



Townsville Residential Property Report

DECEMBER | 2008



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Introduction

Area characteristics

Situated on the north Queensland coastline approximately 1500 km north of Brisbane, Townsville is the largest tropical city in Australia and has emerged as one of the most dynamic and livable cities in the country in recent years. The buoyant property market has been driven by strong economic and population growth which has provided a blend of opportunity and stability. Combined with world class infrastructure and recent lifestyle enhancements Townsville has cemented its position as the hub of North Queensland.

Townsville is quickly ascending in the national interest as northern economies and populations boom. Townsville is already the largest independent regional centre in Northern Australia, and is positioned to be the major beneficiary of the continued "rise of the north". Townsville is Northern Australia's centre for public administration, education, research, health services and a wide range of professional services. Furthermore, resident surveys reveal a dramatic increase in the liveability of the region. People are flocking to North Queensland for the opportunities and now staying for the lifestyle. Townsville has developed into a confident and vibrant city, attracting a wide range of new industries and investors who all recognise the growth opportunities the region has to offer.

Following the Queensland Government Local Government boundary reviews, the two former adjoining Local Government Areas (LGA's) of Townsville and Thuringowa merged in March 2008 to form the largest LGA outside of the South East corner of the State. This merger will assist in delivering a clear and concise marketing message and will give the new Townsville City the substantial clout that it deserves.

Market summary

Following half a decade of strong and consistent median price growth, 2008 has witnessed a significant and sudden change in the Townsville residential property market. This phenomenon was not exclusive to Townsville however, with the trend of plummeting sales volumes and stalling price growth evident in every market throughout the country.

The main reason for the rapid change was a major shift in market sentiment, stemming from external issues. Cracks started to appear in global financial markets in mid 2007 however did not mature into a full blown crisis, engulfing the whole developed world, until 2008. These events have lead to a crisis in confidence, which is the major reason for the decline in sales volumes and price growth in the local market. Confidence is the missing ingredient in the local and national markets and will be the catalyst for the market recovery.

The Townsville property market is well placed to weather the current turmoil, with the underlying fundamentals of the market remaining strong. The Townsville residential market generally still has a shortage of supply which is best highlighted by the extremely low residential rental vacancy rates. Major population growth, significant infrastructure investment, resources and the large contribution of government employment all auger well for the Townsville market. Combined with low and decreasing interest rates and the increase to the first home owners grant which expires on 30 June 2009, we expect conditions to stabilise during 2009. Sales volumes are expected to recover in the near future, however median house price growth may be subdued for a number of years before strong growth once again returns to the market.

Townsville Economy Overview

Population growth

Townsville's consistently high population growth will continue to drive dwelling demand in the foreseeable future. In the year ended June 2007, the Greater Townsville population grew 2.7% according to the ABS, increasing by 4,529 people to reach a total of 169,484 people. Net migration has been the major driver of recent population growth, reflecting strong employment growth. The Townsville population has grown by 2.7 per cent per annum over the past five years, with Queensland Government projections (medium series) indicating the population is expected to reach over 270,000 people by 2031. Considering the Greater Townsville average dwelling size is 2.7 persons, this growth equates to an average derived demand of 1,686 new dwellings per year needed to house the growing population over the next 19 years. Forecast demographic changes including a reduction in the number of persons per household (household size) will increase the underlying demand for dwellings even further in future years.

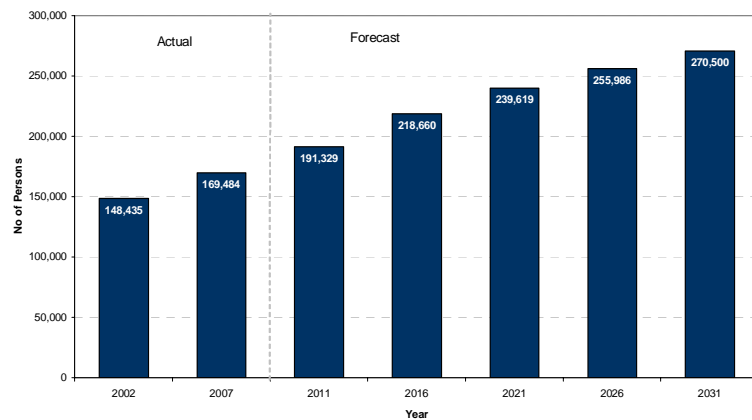
Economic growth

The key to the strength of the Townsville economy lies in its diversity. Contributions are received from many industry sectors, with no one industry dominating the economy. Major contributions are generated from manufacturing, health & education, construction & dwelling investment, retail and wholesale trade and government. According to AECeconomics, Gross Regional Product (GRP) for the northern region increased 7.8% from 2005-06 to 2006-07 to reach 11.87 billion. Townsville is the trade centre for the vast North West Queensland minerals province and the port experienced seventeen years of consecutive trade growth to exceed 10 million tonnes per annum in 2003-2004. Townsville is an internationally significant base metals processing centre and is home to three major metal refineries. Further expansion of the defence forces based in Townsville is also planned, with the relocation of the 3RAR light infantry battalion including 1500 soldiers and support staff, due to move from Holsworthy in Sydney to Lavarack Barracks by 2012.

