



MFAA ECONOMIC REVIEW

Interest Rates

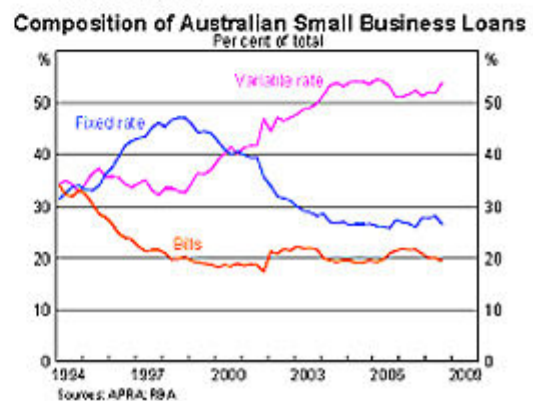
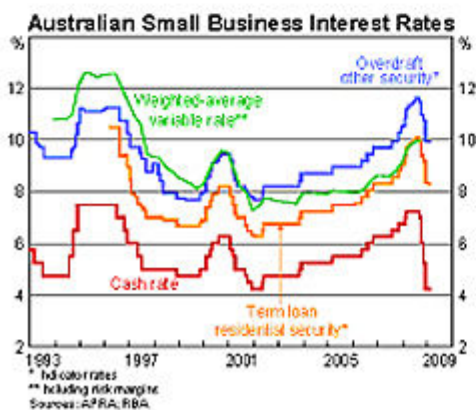
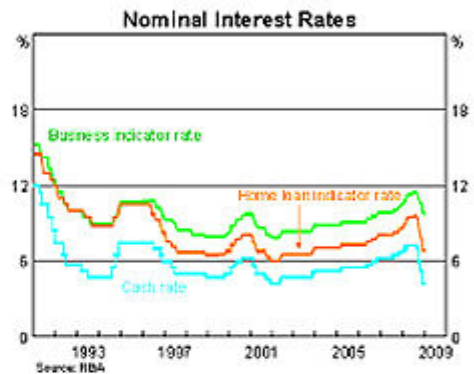
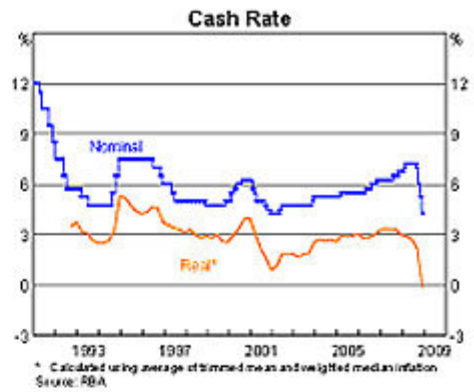
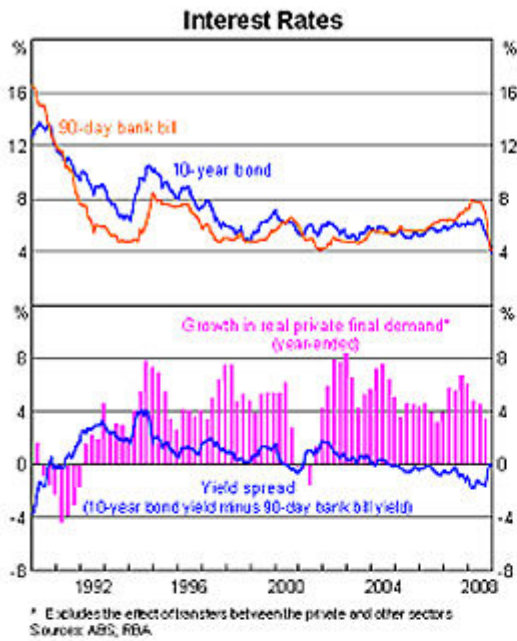
At its meeting on 3 February 2009, the Reserve Bank Board reduced the cash rate target by 100 basis points to 3.25%. Its next scheduled meeting is 3 March 2009. The Governor provided the following rationale for the decision:

There was a significant deterioration in world economic conditions late in 2008. The effects on household and business confidence of the financial turmoil following Lehman's collapse, and continuing strains on major financial institutions, saw a significant downturn in demand around the world. As a result, the major advanced economies contracted sharply in the December quarter, as did a number of emerging market economies. The Chinese economy, though still growing, has slowed markedly. Global inflation, having reached high rates during the middle of 2008, is now declining.

