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MFAA
MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA

MFAA Economic Review

Thursday 19 March 2009

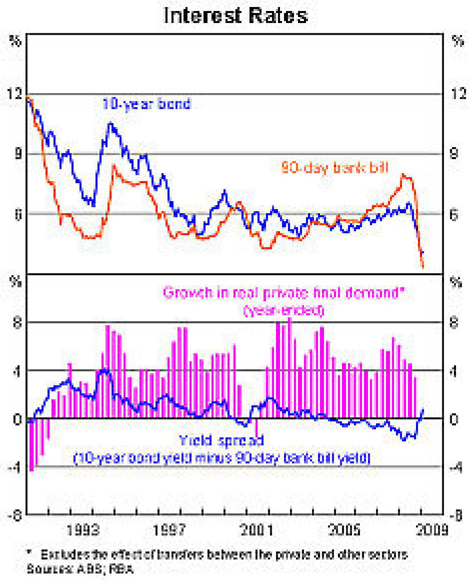
Interest Rates
At its meeting on 3 March 2009, the Reserve Bank Board left the cash rate target unchanged at 3.25%. The Governor provided the following rationale for the decision:

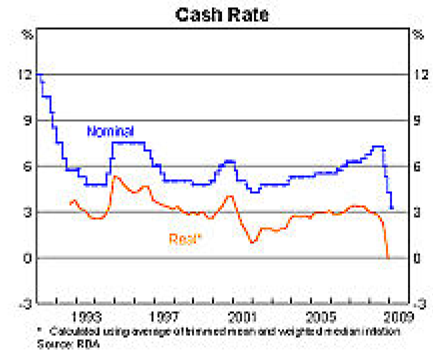
Recent data confirms that the world economy has remained very weak following the sharp decline in demand that occurred late last year. The major industrial economies reported large contractions in output in the December quarter, as did a number of emerging market economies across Asia and eastern Europe. Many countries are likely to be experiencing further falls in output in the current quarter.

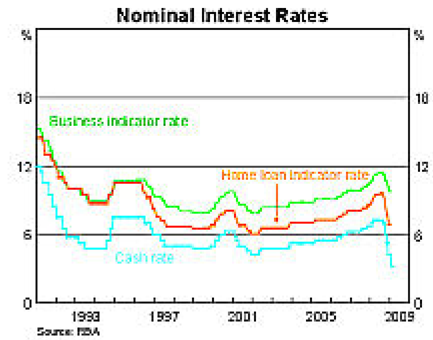
Conditions in global credit markets have improved since November, but sentiment remains fragile. Share prices have weakened and banking systems in several major countries are still under pressure, as authorities work towards a resolution of the balance-sheet problems. Significant macroeconomic policy stimulus is being put in place around the world, but it is too soon to see the effects of those measures.

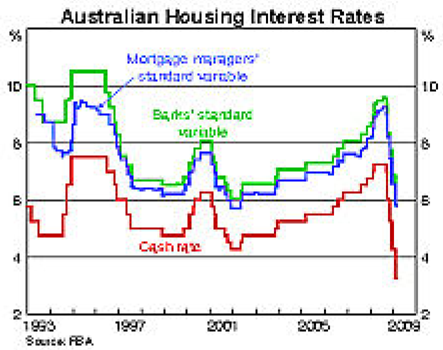
In Australia, demand has not weakened as much as in other countries and, on the basis of currently available information, the Australian economy has not experienced the sort of large contraction seen elsewhere. The Australian financial system remains strong and the monetary policy transmission process is working to deliver large reductions in interest rates to end borrowers. Nonetheless, economic conditions are clearly weak, and given the speed and scale of the global economic deterioration and its effect on confidence, weak conditions are likely to continue in the near term. Inflation is likely to decline over time.

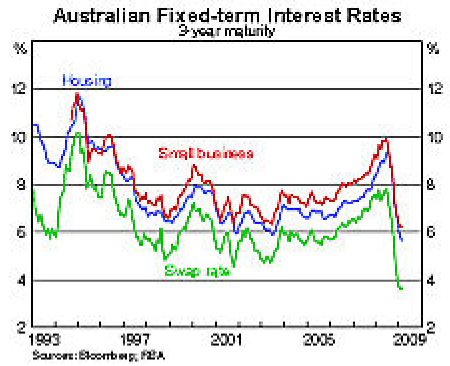
In response to that outlook, there has already been a major change in both monetary and fiscal policy. Market and mortgage rates are at very low levels by historical standards and business loan rates are below recent averages, reducing debt-servicing burdens considerably. Together with the substantial fiscal initiatives, the cumulative decline in interest rates will provide significant support to domestic demand over the period ahead. On this basis, notwithstanding evident economic weakness at present, the Board judged that the stance of monetary policy was appropriate for the moment. The Board will consider the position again at its next meeting.