Climate

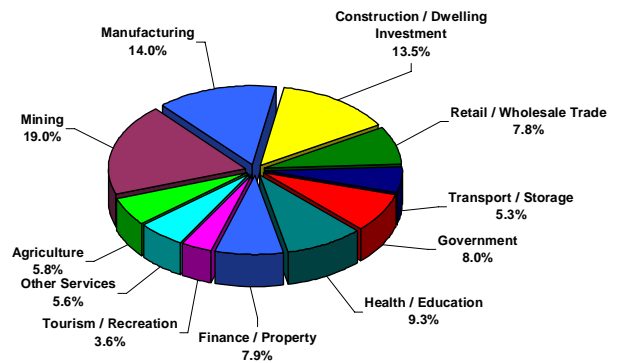
Townsville is located in the dry tropics and enjoys a warm tropical climate with mild sunny winter days and warm to hot summers. Its average maximum temperature ranges from 31 degrees Celsius in summer down to a comfortable 25 degrees Celsius in winter. The average minimum temperature ranges from 24 degrees Celsius in summer to 13 degrees Celsius in winter. Heavy rainfall is usually confined to the hot summer months, with the cooler winter months relatively dry and sunny. The dry and stable climate is advantageous for many industries, however the region also has abundant and secure water supplies, leading the region to be included in the so called "Oasis Change" property hot spots.

Townsville Population Projections 2011-2031



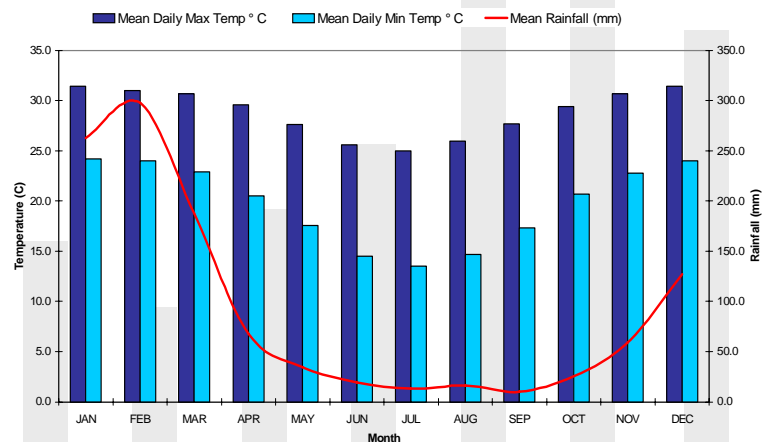
Prepared by PRDnationwide Consulting NQ, Source: ABS & PIFU - Medium Series projections

Townsville Region Gross Regional Product 2006-07



Prepared by PRDnationwide Consulting NQ, Source: AECeconomics

Townsville Climate Averages



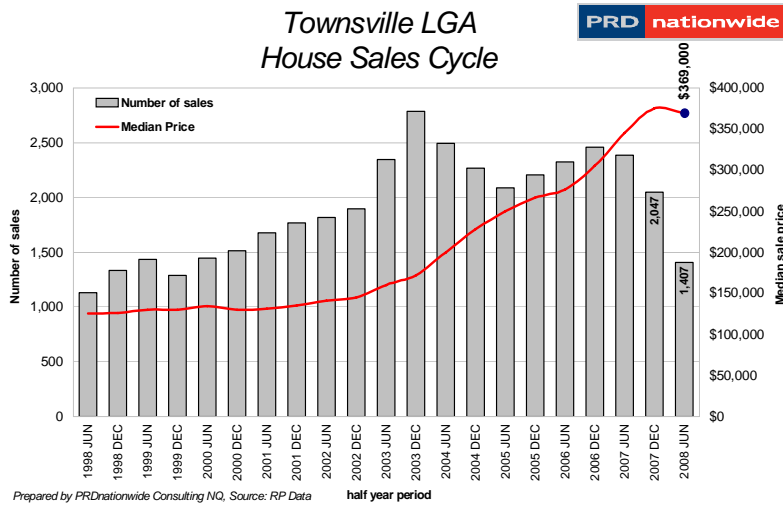
Prepared by PRDnationwide, Source:

Townsville Property Market Sales Cycles

Townsville House Market

The Townsville house market has experienced strong growth over the past decade as the sales cycle graph indicates, however a significant slowing in both sales volumes and median price growth is now evident. In the first six months of 2008 sales volumes retracted by 31 per cent compared to the last six months of 2007 (1,407 transactions Vs 2,039 transactions). This level of sales activity is well below the ten year average demand of 1,949 sales every six months.

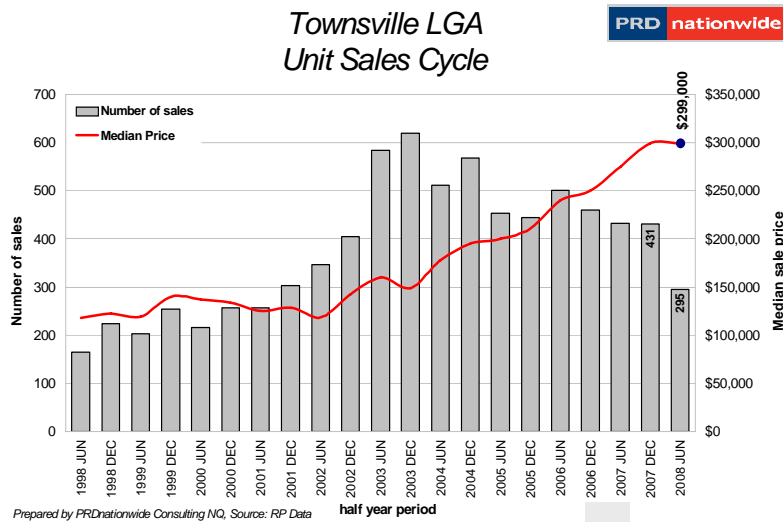
The median house price for the six months ending June 2008 was \$369,000, based on 1,407 transactions. This median price has grown at very strong rates in the last five years, rising from a mere \$160,000 in June 2003. This change represents annual compounding growth of 18.2% per annum. Growth in the last year slowed to 7.0%, however in the six months from December 2007 to June 2008, growth was negative 1.6%. This is the first period of negative growth for seven and a half years.



Townsville Unit Market

The median unit price for the six months ending June 2008 was \$299,000, based on 295 transactions. This is 8.7 per cent higher than June 2007 when the median price was \$275,000, however it is identical to the median price six months earlier. This is the first period of no growth for four and a half years. We expect the median unit price to level out or experience moderate gains for the near future.

