REVIEW OF FINANCIAL CONDITIONS: JANUARY 2012

HOUSEHOLD SECTOR

Household interest payments are expected to decrease slightly to 11.1 per cent of disposable income in the December quarter (from 11.4 per cent) due to recent falls in mortgage rates. Household net worth is expected to have declined by 2.3 per cent over the year to December, driven lower by an estimated year-ended fall in average dwelling prices of around 3 per cent. In the December quarter, however, net worth is expected to increase by ¾ of a per cent with dwelling prices expected to be broadly unchanged and equity prices slightly higher.

PROPERTY

Preliminary data suggest that national dwelling prices rose 0.1 per cent in December, although they remain 3½ per cent below the December 2010 peak. Housing affordability has improved as a result of recent falls in dwelling prices, moderate income growth and falling lending rates. The rental market is still tight, although appears to have loosened slightly in the September quarter as rental growth slowed and vacancy rates rose.

Lending Conditions

APRA data suggests that there was an easing in lending standards for housing loans in the September quarter as the share of high LVR loans, low-documentation loans and non-standard loans rose Graph 8

An improvement in housing loan repayment behaviour was also noted, as repayment deficiencies declined and repayments made ahead of schedule increased. Major banks' household arrears declined over the second half to 2011

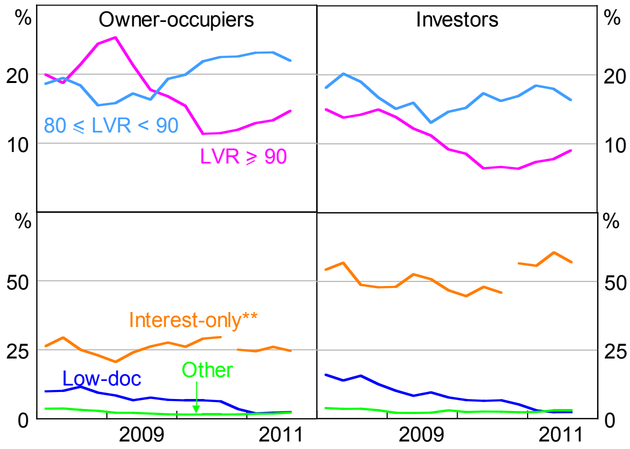
, as did securitised housing loan arrears (Graph 9;

) though there has been some variation across states, with arrears in Queensland in particular rising, driven by high arrears on the Gold Coast.

Graph 8

Banks' Housing Loan Characteristics*

Share of new loan approvals



* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts

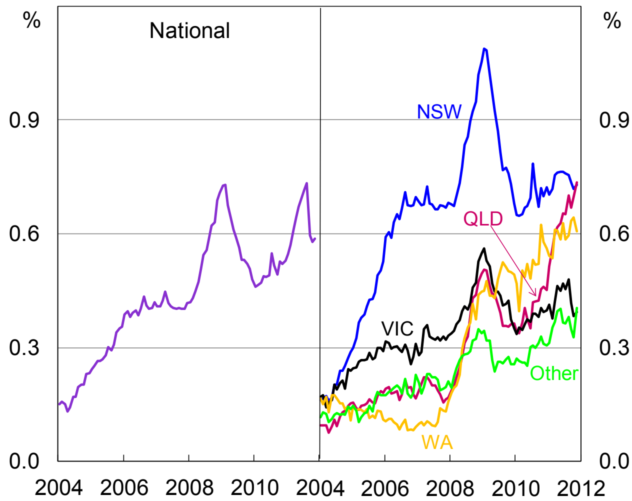
** Interest-only loans adjusted due to changes in data management at one major bank

Source: APRA

Graph 9

Housing Loan Arrears*

90+ days past-due, per cent of outstandings, sa



* Full-doc and low-doc loans securitised by all lenders; excludes self-securitisations

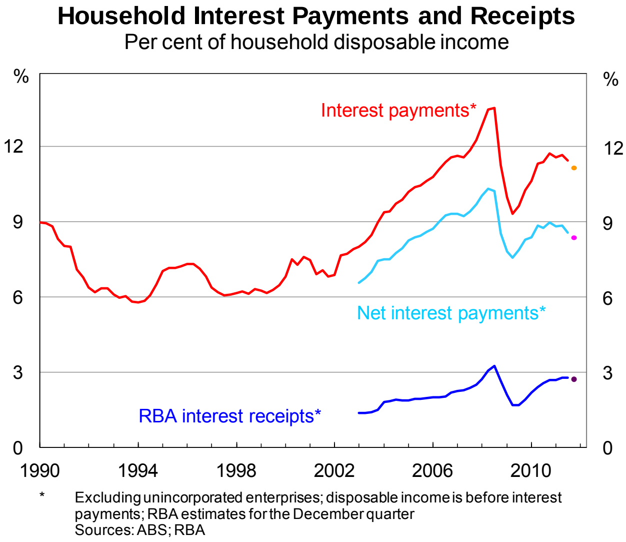
Sources: Perpetual; RBA

HOUSEHOLD SECTOR

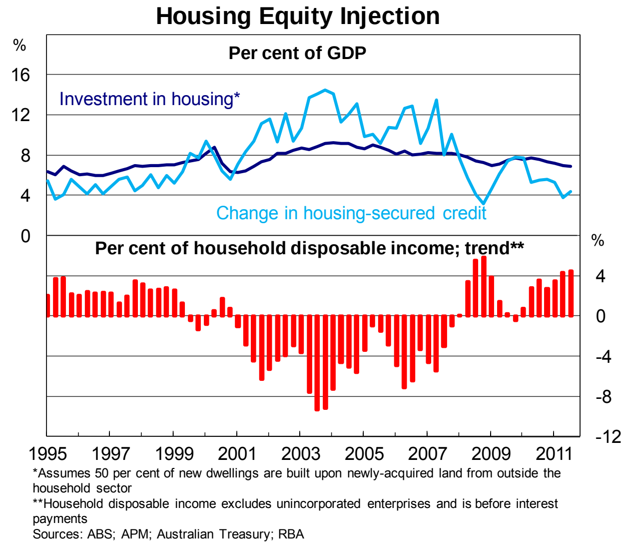
Household interest payments are expected to decline to 11.1 per cent of disposable income in the December quarter from 11.4 per cent, with the fall reflecting the recent cuts to mortgage rates. These cuts are also expected to reduce **household interest receipts** to around 2¾ per cent of disposable income. The decline in interest payments is expected to offset the reduction in interest receipts, leaving net interest payments slightly lower at 8.4 per cent of income (Graph 18).

Our estimate of **housing equity injection** was around 4½ per cent of household disposable income in the September quarter, up from 4.3 per cent in June. Since 2008 households have been consistently injecting equity into dwellings, with the net flows of lending secured against dwellings weaker than investment in housing (Graph 19).

Graph 18

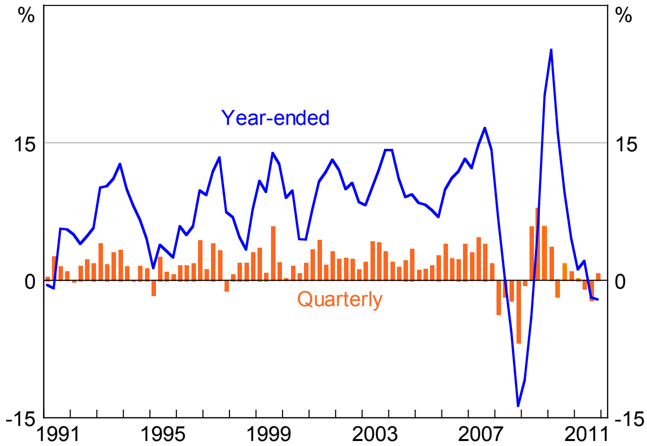


Graph 19



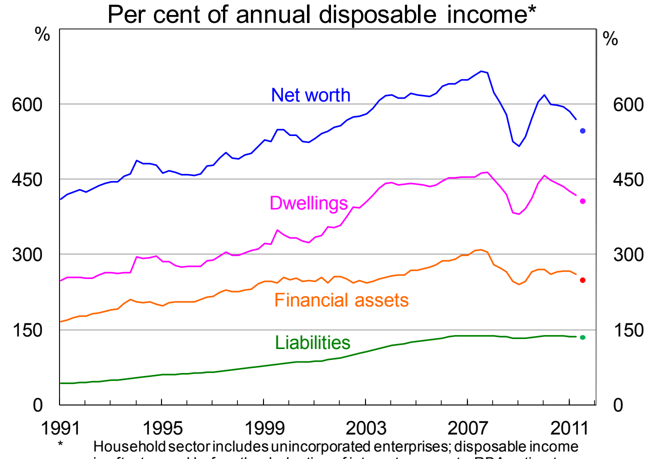
Household net worth declined by 2½ per cent in the September quarter but is estimated to rise by ¾ of a per cent in the December quarter. This follows an expectation of flat dwelling prices over the quarter and a small increase in equity prices. Over the year net worth is expected to have declined by 2.3 per cent, driven lower by a year-ended fall in nationwide dwelling prices of around 3 per cent (Graph 20). The decline in net worth in the September quarter saw it fall to 5½ times disposable income, with further falls expected in the December quarter as household incomes are expected to grow faster than assets (Graph 21).

Graph 20
Household Net Worth*
Percentage change



* RBA estimate for December quarter 2011
Sources: ABS; RBA; RP Data-Rismark

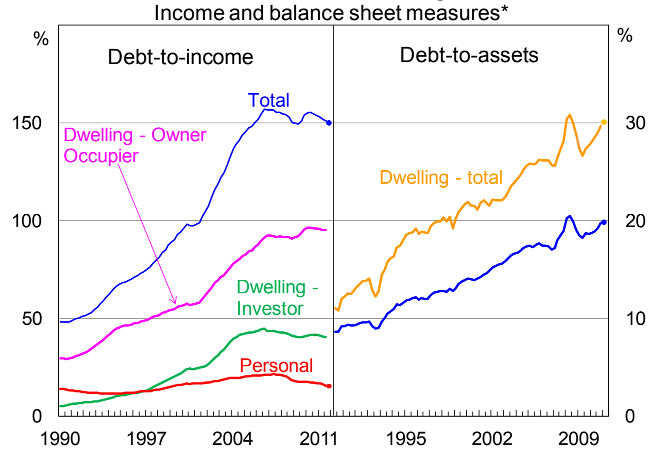
Graph 21
Household Wealth and Liabilities
Per cent of annual disposable income*



* Household sector includes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments; RBA estimate for December quarter 2011
Sources: ABS; RBA;

Growth in household debt was subdued over the September quarter, with debt increasing by 1.2 per cent. Accordingly, the household debt burden (the **debt-to-income** ratio) declined to 1½ times annual income; the **debt-to-assets** ratio, or household gearing, increased however, reflecting falling asset values. The debt burden is expected to fall again in the December quarter with household credit growth remaining subdued; household gearing is expected to remain unchanged (Graph 22).

Graph 22
Household Gearing
Income and balance sheet measures*



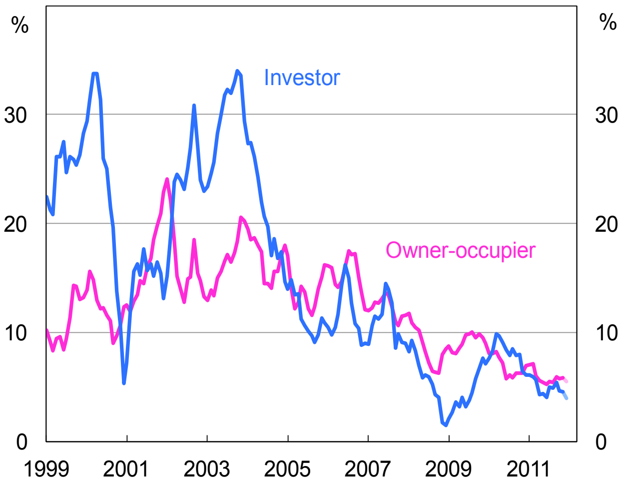
*Household assets includes the financial assets of unincorporated enterprises and unfunded superannuation; household disposable income excludes unincorportated enterprises and is before interest payments; RBA estimates for the December quarter
Source: ABS; RBA

Financing

Household credit is estimated to have grown 0.3 per cent in December, to be 4½ per cent higher over the quarter.

Housing credit is estimated to have increased by 0.4 per cent in December – about the same rate it has been growing at for the past year (Graph 24). The value of housing loan approvals is estimated to have picked up by around 5½ per cent in December. However, strong growth in first-home buyer approvals in NSW has had a noticeable impact on the growth in total housing approvals in recent months.

Graph 24
Housing Credit Growth
Three-month-ended annualised percentage change



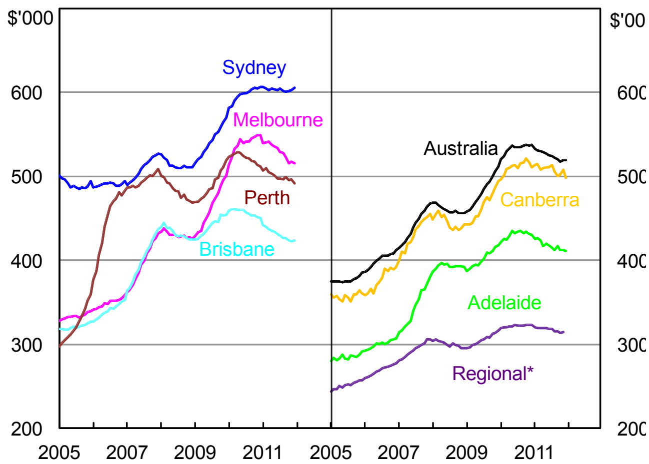
Sources: APRA; RBA

PROPERTY

Residential Property

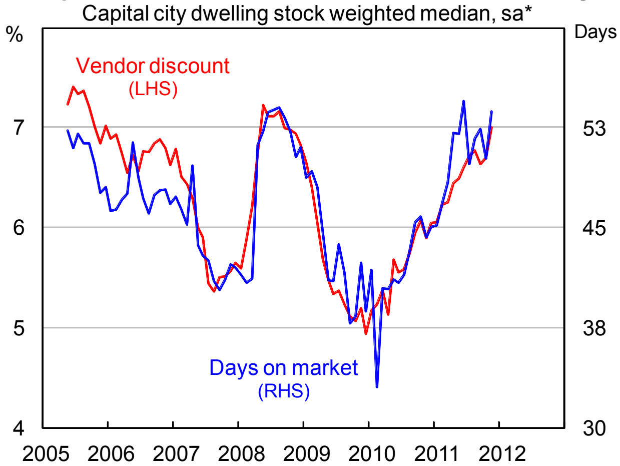
Preliminary data from RP suggest that capital city **dwelling prices** rose by 0.1 per cent in December to be 0.3 per cent lower over the quarter. Prices are 3.4 per cent below the December 2010 peak, compared to a peak-to-trough fall of 2.7 per cent over the 2008 slowdown. In year-ended terms prices are weakest in Melbourne and Brisbane, with falls of 6 per cent over the year; Adelaide and Perth were down around 4 per cent, while Sydney, which has been the most resilient capital so far, has remained roughly level for the past 18 months (Graph 25).

Graph 25
Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

Graph 26
Days on Market and Vendor Discounting
Capital city dwelling stock weighted median, sa*



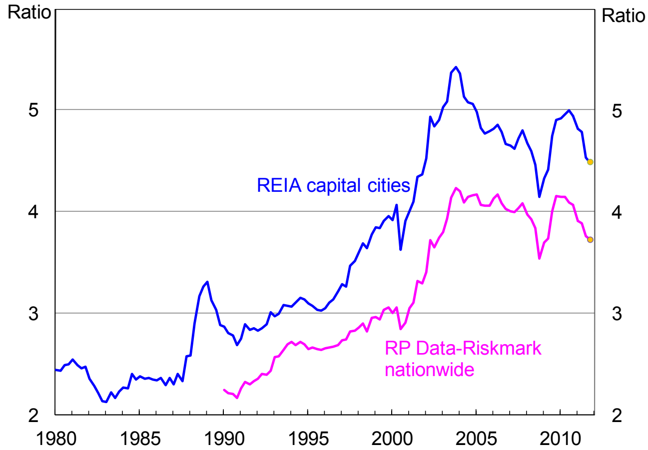
* Excludes withdrawn properties
Source: RP Data-Rismark

Sales volumes remain weak, with the number of days on market required to sell a house around historical highs and sellers accepting fairly large discounts in the event of a sale (Graph 26). Turnover, the number of sales relative to the dwelling stock, remains well below the decade average and total advertised listings continue to reach new highs.

Housing affordability improved in the September quarter and is expected to have increased further in December as a result of further falls in dwelling prices, moderate income growth and falling lending rates. The price-to-income ratio fell, as did the share of household disposable income required for a deposit (Graph 27). These improvements have seen an increase in sentiment towards buying a dwelling, an upgrade of consumer house price expectations for 2012 and an increase in the first-home-buyer share of owner-occupier loan approvals.

Graph 27

Dwelling Prices to Income*



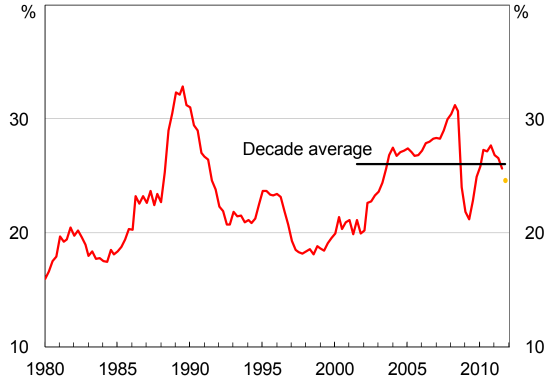
*Ratio of median dwelling price to average household disposable income; income is before the deduction of interest payments; RBA estimates for December quarter 2011
Sources: ABS; RBA; REIA; RP Data-Riskmark

BRIEFING – HOUSING AFFORDABILITY

- **Housing affordability** improved in the September and December quarters as a result of falls in dwelling prices, moderate income growth and falling lending rates. Average repayments on new variable housing loans as a share of disposable income have fallen by 2 percentage points since the June quarter (from 26½ per cent of disposable income to 24½ per cent).

