracking higher with vacancy rates remaining very low. Investor demand should drive a rebound in house prices next year, as yields improve. Fundamentals are still positive with strong growth in incomes amid record high terms of trade and ongoing labour market strength.

An undersupply of housing will help limit declines on house prices. Weak building approvals data indicates that the shortage is set to continue. The housing shortage is expected to be

the most acute in NSW, thus the Sydney market is likely to outperform other capital cities. Some recovery in house prices is likely required before there is a rebound in dwelling construction. Further, it is difficult for dwelling construction to recover when construction in other areas are so strong.

The housing sector has been one area of weakness in the domestic economy and adds weight to the case for the RBA to keep rates on hold for the rest of this year.

Janu Chan, Economist  
Ph: (02) 9320-5892

## St.George Contact Listing

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Chief Economist	Besa Deda	<a href="mailto:dedab@stgeorge.com.au">dedab@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
Economist	Janu Chan	<a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a>	(02) 9320 5892
State Manager SA	Mark Goldsmith	<a href="mailto:goldsmithm@banksa.com.au">goldsmithm@banksa.com.au</a>	(02) 8424 5597

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