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Banks' decision threatens home lending recovery?

Housing finance figures for December 2011 reveal that the November and December official interest rate cuts had a positive impact on home buyer confidence and new home lending, said the Housing Industry Association, the voice of Australia's residential building industry.

"The 2.1 per cent increase in new home lending in the month of December 2011 suggests the potential of a modest revival in the lending market. Let's hope, however, that Friday's decision by two of our big banks to independently lift their variable lending rates does not undo the work of the Reserve Bank," said HIA Senior Economist, Andrew Harvey.

"The improvement in lending for established homes also continued, with the number of loans up by 2.3 per cent in December, again highlighting the impact that the changed interest rate cycle had begun to have on homebuyer confidence," said Mr Harvey.

The recovery in the aggregate number of loans for first time buyers also continued, with these loans comprising 20.9 per cent of all dwellings financed in December 2011, which compares to 16.9 per cent one year earlier.

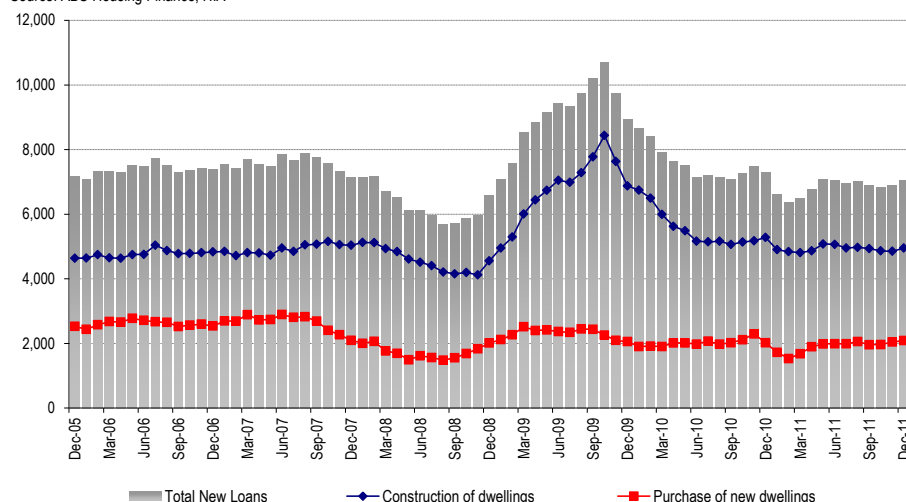
"While modest, the improvement in lending following the late-2011 interest rate cuts suggest a growing number of people are preparing to enter the housing market. There is a risk, however, that the recent action of two trading banks could undo the modest improvement in demand," noted Mr Harvey.

"Effectively the Friday afternoon decision could dash more than four months of work on improving sentiment, and in an economy for which the Reserve Bank has just downgraded its growth forecasts the last thing we need is this additional weight in the saddle-bags already dragging on consumer sentiment," added Andrew Harvey.

In December 2011 the seasonally adjusted number of loans for new housing (construction and purchase of new) increased by 13.3 per cent in Victoria, 1.1 per cent in Western Australia, 43.7 per cent in the Northern Territory, and 3.9 per cent in the Australian Capital Territory. The number of loans for new housing fell by 3.6 per cent in New South Wales, 4.9 per cent in Queensland, 9.3 per cent in South Australia, and 1.9 per cent in Tasmania.

AUST New Home Lending - Number of Loans

Source: ABS Housing Finance; HIA



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