

## Australian housing recovery builds rate rise case

Written by Reuters

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SYDNEY: Australian housing and construction data on Wednesday added to evidence of economic recovery that spurred the central bank to raise interest rates on Tuesday, Oct 6 and is expected to bring more tightening in months ahead, says Reuters.

Demand for investment-related home loans and construction finance jumped in August, government data showed. A separate industry survey showed a pickup in overall construction last month, helped by a revival in demand for housing, ending 18 months of contraction.

That boded well for third-quarter economic growth and backed views that the Reserve Bank of Australia (RBA) would keep lifting interest rates in coming months from "emergency" low levels.

"Overall, this adds to the litany of other hard economic evidence that the recovery is well and truly emerging and there is absolutely nothing in this report to dissuade the RBA from lifting the cash rate again in November," said David de Garis, senior economist at National Australia Bank.

The Reserve Bank of Australia became the first central bank in the Group of 20 to raise rates since financial markets crashed in the aftermath of the collapse of Lehman Brothers' more than a year ago. It notched up its cash rate by 25 basis points to 3.25 percent and kept the door open for more as it judged that the economy had weathered the worst of the global financial crisis.

Implied rates, based on money market and swap rates, are pricing in a 77 percent chance of a quarter percentage point rate rise next month. Over the next 12 months, 166 basis points of rate increases are being priced in.

In its economic assessment on Tuesday, the central bank said house prices and housing credit were both growing at a solid pace. That echoed concerns voiced earlier by central bankers who said keeping rates too low for too long could give rise to a housing bubble.

The solid demand for homes in the past year has been attributed to strong population growth and 50-year-low mortgage rates.

Unlike the United States and Britain, where house prices have fallen in the midst of the financial and economic crisis, Australian house prices have held up remarkably well, rising 4.2 percent in March-June.

### INVESTORS RETURN TO HOUSING

Investors flocked back into the housing market, which accounted for 27 percent of all loans issued in August. Investment lending surged 7.6 percent from the month before, owing to an increase in commitments for the purchase of dwellings for rent or resale.

Overall construction finance for building new dwellings to owner-occupiers rose 4.6 percent from the month before and jumped 69 percent from August 2008.

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Only demand from first-time home buyers showed signs of slackening, as the stimulatory effects from generous government grants began fade.

The percentage of first-home owners fell in August, but still remained high at nearly a quarter of all loans.

Demand for home loans fell 0.6 percent, compared with forecasts for a 1.0 percent drop but the decline was much smaller than a contraction of 2.2 percent in July.

Analysts expect the paring back of the grant, which was halved at the end of September, coupled with the likelihood of further rate increases to temper the appetite for housing finance, especially from first home buyers, in the months ahead.

"We suspect that the RBA will be pleased to see an easing in appetite for housing finance, particularly from first home owners," said Su-Lin Ong, senior economist at RBC Capital.

She expects the cash rate to go up to 4.50 percent by mid- 2010.

Still, analysts believe that pent-up demand for housing and strong population growth will support a housing construction boom from late 2009 and will be a key growth engine through 2010.

A survey of 200 firms by Australia Industry Group and the Housing Industry Association, showed the main measure of overall construction activity climbed 8.4 points to 50.8, finally putting it back above the 50 threshold between growth and contraction for the first time since February last year. - Reuters