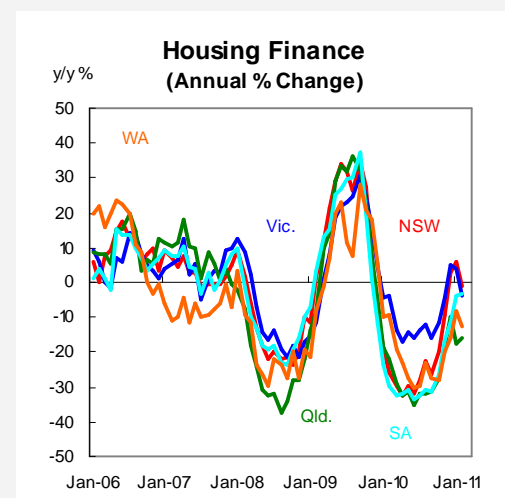
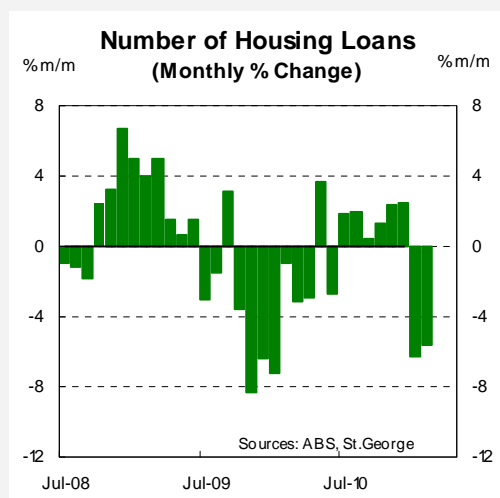


DATA SNAPSHOT

Housing Finance – Shifting Lanes?

Wednesday, 6 April 2011

- Finance for owner occupied housing was weaker than consensus expectations, falling 5.6% in February. This follows a decline of 6.3% in January and leaves the annual rate down 7.2% for the year to February.
- Housing finance for the purchase of new dwellings slumped 12.0% for the month, and financing for the purchase of established dwellings fell 6.0%. Meanwhile, housing finance for construction eked out a 1.0% gain in February.
- The decline in housing finance reflects a sharp fall in refinancing, leaving housing finance excluding refinancing down a smaller 3.8% in February.
- Given the flood impact on housing finance which was certainly evident in January, the RBA will likely adopt a 'wait and see' approach to economic data. However, the expected boost to incomes and investment from the mining boom and high terms of trade means the RBA is likely to continue raising interest rates later this year.



Housing finance fell 5.6% in February, close on the heels of a larger decline in January. This is in contrast to the second half of 2010, when a run of moderate increases in housing finance was seen. The flooding in January (in Queensland as well as parts of NSW and Victoria) and a late reaction to the November interest rate rise from the RBA clearly weighed on housing finance in the first couple of months of 2011.

The decline in housing finance reflects weakness in financing for the purchase of new dwellings (-12.0%). This is the third consecutive monthly decline larger than 10%, leaving financing for the purchase of new dwellings down 20.2% for the year, and highlights the lack of supply in the Australian housing market.

Finance for the purchase of established dwellings fell 6.0% in February, and follows a similar size drop in the previous month. For the year, finance for the purchase of established dwellings slipped back into negative territory in February (-3.6%), after posting a small gain in annual terms in January.

On a somewhat brighter note, housing finance for construction rose 1.0%, after a sharp fall in January. Housing finance for construction has shown small gains in six of the last seven months (with January's 10.1% decline breaking the positive run). However, earlier weakness puts housing finance for construction down 25.7% for the year to February, although this

compares to some annual readings less than -30% in the second half of 2010.

By State, there was a sharp divergence in housing finance, although all states and territories showed declines for the month. The worst performers were Tasmania (-13.7%), Northern Territory (-11.4%) and NSW (-10.1%), while Queensland showed the smallest decline of 0.5%, following on from a severe 15.7% decline in January in the wake of the floods.

First-home buyers took a back seat to up-graders in February, with first home buyers as a proportion of all housing finance falling to 14.9% in February, from 15.2% in January. This was the lowest proportion since June 2004, well before the introduction of the First Home Owner Boost. Fixed loans as a proportion of all new loans slipped from their recent highs, to 7.3% in February, from levels over 8% in each of the previous three months.

Investor housing finance was less weak than owner-occupied housing finance in February, falling 2.3% in value terms, compared to a 4.8% decline for owner-occupiers.

Overall, it is too early to gauge the underlying trend in housing finance, given the impact of the floods. The RBA will look through any flood disruption in the housing finance numbers. As the RBA has acted pre-emptively and is ahead of the curve in raising interest rates, it has the room to 'wait and see' where the data is pointing. However, given the RBA's ongoing focus on the mining boom and terms of trade, and the flow-on effect to incomes and the upcoming investment boom, the RBA is expected to raise interest rates further, most likely in the second half of this year.

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