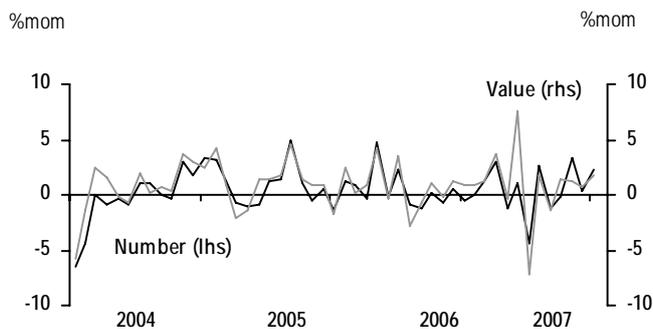


## Australia economic update

### January housing finance

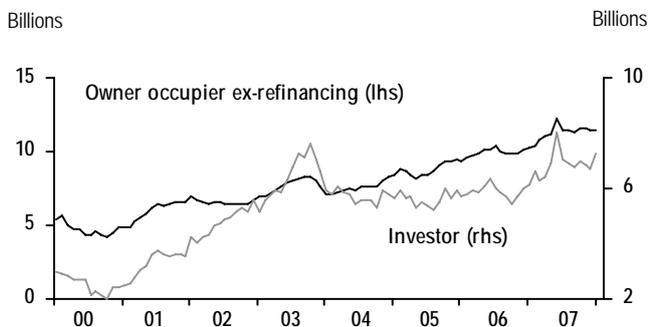
The number of home loans issued in January grew a stronger-than-expected 2.3% m/m (JPMorgan and consensus 1.0%) after rising a revised 0.4% in December (previously 1.0%). From the surge in housing finance approvals, it appears that investors rushed in to secure loans amid widespread speculation that the RBA would hike interest rates in February. Increases were recorded in construction of dwellings (+2.7%) and purchase of established dwellings (+2.6%), while a fall was recorded in purchase of new dwellings (-4.9%). Excluding refinancing, home loans were up 0.7%.

Australia: owner-occupied housing finance



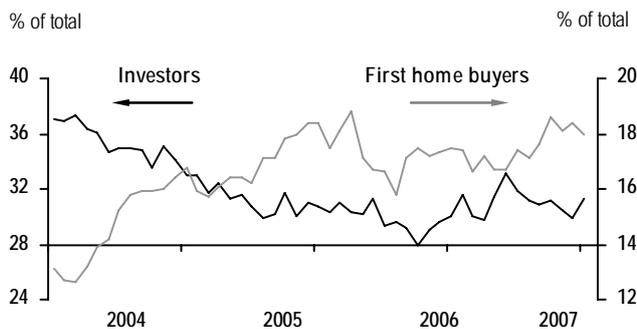
In value terms, the total number of home loan commitments rose 3.7%, fuelled by a rise in investment lending (+8.3%) and, to a lesser extent, owner-occupied lending (+1.7%). The rise in investment-related home loan demand could be a consequence of recent stock market volatility, which may have encouraged some investors to withdraw funds from the equity market to invest in other avenues, such as property.

Australia: housing finance commitments



It was, therefore, not surprising that investors again underpinned demand for home loans in January, accounting for 31% of total loans. These investors tend to be existing property owners able to receive significant tax benefits from buying investment property via negative gearing, for example, which enables them to lower their assessable income and enhance their after-tax returns. In contrast, record low levels of housing affordability meant that first home buyers continue to demand significantly less housing finance, and accounted for just 18% of all loans in January.

Australia: housing finance



Demand for fixed rate loans remained strong amid widespread speculation that interest rates would rise further in 2008. Fixed loans as a percentage of all dwellings financed stood at 22%, remaining above 20% for the fourth consecutive month. Demand for fixed loan rates has remained solid since mid-2007 amid growing speculation toward the end of last year that domestic banks would hike standard variable loan rates (approx. 80% of total loans) in the absence of a rise in the official cash rate to ease pressure on their spreads; they did, in fact, do this in early January, by an average of 15bp.

There are downside risks to housing finance demand going forward. The RBA has raised interest rates 100bp since August, and several domestic banks have increased rates on variable mortgages by more than, and outside of, the four 25bp rises in the official cash rate. There is more bad news ahead, however. While the rise in banks' home loan rates has done some of the heavy lifting for the RBA, JPMorgan forecasts that the RBA will hike interest rates again in May by 25bp, owing mainly to the deteriorating inflation outlook.

The details:

- The value of dwelling finance commitments rose 3.7%. Investment housing and owner occupied housing commitments both increased, rising 8.3% and 1.7%, respectively.
- The number of commitments for owner-occupied housing finance increased 2.3%. Excluding refinancing, commitments were up 0.7%.
- The number of home loans rose all states and territories, excluding Queensland (-0.2%), the Northern Territory (-13.3%), and the ACT (-0.9%).

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