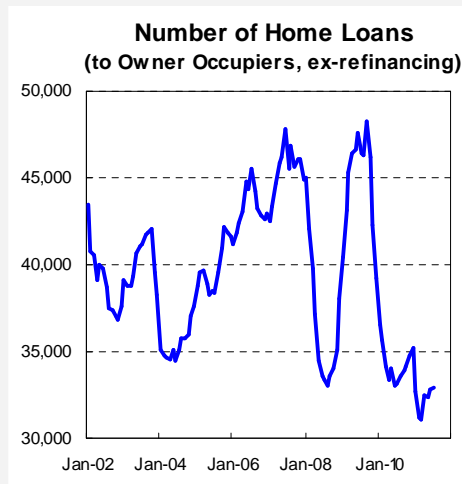
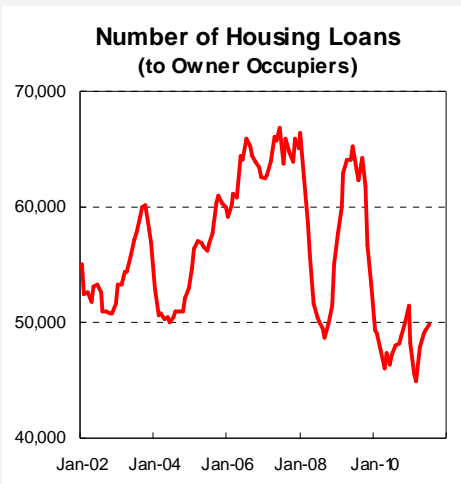


# DATA SNAPSHOT

## Housing Finance – Refinancing in Vogue

Tuesday, 6 September 2011

- The number of home loans for owner occupied housing rose by 1.0% in July, the fourth consecutive monthly increase. However, the detail shows a less positive story. The number of loans to owner-occupiers remains at low levels historically.
- The pick-up in recent months is partly owing to refinancing becoming in vogue, which rose by 2.5% in July. Over the four months to July, refinancing has surged 22.2%, the largest four-monthly increase since November 1999. Excluding refinancing, the recovery in owner-occupier loans is less convincing. Home loans ex-refinancing rose by 0.3%, and are down 0.6% over the year to July.
- Across different States, NSW appears to be driving the recovery, rising by 1.5% in July to be 8.5% over the year.
- Despite the up-tick in recent months, housing finance is likely to remain subdued. The housing sector remains one of the weak spots in the domestic economy, along with other sectors that are being squeezed by the high Australian dollar.



### Number of Owner Occupied Loans

The number of home loans for owner occupied housing rose by 1.0% in July, the fourth consecutive monthly increase. This took the annual rate to 5.4%, and is showing a pick up in new owner-occupier loans in recent months. However, the detail shows a less positive story. The number of loans to owner-occupiers remains at low levels compared with historically. (see chart above).

The pick-up in recent months is partly owing to refinancing, which rose by 2.5% in July. Over the four months to July, refinancing has surged 22.2%, the largest four-monthly increase since November 1999, likely as mortgage holders are likely shopping around for better deals. Excluding refinancing, the recovery in owner occupier loans is less convincing; home loans rose by 0.3%, and are down 0.6% over the year to July.

That being said, purchase of established dwellings has also picked up. They rose by 1.3% in July, and have also seen increases for four consecutive months.

The breakdown also showed a 0.8% drop in construction of dwelling and a 1.0% fall in the purchase of new dwellings, indicating dwelling construction is likely to remain subdued.

Across different States and Territories, NSW appears to be driving the pick up, rising by 1.5% in July to be 8.5% over the year. Queensland is showing tentative signs of rebounding after the floods, with loans rising by 2.3% in July. Further, June's 0.7% decline was revised up to be flat

over June. However, loans in Queensland are still down 4.4% over the year to July.

Owner-occupier loans were higher for Tas (2.0%) and ACT (0.3%), but SA (-3.9%), WA (-1.4%) and NT (-0.6%) registered declines. Meanwhile, new owner-occupier loans in Victoria were flat.

#### Value of Total Loans

The value of total loans rose by 1.6% in July and is 0.9% higher over the year to July.

The value of owner-occupier home loans rose 1.4% and is up 5.9% on a year ago. In contrast, investor demand remains subdued, despite rising rents. Although investor housing rose by 1.9%, this only partially offset a 4.2% drop in June. Over the year to June, the value of loans for investor housing is still down 9.0%.

The percentage of first homebuyers of all dwellings financed remained steady at 15.2%, after slipping to a four-month low in June amid low affordability. The percentage of fixed rate loans of all dwellings financed edged lower to 6.3% in July after jumping to 6.5% in June as declines in fixed interest rates attracted homebuyers to fixed rate loans.

#### Housing Outlook

The data has shown some pick up in recent months; however, growth in housing finance is likely to remain subdued. Caution by households suggests they remain unwilling to take on new debt. Further market turmoil could further dent confidence and possibly lead to further caution by households. Weak growth in loans for new construction indicates that dwelling construction is likely to remain subdued. Thus, the housing shortage is likely to continue. This should place a floor on house prices.

On a positive note, rising rents should eventually drive a recovery in housing led by investor demand. Investors may also begin to turn to housing as an alternative investment to share markets given the sharp increase in market volatility.

#### RBA Outlook

The housing sector remains one of the weak spots in the domestic economy, along with other sectors that are being squeezed by the high Australian dollar and continuing household caution. Extreme volatility in financial markets and uncertainty about the global growth outlook are also weighing on RBA decision-making. However, the RBA is still worried about the inflation outlook. On balance, we think the RBA is likely to keep rates on hold for the remainder of this year.

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