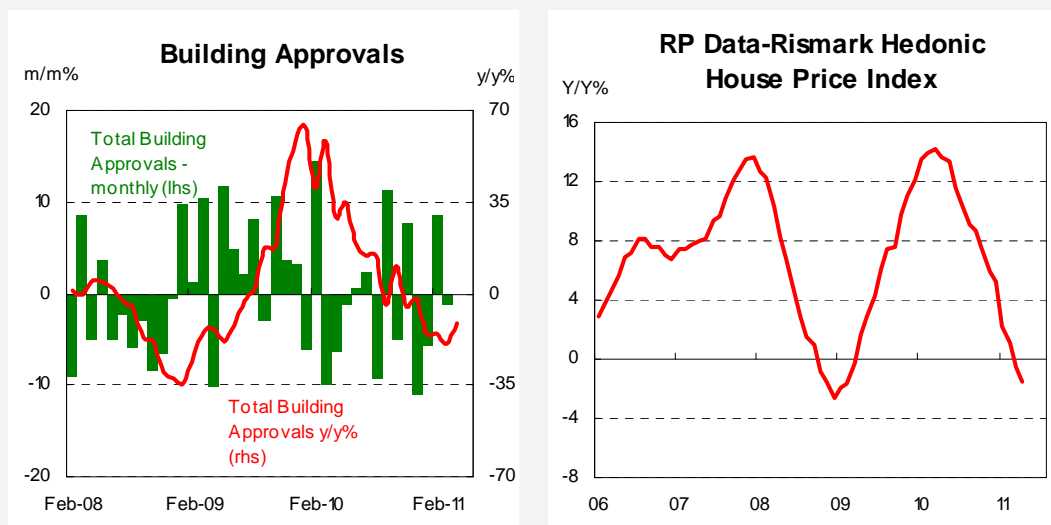


# DATA SNAPSHOT

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Tuesday, 31 May 2011

- Softer housing conditions are highlighted by the weakening trend in house prices and building approvals.
- RP Data-Rismark data showed that house prices slid 0.3% in April in seasonally adjusted terms and have now slid 1.2% in the three months to April.
- Building approvals fell by 1.3% in April to be down 11.5% over the year. The annual rate of decline in building approvals has now been in double-digit territory for four consecutive months.
- Credit to the private sector was unexpectedly flat in April, after two consecutive monthly gains of 0.6%. The flat outcome caused the annual growth rate to slow to 3.3%, from 3.6% in March. The most surprising aspect of the credit data and perhaps the most worrying if it continues is the contraction in business credit of 0.6%.
- The softness in private sector credit together with the ongoing weakness in housing add to our long-held view that the RBA will bide its time for now and not raise rates next week.



## House Prices (RP-Data Rismark):

Softer housing conditions are highlighted by the weakening trend in house prices. RP Data-Rismark data showed that house prices slid 0.3% in April in seasonally adjusted terms and slid 1.2% in the three months to April. House prices have now dropped in five of the last six months. Other house price data also is consistent with a softening in housing conditions.

Price falls have been particularly pronounced at the 'top end' of the market, defined as the 20% of homes that are the most expensive. This component fell by 1.8%. The 'low end', defined as the 20% of homes that are the least expensive, fell by 0.6%. Meanwhile, the remainder, the 'middle' market, recorded an increase of 0.3%.

Price falls were also more pronounced in the resource-rich States of WA and QLD. House prices in Perth and Brisbane fell by 1.8% and 1.4% in these States, respectively.

### Building Approvals:

Total building approvals fell by 1.3% in April following a revised increase of 8.6% in March. Previously, the ABS reported a 9.1% jump in March.

Over the year to April, building approvals are down 11.5%. The annual rate of decline in building approvals has now been in double-digit territory for four consecutive months.

Behind the overall decline was a 3.3% fall in private-sector housing approvals that was partly offset by a 6.4% increase in the more volatile other dwellings series. In trend terms, private sector other dwellings fell by 0.5% and have been declining for four consecutive months.

The breakdown of the States shows hefty falls in NSW and WA while VIC, SA and QLD posted increases.