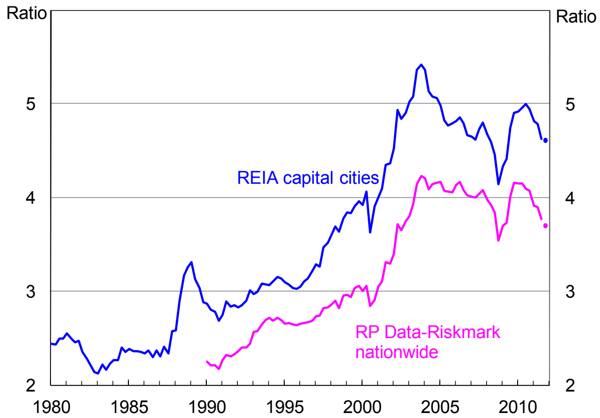
- **The dwelling price-to-income ratio** continued to decline in the December quarter to be around 3.7 times average disposable income, compared to decade average of 4 and a peak of 4¼.

Repayments on New Housing Loans
Per cent of household disposable income*



* Housing loan repayments calculated as the required repayment on a new 80 per cent LVR loan with full documentation for the nationwide median-price home. Based on capital city house price data prior to 1990; Household disposable income is before interest payments; RBA estimate for December quarter 2011
Sources: ABS; RBA; REIA; RP Data-Rismark

Dwelling Prices to Income*



* Ratio of median dwelling price to average household disposable income; income is before the deduction of interest payments; RBA estimates for December quarter 2011
Sources: ABS; RBA; REIA; RP Data-Rismark

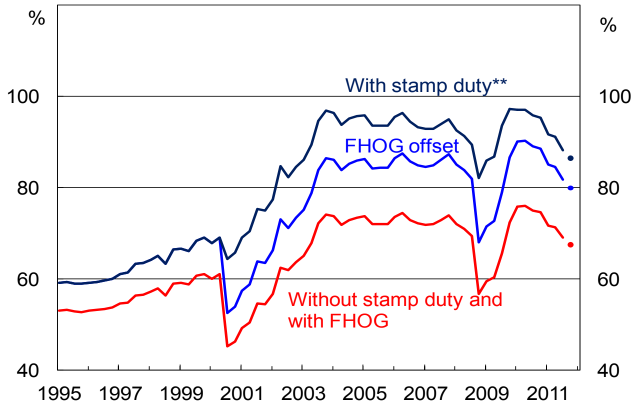
- **The required deposit** for an 80 per cent LVR home loan on a median priced dwelling, as a share of household disposable income, fell to around 86 per cent in the December quarter

- **Total housing loan approvals** have increased by 10 per cent since March 2011 and are now 16 per cent below their September 2009 peak.

- **Loan approvals to first home buyers** had stabilised by mid-2011 at around 58 per cent below their May 2009 peak. However, there was a pick-up in approvals to first-home buyers in the December quarter which was largely driven by NSW and likely to be influenced by the expiry of the first-home buyer stamp duty exemptions in NSW for established housing on 31 December 2011. **First home buyers' share of the number of owner-occupier approvals** is now 11 percentage points below the historical high of 42½ per cent reached in May 2009.

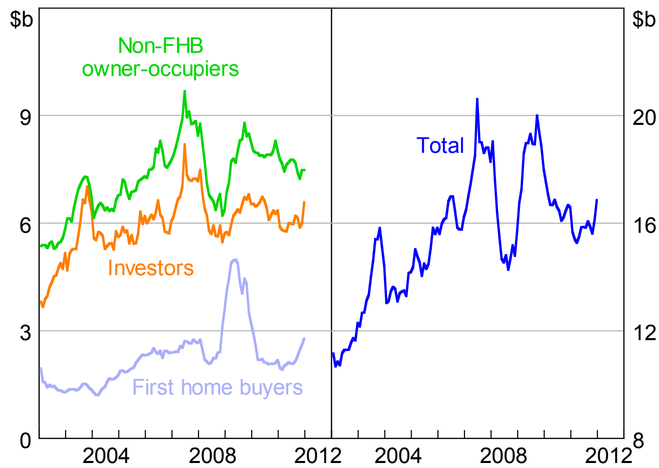
- **Investor loan approvals** have increased by 3 per cent over the year to December 2011.

Deposit for a Home Loan*
Per cent of annual household disposable income



* Calculated as 20 per cent of the nationwide median-priced home. Disposable income excludes unincorporated enterprises and is before the deduction of interest payments; RBA estimates for December quarter 2011
** Uses NSW stamp duty rates
Sources: ABS; RBA; RP Data-Rismark

Value of Housing Loan Approvals
Net of refinancing

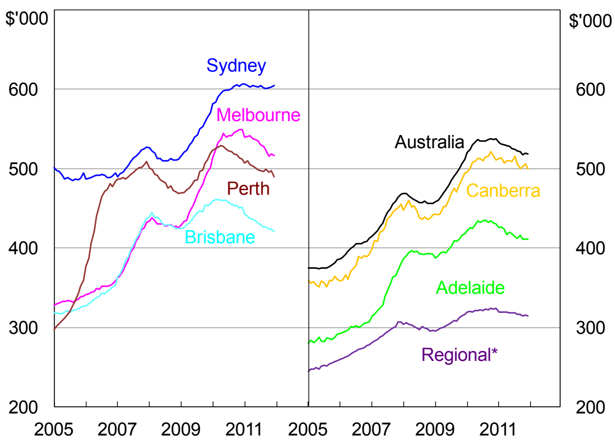


Sources: ABS; RBA

BRIEFING – HOUSING PRICES

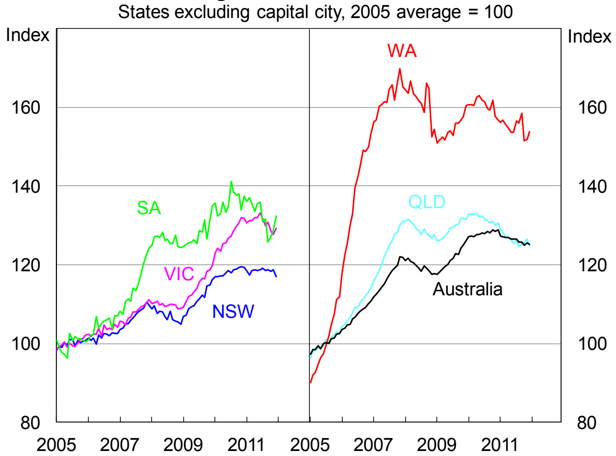
- National dwelling prices have fallen by 3½ per cent since the peak in December 2010. This compares to a peak-to-trough fall of 2½ per cent in the 2008 downturn.
- Prices fell by ½ per cent in the December quarter, although the latest data from RP suggests that prices may have stabilised somewhat in November and December.
- Brisbane, Melbourne and Perth are the weakest markets, recording falls of 4-7 per cent in 2011. In contrast, prices in Sydney have been broadly flat for the past 18 months and in fact recorded a small rise in the December quarter.
- House prices have fallen further than unit prices, capital cities have fallen by more than regional areas, and expensive suburbs were weaker than more affordable suburbs.
- Over the year, dwellings in the dearest 20 per cent of suburbs fell by 6½ per cent, compared with falls of around 3 per cent in other suburbs. This trend of larger falls in the more expensive suburbs is most pronounced in Perth and Melbourne.
- Prices in regional areas have fallen by around 3 per cent over the year.
- The number of days on market required to sell a house remains high and buyers are also securing relatively large discounts from vendors' offering prices. Turnover is well below the decade average level and the stock of unsold homes is high.

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

Regional House Prices
States excluding capital city, 2005 average = 100



* Weighted average of the five states shown
Sources: RBA; RP Data-Rismark

Capital City Dwelling Prices Measures
Percentage change

	Month to December	3 months to December	Year to December
Sydney	0.4	0.7	-0.3
Melbourne	-0.5	-1.4	-6.1
Brisbane	-0.6	-1.3	-6.8
Perth	-1.6	-2.1	-4.3
Adelaide	-0.1	-1.2	-4.4
Canberra	-1.3	-0.1	-2.2
Darwin	-0.3	-1.1	-2.3
Australia	**-0.2**	**-0.5**	**-3.6**

Source: RP Data-Rismark

National Housing Price Growth

Per cent

	3 months to September 2011	3 months to December 2011	Year to December 2011
Capital Cities			
ABS [(a),(b)]	-1.9	-1.0	-4.8
APM [(b)]	-1.5	-0.2	-2.8
RP Data-Rismark	-0.8	-0.5	-3.6
Regional Areas			
APM [(b)]	-1.5	-0.5	-2.2
RP Data-Rismark [(a)]	-0.5	-0.5	-2.9

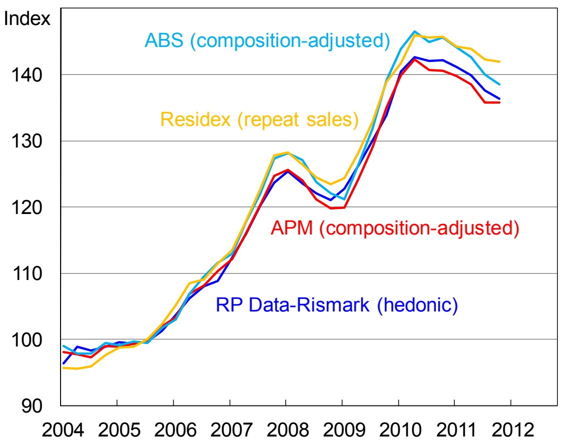
(a) Detached houses only

(b) Quarter-on-quarter growth rate

Sources: ABS; APM; RBA; RP Data-Rismark

National House Prices

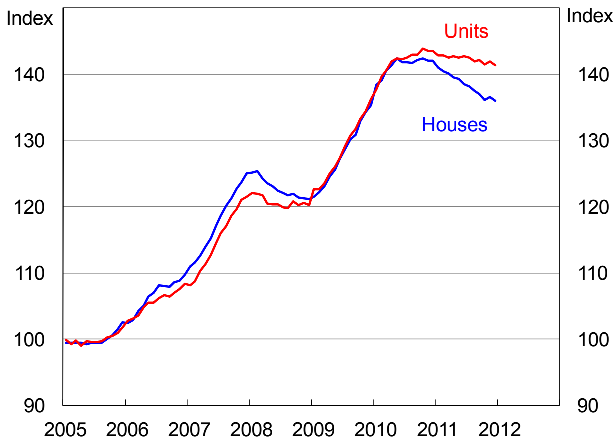
2005 average = 100; quarterly



Sources: ABS; APM; RBA; Residex; RP Data-Rismark

House and Unit Prices

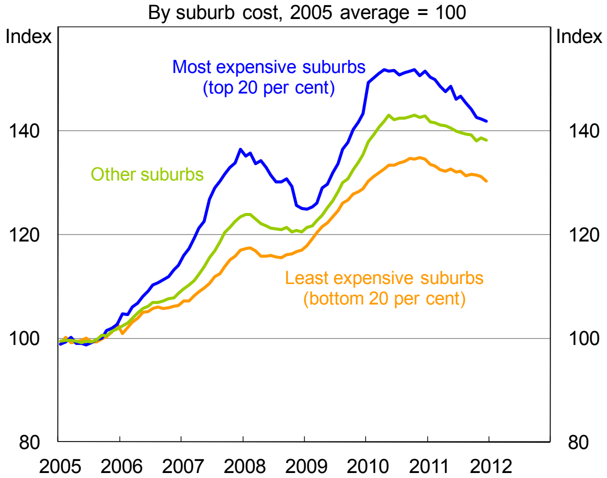
2005 = 100



Source: RP Data-Rismark

State Capital Dwelling Prices

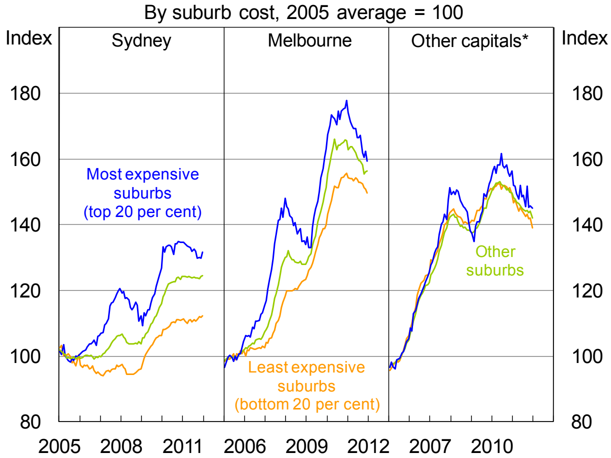
By suburb cost, 2005 average = 100



Source: RBA; RP Data-Rismark

State Capital Dwelling Prices

By suburb cost, 2005 average = 100



* Brisbane, Adelaide and Perth

Sources: RBA; RP Data-Rismark

Dwelling Price Growth

Percentage change

	Year ended to December		
	Bottom 2 deciles	Middle 6 deciles	Top 2 deciles
Sydney	0.9	0.1	-2.4
Melbourne	-3.9	-5.6	-10.4
Brisbane	-14.6	-6.3	-6.7
Adelaide	-5.1	-4.8	-2.2
Perth	0.6	-3.9	-10.5
Australia	**-3.1**	**-3.3**	**-6.4**

Source: RP Data-Rismark

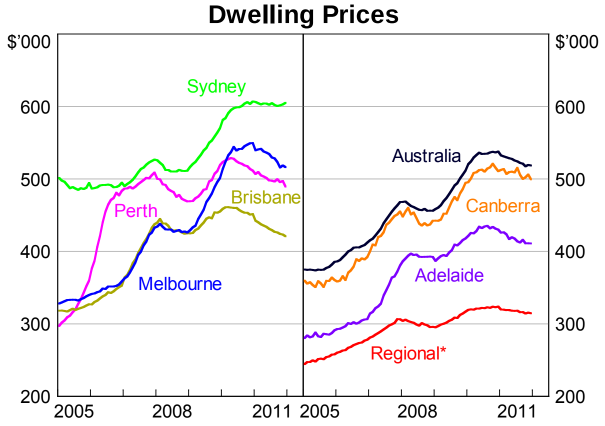
Dwelling Prices Quarterly Review – December Quarter 2011

The established housing market remained weak over the December quarter with all data providers indicating that prices fell, although the latest data from RP suggests that prices may have stabilised somewhat in November and December. The ABS reported a 1 per cent decline in house prices over the quarter, compared to dwelling price falls of 0.5 per cent and 0.2 per cent as measured by RP and APM respectively. According to RP, dwelling prices fell in all capital cities except Sydney over the quarter, with Brisbane, Melbourne and Perth the worst performing; prices in Sydney have been broadly flat for the 18 months. In year-ended terms, the three data providers suggest that nationwide housing prices have fallen by 2½-5 per cent.

Dwelling Prices

Monthly data from RP suggests that capital city dwelling prices fell slightly in December to be ½ a per cent lower over the quarter and 3½ per cent lower over the year (Graph 1). There are, however, some tentative signs of stabilisation, with prices up slightly between October and December. Conditions are softest in Brisbane, Melbourne and Perth, while prices in Sydney have been broadly flat for around 18 months (Table 1).[1] APM data suggest a slightly slower pace of decline, with prices down 0.2 per cent in the quarter and 2.8 per cent over the year.

Graph 1
Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Queensland, South Australia, Victoria and Western Australia
Sources: RBA; RP Data-Rismark

Table 1 - Capital City Dwelling Price Measures - December
Percentage change

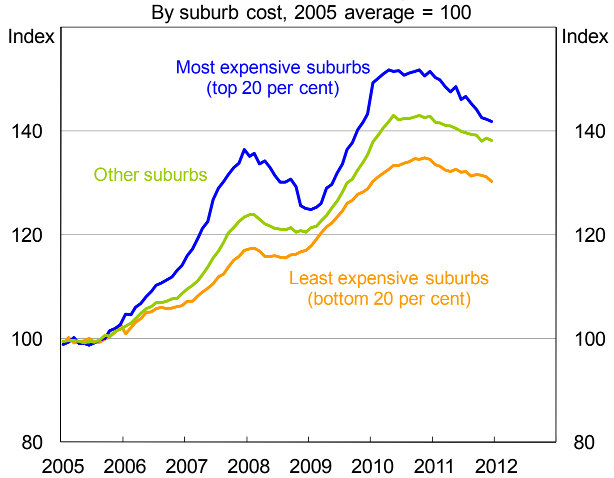
	RP Data-Rismark *Hedonic* Month	Quarter	Year-ended Dec qtr	APM *Compositional adj.* Quarter	Year-ended
Sydney	0.4	0.7	-0.3	-0.4	-1.1
Melbourne	-0.5	-1.4	-6.1	0.6	-2.4
Brisbane	-0.6	-1.3	-6.8	-0.9	-7.1
Adelaide	-0.1	-1.2	-4.4	0.4	-3.6
Perth	-1.6	-2.1	-4.3	-0.6	-4.9
Australia	**-0.2**	**-0.5**	**-3.6**	**-0.2**	**-2.8**

Sources: APM; RP Data-Rismark

Market Segments within Capital Cities

Dwelling prices in more expensive suburbs continued to fall faster than in other suburbs in the December quarter, although for the month of December expensive suburbs fell by less. Over the year, dwellings in the dearest 20 per cent of suburbs fell by 6½ per cent, compared with falls of around 3 per cent in other suburbs (Graph 2; Appendix Table 1). This trend holds across Melbourne, Perth and Sydney, although in Brisbane and Adelaide prices have fallen further in more affordable suburbs.

Graph 2
State Capital Dwelling Prices
By suburb cost, 2005 average = 100



Source: RBA; RP Data-Rismark

[1] RP Data-Rismark urge caution when analysing the monthly December numbers due to low volumes. Melbourne and Perth are particularly volatile and Rismark state that an upward revision for December is likely.

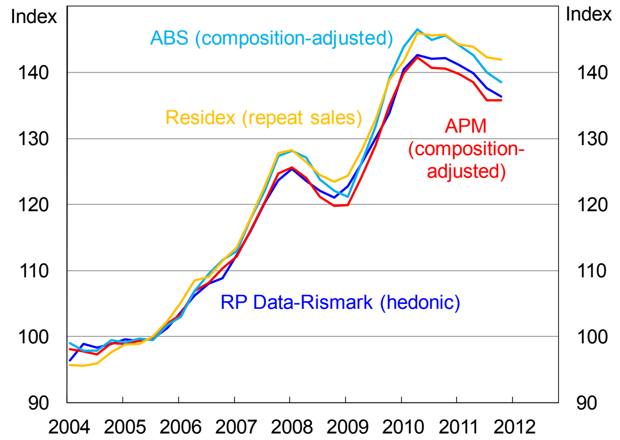
House Prices

The ABS measure of capital-city house prices fell by 1.0 per cent in the December quarter, following a 1.9 per cent fall in the September quarter. This was in line with the RP measure of house prices but weaker than the APM measure, which was flat (Graph 3). In year-ended terms, the ABS measure fell 4.8 per cent compared with falls of 4.1 per cent and 3.4 per cent according to RP and APM respectively. The Residex repeat sales index shows a more modest annual fall of 2½ per cent, it has nonetheless tracked the other indices reasonably closely (Graph 4; Appendix Table 2).