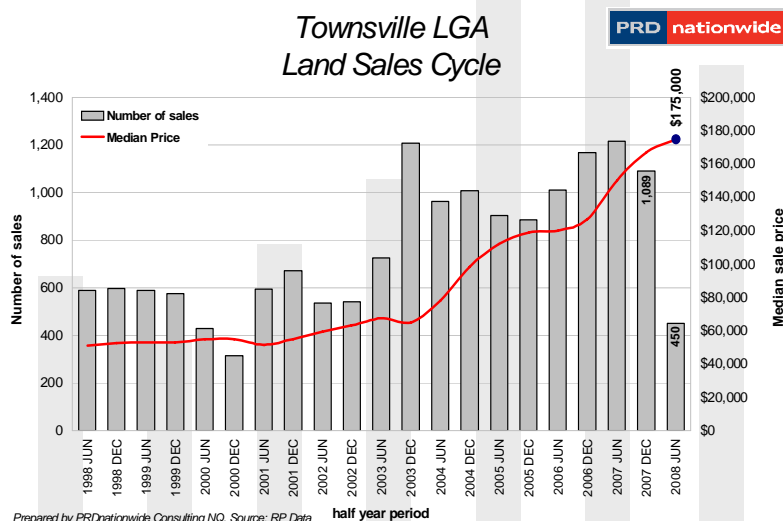
The Townsville unit market has also experienced a rapid fall in sales volumes in the first half of 2008. Volumes retracted by 32 per cent from the level of sales recorded in the last six months of 2007 to just 295 sales. This trend is reflected in our PRDnationwide Quarterly Townsville Unit Survey, with the September-08 quarter survey showing the lowest level of unconditional sales since the survey commenced over four years ago.



Townsville Land Market

In a similar trend to the house and unit market, the Greater Townsville land market has experienced a decline in demand in the six months to June 2008. Sales volumes plummeted to just 450 transactions in the first half of 2008, a fall of 59 per cent from the previous six month period. This trend is also confirmed by developer land surveys, which show the lowest levels of sales for some time. The fall in demand is largely attributed to a change in sentiment from builders, who comprise the largest market for vacant residential land. The mass exodus of the builder market has driven the plunge in sales volumes, and a recovery will occur once builders clear their current stock.

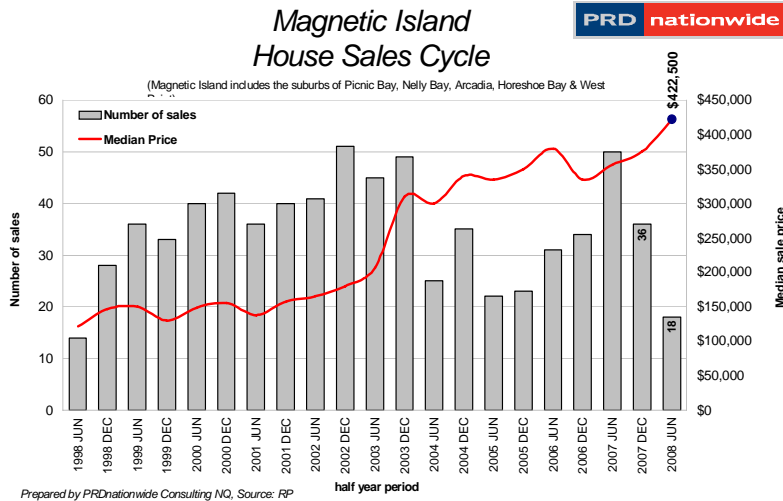
Although the median land price has yet to record negative growth, the current level of \$175,000 recorded for the six months ending June 2008 may be the peak of the current cycle. The median land price has grown at extremely strong rates in the last five years, rising from just \$67,500 in June 2003. This change represents annual compounding growth of 21.0 per cent per annum.



Magnetic Island Property Market Sales Cycles

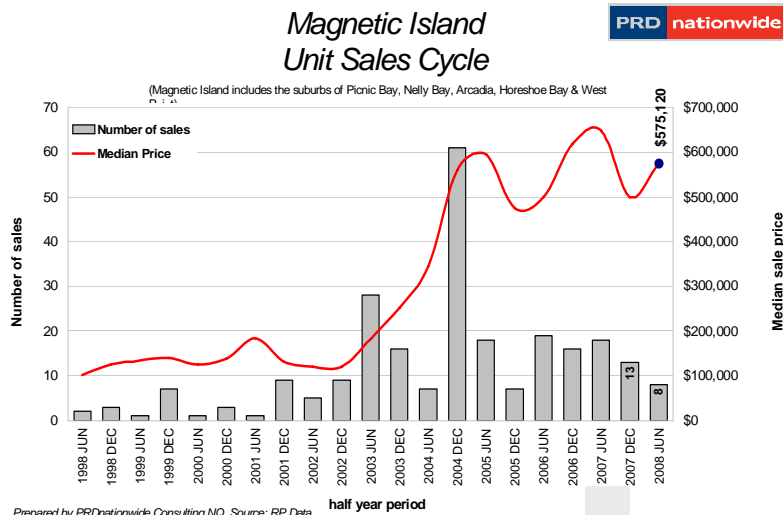
Magnetic Island House Market

Settled sales for all five suburbs on Magnetic Island have been aggregated to produce the sales cycles graphs to the right. Following an increase in activity in the Magnetic Island house market from mid 2005 to mid 2007, sales volumes have declined in the six months to June 2008 with 18 settled sales recorded. Median price growth has accelerated since the beginning of 2007 however. The median house price across Magnetic Island in June 2008 was \$422,500, now well above the median house price for the broader Townsville Local Government Area which was \$369,000 for the same period. Median price growth in the last year was 18.5% and over the last five years was 15.3% per annum. Despite this solid six-month growth from a median of \$375,500 at December 2007, more than 50 per cent of sales during the year ending June 2008 were still less than \$400,000. These figures highlight the affordable nature of property on Magnetic Island, which is the most accessible and well serviced island on the Queensland coast.



