

Australian housing finance: Declines as stimulus reduced

Jan finance (no.): -7.9%; (mkt 2.0%, WBC 2.0%)

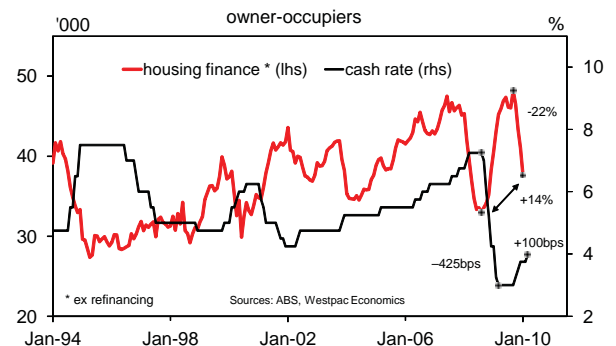
- Housing finance to owner-occupiers declined for a fourth consecutive month, falling 7.9% in January.
- The reduction of stimulus is understandably dampening demand for finance. The RBA began normalising interest rates in October and the additional bonus under the Federal Government's First Home Buyer (FHB) scheme was phased out between October and December.
- The impact on the housing sector is material and is an argument for the RBA shifting to a "pause" during this year. Finance approval numbers to owner-occupier are now down 21% in four months. Further near-term declines are likely.
- Weakness amongst owner-occupiers was broadly based in January, with FHBs -10.2% and Upgraders -5.8%.
- The FHB market has now adjusted significantly, with approval numbers down 43% since May 2009 to be up only 14% since August 2008.
- Upgraders have been impacted by the heat coming out of the FHB market and rising interest rates. Finance numbers to Upgraders in January were down 13% from September.
- It is also significant to highlight that the housing cycle is evolving - as was expected. As owner-occupier finance retreats from historic highs, investors are returning to the market in greater numbers. Investor finance increased in four of the last five months to be up 28% from the February 2009 low.
- Even with this recent decline in finance, a housing construction upswing is assured over the first half of 2010. Finance for the construction of new dwellings, down 3.9% in the month, is still up 69% from August 2008.
- If the RBA does pause around mid-2010 as we expect, housing finance could gain a second wind later this year, against the backdrop of strong labour market condition, brisk population growth and pent-up demand for housing.
- We anticipate the Australian economy to sustain momentum through 2010. Notably, the business investment upswing is expected to kick-in from around mid-year.

Value of housing finance: Jan '10

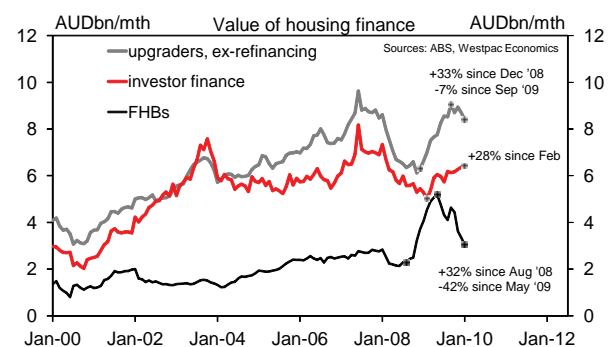
	\$bn	% chg mth	% chg yr
	Jan level	Dec	Jan
Owner-occupiers (no.)	n.a.	-5.1	-7.9
- ex-refinancing (no.)	n.a.	-5.4	-8.2
Owner-occupiers	14.7	-4.2	-5.0
Investors	6.4	1.6	0.9
Total housing finance	21.2	-2.6	-3.3

Sources: ABS, Westpac Economics

Housing finance well off highs



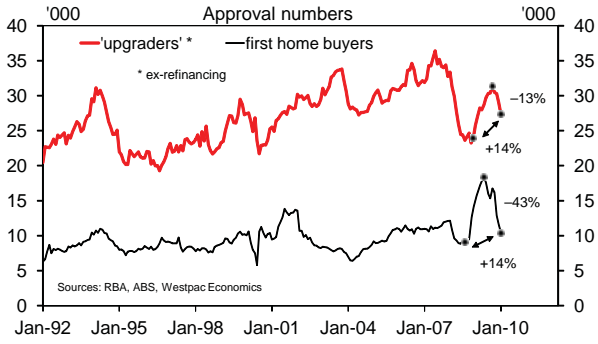
Cycle evolves: Investors returning



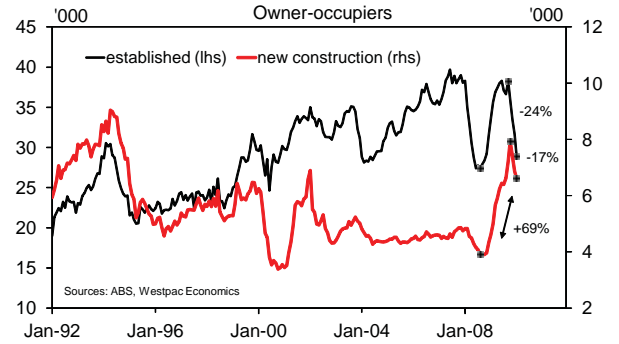
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Owner-occupier finance weakens



New construction finance: +69% from low



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