Graph 3

National House Prices

2005 average = 100; quarterly

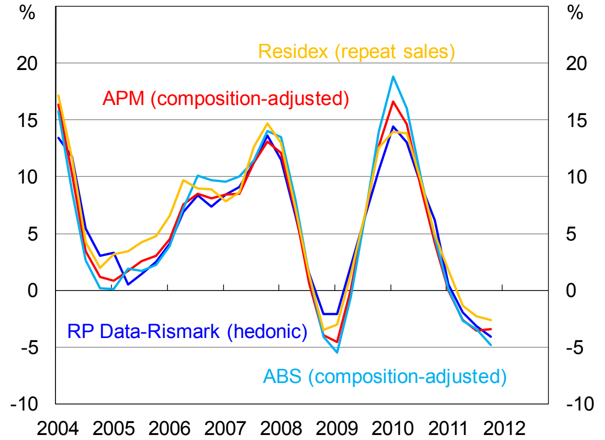


Sources: ABS; APM; RBA; REIA; Residex; RP Data-Rismark

Graph 4

National House Price Growth

Year-ended; quarterly



Sources: ABS; APM; RBA; REIA; Residex; RP Data-Rismark

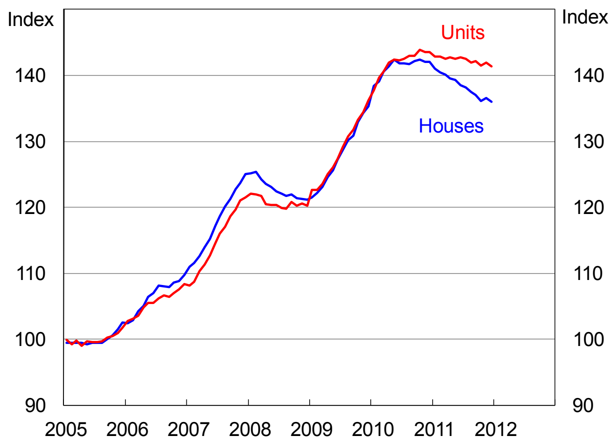
Apartment Prices

According to RP, unit prices fell by 0.6 per cent in the December quarter, similar to house prices. However, in year-ended terms unit prices have held up much better than house prices, falling by 1½ per cent compared to houses which fell by 4.3 per cent (Graph 5; Appendix Table 3).

Graph 5

House and Unit Prices

2005 = 100

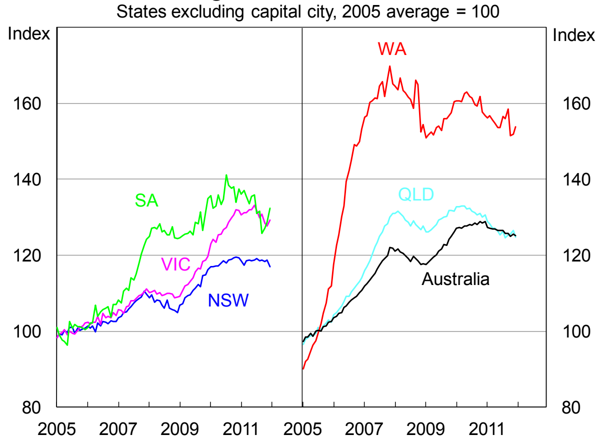


Source: RP Data-Rismark

Graph 6

Regional House Prices

States excluding capital city, 2005 average = 100



* Weighted average of the five states shown

Sources: RBA; RP Data-Rismark

Regional House Prices

House prices in Australia's regional areas fell by 0.5 per cent in the three months to December, according to RP data, following a similar fall over the September quarter. Regional prices are down by around 3 per cent in year-ended terms, with Queensland and South Australia down about 4 per cent; New South Wales, Victoria and Western Australia fell by 2 per cent (Graph 6).

Project Home Prices

According to the ABS, capital city project home prices rose by 0.2 per cent in the December quarter to be 1½ per cent higher over the year (Graph 7; Table 2).

Graph 7

Project Home Prices

Percentage change

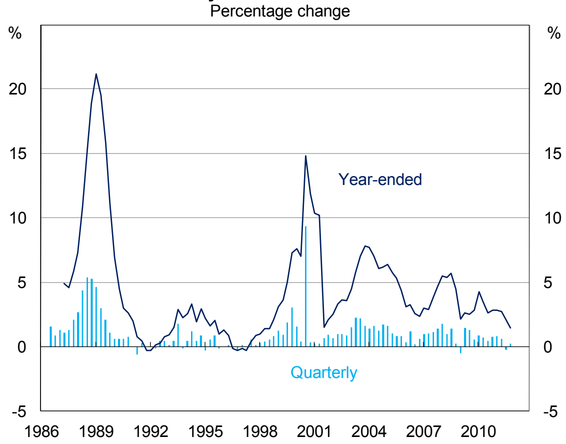


Table 2 - Project Home Prices

Percentage change

	Sep-11	Dec-11	Year to Dec-11
Sydney	-0.2	0.7	2.7
Melbourne	0.4	-0.3	1.8
Brisbane	-1.6	0.0	-0.4
Adelaide	-1.0	0.1	-0.5
Perth	0.7	0.4	1.8
All Capitals	**-0.2**	**0.2**	**1.5**

Source: ABS

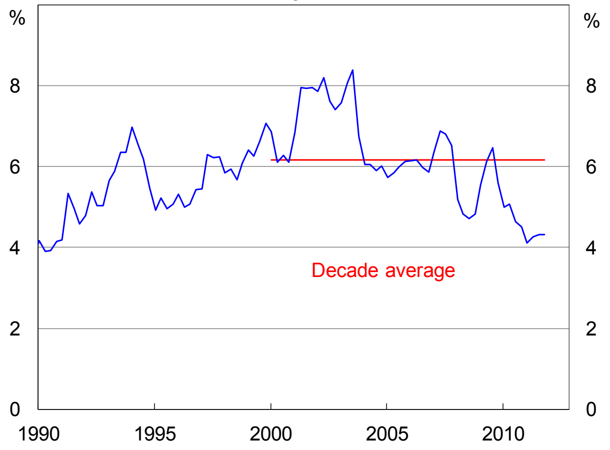
Dwelling Turnover, Time to sell and Discounts

Preliminary data for the December quarter suggest that the national turnover rate (housing transactions divided by the estimated dwelling stock) was flat. The turnover rate is well below the decade average at a level not observed since the early 1990s (Graph 8). The number of days on market required to sell a house remains high and buyers are also securing relatively large discounts from vendors' offering prices (Graph 9).

Graph 8

National Dwelling Turnover Rate

Share of dwelling stock, annualised

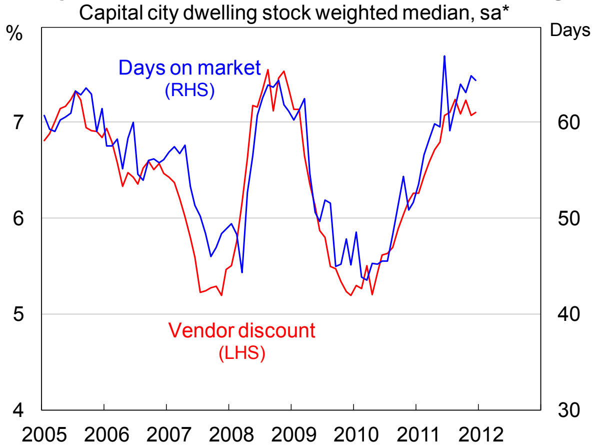


Source: ABS; RBA; RP

Graph 9

Days on Market and Vendor Discounting

Capital city dwelling stock weighted median, sa*



* Excludes withdrawn properties

Source: RP Data-Rismark

Next release: 1 May 2012

Financial Conditions

Economic Department, 1 February 2012

Appendix

Table A1 - Dwelling Price Growth

Percentage change - December 2011

	Monthly	Quarterly	Yearly	Affordable Lowest 20%	Middle Middle 60%	Expensive Highest 20%	Houses y/y	Units y/y	Regional Houses y/y
Sydney	0.4	0.7	-0.3	0.9	0.1	-2.4	-0.9	0.9	-2.0
Melbourne	-0.5	-1.4	-6.1	-3.9	-5.6	-10.4	-6.8	-3.6	-2.0
Brisbane	-0.6	-1.3	-6.8	-14.6	-6.3	-6.7	-6.8	-6.5	-4.4
Perth	-1.6	-2.1	-4.3	0.6	-3.9	-10.5	-4.3	-4.2	-1.9
Adelaide	-0.1	-1.2	-4.4	-5.1	-4.8	-2.2	-5.3	-1.1	-3.7
Canberra	-1.3	-0.1	-2.2	--	--	--	-2.5	-1.4	--
Darwin	-0.3	-1.1	-2.3	--	--	--	-2.2	-2.6	--
Australia	**-0.2**	**-0.5**	**-3.6**	**-3.1**	**-3.3**	**-6.4**	**-4.3**	**-1.5**	**-2.9**

Source: RP Data-Rismark

Table A2 - Capital City House Price Measures

Percentage change; quarterly

	ABS *Compositional adj.*		RP Data-Rismark *Hedonic*		APM *Compositional adj.*	
	Dec qtr	Year-ended Dec qtr	Dec qtr	Year-ended Dec qtr	Dec qtr	Year-ended Dec qtr
Sydney	-1.0	-2.7	-0.3	-1.1	0.0	-1.3
Melbourne	-1.6	-6.1	-2.1	-6.3	1.1	-3.1
Brisbane	-1.3	-6.7	-1.0	-6.5	-1.2	-7.5
Adelaide	-1.6	-6.4	-0.5	-5.3	0.5	-3.9
Perth	0.5	-4.9	-0.6	-4.0	-1.2	-5.2
Canberra	0.7	-2.6	-0.7	-1.7	-0.6	-3.5
Hobart	0.8	-4.0	--	--	0.5	-5.0
Darwin	-1.4	-5.4	-0.6	-5.4	-0.5	-7.0
Regional*	--	--	-0.5	-2.9	--	--
Australia	**-1.0**	**-4.8**	**-1.0**	**-4.1**	**0.0**	**-3.4**

* Measured as areas outside of capital cities in NSW, VIC, QLD, WA and SA

Sources: ABS; APM; RP Data-Rismark

Table A3 - Capital City Unit Price Measures

Percentage change; quarterly

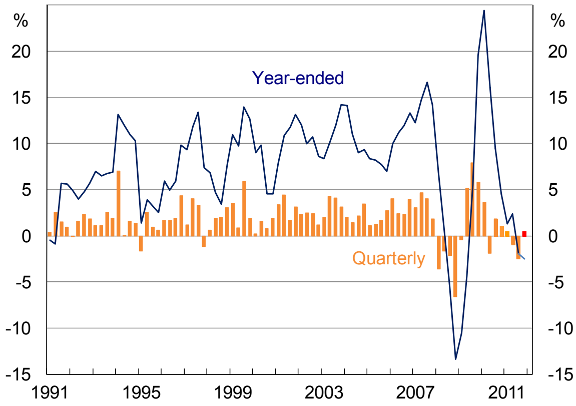
	APM *Compositional adj.*		RP Data-Rismark *Hedonic*		Simple Average	
	Dec qtr	Year-ended Dec qtr	Dec qtr	Year-ended Dec qtr	Dec qtr	Year-ended Dec qtr
Sydney	-1.1	-0.9	0.5	1.6	-0.3	0.3
Melbourne	-0.9	-0.2	-1.6	-4.5	-1.3	-2.4
Brisbane	0.4	-5.8	-0.5	-3.1	0.0	-4.5
Adelaide	0.0	-2.3	1.0	-3.8	0.5	-3.0
Perth	2.1	-3.3	-1.0	-3.9	0.5	-3.6
Capital Cities	**-0.5**	**-1.5**	**-0.2**	**-1.4**	**-0.4**	**-1.4**

Sources: ABS; APM; RP Data-Rismark

BRIEFING – HOUSEHOLD NET WORTH, GEARING AND SAVING

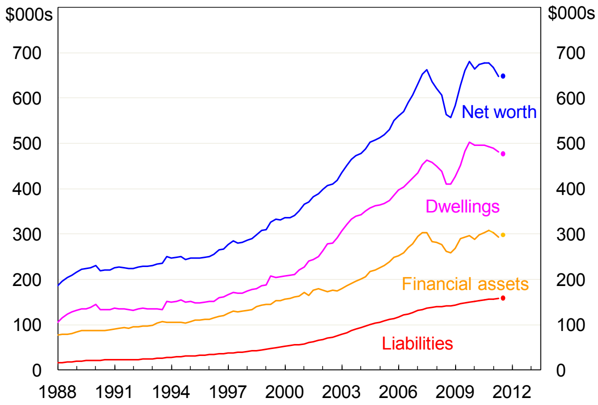
- **Household wealth** is estimated to have grown slightly in the December quarter, but was around 2½ per cent lower over the year, with a 3½ per cent fall in average dwelling prices more than offsetting a small rise in the value of financial asset holdings over the year.

Household Net Worth
Percentage change



* RBA estimate for December quarter 2011
Sources: ABS; RBA; RP Data-Rismark

Household Wealth and Liabilities*
Per household



* RBA estimate for the December quarter 2011
Sources: ABS; RBA; RP Data-Rismark;

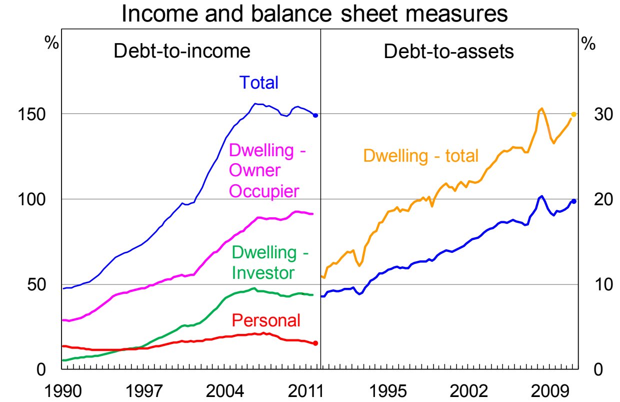
- **Per-household net worth** is estimated to have been around $650,000 in December 2011, up from a trough of $560,000 in March 2009. This is equivalent to around 5½ times annual household disposable income.

- With income growing a little faster than debt, the household **debt-to-income ratio** is estimated to have declined to 149 per cent in the December quarter although it remains high by historical standards.

- The **household debt-to-assets ratio** increased in the in December quarter 2011 reflecting weak growth in asset values.

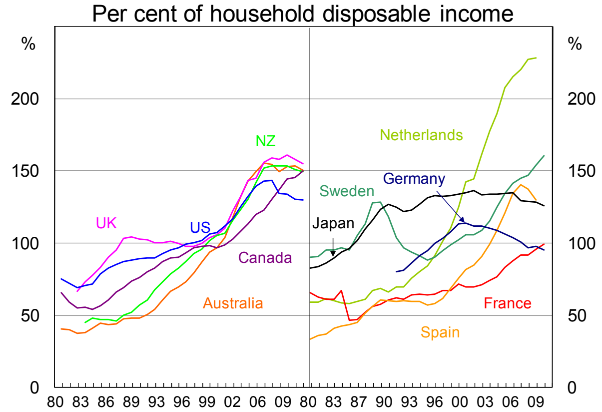
- **Australia's debt-to-income ratio** is similar to that in many developed countries. The bulk of our debt is housing debt rather than personal debt, similar to NZ and the UK.

Household Gearing
Income and balance sheet measures



* Household assets includes the financial assets of unincorporated enterprises and unfunded superannuation; household disposable income excludes unincorportated enterprises and is before interest payments; RBA estimates for the December quarter 2011
Sources: ABS; RP Data-Rismark; RBA

Household Debt*
Per cent of household disposable income

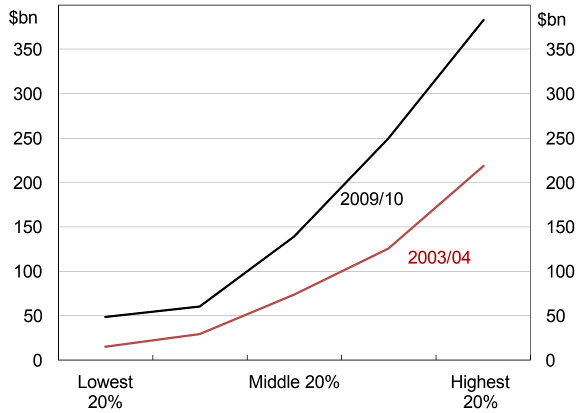


* Figures are not necessarily comparable due to differences in definitions and institutional arrangements; the latest data for Australia, Canada, Germany, New Zealand, the UK and the US are for September quarter 2011; data for Sweden, France and Japan are for December quarter 2010; data for the Netherlands and Spain are for December quarter 2009.
Sources: National sources

- **Distribution of debt by income quintile:** Survey data suggest that the increase in the value of the owner-occupier debt stock held by the highest income quintile, as a group, far exceeded the increase in the value of the debt stock held by the lower income quintiles over the latter half of the last decade. Of those with debt, the median debt burden (the debt-to-income ratio) has declined for lower income groups and increased slightly for higher income households.

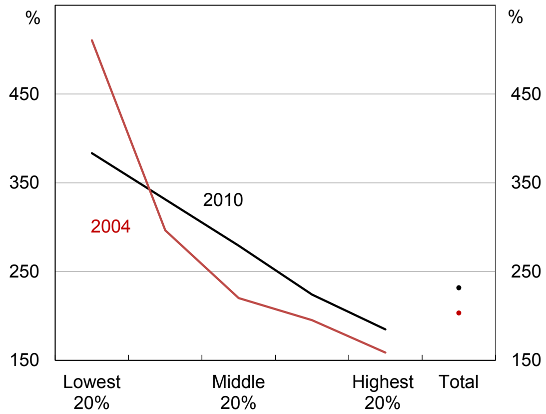
- **Distribution of debt by age:** Survey data suggest that the increase in the value of the owner-occupier debt stock held by middle-aged people, as a group, far exceeded the increase in the value of the debt stock held by younger and older people over the latter half of the last decade. Of those with debt, the increase in the median debt burden has been relatively uniform, albeit a little larger for the youngest households.

