

## **Interest Rates**

**At its meeting on 7 July 2009, the Reserve Bank Board decided to leave the cash rate target at 3%. The Governor provided the following rationale for the decision:**

*The global economy is stabilising, after a sharp contraction in demand during the December and March quarters. Downside risks to the outlook have diminished, with conditions in global financial markets improving this year and action to strengthen balance sheets of key financial institutions under way. Growth in China has strengthened considerably, which is having an impact on other economies in the region, including Australia.*

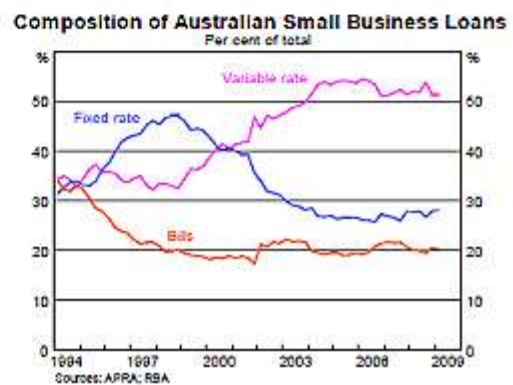
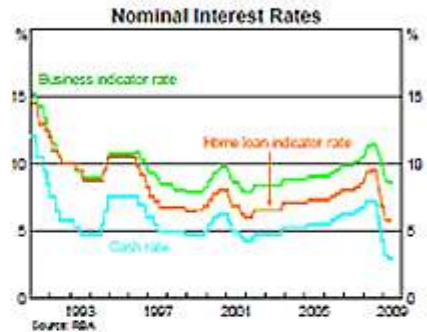
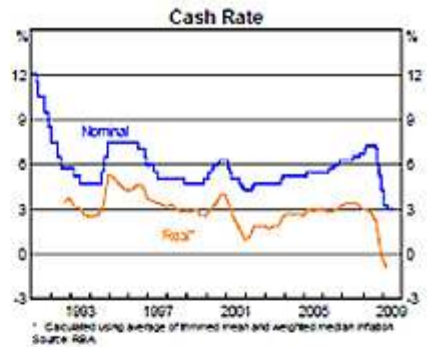
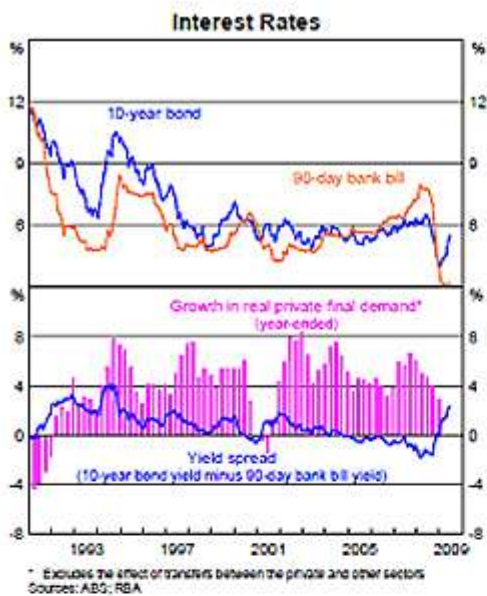
*Nonetheless, credit conditions remain tight and the effects of economic weakness on asset quality present a challenge. There is tentative evidence that the US economy is approaching a turning point, but conditions in Europe are still weakening. While the considerable economic policy stimulus in train around the world should support recovery, it is likely to be slow at first. For it to be durable, continued progress in restoring balance sheets is essential.*

*Economic conditions in Australia have to date not been as weak as expected a few months ago. But output has been sluggish and capacity utilisation has fallen back to about average levels, with some further decline likely over the rest of the year. Weaker demand for labour is leading to lower growth in labour costs. These conditions should see inflation continue to abate over the period ahead.*

