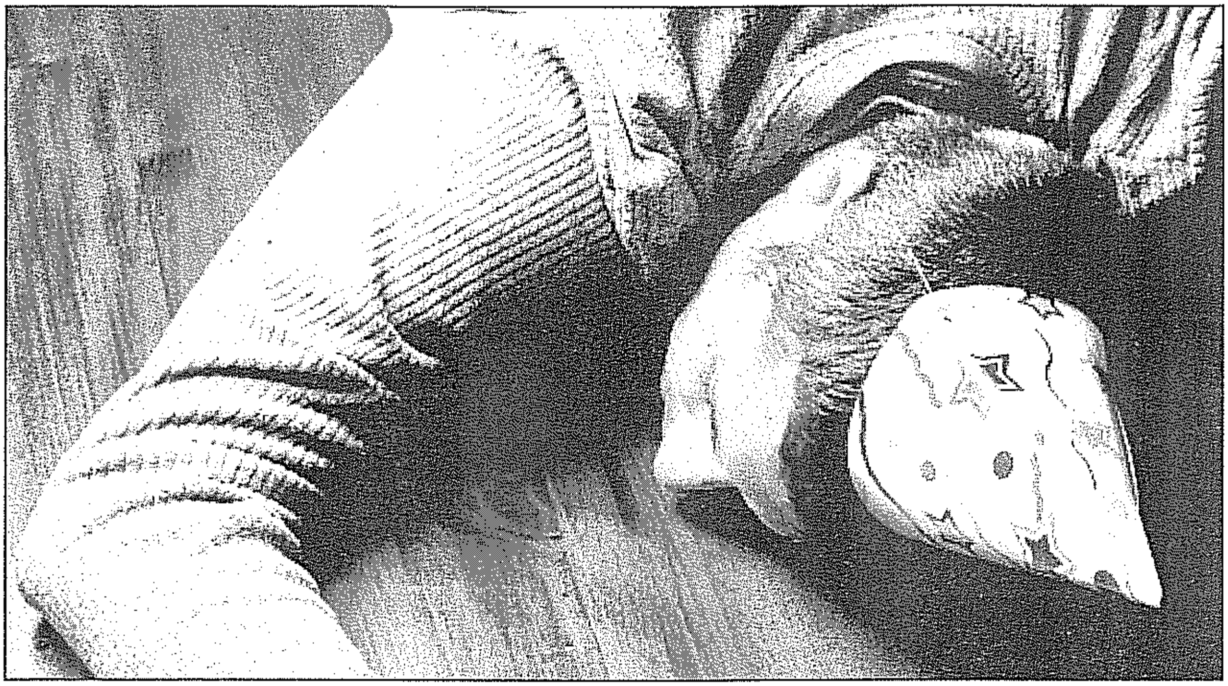
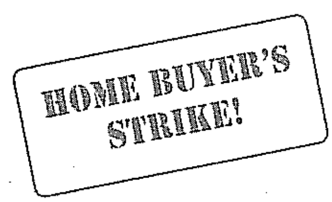
What a Party; What a Hangover!

By David Collyer





- Potential First Home Buyers wary of commitment
- Volume of stock for sale a swollen flood
- Consumers deleverage Australia-wide
- Banks unwilling to finance credit creation

Prosper Australia predicts substantial house price falls this calendar year across Australia as the mismatch between supply and demand worsens.

Current economic settings will not support current house prices. It is difficult to foresee anything that could derail the current downward trend – a trend we see accelerating strongly.

Young adults excluded from home ownership have accepted their status. In a substantial negative for future prices, they are no longer pressing their noses against the window. It will take a major price adjustment to reconnect them to The Great Australian Dream.

SQM Research shows 368,510 properties available for sale around the country – a very big lump to digest. Further, the pile is set to grow as disenchanted negative gearers exit this failed strategy in disgust.

The Household Savings Ratio ABS 5206.0 has risen to show us saving 10.1 per cent of incomes, reflecting a grim determination to purge ourselves of interest bearing debt.

Australian banks are not expanding their lending. They need to reduce their dependence on overseas borrowings and are rationing credit.

ANZ CEO Mike Smith said in February: "There will not be a return to the level of credit growth that banks experienced pre-crisis for the foreseeable future… as consumers reduce their gearing and businesses pace investments."

The RBA is gradually, cautiously lowering interest rates. It is extremely sensitive to suggestions its activities may hasten or brake the deflating housing bubble. The other obvious tool available to government, a First Home Buyers Grant, has been utterly discredited.

We expect property prices to wilt under these combined pressures, with prices at end December 2012 between 15 and 20 per cent less than today. We renew and repeat our warning to potential home buyers to stay out of the property market. Falling prices erase equity while buyers' mortgage liabilities remain payable in full. Our conclusion:

Don't Buy Now!