Owner-Occupier Debt
By disposable income



Sources: ABS; RBA

Owner-Occupier Debt Burden*
By disposable income

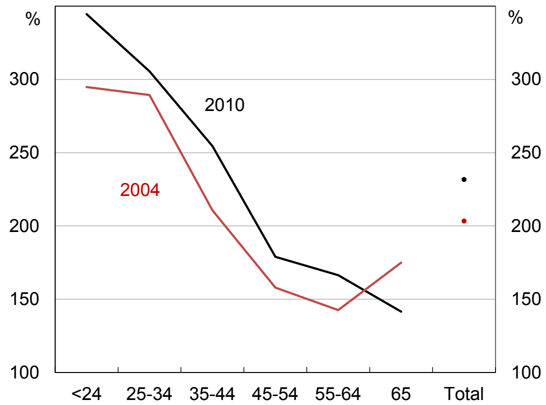


* Medians taken from households holding owner-occupier debt
Sources: HILDA Release 10; RBA

Owner-Occupier Debt
By age

Sources: ABS; RBA

Owner-Occupier Debt Burden*
By age



* Medians taken from households holding owner-occupier debt
Sources: HILDA Release 10; RBA

From:
Sent: Friday, 3 February 2012 1:43 PM
To:
Cc:
Subject: APRA Credit Conditions Survey – A Preview

According to the December quarter survey:

- Lending margins for **housing loans** continued to decline due to higher funding costs and increased competition

- Mortgages in possession continued to increase

PROPERTY

Preliminary data from RP suggest that capital city dwelling prices fell by 1.6 per cent in January to be 1.3 per cent lower over the quarter and 4 per cent lower over the year. Melbourne and Brisbane were the weakest markets, falling by around 3 per cent in January to be 6 to 7 per cent lower over the year. Most data providers had been pointing to a tentative stabilisation in housing prices over the December quarter, though the January numbers now suggest otherwise. The national CBD office vacancy rate fell slightly in the December quarter to be 7.2 per cent, slightly below its decade average.

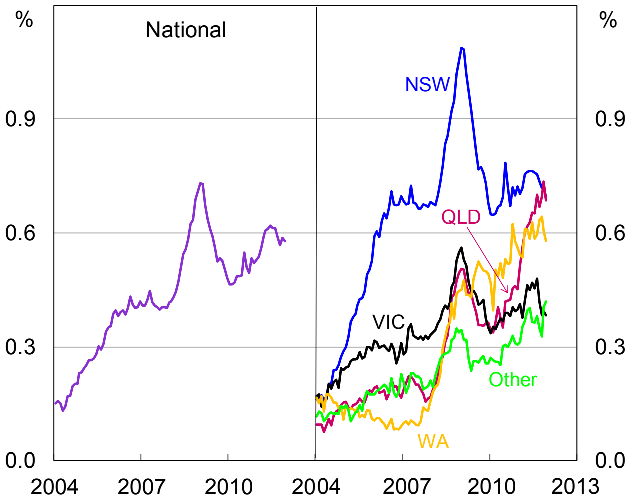
Lending Conditions

Housing loan **arrears** remained steady in December after having fallen from a recent peak in mid 2011 (Graph 8). Arrears rates are below their mid 2011 level in all mainland states except Queensland, where arrears have been increasing for two years and are now on par with arrears in NSW

Areas with the highest arrears rates, particularly the Sunshine and Gold Coasts, also exhibited higher-than-average unemployment rates, reflecting underperformance in the both the housing market and the broader economy in these regions.

Graph 8

Housing Loan Arrears*



* Full-doc and low-doc loans securitised by all lenders; excludes self-securitisations
Sources: Perpetual; RBA

PROPERTY

Residential Property

Preliminary data from RP suggest that capital city **dwelling prices** fell by 1.6 per cent in January to be 1.3 per cent lower over the quarter (Table 2; Graph 14). Prices are almost 4 per cent below the December 2010 peak, compared to a peak-to-trough fall of 2.7 per cent over the 2008 slowdown. There was particular weakness in Melbourne and Brisbane, which fell by around 3 per cent in January to be 6 to 7 per cent lower over the year. Adelaide and Perth are down around 3 to 4 per cent in year-ended terms, while Sydney, which has been the most resilient state capitals so far, has remained roughly level for the past 18 months.

Table 2 - Capital City Dwelling Price Growth

Preliminary estimates

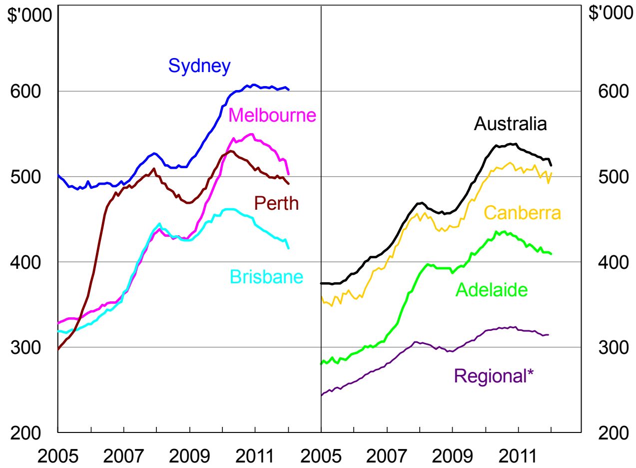
	Month to January	3 months to January	Year to January
Sydney	-0.5	-0.2	-0.9
Melbourne	-2.9	-3.0	-7.3
Brisbane	-2.5	-2.5	-6.3
Perth	-0.8	-1.3	-3.2
Adelaide	-0.5	-0.6	-4.1
Canberra	2.4	0.1	-1.0
Darwin	1.8	0.3	-0.4
Australia	**-1.6**	**-1.3**	**-3.9**

Source: RP Data-Rismark

As expected, December growth was revised upwards from -0.2 per cent to +0.1 per cent, with the change attributable to low initial volumes and delays in receiving data from the cities' valuer generals, both of which are typical measurement issues around this time of year.

Graph 14

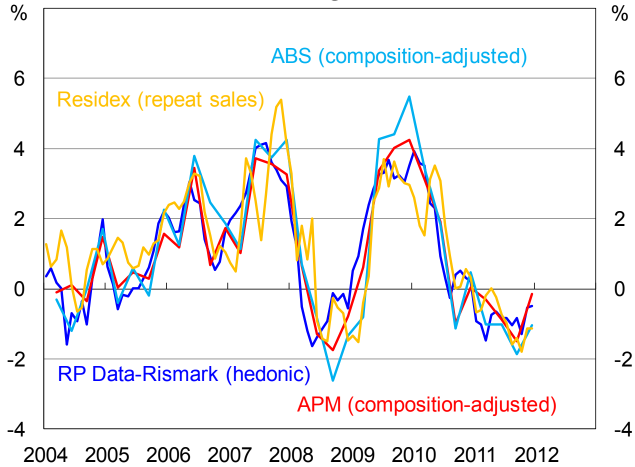
Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

Graph 15

National Dwelling Price Growth*



*Quarterly growth rates; ABS measure referes to house prices
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

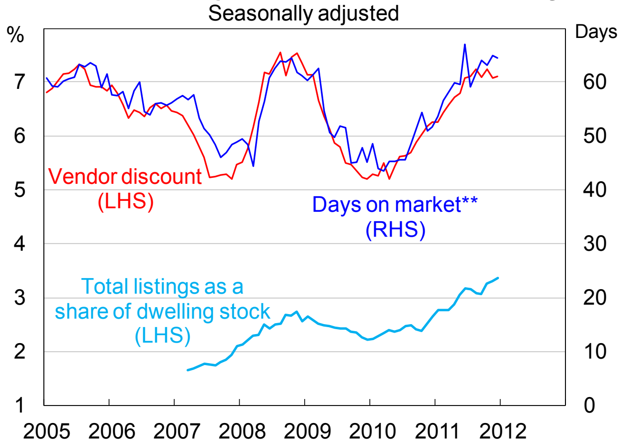
Most data providers showed a decline in prices in the December quarter, although growth was generally less weak than it has been (Graph 15).

Sales volumes remain weak, with the number of days on market required to sell a house around historical highs and sellers accepting historically large discounts in the event of a sale (Graph 16). Turnover, the number of sales relative to the dwelling stock, remains well below the decade average and total advertised listings remain high.

Graph 16

Discounts, Days on Market and Listings*

Seasonally adjusted



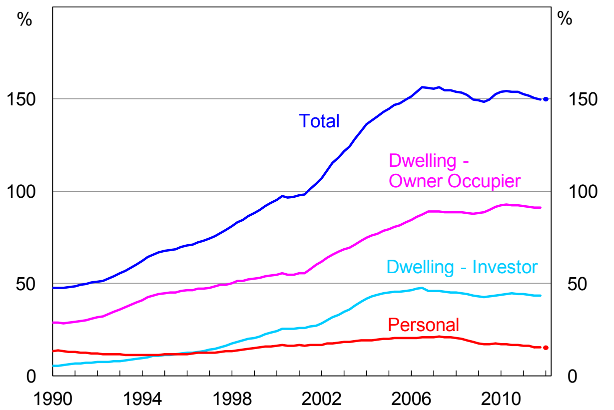
* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data-Rismark

Household Debt and Interest

Graph 5

Household Debt

Per cent of household disposable income*

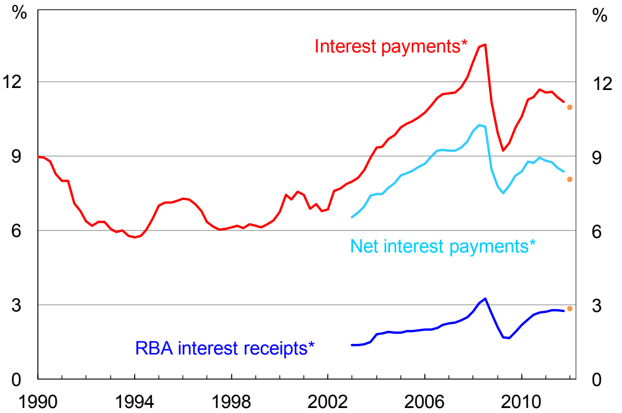


* Household sector excludes unincorporated enterprises; disposable income is before the deduction of interest payments; RBA estimates for the March quarter 2012
Source: ABS; RBA

Graph 6

Household Interest Payments and Receipts

Per cent of household disposable income



* Excluding unincorporated enterprises; disposable income is before interest payments; RBA estimates for the current quarter
Sources: ABS; RBA

Household debt increased by 1.1 per cent in the December quarter, which saw the debt-to-income ratio fall to just below 150 per cent of annual household disposable income (Graph 5). The debt-to-income ratio is expected to remain flat in the March quarter with annual income growth expected to be broadly in line with credit growth.

Interest payments fell modestly to 11.2 per cent of household disposable income, reflecting lower average outstanding rates on housing and personal credit over the quarter. Interest payments are 0.4 percentage points lower than at their December 2010 peak, and 2.2 percentage points lower than at the September 2008 peak. Notwithstanding the out-of-cycle increase in the commercial banks' interest rates, the interest payments burden is expected to fall further in the March quarter as a result of lower average lending rates (the cash rate was cut in

November and December 2011, so that the full effect of both cuts was only felt in the last month of the quarter).

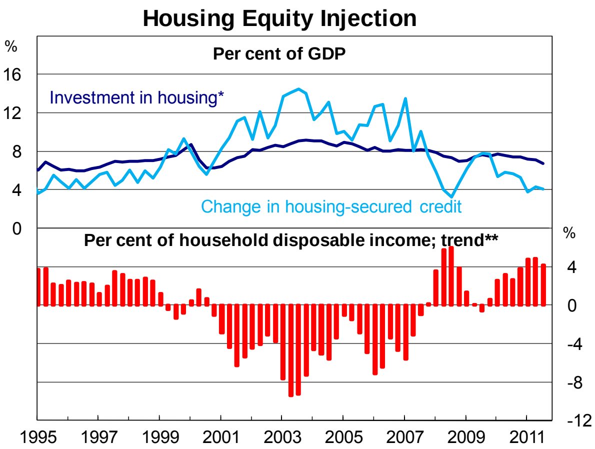
Household interest receipts (excluding FISIM) according to the RBA measure are estimated to have grown in line with income in the December quarter to remain at 2.8 per cent of household disposable income (Graph 6).

With a modest decline in interest payments and no significant changes in interest receipts, relative to income, household **net interest payments** fell to be 8.4 per cent of household disposable income in the December quarter, and are expected to fall slightly further in the March quarter (Graph 6).

Housing Equity Injection

In trend terms, **housing equity injection** is estimated to have been around 4.2 per cent of household disposable income in the December quarter, down from around 4.9 per cent in the September quarter (Graph 7). The raw data suggests that housing equity injection was 4.1 per cent of disposable income in the December quarter, down from around 4.4 per cent last quarter.

Graph 7



*Assumes 50 per cent of new dwellings are built upon newly-acquired land from outside the household sector
**Household disposable income excludes unincorporated enterprises and is before interest payments
Sources: ABS; APM; Australian Treasury; RBA

Next release: 6 June 2012

Financial Conditions Section
Economic Analysis Department
7 March 2012

Dwelling Prices Monthly Review – February 2012

RP Data-Rismark (RP) have changed their methodology of calculating dwelling price indices, and as a result there have been considerable revisions to both dwelling price levels and growth rates (see [appendix] for further information).

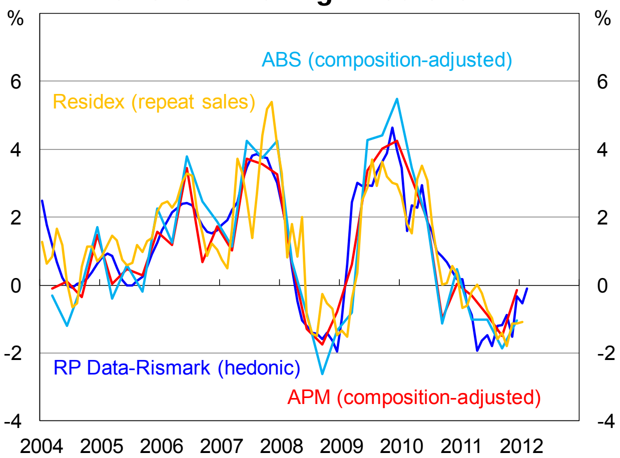
According to the new RP index, and notwithstanding some volatility in December and January, the established housing market was flat over the three months to February. With the pace of decline slowing over the past 6 months in all dwelling price series we track, dwelling prices appear to be near a trough. Over the three months to February, Perth and Melbourne recorded modest growth (both fell substantially earlier in 2011), Brisbane, the weakest capital city in 2011, continued to fall, while prices in Sydney fell slightly (revised data indicate a larger fall in Sydney over 2011 than had previously been signalled; although the level is now higher).

Dwelling Prices

Data from RP suggests that capital city dwelling prices were flat in February, following volatility in December and January. Other data providers also point to some slowing in the pace of declines (Graph 1 and 2). Dwelling prices are flat over the quarter, but remain 5 per cent below their 2010 peak. The current peak-to-trough decline is similar in magnitude to the 2008 downturn, although the current episode has lasted 5 months longer.

Graph 1

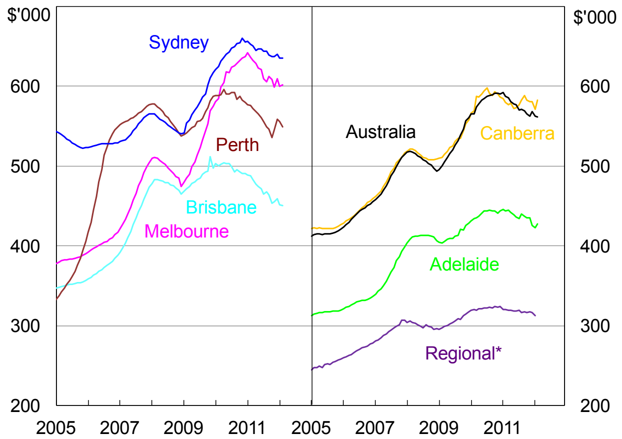
National Dwelling Price Growth*



*Quarterly growth rates; ABS measure referes to house prices
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

Graph 2

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

By city, conditions remain weakest in Brisbane, where prices have fallen by 8 per cent in year-ended terms. Prices in Melbourne, Adelaide and Perth have declined by around 5 per cent over the year, while prices in Sydney have fallen by 2½ per cent (Table 1).

Table 1 - Dwelling Price Growth
February 2012 (per cent)

	Monthly	Quarterly	Yearly	Houses y/y	Units y/y
Sydney	0.0	-0.3	-2.7	-2.8	-2.3
Melbourne	0.2	0.4	-5.5	-5.7	-4.1
Brisbane	-0.1	-0.9	-7.7	-7.9	-5.0
Perth	-1.2	0.7	-4.6	-4.5	-5.7
Adelaide	1.1	-1.7	-3.7	-3.4	-7.0
Canberra	2.0	0.3	0.4	0.8	-4.2
Darwin	5.5	4.6	-5.1	-4.8	-6.0
Australia	**-0.1**	**-0.1**	**-4.4**	**-4.5**	**-3.5**

Source: RP Data-Rismark

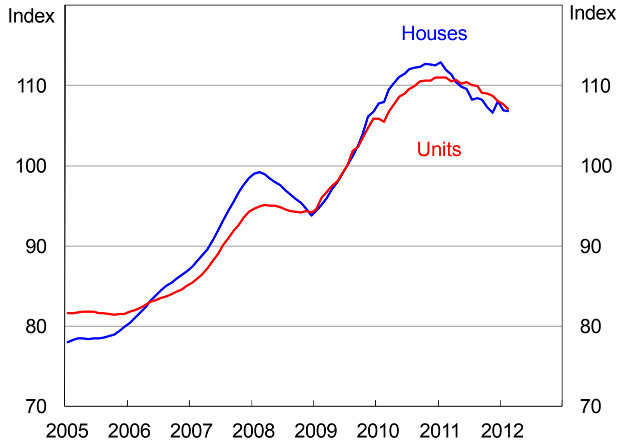
House and Apartment Prices

Apartment prices fell by 1½ per cent in the 3 months to February, in contrast to house prices which rose modestly (Graph 3). Over the year however, house prices have fallen further than unit prices.

Graph 3

House and Unit Prices

2009 = 100

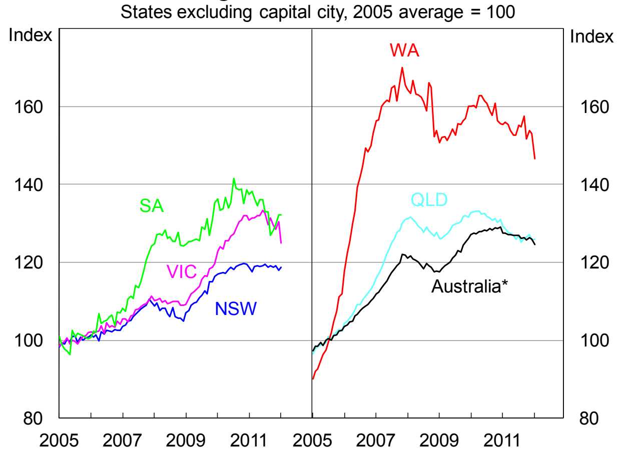


Source: RP Data-Rismark

Graph 4

Regional House Prices

States excluding capital city, 2005 average = 100



* Weighted average of the five states shown
Sources: RBA; RP Data-Rismark

Regional House Prices

House prices in Australia's regional areas fell by 1 per cent in January, with Western Australia and Victoria falling by 4 per cent. Regional prices have fallen by around 2½ per cent in year-ended terms with widespread weakness, although NSW has been flat (Graph 4).

