

# Herald Sun

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## Housing finance still struggling

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### **A SLIGHT improvement in home lending in September shows loans have stabilised, but the interest rate rise is likely to discourage expansion, economists say**

Australian housing finance commitments for owner-occupied housing rose 1.3 per cent in September, seasonally adjusted, to 48,333, the Australian Bureau of Statistics said on Wednesday.

The median market forecast was for a 1.2 per cent rise in housing finance commitments in the month.

But that figure is still far below the equivalent lending figure from a year ago.

Total housing finance by value rose 1.0 per cent in August, seasonally adjusted, to \$20.386 billion.

JP Morgan economist Ben Jarman said the most recent consecutive monthly improvement in home loans wasn't surprising.

He said that data reflected a time when the Reserve Bank of Australia (RBA) had left interest rates on hold.

"We think home loans have basically stabilised and the upside from here is probably capped by those rising interest rates," Mr Jarman said.

"We think those rate hike reprieves would have been particularly important for households."

The RBA raised the cash rate to 4.75 per cent at its most recent board meeting on November 2.

Mr Jarman noted that first home buyers continued to make up a low percentage of home loans being taken out.

"Clearly there is still a bit of a hangover from all the activity that happened in 2009, when all those buyers hit the ground over that period," he said.

"But generally it seems in the last few months that investors and owner occupiers have filled that gap.

"The big test going forward is going to be rising interest rates, so the RBA hiking last week will obviously take some of the wind out of the sails here."

Macquarie Group associate economist Ben Dinte said the housing finance commitments were stabilising at a very low level.

"No suggestion of a sharp upswing, it's just stabilising," Mr Dinte said.

"With a second round of interest rates (rises) beginning in November and potentially continuing into 2011, its

unlikely we're going to see housing finance commitments improve considerably in the year ahead," he said.

The latest rise still left the number of loans down 25 per cent from the previous September and down 21 per cent compared with the average of 2009.

The value of all housing loans, including alterations and additions and loans to investors, rose 1.7 per cent in the month but was down by 14 per cent over the year.

Economists expect more rate rises in 2011.

The Commonwealth Bank has raised the interest rate on its variable mortgage products by 45 basis points, almost double the RBA's 25 basis point move.

National Australia Bank, Westpac and ANZ have yet to decide on whether they will lift their rates by more than the RBA's moves.

A 25 basis point rate rise adds about \$50 to the monthly repayments on a 25-year, \$300,000 mortgage.

The RBA would be looking at the housing finance data to get a gauge on how households are reacting to a higher level of interest rates, Mr Dinte said.

"It does tend to provide a leading indicator in building permits and residential construction.

"These are areas the Reserve Bank will want to see stay at relatively subdued levels, given the amount of strength that they expect to be coming through in terms of mining sector investment.

"So, again, it's a story of making room for the mining boom, whereas the Reserve Bank would be happy to see these measures of household activity subdued," Mr Dinte said.

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