

Home loans on the rise

CHRIS ZAPPONE

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The number of home loans issued to borrowers have marked their first rise in eight months as buyers looked beyond higher interest rates to wade back into the market. In a sign of caution, though, the size of a typical loan shrank.

The number of home loans rose 1.9 per cent in May after a 1.8 per cent drop in April, according to Australian Bureau of Statistics figures.

"It's a pretty good number considering the weakness (already seen)," said JP Morgan economist Helen Kevans. "There are still a lot of factors weighing on home loans. We don't expect this strength to be long-lasting."

The main impetus for the rise came from investment loans, which rose 2.6 per cent in the month to \$7.66 billion, the ABS said. Such loans are up 35 per cent since the beginning of 2009.

The May data following [another weak weekend on the property market](#) in major cities. Sydney's clearance rate below the 50 per cent in Sydney, and remained flat in Melbourne - with both capital posting their lowest rates since December 2008.

Economists had tipped no change in loan activity in May, which was the last month the Reserve Bank raised official interest rates in an effort to keep inflation pressures in check.

Activity in Australia's housing sector has cooled since the First Home Owners Grant boost expired last year and interest rates began to rise. Since last October, new home loans have fallen for seven months running.

"It's hard to see (that) demand for home loans will pick up this year given the environment of rising interest rates and the expiry of the incentives," Ms Kevans.

Total housing finance by value rose by 0.7 per cent in May, seasonally adjusted, to \$21.360 billion.

Average loan size shrinks

The average loan size for owner-occupied housing dropped \$3800 in May to \$283,100, the ABS said. For first time buyers, the average loan size contracted by \$2400 to \$287,700.

"We do expect that the pace of house price growth will moderate," said Ms Kevans.

"House prices will not fall, however, given the chronic shortage of housing supply and healthy labour market."

The monthly rise also masked some mixed trends including a surge of refinancing sparked by lower 3-year fixed rate loans, said Westpac senior economist Andrew Hanlan.

Excluding refinancing, the May figure is up only 0.8 per cent, following a 0.1 per cent fall in April, according analysis by Westpac.

Borrowing for owner occupied housing also edged down 0.3 per cent to \$13.7 billion, seasonally adjusted.

Loans for new construction dropped 2.2 per cent in May and have plunged 32 per cent from October.

"So high rates are still having an impact on the outlook for housing construction," he said.

NSW leads

In New South Wales loans for owner-occupied housing increased 2.3 per cent, seasonally adjusted, while they nudged up 0.4 per cent in Victoria, ABS data show. In Queensland sales increased 3.8 per cent and by 1.9 per cent in South Australia.

In Tasmania they rose 0.3 per cent while in Northern Territory they increased 7.7 per cent.

Loans, however, dropped 3.8 per cent in Western Australia and 2.4 per cent in Australian Capital Territory, the ABS said.