

# Australian housing finance: signs of resilience

## May finance (no.): 1.9%; (mkt 1.0%, WBC -1.0%)

- Housing finance to owner-occupiers, after seven consecutive falls, posted a surprising rise in May, up 1.9%.
- The detail was more mixed. Finance for new construction weakened, off 2.2% in May and down 35% since October. That points to a hole in the housing construction upswing emerging during the second half of 2011.
- The RBA's rapid fire normalisation continued in May, with the cash rate rising to 4.5%, the 6th hike in 8 months. It's a surprise then that owner-occupier finance increased.
- One factor is that more people are looking to fix, as the banks lower 3 year fixed rates. Ex-refinancing, it is more a picture of stabilisation, with finance up 0.8% in May after a 0.1% fall in April.
- The First Home Buyer market has adjusted to the winding back of government incentives. Lending to FHBs, which edged 0.7% higher in the month, is down 57% from May.
- The Upgrader market showed resilience over the last four months, up 0.5% in May to be down 13% since September.
- The Investor upswing continued, with a 2.6% rise in the month, to be up 35% since the start of 2009. Further gains are likely in response to strong rental income growth.
- As for the owner-occupier market, there are a number of favourable fundamentals, which help to explain recent resilience: a sound banking system, labour market strength supporting household incomes, pent-up demand and strong population growth. However, on the downside, the RBA may be set to move interest rates higher - possibly in August - in response to the ongoing inflation challenge.

The housing finance cycle has evolved over recent months.

In 2009, there was a strong upswing in finance demand in response to historically low interest rates and government incentives to FHBs.

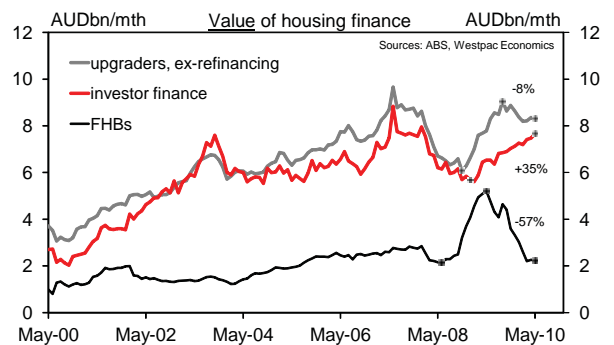
As that stimulus was wound back, demand for housing finance from the owner-occupier market retreated. In particular, the FHB segment lost altitude from unsustainably high levels. That correction appears to be largely behind us. Lending to FHBs edged 0.5% higher in April and a further 0.7% higher in May, to be 57% below the May 2009 peak and 11% below the June 2008 low. The share of loans to FHBs was 16.1% in May, that compares with a 20% share on average since 1991.

### Value of housing finance: May '10

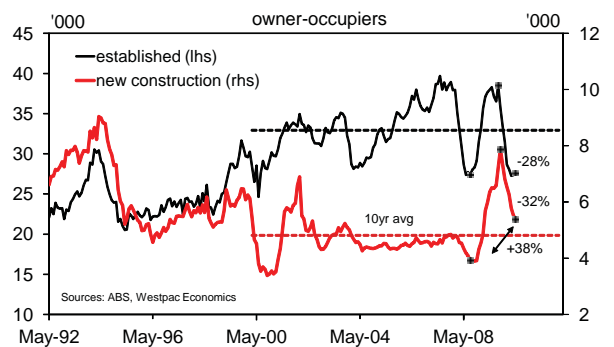
	\$bn	% chg mth	% chg yr		
	May level	Apr	May	Apr	
Owner-occupiers (no.)	n.a.	-1.5	1.9	-25.0	-24.4
- ex-refinancing (no.)	n.a.	-0.1	0.8	-24.1	-24.6
Owner-occupiers	13.7	0.6	-0.3	-18.9	-20.3
Investors	7.7	0.8	2.6	16.0	17.3
Total housing finance	21.4	0.7	0.7	-9.3	-10.0

Sources: ABS, Westpac Economics

### Investors up, FHBs down, Upgraders flat



### New construction finance retreats



The Upgrader market is particularly interesting. The segment weakened over the four months of October to January, falling by 13%. The cooling FHB market and rising interest rates were taking their toll. However, in the four months since then, the Upgrader market has broadly moved sideways.

- The inter-linkage between FHBs and Upgraders is a factor - parts of the Upgrader market are reliant upon strength in the FHB market. As the FHB market was rapidly losing altitude that had an initial negative knock-on effect to Upgraders.