*A pick-up in housing credit demand suggests stronger dwelling activity is likely later in the year. House prices are tending to rise. Business borrowing, on the other hand, has been declining, as companies postpone investment plans and seek to reduce leverage in an environment of tighter lending standards. Large firms have had good access to equity capital, which is assisting in strengthening their financial structures.*

*Monetary policy has been eased significantly. Market and mortgage rates are at very low levels by historical standards, despite recent small increases. Business loan rates are below average. The effects of these changes will still be coming through for some time yet. Fiscal measures are also providing considerable support for demand.*

*The Board's current view is that the outlook for inflation allows some scope for further easing of monetary policy, if needed. In assessing how it might use that scope, the Board will continue to monitor how economic and financial conditions unfold and how they impinge on prospects for a sustainable recovery in economic activity.*



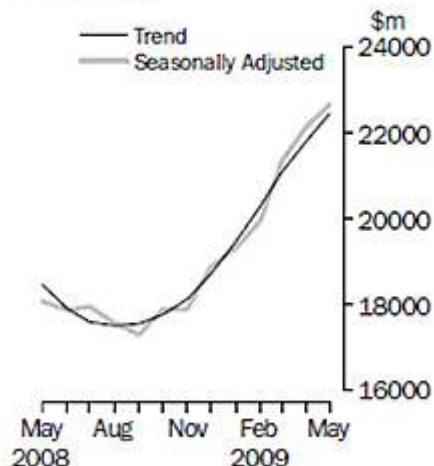
## Housing Finance May 2009

Source: ABS Cat No 5609.0

On a seasonally adjusted basis the national value of housing loan commitments (owner occupation) in May was \$17.045 billion, up 2.3% on April. On a state basis, the respective statistics were: NSW \$5.653 billion (+1.5%), Victoria, \$3.776b (+2.1%), Qld, \$3.698b (+2.4%), SA, \$1.164b (+2.0%), WA, \$2.059b (-0.3%), Tas, \$237m (+3.0%), NT, \$142m (-4.7%), ACT, \$302m (-0.3%).

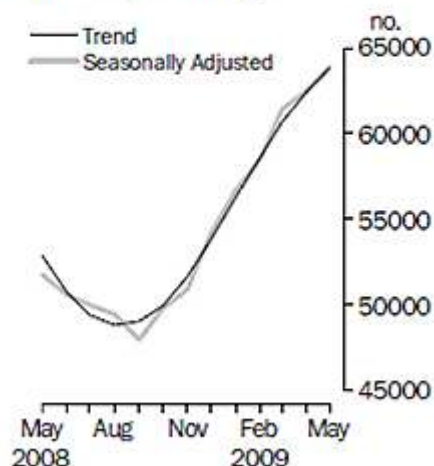
### Value of dwelling commitments

Total dwellings



### No. of dwelling commitments

Owner occupied housing

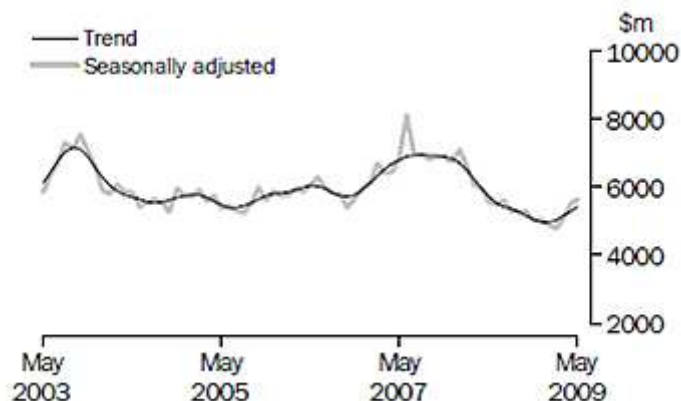


### Investment Housing - Total

Source: ABS Cat No. 5609.0

The value of investment housing loan commitments (\$5.633 billion, seasonally adjusted) rose by 2.4% on April.

The total value of housing finance commitments (\$22.678b) rose by 2.3% on April.



