

# Quarterly Economic & Property Report

## AUSTRALIA

Quarter 1 | 2012

**PRD**

**nationwide**

# QUARTERLY ECONOMIC & PROPERTY REPORT



## KEY FACTS

- CPI: 3.5%
- SVHL Rate: 7.3%
- AUS Unemployment Rate: 5%
- AUS Population Growth: 1.2%
- Average AUS Fuel Price: \$1.45 pl

## Overview - General Economic and Property Overview

The Australian property market experienced a year where gradual improvements to affordability occurred in most localities. Property values across most segments of the market declined and when combined with the recent cuts in the cash rate, buyer inquiry levels began to increase in the final months of the year. This is positive news when observing the overall decline in activity levels of 2011. When compared to other industries and assets classes, property has proved to be fairly robust over 2011. The equity market continues to be significantly below the five year average and is highly reliant on developments occurring overseas, outside the reach of Australia's control. The retail industry experienced another difficult year of consumers preferring to save their disposable income. Regardless of where you sit on the fence for asset growth in 2012, one thing is for certain. When considering the environment in 2011 of tightening interest rates, hints by the Reserve Bank of Australia (RBA) that more rate hikes were likely, the removal of fiscal stimulus, wide-spread concern over the carbon tax, the perceived instability of the federal government, increasing volatility in the world economy, increasingly cautious consumers in the post-GFC environment, and natural disasters, the Australian property market has fared quite well in relation to other developed nations.

The end is not near for the European debt crisis, with Europe entering into a recession for the final quarter of 2011. China's growth has contracted over 2011, assisting to ease commodity prices, which should result in lowering the high terms of trade. While there is positive news coming out of the US, it still remains in a very challenging period where unemployment is high and rates have remained low.

There is no two ways about it, the environment is seeing tighter credit conditions, with banks facing higher funding costs, all resulting in no more cheap credit. This is a low growth environment for all asset categories. The International Monetary Fund (IMF) has cut global growth prospects again, down to 2.5 per cent, a decrease of 1.1 per cent from previous predictions. This has made the federal government's target of reaching a budget surplus increasingly difficult. While Australia continues to have flexibility in monetary and fiscal policy to adjust to the global conditions, 2012 will see reduced government spending in the attempt to return the government to budget surplus next year, a challenge that has come at a very inconvenient time.

If the global economy continues to be turbulent over 2012, sentiment will struggle to recover and access to credit will be tougher. However, if the global economy stabilises, then Australia (possessing strong domestic economic conditions) should be one of the first countries to lead the way into recovery.

# Confidence

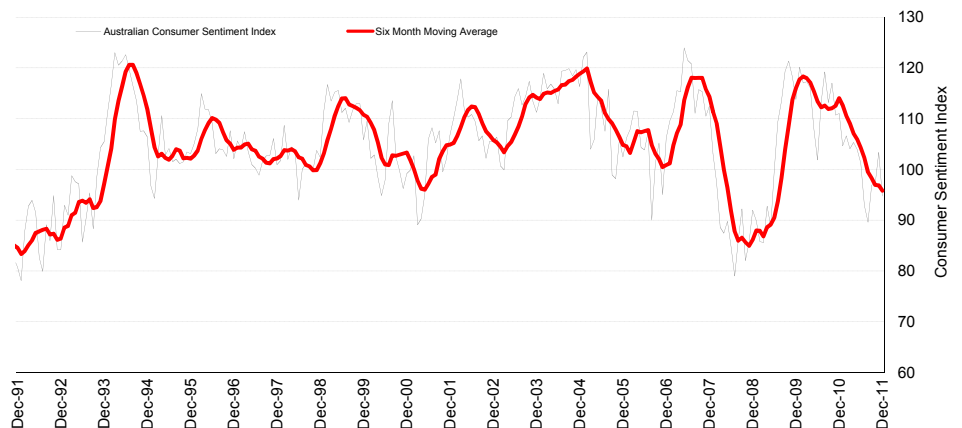
## PESSIMISTS STRONG THROUGH 2011

2011 appears to have steadily dampened sentiment as the long-term Australian Consumer Sentiment Index of a six month moving average has decreased by 18.3 points over the year to register 95.8 points. Not since the Global Financial Crisis of 2008 has pessimists outweighed optimists in the index.

On a monthly basis the Australian Consumer Sentiment Index decreased a further 8.6 points over the month of December 2011, to record a score of 94.7 points. This result is considerably negative, considering the survey was undertaken a week after the recent rate cut by the RBA.

Out of the five states measured for the Index, sentiment continues to be highest in Western Australia at 115.5 points, which experienced a further monthly increase of five per cent. Victoria recorded the lowest index score at 86.2 points, followed closely by South Australia at 86.5 points. Queensland experienced the smallest shift in sentiment, decreasing by 2.7 per cent to reach an index score of 101.4 points, while New South Wales decreased by 9.6 per cent to 95 points.

## Australian Consumer Sentiment



Prepared by PRDNationwide Research  
Source: Westpac/Melbourne Institute, last updated Jan-2012

- *The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter.*
- *The Index is based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac.*
- *It represents current and future perspectives of the broad economic climate and household financial state.*



## Confidence cont.

### BUSINESS CONFIDENCE TEMPORARILY FALLS INTO THE NEGATIVE

Over the September 2011 quarter, confidence has decreased significantly to record -3.9 index points on the NAB Quarterly Index, equating to a fall of 9.9 points. This low level of confidence is the first time it has fallen past the equilibrium since the Global Financial Crisis (GFC) of late 2008. During this time, the Index took nine months to recover.

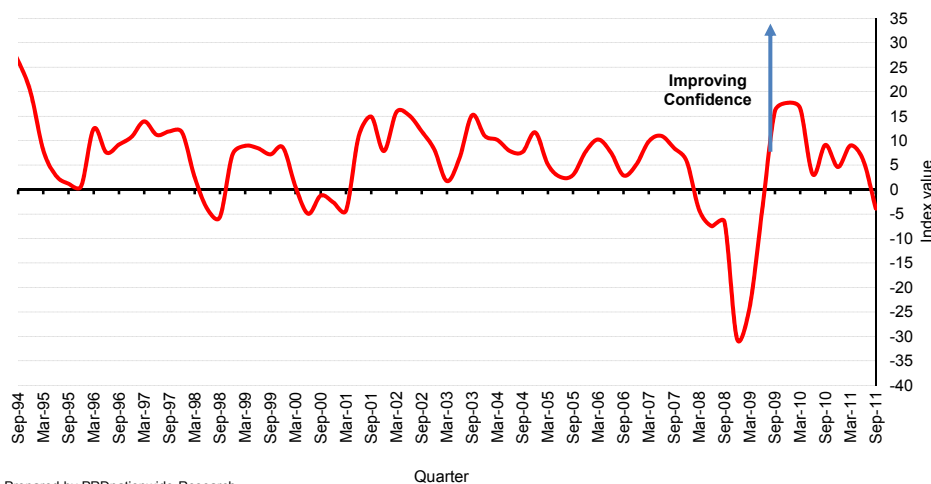
Recent data released by the NAB for the month of November has business confidence at +2 points, remaining steady over the month from the increase in October. Although this is well below the longer-term average of +6 points, it is still positive despite the continuing concerns with the European debt crisis. Business confidence strengthened in South Australia (increase of nine points), Queensland and Tasmania (both increased eight points), while it deteriorated heavily in New South Wales (fall of nine points) and Western Australia (fall of seven points).