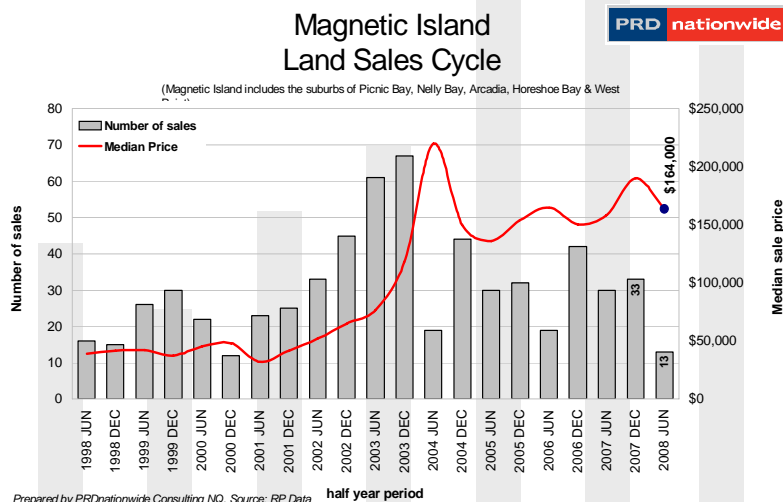
Magnetic Island Unit Market

Prior to 2003, unit sales volumes on Magnetic Island were minimal and median prices were very low. Post 2003, new unit projects commenced and sales volumes and prices lifted dramatically. 211 settled sales have now occurred since June 2003, which is a major achievement and market changing milestone. Since the peak of activity in the six months ending December 2004, median prices show some volatility due to the mix of product in the market and the relatively small sample size of settled transactions. The median unit price was \$575,120 in June 2008, however this is based on only 8 transactions, therefore needs to be treated with caution. The median price has retracted by 11.2% in the last year, however has recorded five year growth of 25.8% per annum. Unit projects completed in recent years include: The Docks (13 units), Waters Edge (4 units), One Bright Point (124 units), Peppers Blue on Blue stage 1 (101 units) and Beachside (20 units).



Magnetic Island Land Market

Magnetic Island land sales have averaged 30 transactions every six months over the last decade. The median price in June 2008 retracted to \$164,000 based on 13 transactions, making Magnetic Island land more affordable than the Townsville mainland, which recorded a median price of \$175,000 in June 2008. Median price growth over the past five years has been 16.4% per annum. A broad range of land types is now available on Magnetic Island, from prime marina front lots with private pontoons, exclusive beachfront and ocean view lots, through to affordable traditional sub divisions. Scarcity will drive capital growth in the future as demand outstrips the finite supply of developable land.



Townsville Unit Report, September-08 Qtr

Market Snapshot

- There were 28 unconditional sales of new units across 32 projects in the Townsville market during the Sep-08 quarter.
- Gross sales for the quarter are estimated at \$17.6 m.
- 558 new units were available for sale at the end of the quarter, suggesting 59.8 months supply based on current demand.
- 'Fulton Gardens' (Metro Tower) was the fastest selling project during the Sep-08 quarter with 10 unconditional sales.

Overview

The three months to September 2008 saw a new low in off the plan unit sales across the Townsville market. Plummeting consumer confidence has left potential buyers sitting on the fence waiting and watching as the financial crisis has unfolded. A range of special offers and inducements in the market has largely failed to ignite buyer interest. A major shift in market sentiment is required in order for buyers to perceive that the coast is clear and that they should return to the market. Apart from confidence, the underlying fundamentals of the Townsville market are still sound and it is anticipated that recent interest rate cuts will slowly entice buyers back into the market during 2009.

Survey Analysis

The level of demand in the Sep-08 quarter suggests 59.8 months supply of new unit stock across the Townsville market at current levels of demand, up from 30.5 months recorded in the Jun-08 quarter. Townsville Outer had 47.3 months of stock, up from 8.7 months, while the City area had 50.1 months supply, up from 37.0 months in the Jun-08 quarter.

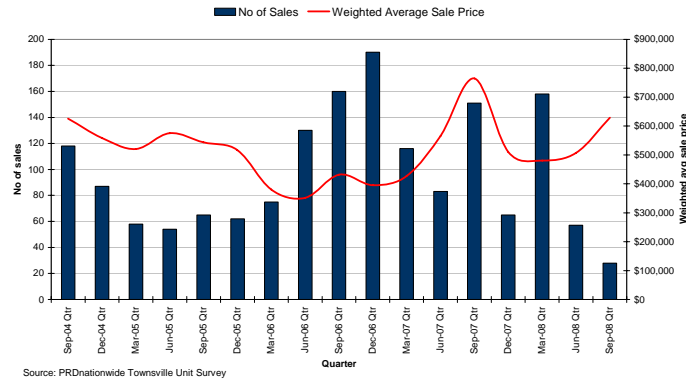
There were 28 unconditional sales recorded during the Sep-08 quarter, down 50% from the 57 sales recorded during the Jun-08 quarter. Townsville City dominated sales accounting for 86% of all sales, compared to Townsville Outer with 14% of sales. CPR Townsville Holdings' 'Fulton Gardens' (Metro Tower) was the fastest selling project with 10 unconditional sales recorded for the quarter. Other projects to record healthy sales were Hedley's 'T1' with 5 sales, Glen Alpine's 'Solarus' (Tower 1) also with 5 sales and Benchmark Development's 'Oasis Apartments' with 4 sales.