Measures to stabilise financial systems have contributed to an improvement in the functioning of credit markets over the past couple of months. This, in conjunction with expansionary macroeconomic policy measures being taken around the world, should assist in promoting global recovery over time. But the near-term outlook for the global economy is the weakest for many years.

Economic conditions in Australia have also been affected, though less than in other advanced economies. Australia's financial system remains in a strong condition and large interest rate reductions over recent months have been passed through in substantial measure to end borrowers. Nonetheless, the combination of last year's financial turmoil, a severe global downturn and substantial falls in commodity prices has had a significant dampening effect on confidence, and therefore on prospects for growth in demand. Inflation has begun to moderate and, given recent developments, it is likely to continue to decline.

In these circumstances, the Board judged that a further sizable reduction in the cash rate was appropriate, to give further support to demand. In making its decision, the Board took into account the package of measures announced by the Government earlier today. The combination of expansionary monetary and fiscal policies now in place will help to cushion the Australian economy from the contractionary forces coming from abroad.



Housing Finance December 2008

Source: ABS Cat No 5609.0

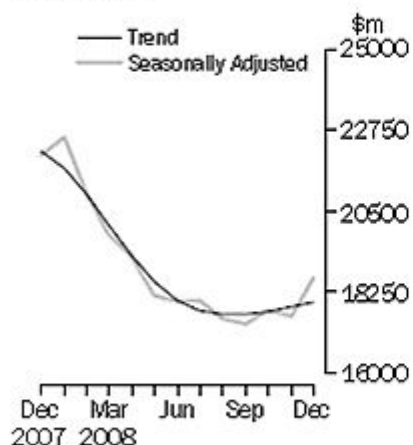
On a seasonally adjusted basis the national value of housing loan commitments (owner occupation) in December was \$13.506 billion, up by 7.1% on November.

On a state basis, the respective statistics were: NSW \$4.484 billion (+10.1%), Victoria, \$3.026b (+5.8%), Qld, \$2.905b(+7.6%), SA, \$1.012 (+11.2%), WA, \$1.684b (+9.5%), Tas, \$203m (+3.0%), NT, \$120m (+13.2%), ACT,

\$229m (+29.2%).

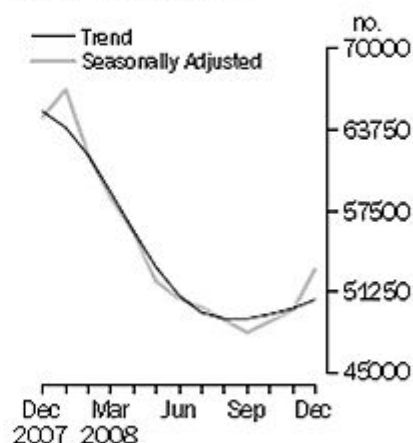
Value of dwelling commitments

Total dwellings



No. of dwelling commitments

Owner occupied housing

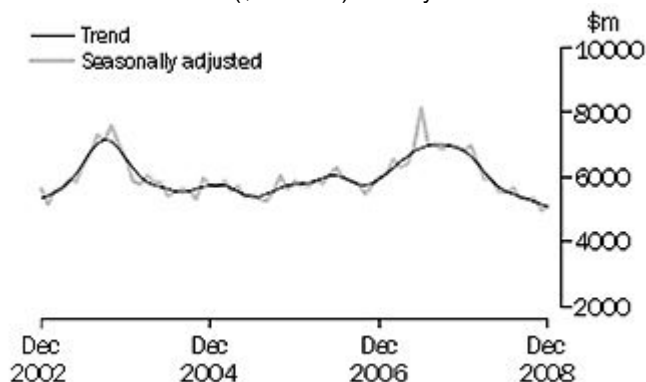


Investment Housing - Total

Source: ABS Cat No. 5609.0

The value of investment housing loan commitments (\$5.127 billion, seasonally adjusted) rose by 2.9% on November. The drivers of this result were increases in the construction of dwellings for rent or resale (+9.2%), and in the purchase by individuals of dwellings for rent or resale (+5.8%) but a fall by others purchasing dwellings for rent or resale (-22.7%).