While most industries continue to report business confidence in the positive territory, it was generally reported that confidence had fallen in November, with the largest decrease felt in construction (down 14 points), and mining (down 10 points). Confidence has however increased in finance/ business/ property up four points to +4.

The Business Conditions Index marginally increased by one point to +1 in November. This is on par with the long-term trend of +1. There were improvements in employment conditions, while trading conditions deteriorated.

Credit conditions have tightened in November 2011, with firms reporting more difficulty in obtaining finance, despite the portion of business that do not require credit rising from 46 per cent to 49 per cent.

## Business Confidence



- *The Business Confidence Index indicates expectations of business conditions for the upcoming quarter.*
- *The Index is based on a survey of approximately 900 small to large businesses in the non-farm sectors and is conducted by the National Australia Bank (NAB).*

# Macroeconomic Climate

## INFLATION REMAINS BENIGN

The September 2011 CPI figures recorded an annual change of 3.5 per cent, which is a decrease from the previous quarter of 3.6 per cent, but still outside the RBA target range of two to three per cent. The RBA predicts that inflation will track within the target range over the next couple of years.

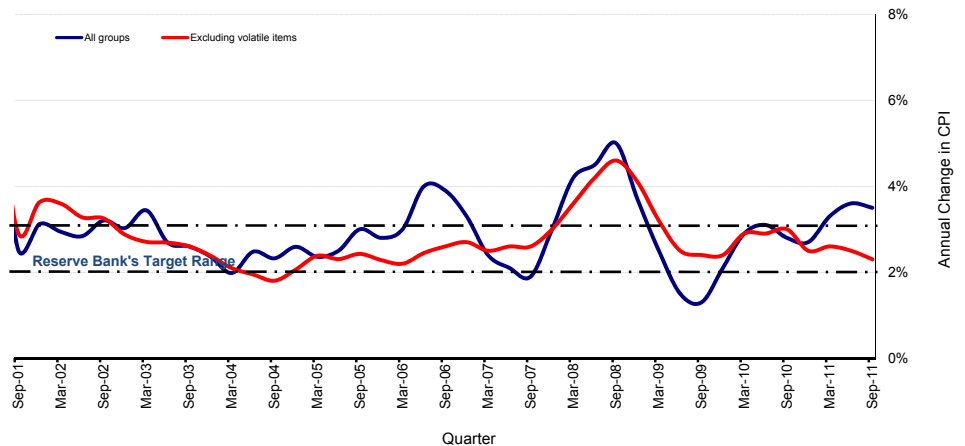
The underlying inflation figure, as measured by the RBA removes volatile items such as fruit and fuel, remains inside the target range but has continued to soften marginally from the March 2011 quarter by 0.3 per cent to 2.3 per cent as of the September 2011 quarter.

According to the Australian Government's mid-year budget review, the budget deficit for 2011/12 was expected to be 2.5 per cent of GDP, compared with an earlier estimate of 1.5 per cent of GDP. This increase reflected a combination of factors including lower economic growth and lower than expected capital gains tax revenue. The Government had announced a series of measures in response and is still forecasting a small surplus in 2012/13.

As a result of stronger data showing the start of the mining investment boom and steady consumption growth, the NAB has predicted further growth than primarily forecasted in the medium term for Australia. The bank has predicted a more bullish 4.5 per cent growth for 2012, than the RBA and Treasury.

As a result of the continued financial crisis within the Euro-zone, European business confidence has significantly deteriorated, affecting economic activity. The NAB forecasts that Europe will experience an even larger recession, affecting the growing economies of China, India and Brazil. Global growth is forecasted to be cut to 3.25 per cent for 2012 (below trend).

## Inflation



Prepared by PRDnationwide Research  
Source: ABS Cat 6401, last updated Jan- 2012

- Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households.
- The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3% through the setting of interest rates.



## Macroeconomic Climate cont.

### WILL RATES DECREASE FURTHER IN 2012?

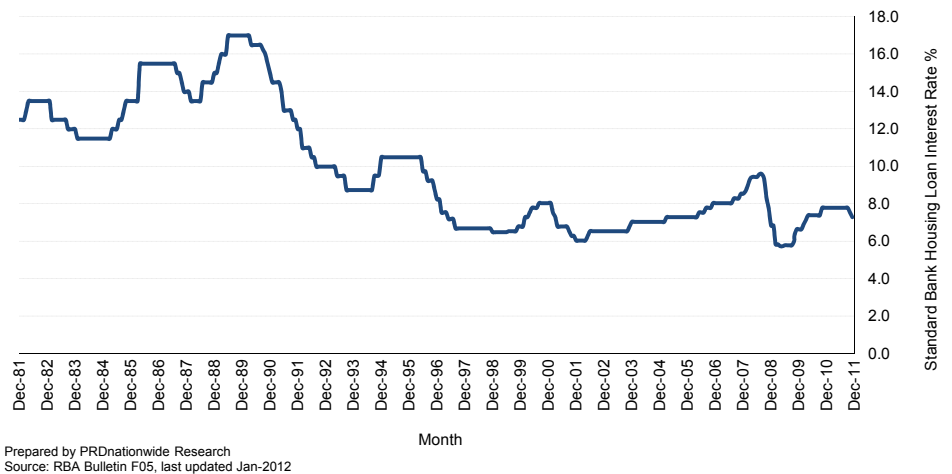
With global economic conditions worsening and equity markets increasing in volatility, sentiment and confidence in the market has deteriorated. As a result the RBA has taken large steps to avoid dampening Australian productivity by cutting the official cash rate in November and December, by .25 per cent each month. The standard home loan interest rate has decreased to 7.3 per cent from the prolonged steady period at 7.8 per cent.

Following the decline in the cash rate, housing rates are now around the post-1996 average. The RBA is anticipating that if the weak conditions continue overseas, further reductions might be necessary in the middle of 2012.

The NAB anticipates that the bond markets should be calmer in 2012, with surprisingly stronger than anticipated growth in the US offsetting the weakening European market (which entered into a recession in Q4 2011). Earlier market predictions of a further rate cut in February 2012 have softened, but remain likely. If bank funding costs continue to increase, the RBA may be forced into cutting rates. However, longer term cuts in 2012 are not expected.

Looking ahead towards 2012, Australia is in an economically sound situation, where it has significant flexibility between fiscal and monetary policy when facing future volatile global events. Banks however are worried that due to a significant rise in funding costs (as a result of the European crisis), future decreases to the cash rate will not be passed on.

## Housing Loan Interest Rate



- The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.
- Interest rates are set by the RBA, who acts independently of government and sets interest rates with the goal of maintaining inflation in a long-run target range of 2% and 3%. The RBA meets monthly to review the current interest rate and is only required to justify its decision if it chooses to alter the rate.



# Foreign Exchange

## AUSTRALIAN DOLLAR REMAINS RESILIENT

During the month of December 2011 the Australian Dollar Exchange Index increased a 1.6 per cent to register an index value of 75.8, whilst there was no annual change in the Australian Dollar over 2011.