The weighted average sale price moved up from \$507,017 in the Jun-08 quarter to \$628,571 in the Sep-08 quarter. Almost all sales were for projects intended for permanent residential use.

New projects in the survey that should be ready to report sales next quarter include: 'Santai Resort' (100 units), Santai Residences (43 units), and Riverlinks Apartments (58 units).

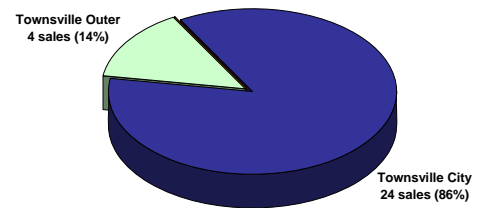
With a decrease in new unit commencements, low vacancy rates, rising rents and decreasing interest rates, demand is forecast to pick up during 2009 as owner occupiers and investors are enticed back into the market.

Quarterly Sales



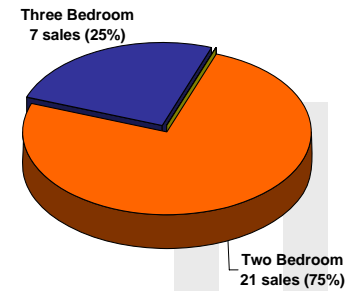
Sales Volumes

Based on units sold during Sep-08 quarter



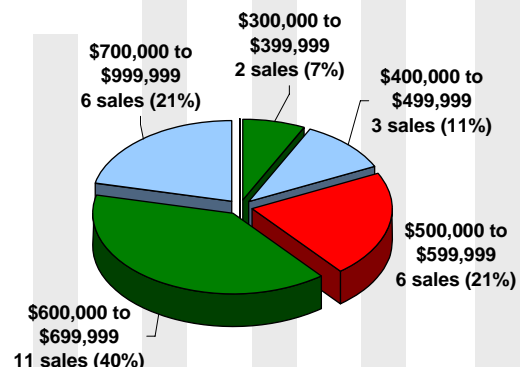
Unit Type

Based on units sold during Sep-08 quarter



Price Points

Based on units sold during Sep-08 quarter



Townsville Unit Report, September-08 Qtr

Townsville New Unit Market Sales Analysis of Recent Market Activity



Development	Suburb	Construction Status	Intended Building Use	Total Units	Sold to date	Avail for sale	No. Sold Sep-08 Qtr	Weighted Avg Sale Price	Approx gross sales Qtr	Marketing Company	Developer
Townsville City											
4 Oxley St	North Ward	Awaiting	Permanent Residential	4	1	3	0	\$0	\$0	Ray White Tvl City	Westcon Site Management Pty Ltd
Altitude	City	Underway	Permanent Residential	46	27	19	0	\$0	\$0	Benchmark Developments	Benchmark Developments
Bluewater Residences	North Ward	Underway	Permanent Residential	6	0	6	0	\$0	\$0	Ferry Property	Rockpool Developments
Central (Stage 1)	City	Underway	Permanent Residential	95	40	55	0	\$0	\$0	Honeycombes Property Group	Honeycombes Property Group
Central (Stage 2)	City	Underway	Permanent Residential	70	35	35	0	\$0	\$0	Honeycombes Property Group	Honeycombes Property Group
Eclipse on Little St	Belgian Gardens	Underway	Permanent Residential	12	4	8	0	\$0	\$0	PRDnationwide	Perry McDonald Constructions
Element on Gregory #	North Ward	Underway	Permanent Residential	42	42	0	1	\$450,000	\$450,000	Hedley Group	Hedley Group
Empyrean	North Ward	Completed	Permanent Residential	7	7	0	1	\$850,000	\$850,000	Lancini Group	Lancini Group
Fulton Gardens (Metro Tower)	North Ward	Underway	Permanent Residential	27	10	17	10	\$660,000	\$6,600,000	Northward Realty	CPR Townsville Holdings Pty Ltd
Gateway on Palmer	South Tvl	Underway	Mixed Use	112	80	32	0	\$0	\$0	PRDnationwide	Quantum Group
Jade #	North Ward	Underway	Permanent Residential	93	30	63	0	\$0	\$0	Hedley Group	Hedley Group
Mariner's Peninsula - The Stanton Apartments	City	Underway	Permanent Residential	101	97	4	0	\$0	\$0	Ferry Property/Mirvac	Mirvac
Number 98	North Ward	Underway	Permanent Residential	25	19	6	0	\$0	\$0	Knight Frank	Lancini Group
Riva	South Tvl	Underway	Permanent Residential	48	n/a	n/a	n/a	\$0	\$0	Knight Frank	Thompson Property Group/Opus Capital
Santai Resort	City	Awaiting	Mixed Use	100	n/a	n/a	n/a	\$0	\$0	Resortcorp	Resortcorp
Santai Residences	City	Awaiting	Mixed Use	43	n/a	n/a	n/a	\$0	\$0	Resortcorp	Resortcorp
Soiree	North Ward	Underway	Permanent Residential	24	11	13	0	\$0	\$0	Real Way	Gedoun Constructions
Solarus (Tower 1)	South Tvl	Underway	Permanent Residential	73	57	16	5	\$770,000	\$3,850,000	Ferry Property	Glen Alpine
Solarus (Tower 2)	South Tvl	Awaiting	Permanent Residential	46	0	46	0	\$0	\$0	Ferry Property	Glen Alpine
T1 Stage 1 #	City	Underway	Permanent Residential	55	49	6	5	\$550,000	\$2,750,000	Hedley Group	Hedley Group
The Dalgety	City	Underway	Mixed Use	117	88	29	2	\$750,000	\$1,500,000	Ferry Property	Fortia Funds Management
Vue	City	Underway	Permanent Residential	20	2	18	0	\$0	\$0	Remax	Fortia Funds Management
Watermark	North Ward	Completed	Permanent Residential	46	45	1	0	\$0	\$0	PRDnationwide	Crackers Corporation
Yarrowonga Village (Stage 3)	North Ward	Underway	Permanent Residential	36	12	24	0	\$0	\$0	Lindona Developmemnts Pty Ltd	Lindona Developments Pty Ltd
Summary - 24 Projects				1248	656	401	24	\$666,667	\$16,000,000		
Townsville Outer											
Itara (Stage 1)	Condon	Underway	Permanent Residential	52	24	28	0	\$0	\$0	Honeycombes Property Group	Honeycombes Property Group
Oasis Apartments	Garbutt	Underway	Permanent Residential	26	15	11	4	\$400,000	\$1,600,000	Coldwell Banker	Benchmark Developments
Precinct Apartments	Cranbrook	Underway	Permanent Residential	20	10	10	0	\$0	\$0	Coldwell Banker	Benchmark Developments
Quadrant #	Wulguru	Underway	Permanent Residential	56	54	2	0	\$0	\$0	Hedley Group	Hedley Group
Riverlinks Apartments	Douglas	Underway	Permanent Residential	58	n/a	n/a	n/a	\$0	\$0	Gribbin Realty	
West End #	West End	Underway	Permanent Residential	42	30	12	0	\$0	\$0	Hedley Group	Hedley Group
Summary - 6 Projects				254	133	63	4	\$400,000	\$1,600,000		
Magnetic Island											
One Bright Point	Nelly Bay	Completed	Mixed Use	124	83	41	0	\$0	\$0	Meridien	Meridien
Peppers Blue on Blue Resort	Nelly Bay	Completed	Mixed Use	101	48	53	0	\$0	\$0	PRDnationwide	Eureka Funds Management
Summary - 2 Projects				225	131	94	0	#DIV/0!	\$0		
TOTAL DEVELOPMENTS - 32				1,727	920	558	28	\$628,571	\$17,600,000		

