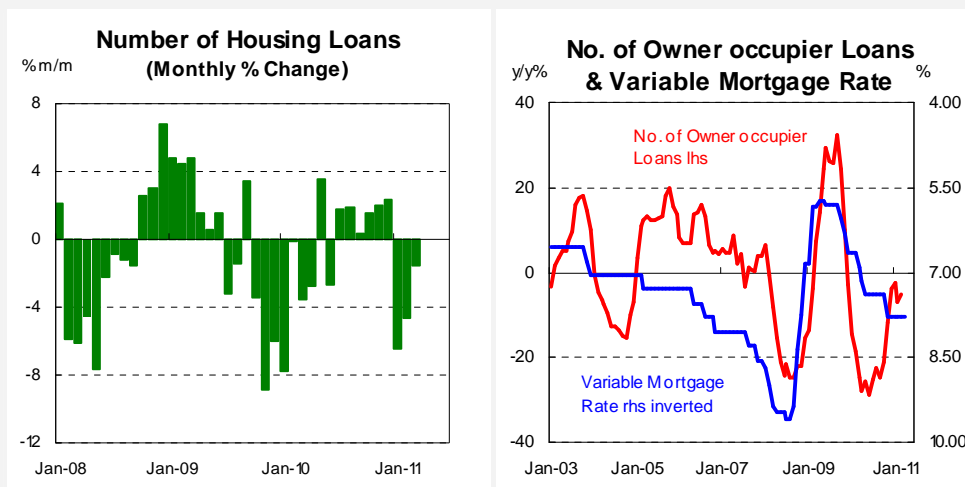


DATA SNAPSHOT

Housing Finance – Putting on the Brakes

Monday, 16 May 2011

- The number of home loans for owner occupied housing unexpectedly dropped by 1.5% in March and followed two consecutive monthly declines. On an annual basis, new loans were 5.0% lower over the year to March.
- New loans for construction fell 1.1%, indicating further crimping of housing supply, and bad news for Australia's housing shortage.
- The effects of the Queensland floods continued to influence the data with new loans in Queensland falling by 2.4%.
- Although today's data is somewhat muddled by the impact of the Queensland floods, it indicates some softening in housing demand under the weight of low affordability. The RBA's current focus appears to be about the inflation outlook with underlying inflation expected to exceed their 2-3% target in 2013. We continue to expect a rate hike soon, with a possibility the RBA could move as soon as June.



The number of home loans for owner occupied housing unexpectedly dropped by 1.5% in March and followed two consecutive monthly declines. This contrasts with our own and consensus expectations of a 2.0% rise. The surprising fall suggests housing demand has weakened over the beginning of this year. The number of new loans issued in March was the lowest since February 2001. On an annual basis, new loans were 5.0% lower over the year to March.

The decline was driven by falls in loans for construction (-1.1%), purchase of established dwellings (-1.8%), and refinancing (-3.0%). Negative growth in loans for new construction indicates further crimping of housing supply, and bad news for Australia's housing shortage. On a year-on-year basis, this declined by 17.2%. Housing finance for the purchase of new dwellings, however, rose by 2.4%, although new loans in this category is still very weak, and is down 14.2% over the year to March.

A breakdown of the states shows that the Queensland floods continued to hamper demand for new loans in March falling by 2.4%. Loans also fell in Victoria (-0.7%), South Australia (-3.0%), Tasmania (-0.7%) and ACT (-4.1%). Positive increases were posted in NSW (1.5%), WA (2.1%) and NT(2.7%).

On a more positive note, first homebuyers increased to 16% from 14.9% of all dwellings

financed, the highest in 9 months. This could be likely in response to the recent stabilising of house prices.

Additionally, investors appear to be responding to stabilising house prices, with the value of investor loans for investor housing rising by 2.1% March. With rents also rising, improved yields are supporting investor demand.

Fixed rate loans declined to 6.8% of owner-occupier loans in March from 7.3% in February amid expectations increase of an RBA rate hike.

Although housing demand does appear to be weakening, today's data is somewhat muddled by the impact of the Queensland floods. Some of the recent drop off in housing finance throughout Q1 is as a result of flood disruptions and will be largely temporary. Further, demand for loans should pick up as rebuilding efforts begin and strong population growth will also be supportive of housing demand. That being said, low housing affordability is likely weighing on house purchases with the housing market cooling from last year. In particular, the recent RBA rate hike in November appears to be acting to crimp demand.

The RBA has said it will look through disruptions as a result of the flooding, and in line with our own forecasts expects a contraction in Q1GDP. Further, a greater risk for the RBA is the significant pick-up in mining investment and its potential to exert pressure on wages and other costs. Its current focus appears to be about the inflation outlook with underlying inflation expected to exceed their 2-3% target in 2013. We continue to expect a rate hike soon with a possibility the RBA could move as soon as June.

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