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THE BIG PICTURE: Spotting the booming regions

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There's no doubt that researchers have it easy nowadays compared with their predecessors even just a decade ago. There is just so much information freely available. And it's important to note that the definition of researchers can cover a broad cross-section of people. It may be economists, small-business people, local governments and even large corporations.

Just this week the Bureau of Statistics has released the latest National Regional Profile, providing a vast array of data covering the period from 2004 to 2009. The data included items such as home prices, wealth levels, demographic information and industry composition. And the good news is that researchers can drill down to relatively fine geographical areas.

No doubt it would be good to get even timelier data. But it is a simple case of cost/benefit. There is a vast amount of data that can be collected but would the outlay of our taxpayer dollars be worth the benefit?

Amongst the more interesting results were the estimates of home prices (or more specifically, the average value of private sector houses. The data is only provided up to June 2009 but it is nevertheless useful to see how values, and therefore wealth, has changed over time. Usually the information is only available at a national level or for capital cities, so the regional figures provide an extra layer of information.

Looking at the data at a statistical sub-division level, the stand-out areas over the past five years have been De Grey in the Pilbara and Carnegie in central Western Australia. From 2004 to 2009, home prices in the De Grey region rose 236% while Carnegie values lifted 220%. Admittedly the values were very volatile over the period – it certainly wasn't a steady increase.

Still it's important to note that Western Australia grabbed the first six spots on the list of strongest home price gains over the five-year period.

On average across the 201 regions assessed, home prices grew by 46% over the five-year period, or around 9% a year. That is, only slightly above the very long-term average, so it hardly is descriptive of a housing "bubble". And there were actually six regions where prices retreated over the period according to the data. Interestingly the figures suggest that Albury home prices fell by 20%, while in the ACT, Belconnen prices eased by 1.7% and Gungahlin-Hall fell by almost 19%. In contrast South Canberra home values were assessed to have lifted by 70% over the period.

Sometimes there can be gremlins in the data, but importantly it is actually having the data that causes researchers to look more closely to see whether there are underlying issues or problems to be investigated.

The week ahead

Regular readers would know that every change in season is ushered in with a barrage of economic data, and certainly it is no different with the onset of summer in Australia. Around a dozen key indicators will be released over the coming week – fortunately we have another week to wait for the next Reserve Bank Board meeting.

On Monday, the Bureau of Statistics (ABS) releases the latest Business Indicators publication, covering data such as inventories, sales and profits. On Tuesday, RP Data issues the latest update on Australian home prices while the Reserve Bank releases private sector credit (lending). And on the same data the ABS issues the balance of payments, government finance and building approvals.

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Some analysts may say that Wednesday is the highlight of the week with the latest economic growth estimates (GDP) to be released. But the data is quite old now and certainly the Reserve Bank has already got a good handle on what the figures will show. The Performance of Manufacturing survey is also issued.

On Thursday international trade and retail trade figures will be released. And on Friday the Performance of Services survey is issued.

In terms of the forecasts, home prices were probably close to flat with credit (lending) up 0.1%. Simply, people just don't want to take on more debt, and higher interest rates aren't helping the situation.

Building approvals probably rebounded by 5% in October – they certainly need to, having fallen 31% over the past six months, or the biggest drop in a decade. The trade surplus should have been maintained close to \$2.5 billion in October. And retail trade may have again edged 0.5% higher, keeping annual growth at a sub-standard rate near 4%.

And the economy probably grew by 0.7% in the September quarter – a result that is good, but not great. Consumption and investment are growing at modest rates, but Aussies are still not prepared to fully commit to the future, worried about what else may fall from the cupboard.

In the US, there is also a fair slab of data to be released, but most will only have eyes for the employment (non-farm payrolls) figures to be released on Friday.

Earlier in the week the Case-Shiller home price data is issued on Monday alongside the Chicago purchasing managers index and consumer confidence.

On Wednesday there is an avalanche of data including the Federal Reserve Beige Book, car sales, the ISM manufacturing index, ADP employment report and construction spending. Pending home sales and weekly jobless claims data are issued on Thursday. On Friday the ISM services index and factory orders figures will no doubt play second fiddle to the jobs data.

Economists are tipping another solid month of job gains with payrolls expected to have lifted by 150,000 in November, close to the October result. Perhaps US businesses are again embracing the future, with the help of a weaker greenback to drive exports. But the jobless rate probably remained near 9.6%.

Of the other data, the ISM manufacturing index may have eased from 56.9 to 56.0 but it remains at a healthy level. Again, the ISM services index may have been little changed near 54.3. Consumer confidence is tipped to lift from 50.2 to 52.0; construction spending probably eased 0.1% and factory orders lifted by 0.3%.

Sharemarket

Will there be a 'Santa Claus' rally this year? Some analysts think there will, in fact tipping very solid gains, but certainly the month of November hasn't been a good lead in. Still, the optimistic forecasters have history on their side with the All Ordinaries only sliding on four occasions over the past 20 years and seven times in the past 30 years.

So why the good track record? Some will put it down to 'window dressing' by fund managers. Whether it is the US or Australia, fund managers rule off the books for the month, the quarter and the calendar year. And it is in the interest of fund managers to show the best possible returns in order to attract new investment inflows.

And then there is the forward-looking approach by investors to take into account. Investors are likely to end this year, much the same as the last – expecting better times ahead. The Australian sharemarket fell in both December 2007 and December 2008, but that was understandable given the GFC.

In December last year stocks lifted by 3.5%, extending the rally that began in early March. This year there is again the sense that the healing process is underway, although tinged with a little more frustration than last year.

Interest rates, currencies & commodities

Many commodities have very developed futures markets. For instance futures quotes exist for US crude oil for the next eight years. Clearly this is extremely positive for oil users, allowing them to hedge risks well into the future. And for speculators it provides a range of opportunities to take positions. But what is the shape of the oil futures curve telling investors about future oil demand.

The December 2010 oil price is around US\$81.75 a barrel, and from there the curve climbs to US\$85.17 by

December 2011 before flattening to US\$86 by December 2012. When you consider that oil prices were hovering around US\$87 a barrel in early November, it is clear that traders still express doubts about the path of the global economy in 2011.

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