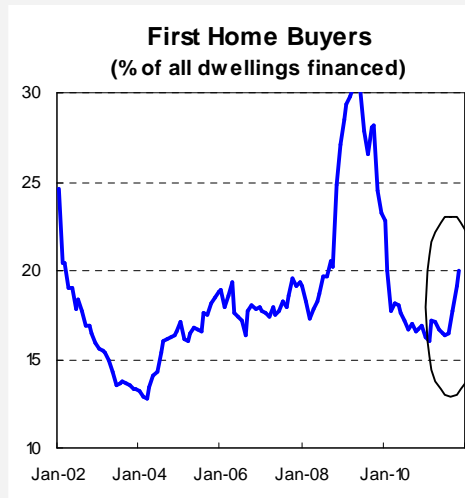
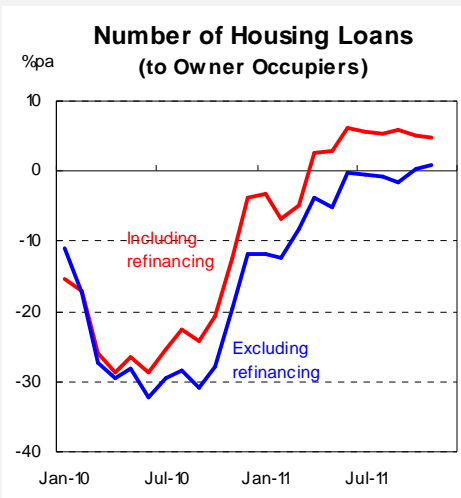


DATA SNAPSHOT

Housing Finance: Deeper Signs of Recovery

Monday, 16 January 2012

- Housing finance is showing deeper signs of recovery. The recovery that began in April last year was largely due to a substantial lift in refinancing activity but in recent months housing finance excluding refinancing has improved more markedly.
- The number of home loans to owner-occupiers rose by 1.4% in November, the eighth straight increase, and excluding refinancing rose by 2.5% for the second straight rise.
- NSW and WA are leading this recovery while Victoria is the laggard.
- First-home buyer activity lifted further with the proportion of all dwellings financed by first-home buyers rising to 20% - the highest since early 2010. The improvement in first-home buyers will aid the housing recovery by improving housing market liquidity.
- The proportion of all loans that were fixed rose to 11.1% in November, the highest since June 2008. We still see an opportunity for home borrowers to fix their loans.
- While the trend in total housing loans is an improving one, there are yet few signs of improvement evident in construction activity. Loans for construction continued to fall.
- Today's data also shows that the divergence between loans for owner-occupiers and investors is intact; investment loans remain weak but owner-occupier loans are rising.
- We see few implications from today's housing data for the RBA's next meeting in February. We still expect another rate cut to be delivered at this meeting.



Number of Owner-Occupier Housing Loans

The trend in housing loans to owner-occupiers continued to improve. The number of home loans for owner-occupied housing rose by 1.4% in November, representing the eighth consecutive increase. On a year ago, housing finance is up 4.6%, down from 5.1% in October.

The promising aspect of the recovery revealed in today's data is that the improving trend is occurring outside of refinancing activity. Housing loans to owner-occupiers excluding refinancing rose by 2.5% in November and 1% in the year to November – both representing the second consecutive improvement.

Up until recently, much of the recovery in housing lending had been driven by sharp increases in refinancing activity. Over April to September 2011, refinancing activity lifted by 28.4% and accounted for 71.7% of the lift in all loans. But over October-November, refinancing activity

has retreated 3.1%.

In the month of November, refinancing fell 0.6%. Loans to construct a dwelling also fell in the month by 0.4% - highlighting that while housing lending is improving, there are yet few signs of improvement evident in construction activity.

Driving the overall increase in housing finance in the month were loans for established dwellings and new dwellings; these categories lifted by 1.6% and 1.9%, respectively.

