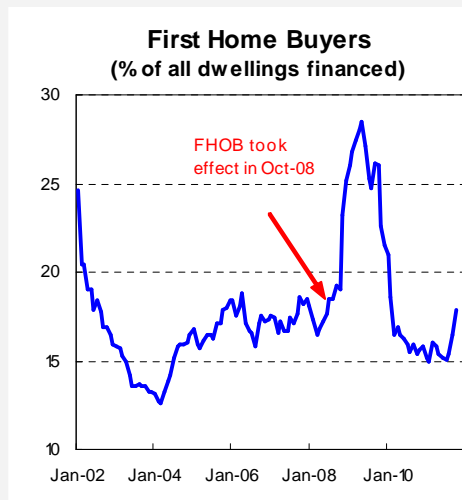
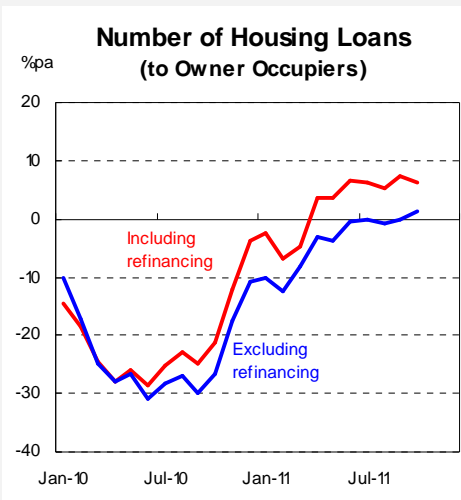


DATA SNAPSHOT

Housing Finance: The Housing Divergence

12 December 2011

- Housing finance remained in the improvement lane. The number of home loans for owner occupied housing rose by 0.7% in October, representing the seventh consecutive increase.
- Refinancing fell in October, but the trend this year is still one in which refinancing activity and demand for established home is primarily driving overall demand for loans. Loans are up 6.3% on a year ago but only up 1.2% when excluding refinancing. Demand for loans to construct a home and to buy a new home remains weak.
- Just as there is a divergence within loans, so is there a marked divergence among the States; NSW and WA were responsible for the lift in October. Under-building and a growing shortage in these States are likely to have helped lift demand for loans. The strength in NSW also likely reflects first-home buyers bringing forward house purchases, before stamp-duty exemptions on the purchase of existing homes expire.
- Indeed, this bring-forward effect has contributed to first-home buyers wading back into the housing market. The percentage of first homebuyers as a proportion of all dwellings financed picked up to 17.9% in October, the highest ratio in 18 months. However, this improvement might prove temporary.
- There is also a significant divergence between housing loans for investors and that for owner-occupiers. The value of all housing loans to owner-occupiers rose by 3.5% in the year to October. But the value of all housing loans to investors fell by 9.3% in the same time period.



Number of Owner-Occupier Housing Loans

Housing credit to owner-occupiers remained in the improvement lane. The number of home loans for owner occupied housing rose by 0.7% in October, representing the seventh consecutive increase. On a year ago, housing finance is up 6.3%.

However, while the growth in total loans to owner-occupiers is growing, the growth is being driven primarily by demand for loans for established dwellings and refinancing. Demand remains weak for loans to construct a home and to buy a new home.

Loans for established homes rose by 0.9% in October and by 8% on a year ago.

Refinancing activity fell 1.8% in October but is up a staggering 17.8% in the year to October, having retreated from a near six-year high of 24.8% in the year to September. Refinancing activity has been spurred on by lower and more attractive fixed mortgage rates in recent months. Indeed, the proportion of borrowers fixing their loans has risen from 5.6% in August to 9.9% - the highest proportion since June 2008. Excluding refinancing, owner-occupier home loans increased by 1.2% in the year to October compared with 6.3% when including refinancing activity.

Meanwhile as noted above, loans the construction of dwellings and new dwellings remains weak. Loans for the construction of dwellings fell 1.8% in October and on a year ago are down 3.8%. The annual rate for the loans for the construction of dwellings has not grown since February 2010. Meanwhile, loans for new dwellings rose by only 0.1% in October to be down 5% on a year ago.

Number of Owner-Occupier Housing Loans – by State

The growth in demand for owner-occupier loans is not being felt across the country as a whole. Just as there is a divergence within loans, so is there a marked divergence among the States. Across the States, the overall lift in housing loan numbers to owner occupiers in October was driven by NSW and WA. Each recorded growth of 1.3% in the month.

It is much the same story when looking at the annual rates. NSW and WA are the stand outs across the States. NSW is growing by 15.1% in the year to October while WA is growing at 15.8%.

Under-building and rising deficiencies in these States is spurring a lift in demand for housing loans. The strength in NSW might also reflect first-home buyers bringing forward house purchases, after the NSW State government announced the end to the stamp duty exemptions on the purchase of existing homes for first homebuyers from 1 January 2012.

The South Australian market posted a 1.3% fall in October but is largely flat this year. The Victorian market meanwhile has been weighed down by a significant increase in new housing supply coming on to the market; it fell 1.6% in October and is up only 0.2% in the year to October. Queensland fell 1.6% in October and is down 5% on a year ago; indeed, the annual rate has been contracting now since late 2009.

First-home Buyers

Demand from first-home buyers is recovering from a very low level. The percentage of first homebuyers as a proportion of all dwellings financed picked up to 17.9% in October, the highest ratio in 18 months. The ratio had been as low as 14.9% in February 2011.

The improvement suggests that the first-home buyer market has mostly worked through the shortfall in prospective first-home buyers after the pull-forward effect from the First-Home-Owners-Grant (FHOG) Boost Scheme.

A recovery in first-home buyer numbers will improve liquidity in the housing market by supporting the market into which upgrader and downsizers can sell their existing properties. We see this as the first step in a more broad-based and resilient recovery.

However, some of the improvement in first-home-buyer numbers could be temporary, driven by the stamp duty changes in NSW.

Value of All Loans

The value of all loans fell by 1.2% in October and by 0.7% in the year to October. There is a significant divergence between housing credit for investors and that for owner-occupiers. The value of all housing loans to owner-occupiers rose by 3.5% in the year to October. But the value of all housing loans to investors fell by 9.3% in the same time period.

Investor housing loans has been weak since August 2010 while a recovery in owner-occupier housing loans has been in place since April 2011.

During the month of October, however, the value of loans (as opposed to the number discussed above) fell for both investors and owner occupiers, by 5.5% and 1.2%, respectively.

Housing Outlook

Housing finance remains on the improvement path. Today's data pre-dates the rate cuts from the Reserve Bank in both November and December. These rate cuts are likely to give another shot in the arm for the demand for housing. However, the crisis in Europe and the accompanying turmoil in financial markets are hampering confidence among households and are likely to dent the recovery in housing finance. Further, housing affordability remains stretched, offsetting the positives of relatively low unemployment and a growing shortage of homes nationally.

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