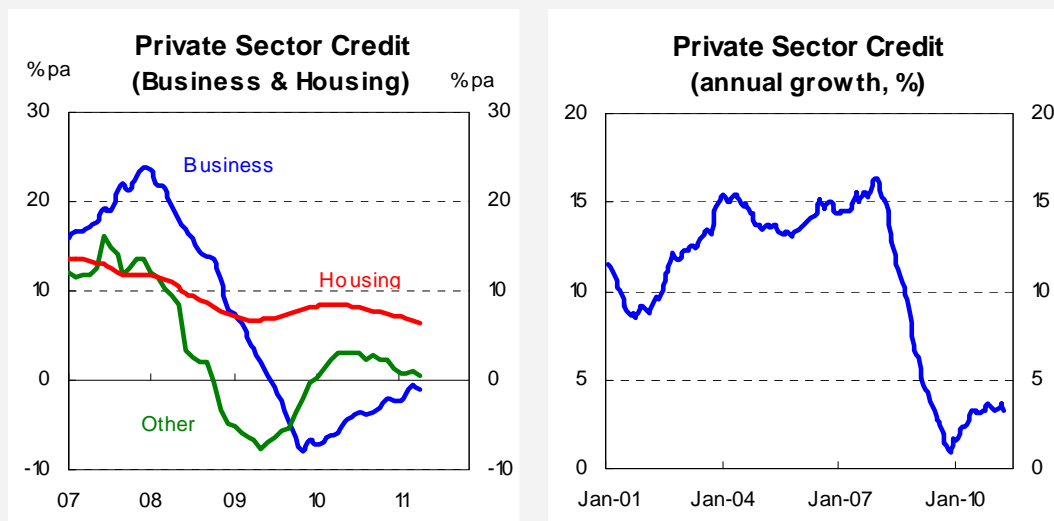
Approvals in Victoria rose a subdued 0.2% in April however, the number of approvals, 5265, is well above the long-run monthly average of about 3,800. This suggests that housing supply is still responding to strong house price growth last year.

A 29.2% jump in Queensland building approvals shows a recovery emerging following the floods and cyclone Yasi. Approvals in Queensland have now returned close to pre-disaster levels. However, on a year-on-year basis, approvals in Queensland are still down 31.4%. Note that 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.

Today's data is consistent with the view that housing conditions are moderating under the weight of higher interest rates. This is further reflected in some softening of house prices. Furthermore, housing finance data point to subdued residential building activity.

Ongoing weakness in new dwelling starts suggests that new supply of housing will be unlikely to keep up with population growth. Thus Australia's chronic housing shortage looks set to continue for some time.

In the value of building approved, non-residential buildings fell by 38.6% in April and alterations and additions to residential buildings rose by 0.4%.



### Private Sector Credit:

Credit to the private sector was unexpectedly flat in April, after two consecutive monthly gains of 0.6%. The flat outcome caused the annual growth rate to slow to 3.3%, from 3.6% in March.

The most surprising aspect of the credit data and perhaps the most worrying if it continues is the contraction in business credit of 0.6% in April. Business credit had been on a recovery path since the start of this year with the upswing in private business investment assisting the recovery.

In the three months to March, business credit had lifted by 1.6%, after recording consistent declines in the second half of last year. The softness in business credit reflected businesses funding expansion activity from internal cashflows or via raising equity rather than borrowing.

Housing credit grew by 0.4% in April, down from the 0.5-0.6% monthly growth rate recorded over the second half of last year and early this year. Credit growth to investor housing is soft while credit for owner-occupier housing is more robust. Investor housing credit grew by 0.2% in the month compared with owner-occupier housing credit growth of 0.5%.

Other personal credit is the other major component of private sector credit. It reflects purchases on credit cards and personal loans. It also fell in April by 0.3%, the first monthly percentage fall in four months. The annual growth rate in this component is 0.3% and is the weakest since January 2010. The weakness in this component is supported by soft growth in retailing and caution among consumers more generally.

#### **Reserve Bank Outlook:**

The softness in private sector credit, and in particular, the drops in business and other personal credit together with the ongoing weakness in housing add to our long-held view that the RBA will bide its time for now and not raise rates next week.

**Besa Deda, Chief Economist**

Ph: (02) 9320-5854

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

and

**Janu Chan, Economist**

Ph: (02) 9320-5892

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

## 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 5854

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