The total value of housing finance commitments (\$18.633b) rose by 5.9% on November.



First Home Buyer Commitments

First Home Buyer commitments (of all owner occupier commitments) increased from 23.6% in November to 25.4% in December.

Fixed Rate Loans (2 years or more)

Fixed rate loans were 1.9% of all owner occupier loans, down from 2.5% in November.

Average Loan

The average loan size rose from \$253,800 to \$257,400. Average loans in each state/territory were: NSW, \$274,700, Vic, \$249,400; Qld \$264,000; SA, \$214,900; WA, \$261,500; Tas, \$177,300; NT, \$276,500; ACT \$263,500.

Re-financing

The value of refinancing of established dwellings amounted to 33.6% of established dwelling loans in December.

Outstanding Housing Loan Balances

Source: RBA

- End December 2008

Outstanding housing loan balances at the end of December 2008 were \$995.8 billion inc securitised compared to \$992.4b inc securitised in November 2008 and \$917.7b inc. securitised in December 2007.

Business Finance - December 2008

Sources: ABS Lending Finance Cat. 5671.0

On a seasonally adjusted basis, the value of Commercial Finance commitments in December 2008 was \$28.775m up 1.8% on November. The value of lease finance (\$547m) rose by 5.1% on November.

The break up of the results for December against November (seasonally adjusted) is:

Commercial (fixed loans): \$17.733b (-13.0%)

Commercial (revolving credit): \$11.042 (+40.3%)

Lease finance: \$0.547b (+5.1%)

The category break up in original figures for December 2008 is:

Commercial (fixed): \$20.607b

Construction finance \$1.791b

Purchase of real property \$6.101b

Wholesale finance \$0.769b

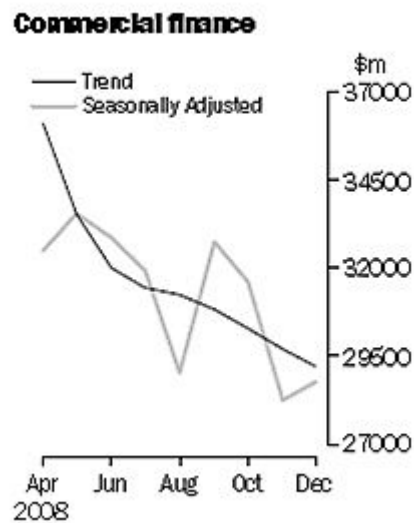
Purchase of plant and equipment \$1.268b