Since September 2011, the Australian Dollar has remained slightly above parity with the US Dollar. Over 2011 the Australian Dollar has depreciated the most against the Japanese Yen (down 4.9 (per cent), while appreciating the most to the New Taiwan Dollar (up 3.9 per cent).

The NAB export index has increased marginally in November to -1 index point. Wholesale was the only industry to report a decline in the exports index, while construction, finance and property fared well over the month.

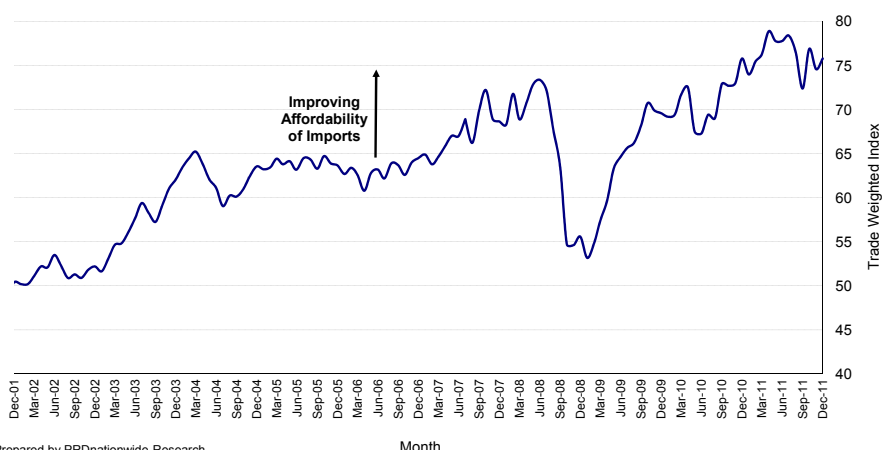
Early data for January shows the Euro falling to a low of 1.266, the lowest level since August 2010. France has lost its Standard and Poor (S&P) AAA rating to AA+, with Italy, Spain and Portugal being rated as junk. S&P have placed France and 13 other European countries with a negative outlook and may further reduce their credit rating.

Lower Chinese economic growth is expected in 2012, with commodity prices likely to have already peaked. As a result the Australian terms of trade will decrease resulting in a lower AUD outlook for the year.

	Dec-10	Dec-11	% Change
<b>EU Euro</b>	<b>0.76</b>	<b>0.78</b>	<b>2.6%</b>
<b>JP Yen</b>	<b>82.83</b>	<b>78.73</b>	<b>-4.9%</b>
<b>NZ Dollar</b>	<b>1.32</b>	<b>1.31</b>	<b>-0.2%</b>
<b>UK Pound</b>	<b>0.66</b>	<b>0.66</b>	<b>0.1%</b>
<b>US Dollar</b>	<b>1.02</b>	<b>1.02</b>	<b>-0.1%</b>

Source: RBA Bulletin F11

## Trade Weighted Exchange Rate Index



- The trade weighted exchange rate index is compiled monthly by the Reserve Bank and ranks the Australian Dollar against the currencies of our significant trading partners.
- Exchange rates directly affect the prices of our exports in foreign trade dollars.



# Fuel Prices

## FUEL PRICES UNEXPECTEDLY SOFTEN

In dollar value terms, the nation experienced a decrease of three cents to the average petrol price during the month ending December 2011. The average price Australians paid at the pump was at \$1.45 per litre. During the year petrol prices increased at an average rate of 14.8 per cent across the nation.

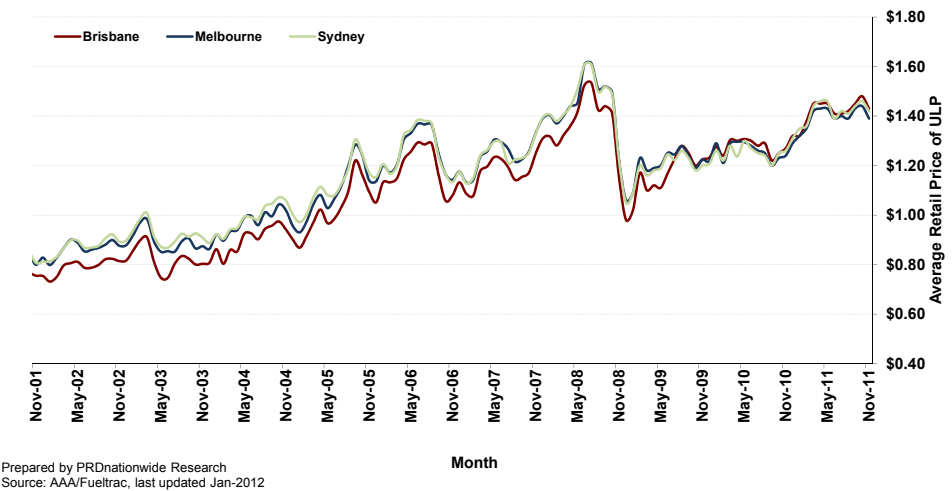
Melbourne is now the capital city where motorists pay the least at \$1.39 per litre. The city experienced no change over the quarter and only a 12.1 per cent increase over the year. In Darwin consumers continue to pay the most at \$1.52 per litre, followed closely by Hobart at \$1.51.

Over the three month period ending December 2011, all capital cities experienced an increase in petrol prices with Canberra increasing the most at 4.9 per cent. This was followed by Hobart (2.7 per cent), while Sydney and Brisbane both increased by 0.7 per cent.

During the course of the year, Sydney petrol prices increased the most at 13.7 per cent, while Hobart increased the least at 8.1 per cent.

Recent data shows that the falling Australian dollar has lead fuel prices to increase dramatically in October, with a national high occurring in Hobart at \$1.56 per litre.

## Retail Fuel Prices



• Sourced from Fueltrac, this chart tracks the average retail price for unleaded petrol across a broad range of suppliers in metro areas.



# Commodities Prices

## RESOURCE INVESTMENT BEGINS TO SHOW

The Australian economy was largely driven by commodities being purchased by the industrialisation of China and India in 2011. Towards the end of 2011 a decline was experienced in this demand with weakening growth from these countries. It is anticipated that demand from China and India shall continue to decrease slightly over 2012, easing commodity prices off the peaks established over 2011.

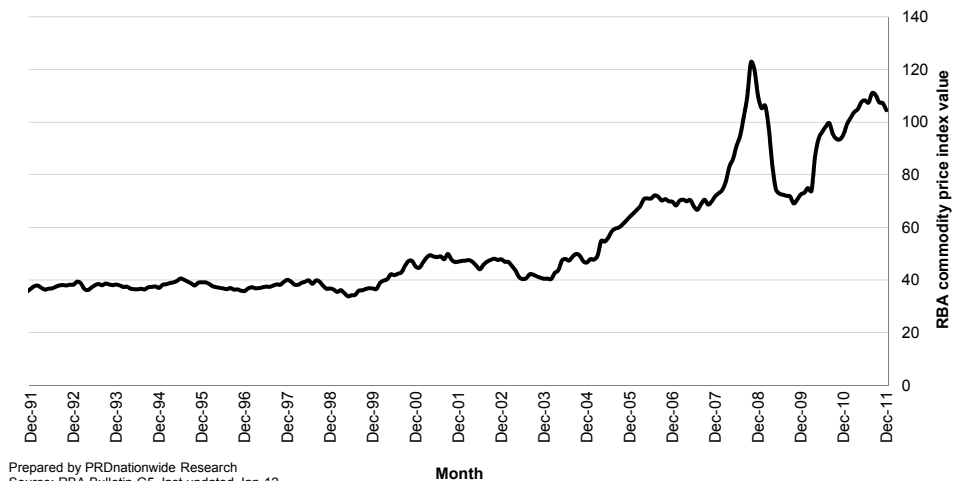
During the month of December 2011, the Commodity Price Index decreased by 2.5 per cent to reach 104.5 points. When compared to the previous year, the index is 9.6 per cent higher.

