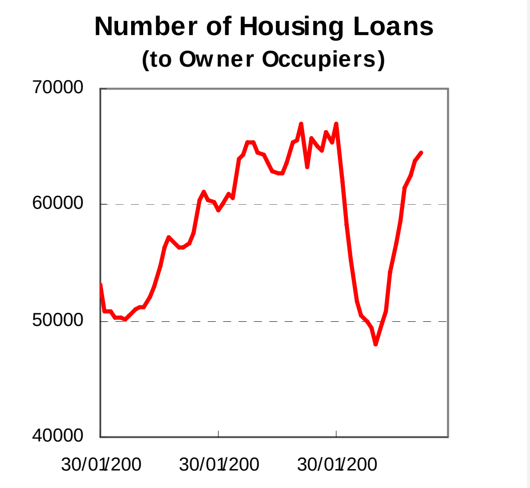
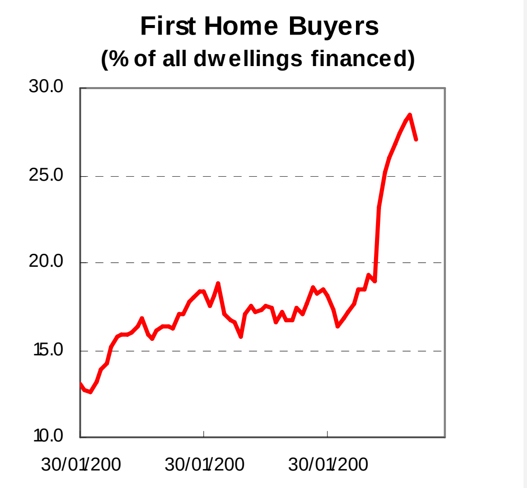
DATA SNAPSHOT

Housing Finance – June 2009

Monday, 10 August 2009

- The *number* of loans to owner-occupiers rose by 1.1% in June to its highest level since March 2008. It also marked the ninth consecutive month of gains. Indeed, owner-occupier loans are 32.4% higher since reaching a low point in September last year.
- Lending for new construction to owner-occupiers is up 61.1% from the lows struck in late 2008. It suggests that residential construction should begin to recover before the middle of next year, and possibly sooner depending on credit conditions.
- The *value* of new owner occupied home loans rose by 1.0% in the month. It was also the ninth consecutive month of gains. In contrast, the value of home loans to investors fell by 1.8%, but it follows firm gains over the previous three months.
- For the first time since last October, the market share of lending to first-home buyers fell. It may be the first indication that first-home buyer activity has peaked.





Housing finance continues to be boosted by robust population growth, a shortage of housing, low vacancy rates, rising rents, historically low mortgage rates and the first-home owners' boost.

The increase in the number of loans made to owner-occupiers in the month was driven by finance for the construction of dwellings (+2.8% m/m and 55.4% y/y). This segment has now recovered 61% from its 2008 lows and suggests that residential construction will begin recovering before the middle of next year; a recovery could occur sooner than this, but it will depend on credit conditions.

The number of loans to owner-occupiers for the purchase of established dwellings was also up in the month (+1.0% m/m and +26.0% y/y), but finance for the purchase of new dwellings fell slightly (-0.2% m/m and +47.4% y/y).

The value of new owner occupied home loans rose by 1.0% in the month. It was also the ninth consecutive month of gains. In contrast, the value of home loans to investors fell by 1.8%, but it follows firm gains over the previous three months.

The proportion of first-home buyers taking out a home loan continues to take up almost a third of the total. But it fell for the first time since October last year. The proportion of first-home buyers as a percentage of all home loans fell slightly from 28.5% to 27.1% in June.

We expect first-home buyers to continue to show a healthy interest in the housing market, but the dip in market share may be the first sign that first-home buyer activity has peaked. The First-Home Owners' Boost (FHOB) will be pared back at the end of September and ceased entirely by end of this year. The inflow of first-home buyers into the housing market could be tempered as a result.

The proportion of homebuyers opting for fixed rate loans increased for the third consecutive month to 8.0% and is up considerably from the record low of 1.9% recorded in December 2008. It is now at the highest level since July last year and has likely moved higher amid market expectations and news reports that the RBA may start raising rates next year.

We do not think today's data will change the market's view for the near term path of monetary policy. Financial markets are currently fully priced for a 25bp rate hike from the RBA in November. Our core view is that the first rate hike will come in Q1 next year, but a rate hike before the end of this year cannot be completely ruled out.

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