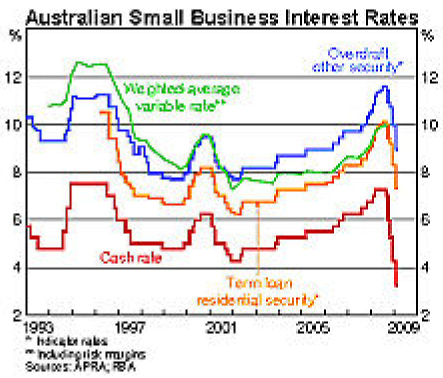


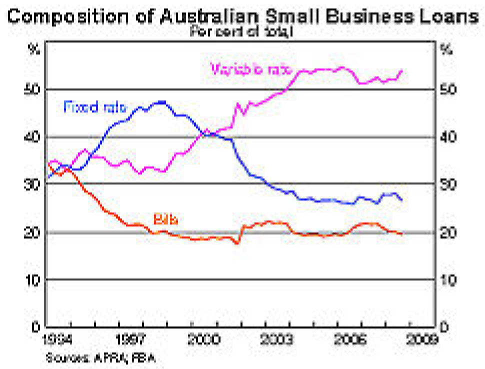










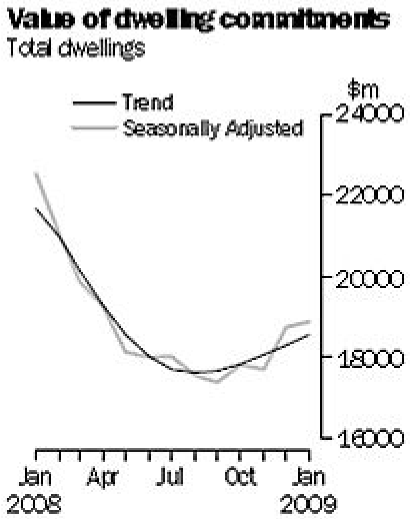


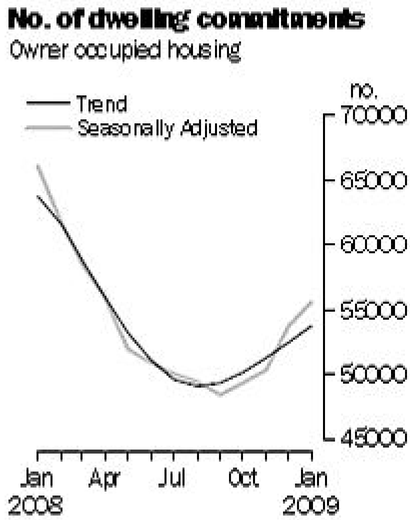
Housing Finance January 2009

Source: ABS Cat No 5609.0

On a seasonally adjusted basis the national value of housing loan commitments (owner occupation) in January was $13.989 billion, up by 2.3% on December.

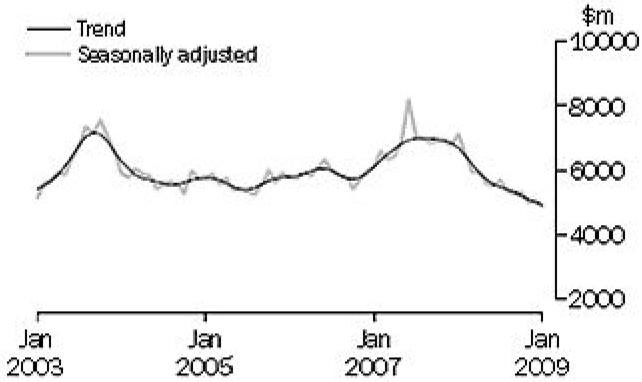
On a state basis, the respective statistics were: NSW $4.496 billion (-0.5%), Victoria, $3.151b (+3.0%), Qld, $2.991b (+2.7%), SA, $1.060b (+4.4%), WA, $1.767b (+3.6%), Tas, $226m (+7.1%), NT, $118m (-1.7%), ACT, $239m (-0.4).