The NAB forecasts Australian GDP growth to surge to 4.5 per cent in 2012 through the recovery of mining exports after the Queensland floods of 2011 (which significantly reduced exporting capacity) and increased mining investment (according to the ABS up an incredible 84 per cent in 2011 and anticipated 57 per cent in 2012). This substantial investment in mining will place large demand for existing labour during and after the construction phase.

The Bureau of Resources and Energy Economics (BREE) estimated that the value of advanced projects at the end of last year increased to \$232 billion, from \$173 billion six month earlier.

It is anticipated that the several additional large scale LNG projects could expand Australia's production capacity by up to four times the existing amount. The large boost to capacity in the resources sector will likely soften commodity prices in the medium term, but when compared to historical prices, should remain elevated.

## RBA Commodity Price Index



- *Primary commodities account for more than half of Australia's export earning.*
- *The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. The index includes 17 commodities with separate weightings, the highest of which are coal, gold and iron ore.*
- *High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia. Coupled with the resource industry boom, employment and population growth follow, which spurs demand for housing and rental accommodation, particularly in neighbouring resource rich regions.*



# Construction Market

## CONSTRUCTION SPEND SOARS WHILE RESIDENTIAL STRUGGLES

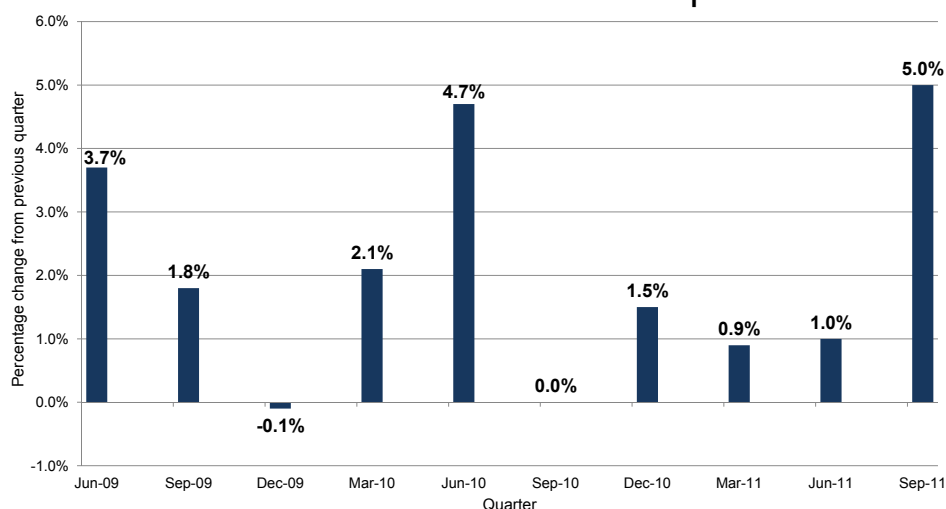
The national gross spend on construction (other than houses) increased during the September 2011 quarter by five per cent. The overall spend for the year ending September 2011 was just over \$101 billion, up 5.9 per cent from the previous year. The gross spend in the September 2011 quarter was significantly higher than previous quarters at \$27 billion.

The ABS has released recent data showing a decline in both new housing and major alteration spending for the September 2011 quarter. The seasonally adjusted figures decreased by 1.6 per cent to \$45.5 billion. The largest fall occurred in South Australia, with a decrease of 17.9 per cent, followed by 8.9 per cent in Tasmania.

The HIA has requested that the industry requires further reductions in interest rates, short term government stimulus and renewed action for long term housing policy.

Dwelling approvals have increased across Australia by 8.4 per cent in November, following a fall of 10 per cent from the previous month. Victoria increased the most at 39.9 per cent, while approvals decreased the most in Western Australia, at 16.9 per cent.

## National Construction Gross Spend



Prepared by PRDnationwide Research  
Source: ABS Cat 1350, last updated Jan-2012

- The construction industry is one of the driving areas in the economy, having a significant contribution to GDP and a multiplier effect on the activity in other industries. Indicators of price movement of construction outputs will be a valuable tool in economic analysis.
- Construction industry output price indexes are being developed to measure changes over time in the price of new construction outputs, other than houses.

# House Finance

## INVESTOR FINANCE RISES

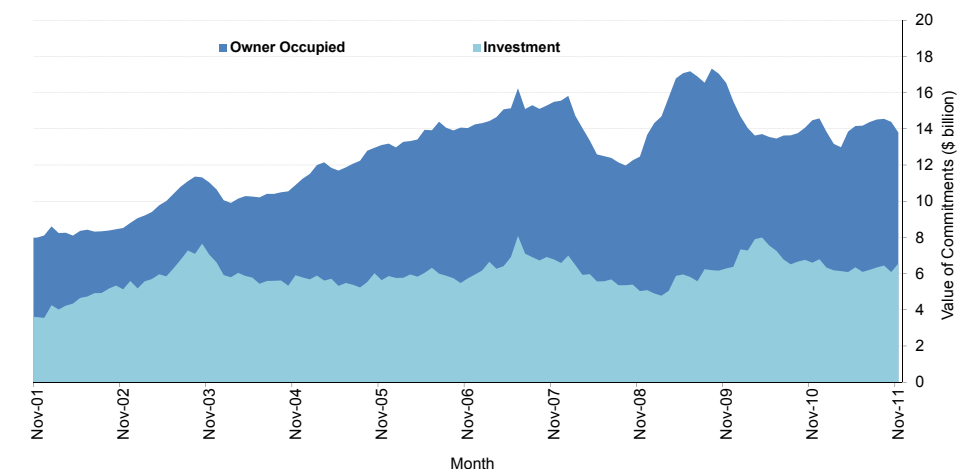
The gross spend on housing finance was \$20.3 billion during the month of November 2011. Compared to the previous year, the total spend has decreased by 3.4 per cent, equating to \$800 million less.

Investor spend continues to be kept steady at just above \$6 billion, following the trend established at the start of 2011. For the month of November 2011, investor financial commitment increased by \$500 million to record \$6.6 billion.

During the month of November 2011, owner occupier spend decreased by \$600 million to equate to \$13.8 billion. Approximately 32.2 per cent of the property market is now investor financed and is expected to increase as rental yields across the nation continue to become more attractive.

The total household debt is now \$1.6 trillion, equating to more than the average \$180,000 per household, with the majority being mortgage debt. Over the 2011 financial year, households borrowed \$321 billion, with \$235 billion in mortgage refinance, \$86 billion in personal loans and \$11 billion for cars. Despite this, the average wealth of the population continues to increase by an average of eight per cent over the past decade, equating to 6.4 per cent per household.