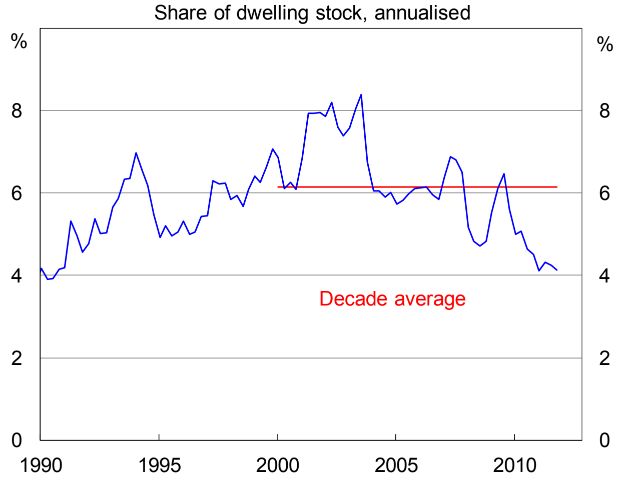
Turnover, Discounting, Days on Market and Listings

The national turnover rate (housing transactions divided by the estimated dwelling stock) fell in the December quarter, and remains well below the decade average at a level not observed since the early 1990s (Graph 5). Vendor discounting and the number of days on market both fell in January, indicating slightly stronger conditions, although both series remain high (Graph 6). Total listings have receded from the recent peak but are still quite elevated.

Graph 5

National Dwelling Turnover Rate

Share of dwelling stock, annualised

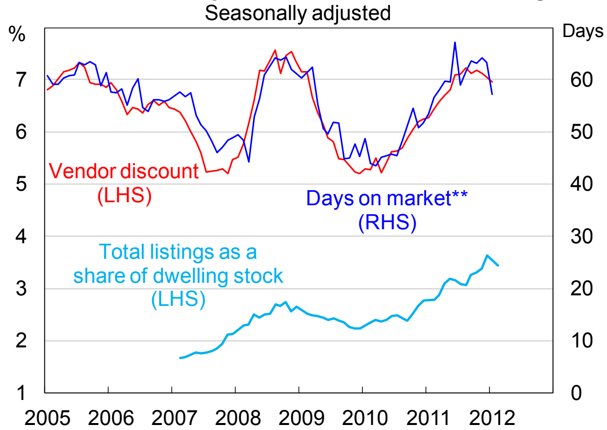


Sources: ABS; RBA; RP Data-Rismark

Graph 6

Discounts, Days on Market and Listings*

Seasonally adjusted



* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data-Rismark

Financial Conditions Section
Economic Analysis Department
13 March 2012

Appendix – RP Data-Rismark Methodology Change

Comparison

There have been substantial revisions to both levels and growth rates for all regions (Table A1; Graphs A1 and A2). For example, Sydney dwelling prices were previously reported as being flat over the past 18 months at around $600,000, but the new index indicates a peak of $660,000 occurring in late 2010 followed by an annual fall of around 3 per cent to around $635,000. This is because the previous `transaction-weighted' index behaved similarly to a median, whereas the new index tracks mean dwelling prices (as it is a `dwelling stock weighted' index). Therefore, the new index assigns greater weight to more expensive properties which have been falling in price recently (over 2011 expensive properties fell by 3 per cent while more affordable properties rose slightly). At the national level, growth rates are broadly similar between the methodologies, and are also similar to other data providers (Graphs A3 and A4).

Table A1

RP Data-Rismark Dwelling Prices - December 2011

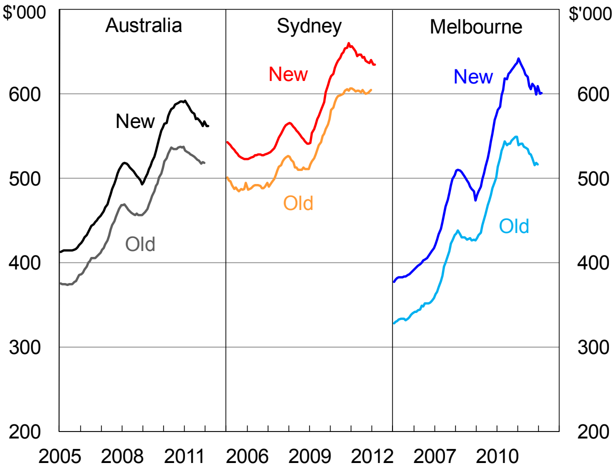
Year-ended growth rate (per cent)

	Old	New	Change
Sydney	-0.3	-2.4	-2.1
Melbourne	-6.1	-4.3	1.8
Brisbane	-6.8	-6.5	0.3
Perth	-4.3	-3.6	0.7
Adelaide	-4.4	-4.2	0.3
Canberra	-2.2	-1.0	1.2
Darwin	-2.3	-12.6	-10.3
Australia	**-3.6**	**-3.8**	**-0.2**

Source: RP Data-Rismark

Graph A1

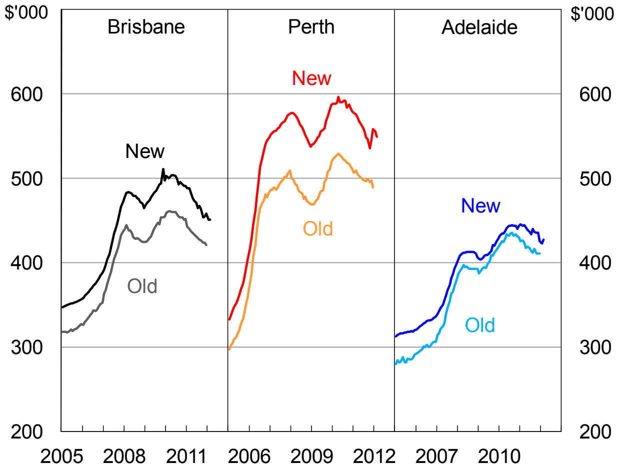
Dwelling Prices - Comparison



Source: RP Data-Rismark

Graph A2

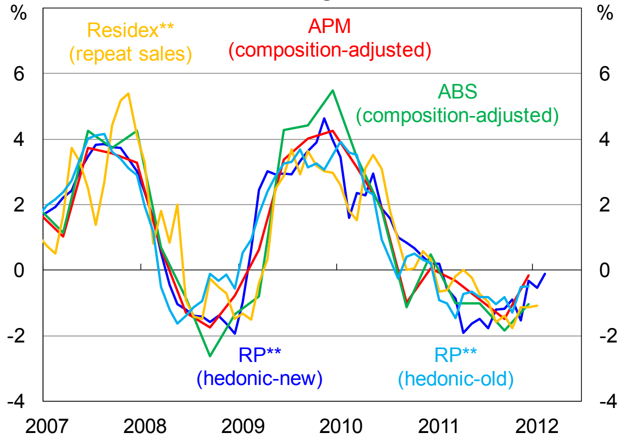
Dwelling Prices - Comparison



Source: RP Data-Rismark

Graph A3

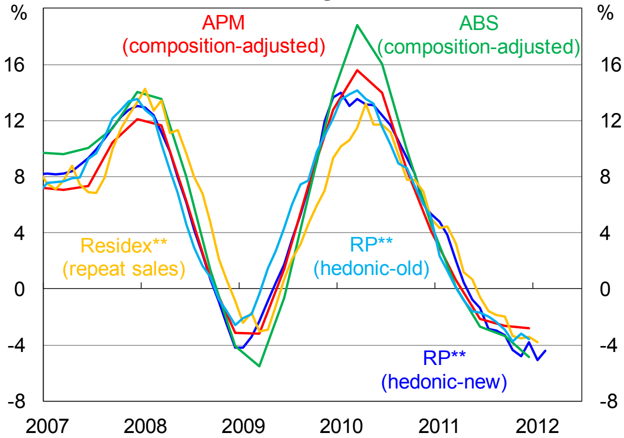
National Dwelling Price Growth*



* Quarterly growth rates; ABS measure refers to house prices
** Monthly frequency
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

Graph A4

National Dwelling Price Growth*



* Annual growth rates; ABS measure refers to house prices
** Monthly frequency
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

Methodology

Both the new and old indexes use hedonic regressions to measure dwelling price growth, after controlling for change in the composition of properties sold, which would otherwise bias estimates of growth. For example, if compositional change is not accounted for, more first-home buyers purchasing cheaper dwellings could show up as a fall in measured dwelling prices, whereas in actual fact it was only the case that a greater number of cheaper properties turned over. There are a few key differences between the old and new indices, however:

- **Scope**. The old index tracked just those properties that were sold over any two-month period. The new index attempts to track the entire stock of houses and apartments. It does this by imputing values for the entire dwelling stock, based on a number of hedonic regressions.
- **Level**. The old index was set to equal the median dwelling price in June 2005; the new index is set to equal the mean dwelling price in June 2011. As the mean is higher than the median, this causes a level shift.
- **Growth**. The old index grew at the unweighted average growth rate of the dwellings which sold over a given two-month period, after controlling for hedonic variables.[1] This growth rate was not a median dwelling price growth rate, although it behaved similarly to one. The new index grows at the growth rate of the mean dwelling price, after controlling for capital improvements. Despite these differences, since 2005 the new and old indices have grown by a similar amount, at least at the Australia wide level.
- **Revisions**. The history of the old index was revised each month to incorporate any new data. The history of the new index is not revised, but the latest index value incorporates all data, including any revisions. As such, the current level of the new index is the best estimate of the true level, which implies that the day-to-day growth rate is *not* the best estimate of the true growth rate, since it incorporates any revisions to data.

The new index has a number of advantages over the old index: it uses more sophisticated hedonics, prices the whole dwelling stock and incorporates new sales data in a more timely fashion.

For more information on the hedonic regression, see House Price Index Construction. For those especially interested, see Rismark's technical papers.

[1] The old index was unweighted in the sense that an expensive property that fell by 10 per cent was given the same weight as a cheaper property that grew by 10 per cent, even though the expensive property would constitute a larger proportion of the dwelling stock.

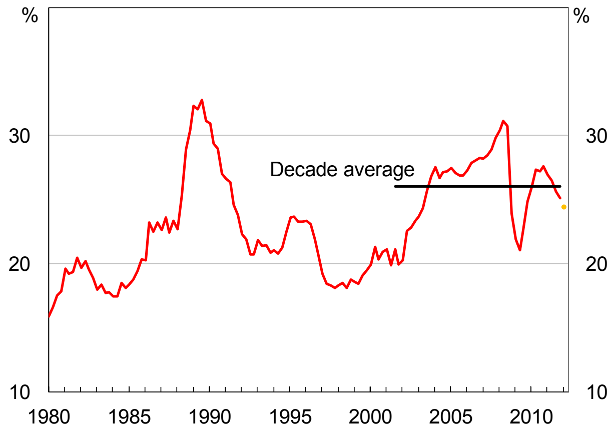
The proportion of disposable income required to meet repayments on new housing loans fell in the December quarter and housing affordability (measured by the dwelling price-to-income ratio) improved, reflecting a fall in dwelling prices, moderate nominal income growth and lower lending rates. Affordability is expected to continue improving in the March quarter.

National Affordability

Graph 1

Repayments on New Housing Loans

Per cent of household disposable income*

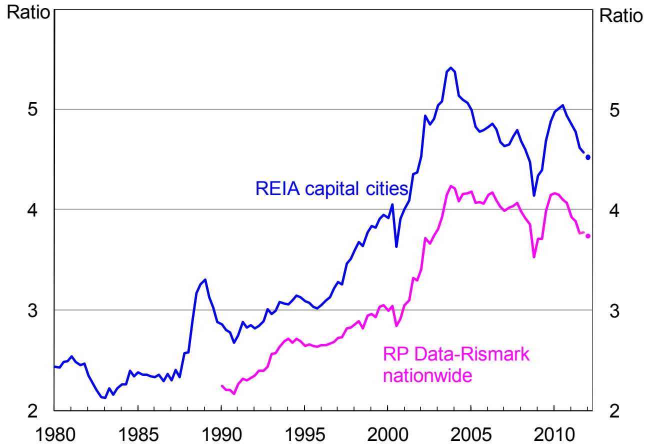


* Housing loan repayments calculated as the required repayment on a new 80 per cent LVR loan with full documentation for the nationwide median-price home. Based on capital city house price data prior to 1990; Household disposable income is before interest payments; RBA estimate for March quarter 2012

Sources: ABS; RBA; RP Data-Rismark

Graph 2

Dwelling Prices to Income*



* Ratio of dwelling price to average household disposable income; income is before the deduction of interest payments; dwelling prices are medians; RBA estimates for March quarter 2012

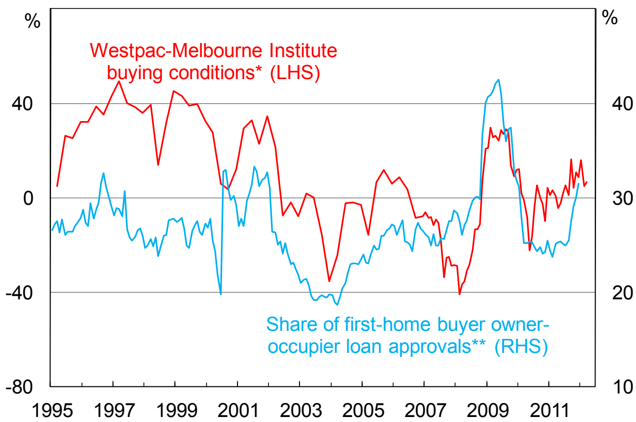
Sources: ABS; RBA; REIA; RP Data-Rismark

The per cent of household disposable income required to meet new loan repayments fell by around 1 percentage point in the December quarter to be 25 per cent, reflecting a fall in dwelling prices, modest nominal income growth and lower mortgage rates (Graph 1). The improvement in **housing affordability** is also evident in the price-to-income ratio, which fell slightly to 3¾ (Graph 2). Affordability is expected to improve further in the March quarter as a result of lower dwelling prices, moderate income growth and lower quarter-average lending rates.

Graph 3

Sentiment Regarding Buying Conditions

Non seasonally adjusted



* Percentage deviation from average since 1999; monthly estimates up to March 2012

** Monthly estimates up December 2011

Sources: ABS; Westpac/Melbourne Institute Survey

Although there was a slight improvement in affordability, **sentiment** towards buying a dwelling fell slightly in the December quarter.[1] The first-home-buyer share of owner-occupier loan approvals has increased sharply, up 6½ percentage since June, although this likely reflects the cessation (in December) of some first-home-buyer stamp duty concessions in NSW (Graph 3). Over the past three months, the value of loan approvals for investors has been broadly flat.

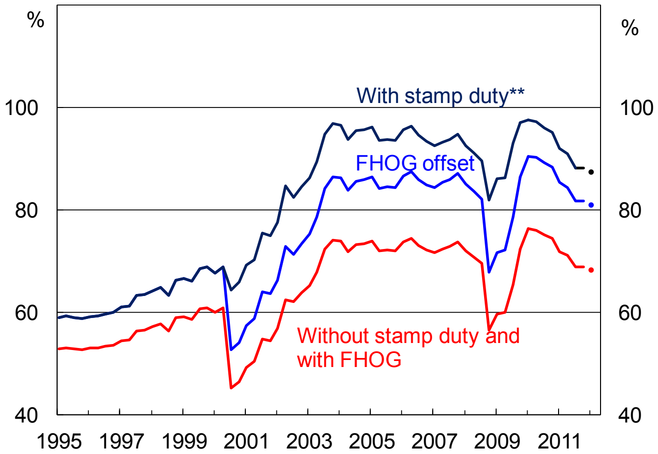
[1] To gauge sentiment toward buying a dwelling households are asked whether now is a good or bad time to buy.

Access to the housing market also improved slightly in the December quarter, with the share of household disposable income required for a deposit declining by around ¼ of a percentage point to 87½ per cent (Graph 4). Accessibility is expected to improve again in the March quarter.

Graph 4

Deposit for a Home Loan*

Per cent of annual household disposable income



* Calculated as 20 per cent of the nationwide median-priced home. Disposable income excludes unincorporated enterprises and is before the deduction of interest payments; RBA estimates for March quarter 2012

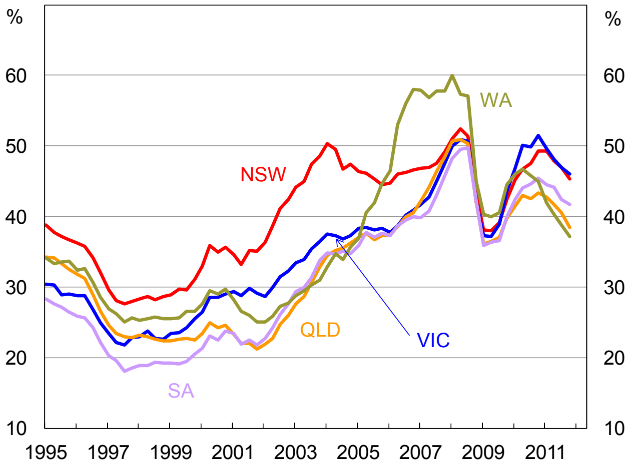
** Uses NSW stamp duty rates

Sources: ABS; RBA; RP Data-Rismark

Graph 5

State Monthly Loan Repayments*

Per cent of compensation of employees per income earner



* Assumes a 20 per cent deposit on a median-priced dwelling, 25-year mortgage and constant repayments

Sources: ABS; APM; RBA

State Affordability

Loan repayments as a proportion of compensation of employees fell in all mainland states in the December quarter (Graph 5). Western Australia continues to be the most affordable state according to this measure, with monthly loan repayments at around 37 per cent of wages. The least affordable states were New South Wales and Victoria, with monthly loan repayments around 46 per cent of wages.

Financial Conditions Section
Economic Analysis Department
19 March 2012

HOUSEHOLD SECTOR

Real household disposable income is estimated to have fallen by 0.1 per cent in the December quarter to be 3.2 per cent higher over the year. With consumption outpacing income growth, the household saving ratio fell to 9 per cent, from a downwardly revised 9.6 per cent in the September quarter. Household interest payments (including FISIM) fell modestly to be at 11.2 per cent of disposable income. This largely reflects lower average outstanding rates on housing and personal debt over the quarter.