Investment Housing - Total
Source: ABS Cat No. 5609.0
The value of investment housing loan commitments ($4.891 billion, seasonally adjusted) fell by 3.8% on December. The drivers of this result were decreases in the construction of dwellings for rent or resale (-6.4%), in the purchase by individuals of dwellings for rent or resale (-0.5%) and by others purchasing dwellings for rent or resale (-8.6%).

The total value of housing finance commitments ($18.880b) rose by 0.7% on December.



First Home Buyer Commitments
First Home Buyer commitments (of all owner occupier commitments) increased from 25.7% in December to 26.5% in January, the highest % since 1991.

Fixed Rate Loans (2 years or more)

Fixed rate loans were 3.8% of all owner occupier loans, up from 1.9% in December.

Average Loan
The average loan size fell from $256,700 to $251,100. Average loans in each state/territory were: NSW, $263,600, Vic, $246,200; Qld $257,800; SA, $211,300; WA, $261,600; Tas, $150,500; NT, $255,600 and ACT $251,400.

Re-financing
The value of refinancing of established dwellings amounted to 31.8% of established dwelling loans in September.

Outstanding Housing Loan Balances

Source: RBA
- End January 2009
Outstanding housing loan balances at end January 2009 were $999.4 billion inc securitised compared to $996.4b inc securitised in December 2008 and $923.8b inc. securitised in January 2008.

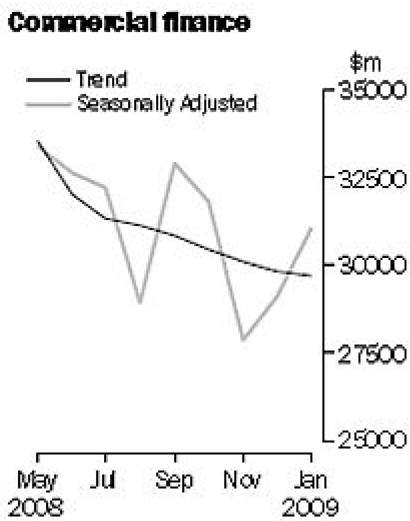
Business Finance - January 2009
Sources: ABS Lending Finance Cat. 5671.0

On a seasonally adjusted basis, the value of Commercial Finance commitments in January 2009 was $31.029b up 6.5% on December. The value of lease finance ($443m) fell by 17.4% on December.

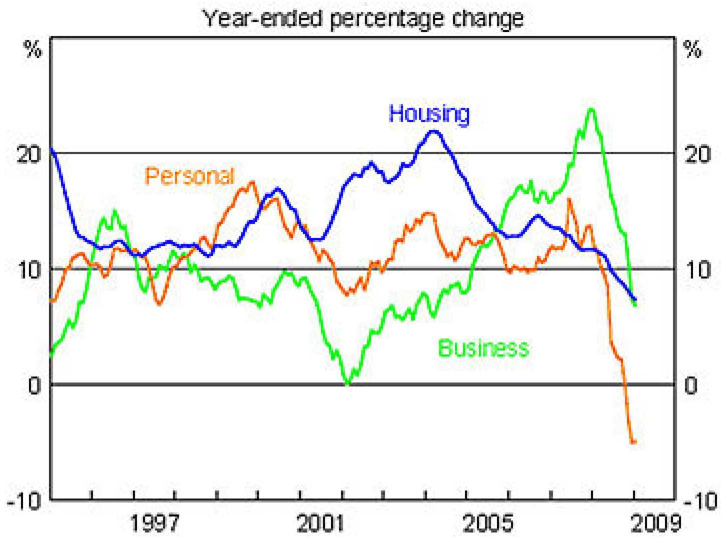
The break up of the results for December against November (seasonally adjusted) is:
Commercial (fixed loans): $17.902b (+1.2%)
Commercial (revolving credit): $13.127b (+14.7%)
Lease finance: $0.443b (-17.4%)

The category break up in original figures for January 2009 is:
Commercial (fixed): $13.945b
Construction finance $0.531b
Purchase of real property $4.195b
Wholesale finance $0.675b
Purchase of plant and equipment $0.807b
Refinancing $0.740b

