

House Prices – June Quarter 2009

ECONOMIC ALERT

4 August 2009

KEY POINTS

House price developments in June quarter 2009

- The ABS price index for established houses across Australia's capital cities rose by 4.2% in the June quarter 2009, compared with a revised fall of 1.5% in the March quarter 2009.
- The June quarter outcome brought to an end four consecutive quarters of decline in national house prices.
- The annual rate of decline in house prices eased from a revised fall of 6.2% in the March quarter 2009 to a drop of 1.4% in the June quarter 2009.
- Over the past year, established house prices have fallen by 3.7% in Perth; 3.3% in Brisbane; 1.5% in Melbourne; 0.9% in Sydney; and 0.2% in Canberra.
- The price indexes for established houses rose in the year to the June quarter 2009 in Darwin (by 11.0%) and Adelaide (by 2.7%), and were broadly steady in Hobart (up just 0.1%).

Policy implications

- The solid lift in house prices in the June quarter 2009 (+4.2%) exceeded market expectations of growth of around 2%, and provides further indication of an improvement in domestic economic conditions, underpinned by stimulatory policy measures.
- In his speech on the challenges for economic policy to the Anika Foundation last week, the RBA Governor noted there was a risk that rising house prices, supported by current historically low interest rates and the increase and expansion in the first homebuyers grant, put in place the conditions for a potentially destabilising housing bubble in Australia.
- As interest rates inevitably rise as the economy recovers, the bursting of any bubble would have an offsetting contractionary effect, jeopardising the recover. As such, the 4.2% rise in house prices in the June quarter will further support the Reserve Bank's belief that policy stimulus will need to be withdrawn as the economy recovers.