

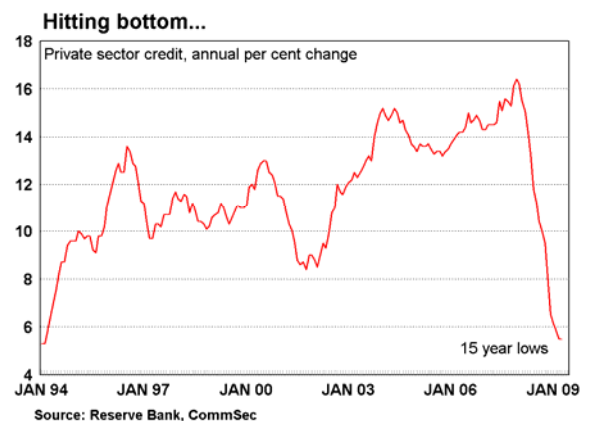
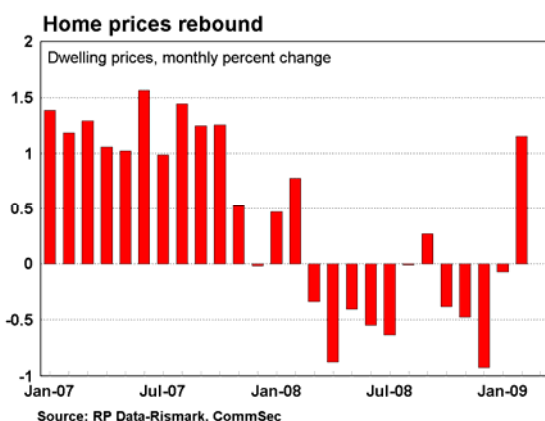
Biggest lift in home prices in 16 months; Credit growth poised to recover

Home prices; Private sector credit

- Australian home prices rose by 1.1 per cent in February, the biggest gain in 16 months. Dwelling prices were up 1.1 per cent for the first two months of 2009. Melbourne and Sydney led the gains.
- Private sector credit (loans outstanding) was flat in February with the annual growth rate falling to a 15-year low of 5.4 per cent. But money supply (M3) was up 14.7 per cent on a year ago.
- Credit responds with a lag to interest rate changes and new lending. New lending over December and January was the strongest in 18 months, so credit will lift in the second half of 2009.

What does it all mean?

- Australian and US housing markets are like chalk and cheese. Australian dwelling prices are rebounding after very modest falls in 2008 while US house prices are continuing to fall at annual rates of 20-25 per cent.
- Australia is experiencing an undersupply of housing with new demand boosted by low interest rates and the first home owners grant. Prices are more likely to rise, not fall, in coming months, putting paid to the more gloomy predictions for the Australian market. The greatest worry is that prices rebound too strongly with demand outstripping supply, especially in Melbourne and Sydney.
- While its important to track the changes in credit, it needs to be remembered that it's one of the last indicators to change in an economic cycle. First, interest rates are cut, then new lending begins to recover, and finally credit, or loans outstanding, moves higher. Over December and January new lending was the strongest in 18 months, pointing the way higher for credit in the second half of 2009.
- Money is growing at a near 15 per cent annual rate but the global gloom has caused consumers and businesses to focus on cutting debt rather than take up new loans. The exception is the housing market where the combination of low interest rates and the first home owners grant have substantially boosted lending.
- The hard part at present for banks is to keep up with the demand for new home loans, with widespread delays



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reported in processing applications. The credit data is portraying a dour situation for lending when beneath the surface that is far from the case.

What do the figures show?

- **The RP Data-Rismark Hedonic Property Value Index** indicates that Australian dwelling prices rose by 1.1 per cent in February and were up by 1.1 per cent in the first two months of the year. House prices rose by 1.0 per cent in February with units up 1.7 per cent.
- Melbourne dwelling prices rose by 3.0 per cent in February while Sydney prices were up by 1.8 per cent and Darwin prices rose 0.5 per cent. Prices eased in other capital cities.
- Australian house prices were down 4.1 per cent in the year to February with units down 0.4 per cent. The rental yield on houses stood at 4.73 per cent in the February quarter with yields on units at 5.35 per cent.
- **Private sector credit** was flat in February after rising by 0.6 per cent in January. The annual growth rate slowed from 6.1 per cent to a 15-year low of 5.4 per cent. The annual growth rate is expected to bottom around 5 per cent over the next few months. M3 grew by 1.5 per cent in February and by 14.7 per cent over the year.
- **Housing credit** rose by 0.6 per cent in February with the annual growth rate slowing from 7.4 per cent to a 26-year low of 7.1 per cent. **Owner-occupier housing** was up 1.0 per cent in February with the annual growth rate up from 8.4 per cent to 8.6 per cent. **Investor housing** fell by 0.2 per cent in February with the annual growth rate at a record (17-year) low of 4.0 per cent.
- **Personal credit** fell by 0.8 per cent in February, the fifth consecutive decline. Personal credit fell by 6.0 per cent over the year to February, the slowest growth in 17 years.
- **Business credit** fell by 0.6 per cent in February after rising 0.7 per cent in January. The annual growth rate eased from 6.9 per cent to a six-year low of 5.5 per cent.

What is the importance of the economic data?

- **The RP Data-Rismark Hedonic Property Value Index** is a monthly measure of dwelling prices. RP Data covers 124 million property data records covering 98 per cent of all homes. The RP Data-Rismark index will act as the basis for ASX's proposed residential property derivatives market.
- **Private sector credit** figures are released by the Reserve Bank on the last working day of the month. Credit is separated into three categories – housing, other personal and business. Private sector credit is effectively the amount of loans outstanding in the economy. If growth in lending is strong then it suggests that credit from financial institutions is freely available, underlying demand for assets such as cars and houses is firm and that the price of credit (interest rates) is attractive.

What are the implications for interest rates and investors?

- More lending is occurring in response to lower interest rates, especially for housing. In fact the strength of housing lending may be creating some problems. Demand for homes is soaring in some areas, pushing prices higher and weakening housing affordability.
- The Reserve Bank liaison programme will play a central role in next week's interest rate decision. If the Reserve Bank hears more stories about the strength of home buying demand it will be even more likely to stay on the interest rate sidelines for another month. The Reserve Bank will only cut rates next week if it believes that the domestic economy needs further insulation from the global gloom.

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