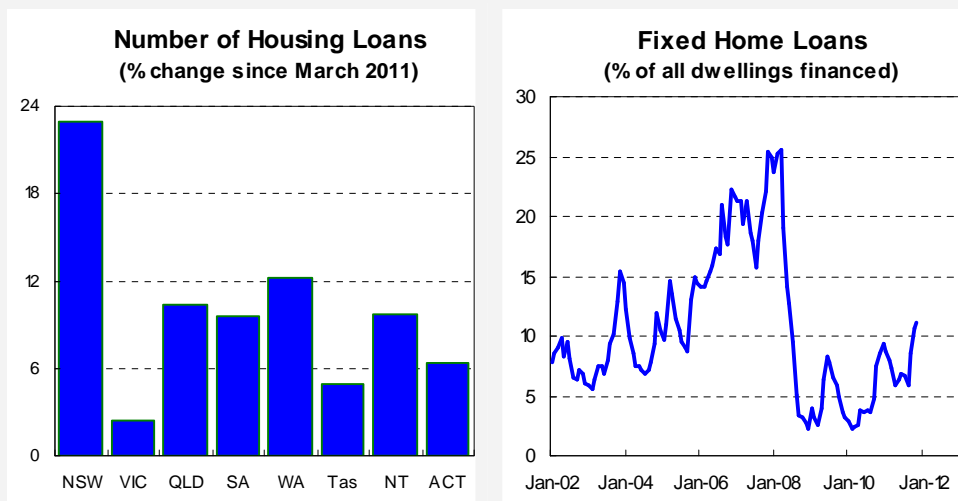
The rate cut in November and the prospect of another in December likely assisted the improvement in housing lending. Certainly, the proportion fixing their loans increased - to 11.1% - the highest since June 2008.

Average fixed-mortgage rates have fallen 110bp to 6.4% to November 2011, from the 2011 peak of 7.50% in February 2011. One can argue that now still offers a good opportunity for borrowers to consider locking in rates.

Another element of today's data that suggests the housing loan recovery is deepening is the proportion of first-home buyers entering the housing market. The percentage of first homebuyers as a proportion of all dwellings financed picked up to 20.0% in November, the highest ratio since early 2010.

A recovery in first-home buyer numbers will add to overall demand for housing and improve liquidity by providing a larger market for upgraders and downsizers to sell their existing properties. This is an important step in a more broad-based and resilient housing recovery.

However, some of the improvement in first-home-buyer numbers could be temporary, driven by the stamp duty changes in NSW. Certainly, there was a strong increase in loans in NSW in November and that might support this notion.



Number of Owner-Occupier Housing Loans – by State

All States have shared in the recovery in housing, but NSW and WA have led the charge. Since March 2011, housing lending has risen by 23% in NSW and by 12.2% in WA. These States are among the States with the greatest housing shortage, particularly NSW where the shortage can be described as acute.

Victoria has experienced the weakest recovery with loans up only 2.3% over the same time period. A sizeable increase in housing supply in Victoria might be affecting the size of the recovery in Victoria.

In the month of November itself, increases in housing lending were recorded in ACT (+4.4%), NSW (+4.2%), Tasmania (+3.9%), WA (+0.9%) and QLD (+0.9%). Decreases were recorded in

VIC (-0.2%), South Australia (-0.3%) and NT (-0.3%).

Value of All Loans (i.e. to Owner Occupiers and Investors)

The value of all loans rose by 2.1% in November but is up 0.3% in the year to November.

There remains a significant divergence between the underlying trend for housing credit for investors and that for owner-occupiers.

The value of all housing loans to owner-occupiers rose by 1.8% in the year to November and a recovery has been in place since April 2011.

But the value of all housing loans to investors fell by 2.9% in the year to November and the annual percentage change has been in negative territory since August 2010.

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

Housing Outlook

The recovery in housing lending is likely to strengthen in coming months and we expect that it will help lead to a stabilisation of house prices in the first half of this year.

The November rate cut likely boosted November's lending numbers and we expect that December's rate cut will provide another shot in the arm. However, the strength of the recovery in housing lending might be capped by caution due to the woes in Europe, stretched housing affordability and a drift higher in the unemployment rate.

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