

## Australia economic update

### 4Q house prices and December trade balance

Australian national house prices rose 3.2%q/q in 4Q (JPMorgan and consensus 3.0%) after growing 3.5% in the previous three months. From a year ago, house prices rose 12.3%, the fastest rate since early 2004, compared to 10.6% in 3Q.

Prices in all capital cities rose. Until recently, Perth had posted the largest house prices gains, although posted the smallest price rise (+0.9%) in 4Q, while Adelaide logged the largest (+6.0%). The rate of house price growth in other capital cities remained solid: Sydney (+2.4%), Melbourne (+3.4%), Brisbane (+5.4%), Hobart (+3.7%), Darwin (+2.3%) and Canberra (+4.4%).

Rising residential rents (due mainly to an acute shortage of new homes) and accelerating population growth (on the back of higher skilled migration), will keep upside pressure on house prices going forward. Differing rates of population growth and affordability, though, mean that house price gains will not be uniform across the nation. Regardless, prospective home buyers face considerable headwinds. Not only are house prices still heading north, but the RBA will likely raise the cash rate tomorrow, meaning that nationwide housing affordability is certain to deteriorate from already record lows.

In other data, the trade deficit narrowed to -A\$1.9 billion in December (JPMorgan -A\$2.1 billion, consensus -A\$2.0 billion) from a revised deficit of -A\$2.2 billion in November (previously -A\$2.3 billion). Total goods and services exports increased 1.3% from the previous month, while imports rose just 0.1%.

The trade deficit has improved markedly of late, owing mainly to stronger exports. In December, total goods exports increased a healthy 1.5% m/m after spiking 6.9% in November. While non-rural exports rose just 0.3%, rural exports surged 9.1%. Total goods imports, meanwhile, fell 0.3%, due to a 2.7% decline in intermediate goods, while imports of consumption and capital goods both eased, growing 1.2% and 2.9%, respectively. The imports data is, to some extent, reflective of the near 3% depreciation in the AUD over the December month, which made it more expensive to import goods.

Looking ahead, the trade deficit will likely narrow further throughout 2008. Business investment, particularly in the resource sector, will continue to help alleviate the capacity constraints and infrastructure bottlenecks that have hampered the nation's export performance in recent years. The near-term completion of a number of large mining projects will help boost non-rural exports which, alongside the anticipated increase in rural exports thanks to recent rainfalls, should help net exports finally contribute to economic growth in 2008.

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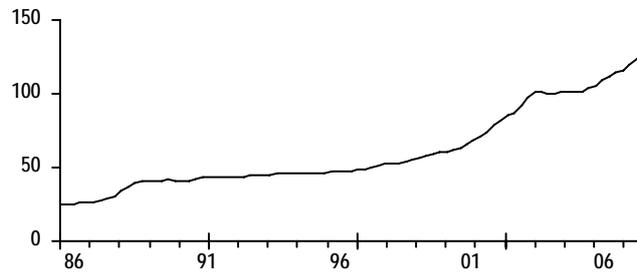
Economic Research  
 February 4, 2008



Established house prices	Sep Qtr 07 to Dec Qtr 07	Dec Qtr 06 to Dec Qtr 07
	% change	% change
<b>Weighted average of eight capital cities</b>	<b>3.2</b>	<b>12.3</b>
Sydney	2.4	8.0
Melbourne	3.4	18.1
Brisbane	5.4	21.6
Adelaide	6.0	20.2
Perth	0.9	1.1
Hobart	3.7	11.1
Darwin	2.3	11.1
Canberra	4.4	14.3

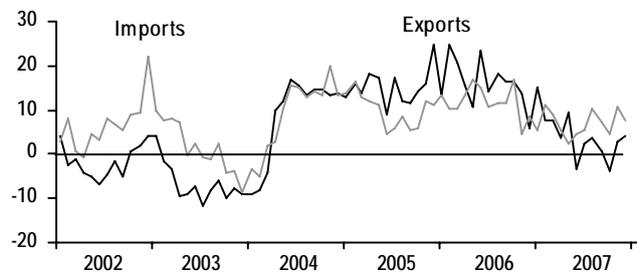
Australia: house prices (weighted average of eight capital cities)

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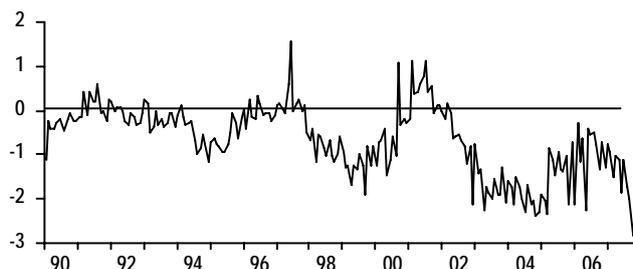
Australia: export and import growth

%oya



### Australia: trade balance

billion A\$



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