### First Home Buyer Commitments

First Home Buyer commitments (of all owner occupier commitments) increased from 28.6% in April to 29.5% in May, the highest % since 1991.

### Fixed Rate Loans (2 years or more)

Fixed rate loans were 6.5% of all owner occupier loans, up from 4.2% in April.

### Average Loan

The average loan size was stable at \$266,900. Average loans in each state/territory were: NSW, \$287,400, Vic, \$253,200; Qld \$269,400; SA, \$214,900; WA, \$282,600; Tas, \$200,200; NT, \$278,800 and ACT \$263,700.

### Re-financing

The value of refinancing of established dwellings amounted to 28.2% of established dwelling loans in May.

## Outstanding Housing Loan Balances

Source: RBA

- End May 2009

Outstanding housing loan balances at end May 2009 were \$1,028.0 billion inc. securitised compared to \$1,021.1 billion inc. securitised in April 2009 and \$950.4b inc. securitised in May 2008.

## Business Finance - May 2009

Sources: ABS Lending Finance Cat. 5671.0

On a seasonally adjusted basis, the value of Commercial Finance commitments in May 2009 was \$28.264 up 4.0% on April. The value of lease finance (\$412m) fell by 1.9% on April.

### The break up of the results for May against April (seasonally adjusted) is:

Commercial (fixed loans): \$18.750b (+4.1%)

Commercial (revolving credit): \$9.514b (+3.8%)

Lease finance: \$0.412b (-1.9%)

### The category break up in original figures for May 2009 is:

Commercial (fixed): \$19.944

Construction finance \$2.790b

Purchase of real property \$6.318b

Wholesale finance \$0.752

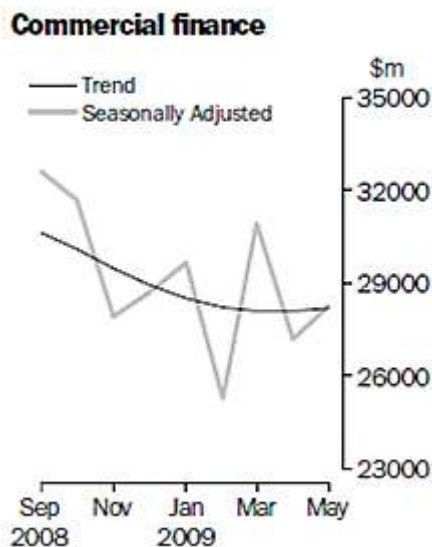
Purchase of plant and equipment \$1.183b