Refinancing \$1.858b

Leasing: \$604m

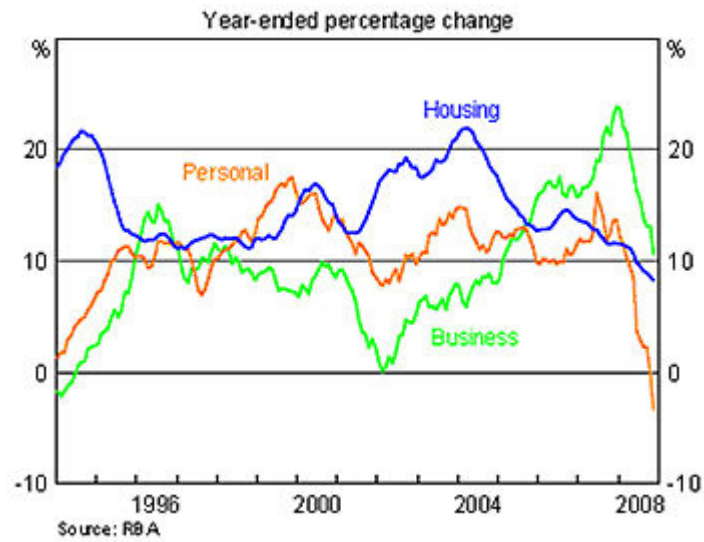
Plant and equipment \$324m

Motor vehicles \$280m



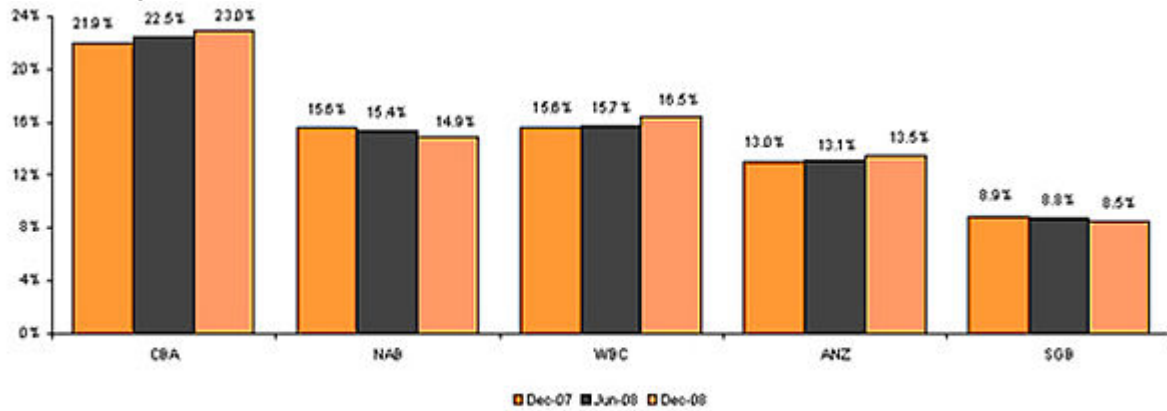
Credit By Sector

Source: RBA

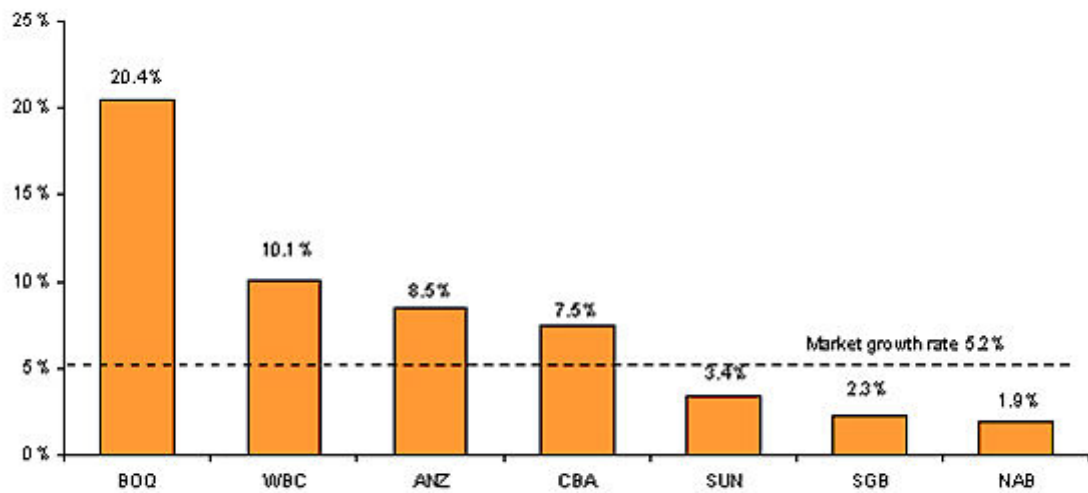


APRA Lending Statistics Dec 2008

Total housing market shares - December 2007, June 2008 and December 2008.



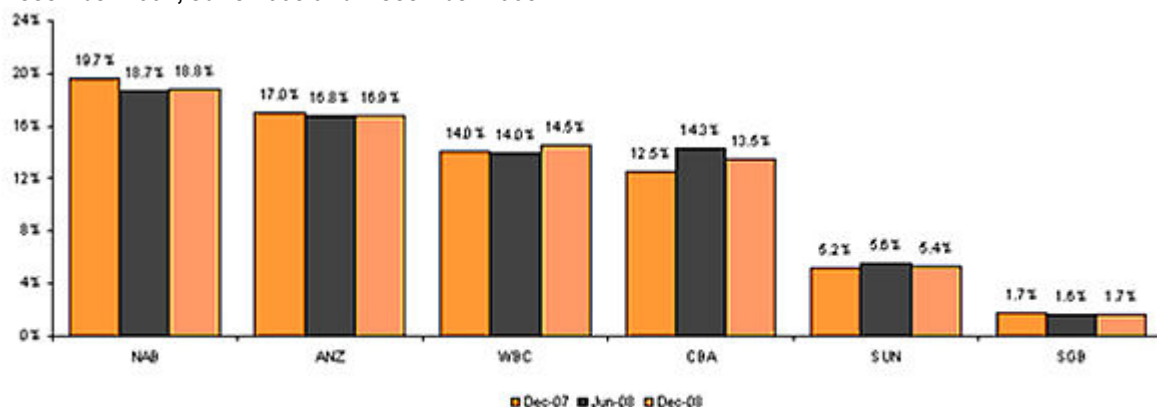
Housing Lending Growth Rates - Since June 2008



