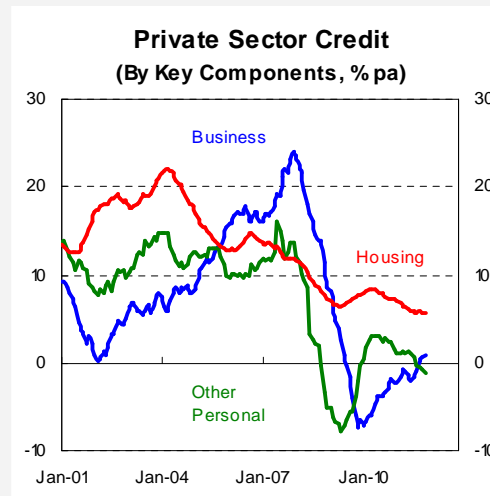
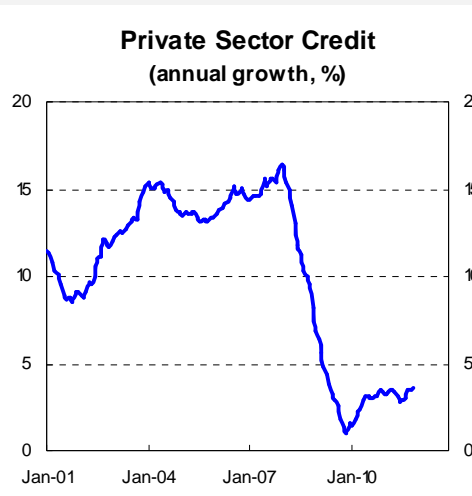


DATA SNAPSHOT

Credit & House Prices: Wilted Flowers & Green Shoots

30 Dec 2011

- The overall trend in private sector credit remains subdued. Private sector credit growth gained 0.3% in November, leaving the annual growth rate soft at 3.5% for the third month running.
- The soft growth rate in November reflects weak growth in other personal lending and flat growth in business credit. Growth in housing credit helped pull up the overall growth rate for credit in the month.
- Other personal credit grew by only 0.1% in November and the annual rate is the weakest in two years. Business credit was flat for another consecutive month, although annual growth has improved for the fifth straight month to 0.9%. The recovery in business credit is tentative, particularly given the shaky global backdrop.
- Housing credit rose 0.5% in October, leaving the annual rate of housing credit growth at 5.7%; it is the weakest growth rate in more than three decades.
- While housing credit remains weak as a wilted flower, house prices posted the first increase this year in November, perhaps indicating that the housing market has reached a bottom or is bottoming. Some green shoots might finally be showing.



Private sector credit rose by 0.3% in November, keeping the annual growth rate at 3.5% for the third month running. The overall trend in private sector credit remains subdued.

The soft growth rate in November reflects weak growth in other personal lending and flat growth in business credit. Housing credit grew by 0.4% and helped pull up the overall growth rate for credit in the month.

Other personal credit grew by 0.1% in November but the annual rate of contraction deteriorated to 1.1% - the deepest contraction in two years. The weakness in other personal credit reflects falls in margin lending because volatility in global share markets has led to less demand for margin loans. Credit card lending has generally been softer this year and there has been anecdotal evidence of consumers recently using their debit cards more (rather than their credit cards).

Business credit was flat in November for the second straight month. For the year to November, business credit growth improved 0.9% growth. It is the fifth consecutive month that an