## Housing Finance Commitments



- *Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.*
- *This graph tracks the value of loans approved for both owner occupiers and investors.*



## Labour Market

### LONG-TERM UNEMPLOYMENT REMAINS STEADY

During the month of December 2011, unemployment increased to five per cent (which is just above the longer-term five year average of 4.9 per cent). When looking at the moving annual average, the rate has been steady at 5.1 per cent since the first quarter of 2011.

For the month of December 2011, the nation's lowest rate of unemployment occurred in the ACT at 3.5 per cent, a rate that has decreased by a nominal 0.1 per cent from the previous month. Tasmania now has the highest rate of unemployment at 6.4 per cent, up from 5.3 in October.

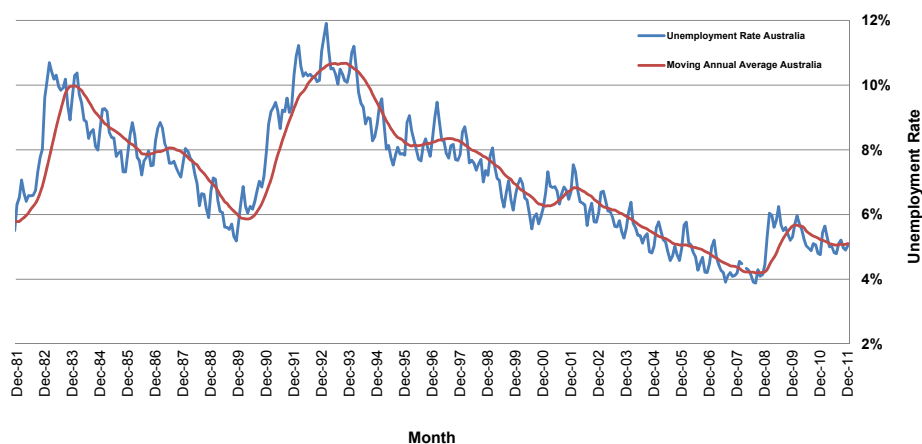
Unemployment in New South Wales increased considerably (up 11 per cent) to 5.5 per cent during the month of December, while Victoria's unemployment remained steady at five per cent. Unemployment in Western Australia has continued to be historically low since September, at 3.8 per cent.

After a period of four successive decreases, the ANZ Job Ads Index remained steady for the month of November 2011. Internet adverts remained steady while newspaper adverts increased marginally by 0.6 per cent.

As a consequence of the strong economy and high Australian Dollar, domestic manufacturing has weakened with business conditions at near recession levels and employment levels tightening for the industry.

It is forecasted that the unemployment rate could increase in the short term, with stronger job growth to return in mid-2012, driving the rate back below five per cent at the end of 2012.

## Unemployment Rate



Prepared by PRDnationwide Research  
Source: ABS Cat 6202, last updated Jan-11

- *Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.*
- *The labour force is defined as the number of people aged between 16 and 55 who were either employed or actively looking for work during the survey period.*
- *This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.*

# Stock Market

## EQUITY MARKETS REMAIN BELOW FIVE YEAR AVERAGE

The Australian Securities Index decreased its monthly average value during the month of December to reach 4,130 points, down from November's average of 4,189 points, equating to a decrease of 1.4 per cent over the month.

While the equity markets have continued to be affected by the sovereign debt concerns, there is hope that recent data from the US shows better than expected growth might be gaining momentum.

On the whole, Australian equities are more affordable than at 2006 to 2008 prices, however the core factors which have pulled these equity prices down will remain at least for the short term.

## S&P / ASX 200



- The S&P/ASX 200 is recognised as the primary investable benchmark in Australia. The index covers approximately 78% of Australian equity market capitalization. Index constituents are drawn from eligible companies listed on the Australian Stock Exchange. This index is designed to address investment managers' needs to benchmark against a portfolio characterized by sufficient size and liquidity.

- The S&P/ASX Australian Index is a real-time, market capitalisation weighted index that include the largest and most liquid stocks in the Australian equity market listed on the Australian Stock Exchange (ASX).





# Home Affordability

## AFFORDABILITY SET TO INCREASE WITH RATE CUTS

The recent stagnation of affordability proved to be temporary, as over the September 2011 quarter home loan affordability increased by a further 0.9 points to an index score of 29.8 points.

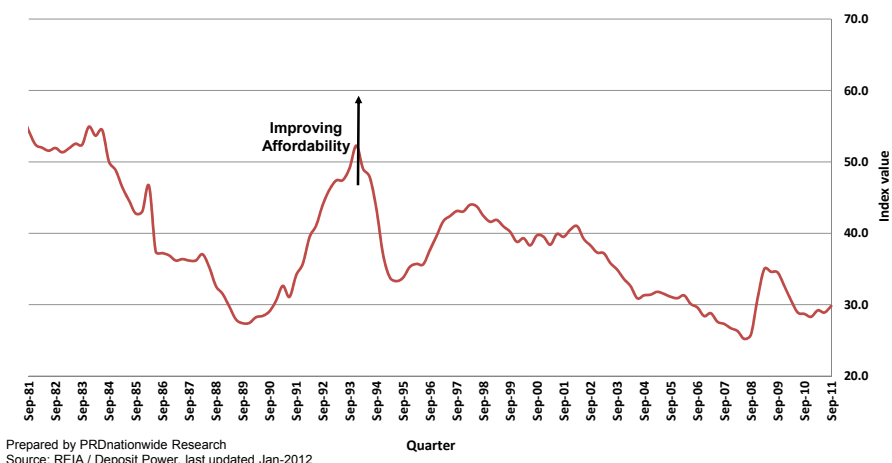
Over the quarter most states recorded an improvement to home loan affordability, with only Victoria experiencing a decrease in the index, down 1.1 per cent to 28.1. The state that experienced the largest growth in affordability was Western Australia, increasing by 9.4 per cent over the quarter. Other states to improve were the Northern Territory (up 6.8 per cent to 46.8 points), Tasmania (up 5.6 per cent to 35.8 points), the ACT (up 5.1 per cent to 56 points) and New South Wales (up 3.6 per cent to 36.9 points). Queensland experienced a marginal increase of 1.1 per cent to register 30.6 points.

On average, Australian households now need approximately 33.6 per cent of the family income to service their home loan. New South Wales continued to be the least affordable state, with households requiring 37.1 per cent of the family income to service their home loan, equating to 3.5 per cent above the national average.

Queensland families require approximately 33.6 per cent of the average family income to service the average home loan, while Victoria requires 35.6 per cent. The ACT requires the least amount, with 17.9 per cent of the average income. According to the REIA, the proportion of family income needed to meet the average rental payment has decreased during the September 2011 quarter to 24.6 per cent.

Over the September 2011 quarter, loans to first home buyers have continued to increase (up 4.4 per cent), with new finance commitments over the year increasing by 5.4 per cent. The first home buyer participation rate as a total number of dwellings financed increased to 15.6 per cent, but still remains below the long term trend of 20 per cent of the total market.

## Home Loan Affordability Index



- The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.
- Continued price growth in the property market without an accompanying rise in income saw a long period of decline in the home loan affordability index across the nation.
- The Home Loan Affordability index commenced its rapid descent during 2002. After a short leveling between 2004 and 2006, affordability levels have again continued to trend downwards.



