

1 February 2012

Australia: ABS house price index extends & deepens decline but other measures suggest downward pressure has eased

Q4: -1.0%qtr, -4.8%yr

- The preliminary estimate of the ABS Established House Price Index showed a 1.0% fall in the final quarter of 2011 to be down 4.8%yr. While the quarterly result was only marginally below the consensus forecast (-0.7%qtr) and spot on Westpac's call, sizeable back revisions have taken the annual rate of decline 1.1% below where it would otherwise have been.
- The detail had few positive spins either. While every capital city recorded improvements on the downwardly revised Q3 results, only Perth showed an outright price gain in the quarter (+0.5%qtr but still down 4.9%yr). Sydney was the clear outperformer in 2011 with prices slipping just 2.7%yr, all of that decline coming in the second half of the year. Melbourne and Brisbane remain the worst performers with prices down 6.1%yr and 6.7%yr respectively.
- However we should not get too carried away with these results. The ABS index is only one of many measures in Australia and despite the 'official' tag is not necessarily the best. Initial estimates are preliminary and revised as more data becomes available, often substantially. Moreover, the ABS index only covers detached homes, excluding apartments, townhouses and terraces etc, which recorded much milder price declines over 2011. The ABS method also struggles when there are large changes in the composition of activity (e.g. FHBs).
- The bottom line is that the ABS price measure is somewhat limited with private sector measures – some of which are released monthly and all of which are more timely – tending to pick shifts more clearly and earlier on.
- With this in mind, private sector measures suggest housing markets posted a considerably better finish to 2011. In particular, the monthly RP Data-Rismark measure of all dwellings showed a 0.2% gain over the last two months of the year, while the APM measure of house prices posted a flat Q4. The latter has usually been a good guide to the ABS result suggesting we may see upward revisions to today's number.
- While the ABS measure may differ on the quantum, all house price measures showed an easing in price declines in late 2011. Clearly the RBA's turnaround on interest rates has been a critical factor. Although it may not have affected the number of buyers on the ground – that is likely to take a little longer – it appears to have significantly lifted price expectations. As such, sellers will be less prepared to accept lower price offers and buyers less inclined to wait for better deals. That may have been enough to stabilise actual prices. However, the real test will come when markets start up again in the new year – with other data sources badly scrambled by seasonal lows in Jan, the best initial read will come from auction activity which should start cranking back into gear over the next two weeks.

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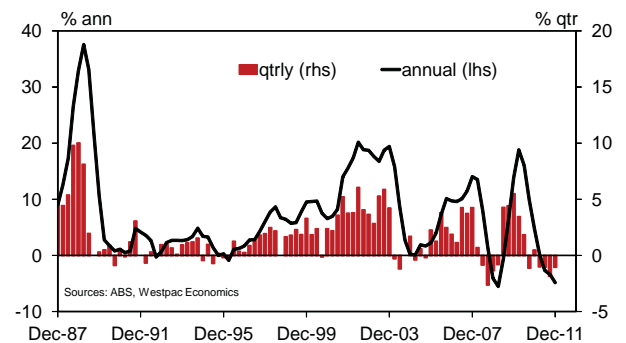
Established House Price Indexes, ABS measure

| | %qtr | | %ann | |
|-------------------------|-------------|-------------|-------------|-------------|
| | Q3 | Q4 | Q3 | Q4 |
| Weighted average | -1.9 | -1.0 | -3.4 | -4.8 |
| Sydney | -1.6 | -1.0 | -2.0 | -2.7 |
| Melbourne | -2.1 | -1.6 | -3.1 | -6.1 |
| Brisbane | -2.8 | -1.3 | -5.6 | -6.7 |
| Adelaide | -1.1 | -1.6 | -4.3 | -6.4 |
| Perth | -1.4 | 0.5 | -5.4 | -4.9 |

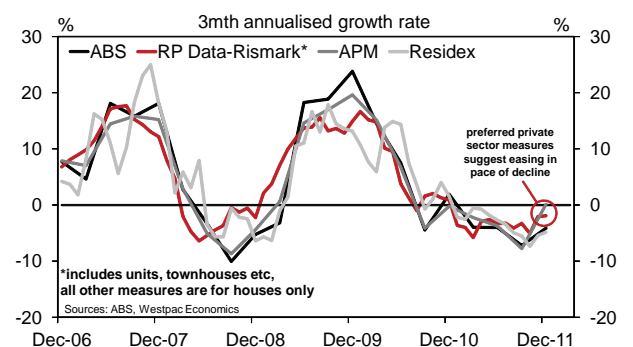
*all figures are preliminary and subject to revision