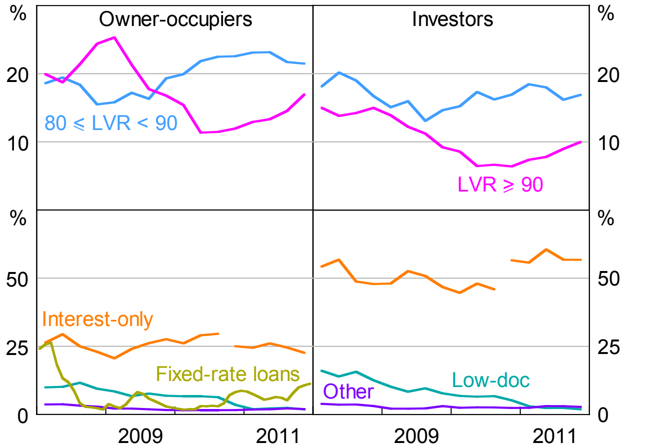
PROPERTY

Nationwide dwelling prices have fallen by around ½ per cent over March to date, to be down 1½ per cent over the quarter and 4.3 per cent over the year, with broad weakness across the major capital cities. Other housing indicators remain weak: low turnover has led to a high stock of unsold homes; vendors continue to offer large discounts; and auction clearance rates remain below average (although these indicators have shown small improvements recently). Reflecting the weak market, as well as recent interest rates cuts, housing affordability improved during 2011, with households now requiring 25 per cent of household disposable income to meet loan repayments on a median-priced dwelling. The rental market has tightened somewhat: newly negotiated rents rose by 1.7 per cent in the December quarter to be 4.2 per cent higher over the year, while vacancy rates fell 0.2 percentage points to 2.0 per cent.

Lending Conditions

The share of new housing loans with a loan-to-valuation ratio (LVR) above 90 per cent continued to increase in the December quarter, with lenders again offering 95 per cent LVR loans (Graph 8). For owner-occupiers, this share rose to 14½ per cent, from a trough of 9½ per cent in the June quarter 2010. For investors, almost 10 per cent of new loans in December 2011 had LVRs above 90 per cent. The fixed-rate share of owner-occupier housing loans also increased to 11½ per cent, a little above its long-run average. Periods of expansionary monetary policy are usually associated with falling demand for fixed-rate loans, so this rise may reflect concerns about out-of-cycle rate rises by banks. At the same time fixed rates are competitive relative to variable rates, and customers may be responding to this.

Graph 8
Banks' Housing Loan Characteristics*
Share of new loan approvals

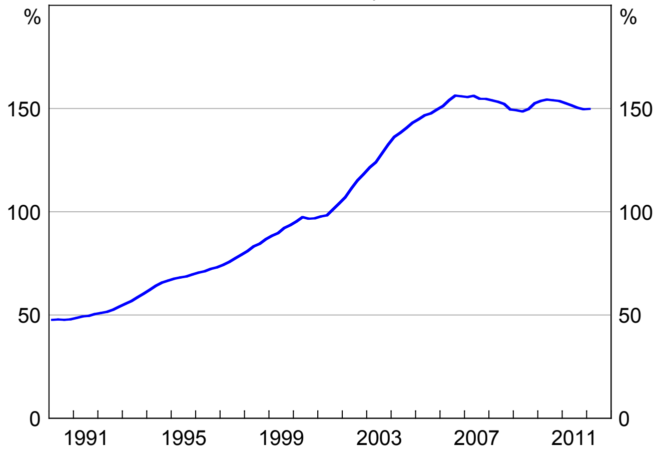


* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans

Sources: ABS, APRA

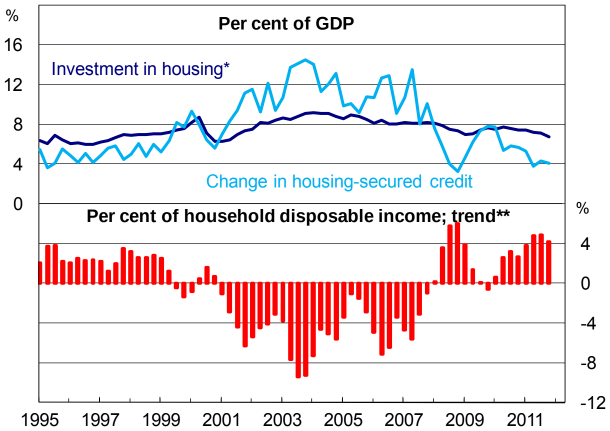
HOUSEHOLD SECTOR

Graph 15
Household Debt*
Per cent of household disposable income*



* Household sector excludes unincorporated enterprises; disposable income is before the deduction of interest payments; RBA estimate for March quarter 2012
Sources: ABS; RBA

Graph 16
Housing Equity Injection



*Assumes 50 per cent of new dwellings are built upon newly-acquired land from outside the household sector
**Household disposable income excludes unincorporated enterprises and is before interest payments
Sources: ABS; RP Data-Rismark; Australian Treasury; RBA

Household debt increased by 1.1 per cent in the December quarter, which saw the debt-to-income ratio fall to just below 150 per cent of annual household disposable income (Graph 15). The debt-to-income ratio is expected to remain flat in the March quarter, with annual income growth expected to be broadly in line with credit growth.

In trend terms, **housing equity injection** is estimated to have been around 4.2 per cent of household disposable income in the December quarter, down from around 4.9 per cent in the September quarter (Graph 16).

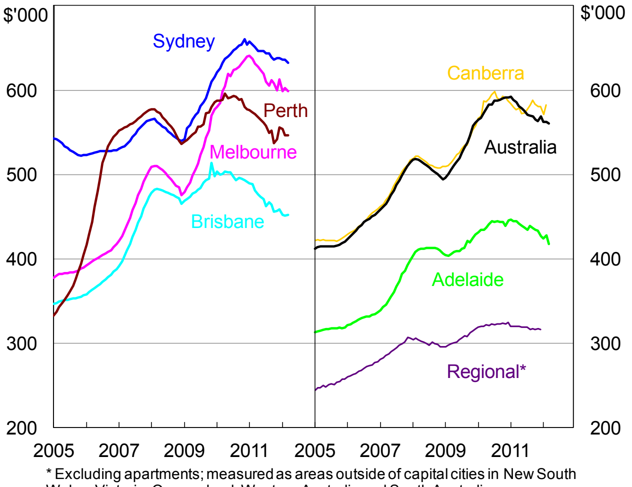
PROPERTY

Residential Property

According to the new daily RP index, nationwide **dwelling prices** have fallen by around ½ per cent over March to date, to be down 1½ per cent over the quarter and 4.3 per cent over the year (Graph 19, Table 2; see the appendix in the latest Monthly Review for further information on the new RP methodology). The current peak-to-trough decline is similar in magnitude to the 2008 downturn, although the current episode has lasted 4 months longer.

Graph 19

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

There is broad weakness across the major capital cities: prices in Brisbane and Adelaide have fallen by around 6 per cent in year-ended terms, while Sydney, Melbourne and Perth have decreased by between 3 and 5 per cent. Quarterly growth is also negative for the 5 capital cities, although prices in Brisbane have risen during March and prices in Perth have been flat. Note that the new index indicates a larger fall in Sydney over 2011 than had previously been signalled, although the level is now higher.

Table 2 - Dwelling Price Growth
As at 21 March 2012; per cent

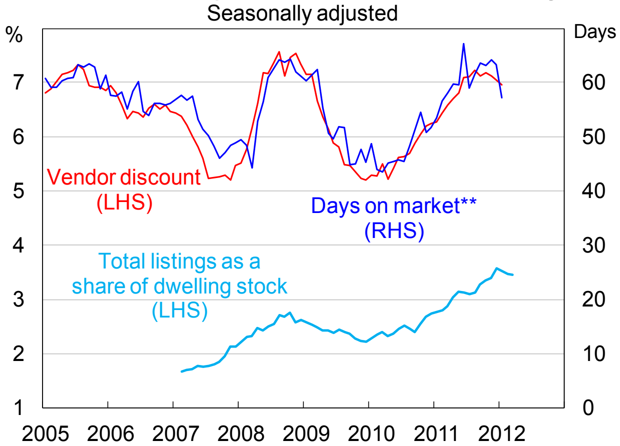
	Monthly	Quarterly	Yearly
Sydney	-0.6	-0.9	-2.9
Melbourne	-0.5	-2.3	-5.2
Brisbane	0.2	-1.4	-6.0
Adelaide	-2.4	-2.3	-6.0
Perth	0.1	-1.6	-4.3
Australia	**-0.5**	**-1.6**	**-4.3**

Sources: RBA; RP Data-Rismark

The **stock** of unsold homes remains high, as does the **time required to sell** a house and the associated **discounts** offered. However, there have been signs of improvement during the three months to February, with listings retreating from the December high and both discounts and days on market falling (Graph 20). Less encouragingly, turnover continued to fall in the December quarter and is at a very low level historically (Graph 21).

Graph 20

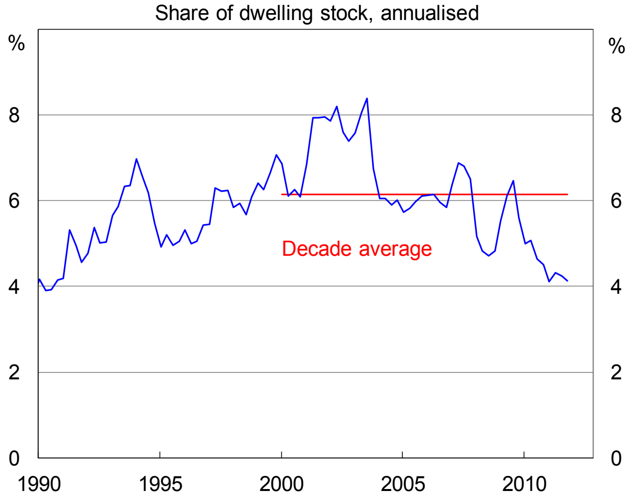
Discounts, Days on Market and Listings*



* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data-Rismark

Graph 21

National Dwelling Turnover Rate



Sources: ABS; RBA; RP Data-Rismark

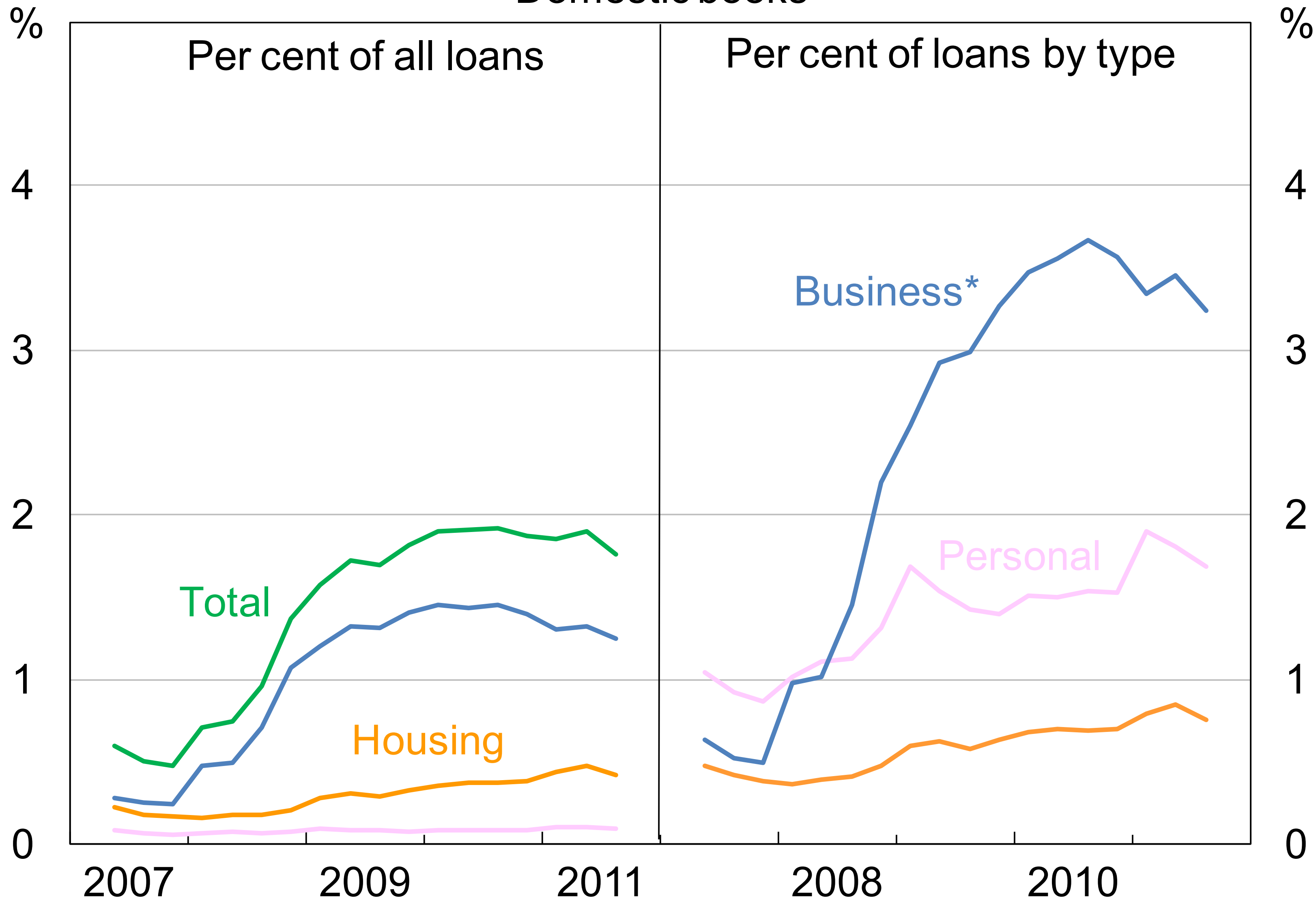
Housing affordability continued to improve in the December quarter, as interest rates and house prices fell, and nominal incomes rose modestly.

Financial Conditions Section, 21 March 2012

The Australian Financial System

Banks' Non-performing Domestic Assets

Domestic books



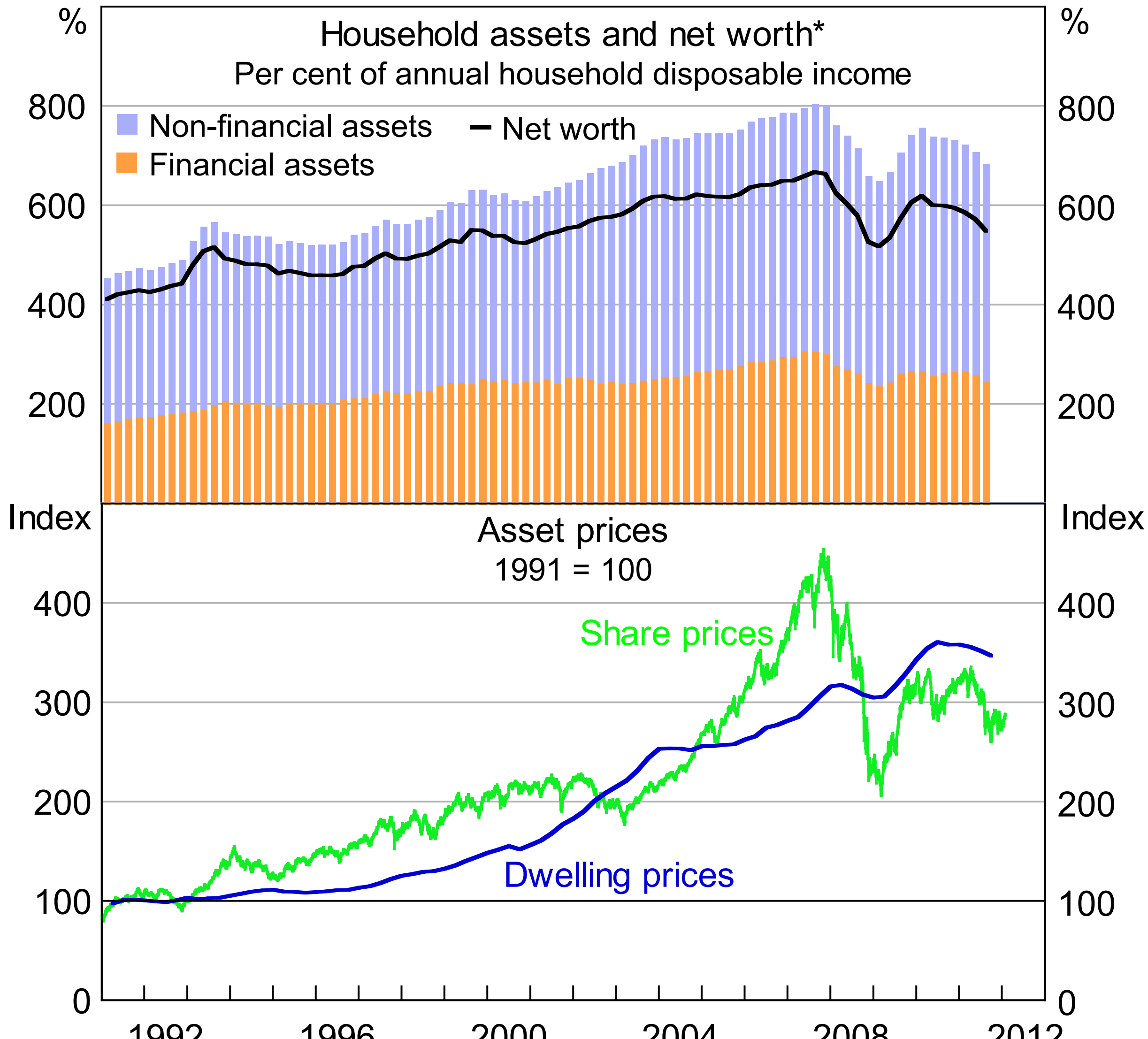
* Includes lending to financial businesses, bills and debt securities, and other non-household loans