Refinancing \$1.407b

Leasing: \$402m

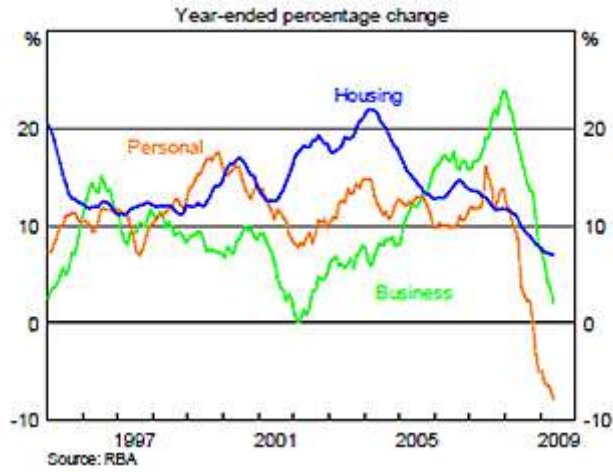
Plant and equipment \$232m

Motor vehicles \$170m



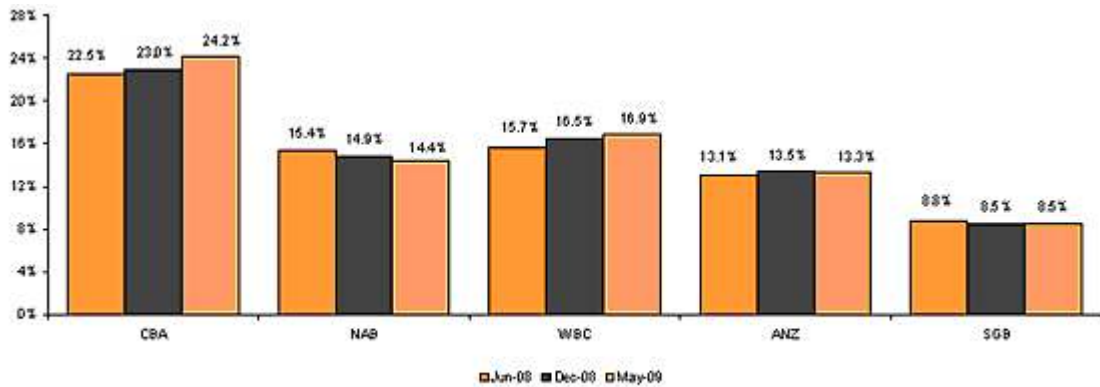
## Credit By Sector

Source: RBA



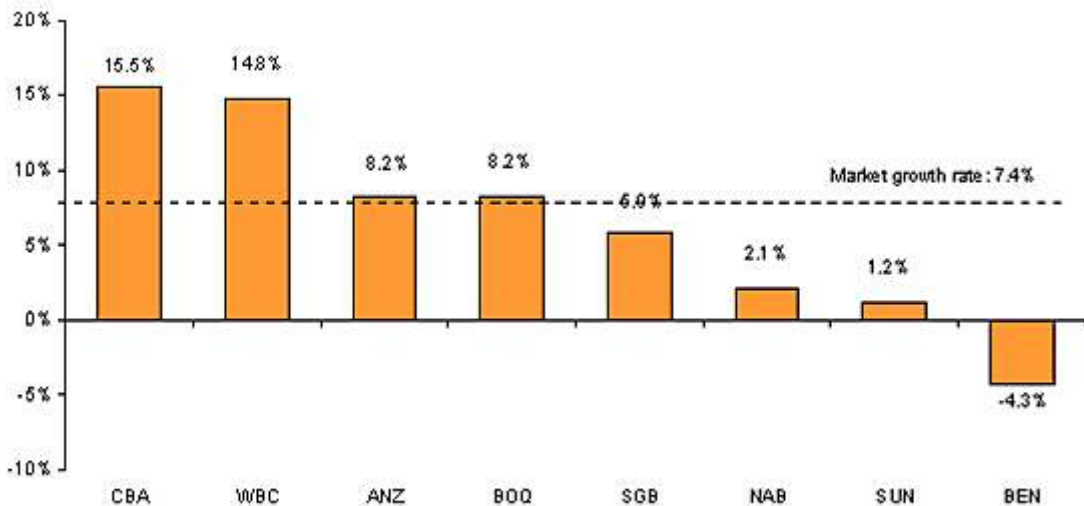
### APRA Lending Statistics May 2009

Total housing market shares – June 2008, December 2008 and May 2009



Note: WBC has reclassified some housing and deposits data in September 2008.  
Source: APRA, RBS