Rental Market

Vacancy Rates to Remain Tight

- The REIQ conduct a bi annual survey to determine residential vacancy rates in Local Government Areas across Queensland.
- Townsville vacancy rates are calculated by using information provided by local real estate agents.
- The number of vacant properties on rent rolls divided by the total number of rental properties available determines the overall vacancy rate.
- Residential vacancy rates across Townsville were 1.5% in September 2008, down from 2.6% in June 2008.
- This is the lowest level in regional Queensland apart from Toowoomba which recorded a vacancy rate of 1.2%.
- Vacancy rates are widely predicted to be under pressure throughout 2009 due to lower dwelling commencements.

Residential Vacancy Rates

LGA	Sep-08	Jun-08	Change
Townsville	1.5%	2.6%	-1.1%
Cairns	4.6%	3.8%	0.8%
Mackay	2.1%	1.5%	0.6%
Whitsunday	2.3%	2.6%	-0.3%
Sunshine Coast	3.1%	3.2%	-0.1%
Gold Coast	3.2%	3.7%	-0.5%
Greater Brisbane	1.7%	2.1%	0.4%

Source: REIQ

Rental Rates Continue to Climb

- Analysis of new rental bonds lodged with the Residential Tenancy Authority (RTA) is the basis of the median weekly rents information.
- The median rents are calculated for different types of dwellings in major centres throughout Queensland.
- In September 2008 the Residential Tenancy Authority held a total of 9,755 bonds for houses and 6,403 bonds for units in Townsville.
- Across Townsville, rents have increased around 13.6% over the year ending September 2008.
- The median rent on a 4 bedroom home was up \$50 per week in the former Townsville area and \$40 per week in the former Thuringowa area.
- Analysis of median weekly rentals by postcode shows that Magnetic Island offers the most affordable housing, while the inner city areas in the 4810 postcode are generally the least affordable.
- The highest median rent of all dwelling types was \$460 per week for 3 bedroom units in the inner city postcode of 4810 followed by \$400 per week for 4 bedroom houses in the same postcode.
- The largest gains were experienced in the inner city postcode of 4810 where 3 bedroom units rose by \$75 to \$460 per week and the northern beaches suburbs in postcode 4818 where 3 bedroom houses rose by \$65 per week to \$340 per week.
- Further rises in rental rates are expected due to tight vacancy rates and a decrease in new dwelling supply.

Median weekly rents Townsville and Thuringowa

PRD nationwide

Dwelling Type	Area	Jun Qtr 08 Rent (\$)	Jun Qtr 07 Rent (\$)	1 Yr Change %	1 Yr Change \$
2 bed units	Townsville Area	\$270	\$245	10.2%	\$25
2 bed units	Thuringowa Area	\$250	\$220	13.6%	\$30
2 bed units	New Townsville City LGA	\$265			
3 bed units	Townsville Area	\$400	\$350	14.3%	\$50
3 bed units	Thuringowa Area	\$285	\$250	14.0%	\$35
3 bed units	New Townsville City LGA	\$380			
3 bed houses	Townsville	\$330	\$285	15.8%	\$45
3 bed houses	Thuringowa	\$320	\$280	14.3%	\$40
3 bed houses	New Townsville City LGA	\$320			
4 bed houses	Townsville	\$400	\$350	14.3%	\$50
4 bed houses	Thuringowa	\$370	\$330	12.1%	\$40
4 bed houses	New Townsville City LGA	\$380			

Prepared by PRDnationwide, Source RTA

Townsville Tourism Overview

Townsville Airport Arrivals

Passenger movements through the Townsville airport have continued to grow on the back of the strong business and leisure travel market. 1,484,901 passengers passed through the Townsville airport in the year ending June 2008 representing an increase of 8.2% the previous year. Increased capacity and domestic competition coupled with the strong economic and tourism growth is likely to see strong growth in the future.