Source: APRA

Households, Businesses and Markets

Household Balance Sheets

Household Assets and Asset Prices

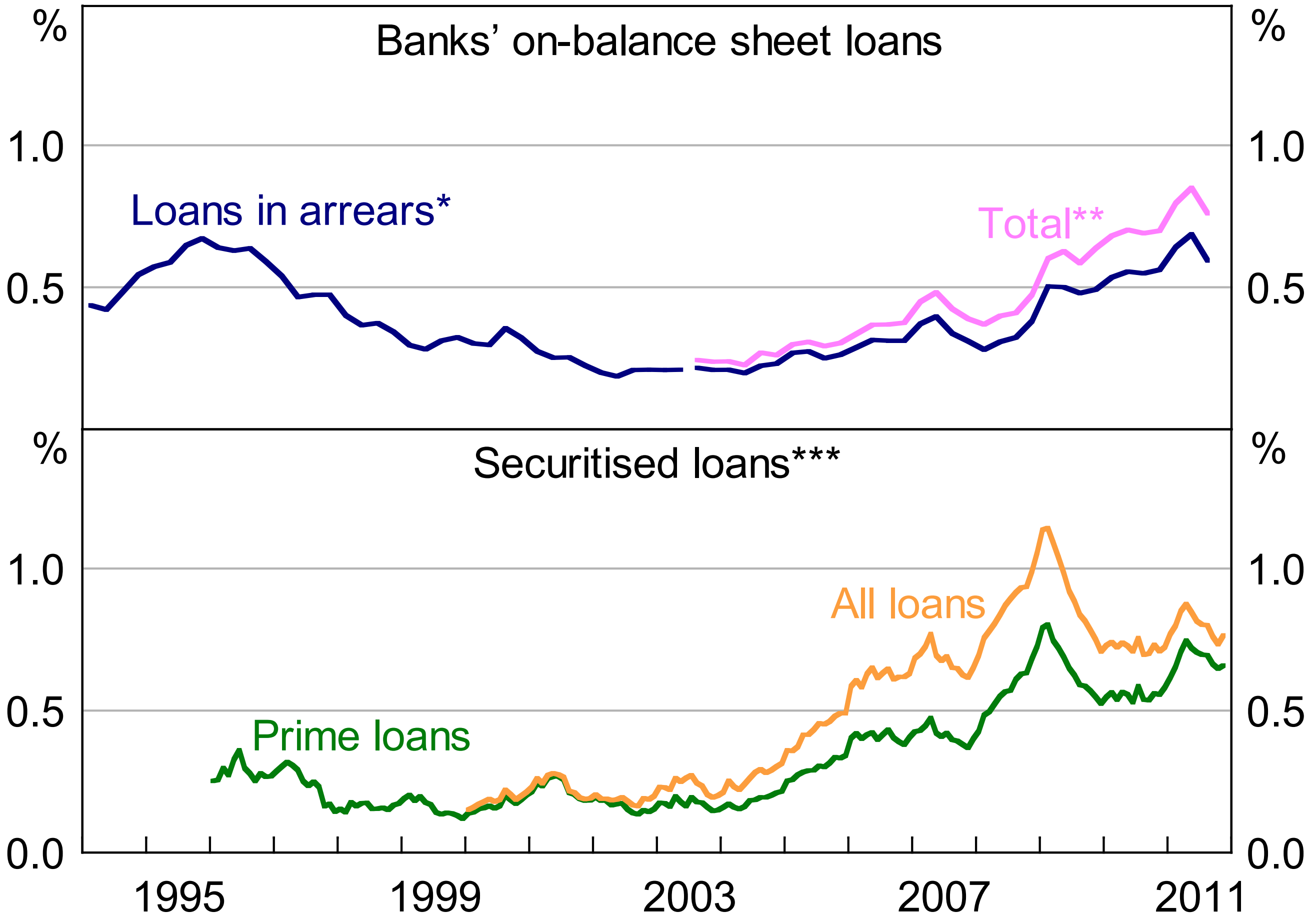


* Includes income and financial assets of unincorporated enterprises and is before interest payments

Sources: ABS; APM; Bloomberg; RBA; REIA

Non-performing Housing Loans

Per cent of outstandings



* Loans that are 90+ days past due but otherwise well secured by collateral

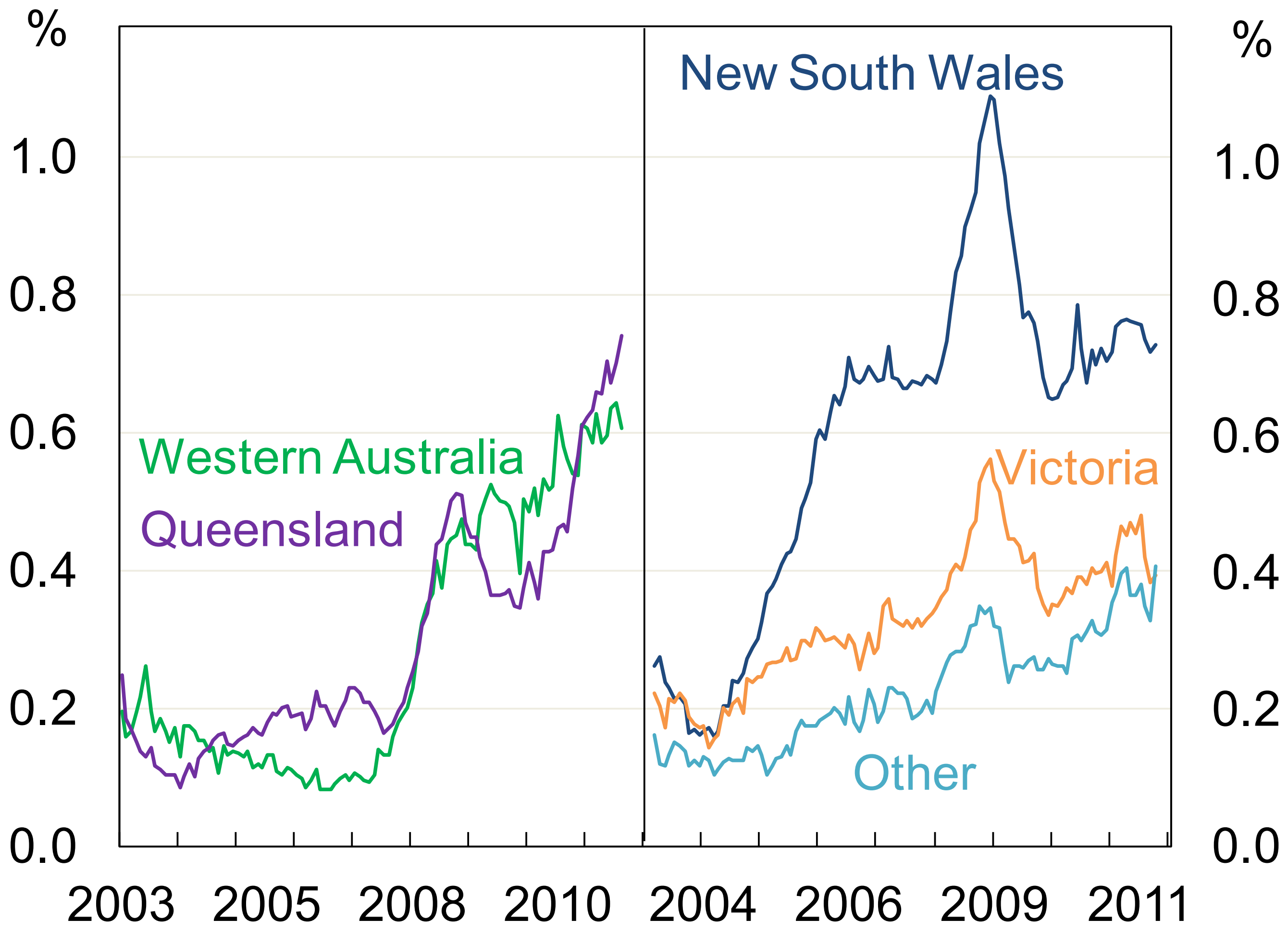
** Includes 'impaired' loans that are in arrears (or are otherwise doubtful) and not well secured by collateral

*** Loans securitised by all lenders, 90+ days past due; excludes self-securitisations

Sources: APRA; Perpetual; RBA; Standard & Poor's

Housing Loan Arrears by State*

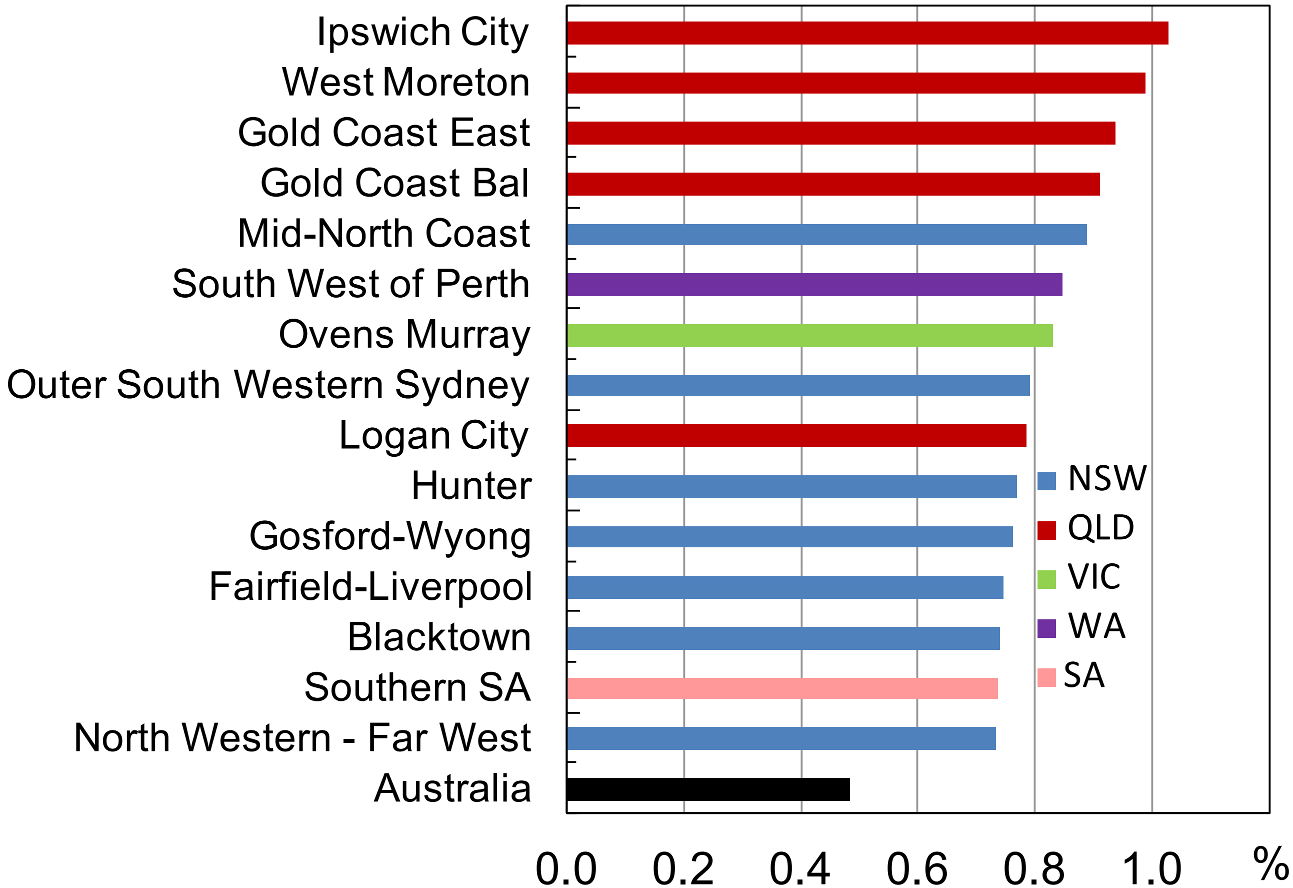
90+ days past due, per cent of outstandings, sa



* Prime loans securitised by all lenders; excludes self-securitisations.
Sources: Perpetual; RBA

Housing Loan Arrears By Region

90+ days past due, per cent of outstandings, November 2011*

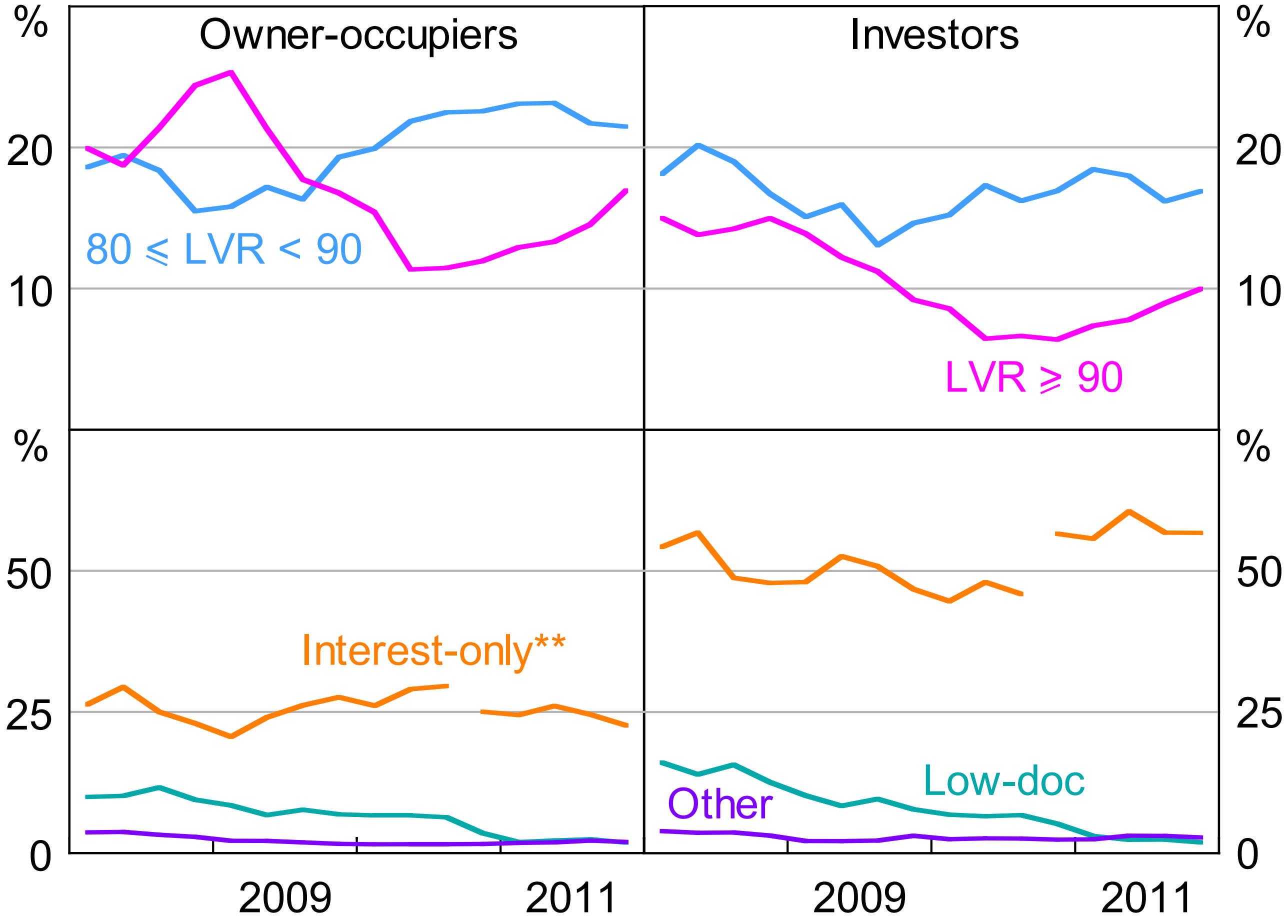


* Full-doc and low-doc loans securitised by all lenders; includes self-securitisations

Sources: ABS; Perpetual; RBA

Banks' Housing Loan Characteristics*

Share of new loan approvals



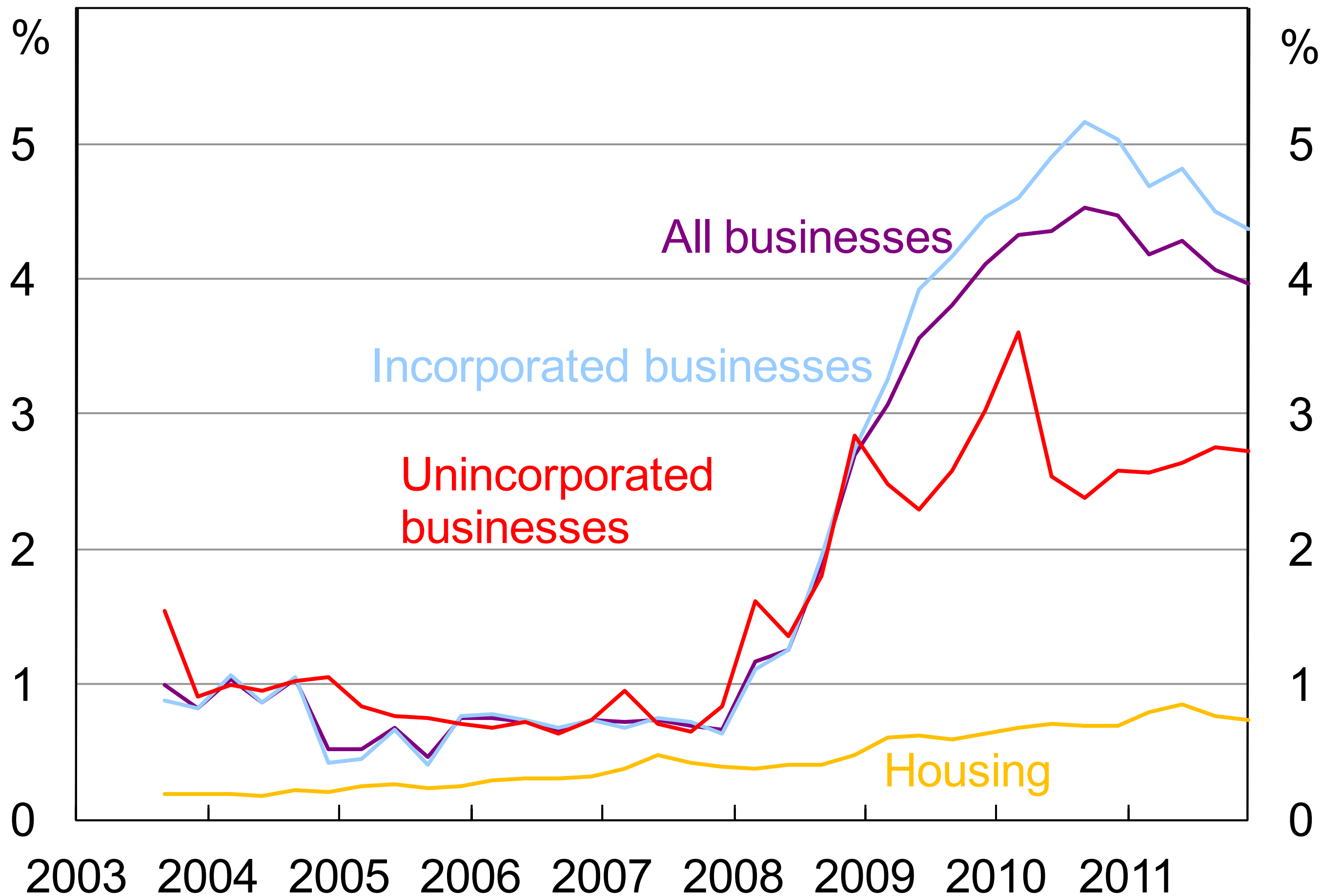
* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts

** Interest-only loans adjusted due to changes in data management at one major bank

Source: APRA

Non-performing Assets*

Banks' domestic lending, per cent of outstandings by type



* Includes 'impaired' loans and 90+ days past-due items that are well secured by collateral; business series exclude lending to financial businesses and include bill acceptances and debt securities.