# Dwelling Market

## NEW DWELLINGS STALL IN QUARTER 3

The total number of dwelling commencements slightly decreased during the September 2011 quarter by 0.4 per cent, equating to 159 less new homes for the quarter. When compared to the previous year, commencements have decreased by 13.4 per cent.

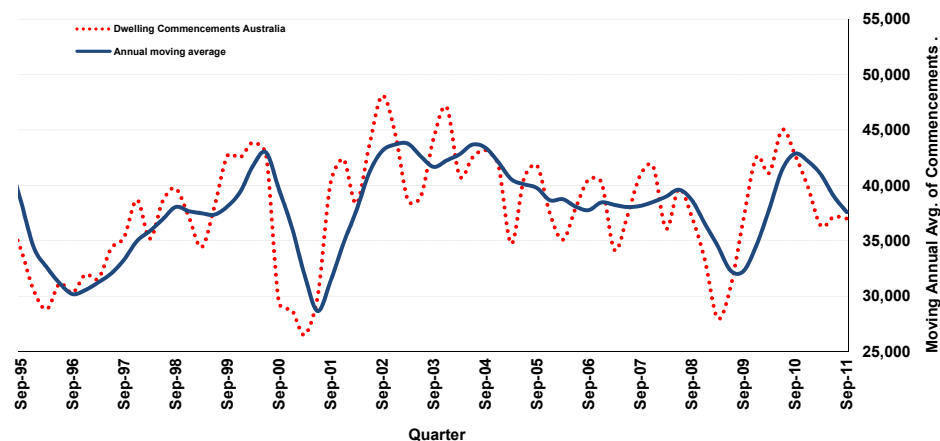
On a state-by-state basis, Victoria continued to record the highest number of dwelling commencements during the September quarter, representing 37 per cent of all dwellings commenced nationally. Queensland followed with 20 per cent and New South Wales contributed with 18 per cent of commencements.

The least amount of dwellings commenced for a state during the September 2011 quarter was the Northern Territory (up 44 per cent to 200), followed by Tasmania (down 18 per cent to 556).

The Housing Industry Association has stated that taxes on new housing have hindered new housing supply. This has been supported by research undertaken by the Centre of International Economics, which found that housing is one of the most heavily taxed sectors of the economy in both aggregate and relative terms.

It has been reported that the Queensland State Government's \$10,000 boost to build new properties has had only limited success, with calls for the Boost to be extended further into the year.

## Dwelling Commencements



Prepared by PRDnationwide Research  
Source: ABS Cat. No. 8750, last updated Jan-2012

- *Dwelling commencements indicate the number of new dwellings that have commenced their construction phase.*
- *A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.*
- *Nationally, the annual number of dwelling commencements have been on a downward trend since Sep-04 (earlier in NSW and VIC)*



## Dwelling Market - cont.

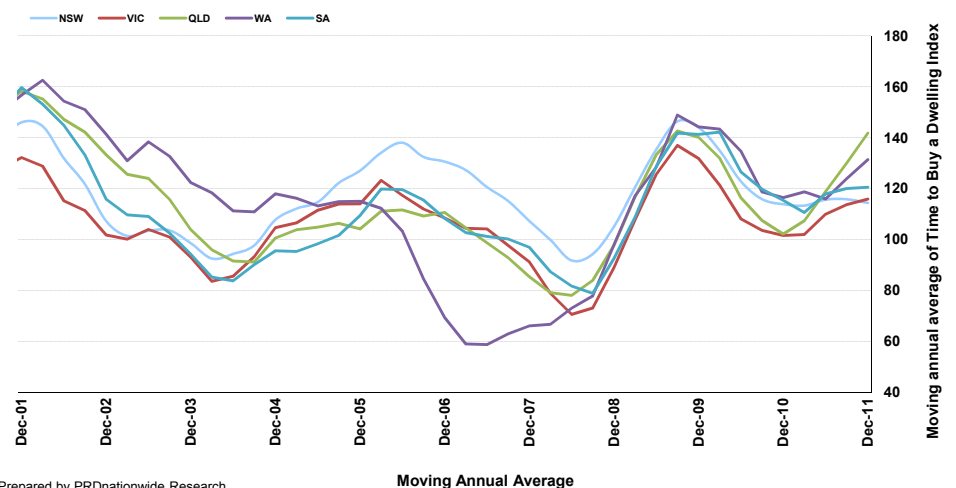
### BUYING CONDITIONS GOOD IN WA AND QLD

Over the December 2011 quarter, the Time to Buy a Dwelling Index fluctuated between the five measured states, with South Australia, New South Wales and Victoria all experiencing a decrease in the Index, while Queensland and Western Australia increased.

For the month of January 2012 Western Australia now has the highest index value at 153.1 points, but is followed closely by Queensland at 136.7 and New South Wales at 134 points. This represents an increase from the previous quarter of 3.3 per cent for Western Australia, a fall of 12.8 per cent for Queensland and a 19 per cent increase for New South Wales.

According to the Westpac-Melbourne Institute Survey of Consumer Sentiment, family financial conditions deteriorated over 2011 in all states, with the largest decline felt in South Australia (down 31 per cent) and Victoria (down 6.5 per cent). Queensland experienced a marginal decline of 0.8 per cent, while New South Wales fell 3.5 per cent. Early indications for 2012 show strong improvements in Victoria (up 23 per cent) and South Australia (up 47.9 per cent), while falling considerably in Queensland (down 25.6 per cent).

### Time to Buy a Dwelling Index



Prepared by PRDnationwide Research  
Source: Westpac/Melbourne Institute, last updated Jan-2012

- The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling.
- It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.

# Home Prices

## SYDNEY BEST PERFORMER FOR 2011

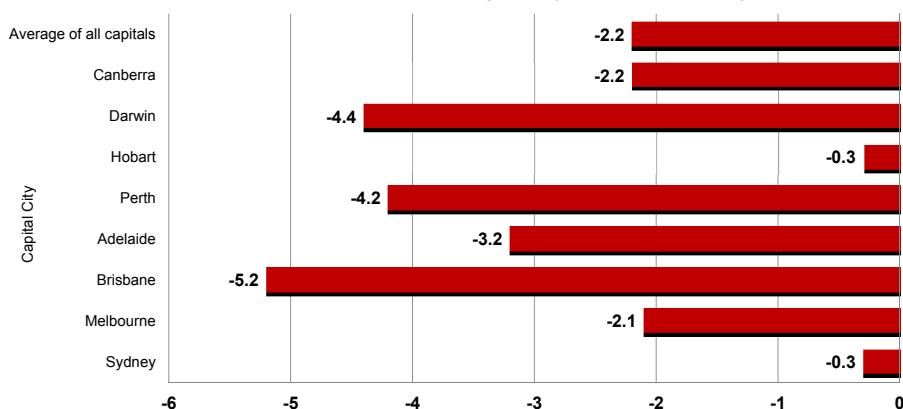
According to the ABS House Price Index, all capital cities experienced a decline in value over the 12 month period ending September 2011. On average, property values have fallen by 2.2 per cent, with the largest declines felt in Brisbane (-5.2 per cent) and Darwin (-4.4 per cent). Sydney and Hobart only experienced a nominal decrease of 0.3 per cent each, with Canberra decreasing by 2.2 per cent and Melbourne by 2.1 per cent.

