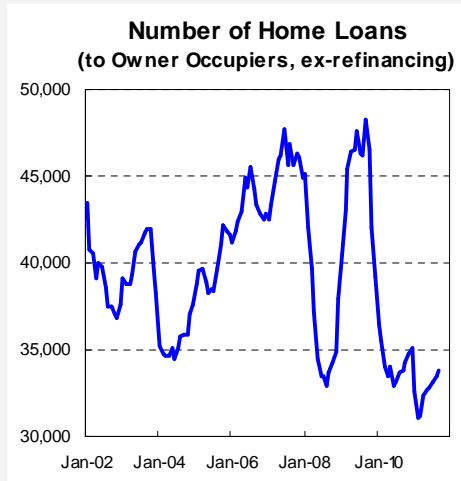
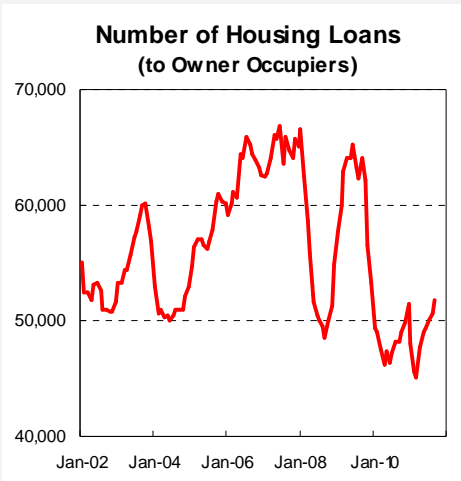


DATA SNAPSHOT

Housing Finance – Refinancing Redoubles

Wednesday, 9 November 2011

- The number of home loans for owner occupied housing rose by 2.2% in September, the sixth consecutive monthly increase. However, the overall trend in loans to owner-occupiers remains soft on a historical comparison.
- The pick-up in loans over the past six months is due, in part, to strong growth in refinancing of loans for established dwellings. Refinancing rose 4.6% in September. Speculation in the media about the increasing likelihood of a rate cut from the RBA (delivered in early November) has seen fixed interest rates decline and more owner occupiers opt for fixed rate loans.
- The monthly increase in NSW was the strongest in 9 months. This might reflect first homebuyers bringing forward house purchases, after the NSW State government announced changes to the stamp duty concessions. The percentage of first homebuyers of all dwellings financed picked up to 16.4% in September, the highest in 16 months.
- Despite the up-tick in housing finance recent months, householder caution is likely to thwart a strong recovery in housing finance, although the prospect of another interest rate cut from the RBA should see continued strength in refinancing in coming months.



Number of Owner Occupied Loans

The number of home loans for owner occupied housing rose by 2.2% in September, the sixth consecutive monthly increase. This took the annual rate to 7.6%. This is the strongest annual rate since November 2009. However, the detail shows the number of loans to owner-occupiers remains at low levels on a historical comparison (see chart above), despite having picked up in recent months.

The gains in housing finance over the past six months were due, in part to refinancing, which gained 4.6% in September. Over the past six months, refinancing has jumped 29.8%, the largest six-monthly increase since September 1996. Speculation in the media about the increasing likelihood of a rate cut from the RBA (which was delivered in early November) saw fixed interest rates decline, leading to increased refinancing by owner-occupiers.

Excluding refinancing, owner-occupier home loans increased 1.0% in September, but are still down 0.2% for the year to September. The breakdown also showed a 0.3% decline in finance for the construction of dwellings and a 0.7% fall in financing for the purchase of new dwellings, indicating dwelling construction is likely to remain subdued.

Housing Finance by State

Across different States and Territories, SA (7.6%), ACT (5.9%) and NSW (3.9%) drove the gain in owner-occupier loans in September.

The monthly increase in NSW was the strongest in 9 months. This might reflect first homebuyers bringing forward house purchases, after the NSW State government announced the end to the stamp duty exemptions on the purchase of existing homes for first homebuyers from 1 January 2012. On an annual basis, owner-occupier loans are up 12.8%, the strongest annual pace in almost 2 years.

Owner-occupier loans in Queensland were subdued (-0.2%), and continue to reflect sluggishness in Queensland's housing sector.

Among other States, owner-occupier loans rose in WA (0.5%), but Victoria (-0.2%), Tasmania (-2.1%) and NT (-1.7%) recorded declines.

Value of Total Loans

The value of total loans rose by 1.0% in September and is 4.1% higher over the year to September.

The breakdown showed the value of owner-occupier home loans rose 0.7% and is up 6.7% on a year ago. Meanwhile, investor demand is showing small signs of improving, rising by 1.9% in September, the third consecutive monthly increase. Investors have likely been encouraged by improved rental yields and the prospect of interest rate cuts. However, annual growth is still subdued. Over the year to September, loans for investor housing fell 1.3%.

The percentage of first homebuyers as a proportion of all dwellings financed picked up to 16.4% in September, the highest in 16 months. Some of this pick up in first homebuyers could be temporary after the stamp duty changes in NSW (see above). The percentage of fixed rate loans of all dwellings financed jumped from 5.6% to 7.9% in September, the highest in 8 months, 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. Households remain cautious, suggesting they will be somewhat reluctant to take on new debt. Further financial market turmoil could further dent confidence and possibly lead to further caution by households, although the recent interest rate cut from the Reserve Bank of Australia (RBA) should provide some support for the housing sector. 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.

RBA Outlook

The housing sector remains one of the weak spots in the domestic economy, with household caution and the moderation in house prices seen this year negatives for the sector. The rate cut from the RBA delivered last week could assist in drawing buyers back into the housing market, although continued concerns about the Euro zone debt crisis and volatility in financial markets will likely continue to weigh on sentiment. The lower than expected inflation result in Q3 opened the door for a rate cut from the RBA and is likely to give it room to lower interest rates further, if needed. We believe the RBA will cut interest rates again in February next year, given ongoing householder caution and concerns about the Euro zone debt crisis.

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