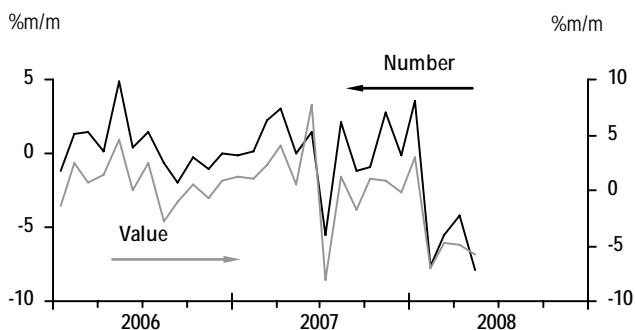


Australia economic update

May housing finance

Demand for housing finance fell for the fourth straight month in May, but by much more than expected. The number of home loans issued plummeted 7.9% m/m (JPMorgan -2.5%, consensus -2.0%) after slumping a revised 4.2% in April (previously -3.0%). The fall was mainly owing to a sharp 13.5% m/m decline in home loans for the purchase of new dwellings.

Australia: housing finance



The number of home loan commitments has trended lower in the wake of the four interest rate hikes delivered by the RBA since August, and the disproportionate rises in domestic banks' standard variable loan rates. And demand for housing finance will likely remain weak in the near term. Although the RBA has left interest rates steady since March, only last week we saw another major domestic bank, St. George, raise its variable mortgage rate by another 20bp. It is possible that the other major domestic banks follow suit, but they would probably opt for a smaller hike than the 20bp rise delivered by St. George. Given that variable loans account for around 80% of all loans, additional rises in domestic banks' variable mortgage rates would weigh heavily on demand for housing finance.

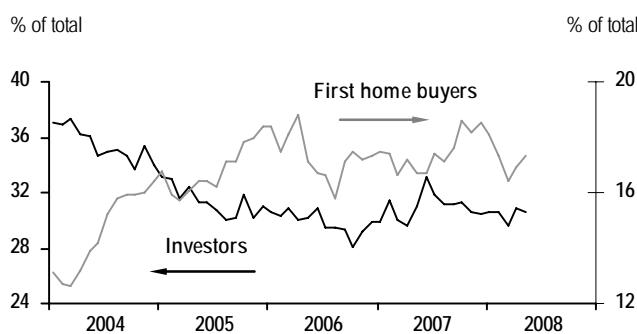
With respect to monetary policy, building evidence suggests that the RBA may be seeing signs of the "significant" easing in domestic demand that it says is needed to help curb inflation. Business and consumer confidence are sliding, credit growth and retail spending are subdued, and demand for housing finance continues to weaken. The labour force survey (scheduled for release tomorrow) will probably confirm that the labour market is showing tentative signs of slowing. We forecast flat employment growth in June, an improvement on the near 20,000 fall in jobs in the previous month.

JPMorgan maintains the view that the RBA will leave interest rates steady for the remainder of the year. If the easing in domestic demand is sustained, RBA officials will probably look through the elevated inflation readings in coming quarters. Headline CPI (at 4.2% in 1Q) is running well above the RBA's 2-3% target range, and will likely remain above target for an extended period.

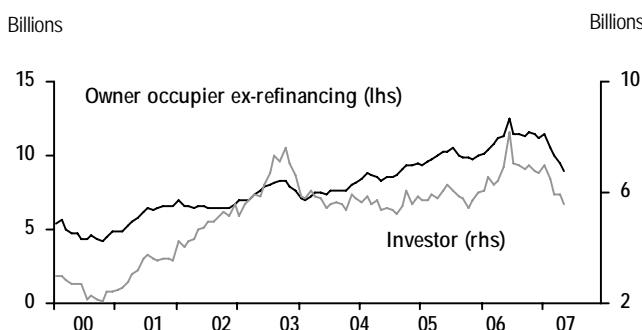
The details:

- The number of commitments for owner-occupied housing finance fell 7.9% m/m, the fourth straight monthly fall.
- In value terms, home loans fell 5.7%, owing to both owner occupied housing finance (-5.7%) and investment lending (-6.8%).
- Investors accounted for 31% of total loans, while first home buyers accounted for 17%.
- Fixed rate loans as a percentage of all dwellings financed stood at 13%, the lowest level since October 2005, and well down from the 22% recorded at the start of the year.

Australia: housing finance



Australia: housing finance commitments



Helen Kevans (61-2) 9220-3250
Helen.e.kevans@jpmorgan.com

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