

## Home loans fall to nine year lows

Posted by [LC Team](#)close Author: LC TeamName: LC Team , Monday, August 9, 2010

Home loan commitments fell to nine year lows in June as investor demand weakened and housing momentum slowed, posing monetary policy concerns for the central bank, economists say. The housing recovery was now at an end as higher interest rates continued to bite, they said. Australian housing finance commitments for owner-occupied housing fell 3.9 per cent in June, almost twice the market forecast of 2.0 per cent, the Australian Bureau of Statistics (ABS) said on Monday. Total housing finance by value fell by 1.9 per cent in June, seasonally adjusted, to \$20.710 billion. CommSec economist Craig James said the figures showed “continued weakness” in the housing market. “In the last couple of months, investors had served to prop up the overall market, but that wasn’t the case this time around,” Mr James said. “It must be starting to come as a concern for the authorities.” He said Australia was now seeing the “loss of momentum” in the housing market, with housing finance commitments at nine year lows. “Certainly, the rate hikes that have been applied late last year and early last year are continuing to bite.” He said weakness in retail spending, the housing market and manufacturing services and construction now revealed an economy that had “lost its way to some extent,” he said. Mr James said the poor construction finance figures would signal concerns about a lack of demand for projects in the second half of the year. The ABS said finance for construction projects fell by five per cent in June. AMP Capital Investors chief economist Shane Oliver said the falls pointed to an ongoing deterioration of the housing sector. “It’s basically telling us the housing recovery that we’ve seen over the last 18 months has come to an end,” Dr Oliver said. “We can’t rely on housing construction to continue pushing the economy ahead. We’re going to be more reliant on the consumer and particularly business investment.” Weakness in housing finance would also flow through to weakness in house prices, which was becoming evident towards the end of June, Dr Oliver said. “It’s another reason for the Reserve Bank to leave rates on hold.” Westpac economists said the figures “surprised on the low side” as the investor upswing “took a breather”. A decline in housing finance in June was expected, but not one of that magnitude, they said. “We would interpret this as the tail end of weakness in response to the RBA’s rapid fire normalisation of rates,” the economists said in a statement. The Reserve Bank of Australia (RBA) may well leave rates unchanged for the rest of this year. “This points to finance demand stabilising and most likely moving higher during the second half of 2010.”