Sources: APRA; RBA

Dwelling Prices Monthly Review – March 2012

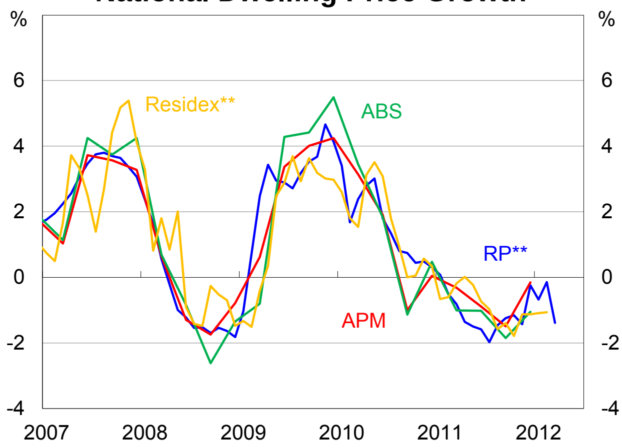
The established housing market remains soft, with data from RP Data-Rismark (RP) indicating a seasonally adjusted fall of 0.2 per cent in March, to be down 1.4 per cent over the quarter and 4.4 per cent over the year. Abstracting from some volatility in December and January, however, the pace of decline in dwelling prices appears to have slowed, which is in line with other data providers. Price falls have been broad based: prices in Adelaide and Melbourne fell by 2½ per cent in the March quarter, and the five major capital cities have each fallen by between 3 and 6 per cent in year-ended terms.

Dwelling Prices

Seasonally adjusted data from RP suggests that capital city dwelling prices fell 0.2 per cent in March, to be down 1.4 per cent over the quarter and 4.4 per cent over the year (non-seasonally adjusted data show a 0.2 per cent *rise* in March and no change over the quarter). However, the quarterly weakness is largely due to some volatility around December and January: if this is smoothed, quarterly growth has been stabilising since the middle of 2011. Data from APM, the ABS and Residex also point to stabilising prices, although the data is a quarter out of date (March quarter data from APM and the ABS is received in late April/early May). Abstracting from the volatility in December, prices fell by 0.4 per cent during the March quarter, to be 5 per cent below the 2010 peak. The current peak-to-trough decline is similar in magnitude to the 2008 downturn, although the current episode has lasted 5 months longer (Graphs 1 & 2).

Graph 1

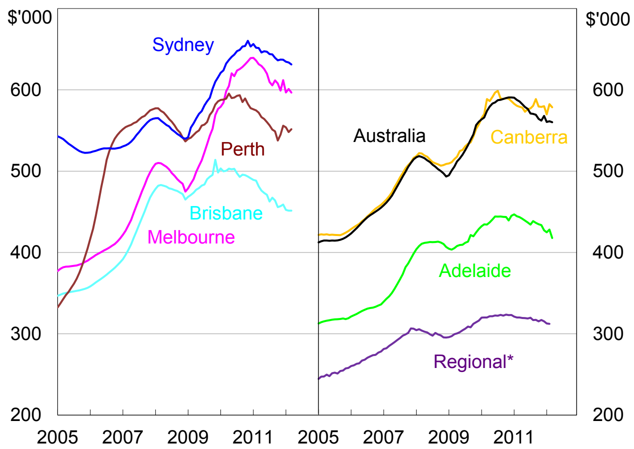
National Dwelling Price Growth*



* Quarterly growth rates; ABS measure refers to house prices
** Monthly frequency
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

Graph 2

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

There is broad weakness across the major capital cities: Adelaide and Melbourne experienced the largest quarterly declines, falling by 2½ per cent during the March quarter and 6 per cent in year-ended terms (Table 1). The other major capitals fell by between 3 and 6 per cent in year-ended terms, although Brisbane has been flat over the month and Perth recorded monthly growth of ½ a per cent.

Table 1 - Dwelling Price Growth - March 2012
Seasonally adjusted; per cent

	Monthly	Quarterly	Yearly	Houses y/y	Units y/y
Sydney	-0.4	-0.9	-3.1	-3.5	-1.6
Melbourne	-0.8	-2.5	-5.5	-5.8	-3.1
Brisbane	0.0	-1.6	-6.2	-6.6	-2.3
Perth	0.6	-0.8	-3.5	-3.3	-7.2
Adelaide	-2.4	-2.2	-5.8	-5.9	-3.6
Canberra	-0.7	-0.2	-0.1	0.0	-1.4
Darwin	-0.3	5.1	-3.9	-3.5	-6.1
Australia	**-0.2**	**-1.4**	**-4.4**	**-4.7**	**-2.5**

Sources: RBA; RP Data-Rismark

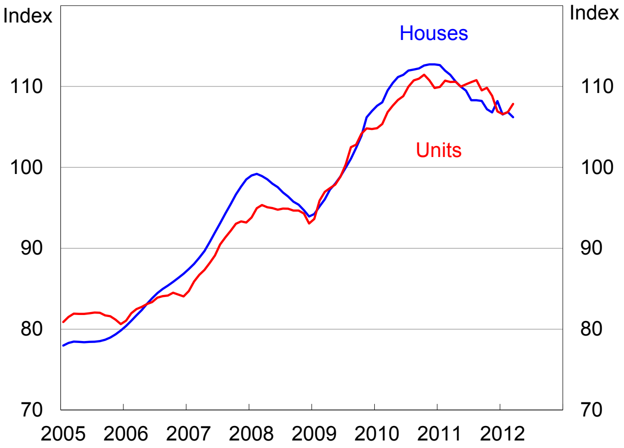
House and Apartment Prices

Apartment prices rose by 1 per cent in the March quarter, in contrast to house prices which fell by 2 per cent (Graph 3). Unit prices have held up much better than house prices, down 3 per cent from the 2010 peak compared to house prices which have fallen by 6 per cent.

Graph 3

House and Unit Prices

2009 = 100

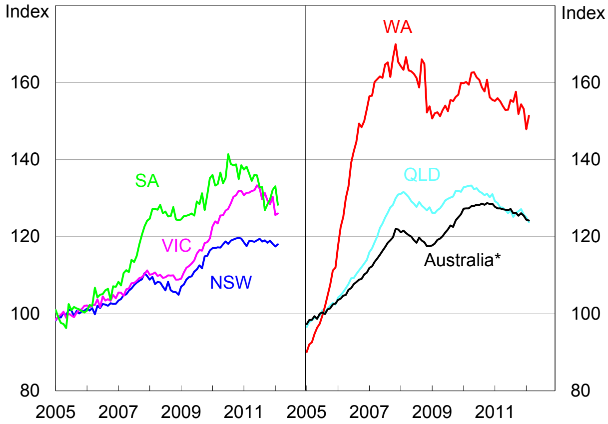


Source: RP Data-Rismark

Graph 4

Regional House Prices

States excluding capital city, 2005 average = 100



* Weighted average of the five states shown
Sources: RBA; RP Data-Rismark

Regional House Prices

House prices in Australia's regional areas fell slightly in February, with weakness in Queensland and South Australia more than offsetting strength in Western Australia and NSW. Regional prices fell by 2½ per cent in year-ended terms, with most states seeing falls (Graph 4).

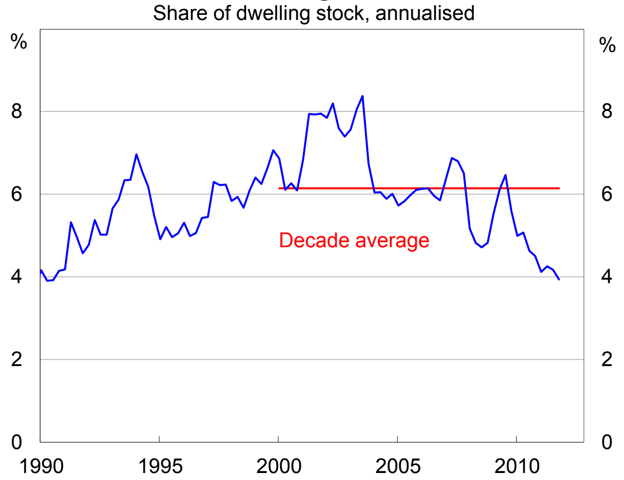
Turnover, Discounting, Listings and Days on Market

National turnover was revised lower for the December quarter and is close to its historical low of the early 1990s (Graph 5). Also, in the event of a sale, vendors are offering large discounts (Graph 6). Some other indicators point to a slight improvement, however: property listings have fallen by 6 per cent since the December peak and the number of days on market moderated during the quarter, although it ticked up in February.

Graph 5

National Dwelling Turnover Rate

Share of dwelling stock, annualised

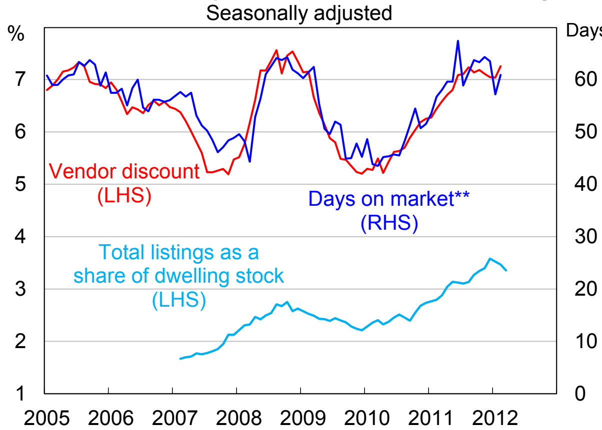


Sources: ABS; RBA; RP Data-Rismark

Graph 6

Discounts, Days on Market and Listings*

Seasonally adjusted

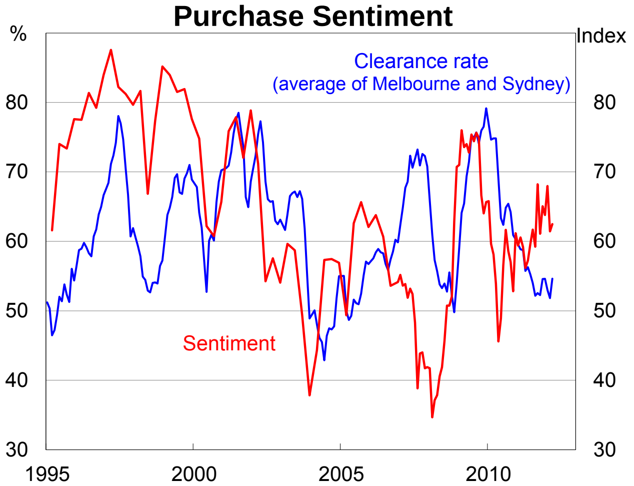


* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data-Rismark

Auctions, Affordability, the Rental Market and Sentiment

Auction clearance rates remain below average in both Melbourne and Sydney, although they have risen above their respective troughs in late 2011, particularly in Melbourne (Graph 7). In line with improving housing affordability and a tight rental market, consumer sentiment towards purchasing a house has risen.

Graph 7
Auction Clearance Rate and House Purchase Sentiment



Sources: APM; RBA; REIV; RP Data-Rismark; Westpac-Melbourne Institute

Assessment

The residential property market remains weak: dwelling prices are around 5 per cent below the 2010 peak, turnover is near historical lows, vendors are offering large discounts and auction clearance rates are below average. There are some tentative signs of improvement, however: abstracting from some volatility around the turn of the year the pace of price declines has slowed, clearance rates are above recent troughs, and listings have retreated somewhat. Looking ahead, there is potential for price rises: improving housing affordability and a tight rental market has led to an increase in first home buyer sentiment, rising rental yields may increase investor demand, and there is low supply relative to underlying demand. It is uncertain when these upward forces will begin to dominate, however.

Financial Conditions Section
Economic Analysis Department
3 April 2012

BANKS' NON-PERFORMING ASSETS – DECEMBER QUARTER 2011[1]

In aggregate, banks' asset performance was little changed over the December quarter. Overall, impaired assets appear to be stabilising, although despite the relatively good economic conditions, they remain elevated. Flows of new impaired assets remain well above pre-crisis levels. Notable developments at a disaggregated level include:

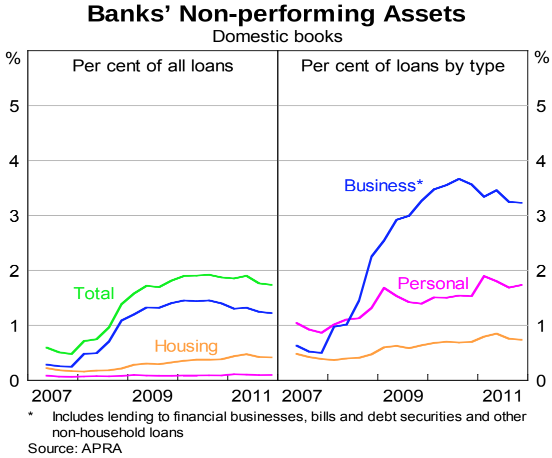
- *After trending higher over the past few years, past due (those well-secured)* ***housing loans*** *declined further. According to liaison with the major banks, past due housing loans have declined partly because some banks have implemented more concerted collections processes;*

[1] 'Non-performing' assets comprise both **impaired** (in arrears/is otherwise doubtful and not well-collateralised) and **past due** (in arrears for over 90 days but well-collateralised) items.

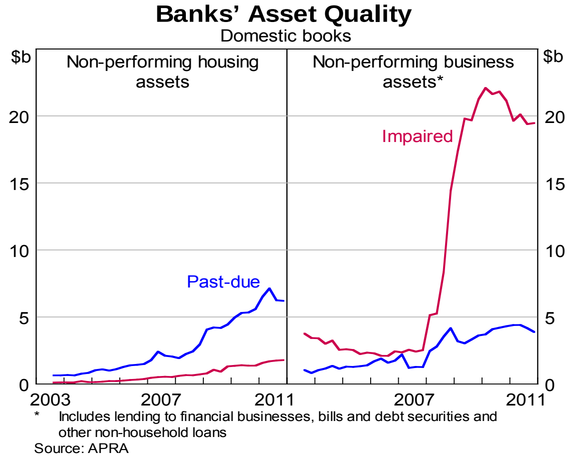
Domestic books assets

After trending upwards over the past few years until mid-2011, the non-performing ratio for housing loans fell again in late 2011, to around 0.7 per cent in December, driven by a fall in past due loans. Though they still account for only a small share of banks' total non-performing housing loans, impaired housing loans continued drifting upwards in the December quarter, consistent with the weakness in housing prices in many parts of the country (Graph 6).[6]

Graph 5



Graph 6



Banks' Non-performing Domestic Assets
Domestic books

	Share by loan type[(a)]			Share of all loans[(a)]			Amount		*Memo: loan type as share of all loans*[(a)]
	Per cent	Per cent	Bps	Per cent	Per cent	Bps	$b	$b	*Per cent*
	Dec 11	Sep 11	Change	Dec 11	Sep 11	Change	Dec 11	Sep 11	*Dec 11*
Housing	**0.7**	**0.8**	**-2**	**0.4**	**0.4**	**-1**	**8.0**	**8.0**	***57***
Owner-occupier	0.7	0.8	-3	0.3	0.3	-1	5.3	5.4	*38*
Investor	0.7	0.7	2	0.1	0.1	0	2.7	2.6	*19*

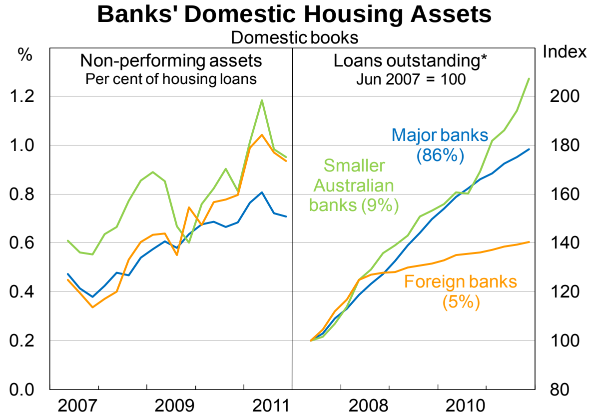
(a) On-balance sheet credit as at December 2011

[6] Housing loans in arrears are more likely to be classified as impaired (as opposed to past due) when house prices are falling because they are less likely to be considered to be well-secured.

Domestic housing assets

The non-performing share of banks' housing loans decreased slightly to 0.7 per cent over the December quarter (Table). As noted above, liaison with the major banks suggests that the decline partly reflects more concerted collections processes at some banks: allowing borrowers to stay in arrears when house prices are falling is not in the long-term best interests of the borrowers or the bank. All bank types experienced a fall in their non-performing housing loan ratios during the December quarter, although part of the decline reflected an increase in their housing loan portfolios (Graph 9).

Graph 9



* Share of all banks' housing loans as at Dec 2011 denoted in parentheses
Source: APRA

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For housing loans, most banks reported continued reductions in lending margins due to increased funding costs. The performance of housing loans weakened further, with most banks reporting increases in the number of mortgages-in-possession and some reporting increases in claims on lenders' mortgage insurers. Most banks expected higher housing loan delinquency rates and some expected lower demand for housing credit over the March quarter.

Housing lending

Lending standards for housing loans were little changed during the December quarter, although a number of banks reported competitive pressure to ease standards. banks reported lower *lending margins*, with all of them attributing this to rising costs of funds driven by uncertainty in global financial markets Some banks commented that margins were also lower due to strong competition for new lending in a ‘very’ weak market. Non-price mortgage competition was little changed during the December quarter, with banks reporting no change in their maximum *loan-to-valuation ratios*. Looking forward, banks expected lending margins to decline over the March quarter, while expected demand for housing credit to be stronger.

Reported asset performance continued to weaken, with banks reporting a higher number of *mortgages-in-possession* and reporting higher *claims on lenders’ mortgage insurers* Looking forward, banks expected *delinquent loans* to increase during the March quarter, while none expected them to decrease. banks attributed this to the seasonal effect of the Christmas period while another mentioned economic pressures and ‘slowly rising’ unemployment.

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