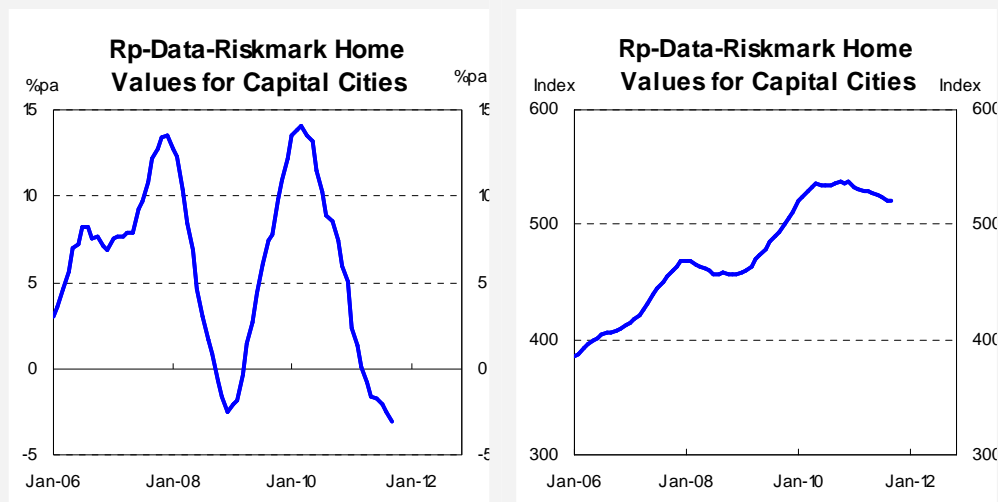
improvement has been recorded. However, the overall recovery remains subdued and tentative.

Business credit has fallen by 9.2% since the end of 2008, despite strong growth in profits and nominal GDP during this period.

Housing credit grew by 0.5% in November, remaining stuck in its recent range of 0.4-0.5% for monthly growth (over July to November 2011). Growth in housing credit is noticeably slower than in earlier years and is running at a little below that in household disposable income. Annual growth stayed steady at 5.7%; this annual growth rate is the weakest in more than three decades.

Investor housing credit is still growing slower than owner-occupier credit, as has been the case since 2011. In the year to November, investor-housing credit grew by 6.0% compared with 5.0% for owner-occupier credit.

Growth in broad money was only 0.1% in November compared with an average monthly growth rate of 0.9% over July to October. The recent rate cuts have likely contributed to the slower monthly growth rate in broad money. However, on a year ago broad money is still growing faster than private sector credit, reflecting the general preference by households and businesses for much of this year to hold their assets in deposits.



RP-Data-Rismark Home Value Index

In seasonally adjusted terms, Australian capital city home values rose by 0.1% in November. It is the first increase in home values since December 2010. The annual rate of decline in home values improved from 3.9% in October to 3.5% in November.

Gains were recorded in Perth (0.5%), Canberra (0.4%) and Melbourne (0.2%) in November. Meanwhile, house prices were flat in Sydney and price falls were recorded in Darwin (0.9%), Brisbane (0.7%) and Adelaide (0.3%).

All home values are still contracting on a year ago (i.e. in the year to November). The annual rate of contraction is greatest in Brisbane (at 7%). And it is smallest in Sydney (at 0.5%) where the housing shortage is greatest.

Regional house values recorded a 0.3% rise in November, which was also the biggest increase since December 2010. The annual rate of decline in home values across regional areas improved from 3.0% in October to 2.5% in November.

Today's housing data might be some early evidence that the national decline in housing has now generally bottomed or is bottoming. First-home buyer demand is showing early signs of

recovery in most States, while dwelling shortages are continuing to build up in some States, notably NSW.

The reduction in interest rates and the general expectation of further easing from the Reserve Bank (RBA) should underpin improved housing turnover and result in a stabilisation of prices in the first half of 2012.

The underlying health of the Australian economy, strong fundamentals in the residential housing market (which includes a national shortage of housing) and a low unemployment rate is also a supportive of housing next year.

We expect a modest price recovery to come through to housing prices later in 2012 and continue through 2013. The tight rental market will help set the conditions necessary for this recovery to come through. But worries about the global economic outlook run the risk of prolonging the recovery.

The house price outlook will differ across the capitals. Those states with the highest dwelling deficiencies have the strongest potential for a recovery.

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