It is a little surprising that the RBA raising rates in March, April and again in May hasn't had a bigger impact to date. One possibility is that households were quick to fully anticipated that the RBA was returning rates to average levels (a process that was clearly signalled by the RBA). At this stage the RBA has not gone beyond that objective.

- It is worth noting that the 3 year fixed mortgage rate moved sharply from 7.15% in September to 7.7% in January, and then peaked only fractionally higher at 7.8% in April, moderating to 7.55% in June.

Another consideration is that the impact of rising interest rates is being offset by strength in the labour market - employment is up 3.3%yr and the unemployment rate fell from 5.8% in August to 5.2% in January, and then edged lower to 5.1% in June.

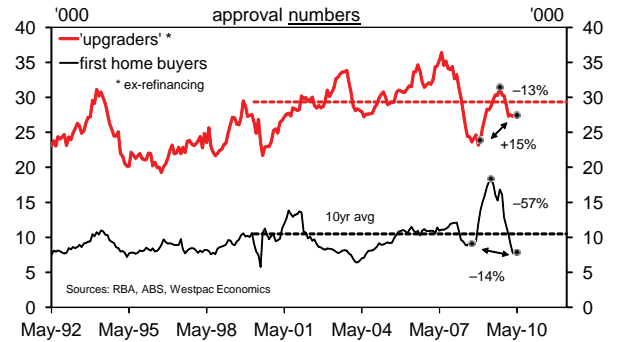
- Upgraders tend to be less interest rate sensitive than FHBs as they draw upon existing housing wealth to limit their borrowing requirement.

State data shows a broad downtrend in owner-occupier finance since last September, albeit a less dramatic fall to date in Victoria. Over the last three months the trend pace decline has moderated, with the exception of WA.

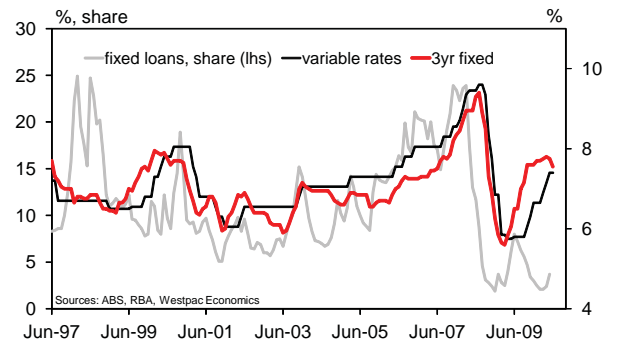
Lending to Investors is, as expected, trending higher in response to some favourable fundamentals - rising house prices, strong rental growth and some easing of finance conditions. Finance to Investors rose 2.6% in the month and has jumped 35% since the start of 2009.

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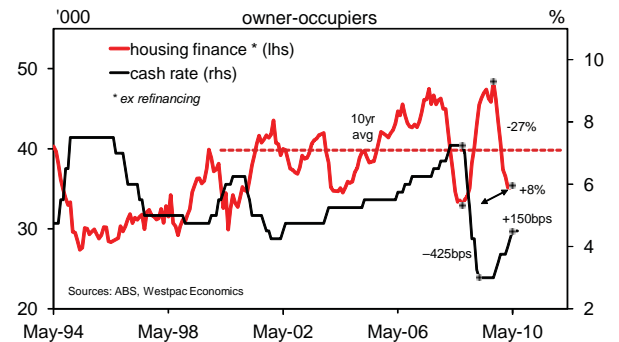
### Owner-occupiers: emerging resilience



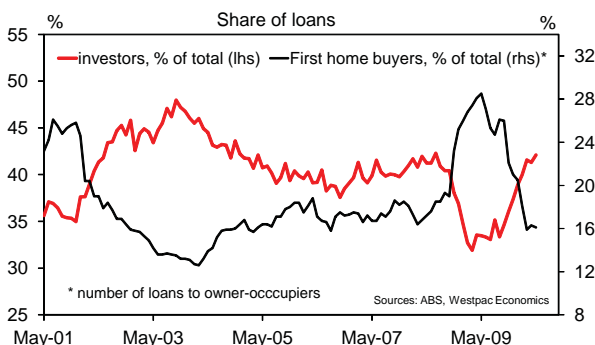
### More look to fix as 3yr rates ease



### Owner-occupier finance sub-par



### Shifting shares: Investors up, FHBs down



### Housing finance: state view