Leasing: $361m
Plant and equipment $179m
Motor vehicles $182m

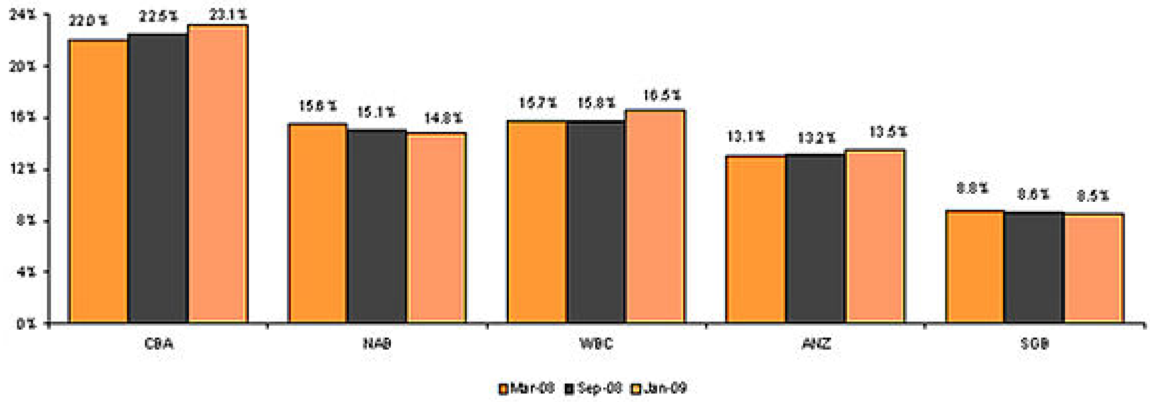


Credit By Sector
Source: RBA



APRA Lending Statistics Jan 2009

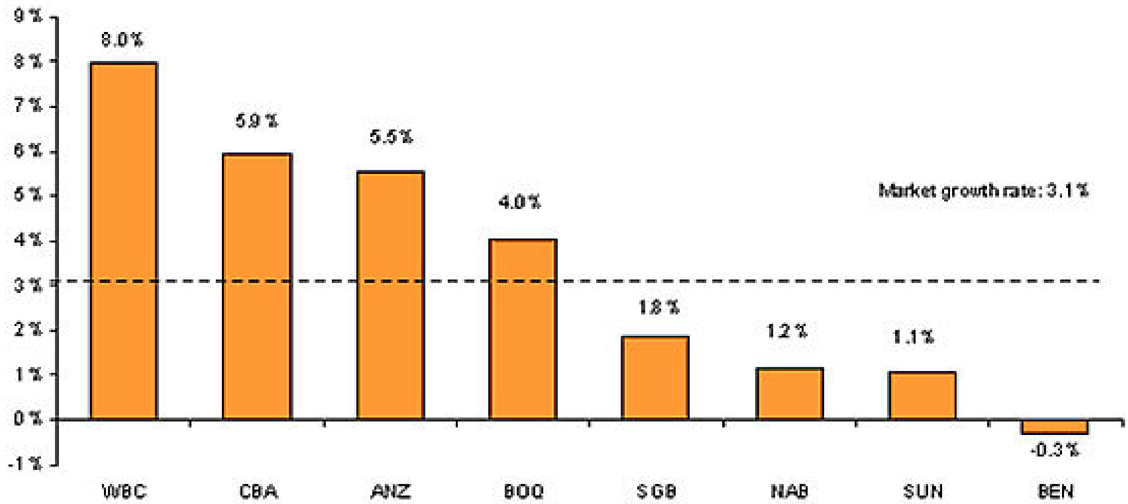
Total housing market shares – March 2008, September 2008 and January 2009.