Airline seat Capacity

- In December 2008, weekly domestic seat capacity into Townsville is estimated at 17,630 seats, up from 13,860 in March 2008.
- This 27% increase (3,770 seats) is driven by increased capacity on Qantas, Jetstar and Virgin Blue Brisbane to Townsville flights.
- Virgin Blue hold the highest market share with 6,848 seats (42 flights), followed by Qantas with 6,780 seats (53 flights), then Jetstar with 4,002 seats (22 flights).
- Total weekly flights into Townsville in December 2008 is 117, comprised of 102 from Brisbane, 12 from Sydney and 3 from Melbourne.

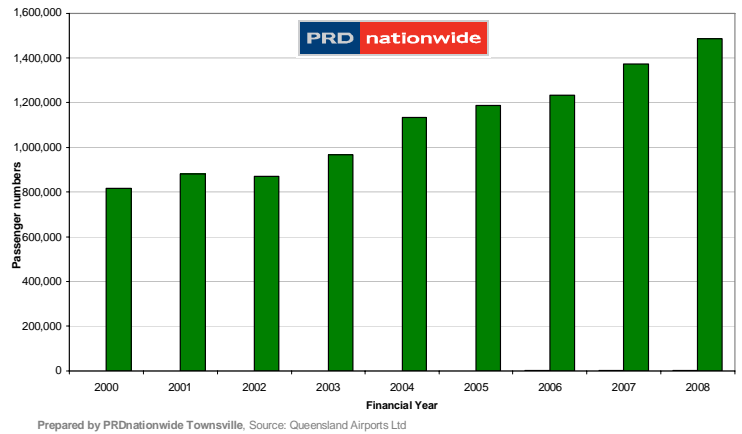
Visitor Numbers

- The Townsville region hosted 961,000 domestic overnight visitors in the year ending June 2008, comprising mainly of intrastate visitors.
- The visitor profile is shared almost equally between holiday (356,000), visiting friends and relatives (VFR) (319,000) and business visitors (238,000), spreading the risk and not relying on any one market sector, as do some of the neighbouring regions.
- Domestic visitors account for 87% of all visitors to the region.
- Interstate visitors account for 18% of domestic visitors yet account for 32% of visitor nights.
- Total expenditure by visitors in the year ending December 2007 was \$683 million.
- The short break drive market continues to perform well and is up 5% from last year.

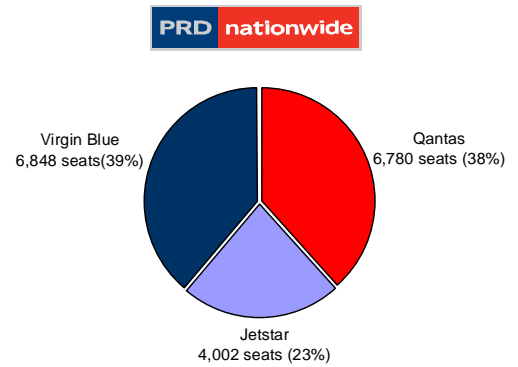
Accommodation Performance

Recent tourism statistics show room occupancy rates across Townsville hotels motels and serviced apartments decreased slightly between the year ending June 2008 and 2007, from 74.8% to 72.6%. An increase in the average room rate offset the slightly lower occupancy rate however, with revenue per available room (REVPAR) increasing by a solid 6.6% over the year. September is the best performing quarter of the due to seasonal influences. The increase in tourist numbers, and the way that Townsville has marketed itself to the rest of Australia has encouraged developers to start planning and constructing more business and leisure hotel towers in the central Townsville area, supplying much needed quality accommodation to an expanding market.

Townsville Airport Passenger Movements



Airline Shares of Seat Capacity Townsville December -08

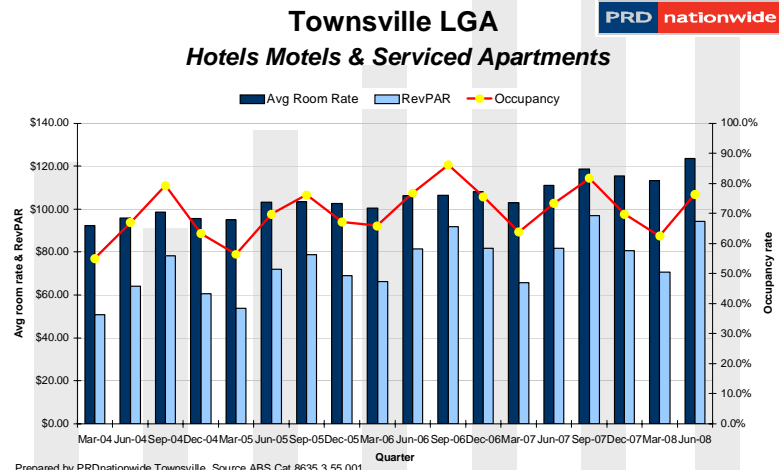


Townsville Region 2007-08 Tourism Visitation Highlights

	Total Vistors	Holiday	VFR	Business	Expenditure
Domestic overnight	961,000	356,000	319,000	238,000	\$604m
3 year trend	↓ 9.00%	↓ 2.00%	↓ 2.00%	↓ 19.00%	↑ 14.00%
International overnight	145,000	121,000	15,000	n/p	\$79m
3 year trend	↑ 5.00%	↑ 4.00%	↓ 7.00%	n/p	↓ 5.00%

Prepared by PRDnationwide Townsville, Source: Tourism Queensland

Townsville LGA Hotels Motels & Serviced Apartments



Macroeconomic Climate

Inflation forces RBA to adjust interest rates again

- Inflation is an increase in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households.
- The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3% through the setting of interest rates.
- The September-08 CPI figures recorded an annual change of 5.0% which is well above the RBA's target range.
- Quarterly inflation was 1.2%, down from the 1.5% recorded during the June-08 quarter.
- The underlying inflation figure as measured by the RBA was the worrying figure again however. Underlying inflation removes volatile items such as fruit and fuel. Underlying inflation increased by 4.6% over the year.
- Recent falls in consumer and business confidence are likely to reduce inflationary pressure, however due to the global financial crisis, the focus has shifted from attempting to control inflation via interest rates, to stimulating economic activity.

