ABS underestimated Sydney's decline

House prices

Tina Perinotto

The Sydney house market has fallen further but Melbourne has done better than was indicated by official Australian Bureau of Statistics figures.

These are just some of the findings of a new definitive house price index commissioned by the Reserve Bank of Australia and released yesterday in its latest Statement of Monetary Policy, which it hopes will end the controversy on shoddy house price data.

Using data from the new index the RBA said yesterday that it was clear that there had been "a marked cooling nationwide in house price growth over the past 18 months". In fact, on average across the eight capital cities, prices have gone nowhere since the RBA pricked the housing bubble by raising rates at the end of 2003. Of course, that followed price gains of 29 per cent in the previous 18 months.

FLATTENED

Changes in house prices

	18 months to Dec03	18 months to Jun05
Sydney	25%	-7%
Melbourne	20%	0%
Brisbane	62%	5%
Adelaide	35%	9%
Perth	33%	19%
Canberra	41%	0%
Australia	29%	0%

The new series was compiled by Australian Property Monitors with the assistance of the RBA and developed over the past six months.

Although broadly in line with other indexes, significant variations show up over Sydney and Melbourne prices.

While the ABS said Melbourne prices fell by 1.7 per cent in the year to the March quarter – the most recent comparison available – APM's index shows median prices rose 1.5 per cent.

But while the ABS said that over the 12 months to March prices in Sydney fell 3.4 per cent, APM says they fell 6.8 per cent.

In Darwin the ABS wildly underestimated the rise saying prices rose only 9.6 per cent over the year while APM says they rose 17.9 per cent.

ABS data has not yet been released for the June quarter.

The RBA wanted to build a better house price index because most existing measures rely on valuers' general settlement data, which is often several months out of date by the time it ends up in the range of indexes available.

The new APM Index is more timely than most because it blends in up-to-the-minute sales information.

It also adjusts for compositional problems such as a jump in sales in a downmarket suburb pulling down the average.

The index compares prices of sales in rich suburbs and less ritzy ones separately.

According to the RBA, while house prices have been flat, prices for apartments in Sydney and Melbourne – about 70 per cent of total national capital city stock – have fallen over the past 18 months.

The RBA said the cities that led the boom – Sydney and Melbourne – had been the weakest since the peak.

As to whether prices overshot value measures such as ratio of house prices to incomes and to rents, the RBA concluded that price weakness in the past 18 months "appears to partly reflect an unwinding of earlier unsustainable movements in prices".

Property, from page 47

China came along at just the right time

ANALYSIS

David Bassanese

The Reserve Bank yesterday indicated further progress in its risky experiment in deflating Australia's house price bubble – albeit acknowledging a little help from China.

Indeed, due to the coincident know what would have happened to our economy had not China chosen this time to make its presence felt on global markets.

China's entry into the World Trade Organisation in 2001 has helped push up the world price of our commodity exports and push down the price of our predominantly labour-intensive

SOFTER TONE

The key changes between this monetary policy statement and previous ones

	Previously	Yesterday
INTEREST RATES	'Based on previous experience, it would be surprising if interest rates did not have to increase further at some stage in the current expansion.'	The language about future rate rises has been dropped.
INFLATION	'Forecast to increase gradually to around 3 per cent by the end of 2006.'	'[2006] is likely to be the peak, with underlying inflation not expected to increase beyond 3 per cent in 2007.'
	'The risks were mostly on the upside.'	'Risks to forecasts are judged to be evenly balanced.'

WHAT THEY SAID

I think the government got it right, let me put it that way.
Treasurer Peter Costello

When Peter Costello said he wouldn't comment on interest rates, he really meant he wouldn't comment on the March rate rise brought about by his failed policies. It's