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

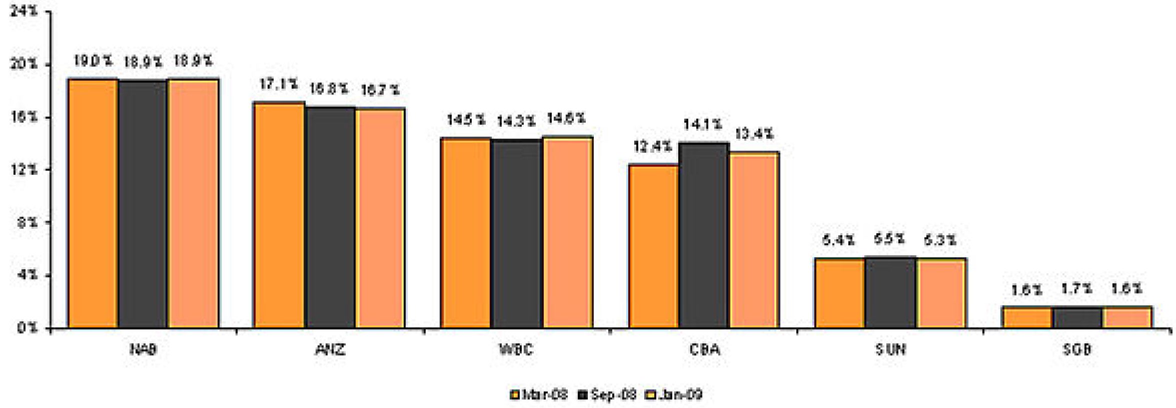
Housing Lending Growth Rates

– September 2008



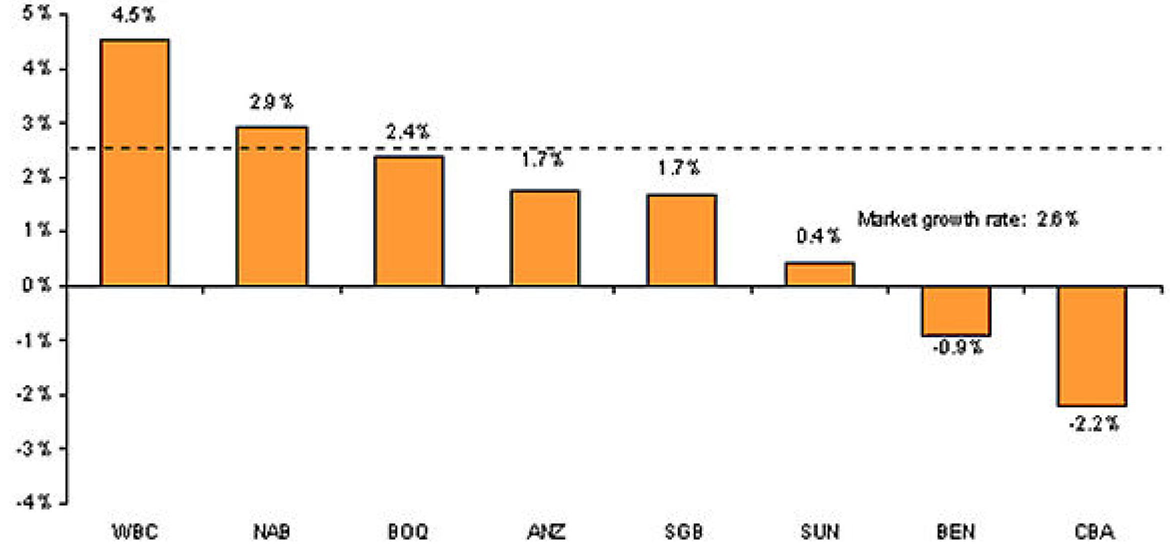
Source: APRA, ABN AMRO

Business Lending Market Shares
– March 2008, September 2008 and January 2009



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 September 2008

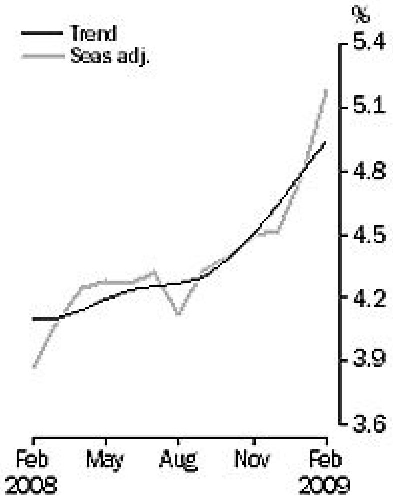


Source: APRA, ABN AMRO

Consumer Price Index
Year to December 2008: +3.7%.

Retail Sales
Australian retail sales in January 2009 were up by 6.3% on January 2008 (original figures) and the seasonally adjusted figure for January 2009 showed a 0.2% increase on December 2008.

Unemployment Rate
Source: ABS
The unemployment rate (seasonally adjusted) for February 2009 was 5.2%, up from 4.8% in January.



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