Source: APRA, ABN AMRO

Business Lending Market Shares

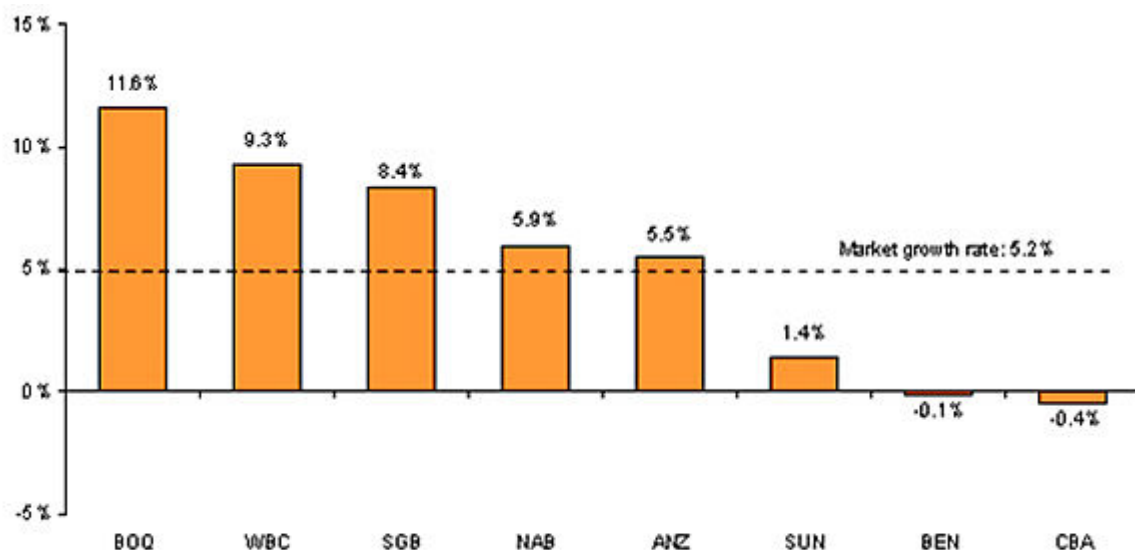
- December 2007, June 2008 and December 2008



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

Business Lending Growth Rates

- Since June 2008



Source: APRA, ABN AMRO

Consumer Price Index

Year to December 2008: +3.7%.

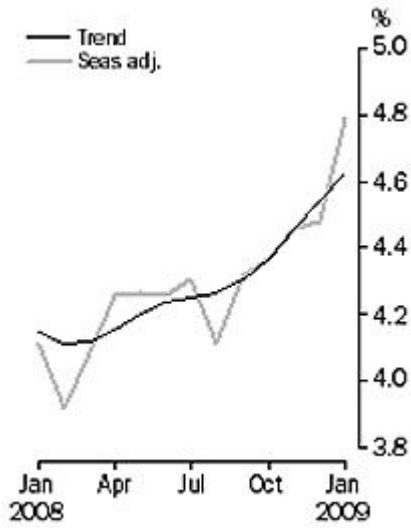
Retail Sales

Australian retail sales in December 2008 were up by 5.7% on December 2007 (original figures) and the seasonally adjusted figure for December 2008 showed a 3.8% increase on November 2008.

Unemployment Rate

Source: ABS

The unemployment rate (seasonally adjusted), for January 2009 was 4.8%, up from 4.5% in December 2008.



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