Housing trouble ahead

BANKING

Peter Taylor

THE flickering pulse in the housing sector is poised to flatline, compounding "fundamental challenges" that will weigh heavily on Australia's banking industry, leading analysts say.

And the "right catalyst" would see house prices fall from levels that are unaffordable by historical and global standards, according to analysts at international investment bank Credit Suisse.

The group is forecasting anaemic profit growth at Australia's banks next year, measured against their bumper 2010 results.

Underlying profit growth, which strips out one-off items, will tumble to just 3 per cent industry-wide, the Credit Suisse banking team, lead by Jarrod Martin, says.

The team believes mortgage giants Commonwealth Bank and Westpac will particularly struggle, with underlying earnings respectively stalling and falling 1 per cent.

On an earnings-per-share basis, the major banks will post combined profit growth of 8 per cent as the industry navigates political and regulatory reform risks.

CBA, Westpac and ANZ all enjoyed cash earnings-per-share growth above 20 per cent this year.

Credit Suisse's investment strategy team, lead by Adnan Kucukalic, says despite a "general shortage" in housing, demand had fallen partly because of slowing population growth. A cut to the first homebuyers' grant and rising interest rates have also sapped new-buyer demand.

"Leading indicators suggest that house prices are likely to flatten out over the next year," the Credit Suisse analysts say, in a note to investors this week. "But just because housing is expensive does not mean that a correction is imminent. We need to find the right catalyst."