

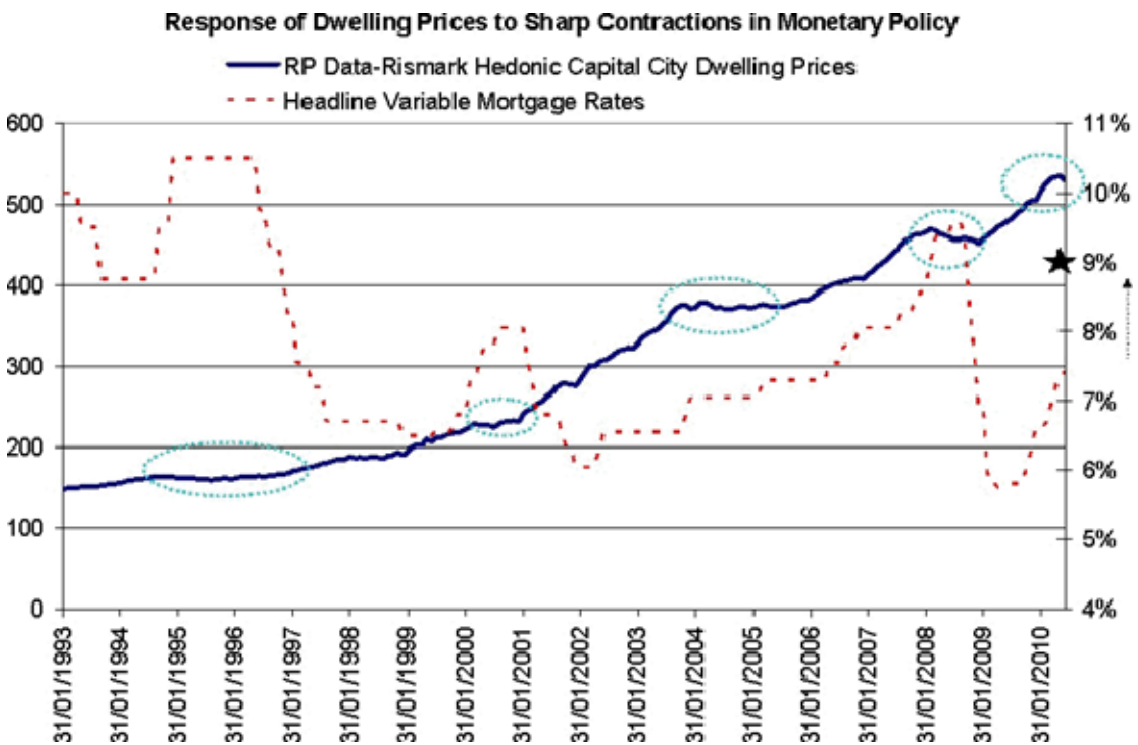
# NewC<sup>o</sup> News

The current rates with a smidgen of news and a tip or two

## Do House Prices Always Go Up?

Earlier this year Reserve Bank governor Glenn Stevens cautioned that house prices do not perpetually increase ... a proposition which most sensible home owners would accept, while still hoping it to be false.

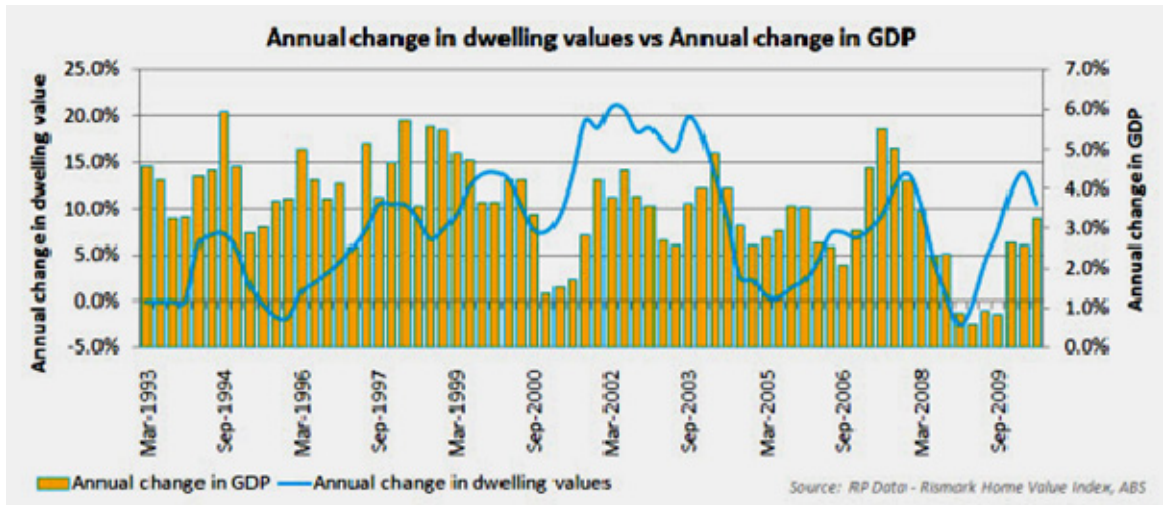
Now RP Data, using the RP Data-Rismark Hedonic Index has identified five instances since 1993 where national dwelling values have fallen. The largest of these price falls being the 3.8% peak-to-trough decline through late 2008 to early 2009.



The significance of the graph above is that it tells us something we already know. That house prices flatten, even fall, when the price of money (the interest rate) goes up.

From this simple observation we can forecast a high likelihood of falling dwelling prices in the next year or so depending not so much on the likelihood of rising interest rates but on the rapidity of those rate rises; the quicker the rates rise, the more severe the impact on prices will be.

Broadly, the graph above reflects the same phenomenon as last month's graph (repeated below) although in the graph below housing values are compared to fluctuations in GDP rather than directly to interest rates (and the charts each draw on different data).



Both graphs show national figures which disguise regional variations.

For example, it is expected by many experts that as the Australian dollar continues its rise against the US currency Sydney apartment prices will fall as the apartments become less attractive to Chinese buyers (they'll wait until the Yuan appreciates the apartments fall, if only in relative terms). Melbourne will follow and Surfers Paradise already has stagnant prices and this in turn will probably affect Brisbane prices. By contrast prices in Perth and possibly Darwin are likely to continue rising as China and now India continue to expand imports of Australian resources and resource based wages continue to climb.

In another report the Housing Industry Association forecasts that housing starts in calendar 2010 will increase by 24 per cent in to a level of 171,442, before dropping by 9.5 per cent in calendar 2011 to a level of 155,155.

So presuming that interest rates have peaked by the end of next year we may well see prices recover from any 2011 price falls and make significant gains through 2012 as interest rates begin to fall, or at least stay steady, and the shortage of new housing stock again begins to bite.