Sources: ABS, Westpac

Established house prices, ABS measure



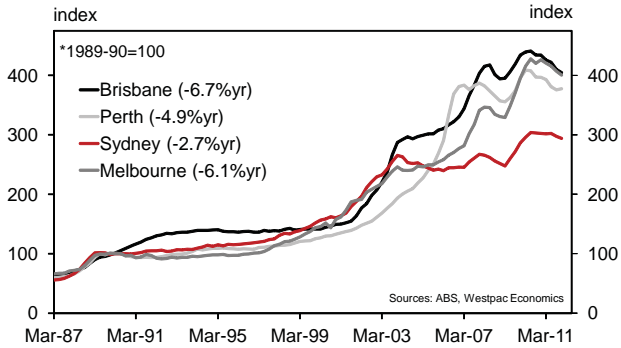
House prices: ABS vs other measures



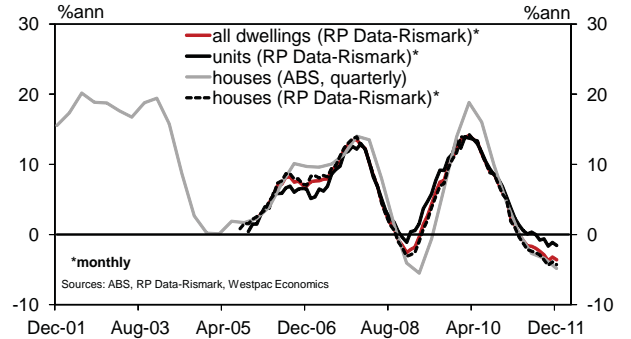
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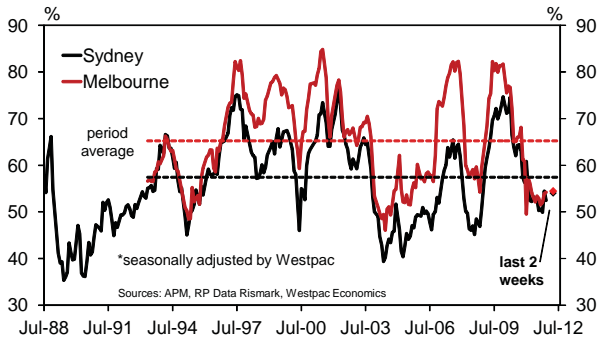
Established house prices by city



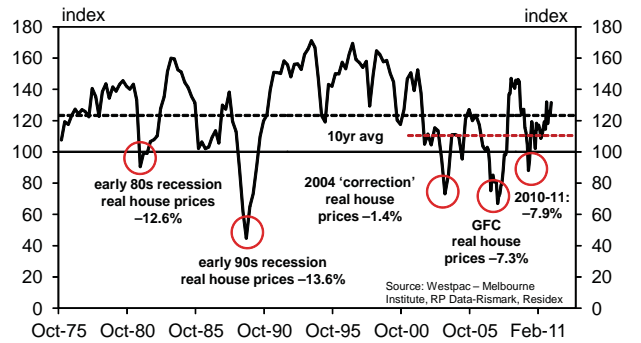
Dwelling prices: houses vs units



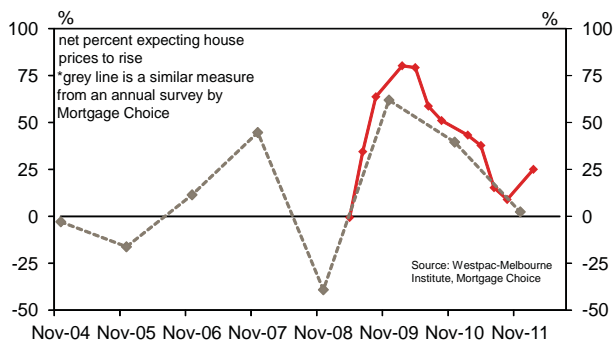
Auction clearance rates: rate 'bump' in late 2011



Consumer sentiment: time to buy a dwelling



Consumer expectations for house prices



Interest rate forecasts