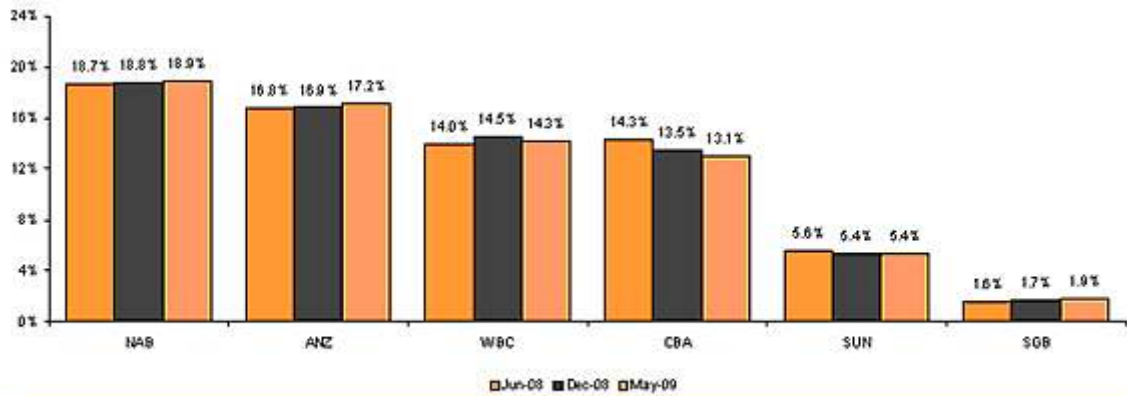
### Housing Lending Growth Rates - Since September 2008



Source: APRA, RBS

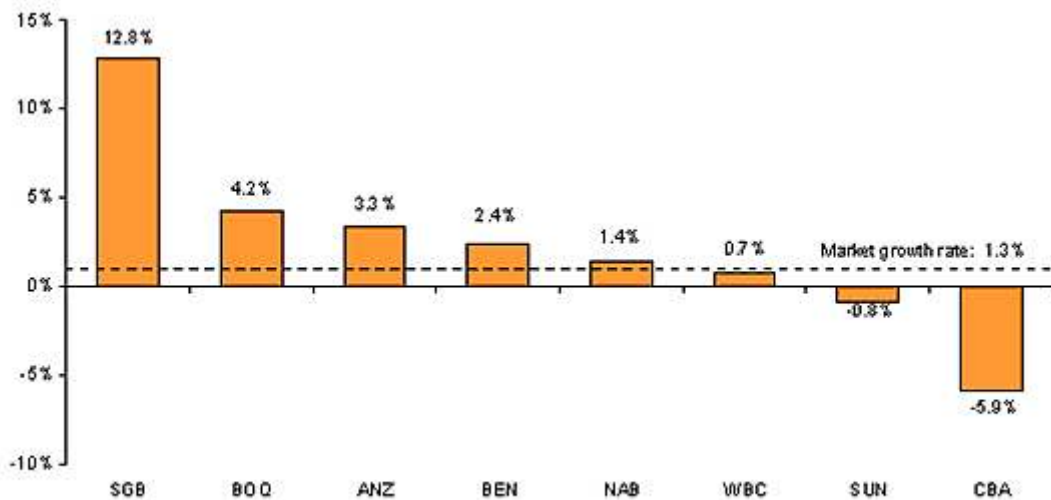
### Business Lending Market Shares

- June 2008, December 2008 and May 2009



Note: WBC and SGB July and August stats are not consistent with previous issues due to reclassification by the banks.  
Source: APRA, RBS

### Business Lending Growth Rates - Since September 2008



Source: APRA, RBS

### Consumer Price Index

Year to March 2009: +2.5%.

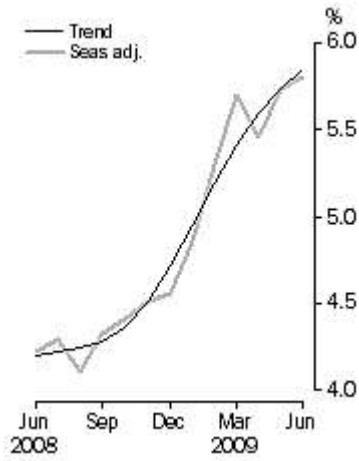
### Retail Sales

Australian retail sales in May 2009 were up by 6.0% on May 2008 (original figures) and the seasonally adjusted figure for May 2009 showed a 1.0% increase on April 2009.

### Unemployment Rate

Source: ABS

The unemployment rate (seasonally adjusted) for June 2009 was 5.8 %, up from 5.7% in May.



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