RBA slashes interest rates to a seven year low

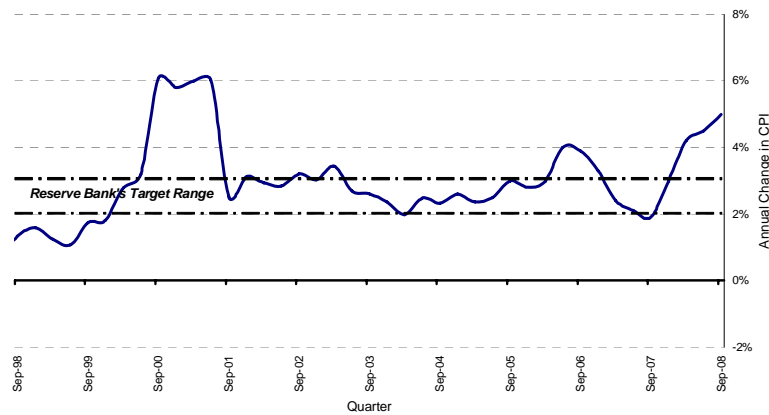
- The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.
- Interest rates are set by the RBA, who acts independently of government and sets interest rates with the goal of maintaining inflation in a long-run target range of 2 - 3%. The RBA meets monthly to review the current interest rate.
- Following a 25 basis points rise in March, taking the cash rate up to 7.25%, the RBA have responded to the financial crisis and looming global recession decisively, slashing interest rates by 0.25% in September, a full 1.0% in October, 0.75% in November and another full 1.0% in December, reducing the cash rate to 4.25%.
- Due to higher borrowing costs, the banks have not passed on the full 3.0% reduction, with the average standard variable home loan reducing from 9.45% at the end of June 2008 to 7.25% to a range of 6.8% to 6.9%.
- The market is factoring in further cuts during 2009 with some commentators expecting the cash rate to bottom at around 3.0% by mid 2009.

Commodities come off the boil

- The RBA's Commodity Price Index provides an indicator of primary commodity price movements.
- The dramatic rise in commodity prices can be seen from this index, particularly since June-04.
- The index was still recording gains in Oct-08, however recent market evidence suggest that this has now reversed, with resource based commodities in particular coming under pressure.
- Townsville is the largest non ferrous metals ports in the world, due to it's proximity to the vast north west Queensland minerals province and the establishment of three metal refineries in the city.

Inflation

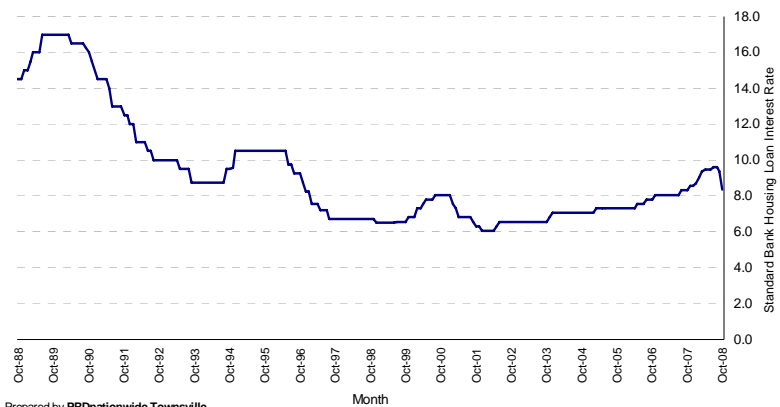
PRD nationwide



Prepared by PRDnationwide Townsville
Source: ABS Cat No: 6401.0, last updated December-08

Housing Loan Interest Rate

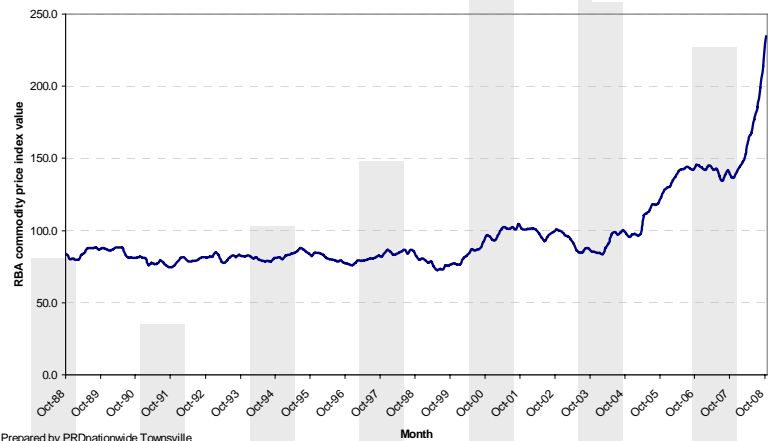
PRD nationwide



Prepared by PRDnationwide Townsville
Source: RBA Bulletin F05, last updated December-08

RBA Commodity Price Index

PRD nationwide



Prepared by PRDnationwide Townsville
Source: RBA Bulletin G5, last updated December-08

PRD nationwide

Prepared by **PRDnationwide Townsville**

Source: ABS, AECeconomics, Bureau of Meteorology, Townsville City Council, PRDnationwide Townsville Quarterly Unit Survey, Midwood Queensland Investment Report, Pricewaterhouse Coopers, RP Data, Queensland Airports Ltd, Tourism Queensland, REIQ, RTA, RBA.

For further details please contact: **Dean Dederer, Research & Special Projects Manager, Ph: 07 4759 9103 or deandederer@prd.com.au**

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