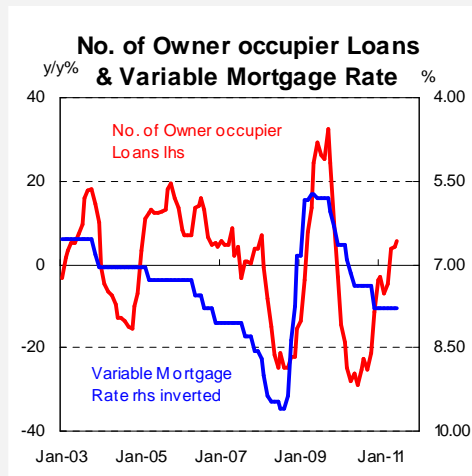
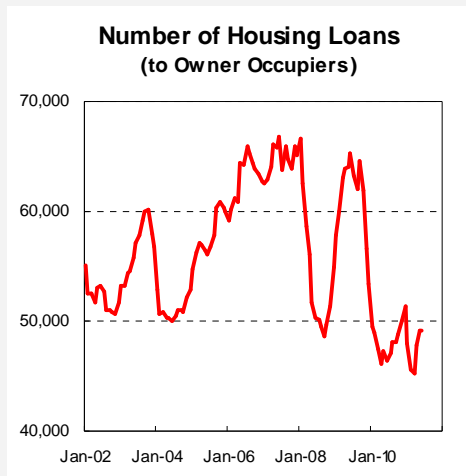


DATA SNAPSHOT

Housing Finance – Taking a Step Sideways

Wednesday, 9 August 2011

- Housing finance took a step sideways in June. The number of home loans for owner occupied housing was flat. Overall, the trend shows there has been some pick up over the past few months. However, the trend is still a weak one and is consistent with soft conditions in the housing market.
- Weak loans for construction of new dwellings continue to point to subdued growth in dwelling starts. Across different States, NSW has seen some recovery in recent months and rose by 1.5% in June. There is likely still some impact from the floods with loans in Queensland staying weak.
- Growth in housing finance is likely to remain subdued and we expect the housing sector to remain weak over the next year.
- The housing sector remains one of the weak spots in the domestic economy. The RBA's attention has turned to global developments and the uncertainty in financial markets, which has escalated over the past week, will weigh heavily on its decision. The longer financial market turmoil persists, the greater the chance that the RBA will look to cut rates.



Number of Owner Occupied Loans

The number of home loans for owner occupied housing was flat in June, following a pick up over the previous two months. Over April and May, owner-occupied housing rose by 8.8%, partly reflecting a rebound following the flood impact in Queensland. Overall, the trend shows there appears to be some pick up in new owner-occupier loans over the past few months. However, this trend is still a weak one and is consistent with soft conditions in the housing market. Over the year, new owner-occupier loans are up 5.7%, but the number of loans remains quite low.

The breakdown shows a 0.7% increase in the purchase of new dwellings, which was offset by a 0.8% decline in loans for the construction of new dwellings. Over the year to June, loans for construction of new dwellings are down 1.1% and continue to point to subdued growth in dwelling starts. Finance for the purchase of established dwellings was soft rising by 0.1%. Much of the pick up in new loans over April and May was largely due to a jump in refinancing of established homes, which pulled back 2.6% in June.

Across different States, there has been a recovery in loans in NSW in recent months and rose by 1.5% in June. South Australia (1.5%), WA (0.8%), ACT (1.4%) and NT (1.5%) were also higher. But Queensland (-0.7%) and Tasmania (-1.1%) registered declines. There is likely still some impact from the floods with loans in Queensland being rather weak. New owner-

occupier loans in Victoria were flat.

Value of Total Loans

The value of total loans fell by 1.4% in June and is down 0.5% over the year to June. Investor housing dropped 4.4%, as rising rents are yet to significantly attract investor demand. Over the year to June, the value of loans for investor housing is down 12.3%.

First homebuyers slipped to 15.2% of all dwellings financed, the lowest in four months. The number of fixed rate loans rose to a three-month high of 6.5% of all dwellings financed, as declines in fixed interest rates are attracting homebuyers to fixed rate loans.

Further declines in the fixed rates for home loans should relieve some pressure off the cost of financing. A number of banks this week have cut their fixed mortgage rates. However, this is unlikely to spur demand significantly.

Housing Outlook

The data has shown some pick up in recent months; however, growth in housing finance is likely to remain subdued. The deepening caution by households suggests they remain unwilling to take on new debt. On the positive side, rising rents should eventually drive a recovery in housing led by investor demand.

RBA Outlook

The housing sector remains one of the weak spots in the domestic economy and was a likely factor in the RBA keeping rates on hold at their meeting in August. The RBA's attention has turned to global developments and the uncertainty in financial markets, which has escalated over the past week, will weigh heavily on its decision. The RBA will still likely be worried about inflation, however, in our view, the balance of risks are beginning to tilt to the downside. The substantial falls in the share market will have a dampening impact on already fragile confidence, which could see economic activity weaken. The longer financial market turmoil persists, the greater the chance that the RBA will look to cut rates.

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