According to the RPData-Rismark Home Value Index, Sydney was the best performing capital city over the quarter ending November 2011, only experiencing a softening in median price by 0.5 per cent to \$495,000. According to the Index, the largest decline was felt in Brisbane, recording a seven per cent fall in median price to \$410,000.

Both the HIA and Residex have predicted that the property industry will recover in 2012 after a “price correction” and a “period of negative adjustment”. Key factors such as interest rates, the Eurozone crisis, inflation, unemployment and the carbon tax are quoted as highly important in determining property outcome for 2012.

If 2012 can bring stability to the global financial markets, sentiment and confidence will return to investors in the Australian property market. The recent decreases to the cash rate with inclinations of further cuts in early 2012 will make home loans more affordable and increase the pool of potential buyers. Sydney is tipped to perform best in 2012 and will likely achieve modest median price growth of between four to six per cent. Melbourne is going through a period of adjustment after high growth in 2010 and significant portions of its market is now over supplied. This year should see Melbourne go through a period of consolidation where flat growth will be recorded. Brisbane should go through the bottom of its decline in median price and see signs of a recovery in the second stages of 2012, after experiencing significant softening in values in 2011. Like Brisbane, the Perth market should see renewed confidence towards the second half of 2012, with marginal levels of positive growth. Canberra should fair better, having experienced only a marginal decline in the median price over 2011. Canberra will likely receive growth in 2012 between two to four per cent, which would make it second to only Sydney for performing capital cities of 2012. With unemployment increasing substantially over 2011, Hobart may have another year of softening home values in 2012. Adelaide should see the rate of decline slow around two per cent in 2012, as the market consolidates.

**ABS House Price Index  
annual % change by capital city**



Prepared by Colliers International and PRDnationwide Research  
Source: ABS Cat 6416, last updated Jan 2012

• The chart to the above measures an annual period change in house prices of the capital cities.



## Rental Market

### AVERAGE CAPITAL CITY VACANCIES INCREASE

The Australian average vacancy rate increased for the first time in a year to 2.5 per cent over the most recent September 2011 quarter. Sydney has the tightest rental market with a 1.4 per cent vacancy rate, followed by Canberra at 2.1 per cent.

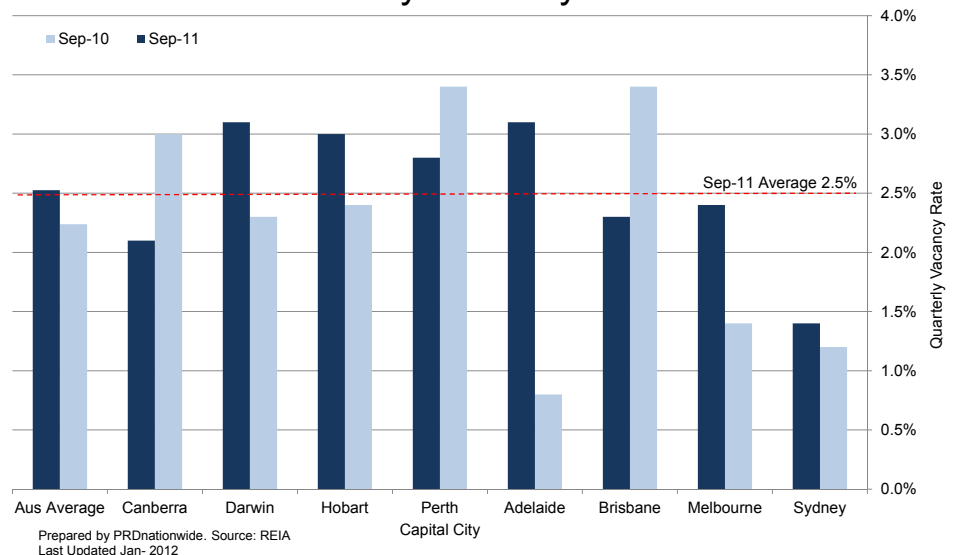
Most capital cities experienced a marginal increase to vacancy rates over the quarter, with only the Sydney, Brisbane and Hobart market tightening by under a percentage each. According to the latest Market Facts report from the REIA (released December 2011), Adelaide and Darwin share the highest vacancy rate at 3.1 per cent, while Melbourne increased to 2.4 per cent and Brisbane decreased to 2.3 per cent.

Darwin maintains the highest median rental price for a standard three bedroom house at \$545 per week, increasing by 0.9 per cent over the quarter ending September 2011. Adelaide remains the most affordable city to rent in, with a median rental price of \$320 per week.

Rental prices for a standard three bedroom house in Sydney, Melbourne, Brisbane and Hobart have remained steady over the September 2011 quarter. The Australian capital city average increased to \$392 per week, equating to 0.5 per cent shift over the quarter.

According to the Australian Property Monitors Rental Price Series, national weekly rental prices for houses have increased by 1.1 per cent over the December quarter, while units have increased by 1.4 per cent. This growth has been attributed to weak buyer activity and less housing construction.

### Quarterly Vacancy Rates



- An industry benchmark for vacancy rates is considered to be 3%. Vacancy rates lower than 3% indicate strong demand for rental accommodation, whilst rates higher than 3% reflect an oversupply of rental accommodation.

# Demographics

## WESTERN AUSTRALIA CONTINUES TO GROW RAPIDLY

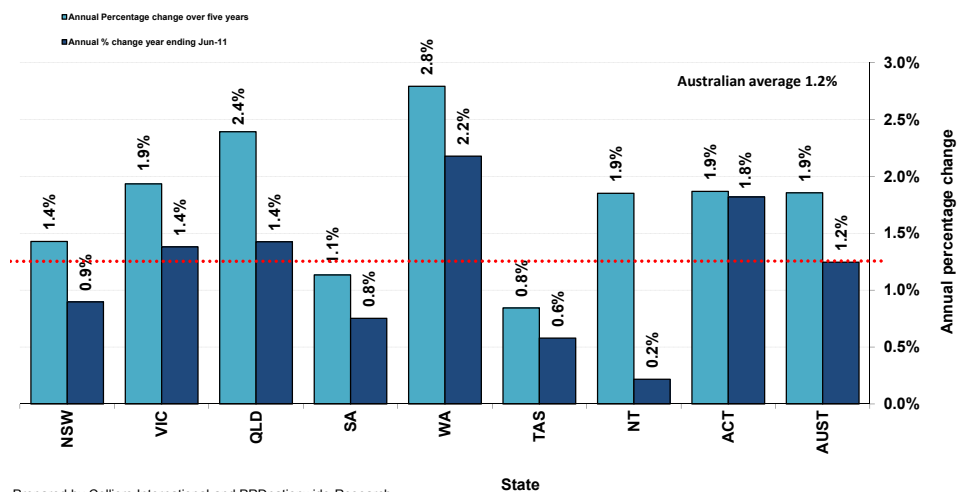
Over the quarter ending June 2011, the Australian rate of population growth increased slightly by 0.01 per cent to 1.24 per cent for the 12 month period ending June 2011. Although the increase is marginal, it equates to the first increase to the population rate since September 2009 and is 278,156 new residents over the year.

