

First home-buyers are back in droves

Housing finance; Consumer sentiment

The number of new housing loans rose by 6.4 per cent in December. The average new home loan stood at \$257,400, up 8 per cent on a year ago. The value of construction loans increased by 9 per cent while loans for the purchase of new dwellings rose by 13.3 per cent.

First home buyer interest picked up substantially, with 14,154 contracts being signed in December – up 21.3 per cent on a month ago and the best result since December 2001.

Banks continue to take a greater share of the financing market with the share of new loans hitting a record 33 year high.

Consumers remain rather pessimistic about the current and future economic outlook with sentiment falling by 4.5 per cent to 85.8 in February.

There can be no doubt the rate cuts are working. The latest round of housing finance figures has confirmed a wide-ranging improvement in activity in the housing sector. In fact the latest result is the first time since August 2007 that all lending categories – construction, or purchase of new or existing dwellings – rose in the month. Overall, the total number of new housing loans posted the best result since June 2000 – an encouraging sign that rate cuts and government stimulus were causing budding homebuyers to sign on the bottom line.

Prospective home-buyers are certainly finding the current conditions quite attractive and first home-buyers are appearing in droves. The number of first home-buyers purchasing properties over December rose by over 20 per cent – the best result in 7 years. The additional first home-buyers grant and the substantial saving on stamp duty will ensure similar solid growth in lending over the next few months.

The concerted efforts by the government and the Reserve Bank to stimulate the economy are having the desired effect. And with the potential for rates to ease further over the next few months, it is likely that activity in the housing sector should continue to strengthen. Job security remains the one major concern for budding home buyers. If employment manages to hold up relatively well in coming months, demand for homes should gain significant momentum.

In fact the risk for home buyers is that prices may start to accelerate. The average home loan is up 8.0 per cent on a year ago. Lower interest rates, tight rental market, first home owners grant and rising population growth are boosting demand but supply isn't keeping up, leading to higher prices.

Consumers are starting to factor the reality of a longer and more protracted global recession with sentiment sliding once again. No doubt the continued barrage of bad news on the global front has played its part in keeping consumers nervous.

The February interest rate cuts and the possibility of substantial government handouts have been unable to buffer the considerable level of pessimism, shown by consumers. The possibility of job losses is likely to weigh heavily on the outlook for the economy. With most major economies experiencing recessions, if Australia manages to avoid a recession it will be nothing short of an exceptional result.

If there is one price that consumers can monitor it is petrol, and the substantial fall in the pump prices was behind the 12 per cent pickup in consumer sentiment over November and December. However fuel prices have once again reversed direction, increasing by 13 per cent in the last two months, resulting in consumers feeling much more despondent.

Importantly the rate cuts, handouts by the government and discounting by retailers are making consumers more aware of the buying power in the current environment. The estimate of whether it is a good time to buy a major household item has jumped 13.8 per cent to levels last seen in 2007.

No doubt the Reserve Bank would have been heartened by the improvement in the latest data. However with the global economy remaining in a dire state, and consumers seeming to feel rather pessimistic, further rate cuts and government stimulus will be necessary to support the domestic economy. CommSec expects further rate cuts of at least 50–75 bps in the next two months.

The value of home loans approved but not advanced rose by 1.4 per cent to a record high of \$41.6 billion and stands 10.6 per cent up on a year earlier.

What do the figures show?

Housing finance: The number of owner-occupier housing loans rose by 6.4 per cent in December to 52,974 after rising by 1.8 per cent in November.

Construction loans rose by 9.9 per cent, while the purchase of newly erected dwellings lifted by 15.2 per cent, loans for the purchase of established dwellings rose by 5.6 per cent, helped by a 6.1 per cent increase in refinancing.

The value of new commitments rose by 5.9 per cent in December to \$18.6 billion. Investment loans rose by 2.9 per cent while owner-occupier loans rose by 7.1 per cent.

The average loan stood at \$257,400, up 8.0 per cent on a year ago - the fastest annual rate in 14 months, against the decade average of 7.7 per cent. The average loan by first home-buyers remained steady at \$269,200 in December and stands 16.6 per cent higher than a year ago.

Banks financed 92.3 per cent of all home loans (by value) in December – a record 33 year high.

The index of consumer sentiment fell by 6.9 points or 4.5 per cent to 85.8 in February. The sentiment index is tracking back towards the 17-year low of 79 hit in July. The consumer sentiment index is down 11.9 per cent on a year earlier.

The current conditions index improved by 2.8 per cent, while the expectations index fell by 21 per cent.

Only one of the five components of the index improved in February. The survey on whether it was a good time to buy a major household item improved by 13.8 per cent.

The estimate of family finances compared with a year ago fell by 8.6 per cent while the estimate of family finances over the next year fell by 12.2 per cent. Economic conditions over the next 12 months fell by 36.6 per cent while economic conditions over the next 5 years fell by 17.9 per cent.

What is the importance of the economic data?

Westpac and the Melbourne Institute release the Index of Consumer Sentiment each month. Roy Morgan conducts a survey of consumer confidence. Both surveys are aggregated from responses to questions on the current and likely future state of family finances, current and likely future state of the economy and whether it is a good time to buy a major household item. Confident consumers may be more inclined to spend, especially on major items.

Housing Finance data is produced monthly by the Bureau of Statistics and shows commitments by lenders, such as banks, to provide finance for housing purposes. The lending figures relate to those looking to buy or build homes to live in as well as those seeking to buy or build homes for investment purposes. Generally people get their finance organised first, so the figures are regarded as a leading indicator on the housing market.

What are the implications for interest rates and investors?

No one should under-estimate the impact of the global financial crisis on the Australian economy. While significant fiscal and monetary stimulus is being applied to the economy, more efforts to boost activity will be required. CommSec expects rates to be cut by another 50-75bps over the next two months. Tax cuts and fiscal stimulus will also be on the cards.

The outlook for housing dependant companies is likely to improve over 2009 as construction activity continues to gain momentum.

Source Craig James, Chief Equities Economist, CommSec

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