

House finance commitments ease in June

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Key Points

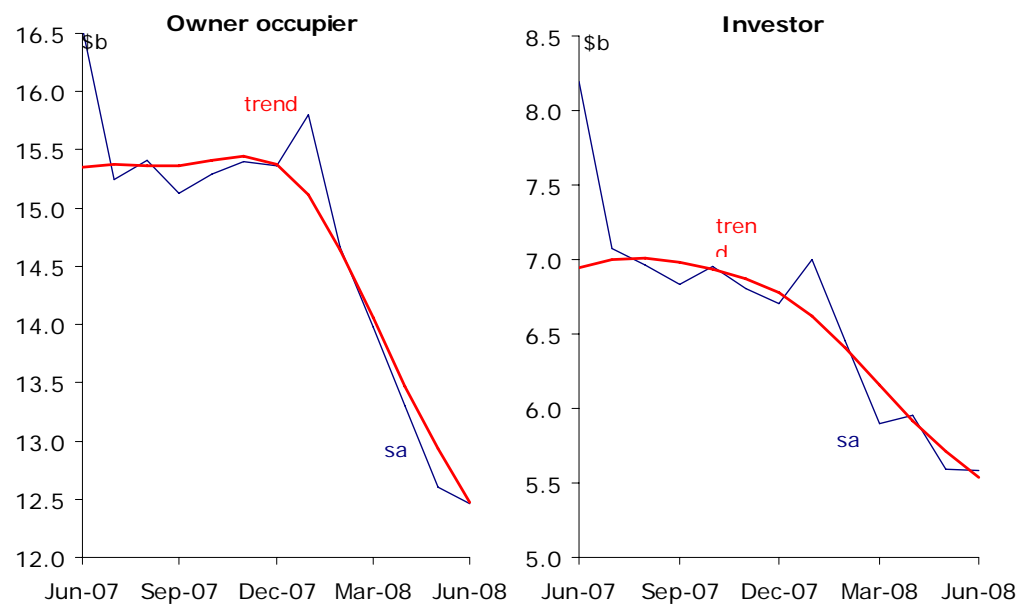
- The *number* of owner occupied housing finance commitments fell by a further 3.7% in June, slumping 24.8% over the year.
- The total *value* of housing finance was down 0.9% in June (27.1% over the year). Within these figures, approvals for owner-occupier housing fell 1.1% and investor loans eased 0.3%.
- Housing finance for first homebuyers rose marginally to 17.6% of total commitments. The proportion of finance at fixed interest rates fell sharply to just 11%.

Key Figures

| | Seas. adj. | Monthly change (%) | Annual change (%) |
|----------------|------------|--------------------|-------------------|
| Number | | | |
| Owner Occupier | | -3.7 | -24.8 |
| Value | | | |
| Owner Occupier | | -1.1 | 24.7 |
| Investor | | -0.3 | -31.9 |

Source: ABS

Figure 1: Housing finance slumps under weight of recent hikes



Source: ABS

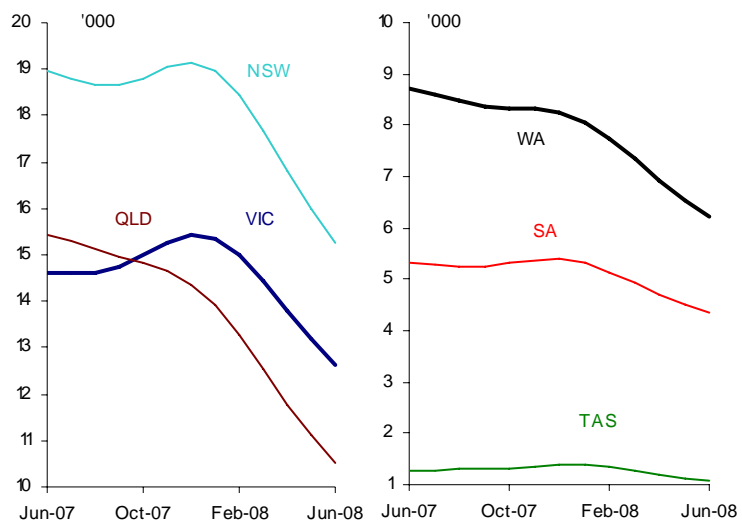
Difficult environment continues to weigh on housing

Housing finance commitments weakened further in June as households struggled to deal with higher interest rates, rents, food and fuel prices. As a result sentiment towards the housing sector has weakened significantly as 142bps worth of mortgage rates hikes over the 12 months to June prompted a significant deterioration of housing affordability. Consequently, house sales activity eased throughout most capital cities with both buyers and sellers remaining wary, further reducing the demand for finance. This is evident in the number of finance commitments for new and established homes falling 43% and 25% respectively. However, unlike much commentary we do not subscribe to their being a strong relationship between approvals and house prices. This has been borne out by June's house price figures with price growth broadly flat in the quarter. Indeed, fall in approvals are prompted by weaker activity which could be interpreted as the market shielding itself from significant falls in prices as less houses transact in a period when price expectations are soft.

Looking forward, some respite for the housing market may be coming with interest rate expectations turning sharply on the back of the RBA statement yesterday. The RBA made it abundantly clear that they have shifted to an easing bias for interest rates. With domestic demand turning, but with upside risks still threatening what remains a high rate of inflation, we suspect that the RBA is looking to address tight financial conditions while still maintaining a restrictive policy setting. Our view is that interest rates may come down as much as 50 bps this year, followed by a pause until mid-2009 at which point the RBA will resume cuts if they are assured that inflation risks have fully dissipated.

Finance commitments for July will most likely be soft with mortgage rates rising in the month. Yet we expect that that the very real prospect of interest rate cuts this year will stem the rate of contraction in housing finance in the months thereafter. With underlying demand for housing very strong we would anticipate a pick up in activity and finance approvals once conditions improve.

Figure 2: Approvals are down across the country



Source: ABS

The number of owner occupied housing finance commitments (in trend terms) fell in *all* states and territories in June. Commitments decreased in NSW (-4.6%), Victoria (-4.2%), Queensland (-5.1%), South Australia (-3.7%), Western Australia (-4.8%), Tasmania (-5.8%), NT (-1.5%) and the ACT (-3.5%).



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