The growth rate in Western Australia continues to increase, with an annual increase of 2.18 per cent (up from two per cent), equating to 49,999 new residents. Victoria registered the highest number of new residents with 76,543 during the 12 month period ending June 2011. This is just above New South Wales with 64,871 new residents and Queensland with 64,364.

The Northern Territory has registered the slowest population growth at 0.22 per cent for the 12 month period ending June 2011. This represents an increase of only 497 new residents for the state. Tasmania was not far behind, recording only 0.58 per cent growth (2,934 new residents) during the twelve month period.

The natural increase of the Australian population has slowed with only 568 more newborns over the June 2011 quarter, than the previous year, equating to an increase of 1.5 per cent. While there has been a significant decrease in the number of immigrants entering Australia over the past year, it could be about to change with the most recent quarter experiencing a 10 per cent increase from the previous year. Over the June 2011 quarter, the slight majority of the overseas migrants tended to reside in Victoria, followed by New South Wales, then Western Australia.

## Population Growth 2006 v 2011



- Population change tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.





## Demographics - cont.

### MORE MIGRANTS LEAVE NSW

The number of net migrants entering Victoria continued to increase over the June 2011 quarter. Approximately 1,128 more migrants decided to call Victoria home, an increasing trend since the end of 2007.

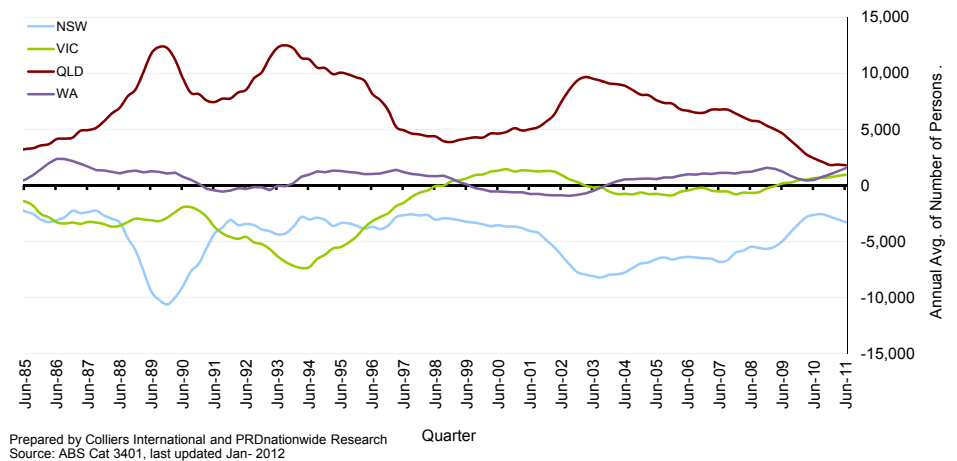
Western Australia attracted a net 1,822 new residents from neighbouring states, increasing its annual moving average to just below that of Queensland.

Queensland received 2,076 new interstate migrants during the June 2011 quarter. Over the twelve month period ending June 2011, Queensland's average quarterly migration rate was 1,788 new interstate migrants. The average rate of growth appears to have reached an equilibrium after a recent decline.

New South Wales still records the highest outward migration of residents nationwide and until recently, this rate was in decline. However, over the past year this rate has increased again. The annual average rate of migrants leaving New South Wales has increased to 3,305 residents and has not been this high since December 2009. In the June 2011 quarter, outward net migration increased to 3,942 residents.

South Australia continued to lose residents, with 690 net residents departing during the quarter, while the ACT increased a net 145 interstate migrants.

## Net Interstate Migration



- Net interstate migration tracks the net population change in each state attributable to interstate migration.
- Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.



# Retail Trade

## CAUTIOUS SPENDING SET TO CONTINUE IN 2012

Over the 12 month period ending November 2011, Australia's annual change in retail expenditure increased 2.99 per cent from the previous year, but only remained steady during the month.

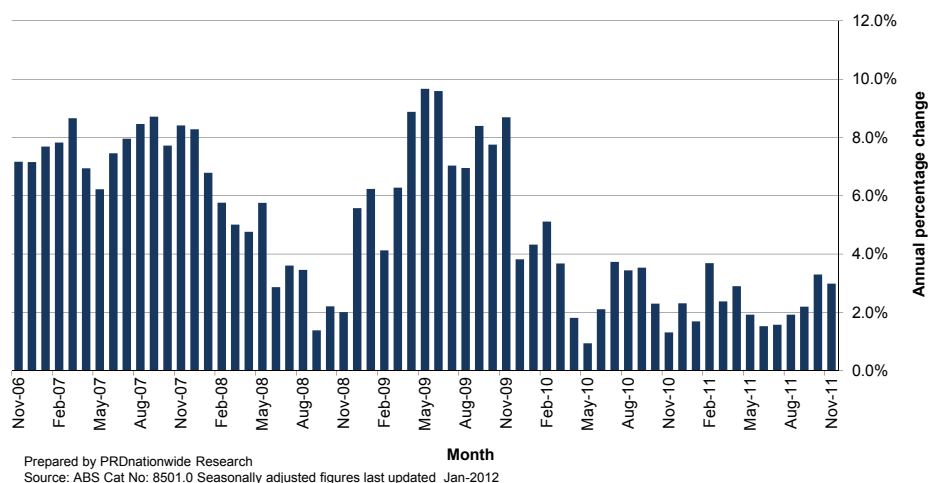
Western Australia incurred the greatest increase in retail spending over the 12 month period ending November 2011, with a 10.9 per cent surge, followed by the Northern Territory at 9.4 per cent. The ACT was the only state to experience less spending for retail from the previous year, at -3.2 per cent.

The largest growth in expenditure occurred in other retailing, registering an annual growth of six per cent. This was followed by other food retailing which registered an annual growth of five per cent.

Department stores experienced a softening of 4.1 per cent from the previous year, while clothing and soft good retailing also softened by 3.2 per cent.

As sentiment plummets, consumers have maintained their stance on cautious spending, limiting their consumption on discretionary items to assist in de-leveraging their balance sheet. While there is a growing trend of online sales, this only represents a small portion of total retail sales, with confidence in global markets and employment concerns having more impact to retail spending.

## Annual change in retail expenditure



- Retail spending figures are estimated by the ABS based on the Retail Business Survey conducted monthly amongst 4,350 retail and selected service businesses.
- The annual change in retail spending indicates how active consumers are in the marketplace and the degree to which consumers are willing to spend.
- The seasonally adjusted figures are used to smooth out seasonal factors associated with this data.

# About PRDnationwide Research

PRDnationwide's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia. Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

## Our Knowledge

Access to accurate and objective research is the foundation of all good property decisions. As the first and only truly knowledge based property services company, PRDnationwide shares experience and knowledge to deliver innovative and effective solutions to our clients.

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections. We focus on understanding new issues impacting the property industry; such as the environment and sustainability, the economy, demographic and psychographic shifts, commercial and residential design; and forecast future implications around such issues based on historical data and fact.

## Our People

Our research team is made up of highly qualified researchers who focus solely on property analysis. Skilled in deriving macro and micro quantitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the most well considered and financially viable.

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## Our Services

PRDnationwide provides a full range of property research services across all sectors and markets within Australia. We have the ability and systems to monitor market movements, demographic changes and property trends. We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

Our services include:

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- Market Analysis including profiling and trends
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- Geographic information mapping
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